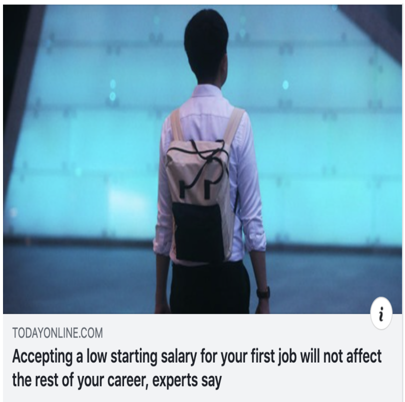


Class of 2020: be prepared for the possibility of lower lifetime earnings

Description

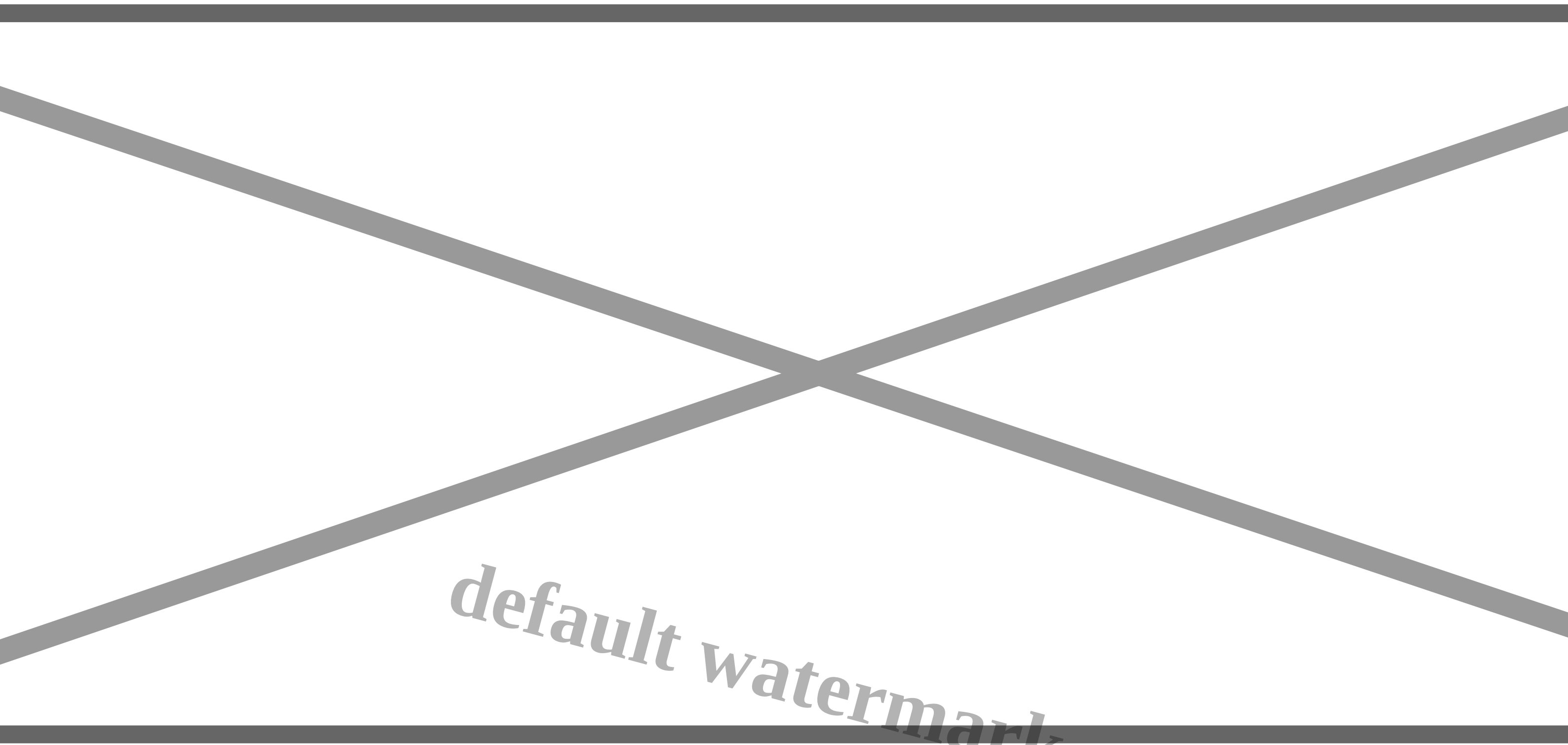
TodayOnline published an article earlier today saying that [â??fresh graduates need not worry that if they accept a low salary at their first job, it will have a dampening effect on their pay throughout the rest of their careersâ?•.]

