



# THE NOT-SO-DISTANT FUTURE OF COMPENSATION UNDER FUNCTIONAL PROGRAMS

## PRESENTERS:

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# Presenters



***Keli Wilson***, M.A., is a Principal Consultant at DCI Consulting Group and has over 15 years of experience working with federal contractors to ensure non-discrimination and equal employment opportunity. Her area of expertise includes affirmative action plan development, audit support, program and policy evaluation, pay equity analysis, and diversity analytics.



***Dr. Mike Aamodt*** is a Principal Consultant at DCI Consulting Group and has over 35 years of experience working with organizations to ensure non-discrimination in employment decisions such as hiring, promotion, and pay. Mike received his B.A. from Pepperdine University and his M.A. and Ph.D. from the University of Arkansas. Mike is the author of several human resource books and a frequent presenter at national conferences.

# Session Agenda

Foundational  
Knowledge of  
FAAP Participation

Data Collection  
Checklist

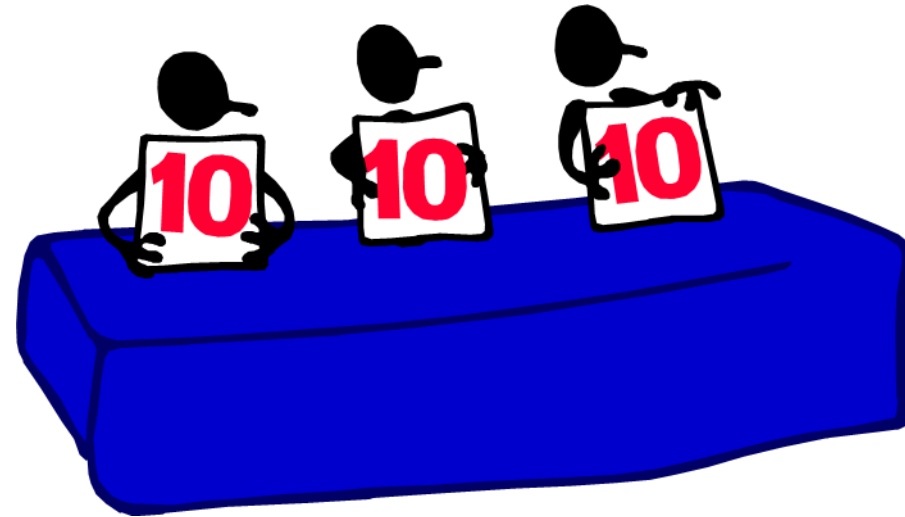
“Variable to Predict”  
Discussion

Additional  
Considerations

# Poll Question #1

1. Who of our listeners are currently in a Functional AAP agreement with the OFCCP?

- ☐ Yes
- ☐ No
- ☐ Not Applicable



## Poll Question #2

2. Who of our listeners are considering a Functional AAP agreement?

- ☐ Yes
- ☐ No
- ☐ Not Applicable







## Some FAAP Basics

# The Early Years of FAAPs

OFCCP Deputy Assistant Director Charles James





# How Many Plans?

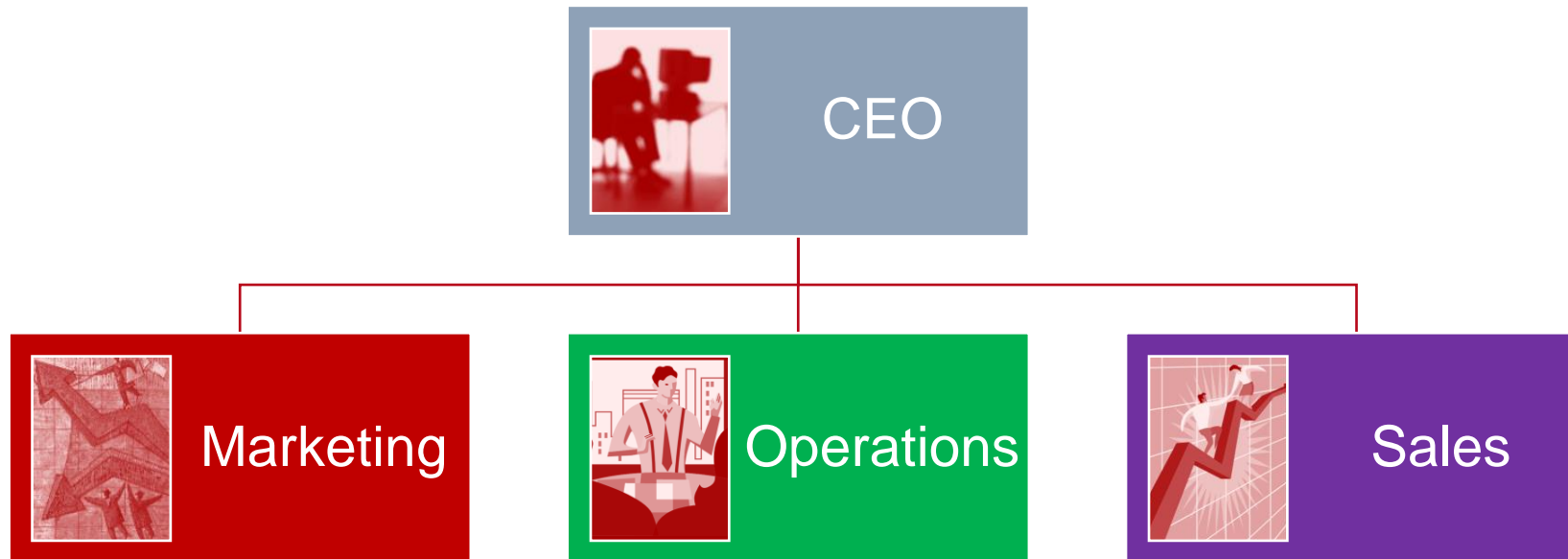
