

US SALARY INCREASE BUDGETS ARE LOOKING BRIGHTER IN 2011
But Small Budgets Continue to Create Challenges
By Christine Stanton

As we head into the summer, many companies are testing the waters on salary increase budgets for 2011. Will projections stay stable (as they did in 2010)? Or are there signs of change?

Some History ...

- **2009 ... The Financial Crisis Rocks Budgets:** Prior year projections for salary increases went out the window. For example, WorldatWork measured the actual average salary increase in 2009 at 2.2%, the smallest increase in the survey's history and 1.7% below the 3.9% that had been projected in the previous year's report.
- **2010 ... A Modest Jump.** 2010 brought more stability with projections in the 2.5% - 2.7% range, with actual increases generally following suit.

For 2011, the Survey Says ...

2010 Surveys conducted by the Hay Group, the Conference Board, and WorldatWork pointed to average salary budgets in the **3%** range.

Survey updates completed earlier *this* year continue to show employers projecting merit budgets in the 3% range ... a modest jump from 2010.

Survey	Average 2011 Projected Salary Budget (US)	Survey Publish Date
Towers Watson	3%	February 2011
Culpeper	2.86%	March 2011

Rewarding Top Performers with Small Salary Budgets

Although a 3% salary increase budget represents a lift from the prior two years, it's still a tight budget and will continue to present challenges for companies struggling to differentiate pay based on performance.

According to the *Hay 2011 Salary Budget Spot Survey*, top performers are expected to receive a median increase of only **3.1%** versus the **2.8%** increase for the typical employee. A discouraging statistic. But, as we continue on the road to economic recovery, rewarding top talent will become increasingly important. With salary budgets remaining tight, what strategies can employers consider to differentiate pay for top performers?

- **Just Say No to Low Performing Employees:** Ensure that employees who don't meet expectations do not receive increases. The days of "cost of living" increases are gone.
- **Create a "Top Performer" Pool:** Keep the overall pot the same, but carve out a portion to be distributed to exceptional performers only. For example, assuming a 3% budget, 2.5% is established as the overall increase budget and .5% is held back for additional "top-performer" rewards.
- **Hold "Boot Camps" for Managers:** Managers are at the center of pay decisions. Be sure to coach them on how to differentiate performance and deliver difficult messages. Provide them with specific guidelines on ranges of pay for performance – and help them understand why differentiating pay makes sense. Point them to the research. The most successful organizations have strong links between individual pay and performance!
- **Lean on Incentive Pay:** With base pay a fixed cost, having an incentive program for all levels of employees can take the pressure off the salary budget. That said, it still makes sense to drive pay for performance across ALL elements of pay.

Look for an update on salary increase projections in PEBA's fall newsletter.

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