ChartHop

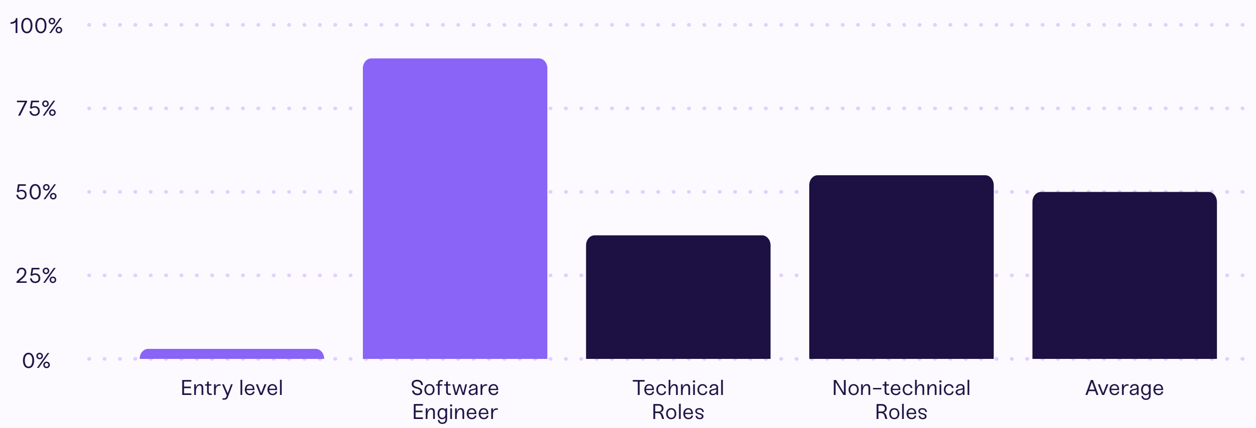
A Guide to **Setting Remote Work Salaries**

In May 2020, Facebook CEO Mark Zuckerberg announced that the company would be actively hiring remote workers. He even said that he expected 50% of Facebook's workforce to be remote in the next 5 to 10 years.

As a part of this initiative, starting in 2021, Facebook will adjust salaries for remote employees based on their location for tax and accounting purposes. "There'll be severe ramifications for people who are not honest about [their location]," Zuckerberg said.

Facebook isn't the first company to set salaries based on where remote employees live. According to aggregated ChartHop data, employees in the same roles experience location-based pay differences anywhere from 3% for entry-level associates to as high as 90% for software engineering roles. These differences vary more widely for non-technical roles.

Location-based pay differences



Source: ChartHop Data

Many remote organizations follow this pay model to keep their salaries both competitive and cost effective. However, location-based pay isn't faultless. The execution is complicated and often leads to frustrating pay cuts for employees.

Paying remote workers based on geography may be the right approach for your company, but before you adopt the model, consider what a location-based salary (and its alternatives) looks like in practice for remote organizations.

Table of contents

01

LOCATION-BASED SALARIES:

How companies factor in geography

Companies use location-based salaries to keep pay equitable. Employees in the same position receive similar take-home pay (their pay after expenses) because their salary accounts for local tax rates and the cost of living.

The model also empowers companies to set competitive wages without paying the highest rates across all markets. Businesses pay employees an attractive rate, but not higher than it needs to be to draw in top talent.

WHAT TO CONSIDER

Determining location-based salaries is a complex process. Businesses must develop unique formulas that account for not only local expenses and market rates but also employees' skills and experience.

To strike this balance, location-based calculations incorporate some combination (but not necessarily all) of the following four elements:

- **Market rates:** The range of pay for a specific position in a local area and/or in the country as a whole. Companies determine each role's market rates by using salary research tools, like PayScale and Glassdoor.

- **Experience:** Businesses evaluate employees' education and skills and the length of time employees have spent in their positions (or similar positions) to determine whether they should be paid above, at, or below the market rate.

- **Cost of living index:** A measure of an area's core expenses—including housing, transportation, meals, utilities, and more. The tool Numbeo breaks down typical costs and index figures for cities all over the world, allowing companies to compare employees' cost of living.

