

HR Update

Fourth Quarter 2009

News and information for better people results

What You Need to Know About Compensation Trends for 2009 - 2010

Almost everyone agrees that 2009 has been a landmark year of economic challenges and uncertainties. Many organizations have experienced unprecedented staffing and compensation reductions related to cost control considerations. These challenges and associated opportunities are causing a heightened sense of anxiety over salary budget planning for many organizations. Multiple surveys report that budgeted and/or implemented 2009 salary increases dropped to the lowest level since official tracking began more than 30 years ago. Actual 2009 salary increases will average 1.9 to 2.2 percent across all industries and employee categories (including zero percent responses). Across employee groups, officers and executives experienced the smallest increases averaging around 2 percent. According to our research and consensus of most leading human capital authorities, companies will begin to rally in 2010 and start migrating towards what some may call a “new normal”.

Salary Increase Budgets

For most organizations, people costs (i.e., salaries, benefits, retirement) represent one of the most significant bottom line expenses. Given recent economic changes and employer budget limitations, virtually all organizations were forced to use a variety of cost containment strategies in order to effectively manage capital expenditures. Historically, only a handful of organizations (about 2 percent) report freezing salaries in a typical year. However, in 2009, this percent drastically increased to 25 - 40+ percent depending on employee category (e.g., nonexempt, executive). Certain industries were forced to reduce headcount and freeze salaries more aggressively than others (e.g., automotive, retail, construction). The outlook for 2010 is more optimistic given that only 13 percent of organizations anticipate freezing salaries.

Overall, organizations are projecting very modest salary increase budgets for 2010. Salary budget increase projections for 2010 are consistent across employee levels. Budgeted salary increases are projected to average 2.7 percent across all industries and employee categories. The table below illustrates actual 2009 and 2010 budget projections by job level:

Salary Budget Increases: National Data/All Industries

	Nonexempt	Exempt	Executive	All Groups
2009 Actual Salary Increases	2.2%	2.1%	1.9%	2.0%
2010 Projected Salary Increases	2.7%	2.7%	2.7%	2.7%

*Note: salary budget figures include those organizations who reported zero.

As illustrated in the table, salary increase budget projections are fairly consistent across employee categories. However, projections do vary by industry. Some industries will rebound more quickly in 2010, while other industries will not be as resilient and continue to lag the market. While not an exhaustive list, the table below highlights some key industries lagging the market with below average projected increases, those leading the market with above average increases and those industries projecting increases in alignment with overall market.

Projected Salary Budget Increases by Industry (2010)

Lagging Market	At Market	Leading Market
Agriculture/Forestry/Fishing	Finance/Insurance	Construction
Education	Health Care	Mining
Public Administration	Manufacturing	Technical/Professional/R&D
Transportation	Retail/Wholesale Trade	Utilities/Oil & Gas

Salary Structure Adjustments

Organizations with a formal salary structure usually make annual salary range adjustments to reflect market movement. Some organizations refer to this as “inflation proofing” their pay program. Typically, the midpoints of each salary range are all increased by the same percentage. Structure movement projections for 2010 average 1.8 percent. This is a slight increase from the 2009 actual budget of 1.5 percent, but is still below recent historical levels of around 2.8 percent.

Other Trends

Given limited capital, organizations have begun to expand their use of “pay for performance” models which differentiate individual pay increases based on performance level. During tough economic times, it’s even more critical to retain top talent. On average, within organizations that provided salary increases this past year, top performers received 3.4 percent, while low performers received 1.7 percent. Utilizing performance-based decisions provides a mechanism to effectively differentiate performance and distribute limited dollars to employees critical to ongoing organization success.

In the past few years, the use of variable pay has become more widespread across many types of organizations and levels of positions for a number of reasons, including:

Compensation Trends, continued on page 3

Reviewing Your Employee Handbook - Updates Your Company Should Consider

The past year has brought about a wave of changes in the employment arena. The expectations and requirements placed upon employers have continued to grow in virtually every area of employment including compensation, benefits and paid leave, among others. With these changes, it is important to review your current employee handbook and revise it with these new policies.

While most organizations have an employee handbook, far too many have let their policy statements remain untouched or have not added in some key areas. We would like to suggest the following areas which likely need to be updated or considered for inclusion:

- **Family and Medical Leave Act (FMLA)**
In early 2009, the FMLA regulations changes affected eligibility, leave-request procedures and notice requirements, among other things. There are also new provisions for employees with family members who are called to active duty or who have returned from military duty and are being treated for combat related injuries. These changes should be added to the employee handbook and policy manuals for those organizations that are required to offer FMLA.
- **Americans with Disabilities Act (ADA)**
While this may be addressed in an EEO statement, there are often good reasons for further clarification in a separate policy. This can serve as a firm and proactive reminder that discrimination against those with disabilities will not be accepted.
- **Safe Harbor Compensation**
One of the most litigated areas in employment law has been in the area of FLSA claims. One protection against certain claims could be through a “safe harbor” policy that may preserve an employee’s exempt status due to certain circumstances. The Department of Labor has rules that state a company’s risk is reduced if they:
 - have a clearly communicated policy prohibiting improper deductions which incorporates a complaint process;
 - make reimbursement to employees for any improper deductions; and
 - show a good faith commitment to comply going forward.
- **Adverse Weather**
This is becoming of much greater interest recently as employees are monitoring weather conditions more frequently to determine their travel plans for work. Guidance regarding when the business will close and how weather-related absences or shutdowns will affect compensation can alleviate a lot of questions and aggravation. This statement of an employer’s

policy should provide clarification for both exempt and non-exempt employees.

