

2006

Mercer Meetings with Executive, PWC Jan-Dec 2006

Bowling Green State University. Administrative Staff Council

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Pre-Microfilm Inventory

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Notes

1. Colored Ink

MERCER

Human Resource Consulting

December 12, 2006

Compensation Program Review Report of Findings, Observations and Recommendations

Bowling Green State University

**Scott Cook
Tracy Markert**



Marsh & McLennan Companies

Study Objectives

- Assess the market competitiveness of current pay practices
- Examine the strength of the job evaluation plan in replicating market
- Review the process for advancing employees through the ranges
- Explore alternative ways that pay increases may be delivered
- Provide observations and recommendations going forward

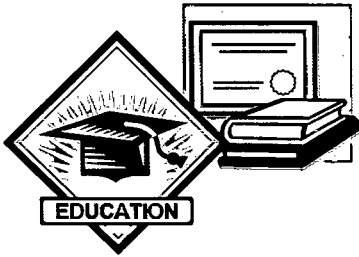
Program Design

BGSU's Program Characteristics

- A series of pay grades with ranges consisting of a minimum, midpoint and maximum
- The midpoint of each range serves as the competitive market reference point
- Jobs are assigned to grades based on their internal point rating on a set of key dimensions
- Starting salaries are set based on the individual's credentials relative to the job requirements
- Future salary advancement generally occurs annually and is based on the University's budgeted merit increase pool

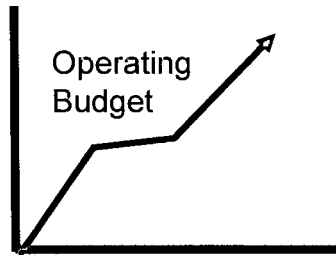
Market Analysis

Defining the Market



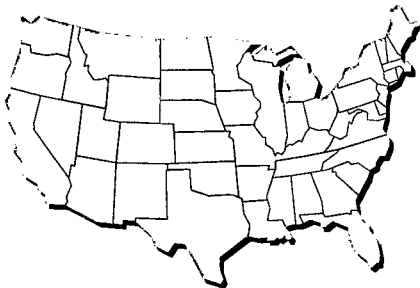
Industry Type

Higher Education and General Industry



Institution Classification

Comparably Sized Universities



Geography

Regional and National

Market Analysis

Methodology

- 67 staff benchmark jobs identified and compared to the market
 - A majority of staff jobs are represented
 - Covers a solid cross-section of jobs
- Higher education pay data collected from CUPA* surveys
 - Administrative Compensation Survey
 - Mid-Level Professional Survey
- General industry surveys also used for those jobs where the recruiting market is not limited to higher education
- Current BGSU job descriptions compared to survey jobs to ensure accuracy in job matching

* College and University Professional Association for Human Resources

Market Analysis

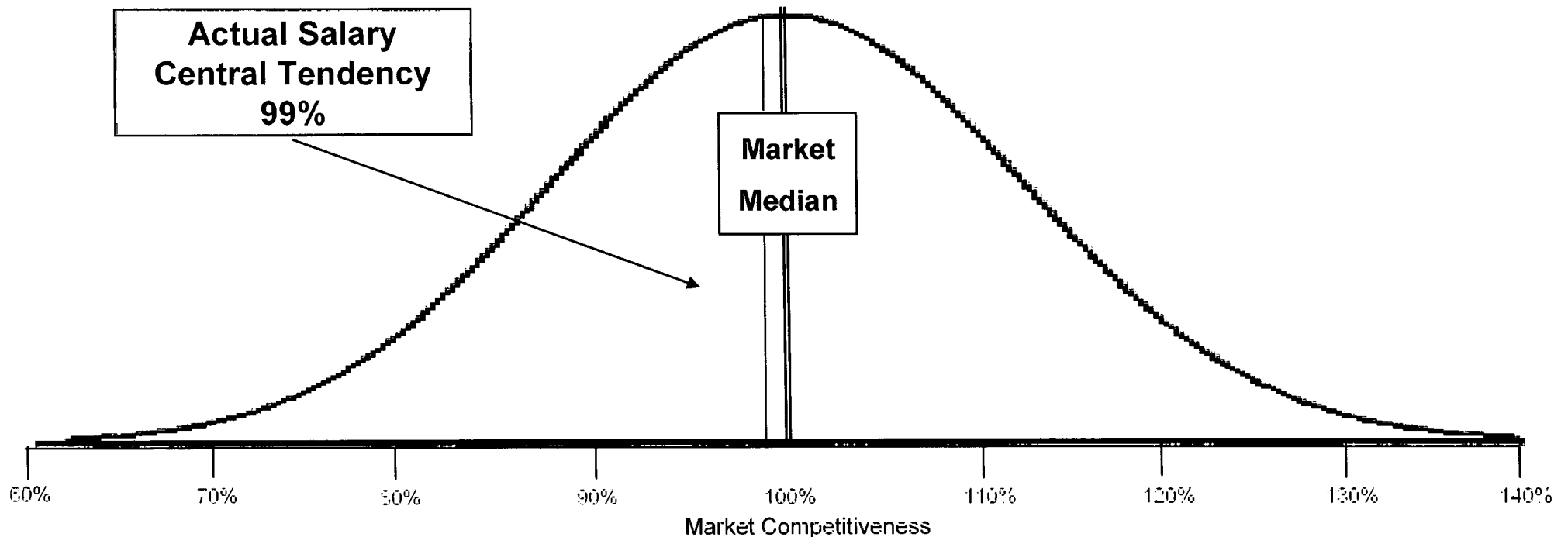
Methodology

- Market data at the 50th percentile (median) was used as the basis of comparison
- All salary data has been time adjusted to be current as of July 1, 2006
- The market analysis was based on job content and requirements—not on job titles or employee-related factors

Market Analysis

Current Salary Competitive Findings

- Staff salaries, on average, are competitive with the market median
- Market competitiveness, however, does vary among the benchmark positions



