

Geographic Pay Differentials and Remote Work: Current Trends

Christopher Chasteen, PhD, CCP
ERI Economic Research Institute



Presenter

- Christopher Chasteen, PhD, CCP
- ERI's Geographic Assessor Product Manager
 - Over 30 years of experience in data analytics
 - Worked with ERI for 17 years in the field of compensation
 - primarily in geographic pay and cost of living data
- www.eri.com

Outline

Definitions and Trends: Cost of Labor and Cost of Living

Prevalence of the use of geographic differentials

Geographic scope (applied by city, state, region) and employee scope (applied to nonexempt, exempt, management executives)

Use of differential bands (scope and width)

How a remote worker pay is differentiated geographically

Are remote workers paid based on cost of living or cost of labor?

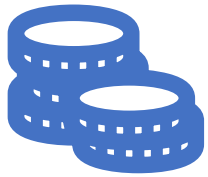
The degree to which remote work is becoming a permanent option

Summary of other research on remote work

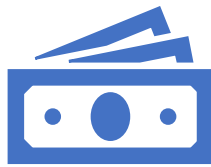
Data Sources

- ERI Compensation Best Practices Survey (2019 and 2021)
- WorldAtWork US Geographic Pay Policies Survey 2021
- PwC US Pulse Survey: Next in work (August 2021)
- Microsoft: The New Future of Work
 - “Long-term decisions are being made based on short-term data”

Geographic Differentials



Pay is differentiated by
geography



Salary Structure differences or
individual pay adjustments



City/State/Region



Remote Work

Geographic Differentials













Two City Comparison

- How are similar jobs paid in different locations?
- Trends across jobs define the labor market
- Salary Level

Calculations for Management Structure

	Base Location: United States Average United States Dollars	Destination Location: San Francisco, California United States Dollars	Destination Location as a percentage of Base Location:
Salary	100,000	129,962	130.0%
% of United States Avg.	100.0%	130.0%	
Cost of Living	100,000	193,026	193.0%
% of United States Avg.	100.0%	193.0%	
Area Included	United States Average	San Francisco, California	

Cost of Living

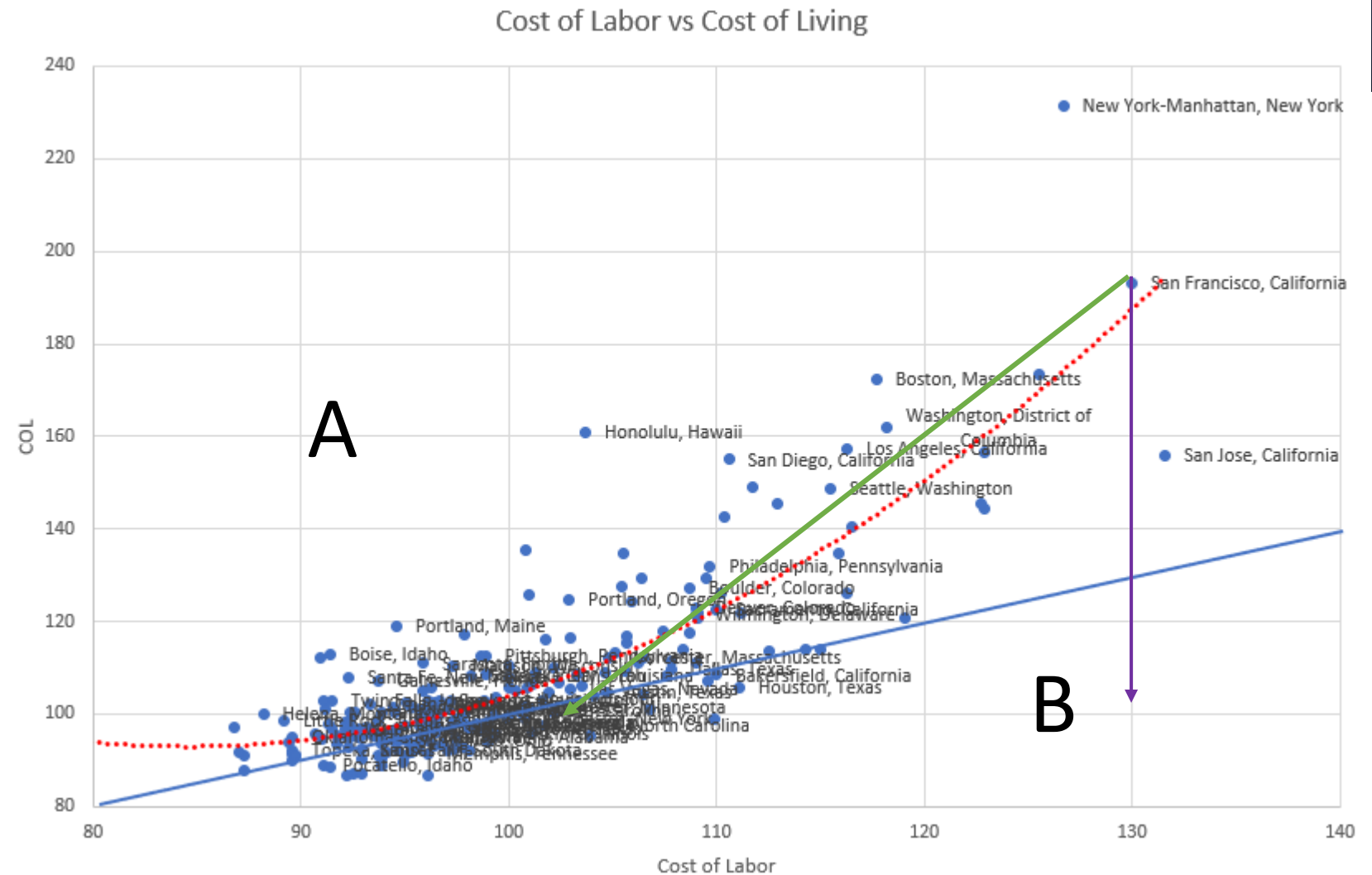
	Base City: United States Average United States Dollars	Destination City: San Francisco, California United States Dollars
Consumables	 23,631	 32,738
Transportation	 14,165	 20,890
Health Services	 2,870	 3,686
Rent/Utilities/Insurance	 34,299	 112,427
Income+Payroll Taxes	 16,060	 14,310
Miscellaneous	 8,975	 8,975
Total Cost-of-Living	100,000	193,026
COL % of Base City	100%	193%

