

Compensation Strategies for Today's Challenging Economy

AGC Human Resource Professionals - October 29, 2009

Topics

- The role of compensation in attracting and retaining the best employees.
- Total compensation mix.
- Compensation trends affecting your business.

1

Topics

- Back to the total compensation mix – what your peers are doing and practical strategies to maintain your competitiveness in today's market.
- Sound compensation planning for 2010 and beyond.

2

The Total Compensation Mix

Compensation Element	----- Goal -----		
	Attract	Retain	Motivate
Base Pay	High	High	Low
Short Term Incentives and bonuses	Low	Medium to High	High
Long Term Qualified Deferred Compensation	Low to Medium	Medium to High	Low
Long Term Non-Qualified Deferred Compensation	Low	Medium to High	Medium to High
Perquisites	Medium	Low	Medium
Benefits	Medium to High	Medium to High	Low

The Total Compensation Mix

- Historically, we know that during tough economic times...
 - Base salaries continue to rise.
 - Construction responds to economic conditions with changes in base salaries faster than other industries.
 - Incentive and performance metrics change to address the company's most important issues.
 - Core benefits become increasingly important.
 - Some benefit and perk packages tend to re-adjust until the economy bounces back.

The Total Compensation Mix

- Look for compensation plan alternatives during challenging times.
 - Explore ideas for plan alternatives.
 - Look at different funding and distribution approaches.
 - Evaluate alternatives against traditional practices.
 - Determine if the alternatives just get us through the current times or can we blend them into a long term strategy.
 - Determine if we should tie our plan to a formal program or be discretionary.
 - Select the "best" alternative with the understanding that compensation plans will change yearly.

The Total Compensation Mix

- Model and test the compensation plan.
 - Develop a model for the plan on spreadsheets.
 - Test the model with different levels of company, division, department or group performance.
 - Integrate your pay strategy and test again.
 - Share the results with your key players. Look for holes, test again if necessary, plan the implementation of the model.
 - Fine tune the model, if desired.

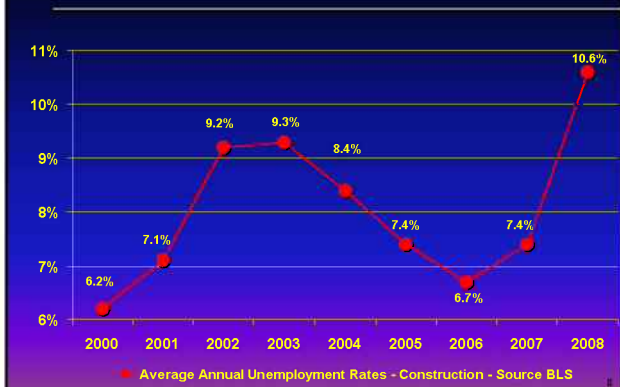
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What's Different This Time Staff Turnover Rates



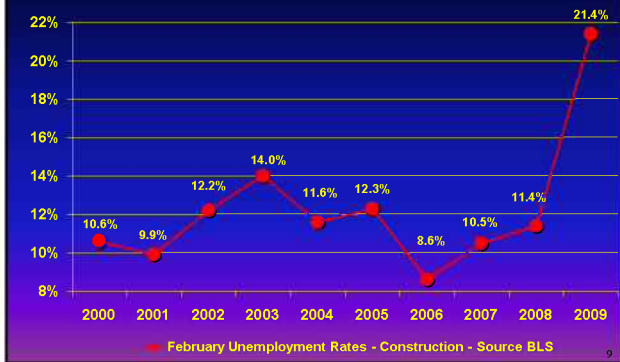
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Trends - Unemployment Rates



