



Compensation Planning and the Economy

*by Diana Moroney, Manager, Human Resource Consulting Services
Honkamp Krueger & Co., P.C.*



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Whether you're a manager, business owner or human resource professional, you've probably had colleagues inquire or management team question what your company is budgeting for pay increases this year. Although most companies ponder this question every year, many are especially struggling with it for 2009, given the current economy.

According to an October 2008 survey by Hewitt Associates, in response to the weakening economy and increasing cost pressures, many U.S. employers will be giving smaller-than-expected pay raises to employees in 2009. In addition, a significant number of employees can expect to see reduced bonus payouts for year-end 2008 as well. Specifically, the survey of 411 large U.S. companies reported that pay raises will decrease at these companies by an average of 1 percent in 2009 and the salary increases for hourly and salaried exempt employees at these companies are now projected to be 3.1 percent—the lowest projected base salary increase since the Sept. 11, 2001 terrorist attacks.

"While the majority of employers are continuing to stay the course with respect to their compensation payouts, increasing cost pressures and concerns about the broader economy have prompted a significant number of organizations to re-evaluate and revise their salary budgets," says Ken Abosch, leader of Hewitt's North American compensation consulting practice.

And it's not only hourly employees and salaried staff that are or may be affected by the recent down trend in pay. As reported by ERI Economic Research Institute, during the past 12 months preceding November 2008, the average total compensation of the highest paid executives at U.S. publicly traded companies fell by 4 percent. Decreases were reported in base salaries, stock options, long-term incentive plans and other compensation components.

Regardless if your company is feeling a negative financial impact from the current economy or not, compensation strategies should always be a focus of your budget

planning. Employers may consider creative alternatives to the standard percent increases. In addition, separating top performing workers from average employees can stretch the budget too. For example, although overall pay increases were down, the Hewitt survey found that 38 percent of those surveyed are reserving a portion of their salary increase budget for their top performers, 23 percent are creating supplemental, discretionary incentive pools for these workers and 20 percent are offering employees retention bonuses for a specified period of employment.

Taking a closer look at salary increases cannot only help for budgeting purposes, but for employee morale as well. Although employers may dislike their employees discussing pay and pay increases, chances are they will, and they have all the right to do so. Given this, management and/or any staff responsible for communicating pay and pay increases to employees should feel that pay levels and increases they give their staff are fair, equitable and deserved. In turn, top performing employees should feel their continued efforts to go above and beyond expectations are recognized and appreciated.

Taking into account these considerations, as well as market conditions and budget restrictions – upcoming or current – compensation plans should be carefully considered and revisited for adjustments at least each year.

If you would like more information on this topic, please contact Diana Moroney at 888-556-0123 or dmoroney@honkamp.com.

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