

HEALTH WEALTH CAREER

TALENT AND REWARDS TRENDS

APRIL 10, 2018

VALLEY SOCIETY FOR
HUMAN RESOURCE
MANAGEMENT

MAKE TOMORROW, TODAY  MERCER

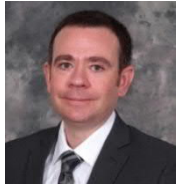
AGENDA

GLOBAL TALENT TRENDS

REWARDS TRENDS

FOCUS FOR 2018

TODAY'S SPEAKERS



Patrick O'Cull
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Patrick O'Cull is a Partner and Office Business Leader for Mercer's Detroit office Career business. He is responsible for advising organizations on how to strengthen the relationship between strategy, management processes, and the creation of shareholder/stakeholder value through the use of total rewards. These efforts regularly involve developing compensation/total reward strategy, assessing the competitiveness of workforce, executive and board of directors compensation, developing salary administration programs, designing annual and long-term incentive plans, and leading due diligence assessments.

Patrick's consulting experience covers a broad range of industries, including manufacturing, health care, professional services, and consumer goods. His clients have range from small entrepreneurial firms to Fortune 500 companies..

Patrick has over 15 years of compensation consulting experience with Mercer. Additionally, Patrick worked for two years with Ally Financial (formerly GMAC Financial) as a Compensation Manager focusing on executive compensation and variable pay plan design.

Patrick has been quoted in publications such as Becker's Hospital Review and Crain's Detroit Business, as well as served as a guest speaker at numerous national and regional conferences.

Patrick holds a Bachelor of Science degree in Finance from Miami University.



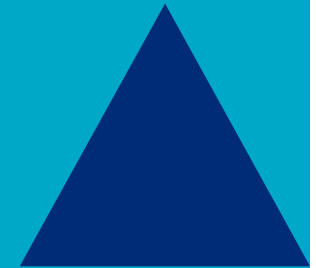
Jason Welsh
Principal
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248 945 5529

Jason Welsh is a Principal in Mercer's Career business, specializing in executive and broad-based compensation, annual and long-term incentive compensation and plan design, and director compensation. Based in Detroit, Jason provides these services for a variety of companies ranging from small entrepreneurial firms to Fortune 500 companies, including organizations in energy, manufacturing, consumer packaged goods, financial services, healthcare, and professional services industries to ensure that total compensation programs are aligned with the company's business strategies.

Jason has 11 years of compensation consulting experience with Mercer.

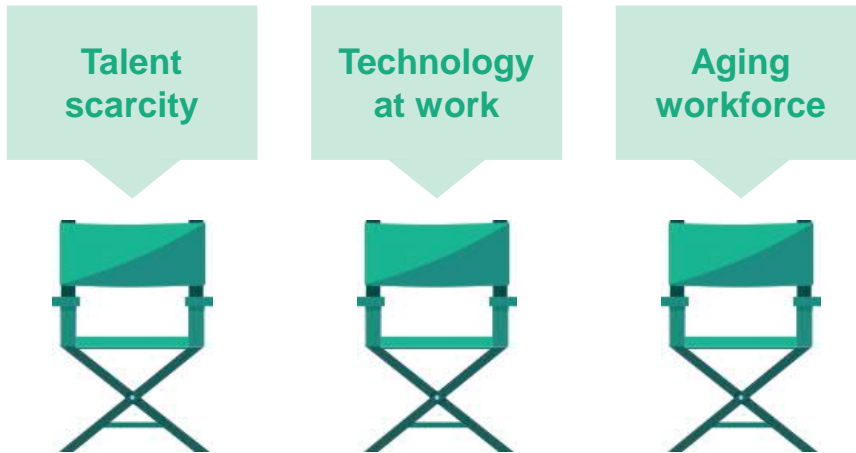
Jason received a Bachelor of Arts degree in Finance from Michigan State University.

GLOBAL TALENT TRENDS



MACRO TRENDS IMPACTING THE WORLD OF WORK

Executives' biggest concerns



Disruption on the horizon



Talent supply



THE CHANGING EMPLOYMENT LANDSCAPE

BUSINESS MODEL DISRUPTIONS



Mobile Internet and
Cloud Technology,
Crowd sourcing



Big Data
Analytics



Young
Demographics
in Emerging
Markets



Changing
Nature of Work
and Societal
Norms



The
Internet of
Things



Advanced
manufacturing
and 3D printing



Longevity
and Ageing
Societies



Women's
Economic Power,
Aspirations



Robotics,
Autonomous
Transport



Artificial
Intelligence



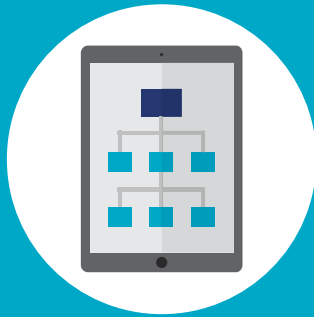
Five Generations
in the
Workforce

IMPACT FELT ALREADY

2015 – 2017

2018 – 2020

MERCER TALENT TRENDS: KEY FINDINGS



—
**GROWTH
BY DESIGN**
—



—
**A SHIFT IN
WHAT WE
VALUE**
—

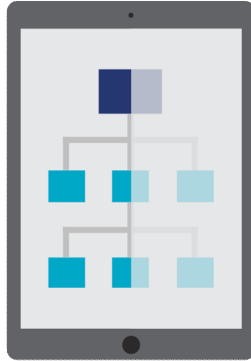


—
**A WORKPLACE
FOR ME**
—



—
**THE QUEST
FOR INSIGHT**
—

GROWTH BY DESIGN

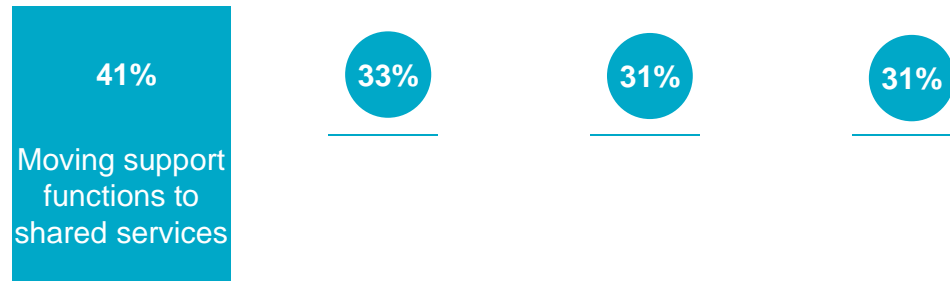


93%

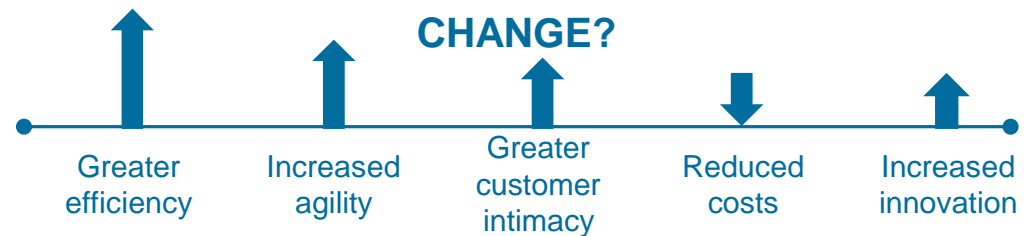
of executives are planning a redesign in the next 2 years

ORG. REDESIGN BEING PROPOSED

C-suite: How are you planning to change your organization design over the next two years?



WHAT IS DRIVING THIS CHANGE?



A SHIFT IN WHAT WE VALUE



98% of employees in the US want to be recognized and rewarded for a wider range of contributions



WHAT WOULD MAKE A POSITIVE IMPACT ON YOUR WORK SITUATION?

1. Compensation that is fair & market competitive

2. Opportunity to get promoted

3. Leaders who set clear direction

4. Working with the best & brightest

5. Career path information

6. Transparency on pay calculations

7. More flexible work options

A WORKPLACE FOR ME

VOICE OF THE EMPLOYEE:

"Meet me where I am"



CARING FOR MY HEALTH

53% of employees want their company to focus more on their health and wellness



Me.inc

STEERING MY CAREER

1 in 3 employees do not feel empowered to create their own career success at work

BALANCING MY WORK/LIFE

56% want their company to offer more flexible work options



HELP ME INVEST IN MYSELF



MANAGING MY MONEY

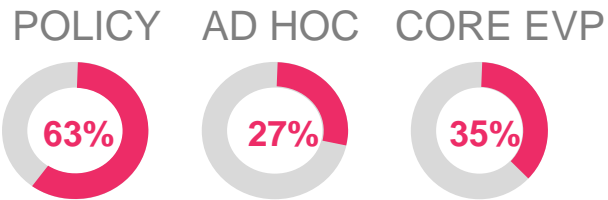
Mercer research shows that employees spend 13 hours per month worrying about money matters at work

Technology enables individualized choice without adding an undue administrative burden for HR

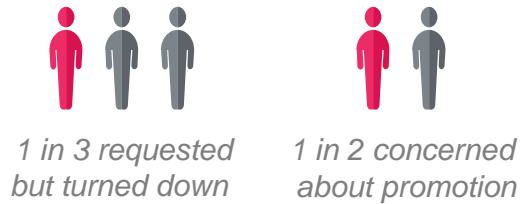
A WORKPLACE FOR ME FLEXIBILITY



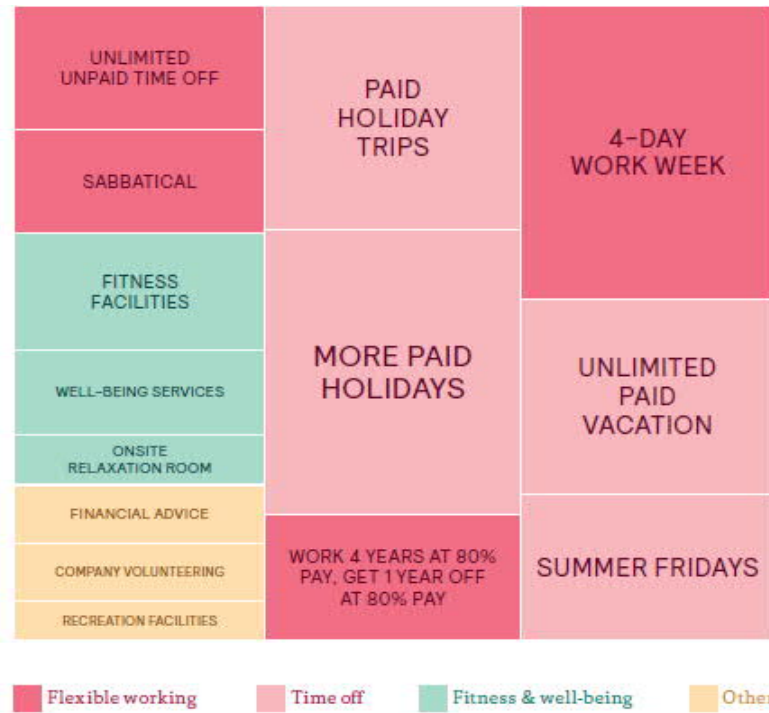
FLEXIBLE WORK ARRANGEMENTS



FLEXIBILITY IN PRACTICE



WHAT WOULD MAKE YOU WORK FOR ONE COMPANY OVER ANOTHER?

