

# Applied HR Strategies (AHRIS) Client Alert

## Technology Compensation Trends

### More than One Year into the Pandemic

Summer 2021



Applied HR Strategies, Inc. (AHRIS)



## Over a Year into the Pandemic, the Tech Labor Market Remains Hot, but Major Impacts on How People Work

Since the early 2010s AHRS has been advising our clients that pay levels for technology professionals are rising faster (in some cases considerably faster) than the overall labor market, and that companies need to act to stay on top of these trends in a rising and hyper-competitive technology labor market that still exists today in 2021. **Despite the pandemic**, these trends have continued, although some recent data suggests this near-term trend might be moderating somewhat, even as many well-known technology firms continue their expansion in the Puget Sound region and elsewhere in the northwest. Within the region, despite the move toward remote and hybrid work arrangements, we see Google (Alphabet) in the process of doubling its Kirkland-based workforce, Amazon and Facebook are expanding dramatically in Bellevue, and Microsoft continuing to grow in Redmond and Bellevue, and these are just a few examples of the dramatic growth we are seeing in the Puget Sound technology scene.

The pandemic has impacted our lives in so many ways, including the way many of us work. Remote work, the digitalization of many work tasks and even how humans interact, has not only altered the way we work, but also how we think of how work should be post-pandemic. Prior to the pandemic, there was a slow-moving trend toward more remote and flexible work arrangements, but the pandemic crammed a decade or more worth of change into a few short months. Gone (nearly) is the desire of most workers to be in the office every workday and to spend extra hours per week in their cars. The popularity of at least some remote work has exploded. Two recently published studies of remote work showed that 85%+ of currently remote workers want to retain at least one day of remote work per week, while only 10% to 15% of workers want to return to 100% in-office work, even though about 2/3<sup>rds</sup> of worker seem to want to spend at least some face-to-face time with their co-workers. These have huge implications for how employers plan their return to the office strategies and plans, and to how to pay these remote workers.

In early 2020, technology recruiting firm Dice reported that the average technology salary in Seattle was now up to \$109,628 and represented a 4.3% increase over the year-earlier levels. For 2021, the latest edition of the same survey reported a 3.6% increase in technology pay nationwide in 2021 vs 2020, but a slight drop for the Seattle area (we have not observed this, and candidly, not sure where this data came from). Meanwhile, Milliman reports that the year-over-year change in base pay for the benchmark roles in the [NW Technology Survey](#) rose 3.4% between the summer of 2019 and 2020 (same organization comparison), and 4.9% overall. The change for the software engineering (SW) job family was 3.8% (same organization comparison) and 5.6% for all survey participants. Similarly, recent AHRS research on the year-over-year changes in Seattle-area pay for the SW engineering family via the *Culpepper Technology Survey* shows an average pay movement 4.2% in the Seattle area. These slightly mixed signals about current pay movement show how important it is to stay on top of current trends, as the marketplace for technology talent is much more dynamic than it is for most other types of roles in the labor market.

Despite slightly mixed signals on current pay movement, we do know that hiring in technology continues at a rapid clip, which inevitably leads to higher wages. We have also heard many anecdotal reports of attraction and retention challenges from technology companies we know well.



## Recent and Historical Data Trends for Tech vs the General Labor Market

### Historical Pay Trends in the 2010s

According to our research, base pay medians for technology jobs from the summer of 2011 to summer 2020 (nine years) were up approximately 35% in the *Culpepper Technology Survey* (Seattle-area data for the software engineering family), vs. 36% for the *Milliman [Northwest Technology Survey](#)* and 25% for the general labor market over the same period. While nearly 10% additional pay growth for technology jobs might not sound that impressive, over time, the compounded impact of this growth has increased technology salaries dramatically over the past decade. That amounts to about an 1.2% annual additional incremental annual pay growth in technology jobs vs. non-tech general industry jobs. That roughly 1.2% additional growth means that companies passing out 3% annual pay increases are falling behind the market in pay for one of their most important skill areas (and your absolute most critical talent pool if you happen to be in the technology business).

