

## 2009 Top Five Total Rewards Priorities Survey

Colored by economic uncertainty, how  
this year's strategic challenges stack up





# Overview

The tug of war between rewards costs and attracting key talent rages on at employers. At the same time, anxious about the financial crisis and economic uncertainty, a startling 44% of respondents to the *2009 Top Five Total Rewards Priorities* survey now plan to delay their own retirement. If this stated intent becomes reality, organizations will need to adapt their talent strategies to account for the unexpected retention of near-retirement employees, which carries both positive and negative implications.

Another dramatic shift revealed by the 2009 survey is that containing health care costs is now the number one Total Rewards strategic challenge facing organizations today. Talent, which held the top spot in 2008, dropped nine percentage points in sliding to number two. It appears the financial crisis has thrust cost to the forefront at the expense of attracting, developing, engaging and retaining employees. The survey also indicates that organizations are putting greater emphasis on non-monetary rewards to address both cost and talent challenges.

While short-term emphasis on managing cost may be necessary, organizations should be careful not to mortgage the future by losing sight of talent issues. Talented people are hard to find – and even harder to replace. If an organization's talent base is eroded, it could take a long time to rebuild, which quickly translates to a competitive disadvantage when the economy turns around. However, one-quarter of respondents view declining economic conditions as the most significant challenge facing their organization over the next three years.

Sponsored jointly by Deloitte and the International Society of Certified Employee Benefit Specialists, the *2009 Top Five* survey marks its 15th year as a barometer of strategic challenges facing organizations. Here's how the 426 respondents ranked their top five priorities today out of a list of 15:

1. The cost of providing health care benefits
2. The ability of reward programs to attract, motivate and retain talented employees
3. Clear alignment of Total Rewards strategy with business strategy and brand
4. The willingness of employees to pay for an increasing portion of benefit plan coverage and to manage their own reward budget
5. The ability of reward programs to accommodate the varying needs and interests of different generations

When switching hats from the employer perspective to a personal perspective, some interesting disconnects were uncovered. For example, the ability of employees to afford to retire ranked sixth as an organizational priority, but was the number one personal challenge among the 2009 survey respondents.

At the same time, worries about affording retirement, including post-retirement health care, appear to be driving positive personal behaviors. Those wearing the "employee hat" plan to actively participate in wellness and disease management programs and to increase the level of contributions to private savings plans. This willingness to take personal responsibility in the face of economic pressures presents opportunities for organizations in the areas of retirement planning and health care consumerism.

# Overview (continued)

Other significant findings from the survey point to:

- A major focus on employee communications and retirement planning
- A potential blind spot related to generational issues
- Growing concerns regarding 401(k) returns
- Greater use of employee self-service technology in rewards administration

With the economy influencing – and in some cases dictating – business decisions, organizations seem to be making calculated adjustments to Total Rewards programs without losing sight of the role these programs play in driving organizational strategy and goals. The findings from the employer perspective are covered after a quick look at how respondents viewed things through the employee lens.

## What They're Saying...

Survey respondents were asked to share what changes to the Total Rewards programs their organizations are contemplating or have already implemented for 2009. Here's what they're saying about:

### Total Rewards

"Although we operate and make decisions with a view of Total Rewards, it is not 'packaged' or communicated as 'Total Rewards' to our employees. We want employees to understand that the company provides much more beyond just compensation and benefits. We will be adding a wellness program, so that may be the start of our repackaging."

"My company's Total Rewards program remains committed to its current level and mix of employee benefits."

### Compensation

"The uncertain economic environment has prompted management to rethink the year-end bonus structure which would communicate lower bonus targets for a potential decrease in earnings for the near term."

"The adjustment to our compensation program will be a mix between the elements of salary, short-term incentives and long-term incentives."

### Retirement

"We intend to continue discretionary contributions to the defined contribution plan, but levels will be based on company profitability."

"We entered 2008 launching a study to move us from a defined benefit pension plan to a defined contribution savings plan, but given the recent market activity, have delayed the implementation from Q1 2009 to a date yet to be determined. We felt it was not the right time to shift accountability to the employee to manage their retirement monies in the declining financial markets."

### Health and Welfare

"We have launched a wellness campaign to drive awareness and hopefully behavior, with the expectation of reducing sick pay and health care expenses of our employees."

"We are looking at all options for our health care plan, from including tobacco/non-tobacco rates to limiting dependent coverage if spouse has coverage available; from requiring participation in health risk assessments to self-funding approaches."

