Will Retaining Top Talent This Year Cost You?

human resources employees

Summary: As CFIs look to retain and hire top talent this year, they may need to spend more to keep their top performers happy. A recent survey projects a 4.6% salary increase as companies balance inflationary pressures and competition for high-performing employees. We take a look at what that means for your institution.

Dagwood Bumstead, hero of the long-running comic strip "Blondie", has been asking his boss for a raise forever. Somehow Mr. Dithers, the boss, always finds a way to disappoint Dagwood. When Mr. Dithers finally relents, Dagwood promptly faints.

If Mr. Dithers diddled on offering Dagwood a raise today, chances are Dagwood would move on to a more lucrative job. Employees have been in the driver's seat for a while now, and that trend promises to continue in the new year. That goes for companies in general and for community financial institutions (CFI) specifically.

The reality of raises is changing.

Inflation and a tight labor market are making it costlier for CFIs to hire and retain talent. As a result, they need to be prepared to hand out generous pay raises.

A recent survey found that most US companies plan to expand raise increases to 4.6% this year. That's much more than companies thought they would have to spend when asked the same question just a few months back. Last July, expected spending for raises averaged 4.2%. That level of increase was already the highest average pay raise since 2008.

Record-level inflation increases have ushered in unprecedented needs to raise wages in order to keep up with the cost of living, something that the majority of companies weren't prepared for. When you combine that inflationary pressure with the pressure to remain competitive to both retain existing talent and entice additional highly skilled employees, that spells an increase in funds allocated for yearly pay raises.

How the pressure of wage increases is affecting CFIs.

Needless to say, it is a tough time to manage salaries and budgets, with 75% of companies saying they were having trouble attracting and retaining talent, while at the same time, 12% said they were going through restructuring or layoffs.

CFIs are being buffeted by these trends. Finding and retaining higher-paid workers like those with tech expertise has also been an ongoing challenge. Even lower-paid jobs have become expensive and difficult to hire for. As a result, salaries at CFIs are already rising much faster than national averages.

Entry-level tellers, for instance, had a 12.6% median increase in pay from 2020 to 2022, to $29.4K, according to another recent survey. Yet, CFIs continue to find those positions among the hardest to fill. Perhaps because of the difficulty in filling those positions, chief human resource officers got an even larger bump, with their average salaries rising 13.5% from 2020-2022. For 95% of human resources officers, the most important issue was finding and hiring the right people. Meanwhile, C-suite salaries continue receiving handsome increases. President and CEO positions received an average 8.3% raise from 2020-2022, to $265,225. That amounts to more than a $20K salary increase over that time period.

Not all raises are created equal.

Average salaries provide a broad look at overall trends, but digging deeper shows a divergence in exactly where the biggest raises are going. Organizations are putting more money into the pockets of the highest performers. Since 2021, top performers received an average 10% raise. Underperformers got just 2%. Ironically, that was twice what poor performers had been getting in 2021, which was 1%. Even low performers have been getting bigger raises, although not enough to make much of a difference.

What does it all mean to the Dagwoods of the banking world? Larger-than-usual raises may be in the cards, especially for top performers. It may also take a higher salary offering than usual for a CFI to remain competitive when seeking new talent. For institutions that may not have enough wiggle room to give every employee a 4.6% raise or a higher starting salary, there are other factors that can be used to attract and retain employees, such as a good workplace culture or unique benefits. However, keep in mind that pay may be the ultimate determinant of the type of talent your institution can retain in the long term.

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ECONOMY & RATES

Rates As Of: 02/22/2023 05:37AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.86	0.16	0.44
6M	5.07	0.27	0.31
1Y	5.05	0.39	0.35
2Y	4.67	0.47	0.25
5Y	4.14	0.52	0.14
10Y	3.93	0.42	0.05
30Y	3.96	0.32	-0.01

FF Market	FF Disc	IORB
4.58	4.75	4.65
SOFR	**Prime**	**OBFR**
4.55	7.75	4.57