

Top Five Total Rewards Priorities for 2006

Twelfth Consecutive Year

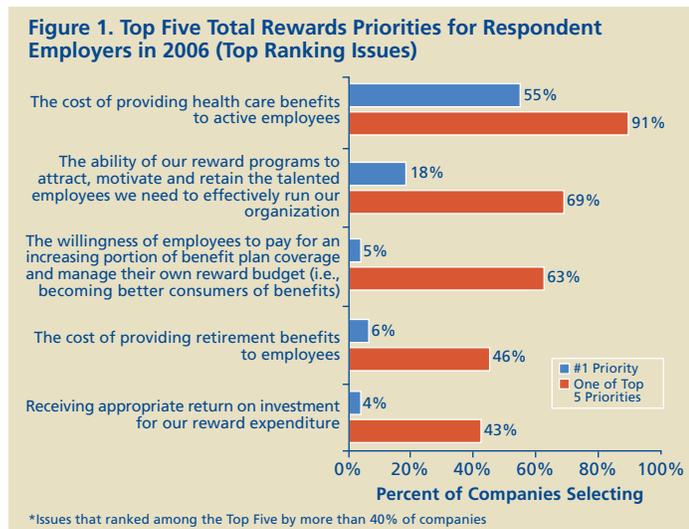


For the seventh consecutive year, benefit specialists have identified controlling the cost of health care benefits as their number one benefit priority. At the same time, the tension between balancing cost containment and the attraction and retention of workforce talent, which first emerged as an issue last year, has become more acute.

Key Findings

The *Top Five Total Rewards Priorities Survey*, now in its second decade, highlights the fact that employee benefit specialists agree almost unanimously that controlling health care costs is a top benefit priority for employers in 2006. Overall, 91 percent of respondents identified this issue in their top five priorities, with 55 percent naming it their number one priority. This is the seventh consecutive year that benefit specialists have identified controlling health care costs as their companies' number one priority.

At the same time, the number two and number three priorities cited by benefit specialists clearly indicate a growing tension in their companies' total rewards programs. On the one hand, respondents' companies recognize the need for total reward programs that motivate employees to perform effectively. On the other hand, they see a growing need to have employees assume an increasing portion of their benefit coverage and manage their own reward budgets.



A chart showing the lower-ranked priorities appears in the Appendix.

Cost Containment Still Number One

Not only is controlling the cost of health care benefits the number one benefit priority by a large margin, but three of the next four top priorities are also financial- or cost-related in nature. For example, the third highest rated priority focuses on increasing employees' responsibility for benefits directly (by sharing costs) and indirectly (by managing rewards budgets). Moreover, the percentage of respondents who cited increasing employees' responsibility as a top priority this year (63 percent) was up noticeably from last year (52 percent).

The year's survey results also show the actions companies are taking to trim the costs of benefits and increase employees' responsibility. For example, 82 percent of respondents aim to redesign some or all of their health and welfare plans. Of those seeking a redesign, 90 percent intend to change the medical plans of active employees, and 36 percent expect to change retiree medical plans. The number one reason for these intended changes is to reduce costs, cited by 73 percent of respondents. In addition, 77 percent of those planning health and welfare plan redesign expect to increase active employees' share of costs, and 68 percent plan to increase the use of consumerism by active employees.

Attraction and Retention versus Cost Containment

While controlling the cost of health care benefits has been survey respondents' number one priority for almost a decade, a new concern emerged in last year's *Top Five Total Rewards Priorities Survey*: the tension between cost containment, on the one hand, and the attraction and retention of employees, on the other. This year's survey provides evidence that this tension is increasing.

Providing rewards programs that attract, motivate, and retain talent is the number two priority this year, as it was in 2005. At the same time, the percentage of respondents who listed this priority is up markedly, from 56 percent last year to 69 percent in 2006.

