Early 2012 Employment Summary
January 2012 saw a total of 243,000 payroll jobs added, with a gain of 257,000 private sector jobs and a loss of 14,000 government jobs. U-6, an alternative measure of labor underutilization including part time and marginally attached workers, fell to 15.1%. Given that the U-6 was in the 8% range in 2007, the current rate remains high. This employment report included the first positive benchmark revision since 2006, with 165,000 payroll jobs added in March 2011. Despite these apparent improvements, the participation rate declined to 63.7%, and the employment population ratio remained steady at 58.5% in January. There are still 12.8 million unemployed Americans, 5.5 million of which have been unemployed for over 6 months. The graph at right shows the job losses from the start of the recession, in percentage terms, aligned at maximum job losses. The current recession has shown the greatest percent of job losses spanning more months than all the recessions since 1948 and is taking longer to reverse the job losses. For more details, see www.calculatedriskblog.com/2012/02/graphs-unemployment-rate-participation.html.

Professional Learned Exemption Tests – the US FLSA’s “Problem Classifications”
ERI has found a complex situation in reconciling the US FLSA and 10 state exemption tests using state citations, the descriptive analyses found in US Part 541, and the US CIP 2010’s fields of study. There is considerable ambiguity related to certain professional positions with licensing, certification, or education in any learned field or a specific learned field related to a position’s task requirements. The logic used in ERI’s Occupational Assessor® (OA) is illustrated in the chart below, with the threshold for passing the Professional test being a sum greater than or equal to 50% confidence. For those positions scoring in the 42.5% to 49.9% range, OA now shows “Uncertain.”

Why have ERI’s Platform Library® icon on your PC?
• easy to use
• saves you time and money
• a few keystrokes away from millions of answers
• employer-provided data
• a second opinion to the more expensive surveys

2012 Salary Structure Movement: 1.6%
ERI’s Salary Increase Survey is “evergreen,” refreshing each month by eSIC industry and state/region. There is still slack in the market; at least five years of tradecraft experience appears favored.

2013 Median US Salary Increase: 2.9%
Subscribers are invited to participate in ERI’s 2013 Salary Increase Survey (free to subscribers) via the fifth tab of the Platform Library. Early indicators show 2.9%, but this is subject to change.
The US Economy Improves
ERI believes the US is now caught in a “skill trap.” More people need to be employed, and those employed must see increased earnings, before our unskilled and semi-skilled populace fully rejoin the economic fray. Without a healthy construction industry and an educational system in tune with the job market, it is a difficult slog. That said, we see modest growth in most sectors.

Salary Increases in 2013
As ERI has already started collecting data on those budgeting/planning nongovernmental salary increases for the year to come, it is obvious that, even though 3% may be the stated norm for a salary increase, most Americans are not receiving that amount. A test for this hypothesis is the movement in overall salary increases. Real wage movement has been less than 1% this last year. If everyone had been receiving increases, then that structure movement should be closer to 2%, allowing for terminations, retirements, and promotions (for any job studied). So the real question is, “What percentage of Americans have been granted an increase during the last 12 months?” or “What percentage of jobs are going to receive an increase in the next 12 months?” The answer has to be around 50%, no matter what a survey reports, given that surveys only document the amount reported by those participating in the surveys.

ERI attributes low wage/salary growth to several factors, including a large number of unemployed who are willing to begin work at 2004 levels. That doesn’t explain, however, the loss of salary growth in skilled jobs. Could it be that, with family health premiums now in the range of $15,000 per year and increasing at a rate of around 10% annually, the $1,500 in additional payroll costs consumed annually by runaway health care costs in America leave little to no available dollars to spend on salary increases? Health care cost inflation has not abated in the recent downturn and appears to have tentacles that affect housing, automobile purchases, tax revenues collected, and a host of other niches in the US economy. See www.kaiserhealthnews.org/stories/2011/september/27/employer-health-coverage-survey-shows-employer-spending-spike.aspx for more details on the growing costs of employer insurance plans.

Increasing Health Care Costs
Benefits is a wonderful place to apply the Rule of 72, by which the years needed to double a sum is found by dividing the rate into 72. See the graph below that we have been using in our newsletters for 20 years. If you note, we forecasted long ago that 2014 would be a magic year, the year in which health care costs increasing at 14% would surpass wage costs for the beginning employee. It got here quicker than we thought at ERI. This next year, ERI’s annual family coverage for just Blue Cross will be $22,800, and one can hire a minimum wage worker for $18,803 in Washington. When interviewing an unskilled employee, the candidate is likely thinking of starting salary (gross value); the employer, on the other hand, is concerned with the new employee’s health care premium costs. If ERI had an employee-pay-all health care plan, then these employees would receive no take home pay. That may tell you something about why wages are stagnating in America.