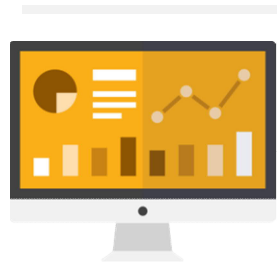


77% would consider working on a contract basis

THE QUEST FOR INSIGHT DATA & ANALYTICS



CHRO BECOMES CHIEF MARKETING OFFICER



As HR and Benefit teams create personalized services and benefit packages for employees, the tools and tactics used by marketers will be essential. **Data and analytics, segmentation, and distribution** are phrases HR teams are going to become familiar with to target and deliver to their customers – employees.

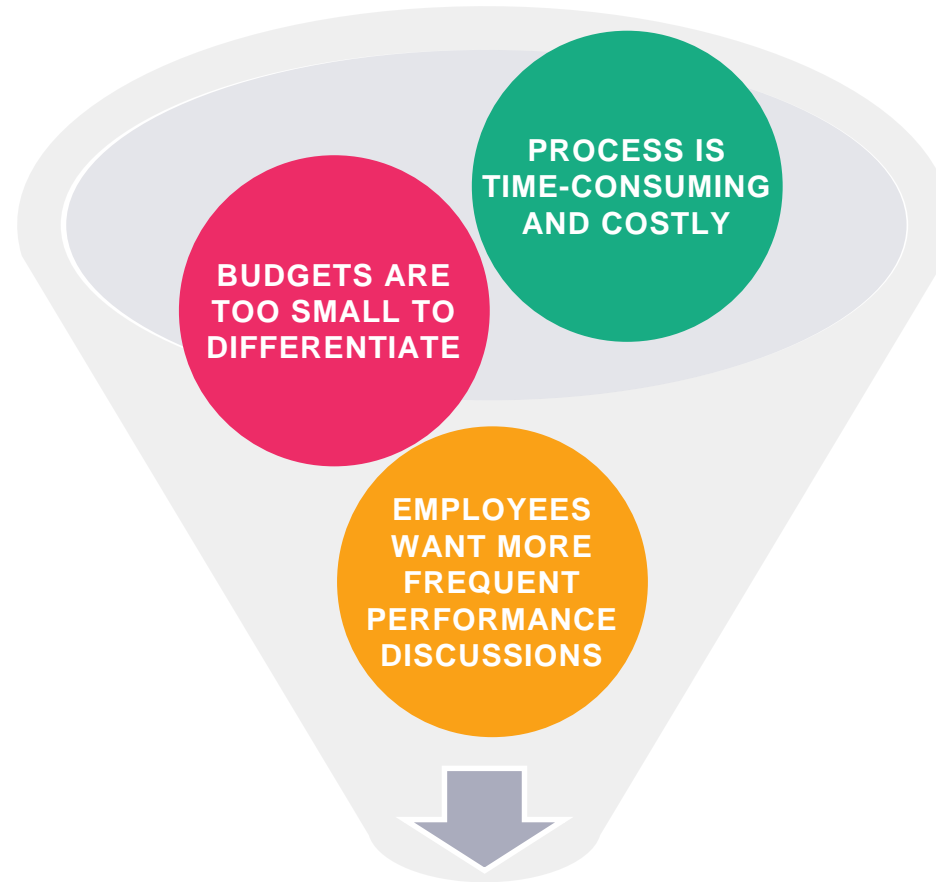
< 50%

of executives report that their HR delivers actionable analytics for business leader decision making.

REWARDS TRENDS



IS THE ANNUAL SALARY INCREASE PROCESS BROKEN?



... But are organizations changing their approach?

SOME CHANGES BEING CONSIDERED . . . NOTHING RADICAL

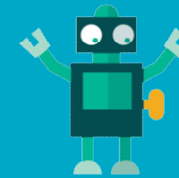
ANNUAL SALARY INCREASE PROCESS CHANGES BEING CONSIDERED	ALL ORGANIZATIONS	HIGH TECH INDUSTRY
Increasing transparency of rewards	52%	65%
Increasing pay-for-performance differentiation	43%	42%
Increasing focus on pay equity/fairness	40%	50%
Increasing the frequency of communications about rewards	39%	39%
Revising process	33%	34%
Revising performance ratings	32%	28%
Changing frequency of performance reviews	23%	17%
Removing the link between performance ratings and pay	14%	17%
Eliminating performance ratings	13%	10%
Eliminating process altogether	7%	0%

POTENTIAL OPPORTUNITIES FOR CHANGE SALARY INCREASE BUDGETS

FACTORS DETERMINING ORGANIZATION'S SALARY INCREASE BUDGET	% ORGS
Market Practices	76%
Organization's Financial Performance	76%
Inflation Rates	53%
Affordability	49%
Overall Economic Health	48%
Organization's Strategic Plan	35%
Other	4%

n = 356 organizations

Opportunity for HR to link the strategic plan to workforce planning to salary budget needs, reinforcing the ROI on compensation.



High Tech industry organizations were much more likely to consider Market Practices (90%) and Affordability (63%).

POTENTIAL OPPORTUNITIES FOR CHANGE PERFORMANCE MANAGEMENT

88% still use a performance rating scale

FREQUENCY OF PERFORMANCE DISCUSSIONS	% ORGS
Biannually (Twice A Year)	48%
Annually	36%
Quarterly	8%
Ad Hoc / As Needed, with no set timing	5%
Monthly	2%
Daily	0%

n = 360 organizations

Opportunity to increase frequency of performance discussions.

POTENTIAL OPPORTUNITIES FOR CHANGE COMMUNICATING REWARDS

INFORMATION SHARED WITH EMPLOYEES	% ORGS
Organization's reward philosophy	67%
A clear description of the competence and performance expectations of the employee's role	60%
Their manager's honest view on how the employee has been assessed against the organization's pay drivers	32%
The employee's individual salary range	31%
The annual pay mechanisms for guiding pay decisions (e.g., budgeting processes, manager guidelines, governance structures)	30%
Size of the salary increase budget	24%
What drives progression through their range and into the next range	21%
Their logical career path (and flexibility) and how this links to rewards	21%
The pay range of positions along a relevant career path	15%
Market data for the employee's position	10%
None of the above	6%
Other employees' pay ranges	5%
Other employees' pay levels	2%
Other	3%

n = 357 organizations

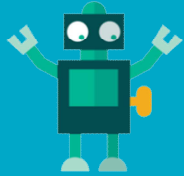
Opportunities to improve the transparency of rewards and employees' understanding of what they need to do to earn them.

POTENTIAL OPPORTUNITIES FOR CHANGE MANAGER EDUCATION

IS COMMUNICATOR WELL-VERSED IN TOPIC?	% ORGS
Yes, because we conduct thorough training in this area	38%
Yes, although we don't conduct specific training in this area	23%
No, but we're planning to improve knowledge and communication skills through training	31%
No	8%

n = 358 organizations

Opportunity to increase manager training on pay communications, particularly as many organizations are considering increasing the frequency of reward discussions and improving rewards transparency.



High Tech industry organizations are less likely to conduct training on pay communications:

- 23% yes because we conduct training
- 33% yes although we don't conduct training
- 37% no but we're planning training
- 7% no

US COMPENSATION PLANNING KEY FINDINGS

98%
.....
OF PARTICIPATING
ORGANIZATIONS
WILL AWARD SALARY
INCREASES

88%
.....
OF PARTICIPATING
ORGANIZATIONS TIE
SALARY INCREASES
TO INDIVIDUAL
PERFORMANCE

3.4%
.....
• AVERAGE 2017 TOTAL
• INCREASE BUDGET
• (INCLUDES SALARY
• INCREASE BUDGETS AND
• PROMOTIONAL
• INCREASE BUDGETS)

HIGH PERFORMERS GET **1.7x**
.....
THE SALARY INCREASE OF AN AVERAGE
PERFORMER.

