

Managing Compensation and Benefits in a Challenging Economy: Trends in 2011-2012

January 19, 2012

Presenters

Brian Repsold

- Director for Verisight's Compensation Advisory Services practice
- 18+ years of experience in benchmarking, designing and implementing a wide range of reward programs

Stephanie Kessler

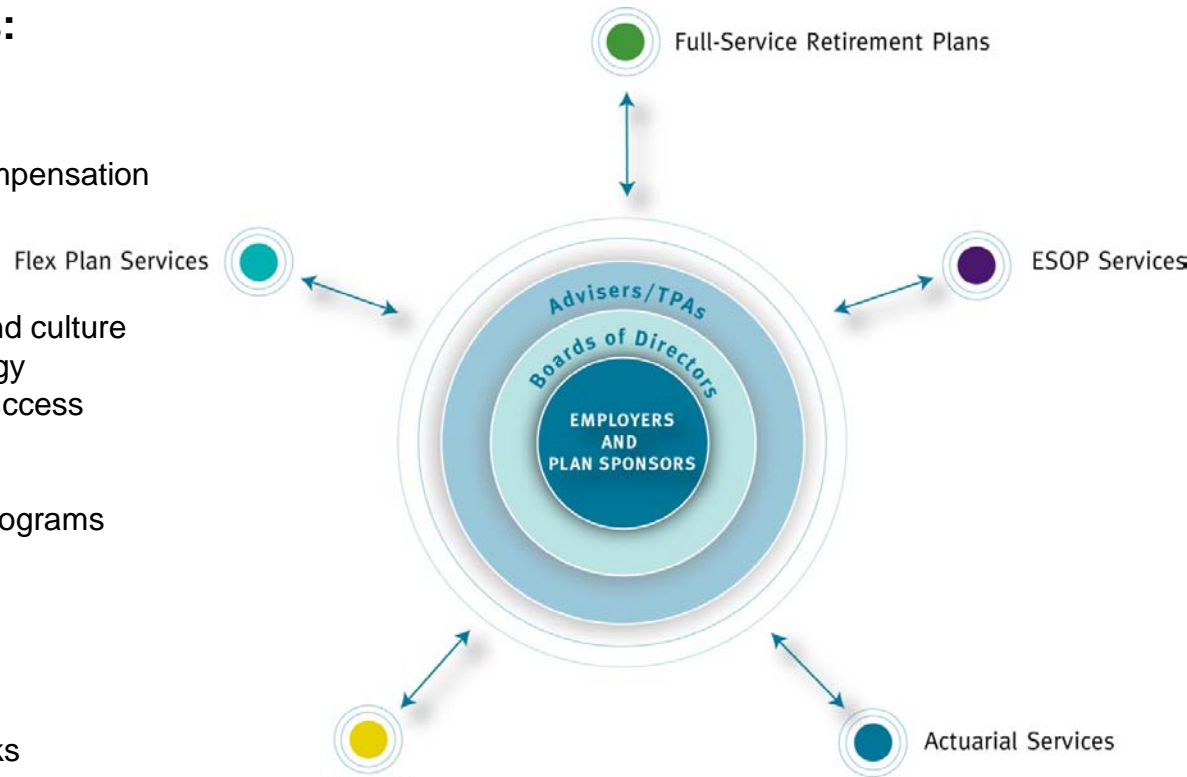
- Manager for Verisight's Compensation Advisory Services practice
- 12+ years of experience in designing and implementing a wide range of reward programs

Verisight - Breadth and depth in services and clients

A comprehensive array of services for a wide range of clients.

Strategic Compensation Services:

- ❖ **Workforce Compensation**
 - strategic total rewards programs
 - balance internal equity and market compensation
 - minimize turnover and cost control
- ❖ **Executive Compensation**
 - link strategy to your corporate goals and culture
 - build a successful team through strategy
 - provide rewards tied to organization success
- ❖ **Performance Management**
 - design effective performance-based programs
- ❖ **Benchmarking and Best Practices**
 - improve productivity and performance
 - improve return on investment
 - utilize competitive market information
 - set operational and staffing benchmarks



Compensation and Employee Benefits Consulting

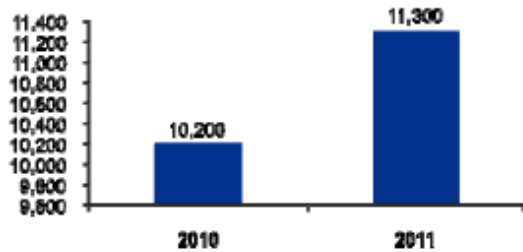
Agenda

- Economic Review
- Verisight's Compensation, Retirement and Benefits Trends Report
 - Total Rewards Philosophy
 - Base Salary Trends
 - Pay for Performance Trends
 - Variable Pay Trends
 - Benefits Trends
- What's Next?

