Inflation Is Taking a Bite Out Of Employees' Salaries — Here's How Employers Can Help

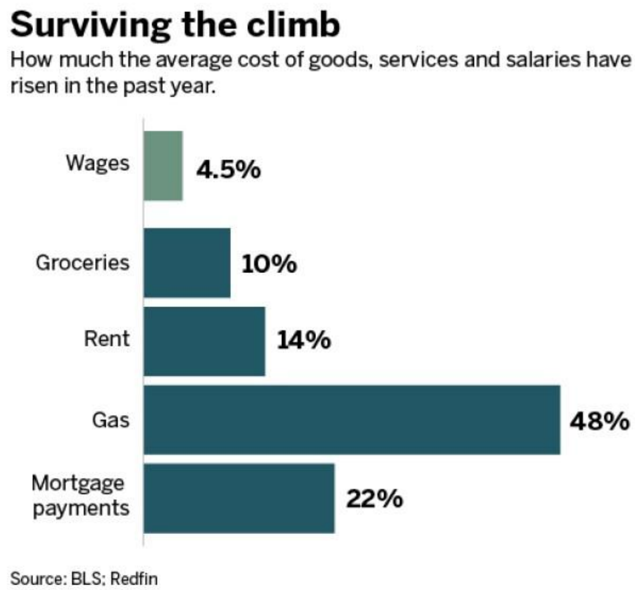
Employee Benefits News | Deanna Cuadra | May 24, 2022

Rodnae Productions from Pexels

After fighting to survive a yearslong pandemic and a national labor shortage, employers and employees have been served up one more helping of hardship on their financial plate: inflation. The Consumer Price Index rose nearly 8% this year — a 40-year high for inflation in the United States. Since inflation measures the increase in the prices of goods and services, this means the cost of living in America has gotten even higher, taking a toll on both employees' salaries and employers' budgets as they try to remain competitive in today's labor market.

"The cost of living represents a market basket of goods, housing, food and energy, all of which we pay for on a weekly or monthly basis," says Lauren Mason, senior principal at Mercer, an asset management firm. "The pay you received for doing your job represents your buying power to buy all that stuff, while inflation represents the rising costs of that basket."

Essentially, workers are experiencing a loss in buying power for everything from food and gas to rent and home prices, and those increases far exceed the 4.5% rise in wages reported by the Bureau of Labor Statistics. For example, gasoline prices are nearly 48% higher than a year ago, while grocery prices jumped 10% in the last year. According to real estate brokerage Redfin, monthly listed rents have increased to an average of $1,877 by December of 2021, representing a 14% rise in prices. Homeowners aren't safe either, with national monthly mortgage payments rising by 21.6%, breaking a record in Redfin's data.



While these numbers are not tied solely to inflation, inflation has intensified their upward trends, putting pressure on workers whose raises are likely unable to compete, explains Mason. This spells trouble for employers, with 43% reporting that employees want financial action to be taken to offset inflation, according to a March 2022 Mercer survey.

"Most employers focus on the cost of labor, rather than the cost of living when determining pay strategies," says Mason. "That's why we often see a big discrepancy between the cost of living and cost of labor. It's very much driven by the local supply and demand of the labor market."

Supply and demand will have a greater impact on how employers handle compensation strategies and navigate the Great Resignation, predicts Lori Wisper, managing director at insurance company Willis Towers Watson.

"We have both low unemployment and high inflation, which we haven't had since 1969," says Wisper. "Salary bud- gets will not go up simply because of inflation, but because of the scarcity of workers. It's a simple economic equation of supply and demand."

Wisper also notes salary budgets are not as flexible as some may think, and salary increases do not tend to fully recover after a period of great economic downturn. For example, research from the University of Los Angeles and the University of Zurich found that those who graduated at the start of the 2008 financial crisis make less than non-recession graduates and will not see their salaries catch up for 10 to 20 years. This amounts to $60,000 to $100,000 less in lifetime earnings.

While employers tend to decide salaries based on what's considered competitive in their labor market, inflation combined with talent shortages may force employers to reconsider their pay strategies. According to a Mercer survey, nearly 50% of organizations will conduct additional salary reviews for all or some employees in response to inflation, even though 46% of organizations said that they do not usually factor inflation into salary budgets.

"Employers, if they're smart, are going to pay attention to inflation because it matters to employees," says Wisper. "I do anticipate in 2022 that if we continue with worker shortages, employers will have to raise pay."

Mason advises employers to specifically look at how inflation is impacting their low-wage workers, especially if they are struggling to cover expenses that impact their ability to be engaged at work. Employees in the retail and food service sector are especially at risk — job search engine Adzuna estimates that while waiters saw the largest salary increase from January 2021 through November 2021, with a 64% climb, their current estimated annual salary stands at $30,000, in a field with limited benefits and rare bonuses. Even before inflation, that salary is less than half what personal finance resource GoBankingRates estimated the average American needs to cover basic expenses like housing, food, recreational spending and saving contributions.

Mason also suggests that employers be transparent about how wages are determined, so employees at least under- stand that there is a logic behind their pay. Beyond salaries, Wisper and Mason encourage employers to look to their benefits and work culture.

"Look at the affordability of your benefits and how it's impacting their take-home pay," says Mason. "Look at the broader work environment to see if there are high levels of burnout and what's driving it."

Neither Wisper nor Mason are sure of how long this high rate of inflation will last, and the same can be said for employers. But it's already altering the lives of millions of workers.

"There's this question of whether this is going to be sustained high inflation or temporary," says Mason. "But right now, employers are just trying to respond to the labor market and manage costs right."