


IOWA BANKERS
ASSOCIATION

Compensation in a Post Pandemic World

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Experience:

- 25+ years consulting experience
- Over 500+ client projects across the country

Specializing in:

Compensation & Performance Management


- Compensation Benchmarking
- Wage & Salary Structure Design
- Short and Long-Term Incentive Compensation Review and Design
- Performance Management/Review Systems
- Board of Director Compensation Studies

Organizational Planning


- Management Team Roles & Responsibilities

Comparative Total Compensation & Benefits Benchmarking Studies

- Trade Associations and Custom Client Surveys



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Compensation Consulting Services



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Cash Balance Money Purchase Pension Plans BOLI (Bank-Owned Life Insurance) SERPs Unique Plan Combinations Non-Qualified Deferred Compensation Plans Profit Sharing Plans 3(16) Fiduciary Services
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Topics

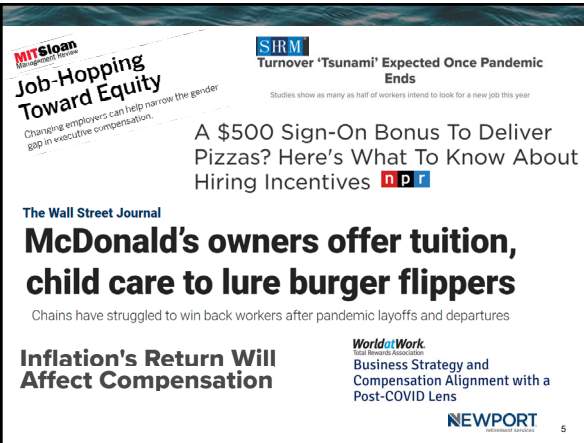
Backdrop

- Economy recovering quickly. Financial services extremely strong.
- Labor market been turned upside down with remote options and labor shortage
- Spotlight on equitable compensation

Discussion

- Trends ... what's anticipated
- Market and Merit Adjustments with eval ... what's needed?
- Benchmarking Tips
- Total Compensation... staying competitive
- Compensation "Difference Makers"

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MIT Sloan
Management Review

Job-Hopping Toward Equity
Changing employers can help narrow the gender gap in executive compensation.

SHRM
Turnover 'Tsunami' Expected Once Pandemic Ends
Studies show as many as half of workers intend to look for a new job this year.

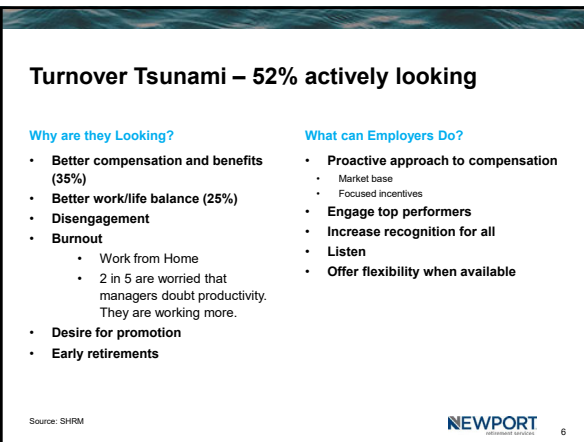
A \$500 Sign-On Bonus To Deliver Pizzas? Here's What To Know About Hiring Incentives **n p r**

The Wall Street Journal
McDonald's owners offer tuition, child care to lure burger flippers
Chains have struggled to win back workers after pandemic layoffs and departures

Inflation's Return Will Affect Compensation

World at Work
Business Strategy and Compensation Alignment with a Post-COVID Lens

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Turnover Tsunami – 52% actively looking

Why are they Looking?

- **Better compensation and benefits (35%)**
- **Better work/life balance (25%)**
- **Disengagement**
- **Burnout**
 - Work from Home
 - 2 in 5 are worried that managers doubt productivity. They are working more.
- **Desire for promotion**
- **Early retirements**

What can Employers Do?

- **Proactive approach to compensation**
 - Market base
 - Focused incentives
- **Engage top performers**
- **Increase recognition for all**
- **Listen**
- **Offer flexibility when available**

Source: SHRM

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Poll Question

What merit budget increase percentage do you project or have paid for 2022?

