Rethinking your Total Rewards Strategy

How Can Total Rewards Increase your Return on Investment in your Workforce

March 31, 2017
Meeting Agenda

- What key trends will affect the workforce of the future, and how will that impact Total Rewards?
- What is Total Rewards and why do we care about it?
- How can you maximize your organization’s return on its investment in Total Rewards?
First some context: What strategies are CEO’s focused on to mitigate business challenges?

- Human Capital
- Innovation and Digitization
- Customer Relationships
- Operational Excellence
- Sustainability
- Regulation and Risk

What role does HR have in creating competitive advantage across these strategies?

Source: Conference Board Research - 2017
Baby Boomers are retiring at the rate of one every 9 seconds between now and 2029.

Source: USA Today Money
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If Facebook were a country, it would be the third-largest in the world.

Source: facebook.com.

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The average U.S. student today will have 10 to 14 jobs before age 40.

Source: U.S. Department of Labor.

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Percent of children entering school today who will end up in jobs that do not exist yet

65%

Total Rewards

What megatrends are impacting Total Rewards?
Strategic outlook for CHROs

Three megatrends impacting talent demographics…

1. Shifting talent demographics
2. Shift in relationship between company and employees
3. Evolution of HR

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Which generation do these traits describe?

Conscientious, hard-working, somewhat anxious and mindful of the future?

A. Baby Boomers
B. Generation X
C. Generation Y (Millennials)
D. Generation Z

Source: Oxford Economics
Clear generational differences exist

**New demographics:**
Gen Y has arrived — Gen X are emerging leaders — Gen Z is on the cusp

<table>
<thead>
<tr>
<th>Generation</th>
<th>Age Range</th>
<th>Estimated Population Size (U.S.)</th>
<th>Individuality</th>
<th>Loyal</th>
<th>Career-focused</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Boomers</td>
<td>1946-1963</td>
<td>54-71 million - 79 million</td>
<td>Individualistic</td>
<td>Loyal</td>
<td>Career-focused</td>
</tr>
<tr>
<td>Generation Z</td>
<td>1996-2010</td>
<td>7-21 million (and growing?)</td>
<td>Realistic</td>
<td>Aware</td>
<td>Technology native</td>
</tr>
</tbody>
</table>
What will 2020 and 2030 look like for your organization?

**Labor Force Distribution by Generation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>115 million</td>
</tr>
<tr>
<td>2000</td>
<td>143 million</td>
</tr>
<tr>
<td>2015</td>
<td>157 million</td>
</tr>
<tr>
<td>2020</td>
<td>161 million</td>
</tr>
<tr>
<td>2030</td>
<td>168 million</td>
</tr>
</tbody>
</table>

### Sources:
- 1985 and 2000 from OECD, 2015 from CPS, 2020 from BLS labor force projections and 2030 from Willis Towers Watson estimates based on Census population projections for 2030 and BLS labor force projections for 2024; Source: Pew Research Center tabulations of U.S. Census Data; WTW estimates

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The new normal: Treating employees like consumers
Consumer-driven HR:
The good news — Companies already have been doing this

Flexible benefit programs
Cafeteria style

Virtual workplace
401(k) plans (defined contribution)

Voluntary benefits
Paid time off

Flexible work arrangements

Private health care exchanges
Wellness programs

Corporate social responsibility

1980s 1990s 2000s 2010s

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Chief employee experience officer

1980s

- Personnel director
  - Tactical
  - Operationally focused
  - Employee as cost
  - Implement programs
  - Local
  - Manager/Director level

1990s

- Vice president, HR
  - Broader
  - Organization-focused
  - Employee as resource
  - Design programs
  - National
  - Vice president level

2000s

- CHRO
  - Strategic
  - Business-focused
  - Employee as asset
  - Direct programs
  - Global
  - C-suite level

2010s

- Chief employee experience officer
  - Futurist/Strategist
  - Differentiation-focused
  - Employee as value
  - Transcend programs
  - Borderless
  - Board advisor
Getting Total Rewards “Right”
Getting Total Rewards “Right” has never been more important because the traditional employer-employee deal is changing

