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Consulting



2007 Top Five
Total Rewards Priorities

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Overview

Respondents to our 2007 Top Five Total Rewards Priorities Survey indicated that talent issues are beginning to trump concerns about health care costs. Health care costs are still a pressing priority, but talent shortages represent a greater challenge. As we move forward in the 21st century, demographics and globalization trends outweigh other issues.

Meanwhile, employees seem worried most about their ability to afford retirement. Yet from an employer's perspective, this does not even make the Top Five list of priorities for 2007. We believe this will be a complicated year for companies as they wrestle with these competing priorities and try to adjust their Total Rewards programs.

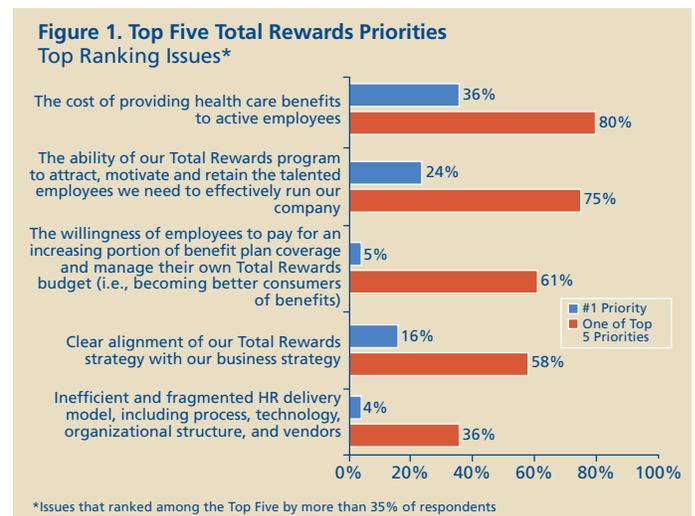
For 2007 and the last eight consecutive years, survey respondents identified controlling the cost of health care benefits as their number one Total Rewards priority. However, for the first time there is now a clear divergence between opinions based on the size of respondents' companies – companies with revenues of more than \$1 billion see attraction and retention of a high-quality workforce as their number one priority for 2007.

When asked to look out over the next three years, companies of all sizes cite attraction and retention as the top challenge. Overall, concern about sustaining a high-quality workforce has reached an all time high, creating a growing tension between cost control and talent management.

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Cost versus talent: A sea-change is underway

The Top Five Total Rewards Priorities Survey has been conducted annually since 1994, sponsored jointly by Deloitte Consulting LLP (Deloitte Consulting) and the International Society of Certified Employee Benefit Specialists. The 2007 results highlight the delicate balancing act that HR professionals now see between controlling health care costs and attracting and retaining workforce talent. While respondents identify health care costs as the number one benefit priority for employers in 2007, providing their companies with talented workers is a very close number two – a gap of only 5 percent among respondents. (See Figure 1)

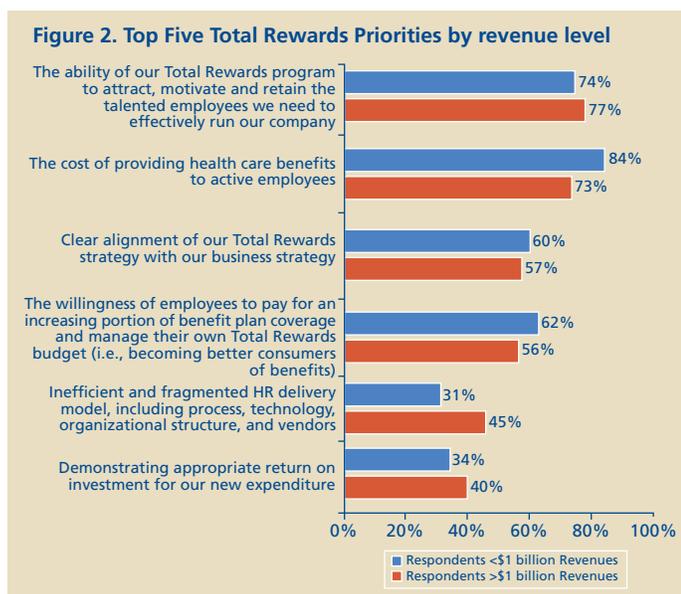


Overall, 80 percent of respondents identified controlling health care costs as one of their Top Five priorities, with 36 percent naming it their number one priority. Concerns about health care costs are down significantly from the 2006 results: 91 percent and 55 percent, respectively.

