

2011 Top Five Total Rewards Priorities Survey

Rising healthcare costs continue to weigh on employers
as Health Reform adds a heightened level of uncertainty



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Overview

Driven in large part by the passage of the Patient Protection and Affordable Care Act (“Health Reform”), results from the *2011 Top Five Total Rewards Priorities* survey show a definite reordering of priorities after two years of consistency. This year’s Top Five Survey suggests that even as the economy and financial markets continue to slowly rebound, employers are as concerned about the cost of providing healthcare benefits as they have ever been. However, contributing to concerns about how to manage these costs, employers now face a new challenge – understanding and complying with the various elements and complexities of Health Reform.

The Top Five Survey indicates that most employers are not quite sure how to manage the vast complexities and uncertainties presented by Health Reform. Will it survive in its current form? Challenges continue to be posed in the legislature, the judiciary and in the media. One thing is certain, an overwhelming number of employers expect the cost of providing benefits to employees to increase. At the same time, two-thirds of employers are making no changes to their benefit plans at this point, signaling a “wait and see” approach for final Health Reform provisions that will likely reduce plan design flexibility.

While *health care program costs* held on as the top priority among employers for the second year in a row (and 6 out of the last 7 years), *the willingness of employees to take on greater cost sharing* moved into the number two spot for 2011. With cost as the primary focus, employers seem to be seeking more strategic approaches to benefits spending in health care, retirement and compensation programs.

Slipping from number two in 2010 to number three in 2011 is *the ability to attract, motivate and retain talented employees*. While talent is a perennial Top Five, the survey may indicate that the talent shortage in general is less of a concern while in specific areas the need for talent is in full swing.

The 2011 Top Five Survey marks its 17th year as an indicator of strategic challenges facing organizations. The survey is jointly sponsored by Deloitte and the International Society of Certified Employee Benefit Specialists (ISCEBS). Following is the order in which the 242 respondents ranked the Top Five priorities for 2011:

1. The cost of providing healthcare benefits to active employees
2. The willingness of employees to pay for an increasing portion of benefit plan coverage and to manage their own reward budget
3. The ability of reward programs to attract, motivate and retain talented employees
4. The ability to adjust to and comply with current and future provisions of Health Reform legislation
5. Clear alignment of Total Rewards strategy with business strategy and brand

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The statements in this report reflect our analysis of survey respondents and are not intended to reflect facts or opinions of any other entities. All survey data and statistics referenced and presented, as well as the representations made and opinions expressed, unless specifically described otherwise, pertain only to the participating organizations and their responses to the Deloitte/ISCEBS survey conducted in January, 2011.

When asked to identify top concerns separately as an employee as well as an employer, this year's Top Five Survey reveals that HR professionals are not as worried about job security as in past years but are more concerned about their ability to afford retirement. This is leading employees to increase contributions to retirement savings plans, pay off personal debts and actively participate in wellness and disease management programs with an eye toward improving their health and financial well-being in preparation for retirement.

Other findings from the survey point to challenges related to:

Employer	Employee
The ability of employees to afford to retire	The increasing responsibility to manage a rewards budget
The cost of providing healthcare benefits to retirees	The ability to understand and make effective investment decisions for a 401(k) plan
Inefficient and fragmented HR delivery models, including process, technology, organizational structure and vendors	The investment performance of 401(k) plans and other employer-sponsored savings/profit sharing plans
Re-evaluating the mix of financial versus non-financial rewards offered in a Total Rewards program	Eldercare responsibilities

The uncertainties of Health Reform

Strategizing for the unknown

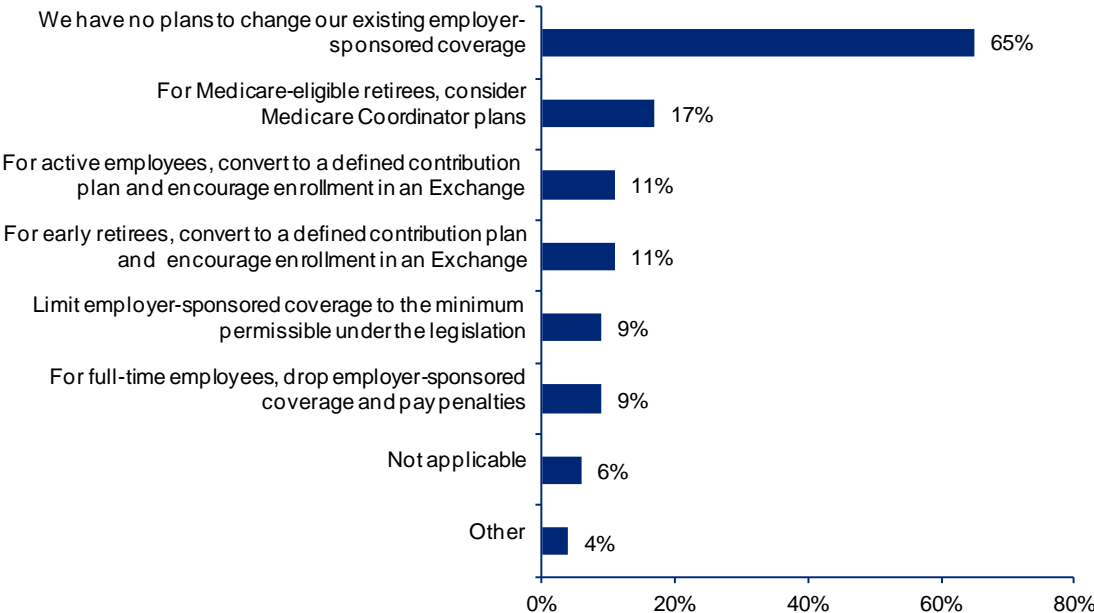
They say that the only certainty is uncertainty, and this appears to be the case with Health Reform as well. The Top Five Survey shows that challenges around pending developments in Health Reform compliance and legislation are occupying the attention of organizations in a major way. New survey questions for 2011 shed light on employer concerns around Health Reform legislation.

