TALENT • HEALTH • RETIREMENT • INVESTMENTS

2014/2015 US COMPENSATION PLANNING EXECUTIVE SUMMARY

SURVEY REPORT

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2014/2015 US COMPENSATION PLANNING SURVEY

A study of salary increases, incentive compensation, and emerging practices

EXECUTIVE SUMMARY

More than 1,500 organizations provided data for Mercer's 2014/2015 US Compensation Planning Survey. The survey data represents the salary practices for more than 16 million workers. The year's results indicate that most employers will provide salary increases and increase amounts appear to have stabilized at around 3.0%. Here are some of the key findings:

- The actual 2014 base salary increase budget for all employees is 2.9% (including 0s). This increase is consistent with the projected amount from the 2013 fall survey update and the amount projected in April, 2013.
- The overwhelming majority (98%) of participating organizations are awarding salary increases in 2014. Most organizations (85%) that reported a salary freeze for 2013 are providing increases in 2014.
- Salary increases for 2015 are expected to rise slightly to 3.0% (including 0s), with 99% of organizations planning to provide increases.
- Most organizations (91%) provide salary increases to their employees on a fixed date. Approximately one-quarter of organizations that provide increases on a fixed date, provide such an increase in the month of April with the next most common months being March and January.

Less than 3% of participating organizations reported freezing salaries for at least one employee group in 2014; this is down from the 6.5% reported for 2013. The Executive employee group is impacted the most with 4.0% of organizations instituting freezes in 2014; however, by 2015 this is expected to decline considerably to 1.1%.

	Salary Freezes		
	Actual 2013	**Actual 2014**	**Projected 2015**
All Employees	6.5%	2.5%	0.7%
Executive	8.3%	4.0%	1.1%
Management	6.4%	2.3%	0.6%
Professional (Sales & Non-Sales)	5.9%	2.1%	0.6%
Office/Clerical/Technician	6.1%	2.0%	0.6%
Trades/Production/Service	5.4%	2.0%	0.7%

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BASE SALARY INCREASES

While salary increase budgets continue to remain modest in 2014, a slight increase is expected in 2015. Organizations with salary budgets that are projected to be higher for 2015 indicated that the primary reason for the increase is due to “greater competition for their workforce or anticipated labor shortages.” However, organizations that have lowered their 2015 budgets (compared to 2014) indicated they are doing so “in response to further economic uncertainty or as a general cost reduction initiative.” The table below provides actual 2013, actual 2014 and projected 2015 salary increases by employee group.

	Salary Increases					
	Actual 2013 (excl 0s)*	**Actual 2013 (incl 0s)***	**Actual 2014 (excl 0s)**	**Actual 2014 (incl 0s)**	**Projected 2015 (excl 0s)**	**Projected 2015 (incl 0s)**
All Employees	2.9%	2.8%	2.9%	2.9%	3.0%	3.0%
Executive	3.0%	2.8%	3.1%	2.9%	3.0%	3.0%
Management	2.9%	2.8%	2.9%	2.9%	3.0%	3.0%
Professional (Sales & Non-Sales)	2.9%	2.8%	2.9%	2.9%	3.0%	3.0%
Office/Clerical/Technician	2.9%	2.8%	2.9%	2.8%	3.0%	3.0%
Trades/Production/Service	2.9%	2.8%	2.9%	2.8%	2.9%	2.9%

Percentages are averages. *Actual 2013 numbers from the 2013/2014 US Compensation Planning Survey