At the same time, concern about the ability of companies to attract, motivate, and retain talent continues to rise steadily. This year, 75 percent of respondents listed this priority in their Top Five, making it a very close second to containing health care costs. Moreover, the percentage of respondents that list this priority has changed markedly in the last two years, up from 56 percent in 2005.

While the interplay between these two largely conflicting concerns exists for the significant majority of respondents, the ordering for large companies is reversed, with attracting, motivating, and retaining talent the highest ranked priority, slightly higher than the control of health care costs. Among companies with revenues of more than \$1 billion, 77 percent of respondents identified attracting, motivating, and retaining talent in their Top Five priorities, while 73 percent of respondents put the control of health care costs in their Top Five. This is the first clear divergence in the top priorities between larger and smaller companies in the 13-year history of the survey. (See Figure 2)

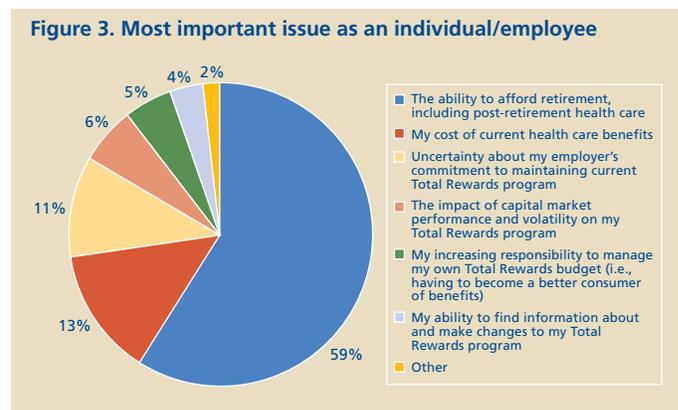
For the first time, respondents with more than \$1 billion in revenue ranked “attracting, motivating, and retaining talent” as a higher concern than “control of health care costs.” This is a clear divergence in the top priorities between larger and smaller companies.



At the same time, a critical disconnect is emerging

While this year’s survey confirms an increasing focus by respondents on the importance of having a talented workforce, there appears to be a disconnect between employee concerns and employer priorities.

In recent years, the Top Five Total Rewards Priorities Survey has asked benefit specialists not only to report their companies’ views, but also to rank their personal priorities, viewed from their perspective as an employee. In the 2007 survey, more than half of the respondents, 59 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 13 percent of respondents. (See Figure 3)



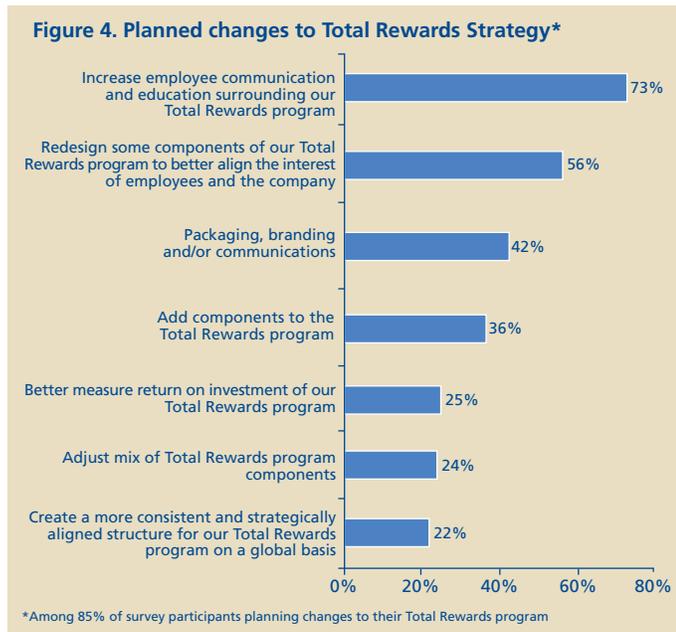
However, when asked to identify their company’s Top Five challenges, the ability of employees to afford to retire was far down the list, with only 25 percent listing it in the Top Five priorities and only 1 percent reporting it as their company’s number one priority. (See Appendix) While this may not be surprising, when analyzing the return on investment of a company’s Total Rewards spending in terms of motivating employees, it may indicate that the best ROI is not being achieved.

