



What is Fair Pay

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What is fair pay

Session objectives

- **Determine** participant's reward/compensation quotient
- **Create** awareness around the issue of establishing fair pay
- **Discuss** reward components and the role of societal, economic, government and employee perceptions have on reward strategy
- **Identify** the elements of a reward and compensation strategy
- **Discuss** methodology to design an effective compensation strategy
- **Outline** incentive compensation concepts
- **Identify** role of recognition awards
- **Discuss** contemporary executive compensation issues



True/false by 2025

1. Rewards/compensation will be customized for each employee.
2. Employees will have more risk through incentive compensation.
3. Employer sponsored benefits will become more prominent.
4. Organizations will reduce training and development expenditures.
5. The workforce will have more contingent “gig” workers than today.
6. Performance management ratings will have disappeared.
7. Increased workplace flexibility will be the norm: hours, pays, etc.
8. All pay will be transparent.
9. Pay disparity between haves and have-nots will have decreased.
10. Americans are overpaid and greedy.



Future of work

Jobs and talent are changing

Future of Jobs

Future of Talent

GLOBALIZATION

ARTIFICIAL
INTELLIGENCE

MULTIPLE
GENERATIONS
AT WORK

PENDING
RETIREMENT OF
BABY BOOMERS

DIGITALIZATION

MORE DIVERSITY

CONSUMERIZATION

AUTOMATION/
ROBOTICS

RISE OF THE
FREE AGENT

DIGITAL
SOCIAL WORLD



Now is the time for employers to take a fresh look at their **employee experience** to create an environment to **thrive...**



Future of work

Competition for talent



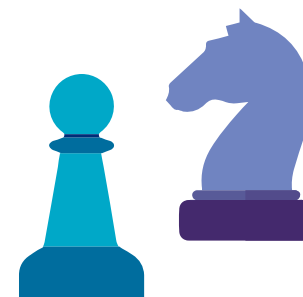
TIGHTENING LABOR MARKETS

*Globally, many countries are at or approaching a **10-year low** in unemployment rates*



SKILL MISMATCH

*Current employees may not meet **future needs** due to technology disruption changing the skills needed*









COMPETITION FOR TALENT

*Employers must ensure they are poised to **attract and retain** talent in a new era*



External market

Hourly pay and minimum wages

Company	Hourly Starting Rate	Other Actions/Impact
		<ul style="list-style-type: none"> • 6.5% of private sector workforce unionized • 13.4% in 1987
		<ul style="list-style-type: none"> • 29 states have minimum wage higher than US \$7.25 • Increases can vary by city and phase in over years • Low unemployment rates especially since recession
	\$15	<ul style="list-style-type: none"> • Elimination of some incentives and stock awards
	\$15	<ul style="list-style-type: none"> • Increased highest rate to \$22.50 • ~90% receive company health benefits • Added parental leave in 2019
	\$13	<ul style="list-style-type: none"> • Rises to \$15 in 2020
	\$11	<ul style="list-style-type: none"> • One-time bonus awards are also provided



Employee perspective

Employees are looking for more

COMPENSATION IS STILL KING



#1 way to positively impact me at work

HEALTH AND WELLNESS



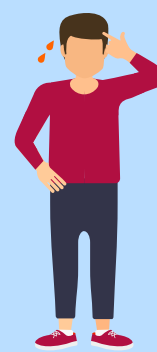
53% want more focus on health and wellness

STEERING MY CAREER



1 in 3 do not feel empowered in their careers

WORRYING ABOUT MONEY



13 hours per month per employee spent worrying at work

MAKING WORK, WORK



56% want more flexible options – and **77%** would work on contract basis



Employee perspective

Younger employees driving the “happy” but leaving trend

EMPLOYEES AGREE WITH THE FOLLOWING:	ALL EES	DIFFERENCE: MILLENNIALS
Promotions are generally given to the most qualified employees in my organization	43%	+11
I trust senior management in my organization to communicate honestly	48%	+9
Managers in my organization demonstrate concern for the well-being of employees	51%	+9
I believe that I have sufficient opportunity for growth and development in my organization	51%	+9
I would recommend my organization to others as a good place to work	58%	+6
At the present time, I am seriously considering leaving my organization	37%	+7

Source: Mercer 2015 Inside Employee Minds No America Survey



Employee perspective

Deeper look at generational preferences

	SILENTS (Born 1928 – 1945)	BABY BOOMERS (Born 1946 – 1964)	GEN X (Born 1965 – 1980)	MILLENNIALS (Born 1981 - 1997)
1	Base pay	Base pay	Base pay	Base pay
2	Type of work	Retirement plan	Retirement plan	Career opportunities
3	Incentive pay	Health care benefits	Health care benefits	Retirement plan
4	Working for org. I respect	Incentive pay	Incentive pay	Health care benefits
5	Retirement plan	Paid time off	Paid time off	Incentive pay
6	Flexible schedule	Type of work	Flexible schedule	Flexible schedule
7	Health care benefits	Flexible schedule	Type of work	Paid time off
8	Paid time off	Working for org. I respect	Career opportunities	Type of work
9	Training opportunities	Career opportunities	Working for org. I respect	Working for org. I respect
10	Career opportunities	Training opportunities	Training opportunities	Training opportunities

Source: Mercer 2015 Inside Employee Minds Survey



Employer perspective

What is the appropriate allocation of profits: shareholders vs employees?

Capital versus labor

Evolution of corporate profits and employee compensation in the post-war era (1954 = 100)



Source: Federal Reserve Bank of St. Louis



Cost perspective

Risks of getting rewards “wrong”



Overpay

- Current affordability
- Long-term sustainability
- Undesirable retention



Underpay

- Retention of critical skills
- Reduced employee engagement
- Potential productivity impact




Misallocation

- Retention of critical skills
- Pay equity
- Internal equity



What does this mean?

