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Developing a Post-Pandemic Pay Strategy

Companies have an opportunity to reset ties between work and rewards

By Joanne Sammer
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Making decisions about employee pay is among the biggest challenges facing organizations in the wake of the coronavirus shutdown. There is no road map. Any recovery in specific businesses, markets and industries is very much an ongoing process. With unemployment topping 13 percent according to the U.S. Bureau of Labor Statistics, and the rate considerably higher in some analysts' view, keeping pay tied to the market is difficult at best.

Employers must tread carefully. Any decisions they make now can affect their organizations for years to come.

"One of the lessons from the recession of 2009 is don't do stupid things, " said Alan Johnson, managing director of compensation consultants Johnson Associates in New York. "Be smart and plan. This is not the time for wishful thinking or pessimism. Don't make promises or premature decisions."

Managing Uncertainty

Fracture, an Alachua, Fla.-based direct-to-consumer manufacturer and e-commerce company, provided its production team with a bonus and hazard pay during the height of the pandemic to keep the business operating. When planning future pay for its 80 employees, however, the company is proceeding with caution.

"We've accepted that this thing is going to play out through 2020, so we're remaining vigilant and fiscally agile to address potential changes that may be needed later in the year," said Karen Oakey, the company's director of human resources.

Going forward, Oakey expects companies to be looking at all options, including:

- Salary reductions.
- Adding bonus pay for front-line staff.
- Reviewing compensation strategy based on the ease or difficulty of recruiting new hires.

So far, many employers seem to be taking this wait-and-see approach (https://www.imercer.com/articleinsights/Most-employers-are-staying-the-course). A survey of 662 employers conducted in early May by consulting firm Mercer found:

- 94 percent of surveyed employers went ahead with planned 2020 pay increases.

- 79 percent made 2020 incentive and bonus payments as planned and on schedule.

According to the employers, those increases and incentives were based on past performance, and employees had already earned them. However, only 24 percent of employers were working on compensation plans for 2021.

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Compensation Pressures

For businesses with 500 or fewer employees that received federal economic recovery funds under the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) program, compensation pressures and changes are already underway. For instance:

- PPP loans are provided to small businesses for payroll and certain other costs for up to eight weeks with limits on the use of loans to pay bonuses to high-earners (http://www.mvalaw.com/news-room-1258.html). Bonus pay is considered one part of total compensation, which cannot exceed an annualized rate of $100,000. So if an employer that received a PPP loan is already paying an employee $100,000 per year, it can't add a bonus to that employee's pay and have the loan forgiven.
- Employers are restricted from using EIDL loans to pay bonuses (https://www.sba.gov/sites/default/files/articles/EIDL_and_P3_4.1.2020_FINAL_2pm.pdf), or to pay annual salaries and wages above $100,000.

"We are adjusting our compensation for executives and staff because bonuses and distributions are not allowed [under the EIDL program]," said Joseph Hoelscher, managing attorney with Hoelscher Gebbia Cepeda PLLC, a law firm with 10 employees based in San Antonio. "Christmas bonuses and performance bonuses have to be eliminated, so, without incentive pay, we are increasing pay for critical talent." The firm delayed plans to hire three more employees as a result of the pandemic and resulting economic downturn.

Although the firm is delaying much of its planning for 2021, Hoelscher is telling his team not to expect any changes to pay until 2022, depending on how quickly the firm can repay its EIDL. "We see an opportunity to grow as our competitors fade, but with less flexibility in compensation, we have to be more cautious," said Hoelscher. "In particular, we are wary of talent who will see us as a temporary safe harbor and will leave us later if we can't adjust our compensation as quickly as competitors once the recovery begins."

Retailers Rein in Pay

U.S. retailers say that sales are slow in newly reopened stores, and 40 percent said year-over-year sales are down more than 20 percent.

"Governors across the country are easing stay-at-home restrictions, including opening nonessential retail, but that doesn't mean consumers feel safe enough to return to normal shopping habits," said Craig Rowley, senior client partner at pay consultancy Korn Ferry. "And we expect the ripple effects of the pandemic will last for some time."

Korn Ferry's June 3 survey of more than 50 big U.S. retailers showed that many are adjusting to the pandemic's economic repercussions. Of those retailers that have reduced employees' salaries:

- 26 percent say they will wait until next quarter to reinstate full salaries, and 19 percent say they will wait until the end of their fiscal year.
- Nearly a quarter (23 percent) have suspended 401(k) employer-match programs, and 37 percent say they will forgo merit increases in 2020.

