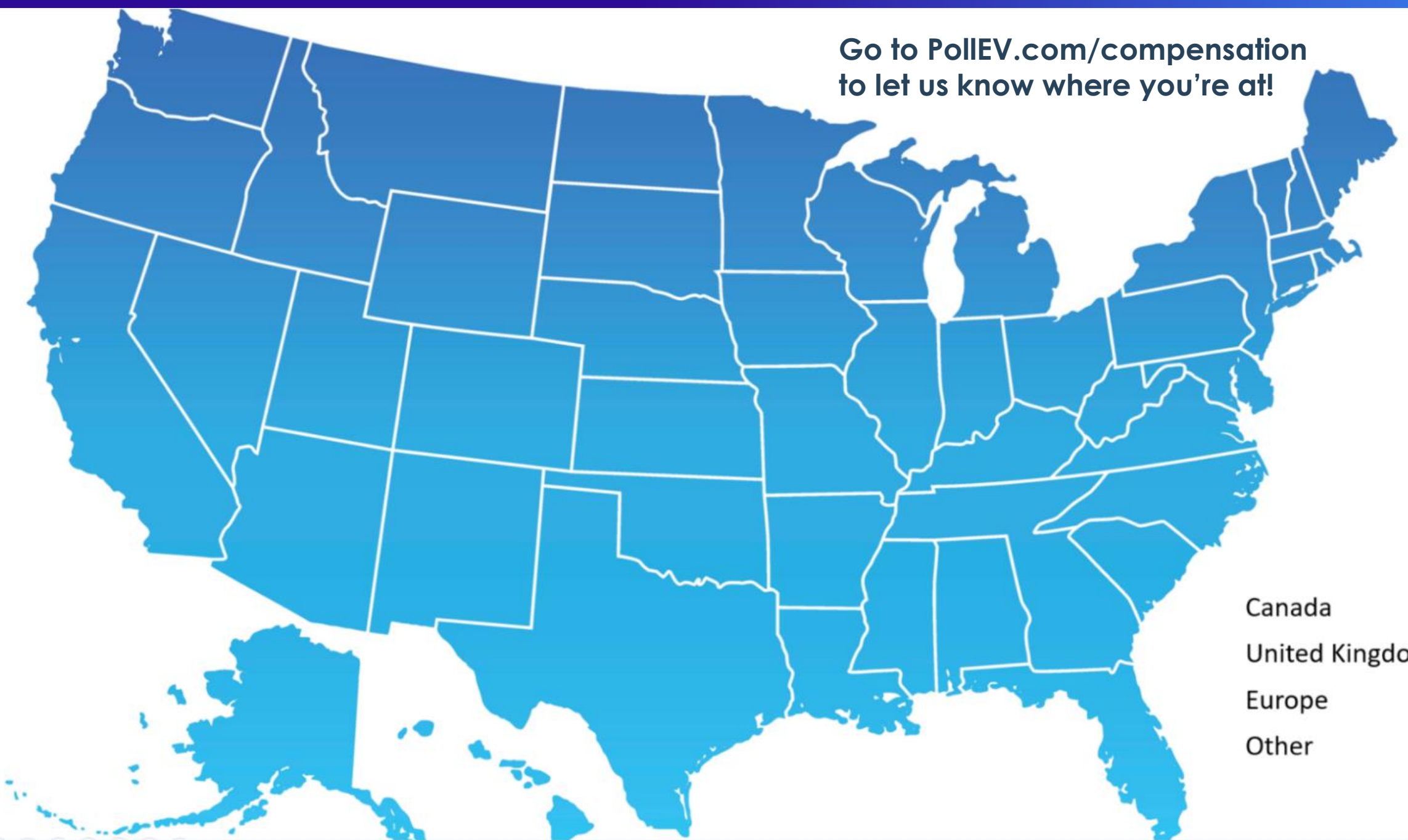


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Canada  
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# The Pay Compression Session

Tuesday, February 15th

# Today's Presenters



**Lori Lansing**

Senior Compensation Analyst



**Morgan McCaughey**

CX Operations Manager

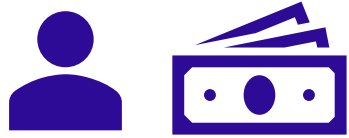
# Today's Agenda

1. What is Pay Compression?
2. Current Pay Compression Trends
3. How to Spot Pay Compression
4. How to Act on Pay Compression



