1. **COMPENSATION PROGRAM PHILOSOPHY**

The philosophy of Caltech’s compensation program is to:

- Attract, motivate and retain the best and brightest employees with skills needed to achieve Caltech’s mission;
- Be competitive within relevant labor markets;
- Reward contribution and excellence using multiple recognition strategies;
- Maintain Internal Equity; and
- Facilitate career development.

The Annual Salary Increase process is an opportunity for managers to review employees’ salaries in context to this philosophy, ensure increase dollars are allocated effectively to reward employee performance and contributions and to address compelling market issues.

2. **DETERMINING REWARD**

This year’s average annual salary increase (ASI) program target is **2.0%**. Division/unit managers are expected to assure that average rewards within their unit(s) are consistent with the overall program target of 2.0%, and to provide those rewards within available financial resources. Members of the Compensation staff are available to discuss options for meeting those objectives.

To provide a range of rewards in the form of base increases and/or lump sum payments, managing broader reward differentials will be needed.

We encourage rewarding employees who have had the greatest impact and contribution, above and beyond established expectations of performance, and sought out new opportunities to contribute to the success of the unit/division at the highest levels. Employees meeting performance expectations and who satisfied the basic requirements of their role should be rewarded at a somewhat lower level than those performing at a higher level. It is appropriate to provide employees whose performance did not meet performance expectations with little or no pay adjustment.

**2.1 REWARD OPTIONS**

Increases may be given to employees in one of three ways:

- An increase to base pay only;
- A lump sum reward only; or
- A combination of increase to base pay and lump sum amount.

Rewards should be consistent with the employee's latest performance appraisal and contribution to the organization.

Factors to consider in determining individual increase amounts include the employee's:

- Type, complexity and level of work;
- Individual performance and effectiveness in working with others;
- Contribution to the organization;
- Salary in relation to peers performing similar work;
- Salary in relation to external market.

An employee's base salary should be equal to at least the minimum of the employee’s salary range for their classification grade and should not exceed the salary range maximum. The employee’s base salary should be a reflection of their level of performance and the applicable market data for their position. In situations where the employee’s salary is high in relation to their peers and the external market data, a Bonus in Lieu (BIL) may be appropriate.
2.2 BASE INCREASES

These options result in an increase to the employee's base pay rate that carries forward to future pay periods.

**Merit Increase:**
This option allows managers to recognize on-going performance, sustained contribution, and the attainment of new skills and education.

You may want to consider holding back a specified merit allocation to be given at a later date in FY’12 for poor or marginal performers whose performance may improve. In such cases, please contact your Compensation Consultant and provide them with the employee's name and expected review date.

Consideration should be given to any changes to job duties and responsibilities. For example, the addition or loss of supervisory responsibility since the last review may be reason to increase or constrain base pay.

**Market Adjustment:**
This option is used to address compelling internal and/or external market and retention issues. Market adjustments are effective on the same date as the merit increase.

The Compensation Section of HR is solely responsible for conducting market analysis to identify prevailing rates in the labor markets within which Caltech competes for talent. Please contact your Compensation Consultant if you have any questions or concerns regarding internal or external market information.

2.3 LUMP SUMS

Lump sum rewards are a one-time payment, which do not increase an employee's base pay rate. Such payments need should be significant enough to be meaningful for employees. Suggested minimum lump sum total amounts are $1,000/year for exempt positions and $500/year for nonexempt positions. The two types of lump sums that are available are outlined below.

**Bonus in Lieu (BIL):**
A reward that is given in lieu of a base pay increase where the employee's base pay rate is at or above the FY’12 pay grade maximum. The amount should reflect the employee's latest performance appraisal and contribution to the organization.

BIL is also a reward that can be given in combination with base pay increases where the employee's work performance is strong but their salary is high compared to their peers and external market data.

BIL is always a gross amount, therefore the check amount will be less any federal and state taxes.

