payscale Compensation management solution perspectives

Managing pay for a remote workforce

Adopting new strategies while being mindful of the implications

HR professionals remember well how suddenly the COVID-19 pandemic forced organizations to adopt remote work and work from home (WFH) policies. The pandemic created a massive shift in how work was done.

Now, many employers are ready to return to offices and on-site operations — but many employees feel differently. There are numerous indications — from job board application data to surveys — that employees prefer remote work. Some organizations have adapted to this shift by adopting a new approach, such as Airbnb's **Live and Work Anywhere** policy.

"We want to hire and retain the best people in the world...if we limited our talent pool to a commuting radius around our offices, we would be at a significant disadvantage. The best people live everywhere, not concentrated in one area. And by recruiting from a diverse set of communities, we will become a more diverse company," **says Brian Chesky, CEO of Airbnb.**

Switching to a remote-work approach has many benefits; however, it can also create new challenges for employers — including how to determine compensation for remote employees. Compensation is typically based on market data for a given location, but "remote" is not a location. All employees work from somewhere. Therefore, an organization's remote-work pay strategy is really about how pay is determined for a distributed workforce.

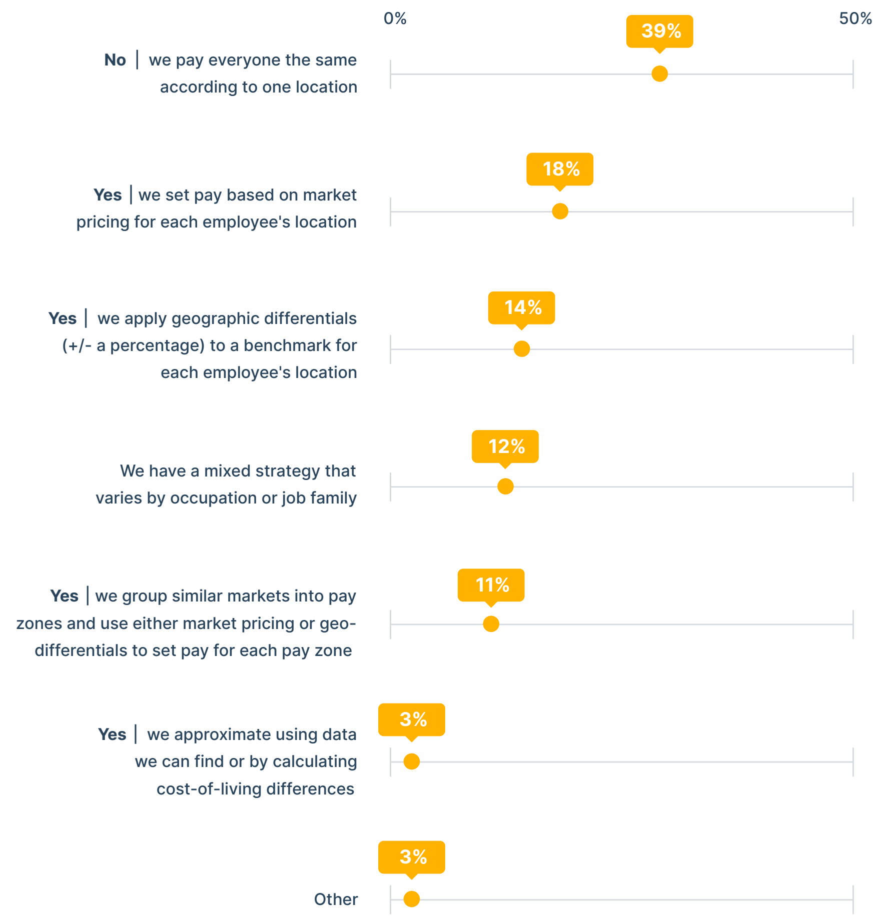
In this expert brief, we examine how organizations are tackling compensation for a remote workforce, the benefits of doing so, and the risks which should be considered.

Analyzing the current state of remote work pay practices

According to Payscale's 2023 Compensation Best Practices Report, 59 percent of organizations said "yes," they have a pay strategy for a remote or distributed workforce. However, 39 percent of those say they pay everyone according to one location (e.g., company headquarters), so this answer choice may include organizations that either have very few or no remote employees.

Setting pay based on market pricing for an employee's location was the next most popular answer choice, but it is also the most time consuming if organizations have a lot of employees. Grouping similar markets into pay zones using market pricing or geographic differentials is one of the most manageable and consistent options for ensuring fair pay, though currently only 11 percent of organizations are taking this approach. According to our research, 41 percent of organizations are interested in geographic differentials for distributed workforces.

