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Organizational Wellbeing & Talent Insights

Challenge Your Point of View

U.S. Edition

Gallagher

Insurance | Risk Management | Consulting

Collaborative relationships drive competitive talent management strategies in a dynamic global economy. The articles that follow provide information, data and insights to help CEOs, CFOs and HR leaders better address some of their most pressing concerns — together.

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The intent of this document is to provide you with general information regarding the status of, and/or potential concerns related to, your current employee compensation and benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, and is not intended to provide, legal advice. Questions regarding specific issues should be addressed by your general counsel or an attorney who specializes in this practice area.

Better together — the interconnected nature of today's workforce, effective leadership and organizational wellbeing

A new approach to the pursuit of better organizational wellbeing is needed in today's business environment. Operations, finance and HR can no longer function adequately in silos when success requires a strong connection between the company's strategy and the executive team's priorities and resources. The CEO's vision and strategy execution, the CFO's management of risk and financial sustainability, and the HR leader's development and implementation of compensation and benefit programs have all become table stakes. When these abilities are closely aligned, they can effectively address the increased costs, shorter decision cycles and higher complexities of managing talent.

To help organizations bring out their better, Gallagher has created an approach to compensation, benefits, retirement and employee communications — Gallagher Better Works℠ — that addresses the interconnected nature of health, financial security, engagement and culture. Key areas of focus include assessing the effects of this relationship on productivity and turnover, and finding opportunities for improvement. From any starting point, any employer can drive progress toward better talent attraction and retention outcomes by promoting innovative, aligned programs.

There is no single solution for attracting and retaining employees that works equally well for all employers, but there is a singular process for filling that void. Coordinated changes in the employee wellbeing investment portfolio, including the physical, emotional, financial and career dimensions, can resolve current challenges and promote the growth of the entire company.

These investments are essential to remaining relevant and gaining ground in the markets for both business and talent. And they need the support of strong HR technologies, solid compliance frameworks and effectively targeted communications.

Managing talent by aligning incentives

Employers focused on growing their businesses are more clearly identifying what needs to be done better. Core to this conversation is a strong workforce planning framework that matches the right employees to the right number of required roles.

These pairings should sync with changing business needs at an optimal level of labor cost and productivity. Often, improvement efforts also involve leveraging an effective balance between base salary and variable incentive compensation. This includes offering non-qualified deferred opportunities to help retain key talent, and addressing pay equity to support the employer brand.

Driving engagement through culture

If the goal is transforming organizational culture into a competitive advantage, strong values and a compelling vision for the future need to be shared with the workforce and aligned with their incentives. Key drivers of engagement include career wellbeing opportunities and personalized, consistent and comprehensive communications that reach employees with the right message at the right time. Transparent commitments to diversity, corporate social responsibility and a respectful workplace are often top selling points for both attracting and retaining employees. A strong culture can also be reflected in a strong employer brand, instilling pride in current workers and capturing the attention of future workers.

Coordinated changes in the employee wellbeing investment portfolio, including the physical, emotional, financial and career dimensions, can resolve current challenges and promote the growth of the entire company.

Using employee preferences to prioritize total rewards

Competition for today's multigenerational employees is forcing changes in compensation and benefits plan design. Adding flexibility around the preferences of distinct employee populations produces a total rewards package capable of meeting diverse needs. And customizable options like student loan refinancing and pay-down plans, or voluntary insurance coverage are especially appropriate for the times. They can reduce financial stressors, create risk protection and stretch the value of employee earnings.

Adopting new healthcare models to address costs

More employers are turning to innovative healthcare tactics like telemedicine and cost-transparency tools to guide better employee decision-making, both cost-effectively and conveniently. Meanwhile, disease management programs offer help with chronic conditions, and value-based medical tactics such as designated centers of excellence promote more affordable, high-quality care. There's also a trend toward reviewing healthcare approaches and evaluating funding strategies to better fit within the boundaries of cost, fees and risk.

Opportunities in a fast-moving, ever-changing global economy wait for no one, but uncertainty about the future is conquered with confidence in the organization's present leaders, strategies and state of wellbeing. Leadership models are evolving as CEOs, CFOs and HR leaders have begun to plainly see the need to evaluate real-time workforce metrics and employee wellbeing data. And they understand the importance of this process for all areas of current strategy and operational decision-making. When it becomes second nature for leaders to collaborate on linking employee health and engagement with organizational culture and outcomes, employers and employees alike will benefit.

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CEO, Gallagher Benefit Services, Inc.

Bill oversees the strategic operation and management of Gallagher's global benefits and HR consulting business. He brings more than 30 years of consulting and problem-solving experience to this role. As the chief driver of client-service excellence, Bill continues to guide and inspire top performance across the organization.

CEOs

Envisioning and elevating the competitive advantage of organizational culture

A tight labor market creates pressure to offer the most expensive and extensive compensation and benefits. Under these conditions, resisting the urge to chase quick wins can pay off — if the long game is a focus on culture.

Compensation and benefit packages are easily matched or exceeded by competitors. When leadership centers their talent attraction and retention efforts on cultivating a better work environment and experience, they're investing in a sustainable and profitable approach to talent management.

Research has explored the link between culture and business outcomes. Recent findings from Columbia University suggested the intention to change jobs and employers, within a year, was very likely for 48.4% of employees at "low culture" organizations, compared to 13.9% at "high culture" organizations.[1]

A competitive value statement

Good cultural intentions aren't quite good enough in a competitive talent marketplace where younger generations are known to possess and express a "prove it" attitude — but a well-defined value statement makes a firm commitment. This proposition sets both employee expectations and employer guidelines for meeting them. For instance, it provides the foundation for a rewards package and employee programs that fully support recruitment, retention and cost management goals, as well as shareholder interests.

When employees and potential hires consistently experience these stated values, they're more likely to feel a sense of belonging that builds trust and confidence in the organization. The value proposition is also a unifying force for aligning the hiring, promotion and succession planning processes. It helps attract people with the same ideals who are more likely to stay and grow with their employer.

Shared goals and vision for the future

A clearly articulated and communicated vision makes it easier for employees to relate their roles and goals to the organization's mission. To keep this connection meaningful, employers should look ahead to the needs of the next workforce generation. Investing in technologies and analytics to periodically measure and address evolving workforce priorities will continually transform the culture, and drive performance.

This focus is about helping employees see what's ahead of them and establishing the plans, partnerships and other support they need to face their futures with confidence. When this happens, they become more engaged and better able to withstand external disruptors like changing economic conditions. In a recent survey analysis, organizations that ranked as top performers — at managing both healthcare costs and HR — excelled at making sure employees know their individual contributions are valued.[2,3]

Closer alignment of incentives

An integrated approach to supporting employees' health, career interests and financial needs is a compelling bid for attracting highly qualified talent. Prospective candidates recognize the underlying compensation and benefits as a commitment to an exceptional employee experience. And integrating succession planning into talent management further enhances retention efforts and results. It's important to identify and define roles, make good use of data, and institutionalize talent development and career wellbeing to keep growth opportunities strong.

Healthcare benefits are still in high demand with no cost relief in sight. And now that cost shifting to employees is a greater deterrent to securing talent, employers need to home in on the unique drivers of their healthcare spend. Directly addressing these drivers helps keep benefits affordably attractive.

At the far end of the employment time span, retirement has been slowed by lack of financial readiness. Employers will be better able to counter these trends if they connect employee and organizational wellbeing with methods and resources that build resilience. Repositioning existing benefits and adding affordable, newer options can provide cost-effective solutions.

Total rewards form the backbone of a culture that promotes affinity. The more closely they align with workforce demographics and job types, the more strongly they appeal to employees — and serve as reliable attachment points to the organization.

J. Patrick Gallagher, Jr.
Chairman, President and CEO

Pat has served as CEO since 1995, and in 2006 was named chairman of the board. In addition to his leadership roles within the company, he is active in numerous industry and charitable organizations where he often contributes as a board member and/or advisor. Pat has been recognized for his long-standing commitment to professionalism and bringing new talent into the insurance industry.

Attracting the right talent with better rewards designed for a better employee experience

Attracting top talent and enhancing organizational wellbeing are interconnected — advancing one goal moves the other forward. That's because a well-earned reputation for a great workplace culture, anchored by competitive compensation and benefits, draws job candidates who strengthen wellbeing. They're motivated by their environment to perform at their best.

By taking a holistic approach to employees' physical, emotional, career and financial wellbeing, employers can make the most of compensation and benefits. An integrated focus on these interrelated needs helps attract a multigenerational workforce at the right cost structure. And when this happens, the odds favor an exceptional employee experience that drives higher engagement and better business results.

The keys to successfully attracting talent

An intentional approach to recruiting that's well thought out and mapped in advance leads to better outcomes. Part of this proactive effort should take place outside the talent marketplace — with a focus on the quality of the employee experience inside the organization. That's why the keys to attracting the right talent include not only clearly defining the employee role and candidate profile, but also offering transparent and balanced rewards as well as creating a strong reputation for workplace culture.

KEY BENEFITS PROMOTING EMPLOYEE AND ORGANIZATIONAL WELLBEING		
Career	**Financial**	**Physical and Emotional**
• Training and development opportunities • Defined short-term and long-term career paths • Clear expectations and consistent feedback	• Competitive compensation • Retirement planning and investments • Life, disability and long-term care insurance • Financial literacy and related education	• Attractive health insurance • Paid time off • Dental and vision coverage • Voluntary benefits

Clearly defined employee role

Finding and hiring candidates who are a good fit for a position starts with clearly defining and documenting roles, responsibilities, goals, accountability expectations, progress metrics and rewards — right from the outset. Transparent communication on how business and performance management decisions are made also inspires trust up front.

The scope of available personal and professional development should be clearly outlined within the role, and include regular reviews and updates. Managers who converse openly and individually with team members about development, performance and rewards will be more attuned to these employees' needs and priorities. At the same time, they'll gain instructive insights on supporting each person's career wellbeing. Besides these immediate benefits, there's often an opportunity to identify shared perspectives and common preferences among employees, which helps them hone role descriptions for a better match with future candidates.

Clearly defined candidate profile

Success in attracting talent correlates with having a firm grasp of the qualifications needed — from both the employer and candidate points of view. Employers should understand how generational differences may influence the importance of certain workplace cultural characteristics and benefits, and keep them in mind during the recruiting, vetting and hiring processes. For instance, a solid reputation for career path support and corporate social responsibility (CSR) often appeals strongly to workers in the earlier stages of their careers. Yet only 14% of employers have a clearly stated CSR policy.[1]

Organizational levels can also inform and alter the approach to recruiting and hiring talent. A focus on job security and work fulfillment is important for attracting leaders and other employees with established careers, as well as ensuring they're a good fit. For entry-level candidates, training and development tend to be high priorities, and an inviting and energizing organizational culture ranks somewhere on the list for just about everyone.

Transparent and balanced rewards

Frequent and consistent reviews of pay structure can expose imbalances and gaps across job levels, revealing possible needs or opportunities to make adjustments. Comprehensive changes may not be realistic, but intelligence that provides a comprehensive take on the current reality guides prudent decisions.

Incremental adjustments to rewards help set employers on the right course for offering more competitive pay, benefits and other rewards — aligned more closely with employee values. A total rewards statement can be a powerful tool for communicating the full value of the employer-employee compact to individual employees. It should include monetary and non-monetary rewards that support career, financial, physical and emotional wellbeing.

Strong reputation for workplace culture

High engagement and low turnover are indicators of employee pride and a great organizational culture. Likewise, an employee's engagement level is a measure of how they perceive the overall quality of their workplace opportunities and experiences. While most job candidates have no direct frame of reference for engagement potential, secondhand information is everywhere.

Connections to people, facts and opinions are easily and widely available across a broad conglomerate of social networks and relationship platforms. Employees readily share — and candidates eagerly seek — insights into workplace culture. According to a 2017 survey, the number-one reason candidates chose one job over another was company culture (23%), followed by career progression (22%) and benefits (19%).[2]

A reputation for a strong culture clearly counts in attracting as well as retaining top talent. Yet in another recent survey, just over half of employers said they have a highly engaged workforce, and 30% reported a turnover rate of 15% or more.[1] These findings underscore the importance of investing in policies and programs that provide a better employee work experience, especially in a highly competitive labor market.