The survey does offer some longer-term optimism, as 96 percent of retailers expect they will pay merit salary increases in 2021, with 41 percent expecting to pay 3 percent on average, which is in line with historical merit increases.

Rethinking Pay amid Uncertainty

As employers begin compensation planning for the rest of the year and into 2021 and 2022, they not only have to consider pay levels, but also what type of organization they need to be to thrive in a post-pandemic marketplace. Here are some key areas that will require focus:

- **Consider the future organization.**

The pandemic has caused employers to ask many questions about operations: Where will people work? How will they get their work done? What will the overall organization look like, and how many employees will it need in the future? The answers to these and other questions will have a significant impact on all aspects of pay.

"Companies are starting to come out of crisis management and have an opportunity for a reset in work and rewards," said Catherine Hartmann, North America rewards practice leader with Willis Towers Watson in Los Angeles. "The key is to balance short-term cost management with the need to build resilience so they can rebound when they need to."

- **Rethink established pay practices.**

This can also be a good time to reconsider whether the traditional approach to paying people is still viable. For example, employers that want to increase the organization's resilience and flexibility could consider skill-based pay.

"When paying for skill sets, employers could differentiate pay using incentives that are variable and easily pulled back," said Mary Ann Sardone, Georgia-based partner and U.S. talent solutions leader at Mercer. "Employers are rethinking the whole playbook as they look for ways to lower cost and become more effective in what rewards they deliver."

- **Look beyond pay.**

As employees get back to work on site, employers may find that what workers value from the employment relationship has changed. In some cases, employers may need to provide new types of benefits, especially programs that provide more flexibility and security, to bring their workforce back. For example, employees may respond well to greater scheduling flexibility to manage child care when formal and reliable child care may be difficult to find.

- **Expect continued uncertainty.**

When setting pay, employers should be prepared for a high level of uncertainty in the market. "There will be a lot of noise in the market for some time," said Johnson, of Johnson Associates.

Employers are likely to experience a lot of uncertainty in their operations and planning. "Changes won't stop," said Hartmann. "Companies could still make reductions in force" this year. However, she expects employers to have a better idea of where their workforces are headed by the fourth quarter of 2020.

Annual Incentives Adjusted

> A May 11-13 Willis Towers Watson survey of 681 large North American employers found that 1 in 4 companies (26 percent) have made changes to performance metrics or are planning changes for their annual incentive-pay programs. Profits, top-line revenues and earnings metrics were the most likely to have a reduced goal level for 2020 (https://www.willistowerswatson.com/en-us/Insights/2020/06/Unanswered-questions-remain-about-executive-incentives-in-2020). When companies added new metrics, the most common additions included nonfinancial measures, such as reaching individual performance milestones or improving operations efficiency and employee relations.
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> A small number of companies (5 percent) indicated that, as a result of COVID-19, they had suspended their annual incentive-pay plan for the year.

[SHRM members-only toolkit Designing and Managing Incentive Compensation Programs (www.shrm.org/TemplatesTools/Toolkits/Pages/DesigningIncentiveCompensation.aspx)*]*

Prepare and Communicate

As employers work to get a handle on where the organization, labor market and overall economy are headed, they should keep employees up-to-date and prepare them for whatever the future brings. Whether employers have to cut pay increases or reduce retirement plan contributions, it is important that they are honest with employees about these changes as soon as possible, with an explanation about why they are necessary.

"People are tired and emotionally exhausted," said Johnson. "If they are going to be paid less at the end of the year, manage that thoughtfully."

Fracture's Oakey said, "Viable options that are well-communicated have a better chance of being accepted." Point out to employees that "adjustments due to unplanned events do not need to be permanent," and that has the economy and business recover, so, too, will employee pay.

Joanne Sammer is a New Jersey-based business and financial writer.

Related SHRM Articles:

Pay Cuts Become More Common in Pandemic Downturn (www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/covid-pay-cuts.aspx), *SHRM Online*, May 2020

Employers Adjust Pay and Incentives Amid Economic Turmoil (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/employers-adjust-pay-and-incentives-amid-coronavirus-economic-turmoil.aspx), *SHRM Online*, April 2020

Use Caution When Cutting Exempt Employees' Salary (www.shrm.org/ResourcesAndTools/legal-and-compliance/employment-law/Pages/Use-Caution-When-Cutting-Exempt-Employee-Salary-During-Coronavirus.aspx), *SHRM Online*, April 2020

Pandemic Forces Employers to Cut Pay (www.shrm.org/ResourcesAndTools/hr-topics/compensation/Pages/pandemic-forces-employers-to-cut-pay.aspx), *SHRM Online*, April 2020