GLOSSARY OF COMPENSATION TERMS

This compilation of terms is intended as a guide to the common words and phrases used in compensation administration. Most of these are courtesy of the American Compensation Association.

401(K) PLANS – Allow employees to receive cash or have employer contributions from profit-sharing and stock-bonus plans placed into a deferred account.

ABILITY -- A general expression of native or acquired mental power or capability.

ACROSS-THE-BORDER INCREASE -- An identical pay increase (in cents, dollars, or as a percent) given to every employee. Sometimes known as a general increase.

AUTOMATIC PAY PROGRESSION -- Automatically increasing wages after specified periods of service (also known as length-of-service increases).

AUTOMATIC WAGE ADJUSTMENT -- Automatically increasing or decreasing wages in accordance with some specific plan.

BENCHMARK -- A standard with characteristics so detailed that other classifications can be compared as being above, below, or comparable to it. In compensation administration, benchmark most frequently refers to a job, or group of jobs, used for making pay comparisons either within the organization or to comparable jobs outside the organization.

BONA FIDE OCCUPATIONAL QUALIFICATION (BFOQ) -- An exception to the restrictions of Title VII of the Civil Rights Act (1964) regarding discrimination on the basis of sex, religion and national origin. Thus, under certain conditions an employer legitimately may require a person of a specific sex, national origin, or religious affiliation to staff a certain job.

BONUSES – Are extra cash compensation based on performance.

BROADBANDING – Is an effort to make job evaluation more compatible with the de-layering of organizations by combining several salary grades or job classifications with narrow pay ranges into one band with a wider salary spread.

CALL-BACK PAY – Is pay that employees receive when they are on call but not actually working (also known as on-call pay).

CLASS OF POSITIONS -- A group of positions, regardless of location, that are alike enough in duties and responsibilities to be called by the same descriptive title, to be given the same pay scale under similar conditions, and to require substantially the same qualifications.

CLASSIFICATION -- A hierarchical structure of jobs, usually arranged into classes or pay grades according to some form of job evaluation.
COMMISSIONS – Are payments paid to salespeople, usually calculated as a percentage of sales.

COMPA-RATIO -- The ratio of an actual pay rate (numerator) to the midpoint for the respective pay grade (denominator). Compa-ratios are used primarily to compare an individual's actual rate of pay to the midpoint or some other control point of the structure. It is most frequently used as an index of a person's relationship to the structure. In addition, compa-ratios can be calculated for a group of people, a department, or the entire organization.

COMPARABLE FACTORS -- Factors or common characteristics of jobs employed to compare the relative value of different jobs.

COMPARABLE WORTH -- The doctrine that men and women who perform work of the same "inherent value" should receive comparable compensation. According to this doctrine, jobs have an inherent value (perhaps apart from external exchange rates) that can be compared across jobs of quite different content. Under this theory, women performing jobs of comparable worth to those performed by men should receive the same pay as men, excepting allowable differences (seniority, merit plans, etc.).

COMPENSABLE FACTOR -- Any factor used to provide a basis for judging job value in a job evaluation scheme. The most commonly employed compensable factors include responsibility, skill required, effort required, and working conditions.

COMPENSABLE FACTOR DEGREE -- The level of a compensable factor exhibited by a job. Most job evaluation schemes involving compensable factors scale such factors in terms of five or seven hierarchical levels.

COMPRESSING -- A narrowing of the pay differentials for jobs having different responsibility and skill requirements. Compression may apply to either actual pay or pay ranges.

CONSUMER PRICE INDEX (CPI) -- An indicator of the cost of living published by the Bureau of Labor Statistics, U.S. Department of Labor. It is an indicator of the changing purchasing power of the dollar. Specifically, it measures the changes in prices of a fixed market basket of goods and services purchased by a hypothetical average family. Sometimes mistakenly called the "cost-of-living index."

CONTROL POINT -- The point within a salary range representing the desired average pay for a job or group of jobs at a given time (frequently the midpoint of the salary range).

COST-OF-LIVING ADJUSTMENT (COLA) -- An across-the-board wage and salary increase or supplemental payment designed to bring pay in line with increases in the cost-of-living. COLAs are sometimes found in union contracts, generally tied to increases in price indexes published by the Bureau of Labor Statistics.

DOWNGRADING -- The movement of a job to a lower level in a job evaluation system or to a lower pay grade.
DUAL-LADDER CAREER PROGRESSIONS – Allow employees to advance via either a management or a technical track within the organization; this allows technical personnel to advance without giving up the work they enjoy.

EXEMPT -- A term referring to those job groups of employees - executives, administrative, professionals, and those engaged in outside sales - that are not covered by the minimum wage and overtime provisions of the Fair Labor Standards Act.