# What Is Pay Compression?

# Pay Compression 101



Manager



Employees



New hire

## Pay, wage, or salary compression is when...

- The pay of one or more employees is very close to the pay of more experienced employees in the same job
- Employees in lower-level jobs are paid almost as much as their colleagues in higher level jobs, such as with managers and direct reports

## Salary inversion is when...

- Newer staff make more than experienced staff

# CAUSES OF PAY COMPRESSION



**Hot Jobs And Skills**



**Competition**



**Demand Exceeds Supply**



**Broad Pay Grades**



**Fast Company Growth**



**Stale Or Outdated Data**

# FACTORS CONTRIBUTING TO INCREASED PAY COMPRESSION



Competitive Hiring



Inflation



Remote Work



Increasing minimum wage



War for Talent



Hot market

**92%** of organizations are looking to give base pay increases in 2022.



# Current Pay Compression Trends

# Wage and Labor Market Trends

Key market indicators:

- Quit rates **increased** [*The Great Resignation*]
- Unemployment rate **decreasing**
- Inflation **increasing**

The **Payscale Index [Q4 2021]** shows

- *Nominal wages* grew by **1.0%** quarter over quarter (Q/Q) and **3.3%** year over year (Y/Y).
- Due to a rise in inflation, *real wages* dipped **-0.5%** quarter over quarter (Q/Q) and **-1.3%** year over year (Y/Y).

# Wage and Labor Market Trends

According to **Payscale's 2022 Compensation Best Practices Report**

- **76%** of organizations have experienced **labor shortages** or difficulty attracting talent in 2021.
- **85%** of organizations are worried about **inflation**

Percent of organizations that participated in giving base pay increases

In 2022, more organizations are giving **pay increases**:

