

Salary Increase Budgets Decline for First Time in 12 Years

Pay increase rates plunged but may rise again as economy reopens

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Hoping for an economic rebound before year-end, employers haven't abandoned their salary increase budgets for 2020, although they have trimmed them a bit, new research shows. They don't expect to step up salary budget growth next year, given uncertainty over the economic outlook, salary increase forecasts show.

Responding to Uncertainty

WorldatWork's 2020-2021 Salary Budget Survey, conducted from May 27 to June 26, with 4,754 responses from total rewards professionals, found that salary increase budgets are still in play at most organizations.

Respondents said that they anticipated employee compensation at their organizations would grow by an average of 2.9 percent in 2020, down from the projected average increase of 3.3 percent expected at the start of the year and the first time in 12 years that the rate of increase has fallen (<https://worldatwork.org/workspan/articles/salary-increase-budgets-fall-for-first-time-in-12-years>) from the prior year. "The last time the survey saw a decline in salary budget increases was during the Great Recession of 2008-09," WorldatWork reported.

The table below summarizes the survey's top-level results (https://www.worldatwork.org/docs/research-and-surveys/sbs/SBS2020-21_TopLevelData.pdf) for 2020 and projected salary budget increases for 2021, compared with 2019 salary budget increases (https://www.worldatwork.org/docs/research-and-surveys/sbs/SBS2019_20_TopLevelData_NonParticipants.pdf). The mean is the mathematical average, and the median is the middle value after listing expected budget increases in successive order. Outliers, or extreme values on either the high or low end, have a bigger effect on the mean and less on the median.

The finding that projections for 2021 closely mirror 2020 outcomes shows the high level of uncertainty among compensation planners about the state of the economy next year, WorldatWork's analysis suggested.

Total U.S. Salary Budget Increases: 2019-2021

Salary increase budgets are the pool of money available annually for base pay adjustments.

Employee Category	Actual 2019 Mean	Actual 2019 Median	Actual 2020 Mean	Actual 2020 Median	Projected 2021 Mean	Projected 2021 Median
Nonexempt hourly, nonunion	3.2%	3.3%	2.8%	3.0%	2.9%	3.0%
Nonexempt salaried (www.shrm.org/ResourcesAndTools/tools-and-samples/hr-qa/Pages/whatisthemeaningsalaried,nonexemptemployee.aspx)	3.1%	3.0%	2.9%	3.0%	2.9%	3.0%
Exempt salaried	3.2%	3.0%	2.9%	3.0%	2.9%	3.0%

Officers/executives	3.3%	3.0%	3.3%	3.0%	3.3%	3.0%
All	3.2%	3.0%	2.9%	3.0%	2.9%	3.0%

Source: WorldatWork 2020-2021 Salary Budget Survey: Top-Level Results and 2019-2020 Salary Budget Survey: Top-Level Results.

SHRM RESOURCE SPOTLIGHT

Coronavirus and COVID-19 (www.shrm.org/ResourcesAndTools/Pages/communicable-diseases.aspx)

A Range of Adjustments

Contributing to the decline in salary budget growth was a significant rise in organizations that expect to keep their salary budgets to remain flat throughout 2020. "The sudden jolt of the pandemic has driven a higher percentage of organizations [to indicate] a zero salary increase budget for 2020," nearly 10 times higher than 2019, said Sue Holloway, director at WorldatWork, an association of total rewards professionals, most of whom work for large, North American firms.

Nevertheless, 84 percent of organizations expect to pay some form of salary increases in 2020. At the high end of the spectrum, "more than 70 percent of companies are still giving increases in the 3 percent to 4 percent range," Holloway said, "but we recognize the impact of the pandemic will lag" and those figures could be adjusted lower if the economy becomes mired in a recession.

Salary Structure Changes

The reported 2020 overall average salary structure adjustment is 1.9 percent, representing a significant shift downward from 2.2 percent in 2019, and affected by a significant increase in the number of organizations reporting no salary structure increase. The projection for 2021 is holding steady at 1.9 percent, WorldatWork reported.

Pay Equity Adjustments

Among surveyed organizations, 65 percent expect to make pay changes in 2020 to address pay equity issues, making pay more equivalent for women and minority employees based on factors such as position, tenure, education and experience, WorldatWork found. About the same number of organizations anticipate making pay equity adjustments in 2021.

Merit-Based Rewards

WorldatWork reported average base-pay merit increase budgets for 2020 at 2.6 percent of compensation, a 0.3 percent drop from 2019.

Although the size of all salary increase budgets, including merit budgets, declined in 2020, organizations continue to differentiate base pay-related awards.

Merit Increase Differentiation

	High Performers Mean	Middle Performers Mean	Low Performers Mean
2020	3.6%	2.5%	0.6%
2019	4.0%	2.7%	0.8%

Source: WorldatWork Salary Budget Survey 2019-2020: Executive Report & Analysis.

WorldatWork will field a survey in October to update these findings in light of the state of the economy later this year.

[SHRM members-only how-to guide: *How to Establish Salary Ranges* (www.shrm.org/resourcesandtools/tools-and-samples/how-to-guides/pages/howtoestablishsalaryranges.aspx)]

Other Forecasts in Same Ballpark

A preview of results from consultancy Willis Towers Watson's 2020 General Industry Salary Budget Survey—U.S., conducted between April and July 2020 with responses from 1,010 organizations, found that:

- Companies are projecting average salary increases of 2.8 percent for nonexecutive management and nonmanagement exempt employees in 2021.
- Nonexempt salaried and hourly employees as well as executives are in line to receive slightly smaller increases (2.7 percent).

