

What to Expect From the Next Decade of



Total Rewards



Identify workforce needs early to give your organization a competitive advantage.

The future is always under construction.

We build it from an infinite mixture of foundations, choices, chances, visions and values that fashion tomorrow from today in nearly every decision we make.



By Steven E. Gross, Mercer



For an employee, the decision to save more or less in a 401(k), choose a high-deductible health plan over a plan with higher premiums or accept a lower-base salary with a higher prospect of variable incentive pay is all part of a continuum of accountability. It extends to an employer's decision about how to match retirement contributions, how to deliver health insurance and how to reward the workforce. In terms of total rewards, more choices has brought us a long way. But where are we headed?

As we peer toward the next decade, the total rewards outlook comes into focus. It depends on external factors such as aging populations living and working longer in many developed countries, trends in benefit costs, work/life and technology — and on such personal factors as the differing perspectives of a multigenerational workforce. Mercer's research "Inside Employees' Minds," a 2015 survey of more than 4,000 U.S. and Canadian workers, shows that after base pay, Baby Boomers place high value on the type of work they do and on retirement plans. Meanwhile, employees aged 34 and younger cared most about flexible work schedules and career advancement.

Being all things to all generations is a tough challenge for any employer value proposition — and facts remain stubborn things. In the United States, the total

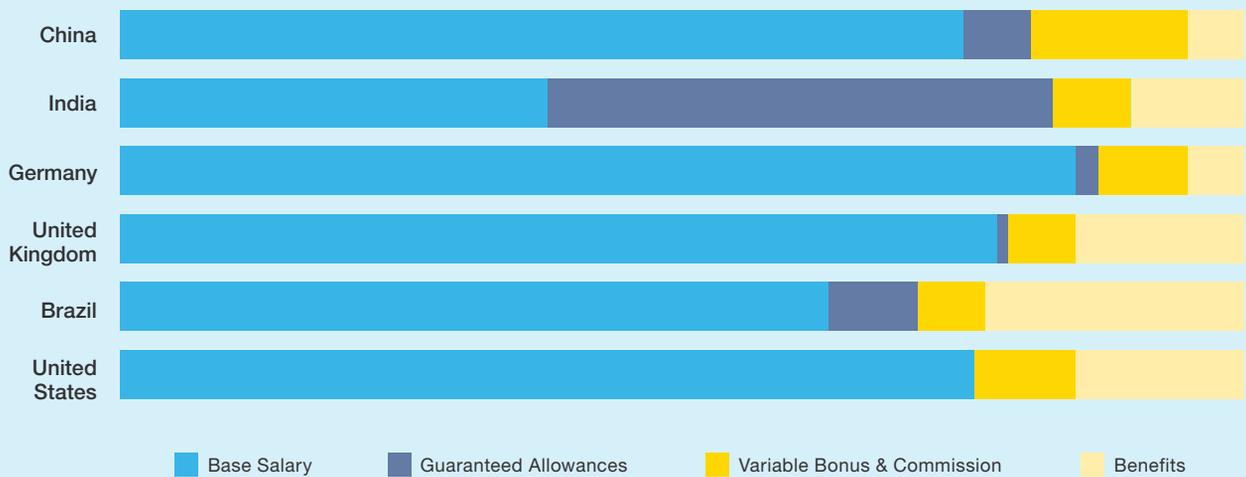
health-benefit cost per employee is on the rise, a projected 4.6 percent increase in 2015, according to Mercer's National Survey of Employer-Sponsored Health Plans.

Meanwhile, the divergence of income growth in developed nations like the United States sparks minimum wage pressure, while demographics point to more diverse working-age populations (which are growing strongly in Latin America and Asia but are growing at zero percent or below in the United States and United Kingdom, according to the World Bank). Managing a global workforce calls for correlating rewards with middle-class growth that support our consumer-oriented societies, gross domestic product and understanding of cultural differences.

For example, Mercer research has learned that workers in China, Brazil and India value career advancement over base pay, recognizing that they won't earn more without being promoted. Those in the United States, United Kingdom and Germany value base pay above other factors. Managing pay thus requires a strong grasp of local pay practices. (See Figure 1, "Understanding Local Pay".)

Meanwhile, technology is leveling many playing fields. Mobile apps and sites such as salary.com, glassdoor.com and iappreciate.com provide employees and prospective workers with a new instant level of transparency about salary, culture and

Figure 1 | Understanding Local Pay



Source: Mercer's Total Remuneration Surveys (TRS) and Structure of Salaries Around the World Report.



By 2020, the struggle to retain skilled and Millennial workers will demand continuous training and development to ensure career growth and support a value proposition based on clear, well-defined career lattices and pathing.

recognition practices at organizations. Tech advances are also boosting flexibility. In 1999, only 30 percent of employers allowed professionals to telecommute; by 2014, 70 percent of them allowed it, according to Mercer's total rewards studies from those years.

Tale of Two Workforces

How, then, will organizations respond to these changes as the next decade looms? History offers some perspective: the independent, self-sufficient apprentice/artisan of the pre-1880s became the factory employee of the Industrial Revolution, then the blue- and white-collar worker for a paternalistic company, and that broad model prevailed for nearly a century. By 1980, things were changing, as a knowledge-based workforce emerged, with decentralized reward systems that increasingly emphasized individual accountability.