- **Income tax rates:** Companies may consider giving international employees who live in countries with especially high tax rates a slight salary boost. However, calculating U.S. salaries based on income tax rates likely isn't worth the effort. The calculations would be difficult and tedious because progressive structuring is different in each state.

How these four variables come together depends on each company's values and capacity. Some remote businesses may choose to weigh market rates more than cost of living to avoid massive salary gaps within the company. Another organization may consider only market rates and experience because it doesn't have the time or manpower to assess more variables. Whatever the formula, use it consistently. Remote organizations must use the same methods to calculate salary differences across the board. Otherwise, pay disparities that aren't related to location at all may occur.

Buffer

For a real-world example of location-based salaries, there's no better standard than Buffer. This entirely remote social media management company is known for paying its employees based on where they live, along with other factors.

Buffer first shared their salary formula in 2013. The company's cofounder and CEO, Joel Gascoigne, argued that if the company really wanted to call itself transparent, it should share how their pay model works. Since then, many other remote businesses have adopted Buffer's salary model, and the company has updated their formula multiple times.

Today, their salary model uses a cost of-living multiplier to account for local expenses. Using PayScale, the Buffer team first determines San Francisco's 50th percentile salary rate for an employee, given their position and experience. To assess the latter, Buffer uses a welldefined rubric to keep the evaluation as objective as possible.

Once the company has a base salary rate, it multiples that amount by one of four cost-of-living multipliers:

HIGH cost of living	100%
INTERMEDIATE cost of living	90%
AVERAGE cost of living	85%
LOW cost of living	75%

> "Transparency breeds trust, and trust is the foundation of great teamwork.
>
> – **JOEL GASCOIGNE**
> Cofounder & CEO of Buffer

With this model, Buffer avoids massive salary gaps between employees. Consider an entry-level software engineer living in Dublin, Ireland. If Buffer paid this engineer purely based on the city's market rate, they would earn roughly $57K per year. At the same time, a Buffer engineer in San Francisco would be earning $104K for doing the same work. Thanks to the cost of-living multiplier, the Dublin engineer's salary is much closer to the competitive San Francisco rate—$93K.

Buffer employees seem to be happy with their company's location-based salary formula. Employees may not be paid the same, dollar for dollar, but they appreciate that their salary skews high. More than anything, they value that Buffer is transparent about what each employee makes.

"That objectivity in the process gave me more leverage," said community strategist Arielle Tannenbaum. "I don't have to wonder if I'm earning enough or if I'm valued differently from my teammates."

Source: Buffer

VALUE-BASED SALARIES:

How companies set pay based on merit alone, not location

Instead of basing pay on location, many companies set remote salaries solely based on the value of the work. This model gives employees more financial autonomy, and it's simpler to calculate salaries than with location-based pay. However, it can make it difficult for companies to compete in expensive job markets.

FACTORS TO CONSIDER

There are just two variables to assess with value-based salaries:

- The **national market rate** for the position
- The **employee's level** of experience

The market rate keeps jobs competitive. If a company's pay falls below the country's average rates, the business may struggle to attract and retain top talent.

If you can, minimize this risk by **keeping your salaries within the top 25% of salary rates across the United States**. Check what these amounts are for different positions using PayScale and Glassdoor.

Once you've determined the average national rate for a role, adjust that amount based on employees' experience. Pay higher than the market rate for employees who have more relevant skills and knowledge than the average person in their role.

With value-based salaries, experience is the only pay differentiator for employees in the same position. **This emphasis makes it all the more important to have an objective system for evaluating team members' skills and knowledge.**

Create levels for each role type that have clear, concrete criteria, and set salary amounts for each of these stages. This defined system will help your organization minimize biases affecting salary raises.

Help Scout

The remote, help-desk software provider Help Scout initially paid employees based on their location. But in 2018, the company switched to value-based salaries to offer equal pay for equal work.