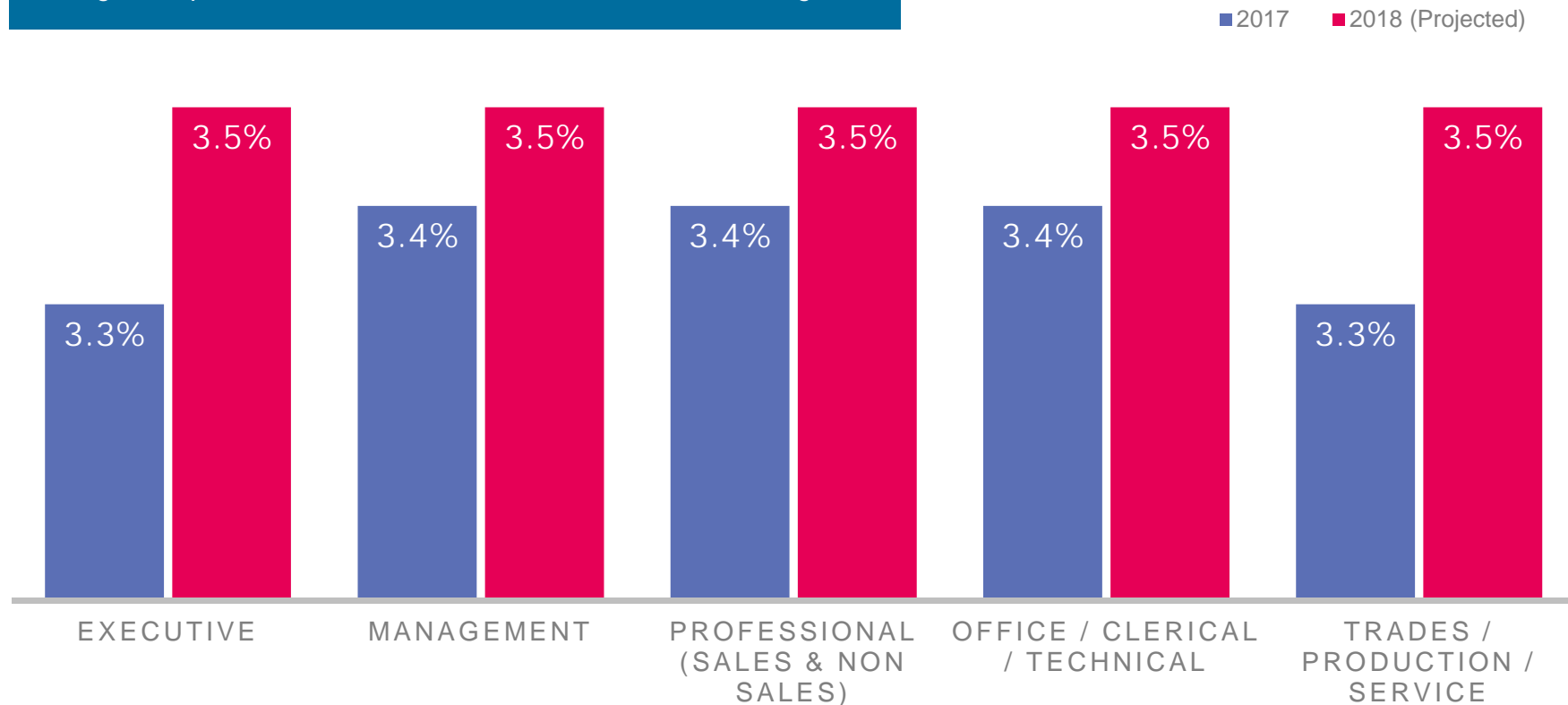
2017 SALARY INCREASES REMAIN
CONSISTENT WITH THE PAST 5 YEARS.

2.8%
.....
AVERAGE BASE
SALARY INCREASE
BUDGET IN 2017⁽¹⁾

2.9%
.....
AVERAGE PROJECTED
2018 BASE SALARY
INCREASE BUDGET⁽¹⁾

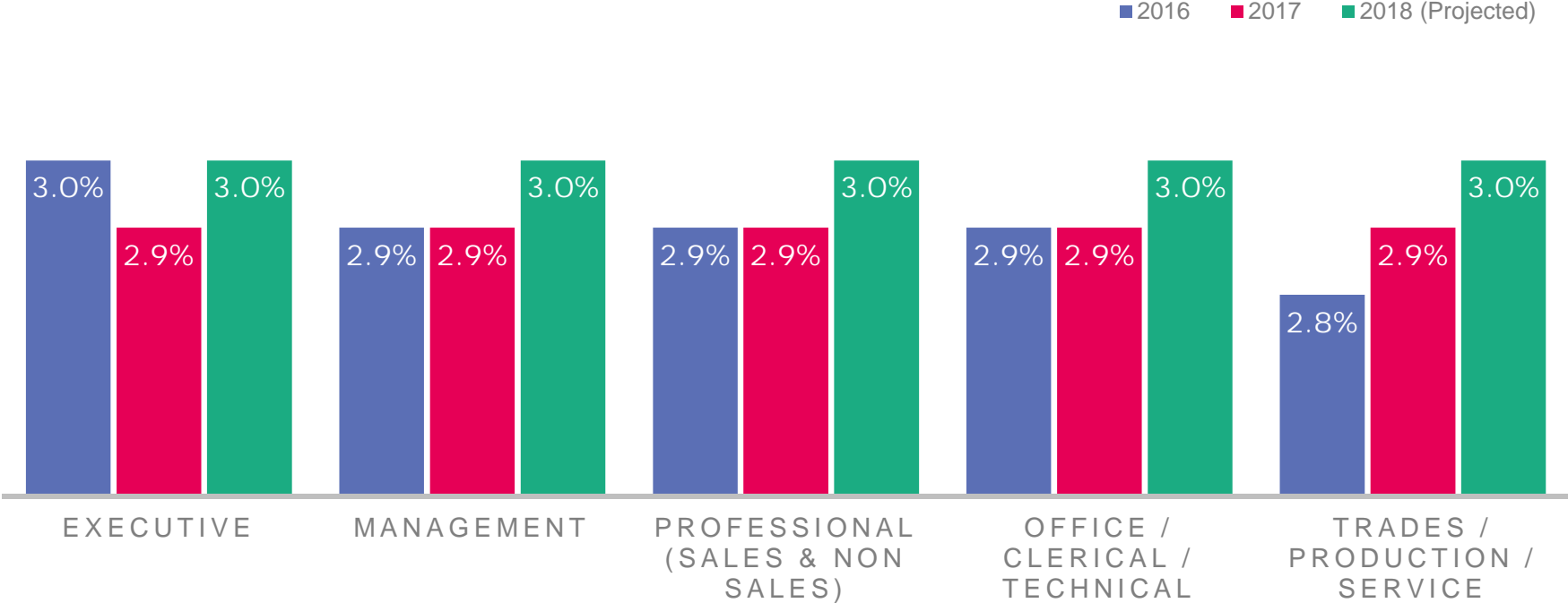
TOTAL INCREASE BUDGETS THE FULL PICTURE OF PAY INCREASES

Total Increase Budget combines salary increase budget along with promotional increase or other increase budgets



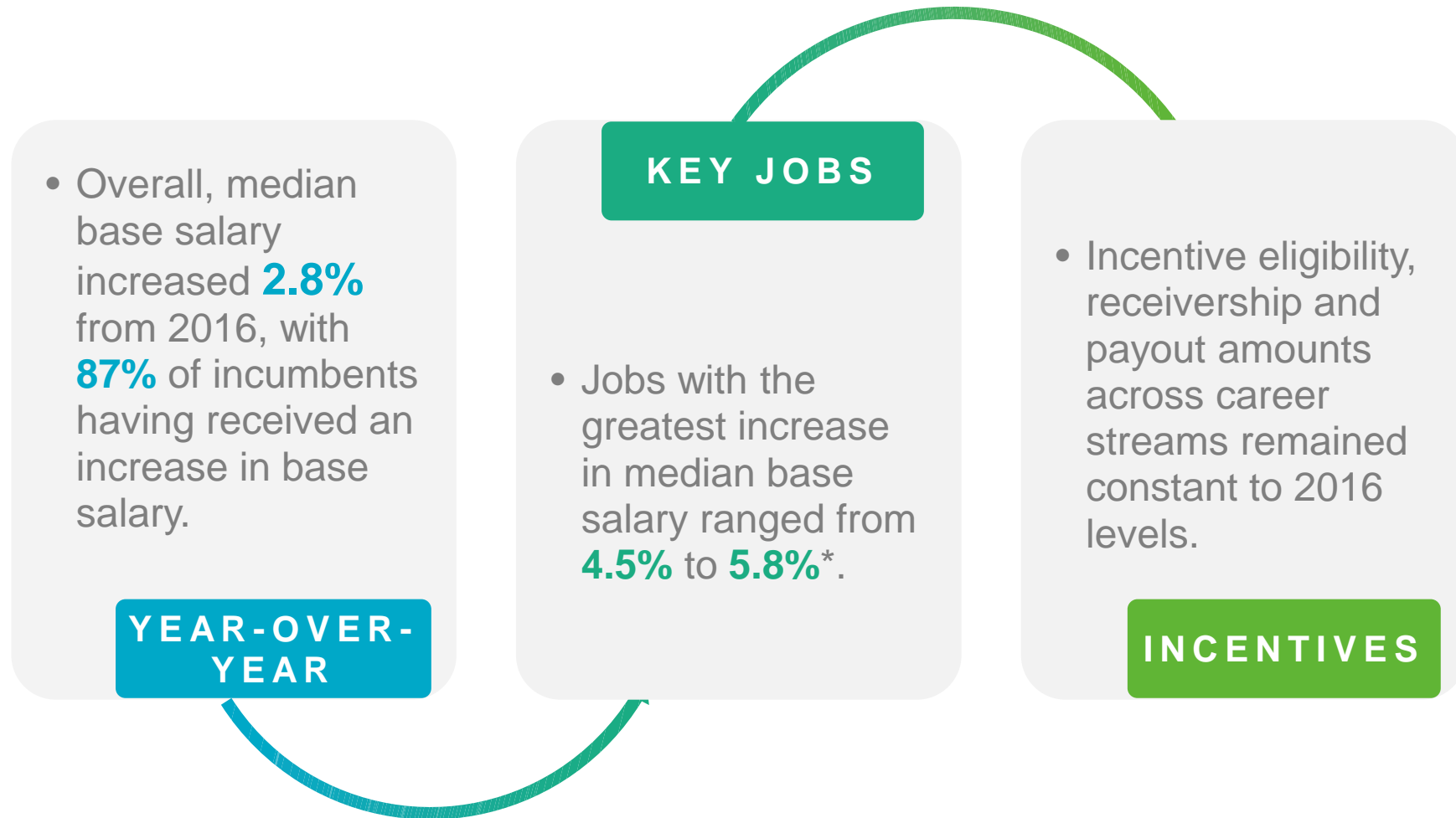
SALARY INCREASE BUDGETS REPRESENTS THE ANNUAL MERIT INCREASE

Salary Increase Budgets includes the traditional merit, COLA and across the board increase budget