8

Trends - Unemployment Rates



Trends - Unemployment Rates



Construction Unemployment - 3 Decades

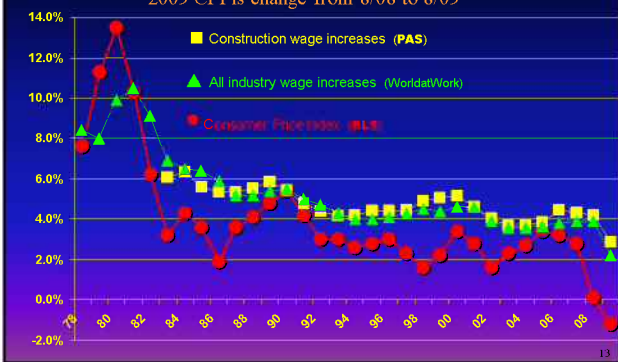


Construction Unemployment Compared to Wage Increases



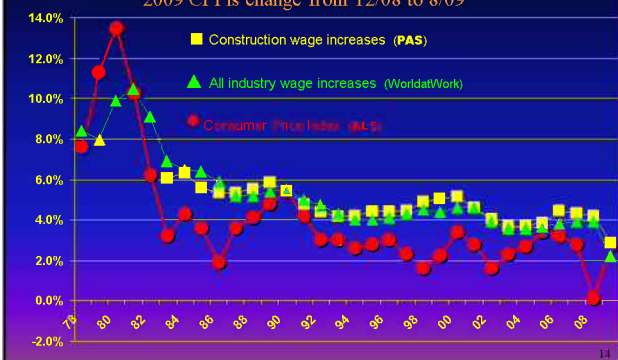
Cost of Living Compared to Wage Increases

2009 CPI is change from 8/08 to 8/09

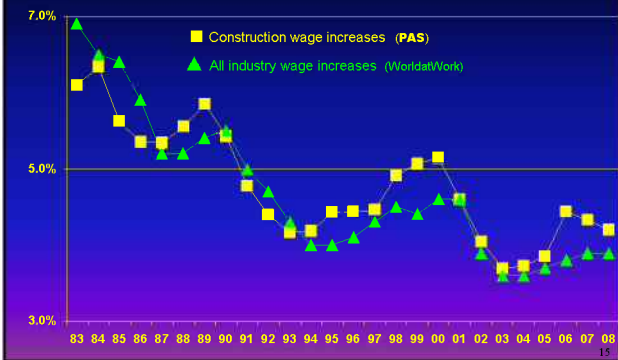


Cost of Living Compared to Wage Increases

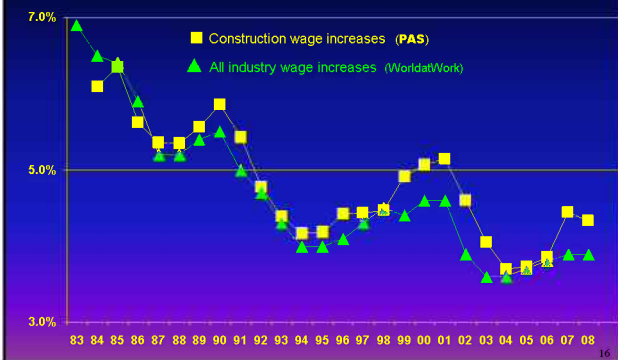
2009 CPI is change from 12/08 to 8/09



Construction Compared to All Industries Wage Increases



Moving construction over one year verses all industries wage increases



Employment Cost Index





- ### Base Salaries
- **Salary plans**
 - Core program to which benefits, perks, and variable pay must be coordinated.
 - Market-based systems are favored.
 - Obtain market data annual to track salary competitiveness.
 - Construction industry increase across the board.
 - Equity increases may be needed periodically to bring salaries in line with market.
 - Promotions or transfers are handled separately.
 - Differentiate pay based on circumstances.
 - Must coordinate with internal equity issues.



Base Salaries



Base Salaries



Relationship to Presidents Base Salary

Survey Year	Board Chairman	Executive VP	Senior VP	VP of Operations	VP - CFO
1998	127%	87%	77%	61%	65%
1999	129%	82%	73%	61%	61%
2000	124%	80%	70%	61%	63%
2001	121%	87%	73%	63%	65%
2002	124%	83%	75%	61%	63%
2003	127%	86%	75%	63%	65%
2004	124%	83%	77%	60%	64%
2005	125%	80%	69%	58%	61%
2006	126%	87%	75%	63%	62%
2007	128%	85%	72%	62%	64%
2008	127%	84%	76%	64%	63%
2009	124%	84%	74%	62%	65%
Average	126%	84%	74%	62%	63%

Short Term Incentive / Bonus

- Short-term incentive / bonus plans

- Construction industry is a leader in the use of performance-based pay.
 - Greater percentage of profits are paid.
 - Plans extend lower in organizations.

And...

- When short term incentives are not used, the construction industry is the leader in the use of discretionary bonuses.

