

## Do you have the Annual “Pay Raise Blues”?

*These last two years, a record number of employers provided NO pay raises, imposed unpaid furloughs, cut other benefits and/or delayed key payroll decisions. Employees have generally accepted and understood these decisions. Now what? Competitive pressures can quickly return during a recovery and your best people may be only so patient. We think you need to know what others are doing so you can make informed decisions.*

### The preliminary data from our latest North Carolina Wage and Salary Survey shows:

- About 38% of respondents report 0% salary increases planned for both exempt and hourly employees in 2010 (compared to 50% in 2009).
- About 60% plan to provide an increase in 2010 and the initial reported average is 2.85%. Half of this group plans an increase over 3%.
- Fewer employers project a 0% raise in 2011 (about 28%) and more project an increase just over 3% (about 72%). It will be important to watch these 2011 projections because they will very likely change over time.

### Employers are asking us:

- If we have a limited pool of payroll dollars, where should we put them first?
- What will happen if we go two years without a raise?
- Do you see companies pick a midway point between 0% and 3%?
- What are the trends in merit, market-based and variable pay?
- Are there creative and credible ways to defer a decision but demonstrate fairness and concern? Is anyone else concerned about a “double dip” recession?
- Is it time to consider deleting certain positions for the purpose of creating more discretionary payroll dollars?
- If my organization is meeting budget

or exceeding net income projections, what is a wise way to use those dollars right now?

- What happened to the concept of “cost of living”? What is the impact of low inflation?
- What is the proper connection between group health increases and pay raises?

**Decisions about how and where to spend payroll dollars should not be made in a vacuum.** Survey data can help in understanding trends in the market. Employers that choose how to position themselves in the marketplace, considering their total rewards package for employees, generally get better value from limited payroll dollars.

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### MY PREDICTION:

*I believe we will see more companies stretching 2010 pay and benefit budgets beyond their initial targets. These decisions will be made for several reasons:*

- 1) Competition for the best
- 2) Improved business results
- 3) Reward for hard work and patience
- 4) Human nature (we like to give good news).

I also believe we will see more employers recognizing strong performance rather than giving across the board increases. I think more companies will opt to differentiate performance and contribution

levels, meaning that all employees will not get the same raise as might have been the practice in the past. There will certainly be some circumstances in which selected market adjustments will need to be made and funded. We will also see employers finding ways to modify pay practices, like the annual raise on a fixed date, or better communicating how payroll dollars are being spent on healthcare benefits, 401k matching programs, salary increases, etc.

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### HOW TO PREPARE:

You have a historic opportunity to chart a new path in compensation strategy, leave behind some unproductive assumptions and get more from those dollars. Understand what is happening in the marketplace by reviewing the data. Evaluate which roles and performers are well-paid in the market and do not require an increase. Assess where you might be vulnerable to losing your stars, or losing your ability to attract new talent. Factor in the culture of your company, what you want to reward, what kind of culture is best and where you are trying to go. Use that knowledge to have a wide-ranging (and sometimes uncomfortable) conversation with your senior team about your total compensation package and strategy.

Contact me directly if I can help you or your team.

*Bruce*

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*Executive Scan* is written by CAI's CEO, Bruce Clarke, JD.

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