

Sessions 7: Bonus & Pension Schemes

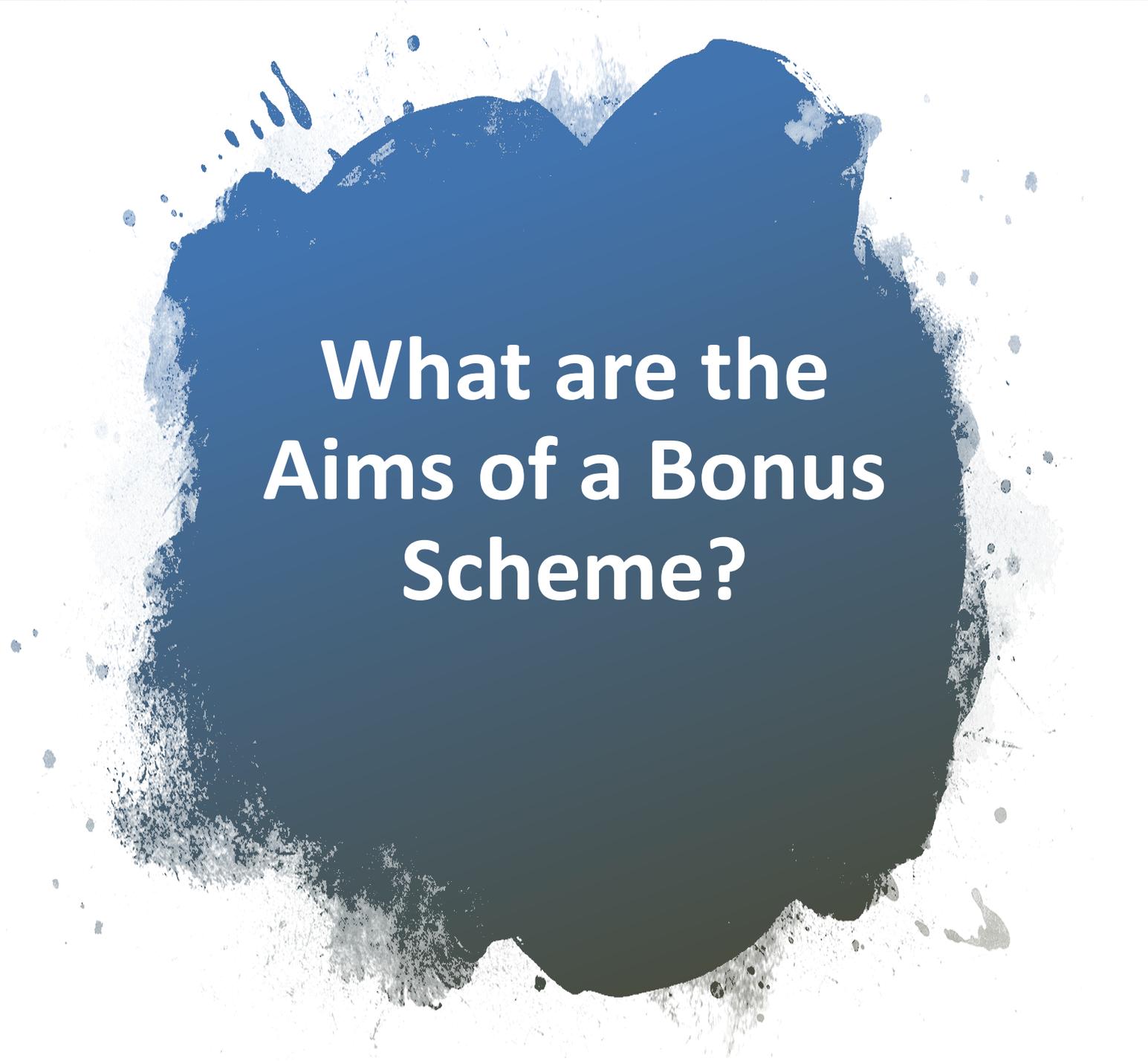


Learning Outcome

- Examine the nature and aims of bonus schemes and their rationale
- Analyse the types of bonus schemes
- Examine the criteria for a bonus scheme



What is a bonus scheme?



What are the Aims of a Bonus Scheme?

The Aims of a Bonus Scheme

- Enable people to share in the success of the organisation.
- Increase motivation, commitment and engagement.
- Recognises past performance or achievements and encourages individuals and teams to perform well in the future.
- Provide a direct incentive, which increases motivation and engagement.
- Ensure that pay levels are competitive and will attract and retain good quality people.



Rationale for Bonus Schemes

- Creation of a high-performance cultures.
- Lump sum payments can sometimes make a bigger impact.
- Rewards for special achievements
- Financial recognition to people who are at the maximum of the salary range for their grade.



What are the Types of Bonus Scheme?

Types of Bonus Schemes



BUSINESS
PERFORMANCE



INDIVIDUAL
PERFORMANCE OR
INCENTIVE PLANS



TEAM PAY



COMBINATION
PLANS



CASH-BASED PROFIT
SHARING



GAIN SHARING

Class Activity

- What are the arguments for and against bonus schemes?



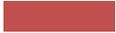
Rewarding for Business Performance



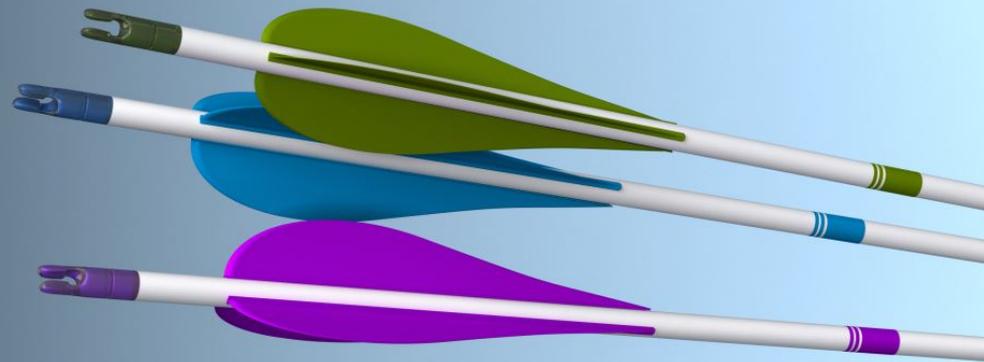


Learning Outcomes

- Examine the Aims of rewarding for business performance
- Analyse how profit sharing schemes work
- Analyse how share ownership schemes work
- Examine the gainsharing schemes work



What are the aims of relating Rewards to Business Performance?



The Aims of relating Rewards to Business Performance are to:



increase the commitment of employees to the organization;



enable employees to share in the success of the organization;



stimulate more interest in the affairs of the organisation;



focus employees' attention on what employees can contribute to organisational success and bring areas for improvement to their attention;



obtain tax advantages for employees through approved share schemes.



**The three types of
formal organisational
schemes are:**

The three types of formal organisational schemes are:

Profit-sharing - the payment of sums in cash or shares related to the profits of the business.

Share ownership schemes - employees are given the opportunity to purchase shares in the company.

Gain-sharing – the payment of cash sums to employees related to the financial gains made by the company because of its improved performance.



1. What is Profit Sharing?

Profit Sharing are:

- Profit-sharing is a plan under which an employer pays to eligible employees.
- The amount shared is determined either by an established formula or entirely at the discretion of management.
- The amount shared is determined either by an established formula or entirely at the discretion of management.
- As a percentage of pay, the value of profit shares varies considerably between companies and within companies from year to year.
- Profits can be distributed in the form of cash or shares, usually share options.



2. What are Share ownership schemes?



Share ownership schemes are:

- Share incentive plans
- Save-as-you-earn (SAYE) schemes



3. What are Gain Sharing?



Gain Sharing are:

- Gain-sharing is a formula-based company or factory-wide bonus plan
- Gain-sharing is mainly limited to the manufacturing sector



Question?

Do profit sharing schemes directly increase individual performance? If not, why not?



Recognition Schemes

Learning Outcome

- Examine the nature of recognition
- Discuss the principles of recognition
- Analyse the different types of non-cash recognition awards



What are Recognition Schemes

- Recognition schemes enable appreciation to be shown to individuals for their achievements
- This can be done informally on a day-to-day basis or through formal recognition arrangements.





Recognition can be between managers and individuals in their teams.



**Recognition Schemes
are non-financial
rewards**

What are the Principles of Recognition?

The principles, which need to be borne in mind when developing recognition schemes, are that recognition:

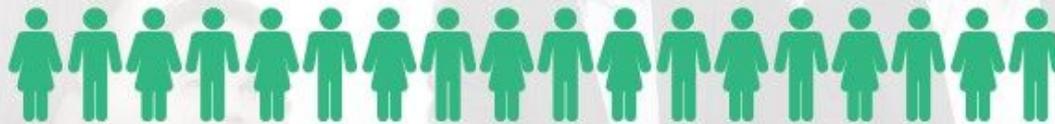
- should be given for specially valued behaviours and exceptional effort as well as for special achievements;
- should be personalised so that people appreciate that it applies to them;
- needs to be applied equitably, fairly and consistently throughout the organization;
- must be genuine, not used as a mechanistic motivating device;
- should not be given formally as part of a scheme if the achievement has been rewarded under another arrangement, for example a bonus scheme;
- needs to be given as soon as possible after the achievement;
- should be available to all – there should be no limits on the numbers who can be recognised;
- should not be predicated on the belief that they are just about rewarding winners;
- should be available for teams as well as individuals to reward collective effort and avoid creating isolated winners;
- should not be based on an over-elaborate scheme.

**Recognition
awards are
taxable!!!**



Employee Recognition Methods

HR professional acknowledge that employee find the most valued rewards to be:



79% Gifts Cards



31% Dining Certificates



Movie Tickets & Entertainment

56%

of HR professional believe that employees feels their company's Recognition program has

Room For Improvement



What are the Types of Recognition?

**What is likely to
be the most
effective form of
recognition?**



Social Recognition



human 2017



VICHI WILLIAMS

CEO of Performance
Design, and CEO
of Chordant



RAHUL VARMA

Global Head of Talent
& Learning
Agencies



KIMBERLY BORS

Senior
Executive

“Workhuman provides a software-as-a-service (SaaS) platform that delivers reward programmes on behalf of over 300 companies that collectively employ more than four million people in over 150 countries”

“European sales are modest and represent less than 10 per cent of revenues, but they are doubling every year as companies catch up with the US in recognising employee performance. I would see Europe eventually accounting for at least a third of our business.”

Eric Mosley, CEO Workhuman



Why Social Recognition matters?

“Companies investing in Social Recognition experience increased employee engagement, higher productivity, and better retention, all while uncovering actionable workplace insights around performance, diversity, equity, and organizational culture”. CEO, Workhuman



+

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Why Social Recognition matters?

“Businesses that are outperforming others know their humans are their greatest asset and their *biggest differentiator* – and so they’ve put human connection at the center of everything they do, starting with thanks”.

- CEO, Workhuman
- 
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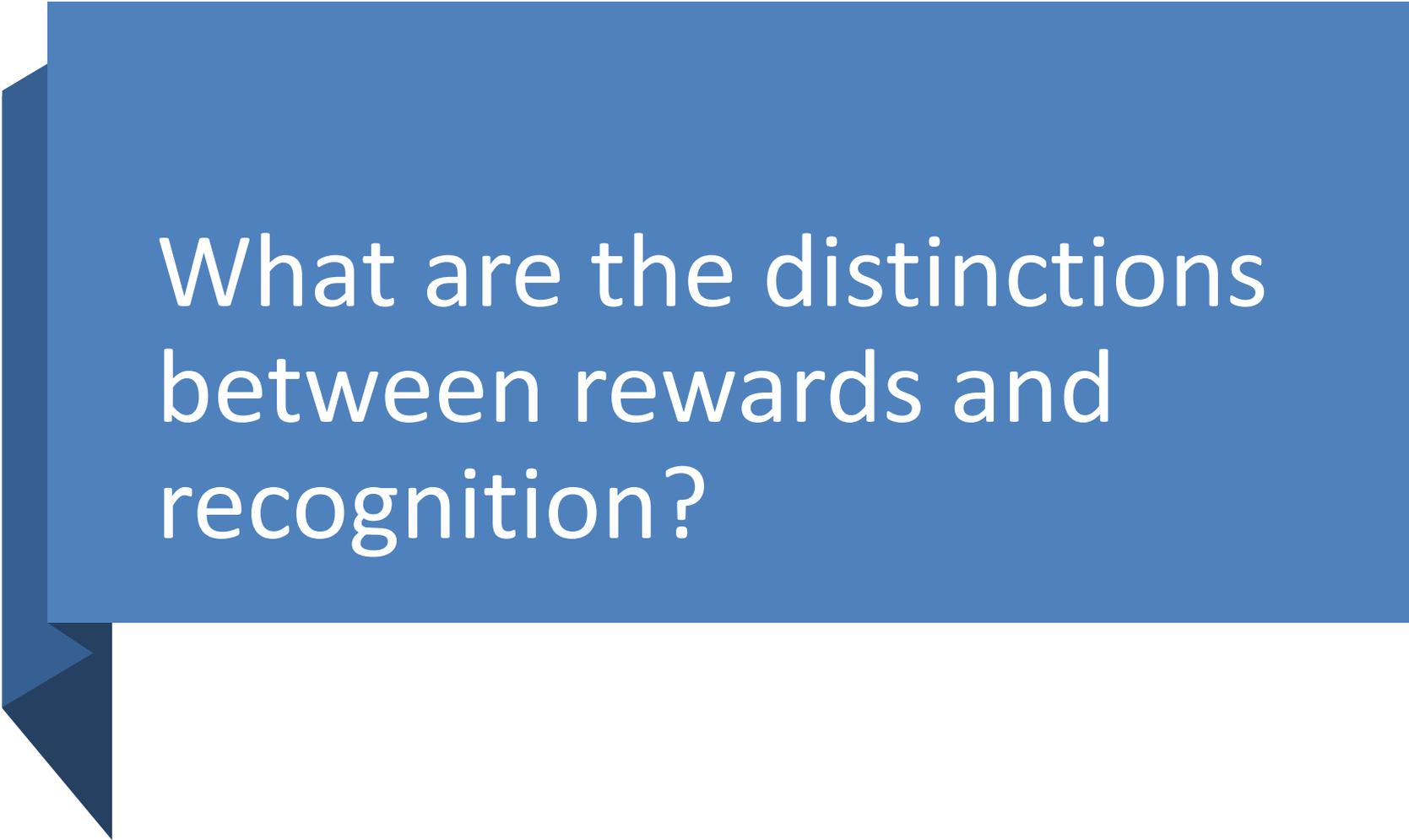
“Recognition can be an invaluable source of motivation and subsequently inspire people to do their best work.”



**Jeff Weiner, Former
Chief Executive Office
LinkedIn**

Engaged Staff





What are the distinctions
between rewards and
recognition?



Class Task

- You have been asked by your Chief Executive to prepare the outline of a business case for developing a formal recognition scheme as a basis for preparing a more detailed proposal.



Pension Scheme

Learning outcomes

- Examine the nature of pensions and employee benefits
- Discuss the pension schemes
- Analyse the employee benefits

Pensions



Workplace pensions, also known as occupational pensions, are arranged by employers rather than by the state or an individual. The employer, and usually the employees, are required to contribute to the fund.



Employee pensions and benefits consist of arrangements made by employers for their employees that enhance the latter's well-being.



They are provided in addition to pay and form important parts of the total reward package.



Sorry, I am retired.

Introduction to Pension Scheme

- Pensions provide an income to employees when they retire and to their surviving dependent on the death of the employee, and deferred benefits to employees who leave.
- Occupational schemes offered by organisations as distinct from state pensions, are funded by contributions from the organisation and usually, but not always, the employee.



Why are Occupational Pensions Provided?

Types of Pensions Defined

There are two main types of Workplace Pensions namely:

- Defined contribution (DC) schemes (also known as money purchase schemes) where the income on retirement depends on factors such as stock market performance, the amount of money contributed and related charges and fees. DC schemes are either contract-based (provided by a third-party) or trust-based (run by an employer through a board of trustees). DC plans open to all employees are typically found in the private sector.
- Defined benefit (DB) schemes (such as career average or final salary schemes) where the income on retirement is effectively guaranteed by the employer. Many of these schemes have been closed to new employees. Open DB schemes are usually found in the public sector.



What are the changes in Occupational Pensions?

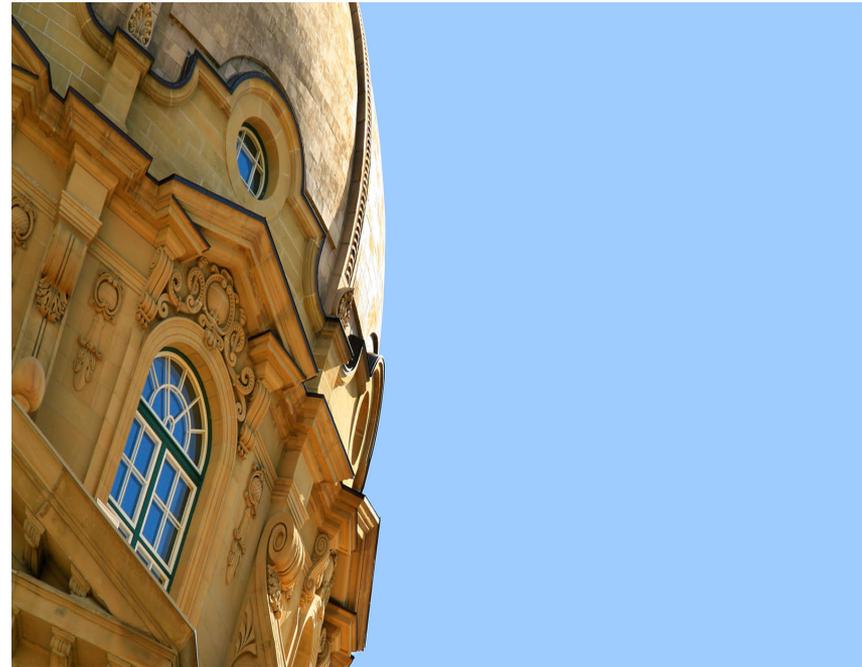
Public Pension Scheme

- Public sector occupational pension schemes are statutory plans set up by legislation or trust-based arrangements
- Schemes for commercial State bodies have a dedicated fund to meet pension liabilities.
- Schemes in the non-commercial public sector, such as the civil service, local government, education, Gardaí, prison services and health services are financed on a 'pay as you go' basis.



Public Sector Pension Scheme

- Public servants who joined prior to 6 April 1995, a pension of $\frac{1}{80}$ th of final earnings is payable for each year of service.
- For public servants who joined on or after 6 April 1995, pensions are coordinated with the State pension.
- A new scheme for joiners to the public service (the 'Single Scheme') has been introduced for new entrants from 1 January 2013 that provides pensions based on career average revalued earnings, rather than final earnings.



Private Pension Scheme

- Also known as company pension plans, these are set up by employers and can provide benefits including a tax free lump sum (within certain limits).
- Employees must check and see if their employer has such a scheme and whether they are eligible to join.

Source: pensionsauthority.ie



Private Pension Scheme

These benefits will generally be based on;

- Final earnings (final salary defined benefit schemes) or
- Average earnings throughout your career (career average defined benefit schemes) or
- the value of your pension fund at retirement (defined contribution schemes).

Source: pensionsauthority.ie



Defined Benefit Scheme - Personal Retirement Savings Accounts (PRSAs)

- A PRSA is an individual defined contribution pension arrangement.
- PRSAs are pension savings accounts, normally paid for by personal contributions, although employers can pay contributions to these plans.
- PRSA arrangements provide a tax-free lump sum, within certain limits, and a pension or other benefits at retirement.
- The value of the ultimate benefits payable from the contract depends on the amount of contributions paid.

The image shows the acronym 'PRSA' in a large, bold, blue serif font. The letters are closely spaced and have a classic, slightly ornate design. The 'P' and 'R' are particularly tall and prominent.

Personal Retirement Savings Accounts (PRSAs)

A PRSA is a contract between an individual and an authorised PRSA provider.

- There are two types of PRSA contract:
- A Standard PRSA is a contract that has a maximum charge of 5% on the contributions paid and 1% per year on the PRSA funds under management. Investments are only allowed in pooled funds which include unit trusts and life company unit funds.
- A non-Standard PRSA is a contract that does not have maximum limits on charges and/or allows investments in funds other than pooled funds.

Source: pensionsauthority.ie



Hybrid Pension Scheme

- A hybrid pension scheme is one which is neither a full defined benefit scheme nor a full defined contribution scheme.
- In hybrid schemes, the risk can be shared between the employer and employees.