Market Analysis

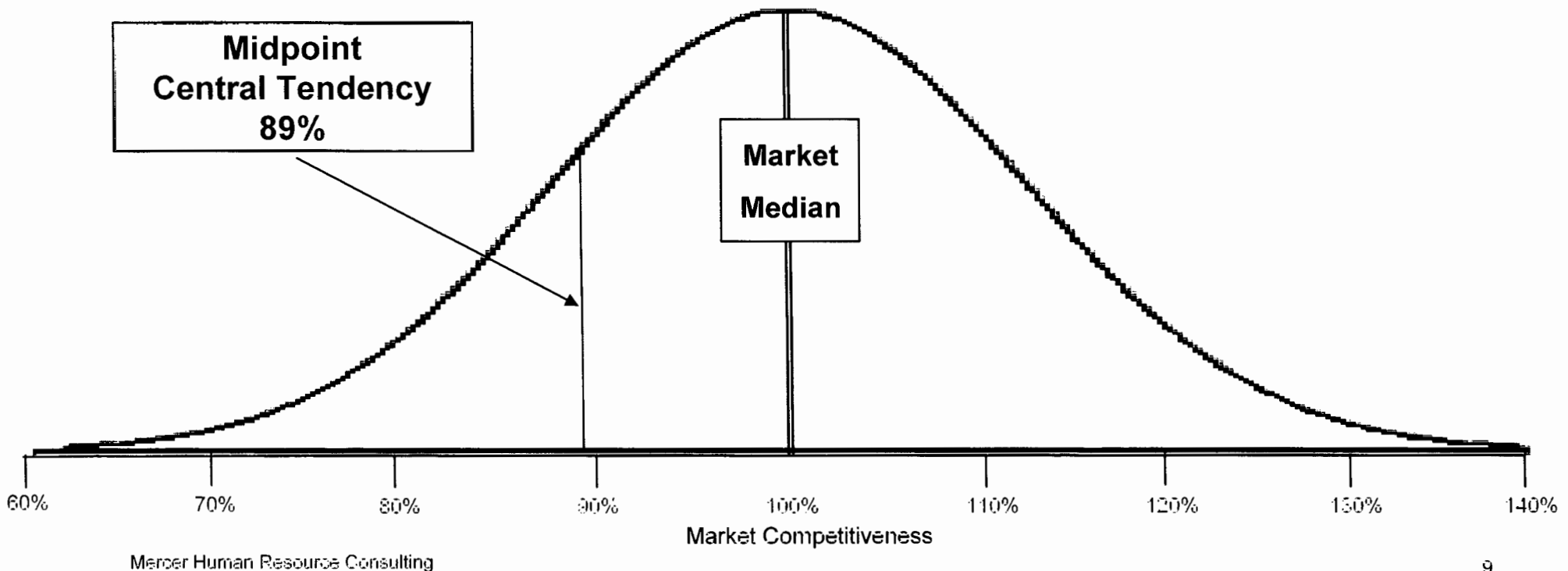
Current Salary Competitive Findings

- It is quite common for the actual pay competitiveness of individual jobs to vary from market median
 - Employees who are relatively new and continuing to learn in their jobs are typically paid below market
 - Employees who are highly experienced and skilled with a strong performance history are frequently paid above market
- It is for this reason that pay ranges are established to allow for justifiable salary variations among employees based on their credentials

Market Analysis

Pay Structure Competitive Findings

- Range midpoints were compared to market to assess the pay structure's market competitiveness
- Midpoints are not as competitive as actual salaries



Market Analysis

Pay Structure Competitive Findings

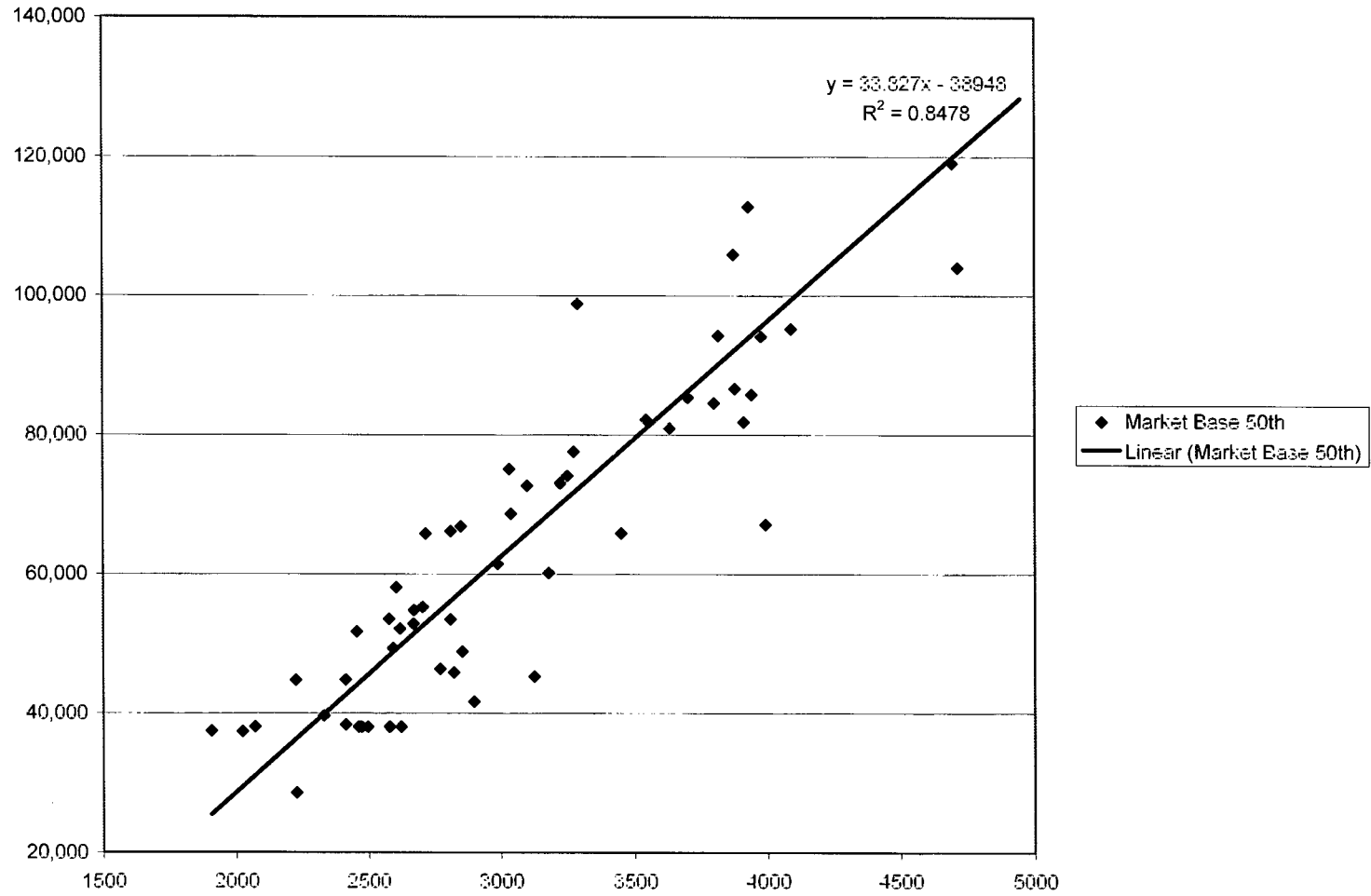
- Midpoint competitiveness varies among the jobs although the majority of benchmarks were found to be within +/- 15% of the composite 89% average
- It should be noted that some differences in midpoint competitiveness may be justified due to a market match which may not have been exact or because of internal differences in how the University values a particular job
- However, substantial differences may suggest that those jobs in question be reexamined to ensure comfort with the internal evaluation

