

Compensation Philosophy, Policy, and Samples

Compensation Philosophy

Purpose

A **compensation philosophy** helps explain *why* your organization compensates staff the way it does and supports the development of policies. It creates a framework for consistency and allows your organization to align your pay practices with your vision and values around equity and inclusion.

Your compensation philosophy:

- Demonstrates commitment to your organization's values
- Helps attract new staff to your organization
- Helps retain current staff at your organization.
- Ensures pay is fair and impartial within your organization
- Provides a context or introduction to your compensation policy

Considerations

Some key factors to consider when developing your organization's compensation philosophy:

- Your organization's financial position. What do you have in the budget to support?
- Your organization's commitment to pay the market rate salaries for similar positions and geographic locations.
- Your organization's values and commitments to equity.
- Your organization's commitment to support your employees with non-monetary benefits and compensation (E.g., sabbaticals, health benefits, paid time off, etc.).

Sample Compensation Philosophy

ORGANIZATION is committed to supporting our employees to thrive in service of our organization's mission. We have established compensation that represents our organizational values. We hold equity as a core organizational value and strive to make the compensation process fair and straightforward. To attract, maintain, and support our staff, we target our salaries to exceed the median salary of staff in similar positions in similar organizations. We also value supporting the whole person with generous health and wellness benefits and paid time off. As an organization, we also live within budget constraints to ensure the long-term sustainability of the organization.

Compensation Policy

Purpose

Every organization should have an up-to-date **compensation policy** (also known as a Total Compensation Statement) in writing. Not only does it support your organization's compensation philosophy and commitment to transparency within its compensation program, but it also makes good legal sense and is a component of the 990.

Considerations

Your compensation policy may include various components of the following:

- Your organization's commitment to paying the market rate to staff. (E.g., using a salary report and targeting the 50th percentile based on outside data or targeting the 75th percentile to attract staff if your organization can afford it.)
 - TREC provides a step-by-step process to evaluate your salary structure to make an informed, thoughtful recommendation on adjusting your salary schedule over a number of years. The document and tool will walk you through analyzing your current compensation structure and establishing your salary structure.
- A set timeframe for annual increases – either at an anniversary date or at the beginning of your fiscal year
- Commitment to do a cost-of-living adjustment (COLA) increase for staff each year, if budget allows, and a date on which staff will be informed of any COLA increases. Note: COLA is separate from performance-based increases.
- Salary bands (a range) for each position.
- Criteria for determining specific employee's salary within the range. These criteria should be based on the organizational values and the position's needs. These criteria need to be considered with an equity lens.
 - Some examples of criteria:
 - Years of experience inside the organization
 - Additional years of experience outside the organization. Don't assume that experience within the organization is more valuable.
 - Variance in the job description (extra responsibilities) such as staff supervision).
 - Additional years of higher education (make sure this is relevant and important for the specific job).
- Total compensation including both direct and indirect compensation (health, dental, and vision insurance, sabbatical, vacation, educational assistance programs, life insurance, paid leave, etc.)
- Clarify who is responsible for salary decisions. For example, salary decisions are made by the Executive Director. The Board of Directors sets the Executive Director's salary.

Communicating the whole compensation package

Often the question arises whether an organization should share compensation information. You *should* share your compensation philosophy and policy, along with the salary bands for your positions with your staff and board. You *should not* disclose the specific salaries of individual employees because of legal considerations. It is also important to communicate with each staffer the rationale for the placement of their salary. Let them know when their salary will be reviewed next. Give them the full value of their compensation package, including the worth of the employee benefits.

Sample Compensation Policy

Adjust based on your organization's criteria

ORGANIZATION is committed to establishing compensation that will attract and retain high-performing employees at all levels. The organization has a salary range, or salary band, for each position. The salary range is set based on a review of the market using external salary data. The salary band ranges from the 50th to the 75th percentile for similar jobs in similar organizations. We target the low end of the salary band (50th percentile) for employees new to their role and 75th percentile salaries for employees with more experience inside and outside the organization. The experience outside of the organization can also include time spent in academic institutions receiving knowledge and skills relevant for their position and relevant job experience in other organizations.

The Executive Director reviews all salary bands before the start of ORGANIZATION's fiscal year and adjusts the bands with Cost-of-Living Adjustments, if applicable. The Executive Director then adjusts all individual salaries with this same Cost-of-Living Adjustment. Staff supervisors conduct evaluations of staff performance before the close of the year, and they submit evaluations to the Executive Director. Staff with performance within the top 20% of all staff are offered an additional 5% increase to their salary if there is room in the budget. The Executive Director will also adjust the employee's salary if there has been a change in responsibility that has not already been accounted for in the employee's salary. All salaries are set by the Executive Director, except for the Executive Director's, which the Board of Directors set.

The supervisor will communicate new salary amounts to the employee before they take effect, and notes about the rationale for the change will be placed in the employee's personnel file.