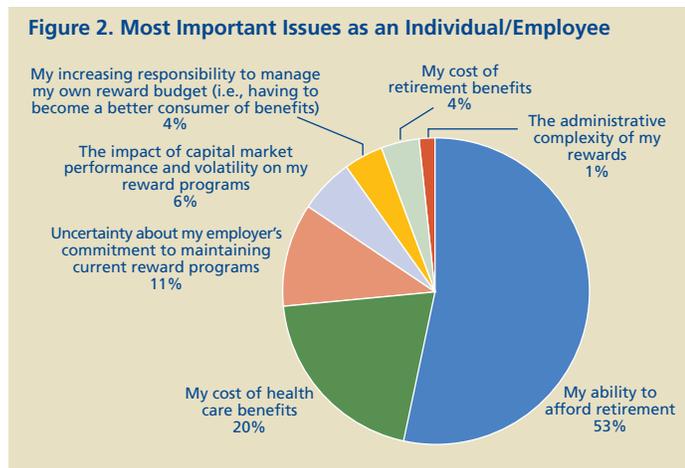
This tension is also reflected in the survey findings on the actions benefit professionals are taking or planning to take. For example, 72 percent are redesigning their compensation plans, with the primary focus on variable cash, cited by 53 percent of those making changes. Of those making or planning changes, 55 percent say their number one priority is improving employee attraction/motivation/retention.

More than half of the respondents (51 percent) have recently redesigned their retirement programs or plan to do so. These benefit professionals split almost evenly between those whose number one priority is reducing costs (39 percent) and those whose goal is improving employee attraction/motivation/retention (34 percent).

Finally, in this context it's important to note a new entrant into the Top Five priorities in 2006: receiving appropriate return on investment on reward expenditures. This finding indicates that respondents are not focused simply on making cuts in benefits to handle the rising costs of employee benefits. Instead, they are now looking at ways to get the most return (attraction/motivation/retention) on the dollars they invest in health care benefits, retirement, etc.

Retirement Is the Number One Priority for Employees

In recent years, the *Top Five Total Rewards Priorities Survey* has asked benefit specialists to rank not only their companies' views, but also their personal priorities from their perspectives as employees. In the 2006 survey, more than half of the respondents, 53 percent, cited their ability to afford retirement as the issue most important to them personally. This issue was far ahead of their number two priority, the cost of health care benefits, cited by 20 percent of respondents. See Figure 2.



These results may reflect the demographic profile of the respondents, who are primarily mid- to senior-level executives and, therefore, may be somewhat older than the overall working population. The results may also stem from the sophistication of respondents, who as total rewards professionals recognize that their ability to retire includes considerations related to the cost of health care.

Other Key Findings

- More than a third of respondents (34 percent) cited as a priority the impact of recent legislation/regulations (such as HIPAA, the American Jobs Creation Act, Sarbanes-Oxley, etc.) on their company's reward programs, underscoring the growing importance of the increasingly complex federal and state regulatory environment.
- Eighty-one percent of respondents said their companies plan to redesign the communication, alignment, and measurement of their reward programs. And, 87 percent of those planning a redesign intend to better inform their employees about reward programs.

Methodology and Demographics

In this, the twelfth consecutive year of the survey, members of the International Society of Certified Employee Benefit Specialists (ISCEBS), as well as select Deloitte Consulting LLP (Deloitte Consulting) clients and contacts, have been asked to identify their total rewards priorities for the coming year. The survey is developed and conducted by Deloitte Consulting's Human Capital practice in collaboration with the ISCEBS.

In conducting the survey, participants were asked to respond as representatives of their employer organizations or the clients they serve.

For purposes of this survey, the term "total rewards" is defined as all compensation, benefits, perquisites, and any other direct or indirect payments made to employees.

In addition to ranking their employer's top five total rewards priorities, respondents were asked to identify actions they have taken relative to their company's total rewards issues within the past twelve months or expect to take during the next twelve months.

