

Step Increase Plans

Created by Jason C. Kovac, CCP, CBP, WorldatWork
October 2005

Organizations that use step increase programs typically use them for nonexempt employees. But what are “steps”? How do they work? What are some best applications for a step increase program?

Step-Rate Pay

Steps are specified levels within a pay range. Employees advance from step to step based on time in position, performance or the acquisition of new job skills or set criteria (e.g., education, certification, etc.). Each time the employee moves a step in the range, a new rate — or “step rate” — is associated with the move.

Essentially, a step-rate pay system takes a pay range and associates a step progression to salary increases (picture stairs in a house). As the employee moves up to the next step, he or she receives the next pay amount. There are two types of step programs predominantly used today: automatic and variable.

Automatic Step Progression

The following characteristics typically apply to an automatic step progression:

- There are five to seven steps
- Each step is three to five percentage points apart
- Movement to the next step is determined by a prescribed time schedule
- The step structure is updated to maintain competitive position

The best application for an automatic step progression is:

- Using the step system for jobs that are fairly routine (i.e., jobs that have extremely limited performance variability and, in some cases, jobs for which performance is not even measured)
- Seniority based systems
- Desire for organizational stability

Potential disadvantages of this method are:

- Inability to measure and distinguish different rates of employee progress
- No differentiation based on performance
- Potentially negative motivational effects for employees seeking pay awards.

Variable Step Rate

A variable step progression is fairly similar to the automatic step progression, however a performance component is added into the step progression:

- Typically five to 10 steps
- Each step is two to five percentage points apart

- Movement throughout the steps is based upon a variable time schedule:
 - If performance is outstanding, the employee may move one step in the structure
 - If performance meets expectations, the employee may move one step in the structure
 - If performance is marginal, the employee may not move any steps
- The range is updated to maintain competitive position.

The best application for a variable step rate would be in a situation in which step structure is appropriate, but the organizational culture lends itself to performance-based differences in pay.

Potential disadvantages of using this method are:

- Relatively few pay increase amounts (2-percent to 5-percent increases)
- Requires justification of performance distinctions.

A Step in the Right Direction

Not all organizations or organizational cultures would welcome a step rate form of pay increases. However, for those companies that do, they have several options. Each method discussed in this article has its pros and cons. It's up to the individual organization to determine which method is best for the culture.

Note: WorldatWork provides no guarantee that this document has received legal review, or that it conforms to local, state and federal laws. Nothing herein is to be construed as legal, accounting, actuarial or other such professional advice. WorldatWork is not responsible for the availability or content of external Web sites, nor does WorldatWork endorse, warrant or guarantee the products, services or information described or offered at other Web sites.

Contents © WorldatWork 2005. WorldatWork members and educational institutions may print 1 to 24 copies of any WorldatWork-published article for personal, non-commercial, one-time use only. To order 25 or more print presentation-ready copies or an electronic copy for distribution to colleagues, clients or customers, contact Gail Hallman at Sheridan Press, ghallman@tsp.sheridan.com or 717/632-3535, ext. 8175.