

PRI Reports:

Recent Compensation Surveys Indicate – **UPDATED June 10, 2010 via Conference Board and Culpepper Reports**
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2010 Base Pay Projections Looking Up As The Economy Shows Signs of Gradual Improvement 2010 Will Find Significantly Fewer Employers Freeze Salaries

- ❖ *In October, 2008 conventional wisdom, backed up by a multitude of domestic and global surveys held that, “Employers were keeping pay raises, essentially steady for 2009 with 2008”.*
- ❖ *By March 2009 there was an overall consensus that the “merit budgets” for 2009 are all projecting a year of significantly lower salary increases than expected, if any at all, in the US labor markets and around the globe.*

Small signs started appearing months ago: Jobless claims plateaued; housing statistics improved slightly; stock market averages gained ground; and productivity increased. The recession appeared to be bottoming out. Consumers seemed to be regaining confidence, and employers appeared ready to loosen tourniquets they had applied to stem their outlays when the economy was reeling.

As they prepare salary budgets for 2010, employers are signaling that they stand ready to award merit increases of about 3 percent—almost back to pre-recession levels, according to Watson Wyatt Worldwide (WWW), a human resource consulting firm headquartered in Arlington, Va.

Employers’ final 2010 compensation plans will hinge on the economy’s actual performance, of course, but prospects appear promising. The U.S. economy is expected to expand faster than previously forecast as consumer spending increases in the second half of this year and in 2010. Although job recovery may take longer—employment is typically among the last major indicators to turn positive at the end of a recession—many business leaders say their companies’ financial numbers have leveled off.

One might ask, why would business leaders unlock their war chests in 2010? A major reason is that some industries remain profitable, and their leaders want to maintain the talent base, explains Bob Cartwright, SPHR, president of Intelligent Compensation LLC in Pflugerville, Texas. It costs less to maintain good talent via retention strategies than to attract new talent on the upswing. Cartwright estimates that it takes 1.5 to 3.5 times the pay to replace a good employee.

In addition, compensation specialists fully expect that as the economy improves and employers start rolling back their earlier decisions for coping with the recession, top talent will dramatically hike their expectations—especially their compensation expectations.

As 2009 Rapidly Draws to a Close Eight Key Surveys Report...

November 12, 2009: As the table below *now* indicates, there is an overall consensus that the “merit budgets” for 2009 are all projecting a year of significantly lower salary increases than expected, if any at all, in the US labor markets and around the globe. We, at PRI, have researched some eighteen recent articles and reviewed the results of eight leading Compensation Surveys. They all, essentially, agree that 2010 budgeted pay raises will begin to bounce back near to the pre-recession levels.

