Salary Range: Everything you need to know

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Contents

What are salary ranges?

A [salary range](#) represents the range within which an employer is willing to pay an employee. The employee can either be a current employee or a new employee. It represents the value an employer is willing to pay to a group of jobs as defined by the job grade. In other words, the employer is not willing to pay less than the range minimum salary and is not willing to pay more than the range maximum salary. The reason for grouping pay into ranges for a particular grade is to ensure the jobs of equal value to the organization are paid within the same salary range.

Salary ranges are used when designing a [pay or salary structure](#). A salary range can be viewed as the differences in pay between the maximum salary and minimum salary in a job grade. The purpose of a salary range in a pay structure is to give an organisation scope to vary the salaries of employees in the same grade based on other factors such as performance, experience, and educational qualifications. Creating a pay structure with no credible salary range can lead to pay compression, likely leading to employee equity complaints.

It is important to note that salary ranges in a pay structure start when an organisation embarks on a job

evaluation. Job evaluation puts jobs in grades. The grades group jobs of equal value to the organisation. While the jobs in the same grade are of equal value to the organisation, the individuals in those jobs do not bring equal value to the organisation, hence the need for salary ranges to accommodate these differences. Jobs fetch different salaries on the job market. An internal grading system and pay ranges allow the organisation to recognise internal jobs that vary in market salaries but belong to the same grade. This is because market salaries are usually based on common salaries from market surveys with common salary ranges.

Some countries require salary ranges to be included on job listings, promotions etc. rather than have the prospective employees wait to get it from their salary offers. For example, under the New York City Human Rights Law it would be considered an unlawful discriminatory practice if the salary placement is missing from the job listings. The addition of the salary on job postings has been debatable over the years. However, this remains the trend in countries were the practice of adding salary on job postings is not mandatory.

The majority of the candidates get salary information from their salary offers upon successfully getting the job. These candidates would only be able to negotiate on their salary offers after going through all the steps in the hiring process. Usually, candidates engage their prospective HR through a salary negotiation email were they request for their salary requirements. However, it is important to note that the salary placement within the salary range depends on factors such as the rate of hiring, experience, skills, education and qualifications etc. This is valid when the job listings are not entry-level positions which already have base pay salary information attached to them on their salary requirements.

How to establish salary ranges?

The salary ranges are required in a salary structure because it is impossible to establish a salary for each job evaluation point in an organisation. This has lead to the development of pay structures. Salary ranges are established most of the time as part of developing a salary/pay structure. Salary ranges for a pay structure can range from as low as 15% to as high as 60%. The salary ranges are much higher when a pay structure has broad banding parameters.

As indicated earlier, the salary range gives the organisation scope to remunerate employees who are in the same job differently based on various considerations. The calculation of salary ranges in a pay structure is not complicated. It is essential to note that to calculate a salary range in a pay structure, you need to have the salary midpoint. A salary midpoint represents the grade's most competitive market position. Each control point could be the median market salary or the 75th percentile. The choice of the midpoint depends on what the organisation can afford and sustain. You get a pay spine if you draw the line through all the midpoints in a pay structure. The pay spine again is the most competitive pay in a pay structure.

I will use the table below to show how a salary range looks like. This would help you when I show you how to establish or calculate salary ranges. The formula to get the salary range in absolute terms or as a

percentage is **salary grade maximum - salary grade minimum/salary grade minimum X 100.**

Table: 1

Grade	Minimum	Midpoint	Maximum	Salary Range
5	$1 432	$1 862	$2 292	60%

In practice, it is common to have all pay grades with the same salary range. There is no justification for similar salary ranges for all grades. Instead, the correct way is for salary ranges to vary based on the type of jobs in each grade. A grade with highly skilled and in-demand jobs should have winder ranges compared to lower-level unskilled jobs. However, we note that for convenience, most organisations use the same range for all grades.

Salary range minimum and salary range maximum

	Decision Pointers
Salary range maximum	It is reserved for top performers. Such individuals are ready for promotion.
Salary range midpoint	The most competitive point in a pay structure. This is where you pay your consistent performers. It often represents the organisation's target market position. It is a reflection of the target market posture, e.g. the median or the 75th percentile.
Salary range minimum	The entry-level salary for employees who are still learning and needs a lot of assistance. Other employers use this entry point for any new employee joining the organisation.

The minimum salary in a salary range is the entry-level salary for jobs in a particular grade. This signifies the minimum pay that an organisation is willing to pay for an entry role in each grade. In practice, less experienced employees and new employees are paid close to the minimum of the grade. It is a way to control costs as well. It does not make sense for any organisation to pay a premium salary for a less experienced employee. Within the salary range, there is a midpoint which is the control point. The midpoint represents a competitive market position for the organisation. Pay your top performers around the midpoint of the salary range. The maximum has no particular significance except to act as a control

point. In practice, no employee should be paid close to the maximum pay for the grade. An employee who has moved fast enough to reach the maximum of a grade is probably worth much more, and therefore their role deserves to be elevated to a higher grade where they can earn higher pay.

