Employee Compensation

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3 elements of selling your compensation plan to employees

When he addressed strategy for communicating a compensation plan to a company's sales force, Joseph DiMisa recognized the irony of selling the plan to the sales force. After all, these folks recognize a sales strategy when they see one.

DiMisa is senior vice president of Sales Force Effectiveness at Sibson Consulting (www.sibson.com) and is a frequent writer and speaker on the subject. While his article in Sibson's November 2015 issue of *Perspectives* was specifically aimed at the sales force, many of its ideas can be applied to any employee segment; extending it to all employees was our goal when we reached out to him for this article.

The best-designed compensation plan won't work as intended if people don't understand it, DiMisa asserts. Explaining and, in effect, selling the plan are necessary to motivate desired behaviors.

To do that effectively, he says, compensation plan communication should include these elements: strategic objectives, plan components and compensation mechanics, and incentive calculators. Each element is important on its own, but more importantly, they link together to form the overall messaging that can encourage behaviors that result in success.

1. Strategic objectives

What are the company's overall goals? When employees understand what the company is trying to accomplish, strategically and financially, they are more inclined to come together and strive for those objectives.

What's more, when they truly understand the company's objectives and the role they play as individuals in accomplishing those objectives, they begin to feel some ownership over results. Informing employees about issues and obstacles facing the organization is important in this effort.

Behavior is unlikely to change, though, if employees don't see how the compensation plan supports the strategies and objectives the organization has set. That interaction is important to explain.

If the plan is new, it is also important to fully explain key changes from the earlier plan and how they help meet organizational objectives.

2. Plan components and compensation mechanics

In order to maximize the benefit of the compensation plan (for themselves and for the organization), employees need to thoroughly understand its details.

What will they receive in terms of base, commission, individual bonus, and group bonus? How will they earn any incentive compensation? What measures will be used, and how will they meet them? What time periods are involved?

Without a clear understanding of what they must do and how they can do it, the compensation plan is unlikely to succeed. In fact, a poor job of communicating the compensation plan can even be a disincentive for employees.

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The comp plan's payout details, including formulas and tables, are also vital. It can also be helpful to include graphics that provide a visual example of performance measures.

3. Incentive calculators

Employees want to know how much they can earn. When a compensation plan is introduced, many will immediately look for how much they could make if all the pieces fell into place and if they met all the measures for their particular job. For the sales team, this is particularly important.

DiMisa says in his article, "As soon as most reps hear about a new sales compensation plan, they break out their calculators to understand how it will affect their bottom line, but not all of them get the calculation right."

The same is true for anyone with the potential for incentive compensation—including the part about not getting the calculation right.

That's why DiMisa suggests providing calculators or examples (or both) that can give employees a clear picture of their potential earnings. An online calculator may be cumbersome to provide to every person in the organization who may receive incentive comp.

At a minimum, it would be beneficial to prepare some sample calculations that include, for example, an employee who meets target measures and one who exceeds them.

Sending the right message, the right way

Rather than relying on the grapevine to communicate your compensation program, it is important to use thoughtful, methodical strategies. "Properly cascading information within the sales organization can ensure understanding, dispel dissatisfaction and create a receptive, motivating environment," says DiMisa in his article.

Often, information that comes through informal channels is colored by impressions and understandings (which may or may not be correct) of the people passing them along. Worse, negative perceptions can spread along with the information.

DiMisa suggests engaging employees by starting at the top. Company leaders should provide a big-picture discussion of the program or changes, followed by regional, departmental, or local breakout group discussions. Question-and-answer periods are helpful, as are workshops and one-on-one meetings.

Written materials may be used to reinforce and remind employees about details of the program. These should echo what's already been discussed, and give employees a way to get more information.

Don't fill them with legalese and regulatory language, says DiMisa, but use them to provide information that is easy to understand.

Since employees often skim such documents, providing one document that is more of a marketing piece along with one that contains the nitty-gritty (and yes, the legal) details is a good idea.

Remember that connecting with your employees is important to keeping them engaged. If you're implementing or changing your compensation plan, don't be shy; sell it! When you do, you're more likely to increase satisfaction among employees, keeping your workforce strong.

Retirement preparedness particularly challenging for Gen X

Middle children, prepare yourselves. The following information may dredge up some painful emotions for you.

As the forgotten, the overlooked—the Jan Bradys, if you will—you may particularly appreciate the following, especially if you were born between 1965 and 1980. That's right, Generation X is another forgotten middle child.

Caught between the Baby Boomers and the Millennials, Generation X is fewer in numbers. They have matured beyond their slacker reputations, and many of them are dealing with young children, elderly parents, and stressful jobs.

Add to that the fact that the first of them have now entered their 6th decade of life, their 50s. In short, Gen Xers are worried. Retirement seems to be sneaking toward them, and they don't feel prepared.

For one reason, economic conditions hit them particularly hard. Just as this generation entered adulthood came the 1990s recession. Then, as they entered their 40s (their supposed peak earning years) the Great Recession took hold.

Gen Xers lost more than any other generation, according to Pew Research, with about 45% of their overall net worth drained within 4 short years. And now, as they begin to think seriously about retirement, healthcare costs are likely to increase from the currently expected $250,000 per couple during their retirement years, according to Fidelity.

Preparing for retirement amidst this kind of turmoil is challenging, to say the least.

Financial services firms are realizing that, too, and some are taking steps to address them as a group. Global PR firm Weber Shandwick (www.webershandwick.com) brought the issues facing Gen X to light in a research report, *Leveraging the Gen X Retirement Market: From Overlooked to Opportunity*.

