

Employee Benefits in a Total Rewards Framework

Benefits represent one of the largest investments a company makes in its talent. However, our tendency can be to design, deliver and communicate benefits programs independently, without fully considering how those programs fit within a bigger picture of total rewards. Sure, we need to manage and execute individual benefit programs—but not at the expense of getting a real return on our more significant investment in talent. This article provides employers with perspectives on the value of managing benefits within the broader framework of total rewards, why it works and, most importantly, how to make it work.

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Benefits make up an important component of the employment relationship, providing employees with financial protection, access to health care and programs to support work/life balance. It's no surprise then that employers carefully manage their benefits programs. What is surprising is that they often do so independently of other programs and, as a result, may not get the highest return on overall benefits spending. Thinking about employee benefits within a total rewards framework and approaching total rewards as a differentiator for your organization will have a more positive impact on attraction, retention and engagement while helping to manage cost and volatility.

When properly designed, delivered and communicated, a company's total rewards program can provide an incentive for talented people to join a company, to perform at levels that produce desired business results and to remain with the company as long as they continue to produce. In short, companies can achieve a higher return on their investment

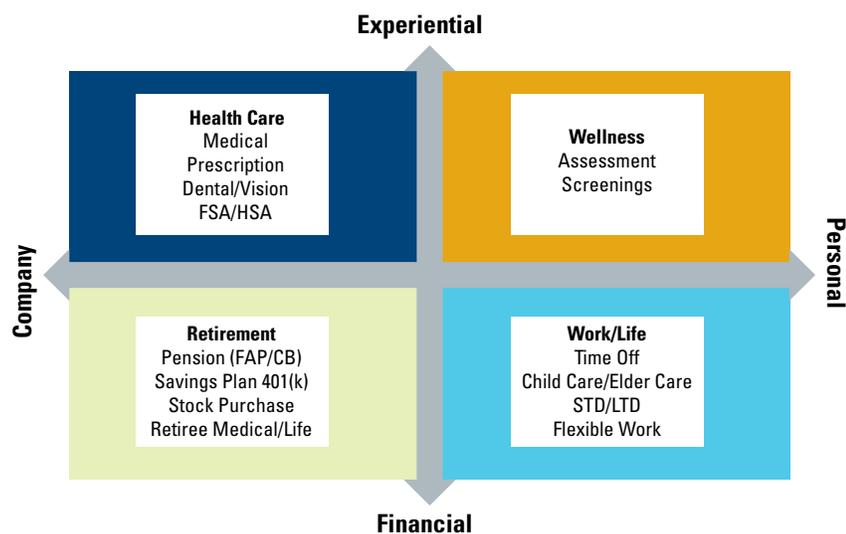
in benefits and other programs by operating within a total rewards framework.

Before we get too far along in this viewpoint, it's useful to define what we mean by *total rewards*. At Aon Hewitt, we use this four-quadrant model (Figure 1) to illustrate the concept of total rewards.

- *Financial or experiential*—Financial elements have a clearly defined value or cost, while experiential elements are those the employee experiences through interaction with the company, leadership, management, employees and customers.
- *Personal or company*—Some rewards are tailored to the individual (e.g., salary, bonus, personal goals, development plan, etc.), while others are provided in more or less the same way to all employees (e.g., benefits, culture, work environment).

Everything an employee receives from an employer can—and should—be positioned within this framework.

FIGURE 1



High-Performing Companies Think Total Rewards (Because Employees Do)

In its recent 2012 Total Rewards Study, Aon Hewitt found that *high-performing companies* (i.e., those organizations that achieve the highest revenue against objectives, are most innovative and enjoy high levels of employee engagement) have adopted total rewards as a way of thinking about attracting, motivating and retaining employees. In fact, high-performing companies are twice as likely as others to declare total rewards an area of focus and experience a stronger return on their investment in their employees.

According to the survey, here's what these companies are doing well:

- **Setting clear goals for total rewards.** High-performing companies articulate total rewards as an area of focus and articulate a clear total rewards strat-

egy that includes objectives, measures and competitive positioning.