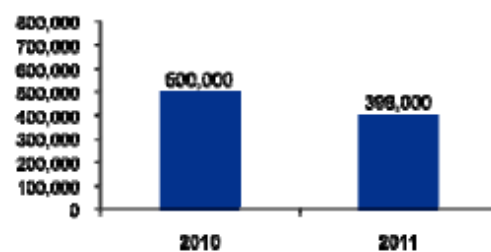


Economic Review

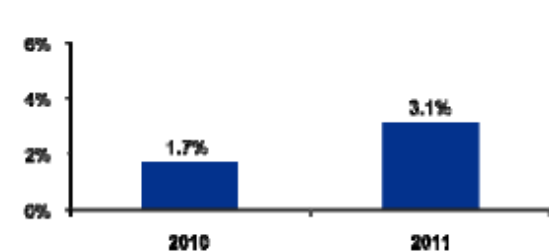
Dow Jones Industrial Average



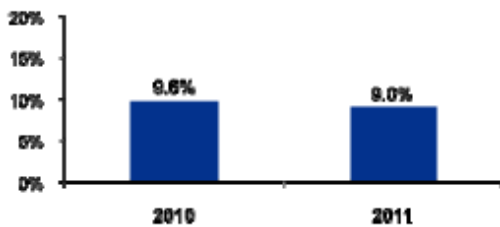
U.S. Jobless Claims



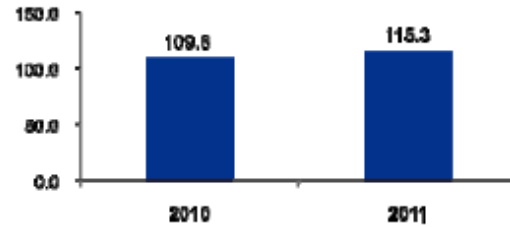
U.S. Inflation Rate (CPI)



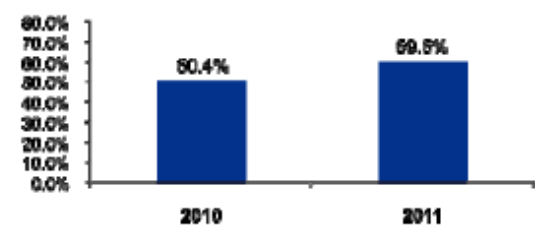
U.S. Unemployment Rate



Conference Board Leading Economic Index



Conference Board Consumer Confidence Index





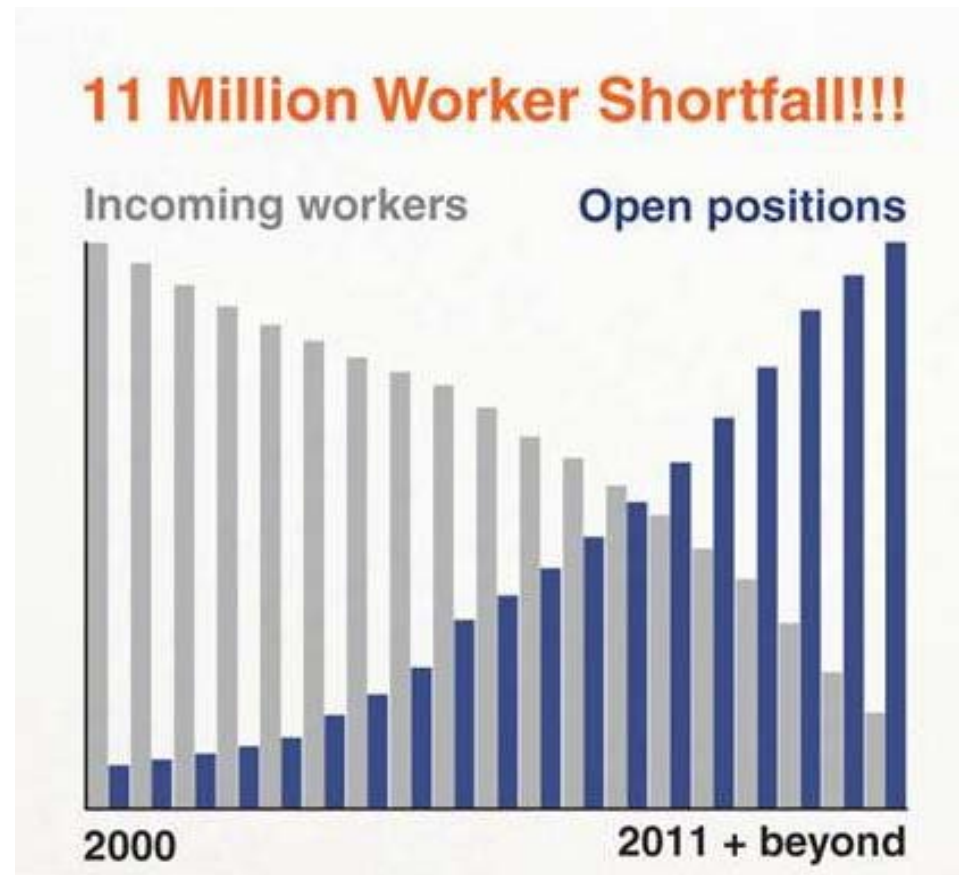
Economic Review

- Slow economic recovery
 - 8.5% National unemployment – December, 2011
 - 7.3% Wisconsin unemployment – November, 2011
- Recent media blurbs...
 - “Unemployment rates drop in 75% of large U.S. metro areas...”
 - “Fewer people seek unemployment benefits, a hopeful sign...”
 - “Central Banks Spur Monster Stock Rally...highest jump since March 2009”
- Signs of volatility remain in some industry sectors