- **Attraction**: 55% of organizations in mature markets report they’re having problems attracting critical-skill talent

- **Affordability**: Rising costs for with legacy programs prompt us to evaluate the components and structure of our reward investments

- **Engagement**: 25%+ employees intend to leave their employer in next 2 years
  < 50% employees stay with their current employer by choice

- **Retention**: Turnover is rising and retention issues persist globally

*Source: Global Talent Management & Rewards Study, Willis Towers Watson*
Getting it right starts with understanding the top drivers of attraction

- Companies understand the importance of competitive base pay, career advancement opportunities and challenging work
- But they overestimate the importance of their mission and values and do not place enough emphasis on job security

### Comparing top drivers of attraction

<table>
<thead>
<tr>
<th>Rank</th>
<th>Employee View</th>
<th>Employer View</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Base pay/salary</td>
<td>Career advancement opportunities</td>
</tr>
<tr>
<td>2</td>
<td>Job security</td>
<td>Base pay/salary</td>
</tr>
<tr>
<td>3</td>
<td>Career advancement opportunities</td>
<td>Reputation of organization as a great place to work</td>
</tr>
<tr>
<td>4</td>
<td>Challenging work</td>
<td>Challenging work</td>
</tr>
<tr>
<td>5</td>
<td>Opportunities to learn new skills</td>
<td>Job security</td>
</tr>
<tr>
<td>6</td>
<td>Reputation of organization as a great place to work</td>
<td>Organization's mission, vision and values</td>
</tr>
<tr>
<td>7</td>
<td>Health care and wellness benefits</td>
<td>Opportunities to learn new skills</td>
</tr>
</tbody>
</table>

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You also need to understand why employees would choose to leave your organization

- Companies understand the importance of competitive base pay and career advancement opportunities
- But they do not acknowledge the importance of the physical work environment and job security

Comparing top drivers of retention

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<td>Career advancement opportunities</td>
<td>Base pay/salary</td>
</tr>
<tr>
<td>3</td>
<td>Physical work environment</td>
<td>Relationship with supervisor/manager</td>
</tr>
<tr>
<td>4</td>
<td>Job security</td>
<td>Ability to manage work-related stress</td>
</tr>
<tr>
<td>5</td>
<td>Ability to manage work-related stress</td>
<td>Opportunities to learn new skills</td>
</tr>
<tr>
<td>6</td>
<td>Relationship with supervisor/manager</td>
<td>Flexible work arrangements</td>
</tr>
<tr>
<td>7</td>
<td>Trust/Confidence in senior leadership</td>
<td>Short-term incentives (e.g., annual bonus)</td>
</tr>
</tbody>
</table>

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Job security is among the top drivers of attraction and retention, but can mean different things to different people

<table>
<thead>
<tr>
<th>Group</th>
<th>Fearful</th>
<th>Stable and steady</th>
<th>Financially concerned</th>
<th>Making a career of it</th>
<th>In a good place</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26%</td>
<td>24%</td>
<td>22%</td>
<td>10%</td>
<td>19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key characteristic</th>
<th>Don’t want to lose my job</th>
<th>Don’t want my job to change</th>
<th>Don’t want to lose my paycheck</th>
<th>In it for the long haul</th>
<th>I’m happy, for now</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Employers can offer</th>
<th>Career Security through training to remain relevant in the new market</th>
<th>Integrated Performance Management to help employees to adapt to changing workplace needs</th>
<th>Total Reward programs redesigned to help employees with concerns about budgeting and financial planning</th>
<th>Leadership and managers who support an innovative culture</th>
<th>Pay for performance and skills</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Alternative work arrangements to allow employees to do same tasks for more than one employer</td>
<td></td>
<td></td>
<td>Greater use of pay programs with emphasis on LT payoffs (Career Management, LTI, Pensions)</td>
<td>Training for high valued skills to remain relevant in marketplace</td>
</tr>
</tbody>
</table>

*Percentages represent those who selected job security as a driver of retention and who fall into this group.