- **Aligning total rewards to business objectives.** High-performing companies achieve better alignment between total rewards programs and the business, relative to other companies. In particular, these companies align programs that are also differentiating factors (e.g., culture, manager effectiveness, training/learning and career development).
- **Demonstrating the connection between total rewards and the business and to employees.** High-performing companies use targeted and innovative multi-channel communications to meet the needs of a diverse workforce. High-performing organizations are twice as likely to have em-

ployees who understand the value of the total package.

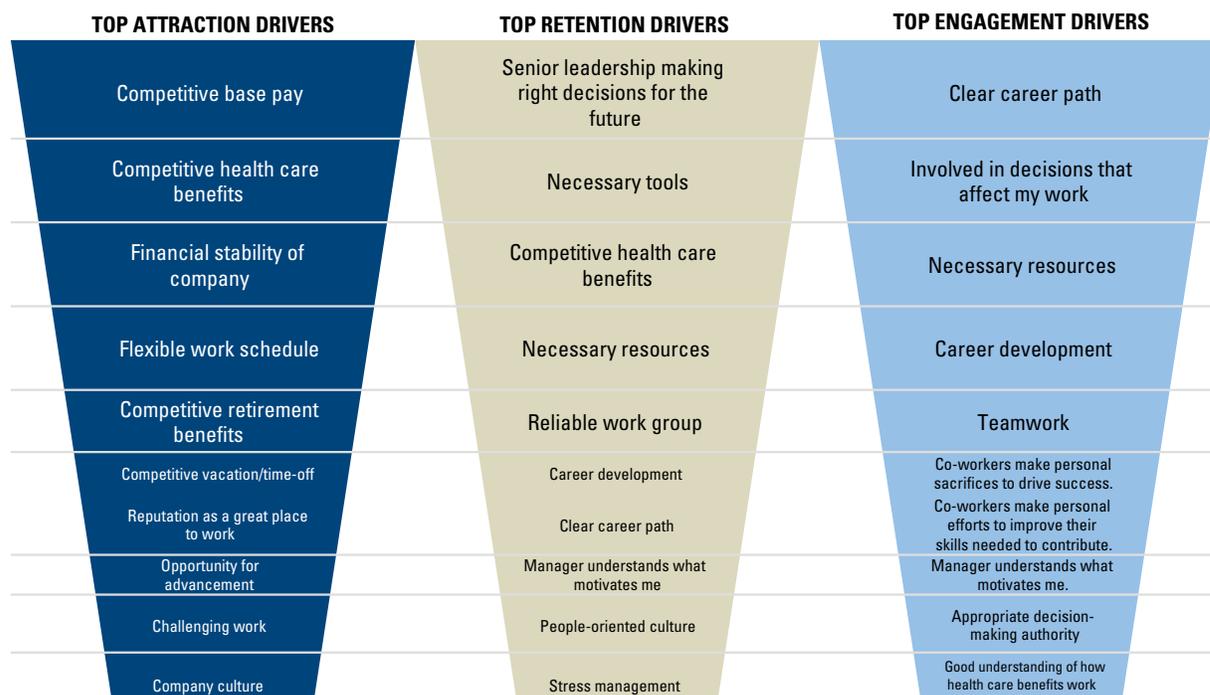
- **Defining success using measures beyond cost.** High-performing companies are much more likely to define and measure success through a balance of employee value and return on investment (ROI)—in addition to, but not necessarily more important than, budget and cost management. Other common measures include employee engagement and employee satisfaction with programs.
- **Balancing more inputs when making decisions.** High-performing companies gather input from leaders as well as employees before designing or communicating total rewards. In addition to external input, such as competitive benchmarks, legislation and trends, input on employee preferences and the impact of different rewards on employee engagement and retention can be extremely useful.

High-performing companies that focus on the above principles achieve better outcomes than the rest of the companies in the study. Their business results (operational efficiency, customer service and quality) are higher, their employees are more likely to understand the value of their total rewards and engagement is more likely to be trending upward.

