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Keeping Compensation Fresh in 2019

Employees are expecting bigger raises, bonuses

By Joanne Sammer
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With the U.S. unemployment rate at its lowest level since 1969 (www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/how-to-reduce-employee-turnover-through-robust-retention-strategies.aspx), employers are adjusting pay-raise budgets for 2019 and raising their wage and salary offers to attract needed talent.

After several years of pay increases below 3 percent on average, pay levels for nonfarm hourly workers increased by 3.2 percent (https://www.bls.gov/news.release/pdf/empsit.pdf) in 2018, as December data from the Bureau of Labor Statistics show. In 2017, hourly workers saw a wage gain of 2.5 percent (https://www.bls.gov/news.release/archives/empsit_01052018.pdf).

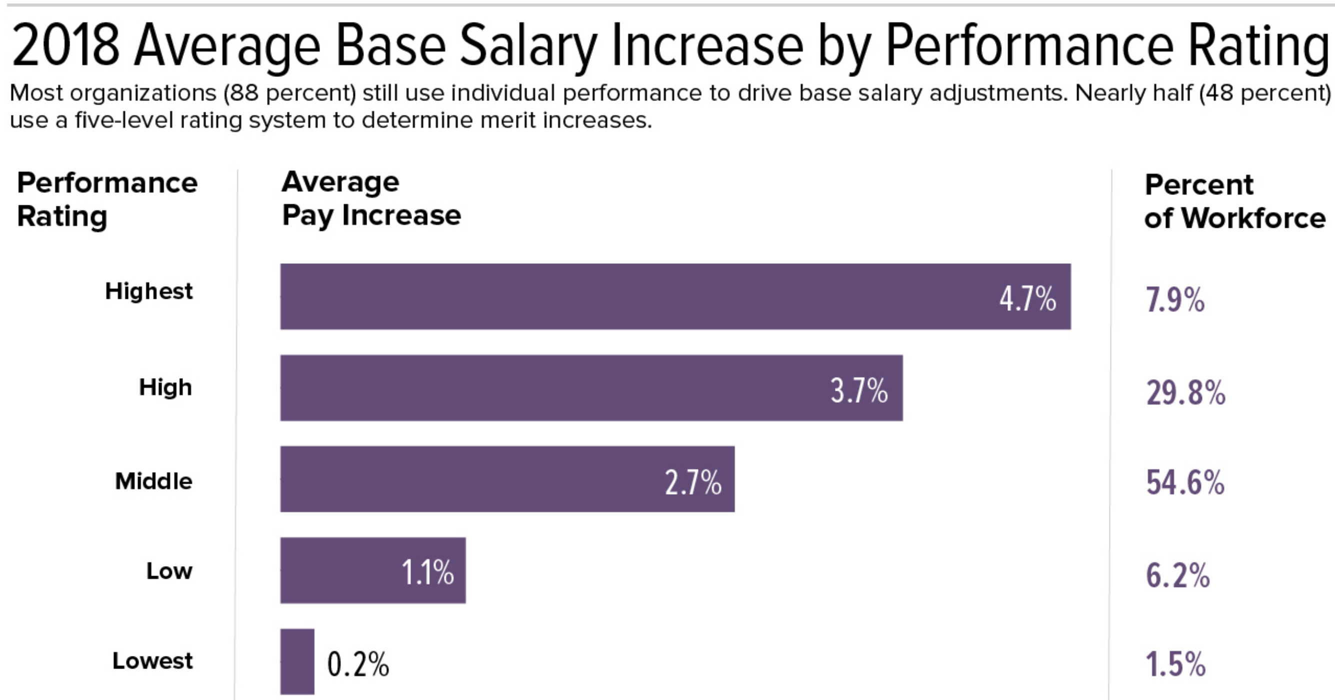
> Strong US #jobs (https://twitter.com/hashtag/jobs?src=hash&ref_src=twsrc%5etfw) report for December--not only in terms of job creation (312,000, close to twice consensus expectations) and wage growth (3.2%), but also in terms of revisions to prior months. Also good news for the #economy (https://twitter.com/hashtag/economy?src=hash&ref_src=twsrc%5etfw): the labor participation rate went up from 62.9 to 63.1.
>
> — Mohamed A. El-Erian (@elerianm) January 4, 2019 (https://twitter.com/elerianm/status/1081181889304510470?ref_src=twsrc%5etfw)

But signs indicate a bigger jump in wages and salaries for 2019 will outpace employers' earlier expectations (www.shrm.org/ResourcesAndTools/hr-topics/compensation/pages/2019-salary-budgets-inch-upward.aspx).

