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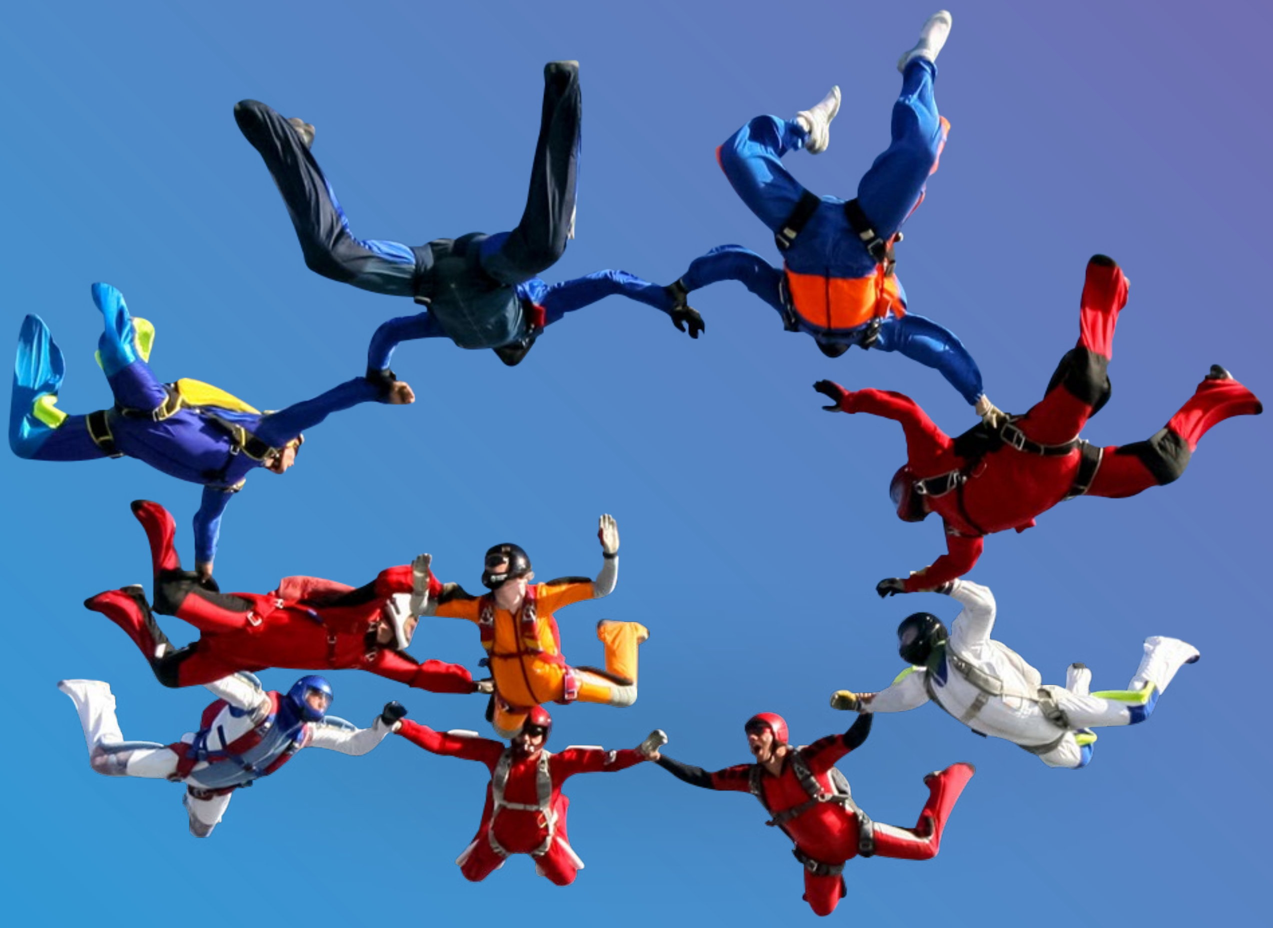
Designing a total rewards strategy in uncertain times



A balance of economics and empathy can help protect your business and your people