"All work has a fixed value to the business, irrespective of geography," said Nick Francis, Help Scout cofounder and CEO. "I'm paying a price for a job to be done well and the value is the same to me."

To determine pay for each role, Help Scout pulls from market data. The company pays anywhere between the top 10% to 25% rates across the nation, and the formulas for each position type is shared across the entire company. "For example, everyone in Marketing can see what an Engineer at level 3C earns," Francis said.

Help Scout organizes salaries by five levels, each with five bands:

	BAND A	BAND B	BAND C	BAND D	BAND E
LEVEL 1	**LOWEST SALARY**				
LEVEL 2					
LEVEL 3					
LEVEL 4					
LEVEL 5					**HIGHEST SALARY**

To decide whether employees should move to the next band, Help Scout uses role-specific criteria. Managers evaluate employees based on their skills and experience, their impact, and their leadership, as seen in these Level 2 guidelines.

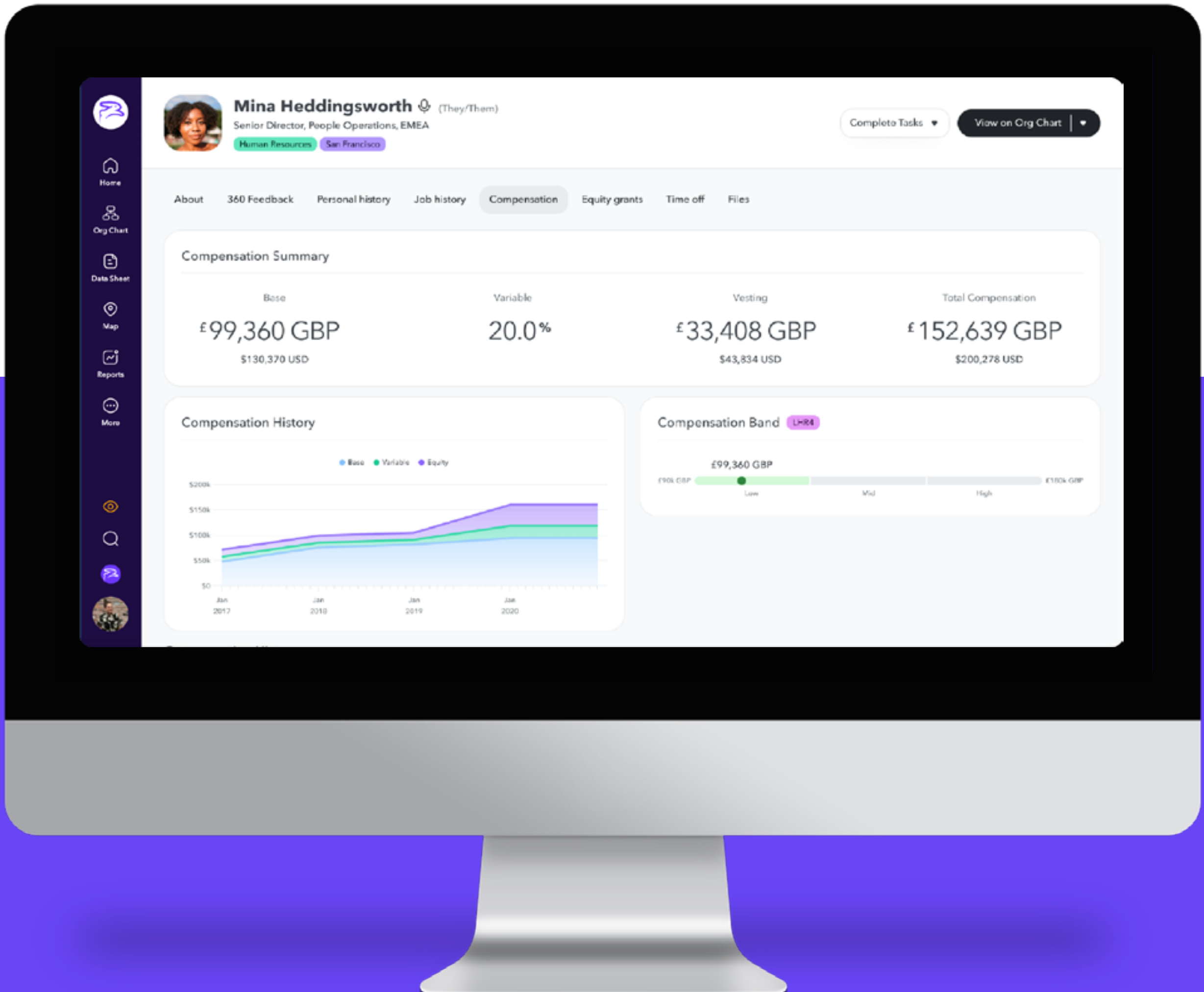
- **Skills & Experience:** You have a sincere passion for your craft and have demonstrated success in your experience up to this point. You can sustain day-to-day excellence in your role with little direction from others, working toward complete ownership over your role.
- **Impact:** Your skills and knowledge enable you to own a complex project or area of the business and serve as the "go to" resource on its implementation.
- **Leadership:** Team leads trust you to own specific tasks or projects and carry them out with excellence while improving your skills. You've established yourself as an expert others can lean on with regard to certain areas of the product, architecture or business.