Employer offerings are shifting

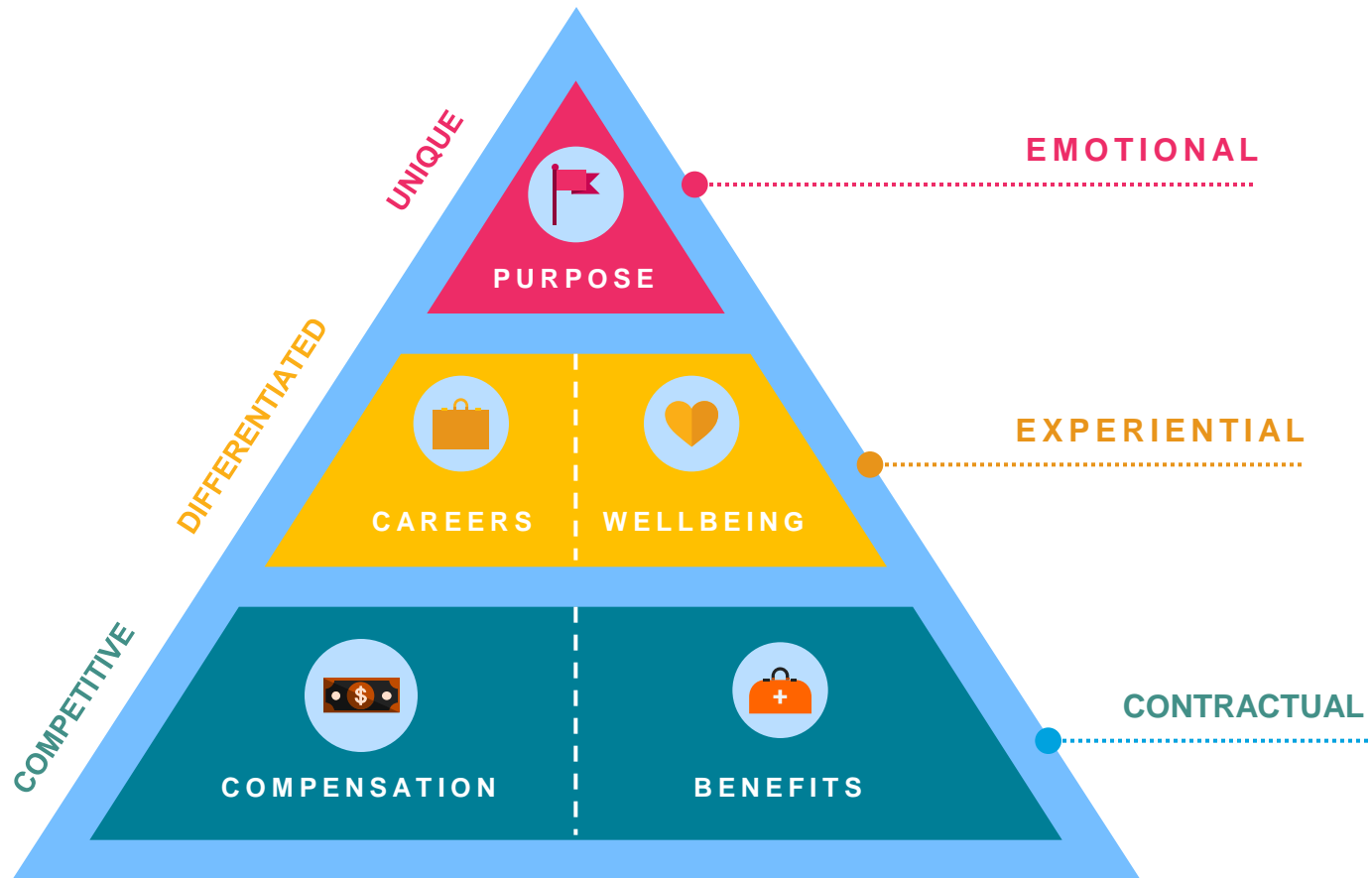
	YESTERDAY	TODAY	TOMORROW
COMPENSATION 	<ul style="list-style-type: none">• Internally focused• Guaranteed increases	<ul style="list-style-type: none">• Market driven• Pay for performance• Segmentation	<ul style="list-style-type: none">• Greater transparency• Designing for ROI• Personalization
BENEFITS 	<ul style="list-style-type: none">• Static• Guaranteed / low cost• Company responsibility	<ul style="list-style-type: none">• Higher cost• Employee responsibility	<ul style="list-style-type: none">• Flexible• Consumer-grade digital experiences
WELL BEING 	<ul style="list-style-type: none">• Cost focused	<ul style="list-style-type: none">• Emphasis on health and financial wellness	<ul style="list-style-type: none">• Emphasis on whole person (physical, financial, emotional)
CAREERS 	<ul style="list-style-type: none">• Staid and predictable career options• Stable, fixed and predictable work schedules	<ul style="list-style-type: none">• Employee driven career paths• Flexible work arrangements	<ul style="list-style-type: none">• Employer-curated careers• Rise of independent contractors / free agents



Point of view

Holistic approach to reward strategy

Organizations must define the total employee experience that will make the right talent want to join, stay, engage and deliver their best performance





Compensation Strategy





Compensation strategy

What is it?

- A compensation strategy is an **overarching statement** that guides and defines how you, as a compensation expert, and how your managers will administer pay and reward programs to drive achievement of an organisation's goals and objectives.
- Specific questions answered by a compensation strategy include:
 - **How much to pay**
 - **What to pay for**
 - **How to pay**
 - **When to pay**
- An organisation's compensation strategy is part of a larger **Total Rewards** system which must be considered when making decisions about any one element.



Compensation strategy design

Guiding principles

Role of compensation elements	Purpose of each compensation vehicle (base salary, short-term and long-term incentives and recognition awards)
Segmentation	Degree of internal consistency among unique workgroups
Comparator group(s)	Competitive business/labor market
Competitive positioning	Target positioning, mix
Performance orientation	Differentiation, time horizon, point of measurement, metrics
Internal equity	Importance of the internal relative value of work
Affordability & sustainability	Degree of cost control required
Governance & accountability	Decision-making structure, management responsibility
Administration	Measuring and monitoring results
Communication & transparency	Approach and vehicles for information sharing
Success factors	Measuring and monitoring results