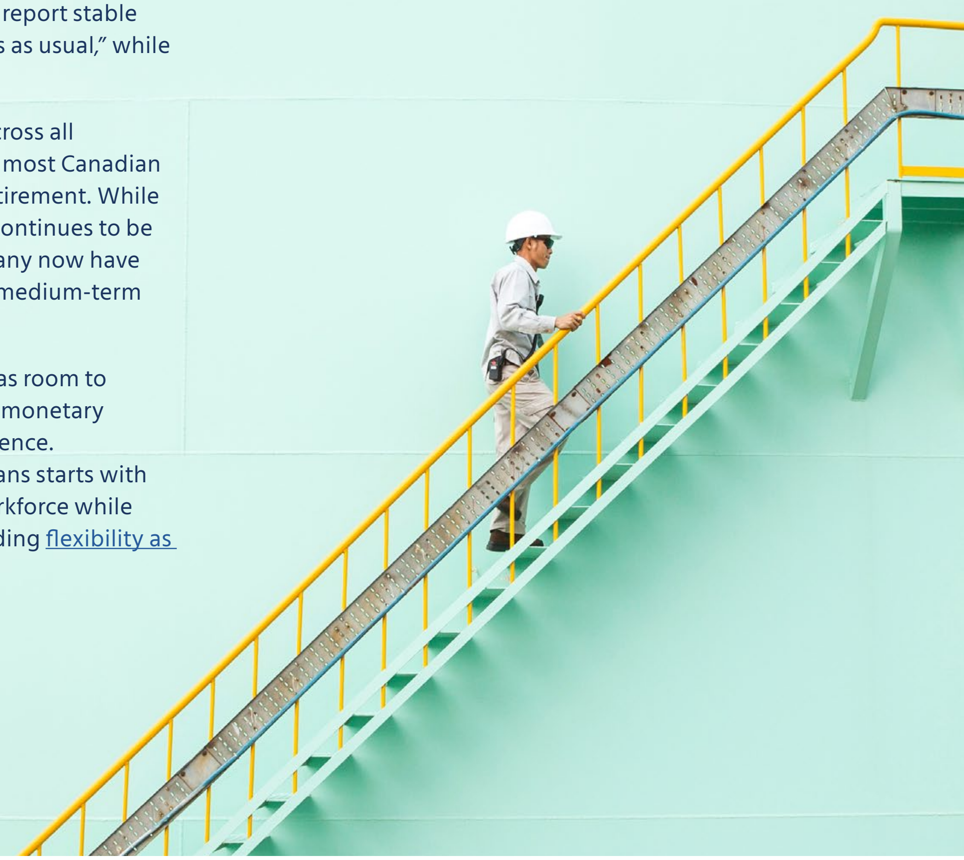
Total rewards planning has always been a critical element of business planning, but never more so than during these unprecedented times. A well-designed total rewards strategy allows you to support your business objectives and reinforce your employee experience. Although many businesses are finding the process more difficult this year, as they grapple with extraordinary levels of uncertainty, there is a viable, proactive way every organization can develop an effective total rewards strategy.

The key is to balance economics and empathy so you strengthen your business and have a lasting impact on employee retention, engagement, wellbeing and productivity.

Our research shows that, unlike previous years, most Canadian organizations have delayed setting their salary adjustment budget for 2021. Close to one-third of Canadian organizations across a broad range of industries and geographies told us they are struggling to cope with the effects of the pandemic. Just over half report stable revenues even though it's hardly "business as usual," while one in ten have seen higher revenues.

Uncertainty is also challenging workers across all organizations. Even before the pandemic, most Canadian employees were not saving enough for retirement. While their ability to become retirement-ready continues to be a significant risk and concern for them, many now have additional worries about their short- and medium-term health and wellbeing.

Whether your salary budget is frozen or has room to increase in 2021, there are also many non-monetary options to enhance your employee experience. Reimagining your benefits and savings plans starts with defining the immediate needs of your workforce while considering their long-term goals and adding flexibility as a core design objective.



Planning in a time of uncertainty

2020 continues to be an unprecedented year for everyone, affecting all aspects of business operations. In previous years, organizations would be able to plan their **total rewards strategy** for the coming year based on Mercer's detailed and well-documented forecasts. Our Canadian Compensation Planning Surveys reveal, however, that by late July most companies (89%) still had not set their salary adjustment budget for next year, and more than half (56%) had not even started the process.

Struggling, stable or growing?

It's not only the high degree of economic uncertainty that is affecting planning. The pandemic's uneven impact on Canadian organizations is another significant factor. Our readiness diagnostic survey in June 2020 identified three broad profiles that represent the situations many organizations across all sectors and regions are dealing with. Roughly one-third (30%) told us they were **struggling** to maintain continuity or to survive, just over half (56%) reported **stable** revenues, and one in ten said they had seen revenue **growth**.

How you approach your total rewards planning for 2021 will depend in large measure on which profile best describes your situation.