Data released in mid-December by HR consultancy Mercer show that employers anticipate U.S. private-sector salaries for 2019, including merit and promotion-related pay increases, will rise by 3.4 percent (https://www.mercer.us/our-thinking/2018-united-states-compensation-planning-survey-executive-summary.html) over 2018 pay, according to the consultancy's compensation database, which reflects pay practices for more than 16 million employees. That's up from the 3.2 percent year-over-year pay increase that employers expected just a few weeks earlier. In 2018, salary increase budgets grew on average by 3.1 percent (www.shrm.org/ResourcesAndTools/hr-topics/compensation/pages/2019-salary-budgets-inch-upward.aspx).

Top performers can expect a much larger pay raise. In 2018 they received 1.74 times the salary increase of an average performer in the same position, based on findings from Mercer's 2018/2019 U.S. Compensation Planning Survey (https://www.mercer.us/content/dam/mercer/attachments/private/nurture-cycle/us-2018-united-states-compensation-planning-executive-summary.pdf), for which more than 1,500 organizations provided data from April to May 2018.

(Click on graphics to view in a separate window.)



Source: Mercer's 2018/2019 US Compensation Planning Survey.

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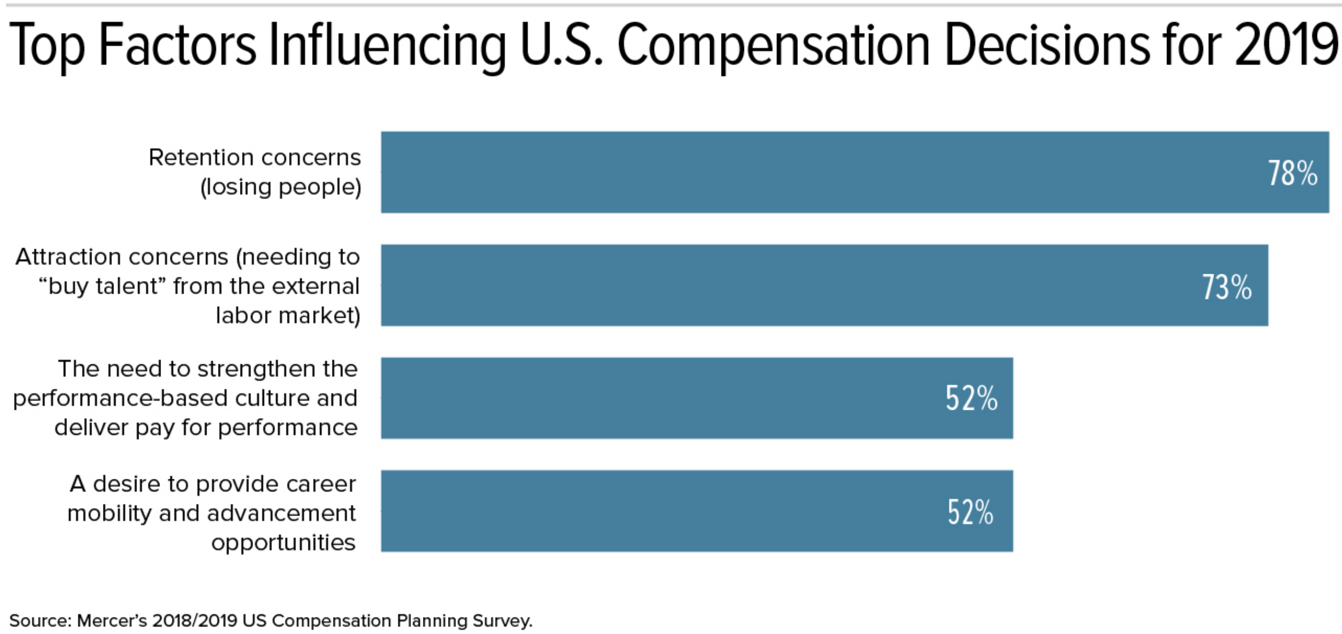
With a tight job market, voluntary turnover is at a 10-year high (https://www.forbes.com/sites/jeffboss/2018/02/26/employee-turnover-is-the-highest-its-been-in-10-years-heres-what-to-do-about-it/#4cdf98a478cc).

"It is important that employers recognize the critical talent they have by getting pay and promotions right—or they risk losing employees to competitors that may offer better salaries and the opportunity for more career growth," said Mary Ann Sardone, Mercer's North America rewards practice leader.

When planning for 2019, 78 percent and 73 percent of organizations, respectively, put retention and attraction at the top of their list of concerns—up significantly from 68 percent and 63 percent respectively since 2017, Sardone said.



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The Global Talent Monitor report for the third quarter of 2018, released Dec. 5 by the business research and advisory firm Gartner, shows that workers now anticipate larger increases than employers are planning (https://www.gartner.com/en/newsroom/press-releases/2018-12-05-fewer-employees-intend-to-stay-at-their-current-emplo) for 2019 salaries and 2018 bonuses to be paid early in the new year.

Employees' base-pay expectations jumped nearly a full percentage point from the previous quarter, with workers expecting a wage increase of 3.9 percent in 2019 and anticipating bonus and merit payouts 3.8 percent larger than they received a year ago.