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Source: Willis Towers Watson 2016 Global Workforce Study
Engaging employees is a significant challenge…and there is room for improvement

- **Highly engaged**: Employees who scored high on all three elements of sustainable engagement
- **Unsupported**: Employees who are traditionally engaged but lack the enablement and/or energy for sustainable engagement
- **Detached**: Employees who feel supported and/or energized but lack a sense of traditional engagement
- **Disengaged**: Employees with less favorable scores for all three aspects of sustainable engagement

Source: Willis Towers Watson 2016 Global Workforce Study
Total Rewards

The Employee Value Proposition and Total Rewards Framework
The Business Case for developing an aligned human capital framework

Best practice EVP companies achieve better outcomes

<table>
<thead>
<tr>
<th>Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business strategy</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Desired Culture</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Human Capital Strategy</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Measurement, Change Management, Communication and HR Technology

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From business strategy to desired business outcomes

The EVP defines the deal between the organization and its workforce

**Employee Experience**
Employees’ interactions with the company, colleagues and customers, the work environment and total rewards that drive their behaviors and engagement

**Employer Expectations**
The desired affiliation, mindset and behavior that optimize the employee's contribution to the employer's success

<table>
<thead>
<tr>
<th>Purpose</th>
<th>People</th>
<th>Work</th>
<th>Total Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company mission, vision and values</td>
<td>Leadership</td>
<td>Job content</td>
<td>Foundational rewards</td>
</tr>
<tr>
<td>Company image and reputation</td>
<td>Manager-employee relationships</td>
<td>Work environment</td>
<td>Performance-based rewards</td>
</tr>
<tr>
<td>Peer relationships</td>
<td>Tools and resources to do work</td>
<td>Career and environmental rewards</td>
<td></td>
</tr>
</tbody>
</table>
Integrate Total Rewards strategy, design and delivery for a superior EVP

Total Rewards

- Base pay
- Health care
- Retirement
- Perquisites
- Allowances
- Life and disability
- Other wellness benefits
- Wellness initiatives
- EAP
- Voluntary benefits
- Time off

Foundational Rewards

- Base pay increases (merit, promotion)
- Recognition
- Short-term incentives
- Long-term incentives
- Profit-sharing plans

Performance-Based Rewards

- Training and development
- Mentor programs
- Career management programs
- Talent mobility
- Discretionary technology
- Flexible work programs
- Corporate social responsibility
- Well-being programs

Career & Environmental Rewards

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While base pay is a critical foundation, employees have become astute consumers of your organization’s Employee Value Proposition.

<table>
<thead>
<tr>
<th>Purpose and values</th>
<th>Total rewards</th>
<th>Leadership</th>
<th>Career advancement</th>
<th>Culture and people</th>
<th>Employee experience</th>
</tr>
</thead>
</table>

- 70% believe their organization should understand them to the same degree employees are expected to understand external customers.
- 43% report having an employer that understands them in this way.

Activity: What’s in your Total Rewards “basket”??
Insights is the first step toward articulating a Total Rewards strategy, developing integrated designs and achieving effective delivery.

## Insights
- Understand the business, workforce and Total Rewards drivers of high performance

## Strategy
- Formulate an integrated Total Rewards strategy and work plan

## Design
- Improve programs and processes to optimize performance

## Delivery
- Implement changes to align programs and behavior

### Key Worksteps

<table>
<thead>
<tr>
<th>Current State</th>
<th>Strategy and principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future State</td>
<td>Programs and priorities</td>
</tr>
<tr>
<td>Challenges</td>
<td>Roadmap for change</td>
</tr>
</tbody>
</table>

### Key Deliverables

| Diagnostic to focus and accelerate strategy development; pivotal insights |
| Total Rewards Strategy, guiding principles and work plan to guide design and implementation |
| Design and synchronization of Total Rewards programs and processes |
| Implementation guidelines; alignment of Total Rewards, improvement of workforce performance |