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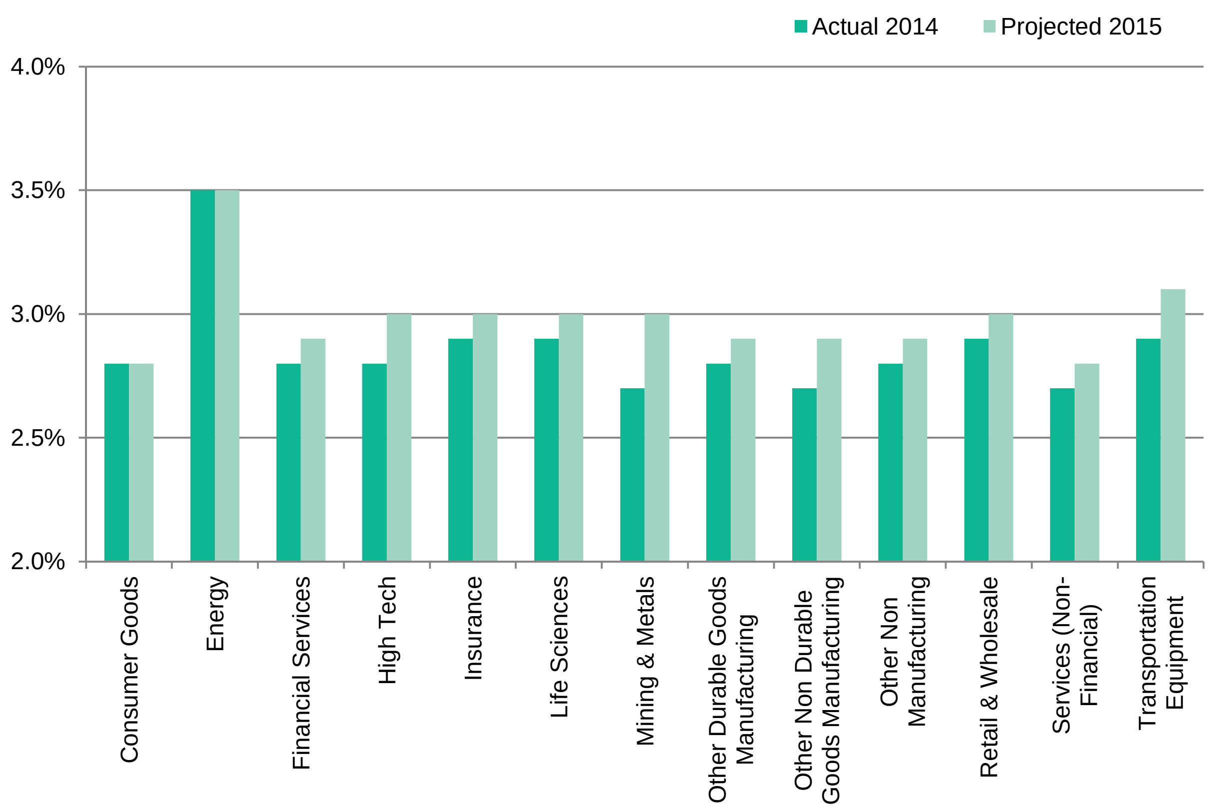
SALARY INCREASES BY INDUSTRY

The graph below provides average base salary increases for industry sectors. Similar to last year, the Energy sector is providing considerably higher increases in 2014 and 2015, relative to other industries. It should be noted that the industries included in the Energy sector have changed this year and now align with Mercer's global list of industries. The primary impact of this change is the inclusion of the Utilities industry, which accounts for approximately half of the Energy sector sample and has slightly lower budgets than other Energy industries. Industry specific analyses are accessible in PayMonitor and can also be found on page 9 of the full report.

The Services (Non-Financial) industry is providing lower than average increases and will see minimal changes in the amounts provided in 2014 and 2015. The Mining and Metals industry has experienced the most significant change in budget amounts; salary increase budgets are approximately 0.3% higher in 2015, compared to 2014.



Averages include freezes (0s).

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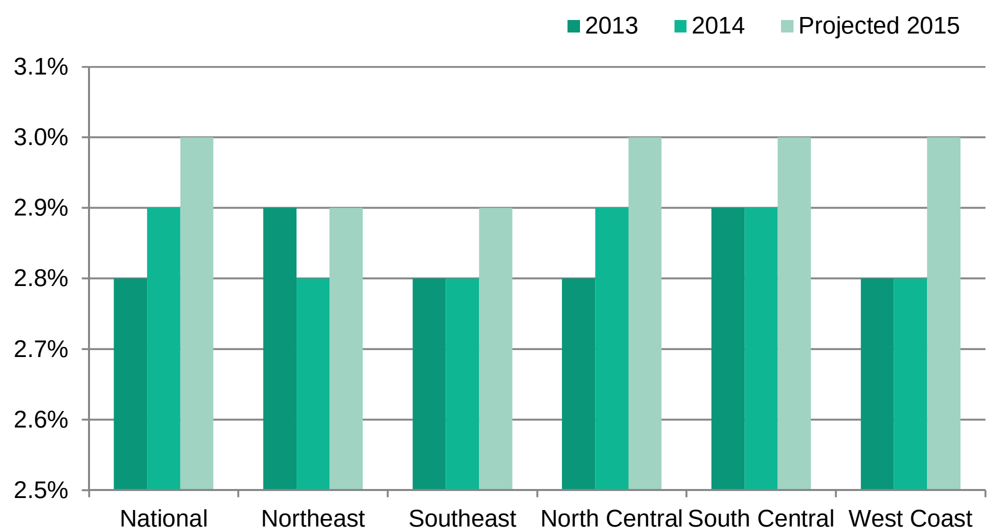
SALARY INCREASES BY REGION

