Creating a Compelling Employee Value Proposition in Today's Environment

Presented by Kevie Mikus and Marlene Cole

March 11, 2016

About Gallagher

Today's Discussion Points

• What is EVP?
• Key elements of your EVP
• Why is a compelling EVP Strategy important?
• Considerations for developing your EVP formula
• Now What? Your Roadmap for creating a holistic EVP
• Q & A
What is EVP?

Everything an employee values in the employment relationship.

The Job
- Interesting/Challenging
- Growth Opportunity
- Recognition
- Training/Education

The Company
- Culture/Mission/Values
- Leadership
- Relationships/Support
- Security/Stability

The Rewards
- Pay
- Benefits
- Incentives
- Work-Life Balance
- Wellbeing Support

Total Rewards
Remember Maslow?

- Physiological Needs (short-term survival)
- Safety and Security Needs (long-term survival)
- Belonging and love (affection, identification with a group)
- Esteem Needs (positive self-image)
- Cognitive Needs (knowledge and understanding)
- Aesthetic Needs (order and beauty)
- Self-actualization (reaching full potential)

Traditional siloed rewards management process

- Traditional benchmarking ("sameness")
- Myopic focus on singular rewards budget line items
- Budget-driven rewards strategy

Integrated total rewards process

- Rewards & employER value proposition distinctiveness
- Integrated, ROTI-focused rewards portfolio that drives strategy
- Strategy-driven rewards budget

Why is a Compelling Employee Value Proposition Strategy Important?

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Factors Influencing the Necessity of a Holistic EVP Strategy

1. Ever-changing PPACA landscape and various provision delays
2. Changing workforce demographics, dynamics, and preferences
3. A much more competitive business environment
4. Substantial increase in healthcare costs
5. Deficiencies in Retirement Readiness

Factors Influencing the Necessity of a Holistic EVP Strategy

6. Limited Merit Increase budgets
7. Paradigm shift for Evaluating and Rewarding Performance
8. New interest in Private Exchanges and Defined Contribution strategies
9. Competition for Talent (Skill Shortage)
10. Abundance of available information balanced with effective Communication, Education and Transparency

Considerations for Your Compelling EVP
Challenges

Top five human resources challenges
1. Controlling healthcare expenses
2. Recruiting qualified employees
3. Keeping up-to-date on healthcare reform and other regulations
4. Retaining employees
5. Increasing employee job satisfaction

Gallagher National Benchmarking Survey 2015

Know What's Meaningful to Your Employees

<table>
<thead>
<tr>
<th>Rank</th>
<th>Workplace Elements Important to Employees</th>
<th>Ranked as Very Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Respectful treatment of all employees at all levels</td>
<td>72%</td>
</tr>
<tr>
<td>2</td>
<td>Trust between employees and senior management</td>
<td>64%</td>
</tr>
<tr>
<td>3</td>
<td>Benefits</td>
<td>63%</td>
</tr>
<tr>
<td>4</td>
<td>Compensation/pay</td>
<td>61%</td>
</tr>
<tr>
<td>5</td>
<td>Job security</td>
<td>59%</td>
</tr>
<tr>
<td>6</td>
<td>Opportunities to use skills/abilities</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: SHRM Job Satisfaction and Engagement Survey

Engaged employees hold the key to your success!
Cornerstones of Engagement

Organizational success is a function of the people you employ and how engaged they are with your mission. An integrated approach is key to driving employee engagement and business outcomes.

<table>
<thead>
<tr>
<th>Culture and Effective Communication</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alignment with Organizational Goals</td>
<td></td>
</tr>
<tr>
<td>Total Rewards</td>
<td>Meaningful Work</td>
</tr>
</tbody>
</table>

33% of U.S. employees are engaged at work. 12% are actively disengaged, indicating they are unhappy and uninterested in work and are liable to spread negativity.

Impact of Engaged Employees

- Actively disengaged employees can reduce revenues by up to 22%
- Highly engaged employees can drive profits UP by as much as 189%

Trends & Best Practices for Effective EVP Strategy Development
Aligning Rewards

SAMPLE DATA FOR PURPOSE OF DISCUSSION
Current Employer Resource Allocation

- Compensation
- Health & Wellness
- PTO
- Retirement
- Mission Fulfillment
- Recognition
- Social
- Fringe Benefits

Life Stage Needs and Preferences

Creating a framework that enables employees to grow with your organization is important for job satisfaction, benefits appreciation and loyalty. Defining the “Road of Life” for your key workforce and demographic segments is critical to aligning employer investments with what employees value.