MERCER BENCHMARK DATABASE SURVEY

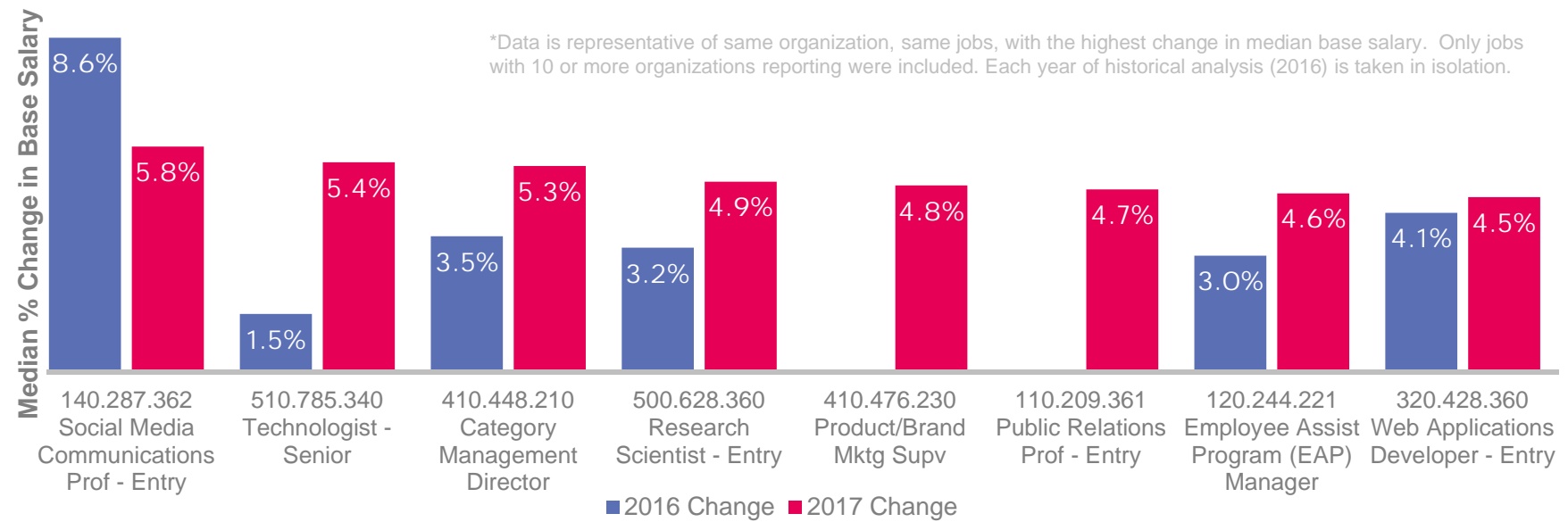
KEY FINDINGS FROM JOB BASED RESEARCH



*Data is representative of same organization, same jobs, with the highest change in median base salary; only jobs with 10 or more organizations reporting were analyzed.

ACTUAL BASE SALARY CHANGES POSITIONS WITH LARGEST CHANGES*

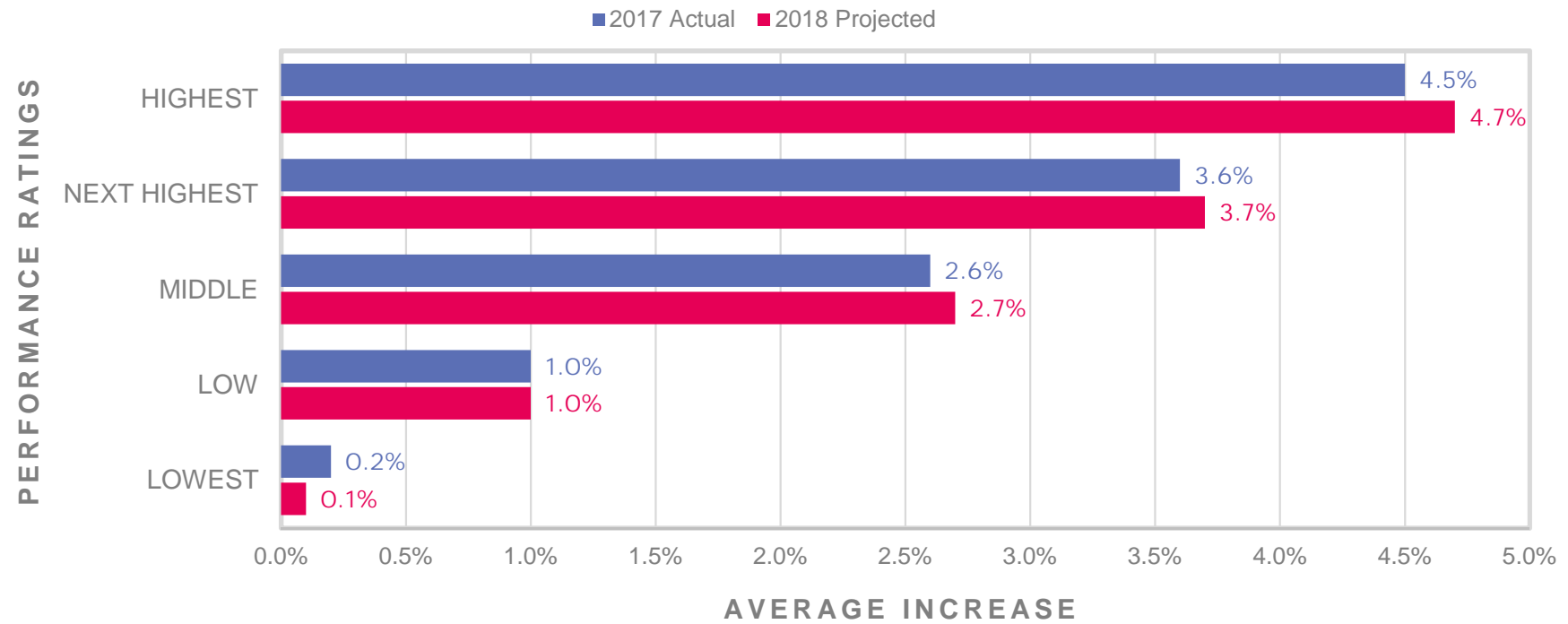
Social Media Communications Professional – Entry had the greatest increase in median base salary (5.8%) for the second consecutive year; other positions ranged from 4.5% to 5.4%.



JOB FAMILY							
Communications	Engineering	Marketing	R&D	Marketing	Corporate Affairs	HR	IT Analysis & Design

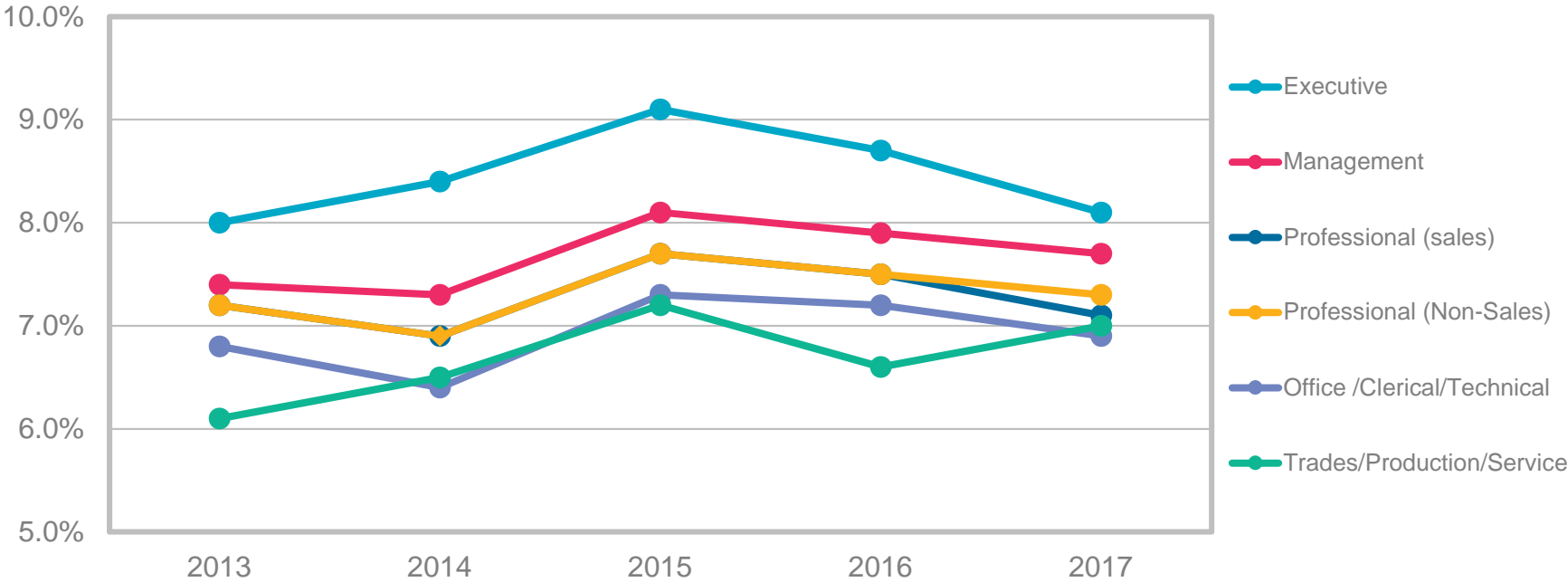
BASE SALARY ADJUSTMENT BY PERFORMANCE DIFFERENTIATION CONTINUES

88% of organizations use individual performance to drive base salary.