Compensation strategy design

Creating a compelling work experience

Effective design requires consideration of the followings



MULTI-PERSPECTIVES



DATA-DRIVEN



PERSONALIZED



ACTIONABLE



Compensation strategy design

Four critical perspectives that flex depending on business results





Compensation strategy design

Perspective: Employer

Identify strategic contributors to the business



Performance drivers
employees who create value for the organisation



Performance enablers
employees who support value creation



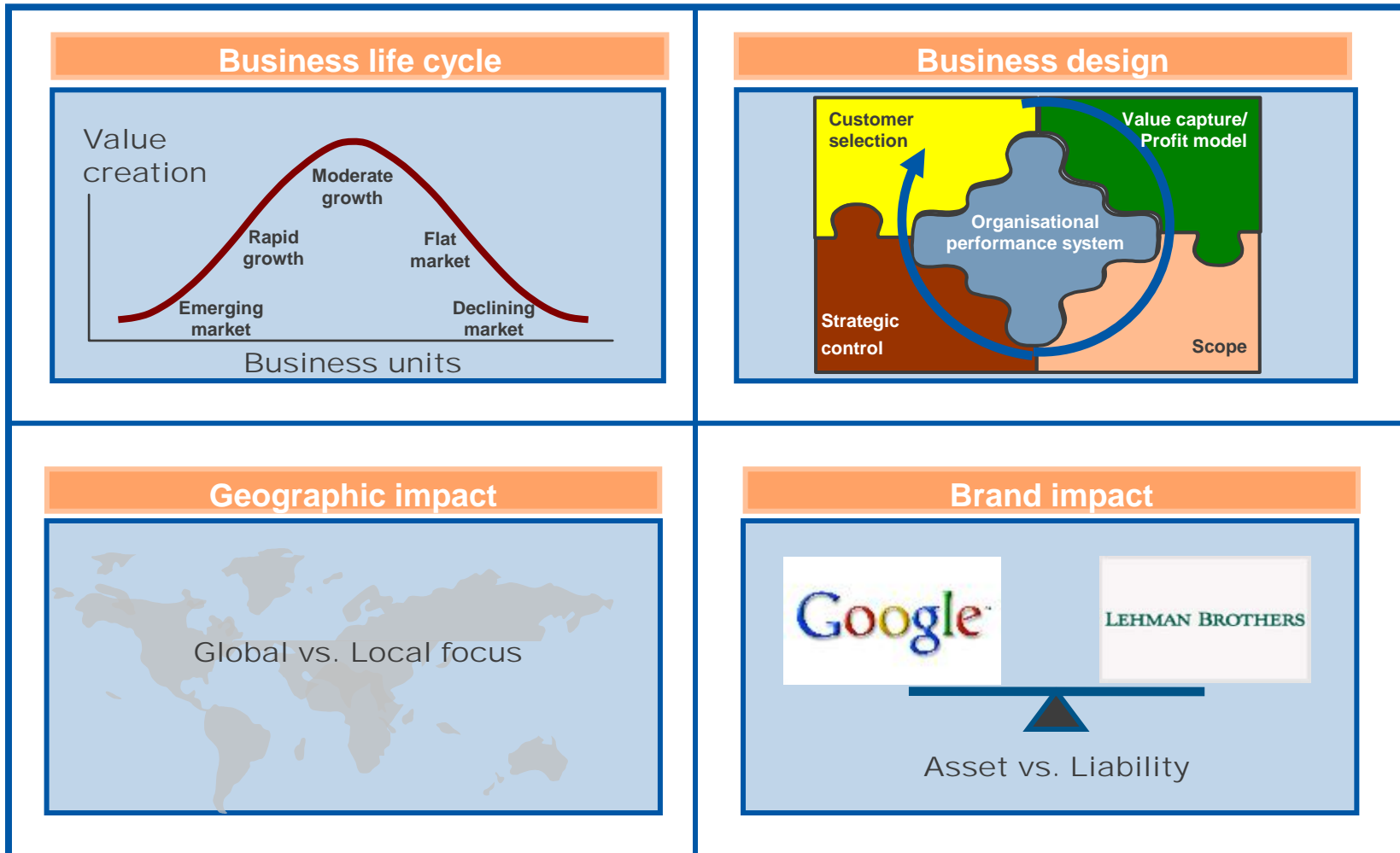
Legacy drivers
employees who historically created value for the organisation, but no longer do



Compensation strategy design

Perspective: Employer

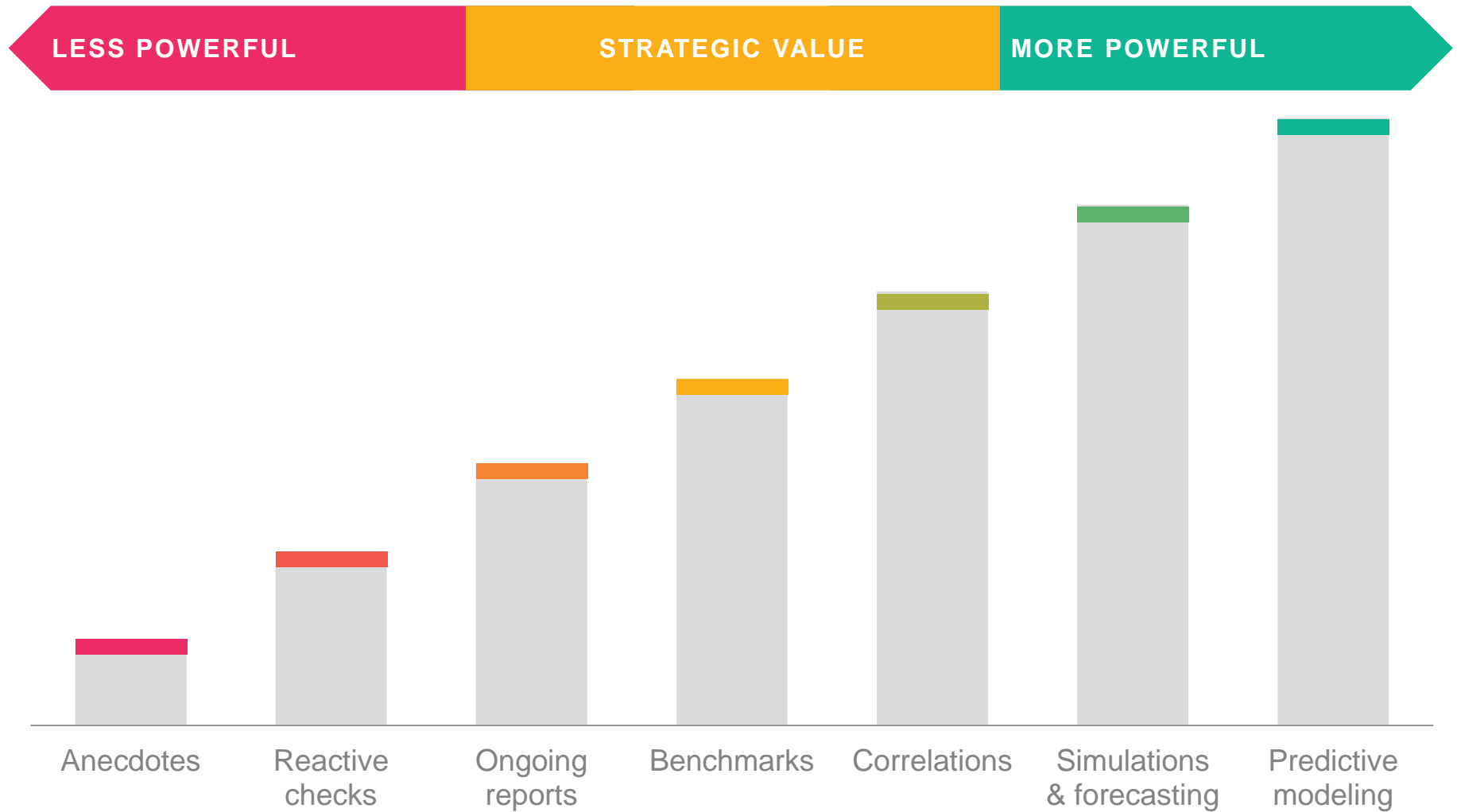
Determine business-compensation strategy connection





