IDENTIFY
THE TRENDS

2018 Human Capital Insights Report

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Insurance | Risk Management | Consulting

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A framework for the future: sustaining a healthy workplace culture by inspiring better work.

It's a sign of the times that many employers find themselves caught between two equally forceful dynamics as they look ahead to the future of their workforce. Exhilaration about the promise of greater innovation, improved productivity and organizational growth is tempered by uncertainty about evolving workforce threats, diverse employee needs and affordably competitive benefits and compensation. Nevertheless, employers must embrace this duality to prepare for a more integrated, connected and fast-paced future — and the way forward is to establish a holistic total compensation framework that's structured for the changing drivers of employee engagement.

This sturdier, yet more flexible framework is built around the larger goal, vision and perhaps even the aspiration of a destination workplace. It not only recognizes employees as their organization's most important asset, but also addresses the complexity of managing them well. First and foremost, there's a need to center on the full spectrum of organizational wellbeing by strategically investing in employees' health, talent, financial security and career growth. And developing benefit and human resource (HR) programs at the right cost structure to support a multigenerational workforce.

Surrounding the core elements of wellbeing is the important realization that society is experiencing a transformation in technology, communication and compliance. Indeed, this is a period that requires elevated human capital risk management that's more diligent and focused than ever before.

Benefit and HR solutions must protect organizations and employees and avoid costly penalties by complying with regulations and relevant laws. While firmly grounded in business realities, these solutions must also be inventive. They need to fully realize the opportunities and efficiencies of technology and harness the power of employee communications.

This alignment creates a shift in the energy of the work environment that inspires better work. An increase in employee engagement and productivity supports destination-employer performance, and is the catalyst for growth and profitability.

Cultivating a destination-workplace identity

While the first steps in building a destination workplace are often the hardest, the return value is likely to offset this effort. The process begins with an inventory of key resources — both human and total compensation. Employers gain strategic insights by assessing their wellbeing value proposition, current and projected healthcare costs, workforce development plans, employee engagement metrics and employee risk factors. They should also consider how to make compensation more competitive and equitable, and look into the benefit preferences of future workforces. Once findings are analyzed and implications are understood, employers can formulate a talent strategy that addresses the career-stage needs of a multigenerational workforce. Determining the relative value of jobs should be part of the plan, including pay equity, salary grade and salary ranges.

Destination employers double down on the potential value by also forming a long-range philosophy focused on total wellbeing and engagement. As they pursue that philosophy, they reinforce a healthy workplace culture that leads to better work — improving outcomes for individuals and the enterprise as a whole.

EXAMPLES OF MARKETPLACE ENVIRONMENTAL CHANGES AND IMPLICATIONS

Environmental changes	Example	Implications
Transformation of the global business marketplace	The Tax Reform Act may accelerate an increase in U.S. jobs, new businesses and operations located in the U.S.	Competition for qualified entry-level and experienced talent may intensify, requiring a more affordable cost structure for talent management.
Shifting nature and evolving expectations of work	Telecommuting and the gig economy are redefining where employees work. Gender equity analysis is flattening job hierarchies — influenced by social movements like #MeToo and the push for pay equity.	Fair, equitable and transparent HR programs and processes increase employee engagement and help drive recruitment success.
Workforce evolution	Shifting roles and aging workforces may affect attrition, retirement and workplace agility.	Employers with strong reputations for corporate social responsibility and career path support are better positioned to attract younger workers.
Emerging risk factors	Compromised privacy and unauthorized use of personal data have escalated the visibility and importance of mitigating the risk of employee data collection, transmission and storage. Social engineering is increasing this risk.	Technology advances combined with workforce education and training on preventing and remediating data issues will safeguard against reputational risk.

Navigating environmental changes

External political, economic and social trends inevitably pose human capital risk challenges that require organizations to continually adapt. Among the key environmental changes pressing employers to respond proactively are the transformation of the global business marketplace, the shifting nature of work, the evolution of the workforce and emerging human capital risks. These changes are partly driven by artificial intelligence, big data and rapid advances in technology.

Translating opportunities more swiftly and navigating related issues more deftly often calls for enhanced organizational focus, policies or programs. Acting on this commitment helps strengthen the employer's reputation, and promotes the best possible outcomes of a holistic approach to employee wellbeing as part of a destination-workplace strategy.

Forging a reliable path forward

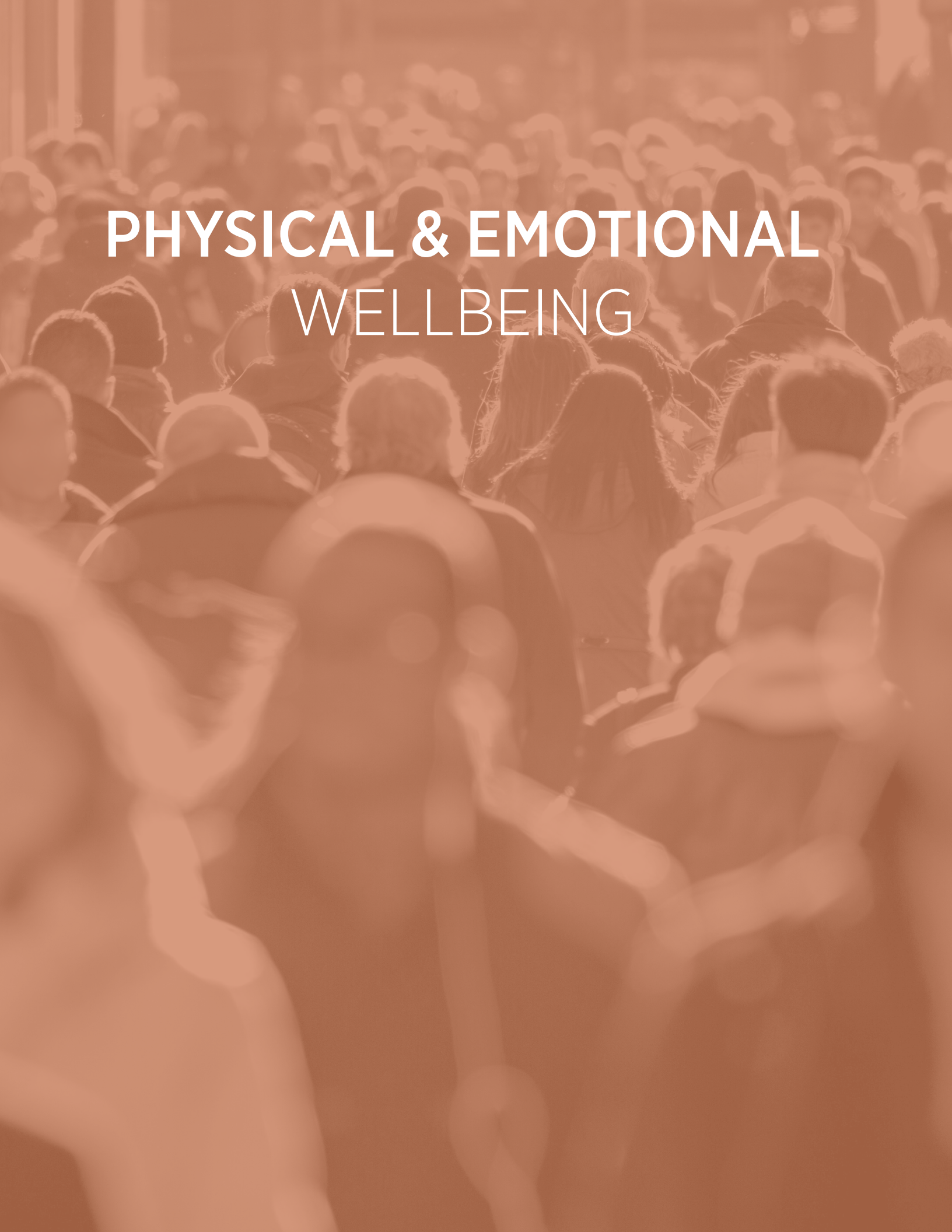
The sooner employers set out on the right path to attracting and retaining the best talent — in a stubbornly complex marketplace — the longer they'll reap the rewards of sustaining a dynamic workforce. Top-performing destination workplaces frequently rely on data to guide their decisions. Objective insights point the way to better management of current resources while also promoting proactive planning for evolving business and employee needs.

It's easy to imagine a future where determining total compensation for all employees looks more like the selection of executive benefits today. Moving beyond a menu of standard options, diverse and individualized benefit needs and preferences would shape employer-employee dialogue and guide mutual decisions. HR information technology and communication advances that enable this mass customization could also be put to better use — enhancing value by creating stronger, more meaningful connections at a human level.

The promise of tomorrow, combined with the progress of today, is driving destination employers to reimagine their total compensation framework and adopt a more holistic approach to wellbeing — one that inspires and supports better work. From this realignment, a new workplace covenant and culture are emerging. They define a distinct talent management reputation that attracts and engages the right employees in roles that lead to meaningful careers. What's more, when cultural connectivity prevails — and embodies mutual respect, aligned incentives and balanced rewards for employees — employers can mitigate their human capital risk and fortify a sustainable future.

William F. Ziebell
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.



PHYSICAL & EMOTIONAL WELLBEING

Employers' understanding of wellbeing is evolving. A growing number realize that this state of human comfort, health and happiness reflects the whole person, and only by engaging the whole person can they motivate the highest possible productivity. While there may be a need to address the core elements of a total wellbeing strategy individually — including financial and career as well as physical and emotional — they are all interdependent. That's why a holistic approach to wellbeing that strengthens all of these elements makes sense. In fact, it's a hallmark of destination employers.

Some people think of the physical and emotional elements as the heart and soul of wellbeing, possibly because they're the foundation for health and have a long history of benefits support. In recent years, there has been greater recognition that healthy mind-body outcomes for employees are linked to community involvement, resilience and stress management.

STRONG COMMUNITY ENGAGEMENT

The role of community involvement in wellbeing should not be overlooked. It's increasingly important to employees — and job seekers — to be part of an organization that's committed to creating opportunities for involvement in the communities where they live and work. Millennials, in particular, are more likely to evaluate potential employers based on their commitment to giving locally.

Actively supporting their communities is good for employers, too. Low community vitality and weak social prosperity negatively affect business performance and productivity.[1] And on an individual level, volunteering is associated with less work-life conflict, burnout and stress — and more positive mental health.[2] Healthy businesses and communities value the ability to cultivate a relationship where there's a mutual investment in the drive to thrive.

Fostering wellbeing starts with existing resources

Typically, employers already have effective resources in place to boost physical and emotional wellbeing. They just need to deploy these assets in a way that allows employees to understand their purpose and value. Conducting a cultural assessment and a resource inventory will not only pinpoint existing resources, but also determine gaps and opportunities.

Building an environment that supports physical and emotional wellbeing often involves gathering information, removing silos, tweaking resources and reinforcing communications. A holistic wellbeing strategy also considers the organization's unique workforce demographics, job types and community initiatives as well as its health. When employers take the time to be mindful about their resources and culture, they find increased engagement and productivity.

Fully deploying the right programs and policies is key. For example, employee assistance programs (EAPs) are popular for helping employees cope with stressful situations on and off the job — such as common life events or substance abuse. But they're also one of the most underutilized resources offered by employers. Some organizations are addressing this disconnect by turning to new modes of communication that empower employees to use EAPs in very different ways — focusing on unique opportunities like adult daycare or financial planning.