PROMOTIONAL INCREASES ORGANIZATIONS CONTINUE TO BUDGET SEPARATELY

PROMOTIONAL INCREASES (AS % BASE SALARY)
FIVE-YEAR TREND

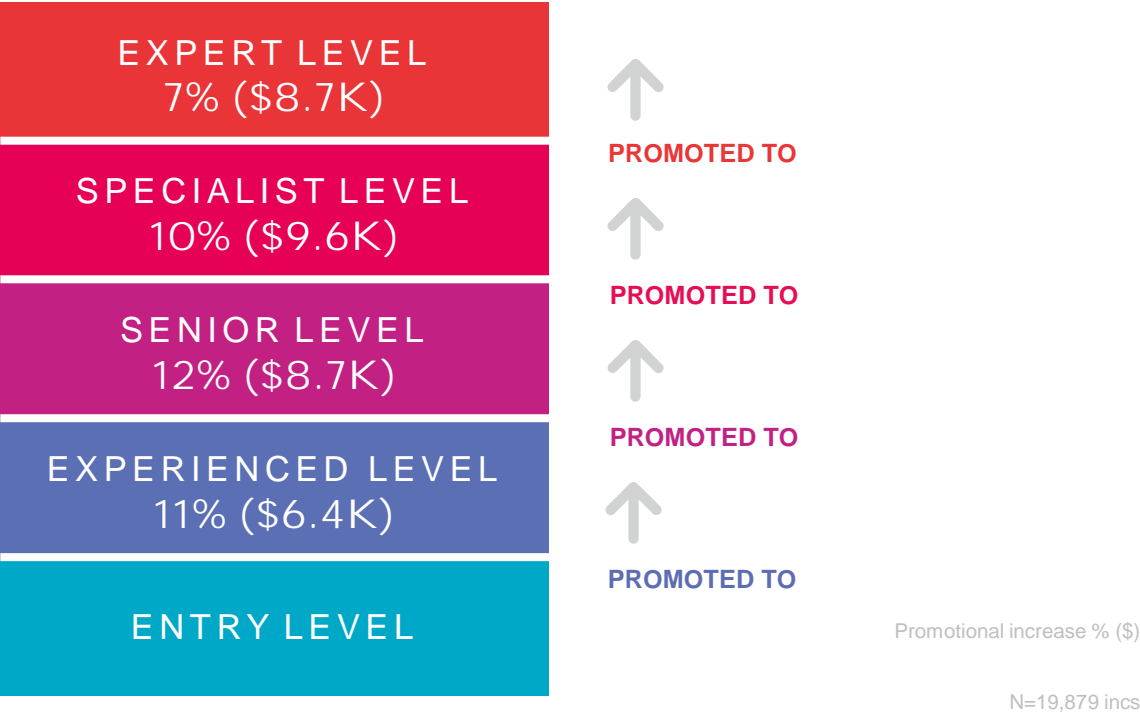


All averages exclude 00's. Some data points may not be visible due to similar values in more than one employee group.

PROMOTIONAL INCREASES

PROFESSIONALS CAREER STREAM DIFFERENTIATION

The median change in base salary for professional-level incumbents promoted to the next level ranges from 7-12%.



SALARY STRUCTURE ADJUSTMENTS

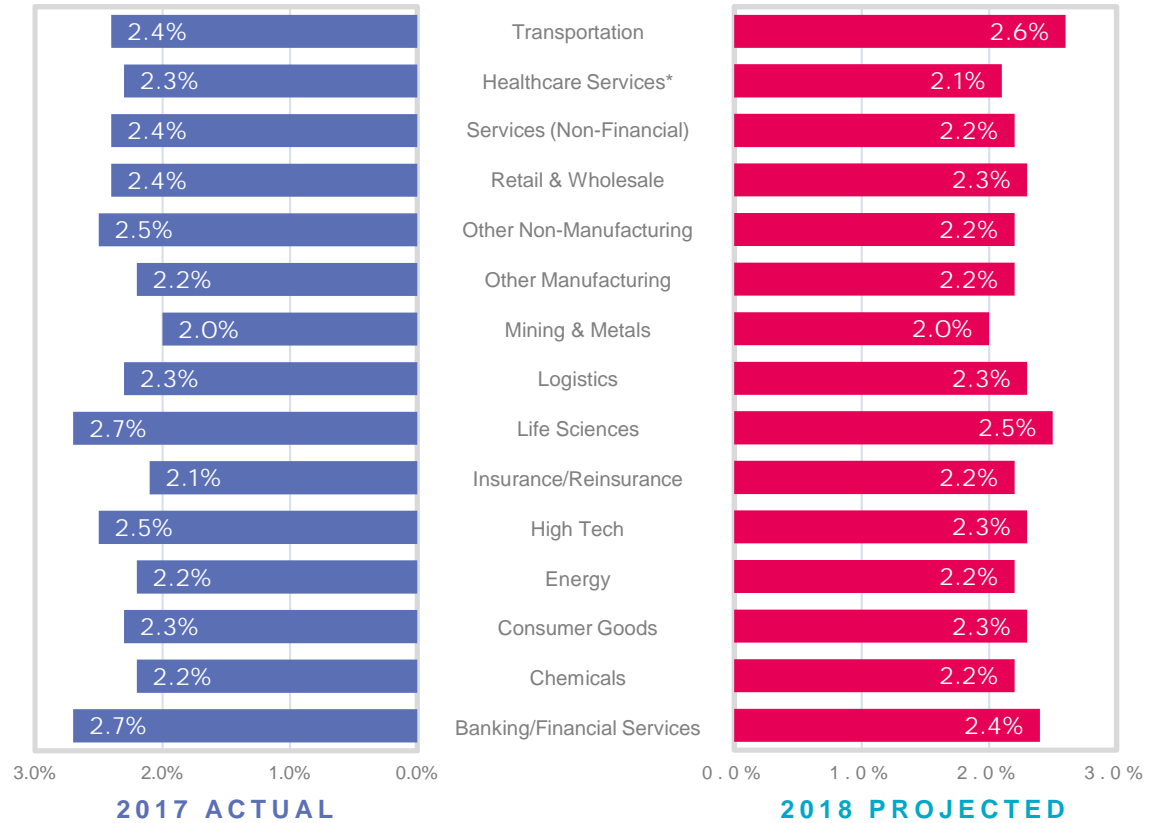
83% of organizations reported having a formal salary structure.



74%

Of organizations plan to adjust their salary structure in 2018.

STRUCTURE ADJUSTMENTS BY INDUSTRY



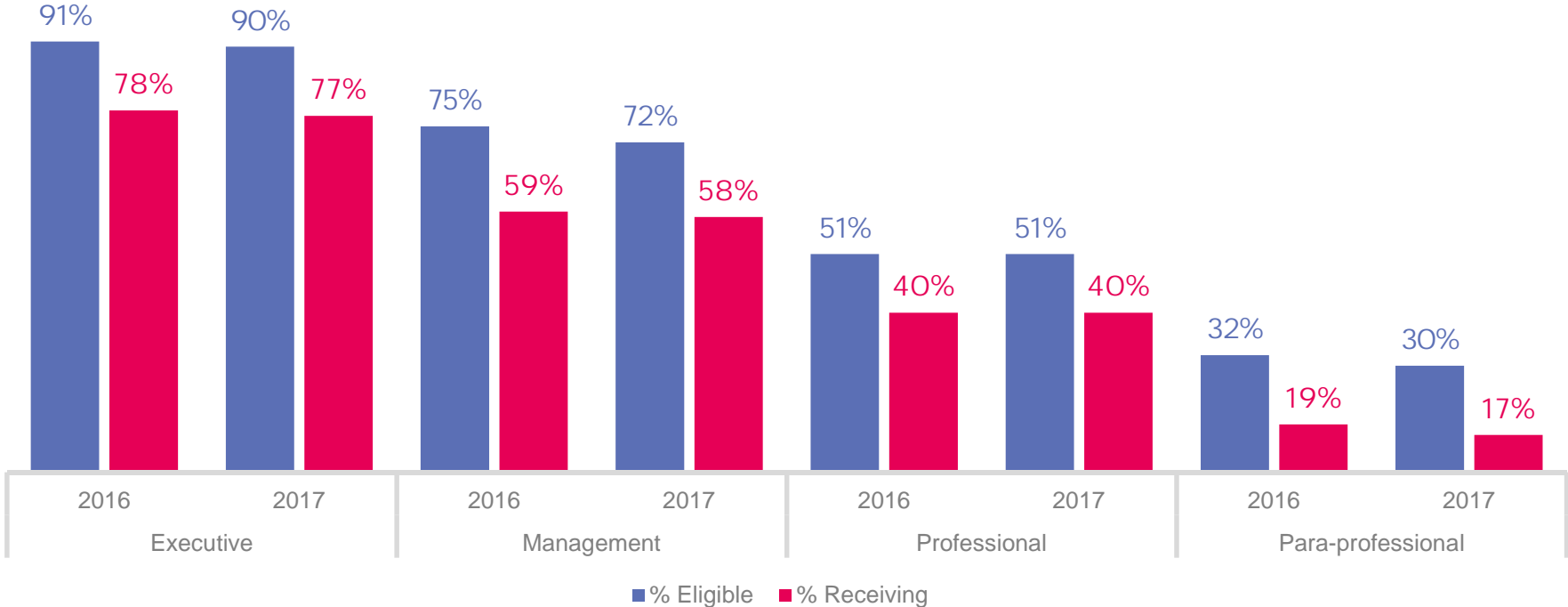
*Healthcare Services is an industry sector and is included in the Services (Non-Financial) Industry Super Sector

SHORT-TERM INCENTIVES BY CAREER STREAM* ELIGIBILITY AND RECEIVERSHIP

Incentive eligibility and receivership remained largely unchanged year over year.

2016: N=1,507,673 Incs
2017: N=1,580,947 Incs

*Each year of historical analysis (2016) is taken in isolation.