These actions were grouped in the following nine categories:

- Redesign some/all of compensation plans
- Redesign some/all of retirement plans
- Redesign some/all of health and welfare plans
- Restructure financing of some/all rewards programs
- Restructure administration of some/all rewards programs
- Redesign the communication, alignment, and measurement of some/all rewards programs

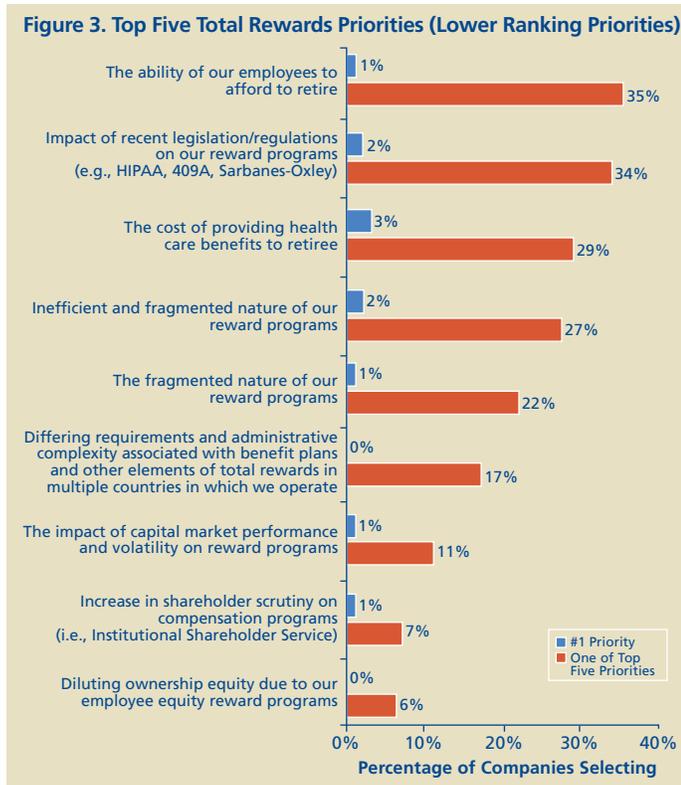
A total of 422 benefit specialists responded to this year's survey, representing all regions of the United States. In addition to geography, the survey asked respondents to identify their company's primary industry. Findings were generally very consistent across the regions and industry segments, with a few notable differences described below:

- **Consumer business.** Respondents are slightly less concerned than respondents in other industries about retirement plan costs and slightly more concerned about willingness of employees to pay more.
- **Health care.** Respondents are slightly more concerned than respondents in other industries about the willingness of employees to pay more and about their industry's ability to attract/retain/motivate employees.

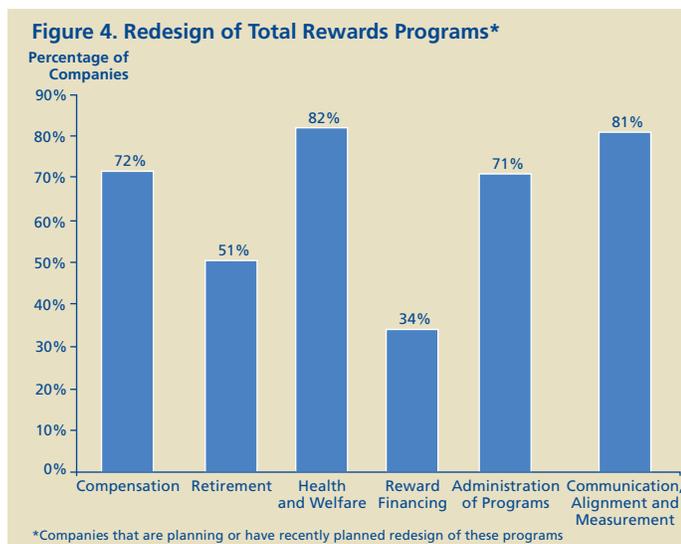
Appendix

The following graphics highlight the remainder of the survey's findings.