Compensation Best Practices
Determining Employee Pay

Foundational Reward

- Development
- Recognition
- Culture
- Benefits
- Compensation

Importance of Determining Appropriate Pay

- Legal Compliance
  - Internal equity / Prevailing wages
- Employee Perception
  - Pay Practices / Communication / Transparency
- Good Business
  - Recruiting / Retention / Profitability

What Factors Determine Pay

- Employer considerations
  - Where employers compete for talent – local, regional or national
  - What talents an employer competes for – the skill/knowledge level
  - How strongly the employer wants to compete
    - Lead the market
    - Meet the market
    - Lag the market
  - Pay mix: base vs. incentives
  - Other offerings (benefits, PTO, flexibility, etc.)
Step 1 – Research your labor market(s)

- Determine the value of jobs that are similar to those in your company for your relevant labor market

Steps to Consider
- Be realistic about matching
- Focus on job functions – not title
- Consider the role, not the incumbent
- Find comparables with at least a 70% match
- Use caution with hybrid positions
- Match as many as possible to represent different levels across organization

Tips for Using Market Data
- How do your benchmark jobs compare to the market?
- When you look at the non-priced jobs, how do they fit/compare with those you priced?
- How does the pay for individuals in similar roles compare to each other?

Step 2 – Compare Your Company to the Market
Step 3 – Understand employee preferences

Steps to Consider

Step 4 – Assess your reward allocation/spend and determine the appropriate pay to market position.

Steps to Consider

Step 4 - Address internal equity and external competitiveness.

- Pay structure changes
- Re-slotting of positions
- Creating separate pay lines
- Assessing employee position in range
- Assessing pay disparities within the same or similar jobs
Pay Structure Examples

Current Trends

Salary Budget Information
Salary Budget Information

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>% of Employees in Category</th>
<th>Average Pay Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest Rating</td>
<td>9.90%</td>
<td>4.60%</td>
</tr>
<tr>
<td>Above Average Rating</td>
<td>29%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Average Rating</td>
<td>55.90%</td>
<td>2.60%</td>
</tr>
<tr>
<td>Below Average Rating</td>
<td>5.20%</td>
<td>0.70%</td>
</tr>
<tr>
<td>Average Promotional Pay Increase</td>
<td></td>
<td>8.40%</td>
</tr>
</tbody>
</table>

Sources: Insight Performance and World at Work

Incentive Plan Prevalence

Most common objectives for incentives:
1. Reward employees (60%)
2. Align employees’ incentives with short-term goals (59%)
3. Focus employees on specific goals (45%)

Tools to Retain Top Talent

World at Work 2016 Pay Practice Survey
Benefits Spend

Total annual benefit cost per eligible employee*

- Under $5,000: 17%
- $5,000 to $9,999: 45%
- $10,000 to $14,999: 22%
- $15,000 to $19,999: 10%
- $20,000+: 9%

*Due to rounding, percentages do not total 100%

Gallagher National Benchmarking Survey 2015

Emerging Trends

Gallagher Survey Participants Who Offer These Solutions (2015 vs. 2014)

- Telemedicine ('Online Visits' in 2014)
  - Mandatory specialty pharmacy program
  - Reduced provider network accessibility (limited network)
  - Online enrollment
  - Social media benefits communications
  - Mobile-enable benefits communications

Gallagher National Benchmarking Survey 2015

Emerging Trends

Use of Private Exchanges with Defined Contribution funding approach

- Sponsored employee benefits marketplace;
- Changes the way employees buy benefits;
- Provides choice;
- Consumerism is fundamental to our way of life;
- Multiple plan options in marketplace setting while providing a defined contribution to spend makes the "one size fits all" impractical
- Employers are looking for a way to cap expenses by providing employees with a defined contribution (set amount) to buy benefits.
Emerging Trends
History of Exchanges

Largest Private Exchange before PPACA - 1996

For plan year 2015, enrollment in private health care exchanges doubled from the previous year to hit 6 million, according to Accenture -
- Most of the growth was in the mid-market segment;
- This growth was driven by employers focusing on long-term benefit strategy;
- Involves a strategic shift from viewing benefits in silos to holistically;
- Exchange growth is expected to carry forward into 2016;
- Projections are for 40 million by 2018.

Emerging Trends
The Results from 7 years and hundreds of thousands of enrollments...

~70% Buy Dental Insurance
Even distribution across plans
~70% Buy Disability Insurance
40% STD; 45% LTD
~50% Buy HSA qualified plans
90% open HSA accounts
~50% Buy Vision Insurance
~40% Buy Life Insurance
Dramatic increases in policy amount
~30% Buy Supplemental Health Insurance (Acc, CI, HI)
~15% Buy Pet, Telemedicine, Legal, Wellness, etc.
~100% Buy a different benefits package
~80% Buy a different health insurance plan
Most buy something less expensive
In Year 2, 65% keep the same health plan, 25% evolve +/- 1 level, 10% make radical changes

Emerging Trends
The Evolution of “Wellbeing”

<table>
<thead>
<tr>
<th>Then</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical health emphasis</td>
<td>Multi-dimensional (employee and family) wellbeing with strong social networks</td>
</tr>
<tr>
<td>Benefits strategies for cost management</td>
<td>Employee value proposition; become an employer of choice</td>
</tr>
<tr>
<td>Right program and vendor</td>
<td>Right culture and environment</td>
</tr>
<tr>
<td>Participation incentives</td>
<td>Inspire change, support, sense of purpose</td>
</tr>
</tbody>
</table>

Inconsistent alignment with stakeholders/members, clashed cultures, too business objectives

Wellness as a cultural imperative that drives engagement and motivates high performance
Emerging Trends

The Multiple Dimensions of Wellbeing

Physical Health  Social/Emotional Health  Financial Health  Career Health  Community Health

The WHOLE person comes to work every day....

