HEALTH WEALTH CAREER

2018/2019 UNITED STATES COMPENSATION PLANNING

EXECUTIVE SUMMARY

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CONTENTS

2.8%

2018 actual salary increase budget (including 0s)

2.9%

2019 projected salary increase budget (including 0s)

88%

determine increases based on individual performance

INTRODUCTION

Mercer is pleased to present the results of the 2018/2019 US Compensation Planning Survey. Data was collected for more than 1,500 organizations in April and May, 2018 and the survey is the largest and most comprehensive US salary increase survey available. The following report depicts information for non-union employee groups. For information pertaining to unionized employees, please refer to the detailed report.

In 2018, approximately 98% of surveyed organizations awarded salary increases across non-union employee groups. 2018 actual and 2019 expected increases are largely consistent with the past 5 years, at 2.8% and 2.9% respectively. This remains the case despite increasing attraction and retention concerns for employers (up 10% over prior years). The 2018 Tax Cuts and Jobs Act Legislation is having minimal impact on salary increase budgets, with only 4% of organizations anticipating tax savings, planning to redirect some portion of tax savings to salary increases.

89% of organizations are not anticipating making any changes to their salary increase process for 2019, and are continuing to increase the differentiation in awards based on individual performance. There is a growing faction of organizations moving away from from performance ratings altogether, doubling from 6% in 2016 to 13% in 2018.

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TOTAL INCREASE BUDGETS

For the second year, the US Compensation Planning Survey reports total increase budget data. Total increase budget data combines both salary increase budget data (merit increases, cost of living adjustment and across the board increases) along with data for promotional increase budgets and additional or other increase budgets in order to determine the total percentage of payroll for all salary increases given to employees.

Actual (non-union) total increase budgets for 2018 average 3.3% (excluding zeros) and 3.3% (including zeros), which was fairly consistent across all employee groups.

This is a decrease of 0.2% from the 3.5% (including zeros) projected for 2018 in last year's report.

Projected (non-union) total increase budgets for 2019 average 3.4% (excluding zeros) and 3.3% (including zeros), which, similar to actual 2018 figures, are fairly consistent across all employee groups.

3.3%

Average total increase budget in 2018 (non-union including zeros)

3.3%

Average projected total increase budget in 2019 (non-union including zeros)

TOTAL INCREASE BUDGETS BY EMPLOYEE GROUP

	ACTUAL 2018		PROJECTED 2019	
	excl. 0s	incl. 0s	excl. 0s	incl. 0s
All Employees (Non-Union)	3.3%	3.3%	3.4%	3.3%
Executive	3.3%	3.3%	3.4%	3.4%
Management	3.3%	3.3%	3.4%	3.4%
Professional (Sales)	3.3%	3.2%	3.4%	3.4%
Professional (Non-Sales)	3.3%	3.3%	3.4%	3.4%
Office/Clerical/Technical	3.3%	3.2%	3.4%	3.3%
Trades/Production/Service	3.3%	3.2%	3.4%	3.3%

Percentages are averages.

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SALARY INCREASE BUDGETS

Aligning with how we traditionally review our research, actual salary increase budgets for non-union employees averaged 2.9% (excluding zeros) and 2.8% (including zeros) in 2018, which is nearly consistent across all employee groups.

Salary increase budgets for 2019 are also projected to remain relatively unchanged at 2.9% (excluding zeros) and 2.9% (including zeros) with approximately two-thirds of organizations (68%) planning to keep budgets the same from 2018 to 2019. Twenty-one percent of organizations projected their 2018 salary budgets to be higher than in 2017, up from 20% last year. The primary motivator for the increase was to account for greater competition in workforce or anticipated labor shortages. Only 11% of organizations currently expect to lower their salary increases in 2019 from 2018 increase levels. The most common reasons are a response to economic uncertainty or general cost reduction initiative and that business and/or industry performance was weaker than expected.