Source: Help Scout

The pay model seems to be working for the company. According to Francis, employees reported in a company survey that they found non-location-based pay to be more equitable.

The model's main downside is struggling to compete for talent in the San Francisco and Silicon Valley regions. Value-based salaries at this point are financially viable for Help Scout only if they're based on second-tier markets. Still, Francis believes that offering employees equal pay is the right thing to do.

"Leadership in these [location-based salary] companies often live and work in San Francisco," Francis said. "I wonder if they might feel differently if they were subject to lower pay for the same work."



03

How companies set pay based on merit alone, not location

To successfully execute this model, you have to weigh a number of variables for each employee, and you risk creating wide salary gaps if your calculation is off. Answer the three questions below to determine whether location-based salaries make sense for your company.

1. Are enough employees working remotely to warrant location-based compensation?

It's likely that calculating location-based pay isn't worthwhile if only a small number of employees are working in different locations. Before committing to this salary model, gather executives and department heads to discuss the potential of long-term remote work after Covid-19. The group should identify which roles can be done from home and which need to be in the office and should consider whether any upcoming positions in the hiring pipeline would be eligible for remote work, too.

If fewer than 25% could work remotely, maintain your current salary structure. But if more than a quarter of your organization could work from home, it's time to survey employees. Ask if they would choose to go remote and, if so, where they would work from. Their answers will help you predict whether location-based salaries would be cost-effective for your business.

If you're a ChartHop user, we've set up a bundle so you can survey employees and easily analyze responses, all from our platform. **Download the bundle here.**

You can also use a survey tool, like SurveyMonkey or Google Forms. Both products allow you to export answers into a spreadsheet so you can manually analyze the data.

Customize the survey by including preset answers, allowing anonymous responses, and selecting which users are able to view answers to maintain confidentiality.

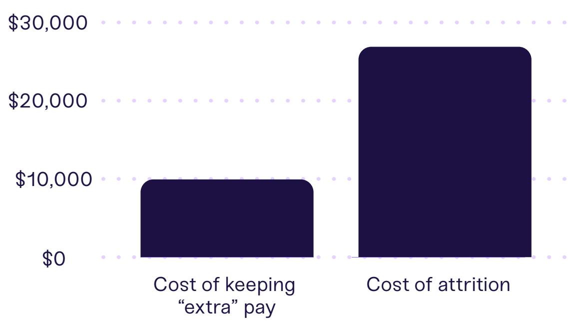
2. How would we adjust compensation when employees move?

Location-based salaries may seem straightforward to implement initially—just adjust pay based on wherever employees are living. But what happens when a team member moves? Do you adjust their salary again based on their new cost of living?

This policy is bound to demoralize employees who move to cheaper areas and are paid less as a result. Worst-case scenario, they'll look for other remote positions—or open roles in their local area—that pay more.

