BENEFIT *Plan Trends*

A monthly update focusing on Retirement and Executive Viewpoints Volume 58, Number 8

Bonus Payments Tied to Non-Financial Performance

In response to regulatory pressures and difficult market conditions, banks and insurers across the globe are making changes to their executive pay programs, with many adding bonus malus or clawback provisions and non-financial performance metrics to compensation packages, the results of a recent survey by human resource consultancy Mercer indicate.

The survey, published on July 7, 2015 reviewed the pay practices of 55 global banks, insurers, and other financial services companies based in 15 major countries in Europe, North America, and Asia, and focused in particular on changes designed to discourage executives from focusing too heavily on short-term results, rather than on long-term growth.

"Bonus malus" refers to the part of the deferred bonus that has not yet been paid out and can be "reclaimed" because, for example, the due diligence on an acquisition has not carried out thoroughly; whereas the term "clawback" is applied to a bonus that has already been paid out and can be reclaimed by the employer, generally in cases of gross negligence or non-compliance. A "mandatory bonus deferral" is a short-term incentive that can be deferred over time to allow employers to consider how successful results have been over several years.

The results indicated that 78% of the companies surveyed have made changes to their executive compensation programs in 2015. The most frequently cited changes were the strengthening of bonus malus and clawback conditions (47%), the strengthening of the link between performance management and compensation (44%), and an increase in the use of non-financial measures (31%) in reviewing performance.

The survey found that while nearly all of the banks and almost half of the insurance companies surveyed have a mandatory bonus deferral program in place, a full 86% of the European companies surveyed have such a program, compared with just 58% of all of the North American organizations polled. Researchers pointed out that this gap may be attributable to more prescriptive regulation on this issue in the European Union.

The findings further showed that 32% of the European organizations, but just 14% of the North American companies surveyed are increasing the use of bonus malus in 2015.

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However, the survey also found that slightly more North American companies (36%) than European companies (36%) are increasing the use of clawbacks on vested awards in 2015.

In addition, the results indicated that 75% of all of the organizations surveyed currently have a forward-looking long-term incentive plan in place.

When asked what non-financial performance metrics they use in their incentive compensation programs, 64% of all of the respondents and 85% of the banks surveyed indicated they use compliance/risk management, 60% of all of the respondents said they use employee metrics, and 67% of the banks and 36% of the insurance companies said they use customer metrics. A number of other metrics were also mentioned, including achievement of strategic initiatives, business expansion, corporate social responsibility, leadership metrics, corporate citizenship, and people management.

HR Faces Challenges, Workforces Become More International

As trade liberalization and technological advancements have encouraged companies to expand internationally and trade their products and services on a global scale, companies are becoming more transnational and workforces are becoming increasingly cross-cultural—trends that are creating both risks and opportunities for human resource management, a report researched and written by the Economist Intelligence Unit for the SHRM Foundation observed.

The report, "Engaging and Integrating a Global Workforce," was published in February 2015. The study predicts that as free trade and technology provide companies with access to a global talent pool, companies will continue to expand internationally. The authors warned, however, that while binding companies and workforces through infrastructure and trade links brings great opportunities, it also increases operational risks, as economic, political, regulatory, and societal events can affect the entire value chain in developing and developed countries.

According to the study, the profile of the average global worker is changing, as workforces become older, more gender equal, and more ethnically diverse. The authors pointed out that a worker's country of origin and ethnicity no longer dictates his or her geographical scope, especially as developing countries are producing at least as many skilled, educated workers and managers as developed countries. The report also noted that as workers are becoming better educated and more skilled globally, productivity is rising.

In addition, the report observed that communication technologies are making it easier for employees to work from anywhere, and that working from remote locations no longer prevents employees from communicating with their colleagues. Thus, teams are now able to collaborate with ease across national borders and time zones. The authors predicted that this increased global connectivity will mean that workers can move around more frequently, and might choose to migrate for both permanent and temporary jobs.

The authors emphasized that these shifts have mainly positive implications for firms and workers alike, bringing enhanced opportunities and greater flexibility. For example, hiring local labor can bring in-depth cultural understanding to the workforce that organizations can use to their advantage.

However, the authors added that these changes may also have negative repercussions. For example, companies with an international workforce may have greater risk exposure than in the past, and they may face problems related to a dearth of experienced leaders, a lack of cultural knowledge, and inconsistent educational standards within their workforce. To address these issues, management may have to make additional efforts to ensure that knowledge is transferred from temporary to permanent employees, and to develop a corporate culture that keeps people engaged and maintains productivity.

Workers Focus on Short-Term Goals Instead Of Retirement

American workers find it difficult to save for retirement because their distant financial needs tend to take a backseat to more immediate economic concerns, even if they have their day-to-day finances under control or are financially literate, according to a study by the Center for Retirement Research at Boston College.