SALARY INCREASE BUDGETS BY EMPLOYEE GROUP

	ACTUAL				PROJECTED	
	2017		2018		2019	
	excl. 0s	incl. 0s	excl. 0s	incl. 0s	excl. 0s	incl. 0s
All Employees (Non-Union)	2.9%	2.8%	2.9%	2.8%	2.9%	2.9%
Executive	2.9%	2.8%	2.9%	2.9%	3.0%	3.0%
Management	2.9%	2.8%	2.9%	2.9%	3.0%	3.0%
Professional (Sales)	2.9%	2.8%	2.9%	2.8%	3.0%	3.0%
Professional (Non-Sales)	2.9%	2.8%	2.9%	2.9%	3.0%	3.0%
Office/Clerical/Technical	2.9%	2.8%	2.9%	2.8%	3.0%	2.9%
Trades/Production/Service	2.9%	2.8%	2.9%	2.8%	2.9%	2.9%

Percentages are averages.
Actual 2017 numbers from the 2017/2018 US Compensation Planning Survey.

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SALARY INCREASES BY INDUSTRY

Results are largely consistent by industry, with most industries seeing a minor uptick in projected 2019 increases relative to 2018 increases.

SALARY INCREASE BUDGETS BY INDUSTRY (INCL. 0S)

	ACTUAL		PROJECTED
	2017	2018	2019
All Industries	2.8%	2.8%	2.9%
Banking/Financial Services	2.9%	2.8%	2.9%
Chemicals	3.0%	2.8%	3.0%
Consumer Goods	2.9%	2.7%	2.9%
Energy	2.8%	2.8%	3.0%
High Tech	2.9%	2.9%	3.0%
Insurance/Reinsurance	2.8%	2.9%	3.0%
Life Sciences	2.8%	2.9%	3.1%
Logistics	2.5%	2.5%	2.7%
Other Manufacturing	3.0%	3.0%	3.0%
Other Non-Manufacturing	2.9%	2.9%	3.0%
Retail & Wholesale	2.6%	2.8%	2.8%
Services (Non-Financial)	2.8%	2.7%	2.8%
Healthcare Services*	2.7%	2.6%	2.7%
Transportation Equipment	2.7%	2.8%	3.0%

Nearly all industries are anticipating minor upticks for 2019.

*Healthcare Services is an Industry Sector and is included in the Services (Non-Financial) Super Sector

Percentages are averages.
Actual 2017 numbers from the 2017/2018 US Compensation Planning Survey.

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PROMOTIONAL INCREASE BUDGETS

Overall, 51% of organizations budgeted separately for promotional increases, up slightly compared to last year when we saw 47% of organizations budget separately for promotions. The average promotional budget represented 1.2% of payroll in 2018, up by 0.1% compared to 2017 figures.

Average promotional increases (as a percent of base) were 7.8%, ranging from 6.6% (Trades/Production/Services) to 8.8% (Executive).

All employee groups saw a year-over-year increase to promotional increases, with the exception of Trades/Production/Service, which decreased from 7.0% in 2017 to 6.6% in 2018.

