

## Guide to Creating Compensation Grades and Salary Ranges

This guide outlines the key steps for creating compensation grades and salary ranges, helping employers control pay expenses and ensure pay equity. Employers should follow a structured approach tailored to their specific needs and consult compensation experts if needed.

### Key Steps:

1. **Determine Compensation Philosophy:** Employers must define their compensation approach (leading, matching, or lagging the market), as this philosophy will guide all pay decisions.
2. **Conduct Job Analysis:** Gather information about job responsibilities, qualifications, and conditions to create accurate job descriptions.
3. **Group Jobs into Families:** Organize jobs into categories (e.g., administrative, technical, management) based on similar duties and responsibilities.
4. **Rank Positions:** Use job evaluation methods (e.g., point system or ranking method) to assess the relative worth of jobs based on factors like skill and responsibility.
5. **Conduct Market Research:** Compare salaries to similar positions in the marketplace, ensuring jobs and responsibilities align. Utilize multiple data sources to gather accurate, up-to-date salary information.
6. **Create Job Grades:** Group positions into pay grades based on job evaluations or market data, with each grade representing positions of similar value.
7. **Establish Salary Ranges:** Develop pay ranges (minimum, midpoint, maximum) for each job grade based on market data. The range can typically span 30-40% but may vary for different job levels.
8. **Address Out-of-Range Salaries:** Manage employees whose salaries fall outside the established ranges (e.g., red circle rates above the maximum or green circle rates below the minimum) by offering bonuses, career development opportunities, or pay adjustments.
9. **Update and Review:** Regularly update salary ranges using market data or economic indicators (e.g., Employment Cost Index) to ensure competitiveness and equity.

Overall, creating a structured salary range system requires careful planning and regular review to maintain fairness and alignment with market trends.

