

Merit Pay Planning and Implementation Guide

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Introduction

The University encourages the recognition of excellent performance and achievement through the use of merit pay and rewards. Reward and recognition are important parts of a total compensation program.

The purpose of this guide is to help make implementing a merit/reward program easier. To ensure the best possible outcome when implementing a merit pay program, you should work with your OHR Consultant and Compensation staff in the Office of Human Resources.

Guiding Principles

- Aligned with Operational Excellence and Board of Regents compensation philosophy
- Aligned with OHR Strategic Imperatives
- Relevant to contemporary University workplace and consistent
- Practical and timely
- Credible and transparent

Key Considerations

There are several key questions you should consider when implementing a merit pay plan:

- How effective is my current performance management program?
- Does my performance management program provide the information I need to determine annual salary increases based on performance?
- Is there top-management support to implement a merit program?
- How will I prepare employees and supervisors for a merit program?
- What is my unit's total cash compensation strategy?
- How will merit pay fit in with our other pay practices and programs (equity adjustments, promotions, augmentations, incentive pay or lump sum awards).

Merit Pay-Prepare

There are five steps to preparing for a merit pay program.

Step 1	Review reward and recognition strategy/programs <ul style="list-style-type: none"> • Review your total cash compensation strategy and how pay levels are determined for all employee groups? • Review vehicles you utilize to deliver pay (in-range adjustments, annual increases, out standing service awards, lump sum payments, incentives). Insert link to University Guidelines. • Review incentive or variable pay programs (project completion bonuses, position specific bonuses). • Review current recognition programs (spot awards, outstanding service awards, managerial recognition, etc...). • Note differences between employee groups and ensure those differences are aligned with the goals for your unit.
Step 2	Assess unit readiness for implementing merit <ul style="list-style-type: none"> • Take assessment survey. • Review whether your unit managers conduct performance planning sessions, performance reviews, and quarterly 1:1 meetings regarding performance and development. • Review how merit pay is working today within your unit for P&A and faculty.
Step 3	Determine work plan and timeline for merit implementation <ul style="list-style-type: none"> • Establish a work plan and timeline. See sample merit timeline • Insert link to sample timeline. • Units moving to merit pay for the first time must have approval by June 30, 2014 to award merit based pay increases in June 2015.
Step 4	Form a small team to work with you on the design and implementation phases of the project <ul style="list-style-type: none"> • Team can be small or more inclusive (no more than 10 people). • Include Sr. Management, Finance, and Communications when possible. • Schedule two-to-four team meetings to coincide with your work plan.
Step 5	Communicate <ul style="list-style-type: none"> • Provide communications to employees and managers regarding your plans to implement this initiative.

Merit Pay—Design

There are five steps to designing a merit pay program. These steps are required under University policy.

Step 1	Determine Goals <ul style="list-style-type: none"> • Determine what you want to accomplish through merit pay • Increase the pay of those who perform well more than those who do not perform well. • Increase internal and external pay equity. • Recognize stellar performers. • Attract and retain talent. • Address poor performers. • Motivate individuals to perform better. • Focus employee and manager attention on goal and/or competency achievement.
Step 2	Select a Model <ul style="list-style-type: none"> • Model 1: Reward performance. • Model 2: Position pay to align with performance.
Step 3	Determine Details of the Model <ul style="list-style-type: none"> • Size and Form <ul style="list-style-type: none"> • Spread of increases (0-7%) • \$ amount vs. % increase; lump sum components • Merit pool budget determination • Timing and alignment with compensation strategy <ul style="list-style-type: none"> • Review cycle • Alignment with equity increases, incentive pay, promotions • Eligibility: New Hires, Leave of Absence, Transfers • Delivery <ul style="list-style-type: none"> • Merit pool distributions (divide by college, department, etc.) • Amount of management discretion
Step 4	Determine administrative processes <ul style="list-style-type: none"> • Determine eligibility criteria for new hires, individuals on leave, temporary employees, etc. • Determine performance review and merit pay plan cycle. • Determine process to obtain performance rating and merit increase data from units. • Determine methods for calibration of performance ratings. • Determine methods to conduct a college/administrative department review to ensure legal compliance and adherence to University policies and guidelines. • Work with payroll and HRMS at the local and central level to ensure appropriate administrative processes.

Step 5	<p>Gain feedback and approval of the model</p> <ul style="list-style-type: none"> • Gain feedback from employees and supervisors regarding the model. • Document and obtain approval for your model from OHR Consultant. <ul style="list-style-type: none"> • Insert link to merit plan proposal template. • Units moving to merit pay for the first time must have approval by June 30, 2014 to award merit-based pay increases in June 2015.
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Merit Pay-Implement

There are five steps to implementing a merit pay program.

