


SALARY AND COMPENSATION

Sponsored by FIBA
and Nason & Nason
November 5, 2002



Objectives

- Compensation Philosophy
- Legal Aspects
- Salary Structure
- Salary Administration
- Benefits
- McGuire & McGuire Compensation and Benefits Survey

Compensation Philosophy

- To ensure hiring rates, compensation and salary are not based upon: sex, race, color, age, religion, disability, national origin or veteran status.
- To remunerate an employee on the basis of the fair market compensation.
- To establish and maintain salary structures with ample latitude for reward and recognition.
- To develop and maintain incentive programs to motivate exceptional individual, group and company performance.

Philosophy Goals

- Attracting and hiring qualified candidates
- Motivating employees to achieve the highest levels of performance
- Rewarding and recognizing outstanding performance
- Retaining qualified and valuable employees

Legal Aspects of Compensation

- Full-Time Employees – 30+ hours per week, at least 1040 hours per year
- Part-Time Employees – less than 30 hours per week, at least 1040 per year
- Temporary Employees – a part/full time employee with a specified end date

Fair Labor Standards Act (FLSA)

- The FLSA does the following:
 - sets minimum wage and overtime rates
 - requires record keeping by employers
 - places restrictions on the type of work children can do and the hours they can work
 - mandates equal pay for equal work
 - defines exempt/non-exempt
 - management responsibility guidelines

Equal Pay Act

- Purpose: to prohibit the practice of different pay rates for men and women performing the same job.

Under the EPA, men and women cannot be paid differently for performing substantially equal work unless justified by a bona fide seniority system, merit pay system, or quality/quantity incentive program or unless based on factors other than sex. In order to be “substantially equal”, the two jobs must require the same level of skill, effort and responsibility and must be performed under substantially similar working conditions.

Salary Structure – Job Descriptions

- Job: “the total collection of tasks, duties and responsibilities assigned to one or more individuals whose work has the same nature and level.”
- Position: “the total work assignment of an individual employee, comprised of an employee-specific set of duties and responsibilities.

Job Description Definition

- A written statement that identifies a job's title, department, reporting structure, FLSA status, salary grade, travel required, essential functions and responsibilities, and minimum qualifications.
- A job description should be used in the hiring process and later during performance appraisal. It should provide a basis for job evaluation both internally and externally, in relation to the FLSA and the ADA.

External Competition and Salary Structure

- Standard or benchmark jobs that are typically found across most companies are analyzed to make pay comparisons within the organization or to comparable jobs outside the organization, enabling the development or validation of a job hierarchy. Independent and/or third party surveys for benchmark jobs are analyzed to determine where the midpoint of each salary grade in the structure should be positioned.

Highlight of Salary Structure

- A salary structure consists of pay grades and pay ranges, each made up of a minimum, a midpoint and a maximum. These structures represent base salary only.
- The salary structure is a management tool which helps achieve certain compensation objectives such as: consistency, equity, cost control and dual career paths.
- Salary structures should be revised when necessary to ensure competitiveness.
- Companies with offices in different cities will need to accommodate the needs of each city. The differences should reflect: the cost of labor, general market differences, the cost of living and the national average for comparable jobs. “Cost of labor” reflects what a certain market is paying for comparable jobs and is not a cost of living index measure.

Key Components of Salary Structures

- Midpoint – the midpoint reflects the market average of positions assigned to that grade and serves as the control point for the administration process.
- Employee Equivalency Ratio – this is the ratio of actual pay to the midpoint of the respective pay grade in order to determine where an individual employee's salary is in relation to the midpoint. (An EER of +/- 5% is generally considered acceptable).
- Job Pricing – the practice of establishing wage or salary rates for jobs within the organization using market data combined with internal job evaluation results. Internal jobs should be matched to third party market information based on functional area, job family and job content rather than position title.

Salary Administration – Base Salaries

- Base pay should be determined using the following: job content, salary range, performance, duties and responsibilities, internal relationships and labor market comparison.
- Inappropriate determinants of base pay include: prior salary history, number of dependents, fear of losing an employee, years of service, discriminatory characteristics, favoritism, other income, length of time in job or financial need.

Salary Administration – Salary Changes

- Most salary increases are made for the following reasons:
 - on the basis of merit
 - in recognition of a promotion
 - to maintain/re-establish market or internal equity.

Merit Pay System and Increases

- The objective of this salary change is to pay for performance. A merit program recognizes sustained or improved work performance and takes into consideration an employee's contribution to the success of the company.
- Merit increases should be administered at the time of an employee's performance review. This will ensure that the increase is justified and based upon quantifiable results.
- As a tool, this will provide managers with standard criteria for assigning increases.
- Under this type of system, it is important that every employee know what is expected on the job and what constitutes satisfactory improvement or sustained high-level performance.