Medical care cost growth is not an actuarial dynamic like salary increase or pension costs. They are not costs that can be decided in a management budget meeting. Health care costs are driven by litigation, pharmaceuticals, an aging population, “extra-party” tariffs and their lobbyists, and technological advances, not the demand and supply for care. As mentioned earlier, many companies’ health care premiums are advancing now at rates of approximately 10% a year. Insurance companies’ executives are living for the moment in 2012, trying to maximize profits while they can. Health care costs (if you measure them in terms of mid-size companies’ premium costs) are currently doubling every four years. Some new construct must be around the corner, otherwise the Rule of 72 will grind most people out of the system, the young amongst us first, those a rational society would want to have the healthiest.

Net Earnings Analyses
ERI surveys gross earnings for a job, typically the annual salary that is attached to a position. Employees ultimately see their take-home pay expressed as a net amount after taxes, retirement, and benefit reductions. Many private employers are no longer willing to accept insurance carriers’ actual dollar amount increases. So, many employees are paying higher co-pays, premium shares, and deductibles, and some employers are just cutting the provision of insurance entirely (see ERI’s Health Care Benefits Benchmarking Survey on page 4). When assessing your competitive position regarding wage rates, you might also consider reviewing the net pay amounts being received among your target benchmark group.
**The TSR Metric**

The prevalent use of Total Shareholder Return (TSR) as a payout or vesting trigger for long-term executive compensation elements begs the question, “How is TSR derived?” We will start by deconstructing TSR and review how it is calculated:

\[
\text{TSR} = \frac{(\text{Stock Price end} - \text{Stock Price begin}) + \text{Dividends}}{\text{Stock Price begin}}
\]

TSR is essentially “shareholder’s cash flows,” that is, net change in stock price plus the dividends paid during a fixed period and expressed as a percentage change of the beginning stock price for that period. Since TSR is expressed as percentage change and can easily be indexed with comparable companies, it enables shareholders to make industry benchmark comparisons. With the long-standing adage of aligning executives to shareholders interests, companies using TSR demonstrate this with a clear line of sight.

Now, let’s look at the stock price and dividends. The stock price is typically the key driver of a negative or positive TSR value, whereas dividends are relatively “stable.” Dividends tend to be a more stable part of the calculation for the following reasons: 1) dividend payout patterns are information signaling to the market regarding the long-term prospects of a company and affect the company’s stock price, and 2) companies are not likely to reduce or eliminate dividend payments in an attempt to avoid negative market response. A company could have a negative stock price performance over a certain period yet still generate a positive total shareholder return if dividends paid outweigh the stock price fall (logically possible, yet highly unlikely).

It is apparent why many companies use TSR. As investors, shareholders need a “relative” measure to gauge past success of investment choices, and TSR does this for them. Also, TSR can easily be reported and validated by multiple third-party sources.

Whereas TSR is an essential measure in tracking performance, stock compensation is emerging as a key component in management compensation. Stock awards, typically restricted stock, are stock price sensitive, yet less risky than options awards. The graph below is worth a million words in describing this recent revolution in the use of stock awards for executive compensation:

**The Debate Over Teacher Pay**

As public budgets tighten, the debate over teacher pay has recently gotten more heated. While many researchers seem to agree that higher teacher quality translates into improved student performance, does higher pay necessarily bring the best and the brightest to the profession? Although ERI focuses on private and nonprofit (not governmental) pay practices, the effective use of compensation to attract and retain quality employees is of wide interest.

A recent London School of Economics blog reported on research by Professors Peter Dolton and Oscar Marcenaro-Gutierrez that compared teacher pay and where it fits in the national income distribution with student achievement in the various OECD countries. They found that higher teacher pay tends to lead to the desired better student performance and also tends to attract more able graduates into the profession. When teaching attains a higher standing in a country’s income distribution, the national status of teaching as a profession is enhanced. The end result of linking higher pay with higher status as a profession tends to be a positive impact on student performance. Read the full article at [http://blogs.lse.ac.uk/politicsandpolicy/2011/12/28/pupil-performance/](http://blogs.lse.ac.uk/politicsandpolicy/2011/12/28/pupil-performance/).

In the US, Andrew Biggs and Jason Richwine from the Heritage Foundation found that teachers were overpaid in “Assessing the Compensation of Public-School Teachers” (see [www.heritage.org/research/reports/2011/10/assessing-the-compensation-of-public-school-teachers](http://www.heritage.org/research/reports/2011/10/assessing-the-compensation-of-public-school-teachers)). They conclude that public school teacher pay is comparable to the pay of similarly skilled private sector workers, but that more generous fringe benefits for public school teachers, including greater job security, pension programs, and retiree health care benefits, make total compensation 52% greater than “fair market” levels. They claim this is equivalent to more than $120 billion overcharged to taxpayers each year. They suggest that teacher compensation could therefore be reduced with only minor effects on recruitment and retention. Alternatively, teachers who are more effective at raising student achievement might be hired competitively at comparable cost.

