Pay Scales
The Key to Attracting and Retaining Staff in the Oral and Maxillofacial Surgery Practice

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If you desire a “smooth running office” without a high turnover rate, low productivity, or the temptation of embezzlement – you have to relate to your staff the timing and the amount of pay increases. A Gallop Organization poll noted that 78 percent of employees place job security second in importance behind health insurance. Paramount to job security is the assurance of working in an organized practice with written pay scales as opposed to an organization that treats pay as spontaneous and, hopefully annual, arbitrary increases. Employees and prospective employees value the pay scale policy of a practice.

Pay scales are an organized approach to determining values or rates of wages relative to responsibilities of a staff position, educational requirements, current geographic pay rates, tenure in position and practice culture.

The objective of this issue of PM Notes is to present the practical benefits of pay scales, which are:

• Attracting and holding the right staff
• Paying individuals on a scale to prevent inequities
• Fostering an environment for realistic pay expectations
• Preventing overpayment/underpayment of employees

Pay scales provide structure, thus removing arbitrary pay decisions that typically create employee discontent and frustration.

There are several compensation scenarios that illustrate the need for pay scales in a practice. One is hiring a new employee at a wage that is at or above the amount currently being paid to employees performing the same or like job description. Another is that, in the absence of pay scales, some employees strategically give the ultimatum which states “without a raise I will have to leave” at the worst time — when the practice is very busy. Some practices have substituted benefits in place of raises. Subsequently, inequities “creep” into the system and other employees become disgruntled. Without pay scales, employees sometimes acquire a false sense of value and expect continual raises when consistently performing the same job. Each job has a value and, by creating pay scales, employees understand that as long as they perform the same specific job task, there is a maximum pay rate related to that job. Employees are the greatest asset of a practice and pay scales are just one method to facilitate “molding and holding” good employees. Without pay scales, there is a high probability that someone on the staff will become aware of inequities in compensation for the same or similar position, and will feel indignant and justified in holding you accountable for the inequities.

Well managed organizations such as hospitals, industry, government and many other sectors of our economy utilize pay scales to budget employee expenses as well as to assure that employees are paid properly and management works within a reasonable pay framework. Your practice does not have to employ scores of people to enjoy the benefits of using pay scales. Practices with only three or four employees can enjoy the same benefits of pay scale usage as larger organizations.

The starting point in developing pay scales is determining who will assist in the development and calculation of average wages used in the scales. We recommend a key staff member or practice manager assist in creating a pay scale matrix. Their involvement will facilitate the implementation process by providing an employee’s perspective of the fairness of the concept with the remaining staff members. This is a good time to reassess staff positions, responsibilities, and job descriptions to verify that the practice is operating efficiently, and the “right” staff members are performing adequately. If there are any employees with substandard performance, this is also the time to attend to this issue.
The creation of pay scales can be viewed as a five-step process:

**Step One—Assess Benefits and Practice Culture.**
The practice must determine if the calculated wage base should be adjusted up or down based on the employee benefits offered by the practice, and/or the practice culture. Consideration must be given to the following issues:
- Does the practice have a generous or modest cafeteria plan (Section 125 Plan)?
- Does the practice have a generous or modest qualified retirement plan?
- Does the practice want to attract and keep the best or average talent available?
- Does the practice have a desirable or undesirable location?

The calculated average wage base may be adjusted on a percentage basis to reflect the results of this analysis.

**Step Two—Calculate Average Wage Base.**
There are many sources of average wages published which are used to create a pay scale for job positions. Job positions are defined and average wages are available, for example, by geographic area through the U.S. Bureau of Labor and Statistics, the state Bureau of Employment Services, state and local professional associations as well as the Medical Group Management Association (MGMA). Using these resources and possibly other local practices, a practice can create an average wage for a position. We recommend that a practice use at least two formal sources to obtain information and possibly one to two local sources to obtain average wages.

Once a practice obtains three or four average wages for a position from different sources, these wages should be “averaged” to determine the practice’s average wage base. The following example illustrates the calculation of an average hourly wage base for an office receptionist:

**Example: Office Receptionist, (Midwest)**
- U.S. Department of Labor $10.71
- MGMA $10.37
- Local Practice $11.03
- Office Team $9.81

Average of the 4 above “average wages” is $10.48

(All wages used should be within 10-15% of the calculated average)

Once the practice’s average wages have been determined, the practice may increase or decrease the calculated average wage based on the assessment of benefits and culture performed in the first step above. For example, some practices increase the average wage by five or ten percent to attract and retain desirable employees, or a practice may reduce the average wages for nurses because the job with the practice is Monday through Friday, not shift work or working holidays. Once the final average wage is determined, the pay scales can be created.

**Step Three—Determine Pay Scale Width.**
The calculation of a five step/tier pay scale is recommended. The middle step, step three is the practice’s average wage ($10.48 in the example) as calculated from the above mentioned sources in the example. A 30% scale width, 15% above the average calculated wage and 15% below the average calculated wage are the minimum and maximum pay for the defined position. The average wage would be multiplied by 1.15 to create the maximum pay rate for the position. The rate between the average and the maximum is half the amount (average times 1.075) between the two amounts. The lower two of the five scales is calculated in the same fashion. Note the following example:

<table>
<thead>
<tr>
<th>Step</th>
<th>Calculation</th>
<th>Pay Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$10.48 x .85</td>
<td>$ 8.91</td>
</tr>
<tr>
<td>2</td>
<td>$10.48 x .925</td>
<td>$ 9.69</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>$10.48</strong></td>
<td><strong>$10.48</strong></td>
</tr>
<tr>
<td>4</td>
<td>$10.48 x 1.075</td>
<td>$11.27</td>
</tr>
<tr>
<td>5</td>
<td>$10.48 x 1.15</td>
<td>$12.05</td>
</tr>
</tbody>
</table>

At this point a pay scale has been created for a specific position. The practice should now review the scale to verify that the scale is capable of being implemented over time and is representative of the practice’s intentions. We recommend that an accountant, practice financial consultant, or colleague also review the scales before beginning implementation to verify the accuracy and reasonableness of the calculations. Typically the first step or tier in the scale would represent the first year of tenure for an employee in the job position, the second step or tier in the scale would represent the second year of tenure for an employee in the job position, etc.

**Step Four—Compare Present Rate.**
The practice should create an employee census in a spreadsheet format with the following information:
- Staff member
- Job position
- Tenure
- Present rate of pay
- Proposed calculated pay scale rate
- Date of review

The management of the practice should then individually compare the employees’ current pay rates to proposed calculated pay scale rates for the employees and determine where the staff members may fall “outside” of the calculated pay scales.
Step Five—Implementation.
We recommend the practice implement pay scales through staff meetings, publish pay scale rates in the employee manual, and coordinate them with annual staff performance reviews. Typically, there may be divergent calculated pay scale rates when compared to currently paid rates when a practice decides to implement the pay scale concept for the first time. A plan should be devised for employees that are currently paid below the calculated pay scales to bring the employee up to the calculated pay scale over a logical period in increments. For individuals currently paid above the calculated pay scale, likewise a plan should be individually devised for the employee to have their future raises “adjusted” to bring them into alignment with the pay scales. Employees whose current pay is divergent from the pay scales will also need to be individually counseled as to how the practice will bring their pay into compliance with the new scales. Pay scales may be adjusted in the second and following years to reflect cost of living adjustments if the practice desires. Calculated pay scales should be reviewed every three to four years to ascertain if they are still functioning properly based on current market conditions.

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