Promotion

- A promotion occurs when an employee assumes significantly greater responsibilities and typically results in moving to a higher grade.
- Promotions to manager level and above should occur after ensuring that the final salary increase meets the new salary grade.

Job Changes

- There are some changes that do not necessarily involve salary movement:
 - Reclassification: a change in a job's current grade based upon a quantifiable change in the value assigned to the job.
 - Demotion: the movement of an individual to a job in a lower grade. Generally, no change is made to salary unless the current salary is above the maximum for the new grade.
 - Lateral move: movement to another job in the same grade.

Total Cash Compensation

- A total cash compensation philosophy should include incentive plans that offer bonuses to eligible employees. The goal is to ensure that all those eligible are compensated based on their individual employee performance objectives (EPO) and their contribution to the company's financial performance.

Types of Incentive Plans

- Short Term Incentive Plan (STIP)– an effective tool that enables clearly defined and significant short-term goals to be established and rewarded during each fiscal period. The STIP is generally used to motivate participants to achieve goals that contribute to the success of the company and to support the vision and mission of the company. This can only be done by increasing efficiency, improving processes and reducing or controlling expenses.
- STIP Components: Individual employee performance and company performance. $EPO \text{ Component} + ECM \text{ Component} = \text{Total STIP}$.

Types of Incentive Plans

- One-Time Bonus
- Year End Bonus
- Spot Bonus
- Production Bonus
- Project Bonus

Benefits

- There are no legal requirements regarding providing benefits to employees, with the exception of federal holidays. The only stipulation is all benefits offered must be uniformly administered to all eligible employees. The open enrollment periods must be the same and the access to benefits must be equal. (This does not pertain to part-time or contract labor.)

Paid Holidays

New Year's Day

Memorial Day

4th of July

Labor Day

Thanksgiving Day

Christmas Day

Florida Holidays

New Year's Day

Washington's Birthday (or 3rd Mon. in Feb.)

Memorial Day

4th of July

Labor Day

Veteran's Day

Christmas Day

Holidays - General

When a holiday falls on a Saturday or Sunday, it is usually observed on the preceding Friday or the following Monday.

Normally, to be eligible for holiday pay, an employee must be regularly scheduled to work on the day on which the holiday is observed and must work regularly scheduled days immediately preceding and immediately following the holiday, unless there is a prior approved absence.

Vacation

- There is no legal mandate specifying the amount of paid vacation that an employee must have. The generally accepted norm is 2 weeks (10 business days) per year.
- Vacation Requests
- Vacation Pay Out
- Vacation Stipulations:
 - no accrual during probation
 - temporary and part-time employees do not accrue vacation
 - Vacation accrues until the cap is reached and stops accruing until some time is used.

Personal/Sick Time

- Generally a company will grant 3-5 days of sick/personal time. This time can be lumped in with vacation making the total paid time-off 15 days. This enables an employee to use their time in any fashion they choose.

Insurance Benefits

- Medical, Dental and Vision
- Cobra
- Disability
- Life and Accidental Death and Dismemberment
- Cafeteria Plans
- 401K Plans
- Unemployment Insurance

Florida International Bankers Association (FIBA)

2002 Compensation and Benefits Survey

Conducted by:

McGuire & McGuire Banking Consultants

PARTICIPATION

- GENERALLY GOOD
- 32 PARTICIPANTS
 - 9 Domestic Banks
 - 21 Edges, Agencies, 1 Branch
 - 1 Rep Office
 - 1 Investment Firm
- 1,525 Employees
- 106 Positions

PARTICIPATION

- Positions by number of incumbents
 - **Over 30 incumbents: 8 positions**
 - **21 – 30 incumbents: 10 positions**
 - **11 – 20 incumbents: 28 positions**
 - **5 – 10 incumbents: 38 positions**
 - **4 or fewer incumbents: 22 positions**

PARTICIPATION

- Participants by number of employees
 - **Over 100: 2 participants**
 - **76 – 100: 4 participants**
 - **51 – 75: 7 participants**
 - **26 – 50: 6 participants**
 - **16 – 25: 8 participants**
 - **Fewer than 16: 5 participants**
 - **Total: 1,525 employees - 32 participants**