Hereâ??s my (strong) opinion: Thatâ??s **pure, utter rubbish.**

Let me explain.

My gripe is on the use of the absolute term â??will notâ?•, because that effectively rules out all scenarios where that practice DOES happen.

And THAT, is where the problem is. You cannot rule out the possibility that your next hiring manager will ask for your last-drawn payslip, and use that to gauge your pay offered. Thatâ??s *exactly* what happened to me, my friends, and many other people I know.



One of my girlfriends recently applied for a role that advertised an approximate salary range, and when she asked for the higher end of it, the HR manager told her,
â??we cannot offer you more than 20% of what you were previously earningâ?•.
I encouraged her to negotiate and not give up on the battle, but she lost it in the end. It ultimately came down to a â??take it or leave itâ?• scenario.
Unfair? Well, thatâ??s reality.
Suck it up.
So what if Minister Josephine Teo said last week in Parliament that â??there are no rules stating that job seekers must declare their last-drawn salaries, and employers cannot insist they do so?â?•

Thereâ??s a difference between recommending a practice vs. actually ENFORCING it. If you really want to protect the class of 2020 who are (unfortunately) graduating into this unprecedented crisis, then make it a legislation!

Because the sad and unfortunate reality is that in many cases, the pay gap is hard to close when you graduate into a crisis with a low starting pay vs. graduating into a bullish economy.

Donâ??t just take my word for it. Check out what Abigail Wozniak, a research economist at the Federal Reserve Bank of Minneapolis has to say on this topic as well. She spent her career studying recessions, and shared a sobering finding:

> **If youâ??re a college graduate who enters the job market during a recession, you never really catch up â?? your lifetime earnings are around 10 to 15 percent lower.**

This paper here analyzes the magnitude and sources of long-term earnings declines associated with graduating from college when a recession hits. The researchers used a â??large longitudinal university-employer-employee datasetâ?• and found that the **cost of recessions for new graduates is substantial and unequal.**

Unlucky graduates even suffer persistent earnings declines lasting 10 years! They start to work for lower-paying employers, and then partly recover as they gradually move to other firms.

Or, in her own words, â??A bad hand at the beginning of a game where everything is connected has lasting negative effectsâ?•.

The lower your starting base, the longer youâ??ll potentially take to play catch-up.

Can you catch up? Of course! Never lose hope. But recognize that your ability to do so will depend on your (i) skills, (ii) negotiation ability and (iii) luck with finding a great employer.

I say luck, because those who are able to find such employers are truly blessed.

So what should graduates do?

Now, Iâ??m not an expert, but hereâ??s my take.
You need to **be realistic about getting a lower starting pay** if you decide to start your first job during this period. The experience and industry network that youâ??ll be building can help you move to your next job, and itâ??ll be far more valuable than not doing anything at all. And then work damn hard to excel in your role so that you can use your performance here to negotiate a higher salary at your next job.
If youâ??re aiming for a role or industry that values higher qualifications, perhaps doing a Masters in this time to upskill yourself might be good while you wait for the economy to recover. That is, if you can afford it.
Thereâ??s no right or wrong answers, but ultimately you will have to **weigh the potential trade-offs** for yourself.
And while you can definitely still negotiate for a higher salary when you move on to your next job *(and hopefully the economic crisis will be over by then)*, **note that thereâ??s no guarantee that your next employer will pay you higher** i.e. what you want / what youâ??re really worth.
What is the most fundamental, primary objective of businesses? To make and grow their profits.
How do you increase your profits? By increasing revenue and/or reducing operating costs.
And my dear fellow wage-slaves, **weâ??re part of those costs.**
Employee welfare, high salaries and generous benefits are a bonus, not a given.

P.S. I work with hundreds of HR directors in my line of work, and most of them still ask for the last-drawn payslip. (The practice is so common that I even know of folks who resort to Photoshopping their payslips because it was just so damn hard to negotiate otherwise.)

Until this practice changes, itâ??ll be futile to convince me that a low starting salary is not gonna affect the rest of your career.

Category

1. Savings