Rising employee financial stress

When developing your strategy, it's important to remember that similar profiles can also be applied to your employees, depending on their personal situations. Some may be struggling to cope financially if a partner or dependent has lost their income or seen it reduced. They may be juggling childcare or eldercare responsibilities with their work obligations. Those nearing the end of their careers might be reassessing whether they can retire when they had planned.

Mercer's inaugural Retirement Readiness Barometer, released in February 2020, shows that most Canadian employees across all generations are still not saving enough, or investing enough, to achieve retirement security. Even before the pandemic, our research found more than 40% of Canadians were struggling with debt management. Stress was already building as a result of lower financial wellbeing; the impact of COVID-19 and any loss or reduction of income since then will compound this.

Now more than ever, employers must help their workers achieve greater financial and retirement security through an increased focus on re-engaging employees with innovative and less traditional approaches that acknowledge the realities created by the pandemic and evolve with the change in generations.

Employees have told us they also want enhanced health and wellness support from their employer and are excited about the prospect of managing health through the use of digital solutions and services. More than 90% say they are willing to try at least one of a range of digital health tools, from telemedicine and telehealth solutions to second opinion services and healthcare navigation.

A balanced approach

Here are some things to consider when developing your total rewards strategy for 2021. They provide a balance of economics and empathy so you can protect the health and resilience of your business, and the health and resilience of your people.

Struggling organizations

Salary and recognition: If your organization is among the 30% being challenged to maintain continuity or to survive because of the pandemic, you will probably need to maintain the cost-reduction protocols you implemented in 2020 until your business recovers and operations begin to return to normal. Although most struggling organizations will likely freeze salaries in 2021, you may want to provide some targeted increases for employees in critical roles or consider giving spot awards to exceptional performers. Non-salary actions can acknowledge performers in other ways, such as recognition from the CEO during a virtual town hall, a company donation to a community organization in recognition of an employee's contributions, additional vacation days or inclusion in future professional development programs.

Health and group benefits: Struggling organizations should first consider financing and placement strategies that can drive significant savings without affecting the level of benefits provided to employees. Benefit programs are an integral part of total rewards and even more so in a pandemic environment, as they support the physical and emotional wellbeing of employees and protect them financially against unforeseen risks.

Among the tactics that should be considered, small and mid-size organizations can use a carrier panel to obtain financial conditions that would otherwise only be available to larger organizations. If you are a larger plan sponsor providing benefits on a self-insured or refund-accounting basis, you've probably accumulated large plan surpluses in 2020, so now would be a good time to use them to reduce 2021 premiums or take a contribution holiday. All struggling organizations can evaluate loyalty-based approaches with their insurers that provide price concessions in return for longer contract terms.

If your cost reduction targets make it necessary to change the level of benefits offered to your employees, try as much as possible to limit the impact on them. Look for areas of your plan that are above market against your comparator group, as these changes will not jeopardize your competitive advantage when business starts to return to normal. Focus on true insurance coverage so you continue to protect your employees from financial hardship that might result from one of them being diagnosed with a severe illness that requires expensive medication or a prolonged absence from work. Counterbalance any reduction in coverage by taking advantage of and communicating free solutions and services from various vendors and governments.

Retirement: Consider outsourcing the day-to-day management and operations of your retirement programs if your organization has scaled back on HR or Finance functions that previously supported oversight, administration and governance. By delegating vendor management and investment selection and monitoring, you can focus on survival without missing opportunities in preparation for the challenging market cycle to come, where investment volatility is certain. Any reduction or suspension of your plan contributions should be a last resort, and only if all other cost reduction initiatives prove insufficient. Remember, retirement readiness is one of the biggest financial worries for Canadians, including many of your employees.

In 2021, struggling organizations may consider:

- Continued cost-reduction protocols
- Salary freezes
- Actions to generate health and group plan savings
- Insurance coverage that best protects employees
- Delegation of day-to-day management and operations of retirement programs

Stable organizations

Salary and recognition: Just over half the Canadian organizations we surveyed reported stable income throughout the pandemic. We expect they will be planning for a conservative salary increase budget in the range of 2.0% to 2.5%, although not all of this money will necessarily go toward traditional salary increases. There could be some differentiation to deliver more to key performers and those with critical skills. Given continuing uncertainty about what's in store for the economy, it might be desirable to award lump sum payments instead of base salary increases, or a mix of the two. Now is also a good time to ensure your incentive plans focus on performance metrics that drive business success in 2021 and beyond.

