

# FAIR PAY

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**HOW TO GET A RAISE,  
CLOSE THE WAGE GAP,  
AND BUILD STRONGER  
BUSINESSES**

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**DAVID BUCKMASTER**



**HARPER  
BUSINESS**

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*Designed by Kyle O'Brien*

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## CHAPTER 2

# A New Way of Pay Sincerity

### WE CAN'T AFFORD NOT TO CHANGE

Price increases are spread thin to all customers equally, whereas wage increases are concentrated. Consider the total effects to the company of increasing pay for the bottom half of employees by 20 percent, a significant pay increase in any country. Let's assume the bottom half of wage earners in total account for 20 percent of the company's payroll expense.

|  | CALCULATION | RESULT       |
|--|-------------|--------------|
| Total Payroll (A)                                  | -           | \$10,000,000 |
| Percent of payroll eligible for a pay increase (B) | -           | 20%          |
| Eligible payroll (C)                               | (A) * (B)   | 2,000,000    |
| Pay raise percent (D)                              | -           | 20%          |
| Total cost of the pay increase (E)                 | (C) * (D)   | 400,000      |
| Total payroll increase (F)                         | (E) / (A)   | 4%           |

The total weighted payroll increase to the company is only 4 percent, not the scary 20 percent number that is more likely to draw the ire of the company's finance department.

## CHAPTER 4

# How Your Company Thinks about Pay

### MINIMUM VIABLE PAY

Market survey data, in most cases, is made available once a year in the fall, so to stay competitive throughout the year the company will “age” its market data by adding a fixed percent. If your company expects the market to increase 3 percent this year for an accounting manager, and they receive market data in October with an effective date of April 1, they now need to decide when to align the data to their desired market position, in this case to January 1 the following year.

|  |          |
|--|----------|
| Survey market rate on April 1                    | \$90,000 |
| Expected annual market change                    | 3.0%     |
| Number of aging months (April to January)        | 9        |
| Aging percent (months/12 * annual market change) | 2.3%     |
| Estimated market rate on January 1               | \$92,070 |

## CHAPTER 5

# How Much Are You Worth?

### AN INSIDE JOB

The job-leveling guide at your company will look similar to the table below, where each row has the same or similar pay ranges, and each combination of group and number has its own definition. Our manager definition is equivalent to the M2 and the senior manager is the M3 (the M1 is a supervisor, the M4 a director, and the M5 a senior director). Remember, knowing your survey job level is what matters in setting your pay rate. Titles are not enough, because they are unique to your company or industry, and smaller companies will not use the most senior levels in each group.

| SUPPORT | PROFESSIONAL | MANAGEMENT | EXECUTIVE |
|---------|--------------|------------|-----------|
|         |              |            | 3         |
|         |              |            | 2         |
|         |              |            | 1         |
|         | 6            | 5          |           |
|         | 5            | 4          |           |
|         | 4            | 3          |           |
|         | 3            | 2          |           |
| 4       | 2            | 1          |           |
| 3       | 1            |            |           |
| 2       |              |            |           |
| 1       |              |            |           |

YOUR HOME ON THE RANGE

Here is an example portion of a pay structure with three pay ranges. Each job level is assigned a generic number or letter, called a “grade” or a “band” (a band-based range merges multiple grade-based ranges so it is usually wider). Large companies may have more than one range per job level.

| JOB LEVEL         | COMPANY GRADE | MINIMUM | MIDPOINT | MAXIMUM |
|-------------------|---------------|---------|----------|---------|
| Professional (P3) | 42            | 56,000  | 66,000   | 76,000  |
| Professional (P2) | 41            | 48,500  | 57,000   | 65,500  |
| Professional (P1) | 40            | 42,500  | 50,000   | 57,500  |

## DIVIDE AND CONQUER

When setting a pay range, a company can choose to group similar jobs and smooth over the market survey results using regression analysis. This leaves a reduced number of pay ranges (or one) per job level or pay grade. Alternatively, they can take a more granular approach to making pay ranges, called “market pricing.” A market pricing approach creates a unique pay range for every job, based explicitly on market survey data. Here are the resulting differences:

### BENCHMARKING METHOD:

| JOB LEVEL    | JOB                    | MINIMUM | MIDPOINT | MAXIMUM |
|--------------|------------------------|---------|----------|---------|
| Manager (M2) | All Company<br>M2 Jobs | 75,000  | 90,000   | 105,000 |

