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2010 Top Five Total Rewards Priorities Survey

Employer and employee interests align around health, personal responsibility, and cost reduction

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Overview

As companies and employees work their way through the most difficult economic environment in generations, results from the *2010 Top Five Total Rewards Priorities* survey suggest a window of opportunity may be opening. Motivated by concerns related to money and job security, employees surveyed are getting their financial houses in order while also taking determined strides to stay healthy. At the same time, faced with rising health care costs year after year, employers surveyed are stepping up emphasis on disease management and wellness programs designed to reduce costs. This alignment of interests between employer and employee is the strongest in our survey series to date and points to a shared focus on health, personal responsibility, and cost reduction – that could benefit both in the long-term.

The Top Five survey responses clearly underscore the impact of the financial crisis at both the employer level and the employee level. Companies represented in the survey continue to place a strong focus on costs, making it their number one challenge by a significant margin. Financial anxieties weighed heavily on a personal level as well, with 77% of respondents worried about their ability to afford retirement and 60% concerned about staying employed. Related to these concerns, four in ten employees surveyed plan to delay retirement, which may create a significant assortment of talent and Total Rewards challenges if realized on a broad basis. These employees are facing this angst with renewed personal responsibility by saving more and paying down debts, but, surprisingly, their greatest area of focus is on maximizing their health status.

With survival mode in full force, respondents to the 2010 survey revealed that containing rewards program costs continues to be the number one Total Rewards strategic challenge facing their organizations today with a 15 point lead over talent, the number two challenge. Last year, just three percentage points separated cost and talent.

While hunkering down and focusing on cost may help a company survive this recession, it may also represent a risk for companies that want to be positioned to take full advantage of the economic recovery. By taking an eye off talent, companies that remain in a defensive posture for too long could wind up losing the increasingly critical fight for high-skilled and high-performing employees. This is particularly true given history has shown that such employees are most likely to jump ship when the economy is in an upturn.

Sponsored jointly by Deloitte and the International Society of Certified Employee Benefit Specialists, the *2010 Top Five* survey marks its 16th year as a barometer of strategic challenges facing organizations. Here's how the 292 respondents ranked the Top Five priorities for 2010:

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 "rewards budget"
5. The ability of reward programs to accommodate the varying needs and interests of different generations with distinctly different needs and priorities

Employers surveyed also appear to be ramping up redesign activities for 2010 with health and welfare at the top of the list. However, the potential Health Care Reform legislation being debated in Washington is clouding that picture considerably. In the meantime, their health and welfare focus points to potential increased cost-sharing for employees. With respect to compensation, respondents identified an increased emphasis on performance-based pay as their preferred option for redesign.

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The statements in this report reflect our analysis of survey respondents and are not intended to reflect facts or opinions of any other entities. All survey data and statistics referenced and presented, as well as the representations made and opinions expressed, unless specifically described otherwise, pertain only to the participating organizations and their responses to the Deloitte/ISCEBS survey conducted in November 2009.

Other significant findings from the survey point to:

Employers Perspective	Employees Perspective
• A move away from salary freezes or reductions	• Higher levels of savings in private plans
• Shifts in approaches to mandatory furloughs and mandatory paid time off	• Lessened concern over the investment performance of 401(k) plans since the 2009 survey
• Continued push toward employee self-service technology in rewards administration	• Higher levels of contributions to 401(k) or other employer-sponsored plans
• A gap in how generational issues are addressed in rewards strategy	• A focus on using available funds to pay off debts at a faster pace
• A dramatic increase in the measurement of the ROI on rewards programs	• A continued concern with staying on top of inflation and advancing in real economic terms

With the economy still influencing – and in some cases dictating – business decisions, organizations represented in the survey appear to be moving ahead with cost-conscious adjustments to their total rewards programs without losing sight of the role these programs play in driving organizational strategy and goals.

Personal angst based on a one-two punch: Retirement security and Job security

The employee perspectives from the 2010 Top Five survey provide an interesting counterpoint to the employer perspectives covered on the following pages, which reflect strong alignment of interests in certain areas and variations in others. Respondents were asked to identify the top three challenges that are most important to them *as an individual*. "The ability to afford retirement, including post-retirement health care" was the top challenge, cited by 77%, with "the future of my employment security" – a new choice for 2010 – coming in second at 60%. (See Figure 1) The steady rise in unemployment over the last two years was no doubt weighing heavily on individuals in most businesses. From an industry perspective, respondents from Health Care and Life Sciences showed the greatest concern relative to job security followed by Technology, Media and Telecommunications.