- Market basket of goods and services
- Trends:
 - Being affected by supply-side issues
 - Unknown timeframes
 - National increases and local fluctuations
- Salary increases are permanent
 - Typically lag cost of living increases
- Often used in company-initiated relocations
- Housing
 - Local conditions can drive costs /affecting supply
 - Area
 - Zoning
 - Rent versus Own

Cost of Labor and Cost of Living

Sample data

- Bang for the buck
 - below the blue line
- Scattered around 100%
- More skew in COL
- Scale differences
 - Market basket changes
- CA to TX
 - follow the green line (or the purple)
- Correlation
 - Red dotted 'best fit' line
- Like the weather, patterns persist
- Salary Level
 - Spending Pattern
 - *66% of employees expect pay to be different by location





Prevalence

ERI Survey Results

- Most surveyed organizations differentiate by geography
- Pretty consistent over time

	2021	2019
Our organization uses geographic pay differentials to adjust pay for different locations	59%	65%
Our organization uses local market rate data for each location	39%	37%
Our organization does not differentiate pay by geographic location	19%	16%

*Does your organization have a US Geographic Pay Policy? Yes – 62%

With the increase in full-time remote work, has your organization considered modifying or recently modified the U.S. geographic pay policy? 41%

In what way is your organization considering modification to the pay philosophy in relation to geography?

Expanding pay differential application by geographic area	38%
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Consolidating pay differential application by geographic area	20%
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Adopting a national pay structure in which pay is not differentiated by geographic area	18%
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*Source: WorldAtWork US Geographic Pay Policies Survey 2021

WorldAtWork

*Does your organization have a US Geographic Pay Policy? **No – 38%**

With an increase in full-time remote work, are you considering creating a U.S. geographic pay policy?