There's also evidence that HR management and healthcare cost control results are linked to providing employees with interesting and challenging work. More than twice as many employers that excel in both of these areas (58%) made an effort to provide gratifying work, compared with their peers (24%).[3]

These employers are also likelier to reinforce engagement by supporting employees' career growth, including establishing processes to help managers communicate clear performance goals, give constructive feedback and address development needs. And more often, they recognize contributions by communicating to employees how their work performance positively impacts the organization's strategy, mission, vision and values — at a rate that's 30 percentage points higher.[3]

Employers can also make inroads into an improved workplace culture by conducting an engagement survey. Checking in with employees periodically about their perceptions and experiences gives them a voice in decisions that affect them, and shows respect for their changing wants and needs. In addition, regular employee feedback provides an avenue for competitive benchmarking, and maintaining a steady flow of insights to enrich organizational wellbeing.

The value of retooling total rewards as a total experience

There's no denying that compensation and benefits are two critical sides of the equation for attracting employees, but the value of those wages and benefits can rise or fall within the context of the overall work experience. Truly well-rounded rewards are packaged with strong leaders who understand the importance of effective communications, clearly defined employee roles and goals, ongoing support for career development, and deliberate performance management.

Lower employee replacement costs and increased productivity are the return on investing early in attracting the right talent — and succeeding. And when these new employees become engaged, self-motivated internal brand champions, they elevate the competitive power of their employer's external reputation.

30%

REPORTED A TURNOVER RATE OF 15% OR MORE[1]

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Kevin leads a consulting group dedicated exclusively to compensation, benefits and governance. His expertise ranges from evaluating total compensation programs and designing performance-based incentive plans, to developing global compensation philosophies and educating trustees and executives on the latest regulatory issues and industry trends.

Preventing engagement erosion during times of external uncertainty

Retaining top talent starts with creating strong attachment points that can weather the inevitable ups and downs of business performance. Recent research backs this conclusion with the finding that employee engagement drivers change over time because they reflect larger macroeconomic or geopolitical trends.[1] Zeroing in on three unique points in recent history showcases engagement variations — and strategies for inoculating employees from demotivating forces during stable or unsettling times.

Self-interest is strongest in a good economy

The year 2005 was marked by a brisk economy and relatively low unemployment. During this time, the key drivers of workforce enthusiasm and productivity were self-focused — with growth and development opportunities at the center of employees' radar. Recognition, communication and feedback from individual work units and immediate supervisors contributed the most to a positive experience.

When the labor market is strong, career wellbeing support is exceptionally important because employees are more confident and aware of their value. Employers can capitalize on this environment by proactively creating opportunities for growth and rewards to show their workforce commitment and more successfully drive engagement. Structured performance reviews, awards, recognition and training — including leadership development — help keep people energized and immersed.

Organizations recently ranked as top performers in managing HR and healthcare costs had a strong tendency to use tactics that promote employee engagement and career growth. Namely, compared to other participants in a 2018 survey, they were far more likely to define clear performance goals, give timely and constructive feedback, identify development needs and create action plans. And more often, they linked employees' efforts to positive effects on the organization's strategy, mission, vision and values; supported them in developing and pursuing a career path; and provided interesting and challenging work.[2,3]

Economic uncertainty draws employee attention to broader priorities

During the Great Depression, a study assessed the attitudes of 4,430 employees and, in 1933, researcher Richard Stephen Uhrbrock authored an enlightening follow-up article. He concluded that communication from senior leadership was the most important factor in creating a workforce that feels stable, fulfilled and satisfied — at times when the economy is in turmoil.[4] Fast-forward to 2009, when a full-steam subprime mortgage crisis was crippling an already hobbled economy and accelerating job loss.

Data collected from multiple 2018 engagement surveys showed a remarkable shift away from employee self-interest alone in 2005, toward inclusion of broader organizational considerations.[1] And, like the period of duress experienced more than 75 years earlier, a critical engagement driver was confidence in senior leaders as well as hearing from them. Communications were a priority in both good and bad times.

THE DYNAMIC NATURE OF ENGAGEMENT DRIVERS

(Drivers are shown in order of priority for survey participants)

2005	2009	Today
SELF-FOCUS: Teamwork, growth and development, recognition, and the relationship with the immediate manager or supervisor	**STEWARDSHIP AND QUALITY:** Confidence in senior leaders, organizational strategy, product and service quality, job security, and growth and development	**STEWARDSHIP, QUALITY AND SELF-FOCUS:** Confidence in senior leaders, product and service quality, the relationship with the immediate manager or supervisor, recognition, and growth and development

Supporting data is drawn from a sample of 600+ organizations in multiple industries and U.S. geographies.

What mattered most to employees was being informed of their organization's performance and the actions leadership was taking to achieve success. They also wanted to know that its products and services could stand the test of time. Their overall sense of security hinged on both the quality of output and their confidence in leadership.

There's a clear message in these consistent findings for organizations striving to maintain a sense of stability and satisfaction in a turbulent environment: communication is their most powerful ally. A disciplined and targeted approach to this priority reinforces a shared understanding of vision, mission and values, and enables employees to feel connected to each other and their employer. Maintaining a regular cadence of communications under stressful circumstances — even in an emergency — simply requires altering and repurposing existing messages to fit the current environment and needs.

Top performing organizations stand out from their peers for communicating in a way that encourages trust and confidence.[2,3] No matter what the state of the economy or its influence on employee stress may be, effective communication helps improve engagement outcomes. Without it, there's an increasing possibility of employee burnout or even resentment that can lead to a toxic work environment. And with it, there's the invaluable probability of increasing a sense of pride and job satisfaction that could even become contagious.

Today's environment calls for a comprehensive engagement approach

Today's macroeconomic and political environment is complex. The economy and job market is thriving, but political tensions in the U.S. and abroad are running high. So it's not surprising that 2018 engagement drivers combine those that were identified in both a stable and prosperous 2005, and a fraught 2009 characterized by an economic slump.[1]

This duality means that employees' self-focus now coexists with their concern about outward organizational issues — and employers must cultivate engagement through multiple channels. Especially important is helping the workforce build toward a better, more secure future through career wellbeing opportunities, alongside a comprehensive yet flexible communication approach.

Reaching and sustaining the end goal of a productive, satisfied and loyal workforce happens more quickly and smoothly when employees' perceptions and priorities are consistently measured and monitored. In any situation at any time, employers can determine what motivates and engages their employees to develop or refine an action plan that drives engagement.

They're better equipped to shield their employees from the pressures of external stressors and prepare them for an inevitable economic downturn — while building and reinforcing a more resilient brand of employee goodwill and commitment. Ultimately, that's how organizations compete more strongly and thrive.

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Engagement Surveys

David oversees a team of highly skilled researchers and ensures the delivery of leading-edge measurement capabilities, advanced empirical analyses and innovative research studies to inform clients' operations and strategies.

Achieving sustainable health benefit costs by focusing progress on four key drivers

Spending on employee health benefits is an increasing part of overall expenses, crowding out investment in growth and making the issue an escalating concern for the C-suite. Recently, this routine challenge intensified due to the declining practice of cost shifting through higher employee deductibles, copays and coinsurance rates. What was once a core tactic for cost containment has generally passed the point of diminishing returns.

To help solve this latest configuration of the healthcare riddle, employers first need to determine the unique underlying factors driving their healthcare spending, and then implement strategies that directly address them. The starting point is conducting an analysis of organizational data to understand the employee population's state of health — including the results of health risk assessments as well as healthcare claims utilization and spending patterns.

Most employers will uncover four common drivers of health benefit costs. A high prevalence of chronic health conditions such as obesity and diabetes, as well as hypertension and other cardiovascular diseases — often linked to poor health habits — is probably familiar. The prospect of encountering highly variable quality and costs of provider-delivered healthcare is also strong. And escaping the problem of epidemic opioid misuse that affects all U.S. population segments would be unusual. Fortunately, applying effective cost-containment strategies in all of these areas increases the likelihood that overall progress will be greater than the sum of its parts.

Promoting population health management programs

Across every employee population there's a distribution of health status from top to bottom. Some people are fit, and others are either at risk for developing chronic conditions or already coping with disease as high-cost claimants. Non-claimants moving down on this scale are ticking time bombs from a healthcare cost standpoint. With the support of health management programs, employees in need can work to prevent chronic health issues from developing or getting out of control.

It's imperative to help at-risk employees stay healthy through programs that identify and engage them in wellbeing programs and the healthcare system. Employees already living with a full-blown health condition also need the proper care to effectively control its effects — helping them avoid the emergency room and inpatient care. In some cases, interventions can even reverse disease progression.

FOUR STRATEGIES TO ADDRESS COST DRIVERS OF KEY HEALTH BENEFITS	
1	Population health management programs
2	High-performance narrow networks
3	Opioid dependency prevention and treatment
4	Proactive management of specialty pharmacy

Encouraging the use of high-performance narrow networks

More employers are recognizing the importance of directing employees to higher quality, lower cost providers and facilities. In 2018, 17% used narrow networks, and that percentage is expected to reach 26% by 2020.[1] Greater transparency of data on quality and cost has made it easier to compare provider care across the country, in local markets and even within a single provider organization. The variation can be shocking. Pricing gaps for some procedures may be as broad as 3-5 times or more, from lowest to highest, depending on the provider and the site of care.

Patient health outcomes may also differ significantly, impacting the total cost of care that includes treating complications from a procedure. And unlike most other industries, higher prices in healthcare are not necessarily correlated with higher quality.

The primary strategies for helping ensure that employees choose preferred providers are to mandate the use of high-performance narrow networks, or incentivize this option through tiered-network plan designs. Providers include centers of excellence for specific procedures or conditions.

When contracting with narrow networks directly or through health plan administrators, employers can negotiate discounted pricing in return for greater patient volume. Contracts may also include payment models that incentivize the providers to deliver better care at a lower cost. Another option is to use healthcare navigators that recommend preferred providers and facilities to employees — an approach that's available with or without a narrow network benefits plan.

USE OF NARROW PROVIDER NETWORKS[1]

17% 2018

26% BY 2020*

*PROJECTED

Actively addressing opioid dependency prevention and treatment

One of the hard truths of the opioid epidemic is the fact that prescription medications provided through employer-sponsored health plans contributed in large part to the crisis. Tragically, roughly 1 in 4 patients prescribed these drugs for chronic pain misuse them — and around 1 in 10 will develop an opioid use disorder (OUD) requiring treatment for recovery and sobriety.[2] Among the biggest inhibitors of effective employer action is the stigma of addiction. And many employers just don't know where to start.

Strategies and action plans are now available to help employers confront and better manage the workforce challenges of OUD. A proactively developed, holistic approach to policies, programs and benefits focuses on accessible alternatives in three critical areas — managing chronic pain, removing barriers to evidence-based treatment and educating health plan members to self-advocate. Establishing a comprehensive drug-free workplace policy that includes testing for synthetic opioids supports these objectives. And success is reinforced by giving employees who test positive or self-identify a second chance — allowing them to return to work after treatment.

The engine for activating this solution is a well-rounded employee communication platform, which uses supportive messages to emphasize "this could happen to anyone" and "OUD is a disease and not a moral failure." In addition, this platform can confidentially connect employees and their family members with recovery and treatment resources through an employee assistance program. Guidance for patients on talking with their physician about opioid alternatives, and training for supervisors on identifying and privately addressing at-risk employees also boosts the potential for positive outcomes. Throughout, transparency and compassion will reduce fear and anxiety about workplace retribution — encouraging employees to come forward and seek treatment.

End-to-end solutions like this help employers maintain a safe workplace. They're instrumental in addressing substance abuse and reducing its heavy financial toll and other costs — by enabling affected employees to once again be productive contributors to the organization.

Proactively managing specialty pharmacy use

Increasingly, employers are more actively controlling the growth of spending on specialty drugs. Although these prescriptions are only a small subset of the entire pharmacopeia, they drive about 50% of costs and represent 1%–2% of claims.[3] Their redeeming quality is that many represent breakthrough life-changing or life-saving therapies — but the growing number of pricey specialty medications for treating an expanding quantity of conditions poses a challenge.

The uncertainty of price and treatment variables sometimes makes it difficult to predict prescription drug costs in a given year. Predictive modeling can more sharply define the cost challenge of specialty drugs, and help employers identify appropriate plan designs and policies. In many cases, those policies will include prior authorization and step therapy as measures for verifying the patient is receiving the right therapy for their needs.

Prevalent chronic health conditions, variable healthcare quality and costs, the persistent opioid epidemic, and proliferating specialty drugs form the four quadrants of healthcare cost opportunity. By focusing containment efforts in these areas, employers can build momentum toward more stable, sustainable investments that consistently meet the health needs of employee populations.

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National Pharmacy Practice Leader

Seth drives the national pharmacy practice strategy and assists with consulting, auditing, benchmarking, implementations and Medicare Part D support. He focuses on helping clients achieve their pharmacy benefit management goals at significant savings.