PARTICIPATION

- **What could have been better:**
 - **4 participants “changed their minds” – why?**
 - 3 were “too busy” to complete questionnaire
 - 1 decided survey not relevant
 - **Needed more “marketing” to top management by FIBA Board**
 - **Many participants slow to complete Survey**
 - McGuire had to “persuade” several banks not to drop out and actually visit several to assist with completion of Survey
 - **Some who completed Survey not knowledgeable in Human Resources matters**, including compensation and benefits details

PARTICIPATION

- **MISCONCEPTIONS**

- “If you build it they will come” or “**If you design it, they will participate**” – senior management may be interested, but HR might be “too busy”
- Number of **potential participants** (60+ FIBA member banks) was **reasonably accurate**, and roughly half participated
- Original ‘**guestimate**’ of **5,000 – 6,000 employees was overly optimistic** (estimated from report by Professor E.N. Roussakis, entitled “International Banking and its Economic Impact for Florida,” dated June 15, 2000)
- Should have counted participants from 2000 Watson Wyatt Survey, which would have suggested far fewer employees

PARTICIPATION

- Actual international banking employees in Miami probably closer to 3,000 – 3,500
- Therefore, participants sample (1,525) accounted for close to half of actual population
- Major non-participants:
 - Banco Santander
 - Bank of America
 - Wachovia
 - Union Planters

PARTICIPATION

- **GOOD NEWS**

- **Major participants (number of employees)**

- ABN Amro
 - American Express
 - BAC Florida Bank
 - BBVA
 - Coutts
 - Dresdner
 - Lloyds
 - Mercantile Services (Commerce Bank and Banco Mercantil)

COMPENSATION

- Many positions with many incumbents (statistical relevance)
 - 46 positions with over 10 incumbents
- Some positions with very few incumbents (and limited statistical relevance)
 - 38 positions with 5 - 10 incumbents
- Some positions with too few incumbents for meaningful analysis (listed in 'Position Arrays' but not analyzed)
 - 22 positions with fewer than 5 incumbents

BENEFITS

- Good detail on various 'in house' and third party benefits programs
- Presented as straight listing, as most benefits not suitable for statistical analysis

BENEFITS

- Most participants provide:
 - Complete group health insurance (POS programs much more common than HMO)
 - Group dental insurance
 - Group life and AD&D insurance
 - Group disability insurance
 - 401-k plans

BENEFITS

- Most participants provide:
 - Generous vacation
 - Personal days and sick days
 - Free parking and Metrorail alternative
- Some participants provide:
 - Tuition reimbursement
 - Additional paid time off for maternity
 - Employee loan programs

BENEFITS

- Trends (tentative):
 - Appears to be trend toward **smaller employer subsidies of third party benefits** (health, dental, etc.) for both employees and dependents
 - Some banks providing **block of time off** (i.e., vacation, personal, sick days combined) – use it however you want

EXECUTIVE PERKS

- Asked about:
 - Automobile and personal use
 - Business club
 - Additional life insurance
 - Other
 - Some home mortgages
 - Some stock options
 - Some personal travel

EXECUTIVE PERKS

- Perks reported:
 - Some executives have bank automobiles and are allowed personal use
 - Some executives have Bankers Club or Miami City Club memberships
 - Some additional life insurance
 - Very few other perks reported
- Suspect that persons completing Surveys were not well-informed as to what perks the “boss” has

INTERPRETATION OF RESULTS

- HR Qualifications and ability to interpret results:
 - Some participants have highly qualified and experienced HR management
 - Many smaller participants do not
- Statistical detail can be confusing
 - What is a “quartile,” etc.?
 - What does it mean?
 - How can info be used?

INTERPRETATION OF RESULTS

- How to use when hiring:
 - **Determine job match**
 - For more senior positions, look at analysis by **participant size**
 - Look at **statistics**
 - Look at **Position Data Arrays** and make sure no items are disproportionately large or small
 - For more senior positions and those commonly involving **bonuses and/or incentives**, look at those components of analysis

INTERPRETATION OF RESULTS

- **Setting Salary Grades:**
 - **Select benchmark positions** – at least 5 (e.g., letters of credit supervisor, administrative assistant, senior wire transfer clerk, private banking assistant, head teller)
 - **Extract and average the averages**
 - **Trial and error**
 - **10 – 12 salary grades sufficient for most participants**
 - **Get some help** (e.g., from McGuire, who performed this exercise for various clients, using 2000 Watson Wyatt Survey and KPMG surveys during 1990s)

INTERPRETATION OF RESULTS

- Pitfalls:
 - Some banks use **13th month salary and 'entitlement' (automatic) bonuses** – these should be considered as part of base salary, since employees automatically receive
 - **Skewing of statistics by unusually large or small numbers** – use position data arrays
 - **Selection of relevant positions** for salary grades