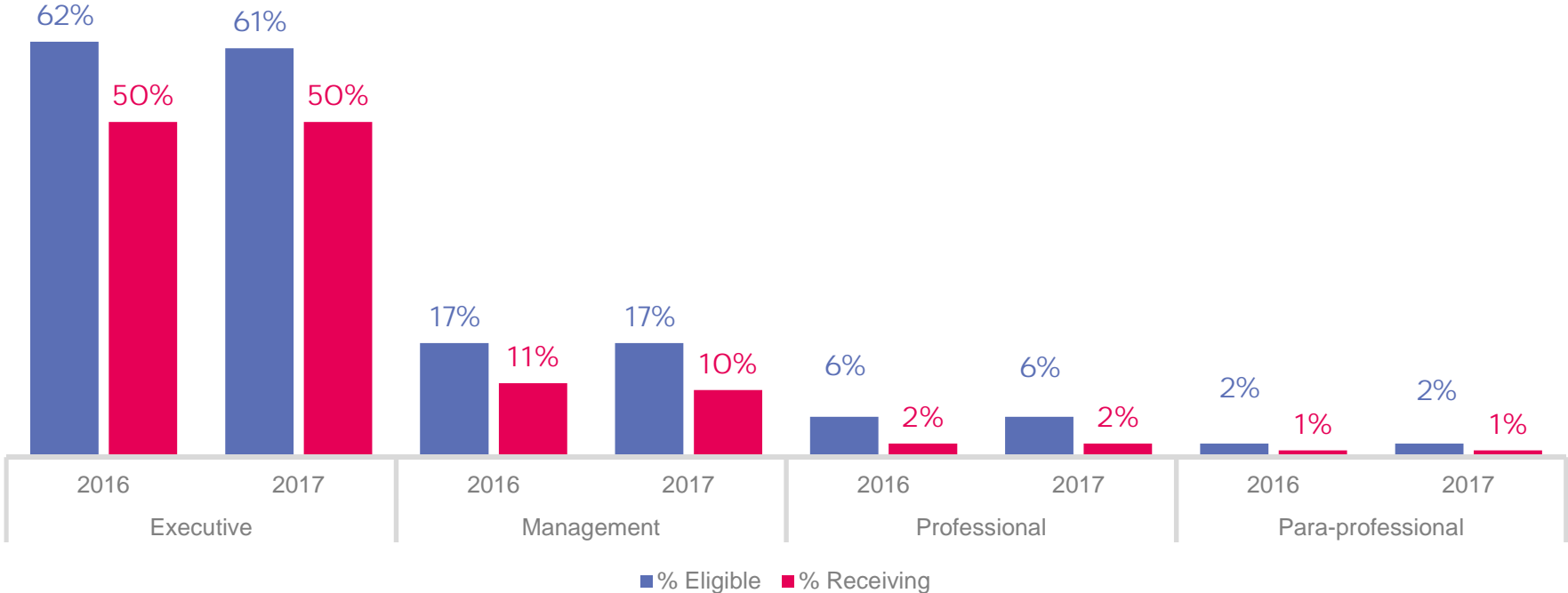


LONG-TERM INCENTIVES BY CAREER STREAM* ELIGIBILITY AND RECEIVERSHIP

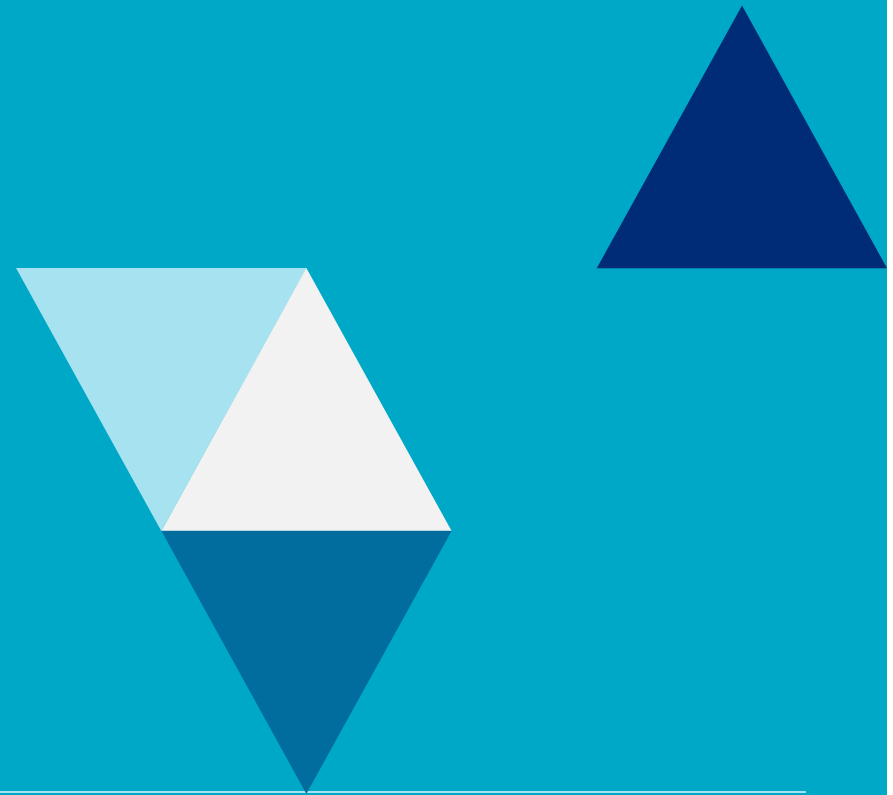
Long-term incentive eligibility and receivership remained consistent across all career streams.

2016: N=1,507,673 Incs
2017: N=1,580,947 Incs

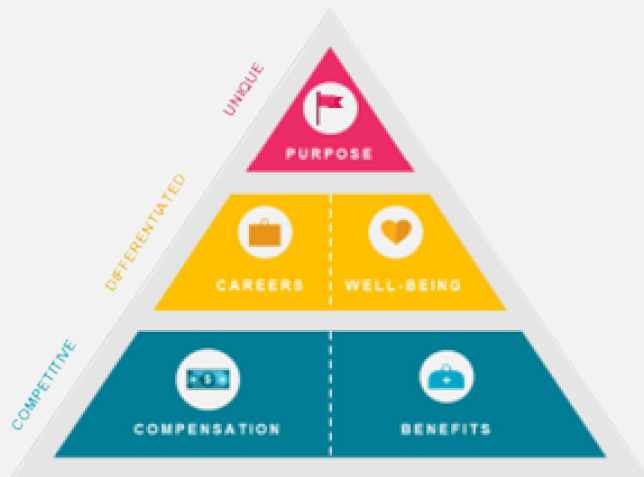
*Each year of historical analysis (2016) is taken in isolation.



FOCUS FOR 2018



KEY TRENDS TO FOLLOW



TAKING A
HOLISTIC VIEW OF
TOTAL REWARDS



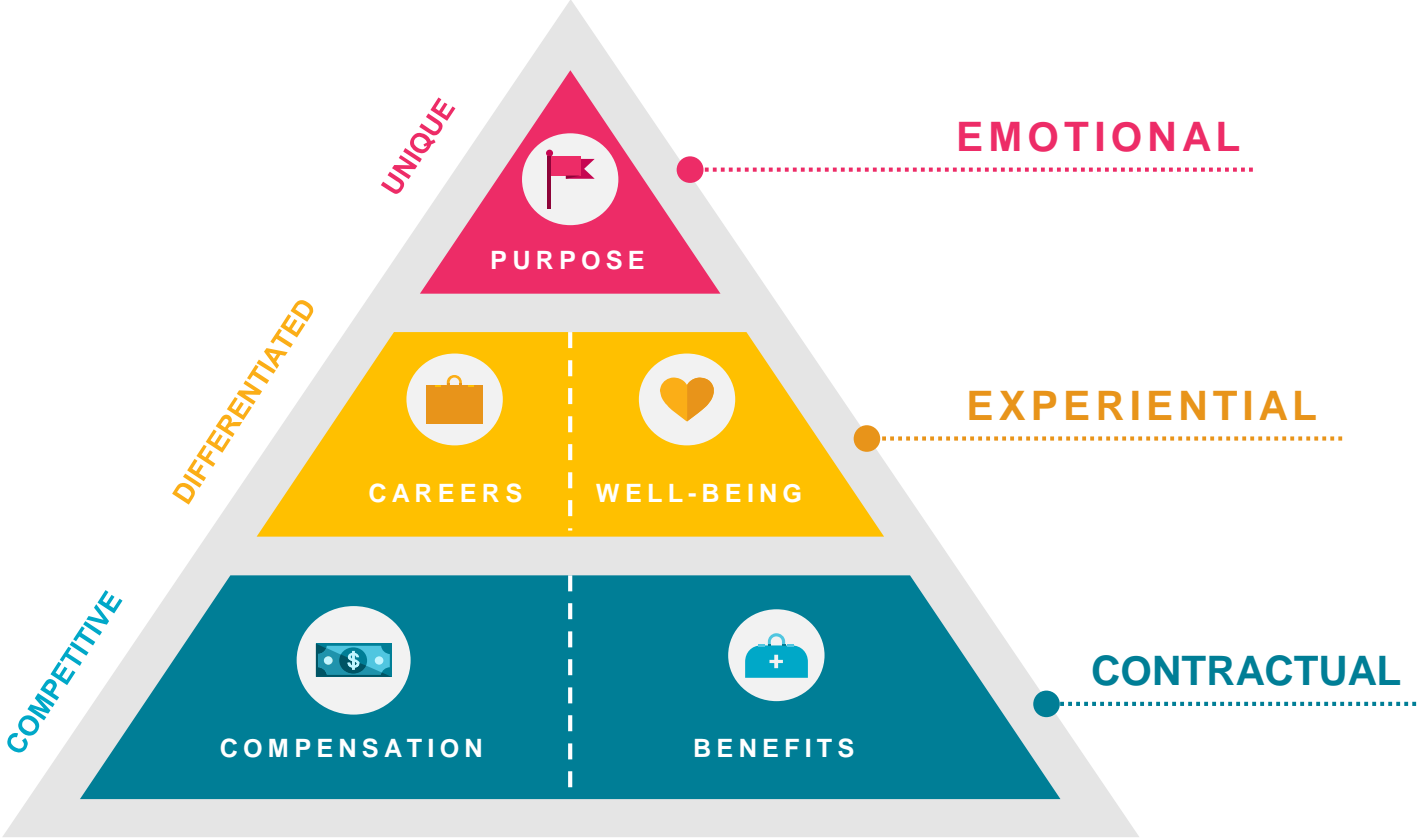
DESIGNING
REWARDS FOR A
DIVERSE
WORKFORCE