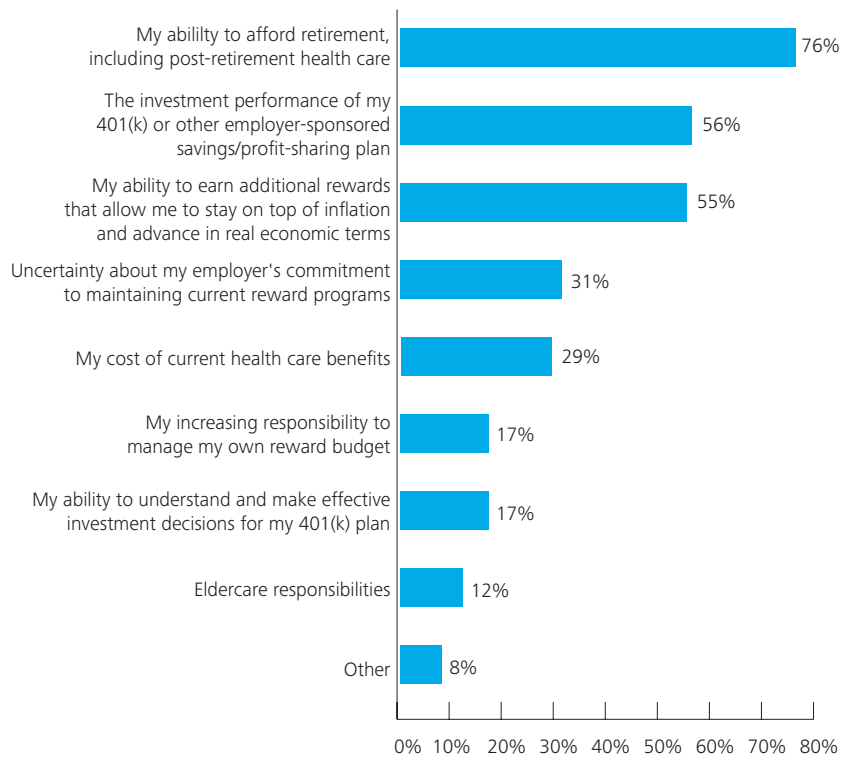
### Other Rewards Programs

"The high price of commutes plus the emphasis on reducing air emissions has prompted the company to consider more flexible work arrangements."

"We will explore career-life fit alternatives in 2009, grounded in an understanding of generational differences."

# Retirement Worries Take Center Stage

**Figure 1: Top personal challenges\***



\*Percent of respondents choosing each issue among their top three challenges

In the *2009 Top Five* survey, personal perspectives provided some of the most intriguing findings. Respondents were asked to identify the top three challenges that are most important to them as an individual. As was the case in 2008, retirement-related issues continue to top the list<sup>1</sup>.

The top challenge cited by 76% of respondents is “my ability to afford retirement, including post-retirement health care.” Selected by 56% of respondents, “the investment performance of my 401(k) or other employer-sponsored savings/profit sharing plan” ranked second. Rounding out the top three, “my ability to earn additional rewards that allow me to stay on top of inflation and advance in real economic terms,” was chosen by 55%.

Given the current economic environment, it is not surprising that employees remain focused on their financial position in retirement. However, when wearing their “employer hat” that concern was much less pronounced with “the ability of our employees to afford to retire” ranking sixth as a priority from an organizational perspective cited by 36% of respondents. Interestingly, retirement was not the only area of disconnect between personal challenges and employer concerns. While health care costs are the number one priority for employers, only 29% of respondents ranked it among their top three personal priorities — making it number five on the personal challenge list.

The estimated \$2 trillion in losses in retirement savings plans since the onset of the economic crisis<sup>2</sup> likely had a significant influence on the *2009 Top Five* survey results.

<sup>1</sup> “2008 Top Five Total Rewards Priorities Survey.” Deloitte Development LLC, 2008

<sup>2</sup> “The Effects of Recent Turmoil in Financial Markets on Retirement Security.” Congressional Budget Office, October 2008