Considering this possibility, it's worth **weighing attrition costs against the amount your company saves by reducing the employee's pay**. Say, for example, you're planning on reducing an employee's annual salary from $80K to $70K when they move. If they quit, the Work Institute estimates that the cost of replacement will be one third of their annual salary, if not higher.

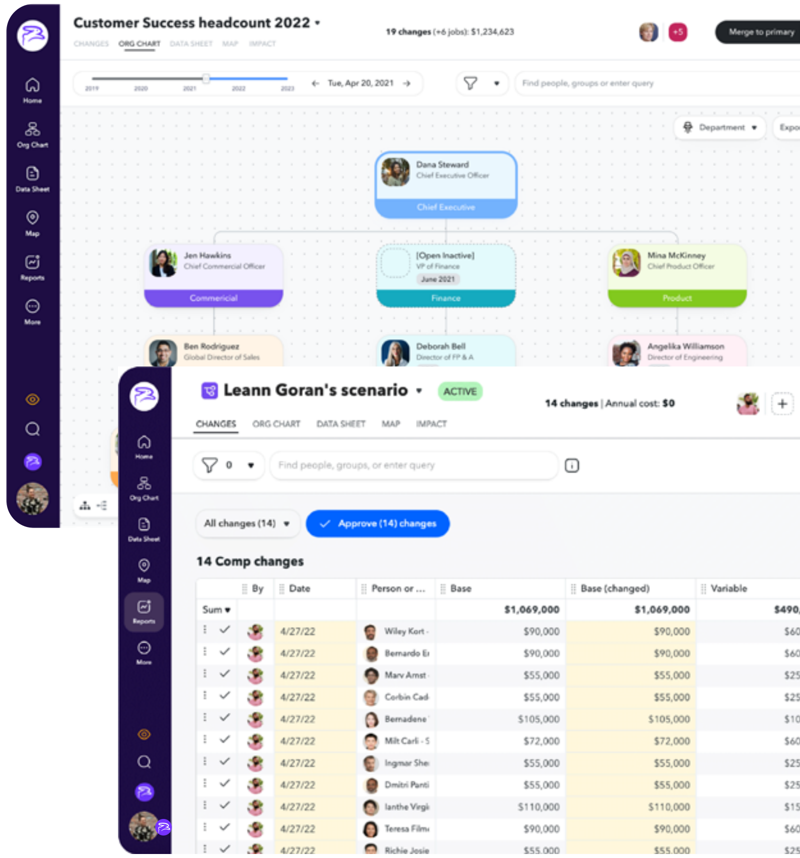
Cost for employee earning $80k moving somewhere where they should earn $70k



Source: The Work Institute

The attrition cost of $27K arguably isn't worth the $10K in salary-reduction savings. Not to mention, you may not even keep the $10K in savings if the replacement hire lives in an expensive area.

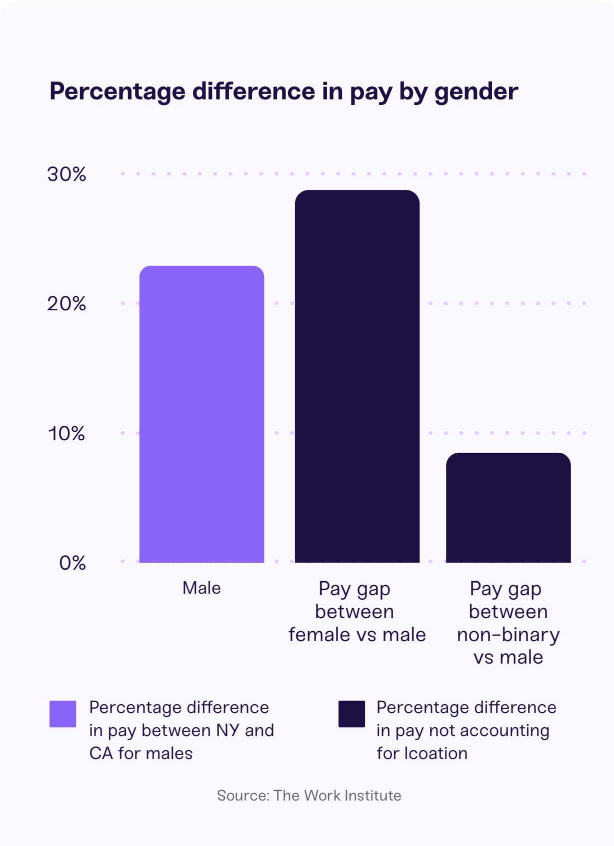
If you're a ChartHop user, you can model out turnover costs and salary adjustment savings using Scenarios as shown in the screenshots to the right.



