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Total Rewards in Historical Inflation

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HC&B



Speakers



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Competing for Tech Talent



The Radford Data & Analytics Platform

Multi-Industry
5,000 companies

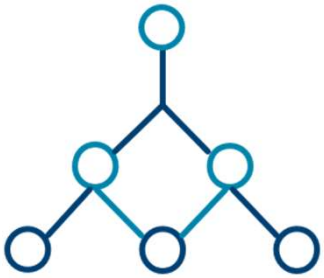
15 million+
incumbents

98 countries

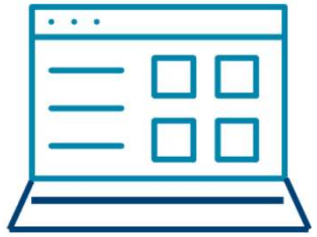
8,600+ jobs



Radford Global Compensation Database



Radford Global Job Architecture and Leveling System



The Radford Network®

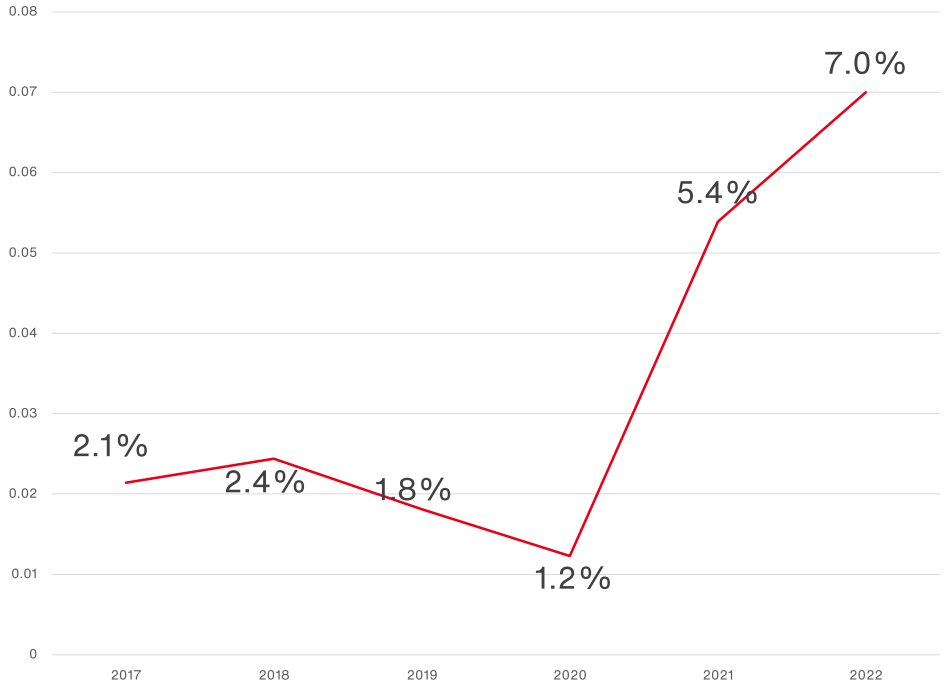
The Big Picture

- **Global economy is rebounding**
- **Unequal recovery within Tech**
- **Competitive talent landscape. There are currently over 10M job opening in the US**
- **Currently 1 M Software Engineer jobs are now open for only 200,000 new graduates/ candidates per year**
- **Aligning skills, reskilling is a challenge. Employers are aligning pay to a new work model driven by flexible geo hiring and hybrid models.**
- **DEI and ESG are key considerations for job candidates.**

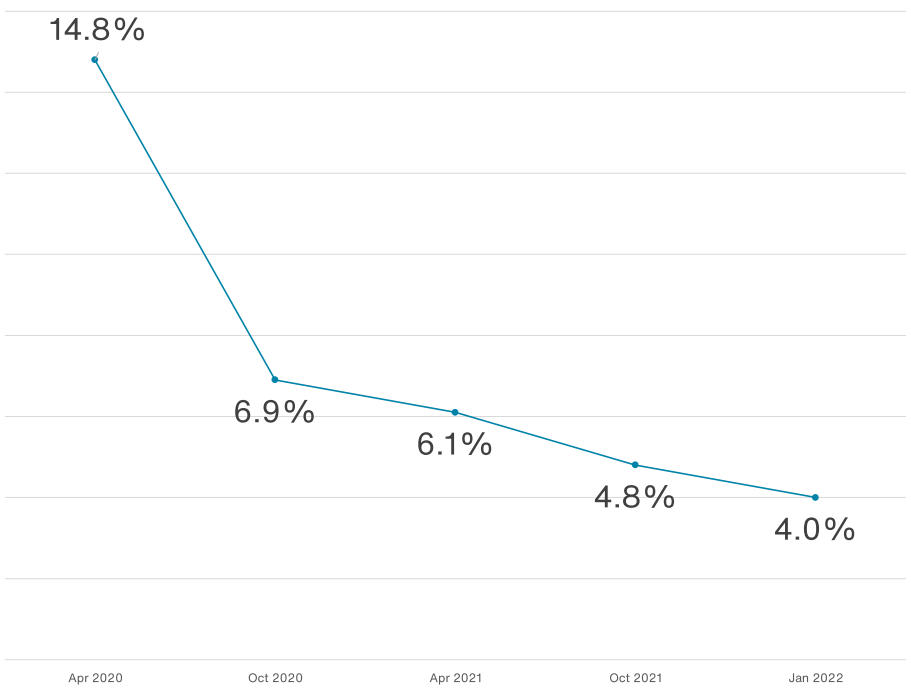
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Factors Influencing the Talent Market Place

