CAHRS Working Group—Total Rewards

June 20, 2013 — Philadelphia, PA

Author's Note: Given the disparate nature of the items discussed during this session, the notes are organized along the lines of "Topical Areas" rather than the chronological order of what was said in the meeting.

On June 20th, 2013, CAHRS Managing Director Steve Miranda facilitated a Working Group (WG) session focused on how CAHRS Partner Companies are dealing with various issues in the area of Total Rewards. While the session dealt with both compensation and benefits issues, much of the time was spent discussing how CAHRS companies plan to deal with the recently enacted Affordable Care Act. The WG was hosted by Cigna at its Philadelphia, PA location and was attended by 14 individuals from nine CAHRS partner and guest companies.

Participating organizations included American Express, Caterpillar, Cigna, Corning, The Hershey Company, Merck & Co, SunTrust Banks, Vertex Pharmaceuticals, and the Cornell ILR School.

Opening Comments

The group was welcomed by Steve Miranda of Cornell. After introductions, Steve shared that the day would commence with an open forum discussion with Cigna CHRO John Murabito and would be followed by a presentation on the Affordable Care Act by one of Cigna's experts in the field, Kathleen Vaccaro.

Summary of John Murabito's Comments on the Current State of the HR Profession

1. The three areas where HR leaders should focus on in order to increase the level of impact they have in their organization are: a) HR operations, b) The globalization of systems and processes, and c) The linkage of HR to business strategies.

2. There will always be a need for HR professionals to provide strong fundamental HR support around the world. Recent decisions by organizations to outsource various pieces of HR has not come without pain. The HR function must perform the operational aspects of its work (whether in-house or outsourced) exceptionally well before approaching the business about adding value in more strategic areas.

3. The ability to implement consistent processes around the globe, while still allowing for some level of local autonomy, is critical. This is because the HR processes put in place are a key driver of the type of culture you wish to create in your organization.

4. It is critical to understand the key business issue at-hand before attempting to implement an HR solution. Many HR ideas or programs that seem very innovative on the surface fail because they are not tightly aligned to the true business issue that needs to be addressed. Similarly, many "old school" approaches still work very well when those in charge of crafting solutions have a keen understanding of the specific problem to be addressed.

5. Some of the key skills needed by HR professionals to be successful both today and tomorrow include: a) The ability to prioritize based upon the needs of the business (i.e., spending time on the right things and not being distracted by less important issues), and b) The ability to influence key leaders when the organization is facing tough choices. When doing this, it's im-

portant to be both diplomatic as well as caring in your feedback and recommendations.

6. When it comes to globalization, Cigna wants to be both global and local rather than drive all programs and initiatives from headquarters. However, it's important to put in place key foundational processes to drive some level of consistency and focus. Examples would be common C&B frameworks, performance management philosophies, and who gets individual learning opportunities. This must be balanced by the need to allow geographies to leverage different approaches if "their way" allows them to be more effective and productive.

7. It's very important not to be overly directive on how HR is done around the world. While employees need to feel part of their company, they also need to feel part of their country and national culture.

8. Cigna's HR organizational model is one where there is a leader over a collection of Centers of Excellence (COE) as well as several generalists who support a variety of business units. The COE leader and generalists report in to the CHRO. John admitted that it can sometimes be a challenge to ensure high levels of coordination between all of the players. He also shared that the key to getting this coordination is having good relationships amongst the HR Leadership Team (HRLT). One of the things that Cigna did to help with this was to write a charter for the HRLT as well as a set of guidelines for the behaviors expected from team members. This is augmented by an occasional "organizational health check" to ensure that the team is sticking to both the charter and expected behaviors.

9. In the HR function, Cigna has focused on "buying talent" instead of "growing talent." As such, the company does not do much hiring from universities. Specific to HR, John felt that in recent years, he's seen an improvement in the overall quality of talent for practitioners in the five to 10 years of experience range. He admitted that this was an anecdotal conclusion and not one based on any specific set of data.

10. It's important for an HR professional to know at least one facet of HR very well. This is in order to provide yourself with more options and latitude later in your career. Not everyone will make it to the CHRO role and it's important to have multiple options at your disposal as your career plays out.

11. One of the most influential things that HR can do to stimulate innovation in an organization is to influence selection and staffing. Who you bring into an organization as well as whom you promote is critical for organizations who want to drive innovation. Also, having individual and organizational rewards that recognize and celebrate innovation can be key enablers.

Kathleen Vaccaro, VP Healthcare Reform Program Management Office, Cigna

1. Kathleen shared a variety of useful information with the WG participants on the impact of health care reform on employer benefit planning. A copy of her presentation is available by going to https://est05.esalestrack.com/eSalesTrack/Content/Content.ashx?aid=2181&system_filename=3ba262d0-61c4-416a-904f-f1dee6aaf970.pdf.

