



# HUMAN RESOURCES GROUP<sup>INC</sup>

## 2009 Compensation Planning

The second half of each calendar year is when most employers do their compensation planning for the next year. Many surveys of what employers are budgeting for 2009 are conducted in the late spring and summer for the following calendar year. Additional relevant information is available by examining actual 2008 budget and structural increases and reviewing key economic indicators.

### Budgets vs. Structure

It is important to distinguish between what employers adjust their compensation plans by (i.e. structure) and actual budgets for merit/wage/salary increased. *Adjustments to compensation plans* (usually existing pay range minimums and maximums) *are often referred to as changes to the pay structure*. Pay structure adjustments reflect economic factors, industry impact, employer's ability to pay, and their overall compensation philosophy and are best looked at as an employer's adjustment to their compensation plan in response to remaining competitive in the labor market(s) in which they compete. *Total budget increases for actual pay reflects both the structural adjustment and employee's 'merit', longevity or other basis for movement within and along the pay range structure.*

**Total Salary Budget Increase:** amount budgeted for total cash compensation.

	<u>U.S. Average</u>			<u>Central U.S.</u>		
	2007	2008	2009 (est)	2007	2008	2009 (est)
Non-Exempt Hourly (Non-union)	3.8%	3.8%	3.8%	3.7%	3.7%	3.7%
Non-Exempt Salaried	3.8%	3.8%	3.8%	3.7%	3.7%	3.8%
Exempt Salaried	3.9%	3.9%	3.9%	3.8%	3.8%	3.9%
Officers/Executives	4.1%	4.0%	4.0%	4.0%	3.9%	3.9%

**Wage/Salary Structure Adjustments:** amount budgeted for pay range adjustments.

	<u>U.S. Average</u>			<u>Central U.S.</u>	
	2007	2008	2009 (est)	2008	2009 (est)
Non-Exempt Hourly (Non-union)	2.5%	2.5%	2.6%	2.5%	2.6%
Non-Exempt Salaried	2.6%	2.5%	2.7%	2.5%	2.6%
Exempt Salaried	2.6%	2.5%	2.7%	2.6%	2.7%

Officers & Executives

2.6% 2.6% 2.8%

2.6% 2.7%

Both sets of numbers (i.e. Total Salary Budget and Structure adjustments) remain almost literally unchanged from forecasts made in the fall of 2008. It is evident that most employers are, in fact, planning to continue awarding similar pay increase amounts to those seen in recent years.

### **U.S. and Global Economic Indicators**

Although fuel prices have recently stabilized, energy and food costs and inflation remain several of the “wild cards” in the array of external economic indicators that can potentially put pressure on wages and salaries in 2009. Obviously, the biggest unknown is the extent of the impact of the sub-prime mortgage crisis and its continuing effects on the stability of financial institutions and tightened lending practices worldwide.

The U.S. rate of inflation, as measured by the Consumer Price Index, is currently at 5.4% (since August, 2007). July’s rate was 1.1% down from June, when prices rose at almost the fastest pace in 25 years, and is due primarily to lower gas prices. Other factors include:

- continued weakness in the housing sector, due in part to the above sub-prime mess and continued “correction” of the housing market;
- the continued restructuring of the domestic automotive industry and its rippling effect on other industries; and,
- interest rates potentially rising, although not projected at this time;

### **RECOMMENDATION**

As of October 2008, our firm’s best recommendation for 2009 pay structure and merit increase budget planning is as follows. If you are looking for a single number, you will likely find it within these ranges, understanding that any appropriate percentage will be driven by your business strategy and conditions, geographic considerations and the competitive environment within your industry

	Wage/salary	Actual
<b>2009 Planning</b>	<u>Structure</u>	<u>Merit/budget</u>
	<b>2.5 – 2.7%</b>	<b>3.7 – 4.0%</b>

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