### MARKET PRICING METHOD:

| JOB LEVEL    | JOB                     | MINIMUM | MIDPOINT | MAXIMUM |
|--------------|-------------------------|---------|----------|---------|
| Manager (M2) | Brand Strategy          | 83,500  | 98,000   | 112,500 |
| Manager (M2) | Social Media            | 76,500  | 90,000   | 103,500 |
| Manager (M2) | Marketing<br>Operations | 69,500  | 82,000   | 94,500  |



## CHAPTER 6

# What to Expect When You're Expecting (a Raise)

### THE FAIR PAY MIX: PROCESS

The traditional model for distributing pay in the annual cycle is through a matrix that factors in your pay range position and your performance rating, if applicable. Your “range position” is a ratio showing how your pay fits into the job’s pay range. The calculation is your pay divided by your pay range midpoint. If you are paid \$105,000 and the pay range midpoint is \$100,000, your range position is 105 percent. The semantics may differ, and your company might call this number a “compa-ratio,” or calculate it in a slightly different way called “range penetration” on a 0 to 100 scale, with 50 representing the midpoint. No matter, the idea is the same: how your pay compares to an internal reference point.

## YOUR PAY

| ANNUAL<br>PAY | RANGE<br>MINIMUM | RANGE<br>MIDPOINT | RANGE<br>MAXIMUM |
|---------------|------------------|-------------------|------------------|
| 105,000       | 80,000           | 100,000           | 120,000          |

## YOUR PLACEMENT

| CALCULATION TYPE  | CALCULATION  | RESULT |
|-------------------|--|--------|
| Range Position    | $(\text{Annual Pay}) / (\text{Midpoint})$                                  | 105.0% |
| Range Penetration | $(\text{Annual Pay} - \text{Minimum}) / (\text{Maximum} - \text{Minimum})$ | 62.5%  |

Examples of pay matrices are widely searchable online, but in most cases look something like the table below. In the example, we assume your company has to distribute a 3 percent total budget using a three-point (high, average, below average) performance rating scale:

## YOUR RANGE POSITION

| YOUR<br>PERFORMANCE | BOTTOM THIRD | MIDDLE THIRD | TOP THIRD |
|---------------------|--------------|--------------|-----------|
| High                | 6%           | 5%           | 4%        |
| Average             | 4%           | 3%           | 2%        |
| Below Average       | 2%           | 1%           | 0%        |

Your company may divide the sections not into thirds, but fourths or fifths, or not at all (more on that in a bit). The top left cell, reserved for people who are top performers and positioned low in the pay range, is shown here as 6 percent, or twice the budget amount, but all sorts of multiples are possible. Using our example, a range position of 105 percent (or 62.5 percent range penetration) would probably put you in

the middle third, so according to the table your annual increase will be 1, 3, or 5 percent depending on your performance.

Companies that make flat increases, through the annual cycle or at time of promotion, do so with the best of intentions. Flat increases look fair by eliminating different treatment within the same level of job performance. This is an easy story for companies to tell, but it harms companies and employees in their pursuit of fair and equitable pay by compounding bad pay decisions over time.

To demonstrate, let’s see how a financial analyst named Alex will see her pay grow through a program that gives her annual pay increases of 3 percent each year. We’ll assume her pay range has a midpoint of \$60,000 that grows by 2 percent each year, a common amount in the United States, as market-based pay ranges tend to track slightly below the market budget amount:

| YEAR     | PAY    | RANGE<br>MIDPOINT | RANGE<br>POSITION |
|----------|--------|-------------------|-------------------|
| New Hire | 50,000 | 60,000            | 83%               |
| Year 1   | 51,500 | 61,200            | 84%               |
| Year 2   | 53,000 | 62,400            | 85%               |
| Year 3   | 54,600 | 63,600            | 86%               |
| Year 4   | 56,200 | 64,900            | 87%               |
| Year 5   | 57,900 | 66,200            | 88%               |

After five years in the same job, Alex’s experience should put her at the upper end of being the “market person.” She should be excellent at her job by now and paid as such. Sadly, something has gone wrong, as her pay is at 88 percent, well below the expected market midpoint.

Normally, we'd expect an 88 percent range position for someone who has been recently promoted or hired and who is learning the skills it takes to do the job. That's not Alex anymore.

