

EXCHANGE --- Should Moving Somewhere Cheaper Mean a Pay Cut? --- Employees push back against the idea that they should make less if they relocate; 'That's what I'm valued at whether I live in Mississippi or Mars.'

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FULL TEXT

David Pedersen decided this summer that he wanted to move to Denver from Seattle, continuing to perform his tech-company job remotely from his new city. His primary concern: Would the shift require a pay cut?

"It's kind of like a trigger word for me," Mr. Pedersen, 38 years old, said of his dreaded conversation with the human-resources department over a potential salary adjustment.

During the pandemic, many people are moving away from their offices, particularly in big cities. Employers are trying to save money by cutting pay commensurate with market rates in their workers' new hometowns, but employees are now pushing back.

"This is in the air. Lots of people are facing this," said Lowell Taylor, a professor of economics at Carnegie Mellon University who studies labor markets and the effects of demographic change on economics. In 30 years of teaching and research, he said, he has never witnessed anything like employees' current level of interest in remote work -- or the pushback on the possibility that pay cuts would come with it.

Mr. Taylor has witnessed this happening with his own friends. One attorney relocated from New York City to Central Ohio and continues to negotiate with his law firm to avoid a pay cut. If he's not successful, Mr. Taylor said, his friend plans to look for another job. A CEO in the Bay Area who wants to leave California has strategized with Mr. Taylor about how to talk to her board of directors, which has signaled that her pay could be reduced if she moves.

"I think the economics are on her side," Mr. Taylor said. "If workers can be as productive working from Houston or Utah as they can working from the Bay Area, the firm will eventually have to pay them the same. Firms may not like it. They may think it's only fair they get paid less if they live in a less expensive place, but that's not how markets work."

Early in the pandemic, some employers, including online payment processing company Stripe Inc., offered one-time relocation bonuses to offset a reduction in base salary for workers who wanted to leave high-cost cities such as San Francisco. Some, grateful for job security, gladly took the offers. Now, after more than a year of adjusting to remote work and remaining productive -- in some cases increasing their hours -- more people are questioning why their value is based on their geographic coordinates.

One tech worker who moved to Austin from San Francisco is facing a 10% salary reduction in January. Now that he's settled in Texas, he doesn't feel the move has saved him much, if any, money. He recently bought a house in Austin after making three unsuccessful offers on other homes amid bidding wars that were reminiscent of the San Francisco real-estate market. Life in Austin, he said, is turning out to be more expensive than he had anticipated. During a coming performance review, he said, he plans to ask for a 10% raise to offset the pending relocation

reduction.

In the past two months, more than 20 companies seeking guidance on what to do about the salaries of employees who have moved have called Kyle Holm, a vice president with Sequoia Consulting Group who advises clients on compensation and benefits.

Geography's impact on workers' compensation used to be a given, he said, adding that now more employees are questioning whether a pay cut makes sense given that they are working more hours, producing the same quality of work and feel they could find another job if they needed to. For instance, people moving from San Francisco to Austin can argue there is high demand for their skills in Texas – and they would be right, Mr. Holm said.

"Particularly the engineers are basically saying, like, we're good where we are and we're able to do our work where we are, maybe even more efficiently than before," said Mr. Holm. "Take away location and adjustment to compensation on its face just doesn't make sense because the output is still there."

While there is no one-size-fits-all approach, remote work has fundamentally changed employee expectations in ways Mr. Holm said he expects to be long-lasting. Cutting pay won't engender loyalty.

"If an employee from a high cost-of-labor area is making \$100K and their current employer wants to adjust their pay down by 15% based on their new location, it's very likely that person can find a comparable job at their current rate," he said.

Facebook Chief Executive Mark Zuckerberg said early in the pandemic that where employees were located would affect their pay. One employee at the social-media giant relocated from Washington, D.C., to the rural Illinois town where she was raised. In the beginning, she thought the move would be temporary, but rediscovering her roots made her want to make a permanent change.

In exchange for the ability to work indefinitely on a remote basis, the Facebook worker took a 9.5% pay cut and said the amount of money she's saving in the Midwest outstrips the reduction in salary. She recently paid \$120,000 for a four-bedroom farmhouse that she is in the process of renovating. Even though the salary adjustment was worth it, she questions location-based pay. She's doing the same amount of work but saving the company money because she no longer gets perks such as free, on-site dry cleaning and meals.

Many employers feel they are doing enough by granting their workers the flexibility to work from anywhere, said Jason Adwin, a senior vice president with Segal Group Inc., an employee-benefits consulting firm. Savings from keeping workers away from offices won't be realized for a while, he added.

"They really won't be saving the money until they can have a chance to renegotiate their leases and lower their footprint," he said.

Ultimately, the future of compensation for remote work will come down to how much location-based pay scales affect companies' ability to hire and retain top talent. "Employers are really going to be loath to lose good people," Mr. Adwin said. "Are those people going to stay for lower rates or are they going to leave?"

From the company perspective, there is a risk in reducing the salaries for those who move, since any reduction, no matter the reason, is bad for morale. As companies in San Francisco and New York City have started hiring talent to work remotely all over the country, there has been upward pressure on wages: Startups in smaller cities are finding that coastal companies are coming in offering somewhere between a coastal salary and a local one, executives say.

Okta Inc., the cloud-software company, initially cut pay for relocating workers, but reversed that policy in April. Instead, the company said, it is trying to attract the right talent wherever those people want to live.

"We're exporting top market salaries all over the place," Okta CEO Todd McKinnon said.

Mr. Pedersen, the former Seattle tech worker, was relieved that his employer didn't insist on shrinking his checks when he raised the prospect of moving to Denver, where he relocated earlier this month.

Such negotiations haven't always gone as smoothly for him. Two years ago, when he worked for a different tech company and requested a move from San Francisco to Seattle, he was told he'd have to take a pay cut. His boss at the time went to bat for him and argued against the change. He moved to Washington without an adjustment, but said the damage was done.

"Any loyalty I had for the company went out the window," Mr. Pedersen said. "My contract states a certain number and that's what I'm valued at whether I live in Mississippi or Mars."

Credit: By Katherine Bindley

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