

2021 Compensation Planning Analysis

Given Continued Economic Uncertainty, Plan Cautiously



Staying ahead of rapid market changes is critical. Compensation planning for 2021 requires flexibility, adaptability and continued resilience for enterprises and individuals alike. At the onset of the pandemic, organizations provided immediate support for employees and customers, with little insight or time to plan to ensure a longer-term strategic focus. Employers are now looking ahead, refining initial pandemic response plans and developing programs and policies to support and motivate employees. In the process, a thoughtful, balanced approach must be applied when analyzing new ways of working (whether remote or in person) and when developing forecasts and managing budgets in the face of economic uncertainty.

Compensation planning in the wake of COVID-19 is complex. The marketplace is fractured in that some industries are facing significant pressures (e.g., hospitality and entertainment, airlines, higher education and small businesses) while others are either benefitting or operating “business as usual” (e.g., online retail, materials, technology and grocery). These varied situations require highly differentiated compensation responses in the near term.

On one end of the spectrum, highly affected organizations must continue to focus on cost control, and have no means to provide broad merit increases. Their resource-allocation priorities are maintaining the business, bringing furloughed staff back, restoring core benefit offerings and making highly targeted investments in critical talent.

On the other end of the spectrum, organizations are looking at ways to continue to grow their business and are providing typical or better base and incentive reward programs. And, importantly, there is everything in between. COVID-19 has affected each business differently, and while their responses are generally conservative, there is plenty of variation.

Segal's latest *Compensation Planning Analysis* uses survey data that was collected near the beginning of the global pandemic when the impact of COVID-19 was largely unknown. Consequently, the data likely does not reflect current plans and should not be used as the primary component of the planning process. We recommend that organizations identify where they are on the spectrum discussed above and prioritize their investments based on their 2021 business forecast and unique talent needs.

See the appendix that begins on page 5 for the study results. In graphs on page 3, we put that data in context of average increases going back to 2015. For additional context, we comment on factors impacting projections for 2021. We conclude by outlining several actions HR professionals can consider taking to reward and motivate employees next year.



Using the projections

The *2021 Compensation Planning Analysis* presents information on aggregate expenditures for payroll and salary structures, but does not address how employers should allocate their salary increase pools among their employees.

In the current environment, there is no playbook or “right” answer. Each company’s situation is unique and its responses must consider the following:

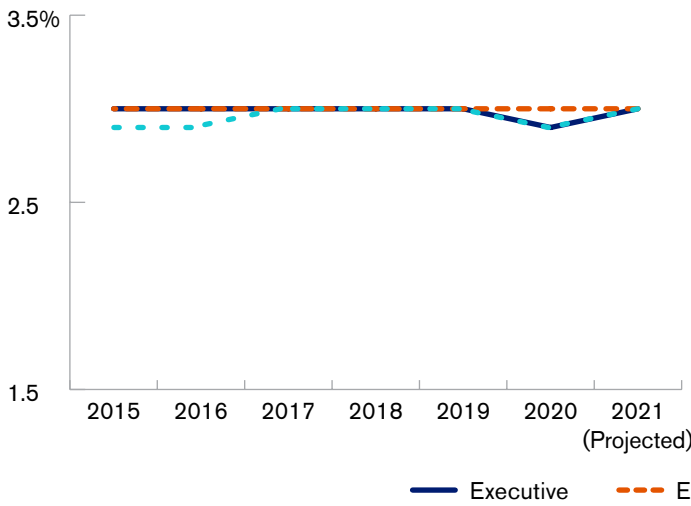
- Affordability
- Prioritization of adjustments to address external market, internal equity, salary compression, promotion and merit
- The degree of the financial impact of the pandemic
- Culture and values
- Critical talent and engagement
- Succession planning
- External pay competitiveness
- Opportunity cost



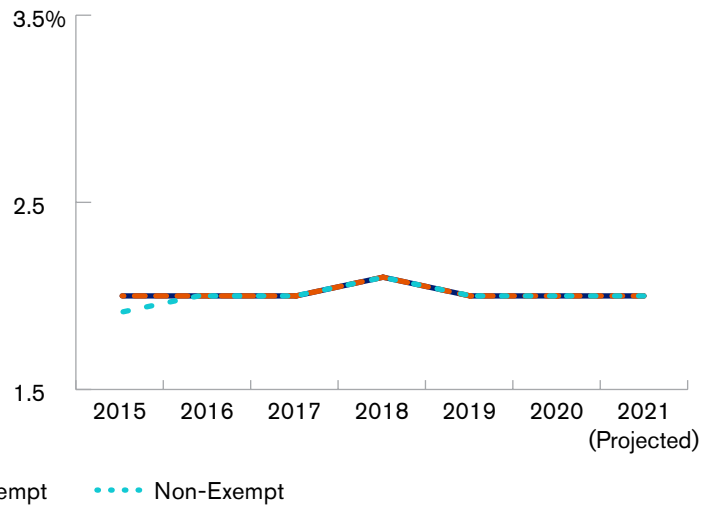
Little change in salary budget and range adjustment increases for several years

The average percent increases for both salary budgets and salary range adjustments have been relatively flat for several years. The graphs below illustrate that pattern for all classifications.