In the May 2015 issue brief, "Are Americans of All Ages and Income Levels Shortsighted About Their Finances?" researchers Steven A. Sass and Jorge D. Ramos-Mercado analyzed the results of a 2012 FINRA Investor Education Foundation survey to determine how Americans balance the need for long-term saving with their current financial concerns. The survey sample included 9,473 households in which the main respondent was between the ages of 25 and 60.

To examine the question of whether the financial assessments of workers at all income levels are shortsighted, the study created three age groups (25-34, 35-50, and 50-60) and divided each age group into terciles based on household income, adjusted for household size. The study looked at the respondents' answers to questions about how satisfied they are with their personal financial condition, and about the extent to which they are able to meet specific day-to-day and distant financial needs. The indicators used for day-to-day problems were "difficulty covering expenses," "heavy debt burdens," "unemployment," and "inability to access $2,000;" while the indicators used for distant problems were "no retirement plan," "no life insurance," "no medical insurance," "mortgage underwater," "not saving for college," and "concern about repaying student loans."

Not surprisingly, the analysis showed that the incidence of financial problems varied much more by income than it did by age, as deficiencies were much more prevalent in lower- than in higher-income households. For example, the findings indicated that 80% of households in the bottom income tercile, but only 33% of households in the top income tercile, reported that they were have difficulties covering expenses.

However, the results also showed that among respondents of all income levels and age groups, having problems with day-to-day expenses was associated with large statistically significant reductions in financial satisfaction, whereas the relationship between financial satisfaction and distant problems was much more muted. Among the distant problems, only not saving for college and not having medical insurance were associated with statistically significant reductions in satisfaction in all three age groups.

The findings further indicated that the relationships between financial assessments and specific deficiencies varied much less by income than they did by age, with people of different ages having different concerns. For example, the inability to access $2,000 and the inability to repay college loans were associated with much larger reductions in satisfaction at younger ages, whereas having heavy debt burdens and an underwater mortgage were associated with greater reductions in satisfaction at middle and older ages.

The major exception to this pattern was in the area of retirement planning: the results indicated that there was no relationship between having no retirement plan and financial satisfaction among workers in any age group, and that having no retirement plan was associated with a statistically significant reduction in financial satisfaction among respondents in the top income tercile only.

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Sass and Ramos-Mercado concluded that Americans of all ages and income levels appear to be shortsighted about their finances. The authors therefore recommended that steps be taken to make it easy and automatic for households to save enough to secure a basic level of financial well-being in retirement.

Employers Offer a Range Of Total Rewards Programs

Companies offer a wide range of total rewards programs and benefits to attract, motivate, retain, and engage employees, according to a survey released by nonprofit human resources association WorldatWork.

The survey, which was designed to measure the prevalence of 50 specific types of total rewards programs and practices, was conducted in March-April 2015, and included responses from 1,421 WorldatWork members, most of whom represent large companies based in North America.

When asked about their compensation programs, 92% of the companies surveyed said they offer performance-based pay increases to attract and retain workers, 74% said they extend hiring bonuses, 65% indicated they offer individual performance-based incentives, 52% said they pay commissions, and 41% reported they offer stock options/grants or restricted stock.

The survey also asked employers about their use of performance and recognition programs. The findings showed that 97% of respondents conduct performance reviews, and that 91% use informal recognition, such as manager or peer appreciation and personal and professional celebrations, to guide employee engagement and performance. Meanwhile, 81% of the companies surveyed reported that they have formal recognition programs, such as employee of the month or length of service awards.

In addition, companies were polled about their health care benefits. The findings indicated that 81% sponsor a preferred provider organization (PPO) medical plan, 70% offer a high-deductible medical plan, and 46% sponsor a health maintenance organization (HMO) plan. The results further showed that 98% of the companies surveyed sponsor a dental plan, and 93% offer flexible spending accounts (FSAs).

When asked about their paid and unpaid time off benefits, 47% of the organizations surveyed said they have a paid time off (PTO) bank that gives employees a cumulative number of paid days off. More than 60% reported that they offer vacation and sick leave separate from PTO bank benefits, and more than 95% said they offer holiday pay and bereavement leave.

The results further indicated that most of the companies surveyed offer work-life programs: 69% of respondents reported that they allow flex time, 71% said they permit teleworking, and 44% said they allow compressed workweeks.

The survey also asked companies about their retirement benefits. The findings indicated that 90% sponsor a defined contribution retirement plan, while 47% sponsor a defined benefit retirement plan. In addition, 97% said they offer short-term or long-term disability benefits, and 98% said they offer employee life insurance.

When asked about the development and career opportunities they offer employees, 89% of the employers surveyed said they provide tuition reimbursement, 88% indicated they offer leadership training, 67% said they sponsor formal or informal mentorship programs.

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