

World @ Work - May 2015

***TOTAL REWARDS 2020:** What to expect in the next 5 years*

Source: Steve Gross
Mercer - Philadelphia

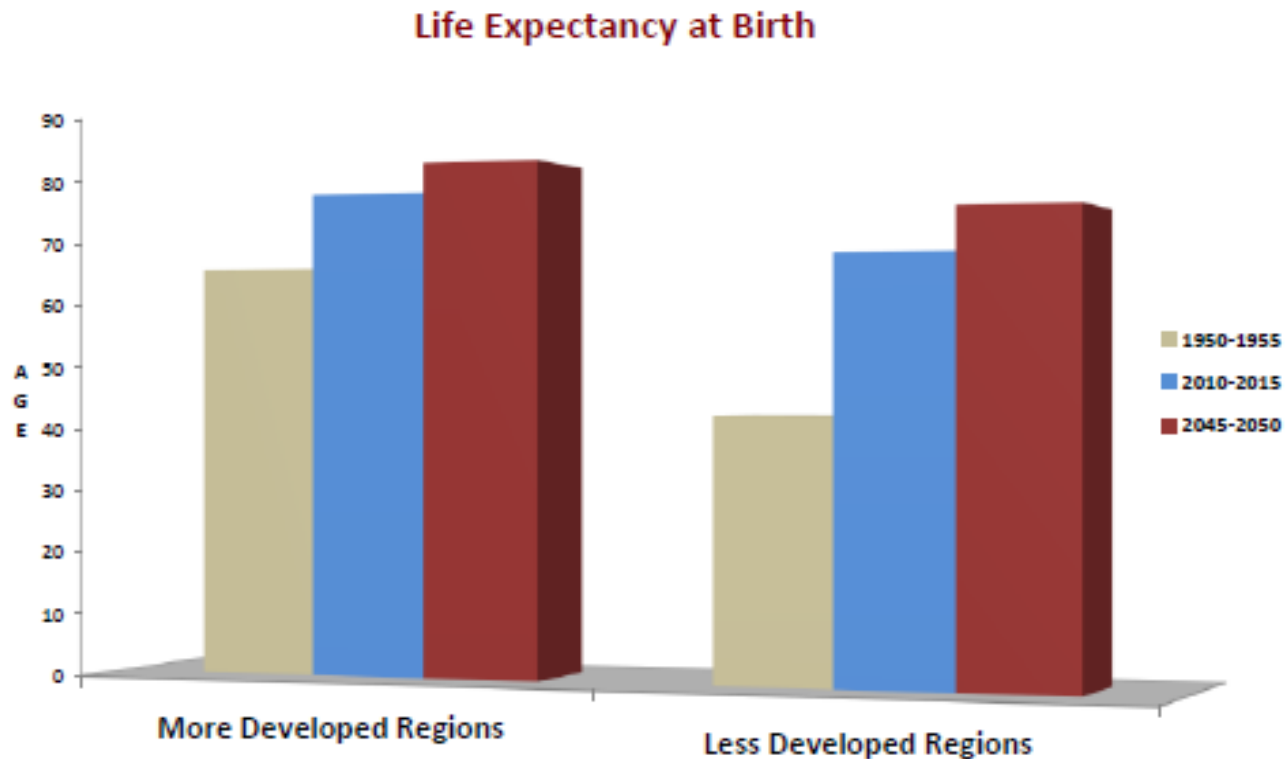
Today's Discussion

- Those external factors influencing the design total rewards
- Get your thoughts about the future
- How will organisations respond to these issues?
- What you can do to prepare to manage total rewards in 2020
- Call to action

External factors influencing total rewards

External factors influencing total rewards

Aging population: We are living longer which will create greater pressure on retirement, healthcare and social programs



Source: United Nations – Population Division

External factors influencing total rewards

Aging population: Seniors are working longer in the USA

Labor Force Participation Rate

Ages 65-69		
	1980	→ 2010
Men	20%	26%
Women	13%	23%

Ages 70-74		
	1980	→ 2010
Men	12%	16%
Women	6%	12%

Source: U.S. Social Security Administration

External factors influencing total rewards

Multiple generations: Managing different segments requires sensitivity to varying generational needs

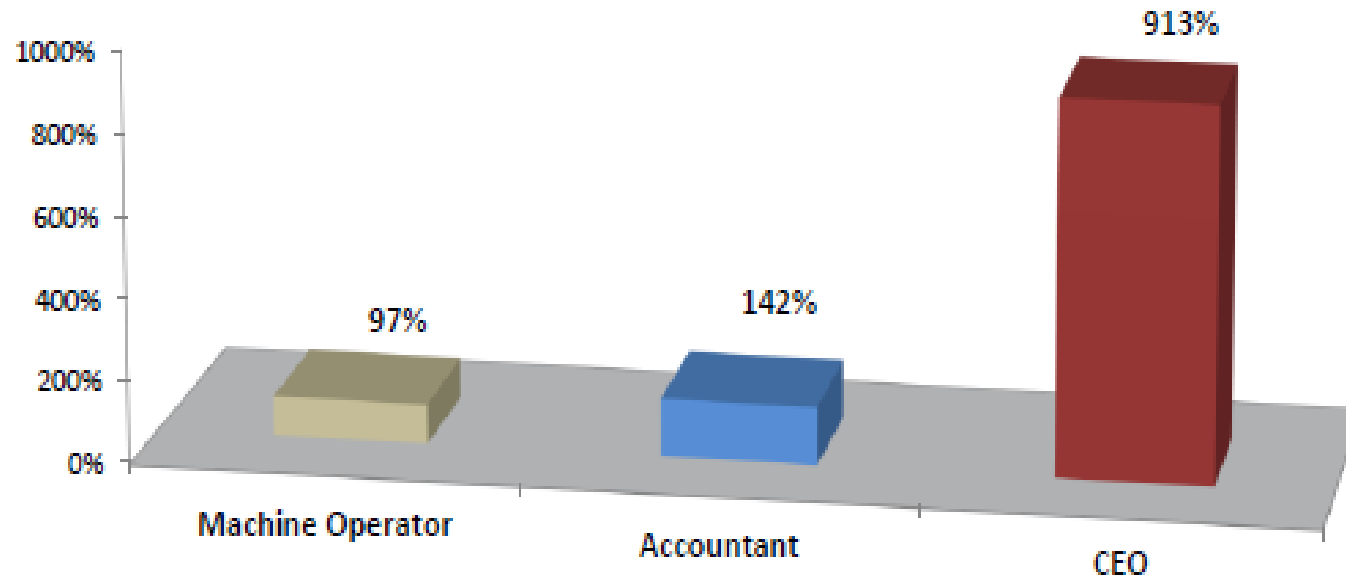
Generation	2014 Percent of Workforce	Attribute
Traditionalists (Ages 63 – 86)	10%	Company loyalty – <i>“Same company forever”</i>
Baby Boomers (Ages 44 – 62)	44%	Live to work – <i>“Office face time”</i>
Gen X (Ages 28 – 43)	34%	Work to live – <i>“Work should not define life”</i>
Millennials (Ages <=27)	12%	Work my way – <i>“Own careers, meaningful work”</i>

