

Compensation Pay Decision Guidelines Supplement November 2002

DEVELOPING SALARY RANGES

Identifying the Appropriate Market

In compensation, the term ‘market’ refers to the collective group of employers with whom MIT competes for talent. Since MIT is a complex institution with a wide variety of jobs, we compete in a wide variety of markets. Some examples are shown below:

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|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Support</i> | ▪ Local Cambridge/Boston employers, regardless of industry |
| <i>Administrative</i> | ▪ Local and regional employers; for some administrative jobs this would be limited to higher education institutions (e.g., Admissions Counselors), for others the market would include all industries (e.g., Financial Officers) |

The process of determining which markets apply to which jobs begins with discussions with Human Resources Officers, Administrative Officers and others at MIT who are involved in recruitment and staffing. These discussions ensure that the Compensation office is using the right markets for data collection.

To ensure ready access to current and appropriate pay data, MIT participates in a carefully selected group of salary surveys. Salary surveys are MIT’s means of gathering the compensation data necessary to compare its compensation practices and levels with the practices and levels of other comparable organizations in the marketplace.

Salary surveys are typically conducted annually by reputable survey firms. They use proven methods and approaches for collecting, analyzing and presenting pay data. The large number of participating organizations ensures statistically valid results.

From time to time, the Compensation office may also conduct or sponsor its own custom salary surveys in order to supplement data from the annual surveys or to target a specific job or market.

Salary surveys typically display pay data, by job, in a variety of ways. For example, pay may be displayed by:

- ◆ type of organization (for profit, not for profit, higher education, health care, biotech);
- ◆ size of organization (determined by number of employees); and
- ◆ geographic location of organization (local, regional, or national).

Surveys typically provide:

- ◆ low, high, and median pay, by job;
- ◆ average salary range minimums and maximums for all jobs within a particular survey; and
- ◆ information on whether a job is classified as exempt or non-exempt (refer to Job Evaluation under Pay Decision Guidelines, July '01 for additional information).

The published surveys and the occasional custom survey are the primary sources of pay data. Other sources of pay data may include professional publications, professional association surveys, and data collected from recent hiring and recruitment experience. In this way, the Compensation office is able to get a comprehensive and current picture of the pay practices for a given job.

As a rule, the Compensation office will not use data from other sources unless the methodology and approach can be validated. This eliminates magazines, free websites, and other media as potential data sources.

Determining Market Compensation

After determining which markets are appropriate, MIT's jobs are compared and matched to the jobs in each survey based on job content and requirements. Salary survey data (including incumbent and salary range data) is then collected for the matched jobs using as many credible sources as possible. These matched jobs are called "benchmark jobs." Benchmark jobs are those jobs that have characteristics so detailed that other jobs can be compared as being above, below, or comparable to that job, either within or outside an organization. Examples of benchmark jobs might include Payroll Assistant, Customer Service Representative, Cashier, Accountant, or Pharmacist.

Once benchmark jobs have been assigned a salary range, then non-benchmark jobs can be classified by comparing them to benchmark jobs using breadth, scope and complexity of the job as indicators and pay ranges can be determined accordingly.

Changing or Updating Salary Ranges

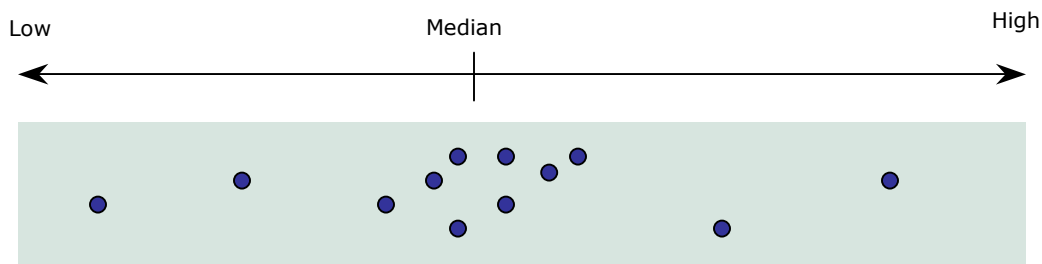
Once the Compensation office has collected and analyzed market data, it may be necessary to review current salary ranges and determine whether changing or updating these ranges is necessary. There are 4 basic steps in changing or updating salary ranges:

1. *Organizing market data*
2. *Developing preliminary salary ranges*
3. *Classifying jobs*
4. *Reviewing and finalizing salary ranges in the context of current pay*

1. Organizing Market Data

The first step in changing or updating salary ranges is to collect market data for benchmark jobs and organize it from low to high. This provides an overview of median salaries, as reported by salary surveys, and highlights clusters of data. The market median is typically used for this process because it represents the middle of

the market data for each job (i.e., 50% of the salaries are higher than the median and 50% are lower). The median is represented in the following illustration:



2. Developing Preliminary Salary Ranges

The next step in changing or updating salary ranges is to develop preliminary salary ranges around the data. The Compensation office identifies the middle point in each cluster of market data to establish the range midpoint. Then salary range minimums and maximums are developed (these are equidistant from the midpoint), using accepted principles of compensation program design. These principles provide parameters for determining the number of salary ranges, the overlap between adjoining ranges, and the “spread” between the range minimum and range maximum.

3. Classifying Jobs

The next step in changing or updating salary ranges is to classify jobs in preliminary ranges. In order to do this, the Compensation office reviews market data for each job (including salary surveys and recent hiring salaries) as well as incumbent salaries; e.g. the highest salary paid, the lowest salary paid, and the average salary paid. This provides a trend of pay practices for each job. Once the pay trend for a particular job has been established, it is compared with the preliminary salary ranges to determine which range best accommodates the salary spread.

This is an iterative process by which all jobs are classified.

4. Reviewing and Finalizing Ranges in the Context of Current Pay

Classifying jobs, as stated in #3, provides the foundation for reviewing and finalizing salary ranges. Once all jobs have been classified, the Compensation office reviews and validates the preliminary ranges to ensure that:

- ◆ the range spread is sufficient to allow for ample pay growth within the range, yet still affordable to MIT;
- ◆ the range spread is sufficient to provide for lateral career growth; and
- ◆ there are enough ranges to accommodate the variety of jobs being classified, and these ranges accommodate current pay without adversely affecting employees.

Once this review has taken place, ranges may be adjusted accordingly to ensure that they are consistent with the market and also appropriate for MIT.