Creating a total rewards strategy for today and tomorrow

A guidebook for total rewards leaders to create a sustainable strategy that meets employee needs — working within the current economic realities

welcome to brighter
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The case for change

Employees today are looking for something different — from their experience at work to the support they get from their employer. Mercer’s Inside Employees’ Minds research shows there has been a significant shift in the mindset around work, driven by the pandemic, global social and political crises over the last few years, and ongoing disruption to business models in many sectors.

Not surprisingly, only 6 in 10 employees say they’re satisfied with their compensation and benefits as inflation remains high, stocks fall and tension grows across political and social discourse. But the mindset shift is bigger than a desire for more flexibility or even better pay. In a world where the future is uncertain, employees are focused on their well-being today and the meaning of work in their lives.

And employees still have leverage. Despite the changes in the economy, the labor market has remained resilient — and is expected to stay competitive for some time. As a result, we see that half of employers are revisiting their total rewards strategy in the next six to 12 months, with the goal of attracting and retaining new talent.

Not long ago...

Work hard now

Gain resources

Attain well-being in the future

...Today

Prioritize well-being now

Work in a way that works for me

Live life now
The difficult question remains: how do employers meet employees’ needs while also dealing with the economic realities? The answer is: by putting sustainable, targeted programs into place that work for you today and tomorrow — rather than following trends. Many organizations didn’t think about sustainable total rewards in the race for talent over the last few years. For example, many tech and financial services firms offered flexibility during a hiring spree, but now are insisting on a return to the office.

Leaders, here are four actions you can take to redesign your total rewards strategy with a focus on sustainable differentiation:

1. **Lead with listening**
2. **Get to the heart of the issue**
3. **Identify where you want to shine**
4. **Engage for impact**

**US Labor Market Remains Tight**

Why will talent shortages persist?

**Fewer people are participating in the labor market**

The labor force participation rate of 62.5% remains well below pre-pandemic levels (63.3% as of February 2020)¹

**Immigration is slowing**

The US workforce has 2 million fewer immigrants than it would have if immigration continued at pre-pandemic levels²

**The workforce isn’t expected to grow much**

Over the next 10 years, the US workforce will grow at an average annual rate of 0.5%, a slower rate than recent decades¹

**People are working less**

Recent research shows that Americans are working fewer hours in a post-COVID world — with the largest hours declines in young, educated men³

Sources

2. Econofact “Labor Shortages and the Immigration Shortfall” 2022
The vast majority of organizations (79%) use benchmarking to inform their total rewards strategy, while only 24% use employee preference insights as an intelligence tool on a recurring basis.

**Action 1:**

**Lead with listening**

Currently, the most prevalent approach to developing a total rewards strategy is benchmarking. While critically important, benchmarking against the competition alone drives a 'race to the middle' of the market — rather than helping you stand out. Targeting the 50th percentile alone is not a winning strategy.

To design an employee value proposition (EVP) that people care about, first start by listening to your customers — your employees — to understand their unique needs and preferences. Then, use benchmarking to validate your direction, potential sources of differentiation, and build the case for change.

The right employee listening strategy starts with understanding where you are and where you want to be. If you’re just getting started, an Unmet Needs analysis is a great way to get informed about what’s causing your employees’ stress, in and outside of the workplace. If you’ve already identified concrete actions — such as a change in your employer matching program — total rewards optimization can help you test your strategy with employees, streamlining the change management process and ensuring you don’t make a costly mistake.

Only 39% of organizations agree that they align and optimize their rewards strategy based on employee preferences.

Source: Mercer US QuickPulse: 2023 Total Rewards and Recognition Survey
Tools to incorporate the voice of the employee

Employee research is critical at multiple stages of total rewards design, whether that be exploratory research into needs and preferences through Unmet Needs or Rewards Preference Assessments, testing tradeoffs through total rewards optimization, or digital focus groups to gather quantitative and qualitative insights.

- Powerful insights into the true value that workers place on rewards and program offerings
- Fully custom design to ensure actionable results tied to the unique challenges the organization is facing
- Multi-dimensional analysis that layers in both workforce preference data as well as considerations around program cost and investment
- Modeling capabilities to identify the plan offering combinations that are most able to be leveraged and drive the highest ROI
Get to the heart of the issue

For your changes to lead to successful outcomes, it’s critical to solve the right problem. Often, organizations know things aren’t working but aren’t sure where to start. Discovering what’s truly driving attraction, retention or engagement issues will drive sustainable total rewards practices — as opposed to using total rewards as a temporary fix to address issues that are best solved elsewhere.

