



2012 COMPENSATION BUDGET PROJECTIONS

INTRODUCTION

How are other employers thinking about investing in talent in the months ahead?

As a service to our clients and colleagues Axiom Consulting Partners has aggregated recently released 2012 compensation planning data. We collected data from recent WorldatWork, the Conference Board, and Mercer Human Resources Consulting studies including projections for salary increase budgets, merit pay increase budgets, and salary structure movements for 2012. As this is early data, it is important to note that it is subject to change and that the actual salary increases are historically below early projections.

U.S. salary increase budgets remain relatively flat, as survey data has reported a projected median salary increase budgets of 3.0% for the past two consecutive years. Several compensation survey findings converge to the same conclusion that employers will place greater emphasis on allocating their salary budget increases towards merit pay, particularly for higher-performing employees. As organizations face increased pressure to align their strategy, organization and talent, it is now more important than ever to link individual and team performance with key organizational objectives through improved goal setting and increased use of variable pay.

The table below provides a high-level overview of the 2011 actual and 2012 projected median salary budget increases from the three companies' publicly available information. Subsequent pages aggregate more detailed information such as salary increase forecasts by location and employee category.

SOURCE	ACTUAL 2011 MEDIAN SALARY INCREASE BUDGET			PROJECTED 2012 MEDIAN SALARY INCREASE BUDGET		
	NON-EXEMPT	EXEMPT SALARIED	EXECUTIVE	NON-EXEMPT	EXEMPT SALARIED	EXECUTIVE
WorldatWork ¹	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
The Conference Board ²	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Mercer ³		2.7%			2.9%	

1. "The Salary Budget Survey." Published July 5, 2011.
 2. "U.S. Salary Increase Budgets for 2012." Published July 2011.
 3. "2011/2012 U.S. Compensation Planning Survey Report." Published July 2011.

WORLDATEWORK

1 | Salary Increase Budgets

- The median 2012 projected salary increase budget is 3.0% (includes companies that reported salary freezes) for all employee categories, showing no change from the actual median in 2011.
- Salary increase budgets do not deviate significantly by metropolitan location. Additional location data is available.

1a | 2010 – 2012 Salary Increase Budgets

U.S. EMPLOYEE CATEGORY	ACTUAL 2010		PROJECTED 2011		ACTUAL 2011		PROJECTED 2012	
	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN
Non-exempt Hourly	2.4%	2.7%	2.9%	3.0%	2.7%	3.0%	2.9%	3.0%
Non-exempt Salaried	2.4%	2.7%	2.9%	3.0%	2.8%	3.0%	2.9%	3.0%
Exempt	2.5%	2.7%	2.9%	3.0%	2.8%	3.0%	2.9%	3.0%
Executive	2.5%	2.7%	3.0%	3.0%	2.8%	3.0%	2.9%	3.0%

1b | Salary Budgets by Location

LOCATION	ACTUAL 2011		PROJECTED 2012	
	MEAN	MEDIAN	MEAN	MEDIAN
Atlanta	2.8%	3.0%	3.0%	3.0%
Boston	3.0%	3.0%	3.1%	3.0%
Chicago	2.9%	3.0%	3.0%	3.0%
Dallas	2.8%	3.0%	3.0%	3.0%
Houston	2.9%	3.0%	3.1%	3.0%
Los Angeles	2.8%	3.0%	3.0%	3.0%
New York	2.9%	3.0%	3.1%	3.0%
San Francisco	2.9%	3.0%	3.1%	3.0%
Washington D.C.	2.9%	3.0%	3.1%	3.0%

2 | Median Salary Structure Adjustments

- The projected median salary structure movement is 2.0% for all employee categories for 2012.
- Projected medians are the same as the 2011 actual and projected medians for all employee categories, with the exception of the actual 2011 median for executives (1.7%).

2a | Salary Structure Movements

U.S. EMPLOYEE CATEGORY	ACTUAL 2010		PROJECTED 2011		ACTUAL 2011		PROJECTED 2012	
	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN
Non-exempt Hourly	1.1%	0.8%	1.9%	2.0%	1.4%	2.0%	1.9%	2.0%
Non-exempt Salaried	1.3%	1.5%	2.0%	2.0%	1.5%	2.0%	1.9%	2.0%
Exempt	1.2%	1.0%	2.0%	2.0%	1.5%	2.0%	1.9%	2.0%
Executive	1.2%	0.0%	2.0%	2.0%	1.4%	1.7%	1.9%	2.0%

3 | Variable Pay

- 2012 projected median variable pay budgets as a percent of total payroll vary by employee category and are as follows:
 - **Non-exempt Hourly and Non-exempt Salaried Employees:** 5.0%.
 - **Exempt Employees:** 12.0%.
 - **Executives:** 35%.
- 2012 median projections are equal to or greater than 2011 median projected percentage of paid variable pay, as well as 2011 projected percentage of budgeted variable pay.