Inflation Rate



Unemployment



Source: Statistica and BLS

What Tech Companies Are Offering



Employee Value Proposition

The tech EVP is centered on the brand, unique culture, great products and the ability to make an impact



Job Architecture & Career Opportunities

Technology job architecture is built to allow for an agile approach to careers, including enablement for cross-functional opportunities and accelerated growth for technical talent



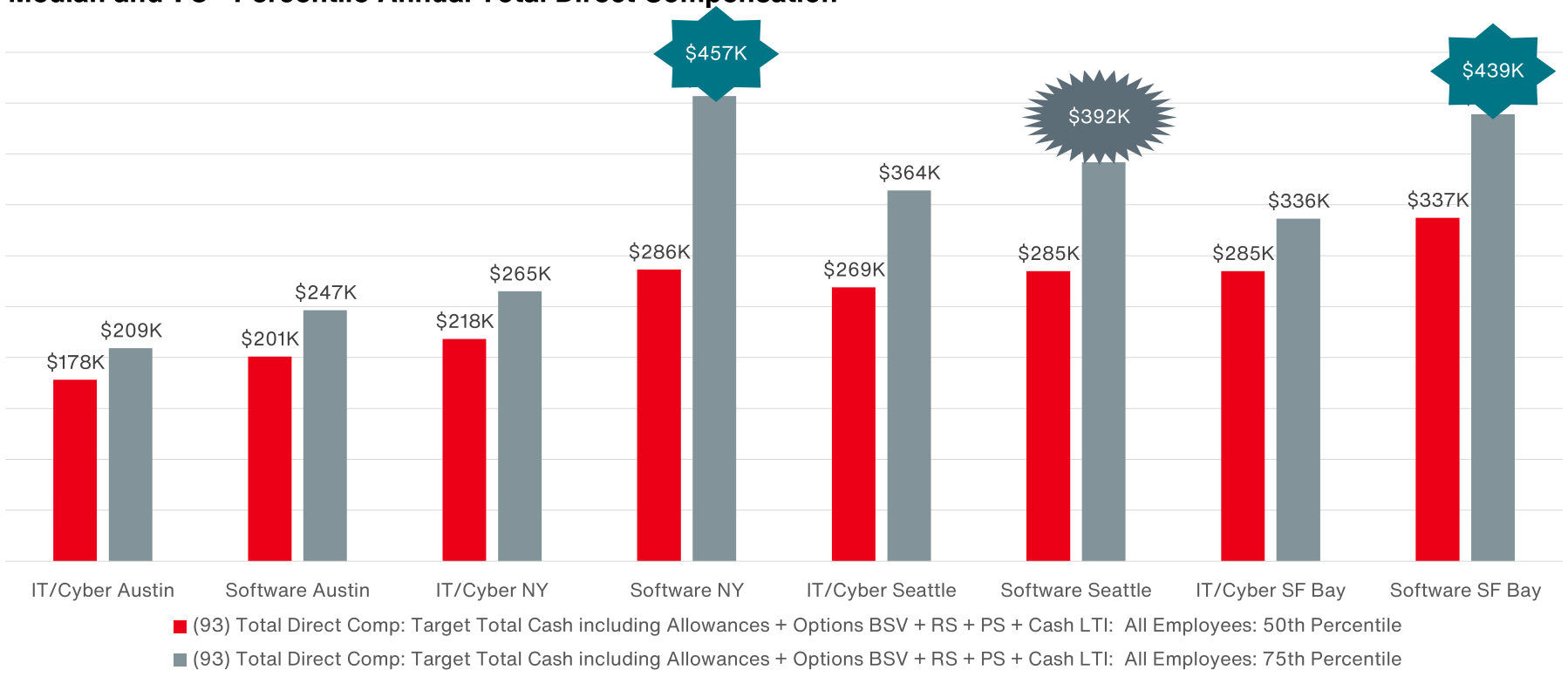
Rewards

Tech rewards packages are rich, particularly regarding the value of the total compensation package, quite often inclusive of new hire and ongoing annual equity grants