**Each employee in workforce is included in the AAP of the establishment where s/he works, except:**

- Employees working separately from manager must be included in manager's AAP.
- Employees for whom selection decisions are made at a higher level establishment must be included in the higher level establishment's AAP.
- Use of affirmative action programs based on **functional or business units**: Functional Affirmative Action Plans
- *Establishments with fewer than 50 employees have alternative options.*

# FAAP Structure

A contractor may establish an AAP based on functional or business units through agreement with OFCCP 40 CFR §60-2.1 (d)(4).

- Contractors need to formally apply and get written approval from OFCCP.



# Recent Activity on FAAPs

- **Government Accountability Office (GAO) report recommendations**

*“The Director of OFCCP should evaluate the Functional Affirmative Action Program to assess its usefulness as an effective alternative to an establishment-based program, and determine what improvements, if any, could be made to better encourage contractor participation.”*

- **Director Leen’s efforts to encourage participation**

- Numerous informational releases
- **Revised FAAP directive:** Directive (DIR) 2013-01 Revision 2
- Benefits to contractor involvement

# Some Predictions for the FAAP Program



# Advantages of a FAAP



# FAAPs Often Result in Higher Statistical Coverage

Job Title	Establishment						HR FAAP TOTAL
	Orange County	New Jersey	Beverly Hills	Atlanta	Dallas	NYC	
HR Rep 1	5	3	15	7	5	4	39
HR Rep 2	7	4	12	9	4	7	43
HR Rep 3	9	4	14	11	5	8	51
Benefits Analyst	2	1	3	4	3	2	15
Recruiter	5	6	5	3	6	7	32