“Most employers have no current plans to significantly alter their healthcare programs. This may change as elements of the reform legislation take shape, especially in the design, pricing, efficiency and acceptability of the new state health exchanges. Employers may have new choices.”

Steven Kraus
Principal, Deloitte Consulting LLP
National Lead, Employer Implications of Health Reform

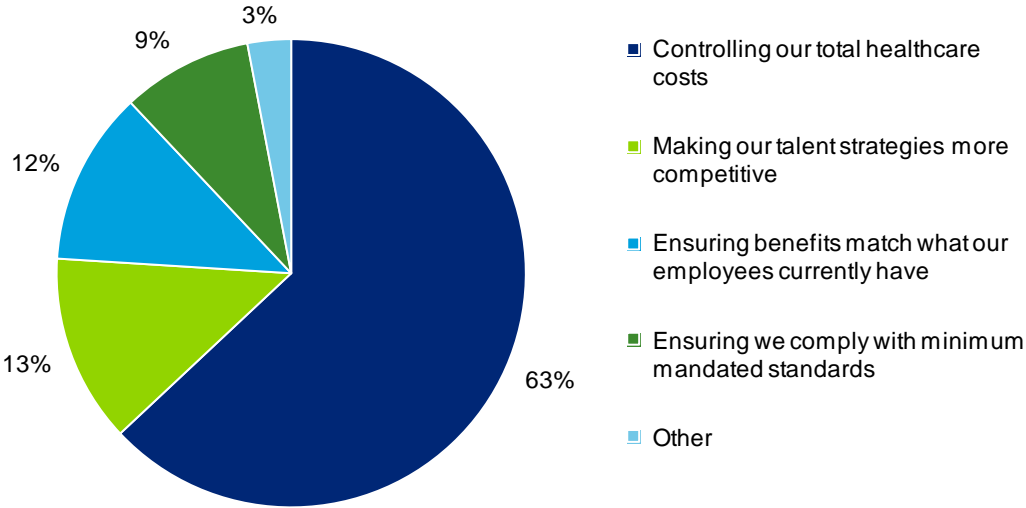
Respondents were asked what alternatives their organization might consider for employer-sponsored coverage. With the uncertainty surrounding the future of Health Reform — both in the legislature and in the courts — 65% of respondents said, “We have no plans to change our existing employer-sponsored coverage.” For the balance of employers considering alternatives, the focus is on: Medicare Coordination plans for retirees (17%), and encouraging active employees (11%) and retirees (11%) to enroll in an exchange by converting to a defined contribution plan. Despite uncertainty around Health Reform legislation, and fears around increasing healthcare cost, at this time only 9% of employers indicated that they plan to drop employer-sponsored coverage and pay the penalties with the expectation of further legislation and required changes.

Figure 1: Alternatives under consideration for employer-sponsored coverage in the wake of Health Reform



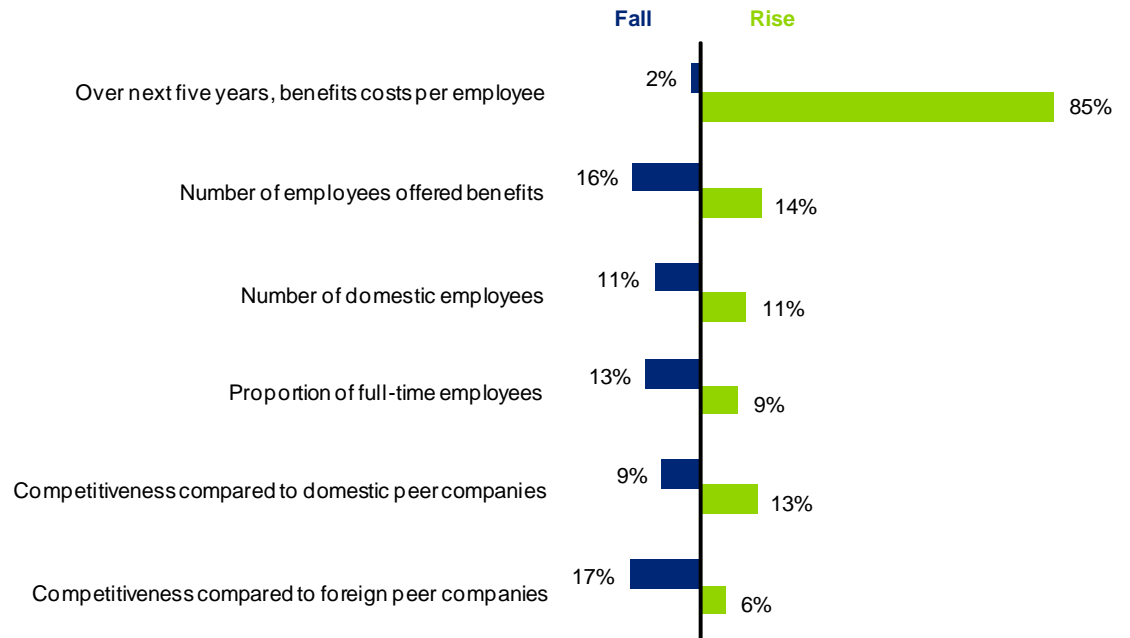
Consistent with concerns related to total healthcare dollars spent, when asked to choose the organization's primary focus in addressing Health Reform over the next three years, 63% of respondents selected "we will focus mostly on controlling our total healthcare costs." At the same time, only 9% selected "we will focus mostly on ensuring we comply with minimum mandated standards." This low ranking might suggest respondents are not confident that these standards will be enacted in their current form. This sentiment is consistent with respondents' thoughts on the rest of Health Reform.