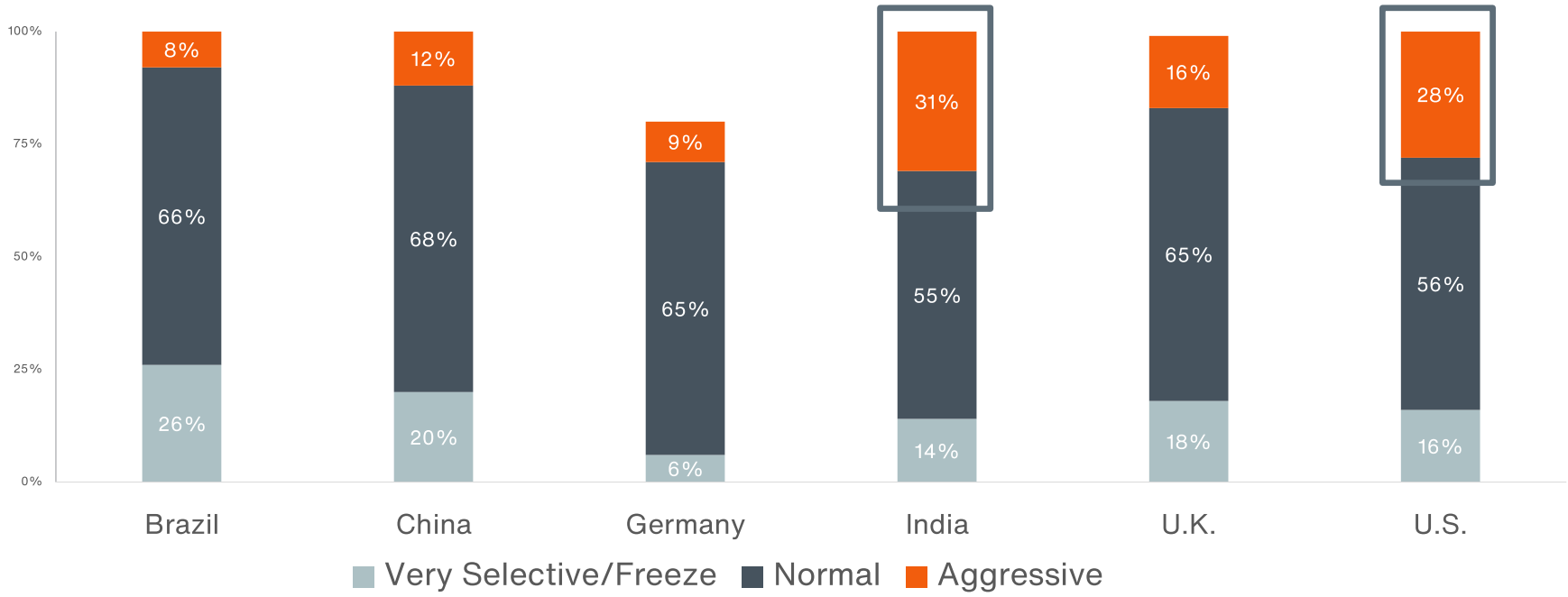
TDC: Software and Cyber Role Level P5

Large Tech Hubs lead the race to **$500k TDC**

Median and 75th Percentile Annual Total Direct Compensation

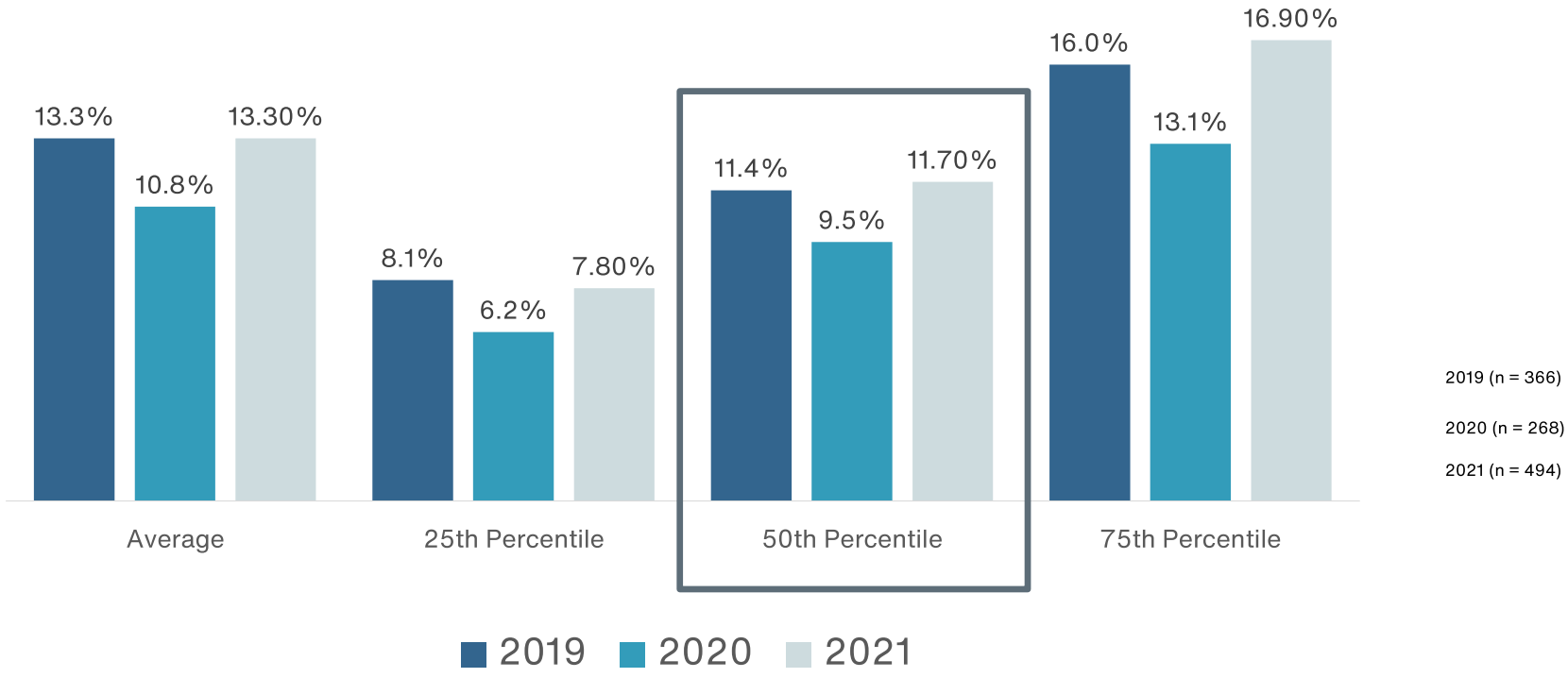


Global Hiring Environment



Source: Aon Salary Increase and Turnover Study Section Edition 2021, technology sector.

US Voluntary Turnover



Source: Aon Salary Increase and Turnover Study Section Edition 2021, technology sector.

Global Salary Increases

	2021 Salary Increase Budget (Undiluted)		2021 Salary Increase Actual (Undiluted)		2022 Salary Increase Budget (Undiluted)	
	50th Percentile	75th Percentile	50th Percentile	75th Percentile	50th Percentile	75th Percentile
Brazil Merit	3.3%	4.6%	3.2%	4.7%	3.5%	5.0%
Overall	4.5%	5.6%	4.5%	5.8%	5.0%	6.0%
China Merit	6.0%	6.5%	5.5%	6.3%	6.0%	6.5%
Overall	6.0%	7.0%	5.9%	6.8%	6.0%	7.0%
Germany Merit	3.0%	3.0%	2.8%	3.0%	3.0%	3.0%
Overall	3.0%	4.0%	3.0%	3.7%	3.0%	4.0%
India Merit	9.0%	10.0%	8.4%	9.8%	9.0%	10.0%