Researchers at the Economic Policy Institute (EPI) have been quick to respond. EPI’s analysis found that average weekly pay of teachers in 2003 was nearly 14% below that of workers with similar education and work experience, a gap only minimally offset by the better nonwage benefits in teaching. In fact, teacher earnings have fallen below that of the average college graduate in recent decades, losing considerable ground during the late 1990s, as earnings of college graduates grew 11% relative to the much lower 0.8% growth in teacher earnings. See “The Teaching Penalty” at [www.epi.org/publication/the_teaching_penalty_an_update_through_2010/](http://www.epi.org/publication/the_teaching_penalty_an_update_through_2010/). EPI also analyzed the data sources and statistical methods used in the latest Heritage Foundation study and found serious problems with the report and its conclusions. For more details, see [www.epi.org/publication/webfeatures_viewpoints_teacher_pay_comparisons/](http://www.epi.org/publication/webfeatures_viewpoints_teacher_pay_comparisons/).

ERI finds both studies deficient in terms of comparing hours worked per day and months per year. That said, if health care costs require a new solution or construct, the same might be said for education.
Extended Participation Deadline

Participation in all 2012 ERI compensation surveys, including the special Canadian compensation survey, has been extended to April 16! You still have time to submit data for the 2012 reports. Survey participants receive a 50% discount toward the purchase of the full survey report in which they participate, plus a free electronic copy of the survey’s Executive Summary. ERI Assessor Series subscribers who participate in a survey via the Platform Library will receive a free PDF copy of the full survey report. If you have already submitted data for your industry, consider participating in one of the job function or combined industry surveys. Participation in all applicable surveys is welcome. By participating in ERI’s compensation surveys, you not only strengthen the data in the surveys, but also contribute to the quality of our Assessor Series data sets.

Benchmark Compensation Data Now!

Over 100 individual industry-specific and job function compensation surveys will be released in August by ERI Salary Surveys. These traditional compensation surveys provide not only survey participant data collected during the period of October 1, 2011, to April 16, 2012, but also two additional sources of data to use for comparison purposes. Surveys have approximately 100 benchmark jobs ranging from support staff to executive positions. US industries include manufacturing, retail, wholesale, transportation, utilities, and more, plus over 20 nonprofit activity areas. Thirty Canadian for-profit industry surveys will also be released. Ranging in price from $489 to $689, these surveys provide current, affordable data and may be purchased on a national or statewide basis.

Benefits in Nonprofit Organizations

The 12th edition of the Benefits in Nonprofit Organizations survey will be released on July 2. The 2012 survey continues with a strong focus on medical, prescription, and dental costs, in addition to life/disability benefits, retirement plan practices, paid leave, and other benefits such as executive perquisites in nonprofit organizations. The data in this survey gives nonprofit organizations the reference needed to compare current benefit offerings to those of other nonprofit organizations throughout the United States. Data is reported by organization scope, activity area, geographic region, and organization size. Visit http://salary-survey.eri.com for more information or to preorder a survey.

April 2 Release of the 2012 Health Care Benefits Benchmarking Survey

Over the past few years, many businesses, particularly those that are small, have found it more difficult to offer benefits to match those they have offered in the past or those offered by larger competitors. Some employers are moving to less costly options, such as a High Deductible Health Plan (HDHP) coupled with a Health Savings Account (HSA), instead of the more traditional medical plans. Other employers are just reducing benefit levels overall by increasing employee contributions, deductibles, co-payments, coinsurance, and out-of-pocket maximums. In 2012, several respondents reported a requirement for a separate deductible for prescription drugs. Cost management strategies such as disease management, health promotion, and wellness programs are also being used by many employers to counter increasing health costs.

In addition to salary surveys, ERI conducts an annual Health Care Benefits Benchmarking Survey to assist employers in making competitive decisions about their benefit offerings. Participation for the fifth edition of the survey was solicited from employers in the public, private, and nonprofit sectors as well as government entities in the United States. The Health Care Benefits Benchmarking Survey provides data cuts by organization sector, industry group, organization size (by number of employees), and geographic region. The report features sections on general benefits practices, general features of medical coverage, and co-payment requirements, as well as prescription drug plans, dental benefits, vision benefits, and more.

Most employers recognize that benchmarking health plan costs and practices with other employers in the external marketplace is the first step in evaluating the effectiveness of current and future benefit changes and strategies. By providing timely and accurate measurement of health care plan costs, ERI’s Health Care Benefits Benchmarking Survey can serve as a valuable reference when considering plan changes and cost-saving strategies. Learn more about ERI Salary Surveys and purchase the survey at http://salary-surveys.eri.com.