# Salary- Equity Analyses: How is a FAAP Different?



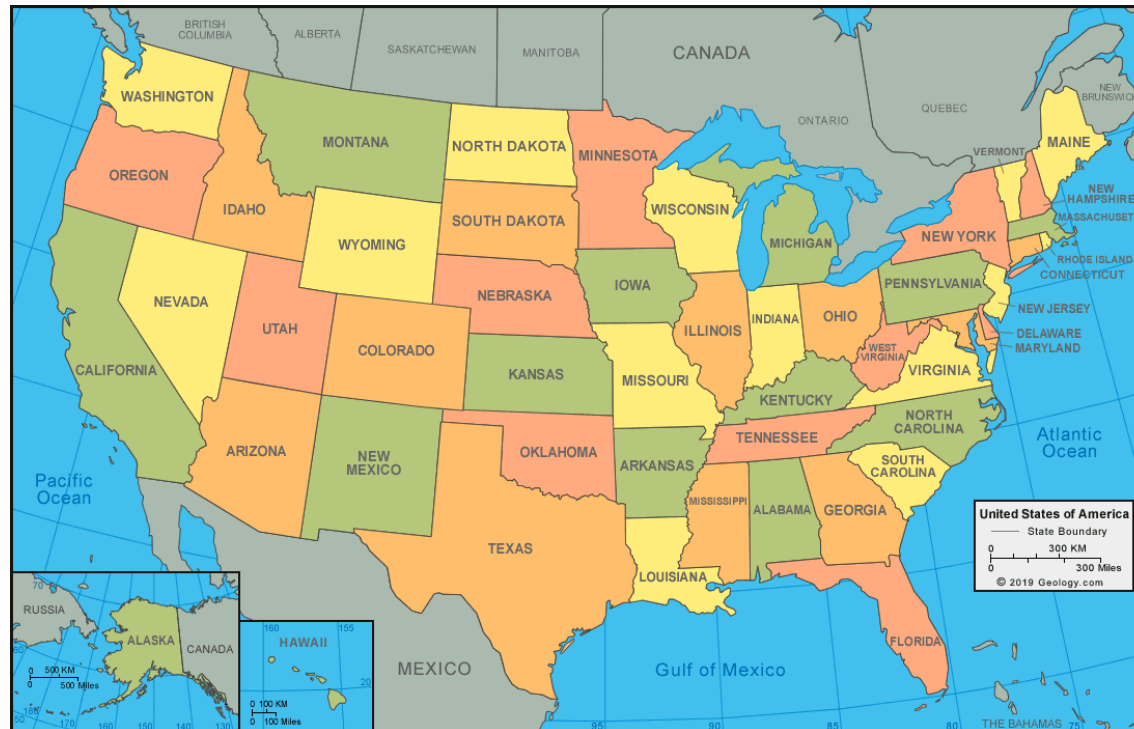
# Additional Analysis Considerations

- Job group structure
  - Wage considerations (e.g., union) that differ by location
- Analysis controls
  - Market mid-point and geographic differential
- Researching statistical significance across vs. within an establishment
  - *More to come on this at the end...*

# Data Collection Checklist

- |   |  |   |   |
|---|--|---|---|
| <input type="checkbox"/> Employee ID    | <input type="checkbox"/> Grade/Level     | <input type="checkbox"/> Job Entry Date | <input type="checkbox"/> Union/Fixed      |
| <input type="checkbox"/> Employee Name  | <input type="checkbox"/> Function        | <input type="checkbox"/> Hire Date      | Employee Rate?                            |
| <input type="checkbox"/> Race/Ethnicity | <input type="checkbox"/> Family          | <input type="checkbox"/> Birthdate      | <input type="checkbox"/> Acquisition Date |
| <input type="checkbox"/> Sex            | <input type="checkbox"/> Subfamily       | <input type="checkbox"/> Hourly Rate    | <input type="checkbox"/> Career Path      |
| <input type="checkbox"/> Department     | <input type="checkbox"/> FLSA            | <input type="checkbox"/> Annualized FTE | <input type="checkbox"/> Business Unit    |
| <input type="checkbox"/> Job Code       | <input type="checkbox"/> Employee Status | <input type="checkbox"/> Sales Pay Plan | <input type="checkbox"/> Grade Entry Date |
| <input type="checkbox"/> Job Title      | <input type="checkbox"/> PT/FT Status    | <input type="checkbox"/> Performance    | <input type="checkbox"/> Market Midpoint  |
| <input type="checkbox"/> Job Group      | <input type="checkbox"/> Hours Per Week  | <input type="checkbox"/> Education      | <input type="checkbox"/> Geo Differential |
| <input type="checkbox"/> EEO-1 Category | <input type="checkbox"/> Location        | <input type="checkbox"/> Certifications | <input type="checkbox"/> Compa-Ratio      |

# Controlling for Location-Related Differences



# The FAAP Difference

- FAAPs will often cross:
  - Establishments
  - Cities
  - States
- This means we must control for differences in:
  - Cost of living
  - Cost of labor
  - State and city minimum wages
  - Characteristics unique to an establishment, city, or state