Overall	9.5%	10.0%	9.0%	10.0%	9.5%	10.1%
U.K. Merit	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Overall	3.0%	4.0%	3.0%	4.0%	3.0%	4.0%
U.S. Merit	3.0%	3.0%	3.0%	3.2%	3.0%	3.1%
Overall	3.5%	4.5%	3.5%	4.7%	3.5%	5.0%

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Source: Aon Salary Increase and Turnover Study Section Edition 2021, technology sector.

Major Indicators

Country	GDP	GDP YoY	GDP QoQ	Interest rate	Inflation rate	Jobless rate
United States	20937	5.50%	6.90%	0.25%	7.00%	4.00%
China	14723	4.00%	1.60%	3.70%	1.50%	5.10%
Euro Area	13011	4.60%	0.30%	0.00%	5.10%	7.00%
Japan	4975	1.40%	-0.90%	-0.10%	0.80%	2.70%
Germany	3846	1.40%	-0.70%	0.00%	4.90%	5.10%
United Kingdom	2708	6.80%	1.10%	0.50%	5.40%	4.10%
France	2630	5.40%	0.70%	0.00%	2.90%	8.10%
India	2623	8.40%	12.70%	4.00%	5.59%	8.00%
Italy	1886	6.40%	0.60%	0.00%	4.80%	9.00%
Canada	1644	4.00%	1.30%	0.25%	4.80%	6.50%
South Korea	1631	4.10%	1.10%	1.25%	3.60%	3.80%
Russia	1484	4.30%	-0.80%	8.50%	8.40%	4.30%