Step 1	<p>Assign implementation roles and responsibilities</p> <ul style="list-style-type: none"> • Dean/Department Head - Provide strategic communications • Supervisors/Managers - Educate, deliver, communicate, promote, Coach • HR Professional - Collaborate on strategy, collaborate on design, deliver training, implement, monitor
Step 2	<p>Develop implementation processes and documents</p> <ul style="list-style-type: none"> • Document policies and procedures • Create forms and supporting documents. • Determine administrative responsibilities and work flow. • Determine deadlines for the process. • Determine orientation plan for new managers, supervisors, and employees.
Step 3	<p>Train managers, supervisors, and employees</p> <ul style="list-style-type: none"> • Train supervisors and managers responsible for delivering merit on how to effectively determine the merit amount and effectively communicate the results to the employee. • New supervisors and managers must be trained on performance management programs. • Employees must be trained on the details of the plan to include timing, process, and the potential impact on pay.
Step 4	<p>Communicate before, during, and after the merit pay cycle</p> <ul style="list-style-type: none"> • It is important to maintain some level of communication regarding performance throughout the year with managers and employees. <ul style="list-style-type: none"> • Remind them to review appropriateness of goals on a quarterly basis. • Remind them of the performance and merit pay cycle. • Remind them to educate new employees, supervisors, and managers on program details.
Step 5	<p>Process the results</p>

Related Policies

Employees paid at or near the maximum of the salary range:

- Employees may not earn more than the maximum of their salary range.
- Employees paid at or near the maximum of the salary range can receive a lump sum or combination lump sum/base increase in lieu of the total base pay increase.

Training

- Prior to implementation, all impacted employees must receive communication and/or training on the merit pay plan to ensure that they clearly understand your merit pay program
- OHR will assist departments with program communication and evaluation

Additional Information

Additional tools and resources regarding merit pay programs are available on the Office of Human Resources website at:

<http://www1.umn.edu/ohr/toolkit/performance/meritpay/index.html>

Merit Pay Plan Method Options

To determine what merit pay delivery method is most appropriate for your collegiate or administrative Unit there are several factors that need to be considered:

- 1) What are you trying to reward and pay for?
- 2) What types of behaviors do you value?
- 3) What performance management tools are you using?

Merit Pay Plan Method Options	Why would you want to use this method?	How would you implement this method?	Tools to Support Merit Pay Plan Method
Model 1 - Reward Performance	This method is easy to communicate, sends a strong performance message, and does not require you to have identified pay targets for all your positions.	This method requires you to determine the flat dollar or % increase percentage (or a range if allowing more managerial discretion) per performance rating.	See Model 1 Templates and Tools: Provide links to samples of spreadsheet or tools that show how this pay plan is executed.
Model 2 - Position Pay to Align with Performance	You want to reward employees based on their performance but you also want to consider external market value for similar positions and how employees are paid in comparison to each other in your unit.	This method requires you to determine the market value for your positions and then create a grid that is geared to move employee's pay to align with their performance. The concept is to move consistently high performers to a pay level above the market and to slow the increases of others who are paid above market.	See Model 2 Templates and Tools: Provide links to samples of spreadsheet or tools that show how this pay plan is executed.

Glossary of Terms

Term	Definition
Across-the-board increase	A wage or salary increase where either a flat rate (common number of cents/hour) or a common percentage of salary is used. Also called a general increase.
Audit	An assessment of programs and services to determine effectiveness or efficiency.
Base pay rate	The fixed compensation paid to an employee for performing specific job responsibilities; base pay is exclusive of additional payments or allowances.
Benchmark job	A job that is commonly found and defined, used to make pay comparisons, either within the organization or to comparable jobs outside the organization. Pay data for these jobs are readily available in published surveys.
Compensation	A methodical approach to assigning a monetary value to employees in return for work performed. Compensation may include any or all of the following: base pay, overtime pay, commissions, stock option plans, merit pay, profit sharing, bonuses, housing allowance, vacations and all benefits. This is referred to as remuneration in some foreign countries.
Compensation philosophy	A set of guiding principles that are based on values that drive compensation decision making.
Fixed increase amount	Specified amount of increase based on performance level determined in advance and unchanging from employee to employee.
In-range adjustment	To adjust pay within the existing salary range.
Internal equity	Refers to the pay relationships among jobs internal to the organization.
Labor market	The market in which workers compete for jobs and employers compete for workers

Glossary of Terms

Term	Definition
Lump sum	Complete non-recurring payment consisting of a single sum of money.
Market adjustment	The adjustment that is necessary for an individual or an organization to bring the individual or organization to approximate market values.
Market average	The sum of each market rate point divided by the total number market rate points reported.
Maximum rate	The highest rate reported for the salary range.
Merit pay	A compensation system whereby base pay increases are determined by individual performance.
Midpoint	The middle value of the reported salary range.
Minimum rate	The lowest rate reported for the salary range.
Pay grade	Usually established within an organization, this refers to the levels or hierarchy of job and pay ranges. Also referred to as the salary structure, job grades, job-evaluation points and or policy lines.
Performance appraisal	The process by which you can evaluate employee job performance.
Performance improvement plans	Plan implemented by a manager/supervisor designed to provide employees with constructive feedback, facilitate discussions between an employee and his/her supervisor regarding performance-related issues, and outline specific areas of performance requiring improvement.
Rate arranged	Where a position has no formal salary range assigned but is assigned a working range based on it's comparability with other like positions.

Glossary of Terms

Term	Definition
Reward system	A formal or informal program used to recognize individual employee achievements, such as accomplishment of goals or projects or submission of creative ideas.
Total compensation	An individual's complete pay package that includes cash, benefits, and services.