Source: pensionsauthority.ie



Types of Hybrid Pension Scheme



- Combination Scheme
- Self-annuitising DC schemes
- Final salary lump sum schemes
- Underpin Schemes
- Cash balance Schemes
- Fixed benefit/benefit unit schemes

Source: pensionsauthority.ie

State Pension Scheme

- The State Pension (Contributory) is paid to people from the age of 66 who have enough **PRSI contributions**
- It is not means tested.
- The current qualifying age for all State pensions is 66.



State Pension Scheme

- For example, the full State Pension (Contributory) is €12,912 per year (or €248.30 per week). The State pension increases by €10 per week for those over age 80.

Source: pensionsauthority.ie



Additional Benefits

In addition to your pension from the State, there are additional benefits:

- Qualified Adult's allowance and/or a Qualified Child's allowance payable, if the conditions for their payment are met.
- Widow's, widower's or surviving civil partner's pensions, again subject to certain conditions being met.

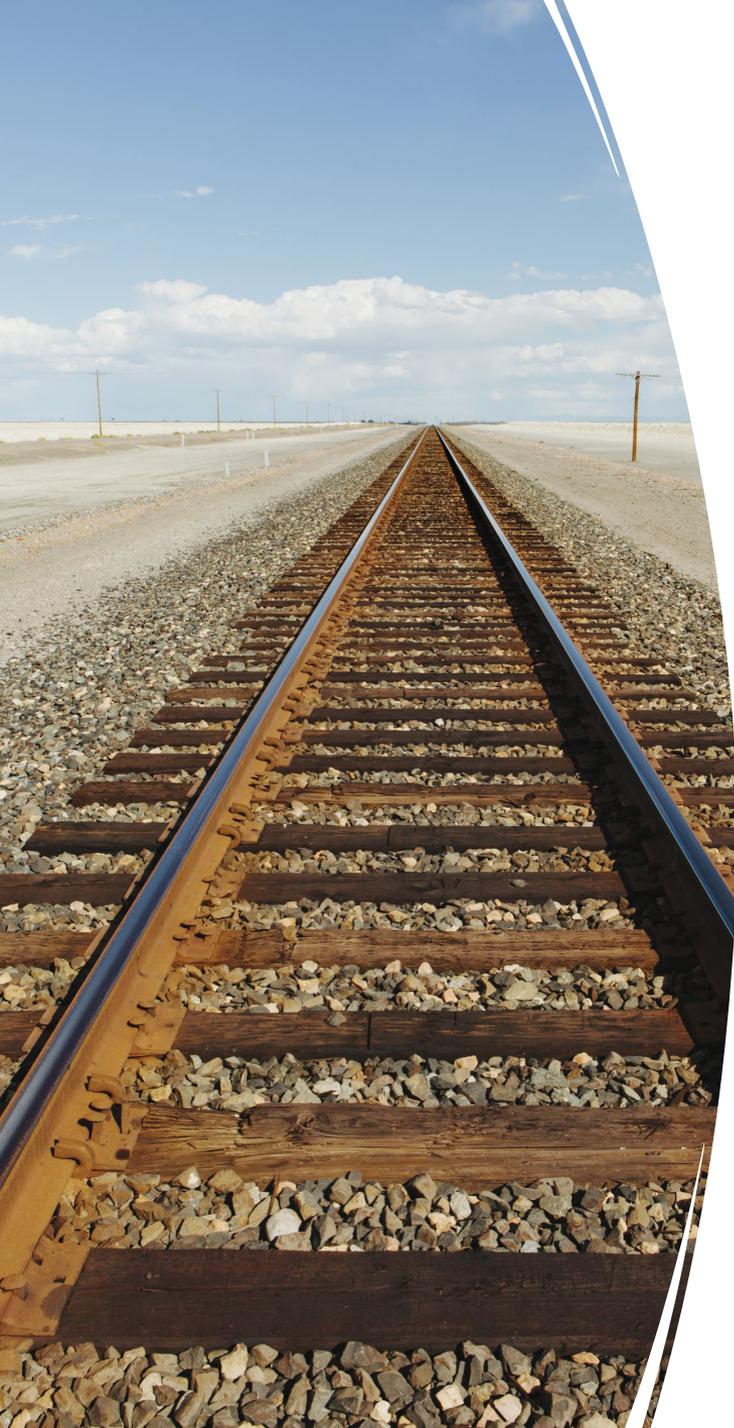
Additional benefits payable to retired people:

- Living alone allowance for those who qualify, free travel, and a household package for people aged over 70 that includes help with electricity, gas and TV licence costs.
- A number of conditions need to be met in order to receive these benefits and you will need to check these conditions at the time.

Source: pensionsauthority.ie

The Changing Pension Scheme & Life Expectancy





Case Example: State Pension

- <https://www.irishtimes.com/news/social-affairs/pension-case-study-i-found-it-very-humiliating-horrible-1.4149453>



Case Example 1: Calculating State Pension

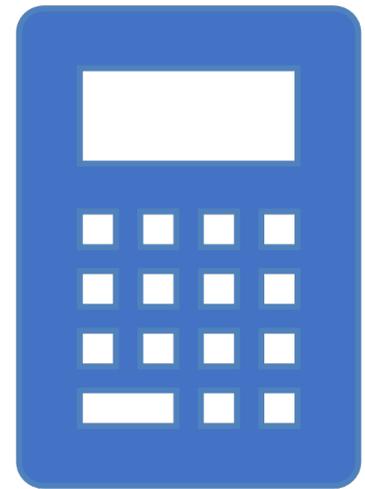
- https://www.citizensinformation.ie/en/reference/case_studies/case_study_1_calculating_your_pension_under_bi_lateral_social_security_agreements.html#

Source: citizensinformation.ie

Calculating Pensions

Useful link for calculating pensions:

- https://www.pensionsauthority.ie/en/lifecycle/why_save_for_retirement/



“Employee benefits offer a way to attract and keep people, contribute towards improving well-being and encourage required behaviours, achievements, values and skills”.

CIPD, 2020

Employee Benefits

- Employee benefits consist of arrangements made by employers for their employees, which enhance the latter's well-being.
- They are provided in addition to pay, these are parts of the total reward package.
- Employee benefits include holidays and leave arrangements, which are not strictly remuneration.
- Employee benefits are a costly part of the remuneration package.

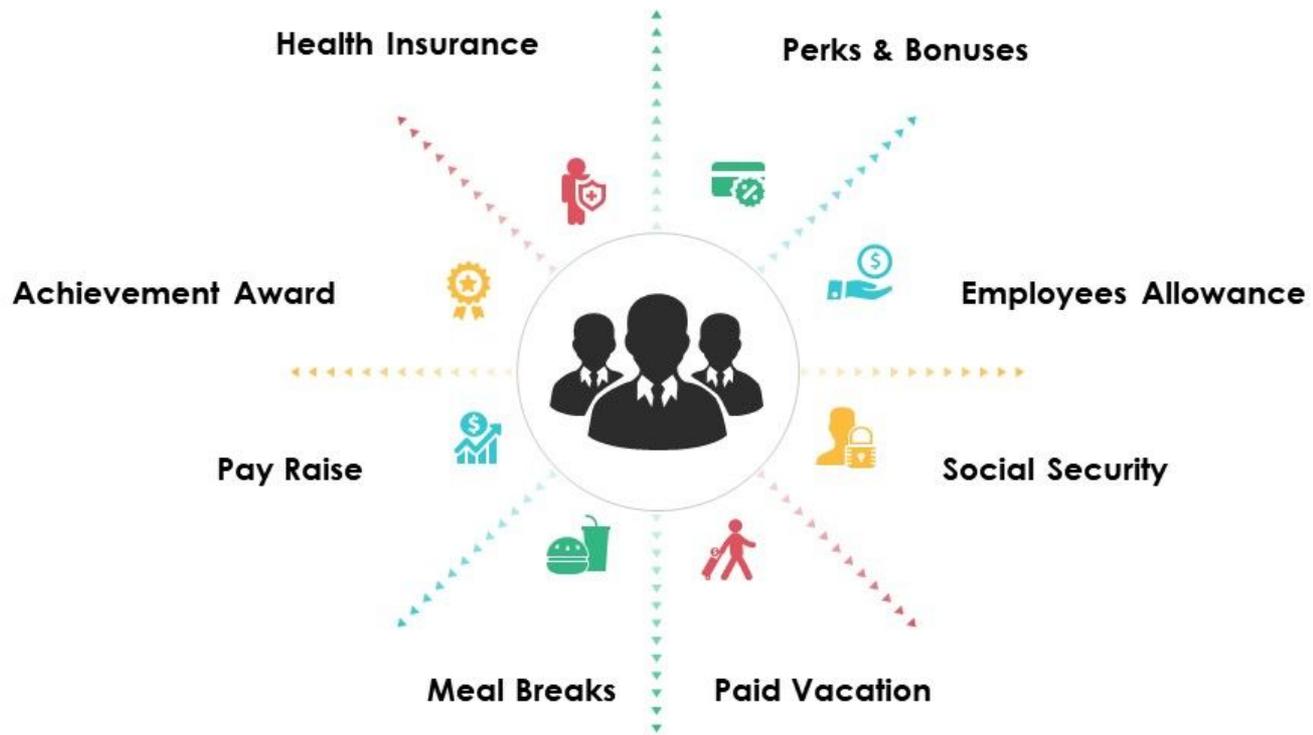


Employee Benefits Policies

The Employee Benefits are concerned with:

- the types and sizes of benefits to be provided;
- the need to harmonise benefits;
- the costs of benefits provision;
- the use of flexible benefits.





Employee Benefits

Types of Employee Benefits

The main benefits deal with:

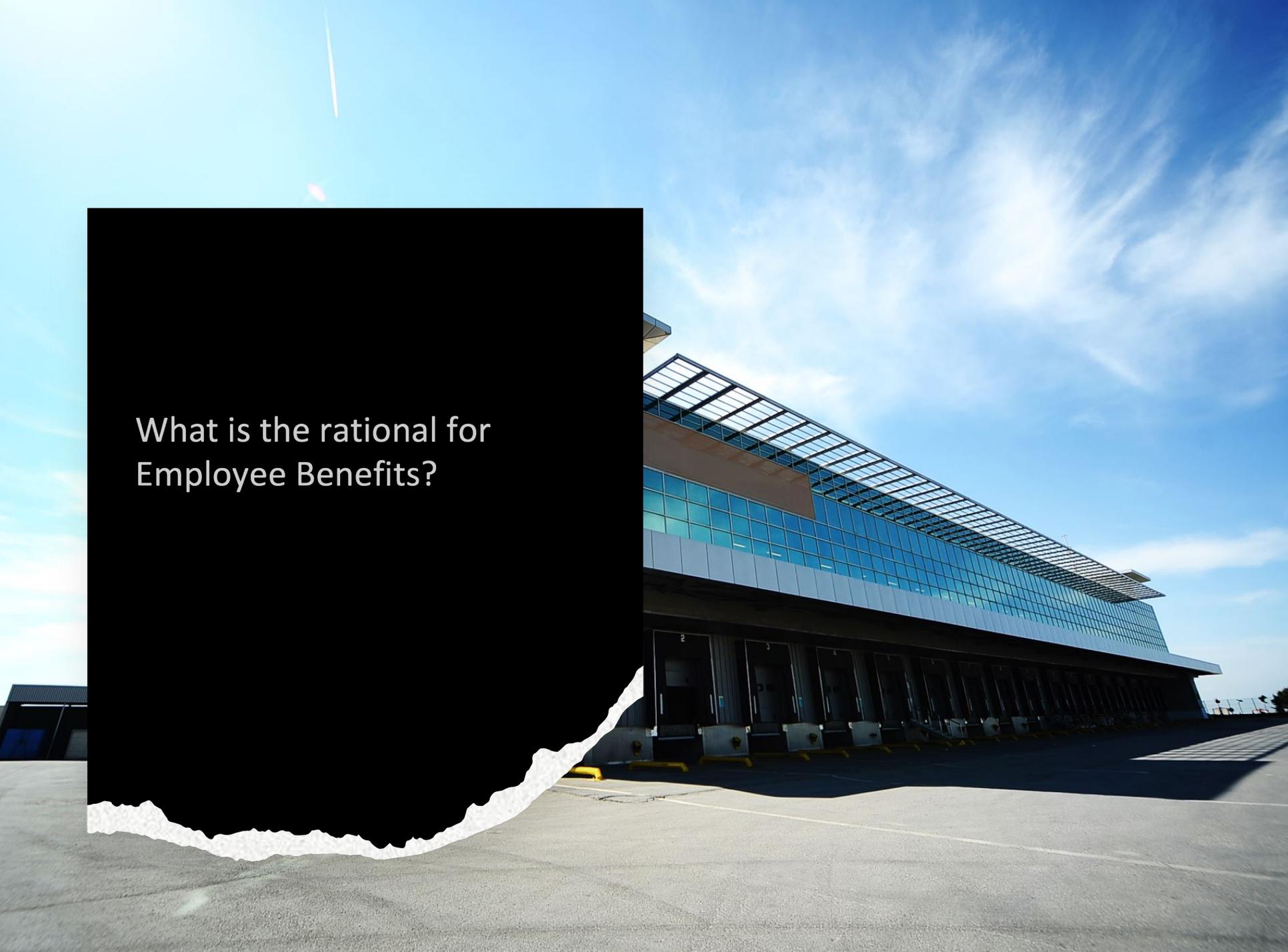
- personal security;
- financial assistance;
- personal needs;
- company cars;
- voluntary benefits;
- concierge schemes

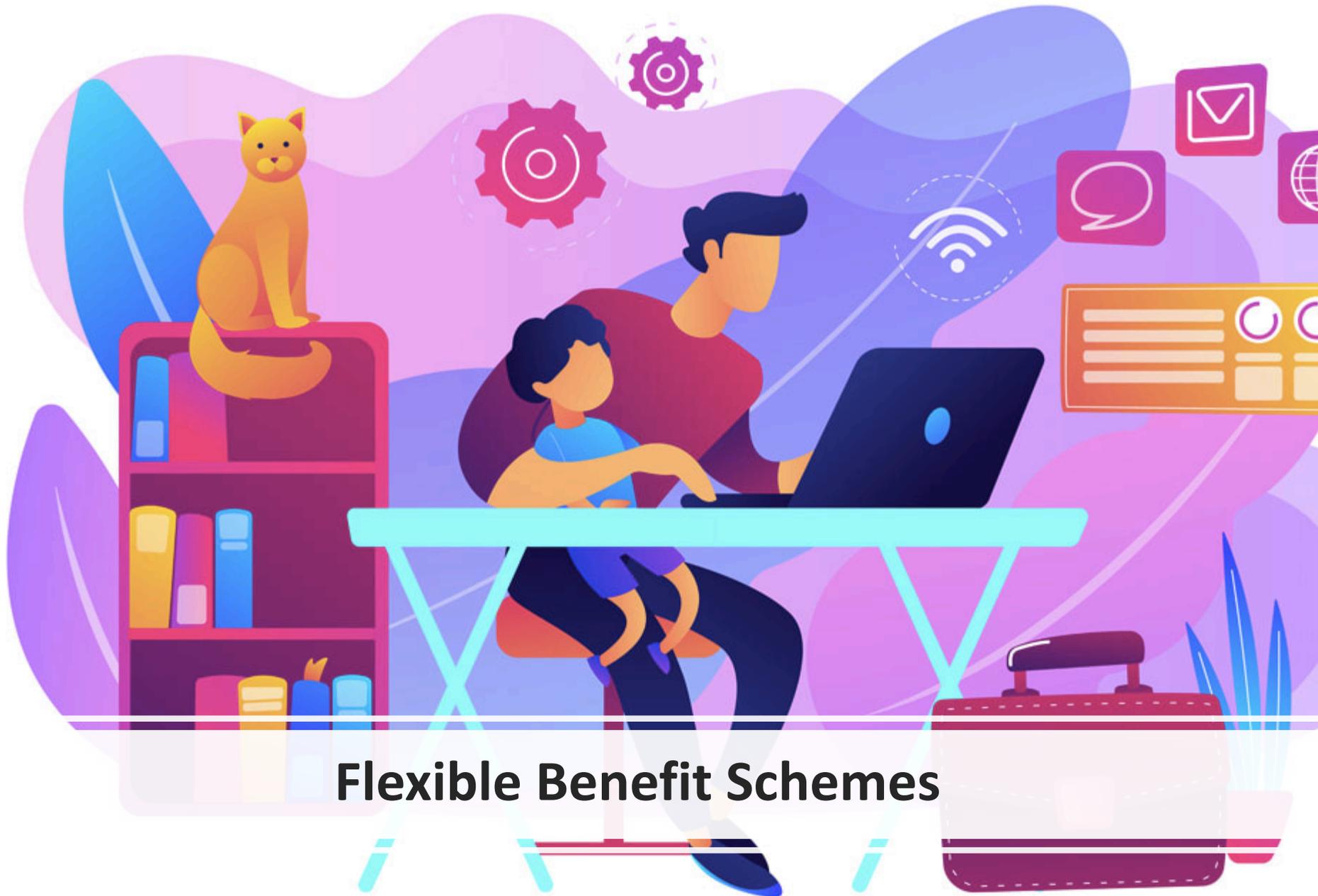
What are the Choice of Benefits?



To administer Employee Benefits, you need to...

What is the rational for
Employee Benefits?





Flexible Benefit Schemes

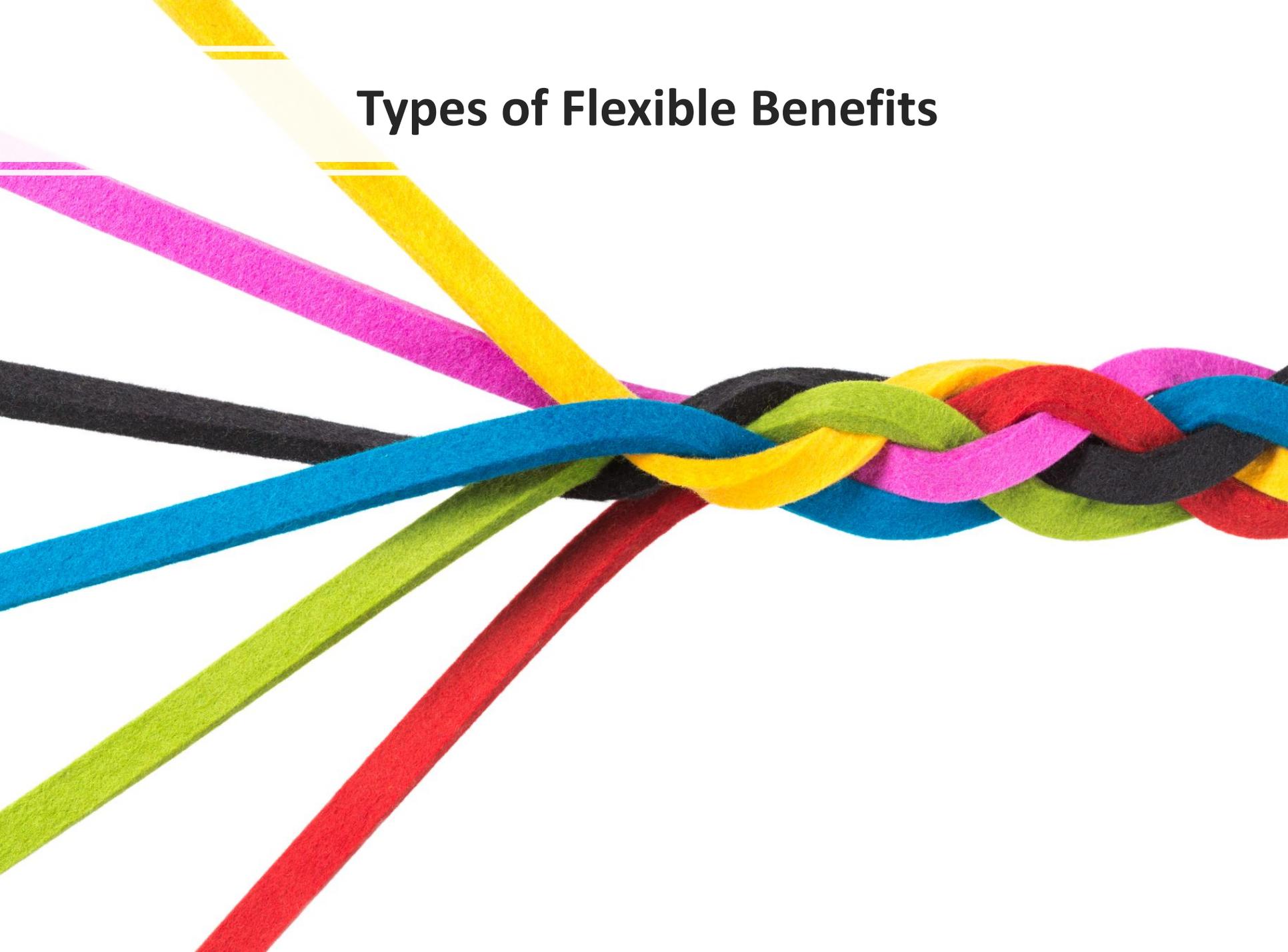
Learning Outcome

- Examine the meaning of Flexible Benefits
- Discuss the reasons for introducing Flexible Benefits
- Analyse the types of Flexible Benefit Schemes
- Discuss what to consider when introducing Flexible Benefits

Flexible Benefit Schemes are:

Flexible benefit schemes give employees a choice within limits of the type or scale of benefits offered to them by their employers. A wide variety of approaches is available,

Types of Flexible Benefits



Three Types of Flexible Benefit Schemes are:

Flex Individual Benefits

Flex Existing Entitlements

Flex Funds

What are the steps to set up a Flexible Benefit Scheme in an organisations?