**92%**

Planned  
for 2022

**85%**

Gave pay  
increases in 2021

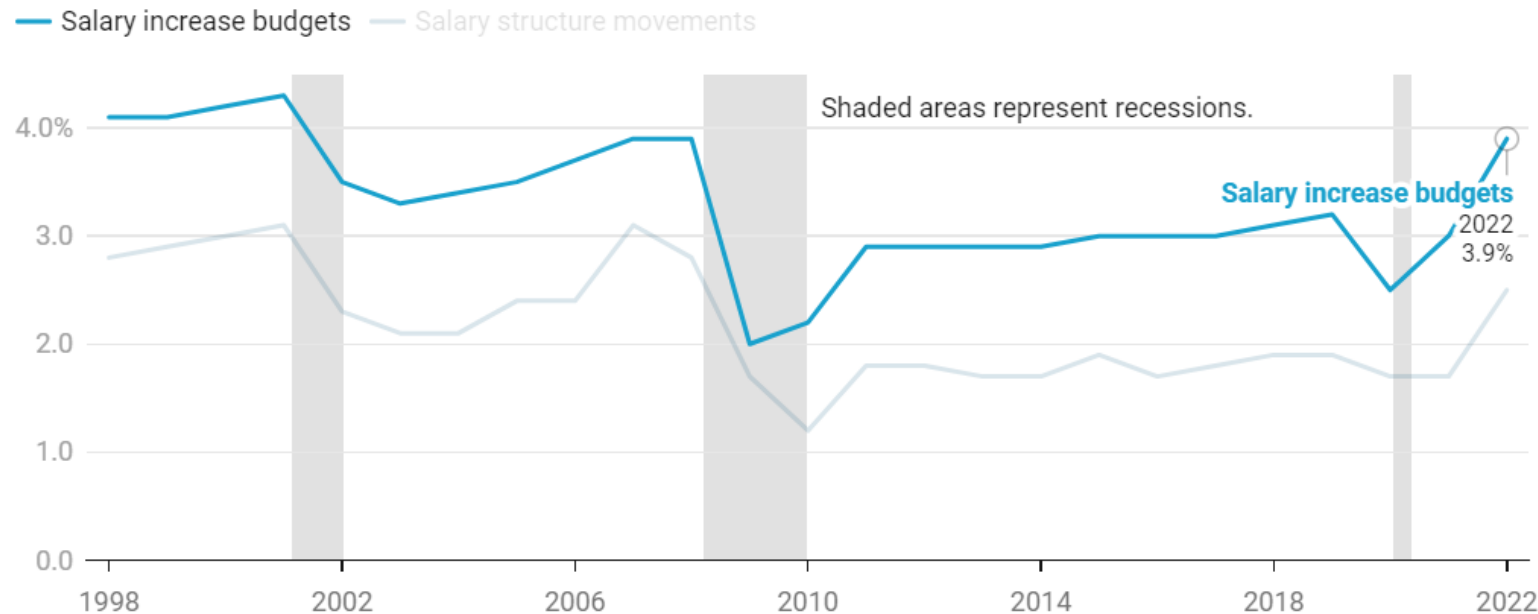
**64%**

Gave pay  
increases in 2020

*Payscale's 2022 Compensation Best Practices Report*

# State of Pay Compression

SHRM now estimates that salary increase budgets for 2022 will be **3.9 percent**, which would be the **highest growth rate** since 2008. This means market adjustments are necessary.



Note: The salary measures in the chart are an average of four specific groups of workers: nonexempt hourly (nonunion), nonexempt salaried, exempt and executive.

Source: The Conference Board. • [Download image](#) • Created with [Datawrapper](#)

“It is likely that severe labor shortages will continue through 2022. During that time, overall wage growth is likely to remain well above **4 percent**. Wages for new hires and workers in blue-collar and manual services jobs will grow faster than average.”

Gad Levanon

VP of labor markets

The Conference Board

<https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/revised-2022-salary-increase-budgets.aspx>

# What is the primary factor driving compression at your company?

**Top**

# How to Spot Pay Compression

# MEET JARED



Nursing Manager at AAA Hospital



12 years tenure



Highly knowledgeable and experienced



Runs a team of 3 that is understaffed

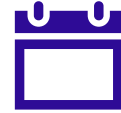
## Needs

- Hiring new nurse
- To feel he's compensated fairly

# MEET REBECCA



HR Generalist at AAA Hospital



6 years tenure



Responsible for a variety of HR tasks,  
not just compensation



Working through pandemic,  
great reevaluation

## Needs

- Support teams through hiring
- Maintain an equitable pay structure



# JARED'S TEAM TODAY



\$20.33/hr.  
Manager



\$14/hr.  
Jr.



\$15.4/hr.



\$16.94/hr.  
Specialized

10%

10%

20%

## Historical Cause of Pay Compression:

*New hires in high demand skills.*

# JARED'S TEAM TOMORROW



\$20.33/hr.  
Manager

\$19/hr.  
Nurse



\$16.94/hr.  
Specialized



\$15.4/hr.



\$14/hr.  
Jr.

10%

10%

12%

7%

Difference  
"compressed" from 20%  
to 7%

## Historical Cause of Pay Compression:

*Increasing minimum wage.*

# JARED'S TEAM 3 MONTHS FROM NOW



\$20.33/hr.  
Manager

\$19/hr.  
Nurse



\$16.94/hr.  
Specialized



\$15.4/hr.



\$14/hr.  
Jr.