Jill Goldstone
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Primarily focused on innovation, Jill brings leading-edge solutions to clients. She recently collaborated on a program to address opioids in the workplace, aimed at resolving stigma and building support and recovery strategies. Jill also assesses vendors to identify capabilities that match clients' needs.

Mark Rosenberg
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Mark guides his team in providing clients with accurate quantitative monitoring and an effectively managed health plan experience. He consults on topics such as cost-savings approaches and population health management.

Transitioning from succession planning to talent management

Succession planning is a formal, proactive and deliberate process that determines the key people who will be most qualified and ready to move into vacated positions. Although this ritual is important for smooth transitions and ongoing organizational wellbeing, decision makers may be tempted to avoid it. There can be a reluctance to have direct discussions about retirement with incumbents, or a fear of losing revered leaders. And discomfort with the prospect of challenging career development conversations is another common reason.

Investing the necessary time and resources in what should be a careful and thoughtful deliberation can be demanding. However, reframing conversations with incumbents and potential successors to focus on "what's next in life" can smooth that process. A closer look at individual goals and plans — and how the job does or does not support them — leads to an engaging, open and productive exchange of information and ideas.

Rather than a snapshot in time of who the candidates are and where they are in their progression, succession planning can be part of a broader talent management process that fosters the next generation of leaders. The question is how to transition from succession planning to talent management?

Identify and define roles

Members of the board often prompt succession planning as part of their oversight of risk mitigation, including covering key executive roles in the event of a quick exit. Although C-suite and other prominent positions are typically covered in the plan, there's an opportunity to more effectively manage talent succession and reduce risk by including as many roles as the organization can afford.

This exercise requires clearly identifying not only the roles to fill, but also their requirements and drivers of success — including core competencies, skills and other criteria related to the organization as well as the specific role. Forecasting near-term and long-term workforce needs and considering significant influences will produce better results. Some of the more relevant factors to evaluate are plans for retirement, turnover trends, employee engagement and satisfaction, compensation competitiveness, management training and employee readiness.

The output of this process may include leadership competency models, updated job descriptions, and a list of roles to include in the succession plan from the C-suite on down. At the outset of planning, it's important to define and communicate the scope of the identified roles, and who will do the evaluating and planning — for instance, direct managers, past managers, a third party, the board of directors or others. Small firms may involve the CEO or senior leaders. Whatever the approach, employees should have a clear understanding of these process details.

There should be 7 potential CEOs in your company across several generations. Do you know who they are?[1]

Make good use of data

Another opportunity is taking a more comprehensive approach that integrates data and insights to improve processes and outcomes for managing talent succession. A basic nine-box matrix for succession planning has been used for years to evaluate past performance and leadership potential. Within this model the x-axis assesses performance, the y-axis assesses potential, and the employee is assigned to the box on the grid where their "x" and "y" ratings intersect.

While this simple concept is easily applied, it has some drawbacks when used alone. The nine boxes consider only current performance, lack uniform criteria, and rely entirely on the direct manager's experience and opinion. More complete, data-driven approaches introduce past performance appraisal ratings, a 360-degree assessment, and interviews with incumbents that create a comparative profile of their strengths, areas for improvement and career goals. An analysis of all inputs forms a sharper picture of future placements that are likely to be the best fit. Findings also inform specific and constructive suggestions for progressing people to the next level — by helping them stay put or realigning roles.

Besides improving the quality of information, organizations can increase planning efficiency through technology investments. With cloud-based programs, leaders' transition and development plan data is easily updated and shared across the globe.

Data for individuals should cover the position description, scope of responsibility, leadership work history, leadership style dimensions, age and other demographics. Plans for retirement, performance and development priorities, and long-range personal and professional goals for advancement complete the profile. Automation is another important capability because it allows for a flexible, fluid process where nothing is set in stone. Assessments and ratings can change, interests may shift, and organizational needs always evolve.

Institutionalize talent development

As a critical element of talent development and career wellbeing, succession planning contributes to the stability of the organization's future by shaping a better employee experience and workplace culture. Individualized support for planning and achieving goals helps employees match their experience to their expectations.

CEOs establish the environment for talent development and, as business leaders, they're uniquely positioned to inspire its success. However, while top leadership defines and conveys the organization's commitment to this cultural priority, HR facilitates progress by providing the right structure and tools along the way. For example, performance reviews can be designed to track and reward managers for achieving promotions, or developing and preparing direct reports who move into more fulfilling roles.

An alternative to role-specific succession planning is talent pools. Instead of pinpointing the next CEO, this relatively new approach identifies executive talent pools that show C-suite potential. The overall advantage is a better line of sight across the organization into individuals whose aligned capabilities are a fit — including leadership competency, technical skills and strategic capacity. The visibility these pools create also makes it easier to uncover qualified prospects, who may have been overlooked because they haven't had face time with executives.

Communicate with transparency

Culture dictates the degree of transparency to use when notifying people of where they land on the list of succession candidates — or if they don't fit into the plan. To the greatest extent possible, managers should be direct with feedback, support development plans and manage expectations. Employees need to be told where they stand relative to realistic career goals, and notified of opportunities to grow or enhance skill sets or other abilities.

Above all is the importance of celebrating successes. Promotions are opportunities to have in-depth, productive conversations that either encourage high-potential candidates to stay, or support talent with other opportunities to work more purposefully toward reaching their goals.

Integrating succession planning into ongoing talent management enhances efforts and results. Development plans customized with programs like mentoring, coaching and stretch assignments fortify organizations with resilience to change by strengthening employees with the readiness to take on their next career phase. When enough time and intention are put into a workforce plan — that's openly discussed and regularly updated — succession planning becomes a welcome proposition and a highly valuable investment.

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Genevieve serves as a trusted advisor to leaders who want to create great places to work. She specializes in helping organizations manage and develop their talent through services that include leadership development, organizational development, executive coaching and assessment tools.

Fostering financial wellbeing to promote organizational and individual resilience

Employers are confronting a workforce evolution defined by shifting roles and aging talent that affects attrition, retirement and workplace agility. Notably, a recent study found that debt negatively influences retirement savings for 43% of workers.[1] When there's a desire to retire but a lack of financial ability, the delay drives up the direct or indirect costs of salaries, healthcare benefits, presenteeism and talent acquisition.

These factors all impact employee goals and business results. Yet most organizations (65%) are unaware of their financial exposure related to overextended employment.[2]

43%

WORKERS WHOSE ABILITY TO SAVE FOR RETIREMENT IS NEGATIVELY INFLUENCED BY DEBT[1]

Fostering financial wellbeing can promote organizational and employee resilience, and research provides a useful framework for exploring this idea. It's based on three characteristics of resilient behavior that include the ability to accept reality, find meaning in beliefs and values, and show exceptional resourcefulness.[3]

Make the connection between financial wellbeing and resilience

Accepting reality

Related to retirement readiness, the transition from a more paternalistic defined benefit (DB) plan to defined contribution (DC) plans — focused on individual responsibility for investment strategies — has accelerated. So a key question is whether employers and employees truly understand and fully accept the facts and implications of their current situation.[3]

The Pension Protection Act of 2006 aided retirement plan asset allocation through default investment options, including target date fund enrollment, automatic deferral increases and auto-enrollment. However, the market for educational resources was slow to mature. An unfortunate consequence is that many employees now lack the financial literacy required to make decisions that help secure on-time retirement.

And this could put them in a bind when medical expense estimates for the average couple at this life stage have reached $285,000 in today's dollars — not including long-term care.[4] To manage this reality effectively, employees need direct education on retirement expenses such as likely changes to Social Security, increased life expectancy and average medical expenditures after age 65.

A review of workforce evaluation findings can shed light on a lack of retirement readiness within a specific demographic, and help identify particular stressors among that population. For example, an analysis could reveal a lower than necessary savings rate for millennials, or a higher than normal loan or hardship withdrawal rate for mid-career employees. These findings suggest more precise targeting with customized outreach and communications specific to their needs.

Finding meaning in beliefs and values

Resilient people and organizations have strongly held values and beliefs that serve as a foundation for interpreting and shaping their environments and experiences for the better. In fact, one important pathway to creating a culture where people can thrive and perform at a higher level is developing and sustaining financial wellbeing as part of an overall employee wellbeing strategy.

Financial wellbeing programs are in place at 28% of organizations, where they signal a firm commitment to help employees save, spend, invest and plan for their financial future.[2] Whether employers are just getting started or expanding their programs, it's important for them to understand the one they currently have.

A clear grasp of available resources, and how they support employees' financial decisions and retirement preparation, is a key to success. Examples of these assets include tools offered by the recordkeeper as well as plan design benchmarking and trends. The plan and individual outcomes should be regularly revisited to determine any adjustments needed to meet the retirement readiness target.

Showing exceptional resourcefulness

Resilient people and organizations don't muddle in the murk of circumstance; they look to invent solutions and construct the new reality to which they aspire. There are many ways to improve financial resilience, including educating employees, using existing support tools differently, applying behavioral finance principles and tracking market innovations.

Research shows top-performing employers that excel at managing HR and healthcare costs are more likely to offer financial education resources.[5,6] Many foster financial wellbeing by evaluating the alignment of resources to each life stage and phase of the financial journey. Effective communication on topics, including regular projections of DC balances to age 65 and conversions to income streams, helps translate the real-world impact of savings at each point along the timeline.

Use existing tools in new ways

Resilient organizations find ways to repurpose the tools they already have — including health savings accounts (HSAs). While it's common to position HSAs as a medical benefit (71%), highlighting their retirement value (15%) can encourage more savings.[2] Another HSA selling point is their triple tax advantages. Contributions reduce employees' taxable income, their account earnings accumulate tax-free, and account distributions for qualified medical expenses remain tax-free.

EMPLOYEE RETIREMENT PLAN PARTICIPATION — BY THE NUMBERS

18 AVERAGE INVESTMENT OPTIONS[7]

3 AVERAGE FUNDS USED[8]

FOR EVERY 10 FUNDS ADDED, PARTICIPATION FALLS 1.5%–2%[9]

Apply behavioral finance principles

A direct method of increasing employee savings is to drive retirement plan participation by limiting investment options. For every 10 funds added, participation drops 1.5%–2%,[9] yet most employer plans offer 11–20 (44%).[2] The Department of Labor mandates a minimum of three options for diversification purposes — the same number that participants typically use.[8] Generally, choice is seen as a positive, but too much makes differentiation challenging.

Track market innovations

Evaluating market innovations can uncover opportunities to enhance and adjust tools to better fit workforce needs. For example, participants in or nearing retirement may want access to a retirement-specific tier to make withdrawing funds less complex and more predictable. Another option, offered by 47% of employers, is a managed account service that provides individuals with a customized asset allocation.[2] This may be a good fit for a diverse workforce with different financial profiles, or for individuals who need a personalized approach to their investment portfolio.

The overall key to resilience is working constructively to improve what's manageable. Prioritizing employees' financial wellbeing — with the support of direct communications, repositioned resources and innovative offerings — helps alter their near-term spending habits and financial stressors for the better. Long-term savings can then follow, improving on-time retirement and real-time business outcomes.

Bruce Johnson
Area Senior Vice President,
Actuarial & Retirement Services

Bruce leads a team that provides actuarial retirement consulting services to clients. Recent areas of focus include the development and implementation of plan termination strategies, and the overall retirement readiness of employees and how that impacts the organization.

Scott Sherman
Area Vice President,
Great Lakes Region

Scott designs, develops and delivers customized retirement strategies with the right funds, reasonable fees and trustworthy fiduciary management to meet organizational objectives. Working across the full retirement and financial spectrum, he guides clients in creating efficient, strategic programs that integrate with total rewards.

CFOs

Managing financial and talent risks to create growth opportunities for organizational and employee wellbeing

Businesses bank on their CFO's ability to expertly manage two interrelated areas of responsibility — supporting successful growth and mitigating financial risks. And that CFO's approach to the financial dimensions of organizational wellbeing and talent management strongly influences their ability to achieve these core goals. People are their employer's top asset because attracting, motivating and retaining talent are essential to sustained growth. The challenge is optimizing this relationship cost-efficiently while protecting or strengthening the organization's brand.

Assessing needs

There are some critical issues and opportunities that merit special attention when developing or refining a financial management strategy. On the workforce side of the equation, strong economic growth and low unemployment contrast with the financial stress many employees are experiencing. More than 40% can't afford a $400 financial emergency.[1]

At the same time, employers are under the microscope of new legal, regulatory and public accountability requirements — magnifying the importance of their fiduciary responsibilities to employees participating in their retirement plans. There's also the need to confront an upswing in leadership transitions and other organizational challenges as baby boomers approach and enter retirement.