Source: Mercer

External factors influencing total rewards

Compensation: Income growth divergence in the USA is causing social unrest and minimum wage pressure

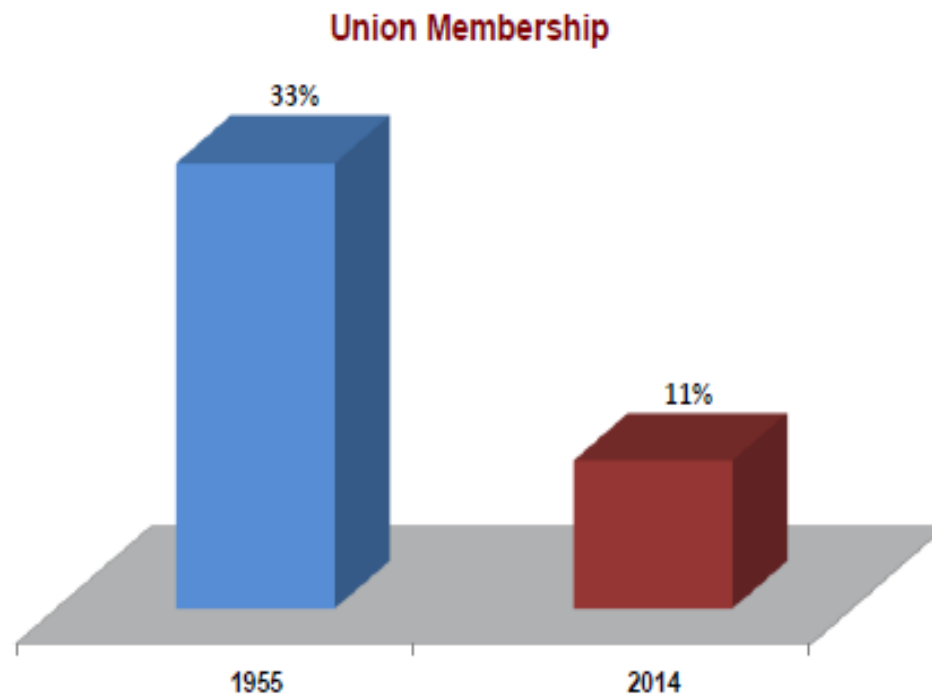
Total Compensation Growth 1985-2013



Source: U.S. Bureau of Labor Statistics and Economic Policy Institute

External factors influencing total rewards

Unionisation: The new bargaining agenda in the USA calls for a living wage and corporate wealth sharing

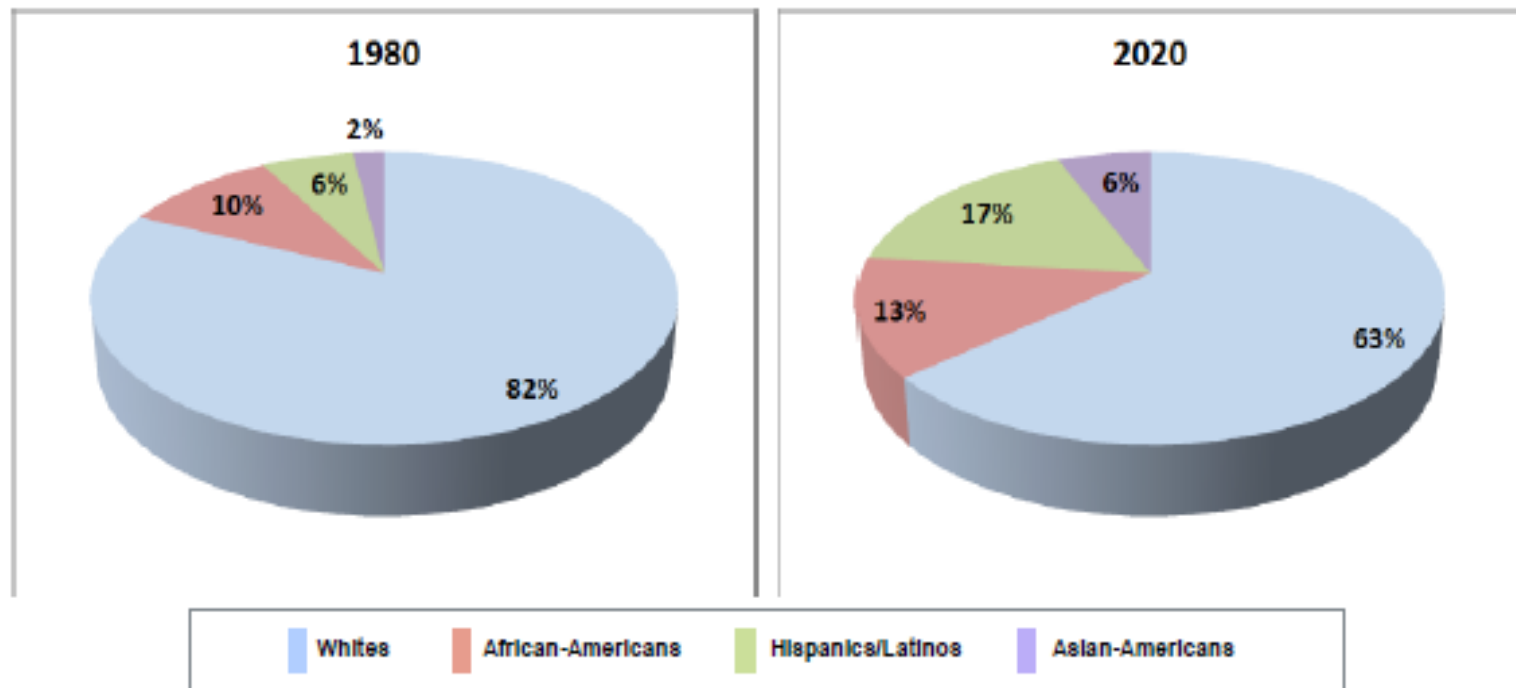


Source: U.S. Bureau of Labor Statistics

External factors influencing total rewards

Diversity: Future workforce will be more diverse in the USA

Diversity of Working Age Population (25-64)