Salary Survey Guidelines

ERI follows the Safe Harbor Guidelines and the Todd rationale, established in Todd vs. Exxon, 275 F2d 191 (2nd Cir. 2001), in the publication of its salary survey reports. For more details, see www.wms-wms.com/Salary%20Survey%20Guidelines.htm and attend ERI’s “Analyzing and Using Salary Survey Data” webinar.
Salary Survey Data
ERI’s Salary Assessor® & Survey (SA) reports the most robust competitive wage, salary, and incentive survey norms available. Job content is updated via PAQ’s eDOT Skills Project. Analyses are derived from millions of data points gathered annually from ERI’s traditional salary surveys, digitized public records including US SEC forms, OCR of IRS nonprofit returns, ERI’s patented online surveys, leased survey data sets, and licensed UK, Canadian, and US salary surveys and data sets. ERI research saves subscribers time and expense, providing analyses of competitive pay for over 6,100 jobs defined by area, industry, and organization size. Six thousand corporate subscribers, including most US Fortune 500 companies, use Assessor data to review competitive wage/salary and incentive levels. SA, like all Assessor Series products, comes in two main editions:

Professional Edition SA is for today’s salary planning. These features are included:

• Review salary ranges and mean/median values for over 5,600 nonexecutive jobs in 370 US and Canadian metro areas (expand analyses to over 8,300 US and Canadian city locations when used in conjunction with ERI’s Geographic Assessor).
• Calculate competitive levels of salaries, incentives, and total compensation by area, industry, size, and planning date.
• Create a user-defined area representing the labor market pool.
• Review survey populations, alternate titles, and job codes.
• Edit and rewrite job descriptions with a focus on skills.
• Create a hybrid job with custom weighting.
• Quickly create a Benchmark List of competitive rates.
• Plan salaries using a Salary Planning sheet.

Consultant Edition SA+ is for in-depth research for consulting, compliance, or litigation support and for planning salaries for executive and director level positions. It includes these features:

• All Professional Edition SA data and features.
• Review salaries, incentive, and total cash compensation for over 500 executive job titles.
• View UK/EU salary data for all non-executive positions.
• List jobs by industry in the Benchmark List table.
• Enter up to 1,000 rows of data in the Benchmark List, Geographic List, and Salary Planning tables.
• Review reliability statistics to meet Daubert Challenge criteria.

Enhanced Edition - Special Features
Subscribers may now import data into Salary Assessor analyses (SA Enhanced Edition license required):

1. Import up to 9,999 jobs to the Benchmark List.
2. Import up to 9,999 areas to the Geographic List.
3. Import any of the following data to the Salary Planning sheet: Employee Name, Position Title, Present Salary, Planned Action, Date of Planned Increase, and New Salary (up to 9,999 rows).
4. Search text and navigate expanded table rows easily.

For more information about the Enhanced Edition of the Salary Assessor, please call 949-706-8345, ext. 222.

Common to All Assessor Programs
All Assessor Series applications contain an automatic update feature so that subscribers always have the most current data and program features. Once an application is installed from either the quarterly DVD or ERI’s website download, the automatic update feature takes effect. Each time an Assessor Series application is executed, the automatic update program checks ERI’s web servers for updates (if an active Internet connection is available). If an update more recent than the version of the application currently used by the subscriber is found, then the user is prompted with instructions on how to download and install the update.
**Geographic Assessor**

ERI’s Geographic Assessor® & Pay Survey (GA) database provides labor cost wage differential comparisons contrasted between the location of headquarters and branch offices to assess salary competitiveness and set salary structures. A Comparison List screen provides summary wage differentials at six default earnings levels (e.g. hourly, professional, executive, etc.) consistent with the breakpoints where pay variance patterns change.

The Geographic Assessor software calculates wage and salary differentials between cities using all available data for the area, allowing for wage and salary comparisons between over 8,300 areas in the US and Canada. A European Edition is also available, as well as an Enhanced Edition allowing the import of up to 9,999 areas to the Comparison List (call 949-706-8345, ext. 222 for more information). The Geographic Assessor also reports cost-of-living differential summary data (for renters) for comparison purposes.

ERI’s data sources are many: ERI conducts 128 industry-specific compensation surveys, 19 job function surveys, and 2 benefits surveys (under ERI Salary Surveys), supports field job analysts work with PAQ’s eDOT Skills Database, leases other salary survey data sets, reviews non-copyrighted and/or leased survey data, trades data with other survey organizations, digitizes publicly available data, and data mines H-1B visa applications. We also data mine online job boards (including CareerBuilder under license), review data contributed by incumbents, and evaluate and collect loan and employment applicant data in the provision of web services (historically outrageously high data). Data from employers posting on CareerBuilder and employee-provided pay data are not included in the Assessor Series applications. Employee-provided data does, nonetheless, provide evidence for the validation of both industry and geographic differentials, and job board data, in particular, supplies input in the review of job description content. It also shows evidence of a job’s existence (see www.paq.com) and the rate of a job’s emergence or disappearance.