Question!!!

Why should an organization have flexible benefits?



30 Nov 2020

Employee benefits: an introduction

Learn how to implement various employee benefits as part of a wider reward strategy

Introduction

Employee benefits offer a way to attract and keep people, contribute towards improving well-being and encourage required behaviours, achievements, values and skills. However, there are several factors to consider when introducing a benefit to make sure it's valued by workers while also supporting people management practices and aligning it with wider business goals.

This factsheet explores the past and present of employee 'perks' from the days of paternalism to the start of the welfare state and through to today's more individualised approach. It looks at the variety of benefits employers can offer, and what to consider when implementing employee benefits as part of a reward strategy.

What are employee benefits?

Employee benefits are non-cash provisions within the reward package, although they can have a financial cost for employers, for example paid holidays, pensions or company cars.

They may be offered for business reasons, for example motivating employees to achieve organisational objectives, and/or 'moral' reasons based on a desire to care for employees' well-being (and, in so doing, potentially enhance employee engagement). The prevailing financial, legal and social background also plays a role in the development and shaping of benefit policies and practices.

Our 2018 Reward management survey finds that the most common business reason for providing employee benefits are to attract, recruit and retain the employees to support current business needs, while the most common external driver influencing benefit provision are legal and employment obligations and legislation.

Traditionally, employers provided benefits to retain their people (after pay had attracted them initially) or because they felt a moral obligation towards their workers.

More recently, some employers have adopted a more individualistic approach to employee reward, transferring more of the risk (and, potentially, reward) and cost of the provision to their workers. With pay, there has been a move from collective bargaining, across-the-board pay rises and service-related increments towards performance-related pay and incentives, while benefit provision has seen a widespread shift from defined benefit pension schemes to defined contribution plans (particularly in the private sector) and some movement from fixed to flexible and voluntary benefits.

Employee benefits are no longer regarded simply as a retention tool. Research indicates that there are many factors in an organisation's employment proposition and what makes them attractive depends on the individual employee's circumstances (such as caring responsibilities). This has led to the concept of 'total reward', where organisations adopt a bundle of mutually supporting financial and non-financial rewards (such as flexible working) that align to the needs of the business and its employees. Such an approach has led many to regard employee benefits as a strategic tool to assist recruitment and retention, and align employee behaviours and business objectives. See our [factsheet on strategic and total reward](#).

One concern of employers is whether their people are in a position to adjust to the new benefit landscape where they shoulder more of the risk (and reward). As well as the moral duty some may feel towards helping to educate their staff about the possible consequences of their benefit choices, there is the business case that a financially well workforce can bring to the organisation. Our [Employee financial well-being report](#) has more on the advantages this brings.

Types of benefits

Our 2018 Reward management survey finds that main benefits employers offered to either all employees or dependent on their grade, location or occupation include those covered below.

Pensions

Due to legal requirements, these are now widespread. One of the more expensive parts of the employee benefits package, [workplace pensions](#) are often at the centre of major change across all sectors.

Holidays and time off

Employers are required by law to offer certain levels of paid annual holiday, although our 2018 Reward management survey finds that many offer more than the minimum.

There are also statutory entitlements to other types of time off work including maternity, paternity, adoption and parental leave, while other leave arrangements are not supported by legislation, such as bereavement. As with holidays, many employers often provide more generous time off arrangements than required legally. See our [Working time factsheet](#).

Healthcare and risk benefits

These benefits may be provided to ensure both the welfare and productivity of employees. Our 2018 Reward management survey finds that common types of benefits include:

- occupational sick pay
- employee assistance plans
- death in service/life assurance
- eye care vouchers
- gym (on-site, subsidised or discounted membership)
- flu jabs
- healthcare cash plans
- private medical insurance
- permanent health insurance
- critical illness insurance
- dental insurance.

Some benefits tend to cover all employees, such as occupational sick pay, while others are dependent on such factors as grade, occupation or location, such as private medical insurance.

Group risk insurance policies, including group life assurance, group income protection and group critical illness, transfer some of the risk to a third party. They are a benefit that can be highly valued by employees as well as providing access to a wide range of extra support at relatively low expense. Employers should seek expert when setting up or changing a group risk insurance scheme to ensure optimum cover is provided and all tax efficiencies are maximised.

Company cars and car allowances

Many organisations provide a company car, either because the employee's job needs it (for example, a sales rep) or to recognise the employee's status (for example, director). Some employers may prefer to pay a cash allowance to employees to assist with the

purchase of cars or compensate employees via mileage allowances for using their own vehicles, rather than directly supply a company car.

Other benefits

Employers may offer a diverse range of other employee benefits including: unlimited holiday, concierge services, free or subsidised staff canteens, bring your dog to work day and a nap room.

Choices in benefit provision

Cash or benefits?

Some employers prefer to provide cash to enable employees to purchase those benefits that best meet their needs. This approach, often called 'clean pay' is easily communicated, understood and administered.

However, on the downside, staff could:

- Spend more money buying their own benefits than it would have cost the organisation to do on their behalf.
- Spend work time searching for the best deals.
- Make poor choices.

Flexible and voluntary benefits

Flexible and voluntary benefits schemes both aim to offer employee choice by providing flexibility over individual benefits packages, but it's important to distinguish between them.

Flexible benefits arrangements (known also as 'cafeteria benefits' or 'flex plans') allow staff to vary their package to meet their own needs. The dividing line between pay and benefits is less fixed than in standard reward packages. In most schemes, employees are able either to retain their existing salary while changing the mix of various benefits they receive or move their salary up or down by taking fewer or more benefits.

Voluntary benefits (also known as affinity benefits) allow employees to buy products and services, usually at a discount, through their employer out of their own taxable income or through a salary sacrifice arrangement. These schemes differ from flexible benefits as the employee pays for the cost of the benefits. Under voluntary benefits schemes, although the employer does not pay for the benefits provided, it may incur research, administration, communication and launch costs.

Such initiatives can align with the increased focus on reward individualisation, help address inclusion and diversity, be cost-effective and assist in the harmonisation of reward practices, especially during a merger or acquisition. In practice, both flexible and voluntary benefits schemes may be used by the same organisation.

When planning to introduce 'flex', it can be useful to start by offering benefits on a voluntary basis – though sometimes the planned move to flex never happens. The idea is that this allows organisations to test the popularity of various benefits, design and fine-tune their subsequent scheme.

When offering these schemes, it's important that the choices, and their consequences, are made clear to employees. If the options are seen as complicated, or the method of making choices as difficult, then individuals may just keep their existing benefits package and much of the resource spent introducing the scheme will have been wasted. In some instances, it may be more appropriate to offer a limited but meaningful choice of options. Our report *Show me the money! The behavioural science of reward* has more on how employees may respond to choice.

Strategy and implementation

Before introducing, revising or removing a benefit, it's important for people professionals to ask:

- Why is the organisation introducing/offering the benefit? How does it support the organisation's business goals? How does it reward the values and behaviours needed?
- How does the benefit fit into the HR and reward strategies? Does it support the people management and development practices the organisation requires?
- Will the change be valued by current and future employees? Have their views been researched?
- How will the benefit will be launched? Who are the key stakeholders and how will they be involved? Does the launch team have the required skills, knowledge and support?
- How will the organisation explain what is being introduced and why to staff and line managers? How will the benefit be explained to staff, including what they must do? How will the benefit be communicated on an ongoing basis?
- How flexible are the implementation and communication plans to changes in the business context?

- Do employees have the knowledge, skill and attitudes needed to make informed decisions? Is there a need to invest in financial awareness?
- What factors will be used to assess whether the benefit successfully supports the organisation's goals?

For more on benefits communication, and evaluation, see our [2018 Reward management survey](#) and our [employee communication factsheet](#).

Useful contacts and further reading

Contacts

[The International Employee Benefits Association - IBEA](#)

[Group Risk Development \(GRiD\) - the group risk industry body](#)

Books and reports

CRONER REWARD. *Employee benefits report*. Stone: Croner Reward.

PERKINS, S.J. and WHITE, G. (2016) *Reward management: alternatives, consequences and contexts*. 3rd ed. London: Chartered Institute of Personnel and Development.

ROSE, M. (2018) *Reward management: a practical introduction*. 2nd ed. HR Fundamentals. London: CIPD and Kogan Page.

UNUM (2015) [The future of employee benefits: key challenges that may affect the composition of an effective and desirable employee benefit package](#). Basingstoke: Unum.

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Journal articles

BARTON, T. (2016) How to determine which group risk benefits best suit an organisation. *Employee Benefits*. 27 July.

BASKA, M. (2018) [Businesses 'throwing money down the drain' by not communicating employee benefits](#). *People Management* (online). 27 July.

COLEMAN, A. (2015) Flex into the future. *Employee Benefits*. January. pp22-23.

EVERETT, C. (2016) Where next for benefits? Employee benefits special report. *Human*

Resources. April. pp48-49.

LEWIS, D. (2017) Is this the end of employee benefits? *People Management* (online). 27 April.

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This factsheet was last updated by Charles Cotton.

22 Apr 2020

Workplace pensions

Learn about the UK legislation surrounding workplace pensions and how to choose new schemes or review existing pension agreements

Introduction

Since automatic enrolment, the decision regarding workplace pensions comes down to how much the employer should contribute. Workplace pensions need to be continually reviewed in line with an ever-changing body of legislation. Employers should invest in effective employee communication and education, not only to meet legal requirements and ensure employees understand their pension and retirement options and the decisions they need to make, but also to raise awareness of the value of the benefit being offered.

This factsheet explores the different types of workplace pension and the UK legislation governing them. It addresses strategic issues with a series of questions and reflections to use when reviewing existing arrangements.

What are workplace pensions?

Workplace pensions, also known as occupational pensions, are arranged by employers rather than by the state or an individual. The employer, and usually the employees, are required to contribute to the fund.

The two main types of workplace pension are:

- **Defined contribution (DC) schemes** (also known as money purchase schemes) where the income on retirement depends on factors such as stock market performance, the amount of money contributed and related charges and fees. DC schemes are either contract-based (provided by a third-party) or trust-based (run by an employer through a board of trustees). DC plans open to all employees are typically found in the private sector.
- **Defined benefit (DB) schemes** (such as career average or final salary schemes) where the income on retirement is effectively guaranteed by the employer. Many of

these schemes have been closed to new employees. Open DB schemes are usually found in the public sector.

There are also certain 'hybrid' arrangements, for example '[cash balance](#)' or '[collective DC](#)' schemes. In January 2020, a Pension Schemes Bill was introduced to Parliament to provide a framework for collective DC pension schemes to encourage more employers to adopt this approach to pension provision.

Pensions are a complicated subject and no action should be taken without professional guidance.

Corporate responsibility principles should play an important role in workplace pension provision and enable individuals to make a positive social impact through their personal investment choices.

Pensions in the time of coronavirus

The COVID-19 pandemic has had repercussions for DB, DC and hybrid pensions, including the implications for pension contributions (including salary sacrifice), deficit recovery plans, member communications, scams and the Coronavirus job retention scheme. There's more on these topics on the Pension Regulator webpage [COVID-19 \(coronavirus\): what you need to consider](#).

The legal and regulatory position

An ever-growing body of UK legislation governs employers' pension arrangements.

Pension contributions and benefits are influenced by HM Revenue & Customs limits and vary from time to time. Further details and the latest figures are available from the [HMRC](#).

CEO pensions

Pension arrangements for CEOs have received attention in recent years. The [UK Corporate Governance Code 2018](#) states: "Only basic salary should be pensionable. The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. The pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates, particularly for directors close to retirement, should be carefully considered when compared with workforce arrangements." In response, many listed companies have reduced the generosity of their executive pension plans. There's more on CEO pension arrangements in our report [Executive pay in the FTSE 100: Is everyone](#)

getting a fair slice of the cake?

Auto-enrolment

Automatic enrolment has been a major development. It requires all employers to automatically enrol eligible workers into a qualifying workplace pension scheme (unless the worker chooses to opt out) to which the employer must also contribute.

From 6 April 2019, the total minimum contribution is 8% (with at least 3% being contributed by the employer). The yearly administration charges and management fees a pension company can charge are currently capped at 0.75%.

Employers must re-enrol eligible staff who opt-out of a qualifying automatic enrolment pension scheme. Automatic re-enrolment occurs every three years after the employer's staging date and is basically a repeat of the duties that were carried out at that staging, or deferral, date if postponement was used.

More help is available from the [Pensions Regulator](#), the [Department for Work and Pensions](#) and the [Chartered Institute of Payroll Professionals](#).

Access to pension pots

Employees now have more freedom over how they take their money from their pension. The choices affect those aged 55 and over, especially those who have a DC pension. For instance, an employee in a DC scheme is no longer required to buy an annuity with their fund and can choose to go into 'drawdown' or take it as cash.

To help workers make informed decisions, the UK government has created [Pension Wise](#), a free and impartial service, offering guidance on any tax and benefit implications as well as warning signs of a pension scam.

Employers are required to give their people who are members of their workplace DC pension information about their options and the decisions they need to make. This includes telling them about the Pension Wise service.

Strategic issues in workplace pensions

Workplace pension provision is a significant issue for employers. In many organisations, access to a workplace pension forms an integral and valuable element of employee financial well-being.

Since 2000, the workplace pension landscape has been shaped by:

- Insufficient investment returns and low yields to help fund DB pensions pots
- Increased longevity meaning more years in retirement for many people
- Greater flexibility in working patterns
- The end of the default retirement age for most occupations
- Increasing pension regulation
- Introduction of auto-enrolment
- Ending the requirement to buy an annuity
- Changes to pension tax relief
- The increases in the state pension age
- Ending the 'contracting out' of pensions
- The flat-rate state pension introduced in April 2016.

Our [survey of employee attitudes to pay and pensions](#) finds many employees are unsure about the new state pension in terms of what they can expect to receive and when. This is important as the state pension is expected to play a role in their decision to retire from paid employment. If they defer their retirement, this will have implications for how employers recruit, manage, develop and reward their workforce.

Organisations planning to review their existing pension arrangements should ask themselves the following questions.

Why have a workplace pension scheme?

As all employers are required to automatically enrol eligible workers into a qualifying workplace pension scheme, the decision isn't whether to offer access to a pension scheme, but:

- Which specific type of scheme (or schemes) to operate.
- How much to contribute.
- How much choice to give employees.
- What level of financial education and communication to give to employees.

Workplace pension plans are influenced by:

- Meeting legal and regulatory requirements.
- Offering a pension plan that is aligned with the organisation's business objectives.
- Providing a competitive benefits package to aid the recruitment and retention of employees.
- Meeting the future needs of employees for their financial well-being, which may in turn help to fulfil a sense of moral duty or to enhance employee engagement.
- Allowing members to better align their pension savings with their beliefs and increase positive social impact through their investment choices in workplace pension plans.
- Having a scheme that supports the organisation's corporate social responsibility

strategy.

- Managing pension costs effectively.
- Helping employees to leave the organisation when they wish.

Do employees currently value pension benefits as part of the remuneration package?

After salary, pension schemes can be the costliest element of the remuneration package for many employers. For a pension to be an effective benefit, employees must understand its value to them.

In general, pension arrangements that are simple to understand are more likely to be appreciated by employees. However, the degree of flexibility and choice within a pension scheme should depend on the profile of the workers. For example, a pension scheme offering a wide range of sophisticated investment choices may be suited to a financial services company but less appropriate for a catering firm.

Is the value of the pension benefit effectively communicated?

As our report [Show me the money!](#) highlights, behavioural science research shows that employees tend to under-value rewards they can't enjoy immediately. To counteract this, employers need to invest in effective communication and education to raise awareness and understanding of their pension scheme.

To communicate effectively about pensions:

- Conduct research into the level of employee understanding and the challenges you may face in getting your communication across.
- Slogan and messaging should reflect the employer purpose, mission and culture.
- Material should be targeted and written plainly.
- Messages should take account of employees' non-financial values, such as social impact, and explain how they can invest their pension benefits in a way that supports and enhances these values.
- Line managers should be involved where appropriate, for example in cascading announcements of change rather than in a detailed technical capacity.
- Messages should cover what the scheme is and how it works, but also why retirement saving is important for financial well-being.
- Explain how the new state pension currently works, because many people are unaware of the new arrangements.
- Highlight other sources of information, such as [Pension Wise](#).
- Avoid confusion between financial education and financial advice, as the latter is covered by specific regulations.
- Have measures in place to help evaluate the impact of your communication and

make any necessary adjustments to your existing approach.

Are employees financially aware?

Investing in an excellent pension scheme to help attract, retain and engage staff may be wasted if employees lack financial understanding. Our report on [employee financial well-being](#) shows how financial concerns can affect employee mental and physical health and the impact that this has on business performance. It also provides help for organisations wanting to improve their employees' financial awareness.

What culture does the organisation wish to foster?

When designing pension arrangements, it's important for employers to consider the role they want to play in employees' retirement planning, such as in the design of a DC default fund, the level of contributions and financial awareness campaigns.

Does the organisation wish to differentiate pension benefits on grounds of employee preferences?

Employees can have differing attitudes to pensions. For example, senior staff may find it more attractive than young recruits who initially may be more interested in saving for a first home. Within a DC plan, flexible benefit schemes can give employees the option of contribution rates that allow them to make variable payment levels as desired, at different stages of the work or life cycle, subject to annual and lifetime contribution allowances. Again, as well as providing choices to employees, employers need to highlight the potential consequences of these choices to their people.

Has the organisation acquired, or does it intend to acquire, other companies?

In cases of merger and acquisition, it's likely that a variety of types of pension arrangement will operate. This can make pension management complex and limit a coherent remuneration approach. In these circumstances, a flexible remuneration strategy, including flexibility in pension level design, can be beneficial.

Is the organisation an international company?

A multinational company may wish to harmonise its pension arrangements. However, differing tax and social security laws internationally will make this difficult. Consistent principles can, however, be applied and global companies usually need to set a framework within which retirement benefits are designed and funded worldwide. As a minimum, organisations should ensure that internationally mobile employees are covered by

coherent pension arrangements.

Useful contacts and further reading

Contacts

[GOV.UK - Set up and manage a workplace pension scheme](#)

[HM Revenue & Customs - pension scheme administration](#)

[The Pension Service - for State Pension eligibility, claims and payments](#)

[Pension Wise](#)

[Pensions Management Institute \(PMI\)](#)

Books and reports

CMS PENSIONS TEAM. (2019) *Pensions law handbook*. 14th ed. London: Bloomsbury Professional.

RACONTEUR. (2018) *Workplace pensions*. 28 February. Distributed in *The Times*.

Journal articles

BASKA, M. (2018) [Employers 'must do more' as figures show almost half of staff contribute bare minimum to pension](#). *People Management* (online). 9 May.

BROWN, D. (2019) [Are CDCs the middle-way solution to the UK's pension crisis?](#) *People Management* (online). 27 March.

[Will collective defined contribution schemes take off?](#) (2020) *Financial Times* website. February.

Members and *People Management* subscribers can see articles on the [People Management](#) website.

This factsheet was last updated by Charles Cotton.