There are many other ways employers can tweak their resources to boost the power of their physical and emotional wellbeing efforts, such as flexible benefit packages that invite employees to invest in options that make the most sense to them. Including voluntary benefits also allows total compensation to be customized — without increasing the organization's financial burden.

At its core, the pursuit of wellbeing is about cost-effectively meeting the needs of employees where they are in their lives — professionally and personally. Robust data analysis provides directional insight for cost strategies. And equipping managers to help employees build stress resilience through better work-life integration supports the steady progress of wellbeing initiatives. Fostering an environment of physical and emotional wellbeing strengthens an employer to the extent that it strengthens individuals and creates a prosperous community — within the organization and beyond.

Ali Payne
Global Practice Leader, Wellbeing & Engagement

Ali leads the Wellbeing & Engagement Practice. Her team takes a collaborative approach to communication, retirement, compensation, voluntary benefits, HR, and training and development solutions that help clients more cost-effectively achieve their talent goals.

In the struggle with healthcare costs, diligence and ingenuity count.

Concerns about U.S. healthcare costs will not diminish anytime soon. Due to demographic factors, trends in medical and pharmacy treatments, and other influences, organizations continue to grapple with providing healthcare access while limiting cost hikes. A recent survey of employers shows that 74% consider health benefits cost management a top priority, yet 57% don't have an effective strategy.[1]

The goal of effective cost management is to repurpose healthcare spend without disrupting premiums, coinsurance rates and deductibles. Cost shifting should be avoided because employees and their families — just like employers — suffer the financial pressure of higher expenses. Healthcare service vendors are no more immune to the effects of cost increases, and are looking to counteract squeezed profit margins through new revenue streams.

While there are a variety of valuable tactics employers have at their disposal to contain healthcare spend, some can have unexpected consequences and may actually weaken an employer's ability to manage important health outcomes, like physical and emotional wellbeing. An example is an employee who responds to cost shifting by avoiding the expense of medical care. At worst, the employee could end up in the hospital for an untreated condition. And at best, the employee may have escaped that outcome or the employer would have paid less for the hospital stay — if the plan incentivized regular care.

TRENDING HEALTHCARE COST CONTROLS[1]

Tactic	Current	Within 2 years (projected)
Provide employees with cost transparency tools	39%	63%
Offer healthcare decision support	32%	51%
Use a specialty pharmacy benefit manager	19%	27%
Carve out pharmacy benefits	14%	25%
Use reference-based pricing for healthcare services	9%	20%

Cost-management tactics may also affect morale, workplace culture and other intangibles that help build a destination-employer reputation. Employers should explore less common cost-management tactics that are gaining traction and closely review the language in vendor contracts. Careful selection will help ensure a sound investment.

Quality analysis brings value to data

In the employer survey mentioned earlier, respondents cited the high costs of medical services, prescription drugs and specialty drugs as their top three healthcare cost-management challenges. The costs of these core benefits are significant, but what if employers are overlooking a practical solution: Gaining data-driven insights to help identify needed benefit changes?

Employers walk a thin line between providing access to both medical and pharmacy coverage, and containing healthcare costs. Data analysis helps them negotiate that narrow passage — but the trick is obtaining rich data and quality analyses that effectively answer questions and provide direction.

When a data analysis only skims the surface, employers may fall short of their healthcare cost-containment goals. A comprehensive, strategic analysis can better assist in several ways:

Identification of cost drivers

A standard analysis can identify how certain types of care affect cost, but a deeper look also detects what's causing those treatments to trend up or down. For example, an employer attributed an eight-year decrease in healthcare costs to a wellbeing initiative. That is, until a more complete analysis assigned greater impact to older workers retiring and younger ones coming on board.

Informed purchasing

Benefit trends sometimes entice employers to jump on board without using data analysis to guide their decisions. Disease management programs that focus on high-cost conditions like asthma provide an example. Targeted data analytics help employers sift through their cost drivers to understand not only the condition's prevalence, but also whether costs are high enough to warrant a more robust disease management program.

Benefits design guidance

Specialty medications are expensive but rebates help offset the costs. When making decisions about benefits design, employers should analyze the implications of favoring one type of medication over another. Although direct costs may be lower in the near term, the loss of rebate dollars could mean the employer pays more over time.

Empowered decisions

Data helps take the fear out of making big benefit decisions. Understandably, employers often shy away from choices that disrupt employee expectations and cause pushback, but that reluctance hinders innovative thinking. Data analysis can model the impact of possible benefit designs and pave the way for changes that have lasting value.

Transparency

Payers such as employers purchase healthcare at a discount, which can obscure the true costs of care. A larger discount on services may look good, but an analysis is needed to identify the unit price on which it's based. A greater discount may not mean a purchaser is paying the lowest cost.

Taking on the opioid addiction challenge

Organizations, communities and individuals pay a high price for opioid addiction — financially, socially and personally. Survey data from 2015 indicated that 2.4 million Americans had an opioid use disorder, and the associated costs continue to be staggering. A related study estimated that opioid misuse increases healthcare costs each year by $29.4 billion and criminal justice costs by $7.8 billion, and also reduces productivity by $20.8 billion (in 2015 dollars).[2]

What can employers do to combat opioid abuse? Before taking action, they should assess the extent of addiction in their workforce by gathering data on the total number and costs of opioid prescriptions, and the associated diagnoses. The results will inform their strategies, but a general rule is to structure prescription benefits to reduce opioid access. For instance, that might involve authorizing less powerful medications for mild to severe pain and only paying for opioid prescriptions associated with breakthrough pain.

Benefit policies can also play a role. Employers may incentivize opioid treatment at centers of excellence where strict prescription guidelines are followed. And care coordination helps keep different providers informed of various treatments, so their patients don't fall through the cracks in the healthcare system. Internally, there's an opportunity for employers to educate employees about the dangers of prescription drug abuse. Training managers to recognize the signs of addiction — and intervene early — adds another protective measure.

The key takeaway for employers of all sizes is they don't need to passively endure addiction's ruinous effects because they have tools available to help reduce opioid misuse. When individual lives as well as business objectives are at stake, every effort counts.

Too often, multiple priorities compete for employers' attention. So they turn to familiar tactics and a standard-level analysis that doesn't provide enough guidance to keep healthcare costs in check. When employers routinely dig into data and explore the value of newer tactics, they can curb perpetual financial challenges. By cost-effectively getting the right treatments to the right people at the right time, they also increase employee wellbeing.

Kevin Cipoletti
Vice President, Sales & Marketing, Western Region

Kevin creates and drives regional organic growth strategies, working with branches and consultants to help them connect and leverage all Gallagher capabilities for the benefit of their clients.

Seth Friedman
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 (PBM) goals at significant savings.

Mark Rosenberg
Area President, Healthcare Analytics

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.

Jill Watson
Practice Leader, Health & Welfare, South Central Region

Jill works closely with her account management and compliance team members to ensure delivery of innovative solutions aligned with clients' organizational goals. She specializes in plan design, data and funding analysis, and mitigating complex exposures.

Empowering a healthy workforce through inner strength and outer guidance.

Leonardo DaVinci is quoted as saying that "everything connects to everything else." People experience this perspective every day in the sense that every aspect of their life affects every other aspect — whether or not they're aware of this inescapable relationship. Fortunately, more employers are recognizing that employees' physical and emotional wellbeing affects how they perform on the job. That's one reason why 41% offer a wellness program and an additional 29% expect to adopt this benefit by 2019.[1]

What employers may not realize is how significantly their culture and work environment can influence wellbeing outcomes — for better or worse. Consider how the effects of stress on employees' personal and professional lives take a toll on physical and mental health. Workplace-induced stress has been linked to depression, diabetes, absenteeism, disability and employee turnover.[2] Medical research also shows a relationship between chronic stress and opioid misuse.[3]

70%

WELLNESS PROGRAM ADOPTION BY 2019[1]

These findings underscore a valuable insight. It's important for employers to have both effective wellbeing initiatives and a workplace culture that doesn't inadvertently undermine these initiatives or employers' larger objectives.

The strength of a resilient workplace

Realistically, it's not possible to eliminate stress entirely. But employers can equip their employees to manage stress and the challenges that cause it in wiser, more agile ways. Helping employees develop resilience is one key opportunity.

Resilience in a work-life integration context means the ability to withstand, grow and adapt while weathering personal, professional and societal stressors. As the interest in workforce resilience increases, more resources are being developed to help employees strengthen this skill. The growth of support options is a healthy development for employees and employers alike.

Research shows that resilience among employees is associated with reduced stress, greater job satisfaction, work happiness, organizational commitment and employee engagement.[2]

The benefits of resilience extend beyond improved wellbeing for the individual. That's because individual resilience helps build organizational resilience, making it easier to withstand the inevitable ups and downs of striving to achieve organizational goals.

> It's important for employers to realize that workforce managers can make or break their culture.

Managers' influence on workplace culture

Workforce managers can make or break workplace culture, and equipping them to help build a better employee experience is one of the biggest challenges employers encounter. In many cases, managers have technical expertise but aren't experienced in guiding and supporting the performance of others. Yet, creating proficient people managers is critical for two related reasons. Managers impact whether their employees perceive their work environment as positive or negative, and how those employees experience that environment can affect their physical health. For instance, research has found that stressful working conditions may contribute to injuries.[4] At least one study suggests a negative work environment can also contribute to poor health outcomes because of increased stress.[5]

There are several methods for helping managers grow in their roles and actively contribute to a positive and supportive work environment. On a large, collaborative scale, focus groups, engagement surveys and similar opportunities for both direct and indirect dialogue allow employees to have a voice in decisions that affect them. Management that solicits feedback — and takes it into account when making decisions — shows respect for the wants and needs of the workforce. As a side benefit, employers gain an outlet for ideas that may prove valuable to the organization.

Tactics that center on the individual employee include defining clear performance goals, giving timely and constructive feedback, communicating in a way that fosters trust and confidence, and supporting employees in developing and pursuing a career path.

An analysis of results from a 2017 survey shows that top-performing employers — in the areas of both HR management and healthcare cost control — use these tactics more often than their same-size peers.[6, 7]

Certainly, many factors affect the ability of employers — and their workforce managers — to build a sustainably engaging culture and productive work environment that drives the business results they'd like. But a reliable, guiding principle for developing a resilient workforce empowered by that culture is: Do whatever is possible to take care of the employees that take care of the business. It's a no-lose proposition, because the culture that helps employees thrive helps the business thrive, too.

Jenny Love
Health Management Director,
Southeast Region

Jenny leads her team in providing consultation and innovative solutions to help clients control healthcare costs, reduce risk and improve employee health. Her clinical knowledge strengthens her ability to champion and collaborate with providers, insurers, third-party service providers and clients in developing or enhancing their health management program.

Agnes Nines
Practice Leader, Absence Management

Agnes heads a consulting team focused on large-group life and leave management programs. She provides specialized expertise in disability, total absence management, FMLA and ADA legislation, state and other jurisdictional leaves, and absence compliance.

