



Compensation Challenges in Construction

Trends, Planning & Strategies

HRCC Tempe September 2022

Pay and Increase Issues

- A few issues to pay close attention to. Some for craft – some for staff – some for both
- The difference between actual versus what is reported as an annual pay increase. Think “core” workforce versus those hired project by project
- Cost-of-Labor verses Cost-of-Living. Making a case for monitoring the Employment Cost Index
- Thinking that you can raise craft (administrative, professionals, etc.) wages and not raise the people who supervise them (and their supervisors, and so on)
- Compression – still a very big issue

Craft Actual Increases

- Across all construction sectors pay increased about 3% for merit shop craft from 2021 to 2022. Civil crafts reported the lowest increases
- However, there was a few overall sector exceptions (laborers rising 6.3%)
- Industrial sector experienced a similar 3% overall increase with some exceptions - A few at 4% to 5% or more...
 - Boilermakers
 - Electricians
 - Laborers
 - Structural Ironworkers
 - Welders

Full-time Regular (core) Workforce

Position	Projected 2021	Actual 2021	Difference
All Crafts Combined	3.21%	4.65%	1.44%
Boilermakers	3.04%	5.02%	1.98%
Carpenters	3.32%	4.68%	1.36%
Finishers	3.18%	4.84%	1.66%
Electricians	3.33%	4.44%	1.11%
Structural Ironworkers	3.00%	4.69%	1.69%
Pipefitters	3.16%	4.76%	1.60%
Welders	3.09%	4.42%	1.33%
Laborers	3.23%	4.65%	1.42%
Light Equip Operators	3.34%	4.85%	1.51%
Heavy Equip Operators	3.19%	4.51%	1.32%

Full-time Regular (core) Workforce

Position	Actual 2021	Projected 2022
All Crafts Combined	4.65%	4.52%
Boilermakers	5.02%	4.32%
Carpenters	4.68%	4.46%
Finishers	4.84%	4.54%
Electricians	4.44%	4.62%
Structural Ironworkers	4.69%	4.46%
Pipefitters	4.76%	4.51%
Welders	4.42%	4.40%
Laborers	4.65%	4.65%
Light Equip Operators	4.85%	4.35%
Heavy Equip Operators	4.51%	4.47%

Craft Actual Increases

- Reconciling the 5.9% Average Hourly Earnings (AHE) with the 4.4% Employment Cost Index (ECI) in construction.
 - AHE - Average hourly earnings are collected as "gross" earnings. They reflect not only changes in basic hourly and incentive wage rates, but also such variable factors as premium pay for overtime and late-shift work and changes in output of employees paid on an incentive plan. They also reflect shifts in the number of employees between relatively high-paid and low-paid work and changes in employees' earnings in individual establishments. Averages for groups and divisions further reflect changes in AHE for individual industries.
- Per Ken Simonson – “part of the difference may be compositional shifts. The ECI is intended to measure compensation (or wage and salary) changes for a fixed mix of employees, whereas the AHE is calculated for whatever the mix was in each period.”

Employment Cost Index

- Wages and salaries are defined as the hourly straight-time wage rate or, for workers not paid on an hourly basis, straight-time earnings divided by the corresponding scheduled hours. Straight-time wage and salary rates are total earnings before payroll deductions, including production bonuses, incentive earnings, commission payments, and cost-of-living adjustments.
- Other supplemental cash payments are considered benefits - premium pay for work in addition to the regular work schedule (*for example, overtime pay and pay for working weekends and holidays*), shift differentials, and nonproduction bonuses, such as lump-sum payments provided in lieu of wage increases.

ECI Versus Annual Increases

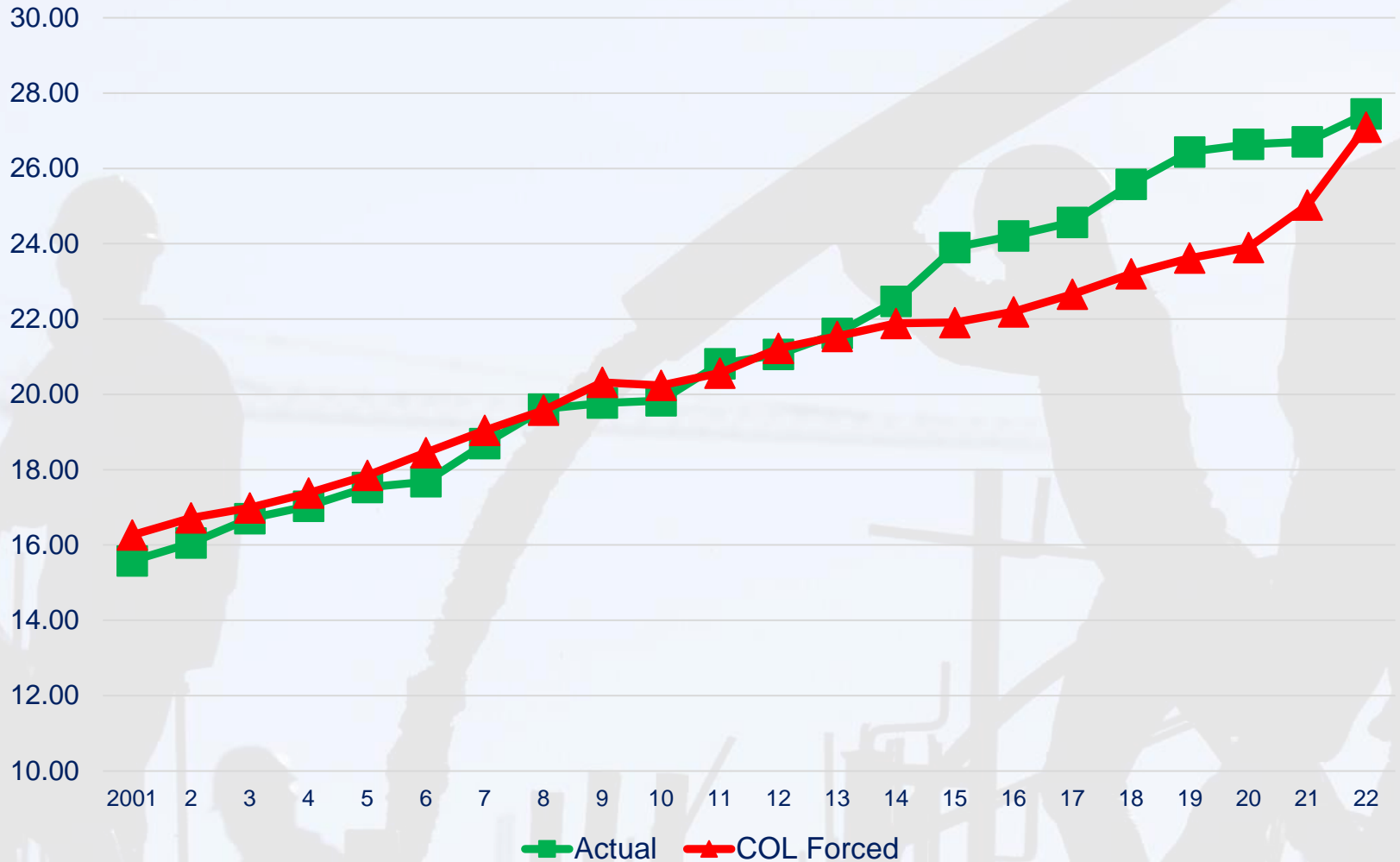
- View the Employment Cost Index as a change in market value. Over a period of time, the ECI will match the actual change in pay rates (as a group) in our industry.
- Annual wage increases answers the question “what will you give your current employees as an increase in pay this year”. It doesn’t consider any special, behind the scene increases. It doesn’t consider any project increases to meet workforce hiring needs.
- The change in market values (ECI) have historically been less than the annual pay increase numbers.

