Everything you need to know about the cost of living adjustment 2021

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A cost-of-living adjustment (COLA) is a rise in benefits or compensation to compensate for rising prices. It's the amount of money needed to cover basic costs like housing, food, and health care to maintain a given standard of living. In typical circumstances, the cost of living is linked to earnings and wages. Wages in more expensive cities, such as Harare, should reflect higher living costs.

Increases (or decreases) in the cost of these needs affect the cost of maintaining your lifestyle, which in turn influences how well your income will support you and your dependents.

Cost-of-living adjustments are calculated differently from one company to the next. Although there is no official cost-of-living index, some companies may utilise the previous year's Consumer Price Index (CPI) increase.

The Consumer Price Index is used to determine COLA increases. This is the official measure of inflation used by the government. It is a metric that tracks changes in the cost of products and services. When prices rise, COLA is triggered. When prices fall, a scenario is known as deflation, COLA is rarely employed.

Firms commonly use COLASs to recruit and retain valuable employees. A company that does not provide compensation adjustments to account for inflation may find itself at a competitive disadvantage compared to companies that do.

Another cost-of-living adjustment is not directly linked to the inflation rate, but employers may offer it to encourage employees to accept job moves.

COLA isn't used as much by private enterprises as it is by the government. They employ, promote, and fire people based on their abilities, not at the cost of living. To stay profitable, they must do so. Workers are usually awarded raises if they contribute to the company's profitability, regardless of whether the cost of living has increased or not. They won't get raises if they don't contribute. They might even be fired if they don't. When companies urge their top employees to relocate to a more expensive location, they may be given COLA.

An employee may be transferred to a different city while keeping their current work and receive a pay raise to compensate for the higher cost of living in the new place. An employee who is transferred from Harare to Bulawayo, where consumer goods and services are more expensive, obtains a pay raise as an example.

If you're thinking about moving to another place for a new career, you can utilise cost-of-living indices to see how a wage offer compares to your current income and way of life. Cities and even regions have different housing, food, and tax policies. Lower-cost-of-living cities, regions, and countries usually mean more money goes further. After paying for the basics, workers in higher-cost areas typically have less disposable income or money in their bank accounts and require greater earnings to live the same manner they would in a lower-cost zone.

Why COLA is important

Understanding COLA's consequences is also a crucial practical concern for a variety of reasons. According to Klein et al., as corporations grow from local to nationwide organisations, their pay systems must absorb COLA variances across numerous locations (2006). Companies may wind up over-adjusting or under-adjusting pay levels without clear guidance, resulting in a rate that differs from their targeted compensation strategy.

Second, even if a company only has one location, there may not be enough local pay survey data to build a pay structure on. Again, a lack of research-based guidance might lead to decisions that aren't in line with the organisation's goals.

Third, even if local wage data is available for specific places, the survey data may be inaccurate. The smaller the sample size in a survey, the more detailed the location, the higher the variability and probable error in reported numbers. Information given in a paid salary survey may be based on sample sizes as little as five, subjecting the accuracy of the market average point estimate to the kind of uncertainty seen with very low power estimates.

Fourth, COLA is a significant factor in pay determination, and failure to account for COLA is a significant source of pay dissatisfaction. Companies must modify compensation in response to the level of the COLA, and it would be beneficial if research could help determine how much modification is necessary.

Furthermore, while the compensation strategy is significant in and of itself, it is intertwined with the firm's other decisions. According to Balkin & Gomez-Mejia (1987), compensation plan decisions can affect the firm as a whole and influence other decisions. When confronted with more significant salaries, a company might respond by raising pricing, increasing sales, changing operational practices, or enhancing productivity. Labour economists have produced evidence that suggests disparities in productivity between places with varying pay. Increased productivity as a result of wage rises has been documented in the economics literature on "efficiency wages" and disputes over the minimum wage and management research on pay practices for decades. Workers may feel more satisfied with their jobs and decide to put in more effort if their pay is higher, according to Akerlof and Yellen (1990), and turnover may be lower since the "cost of job loss" is higher.

