

2015 – 2016

**CURRENT TRENDS:
COMPENSATION,
INCENTIVES &
BENEFITS**



BEARING SPECIALISTS ASSOCIATION
We build relationships

Presented By:

Harrington & Associates, Inc.

Rewards Consulting Since 1986



PROGRAM OVERVIEW

- Where We've Been & Where We're Going
 - Major Issues In Compensation In 2016
 - The More Things Change, The More They Stay The Same
- Survey Statistics
 - Base Salary Increase Budgets
 - Salary Structure Adjustments
 - Variable Pay



2015 – 2016 WHERE WE'VE BEEN & WHERE WE'RE GOING

- Low Inflation
- Low Unemployment
- High Job Growth

Factors that create **upward pressure** on wages.

Not this time!

We will explore why...



TRUSTED PREDICTORS???

Low Inflation

Low Unemployment

High Job Growth

Minimum Wage Changes



CONSUMER PRICE INDEX (CPI)

- In 2015 the CPI (12 months ending 12/15) **was up only 0.7%**
- The index for all items less food and energy dropped to minus 0.1% December 2015
- Lower energy prices offset higher food prices to stabilize the CPI over the last year.
- Lower energy costs are a significant factor in keeping inflation in check.



2015: UNEMPLOYMENT LOWEST SINCE 2007

- Unemployment currently at 5.0%
 - 12 month average unemployment rate between January 2014 and December 2015 was 5.3%,
 - Unemployment rate remained steady at 5.0% for the last quarter of 2015



2015 vs 2016 JOB GROWTH

- 2015 US Job Growth 5.1% (12 months 10/14 – 9/15)
- 15 states are expected to enjoy job growth from 2.1 to 4.0% in 2016
- The National Average is 1.8%



MINIMUM WAGE

National: 9 states increased their minimum wage in 2015 through automatic adjustments, while 11 states raised their minimums through legislative or ballot changes.

National: 5 states currently have no minimum wage laws.

Higher than National: 29 states and DC currently have minimum wage rates above the Federal minimum of \$7.25 per hour.

Lower than National: 2 states with minimum wage rates below the Federal minimum of \$7.25 per hour.

Often changes are “indexed” or have “follow-on” plans to continue adjusting minimum wage over a period of years.



PREDICTED FLSA CHANGES TO OVERTIME EXEMPTION

- **The minimum salary threshold will rise ... significantly.** The current threshold a worker must hit to be overtime-exempt is \$23,660. The proposed rules seek an increase to \$50,440. And while it may not climb quite that high, it will climb – likely to at least **\$40,000** or so.
- **The threshold will automatically increase.** For the first time ever, the salary threshold will be tied to an automatic-escalator, so it can keep pace with inflation – and so major legislative changes aren't needed every time lawmakers want it to increase.
- **The DOL is looking at making changes to the duties tests.** The DOL hasn't suggested changing the executive, administrative, professional, computer or outside sales duties tests yet. But the agency did specifically ask for comments on whether the tests should be changed and whether they're working to screen out employees who are not bona fide white collar exempt employees.



2015 FINANCIAL MARKET GROWTH

Period		Annualized Growth Rates		
From	To	DJIA	S&P500	NASDAQ
January 2, 2015	January 4, 2016	-2.23%	-2.01%	3.72%
January 4, 2016	January 28, 2016	-7.78%	-5.93%	-8.08%

- Not just the US
- Most countries report marginal or no growth in the size of planned increases
- A few countries are predicting declines in salary growth plans



NOT SUFFICIENT PRESSURE TO PUSH A CHANGE

- Historically inflation, unemployment and job growth have put pressure on the market to raise pay.
 - The US rate of **inflation** for the past 12 months has hovered between -0.2% and 0.2%
 - Unemployment is lower than at any time since 2007
 - Only 9 states show **unemployment** changes at 0 or increasing during 2015
 - Private sector hiring is up 5.5% since 2013.



WHY ARE THE KEY INDICATORS NOT TELLING THE EXPECTED STORY.

