STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF DUKE ENERGY INDIANA, LLC PURSUANT TO IND. CODE §§ 8-1-2-42.7 AND 8-1-2-61, FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE THROUGH A STEP-IN OF NEW RATES AND CHARGES USING A FORECASTED TEST PERIOD; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES, GENERAL RULES AND REGULATIONS, AND RIDERS; (3) APPROVAL OF A FEDERAL MANDATE CERTIFICATE UNDER IND. CODE § 8-1-8.4-1; (4) APPROVAL OF REVISED ELECTRIC DEPRECIATION RATES APPLICABLE TO ITS ELECTRIC PLANT IN SERVICE; (5) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING DEFERRAL RELIEF; AND (6) APPROVAL OF A REVENUE DECOUPLING MECHANISM FOR CERTAIN CUSTOMER CLASSES	)	**CAUSE NO. 45253**

VERIFIED DIRECT TESTIMONY
OF
RENEE H. METZLER

On Behalf of Petitioner,
DUKE ENERGY INDIANA, LLC

Petitioner's Exhibit 18

July 2, 2019

DIRECT TESTIMONY OF RENEE H. METZLER
MANAGING DIRECTOR, RETIREMENT AND HEALTH & WELFARE
DUKE ENERGY BUSINESS SERVICES LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Renee H. Metzler, and my business address is 550 South Tryon, Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Managing Director, Retirement and Health & Welfare by Duke Energy Business Services LLC, a service company subsidiary of Duke Energy Corporation ("Duke Energy"), and a non-utility affiliate of Duke Energy Indiana, LLC ("Duke Energy Indiana" or "Company").

Q. PLEASE DESCRIBE YOUR DUTIES AS MANAGING DIRECTOR – RETIREMENT AND HEALTH & WELFARE.

A. I am responsible for all health and welfare and retirement benefits for Duke Energy, including all of Duke Energy's affiliated regulated and non-regulated companies, including Duke Energy Indiana (collectively the "Companies"). Areas of responsibility include: management of key vendor relationships, benefit plan design and strategy, administration and compliance.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have 30 years of human resources experience, primarily working with benefits and compensation programs. I joined Piedmont Natural Gas Company, Inc. (Piedmont) in 2001 and have held various leadership positions in human resources. Most recently I was the Managing Director – Total Rewards at Piedmont with responsibility for broad-based compensation, executive compensation, retirement benefits, health & welfare benefits, the human resources management system ("HRMS") and payroll. I have served in a leadership role on several projects, including the redesign of Piedmont's retirement (pension, 401(k) and retiree medical) program, the design and implementation of a consumer-driven health plan with a health savings account, the implementation of the Workday HRMS system, the design and implementation of Piedmont's wellness program, the redesign of Piedmont's long-term incentive plan and the integration of Piedmont employees into the Duke Energy compensation and benefits programs. I became an employee of Duke Energy in October 2016 when Piedmont was acquired by Duke Energy.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to show that the benefits and compensation opportunities provided to employees are reasonable, customary, prudent and market-competitive. My testimony illustrates that the benefit programs and compensation opportunities provided to Duke Energy, including Duke Energy Indiana's employees, are critical for attracting, engaging, retaining and directing the efforts of employees with the skills and experience necessary to efficiently and effectively provide electric services to Duke Energy Indiana's customers. The benefits and compensation opportunities provided to Duke Energy employees, as described in my testimony, were used in developing the 2020 forecast. I will also discuss the actuarial study conducted by Willis Tower Watson.

II. COMPANIES' EMPLOYMENT CHARACTERISTICS

Q. PLEASE DESCRIBE THE GENERAL COMPOSITION OF THE COMPANIES' EMPLOYEE POPULATIONS.

A. As of December 31, 2018, the Company has a total of 30,144 employees. Duke Energy Indiana has 1,480 employees, comprised of 334 exempt employees, 1146 non-exempt employees, of whom, 1,024 are union employees. Duke Energy Business Services LLC ("DEBS") has 7,915 employees, comprised of 6,009 exempt employees, 1,906 non-exempt employees, of whom, 849 are union employees.

Q. WHERE DO THESE EMPLOYEES WORK WHEN PERFORMING SERVICES FOR DUKE ENERGY INDIANA CUSTOMERS?

A. Duke Energy Indiana's customers receive services from employees of Duke Energy Indiana and affiliated companies. Duke Energy Indiana employees work at various locations throughout the Company's service territory and Indiana. DEBS employees work throughout Duke Energy's jurisdictions, including Indiana.

Q. WHAT TYPE OF SPECIAL SKILLS OR KNOWLEDGE IS REQUIRED IN ORDER TO OPERATE A UTILITY SUCH AS DUKE ENERGY INDIANA?

A. The operation and maintenance of electric generating plants, transmission substations and transmission and distribution equipment requires specialized technical skills. Employees must have the requisite knowledge and technical skills to plan, design, operate and maintain electric generating plants and high voltage equipment in a manner that provides safe and reliable service. The operation and maintenance of a field office and a customer call center requires a detailed knowledge of all aspects of customer service. Field office and call center employees must understand the characteristics of the electric generating and delivery service provided by Duke Energy Indiana, the metering, billing and collection processes and various other customer service matters. At the corporate level, highly-skilled managers, engineers, accountants, computer hardware and software experts, computer programmers and other highly-trained professionals are needed to support the employees who are directly responsible for generating and delivering electricity to Duke Energy Indiana's customers.

Q. HOW IMPORTANT IS THE RECRUITMENT AND RETENTION OF SUCH EMPLOYEES TO DUKE ENERGY'S SUCCESS?

A. The recruitment and retention of such employees is critical to Duke Energy's success. The skills needed for employees to render safe, reliable and high-quality utility service take several years to develop. For example, electric plant operators and line technicians are highly-skilled positions that require experience and knowledge that is acquired over several years. When we lose such employees, we incur additional costs to train replacements for these positions. Consequently, the fact that we strive to be an "employer of choice" that attracts qualified employees and retains such employees, benefits customers by providing a more highly-skilled work force that provides safe and reliable service to customers at a reasonable cost.

Q. WHAT FACTORS AFFECT THE RECRUITMENT AND RETENTION OF SUCH EMPLOYEES?

A. The compensation, benefits and career development opportunities provided by Duke Energy directly affects its ability to attract and retain qualified employees. Industry and market conditions also impact the ability to recruit and retain employees.

Q. HAS THE COMPANY EXPERIENCED ANY COMPETITION IN RETAINING HIGHLY TRAINED AND SKILLED ELECTRICAL WORKERS IN RECENT YEARS?

A. Duke Energy does experience challenges in retaining a highly trained and technical workforce across its enterprise. Duke Energy strives to provide a competitive compensation and benefits package and has a robust training program; however, we face competition from local and national electric companies and contractors that target their recruiting efforts at employees trained by Duke Energy. It would be imprudent for Duke Energy to not take measures to prevent potential losses of employees in all of its service territories. Maintaining a competitive total rewards package is instrumental in meeting Duke Energy and Duke Energy Indiana's shared goals of providing safe, reliable and reasonable utility service.

Q. WHERE DOES DUKE ENERGY OBTAIN APPLICANTS FOR VACANT POSITIONS?

A. We draw applicants from various geographic areas, depending on the job we need to fill. As a general rule, the more highly-skilled the job position being filled, the broader the scope of the recruitment efforts. We generally recruit executives on a national level; exempt employees locally and regionally; and non-exempt employees locally. The Companies employ applicants drawn from other utilities and from diverse employment backgrounds in other industries.

III. COMPENSATION PHILOSOPHY

Q. PLEASE DESCRIBE DUKE ENERGY'S BASIC COMPENSATION PHILOSOPHY.

A. The Compensation Committee of the Board of Directors of Duke Energy establishes and reviews Duke Energy's overall compensation philosophy, confirms that our policies and philosophy do not encourage excessive or inappropriate risk-taking by our employees, reviews and approves the salaries and other compensation of certain employees, including all executive officers of Duke Energy, approves equity grants and reviews the effectiveness of compensation programs. Our compensation philosophy has three major parts.

First, we want our compensation to be market-based, meaning we are competitive to the external market of similar companies, allowing us to remain attractive against competition and retain qualified employees. Our compensation programs are targeted to deliver total compensation that is competitive with that provided by our peers. Duke Energy employs a compensation strategy that combines base pay and variable incentive opportunities for all levels of positions. This approach fosters efficiency, safety and a focus on the customer by motivating employees to lower costs and generate efficiencies that benefit customers while providing employee compensation opportunities at reasonable market-competitive rates that enable the Companies to attract and retain the expertise needed to efficiently and effectively provide its electric service to customers.

Second, we're performance-oriented. We believe that linking compensation to performance is one way that we can set high expectations for employees and reward results. Our compensation program is designed to provide total compensation that is consistent with performance. Finally, we're fair and flexible. Our well-managed policies and pay administration guidelines ensure that we pay employees consistently and fairly across departments, but we're also flexible when we need to align our policies with business needs as they grow and change.

In 2015, Duke Energy developed a strategy called The Road Ahead in which the Companies identified a number of important strategic initiatives to transform the energy future with a focus on customers, employees, operations and growth. With this focus, Duke Energy will continue to provide exceptional value to our customers and be an integral part of the communities in which we serve. Duke Energy is committed to lead the way to cleaner, smarter energy solutions that customers value through a strategy focused on, among other things, a transformation of the customer experience to meet the changing expectations through enhanced convenience, control and choice in energy supply and usage. In order to accomplish these goals, Duke Energy must be able to attract, retain and motivate employees who are able to carry out this mission. One of the keys to providing a desirable workplace is to provide competitive pay and benefit programs.

Q. DESCRIBE DUKE ENERGY'S COMPENSATION PHILOSOPHY FOR EXECUTIVES.

A. The Companies' compensation philosophy is similar for both executive employees and all employees below the executive level. The compensation package for executives consists of a combination of fixed and variable pay using base salary, short-term incentives and long-term incentives. These components, in the aggregate, are targeted to deliver total compensation that is competitive with the applicable peer group and consistent with performance. Duke Energy adopted this executive compensation strategy in order to attract, retain and motivate the executive talent required to deliver superior performance. The strategy emphasizes performance-based compensation that balances rewards for both short-term and long-term results and that aligns the executives' interests with the long-term success of Duke Energy, including Duke Energy Indiana.

Q. WHY MUST DUKE ENERGY PROVIDE EMPLOYEES WITH A MARKET-COMPETITIVE TOTAL COMPENSATION PACKAGE?

A. It is critical that Duke Energy provide a market-competitive total compensation opportunity to efficiently and effectively attract and retain an adequately skilled and experienced workforce. Attracting and retaining such a workforce is reasonable and necessary for the safe and efficient provision of service to customers and the operation of most aspects of the Company's business. As shown on page 4 of Petitioner's Exhibit 18-A (RHM), a 2016 Global Talent Management and Rewards study conducted by Willis Towers Watson, the top driver of attraction and retention is pay. This study captures the perspective of over 2,000 organizations — who collectively employ almost 21 million people worldwide — on key attraction, retention and engagement issues that are essential to the development of an effective employment deal and total rewards strategy. The study describes a key point that employees want to work for organizations that offer fair and competitive pay, opportunities for advancement and job security. On page 7 of Petitioner's Exhibit 18-B (RHM), Mercer's 2017 Global Talent Trends Study, the top factor that employees in the United States indicate would make a positive impact to their work situation is compensation that is fair and market competitive. The study goes on to report that there is greater concern over base pay and benefits than in prior years, and employees are seeking the security of tangible and predictable rewards given a climate of uncertainty and change.

Q. WHAT WOULD BE THE IMPLICATIONS TO CUSTOMERS IF THE COMPANIES ALLOWED COMPENSATION LEVELS TO FALL BELOW MARKET-COMPETITIVE LEVELS?

A. Allowing compensation to fall below market-competitive levels would have substantial negative implications for the cost of service to customers. Many craft positions require lengthy apprenticeships to learn the skills needed to perform work independently and safely. The expense incurred to hire and train new employees and the loss of productivity realized through high turnover rates would negatively affect the ability of the Company to provide safe and reliable service at a reasonable cost. This is also true for leadership positions. Duke Energy invests in developing highly effective leaders who carry out the organization's Road Ahead mission and inspire employees to work together to achieve results the right way. Paying less than competitive levels of compensation would put the Companies at risk of losing these valuable leaders to other companies and having to pay more to attract the same level of leadership talent externally. On page 9 of 27 of Petitioner's Exhibit 18-A (RHM), the financial cost of turnover is illustrated to show how the negative implications from lost productivity, hiring, training, and job vacancy can put a significant level of productivity and financial value at risk to the companies.

Q. WHAT ARE THE COMPONENTS OF DUKE ENERGY'S COMPENSATION PROGRAMS?

A. To achieve the objective of providing competitive pay, the components of the Company's Total Rewards compensation program include: (1) the establishment of a fair market value for all jobs; (2) annual merit increases to recognize individual performance, (3) annual short-term cash incentive awards that reward eligible employees with cash bonuses when pre-established goals are achieved; (4) long-term incentive ("LTI") opportunities to attract and retain high-performing leaders; and (5) recognition awards given when employees make significant contributions to business operations due to exceptional personal initiative, dedication, perseverance or a uniquely effective approach to work.

Q. PLEASE DESCRIBE HOW DUKE ENERGY STRUCTURES ITS COMPENSATION PROGRAMS.

A. Duke Energy's compensation programs consist of a base pay component and incentive pay components that together provide a market-competitive total compensation package for all employees. The base pay component is a set amount, reviewed by management at least annually, and established at a level that: (1) provides competitive compensation based on the nature and responsibilities of the employee's position; and (2) is fair relative to the pay for other similarly-situated positions in the organization. The short-term incentive pay component is variable based on performance and is at risk to the employees. Incentive pay is linked to the accomplishment of specific goals established in advance for the individual employee, his or her business unit, one or more of the Companies, and/or Duke Energy. The purpose of incentive pay is: (1) to encourage employees to perform at a high level in order to accomplish specific objectives intended to ensure safe, reliable and economical utility service to our customers; (2) to ensure their business unit's and Duke Energy's overall success; and (3) to constitute a component of a compensation package that is competitive with the market. The LTI programs round out a competitive total compensation package for leaders. The goal of having a LTI component as part of certain employees' total compensation package is to attract and retain high-caliber leaders and align their interests with the long-term strategy of Duke Energy, including Duke Energy Indiana, through equity-based compensation. The designs of the short-term and long-term incentive programs are also reviewed annually.

IV. REASONABLENESS OF COMPENSATION PROGRAMS

Q. DO YOU HAVE AN OPINION AS TO WHETHER DUKE ENERGY'S EMPLOYEE COMPENSATION PROGRAMS ARE REASONABLE AND NECESSARY TO ATTRACT, RETAIN, AND MOTIVATE THE QUALIFIED EMPLOYEES NEEDED TO PROVIDE SAFE, RELIABLE, EFFICIENT AND ECONOMICAL SERVICE TO DUKE ENERGY INDIANA'S ELECTRIC CUSTOMERS?

A. Yes. In my opinion, the Companies' base pay, short-term and long-term incentive compensation programs are market competitive, reasonable and necessary to attract, retain and motivate qualified employees that Duke Energy needs to provide safe, reliable, effective, efficient and economical electric service to Duke Energy Indiana's retail customers.

V. BASE PAY PROGRAMS

Q. PLEASE DESCRIBE THE COMPANIES' BASE PAY PROGRAMS.

A. Every employee receives base pay in the form of semi-monthly earnings (for exempt employees) or bi-weekly wages (for non-exempt and union employees).

Q. HOW DOES DUKE ENERGY KNOW ITS COMPENSATION IS MARKET COMPETITIVE?

A. Duke Energy employs a market-based compensation strategy by using annual compensation surveys to establish salary ranges and ensure jobs are paid competitively in base and in total direct compensation (base + incentives) as compared to jobs at companies that are similar to Duke Energy in size and revenue. Duke Energy participates in a variety of third party salary surveys on an annual basis and data from these surveys is analyzed to determine overall competitiveness of pay for jobs throughout the Companies.