On the other hand, while employees’ ability to afford to retire is not rated as a top priority by employers, a high percentage of respondents indicate they plan to provide employees with better tools to plan for their retirement needs, offer enhanced pre-retirement planning sessions, and increase contributions to defined contribution plans, such as 401(k) programs.

While benefit specialists rank their ability to retire as their highest priority from an employee perspective, they admit that this concern is not in the Top Five concerns of their companies – a clear disconnect between employees’ and companies’ priorities.

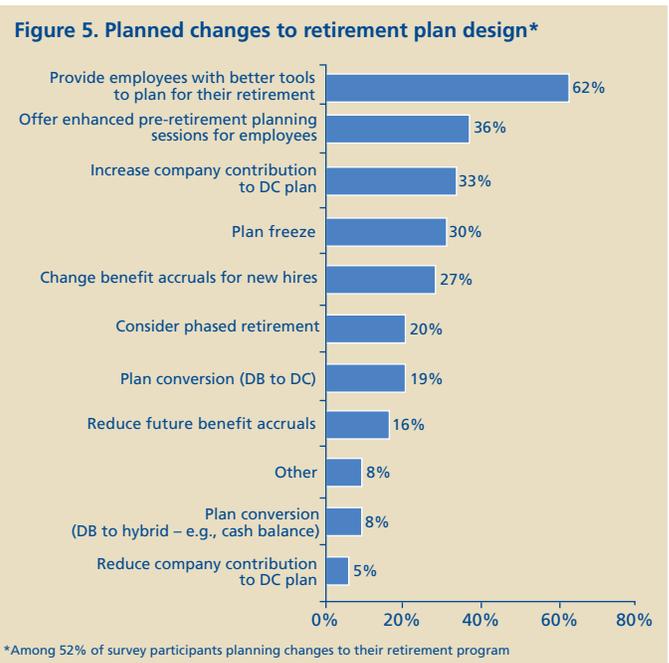
The result: communication is a new Total Rewards priority

As respondents work to balance their talent retention and cost-containment priorities, they are giving new attention to communicating their company's Total Rewards program to employees. Respondents planning changes to their overall Total Rewards program were asked to list the options they are considering. Almost three-fourths (73 percent) said they are planning to increase employee education and communication, and 42 percent said they are planning branding or other communications changes. (See Figure 4)



Respondents that are planning to redesign their retirement plans are also focusing on communication and education as ways to improve the value of the new plans to the companies and their employees. Almost two-thirds (62 percent) are considering ways to provide employees with better tools for retirement planning, while 36 percent plan to offer pre-retirement planning sessions to employees. (See Figure 5)

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Employers are searching for a balance

The expanding divide between talent attraction and retention on the one hand and cost containment on the other is reflected in the ways respondents are trying to change and position their Total Rewards program. In fact, 70 percent of respondents indicated that they intend to redesign their overall Total Rewards strategy.

HR professionals whose companies are planning to make or have recently made changes to their Total Rewards program were asked for the reasons behind the change. Almost half (48 percent) said managing costs was very important, while 45 percent cited improving employee attraction, motivation, and retention. When asked about the reasons for planned or recent changes to retirement systems, 34 percent of respondents cited cost reduction, the same percentage that cited employee attraction, motivation, and retention.

Finally, there are signs that respondents are looking for ways to tie their Total Rewards strategy more closely into their overall business strategy. In 2007, there was a new entrant into the Top Five priorities: 58 percent of respondents listed the clear alignment of Total Rewards strategy with business strategy as a priority for their company. We believe this finding further indicates that the growing pressure between the need for talent and the need to cut costs has encouraged respondents to avoid making benefits policy a zero-sum game. Instead, they are trying to align benefit policies more closely with their broader business strategies.