Economic Review

- “Baby Boomers” retire
- Growth – 3-4% annually
- Global growth more significant
- Vacated jobs + newly created = shortfall
- Significant gaps in number of college graduates with technical degrees
- Attracting and retaining high performing and skilled employees is **STILL** a critical issue for employers



2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

2011/2012 Verisight Compensation, Retirement and Benefits Trend Report

- Conducted in October 2011
- Data collected from small to mid-size organizations
- Partnered with associations (e.g., Milwaukee Area Compensation Association)
- National survey
 - 850 responses overall
 - 335 participants from the Midwest region
 - 61 Participants from Wisconsin
- To download executive summary and register to receive complete report, go to:
 - www.verisightgroup.com (home page)
 - <http://www.verisightgroup.com/Verisight/TrendsExecutiveSummary.aspx> (direct link)

Total Rewards Philosophy

Total Rewards Philosophy

- A sound philosophy should not just reflect popular ‘market’ trends, but be a reflection of the organization’s strategic direction and culture.
- Should be identified by senior leadership, or Board for CEO compensation
- What’s in a philosophy statement?
 - Elements of reward package and purpose of each
 - Pay mix
 - Position relative to market
 - Base salary
 - Total cash (base + incentive/bonus)
 - Total direct (total cash + long term incentives)
 - Health and Welfare benefits
 - Retirement
 - Articulates your ‘value proposition’ as an employer

What is your organization's total compensation philosophy? By Industry

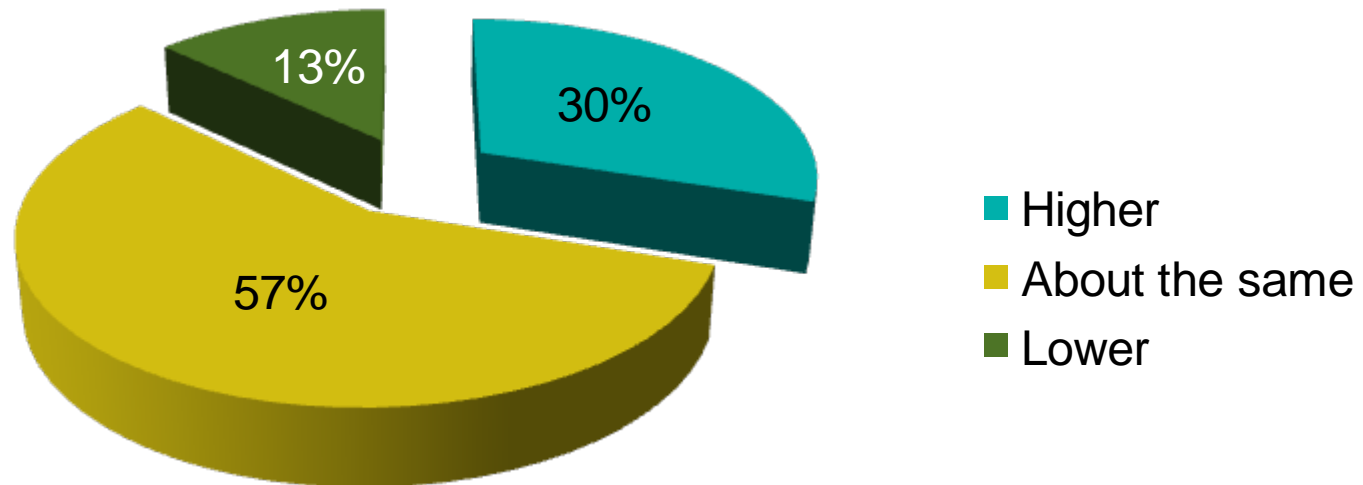
Compensation Philosophy	All Industries		Manufacturing		Finance/Banking	
	Base Salary	Incentive Comp	Base Salary	Incentive Comp	Base Salary	Incentive Comp
Position Above the Market	11%	22%	5%	27%	16%	24%
Position at Market	72%	38%	76%	39%	73%	45%
Position Below Market	8%	7%	6%	3%	6%	8%
No Formal Philosophy	9%	33%	13%	31%	5%	24%

Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

Base Salary Trends

Compensation Trends: Overall Salary Budget Projections

Base Pay Adjustments for 2011 compared to 2010



Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

Base Salary Increases for 2011 Compared to Prior Year

	Midwest	All Industries	Manufacturing	Finance/Banking	Healthcare
Higher	34%	30%	34%	29%	20%
About the same	57%	57%	55%	61%	61%
Lower	9%	13%	11%	10%	19%

Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

2012 Projected Base Salary Increases

Mean	Execs	Mgmt/Exempt	Salaried Non-Exempt
Midwest	2.6%	2.7%	2.6%
All Industries	2.4%	2.6%	2.5%
Manufacturing	2.6%	2.6%	2.4%
Finance/Banking	2.4%	2.7%	2.8%

Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

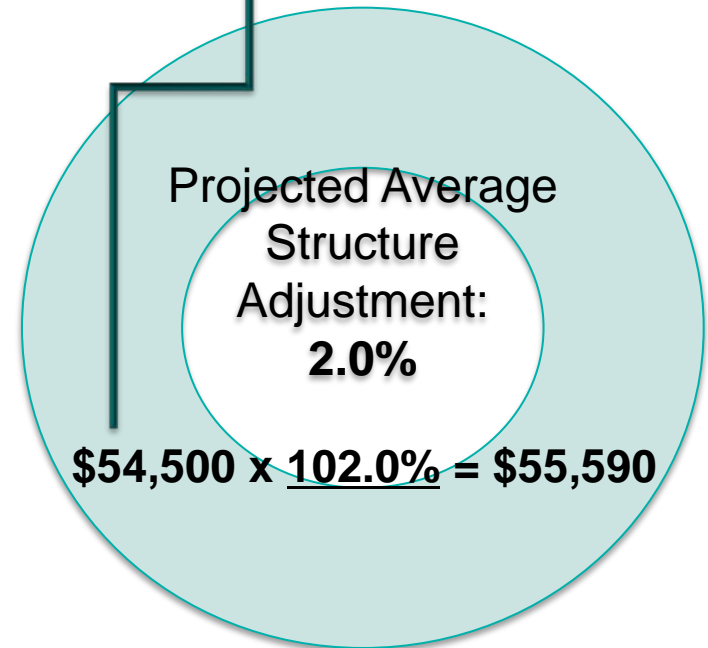
Note: Includes zeros, numbers represent means, median projected increases are 3.0% across all groups above



Salary Structure Adjustments

- Traditional approach to updating salary structure(s)
 - Determine overall structure adjustment percentage
 - Adjust salary range midpoints
 - Recalculate minimums and maximums using range spread formulas

Salary Range Structure		
Minimum	Midpoint	Maximum
\$48,000	\$60,000	\$72,000
\$43,600	\$54,500	\$65,400
\$39,600	\$49,500	\$59,400



2012 Projected Structure Adjustments

Mean	Execs	Mgmt/Exempt	Salaried Non-Exempt
Midwest	1.7%	1.8%	1.7%
All Industries	1.5%	1.6%	1.5%
Manufacturing	1.9%	1.9%	1.9%
Finance/Banking	1.3%	1.6%	1.6%

Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

Note: Includes zeros, numbers represent means

Salary Structure Adjustment Caution

- Warning: Matching structure adjustment trends over time without checking actual competitive pay practices may eventually put your program at risk

Competitive Pay Policy 2% 2% 2% 2% 2%

Competitive Pay Practice 3% 3% 3% 3% 3%

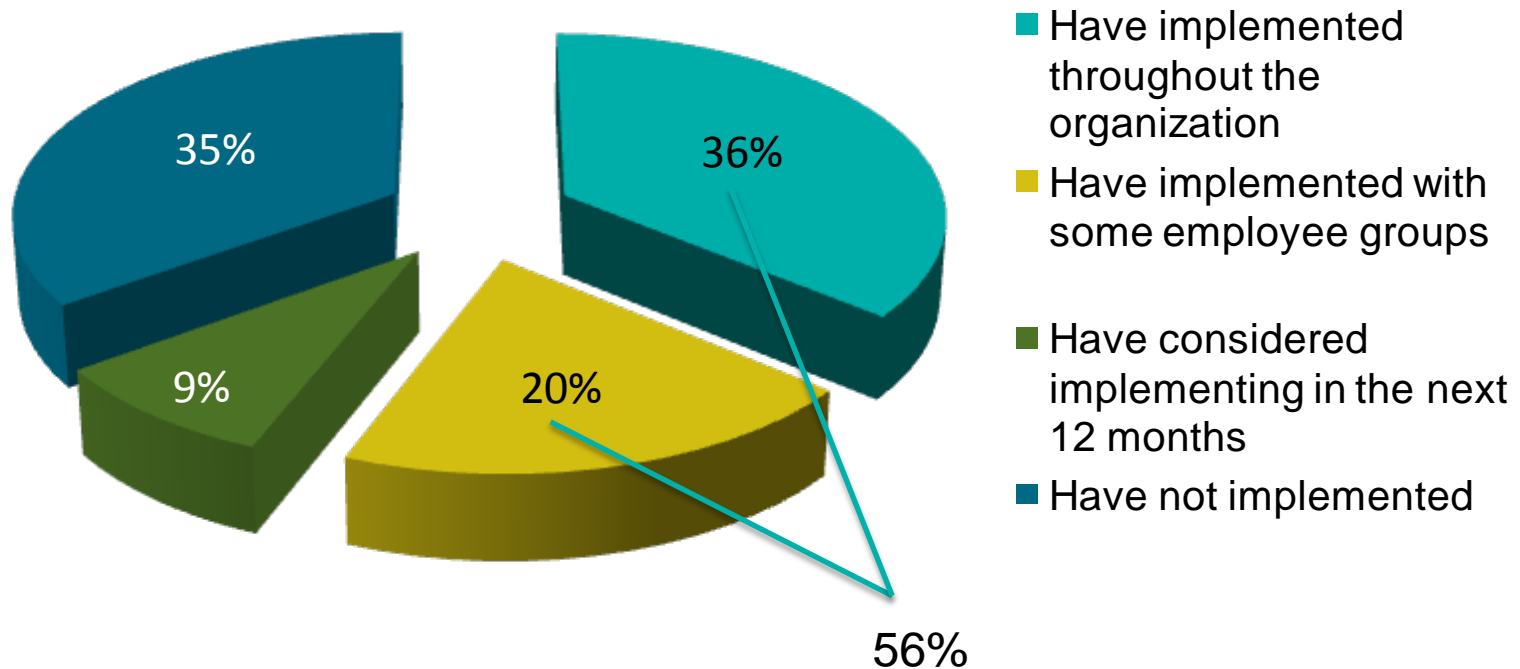
Pay for Performance Trends

Pay for Performance Trends

- Pay for performance has long been viewed as pay to:
 - Motivate employees
 - Drive behavior
 - Reward high performers