**Table 1 - Base Pay Growth Trends in Technology and General Labor Market Jobs in the Northwest**

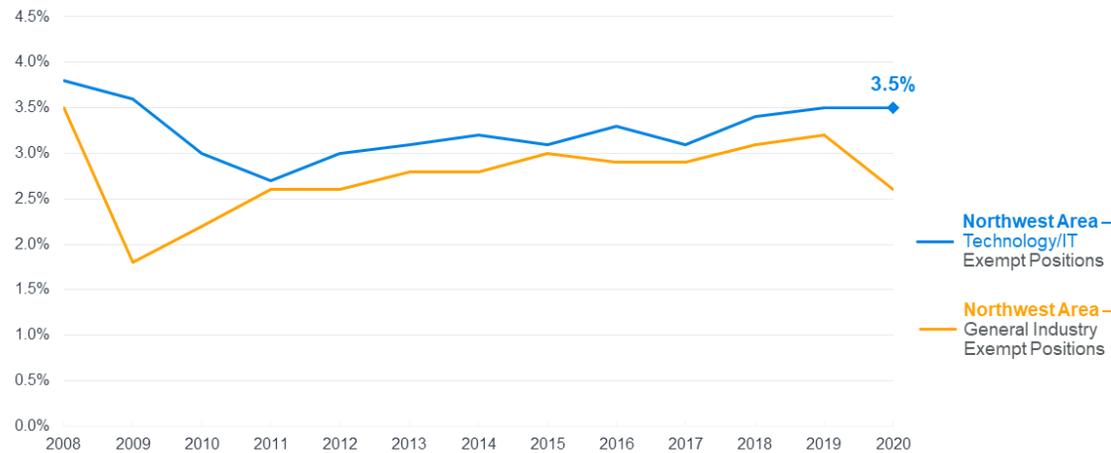
Job Category and Data Source	Change in Median Base Pay 2011 - 12	Change in Median Base Pay 2012 - 13	Change in Median Base Pay 2013 - 14	Change in Median Base Pay 2014 - 15	Change in Median Base Pay 2015 - 16	Change in Median Base Pay 2016 - 17	Change in Median Base Pay 2017 - 18	Change in Median Base Pay 2018 - 19	Change in Median Base Pay 2019 - 20	Approximate Total Base Pay Change, 2011 - 2020
<b>General Industry Benchmark Jobs</b> – Milliman NW general industry surveys	2.5%	2.2%	2.4%	2.9%	3.0%	2.9%	2.7%	<b>3.2%</b>	<b>2.8%</b>	<b>25%</b>
<b>Technology Benchmark Jobs</b> – Milliman NW Technology Survey	5.2%	4.2%	3.3%	3.9%	3.6%	3.6%	3.7%	<b>3.3%</b> <b>(5.8% for SW Engineering)</b>	<b>4.9%</b> <b>(5.6% for SW Engineering)</b>	<b>36%</b>
<b>Software Development Jobs</b> – Culpepper Technology Survey (Seattle Area)	6%	3%	3%	4%	2%	4%	4%	<b>1.4%</b> <b>(1% for ICs*, 5.5% Mgmt.)</b>	<b>4.2%</b>	<b>35%</b>

\* - ICs – Individual contributors (non-managers)

**Graphic 1 – Milliman Tech vs. General Industry Base Pay Changes since 2008**

## Base pay increases

Average annual base salary budget increases (including zeros)



Sources: Milliman Northwest Technology Survey; Milliman Northwest Management & Professional Compensation Survey



For the general labor market, *base pay increase medians are in the 2.5% to 3% range (with some additional improvement in recent years)*. Technology pay medians are “only” rising an additional 0.5% to 2% more per year in most years, but when aggregated over time, this additional incremental growth leads to large changes in base pay, and in relative pay movement compared to the general labor market. **Thus, pay levels for benchmark technology jobs are rising at much quicker pace overall**, ranging from a 3 % to 6% annual increase (depending on data source and time comparison period) vs. 2.5% to 3.0% for the general northwest labor market over this past decade.