2. In addition, HR professionals can get the latest update from CAHRS partner company Cigna by visiting www.informedonreform.com

Total Rewards Discussion

The group spent the remainder of the day discussing the latest developments and challenges in the area of Total Rewards. A summary of the key areas discussed is shown starting on page 3:

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1. Retirement Plans

a. Most of the participants indicated that they have either discontinued, capped or grandfathered their defined benefit (DB) plans and moved to direct contribution (DC) plans. A major exception to this was Western Europe where DB plans are still in effect, sometimes because of federal legislation.

b. A major concern when doing this is to ensure that you implement your migration in a way that does not demotivate more senior workers who more often than not view decisions like this as a financial "take away."

i. One partner company shared the framework it used: If the employee was hired before 1/1/2004 and had attained the age of 40 by 2010, he/she would continue to accrue pension benefits up to 12/31/2019. If he/she did not meet these criteria, contributions would cease on 1/1/11 and he/she would then transition to a DC plan. In the new DC plan, the first 6% of employee contributions would be matched with an equivalent 6% by the employer. An additional three to five percent (3-5%) would also be contributed by the employer based upon a predetermined combination of age and service. The net effect being a total employer DC contribution of nine to eleven percent (9-11%) on the employee's six percent (6%).

ii. A second partner company indicated that it had simply frozen their DB plan in 2009 and moved to a DC model of (3+3)% and then 50% of the next 3% (eg, a total employer contribution between 3% and 4.5%). This same partner implemented a two-year vesting period.

c. While no specific partner company shared that it was planning to do so, all companies concurred that based upon their study of trends, the number of programs to buyout pension holders by offering lump sum payments is on the rise. The consensus was that these programs were being put in place in order to shift the risk burden out of the plans and onto the retirees. The consensus was also that these sorts of programs allowed retirees to take greater control of their own financial lives but that they must be accompanied by educational initiatives.

d. Organizations should strongly consider working with outside financial education firms (eg, Financial Engines, Fidelity, Schwab, Vanguard, etc…) to help employees become more savvy in their approach towards investing for both retirement and in general. Some of the forms of implementation included onsite education sessions geared to a variety of levels of financial literacy as well as access to online video tutorials.

e. Most of the participants had implemented both auto-enrollment and auto-escalation.

f. Most of the participants had begun to offer Roth 401(k)s as an option as well.

g. All of the participants had also broadened the set of available investment choices.

h. One of the partner companies had reduced both the waiting period to enroll in the plan as well as the vesting period required to secure company contributions.

i. All partner companies shared that during the planning stages of any DB to DC migration, great partnership must exist between the HR team and the Legal team. This is in order to ensure that any plan would be in compliance with both state and federal regulations and legislation. Especially tricky are any proposed changes outside of the USA, especially in European jurisdictions.

2. Gen-Y and the Compensation/Title Challenge

a Participants shared that one of the things they observe as a trend in the Gen-Y workforce is a great focus on promotions and titling. While a broad-banding structure gives the organization a great deal of flexibility with compensation, it does little to deal with the desire for continued changes in title.

b. Some companies have dealt with this by using a set of "internal" titles to link to compensation levels while allowing business units and line functions the flexibility to use a different external title with customers.

c. Others have taken the approach of creating functional titles within levels in order to allow employees to feel more "upwardly mobile" (eg, Junior Accounting Analyst, Research Scientist Two, Senior Marketing Specialist, etc…)

3. Compensation

a. In terms of overall compensation strategies, the participating Partner companies use a variety of different approaches:

i. Company A targets base salary at the median (50th percentile) and Total Target Cash (TTC, Base+Bonus) at the 75th percentile. They have also migrated from an equity-heavy framework to one that puts more emphasis on variable cash. They also shared that as they expand globally, the legal complications of equity (eg, either options, restricted stock, or outright stock grants) have begun to get quite onerous;

ii. Company B targets TTC for the median but uses various forms of equity to increase the financial upside potential;

iii. Company C has segmented its approach based upon the "type" of employee in question where "type" is defined by either a local, regional or global role. It combines this approach with a very strong pay for performance philosophy that emphasizes compensation differentiation. All employees are eligible for some form of short-term bonus based upon both individual and business results. Directors and above (ie, those making $200K or more) are also eligible for a long-term bonus and have a base/variable mix (where variable includes equity) of about 50/50. The equity portion increases the higher up in the organization one moves; and

iv. Company D has limited equity grants to Director and above only and bases the TCC on the dynamics in the specific market where it has employees.

b. Pay for Potential: Some companies are setting aside separate pools of cash for "top potential" as well as "top performance." One Partner shared that its organization recently made the decision to set aside 20% of the base salary increase pool for payment to high potential employees.

c. Say on Pay legislation:

i. Most partner companies were not worried about recent "say on pay" legislation since they have already made modifications to their overall executive compensation plans based upon the current economic and political climate.

ii. All Partners indicated that shareholder outreach programs are critical in order to head off incorrect or misguided interpretations of their executive compensation programs. Key components of these communications include the company's belief in "pay for performance" and the programs' compliance with appropriate regulatory requirements.