- each employee's wellbeing influences individual and organizational performance

Emerging Trends

The Multiple Dimensions of Wellbeing

Physical Health  Social/Emotional Health  Financial Health  Career Health  Community Health

Career health has the most significant impact on overall wellbeing and quality of life

Emerging Trends

The Impact

Wellbeing and Employee Engagement are strongly correlated

Engaged, thriving employees are more likely to:

- Be happy and resilient
- Have strong relationships and be active in their community
- Be in control of their finances
- Have fewer safety accidents
- Report excellent performance
- Rate their work environment
- Have fewer health problems and lower healthcare costs

The Opportunity:

- Simultaneously address engagement & wellbeing
- Accelerate impact on organizational metrics
- Enhance Employee Value Proposition

Emerging Trends
Emerging Trends

- Student loan repayment programs
- Unlimited vacation
- Expanded parental leave
- Retirement assistance
- Child care support
- Medical benefits that help care for aging parents

Work-Life Balance

Services offered to promote work-life balance:

- Employee assistance/counseling: 61%
- Flexible work hours: 57%
- Paternity leave: 31%
- Ability to telecommute: 29%
- Social media in workplace: 25%
- Paid time off/bailey: 23%
- Work-stress order: 20%
- Other: 19%
- Leisure services: 9%
- Pet friendly environment: 5%

Professional Development

Best Practices

- Think holistically about people development:
  - Only 10% of someone's on-the-job behavior change comes from training
  - 20% comes from assessment/feedback
  - 70% comes from on the job experience
    - Cross functional teams
    - Cross group teams
    - Ad Hoc committees, special projects, etc.

- Informal methods of development/information sharing become ever important in today's workplace (blogs/wikis/on-line forums/internal expert directories).
The Organizational EVP Formula

Total Rewards Inventory

Compensation
Pay provided by an employer to an employee for services rendered (i.e., time, effort and skill); involves both base and variable pay tied to levels of performance.

Benefits
Programs an employer uses to supplement the benefits. These range from care for employees, family and their dependents, including health, income protection, savings and retirement programs, provide security for employees and their families.

Work/Life
A specific set of organizational practices, processes and programs, like policies and procedures, need to be developed to support an organization's efforts to help employees achieve success at both work and home.

Prof. & Org. Development
Various programs, activities and initiatives that enhance an employee's job effectiveness, engagement, productivity and career development. These include professional development, recognition, organizational development and career development.

Tailor Your Total Rewards

Invest heavily in your top “A” players
A Communication Strategy is Paramount to Implementing Total Rewards

<table>
<thead>
<tr>
<th>Audience</th>
<th>Baby Boomer</th>
<th>Xennials</th>
<th>Millennials</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Style</td>
<td>Formal</td>
<td>Semi-formal</td>
<td>Formal</td>
<td>Semi-formal</td>
</tr>
<tr>
<td>Content</td>
<td>Details; good-style writing</td>
<td>Check it done but give me everything</td>
<td>Get to the point — what did I need to know?</td>
<td>If and when I need it, I’ll find it online</td>
</tr>
<tr>
<td>Context</td>
<td>Reference to the bottom line and any motivators</td>
<td>Reference to what matters to me</td>
<td>Reference to what matters to me</td>
<td>Reference to me, today and my role</td>
</tr>
<tr>
<td>Attitude</td>
<td>Accepting and trusting of authority and hierarchy</td>
<td>Openly question authority, often branded as cynics</td>
<td>Okay with authority that earns their respect</td>
<td>Pulls people to learn more from themselves</td>
</tr>
<tr>
<td>Tactics</td>
<td>Print; conventional mail; face-to-face discussions or by phone, some online</td>
<td>Print; conventional mail; face-to-face discussions; online tools and resources</td>
<td>Online; some face-to-face meetings (if they’re really, really needed); games</td>
<td>Online; rarely; essentially connected through technology</td>
</tr>
<tr>
<td>Speed</td>
<td>Attainable within reasonable timeframe</td>
<td>Availability; handy</td>
<td>Immediate; when I need it</td>
<td>Five minutes ago</td>
</tr>
<tr>
<td>Frequency</td>
<td>In-digestible amounts</td>
<td>As needed</td>
<td>Whenever</td>
<td>Constant</td>
</tr>
</tbody>
</table>

Integrated Communication

Return on Talent Investment

Metrics