Companies granted employees increases between 2.5 percent and 2.7 percent this year, below the 3 percent companies had budgeted before the pandemic hit.

Salary increases have hovered around 3 percent for the past decade. Only 7 percent of companies are not planning pay increases next year, down significantly from 14 percent this year, "an indication that many organizations are projecting a turn toward normalcy in 2021," the firm reported.

"This has been the most challenging compensation planning year for many companies since the Great Recession," said Catherine Hartmann, North America rewards practice leader at Willis Towers Watson. "While many companies managed to avoid cutting salaries during the pandemic, most have reduced the size of this year's salary budgets and are holding the line on increases for next year. At the same time, companies continue to embrace variable pay and other reward initiatives to recognize and help retain their best performers."

Salary Increases: Including Companies Granting No Increase

Total increases (percentage of salary).

Employee Category	2019 Salary Increases (average % granted)	2020 Salary Increases (average % budgeted)	2021 Salary Increases (average % budgeted)
Executives	3.2%	2.7%	2.7%
Management, excluding executives	3.2%	2.7%	2.8%
Exempt, nonmanagement	3.1%	2.7%	2.8%

Nonexempt salaried	2.9%	2.5%	2.7%
Nonexempt hourly	3.0%	2.6%	2.7%

Source: Willis Towers Watson, 2020 General Industry Salary Budget Survey—U.S.

Projected salary increases for 2021 were slightly higher when excluding companies that planned no increases.

Salary Increases: **Excluding Companies Granting No increase**

Total increases (percentage of salary).

Employee Category	2019 Salary Increases (average % granted)	2020 Salary Increases (average % budgeted)	2021 Salary Increases (average % budgeted)
Executives	3.4%	3.2%	3.0%
Management, excluding executives	3.2%	3.1%	3.0%
Exempt, nonmanagement	3.2%	3.1%	3.0%
Nonexempt salaried	3.1%	3.0%	3.0%
Nonexempt hourly	3.1%	3.0%	3.0%

Source: Willis Towers Watson, 2020 General Industry Salary Budget Survey—U.S.

The Willis Towers Watson survey reports employees receiving the highest possible rating were granted an average increase of 4.7 percent this year, while those receiving an average rating typically received 2.8 percent increases.

The survey found three in four companies (76 percent) are planning to award annual performance bonuses next year, roughly the same percentage as this year.

Bonuses, generally tied to company and employee performance goals, are projected to average 11 percent of salary for exempt employees, while bonuses for nonexempt salaried and hourly employees will average around 6.8 percent and 5.6 percent, respectively, Willis Towers Watson reported.

"Most companies will continue to be in a cash preservation and cost optimization mode regarding their budgets," Hartmann said. "And although many companies are looking toward stabilizing their business next year, the full extent of the economic impact of the pandemic is yet to play out."

She added, "Companies will remain cautious and continue to adopt strategies that attempt to balance employee engagement with protecting their core business."

Willis Towers Watson will release full survey results in mid-September.

Additional Pay Data

Other recent research findings are broadly in line with the survey results above.

Wages and salaries for civilian workers increased 0.4 percent, seasonally adjusted, for the three-month period ending in June 2020 (<https://www.bls.gov/news.release/eci.nr0.htm>), the U.S. Bureau of Labor Statistics (BLS) reported on July 31. That's a stark falloff from the year-over-year trend, given that wages and salaries grew 2.9 percent for the 12-month period ending in June 2020, according to BLS data.

A separate measure of personal income compiled by the Commerce Department's Bureau of Economic Analysis, also released July 31, found that overall U.S. income fell by 1.1 percent in June (<https://www.bea.gov/news/2020/personal-income-and-outlays-june-2020-and-annual-update>) following a steeper drop of 4.4 percent in May, "as portions of the economy continued to reopen in June," the report stated.

At least 4 million private-sector workers have had their pay cut during the pandemic, according to data provided to *The Washington Post* (<https://www.washingtonpost.com/business/2020/07/01/pay-cut-economy-coronavirus/>) in July by economists who worked on a labor market analysis for the University of Chicago's Becker Friedman Institute.

Looking at variable pay trends, consultancy Korn Ferry's May survey of some 3,500 executives (<https://www.kornferry.com/insights/articles/the-bonus-question>) at global companies showed that:

- 16 percent of organizations were not planning to offer bonuses this year, and another 40 percent were unsure of what the payout would be, if there is one.
- Among organizations that plan to distribute bonuses, 33 percent expected payouts to be less than originally intended, and 12 percent anticipated them to be at or above the target level.

Other changes include a refocusing of performance metrics and a shorter measurement period for performance.

"Given the environment, we are seeing the lowering of performance metric thresholds with lower corresponding payouts at these thresholds," said Tom McMullen, leader of Korn Ferry's rewards and benefits practice.

Related SHRM Articles:

Pandemic Could Worsen Gender Pay Gap (www.shrm.org/resourcesandtools/hr-topics/compensation/pages/pandemic-could-worsen-gender-pay-gap.aspx), *SHRM Online*, August 2020

Black Workers Still Earn Less than Their White Counterparts (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/racial-wage-gaps-persistence-poses-challenge.aspx), *SHRM Online*, June 2020

Developing a Post-Pandemic Pay Strategy (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/developing-a-post-pandemic-pay-strategy.aspx), *SHRM Online*, June 2020

Pay Cuts Become More Common in Pandemic Downturn (www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/covid-pay-cuts.aspx), *SHRM Online*, May 2020

Employers Adjust Pay and Incentives Amid Economic Turmoil (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/employers-adjust-pay-and-incentives-amid-coronavirus-economic-turmoil.aspx), *SHRM Online*, April 2020

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