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INSIGHTS: multiple perspectives to inform Total Rewards strategy, design and delivery

Workforce Perspective
- Provides insight regarding workforce engagement, demographics and performance

Business Plan/Performance
- Provides insight regarding current business plans, priorities and performance

Develop Insights

External Perspective
- Provides insight regarding trends and industry process and program practices

Process & Program Diagnostics
- Provides insight regarding current workforce programs and processes

Leadership Perspective
- Provides insight regarding future vision, business strategy, corporate culture and presenting issues

Multiple entry points, various project types and sizes, flexible sequencing
Beware of the “deal gap” — employee interests and needs evolve

I want to deliver innovative products and services – but I am not sure I can here.

I want job security, stability and good pay/benefits — but I see the safety net eroding.

I want a wide range of jobs and work experience – do I need to change companies?

I want career advancement, but may need to leave my company to get it.

I want more freedom and flexibility in how I work.

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To maximize your Total Rewards--invest your resources where it makes the most difference

Rewards Optimization can be applied to compensation, benefits and non-financial rewards (work/life balance, for instance) or any combination of reward categories

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A Total Rewards Optimization (TRO) combines conjoint analysis with financial optimization

- Is a surveying method used for many years in marketing to capture subjective preferences
- Asks associates to make trade-offs among program features as opposed to assessing the features individually
- Is a more reliable forecast of behavior than traditional survey methods

- Reflects cost constraints on investment
- Develops an efficient frontier of optimum allocation of investments
- Determines optimum investment level on the basis of program costs and turnover cost savings

Optimum solution may be to:
- Improve outcome (e.g., motivation / perceived value / retention) by changing allocation while maintaining the current level of investment
- Maintain current outcome at lower level of investment by changing allocation
- Increase investment and outcome to economically efficient level

Conjoint Analysis + Financial Optimization = Optimum Level of Investment

Optimum Allocation of Investment

Segment-Specific Strategy

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...and then helps you choose how best to allocate reward investment

Three Points on the Curve

Each point along the curve represents the best allocation of the corresponding total investment:

1) To **reduce total cost**, the curve identifies which programs should be reduced to reallocate investments in other areas and maintain current levels of perceived value.

2) To **maintain current investment levels**, the curve identifies how to reallocate investment across programs to increase perceived value without raising cost.

3) To **increase perceived value dramatically** and make the most of each reward dollar, the curve indicates the best ways to invest additional rewards funds.
Unearthing “hidden gems” of opportunity

### Changes in Value of Total Rewards

<table>
<thead>
<tr>
<th>Reward Change</th>
<th>STI—2X</th>
<th>Change in Reward Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merit Increase —+50%</td>
<td>5.4</td>
<td>$6.5M</td>
</tr>
<tr>
<td>401(k) Match—$1-for-$1 to 6%</td>
<td>5.3</td>
<td>$9.0M</td>
</tr>
<tr>
<td>Merit Weighting—Greater performance differentiation</td>
<td>4.6</td>
<td>$0</td>
</tr>
<tr>
<td>STI Weighting—Greater performance differentiation</td>
<td>4.5</td>
<td>$0</td>
</tr>
<tr>
<td>401(k) Company Contribution—6%</td>
<td>4.5</td>
<td>$4.5M</td>
</tr>
<tr>
<td>Medical—Premium -20%</td>
<td>3.9</td>
<td>$2.4M</td>
</tr>
<tr>
<td>Vacation—+2 days</td>
<td>3.7</td>
<td>$3.1M</td>
</tr>
<tr>
<td>STI—Half</td>
<td>-10.6</td>
<td>($34.7M)</td>
</tr>
<tr>
<td>Merit Increase—Half</td>
<td>-9.5</td>
<td>($5.5M)</td>
</tr>
<tr>
<td>Merit Weighting—COLA</td>
<td>-8.4</td>
<td>$0</td>
</tr>
<tr>
<td>401(k) Match—$1-for-$1 to 3%</td>
<td>-7.8</td>
<td>($4.5M)</td>
</tr>
<tr>
<td>Medical—OOP +20%</td>
<td>-7.8</td>
<td>($1.1M)</td>
</tr>
<tr>
<td>Medical—Premium +20%</td>
<td>-7.7</td>
<td>($2.4M)</td>
</tr>
<tr>
<td>STI Weighting—Based on company performance</td>
<td>-7.5</td>
<td>$0</td>
</tr>
<tr>
<td>401(k) Company Contribution—4%</td>
<td>-7.2</td>
<td>($3.2M)</td>
</tr>
<tr>
<td>Vacation— -2 days</td>
<td>-5.7</td>
<td>($1.9M)</td>
</tr>
</tbody>
</table>