**Related DLC Courses**

**Prevailing Wage Analyses - 14**
Retrieve OES prevailing wage survey data for use in setting pay for immigrant employees and prevailing wage determinations.

**Designing a Branch Office Salary Structure - 83**
Evaluate new office or factory locations based upon local wage/salary and cost-of-living levels.

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**Common to All Assessor Programs**

All Assessor Series applications allow subscribers to export data using the Copy to Clipboard feature found in the Edit menu.

To Copy a Table to a Spreadsheet
1. Open a document in a spreadsheet application.
2. Select Edit | Copy to Clipboard | For Spreadsheets in the Assessor.
3. In the spreadsheet application, click on the first cell where you want your information pasted, and then paste.

To Copy a Table to a Word Processor
1. Select Edit | Copy to Clipboard | For Text Files in the Assessor.
2. Open a document in a word processor application, click in the area of the document where you want the information pasted, and then paste.

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**2012 ERI's Assessor Series Research Product Configuration**

<table>
<thead>
<tr>
<th>Assessor Series Editions</th>
<th>Free - demonstration -</th>
<th>Professional - planning -</th>
<th>Consultant - governance -</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Assessor</td>
<td>G.A. &amp; G.A.</td>
<td>Two-city salary/wage comparisons by means level for branch office salary planning in 1,100 US CA areas. Supplemented by graphic illustration, cost-of-living comparisons, and salary area comparison table (base city compared to multiple other locations). Used by subscribers to define branch office salary structures and export local pay rates. (Subscribe at $399)</td>
<td>All Professional Edition features; useful for compliance, affirmative action planning and bids for government contracts, 1990 - 2000 Costs associated, tend to predict data and inflations for state groupings and country predictions. Provides baseline reference data for affirmative action households. (Subscribe at $52,359)</td>
</tr>
</tbody>
</table>

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April 2012 Economic Research Institute Update
Relocation Assessor

The Relocation Assessor® & Cost-of-Living Survey (RA) provides detailed two-city cost-of-living comparisons. Additional screens display graph comparisons, benchmark listing comparisons of summary cost-of-living differentials, and per diem rates in up to 99 cities at a time as compared to one base area (e.g. headquarters) or a National Average. Select from over 11,500 cities worldwide for your cost-of-living comparisons. Each analysis will be based upon your input of a relocating employee’s earnings, home size, home ownership (in the US and Canada) or home rental, family size, number of automobiles, distances driven, and automobile value. International income tax tables are available. Cities may be compared individually or grouped into user-defined averages of likely suburbs or living areas reflecting average salary levels in up to 99 cities at one time.

Common to All Assessor Programs

Update current subscriptions from the Internet by downloading and installing the full version of any Assessor Series software application with a valid license code. In addition to installing from the Platform Library DVD, you may download Assessor Series applications from the Internet following these steps:

1. Before beginning the download and installation process, please close all Assessor Series programs.
2. Open your Internet browser and go to www.erieri.com. Click on Updates at the top of the page.
3. Depending on the type of browser you use, please refer to the appropriate installation instructions provided on the screen.

Consultant Edition – Office Relocation

In addition to providing cost-of-living data for over 11,500 international locations, the Consultant Edition of the Relocation Assessor focuses on the transfer of a group of employees, rather than just a single employee. Subscribers can model (from a labor cost model perspective) the relocation of an office or plant from any of over 8,200 North American areas to another.

Related DLC Courses

Employee Relocations - 57
Determine relocation allowances that factor in home ownership versus rental.

Relocating a Facility Within the United States - 56
Research labor costs and regulations for planning a facility relocation within the US.

Sales Compensation and Expense Allowances - 76
Walk through the steps needed to create a sales compensation plan.

Expatriate Compensation - 92
Budget transfers of expatriates based upon the local cost of living at their new assignments (costs of 187 countries profiled).

Relocation of an Employee to a Foreign Assignment - 93
Learn the process of relocating an employee to a foreign country.
Executive Compensation Assessor
ERI’s Executive Compensation Assessor® & Survey (XA) software reports competitive salaries and bonuses for nearly 500 top management position titles as found within multiple industries. Executive compensation data may be adjusted for geographic area, industry, organization size, and compensation valuation date. The Executive Compensation Assessor software assists with precise evaluations of market pay and executive salaries; it is the only source of its kind that analyzes data compiled from all publicly available executive compensation surveys. ERI’s database includes US SEC proxy data and 10-K reports, plus Canadian information circulars and UK/EU annual reports (Consultant Edition). The Executive Compensation Assessor & Survey software is the default data source utilized by valuation expert witnesses in US tax court for the purpose of estimating reasonable compensation.

