BENEFIT Plan Trends

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Identifying Toxic Employees Before They Are Hired

As "toxic" employees who engage in violations of company policy or criminal acts can have major negative financial and cultural effects on companies, employers should seek to identify workers who are likely to cause serious problems in the workplace before they are hired, a report recently published by talent management software provider Cornerstone OnDemand has recommended.

The findings of the report, "Toxic Employees in the Workplace," published on March 31, 2015, were based on an econometric analysis of a dataset of approximately 63,000 employees spanning around 250,000 observations. The analysis was conducted by identifying the employees who were terminated for reasons related to "toxic behavior," or behavior that includes misconduct, workplace violence, drug or alcohol abuse, sexual harassment, falsification of documents, theft, fraud, and other violations of company policy. Across the sample, 3% to 5% of all employees met the criteria for having been terminated for reasons of toxic behavior.

The report examined not only the measurable costs of toxic behavior, but also other equally damaging and harder-to-measure indirect costs, such as the toll a toxic employee's misbehavior can take on co-workers. Researchers concluded that these indirect costs create an even larger financial burden on businesses than the direct impact of an employee's disruptive behavior.

For example, positive and productive employees are 54% more likely to quit when they have a toxic employee on their team. Researchers noted that replacement costs are therefore substantially higher when a company recruits a toxic employee: the analysis indicated that adding a single toxic employee to a 20-person team costs approximately $12,800, whereas hiring a non-toxic employee to join the same team costs just $4,000. Researchers also warned that toxic behavior is contagious, and can spread from co-worker to co-worker at faster rates when teams are large.

The results further indicated that the onboarding costs of hiring a toxic employee are three times those associated with hiring a non-toxic

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employee. However, toxic employees have a negligible effect on the performance of their co-workers, which suggests that these employees have a stronger influence on stress and burnout than on day-to-day task completion.

The ability to identify candidates who display a high likelihood for toxic behavior before they cause havoc in the workplace is therefore tremendously valuable, researchers observed. The analysis identified certain behaviors which appear to be potential warning signs that a job applicant may turn out to be a toxic employee. For example, individuals who are self-proclaimed "rule followers" were 33% more likely to be toxic employees, and that applicants who were notably overconfident about their technical proficiencies for a job were 43% more likely to engage in toxic behavior.

The findings also revealed that among current employees, the signs that an individual will turn out to be a toxic employee include poor attendance and dependability, as well as a lack of customer service orientation. Researchers therefore recommended that both job applicants and current employees be screened for indicators that they might engage in disruptive behavior.

Employers Consider New Strategies for Retiree Medical Programs

As concerns about the high cost of retiree health benefits grow, many large employers are considering alternatives that better align with their current workforce planning initiatives, the results of a survey released by global professional services company Towers Watson indicate.

The survey of 144 human resource executives at large and midsize companies that sponsor retiree medical benefits was conducted in September 2014. The survey was designed to provide insights into how employers are thinking about retirement health benefits and the key actions they expect to undertake in response to new options emerging in the changing health care landscape.

More than three-quarters (78%) of respondents reported that they currently provide health benefits to both pre-Medicare and Medicare-eligible retirees, and 70% said they will offer health benefits to the majority of their current full-time employees upon retirement. However, while the results showed that 89% believe that retirement health care benefit security is somewhat to extremely important to their company's retirees, the share of respondents who said their organization offers retiree health care benefits to employees hired in 2014 or later was just 57%.

Researchers observed that in addition to weighing rising costs, employers face a number of issues when considering whether to provide health benefits to retirees, including the Affordable Care Act's 2018 excise tax on high-cost health plans. A significant percentage (39%) of the HR executives surveyed cited the excise tax as a major reason for reevaluating their retiree medical strategy over the next few years.

Another potential factor in the reevaluation of medical benefits for retirees is the lack of alignment between current retiree medical programs and workforce management goals: only 38% of respondents said they believe their organization's retiree medical benefits are effective in attracting and retaining workers, and just 26% said the benefits are integrated into their company's broader workforce management and retirement strategies.

The survey also found that 78% of respondents are now using or considering using the services of a private Medicare exchange to assist retirees in selecting individual coverage, and 41% indicated they are funding or considering funding retiree medical benefits through a voluntary employee beneficiary association or 401(h) to reduce their risk profile. Moreover, 21% of respondents reported that they are converting their subsidy to a retiree medical savings account, with another 18% indicating they are considering doing so by 2017.

Researchers pointed out that public and private health insurance exchanges are among the new options for pre-Medicare retirees. The survey showed that while only 8% of respondents are very confident about the use of public exchanges to cover the needs of these retirees for 2015, 35% are confident that exchanges will be a viable option by 2017. Moreover, 52% of the HR executives surveyed said they will reassess their current approach to providing pre-Medicare retiree health care benefits and consider public health insurance exchanges by 2017, with 31% saying they are considering these changes for 2016.

The survey also found that as HR professionals assess the future risk of retiree medical liabilities, some are considering new strategies for transferring or settling these liabilities which are similar to the approaches used to de-risk pensions. For example, some employers have reported weighing the option of purchasing group annuities for retirees from an insurer, which would guarantee lifetime funding of health care benefits for the retirees.