2008 SURVEYS	Budgeted Pay Raises					Est. Salary Structure Changes				
Year	2008	2009	2009® (3/09)	2009® (11/09)	2010	2008	2009	2009® (3/09)	2009® (11/09)	2010
Mercer HR Consulting - All	3.8%	3.7%	3.2%	2.3%	2.7%	N/A	N/A	N/A	N/A	N/A
Executives	4.1%	3.9%	3.2%	2.1%	2.7%	N/A	N/A	N/A	N/A	N/A
N/E; Exempt	3.8%	3.7%	3.2%	2.4%	2.7%	N/A	N/A	N/A	N/A	N/A
Office/Clerical Hourly	3.7%	3.7%	3.1%	2.4%	2.7%	N/A	N/A	N/A	N/A	N/A
Trades/Prod. Service Hourly	3.6%	3.6%	3.1%	2.4%	2.7%	N/A	N/A	N/A	N/A	N/A
Hewitt & Associates	3.8%	3.8%	2.5%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Executives	N/A	3.8%	2.2%	1.4%	2.6%	N/A	N/A	N/A	N/A	N/A
Salaried Exempt	N/A	3.8%	2.5%	1.8%	2.7%	N/A	N/A	N/A	N/A	N/A
Salaried Nonexempt	N/A	3.7%	2.6%	1.9%	2.6%	N/A	N/A	N/A	N/A	N/A
Nonunion Hourly	N/A	N/A	N/A	2.0%	2.7%	N/A	N/A	N/A	N/A	N/A
WorldatWork Survey - All	3.9%	3.9%	3.1%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Executives	4.0%	4.0%	N/A	2.0%	2.8%	2.6%	2.6%	N/A	1.4%	1.8%
Exempt Salaried	3.9%	3.9%	N/A	2.2%	2.8%	2.5%	2.7%	N/A	1.5%	1.8%
N/E Salaried	3.8%	3.8%	N/A	2.1%	2.8%	2.5%	2.7%	N/A	1.5%	1.8%
Hourly	3.8%	3.8%	N/A	2.3%	2.8%	2.5%	2.6%	N/A	1.5%	1.8%
Conference Board - All	N/A	3.75%	3.5%	2.5%	3.0%	N/A	N/A	N/A	N/A	N/A
Executives	3.8%	3.9%	3.5%	1.5%	N/A	N/A	N/A	N/A	N/A	N/A
N/E; Exempt Salaried	3.8%	3.8%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hourly	3.7%	3.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Year	2008	2009	2009® (3/09)	2009® (11/09)	2010	2008	2009	2009® (03/09)	2009® (11/09)	2010
Culpepper Compensation Survey	3.93%	3.86%	2.59%	1.66%	2.68%	N/A	N/A	N/A	1.25%	1.58%
Watson Wyatt Survey	3.5%	3.5%	1.5%	2.0%	3.0%	N/A	N/A	N/A	N/A	N/A
Executive	3.7%	N/A	N/A	2.1%	2.8%	2.5%	N/A	N/A	1.8%	2.0%
Management Non-Exec	3.6%	N/A	N/A	2.2%	2.8%	2.6%	N/A	N/A	1.9%	2.0%
Exempt Non-Mgt	3.5%	N/A	N/A	2.2%	2.8%	2.5%	N/A	N/A	1.8%	2.0%
Nonexempt Salaried	3.4%	N/A	N/A	2.2%	2.7%	2.4%	N/A	N/A	1.8%	1.9%
Hourly	3.5%	N/A	N/A	2.3%	2.7%	2.3%	N/A	N/A	1.7%	2.1%
Compdata Survey	3.60%	3.62%	N/A	1.9%	2.5%	N/A	N/A	N/A	N/A	N/A
Economic Research Institute Early 2009 Survey (04/15/08)	4.1%	4.0%	No Commo n Data	No Common Data	No Common Data	N/A	N/A	N/A	N/A	N/A

® - Revised Projections

Other conclusions drawn from these recent articles and surveys are:

- ❑ A year ago it was observed that, “Some employers are delaying pay raises until July (2009). Others are “freezing” them until 2010 or later. Although not all companies considering a freeze will take this step, by the time all 2009 budgets are final, we expect to see one in three organizations freezing wages at 2008 levels.” (Steve Gross, global leader of Mercer’s broad-based performance and rewards consulting business)
 - September 2, 2009 results from the *2009-2010 Culpepper Salary Increase Budgets Survey* reveal that companies are continuing to make significant changes to their salary budgets in response to the recession:
 - “The number of companies freezing salaries is projected to decline from 37 percent in 2009 to 13 percent in 2010. For companies with frozen salaries, 23 percent plan to unfreeze them by the end of 2009.”
 - **Timing of Base Salary Reviews:** Most organizations review base salaries annually on a common focal date.
 - **Base Pay Philosophy:** Nearly 70 percent of companies have a base salary philosophy with an objective to either match or lead the market and pay salaries at or above current market levels.
 - **Changes Since 2008:** Salary increase budgets have changed dramatically over the past year. In August 2008, before the global economic crisis unfolded, average base salary increases exceeded four percent and only two percent of companies were freezing salaries. From late 2008 through mid-2009, the number of companies freezing salaries increased to 37 percent, which drove average base salary increases below two percent. Overall, projections for 2010 have improved significantly compared to 2009. However, a relatively high number of companies plan to freeze salaries in 2010, and average projected base salary increases are still much lower than recent years.