**Some technology job families are growing at a faster rate than others though, based on larger trends in the marketplace.** For instance, we are seeing a strong demand for software engineers in general, and especially strong demand for data engineers and scientists, engineers with specialties in artificial intelligence (AI), machine learning (ML), natural language processing, experienced engineers with cloud experience, etc., with pay rate jumps of as much as 10% annualized in a few key roles.



Some job families though, such as those tied to older "legacy" systems (mainframe computing systems, help desk and desktop support, etc.) are seeing slower pay growth rates, as these technologies decline in use. These are some of the "micro-climates" ("mini" labor markets within the larger overall market for technology talent) we see in the overall extraordinarily strong marketplace for technology professionals.

Base pay for senior level non-management engineers in the "hottest" job families (data science/analytics, SW engineers, engineers, and specialists in AI, etc.) crested the \$100,000 level several years ago, not including other forms of compensation (short-term incentives, long-term incentives - stock, etc.). Pay growth in the now less rarified \$ 100k+ air is a bit more muted in some job families, despite the generally high demand, than for the "hot" skill areas in these same job families. Today, it is not uncommon to see some top-level individual contributors in hot jobs areas earning more than \$150k in base pay. Prior to a few years ago, pay at these levels was reserved almost exclusively for upper-level management (director level and above).

See Table 2, below, for an overview of the pay growth (and demand) trends for some key technology areas. Most of the "hot" job families are following the direction of technology product and usage trends. With much of technology moving from in-house (on premise) installations to so-called "cloud-based" applications and services (software as a service or SaaS, or infrastructure as a service or IaaS), professionals and leaders in these areas are doing quite well. In addition, engineers in data science, AI, machine learning, neural networks and deep learning, natural language processing and related areas are booming. Prior to five years ago, most of these technologies were rarely discussed outside of research and development (R&D) settings and universities, but now nearly all advanced organizations develop and/or utilize these technologies.

**Table 2 - Base Pay Growth Trends in Benchmark Technology Job Families in the Northwest**

"Hot" Job Areas	Solid/Steady Demand	A Bit Soft (relative to others)
DevOps and application engineers	Software developers/engineers	On-premises IT specialists
Cybersecurity and data security specialists	Technology managers and directors	Hardware/desktop support and help desk
Natural language processing and deep learning	Web development	Computer operators
Data engineers/data scientists	Database developers/architects	Implementation specialists
AI and Machine Learning (ML) Engineers	Technology support engineers	Some sales engineers
SW Engineers with "hot" skills (e.g., Chef, Python, Containers, Amazon Cloud development skills, etc.)		
Advanced degrees in data science and AI		
"Cloud" developers/engineers		



Similarly, job families that are not doing as well are mostly a reflection of recent technology trends, as well as what is happening in the marketplace for technology products and services. We see slowly diminishing demand for some jobs like product implementation specialists (as fewer products are “installed” at customer locations) and even for some sales engineers, as more selling and product demonstration work is done via the Web, and sometimes by less-trained staff. As more applications and services move to the so-called “cloud,” and laptops and mobile devices become the primary computing tools for many workers, so there is a diminishing need for desktop support and help desk personal, computer operators, and other job families that support more “legacy” systems. All these trends were in place before the pandemic, but the pandemic has helped to accelerate some of these trends.

## **The Pandemic’s Impact on Technology Compensation**

The pandemic has had a massive impact on how and where technology workers work, but somewhat shockingly, the pandemic has had little impact on pay trends and levels for technology professionals and management. Even during the pandemic-induced economic recession of 2020, while hiring may have hit a temporary lull, we saw little to no impact on pay levels. Other than a brief pause in the spring/summer of 2020, demand for technology talent has remained remarkably strong, and in many job categories, demand exceeds supply, which always leads to higher wages eventually.