Kathleen Schulz
Regional Vice President & Practice Leader,
Wellbeing & Engagement, Northeast &
Southeast Regions

Kathleen works with Gallagher teams and clients to design holistic strategies that address the total employee value proposition, including wellbeing, employee engagement and productivity. She focuses on supporting high performance by fully understanding and supporting the organization's mission.

Work-life integration benefits: key tools for employee attraction, retention and wellbeing.

Technology has stretched the traditional "9 to 5" workday to "8 to 6" or even "7 to 7" and beyond. Tasked with managing a constant information stream, employees don't always log out for the day when they go home. Instead, they may respond to emails while the microwave cooks dinner or get a jump on work tasks while the morning coffee brews.

This new normal can help move business along, but it can also lead to employee burnout. That's why, regardless of their culture, employers should offer resources that protect employees' personal lives while providing technology that optimizes workplace flexibility.

Technology brings flexibility and stress

Gallup's 2017 State of the American Workplace report confirms that flexible scheduling and work-from-home opportunities are very attractive to employees — so much so that 51% would change their current job for one that offered flextime.[1] Although employees welcome the flexibility that technology brings to their lives, they endure more stress because of their connectivity.

According to a 2015 study, 65% of U.S. employees identify work as their top stressor. And two contributors to that stress are long hours and work-family conflict.[2] It's no surprise, then, that employees are interested in finding middle ground between their professional and personal lives. When considering a new job, 53% say a role that allows them greater work-life balance and better personal wellbeing is very important.[1]

Employers have good reason to consider and enact flexible scheduling and work-from-home policies that help employees find their balancing point. Employees who work remotely on some days — but not all — are more engaged than those who always work in the office.[1]

Purpose-driven support for work-life integration helps deliver better results. Busy decision makers looking to roll out resources to employees must resist automatically following the latest trend. Because no single solution is equally effective for all needs, employers should offer options that reflect the specific characteristics of their workforce and culture.

Take a cue from generational differences

Each employee has a unique take on what work-life integration should be, but employers can find common themes within each generation of workers. This is important to keep in mind as U.S. workforces grow more age diverse.

Consider the high-tech industry. Many employers famously offer amenities to keep employees on campus so they can comfortably spend more time on the job. However, one company that took this approach found itself losing experienced Gen-X talent that was needed to provide leadership to a younger workforce. An analysis showed their campus amenities appealed to millennials but backfired with older workers. Gen Xers wanted to go home to their families. When that desire clashed with the company culture, they found new jobs.

Multiple tactics support healthy work-life integration. Some are more traditional and others are more avant garde — from tuition reimbursement and parental leave, to sabbaticals and even paying workaholic employees to take a vacation. A 2017 survey identified a few of the wellbeing options offered by employers to help employees effectively integrate work with other aspects of their lives. What's critical is choosing a mix of resources that reflects the diversity of the workforce.

PROMOTING HEALTHY WORK-LIFE INTEGRATION[3]

Tactic	Use
Lactation and nursing mothers' rooms	39%
Financial wellbeing opportunities	34%
Community engagement opportunities	27%
Social wellbeing initiatives	18%
Onsite wellbeing or meditation rooms	9%

Employers can more effectively customize work-life integration to their culture by determining exactly what they want to achieve. A wellbeing assessment should provide useful insights, including an audit of work-life integration resources through methods like stakeholder focus groups or interviews. The goals are to understand the needs and wants of employees, determine the value of currently offered resources, and identify any silos to dismantle. With clear answers from this discovery process, employers are better able to see what they're already achieving and where gaps and opportunities exist.

The right value proposition sets the stage for successful hiring and retention

An employer value proposition is a cornerstone in aiding the physical and emotional wellbeing of current and future employees. This summary of cultural attributes — that helps set expectations for the employee experience — should communicate a distinct commitment to work-life integration. Value proposition attributes will vary. For example, the interests of investment bank employees and job seekers may be very different from the interests of those who work for, or want to work for, an environmentally focused manufacturer.

When a value proposition is stated during the interview process, job candidates will understand what kind of organization the employer is and how work-life integration will be affected. It then becomes the employer's challenge to follow through on the inherent promises, understanding that work-life integration is a key component of talent retention. To the extent that they succeed, they establish a brand reputation as a destination employer and set themselves apart from their competitors.

The fact is, employees bring their whole selves to work. So it's wise for employers to foster a culture that wholly supports the dreams, goals and endeavors of their workforce — whether work related or personal — because both realms are intertwined. The quality of health and wellbeing in one affects the quality of health and wellbeing in the other. And work-life integration helps drive the best outcomes 24/7. Building a culture that supports work-life integration requires a good grasp of workforce demographics, tactics that create an appealing environment for each segment, and clearly communicating what employees can expect from their employer. An ongoing commitment to these efforts is the essential winning move for attracting and retaining the right employees — by maintaining a healthy environment for their wellbeing.

Joy Burton
Senior Wellbeing & Engagement Consultant, Great Lakes Region

Joy helps clients build best-in-class, multi-year wellbeing and engagement strategies that offer innovative, results-based solutions. She specializes in developing integrated strategies that improve employee engagement, and has broad experience in employee benefits and healthcare.

Nicky Jones-Gyllstrom
Global Managing Director, Gallagher Equity and M&A Advisors (GEMAA)

Nicky leads her industry practice teams in delivering value to clients throughout their M&A life cycle. Her expertise in due diligence, new client transition, integration and harmonization strategy, M&A and divestiture readiness and private equity aggregation solutions has resulted in significant savings and value creation.

Rebecca Kruske
Area Vice President & Practice Leader, Wellbeing & Engagement, Western Region

Rebecca supports clients and Gallagher team members alike in developing holistic strategies centered on individual wellbeing and organizational health. She specializes in providing tailored solutions that enhance the employee experience and tie back to the organization's values and goals.

CAREER
WELLBEING

The days of getting by with a passive approach to employee attraction, retention and development are quickly fading in the rearview mirror. A tight labor market means employers must stay focused on the road ahead — aggressively engaging employees by proactively creating growth and reward opportunities. In return, employees invest their time and energy in productive contributions that drive competitive business performance.

Foundational to a destination-employer strategy is having a career pact — the unspoken understanding between the employer and the employee that they're both in it for the long haul and equally invested in each other's best interests. Attention to developing employees and providing a growth path smooths the way for greater loyalty in a rocky environment of turnover and mobility.

Best practices for career wellbeing

Building an employer-employee connection that promotes a respectful and mutually beneficial relationship requires organizations to follow three best practices:

- **Clarity** about roles, goals, progress metrics and rewards that are clearly defined at the outset of the relationship, and transparency on how business and performance management decisions are made.
- **Customization** that allows employers to zero in on employees' different motivations and drivers through a targeted rewards structure and development approach — across multiple generations and skill levels. Managers who are more closely attuned to the values of individual employees and teams can match needs with resources that more strongly encourage career growth.
- **Communication** designed and delivered to put managers and employees on the same page about expectations, performance, rewards, resource availability, leadership vision and business objectives. When managers establish channels for two-way communication and transparency, their employees feel more valued, empowered and engaged.

APPLYING THE 3 C's ACROSS KEY CAREER DIMENSIONS

	Clarity	Customization	Communication
Development	Clearly defined role, goals, and training and development opportunities	Career path that merges employer needs with employee preferences	Manager accessibility and communication about available development resources
Performance	Transparency about performance metrics	Fair and reasonable expectations for specific roles	Ongoing discussion and evaluation of performance
Rewards	Advance establishment of salary and bonus opportunities and criteria	Reward structure that accounts for unique circumstances of specific roles	Communication about raise and bonus considerations and calculations

When employers commit to the 3 C's — clarity, customization and communication — they're more strongly positioned to increase engagement, productivity and organizational success. These best practices equip managers to define, individualize and openly converse with their employees about key career dimensions — including development, performance and reward structure — and how they align with evolving business objectives. It's important for managers to be transparent with their employees about the organization's strategies and goals, including how they shape both major decisions and the priorities that guide individual and team contributions. And sharing the leadership's vision helps direct collaborative efforts among the workforce.

Scott Hamilton
National Managing Director,
HR & Compensation Consulting

Scott helps employers recruit, retain and reward top talent by providing sustainable HR and compensation solutions that strengthen organizational performance. As the leader of Gallagher's HR & Compensation Consulting practice, he brings extensive experience across all aspects of HR.

Leadership success: empowering organizational support and cultivating self-awareness.

Driving a car is a serious responsibility, which is why lessons and practice are the norm for beginners. Yet this level of preparation is too often absent when developing leaders who control financials, operations and people. Leadership skills and characteristics that help direct an organization's course and shape its success can be cultivated with the right tools and opportunities. Employees become capable leaders by learning and practicing critical behaviors, integrating feedback and determining areas for improvement.

An evolving approach to leadership development

Structured manager training began after the Civil War with the rise of the American Industrial Revolution. The focus was on developing transactional leadership that incentivized or rewarded good performance and punished poor performance. While this approach may still be effective with baby boomers who are known to put their heads down and work hard to get the job done, it's a tough sell for millennials. They prefer more collaboration, frequent feedback and clear opportunities for growth.

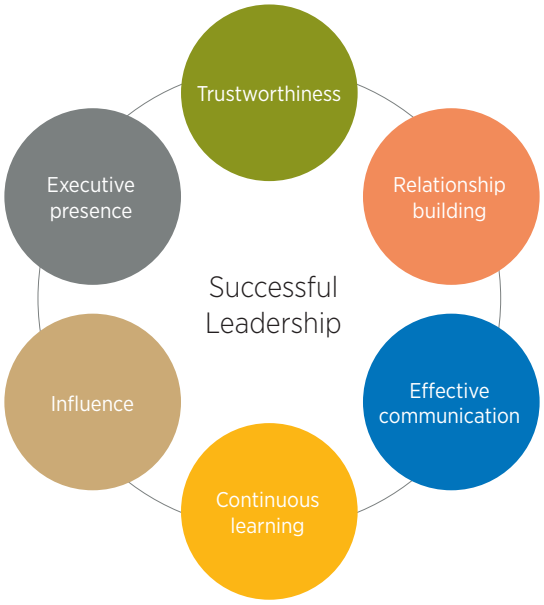
The changing makeup of the workforce is aligning with an increasing focus on human relationships. Most employees aren't motivated by their manager's mastery of numbers, process improvement or other technical skills. They care more about mutual trust and the manager's ability to support, challenge and hold them accountable while providing constructive feedback.

Leadership begins with self-awareness

People are an organization's most important asset, yet many leaders don't have the tools and coaching they need to perform at their best in this influential role. It's critical for leaders to not only understand where their expertise lies, but also to recognize where they have room to grow. And in the transition to leadership, employees must be self-motivated, internally driven to develop their abilities, and committed to making and executing their own plan.

Successful leaders put time and energy into acquiring relational/emotional intelligence and communication skills — including understanding and effectively managing their own style and how they come across to others. The most effective among them are trustworthy and authentic, have strong interpersonal skills and create an environment that encourages open dialogue. They're committed to continuous learning and growth, influence and drive the accountability of those they lead, and have an executive presence of composure and approachability. These are all traits that can be learned — and should be strengthened — through practice.

