PAYING THE MINIMUM

Adjusting for a change in the United States Federal minimum wage

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Since Amazon's pledge to pay all its US workers at least $15 per hour, Mercer started to pulse organizations on the drivers of paying more than minimum wage. The top reasons cited for offering more included:

- Reduce the administrative burden of chasing compliance with changing regulations by state and their municipalities
- Competition for skilled talent
- Attracting available talent

Although many of the largest organizations are paying $15 per hour, on average, or are in process of getting to this rate, there are just as many employers paying at or slightly above the required hourly minimum wage rate. As Mercer continued to pulse organizations on the topic of a $15 per hour wage, for the initial two surveys, retailers consistently responded to the question of a $15 per hour wage saying, "We will wait and see what is required." In the Mercer Global Talent Trends report of 2020, data collected prior to the pandemic taking hold, 63% of HR leaders predicted wage stagnation would continue in 2020.[i] As Mercer saw an uptick in questions about the federal minimum wage, a 2021 Mercer survey showed employers had changed their focused when asked, "List in order of importance changes your organization would consider if the federal minimum wage is increased to $15/hour." The majority of the 127 respondents listed: i) absorb cost, ii) review workforce plan, and iii) change the workforce rewards strategy. It is likely the state legislation passage, the election attention on federal minimum wage, and the rise of many hourly workers classified as "hero workers" have pushed organizations to re-evaluate their hourly workforce strategy differently.

A historical look back

Minimum wage earned per hour has been a topic of discussion since its creation as part of the National Industrial Recovery Act of 1933 by the United States Congress. For understanding, the federal minimum wage is defined in United States labor law simply as "the lowest remuneration that employers can legally pay their workers covered by FLSA.[ii] In addition, many states established their own higher minimum wage rate and require employees be paid the higher of the two minimum wage rates.[iii]

What makes up the demographics of 1.6 minimum wage workers as illustrated in data from the United States Department of Labor for 2019 earning wages at or below the federal minimum of $7.25 per hour[iv]:

- **Age.** Under the age of 25 represented only about 20% of the hourly paid workers, but this group made up about 40% of the 1.6 million workers.
- **Gender.** 3% of women and 1% of men earned wages at or below the required federal minimum wage rate.

[i] http://content.mercer.com/Career/Mercer-Global-Talent-Trends-2020-Report.pdf
[ii] https://en.wikipedia.org/wiki/Minimum_wage
[iii] https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#:~:text=2 million had wages below the federal minimum.,percent in 2018 to 1.9 percent in 2019.
[iv] https://www.dol.gov/general/topic/wages

- **Race and Hispanic or Latino ethnicity.** 2% across all ethnicities (White, Asian, Black, and Hispanic) of hourly paid workers are earning wages at or below the federal minimum.[v]
- **Full- and part-time status.** 5% of part-time workers (people who usually work fewer than 35 hours per week) were paid the federal minimum wage or less, compared with close to 1% of full-time workers (people working 40 hours per week).
- **Industry.** Leisure and hospitality are the highest with 10% representation.[vi]

Since the implementation in 2019 of Fair Minimum Wage Act of 2007 raising the federal minimum wage rate to $7.25 an hour, additional legislation has been introduced to increase wages further --

- 2012 Harkin-Miller proposal to raise the wage to $10.10.[vii]
- 2015 Living wage legislation introduced wages should be at a level where people who work full-time earn enough to support themselves and their families without the need to rely on public welfare or assistance programs.[viii]
- 2019 Raise the Wage Act introduced raising the federal minimum wage rate per hour in incremental steps by 2025 from $7.25 to $15.00.
- 2021 COVID-19 Relief Act introduced raising the federal minimum wage rate per hour to $15.00 by 2025 in stages.[ix] It would also guarantee that tipped workers, youth workers, and workers with disabilities are paid the full federal minimum wage.

As the Federal minimum wage debate continues, many states in the Union have not waited and increased the state minimum rate from $7.25 per hour. Seven states including Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Virginia, and the District of Columbia have passed legislation to increase their minimum rate to $15.00 or higher per hour over the next few years.[x] History shows government is likely to make incremental increases over a two to three year period to get to $15.00. Also, it is clear legislation may take time either at a federal or state level, but organizations need to be prepared for the inevitable. Mercer's recommendation is prepare now for what is coming and pay market competitive rates.