Take It From Employees . . . Total Rewards Matter

Employees have long been telling us that while benefits are important, other factors make up the employment “deal” when joining a new employer, staying

FIGURE 2



Source: 2011 Aon Hewitt Engagement 2.0 Employee Survey—U.S.

with an organization or being motivated to perform. (See Figure 2.) Health care benefits, for example, are not only expected when joining an organization—they’re considered a motivator for staying with an organization.

Understanding the importance of benefits relative to other total rewards throughout the employment life cycle can help you better design and manage programs that will help you attract, retain and engage key talent.

A Bold New Total Rewards Framework With a Focus on Benefits

It’s time for breakthrough thinking on the topic of total rewards and benefits. Consider the model shown in Figure 3 as a complement to the four-quadrant model outlined earlier. The model helps employers think about the value total rewards deliver for employees, rather than an ever-growing list of programs that are given equal importance.

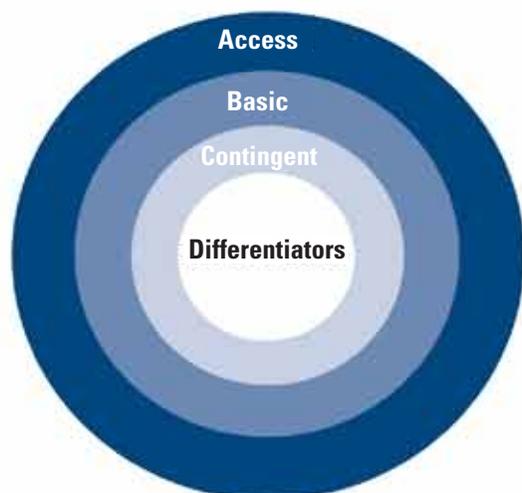
This new model is intended to serve as a catalyst to stimu-

late new thinking around where to focus energy, effort and expense in total rewards.

Thinking about benefits within this total rewards framework provides focus to how you design, deliver and communicate. With this framework, the emphasis shifts from providing access to rewards as well as basic rewards to using rewards to drive behavior (*contingent rewards*) and those rewards that are going to set you apart (*differentiators*). In the end, these are the rewards that will create the greatest return on your investment.

The Starting Point: A Total Rewards Strategy

A written total rewards strategy provides a framework within which employers can design, administer and evaluate effective total rewards programs. A well-conceived strategy—whether focused primarily on benefits or broader rewards—is informed first by input from leadership. When we ask what leadership wants from total rewards, the shift toward a total rewards framework becomes even clearer. Leaders want:

FIGURE 3**Where to Focus Energy, Effort and Expense**

- **Access** refers to those rewards to which the organization provides access only—the rewards themselves are paid for by the employee or (in some cases) perhaps a third party. These could include things like group legal insurance, critical illness insurance and discount programs.
- **Basic rewards** are those “table stakes” reward elements that the organization feels it must provide to be in the game, things like health and welfare and retirement benefits.
- **Contingent rewards** are those elements of the package that are delivered based on some level of performance or behavior by the employee. Wellness incentives are an example of these types of rewards.
- **Differentiators** are the one, two or—at most—three reward elements that are going to set your company apart, the elements for which you want to be famous.

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- To manage rewards as a portfolio vs. set of programs
- More open communication to employees
- More performance-based benefits and rewards
- To be open to new and innovative ideas on program design to differentiate in the marketplace
- To continue to centralize design/administration to manage efficiency and cost.

The table on the following page highlights how leaders from high-performing organizations define the future state of their total rewards philosophy.

Moving to Total Rewards: One Step at a Time

Optimizing your investment in total rewards begins with a core set of guiding principles and continues with understanding what employees value most. Figure 4 illustrates key steps in the development of a total rewards strategy.

Bringing It All Together for Employees: Five Strategies for Success

Having a total rewards strategy and a competitive total rewards package doesn't mean much unless your employees fully value what you offer and are motivated to perform at

the level you expect. Strong, consistent communication can bring your business, employment and total rewards messages together for employees in a way that helps drive attraction, retention and engagement.

When it comes to effective total rewards communication, five strategies can make a big difference in employee understanding, perception of value and motivation.