Figure 2: Primary focus in addressing Health Reform



When asked what the expected impact of Health Reform on your workforce and business will be, an overwhelming 85% of respondents indicated that benefits costs per employee will rise. This is in line with findings in Deloitte's *CFO Signals™ 2010 Q4 Results* in which 90% of respondents indicated that they anticipate benefits costs per employee will rise as a result of Health Reform legislation. While greater access to health coverage is a basic tenet of Health Reform, 16% of respondents expected the number of employees offered benefits to fall. Further, while 13% of respondents felt competitiveness with *domestic* peer companies will rise as an outcome of Health Reform, 17% indicated that competitiveness relative to *foreign* peer companies will fall.

Figure 3: Expected impact of Health Reform on company's workforce and business



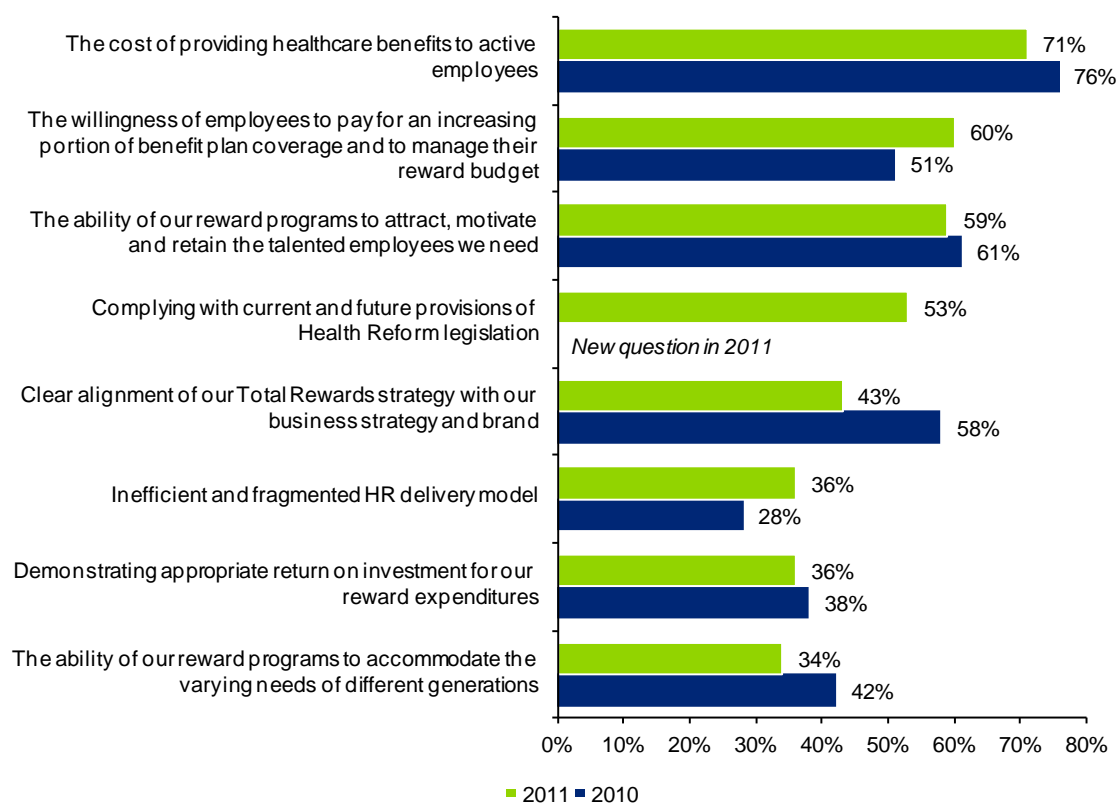
At the same time, 68% of respondents indicated that their organization has re-evaluated benefits due to Health Reform within the past 12 months, and 73% indicated that they expect to re-evaluate benefits due to Health Reform over the next 12 months. This suggests that even though employers are still not completely clear on the ultimate outcomes of Health Reform, they are devoting a good deal of attention to examining the ramifications.

Rising costs, rising cost-share

Still keeping an eye on talent

This year's Top Five Survey indicates a continued employer focus on managing the overall cost of healthcare with 71% of respondents ranking this the number one priority facing their organization today. As costs continue to climb, employers are seeking more opportunities to share this cost with employees, with 60% of respondents indicating "the willingness of employees to pay for an increasing portion of benefit plan coverage and to manage their own rewards budget" is a Top Five priority in 2011. This is up from 51% in 2010, and 48% in 2009, edging past *Talent* to rank as the number two priority in 2011.

Figure 4: 2011 Top Five Total Rewards Challenges compared to 2010*



*Percent of companies ranking each among their Top Five challenges

“Would employers still be talking about healthcare benefits if the big news in March 2010 was “Health Reform Fails”? The survey answers with a resounding “Yes” because the underlying concerns related to rising healthcare costs are still with us. Health Reform, however, will add expense and complexity to employer-sponsored plans, and the new design options emerging from the reform provisions will continue to shape future visions of employer coverage.”