- Mismatch of skill sets
- The jobs people are prepared to do are not the jobs being created
- We sent industrial and technical jobs abroad
- Salary budgets lag the market a bit
- Pay growth is stagnant since 2011
- Effects of Health-Care Costs



WHERE WE'VE
BEEN...WHERE WE'RE
GOING



WHERE WE'VE BEEN; WHERE WE'RE GOING

SALARY STRUCTURE ADJUSTMENTS

- ▶ Between 2000 and 2009 salary structure adjustments averaged 2.4% each year.

SALARY STRUCTURE ADJUSTMENTS	
2011	1.5% Average Structure Adjustment
2012	1.7% Average Structure Adjustment
2013	1.9% Average Structure Adjustment
2014	1.9% Average Structure Adjustment
2015	2.0% Average Structure Adjustment
2016*	2.1% Average Structure Adjustment

* Projected



2015: MERIT INCREASES

MERIT INCREASE BUDGETS AS A PERCENT OF PAYROLL	
2011	2.3%
2012	2.6%
2013	2.7%
2014	2.8%
2015*	2.8%
2016**	2.9%

* Lower than projected (2.9%)

**Projected



2015: MERIT INCREASES

- ▶ Employers continue to focus on pay-for-performance

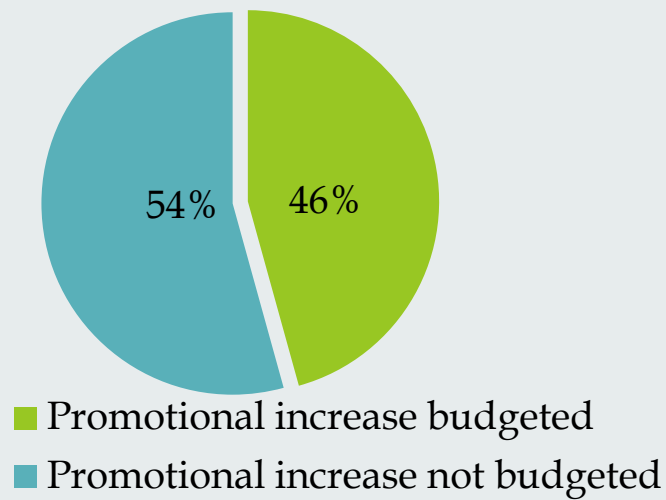
TRENDS IN MERIT INCREASES LEVELS			
Year	Average Percentage Increase Given <u>Top Performers</u>	Average Percentage Increase Given <u>Middle Performers</u>	Percentage Difference Between Increases Given Top Performers vs. Middle Performers
2012	3.9%	2.7%	50%
2013	4.0%	2.7%	48%
2014	4.0%	2.7%	48%
2015*	4.1%	2.8%	46%

- ▶ Lowest performers consistently get an average of 0.6% though the median is 0%

*Estimated



2015: PROMOTIONAL INCREASES



- Of companies that do not budget for promotional increases:
 - 66% pay for promotional increases with savings from vacancies and other payroll savings
 - 24% pay from merit budget



VARIABLE PAY

- Organizational success continues to be the largest component of measures for variable pay plans
- Employers are not shifting from their continued belief in the value of variable pay with 83% reporting they use it. (Down slightly from 84% in 2014)
- A strong commitment remains to pay for performance with the usage of variable pay plan being used by an average of 80% of employers since 2006.
- Employers are paying more attention to retention as the economy improves.



SURVEY STATISTICS



BUDGET INCREASES



SALARY BUDGET INCREASES BY INDUSTRY - NATIONAL

MAJOR INDUSTRY GROUPING (Mean)	2014 Actual	2015 Projected	2015 Actual	2016 Projected
Finance & Insurance	3.0%	3.1%	3.2%	3.2%
Manufacturing	2.9%	3.1%	3.0%	3.1%
Public Admin	2.7%	2.5%	2.7%	2.7%
Retail	2.9%	3.1%	3.0%	3.0%
Other Service	3.2%	3.1%	3.2%	3.2%
Transportation	3.2%	3.2%	2.9%	3.0%
Utilities	3.1%	3.1%	3.0%	3.0%
Wholesale	2.8%	3.2%	2.8%	3.0%
Health Care & Social Assist	2.5%	2.7%	2.7%	2.9%
Construction	3.7%	3.5%	2.9%	3.0%
Accommodation & Food Service	3.0%	2.9%	3.3%	3.4%