- A. Less than 2.5%
- B. 2.6%-3.5%
- C. 3.6%-4.5%
- D. More than 4.6%

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Planning for 2022 salary budgets

Strategies to maintain competitiveness

2021-2022 Newport CRB & WorldatWork Salary Budget Survey reported increase budgets in the U.S. mid-2021 averaged about: **3%**

The global impact of pandemic has influenced demand changes and talent shortages. Many organizations **anticipating** to have salary budgets significantly rise now: **projected average 3.5% to 4.5%**

This Year

Leadership challenges:

1. How do I reward my best performers this year?
2. How do I stay market competitive in a hot labor market?

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Compensation Strategies by Industry

QUESTION: Which compensation strategies has your organization implemented or may be considering in 2021?

	Overall	Construction, Real Estate & Energy Utility	Finance, Banking & Insurance	Education, Government & Non-Profit	Healthcare	Manufacturing, Distribution, Transportation	Professional Services & Technology	Restaurant, Retail & Other Services
Salary increases to make up for salary freezes	18.7%	20.0%	15.6%	9.6%	23.3%	26.3%	0.0%	17.5%
Higher pay increases for hourly employees	18.0%	16.4%	15.6%	7.7%	10.0%	31.6%	8.9%	19.0%
Higher pay increases for salaried employees	10.7%	12.7%	11.1%	7.7%	6.7%	10.5%	10.7%	12.7%
Increased use of retention bonuses	16.1%	9.1%	17.8%	11.5%	16.7%	20.0%	14.3%	17.5%
Increased use of sign-on bonuses	19.8%	14.5%	20.0%	7.7%	36.7%	25.3%	10.7%	23.8%
Overall increased use of incentives or bonuses to drive results	23.1%	16.4%	24.4%	7.7%	16.7%	25.3%	28.6%	33.3%
Geography/labor market specific pay for remote workers	11.3%	10.9%	20.0%	9.6%	16.7%	7.4%	10.7%	9.5%
N =	396	55	45	52	30	85	56	63

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Compensation Adjustments

Market Adjustment: making immediate pay change to match the “market” for the job

- Very popular right now with the talent battle.
- Frequently seeing \$2-\$3 hour immediate adjustments. Unprecedented!

Vs.

Merit Adjustment: differentiating increases based on performance & tenure for the employee

- Annual reinforcement for performing
- Recognizes top performers
- Try to make at least 2x the average!

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Market Data – What does this job pay?

How do you find and compile reliable compensation data?

- **Published Compensation Reports or “Salary Surveys”**
 - Accounting or Compensation Consulting Organizations
 - Industry Associations
 - BLS.gov
 - Lean on a Comp person!
- **Online or Crowdsourced Data...**
 - Highly influenced by circumstance of employee populating the database (i.e. terminated, job hunter, disgruntled)
 - Highly influenced by savviness of person submitting data and job matching skills
 - Can be much more expensive

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Benchmarking – Best Practices

Considerations:

1. Compare “like matches” considering role, revenue, budget, headcount, mission
 - Try to have minimum of 2-5 survey sources with 100+ incumbents
2. Consider relevance to location differentials
3. Age data to reflect today
4. Focus on base ... but don't ignore total cash earnings
5. Look at guideposts ... 25th, 50th and 75th percentiles

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Survey or Market Data Analysis

Using Percentiles or Aligning to Compensation Philosophy

Market Value or Benchmark

LOWER END OF MARKET → 25th Percentile

MIDDLE OF MARKET → 50th Percentile

ABOVE or LEADING MARKET → 75th Percentile

TOP END OF MARKET → 90th Percentile

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Example Compensation Analysis – How it's Done

Loan Processor

Job Title	Organization Information	Market Composite
Loan Processor	Industry: Banking FTE: Over 100 Location: Iowa	Base Pay: 25th Pct: \$18.49 Base Pay: 50th Pct: \$30.85 Base Pay: 75th Pct: \$22.59

SURVEY INFORMATION						SURVEY DATA		
Survey/Position	Ref #	Scope Information	Co. Count	Incident Count	Survey Weighting	Base Pay 25th Pct	Base Pay 50th Pct	Base Pay 75th Pct
ABA Compensation & Benefits (Newport Group) Mortgage Lending - Loan Processing/Closing Clerk	L112	All Banks	242		1	\$17.85	\$20.74	\$23.92
CompData Banking and Finance - National - October Loan Processor II Clerical - Non-commission	1451001HC	Midwest	39	167	1	\$18.87	\$22.53	\$23.37
Economic Research Institute (ERI) January 2022 Loan Processor	23027	Iowa State Average, Banking			1	\$18.13	\$19.41	\$21.12
Iowa Bankers Association 2021 Mortgage Loan Processor/Loan Servicing Clerk	66	Iowa, FTEs: Over 100	18		1	\$19.10	\$20.72	\$21.94

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Total Compensation Analysis – Making Meaning

Market data could be reflecting metro vs state vs region vs national. Align with strategy!