Job Evaluation Plan

Relationship to Market

- To test the strength of the current job evaluation plan in capturing market, a regression analysis was conducted
- For each benchmark job, the market rate was regressed against the total point score (from the job evaluation plan)
- The results produced an R square value of .85
 - This suggests the job evaluation plan is adequately tracking market
 - However, the market correlation could be stronger by updating the plan
 - The fact that the plan has not been recalibrated since it was installed in 1995 bodes well for its durability

Job Evaluation Plan Regression Analysis

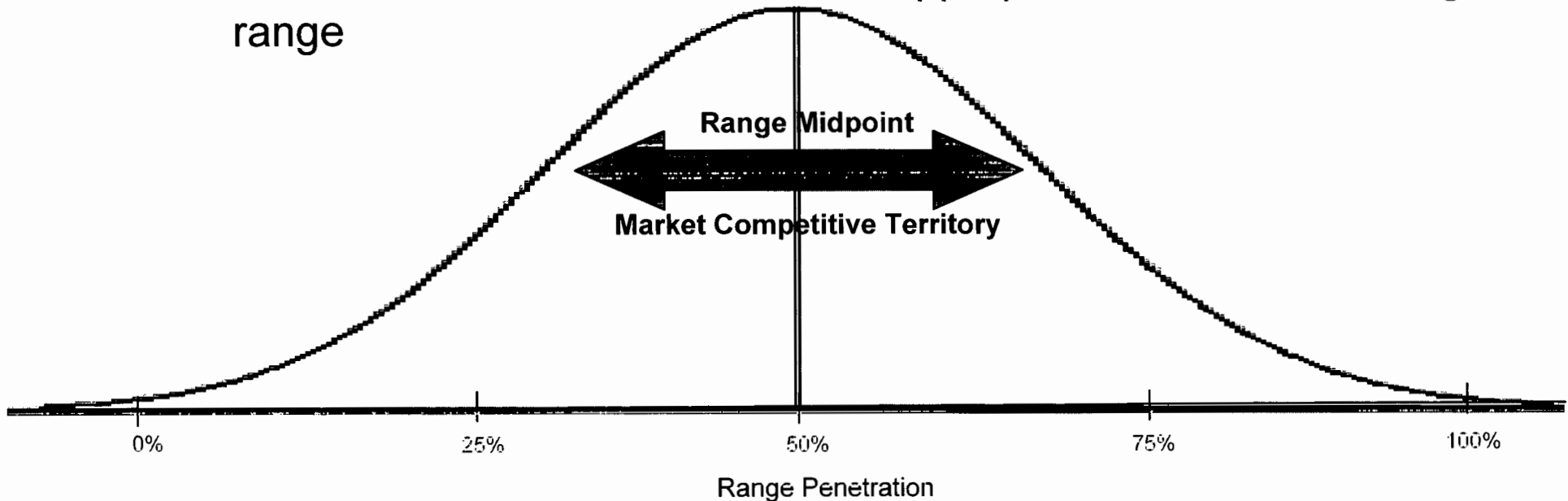


2

Salary Administration

Effectively Managing Salaries

- Ideally, salaries should be distributed such that the majority of employees are clustered around the middle portion of the ranges
- This pattern may not occur when:
 - The average tenure with the organization is unusually high or low
 - The ranges are not competitive
 - There is no mechanism to ensure appropriate movement through the range



Salary Administration

Range Penetration Analysis at BGSU

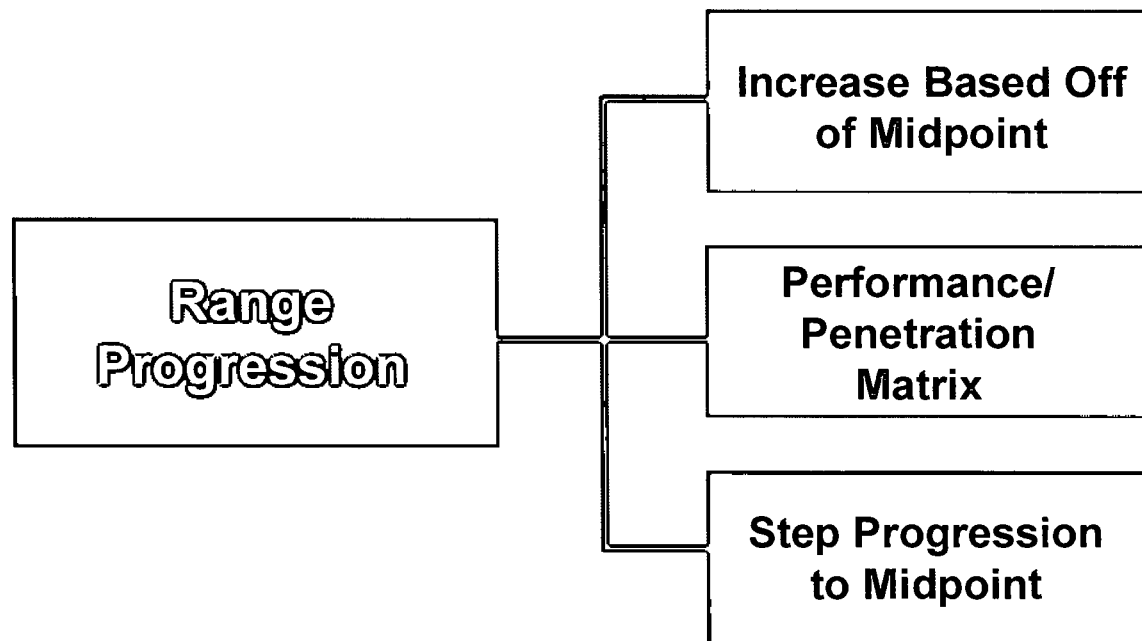
- In aggregate, statistics (as of 9/05) suggest that salaries are evenly dispersed throughout the ranges
 - 48% are below midpoint while 52% are above midpoint
 - 9% above maximum raises some concern
- Average years of service of Administrative Staff in the job is 5.6 in aggregate
- However, this type of analysis requires further information relative to each employee and his/her credentials to know where the specific concerns lie

Min to 1st Q	1st Q to Mid	Mid to 3rd Q	3rd Q to Max	Above Max
21%	27%	25%	18%	9%

Salary Administration

Effectively Managing Salaries

- As opposed to granting a flat percentage increase to all employees, options do exist for advancing employees through the ranges



Salary Administration

Effectively Managing Salaries

- Under each of these options, the goal is to accelerate employees to the competitive territory of the range within an appropriate amount of time
- For the first two options—Increase Based Off Midpoint and Performance/Penetration Matrix:
 - It requires that monies be redirected so that more is targeted to employees in the lower portion of the range while less is targeted to employees in the upper portion of the range
 - Otherwise, larger than average pay increase budgets (5%+) will be required to ensure adequate range penetration