2015 to 2021 Average Percent Increases in Salary Budgets for All Industries by Broad Job Classification



2015 to 2021 Average Percent Increases in Salary Range Adjustments for All Industries by Broad Job Classification



Factors impacting 2021 projections

As previously noted, survey data submission timing is likely a contributing factor in the projections for 2021. However, as organizations prepare compensation plans for 2021, the impact of the COVID-19 pandemic is better known and taken into account. Organizations continue to evaluate available budgets based on actual and projected business results and critical talent needed to support business strategy over the next 12–18 months. Retention risks and response for top talent are highlighted, particularly when paired with the impact of remote work arrangements on talent strategy.

2021 actions

Stagnant salary budgets have added complexity to compensation planning in recent years. The events related to COVID-19 have further complicated compensation planning for 2021.

Despite the challenges, there are many actions your organization can take to make sure your compensation strategy is competitive and designed to help you achieve the results you need to reward and motivate employees. Several examples follow:

- Update your employee value proposition.** Identify what is important and relevant to employees today. Leading employers are realigning their total rewards and employee value proposition to better reflect both evolving employee needs and current business strategy. Segal's Rewards of Work™ framework helps you segment your approach into six distinct components including Pay, Benefits, Profession, Possibilities, Affiliation and Culture.
- Make the most of your available salary increase budget.** Conduct analyses to allocate compensation investments for maximum return. Focus your efforts first on high-priority areas, such as critical roles and retention of top talent. If the budget allows, extend your focus to address internal equity adjustments, external market adjustments, promotions and recognition of changes in job responsibilities. Build flexibility into your plans to provide room for revision as business needs change.
- Strategic workforce planning.** Determine the desired roles and skillsets needed to support your organization's mission and growth. Identify how roles have changed during the pandemic and whether these changes are temporary or long-term. Review your organization's career framework to ensure it encourages professional development and career progression. Educate managers in the proper use of the framework when developing and executing talent strategy. Explore how technology can be more effectively used to meet job expectations, whether remote or in person.
- Invest time in recognition programs.** These are high-impact, low-budget solutions. They include non-monetary awards, including peer-to-peer and public recognition to acknowledge the efforts of employees, as well as monetary awards in the form of spot bonuses tied to specific initiatives. Make non-monetary recognition part of the everyday culture of your organization.
- Encourage employees to take advantage of paid time off programs.** Dedicated time away from work (even if no travel is involved) is an effective way for employees to recharge and return to work energized and re-engaged.
- Engage in meaningful development conversations with employees.** Take the time to understand your employees' development wants and needs. Explore no-cost or low-cost opportunities for development that will increase job satisfaction. Consider special projects or opportunities that may have surfaced as a result of the COVID-19 environment.

Segal can help you explore and design strategies that best suit the needs of your organization.



Projected salary budget increases and salary range adjustments flat

Projected salary increases for 2021 are only slightly less than 2020 projections and slightly higher than 2020 actual for executives and non-exempt employees.

Average Percent Increases in Salary Budgets for All Industries by Broad Job Classification

	2020 Projected	2020 Actual	2021 Projected
Executive	3.1	2.9	3.0
Exempt	3.1	3.0	3.0
Non-exempt	3.0	2.9	3.0

Segal's analysis projects a 2.0 percent increase for salary range adjustments across all employee groups (executive, exempt and non-exempt). Salary range adjustments represent the percentage increase applied to the salary ranges within a salary or hourly rate structure. This percentage is typically applied to all control points in the structure (e.g., minimum, midpoint and maximum).

Average Percent Increases in Salary Range Adjustments for All Industries by Broad Job Classification

	2020 Projected	2020 Actual	2021 Projected
Executive	2.1	2.0	2.0
Exempt	2.1	2.0	2.0
Non-exempt	2.0	2.0	2.0

Reviewing data for 11 industry groups — banking and finance, education, health services, information services/telecommunications, insurance, manufacturing, nonprofit, retail, services, transportation and utilities — reveals only slight variations for 2021. Projected salary budget increases range from a high of 3.3 percent for non-exempt employees in insurance to 2.7 percent for exempt employees in transportation. Projected salary range adjustments max out at 2.1 percent for executives in utilities and information services/telecommunications and fall to 1.2 percent for executives in education.