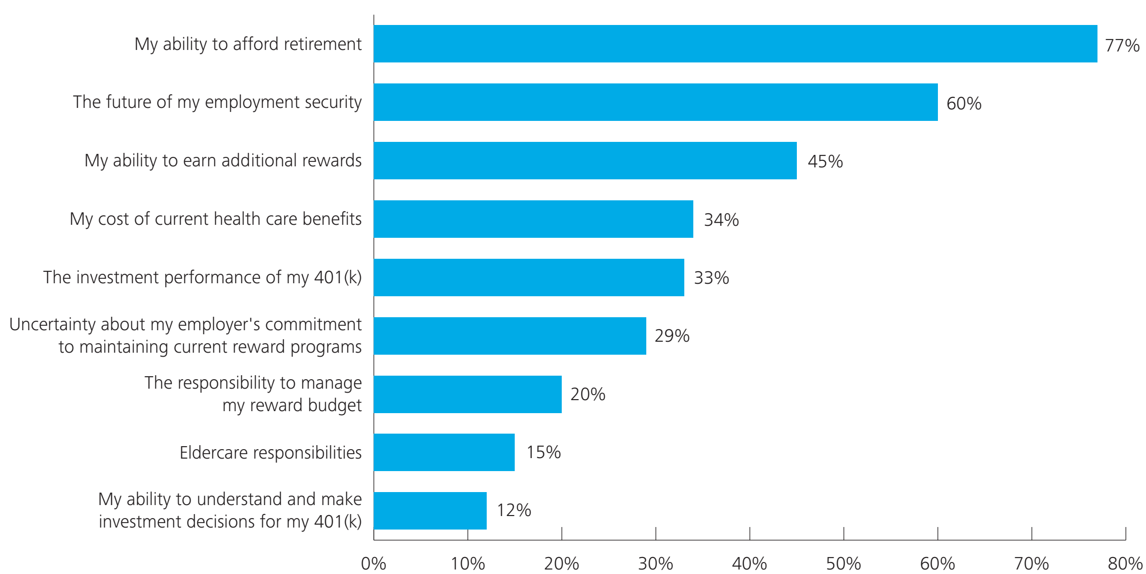
One respondent added "paying for my children's college tuition" on the personal challenge list, while another pointed to "getting back time for my personal life given work demands/workload."

These challenges are compounded by a sense of pessimism surrounding the ability to earn additional compensation and benefits that allow an employee to stay on top of inflation and advance in real economic terms, which came in number three on the employees surveyed list of top concerns at 45%. Personal financial worries are certainly not surprising given the current state of the economy.

Beyond the top three challenges, two other concerns were cited by at least one-third of respondents, including the cost of current health care benefits at 34%. Dropping from second in 2009 to fifth this year is "the investment performance of my 401(k) or other employer-sponsored savings/profit sharing plan" at 56% in 2009 and 33% in 2010. We believe the rebound in the stock market in 2009 clearly played a role in reducing this concern.

Placing the employee perspective side-by-side with the employer perspective, the level of emphasis varies in areas such as retirement affordability and health care costs. However, there is a shared recognition that active engagement by employees is becoming an increasingly important force related to both health and financial fitness.

Figure 1. Top Three Personal Challenges



Personal responsibility takes center stage

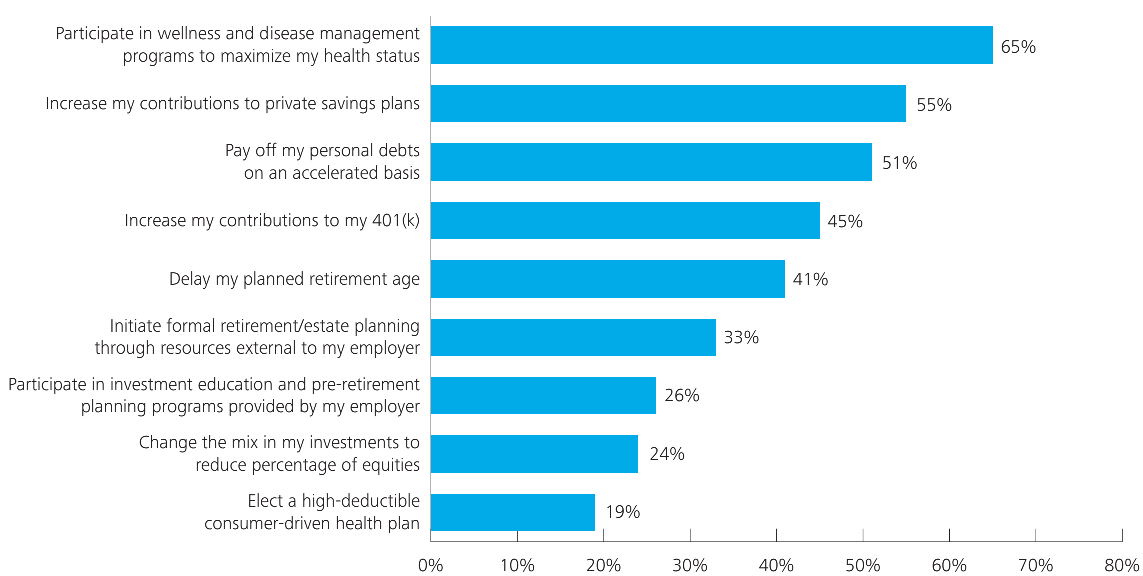
Awaiting a clear view of how recovery from the economic downturn will look, respondents are not sitting idly on the sidelines. Rather, as indicated in the question on how employees plan to respond to the personal challenges, they are fully engaged. Taking care of one's health is the highest priority, with 65% of respondents planning to participate in wellness and disease management programs to maximize their health status, up from 48% in 2009. (See Figure 2) These responses suggest employees are aware that physical health is a critical component of financial health.