THE CHARACTERISTICS OF SUCCESSFUL LEADERSHIP



Succession planning

People naturally value purpose, are born to be autonomous and curious, and need to be challenged to learn and grow throughout their lives. Leaders emerge when employees are coached, supportively challenged, and given both a clear purpose and a path to achieve it. To the extent that organizations invest in them, these decision makers can more effectively drive business performance and serve as role models and mentors for their successors. Organizations that develop good leaders are also more likely to retain them — including their vital institutional knowledge that's difficult and costly to replace.

> Leaders emerge when employees are coached, supportively challenged, and given both a clear purpose and a path to achieve it.

Action steps

Three key development resources and practices support growth by aligning leaders' personal styles, values and goals with strategic organizational goals:

- **Assessments** — promote self-awareness by determining skill levels and areas for development
- **Executive coaching** — fosters growth through successive one-on-one sessions focused on individual goals and performance
- **Customized training** — provides a curriculum that targets maximum performance related to unique organizational challenges, dynamics and objectives

People are their organization's differentiators. When employers place a high importance on developing their leaders — modeling and demonstrating this priority with a dedication to continuous learning and development — they enjoy greater employee attraction, engagement and retention, and business performance.

Laura Boone
Organization & Leadership Development Practice Leader

Laura leads a team that specializes in executive coaching as well as organization and leadership development, and brings expertise in a range of for-profit industries and the nonprofit sector. Her key focus is helping clients to reach their business goals, and individuals to see more clearly the value they add to their organization.

Kathy Hall
Managing Director & Practice Leader, Gallagher Integrated Executive Search

Kathy and her executive search consulting team focus first on fully understanding their clients' unique business challenges, strategies and cultures. Based on that insight, they advise and provide effective leadership solutions in a style that is responsive, professional and personal.

Helping managers engage in meaningful employee dialogue to boost engagement and improve productivity.

For many managers, providing employee feedback and completing an annual review is a dreaded task, often procrastinated and viewed as an administrative hassle. The result is that neither managers nor employees are getting the most out of these evaluations, and they're missing out on a key opportunity for employee career and professional development. Employers should reexamine their approach and the goal of the feedback process.

Reevaluating the employee feedback process

The success of performance reviews depends on a simple and efficient process that's designed specifically for the organization, and executed by managers who are coached on providing motivating and productive feedback.

There are three key elements to this process:

Customize

An employee feedback process needs to consider organizational objectives, employee demographic tendencies and manager experience levels to be effective. For example, a manufacturer may focus performance on achieving an output target while a professional services firm may prioritize customer service or retention. Older, blue collar employees may respond to a review discussion differently than younger, white collar employees. And constructive conversations may be more comfortable for seasoned managers than those new to the role.

As employers reexamine their review process, they should consider the many relevant and critical variables of supporting an employee's career wellbeing, including:

- Strategic objectives
- Culture
- Industry/work type
- Manager experience
- Employee population demographics
- Employment length

Simplify

Looking for ways to maximize the benefit of employee reviews while minimizing everyone's time and effort leads to a more efficient and effective experience. It's helpful to simplify complex forms and difficult processes, and often worthwhile to invest in reliable technology platforms that are easy to access and use. Streamlining required information input, and allowing plenty of time for employee self-assessment and manager feedback during the final annual review, can also make a difference.

Train

When managers are trained to give feedback — both positive and negative — in a way that will motivate employees, they're empowered to strengthen engagement. Some may need help resolving conflict in situations where employees are not meeting expectations. If managers are not comfortable providing constructive feedback to underperforming employees, they're more likely to deliver it ineffectively or avoid it altogether. This situation breeds frustration and subpar performance among these managers and their other team members. Regardless of their contribution level, all employees benefit from a performance review that guides their professional growth and increases their ability to add value to the organization.

Deciding whether performance ratings will be tied to pay or bonus is a critical planning step. If they are, employers will want to calibrate with managers ahead of time to maintain consistency and fairness across employees and teams.

Executing on the review process

Managers are charged with conducting a productive evaluation process. This includes coaching on goal-setting, facilitating a rhythm of regular feedback discussions and promoting individual development through constructive feedback and future-focused growth.

EMPLOYEE FEEDBACK AND DEVELOPMENT PROCESS BEST PRACTICES

Step 1	Step 2	Step 3
Set clear, measurable goals	Collect and give ongoing, timely feedback	Provide a final, forward-looking review

Step 1: Set clear and measurable goals
Managers should steer employees to set goals that combine their interests and preferences with the organization's needs and priorities. An effective approach is to focus on two or three specific and relevant goals, developed and defined using the SMART model or a similar recognized standard. Clearly outlining how each goal will be measured ensures that achievement is fully within the employee's control. And establishing a realistic timeline for completing goals makes progress tracking easier and more effective.

CREATING SMART GOALS

S	**Specific** — target a specific area for improvement
M	**Measurable** — define progress that can be quantified and observed
A	**Achievable** — fit the requirements to the employee's abilities and available resources
R	**Relevant** — align the focus with the employee's role, and both individual and organizational objectives for success
T	**Time-bound** — specify when the result(s) can be achieved

Step 2: Collect and give ongoing, timely feedback
Managers should facilitate regular (monthly or quarterly) conversations focused exclusively on reviewing and discussing performance against goals. When managers get into a cadence of ongoing dialogue, employees receive feedback in real time and have the opportunity to improve throughout the year. Discussion points should include both progress and any barriers employees may be facing in achieving their outlined goals.

Connecting with employees at these intervals will capture the need to change goals based on shifts in strategic direction or specific objectives of the organization or team. Managers who ask "How can I help you achieve your goals?" — and respond to reasonable requests — show an investment in their employees' success. When employees feel supported, their ability to perform to expectations is stronger, leading to greater team contributions and productivity.

Step 3: Provide a final, forward-looking review
If performance discussions have been held throughout the year, what once seemed like a colossal annual review task will be greatly reduced by pre-populated results from ongoing tracking. Proactive planning for skill development also adds to the success of the process by helping employees achieve both short- and long-term goals. The final review discussion can then serve as a higher-level career development tool, focused on professional goals.

Reevaluating the employee feedback process and making improvements can revitalize its value for all involved, including the organization as a whole. When managers strategically and intentionally enable ongoing dialogue with their employees, they create a structure that supports retention of high performers, and develops and motivates weaker performers. Taking a firm and structured approach and holding employees to a high standard drives employee engagement and increases productivity.

Genevieve Roberts
Managing Director & Service Line Leader,
HR & Leadership Consulting

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.

It's about respect: creating a safe and respectful workplace to drive organizational performance.

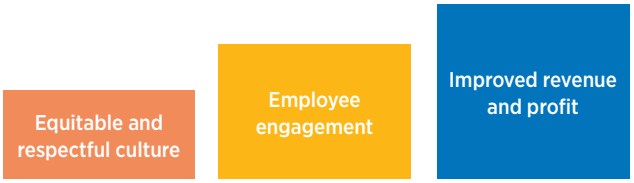
Social pressures for a fair and equitable work environment have been building over the last few decades, with pay equity and anti-harassment emerging as critical issues. From the #MeToo movement spotlighting sexual harassment in the workplace to Salesforce.com, Inc. spending millions to amend gender and racial pay gaps, workplace respect has become familiar front-page news. Contributing to this trend's traction and momentum is the growing rate of millennials in all workforce roles, including leadership positions, who prioritize fairness and corporate social responsibility as the most important employer attributes.

Employers that proactively put policies in place to create a safe and respectful workplace promote an environment that improves employee productivity, engagement, retention, and ultimately financial performance.

The ROI of a respectful workplace

Fairness and equality are elemental to the organizational strategies of destination employers, and they're a differentiator in a strong labor market. The emphasis on these attributes is part of a broader movement toward creating a workplace culture characterized by respect. Employers that place a high priority on reviewing their current practices, and realigning them as needed, are better situated to outpace their competition.

DESTINATION EMPLOYER BUILDING BLOCKS



One recent study links employee engagement directly and significantly to employee retention. Among 16 organizations analyzed, results show that improving engagement by just 1 point on a 6-point scale can trigger a 66% reduction in voluntary turnover. This research also compared the financial performance of bottom-quartile and top-quartile scorers on engagement.

On average, organizations with the lowest engagement scores reported a lower operating margin than those with the highest engagement scores.[1]

66%

REDUCTION IN VOLUNTARY TURNOVER*

*With an improvement in engagement of just 1 point on a 6-point scale

Other research reveals that using a formal pay equity process translates to a 13% increase in employee engagement, and a 19% greater likelihood of exceeding industry-average productivity levels. These findings also showed that enhanced engagement leads to improved financial performance. Organizations with above-average engagement were more than 2.5 times more likely to achieve or exceed their revenue goals.[2]

Creating and fostering a safe and respectful work environment

When employers are ready to take steps toward a work environment that demonstrates stronger respect for employees, there are three key areas of focus to consider. They include organizational assessment, employee and manager development, and policies and processes to manage risk.

Organizational assessment

Improvement begins with an introspective look at how well the organization's policies and culture promote a respectful workplace. Besides offering insight on redefining internal goals and uncovering opportunities for resolving challenges, this process helps ensure compliance with complex and varied municipal, state and federal regulations.

A culture assessment helps employers weigh the merit of potential changes by giving them a sense of how the behaviors, values and attitudes of individuals affect those of the organization. Expanding on the benefit of this awareness, an analysis and evaluation of HR can identify ways to more closely align its strategies with the organization's overall goals. And an HR checkup comprehensively measures improvement needs across all of the department's functions.

In addition, conducting a pay-equity study can increase engagement and retention when findings are used to ensure employees are paid equally for equal work done. Employers should analyze current pay by demographic groups, including gender, ethnicity and age to highlight any areas that raise concern.

Employee and manager development

Employee and manager training is essential to creating a work environment where incidents of discrimination, harassment and retaliation are scarce or nonexistent. Customized training, which may include several methods, helps employers adopt and apply best practices that fit their unique cultural challenges and goals. Individual coaching increases overall awareness, drives behavior change, provides perspective and informs day-to-day strategies for developing pathways to more productive interactions and relationships. And personality and behavioral self-assessments such as the Myers-Briggs Type Indicator and the DiSC Profile support employee and manager self-awareness. Through leadership communication style assessments, managers can further boost their self-awareness and gain deeper insight on how to best engage with others based on each person's preferred style.

Group training facilitates discussion and dialogue among management or employee teams. Activities include thought-provoking questions, sharing real examples and role-playing to drive collaboration and generate ideas. Group training enhances professional development while aligning individual goals to support team objectives.

Other risk management considerations

A deliberate and intentional approach to creating a respectful work environment is critical. At a minimum, it demonstrates to employees that related matters are taken seriously and backed by policies for immediate intervention. Also, employers gain a defense in the event of an employee discrimination, harassment or retaliation claim.

Ensuring fairness and compliance with these processes and policies helps mitigate risk:

- Anti-harassment/bullying policies
- Reporting procedures
- Definition and communication of what constitutes harassment and discrimination
- Pay structure and communication
- Performance management and rating
- Promotion and pay increases
- Developmental opportunities
- Application pools

It's important to note that wage and hour claims are not covered under employment practice liability policies. Stand-alone wage and hour insurance is increasingly accessible and affordable, and should be considered as an option to transfer risk associated with wage claims.