Salary Administration

Increase Based Off Midpoint

- Pay increases based off the midpoint rather than the current salary will effectively accelerate range penetration for those employees below midpoint while it will decelerate range penetration for those above midpoint
- Assume a current salary of \$38,000 and the effect of a 3% increase under the following two scenarios:

Pay Increase Based off Current Salary:

- Current Range Penetration: 11%
- Salary Increase: \$1,140
- New Salary: \$39,140
- New Range Penetration: 17.4%

Pay Increase Based off Midpoint:

- Current Range Penetration: 11%
- Salary Increase: \$1,350
- New Salary: \$39,350
- New Range Penetration: 18.6%

Example:

Minimum	Midpoint	Maximum
\$36,000	\$45,000	\$54,000

- In the example above a 3% increase off the midpoint results in a 3.75% pay increase for someone whose pay is at the minimum of the range and a 2.5% increase for someone whose pay is at the maximum of the range

Salary Administration Performance/Penetration Matrix

- This option represents an effective approach to managing salaries within a pay-for-performance culture

EXAMPLE

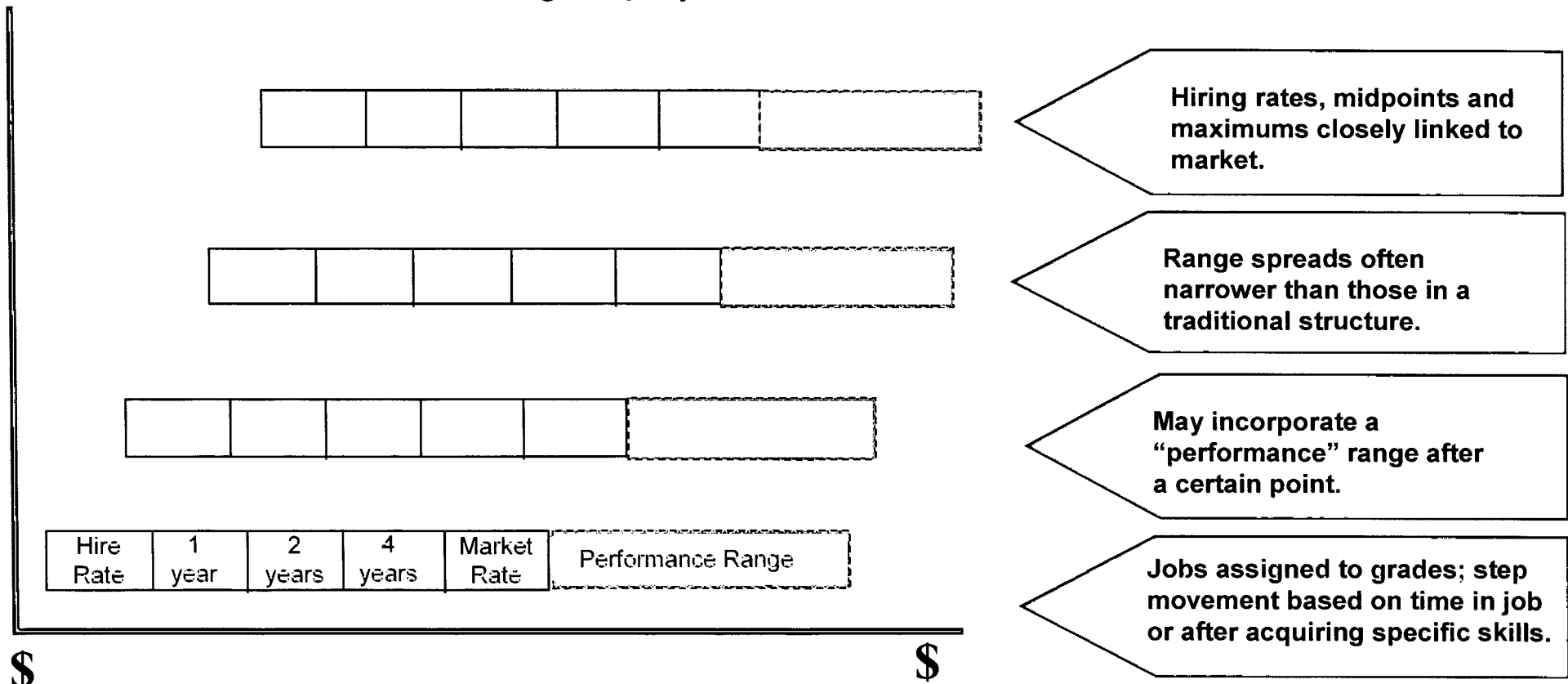
	Development	Market	Exceptional	
	Position of Employee Current Pay in Range			
Performance Level	Bottom Third of Range	Middle Third of Range	Top Third of Range	Above Maximum of Range
Exceeds Expectations	5.0% - 7.0%	3.0% - 5.0%	2.5% - 3.5%	0.0% - 2.0% Increase OR 1.0% - 3.0% Lump Sum
Meets Expectations	3.0% - 5.0%	2.5% - 3.5%	0.0% - 2.0%	0.0%
Below Expectations	0.0%	0.0%	0.0%	0.0%

[Note: Percentages are for illustration only]

Salary Administration

Step Progression to Midpoint

- Under a step program, heavy emphasis is placed on movement to market rate within a specified period of time
- Step approaches are generally more compatible with a longevity based emphasis to rewarding employees and have built in fixed costs



\$

\$



Observations and Recommendations

Observations and Recommendations

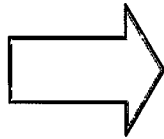
- Continuing to deliver across-the-board pay increases of 2-3% will not allow employees to adequately progress through the ranges
 - Pay structures move, on average, 2-3% per year*
 - If annual pay increases do not exceed this amount, salary penetration through the range will not occur
- This poses a particular problem for employees who are being paid in the lower portion of the range
 - Their salaries, by definition, are below market
 - Best practices would suggest these salaries move to the competitive portion of the range within a reasonable period of time

*According to Mercer's *2006/07 Compensation Planning Survey*, the anticipated 2007 structure increase for education is 2.5%

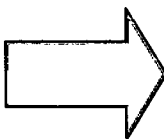
Observations and Recommendations

- BGSU's current situation is compounded by the fact that:
 - The pay structure is approximately 10% below market
 - The budgetary outlook for salary increases is not optimistic for the next fiscal year—flat at best

■ ***If the pay structure is not adjusted***



■ ***If the pay structure is adjusted***



- Market competitiveness will continue to erode
- More pressure will be placed on setting higher starting salaries further into the range
- Further slippage will not occur and could be reversed if future year adjustments exceed the market
- Would, however, cause employees to lose range penetration

Observations and Recommendations

- Current salary practices are competitive with the market at approximately 99% of median
- The structure is approximately 10% below market and a further loss of competitiveness will likely hurt attraction and retention
- While the budgetary outlook is not promising for the upcoming fiscal year, it is advised that efforts be made to adjust the pay structure annually
 - Consider setting a goal to achieve a 95% level of market competitiveness within five years
 - This will likely require adjusting the structure by 3-3.5% per year over the next five years
 - A proposed structure reflecting a 3% adjustment is provided for possible adoption in July of 2007