- Other areas of interest found in their Salary Budget Survey for this year are:

State	Actual 2009	Projected 2010
California	2.0%	2.9%
Florida	2.0%	2.8%
Georgia	2.0%	2.9%
Illinois	1.9%	2.9%
Kentucky	1.9%	2.8%
Ohio	1.9%	2.8%
West Virginia	2.1%	3.0%

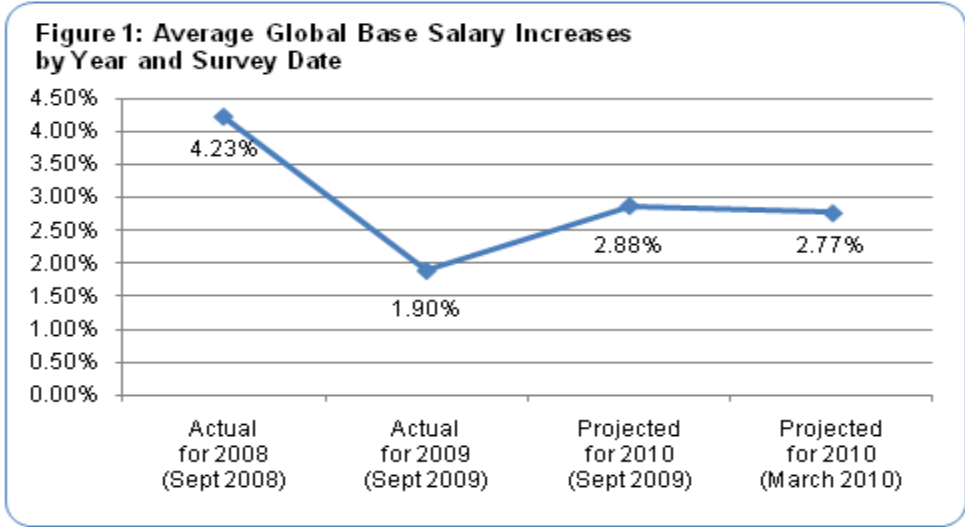
- While the economic downturn prompted U.S. companies in 2009 to grant employees the lowest base salary increases in 33 years, funding for variable pay was at an all time high, according to a recent survey by Hewitt Associates, a global human resources consulting and outsourcing company. For 2010, employees can expect to see a similar mix of compensation payouts, with variable pay budgets projected to remain stable and base salary increases rising only slightly.
 - The challenging economy also compelled nearly half (48 percent) of companies to freeze salaries in 2009, up considerably from 2 percent in 2008. In 2010, 13 percent of companies anticipate salary freezes. Even during past economic downturns, we have not seen such dismal salary increases as we did this year — it truly is unprecedented," said Ken Abosch, leader of Hewitt's North American Broad-Based Compensation Consulting business.
 - While base pay increases hit an all time low in 2009, Hewitt data shows that variable pay spending has been steadily growing over the past decade. Fifteen years ago, variable pay spending accounted for approximately 5 percent to 6 percent of payroll. Today spending on these types of compensation programs is almost twice that level. For example, spending on variable pay as a percentage of payroll for salaried exempt workers was 12.0 percent in 2009, up from 6.4 percent in 1994. In 2010, companies are budgeting variable pay bonuses at 11.8 percent.
 - "Even in the toughest economies, companies are willing to reserve money for top-performing employees as a way to reward their performance and ensure they retain these employees after the job market rebounds," adds Abosch. "Over the past decade, we've seen companies steadily shift from a fixed pay model to one that emphasizes true performance-based awards, and we expect this trend will continue."
- *Mercer's Market Pulse Report* mid-year indicated that the year-over-year changes in total compensation for Engineers was a modest 1.2% (Median Total Cash Compensation Percent Change) from 2008 to 2009.
- U.S. salary increase budgets were hit hard in 2009. For 2010, budgets are forecast to be higher. But the increase is projected to be the lowest in 25 years.
 - That's according to a survey by The Conference Board, a not-for-profit business research association. The survey report, *U.S. Salary Increase Budgets for 2010*, was released at the start of September 2009.
 - 2% Inflation Rate Expected
 - While the median forecast salary increase budget is low, the typical employer is still budgeting for salary increases ahead of inflation in 2010, according to the report.
 - The Conference Board projects the inflation rate to be 2 percent in 2010, suppressed, in part, by slack in production capacity.
 - The information for this report was gathered from 291 companies surveyed between April 7 through April 30, 2009.