3a | 2010 – 2012 Variable Pay Programs

U.S. EMPLOYEE CATEGORY	2010				2011				2012	
	AVERAGE % BUDGETED		AVERAGE % PAID		AVERAGE % BUDGETED		PROJECTED % PAID		AVERAGE % BUDGETED	
	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN	MEAN	MEDIAN
Non-exempt Hourly	5.3%	5.0%	5.1%	4.5%	5.2%	5.0%	5.0%	4.5%	5.4%	5.0%
Non-exempt Salaried	5.9%	5.0%	6.1%	5.0%	5.9%	5.0%	6.1%	5.0%	5.9%	5.0%
Exempt	12.4%	10.7%	12.6%	11.0%	12.5%	11.0%	12.8%	11.6%	12.7%	12.0%
Executive	36.0%	35.0%	39.0%	35.0%	36.5%	35.0%	38.3%	35.0%	36.5%	35.0%

THE CONFERENCE BOARD

1 | Salary Increase Budgets

- The median 2012 projected salary increase budget is 3.0% for all employee categories (includes companies who reported salary freezes).
- For each of the employee groups, median 2012 forecasts are the same as the actual 2011 increases, whereas the 25th and 75th percentiles of 2012 forecasts are slightly higher for each employee category.

1a | 2011 – 2012 Salary Increase Budgets by Employee Category

U.S. EMPLOYEE CATEGORY	ACTUAL 2011 SALARY INCREASE BUDGET			2012 PROJECTED SALARY INCREASE BUDGET		
	MEDIAN	25TH PERCENTILE	75TH PERCENTILE	MEDIAN	25TH PERCENTILE	75TH PERCENTILE
Non-exempt Hourly	3.0%	2.5%	3.2%	3.0%	3.0%	3.25%
Non-exempt Salaried	3.0%	2.5%	3.0%	3.0%	2.8%	3.25%
Exempt	3.0%	2.5%	3.5%	3.0%	3.0%	3.5%
Executive	3.0%	2.5%	3.36%	3.0%	3.0%	3.5%

2 | Salary Structure Movements

- Projections for 2012 salary structure movements are at a median of 2.0% for all employee groups, up from a projected median of 1.0% (non-exempt hourly, non-exempt salaried, exempt employees) and 0.0% (executives) in 2011. However, projected median salary structure movements are the same as 2011 actual salary structure movements for all employee categories.
- The Conference Board cites current labor market conditions (a slack labor market with increased competition among workers for jobs) as one of main reasons salary structures are expected to see little movement again this year.

2a | 2011 – 2012 Salary Structure Movements by Employee Category

U.S. EMPLOYEE CATEGORY	2011 ACTUAL INCREASE			2012 PROJECTED INCREASE		
	MEDIAN	25TH PERCENTILE	75TH PERCENTILE	MEDIAN	25TH PERCENTILE	75TH PERCENTILE
Non-exempt Hourly	2.0%	0.0%	2.2%	2.0%	1.5%	2.5%
Non-exempt Salaried	2.0%	0.0%	2.35%	2.0%	1.75%	2.5%
Exempt	2.0%	0.0%	2.3%	2.0%	1.5%	2.5%
Executive	2.0%	0.0%	2.3%	2.0%	1.5%	2.5%

3 | Merit Pay Increases

- The actual median merit increase budget was 2.5% for all employee categories in 2010 and rose to 2.9% in 2011. The projected median merit increase budget for 2012 is 3.0%.
- This upward trend in actual/projected merit increase budgets is indicative of the increasing prevalence of pay for performance compensation strategies amongst organizations.
- In fact, while most companies have not budgeted for general increases, both the 2011 actual and 2012 projected overall Merit Pay Increase Budget percentages align with the Salary Increase Budgets.

MERCER

1 | Salary Increase Budgets

- The Projected Salary Increase Budget for 2012 is 2.9%, up from an actual 2.7% in 2011 (includes companies that reported salary freezes).
- Mercer notes that half the organizations that project higher 2012 pay increases than those granted in 2011 cited expected labor shortages and greater competition for workers as the main reasons.

1a | 2011 – 2012 Salary Increase Budgets by Employee Category

U.S. EMPLOYEE CATEGORY	2011 ACTUAL SALARY INCREASE BUDGET		2012 PROJECTED SALARY INCREASE BUDGET	
	AVERAGE INCREASES (EXCLUDING OS)	AVERAGE INCREASES (INCLUDING OS)	AVERAGE INCREASES (EXCLUDING OS)	AVERAGE INCREASES (INCLUDING OS)
All Employees	2.9%	2.7%	3.0%	2.9%
Executives	3.0%	2.8%	3.0%	2.9%
Management	2.9%	2.7%	3.0%	2.9%
Professional	2.8%	2.7%	3.0%	2.9%
Office/Clerical/Technician	2.8%	2.7%	2.9%	2.9%
Trades/Production/Service	2.8%	2.7%	2.9%	2.8%

2 | Pay for Performance

- As compensation budgets remain relatively flat, firms have reasonable concern that they may lose their top talent unless they adopt a pay for performance mentality and reward their top performers accordingly.
- According to Mercer’s survey, the gap between high-performing employees and those in lower performance categories is widening significantly. In particular, Mercer notes the following:

- **The highest-performing employees (8% of the workforce)** are expected to receive average base pay increases of 4.4%.
- **Average performers (54% of the workforce)** are expected to receive average base pay increases of just 2.8%.
- **The lowest performers (2% of the workforce)** are expected to receive average base pay increases of just .4%.



Axiom Consulting Partners is a management consulting firm whose passion is helping companies improve their results by aligning strategy, organization and talent.

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