

MICHIGAN STATE  
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TO: Individuals Responsible for Merit Pay Decisions

FROM: Brent K. Bowditch, Assistant Vice President of Human Resources *BK Bowditch*

SUBJECT: Merit Pay Guidelines for Employees in the Administrative-Professional, Administrative-Professional/Supervisor, Nurse, AP Confidential, and AP Off-Campus Employee Groups

MSU Human Resources is preparing to process the October 1, 2010, salary increases for administrative professional/supervisor, nurse, AP confidential, and AP off-campus employee groups. You may be responsible for determining merit pay allocations and we need your assistance to ensure the effectiveness of this process. Human Resources provides guidelines and FAQs to assist administrators in making merit pay determinations, but some employees still report feeling confused about their merit allocation. Communicating about merit pay decisions *as the process unfolds* positively affects employee morale and establishes an atmosphere of transparency. The following guidelines are designed to infuse the merit pay process with opportunities for dialogue between supervisors and employees.

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Merit allocations should be based on objective performance-related criteria. Key to establishing performance-related criteria is the setting of performance expectations as part of the annual employee performance review. Well-defined performance expectations detail major position responsibilities, outline specific tasks to be accomplished, and explain how successful performance of assigned tasks is to be identified. This dialogue will help to facilitate an employee's understanding that the merit component of pay increases are directly tied to performance results achieved.

**Guidelines**

As a first step of the merit allocation process, supervisors should consider an employee's performance over the past year based on *performance expectations and unit-designated criteria that has been shared with the employee*. While this information is normally communicated during the annual performance appraisal, it should also be continually communicated to the employee on an on-going basis over the entire year. Overall performance should be reviewed as it pertains to results achieved, behaviors that relate to the success of the organization, and the overall productivity and work quality of the employee.

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The second step of the process is to ***group all eligible staff into a few performance levels*** (e.g. exceptional, commendable, and competent) and construct a merit allocation guideline for the different performance levels.

The third step is to ***determine actual merit pay allocations***. There is no fixed formula in making this determination and different factors will be utilized by different units, e.g. the spread of performance levels in a unit, whether some exceptional employees substantially exceed performance expectations, the number of employees in the unit, etc.

The final and most important step of the process is ***to communicate with employees about the rationale upon which their merit allocations were based***. Supervisors should share with each affected employee the performance criteria, key performance results, and merit guidelines that were used in the merit allocation determination. This communication should take place ***before*** the employee receives either the Salary Notification letter or the affected monthly payroll check/notification.

Important information such as dates and deadlines, allocation amounts, and eligibility criteria will be distributed in September with the lists of affected employees in your unit.

If you have questions or require additional information, please feel free to contact Human Resources Staffing Services at 517-353-3720.