Craft Actual Increases

- The Employment Cost Index (wages and salaries) for all private workers increased 5.7% through June 2022 (compared to construction at 4.4%).
- Some notable differences from the 5.7% for all private workers occurred in...
 - Houston – The Woodlands at 6.1%
 - Miami – Fort Lauderdale at 6.8%
 - Phoenix – Mesa – Scottsdale at 6.5%
 - DC – Baltimore – Arlington VA at 3.8%
- Why these differences matter
- <https://www.bls.gov/ncs/ect/escalator.htm>

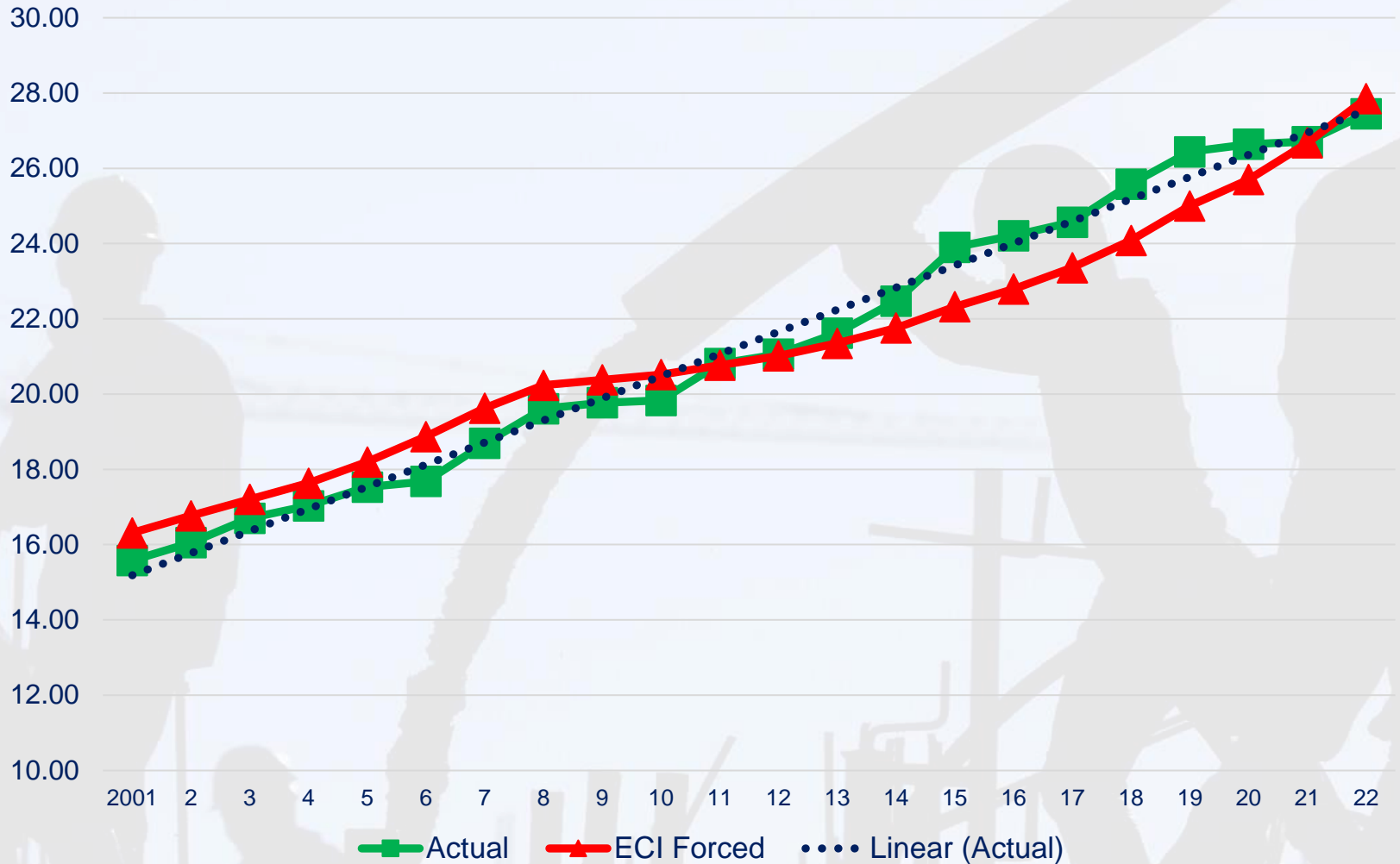
Current Pay Issues - COL or ECI

All Crafts Combined



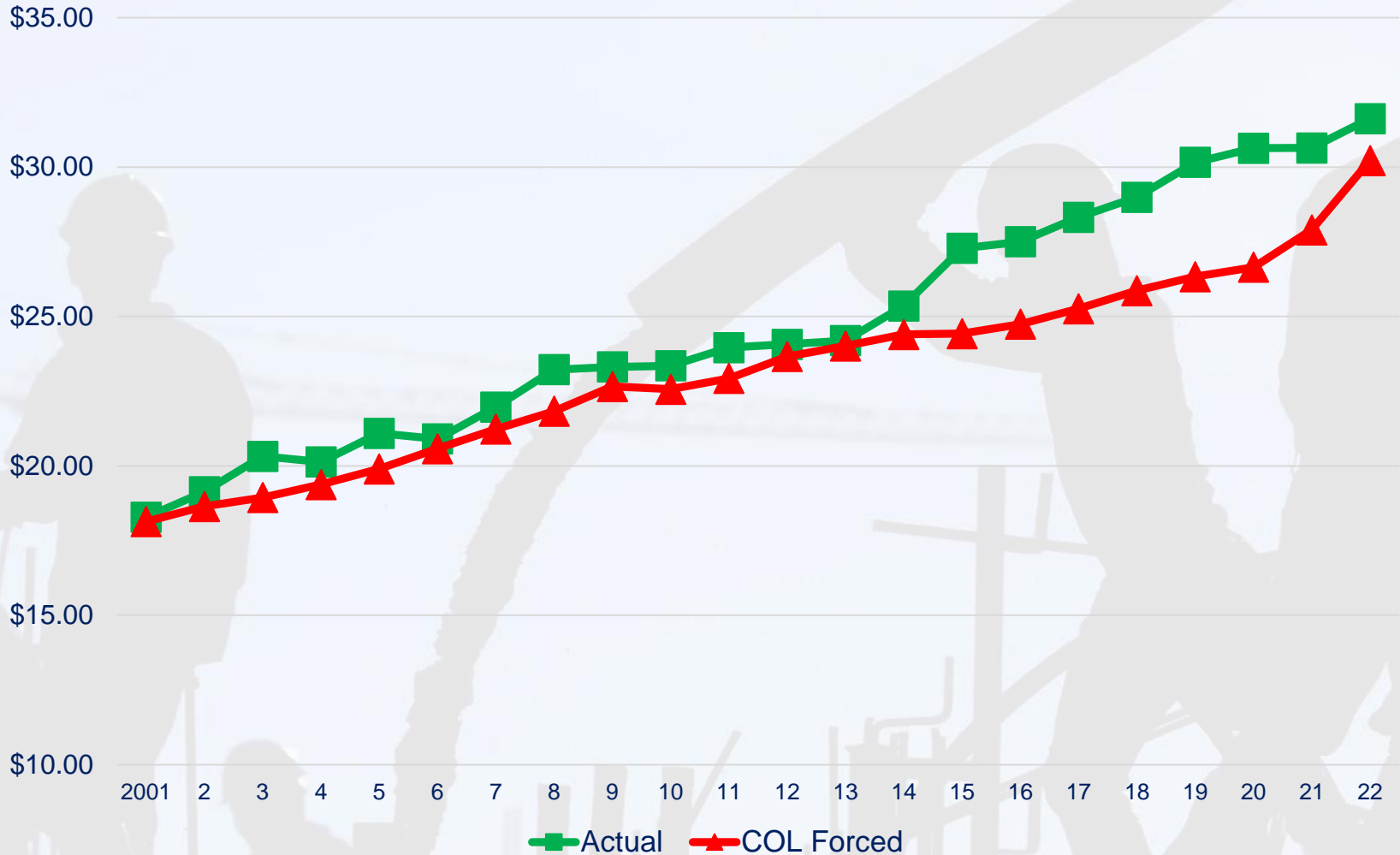
Current Pay Issues - COL or ECI

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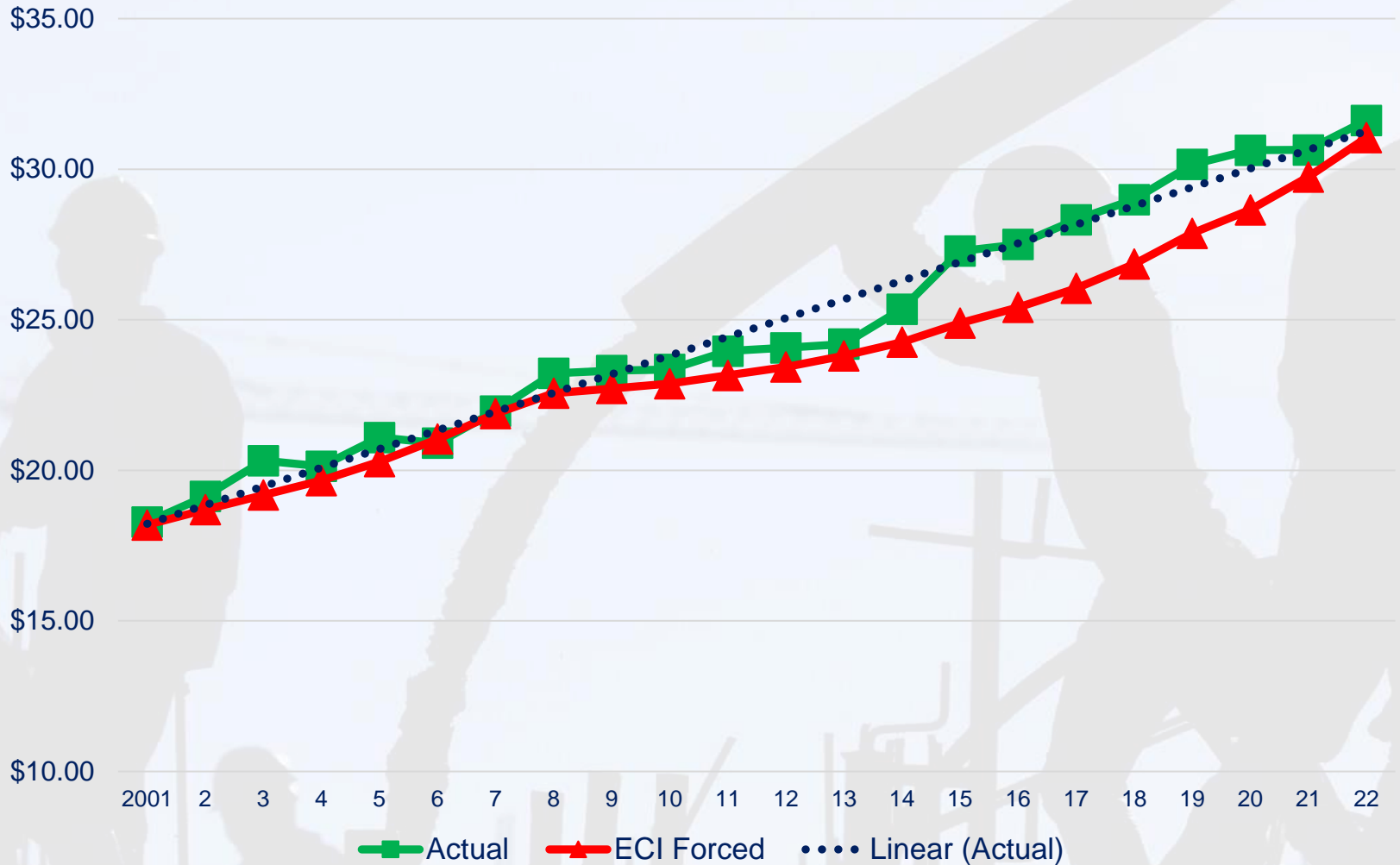
Current Pay Issues - COL or ECI