MORE THAN

40%

OF EMPLOYEES CAN'T AFFORD A $400 FINANCIAL EMERGENCY[1]

Setting priorities

These financial management trends emphasize the need for:

- Retirement plans that provide employees with the tools, resources and educational guidance to build a secure future of financial wellbeing
- Executive compensation and benefit packages that help retain key leadership in a highly competitive market
- Investment programs for both defined benefit and defined contribution retirement plans that fulfill fiduciary duties

In each case, the smarter approaches are those that align with the needs and values of both individual employees and the organization as a whole. Get them right, and they become part of the essential machinery of a well-functioning enterprise. Get them wrong, and they can become major sources of risk — including reputational threats. Negative headlines can throw an organization off track for months, and may impact growth for a much longer period.

Standing firm on shifting ground starts with asking probing questions of financial stakeholders and decision makers. Their feedback helps identify where the most important risks and opportunities lie, and offers insights into formulating a plan to address them.

Jeff Leonard
North America Practice Leader,
Financial & Retirement Services

As practice leader, Jeff guides consultants in helping their clients to better understand and manage retirement plans and individual financial risks. His approach emphasizes setting objectives for desired outcomes, developing a strategy, and using a framework designed to deliver on that strategy daily, and as the environment changes.

Packaging executive compensation to secure a long legacy of strong leadership

Assembling affordable executive compensation and benefits — that achieve leadership recruitment, retention and motivation objectives — has always required rigorous effort. While that process has recently grown more daunting under the influence of market trends and tax law changes, customized solutions and creativity are helping employers effectively navigate tougher challenges.

Executive compensation and benefit packages typically include salary, short-term incentives (STIs), long-term incentives (LTIs), severance and retirement programs, as well as health benefits and other rewards. Each component needs to stand on its own, and they all must work better together to attract and retain key executives, including the right leadership team.

Financial rewards are not the only factors influencing recruitment and retention outcomes. Other fundamentals include the organizational culture as well as the executive's risk tolerance, career stage, advancement expectations, existing relationships and comfort level with the job.

Nevertheless, compensation and benefit packages form the foundation for building and sustaining successful leadership performance. Significantly underpaying or overpaying executives — compared to the market — is a risk most organizations can't afford. In addition, the transparency required for public companies and nonprofits obligates them to consider how internal and external stakeholders will view the packages they provide.

The inherent complexity of designing effective executive compensation and benefits makes a clearly defined compensation philosophy paramount. Besides describing the program objectives, it should:

- Determine the relative focus on internal and external pay equity — especially for executives whose unique skill sets are critical to the organization's success
- Identify the appropriate peer organizations for benchmarking compensation as well as financial performance — each focus may require a different group
- Define the pay positioning strategy in conjunction with financial performance goals — as an example, targeting the 60th percentile of peer organizations
- Align financial performance expectations and incentives with the organization's strategic plan

Addressing all of these elements helps assure compensation committees that the approach they're taking to competitive package design and execution is sound.

LTI and severance programs bring staying power

LTI programs can give executives the opportunity to share in upside risk, while helping to align pay with performance. And because compensation is deferred, these programs also serve as tax-advantaged "golden handcuffs" until the participant is vested. In public corporations, the most common types of LTIs are restricted stock, stock options and performance shares. The specific mix can significantly affect LTI payout depending on corporate performance. Most large companies use a blended or balanced approach that yields a flatter payout curve, allowing them to provide retention payouts even in an adverse business climate.

Severance programs promote retention by offsetting the employment risk for executives — especially when there's uncertainty surrounding key business developments such as a pending merger or a takeover threat from an activist investor. In addition, these programs are important for persuading external recruits to take a chance on a new situation that may or may not be a good fit. One reason severance programs are attractive for the organization is they're only recognized as an expense once they become implemented.

Long-term market trends are changing the game

Leadership transitions are picking up in public, private and nonprofit organizations as baby boomers move into retirement and Gen X leaders step into their roles. The emerging cohort of leaders tends to have different expectations for their careers than their predecessors. And if that trend holds, it may have implications for executive compensation and benefits design for decades to come. For example, younger generations are more likely to want an earlier retirement and, on average, the millennials among them expect that age to be 56.[1]

Most employers are well aware that the strong economy has increased the competition for talent. And there's a growing recognition that the leadership skill sets required in a complex business environment are hard to find — especially given the steep learning curve for mastering the intricacies of today's organizations. Retaining the next tier of leadership and promoting from within are even more essential in this context.

Generational leadership transitions make it especially important to include the next tier of top talent in succession plans — but these future leaders are often the toughest to retain. It's worth emphasizing how strongly the workplace cultural experience of succession candidates influences trust and the stability of their two-way commitment with the organization. Yet the rewards package remains as critical as ever, making it equally important to strike a competitive balance between compensation and benefits.

New strategies and solutions create new opportunities

Customizing retention packages to the needs and preferences of individual executives has become a higher priority than ever before. The development of these solutions is more than a board-level exercise, and often requires some creativity and the executive team's direct involvement. It's important to proceed with care, because customization makes it more challenging to determine what's fair and reasonable — from both the market and regulatory perspectives.

Funding mechanisms also warrant careful consideration. Investment options need to be competitively priced and structured to manage the risk of losing an executive due to departure, nonperformance, disability or death. In those situations, organizations need to make sure that assets are available to fund the recruitment or retention of executives who fill the vacancies.

Changes brought by federal tax legislation starting in January 2018 are another complicating factor. A provision of the Tax Cuts and Jobs Act stipulates that public companies can no longer deduct an executive's performance-based compensation in excess of $1 million annually. Nonprofits now face an excise tax on executive compensation above that threshold. Many organizations have responded by restructuring executive compensation to mitigate this tax. In doing so, the organization's benefits expense may decrease while the benefit to the executive is improved or maintained.

Fortunately, employers now have more tools at their disposal to address these changes. Insurance policies are the primary funding mechanism for deferred compensation, and carriers are offering institutionally-priced policies to smaller organizations, as well as using algorithmically-priced underwriting processes. These developments make it much easier for most employers to customize their solutions.

Compete in the present with an eye toward the future

Three key priorities should guide organizations in developing and implementing executive compensation and benefits. One is a solid compensation philosophy that provides the essential framework for rewards packages that sustain strong leadership. Another is staying current on market trends and regulatory developments to build competitive agility. And at some level, a sense of belonging matters to almost everyone. So equally important is a welcoming and supportive culture that motivates executives to perform at their best in the present — and secures their commitment to lead the organization to an ever better future.

Rich Brock
National Practice Leader,
Executive Benefits

Rich works with nonprofit and for-profit organizations to develop executive benefit plans and strategies, specializing in the design, implementation, and administration of non-qualified plans. He directs his team in delivering solutions that help clients attract, retain and reward key leadership.

Luke Kaplan
Area Vice President,
Great Lakes Region

Luke helps simplify advanced life insurance planning. He brings the ability to see the market for advisors and their clients, represent clients to the entire marketplace, remove as much uncertainty from the equation as possible, and build stable, suitable and tax-efficient insurance portfolios.

James Reda
Managing Director,
Executive Compensation Consulting

James works closely with compensation committees and management on issues related to executive and board compensation. He is an industry leader and recognized authority on assessing competitive pay levels for executives and directors, as well as designing, implementing and disclosing pay programs.

Raising the bar on sustainability of compensation and benefits

In today's competitive economy, generating revenue, creating sales growth and maintaining a healthy profit margin are challenging but vital objectives. The push to meet these financial goals also comes at a time when the strong labor market is putting upward pressure on wages and benefits. In fact, compensation and benefits represent 30% or more of operating revenue for more than half of employers.[1] Yet, many are stuck in the status quo.

Making changes to compensation and benefits can be difficult — possibly disrupting and disappointing employees — but there are good reasons why a more strategic approach is the better way to go. When change is thoughtful and incremental, positive outcomes are more likely to prevail for both the workforce and the organization, including a diminished risk of costs growing faster than revenue. By reconfiguring a comprehensive approach to managing rewards, employers can set themselves on a path to long-term sustainability and organizational wellbeing.

Align compensation and benefits with organizational culture, priorities and values

An employer's HR management philosophy should help determine the right approach to rewards and guide investments accordingly. For example, if compensation and benefits are viewed simply as a cost of doing business, the goal is likely to minimize financial expenditures. However, when they're considered a tool to attract and retain desired talent, it's important to understand and prioritize the motivators that will best support this purpose.

Adopt a multi-year planning approach using financial modeling

Nearly two-thirds of employers plan both compensation and benefit strategies annually.[1] This brief time horizon lends itself to reactive, short-term fixes for addressing immediate issues — taking employers off course from longer-term objectives that establish sustainability. A future-focused outlook that includes financial and multi-year labor cost modeling is important for evaluating anticipated growth in one or both of these rewards categories. When that growth is compared to revenue expectations, employers can identify potential threats, areas for incremental or wholesale change, and realistic multi-year goal setting and scenario planning.

Evaluate employee pay structure

Achieving the right balance between base salary and variable incentive compensation is a critical step toward a sustainable rewards package. Within the employer's compensation structure, added flexibility protects against fluctuations in business performance. Employees can be paid more when the business does well, and compensation expenses can be reduced when it underperforms. However, aggressive moves in making pay changes can hurt morale, productivity and retention. So grandfathering existing employees and applying a revised, flexible structure to new hires may be a more palatable solution.

Surveying specific employee populations on the types of compensation and rewards that matter most to them helps employers adjust compensation and benefits to meet those needs as much as possible. Once key decisions are made, they should be communicated to the workforce with an emphasis on the most important facets.

COMPENSATION AND BENEFITS PLANNING HORIZON[1]

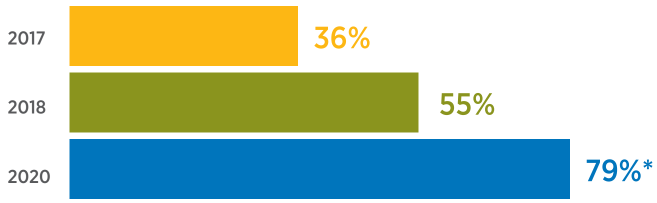
COMPENSATION	
1 year	64%
1–2 years	21%
3+ years	15%
BENEFITS	
1 year	64%
1–2 years	22%
3+ years	14%

Actively manage healthcare costs

The fact that healthcare accounts for the largest portion of benefit costs was underscored by a recent survey. Results showed that over half of employers experienced health plan increases of 5% or more at their most recent renewal. While nearly three-quarters (74%) consider health benefits cost management a top priority, just 44% agree they have an effective strategy to support that objective.[1] Affordability is a top concern of employees, especially for family coverage, which suggests employers should refrain from simply shifting costs in this tight labor market. When healthcare isn't affordable, the expense becomes a barrier to treatment — a key factor in keeping employees healthy and working.

An effective tactic for controlling administrative expenses — more widely used by employers rated as best in class — is offering just one or two health plans.[2,3] While this approach may limit employee choice, it allows more focused plan management. Telemedicine is also gaining significant traction by providing convenience for employees, on top of cost savings for both employees and employers.[1]

INCREASING USE OF TELEMEDICINE[1]



*PROJECTED

Other health management solutions available for employees' use include cost-transparency tools to enable more cost-effective decisions and disease management programs to help control chronic conditions. Value-based medical tactics, such as offering designated centers of excellence for specified procedures, also target the objective of providing quality services more affordably. For some employers, alternative approaches like defined contribution or private exchanges can make healthcare expenses more predictable and lower the administration burden.

Enable retirement readiness

The risk of delayed retirement is an expensive proposition for employers, usually stemming from the higher costs of more tenured workers, including compensation, healthcare, workers' compensation claims and even presenteeism. Yet, just 43% actually measure retirement readiness.[1] Once employers take this step, they can use the insights gained to more effectively promote timely retirement through financial advisor sessions and financial literacy education. These opportunities help employees help themselves by acquiring retirement planning and saving skills important to boosting financial wellbeing.

Most employers directly assist their employees with savings by matching employee retirement contributions. Some also use auto-enrollment, auto-escalation of plan contributions, or both — making it easier for employees to channel more income into savings.

43%

MEASURE RETIREMENT READINESS[1]

To fulfill its purpose as a critical competitive driver of business success, the total rewards package needs to secure the right talent from hiring to on-time retirement. Building a plan to evaluate, benchmark, improve and monitor compensation and benefits — and refine them over time — will ensure a sustainable balance that's an affordable investment in a profitable future.

Kent Lonsdale
Regional President,
Northeast Region

Kent is responsible for keeping Gallagher's benefit services and capabilities current, and helps consultants secure the right resources and expertise for addressing specific client needs. He also serves as the executive sponsor of the retirement and pharmacy consulting practices, and shared services for actuarial, analytics and underwriting.