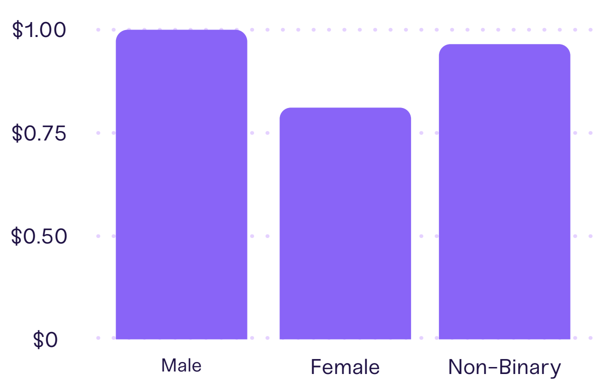
3. How would we ensure that pay disparities are strictly based on location or experience?

With location-based pay, in theory, two employees who have the same position and experience level should receive different salaries only because of where they live. But the truth is, when compensation is variable (as it is with location-based pay), there's always a potential for unfairness.

We know from aggregate ChartHop data that sometimes pay varies more across genders than across location. In one study, we found that males experienced the biggest gap in pay by location at 22%, yet this gap was still lower than the 28% gap between males and females.



This means that for every dollar males earned, women earned $0.78 and non-binary employees earned $0.96.



This must be addressed and you need to ensure location-based pay does not widen this gap.

To keep salaries strictly based on ability and location, organizations need clear systems for giving raises and promotions. Following Buffer's and Help Scout's examples, **keep role-level criteria as specific and objective as possible**. Make sure everyone sticks to this criteria by **sharing each level's description and salary amount with all employees**. This transparency empowers team members to negotiate their pay and acknowledge unfair disparities, if needed.