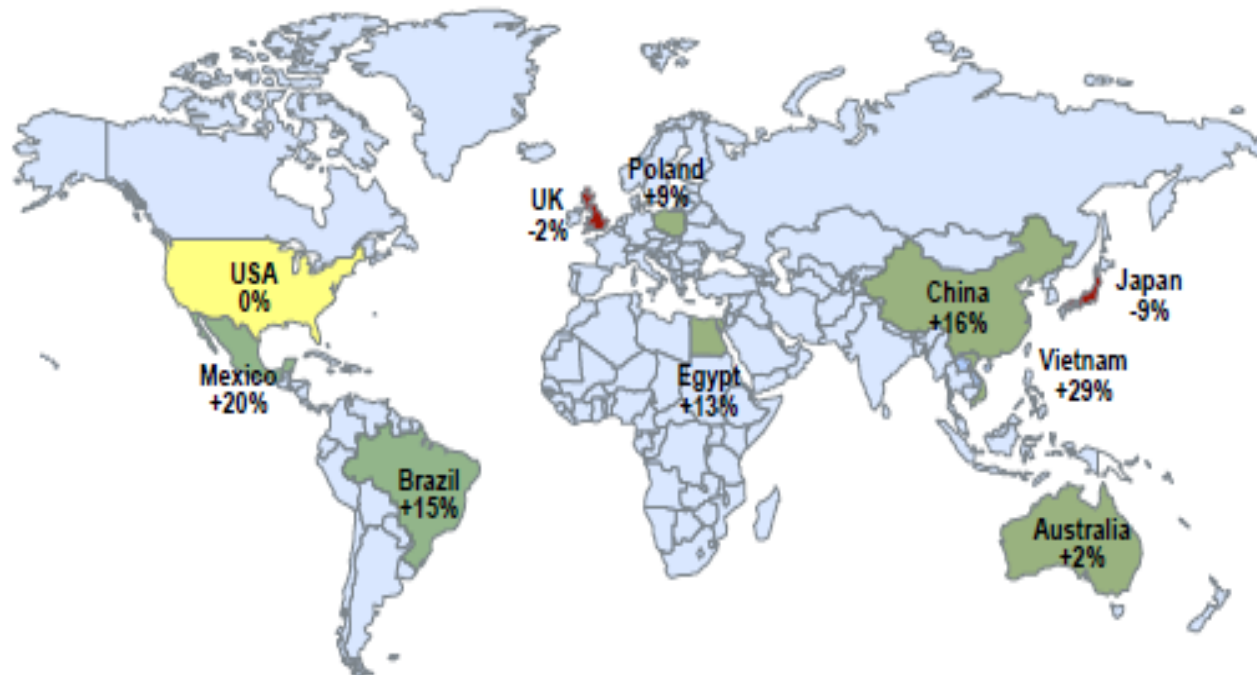


Source: The National Center for Public Policy and Higher Education

External factors influencing total rewards

Globalisation: There is more need for global workforce management as working age population correlates with GDP and middle class growth

Working Age Population (15-64): 1985 through 2013



Source: World Bank

External factors influencing total rewards

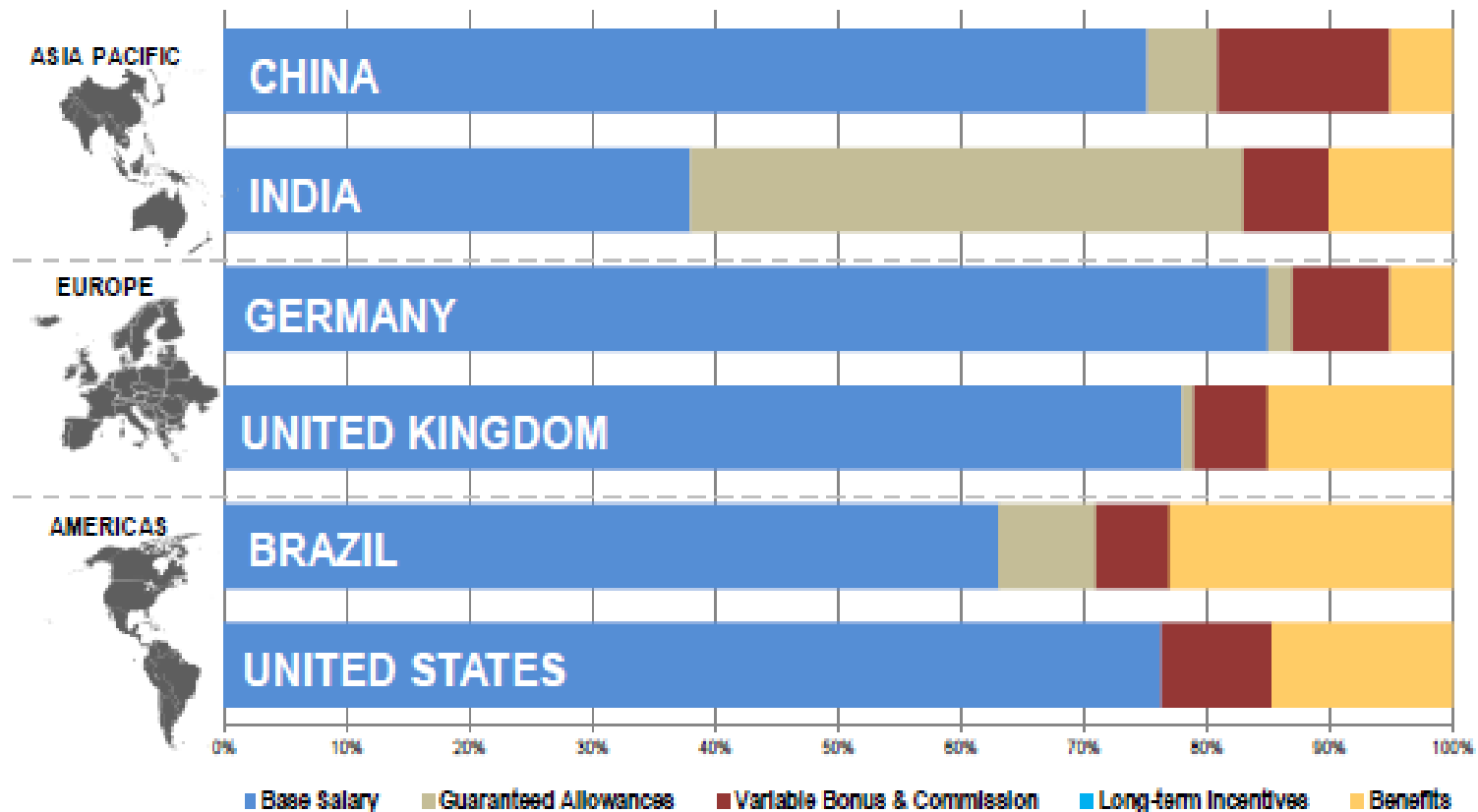
Globalisation: Managing a global workforce requires understanding cultural differences

RANK	China	India	Germany	UK	Brazil	USA
1	Career advancement	Career advancement	Base pay	Base pay	Career advancement	Base pay
2	Base pay	Base pay	Type of Work	Type of Work	Base pay	Retirement savings or pension plan
3	Supplemental retirement savings plan	Training opportunities	Bonus/other incentives	Bonus/other incentives	Training opportunities	Type of work
4	Training opportunities	Type of work	Flexible work schedule	Retirement savings or pension	Type of work	Low health care costs
5	Bonus/other incentives	Working for respectable organization	Working for respectable organization	Flexible work schedule	Health ins. with broad coverage	Bonus/other incentives
6	Supplemental medical ins. coverage	Bonus/other incentives	Training opportunities	Paid time off	Flexible work schedule	Working for respectable organization