Processes, procedures, training and communication work together to prevent harassment, discrimination and retaliation, and should be aligned with organizational goals to improve employee buy-in and engagement. When employers shift from reactively rectifying issues to a proactively minimizing them, they create a culture of respect that promotes employee trust, wellbeing, productivity and loyalty.

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 and other large accounts.

Chris Ratajczyk
Managing Director, HR & Compensation Consulting

Working from a foundation of nearly 20 years of progressive consulting experience, Chris helps organizations with evaluation and design of base compensation, variable pay and total rewards programs.

Rebecca Starr
National Practice Leader, HR Consulting Services

Rebecca has extensive experience managing, reviewing and evaluating HR functions. She specializes in strategic and tactical approaches to organizing compliant and efficient HR functions.

Liz Wright
Managing Director, HR & Compensation Consulting

Liz works with clients on solutions for their compensation and total rewards needs. Her advanced expertise has made her a sought-after speaker and well-known author whose articles have appeared in prominent trade and financial publications.

FINANCIAL WELLBEING

Competition for talent and the mounting risk of some employees' unhealthy spending habits — which leave them mired in debt and stress — are forcing employers to evolve their financial wellbeing approach. This dilemma calls for a strategy that meets organizational objectives while addressing the unique needs of employees.

Employers typically view retirement plans as a core benefit offering that supports long-term financial wellbeing. And largely, they've made strides toward improving employees' saving habits through auto-enrollment, matching programs, education about the power of compound interest and personalized retirement readiness statements. Even so, the opportunity to expand on this progress is significant.

The five elements of retirement plan success — plan governance, investment consulting, employer services, participant services and plan design — outline a higher level strategy. This fully integrated approach promotes financial wellbeing for the individual employee, the broader workforce and the employer. And participant services and plan design — the two elements that set destination employers apart — allow employers to go beyond foundational preparedness and regulatory compliance. Participant services focus on targeted outcomes and employee retirement readiness, while plan design evaluation is essential to aligning organizational objectives and optimizing employer spend.

A review of realities uncovered during a workforce evaluation in this area can highlight a wide spectrum of near-term stressors that are often unaddressed. They can be event focused such as unexpected illness and death, or self-inflicted such as overspending and mismanaging funds. Regardless, employees at all ages and income levels face challenges that require better tools, programs and education.

The stakes are high for employers and employees alike with stress affecting employee health as well as workforce engagement and performance. In the longer term, spending obstacles to savings make older employees more likely to overextend employment. When there's a desire to retire but a lack of financial ability, the delay drives up direct costs of salary and healthcare benefits and indirect costs of presenteeism. These factors all impact business results.

Destination employers recognize these challenges and have broadened their approach with a financial wellbeing strategy that offers employees support for both spending and saving. The scope of available resources that help triage financial problems includes student loan repayment and tuition assistance programs, and an increasing breadth of voluntary benefit programs. Voluntary options accommodate semi-customizable plan designs that better match individual needs. Among other possibilities, employers can sponsor an online help resource that works with employees to budget and prioritize spending and debt obligations — educating them on the equal value of paying down debt and saving. Empowering employees with the right tools, education and resources to effectively address their near-term spending habits and financial stressors will enable long-term savings that lead to better business outcomes.

Dean Clune
National Sales Manager,
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.

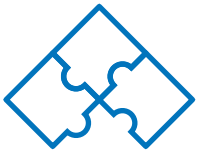
FIVE ELEMENTS OF RETIREMENT PLAN SUCCESS

Plan governance

Investment consulting

Employer services

Participant services



Plan design

As employee financial concerns evolve, employer support should, too.

Employees have never been more financially stressed. More than half report at least moderate levels of stress about their financial situation, including concern that stretches beyond paying current bills and debt to meeting future monetary needs.[1] Because they tend to bring these worries to work, this trend has important implications for employers looking to manage workforce health and productivity. Each employee spends a median of two hours per week dealing with personal financial matters when they're on the clock. And nearly 6 in 10 say financial stress impacts their physical health.[2]

As the U.S. workforce evolves, employee financial stress is becoming an increasingly important issue with serious implications across the generational spectrum. Millennials report the highest levels of financial anxiety, and many baby boomers delay retirement past the desired age due to insufficient savings.

> Retirement savings program features like auto-enrollment, target-date funds and auto-escalation help many employees, but they're no longer enough to address savings habits.

Key contributors to financial stress

A multitude of factors contribute to employees' financial stress. Two core concerns that are critical for employers to consider include exposure to higher healthcare costs and mounting student debt. Adeptly managing these two issues for the best possible outcomes directly supports higher productivity, engagement, and talent attraction and retention.

Employee exposure to higher healthcare costs

In 2017, one-quarter (25%) of Americans reported their biggest family concern was the cost of healthcare, up from 15% two years earlier.[3] Among employees who are delaying retirement, approximately 30% cite the increases in these costs as a reason.[4] An underlying cause of both trends is the fact that employees at all life stages now cover a greater portion of their healthcare expenses. Since 2012, their average annual contribution to family premiums has risen more rapidly than their employers' share.[5] The increased adoption of consumer-directed health plans (CDHPs) and high-deductible health plans (HDHPs) has also intensified employees' financial discomfort.

More than one-third of small employers and nearly three-quarters of large employers now offer a CDHP or HDHP option.[6] Although these plans have lower premiums, they include higher deductibles that must be met before expenses are covered. Notably, the deductible amount for HDHP family coverage averaged $4,527 in 2017.[7] A concerning disconnect emerges when compared with the finding that 24% of employees report less than $1,000 in liquid assets for emergencies.[1]

Employee financial focus dominated by student debt

For many employees, student loan debt is dictating both how they spend and how they save. About 2 in 5 adults under age 30 and 1 in 5 under age 45 carry this debt at a median amount of $17,000.[8] As a consequence, some workers prioritize paying off student loans over contributing to a 401(k) or other retirement plan. This decision may seem sound based on loan terms, but it thwarts long-term savings goals by diminishing the power of compound interest. While many believe that Gen X and millennials carry the greatest burden of concern about these loans, older populations are increasingly impacted. Student loan debt for adults aged 60 years and older has quadrupled over the last decade—increasingly due to loans that finance higher education for children or grandchildren.[9]

100

MEDIAN HOURS PER YEAR EMPLOYEES SPEND ON PERSONAL FINANCIAL MATTERS WHILE AT WORK

6 in 10

NEARLY 6 IN 10 EMPLOYEES REPORT FINANCIAL STRESS IS IMPACTING THEIR PHYSICAL HEALTH.

Solutions for the drain of financial strain

Two key steps in helping employees relieve their financial stress are taking an inventory of financial wellbeing resources, and evaluating gaps and opportunities. Employers should conclude this exercise with a sound strategy for reducing workforce concerns about healthcare costs and student debt.

Employer-sponsored retirement savings plans are a core component of the financial wellbeing strategy. When these plans include employer contributions, they can work especially well for all concerned on two levels. They reduce employee debt stress caused by insufficient savings and poor spending habits, and also decrease delayed retirements and their related costs. A variety of other employer actions can help employees become financially solvent, including embracing the power of health savings accounts (HSAs) and using voluntary options to customize benefits.

Take inventory

About 1 in 3 employers (34%) provide resources to help their employees gain a stronger sense of financial security.[6] When taking an inventory of existing financial wellbeing programs and policies, it's important for employers to review their other benefits and programs, workforce demographics, and approach to employee benefits education and engagement. Considering whether these offerings match current and desired workforce needs is crucial to making strategic decisions later on.

Evaluate gaps and opportunities

With a complete inventory on hand, employers can more easily evaluate program gaps and identify financial support opportunities. Voluntary programs are an emerging trend for relieving the stress of healthcare cost concerns. Critical illness, hospital indemnity, accident, supplemental disability and long-term care coverage enhance financial security. These options also allow employees to customize their benefits to fill the gaps created by higher healthcare plan deductibles.

Many employers now integrate voluntary options into annual enrollment so employees can select programs along with their traditional benefit plans. The effective use of communications to improve awareness of these benefit options — and their value — also strengthens employees' appreciation for their total compensation.

For employees with CDHPs, HSAs can ease concerns about current and future medical expenditures. Participants gain triple tax advantages — their contributions reduce their taxable income, account earnings accumulate tax-free, and account distributions for qualified medical expenses remain tax-free. As an added benefit, enhanced education about HSA tax benefits can boost CDHP enrollment.

Some employers may want to consider contributing to HSAs or matching employee contributions up to a certain percentage. Because these accounts are employee investments, the employer has a fiduciary responsibility to review and select the vendor and investments offered.

Other solutions for alleviating financial stress include new products and services that recognize the need for student debt relief. Besides tuition assistance, there are now employee programs for student loan refinancing, education and communication, as well as pay-down plans and program evaluation tools. For parents and grandparents, employers can offer save-up contributions to their existing tax-advantaged 529 plans to help fund beneficiaries' college expenses. Those that make annual employee retirement plan contributions may want to give employees the choice of directing funds to retirement accounts or student loan repayment.

Establish a strategy

After completing an inventory and evaluation, employers should establish a three- to five-year written strategy for expanding their financial wellbeing initiatives as part of a holistic approach aligned with HR and organizational goals. The most effective plan will prioritize adapting to the evolution of the workforce, including employees' changing expectations and experiences. Financial challenges occur at every life stage. When employers offer programs and voluntary benefits that match employees' needs across their career span, they vitalize productivity and loyalty — and their own longevity.

Dean Clune
National Sales Manager,
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
Area Executive Vice President,
Voluntary Benefit 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.

The role of executive benefits in evolving financial wellbeing and risk management strategies.

The 4 R's that typically drive decisions about executive benefits for key employees — recruiting, retaining, rewarding and retiring — factor into the strength of both financial wellbeing and human capital risk strategies. Conditioned by a highly competitive labor market, today's employers are acutely aware of the need to protect human capital investments that power organizational growth. In fact, research shows that 58% say attracting and retaining a competitive workforce is their top operational priority.[1]

Today, high-performing destination employers are leading the way in managing their human capital risk. The steps they're taking include evaluating and selectively redesigning executive benefits to better fit employee needs and market demands.

Solutions for closing compensation gaps and securing talent

Executive benefits — most often non-qualified plans — are usually considered for highly compensated employees (HCEs), defined as those who earn a minimum base salary of $115,000 to $200,000.[2] The main goals of these benefits are to retain talent and ensure that incentives align executive behavior with institutional growth, creating a shared success model. Recently, more employers have been funding plans with complex or aggressive vesting schedules in an attempt to lock in top people and entice new talent. For nonprofit or closely held plans, this often involves creating compelling synthetic equity incentives that mirror equity in the organization.

85%

EMPLOYERS OFFERING A NON-QUALIFIED PLAN[2]

Employers tend to offer a mix of risk protection and compensation incentives to HCEs, including qualified retirement plans, life insurance and disability plans. The insurance options are usually less appealing because the life and disability risks are not often top of mind for these employees. HCEs more strongly favor retirement benefits that are tied to actual dollars. Yet, all of these options have strict plan contribution or coverage limits that can hinder targeted savings and cause uninsured income gaps — creating a need for more or different savings avenues.