# Responding to the Challenges

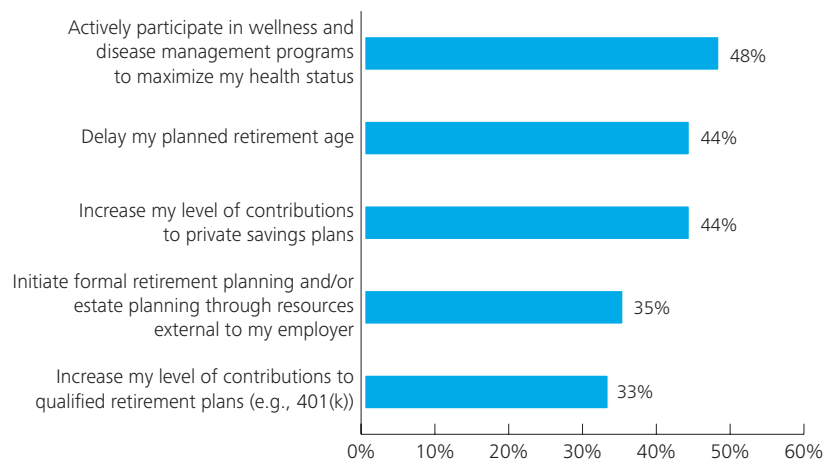
A new question for 2009 provides some insight into how employees plan to respond to these personal challenges over the next three years. Perhaps we can conclude that many employees are making increased personal responsibility their New Year's Resolution for 2009.

48% of respondents plan to participate in wellness and disease management programs to maximize their health status. This is the most common approach cited by those in the consumer and industrial products, public sector, energy, and health care/life sciences industries. When looking across age groups, participation in wellness and disease management programs scored lowest (21%) for those in the healthiest demographic, employees under age 30.

As noted above, the most startling response is the plan to delay retirement, with 44% of 2009 respondents indicating they will remain in the workforce longer than they had anticipated. This will clearly impact organizational strategies with respect to both talent management and health care costs. As expected, plans to delay retirement increased with one's age (0% for under 30 vs. 80% for over 60). A majority (51%) of technology, media and telecommunications employees plan to delay their retirement age, as is 54% of those in the energy industry.

With retirement savings a major concern, the personal response is to increase contributions to *private* savings plans, selected by 44%. This is the most commonly cited among health care/life sciences employees (52%), but least common among those in the financial services/insurance (36%) sector. This contrasts to 33% who plan to increase their contributions to 401(k) plans. Once again, health care/life sciences led all industry sectors at 48%.

**Figure 2: Response to personal challenges**



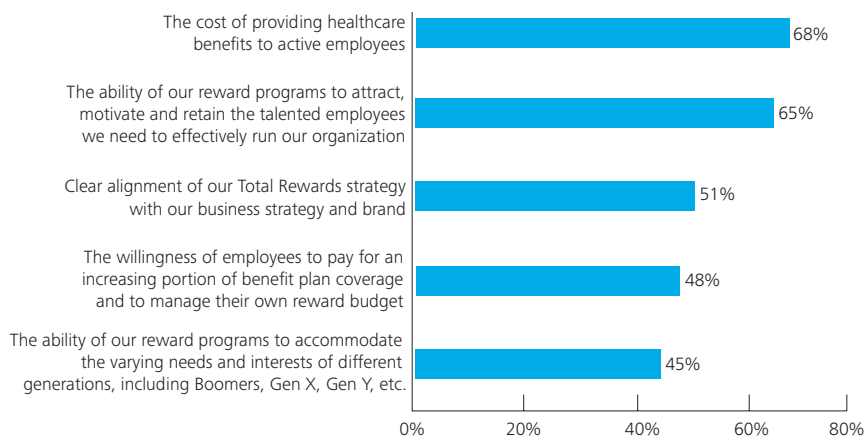
The fourth ranked personal response at 35% is to initiate formal retirement and/or estate planning. Somewhat surprisingly, the most forward-thinking group in terms of retirement planning is the under-30 age group. The under-30s scored the highest across all age groups for plans to participate in investment education and pre-retirement planning through their employer (36%) and formal retirement and estate planning through external resources (43%).

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**The affordability of retirement weighs heavily on respondents. As a result, 44% plan to delay their retirement age, which will impact talent strategies in multiple ways.**