1. **Define your differentiator.** For years, communication efforts have centered on benefits, due in large part to open enrollment and legal requirements. With this primary focus, employers miss the opportunity to truly differentiate the employment experience. In addition to helping inform your overall total rewards strategy and programs, identifying what it is you want to be famous for can guide your key communication messages. Your differentiator should support your business and what it is that motivates your employees, and can fall into any one of the four quadrants described earlier. Keep in mind, many leading companies are shifting more of their total rewards in the areas of career opportunities, learning and development, and coaching. They are doing so,

TABLE

Shifts in Design of Total Rewards Program

Respondents Expect to see LESS . . .

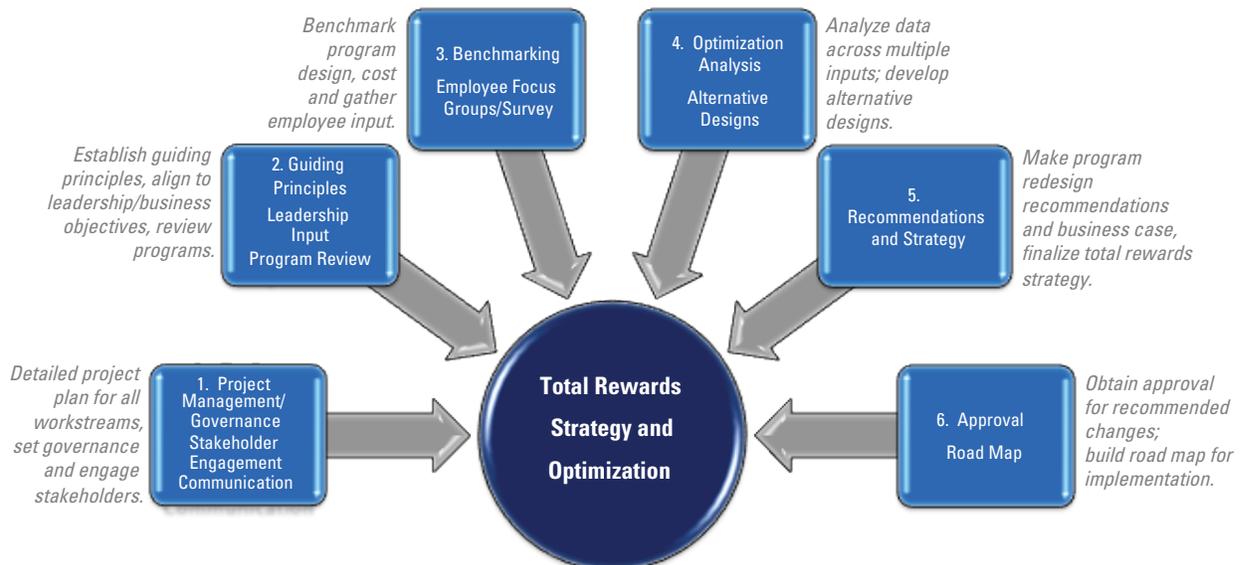
- Decentralized approaches to rewards
- One-size-fits-all approaches to rewards
- Rewards being managed element by element
- No choice offered
- Same rewards for all
- Rewards linked to companywide results
- Rewards based on results and effort
- Company bearing cost and risk in reward programs
- “Need-to-know” mentality driving communication

Respondents Expect to See MORE . . .

- Centralized approaches to rewards
- Customized reward programs
- Rewards being managed as a portfolio
- Individual choice
- Differentiated rewards based on performance
- Rewards tied to individual performance
- Rewards based on results only
- Employee bearing cost and risk in reward programs
- Open communication about rewards

Source: Aon Hewitt 2012 Total Rewards Study.