The pandemic has changed (and will continue to change) the way many workers work. Now that many professionals and managers have shown remote work is not only feasible, but in some cases preferred, only a small minority of currently remote workers want to return to 100% in office work again. While these shifts will impact how companies address issues like hybrid work arrangements, geography-based pay and the like, there has been no meaningful change in the supply/demand situation for most technology workers, and therefore it remains essential for companies to stay on top of technology pay trends, as they concurrently make plans for hybrid work, determining how they want to address geography-based pay (some are making changes, some are not) and other impacts from changes in the way we work in 2021 vs. pre-pandemic times.

We work with several technology companies, and while many of them have been working on issues like return to work and/or hybrid work strategies and policies, remote work, remote worker geography and impacts of pay and pay policies. While all these changes are happening concurrently, we have seen virtually no dip in the strong labor market for technology talent, and ongoing attraction and retention challenges in companies that compete in these hot labor market areas.



## Attracting and Retaining Technology Professionals, from a Rewards Standpoint

The need to stay current and to be competitive has not diminished at all, despite the pandemic. Here are some ideas in this regard.

- First, make sure you have the latest pay data and do frequent pay benchmarking for key technology jobs families (at least once a year while the market is trending up more quickly than the overall market). **You cannot act in a purposeful way if you do not really know where your company stands competitively.**
- Second, **consider or reconsider your compensation philosophy and competitive market positioning.** If you do not have a compensation philosophy, think about what you are trying to accomplish with your compensation/rewards programs, how you want to position yourself in the marketplace and what your top priorities are (to attract the “best” talent, or to maintain labor costs as low as possible, for instance)? **Once you have a well-thought-out compensation philosophy, then you can develop a plan/strategy to get to where you want to be, while considering your company’s resources and other priorities.**
- **Consider implementing a “differential” compensation strategy,** where some key and/or critical skill areas are treated more beneficially relative to the market for these groups. For instance, if your overall compensation philosophy is to pay at the market median (50<sup>th</sup> percentile), you may choose to target pay at the 65<sup>th</sup> or 75<sup>th</sup> percentile for certain hot and/or crucial skill job families. This type of approach should lead to a greater or improved ability to attract and retain these key professionals.
- Once you know where you are at (see the first bullet) and know how you want to position yourself relative to the market (see bullets two and three), **you can then begin to develop a plan to get your company to where it wants to be.** This may require additional cost and/or competitive analysis, but now that you know the outline of the plan, you can work to figure out what it would take to implement it. Companies that find themselves well off their desired compensation strategy and market positioning, may need to develop a longer-term (>1 year) plan to achieve desired market-positioning levels.
- **If you have a 3% or lower merit budget, considering adding supplementary dollars for “market adjustments.” for the faster pay growth in technology roles.** If you are treating all your people the same and with the same historically low 3% merit budgets of the past few years, then those in high pay growth roles are steadily falling behind the market, and it will only get worse the longer it goes on. Consider adding a supplemental percentage (1% of payroll is common) to use for market-related adjustments for specified groups. If you do not do this, or something like it, your competitiveness will be continuously dropping, and eventually many of these people will leave for market-competitive pay at a different company. Maintaining your competitiveness will reduce turnover, reduce productivity losses from compensation-related turnover, and in the long run save your company money.



Before we close, we should add that *technology professionals tend to be more aware of their market value than most other professionals*, and so employers cannot afford to not be fully aware of what is going on in the marketplace for these key roles. It is important to then take appropriate action based on this information and their company's compensation strategy and resources. And we would also be remiss, if we did not point out that *in today's world, virtually every company is a technology company* to varying degrees, so you cannot afford to not stay on top of technology pay data and data trends. Ignore at your own peril!

If you have any questions or wish to discuss this information further, please feel free to reach out to me ([doug@appliedHRstrategies.com](mailto:doug@appliedHRstrategies.com) or 206-226-1029) or to Jill Odegard ([jill@appliedHRstrategies.com](mailto:jill@appliedHRstrategies.com) or 206-498-9077).

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