# Short-Term: Cost Is Back on Top

Figure 3A: Top five Total Rewards challenges today



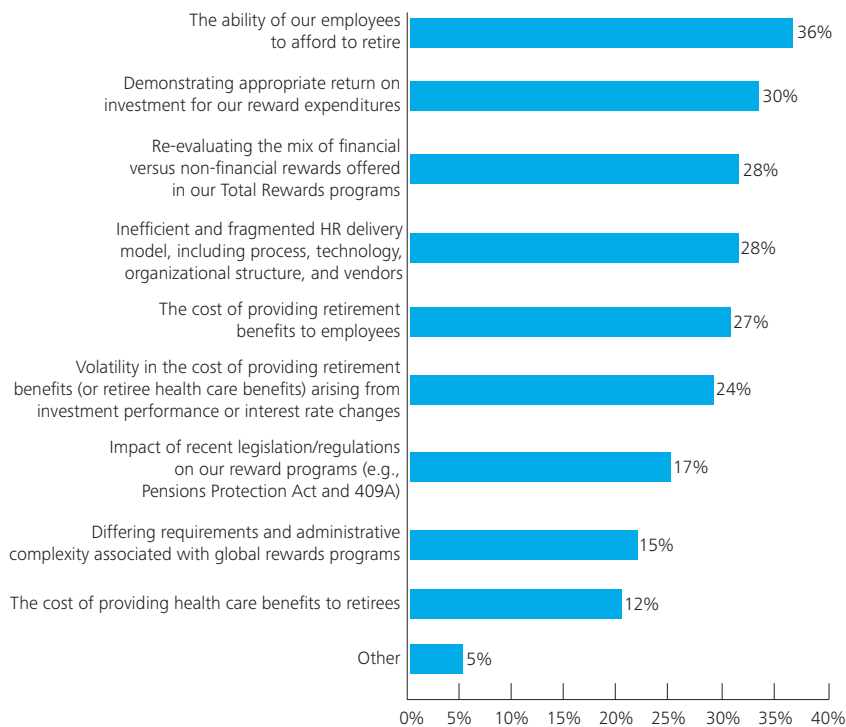
The cost of paying for health care and other rewards programs continues to rise each year, and no "silver bullet" has been found to reverse the trend. In response, employers are continuing to foster an era of personal responsibility by increasing the focus on consumerism, from health care and wellness plans to retirement planning and savings programs.

Economic uncertainty has clearly colored the picture for organizations as they work to secure both short-term and long-term success. From an employer perspective, the cost of rewards programs – particularly health care – reclaimed the top spot among Total Rewards strategic challenges today as ranked by the 2009 survey respondents. In 2008, talent management had unseated cost concerns from the number one position it had held for nine straight years. Now cost is back on top – by a very small margin – with 68% of respondents selecting the cost of providing health care benefits to active employees as among their Top Five priorities. Last year's top choice – the ability of reward programs to attract, motivate and retain talented employees – fell to number two at 65%, down from 74% in 2008.

Employer priorities three through five in this year's survey came in fairly close together. Claiming the number three challenge at 51% is clear alignment of the Total Rewards strategy with the business strategy and brand. Up from number four in 2008, this challenge recognizes the need for rewards programs to successfully address the wants and needs of workforce segments critical to achieving a company's business goals.

# Short-Term: Cost Is Back on Top (continued)

**Figure 3B: Additional Total Rewards challenges today**



Continuing to reference Figure 3A on the prior page, the number four priority with a 48% rating is the willingness of employees to pay for an increasing portion of benefit plan coverage and manage their own reward budget. Cost-shifting is a difficult message when employee budgets are being strained by some of the same economic pressures confronting businesses. One avenue that continues to gain traction among employers is a greater focus on encouraging employees to apply consumer behaviors in their rewards decision making. From consumer-driven health plans to 401(k) plans, the emphasis is on providing tools and resources that allow employees to take greater personal responsibility in the management of their benefits.

A new choice for 2009 rounded out the Top Five with a significant 45%, which is the challenge of reward programs to accommodate the varying needs and interests of different generations. It's not surprising that generational considerations made it into the Top Five given that four generations work side-by-side in today's workforce. The survey results point to the need for employers to skillfully navigate each generation's values and expectations about work and life, and to ensure that rewards are clearly a central component of that equation.

Also worth noting (Figure 3B) at number six is the ability of employees to afford retirement, which was noted by 36% of respondents, moving up from seventh at 27% last year. This *employer* response contrasts with the number one personal challenge of "my ability to afford retirement," which was chosen by 76% of respondents.