# Control Options

- Include in the SSEG
  - Financial Analyst - California
- Control in the regression
  - Vector coding
    - Probably the best option if your SSEGs are large and there are few geo regions (e.g. Geo A, Geo B)
    - Can be problematic if you have lots of geo zones/cities/establishments or small SSEGs
      - Keep in mind OFCCP's "rule of five"
  - Continuous variables
    - 90, 95, 100, 105, 110
- Control in the dependent variable
  - Compa-ratios

# Using Compa-Ratios

- Traditionally we use raw salary or the log of raw salary as the dependent variable in salary equity analyses
  - Log of salary is always used in audits and litigation
- Compa-ratios (comparison ratios) provide a healthy alternative
  - Ingredients Needed
    - FTE current salary
    - Market midpoint
      - A geo adjusted midpoint adds sass to the recipe*
  - The recipe
    - $\text{Compa-Ratio} = (\text{FTE Salary} \div \text{Market Midpoint}) * 100$

# Benefits of Compa-Ratios

- Compensation and HR professionals are very familiar with them
- They are easy to interpret
  - 100 or greater is above market midpoint
  - 99 or less is below the market midpoint
  - Most compa-ratios are between 70 and 120
- You save degrees of freedom in the regression by not including market and/or geo as independent variables
  - Avoids headaches related to OFCCP's 5-1 rule for number of employees per variable level
- For small groups, the compa-ratio has already controlled for market and/or geo differentials
- Unusually high or low compa-ratios suggest:
  - Errors in salary or market
  - Special cases that might need to be removed from the SSEG



# Any Reason to NOT use Compa-ratios?

- Drawbacks
  - You must have market data for all or most job titles
- Overcoming the Drawbacks
  - Missing Market Data
    - If too much is missing, don't use compa-ratio
    - If some are missing (e.g., 20%), use compa-ratio for the 80% and salary for the 20%
  - Adjustment Conversion
    - In Excel, simply multiply the compa-ratio difference by the market midpoint!
    - *Example*
      - Difference = 7.8%
      - Market midpoint = \$50,000
      - Adjustment =  $(7.8/100) * \$50,000 = .078 * \$50,000 = \$3,900$

# The Salary Equity Detective and Compa-Ratios

SSEG	Avg Compa-Ratio	% Female
06 - Engineering	115	11
05 - Information Tech	113	13
08 - Engineering	112	10
02 - Engineering	110	17
05 - Human Resources	95	71
02 - Human Resources	89	75
06 - Procurement	87	76
08 - Admin Support	85	87

Male Dominated SSEGs	112.5
Female Dominated SSEGs	89.0



# Things to Consider with Geo

- What are you controlling for?
  - Cost of living?
  - Cost of labor?
- Geo adjustments can differ greatly across clients and surveys
- Location differences and geo differences are not necessarily the same
  - Two establishments with the same geo diff might have different compensation philosophies
  - Something about a location may affect pay

# Minimum Wage Differences by Location

- Because the vast majority of federal contractors pay above the minimum wage, this is seldom an issue...but in rare occasions can be
  - Federal Minimum Wage: \$7.25
  - **Executive Order Minimum Wage: \$10.80**
    - Only covers employees “performing work on or in connection with covered contracts”
- 13 states have a minimum wage higher than the federal contractor minimum
  - District of Columbia: \$15.00
  - Washington: \$13.50
  - California: \$13.00
  - Massachusetts: \$12.75
- Some cities do as well
  - Seattle: \$15.45
  - San Francisco & NYC: \$15.00
  - Chicago: \$13.00
- Controlling for geographic differences in cost of living/labor usually picks-up these differences but not always



# Researching Flagged SSEGs

# Researching Flagged SSEGs



Are jobs grouped correctly?



Are there any special cases that should be removed?



Are there other variables that should be included in the regression?



Are any of the data elements wrong?

Salary  
Job, grade, service dates  
Market Mid data



Are any of the employees misclassified?

Wrong grade/band  
Wrong job title

# General Reminders for Pay Analysis Work

Pay analysis work under Attorney Client Privilege

Know the context for an analysis

Know what you are trying to accomplish

Consider the timing of the analysis



# SAVE THE DATE!

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