



PAY INCREASES

Pay increases can sometimes be a mystery to employees and employers alike. Frequently, we'll throw out terms like "merit" and "cost of living" without fully understanding the differences in the types of pay increases that are being referenced.

Merit Pay: Pay increases related to the measurable performance of the employee. The more effectively and efficiently the employee performed his or her job, the greater the pay increase. Typically, this type of system requires the employer to establish measurable criteria and for the employee to reach certain goals.

Cost of Living: An adjustment made to pay in order to counteract the effects of inflation. Generally, this rate is based on the percentage increase in the consumer **price** index for urban wage earners and clerical workers (CPI-W) for a specific period. Typically, you'll find this type of pay increase used by governmental employers and in organizations that have union representation.

Promotional increase: Employees who are moved into jobs with a significant change in job duties and responsibilities will typically receive a promotional increase. The change in job duties and responsibilities is also normally accompanied by a change in job title and grade.

Market pay adjustment: Organizations will make adjustments to pay when they determine that the rates they are paying for certain jobs are not competitive enough to attract or retain employees. In many cases, wage surveys are used to determine whether or not a company is paying competitively in their geographic location or industry.

General across the board increases: Many organizations grant general pay increases rather than tie the increase to performance, cost of living, or any other factor.

Many companies have a budget that they set aside each year for pay increases. Some budget for various types of pay increases that may occur throughout the year, others budget a flat amount that includes all types of pay increases in one lump sum. Organizations such as [WorldAtWork](#), [Willis Towers Watson](#), and [Aon Hewitt](#) conduct reliable, well-respected surveys in this area.

Another issue employers need to address is whether they are going to time the pay increase to coincide with an annual performance review. While it is a common practice for a pay increase to accompany a performance appraisal, most compensation professionals argue that pay should be separate from the performance review. That allows the company to place appropriate emphasis on the individual's performance, which ideally is evaluated on an on-going basis and not just once a year.

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