Steven Kraus

Principal, Deloitte Consulting LLP

National Lead, Employer Implications of Health Reform

When asked to identify actions that their organization has undertaken relative to the redesign of some or all of their health and welfare plans, 62% of employees indicated that they have considered increasing cost-sharing for active employee plans over the past 12 months with another 30% of organizations indicating they will consider increasing employee cost sharing for active employee plans over the next 12 months.

In this highly competitive global business environment, business growth is directly linked to high-performing employees in critical workforce segments. It should come as no surprise that 59% of respondents considered “the ability of our reward programs to attract, motivate and retain the talented employees we need to effectively run our organization” as the number three priority. Talent is an area that demands constant focus, and successful organizations continue to devote

significant resources to make sure the talent pipeline is always flowing. As noted in our 2009–2010 *Managing Talent in a Turbulent Economy* series, today’s high unemployment rate does not mean that talent will be available when and where a company needs it. This is the paradox of scarcity amidst plenty.

As discussed above, the ability to adjust and comply with Health Reform legislation ranked as the number four priority (53%). Rounding out the Top Five in 2011 is the clear alignment of the Total Rewards strategy with business strategy and brand (43%). While down from 58% in 2010, ensuring that compensation and benefits are fully supporting – and driving – business growth continues to be a critical imperative.

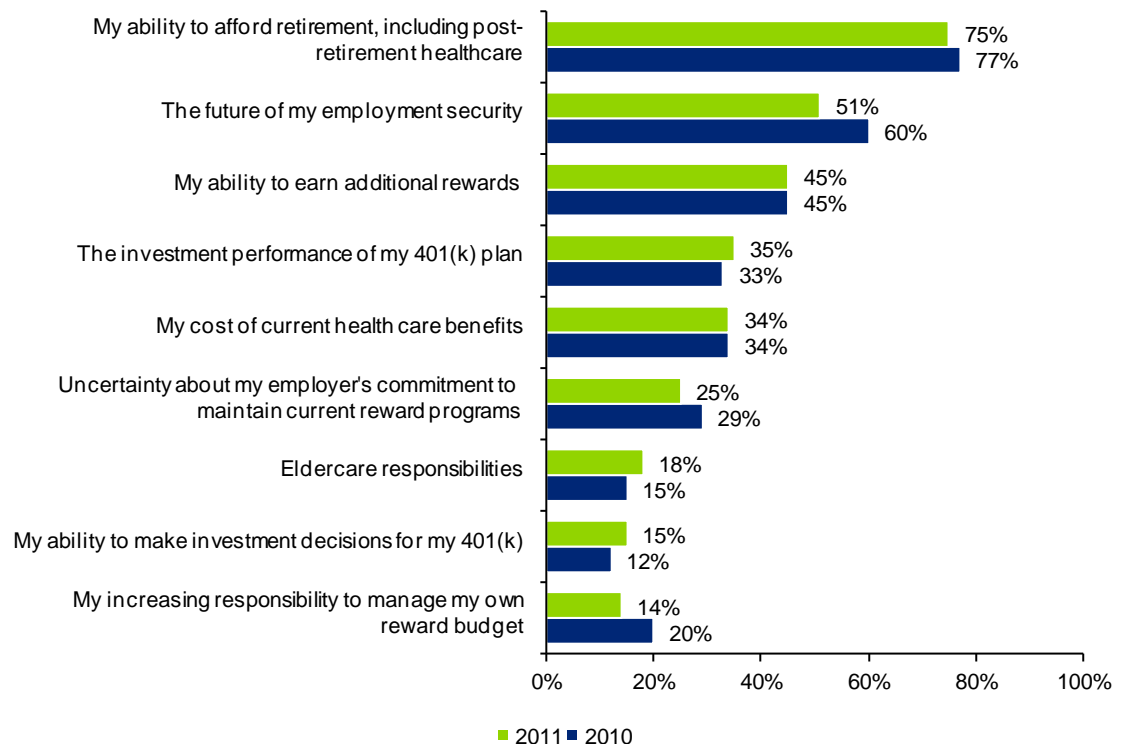
Personal steps align with concerns

Feeling better about job security

Answering survey questions from a personal perspective, the results of the *2011 Top Five Survey* provide interesting insights with the top three personal challenges unchanged from last year. In 2011, 75% of respondents ranked “my ability to afford retirement, including post-retirement healthcare” in their top three. This response is virtually even with the findings of last year’s survey (77%), indicating that the cost of retirement continues to be a personal concern that is not going away. Perhaps not surprisingly, respondents who are over age 60 are almost three times as likely as those under age 45 to name the ability to afford retirement as their top concern (62% vs. 24%).

HR professionals showed a slightly more confident view towards job security than they had last year. In 2010, for example, 60% of employees ranked job security as a top three personal challenge. In 2011, this dropped to 51%, which may signal that employees are growing more confident about the future of their employment. And, based on two new questions in this year’s survey, it seems that respondents are planning to stay put as only 10% indicated they plan to leave their current employer for another that provides more stability and 5% plan to leave their current employer for another that provides more benefits. At the same time, the slowly strengthening economy may also provide an added sense of security in that other job opportunities are coming available.

