

Strategically Using Incentive Pay in the War for Talent

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Overview

- Best practices, surveys and case studies
- Challenges and market factors
- Importance of corporate culture
- Benchmarking compensation and available LTI options
- Most difficult component: Success Metrics
- Positives and negatives to alternate designs
- Differentiate your organization through effective communication
- Steep your decisions in data

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Benefits Strategy & Benchmarking Survey



- Conducted January - March 2017
- 4,226 participating organizations
- More than 300 questions covering the total rewards spectrum

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Employers' top challenges

- Attracting and retaining a competitive workforce is the top operational priority for almost 60% of employers (our benchmarking survey)

Top priorities centered on talent, growth and cost control

Top operational priorities		Top HR priorities	
Competitive workforce	58%	Controlling benefit costs	52%
Revenue/sales growth	50%	Attracting talent	43%
Maintenance or decline of overall operating costs	47%	Retaining talent	41%



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Other market factors

- Low unemployment overall, especially acute within the ranks of highly skilled key employees*
- Many private employers can struggle to effectively design long-term incentive programs
- Many employees can struggle to truly understand the value of the benefits

*Gallup, "Tough Task: Recruiting Top Leaders From Other Companies"

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Attracting and retaining – key factors to success

- Review of your current staff and their positions
- Loss of a key leader can be as high as 4x total cash compensation*
- Candidates looking to the private company space are expecting equity-style long-term incentives

*LinkedIn, Karlyn Borysenko, "The Cost of Employee Turnover," July 2014

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Engagement is closely linked to employee retention and attraction



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Building a culture of total wellbeing: your competitive advantage



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LTI compensation design

- Cannot be designed in a vacuum and must be part of a larger compensation discussion
- Your philosophy for compensation
- Understanding how much LTI and metrics to determine success
- Delivering the award to the employees
- Critical factors to a successful rollout

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Assessing the marketplace

Data Collection

- **Base pay:** salary paid for a position before any differentials, allowances or incentives
- **Short Term Incentives (STI):** typically cash rewards based on achievement of short-term goals (generally 12 months or less)
- **Total Cash Compensation (TCC):** the sum of all cash payments made to an individual for services during a given year including base pay and short-term incentive payments
- **Long Term Incentives (LTI):** deferred rewards based on achievement of long-term objectives in the form of stock-based compensation, performance shares, cash, performance units, etc.
- **Total Direct Compensation (TDC):** total annual cash compensation plus the annualized value of long-term incentives

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Assessing the marketplace

Data Considerations

- Relevancy
 - Job Function
 - Industry
 - Geographic Location
 - Organizational Size
- Recency
 - Effective date of information
 - Target date for analysis
- Availability
 - Multiple sources
 - Appropriate methodology

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Assessing the marketplace

Base Pay	STI	LTI
• Straightforward	• Some variability	• Greatest dispersion - Expected Value/Award Opportunity

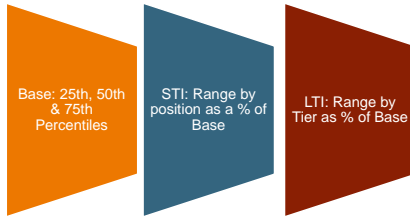
Market information can serve as a good general indication of pay practices of similar organizations in the marketplace.

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Analyzing market data

Data Analysis



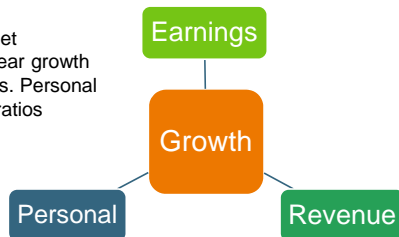
- ✓ Base and STI pay practices to the market – compensation philosophy
- ✓ Use of LTI as a complement to base salary and STI
- ✓ Appropriate target amounts for LTI awards
- ✓ Distinguish differences in plan tiers

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How do you define success?

- Annual Target
- Year-over-year growth
- Corporate vs. Personal
- STI vs. LTI ratios



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How do you deliver the award?

Deferred Cash Award

- Future cash payment tied to a vesting schedule
- No interest during vesting period
- Fully taxable as income and paid out upon vesting

Deferred Comp Award

- Current year award to NQDC plan tied to a vesting schedule
- Earnings on balance during vesting period
- Taxable for payroll upon vesting and for income upon distribution

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NQDC as LTI vehicle

- Nonqualified deferred compensation plans are subject to IRC 409A and creditor risk
- Tax-efficient for employees
- Delayed tax deduction for employers
- Similar look and feel of RSU, Performance-shares and/or Profit-Sharing Plans
- Additional administrative burden and TPA expense

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Successful rollout

- Announcement and Summary Plan Description
- Tax and benefit implications
- Partner with advisors
- Administrator with easy online access and updated information
- Annual review and updates at minimum

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All about the GROWTH

- Retain and attract talent to sustain long-term growth
- Publicly-traded companies set the benchmark with equity-based wealth creation
 - Private companies do not have to have same degree of wealth creation
 - Private companies will often struggle with real or even phantom equity as a component of plan design
- Effective compensation philosophy supports long-term growth

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Action Items

- For an executive summary of our National Benchmarking Survey
 - www.ajg.com/nbs2017
- For a copy of our 2017 Human Capital Insights articles
 - www.ajg.com/hcinsights2017

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Thank You

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