

Pay and Performance News

The Quarterly Newsletter of Altura Consulting Group LLC

We may finally be turning the corner. Employers nationwide report that 87% of employees will receive an increase in base salary this year. And after a second year of record lows in 2004, salary increase budgets for 2005 are projected to be slightly better, according to WorldatWork's 31st annual Salary Budget Survey, the largest and most comprehensive study of its kind.

Salary Increases

The U.S. workforce will receive an average salary increase of 3.5% in 2004, a bit short of the 3.7% predicted by employers. Optimism is again evident in the 3.7% average salary increase projected for 2005.

The pattern of lackluster salary increases for employees over the past couple of years is part of a bigger, more complex picture that includes relatively low inflation rates coupled with rising benefits costs, the expense of which is being shared with employees more frequently than in the past.

Salary increase information nationally by employee group, for the Central Region of the U.S., and by major industry sector, is summarized in the tables that follow.

National Salary Increase Budgets

Employee Group	Projected 2004	Actual 2004	Projected 2005
Nonexempt Hourly Nonunion	3.6%	3.5%	3.6%
Nonexempt Salaried	3.6%	3.4%	3.6%
Exempt Salaried	3.7%	3.6%	3.7%
Officer/Executive	3.8%	3.6%	3.8%

Central Region Salary Increase Budgets

Employee Group	Actual 2004	Projected 2005
Nonexempt Hourly Nonunion	3.5%	3.6%
Nonexempt Salaried	3.4%	3.6%
Exempt Salaried	3.5%	3.7%
Officer/Executive	3.6%	3.8%

Salary Increase Budgets Major Industry Sectors

Major Industry	Actual 2004	Projected 2005
Financial Services	3.6%	3.7%
Manufacturing	3.4%	3.7%
Retail/Wholesale	3.5%	3.6%
Services	3.8%	3.9%
Transportation	3.1%	3.3%
Healthcare	3.9%	3.9%
Other Not-For-Profit*	3.5%	3.6%

**Religious, Grantmaking, Civic, Professional & Similar Organizations*

Salary Structure Adjustments

The term "salary structure" refers to the set of formal salary ranges or steps used to guide base salary decisions. Organizations with established salary structures typically review and adjust them on a regular basis in response to economic and competitive market conditions.

As with salary increases, increases to salary structures have also been at record lows in recent years. Salary structure increases, nationwide, will average 2.0% in 2004, with close to a third of reporting organizations (27% for nonexempt employees, 34% for officer/executive employees) reporting no structure increase. Structure adjustments projected for 2005 are optimistic, with a reported average adjustment of 2.4% and fewer organizations expecting no structure increase (14% for nonexempt employees, 19% for officer/executive employees).

Salary structure adjustment information nationally by employee group, for the Central Region of the U.S., and by major industry sector, is summarized in the tables that follow.

Global Resources

Our library includes international salary increase practice and planning data for more than 60 countries; please contact us if you need information to support salary budget planning outside the U.S..

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Salary Structure Adjustments

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National Salary Structure Adjustments

Employee Group	Projected 2004	Actual 2004	Projected 2005
Nonexempt Hourly Nonunion	2.2%	1.9%	2.3%
Nonexempt Salaried	2.4%	2.0%	2.4%
Exempt Salaried	2.4%	2.0%	2.4%
Officer/Executive	2.3%	2.0%	2.4%

Central Region Salary Structure Adjustments

Employee Group	Actual 2004	Projected 2005
Nonexempt Hourly Non-union	1.9%	2.3%
Nonexempt Salaried	2.0%	2.3%
Exempt Salaried	2.1%	2.4%
Officer/Executive	2.0%	2.4%

Major Industry Sectors Salary Structure Adjustments

Employee Group	Actual 2004	Projected 2005
Financial Services	2.0%	2.4%
Manufacturing	2.0%	2.5%
Retail/Wholesale	1.9%	2.5%
Services	2.1%	2.4%
Transportation	2.1%	2.2%
Healthcare	1.9%	2.2%
Other Not-For-Profit*	2.0%	2.1%

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Incentives and Bonuses

Variable pay – pay that is delivered in the form of incentive or bonus awards – continues to gain in popularity. This may be a response to the economic conditions of the past few years; with employers feeling the need to tie compensation to organizational and individual performance results.

As shown in the table that follows, 77% of organizations in the WorldatWork survey report some type of variable pay program, a slight increase from the 75% reported last year, but a significant increase from the 66% reported in 2001.

Prevalence of Variable Pay

	2001	2002	2003	2004
Organizations Using Variable Pay	66%	68%	75%	77%

Stock Compensation

Stock-based compensation programs are persisting in their popularity, despite market volatility and potentially significant changes to the accounting for stock options. The WorldatWork survey reports that 73% of the organizations that have stock (including both public and private companies) use it in their compensation program, an increase from 70% last year.

While there has been a decrease in the particular use of stock options over the past year, they continue to be the most popular form of stock-based compensation. The use of other forms of stock-based rewards – including restricted stock, phantom stock/stock appreciation rights and performance shares – appears to be on the rise.

Altura Consulting Group LLC provides management consulting services with a primary focus on compensation and performance management solutions. We work with clients in the areas of executive and sales compensation, developing and implementing base salary systems and structures, developing and implementing incentive/bonus plans, designing performance management programs, and providing competitive market pay information.