Q. HOW ARE BASE SALARIES DETERMINED AND HOW DOES THE COMPANIES' BASE PAY COMPARE WITH THE MARKET TRENDS?

A. The Companies have adjusted their base pay in recent years to stay competitive based on market data from comparably-sized companies. On an annual basis we look at market data for both general industry positions and energy services positions and compare that data to our total compensation package. Using this market data, competitive base salary ranges are established for non-represented positions, which consist of a minimum and maximum base salary for each job grade. These salary ranges are adjusted annually to remain competitive using market information found in studies conducted by third party consultants. Salary ranges are generally wider for higher level jobs, where the variance in skills and responsibilities is greater, and narrower at lower pay grades. Not every employee in a certain job enters the pay range at the same pay or performs work at the same level, so there may be differences in where each employee is paid within the salary range. Base pay for salaried positions is determined by management within the salary range for the job grade assigned to each position based on the qualifications and experience of the prospective employee relative to the requirements for the position. For jobs with multiple incumbents, the base pay of other employees in the same position is also a consideration. Market data is also reviewed and used to determine annual wage increase recommendations. Currently, Duke Energy is forecasting a 2020 merit budget, set for exempt and non-exempt non-union employees of 3 percent, based on market information found in studies conducted by third party consultants. The chart below depicts the annual market adjustments reported in the annual WorldatWork Salary Budget Survey, U.S. Salary Increase Budgets study as compared to Duke Energy's overall wage increase budgets for the corresponding years.

Table 1

Salary Increase History								
Year	All Groups		Executive		Exempt		Non-Exempt	
	Industry*	Duke Energy	Industry*	Duke Energy	Industry*	Duke Energy	Industry*	Duke Energy
2014	3%	3%	3%	3%	3%	3%	3%	3%
2015	3%	3%	3%	3%	3%	3%	3%	3%
2016	3%	3%	3%	3%	3%	3%	3%	3%
2017	3%	3%	3%	3%	3%	3%	3%	3%
2018	3%	3%	3%	3%	3%	3%	3%	3%
*WorldatWork Salary Budget Survey, U.S. Salary Increase Budget								

The 2019 merit budget for Duke Energy exempt employees, including executives, and non-union non-exempt employees was also 3 percent. The full 2018/2019 WorldatWork Salary Budget Survey, as well as another example of an external study conducted by third-party consultants that Duke Energy utilizes to determine the appropriate annual increase each year, can be found in Petitioner's Exhibits 18-C (RHM) and 18-D (RHM). It should be noted that employees' individual increases may vary relative to the budget to allow for individual differentiators based on performance and current pay levels relative to the market. The increase awarded to each employee, if any, is based on a combination of factors, including his/her individual performance rating, his/her performance relative to his/her peers, the position of his/her salary within the salary range for his/her job and the size of the merit budget. The Compensation Committee of the Board of Directors of Duke Energy reviews data from a nationally recognized, independent executive compensation consulting firm (Willis Towers Watson) to determine the compensation for Duke Energy's executive officers on an annual basis. The peer group of companies used for these analyses consists of companies specifically selected by the Compensation Committee to represent the talent markets from which Duke Energy competes to attract and retain executive employees.

Q. FOR REPRESENTED POSITIONS, HOW ARE BASE INCREASES DETERMINED AND HOW DOES THE COMPANIES' BASE PAY COMPARE WITH THE MARKET TRENDS?

A. Hourly represented employees, such as mechanics and line technicians, are provided general wage increases negotiated with the labor unions that represent the Companies' employees. Wage increases are just one component of union negotiations, and must be negotiated in the larger context of work-related topics, such as benefits, work rules and overtime. These general increases are expressed as percentages of current base pay rates. The Companies base their positions in these negotiations on survey projections for market increases. The Companies also utilize survey market data to ensure pay is competitive to market.

Duke Energy Indiana and the International Brotherhood of Electrical Workers (IBEW) Local Union No. 1393 entered into a five-year collective bargaining agreement on May 1, 2015, that expires on April 30, 2020. The following is the wage increase schedule under the Collective Bargaining Agreement:

Table 2

Wage Increase Schedule	
Year	**IBEW 1393**
May 1, 2015	2.5%
May 1, 2016	2.5%
May 1, 2017	2.5%
May 1, 2018	3%
May 1, 2019	3%

Duke Energy is currently forecasting a similar wage increase schedule to be put into effect in 2020, as part of a new agreement.

VI. INCENTIVE PAY PROGRAMS

Q. PLEASE IDENTIFY THE COMPANIES' INCENTIVE PAY PROGRAMS.

A. The Companies' major incentive pay programs are: (1) Duke Energy Short-Term Incentive Plan ("STI"); (2) Duke Energy Union Employee Incentive Plan ("UEIP"); and (3) Duke Energy LTI programs. Plan documents memorializing these programs can be found in Petitioner's Confidential Exhibits 18-E (RHM), through 18-G (RHM). The STI and UEIP plan descriptions are included in Petitioner's Confidential Exhibit 18-E (RHM). Descriptions of the two LTI programs, Restricted Stock Units ("RSU") and Executive LTI Plan brochure are included as Petitioner's Confidential Exhibits 18-F (RHM) and 18-G (RHM), respectively.

Q. DESCRIBE THE CURRENT STI PLAN DESIGN.

A. For 2019, the STI goals, weightings and payout opportunities are reflected in the table below:

Table 3: Summary 2019 STI Plan

		Executive Weight	Non-Executive Weight	Payout range
Financial Performance and Growth	EPS	50%	35%	0-200%
	O&M	10%	5%	0-150%
Operational Excellence		10%	10%	0-150%
Customer Satisfaction		10%	10%	0-150%
Team Goals		N/A	40%	0-150%
Individual Goals		20%	N/A	0-150%
Safety		± 5%	+ 5%	N/A

For 2019, the majority of executives have a weighting split 80 percent/20 percent between corporate and individual goals as shown above; however, there are some executives who are aligned with the weighting of the Non-Executive category due to their heavy operational focus.

Q. DO YOU CURRENTLY ANTICIPATE THE FINAL 2020 STI PLAN DESIGN TO BE MATERIALLY DIFFERENT?

A. No. Understanding that some changes could materialize before plan finalization, I anticipate the 2020 STI plan to be similar to the current design.

Q. PLEASE DESCRIBE THE CURRENT STI PLAN AND WHY THE INCENTIVE PLAN COSTS SHOULD BE RECOVERABLE.

A. The annual cash incentive plan is available to all employees at Duke Energy; however, some represented employees, including those in Duke Energy Indiana, participate in the UEIP sub-plan per their union agreement, which will be described in later testimony. The STI program promotes a corporate culture that is performance-oriented, by setting forth pre-established goals and a direction for the workforce that has a focus on our customers. At the beginning of each calendar year, corporate, business unit and individual performance goals are established for each annual incentive program, and a thorough review is performed at the end of the calendar year to determine the achievement levels for each performance goal. The Compensation Committee of the Board of Directors of Duke Energy approves the corporate performance goals as well as the executive officers' individual goals at the beginning of each calendar year and certifies the payout level achieved for such goals at the end of the calendar year. All non-union employees are subject to the following annual corporate metrics:

Financial Performance & Growth: The Financial Performance & Growth measure consists of Earnings Per Share ("EPS") and Operations and Maintenance ("O&M") expense measures, each of which motivates Duke Energy employees to focus on financial discipline, efficient operations and prudent use of resources, which are vital to the health and stability of the organization.

(1) EPS: The EPS measure represents 35% of the total 40% weighting of the Financial Performance & Growth measure for non-executive participants. It is a very common practice both within and outside of the utility industry to use EPS as a primary goal in incentive programs. As reflected on page 11 of Petitioner's Exhibit 18-H (RHM), the 2019 Trends and Issues in Utility Industry

Compensation report prepared by Willis Towers Watson, 83 percent of utility companies include EPS as a performance measure in their annual incentive plans. A growing EPS benefits customers by reducing cost of capital as the Company continues to invest in the necessary maintenance of the distribution system and transforms the customer experience by providing customers with more billing options, additional energy usage information and new tools to help manage and reduce energy costs. Finally, the EPS measure may reduce or completely eliminate any incentive during periods of time where the Companies cannot afford to pay it. For example, if 2018 adjusted diluted EPS was less than EPS circuit breaker of $4.15, Duke Energy executives would not receive any payment under the STI plan, and other participants would not receive a payment in connection with any of the corporate measures, but would be eligible to receive payouts on the team component based on actual performance.

(2) <u>O&M Expense control</u>: The O&M expense control measure represents the remaining 5% of the total 40% weighting of the Financial Performance & Growth measure for non-executive positions. Cost control is an integral part of any company's success. The intent of this goal is for employees to focus on cost control on a day-to-day basis, which will allow Duke Energy to incorporate these savings into programs that will benefit our customers.

(3) <u>Operational Excellence</u>: This metric is broken into the following two equally-weighted measures, each of which motivates Duke Energy employees to strive to provide reliable and safe products and services to our customers.

(4) Reliability: To ensure that cost focus does not sacrifice our ability to provide reliable service, reliability measures are also included in the STI program. There are six reliability measures that represent overall company performance – Nuclear, Fossil Hydro, Transmission, Customer Delivery, Renewables, and Natural Gas. The final payout will be determined by averaging the year-end results for these six measures. All customers expect reliable service from Duke Energy. By including reliability in our annual incentive metrics, employees are provided extra motivation to ensure we provide reliable service to our customers.

(5) Safety/Environmental: This metric incorporates safety and environmental stewardship into our day-to-day activities, thus making the safety of our employees, customers and communities a priority. Safety is of utmost importance and is not only encouraged but continuously reinforced through all levels of Duke Energy, including through incentive pay opportunities. Safety refers to the health and safety of everyone who works here, as well as our communities and the environment. The safety and environmental goal payout will be determined by averaging the year-end accomplishment of two goals: (1) Total Incident Case Rate, which measures the number of occupational injuries and illnesses per 100 employees, including staff-augmented contractors; and (2) Reportable Environmental Events, which are environmental events that require the notification (verbal/written/electronic) of a regulatory agency, or that result in a regulatory citation or other enforcement action by a regulatory agency.

(6) Customer Satisfaction: The incentive program also includes a Customer Satisfaction goal, or CSAT, which measures the degree to which a customer has a favorable perception of an interaction, product, service or of Duke Energy overall. This goal is intended to keep customers central to all that we do across the company regardless of where we work. Achievement is based on the combination of our Net Promoter Score ("NPS") and results from our Large Business Customer Perceptions Tracker and the J.D. Power business study.

(7) Team: Business unit (or "team") goals are typically lower-level tactical and operational goals that increase line-of-sight to employees. Almost all employees have a component of their incentive assigned to team goals. Team goal results establish a pool of dollars allocated at the discretion of managers among employees based on their individual performance and contributions to the team. The team goals directly benefit customers by tying employee compensation to things like reliability, outage frequency, time required to restore service, lost-time accidents, customer satisfaction scores, O&M expense levels and capital expenditures. Superior performance relating to these goals directly benefits Duke Energy Indiana customers through safe and reliable service, customer service quality, and low energy costs.

In addition, as an added focus on safety and to reinforce the Company's zero tolerance for controllable work-related employee fatalities, the STI programs reward all employees, exempt and non-exempt, with an additional 5 percent for their short-term incentive payout, if there are no controllable work-related employee fatalities, there are less than a designated number of life altering injuries (LAIs) (2 in 2019), and there is no significant operational event. Conversely, incentive payments for senior executives will be reduced by 5 percent if there are more than a designated number of LAIs (3 in 2019) or there is a significant operational event (including a controllable work-related employee fatality).

Q. PLEASE DESCRIBE THE UEIP.

A. The UEIP is available to union employees of Duke Energy Indiana and certain employees of its affiliated companies. Employees participating in the UEIP may not also participate in the STI program offered to the general employee population described in the previous question. The purpose of the UEIP is to attract, retain and motivate employees, enhance teamwork and high levels of achievement, and to facilitate the accomplishment of specific corporate and business unit goals. We believe having these goals benefits the customer. We believe having this incentive plan is a necessary component of the total compensation package for union employees that attracts and retains the critical skills necessary to provide safe, efficient and reliable service to customers. These union employees include many of our personnel working in our generation plants and employees who construct and maintain the Company's electric system. All are functions that are critical to reliable customer service.

The UEIP is a short-term incentive opportunity that allows union employees to receive cash payments if the Company attains certain corporate performance goals and/or if their group attains certain operational performance goals during a calendar year. The UEIP award levels consist of a percentage of the employee's base and overtime earnings, and is based upon the achievement of corporate and business unit goals, such as financial results, safety and customer satisfaction. Additionally, represented employees are eligible for a safety adder equal to 5 percent of their incentive payouts if there are no controllable work-related employee fatalities, there are less than a designated number of life altering injuries (LAIs) (2 in 2019) and there is no significant operational event.

Q. WHY IS IT IMPORTANT FOR THE COMPANY TO PROVIDE SHORT-TERM INCENTIVE OPPORTUNITIES AS A PART OF ALL EMPLOYEES' TOTAL COMPENSATION?

A. Short-term incentive opportunities are a component of a market-competitive total compensation offering necessary to attract and retain qualified employees. Having a portion of employees' total compensation "at risk" allows the Company to tie specific performance measures to employees' pay, and focuses their efforts on performing the right work, the right way. If the Companies did not provide incentive opportunities to their employees, the same target value of incentive compensation would need to be added to base pay in order to maintain market-competitive compensation for its employees. Put another way, whether it is in base pay or a combination of base pay and incentives, Duke Energy must keep its overall compensation package competitive in order to attract and retain a competent workforce.

The annual incentive pay opportunity that all employees have as a part of their total compensation promotes a corporate culture that is performance-oriented in order to provide the greatest benefit to the customer. Annual incentive goals are communicated to managers and employees and reported throughout the year; therefore, high performance becomes part of the culture and employees are motivated to exhibit the behaviors required to meet the goals. In addition, the annual incentive pay opportunities provide the ability to raise the bar on performance expectations from year-to-year. By motivating employees to excel at such goals as customer satisfaction, safety, reliability, and financial stewardship, the Company is able to deliver the highest value at a reasonable cost. This also allows the Company to share its success with the employees who make that success possible. Incentive pay is similar to the other costs related to providing electric service. It is a necessary cost to provide customers safe and reliable service. In the competitive market for talent, employees consider total rewards, including base pay, incentive pay and benefits, as a key determinant in deciding whether to work for a particular employer.

Q. PLEASE DESCRIBE THE LTI PLAN.

A. Duke Energy's LTI programs provide equity-based compensation to executive and leadership-level employees in a manner that aligns their interests with the long-term interests of Duke Energy, including Duke Energy Indiana. Certain Duke Energy Indiana employees and DEBS employees that provide services to Duke Energy Indiana are participants. The goal of the LTI programs is to attract and retain high-caliber leaders by providing a competitive compensation package and to encourage our leaders to make sound business decisions from a long-term perspective. Stock awards are an important component — but not the only component — of a total rewards package that is reviewed annually to ensure ongoing competitiveness. Our LTI opportunities generally vest over a period of three years, focusing our executives on long-term performance and enhancing retention.

Duke Energy has two LTI programs. One is an Executive LTI program, called the Executive Incentive Plan ("EIP"), which is reserved for members of the Executive Leadership Team ("ELT") and Senior Management Committee ("SMC") to drive an ownership mindset and ensure accountability for making short- and long-term strategic decisions. For 2019, participants in this program have 70 percent of their target LTI opportunity awarded as performance shares. The performance shares granted in 2019 incorporate three performance goals based on cumulative adjusted EPS, Total Incident Case Rate ("TICR"), and Total Shareholder Return ("TSR") compared to companies in the Philadelphia Utility Index. The goals correlate to long term value, and are set at levels that we believe are reasonable in light of past performance and market conditions. EIP participants must generally continue their employment with the Companies for a three-year period to earn a payout and the number of performance shares that participants ultimately earn is tied to Duke Energy's long-term performance. The other 30 percent of EIP participants' target LTI opportunity is awarded as RSUs.

Vesting of RSUs is solely tied to the participants' continued employment through vesting dates over a three-year vesting period and is not dependent upon the performance of the Companies. Participants who remain employed with the Companies through a vesting date receive a share of Duke Energy common stock for each vesting RSU.