Related DLC Courses
Black-Scholes Valuations - 22
Research stock valuations via proxy statements accessible in XA.

Quantitative Methods Used in Executive Compensation - 29
Study the various statistical methods used in setting, analyzing, and auditing executive compensation.

Elements of Board of Directors Compensation Committee Review - 26
Examine a compensation committee’s roles and responsibilities.

Starting Your Own Business - 80
Determine founder salaries for a startup company.

Managerial and Executive Compensation - 21
Set competitive pay packages.

IRS Reasonable Executive Compensation - 12
Review the IRS federal income tax standards for reasonable compensation of stockholder-employees in closely held corporations.

Survey and Proxy Analyses
Executive Compensation Assessor reports a variety of proxy-analyzed values for 14,000 US publicly-traded organizations. Data exists from 1994 to the present (for many organizations), see http://museum.media.org/edgar/. UK data exists, and the EU is adopting similar practices. These compensation data elements are included in the Survey and Proxy Analyses table:

- Salary
- Bonus
- Stock Awards
- Option Awards
- Non-Equity Compensation
- Change in Pension, etc.
- All Other Compensation

Common to All Assessor Programs
Select the View | Methodology menu or the Help | Methodology menu to access the appropriate document for the selected product and edition. Any Assessor methodology can be saved or printed for your convenience.
Executive Compensation and Company Revenue Growth Not As Strong

REDMOND, WA – February 2012 – Total compensation for the highest paid executives was up just 2.1% from this time last year. This growth rate is much lower than we have seen over the past year, despite constant growth in company revenues over the same period.

ERI tracks executive compensation in a specifically selected sample of publicly-traded companies from across an array of industries to identify current trends. Highlights from the analyses include the following:

- From February 2011 to February 2012, Total Overall Compensation for the highest paid executive increased 2.1% to $17.5 million per year
- Base Salary increased 10.5%
- Company Revenues rose 8.8%

Executive compensation typically consists of several components: a fixed base salary, a variable bonus in cash and/or non-equity incentives based on meeting performance goals, and a variable equity payment in stock (either restricted stock awards or stock options) based on stock prices. Pension and other compensation components are added to the compensation package for these top executives.

<table>
<thead>
<tr>
<th>Compensation Components</th>
<th>February 2011</th>
<th>February 2012</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Salary</td>
<td>$1,149,094</td>
<td>$1,270,295</td>
<td>10.5%</td>
</tr>
<tr>
<td>Bonus &amp; Non-Equity Incentives</td>
<td>$3,758,530</td>
<td>$4,022,695</td>
<td>7.0%</td>
</tr>
<tr>
<td>Restricted Stock Awards (RSA)</td>
<td>$6,127,232</td>
<td>$5,937,568</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Stock Options</td>
<td>$4,126,352</td>
<td>$4,207,225</td>
<td>2.0%</td>
</tr>
<tr>
<td>Pension</td>
<td>$1,494,494</td>
<td>$1,759,958</td>
<td>17.8%</td>
</tr>
<tr>
<td>All Other Compensation</td>
<td>$570,290</td>
<td>$383,587</td>
<td>-32.7%</td>
</tr>
<tr>
<td><strong>Total Overall Compensation</strong></td>
<td><strong>$17,225,992</strong></td>
<td><strong>$17,581,328</strong></td>
<td><strong>2.1%</strong></td>
</tr>
<tr>
<td>Company Revenues (Millions)</td>
<td>$58,295</td>
<td>$63,428</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

The graph below shows that, from early 2010 to early 2011, the year-over-year increase in total executive compensation went from -10% to +25%. This sharp increase occurred about a quarter before companies reported a similar turnaround in revenues. However, the graph also shows that the increases in company revenues plateaued at around +10%, while the trend in compensation continued to climb. It was after two quarters of the start of this plateau that the sharp decline in the rate of change in compensation started.

While executive compensation is obviously related to company revenues, based on historical trends, there appear to be some potential future scenarios suggested by the data. The reversal in the growth rate of compensation may suggest that the rebound of company revenue was not as strong as anticipated. If the change in compensation reaches negative territory, it would also suggest that declining growth in company revenues may not be far behind.

As seen in the Total Compensation Composition by Year (%) graph on page 3, the composition of executive compensation has changed very little since 2007, though this graph does show significant changes in the Sarbanes-Oxley era.