A tale of two views

The points of view for increasing the wage or maintaining the current federal wage have been consistent for years -- proponents of a higher minimum wage indicate the current minimum wage rate is too low for any one individual to have basic needs met. The proponents argue basic needs are the equivalent of $31,200 per year or $15 per hour. Some proponents said, "as the minimum wage rises and work becomes more attractive, labor turnover rates and absenteeism tend to decline".[xi] In a statement by Costco CEO, Craig Jelinek, during a Senate

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[v] https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#:~:text=2 million had wages below the federal minimum.,percent in 2018 to 1.9 percent in 2019.
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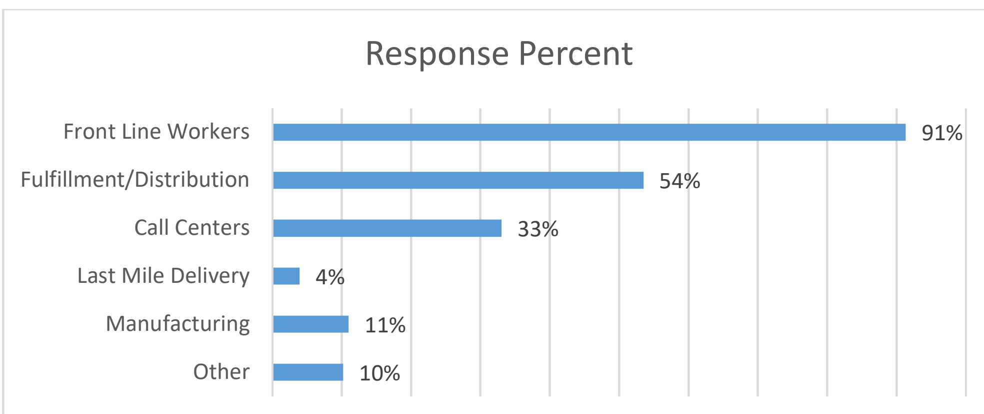
[vii] https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#:~:text=2 million had wages below the federal minimum.,percent in 2018 to 1.9 percent in 2019.
[viii] https://www.epi.org/publication/raising-federal-minimum-wage-to-1010/
[ix] https://minimum-wage.procon.org/history-of-the-minimum-wage/
[x] https://www.cnn.com/2021/02/19/politics/stimulus-house-democrats-proposal/index.html
[xi] https://www.thebalancecareers.com/2018-19-federal-state-minimum-wage-rates-2061043

Budget Committee hearing for pay at large retail and fast-food employers, "This isn't altruism," Jelinek said. "It helps in the long run by minimizing turnover, maximizing employee productivity commitment and loyalty."[xii] Other proponents state that if minimum wage rates increase, it would reduce the wage inequity between genders and races.

The opposition states that raising the minimum wage rate would hurt businesses and force companies to reduce their hiring and/or lead to closing their business. In 2019, the U.S. Congressional Budget Office cited …"real income falls for some families because other workers lose their jobs, business owners lose income, and prices increase for consumers."[xiii] One more argument is an employer may resort to replacing people with robots and other digitally enabled ways to meet customer demand on cost. During Mercer's pulse surveys on $15 Per Hour, respondents indicated most retail employers would consider a review of their workforce plans. In our experience, a review of the workforce plan includes hiring, scheduling flexibility, automation of routine tasks and job cuts.

The Call to Action

Size aside, a change in hourly minimum wage is inevitable. HR must prepare the organization and its brand for the change by offering ideas to leadership and successful implementation of solutions. Of the 127 participants in the Mercer 2021 survey, 91% indicated front-line workers would be the most impacted group of employees by an increase in the Federal minimum wage. It is not a surprise that front-line and distribution centers employees represent the largest group of employees to be impacted by a change.



Given the gravity of the impact to such a significant workforce size, Mercer, after multiple conversations with retail organizations, has identified some important topics for HR and leaders to take action that can transform organizations to adjust to minimum wage increases.

