EP3-7Merit Pay Increase

*Date: July 20, 2012*

*To: All Centura Health leaders from Julie Ambory, senior vice president and chief human resources officer*

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**Merit pay increases for FY12 performance period approved.**

* **Use this information to understand Centura Health Pay-for-Performance (P4P)**

For the past several years, Press Ganey Associate Partnership Survey results have shown that associates believe our greatest opportunity for system improvement is to ensure that “excellent performance is recognized here.” Because associates asked for a reward system that aligns to the core value of **Excellence**, Centura Health took its first foundational step in January 2011 with the launch of the Performance Feedback and Development (PFD) process. Through the PFD process, all associates system-wide now have:

* + Personal goals that ALIGN to broader performance goals AND a clear understanding of what is expected of them
  + Individual development plans
  + Coaching and feedback from immediate managers, so associates can contribute at their highest level of personal performance

As a system, we are now appropriately positioned to integrate individual performance with rewards as we implement ***Pay For Performance*** (P4P). With P4P, Centura Health will differentiate wage adjustments delivered to all associates based on individual performance results and the behaviors our associates have demonstrated for the FY12 performance period. The year-end performance ratings managers will assign to each of their associates during PFD Conversation #3 (FY12 year-end performance review) serves as the basis for determining the differentiated reward (also known as ***merit pay***).

In June, the Senior Executive Council (SEC) approved this system-wide approach for distributing pay, thus solidifying our commitment to compensate associates for their differentiated performance. Merit pay increases at Centura Health will be calculated based on individual year-end final PFD ratings. The PFD tool will automatically compute pay increases based on those overall Goals and overall Behavior Expectation ratings. This differentiated, “formulaic” approach is applied to determine base salary compensation delivery in FY12. The grid below (also refered to as a 9-box) shows how the 0 to 5 percent allocation for pay increases will be distributed.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **GOALS & Results (the WHAT)** | **Exceeds** | *Overall Exceeds Goals +*  *Overall DNM Values=*  **0%** | *Overall Exceeds Goals +*  *Overall Meets Values =*  **3.50% to base** | *Overall Exceeds Goals +*  *Overall Exceeds Values =*  **5.00% to base** |
| **Meets** | *Overall Meets Goals +*  *Overall DNM Values =*  **0%** | *Overall Meets Goals +*  *Overall Meets Values =*  **2.75% to base** | *Overall Meets Goals +*  *Overall Exceeds Values =*  **3.50% to base** |
| **Does Not Meet (DNM)** | *Overall DNM Goals +*  *Overall DNM Values =*  **0%** | *Overall DNM Goals +*  *Overall Meets Values =*  **0%** | *Overall DNM Goals +*  *Overall Exceeds Values =*  **0%** |
|  | **Does not Meet (DNM)** | **Meets** | **Exceeds** |
|  | **Behavior Expectations (VALUES- the HOW)** | | | |

Centura Health’s 0 to 5 percent merit increase pay scale is extremely competitive with those of other organizations, as validated by a 2012 salary survey conducted by *WorldatWork.*\* Centura Health’s merit budgets are determined based on market movement and the organization’s affordability. Both national and local market data showed the average 2012 merit increase at rates of 2.8% and 2.6% respectively. For Centura Health’s FY12 performance period, the maximum merit pay increase for top performers is set at 5 percent. A starting point of 2.75 percent has been established for associates who achieve an overall PFD rating of “meets expectations.”

We anticipate that approximately 20 percent of an entity’s population will qualify for a 3.5 to 5 percent merit increase; while about 70 percent will qualify for a 2.75 percent merit increase; and approximately 10 percent will not qualify for an FY12 merit increase. This 20/70/10 distribution is not a required “force ranking;” however, it does offer a guideline for us to be able to differentiate individual performance and reward accordingly.

As we continue this journey toward integrated talent management at Centura Health, I encourage leaders and associates to forward any questions about P4P to their senior leaders or Human Resources so we can collectively address them as a system and share the information with everyone. Please accept our gratitude for investing the time to learn and apply the PFD process as we implement P4P. Thank you for your work that serves to “*Strengthen the Foundation*” while helping associates achieve their highest personal potential.

**Note regarding unions:** *Leaders with associates covered by a collective bargaining agreement, discussions are underway with each union regarding the inclusion of those associates in pay for performance. You should operate as if they are included and if there is any change we will notify you immediately. You will also be notified when negotiations with both unions are complete.*

**\* World at Work** is a total rewards professional organization who compiles survey data from over 4000 U.S. companies.

*We extend the healing ministry of Christ by caring for those who are ill and by nurturing the health of the people in our communities.*