While the benefits of higher wages generally surpass the costs, do these benefits have diminishing returns, and will the costs of higher wages eventually outweigh the benefits? It is critical to have a realistic direction for a firm's COLA compensation strategy, not only because it is a significant issue in and of itself but also because it is connected with the firm's other strategic decisions.

According to Numbeo, the COLA index, which assesses every country's overall living costs, Mauritius has the highest cost of living in Africa, followed by Zimbabwe and Ghana.

Cost of Living in Zimbabwe

Indeed, salaries and earnings in most sectors have not been changed to reflect the rising trend in inflation. Many organisations are currently grappling with the question of how to alter compensation. How can we make them more inexpensive and long-lasting once they've been adjusted? It's nice to hear people discuss salary adjustments and protect individuals from growing living costs. On the other hand, organisations must exercise extraordinary prudence since wage modifications must be balanced with business sustainability.

From 2018 to 2021, the cost of living in Zimbabwe grew considerably. The rate of inflation was rising. From January through July 2021, the average monthly inflation rate was 3.1 percent. A factor of more than 140 has cut employee pay. Given the depreciation of their incomes and growing inflation, it was safe to conclude that most employees were struggling to make ends meet at the time. The subsequent commercial issues that arose due to the policy changes posed new challenges in terms of how workers are compensated.

Life has been difficult all around the world since the outbreak of the novel COVID-19 epidemic. Lockdowns have had a significant impact on people's social and economic lives worldwide, especially in Zimbabwe. In Zimbabwe, lockdowns are always a nightmare. The fear is particularly acute in Zimbabwe, where the economy is primarily informal. As a result, the majority of individuals rely on the informal economy to supplement their income. When you consider the tight constraints, they have disastrous consequences for that industry. This means that the vast majority of individuals are currently trying to make ends meet. According to a report by ZIMSTATS titled, Monitoring COVID-19 Impact on Households in Zimbabwe, N = 1747

- Employment dropped, as one-fifth of the respondents working before the COVID-19 lockdown restrictions lost their jobs. This affected urban and rural areas, and job losses were particularly severe in the retail and other service sectors.
- Half of the city respondents who live in the urban areas and two-thirds of rural respondents said they had skipped meals or were out of food.
- One-third of the world's poorest people couldn't afford maise meals.

The results obtained from the Cost of Living Expenses Survey (IPC, 2021) showed that, on average, all employees are left with 22% of net income after accounting for living expenses. Officers/professionals, senior managers, and NEC staff are the most affected groups. A significant portion of the earnings of NEC employees is spent on food and rent. For senior executives, rent and school fees consume a significant portion of their earnings. Rent, schools, and food consume a large portion of the income of Officer/Professional level employees.

As poverty levels rise to worrisome levels, households are feeling the heat. Massive de-industrialisation, corporate closures, foreign investor flight, job losses, a drop in agricultural production, and an increase in poverty levels continue to plague the country. The rate of inflation is rising. Given the depreciation of their salaries and growing inflation, it is safe to assume that most lower-level employees are fighting to make ends meet at this time. The resulting business issues as a result of the policy changes have introduced new challenges in terms of how individuals are compensated. Some businesses, on the other hand, are now attempting to correlate wages to productivity.

How is COLA calculated?

One element that may explain regional disparities in nominal incomes is the Consumer Price Index (CPI). COL is a potentially crucial component in pay system design, yet it is far from the only factor impacting compensation between locales.

In general, COLA indices are based on the concept of a "basket of commodities." This means that an index calculates the cost of various items, products, and services in various areas and displays their relative costs. These products might fall under a variety of categories.

Conclusion

The term "cost of living" refers to calculating how much it costs to maintain a specific standard of living. Salary comparisons across different places can be made using cost-of-living indices. A cost-of-living adjustment computation can be used to raise some types of income, such as contracts, pensions, or government benefits, to keep up with rising basic living costs, as measured by the CPI or cost-of-living indexes.

Employers, in general, determine cost-of-living adjustments to a person's income.

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