10%

10%

12%

7%

## Historical Cause of Pay Compression:

*Increasing minimum wage.*

## JARED'S TEAM 3 MONTHS FROM NOW



\$20.33/hr.  
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Specialized

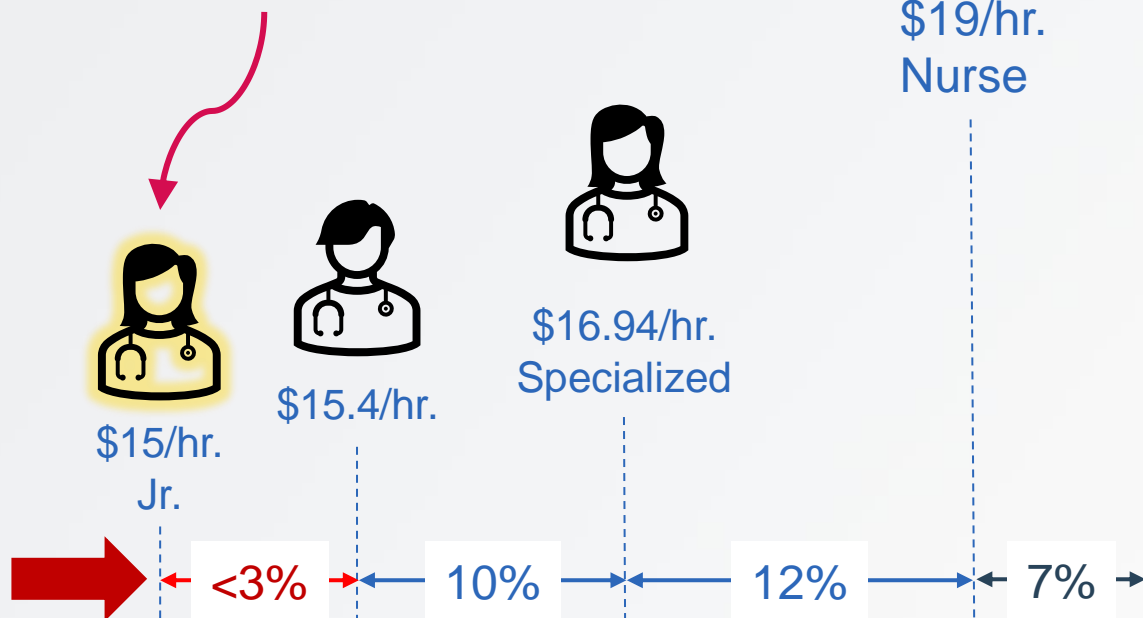


\$15.4/hr.



\$15/hr.  
Jr.

**“Compressed” from  
10% to less than 3%**



### OTHER FACTORS THAT ACT LIKE MINIMUM WAGE INCREASES:

- Increasing unemployment benefits
- High demand for entry level workers
- Employees hesitant to return to work

# COMPRESSION? WHY NOW?



\$20.33/hr.  
Manager



\$19/hr.  
Nurse



\$16.94/hr.  
Specialized



\$15.4/hr.



\$15/hr.  
Jr.



10%

12%



## EXTERNAL CAUSES

- Demand exceeds supply in the market

## INTERNAL CAUSES

- Using outdated market data
- Inconsistent pay practices or broad pay grades

# How to Act on Pay Compression

## Pay compression can lead to many challenges...

Increased turnover

Employee disengagement

Reduced revenue

Perception (or reality) of pay inequalities

Negatively impact recruiting efforts

In extreme cases: lawsuits

# What tactics has your company used to combat pay compression?

**Top**



# How to set yourself up to tackle pay compression

## Step 1

Communicate the problem

## Step 3

Assess the company and market

## Step 2

Tie to business goals

## Step 4


Provide strategic go forward proposal

# Step 1: Communicate the problem



- Who are the stakeholders? What do they care about?
- How can you communicate effectively across different levels- execs, leadership, managers, employees
- Do you have supporting data/documentation (i.e. range penetration)

# Step 1: Communicate the problem

 **PayScale**  
HUMAN CAPITAL


Insight Lab


Dashboard


Your Workforce ▾


Market Data ▾


Analytics ▾

 Search

 Admin








Report Library > [Impact Analysis w Hrly Support](#)