Figure 5: Top personal challenges



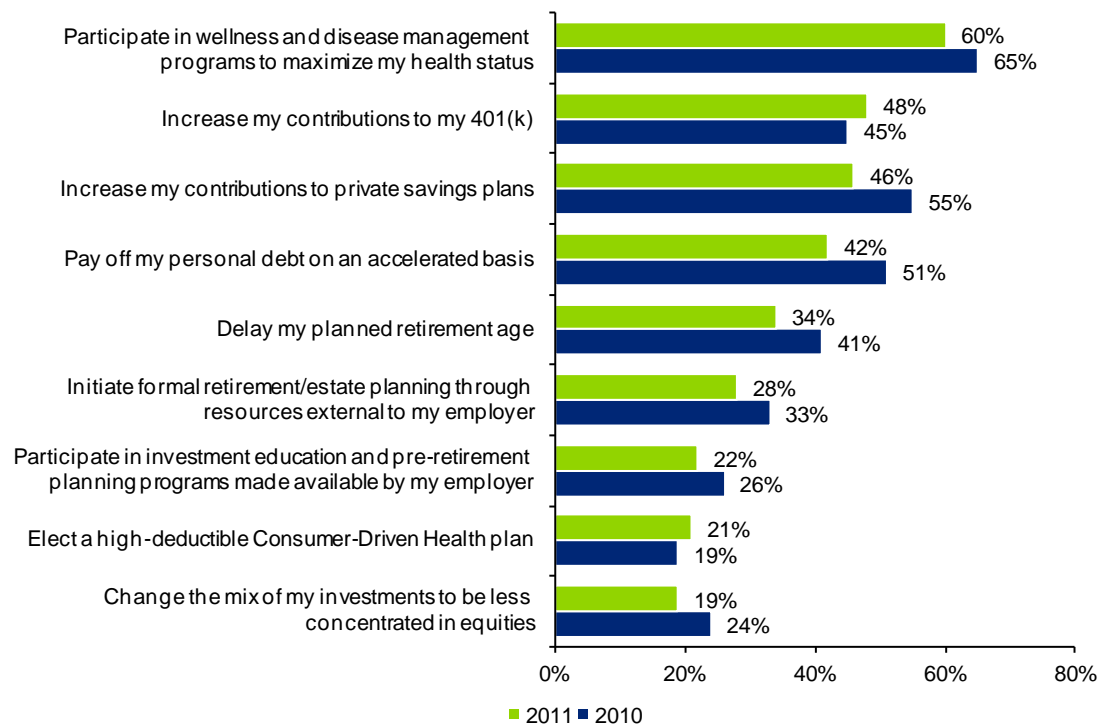
Money continues to be a significant issue from the employee perspective. Rounding out the top three personal challenges, 45% of respondents indicated that they are concerned about their ability to earn additional rewards to stay on top of inflation and advance in real economic terms. This pocketbook challenge is linked directly to other personal challenges identified by employees — the investment performance of 401(k) plans (35%) and the cost of current healthcare benefits (34%). Also noteworthy is the finding that 25% of respondents cited “uncertainty about my employer’s commitment to maintaining current reward programs” as a concern.

Focus on wellness and financial security

Results of the Top Five Survey suggest that employees are taking responsibility for their overall health and wellness. When asked what individuals plan to do over the next one to three years based on the challenges they face, 60% of individuals indicate they plan to “actively participate in wellness and disease management programs to maximize my health status.” Reflecting the concern of affording healthcare in retirement, individuals equate the long-term advantages of good health as a sound retirement investment.

At the same time, employees are taking greater responsibility for their personal financial portfolios to be better positioned for retirement. Nearly half (48%) of respondents indicate they plan to increase their level of contribution to qualified retirement plans with 46% planning to increase contributions to private savings plans. At the same time, 42% are planning on using available funds to pay off personal debts on an accelerated basis, which is down from 51% from the 2010 survey. Those planning to delay retirement also dropped to 34% in 2011 from 41% in 2010. However, if over a third of the workforce does remain in place longer, an assortment of Total Rewards and talent issues will be in store for employers. With this in mind, placing a greater emphasis on long-term workforce planning will help clarify the future talent picture.

Figure 6: Response to personal challenges



Getting the word out

Communication with total rewards in mind

As noted above, “clear alignment of our Total Rewards strategy with our business strategy and brand” was the number five priority in the 2011 survey. While creating and reinforcing a well-recognized and trusted brand in the marketplace is a key to business success, organizations also need to provide an internal strategy that matches the “brand promise” employees see and experience every day. Rewards clearly play a major role in representing and solidifying that promise.

With this in mind, a crucial element for a successful implementation of a new benefit plan option or change is to establish a clear strategy for employee communication as it relates to Total Rewards programs. Redesigning benefit plans continues to be a common cost-saving strategy in 2011 and employers appear poised to invest in employee communications programs to promote planned changes.

For example, of those employers who are planning or who have recently planned changes to their overall Total Rewards Program, 51% indicated that they have considered increasing employee communication and education surrounding rewards programs. Moreover, of those same respondents, 34% indicated that they have considered changing their packaging, branding and communications around their overall Total Rewards Programs.

Additional strategic changes that employers have considered and will consider related to overall Total Rewards Strategy/Program include:

	Have considered	Will consider
Redesign some of our reward programs to better align the interest of employees and the organization and promote employee engagement	30%	37%
Add <i>benefit programs</i> to the Total Rewards Program	21%	14%
Better measure return on investment of our reward programs	13%	20%
Engage in a more formal and rigorous process of asking employees what they value most about their reward programs	12%	32%

What's your generation?

