

Total Rewards Trends in the Modern Workplace

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HUMAN RESOURCES MADE SIMPLE

We can evaluate the quality of an organization's human resource system by measuring four characteristics:

- Level of employee engagement
- Employee perceptions of pay equity and the actual degree of pay competitiveness
- Quality of the benefits program
- Relative level of job security

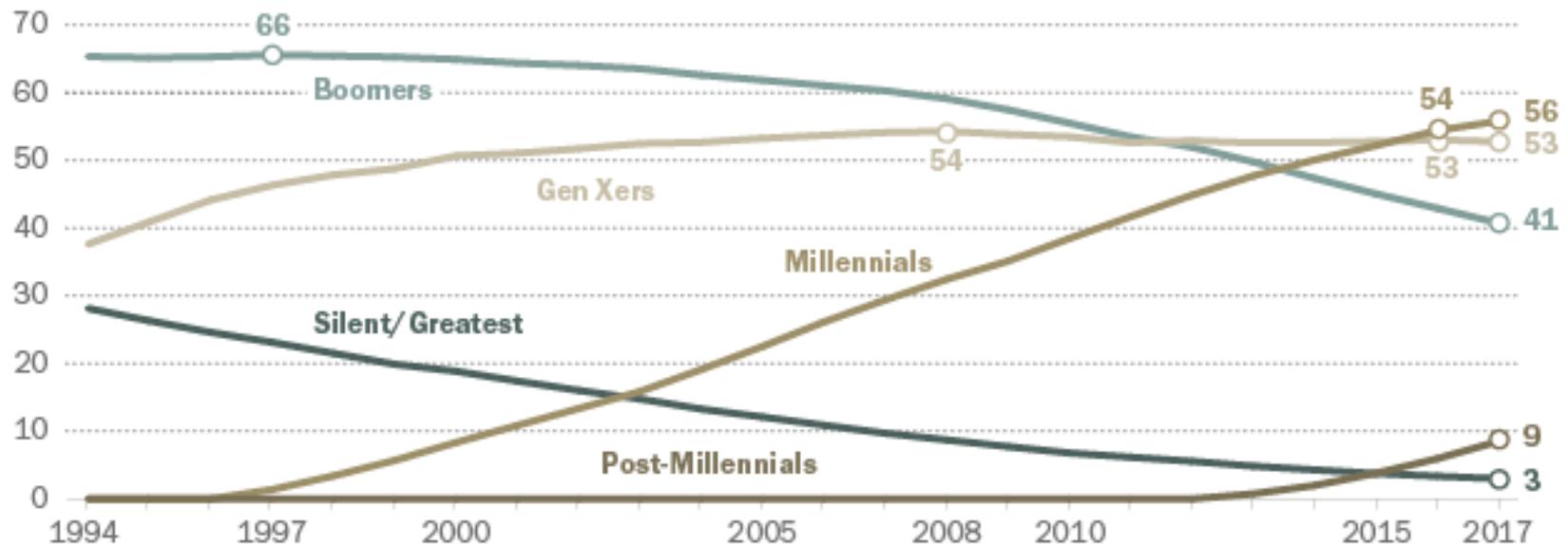
CDC TOTAL REWARDS METHOD



CHANGING WORKFORCE DEMOGRAPHICS

Millennials became the largest generation in the labor force in 2016

U.S. labor force, in millions



Note: Labor force includes those ages 16 and older who are working or looking for work. Annual averages shown.

Source: Pew Research Center analysis of monthly 1994-2017 Current Population Survey (IPUMS).

PEW RESEARCH CENTER

WHAT IS EMPLOYEE ENGAGEMENT?