Source: Mercer's What's Working Survey (between 2,000 and 2,400 respondents per country)

External factors influencing total rewards

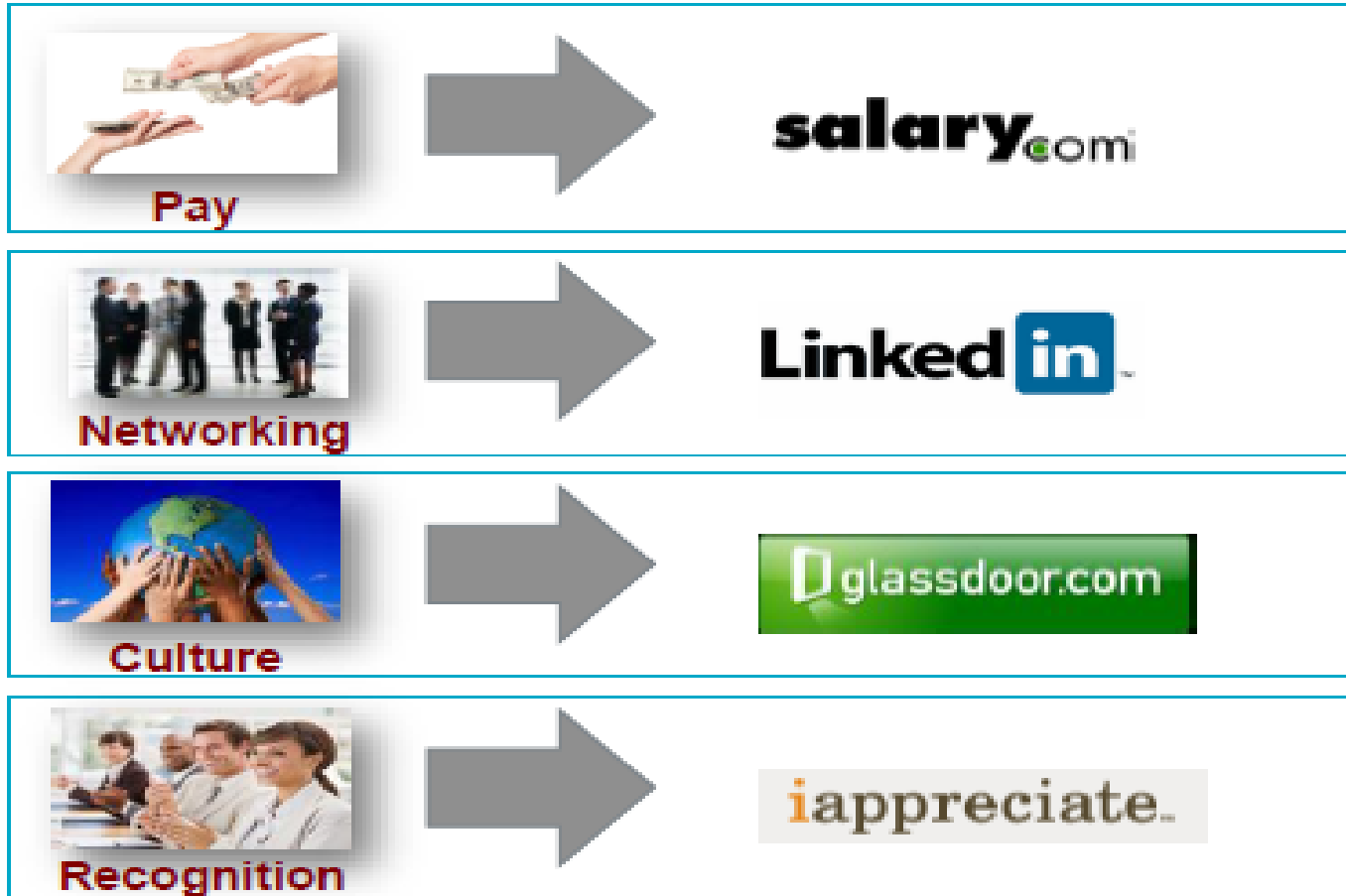
Globalisation: Managing pay requires understanding of local pay practices



Source: Mercer's Total Remuneration Surveys (TRS) and Structure of Salaries Around the World Report

External factors influencing total rewards

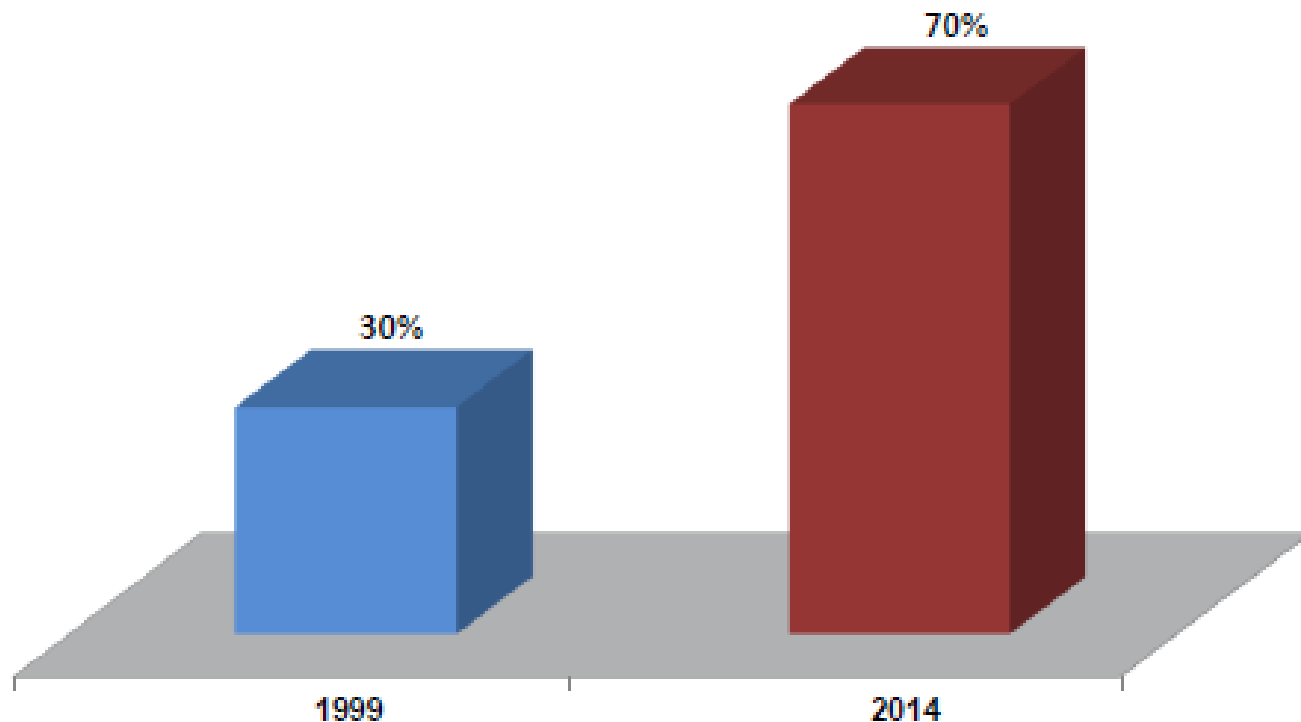
Technology: Apps provide a new instant way to stay informed



