FINDLEY perspective

September 24, 2019

Minimum Pay Levels—Can Organizations Afford an Increase?

By Rob Rogers

One issue that continues to be debated is the increase of the minimum wage to $15. The argument focuses on fairness vs. affordability. However, it is important to note that there are a number of states and municipalities that have taken steps to increase the minimum level to $15 and higher through ballot and legislated changes.

In addition to the state and local statutory changes, there continues to be voluntary moves toward a "living wage" which has been adopted by a number of employers throughout the country. There is a location-specific quantification of living wage which is defined as the minimum income necessary for a worker to meet his/her basic needs for shelter, clothing and nutrition. For example, in Cleveland, Ohio, the living wage for a single adult is $10.77 per hour and for one adult with one child, it is $22.68.

Why has this voluntary move occurred?

It is typically a combination of the recognition of the need to provide a morally and socially just minimum pay level along with a desire to enhance the attraction and retention of good employees. We have seen moves by employers of all sizes. Employers are beginning to see a decrease in turnover rates which has helped to offset the cost of the increased wages.

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Other results included a significant increase in the quantity and quality of the applicant pool for entry level positions. This is an important desired outcome for employers increasing their minimum starting rates. Without quantifiable savings, an increase to compensation expense decreases operating margin unless it is offset by higher revenues. This is the biggest argument of those in the food and beverage industry—the inability to pass on the increased costs to the customer.

The move to a living wage involves a number of factors that must be considered. First, what is the appropriate pay level? As stated earlier, that level varies depending upon each person's circumstance. Obviously we cannot implement a pay system that varies based upon each person's number of dependents and working status of other adults in the household.

The most common approach is to take a "typical" profile and land on that as the starting point. That might range from $10 to $15 per hour. Another issue is the potential loss of welfare benefits such as Medicaid and food assistance programs as a result of the pay increase. Is it possible for someone's net earnings to decrease as a result of the increase? The answer is yes, however, while employers need to be cognizant of this, our experience is that structuring a pay system to maximize welfare benefits is never in the long-term best interests of either the employer or the employee.

Another issue that is important to recognize is the wage compression that occurs with an increase of the minimum starting pay levels. In other words, a significant increase in the lowest level positions can result in the next levels having the same or slightly higher pay levels. The compression adjustments cannot totally match the minimum increase, however, some adjustments need to be made to recognize experience and higher levels of responsibility.

We expect that moves to what might be considered a just or living wage, will continue on a voluntary basis. The need for high quality staff at all levels will continue to push employers to make efforts to enhance their employment experience. The assessment of starting pay levels will be an important part of that effort.

Questions? Contact the Findley consultant with whom you normally work or Rob Rogers at Rob.Rogers@findley.com or 216.875.1926.