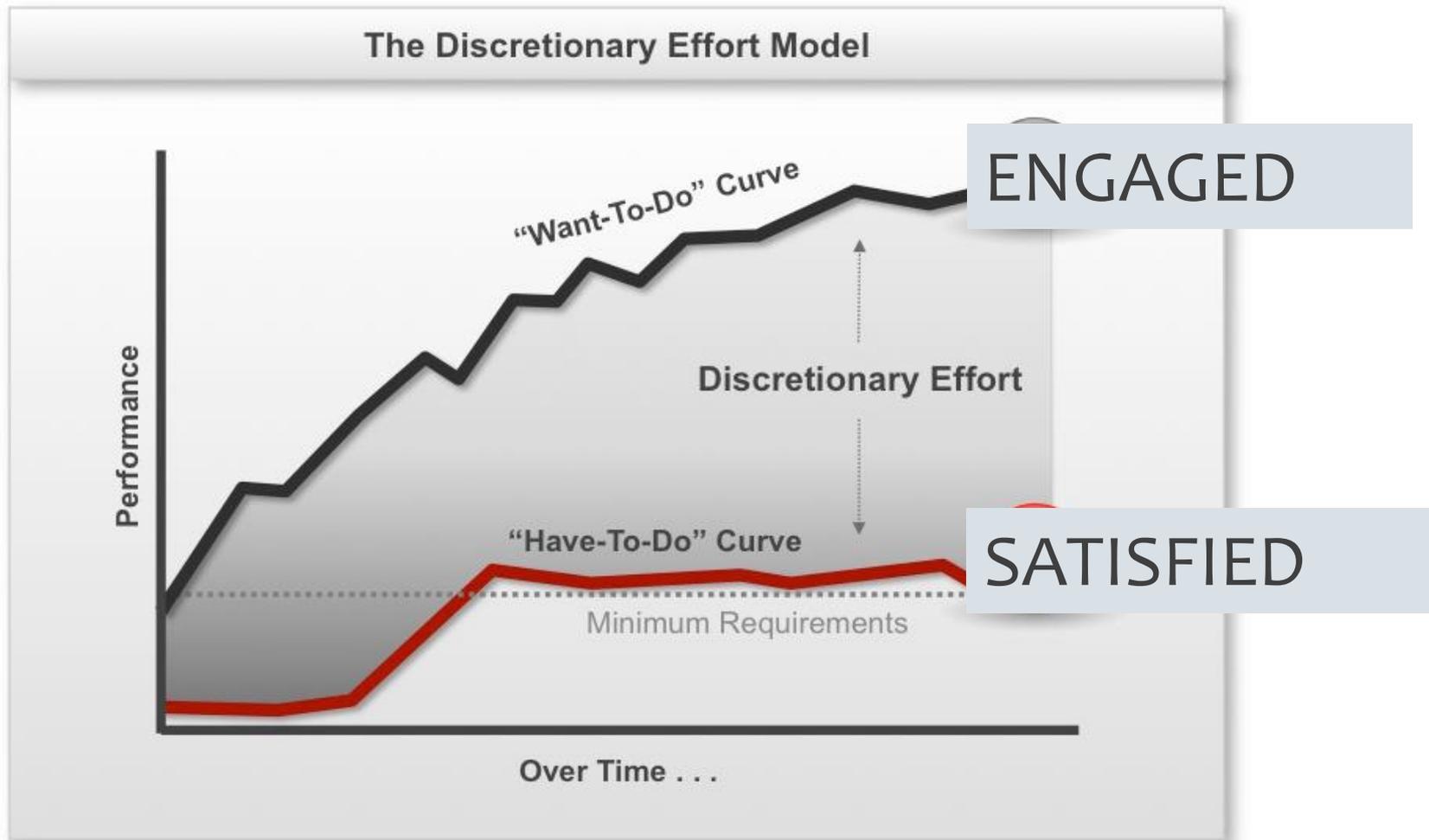
Gallup's definition:

*...employees who are **involved** in, **enthusiastic** about and **committed** to their work and who **contribute** to their organization in a positive manner.*