Electricians



Current Pay Issues - COL or ECI

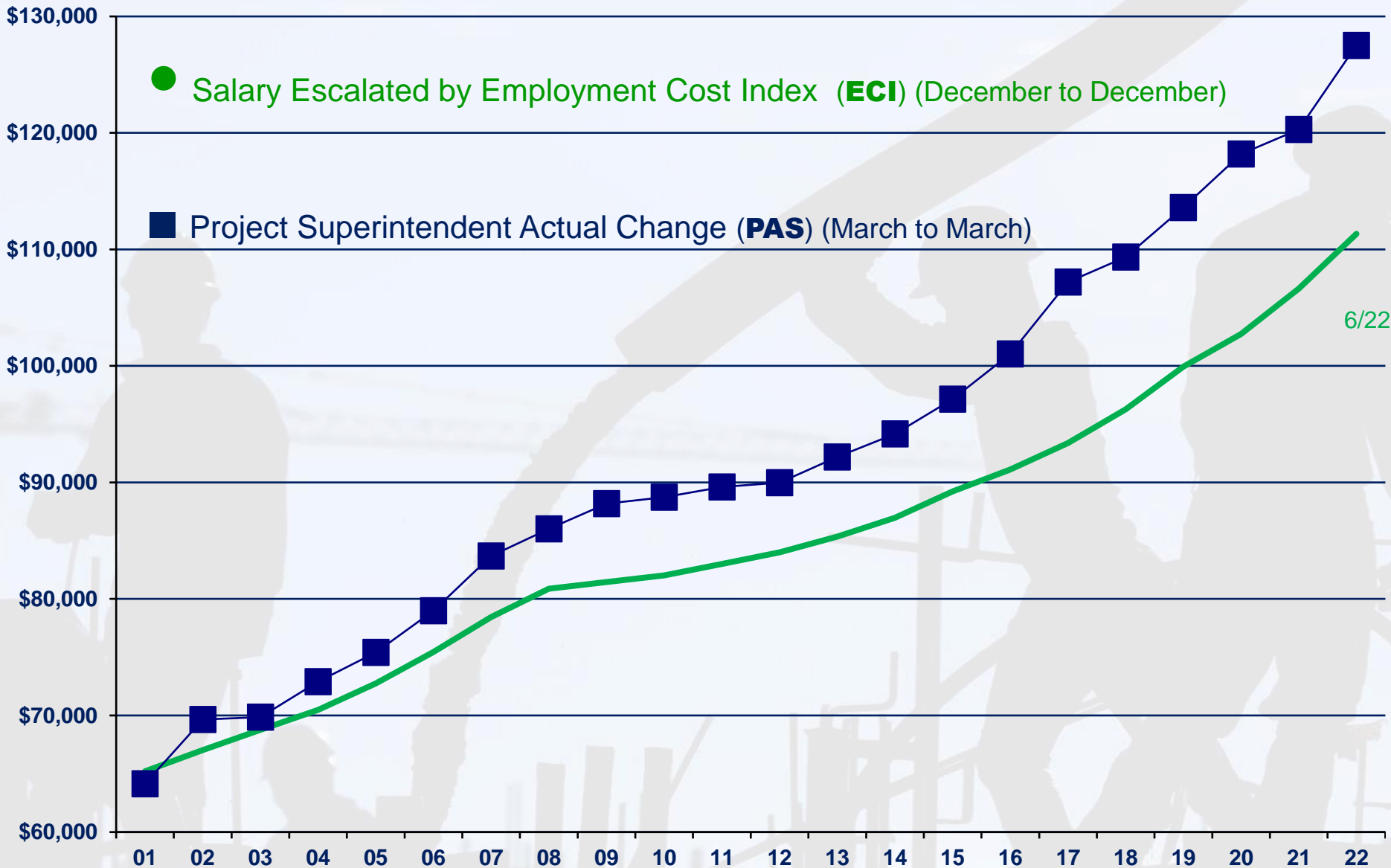
Electricians



Project Superintendent

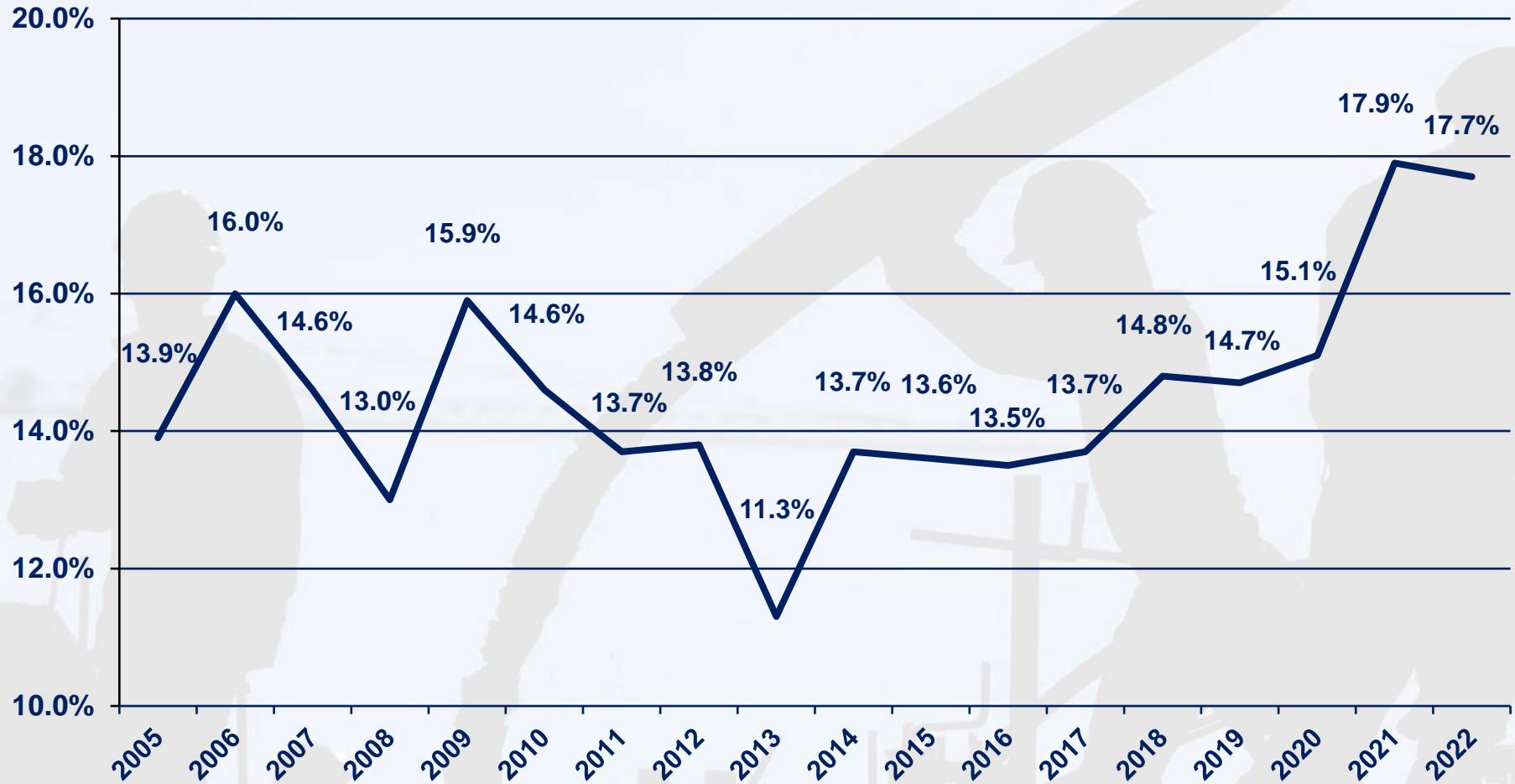
Actual Change in Base Pay versus Pay Escalated by ECI (Construction)

All Revenue sizes, all types of construction, all types of contractors

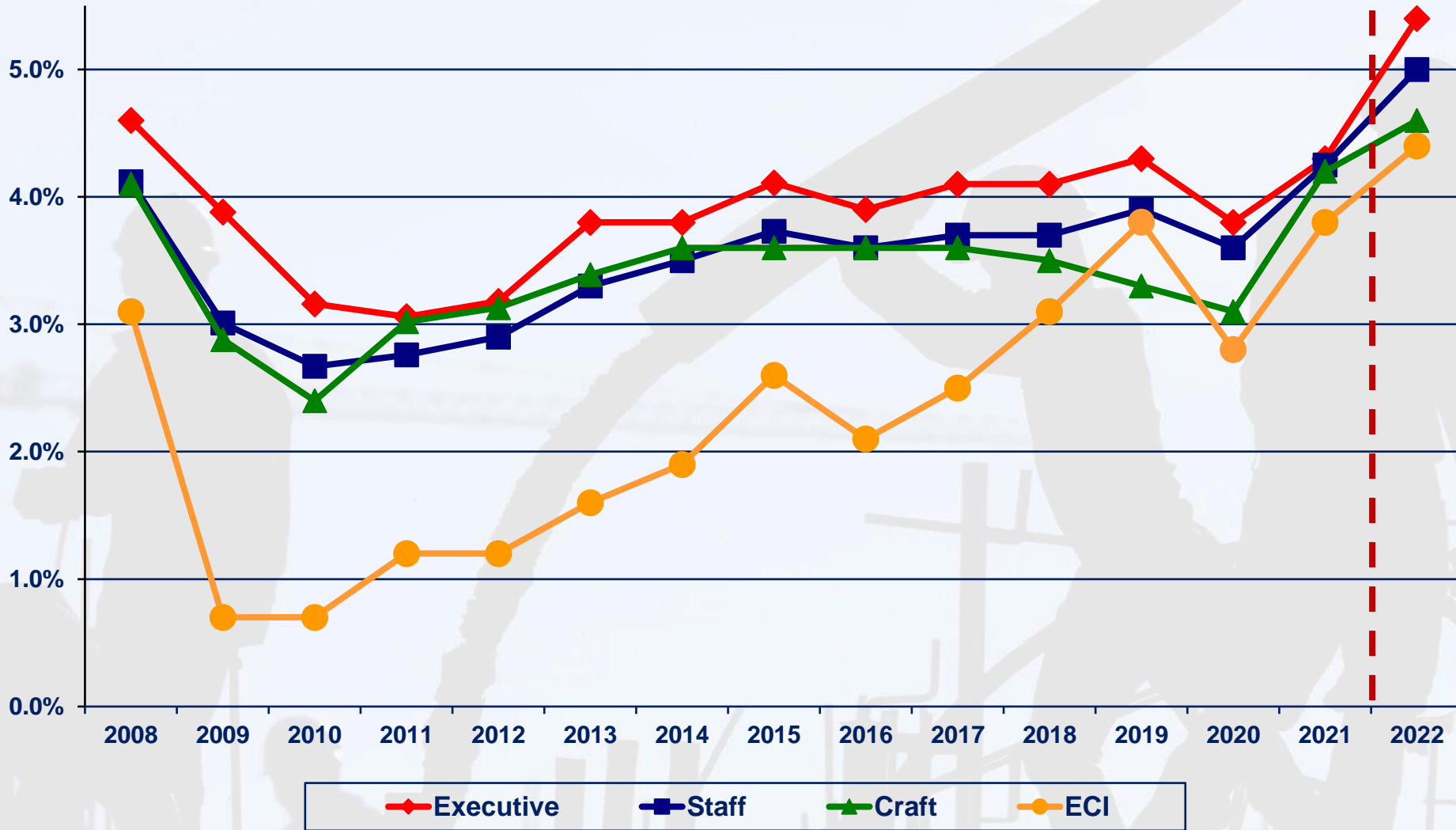


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Staff Turnover Rates (July 2021 to July 2022)



Trends - Wage Increases (Jeff's 2022 Forecast)