The competitive need for new plans + modernized plans

New plans

Small or midsize employers that did not offer executive benefits in less fiercely competitive times may now want to reconsider. If they're ready to create a new benefits plan, they should first examine workforce demographics and explore three important questions:

- Are key employees (and/or HCEs) limited in their contributions to the 401(k) plan?
- Would any key employees like to save more money on a tax-deferred basis?
- Is the organization interested in developing incentives to tie key employees to the business for the long term?

Key terms

SYNTHETIC EQUITY
An executive compensation program that grants an executive the right to a defined amount of enterprise value with no buy-in cost to that executive.

NOTIONAL INVESTMENT
A hypothetical investment made available by the investment committee. Participants who elect to wholly or partly allocate their account to the notional investment are credited with returns as if they were actually invested in that option. However, the participant does not own any actual security or investment vehicle. The credit is purely an accounting expense for the sponsor.

The answers will identify operational challenges and help establish longer-term organizational goals. For instance, the first step in improving retention would be a short-fall benchmarking analysis. This exercise uses industry data to compare the employer's current approach with those of high-performing organizations. With insights on how to solve the shortfall, employers can more reliably evaluate cost implications and prioritize next steps.

Modernized plans

Many employers have long-established plans that take a uniform approach — most likely because they were designed when participants had similar career horizons and expectations. Employees are now reaching higher management and compensation levels at younger ages, and have a different outlook on incentives and future financial protections. Meeting the needs of this modern workforce may require plan modifications that rely heavily on HCEs' buy-in about what is important.

Non-qualified plans are much more flexible than a typical qualified plan, so the structure can accommodate HCE-centric goals. For example, withdrawals before retirement age could support a mortgage payoff, a sabbatical or dependent college funds.

Key questions that employers with older executive benefit plans should consider are:

- When was the plan's design and utilization last benchmarked?
- When was the plan's funding status, asset/liability balance, and effect on the company's financials last evaluated?

Because non-qualified benefits are so flexible and customizable, there are no standard right or wrong options. For this reason, destination employers take time to understand how options align with organizational culture and operational objectives. They establish a written philosophy that guides their approach and design a process for communicating and implementing executive compensation plans.

Importance of a consultative partnership

Employers should expect very active and specialized management of long-term plans and liabilities from their consultative partner, as well as regular reviews of goals, liabilities and anticipated distribution. The right advisor will work to ensure that the plan changes along with the organization.

Within for-profit non-qualified plans, employees defer money back to their employer in exchange for notional investments. The resulting liability on the organization's balance sheet raises big concerns about how well the plan serves both participant and liability interests.

Employers must know how to track and hedge liability growth to avoid exposing participants' investments to market risk.

Non-qualified plans are also subject to Internal Revenue Service Code Section 409A, so specialized compliance issues must be monitored. In contrast to qualified retirement plans, non-compliance penalties fall to the participant. This makes the choice of a skilled advisor a critical part of a plan sponsor's responsibility to protect their participants.

Scheduling regular reviews

Destination employers tend to schedule quarterly or semi-annual reviews with advisors to look at broad-scope funding concerns such as asset/liability balance, and both current and more efficient approaches to plan funding. It's also important to explore anticipated distributions and potential regulatory challenges. The recent federal tax reform has reinvigorated discussions on the appropriate plan asset mix and funding strategies — including adding more taxable assets because of more favorable tax treatment. Completing these reviews not only informs immediate asset/liability balance perspectives, but also planning considerations for the next 12 to 24 months.

Evaluating and redesigning executive benefits to best fit both employee needs and market demands is critical to effectively managing human capital and organizational risk. The stakes are high. Losing key talent not only risks business disruption and institutional knowledge loss, but also adds sizable costs for recruiting and training replacements. A steady commitment to key employees' financial wellbeing allows employers to effectively compete for the loyalty of their current talent, and the strength of their organization's future success.

George Arun Chirayil
Area Vice President, South Central Region, Executive Benefits Consulting

George consults with clients on how to design, implement, communicate and fund their executive benefits, specializing in non-qualified retirement plans. By applying his expertise in financial analysis and modeling, he helps develop cost-effective ways to recruit, retain and reward their top talent.

Tom Telford
Senior Vice President, Executive Benefits Consulting

Tom is a leader in institutional financial services with expertise in incentive compensation, executive benefit plans, and institutional investment management. He consults with, and designs plans for healthcare organizations and multibillion-dollar financial institutions in both the credit union and banking industries.

Data-driven evaluation of defined benefit vs. defined contribution pension plans.

Over the last 30 years, traditional defined benefit (DB) pensions have fallen out of vogue, now used by just 30% of employers offering a retirement plan.[1] Meanwhile, defined contribution (DC) plans like the 401(k) and 403(b) have grown more popular as the preferred retirement savings vehicle of the remaining 70%. Predictable, capped liability is what makes DC plans attractive.

Some organizations have long since frozen their DB pension plans, which prohibits additional enrollment but maintains pension liabilities for previously enrolled retirees. Many would like to move away from DB pension plans altogether and manage a smooth transition to 401(k) or 403(b) plans. However, the exit strategy is often unclear and the complex decision to transition from a DB to a DC plan involves important considerations.

Considerations for a retirement plan strategy

Unlike DC pension plans — with transparency into plan balances, contribution rates and growth — DB pension plans use a formula to determine payout. This makes employer commitments less clear, creating uncertainty from an accounting and cash contribution standpoint. When evaluating a move to DC plans, other organizations' benchmarks often influence decisions that require deeper insight. There's a difference between knowing that 4% is the median employer 401(k) match, and understanding if and how this investment will result in a positive or negative financial outcome for a particular employer.

A competitive total compensation strategy requires dedicated financial wellbeing programs such as retirement planning and education on financial decision-making. Part of this commitment includes evaluating employee retirement readiness, a step currently taken by just 37% of employers.[1] If DB pension plans are phased out, the onus for retirement savings shifts from the employer to the employees. Unprepared employees often fall short of meeting retirement age or income goals and work longer than desired to compensate. From an employer perspective, this has major implications as older workers typically command a higher salary than less tenured replacements. Also, the annual costs of providing healthcare for a worker aged 65 or older are twice those for a worker aged 45 to 54.[2]

2x

ANNUAL HEALTHCARE COST DOUBLES FOR EMPLOYEES AGED 65+ VS. 45 TO 54

The importance of actuarial analysis in decision-making

The goals of retirement plan strategies include managing liabilities, aligning organizational objectives and optimizing employer spending. Related decisions are made through fiduciary process management and risk mitigation, plan consulting, design, governance and compliance assistance. As an added benefit, actuarial analysis can factor in elements like the number of employees, earnings, and benefits at retirement. The projections provide a deep understanding of liabilities, helping employers ensure investments and funding meet obligations and the Pension Benefit Guaranty Corporation procedural requirements.

Actuarial specialists can offer support by evaluating current retirement plan structures to match, model and project different levels of retirement funding. These exercises help address key questions like the organization's cost of delayed retirement and how to enable timely exits from the workforce. Ultimately, this leads to new ways to streamline plans and costs.

Older pension plans that lack an efficient and effective management strategy add complexity. Frozen plans must still be funded and maintained until obligations are satisfied and terminated, which means employers must have an administrative and investment strategy. Familiarity with DB plan intricacies may fall outside the realm of responsibility for retirement committees and HR professionals, possibly leaving them without the experience to appropriately manage and evaluate pension decisions. And when there is expertise, this duty may not be an efficient use of human capital resources if frozen pension plans don't benefit active employees.

Destination employers' viability and sustainability strategies are informed by actuarial analysis. Their workforce evaluation process uses actual employee data that can be plotted to identify current retirement funding status by location, division or age group. Working with these insights, employers can create a culture that fits evolving payroll demands and resource needs. They're able to assess more than just the plan sponsor's impact on attraction, retention and liability. At a deeper level, they can also take stock of the impact on participants of a DB to DC transition, such as identifying vulnerable groups and providing the right financial wellbeing support.

Transition management

Employers have an opportunity to reshape employee expectations by communicating proactively and building toward a sustainable future. For example, pension plans are often popular with employees and any relevant changes or decisions should be thoroughly and delicately managed and communicated. Yet, even doing all the right things doesn't always mean employees will clearly understand the effects on their income replacement at retirement and other savings they need. Best practices for increasing awareness often include personalized retirement readiness statements, and modeling tools that use estimated social security, pension and spousal income. Employers should also encourage employees to set up additional savings as pension plans typically won't cover all retirement expenses. Layering in appropriate insurance offerings will help protect them from adverse events that would affect their financial wellbeing.

When selecting the appropriate retirement plan strategy for the future of their workforce, employers are facing a challenging and pivotal choice. Destination employers use data to help drive this decision. Through an actuarial analysis, all employers can more reliably evaluate not only organizational commitment and employee preparedness, but also their impact on workforce evolution, culture and costs.

Ian H. Altman
Area President, Retirement Plan Consulting

Ian specializes in the design and administration of pension and savings plans for public and private employers. Insights gained from his extensive experience with the efficient use of actuarial systems, and administration and valuation techniques, help clients reliably manage liabilities, align organizational objectives and optimize spending.

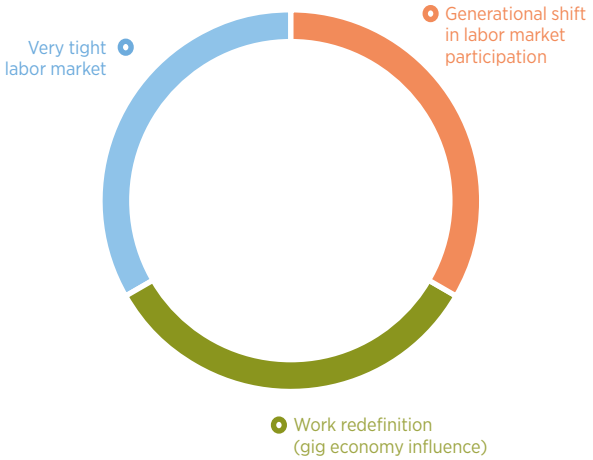
Bruce Johnson
Area Senior Vice President, Actuarial & Retirement Services

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.

ORGANIZATIONAL WELLBEING

Employers now face an unusually challenging operating environment that directly impacts human capital risk management practices. The U.S. is living through another shift in the labor market that seems to happen about once in a generation — like the dramatic increase in working women in the 70s and the rapid growth of the tech sector during the dot.com boom.

MAJOR TRENDS CONTRIBUTING TO A LABOR MARKET SHIFT



At present, there's an interplay between a tight labor market, a generational shift in labor market participation, and a redefinition of work driven by the emergence of the gig economy. These game-changing trends are compelling employers to address risks as well as opportunities. Those that recognize the long-term implications are in a stronger position not only to engage and improve their workforce, but also to avoid significant challenges to their human capital strategies.

The tight labor market

In March 2018, unemployment was 4.1% and weekly jobless claims hit a low not seen in more than 45 years.[1, 2] These stats point to a serious shortage of people with marketable skills — at a time when most employers are dealing with attracting and retaining top talent and addressing the skill gaps of less qualified talent.

The generational shift in labor market participation

Employers are facing a dual imperative to retain older talent and adapt to the demands of millennials — the generation with the highest expectations for their work experience. Many boomers have already left the workforce and the rest are likely to fully or partially retire within 10 years. Meanwhile, as younger millennials launch their careers, their numbers intensify the cultural shift in expectations for work and employer relationships.

