

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

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

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As market and economic conditions continue to change, many organizations may feel like they're repeatedly facing new compensation decisions. The [2022-2023 Salary Budget Survey](#) from Payscale found that while nonprofit organizations provided employees and executives with average salary increases of 3.0% to 3.3% (depending on the position) in 2022, nonprofits' salary increase budgets for 2023 show average planned increases of 3.6% to 4.2%.

The Economic Research Institute (ERI) provided similar data in its [October 2022 Compensation Trends webinar](#), projecting that compensation will increase by 3.78% in 2023, influenced by the high level of inflation. ERI also observed that the open jobs rate is a leading indicator that wage growth will continue and some additional growth should be expected in the area of structural reorganization.

In the past few months, we've had conversations with a handful of our clients across the spectrum of nonprofit sectors we serve to see what impact they have been feeling from inflation and whether they are adjusting their compensation practices as a result. This was not a large or representative sample of our clients or nonprofits as a whole, but rather targeted touchpoints with clients we have recently worked with.

The organizations we talked with that have already provided supplemental compensation or will be doing so in 2022 said that conversations with employees and managers and the documented cost of living in their areas contributed to the decision to provide supplemental compensation.

Every organization is unique and there are, of course, different ways to adjust compensation if an organization chooses to do so. For example, a church client we spoke with said that after receiving feedback from external stakeholders, it provided one-time stipends to certain employees whose base pay had not recently been compared to market rates.

In another example, a foundation opted to provide its employees with remote work flexibility in addition to cost of living adjustments. And a mission organization client we talked to provided one-time 5.9% bonuses to U.S. and international staff in November 2021 to match the 5.9% cost of living adjustment figure provided by the Social Security Administration. In 2022, the organization's leadership recognized the impact of inflation on staff and instituted a 7% cost of living adjustment for U.S. employees. One-half of the increase went into effect on May 1 and the second half was implemented six months later at the start of the new fiscal year, which allowed the organization to budget for the increase in two subsequent fiscal years.

At an organization that has not yet decided if it will be providing supplemental compensation, the leadership team is discussing the cost of labor, unemployment, the inflation rate, the number of open positions, and internal turnover as they consider the best way to serve employees while being good stewards of the organization's resources. This organization indicated that if it does decide to provide additional funds to employees, the leadership team is considering a lump sum per employee with a maximum income threshold.

Further, an organization that said it will not be providing supplemental compensation recently completed [Executive Compensation](#) and Employee Compensation studies through CapinCrouse and used the study results to adjust base pay. The only adjustment this organization has made as a result of inflation is to keep medical insurance premiums stable for employees by having the organization absorb any increases.

These are just a few examples of the different ways nonprofits are approaching compensation during this time of economic change and uncertainty.

## Next Steps

From a high level, it appears to us that the question of how to address employee compensation in the current

economic environment has emphasized the need for a larger discussion about compensation philosophy. Organizations with a documented compensation plan in place can use that plan to guide them as they make proactive decisions based on what they are seeing and experiencing. Organizations without a plan are often left making changes in a reactive manner.

[This BDO USA article](#) also underscores the necessity of understanding, compiling, and implementing these guiding principles for the benefit of organizational leadership, stakeholders, and employees.

We recommend that your organization consider the following questions:

- What do we as an organization believe about compensation and what policies do we have in place to demonstrate those beliefs?
- How do we handle “once in a lifetime” economic uncertainties?
- What kinds of feedback mechanisms do we have in place? Do we know how our employees are faring economically? What steps would be most helpful for us to take as an organization?
- What are our donors’ expectations? How can we make impactful decisions while honoring our donors’ desires for how their funds are used?
- Who should be a part of these discussions and decisions in the future? What resources will we consider?

We hope that this article will be helpful to your own discussions about inflation and its impact on your employees. Please [contact us](#) if you’d like to discuss your organization’s compensation practices and philosophy.

#### **Additional Resources:**

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

[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

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at [capincrouse.com](http://capincrouse.com).

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