To that end, rather than only looking at compensation and benefits programs, take a holistic view of total rewards that incorporates broader elements of work experience, including career management, work design well-being and more.

When embarking on this process, you will need to involve your HR leadership counterparts — such as talent management, organizational design, mobility and talent acquisition — along with key business stakeholders who can champion and drive change.

Holistic Approach to Total Rewards

[Diagram showing Purpose, Enriching, Equitable, Fulfilling, Careers, Well-being, Flexibility, and Benefits]

This also is an area where you can leverage your internal data and make it work for you. Companies are collecting more data about employees, their career journeys and their performance — but they often forget to look to this data when making strategic decisions. Informing your total rewards strategy with data science can illuminate overlooked options, aid in making tradeoffs between competing priorities, and drive internal alignment, all with the backing of statistical rigor.

Strategy in Action

We recently helped an organization find and address the root issue when they were thinking about deploying a new total rewards strategy. Through employee surveys, focus groups and design sessions, we uncovered that compensation levels weren’t the real problem. Instead, the long hours required made employees feel that their pay wasn’t worth it. Increasing compensation wasn’t sustainable, nor would it address the real issue. Ultimately, we were able to help the organization develop a targeted strategy to redesign the work, aligning hours with employee expectations.

They did so by considering alternative talent models, prioritization and leveraging shared service organizations. While changes like these aren’t easy to implement, they target areas that will truly make an impact and ensure that total rewards investments are sustainable.

1 in 3 organizations do not take a holistic approach to total rewards, considering both tangible reward elements and intangible elements such as well-being, flexibility and career programs.

Source: Mercer US QuickPulse: 2023 Total Rewards and Recognition Survey
Tools to identify and solve the right problems
Data and analytics are critical to delivering on intended outcomes. The right set of tools depends on the business challenges to be addressed.

1. **Turnover Modeling**
   Predictive models, developed from internal workforce data, can help isolate the factors making a positive or negative impact on retention, helping predict who will leave the organization soon.

2. **Labor Market Analytics**
   Statistical and economic analysis of the broader labor market can help reveal competitive dynamics. Within the organization, these techniques can reveal how people enter your organization, move between career levels and leave.

3. **Diversity, Equity and Inclusion Analytics**
   Mining your own data can help you understand how experiences of different groups diverge across the organization and how that affects variations in your employee value proposition. You can use this insight to target investments in inclusive areas.

4. **Ethnography Research**
   Examining how employees spend their time and how they feel throughout the day can help you understand where the work experience isn't working for employees.

5. **Behavioral Analysis**
   Statistical analysis examines employee behaviors related to how they use and engage with their rewards programs.
Most organizations are trying to serve everyone when it comes to total rewards. But it’s not economically feasible to provide premium, innovative total rewards across all segments of the organization. Instead, you should **link your total rewards and talent strategies together to identify specific areas where you want to differentiate yourself.** This generally takes two forms:

1. Targeting the strategy towards critical workforce segments
2. Differentiating on a key element of the EVP

Looking broadly at employee needs may obscure the unique needs and preferences of diverse groups such as women, people of color and LGBTQ+ individuals. For example, our Inside Employees’ Minds research found that people of color were significantly more likely than white employees to make health-related purchases outside of their employer health plan — suggesting that current offerings may not meet their unique needs.

Targeted strategies can identify where your current programs are falling short and can further support and engage these groups with benefits they’ll deeply value.

Another way to differentiate yourself is to consider a targeted rewards strategy for segments of critical importance to the organization, such as cybersecurity, where talent shortages are magnified and turnover increases operational risk.

Lastly, you can leverage specific elements of your rewards portfolio to deliver on differentiation. For example, we recently worked with an organization to deploy an equity-like program for hourly employees that helped the company stand out in a crowded labor market. The right choice for any employer will depend on your employee preferences, operating structure, culture and resources available.

Only 38% of organizations say they target their approach to key demographics within the organization.

Only 46% of organizations say they directly consider the needs and preferences of diverse groups within their total rewards strategy.

Source: Mercer US QuickPulse: 2023 Total Rewards and Recognition Survey
Differentiated Strategies in Action

Results from employee insights and data analysis drive differentiated strategies. Here are 5 areas our clients have found differentiation:

1. Inclusive Rewards
Benefits that focus on the unique needs of underrepresented talent — such as expanded fertility support, enhanced parental leave or perks like onsite childcare.

- 41% of employers are providing equitable family-building benefits

2. Personalized Rewards
Maximizing the use of choice in program design, such as flexible retirement matching or lifestyle accounts.

