

U.S. Companies Planning Similar Pay Raises for 2016, Towers Watson Survey Finds

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Companies giving their best performers the largest raises

ARLINGTON, Va.--(BUSINESS WIRE)--Aug. 10, 2015-- Pay raises for U.S. employees are expected to hold steady in 2016, according to a survey by global professional services company Towers Watson (NASDAQ: TW). The nationwide survey of more than 1,100 U.S. companies also found that employers continue to reward their best performers with significantly larger pay raises as they look for ways to retain top-performing talent in a tightening labor market.

The survey, conducted by Towers Watson Data Services, found that virtually all respondents (98%) are planning to give employees raises next year and are projecting average salary increases of 3.0% in 2016 for their exempt nonmanagement (e.g., professional) employees. That's the same increase these employees received this year and in 2014. Employers are also planning 3.0% salary increases for nonexempt salaried and nonexempt hourly employees. Executives and management employees can expect increases that will average 3.1% in 2016. The number of companies that are giving raises has risen steadily since the recession in 2008.

"To a large extent, 3% pay raises have become the new norm in corporate America. We really haven't seen variation from this level for many years," said Sandra McLellan, North America practice leader, Rewards, at Towers Watson. "While most organizations are finding the talent they need at current salary levels, we are seeing more employers prioritizing how their salary budgets are being spent, especially in light of their ongoing difficulty in attracting and retaining top performers or employees with critical skills."

Indeed, the survey also found that exempt workers who received the highest performance ratings were granted an average salary increase of 4.6% this year, about 77% larger than the 2.6% increase given to workers receiving an average rating. Workers with below-average performance ratings received salary increases of less than 1%.

"We've seen many companies make dramatic changes to their approach to performance management, including eliminating formal performance reviews or taking a 'ratingless' approach to reviews. Many organizations are rethinking whether linking base salary increases primarily to last year's performance makes sense or if this should be the role of short-term-incentive and bonus programs," said McLellan.

In fact, the survey also revealed that more employees are becoming eligible to receive annual and short-term incentives, and more are also receiving awards. More than eight in 10 (85%) exempt employees received a bonus this year, up from 81% in 2014. Meanwhile, 87% of exempt employees were eligible to receive an annual or short-term bonus this year, up slightly from 86% last year.

"It's no longer all about base salary. While our research consistently shows the importance of pay when employees decide to stay or leave an organization, we also know their decisions are not just about the money. Opportunities for career development, learning development and challenging work are top drivers of retention. It's the value of the total package — compensation, benefits and nonmonetary rewards — that makes the difference. As a result, companies are paying closer attention to understanding how employees value these elements," said McLellan.

About the Survey

The Towers Watson Data Services Salary Budget Survey was conducted between May and July 2015, and includes responses from 1,116 U.S. companies representing a cross section of industries. The survey report provides data on actual salary budget increase percentages for the past and current year, along with projected increases for next year.

About Towers Watson

Towers Watson (NASDAQ: TW) is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. The company offers solutions in the areas of benefits, talent management, rewards, and risk and capital management. Towers Watson has 16,000 associates around the world and is located on the web at towerswatson.com.

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