External factors influencing total rewards

Technology: Work environments are taking on a new flexibility in the USA

Employers that Allow Professionals to Telecommute



Source: Mercer's 1999 and 2014 Total Rewards Studies

External factors influencing total rewards

Activist Investors: Continued pressure on corporate results requires rethinking total rewards



Bill Ackman
(Pershing Square Capital)



Carl Icahn
(Icahn Enterprises)



Your thoughts about the future

Your thoughts about the future

True or False?

By 2020.....

1. Total Reward will be customised for each employee
2. Employees will have more risk through incentive compensation
3. Employer sponsored benefits will become more prominent
4. Organisations will reduce training and development expenditures
5. Healthcare will primarily be provided through government programs
6. The workforce will have more contingent workers than today
7. Performance management ratings will have disappeared
8. Increased workplace flexibility will be the norm: hours, pay etc
9. All pay will be transparent
10. Pay disparity between have and have-nots will have decreased

Your thoughts about the future

True or False?

By 2020.....

1. Total Reward will be customised for each employee - **TRUE**
2. Employees will have more risk through incentive compensation - **TRUE**
3. Employer sponsored benefits will become more prominent - **FALSE**
4. Organisations will reduce training and development expenditures - **FALSE**
5. Healthcare will primarily be provided through government programs - **TRUE**
6. The workforce will have more contingent workers than today - **TRUE**
7. Performance management ratings will have disappeared - **FALSE**
8. Increased workplace flexibility will be the norm: hours, pay etc - **TRUE**
9. All pay will be transparent - **TRUE**
10. Pay disparity between have and have-nots will have decreased - **FALSE**

How will organisations respond?

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Labour force rationalisation



Pre-1880

The Artisan

- Independent
- Self-sufficient
- Apprentice model



**Industrial Revolution
(1880-1980)**

The Employee

- Big is better
- Asset-based
- Standard processes



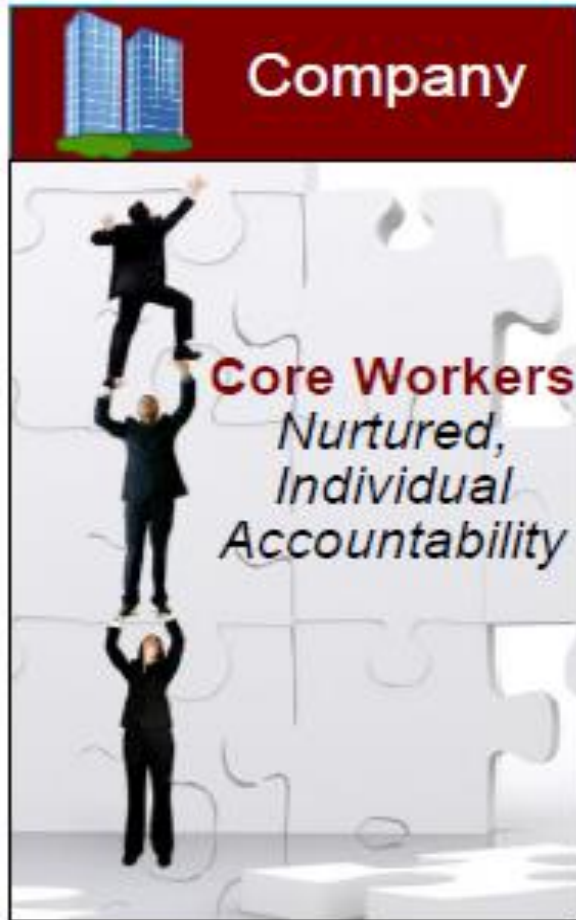
Today

The Free Agent

- Small is nimble
- Knowledge-based
- Decentralized reward systems with individual accountability

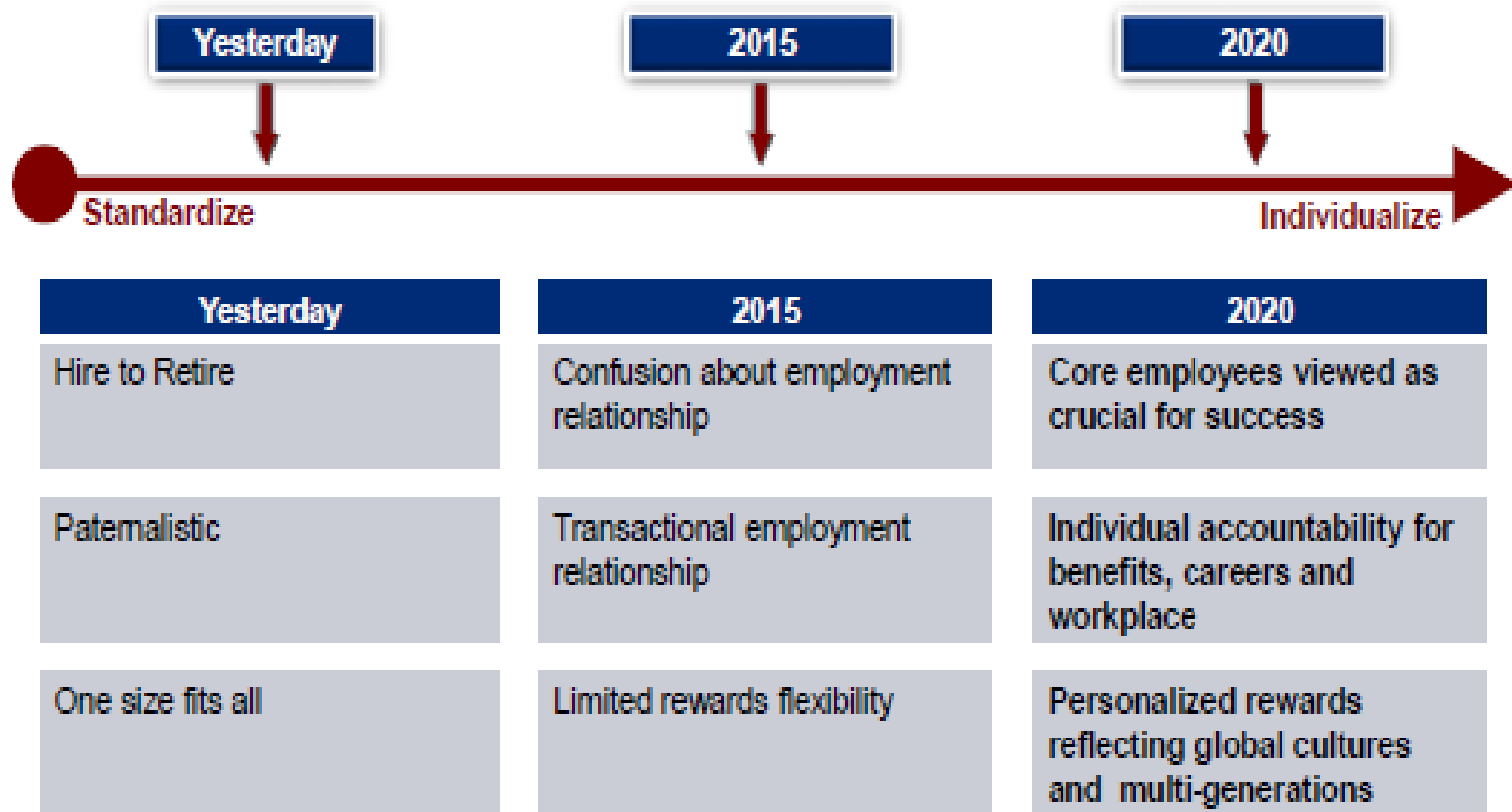
How will organisations respond?