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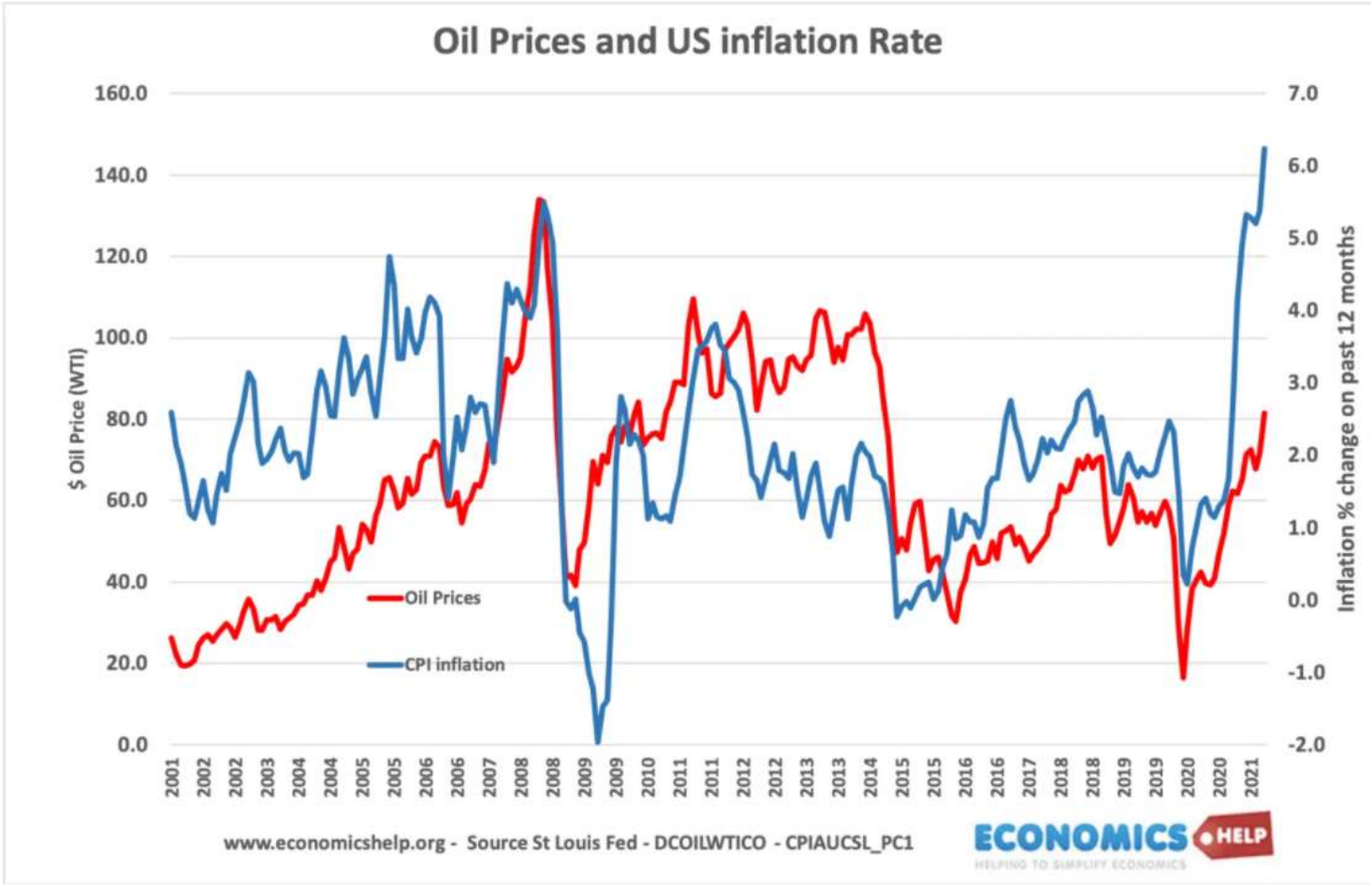
Source: Statistica

