



## Compensation Philosophy Checklist

A strong compensation philosophy isn't just a nice-to-have, it's your legal defense, employee trust-builder, and internal alignment tool all rolled into one. Whether you're a startup creating your first policy or an established organization refining your pay practices, a comprehensive compensation philosophy helps ensure you're not making decisions based on gut feelings or guesswork.

Done right, this document provides clear guidelines, supports equitable pay, reduces legal risk, and empowers managers to make consistent, confident decisions. Use the checklist below to guide the development of your own compensation philosophy document.

### Organizational Compensation Goals and Values

Clarifies the why behind your compensation strategy.

- Describe how your pay practices support broader goals (e.g., retention, equity, innovation)

### Market Benchmarking Strategy

Demonstrates how pay is determined relative to the external labor market.

- List of salary data sources (e.g., surveys, benchmarks)
- Define review frequency.
- Identify your target percentile (25th, 50th, or 75th)

### Total Rewards Philosophy

Shows that salary is only one part of the value proposition.

- Explain how benefits, bonuses, recognition, and non-cash rewards factor in your approach.

### Pay Band or Grade System Explanation

Helps employees and managers understand growth and internal equity.

- Outline your level or band structure.
- Explain how roles are slotted and how promotions/movements occur.

### **Merit and Performance Pay Criteria**

Supports consistency and transparency in performance-based decisions.

- Define how performance is measured.
- Explain how ratings affect compensation decisions.

### **Promotion Pay Practices**

Clarifies compensation expectations during role changes.

- Include policies on raise amounts during promotions.
- Define promotion eligibility criteria.

### **Pay Transparency Guidelines**

Aligns with evolving pay transparency laws and expectations.

- State what pay data is shared with employees.
- Clarify your organization's stance on internal transparency.

### **Compliance with Pay Equity Laws**

Shows proactive attention to legal and ethical obligations.

- Confirm regular pay equity audits.
- Document compliance with federal and state regulations.

### **Governance and Roles**

Establishes accountability and ownership.

- Identify who approves changes to compensation strategy.
- Define who conducts reviews and owns the document (e.g., HR, legal, executive team)

### **Communication and Training Plan**

Ensures the philosophy is consistently applied across the organization.

- Outline how it will be communicated to leaders and employees.
- Describe manager training and implementation practices.

### **Optional but Strategic Add-Ons**

- ★ Geographic Differentials: Especially useful for remote/hybrid teams or multi-state operations
- ★ Variable Pay Strategy: Include how bonuses, commissions, or incentive plans are structured
- ★ Job Evaluation Methodology: If using a system like point-factor evaluation, describe how job worth is determined

**Final Tip:** Don't just write it, review and update it annually. Align it with real-time business goals, legal requirements, and market shifts. If something ever lands on your legal team's desk, this document will be your first (and best) line of defense.