With retirement security a major challenge, it's no surprise that 55% of respondents plan on increasing their contributions to private savings plans (up from 44% in 2009) and 45% plan on contributing more to 401(k) or other qualified retirement plans (up from 33% in 2009).

A new response choice for 2010 illuminates the past year's emphasis on troubled credit markets and cautious consumer-spending patterns. Based on survey results, 51% of respondents indicate they are going to divert a portion of their disposable income and "use available funds to pay off my personal debts and obligations on an accelerated basis." Once again, economic uncertainty is prompting personal actions.

Rounding out the focus on money matters is the intent of 41% of respondents to delay their planned retirement age, only a slight decrease from 44% in 2009. If this trend becomes reality, organizations will need to grapple with an assortment of talent and Total Rewards challenges that impact recruiting, communicating across generations, knowledge transfer and health care costs. With this in mind, taking a long view of workforce planning is critical to both short-term and long-term business success.

Figure 2. Response to Personal Challenges



Survey says … It's all about cost

As organizations navigated through the economic downturn, there was a laser-like focus on cost control and cost reduction. This point was validated by the results of the *2010 Top Five* survey with 76% of respondents selecting the cost of providing health care benefits to active employees as among their top five strategic challenges. However, as cost continues to be the primary focus, it may be at the expense of an organization's reward programs to attract, motivate, and retain talented employees, which did hold onto its number two spot at 61%. (See Figure 3A)

While hunkering down and focusing on cost may help a company navigate the recession, it may also represent a risk for companies that want to be positioned to take full advantage of the economic recovery. By taking their eye off of talent, companies that remain in a defensive posture could wind up losing the increasingly critical fight for high-performing employees. This could explain the rise in focus on a clear alignment of the Total Rewards strategy with the business strategy and brand – the overall number three priority for employers surveyed – at 58% in 2010. Rounding out the top five in 2010 are two strategic challenges that require a clear connection between employers and their employees. In both, the focal point is on engaging employees in their benefit programs as more informed consumers, and on designing those programs with the recognition that generational differences exist and need to be considered in plan design.

Beyond different generations, one respondent cited "additional challenges related to the varying interests and needs across cultures, such as communicating compensation objectives to our employees globally." Another noted the challenge of "communicating rewards amidst information overload."

At number four, with 51%, is the willingness of employees to pay for an increasing portion of benefit plan coverage and to manage their own rewards. Consumer-driven health plans (Health Savings Accounts and Health Reimbursement Accounts), for example, place a greater responsibility on employees to be involved in how health care benefit dollars are spent, which leads to a greater understanding of the true cost of health care. The fifth priority at 42% is the ability of reward programs to accommodate the varying needs and interests of different generations, including Boomers, Gen X and Gen Y. Also noteworthy is the employers' response to the strategic challenge of demonstrating appropriate return on investment for its reward expenditures – with a 38% response. With the heightened scrutiny on cost, employers want to make sure their rewards programs are eliciting the behavior and engagement that drive business results.

Survey says . . . It's all about cost (continued)

Figure 3A. 2010 Top Five Total Rewards Challenges* Compared to 2009
Primary Concerns