Observations and Recommendations

Proposed Pay Structure (effective 7/1/07)

Bowling Green State University Administrative Staff Proposed 2007-2008 Grade Level Structure

Pay Grade	Minimum	1st Quartile	Midpoint	3rd Quartile	Maximum	Range Width	Mid-to-Mid Increment
5	19,005	21,144	23,280	25,418	27,557	45.0%	8.0%
6	20,432	22,786	25,142	27,500	29,854	46.1%	8.2%
7	22,004	24,601	27,199	29,796	32,395	47.2%	8.3%
8	23,734	26,602	29,470	32,339	35,207	48.5%	8.7%
9	25,645	28,835	32,024	35,214	38,402	49.7%	8.6%
10	27,753	31,262	34,769	38,276	41,735	50.6%	8.9%
11	30,085	33,971	37,857	41,743	45,628	51.7%	9.1%
12	32,635	36,976	41,286	45,597	49,906	52.2%	9.2%
13	35,525	40,312	45,099	49,886	54,672	53.9%	9.4%
14	38,702	44,022	49,345	54,667	59,988	55.0%	9.6%
15	42,223	48,151	54,076	59,999	65,921	56.1%	9.8%
16	46,151	52,754	59,355	65,957	72,559	57.2%	9.9%
17	50,522	57,890	65,253	72,625	79,993	58.3%	10.1%
18	55,396	63,629	71,861	80,094	88,325	59.4%	10.3%
19	60,836	70,046	79,257	88,466	97,677	60.6%	10.5%
20	66,922	77,136	87,555	97,873	108,190	61.7%	10.6%
21	73,734	85,306	96,878	108,450	120,022	62.8%	10.8%
22	81,370	94,367	107,363	120,360	133,355	63.9%	11.0%
23	89,941	104,556	119,172	133,788	148,403	65.0%	

Observations and Recommendations

- The job evaluation plan has not been updated since it was originally developed and installed more than 10 years ago
 - While the current plan is operable, it should be recalibrated to better align it with market
 - Consideration should be given within the next fiscal year to retool the plan to ensure its ongoing effectiveness
- We advise that the benchmark jobs, whose midpoints were significantly below or above the overall composite, be reexamined over the next 6-12 months to ensure comfort with the current evaluation rating

Observations and Recommendations

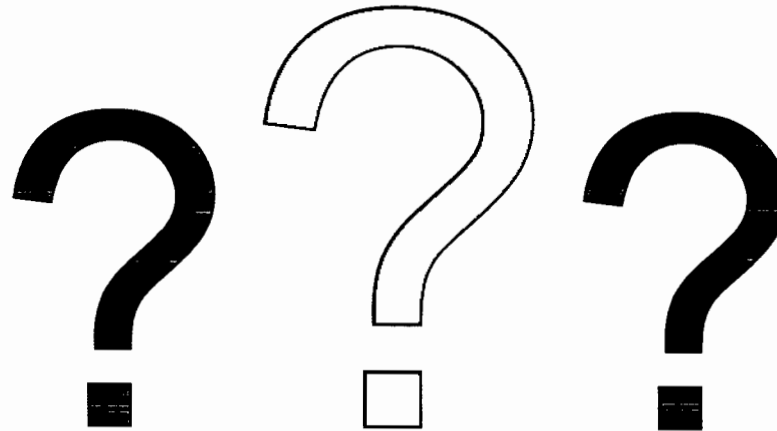
- The University's current method of job analysis is consistent with best practices and should continue in its present fashion
 - Completion of a JAQ should occur when a new position is created or when the current duties have significantly changed
 - Information in the JAQ should be used to classify and evaluate the position for grade determination
 - Preparing a JAQ should require no longer than two weeks and is best accomplished when the employee and supervisor collaborate in describing the job

Observations and Recommendations

- To address the range penetration issue, consider calculating future salary increases as a percent of midpoint
 - This should be relatively cost neutral since employees are well balanced below and above the midpoint
 - The impact will allow employees whose salaries are below a competitive level to move at a more accelerated pace to the midpoint
- In view of budgetary issues, consideration should be given to freezing salaries that currently exceed the range maximums
 - Best practices suggest that additional pay increases be granted only in the form of lump-sum bonuses and be limited to those individuals whose performance exceeds expectations

Going Forward

Comments / Questions



MERCER

Human Resource Consulting

January 18, 2006

Compensation Program Review **Discussion of Process, Design and Implementation Issues**

Bowling Green State University

Scott Cook
Tracy Markert



Marsh & McLennan Companies

Compensation Design Issues

- In designing a compensation program, a number of factors come into play:
 - What is your pay philosophy
 - What are the guiding principles
 - What approach will work best in your environment
- Key design issues include:
 - How will the jobs be defined (i.e. job architecture)
 - How will jobs be placed in the pay structure (i.e. job evaluation)
 - How will the pay ranges be devised (i.e. pay structure design)
 - How will pay be delivered (i.e. pay policies)
 - How will movement through the range occur (i.e. pay progression)

Current Program Design

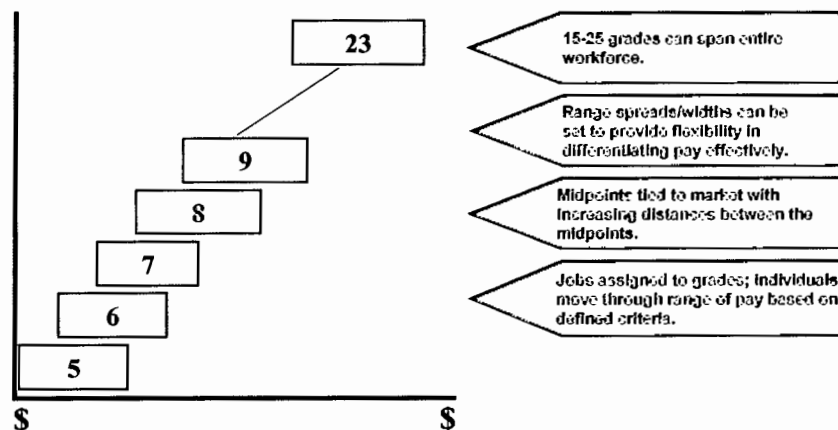
- The University's current program has the following design features:
 - Pay grades with ranges consisting of a minimum, midpoint and maximum
 - The midpoint of the range serves as the competitive market reference point
 - Jobs are assigned to grades based on their internal point rating on a series of dimensions
 - Starting salaries are set based on the individual's credentials relative to the job requirements
 - Further salary advancement generally occurs annually and is based on the University's budgeted merit increase pool

March: Human Resources Consulting

3

Pay Structure Design

The most common type of structure is a traditional structure. They are common across all industry and job groups. BGSU's structure is considered a traditional structure.