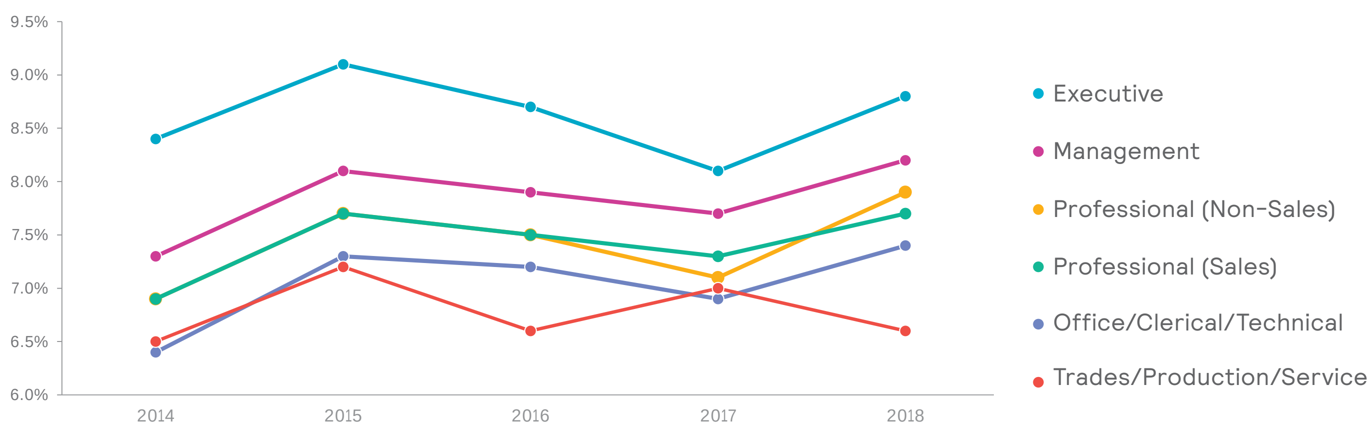
The following graph provides the average actual promotional increase (as a percent of base salary) by employee group from 2014 through 2018.

51% of organizations budgeted promotions separately in 2018

1.2% of payroll budgeted for promotions in 2018

7.8% average promotional increases across all employee groups

FIVE YEAR TREND – PROMOTIONAL INCREASES AS A PERCENT OF BASE SALARY (EXCL. 0S)



All averages exclude 0s
Some data points may not be visible due to similar values in more than one employee group.

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STRUCTURE ADJUSTMENTS

The majority of participating organizations (83%) reported having a formal salary structure. The practice of annual structure adjustment is the norm for most organizations.

While the percentage of organizations adjusting their salary structures steadily rose from 2013 (66%) to 2018 (76%), that trend appears to have plateaued with 75% of organizations projecting to adjust their structure for 2019.

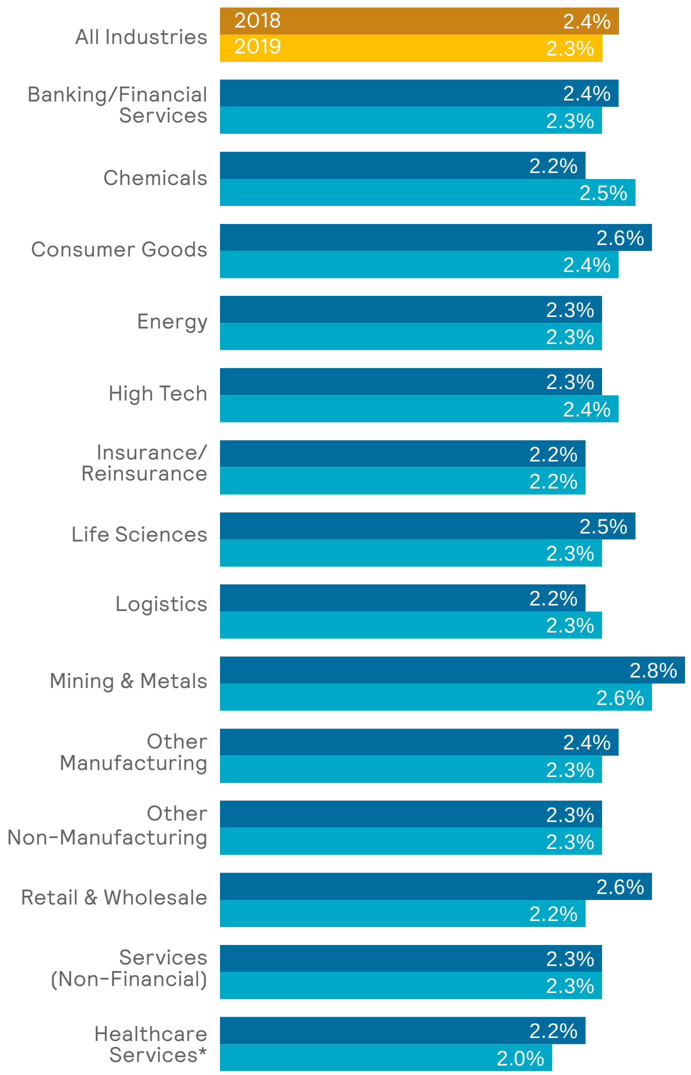
2.4% The average salary structure adjustment in 2018