24

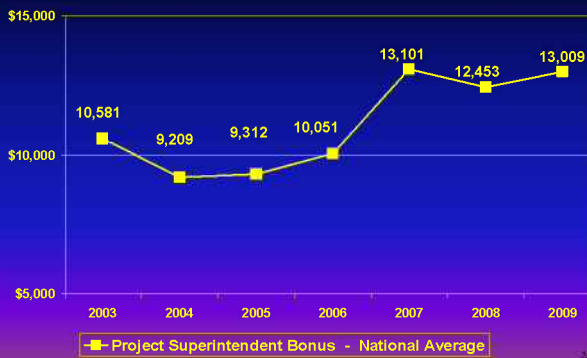
Short Term Incentive / Bonus

- Short-term incentive plans (continued)

- Recent typical metrics in practice
 - Profitability
 - Financial actions
 - Margin Improvement
 - Safety
 - Business development / marketing
 - Efficiency
 - Corporate contribution
 - Utilization of resources
 - Client relations
 - Client retention

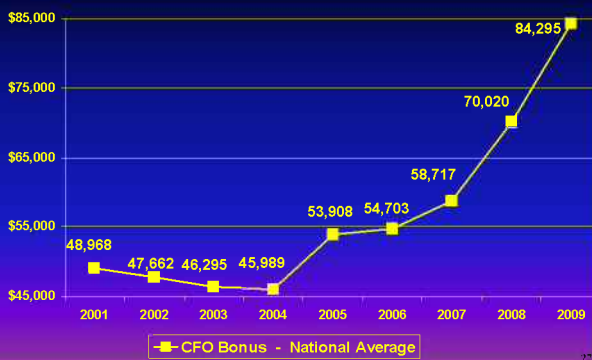
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Balancing Base and Incentive

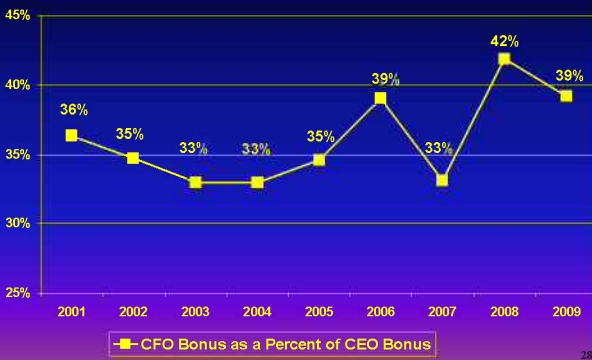


26

Balancing Base and Incentive



Balancing Base and Incentive



Nonqualified, Deferred Compensation Plans

• Benefits of implementing an NQDC plan

- Creates "golden handcuffs" to retain key employees.
- Plan may create long-term incentives for key employees.
- Helps key employees build additional wealth for later.
- May facilitate a structured ownership transfer or company sale.
- Tremendous flexibility in designing an NQDC plan .

Nonqualified, Deferred Compensation Plans

• Downside of implementing an NQDC plan

- Company may be required to book a liability for future payments.
- Unlike 401(k) plans, the company/owners must wait to get a tax deduction for deferred "contributions" until they are paid.
- Funds are **at risk** should the company suffer a financial disaster.

30

Defining Your 2010 Objectives

- Be proactive.
- Consider your business plan for the next 1 to 3 years and determine the implications for HR & compensation.
- Set compensation goals that are aligned with your business plan.
- Consider the impact the "competition for workforce" will have on your pay program as the economy recovers.

31

Defining Your 2010 Objectives

- Insure your pay program is market driven and make adjustments to keep your base pay in line with the market place.
- Insure your base pay program is meeting the objectives of recruiting and retaining qualified personnel.
- Look for high visibility / low cost alternatives in your benefit and perk packages.

32

Defining Your 2010 Objectives

- Review your incentive metrics and align with your business plan.
- Insure you have a workable mix of base and variable pay.
- Utilize core benefits as an effective retention tool.
- Consider long term deferred compensation as a retention and motivation device.

33

Summary

- **Take away**
 - The importance of keeping your pay program "market driven".
 - Focus on those indicators that may predict when compensation is going to change.
 - Identify 2 or 3 strategies that will help retain your key personnel through these challenging times.
 - Be in a position to recruit the best and the brightest when the economy recovers.

34