- ❑ Having researched all this above over the past decade, we also found last year (2008) that the Social Security System needed to operate more in “real-time” fore “based on the increase in the Consumer Price Index (CPI-W) from the third quarter of 2007 through the third quarter of 2008, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a **5.8 percent COLA for 2009**. They caught up during 2009 and with consumer prices down over the past year, monthly Social Security and Supplemental Security Income benefits for more than 57 million Americans will *not* automatically increase in 2010. This will be the first year without an automatic Cost-of-Living Adjustment (COLA) since they went into effect in 1975.
- ❑ Question: How can an organization interpret market compensation data and use it responsibly? Shiny Feng articulates Mercer’s answer to this is:
 - **“During times of market unrest, internal affordability might take precedence over market competitiveness.**
 - “As a result, companies should fine-tune their pay-for-performance programs and make informed pay decisions based on quantitative analysis of data collected by their HR information systems as well as from payroll, finance, operations and customer data sources.
 - “However, it’s important to understand the market data used in the analysis.
 - “As a general guideline, if the aim is to measure against the overall labor market, then use the aggregate; if you are concerned about a specific peer group, then use the actual average increase of that group.
 - “Be aware of how the survey samples might differ from prior years, and know if zeros are included in the average—that is, data from companies that froze salaries.”
- ❑ As this recession has reminded everyone, no matter how firm an employer’s compensation plans for the coming year may be, they are not set in stone. Economic conditions can change—for the better or for the worse—with little warning. And the most effective compensation plan may prove to be one that is the most flexible—the one continually examined and re-evaluated, and changed if necessary to ensure the organization’s survival.
 - **PRI will be re-examining this crucial subject at various times in 2010 to assure that you remain flexible... to hold your financial assets and your key talent at the same time! Stay tuned! Remain vigilant!**
- ❑ **Conference Board Winter Update – “U.S. Salary Increase Budgets Barely Matching Inflation” (2/15/10)**
 - Projections for 2010 show that salary increase budgets in the U.S. will be below 3 percent for the first time in more than two decades, and projected 2010 salary structure adjustments for all categories of employees are not expected to top 2 percent—well below the inflation rate (2.6 percent) forecast by The Conference Board.
 - According to the U.S. Bureau of Labor Statistics’ (BLS) **Employment Cost Index**, total compensation in 2009 grew by 1.5 percent while consumer prices rose by 2.7 percent—meaning that, adjusted for inflation, total compensation fell by almost 1.3 percent.
 - Recovery in compensation is probably a few years away. “In the previous three recessions, compensation began accelerating only several years after employment bottomed.”
 - Compared with their original (November 2009) median projected increase budget, the current median projected 2010 salary increase budget for these respondents is 0.5 percentage point lower than what they report as their original forecast for 2010.

