

Compensation Philosophy: Purpose & Plan

What is a Compensation Philosophy?

A Compensation Philosophy is a statement that guides compensation decisions and can include:

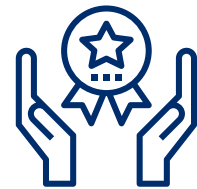
- Your program's beliefs on fair and transparent pay
- Answers as to who you aim to be as an employer
- Information on Total Rewards (Compensation and Benefits)
- Guidance on how your program plans to get to their goals



Benefits of a Compensation Philosophy

A Compensation Philosophy can support your program's business goals while also strengthening your business by:

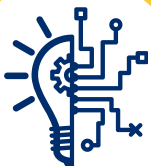
- Establishing a foundational guide to help make business decisions related to pay and benefits
- Improving employee retention through clear communication on compensation pathways and fair pay
- Communicating a culture of trust and sound business practices to both employees and external candidates
- Attracting high quality candidates through compensation transparency and clarity



What to Include in a Compensation Philosophy

A Compensation Philosophy should include a set of guidelines that frame what your compensation vision is and how you plan to achieve your compensation goals which may include:

- Your approach to fair and consistent compensation practices
- Where you are positioned in the labor market (are you below, at or above market) and where you intend to be
- Your perspective on benefits including any incentives
- Differentiating compensation factors from competitors



A Compensation Philosophy can be as simple as a paragraph or as complex as a large portfolio. This is dependent on factors such as how thorough it is, how large your program is and how many stakeholders have a say in what is written in the statement.



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Steps to Creating a Compensation Philosophy

I. Compile: Gather Compensation Info & Data

You likely already have a number of compensation related documents and standards. Gather those items which could include

- Your current compensation data including pay ranges
- Incentive and bonus amounts and requirements
- Data on the current market (i.e. other local pay ranges)
 - This can be found by researching local programs job postings or through the [U.S. Bureau of Labor Statistics](#)

II. Compose: Write Compensation Statements

Use that data to create written statements about your compensation:

- 1) Where you are now - your current compensation position
 - Taking into account current compensation, write a statement that summarizes your current compensation strategy.
 - Ex: Based on current market data, we are proud to be market-competitive for our industry in base pay.
- 2) Where you want to be - your future compensation position
 - Considering current compensation and how you hope to grow, write a statement of your compensation hopes and goals.
 - Ex: We are proud of our current competitive offerings and hope to increase benefit offerings in the next two years.

III. Complete: Finish Your Compensation Philosophy

Once you have statements reflecting your current practice and your goals for the future, you can create your complete philosophy by filling in guiding principles that outline elements such as:

- Base pay (salary and/or hourly wages)
- Pay ranges for varying positions
- How pay and pay ranges are determined
- Any performance based pay increases (i.e. merit increases)

▶▶ Once you have your comprehensive Compensation Philosophy, your work is not done. It is best practice to review your philosophy annually to ensure it is accurate and up to date.

Clearly communicating your Compensation Philosophy with all employees is crucial. Best practice is to communicate it each year and highlight any changes or new elements.



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Compensation Philosophy Example

Below is an EXAMPLE Compensation Philosophy. It is not intended to reflect a specific business nor is it a template for program use.

Here is a basic Compensation Philosophy example to help guide your work developing your own Compensation Philosophy. Remember, it is valuable to share this transparently with employees and candidates and to review it annually to make sure your philosophy is current and relevant.

Here is a summary of the Compensation Philosophy that is tied to a Mission and Vision. The summary offers clarity and context to the "why" and highlights the most important elements of focus in the Compensation Philosophy.

Our Compensation Philosophy

It is a central part of our program's Mission and Vision to support all children and families equitably and respectfully. This sentiment is directly reflected in our Compensation Philosophy which aims to provide fair and equitable pay to all employees. We are deeply committed to treating all employees fairly and with respect and our compensation practices and policies aim to reflect those commitments.

Here are the Compensation Statements recognizing both current compensation and goals for future compensation.

Where We Are & Where We Are Going

We are proud of our competitive compensation position within our local market and are pleased to offer both competitive base pay and a number of benefits. Our goal is to continue to attract and retain the best team of employees. We recognize that compensation helps to support that goal, therefore, we will strive to continue to provide competitive base pay and further expand on our benefits offerings in the years ahead.

Our Guiding Compensation Principles

- Provide transparency on base pay and pay ranges
- Use market data to aid decision making on base pay
- Provide fair and equitable pay for all employees
- Recognize individual achievement through merit increases, bonus' and/or other incentives
- Communicate any and all philosophy and policy changes to all employees annually

Listed here are the Guiding Compensation Principles which can dive deeper into specific policies or procedures. They can also help to explain or clarify things like salary structure and base pay rates or even dive into where the market data used actually comes from and how or why it is used.



References

The following references were used in the creation of this resource:

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- 3 Insperity Staff. (2022). Creating a Compensation Philosophy and Compensation Policy Document. Insperity. <https://www.insperity.com/blog/compensation-policy/>
- 4 Lozano, Mabel. (2022). Why You Need a Compensation Philosophy and How to Create One. People Managing People. <https://peoplemanagingpeople.com/strategy-operations/compensation-philosophy/>