Use Pay Correctly

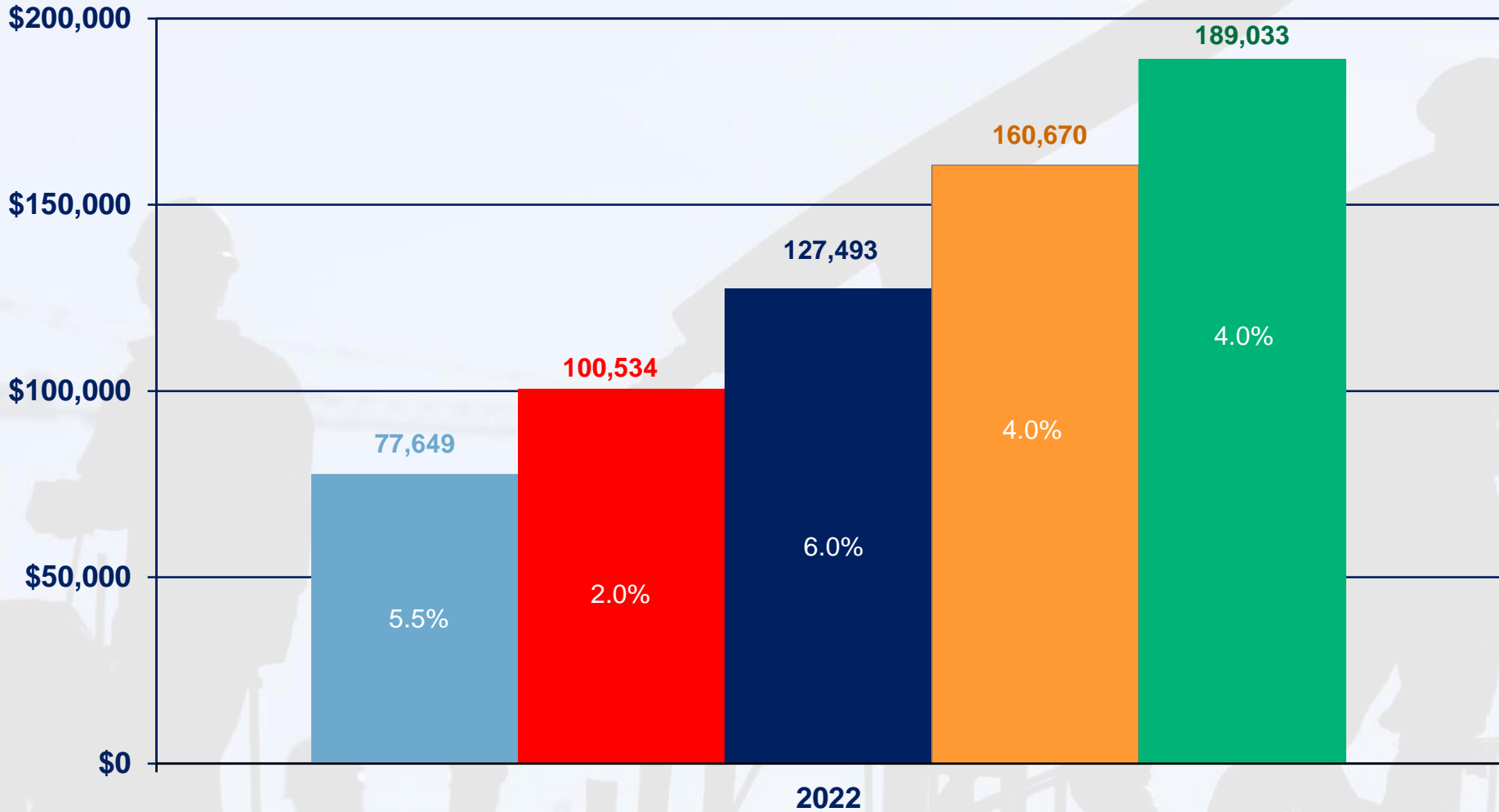
- Abraham Maslow's The Psychology of Science (1966) and is typically presented as "if all you have is a hammer, every problem looks like a nail."
- Compensation bias - that compensation is the fix for every organizational challenge.
 - Turnover an issue? Pay them more!
 - Engagement a problem? Pay them more!
 - Employees not meeting performance standards? Put in an bonus/incentive plan (a.k.a. pay them more ... but on a variable basis)!
- Café Classic: Hammers, Nails and our Compensation Biases
- From a Compensation Café posting by Ann Bares... Ann@alturaconsultinggroup.com

Use Pay Correctly

- Compression
- Impact of pay add-ons...
 - Sign-on bonus
 - Relocation bonus
 - Retention bonus
 - Completion bonus (domestic)
 - Stay pay increase
 - Counter offers
 - And the ever popular “lets just rehire them - at a higher rate”
- Just when you think you have a competitive pay structure, market values (and internal equity) change

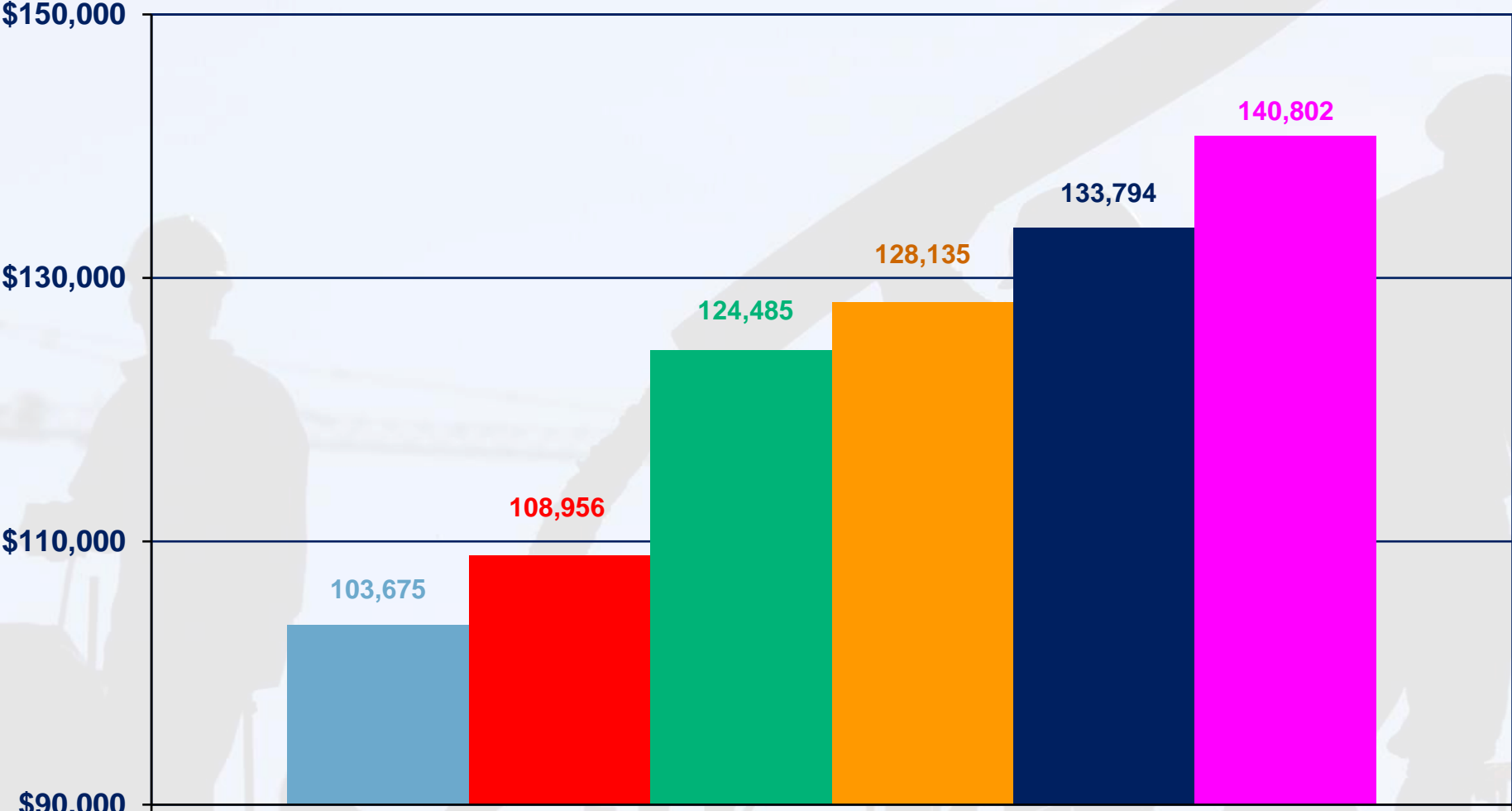
Base Pay Trends – Partial Job Family

(All Revenues Sizes – All Types of Construction)