Core workforce vs. contingent



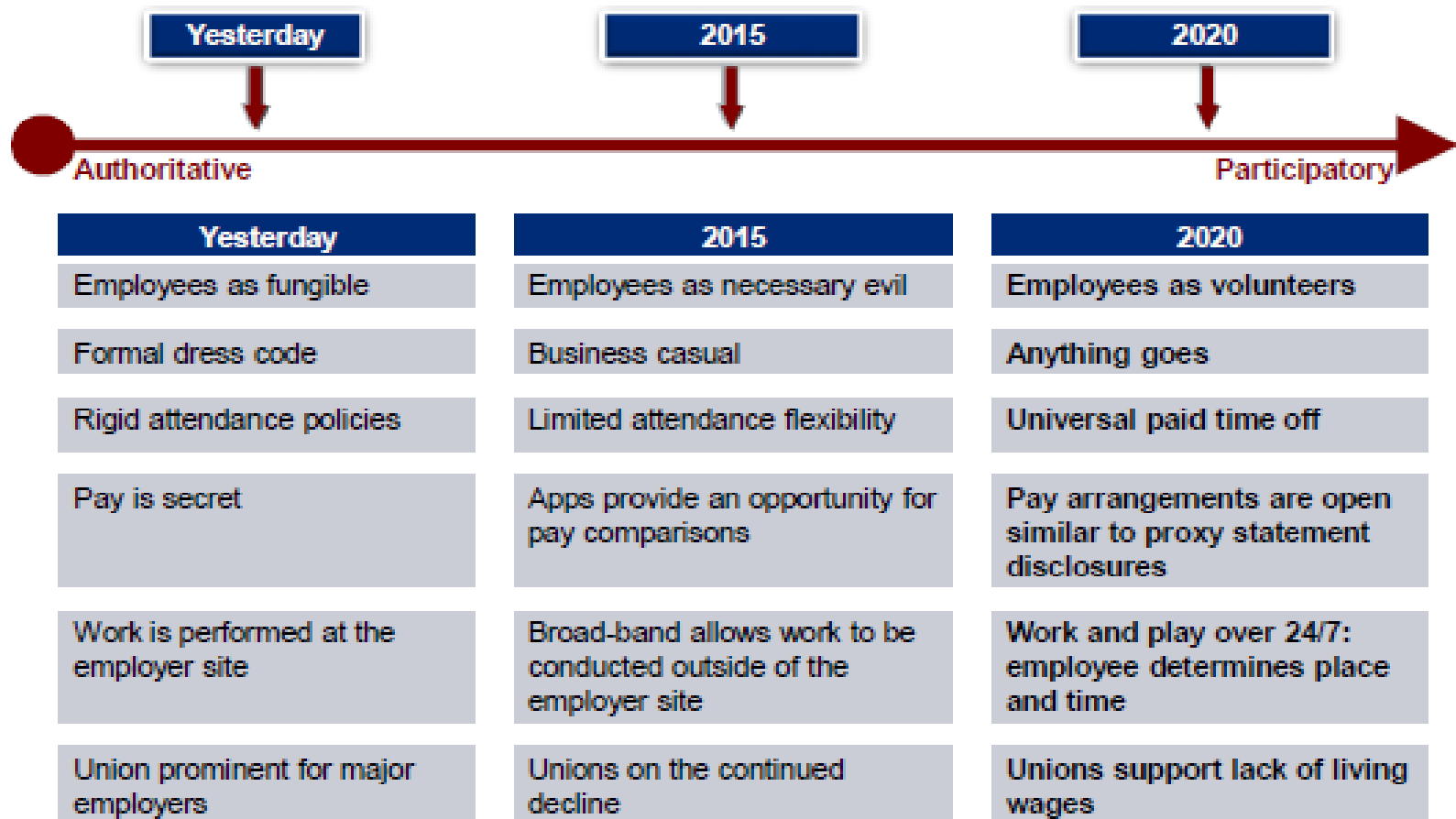
How will organisations respond?