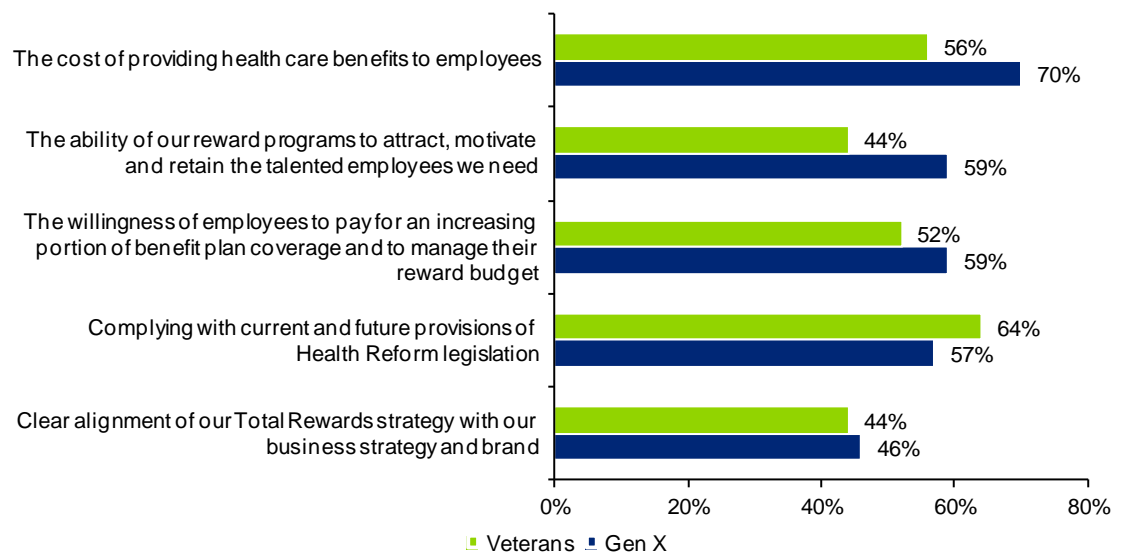
Staying connected with all four

This year's survey saw generational issues drop out of the Top Five priorities to seventh (34%) compared to fifth (42%) last year. However, responses still suggest that organizations need to spend more time addressing generational challenges. This is especially true given that the demographics of today's workplace now span four generations — Gen Y (under 30), Gen X (30–44), Baby Boomers (45–64), and Veterans (65 and older).

In the 2011 survey, 61% of respondents agree that their organization's leadership team understands the Total Rewards perspectives and values of the different generations in their workforce. On the other hand, when asked if their organization has the correct Total Rewards strategy in place to recruit and retain the age groups needed in their workforce, 21% of respondents do not agree. There is clearly a disconnect that suggests employers may not be effectively recognizing generational issues and the strategies needed to address them. A new question for 2011 focused on the use of social media tools in Total Rewards communication campaigns. Survey findings show that 22% of employers have integrated social media tools while 62% have not.

Taking a generational view of the Top Five data, a significant distinction is revealed. Seventy percent of Gen X respondents rank the cost of providing healthcare benefits to active employees among the Top Five priorities. With those over age 60, this concern is shared by 56% of respondents. These results may suggest that the cost of healthcare may be less of a concern from the perspective of those who are closing in on retirement and who will no longer be active in the workforce. Gen X respondents were also more likely to be concerned with the ability of reward programs to attract and retain talented employees than the Veterans (59% vs. 44%) and the ability of these programs to accommodate the varying generational needs (36% vs. 24%). The Veterans were somewhat more likely to be more concerned about the complexity of Health Reform legislation (64% vs. 57%).

**Figure 7: Top 5 total rewards priorities
Veterans vs. Gen X**



Other key findings

Specific reward programs and administration

Compensation

Approximately 65% of organizations have redesigned their compensation packages within the last 12 months or are planning to redesign their compensation plans over the next 12 months. The most common areas for redesign (each at 26%) are focused on modifying merit distribution guidelines to drive more pay to higher performers; increasing emphasis on performance-based pay; and improving performance management tracking and administration. These findings could reflect the uptick in the economy and the desire for employers to financially reward their best-performing employees in an effort to improve retention and motivation of this group.

Results from the 2010 survey revealed 64% considered salary freezes in 2009. Based on this year's survey respondents, 24% of employers considered implementing salary freezes in 2010 with only 7% still considering it into 2011. This data may suggest that employers have grown more confident about the economy. These findings could also signal that many employers have already made significant progress with cost reduction efforts and no longer find it necessary to freeze or reduce salaries for their employees.

Compensation components expected to be redesigned over the next 12 months ranked as follows:

- 50% — Compensation Philosophy/Strategy
- 50% — Variable Cash
- 37% — Sales Compensation Plans
- 34% — Base Cash
- 24% — Equity

The Top Five Survey posed the question “has the recent focus on executive compensation impacted your company's design or compensation amounts for executive base pay and bonuses?” The answer for 75% of respondents is a resounding “No, we have no plans to change the structure of executive base pay or bonuses at this time.”

Retirement

Respondents to the Top Five Survey indicate that 41% of organizations plan to redesign retirement plans over the next 12 months. Another 40% of employers have already redesigned their retirement plans within the past 12 months. The focus in both areas is on redesigning qualified defined contribution plans. When asked what retirement plan changes employers have and will consider, the focus once again was on tools and resources related to retirement planning. This focus on retirement plans is consistent with the sentiments of employees who indicate their top concern (75%) is “my ability to afford retirement, including post-retirement healthcare.” Clearly, employers are getting the message and are targeting their efforts towards improving and investing in these types of plans.

