Pay Terminology Cheat Sheet

This resource provides you with an overview of some basic terminology related to pay which was introduced in this lesson.

BASE PAY

Salary paid to an employee, not including any benefits or bonuses. It also doesn’t include other variable compensation or allowances, such as overtime, shift allowance, on-call pay, or pay for special assignments. Base pay is calculated on an annual basis. Also referred to as *base salary* or *BS*.

JOB GRADE

Contains a group or cluster of jobs of broadly comparable size, usually based on the outcome of a job evaluation. Jobs in a job grade normally have the same relative pay rate and internal worth.

JOB SIZE

The level of an individual job established by a form of job evaluation. Also referred to as *job level*.

(JOB) GRADE STRUCTURE

A sequence or hierarchy of grades, bands, or levels into which groups of jobs broadly comparable in size are placed.

PAY SCALE

A scale representing the salary range for a particular organization or profession. A pay scale is often linked to a certain job grade. Other terms include *salary scale*, *salary band*, *pay band*, *pay grade*, and *pay zone*.

PAY STRUCTURE

The set of pay scales in relation to job grades. A pay structure is a framework to manage pay in a company. Also referred to as *salary structure*, or *salary grade schedule*.

REFERENCE

A level within a pay scale or range that often corresponds to the external market. The reference level is usually the policy level chosen by a company. It can also be used in broad-banding structures as the limit or threshold within a broad band at which salary growth can be stopped if certain conditions are not fulfilled. Also referred to as *anchor points*.

COMPA-RATIO

The relative salary position (RSP, expressed as a %) compared to a certain reference point. In an external benchmarking, the RSP would be compared to the average in the market. A compa-ratio can also be used internally to indicate the current salary of an individual compared to the salary range for their job. For instance, a compa-ratio of 95% means that the salary is 5% below the reference point.

PAY STRUCTURE GUIDE

	Narrow-branded structure	Broad-branded structure	Job/career family structure	Pay spine
Characteristics	• Clusters of jobs of similar sizes • Job bands have relatively narrow ranges • A minimum of 10 bands needed depending on size of the organization • Progressions often linked to performance • Salary ranges of 20-50%	• Limited number of broad bands (three to five narrow bands fit into one broad band) • Jobs of different sizes are in one band • Salary ranges of 50% to more than 100% • Progression based on contribution • Broad bands possibly divided into pay zones for better control	• Grade and pay structures linked to job families and/or groups of jobs of a similar nature • Progression linked to growth in competence and contribution in the job family	• A series of incremental pay points covering all jobs, from high to low • Small fixed-increase steps • Grades may be superimposed. • Progression linked to service and seniority
Most appropriate	• Larger organizations with well-defined hierarchies, but can also work in smaller organizations • Where there is need for control	• May work well in flatter organizations • When there is strong need for career flexibility and development	• When there are distinct (larger) groups of job families, such as in professional service organizations • When there are market groups that need to be rewarded differently or where there is scarcity	• Public sector and not-for-profit organizations
Advantages	• Very supportive of internal equity • Enables and facilitates (cost) control • Easy to understand	• Allows for flexibility • More supportive of lateral moves or developmental moves • Emphasizes growth in competence	• Easier to understand, more recognizable • Clear progression criteria	• Easy to manage since hardly any managerial judgment is needed • Easy to understand
Disadvantages	• May create rigidity and the taste of bureaucracy • More difficult to pay market rates when there is scarcity • Pressure on promotion (“grade drift”)	• More difficult to manage: requires more judgment from managers • Less supportive to internal equity and equal pay • Risk of under or overpayment • More difficult to explain	• May conflict with equal pay due to the perception of different treatment of certain families • Therefore, more difficult to manage internally.	• Minimal performance element for progression • Progression nearly automatic, hardly any differentiation on performance