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xii https://minimum-wage.procon.org/

xiii https://progressivegrocer.com/costco-raises-its-minimum-hourly-wage-16?utm_source=omeda&utm_medium=email&utm_campaign=NL_PG+Daily+5&utm_keyword=&oly_enc_id=0440A5828812H9U

Workforce planning to identify the number of employees to efficiently run the site and be profitable. As 2020 started, 98% of executives had initiatives to redesign their organization to make them fit for tomorrow.[xiv] The pandemic of 2020 changed consumer behavior to online shopping, last mile delivery, and even fitness on demand. This did not give employers much time to conduct workforce planning, but there are lessons that can be applied to rethink how to design the workforce. Leveraging the flexibility and agility demonstrated during the pandemic to create on-demand labor pool by:

- Assessing and designing work teams around the work for its tasks and responsibilities so employees can be deployed to support business needs
- Leveraging flexible on-demand employment categories; i.e., full-time, part-time, gig
- Empowering talent by integrating technology

During the thick of the pandemic, one cosmetics retailer designed a work team of employees from serving clients in just one category of a store to a work team of serving clients across all categories in the store. The long-term benefit of this shift provided opportunities for employees to apply their skills and gain exposure to other areas in the store. For the employer, they were able to redeploy talent and ensure store coverage to reduce the impact of revenue loss. With reduced traffic in brick and mortar locations, one organization leveraged the flexibility of their employment categories by creating agile teams led by more senior, tenured employees. This alleviated the burden (and stress) of Management to handle call-outs and daily designation of responsibilities. For the team leads, it empowered them by taking on more responsibility; a career development move in the chaos of conducting customer service in a pandemic. Lastly, we spoke with one apparel company that offered the opportunity for front line store employees to work in local distribution centers. This work shift allowed for the retention of employees while supporting the organization to fill roles in other parts of the organization in need of people to support ecommerce growth shipping through the distribution center network. In each of these instances, by being flexible and agile with the workforce, it allowed organizations to identify processes that could offset the cost of a higher hourly wage.

Total rewards mix for finding the balance between benefits, wellness and an increase in the minimum wage rate. For employers with an hourly workforce, Mercer heard pre-pandemic, the need to benchmark the market for ways to enhance and remain competitive on benefits and job perquisites for hourly wage workers. Prior to the pandemic, Mercer 2020 Global Talent Trends indicated executives top workforce concerns were:[xv]

Executives top workforce concerns pre-pandemic	***2019***	***2020***
Supporting employee's health and well-being	-	48%
Employees' expectations of consumer-grade digital experience at work	48%	47%
Automation at work	42%	44%
Gig economy	42%	42%
Increase diverse talent pool	46%	39%

[xiv] https://www.cbo.gov/system/files/2019-07/CBO-55410-MinimumWage2019.pdf
[xv] http://content.mercer.com/Career/Mercer-Global-Talent-Trends-2020-2021-Global-Report.pdf

In a 2019 Congressional Budget Office report, it stated, "Employers might also respond in other ways to an increase in the minimum wage. They might reduce workers' fringe benefits (such as health insurance or pension) and job perks (such as employee discounts), which would lessen the effect of the higher minimum wage on total compensation. … Such benefit reductions would probably be modest, however, in part because low-wage workers receive few noncash benefits…"[xvi] While in the past, employers often evaluated total reward mix to reduce benefit costs, the pandemic disruption heightened and necessitated a focus on the employee total rewards mix with new ways of caring about the workforce. Now it is about creating a culture of caring to assist employees toward better wellness choices.

What will meet the needs of employee wellness while balancing the added expense of increased labor? Mercer's 2020 Global Talent Trends Study reported 1 in 2 employees (50%) want to work for an organization that offers responsible rewards.[xvii] In the Mercer 2021 Global Talent Trends Study, 61% of people trusted their employers to look after their well-being.[xviii] Mercer has seen employers evaluating benefits from medical coverage to voluntary benefits such as EAP and pet insurance to address the needs and well-being of their employees at all levels of the organization – front line workers up through to the C-suite. By balancing the total rewards mix in case of a minimum wage increase, retailers are finding ways to design a compelling experience that resonates with employee preferences that protects health and financial wellbeing.

Compensation compression mitigation by ensuring performance recognition of current talent when new hire talent joins the organization. Any change in minimum wage at a state or federal level can create questions about how to adjust pay. Hourly jobs often require only limited skills (e.g., know how to stock shelves, fold clothes, pack boxes) and responsibilities (such as arrive to work on time, ensure a clean, and safe work environment). The result is employers with an hourly population, commonly, maintain a minimum wage compensation strategy that does not account for performance or employee growth. Thus, any change in minimum wage may create compensation compression issues.