- 12% of employers provide employer-funded lifestyle accounts that employees can use for a variety of purposes

3. Work that Works
Expanding the focus on well-being to include everything from remote flexibility to alternative schedules, enhanced time off or completely redesigning the way work is done.

- 40% of employers say they will design work with well-being in mind (e.g., realistic workloads, no-meeting days, reduced complexity, positive work environment, etc.)

4. Finding my Future
Delivering on long-term growth, powered by skills-driven job architectures and transparent pay and career opportunities.

- 37% of employers say they are exploring sharing pay ranges internally and externally in a more standardized approach, beyond what is legally required

5. Making it Easy
Tackling clunky and inefficient ways of navigating rewards with more intuitive and accessible tools and communications platforms.

- 29% of employers say they provide a compelling and personalized digital experience for navigating total rewards programs

Sources:
1. Mercer’s US Surveys on Health and Benefit Strategies for 2023/2024
2. Mercer’s 2023 Global Talent Trends Pulse Survey of HR Leaders (US Results)
4. Mercer QuickPulse 2023 Total Rewards and Recognition Survey
For most employees, navigating their total rewards offerings is confusing and difficult — information is not in a centralized location and employees are experiencing a variety of HR programs that are named, communicated and delivered differently. Often, employees aren’t even aware of the full extent of their benefits and can’t find the answers to their questions.

Benefits add value to your organization only if employees know what’s available and where they can go for support. Your HR technology should be as intuitive as the consumer experiences people have come to expect, such as ordering batteries on Amazon, hailing an Uber from the airport or watching Netflix after a long day at work.

**HR needs to invest in portal technology that gives employees mobile-enabled access and personalized tools for accessing their total rewards information in one place — a digital front door.** Another leading practice is to incorporate AI-driven virtual assistants, which allow employees to quickly find answers to their questions, such as how many days are in their PTO bank, or where to find an overview of their health plan coverage.

This digital transformation not only benefits the employee with easy and efficient access to information, which greatly reduces frustration, but it also can free up total rewards teams from everyday minutiae to focus on the organization’s strategic imperatives. In addition, it can help address business goals such as strengthening company culture and brand, boosting productivity and embracing diversity, equity, and inclusion.

Only 46% of employers say employees have a good understanding of total rewards programs available to them.

*Source: Mercer US QuickPulse: 2023 Total Rewards and Recognition Survey*
2 out of 5 employers do not have an employee portal for total rewards, and instead rely on other communication vehicles such as emails, newsletters and manager discussions.

Tools to put power in the hands of the employee

My Belong Rewards: The front door to your digital employee experience

- Fully authenticated and mobile responsive
- Client-branded with scalable content
- Personalized dashboards
- Cross-platform virtual assistant powered by Socrates.ai
- Data-driven insights
Build a total rewards strategy that stands out

When you lead with listening, get to the heart of the issue, identify where you want to shine and engage for impact, you can achieve sustainable differentiation in the competition for talent.

We believe success lies in co-creating a compelling and effective total rewards strategy. Mercer’s four-phase approach to developing a total rewards strategy is flexible, scales based on your needs and is sustainable for your resources, capabilities and the work your team has already done.

We work with you to design an end-to-end total rewards strategy, from vision and opportunities, to strategy, to the roadmap for change. Our cross-functional team brings expertise across the entire total rewards portfolio, as well as other key areas such as employee research, workforce analytics and technology and transformation.

Explore more here

Total Rewards strategy design process

**Embark**  
*Establish the baseline*  
Align on objectives and guiding principles.

**Discover**  
*Identify the opportunity*  
Identify critical gaps in the current total rewards employee experience.

**Shape**  
*Build the strategy*  
Shape the vision and strategy for the future of total rewards.

**Drive**  
*Roadmap for change*  
Build roadmap to design, communicate and implement the change.
Mercer’s Total Rewards Expertise

Whether you are looking for a complete overhaul of your total rewards strategy, or just need help in one area, Mercer has an expert who can help.

- **Mercer Rewards Optimizer™**
  - Using total rewards optimization to maximize impact through preferences and cost

- **Total Rewards Benchmarking**
  - Competitive analysis of programs and policies

- **Workforce Analytics**
  - Statistical models on drivers of career outcomes, retention and engagement

- **Compensation Design**
  - Base pay, short-term and long-term incentive plan design

- **Employee Listening**
  - Employee preferences, satisfaction and experience

- **Total Rewards Communication**
  - Change Strategy and Digital Communication

- **Delivery Transformation**
  - Align organization and service delivery model for optimal execution

- **Benefit Design**
  - Health, wellness, retirement and recognition plan design

Contact us today.