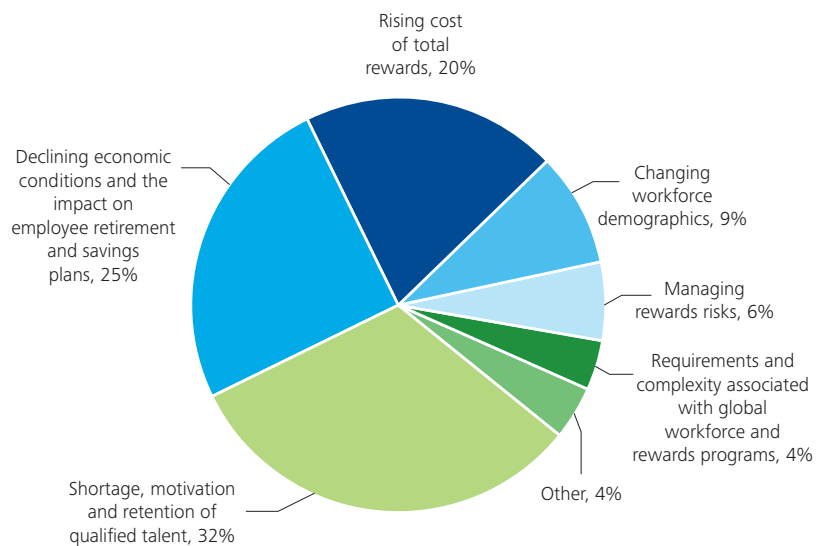
# Long-Term: Talent Is Number One

Looking three years out, the importance of talent is still at the top of the survey overall. 32% of respondents in 2009 pointed to the shortage, motivation and retention of qualified talent as the number one challenge, a sharp drop from the 54% recorded in 2008. A new choice – declining economic conditions and the impact on employee retirement and savings plans – came in second at 25%, with the rising cost of Total Rewards ranked third at 20%.

From an industry perspective, 48% of respondents from the health care/life sciences industry and 44% from technology, media and telecommunications rated talent the number one challenge. Talent issues in the life sciences industry are magnified by an aging workforce, a shortage of science and engineering graduates, rising operating costs, and a need to drive future R&D growth and innovation.

However, talent was not at the top for all industries, as declining economic conditions stood at number one for the financial services/insurance industry (37%) and public sector (36%). With the recent economic volatility, insurance companies and banks have lost significant market value, which has created a set of immediate business challenges that include managing profitability, share values and market capitalization, liquidity, customer retention and talent. In this cost-centric environment, keeping talent on the radar is critical.

**Figure 4: Five most significant organizational challenges in the next three years**



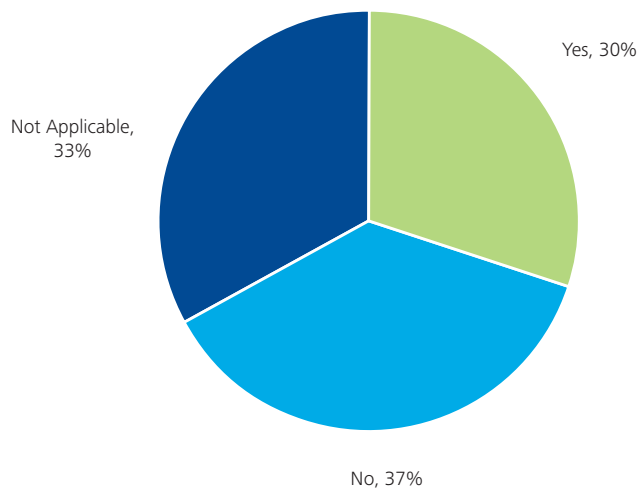
A strategic talent management framework can pay dividends by analyzing talent supply and demand patterns within an organization and in the market and then providing a mix of solutions that target an organization's talent and/or its work processes.

# Talking About the Generations

With a recognition that the demographics of today's workplace now accommodates four generations, the *2009 Top Five* survey added three questions specific to generational considerations to gain additional insight on this issue. Generational considerations were a Top Five priority for 45%, which landed it at fifth in the overall rankings. Though clearly a priority, organizations are currently struggling to address generational concerns. Here's what the survey uncovered.

These generational issues cannot be ignored. Each generation of employees has distinct attitudes and beliefs about work, life and what motivates them along with clear preferences related to workplace technology and communications. Understanding the different perspectives/tendencies of the generations in the workforce is critical for talent management both externally (attraction) and internally (motivation and retention). It's also critical to understand the lens through which the next generation of leaders is viewing the organization, development opportunities and rewards. Losing sight of generational considerations could prove to be a potential hazard for organizations. At the same time, recognizing and leveraging these differences can generate value in both the short term and the long term.

**Figure 5: If you are making changes to your Total Rewards programs, were generational differences considered?**



Nearly a quarter (24%) of respondents does not believe, "my organization's leadership team understands the Total Rewards perspectives and values of the different generations in our workforce." Almost a third (31%) feels their rewards strategy is not aligned with the four distinct age groups. Furthermore, 37% believe generational preferences are not even considered in making changes to Total Rewards programs.

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The short supply and large demand for talent globally require corporate leadership to better understand, connect with and engage all generations of the workforce.