Average Percent Increases in Salary Budgets and Salary Range Adjustments by Industry and Broad Job Classification

	Salary Budget Increases				Salary Range Adjustments			
	2019 Actual	2020 Projected	2020 Actual	2021 Projected	2019 Actual	2020 Projected	2020 Actual	2021 Projected
Banking and Finance								
Executive	3.1	3.2	3.2	3.1	1.9	2.1	2.0	2.0
Exempt	3.1	3.1	3.1	3.1	2.0	2.1	1.9	2.0
Non-exempt	3.0	3.0	3.1	3.0	2.0	2.0	1.9	1.9
Education								
Executive	3.0	2.9	2.0	2.8	1.8	1.8	0.3	1.2
Exempt	2.9	2.9	2.0	2.8	1.9	1.9	1.0	1.4
Non-exempt	2.9	2.9	2.0	2.8	1.9	1.9	0.8	1.6
Health Services								
Executive	3.0	3.0	2.9	2.8	2.0	1.9	1.7	1.8
Exempt	3.1	3.0	2.9	2.9	2.1	2.0	1.8	1.8
Non-exempt	3.0	3.0	2.9	2.9	2.0	2.0	1.8	1.7
Information Services/Telecommunications								
Executive	3.0	3.0	3.2	3.0	2.3	2.0	2.5	2.1
Exempt	3.0	3.0	3.2	3.0	2.1	2.1	2.4	2.1
Non-exempt	3.0	3.0	3.1	2.9	2.1	2.0	1.9	1.8
Insurance								
Executive	3.1	3.3	3.2	3.1	1.8	2.1	2.1	2.0
Exempt	3.1	3.1	3.2	3.3	2.0	2.0	2.1	2.0
Non-exempt	3.1	3.0	3.2	3.3	2.0	2.0	2.1	2.0
Manufacturing								
Executive	3.1	3.1	2.9	3.0	2.1	2.1	1.9	2.0
Exempt	3.0	3.1	2.9	3.0	2.0	2.1	2.0	2.0
Non-exempt	3.0	3.1	2.9	3.1	2.0	2.1	2.0	2.0
Nonprofit								
Executive	3.1	3.1	2.9	2.8	1.9	1.9	1.2	1.3
Exempt	3.1	3.0	2.8	3.0	1.9	1.9	1.8	1.8
Non-exempt	3.0	2.9	2.8	2.8	1.9	1.9	1.7	1.7
Retail								
Executive	2.9	3.0	2.9	3.0	1.9	2.0	1.9	1.9
Exempt	3.0	3.0	2.9	3.0	2.0	2.0	2.0	1.9
Non-exempt	2.9	3.0	2.9	3.0	2.0	2.0	1.9	1.9
Services								
Executive	3.1	3.2	3.0	3.1	2.1	2.0	2.3	2.0
Exempt	3.0	3.2	3.1	3.1	2.1	2.0	2.0	1.9
Non-exempt	3.0	3.1	3.0	3.1	2.1	2.0	2.0	1.9
Transportation								
Executive	3.1	3.1	2.7	2.8	1.9	2.0	1.9	1.9
Exempt	2.9	3.0	2.8	2.7	2.0	2.1	1.4	1.9
Non-exempt	2.9	3.0	2.8	2.8	2.0	2.1	1.5	1.9
Utilities								
Executive	3.2	3.3	3.1	3.1	2.0	2.1	2.0	2.1
Exempt	3.1	3.2	3.1	3.1	2.1	2.1	2.1	2.0
Non-exempt	3.1	3.1	3.1	3.0	2.1	2.1	2.1	2.0

Questions? Contact us.

For more information about the strategies noted above or the 2021 *Compensation Planning Analysis*, contact the study's authors:



Carolyn Cowper, MBA
646.408.3700
ccowper@segalco.com

Ms. Cowper is a Vice President in Segal's Compensation and Career Strategies Practice. She has over 17 years of experience in human capital consulting, with a focus on compensation and performance management assessment and design. She is the Higher Education vertical leader for compensation, and works with a variety of organizations in the nonprofit and general industry sectors.



Andrea Averill, MSIR
347.880.2121
aaverill@segalco.com

Ms. Averill is a Senior Consultant in Segal's Compensation and Career Strategies Practice. She has nearly 20 years of experience working with organizations on their human capital strategies with expertise in compensation and performance management. She is the solution leader for Performance Management.



Katie Manning, MBA, PHR, SHRM-CP
646.770.7169
kmanning@segalco.com

Ms. Manning is a Senior Consultant in Segal's Compensation and Career Strategies Practice and is a compensation subject matter expert. She has over 20 years of global executive and broad-based compensation experience within consulting and general industry. She is the solution leader for Broad-Based Compensation.

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Segal can help your organization develop a custom strategy for rewarding your people

Segal's Compensation and Career Strategies Practice helps grow your organization by growing your people. We work with organizations from various industries including higher education, construction, energy, public sector, healthcare, professional services and entertainment, among others. Our solutions transform organizations into successful talent magnets that attract, engage, deploy, retain and equitably reward their people.

Rather than coming in with a pre-established solution, we work closely with you to create a custom strategy that aligns with your strategic objectives and manages the performance and productivity of your people. We prioritize your rewards investments according to the needs and preferences of key talent segments in your organization.

An integrated total rewards strategy offers numerous advantages. It can:

- Drive organizational success through greater talent attraction, engagement and retention
- Guide investment decisions for the employer while enabling informed choices for the employee
- Clarify the employer-employee relationship
- Build a distinctive employment brand
- Increase the return on rewards and create value for the organization

We have more than 80 years of experience designing client-tested programs that employees find easy to understand and HR and managers find easy to administer.

[Learn more about Segal's Compensation and Career Strategies services.](#)

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