3 TYPES OF EMPLOYEES

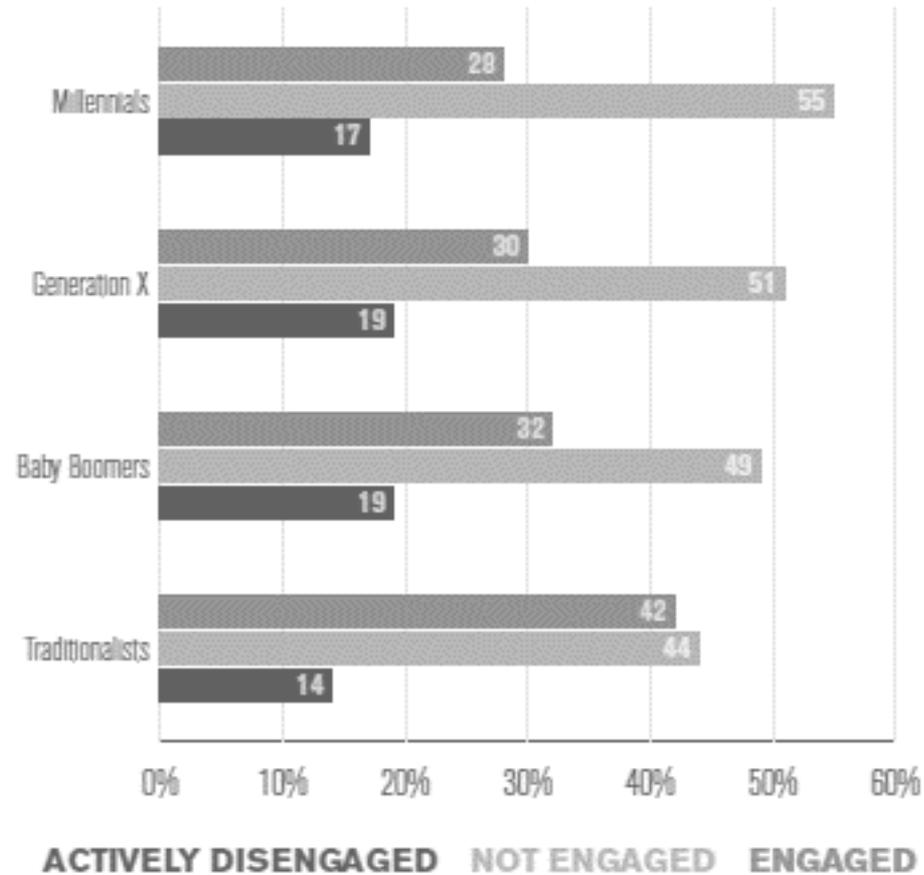
- **ENGAGED**
 - Loyal, committed, productive, much more likely to stay
- **NOT ENGAGED**
 - Productive, not committed, at risk to leave
- **ACTIVELY DISENGAGED**
 - Physically present, unhappy and sharing attitude with others

SATISFACTION IS NOT ENGAGEMENT



GALLUP'S STATE OF THE US WORKPLACE REPORT

ENGAGEMENT LEVELS, BY GENERATION



WHY IS ENGAGEMENT IMPORTANT

Data absolutely clear – high level of engagement leads to -

1. Higher profitability/efficiency
2. Increased productivity
3. Higher quality
4. Higher customer ratings
5. Higher retention
6. Lower absenteeism
7. Less accident lost time

WHY EMPLOYEES LEAVE

- Sometimes for better compensation or greater opportunity
- However, we have a saying in the HR profession –
 - “Employees don’t leave bad jobs – they leave bad managers”
- Gallup finds –
 - Organizations fail to choose managers with the right talent 82% of the time