SALARY BUDGET INCREASES BY EMPLOYMENT SIZE - NATIONAL

BY ORGANIZATION SIZE (Mean)	2014 Actual	2015 Projected	2015 Actual	2016 Projected
1 - 499 Employees	3.2%	3.3%	3.3%	3.3%
500 - 2,499 Employees	3.1%	3.1%	3.1%	3.2%
2,500 - 9,999 Employees	2.9%	3.0%	2.9%	3.0%
10,000 - 19,999 Employees	2.9%	3.0%	2.8%	3.0%
20,000+ Employees	2.7%	2.8%	2.9%	3.0%



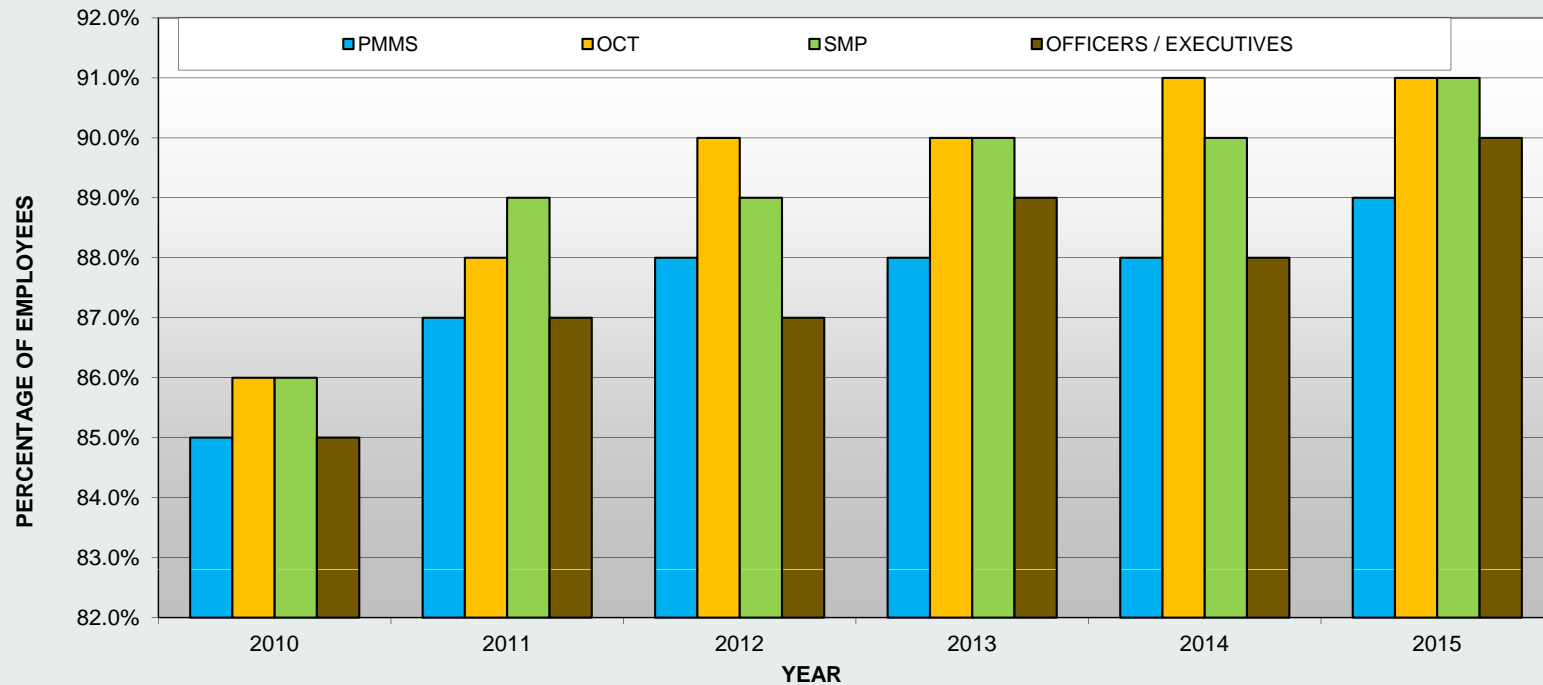
SALARY BUDGET INCREASE BY REVENUE - NATIONAL

BY REVENUE	2014 Actual	2015 Projected	2015 Actual	2016 Projected
Up to \$30 Mill	3.1%	3.2%	3.2%	3.4%
More than \$30 Mill to \$100 Mill	3.1%	3.2%	3.2%	3.3%
More than \$100 Mill to \$300 Mill	2.9%	3.0%	3.0%	3.1%
More than \$300 Mill to \$600 Mill	3.1%	3.2%	3.1%	3.2%
More than \$600 Mill to \$1 Billion	3.0%	3.0%	3.0%	3.0%
More than \$1 Billion to \$3 Billion	3.0%	3.1%	2.9%	3.0%
More than \$3 Billion to \$5 Billion	2.9%	3.0%	2.8%	2.9%
More than \$5 Billion to \$8 Billion	2.8%	3.0%	2.9%	3.0%
More than \$8 Billion to \$10 Billion	2.8%	3.0%	3.2%	3.3%
More than \$10 Billion	3.0%	3.0%	3.0%	3.0%