The Apple Effect

There is a rather large footnote to these analyses: the removal of the top compensation at Apple (CIK: 0000320193) from the analysis. On August 24, 2011, Steve Jobs resigned as CEO, and Timothy Cook was named the company’s CEO. The 2011 proxy for Apple reports that, for FY2011, Mr. Cook received $376,180,000 in stock awards. During FY2011, Apple also reported a 68% increase in revenue over the prior year. Both of these figures are significantly out of line with the rest of the index, and are therefore being reported separately.

Including the top compensation and revenue at Apple significantly changes the composition of the overall executive compensation package. If the data extracted from Apple’s 2011 proxy is representative of future trends in executive compensation – if stock awards do represent 60% of the top executive compensation package, then we have come full circle to the late 1990s when options awards accounted for 60% of compensation. However, it is much more likely that the events at Apple were atypical.
Nonprofit Comparables Assessor
ERI’s Nonprofit Comparables Assessor™ & Tax-Exempt Survey (CA) is an easy-to-use and up-to-date desktop program that converts executive compensation data, reported to the IRS on Form 990s, 990-EZs, and 990-PFs, into almost infinite combinations of digitized analyses covering over 500,000 unique Employer Identification Numbers (EINs). It can assist in attracting, retaining, and motivating key management staff, paying competitively, controlling costs, and providing a rebuttable presumption for compliance with IRS regulations on reasonable compensation. Interactive graphs and screens present data on more than 25 million incumbents from over six million forms filed from 1998 to the present, all keyed to Internet-retrievable source documents. The Nonprofit Comparables Assessor is more a census than a survey. The pay data on Form 990s dating from 1998 onward are available in images on the ERI website and are also included through digitization and OCR in the CA. Data can be filtered and exported by industry, area, size, date, and tax status.

Common to All Assessor Programs
In any of the Assessor Series products, select Help | On Current Screen and a picture of your screen will pop up. Click on an area of the snapshot to access a narrative related to that feature, including links to related Help topics.

Related DLC Courses
Daubert Criteria for Expert Witness Testimony - 11
Find out about reliability statistics and rates of error for XA/CA data.
Quantitative Methods Used in Executive Compensation - 29
Learn various statistical methods used in setting, analyzing, and auditing executive compensation.
Intermediate Sanctions - 18
Understand how intermediate sanctions impact executive compensation arrangements in tax-exempt organizations.
Managerial and Executive Compensation - 21
Set competitive managerial pay packages.
Nonprofit Variable Pay - 72
Select and administer variable pay plans for tax-exempt organizations.
Analyzing Salary Surveys - 73
Retrieve executive compensation data from comparable organizations; selection of comparables is the key to IRC 4958.
ERI’s Occupational Assessor (OA) and New Online Version

In 2004, ERI brought PAQ Services into its family of research companies for the following reasons: 1) we expected that Social Security might use PAQ’s Position Analysis Questionnaire; 2) salary surveys are all about job matching (i.e., we favor field analysts’ collections of duties, skill verb and object comparisons, and job analysis measures); and 3) the then newly revised FLSA overtime testing Reg. 541 focused on job measures and analysis. Containing far more detail than the quick survey matches of job description briefs, PAQ’s one million position analyses assisted in creating the eDOT Skills Library and refining ERI Salary Surveys methodologies. In the process of updating OA’s FLSA module, we have confirmed time and time again that there has never been a better salary survey methodology than an overtime exemption test. Earnings values aren’t distorted in overtime analyses, and job matching is superb.

PAQ Services has been providing exemption test estimations since 1974; ERI’s Occupational Assessor® (eDOT®) added this module in 2004. Now these FLSA programs are available either for one’s PC or via the Internet. PC applications provide the following features:

1. Assured confidentiality as one designs a job to pass tests using varying task assignments, either nonexempt or exempt.
2. The ability to work on analyses when offline, such as when traveling, in a courtroom, etc.
3. A laptop or desktop PC is generally faster than the Internet. OA allows one to change an input and instantaneously see the results.

To complement the PC version, ERI’s Online FLSA Overtime Analyses has several unique features. It provides tests for compliance with both federal and state overtime exemption rules, whereas the PC version found in the Occupational Assessor tests for federal compliance only. An online Report Library also allows users to store all saved analyses in one place and quickly load or delete any saved input questionnaire or analysis report. For more information on ERI’s Online FLSA Overtime Analyses, please call 949-706-8345, ext. 222.

Common to All Programs

Select Help | Online Tutorial to access a complimentary tutorial to assist you with Assessor Series products. Available in both HTML and PDF formats, ERI’s Online Tutorials provide quick and up-to-date training on basic to advanced features.

Related DLC Courses

Conducting Job Analysis - 33
Learn how to perform job analysis from the ground up, including writing job descriptions and using job analysis questionnaires.

Using Job Evaluation in Your Organization - 34
Review the history of job evaluation and its use in addressing inadvertent pay discrimination and the challenge of internal equity.