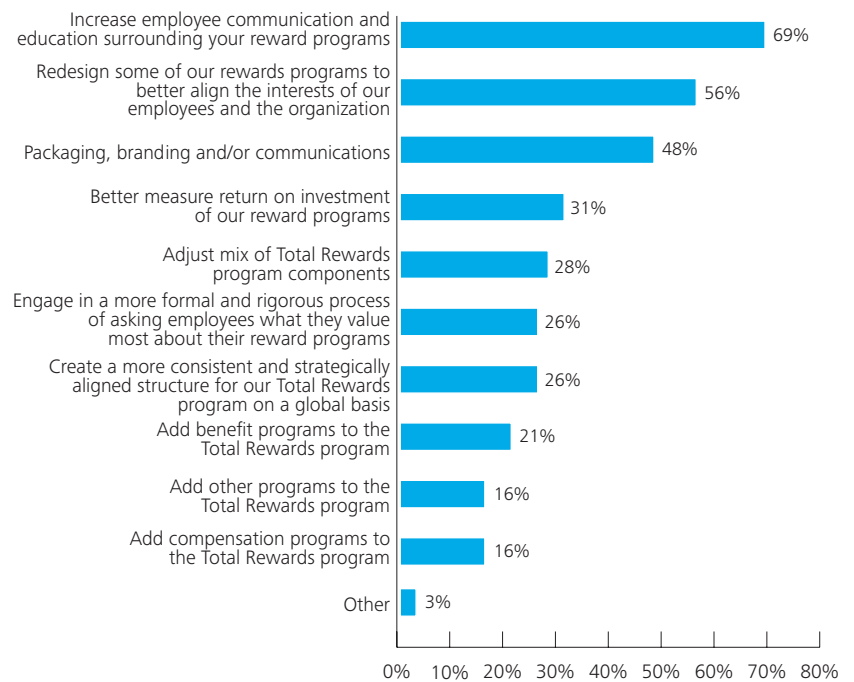
# A Decline in Redesign

In general, the number of organizations redesigning their Total Rewards programs is trending downward for 2009. A little more than half of 2009 respondents (54%) indicate they are considering or making changes to their Total Rewards programs, which is a significant drop-off from the 84% reported in 2008.

Of those organizations planning to make a change, employee communications claimed two of the three top spots. The plan to “increase employee communication and education surrounding our reward programs” ranked number one at 69% (down 2 percentage points from 2008) while “packaging, branding, and/or communications” was the third highest consideration at 48% (up 14 percentage points from 2008). Coming in at number two, 56% plan to “redesign some of our reward programs to better align the interest of employees and the organization and promote employee engagement.”

Interestingly, only 26% of organizations indicated a plan to engage in a formal dialogue with their employees to determine what they most value about their rewards program (a new choice for 2009). This disparity suggests organizations may be communicating “to” employees about their rewards programs rather than “with” employees. A formal dialogue process is an opportunity for organizations to identify what rewards program components truly attract, retain and motivate their workforce rather than what the employer thinks employees want.

**Figure 6: Planned changes to Total Rewards programs<sup>3</sup>**



<sup>3</sup> Among the 54% of companies planning changes

# Other Key Findings

## Compensation

The percentage of organizations redesigning their compensation plans is down 20 points to 62% in 2009 from 82% in 2008. The highest ranked issues around compensation redesign are increasing an emphasis on performance-based pay (65%), and performance management tracking and administration (41%). The primary focus for those organizations making changes is spending compensation more wisely and seeking a return on their investment. Compensation components to be redesigned in 2009 ranked as follows:

- 38% - Variable cash
- 28% - Base cash
- 19% - Equity
- 19% - Sales compensation plans
- 15% - Non-qualified deferred compensation plan
- 8% - Employee stock purchase plans

## Retirement

Of the 46% of organizations planning to redesign retirement plans (down from 60% in 2008) the focus is on better tools for retirement planning and enhanced pre-retirement planning sessions. It appears that organizations do not feel they are sufficiently equipping employees with the resources they need to take more personal responsibility in their retirement planning. This dovetails nicely with employees' intentions to save more and plan better for retirement. Retirement components to be redesigned in 2009 ranked as follows:

- 34% - Defined contribution savings – qualified plans
- 15% - Defined benefit pension – qualified plans
- 11% - Defined contribution savings – non-qualified plans
- 6% - Defined benefit pension – non-qualified plans

In terms of economic considerations for retirement plan redesign, plans to reduce defined contribution plan contributions rose to 14% in 2009 from 5% in 2008. Similarly, plans to increase company contributions dropped to 18% in 2009 from 25% in 2008.