- Yes –47%

More respondents are considering creating a geographic policy than moving to a single US structure

*Source: WorldAtWork US Geographic Pay Policies Survey 2021

Administration

Geographic Level- Cost of Labor

	2021	2019
City	34%	35%
Metro Area	28	46
State	16	8
Multi-State/Region	10	8
Other	9	3

- Most organizations use city or metro
- Some increase in the use of state
- Labor markets and commuting distance

Level of application of geographic pay differentials

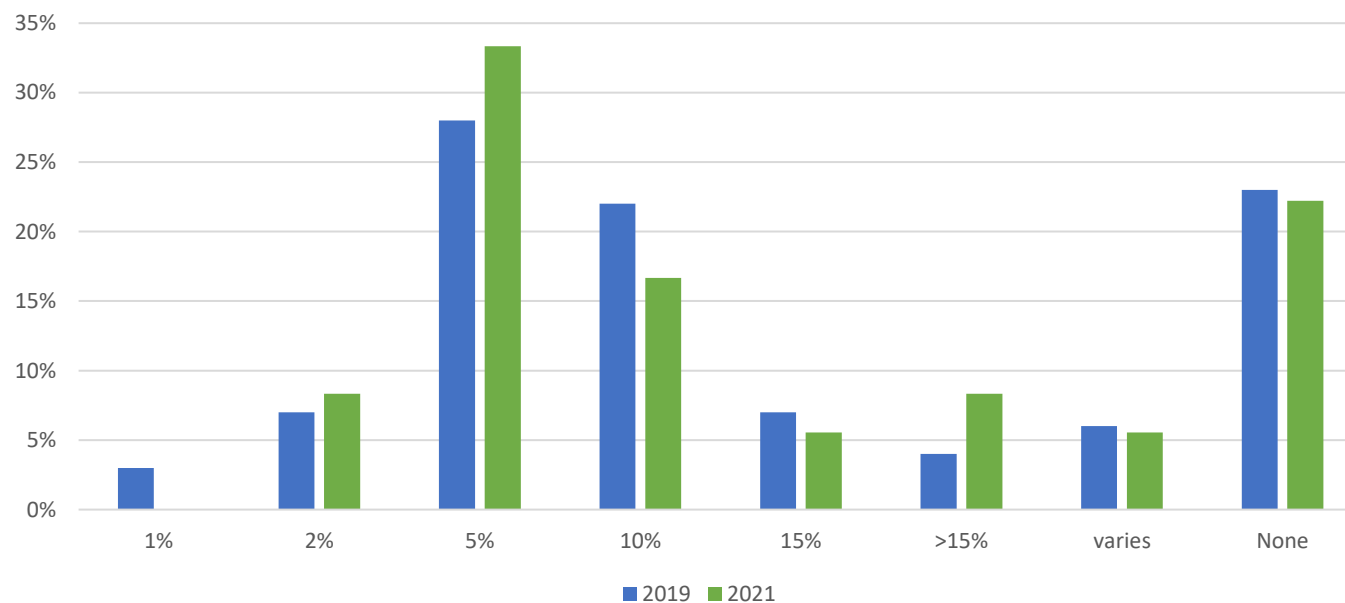
	2021	2019
Salary Structure	65%	56%
Individual Employee Salary Adjustment	32	33
Individual Employee Additional Pay (not COLA)	3	4
Other Method	0	7

*Philosophy	
Apply geographic pay differentials as a premium to either structure or individual pay	41%
Separate base pay structures for each/different geographic location	33%

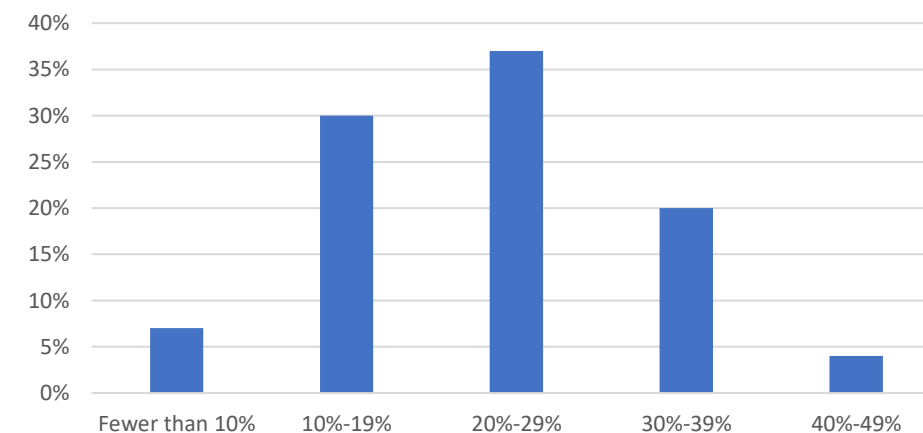
*Source: WorldAtWork US Geographic Pay Policies Survey 2021

Use of Bands

Width of Geographic Pay Bands



*What is the percentage difference between your lowest and highest geographic pay levels?



