



July 2009 – Compensation Trends Update

Are We There Yet?

The question on everyone's mind these days is whether we have hit economic bottom yet. No one knows for sure, but we are beginning to see some leading indicators bottom out. Others are even beginning to turn upwards. Watson Wyatt recently released a report showing that shows the majority of firms are not anticipating any more salary budget cuts, pay freezes, or layoffs.

The labor market lags behind other economic indices, and current predictions are that the labor market will begin to turn around in Q1 or Q2 2010 pushing unemployment down and pushing hiring up. However, a multitude of variables can affect the actual turnaround in the labor market, so stay tuned.

Available information is extensive. Below are some highlights:

2010 INCREASE PROJECTIONS

Milliman just posted the first of many anticipated projected increases for 2010. Projected adjustment to actual salaries for the Puget Sound area is 2.6% for 2010. Many surveys are underway and we expect to see similar projections from other sources later this year.

Portland, Oregon, and other locations in the Pacific Northwest are expected to have increases slightly lower than Puget Sound projections. Those figures will be available later in the year.

COST CUTTING MEASURES

Three surveys show roughly 33% of organizations have frozen salaries. Certain industries have been hit very hard while others

are still doing quite well. Higher numbers of banking and wholesale/retail organizations are freezing salaries. Conversely, many health care and high tech firms are doing very well and pay freezes in these industries are unusual. A survey released this week by Watson Wyatt shows 53% to 89% of organizations planning no further cost-cutting measures.

HAS PAY DROPPED?

Hire-in rates have dropped a bit in the last 18 months. However, since the salary surveys capture wages for employed individuals, the lower hire-in rates are offset by wage increases in other organizations. Therefore, most salary surveys will show a modest overall wage increase although the hire-in rate may be lower for some jobs.

LONGER-TERM PROJECTIONS

The current thinking is that merit increase budgets will remain very low in order for organizations to remain competitive globally. Hewitt is predicting an average 2% annual merit increase budget by 2020. Hewitt is also predicting a 16% variable pay budget. This allows organizations to align expenses with revenues and respond more quickly to competitive cost structure shifts. Top performers are still rewarded under this incentive plan model.

TOTAL COMPENSATION TRENDS

401(k) – A recent report from Grant Thornton shows that 29% of organizations surveyed are modifying their 401(k) matches. Of the organizations that are modifying matches, 67%



are eliminating the matches, 22% plan to reduce the matches and 11% are increasing the matches.

Medical insurance costs continue to rise. Average increases are in the 10% range this year, but we have heard of increases as high as 30% and as low as -2%. Many employers are shifting the cost increases primarily to employees and not absorbing the costs themselves.

EXECUTIVE COMPENSATION

The recent executive pay scandals have had an impact on lowering executive pay. An ERI survey shows executive total compensation down for the fourth quarter in a row. Base pay is being frozen in about 50% of organizations surveyed according to a survey by Pearl Meyer. 25% expect to pay no year-end bonuses and 42% said they are considering paying a bonus below formula. About 60% of these organizations are reducing long-term incentive awards.

ACTIONS TO TAKE

MAKE POLICY CHANGES NOW – The current economy is giving us a rare window in which employees are more likely to accept policy changes. If you have a PTO plan change that is needed, a switch to a pay-for-performance plan or similar policy change – now is a good time to get them implemented. You will likely face less resistance to any perceived take-aways during this period; the economy can provide justification for any take-aways.

CONTINUE TO COMMUNICATE - Employees need to know where they stand now more than ever. A recent survey showed that employee satisfaction with pay directly correlates to the amount of communication about pay. There was no correlation between competitive pay levels and pay satisfaction.

HI POTENTIAL & KEY EMPLOYEES – High potential employees can contribute 12 times

what an average employee contributes. Pay special attention to the needs of your high-potential employees and your key employees. If you are expecting the organization to grow, your early career high potentials are especially important to the organization's future.

USE NON-CASH REWARDS – Especially during tight financial times a gift certificate for dinner or a movie can show employees how important they are to your organization.

Within each industry and each organization there are many nuances and variables to consider. What works for one company may not work for another. Please contact me if you have questions.

Catherine Dovey, Principal of Compensation Works, helps organizations develop and manage their pay and incentive plans. Contact her at 206.306.0299 or cdovey@compensationworks.com www.compensationworks.com

Catherine is speaking at the following times:

July 10th 1-2 pm- Radio show – Work Does Matter KKNW – 1150 AM

July 15th – 11:30 – 1:30 Total Rewards in Today's Economy Panel for Northwest Compensation & Total Rewards Forum www.nwcompforum.org to register

September 9th – 11:30 – 1 pm Total Rewards in Challenging Times – LWHRA, Bellevue www.lwhra.org to register

September 17th – 4:30 – 7 pm HR Sampler – Bellevue Community College <http://at-campus.net/bcc2/ems/course/course.aspx?C=10342&pc=14&mc=65&sc=>

October 27th – 6 – 9 pm Incentive Plan Design – The Next Frontier – Bellevue Community College <http://at-campus.net/bcc2/ems/category/category.aspx?C=14&S=65> to register