- **Blogging**
The use of blogs has exploded during the past few years. Guidance regarding the limits of sharing inappropriate or confidential information should be provided in updated policy statements along with the liability risks associated with this communication medium.
- **Social Networking**
Similar to blogs, the use of social networking sites tools like Facebook, LinkedIn and Twitter have increased as well. Although most of these may be used outside of work, there are still important considerations that should be addressed in a handbook policy, including what is prohibited or the consequences of violating this policy. The policy should address such issues as:
 - Limits on posting confidential or proprietary company information
 - Situations surrounding employees making disparaging, threatening or harassing remarks about colleagues or the company
 - Employees posting inappropriate photographs on their site
- **Electronic Communications**
There is still confusion and cavalier actions regarding the use of company e-mail, instant messaging and internet. A policy needs to address these constantly changing technologies and what is acceptable from a business and personal use standpoint. With the increased use of cell phones and PDA’s, this policy may also need attention to address the implications of using these newer forms of communication.

After changes are made, it is important to share the highlights with employees and have each acknowledge receipt of any new employee handbook. This is essential and may include a statement that reiterates the at-will nature of their employment. If the handbook is part of a company intranet site, the same principles apply.

While the update or rollout of a new employee handbook may not always seem like a high priority, it is something that can bring some peace of mind. The importance of providing clear answers or paths to resolution has never been more important. Knowing you have policies in place to reduce risk or potential problems can provide much more time to devote to the critical HR issues that produce company growth and profitability.

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Economic Optimism Affects Human Resources in the Manufacturing Industry

Trend reports and surveys are pointing to an economic recovery in late 2009 or in 2010. The Bureau of Labor Statistics (BLS) recently reported that the average monthly job loss from May to July 2009 was nearly half of the monthly job loss that occurred Nov. 2008 to April 2009 (a monthly reduction from 645,000 to 331,000). The manufacturing industry has arguably been one of the hardest hit sectors with employment declining by two million since the recession began, according to the BLS. However, all indicators point to a recovery for this hard hit industry in the next six to twelve months. In a recent survey conducted by RSM McGladrey, only 9 percent of participating manufacturing organizations consider their company to be “thriving and growing”; however, 90 percent anticipate an economic rebound in 2009 or 2010 (46 percent in 2009, 44 percent in 2010).

According to the [RSM McGladrey 2009 Manufacturing and Wholesale Distribution National Survey](#), the number of organizations planning employee reductions doubled between 2008 and 2009, to 52 percent. Approximately half of the companies making workforce changes reduced staff by at least 10 percent, with the other half reducing headcount by 1 to 9 percent. Continuing with the trend of optimism, this industry shows signs of recovery in the hiring area. Only 11 percent of survey participants are considering workforce reductions in 2010, while 44 percent anticipate adding staff. Although the U.S.

economy greatly affected participants’ domestic workforce in 2009, non-U.S. staff was also affected with just over 25 percent of participants reducing their workforce in non-U.S. operations.

While no sub-sectors within the manufacturing industry have escaped the impact of the recession, a few industry segments have fared better than their counterparts; Medical Device and Food and Beverage manufacturing are indicating they will add staff in 2009.

In general, sales and technical staff top the list of positions that organizations still need despite economic conditions. Engineers are in demand by 37 percent of organizations (listed as an “urgent need” or “need”). This demand for skilled workers in light of current unemployment levels illustrates the disconnect between skills needed and skills available in the current workforce. As the economy recovers and more organizations resume hiring, the demand for employees with these technical skills will increase.

Strategic organizations look beyond current conditions and anticipate what they will need to do to meet future challenges. As the economy begins its recovery, now is an opportune time to review hiring needs, compensation levels, and other important Human Resources initiatives in order to retain your current employees and hire the skills necessary for a successful future.

Compensation Trends, continued from page 1

- Provides an opportunity to reduce fixed costs
- Allows considerable differentiation of award opportunities based on individual, team, and/or organization performance
- When properly designed can motivate participants to focus their attention and efforts on critical organizational initiatives, resulting in improved financial performance

Variable pay programs allow organizations to maintain market competitiveness and are utilized by approximately three-fourths of organizations, most commonly at the executive level. Surprisingly, projected payouts for 2009 only slightly lagged original projections. Variable pay program budget projections for 2010 are higher than 2009 across all employee categories.

Multi-year variable pay (long-term incentive or LTIP) programs have also become more prevalent in the new economy. Long-standing practices within larger corporations, LTIPs are becoming a more prevalent fixture within the executive and management ranks of middle market and growth companies. LTIPs allow a great deal of leverage over controlling the relationship between performance and pay.

Planning Implications

Nobody knows when, or if, we will return to a “normal” state. Consider preparing for multiple scenarios which

include strategy, financial considerations and talent needs. Coupled with available benchmark and trend information (e.g., industry, geography) these perspectives provide a balance within the decision making process.

The following 2010 Salary Planning Checklist may be useful as companies look ahead:

- Align compensation plans with strategic objectives
- Understand market trends, competitive pressures and organization constraints to determine appropriate salary increase budgets and structure movement
- Consider how variable compensation programs can enhance individual and organization performance and review regularly

The data presented in this report were compiled and reported based on anecdotal client experiences and aggregate data from various RSM McGladrey data sources, 2009-2010 World at Work Salary Budget Survey, and 2009-2010 Mercer US Compensation Planning Survey.

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Inside this issue:

- What You Need to Know About Compensation Trends For 2009-2010
- Reviewing Your Employee Handbook — Updates Your Company Should Consider
- Economic Optimism Affects Human Resources in the Manufacturing Industry

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