Use of the DOT in the SSA Disability Determination Process - 52
Use OA’s Disability Determination module to review alternative positions for disabled workers with defined lessened capacities.

Comparing the DOT, O*NET, and eDOT - 58
Learn the advantages and disadvantages of each system, showing where each may be of most use in assisting the unemployed, college graduates, disabled individuals, or career changers.
Economic Research Institute Update

ERI Webinar Events
ERI offers an array of webinars on topics ranging from salary administration to executive compensation and relocation planning. See the webinars menu on www.eridlc.com for more information or to sign up for one of these upcoming events:

**Introduction to Classification for FLSA Compliance**
The Fair Labor Standards Act (FLSA) changed for the first time in over 50 years in 2004, transforming the way organizations determine exemption status. Even now, there is still a great deal of misinformation surrounding the FLSA. In this webinar, you will learn what makes a position exempt versus non-exempt. Straightforward steps to properly classify positions will also be offered. Please note, this webinar will only cover the federal requirements. Find out how to get your organization into compliance with new FLSA overtime regulations by attending this webinar.

- April 17, 2012, 9:00 AM - 10:30 AM (PST)
- July 24, 2012, 9:00 AM - 10:30 AM (PST)

**Introduction to Cost of Living for Relocation**
Managing US domestic workforce mobility is a critical part of Human Resources functions and increasingly involves all stakeholders in the chain, such as senior leaders, recruiters, hiring managers, relocation managers, and outsourcing organizations. This course focuses on US domestic workforce mobility programs and will explain the strategy, policy, and administration required for an effective program. Topics will include an overview of the mobility industry and corporate function, current trends, best practices, benchmarking, analysis, and case studies. This course will cover specific aspects of US domestic moves pertaining to temporary and permanent assignments, differentiation by employee type or position, and on-going policy alignment with changes in business performance and economic conditions.

- May 8, 2012, 9:00 AM - 10:30 AM (PST)

**Compensation Basics**
This introductory webinar examines methods and processes that support compensation basics such as job analysis, job documentation, and job evaluation. Several analysis techniques will be discussed that may be used to obtain important and relevant information about each distinct role performed within an organization for appropriate documentation. Guidelines for conducting a job analysis interview will be provided, and suggestions will be given for designing an effective job analysis questionnaire.

In addition, the importance of various components of a job description that can add value to job documentation will be addressed. Differences between job analysis and job evaluation will be identified and conceptual variations between several job evaluation methodologies will be defined.

- June 19, 2012, 9:00 AM - 10:30 AM (PST)
- September 25, 2012, 9:00 AM - 10:30 AM (PST)

**Introduction to Executive Compensation**
This course is an introduction to executive compensation. It will cover total compensation elements including base salary, short-term incentives, long-term incentives, deferred plans, benefits, and perquisites. We will discuss the objectives of these programs, cover the related SEC and IRS rules, and establish a framework for planning executive total compensation which will include project management, benchmarking, and analysis. We will review effective performance measurement relative to incentive plan designs, discuss types of equity and deferred plans, and introduce related tools for enabling the planning process.

- August 21, 2012, 9:00 AM - 10:30 AM (PST)

**Compensation Conferences**
Please visit ERI’s booth at one of these upcoming trade shows:

- **WorldatWork**
  Total Rewards Conference 2012
  May 21 – 23, 2012
  Kissimmee, Florida,
  Booth #427

- **Society for Human Resource Management**
  SHRM 2012 Annual Conference & Exposition
  June 24 – 27, 2012
  Atlanta, GA
  Booth #1610

**Recent ERI Whitepapers**

- **Principles of Merit Pay**
  Realizing that people respond to rewards is not a difficult notion to grasp. Determining how much to reward, to whom, and when, however, are complex decisions that organizations contend with to motivate employees and retain high performing individuals in a competitive market. ERI's latest white paper, “Principles of Merit Pay,” draws on history, theory, and common practice to outline the basics of a successful merit-based system. See www.erieri.com/PDF/Principles-of-Merit-Pay.pdf to read the full article.

- **Evaluating Salary Survey Methodologies**
  In the field of compensation, professionals rely on data to determine appropriate wages for individuals in their organization. The data is provided by research outlets that use a variety of methods to examine compensation practices in the marketplace. While compensation researchers genuinely work to provide accurate information, there remain inherent strengths and weaknesses to different methods of collecting, interpreting, and reporting data. Compensation professionals who understand these strengths and weaknesses are better equipped to analyze the results for use in determining pay, setting salary structures, and evaluating established compensation systems. This white paper highlights the pros and cons of three methodologies, all of which utilize employer-provided data: surveys from national statistics offices, traditional salary surveys, and salary survey analytics. Read more at www.erieri.com/PDF/Evaluating-Survey-Methodologies.pdf.