EXTERNAL EQUITY -- A fairness criterion that directs an employer to pay a wage that corresponds to rates prevailing in external markets for an employee's occupation.

FACTOR WEIGHT -- A weight indicating the relative importance of a compensable factor in a job evaluation system.

FLAT INCREASE -- An across-the-board increase stated in the same absolute amount or same percentage amount for all positions in a division or organization.

GENERAL PAY ADJUSTMENT -- A change in the base pay levels for all employees or all employees in certain classifications.

GOING RATE -- Popularly refers to the employer's best estimate of the wage rate that is prevailing in a labor market.

INCENTIVE PAY – Is a form of direct compensation where employers pay for performance beyond normal expectations to motivate employees to perform at higher levels.

INCUMBENT -- A person occupying and carrying out a job.

INDEXING -- An automatic adjustment of benefits in the course of payment to reflect changes in a consumer price, cost-of-living, or other index of inflation.

INDIVIDUAL PAY RATE -- The rate of pay assigned to a given individual. Individual pay rates may vary on the same job as a function of time in grade, performance, or some other basis for establishing variation in employee merit.

INTERNAL EQUITY -- A fairness criterion that directs an employer to set wage rates that correspond to the relative value of each job to the organization.

INTERQUARTILE RANGE -- In an ordered array of data, the distance between the third quartile and the first quartile. The interquartile range contains the middle 50 percent of the data.

JOB -- A homogeneous cluster of work tasks, the completion of which serves an enduring purpose for the organization. Taken as a whole, the collection of tasks, duties, and responsibilities constitutes the assignment for one or more individuals whose work is of the same nature and which is performed at the
same skill/responsibility level. (A position is that collection of tasks assigned to a specific individual.)

**Job Analysis** -- A systematic process gathering information about the tasks making up a job, employee skills required to do a job, employee skills required to do the job, time factors, situation factors such as technology use, physical aspects, information flows, interpersonal and group interactions, and historical traditions associated with the job. Job analysis provides the information needed to define jobs and conduct job evaluation.

**Job Cluster** -- A series of jobs clustered for job evaluation and wage and salary administration purposes on the basis of common skills, occupational qualifications, technology, licensing, working conditions, union jurisdictions, workplace, career paths, and organizational tradition.

**Job Description** -- A written summary of the most important features of a job including the general nature of the work performed, specific task responsibilities, and employee characteristics (including skills) required to perform the job (the last known as job specifications). A job description should describe and focus on the job itself and not any specific individual who might fill the job.

**Job Evaluation** -- A formal process by which management determines the relative value to be placed on various jobs within the organization. The end result of job evaluation consists of an assignment of jobs to a hierarchy of pay grades or some other hierarchical index of job value. Job evaluation is most closely associated with the criterion of internal equity.

**Job Evaluation Committee** -- A committee whose membership is charged with the responsibility of (a) selecting a job evaluation system, (b) carrying out or at least supervising the process of job evaluation, and evaluating the success with which the job evaluation has been conducted. Most frequently job evaluation committees have a membership representing all important constituencies within the organization.

**Job Family** -- Jobs involving work of the same nature but requiring different skill and responsibility levels (e.g., applications programming is a job family and a senior applications programmer is a job (skill/responsibility level) within that family).

**Job Levels** -- In job evaluation programs, refers to the pay grade or pay level to which a job is assigned.

**Job Pricing** -- The practice of establishing wage rates for jobs within the organization, usually combining judgments regarding market value and internal job evaluation results.

**Job Specification** -- That part of a job description that specifies the requirements or qualifications necessary on the part of the individual to perform the job.

**Job Title** -- A label for a job that may or may not accurately reflect the actual content of the job and, therefore, should not be used as a basis for making any compensation decisions.

**Labor Grade** -- The pay grade to which a given type of job is assigned.
LABOR MARKET -- Where work is exchanged for pay, usually defined as those organizations where employees are recruited from or where current employees leave to join. A labor market may be defined by geography, occupation, industry, etc.

LEAD OR LAG POLICY -- In adjusting wage structures to meet the market, the organization must decide when it will match (or follow or exceed) the market. If it chooses to match the market at the start of the year it has adopted a lag policy, that is, it will lag behind the market the rest of the year as the market increases. If it chooses to project the market to the end of the year and match that, it has adopted a lead policy, that is, its wages will exceed the market rates during the entire plan year. A lead-lag policy is one in which the company leads the market for the first part of the year and lags the market for the latter part of the year.

LEAST SQUARES LINE -- In regression analysis, the line fitted to a scatter plot of coordinates that minimizes the squared deviations of coordinates around the line. This line is known as the "best fit" line.