Retirement components to be redesigned over the next 12 months ranked as follows:

- 64% — Defined contribution savings — qualified plans
- 39% — Defined benefit pension — qualified plans
- 25% — Defined contribution savings — non-qualified plans
- 17% — Defined benefit pension — non-qualified plans

Some of the retirement plan redesign considerations noted in this year's Top Five Survey were:

	Have considered	Will consider
Provide employees with better tools to plan for their retirement needs	43%	36%
Offer enhanced pre-retirement planning sessions for employees	32%	22%
Offer in-plan Roth conversions	26%	14%

These results suggest that employers continue to seek ways to better equip employees with insight and understanding around their personal role in planning and saving for retirement.

Health and group benefits

As noted earlier in this report, the Top Five Survey findings show that healthcare costs are the top challenge for employers. Within this context, it is no surprise that approximately 75% of those surveyed indicated that they plan to make, or already have made redesign changes to their health and welfare plans. Of those organizations planning to make changes, the most cited area by a wide margin is active employee medical plans. At the same time, retiree medical plans are gaining greater attention over the next 12 months.

Following are actions employers have undertaken with respect to their health and welfare plans:

	Have considered	Will consider
Active employee medical plans	89%	78%
Active employee health and welfare plans	27%	26%
Active employee disability	26%	27%
Active employee life insurance	23%	17%
Retiree medical plans	20%	33%
Other retiree health and welfare plans	6%	10%
Retiree life insurance	5%	7%

Turning to health and welfare plan redesign as a method to reduce and manage costs, topping the list once again in 2011 is increasing employee cost-sharing for active employee plans at 62%. Close behind at 59% is expanding wellness programs to help manage costs. This aligns well with the intention of employees to participate in wellness and disease management programs more actively in 2011. Next in the redesign rankings is increasing the use of consumerism for active employee plans at 51%. Consumerism is about engagement, and incentives have shown to be an effective means of engaging employees in healthcare programs. The survey suggests that employers are recognizing this point as 37% have considered introducing financial incentives aligned with benefit programs to participate in fitness, wellness or disease management initiatives.

Looking ahead over the next 12 months, 13% of respondents indicated they will consider replacing all current health plans with a Consumer-Driven Health Care (CDHC) plan and 14% will consider offering a CDHC plan as an option. These results show that organizations and employers are seeking strategic methods to control healthcare costs. CDHC plans put more financial and health-related responsibility on the employee, and the survey shows that many employees are open to this shift.

“One way to think about the employer implications of Health Reform is to think in terms of minimum standards. Beginning in 2014, employer plans will have to be designed with respect to eligibility and coverage rules, affordability and actuarial equivalencies, minimum essential benefits and a host of other thresholds. It’s a compliance imperative, but it may also serve as a stimulus for innovation.”

Steven Kraus

Principal, Deloitte Consulting LLP

National Lead, Employer Implications of Health Reform

When asked what individuals plan to do given the challenges they face over the next one to three years, 21% indicated that they plan to elect a high-deductible CDHC with either a Health Savings Account (HSA) or Health Reimbursement Account (HRA), if available. This number has risen steadily since 2009 when 14% of respondents indicated they would elect to enroll in a high-deductible CDHC plan. Looking at a constant population analysis (the same group who responded both in 2010 and 2011), a 10% jump in CDHC enrollment is expected. This increasing interest in high-deductible plans may indicate a growing segment of employees who are ready and willing to take more accountability and responsibility for their healthcare dollars and how they are spent.

Other reward programs

In addition to the most common Total Rewards offerings, organizations continue to think about other rewards programs, such as learning and development programs, flexible work arrangements, cash incentives and bonuses, and alternative career paths. In the *2011 Top Five Survey*, 56% of respondents indicate that they anticipate a change to one or more of these reward programs over the next 12 months. This is down significantly from 2010 when 78% of employers planned changes to these programs. This result could be an indicator that employers are focusing on the “big picture” developments related to Health Reform and high-cost/high-profile rewards programs.

Among other reward programs, the following were most commonly identified for redesign over the next 12 months:

- 48% — Learning and development programs
- 37% — Flexible work arrangements
- 29% — Cash incentives/bonuses
- 24% — Formal and alternative career paths

A popular choice last year was also “mandatory furloughs”. In 2010, 32% of organizations reported considering mandatory furloughs, but this dropped sharply in 2011 to 16%. This finding reveals that employers want to focus instead on keeping talented, high-performing workers engaged and maintain their feelings of loyalty towards the organization.

Rewards administration

The Top Five Survey asked respondents to identify actions their organizations have undertaken relative to the restructure of the administration of some or all of its rewards programs. Overall, the survey identified an increased focus on program administration in 2011 in areas such as global service delivery, self-service and decision support.

As in 2010, leading the list of actions was an increase in the use of employee self-service technologies at 55%. This was followed by improving governance and compliance at 40%, which was up from 28% in 2010, suggesting a continued awareness and concern related to compliance and governance in Total Rewards programs. The third most cited action is increasing the use of outsourced administration providers at 32%, up from 24% in 2010. In fact, nearly a third (31%) of employers that currently outsource benefits administration responded that they will investigate a change in outsourced vendors and/or work to renegotiate with existing vendors in 2011.

Even as the economy rebounds, more attention than ever is being paid to the fees that are charged for retirement plan administration. As a matter of necessity, employers will continue to seek opportunities to reduce cost, and at the same time improve service and compliance.