**Performance Bonus:**
A reward that is given in relation to documented performance criteria. This can be for:

- An exceptional one-time achievement and/or contribution;
- Undertaking substantial additional responsibilities or a critical assignment;
- Successful completion of a critical project; or
- An individual formally designated as an acting manager or supervisor

Managers can reward the Performance Bonus as a Gross Bonus or Net Bonus. Please refer to section 4.2 below for details and implications of Gross or Net Bonus.
2.4 DOCUMENTED REWARDS

Below 1% Increases:
Awarding no reward may be appropriate in cases where employees are at or above the pay grade maximum, are highly compensated in relation to the market and/or peers, have performance issues, or are terminating with an effective date between September 1 and October 31, 2011.

If you do not plan to grant a reward, to an employee who is otherwise eligible, or it is less than 1%, please document the reason(s) for that action under the “Notes” section in the Compensation Workbench tool when you enter the proposed increases for your staff.

The documentation should include:
- Employee’s level of performance and contribution to the organization
- Your planned action (i.e. no increase, deferral, etc.) and supporting reason for such action

Rewards Greater Than 5%:
There may be situations where it is appropriate to provide rewards that exceed 5%, please document the reason(s) for such action under the “Notes” section in the Compensation Workbench tool when you enter the proposed increases for your staff.

This documentation should include:
- Summary of employee’s primary job responsibilities
- Employee’s level of performance and contribution to the organization
- Critical skills of the employee that would be difficult to replace
- Comparison with peer pay levels and market comparisons, if applicable

2.5 KEY STAFF

The minimum full-time equivalent annual salary required to be eligible for Key Staff Retirement Plan contributions effective the first pay period in FY’12 for bi-weekly and monthly payrolls will be $98,332 per year.

Questions regarding the minimum compensation level and/or Key Staff benefits can be answered by contacting the Benefits Office at ext. 6483.

3. RECLASSIFICATION AND SPECIAL STATUS

3.1 RECLASSIFICATION

Annual salary review is a good time to evaluate all employee job classifications. Positions with managerial titles should be reviewed to ensure continued managerial responsibilities.

A job reclassification is appropriate when an individual is no longer performing duties consistent with his/her current job description.

A request for reclassification includes submitting a completed Position Description Questionnaire (PDQ) form or an updated job description that highlights how the job has changed. Documents should be submitted to your Compensation Consultant by August 1, 2011.
3.2 **SPECIAL STATUS**

Annual salary review is also a good time for managers to review and confirm the need for their employees to be in the following special status situations:

- Non-Standard Workweek (PM 11);
- Special Allowances (PM 10);

Managers should ensure that an employee on any of the above statuses still has a valid and current requirement to continue with the special status and to receive the additional pay associated with it.

4. **COMPENSATION WORKBENCH (CWB) TOOL**

All pay rewards that are part of the annual salary review process are to be processed using the Compensation Workbench (CWB) Tool.

4.1 **TRAINING**

Training materials, documentation, and videos are available through the CWB Tool under the section ‘Information and Links’. Given below is the URL, if you need to access the training materials outside of the CWB tool.

Below link will be active after July 18, 2011

http://www.imss.caltech.edu/cms.php?op=wiki&wiki_op=view&id=797

If CWB users need additional training or assistance with the tool, please contact your Compensation Consultant or send an email to the main Compensation inbox at: compensation@caltech.edu.

4.2 **DATA INPUT**

Proposed reward(s) may be processed in dollar amounts or by percentage. Base increase (merit and market) dollar amounts are processed in actual annualized units for all employees (exempt and nonexempt). Lump sum (BIL and performance bonus) payments are processed as actual one-time payment amounts.

When rewarding a *Performance Bonus*, the manager is required to select whether the amount should be a “gross” or “net.” Please bear in mind, when managers select the *Performance Bonus* as a *net* bonus, the actual cost to the division/department is significantly higher than the *gross* bonus. If managers wish to determine the cost of the net bonus before finalizing their input, they can contact their Compensation Consultant or send an email to the main Compensation inbox at: compensation@caltech.edu.