Approximately 5% of participating organizations vary their salary increase budgets by region. Variances across regions are very small with a maximum range of 0.2% for 2013, 2014 and 2015. In 2014, the North Central and South Central budgets are in line with the national average of 2.9%. Northeast, Southeast, and West Coast regions are slightly below. In 2015, the North Central, South Central, and West Coast regions are projecting an increase of 3.0% (which is in line with the national average). Northeast and Southeast regions are slightly below. The graph below provides base salary increases by region.



Averages include freezes (0s).

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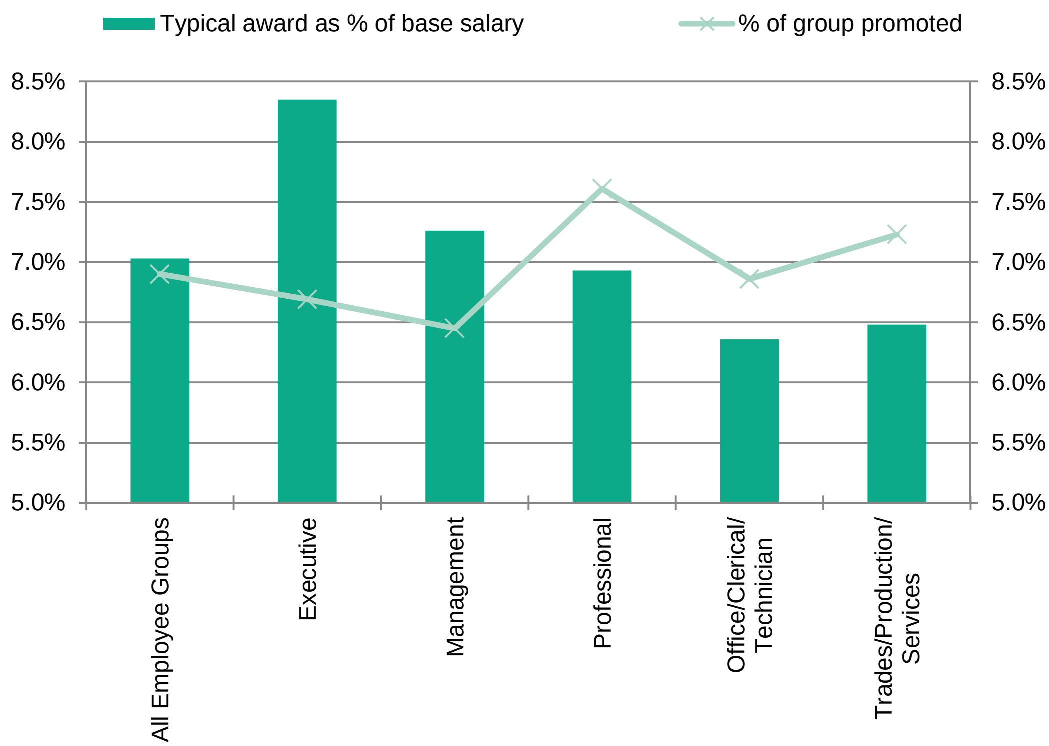
PROMOTIONAL INCREASE BUDGETS

Approximately 36% of participating organizations indicated that promotional increases are budgeted separately from merit increases. For organizations that budget promotional increases separately, employees are typically awarded a 7% promotional increase and budgets are around 0.9% of payroll. The percentage of employee promotions by level is relatively consistent, ranging from 6.5% at the Management level to 7.6% at the Professional (Sales and Non-Sales) level. The graph below provides average promotional increases awarded (as a percentage of base salary) and the percentage of employees receiving a promotional increase.