March: Human Resources Consulting

4

weighting of point system determined by BGSU not 32
 Aaron

Job Evaluation Methodology

Under an internally based point factor system, jobs are assigned to grades based on their evaluation ratings

Job evaluation plan designed to have relationship to market

Jobs assigned to grade based on point rating

Ranking of jobs results in a hierarchy that has a relationship to market but emphasis is on internal equity

Pay structure competitiveness is driven by the organization's pay policy position and budgetary limitations.
 Ranges are set to indirectly capture market while emphasizing internal equity among the jobs.

Point Rating	Grade	Salary Range
2215	Grade 8	\$56,265
2021	Grade 7	\$50,193
2077		
1993	Grade 6	\$45,087
1925		
1004	Grade 5	\$36,400
1022		
1003		
1790		
	Grade 4	\$30,972
	Grade 3	\$27,905

Micro: Human Resources Consulting 7

1
 YES

Setting Starting Salaries

- Hiring rates are largely driven by the incumbent's credentials relative to the job's minimum requirements and internal policy guidelines
- Market data may indirectly influence where a starting salary is set if there is evidence to suggest that the lower portion of the range is not competitive

Hiring in the lower portion of the range should typically occur when the incumbent's qualifications satisfy the minimum requirements for the job

Hiring in the middle portion of the range should be reserved to incumbents who exceed the job requirements and/or when recruiting difficulties occur

Hiring in the upper portion of the range should be limited to only highly qualified candidates or when recruiting becomes difficult or when the range is not competitive

200,000 220,000 235,000 257,500 300,000

MIN 1st Q MID 3rd Q MAX

Micro: Human Resources Consulting 8

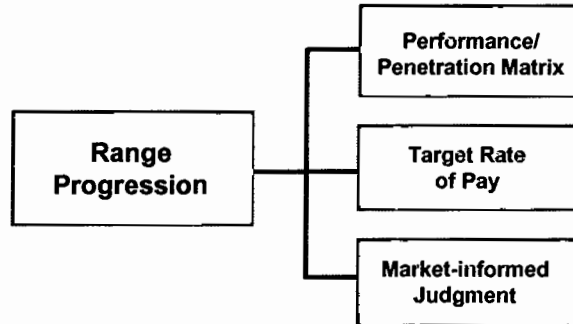
2
 YES

starting salary:
 consistent hiring practices across campus in placing people in quarters

recommended by HR university salary should be but unit decides

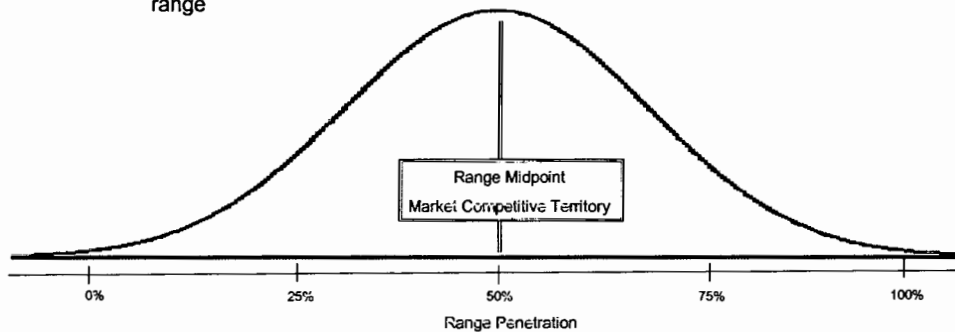
Salary Administration Effectively Managing Salaries

Progression of individual salaries within the range is often the most difficult issue to address



Salary Administration Effectively Managing Salaries

- Assuming a normal workforce, salaries would be distributed in the ranges such that the majority of employees are clustered around the middle portion of the ranges
- This pattern may not occur when:
 - The average tenure with the organization is unusually high or low
 - The ranges are not competitive
 - When there is no mechanism in place to ensure appropriate movement through the range

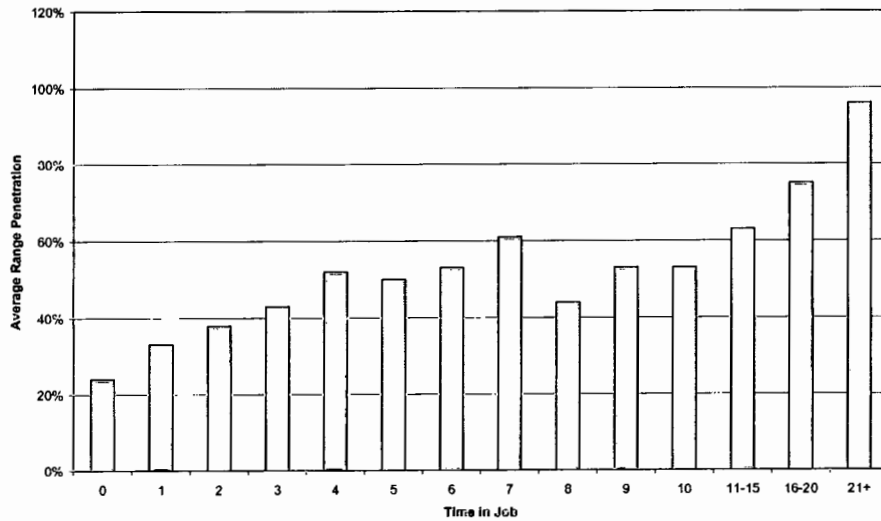


Salary Administration Range Penetration Analysis at BGSU

- In aggregate, statistics (as of 9/05) suggest that salaries are evenly dispersed throughout the ranges
 - 48% are below midpoint while 52% are above midpoint
 - 9% above maximum raises some concern
- Average years of service of Administrative Staff in the job is 5.6 in aggregate
- However, this type of analysis requires further information relative to each employee and his or her credentials to know where specific concerns lie