*Source: WorldAtWork US Geographic Pay Policies Survey

Application to Classification

	2021	2019
Non-exempt	81%	82%
Exempt	83	90
Management	62	87
Executive	37	47

	2021	2019
Geographic Pay Differentials Data	65%	54%
Salary Survey Data	72	76
Cost of Living and Salary Data	18	18
Cost of Living Data Alone	4	3
Other	11	13

Geographic Data Sources

Remote Workers



Are you allowing workers to relocate to work remotely?	
Yes	41%
No	11%
We do not have an established policy on remote worker relocation	43%
We do not have remote workers	4%

Relocation Policy

Remote Worker Geographic Classification

What geographic location do you use to set compensation for Remote Workers?	2021	2019
Location of the Remote Worker	35%	32%
Cost of living for the Remote Worker's location	2	1
Location that manages the Remote Worker	42	17
Location of the closest regional office to the Remote Worker		39
Region of the Remote Worker	19	12

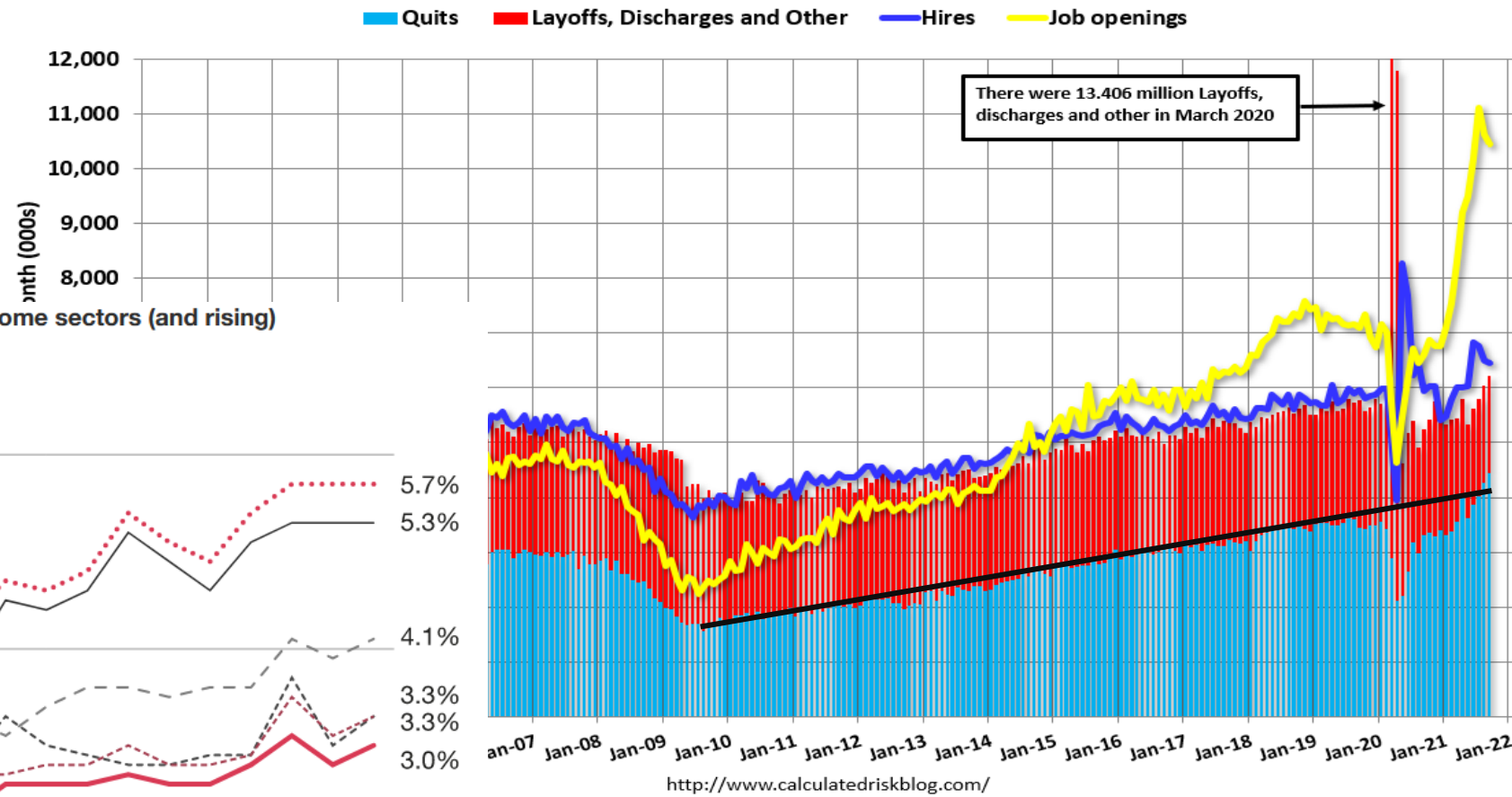
How does your organization determine employees geographic pay location?*	
To the employee's reporting location	38%
To the employee's nearest company work location	29
To the employee's location of residence	20
Other	12