Boomers generally remain strongly committed to their careers regardless of their financial status, but many lack the savings to retire comfortably. So they're more likely to work past traditional retirement age, and to want or need arrangements that allow reduced hours and redefined roles. Also, because this group tends to have more chronic health issues, employers need new benefit and program options that control healthcare costs while supporting productivity.

Digitally savvy, mobile millennials typically change jobs more frequently to suit their aspirations, want more performance feedback, and prioritize a collaborative workplace culture as well as benefits and programs that fit with their social values. They expect to be well compensated, but when choosing an employer they often care more about the type of organization and whether they see it as a force for good.

The redefinition of work

Consistent with the needs at both ends of the generational shift, the gig economy is changing the very nature of work. This growing trend refers to employer-worker relationships redefined by more flexible hours and locations, and more fluid employment status such as independent contractor. Workers consider this arrangement more entrepreneurial and employers gain a more flexible labor cost structure. At the same time, a host of new challenges on both sides include the need for fundamentally new approaches to worker engagement and support.

While the convergence of these three major trends may lessen the power of the employer, there's an opportunity to gain ground on competitors by shifting perspectives and decisions in step with the labor market. It's important for employers to articulate and continually demonstrate a strong set of authentic values that resonate with their evolving workforce. No matter how a worker's role is defined, it's the preferred experience of a desirable workplace that attracts talent, motivates productivity and defines a destination employer.

George K. Katsoudas
Division Senior Vice President,
Compliance Counsel

George leads the Benefits and HR Consulting division's National Compliance Team, and is responsible for key national publications for employers, including the Healthcare Reform Update, Technical Bulletins and Directions newsletters.

Securing a successful HR and benefits technology strategy.

Many human resource leaders have a conflicted relationship with HR and benefits technology (HRBT) that can prove to be either a boon or bust. The past 10 years have seen dramatic changes in HRBT caused by a shift in the needs of the workforce and their rising expectations, which are creating new challenges for employers.

Key trends include employees' demands for easy-to-use technology and a personalized experience, the growth of telecommuting, and the emerging gig economy characterized by temporary, flexible jobs. Related to this trend is the serious and constant threat of employee data cyber theft. And surrounding all of these developments is a surge in the number of available vendors and products that can touch every facet of employers' interactions with employees "from hire to retire."

Each development marks a fundamental shift in the HRBT management paradigm. Taken together, they indicate a new reality: the strategic management of the HRBT stack has become essential to successful HR leadership.

Navigating the proliferation of HRBT

Over the last decade, there has been a rapid proliferation of new HRBT service providers and offerings. Among these advanced options are many useful tools for streamlining and enhancing processes that help employers engage, support and manage their employees. However, amidst all the excitement, they're also dealing with some negative consequences of the HRBT boom. Staying current on new capabilities and their potential value for HR operations is difficult. And updates for installed systems — which are often automatic — may deliver new functionality that the HR team may be unaware of, leading to underutilization and potential duplication. Caught in the crush of salespeople pushing a slew of innovative products, it can also be easy to lose sight of underlying business objectives.

On the IT side of the equation, integration has become an increasingly complex challenge with no right answers — just a set of trade-offs that the HR team needs to understand. Selecting best-in-class solutions will usually deliver better stand-alone functionality but may come with major integration complications. With so many new HRBT vendors, employers should remember they're purchasing an ongoing relationship. They need to know a company before committing, including the vendor's support philosophy.

Supporting a flexible workforce

As the nature of work changes along with workforce needs, employees will increasingly insist on having the flexibility to work from home — and elsewhere. There's already an expectation among workers that HR systems and processes should accommodate their demands. Also, for employers starting to participate in the gig economy, there's another layer of challenges to resolve. Because this labor market relies more heavily on temporary or part-time employees, even for core enterprise functions, employers are required to track contractors' availability, schedule their work and support time-keeping. As an example, these capabilities can be critical for ensuring that employees with variable hours per week don't cross thresholds for mandated benefits.

Meeting employees' changing expectations for HRBT functionality

Employees have come to expect that any application they use will provide ease of use and personalization at a level that's similar to smart phones. As digital natives, millennials tend to expect a more advanced experience — including a recruiting app that measures up to their standards.

Protecting employee data from heightened cybersecurity threats

When asked why he robbed banks, Willy Sutton reportedly said, "That's where the money is." Today, when sensitive personal information can easily be sold on the dark web, HR information systems are vulnerable to becoming "banks" for cyber thieves. Possible data loss can range from a misaddressed email that exposes one employee's or applicant's information to massive data breaches affecting thousands. Unfortunately, no employer with HRBT is free of this risk.

A serious breach, if it happens, is more than an inconvenience. Employees' lives will almost certainly be disrupted and the bonds of trust with their employer may be eroded. This predicament can also subject the organization to legal and regulatory risk, and possibly create a crisis situation that needs to be adeptly and efficiently managed.

For HR leaders, making prevention the first imperative requires working with corporate IT to put safeguards in place. They should have clear sight into how data is collected, held and classified, who has access and which laws apply. Investing in enterprise-wide technology is critical to recognizing cyber attacks and stopping them when they occur. And implementing and periodically testing a disaster recovery plan that includes employee benefits leaves the response team well prepared.

STEPS FOR ALIGNING TECHNOLOGY WITH A HUMAN CAPITAL MANAGEMENT STRATEGY

However, in many cases the greatest vulnerability to cyber theft is the HR team itself. "Phishing" and other social engineering techniques have become very sophisticated, and can easily fool unwary team members into divulging information that give thieves access to sensitive data. One of the best protections is thorough training for both HR staff and employees.

Employers should be prepared to respond immediately in the event of a breach, and first steps often include determining its nature and extent by conducting a forensic analysis. For good reason, there's a reluctance to inform employees about an incident until questions can be clearly answered, but an investigation may take weeks to complete. Rumors circulating among employees during that time are likely to raise concerns—and an apparent lack of transparency can be damaging. To minimize fallout, the top priority for employers should be engaging a lawyer who is an expert on cybersecurity breaches of personnel data. That individual can guide appropriate decisions about other steps in the process, including who to inform about the data breach and when.

Finally, it's important to comply with regulations and privacy laws that apply to employee data. U.S. employers are familiar with the Health Insurance Portability and Accountability Act, but unless they're global they may not be as familiar with the General Data Protection Regulation (GDPR) of the European Union. This law affects U.K. and E.U. residents even when they're employed in the U.S. Looking ahead, some cutting-edge features of GDPR—such as the "right to be forgotten"—are likely to become more common worldwide.

Ultimately, the goal is to align HRBT with the organization's human capital management (HCM) strategy. First, decision makers should clearly define their HCM strategy. Then they should window-shop before they purchase by attending an event that provides exposure to the range of technology options available today. The next step is to create an HR technology governance committee to maintain the HRBT strategy, including staying on top of current releases.

Alongside the committee, employers should put both a cybersecurity plan and incident response plan in place. An effective cybersecurity plan includes training for HR staff on phishing tactics and other risks, and an incident response plan lays out the required internal responsibilities and sequence of actions necessary. The response plan also needs to identify external management experts and their indispensable roles. They include legal, forensic, notification, public relations and communications, and credit monitoring resources.

Adam Cottini
Managing Director, Cyber Liability Practice

Adam is responsible for the overall direction of the Cyber Liability Practice, including development of advanced solutions, insurance gap analysis, risk exposure analysis, risk modeling, benchmarking and best practices implementation. He has provided cyber risk management brokerage and consulting services for over 10 years.

Rhonda P. Marcucci
Vice President, HR & Benefits Technology Consulting

Rhonda co-leads a team of consultants who provide unbiased, well-researched and client-tailored HR and benefit administration technology sourcing advice and service provider capability audits. Their knowledge and expertise ensures a best-fit match between employer needs and available solutions across eight market sectors.

Petula Workman
Division Vice President, Compliance Counsel, Legislative Compliance Consulting

Petula is responsible for developing compliance resources and tools, and educating clients on how to interpret and address complex legislative requirements affecting employee benefits. Her broad legislative and regulatory expertise encompasses PPACA; HIPAA, including Privacy and Security; and day-to-day compliance issues.

Choosing a values-based approach to ethics, social governance and employee engagement.

Despite its buzzword status, "corporate social responsibility" is an important dimension of organizational leadership. Businesses and unions, as well as government and nonprofit organizations, operate in a legal, regulatory and political environment where actions may have social consequences to consider. A few familiar examples are operational activities, relationships with other organizations, charitable donations, and investment decisions for retirement funds and other assets.

Some theories of corporate governance suggest such concerns should not influence business behavior. The economist Milton Friedman once argued that "the social responsibility of business is to increase its profits, without deception or fraud, and nothing else."[1] On the other side of the debate, BlackRock Chairman and CEO Larry Fink announced in his 2018 open letter to CEOs that "a company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process."[2]

Considerations for building a values-based enterprise

Most leaders would acknowledge that ethics and social engagement do matter — simply because they matter to employees, customers, business partners and investors. Employees often prefer to work for an employer whose values align with their own, especially millennials. And socially responsible organizations stand to gain a burnished reputation that establishes or enhances their destination-employer standing. However, it's important to maintain control of the values-based narrative to avoid damage to reputations and a diminished standing. This risk has always been present, but the stakes are higher in a social media age when judgments, whether they're fair or not, can swiftly go viral.

The challenge for all organizations is promoting conduct most likely to strengthen their reputations and minimize related risk exposure. This might be simpler if organizational decisions were not made in extremely complex and constantly shifting environments. Attitudes can change quickly toward approaches that were once broadly tolerated or even supported. In early 2018, the views reflected in the #MeToo movement dramatically lowered the tolerance for sexual harassment in the workplace, just as the reactions to the Parkland, Florida, school shooting led some major companies to cut their NRA marketing ties in a no-win situation. While these lessons may not apply equally to all organizations and there's no guarantee of choosing the right approaches, experience reveals some favorable options:

- Adopting organizational values that are a realistic commitment
- Earning a reputation for ethical business behavior
- Allowing employee priorities to drive charitable contributions
- Aligning investment decisions with organizational values

Adopting organizational values that are a realistic commitment

Values are the expected behavioral norms and an integral part of organizational culture. Some values are stated explicitly and others are simply assumed, but all values should constitute a realistic commitment for the organization. It has become a common practice to make only the most important values statements explicit.

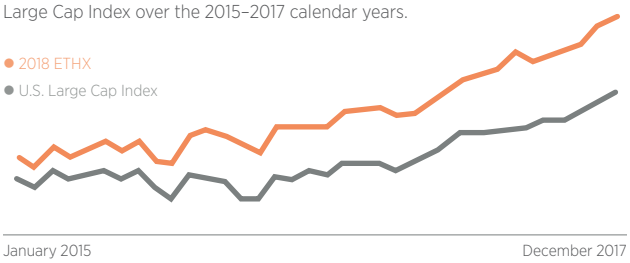
Earning a reputation for ethical business behavior

Most employers like to believe they behave ethically as well as legally. Building that reputation into the brand takes a steadfast commitment to closely managing all attributes of an ethical organization. In a reputation environment dominated by 24/7 globally networked news and media outlets, it's important to avoid any missteps or misinformation. Naturally, a person's direct experiences with an organization are the most influential and trusted. So, ethics policies, programs and systems must be in place that strongly and consistently support specific workforce behaviors — and business decisions — aligned with clearly defined organizational values.