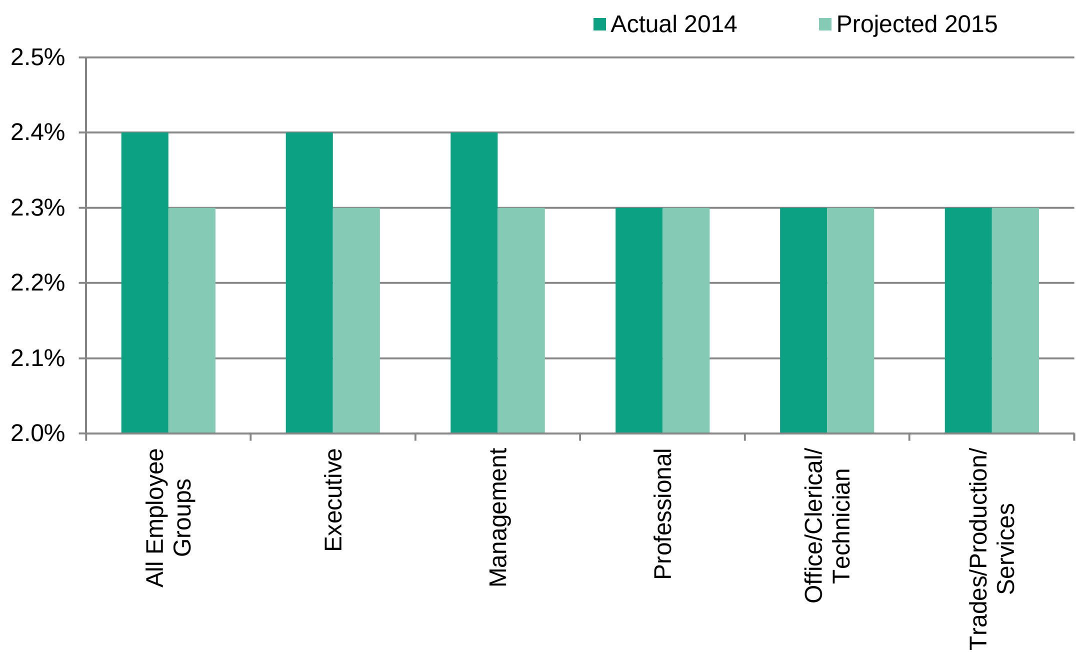


The value for % of group promoted for All Employee Groups represents organization weighted mean.

EXECUTIVE SUMMARY

SALARY STRUCTURES

The majority of participating organizations (83%) reported having a formal salary structure and most of these organizations (79%) indicated their structure uses traditional grades (e.g., min-mid-max; 50% range spread). Almost all of these organizations have a formal salary structure for their Management, Professional (Sales & Non Sales), and Office/Clerical/Technician employee groups. More than half of organizations (68%) update their salary structure on an annual basis. Of those organizations that have a formal salary structure, 67% are adjusting their structure in 2014 and 73% in 2015. The table below provides the average percentage by which the structure will be adjusted in 2014 and 2015 for each employee group.



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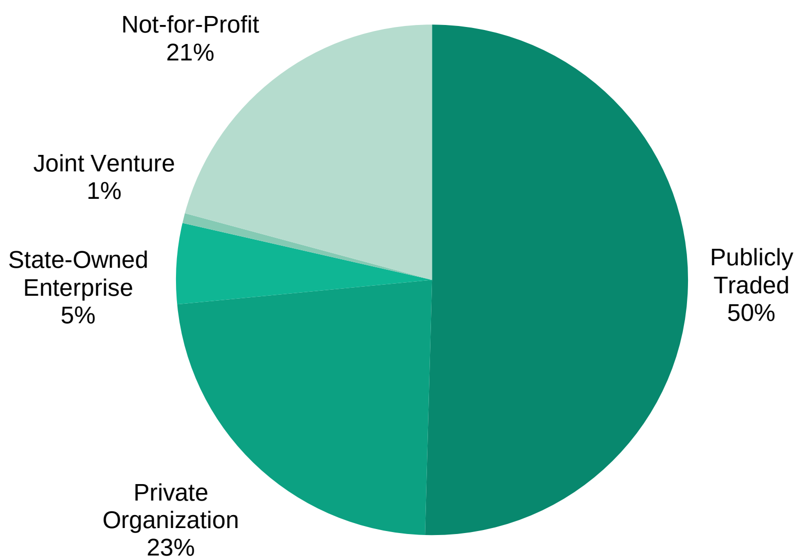
LUMP SUM PAYMENTS