Features and advantages and disadvantages of different bonus schemes

Type of scheme	Main features	Advantages	Disadvantages
Business performance schemes	Bonus payments related to the performance of the whole business or a major function such as a division, store or site. Performance is measured by key performance indicators (KPIs), eg profit, contribution, shareholder value, earnings per share or economic value added.	<ul style="list-style-type: none"> • Enable employees to share in the organization's success thus increasing commitment. • Can focus on a range of key factors affecting organizational performance • Can readily be added to other forms of contingent pay to recognise collective as distinct from individual effort 	<ul style="list-style-type: none"> • Do not provide an individual incentive
Individual bonus or incentive plans	Bonus payments related to individual performance.	<ul style="list-style-type: none"> • Provide a direct reward related to individual performance • Cash, if sufficiently high, can make, an immediate impact on motivation and engagement 	<ul style="list-style-type: none"> • May not be pensionable. • Some people may prefer consolidated increases to their base pay rather than rely on possibly unpredictable bonus payments which may be perceived as arbitrary
Team pay	Payments to members of a formally established team are linked to the performance of that team. The rewards are shared among the members of the team in accordance with a published formula or on an ad hoc basis in the case of exceptional achievements.	<ul style="list-style-type: none"> • Encourage teamworking • Enhance flexible working and multi-skilling • Clarify team goals • Encourage less effective performance to improve by meeting team standards 	<ul style="list-style-type: none"> • May be difficult to identify well-defined teams with clear and measurable goals • Individuals may resent the fact that their own performance is not recognised
Combination plans	Bonuses are related to a combination of plans measuring performance across several levels, for example: corporate and individual performance; business, team and individual; team and individual.	<ul style="list-style-type: none"> • Combine the advantages of different types of bonus arrangements, eg business and individual (the most common form of combination scheme) 	<ul style="list-style-type: none"> • May be over-complex • Could disperse the impact of either the collective or the individual elements
Cash-based profit sharing	The payment of sums in cash related to the profits of the business. Such schemes operate on a corporate basis and usually make profit shares available to all employees except, possibly directors or senior managers. They do not require Inland Revenue approval and are fully liable for income tax and national insurance.	<ul style="list-style-type: none"> • Increases identification with the firm • Recognises that everyone contributes to creating profit 	<ul style="list-style-type: none"> • Do not provide an individual incentive • Amounts distributed are taken for granted
Gainsharing	A formula-based company or factory-wide bonus plan which provides for employees to share in the financial gains made by a company as a result of its improved performance as measured, for example, by added value	<ul style="list-style-type: none"> • Recognises that everyone working in a plant contributes to creating added value and should benefit accordingly • Provides a platform for the joint analysis of methods of improving productivity 	<ul style="list-style-type: none"> • Do not provide an individual incentive • Can be complex • Ineffective if too high a proportion of added value is retained by the company

10 Dec 2020

Bonuses and incentives

Understand the basics of bonuses and incentives, the trends in their application, and how to design and operate schemes effectively and ethically

Introduction

Whether used proactively to influence behaviour or retrospectively as part of a reward package, bonuses and incentives can have various benefits for organisations and employees. However, the success of any bonus or incentive scheme is based on an understanding of the context in which it operates and individuals may respond differently to the same stimulus.

This factsheet explores the types of bonuses and incentives, trends in their use, and their potential benefits and drawbacks. It looks at how bonuses and cash or non-cash incentives suit a variety of contexts, and what to consider when designing and operating such schemes.

What are bonuses, cash incentives and non-cash incentives?

Bonuses and cash incentives are a form of variable pay based on lump-sum payments linked to individual, collective or organisational performance (or some combination of these). They are not consolidated into base pay, though in certain situations (such as due to cost constraints) they can be given as part of, or instead of, a pay rise.

It's important to draw a distinction between the cash incentives and bonuses, although the two terms are interlinked and often used interchangeably.

- **Incentives** aim to influence future employee behaviour or performance, usually using targets: if a specific target is met, the employee will receive a cash payment, typically of a specific size.
- **Bonuses** cover a wider range of purposes and can be discretionary or non-discretionary. Like incentives, they may be used to influence employee performance

or behaviour to meet pre-set objectives, but they could also be used to reward past achievements.

It's also helpful to differentiate between:

- **Non-cash incentives**, sometimes known as performance improvement plans, are forward-looking, formal schemes. They aim to affect directly employees' future performance by awarding prizes or 'gifts', such as merchandise, travel or retail vouchers, associated with some performance measure, such as sales volume.
- **Employee recognition schemes** are retrospective as they recognise past performance rather than incentivising future efforts. They may be informal and discretionary. Such schemes may be linked with non-cash incentives.

Our report [Show me the money! The behavioural science of reward](#) examines recent thinking on how individuals can respond to various kinds of incentives.

The purpose of bonuses and cash incentives

The desire to incorporate bonus and incentive plans into reward packages has been driven in part by the 'new pay' philosophy. This advocates that 'guaranteed' remuneration (basic pay and benefits) should comprise a smaller proportion of the overall reward package, with a shift towards strategic reward linking employee performance and pay to the wider business strategy.

There's also been a move in certain sectors towards market-based pay, whereby an employee might only receive a pay rise if the market rate for the role had increased: in this scenario, individual contribution could be recognised via a bonus instead of a pay rise.

For the employee, the main benefits of bonuses/cash incentives over consolidated salary increases are:

- Greater control over their level of remuneration.
- Higher payments are potentially possible.

But the downside for employees includes:

- Non-consolidated payments must be re-earned and may not count towards overtime pay.
- Payments may be unpredictable or lower than expected if targets cannot be met.

For the employer, the advantages include:

- Ongoing motivation as bonuses must be re-earned.
- Lack of impact on certain employer on-costs that are linked to basic salary levels, such as pension contributions.
- Capacity for maintaining market pay competitiveness without necessarily inflating the annual pay bill.
- Flexibility through, for example, the ability to reduce or even halt payments during economic downturns.

There are also challenges for employers. While money influences behaviours, it may encourage the wrong types. So, any financial-based bonus or incentive scheme must be designed carefully and align with an organisation's business objectives, corporate governance and ethical standards as well as the views of key stakeholders, such as employees, donors or customers. However, this can lead to a proliferation of checks and balances, such as malus or clawback, which then reduces the motivational impact.

The success of these schemes also depends on how effectively performance is defined, managed and ascribed, requiring effective communication and support for both line managers and employees.

Types and coverage of bonuses and cash incentives

Payment of bonuses and cash incentives is generally linked to the quality and/or quantity of work on an individual or collective basis, or to some measure of company performance such as profit levels (or both).

Schemes may be broadly divided into the following categories although definitions vary, may overlap or be linked.

- **Individual-based** - Payment of the bonus/incentive is calculated by some measure of individual performance, hence there should be a considerable incentivisation effect. Sales commission could be included within this category (although this may be seen as a distinct form of remuneration in its own right).
- **Schemes driven by business results** - Company profit levels or customer satisfaction may be used as measures to help determine bonuses.
- **Team-based** - Links the bonus with some measure of collective performance, often with the aim of fostering effective teamworking.
- **Project-based** - Might be used when a deadline is important, for example to reward construction workers for completing a building project on time, although such

schemes may be open to manipulation.

- **Department/site-based** - Payments that could be used to reward, for example, workers who attain productivity improvements in one factory.
- **Gainsharing** - Employees share in financial gains achieved through improved performance (particularly enhanced productivity).
- **Combination** - Two or more of the above schemes.

There are other more specialised bonuses, for example at Christmas or for attendance.

Our [2019 Reward management survey](#) found that many employers use some form of cash-based bonus or incentive plan. However, such schemes are far more common in private sector than in the public or voluntary sectors. The most popular arrangements include individually based plans (for example, personal performance or commission), plans driven by business results (such as profit) and combination schemes.

CEO bonuses and incentives

Despite the growth of interest in environmental, social and governance investing, most FTSE 100 executives' bonus and long-term incentive plans are weighted towards financial measures of company success. By contrast, non-financial measures, such as workforce ones, play a minor, albeit growing, role. See our [CEO pay and the workforce](#) report for more.

Bonus payment levels and recent developments

Levels of payments

If they are to affect employee behaviour or performance, bonus or incentive payments need to be 'worth having'. That means they must be set at a high enough level to have an effect, and consider (though not be driven by) market practice. By contrast, setting bonuses at very high levels needs caution to avoid encouraging undesired behaviours or outcomes, such as the 'crowding out' of non-financial motivation.

An important factor in calculating any incentive is that it's kept simple. Ideally, employees in the plan should be able to measure progress against targets and carry out the calculation themselves so they know how they're progressing and what payment level they might achieve.

Employers need to decide how they'll set bonus payments, including whether to use a formula (typically for incentives) and how to express payments (for example, as a salary percentage or a flat-rate payment).

Information tracking specific breakdowns of UK bonus payments over time (by gender, for instance) can be found in the Office for National Statistics' [Annual Survey of Hours and Earnings](#).

Recent developments

Following the 2008 recession, bonuses in the UK became a concern with their whole nature and operation questioned. The Financial Services Authority (FSA) considered that remuneration practices were a '[contributory factor to the market crisis](#)'. Practices in investment banking in particular tended 'to reward short term revenue and profit targets' and, in so doing, 'gave staff incentives to pursue unduly risky practices'.

A range of measures were introduced to regulate remuneration in the finance sector, particularly for senior pay. The EU's Capital Requirements Directive known as [CRD IV](#) requires finance sector bonuses to be limited to 100% of base pay, or 200% with the approval of at least 66% of shareholders. The regulation covers senior banking employees irrespective of their location, so those staff working for a European firm but based in Asia would still be subject to the cap.

While many reward specialists believe there needs to be a continuing clear link between high levels of performance and bonus payments, without rigour in applying this principle, bonuses may reward less-than-robust performance or incentivise inappropriate behaviour. Corruption is one example which, according to a Transparency International report [Incentivising ethics: managing incentives to encourage good and deter bad behaviour](#), can include fraud, trading in influence, anti-competitive practices and the offering, promising or payments of bribes. For incentives to work as intended and avoid distorted outcomes, it argues that employers should have an open and ethical culture in which staff are encouraged to do the right thing and feel able to challenge management decisions or targets they think are unethical or dysfunctional. See more in our factsheet on [ethical practice and the role of HR](#).

The impact of the COVID-19 pandemic

Our 2020 Reward management survey (to be published in 2021) finds a large proportion of employers have made temporary changes to their bonus plans due to COVID-19 and the economic lockdowns, such as moving the emphasis from performance to behaviours, lowering certain targets or suspending them.

The purpose of non-cash incentives

Because cash may not be the most effective means of motivating employees as it doesn't necessarily encourage them to 'go the extra mile', non-cash incentive schemes, based on the receipt of a gift or prize, could be more memorable and exciting, and therefore have greater impact.

Typically found in customer-facing industries, non-cash incentives may be a single prize won by the highest-performing employee or team, or a range of awards recognising different levels of achievement.

The benefits include:

- **Affordability** - They may be more cost-effective than cash bonuses.
- **Simplicity** - It's easy for a sales employee to understand that, say, selling so many phones will result in them receiving whatever the latest prize is.
- **Psychological impact** - It's acceptable for employees to speak openly with pride about the winning of gifts in a way that may be considered by many to be socially unacceptable if they were seen to be 'bragging' about their cash bonuses.

Drawbacks can include:

- **Lack of credibility** - Such prizes may not be taken as seriously as cash.
- **Lack of employee awareness** - Employees may be less conscious of the value of non-cash incentives over 'hard cash'.
- **Lack of value** - People value the same non-financial reward, such as a trip to a sporting event, differently, so what might be an incentive to one person might not to another.

The incentivisation industry is more highly developed in the USA than in the UK where, according to our [2019 Reward management survey](#), only a minority of employers have non-cash incentive schemes.

Designing and operating non-cash incentive schemes

Types of non-cash incentives

The main types of non-cash incentives may be broadly divided into:

- **Merchandise** such as tablets, mobile phones or watches.
- **Activities/special events** such as meals out, hotel spa accommodation/treatments or a trip to a sporting event.
- **Travel** such as an all-expenses paid trip.
- **Retail vouchers** which are often obtainable at a discount to 'face value'.
- **Awarding points** that may be converted into a range of awards.

The last two of these categories might not be strictly regarded as 'non-cash' items.

Incentive suppliers

There are many suppliers of non-cash incentives. They often provide a wide-ranging service offering employee non-cash incentives as well as other schemes such as recognition and team-building activities. There's more information in the journal [Incentive and motivation](#).

Tax implications

Employers must consider any tax implications of implementing a non-cash incentive scheme as they can be subject to income tax over a certain level. It's possible for UK employers to arrange payment of any tax or national insurance owing on behalf of employees. Information on the UK tax implications of non-cash awards can be found in [HM Revenue and Customs](#) guidance.

Further reading

Books and reports

ARMSTRONG, M. (2019) *Armstrong's handbook of reward management practice: improving performance through reward*. 6th ed. London: Kogan Page.

PERKINS, S.J. and WHITE, G. (2020) *Reward management: alternatives, consequences and context*. 4th ed. London: Chartered Institute of Personnel and Development.

Visit the [CIPD and Kogan Page Bookshop](#) to see all our priced publications currently in print.

Journal articles

COTTON, C. (2020) [CEO pay: complex solutions for complex problems](#). *CIPD Voice*. Issue 26. 16 November.

PARK, S. and STURMAN, M.C. (2012) How and what you pay matters: the relative effectiveness of merit pay, bonuses and long-term incentives on future job performance. *Compensation and Benefits Review*. Vol 44, No 2, March/April. pp80-85.

SHAW, J. and GUPTA, N. (2015) Let the evidence speak again! Financial incentives are more effective than we thought. *Human Resource Management Journal*. Vol 25 No 3, July. pp281-293.

TAYLOR, T. (2010) The challenge of project team incentives. *Compensation and Benefits Review*. Vol 42, No 5, September/October. pp411-419.

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Members and *People Management* subscribers can see articles on the People Management website.

This factsheet was last updated by Charles Cotton.

Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

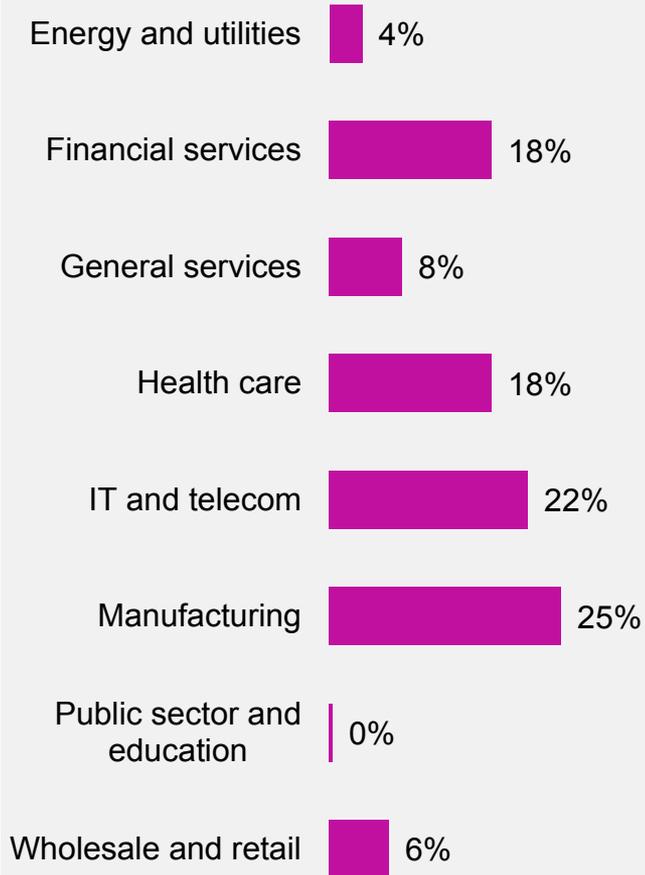
Results – Western Europe

November 6, 2020



About the survey

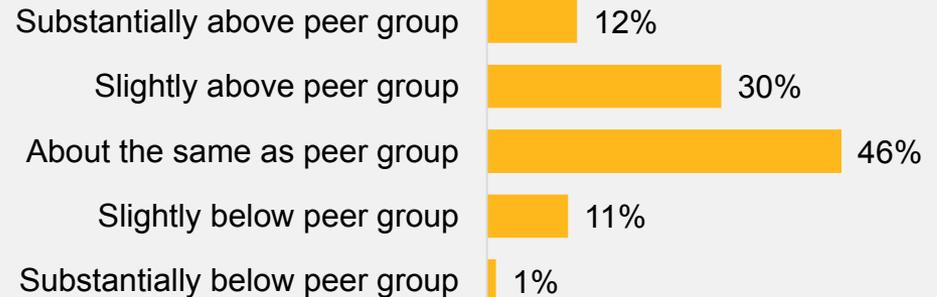
Industry



279 respondents completed the survey

2.63M employees at responding organizations

Financial performance during the past year



Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

About the survey

Which statement best describes your total organization?

15% **Domestic.** Majority of operations are in home country and mainly supply the domestic market; may have small operations with a few functions in other countries

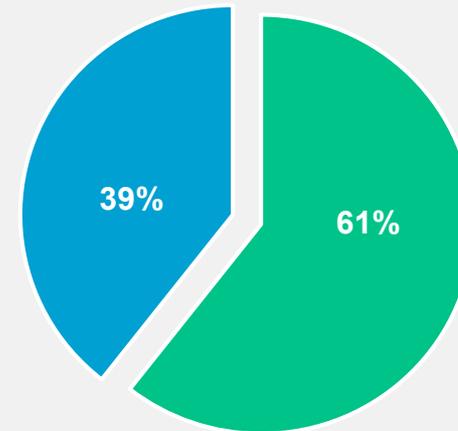
30% **International.** Multifunction operations across an entire region (Asia Pacific, Europe, Latin America, North America, etc.) or in several countries on different continents

55% **Global.** Significant operations (i.e., majority of functions) represented on three or more continents

From what perspective would you like to complete this survey? (For International or Global organizations)

Local policies and programs: Provide responses about activities taking place in your country

Multinational governance and policies: Provide responses from a headquarters perspective in terms of your company's "general policy" across all countries in which you operate even if not everything applies in every country



- Local policies and programs
- Multinational governance and policies

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Executive summary

01 Trend



(P6-P10)

- There's been a **sharp uptick in the number of employees working from home or using other flexible work arrangements**. Employers expect this to persist through first quarter of 2021
- **Employee safety concerns have been the main reason** for this shift but over time employee **retention, engagement** and productivity are increasing in importance as well

02 Policies



(P11-P16)

- **Organizations have been adapting to this by** Instituting formal policies around flexible work arrangements
 - Many have put these policies in place **only recently or intend to add them very soon**
 - These new policies are likely to be **permanent**
 - Eligibility for these policies are driven by **job function** and **discretion**, but at some organizations **everyone** will continue to be eligible

03 Impact



(P17-P22)

- **The likely immediate impact of these policies:**
 - Reductions in real estate and commuting expenses, partially offset by increases in subsidies and allowances for flexible work arrangements
 - No immediately change in how people are paid
 - Not seen as a first step to offshoring in the immediate future

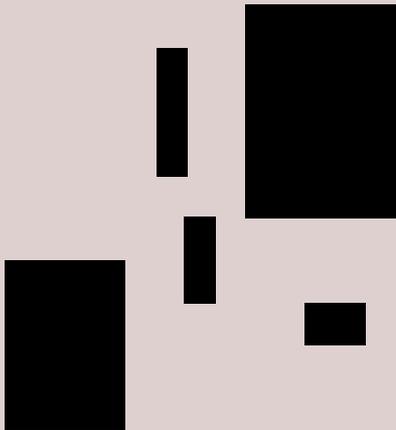
04 Future



- The longer term trends however are **around the way the changing workplace effects the business** and **Talent and Rewards opportunities** required to support a more flexible workplace in the future. These changes touch the **role of the manager, job architecture** and **pay and benefits**

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Trend



Organizations experienced a dramatic uptick in the proportion of employees working remotely and/or using other flexible work arrangements

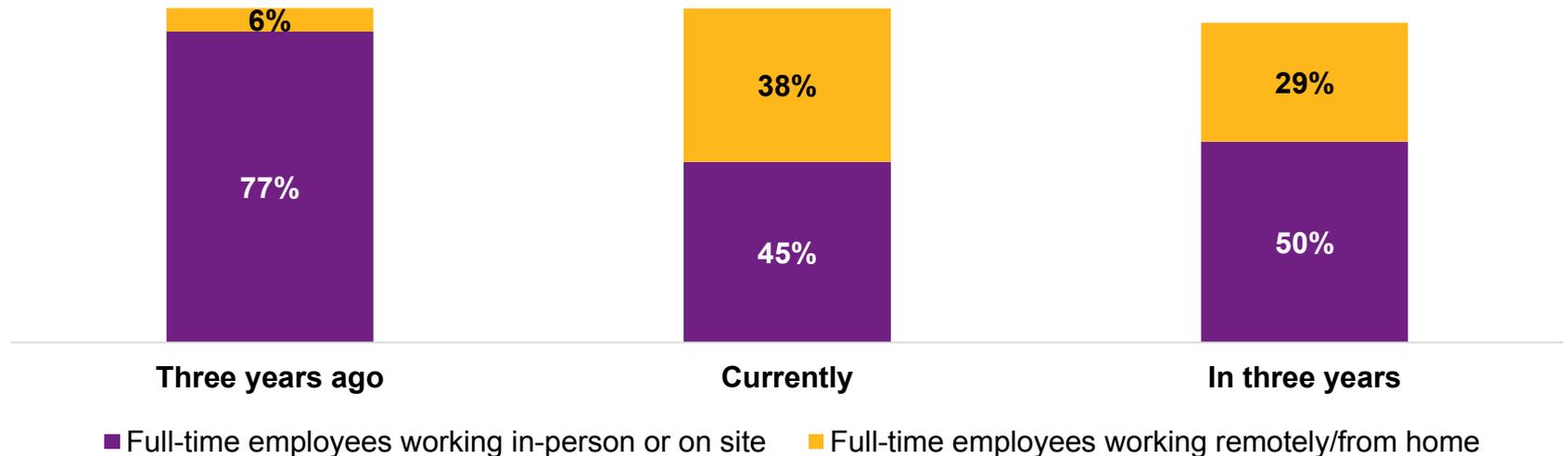
What is the approximate percentage of workers at your organization using the following alternative work arrangements last year? Currently? In Q1 of 2021?