## Health and Welfare

Although health care costs continue to be a top concern for employers, the percentage of organizations planning to redesign their health and welfare plans declined to 70% in 2009 from 85% in 2008, with increasing cost-sharing for employees (58%) remaining the top strategy for controlling organizational costs. Other main areas of focus for these organizations are an increased use of consumerism (46%) and incentives for fitness/wellness/disease management initiatives (43%). This is consistent with employees' intentions (cited earlier) to maximize their health status by participating in wellness and disease management programs. Health and welfare components to be redesigned in 2009 ranked as follows:

- 60% - Active employee medical plans
- 19% - Retiree medical plans
- 18% - Active employee disability
- 16% - Active employee life insurance
- 13% - Active employee health and welfare plans
- 4% - Retiree life insurance
- 2% - Other retiree health and welfare plans

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**Double-digit drops were recorded in 2009 for employers planning to change compensation, retirement, and health and welfare plans when compared to 2008 survey results.**

# Other Reward Programs

Organizations appear to be placing a greater focus on their other reward program offerings in 2009. Nearly three-fourths of survey respondents (74%) anticipate a change to their other reward programs in 2009 – an increase from 68% in 2008. The most commonly identified programs slated for redesign were flexible work arrangements (37%), learning and development programs (31%) and paid time off (27%).

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**As belts are tightening around rewards costs, employers are looking more closely at non-monetary programs to engage employees and drive performance.**

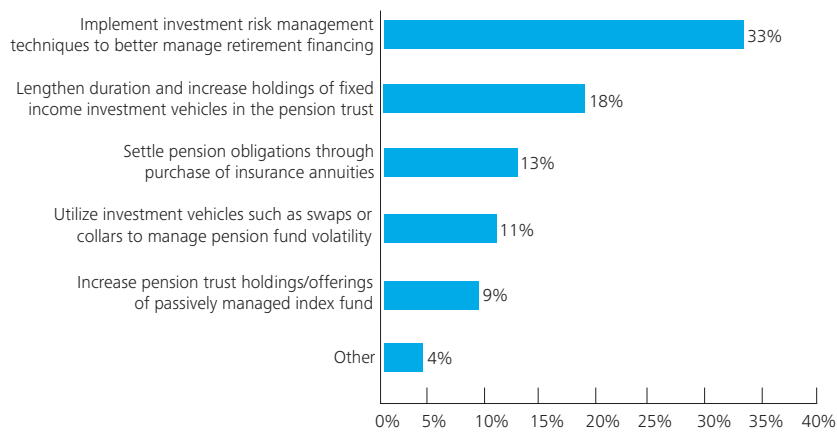
As employers indicate an interest in tailoring their other reward programs to employees' wants, processes and strategies exist to help organizations link their rewards program to their business and talent strategy. These processes are continuous and focus on rewards investment on employees who generate the most value as well as delivering rewards that top performing employees want and need – not just the rewards that employers think they want and need.

**Figure 7: Other reward program changes**

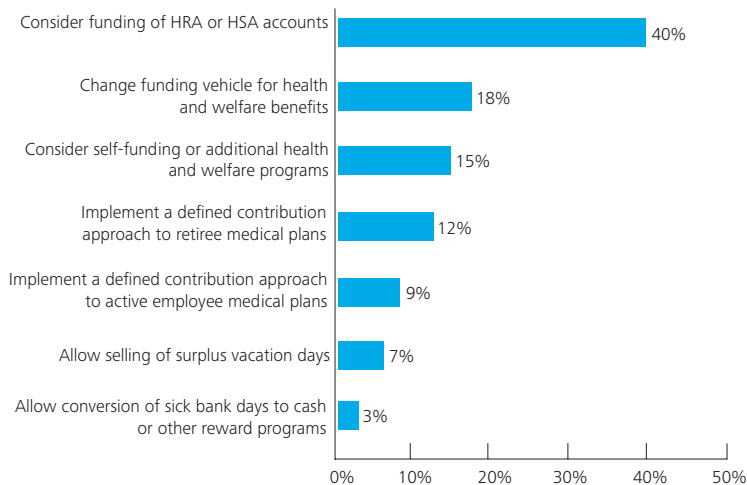


# Reward Financing and Administration

**Figure 8: Options considered by those employers planning to redesign financing alternative for their retirement plans**



**Figure 9: Options considered by those employers planning to redesign financing alternatives for their health and welfare plans**



With all of the issues currently facing organizations, there appears to be a status quo approach to rewards financing and administration. Among all companies that have already or plan to restructure their rewards program financing, the following components are receiving the most attention:

- 38% - Health and welfare plans for active employees
- 19% - Qualified retirement plans
- 14% - Health and welfare plans for retirees
- 7% - Non-qualified retirement plans