Lower ranking priorities: shows the total rewards priorities that were ranked among the Top Five by fewer than 40 percent of survey participants:



The following chart shows which total rewards programs participants are planning to redesign or have recently redesigned in the past twelve months.

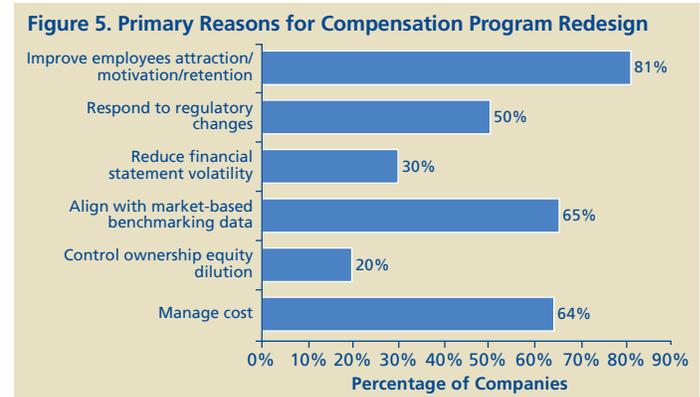


Compensation

Among the 72 percent of respondents that are redesigning their compensation programs, the following components are receiving the most attention:

- Base cash – 36%
- Variable cash – 53%
- Equity – 34%
- Non-qualified deferred compensation plans – 38%
- Employee stock purchase plans – 16%
- Sales compensation plans – 32%

Those respondents redesigning their compensation programs ranked the following reasons as “important” or “very important:”



Retirement

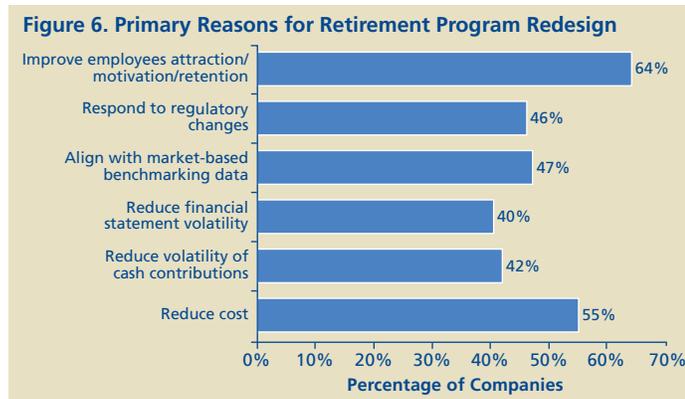
Among the 51 percent of respondents that are planning to redesign their retirement plans, the following components are receiving the most attention:

- Defined benefit pension (qualified plans) – 49%
- Defined contribution savings (qualified plans) – 19%
- Defined benefit pension (non-qualified plans) – 63%
- Defined contribution savings (non-qualified plans) – 27%

These respondents are considering the following options for the redesign of the retirement programs:

- Plan freeze – 29%
- Plan conversion (DB to DC) – 16%
- Plan conversion (DB to hybrid – e.g., cash balance) – 10%
- Reduce future benefit accruals – 20%
- Change benefit accruals for new hires – 24%
- Consider phased retirement – 14%
- Provide employees with better tools to plan for their retirement needs – 53%
- Offer enhanced pre-retirement planning sessions for employees – 31%
- Reduce company contributions to DC plan – 9%
- Increase company contributions to DC plan – 26%
- Other – 9%

Those respondents redesigning their retirement programs ranked the following reasons as “important” or “very important”:



Health and Welfare

Among the 82 percent of respondents that are planning to redesign their health and welfare plans, the following components are receiving the most attention:

- Active employee medical plan – 90%
- Active employee life insurance – 15%
- Active employee disability – 21%
- Other active employee health and welfare plans – 16%
- Retiree medical plans – 36%
- Retiree life insurance – 4%
- Other retiree health and welfare plans – 4%