Parameters


Data Elements


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**Report Results**


 Charts


 Sorting and Breaking


 Wrap Columns

 Autosize Columns

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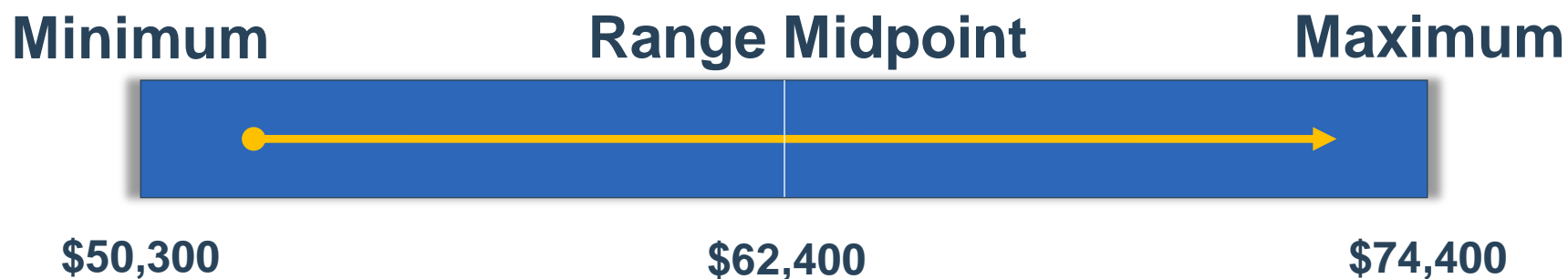
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 Show Search

Annualized FTE Base Pay	Hourly Rate	FTE	Minimum	Midpoint	Maximum	Annualized Min	Annualized Mid	Annualized Max	Annual Compa-Ratio	Annual Range Penetration
equals ▾	equals ▾	equals ▾	equals ▾	equals ▾	equals ▾	equals ▾	equals ▾	equals ▾	equals ▾	equals ▾
100,000.00		1.00	57,500.00	70,700.00	83,900.00	57,500.00	70,700.00	83,900.00	1.41	1.61
90,191.16		1.00	57,500.00	70,700.00	83,900.00	57,500.00	70,700.00	83,900.00	1.28	1.24
72,345.00		1.00	50,400.00	61,500.00	72,600.00	50,400.00	61,500.00	72,600.00	1.18	0.99
62,540.00		1.00	44,200.00	53,500.00	62,800.00	44,200.00	53,500.00	62,800.00	1.17	0.99
156,256.72		1.00	102,300.00	129,900.00	157,500.00	102,300.00	129,900.00	157,500.00	1.20	0.98
124,539.40		1.00	85,400.00	107,600.00	129,800.00	85,400.00	107,600.00	129,800.00	1.16	0.88

# Using Pay Ranges



## Range Minimum:

- Employees new to the role
- Employees with lower performance or proficiency

## Range Midpoint:

- Employees proficient in their role
- Employees with good performance
- Aligns with the market

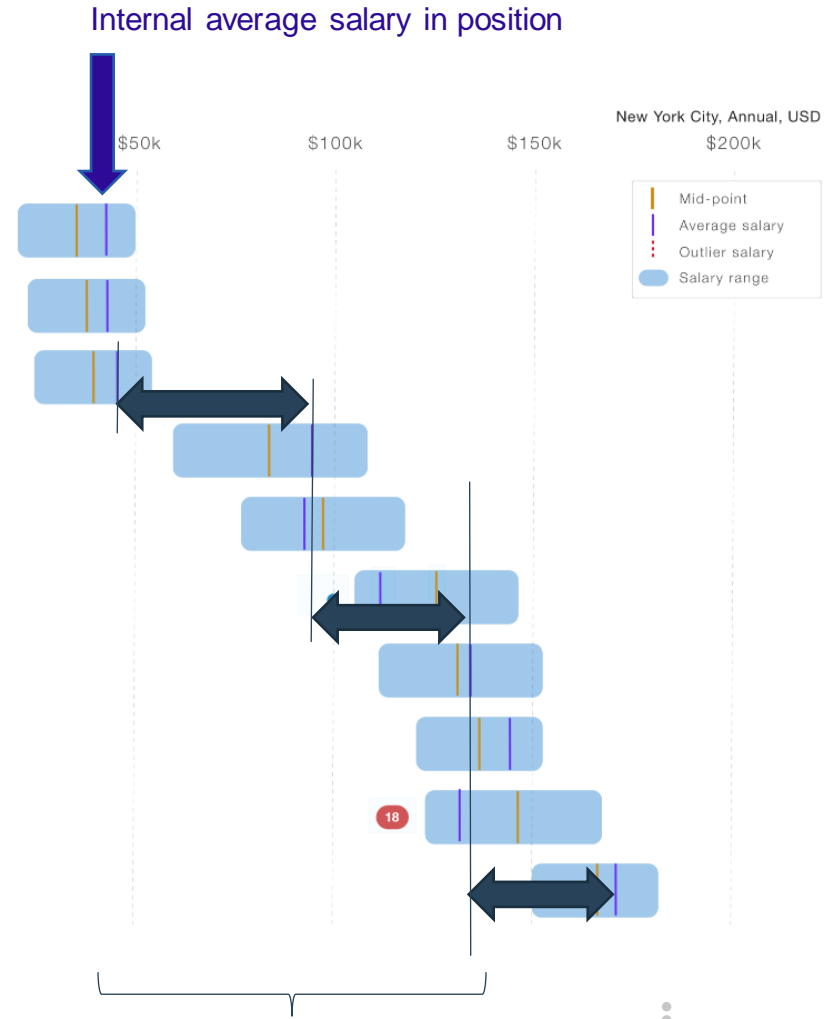
## Range Maximum:

- Employees with high performance
- Employees with demonstrated high proficiency and experience

# Creating a visualization at the job family level

Key Job Family  
Anchor Jobs  
Fast Moving

Job Ranges						
TITLE	MIN.	MID.	MAX.	# EE	MRP	GRADE
Associate Recruiter	\$29,000	\$39,500	\$50,000	3	\$39,500	PRO1
Associate Benfits Spec.	\$30,000	\$41,500	\$53,000	3	\$41,500	PRO1
Associate H.R. Generalist	\$35,000	\$46,500	\$58,000	3	\$46,500	PRO1
Compensation Specialist	\$62,000	\$86,000	\$110,000	3	\$86,000	PRO1
Internal Comm. Specialist	\$85,000	\$102,500	\$120,000	3	\$102,500	PRO1
Recruiter	\$115,000	\$130,000	\$145,000	3	\$130,000	PRO1
Compensation Manager	\$119,000	\$135,000	\$152,000	3	\$135,000	PRO1
Internal Comm. Manager	\$120,000	\$137,500	\$155,000	3	\$137,500	PRO1
Relocation Consultant	\$122,000	\$146,000	\$170,000	3	\$146,000	PRO1
H.R. Manager	\$150,000	\$175,000	\$200,000	3	\$175,000	PRO1