FIGURE 4



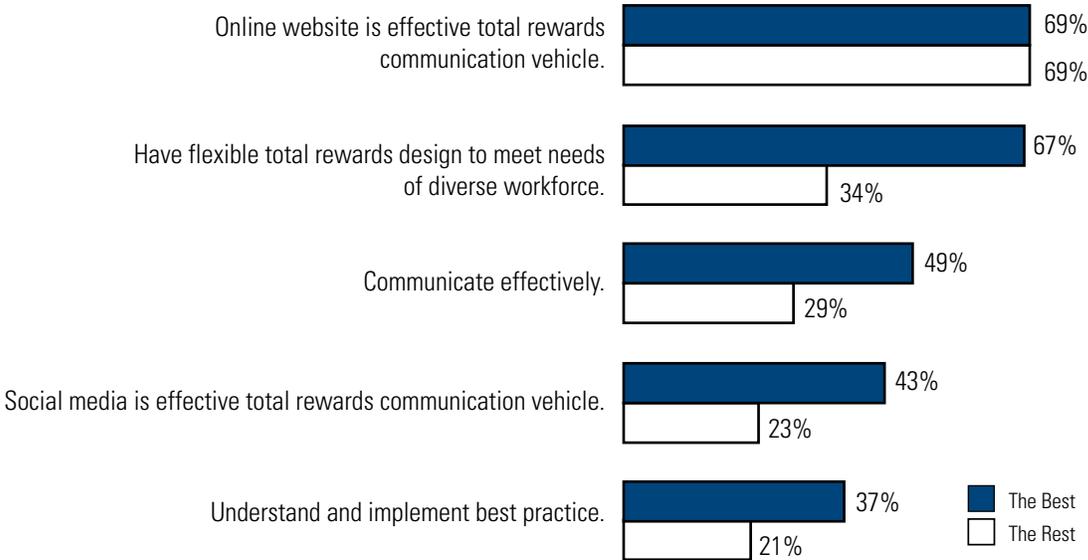
in part, because those programs are harder for competitors to replicate.

2. **Learn what motivates your employees.** Knowing what motivates employees can help you develop a comprehensive, yet targeted, communication strat-

egy. One approach that is gaining traction within HR, total rewards and benefits is *segmentation*—the process of breaking down large populations into similar groups of employees to understand what is important to them and how they might behave in

FIGURE 5

Effectiveness of Total Rewards Communication



Source: Aon Hewitt 1012 Total Rewards Study.

certain circumstances. The more data you can gather and leverage (demographics, attitudes, behaviors and preferences), the more successful and targeted your communication strategy will be.

- 3. **Develop a total rewards brand.** Consumer marketers have always known the power of a strong *brand* (i.e., a clear voice, compelling message, consistent visual identity). Employers are starting to get the picture, too. An effective total rewards brand tells a compelling story—what’s expected of employees and what they can expect in return when it comes to maximizing their total rewards. An effective total rewards brand articulates the value of not only the collection of programs you offer but things like culture and work experience. And, most importantly from a talent perspective, an effective total rewards brand inspires action by making it clear to employees what it takes to meet both business and personal needs. Once a total rewards brand is established, you’re able to communicate consistently, using the same language, tone and style each time you reach to

employees. Repeating the message on a regular basis so that it becomes familiar and recognizable is critical.

- 4. **Personalize the experience.** When it comes to total rewards, it’s all personal. Employees want to know how they’re rewarded, how they’re protected and what they need to do to be successful. And as outlined earlier in this article, employees generally think in terms of total rewards vs. benefits. So the best way to address those needs is to get personal. That’s one of the reasons personalized statements—both print and online—remain one of the most popular and effective communication tools. (According to the Aon Hewitt database of total rewards statement customers, nearly 90% of employees who received a total rewards statement say that the statement provides value.) And in today’s world, we have the ability to provide employees with even greater access to real-time information on total rewards through total rewards statements and portals.
- 5. **Reach people through multiple communication channels.** When it comes to communication, one

size definitely doesn't fit all. Employers that deliver communication through multiple vehicles are more successful at reaching their people and thereby creating greater perceived value. Using a variety of channels—social media, direct mail, electronic solutions—signals that total rewards messages are important and require attention/action.

These five strategies are most effective when applied to a total rewards framework.

Figure 5 shows how companies, including those considered high performing, view total rewards communication.

Conclusion

Managing within a total rewards framework doesn't mean that you have to completely change the way you design and deliver benefits. Managing within this framework provides focus by helping you identify the programs that will enable you to attract, retain and engage your talent. Managing

within this framework also resonates with employees—when packaged and communicated together, your total rewards can set you apart. 

AUTHORS

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