A different LTI program is available to other strategic leaders below the ELT level who are responsible for the most critical roles/responsibilities in each business group (population generally ranges between 2-3 percent of the total Duke Energy employee population). These employees participate in the RSU program and receive their LTI value in the form of RSUs that vest equally over three years, thereby encouraging retention of high-quality employees. The reward of these RSUs is purely aimed at continuing employment, and is in no way tied to actual company performance. Participation in the RSU plan is reserved for positions that meet at least one of the following criteria:

- Position has significant responsibility for a broad area or function or geographic region;
- The employee leads major projects or groups with substantial enterprise or business unit strategic or financial impact;
- The employee is in a role that has decision-making authority that impacts Company performance; and
- Position requires specialized expertise that is critical to business operations or strategy development.

The RSU plan is an equally important component within the market-competitive total compensation package for eligible leadership positions (below executive level) and is critical to maintaining market-competitiveness and retaining key leadership talent. These employees' base salary is set at such a level, that, when factoring in the retention-driven RSUs, the total package results in a market-competitive package.

Q. DO YOU CURRENTLY ANTICIPATE THE 2020 LTI PLAN DESIGN TO REMAIN SIMILAR?

A. Yes. Understanding that some changes can materialize during the budgeting process, I anticipate the 2020 LTI plan to be similar to the current design.

Q. WHY IS IT IMPORTANT FOR DUKE ENERGY TO PROVIDE LONG-TERM INCENTIVE OPPORTUNITIES AS A PART OF CERTAIN EMPLOYEES' TOTAL COMPENSATION?

A. As mentioned above, LTI programs are necessary components of Duke Energy's compensation package. They allow the Companies, including Duke Energy Indiana to attract and retain high-performing leaders that are able to carry out our vision of leading the way to cleaner, smarter energy solutions that are valued by customers. The EPS and TSR measures associated with the performance shares granted as part of the long-term incentive plan tie a substantial portion of compensation for executive employees to both internal and external measures of the Companies' long-term financial performance. This encourages eligible employees to reduce expense, operate efficiently, and conserve financial resources, which directly benefits customers by keeping rates low.

It is very common for public companies of Duke Energy's size and complexity to have similar programs. In fact, according to the study previously referenced as Petitioner's Exhibit 18-H (RHM), conducted by Willis Towers Watson (the Utility Industry Executive Compensation Trends report), of 25 regulated electric utilities with median revenues of $12.3 billion, long-term incentive plans are used among *all* utilities within the sample. RSU plans are more prevalent among utilities with revenues greater than $12 billion. In a similar 2014 study conducted by Willis Towers Watson of long-term incentive practices among large utilities, the percentage of the employee population receiving LTI in the form of restricted stock was 3.5 percent. Petitioner's Exhibit 18-I (RHM) is a copy of the 2014 study. The number of Duke Energy leaders eligible for its LTI programs in 2019 was approximately 669 employees, equating to 2.3 percent of the total employee population, reflecting the conservative and selective approach the Companies take with providing this compensation component, limiting participation to those strategic leaders who can most closely affect the long-term sustainability of the business. As with annual cash incentive compensation, the long-term incentive opportunities provided to the Companies' leaders is a necessary component of a market-competitive target level of total compensation for these positions. If the Companies did not incorporate LTI as a part of the total compensation for these executive and other leadership positions, it would require higher base salaries in order to continue to provide market-competitive total compensation levels. If an increase to base pay was not made in place of the LTI component and the overall level of total compensation was reduced, the Companies would not be able to effectively attract or retain the experienced leaders necessary to direct the efforts of its employees and make the best strategic decisions on behalf of the Company. Petitioner's Exhibit 18-A (RHM), page 7 of 27, shows the financial cost to the Company of turnover at the senior manager/executive level is 74 percent of annual compensation for each position.

VII. COST RECOVERY OF INCENTIVE PAY EXPENSE

Q. WHAT INCENTIVE PAY EXPENSE DOES DUKE ENERGY INDIANA PROPOSE TO RECOVER IN THIS PROCEEDING?

A. Duke Energy Indiana proposes to recover the incentive pay expenses that are directly assigned or allocated to Duke Energy Indiana. For instance, for top executives, approximately 10% of their incentive pay would be allocated to Duke Energy Indiana in a typical year.

Q. PLEASE FURTHER EXPLAIN DUKE ENERGY INDIANA'S PROPOSAL FOR RECOVERY OF INCENTIVE PLAN EXPENSE.

A. As shown above in Table 1: 2019 STI plan, the Company's Executive and Non-Executive STI continues to include a weighting factor for achieving corporate EPS. In 2009, Duke Energy added a weighting for achieving other goals such as O&M savings and reliability targets that continue today. Adding reliability targets provides a balance between the need to prudently manage costs and providing cost-effective, reliable and safe service to our customers. In 2015, Duke Energy added customer satisfaction, safety and environmental targets. Safety and environmental targets were added to encourage positive behavior of employees in our day-to-day operations, and customer satisfaction targets were added to keep customers central in all that we do. As previously explained, all of these various performance measures included in the Companies' incentive plans are designed to benefit customers. Accordingly, Duke Energy Indiana proposes to recover the entire amount of incentive compensation costs, allocated to Indiana, in its revenue requirement calculation.

Table 4: Summary of Incentive Plan Components

Incentive Plan	**Incentive Plan Components**	**Weighting**
STI – Non-Executive and operationally-focused Executive Leadership team members	EPS O&M Reliability Safety/Environmental Customer Satisfaction Employee Safety Objective Team/Individual Goals	35% 5% 5% 5% 10% 5% adder 40%
STI - Executive	EPS O&M Reliability Safety/Environmental Customer Satisfaction Employee Safety Objective: Individual Goals	50% 10% 5% 5% 10% ± 5% 20%
Non-executive LTI	Restricted stock units	100%
Executive LTI	Restricted stock units Performance shares (70%) • Total Shareholder Return (TSR) relative to that of the companies in the Philadelphia Utility Index • Cumulative adjusted Earnings Per Share (EPS) • Absolute Total Incident Case Rate (TICR)	30% 17.5% 35% 17.5%
UEIP	Various by union - based on EPS, safety, customer satisfaction, etc.	100%

Q. WHY DOES THE COMPANY'S PROPOSAL FOR INCENTIVE COMPENSATION ASSUME REACHING 100% OF TARGET ACHIEVEMENT LEVELS?

A. These are the budgeted achievement levels for the performance goals for the STI and the UEIP. The 100 percent target achievement level is used for the budget because this is what the Company expects to achieve on average over time.

VIII. <u>BENEFIT PLAN DESIGN</u>

Q. WHAT IS THE COMPANY'S BENEFITS PHILOSOPHY AND HOW DOES IT TIE INTO THE COMPANIES' OVERALL COMPENSATION PHILOSOPHY?

A. At Duke Energy, we place a priority on attracting and retaining a diverse, high-performing workforce. An important way we do this is by providing a comprehensive, competitive total rewards package of pay and benefits that includes base pay, incentive pay opportunities and benefits. Benefits are the non-pay portion of an employee's total rewards. Generally, benefits are provided through one of two vehicles: health and welfare benefit plans and retirement plans. Health and welfare benefit plans include medical, dental, vision, life insurance, and disability plans. Our benefit programs are designed so that the Companies are able to maintain a highly trained, experienced workforce that is capable of rendering excellent utility service. Retaining employees is important for us because our business involves complex processes such that employees must receive long-term training to perform their jobs safely and effectively. Retirement plans include pension and 401(k) plans. Our retirement plans are designed to enable employees, through shared responsibility, to accumulate sufficient resources to be able to transition into retirement at the appropriate time.

Employees' ability to retire at the right time increases opportunities for the workforce as a whole, and also helps the utility manage costs.

Q. PLEASE DESCRIBE DUKE ENERGY'S EMPLOYEE BENEFIT PROGRAMS PROVIDED TO EMPLOYEES.

A. The benefit programs in which all eligible employees may participate include medical, health savings account, dental, vision, flexible spending accounts, employee assistance program, wellness, sick pay, short-term disability, long-term disability (LTD), life insurance, accidental death and dismemberment and business travel accident insurance. Retirement benefits include company contributions and company matching contributions to promote the shared responsibility between the company and employees for accumulating retirement resources.

Q. PLEASE DESCRIBE DUKE ENERGY'S POST EMPLOYMENT HEALTHCARE BENEFITS PROVIDED TO EMPLOYEES.

A. Duke Energy is the result of a series of many acquisitions and mergers and has worked hard at integration to minimize differences among legacy company employee groups. This includes the post-employment benefits available to employees when they retire. Newly hired employees will be eligible to enroll in company sponsored pre-65 retiree medical, dental and vision benefits at retirement on an unsubsidized basis by paying the full cost of coverage. Additionally, Duke Energy provides retirees access to a retiree exchange program for assistance with exploring options for coverage available on the individual market as an alternative to Duke Energy-sponsored retiree coverage. They will also have the option to convert or port their active life insurance to an individual policy at retirement. Active employees who were part of a closed group and eligible for a retiree healthcare subsidy towards the cost of Duke Energy-sponsored retiree health care coverage generally were transitioned to a common approach in the form of a pre-65 Health Reimbursement Account benefit.

Q. IS IT COMMON PRACTICE, IN THE INDUSTRY, TO PROVIDE POST EMPLOYMENT BENEFITS?

A. As Duke Energy periodically reviews healthcare trends, we see that 32 percent of general industry and 57 percent of utility industry companies provide financial support for pre-65 coverage for current and future retirees. We also see that 32 percent of general industry and 53 percent of utility industry companies provide financial support for post-65 coverage for current and future retirees. As Duke Energy's financial support of retiree healthcare has lessened over the years, we have recognized that this is an area of concern for many employees. To address this, we encourage employees who are enrolled in a High Deductible Health Plan to contribute to a Health Savings Account and receive company matching contributions to save for their future retiree healthcare costs.

Q. WHAT IS THE GRANTOR TRUST?

A. The Grantor Trust is a trust established pursuant to Indiana Regulatory Commission order dated October 21, 1998 in Cause No. 40388 to hold amounts collected in Indiana retail rates that are to be used to pay post-retirement benefits other than pensions (generally, post-retirement medical coverage) for employees of Duke Energy Indiana and Duke Energy Business Services. The trust and Cinergy Corp, as the grantor of the trust, are taxed under the grantor trust rules of the Internal Revenue Code.

Q. WHY DOES THE GRANTOR TRUST EXIST?

A. As a condition from moving from a "pay as you go" to accrual accounting of post-retirement benefits other than pensions, the Indiana Utility Regulatory Commission by order dated October 21, 1998 in Cause No. 40388 required external funding of the post-retirement benefits other than pensions through the Grantor Trust.

Q. IN YOUR OPINION IS THE GRANTOR TRUST SUFFICIENTLY FUNDED?

A. Yes. In my opinion, the Grantor Trust is adequately funded to pay for the future obligations of Other Post-Retirement Benefits ("OPEB") plan participants. To determine sufficiency, the company compared the estimated future benefit obligation for Duke Energy Indiana OPEB plan participants, plus a proportionate share of Duke Energy Business Services' OPEB obligations, to the current Grantor Trust balance, and added a reasonable annual rate of return on the Grantor Trust assets, net of tax. For years 2019 through 2038, future expected benefit payments are expected to exceed the return on Grantor Trust assets, which will result in a declining balance in the Grantor Trust. However, annual benefit payments are expected to decline over time because the OPEB plan is closed to newly hired employees. Beginning in 2039, the expected return on Grantor Trust assets is forecasted to exceed the expected annual OPEB benefit payments, which will result in a residual balance in the Grantor Trust once all benefit payments are made. For more information on the Grantor Trust see the testimony of Duke Indiana Witness Mrs. Diana Douglas.

Q. DOES DUKE ENERGY INDIANA HAVE A PENSION PLAN?

A. Duke Energy closed its pension plans to non-union new hires in 2014, and has since negotiated closing pension participation for new hires for all union groups. New hires receive a Duke Energy retirement contribution to the 401(k) in lieu of pension participation, and have an opportunity to receive company matching contributions if they choose to contribute to the 401(k). Pension eligible employees have generally experienced reductions in future pension benefit accruals with transitions from a final average pay formula to a cash balance formula. As early as 1997, Duke Energy, through mandatory conversions, choice windows and design change for new-hires, moved non-union and union pension eligible employees to a cash balance design. Moving the existing employees allowed the Company to reduce future pension accrual, and reduce risks associated with longevity and investments (since most participants take lump sum distributions). To offset the impact of these pension reductions, Duke Energy increased its matching opportunity in the 401(k) plan. The emphasis throughout this process was to create a competitive retirement benefit, which provided as much comparability as possible across all legacy organizations and new hires, while aligning to the market.

Q. IN YOUR OPINION ARE DUKE ENERGY'S PENSION PLANS SUFFICIENTLY FUNDED?

A. Yes.

Q. HOW DID YOU COME TO THIS DETERMINATION?

A. Annually, Duke Energy engages Willis Towers Watson to prepare an Actuarial Valuation Report of Duke Energy's pension plans. The most recent Duke Energy Indiana report is attached at Petitioner's Confidential Exhibit 18-J (RHM). This report provides information for year-end financial reporting, net periodic benefit cost, and the year-end funded status of the qualified pension plans for Duke Energy Indiana. The funded percentage of the qualified pension plans for Duke Energy Indiana at December 31, 2018 under US GAAP accounting was 99%. The qualified pension plans had a projected benefit obligation ("PBO") of $618M and a market value of assets of $612M. Although, the PBO exceeds assets by $6M, this is still a healthy funded status and Duke Energy is committed to funding it's qualified pension plans as necessary to meet all future required contributions.

Q. HOW DOES DUKE ENERGY DETERMINE THAT THE EMPLOYEE BENEFIT PROGRAMS THAT IT OFFERS ARE REASONABLE AND NECESSARY?

A. Duke Energy routinely examines its benefits to confirm how we compare with national trends among comparable employers, and we consider the most effective ways to serve our diverse workforce who reside in over 25 states. Because we are a company with a history of mergers and acquisitions, we try to ensure consistency and fairness among legacy company employee groups as well as cost-effectiveness for the Companies. We benchmark our programs against other large employers from both the utility industry and general industry, so that we are positioned to attract and retain qualified employees needed to support our customers. Duke Energy leverages its consultants, vendor partners and nationally recognized surveys to evaluate the competitiveness of its benefits and costs. Examples of surveys include Willis Towers Watson's Financial Benchmarks Survey, Best Practices in Health Care Survey, Emerging Trends in Healthcare Survey and Benefits Data Source. These surveys indicate that Duke Energy's benefit plans and employee contributions are in line with its utility industry and general industry peers, making them reasonable and necessary in order to compete with other employers for qualified talent. Based on Duke Energy's reviews of the competitiveness and reasonableness of its benefit programs and employee costs, Duke Energy routinely determines if any changes should be made.

Q. HAS DUKE ENERGY TAKEN STEPS TO CONTROL THE COST OF EMPLOYEE BENEFITS?

A. Yes. On an ongoing basis, Duke Energy reviews its employee benefits and costs in an effort to keep costs reasonable, while continuing to provide benefits that are sufficient to attract and retain employees. Employees pay a portion or all of the cost for many of their benefits, so we strive to manage costs for not just the Companies, but for employees as well. Periodically, benefit plan changes are made and other steps are taken to control costs.

IX. REASONABLENESS OF BENEFITS PROGRAM

Q. DO YOU HAVE AN OPINION REGARDING THE REASONABLENESS AND NECESSITY OF DUKE ENERGY'S EMPLOYEE BENEFITS PROGRAMS TO ATTRACT, RETAIN AND MOTIVATE QUALIFIED EMPLOYEES TO PROVIDE SAFE, RELIABLE, EFFICIENT, AND ECONOMICAL SERVICE TO DUKE ENERGY INDIANA'S CUSTOMERS?

A. Yes. In my opinion, the Companies' employee benefits programs are market competitive, reasonable, and necessary to attract, retain and motivate the qualified employees that the Companies need to provide safe, reliable, effective, efficient and economical electric service to Duke Energy Indiana's retail customers.

X. SCHEDULES AND FILING REQUIREMENTS SPONSORED BY WITNESS

Q. HOW DID YOU ESTIMATE THE LABOR AND BENEFIT COST CHANGES FOR THE FORECASTED PERIOD PROVIDED TO DUKE ENERGY INDIANA WITNESSES MR. CHRIS JACOBI AND MR. JEFF SETSER?

