Merit Pay Increases – Design Options

Fiscal Year 2026

Overview

Performance-based rewards are an important component of Total Rewards at the University of Minnesota and are essential to creating a culture of operational excellence and continuous improvement. A merit pool of 3.0% is being recommended for Fiscal year 2026 and this document outlines approaches you can take to differentiate pay increases for top performers. If a 3.0% merit pool is not approved by the Board of Regents in June 2025, this memo still provides fundamental guidance but does not in any way guarantee there will be a 3.0% merit pool.

Pre-Work: Setting the Foundation

Each campus/college/unit at the University of Minnesota is afforded flexibility in how merit increases are awarded. However, the following steps should be taken to ensure a solid foundation for your area's merit increase planning. Please work with your campus/college/unit senior leadership team to address the following pre-work:

Steps	Action
Step 1	Review and update your performance review tool to ensure it will: ● Effectively measure the behaviors and work outcomes you wish to reward ● Provide information and/or ratings you will need to differentiate low from high performance
Step 2	Clearly identify the group of employees whose performance will be compared. ● Will the performance of all employees within a campus/college/unit be compared? ● Will smaller groups be used for comparison within the campus/college/unit?
Step 3	Determine how much money you have for each merit comparison grouping as calculated by, or with direction from, the chief financial manager of each campus/college/unit (RRC). The amount of increases you award cannot exceed 3.0% of the total base salaries of eligible faculty and staff within a unit. If a campus/college/support unit (Resource Responsibility Center—RRC) believes there is a compelling business need to provide a merit pool greater than or less than 3.0%, the campus/college/support unit must submit written justification by May 22, 2025, to EVP and Provost Rachel Croson and OHR Vice President Ken Horstman. Any proposal to reduce the average merit pool below 3.0% should be grounded in data reflecting how salaries in the unit meet or exceed relevant market comparisons. The EVP and Provost and OHRVP will partner with the Finance and Operations Office as necessary on any review of written justifications. Campuses, colleges, and academic and non-academic units should submit written justifications to provost@umn.edu and ohrvp@umn.edu.
Step 4	Select the approach you will use to award performance-based increases ● See next section on "Selecting Your Design Option" for sample models.
Step 5	Agree on how you and senior leaders in your unit will conduct a joint review to calibrate performance ratings, ensure legal compliance and adhere to University policies and guidelines.

Note Regarding Employees Paid Over Range Maximum: Employees who are paid above their salary range maximum should receive their annual increase in the form of a lump sum payment, rather than have it applied to their base salary. In situations where an employee will be paid over the range maximum after receiving their merit increase, the employee

may have the merit increase applied to their base until the point their salary reaches the range maximum. Any further portion of the merit increase must be awarded as a lump sum increase.

Selecting Your Design Option

There are countless ways to award performance-based increases. This guide highlights three approaches that you may wish to consider. These options are arranged from least to most structured. Please note that the success of any merit increase model is highly dependent on the ability to:

1.) Identify and sort people into unsatisfactory and low performance categories
2.) Award increases to top performers that are 75-80% higher than the 3.0% increase. This translates to an increase of up to 5.4% for top performers.

MODEL 1: Upside Potential for Highest Ranked Performers (Lump Sum or Increase to Base Salary)

All employees are first sorted into one of two categories, either "unsatisfactory" or "satisfactory" performance. The amount of total salary increases is calculated using the increase percentages in the chart below:

Increase for unsatisfactory and low performers	***Increase for all remaining employees who are performing both proficiently and beyond expectations***	***High Performance Award***
0%	2.50%-3.0%	*See calculation options below

*The amount remaining for a High-Performance Award is calculated by taking the full 3.0% salary increase budget, and subtracting the total amount of salary increases from the first step of this exercise. The remaining dollar amount is the fund for the High-Performance Award pool. Simply divide the High-Performance Award pool by the dollar amount to provide to a top performer. This will determine the number of employees that can receive this additional increase. This additional increase could be:

- Awarded as a percentage increase to base salary
- Awarded as a one-time lump sum payment

MODEL 2: Percent Increase Awarded Based on Forced Ranking of Performance

Employees Performing In Lowest 10%	***Employees Performing in Middle 80%***	***Employees Performing in Top 10%***
0% Increase	***3.0% Increase***	***5.40% Increase***

MODEL 3: Percent Increases Awarded Based on 3-point Performance Rating Scale and Range Position

The increase percentages awarded in this model are calculated based on the overall merit pool and the distribution of people falling into each cell. This model should only be used for job codes that have gone through Market Refinement where highly accurate salary ranges are in place.

	Performance Requires Improvement	***Performance Meets Expectations***	***Performance Exceeds Expectations***
Salary is High in Range	0%	2.0%	3.0%
Salary is Mid-Range	0%	3.0%	4.0%
Salary is Low in Range	0%	3.5%	5.4%

Create an Implementation Plan

Once you have your performance review tool, merit increase percentage and employee peer groups identified, work with your campus/college/unit senior leadership team to create a merit pay implementation timeline that includes:

1.) Clear assignment of roles and responsibilities
2.) Creation of communications, forms and supporting documents
3.) Dates when preliminary performance reviews will be completed
4.) Dates when senior leadership will meet to discuss preliminary reviews and distribution performance among employees
5.) Financial analysis - Translation of performance rankings into merit increase amounts
6.) Dates when final reviews and merit increase awards will be communicated to employees
7.) Training dates for managers and supervisors on the tools and process, as well as how to effectively determine the merit amount and communicate the results to employees
8.) Training dates for employees on how performance will be evaluated, how increases will be determined, and timing of the merit increase cycle
9.) Handoffs with payroll and HRMS at the local and central level to ensure appropriate and efficient processing of increases.

Any communications to employees about any salary increases for fiscal year 2026 should state that the increase is contingent upon final approval of the budget by the Board of Regents.