Compensation Issues
Issues

Equity

- Entitlement Pay - $15.00
- Pay inequities – Race, Gender, Have’s/Have Nots
- Executive Pay
- Pay compression/Inversion
- Favoritism

Labor market conditions

- Increases in minimum pay and starting pay
- Tightening overall labor market
- Shortage of skilled employees (esp. Clinical)
- Projected increase in turnover
- Poor quality of many applicants
More Issues

Regulatory changes
- Minimum salary to $50,440
- May tighten the requirements for exemptions to require 50% of time on exempt level duties
- Expect initial announcement soon
- Two months to fix

Efficiency
- Cost of labor
- Limited labor budgets
- Replacement cost of turnover
- Cost of benefits

And
- No extra help
- Internal workings of business
Current Solutions?

Pay practices from 1940’s

- Top down budgeting with standard allocation
- Standard budget increases (COLA + 1.5%)
- Step increases based on seniority
- Across the board increases
- Starting pay set subjectively
- New pay = current pay + %
Current Solutions?

Pay practices from 1970’s

- Open pay grades
- Numerous differentials to attract skilled employees
- Reactionary adjustments due to turnover or complaints
- Constant re-evaluation and restructuring
- Pay grade adjustments with standard pay increase

NOT THE SOLUTIONS, BUT CAUSE MOST OF THE PROBLEMS.
Recommendations
Compensation Management is a strategic issue that impacts patient care and organization success.

- Compensation Management is more than administration or payroll processing.
- Compensation Management is not customer service.

Financial Managers have to make some difficult decisions.

- Any money misspent on compensation is not available for other things.

Compensation Management is a management issue.

- Train managers in basics of compensation.
- Involve top management.
Raise salary above $50,440.

Recategorify as non-exempt and maintain current cost.
- Compute regular rate using budgeted hours including 1 ½ for overtime.
- Manage work hours to budgeted hours.
  - Limit off duty work
  - Limit emails after fixed time
  - Train on duty employees
- Pay bonus if annual pay is less than desired salary.

Audit all jobs for proper FLSA status.
Efficiency

Implement improved budgetary controls.
• Use of multiple budget items (merit increases, market adjustments, and equity adjustments).

Review current pay practices
• Establish criteria for use
• List eligible jobs and employees

Audit current pay and fix problems
• Compute annual cost savings

Prepare quarterly Compensation Report
• Number of out of cycle increases, re-evaluations
• Cost of out of cycle increases by dept., type, etc.
• Compa ratio analysis by job, pay grade, dept., pay grade changes
Pay Equity and Efficiency

Improve individual pay determination process
  • Implement structured pay model for all decisions
  • Fix inequities
  • Improve efficiency
  • Make your life easier

Improve annual increase process.
  • Convert to a common review date.
  • Fluctuate merit matrix to meet budget, not performance appraisal scores.
  • Eliminate managerial discretion without quantitative rationale.
  • Provide additional increases to jobs with higher wage inflation, lower increases for jobs without high wage inflation.
Questions