Min to 1st Q	1st Q to Mid	Mid to 3rd Q	3rd Q to Max	Above Max
21%	27%	25%	18%	9%

Salary Administration Range Penetration Analysis at BGSU by Time in Job

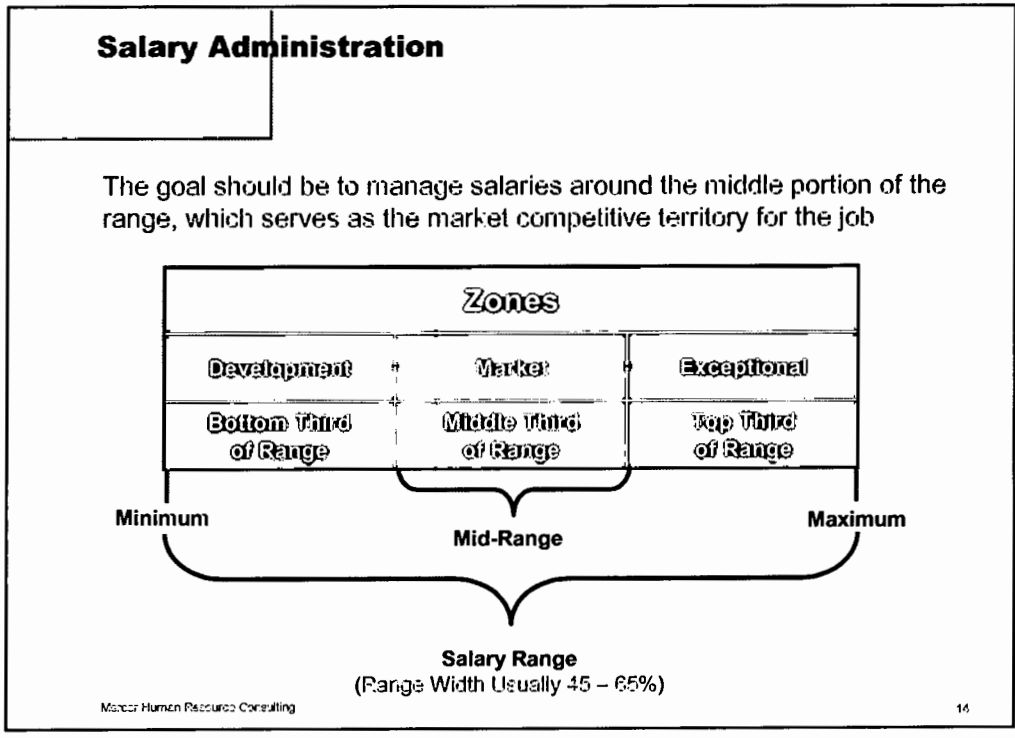
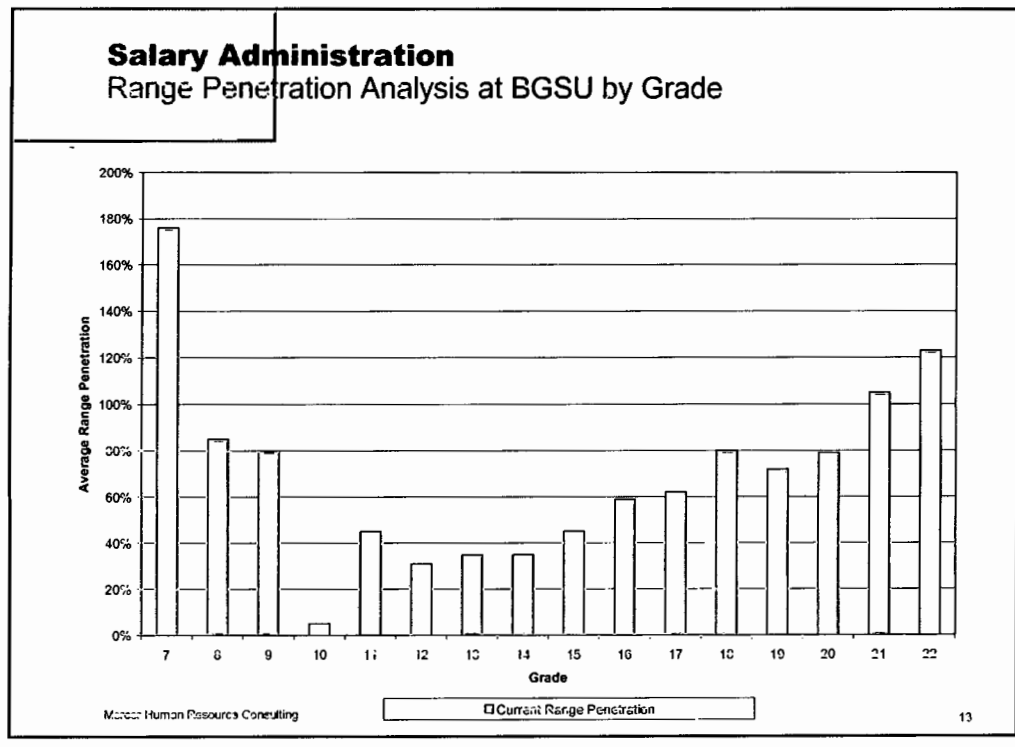


□ Current Range Penetration

7-1
8-1
9-5
10-2

3

YES



Salary Administration Effectively Managing Salaries

The approach taken will depend somewhat on the design of the structure and the pay philosophy of the organization

- Performance/Penetration Matrix → ■ Open Range Structures
- Target Rate of Pay → ■ Open Range or Step Structures
- Departmental Budgeting → ■ Open Range Structures

Salary Administration

A common mechanism for advancing employees through the range can be accomplished using a *Performance/Penetration Matrix*

EXAMPLE

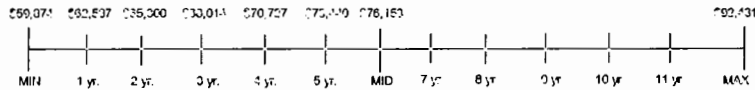
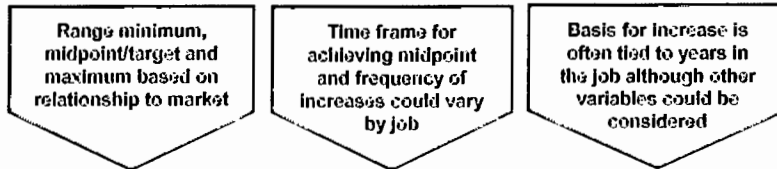
Performance Level	Position of Employee Current Pay in Range			
	Bottom Third of Range	Middle Third of Range	Top Third of Range	Above Maximum of Range
Exceeds Expectations	5.0% - 7.0%	3.0% - 5.0%	2.5% - 3.5%	0.0% - 2.0% Increase OR 1.0% - 3.0% Lump Sum
Meets Expectations	3.0% - 5.0%	2.5% - 3.5%	0.0% - 2.0%	0.0%
Below Expectations	0.0%	0.0%	0.0%	0.0%

[Note: Percentages are for illustration only]

YES
④

Salary Administration

Targeted rates of pay can also serve as a mechanism to move individuals through the range based on a single factor, such as time in job or years of experience



Now # 18

YES

Salary Administration Effectively Managing Salaries

Departmental budgeting can be an effective approach in a decentralized setting where a formal *Performance/Penetration Matrix* may not exist but the general concept is followed

Increase Budget for Department: \$11,500 (3.5%)

Name	Job	Range Midpoint	Actual Pay	Performance	Merit Increase	% Increase
J. Smith	AEC	\$50,000	\$52,000	Far Exceeds Expectations	\$2,000	6%
M. Jackson	AEC	\$50,000	\$72,000	Meets Expectations	\$0	0%
P. Lisle	AEC	\$50,000	\$49,000	Exceeds Expectations	\$2,900	7%
A. White	DEF	\$75,000	\$75,000	Exceeds Expectations	\$2,400	4%
F. Winter	XYZ	\$55,000	\$56,000	Meets Expectations	\$1,900	2%