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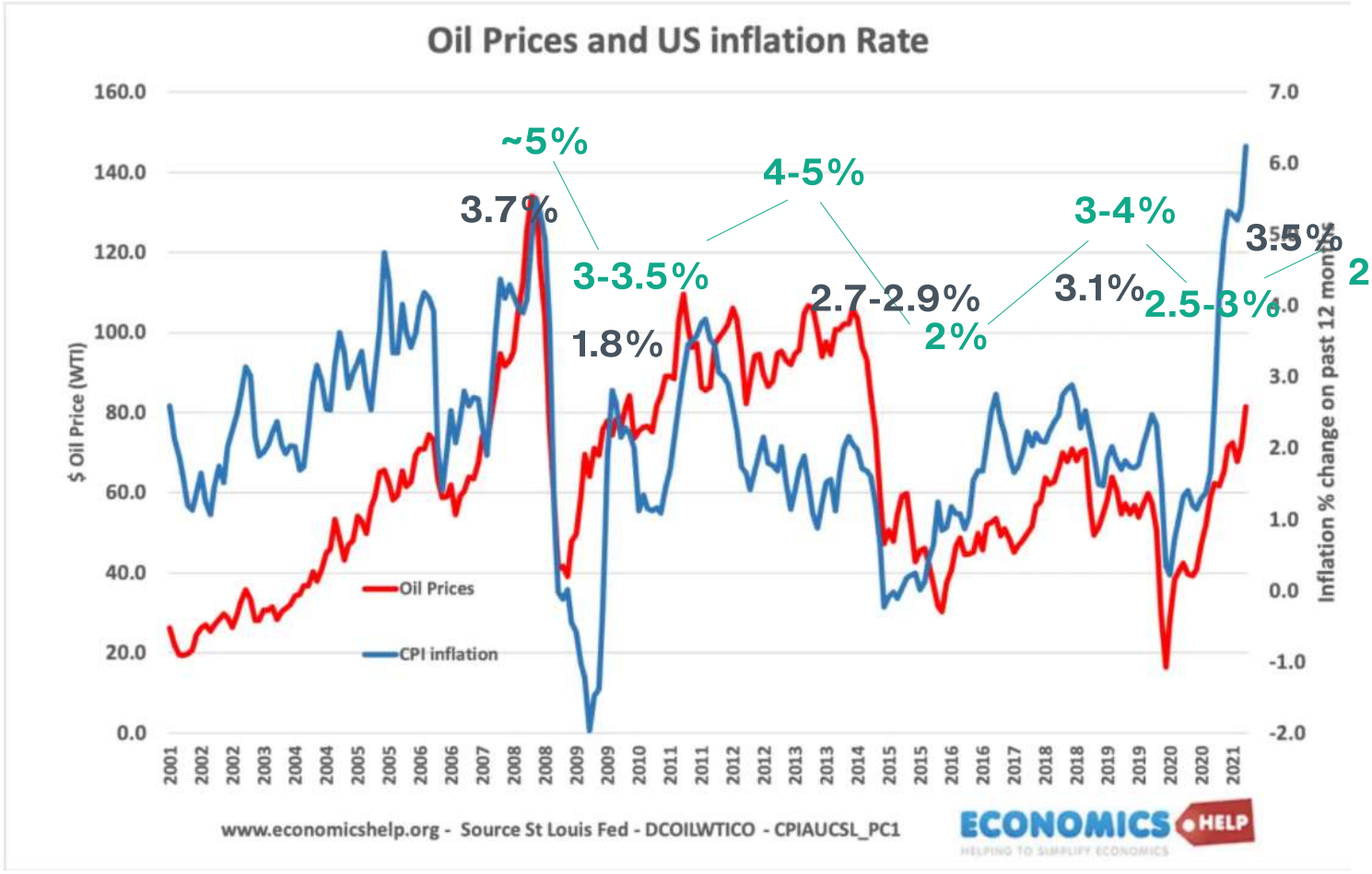
Taking a Closer Look at Inflation



Correlation or Causation?



Correlation or Causation? Adding in Salary Increases...



- All industries Salary Increase

- Approximate Energy Salary Increase

Global Salary Increases – Technology / Energy

	2021 Salary Increase Budget (Undiluted)		2021 Salary Increase Actual (Undiluted)		2022 Salary Increase Budget (Undiluted)	
	50th Percentile	75th Percentile	50th Percentile	75th Percentile	50th Percentile	75th Percentile
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Overall	4.5% 5.3%	5.6% 5.5%	4.5% --	5.8% --	5.0% --	6.0% --
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Overall	3.0% 3.0%	4.0% 3.2%	3.0% 2.5%	3.7% --	3.0% 3.0%	4.0% --
India Merit	9.0% 9.8%	10.0% --	8.4% --	9.8% --	9.0% --	10.0% --
Overall	9.5% 9.9%	10.0% 10.0%	9.0% 8.8%	10.0% --	9.5% --	10.1% --
U.K. Merit	3.0% 2.6%	3.0% 3.0%	3.0% 2.0%	3.0% --	3.0% 2.6%	3.0% --
Overall	3.0% 2.7%	4.0% 3.3%	3.0% 2.5%	4.0% 3.5%	3.0% 3.0%	4.0% 3.0%
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Overall	3.5% 3.0%	4.5% 3.5%	3.5% 3.1%	4.7% 3.6%	3.5% 3.0%	5.0% 3.5%

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Source: Aon Salary Increase and Turnover Study Section Edition 2021, technology and energy sectors.

Inflation Management Case Studies - Russia

Russia: Inflationary spikes / currency devaluation

- Case Study: Russia – January 2015
- Situation: Russia's economy weakened sharply in 2014 due to Western sanctions and a significant drop in the price of oil, which resulted in a depreciation of the Russian ruble and high inflation. Aon conducted a custom survey of US multinationals in the technology sector with employees in Russia to see how employers were handling the situation.
- Nearly half (49%) of all survey respondents indicated they were not taking any special actions at this time – such as changing their compensation programs or adopting special one-off measures.
- Most companies adopted a "wait and see" approach and continued to monitor economic trends.
- Those who made adjustments to compensation programs were doing so in a conservative or temporary nature; 20% decided to raise overall salary budgets.
- Another 14.3% of companies decided to review base salaries twice a year, but this did not mean an adjustment in pay.
- Reviewing base salaries twice a year is often cited as a best practice in markets experiencing volatility, whether it be from fast growth or hyper-inflation.
- About 10% of companies did provide a one-time bonus (e.g., equal to one month's pay) or provided a special allowance for a temporary period of time (e.g., three months of pay, reviewed quarterly).

