

FORUM

Feature Article

2004 United States @Work: Redefining the Employer/Employee Relationship

Business leaders face a fundamental challenge when they offer competitive compensation and benefit packages. While it is important to attract, develop, and retain valued talent, leaders are limited by skyrocketing benefit costs—particularly health care. This forces organizations to look critically at benefit offerings and search for innovative, cost-effective ways to restructure them. Additionally, organizations face increasing pressure to keep payroll costs low, while ensuring compensation packages sufficiently motivate employees.

But what impact will the fact that many organizations are concentrating on cost and not on the employee have on the employer/employee relationship? And can leaders control costs and still have employees committed to the organization's goals?

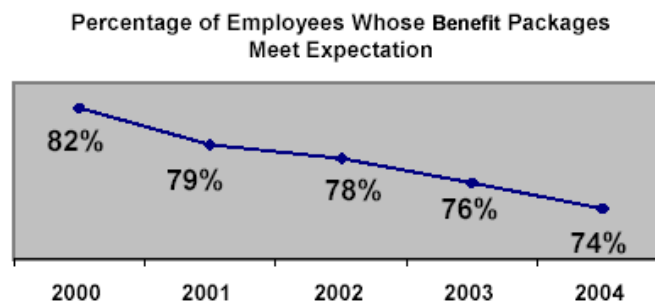
Our research suggests the best strategy may be giving employees choice—offering them the ability to personalize their compensation and benefit programs based on personal needs, lifestyles, family values, and career goals.

This year's *United States @Work* study, the ninth such study by Aon Consulting, presents an in-depth look at compensation and benefits from the employee's perspective. It compares 2004 results to studies conducted in 2001, 1998, and 1995. The 2004 study is based on responses from 2,001 randomly-selected individuals.

Benefits

The 2004 *@Work* results reveal that 68% of employees (versus 61% in 2001) prefer spending more of their own money to have greater benefit choices rather than giving up some of their current benefits.

Overall, employees are becoming more dissatisfied. In 2000, 82% felt their benefits were meeting their needs. This year the number has dropped to 74%.



To help understand this downward trend and pinpoint specific problems, we asked respondents to rate the importance of 19 benefits and their experience with them.

Some key findings include the following:

- Since 1995, medical insurance is consistently ranked the most important benefit. However, it has dropped to tenth place in positive experience ranking in our most recent study.
- Other benefits, such as employer-paid pension and prescription drug coverage, also rank very high in importance, yet the quality of participants' experience has progressively declined since 2000.

Focusing on the areas that are most important and have had declining experience ranking may improve employee satisfaction with overall benefit plans.

Most Important Benefits by Rank				
Benefit	2004 Rank	2001 Rank	1998 Rank	1995 Rank
Medical Insurance	1	1	1	1
Paid Vacation and Holidays	2	2	4	10
Retirement Savings	3	4	3	3
Employer-Paid Pension	4	3	2	2
Prescription Drug Card	5	5	8	N/A
1 = most important				

Benefits with Highest Positive Experience Ranking				
Benefit	2004 Rank	2001 Rank	1998 Rank	1995 Rank
Paid Vacation and Holidays	1	2	1	1
Retirement Savings	2	6	7	N/A
Flexible Work Schedules	3	10	4	9
Sick Leave/STD and LTD	4	4 / 8	8 / 6	N/A
Life Insurance	5	11	5	5
1 = most positive experience				

We found that various groups of employees rate different benefits as more important. For example, while medical insurance is important to all employees, flexible work schedules may be more so to employees with young children. Employer-paid pensions may be more important to older employees. Overall, offering benefits choices, while keeping the total cost of the benefits package the same, can impact employee satisfaction.

Satisfaction with benefits contributes to employees' commitment. Research shows that committed employees help reduce turnover and lower other costs related to productivity. However, it is important to understand that benefits rated as "most important" are not necessarily those with the greatest impact on commitment. For instance, medical insurance is very important and a necessary component for satisfaction with a benefits plan. But, greatly increasing this benefit will not have a significant impact on commitment. Benefits that have a greater impact include 401(k) plans, employer-paid pension, paid time off, and flexible work schedules.

