



Budgets for Salary Increases Dip Below 4% for '08 and '09

As the U.S. economy faces its worst crisis since the 1930's, companies that are disciplined in managing their labor costs will be in the best position to weather the storm. The PROXUS Compensation Practice can help companies like yours effectively manage salary costs and reduce regulatory compliance risks.

The Conference Board reports that salary increase budgets average 3.80% in 2008 across nonexempt, exempt, and executive employee categories, while salary increase budgets for nonexempt hourly employees come in lower at 3.70%.

For 2009, the median budget for salary increases is projected to be 3.75% for both nonexempt salaried and hourly employees. The median salary increase budget projections for exempt and executive employees are higher at 3.80% for exempt and 3.90% for executives.

As salary increase budgets shrink heading into 2009, employers must take steps to ensure that their core wage and salary program is competitive or risk losing top employees.

Here are five (5) steps to developing a competitive wage and salary program:

1. **Update your job descriptions.**

A job description aligns individual goals and activities with the strategic objectives of the organization. It is the most basic and important tool for managing the employee/employer relationship and is used to recruit new employees, establish pay rates, set expectations and measure performance.

A good job description follows a simple but consistent format that describes the qualifications for the job, its key roles and responsibilities, as well as its essential functions. It should meet standards of compliance with the Americans with Disabilities Act and Fair Labor Standards Act overtime regulations.

2. **Accurately classify jobs for overtime eligibility.**

Last year alone, the Department of Labor (DOL) recovered more than \$171,500,000 in back wages for more than 246,000 employees who were improperly classified for overtime eligibility under Fair Labor Standards Act (FLSA) regulations.

To avoid financial and regulatory risk exposure, employers should carefully check each job based on the contents of its updated job description to determine if it does or does not meet the exemption from overtime requirements provided under FLSA.

3. **Find out if your pay rates are competitive.**

It becomes impossible to recruit and retain high performing staff without pay rates that are competitive within the employers' industry and geographic region. The resulting costs of turnover can be staggering both financially and operationally for the company.

Using market-based surveys and related information, conduct an analysis of each job on an annual basis to ensure that your pay rates and salary program structure are appropriately aligned.

4. **Make sure your pay rates are equitable within the company.**

Internal equity problems often lead to discriminatory pay complaints, lawsuits, lower employee morale and productivity. In addition, it is often a warning sign that there is misalignment in how jobs are valued in relation to one another or how employees within the same/similar jobs are paid.

Review the hierarchy of jobs within your wage and salary structure to ensure that positions are ordered consistent with their value within your business and the competitive market.

5. **Identify your compensation philosophy.**

Salary expenses are the single most costly expense incurred by most organizations; however, many businesses fail to implement a strategy on how to spend those dollars.

First, consider the total rewards package offered (medical coverage, time off benefits, retirement plan, bonuses etc.) and its value to an employee, aside from base pay. Next, determine what approach to base pay (conservative or aggressive, compared to competitors in the market) the organization desires to pursue. Finally, align these two components in a manner that yields a competitive advantage in the recruitment and retention of staff.

For more information either call or email Jeff Green, Principal, at 215-654-9140, ext. 102 or jgreen@proxushr.com to learn more about how the PROXUS Compensation Practice has helped companies like yours effectively manage salary costs and reduce regulatory compliance risks.

#