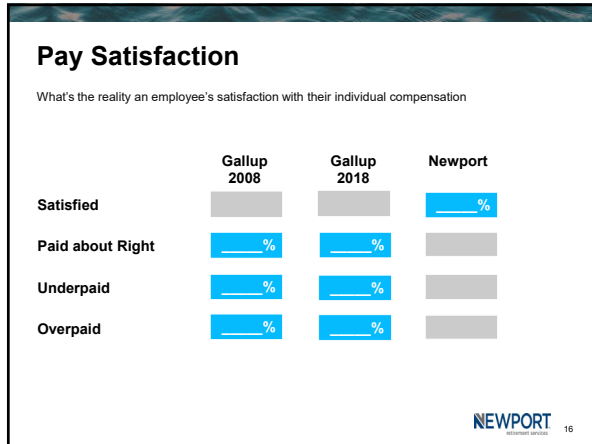
Job Title	Market Base		
	25 th	50 th (median)	75 th
Director IT	\$88.0	\$100.5	\$110.0
Network Administrator	\$55.0	\$63.6	\$71.0
Help Desk Tech	\$37.7	\$41.0	\$48.0

Market intelligence on **base earnings!**

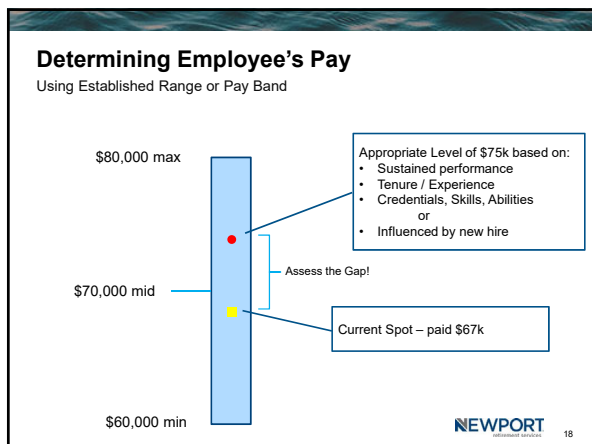
Job Title	Market Total Cash		
	25 th	50 th (median)	75 th
Director IT	\$91.0	\$108.0	\$125.0
Network Administrator	\$56.0	\$66.0	\$76.5
Help Desk Tech	\$38.2	\$43.0	\$51.0

Market intelligence on **all earnings!**

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- ### Compression – What Do You Do?
1. Determine the pay range and value for your position.
 2. Now, line up the individual's qualifications, experience & performance. What is this individual bringing to you?
 3. How does this individual compare to others within the same/similar positions?
 4. Are recent hires or interviews alerting you? Pay attention ... but not overact
 5. Be prepared to address
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Merit Adjustment – what should person get paid?

- Considers individual performance or value
- Put the spotlight on top performers ... don't overlook
- Little differentiation makes you susceptible
- Reality is about 1.4 times based on recent WorldatWork surveys.
- Consider "Outstanding" for greater separation! Seeing at least two times average in their increase.

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Pay for Performance Increases

QUESTION: In general, please indicate the average base salary increases for each of the following categories.

Increasingly, dollars continue to be allocated to differentiate high performers and less money is being utilized, as a percent of payroll, to reward low performers. While salary budgets increased 3%, higher performers received approximately a 4.65% average adjustment.

Category	Average Increase
High Performers	4.7%
Satisfactory Performers	2.9%
Low Performers	1.4%

QUESTION: In general, please indicate the median base salary increases for each of the following categories.

Category	Median Increase
High Performers	4.0%
Satisfactory Performers	3.0%
Low Performers	1.0%

2021 – 2022 Newport Compensation, Retirement and Benefits Trends Report
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Aligning Incumbent Pay to Wage Band

Minimum: The lowest or entry level rate that a company should pay for a given job. The incumbent shows aptitude and potential but is learning. Possesses little to no experience in the role.

Midpoint: Rate of pay that a fully qualified, fully competent performer could reasonably expect to earn in the competitive marketplace to perform the same job (or one requiring comparable skills/abilities).