3-YEAR ETHICS PREMIUM[3]

4.88%

Performance of the listed 2018 Ethisphere Honorees as compared to the U.S. Large Cap Index over the 2015–2017 calendar years.



Once ethical principles have been fully internalized and actualized, external recognition can reinforce what clients, customers and others who interact with the company experience firsthand. There are several respected organizations dedicated to driving sustainability and corporate responsibility in the U.S. and abroad that evaluate and formally recognize companies that excel. Rankings on annual lists like the Ethisphere Institute's "World's Most Ethical Companies" are based on rigorous methodologies and objective information. Other honors that recognize the outstanding achievements of individual executives can also help organizations earn marketplace credibility as ethical leaders.

Allowing employee priorities to drive charitable contributions

Organizations use charitable contributions for a variety of purposes like supporting their local communities or investing in causes that align directly with their business or operational focus. Deciding where to allocate funds is an important expression of organizational values.

Putting employee intent at the center of social contributions builds employer responsiveness into the fund allocation process. By involving employees in decision-making and inviting them to connect with the causes that matter most to them, the organization demonstrates respect for their collective individual values.

Aligning investment decisions with organizational values

Over the past several years, it has become easier for individuals and organizations to adopt investment strategies that match their priorities for social responsibility. Investment options like the Dow Jones Sustainability Indices give investors a financial stake in social performance, and investment firms have created portfolios that target a variety of social objectives.

Also, those with fiduciary responsibilities are now subject to an expanded scope of regulations that require their investment decisions to consider other factors besides risk and return. In 2015, the U.S. Department of Labor issued a directive for Taft-Hartley union trusts that allows fiduciaries to take into account "non-investment benefits" when making investment decisions. For example, local investments that create jobs can be acceptable under these guidelines.[4]

A fundamental question facing enterprise leaders and investors considering social responsibility-driven strategies is whether they can "do well by doing good." Investment strategies can take decades to fully evaluate. So there's no clear answer on whether socially responsible investing leads to better financial performance over a sustained time period. However, there appears to be a connection between socially engaged companies and the greater desires of employees to work for them and consumers to buy from them. Essentially, the commitment to pursue values-based strategies depends on unified values of leadership and the strength of their desire to do the right thing.

Michael Johnson
Area President, Institutional Investment & Fiduciary Services

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

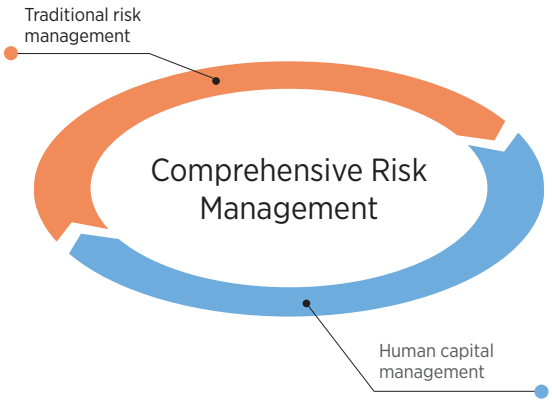
As internal ambassador of ethics and sustainability, Tom visits offices around the world engaging with Gallagher employees about the company's shared values and the role of ethics in business. He is also the liaison to the United National Global Compact, the Ethisphere Institute, the Boston College Center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

The crossroads of traditional risk management and human capital risk management.

The traditional approach to risk management centers on four questions: What risks do we avoid? What risks do we transfer? What risks do we assume? And, which risks are insurable? These important qualifying questions still apply to a cohesive risk management strategy. After all, long-standing risks like worker safety and data security still exist. But the forms these risks take are changing along with employers' understanding of what constitutes a risk.

Take a look at some of the risks that are top of mind in 2018 but didn't receive as much attention 25 years ago: cybersecurity, workplace violence, the gig economy, and pay equity — or lack thereof. These evolving threats and pressing issues are both grounded and impacted by a human element — employees. Employers have the challenge of multigenerational workforces that consist of individuals with different work styles, experiences and expectations. That's why it is smart to take a blended approach to risk management that melds traditional cost management tactics with a human capital perspective.

COMPREHENSIVE RISK MANAGEMENT OFFERS PROTECTION FROM BOTH FINANCIAL/LEGAL AND HUMAN RISKS



Incorporating a human capital approach into a risk management strategy

A comprehensive risk management strategy for an employer mitigates or avoids financial liabilities while fostering an environment that limits human capital risk. Unlike financial risk management, a human capital approach to this process focuses on talent goals and outcomes by addressing uniquely important questions. They include: What can we do to value and promote employee retention? What can we do to engage our employees? How can we increase employee productivity? And, how do we minimize risky behavior among employees?

Human capital risk management policies can take several forms. For instance, organizations can help protect themselves against employee data theft and cybersecurity breaches by implementing security procedures, and training the entire workforce on safe handling of sensitive data. Workplace safety can be enhanced through EAP services and other resources that support mental health. And management training and education can reduce pay inequity and prevent discrimination or harassment claims.

Limiting human capital risk also means adroitly managing a changing and varied workforce that spans the generations from millennials to baby boomers. Risk can come from the different expectations and assumptions these employees bring to the job, and addressing their diverse priorities helps an employer build a culture that engages and retains employees.

Human capital risk management in action — the gig economy

The nature of work — who, what, where and how it will be done — is rapidly evolving due to technology, artificial intelligence and turnover among younger employees, to name a few. As a response to these changes, the emergence of the gig economy showcases why it's important for employers' risk management policies to balance financial and human capital concerns. Driven by the transition from a primarily industrial to a service-based economy, this new labor market is a movement toward increased hiring of workers as needed for specific projects or tasks, and paying them by assignment. A recent poll found that 20% of all American workers are contract employees hired to work on a specific project, or for a fixed period of time.[1]

Employers both benefit from and assume new risks when using independent contractors. Gig employees provide a diversified and ultimately more sustainable compensation spread, allowing employers to attain high-quality work from specialists at a predictable expense. Avoiding benefits above pay insulates organizations from rapidly increasing health and pharmacy costs. The gig economy also supports a phased retirement strategy whereby workers that may otherwise delay retirement can transition into an independent contractor role, reducing both employer and employee obligations.

However, contract employees often operate in a grey zone concerning employers' legal obligations to their workers. It's not unusual for employees and gig workers to perform duties with shared characteristics, and employers that consider their gig workers independent contractors may find the courts disagree — ruling that these workers are, in fact, employees. There are other areas where laws and legal frameworks have not caught up with gig economy norms. What rights do independent contractors have under civil rights laws or the Americans with Disabilities Act? How do employers protect trade secrets or maintain workplace safety when gig workers have only loose connections to organizations? The answers to these questions are still evolving. But they are topics that should be on employers' minds because of the gig economy's possible risks.

That said, these new and growing risks are worth assuming and managing in order for employers to both meet changing workforce needs and preferences, and maintain a pay structure that can be expanded and contracted as business needs fluctuate.

How leading-edge employers think about and manage risk

Sound advice for all employers is to conduct regular self-assessments that review their risk portfolios and illuminate areas of vulnerability. Taking an unflinching, integrated look at traditional financial risks and human capital risks — and strategically planning for the unexpected — can help organizations maintain stability and profitability. The most effective outcomes will consider not just total past costs, but also potential future costs based on present risk transfer and assumption decisions.

Leading-edge employers have comprehensive risk management approaches. They are thoughtful about using insurance to their greatest advantage by funding and addressing risks most effectively. That means not exposing the company to too much liability if a risk becomes reality, but not overestimating how much risk a company faces. Beyond insuring certain risks, comprehensive management incorporates human capital risk into the equation through training, creating a culture of respect, and accommodating today's workforce needs. It is this type of organizational management that helps an employer achieve destination status — in the eyes of its employees and applicants, including its independent contractors. All workers benefit from a highly supportive and collaborative work environment that promotes productivity.

Bill Baker
National Director of **CORE**360™

Bill works closely with his teams to help them deliver value that impacts their clients' total cost of risk. His diverse sales and service experience in the insurance brokerage industry has made him a respected coach to many colleagues throughout his career.

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.

Richard Polak
Executive Vice President,
Multinational Benefits & HR

Richard advises multinational organizations on international HR as well as compensation and benefits, helping to develop solutions for employers undergoing rapid global changes. He focuses on driving innovation in international benefits, healthcare, pensions and HR.

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Contributors

INTRODUCTION
William F. Ziebell, MBA
bill_ziebell@ajg.com

PHYSICAL & EMOTIONAL WELLBEING
Joy Burton
joy_burton@ajg.com

Kevin Cipoletti
kevin_cipoletti@ajg.com

Seth Friedman, MBA
seth_friedman@ajg.com

Nicky Jones-Gyllstrom, MBA
nicky_jones-gyllstrom@ajg.com

Rebecca Kruske, M Ed
rebecca_kruske@ajg.com

Jenny Love, MD, MPH
jenny_love_md@ajg.com

Agnes Nines
agnes_nines@ajg.com

Ali Payne, MS
ali_payne@ajg.com

Mark Rosenberg
mark_rosenberg@ajg.com

Kathleen Schulz, MS, CHES
kathleen_schulz@ajg.com

Jill Watson
jill_watson@ajg.com

CAREER WELLBEING
Laura Boone, M Ed, ACC
laura_boone@ajg.com

John Ergastolo
john_ergastolo@ajg.com

Kathy Hall, RN, MBA
kathy_hall@ajg.com

Scott Hamilton, MBA
scott_hamilton@ajg.com

Chris Ratajczyk, ACCP, SPHR
chris_ratajczyk@ajg.com

Genevieve Roberts, ACC, SHRM-CP, PHR
genevieve_roberts@ajg.com

Rebecca Starr, SPHR
rebecca_starr@ajg.com

Liz Wright
liz_wright@ajg.com

FINANCIAL WELLBEING
Ian Altman, FSA, EA
ian_altman@ajg.com

George Chirayil
george_chirayil@ajg.com

Dean Clune
dean_clune@ajg.com

Bruce Johnson, EA, MAAA
bruce_johnson@ajg.com

Terri Orem, FLMI
terri_orem@ajg.com

Tom Telford
tom_telford@ajg.com

ORGANIZATIONAL WELLBEING
Bill Baker, CPCU, RPLU, ARM
bill_baker@ajg.com

Adam Cottini
adam_cottini@ajg.com

Michael Johnson, CFA
michael_w_johnson@ajg.com

George K. Katsoudas, MBA, JD
george_katsoudas@ajg.com

Kent Lonsdale
kent_lonsdale@ajg.com

Rhonda P. Marcucci, CPA
rhonda_marcucci@ajg.com

Richard Polak
richard_polak@ajg.com

Tom Tropp, MA
tom_tropp@ajg.com

Petula Workman, JD, CEBS
petula_workman@ajg.com

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 stronger sense of developing a career than punching a clock. And a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher's 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.

Arthur J. Gallagher & Co. (NYSE: AJG), an international insurance brokerage and risk management services firm, is headquartered in Rolling Meadows, Illinois, has operations in 33 countries and offers client-service capabilities in more than 150 countries around the world through a network of correspondent brokers and consultants.

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