Revisiting the options in a changing medical benefits funding landscape

Preferences for the three primary medical benefits funding arrangements — fully insured, self-insured or level funded — have recently shifted. While many employers still take a fully insured approach, self-funding has been on the upswing since 2016.[1]

The likelihood of self-funding increases with employer size because this model allows for better risk management. However, it's becoming increasingly prevalent among midsize and even small employers. Requirements and fees associated with fully insured plans under the Patient Protection and Affordable Care Act (PPACA) have made the self-funding value equation more favorable overall.

Funding options evaluation

There are distinct pros and cons of fully insured, self-insured and level-funded arrangements, but the differences are nuanced. A sound choice requires careful comparison of the benefits and risks — led by a funding evaluation that includes the plan's historical performance and claims experience. With this data as a reference point, employers can forecast the impact of each arrangement with the highest degree of predictability. And once a decision is made, a compliance review provides a final check that helps avoid unwelcome surprises.

KEY ELEMENTS OF MEDICAL BENEFITS FUNDING OPTIONS

Fully insured	Self-insured	Level funded
Employer • Pays a premium to the insurance carrier for covered healthcare **Carrier** • Assumes the risk for claims • Profits when the cost of care is less than the premium paid	**Employer** • Assumes the risk for claims, paying no premiums to the insurance carrier • Pays an administrative service fee to the carrier • Pays directly for claims • Keeps the money when the cost of care is less than what premiums would have cost	**Employer** • Like a self-insured contract, can avoid insurance carrier taxes and fees, and PPACA provisions • Benefits from level monthly costs, unlike a self-insured plan **Carrier** • Reimburses the difference if the claims they pay are less than the funds the employer paid

USE SELF-INSURED BENEFITS FUNDING[1]

41% 2018

50% BY 2020*

*PROJECTED

Self-funding risks

Determining the organization's risk tolerance threshold is essential in deciding whether self-insurance is a good fit. And if this option does come out on top, the next choice is how aggressive the plan's financial protections should be. Large claims such as those for specialty prescriptions or cancer treatment continue to grow in size and frequency — leaving employers susceptible to catastrophic costs, especially midsize and small organizations. The lower their risk tolerance, the higher the amount of stop-loss insurance they need to adequately limit exposure to higher-than-expected claims. Notably, a self-insured employer with a major claim experience may not be able to find a fully insured carrier to take them on — because that self-insurance could become too risky or otherwise undesirable.

One risk of self-funding is having the wrong stop-loss contract in place. In this situation, there's the potential for delayed reimbursement of large claims and a benefits offering that's misaligned with the contract. Also, some contracts pay providers bonuses when they meet certain metrics — adding cost. These include rewards-based accountable care organizations or bundled payment contracts, which are increasingly common.

The administrative complexity of self-insurance must also be part of the decision-making process. Plan management for a self-insured employer involves compliance, documentation and alignment with the stop-loss and claims administrator contracts, as well as handling claims issues as they arise. These responsibilities — and possibly others — may require the staff to do extra administrative work.

Self-funding advantages

The sum of self-insurance benefits outweighs the risks for many employers. Compared to fully insured plans, the most obvious and immediate cost-savings advantage comes from eliminating insurance margins, fees and state taxes. And when healthcare is less costly than premiums would have been under a fully insured alternative, the surplus belongs to the employer. This arrangement also minimizes regulatory requirements and allows for greater plan design flexibility than a fully insured plan.

An important point to keep in mind is that the overall price paid for healthcare depends on population usage. By proactively managing physical and emotional wellbeing with effective health initiatives, employers can directly reap the reward of lower claims activity among healthier employees.

Two related self-funding benefits are the transparency of claims data and the visibility into improving employee and organizational wellbeing. More self-insured employers are partnering with data warehouse vendors to uncover health plan inefficiencies and population health needs. Ultimately, this leads to a strategy for investing most appropriately in better management of benefits spend. Say, for example, data integration and analytics identified patterns of opioid misuse that began with a dental prescription. The employer could then manage the prescription plan more stringently to address this outcome.

Captive arrangement

A captive arrangement provides a unique self-insured opportunity for like-minded employers to share healthcare risk and reduce costs by pooling populations. Similar to a licensed commercial insurer, a captive assumes the risk generally associated with an insurance company. But pricing within a captive arrangement reflects the experience of the member companies — not the broader market. While there are downsides, such as bearing an increased administrative burden and investing in start-up costs, this approach can be well worth considering.

Level funding

Level-funded health plans are very similar to self-funded plans. Offered by insurance carriers and other third-party administrators, these plans are underwritten and may appeal more to smaller employers, especially those with a relatively healthy population.

Under a level-funded arrangement, the employer pays a set amount each month that covers claims as well as fixed costs like stop-loss insurance. Unspent funds are kept in their account to cover future costs, and the stop-loss insurance covers claims that exceed employer funding. Essentially, this plan structure allows for cost savings and other benefits of self-insurance without the cost instability. However, if an employer has a high-claims year, the monthly cost in the following year could increase.

Importance of keeping evaluation top of mind

Medical and other healthcare benefit costs don't appear to be trending downward anytime soon, and revisiting funding options is a sensible step for many employers looking for ways to curb spending. Because the choice of funding has important implications for organizational risk as well as costs and fees, a sound decision can only be made by carefully evaluating the full spectrum of current and alternative strategies.

Kevin Cipoletti
Vice President, Sales & Marketing,
Western Region

Kevin creates and drives organic growth strategies by working with clients to enhance their organizational wellbeing. In guiding the teamwork of branches and consultants, he helps them connect with and leverage all Gallagher capabilities for the utmost benefit of their clients, including better employee engagement and productivity.

John Edgerton
Vice President, Underwriting,
Great Lakes and South Central Regions

John provides strategic direction for his underwriting teams, and helps drive consistent processes across the division. Under his leadership, they provide underwriting, financial analysis, technical support and stop-loss services to a diverse group of clients.

Considering both ethical and practical concerns in managing retirement plan benefits

Many employers agree there's a sound business case for helping employees improve their financial wellbeing, especially in support of retirement. Now, as the path to economic security continues to narrow for more Americans, the ethical rationale has become more widely accepted. Stats and stories about the precarious state of personal financial solvency are regular features in the media — including the inability of some people to absorb even a small financial setback, or the plight of older workers who are poorly prepared for retirement.

More organizations are starting to understand firsthand that employees' financial insecurity strongly contributes to anxiety that can reduce productivity. And a recent survey analysis shows that leading employers are more likely to invest in employee financial wellbeing.[1,2] This finding suggests that, overall, they see greater value in reducing stress on the job to support both productivity and on-time retirement. Helping employees retire on time is a bedrock component of the social contract between employers and their workforce — and serves the financial interests and future opportunities of both.

20%

EMPLOYEES WHO SAY THEY'RE BUILDING A SUFFICIENT RETIREMENT NEST EGG[3]

The defined benefit dilemma

Whether or not an employer continues to offer a DB pension plan is a big factor in shaping their employee retirement responsibilities. Overall investment in this benefit is dwindling, but some level of commitment endures for many plans that remain a core part of retirement programs. Employers typically wrestle with several DB plan maintenance issues, including longevity. For instance, they may debate whether to keep the plan open only to existing employees — or terminate it and transition participants to a DC alternative. As they work through the questions, communicating their decisions to plan participants is critical.

Employers that continue to administer DB plans carry important fiduciary responsibilities, not the least of which is the fundamental duty to ensure a plan is adequately diversified. This duty carries the expectation for an investment program that's structured to increase the plan's likelihood of meeting its obligations. And it implies making adequate employer contributions of cash or real property and pursuing a reasonable investment strategy — while paying close attention to risk controls and plan costs. Asset diversification is part of that strategy.

One of the most important considerations in developing the DB plan's investment strategy is to explicitly determine the board's appetite for risk. Choosing the lowest-risk portfolio to achieve a targeted rate of return isn't always the best course. Some plan sponsors are better off taking on greater investment risk than others — if they're in a position to more readily make up any shortfalls in plan assets. For these employers, their optimal portfolio would involve both higher risk and higher expected returns. Those with less risk tolerance should pursue a more conservative investment strategy with lower expected returns.

The defined contribution difference

The considerations are somewhat different for employers that offer DC plans. Participants are in charge of their investment decisions, so the plan sponsor's fundamental objective is to enable them to make appropriate decisions without being overly prescriptive.

In practice, that means supporting employees by providing:

- Employer matches along with resources that inform and encourage adequate savings contributions
- A range of cost-effective investment options that are robust but not overwhelming
- Ready access to education, tools and advisors for help in building portfolios that align with investment goals and risk tolerance

Socially responsible investments

Considerations may go beyond risks, returns and plan costs when evaluating DB or DC investment options. There's a growing interest in socially responsible funds and related investment strategies that align with organizational or individual employee values. The common cause of these funds and strategies is a desire to "do well" as investors and "do good" as conscientious citizens. However, there are a number of factors that employers and plan sponsors should consider if they want to invest in these funds or make them available to employees.

More diligent due diligence

As with any investment strategy, the objective for socially responsible funds is to optimize across a variety of desired attributes, including the expected growth and stability of the underlying assets. Yet many of these funds have a relatively short track record — often less than a decade — making it impossible to evaluate past performance against benchmarks over multiple business cycles. This increases the burden of fiduciary responsibility for employers, who need to evaluate the soundness of the funds and the potential trade-offs involved in their investment strategies.

Selective focus

Socially responsible funds often exclude companies from their investment portfolios based on the perceived societal impact of their products. Familiar examples are producers of guns, tobacco products or fossil fuels. Other criteria such as the broader behavior of the company as a corporate citizen are not typically considered — possibly because defining characteristics are less apparent. However, corporate behavior does impact society, and there's substantial evidence that it is an important predictor of an organization's sustained success.

Ratings game

Investment decisions should be based on independently verifiable data, and it's important to understand how the data for nonfinancial investment criteria is developed. In recent years, an abundance of self-designated, independent evaluators of company performance have entered the market — specializing in social interest areas from carbon footprints to the ethical treatment of animals. The intent of their ratings is to influence the decisions of potential employees, customers or investors about whether to work for, buy from, or invest in the company.

One way for employers to determine the legitimacy of evaluators is to consult with a group of peer companies across a wide range of industries. They should then prioritize a select few whose evaluations are likely to be the most relevant to their own employees, customers, investors and other stakeholders.

Although the interest in socially responsible funds has increased the complexity of investment decisions, the bottom line is still the same — employers need to steadfastly exercise their fiduciary responsibilities in managing their retirement plans. For DB plans, that includes making sound investment decisions on behalf of employees and plan beneficiaries. For DC plans, it includes providing a set of investment options that meet employees' needs, and then helping them make appropriate decisions.

Michael Johnson
National Practice Leader,
Investment & Fiduciary Consulting

Mike is responsible for guiding development and delivery of the firm's capabilities across a full range of institutional investment and fiduciary services. He also provides broad-based investment consulting advice informed by his institutional and retail securities experience, and his expertise in union/Taft-Hartley matters and employee benefit plans.

Tom Tropp
Corporate Vice President,
Ethics & Sustainability

As internal ambassador of ethics and sustainability, Tom visits offices around the world, engaging with Gallagher employees about the company's shared values and the role of ethics in business. He is also the liaison to the United National Global Compact, the Ethisphere® Institute, the Boston College Center for Corporate Citizenship and other organizations dedicated to the cause of corporate social responsibility.

Meeting the fiduciary responsibilities of managing retirement programs

A key responsibility of CFOs is the oversight of their organization's retirement programs. And typically, they have a seat on at least one investment committee for DB plans, DC plans or both. The financial stakes of this role have never been higher. Litigation concerning retirement plans appears to be a growth industry, with increases in both the frequency and magnitude of claims — including recent settlements for $50 million dollars or more. Every CFO should be concerned about this trend and take steps to address the associated risks.

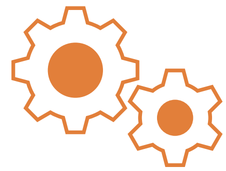
For many employers, retirement plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA) — a federal law that establishes fiduciaries' duty of care. Section 404 of ERISA defines four specific elements of fiduciary responsibility: 1) the duty of loyalty; 2) the duty of prudence; 3) the duty to diversify plan assets; and 4) the duty to comply with the plan's governing documents.[1]

The duty of loyalty is very clear. ERISA requires that a fiduciary "shall discharge his [or her] duties with respect to a plan *solely* in the interest of the participants and beneficiaries and for the *exclusive* purpose of providing benefits to participants and their beneficiaries; and defraying reasonable expenses of administering the plan" (emphasis added).[1]

The duty of loyalty can easily create a conflict for CFOs, who have the same duty to their organization and its owners or directors. As a consequence of this duality, avoiding potential conflicts of interest becomes a paramount concern. The duty of prudence can also present problems — for example, if the investment committee lacks the requisite knowledge or skills to make certain decisions.