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Source: Radford Article by Marie Brinkman, "Managing Compensation Programs in the Face of Russia's Sudden Currency Devaluation", Published January 2015.

Inflation Management Case Studies - Argentina

Argentina: Chronic, very high inflation

- Case Study: Argentina – May 2019
- Situation: Inflation has historically been an economic factor in Argentina. But HR companies took notice when the increase went from 15% in 2010-2015, to over 20% in 2016-2017, to 45% in 2018 and then to over 50% as of March 2019. In May 2019, Aon interviewed leading multinationals in the technology industry to understand what policies are in place and what lessons they have learned when handling volatile situations.
- Companies do not match the inflation rate one-for-one in their pay actions but do monitor it closely and it is an important consideration in salary planning.
- One client indicated that some companies developed an inflationary program.
- Inflation is heavily considered in salary budgeting, but companies also review annual salary increase figures reported by survey vendors, conduct spot polls, track market pay and consider overall attrition and payroll costs.
- Nearly all companies have a policy of granting salary increases at least two times a year, which would typically be granted first in the beginning of the year or spring and then a second time in the fall.
- Increases go to base salary.
- Companies typically do not grant allowances or bonuses, temporary or otherwise, to address the volatility.
- Locals are not paid in USD (it is illegal) and the local pay is not tied to the currency exchange rate.

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Source: Radford Article by Marie Brinkman and Olivier Maudiere, “Policies for Managing Pay in Volatile Markets”, Published May 2019.

Inflation Impact...

...on Employers

Inflation	Devaluation
▪ Ability to raise prices; price freezes ▪ Impact on price of local raw materials and other supplies ▪ Compensation increases over time	▪ Impact on hard currency budgets ▪ Incentive targets are often in hard currency ▪ Increase in price for imported raw materials ▪ Supply of hard currency through banking system

...on Employees

Inflation	Devaluation
▪ Desire to be kept “whole” ▪ Concern about ability to maintain their standard of living ▪ Can they afford staple items for their family? ▪ Look to employer to help	▪ Making less in hard currency terms (does that really matter?) ▪ Imported goods will increase in price ▪ Ability to cover offshore expenses ▪ Will seek in-kind benefits rather than currency (keeps value)

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Source: Aon Presentation by Bethany Beyer and Kavita Maharaj, “Tips for Addressing the Impact of Global Economic Indicators” in July 2018.

Key Considerations

1. Most companies have the following general guiding principles:
    - Pay is set based on the local market cost of labor, not the cost of living.
    - The cost of living or inflation rate is an indirect factor in setting salary budgets and pay levels.
    - Local employees are always paid in local currency and pay is not pegged to USD or any currency exchange rate.

2. When working in a market that is experiencing a volatile, extreme or unexpected event, best practices include:
    - Partnering with local management to understand all the facts of the situation, the market conditions and how compensation practices are developed to support the local/country objectives
    - Obtain market data in order to understand how competitors are handling the situation.

3. How do Inflation and Devaluation Impact Market Movement of Salaries?
    - They are Influencers for salary setting, but…
    - There is no correlation between salary market movement, inflation, and devaluation
    - From our research and country examples, it is clear that the labor market moves independently from inflation and deflation

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Source: Radford Article by Marie Brinkman and Olivier Maudiere, “Policies for Managing Pay in Volatile Markets”, Published May 2019.
Aon Presentation by Bethany Beyer and Kavita Maharaj, “Tips for Addressing the Impact of Global Economic Indicators” in July 2018.

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What is your Employee Value Proposition



Know What You're Solving For

If the problem is this…	Retention	Hiring	Wage Inflation	Pay Satisfaction	Job Satisfaction
Start with a diagnostic…	**Root Cause Analysis**	**Labor Market Analysis**	**Critical Workforce Benchmarking**	**Employee Input**	**Internal Marketplace**
	Identify turnover hot spots and root causes	Identify labor markets where (diverse) talent is still available	Confirm pay positioning gaps for critical workforce before you increase pay	Before altering total rewards, know which programs employees value most	Use AI tools and apps to match employees to new careers internally

Money is more often a dis-satisfier and de-motivating

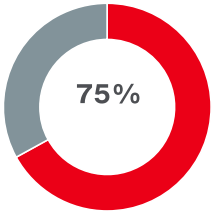
Don't assume what motivates you or your boss will motivate me

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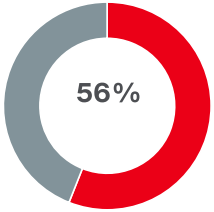
Source: Aon 2021 TR Strategy Survey of Business and HR Leaders.

Know What Employees Value

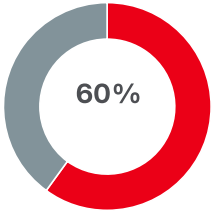
What are current preferences?