A. I made reasonable estimates based on recent trends, current conditions, the market studies by independent consultants that I discussed previously in my testimony, and my previous experience with compensation and benefits matters. Based on these considerations, I provided Mr. Jacobi and Mr. Setser with estimates for the following for the forecasted test period consisting of the twelve months ending

December 31, 2020: the union and non-union labor rate increases, the anticipated cost of incentive and benefits, and payroll tax.

XI. CONCLUSION

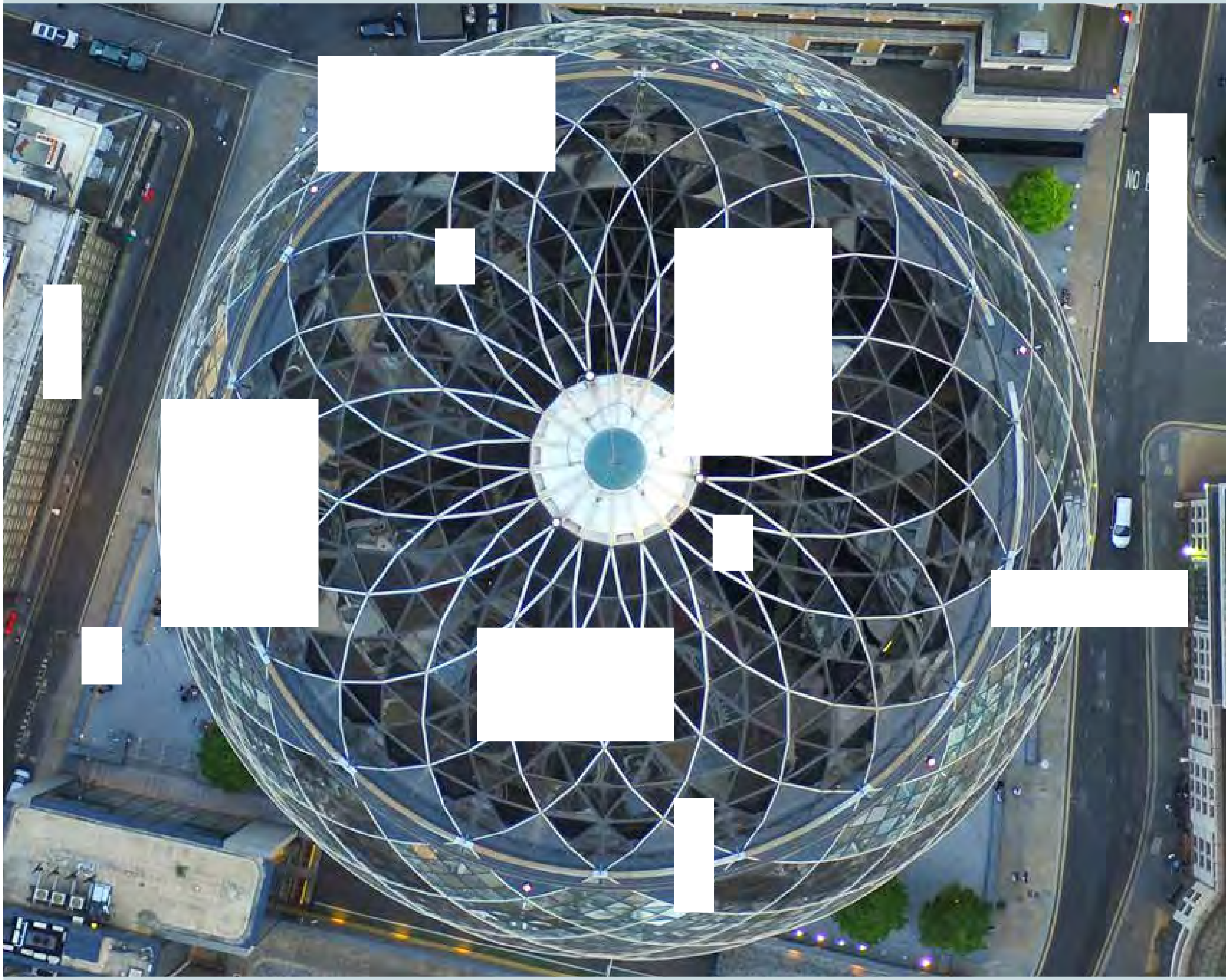
Q. WERE PETITIONER'S EXHIBITS 18-A (RHM) THROUGH 18-D (RHM) AND 18-H (RHM) THROUGH 18-I (RHM), ALONG WITH CONFIDENTIAL EXHIBITS 18-E (RHM) THROUGH 18-G (RHM) AND CONFIDENTIAL EXHIBIT 18-J (RHM) PREPARED BY YOU OR AT YOUR DIRECTION?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes, it does.

Willis Towers Watson



Under pressure to remain relevant, employers look to modernize the employee value proposition

Global findings report for the 2016 Global Talent Management and Rewards and Global Workforce Studies

The pace at which organizations are able to deliver on this modernization agenda will become a key differentiator of organizational success and help determine the winners and losers in the competition for high-value talent.

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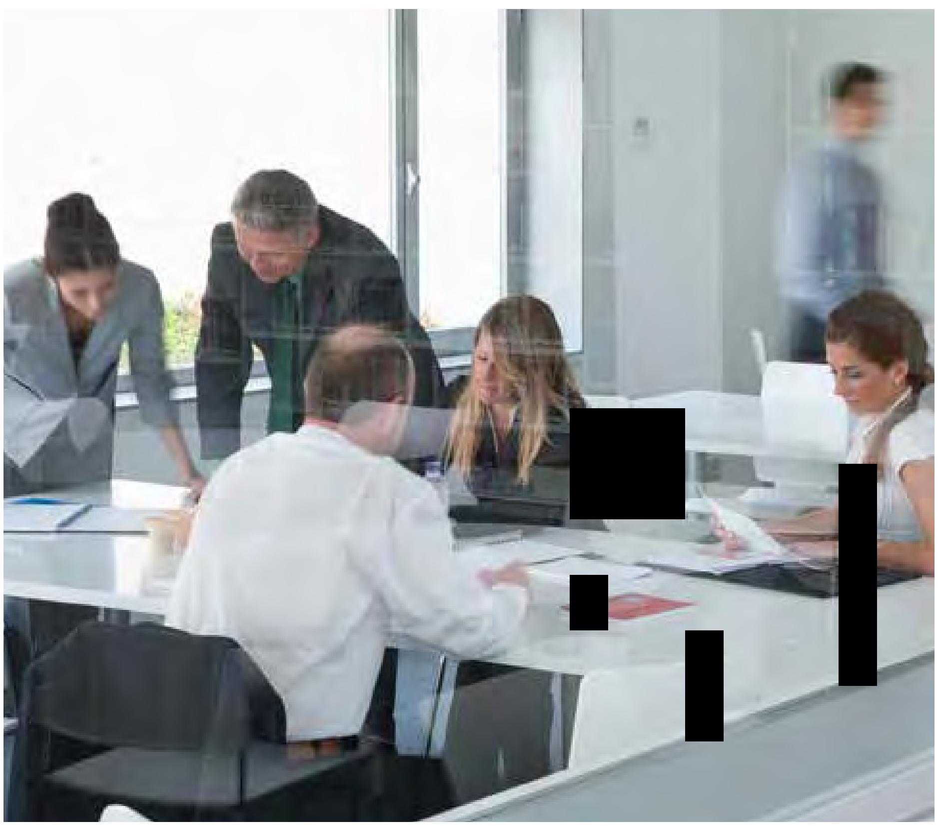


In the new world of work, employers and employees face pressures to remain relevant. The rapid rise of technology allows organizations to deconstruct and disperse work across a global virtual workplace, reshaping the workplace and redefining how and by whom work gets done. In some organizations, the traditional full-time employment model is giving way to contingent or alternative work arrangements typically associated with the gig economy. In addition, the accelerated pace of innovation, shifting demographics and increasing demands for transparency in many areas, including rewards, are contributing to profound shifts in today's workplace.

Employers are restless for change. To grow talent — and their business — they recognize that it's time to move beyond the default models, expectations and practices of the past. We see the outlines of a modernization agenda emerging as employers take a new agile approach to the development of talent and reward programs in order to position themselves for future growth.

However, employers may not yet fully understand the implications for their business of an ever-shifting workplace and new employment relationships. The pace at which organizations are able to deliver on this modernization agenda will become a key differentiator of organizational success and help determine the winners and losers in the competition for high-value talent.

For their part, many employees are uncertain of their place in a dynamic global economy. To remain relevant, they must understand emerging work options and develop collaboration, digital and global operating skills to help drive business value creation. In return, employees expect their employers to connect with them on a more meaningful level similar to how companies connect with their customers. For employers to meet this expectation they must provide not just a job but an experience that will offer rewards and work environments aligned with employees' changing needs and preferences.

Effective leaders and managers play critical roles in delivering a compelling employee value proposition (EVP) at the heart of the employee experience. Leadership, the top driver of sustainable engagement, is essential to success in today's ever-evolving business environment.

This report presents the key findings of two complementary research studies designed to capture both employee and employer perspectives on critical issues and trends in this new world of work.

- The 2016 Global Workforce Study measures the attitudes of a representative sample of over 31,000 employees around the globe to provide a detailed view into the expectations and concerns of employees.
- The 2016 Global Talent Management and Rewards Study captures the perspective of over 2,000 organizations — who collectively employ almost 21 million people worldwide — on key attraction, retention and engagement issues that are essential to the development of an effective employment deal and Total Rewards strategy.

The findings from this research will guide employers as they chart their own course in the high-stakes race to deliver human capital programs that attract, retain and engage talent critical to their future success.

Talent on the move puts value at risk

In today's shifting workplace, technology is disrupting jobs and labor markets. Almost 70% of respondents to a survey conducted by the World Economic Forum in partnership with Willis Towers Watson reported an increased use of digital media for work-related purposes over the prior three years.* Moreover, many of today's most sought-after specialties (e.g., cloud computing, mobile app design) did not even exist a decade ago. This disruption is causing a skilled worker deficit in certain areas (e.g., science, technology, engineering and mathematics [STEM] fields) and a low-skilled worker surplus in others (e.g., office support/administration, manufacturing/production). Moreover, half of organizations are either moving or plan to move away from middle-skilled jobs in favor of jobs that will require more skills – many of which are already in short supply – or jobs that will require fewer skills, possibly shrinking or eliminating the surplus of low-skilled workers.

To navigate this landscape, employers must actively monitor labor market conditions and take actions to stay ahead of changing employee expectations.

Labor activity continues to pick up

Hiring activity is accelerating globally, notwithstanding some regional experiences. Nearly half of organizations in both mature and emerging economies report that hiring has increased in the last year (with only 19% reporting a decrease in hiring activity).

Turnover is also rising globally and remains a challenge. More firms report that turnover has increased (35%) rather than decreased (19%) in the past 12 months. Thirty-seven percent of organizations in emerging economies report an increase in turnover, as do 33% of those in mature economies.

*Implications of Digital Media Survey, 2015, World Economic Forum

Employers in emerging markets find it difficult to attract employees with...

Attraction and retention challenges persist

Organizations continue to experience attraction and retention challenges globally. In particular, employers everywhere are finding it difficult to get and keep top talent.

- **Mature economies.** Mature economies are experiencing attraction and retention challenges at levels slightly higher than those seen in 2014. Twenty-eight percent of organizations report difficulties attracting employees, a five-percentage-point increase over two years. Moreover, over half of employers find it difficult to attract talent in key segments: critical-skill employees (55%), high-potential employees (54%) and top-performing employees (56%).

  Twenty percent of employers in mature economies say it's difficult to keep employees, while 16% held this view in 2014. These companies are experiencing the most challenges in retaining high-potential employees (47%) and top performers (44%).

- **Emerging economies.** In emerging economies there's no significant relief in sight, with 44% of employers reporting difficulties attracting employees. The challenges of attracting top talent remain at levels similar to those reported in 2014. Sixty-six percent report difficulties attracting employees with critical skills and over three-quarters indicate that they are experiencing challenges attracting high-potential (77%) and top-performing (76%) employees.

  Retention remains a challenge in emerging economies with 41% of organizations reporting difficulties keeping employees in general. Organizations in these economies also face continuing problems attracting top talent, although generally not to the same extent as in 2014. Fifty-nine percent say that it's difficult to keep critical-skill talent. Even more organizations say the same for high-potential (70%) and top-performing (65%) employees.

Understanding what employees value

Even as changes are reshaping the workplace, employees globally remain focused on the fundamentals when deciding to join or leave an organization. Employees are looking to work for organizations that offer fair and competitive base pay, opportunities for advancement and job security. While employers generally understand these priorities, their views diverge from those of employees in a few key areas.

When it comes to attracting employees, companies understand the importance of competitive base pay, career advancement opportunities and challenging work. But they overestimate the importance of their mission and values, and don't place enough emphasis on job security *(Figure 1).*

Employers recognize the value that employees place on competitive base pay and career advancement opportunities when deciding to stay with or leave an organization *(Figure 2).* However, they overlook the importance of the physical work environment and job security.

Employees are looking to work for organizations that offer fair and competitive base pay, opportunities for advancement and job security.

There's a clear disconnect between employers and employees regarding the value of job security as both an attraction and retention driver. But to compete for employees who value job security, it's essential to understand what these employees are actually seeking. Only about one in four (26%) employees who express a desire for job security are worried about losing their job *(Figure 3).* For other employees, job security is a proxy for financial concerns, their own ability to handle changes or an expression of employees' support for the current direction of their organization. Organizations can address employee needs in these areas without unrealistic promises of guaranteed jobs and within the framework of the modernization agenda.

Figure 1. **Top global drivers of attraction**

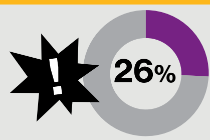
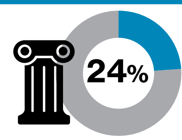
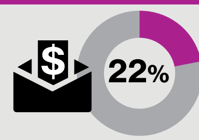
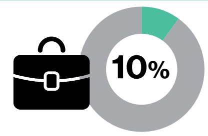
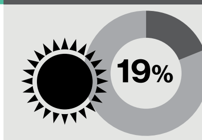
	Attraction drivers – employer view	Attraction drivers – employee view
1	Career advancement opportunities	Base pay/Salary
2	Base pay/Salary	Job security
3	Reputation of the organization as a great place to work	Career advancement opportunities
4	Challenging work	Challenging work
5	Job security	Opportunities to learn new skills
6	Organization's mission, vision and values	Reputation of the organization as a great place to work
7	Opportunities to learn new skills	Health care and wellness benefits

Figure 2. **Top global drivers of retention**

	Retention drivers – employer view	Retention drivers – employee view
1	Career advancement opportunities	Base pay/Salary
2	Base pay/Salary	Career advancement opportunities
3	Relationship with supervisor/manager	Physical work environment
4	Ability to manage work-related stress	Job security
5	Opportunities to learn new skills	Ability to manage work-related stress
6	Flexible work arrangements	Relationship with supervisor/manager
7	Short-term incentives (e.g., annual bonus)	Trust/Confidence in senior leadership

Figure 3. **Job security and the modernization agenda are not irreconcilable**

Job security is a top driver of attraction and retention but can mean different things to different people.

Group	**Fearful**	**Stable and steady**	**Financially concerned**	**Making a career of it**	**In a good place**
	 26%	 24%	 22%	 10%	 19%
Key characteristic	Don't want to lose my job	Don't want my job to change	Don't want to lose my paycheck	In it for the long haul	I'm happy, for now
Employers can offer	Career security through training to remain relevant in the new market	Integrated performance management to help employees to adapt to changing workplace needs Alternative work arrangements to allow employees to do same tasks for more than one employer	Total Rewards programs redesigned to help employees with concerns about budgeting and financial planning	Leadership and managers who support an innovative culture Greater use of pay programs with emphasis on long-term payoffs (career management, long-term incentive pensions)	Pay for performance and skills Training for highly valued skills to remain relevant in marketplace

Note: Percentages represent those who selected job security as a driver of retention and who fall into this group.