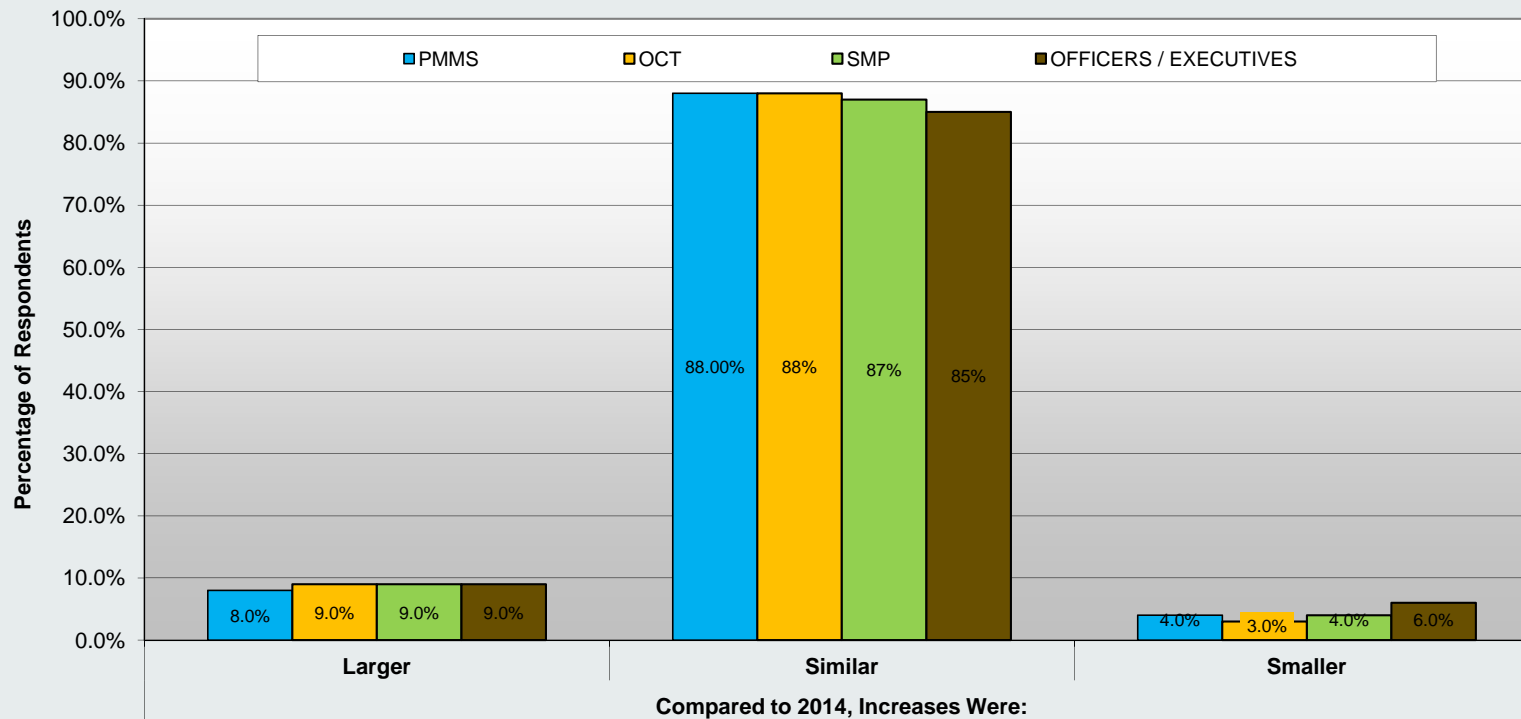
PERCENT OF EMPLOYEES RECEIVING INCREASES IN 2015

PERCENTAGE OF EMPLOYEES RECEIVING A BASE SALARY INCREASE BY EMPLOYEE CATEGORY



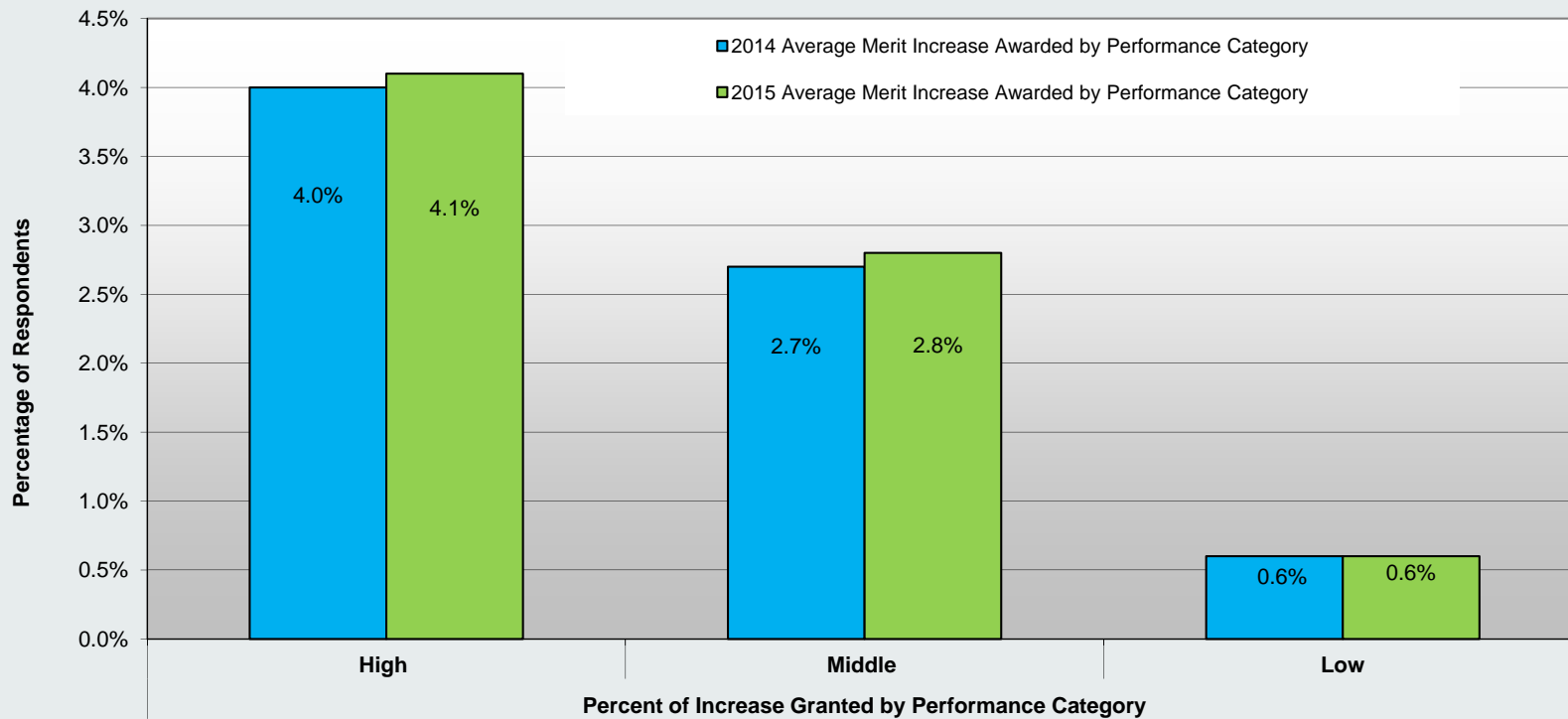
YEAR TO YEAR COMPARISON OF PERCENT OF EMPLOYEES TO RECEIVE PAY INCREASES

YEAR TO YEAR COMPARISON OF INCREASES LEVELS BY EMPLOYEE CATEGORY



YEAR TO YEAR COMPARISON OF PERCENTAGE OF EMPLOYEES BY PERFORMANCE RATING

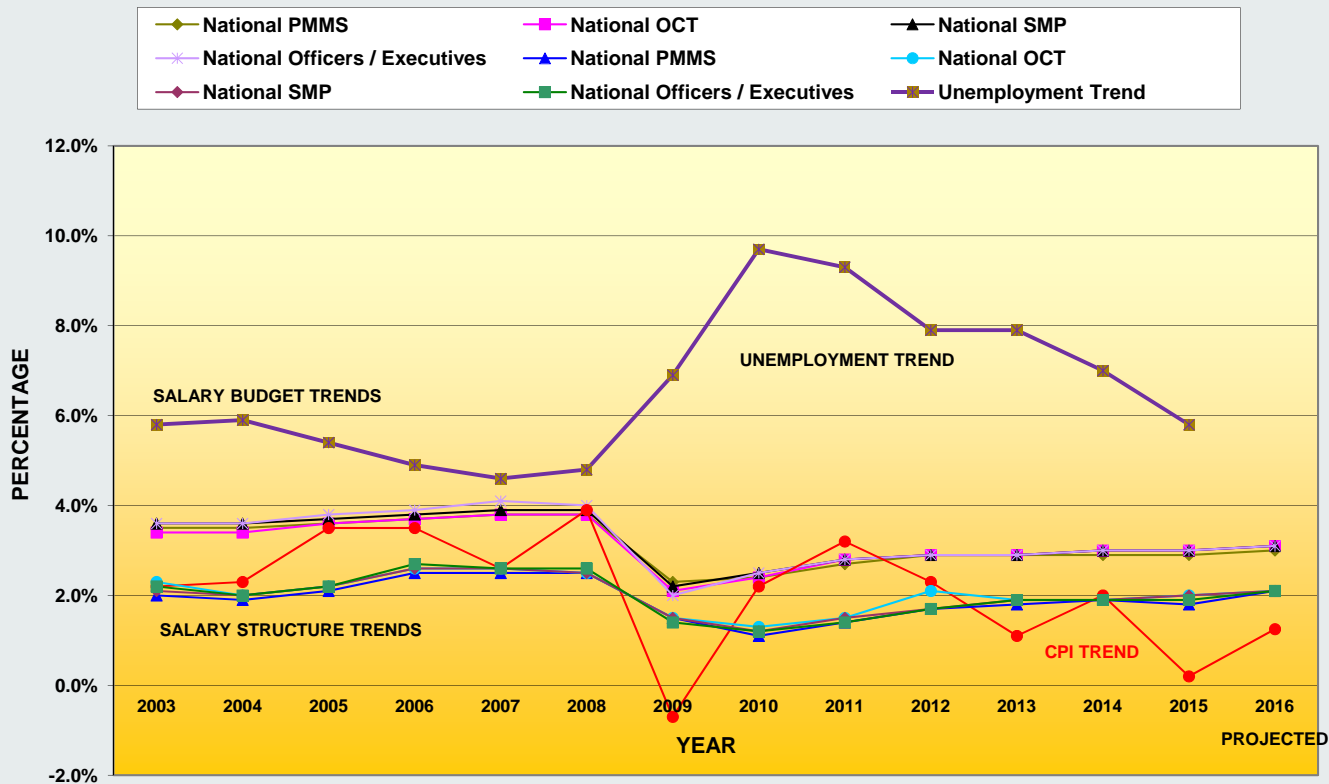
YEAR TO YEAR COMPARISON OF PERCENTAGE OF INCREASE GRANTED BY PERFORMANCE LEVEL



RANGE STRUCTURE ADJUSTMENTS



15 YEAR PERSPECTIVE! SALARY & STRUCTURE INCREASES



SALARY BUDGETS VS. SALARY STRUCTURES

2015 Budget Actual
2.9% to 3.0%

2015 Salary Structure Adj.
1.8% to 2.0%

2016 Budget Projected
3.0% to 3.1%

2016 Salary Structure Adj.
Proposed
2.1%



VARIABLE PAY





AVERAGE PERCENT OF PAY BUDGETED FOR VARIABLE PAY IN 2014-2016

	PMMS	OCT	EXEMPT	OFFICERS & EXECUTIVES
2014				
Average percent budgeted	5.3%	6.1%	12.6%	38.2%
Average percent paid	5.1%	5.8%	12.9%	39.2%
2015				
Average percent budgeted	5.3%	6.0%	12.6%	38.3%
Projected percent paid	5.1%	6.0%	13.0%	38.6%
2016				
