Today’s Top Compensation Trends

FOUNDATION BENEFITS

Although some organizations may cut jobs or reduce hiring as economic growth slows, some are paying higher employee wages to keep and win top talent. More than ever, compensation is top of mind for employers and employees alike. Today, workers can demand higher pay and better benefits as many employers face a worker shortage and struggle with employee attraction and retention. It’s been a worker-friendly labor market in recent years, and it’s not going away anytime soon. The latest compensation trends aren’t just about wage increases, but also workers wanting to get paid differently, be compensated based on their work and receive more pay transparency.

Organizations are facing evolving talent challenges throughout the Great Reshuffle—where workers have been leaving one job for another that better meets their desires—and the Great Reconsideration—a state where workers are reconsidering and changing their work experiences. The COVID-19 pandemic has given workers time to reflect on their jobs and consider opportunities with a fresh perspective. On top of that, both employers and employees likely feel the financial strain of record-high inflation. As many are evaluating or stressing about finances, compensation is likely top of mind. In fact, the U.S. Social Security Administration recently announced that Social Security beneficiaries can expect an 8.7% increase in benefits next year. This increase surpasses the 5.9% cost-of-living adjustment in 2022, which, at the time, was the highest in four decades. The pandemic’s lingering effects still impact today’s workplaces, and record-high inflation further complicates the situation.

When employees feel adequately compensated for their job, they may be more motivated to come to work. Proper compensation demonstrates to employees that the organization values them as workers and humans. This article explores today’s top compensation trends and how employers can best compete in the labor market looking ahead to 2023.

Salary Hikes

The reality of the current labor market is that there are more open jobs than people to fill them, and inflation is impacting employees' pay expectations. As a result, salary budgets for American employees are projected to increase in 2023. According to Willis Towers Watson's July report, companies are budgeting an overall average increase of 4.1% for 2023, compared with the average actual 4% increase in 2022. Keep in mind that these are the most significant increases since 2008. Forty-six percent of respondents said the top reason pay budgets are increasing next year is based on employee expectations for higher pay.

Furthermore, data from the U.S. Bureau of Labor Statistics revealed that hourly earnings increased 5.2% year over year in August 2022, while average weekly earnings rose 4.6%. These percentages don't account for inflation, so pay bumps likely haven't helped workers much. While employers are exploring more competitive compensation strategies, wage raises still lag behind the current rate of inflation.

Variable Pay

Generally, pay is categorized as "variable" when a substantial proportion of an employee's compensation changes from time to time, rather than being set at a fixed hourly or salary rate. There isn't a concrete definition, and variable pay can be used in a variety of ways as part of a total rewards strategy. For example, some compensation plans may have a less substantial base pay—allowing employees to earn a high percentage of their total compensation via variable pay, such as sales commission or earnings based on performance. Likewise, others use variable pay for a very small proportion of an employee's total rewards, such as an expected bonus at the end of the year.