	Last Year	Currently	Q1 of 2021
 Telecommuting / Working from home (WFH)	25%	65%	63%
 Working from anywhere	14%	28%	29%
 Compressed workweek	4%	6%	7%
 Flextime	33%	38%	40%

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

On average, organizations currently have a similar percentage of full-time employees working in-person or on site as working remotely/from home

What is the approximate percentage of workers in each category at your organization three years ago, currently and expected in three years?



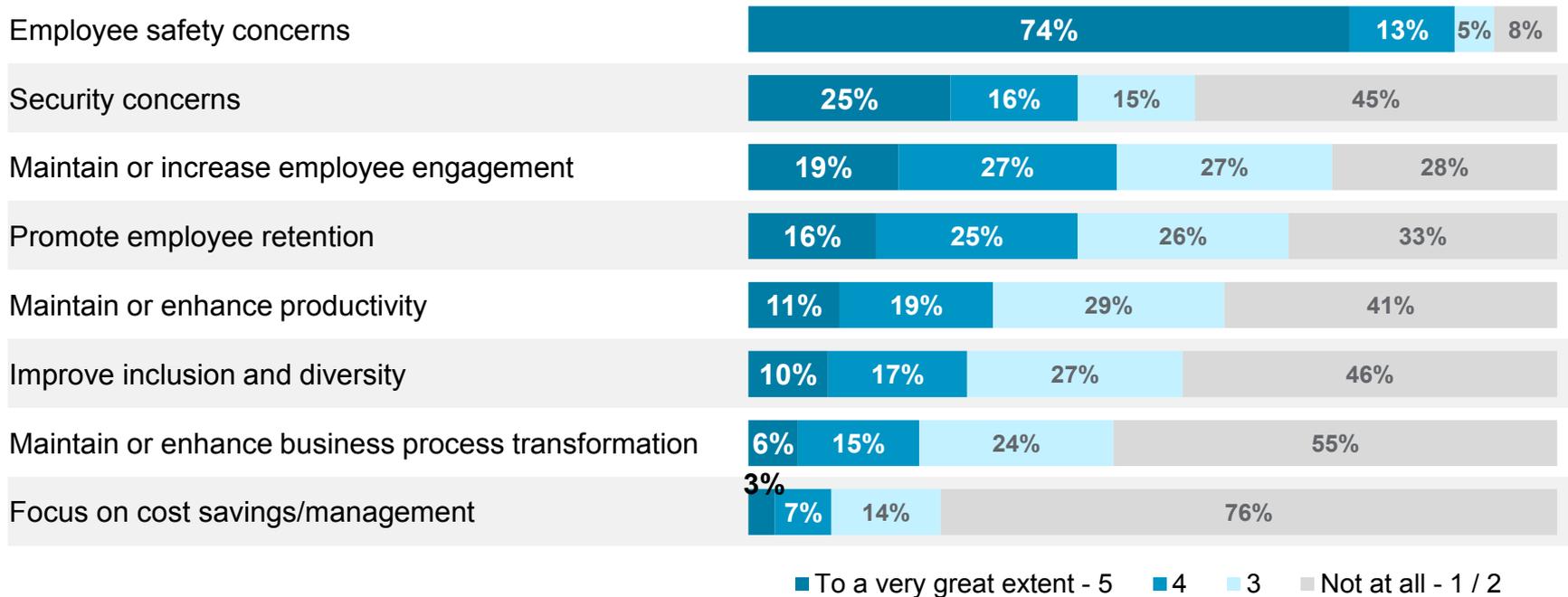
Respondents expect the proportion of their workforce who are full-time employees working from home in three years to be about **20% below** current levels, but **5x** what it was three years ago

Note: Ratios calculated using actual numbers not rounded numbers.

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Most organizations currently provide alternative work arrangements due to employee safety concerns

To what extent are the following reasons your organization currently provides alternative work arrangements?
(For those currently using any alternative work arrangements)

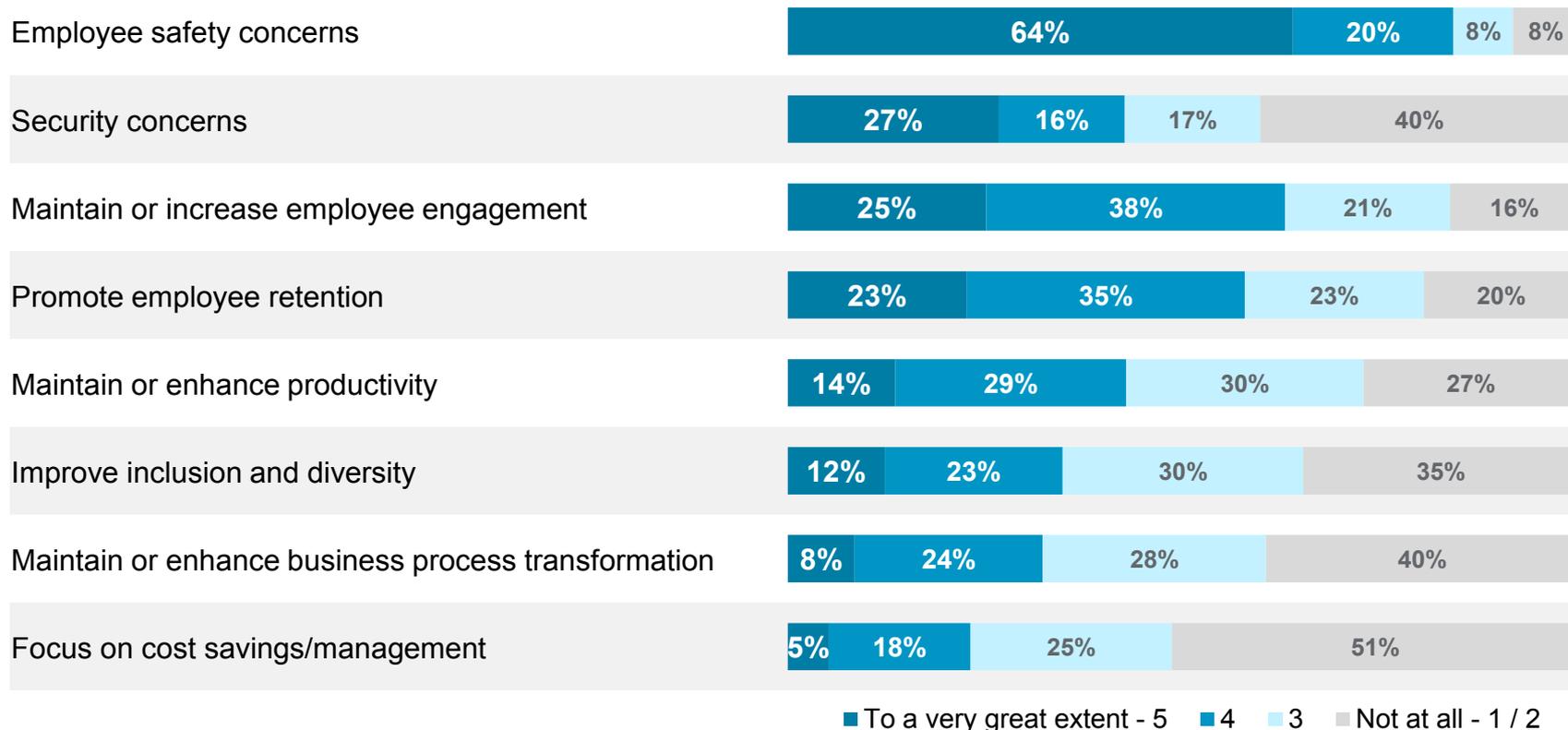


45% of organizations have conducted an **audit to identify any issues** that have arisen with respect to those employees who are currently working remotely

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Most organizations expect to provide alternative work arrangements in Q1 of 2021 due to employee safety concerns

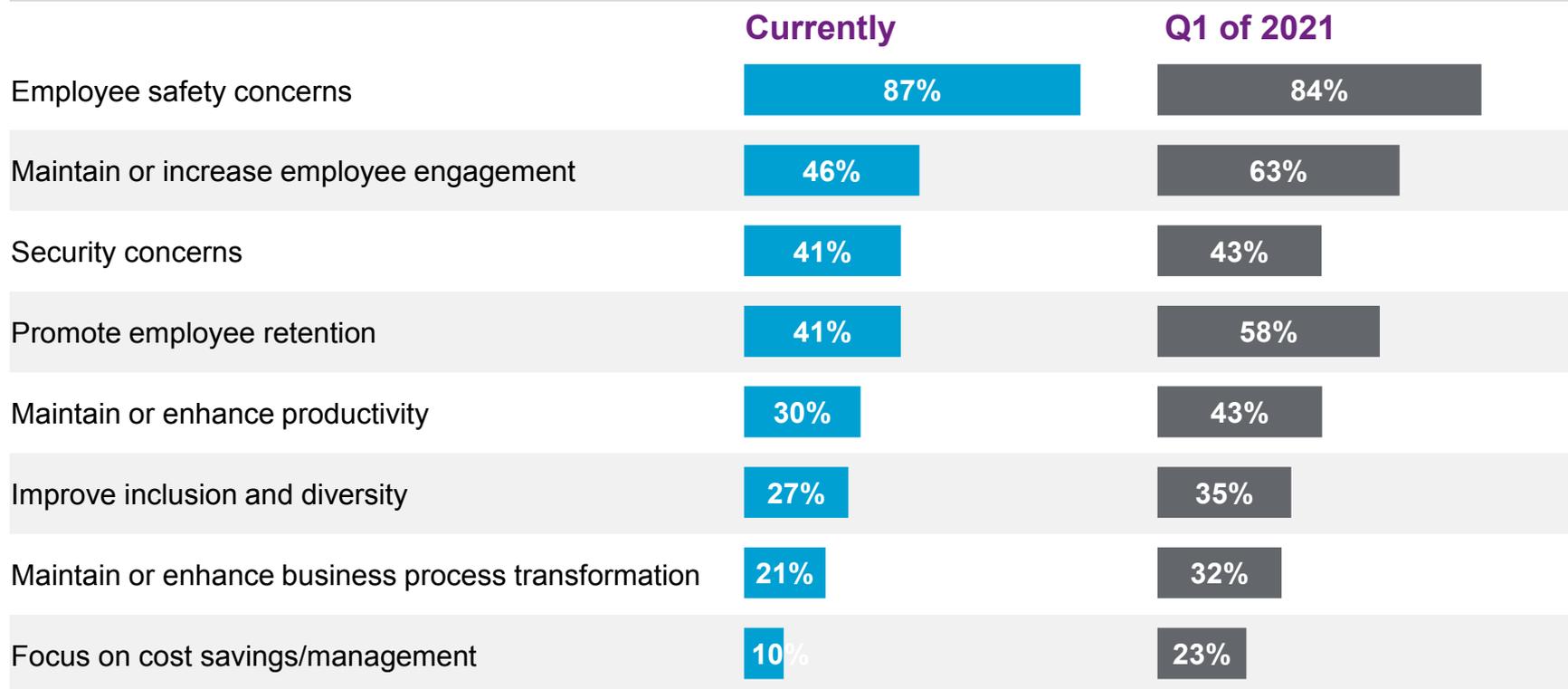
To what extent are each of the following reasons you expect your organization to provide alternative work arrangements to employees in Q1 of 2021? (For those expecting to use any alternative work arrangements in Q1 of 2021)



Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

As safety considerations continue to remain important, employee engagement and retention increase in importance for providing alternative work arrangements

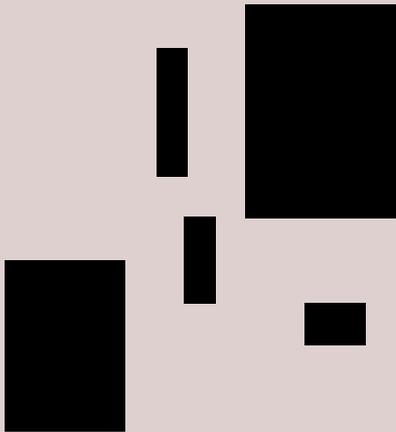
To what extent are the following reasons your organization currently provides alternative work arrangements? In Q1 of 2021? (For those expecting to use any alternative work arrangements in Q1 of 2021)



Note: Percentage based on those who responded “To a very great extent – 5” or “4” on a 5 point scale.

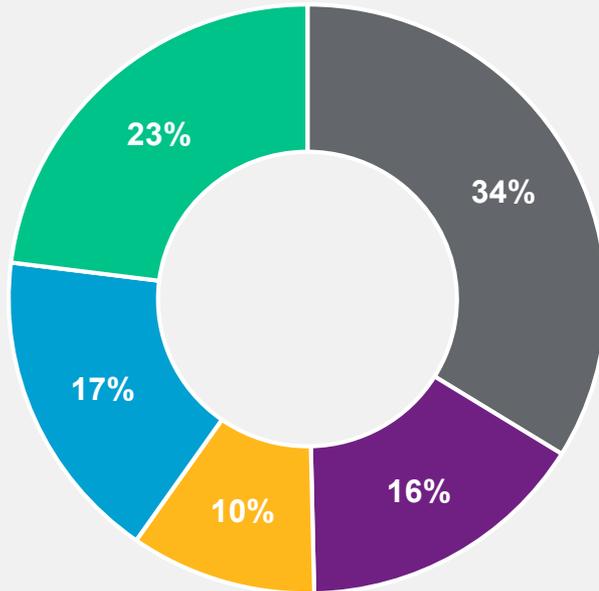
Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Policies



Over one third of organizations do not have a formal policy or set of principles to manage alternative work arrangements

Does your organization have a formal policy or set of principles to manage alternative work arrangements?



- No
- Yes, we created them in the last 6 months
- Yes, we created them in the last year
- Yes, we created them 2 or 3 years ago
- Yes, we created them more than 3 years ago

About **1 in 4** just created a formal policy this year

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Over three quarters of organizations that do not have a formal policy are planning or considering adopting one to manage alternative work arrangements

Is your organization planning or considering adopting a formal policy or set of principles to manage alternative work arrangements? (If answer **no** to formal policies or principles)

Yes, we are **planning** to adopt formal policies or principles to take effect **this year**

20%

Yes, we are **planning** to adopt formal policies or principles to take effect **next year**

38%

Yes, we are **considering** adopting formal policies or principles to take effect **next year**

19%

No, we are neither planning nor considering adopting formal policies or principles

9%

Not sure

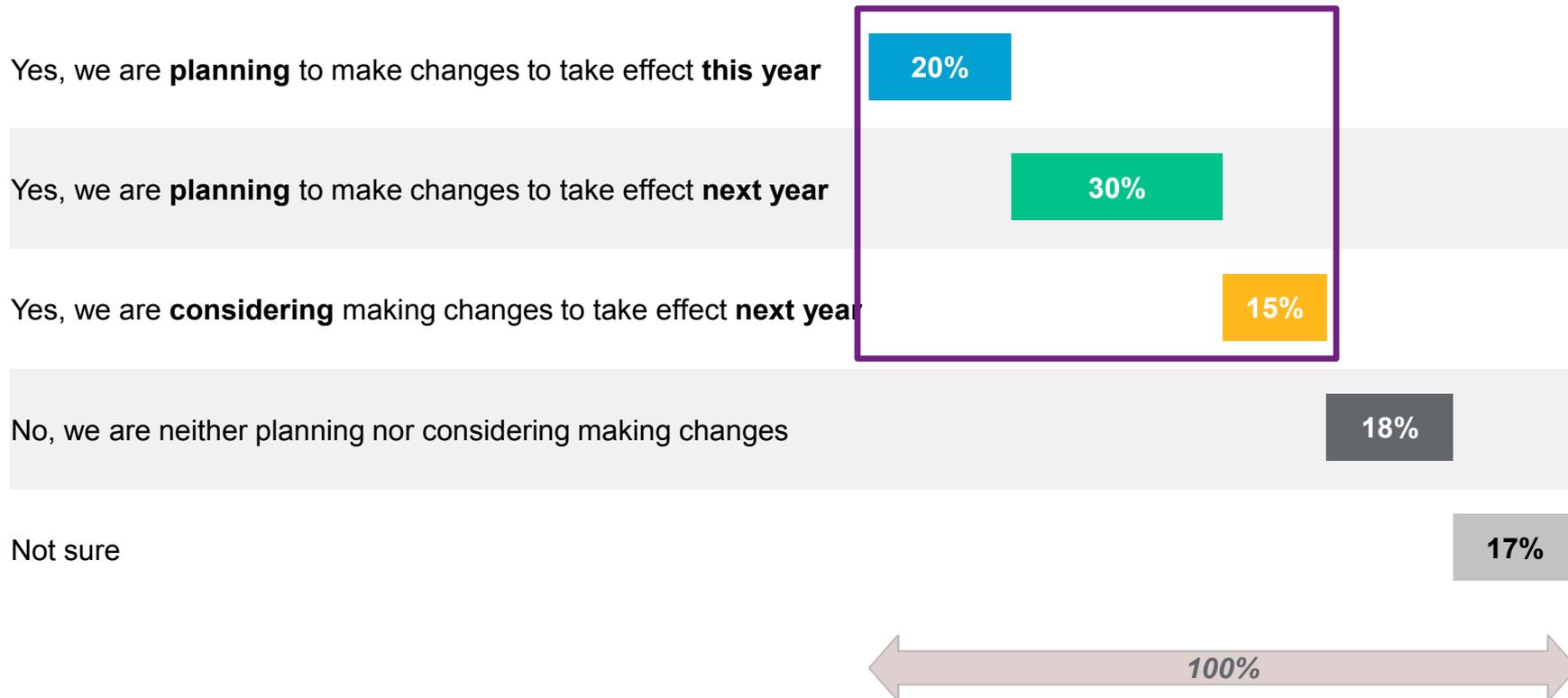
14%

100%

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Two thirds of organizations with a formal policy are planning or considering making changes to current policies or principles to manage alternative work arrangements