In addition, the importance of the physical work environment for retention likely reflects the growing diversification of office arrangements in many organizations, such as open-space plans, hoteling, and more collaborative work spaces and supporting technologies. Understanding how to optimize employee work environments to provide a compelling experience is an emerging trend in the ongoing challenge to retain talent.

In addition to attracting and retaining employees, companies must focus on engaging employees in order to achieve better financial results.

Because today's employees are geographically dispersed, working longer with fewer resources, sustainable engagement requires enablement and energy in addition to traditional engagement in order to achieve maximum impact on retention and performance. Our sustainable engagement model includes the following three key components:

1. *Traditional engagement,* which refers to a willingness to give discretionary effort

Figure 4. **Top global drivers of sustainable engagement**

	Sustainable engagement drivers
1	Senior leadership
2	Clear goals and objectives
3	Supervision
4	Image and integrity
5	Workload and flexibility

2. *Enablement,* which depends on a local work environment that supports productivity and performance
3. *Energy,* which results from a healthful work environment – one that supports employees' physical, social and emotional well-being

As in 2014, the foremost driver of sustainable engagement globally is leadership *(Figure 4).*

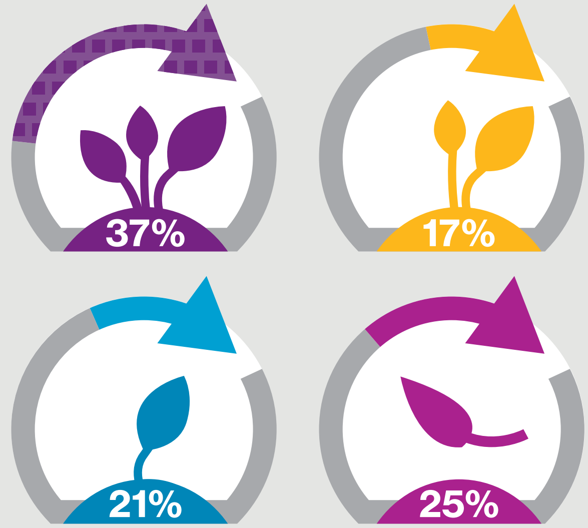
Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk.

How did employees score on sustainable engagement? There is considerable room for improvement as only slightly more than a third (37%) of employees globally are highly engaged, meaning they scored high on all three aspects *(Figure 5)*. A quarter of employees globally are disengaged in 2016.

Value at risk

Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk. In fact, fewer than half of workers (41%) globally say they intend to stay with their employer over the next two years by choice. Roughly a third of all professionals below the senior manager level are "soft stays" who will remain with their current employer because they do not believe they can find comparable options in other organizations *(Figure 6)*.

Figure 5. **Sustainable engagement segments**



- **Highly engaged:** those who score high on all three aspects of sustainable engagement
- **Unsupported:** those who are traditionally engaged but lack enablement and/or energy
- **Detached:** those who feel enabled and/or energized but lack a sense of traditional engagement
- **Disengaged:** those who score low on all three aspects of sustainable engagement

Figure 6. **A significant percentage of the workforce is at risk of leaving their organization within the next two years**

	Stayers	Soft stays	At risk	Leavers
Senior manager/Executive	42%	26%	18%	14%
Director/Manager/Middle manager	44%	32%	9%	15%
First-line supervisor/Team leader	43%	33%	7%	17%
Professional, nonmanagerial (including specialist/technician)	42%	32%	7%	19%
Administrative/Clerical (including sales associates and service workers)	38%	35%	7%	21%
Laborer/Manual worker (not a manager/supervisor)	40%	34%	5%	21%

Stayers – employees who prefer to remain with their current employer
Soft stays – employees who intend to remain with their current employer because they do not feel that they can find a comparable job elsewhere; however, if they could find another option they would take it
At risk – employees who prefer to remain with their current employer even if there is a comparable opportunity elsewhere but are likely to leave in the next two years
Leavers – employees who intend to leave their current employer within the next two years

New employees also represent a productivity drag on managers and other team members, adding significantly to the cost of turnover.

Actual and potential turnover among employees globally puts considerable value at risk in terms of productivity. Typically, it takes between five and nine months for employees to achieve full productivity depending on job level. Beyond this direct effect from their own reduced level of productivity during this period, new employees also represent a productivity drag on managers and other team members, adding significantly to the cost of turnover.

It's also possible to estimate the financial cost of employees at risk of turnover *(Figure 7).* For example, at the senior manager/executive level, the cost of turnover equals 74% of annual compensation. Given that 31% of senior-level managers are at risk of turnover, the total value at risk due to senior managers' turnover is 23% of the total annual compensation. This value varies by job level and by organization – companies farther along on the modernization journey exhibit characteristics that can lower these costs – yet in every case represents a significant level of productivity and financial value at risk.

Figure 7. **The cost of turnover puts significant value at risk**

Job level	Financial cost of turnover (% of annual compensation)*	% of employees at high risk of turnover**	Financial cost at risk***
Senior manager/Executive	**74%**	**31%**	**23%**
Professional	**59%**	**25%**	**15%**
Sales and customer/Client management	**59%**	**27%**	**16%**
Business support	**48%**	**27%**	**13%**

*Financial cost of turnover (FCOT) measured in our proprietary benchmark database
**% at risk of turnover taken from 2016 Global Workforce Study results
***Financial cost at risk=FCOT × % at risk of turnover

The value of delivering a relevant EVP

To address engagement and turnover issues as well as accompanying productivity risks, it's critical for employers to understand employee expectations and preferences (see sidebar to the right).

Employees are looking for employers to connect with them on a meaningful and personal level similar to how companies connect with their customers and clients. Fifty-six percent of employees report that their employer should understand them as well as they are expected to understand their customers. However, only 39% report that their employers are meeting this expectation. This percentage represents a slight decline from 2014 when 43% of employees held this view.

This employee experience is part of the value exchange at the heart of the EVP (see sidebar below). The employee experience includes employees' interactions with the company, colleagues and customers; the work environment, and Total Rewards – which together, drive employee engagement. In return for delivering a meaningful and relevant employee experience, employers expect that employees will adopt the mindset and behaviors necessary to optimize their contribution to the organization's success.

Keeping up with employees' changing expectations

How do organizations stay up to date with the shifting needs and preferences of their employees? Companies across all industries globally are developing more agile employee listening strategies that go beyond exclusive reliance on the traditional employee survey. Today, advancements in technology make possible quarterly, monthly and even daily polls along with always-on tools, exit/onboarding surveys and a range of qualitative/unstructured alternatives – for example, online collaboration platforms and social media sites.

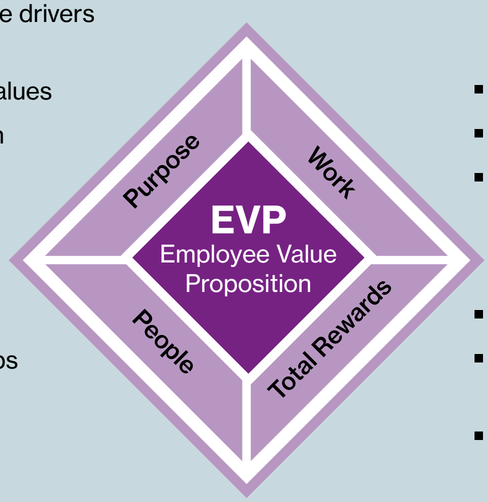
It's critical for employers to understand this broad set of solutions and how they can be best combined to form a comprehensive listening strategy. For a more in-depth discussion, please see "From survey event to listening strategy: capture the value of employee opinion."

Ensure the EVP articulates what the company delivers and expects in return

Structure the EVP to address employee drivers

- Company mission, vision and values
- Company image and reputation

- Job content
- Work environment
- Tools and resources to do work

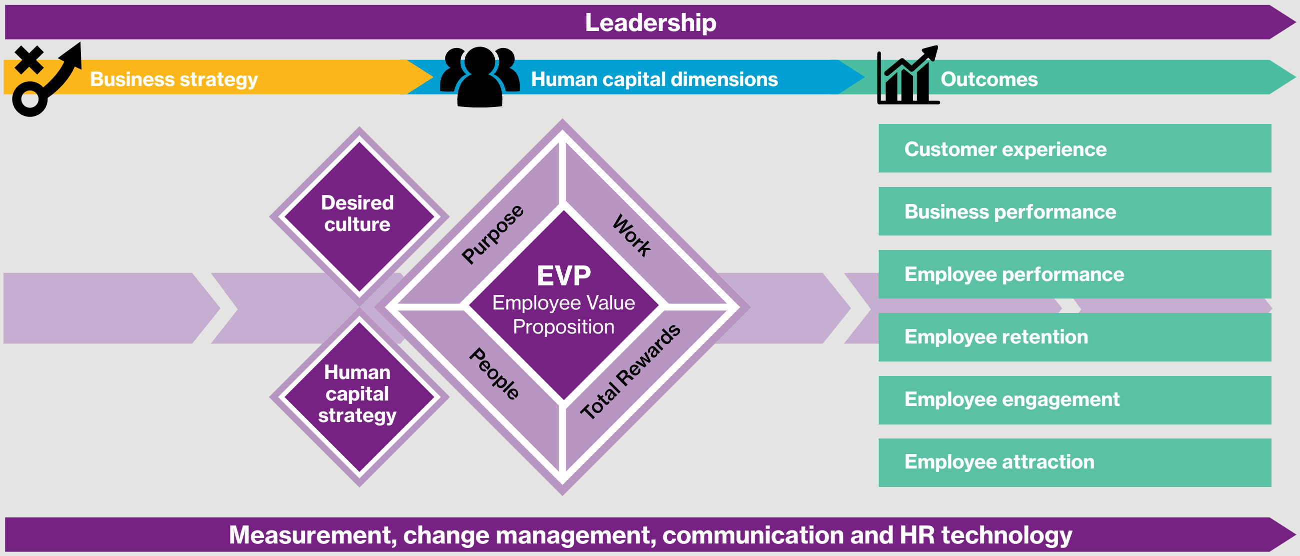


- Leadership
- Manager/employee relationships
- Peer relationships

- Foundational rewards
- Performance-based rewards and recognition
- Career and environmental rewards

Figure 8. **Modernizing your EVP should be accomplished in the context of an overarching human capital framework**

Organizations that align their human capital dimensions to business strategy achieve better outcomes



Only a quarter of employees report that their organizations have matured to the stage of best practice companies with highly evolved EVPs that are aligned with what they stand for in the marketplace and differentiated from those of other companies with whom they compete for talent. Employees of these EVP best practice companies tend to be among the most highly engaged.

To provide a framework for thinking about the elements that contribute to a modern EVP and accompanying talent and reward programs, we have developed the Willis Towers Watson Human Capital Framework *(Figure 8)*. This framework helps leaders make decisions about the strategy, design and delivery of their programs from an integrated, holistic perspective. And it emphasizes the critical role that leaders play in ensuring human capital dimensions align with and support achievement of the company's business strategy.

The value of getting the EVP right

To win in the new world of work, employers need to redefine their approach to developing an EVP that they can offer to current employees as well as potential job candidates (the candidate value proposition or CVP). Organizations stand to capture considerable value by getting the EVP right and connecting with their employees in a meaningful way. EVP best practice companies report:

- **Better understanding of their employees.** Seventy-eight percent of EVP best practice companies report that their organization understands employees as well as employees should understand their customers (compared with 46% of companies overall).
- **Higher levels of financial performance and sustainable engagement.** Best practice organizations with highly evolved EVPs are almost twice as likely (1.9 times) to report financial performance substantially above that of their peers and almost three times as likely (2.7 times) to say that their employees are highly engaged as organizations without a formal EVP.
- **Fewer attraction and retention difficulties.** Best practice organizations with highly evolved EVPs in mature economies report less difficulty attracting and retaining employees in general as well as top performers and employees with critical skills. Their counterparts in emerging economies report fewer difficulties getting and keeping employees for some employee groups, including top performers.

Overall, a strong EVP drives engagement, and highly engaged employees are less likely to leave their employers. In fact, 72% of highly engaged employees report that they would like to continue working for their current employer until they retire, as opposed to only 26% of the disengaged.

The investment organizations make in developing a relevant EVP and accompanying employee experience clearly delivers strong returns.

The critical role of effective leaders

An organization's leaders are ultimately accountable for both establishing and delivering on the company's EVP. Senior leaders and managers play critical roles in ensuring that the employee experience at the heart of the EVP enables the organization to connect with its employees in a meaningful way. So how do employers and employees rate their senior leaders and managers?

Senior leadership

Employees not ready to follow

Employees give their senior leaders low marks. Roughly half or fewer say that senior leaders at their organization are doing a good or very good job of growing the business (52%), managing costs (47%) or developing future leaders (39%). Among the next generation of leaders, just 46% say that senior managers are doing a good or very good job of developing future leaders.

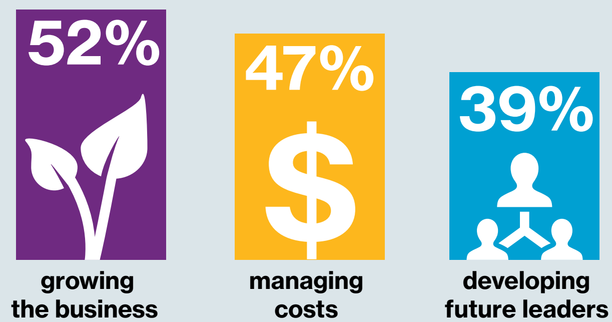
Less than half of employees report that the senior leadership in their organization has a sincere interest in employee well-being (44%) or that they have trust and confidence in the job being done by the senior leadership of their organization (48%). Only half report that they believe the information they receive from senior leadership. We conclude that many employees are not ready to follow their current leaders and do not have great confidence in the next generation of leaders.

It is essential for organizations to address shortfalls in key aspects of leadership in order to craft a meaningful EVP and relevant employee experience.

The value at stake

Employees' perception of their senior leaders is a key influencer in their decision to stay with or leave an organization. Leadership is the top driver of sustainable engagement in mature and emerging economies alike. Employees with positive perceptions of their leaders are much more likely to be highly engaged.

Employees say that **senior leaders** at their organization are doing a **good** or **very good job** of...



Time to reassess leadership competencies

Over half of employers indicate that their organizations develop leaders who will be able to meet changing business needs (64%) and hold leadership accountable for building the next generation of talent (53%). Yet given the low ratings from employees, it could be that organizations are overstating the effectiveness of their programs because they are more focused on meeting process objectives rather than the more difficult challenge of measuring results.

It may be time for employers to revisit their leadership competency models. Only around 60% indicate that their organizations use their models effectively.

What competencies should organizations be prioritizing in their models in order to develop effective leaders? Given that leadership continues to be the number one driver of sustainable engagement, employers can start by focusing on the competencies that support the drivers of employee engagement.

Our research shows that highly engaged employees are likely to give high scores to the following statements related to leadership competencies:

- I have trust and confidence in the job being done by the senior leadership of my organization.
- Senior leadership behaves consistently with the organization's core values.
- I believe the information I receive from senior leadership.
- Senior management is effective at growing the business.
- Senior management is effective at managing costs.
- Senior management is effective at developing future leaders.

Companies need to identify the drivers of sustainable engagement in their organizations, focus on defining the competencies that support those drivers and then hold leaders accountable for demonstrating the competencies that underpin effective leadership.

Make it relevant!

To develop more effective leaders: 1) build awareness within your organization of the importance of an effective leadership in delivering the EVP and driving higher levels of engagement; 2) revise your leadership competency model to focus on the skills and behaviors that affect an employee's intent to stay and his or her productivity; 3) use leadership assessment tools to identify who will make the best leaders and focus on the competencies that drive sustainable engagement.