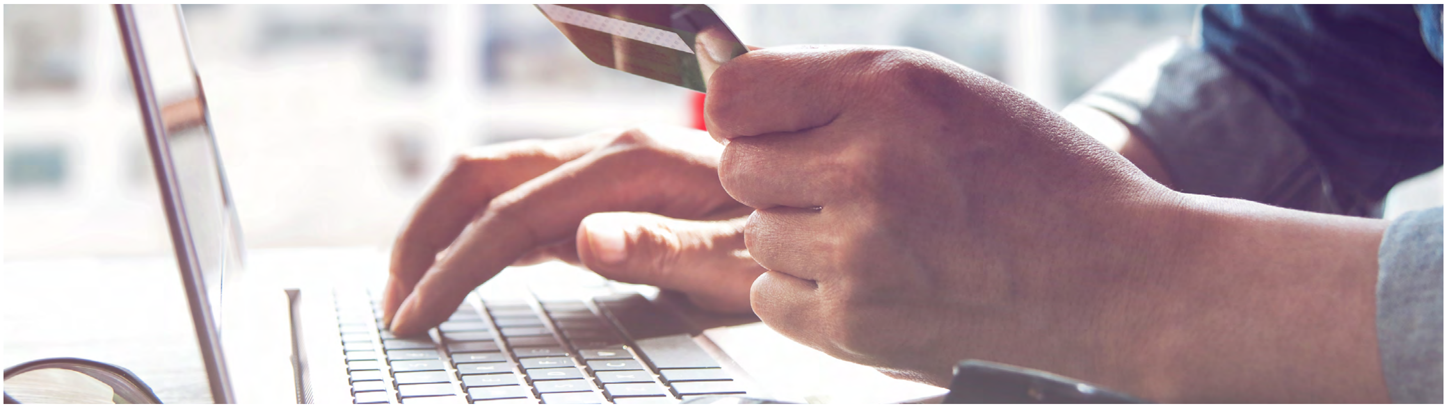
Within variable pay, compensation structures can be directly tied to individual, team or organizational performance. When utilized effectively, these incentives can boost motivation. Organizations also sometimes leverage these structures to retain flexibility and adaptability—particularly in uncertain economic environments. Should the business be profitable, more compensation can be shared with employees, while allowing the ability to avoid excess pay when profits are down.

On-demand Pay

The traditional weekly or biweekly concept of "payday" is engrained in many workplaces. However, some employers are exploring ways to pay their workers faster, especially those in industries that provide hourly wages or have high turnover rates (e.g., retail, hospitality, manufacturing and health care). On-demand pay—also known as earned wage access (EWA)—allows employees to be paid as soon as they've earned their wages. With Americans face rising costs for everyday essentials, health care and other emergencies, many employers are considering how they can provide employees with faster access to their earnings.

On-demand pay is projected to quickly become more popular in the coming years. According to research and consulting firm Gartner, less than 5% of large U.S. companies that provide most of their employees with hourly wages are currently using this flexible payment solution. However, that number is expected to increase to 20% by 2023. In today's fast-paced culture, where Americans can get almost anything with the click of a button, it's not surprising that on-demand pay appeals to many workers who don't have a buffer of savings to handle unexpected expenses.

EWA can create additional administrative work and increase organizational costs (e.g., fees). However, the trade-off is that flexible payroll solutions are generally viewed favorably by employees. Employers may use bank account direct deposits or prepaid debit cards to pay employees instantly. With time currently of the utmost value to workers, the ability to be paid sooner can be valuable and potentially provide additional organizational benefits, such as increased attraction and retention levels.



Raises

Raises are in the spotlight as many workers change jobs or careers. According to a new ADP report analyzing payroll data, workers who changed jobs got a median raise of 16.1%. Interestingly, according to the same report, that's nearly double the median change (7.6%) in yearly pay for those who stayed in their jobs. Job hopping has proven to be a way employees can compete with increasing costs amid inflation and be better positioned to afford everyday life. To compete, organizations are finding ways to offer raises to match the pay increases of employees' counterparts leaving for other, higher-paying opportunities.

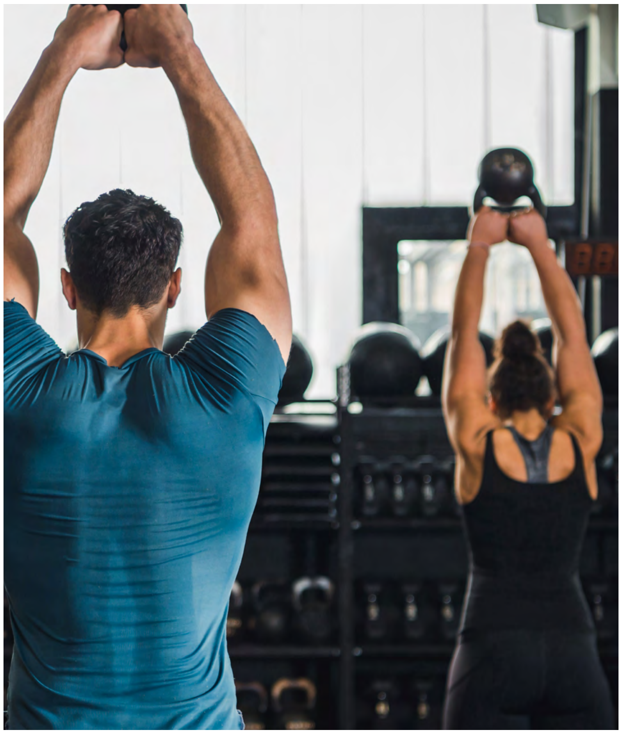
Additionally, consulting firm Empsight found that companies are planning merit increases for 2023. Thirty-five percent of surveyed companies reported a 3% budget increase, and 40% are planning for 4% or higher. Merit pay raises are based solely on employee performance and not related to promotions or cost-of-living adjustments.