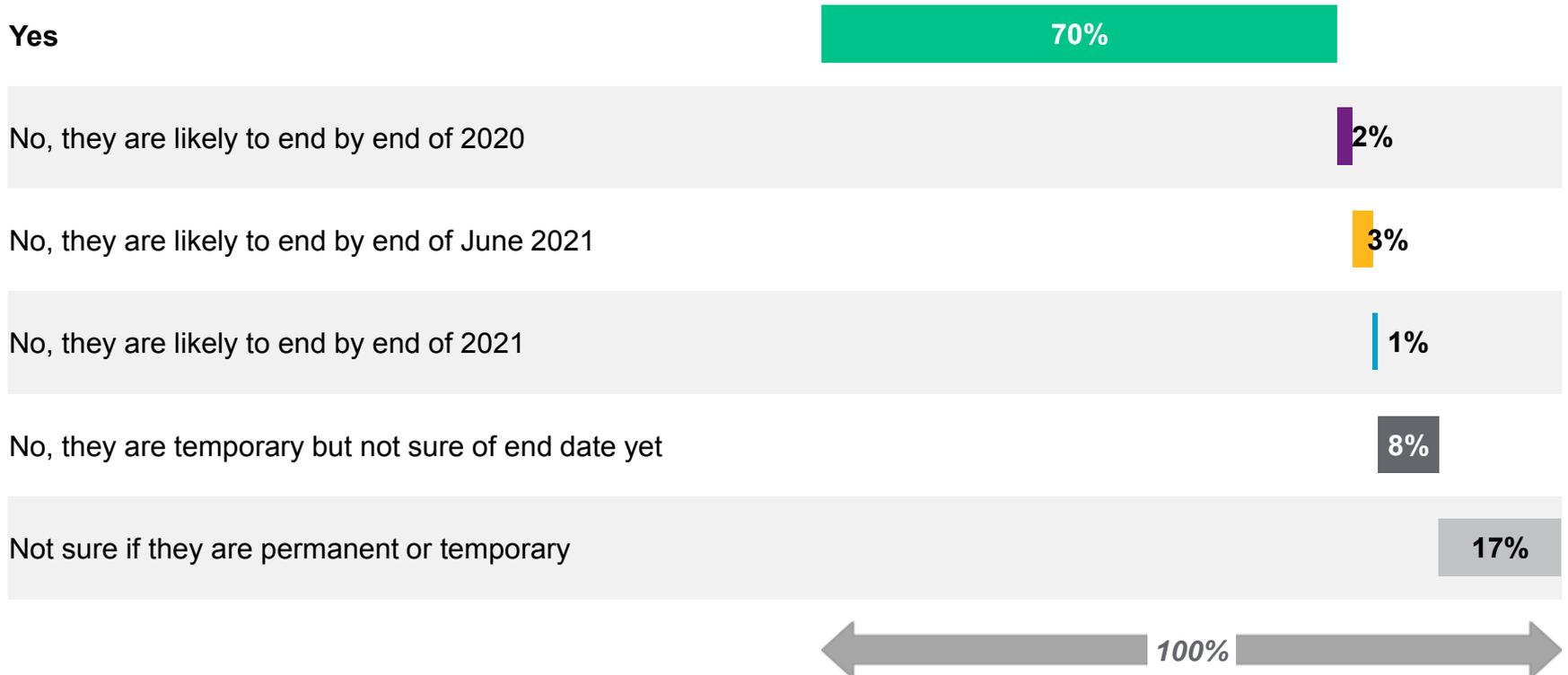
Is your organization planning or considering making any changes to these policies or principles to manage your alternative work arrangements? *(If answer yes to formal policies or principles)*



Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Most organizations with new policies expect these policies or principles to be permanent

Are these policies or principles expected to be permanent? (If created formal policies in last 6 months or year or answer yes to planning or considering adopting formal policies or principles)

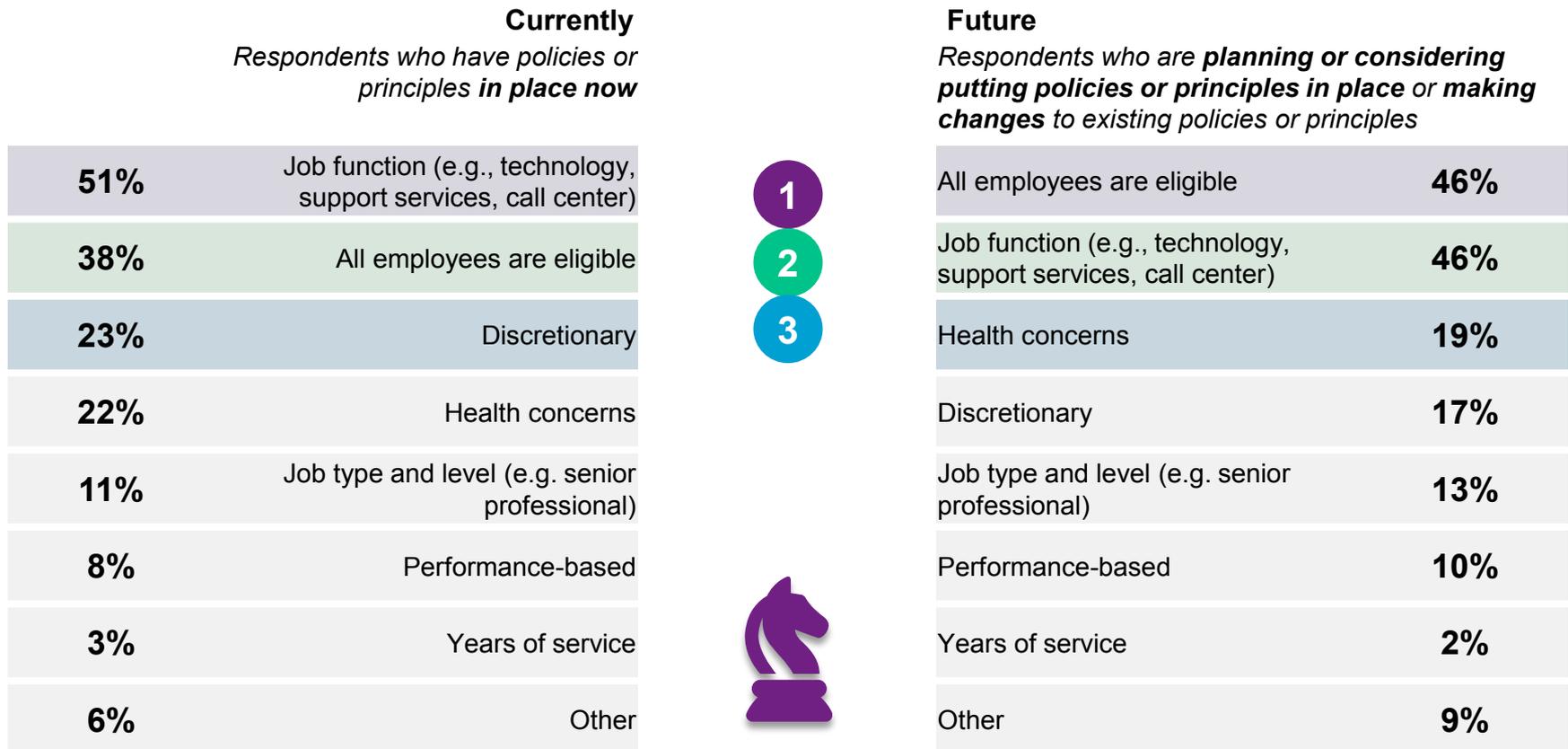


Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Job function and discretion are the most common criteria to determine eligibility for using alternative work arrangement

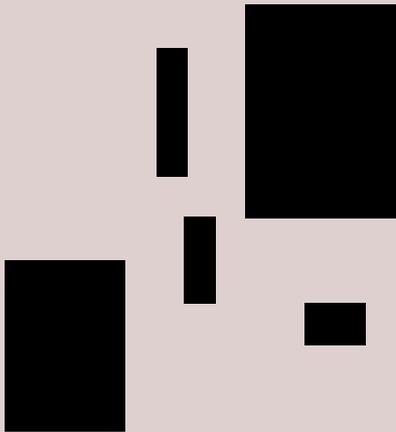
But at some organizations everyone is and will continue to be eligible

What are the criteria you are using to determine eligibility for using alternative work arrangements now? In the future?



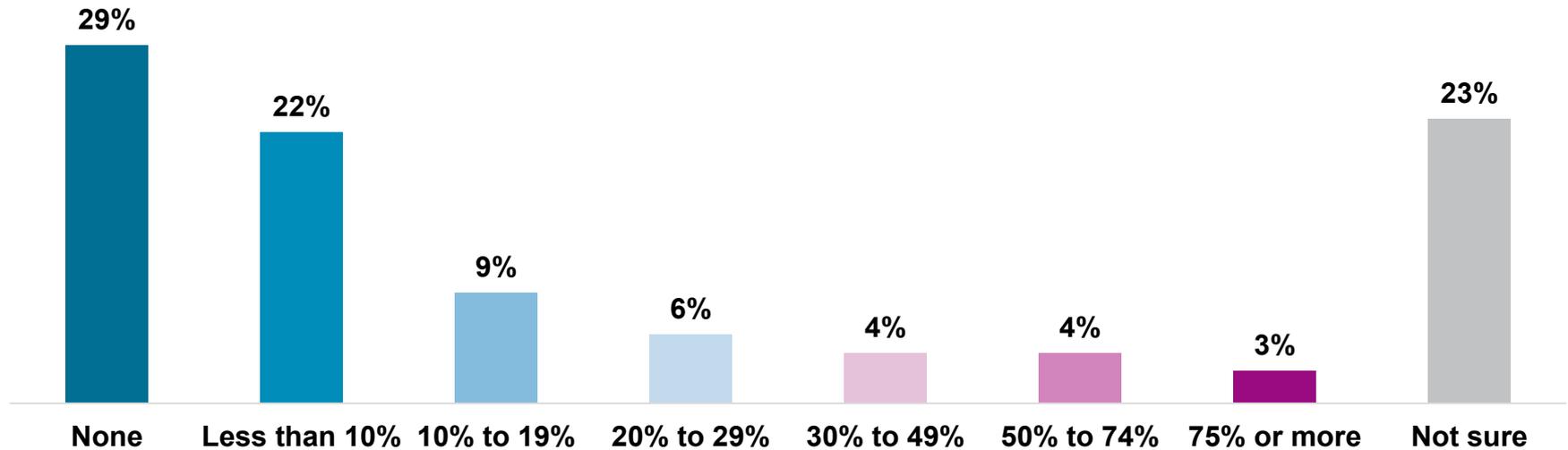
Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Impact



Working from home or working from anywhere is not seen as the first step to offshoring jobs in the near

What proportion of the jobs that will be done through telecommuting or working from anywhere are likely to be offshored over the next 3 years? (For those that have workers Telecommuting or Working from anywhere in Q1 of 2021)

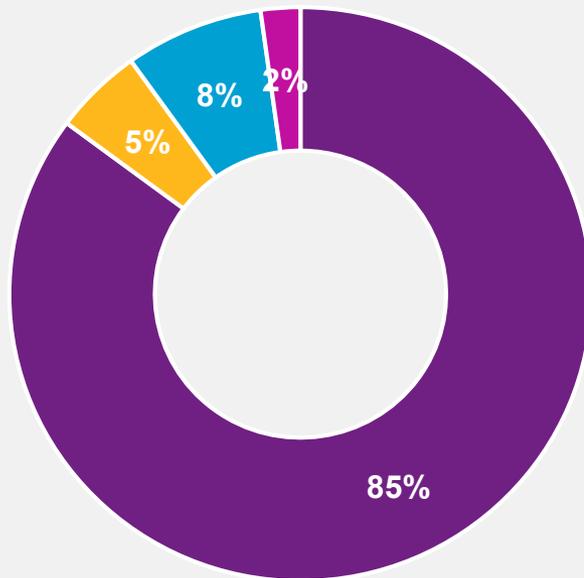


On average, organizations expect about **14%** of the jobs that will be done through telecommuting or working from anywhere are likely to be offshored over the next 3 years

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

85 percent will pay fully remote workers the same as in-office employees regardless of worker's actual locations for all jobs

Which of the following best describes how pay will be determined for employees who are allowed to work fully remote – working from anywhere in 2021? *(For those expecting to allow employees to work from anywhere in 2021)*



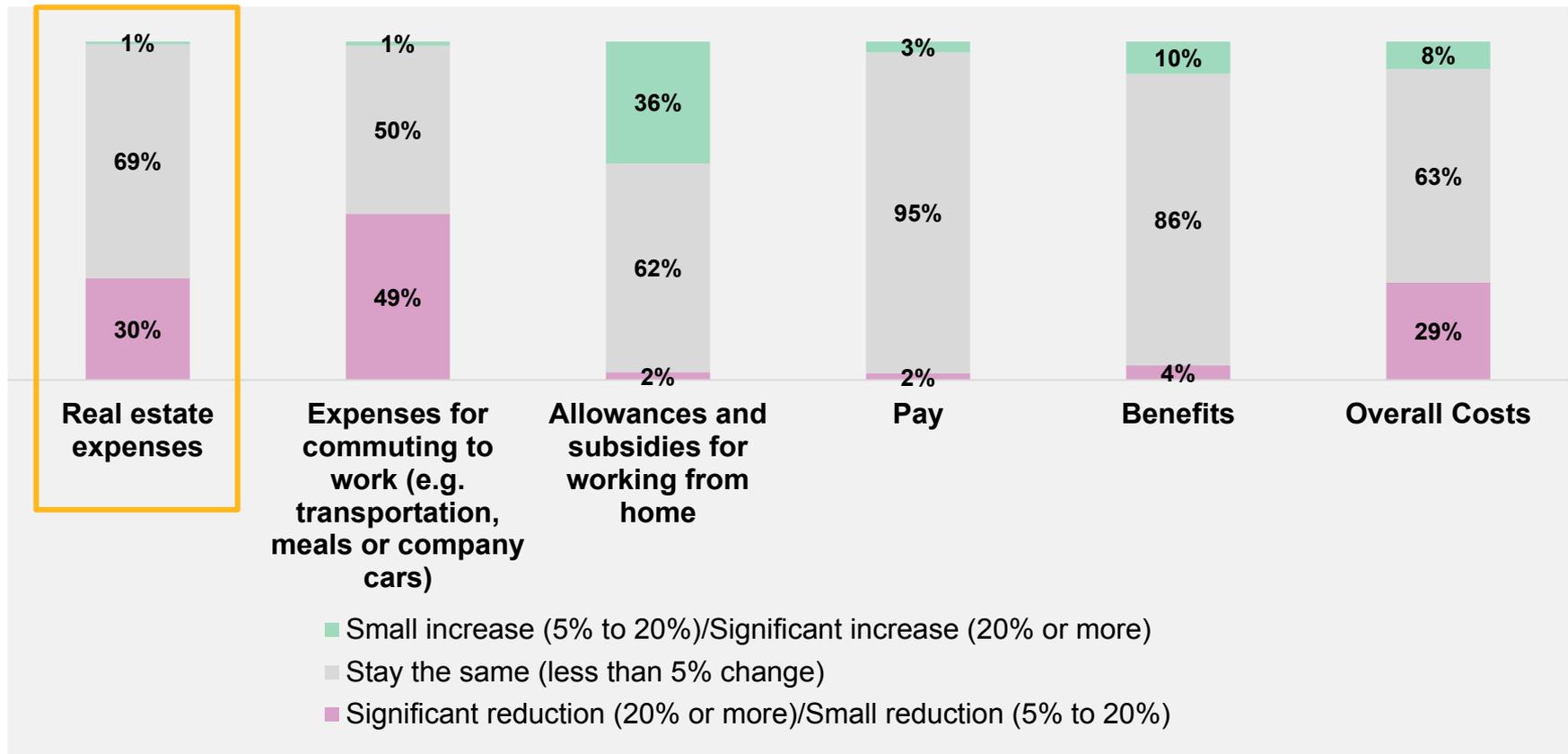
- Same as in-office employees regardless of worker's actual location for all jobs
- Based on location (e.g. city/ area) of remote worker for all jobs
- Same as in-office employees regardless of worker's actual location for hot skills, critical roles while based on location (e.g., city / area) for most roles
- Other

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Many organizations expect a decrease in commuting to work and real estate expenses in 2021 – partially offset by increases in allowances for working from home

Few organizations expect substantial changes to pay and benefits

What is the anticipated budget impact in 2021 of your flexible/remote working policy?

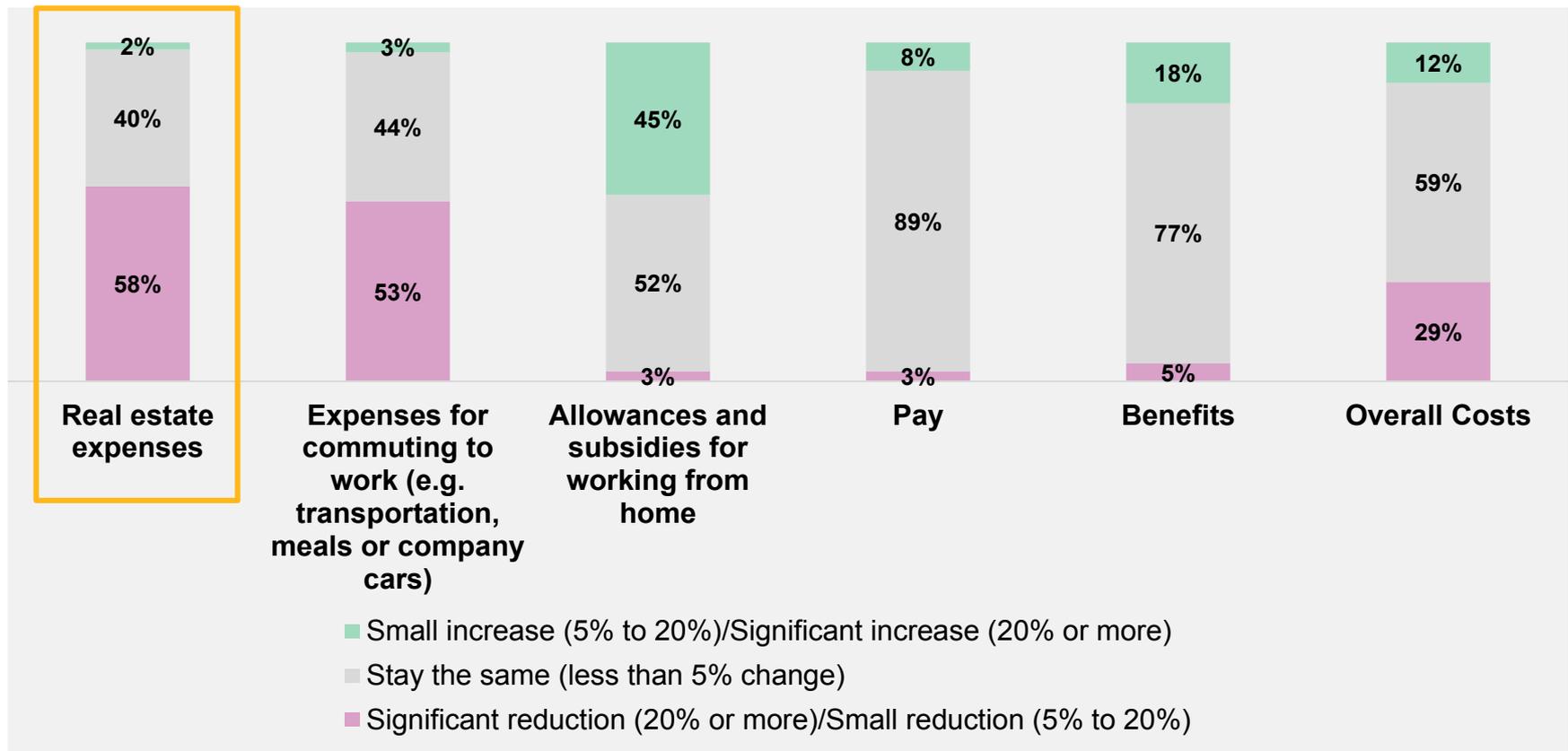


Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Over the next 3 years, most organizations expect declines in commuting to work or real estate expenses

Some of these savings could be used to help facilitate necessary changes to Total Rewards programs

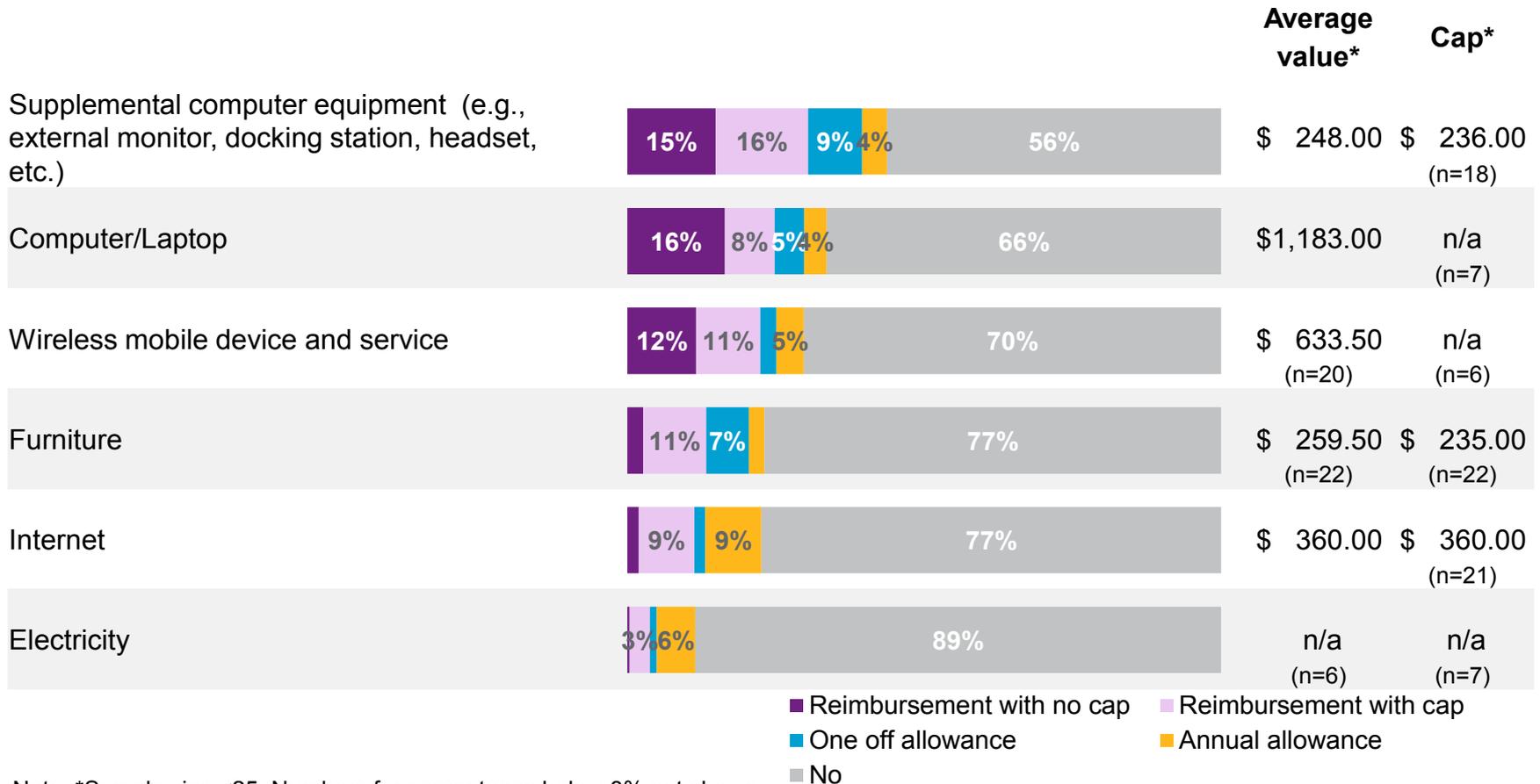
What is the anticipated budget impact over the next 3 years of your flexible/remote working policy?



Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Organizations are more likely to cover expenses for supplemental computer equipment

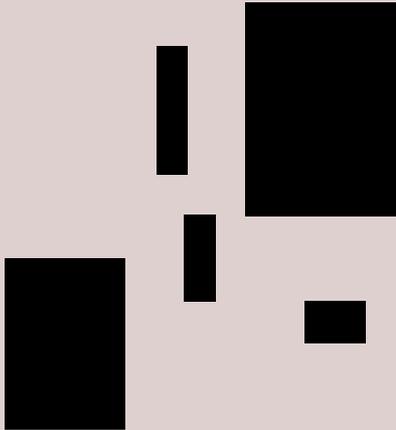
Does your organization cover expenses in the following areas? (For those providing any of the following options for working remotely: working from anywhere, telecommuting or working from home)



Note: *Sample size <25. Numbers for percentages below 3% not shown.

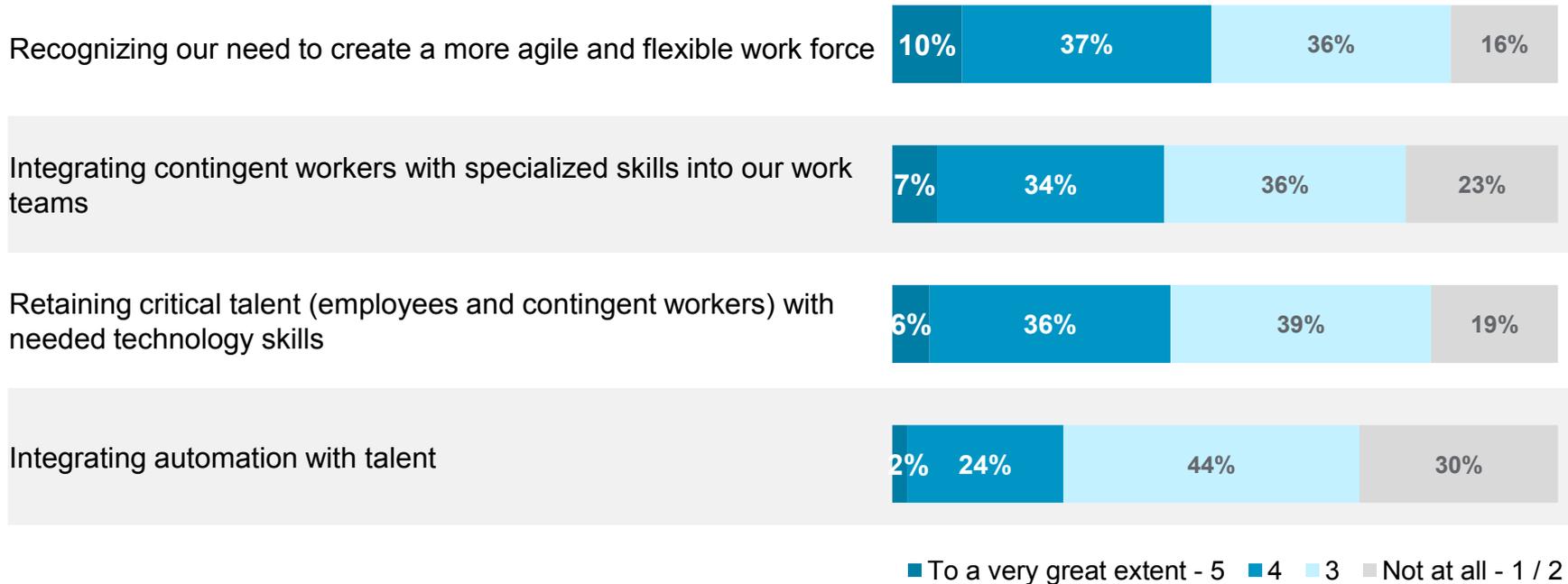
Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Future



Nearly half of organizations are effective at recognizing the need to create a more agile and flexible workforce

To what extent is your organization effective at the following?

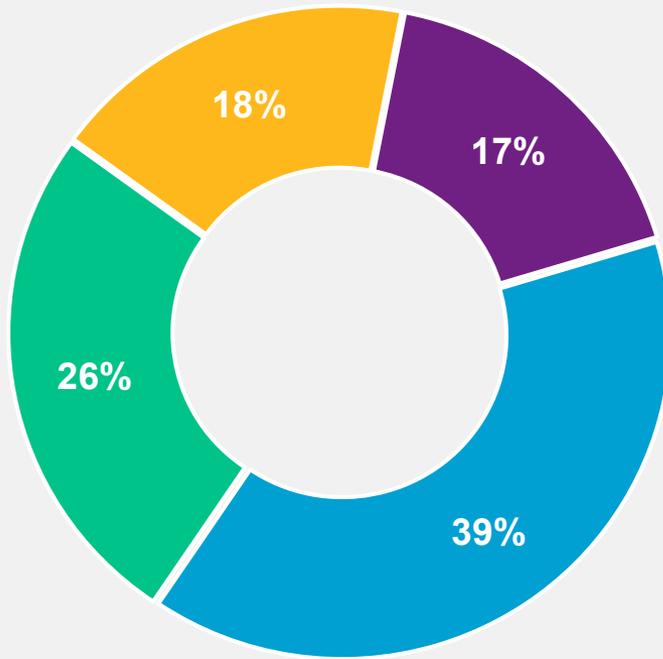


But they struggle to be effective because of shortcomings in strategy, systems and other factors

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Only 17 percent of organizations have an integrated digital and business strategy

Which of the following best describes the current state of your organization digital strategy?



- We have an integrated digital and business strategy enabling new sources of value with digital capabilities embedded in the organization's value chain.
- We have a well-developed digital strategy that is clearly aligned with business strategy.
- We have a digital strategy, but it is not clear how that is aligned with our business strategy.
- We have a very basic, reactive digital strategy with rudimentary digital capabilities.

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

3 in 5 organizations have provided employees with digital tools and technologies to help them to be more productive

But fewer say employees and senior leaders are effective at using them

To what extent are the following applicable to your organization's digital efforts?

We have provided our employees with digital tools, such as mobile and web apps. to help them be more productive



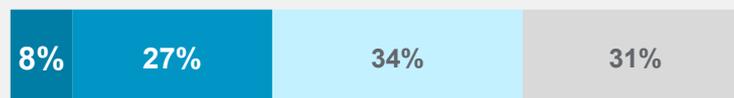
Our employees are quite proficient in using digital tools



Accountability for success of our digital ambitions is owned by all our leadership



Senior leaders are effective at using new technologies and non-employee talent to change the way work is done in every area from customer interaction to internal work processes

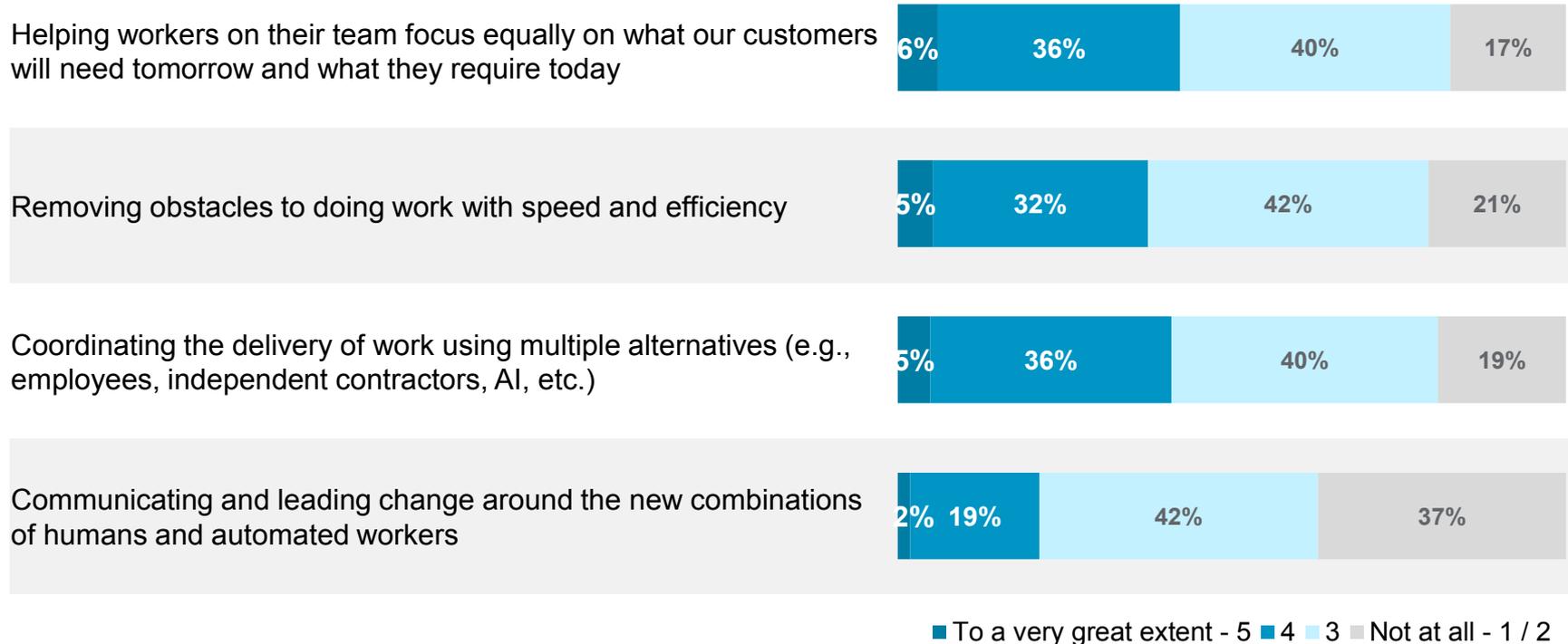


■ To a very great extent - 5 ■ 4 ■ 3 ■ Not at all - 1 / 2

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Around 2 in 5 organizations report their managers are effective at using alternative ways of getting work done and removing obstacles to delivering work

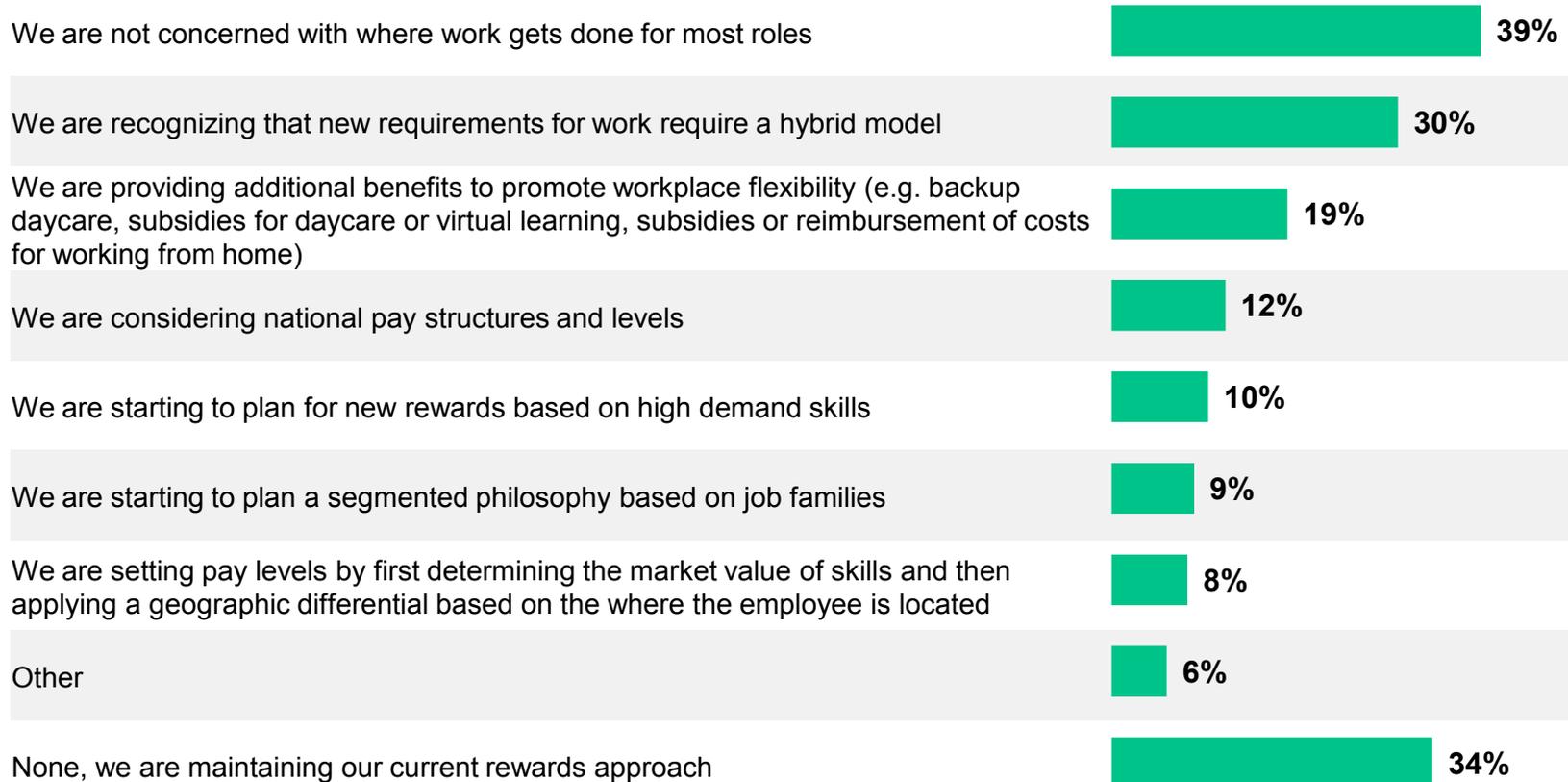
To what extent are managers in your organization effective at the following?



Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

3 in 10 organizations are recognizing that new requirements for work require a hybrid model for rewards and pay

In what ways are your rewards and pay philosophy shifting due to new ways of working?



Two fifths of organizations appear to be **embracing flexible work** and just under **1 in 5** are **aligning some benefits** with this philosophy

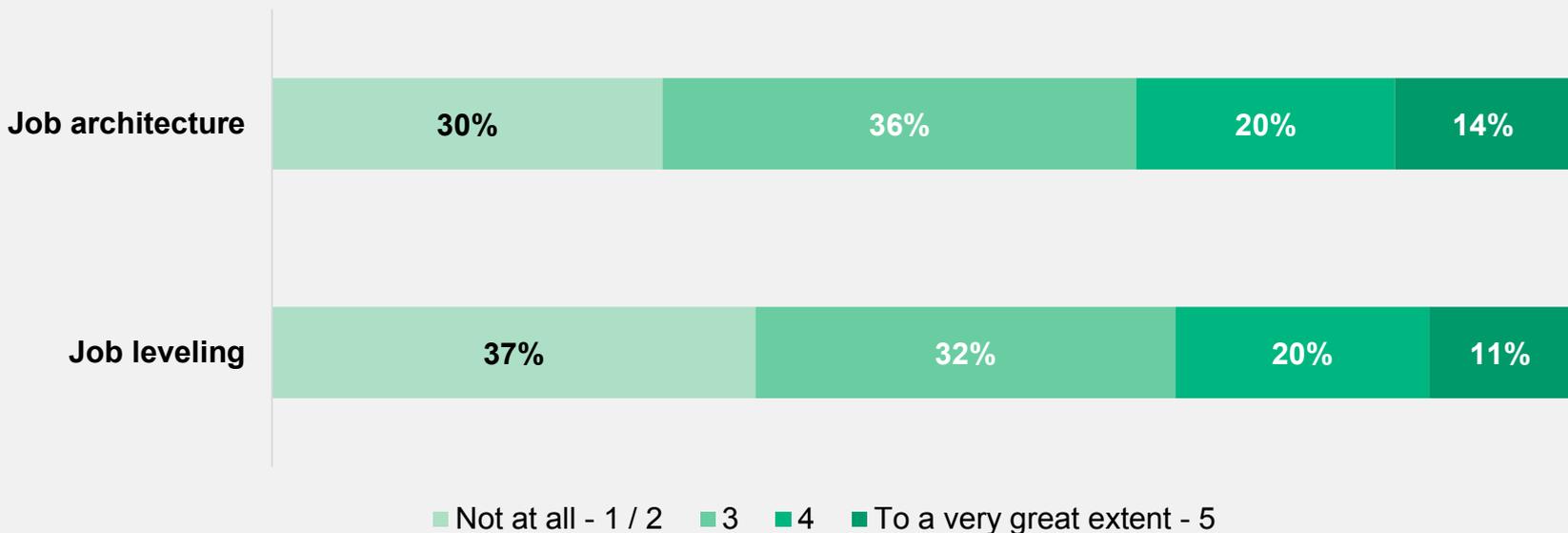
Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Fewer than 15 percent of organizations think that their current job architecture and job leveling process support developing a flexible and agile workforce to a very great extent : Twice as many say it does not support this at all.

To what extent do the current job architecture and job leveling process at your organization support developing a flexible and agile workforce?