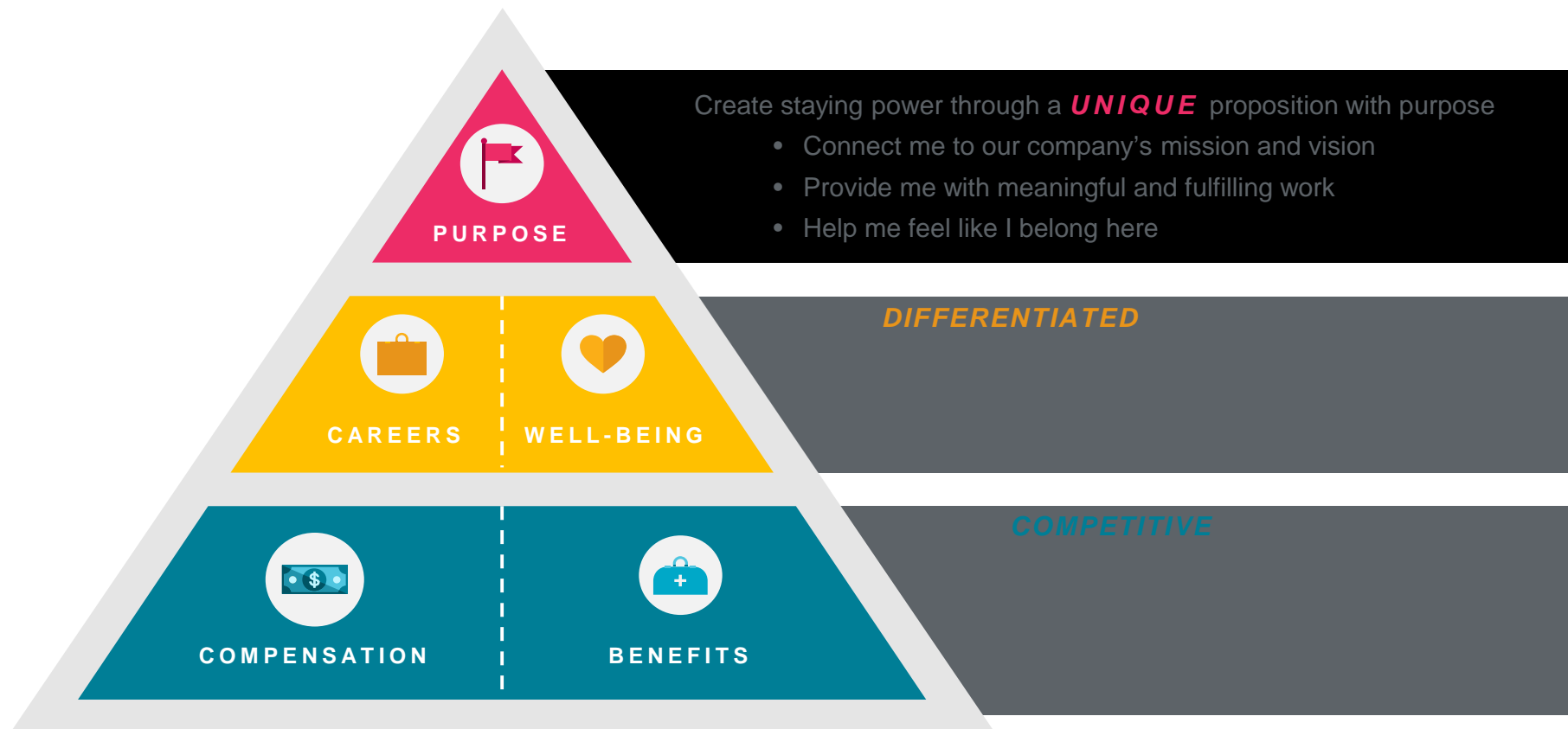
GETTING THE
VALUE OUT OF
CAREER
FRAMEWORKS

TAKING HOLISTIC VIEW OF TOTAL REWARDS

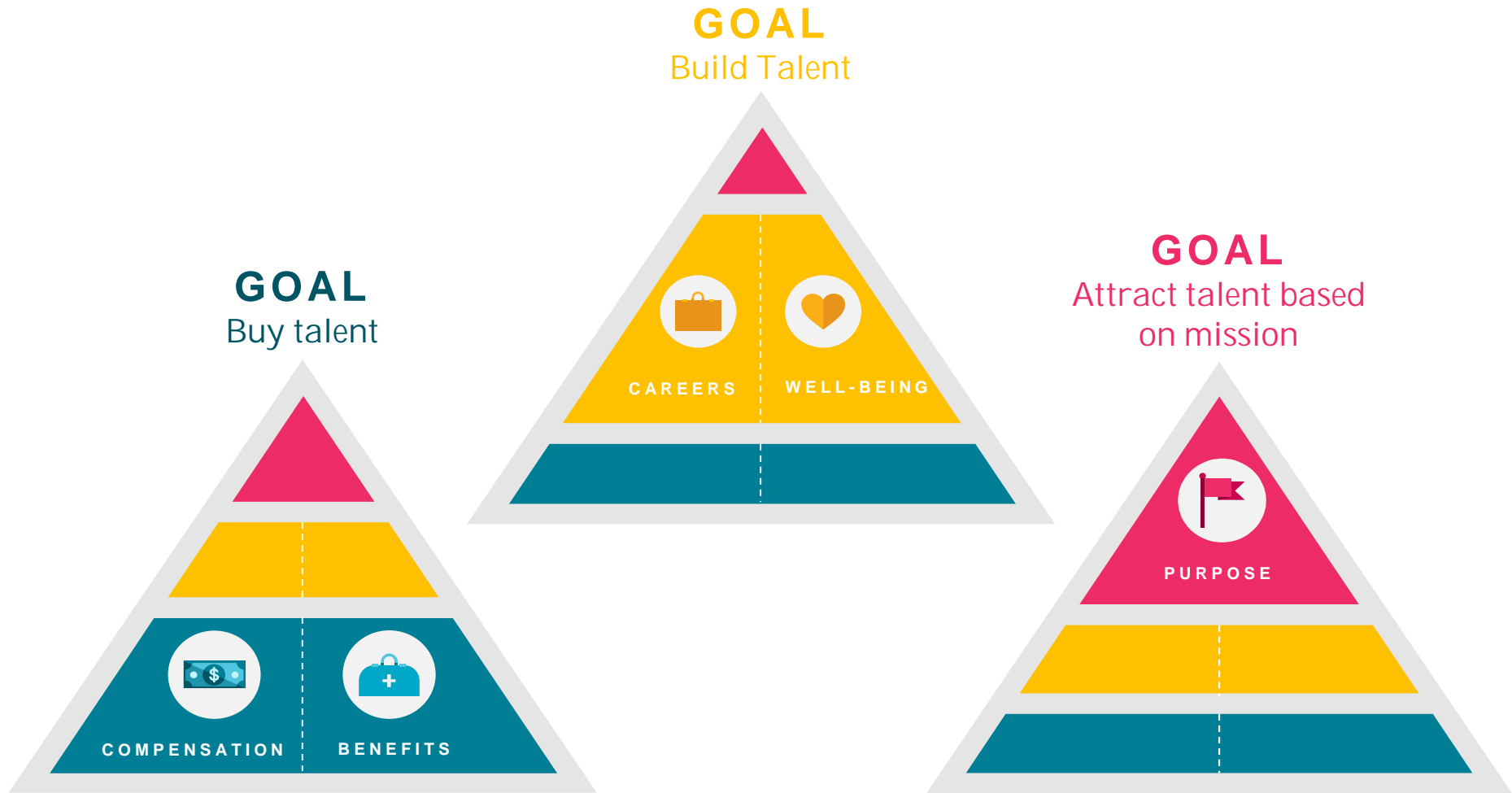
Define the employee experience that will make the right talent want to join, stay and deliver their best performance



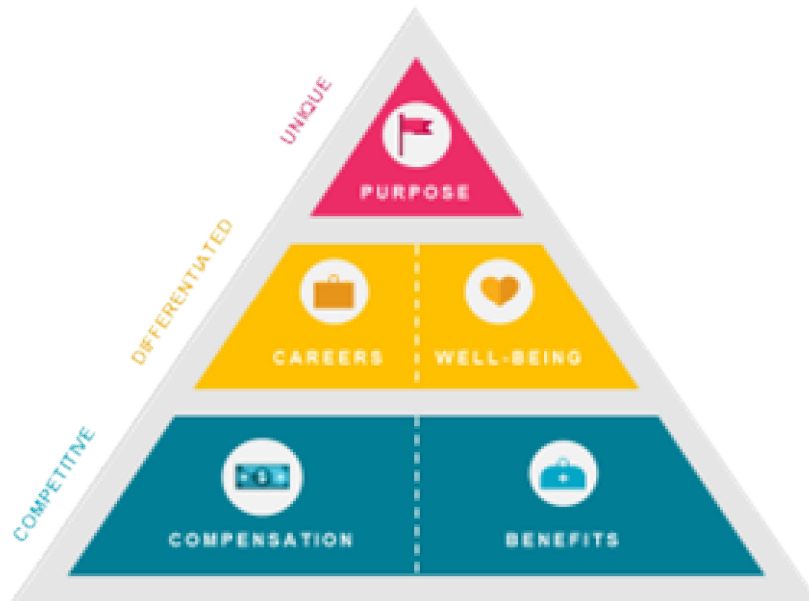
TAKING HOLISTIC VIEW OF TOTAL REWARDS



FRAMEWORK THAT ADAPTS TO YOUR PEOPLE STRATEGY



TAKING HOLISTIC VIEW OF TOTAL REWARDS



WHAT TO FOCUS ON

- ✓ Audit your full value proposition to identify areas of improvement or optimization
- ✓ Identify what makes your value proposition unique and differentiated to maximize impact
- ✓ Get the contractual pieces of compensation and benefits right so your differentiators will shine

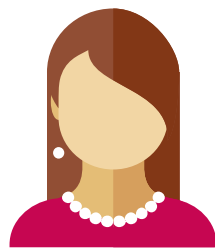
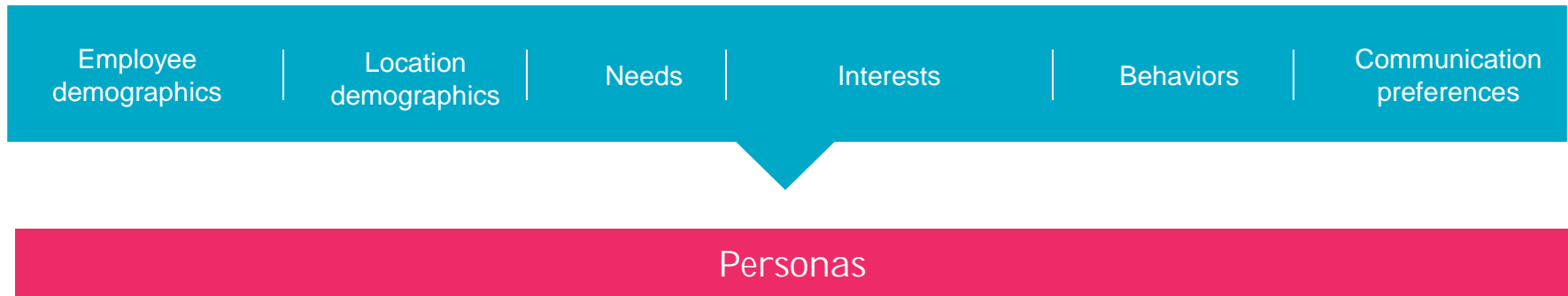
DESIGNING REWARDS FOR A DIVERSE WORKFORCE

It's not just
about
Millennials...