Note: Modeled impacts of various reward changes on value in Total Rewards are not additive due to the “portfolio effect.” Modeled impact assumes all other programs stay the same. Changes in value of Total Rewards are point increments or decrements to current value of Total Rewards of 79.5 (from valid conjoint data only).

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These insights support development of a Total Rewards strategy

1 Develop Insights

ANALYZE CURRENT STATE
- Business strategy, plan, and performance
- Workforce perspective
- Process and program diagnostics
- External perspective
- Leadership perspective

ARTICULATE FUTURE STATE
- Vision
- Where we are today
- Gaps

2 Total Rewards Strategy

- Articulate overarching TR strategy and priorities
- Identify programs to be included in Total Rewards portfolio and their objectives
- Determine guiding principles for design
- Document Total Rewards strategy and design principles
- Develop change roadmap: Design, Communication, and Implementation
STRATEGY: Guides design and implementation

1. Guiding Principles for Design

- Programs will drive a high performance culture by rewarding employees for individual and collective results in driving XYZ’s business performance.
- Programs will align with business objectives in terms of affordability and scale and provide a balance of fixed and variable costs consistent with relevant external market.
- Employee will share in program costs and will be responsible for planning for their current and future needs; employees will own their careers.
- Programs will recognize education and work experience to the extent that it results in employee performance or the knowledge to take on increased responsibilities.
- Programs will provide flexibility to support the diverse needs of employees when solutions meet both business and company performance.
- The compensation and benefit philosophy will be consistent globally; programs may be customized where business or market necessitates.
- Program design will consider employee understanding, ease of administration and cost control while leveraging economies of scale and technology.
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2. Gap Analysis

<table>
<thead>
<tr>
<th>Compensation</th>
<th>Currently Aligned</th>
<th>Require Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual competitive positioning level for many job groups and affiliates</td>
<td>Job structure (technical ladders, distribution targeted)</td>
<td></td>
</tr>
<tr>
<td>Pay for performance philosophy</td>
<td>Base pay methodology</td>
<td></td>
</tr>
<tr>
<td>2017 study program changes</td>
<td>Promotion practices</td>
<td></td>
</tr>
<tr>
<td>New U.S. recognition program</td>
<td>Merit practices</td>
<td></td>
</tr>
<tr>
<td>R&amp;D Research Title process</td>
<td>Bonus metrics – individual and company</td>
<td></td>
</tr>
<tr>
<td>Performance level allocation</td>
<td>Performance Award metrics and length of performance period</td>
<td></td>
</tr>
<tr>
<td>Use of non-Sales bonus plans OUIS</td>
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<td></td>
</tr>
</tbody>
</table>