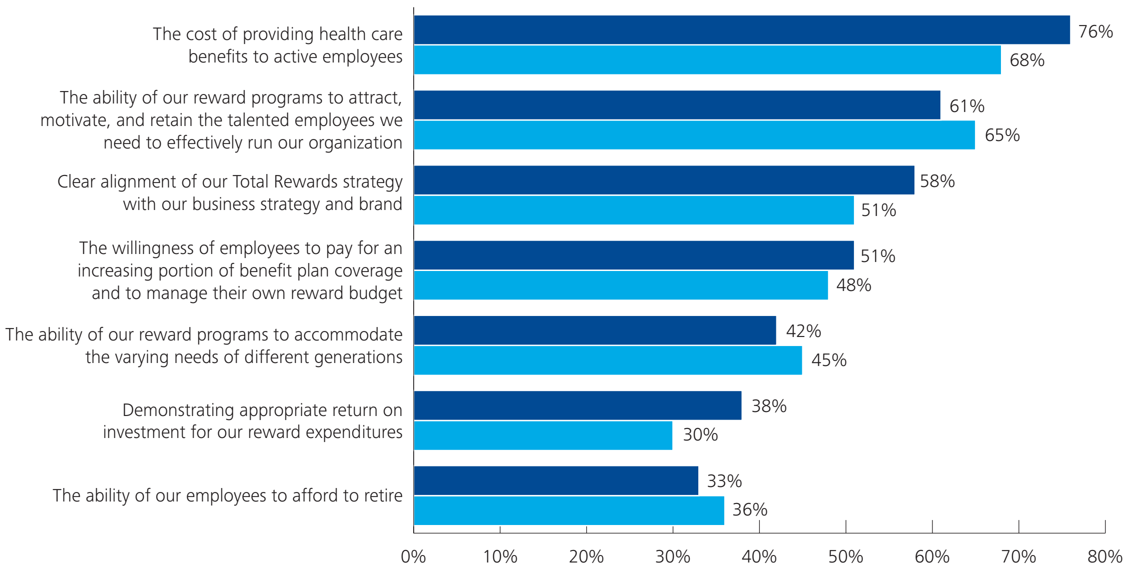
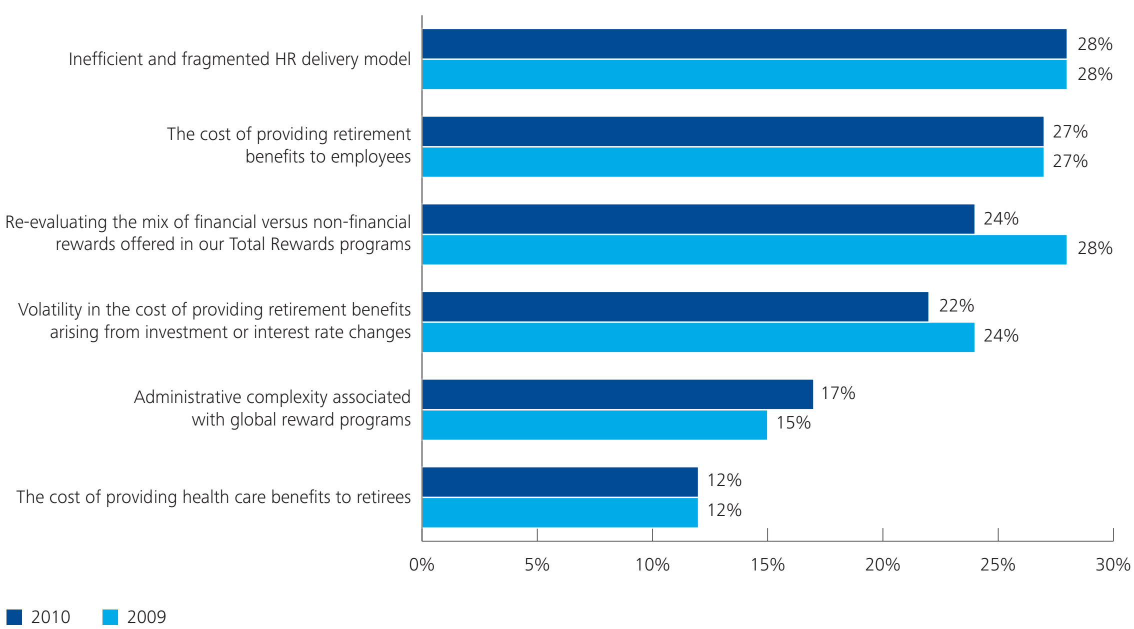


Figure 3B. 2010 Top Five Total Rewards Challenges* Compared to 2009
Secondary Concerns



*Percent of companies ranking each among their Top Five challenges

Talent is still on the radar

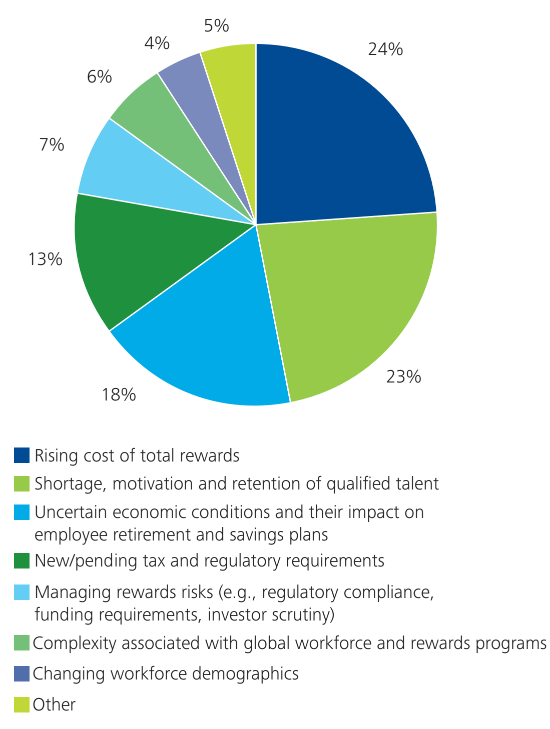
When asked to take a longer view beyond 2010 – the most significant challenge facing their organization in the next three years – respondents highlighted a close race between cost and talent. The rising cost of Total Rewards at 24% moved to first in 2010, edging out "shortage, motivation, and retention of qualified talent" at 23%. (See Figure 4) This slight separation three years out contrasts significantly with the 15-point separation when looking just one year ahead. This suggests that once the recovery is fully underway, talent will regain a greater share of the HR strategic spotlight.