This year, the survey looked at the restructuring of rewards financing in two separate categories: retirement, and health and welfare benefits. Of those organizations focused on rewards financing, the survey revealed:

- 33% are implementing risk management techniques for retirement plans with the highest focus in the consumer and industrial products, and financial services/insurance industries
- 40% are implementing HRA or HSA accounts for their health care plans with the highest focus in the financial services/insurance and energy industries

Alternatively, when asked about restructuring of the administration of some/all rewards programs, half of all respondents identified an increased use of employee self-service technologies as the primary change to their Total Rewards administration. This strategy was consistent across all industry sectors. Maintaining their second and third place ranking for 2009 are increasing the use of outsourced administration providers (28%), and improving governance and administration to meet Sarbanes-Oxley requirements (20%).

# Top Five Survey Methodology and Demographics

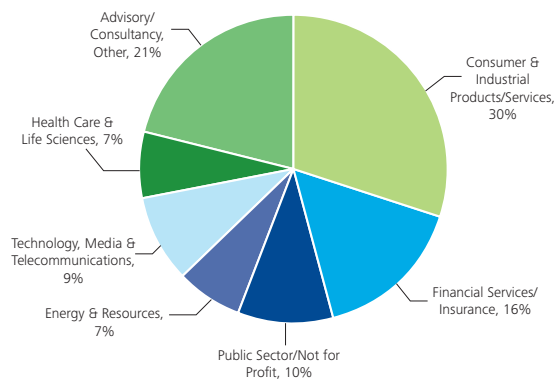
In its 15th year, the *2009 Top Five Total Rewards Priorities* survey has been conducted annually since 1994. The survey is jointly sponsored by Deloitte and the International Society of Certified Employee Benefit Specialists (ISCEBS). The survey is developed and conducted by Deloitte Human Capital professionals, in collaboration with the ISCEBS.

Survey respondents were asked to respond as representatives of their employers with the exception of two questions asking their personal challenges and plans. For purposes of this survey, the phrase "Total Rewards" is defined as all compensation, benefits, perquisites and any other direct or indirect payments to employees.

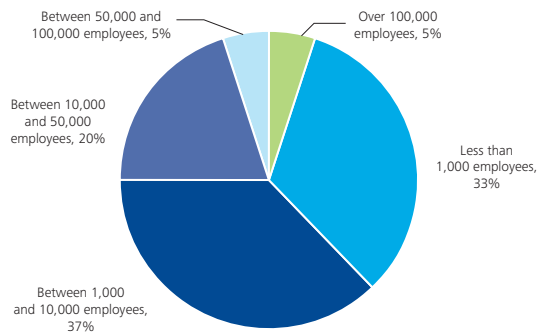
This survey features two sets of "top five" results. The first set of top five results, as represented in Figure 3A (see page 7) and in Figure 3B (see page 8), are survey respondents' prioritization of present Total Rewards strategic challenges, drawing from 15 possible responses. The second, summarized in Figure 4 (see page 9), represent survey respondents' ranking of five broad Total Rewards-oriented organizational challenges over the next three years.

Conducted in November 2008, the survey was completed by 426 participants online. The survey respondents represent a diverse cross-section of the U.S.-based employer population by industry and size, as shown in the accompanying charts.

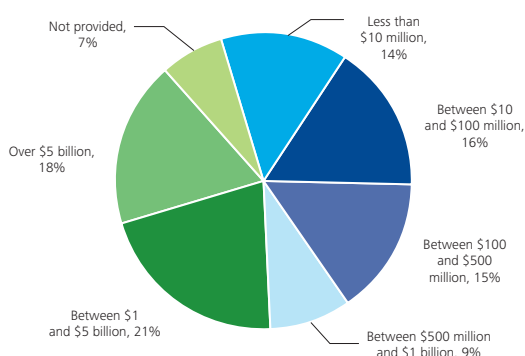
**Participants by industry**



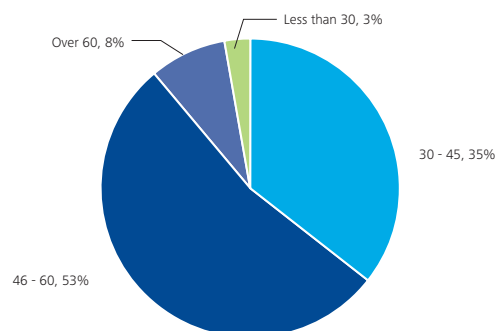
**Participants by number of employees**



**Participants by revenue**



**Participants by age**



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