

Tennessee Tech
Common Compensation Terms

Aging survey data -	The practice of increasing market survey numbers by some assumed percentage movement of wage inflation in that labor market to bring them up to date to the current point in time. This practice is also “advancing” or “maturing” the data.
Base rate -	The hourly amount paid for a job performed. Does not include shift differentials, benefits, overtime, incentive premiums or any pay element other than the base rate.
Benchmark job -	A standard job used to make pay comparisons, either within the organization or to comparable jobs outside the organization, to develop or validate a job-worth hierarchy. Pay data for these jobs are readily available in published surveys.
Benchmarking -	The process by which an organization seeks to identify top-performing organizations and analyzes their strategies, policies and practices for the purpose of learning some or all of them.
Compa-ratio -	The ratio of an actual pay rate (numerator) to the midpoint or some other control point for the respective pay range (denominator). Compa-ratios are used primarily to compare an individual’s actual rate of pay to the midpoint or control point of the structure. A compa-ratio also can be calculated for a group of people, a department, or an entire organization.
Comparator group -	An identified group of competitors or companies that have similar aspects or targeted scope measures that relate to their business (e.g., industry, revenue, enrollment, number of employees, total assets, etc.).
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 price changes of items in a fixed “market basket” of goods and services purchased by a hypothetical average family.
Cost of living adjustment (COLA) -	An across-the-board wage and salary increase or supplemental payment designed to bring pay into line with increases in the cost of living to maintain real purchasing power. COLA’s are sometimes included in union contracts, generally tied to increases in price indexes published by the Bureau of Labor Statistics.

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Demotion -	Occurs when an incumbent moves from a position requiring a certain level of skill, effort and responsibility to a vacant or newly created position assigned to a lower pay grade requiring a significantly lesser degree of skill, effort and responsibility.
Downgrade -	Occurs when a position is reassigned to a lower pay grade as a result of a significant reduction in the position's existing duties and responsibilities.
Dual career track -	An approach to employee career development in which employees can augment similar status and compensation via different career channels - managerial or technical. This strategy is adopted to improve retention, motivation, job satisfaction and performance as well as to enrich creative ideas, practices and products for employees based on particular competencies.
Effective date -	The date on which increases in salary or pay rate go into effect.
External Equity -	A measure of an organization's pay structure compared to that of its competitors. As a fairness criterion, external equity implies that the employer pays wages that correspond to prevailing, external market rates.
Internal Equity -	A fairness criterion that directs an employer to establish wage rates that correspond to each job's relative value to the organization.
Job Analysis -	The systematic, formal study of the duties and responsibilities that comprise job content. The process seeks to obtain important relevant information about the nature and the level of the work performed, and the specifications required for an incumbent to perform the job at a competent level.
Job Audits -	Refers to the formal review of positions at designated intervals for purposes of ensuring that current duties and responsibilities are being appropriately reflected in each position's evaluation and pay grade assignments.

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Job description -	A summary of the most important features of a job, including the general nature of the work performed (duties and responsibilities) and level (i.e., skill, effort, responsibilities and working conditions) of the work performed. It typically contains job specifications that include employee characteristics required for competent performance of the job. A job description should describe and focus on the job itself and not on any specific individual who might fill the job.
Job evaluation -	Refers to the method whereby positions are evaluated, classified, and assigned to pay grades or ranges for purposes of establishing internal equity with tin the organization.
Job family -	A group of jobs having the same nature of work (e.g., engineering) but requiring different levels of skill, effort, responsibility, or working conditions (e.g., entry-level vs. senior engineer).
Job grade -	One of the classes, levels or groups into which jobs of the same or similar value are grouped for compensation purposes. Usually, all jobs in a grade have the same pay range minimum, midpoint, and maximum. However, sometimes different jobs in the same pay grade have different pay ranges, due to market conditions for some of the jobs.
Job hierarchy -	A graded or ranked order of jobs. The classification of a group of people that reflects reporting relationships, scope of responsibility and internal equity.
Job matching -	A procedure used to compare individual jobs that must be performed carefully to ensure accuracy in matching positions. Job title, job status, location of the job, scope of responsibility, reporting relationships, job requirements, job description and industry classification should all be determined when matching jobs.
Labor market -	A place where labor is exchanged for wages. These places are identified and defined by a combination of the following factors: (1) geography (e.g., local, regional, national, international), (2) industry, (3) education, licensing or certification required and experience, and (4) function or occupation.
Living Wage-	Not the same as the minimum wage, which is the legal minimum employers must pay, the living wage reflects what earners in a family need to bring home, based on the actual costs of living in a specific community.