Seventy percent of respondents indicated that they intend to redesign their overall Total Rewards strategy – a clear reflection of how companies are dealing with the expanding divide between talent attraction and retention on the one hand and cost containment on the other.

Other key findings

- A large majority of respondents (65 percent) said their companies plan to redesign their medical plans for active employees. More than two-thirds (68 percent) of those are planning to increase the use of consumerism, and 53 percent plan to give employees financial incentives to take part in fitness, wellness, or disease management programs.
- Respondents are also starting to integrate risk management into their Total Rewards policies. For example, 45 percent of respondents considering changes to rewards financing are planning to implement risk management techniques to help improve retirement financing.
- Almost two-thirds of respondents indicated they plan to redesign some aspect of their compensation plans in 2007, with particular focus on variable pay, in an effort to enhance performance orientation.

Nearly two-thirds of respondents said their companies plan to redesign their medical plans for active employees – and most of those are planning to increase the use of consumerism in their medical plans.

Methodology and demographics

In this, the 13th consecutive year of the survey, members of the International Society of Certified Employee Benefit Specialists (ISCEBS), as well as 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 employers.

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.

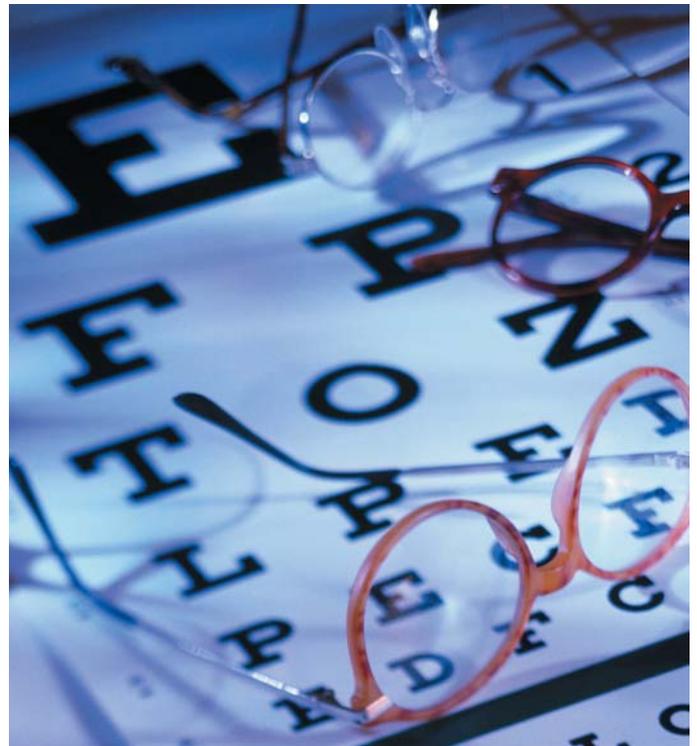
In addition to ranking their employer's Top Five Total Rewards priorities, respondents were asked to identify actions they have taken relative to their company's Total Rewards issues within the past 12 months or expect to take during the next 12 months.

These actions were grouped into the following seven categories:

- Redesign some/all of Total Rewards strategy
- Redesign some/all of compensation plans
- Redesign some/all of retirement plans
- Redesign some/all of health and welfare plans
- Redesign some/all of other reward programs
- Restructure financing of some/all Total Rewards programs
- Restructure administration of some/all Total 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 employer's primary industry. The results of geography and industry are captured in the following pie charts, with two notable industry-specific trends noted below:

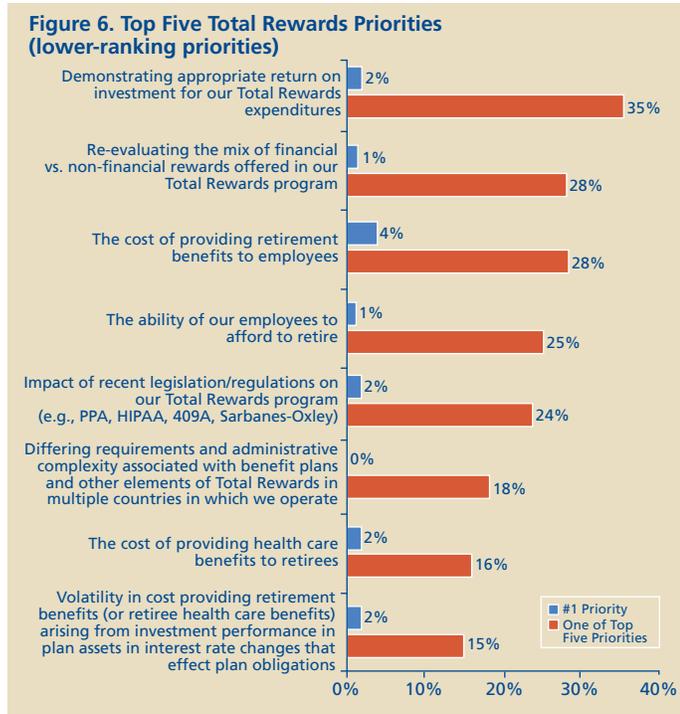
- Manufacturing companies placed slightly more emphasis on cost concerns and slightly less on attraction and retention of talent. A higher percentage of these companies intend to "redefine" Total Rewards in 2007.
- Financial services companies indicated slightly greater concern about attraction and retention of talent than about health care costs. These companies will focus more on base pay, sales compensation, and bonus plans.



Appendix

The following graphs and charts outline the rest of the survey's findings.

Lower-ranking priorities: shows the Total Rewards priorities that were ranked among the Top Five by 35 percent or fewer of survey participants.



The following chart shows which Total Rewards programs participants are planning to redesign or have recently redesigned in the past 12 months.



Total Rewards strategy/program

Among the 70 percent of respondents that are redesigning their Total Rewards strategy, the following components are receiving the most attention:

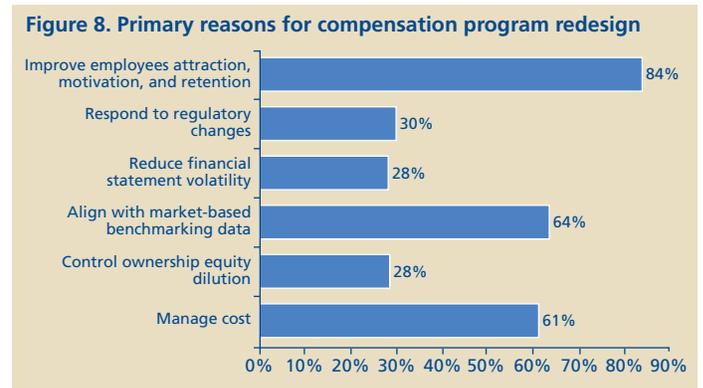
- 27% - Definition
- 62% - Mix of components
- 11% - Differentiation by business unit
- 24% - Differentiation by employee group (workforce segment)
- 23% - Complete redesign of overall Total Rewards strategy

Compensation

Among the 64 percent of respondents that are redesigning their compensation programs, the following components are receiving the most attention:

- 34% - Base cash
- 60% - Variable cash
- 24% - Equity
- 25% - Non-qualified deferred compensation plans
- 9% - Employee stock purchase plans
- 33% - Sales compensation plans

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



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

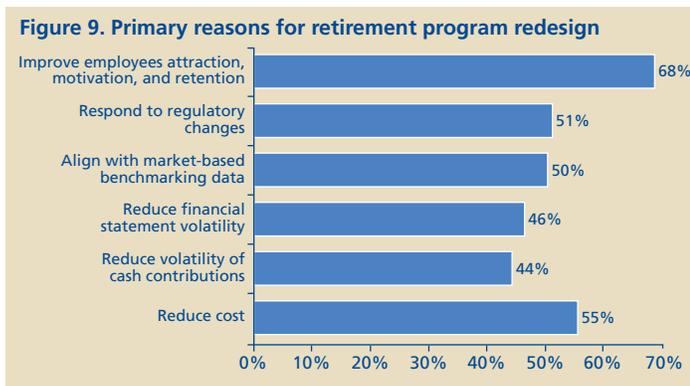
- 51% - Revise base pay structures
- 14% - Reduce merit pool
- 21% - Modify exempt/non-exempt policies or procedures
- 60% - Modify performance orientation for bonus plans (more performance-based)
- 10% - Reduce eligibility for equity plans
- 11% - Implement non-equity long-term incentive plan
- 51% - Improve performance management tracking and orientation
- 3% - Other