Evaluate Progression

# Creating a visualization at the employee level

Recruiter

\$115,000

\$130,000

\$145,000

8

\$130,000

PRO3

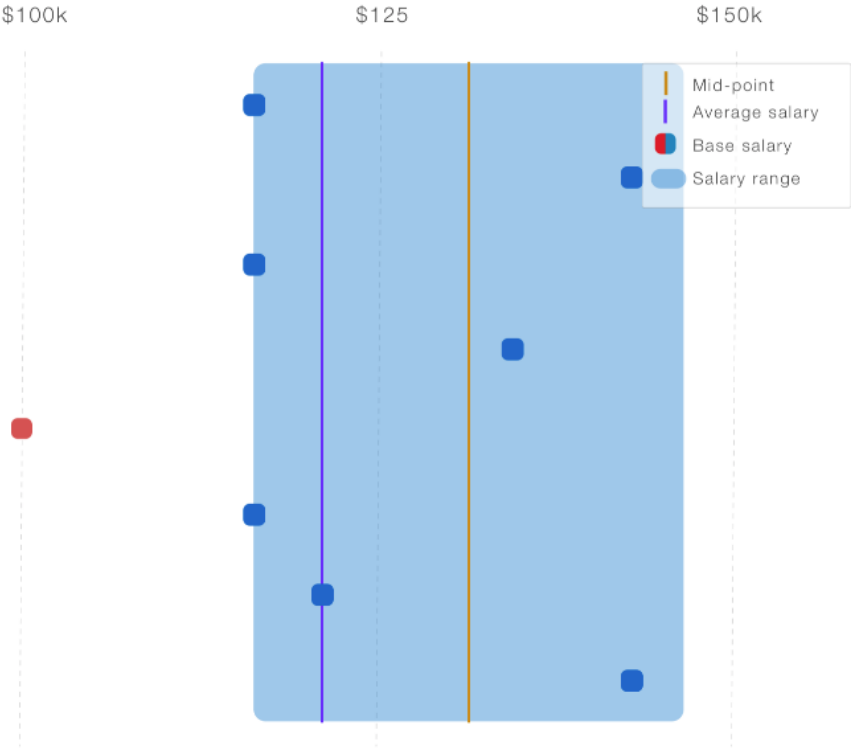
Human Resources

HR1114

2

Employees

EMPLOYEE NAME	BASE	YEARS IN JOB	PERFORMANCE RATING	GENDER	ETHNICITY
Craig Richardson	\$115,000	< 1	Developing	M	African American
Manuel Schwartz	\$140,000	18	Meets Expectations	M	Hispanic
Marian Wolfe	\$115,000	< 1	Meets Expectations	F	White
Luis Garza	\$135,000	4	Exceeds Expectations	M	Hispanic
Rosie Anderson	\$100,000	4	Needs Improvement	F	White
Samuel Mann	\$115,000	2	Developing	M	White
Dorothy Sandoval	\$120,000	< 1	Meets Expectations	F	Hispanic
Francisco Woods	\$140,000	7	Exceeds Expectations	M	White

