

GUIDE TO DEVELOPING A BASE SALARY STRUCTURE

Base salary structures can provide a frame of reference when making pay decisions. Because these structures group together jobs of similar value and are based on prevailing market rates, it communicates to employees that the company strives to be objective and equitable in pay decisions. Having a base salary structure also supports employment equity legislation, and decreases the likelihood that external factors such as race or gender influence pay.

When making pay decisions, consider:

Base Salary: Annual or hourly rate of pay that an employee receives for normal job performance, not including overtime or other incentives or premiums.

Minimum Wage: The lowest hourly wage that can be paid to workers. As of March 31, 2008, the current minimum wage in Ontario is \$8.75 per hour for general minimum wage and \$7.50 per hour for students (students under 18 working not more than 28 hours per week or working during a school holiday).

Salary Band / Range: The range that a salary can fall within. Shows a minimum, target, and maximum salary for a job or a group of jobs.

Creating Salary Bands:

Broad Bands: Features bands that are wider, or have a bigger difference between the Minimum and Maximum salaries, thus creating fewer bands in a salary structure.

Pros: Provide greater flexibility to an organization in paying employees what they need to in order to attract and retain capable employees.

Cons: Through accumulating years of service and annual merit increases, an employee can end up being paid more than you wish or need to pay them for the job they do as the Band Maximum is higher than what is required by the market.

Salary Ranges: Features ranges that are narrower (have a smaller difference between the Minimum and Maximum salaries), thus creating more ranges in a salary structure.

Pros: The problem of overpaying is usually solved as employees reach the maximum pay rates sooner.

Cons: If the ranges are too narrow, it can create a challenge in that in order to remain competitive with your wages, you either have to adjust the ranges or 'promote' the employee to a higher range to enable paying them more. This can cause issues of internal inequity and employee dissatisfaction.

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Human Resources Policy Manual**

- ✓ Broad Bands / Salary Ranges can overlap; that is, the maximum salary of one band can be higher than the minimum salary of the band above it.
- ✓ Positions can then be grouped into bands/ranges using one of two methods:
 - Simple ranking order – using common sense to rank order jobs, from highest to lowest, according to their overall value to the organization
 - Job Evaluation – job elements such as responsibilities, skills, effort, and working conditions are assessed and awarded points for the purpose of grouping positions with similar points together. This process is also advantageous for Pay Equity compliance.
- ✓ Each Broad band / Salary Range should have a corresponding Minimum Salary, Target Rate, and a Maximum Salary.
 - Salaries between the minimum and target are for employees who are still learning the job or whose performance does not meet expectations
 - Salaries at target are for fully-functioning employees whose performance meets performance objectives.
 - Salaries between the target and maximum are only available to employees whose performance is considered exceeding objectives.

Salary Bands – Example 1

Salary Band	Minimum Salary	Target Salary	Maximum Salary
1	\$18,000	\$21,500	\$23,750
2	\$21,500	\$25,750	\$28,500
3	\$25,750	\$28,250	\$31,000
4	\$28,250	\$34,000	\$37,500
5	\$34,000	\$40,750	\$44,750

- The lowest Salary that this company would pay is \$18,000; therefore, it becomes the Minimum Salary for Salary Band 1.
- To determine the Target Salary, a multiplier of 120% of the Minimum Salary was used, with the result being rounded to the nearest multiple of \$250.
- To determine the Maximum Salary, a multiplier of 110% of the Target Salary was used, again rounded to the nearest \$250.
- The Target for Band 1 was selected as the Minimum Salary for Band 2 and the process was repeated through Band 5.
- The percentages used to determine the Target and Maximum Salary can be smaller or larger based on your preference. The larger the percentages, the wider the Bands will be and the fewer Bands you will have.

Salary Bands – Example 2

Salary Band	Minimum Salary	Target salary	Maximum Salary
1	\$18,000	\$20,000	\$21,000
2	\$20,000	\$22,000	\$23,000
3	\$22,000	\$24,000	\$25,000
4	\$24,000	\$26,000	\$27,000
5	\$26,000	\$28,000	\$29,000

- The same Minimum Salary was used in Band 1 as in Example 1.
- The Target Salary is \$2,000 more than the Minimum Salary.
- The Maximum Salary is \$1,000 higher than the Target.
- The Target from Band 1 becomes the Minimum Salary for Band 2 and the process is repeated through Band 5.
- The increment between levels within the Band and from one Band to the next can be determined by your preference.
- Using larger increments will add flexibility and reduce the number of Bands in your structure.

Salary Bands – Example 3

Job/Position	Minimum Salary	Target Salary	Maximum Salary
Job 1	\$18,000	\$22,000	\$25,000
Job 2	\$21,500	\$23,000	\$26,000
Job 3 - Level 1	\$28,000	\$30,000	\$32,000
Job 3 - Level 2	\$31,000	\$33,000	\$35,000
Job 3 - Level 3	\$34,000	\$36,000	\$38,000

- In Example 3, a structure using salaries assigned to individual jobs is presented.
- The Minimum, Target, and Maximum salaries are determined by what you need to pay to attract and retain quality employees, with no specific formulas used.
- The salaries overlap slightly to allow for some flexibility in salary when promoting an employee from one level to another.