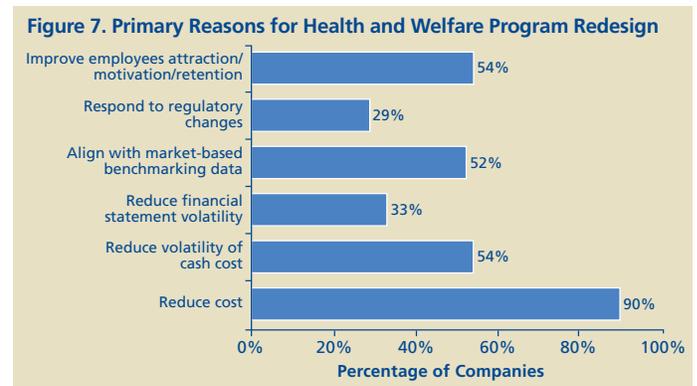
These respondents are **primarily** considering the following options for the redesign of the health and welfare programs:

- Increase use of employee cost sharing for active employee plans – 77%
- Increase use of consumerism for active employee plans – 68%
- Introduce financial incentives aligned with benefit programs to participate in fitness, wellness or disease management initiatives – 45%
- Add a consumer-driven health care plan as an option plan for our employees – 41%

Other options these respondents are considering for the redesign of the health and welfare plans include:

- Reduce benefit levels for active employees – 28%
- Reduce the number of plan options available to active employees – 25%
- Replace current health plan with a consumer-driven health care plan – 19%
- Increase participant cost sharing for post-employment plans – 18%
- Eliminate/freeze participation in post-retirement plans – 15%
- Increase use of consumerism for post-employment plans – 10%
- Introduce a lower level of benefits for newly-hired employees – 6%

Those respondents redesigning their health and welfare programs ranked the following reasons as “important” or “very important”:



Reward Financing

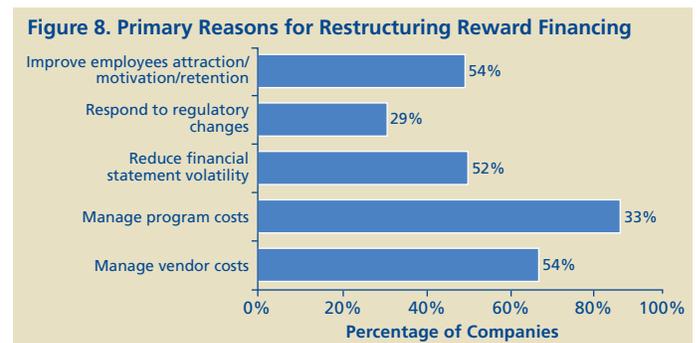
Among the 34 percent of respondents that are planning to restructure the financing of their reward plans, the following components are receiving the most attention:

- Qualified retirement plans – 31%
- Non-qualified retirement plans – 14%
- Health and welfare plans for active employees – 72%
- Health and welfare plans for retirees – 40%

These respondents are considering the following financing alternatives:

- Implement investment risk management techniques to better manage retirement financing – 44%
- Change funding vehicle for health and welfare benefits – 52%

Those respondents redesigning their reward financing ranked the following reasons as “important” or “very important”:



Administration

Among the 71 percent of respondents that are planning to restructure the administration of their reward programs, the following components are receiving the most attention:

- Improve our governance and administration to meet the requirements of Sarbanes-Oxley – 40%
- Increase use of employee self-service technologies – 76%
- Increase use of outsourced administration providers – 38%
- Reduce use of outsourced administration providers – 4%
- Consolidate number of outsourced administration providers – 18%
- Introduce strategies to place vendor fees at risk for measurable performance outcomes – 27%
- Undertake comprehensive transformation of HR delivery model, covering process, technology, structure, and vendors – 29%

Administration

Among the 81 percent of respondents that are planning to redesign the communication, alignment, and measurement of their reward programs, the following components are receiving the most attention:

- Increase employee communication and education surrounding our reward programs – 87%
- Redesign some of our reward programs to better align the interest of employees and the organization – 52%
- Create more consistent and strategically aligned Total Reward programs on a global basis – 29%
- Better measure return on investment of our reward programs – 33%

Demographics

Figure 9. Participants by Region

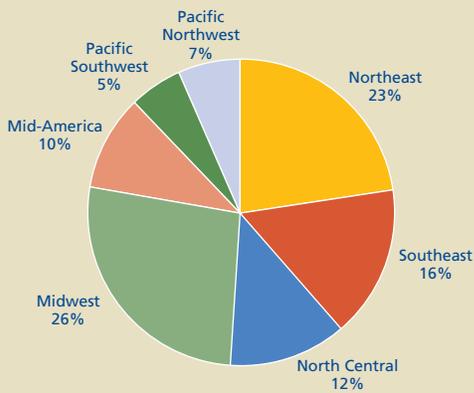


Figure 10. Participants by Industry

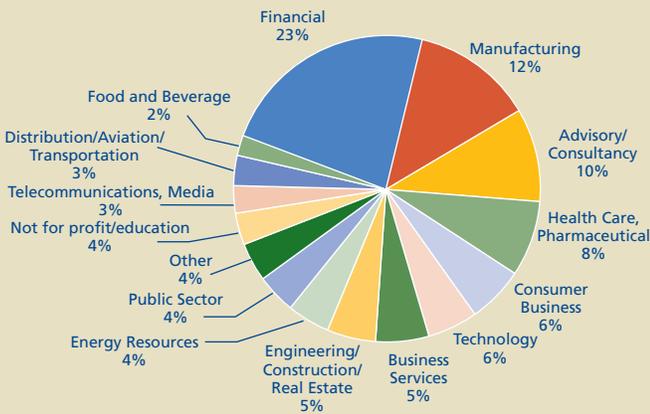


Figure 11. Participants by Ownership Structure

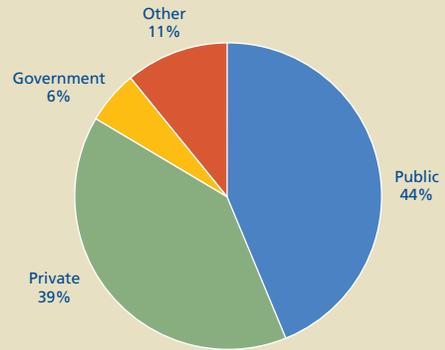


Figure 12. Participants by Number of Employees

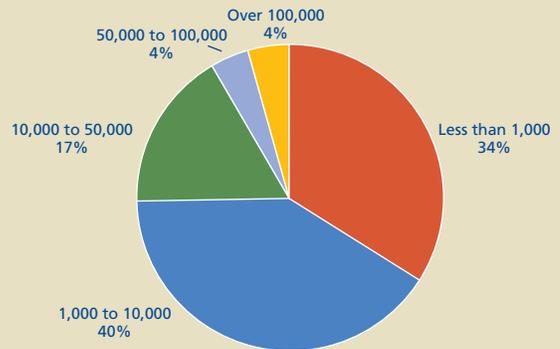
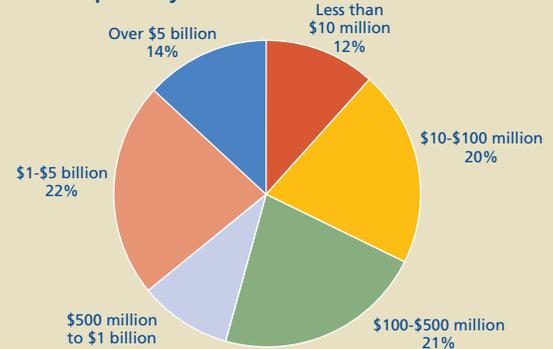


Figure 13. Participants by Revenue



ISCEBS

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