Retirement

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

- 44% - Defined benefit pension – Qualified plans
- 81% - Defined contribution savings – Qualified plans
- 13% - Defined benefit pension – Non-qualified plans
- 8% - Defined contribution savings – Non-qualified plans

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



Health and welfare

Among the 75 percent of respondents that are planning to redesign their health and welfare plans, the following components are receiving the most attention:

- 87% - Active employee medical plans
- 19% - Active employee life insurance
- 25% - Active employee disability
- 21% - Other active employee health and welfare plans
- 29% - Retiree medical plans
- 10% - Retiree life insurance
- 3% - Other retiree health and welfare plans

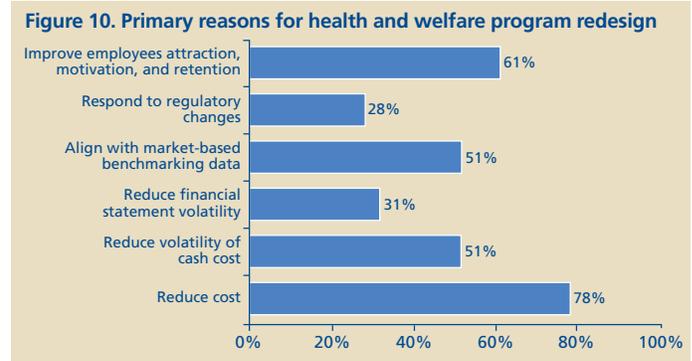
These respondents are primarily considering the following options for the redesign of their health and welfare plans:

- 68% - Increase use of consumerism for active employee plans
- 62% - Increase employee cost-sharing for active employee plans
- 53% - Introduce financial incentives aligned with benefit programs to participate in fitness, wellness, or disease management initiatives
- 42% - Add a consumer-driven health care plan

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

- 27% - Reduce the number of plan options available to active employees
- 21% - Reduce benefit levels for active employees
- 17% - Increase participant cost-sharing for post employment plans
- 14% - Replace the current health plan with a consumer-driven health care plan
- 12% - Eliminate/freeze participation in post-retirement plans
- 8% - Increase use of consumerism for post-employment plans
- 8% - Introduce a lower level of benefits for newly-hired employees
- 7% - Reduce benefit levels for retirees

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



Other Total Rewards programs

Among the 58 percent of respondents that are planning changes to other Total Rewards programs, the following components are receiving the most attention:

- 45% - Paid time off
- 45% - Learning and development programs
- 43% - Flexible work arrangements
- 20% - Formal and alternative career paths
- 25% - Mentoring programs
- 11% - Clubs and other affinity groups
- 16% - Employee discounts
- 2% - Other

Total Rewards financing

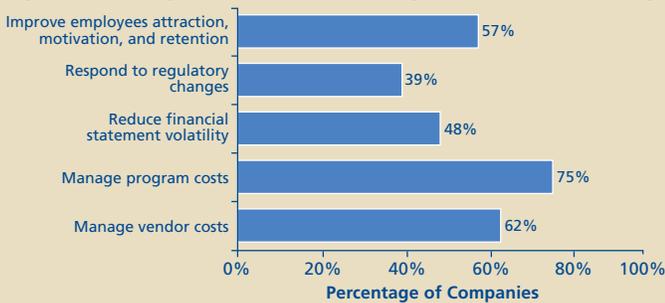
Among the 34 percent of respondents that are planning to restructure the financing of their Total Reward program, the following components are receiving the most attention:

- 39% - Qualified retirement plans
- 16% - Non-qualified retirement plans
- 65% - Health and welfare plans for active employees
- 30% - Health and welfare plans for retirees

The majority of these respondents (60 percent) plan to change the funding vehicle for health and welfare benefits, while 45 percent also plan to implement investment risk techniques to more effectively manage retirement financing.