Maximum: The highest rate that a company is willing to pay for a given job. The incumbent has significant experience (e.g. 12+ years) in the role and has displayed consistently high levels of performance and development.

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Merit Adjustment – Simple Method

- Utilize "performance aligned" scale to the evaluation process
- Adjust on the grid where "X" is the average or slightly below average merit increase (i.e. Merit is 3.5% so "X" is 3.3%)

Merit Increase Amount	Performance Rating				
	Below	Partial	Meets	Exceeds	Far Exceeds
	0%	X - 1%	X%	X + 1.2%	X + 2.0%

Pro

- Simple to calculate and rewards for high individual performance

Shortcomings

- Can allow certain employees to get out-of-range
- Doesn't allow for newer employees to catch up rapidly

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Merit Adjustment – Comprehensive Method

- Utilize "performance aligned" matrix to the evaluation score balanced with position in pre-established compensation range
- Pinpoint average merit increase where highest proportion (i.e. Merit is 4.0%)

		Unacceptable	Room for Growth	Meets	Exceeds	Outstanding
Employee Quintile	Above	0.00%	0.00%	1.00%	2.00%	2.50%
	4	0.00%	0.00%	3.00%	4.50%	5.50%
	3	0.00%	0.00%	4.00%	5.00%	6.00%
	2	0.00%	1.50%	4.50%	5.50%	7.00%
	1	0.00%	2.50%	5.00%	6.00%	8.00%

Pros

- Considers place in range with performance
- Allows newer, high-performing employees to earn significant increases as they develop

Shortcomings

- Can frustrate long-tenured employees with average increase amounts

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Key Considerations and Alternatives



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Remote Work Differentials

What if employee works out of a different location?

- Should location influence competitive ranges?

Facebook (FB.O) and Twitter (TWTR.N) also cut pay for remote employees who move to less expensive areas, while smaller companies including Reddit and Zillow (ZG.O) have shifted to **location-agnostic pay models**, citing advantages when it comes to hiring, retention and diversity.

Alphabet Inc's (GOOGL.O) Google stands out in offering employees a calculator that allows them to see the effects of a move. But in practice, some **remote employees**, especially those who commute from long distances, could experience pay cuts without changing their address.
- How significant is the geographic differential?
- Is location for employer's benefit ... or employee's desire?
- Do you want to explain why??

Source: Reuters - Pay cut: Google employees who work from home could lose money (Aug 20, 2021)

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Structures and Geographic Differentials

Comparison to National (100% = national)

Iowa:	<i>Answer</i>	} Geographic Cost of Labor
• Des Moines	<input type="text"/>	
• Cedar Rapids	<input type="text"/>	
Illinois		
• Chicago	<input type="text"/>	
Minnesota:		
• Minneapolis	<input type="text"/>	

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Onboarding Incentive Plan Considerations

Onboarding Incentive: a targeted payment or reward outside of an employee's regular salary that is offered as an incentive when starting and/or at selected intervals

Example: \$300 amount upon start. Additional \$600 at 6 months. \$900 total

Pros:

- If substantive, increases retention rates/reduces turnover costs.
- Can be used to incentivize new employees to show up (and not ghosting!)
- Gives immediate starting amount for joining
- Can be selective on roles or in amounts

Shortcomings:

- No relationship to performance.
- Employees may 'jump ship' after installments

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Retention Incentive Plan Considerations

Retention Plan: a targeted payment or reward outside of an employee's regular salary that is offered as an incentive to keep a key employee on the job during a particularly crucial business cycle

Example: \$1000 retention amount at 12 mths. 2080 hours @ \$16/hr = \$33,280 or 3% more

Pros:

- Recognizes loyalty of current employees
- If substantive, increases retention rates/reduces turnover costs.
- Can be used to incentivize new employees to stay

Shortcomings:

- No relationship to performance.
- Doesn't address current recruitment difficulties.
- Need to incorporate into non-exempt base rate for overtime purposes

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Big Ideas

1. Separate "Market" vs "Merit". Stay aggressive.
 - Starting rates competitive?
 - Maintain equity throughout
 - Establish job families
2. Top Performers or Special Talent... don't ignore their value
 - Differentiate and/or use a matrix
3. Consider "non-guaranteed" pay alternatives
 - Onboarding incentive
 - Retention incentive
 - Flexibility with remote work options

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Thank you! Any other questions?

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