

FIA

SOLUTIONS

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Base Pay or Total Compensation?

What is included in total compensation?

Are you comparing similar items?

Make sure you annualize the monthly figures.

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We all know that total compensation is an important issue in today's world. In the numerous pay and benefits studies we conducted this year, benefits as a percent of base salaries are averaging 30% or more. We know the importance of communicating the full value of total compensation for achieving employees' understanding of their pay and benefit packages. Since the total compensation package is a major tool in attracting and retaining employees, organizations are asking themselves when they conduct a market survey if they should be basing their competitive analysis on base pay only, or should they be making market comparisons on a total compensation level? The surveys that we have conducted on behalf of our clients over the years have been a mixture of either base pay only, base pay with benefit items surveyed and analyzed separately, and base pay with benefit items surveyed and analyzed together in the form of a total compensation perspective. We have found that a base pay analysis with benefit items surveyed and analyzed separately is the most accurate reflection and is the most accepted by employees, as a total compensation analysis can be difficult to ensure accuracy, understanding and acceptance. You might ask, "Why is that?"

We have found that once an organization decides to compare itself to the market based on total compensation, the biggest obstacle is determining what their total compensation components are going to be. First, the organization

needs to define total compensation. This will be a different definition for different organizations depending on an organization's culture, pay strategy, economic factors, legal/regulatory issues, and what their competition is doing. Typically, total compensation includes base compensation, short-term incentives, health and welfare benefits, retirement benefits, paid leave, and in some cases prerequisites or special pay practice items (like overtime, shift differentials, certification pay, uniform or car allowances, longevity payments, flexible schedules etc.). What of these gets included in the total compensation formula is the difficult part.

Some components of total compensation are easily quantifiable by equating an exact dollar figure to each item, while other components are not easily quantifiable, although are still very important for factoring into the total compensation mix. Let's say your organization wants to do a total compensation analysis. Do you want to include all quantifiable items that you can attach a dollar figure to? Or do you want to only include three core items such as base pay, health premiums, and retirement contributions? The most important consideration in defining your total compensation formula is to ensure consistency. Before you decide which items you want included in your total compensation competitive analysis, be sure that you can quantify those items in your own organization first so that you can make an apples to apples

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comparison with your labor market. For example, if you are in California and you are paying in to a PERS plan but not in to Social Security for your employees, do not expect to make a consistent comparison with organizations in another state that do not pay in to a PERS plan but do pay in to Social Security for their employees. Another example is with medical and dental premiums paid for by the organization versus the employee. When factoring in the dollar amounts that organizations spend on premiums for employees, do you want to consider employee only, or employee plus family coverage? Whichever your organization decides to focus on, you need to ensure the same figures are referenced from the market. One more example, probably the most obvious but many times forgotten, is to ensure that the values you are collecting are all in one base before analyzing. If you analyze your salaries on an annual basis, be sure to then calculate and annualize the benefit and retirement dollars to equate to the same basis. Many times we have seen organizations forget to equate their monthly retirement contributions to an annualized basis before adding that amount to their annual base pay, thereby distorting the end result.

We have found such examples end up becoming an obstacle in valuing total compensation from a competitive standpoint. Too often, we have found that organizations decide they want to compare based on total compensation, but the debate over what the formula should be arises after the numbers are collected and analyzed. Prior to conducting your market survey, strategic discussions are necessary, and all decision makers from the organization need to be in agreement on the total compensation components.

Remember your goal is to identify the competitiveness of your total compensation package for attracting and retaining employees. If you can ensure that your end result in valuing total compensation will include all pertinent components and be a consistent comparison to the market, then a total compensation analysis is beneficial; but if not, then go with analyzing your base pay and benefit items separately. In the end, a separate analysis may be easier for everyone to understand, and it may be easier to make needed changes if you focus on each item separately.

If you would like help with a total compensation analysis, contact us. We can be reached at 800-383-0976. Press 12 for Jim or 20 for Bruce.