*Source: WorldAtWork US Geographic Pay Policies Survey, 2021

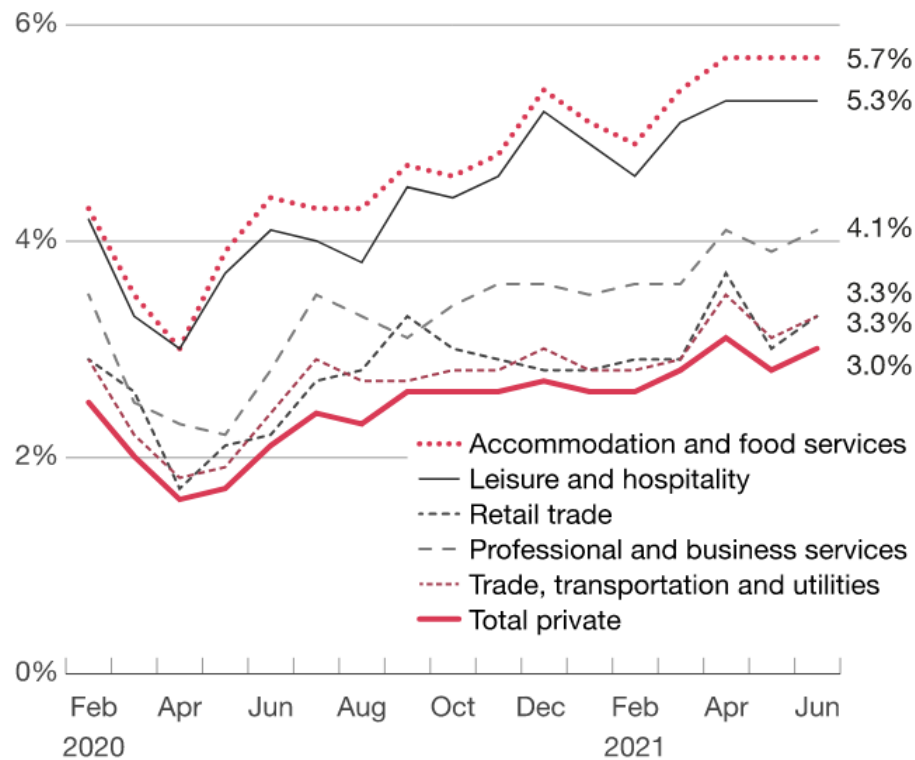
Changing Nature of Work

Workforce Distribution

Hires and Separations Monthly (SA) from Job Openings and Labor Turnover Survey (JOLTS), Source: BLS



Quit rates at historic highs in some sectors (and rising)



Employee preferences for hybrid work are all over the map

All remote



Almost entirely remote (4 days remote)



Mostly remote (3 days remote)



Mostly in office (2 days remote)



Almost entirely in the office (<=1 day remote)



N/A - The nature of my work does not allow me to work remotely



Employee Q: If your employer allowed you to choose when you worked remotely, how often would you want to work remotely after COVID-19 is no longer a concern?

Source: PwC US Pulse Survey, August 19, 2021: base of 1,007 full-time and part-time employees

Microsoft Observations

- “On average, self-reported productivity was unchanged, but it varied...”
- “While some reported satisfaction with remote work, it varied...”

Takeaways

- Not a significant reduction in the use of geographic pay differentials – potentially an increase related to remote work
- Administration trends are consistent
- Trends in COL
 - National increases (temporary?)
 - Local fluctuations
- Salary/Cost of Labor increases
 - Increases are more sector driven
- Remote Work
 - Administration approaches vary
- What do the data tell us?
- Hybrid styles incorporating advantages of various perspectives
- Organization-level planning, data is important
 - Communication
 - Transparency

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Thank you

For more information, suggestions or comments

www.erieri.com

Info.erieri@erieri.com

800-627-3697