Compensation strategy design

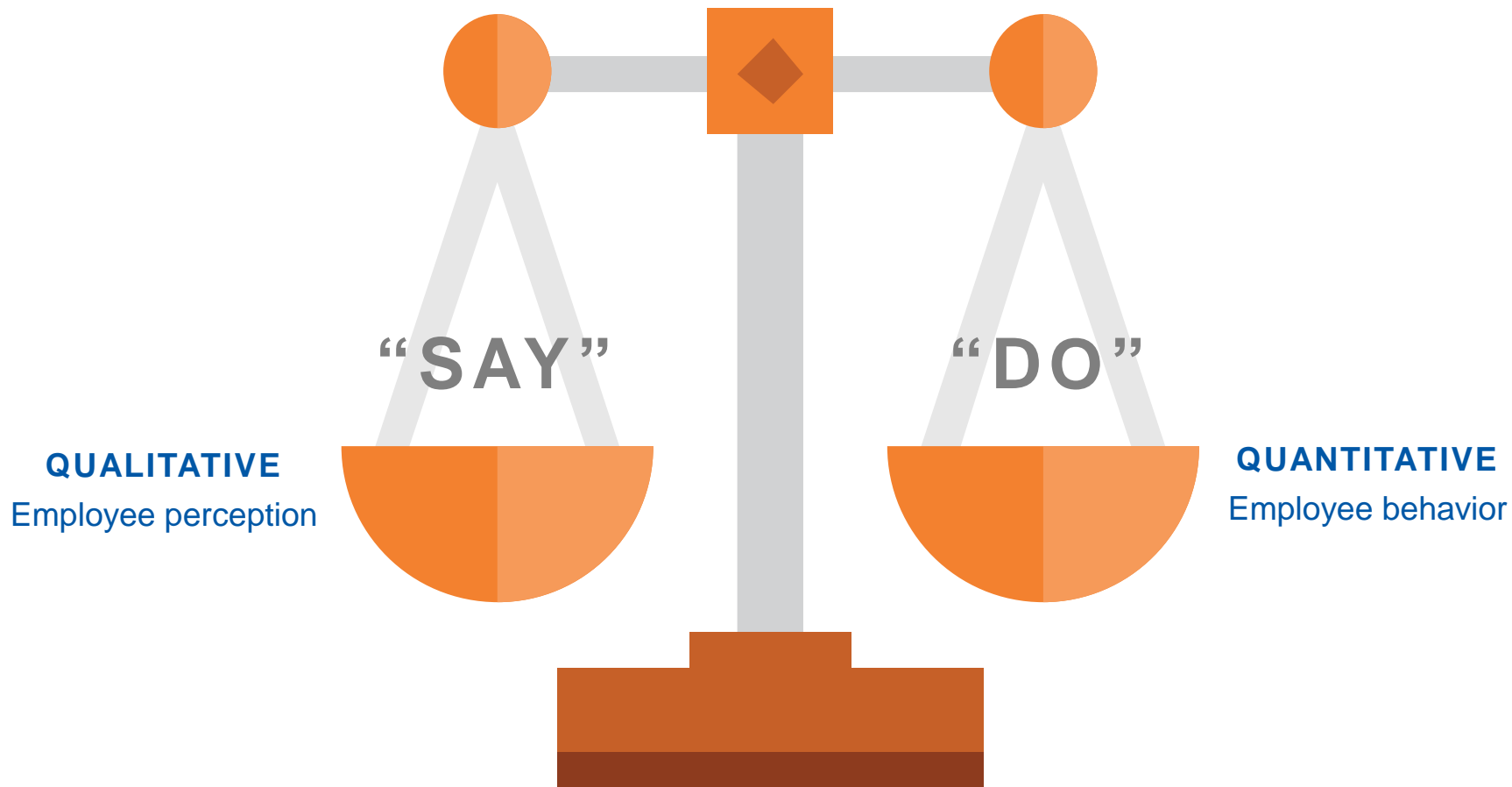
Data driven: From "I think" to "I Know"





Compensation strategy design

Data driven: Combination of facts to create a compelling EVP



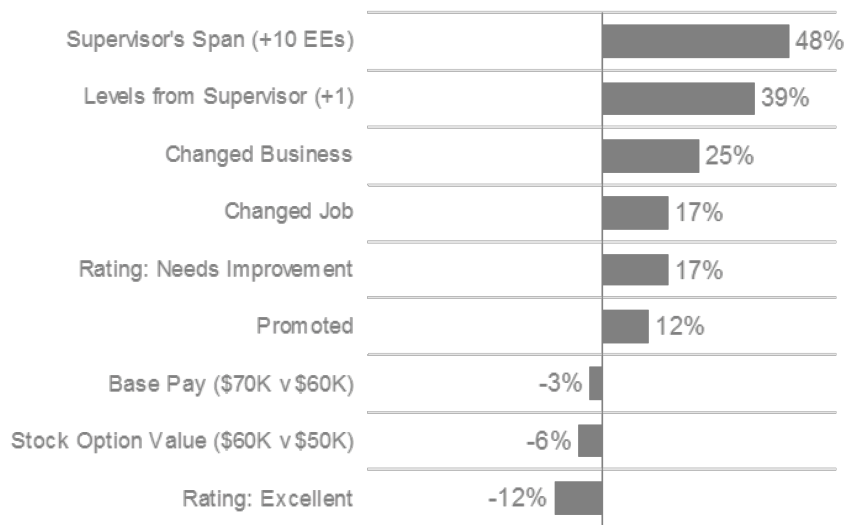


Compensation strategy design

Data driven: Workforce analytics to understand employee behaviors

Drivers of turnover

Percentage difference in turnover probability



Percentage point reduction in turnover probability



Surveys suggested that pay elements were most valued by employees, but statistical analysis showed that career development and managerial stability had more retentive impact



Implementation

Sample total rewards including compensation strategy blueprint

		Role of reward element	Competitive positioning	Impact of positioning	Metrics
Compensation	Base pay	Attract and retain; reward building skills	25th percentile	Risk tolerance	Acceptance rate turnover; appropriate skills
	Annual incentives	Reward individual/ unit/ corporate performance	Base + STI = 75th percentile	Performance orientation	Business results
	Long-term incentives	Link to shareholder value creation	Base + STI + LTI = 90th percentile	Rewards long-term growth	Stock price growth
Benefits	Group benefits	Personal risk management	Leading edge design; 50th percentile	Desirable employer	Cost and value delivered
	Retirement	Wealth accumulation	50th percentile	Facilitate orderly retirement	Retirement income adequacy; financial management
	Perquisites	Tax efficiency	Market practices	Employment brand	Cost; commitment index
Careers	Performance management	Goal setting/ accountability	Support "build" talent strategy	Focused efforts	Scorecard results
	Work/life balance	Compelling place to work	Environment difficult to match by competitors	Attraction/retention of qualified staff	Commitment index; turnover
	Workforce planning/pathing	Adequate supply of talent	Balance pay/benefits w/ career opportunities	Support "build" talent strategy	Percentage of outside hires



