

Inflation's Ripple Effect on Nonprofits and Their Employees: Part One

By Stan Reiff, Partner, and Kelsey Helmick, Executive Compensation Program Consultant

Inflation is top of mind for every employer, employee, consumer, and producer right now. Even the best-informed economists do not know or understand exactly how this period of inflation following a global pandemic will affect prices, wages, supply, and demand long-term, so what are business and nonprofit leaders and employees to do? Employers are scrambling to make tough decisions while employees request wages they consider fair amid marketplace uncertainty and increasing costs for basic necessities.

Assessing Current Realities

For-profit businesses typically have more leverage and budget flexibility to provide employees with wage increases than nonprofits do. Businesses can raise the price of their products and services based on higher expenses and raw material costs and look for ways to grow sales.

Nonprofits, however, are expected to maintain certain operations expense ratios despite unpredictable donation levels. They are often faced with scaling back their budgets or searching for creative approaches to fundraising and allocating donor funds while demand for their assistance continues to rise. With more people struggling financially, demand for services related to homelessness and hunger is increasing, but supply chain issues and inflation are making services [more expensive to provide](#).

This is a challenge for nonprofit decision-makers who are still reeling from the effects of the Great Resignation and might have relied on increased compensation incentives to retain employees considering other jobs. In addition, new hires expect higher wages due to the

market conditions, even though these inflation rates might not persist.

Looking Ahead

In the Salary.com [Cost of Living Adjustment Survey](#) released in March 2022, 99% of respondents said they are somewhat or very concerned that rising inflation rates are eroding employee compensation. This indicates the need for creative solutions such as a cost of living adjustment.

BDO polled 440 organizations across multiple industries, including 127 nonprofits, in January and February 2022 and [found](#) that compensation budgets averaged 3.8% among the nonprofits polled. Further, when looking at organizations that had recently changed their increase budgets in response to market conditions, the average compensation budget increased to an average of 4.4% among nonprofits in the poll. For comparison, according to BDO, budgets for merit increases remained around 3% for the prior 10 years.

Meanwhile, according to a recent [CNBC article](#), even for-profit businesses recognize that they cannot sustain wages at the current inflation and cost of living rates. Even if they do not continue to increase pay by the same percentage, 2022 wages will be the new baseline.

Steps to Consider

Nonprofit organizations must evaluate and balance:

- The potential impact of this high inflationary period on donors' giving potential
- The cost of providing ministry opportunities
- The cost of labor

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Nonprofit compensation is enough of a puzzle without the added challenge of market fluctuations. But while every organization is different, there are options for leaders who want to communicate the value of their team members through more than just cash compensation.

Many nonprofits are opting to give their employees one-time bonuses rather than setting themselves up to maintain promised increases in future years. This provides an immediate benefit to employees who are feeling the real-time impact of market conditions without setting the precedent of an increased baseline wage.

Since times of economic inflation tend to put more strain on lower-level (and lower-earning) employees, nonprofits may also want to consider providing tiered incentives such as:

- Increased retirement plan contribution percentages
- Stipends to accommodate elevated gas prices (organizations should consult with a tax advisor first to ensure they understand and disclose the potential tax implications for the organization and employees)
- Higher merit increases or one-time bonuses

Allowing remote working arrangements for employees at the manager level and lower is another incentive to consider.

If you have questions or would like to learn how CapinCrouse can help you navigate this turbulence in compensation design and organizational strategy, please [contact us](#).

Additional Resource:

[Inflation's Ripple Effect on Nonprofits and Their Employees: Part Two](#)

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Stan's professional experience includes over 35 years in ministry operations, public accounting, government accounting, and international missions. He provides strategic leadership of the firm's professional advisory and consulting services, including research on emerging issues in the faith-based nonprofit sector and the development and implementation of products and services in response to those needs.

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Kelsey has over 10 years of experience working in and with faith-based nonprofit organizations, which has given her a passion for meaningful organizational design and intentional culture creation. Her background in applied psychology, marketing, and management inform her work with CapinCrouse clients in the areas of compensation, human resources, and organizational behavior.

About CapinCrouse

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