

Glossary of Terms

The following terms are commonly used when discussing compensation terminology.

A

Americans with Disabilities Act—Prohibits employment discrimination against people with physical and mental disabilities. An employer cannot discriminate against a qualified individual because of disability in regard to hiring, discharging, compensating, promoting, and other terms, conditions, and privileges of employment.

B

Base Pay—The rate paid by the hour, week, month, or year to an individual for the job performed. This does not include shift differentials, overtime, incentives, benefits, or any other pay element other than base pay.

Benchmark Job—A job commonly found in the marketplace which is used as a reference point for making pay comparisons. Benchmark jobs have well-known and stable contents.

C

Compa Ratio—The ratio between current pay to the salary range midpoint assigned to the job. A compa ratio is used to determine the relationship of an employee's pay to the midpoint or some other control point of the salary range. It is also used to assess how an employee's pay is moving through the assigned salary range.

Compensable Factor—Any factor used to assess the value of job content in a job evaluation method. Typical compensable factors are knowledge and skill, problem solving, decision making, accountability, impact, and communication skills.

Compensation Budget—A salary plan used to allocate dollars to pay for salaries during a fiscal or calendar year.

Compensation Philosophy—A set of principles that guide the design and administration of a compensation system toward supporting the mission and business plan of an organization.

Compression—Pay differentials too small to be considered equitable. In some organizations, the term may apply to differences between:

Pay of supervisor and subordinates;
Pay of experienced and newly hired employees in the same job; or
Midpoints in successive grades.

Consumer Price Index—An economic indicator used to gauge the cost of living published by The Bureau of Labor Statistics and U.S. Department of Labor. It measures price changes for a fixed market basket of goods and services typically purchased.

E

Equal Employment Opportunity Commission (EEOC)—A commission of the federal government charged with enforcing the provisions of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Equal Pay Act of 1963, and other fair employment practices legislation.

Equal Pay Act of 1963—An amendment to the Fair Labor Standards Act of 1938 prohibiting gender-related pay differentials on jobs that are substantially equal in skill, effort, responsibility, and working conditions unless the differences exist due to a seniority, merit- or production-based pay system, or any other job-related factor other than gender.

Exempt—Employees exempt from the overtime provisions of the Fair Labor Standards Act. Generally this group includes executives, administrative/professional employees, and outside sales.

External Equity—A measure of an organization's pay levels or salary ranges compared to that of its labor market competitors. External equity implies that the employer pays wages that are competitive with prevailing external market pay rates, as determined by market pricing.

F

Fair Labor Standards Act (FLSA)—A federal law governing minimum wage, overtime pay, equal pay for men and women in the same jobs, child labor, and recordkeeping requirements.

Family and Medical Leave Act (FMLA)—The 1993 act that requires employers with 50 or more employees to provide up to 12 weeks of unpaid leave after childbirth or adoption; to care for a seriously ill child, spouse or parent; or for an employee's own serious illness.

G

Geographic Differentials—Establishing different pay levels for the same job based on differences in cost of living or cost of labor for a specific geographic region.

I

Incentive Compensation—A reward that compensates an employee for high performance or for achievement above and beyond the defined normal job requirements.

Internal Equity—A standard that fairly establishes a pay level that corresponds to each job's relative value to the organization.

J

Job Classification—A hierarchical structure of jobs, usually arranged into classes or pay grades according to some form of job evaluation.

Job Description —A document that outlines the most important features of the job including the general nature of the work performed, key responsibilities, and employee characteristics (e.g., skills, experience, education, etc.) required to perform the job.

Job Evaluation—A formal process to determine the relative value to be placed on various jobs within the organization. The end result of job evaluation consists of an assignment of jobs to a hierarchy of grades.

Job Family—Jobs involving work of the same nature, but requiring different skill and responsibility levels. For example, Accountant is a job family; Accountant III is a job (skill/responsibility level) within that family.

Job Grade—One of the classes, levels, or groups into which jobs of the same or similar value are grouped for compensation purposes. Usually, all jobs in a grade have the same pay range: maximum, minimum, and midpoint.

Job Title—A label for a job that uniquely identifies it.

M

Market Pricing—A process that sets the rates (values) to be paid for a job to the organization's best estimate of the current value for that job in the external marketplace.

Merit Increase—An adjustment to an individual's pay that is based on performance as measured through a performance appraisal.

N

Nonexempt—Employees who are subject to the minimum wage and overtime pay provisions of the FLSA.

P

Performance Appraisal—A system to determine how well an individual employee has performed during a period of time. Frequently used as a basis for determining merit increases.

Performance Management—A managerial process which consists of planning performance, managing performance through observation and feedback, appraising performance, and rewarding performance.

Point Factor Job Evaluation Method—One of the most commonly used job evaluation techniques employing the following steps:

Compensable factors are chosen which capture the value system of the organization with respect to what lends value to a job.

Each compensable factor is scaled (most commonly, five to seven levels are defined) and weighted.

Once levels and weights have been established for each scaled factor, each job is measured against each compensable factor. A total score is then calculated for each job. The total scores obtained by each job are then used to establish a wage rate for each job or to slot each job into grades, each of which will have assigned point ranges.

Promotion—The assignment of an employee to a job in a higher job classification or pay grade

S

Salary—Compensation paid by the week, month, or year (rather than per hour). Generally applies to non-production, non-routine or supervisory jobs that are exempt from the provisions of the FLSA, but some nonexempt jobs are salaried as well.

Salary Budget—An amount or pool of money allocated for payment of salaries during a specified period. Salary budgets must be taken into account when planning structure adjustments or individual employee adjustments.

Salary Range—The range of pay rates, from minimum to maximum, set for a pay grade. Used as a policy for setting individual employee pay or salary rates.

Salary Range Width—The width or spread of a pay grade range, measured by the ratio:

$$\text{Width} = \frac{\text{maximum pay} - \text{minimum pay}}{\text{minimum pay}}$$

Salary Structure—The structure of job grades and pay ranges established within an organization. The salary structure may be expressed in terms of job grades, job evaluation points, or policy lines.

Salary Survey—The gathering of data on wages and salaries paid by other employers for benchmark jobs.

T

Total Cash Compensation—The total cash payment made to an individual in the form of compensation in a given year.

Total Compensation—The complete pay package for employees, including all forms of money, benefits, services, and in-kind payments.

W

Working Titles—Unofficial job titles that can be used to more appropriately provide clarity for job postings or convey a message to the outside world of the work performed. Working titles are permitted if needed for purposes stated above, and as long as the working title does not misrepresent the authority or the function of the position.