

Merit Increase Guidelines

Related Rule/Statute: R2-5A-402(L) Merit Increases

Issued: December 20, 2012

Effective: December 20, 2012

Applicability: Uncovered employees; Covered employees only if legislatively appropriated

Description

An increase to base salary may be provided to an employee based on their annual performance evaluation score using MAP (the State Personnel System evaluation tool), in accordance with these guidelines and at the discretion of the agency head.

Eligibility

- Employees in an unpaid status are not eligible for a Merit Increase. Any Merit Increase awarded will be effective at the beginning of the pay period following the employee's return to a paid status.
- Employees who have been involuntarily demoted or suspended during the most recent performance rating period are not eligible for a Merit Increase.
- Employee must have received a "Meets Expectations" rating or better on each rating factor on their most recent performance evaluation using MAP to be eligible for a Merit Increase.
- Elected officials, agency heads appointed for a fixed term of office, interns, pool, or per diem employees are not eligible for a Merit Increase.

Requirements

- Merit increases are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of this strategy nor receiving the approval to use it shall obviate the need for the agency to manage within its budget. Merit increases shall not create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service.
- Implementation of a Merit Increase program shall be administered without regard to political affiliation, race, color, national origin, sex, age, disability or religious creed.
- Merit Increase programs shall be implemented agency-wide, rather than by section or classification.
- Merit Increases shall not raise an employee's salary to an amount greater than the maximum of their assigned pay range.

Administration

- Merit increases shall be awarded as a percentage increase to the employee’s base pay, according to the following table based on individual performance ratings from the employee’s most recent MAP evaluation.

<i>Performance Rating</i>	<i>Merit Increase</i>
Exceeds Expectations	4%
Meets Expectations	2%
Needs Improvement	0%

- Merit increases in the table represent maximum base salary increases. An agency head may choose to implement lesser amounts than indicated, as provided in the agency’s plan.
- ADOA reserves the right to modify this table based on the competitive labor market or other external factors and will conduct periodic surveys of the market for this purpose.
- Any base increase that would result in an employee’s salary surpassing the range maximum may receive all or a portion of the increase as a lump sum incentive rather than an adjustment to base salary (see Merit Based Incentive Guideline).
- Agencies should take great care to determine accurate and appropriate differentiation in employee performance. Identical or “across-the-board” increases are not consistent with this compensation strategy, and shall not be provided to all employees.

Plan Components

Agencies planning to implement a Merit Increase plan for ADOA approval shall address the following components:

- **Eligibility:** The agency shall identify any additional categories of employees that may not be eligible for each strategy (e.g. temporary or seasonal employees, new hires with less than six months of service, etc.)
- **Employee Movement:** The plan shall clearly identify how to address situations involving employee movement that occurs during the rating or evaluation period (e.g. new hires, transfers, etc.).
- **Increase Guidelines:** The plan shall describe the percentage increase to be provided for each category of performance rating.
- **Distribution:** The plan shall describe target distribution percentages of performance ratings (i.e. a bell-shaped curve) preventing across-the-board increases for employees.
- **Communication:** The plan shall describe how the agency intends to communicate the plan to their employees.

Review Process

Agencies shall submit a draft plan to ADOA for review no later than five months prior to the desired implementation date (i.e. plans are due February 1st if the desired implementation date is July 1st). If changes are necessary, consultation with the agency will occur. A final draft of the plan shall be submitted to ADOA no later than eight weeks prior to the desired implementation date. Approval of

an agency's plan shall be for no longer than a one-year duration. The agency shall submit a plan for each year the agency intends to participate in any of the strategies listed above.

Reporting Requirements

Upon plan approval, agencies may administer their Merit Increase plan without further review by ADOA. At the end of each fiscal year, participating agencies shall submit a report to ADOA by September 1st. The report shall include:

- A brief paragraph describing how the agency is using the Merit Increase plan to support the organization's goals or strategic direction.
- A list of the employees that received a Merit Increase and the specific amount of increase awarded.
- Key information for each employee on the list including base salary at the start of the fiscal year, performance rating, job description, etc.
- The total dollar amount to be provided as an annualized amount.
- The organizational impact experienced as a result of the implementation of these strategies including impact on retention of high performing employees, employee satisfaction, employee engagement, turnover, etc.