Employer Contributions to HSAs Declined In 2014

While employer contributions to health savings accounts (HSAs) declined in 2014 from the previous year, enrollment in high-deductible health plans continued to expand, according to a survey conducted by United Benefit Advisors, an alliance of independent benefit advisors.

Based on responses from 9,950 employers sponsoring 16,967 health plans nationwide, the survey results, released on March 25, 2015, indicated that the average employer contribution to single HSAs declined 10% between 2013 and 2014, from $574 to $515; and that over the same period the average employer contribution to family HSAs decreased 7%, from $958 to $890. The findings also revealed a correlation between enrollment in HSAs and consumer-driven health plans (CDHPs), linking higher HSA contributions to increased enrollment in these plans.

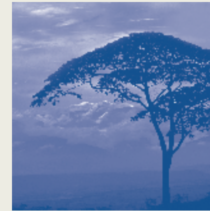
Researchers reported that while CDHP offerings were up 8% in 2014 relative to 2012, the number of plans offered in 2014 was largely unchanged from 2013. They added, however, that the share of employees enrolled in CDHPs increased from 15.6% to 20.6% over this two-year period, despite overall decreases in employer contributions to HSAs.

The survey results also confirmed that CDHPs were less expensive than other health plans: while the average annual health plan cost per employee for all types of plans in 2014 was $9,504, CDHPs had the lowest average annual cost per employee, at $8,919. By comparison, the average annual cost per employee was $9,072 for health maintenance organizations (HMOs) and $9,828 for preferred provider organizations (PPOs).

The poll showed that small employers (1-50 employees) tended to exceed the average HSA contribution levels for both singles and families, whereas large employers (1,000+ employees) typically contributed less, or an average of $426 for singles and $760 for families. The findings also indicated however, that large employers had relatively low CDHP enrollment rates: while 25.5% of large employer plans were CDHPs, only 16.6% of employees at large companies were enrolled in these plans.

In addition, the survey found that the correlation between high HSA contributions and high CDHP enrollment levels was largely consistent across different industries and regions in 2014, with a few exceptions. For example, the survey showed that California had very generous average HSA contribution levels ($808 for singles and $1,316 for families), but very low levels of CDHP enrollment: only 11.3% of health plans in California were CDHPs, and just 8.1% of employees were enrolled in high-deductible plans.

The regional results further indicated that New England, which typically has the most generous health care packages overall, had average HSA contributions



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of $685 for singles and $1,342 for families. Meanwhile, employers in the South Central region had the lowest average contributions, of $360 for singles and $554 for families. The survey also showed that 36% of employers in the North Central states offered CDHPs, or the highest share of any of the regions; and that more than 40% of employees in this region were enrolled in CDHPs, which was again the highest share in the nation.

When examined by industry, the survey data showed that employers in the construction, health care/social assistance, mining/oil and gas extraction, and retail and wholesale sectors had the lowest average HSA contribution levels in 2014. By contrast, government employers had the most generous levels, with average HSA contributions of $791 for singles and $1,431 for families.

Metrics Differ In Long-Term and Short-Term Incentives for Executives

In compensation packages for executives at large companies, short-term incentive (STI) plans are typically based on income statement-related performance metrics such as revenue and operating income, whereas long-term incentive (LTI) plans tend to be based on market-related metrics like total shareholder return and stock price appreciation, according to an analysis by human resource consultancy Mercer.

The results of the analysis, published on March 10, 2015, were based on proxy statements for companies of the S&P 100 (as comprised on January 1, 2014) which disclosed compensation data between 2013 and 2014. The analysis revealed that while financial metrics were included in the majority of short- and long-term incentive awards, non-financial metrics were fairly common in STI programs, but not in LTI plans.

Specifically, the results showed that the most common STI metrics were profit-based, with 36% of organizations using earnings per share and 49% using other profit measures; followed by revenues, which were used by 47% of the companies. Meanwhile, the findings indicated that total shareholder return or stock appreciation was the most common LTI metric, used by 55% of the companies; followed by return on assets or return on equity, used by 49% of the organizations.

The analysis also found that more than 90% of STI performance metrics were evaluated against pre-established goals set by the compensation committee. LTI performance metrics were more likely than STI metrics to have been assessed relative to a defined peer group or index. The results further indicated that 60% of the companies used three or fewer performance metrics in their STI plans, and 90% used three or fewer performance metrics in their LTI plans.

In addition, the analysis showed that 85% of LTIs used shares or units to deliver awards rather than cash. Three-year cycles were the most prevalent period of time over which performance was evaluated, representing 84% of awards analyzed; followed by two-year cycles.

Moreover, financial metrics were found to carry the most weight in both STI and LTI awards. The analysis showed that in STIs, the typical weighting for income statement-derived metrics—such as revenue, operating income, pretax income, or net income—was 55%; followed by earnings per share, at 40%. In LTI plans, the typical weighting for the most common metrics—such as total shareholder return/stock appreciation, return on assets/return on equity, earnings per share, and asset/equity growth—was 50%.

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