LINEAR REGRESSION -- A statistical technique that allows you to build a model of relationship between two variables. Linear regression assumes that the basic relationship between the two variables is linear in nature.

MANAGEMENT BY OBJECTIVES (MBO) -- A popular employee development technique that consists of a process in which a superior and a subordinate or group of subordinates jointly identify and establish common performance goals. The unique feature of management by objectives is that the process requires involvement of subordinates in the setting of performance goals.

MARKET LINE -- A line (or curve) that shows the statistical relationship between job evaluation values and pay survey data.

MARKET PRICING -- A wage and salary setting policy that sets the rates to be paid for a job to the organization's best estimate of the going wage rate in the external market place for that job. It is a process that defines a job's worth solely by the going rate in the labor market. (See External Equity).

MARKET RATES -- The employer's best estimate of the wage rates that are being paid in the external labor market for a given job or occupation.

MATURITY CURVE -- Survey data reporting wages or earnings for professionals as a function of years from degree or time in the profession. Maturity curve data is most common for professions such as engineers, accountants, or physicians. Some organizations use maturity curves for pricing jobs rather than relying on job evaluation techniques.

MEAN (ARITHMETIC) -- A simple arithmetic average obtained by adding a series of numbers and then dividing the sum by the number of addends (items to be added) in the series.

MEDIAN -- In a number series containing an odd number of items, the middle item in the series when the numbers are ranked from high to low. When there is an even number of items ranked from high to low, the average of the two middle items is the median.
**MERIT INCREASE** -- An adjustment to individual salary based on performance or some other individual equity basis.

**MERIT PROGRESSION** -- A formula for progressing a person through a wage structure according to performance or some other individual equity basis.

**MERIT RATING** -- A method for appraising the performance of an employee with respect to his or her job. It frequently serves as a basis for making pay adjustments, promotion decisions, or reassignment of work.

**MIDPOINT** -- The value that is equidistant from the minimum and maximum rates of a pay range.

**MIDPOINT PROGRESSION** -- The slope of the salary schedule from midpoint to midpoint expressed as a percent of the lower midpoint. Progression may be constant throughout the schedule or may increase at higher salary grade levels.

**MODE** -- The item or observation that occurs most frequently in a series of items.

**MULTIPLE REGRESSION** -- A statistical technique that allows you to build a model of the joint impact of several X variables (often called independent variables) on a Y variable (often called the dependent variable).

**NON-EXEMPT** -- Jobs or employees that are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act.

**NON-LINEAR REGRESSION** -- A sophisticated form of regression analysis that allows an analyst to build a model of a non-linear or curve-linear relationship between two variables.

**NORMAL DISTRIBUTION** -- Typically, a bell-shaped distribution curve frequently used as a basis for statistical inference. In compensation administration, it is a mistake to assume that all distributions should be normal. Many salary distributions are skewed (non-normal).

**OCCUPATION** -- A generalized job or family of jobs common to many industries and areas.

**OPEN PAY SYSTEM** -- A compensation system under which information about wage ranges - at the extreme, even individual employee wage levels - is made public.

**PAIRED COMPARISON** – Refers to a job ranking method that allows evaluators to compare each job with other jobs being evaluated.

**PAY** -- Wages or salaries received in return for work performed or services rendered.

**PAY GRADE** -- One of the classes, levels, or groups into which jobs of the same or similar value are grouped for compensation purposes. All jobs in a pay grade have the same pay range: maximum, minimum, and midpoint.
PAY GRADE DIFFERENTIALS -- The difference in wage rates paid between two adjacent pay grades, usually defined as the difference in the midpoints of the two adjacent pay grades. A line connecting the midpoints of a set of hierarchically arranged pay grades is known as the pay curve. A pay grade differential is usually calculated by taking the difference between two adjacent midpoints as a percentage of the lower of the midpoints. See also, Midpoint Progression.

PAY GRADE OVERLAP -- The degree to which adjacent pay grades in a structure overlap. Numerically, the percentage overlap between two adjacent pay grades.

PAY GRADE RANGE -- The range of pay rates from minimum to maximum set for a pay grade or class. Used as a policy for setting individual employee pay or salary rates.

PAY STEPS -- The levels within a pay range.

PAY STRUCTURE -- An array of pay for jobs within an organization that contains job evaluation values, pay grades, and pay ranges.

PAY SURVEY -- The gathering of data on wages and salaries paid by other employers for selected key classes of jobs or benchmark jobs.

PAY TREND LINE -- A line fitted to a scatter plot that treats pay as a function of job values. The most common technique for fitting a pay trend line is regression analysis.