The New Consumerism—Consumer-Driven Health Care

Increasing health care costs have created the need for new approaches, such as consumer-driven health care (CDH). The theory behind CDH is simple—users see the actual cost of services, and if they are given incentives to help control these costs, overall health care costs will decline and quality will increase.

While the move to consumerism may be inevitable, there are many challenges such as:

- Only 9% of @Work respondents had a CDH alternative.
- 57% do not know what CDH is.
- 59% do not think that CDH is right for them.
- Only 37% are willing to accept financial responsibility for managing their own health care costs.
- Only 48% are willing to make lifestyle changes to reduce health risks.

These challenges highlight two of the keys to get employees to participate in CDH plans:

- Employees must demonstrate a willingness to change health behaviors.
- Employees must accept a level of personal financial responsibility for their health care.

Fewer than one in five (19%) employees are inclined to take both financial and behavioral responsibility for their own health care, while about one in three (32%) are not inclined to take charge of either.

Organizational leaders need to educate and enable employees to assume more of the financial *and* behavioral responsibility for their own health care choices before CDH plans can be successfully implemented. To build financial responsibility, organizations must carefully balance payroll deductions and out-of-pocket expenses, as well as rollover restrictions. Education is key. If employees understand how their lifestyle choices and health care decisions impact costs, they may be more willing to assume some of the risks.

To build behavioral responsibility, organizations must give their employees the following tools to make intelligent decisions:

- Health coaching,

- Wellness programs, and
- Extensive information on local service providers.

Compensation

Together, compensation and benefits provide rewards that motivate employees and help ensure their commitment. As more of the cost burden and responsibility for benefits shift to employees, they will look to their compensation plans as a means to offset this shift.

Our research shows that while most employees have a good understanding of their compensation program (84% in 2004 vs. 86% in 2001), the most recent data show that fewer feel their pay is internally equitable (78% vs. 81%) or externally competitive (68% vs. 73%). When asked about their pay's fairness relative to their ability, level of contribution, and experience, 68% feel that it meets their expectations.

Most importantly, the link between pay and performance is weak, with only 67% feeling that it meets their expectations, down from 75% in 2001. Why this disconnect? Organizations are not effectively using the tools at hand. Respondents in 2004 indicated that:

- Only 31% have a stock ownership plan.
- Only 40% are eligible for cash bonuses.
- Only 25% have a merit pay program.

This indicates the appropriate employee behaviors are not being recognized and rewarded at most organizations.

Compensation managers must be true strategic business partners in order to determine the important employee behaviors. They must clearly communicate the goals of the organization and what employees must do to help reach these goals, and they must recognize and reward employees who help create success. Then, individual success will be aligned with organizational success.

Redefining the Employer/Employee Relationship

Today, "choice" in benefit plans is more than offering a cafeteria plan. The new benefits consumerism, where employees have an ownership stake in their benefits, is being offered through such programs as:

- Consumer-driven health benefits.
- True pay-for-performance compensation plans, where employees make decisions about their career aspirations.
- Defined contribution retirement plans with a variety of investment choices.
- Elective benefits that fill gaps and meet individual employees' unique needs.

- Advanced administration options, such as HR Portals, where employees make changes at will.

Offering choice does not necessarily mean increased costs to employers and, in fact, can even introduce HR efficiencies. But, because employees are being asked to make ownership decisions about their compensation and benefits programs, the role of communication—between organization and employees—must be elevated. Effective communication empowers employees and can increase their commitment.

Given the long-term trends in rising costs and shifting employee behaviors, organizations need to move from quick fixes to long-term strategies. Employers need to strategically evaluate their options to maximize both financial gains and employee commitment, which will ultimately lead to a more successful organization overall.

For more information on this topic, contact Aon Consulting at 1.800.438.6487.

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