TURNOVER IS EXPENSIVE

- Much less expensive to retain than replace
- CAP study estimates turnover costs
 - 16% of annual pay for employees <\$30,000
 - 20% for employees \$30,000 to \$50,000
 - This group includes 75% of U.S. workforce
 - Example: If small manufacturer paying \$20/hr. and 25% turnover – turnover alone costs \$1/hr; @ 50% turnover, cost is \$2/hr.
- Turnover causes turnover because of the scheduling disruption to those remaining
- If you can retain an employee for 4-5 years, more likely to stay
- However, it's not just about pay

WHAT MILLENNIALS WANT

Millennials want benefits and perks that directly impact their lives and the lives of their family members, and they show a greater willingness to switch jobs to secure these elements. In many aspects, the mentality of this generation makes sense. Millennials are more likely than older generations to be planning families and to have young children at home. Therefore, child care costs and maternity and paternity leave are more pressing issues for this group.

Millennials are also the newest college graduates in the workforce, and they are the generation most interested in development opportunities. Many continue their education beyond earning a bachelor's degree. As they pursue additional higher education, they likely appreciate tuition reimbursement programs, and it is understandable that they may want to pursue independent project work, join professional organizations and attend conferences.

SHIFT IN WORKPLACE EXPECTATIONS ©

The Past

My Paycheck

My Satisfaction

My Boss

My Annual Review

My Weaknesses

My Job

Our Future

My Purpose

My Development

My Coach

My Ongoing Conversations

My Strengths

My Life

EMPLOYEE BENEFITS ARE EXPENSIVE

Almost all costs are in four buckets -

- Required benefits
 - Social security, Medicare, Unemployment and Worker's Compensation
- Retirement savings
- Paid time off
- Medical plans

SOCIAL SECURITY AND MEDICARE

These payroll costs will increase in the next decade...

Ratio of workers to retirees has shifted

- Large number of Baby Boomers retiring
- Birth rates have declined significantly

Social Security

- Funds run out in 2037
 - Increase contributions (project +4%)
 - Reduce benefits (project -25%)
 - Increase number of workers

Medicare

- Health costs rising (especially prescription drugs)
- More retirees and increasing longevity

RETIREMENT SAVINGS

U.S. savings rate is very low

- 6% in 2018
- One of the lowest in the industrialized world
- 37% in China

Most U.S. employee retirement plans are defined contribution

- Employee responsible
- Average employee contribution rate was 6% last year
- Social Security is a partial safety net
- Most Americans are not saving enough for retirement

PAID TIME OFF

Number of days less in U.S. than other developed countries

- In the 60's, experts predicted we would evolve into a leisure economy
- Didn't happen – we are working more hours than ever before

It's not clear whether this will be an area of future emphasis

- We are a consumer culture and we like our “stuff”

MEDICAL PLAN EXPENSES

- The United States is unique in having medical plans tied to employment
 - Employee cost share rising
 - We've become a lot smarter about medical plan management
 - Employees now need to be educated health care consumers
- Medical plan costs have moderated
 - Rx spiked and have now moderated, too
 - Major political issue nationally
- Will employers continue to be the major provider of medical benefits?
- What's the future hold for Medicare and Medicaid?

EFFECTIVE TOTAL REWARDS COMMUNICATION

Concept of “line of sight”

Studies have shown...

- 2/3 of employees valued benefits as much as or higher than pay
- Employees estimate employer benefit costs 20% of payroll
- National average exceeds 40%

Recommendations

- Provide as much pay transparency as you can live with
- Issue annual total rewards statement to each employee
- Use employee surveys and focus groups to check benefit plan quality

EMPLOYMENT SECURITY AND TURNOVER

A few unscientific observations...

- The Great Recession has had a tremendous impact on perceptions of job security
- Is your employer “trustworthy”?
- Younger employees are more likely to change jobs...if they are in markets where they can move
- If you can retain an employee for five years, retention rates rise
- Invest heavily in supervisory training and employee development processes
- Pay and benefits are necessary conditions for an engaged workforce
 - they are not a sufficient condition
- Most quits are attributable to an ineffective relationship between an employee and the boss

CDC TOTAL REWARDS METHOD





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