In the meantime, retention of key talent may become a cause of concern. It's true that voluntary turnover rates have been lower throughout the downturn, but many employees may be planning to jump ship on the upturn. Shedding additional light on this issue is a series of talent pulse surveys (*Managing Talent in a Turbulent Economy*) conducted by Deloitte with Forbes Insight. In August 2009, nearly half (49%) of all surveyed employees were considering leaving their jobs and just 45% expected to stay with their current employers. At that time, 30% were already actively seeking new employers, a figure that could rise as more employees venture into the job market once the recovery takes hold. To reduce the risk of disruption that can come from high turnover and the resulting "resume tsunami," organizations are well advised to keep their retention strategies on the radar throughout the ups and downs of the economy.

The number three challenge over the next three years at 18% is uncertain economic conditions. Could a seven percentage drop from 25% in last year's survey reflect a glimmer of optimism among respondents? Also worthy of note is a new option for 2010 related to new/pending tax and regulatory requirements, which ranked fourth at 13%. There is little doubt to us that the unknowns related to Health Care Reform in Washington are clouding the health care picture for companies and employees alike as they plan for the future.

Health Care Reform was definitely on the minds of respondents, with one spelling out the most significant challenge over the next three years as "three words: Health Care Reform." This sentiment was echoed by many others. Another respondent cited the challenge of "how to afford competitive rewards at a mid-cap growth company."

Figure 4. Most significant challenge facing your organization over the next three years



Timely topics: Marketplace considerations

At the time the Top Five survey report was being written, the fate of the Health Care Reform bill was undetermined. Even though the ultimate shape and passage of the bill are still unknown – two questions on the 2010 survey shed light on the views from HR professionals at this unique point in history. As the "public health plan option" attracted a huge amount of debate, scrutiny and discussion, 39% of respondents indicated they would definitely pursue or possibly consider terminating currently offered health plans if a public option was available. (See Figure 5)

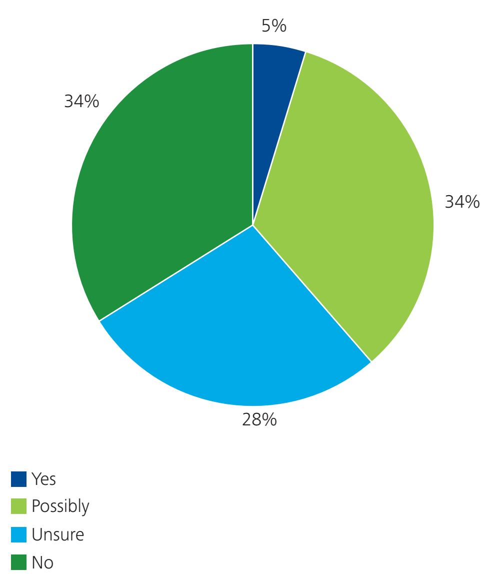
The many concerns around the U.S. Government implementing a public option may reflect a broader concern about government intervention and Health Care Reform in general. Survey respondents ranked those concerns as follows:

- 69% – Impact on design and pricing of company's plan
- 60% – Potential for adverse selection
- 58% – Not confident that such an option would work
- 55% – Reluctance of insurers and vendors to continue to offer attractive private options
- 52% – Administration of such an option

Another question addressed marketplace considerations related to compensation. Results of the Top Five survey suggest that the intense media coverage and regulatory scrutiny did little to change current direction. Seventy-four percent of respondents indicated their organizations have no plans to change the structure of executive base pay or bonuses at this time. This response was consistently high across all industries.

One respondent cited "increasingly complex regulatory issues" as a marketplace concern, and another the "greatly increased tax burden for employers as well as employees."

Figure 5. Would your organization consider terminating its health plan if a "public option" were created by pending legislation?



Coming soon: An uptick in redesign activity

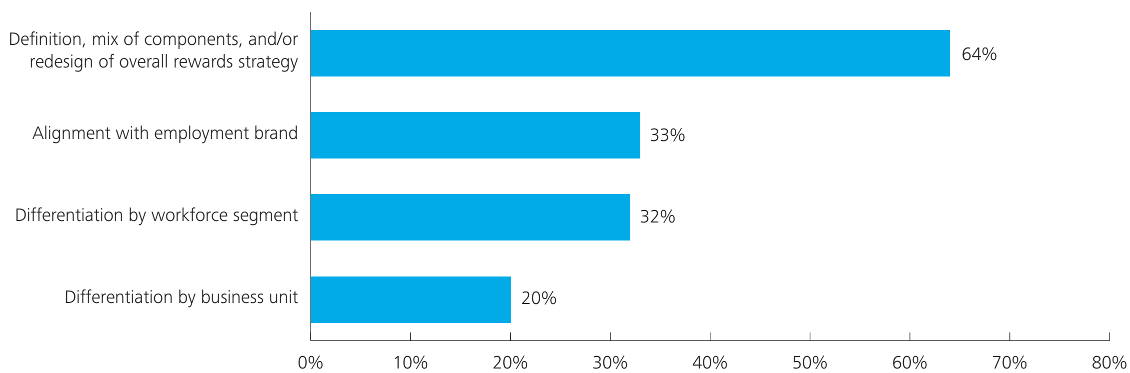
To gain a clear snapshot of past and planned activities relative to the redesign of overall Total Rewards strategy/ programs, the *2010 Top Five* survey asked respondents to identify actions that have been undertaken in the past 12 months vs. actions they expected to undertake over the next 12 months. Results showed that program/strategy redesign moved from 44% in the past 12 months to a planned 55% in the next 12. The major redesign focus – cited by 64% of respondents planning a redesign – will be in the "definition, mix of components, and/or redesign of the overall rewards strategy." (See Figure 6)