CFOs have three fundamental strategies at hand for managing the risk of failing to meet their fiduciary responsibility to retirement plan participants and beneficiaries. They need to reduce exposure by addressing common sources of risk, insulate against risk by retaining an independent fiduciary and transfer risk through adequate insurance coverage. In the current environment, the more sensible approach for most CFOs is to pursue a combination of these strategies — usually all three of them.

THREE FUNDAMENTAL STRATEGIES FOR FIDUCIARY RISK MANAGEMENT	
1	Reduce exposure by addressing common sources of risk
2	Insulate against risk by retaining an independent fiduciary
3	Transfer risk through adequate insurance coverage



Addressing common sources of risk

CFOs can reduce their exposure to some common risks with a focus on three areas. It's important to pay attention to the reasonableness of fees and expenses, update and maintain investment policies, and use a competitive bidding process for all service providers.

Pay attention to the reasonableness of fees and expenses

The potential consequences of not managing this risk effectively are best illustrated by examples of recent lawsuits. In the cases of several high-profile companies and higher education institutions, the DC plan members' complaints focused on excessive fees they paid to the plans' investment managers. The claimants deemed the fees out of line with peer organizations, and accused employers of lacking prudent oversight in selecting these managers.

Also, revenue-sharing arrangements between the managers and employers were characterized as pay-to-play. To address this category of risk, it's often helpful for plans to hire a consultant with extensive knowledge of fees and experience in evaluating investment managers.

Update and maintain investment policies

Investment decisions should not deviate from the investment policy, which is included under the duty to comply with plan documents. CFOs need to know the policy they are operating under, and take steps to review and update it as needed.

Use a competitive bidding process for all service providers

Running RFPs for retirement plan custodians, recordkeeping services and independent fiduciaries help to ensure a higher level of rigor in the selection process.

Hiring an independent fiduciary

Independent fiduciaries take on the fiduciary role on behalf of the plan fiduciary. Just like a regular fiduciary, the independent fiduciary's duty is solely to the plan participants and beneficiaries. The plan fiduciary still holds ultimate responsibility and should exercise care in selecting the independent fiduciary. Nevertheless, this decision can help insulate the plan fiduciary from liability.

The use of independent fiduciaries also extends other opportunities for the organization. They include providing independent expert advice to plan fiduciaries, permitting plans to take advantage of otherwise prohibited investment options, and helping relieve the plan fiduciaries of conflicts of interest.

Hiring an independent fiduciary is particularly important in some situations, including these examples:

- **The DB or DC plan includes employer stock.** CFOs could have inside information about the stock's value. For this reason, they may be caught between their fiduciary duty to the plan participants and beneficiaries, and their requirement not to violate securities or other federal laws.

- **The employer or union wants to contribute real property as a plan asset.** An independent fiduciary can conduct a full due diligence review. Working with an independent appraiser, the fiduciary would determine the appropriate property valuation and whether contributing the property is a prudent decision.

- **A plan is subject to a class-action lawsuit.** An independent fiduciary is needed to evaluate the litigation settlement and determine whether the plan should grant a release of claims against the employer sponsoring the plan, as well as company officials.

Many employers are woefully underinsured, even if the likelihood of a loss is low. So it's critical to quantify potential damages.

Obtaining adequate insurance coverage

Along with taking preventive steps to reduce potential liability, it's also important for employers and plan sponsors to obtain adequate insurance coverage. The cases mentioned earlier highlight the potential scope of liability — with settlements of about $50-$60 million. As a result, a lot more thought is now going into determining the appropriate risk coverage limits.

Many employers are woefully underinsured, even if the likelihood of a loss is low. So it's critical to quantify potential damages, which are largely a function of the amount of plan assets. Similar to other kinds of insurance, the underwriting process starts with base ratings for various plan types and adjusts them for the employer's industry, claims history and actions taken to mitigate risk.

By deploying these three strategies — addressing common causes of risk, hiring an independent fiduciary and obtaining adequate insurance coverage — CFOs can strengthen the operation of retirement plans. They're better prepared and positioned to reduce financial risk to the organization, and ensure they are fully meeting their fiduciary responsibility to the plans.

John Ergastolo
Area Executive Vice President,
Management Liability Practice

John focuses on public, private and nonprofit management liability exposure analysis and product placement. He is recognized as a national D&O specialist for Fortune 500 companies and other large accounts.

Darin Hoffner
Area Senior Vice President & Area Counsel,
Investment & Fiduciary Consulting

Darin coordinates and manages an independent fiduciary decision-making group that focuses on providing independent, conflict-free, discretionary decisions about particular transactions or plan assets. He oversees the performance of client assignments on both a project and ongoing consulting basis.

HR LEADERS

Creating an adaptable people strategy for today's changing workplace norms

Economic and operational pressures are affecting HR leaders in new and different ways. Significant challenges are rippling across the HR function that range from changing cultural norms to regulatory complexity. And they also include the labor market squeeze, growing health insurance costs, leave management and a struggle to increase revenue.

Persistent HR challenges can't all be resolved at once, and not every issue can be addressed immediately. Yet leaders who make incremental adjustments and maintain a selective focus can steadily improve people management and business results.

New expectations of workers require new thinking

The changing expectations of workers are forcing HR to adapt and innovate. Employees, joined by activist shareholders and even customers, have brought diversity, inclusion, a respectful workplace and pay equity to the forefront of organizational consciousness. And younger workers elevate the need for a defined corporate social responsibility policy — something that was largely on the back burner just 15 years ago. In today's environment of information sharing and media use, what the law doesn't regulate, customers will.

In the interest of securing engaged, productive talent across their career span, employers need a remedy for the issue of employees with shallow roots in the organization.

Marking a departure from the traditional mind-set that prioritized a commitment to the company over personal needs — there's now a focus on the individual. A newer wave of workers is looking for a more comfortable integration of their work and personal lives that previous generations did not demand. And in the absence of this balance — and a clear career path — they have no qualms about moving on to another organization.

In the interest of securing engaged, productive talent across their career span, employers need a remedy for the issue of employees with shallow roots in the organization. One best practice is conducting a workforce preference survey and developing customized, flexible rewards programs based on results.

The programs that are created should feature transparency and clear expectations for earning a bonus and other incentives — as well as growth opportunities and development support.

Evolving job functions put the focus on people management

Job functions have changed at a faster pace over the last 100 years, and computer technology is exponentially accelerating the speed of this evolution. While artificial intelligence, robotics, and technologies like software and analytics optimize certain functions, they also replace human beings. Talent management now requires aligning irreplaceable people skills such as creativity, curiosity, customer service and innovation with roles that enable business growth.

The process of managing performance is also becoming more sophisticated with a shift from qualitative assessment to quantitative analytics. Managers can now get a much clearer picture of employee scores, gaps and production, and link that insight to business output and customer feedback. At the same time, HR leaders are able to fully capitalize on the value of this information. By ensuring that findings are used in overall workforce planning, they allow for evidence-based, well-informed recommendations for managing people.

HR leaders are responsible for melding three often disparate viewpoints held by the CEO, the CFO and the HR function into one cohesive philosophy. What's at stake with this consensus is the ability to mesh talent and business strategies — in alignment with the organization's culture and key objectives. When HR leaders have a seat at the table where these decisions are made, they're better-situated to contribute "people intelligence" that informs the best possible on-the-ground solutions.

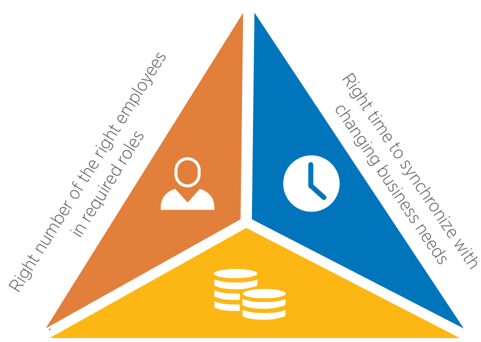
Scott Hamilton
National Managing Director,
HR & Compensation Consulting

Scott leads a team of over 200 employees across the U.S., Canada and the U.K. in helping clients recruit, reward and retain top talent through sustainable HR and compensation solutions. He has extensive expertise in developing reasonable, timely programs that affect all levels and aspects of pay delivery and reward systems, as well as related HR strategies and programs.

Expanding your total compensation toolkit with data and insights

HR professionals shoulder a number of responsibilities in upholding the best interests of management, employees and shareholders — and they're getting broader and more complex. At the highest level, senior management requires their expertise to balance the right number of the right employees in required roles at the right time to synchronize with changing business needs. This challenge needs to be met at the optimal level of investment.

The desired balance requires a shift from passive to active management of reward portfolios and more frequent rebalancing. Many leading organizations rely on HR to analyze and understand evolving employee preferences, and use the data to inform compensation and benefits strategy.



Within the right framework, employers can serve the current and evolving requirements of employee and organizational wellbeing, and consider pay equity and how to win the war for talent. Knowing what information is available and understanding how to apply it for more effective talent management is a key skill for HR professionals.

The drive for pay equity

Pay equity is a concept that's been on the federal law books since the passage of the Equal Pay Act of 1963. This law includes language on paying women and men within a single organization the same wages for equal work — accounting for skill, responsibilities and effort. In the following year, legislation was added that prohibits employment discrimination based on national origin, race, religion and gender.

From changing global dynamics to national and local events, recent years have been characterized by accelerated interest in pay equity and an intensified focus on this organizational benchmark. In fact, with multiple jurisdictions now addressing these matters within their own purview, businesses that cross country, state and province lines encounter the complexity of navigating multiple sets of requirements. That's especially true when the laws of different government bodies aren't completely synchronized. The responsibility for tracking relevant regulations, educating leadership and confirming that practices are compliant falls to HR teams.

It's also important to be aware of other challenges and ready to respond appropriately. When businesses have varied operations with different total compensation practices, they often find their ability to make intricate apples-to-apples comparisons is tested. For multinational operators, new layers of misalignment exist with fiscal year calendars, and there can be normative differences in typical compensation packages — such as housing allowances or company vehicles. Meanwhile, activist shareholders at publicly traded corporations are inserting themselves into the dialogue about senior executive pay. Controversy over the extent that CEO pay ratios and leadership pay increases exceed those of U.S. workers' wages has also attracted the media spotlight.

Winning the critical contests in the ongoing war for talent

It's a well-known fact that the U.S. labor market has experienced record low unemployment levels in recent years. HR teams are under constant pressure to keep fishing for prize talent in a persistently shallow pond. In the strong and long-running competition to attract and retain talent, employees know they're in demand, and feel more confident about finding new opportunities for a better career fit, flexible work arrangements, shorter commutes and other sought-after benefits.

Recent graduates and other new hires in commissioned entry-level roles, such as sales, pose a unique challenge from the standpoint of salary, wages and other financial compensation. Because they often require time to build their books of business, the momentum of earnings tied to sales success also needs a chance to catch up. To retain the best emerging sales talent, employers are faced with considering how to provide sufficient incentives based on achieving goals tied to future predictors of performance — instead of actual sales figures.

For more tenured employees, market forces in the current economy make it increasingly difficult to sustain average pay increases of 2%-3%.[1] Employers need reasonable alternatives, and are gravitating to more variable pay and incentive compensation as well as evaluating trade-offs in other reward elements. Variable pay can help equalize compensation when attracting talent, or align incumbent compensation at organizations where wage growth is low. Employers are also getting more creative with the use of longer-term incentive plans.

36%

USE VARIABLE PAY[1]

Apart from financial compensation, HR leaders are rethinking competitive strategies for providing unique benefits that complement the core employee package. Examples range from offering unlimited paid time off to allowing employees to "buy" additional vacation. Among other options are health benefits that closely match the needs and interests of the employee population, such as expanded investment in fertility services. When carefully researched and clearly identified, narrowly targeted strategies like these can establish stronger employee attachment points.

Leveraging data to optimize investments

Data is instrumental in aligning total compensation strategies with organizational goals. At the end of the day, HR leaders are better prepared to make sound investments in benefit and reward programs when they're keenly — and objectively — aware of their employees' true wants and needs. In fact, those that recognize the value of these data-derived insights have been known to include an evaluation of employee preferences as a key input on benefits design. Especially when employers are contending with an evolving workforce profile in a competitive labor market, it's difficult to overstate the potential ROI of connecting with employees in ways they value most. When productivity, engagement and retention improve, increased organizational wellbeing follows.