"Given strong economic performance across many U.S. industries in 2018, employees hold much higher expectations for greater increases in wages and bonuses going into 2019," said Brian Kropp, group vice president of Gartner's HR practice. As companies revisit compensation planning for the new year, "executives will need to factor in these employee expectations to remain competitive and to attract and retain talent, otherwise they risk losing their best workers to competitors."

The Global Talent Monitor's data are drawn from the larger Gartner Global Labor Market survey, for which some 22,000 employees were interviewed. The survey, conducted quarterly, reflects data for the quarter preceding publication.

Staying in Sync

Given low unemployment and an outlook for continued economic growth—despite recent stock market gyrations linked to trade and other concerns—employers may need to increase their diligence when it comes to keeping compensation systems in sync with the market. "Employers need to make sure that they are on top of their game," said David Nygard, managing director with consulting firm Hatch & Associates in New York. "That means being tied to the [labor] market, having a sound compensation structure and being able to track developments in the market proactively."

This process begins by asking two key questions:

- Is the firm facing shortages of talent in specific roles, strategic parts of the business or specific geographic areas?
- Is the organization keeping tabs on pay levels for the jobs it considers most important to its success?

"It's important to monitor the critical areas of the company," Nygard said.

This advice resonates with many employers. Overland Park, Kan.-based Black & Veatch, an engineering, construction and consulting firm, must focus on keeping its compensation system aligned with the job market for engineers. Each year, to ensure that the firm remains competitive, the firm's college-offer rates and its job families, merit-increase budgets, and salary ranges all come under review.

Yet, even with this annual due diligence, Black & Veatch is also alert to emerging trends in job roles and responsibilities, as well as pay levels.

"This year, we conducted a custom survey to gather data on some emerging jobs not found in our salary surveys," said Keith Weldon, the firm's global compensation manager. In addition, Black & Veatch encourages individual business units to budget for off-cycle increases. This allows them "to bring professionals to competitive levels as needed," Weldon said. "We do see some pressure in the engineering jobs, but our ranges are wide enough to accommodate most jobs in today's environment."

[SHRM members-only guide: How to Establish Salary Ranges (www.shrm.org/ResourcesAndTools/tools-and-samples/how-to-guides/Pages/howtoestablishsalaryranges.aspx)*]*

Taking a Fresh Look at Pay

Movement in the market is a good reason to revisit compensation approaches and structures. As employers consider raising the size of starting-pay offers to attract fresh talent, they should also beware of making pay disparity grow between current employees and those newly hired, which can lead to higher employee turnover.

Here are a few questions employers should be asking—and answering—in this tight labor environment.

- **Are all types of pay for top talent adequate?**

To meet the demands of current and potential employees in key roles, an employer may need to rethink its current approaches and programs. This does not automatically mean increases in pay levels, although that may be a reasonable solution. Instead, employers can "look for different ways to use the same money," such as new or different incentive opportunities and more-frequent payouts, changes to performance metrics, and more-frequent and productive performance management discussions, said Nygard.

- **Is the organization managing existing talent well?**

Without effective performance and talent management programs, employers may not know which individuals and roles are making the greatest impact on the organization's performance. Without that insight, the organization may not be keeping its most important talent happy.

- **Is pay equity an issue?**

Employers are under pressure to ensure that their pay systems treat everyone equally. In this environment, employers should consider the balance between giving managers adequate discretion to make pay adjustments and maintaining a framework to ensure fairness in pay.

Above all, pay-equity concerns require employers to ensure consistent pay-related decision-making so that two employees of equal talent and performance level are treated the same. "The key is to have well-documented and less ad hoc pay decisions to ensure consistency while still being responsive to the market," said Tom McMullen, senior client partner with pay consultancy Korn Ferry in Chicago.

- **Is the organization ready to play offense, not just defense, when it comes to compensation?**

Strong compensation systems must be able to respond not just to changes in the market but also to opportunities to gain new talent. Recruiting workers from struggling competitors, beefing up sales forces in regions marked for growth and other strategic opportunities may require a nimble approach to pay.

It's important to recognize that the talent market is constantly changing. Hot jobs today may become less competitive and even less important in a few years. Therefore, compensation systems must be built to adjust based on what the market requires.

"Test what various market scenarios will do to compensation structures," Nygard advised.

Joanne Sammer is a New Jersey-based business and financial writer.

Update:

> New BLS data shows that in February an average worker's earnings jumped 11 cents an hour to $27.66. Over the past 12 months, workers' pay climbed 3.4%, the biggest gain since the end of the last recession in 2009. https://t.co/OQRqOJRcPA (https://t.co/OQRqOJRcPA)
>
> — Stephen Miller, CEBS (@SHRMsmiller) March 11, 2019 (https://twitter.com/SHRMsmiller/status/1105123884964167681?ref_src=twsrc%5etfw)

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