Personalised Employee Value Proposition



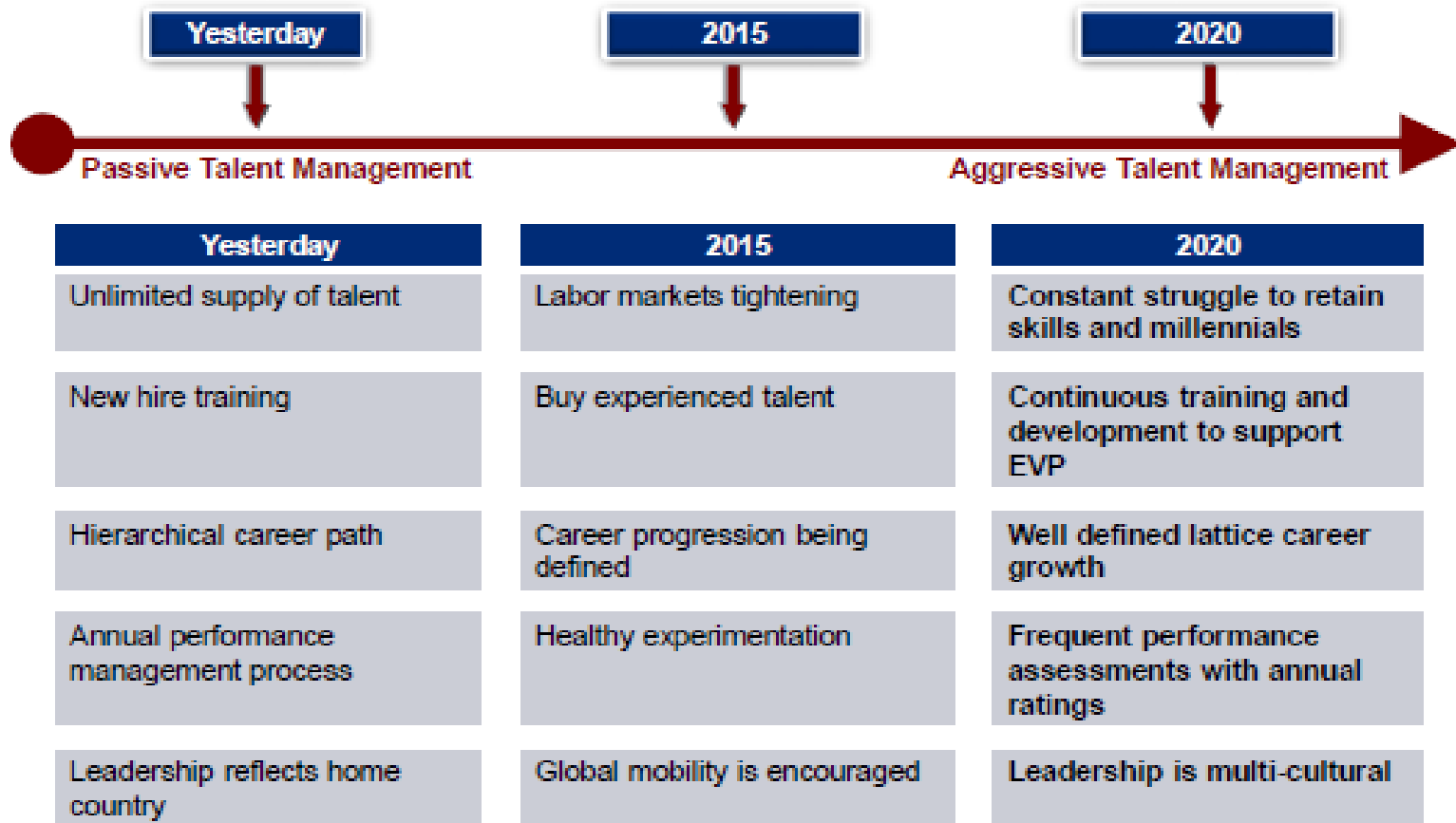
How will organisations respond?

Progressive employee relations



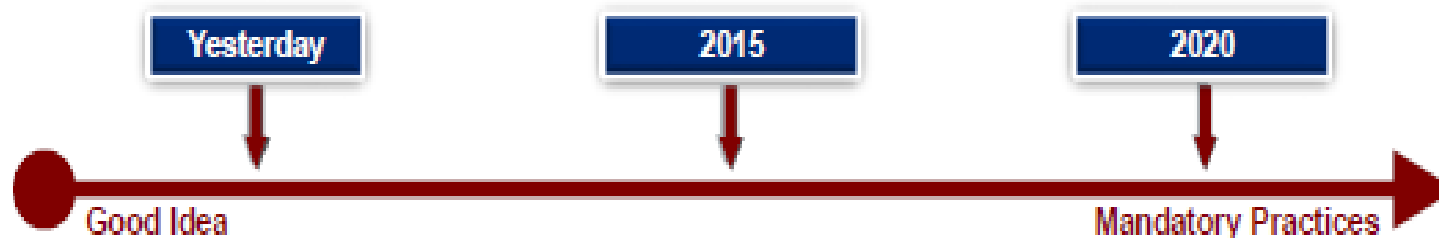
How will organisations respond?

Active talent management



How will organisations respond?

Diversity and pay equity are realities



Yesterday	2015	2020
Diversity goals in most organizations	Organizations struggle to meet goals	Employers match the multi-cultures that they serve
Employers don't know how to develop diverse talent	Experimentation is rampant	Analytics drives good decision making
Pay equity is afterthought	Pay inequality is a leadership concern	Pay fairness is assured through analytics

What you can do to prepare to manage total rewards in 2020

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Decision making: Moving from “I think” to “I know”. Knowing the patterns of past behaviour you can make some predictions.



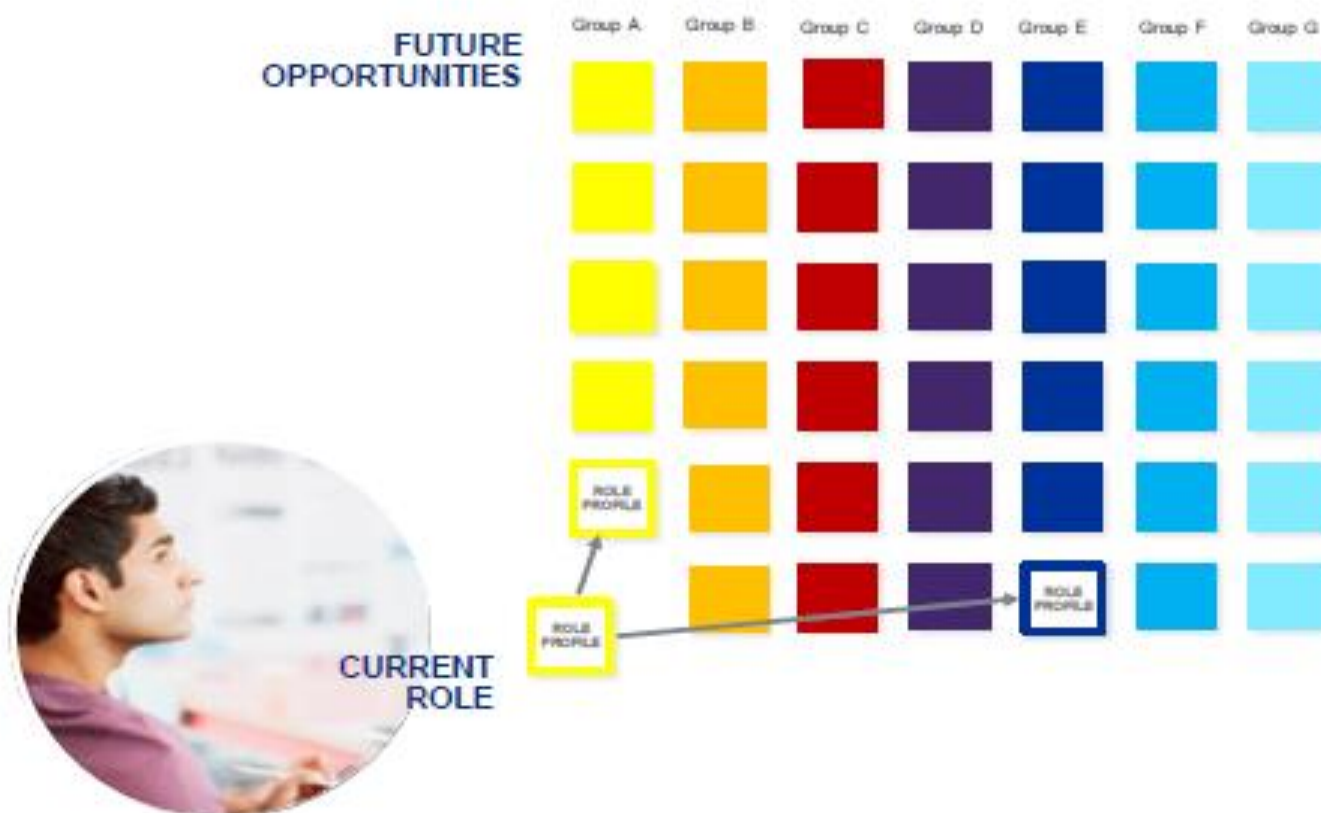
What you can do to prepare to manage total rewards in 2020