Incentive Compensation

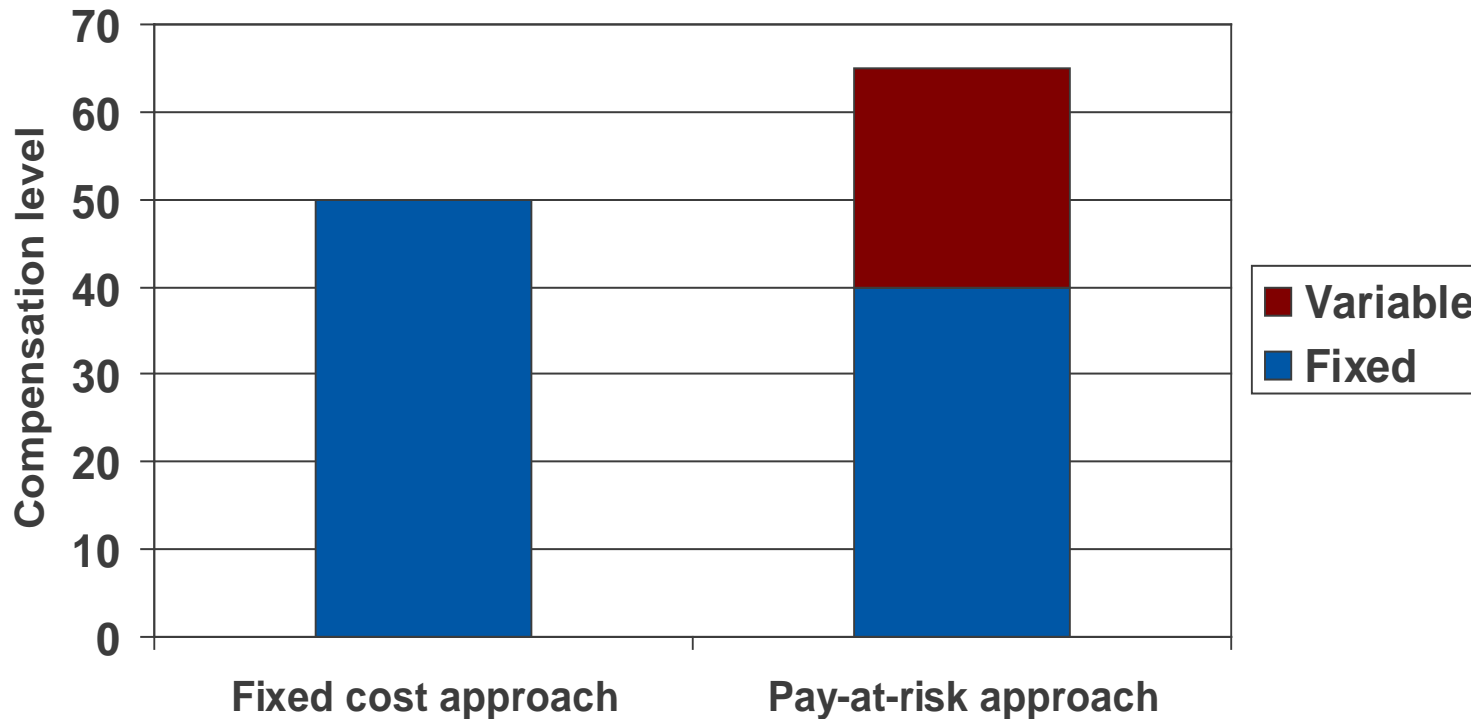




Incentive compensation

Risk and reward tradeoff

Opportunity to earn more total cash compensation contingent upon goal achievement with lower fixed base pay

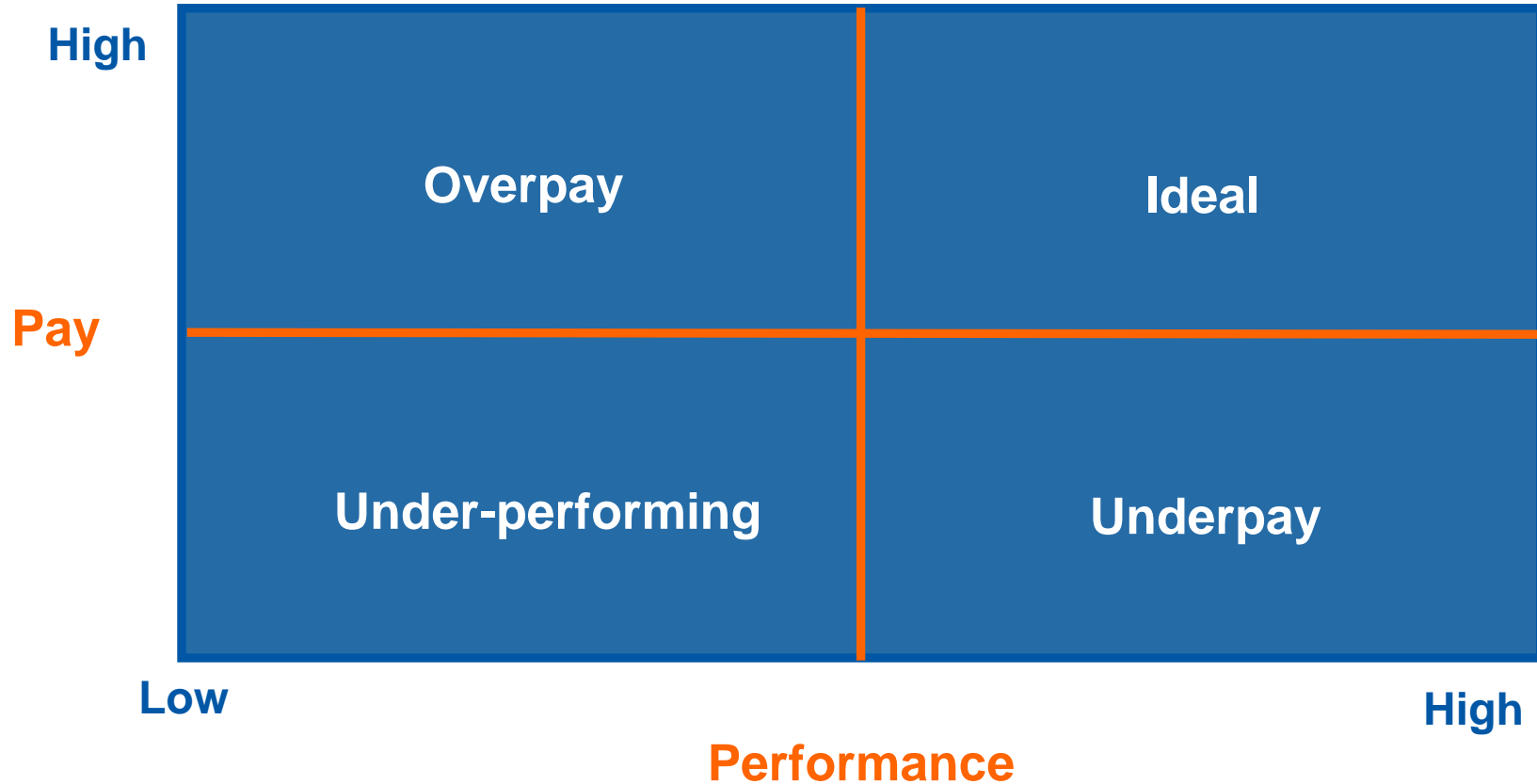




Incentive compensation

Risk and reward positioning

Appropriate balance between pay and performance





Incentive compensation

Plan design objectives

Attract, motivate,
and retain the
right talent

Differentiate
high performers
and ensure pay-for-
performance

Align compensation
strategy with
business strategy

Reduce
entitlement
mentality

Focus employees on
activities that support
business performance

Encourage employee
stakeholdership/
participatory culture

Reinforce
cultural change

Encourage
skill development

Communicate
values
to employees



Incentive compensation

Plan types

- **Profit sharing**

- Employees share a non-deferred pool created by a share of profits, usually generated by exceeding budgeted levels or cost of capital

- **Gainsharing**

- Employees share a percentage of the value of increased productivity or savings calculated based on a pre-determined formula

