

Editor's note: This new, quarterly column will provide answers to your classification and compensation-related questions. The authors each have more than 25 years of experience in the compensation field in government settings throughout the world.

Question: Our city has been formalizing the budgeting process and we are ready to put the finishing touches on it before it goes to the City Council.

Because one of our major costs is salaries, it would be nice if we had a better idea of what we should budget for employee salary increases. Our neighboring cities are budgeting 3 percent. That seems to be out of line for us, since some of the businesses in town are still laying-off employees. Can you give us any guidance? —B.G.

CompDoctor: B.G., you've made our day. We've been hoping that someone would ask us for our annual forecast. (Although we can't imagine why CNN hasn't called. Must be those new cell phone numbers we got.)

First, as every good prediction starts with accurate information about the present, we must ask you a few questions:

■ Are you interested in forecasting pay for top management, or for exempt or non-exempt employees as defined by the Fair Labor Standards Act (FLSA), or for police and fire? Different job families will experience different rates of pay increases. You remember the run-up in IT salaries, don't you?

■ Are you concerned with pay levels in other cities, or all government organizations, or do you want to know what the private sector is doing as well?

■ Do you want to forecast merit pay increases in addition to salary range increases? The dirty little secret in having an effective pay system is that if you don't address both salary range movement and employee pay movement in some fashion, you will have some serious pay issues to address down the road.

Changes in salary ranges tend to reflect the market as a whole, while merit increases may vary widely by industry and job family and should be adjusted at different rates if you could get your Council to accept the possibility that

By Jim Fox and Bruce Lawson,
Fox Lawson & Associates LLC

Comp Doctor™

everyone does not need to be treated equally.

So much for simple answers. Keeping in mind that your answers to the questions above will affect your numbers, let us tell you what's going to happen to salaries and merit pay across the country.

We have no idea!

You see, every year we pore over market information, collect economic data and consult the stars, and we have been wrong every time. Sometimes we go overboard and predict that wages go up 4 percent when in fact they go up 3 percent. We are just as wrong on the other side of the equation, too. So if you want the cold, hard, irrefutable facts, contact your local fortuneteller. Or, just make up the data, and then blame our competitors for giving you bum information. At least you will be off the hook if it is wrong.

Salary structures (the ranges that govern pay at hiring and as people are promoted) will increase by 1.5 percent to 2 percent next year. The average increase will be 1.5 percent for non-exempt salaries and 2 percent for top management. Information technology (IT) job increases will be leaner than they have in the past, and will approach the levels of all other employees.

Merit pay (pay for performance) will range from 2.6 percent to 3 percent of salaries. Across all governments, the average individual merit pay award will be 3 percent of salary for exempt employees and 2.6 percent of salary for non-exempt employees. Top management rewards will increase at an average pace of 2.9 percent of salary. So, it looks like you were right all along...your neighbors are a bit too high.

That was part one of our forecast. Now here's part two: The trend toward pay for performance (pay based at least in part on individual, team or organizational performance) will continue to grow. More

and more governments got bitten by the reduction in tax revenues and will be looking for ways to get even more blood from the turnips. First, they will look to hold pay down, then they will look to a reduction in personnel, then they will look to re-engineer their procedures. Finally, they will look to pay again to reward the employees that are doing most of the work or are working smarter. It will be a long and painful process, but they will get there. Your job, as the grand guru of HR, is to lead them down the right path so they do it right.

Finally, no prognostication would be complete without a sense of foreboding, so here's a word of warning. If you build a budget forecast based on outdated salary structures, your forecast will be off just as much as your current ranges

employee who works part-time, but I anticipate a greater need for part-time workers as we develop a flexible scheduling program. To get right to the point — do most organizations have their part-time employees on the same pay grading systems as their full-time employees, or do they pay a percentage of the full-time rate? What are our options?

Any insight you can give in this area would be greatly appreciated. K.N.

CompDoctor: It depends. Oh boy, is that a favorite phrase of HR people. But, it is true, because each situation is always a little different. It would be nice if we could go to the "Answer Book," look up the question and have the "right" answer.

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are. So before you present your new budget to the Council, you may want to reassess your pay strategies to make sure that they're in line with your objectives and that they are reasonably competitive with the market.

There you have it. Time to crank up the old abacus and figure out what it will cost you to keep your employees in-house and well-fed for one more year.

And by the way, if the increases you bestow next year are minimal, you ought to make sure that the appreciation you express to your people is...well...maximal! One good "Atta-boy" or "Atta-girl" is worth a 2 percent raise by itself.

Question: I'm looking for some advice on part-time pay. We currently have one

Ok, you asked. We are at your service with a ready answer and a snappy spin. If the employee is hourly, most organizations will pay the hourly rate for the hours that they work. For those who have a constant need for part-timers, such as UPS, they have had to pay a premium to get people to take less than full-time work. At UPS, they pay benefits. You might want to do this as well, but I don't see that you should go there right way. If the position is exempt, then some organizations will pay the percentage of pay for that position that they will work. For example, if the normal pay for that job on your grading system is \$30,000 and the part-timer works a 30-hour week, then they get 75 percent of the

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normal pay. Raises and increases are handled a little differently. In this case, they raise their pay when they have put in the equivalent of a full-time year—in other words, after 2,080 hours, whenever that occurs.

For non-exempt work, the pay situation is a little more straightforward, since you can pay employees on an hourly basis and not worry too much about whether they work 30 hours this week and 27 hours next week.

The trick here, at least in our experience especially with exempt part-timers, is that they may work 35 hours one week and 20 hours the next. Over the period, they average about 30 hours a week. Well, what do you pay them? When this happened in our situation, we agreed to an average work week, and recognized that they would work a few more hours one week and a few less the next week, but overall, it would average to our agreed-upon pay level. That appeared to work out the best. You also need to be careful of when employee benefits start to kick in. Some companies will provide

pro-rated benefits to their part-timers who work 30 or more hours per week. But that is between you, your benefits carrier and the employee.

Finally, if the position is covered by a union, ignore everything you've read here so far. Read the union agreement and be happy someone else decided what to do already.

Whew, this was more complex than we thought. Are you sure you want to hire part-timers?

The CompDoctor™ is the team of Jim Fox and Bruce Lawson of Fox Lawson & Associates LLC, a compensation and human resources consulting firm that specializes in assisting governments in fixing their compensation and classification systems. They are seriously irreverent about their specialty. You may reach them at www.foxlawson.com. If you have a question you would like to have answered in a future column, please write to them at jfox@foxlawson.com or blawson@foxlawson.com. They will try to include it in the next issue of CompDoctor™.—X

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Jeff Ling, Ph.D.

Southwest Regional Director

JLing@MGTofAmerica.com

1.800.378.9565

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