It’s amazing how a recession can erase the entitlement mentality that has enveloped the U.S. workforce for the past few years. Currently, there are certainly more wishes than expectations when it comes to pay increases. And for many, the idea of an increase in these tough economic times is truly inconceivable. But does perception equal reality? What’s in store for 2010? The WorldatWork 2009-10 Salary Budget Survey reports that the 2009 U.S. average total salary budget increase across all organizations, employee categories, regions and industries is 2.2 percent, down from last year’s 3.9 percent. But the news isn’t all doom and gloom. Companies report they will award a raise to about eight in every 10 employees in 2009, down only 10 percent from last year.

So while pay increase budgets have dropped considerably this year, could a recovery be in sight? It would seem so; participating organizations estimate an average 2.8-percent salary budget increase for 2010. Overall, the projections provide some hope, but there are myriad unknown factors that will play a role in whether organizations will budget for and award pay increases in the coming months. The silver lining is that the data confirms a commitment on the part of most organizations to...
continue rewarding employees through pay, at least to a small degree.

Salary Budget Increases: Mild, But At Least Present
As shown in Figure 1, the drop in the overall total salary budget increase average from 3.9 percent in 2008 to a 36-year low of 2.2 percent in 2009 is nothing short of significant.

There has also been a decline in the size of pay increase budgets for those planning to give pay raises in 2009, but the plummeting overall average is more reflective of the large number of organizations who are now holding back altogether on pay increases. (See Figure 2.) In a typical year, approximately 2 percent of organizations report a zero-percent salary increase budget, but in 2009 nearly one third said they are freezing their salary budgets, varying by employee category. Officers and executives are the hardest hit: 43 percent of respondents indicated salary increase budgets for these employees have been eliminated.

Industry breakdowns reveal the largest variance of all of the demographic slices this year. The wholesale trade, real estate (including rental and leasing) and transportation industries seem to be the hardest hit in terms of pay increase budgets — not altogether unexpected considering the effects the economy has had on these and similar industries. (See Figure 3.) Most industries are anticipating a recovery in 2010. However, educational services reports only a modest rise and public administration reports that salary budget increases will continue to fall into 2010.

Most U.S. states are reporting averages similar to the national average of 2.2 percent, while major metropolitan area data shows some differences. Of the major U.S. metropolitan areas surveyed, Washington, D.C., has the highest total salary budget increase average again this year, at 2.2 percent for all employee categories and industries. The hardest hit cities — Detroit, San Jose, Calif., Cleveland and Miami — reported budget increases half of a percent lower than the national average. It’s no surprise that many of these areas have been among the hardest hit from an unemployment standpoint, too.

The predictions for 2010 show at least a partial recovery for all states.

Pay Increases: A Reality For Most
Average pay increase budgets have dropped in 2009 and are proving nonexistent for a large number of organizations.
But according to the *Salary Budget Survey* about 80 percent of all employees can expect a raise in 2009. The lack of alignment with the salary budget increase data suggests that while a number of organizations are freezing salary budgets, they seem to be finding money elsewhere to fund at least some pay increases.

In a typical year, turnover savings — the result of a position sitting vacant for a time or hiring at a rate lower than the previous incumbent — is a place to turn to for additional funds. And in this time of layoffs, hiring freezes and other cost-cutting measures, there may be more room to pick up some of the expense for rewarding through pay, even if the budgets are conservative.

Pay For Performance Continues
Organizations continue to focus on programs that tie performance to pay. Merit increase budgets remain the most prevalent — nearly five times more common than other types of pay increases. For 2009, merit increase budgets sank from 3.6 percent to 1.9 percent, but are projected to climb back up to 2.7 percent in 2010, as shown in Figure 1.

Though many organizations are experiencing limited cash flow, rewarding those who are driving business results is key. Consistent with salary budget increases this year, payouts for 2009 performance are expected to decrease to 2.3 percent for middle performers, while high performers will average a 3.4-percent merit increase. (See Figure 4.)

In 2009, the percentage of organizations using variable pay remains strong at 80 percent, more evidence that paying for performance continues. Of the organizations that use variable pay, a combination of awards based on organization/unit success as well as individual performance continue to be, by far, the most prevalent. (See Figure 5.) In general, reports for 2008 and 2009 show that eligibility for variable pay programs among each of the four employee categories is holding steady. The average percent budgeted has declined as well as the average percent paid, though neither set of data show the significant drop that has been reported elsewhere.

The greatest recessionary effects on variable pay are expected in the coming months, with projected payouts for 2009 performance declining by about 10 percent of what was paid out for 2008. But as is the case for all other findings in this year’s survey, 2010 is expected to bring at least some relief, with variable pay budgets and payouts projected to rebound.

In Review
The reality for most organizations today includes limited cash flow because they are losing revenue while costs go up. Few employers are immune to the economic crisis; most are trying to figure out how to do more, or at least the same, with less. However,
organizations remain committed to the programs that motivate and reward behavior through pay. Most organizations continue to budget for pay increases, and even those that aren’t are expecting to find money elsewhere to fund some increases. Paying for performance remains a reality, and though budgets for these and other programs are lower this year, there may be an end in sight. Projections for 2010 are somewhat optimistic … or maybe they just reflect wishful thinking.

About The Survey

The annual WorldatWork Salary Budget Survey is the largest and most comprehensive salary budget survey in the industry. More than 2,800 participants responded to this survey. The data was collected in April 2009, and WorldatWork will be publishing additional data throughout the year as updates are available. The 36th annual WorldatWork Salary Budget Survey reports data for more than 16 million U.S. employees from the organizations that participated in the survey. The data represents a wide range of industries, which are distributed across four regions of the United States.

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