Health and group benefits: Stable organizations may be able to use some of the tactics in the previous section to help manage costs and risks. Your benefits dollars should be prioritizing things that enhance employee engagement, in particular their wellbeing, and flatten your cost curve in the long run. One way to do this is with transparent plan structures that include defined contribution approaches such as flexible benefits or spending accounts. Employees should be empowered to make the right choices by incentivizing them through design or by encouraging lower-cost delivery options.

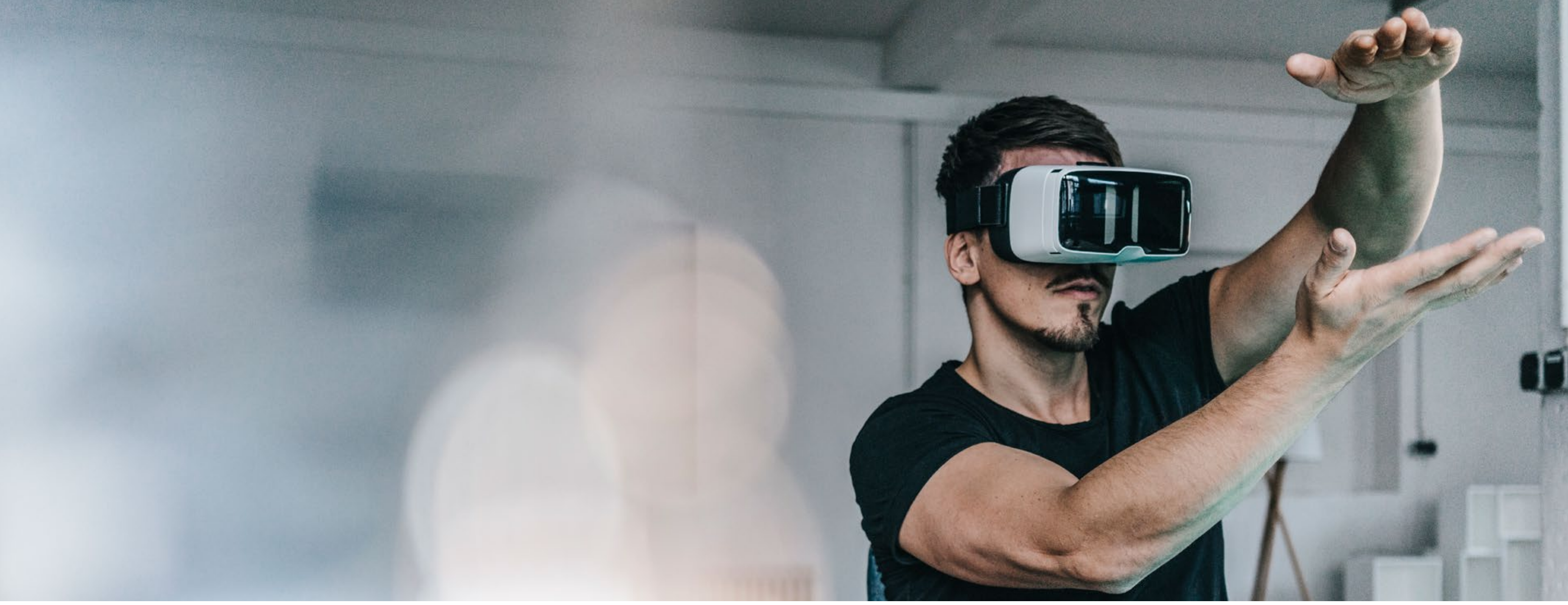
Retirement: Reimagine the function and purpose of your retirement programs. Many companies have already rebranded their retirement plans as "retirement and savings" plans and made them flexible so employees can choose how they want to save based on their own goals and objectives. Flexible plan designs recognize employees in the early stages of their career may wish to save for short-term objectives like paying off debt, buying their first home or funding a child's education while still allowing them to allocate a portion of their savings for retirement. One approach would be for company contributions to be directed to long-term savings in a pension plan while member contributions can be directed to a short-term vehicle like a Tax-Free Savings Account. Innovative approaches like this can increase the overall wellbeing of your employees without changing your contribution formula.

In 2021, stable organizations may consider:

- Conservative salary budget increases (2.0 - 2.5%)
- Incentive plan review
- Benefit spending that enhances employee engagement
- Flexible benefits or spending accounts
- Flexible retirement and savings plans

Multiple improvements with a complete total rewards review

This stable but not "business as usual" organization originally responded to COVID-19 by planning a traditional cost saving and risk reduction initiative. It quickly realized it could accomplish that goal – and much more – by carrying out a complete review of its total rewards offering and further engaging its employees in their benefits. The result was a greater defined contribution approach, allowing it to reallocate some of the savings based on its desired total rewards market positioning. It simultaneously modernized its pension, benefits and wellness programs, with key integration features and an integrated communications strategy. Participant engagement increased as a result of new savings options, greater benefits flexibility, a new wellness component, and an engaging benefits administration platform with targeted communication.