■ Assistant Superintendent ■ Superintendent ■ Project Superintendent ■ Construction Manager ■ VP Operations

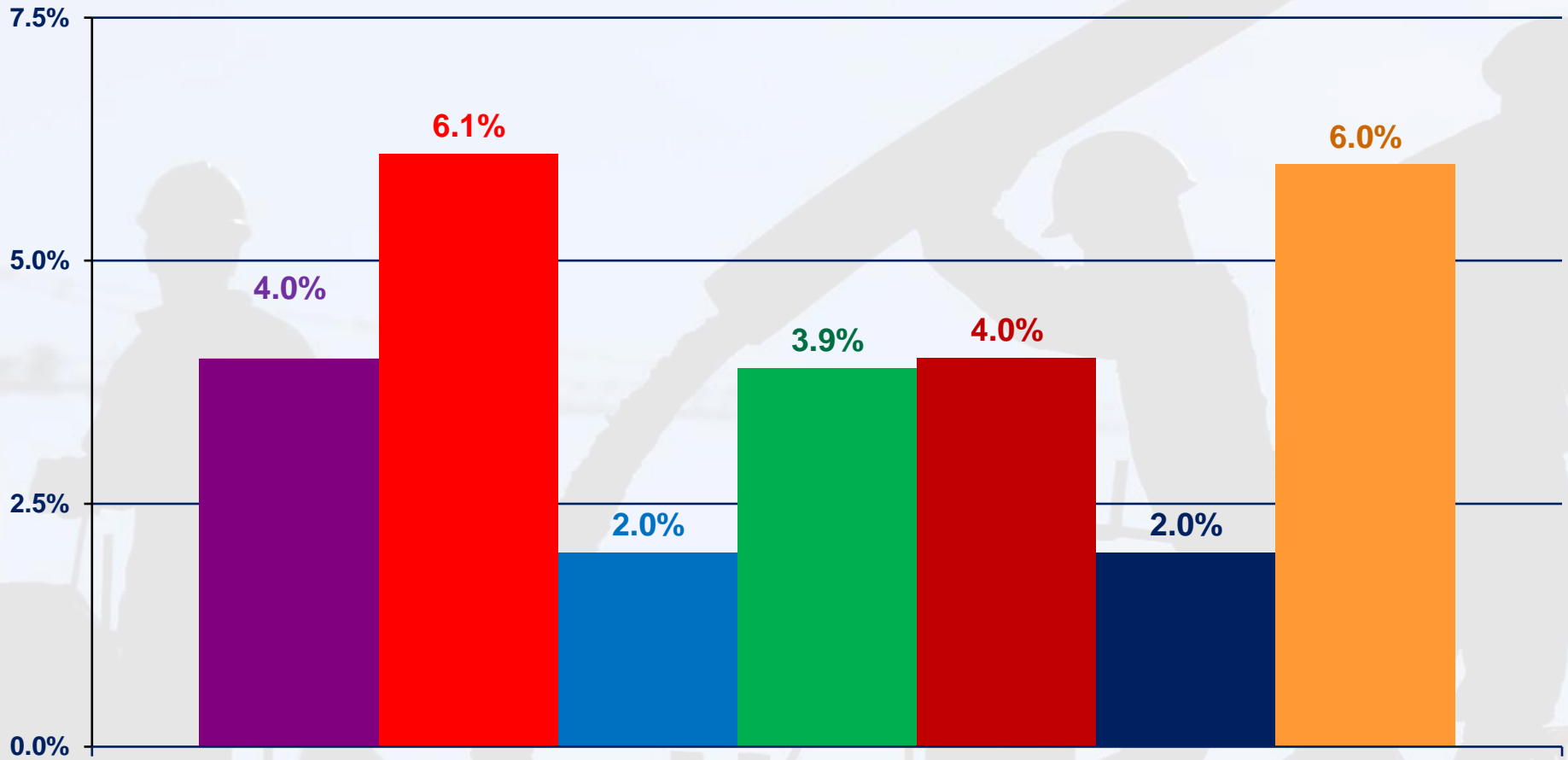
Base Pay Trends



2022 Project Superintendent

- Up to 5 Million
- 5 to 25 Million
- 25 to 100 Million
- 100 to 250 Million
- 250 to 500 Million
- Over 500 Million

Project Superintendent (Actual Change)



