

How to approach pay differences for employees doing remote work



Increased opportunities for remote work are likely to stay, opening up hiring opportunities across the country. However, questions of pay differences also come into play. Do you pay a remote sales rep in Boston the same as someone based in Boise? If an employee wishes to move now that remote work is available, do you change their pay to match the location?

Legally, location has always been an accepted component affecting salary levels. For example, the median pay for a software developer in San Francisco runs north of \$120k. However, it drops to \$87k in Minneapolis for the same experience.

Still, choosing how to handle this situation takes careful thought. With more remote work opening up, workers have more job opportunities available than ever. That makes hiring and retaining employees even more competitive.

Benefits of hiring remote employees

In 2019, only 3.6% of employees worked from home more than half the time. By the end of 2021, about 30% of the workforce is expected to work at home at least a few days a week, says Global Workplace Analytics. The trend isn't likely to decline much and workers are increasingly likely to expect remote opportunities to be available. Fortunately, that's not necessarily a bad thing.

Recruiting nationally, for at least some positions, can help organizations attract staff from a deeper talent pool. Previously, businesses were limited to candidates already living nearby or willing to relocate. This could greatly limit the candidate pool for positions requiring niche skills. With remote hiring, it can be easier to find candidates with the skills and background you're looking for. It may also allow you to hire more diverse candidates, who may not otherwise be in your local applicant pool.

Additionally, with variations in pay across the country, hiring from areas with lower costs of living can reduce labor costs. This is especially true for organizations located in large cities where salaries and office space are more expensive.

Some employees wish to move and continue remote employment

"Pre-pandemic, job location was a big factor in where people chose to live," said Paul McDonald, senior executive director at Robert Half. "As many employees continue to work from home successfully, they're considering how a move might improve their quality of life, particularly if they can keep their current salary." Of workers surveyed by the Robert Half staffing firm, 51% said they would consider moving to a different city if their company offered long-term remote arrangements. Another 4% have already made a move.

However, how companies are handling this situation has varied. A recent poll of HR managers suggests many companies are open to the idea of an anywhere workforce. 50% of respondents reported their organization has allowed current staff to relocate temporarily. Another 38% said their employer was supportive of permanent moves.

So far, most employers aren't implementing pay cuts for employees who move to locations with lower costs of living. However, some have. Facebook, for example, will now allow many employees to work from home permanently. However, it said salaries are likely to change to match local costs of living. A recent Willis Towers Watson survey found that 26% of companies say they would base compensation on location for remote workers.

Not many are willing to take a pay cut

More employees are open to or interested in relocating, however, they're not interested in losing pay to do it. In fact, 75% of people surveyed said they would not be willing to take a pay cut in their current job if they were to move.

"Although some employees may be willing to take a pay cut for the convenience of working from home or living in a less expensive area, other employees may feel that they deserve to be paid on the value of their work," without regard to location, says a new PayScale report.

There's no easy way to choose how your company should handle these situations. What's most important is that you apply any decisions you make fairly and equally across the organization.

Setting remote pay: 3 options

Whether you're considering letting employees move or hiring new employees, you must choose an approach to pay scales carefully. When establishing salaries for remote staff, you basically have three options, says PayScale:

- **Base pay on employer location.** With this traditional office-centric approach, employees (regardless of where they live) are paid salaries based on the market competitiveness of the company headquarters. This makes sense for smaller companies with few remote positions or those looking to simplify their compensation management. Such companies can also pay a premium to a handful of valuable remote workers and have equalization across the team otherwise.

- **Base pay on *employee location*.** This approach is more accurate but more complicated. It's also common with positions that are heavily regulated and must comply with local wage laws. Basing pay on employee location can be the most cost-effective and competitive plan, plus best for harder-to-fill positions.
- **Base pay on national median.** Avoiding local pay levels is attractive to larger organizations with a highly distributed workforce, especially for non-competitive roles. Another option: a mixed approach that groups multiple locations together and targets an average.

Final tip: Expect backlash if a new policy reduces pay for remote staff. One option is to change the pay range for the job but not the actual pay of employees. You can then reset expectations on pay-increase eligibility and freeze pay based on location.

Additional Resource: Permanent remote work requires unique rules within your organization and creates additional legal and tax considerations for employers. Don't forget to [consider these factors](#) when making a decision.