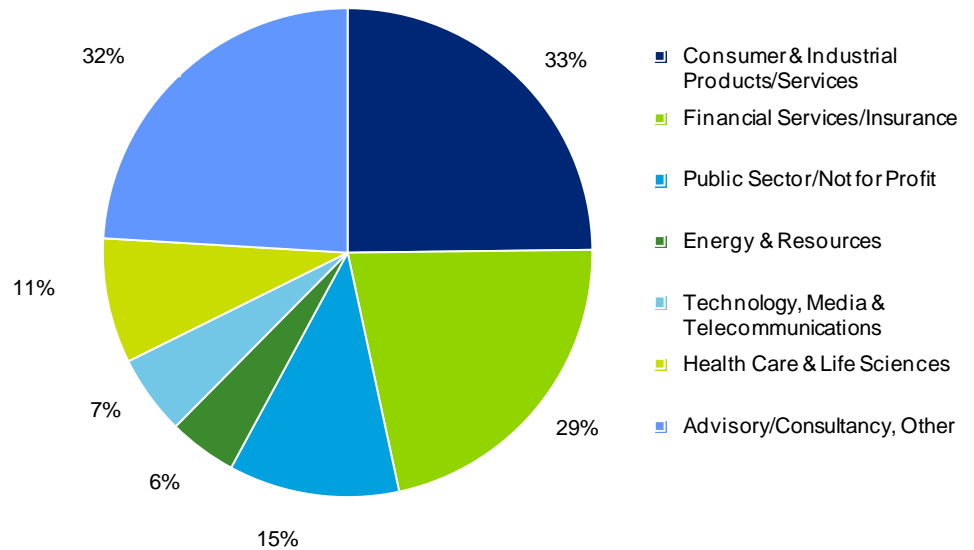
Top Five Survey methodology and demographics

In its 17th year, the *2011 Top Five Total Rewards Priorities Survey* has been conducted annually since 1994. The survey is jointly sponsored by Deloitte and the ISCEBS. The survey is developed and conducted by Deloitte Human Capital professionals, in collaboration with the ISCEBS.

Survey respondents were asked to respond as representatives of their employers with the exception of two questions asking their personal challenges and plans. For purposes of this survey, the phrase “Total Rewards” is defined as all compensation, benefits, perquisites and any other direct or indirect payments to employees.

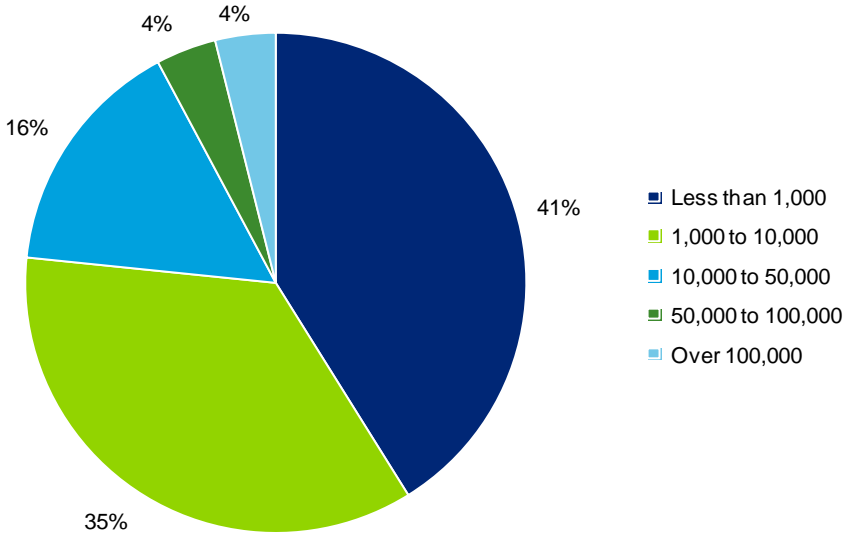
Conducted in January 2011, the survey was completed by 242 participants online. The survey respondents represent a diverse cross-section of the U.S.-based employer population by industry and size.

Participants by industry*

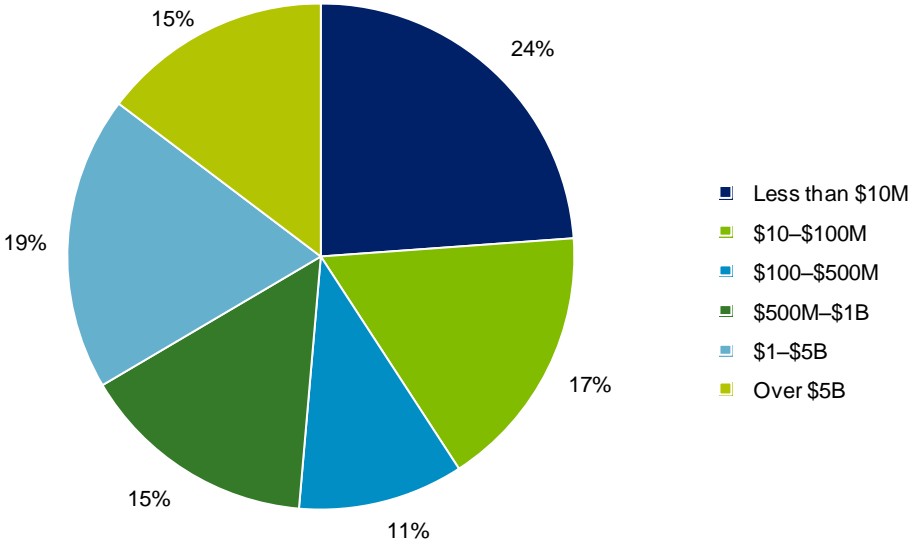


*Some participants chose more than one industry grouping

Participants by number of employees



Participants by total revenue



For more information, please contact:

David Lusk

Principal
Deloitte Consulting LLP
Tel +1 213 688 3325
dlusk@deloitte.com

Scott Cole

Senior Manager
Deloitte Consulting LLP
Tel +1 615 718 9410
scole@deloitte.com

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