By now, we're living a tale of two workforces. One is comprised of core employees, those at the center of a company's mission and direction, and total rewards are the levers by which they are recruited, retained, nurtured and career-developed. Individual accountability for their careers and benefit choices is the rule, as opposed to the paternalistic, job-for-life ethic of the past. The other workforce is comprised of contingent workers, the outsourced free agents and contractors who provide services to the host company but whose total rewards and prospects for advancement are provided outside the host environment.

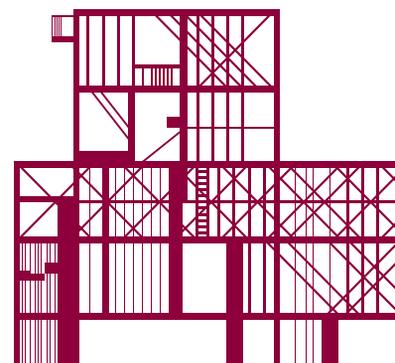
At this point, we've evolved well beyond the hire-to-retire, paternalistic, one-size-fits-all employer value proposition of the past. Yet, there is still some confusion about the employment relationship as the multigenerational workforce struggles with what has become an almost purely transactional employment proposition with limited rewards flexibility.

By 2020, this should be much more clarified: Core employees will be viewed as the crucial component of business success, and they will embrace individual accountability for their benefits, careers and where they even perform their jobs. Taking full advantage of their 401(k) matches and other options to ensure a successful retirement, they will make tech-assisted benefits choices through private exchanges. And the era of more personalized rewards will reflect our global culture and multigenerational workforces.

If anything, the next decade will reinforce the notion of the core employee not as another cog in the wheel, but as a volunteer — one who chooses to partner with an organization with more choices, more accountability and more compensation risk. Today most organizations target pay between the 25th and 75th market percentile, the next decade will see more of them targeting fixed pay at the 25th to 50th percentile, with pay above the 50th percentile coming from variable cash and equity compensation.

As for talent management, it will only become more aggressive. By 2020, the struggle to retain skilled and Millennial workers will demand continuous training and development to ensure career growth and support a value proposition based on clear, well-defined career lattices and pathing. Frequent performance assessment will be required to keep talent on track, and leadership will be more multicultural, more diverse than it is now. Core employees will qualify for leadership roles as a byproduct of living and working in nonnative countries and garnering true global experience.

Now, organizations are struggling to meet their diversity goals because of pay inequality, a valid leadership concern. But data analytics — the power of big data — will make a big difference in the next decade as employers become more





adept at matching the multicultures they serve and ensuring pay fairness through analytics. It's obvious enough that companies must understand their workforces as well as their customers, and so the total rewards horizon will reflect that.

Preparing for 2020

For business leaders, preparing for the total rewards landscape of 2020 will mean moving from “I think” to “I know.” In other words, the employee-measurement continuum has evolved well beyond its past dependence on anecdotal information about workers and on benchmarking—or doing what every other organization does.

The new emphasis must be on data-driven correlations, forecasting, predictive and causal modeling that tells precisely what's working – and what will work – for business success, and which rewards will ensure an employee population that delivers sustainable growth, especially as employers increasingly think of their employees as customers or volunteers.

This calls for solid analytics to assess future gaps in worker supply and demand, and an understanding of the internal labor market – an analytical map of an organization's hires, promotions and exits. Companies that can't chart sufficient progress from the professional to the managerial ranks will have to weigh the costs of

recruiting from outside the organization as opposed to building from within through strong value and total rewards propositions. (See sidebar, “A Starting Point for Total Rewards 2020”.)

They will also communicate what is important directly to the workforce, making information available whenever an employee may require or desire it. Providing clarity to core employees around career progression opportunities can't be overstated.

Neither can the need to ask the crucial questions. For employers, that means asking what are the workforce needs in terms of structure, behavior, capabilities and performance — and how should rewards programs be designed to secure those workforce outcomes? For employees, the question will be: What should differentiate a company from competing job opportunities? Employers must therefore know how those workers value the total rewards package. Millennials, for example, tend to seek purpose and meaning, while other generations may value flexibility or certainty above all.

The external perspective must then be factored in: What are the labor and rewards environments in which the company competes? How do they influence or inhibit rewards practices? Can the rewards program be provided at an affordable, sustainable cost? And if not, how should total rewards be modified to be financially viable? These are not easy questions, but they are the right ones, and by 2020, the organizations that have answered and acted on them will enjoy a competitive edge. **WF**

Steven E. Gross, is a senior partner at Mercer in Philadelphia. He is responsible for creating Mercer's approach toward innovative human resources and compensation programs. He can be contacted at steve.gross@mercer.com

A Starting Point for Total Rewards 2020

An appropriate starting point for the total rewards journey to 2020 would be to organize around the following: employer, employee, cost and external perspectives to create a compelling employee value proposition. For example:

- EMPLOYER:** Identify future workforce needs, segment roles into critical and less critical and conduct predictive/causal turnover and career growth analyses.
- EMPLOYEE:** Determine employee reward program preferences by conducting conjoint, paired comparison analyses forcing employees to prioritize among various reward choices.
- COST:** Project current cost trajectories at various revenue levels to determine both current competitiveness and long-term affordability.
- EXTERNAL:** Determine competitiveness against both current and future labor and business competitors.

resources plus

For more information, books and education related to this topic, log on to www.worldatwork.org and use any or all of these keywords:

- Total Rewards
- Benefits
- Multi-generational workforce.