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Inflation's Impact – IRS Makes Mid-Year Mileage Reimbursement Adjustment as Employers Implement New Wage Strategies to Retain Workers

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Inflation is at a 40-year high – reaching 8.6% in May, according to a Bureau of Labor Statistics (BLS) news release earlier this month. The rise of consumer product costs, including food and gasoline, have all contributed to this increase. For the most recent one-year period (May 2021 – May 2022), the CPI (consumer price index) is up approximately 8.3%, with food up more than 10% and gas up a whopping 48.7%!

This rate of inflation is affecting both employees and employers. Workers are, of course, finding it ever more difficult to make ends meet. Meanwhile, employers operating in a tight labor market are faced with demands for higher wages while facing pricing pressures of their own.

Fuel prices are of particular concern, and the federal government recently took action to assist workers who incur automobile expenses in connection with their jobs.

Specifically, the Internal Revenue Service (IRS) issued Announcement 2022-13 this month, which increased the standard mileage reimbursement rate to the highest ever announced by the agency: 62.5¢ per mile. This is the first time in more than a decade that the IRS has made a mid-year adjustment to the reimbursement rate; the new rate is effective July 1, with the old rate (58.5¢/mile) applicable for the time period January 1, 2022 – June 30, 2022.

Unfortunately, simply reimbursing employees for their mileage expense is not likely to retain top talent; rather, employers must look at other compensation adjustment strategies to maintain the labor necessary to remain competitive in the marketplace. Some such strategies are outlined below.

1. **Mid-Year Wage / Salary Increases** – Not for the first time, though on a far more universal scale, employers are making mid-year wage adjustments for their workforce. As noted above, employees are facing historic (at least for their lifetime) increases in the CPI. In addition, unemployment rates are extremely low – with nearly two jobs available for each person currently unemployed. As a result, employees are making employment changes at rates not seen in the past: 4.5 million quit their employment in March, knowing that other opportunities were out there.

Not surprisingly, the primary driving factor for most job changes is compensation. According to a recent employee survey reported by Grant Thornton in its *State of Work in America* report, 37% of employees who left their employment for another opportunity did so due to an increased wage offer. To assist in meeting this challenge, many employers have re-evaluated compensation budgets and have implemented mid-year increases.

Certainly, such increases may not need to be universally implemented; however, to attract talent and then maintain that talent – at least for those roles that are critical to business, a mid-year increase communicates that value to employees.

2. **Lump Sum Awards** – For employers with a significant hourly workforce, and where a mid-year pay increase may not seem as attractive, many have turned to "recognition" and "appreciation" bonuses. Similar to the "hazard" bonus awarded during the onset of the COVID-19 pandemic, these lump sum awards tend to be well-received by hourly-paid employees. In addition, as explained by the Department of Labor (DOL) in its Fact Sheet #56C, where the bonus is truly "discretionary," it is not subject to inclusion in the employee's regular rate of pay and therefore does not affect overtime compensation calculations and liability.

3. **Enhanced Benefits and Opportunities** – As reported in *State of Work in America*, after salary/pay, the next two most significant reasons identified for changing jobs were opportunities for an increase in benefits (other than health and retirement) (18%), and improved advancement opportunities (27%). Recognizing these factors as drivers for hiring, more than ever before, employers have been intentional in designing growth and advancement training for their employee population, and – most importantly – being very vocal about these programs (both to current employees and candidates). An optimistic view of upward mobility and the opportunities for job and individual growth creates a very positive employee community, and a wonderful reputation for any employer who is seen as offering these opportunities to their current employee population.

Similarly, unique job benefits, such as 4-day workweeks, remote work opportunities, improved paid leave benefits (necessary to assist some parents when school closing recur), and various other perquisites make employment opportunities attractive to some. (Remember, however, that depending on the perquisite – such perks may or may not need to be included in the employee's W-2.) The goals should be creating a work environment that is rewarding, and one in which employees feel valued. These sentiments can greatly assist in eliminating the "I can find it better elsewhere" feel, when there are two openings for every unemployed person.

Unfortunately, high inflation may not be coming down anytime soon – so the constant pressure on improving benefits and increasing compensation is not going away. Employers are presently faced with an ever-more challenging labor market, with employees having the "power" to exercise free mobility more than ever before in recent history. Employers who "wait" to see how inflation may shake out, are likely to be left on the sidelines searching for labor. Employers who are more nimble with their various employee packages (including increasing pay) are likely to find the best candidates, and *hopefully*, those who will remain longer.

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