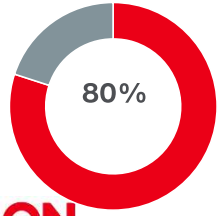
Want more choice and control over how benefits dollars are spent



Would rather have subsidy for wellness and family care than more PTO days



Would rather be back in the office because of added stress working from home and to connect with colleagues



Would remix their compensation from what it is today

What rewards do they value?

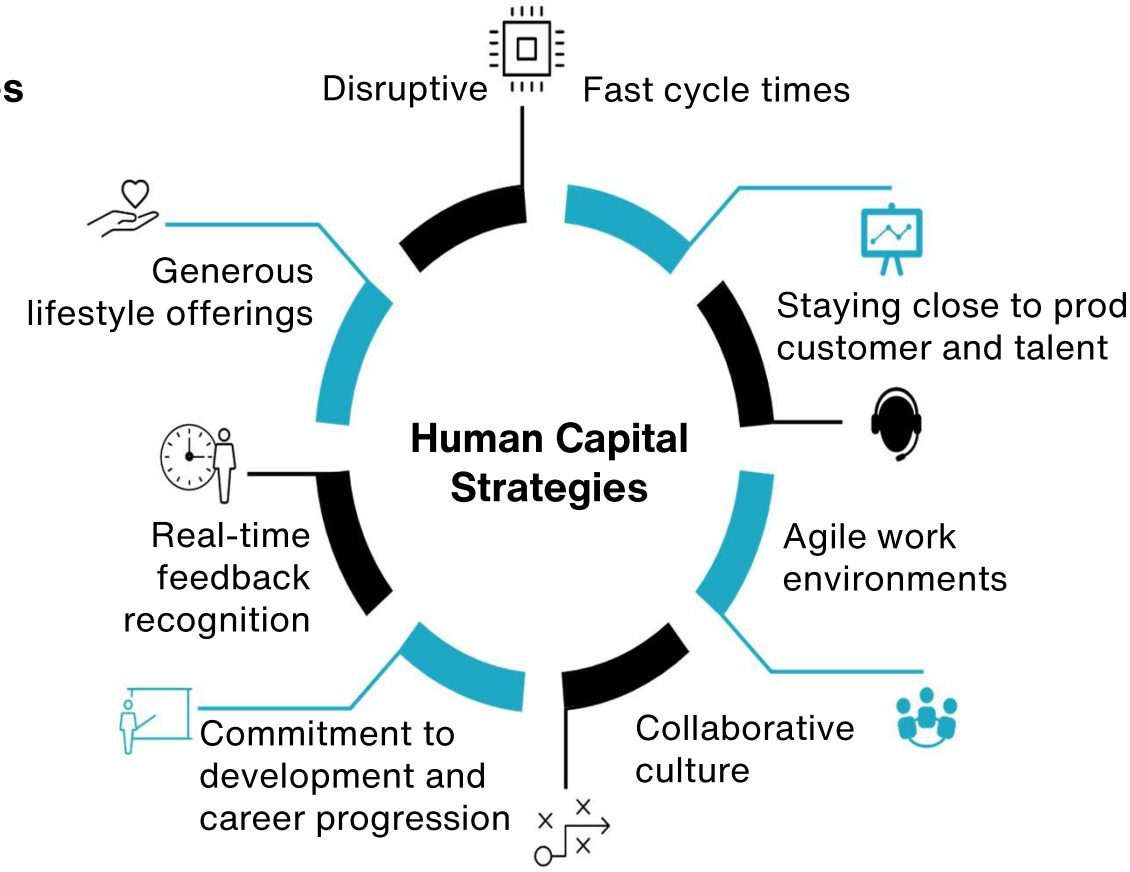
	Gen Z	Gen Y	Gen X	Boomers+
Base pay	1	1	1	4
Medical	2	2	2	3
Career growth opps	3	6	4	6
Caregiver support	4	11	11	5
Variable pay	5	7	8	10
Retirement	6	4	3	2
Life insurance	7	3	5	1
Home office	8	5	6	6
PTO	8	7	4	10
Equity/LTI	9	9	10	4
Parental/family leave	10	11	12	14
Flexible work	11	7	5	8
Dental/vision	12	8	7	9
Wellness	13	12	13	7
Recognition	14	13	14	12
STD/LTD	15	14	15	13
Performance management	16	15	9	11
Learning/development	17	10	9	11

Source: Aon 2021 TR Strategy Survey of Business and HR Leaders.

Link It to the Business Proposition

Business Priorities

1. Growth
2. Global expansion
3. Scale-ability
4. Customer Collaboration



Human Capital Needs:

1. Mobility
2. Decision autonomy
3. Manager development
4. Promotion pace
5. Hybrid / office mapping for customer alignment

Source: Aon 2021 TR Strategy Survey of Business and HR Leaders.