# MO' MONEY, MO' PROBLEMS

## Employees Requesting Higher Pay & the Impact on Employers

It's becoming more common for U.S. employers to hear requests for higher wages from their employees. And it's getting ever more challenging to meet them.

Given the ultra-competitive labor market, higher inflation, and trend toward pay transparency, employee demands for raises can create financial challenges for employers.

"I'D LIKE A RAISE"

## 3 REASONS WHY RAISES CAN CAUSE FINANCIAL CHALLENGES FOR EMPLOYERS

### 1. RAISES ARE TRENDING UP, BUT THEY'RE NOT KEEPING UP WITH INFLATION.

After several years of modest increases, employers are shelling out higher salaries. This year, in fact, they're budgeting 4.3% of their total payroll to spend on raises, which is the highest level since 2001, according to data from The Conference Board.

However,it's not enough to cushion the rising effects of inflation. Prices for goods and services were 7.1% higher in November compared to a year ago, according to the consumer price index.

Just consider the average cost of groceries over just the last couple of years. According to economic data from the U.S. Department of Agriculture (USDA), grocery prices increased by 11.4% in 2022, more than three times the rate in 2021 (3.5%) and much faster than the 2% historical annual average from 2002 to 2021.

### impact on employers:

**To boost salaries, there's growing potential for employers to offer higher compensation beyond annual cost of living raises. For example, some employers are considering awarding retention bonuses, cash incentives, and merit awards to their employees. According to a recent Gartner survey, 57% of CFOs say they'll increase funding for compensation, which is already the second-highest spend item in budgets.**

## 2. "STAYING-PUT" WORKERS RECEIVE RAISES, BUT "JOB-CHANGERS" SCORE EVEN HIGHER ONES.

Payroll services company, ADP recently reported that employees overall received 7.3 percent more pay over the past couple of months. But those who changed jobs pocketed a whopping 15.2 percent increase in salary, more than double that of employees who did not switch jobs.

In a survey that asked workers why they quit their jobs, Pew Research found that compensation was a main reason. 63% of respondents said low pay was a factor in their decision to leave.

### impact on employers:

**With 11 million job openings currently available in the U.S., employees have plenty of opportunities for work. So, the risk of turnover remains high for employers who are slow to meet requests for employee raises. In a recent poll, almost half (48%) of employers said their company is experiencing greater turnover… a trend that can cost them on average more than $57,000 year in hiring, training, and lost productivity.**

## 3. GREATER SALARY TRANSPARENCY PROMISES TO CLOSE WAGE GAPS BUT CAN ALSO NARROW PROFITS.

As greater awareness for pay equity is advocated, some states (e.g., Colorado, California, Washington, New York) have passed salary transparency laws requiring employers (with a certain number of employees) to list salary ranges on job postings, and in some cases, current positions. While this trend is expected to close wage gaps among underrepresented groups, it is also expected to give employees more leverage to negotiate higher salaries.

### impact on employers:

**Wider optics into how much employers pay workers can impact overall profit margins and create other issues for employers, including:**

- **Raising the cost of hiring new staff** – since they can result in funding bigger talent acquisition budgets.
- **Making it more challenging to fill open positions** – if salaries don't keep up with competitors.
- **Making it harder to retain employees and keep them satisfied** – since there's awareness for how much newer colleagues earn, and how much more employees can earn by seeking jobs elsewhere.

Of course, pay raises aren't the only factor in employee compensation. Health insurance benefits, flexible work arrangements, employer contributions to retirement plans, meal subsidies, and tuition reimbursement are all part of an attractive compensation package today that can help employers retain employees and keep them happy.

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