



Where Do We Go From Here Concerning Compensation and Benefits?

Richard Sharpnack

June 2009

Setting the Scene

The very weak economy this year has required companies to make some very difficult decisions and choices regarding staffing levels and compensation. There have been significant layoffs already, and I expect those to continue as companies work off the backlog from 2008. Many companies either froze salaries indefinitely or greatly reduced salary increases for 2009. To compound the bad news for employees, some companies have shifted increasing amounts for health insurance premiums and other benefits to employees. Retirement plan matching or company contributions have been reduced or eliminated. According to a WorldatWork survey, 16 percent of surveyed companies have either reduced or eliminated employer matches in their retirement plans. CEO's are wondering how long the economic downturn is going to last and what happens when the economy starts to improve.

When Will the Flood Gates Open?

I expect the economy to improve sometime in 2010. When this recover really starts to take off is a big unknown right now. I further expect the recover to be incremental, slowly at first followed by a period of rapid economic growth. In terms of employment, I expect employment growth to be negligible initially as companies try to handle the work with existing staff levels. But, eventually the flood gates will open and companies will have a need for more employees. This is problematic for many companies since finding quality people was already difficult before the recession and many of these company shed employees to survive the down turn. Some seasoned employees have exited the workforce for good and there will be no getting them back. Also, I anticipate that inflation will ramp up as the economy heats up.

All of these predictions mean there is likely to be significant pressure on salary and wage levels eventually, most likely in late 2010 and 2011. Companies that froze salaries and wages in 2009 may be facing double-digit increases in 2011. What are the best strategies to prepare for this eventuality?

Strategies to Cope

Employees that have foregone salary and wage increases and absorbed increased costs for benefits because of the recession will expect better compensation and better benefits

when the economy improves. Companies should be prepared for this and develop compensation/benefits strategies to react or they risk losing quality people. Some strategies to prepare for increased employee expectations concerning compensation/benefits are as follows:

- Keep track of industry trends regarding compensation and benefits levels even during this down economy and even if your company has frozen salaries and wages. Benchmarking compensation levels of your employees against industry compensation data is the best way to track compensation trends.
- Communicate with employees regarding your company's plan to adjust compensation and/or benefits. Without information, your employees will make their own assumptions, and it is better to keep them informed rather than have them assume incorrectly.
- Ensure that annual incentive plans are realistic concerning funding and threshold income levels. Some companies have seen a structural change in their markets and it may be time to revise or develop new annual incentive plans.
- Consider implementing some type of golden-handcuff plan to retain your key employees. Typically, these plans do not require payments to be made for a number of years and thus, the plan will not contribute to company cash flow concerns in the short term.
- Consider implementing work-life initiatives, such as flexible scheduling or telecommuting, to increase employee satisfaction and engagement. These initiatives create happier employees without adding costs, and in fact may lower costs in some cases.
- Continue to look for creative ways to keep employee cost increases for health insurance and other benefits to a minimum. Cafeteria style plans where employees can pick the type and level of coverage are preferred over one-size-fits-all plans.

Create a Sustainable Compensation Program

This is not the time to panic and make knee jerk changes to alter your compensation/benefits programs or strategies. It is time to take a hard look at them and make sure they not only make sense for the current economic environment but for the long-term also. In other words, if your company's programs need revision, make sure the new or revised programs are sustainable for the future. Sustainable programs have three fundamental goals that they must achieve. They attract top performers to the company, motivate employees to achieve best-of-class company performance, and retain top talent within the company.