The merit matrix won't solve the problem for her. If she were given a 6 percent increase each year, which is double the market rate and the maximum amount possible in our sample matrix, her range position would only be 101 percent. Because of the compounding effects of poor decision-making by her company, though made with "fair" intentions, she is now materially underpaid relative to her true market value. If a company down the street has a similar job at her level available, she could easily take her experience there and expect to be paid \$70,000 or more for the same work. Alex should take this argument to her manager and ask why she isn't placed at her appropriate range position. If the company declines to adjust her pay, then congratulations to Alex on her immediate 20 percent pay raise at the new company.

## CHAPTER 8

# When Your Pay Gets Disrupted

### THE PROBLEM WITH PLATFORMS

All compensation programs start with design principles, and for this design we can follow the Khosrowshahi, Rolf, and Hanauer mandates that the way forward must offer flexibility, proportionality, universality, innovation, and independence. A more recent version of the plan simplifies it to three principles: proportionality, aggregation, and autonomy. To meet either set of mandates, my proposal is that all gig workers have access to a matching and portable pay-as-you-go system.

After working at least eight hours total across platforms in a week, or one standard workday, gig workers should be able to contribute matching funds up to 20 percent of their total earnings to a portable cash account. If gig workers pitch in the maximum 20 percent of their pay, then the platform must contribute 20 percent as well. This fund would vest biannually and become accessible any time thereafter, with contributions made using the same tax advantages and flexibility as a college savings plan. In addition to the matching portion of the plan, the platform would be required to contribute a baseline 10 percent of earnings into a flexible cash fund. Platform companies could choose

to offer deferral bonuses for the account, which would incent workers to keep their money in the plan and allow the platform to offset administrative expenses by investing the fund for financial gains. In the States, where health insurance is far from guaranteed, gig workers who log more than sixteen hours per week (two standard days) on average would become eligible or ineligible for health insurance in line with the company's annual open-enrollment cycle, subsidized at the same rate as traditional employees. This last point is critical but would be complex for reasons I'll avoid here, which speaks to the overall efficacy of the US health-care system and its ties to employment. Platform companies, to their credit, have already made progress on health-care access despite the complexity.

In a traditional employment relationship, each employee costs about 30 percent more than their wages. The extra expense accounts for employment taxes and benefits, most of which platform companies do not currently pay. My proposal mirrors this relationship, but gives workers the power to opt out at their discretion. Gig workers can choose not to contribute to the fund, either because they have immediate need for their full paycheck or because they already have a traditional job with benefits. Here is how the math works out in three full-time scenarios: at the current US federal minimum wage of \$7.25 per hour, \$15.00 per hour, and the \$23.25 per hour Uber says the median driver in Seattle earned in 2020.

| SCENARIOS                    | FORMULA RATE | SCENARIO 1 | SCENARIO 2 | SCENARIO 3 |
|------------------------------|--------------|------------|------------|------------|
| A. Base Hourly Rate          | -            | \$7.25     | \$15.00    | \$23.25    |
| B. Baseline Benefit Fund     | 10%          | \$0.73     | \$1.50     | \$2.33     |
| C. Platform Match            | 20%          | \$1.45     | \$3.00     | \$4.65     |
| Current Annual Total Rewards | A            | \$15,080   | \$31,200   | \$48,360   |
| With Baseline Benefit Fund   | A + B        | \$16,588   | \$34,320   | \$53,196   |
| With BBF and Full Uber Match | A + B + C    | \$19,604   | \$40,560   | \$62,868   |

At minimum, when factoring the federal minimum wage and a 10 percent basic contribution to a portable fund, additional pay is about 75 cents an hour. This is equivalent to what Uber proposed in a 2020 plan that would allow the median driver in Colorado, who works thirty-five hours per week, to accrue “approximately \$1,350 in benefits funds.” As shown, my plan is more generous while meeting the design principles; the plan builds in proportion to hours worked, aggregates into a portable account across platforms, and provides autonomy to the worker to use the funds at their discretion. In the third scenario, the full-time driver who earns \$23.25 per hour is eligible to receive about \$1,200 per month in additional pay.

The total cost to the platform company would surely be less than their 30 percent maximum commitment, as many gig workers will not fully participate in the matching portion. As a predictor, we can assume

similar participation rates of retirement matching plans, which are not used by more than 40 percent of those making less than \$40,000 annually, leaving a lot of “free money” on the table. By giving workers access to their money faster, perhaps a gig worker matching plan can be more successful.