Narrowing the focus to identify specific changes to the overall Total Rewards strategy/program over the next 12 months, respondents indicated the following areas of emphasis:

- 69% - Increasing employee communication and education around rewards
- 56% - Redesigning some reward programs to better align the interests of employees and the organization and to promote employee engagement
- 51% - Improving the measurement of return on investment of reward programs
- 48% - Engaging in a more formal and rigorous process of asking employees what they value most about their rewards programs
- 40% - Packaging, branding, and/or communications related to rewards programs

These responses point to the role communications can play in increasing the perceived value of benefits among employees, engaging employees in making informed choices as consumers of benefits, and seeking employee input to help the organization take the guesswork out of designing a package that best fits employees' wants and needs. This links directly to making rewards investments in employees who generate the most value as well as delivering rewards that critical employees want and need – not just the rewards that employers *think* they want and need.

Figure 6. Planned Total Reward design changes*



*Among 55% of companies planning a redesign over the next 12 months

The Y factor: Rewarding across generations

It has been widely observed that the demographics of today's workplace now span four generations – Generation Y (under 30); Generation X (30-44); Baby Boomers (45-64); and Veterans (65 and older). For the second straight year, the Top Five survey included questions designed to get to the heart of generational considerations as they relate to rewards programs. As noted earlier, these considerations were a Top Five priority for 42% of respondents, which placed it fifth in the overall rankings. Based on the results of the survey, it appears that organizations may be falling short in addressing this priority.

While 58% of respondents agree that "my organization's leadership team understands the Total Rewards perspectives and values of the different generations in our workforce," (See Figure 7) nearly a quarter (24%) of respondents does not believe "my organization has the correct Total Rewards strategy in place to recruit and retain the age groups we need in our workforce." (See Figure 8) This may point to a disconnect between the recognition of generational issues and the execution of an effective strategy to address them. This idea is reinforced by 43% of respondents who believe generational preferences are not even considered in making changes to Total Rewards programs, up from 37% in 2009.

As the new decade unfolds, there is little doubt that Generation Y will play an increasingly important role in the workforce. Gen Y presents both a huge opportunity and a huge challenge for today's employers. Given the challenges of the current economic environment, the energy, insight, and high tech know-how of Gen Y will be an essential ingredient for high-performing organizations. Those companies that fail to take advantage of the promise of intergenerational collaboration – and address the rewards preferences of these distinctly different groups – risk shortfalls in both performance and talent.

Figure 7. My organization's leaders understand the Total Rewards persectives and values of the different generations of our workforce

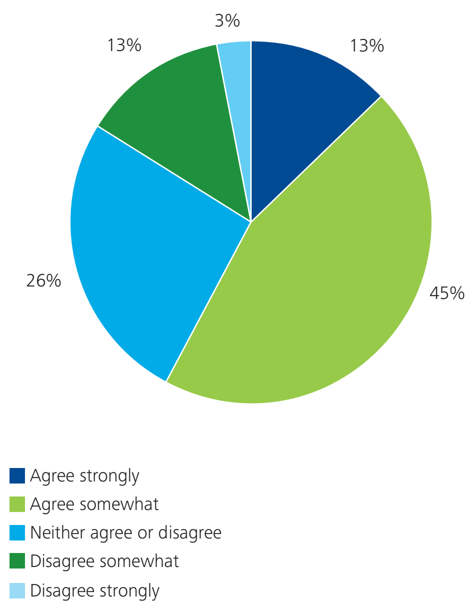
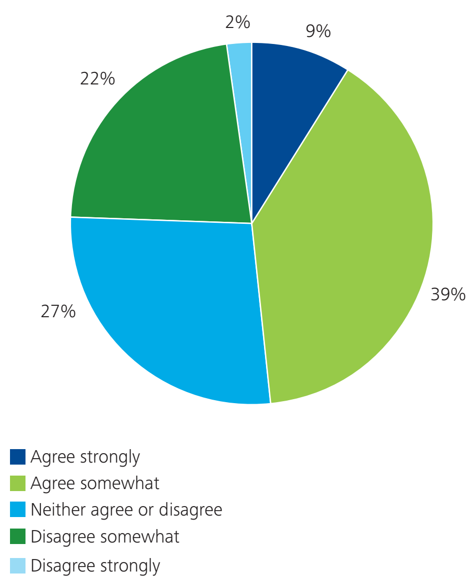


Figure 8. My organization has the correct Total Rewards strategy to recruit and retain the age groups needed in our workforce



Other key findings: Specific reward programs and administration

Compensation

The percentage of organizations represented in the survey planning to redesign their compensation plans over the next 12 months is up to 66% compared to 60% that made changes within the past 12 months. The highest ranked issues around compensation redesign are an increasing emphasis on performance-based pay (38%) and improving performance management tracking and administration (37%). For those organizations making changes, the primary focus is to pay employees based on results while making sure effective processes are in place to fairly and accurately reward that performance.