Do you have a pay strategy that encompasses a remote or distributed



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In the past, our jobs were priced by location. We had offices in cities around the world, and we priced jobs by each city. One of the changes we made was to implement geographic differentials in the U.S. so that when we hired in another state or people moved domestically, we could easily update the salary range associated with their job based on a geographic differential that we update every year.

However, when your people are moving all over the world, it’s difficult when salary ranges don’t line up between different cities. That’s why we decided to move to a global target pay philosophy, and we engaged with an employer of record (EOR). The EOR allowed us to hire people in countries in which we were not enabled to do so, and it meant the comp team had to find new survey sources for countries in which we’d never hired before. Now we can hire and pay employees almost anywhere.

Stacey Sutela

Director of Global Compensation and HR Operations

Vista

Establishing a remote work pay strategy

A remote work environment allows organizations to hire talent from anywhere — or at least from more locations than a traditional or hybrid office. Furthermore, employees can choose how and where they want to work, which can be an effective differentiator in attracting and retaining members of the talent pool who became accustomed to a high degree of flexibility during the pandemic.

Because pay is typically linked to a specific location, implementing remote work opportunities does require that organizations rethink their compensation strategy. A **location-based pay strategy** where pay is tied to where an employee lives rather than where the office is located can be an appealing methodology to support a large remote or heavily distributed workforce. The larger the organization and the more distributed the workforce, the more a location-based pay strategy using geo-differentials makes sense from an administrative perspective.

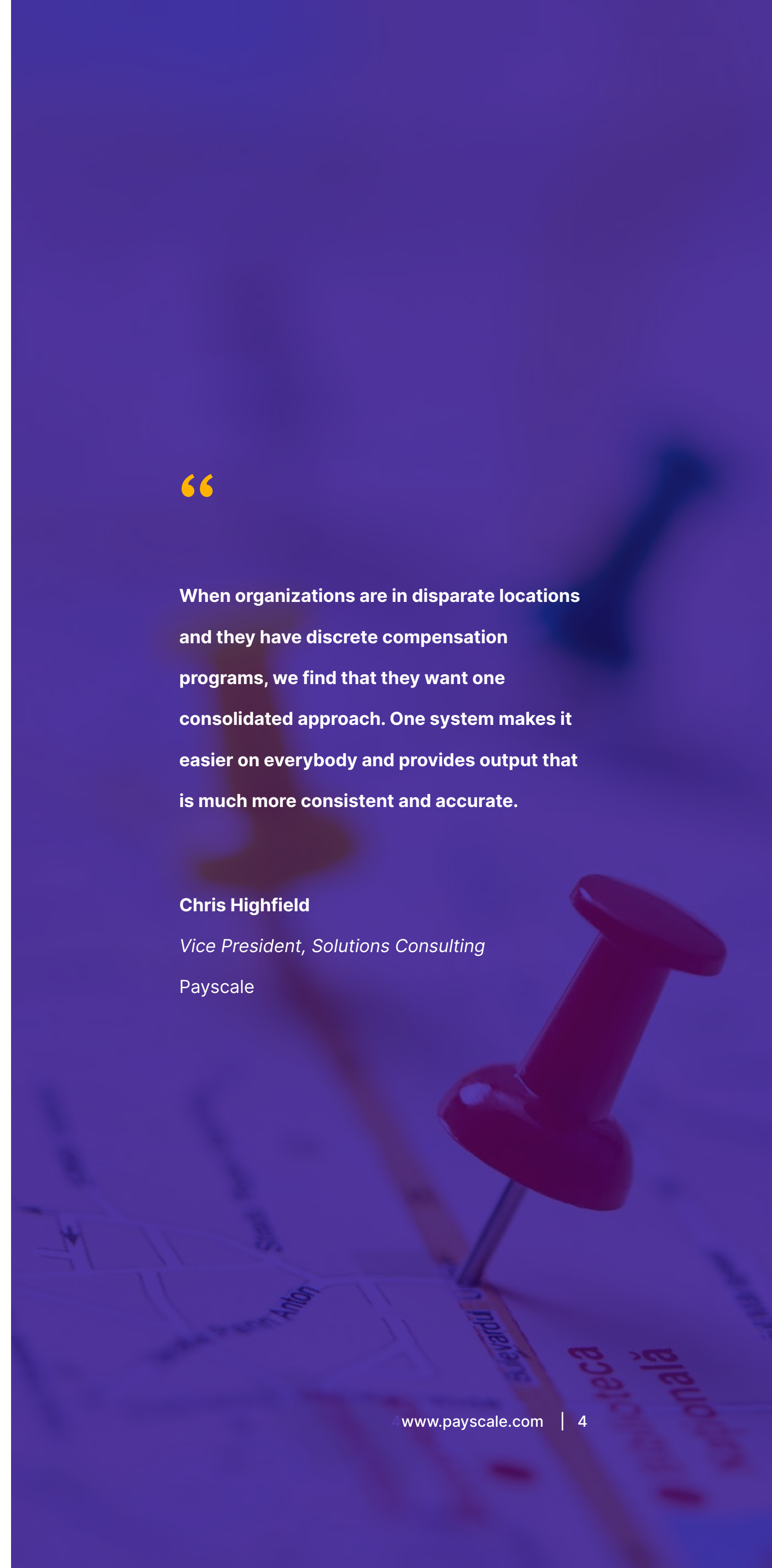
When implementing remote pay strategies, compensation management software is essential. In one platform, organizations can access all the salary data they need, including HR-reported salary data, employee reported data with geo differentials to inform pay adjustments when comparing locations, and tools to manage traditional surveys.