Growing organizations

If you are among the one in ten organizations that have increased their revenues this year, you're probably in a fast-moving industry where competition for talent is intense. Your total rewards program must keep you on top of the market so you can continue to succeed and grow. At the same time, you need to consider the optics of providing larger-than-usual rewards – particularly at the executive level – when so many businesses and employees are facing difficult times.

Salary and recognition: We expect growing organizations will have a more aggressive salary increase budget for 2021, possibly in the 3.0% to 3.5% range, with differentiation based on performance. We believe these organizations must be very strategic in how they spend that budget and invest in the broader employee value proposition package. This includes areas such as diversity and inclusion, and environmental, social and governance (ESG) programs that are high priorities for younger talent. Other people investments to consider include technology, training and learning, and employee wellness initiatives.

Health and group benefits: Consider building on any virtual care solutions you introduced in the first few months of the pandemic by developing a broader digital health strategy that goes beyond telemedicine. You could adopt a personalized benefits approach using digital platforms and apps that allow your employees to access their core benefits and wellbeing information in one place while also giving them access to point solutions from pre-selected vendors that go beyond traditional benefits. These platforms give your employees timely, targeted communications based on their individual circumstances and give you the analytics and data you need to tailor your offering based on utilization metrics and employee preferences.

Retirement: In addition to reviewing the suggested tactics for struggling and stable organizations, growing businesses should focus on, and invest in, the financial wellbeing of their employees to increase employee engagement and help them deal with any financial stresses and worries they may have. Developing a financial wellness strategy based on detailed plan analytics will provide your organization with insights into challenges and opportunities facing your employee population so you can address and support their financial security.

In 2021, growing organizations may consider:

- More aggressive salary budget increases (3.0 - 3.5%)
- Investments in the broader employee value proposition package
- Digital health strategy
- Retirement and savings plans that focus on employee financial wellbeing

Economics and empathy

COVID-19 will be a defining moment in the life and career of your employees. The actions you take now will have a lasting impact on employee engagement, loyalty and productivity. While the pandemic has created unprecedented challenges, it also presents an opportunity to further support your employees, mitigate risk and manage costs.

Mercer solutions help you apply the all-important balance between economics and empathy to ensure your total rewards program is meeting your needs and those of your employees. Beyond optimizing costs of your existing programs, we can help you deliver more targeted value to different employee segments and better align your incentive plans to evolving business objectives. This could be the time to improve the digital employee experience across your total rewards programs, including rolling out an employee wellness platform and helping them with their financial wellness. If you need to reduce your internal workload, delegating the management and administration of your retirement plans could be part of the solution.

To learn more about how we can help you design your **total rewards strategy** to achieve the maximum impact in these unprecedented times, contact your Mercer consultant.

Reshaping the future

About Mercer

At Mercer, we redefine the world of work, reshape retirement and investment outcomes, and define new possibilities for health and wellbeing. Our aim is to look to the future by focusing on the needs of today. We help our clients navigate uncertainty and a rapidly changing environment that is transforming the way we work.

With more than 70 years of experience, we provide trusted advice and solutions by understanding data and applying it with a human touch. We drive change by turning ideas into action, positioning our clients, colleagues, and communities for the future.

Welcome to brighter.

How we can help

Continuously rethinking purpose and priorities drives HR transformation. Shaping the future of work requires improved strategies around investment and retirement, health and wellness benefits, talent and communications. We believe in the value of investing in the future to build resilience for your business and your employees.

Together with our clients, we find ways to elevate the employee experience with effective compensation and communication strategies. Through investments in reskilling and learning, we focus on developing strengths that the workforce of the future needs.

Investments and retirement require sophisticated solutions. We approach these with a big-picture view that prioritizes long-term financial wellness. We offer research and advice on assessing risk and designing benefits programs while keeping in mind the need to optimize throughout changing times.

As part of our forward-thinking approach, we provide strategies to foster healthy lifestyles with innovative health and wellness benefits. Mercer Marsh Benefits consultants help you provide personalized benefits options that suit a range of employees' needs. We understand that today's workforce is multi-generational and diverse, and we're prepared to create solutions with you that support employees, wherever they work.

For further information, please visit
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