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

Figure 11. Primary reasons for restructuring Total Rewards financing



Administration

Among the 67 percent of respondents that are planning to restructure the administration of their Total Rewards program, the following components are receiving the most attention:

- 26% - Improve our governance and administration to meet the requirements of Sarbanes-Oxley
- 77% - Increase use of employee self-service technologies
- 40% - Increase use of outsourced administration providers
- 4% - Reduce use of outsourced administration providers
- 21% - Consolidate number of outsourced administration providers
- 27% - Introduce strategies to place vendor fees at risk for measurable performance outcomes
- 20% - Undertake comprehensive transformation of HR delivery model, covering process, technology, structure, and vendors
- 2% - Other

Demographics

Figure 12. Participants by region

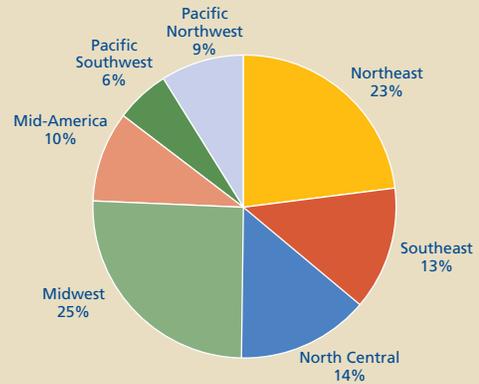


Figure 13. Participants by industry

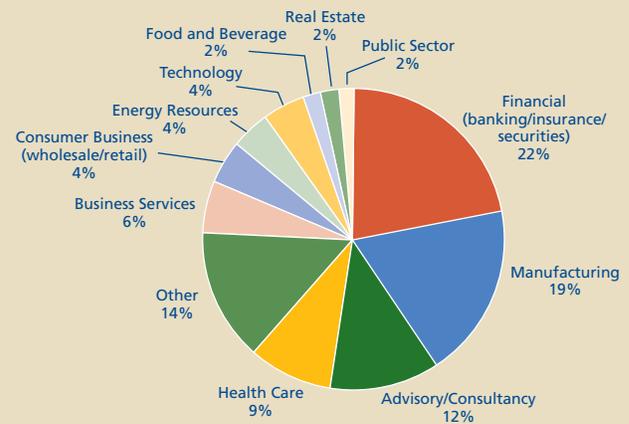


Figure 14. Participants by number of employees

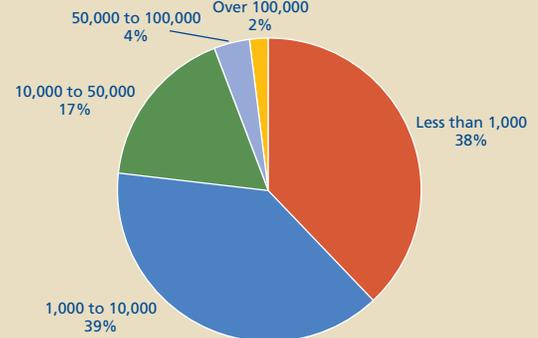
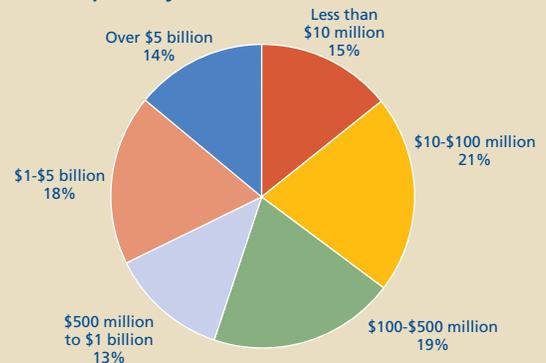


Figure 15. Participants by revenue level



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