More than half of participating organizations (54%) award lump sum payments in lieu of all or a portion of salary increases. Lump sum payments are most commonly used when an employee's salary is above their salary range (red circled) as indicated by 94% of organizations. Payments are most often provided to Management, Professional (Sales & Non Sales), and Office/Clerical/Technician employee groups. The graph below provides the percentage of organizations using lump sum payments by ownership type.

Organizations Using Lump Sum Payments by Ownership Type (N=803)



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INCENTIVES

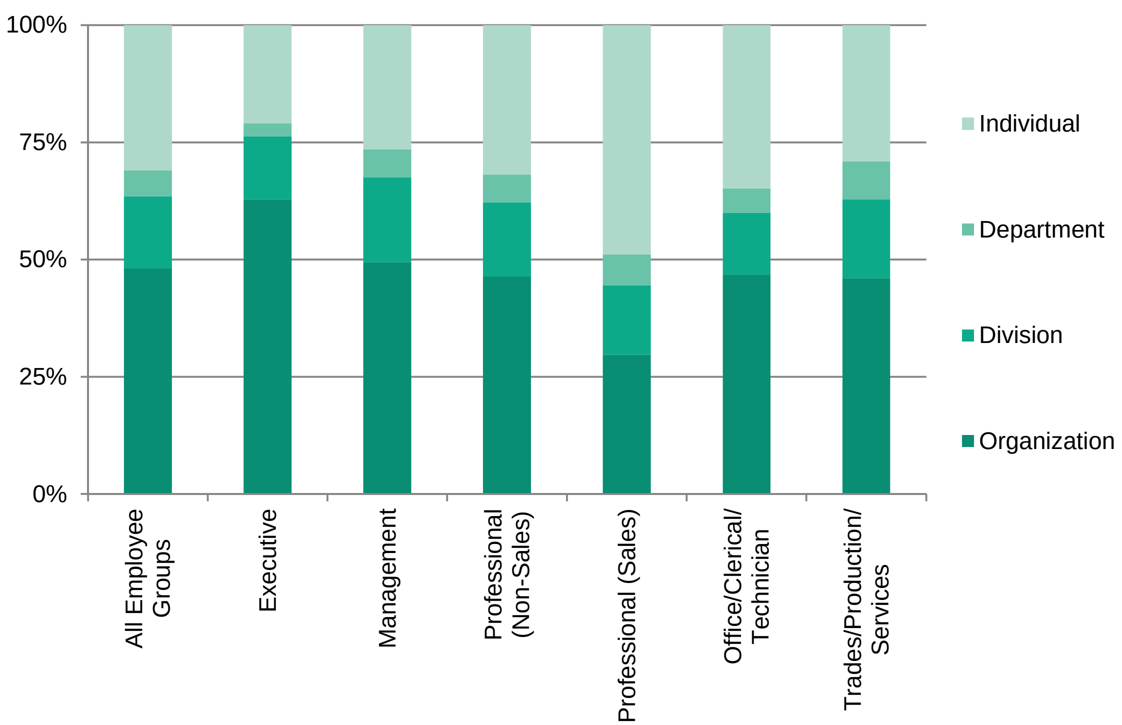
The vast majority of participating organizations (83%) have incentive plans for at least one segment of their employee population. Publicly traded organizations are more likely to provide incentives to all employee groups; their target awards begin at 5% of base salary for Office/Clerical/Technician and Trades/Production/Service employees, and range to 47% of base salary for Executives. The table below provides median short-term incentive targets (as a percentage of base salary) by ownership type for each employee group.

All Organizations

Ownership Type	Executive		Management		Professional (Non-Sales)		Professional (Sales)		Office/ Clerical/Tech		Trades/Prod/ Service	
	Target % of base salary	N	Target % of base salary	N	Target % of base salary	N	Target % of base salary	N	Target % of base salary	N	Target % of base salary	N
Publicly Traded	47%	367	20%	412	10%	354	20%	205	5%	280	5%	187
Privately Held	38%	177	17%	191	10%	145	20%	205	5%	103	5%	63
Not-for-Profit	25%	105	12%	100	7%	68	11%	45	5%	60	5%	29
Joint Venture	--%	4	10%	6	8%	6	--%	3	--%	4	--%	2
State-Owned Enterprise	18%	11	10%	12	7%	7	9%	8	5%	6	5%	5

*Unless otherwise stated, 0's are excluded in all calculations. Targets are median values.