Projected percent budgeted	5.4%	6.1%	12.7%	38.1%



REMINDER!

MAKING VARIABLE PAY WORK FOR YOU

- Create meaningful and measureable goals that are aligned with business strategy
- Variable pay plans are most successful when devised to respond to the level of the positions eligible and to spread across the major priorities of the organization's short-term business strategy
- Ensure clear and effective communication with employees
- Decide how results will be measured and be specific
- Ensure employees understand the expectations and measures
- Communicate performance results throughout the year



BENEFITS BRIEF(LY)



New Pending Legislation

- The American Savings Act, introduced by Sen. Jeff Merkley (D-Ore.), would give every worker without access to a retirement savings plan through their employer the ability to save for retirement through their own, personal retirement savings account (called the American Savings Account) – with investments modeled on the TSP (Federal Government's Thrift Savings Plan).



Updates on Benefits

- **Sticking with it:** Only 7% of employers with between 50 and 499 employees and 5% of those with more than 500 employees indicate that they are likely to stop offering health care benefits to employees within the next five years.
- **Lowering Costs:** 30% of all large employers (500+ employees) are now offering “Telemedicine” to their employees for non-acute health care as a low-cost alternative to visits to a physician’s office. An additional 35% say they are seriously considering the offering.
- **Coverage gap for moms?:** Employers who don’t offer maternity coverage to moms on covered on their parent’s plan may want to ensure that the language in the plan clearly states these facts.



Updates on Benefits

- **Critical Illness Coverage:** A benefit now being offered to employees by about 45% of large employers who have scaled back their traditional health insurance offerings, as a companion feature to high-deductible plans that are fast increasing enrollment.
- **Gender Confirmation Surgery Coverage:** 11% of large employers are now offering this coverage as they increasingly respond to workplace diversity, according to Mercer.
- **ACA Reporting:** The ACA's upcoming deadlines are now delayed for reporting minimum essential coverage and employer shared responsibility; the new due dates give employers nearly two extra months -- until March 31 -- to distribute information statements to individuals and three extra months -- until June 30 for many employers -- to submit transmittals to IRS with related data.



Hot Off The Presses!!!!

- Proposed regulations are going to be issued by the EEOC on **today** that will expand the EEO-1 report to **include wage data** for employees so that the Office of Federal Contract Compliance Programs (OFCCP) can monitor for pay discrepancies under the Equal Pay Act.
- This may be the time to ensure that your “house is in order” with respect to how you compensate employees.



This Place Drives Me Nuts!

- Stress Reduction Programs
 - 78% of employers responding said stress is an issue among employees
 - Employers seek long-term solutions rather than quick fix
 - Augmenting wellness programs and EAP programs with resilience building and mindfulness training programs
 - Determine the root cause of stress
 - Alter the way they view stressors
 - 22% of employers offering stress reduction programs
 - 28% planning to implement new programs
 - Computer based diagnostic and individualized solutions offering



WE'RE HERE WHEN YOU NEED US...

Thank you