Pay for Performance Prevalence - All Industries

What is your experience with pay-for-performance programs?



Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report



Pay for Performance Practices

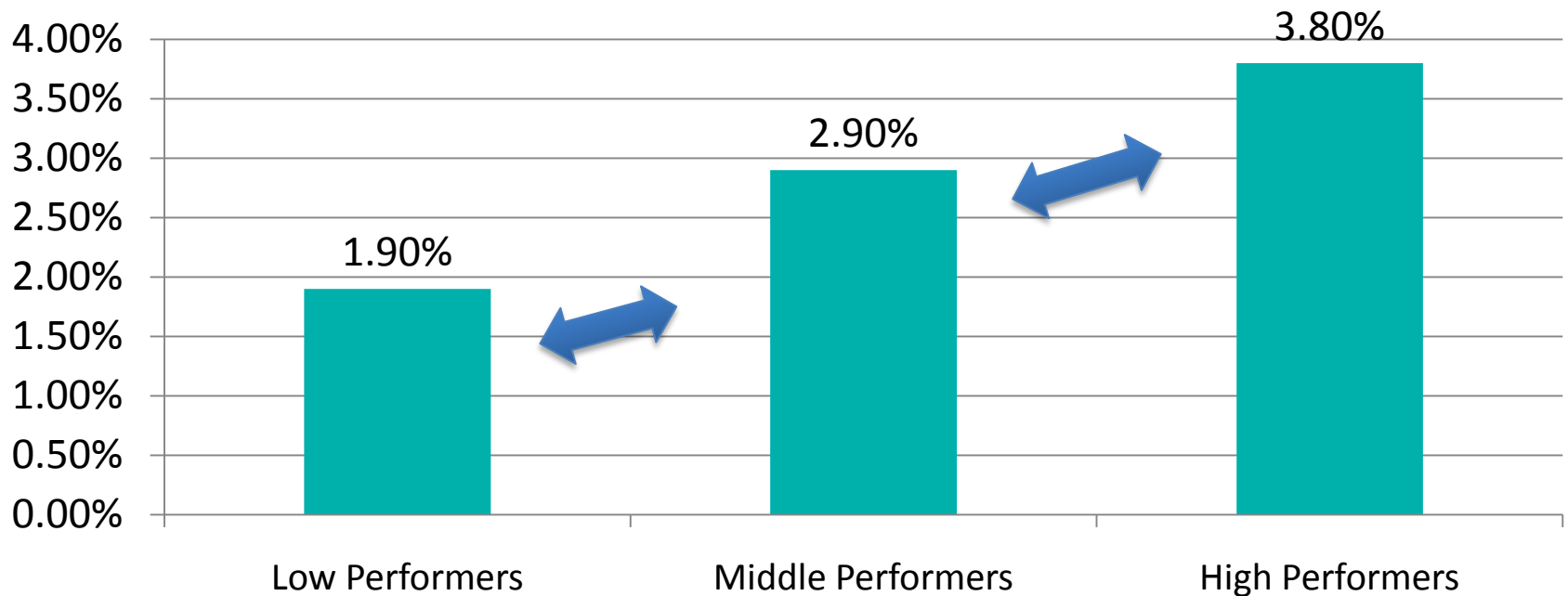
	Midwest	All Industries	Manuf.	Finance/ Banking
Have implemented throughout organization	39%	36%	33%	45%
Have implemented with some employees	21%	20%	22%	15%
Have considered implementing	8%	9%	8%	6%
Have not implemented	33%	35%	37%	34%

Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report



Pay for Performance Practices

Driving Performance Through Salary Increases



Variable Pay Trends

Variable Pay Definitions

Bonuses (usually “after the fact”)

- Recognition
- Project completion
- Sign-on/hiring
- Retention
- Spot awards
- Discretionary

Short-term incentives (“before the fact”)

- Formula driven
- Balanced score card

Long-term incentives (usually 3 to 5 years)

- Usually only available at upper management levels
- Balance short- and long-term decision making
- Retention