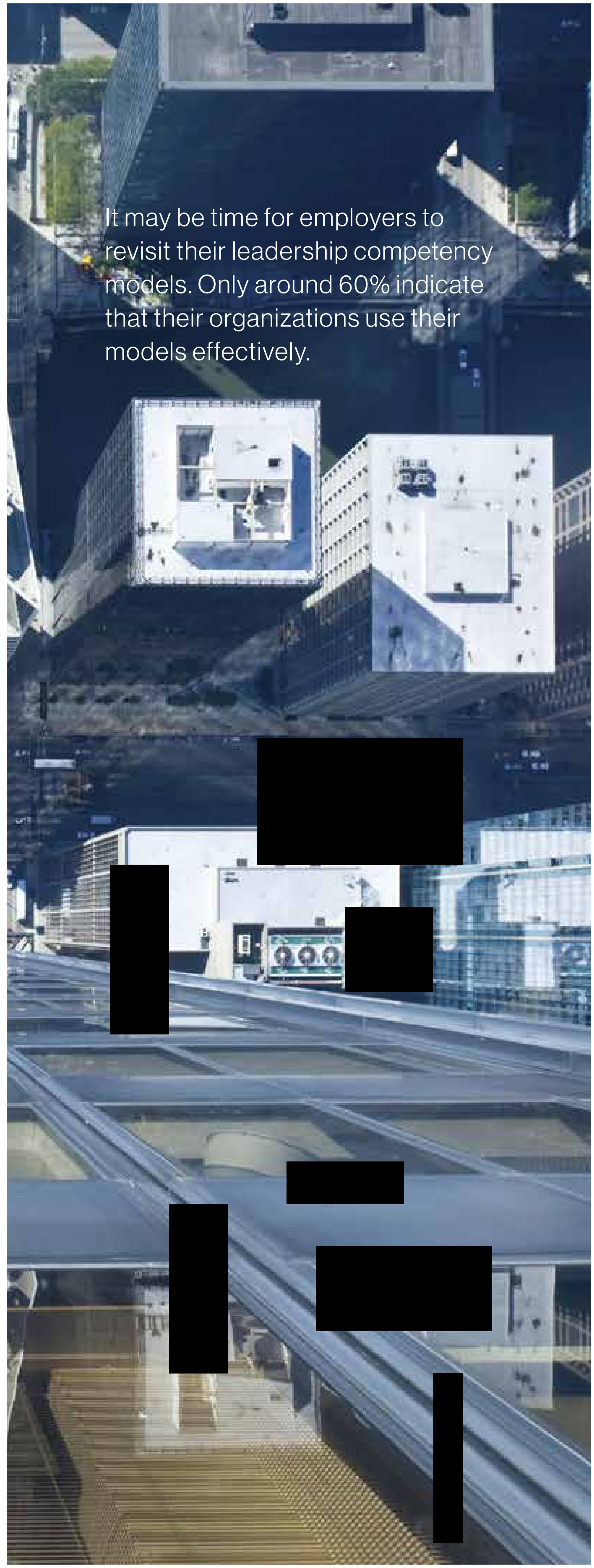
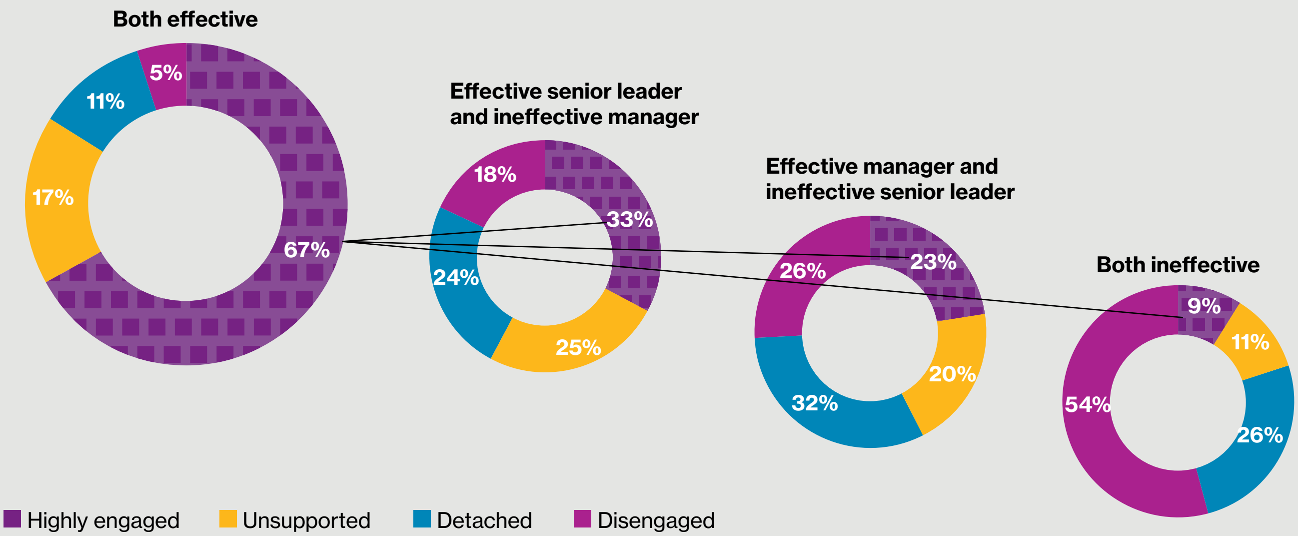


Figure 9. **The bottom line: Employees with effective senior leaders and managers are much more likely to be highly engaged**



Source: Willis Towers Watson 2016 Global Workforce Study – Global
Note: Proportions may not sum up to 100% due to rounding.

Managers

Employees view managers more favorably than HR

Employees have a generally favorable view of their immediate manager and give him or her higher ratings than the HR organization does. While employees recognize their manager's shortcomings in specific areas such as performance management and career advancement, this does not seem to affect their overall perception of their manager's effectiveness. In fact, 63% say their immediate manager is effective at his or her job.

However, only 45% say that the people manager role in their organization is respected. Why? Fewer than half (46%) think their manager has enough time to handle the people aspects of the job. And employees think that managers lack skills and tools in critical areas such as performance management.

The value at stake

An employee's relationship with his or her immediate manager is a key driver of retention and sustainable engagement.

Both supervision and leadership are drivers of sustainable engagement. However, the employees who perceive both their manager and senior leaders as effective are the most likely to be highly engaged *(Figure 9)*. Just 9% of employees who do not think either their manager or senior leaders are effective within their organization are highly engaged. When one of them is effective that number rises by 14% (if their manager is effective) or 24% (if the senior leaders are effective). But when both are effective, the percentage of employees who are highly engaged rises to 67%.

Make it relevant!

To improve the effectiveness of your managers, ensure they: 1) have the time to do their job well, 2) listen to and treat their employees with respect, 3) have the right tools and training in areas ranging from performance management to career development, 4) offer dual career tracks to help ensure the employees you promote to managerial positions are those best suited for the role versus employees seeking management positions solely for the opportunity to enhance their compensation, 5) use formal assessments to identify the best candidates for the manager role, and 6) make sure leaders and managers are aligned so that employees see both of them working together effectively.

How can employers enhance their EVP to remain relevant?

Step 1: Start with effective recruiting, onboarding and staffing.

Eighty-three percent of best practice organizations with a highly evolved EVP support the full employee life cycle, including recruiting and onboarding, while only 9% of organizations without a formal EVP do so.

HR software – specifically for talent assessment and onboarding – can help organizations ensure they recruit the right candidates and that new hires become fully productive faster. The vast majority of employers (70%) say that they currently have recruiting and onboarding software in place, and 20% plan to acquire this software in the next year or two.

However, employers can improve their use of software and online resources overall.

- **Develop a skills inventory**. Only 33% of employers say they maintain an inventory of employee skills to help match people to roles and assignments. An inventory of employee skills and identification of skill gaps can help employers ensure they recruit, hire and staff the right talent.
- **Use social media for brand building.** While employers are using social media to find candidates by posting jobs to sites such as LinkedIn, fewer than half (46%) report that they post content (other than job ads) to build the employer brand. By posting content about their brand on social media, organizations can raise the visibility of their culture and employee experience among high-value candidates.

Step 2: Focus on core practices and what matters most to employees.

The drivers of attraction, retention and sustainable engagement should be top of mind as employers look to modernize and improve their EVP. Our survey findings reveal employee and employer perspectives on the following key drivers and evolving best practices.

Base pay

Various factors contribute to the underlying pressure on base pay.

- Many employees are dealing with financial concerns that can distract from work and negatively affect productivity. Almost half of employees (49%) say that they often worry about their current financial state, and 53% report that they often worry about their future financial state.
- There's a growing expectation of openness and transparency regarding pay and pay equity issues. Legislative or disclosure changes in many countries, including the U.K. and U.S., are likely to increase the need for pay transparency.
- It's becoming easier for employees to gather salary information from online sources. Many employees have taken advantage of the opportunity to research online what people with jobs similar to theirs get paid at other firms (one in six in the last month).
- Despite the high prevalence of eligibility for other forms of rewards, for most employees, base pay remains the largest slice of the Total Rewards pie and is critical to meeting their fundamental financial needs.

50% of employees think they are **paid fairly,** but **one in five disagrees.**

How do employees view current base pay practices? Employees tend to think they are paid fairly relative to people holding similar jobs in other organizations – *however, the numbers are weak.*

- Half (50%) think they are paid fairly, but one in five disagrees.
- Only three out of five employees (62%) indicate that they understand how base pay is determined.
- Employees don't have a good understanding of relative pay. Only about half say they understand how their total compensation compares with that of the typical employee in their organization (47%) and with the typical employee in other companies like theirs who holds a similar job (44%).

Employers tend to hold managers at least partly responsible for the low effectiveness of base pay, with only 51% saying that their managers execute base pay well. And almost one in five (18%) disagrees with the statement that managers are effective at fairly reflecting performance in pay decisions, indicating a need for improved pay equity.

Employers also seem to recognize that program design could be an issue. Over 50% have already taken action, or are planning or considering taking action to change the criteria for base pay increases. But are they paying sufficient attention to the right factors?

The value at stake

Base pay continues to be the top driver of attraction and retention for employees in both mature and emerging economies. In addition, the perception of fairness in base pay is linked to an employee's engagement, which, in turn, drives productivity and financial performance.

Over half of employees who say they are paid fairly compared with people in other companies with similar jobs and compared with people in their organization with similar jobs are highly engaged.

Managers take a broader view of merit pay criteria

Our 2015 Talent Management and Rewards Pulse Surveys revealed HR's perception that managers are taking a more holistic and forward-looking perspective on the factors used to make merit increase decisions than is called for in their company's plan design. In this year's research, managers confirmed that they are equally likely to give weight to employee potential, skills required for future success, achievement of team goals, internal equity and market competitiveness. However, manager and employer perspectives differ in the following areas:

- Almost 60% of managers say *perceived potential* affects merit increase decisions versus 41% of HR professionals who say it should.
- 63% of managers say *possession of skills critical to future success of the organization's business model* affects merit increase decisions versus 46% of HR professionals who say it should.

Employers may be underemphasizing the criteria critical to the future growth of the business and rewarding past performance instead.

- 66% of managers say *achievement of team goals* affects merit increase decisions versus 49% of HR professionals who say it should.
- Managers are also more concerned than HR professionals about *internal equity* (52% versus 42%) and *market competitiveness* (55% versus 48%) in making merit increase decisions.

Seventy-two percent of employers say that an employee's final year-end rating should be considered in making merit increase decisions in contrast to just 63% of managers who say it does affect their decisions. In fact, only half of managers report that formal performance ratings are effective at driving higher levels of performance among their direct reports.

A clear disconnect exists between how managers are currently making reward decisions, the program design, and the tools and processes provided by HR. Employers may be underemphasizing the criteria critical to the future growth of the business and rewarding past performance instead.

Employers need to address internal pay equity

Only 51% of employees believe they are paid fairly compared with others in their organization in similar roles; this isn't surprising given that only 60% of organizations have a formal process in place to ensure fairness in compensation distribution. Consequently, employers have significant room for improvement in this area.

Make it relevant!

To modernize your base pay practices: 1) adopt a more holistic approach to making merit increase decisions that assesses not only an individual's past performance, but also future potential and ability to contribute to a team; 2) conduct a pay equity analysis and develop an action plan to address pay equity issues; and 3) improve communications in the area of rewards and base pay to increase transparency and enhance the perception of fairness. Using a multichannel approach, target communications about base pay policies to different workforce segments.

Pay for performance

To ensure that base pay and incentive compensation becomes a valuable component of the EVP, employers need to address shortfalls in key areas, especially those related to pay for performance:

- Only 40% of companies think base salary increases are effective at driving higher individual performance. Managers hold a similar view. Fewer than half (48%) say that annual base salary increases are effective at driving higher levels of performance among their direct reports. However, this figure increases to 51% among managers who spend seven or more hours per employee on performance management, compared with only 37% for managers who spend two hours or less per employee. The time managers invest in performance management activities appears to influence their perception of the effectiveness of base pay increases.
- Slightly more than half (55%) of employers report that base salary increases are effective at differentiating pay based on individual performance. And only 49% of managers say that annual base salary increases are effective at differentiating pay based on performance among their direct reports. This figure rises to 54% among managers who spend seven or more hours per employee on performance management, compared with 36% for those who spend two hours or less. Regardless, there is still significant room to improve the effectiveness of base pay salary increases when it comes to differentiating pay based on individual performance.
- Looking at bonuses, only one-half of companies (50%) and 52% of managers think that short-term incentive programs are effective at driving higher individual performance. And only 52% of both groups think that short-term incentive programs are effective at differentiating pay based on individual performance.
- As far as employees are concerned, less than half (45%) say there is a clear link between their performance and their pay; only 62% say they understand how their base pay is determined, and barely more than half (54%) understand how their bonus is determined.

These findings on the lack of pay-for-performance differentiation are supported by this year's data on the downside and upside of bonus awards based on performance. While employees who partially met expectations saw their bonus award cut in half relative to target, the very best performers (the roughly top 10% who far exceeded expectations) received bonuses that only exceeded target by 20%. Clearly, there is an opportunity to improve the execution of pay-for-performance promises.

The value at stake

Pay-for-performance programs customized for critical workforce segments provide a source of competitive advantage. These programs form a critical component of a highly evolved EVP, essential to attracting, retaining and engaging top talent.

Make it relevant!

To improve the effectiveness of your pay-for-performance program: 1) determine the performance dimensions (e.g., results, potential, behaviors, culture) to be rewarded by talent segment; 2) choose the right combination of reward vehicles (this may involve broadening the scope of reward programs to include components such as career management and paid time off); and 3) ensure all leaders and managers engage in an ongoing dialogue with employees on performance.

While employees who **partially met** expectations saw their **bonus award cut in half** relative to target, the very **best performers** (the roughly top 10% who far exceeded expectations) received bonuses that only **exceeded target by 20%.**

Performance management

Over two-thirds (67%) of employers say that the performance management process in their organization is effective at driving high performance across the workforce.

But employees disagree and give employers mediocre ratings on key aspects of performance management.

- **Program effectiveness**
  In many cases, performance management reviews have become simply a compliance exercise with little impact on future results, prompting employees to question the purpose of performance management.

  Fewer than half (48%) of employees report that performance reviews have helped improve their performance. And barely one-half (52%) think their performance was accurately evaluated in their most recent review. As noted above, pay-for-performance elements fall short, with only 45% of employees saying there is a clear link between their work performance and pay. And fewer than half (46%) indicate that high performers are rewarded for their performance.

  As already indicated, fairness is an issue for many employees. Only 55% of employers report that their organization has a formal process to ensure there is no bias or inconsistency in performance reviews. In the new world of work, where fairness and transparency are high priorities, this figure should be much closer to 100%.

- **Communication**
  For performance management to be effective, employees must understand the process. Yet only half (50%) say their organization does a good job of explaining the performance management process. Effective performance management relies on a continuous discussion-based process that involves providing feedback in a nonjudgmental way and having focused conversations on the type of performance – including fulfillment of accountabilities, possession of necessary skills and demonstration of desired behaviors – required to increase business impact.

Employees who find the performance management process effective are more likely to be highly engaged.

- **Manager's role**
  For many employees, their poor perception of performance management is due to a lack of manager capacity and capability. Among employees not reporting that their performance reviews helped improve their performance, over a fifth say that their managers do not have the time (20%) or skills (23%) to do performance management well. And employees who did find their performance reviews helpful indicate that their manager having the necessary skills is the leading facilitator of performance management.

  Poorly equipped, time-pressed managers are less likely to provide helpful feedback to their direct reports. Among employees who did not indicate that their performance reviews were effective in helping improve performance, over a third (34%) cite a lack of effective feedback as a barrier to their performance management experience. It's not surprising then that only 44% of employees report that their manager coaches them to improve their performance.