For example, Worker A started two years ago at $7.25 per hour. With no increase for performance, Worker A is still earning $7.25 per hour today. In a case in which a minimum wage is increased, a new hire, Worker B, joins today and will earn $15 per hour. Is Worker B more able to do the job than Worker A? Should Worker A be recognized for two years' tenure? What about the Manager of Worker B and Worker A earning $15 per hour in recognition of their supervisory responsibilities?

To reduce the likelihood of compression in pay as a result of legislative minimum wage increases, hourly wage organizations must shift to a market competitive wage rate strategy. It also ensures employers with an hourly workforce stay ahead of regulatory changes.

Employee value proposition linkage to the organization's brand as a means to defining the compelling employee experience. Some of the largest organizations with a large contingent of hourly employees have announced over the last few years an increase in their starting hourly rate to $15 per hour, yet job openings remain. Today's employees want to work at employers

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[xvi] http://content.mercer.com/Career/Mercer-Global-Talent-Trends-2020-2021-Global-Report.pdf
[xvii] http://content.mercer.com/Career/Mercer-Global-Talent-Trends-2020-Report.pdf
[xviii] http://content.mercer.com/Career/Mercer-Global-Talent-Trends-2020-2021-Global-Report.pdf

who have a strong employee value proposition (EVP) that aligns with their values even if the position is paying an hourly wage. It is no secret that a strong EVP can attract and retain the best people and indirectly lead to lower turnover costs. However, if the organization only keeps in step with minimum wage hikes, does this jeopardize the ability to attract and retain talent?

Mercer research has shown that an hourly wage is ***not*** the only factor that attracts and retains talent. In Mercer's December 2019 $15 Per Hour Wage Survey, a large department store chain indicated by offering their employees air conditioning in their distribution centers during the summer, it kept a steady stream of applicants while other retailers in the area were offering a higher hourly wage. Another specialty retailer offered flexibility in the employees' schedules as a way to support employees in raising a family, taking care of family members, or attending school while paying just above minimum wage rates. While it is inevitable the hourly minimum wage will increase, employees want more than pay. Retailers are wise to address their EVP and brand to avoid being deemed a minimum wage workplace by the national media.

Labor & Developing the Workforce of the Future is connecting wage to labor contribution through skills as a means to make "work" work for the under-skilled. Attracting and retaining talent is an exhaustive and expensive part of doing business. Onboarding employees is much more than it was in the past. Turnover of employees can cost the organization upwards of one-third of a worker's annual wages.

In retail where a large workforce is hourly, jobs are becoming more digital and automated, but the demand for workers does not appear to be diminishing. So, if organizations are going to be legislated to pay a higher minimum hourly wage, they want certain skills for wages; however, they don't know what skills they have in their workforce. An internal marketplace matches employees to business. Due to COVID-19 in 2020, up to 44% of organizations made it easier to share talent internally, and 26% plan to continue the practice in 2021.[xix] For employers, this means a shift in thinking away from jobs and into tasks that employees do today.

Although a number of large retailers currently invest in employees by making technical training available, there is a large need in the hourly workforce to align skills to the workforce of the future where employees can develop the skills to be applied in the future of work. Through this method, paying wages higher than minimum wage has a payoff. For some organizations, the lack of such a marketplace infrastructure to train on a large continuous scale could be too much of an expense. If this is the case, a cost benefit analysis may be needed to determine whether a role can be adapted to a gig worker who can bring a certain set of skills to an organization without the overhead of a traditional employee.

[xix] http://content.mercer.com/Career/Gaining-a-Skills-Edge-Through-Agile-Talent-Practices.pdf

Summary

A change in the minimum wage will have an impact on the future of work for many organizations but especially those employers such as retailers with a large population of hourly workers. It requires thinking beyond minimum wage up to and including providing employee benefits, the employer's brand value proposition narrative and training the workforce of the future. Change is the new normal and the ability to embrace change is the only way to thrive.

To remain current on Mercer resources for minimum wage increases, reference the following link: https://www.mercer.com/our-thinking/law-and-policy-group/roundup-us-employer-resources-on-minimum-wage-increases.html

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