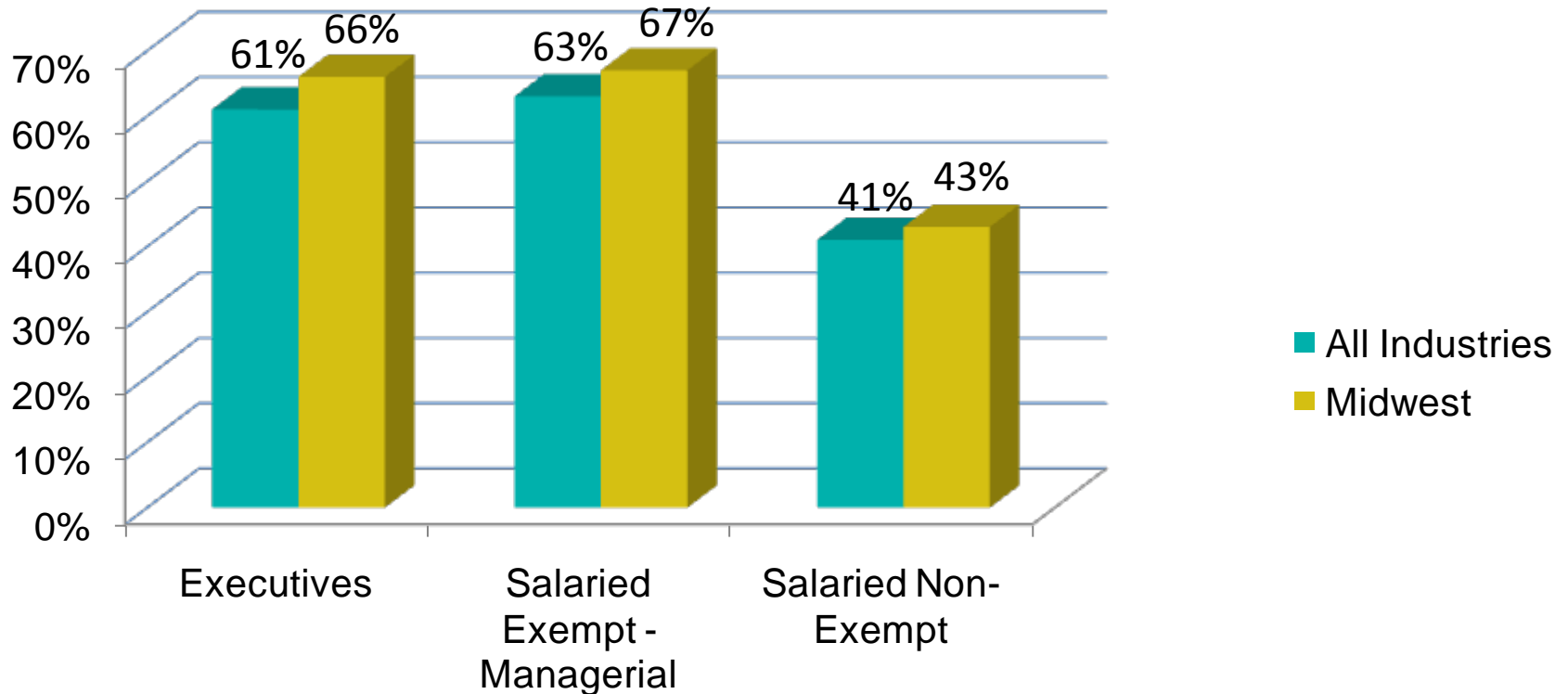
Where Short-Term Meets Long-Term

- Effective reward systems support business strategy and organization culture
- Movement towards (or at least exploring) differentiating more based on performance
- Majority (80%) provide at least one variable compensation plan¹
 - 40% of organizations provide a variable pay plan to non-exempt employees²

(1) WorldatWork 2011 Salary Budget Report

(2) 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report data

Eligibility to Participate in Short-Term Incentive Plans



Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

2011 Short-Term Incentive Targets

Mean	All Industries	Midwest
Executive	25%	24%
Mgmt/Exempt	12%	12%
Salaried Non-Exempt	8%	8%

Source: 2011/2012 Verisight Compensation, Retirement and Benefits Trends Report

- Structured incentive plans typically have threshold, target and maximum payout levels
- Incentive opportunity often corresponds with a position's ability to influence metrics used in the incentive plan

Opportunities and Cautions With Variable Pay

Opportunities

- Compensation expense is a variable cost
- Depending on plan design, can reward individuals, teams and/or organization-wide performance
- Allow targeted distribution of limited compensation dollars