The value at stake

Employees who find the performance management process effective are more likely to be highly engaged. Over half of those (58%) who say that their performance review has helped them improve their performance are highly engaged versus 9% who are disengaged. Moreover, 55% of employees who indicate that their performance was accurately evaluated in their last review are highly engaged.

Employers take action to improve performance management

Only 51% of employers say that performance management is effective at creating a positive employee experience. But rather than scrapping the performance management process altogether, most employers are taking actions to improve their existing process.

Some of these actions target areas where employers perceive their managers to be ineffective:

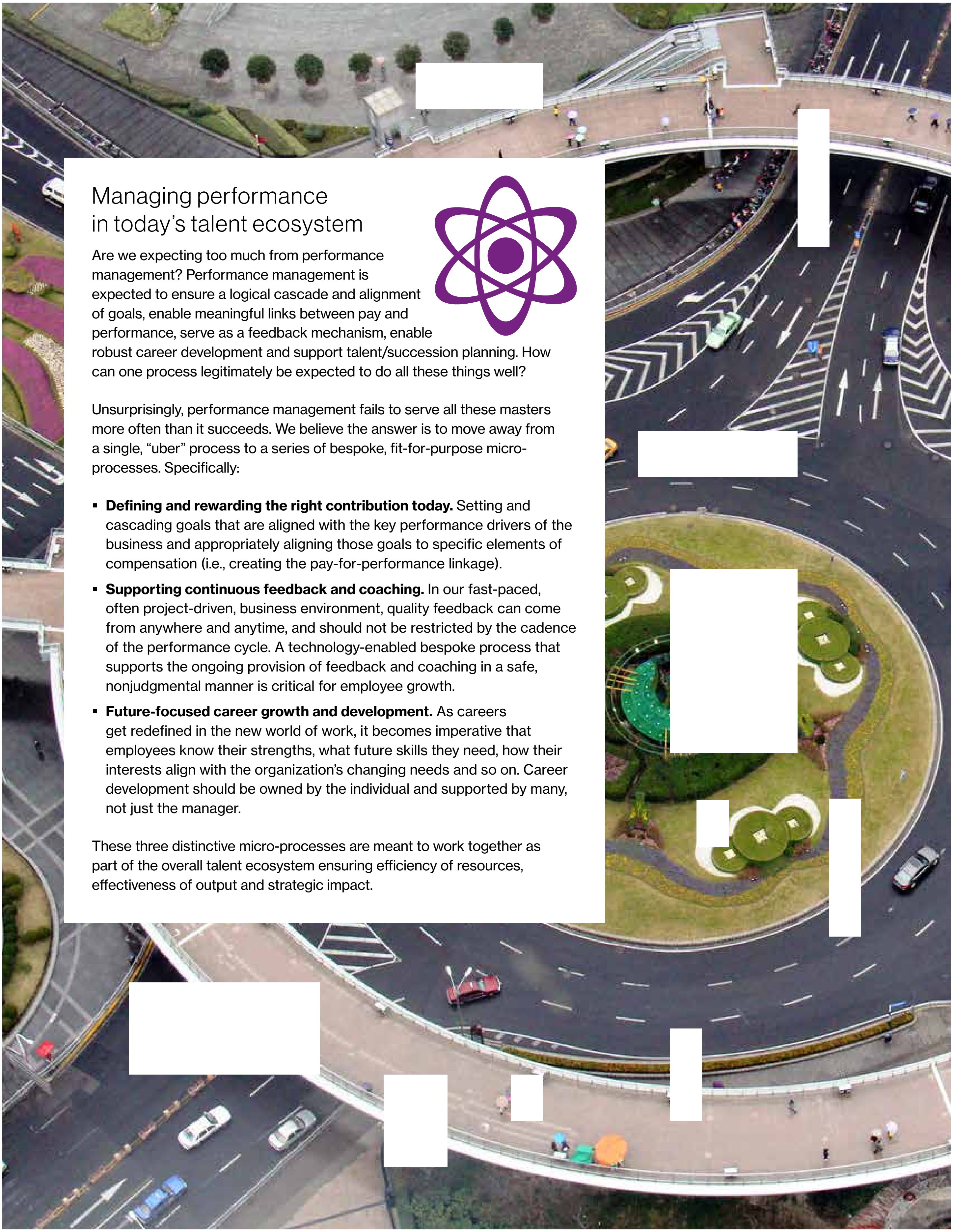
- **Coaching and feedback.** Only 35% of employers say their managers are effective at giving employees regular coaching and feedback on their performance. To improve this situation, a majority of employers have already taken action (33%), or are planning (23%) or considering taking action (24%) to increase frequency and improve the quality of performance conversations/dialogues between manager and employee.
- **Use of software.** Employers give managers low scores on the use of software in the performance management process. For example, only 38% say managers are effective at utilizing software to facilitate continuous feedback. This may have contributed to employers' decision to implement new enabling technology such as mobile platforms that facilitate continuous feedback. Over half of employers have either taken action (15%), or are planning (16%) or considering taking action (21%) to implement new technology in this area.

Employers are also taking action to align themselves with managers' more forward-looking perspectives on performance management. Twenty-eight percent have already taken action, and 45% are planning (20%) or considering taking action (25%) to use performance management to evaluate future potential.

Ensure managers focus on high-value activities

To make the most of these efforts, employers need to ensure that managers spend their time on the activities that will most help improve performance.

Our findings reveal that in a typical year, 53% of managers report spending four hours or less per employee on performance management. Twenty-two percent spend five or six hours per employee. Among employees who did not agree that their performance reviews helped them improve their performance, 20% think their managers lack the time to devote to effective performance management. In many cases, managers are spending too much time on administrative activities. To improve performance management, organizations need to find ways to reduce the amount of time managers spend completing forms. Even among managers who spend less than two hours per direct report on performance management, managers are still more likely to report spending too much time on forms.



Managing performance in today's talent ecosystem

Are we expecting too much from performance management? Performance management is expected to ensure a logical cascade and alignment of goals, enable meaningful links between pay and performance, serve as a feedback mechanism, enable robust career development and support talent/succession planning. How can one process legitimately be expected to do all these things well?

Unsurprisingly, performance management fails to serve all these masters more often than it succeeds. We believe the answer is to move away from a single, "uber" process to a series of bespoke, fit-for-purpose micro-processes. Specifically:

- **Defining and rewarding the right contribution today.** Setting and cascading goals that are aligned with the key performance drivers of the business and appropriately aligning those goals to specific elements of compensation (i.e., creating the pay-for-performance linkage).
- **Supporting continuous feedback and coaching.** In our fast-paced, often project-driven, business environment, quality feedback can come from anywhere and anytime, and should not be restricted by the cadence of the performance cycle. A technology-enabled bespoke process that supports the ongoing provision of feedback and coaching in a safe, nonjudgmental manner is critical for employee growth.
- **Future-focused career growth and development.** As careers get redefined in the new world of work, it becomes imperative that employees know their strengths, what future skills they need, how their interests align with the organization's changing needs and so on. Career development should be owned by the individual and supported by many, not just the manager.

These three distinctive micro-processes are meant to work together as part of the overall talent ecosystem ensuring efficiency of resources, effectiveness of output and strategic impact.

Figure 10. **Managers say they spend too much time filling in forms and participating in calibration sessions and not enough time on collecting feedback, setting goals and discussing individual performance**

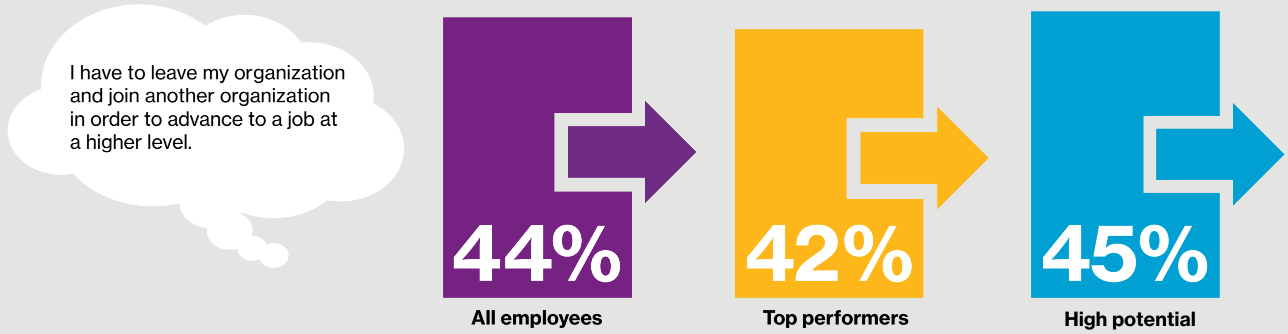
		Time spent per employee				
		2 hours or less	3 or 4 hours	5 or 6 hours	7 or 8 hours	9 or more hours
The amount of time spent completing forms	Too little time	12%	4%	6%	6%	4%
	About right	67%	72%	69%	68%	64%
	Too much time	21%	23%	24%	26%	32%
	Net	9%	19%	18%	19%	27%
The amount of time spent in ongoing conversations with employees about their individual performance, helping employees set performance goals or objectives and collecting feedback from colleagues	Too little time	38%	34%	30%	27%	27%

In regard to higher-value activities such as collecting feedback, having ongoing conversations with employees or helping employees set goals, the percentage of managers who say they spend too little time on these activities drops by 11 percentage points for those who spend seven or eight hours per direct report on performance management compared with those who spend fewer than two hours *(Figure 10).*

Make it relevant!

To develop a performance management program that will deliver business impact: 1) establish cascading goals aligned with key business performance drivers and link goals to pay-for-performance programs; 2) consider future potential as well as past performance in your reviews – taking a longer-term, more holistic view of performance; 3) use a continuous discussion-based process instead of a static year-end assessment (make certain that your managers' efforts are focused on coaching employees to achieve their fullest potential); 4) ensure that your managers have adequate training on how to effectively execute their performance management accountabilities, e.g., providing feedback and coaching; and 5) provide training for managers on the use of performance management software to help minimize time spent on completing forms.

Figure 11. **Close to one-half of high-potential employees think they need to leave their organizations in order to advance their careers**



Career management

Employees give career management a thumbs down

Career advancement opportunities are among the top three drivers of attraction and retention globally. Yet over half of employees (54%) say that career advancement opportunities have remained the same over the past 12 months.

Only 43% of employees think that their organization does a good job of providing advancement opportunities. In fact, over 40% of employees think they need to leave their organization to advance their careers *(Figure 11).*

Employees cite two key barriers in this area: ineffective supervisors and poor use of technology.

- **Supervisors.** Eleven percent of employees report that they did not have a career development discussion with their immediate supervisor in the past year. And only 38% report that their immediate supervisor helps with career planning and decisions.
- **Technology.** Only 47% of employees indicate that their company makes effective use of technology to help them advance their careers.

The value at stake

Effective career management is a key driver of attraction, retention and engagement. Of employees who say that their organization does a good job of providing opportunities for advancement, 61% are highly engaged, while only 9% are disengaged. Of the employees who indicate that their organization provides career planning tools and resources that are helpful, three in five are highly engaged and a mere 9% are disengaged.

Employers understand issues but investment falls short

Overall, almost 70% of employers say their career development processes are effective at providing traditional career advancement opportunities to employees (e.g., vertical moves/promotions, lateral moves). But meaningful career management in the new world of work requires a focus on the employee experience and skills development versus jobs and levels.

Employers recognize their shortcomings in key areas:

- **Technology.** Only 37% indicate their organization is effective at using technology to provide employees access to career management tools and resources. Less than half (49%) report that their organization is effective at using technology to provide employees access to employee learning and development programs.
- **Managers.** Only 39% of employers say their managers are effective at identifying development opportunities. And a mere 30% report that their managers are effective at conducting career development discussions.
- **Nontraditional advancement opportunities.** Only half say their organization's career development processes are effective at positioning career growth and movement opportunities to enhance skills and gain new experiences (e.g., special assignments, across or outside the organization).

Moreover, employers are not adequately investing in essential areas. Few say that their components of career planning and growth include the following: 1) defined lateral career paths (37%), 2) emphasis on dual career paths for people managers (33%), and 3) integration with technology systems such as HRIS (human resource information systems) and employee portals (35%) and employee self-service tools (29%).

By increasing requirements for some jobs and lowering requirements for others, organizations are eliminating opportunities in the middle and reducing the possibilities for traditional career advancement within the organization.

In addition, going forward, technology will have a greater impact on how employers design jobs. Seventeen percent of employers say they are changing the way they design jobs so jobs can be done by employees with lower skills, and 33% expect to do so in the next three years. Twenty percent say they are changing the way they design jobs so jobs can be done by employees with more skills, and 30% expect to do so within three years. It is critical for organizations to monitor this trend to better understand how this might impact career advancement opportunities – for example, a greater focus on career experiences and job expansion over promotion through a series of levels. By increasing requirements for some jobs and lowering requirements for others, organizations are eliminating opportunities in the middle and reducing the possibilities for traditional career advancement within the organization.

Finally, it's important for employers to ensure that career management is integrated in other aspects of talent management and reward programs – for example, career discussions should be a key part of performance management, and training opportunities and mentoring programs should be an integral part of Total Rewards.

Make it relevant!

To modernize your approach to career management: 1) audit your baseline job architecture for relevance to the organization and alignment with your talent strategy; 2) ensure that your managers are trained to have effective career planning discussions (even in low-growth environments where it may be difficult to provide career opportunities for all, it's essential for managers to help employees understand and appreciate all of the opportunities that do exist); 3) invest in technology to provide managers and employees with career management tools and career development programs; 4) offer employees lateral career paths, dual career paths and nontraditional advancement opportunities such as special assignments, skill-building experiences and secondments; and 5) look for ways to design jobs that not only capture the changing nature of work but also can facilitate skill growth and career development for employees.

Modernization starts with a more relevant value exchange

Success in the new world of work requires a rethinking of the employer-employee relationship and the value exchange at the heart of the EVP.

While base pay may be the leading driver of attraction and retention, our findings show that a broader set of factors influences employees' decision to join and stay with a company. Employees are looking for more than a job – they expect a personalized work experience aligned with their values and preferences. The scope of the work experience encompasses all employee interactions with customers, nonemployee talent, other employees, and managers and leaders, and also includes the physical work environment and Total Rewards as well as supporting tools and resources.

By creating more relevant employee experiences, companies will be able to connect with employees on a deeper level. This requires adopting a mindset that prioritizes the following elements.

- **Senior leaders and managers.** Senior leaders are ultimately accountable for delivering the EVP and accompanying employee experience. To achieve this objective, they must prioritize building trust-based relationships with their employees and developing the next generation of leaders by focusing on the leadership competencies that both support business objectives and drive sustainable engagement within their organizations.

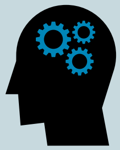
  In addition, senior leaders must ensure that managers have the aptitude as well as the training, resources and time necessary to fulfill their critical role in the organization. The manager is also a leader but affects employees in different ways than senior leaders or executives (see sidebar, page 23).

Employees are looking for more than a job — they expect a personalized work experience aligned with their values and preferences.

- **Transparency.** Transparency in all aspects of the work experience from base pay policies to performance reviews to career advancement opportunities promotes a sense of fairness and openness that is a growing employee expectation. Moreover, a lack of clear information about the organization and its policies may prompt some employees to turn to less reliable external sources of information.
- **Flexibility.** In an environment where employees have a wider range of work options, it's essential to offer alternative career paths (e.g., lateral or dual career paths) and nontraditional opportunities for skill development such as special assignments. Flexibility also involves providing employees with online training and development resources they can access as their schedule permits. In addition, it's critical for employers to be open to flexible work arrangements in terms of where and how work gets done.
- **Performance management.** Employers need to adopt a more holistic view of performance. It's essential for companies to define the type of performance (e.g., individual versus team) they are measuring and rewarding, and to determine how this might differ by employee segment. Individual performance goals should support strategic business priorities and link to specific elements of compensation, thus creating a pay-for-performance connection. Finally, to ensure the right performance is always top of mind, employers should engage in an ongoing performance dialogue with employees.
- **Pay for performance.** As the world of work, job definitions and expectations continues to evolve, companies need to leverage improved performance management processes to deliver on their pay-for-performance promise. It's time to rethink the basis for determining increases to base salaries and to improve the differentiation in bonus awards to reflect actual performance outcomes.

