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MONEY TALK

It'll pay to be a top performer

Employers are shifting what little they have to offer in the way of merit raises to the best talent

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The Wall Street Journal

Low-performing employees—from executives to entry-level workers—likely won't see their pay cheques rise much next year. But for high performers, raises will remain in line with 2008 increases as employers intensify the trend of reserving the bulk of pay raises for top talent.

"Companies are trying to use their money more wisely," says Steve Gross, a global practice leader at Mercer Llc., a New York human resources consulting firm which released its annual US compensation report this month.

In the past, sub-par workers might have expected to see a salary increase just below the average raise. But Mercer's study suggests that employers are shifting what little they have to offer in the way of merit raises to their top performers.

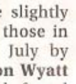
Mercer looked at pay practices for more than 12 million employees at 1,039 mid-size and large US firms with an average annual revenue of $5.9 billion (about Rs25,250 crore). Employers say they plan to give their highest rated workers—an estimated 14% of their workforces—an average merit increase of 5.6% in 2009. The lowest performers, who represent 7% of workers, are likely to receive just a 0.6% salary upgrade.

Top performers are likely to receive higher bonuses this year, too. For executives in this category, the payouts in 2008 are estimated to be 66% of their base pay, and for managers, 36%.

By contrast, low performers are likely to receive bonuses of 20% for executives and 8% for managers.

In general, workers overall are likely to receive slightly lower salary increases next year, the study shows. The average raise for all workers is expected to be 3.7% in 2009, compared with the 3.8% they received in 2008. Executive-level employees are projected to fare better, with their salaries rising on average 3.9%.

The projections are slightly more promising than those in a report released in July by consulting firm **Watson Wyatt Worldwide Inc.**, which found that employers are expected to boost base pay by an average of 3.5% next year. Another study, from consulting firm **Hewitt Associates Inc.**, suggests this figure will be closer to 3.8%.



With the inflation rate expected to remain high—upwards of 3% in 2009, by some estimates—the average person might not feel much of a boost to his wallet. Instead, increases in the cost of everything from gasoline to groceries are likely to eat up most of the gains, says Kenan Abosch, North American compensation practice leader at Hewitt. "Most employees this year will feel a crunch between the income they're taking home and their daily expenses," he says.

At the same time, incentive-based payouts tied to performance are becoming more common. According to Mercer's study, 86% of organizations give workers bonuses, and since 2005, 23% have increased the number of those eligible per level along the corporate ladder.

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Budgeted pay increases (in %)

	Budgeted 2008	Projected 2009
All employees	3.8	3.7
Executive	4.1	3.9
Management	3.8	3.7
Professional (sales & non-sales)	3.8	3.7
Office/clerical/technician	3.7	3.7
Trades/production/service	3.6	3.6

Pay increases by Industry (in %)

Industry	Budgeted 2008	Projected 2009
Oil and Gas upstream	5.0	5.0
Business process outsourcing	4.8	4.7
Business/professional services	4.4	4.2
Insurance-life	4.0	3.8
Health care	3.8	3.8
Hospitality/restaurants	3.7	3.7
Utilities-energy	3.7	3.7
Banking	3.6	3.5
Food	3.6	3.7
Education	3.5	3.5
Durable goods	3.4	3.5
Retail	3.4	3.4

Source: Mercer, 2008/2009 US Compensation planning survey