3. Directional Recommendations

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single compensation philosophy across company</td>
<td>Ability to vary competitive positioning (slanted for mission critical roles)</td>
</tr>
<tr>
<td>Aggregate compensation levels targeted at or above market median for multiple company performance with strong linkages to program design</td>
<td>Aggregate compensation levels targeted at or above market median for multiple company performance with strong linkages to program design</td>
</tr>
<tr>
<td>Linking of program design to employee performance and potential</td>
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</tr>
<tr>
<td>Building of employee understanding, ease of administration and cost control while leveraging economies of scale and</td>
<td>Building of employee understanding, ease of administration and cost control while leveraging economies of scale and</td>
</tr>
<tr>
<td>Pay increases and other compensations viewed as the only effective ways to motivate new employees</td>
<td>Focus on total compensation (includes use of tools beyond compensation to motivate and retain employees)</td>
</tr>
<tr>
<td>Annual total compensation in alignment with performance</td>
<td>Linking of program design to employee performance and potential</td>
</tr>
<tr>
<td>Use of performance management tools to track employee performance</td>
<td>Use of performance management tools to track employee performance</td>
</tr>
<tr>
<td>Use of program design to support individual skill development and retention</td>
<td>Use of program design to support individual skill development and retention</td>
</tr>
<tr>
<td>Corporate bonus plan with significant opportunities for individual performance recognition</td>
<td>Corporate bonus plan with significant opportunities for individual performance recognition</td>
</tr>
</tbody>
</table>

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Your Total Rewards strategy sets the “guard rails” for design

- **Base pay**
- **Health care**
- **Retirement**
- **Perquisites**
- **Allowances**
- **Life and disability**
- **Other wellness benefits**
- **Wellness initiatives**
- **EAP**
- **Voluntary benefits**
- **Time off**

- **Base pay increases** (merit, promotion)
- **Recognition**
- **Short-term incentives**
- **Long-term incentives**
- **Profit-sharing plans**

- **Training and development**
- **Mentor programs**
- **Career management programs**
- **Talent mobility**
- **Discretionary technology**
- **Flexible work programs**
- **Corporate social responsibility**
- **Well-being programs**

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Implementation is critical to a successful Total Rewards program and a superior EVP

**Total Rewards**

**4 Program Delivery**

**COMMUNICATION**
- Manager readiness to communicate & support Total Rewards decisions
- Employee & manager understanding of and trust in Total Rewards processes & outcomes

**PROCESS**
- Accurate & efficient delivery processes
- Alignment with other HR programs, with EVP as the compass
- Decisions informed by understanding of what employees actually value

**TECHNOLOGY**
- Efficient and effective decision making
- Robust analysis and reporting
- Enhanced employee experience

**GOVERNANCE**
- Clarity on decision making
- Local vs. global
- Defined success metrics and proactive course correction
- Leadership that stands behind Total Rewards principles and decisions
Total Rewards Themes for 2017—Rethink your Total Rewards Basket

Focus on specialized value proposition and employee consumerism

### Performance-Based Rewards

**Foundational Rewards**

1. **Update programs** designed before recession
2. **Review peer group** due to rapid market changes
3. **Focus benchmarking and preference analysis on critical skill talent** and key employee groups
4. Employees desire **more security** and are willing to **pay** for it
5. Health, financial and engagement issues cluster together (integrated health and financial well-being strategies and programs)
6. **Shift to more choice and consumerism**
7. **Evolution of private health care exchanges**
8. **Optimize retirement** program performance

### Career & Environmental Rewards

**1. Technology-enabled/virtual training and development**

**2. Sponsorship and mentoring programs**

**3. Enhanced focus on Inclusion & Diversity**

**4. Portal-based career management programs**

**5. Expansion of contingent workforce**

**6. Targeted access to supplemental technology**

**7. Expansion of flexible work arrangements**

**8. Formalized corporate social responsibility programs**

**9. Increased focus on physical work environment**

**10. Unique company-specific perks/discounts**

### IN GENERAL:

- Optimize program **value** based on employee preferences and business performance
- Advanced **employee segmentation** research and definition
- Redefine “buckets” around employee value points (“theirs, not ours”)
- Health care and retirement changes drive shift to a focus on the **portfolio**
- Focus on true **Total Rewards spend** (all buckets)
- **Technology-enabled** analysis, design and administration
- **Digital access** for managers and employees
- Articulation of employment and Total Rewards **brands**
- **Targeted communication** to defined segment categories
- **Consumer-grade** employee experience (message and medium)

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