Workforce planning: Understanding the Internal Labour Market



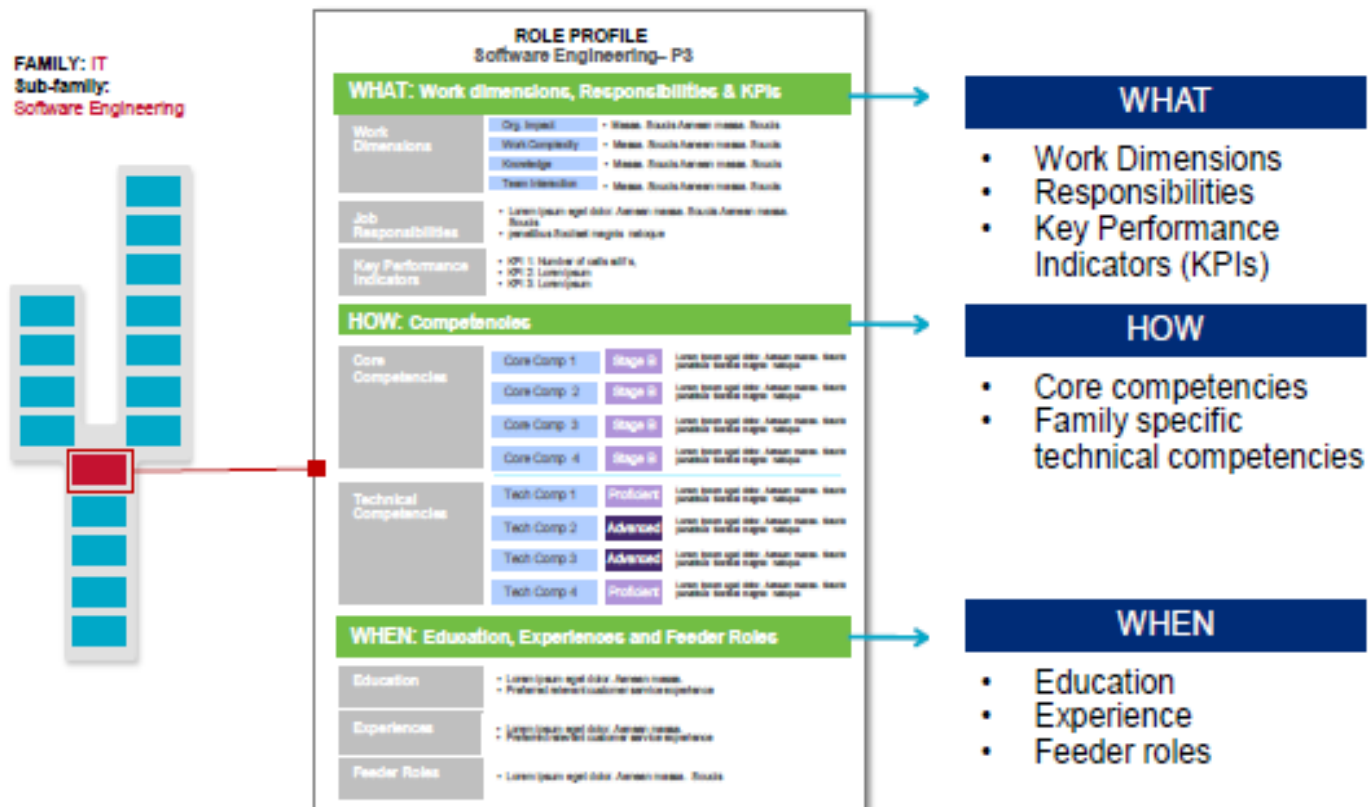
What you can do to prepare to manage total rewards in 2020

Career paths: Provide clarity around progression opportunities



What you can do to prepare to manage total rewards in 2020

Career paths: Sample design



What you can do to prepare to manage total rewards in 2020

Developing a Total Rewards Strategy: The right questions



What you can do to prepare to manage total rewards in 2020

Developing a Total Rewards Strategy: Sample blueprint

	Compensation			Benefits			Careers		
	Base Pay	Annual Incentives	Long-term Incentives	Group benefits	Retirement	Perquisites	Performance management	Work/life balance	Workforce planning/ Career Pathing
Role of reward element	Attract and retain; reward building skills	Reward individual, business unit and corporate performance	Link to shareholder value creation	Personal risk management	Wealth accumulation	Tax efficiency	Goal setting/ accountability	Compelling place to work	Adequate supply of talent
Competitive positioning	25th percentile	Base + STI = 75th percentile	Base + STI + LTI = 90th percentile	Leading edge design; 50th percentile	50th percentile	Market practices	Support "build" talent strategy	Environment difficult to match by competitors	Balance pay and benefits with career opportunities
Impact of positioning	Risk tolerance	Performance orientation	Rewards long-term growth	Desirable employer	Facilitate orderly retirement	Employment brand	Focused efforts	Attraction and retention of qualified staff	Support "build" talent strategy
Metrics	Acceptance rate turnover; appropriate skills	Business results	Stock price growth	Cost and value delivered	Retirement income adequacy; financial management	Cost; commitment Index	Scorecard results	Commitment Index; turnover	Percentage of outside hires

Call to action

Call to action

What can you do?

- ❑ Approach the future of total rewards based on **desired outcomes** in terms of retention, engagement, productivity and results.
- ❑ Make **holistic** decisions based on your specific situation, considering pay, benefits, careers, and work/life balance.
- ❑ Utilise fact-based **analytics** to support your decision making.
- ❑ Go beyond what others are doing – **best fit vs best practices.**
- ❑ Focus on people, for building a **sustained competitive advantage.**
- ❑ **Communicate** what is important.
- ❑ Ensure **consistent application** of policies and procedures.

Questions?

Thank you

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