Pay Transparency

Pay transparency is another hot topic. Today's workers want to know what they'll be paid before interviewing and that they're being compensated fairly compared to their colleagues. Workers also want to clearly understand their career development potential, as many are interested in professional growth opportunities.

Some large states, most recently California, have passed pay transparency requirements. For example, some states require organizations to disclose salary in job postings, but others require it only upon request. The goal is to promote more equitable pay regardless of specific details. Although conditions will vary, many municipalities and states are poised to join the growing nationwide pay transparency movement. As a result, many U.S. employers feel pressured to provide salary information even when they are not legally required to do so. This pressure has been compounded by the increase in companies, such as Indeed.com and Glassdoor Inc., posting pay estimates and data for job postings that can often be inaccurate.

When organizations embrace pay transparency and close pay gaps, employees who are a good culture fit typically stick around since they know what else is out there in terms of salary at similar organizations.



Well-being Perks

As many workers reconsider their jobs and lives, they may also look to take better care of themselves physically and mentally. Today's employees seek work-life balance and resources to care for themselves and their families. Although many organizations have expanded their employee assistance programs, mental wellness goes beyond access to care. Employers should consider how employees are treated in the workplace and ways to help reduce burnout. Some employers are offering mental health days and flexible working options to help employees take control of their workday and be most productive when they're able.

Although mental health benefits can be directly linked to compensation, other well-being factors can be more important to workers than salary. It comes down to understanding the current workforce and prospective employees and what they need to succeed in the workplace.

Increased Minimum Wage Rules

For years, states have been pushing their minimum wage above the federal minimum rate of $7.25 an hour. When both the state rate and federal rates apply, employers must pay their employees the higher of the two rates. This can also be true of local ordinances for minimum wage–which can be even higher. Nearly half of U.S. states have announced new minimum wage rates for 2023. The ways and dates that these go into effect vary. If a state has two wages listed below, it can vary by qualifications, such as company size, location, industry and health benefits.

Arizona
$13.85

California
$15.50

Colorado
$13.65

Connecticut
$15.00

Delaware
$11.75

Florida
$12.00

Illinios
$13.00

Maryland
$13.25

Massachusetts
$15.00

Michigan
$12.00

Minnesota
$10.59/$8.63

Missouri
$12.00

Montana
$9.95/$4.00

Nevada
$11.25/$10.25

New Jersey
$14.13

New Mexico
$12.00

New York
$15.00/$14.20

Ohio
$10.10

Rhode Island
$13.00

South Dakota
$10.80

Virginia
$12.00

Washington
$15.74

Time will only tell as further economic pressures, such as inflation, come into play and influence total compensation. For example, Hawaii plans to increase its minimum wage rate until it reaches $18 in 2028. The economic reality varies by state, so employers will need to review their area's living costs and what's resonating best with workers.

Summary

As businesses and individuals continue to navigate high inflation and other financial challenges, compensation will remain a top deciding factor for workers. As employees reconsider their jobs and careers, total compensation can be the item that piques their attention.

Organizations will likely continue to compete for top talent—local, hybrid and remote—and compensation could be the differentiator. Reach out to us for additional resources.