

Recalibrating Employee Benefits and Compensation Strategies

A HUB International Series

Building a Meaningful Compensation Strategy for Today's Workforce

RECALIBRATING YOUR COMPENSATION STRATEGY

Building a Meaningful Compensation Strategy for Today's Workforce

The COVID-19 pandemic has forced many organizations to reconsider their employee compensation strategies. For some, the shallow talent pool, aggressive pay structures and frequent merit increases of the recent past have given way to furloughs, layoffs, pay cuts, salary freezes and an overall reduction in compensation budgets. For others, the pandemic has meant rapid growth and increased competition for sought-after skills that are suddenly more mobile than ever.

Talent risk has always been a concern for leadership but with the pandemic, it has risen to number one on their list of threats to long-term growth. Ensure that your employee compensation plans continue to support your organizational goals as talent acquisition and retention challenges grow.

Explore our entire eBook series on **Recalibrating Employee Benefits and Compensation Strategies** so you can be well-positioned to meet tomorrow's challenges:

1. [Enhancing Health Plan Financial Stability and Employee Engagement](#)
2. [Responding to Employee Retirement Plan Liability Risks](#)
3. [Building a Meaningful Compensation Strategy for Today's Workforce](#)

The Impact of a Pandemic

7.5M

small businesses at risk

67%

of employers adopting WFH for the long-term

+3%

tech sector wage growth in 2020

<https://home.kpmg/xx/en/home/insights/2020/09/ceo-are-building-a-path-to-long-term-growth-for-their-businesses.html>

<https://www.cnbc.com/2020/04/14/7point5-million-small-businesses-are-at-risk-of-closing-report-finds.html>

Crafting Your Compensation Philosophy

If your organization has already established a compensation philosophy, it may be time for a review and, possibly, an update. If you haven't yet captured your compensation philosophy, this is an ideal place to start when recalibrating or building an employee compensation program.

What is a Compensation Philosophy?

A compensation philosophy describes an organization's approach to compensating its employees. And like many business policies, it is subject to adjustment as the organization and circumstances change.

How is it used?

Your compensation philosophy is the foundation for compensation plan design and administration. Most organizations understand that compensation is critical to their talent acquisition and retention efforts. Many use compensation to drive performance. Your philosophy provides a framework for consistency in your compensation decisions and demonstrates your commitment to transparency with your employees.

Where should you start?

Every organization is unique and so too are their compensation philosophies. However, there are some basic questions you should try to answer when developing yours. For example, does your compensation philosophy reflect:

- Your organization's culture and values?
- Your actual or desired market position relative to the competition?
- Your unique value proposition as an employer?

Setting Your Base Rates

Your compensation philosophy explains the why behind employee compensation. Your base pay rates lay the foundation for how much you will pay.

STEP 01

Gather compensation information resources

Start by gathering information about your jobs and current compensation practices. Helpful information can include things such as job titles, job descriptions, current incumbent pay, organizational charts depicting reporting relationships and current pay ranges.

STEP 02

Identify the Market Rates

Choose the jobs you will subject to a market analysis. Include benchmark jobs, jobs with multiple incumbents, and jobs that are critical to your organization's success. It is best practice to cover at least 50-75% of your total jobs in the market analysis.

Strategic Tip: Make note of any impact the pandemic has had on your jobs. Does working from home change the nature or value of the work performed?

Pull the relevant compensation data from your resources using your desired labor market scope as your selection criteria. Labor markets vary depending on your company's geographic location or locations, industry, revenue and employer size. And with permanent remote work on the rise, they will also vary according to your employees' locations which may be nowhere near the company's place of business.

Strategic Tip: Most organizations have learned that working from home works and employees are realizing that it can happen anywhere. Consider tuning your pay ranges according to employee location rather than company location.

STEP 03

Create Your Pay Structure

Develop a pay structure for your jobs and assign jobs to pay grades based on their target rate. Most organizations target the 50th percentile.

Strategic Tip: While targeting the 50th percentile supports general competitiveness, jobs requiring skills in high demand may warrant higher pay to attract and retain the right talent.

STEP 04

Manage the Changes

Compare your new pay structure to your current compensation ranges and practices. Make a plan for bringing the base pay of current employees in line with their new pay ranges.

Determining Variable Pay

Variable pay is the strategic component of employee compensation over and above the base pay that is contingent on management discretion, performance and/or results achieved. It falls into two categories:

- Rear-facing rewards such as bonuses paid in recognition of “a job well done” that may or may not be tied to a plan or performance.
- Forward-facing incentives with a strategic purpose and tied explicitly to a plan and performance relative to that plan. This includes commission paid to salespeople.

Because variable pay is typically funded by profit, it serves to encourage employee behaviors that drive organizational results without increasing fixed costs.

And because the pandemic has had an impact on the profits of so many organizations, now is the time to review your variable pay programs to ensure that they are in sync with your new reality.

Steps to Determine Variable Pay

STEP 01

Define Variable Pay Plans

The goal of most variable pay plans is to encourage, motivate or otherwise drive behaviors that contribute to organizational performance. Decide which employees will be eligible to participate in which variable pay plans.

Define the performance goals by job, job type, team, department or any factors that are unique to your business. Define the variable pay plan performance periods. And define the metrics that will be used to trigger the award.

STEP 02

Test Variable Pay Plans with Financial Modeling

To ensure that variable pay plans are both viable and effective, conduct financial modeling and crunch the numbers. Use past historical actuals or projections as a baseline and run what-if performance and results scenarios to expose gaps or inequities in the plans. Then, adjust those plans accordingly.

Strategic Tip: Take advantage of financial modeling to ensure that total cash compensation (base pay + variable pay) is consistent with your compensation philosophy and where you want to be relative to the market.

STEP 03

Communicate

Communication is always critical. Be sure to inform all eligible employees of any changes to their variable pay plan in advance of the start of the performance period. Provide regular performance-to-plan status updates throughout the performance period so all plan participants know where they stand and what they can expect.

3 Key Perspectives on Your Employee Compensation Strategy

There are many issues to consider and approaches – both practical and creative – you can take to build a meaningful compensation strategy. Be sure to include the Employer, Employee and Market perspectives in your deliberations.

EMPLOYER	EMPLOYEE
<p>As an employer, your first question might be, “Is our employee compensation strategy accomplishing its purpose?” The second question might be “Is it sustainable in the new reality?” Some of the answers to these questions will be found through financial modeling and some will be answered through a more subjective approach. Gain input from leadership through one-on-one conversations or focus groups.</p>	<p>Do employees understand how their compensation is determined? Do they think it is fair? Is your strategy motivating them? Employee surveys can be helpful in pulling together the employee perspective.</p> <p>Strategic Tip: There’s more to compensation than dollars and cents. PTO, benefits, and flexible working arrangements can be part of your strategy. Use Total Compensation Statements to communicate to employees the total cash value of their compensation and benefits.</p>
MARKET	
<p>How does the organization compare to benchmark data and best practices? According to WorldatWork, 68% of organizations set their pay rates based on benchmark data and market pricing results.</p>	

Source: WorldatWork, 2020 Job Evaluation and Market Pricing Practices Survey

Ready to Recalibrate your Employee Compensation Strategy?

Let's talk. A HUB HR compensation consultant can help you develop meaningful compensation packages for your employees. The HUB compensation consulting team brings specialized expertise, years of experience and broad market knowledge to help you attract, retain and motivate employees.

Contact a HUB HR compensation consultant today.
hubinternational.com/hrconsulting

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