- **Group incentives**

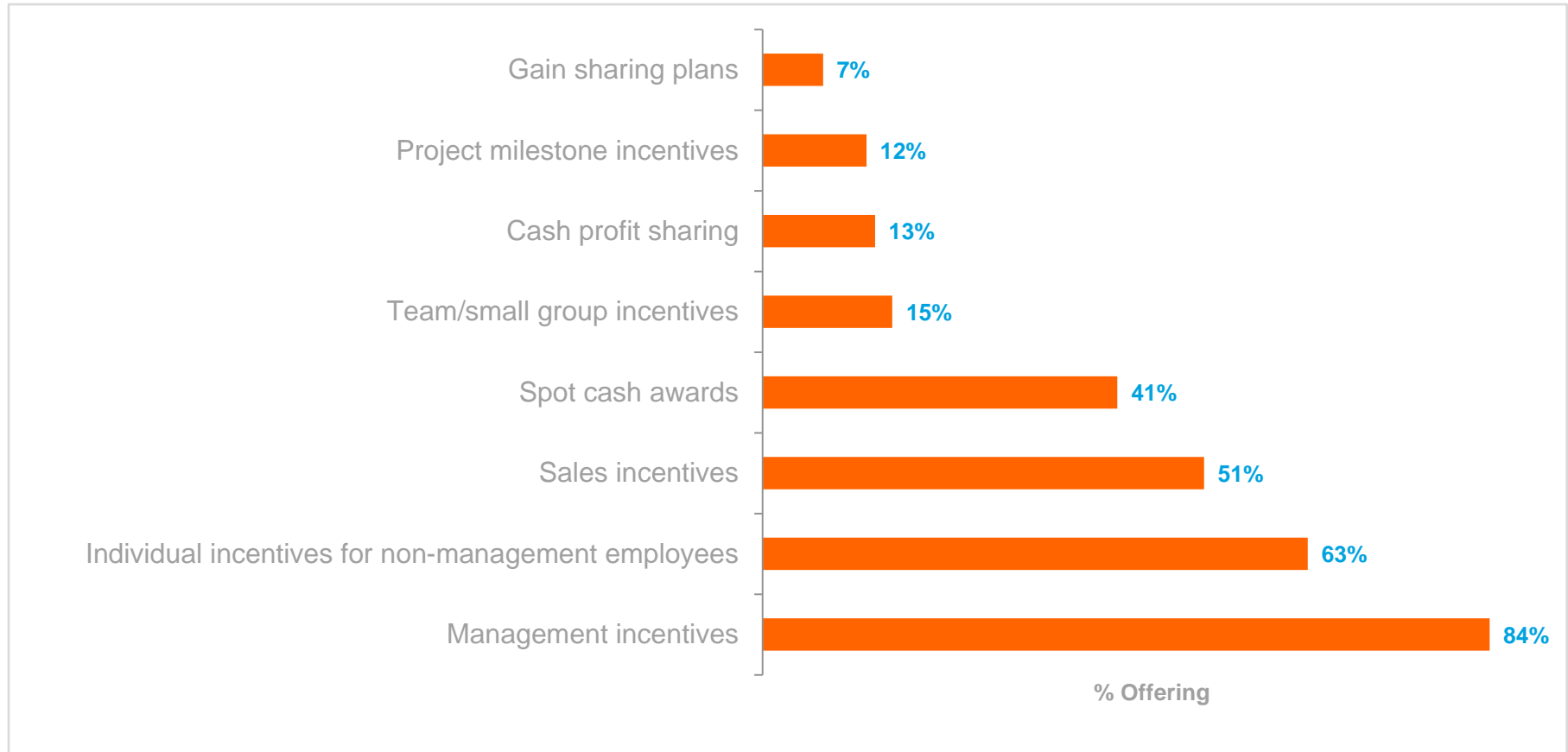
- Arrangements for a team of employees to receive incentives based on increased performance against pre-determined targets

- **Individual incentives**

- Individual employee level plans based on meeting objectives. Plans can be functional in nature (e.g., sales employees, executives)



Incentive compensation prevalence % of organizations offering plan



Source: 2015 Mercer US Compensation Planning Survey



Incentive compensation

Design principles

Eligibility

What workforce segments are eligible? What criteria must be met to participate in the plan?

Funding

What is the best approach – budgeted, self-funded, discretionary, blended?

Performance Metrics

What criteria are used to measure performance?

Payout Formula

What is the target award opportunity? Leverage? How is the award calculated?

Performance Goals

What is the goal setting process?

Cycle Time

How frequently should results be measured and awards be paid?

Form of Payout

How should payments be made – cash, deferred cash, stock?

FLSA Implications

What is the impact of incentive awards on overtime?

Testing

What testing (e.g., modeling, piloting) will be done before implementation?

Outcomes

How should success be determined?



Funding

What is the best approach to pay for the plan?

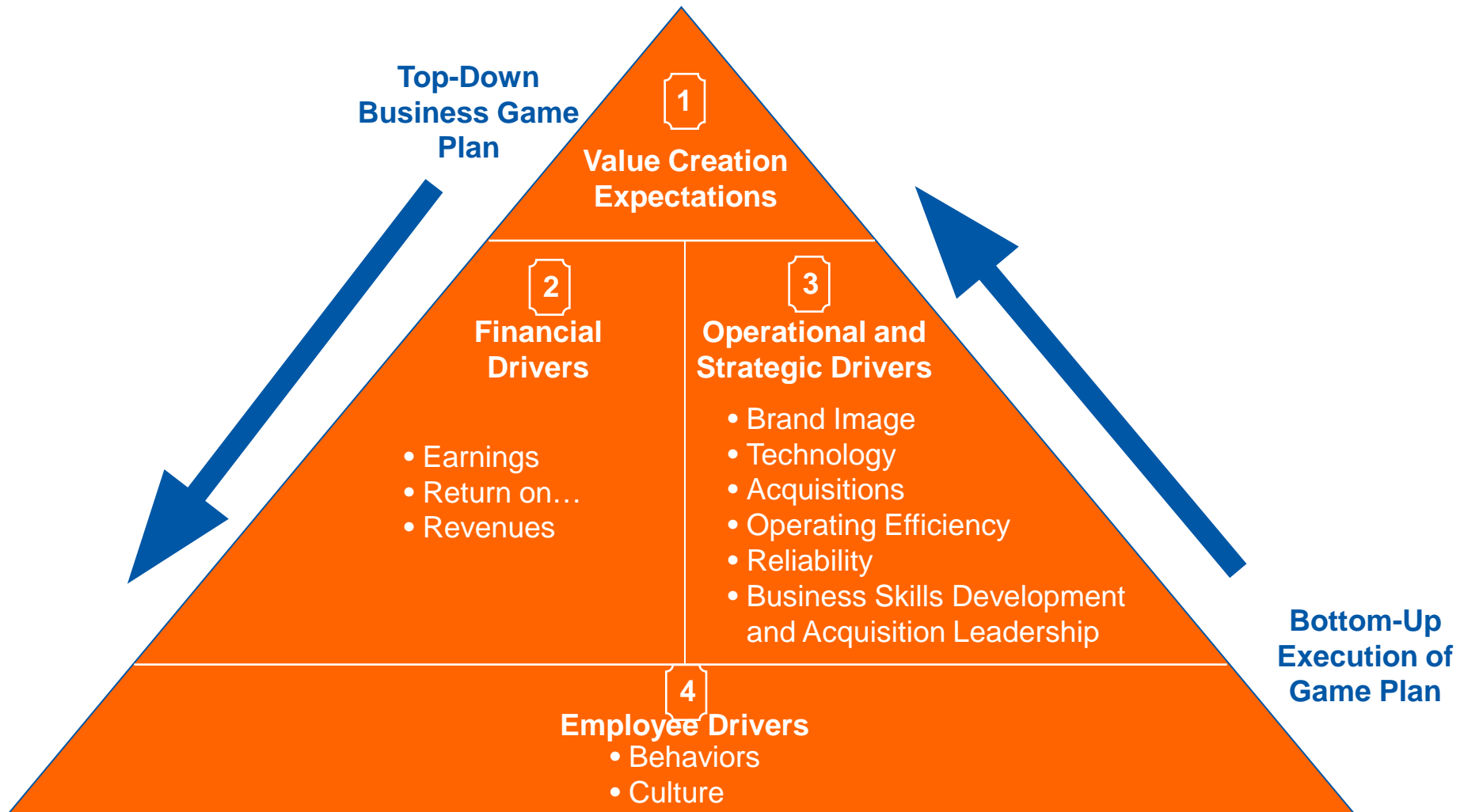
Variable pay spend can be determined by:

- **Self-funding**
 - A formula tied directly to financial gains
- **Budgeting**
 - A formula not directly tied to financial performance
- **Discretion**
 - Management decision, no fixed formula
- **Reallocation of merit pay**
- **Blended**
 - A combination of funding approaches



Performance metrics

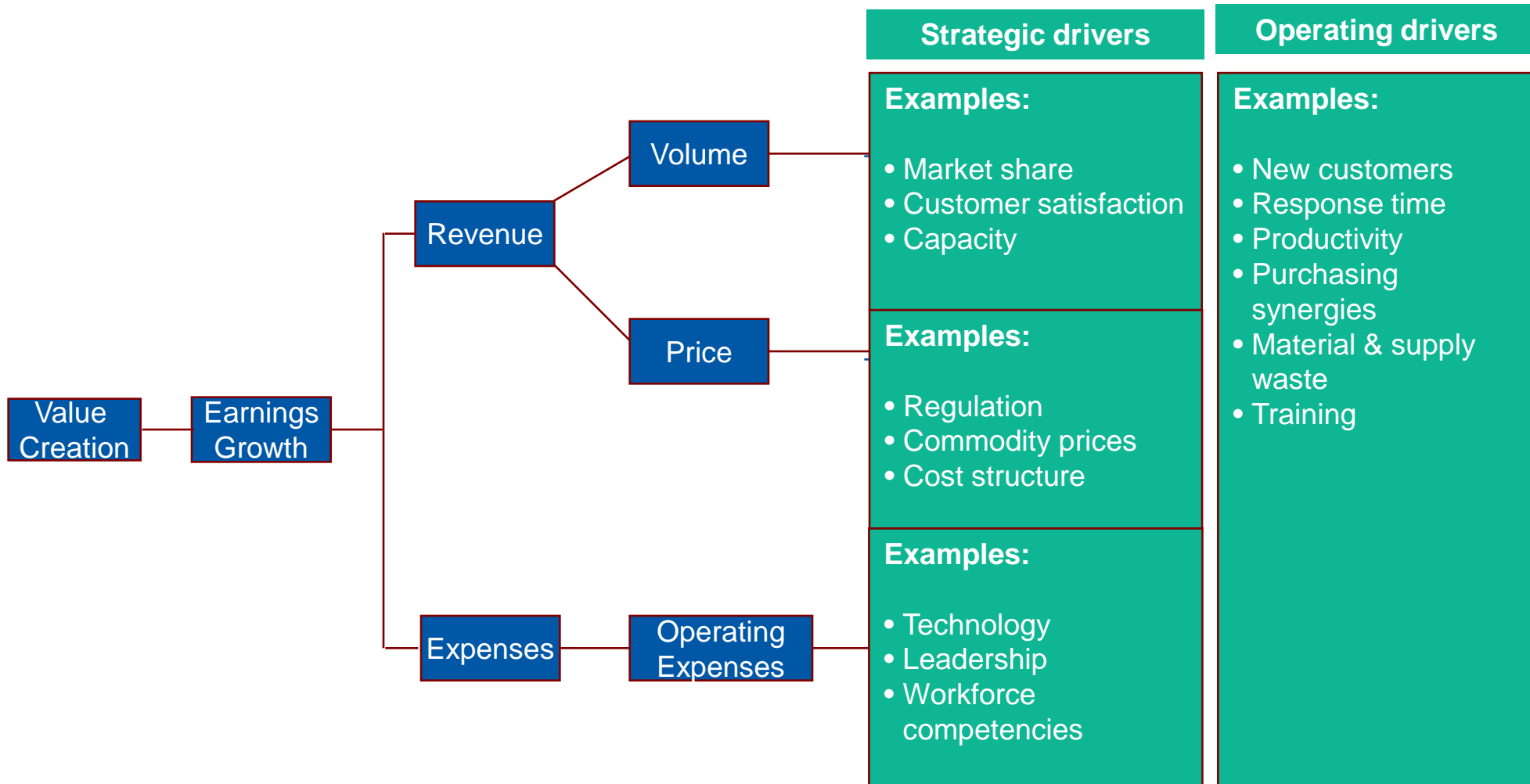
What criteria are used to measure performance?





Performance metrics (cont' d)