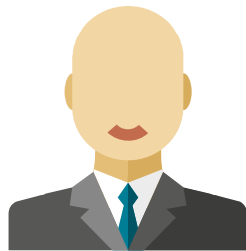


GENERATIONAL THINKING IS ONE DIMENSIONAL

CREATING PERSONAS TO DEFINE REWARDS NEEDS



STARTERS



LONG-TERM LOYALS



URBAN AMBITIONS



MANAGERIAL CORE



STRIVERS



FREE AGENTS

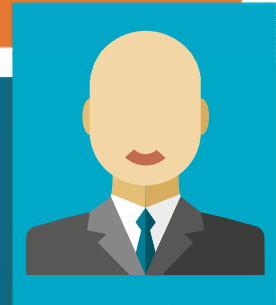
DESIGNING REWARDS FOR A DIVERSE WORKFORCE



MANAGERIAL CORE:

Diverse financial needs depending on life stage / circumstances and events.

Retained by rewards (focus on incentive pay); Vacation and benefits are only marginally related to turnover; Focused on health maintenance with health coverage predicting retention



LOYALS – EARLY TO LONG TERM:

Diverse financial needs, but foundation building is key.

Need flexibility – unscheduled leaves and short commute drive retention; Not contributing to HSA predicts turnover; Concerned with recognition and short term incentives (less with career progression)



JUST STARTING, URBAN AMBITIONS, SUBURBAN REALISTS, AND TRANSITIONS:

Needs help manage budget, prepare for emergencies, affordable healthcare.

Need growth and recognition; Overtime and pay growth are key retention drivers; Contributions to 401(k) signal retention

DESIGNING REWARDS FOR A DIVERSE WORKFORCE



WHAT TO FOCUS ON

- ✓ Examine the attributes of your workforce to create meaningful personas
- ✓ Create flexibility in your programs to support the varying needs of the different personas in your business
- ✓ Use engaging communication that reflect styles that resonate with your workforce groups

NEXT PHASE FOR CAREER FRAMEWORKS

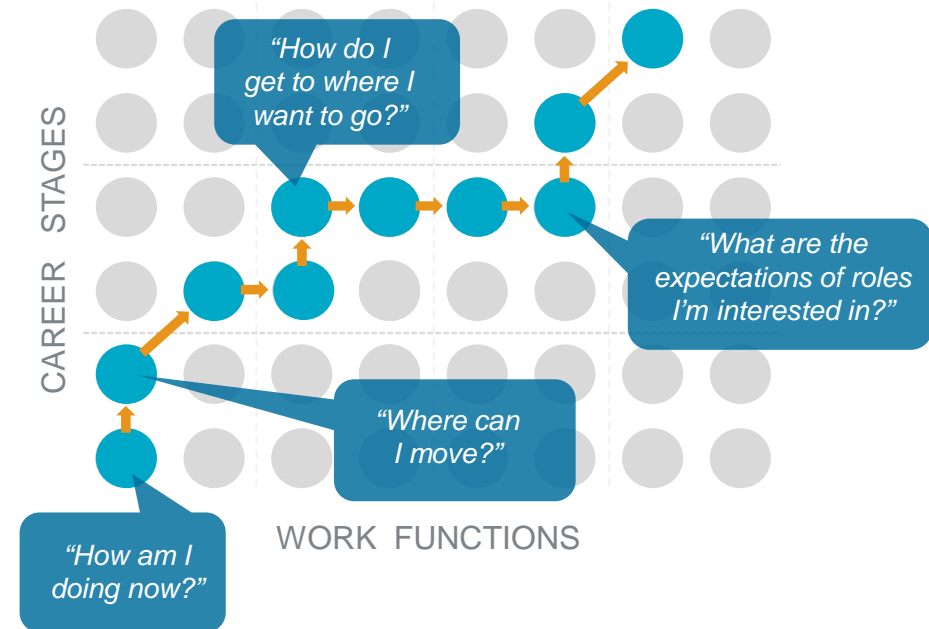


Companies are responding to these issues:

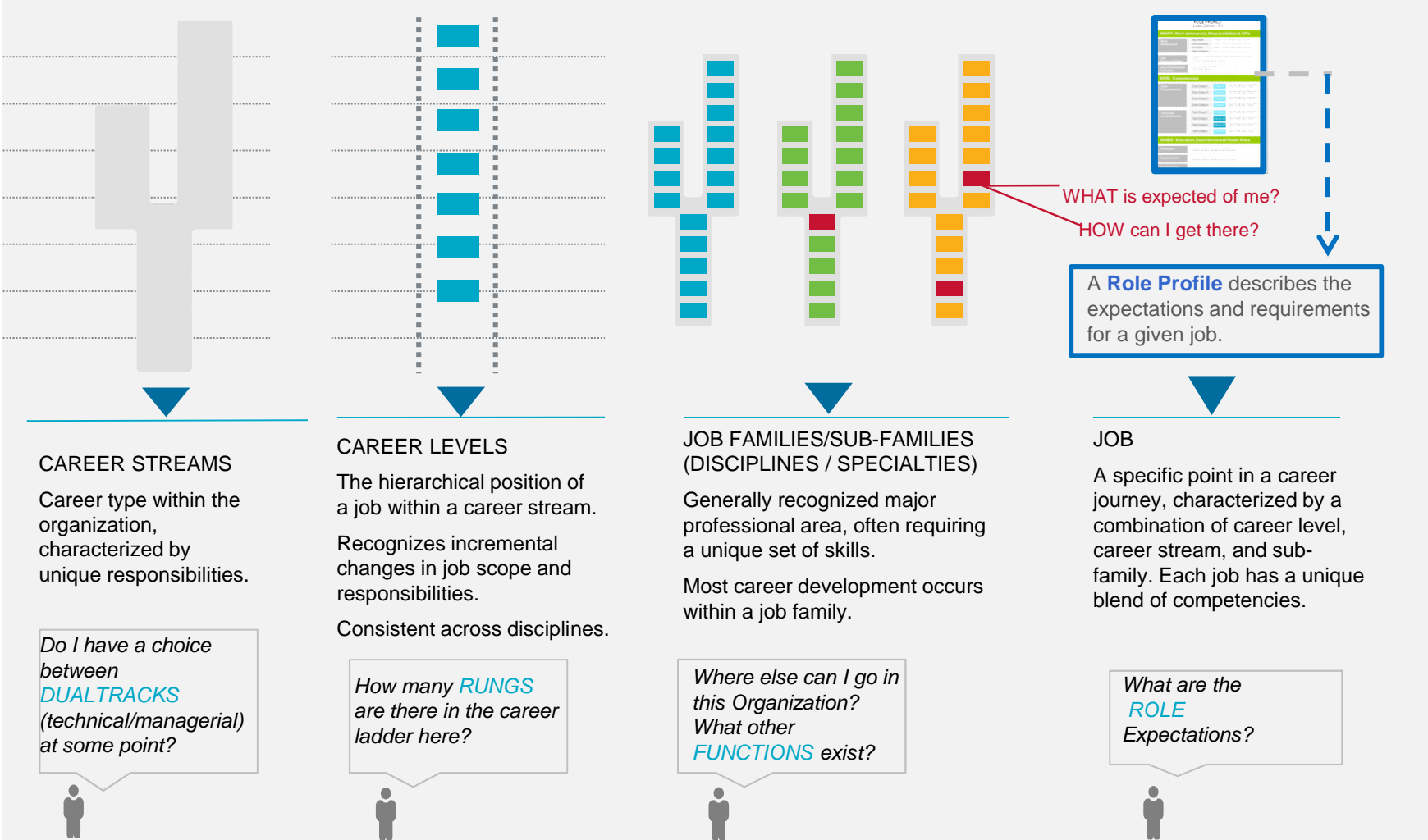
- “The organization of our jobs is in complete chaos”
- “We’re about to implement/upgrade our HRIS system, and this will reveal just how bad our job data is”
- “Our levels across functions and geographies are vastly inconsistent”
- “Career paths and promotion criteria are nonexistent or at best confusing”
- We need functional excellence in strategic functions (e.g. IT, Finance, Sales)
- “We have little confidence in our rewards benchmarking”
- “We want to do more effective workforce planning”
- “We are struggling with title inflation”

WHAT EXACTLY IS A CAREER FRAMEWORK?

A blueprint of the requisite roles, talent capabilities and accountabilities for supporting execution of an organization's business strategy



JOB ARCHITECTURE



WHAT ORGANIZATIONS DO...

BUSINESS CHANGE	TALENT	COST AND EFFICIENCY	WORKFORCE PLANNING
<p>RESTRUCTURING Clarify how jobs relate to new organizational vision and strategy</p>	<p>ATTRACTION & BRAND Enhance recruiting/talent brand by offering compelling career program</p>	<p>TECHNOLOGY/HRIS Enhance implementation and administration of new HRIS</p>	<p>OPTIMIZE RATIOS Ensure number of employees at different levels/families/streams fit business needs</p>
<p>M&A Integrate or align job/career structures from acquirer and acquired organizations</p>	<p>DEVELOPMENT Promote enhanced skills and competencies by clarifying level/job expectations</p>	<p>TITLE PROLIFERATION Consolidate narrow and inconsistent job titles</p>	<p>DIVERSITY & INCLUSION Promote effective legal and cultural treatment of workforce segments</p>
<p>MODERNIZATION Update job titles, content, skills, or families to fit new business requirements (driven by new vision/strategy)</p>	<p>RETENTION Show employees the organization's commitment to their career progression</p>	<p>TITLE INFLATION Ensure titles and associated rewards are justified by job content/value</p>	<p>ANALYTICS Manage workforce structure and movement by fact</p>
<p>FUNCTIONAL EXCELLENCE Upgrade performance and professional pride in IT, Finance, HR, Sales or other functions</p>	<p>PROGRESSION Enable increased workforce mobility, succession, and bench strength</p>	<p>COMPLIANCE Avoid legal risk associated with FLSA or other labor laws</p>	<p>FUTURE WORKFORCE Project the future workforce more systematically and rigorously</p>

...using the foundation of Career Frameworks

NEXT PHASE FOR CAREER FRAMEWORKS



WHAT TO FOCUS ON

- ✓ Update job architecture for rapidly changing functions like technology and marketing to reflect the changing nature of work
- ✓ Refine/update job architecture as a precursor to a HCM cloud implementation to insure data integrity
- ✓ Create engaging communications that allow employees to explore opportunities made clearer with a Career Framework



MERCER

MAKE TOMORROW, TODAY