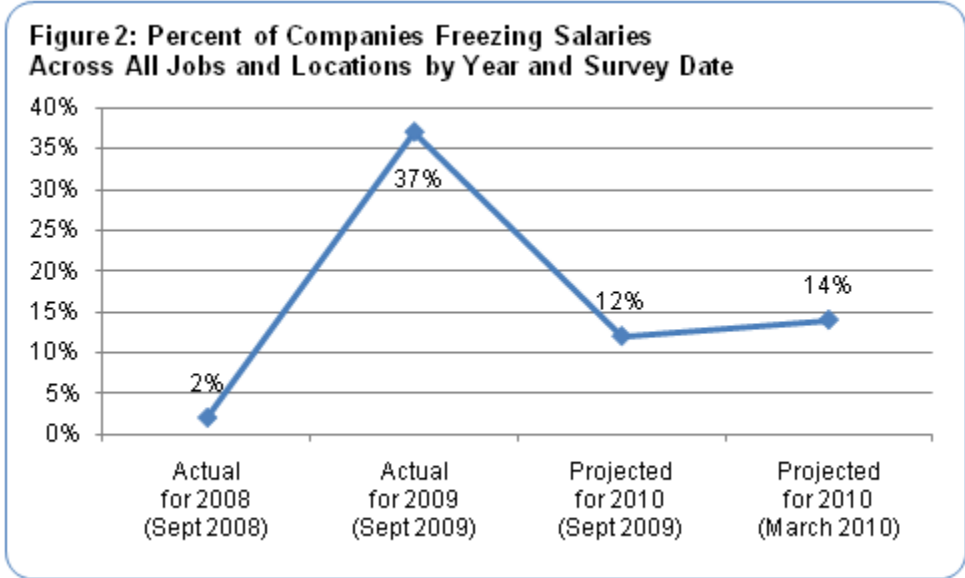
- **2010 Culpepper Salary Increase Budget Update Survey – “Thaw as Confidence Improves” (3/15/10)**
 - **Projected salary increases for 2010 decline slightly.** Since September 2009, projected base salary increases for 2010 across all jobs and locations decreased from 2.88 percent to 2.77 percent. Excluding salary freezes, projected base salary increases declined from 3.25 percent to 3.21 percent.
 - **Fewer companies freeze salaries.** The number of companies planning to freeze salaries in 2010 increased slightly from 12 percent to 14 percent. However, this is a marked improvement from 2009, when 37 percent of companies froze salaries.
 - **Salary freezes thawing more quickly.** In September 2009, 51 percent of companies were planning to unfreeze salaries by the end of 2010. Since then, 70 percent of companies have unfrozen salaries or plan to unfreeze salaries in 2010.
 - **Fewer companies reduce salaries.** In 2009, 13 percent of companies reported that they cut salaries. Only 1 percent plan to reduce salaries in 2010.
 - **Rollback of salary cuts accelerates.** In September 2009, 52 percent of companies were planning to reverse salary reductions by the end of 2010. Since then, 73 percent of companies have reversed salary reductions or plan to in 2010.
 - **United States salary increases.** Base salary increases in the U.S. are projected to climb from an actual average increase of 1.66 percent in 2009 to 2.47 percent in 2010.
 - **Global salary range structure increases.** Average global salary range structure increases across all jobs and locations are projected to rise from 1.25 percent in 2009 to 1.47 percent in 2010.
 - **Promotional Increases.** Average promotional increases are projected to decline slightly from 7.37 percent in 2009 to 7.32 percent in 2010.
 - **General Base Salary Increases – Global vs. North America Region:**

Table 1: Base Salary Increases				
Geographic Region	2009 Average Actual Base Salary Increases		2010 Average Budgeted Base Salary Increases	
	Including Companies Freezing Salaries(with zeros)	Excluding Companies Freezing Salaries (without zeros)	Including Companies Freezing Salaries (with zeros)	Excluding Companies Freezing Salaries (without zeros)
Global/Worldwide (Aggregate)	1.90%	3.23%	2.77%	3.21%
Northern America	1.61%	3.01%	2.49%	2.90%
Canada	1.07%	2.87%	2.54%	2.89%
United States	1.66%	3.05%	2.47%	2.91%

o Recent Trends –



The survey date for each data point is provided in parentheses. Averages include salary freezes (zeros).



Source: 2010 Culpepper Salary Increase Budget Survey, March 2010 (Reposted with permission.)