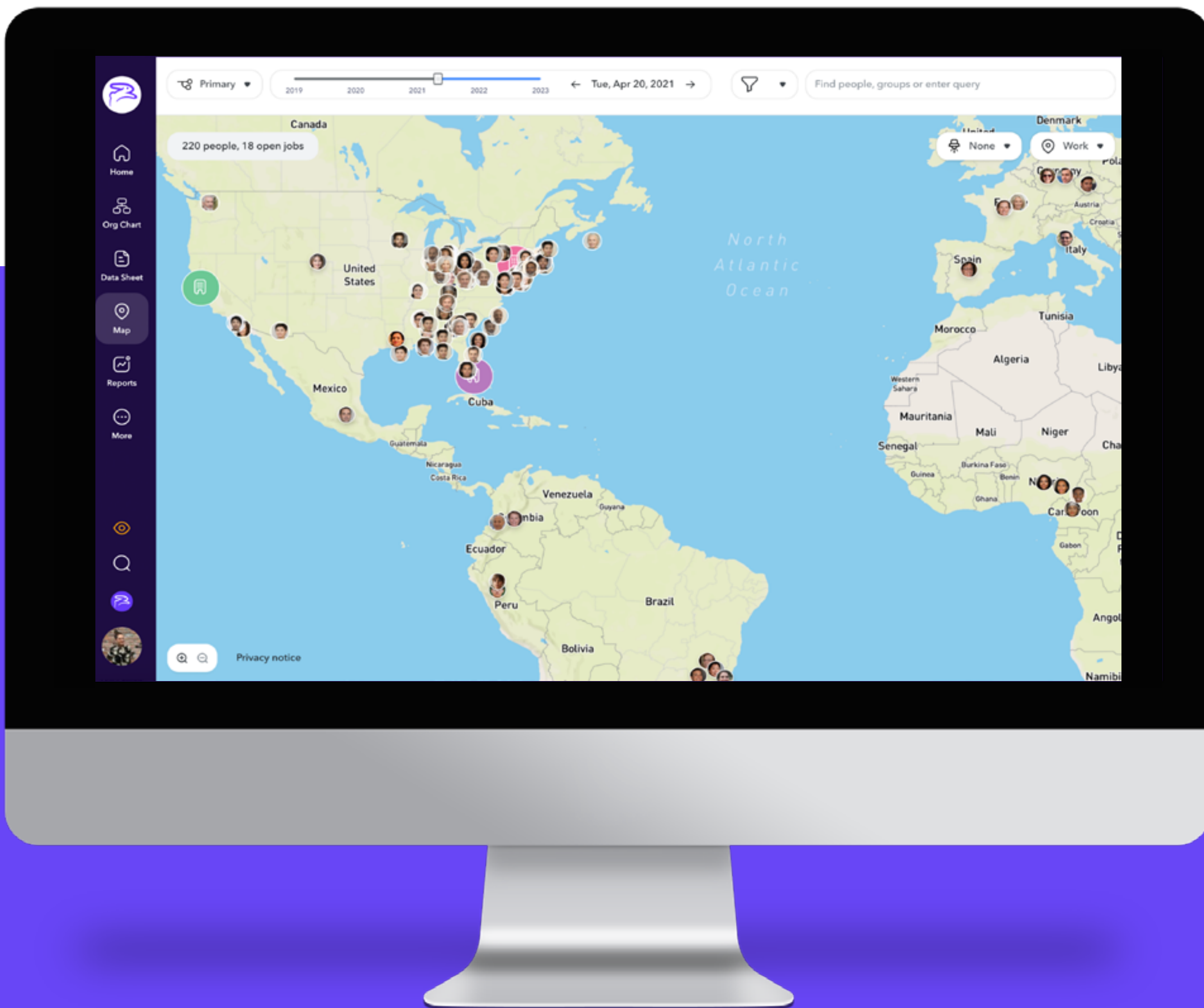
Monitoring salaries shouldn't be solely up to your employees, though. For a more rigorous analysis, conduct internal pay equity audits on a regular basis. Using the ChartHop DEI Reporting Guide and Bundle, you can create separate gender and race pay-gap reports and assess the likelihood of promotions based on manager assignments. Depending on your budget, you may also choose to hire a pay equity auditing service to analyze salaries for your organization.

If you're going to vary salaries by location, take a mindful approach by considering these questions. Continue assessing how the pay model affects your organization after you implement it to keep the system as equitable as possible.

04

Defining your remote culture with salaries

As companies plan to go remote in the long term, salaries will be more than an accounting issue. **How you choose to pay remote employees will have lasting impacts on your company culture.** Use this guide to consider whether location-based salaries align with your organization's values. Whatever you choose to do, communicate your remote-pay philosophy sooner rather than later to employees. The decision to pay based on location (or not) affects team members' livelihoods. Be transparent about your plans so they can prepare for the future alongside your company.



The HR Data Dashboards you've always wanted

BOOK A DEMO

Easy to create

Build or edit pre-made reports to gain insights in seconds.

Always up to date

Integrate your existing systems for seamless, daily updates.

Highly customizable

Personalize reports with custom data, filters & complex calculations

Centralize your data

Report across any HR system. Integrate data from your HRIS, ATS, Equity, Performance and Identity Management tools.

Visualize your team

Go beyond the the spreadsheets and graphs. Bring People data to life like never before.

Analyze your trends

Understand your evolution through time-tracked changes. Dissect data across any dimension.

TRUSTED BY

1Password PLAID one medical Policygenius Figma invision PitchBook BIRCHBOX mixpanel DHL babylist yipitDATA