Department Head provided with information on midpoint of jobs, actual pay and other relevant information, as needed

Comparative approach used to making pay decisions based on established guidelines and available increase pool

~~YES~~

20 is unit hour - 3% to work with flat dollar

Salary Administration

A hybrid approach could also be considered in which in-range increases are built into the program up to a certain point

As an example:

The first 40% of the range would be established to credit experience in the current job

A specified amount of range penetration credit would be awarded (e.g. 5%) for each full year in the job up to 8 years

In-range adjustments would not be given if performance falls below satisfactory level

Range penetration beyond 40% would be based on the individual's performance in the job

However, there are fixed costs built into this approach that the organization may not be able to fund

Development Zone <i>[longevity driven]</i>								Market Zone <i>[performance driven]</i>		Exceptional Zone			
0%								40%		70%		100%	
Min	1	2	3	4	5	6	7	8	Mid			Max	

Salary Administration

A *Performance/Penetration Matrix* could be adapted to recognize longevity, if desired

	← Development →	← Market →	← Exceptional →	
	Position of Employee Current Pay In Range			
Performance Level	Development < 40% Range Penetration	Market 40 - 70% Range Penetration	Exceptional > 70% Range Penetration	Above Maximum Of Range
Far Exceeds	Longevity (and up to 3% Lump)	3.0 - 7.0%	4.5 - 5.5%	3.5 - 4.5% Lump sum
Exceeds Expectations	Longevity (and up to 2% Lump)	4.5 - 5.5%	3.0 - 4.0%	1.0 - 3.0% Lump sum
Meets Expectations	Longevity	3.0 - 4.0%	2.0 - 2.5%	0%
Partially Meets Expectations	0% (Delay or Withhold)	0%	0%	0%
Fails to Meet Expectations	0% (Withhold)	0%	0%	0%

Job Analysis Process

- Where a point factor evaluation plan is used, it is common for a questionnaire (JAQ) to exist on most or all positions
- Information in the JAQ is used to classify and evaluate the position for grade determination
- Completion of the JAQ is best accomplished when the employee and supervisor collaborate in describing the position
- Developing a JAQ should require no longer than two weeks
- The only time a JAQ may not be needed is when the position is directly comparable in duties and requirements to another position for which a JAQ exists

Other Issues/Comments



Administrative Staff Council
143 College Park
Bowling Green, OH 43403
419.372.3611
www.bgsu.edu/organizations/asc

Memo

To: Rebecca Ferguson
Assistant Vice President, Human Resources

From: Lona Leck
Chair, Administrative Staff Council

Re: Mercer Working Session

Date: November 29, 2005

The Administrative Staff Council Executive and Personnel Welfare Committees request a working session with the representatives from Mercer to discuss and plan the full implementation of the Administrative Staff compensation plan. ASC representatives will need adequate notice of the meeting time prior to this working session. Topics listed below, and others, would be discussed with Mercer representatives:

- A. Understanding of the process to identify how marketplace salaries (Mercer) should be used to determine starting salary.
- B. Understanding of how marketplace salaries (Mercer) are used to determine salary ranges.
- C. Discuss criteria, processes, and funding options for administrative staff to:
 - a. Progress through their salary range.
 - b. Achieve midpoint of their salary range by the beginning of their sixth year of employment at BGSU.
 - c. Identify funding options to allow Administrative Staff to maintain at least the midpoint of their salary range after the beginning of their sixth year through the use of annual merit raises and/or other adjustments.
- D. Discuss how other employers utilize the JAQ evaluation process for both new and re-evaluated positions and address the absence of JAQ's for some Administrative Staff. Identify the maximum period necessary to develop a JAQ for Administrative Staff members who are without a JAQ.

Thank you in advance for your assistance in arranging this session on behalf of the BGSU Administrative Staff Council.

The agenda below needs your review, comments, and suggestions for our meeting this Wednesday.

Meeting Agenda – BGSU Administrative Staff with Mercer
January 18, 2006

- A. Ask Mercer to send information that will clarify the relationship between Marketplace salaries and the process that may be used to determine Starting salaries. How have other institutions created starting salary consistency.
- B. Ask Mercer to send information to explain how Marketplace salaries are configured to create BGSU salary ranges and explain the 50th percentile concept.
- C. Discuss the criteria and processes that a compensation plan, such as BGSU's, may utilize to:
 - a. Progress through the salary ranges
 - b. Achieve the midpoint of a salary range by the beginning of the sixth year of employment
 - c. Identify possible funding options to maintain salary range positions as the range is adjusted to market changes
- D. Why has Mercer recommended a person who is promoted to a higher grade should receive a 10% salary increase.
- E. What are the basic components of a Compensation Plan and which of these are missing at BGSU
- F. How would Mercer characterize a compensation plan that has created great disparity in range penetration where the top 4-5 ranges average 80+% penetration and the lower mid ranges average 30-40%

- MIDPOINT takes 50 years to reach for someone hired in at pay range minimum
- how many employees are in the top 50% quantiles due to longevity so opposed to "outstanding meritorious performance"
- what is the recourse for an administration not following Merice recommendations for administrative staff
- new hires and spouses of new hires often come in at the 3rd quartile - totally out of Merice - no JAP
- Salary increases mandated by Merice study must come from Union-wide Salary pool
- How do other schools
 - trust Merice recommendations
 - address these issues in light of budget reductions
 - Strategies on how to bring as many ad staff as possible to market (midpoint)
- Demotions - involuntary pay will not be lowered?

Jan 2006

system here is internally vs. externally based
how you grade a job

50th percentile
is the median
of market

1) market driven approach - series of benchmark jobs, assign grade

in mid 90's cost philosophy was to target for 100% of 50th percentile market
was, however, got below 50th percentile due to budget

2) internal rating of job that drives placement by point
ratings rather than market having direct impact
plan was built to have a predictability as correlated to
market -- it's just not 100%

starting salaries

place in pay range according to experience, credentials

p. the performance evaluation system must be objective / strong
percent increase based on mid point as opposed to
actual salary

Regression analysis - to see how attractive plan is vs. market
test group of jobs how they are rated & priced vs. market
benchmark 75 jobs
may root points, reweight factors

Market Study last done 2001 - inflation 4.5% salary ranges adjusted
to market

ideally to mid point 5.6 7 8-9

higher % increase \Rightarrow leave

Turnover - why an employee leaves an organization - pay is usually reason 5 or 6
supervisor, job duties, lack of opportunities, frustration

in wage adjustment tied to longevity / service for persons
below mid point at eg. year 3, year 6
market adjustment pool

productivity - rate of growth

supervising / managing

indirectly captured in some other factors:

- - level of supervision
- - judgement / problem solving

man is studying:

competitiveness of system

health of job reduction plan

no easy answer on wage penetration if system is that in place

in wage adjustments

what are trade offs

late march or april they'll report to HR