New for the 2010 survey was a question asking whether salary freezes or reductions were being considered. While 64% of employers surveyed considered this step within the past 12 months, only 11% are contemplating such a move in the next 12 months.

One respondent indicated, "We did a one-week unpaid furlough for all employees that effectively negated the 2% merit increase plan in 2009." Another stated, "Equity compensation has been significantly shifted up to the higher levels and has been eliminated for 95% of the employee base."

Two talent surveys in the *Managing Talent in a Turbulent Economy* series pointed to significant trends in compensation. Among global executives surveyed across all industries in October 2009, it appeared companies had little appetite for modifying compensation plans in order to increase payouts to employees, even to top talent. This was followed by results from a December 2009 survey that showed 85% of companies represented were not providing standard merit increases on base salaries in 2009. Executives surveyed fared somewhat worse than employees surveyed, with two out of three (66%) seeing either no increase in base salary or a salary reduction compared to 54% for employees.

These findings suggest that compensation-related retention programs remain a relatively low priority for companies in many industries that believe employees are "lucky they have jobs in a tough economy." At the same time, the talent pulse survey did show that some companies represented are holding compensation packages steady or even increasing them, positioning themselves for a turn in the economy when the talent market heats up. We believe organizations that adjust their compensation and retention strategies now stand to benefit as the recovery takes hold.

Compensation components to be redesigned over the next 12 months ranked as follows:

- 64% - Variable pay
- 42% - Base pay
- 37% - Sales compensation plans
- 30% - Equity
- 14% - Non-qualified deferred compensation plan
- 8% - Employee stock purchase plans

Other key findings: Specific reward programs and administration (continued)

Retirement

Of the 40% of organizations planning to redesign retirement plans over the next 12 months, the focus is on better tools for retirement planning (43%) and enhanced pre-retirement planning sessions (31%). This is a carbon copy of last year's survey, as organizations seek ways to better equip employees with insight and understanding around their personal role in planning and saving for retirement. This focus aligns well with the personal plans of respondents – particularly the 33% who intend to initiate formal retirement planning and/or estate planning through resources external to their employers, and the 26% who plan to participate in investment education and pre-retirement planning programs available through their employers.

Retirement components to be redesigned over the next 12 months ranked as follows:

- 65% - Defined contribution savings – qualified plans
- 35% - Defined benefit pension – qualified plans
- 32% - Defined contribution savings – non-qualified plans
- 26% - Defined benefit pension – non-qualified plans

In terms of economic considerations for retirement plan redesign (percentages reflect answers based on whether they "have considered within the past 12 months" vs. "will consider over the next 12 months"):

- Freeze retirement plans – 21% vs. 10%
- Reduce company contribution to DC plan – 34% vs. 13%
- Increase company contributions to the DC plan – 12% vs. 16%

> One respondent reported, "We reduced DB plan contributions and increased the company 401(k) match plus added quarterly company contributions." Another noted, "We implemented auto enrollment in the 401(k), as well as auto increases in employee contributions."

Health and Welfare

With health care costs the top challenge for employers, it is no surprise that the percentage of organizations planning to redesign their health and welfare plans over the next 12 months remained steady at 72%. Among companies planning changes, increasing cost-sharing for employees (32%) remained the top strategy for controlling costs; however, this percentage was down dramatically from 63% over the past 12 months. This may be an early indicator that reliance on cost-shifting may be waning with respect to rewards strategy.

The second place redesign activity at 31% was offering incentives for fitness, wellness, and disease management initiatives. The audience for such incentives seems well primed, as evidenced in the personal responses in which "actively participate in wellness and disease management programs to maximize my health status" was the number one priority. This close alignment of employer and employee goals may represent a key cost management

Other key findings: Specific reward programs and administration (continued)

opportunity in the near term if companies act decisively in their program design. Third, and closely aligned, is an increased focus on consumerism for active employee plans at 26% but sharply down from 49% in the past 12 months.

Health and welfare components to be redesigned over the next 12 months ranked as follows:

- 79% - Active employee medical plans
- 25% - Active employee health and welfare plans
- 23% - Retiree medical plans
- 20% - Active employee life insurance
- 18% - Active employee disability
- 7% - Retiree life insurance
- 4% - Other retiree health and welfare plans

Other Reward Programs

Beyond the more standard set of rewards programs, organizations appear to be placing continued focus on their other reward program offerings in 2010. Seventy-eight percent of respondents anticipate a change to other reward programs over the next 12 months, with the following most commonly identified for redesign:

- 39% - Learning and development programs
- 39% - Cash incentives/bonuses (a new choice on this year's survey)
- 35% - Flexible work arrangements
- 22% - Mentoring programs

Another new choice for the 2010 survey was "mandatory furloughs, sabbaticals, or other scheduled reductions." While considered by 32% of organizations within the past 12 months, this approach will be taken into account by only 13% over the next 12 months. A similar drop-off was seen with mandatory paid time off, falling from 16% to 5%.