PERCENTILE -- A measure of location in a distribution of numbers that defines the value below which a given percentage of the data falls. For example, the 90th percentile is that value that 90 percent of the data is less than.

PERFORMANCE APPRAISAL -- Any system of determining how well an individual employee has performed during a period of time. Frequently used as a basis for determining merit increases.

PERFORMANCE STANDARDS -- Task or behavioral standards established as goals to be achieved by an employee and providing the basis for performance appraisal.

PHILOSOPHY -- Principles used as guides in a business undertaking.

POSITION DESCRIPTION -- A written explanation of the work one employee performs.

PROMOTION -- The assignment of an employee to a job in a higher job classification or pay grade.

PROMOTION INCREASE -- An increase in a salary or wage rate that accrues to a person because of a promotion to a higher level job.

QUARTILE -- A special type of percentile defining the values that break a set of numbers into 4 equal parts.
The third quartile is the 75th percentile, that is, the value below which 75 percent of the data falls. The second quartile, also known as the median or 50th percentile, is that value below which 50 percent of the data falls in a distribution. The first quartile or 25th percentile is that value below which 25 percent of the data falls. See Percentile.

**RANGE** -- In a set of ordered data the difference between the maximum value observed and the minimum value observed. See Pay Grade Range.

**RED CIRCLE RATES** -- Rates that are above the maximum rate for a job or pay range for a grade.

**RESPONSIBILITY** -- The obligation on the part of an employee to perform the tasks and duties expected by the employer.

**SALARY** -- Compensation paid by the week, month, or year (rather than by the hour). Generally applies to non-production, non-routine or supervisory jobs exempt from the provisions of the Fair Labor Standards Act. See also, Wages.

**SALARY BUDGET** -- An amount or pool of money set aside for paying salaries during some period. Salary budgets must be taken into account when planning adjustments to a wage structure and when planning individual employee adjustment.

**SALARY STRUCTURE** -- The structure of pay grades and ranges established for jobs within an organization. It may be expressed in terms of pay grades, job evaluation points, or policy lines.

**SALARY STRUCTURE CHANGE** -- An increase (or decrease) in salary structures should be expressed as the percent for which the sum of all midpoints of the new structure exceed the corresponding sum of midpoints of the old structure.

**SCATTERGRAM** -- A mathematical technique designed to display a "picture" of a relationship between two variables. A scattergram is plotting of coordinates simultaneously representing x and y scores for a number of observations.

**SCOPE MEASURE** -- An element identified by an organization that provides statistical measures of the value of work to that organization.

**SENIORITY** -- Length of time an employee has worked for a given employer. Rights and privileges are often accorded to employees over other employees according to seniority. May also be used to record time worked for a division or group, or in a specific occupation. Union contracts often provide for multiple seniority calculations.

**SINGLE RATE SYSTEM** -- A compensation policy under which all employees in a given job are paid at the same rate instead of being placed in a pay range. Generally applies in situations where there is little room for variation in job performance, such as an assembly line.
SKA's -- Skills, knowledge, and abilities.

SKewed Distribution -- A distribution of data that is asymmetric, with a tail of extreme values in one direction.

Skill -- An aptitude or work behavior gained through experience.

Standard Deviation -- The square root of the variance. An index of variability stated in terms of the original metric or units of measurement.

Standard Rate -- The rate established for a job based on job evaluations and job pricing strategy.

Step Rates -- Standard progression rates that are established within a pay grade for a job. Step rates are usually a function of time in grade.

Structured Questionnaire -- Any structured paper and pencil device employed in gathering job information through indirect observation.

Symmetric Distribution -- A distribution of data in which one half is the mirror image of the other half. The point of symmetry is the median.

Task -- An element constituting a distinct activity that makes up the logical and necessary steps in the performance of work by an employee.

Task Element -- The smallest step into which it is practical to subdivide any work activity without analyzing separate motions, movements, or mental processes.

Task Inventory -- A structured questionnaire listing the sum of the potential tasks involved on a job. The respondent simply identifies those tasks that apply to his or her job and may indicate the frequency with which those tasks are carried out.

Upgrading -- The advancement of a job to a higher classification.

Wage Level -- The average of all wage rates paid to workers in an occupation, an industry, or a group of industries.

Wage Movement -- An increase or decrease in the wage level being paid to a job or an occupation in a wage market.

Wage Rate -- The money paid to an employee expressed in dollars and cents per hour.

Wage Survey -- A pay study of a labor market to determine the going rates for benchmark jobs.

Weighted Mean -- An average calculated by weighting each individual mean by the number of data points
that made up that individual mean.

**WORKING CONDITIONS** -- The surroundings or environment in which work is performed.