2.8% Mining & Metals has the largest structure adjustments in 2018

76% of organizations plan to adjust their salary structure in 2018

The average actual salary structure adjustment in 2018 was 2.4%, remaining largely unchanged from 2017, and is projected to be similar in 2019 at 2.3%, with minor differences by industry. The following graph presents average structure adjustments for 2018 as well as projections for 2019, by industry.

STRUCTURE ADJUSTMENTS BY INDUSTRY (EXCL. 0S)



*Healthcare Services is an Industry Sector and is included in the Services (Non-Financial) Super Sector

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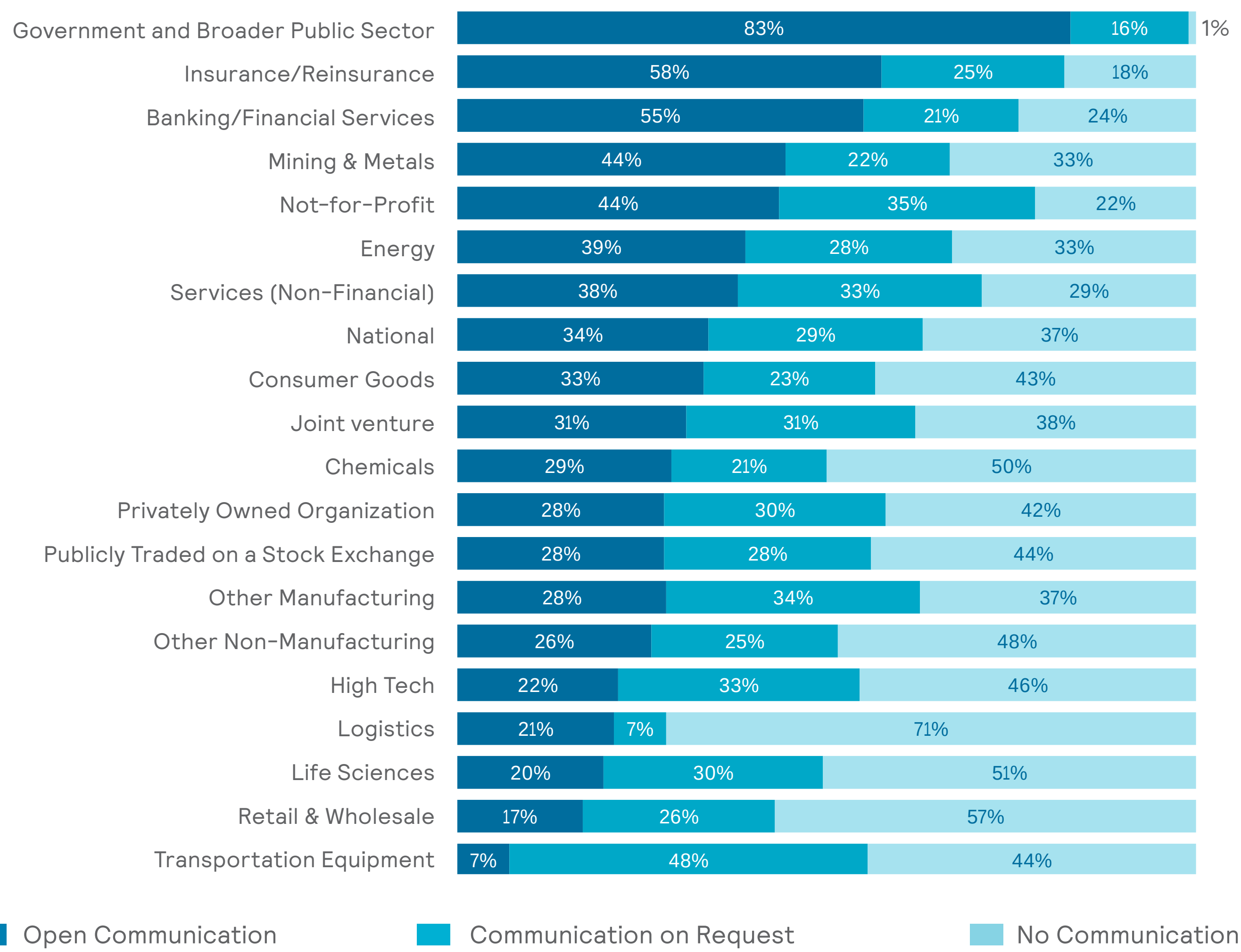
COMMUNICATION OF PAY RANGES