Cautions

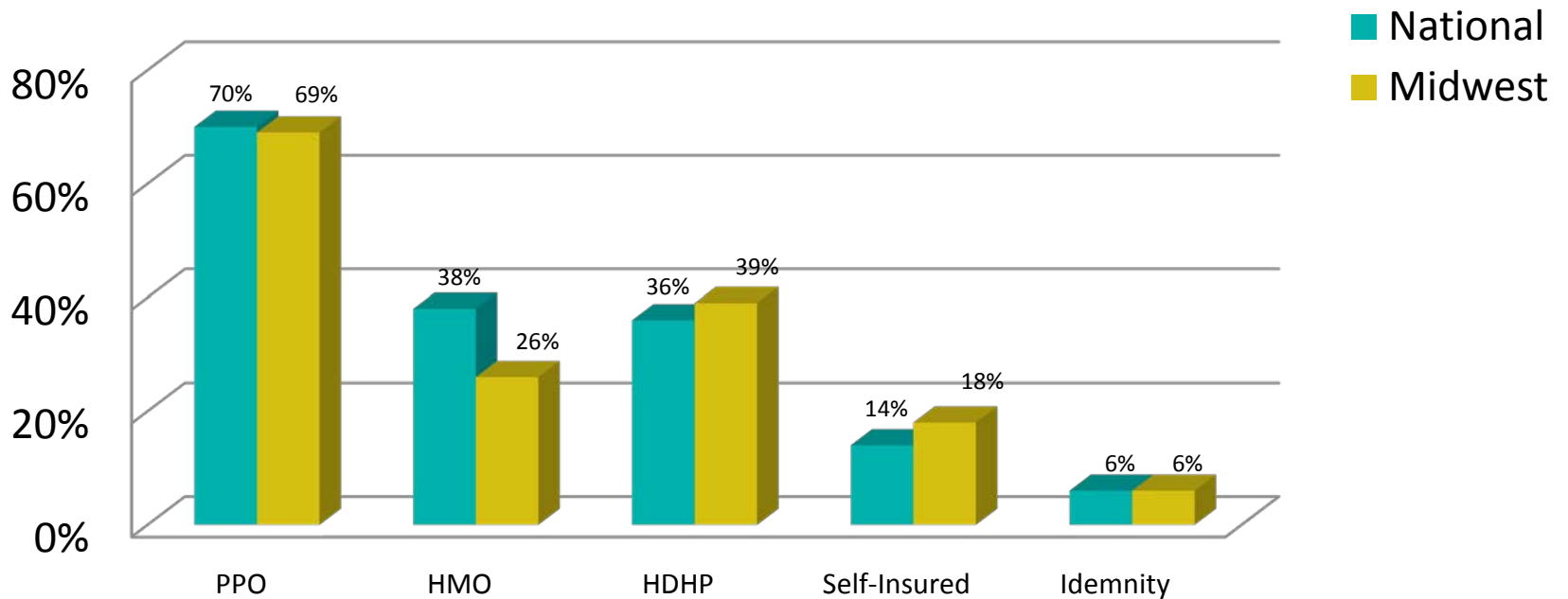
- Can become “entitlement” if not properly designed and communicated
- Discretionary bonuses typically do not reinforce “pay for performance”
- FLSA provisions complicate incentive payouts for non-exempt employees who work overtime