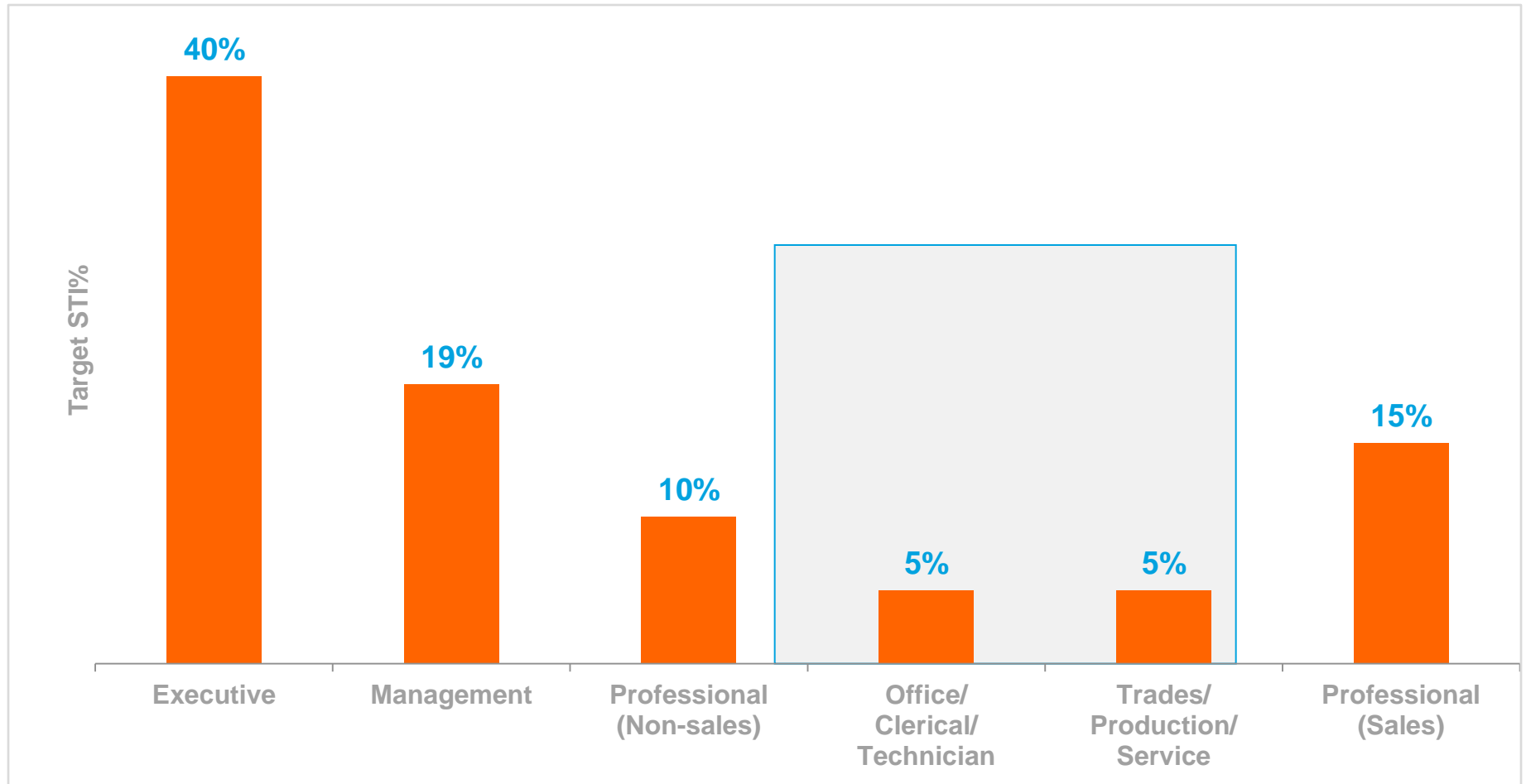
Key strategic and operating drivers of earnings growth example





Payout formula

Target opportunity by level



Source: Mercer 2015 US Compensation Planning Survey



Outcomes

Measuring and monitoring success

- Incentive compensation plans are put in place to enhance business results - it is critical that the organisation have an approach and **timeline** to assess plan success including:
 - Employee **understanding**
 - Employee **acceptance**
 - Desired **change** in:
 - Behaviors
 - Operations
 - Financial results
 - Administrative **effectiveness**
 - Continued **alignment** with business and human capital strategy












Recognition Awards





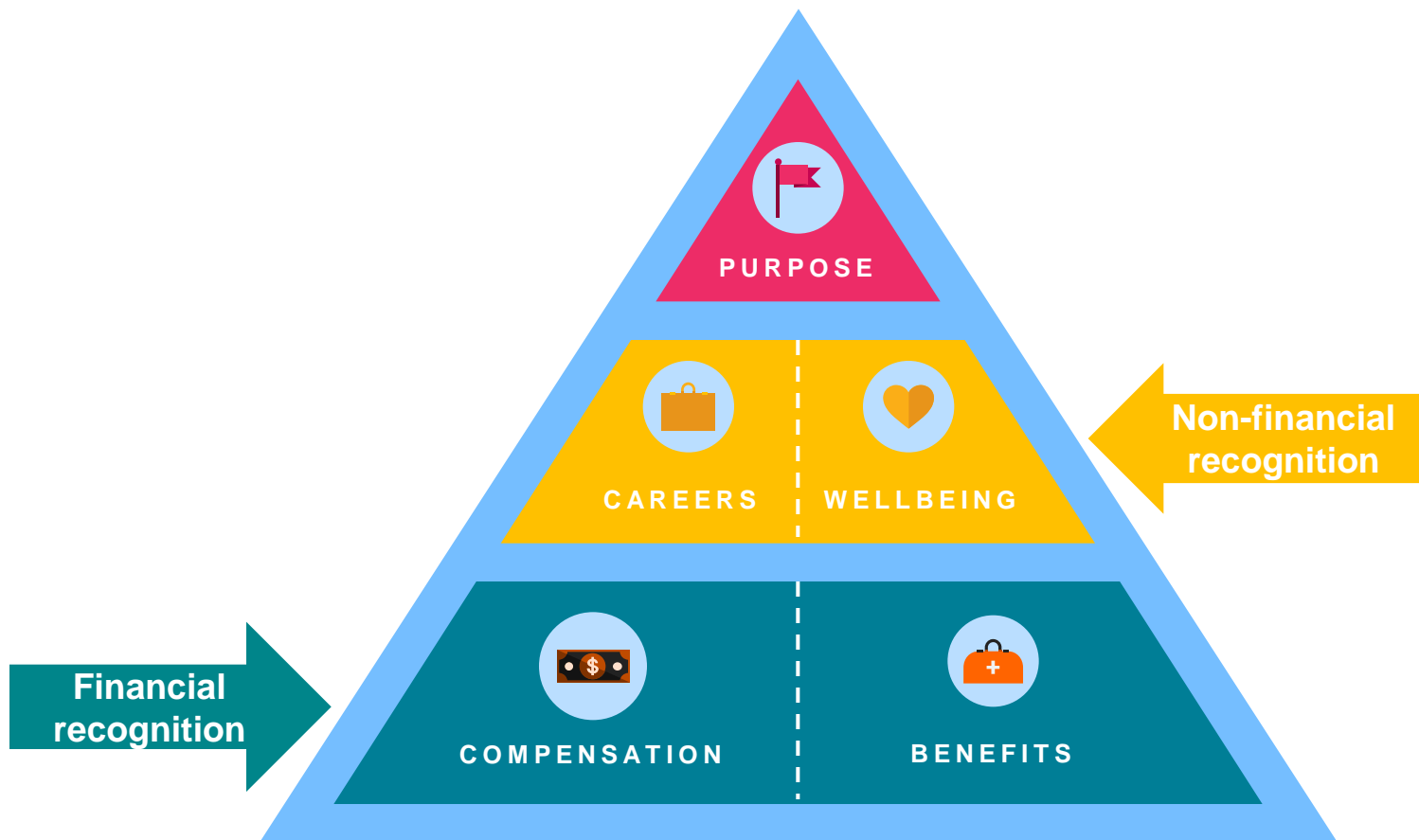
What are recognition awards?

Non-financial		Financial
<p>Peer/Supervisor Thank You </p>	<p>Time-off </p>	<p>Cash </p>
<p>Performance Certificate </p>		<p>Merchandise </p>
	<p>Company Logo Merchandise </p>	<p>Travel </p>
		<p>Stock </p>



Recognition awards

Part of a Total Rewards strategy



Straw model design

Four level recognition program illustration