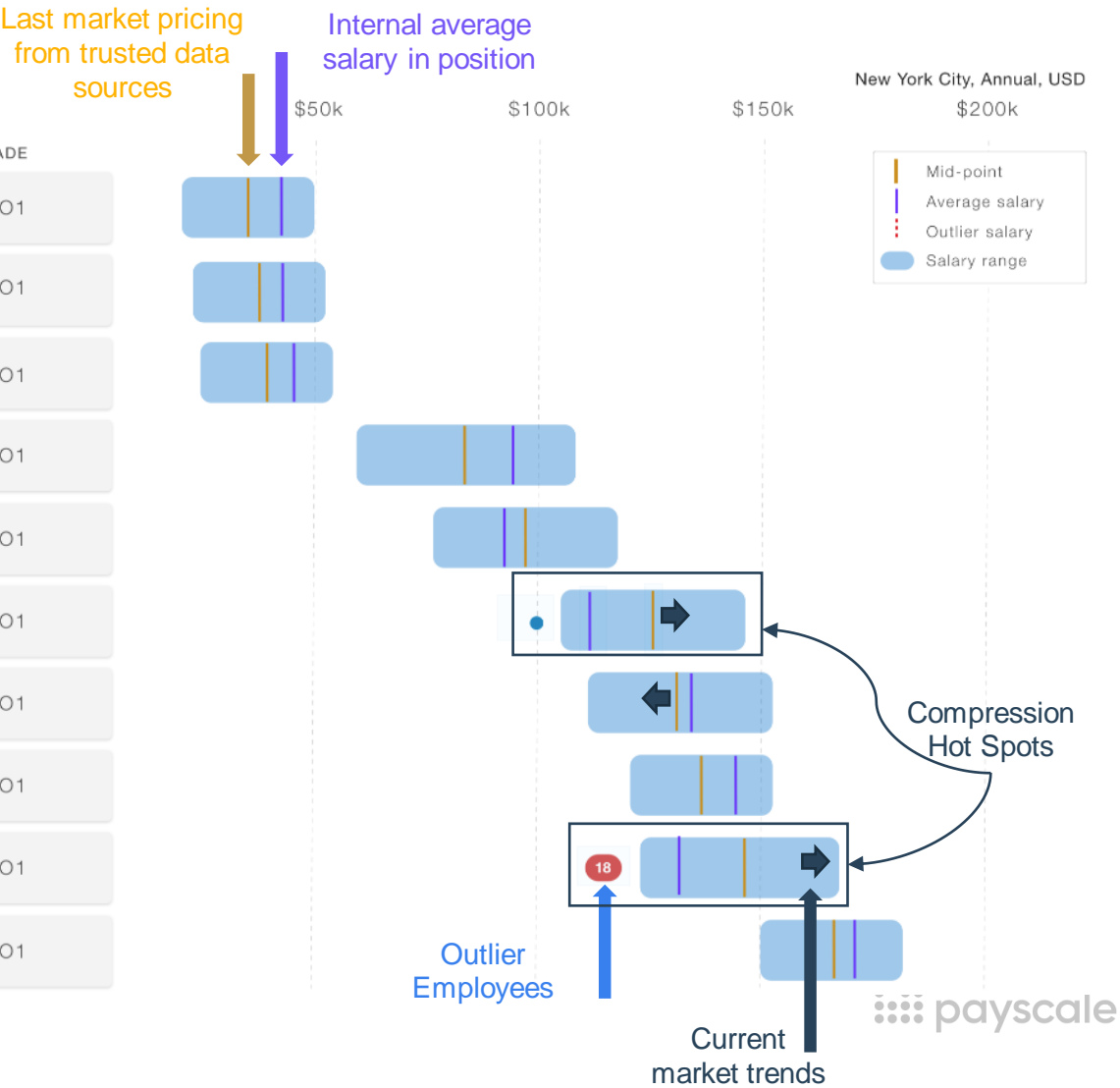


# Where will compression be a problem?

Adding market data & trends to visualization.

Job Ranges

TITLE	MIN.	MID.	MAX.	# EE	MRP	GRADE
⋮ Associate Recruiter	\$29,000	\$39,500	\$50,000	3	\$39,500	PRO1
⋮ Associate Benefits Spec.	\$30,000	\$41,500	\$53,000	3	\$41,500	PRO1
⋮ Associate H.R. Generalist	\$35,000	\$46,500	\$58,000	3	\$46,500	PRO1
⋮ Compensation Specialist	\$62,000	\$86,000	\$110,000	3	\$86,000	PRO1
⋮ Internal Comm. Specialist	\$85,000	\$102,500	\$120,000	3	\$102,500	PRO1
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⋮ H.R. Manager	\$150,000	\$175,000	\$200,000	3	\$175,000	PRO1



## Step 2: Tie to business goals

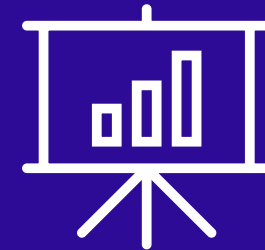


- Why is it so critical to invest time and energy into solving? How can you illustrate impact?
- How does this ladder up to larger initiatives?
- What is the impact of this compression on employees and across the org as a whole?
- How is/could compression impact all areas of the company (recruiting, finance, brand, etc.)?

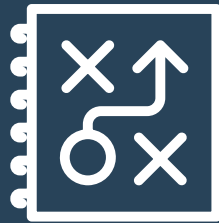


- Evaluate your current pay structures and levels
- Analyze the market and use it to anchor your decisions
- Focus on a single hot job or family and scale from there

## Step 3: Assess the company and the market



## Step 4: Provide a strategic go forward proposal



- Break down the issue/gaps and how to solve them
- Actionable next steps:
  1. Break down responsibilities by stakeholders
  2. Take it at the pace your team and org can handle
  3. Make sure everyone has the information and resources to complete their part
- How will you scale the program?

# How else are organizations approaching it?

- Training managers to talk about pay
- If you have a structure in place, helping managers use the ranges
- Focus on company culture and employee engagement to keep morale and company loyalty high
- Consider the whole compensation package to mitigate compression
  1. Incentives
  2. Bonuses
  3. Other forms of variable pay

# What steps can you take to prevent pay compression?



Build a plan to fight or avoid



Anticipate hiring needs



Keep an eye on the market



Make market adjustments a part of the budget

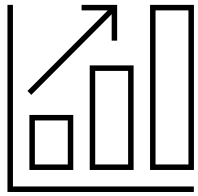


Be proactive and transparent about pay

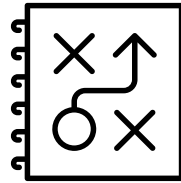


Pay close attention evaluating key positions

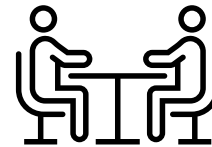
# In conclusion...



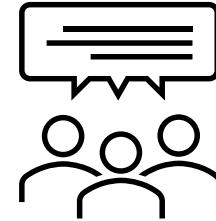
Arm yourself  
with data



Have a plan



Loop in  
stakeholders



Over communicate

# Q&A

Feel free to ask any questions in the chat!

