



SUBJECT: Average Rate Control

NO 2-92-3 (Rev.)

DATE: 4-29-71

The primary objectives for maintaining constant surveillance and control over average salaries are:

To assure accurate financial forecasting.

To aid in keeping salaries in a proper relationship to the competitive labor market.

To control the aging rate of the Company's population, particularly for scientists and engineers.

To increase incentives to hire qualified personnel at the lowest possible salary that is consistent with maintaining internal salary equity.

*hire the old,  
fire the young!*

1. Techniques for Controlling Average Rates

Annual increases in a Company's average salary are dependent upon only two factors:

- a. Salary increase expenditures.
- b. Personnel turnover - the average salaries of new hires and terminees.

The effects of salary increases are obvious, but the effects of personnel turnover are less understood.

Annual personnel turnover can have either a reducing effect or an increasing effect on average salaries. With a constant staff level, if the average salary of new hires is less than the average salaries of terminees, the average salary for the total population is reduced. The percent of the reduction is called "turnover recovery". With the reverse situation, the average salary for the total population is increased. The following example illustrates how turnover recovery can have a reducing effect on the average salary.

		<u>Average Salary</u>
Population at start of year	2,000	\$360
-Terminations during the year	300	330
+New hires during the year	300	300
Population at end of year	2,000	355.50

$$\frac{\$360 - 355.50}{360} = 1.25\% \text{ turnover recovery}$$

*See Policy 2-91-2*  
*"The close correlation between salary and years of experience is constantly depicted...."*

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With annual salary increase expenditures of 6.0 percent minus the 1.25 percent turnover recovery, the increase in the average salary is only 4.75 percent. This illustrates that turnover helps the Company to have competitive salary increase budgets without an excessive increase in the average salary.

Basically, turnover recovery is promoted by:

- a. High average salary for terminces.
- b. Low average salary for new hires.

*- ∴ older engineers,  
per 2-71-2*

High voluntary turnover is also beneficial because it is usually possible to hire replacements, in aggregate, at a lesser average salary than the average salary of voluntary terminces. An increase in staffing can be very beneficial because it is usually possible to control the average new hire salary significantly below the average on-board salary.

## 2. Average Rate Control Reports

Each year the Management Salary Committee decides upon the target rate control percentages for each pay plan.

These percentages are based upon projections of merit budget expenditures, personnel turnover, average termince salary and average new hire salary.

Cognizant managers receive a monthly report for each pay plan which tracks the actual average salary against the rate control target salary. All reports show the number and average salaries of new hires and terminces. The MTS report also shows the cumulative effect on increasing or reducing the average salary attributed to salary increases, transfers, reclassifications and leaves of absence. In a simplified manner, this report provides managers with all necessary information to understand the effects of personnel transactions, and to make plans to optimize rate control performance.

It cannot be expected that average rate control performance will always be perfect. As previously stated, the control percentage is based upon certain projections, some of which are not controllable. For example,

*How many  
older men  
will go!*



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