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

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

Many nonprofit organizations may have originally thought that the impact of inflation might be short-lived and they would not need to make budget adjustments to account for longer-term repercussions. However, as inflation has continued, organizations have had to make unavoidable decisions about compensation.

Since our first article on the topic, more research has been published about inflation's effects on nonprofits, particularly as it pertains to employee compensation. Let's start with a look at market data.

The Latest Market Data

According to the 2022 Q2 PayScale Index US report, nominal wages grew 1.7% from the first quarter to the second quarter of 2022 across all for-profit and nonprofit organizations in the PayScale database, and increased 5.4% from the second quarter of 2021 to the second quarter of 2022.

But the report also found that due to the rise in inflation, real wages decreased 0.6% from the first quarter to the second quarter of 2022 and by 2.2% from the second quarter of 2021 to the second quarter of 2022. And the U.S. Bureau of Labor Statistics reported that hourly earnings, seasonally adjusted, decreased 3.6% from June 2021 to June 2022. This means employees are feeling the impact of decreased real wages on their bank accounts and perhaps looking to their employers to help fill in the gaps.

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Even in the fourth quarter of 2021, 81% of for-profit and nonprofit organizations were offering salary increases to their employees, at an average increase of 3.1%, according to the 2022 SHRM Human Capital Benchmarks Report from the Society for Human Resource Management (SHRM). The most frequent type of increase was a flat-rate bonus to nonexecutives, which was provided by 39% of survey respondents.

More recently, 63% of respondents in a May 2022 SHRM survey said that their organizations were considering inflation in their annual pay raises this year. Among respondents who indicated that inflation was a concern at their organizations, 87% said that their highest consideration was how inflation would affect the lives of employees.

Interestingly, during the June 2022 Economic Research Institute (ERI) Compensation Trends webinar, ERI cautioned organizations to be aware of their compensation practices and decisions to avoid contributing to the wage-inflation spiral. The wage-inflation spiral refers to the concept that when wages increase, people have more disposable income to spend. Demand for certain products then increases, causing prices to rise, which contributes to inflation. In turn, increased inflation in the market causes employee wages to decrease in value to the extent that products are more expensive than they were before.

With this in mind, we recommend evaluating whether any planned wage increases may be better utilized as short-term incentives such as spot bonuses, gas or grocery gift cards, or increased work flexibility. (Consult with a tax advisor first to ensure you understand and disclose the potential tax implications for your organization and employees.) This still allows for wage increases if the market conditions dictate their necessity at the end of the fiscal year, but it also allows for the possibility of leaving base pay at current levels.

Church Compensation Data

ChurchSalary, a resource of Christianity Today's Church Law & Tax publication, offers ongoing research on the topic of church compensation in the current market environment. This research indicates that churches were not necessarily affected by the Great Resignation that took place in the broader market, but they have experienced what ChurchSalary calls "the Great Reshuffle." As a result:

- Some in-person ministry positions have been exchanged for digital-focused programs and skillsets, sometimes by cross-training existing employees and sometimes by seeking new hires to fill the new roles.
- Many large churches have decreased in size in the wake of the pandemic, while some smaller churches have experienced unexpected growth. ChurchSalary refers to this as a K-shaped recovery, with some churches growing, some shrinking, and some remaining largely unchanged.

Additional findings from ChurchSalary research include the following:

- Despite the wide range of scenarios represented by churches across the country, 2.0% of pastors and 1.4% of staff received raises in 2022. The most prevalent pay increase was 5.0%.
- The most common position to receive a raise was executive pastor (55.3%).
- The least common positions to receive a raise were ministry support staff (10.3%) and musicians (4.0%).

Compensation Decision Process

While the World at Work Compensation Programs and Practices Report, based on research conducted in April 2022, doesn't contain inflation-specific data, it provides insight into nonprofit industry best practices related to compensation decisions and communication.

Here are some key findings from the nonprofit respondents in the report (note that respondents could select more than one answer):

- 71% offer sign-on or retention bonuses
- 65% provide spot or recognition awards
- 65% of base pay increases are directly tied to a performance rating, 19% are influenced by the employee's ranking among their peers, and 22% are not determined by rating or ranking
- 50% perform market pricing once per year, 16% perform it as needed, and 14% perform it every two years
- When it comes to determining the effectiveness of their pay programs, 74% of nonprofit respondents said they rely on employee turnover or retention to inform them, 59% use employee satisfaction survey metrics, 30% use business and operating results, and 24% rely on employees to tell them if the program is working

Together, the data from ERI, SHRM, and PayScale on current compensation trends and the World at Work research on compensation programs provide insight into how nonprofits view and evaluate compensation.

Attempting to keep up with the latest ebbs and flows of the market while monitoring employee expectations and needs can seem like a reactionary process rather than a strategic one, but we encourage you to integrate compensation programs and policies, along with a compensation philosophy, into your organization's current and future decision-making processes. This additional level of accountability and transparency will be appreciated by your employees, leadership, and other stakeholders.

Our next article in this series will include anecdotal data from nonprofits about how they are handling inflation and compensation conversations within their organizations.

If you have questions or would like to learn how CapinCrouse can help you navigate this uncertainty in compensation design and strategy, please contact us.

Additional Resource:

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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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