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Market Exceptions -	A special premium, which is established for a particular job title when unusual market conditions exist, causing excessive turnover, grade midpoints will below market average, and/or failure of current of current pay to attract qualified candidates.
Market pricing -	The technique of creating a job worth hierarchy based on the “going rate” for benchmark jobs in the labor market(s) relevant to the organization. Under this method, job content is considered secondarily to ensure internal equity after preliminary hierarchy is established based on market pay levels for benchmark jobs. All other jobs are “slotted” into the hierarchy based on whole job comparison.
Merit increase -	An increase to an individual’s base pay rate based on performance.
Nonexempt employees -	The term referring to employees who are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act of 1938 as amended.
Pay plan -	A schedule of pay rates or ranges for each job in the classification plan. May include rules of administration and the benefit package.
Pay range -	The range of pay rates, from minimum to maximum, established for a pay grade or class. Typically used to set individual employee pay rates.
Pay-range width -	The width or spread of a pay range, measured by the ratio: $Width = \frac{\text{maximum pay} - \text{minimum pay}}{\text{minimum pay}}$
Pay steps -	Specified levels within a pay range. Employees may progress from step to step on the basis of time-in-grade, performance, and/or the acquisition of new job skills.
Payment lump-sum merit -	When merit pay is delivered in the form of a single cash payment separate from base pay (i.e., not folded in).
Peer group -	A specific set of identified organizations used in benchmarking. Typically these are organizations of similar nature and scope.

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Point Factor -	A job evaluation method that uses defined factors and degree levels within each factor (usually five to seven levels, which are also defined). Each factor is weighted according to its importance (to the organization). Job content descriptions are compared to definitions of the degree levels and the corresponding points assigned to the appropriate level are then awarded to the job and added for all factors to determine the total job score. The total scores are used to create a job worth hierarchy.
Promotion	Occurs when an incumbent moves from a position requiring a certain level of skill or authority/responsibility to a position requiring a higher level of skill or having a higher level of authority/responsibility.
Range -	(1) For a set of data, the difference between the maximum value and the minimum value. (2) For a pay grade, the percentage by which the maximum pay exceeds the minimum. Sometimes referred to as the range spread.
Range Penetration -	A calculation for expressing the position of an incumbent's actual pay within the overall pay range. Calculated by dividing the difference between the range minimum and the incumbent's actual pay (the numerator) by the difference between the maximum and the minimum of the pay range (the denominator).
Salary Compression -	(1) A situation where the differential in pay between a supervisor and his/her subordinate is insufficient to adequately recognize the difference in scope and responsibility. (2) A situation where the differential in pay between an experienced employee who is performing at or above expectations and a new employee, just entering the organization, in the same job, is not sufficient to be considered internally equitable.
Salary inversion -	(1) A situation where a subordinate's pay exceeds that of his/her immediate supervisor where the pay differential cannot be justified as a result of the subordinate possessing a unique set of skills or abilities. (2) A situation where a new hire is paid more than existing employee who are performing proficiently, in the same job, where the differential is not justified by the new hire possessing advanced capabilities.

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Salary structure -	The structure of job grades and pay ranges established within an organization. The salary structure may be expressed in terms of job grades, job evaluation points or policy lines.
Scope -	The set of quantifiable job characteristics that ascribe value to a job. Typical characteristics include number of subordinates, size of budget managed and sales volume of the organization.
Skill-based pay -	A person-based compensation system based on the repertoire of jobs an employee can perform rather than the specific job that the employee may be performing at a particular time. Pay increases generally are associated with addition and/or improvement of the skills of an individual employee, as opposed to better performance or seniority within the system. Pay level generally is not dependent on whether any of the skills are utilized.
Step rates -	Standard progression pay rates that are established within a pay range. Step rates usually are a function of time in grade and are often referred to as automatic. However, they also can be variable or can be used in conjunction with merit programs.
Target compensation -	The expected pay for a position, including both base pay and at-risk pay. The variable portion of target compensation is based on what the employee ought to earn, on average, given satisfactory performance. High performers will exceed target earnings and poor performers will fall short of the target. Initially this term was used primarily in sales compensation, but, as at-risk pay becomes more widely used so does this term.
Transfer -	A lateral move which results when an employee is moved, from a position requiring a certain level of skill, effort and responsibility to another position requiring the same degree of skill, effort and responsibility and assigned to the same pay grade; or, the assumption of additional duties that does not result in an upward movement of the position's current pay grade.
Upgrade -	Occurs when a position is reclassified to a higher pay grade as a result of a significant expansion in the position's existing duties and responsibilities.
Wage rate -	The money rate, expressed in dollars and cents, paid to an employee per hour.

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Whole job matching -

A process used when there is no systematic attempt to break down jobs into discrete tasks when analyzing skills or other characteristics required when comparing the relative value of jobs. Jobs are assessed by deciding whether one job is more valuable or more difficult than another. Job ranking, paired comparisons and job classification are schemes related to this design.