Benefits Trends



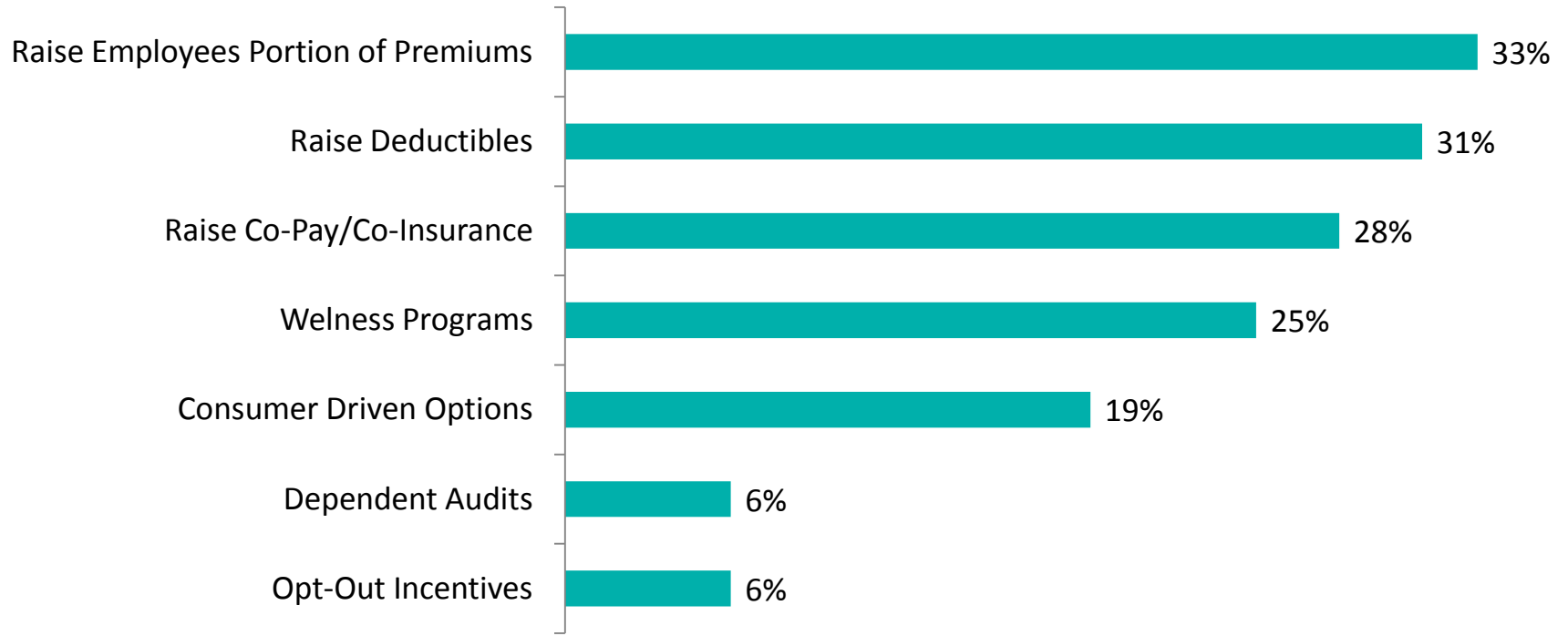
Health Insurance

Most Popular Health Insurance Options

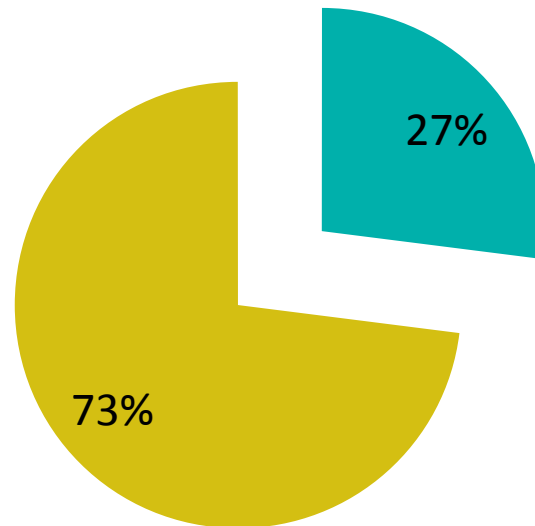


Health Insurance

Actions to Reduce Costs



Retirement



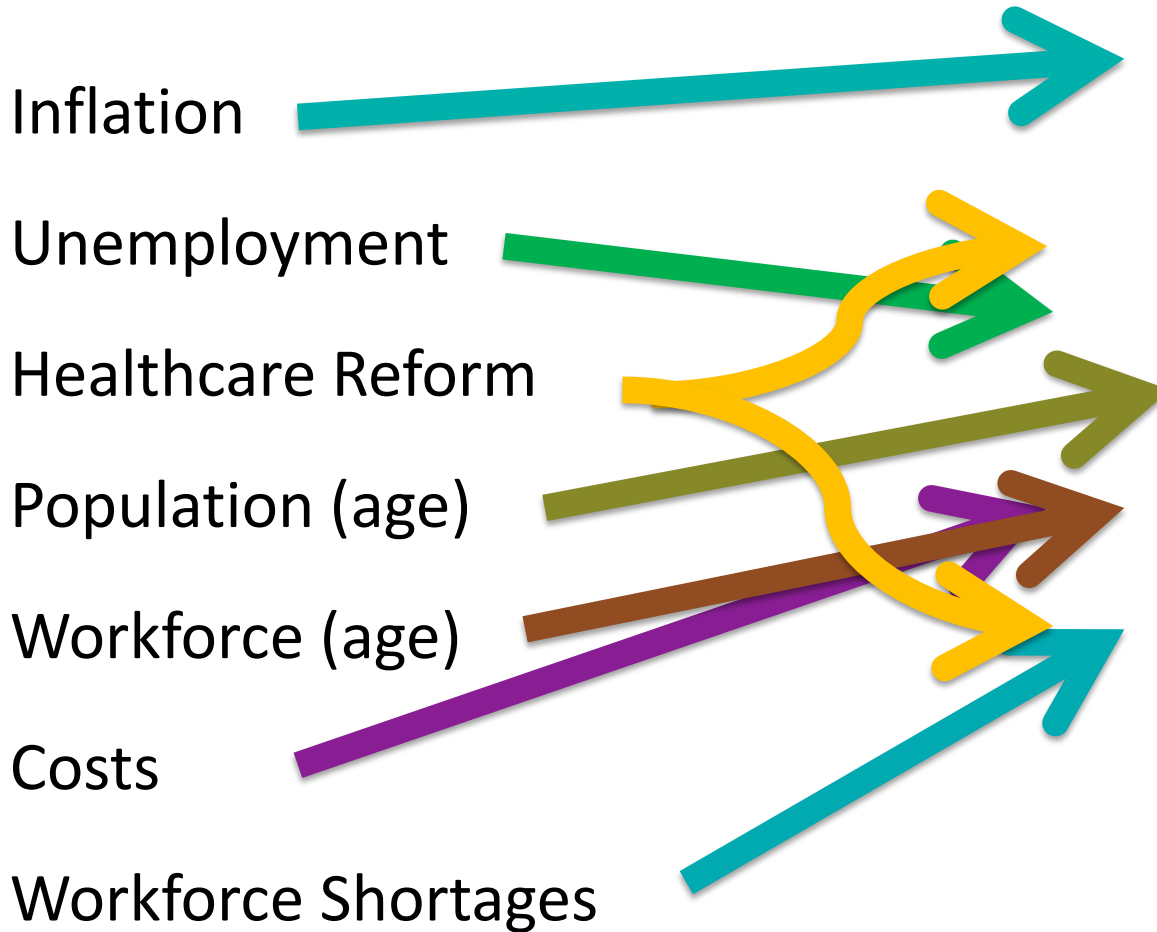
Employers Providing Investment Advice

- Yes, Provide Advice
- No, Don't Provide

Of those employers providing advice, the most common approaches include:

- One-on-one counseling (80%)
- Group meetings (79%)
- Online tools (66%)

What's Next?



Thank you!

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