5. **FINAL STEPS**

Managers are asked to check all salary recommendations prior to August 31, 2011, to ensure accuracy of the input into the Compensation Workbench tool. All users will have “read only” access starting September 1, 2011. CWB users will be able to run reports and view data but unable to make any changes to the data after August 31st. If any further changes are needed after this date you will need to contact your Compensation Consultant.
5.1 REVIEW

During the review, the Compensation staff may request additional documentation and may revise an organization's input if necessary. This review includes all rewards, base increases and lump sums.

5.2 CONFIRMATION

At the conclusion of the review process, the Compensation unit will contact you to review your ASI data input one final time before providing you the ability to generate and “print letters” for your employees.

5.3 EMPLOYEE STATEMENTS / LETTERS

After the Compensation unit completes the review of the ASI recommendations, Compensation will provide CWB users the ability to generate and Print Employee Statements / Letters informing employees of their Annual Salary Increase beginning the week of September 19, 2011. Managers should distribute the letters to employees no later than Friday, October 7, 2011 (prior to paycheck and deposit advice distribution). The Compensation unit will not be printing or delivering letter to you this year.

6. GENERAL INFORMATION

6.1 EFFECTIVE DATE

**Bi-Weekly Payroll:**

*Salary increases for FY’12 will be effective Monday, September 26, 2011.*

Increases will appear on employee paychecks issued on Friday, October 14, 2011. This includes all base increases and lump sum payments.

**Monthly Payroll:**

*Salary increases for FY’12 will be effective Saturday, October 1, 2011.*

Increases will appear on employee paychecks issued on Monday, October 31, 2011. This includes all base increases and lump sum payments.

*Managers should notify all employees (bi-weekly and monthly) of their new salary/pay rate no later than Friday, October 7, 2011, before they receive their first paycheck in fiscal year 2012. (New Pay information will be uploaded into Oracle for validation on September 28, 2011.)*

6.2 ELIGIBILITY

**Who is Eligible?**

Any staff employee who has completed probation is eligible for an annual salary review. The process covers regular benefit-based, temporary benefit-based, regular non-benefit based, and temporary non-benefit based employees.

Staff employees who are on a leave of absence are automatically excluded from the ASI process. However, if managers want to include them in the ASI program, they can do so by “changing their eligibility status” in the CWB tool.

Student employees are automatically excluded from the ASI process; however if managers want to include them in the ASI process, they can do so by Changing their Eligibility Status.
Occasional employees and employees with additional assignments will not appear in the Compensation Workbench tool. Managers who wish to grant ASI to occasional employees or employees with additional assignments will be required to do so through the Employee Data Administration (EDA) system.

6.3 **PROBATION**

Employees who are scheduled to complete probation before October 1, 2011 are automatically included in the ASI process. However if for some reason they are unable to successfully complete probation before October 1, 2011, please contact your Compensation Consultant to inform them of this change and update their status through the “Change Eligibility Status” feature in the CWB tool.

6.4 **PROGRESSIVE DISCIPLINE**

Employees currently on written warning or final written warning are not eligible for an annual salary review. A written warning is active for one year from the date issued. A final written warning is active for two years from the date issued. If you believe that the employee’s performance has improved such that they should be eligible for an annual salary review, please contact Employee Relations at extension 2071.

7. **CHANGE IN EMPLOYEE STATUS**

Employees whose assignment status changes during the Salary Review process from 'Active' to either 'Paid Leave of Absence', 'Unpaid Leave of Absence', or 'Inactive' (i.e. terminated, suspended assignment) will be handled as outlined below.

7.1 **LEAVE OF ABSENCE**

Employees on an approved leave of absence other than long-term disability are eligible for an annual increase. Increases are effective upon the employee’s return to work. Increases should be planned for in your FY’12 budget.

7.2 **TERMINATION**

If an employee terminates after increases have been finalized, the employee’s manager or administrator needs to contact their Compensation Consultant to notify them of the status change so appropriate action can be taken. Managers can consider no increase for those known to be terminating between September 12 and October 31, 2011.

7.3 **TRANSFERS**

When individuals transfer from one organization to another during the salary review process, the former and current organizations should discuss the employee's performance and appropriate reward. Managers of both the transferring and receiving organizations should consult on the amount of the individual's reward.