There is significant variation by industry and corporate ownership type on the level of transparency of the current grade or salary band to an employee.

Government and Broader Public Sector are the most likely to openly communicate the current grade or salary band to employees



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DIFFERENTIATING BASE PAY BY PERFORMANCE

Organizations continue to differentiate base pay by performance. Eighty-eight percent of organizations still use individual performance to drive base salary adjustments, consistent with 2017 (88%).

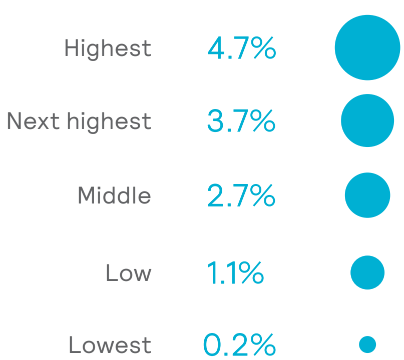
Over the past two years, the number of organizations not using performance ratings has doubled from 6% in 2016 to 13% in 2018.

Nearly half of participating organizations (48%) use a 5 level rating system for base salary increases. For organizations with a 5 level rating system, employees with the highest rated performance represented 8% of the workforce and received an average salary increase of 4.7%. The average increase for the highest performers is expected to increase slightly to 4.9% in 2019 and the lowest performers remaining at 0.2%.

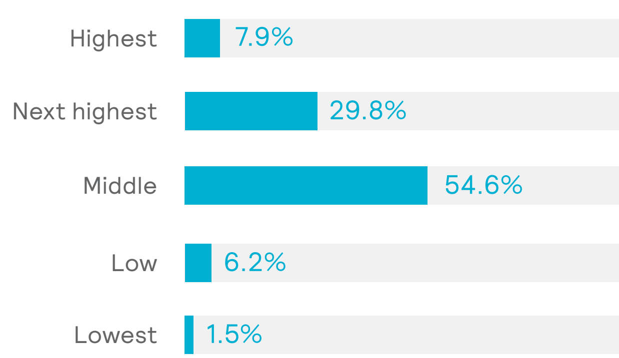
For organizations without performance ratings, **83%** distribute merit pay based on manager discretion with oversight / review by business leader or HR/ Compensation group

High performers get **1.74** times the salary increase of an average performer in 2018