Although the paper was directed toward financial advisors, the information contained in it may be helpful to employers seeking to improve retirement outcomes for this largely ignored employee population.

Brooke Worden, senior vice president of Weber Shandwick's financial services practice, is herself a Gen Xer and feels personally connected to this generation and the views they express. There is a significant level of anxiety, she says, when Gen Xers are asked about general retirement preparedness and, specifically, about health care.

"When you ask Gen Xers about long term heath care costs, their general level of anxiety about retirement becomes even more pronounced," she says. "They are wondering if they're doing the right things in terms of being prepared and on track to retire if that's what they want to do.

"When you introduce questions about paying for health care in retirement as the Gen Xers age, the concerns become more pronounced."

What can employers do to help?

Even with these concerns, though, they don't seem to have developed strategies for paying for these needs. Worden calls this a generational blind spot. "They have this concern, that they should be doing something about it, but they don't have a clearly defined plan," she says.

"They'll say, 'I think my medical costs are going to be covered by Medicare,' or, 'I think what I'm saving now will cover it, but I'm not sure.' You can see their worry in the anxiety they express about it."

What can employers do to help? Worden suggests two thoughts that are of primary importance.

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1. Talk to Gen Xers as a separate contingent

"One thing employers can do right away is to start talking to them as a distinct segment," Worden recommends. "One of the things we found when preparing the study was that financial services providers aren't talking to Gen X as a distinct audience. They tend to combine Gen X with Baby Boomers or with Millennials.

"That might be because Gen X doesn't have the numbers the Baby Boomers or Millennials do, and that translates to having a lower level of investable assets. Whatever the reason, it is important to address Gen Xers as Gen Xers."

Worden says that means changing communications—imagery and words—to reflect this specific population. "Gen Xers respond very well to relatable imagery and scenarios that they think are realistic to their lives," she says. "They need to see themselves in communications that come from their plan.

"The imagery could show things like caring for an aging parent, and saving for a child's college education while also saving for one's own retirement. It's a different look and feel than what might appeal to a Boomer.

"The communications that reflect the old world retirement imagery showing Baby Boomers strolling on a beach or on a sailboat doesn't engage this group; they don't find it relatable. Day to day they are driving kids to school or caring for their aging parents.

"That's why it's important for plan sponsors to make the imagery and scenarios that are described realistic for Gen Xers. You want them to look at it and say, 'That could be me.'"

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2. Give Gen Xers options

Gen Xers are all about options, and Worden's next suggestion is to capitalize on that preference in your communications.

"Gen X likes options," she says. "They want simple options they can look at to help them think about various scenarios and how those scenarios might play out in their own lives.

"Providers [and employers] can help a lot by providing options for them to choose from, ways they can save and prepare. Show them options in terms of various products and services that financial firms offer as well as tools, calculators, apps.

"They want options in the products and services they can use, and also in ways they can get smarter and educate themselves.

"We absolutely think that advice is a critical component of an employer-sponsored retirement plan," Worden continues. "For Gen Xers who like options, if you can give them a variety of channels through which to access that advice—in person, on the phone, online—that is very appealing. Offer access to advice and give them a choice about how to access that advice."

Talk to your providers

Some employers, particularly smaller ones, may feel hampered because they rely on their providers for communications. Worden says they may have power to influence their providers to address their needs in general and, specifically, those of their Gen X populations.

"Employers absolutely should tell their providers that it's important to their participant base and the overall performance of their plan.

"Let them know that Gen X is an important part of your participant base, and you need to help all of your participants achieve retirement security, so you don't want to overlook this important segment. If they're not seeing this need addressed, they should absolutely ask for it."

The good news is that since Weber Shandwick's paper was released in late 2014, Worden has begun noticing a shift. "I have seen more of a focus on Gen X in the retirement industry media and the trade press I read daily, just in the last calendar year. I'm really happy to see that.

"We did a survey of major provider websites when we did this study to see who is segmenting Gen X, and we did not find any specific communications for them. I am starting to see that change."

This Month's Statistics

	Latest Period	Current	Prior Report	A Year Ago	12 Month % Change
CPI-U	Mar/16	238.1	237.1	236.1	0.9%
CPI-W	Mar/16	232.2	231.0	231.1	0.5%
ECI EMPLOYMENT COST INDEX					
Total Compensation	1Q/16	124.5	124.0	122.2	1.9%
Wages and Salaries—Private Industry	1Q/16	124.2	123.7	121.6	2.1%
Wages and Salaries—Civilian Workers	1Q/16	123.7	123.2	121.2	2.1%
Benefits—Private Industry	1Q/16	128.4	127.9	126.2	1.7%
Average Weekly Gross Wages*	Mar/16	$718.03	$716.69	$703.99	2.0%

*seasonally adjusted

(**Source:** Bureau of Labor Statistics, Washington, D.C.)
All figures are national.

KEY TO STATISTICS

CPI-U: Consumer Price Index for all urban consumers; the newer index representative of the buying habits of about 87% of the total U.S. population. (1982–84=100)

CPI-W: Consumer Price Index for urban wage earners and clerical workers; the older index covering only about 32% of the U.S. urban population.w

ECI: Measures change in compensation per hour worked, including wages, salaries, and employer costs of benefits. (6/89=100)

Average Weekly Gross Wages and Average Hourly Wages: Data relate to production workers in manufacturing and mining; construction workers; nonsupervisory workers in transportation, public utilities, and wholesale/retail trade; also finance, insurance, real estate, and other services. Accounts for approximately 80% of the total employees on private, nonfarm payrolls.

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