Evaluation may take the form of qualitative in-person focus group discussions, quantitative surveys or a combination. For example, after developing and testing an initial set of hypotheses in focus groups, an HR team could survey the wider population online to gauge satisfaction, identify unmet needs and measure interest in new total compensation options under consideration. Leveraging surveys and comparison dashboards from benefit providers is also an integral component of data input.

Improvements in HR data systems can expand the compensation toolkit with resources that segment costs more accurately, to facilitate better talent management. An external source, the U.S. Bureau of Labor Statistics, conducts major research on a wide variety of labor statistics and economics including productivity.[2]

HR professionals are charged with managing a multitude of moving parts, many of which must be directed toward attracting, engaging and retaining talent — at the right cost structure to support a multigenerational, multinational workforce that drives business results. For this purpose, they need relevant data that's sufficiently broad and deep — not only to benchmark where the organization stands compared to its peers, but also to uncover new opportunities to compete more strongly.

Attaining the most productive and profitable alignment of employee and organizational wellbeing is a delicate balancing act in a dynamic global environment where change is inevitable. With so many unique variables, the path and the pace of progress isn't the same for all employers. Yet there is one reliable constant. The benefit of more competitive talent strategies informed by better data helps employers prepare, pursue and achieve their unique goals through a process of continual improvement.

Bob Lemke

Principal, HR & Compensation Consulting

Bob brings extensive firsthand knowledge and perspective as both a total rewards practitioner and advisor with more than 20 years of HR leadership experience. Using internal and external data, workforce planning, and key stakeholder engagement, he applies strategic and analytic expertise to help clients drive results and create something special in their workplace.

Tom Paleka

Vice President, Global Total Rewards

Tom has global responsibility for guiding Gallagher's total rewards framework for compensation and benefits, and overseeing mobility programs and payroll. Key initiatives he has undertaken in recent years include consolidating and outsourcing the company's long-term incentive plans and launching new plan designs.

Amping up the power of employee communications through precision, personalization and a broad strategy

In the push to drive their companies forward, many leaders are channeling more resources and energy into workplace culture — and for good reason. Culture is the heartbeat of an organization that pulses with a unique set of social and behavioral norms, influenced by shared values. And this philosophy flows through the entire body of the employee experience from the healthcare benefits offered, to how performance reviews are conducted, and even the dress code.

Employers rely on communications to connect their workforce with the many aspects of their culture. Communicating well isn't always easy, but properly targeting messages and getting them across clearly pays dividends not only in employee engagement, but also in the achievement of benefit objectives.

A recent benchmarking survey found that employers collectively recognize they have room to improve their employee communications. In fact, a sizable 60% said that more effective communications would help them better manage their HR challenges and opportunities.[1]

60%

SAID MORE EFFECTIVE COMMUNICATION WOULD HELP THEM BETTER MANAGE HR CHALLENGES[1]

Tie communications to metrics

When employers are thinking about building or refining their communications strategy, they should guide decisions based on their answers to these primary questions: How are communications linked to business objectives? What employee behaviors should the communications change? And how will success be measured?

Two fairly common miscues are setting a goal that's too broad and using metrics that are too narrow. Valuable communication insights come from specific objectives that are meaningful, and a more deliberate approach that accurately tracks progress because it's linked to behavior.

For instance, consider an HR and benefits team that believes 50% of the workforce is choosing the wrong healthcare benefits, and wants to help them make better decisions. A campaign encouraging employees to align their benefit choices with their healthcare needs would look a lot different than simply communicating benefits information. The team's ability to measure success would differ, too.

They'd gain a valuable opportunity to track changes in the percentage of employees making misaligned choices. A metric like this can be meaningful across the organization, even up to the C-suite, unlike click rates that don't gauge behavioral change or its impact on business objectives.

Valuable communication insights come from specific and meaningful objectives, and a more deliberate approach that accurately tracks progress because it's linked to behavior.

Personalize communications appropriately

Behavioral change occurs when employees receive personalized communications, throughout the year, about topics that influence benefits enrollment choices. But generalized messages often lose out in the competition for eyeballs — unseen in a constant stream of higher-priority emails and texts that often require a quicker response. What does divert attention and motivate action is communication that's personalized to an employee's situation in life. For this purpose, data is typically segmented by one or more characteristics that include age, gender and location. But often these categories are too broad.

Technology can refine audience segmentation to create a more targeted profile. A practical example is using a benefits website to build awareness of individual needs and preferences. Employees could be directed to a page that asks them to answer a few defining questions when they log in for the first time, and periodically thereafter.

Responses to these questions classify each person by categories and recommend information that may interest them based on their life stage. For instance, those whose financial goals include paying off student loan debt will receive a different set of communications than coworkers looking to treat a chronic illness, expand their family or prioritize retirement savings.

Understand that communication is continuous

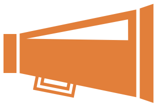
Employee engagement surveys consistently find that many respondents want more effective employee communications. When interpreting the variations on this desire, it's important to understand that communication is constant — intended or not. Silence can be a form of expression that sometimes carries an unintended and possibly consequential message.

Timing of communications should always be strategic. Otherwise a break in contact can be a missed opportunity to fill an important information need.

Employers help themselves by taking a comprehensive approach to communication, but many have been slow to formulate a strategic plan (13%).[1] It's important to recognize that successful communication is like the last 100 yards of a marathon. Each effort builds on all the prior elements of strategic planning and tactical execution to engage employees appropriately. And all of these elements must be aligned to prevent communications from falling flat.

13%

HAVE A COMPREHENSIVE COMMUNICATION STRATEGY[1]



Recognize that communication connects all possibilities and outcomes

Setting well-defined communication goals in advance and owning the whole process from planning through analysis establishes a strong and vital connection with employees. That connection strengthens brand value because it's part of a broader circuit that interlinks not only current, but also future employees, customers and everyone in between. Better communications are conducive to better experiences and relationships, and brighter growth prospects for employers through greater employee and organizational wellbeing.

Ben Reynolds
Managing Director,
Employee Communication Practice

Ben leads a dedicated team of employee communication specialists, guiding their success in creating connections that help clients drive business objectives and organizational wellbeing through employee engagement. Under his direction, the practice continues to grow across the globe.

Making sound financial sense of employee financial education

Life comes with uncertainties, and employers are investing in new ways to help their workforce prepare for some of the most important "what-ifs". In the realm of personal financial security, they're fostering a sense of resilience — helping employees prepare for the unexpected by planning better for the expected. Financial education tools and voluntary benefits put the focus squarely on adopting healthy, lifelong saving and spending habits. Importantly, they enable employees to make better sense of what often seems like conflicting or confusing advice.

The government shutdown of 2018–2019 highlighted the fragile state of employee financial wellbeing. Research has found that 78% of workers live paycheck to paycheck and more than 1 in 4 don't set aside any savings each month.[1] Compounded financial woes create stress that often accompanies employees to their worksite, where it negatively affects productivity and promotes absenteeism. Prolonged anxiety can also lead to health concerns and even work conflicts.

Employee guidance, not recommendations

Some employers are cautious about providing their workforce with access to financial education because they're concerned this benefit may feel too intrusive or prescriptive. Yet they can offer resources that guide employees to more successfully navigate their own financial decisions — instilling confidence and empowering self-reliance. Financial literacy is often improved with exposure to topics such as: the difference between a Roth and traditional 401(k); how to earn the full employer match in the 401(k) or 403(b) plan; the benefits of an automatic rate escalator; how to minimize taxes; the advantages of health savings accounts; and retirement savings projections.

Recordkeepers (46%) and third-party financial advisors (47%) are the resources employers rely on the most when educating employees about retirement planning.[2] For those that use recordkeepers, the cost of this service may already be covered — but a conflict of interest can arise if representatives are incentivized to recommend proprietary resources. The trade-off with third-party financial advisors is typically the advantage of impartiality in exchange for paying a fee. Internal staff can be cost-effective, but only if they're well-qualified. In this case, there's an important need to consider liability because a strict set of rules applies to retirement-related advice.

28% of employers have a formal financial wellbeing program in place — a number that's projected to grow.[2]

Financial benefits for improving employee wellbeing

More than one-quarter (28%) of employers have a formal financial wellbeing program in place — a number that's projected to grow. As a sign of recent momentum, most offer employees at least one ad hoc tool or other opportunity for improving their financial knowledge and wellbeing. Typically these resources include paper statements (50%), one-to-one onsite meetings (53%), phone support (57%) and onsite group meetings (63%). Webinars, web and smartphone apps are offered by 40% of employers, and 30% make on-demand videos available. Educational modules accessed through technology platforms are especially appealing when there's a need to connect with remote or hard-to-reach employees.[2]

These efforts have great potential to produce meaningful advantages. Research shows that employees who were repeat users of their workplace financial wellbeing programs had higher overall financial wellbeing, were better prepared for retirement, managed their cash flow more effectively and were more comfortable with their debt levels.[3]

Tools for managing the high costs of higher education

Newer options for supporting educational costs include student loan refinancing and pay-down plans, as well as loan program evaluation tools. Some of these benefits are configured for added financial versatility. For instance, employers that make annual contributions to employee retirement plans may allow participants to redirect those funds to a student loan repayment program. Information on products and services, such as an existing tax-advantaged 529 plan and programs geared toward lowering student debt, helps relieve parents' stress about educational expenses.

Asset protection as a form of employee protection

It's up to employers to do their best to help their workforce fully grasp the extent of their benefits and the support they provide. Employees need to know how to maximize all options and understand what costs may not be covered by disability or health insurance. The onset of a life event like a disability or serious medical diagnosis isn't an ideal time for an employee to realize they're unprepared. Too often, the cost of treatment for cancer or a heart attack wipes out savings, forcing the employee to pay with an early 401(k) distribution, credit cards or other last-resort fallbacks.

OFFER ANCILLARY HEALTH INSURANCE BENEFITS[4]

86% ACCIDENTAL DEATH AND DISMEMBERMENT

47% CRITICAL ILLNESS

42% CANCER CARE

Employers are increasingly adding benefit options to help offset employees' monetary burden. In 2018, the availability of coverage increased by 6 percentage points for both accidental death and dismemberment (86%) and critical illness (47%). Insurance against other exorbitant healthcare expenses include cancer (42%) and hospital indemnity (34%).[4] Still, just offering these additional voluntary options isn't enough. Education on the safety net they provide is essential to increasing the likelihood of employee election. Employees need to understand how voluntary insurance coverage and discounted support services create risk protection — and stretch the value of their earnings.

Maximizing the value of an affordable future

The highest possible organizational ROI from employee financial education is realized when employers: 1) minimize cost by taking an inventory of paid resources they already have, and 2) set and follow a clear goal for communicating the value of these benefits.

Take an inventory of paid resources to minimize cost

Often, financial education resources are already part of core programs like employee assistance programs and health plans. And many providers are introducing new tools — packaged as value-adds with no or low additional costs — for helping employees manage debt, budget more effectively and repay student loans. It's important to take advantage of multiple tools and technology advances for evaluating the workforce and expanding employee communication touchpoints.

Establish a clear communication goal

Education is a powerful change agent that succeeds on the effectiveness of employee communication. To resonate with the workforce, messages need to closely align with the interests of a given population. The concept of wealth management is an appropriate hook for some employees, while others more strongly connect with the opportunity to reduce stress by meeting their immediate financial obligations.

For any audience, it's important to underscore the lasting value of financial education and voluntary programs. Relatively low, temporary expenses are easier for employees to justify when they see they're making choices and developing skills that are ongoing investments in their greater financial wellbeing.

Dean Clune
National Practice Leader,
Retirement Plan Consulting

Dean and his team manage both the risk and benefit of clients' retirement plans. For the past 10 years, Dean has focused on investments, fiduciary liability, financial wellbeing and plan design for defined contribution plans. He understands how to navigate the ever-changing world of retirement, and helps employers and their employees achieve favorable retirement outcomes.

Terri Orem
Divisional Vice President,
Voluntary Benefits Consulting

Terri leads the voluntary benefits national service team. Her expertise in voluntary benefits marketing, sales and service provides a supportive foundation that guides her team in securing best-in-class benefit and service solutions for clients. The team also manages the implementation and service of voluntary programs.

Staying on top of fast-changing absence management requirements through a consistent, proactive approach

Policies that allow employees to take time away from work are a competitive priority. This statement is more than intuitive — it's consistently backed by recent studies, including one finding that vacation (45%) is the second-most important benefit to employees after healthcare (53%).[1] HR and benefit leaders inherently understand the organizational and employee significance of these policies for many types of absences. As the overseers of absence management, they're just as keenly aware of the complexity of this responsibility.