Administration

Respondents were asked to identify actions their organizations have undertaken relative to the restructure of the administration of some or all of their rewards programs. Topping the list of actions was an increase in the use of employee self-service technologies at 52%. This was followed by improving governance and administration to meet the requirements of Sarbanes-Oxley (28%). The third most cited action was increasing the use of outsourced administration providers (24%). Tied at 19% were actions to introduce strategies to place vendor fees at risk for measureable performance outcomes and to undertake comprehensive transformation of the HR delivery model, covering process, technology, structure, and vendors.

Top Five survey methodology and demographics

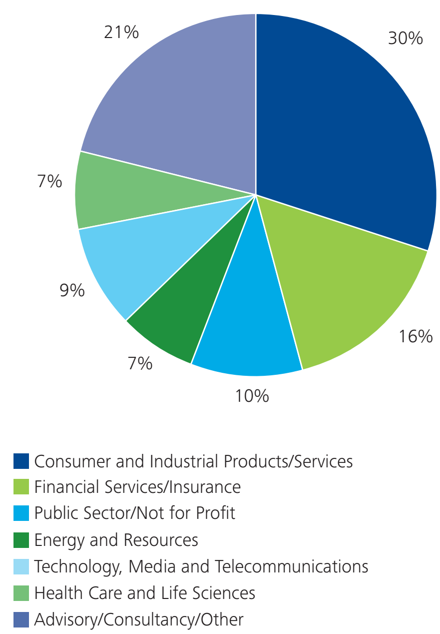
In its 16th year, the *2010 Top Five Total Rewards Priorities* survey has been conducted annually since 1994. The survey is jointly sponsored by Deloitte and the International Society of Certified Employee Benefit Specialists (ISCEBS). The survey is developed and conducted by Deloitte Human Capital professionals, 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.

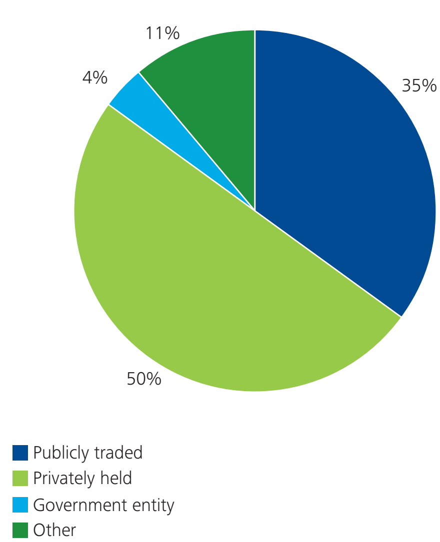
This survey features two sets of "Top Five" results. The first, summarized in Figure 4 (see page 7), represents survey respondents' ranking of eight broad total rewards-oriented organizational challenges over the next three years. The second set of Top Five results, as represented in Figures 3A and 3B (see page 6), are survey respondents' prioritization of present total rewards strategic challenges, drawing from 15 possible responses.

Conducted in November 2009, the survey was completed by 292 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.

Respondents by Industry

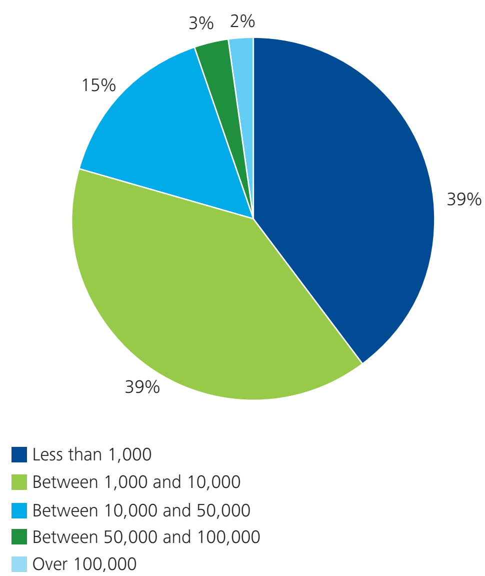


Respondents by Organizational Structure

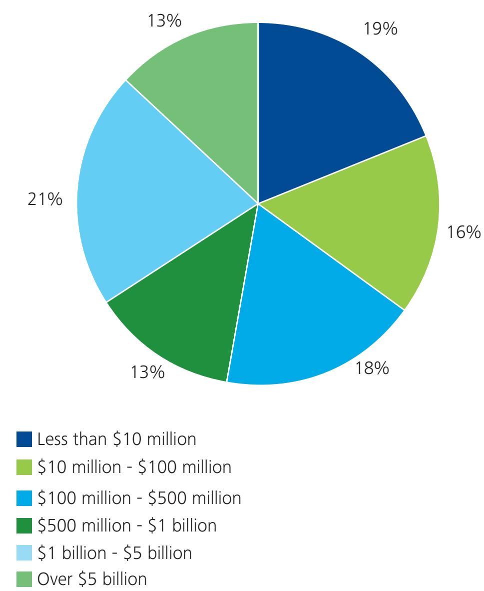


Top Five survey methodology and demographics (continued)

Respondents by Number of Employees



Respondents by Annual Revenue



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