Participating organizations were asked to provide the weighting of four levels of performance measures used to determine incentive awards for each employee group. Executives are typically expected to have the most impact on the organization's performance which is reflected with a weighting of 63%. The graph below provides the performance measure weightings by employee group.



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SALARY DIFFERENTIATION

Organizations are continuing to differentiate pay for performance. More than half of organizations (56%) differentiate performance using a five level rating system; 19% use a four level rating system and 14% use a three level system. Employees with the highest performance rating can expect to receive a salary increase of approximately 4.8% in 2015. The table below provides a summary of pay differentiation by employee group for organizations with five performance rating categories.

	Actual 2014 (N=908)		Projected 2015 (N=738)	
Performance Rating	**% of Workforce**	**Avg Increase**	**% of Workforce**	**Avg Increase**
Highest	8%	4.8%	8%	4.8%
Next Highest	28%	3.7%	25%	3.7%
Middle	57%	2.6%	57%	2.7%
Low	7%	0.9%	8%	0.9%
Lowest	2%	0.1%	3%	0.1%

* Based on organizations with 5 performance categories. Percentages include 0s and are average values. Percent of workforce may not equal 100% due to rounding.

The percentage of the workforce receiving each rating has remained fairly constant since 2012. The table below compares the distribution of performance ratings across the workforce over the last three years.

	Actual 2012 % of Workforce	Actual 2013 % of Workforce	Actual 2014 % of Workforce
Highest	8%	7%	8%
Next Highest	29%	30%	28%
Middle	54%	54%	57%
Low	7%	7%	7%
Lowest	2%	2%	2%

* Based on organizations with 5 performance categories.

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ATTRACTION AND RETENTION

Organizations were provided with a list of job families and employee levels and asked to select the combinations that were the most difficult to recruit and the most difficult to retain. Professional Non-Sales IT employees were identified as the most difficult to recruit (18.6%) and retain (15.9%), followed by Professional Engineering employees, with 12.2% of organizations experiencing recruitment difficulties and 10.2% retention difficulties.

Top 3 Difficult to Recruit Job Families and Levels:

1. IT Professional (Non-Sales) – 18.6%
2. Engineering Professional (Non-Sales) – 12.2%
3. Sales Professional (Sales) – 6.4%

Top 3 Difficult to Retain Job Families and Levels:

1. IT Professional (Non-Sales) – 15.9%
2. Engineering Professional (Non-Sales) – 10.2%
3. Sales Professional (Sales) – 7.2%

HOT TOPICS FOR 2014/2015

CAREER FRAMEWORK

Approximately one-third of organizations (34%) indicated that they currently have a career framework to manage talent programs. An additional 30% of organizations do not currently have a career framework in place but are planning to implement one. A career framework is defined as an organization-wide series of career levels with defined accountabilities and competencies. For organizations with a career framework in place, 46% use a one-to-one direct link from career levels to salary grades and 34% have multiple salary grades embedded in a single career level.

PAY-FOR-PERFORMANCE

The majority of organizations (82%) have a pay-for-performance philosophy as part of their compensation philosophy. However, only 22% of these organizations measure the effectiveness of their pay-for-performance program. For those organizations that measure the effectiveness of their program, 68% indicated their program is somewhat effective and a further 30% indicated their program is very effective.

ADMINISTRATION OF SALARY INCREASES

Organizations typically use either an automated manager self-service web-based tool or Excel spreadsheets to administer the salary increase process. Approximately one-quarter of organizations are currently implementing and one-quarter of organizations are planning to implement technology based solutions to manage annual salary increases.

PLANNING FOR 2015

The most common factor influencing compensation decisions for 2015 is a concern with retention and losing good employees (68%) followed by the need to buy talent from the external labor market (59%).

Additional Information

Additional analysis from the Mercer 2014/2015 US Compensation Planning Survey, including detailed reports by industry and region, is available.

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