Project Superintendent

■ 2015 to 2016

■ 2016 to 2017

■ 2017 to 2018

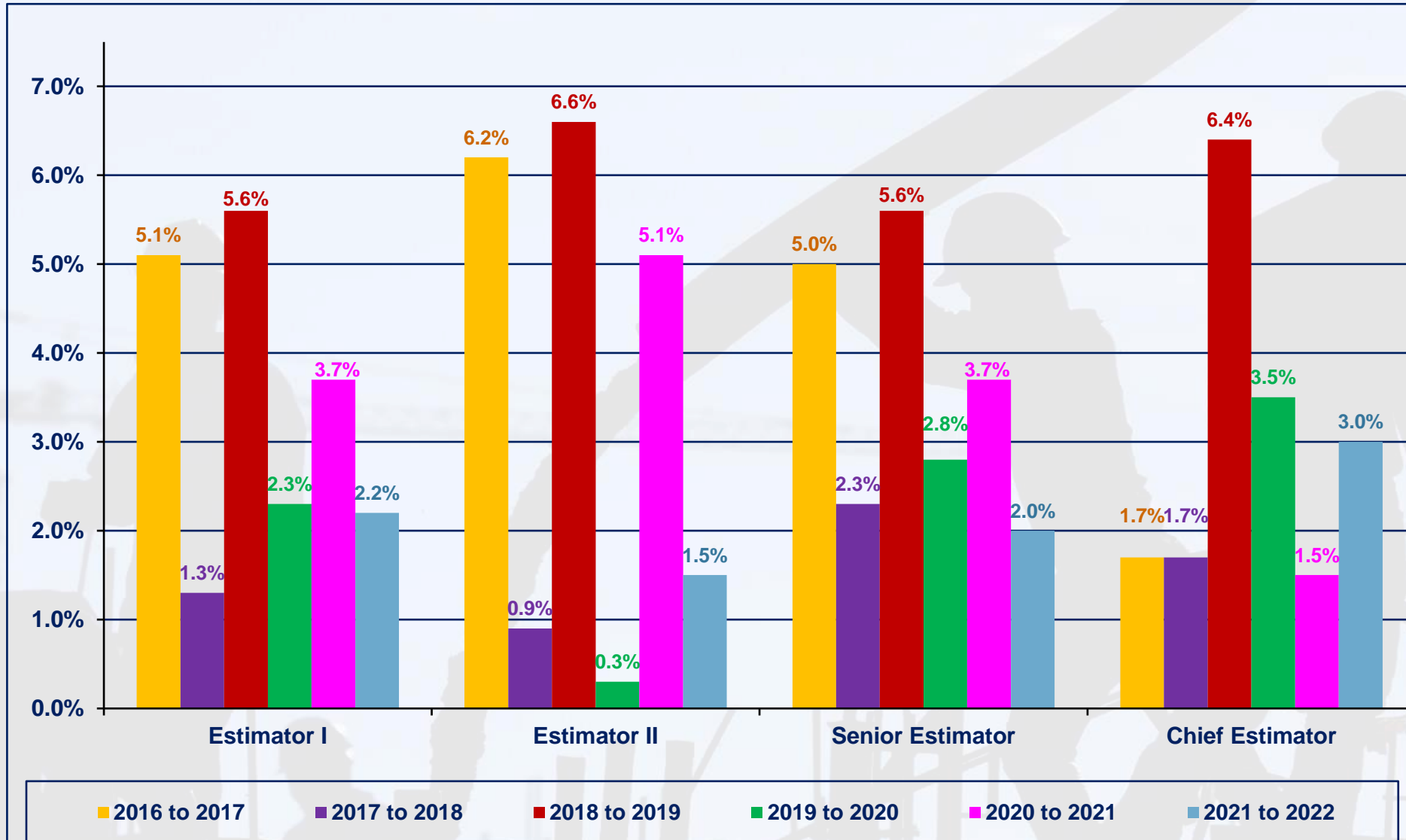
■ 2018 to 2019

■ 2019 to 2020

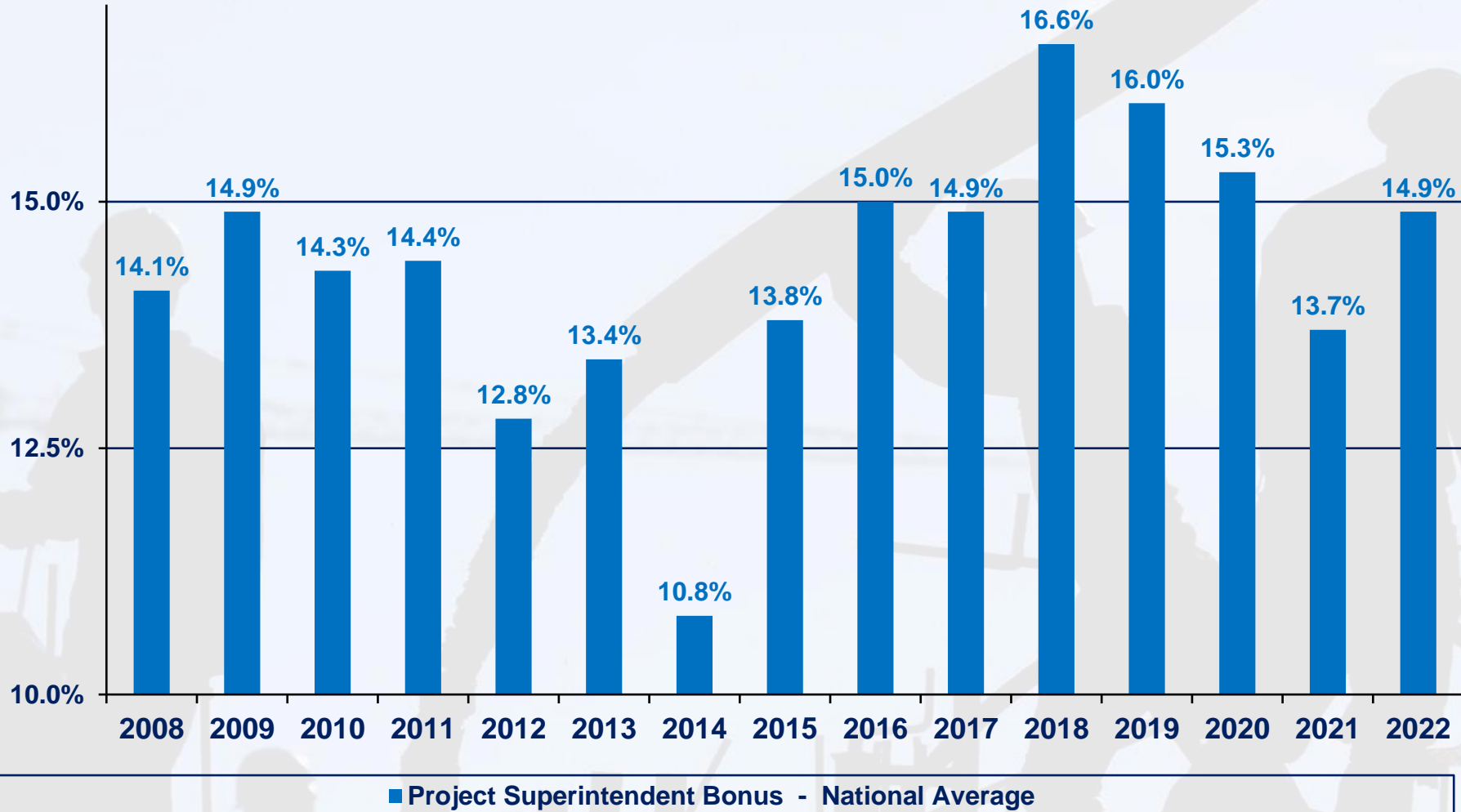
■ 2020 to 2021

■ 2021 to 2022

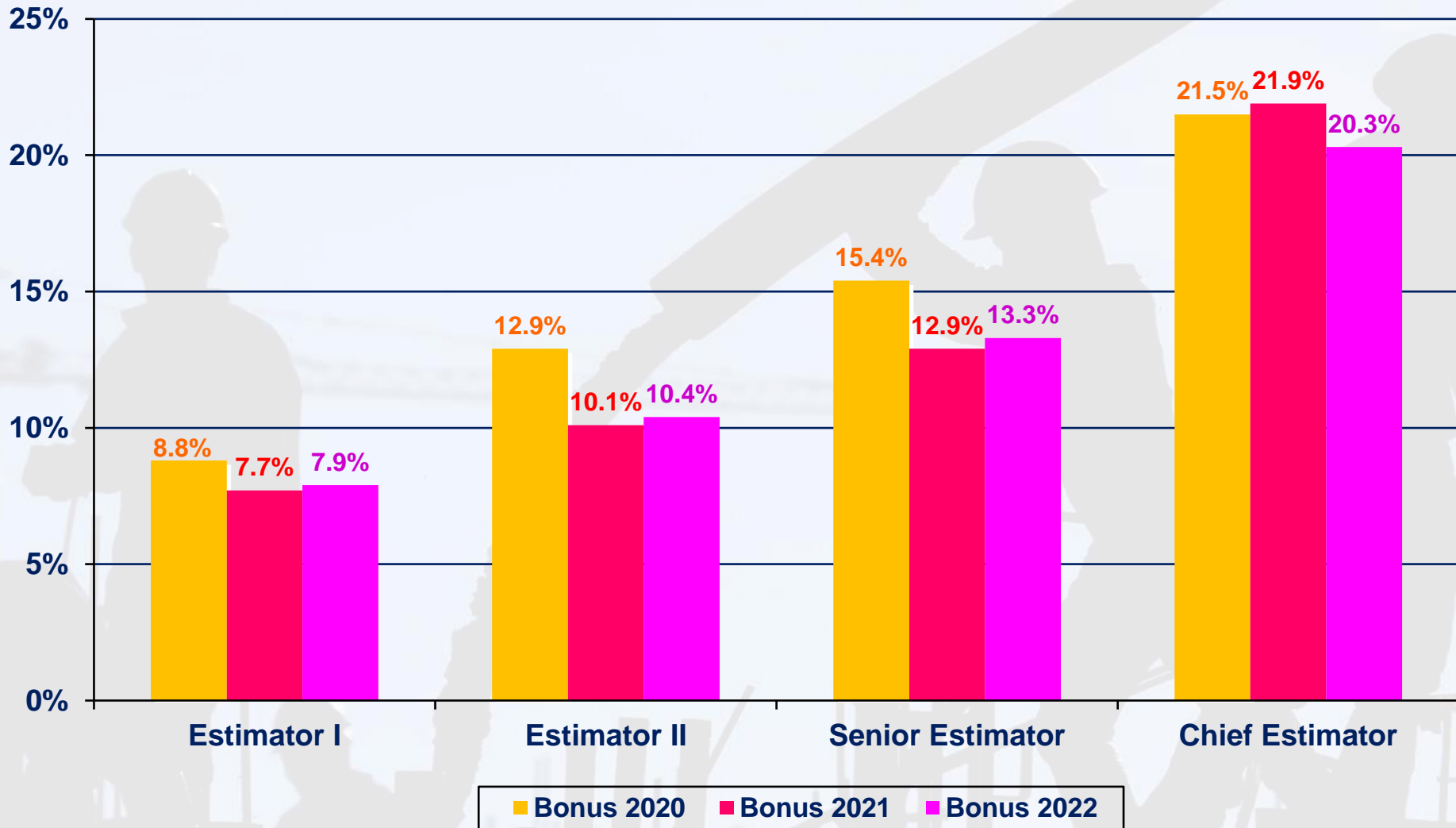
Trends – Actual Base Pay Change



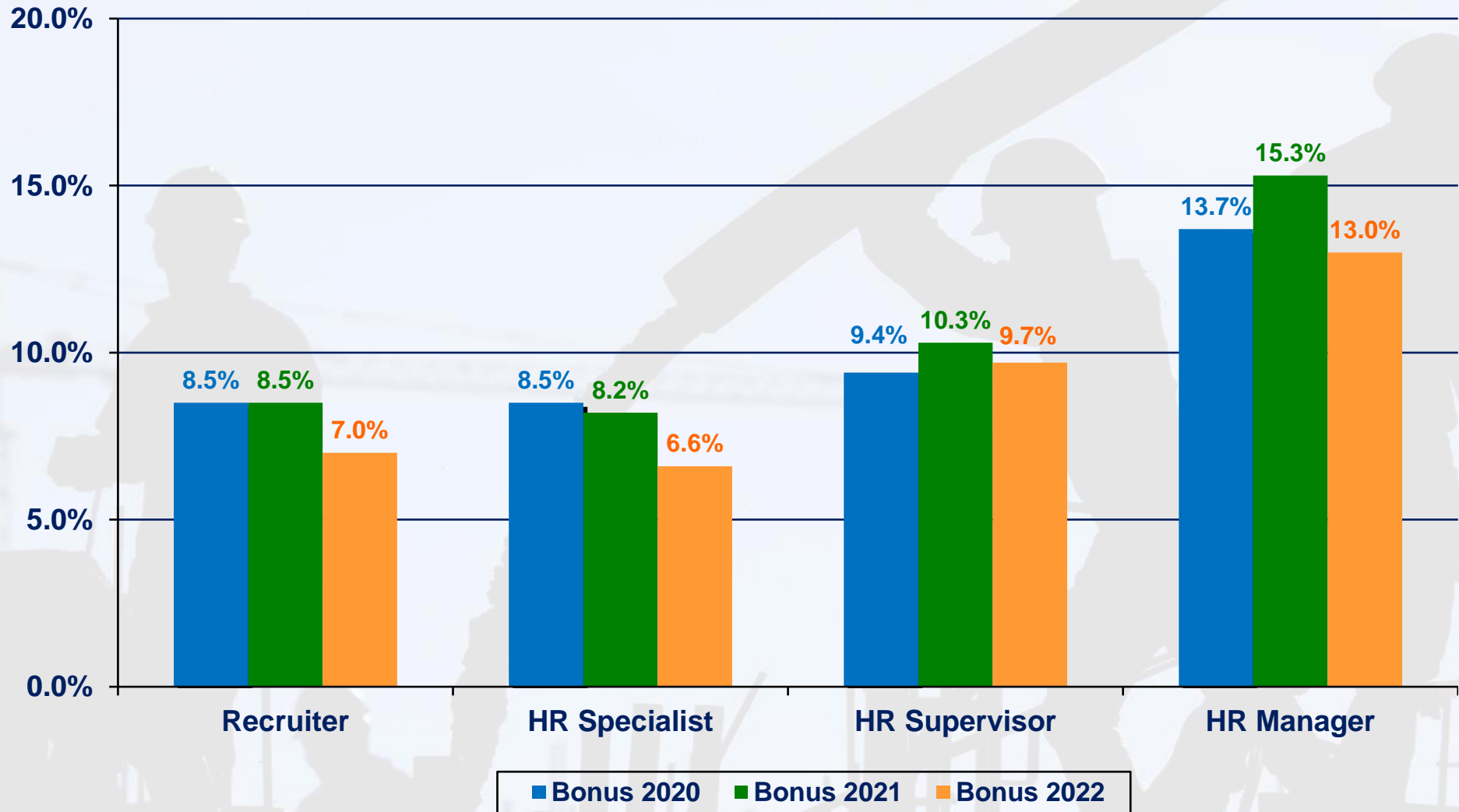
Variable Pay Trends – Percent of Base Pay



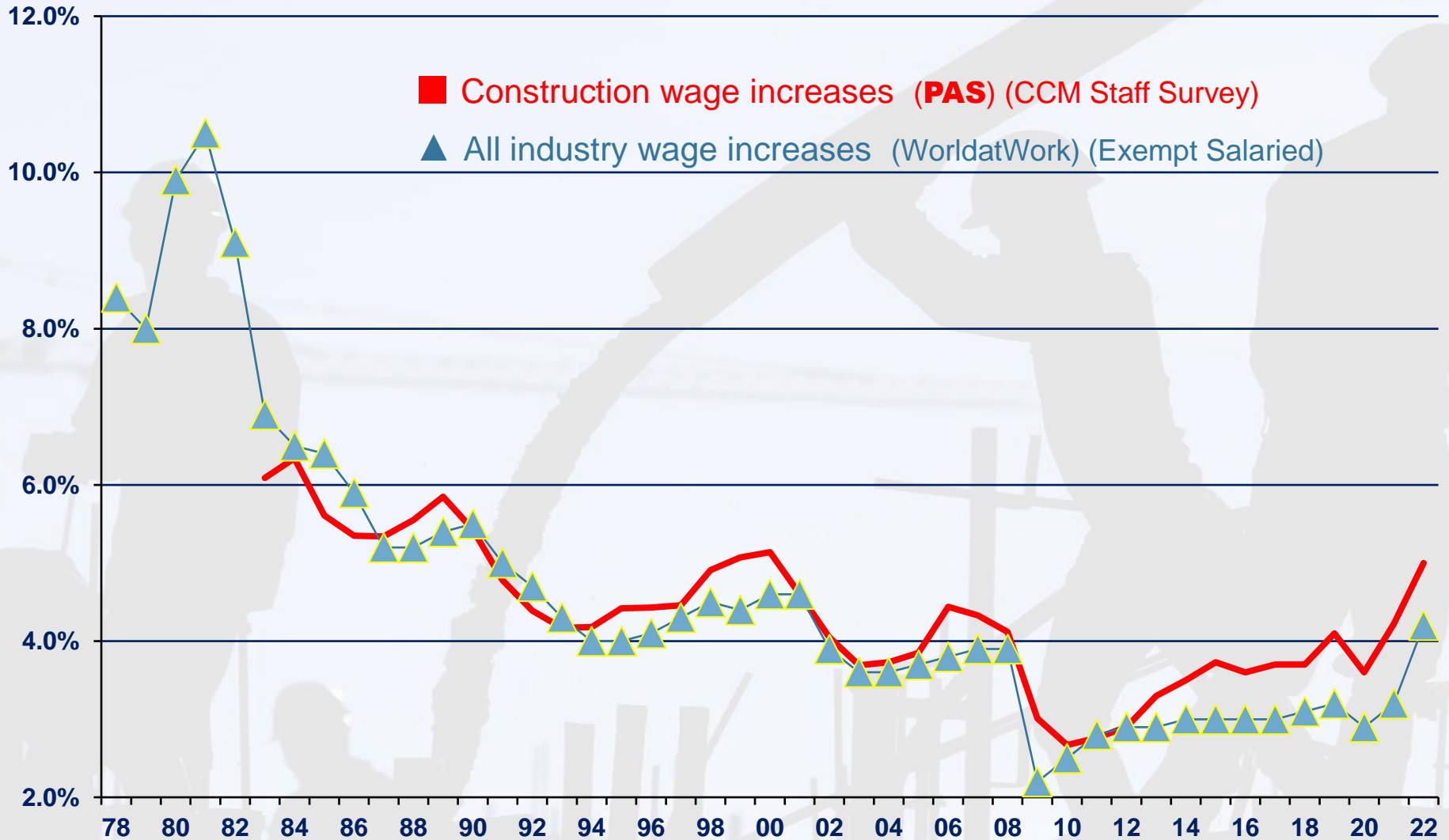
Variable Pay Trends



Variable Pay Trends



Wage Increase History



Last Thoughts

- Reactive versus proactive pay decisions – plan on escalation
- Focus on the cost of labor, not the cost of living
- The importance of watching trends
- Compression issues for staff, middle management, and executives will continue. Remember that any sizeable increase in craft wages will impact their supervisors
- At the moment, 2023 pay activities will look like 2022, however, expect special increases to bring job families back in line with the marketplace