AVERAGE BASE SALARY INCREASE BY PERFORMANCE RATING



% OF WORKFORCE IN EACH PERFORMANCE RATING



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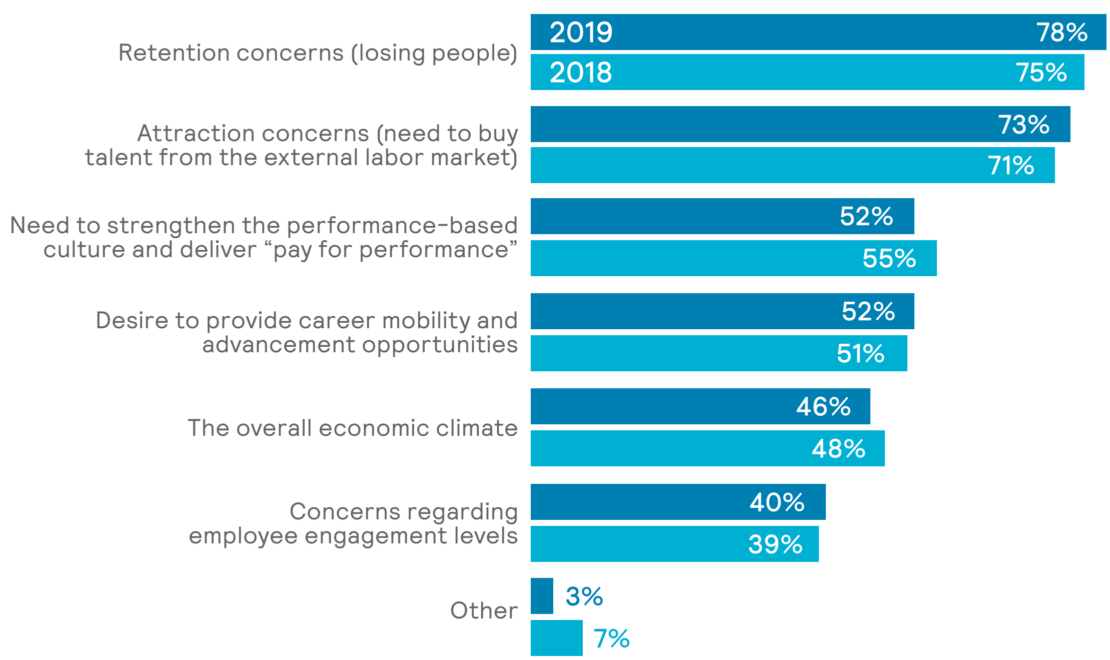
PLANNING FOR 2019

When planning for 2019, 78% and 73% of organizations, respectively, put retention and attraction concerns at the top of the list, which is a significant increase from prior years (up from 68% and 63% respectively since 2017).

Furthermore, there has been a downtick in the need to strengthen the performance-based culture and deliver "pay for performance" to employees (down from 55% in last year's survey to 52% this year).



Despite significant concerns in attracting and retaining talent, retention is not a primary focus of most annual salary increase budgets. The majority of organizations (80% and 77% respectively), are focused on utilizing their salary budget to remain market competitive and reward individual performance.

PRIMARY REASONS FOR THE ANNUAL SALARY INCREASE BUDGET (% OF ORGANIZATIONS)

80%	77%	46%	18%	1%	2%
To remain market competitive	To reward individual performance	To maintain/ increase retention	To recognize increases to the cost-of-living	Don't know/ unsure	Other

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TRENDS IN COMPENSATION DECISION-MAKING

TAX CUTS AND JOBS ACT LEGISLATION

Considering this year's Tax Cuts and Jobs Act legislation (US Tax Reform), organizations were asked whether they were redirecting some of their anticipated tax savings into their salary increase budget. Only 4% of organizations are redirecting tax savings into their salary increase budget. Of this small group, just half (53%) are planning to increase their salary increase budget by less than 1% of payroll.

72% of organizations are anticipating tax savings

4% of those anticipating tax savings are redirecting some savings into salary increase budgets

25% of Banking/Financial Services organizations that are anticipating tax savings are redirecting some savings into salary increase budgets

Purchase the full report, which includes additional data and analysis based on employee performance level, career level, industry and geography at www.imercer.com/cps

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