4. Other aspects of Total Rewards

a. Most Partner companies shared that Training and Development (T&D) is almost always viewed as a variable expense that has been adjusted based upon the economic conditions at hand.

b. However, one Partner shared that its organization made the very conscious (and conscientious) decision to *not* cut T&D even when earnings were not hitting previously targeted levels. This company extensively communicated this decision to employees and the response was exceptionally positive. The HR leader viewed the commitment as a simple exercise in good investment towards continued employee engagement.

c. When it comes to benefit choices, most Partner companies are going with a "one size fits all" rather than with a cafeteria-style approach. Some exceptions to this general framework of "one size" include additional choices in the areas of:

i. Domestic partner benefits (note that this WG was held before the June, 2013 Supreme Court Decision on Gay Marriage)

ii. Wellness programs

iii. Employee volunteerism

iv. Parental leave

v. Adoption benefits

vi. The reallocation of dollars from one benefit area to another (eg, use part of the company health care contributions to buy vacation days).

d. Even if you are taking a "one size fits all" approach on benefits, it's critical to segment your communication efforts. This is especially true in the areas of retirement and health care where needs vary wildly based upon an individual's needs and circumstances.

e. Total Remuneration Statements were not widely used by the Partner companies in attendance. The two companies that had implemented them had only done so in the United States and had used a web-based, self-service approach rather than producing hard copy. Each had used a third party integrator to assemble the various data feeds.

f. Most partner companies have implemented some form of "sick day donation" where employees can donate unused sick days as well as petition to access donated sick days based upon specific needs.

g. Disaster benefits. Given the recent spate of severe weather across the world, most companies have made the predetermination of whether compensation would be paid as well as disaster-specific benefits as part of their overall disaster preparedness plan.

i. It is especially important to very carefully think this through for your non-U.S. locations as perceptions of unfair treatment will result in exceptionally negative feelings being generated towards headquarters.

ii. Most partner companies indicated that they provided modest loans in the most severe situations

iii. One company used its own internal relocation team to help employees who were victims of Hurricane Sandy find temporary housing.

5. An Economic Snapshot of the United States

a. Linda Barrington, Executive Director of Cornell ILR School's Institute for Compensation Studies gave a brief interpretation of current U.S. labor market conditions and the implications for compensation.

b. While the recession was officially declared more than four years ago (June 2009), the U.S. employment market continues to remain weak. Unemployment remains at mid-recession levels, and making the employment impact of this recession worse than any in recent history.

c. For employers, the silver lining is that there is little to no upward pressure on salaries and wages.

d. Growth rates in employers' reported costs for employee compensation are at or near historic lows, including growth rates in benefits costs.

e. While finding top talent to meet specific needs is always a challenge, the big picture remains a buyers' market for new hires.

f. Copies of Linda's slides can be found by going to https://est05.esalestrack.com/eSalesTrack/Content/Content.ashx?aid=2181&system_filename=95ec272f-15fe-40d8-953c-624e2ee38045.pdf.

6. General Global Learnings

a. In Brazil, companies are required to pay post-employment healthcare costs for a period of time after the employee leaves the company. This has caused some partner companies to decrease the amount of money they are spending on health care coverage in order to mitigate the long-term financial risk associated with downsizings.

b. Also in Brazil, one partner company tried to implement changes to its retiree life insurance coverage only to discover that attempts to do so would need to be approved by 75% of policy holders. As a result, this partner company is moving away from providing this sort of post-retirement benefit.

Possible Topics for Future Working Groups

1. Pay transparency – both internal (with employees) and external (with shareholders). Specific areas might include what you share (eg, international data, benchmark data, etc…) as well as how companies are managing the consequences of what they have shared;

2. The differences between incentive rewards and recognition rewards; and

3. Tools and resources for the compensation cycle (eg, data/survey sources, global administration, automation, self-service, etc…)

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This Summary Report was prepared by Steve Miranda and John Murabito for use by participants of the CAHRS Total Rewards Working Group and CAHRS Partner organizations.

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