



2011 Compensation Planning – A “Slow Recovery”

The past 30 months have presented economic challenges most of us have not seen in our lifetimes, much less our working lives. During the past year, with many organizations continuing to struggle to survive or regain their footing and employees grateful for retaining their jobs, the question of pay increases hasn't been a front-burner decision for most companies. However, the recent WorldatWork (formerly the American Compensation Association) summary of their “2010 – 2011 Salary Budget Increase Report” states that employers responding to their survey generally indicate a “slow recovery”, with the total salary budget increase for 2011 predicted to be an average (median) of 3 percent for all pay groups across almost all industries. This represents a moderate increase from an average (median) of 2.7 percent in 2010.

With permission from WorldatWork, following are highlighted excerpts from the report, with additional commentary, to assist in your 2011 compensation planning.

Concern About Inflation

“As the global economy recovers, there is speculation about whether the U.S. will enter into an inflationary period, which could lead to upward pressure on wages. This likely would translate to more salary structure adjustments as the market shifts. Currently, though, organizations are conservative with spending; even in recovery, they are keeping the size of salary budget growth modest and waiting to see about structure movement needs to stay competitive.”

The U.S. rate of inflation, as measured by the consumer price index (CPI) is currently 1.3 percent, declining from a rolling 2.2 percent 12-month average ending in April 2010. In 2009, volatile market conditions led to the first negative 12-month change in inflation rates since 1955 (e.g. from 3.9 percent in 2008 to minus 0.7 percent in 2009).

Percent of Employees Receiving Pay Increases

A large majority of organizations (86%) continued to budget for pay increases in 2010 to motivate and reward performance. This represented an increase of 6 percent from 2009, but remains below the 91 percent in a more typical year.

Budgets vs. Structure

It is important to distinguish between what employers adjust their compensation plans by (i.e. structure) and actual budgets for merit/wages/salaries increased.

Adjustments to compensation plans (usually existing pay range minimums and maximums) are often referred to as changes to the pay structure. Pay structure adjustments reflect economic factors, industry impact, employer's ability to pay, and their overall compensation philosophy and are best looked at as an employer's adjustment to their compensation plan in response to remaining competitive in the labor market(s) in which they compete. Total budget increases for actual pay reflects both the structural adjustment and employee's 'merit', longevity or other basis for movement within and along the pay range structure.

Zero-Percent Salary Increase Budgets

Approximately 16 percent of reporting organizations (e.g. 2,600 participants representing more than 15.5 million U.S. employees) reported freezing salary budgets in 2010, versus approximately 3 percent who would do so in a more "typical" year. This compares favorably, though, with the approximately 35 percent of respondents who reported freezing salary budgets in 2009.

Total Salary Budget Increase, by Employee Category

<u>Wisconsin</u>	<u>U.S. Average</u>			<u>Central U.S.</u>				
	2009	2010	2011 (est)	2009	2010	2011 (est)	2009	2010
2011 (est)								
Non-Exempt Hourly (Non-union) 2.5% 3.0%	2.3%	2.4%	3.0%	2.1%	2.4%	3.0%	2.1%	
Non-Exempt Salaried 2.5% 3.0%	2.1%	2.4%	3.0%	2.0%	2.5%	3.0%	1.9%	
Exempt Salaried 2.5% 3.0%	2.2%	2.5%	3.0%	2.0%	2.5%	3.0%	1.9%	
Officers/Executives 2.4% 3.0%	2.0%	2.5%	3.0%	1.8%	2.5%	3.0%	1.6%	

Salary Structure Increases, by Employee Category

<u>Wisconsin</u>	<u>U.S. Average</u>			<u>Central U.S.</u>				
	2009	2010	2011 (est)	2009	2010	2011 (est)	2009	
2010 2011 (est)								
Non-Exempt Hourly (Non-union) 1.1% 1.9%	1.5%	1.1.0%	1.9%	1.4%	1.2%	1.9%	1.2%	
Non-Exempt Salaried 1.1% 2.1%	1.5%	1.3%	2.0%	1.5%	1.3%	2.0%	1.4%	
Exempt Salaried 1.2% 1.9%	1.5%	1.2%	2.0%	1.5%	1.2%	2.0%	1.3%	
Officers/Executives 1.1% 1.9%	1.4%	1.2%	2.0%	1.3%	1.2%	2.0%	1.2%	

Salary Budget Increases by Type of Increase (Central U.S.)

Projected 2011	Actual 2009	Actual 2010	
General Increases/COLA	1.0%	1.5%	1.9%
Merit Increase	1.8%	2.3%	2.8%
Other Increase	0.7%	0.9%	0.9%
Total Increase	2.0%	2.5%	3.0%

Recommendations – 2011 Compensation Budget Planning

As of this writing, the best recommendation for 2011 pay structure and merit increase budget planning is as follows. If you are looking for a single number, you will likely find it within these ranges, understanding that any appropriate percentage will be driven by your business strategy, compensation philosophy and conditions, geographic considerations and the competitive environment within your industry

	<u>Wage/Salary Structure</u>	<u>Merit/budget</u>
	1.8% - 2.2%	2.0 – 4.0%

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