Job Architecture – Groups jobs based on utilization of similar knowledge and skills, e.g. HR, Finance, IT, Engineering

Job Levelling – Groups jobs based on relative size and value, e.g., Senior Professional, Supervisors

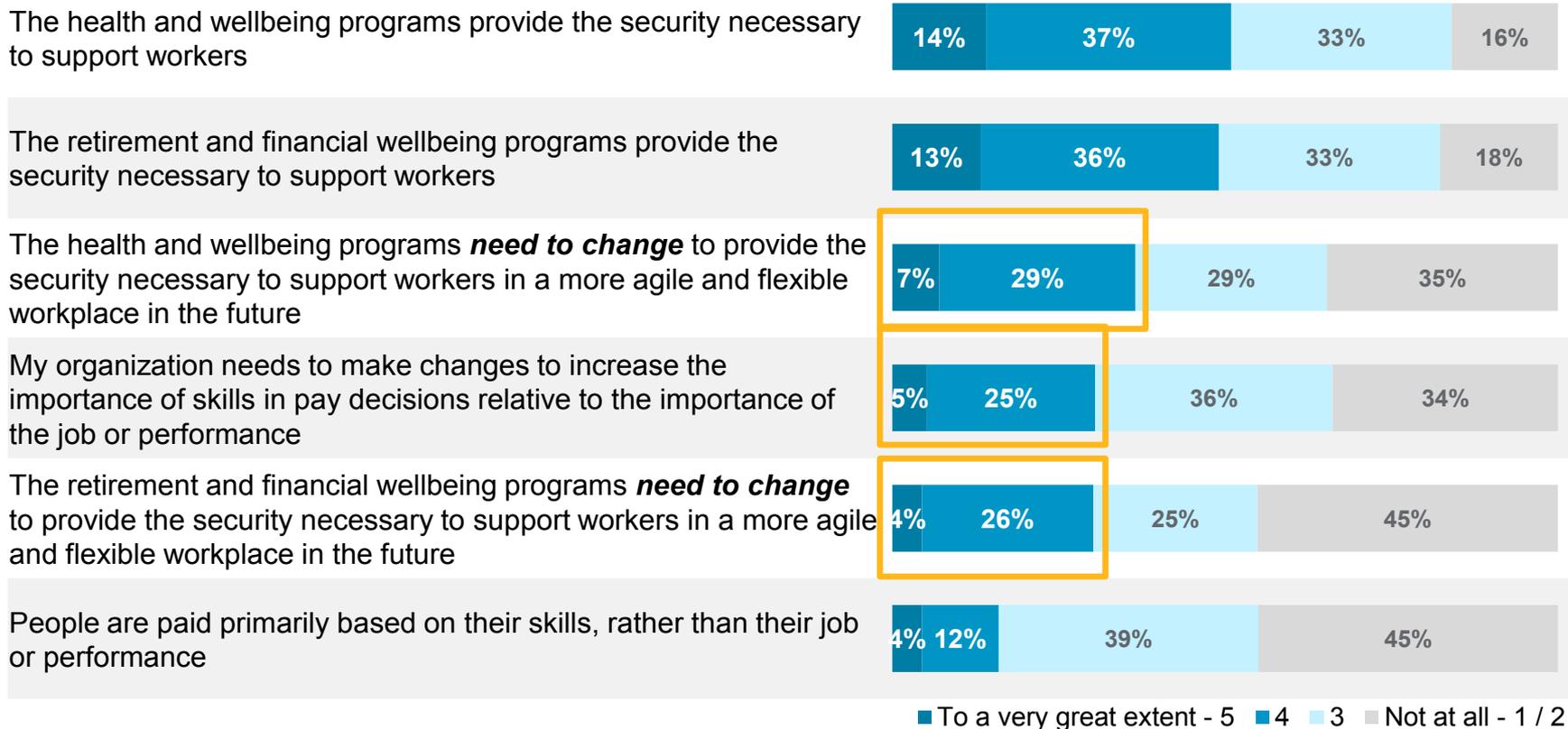


Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Most organizations agree that their benefits programs provide the security necessary to support workers now

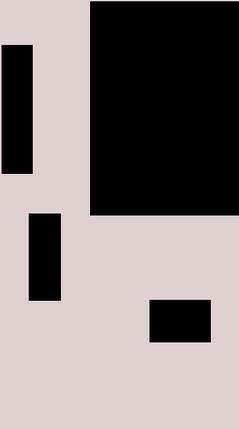
Those pursuing more flexible work arrangements may require changes to pay and benefits programs in the future

To what extent do you agree with the following statements about the pay and benefits programs at your organization?

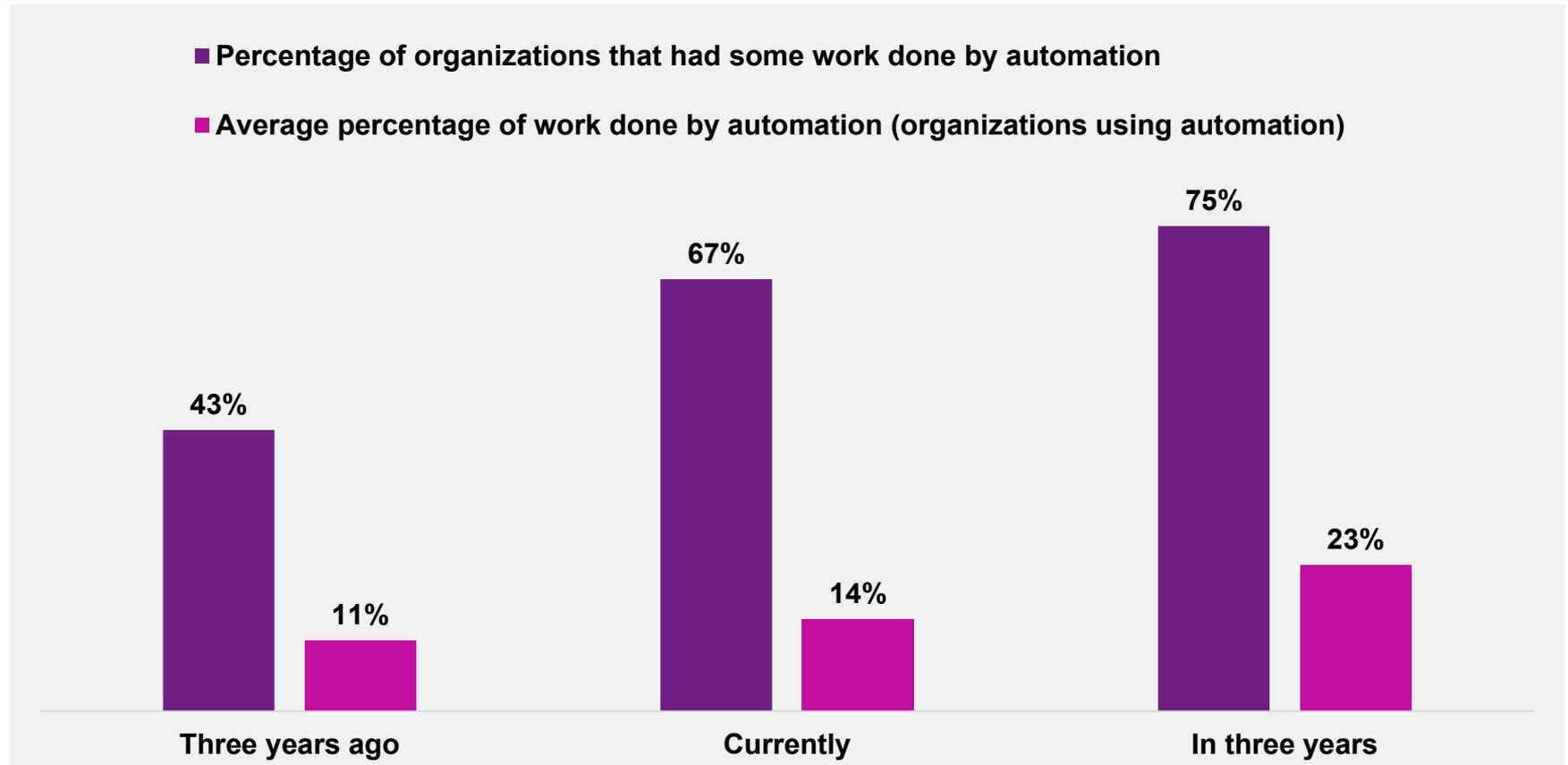


Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Appendix



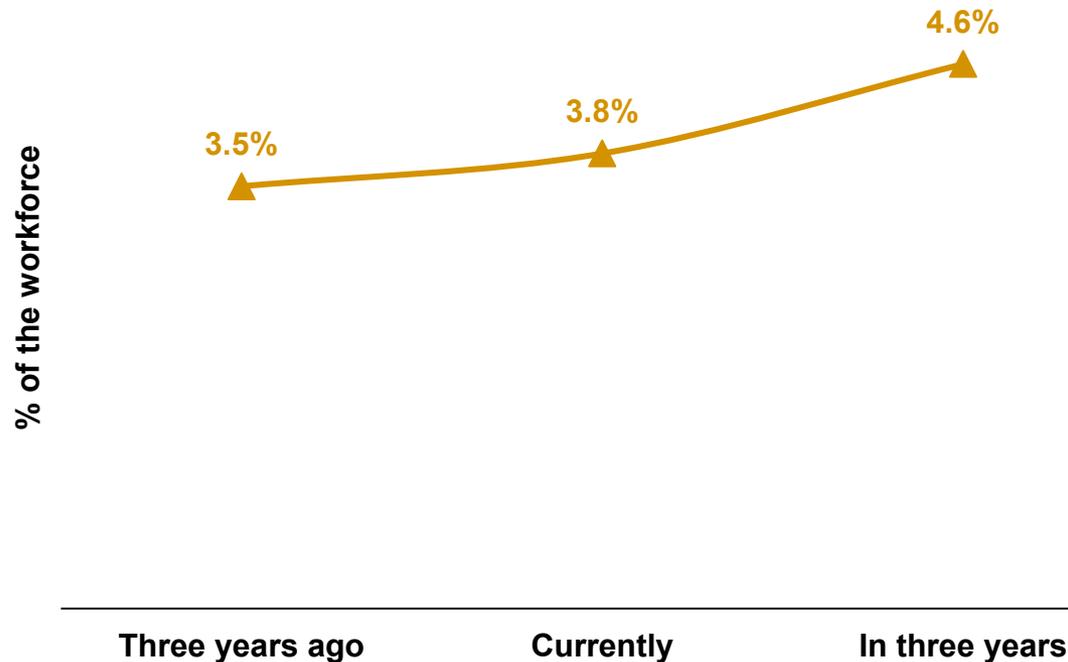
Use of automation continues to grow as more organizations are taking up automation for greater proportion of work



Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Use of non-employee talent is expected to increase in three years

What is the approximate percentage of workers in each category at your organization three years ago, currently and expected in three years?

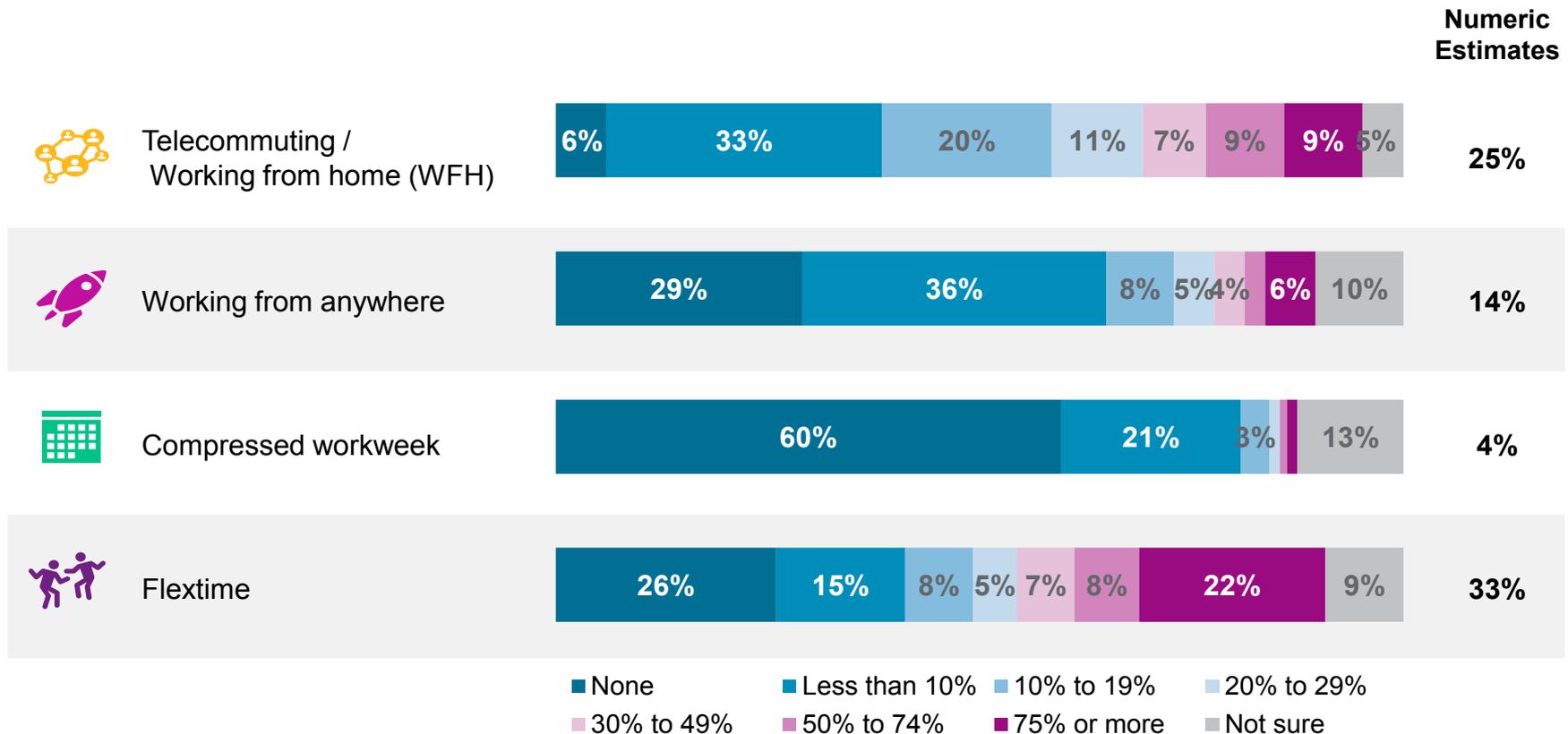


Free agent workers
(e.g. contractors, contractors hired from a talent platform, workers on loan from other organizations)

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

More workers were using flextime than other types of alternative work arrangements last year

What is the approximate percentage of workers at your organization using the following alternative work arrangements last year?

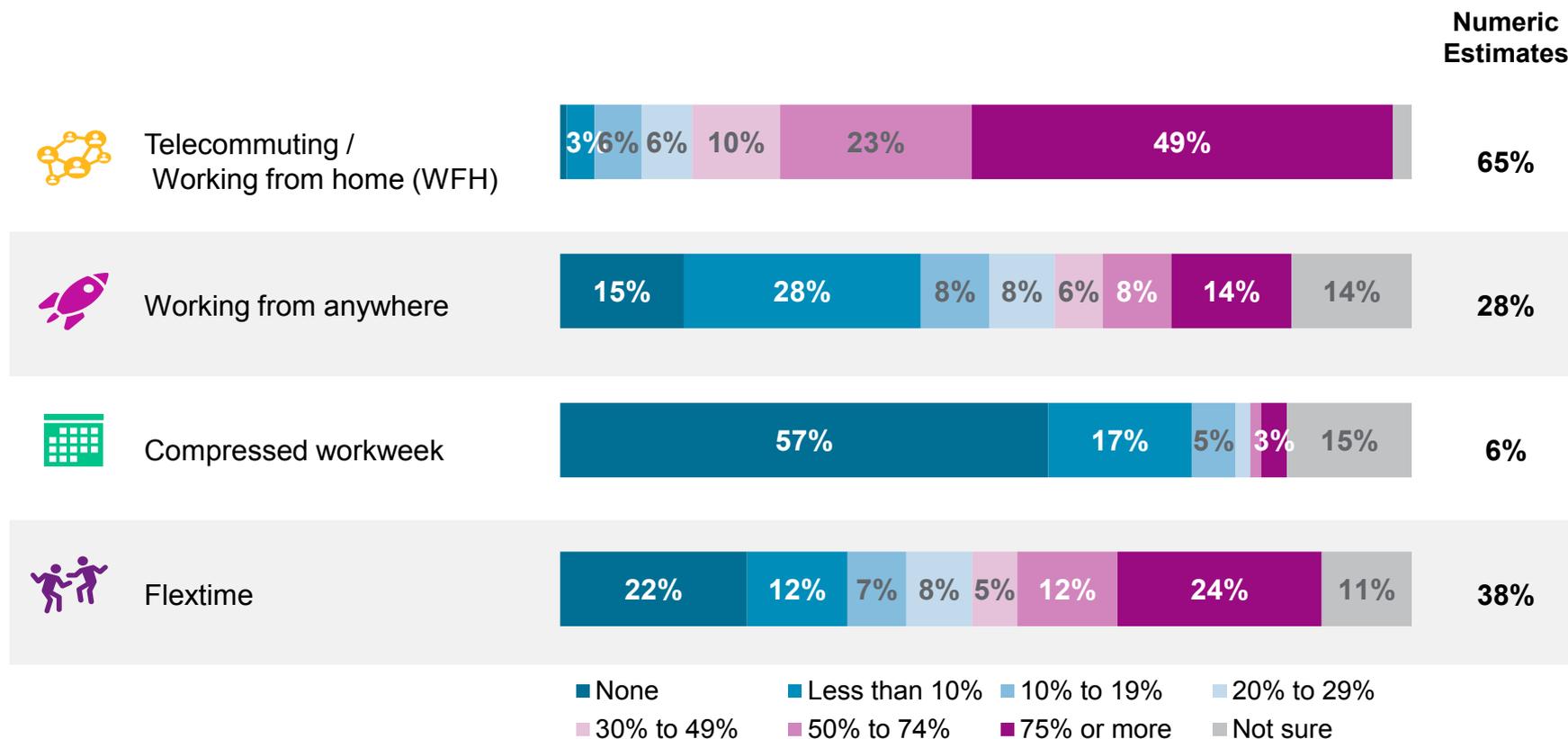


Note: Numbers for percentages below 3% not shown. Numeric Estimates are “not sure” removed results.

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Two thirds of workers are working from home; many are also working from anywhere and using flextime

What is the approximate percentage of workers at your organization currently using the following alternative work arrangements?

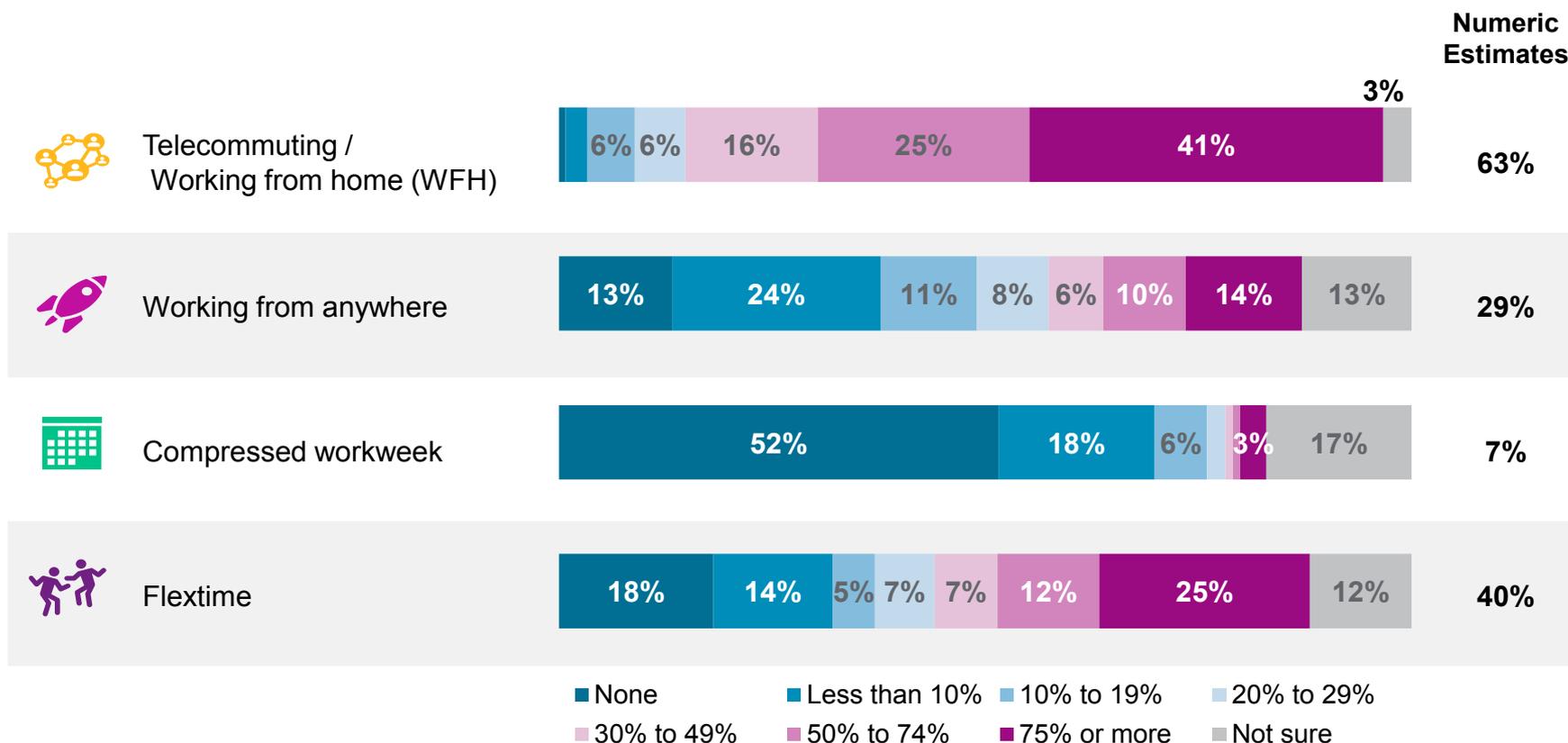


Note: Numbers for percentages below 3% not shown. Numeric Estimates are “not sure” removed results.

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities

Nearly 2 in 3 workers are expected to work from home in Q1 of 2021

What is the approximate percentage of workers at your organization that you expect to be using the following alternative work arrangements in Q1 of 2021?



Note: Numbers for percentages below 3% not shown. Numeric Estimates are “not sure” removed results.

Source: Flexible Work and Rewards Survey: 2021 Design and Budget Priorities