

SORTING THROUGH ANNUAL PAY INCREASE PROJECTIONS

As surely as kids heading back to school and Christmas decorations appearing (too early) in stores, September brings annual projections of pay increases for the following year. These projections can – if used in a considered fashion - be a useful guideline as your business approaches its yearly pay review process.

The Globe & Mail published information this past Saturday summarizing projections for 2010 from four of the main national survey companies. Hewitt Associates, Mercer Canada, Watson Wyatt, and Morneau Sobeco are projecting average pay increases for next year in the 2.5% to 3% range.

Incidentally, the Globe said the cost of living is projected to increase by about 2% in 2010 (according to the Bank of Canada).

These projections are the result of surveys of hundreds of Canadian companies employing hundreds of thousands of employees in the union and non-union sectors. It is important to remember, however, that the projections are just that. A year featuring an abrupt economic collapse (or boom) could play havoc with employers' plans, causing such projections to be wildly off target.

For employers, it is worth starting from the premise that, generally speaking, they are not obligated to provide annual increases at all. Unless an employee has a contractual entitlement (express or implied), annual pay increases are entirely within the discretion of the employer.

Could an employee succeed with a claim for wrongful or constructive dismissal as a result of the employer's failure to provide an annual increase? In theory, at least, such a claim could be successful.

But, the reality is that judges have proven unsympathetic to claims based on an alleged loss of salary when the monetary value of the claim represents less than 15% of the employee's remuneration. So, it is difficult (though perhaps not impossible) to envision a successful claim based on the employer's failure to provide an annual increase. After all, this isn't an instance of the employee taking home *less* money.

Of course, the legal impact of failing to provide annual increases must be distinguished from the practical effect. To many, cash is king and as a result employers who don't keep up with prevailing salary trends may risk losing staff or missing out on qualified applicants.

Nonetheless, my view is that letting the annual pay increase projections dictate what your company is doing about salaries is a dubious business strategy. Employers can become too dependent upon such survey results and end up

simply following the crowd because, well, if everyone else is doing it *then we'd better do it, too!*

It's critical to remain aware that the average projected pay raises are, in fact, *average* figures. That means some companies' 2010 pay increases will be above that figure and some will be below. There's nothing wrong with being below the average if that's what is right for your business.

Another risk for businesses is presuming that everyone in their organization should get that average increase. If that's been your approach to salary adjustments, you might ask yourself whether every employee actually *deserves* such an increase.

Consider whether it might be a better strategy for your business to give your star performers a heftier increase. Would that have a more beneficial impact than thinning out the available money by giving everyone an equal percentage increase?

Companies should be mindful, as well, that the national average projected pay increases comprise data from numerous regions and industries. It may well be that the projections for your region, or industry category, are substantially different than the overall average.

My own experience is that employers can end up letting the tail wag the dog when it comes to annual pay increase projections. My suggestion is that you view this information only as a useful reference tool in deciding what's right for your own business.

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