A recent benchmarking survey found that 65% of employers consider absence management a top organizational priority.[2] While this viewpoint doesn't always resonate as firmly with the C-suite, executives are deeply concerned about the problems created by loose policies. And most would champion strategic oversight that helps engage employees, preserve productivity and performance, and contain medical and disability costs.

Absence management provides crucial guidance for employees in balancing time away from the job with their work responsibilities, and is a key component of a holistic compensation and benefits approach. When programs that support time away from work are strategically integrated with other benefits — absence management becomes part of a broader, stronger employee engagement and productivity initiative.

Leading employers take an interconnected approach to absence management

Most employers offer multiple programs for time off from work such as the Family and Medical Leave Act (FMLA), parental leave, jury duty, bereavement and others. These benefits are a distinct competitive advantage that come with the potential downside of complicated coordination. The first step in understanding and effectively using the organizational philosophy to guide absence management strategies is establishing a clear structure. A proactive and consistent approach frees employers from a reactive cycle dictated by ever-changing leave regulations. They're able to better manage their recordkeeping obligations as events occur and reduce the risk of noncompliance.

The time it takes to evaluate how different benefit programs are interrelated — and to link or combine them systemically — depends on the organizational culture. What's essential for all employers is a broad perspective and productive partnerships between contributing departments.

Reporting capabilities are a key feature of absence management, and may be distinctly different among employers with different needs. Even though the saying "what gets measured gets done" may be all too familiar to some, the idea never gets old for those who've experienced its value. With the help of reporting technology, employers are able to track two important variables, including how many employees are away from work, and the implications across departments.

Leave management starts with keeping employees at work

Production output is steadier when qualified employees are at their worksites making regular wages. And leading employers know they can control the cost and quality of their products and services by managing the ebb and flow of their workforce, on and off the job. Resorting to routine overtime or bringing in replacement workers costs time and money that could be saved through a proactive approach.

A key piece of managing absence effectively is recognizing when employees can and should request accommodations that will help them stay at work or limit their time away. This insight requires an awareness of the appropriate accommodations and a clear understanding of the rights and responsibilities of both the employer and employee. Managers and employees may not have the knowledge or confidence to have a stay-at-work conversation on their own.

What managers should know is they can broach the subject of work adjustments while respecting employee privacy. And employees should understand they have the right to seek accommodation or leave, and take the opportunity to indicate what they need to do to balance work and their personal issues.

PTO trends are challenging employers

In the past few years, more employers have offered more time off in response to the passage of leave-related legislation that varies by state, county or city. This trend is especially challenging for employers with multiple locations — and managers who want to stay updated on employer and employee rights and regulations.

If anything, the shift toward jurisdiction-mandated leave is expanding, and the hodgepodge of policies it creates continues to challenge employers.

Similar to minimum wage laws that have passed in various parts of the country, legally required leave policies lack a road map, and it's difficult for employers to operate an across-the-board absence plan that meets a universal standard. It's imperative to stay current on this topic in all relevant jurisdictions for the smoothest, most cost-effective management of operations and talent.

Expanded paid time off (PTO) — a recent trend in absence management — is one of several nontraditional benefits that strongly appeals to employees who want more control over their work-life integration. It's also among the most challenging for employers to oversee. Sometimes the extension is employer-generated and at other times the policies are mandated by a state, county or city.

Unlimited PTO is a benefit employers consider for multiple reasons. For any workforce, this policy can promote greater work-life integration — and may fit well in a culture where employees value flexibility and autonomy, and have clear expectations about performance and accountability. With no limit on vacation days, employees can take breaks when needed and come back to work recharged. The advantages of unlimited PTO extend to employers, too. They're no longer obligated to pay employees back for unused time, and the burden is lifted on administering and tracking time off.

The portion of employers offering unlimited PTO remains small (3%), but as more employers consider the idea, they should be aware of the policy's challenges as well as its benefits.[2] Employees who were previously reimbursed for unused time off could perceive the change as the loss of a financial benefit — possibly an unwelcome trade-off. And when a use-it-or-lose-it policy is replaced, employees may actually take less time off because there's no longer a deadline for vacation. The risk is burnout and resentment that could dampen enthusiasm. When considering unlimited PTO, carefully thinking through the implementation will help to avoid logistical pitfalls, unintended consequences or miscommunication with employees.

GROWING INTEREST IN UNLIMITED PTO[2]

3% NOW OFFER

5% PREVIOUSLY CONSIDERED

5% CONSIDERING FOR THE FUTURE

Occasional maintenance helps sustain leave management success

Any leave management approach requires regular refinement to reflect new best practices, requirements and tech-enabled solutions. An overriding principle of better absence management is investing in thoughtfulness and transparency — a practice that should be consistently applied from advance planning, through administering all policies and processes, to measuring and improving outcomes. When employers stick to this principle, any path they choose can be validated and clearly communicated despite a quickly-evolving field.

Marina A. Galatro
Senior Human Resources Consultant,
Human Resources & Compensation Consulting

Marina provides consultation and effective recommendations on topics such as leave of absence, PTO, training and development, and state law analysis. California leave laws are a particular specialty. As an HR advocate, she meets with state assembly members on pending workplace legislation and how it will impact on organizations.

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Evaluating and selecting best-fit solutions for complex talent management needs

The total addressable market for HR technology is $160 billion[1] — and it continues to surge with thousands of vendors introducing a steady flow of products and services. Inside this segment, the functionality of HR technology has scaled right along with an accelerating demand. Useful tools with advanced capabilities for streamlining and enhancing processes that engage, support and manage the workforce have never been more plentiful.

The potential of HR technology to help HR teams more efficiently, effectively and intelligently manage talent is driving market growth. By 2020, 46% of employers plan to update or upgrade their capabilities by either expanding (32%) or replacing (6%) their current technologies, or making both improvements (8%). Their top three drivers include automating processes (79%), increasing employee productivity (54%) and supporting their people strategy (47%).[2]

46%

EXPECT TO EXPAND OR REPLACE HR TECH — OR BOTH — BY 2020[2]

Rely on key strategies to direct decisions

While employers may find themselves inundated with HR technology options, staying current on new capabilities and their value for operations is difficult. Deciphering that value requires HR leaders to determine what the organization wants to accomplish, and how those aims fit overall business objectives and the budget. The ultimate goal is to align HR technology with their approach to managing their people. And this requires factoring the voice of the employee — their internal customer — into purchasing and maintenance considerations, along with security needs.

Both established and start-up HR technology vendors are expanding rapidly in the current environment. This trend is propelled by cloud computing and the competitive landscape, as well as significant support and interest in this space from private equity firms. And functionality that was once the exclusive domain of purchasers with a large user base is now within reach of small and mid-market employers.

There's still a need for technology to perform basic transactions like processing payroll, but the promise of strategic intelligence capabilities is starting to draw the spotlight.

For instance, newer platforms can analyze employee behavioral patterns to help determine workforce engagement levels — including microdata that predicts the likelihood of an employee leaving the organization. More powerful functionality like this is enticing employers to trade up from their older systems.

When evaluating HR systems, teams should guard against the natural urge to chase the flashiest and newest options. The most novel or advanced features often have dependencies on other business processes or practices. Product demonstrations can be seamless, but implementation may require significant investments or change management outside of the system. Evaluating dependencies for functionality is essential.

Allowing key organizational and talent strategies to guide changes and inform investments keeps the process grounded from initial explorations through final decisions. Business growth goals, change management needs, the talent management philosophy, and industry and other peer benchmarking requirements are some common areas for alignment. And opportunities for new systems or enhancements that drive business outcomes — while formalizing the business case — can be identified by conducting a gap analysis.

Integrate the voice of the employee

When evaluating HR technology options, a core consideration is the overall employee experience (EX). Many employers connect their workforce to HR services primarily through a computer or mobile device, especially for routine tasks. And most employees are conditioned and literally socialized to expect a well-designed interface, based on their familiarity with online shopping, news delivery and social media. They may instinctively compare encounters with HR technology to these personal experiences. For instance, they could hold subconscious beliefs about the time it takes to complete an HR task, or the ease of accurately entering data to avoid downstream rework. Employers can measure EX through different methods, including focus groups and employee surveys as well as evaluating their own experience as a user of the tool.

Additionally, the candidate experience created by online recruiting systems should be explored. This technology is often the first point of engagement for potential new hires — and may influence their first impression of the company.

Onboarding platforms can promote day-one readiness by providing an experience that goes beyond a collection of required documents. Engaging new hires with informational and educational tools will begin to establish a connection to their team, environment and workplace culture. This often lowers the likelihood of no-shows on the first day or a signed offer that's rescinded.

Applications are also available that give employees' career wellbeing a head start — allowing them to pick a mentor, set an opening week schedule and develop an initial 90-day plan before their first day.

Make security everyone's business

With the expanding scope of cybersecurity attacks, employers are well served to focus additional resources on evaluating protections for employee data. Emerging data privacy regulations such as GDPR and California law create a significant case for data analytics using a security framework.

This sensitive information is sometimes overlooked when enterprise-wide cybersecurity protections are developed, and the risk of fallout from insufficient scrutiny has never been higher. In an era of heightened public awareness, a lack of preparedness can damage employee trust and confidence as well as the organization's brand if a breach occurs. And regulatory and legal consequences include fines or restitution requirements. There's a lot at stake for employee and organizational wellbeing.

Risks can originate in peripheral functions and work their way into employee data, mission-critical functions or both. Consequently, non-core technologies and functions such as employee benefits administration should be an integral part of a holistic cybersecurity strategy and program.

When selecting an HR technology vendor, it's important to focus on the company's stability and reliability. Many solutions will need to store a large body of private and sensitive employee information — such as Social Security numbers, birth dates and home addresses, as well as banking, health and family member information.

These personal identifiers are vulnerable to external exposure. Outside threats such as ransomware and social engineering could, for instance, direct payments or W-2 information to the wrong person. Rogue or former employees as well as contractors and third-party vendors have also emerged as perpetrators in cybersecurity events.

But by and large, breaches happen when people accidentally allow access to technology, mobile devices are lost or stolen, a phishing email escapes detection, or similar mishaps occur.

It's important for the HR team to recognize and follow all steps that mitigate risk, and to be fully ready to manage an event whenever it occurs. Protection is only as effective as preparation — and should include developing and conducting organization-wide training, and partnering with the risk management department to put an incident response plan firmly in place. Consulting with risk management professionals about insurance coverage is another important safety measure.

The sophistication of technology appears to be on an infinite upward swing. So it's likely that the greatest HR technology challenge facing employers will continue to be sorting through bigger and better options to find the right fit. Yet it's possible to avoid analysis paralysis through a methodical evaluation that distinctly identifies and carefully compares requirements against prospective vendor offerings. Critical to the success of this process is evaluating and regularly revisiting the risk management strategy to make sure options are a match.

Optimizing employees' experience with HR technology is essential to engagement, and mechanisms should be in place to monitor and collect their feedback. While security poses the greatest concern for both vendors and employers, outside expertise helps mitigate this risk. Assistance with defining requirements, vendor evaluation and selection, implementation and change management — to meet organizational objectives by using the most reliable solutions — can add an extra layer of confidence.

Brian Hutchens
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Brian leads a team of consultants who specialize in supporting small business clients across the U.S. through the design, implementation, and management of benefits and HR programs. More than 10,000 clients trust this team to help them meet their objectives for attracting, retaining and engaging their employees.

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Rhonda co-leads a team of consultants who help clients strategize, buy, implement and optimize HR technology solutions that support organizational wellbeing. The practice is recognized for providing unbiased, well-researched advice and service provider capability audits.

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About Gallagher

Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent. What does that look like? It's a workplace where people feel they belong — where there's a sense of developing a career instead of punching a clock. And a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher Better Works^{SM} — a comprehensive approach to benefits, compensation, retirement, employee communication and workplace culture aligns your human capital strategy with your overall business goals. It centers on the full spectrum of organizational wellbeing — strategically investing in your people's health, talent, financial security and career growth. And developing benefit and HR programs at the right cost structures to support a multigenerational workforce.

From evaluating the demographics of your workforce to surveying and analyzing competitor trends, Gallagher helps you gather new insights and apply best practices that promote productivity and growth. A data-driven focus allows you to continually improve. That's what it means to create a better workplace culture. It's about never being content to rest each time you reach your best. Your better is never finished.

As you develop and sustain this destination workplace culture, your people can thrive and perform at a higher level — optimizing your annual talent investment and mitigating organizational risk to maximize your profitability. Best of all, you gain a competitive advantage as a workplace that simply works better.

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