Implementing software for a consolidated approach

To set compensation for multiple locations — including anywhere an employee might choose to move — you need accurate and reliable salary data. While it is still more common to set pay using traditional salary surveys for market pricing, a location-based pay approach with geo-differentials can make pay easier to manage and offer a competitive advantage when there are a lot of locations.

For organizations that use pay zones to simplify compensation management for a distributed workforce, our research indicates the most common way to group them in the United States is by metro areas with similar characteristics (37 percent), followed by a regional approach (24 percent).

To manage pay for a distributed workforce, organizations that use geo-differentials don't have to market price all their jobs for every location where they have workers. Instead, they can use salary data in compensation management software to calculate the percent increase or decrease from a benchmarked location to another location. This methodology is seeing increased interest year over year, with an 8 percent increase in use from 2022 to 2023 according to the **2023 Compensation Best Practices Report**.



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When organizations are in disparate locations and they have discrete compensation programs, we find that they want one consolidated approach. One system makes it easier on everybody and provides output that is much more consistent and accurate.

Chris Highfield
Vice President, Solutions Consulting
Payscale

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> **Remote work has really opened up a lot of opportunities for talent acquisition and human capital management in general. But I’m also seeing organizations be careful about how they’re handling remote assignments — more so than they were at the onset of the pandemic. When an organization’s workforce is dispersed, the employer and employee need to be fully aware of the implications that any given location might have in terms of taxes.**
>
> *Senior Manager*
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> *Human Capital consulting firm*

Understanding the implications of remote work

While remote work options may be popular with employees, the option to work from anywhere also raises a variety of tax-related issues for organizations to consider and address. As an example, working remotely from a physical location in a different state could cause tax implications for an employer, such as additional withholding requirements, as well as potential state income tax implications for the employee.

Every time an employee crosses a domestic or international border to work, there can be immigration, payroll, and tax implications.

As organizations adapt to the new world of work and adopt new strategies, HR, payroll, and compensation teams must work together to understand and balance remote working against the potential risks and implications. It’s also imperative to consult with legal counsel to ensure all risks have been considered.

The appeal of working remotely is not going away. According to the **2023 Compensation Best Practices Report**, 53 percent of organizations are experiencing resistance from employees around returning to offices. The resistance is not surprising: Employees who have been working remotely know it can be done, have the technology they need to get the job done, and have experienced the benefits of not having to commute to an office.

Employers should take comfort in the many compensation strategies they can adopt to accommodate remote work. What matters most is that compensation programs are competitive, consistent, and fair. Organizations that offer the most attractive packages in combination with the most flexibility are likely to be most appealing to top talent.

Workforce compositions are changing, and organizations need a fast and adaptive response. Payscale geo-differentials data supports compensation strategies for distributed teams and remote work.

Learn more about how Payscale's compensation management software can enable effective, location-based pay strategies for such teams.

Request a demo →

About Payscale

As the industry leader in compensation management, Payscale is on a mission to help job seekers, employees, and businesses get pay right and to make sustainable fair pay a reality. Empowering more than 50% of the Fortune 500 in 198 countries, Payscale provides a combination of diverse and dynamic data sources, experienced compensation services, and scalable software to enable organizations such as Angel City Football Club, Target, Gainsight, and eBay to make fair and appropriate pay decisions.

Pay is powerful™

To learn more, visit **payscale.com**

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