Salary ranges can also be used when an organisation is developing and utilising a merit table. A merit table uses an individual salary's position within a pay range (i.e. compa-ratio), and their performance to determine how much an employee can get in the form of merit adjustment. The amount to be shared is often a function of the merit budget. The logic in the merit table is that employees on a lower comp-ratio and higher performance rating should get a higher increase than an employee on a higher compa-ration with higher performance. The reasoning in this statement is that an employee on a higher compa-ratio and a higher performance is already being remunerated competitively than the other employee on a lower compa-ratio. The calculation of the compa-ratio in merit increases is therefore vital.

Salary range midpoint

The salary range midpoint represents the most competitive pay for a grade. This is only valid if the pay structure was designed using market salary information comparisons. In such a case, an organisation can decide to make the median of the market or the 75th percentile of the market's reference point. The salary range midpoint, the progression of grade midpoint salaries from one adjacent grade to the other, can range between 5% to as high as 40%. A high salary range midpoint is found in very competitive roles or grades. Lower-level grades tend to have lower progression.

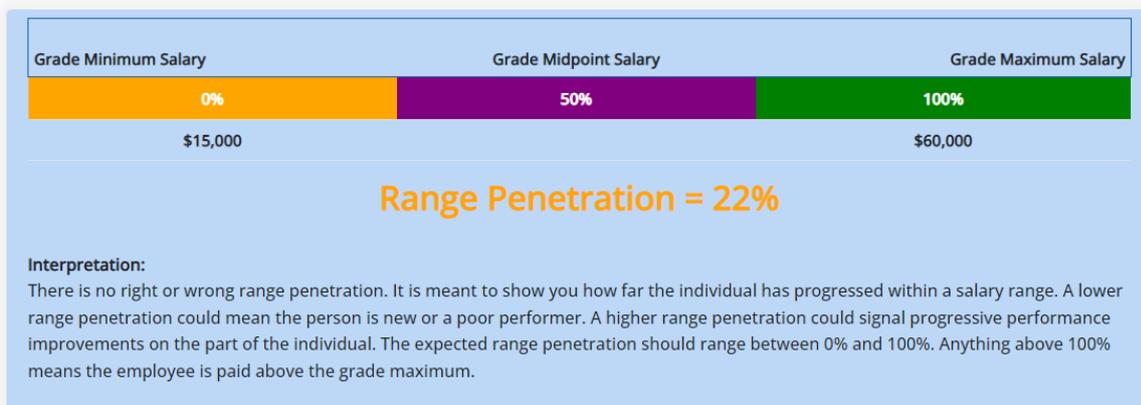## The formula for calculating the midpoint of a salary range is as follows:

Before calculating the salary range for your pay structure, you need to decide what range spread you will use in your pay structure. For example, if you choose that the range will be 60%, you need the formula to convert this into grade salary ranges. The formula should be able to help you calculate the salary range minimum and salary range maximum.

The formula for calculating range spread is Maximum minus minimum expressed as a percentage. As an example taking the figures in Table 1.

($2 292 - $1 432)/2 292 *100 = 60%

Salary Range Calculator

Salary Range Penetration Calculator Output

Grade Minimum Salary	Grade Midpoint Salary	Grade Maximum Salary
0%	50%	100%
$15,000		$60,000

Range Penetration = 22%

Interpretation:
There is no right or wrong range penetration. It is meant to show you how far the individual has progressed within a salary range. A lower range penetration could mean the person is new or a poor performer. A higher range penetration could signal progressive performance improvements on the part of the individual. The expected range penetration should range between 0% and 100%. Anything above 100% means the employee is paid above the grade maximum.

Related: Salary Range Penetration Calculator

Salary Range Minimum = grade salary range midpoint/1+ half of the range(30%).

Using the midpoint for grade 5 in Table 1 Salary Range Minimum= $ 1 862/1.30

$1 432

Salary Range Maximum = minimum* 1+ range(60%)

Using the midpoint for grade 5 in Table 1 Salary Range Maximum = $1 862*1.60

$2 292

Salary Range penetration

A salary range penetration looks at how far an individual salary has penetrated the salary range. Unlike

compa-ratio, where the reference point is the midpoint of the salary range, salary range penetration looks at the progress towards reaching the salary range maximum in a particular grade.

Range penetration = (individual salary – grade minimum salary)/grade maximum salary – grade minimum salary) * 100.

The range penetration ranges from 1% to 100%. The higher the range penetration, the higher the individual's salary in relation to the grade. If we take the grade salary range below for an employee in grade 5 earning $1658, the range penetration is calculated as follows:

Range penetration = ($1 658- $1 235)/($2 123- $1 235) * 100 = 48%. This range penetration is low as the individual has not even reached have of the the salary range.

Grade	Minimum	Midpoint	Maximum	Salary Range
5	$1 235	$1 862	$2 123	72%

Employees paid outside the salary range

For various reasons, you may find some of your employees being paid outside the salary range for the grade. This tends to happen when a new job evaluation system is introduced in an organization. Make every effort to move all the employees paid below the minimum of the grade salary range to the minimum of the grade. There is very little you can do for employees already paid above the maximum of the salary range as you can not reduce their salaries. The best way to control their salary movement is not to give them anything when making salary adjustments for other employees until they fall within the grade salary range over time. With more frequent adjustments impacting the salary structure, they will end up within the salary range.

Candidates who come highly recommended by previous employers are frequently considered more deserving of a position at the top of a pay scale. When HR professionals understand how useful salary ranges are to remuneration management, they can add value. Therefore, organisations should use the various salary range options outlined in this article as they manage remuneration.

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