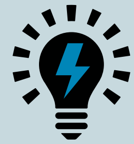
What makes an effective leader?

Three key aspects contribute to overall leadership effectiveness:



Professional
The expertise and technical knowledge critical to service and product delivery

People
The people-related skills needed to engage, promote collaboration and manage a wide range of teams

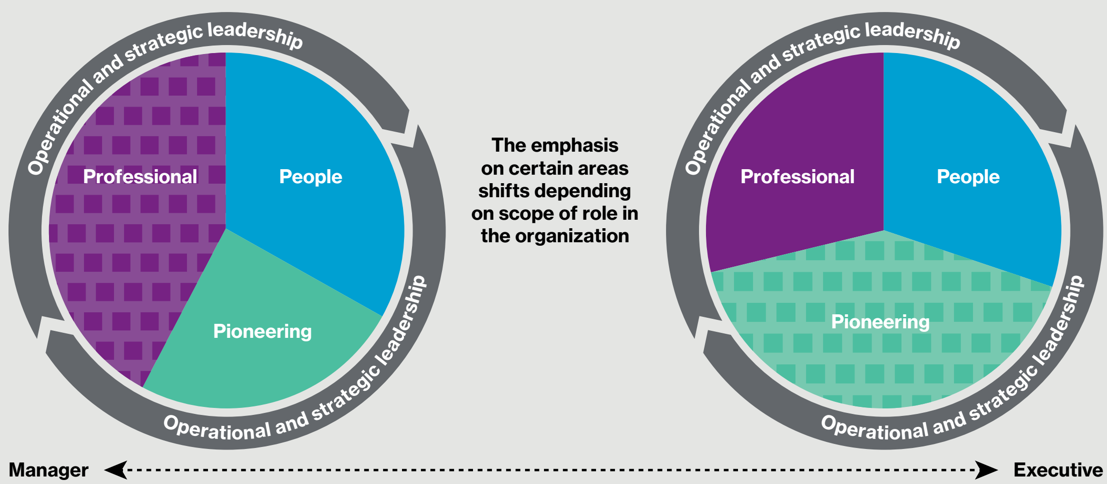


Pioneering
Enterprising and out-of-the-box thinking necessary to implement change and grow the business

Our research indicates that the emphasis on performance factors changes, depending on leadership level.

Managers tend to focus more on the **professional** side than on other levels of leadership. And the impacts they create are related more to operational activities.

Successful **executives** focus more on the **pioneering** factor – but they don't lose focus on professional or people; they are still bringing their domain expertise to bear, and industry leadership. Additionally, the people side of their role is still a key area of focus.



- **Technology enablement.** Technology enables organizations to transform how work gets done and, by extension, the employee experience. The increased use of digital media is changing employees' expectations about how they can connect and collaborate at work.* Smart companies are also investing in HR software in areas ranging from onboarding to talent and compensation management in order to improve the employee experience.

Employers stand to realize significant business value by creating work experiences enabling them to connect with employees in both traditional and alternative work arrangements in a more relevant way. Not only will companies be better equipped to attract new employees, but also they will be better able to keep employees highly engaged and drive behaviors critical to achieving their desired business outcomes. This approach will reduce the value at risk as fewer employees will have one foot out the door.

In the new world of work, employers face a stark choice: modernize the value exchange that serves as the basis for their EVP or risk irrelevance. A strong EVP, including a meaningful employee experience, will go a long way toward reducing turnover, improving engagement levels and increasing productivity as well as financial performance.

*"Digital Media and Society: Implications in a Hyperconnected Era," World Economic Forum in Collaboration with Willis Towers Watson, January 2016. http://www3.weforum.org/docs/WEFUSA_DigitalMediaAndSociety_Report2016.pdf

About the studies

The **Willis Towers Watson Global Talent Management and Rewards Study** was fielded from April to June 2016 in 29 countries. It includes responses from over 2,000 participating organizations representing a workforce population of almost 21 million employees worldwide. The participants represent a wide range of industries and geographic regions.

The **Willis Towers Watson Global Workforce Study** covers more than 31,000 employees selected from research panels that represent the populations of full-time employees working in large and midsize organizations across a range of industries in 29 countries around the world. It was fielded during April and May 2016.

For more information, please visit https://www.willistowerswatson.com/en/insights/2016/09/employers-look-to-modernize-the-employee-value-proposition.

Final participation results

Global Workforce Study (GWS): More than 31,000 responses across 29 markets
Global Talent Management and Rewards Study (TM&R): A total of 2,004 organizations across 29 markets

North America	GWS	TM&R
Canada	✓	✓
U.S.	✓	✓

Latin America	GWS	TM&R
Argentina	✓	✓
Brazil	✓	✓
Chile	✓	✓
Mexico	✓	✓

TM&R includes one submission from Ecuador

EMEA	GWS	TM&R
Belgium	✓	✓
France	✓	✓
Germany	✓	✓
Ireland	✓	✓
Italy	✓	✓
Netherlands	✓	✓
Saudia Arabia		
Spain	✓	✓
Sweden*		✓
Switzerland	✓	✓
Turkey	✓	✓
U.A.E.	✓	✓
U.K.	✓	✓

TM&R includes submissions from other EMEA countries, including Saudi Arabia (22)

APAC	GWS	TM&R
Australia	✓	
China	✓	✓
Hong Kong	✓	✓
India	✓	✓
Indonesia	✓	✓
Japan	✓	✓
Korea	✓	✓
Malaysia	✓	✓
Phillipines	✓	✓
Singapore	✓	✓
Taiwan	✓	✓
Thailand*		✓

TM&R includes submissions from Australia (1) and Myanmar (1)

*Did not field GWS; GWS fielded in all other countries listed, plus Australia and Saudia Arabia

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 39,000 employees in more than 120 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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HEALTH WEALTH CAREER

MERCER TALENT TRENDS

2017 GLOBAL STUDY

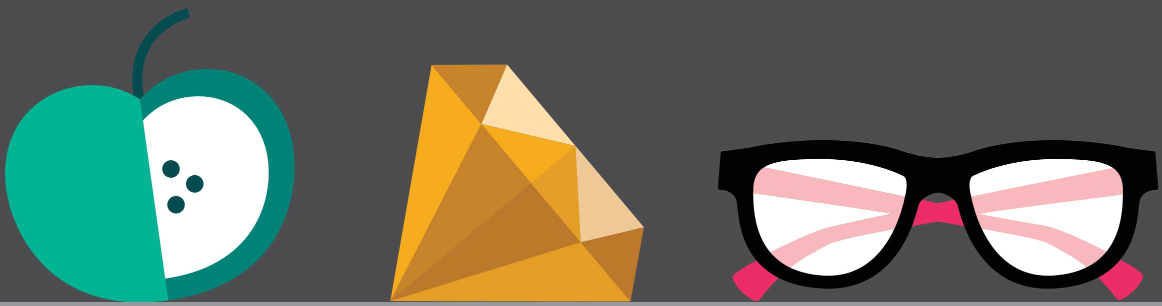
EMPOWERMENT IN A DISRUPTED WORLD

MAKE TOMORROW, TODAY

MERCER

THREE PERSPECTIVES ON

THE FUTURE OF WORK



HEALTH WEALTH CAREER

400+ business executives
1,700+ HR professionals
5,400+ employees
From **37** countries
and **20** industries

We asked about topics as diverse as:

- The biggest disrupters on the horizon
- What executives are planning in the next few years
- How HR thinks jobs will change
- Which skills are most in-demand and how best to develop them
- What employees want more/less of in the workplace

WHAT'S INSIDE

4 TRENDS TO WATCH IN 2017

- GROWTH BY DESIGN
- A SHIFT IN WHAT WE VALUE
- A WORKPLACE FOR ME
- THE QUEST FOR INSIGHT

LEAP FORWARD: ADVICE TO STAY AHEAD

- ATTRACT & RETAIN TOMORROW'S TALENT
- BUILD FOR AN UNKNOWN FUTURE
- CULTIVATE A THRIVING WORKFORCE

IMPLICATIONS FOR HR

- TOP TIPS TO WIN THE TALENT WAR
- PRIORITIES FOR THE HR FUNCTION OF TOMORROW

SETTING THE CONTEXT

2017 has kicked off with a bang, but the optimism shown in the markets has not appeased the lingering concerns from HR and employees following a year of uncertainty and volatility. Conflict in the Middle East continues unabated, the fate of the European Union is in question, and anti-establishment sentiment is at an all-time high. Across the world, disruptive events at the ballot box and on the streets have provided a wake-up call to political and business leaders.

Rising nationalism is straining global cooperation, and economic problems have resulted in stagnant growth, unemployment, and productivity challenges. Fiscal fragility in many emerging markets and the pressure on social protection systems is compounding the stress on individuals and families.

IN THIS CLIMATE, IT IS MORE IMPORTANT THAN EVER BEFORE FOR COMPANIES TO TAKE A LEADING ROLE IN CARING FOR THE HEALTH, WEALTH, AND CAREERS OF THEIR WORKFORCE.

The fourth industrial revolution is upon us and is fast becoming a workplace reality. Artificial intelligence, robotics, 3-D printing, drones, and wearables are rapidly integrating into the work environment. Technology is enabling us to stay connected and give real-time feedback more than ever before. At the same time, business models are adjusting to take advantage of contract or contingent workers — in part to address the talent scarcity challenge but also in response to what people say they want out of a job. These forces are changing the notion of what it means to be an "employee," which has far-reaching implications and demands a re-think of how we prepare for the future.

The critical trends that are reshaping the world of work are colliding with the changing demographic profile of employees and shifting expectations of the work experience. Despite an uncertain future, there is optimism in the air. The events of 2016 and early 2017 have set a course of change that brings the promise of more equity and transparency and more accountable decision making. An overarching theme of *Empowerment* permeates how business leaders, HR professionals, and employees are viewing the world of work, both today and in the future.

C-SUITE CONCERNS: VIEW FROM THE TOP

TECHNOLOGY AT WORK

TALENT DRAIN

AGING WORKFORCE

GENERATION Z

92%
of employers expect an increase in competition for talent this year

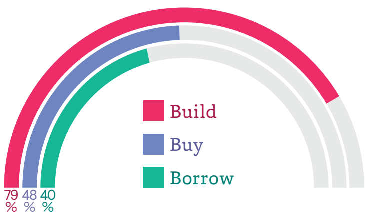
The talent scarcity challenge is keeping everyone awake at night. The C-suite and HR agree that the competition for talent will continue to increase this year, but executives see this even more acutely — 43% of C-suite respondents expect the competition to be significant, compared to 34% of HR professionals.

How are companies planning to respond? Just like in 2016, most are focused on a "Build" strategy to grow and promote their own talent from within — but nearly half are also increasing their recruitment from the external labor pool. Both strategies are reflected in the HR priorities for 2017:

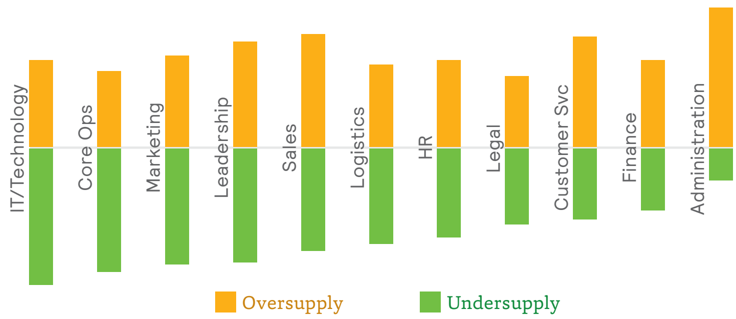
The disconnect between supply and demand affects all industries, geographies, and functions, but it is predicted to be especially acute in leadership, core operations, sales & marketing, and IT.

BUILD, BUY, BORROW

PLANNING TO INCREASE IN THE NEXT 12 MONTHS



HR EXPECTS A DEARTH OF QUALITY TALENT DUE TO WORKPLACE DISRUPTION IN THE NEXT TWO YEARS



IN THE SPOTLIGHT (REPORTED OVERSUPPLY)

In areas with oversupply, competition for jobs will increase and there is potential for job displacement. However, for organizations that are able to move people to jobs, or jobs to people, this can be a great world-sourcing opportunity.

1. GROWTH BY DESIGN

DRIVING A BOLD CHANGE AGENDA

It's no longer about evolution – organizations are transforming structures and jobs with an eye towards the future. Ensuring that the People agenda is not lost amid the drive for change will be critical to sustainable growth.

REDESIGNING THE ORGANIZATION

Executives globally recognize that stasis is a formidable enemy of business growth. They acknowledge that existing structures often impede, rather than accelerate, change and that the heavily layered organization of yesteryear has proved a hindrance to the agility needed in today's competitive markets. Thus, they are driving an aggressive change agenda — 93% of business executives plan to make a design change in their company within the next two years. This trend is consistent across all geographies and industries.

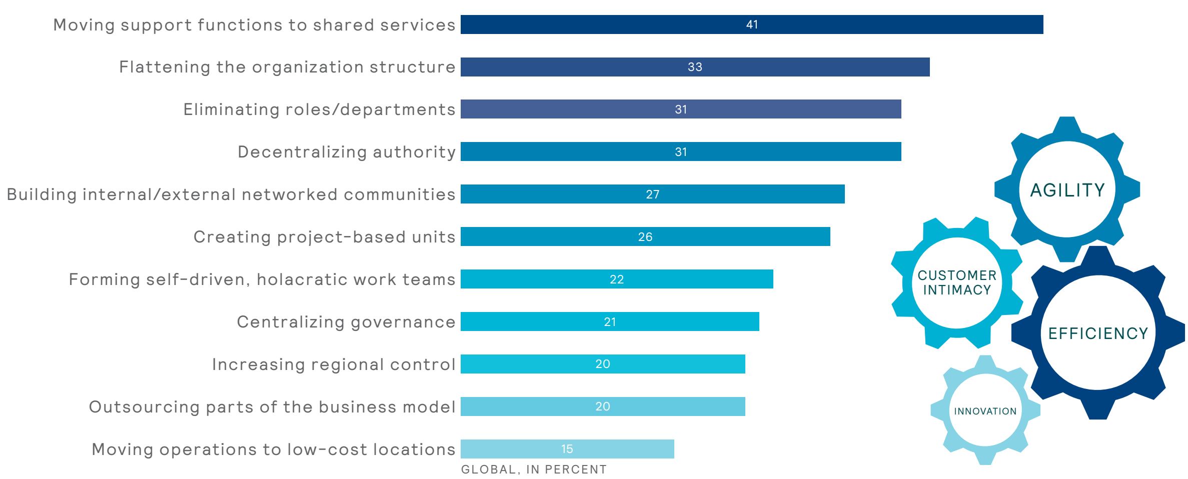
Vertical hierarchies are being replaced by simpler, more horizontal organizational structures. This change reflects a desire for greater efficiency and lower costs, closer relationships with customers, and increased agility and innovation. Companies in different industries are going about this in different ways. Executives in the Auto, Energy, and Healthcare sectors are flattening their organization structures, while those in Financial Services and Logistics are focused more on moving support functions to shared services. Consumer Goods organizations are also creating special units to handle project-based work.

There are interesting differences by geography as well. While greater efficiency is the number one driver of organization design changes in the majority of the countries we studied (including US and UK), it is less of a focus for executives in Japan (who are committed to improving collaboration) and in Hong Kong (for whom innovation is paramount).

The organization in a "world is flat" universe pushes decision-making authority further down the chain, thus employees must be more self-reliant and skilled enough to independently make day-to-day decisions. This requires a shift in how we support employees at different stages of readiness, career, engagement, and work status.

What do employees say they want? When asked in which areas their company should provide more support, simplified approval chains to enable quick decision making ranked third globally. This may reflect their company's current challenges in this area — with only 15% of employees saying that their company excels at this today.

93% WILL MAKE ORGANIZATION DESIGN CHANGES IN THE NEXT 2 YEARS
WHAT CHANGES ARE YOU PLANNING TO MAKE?



Redesign of organizational structures and jobs was among the top three areas of investment executives felt would create the most sizable difference to business performance in the near future. However, only 11% of HR professionals indicated that redesigning jobs, roles, and responsibilities is a priority this year. With structural redesign being driven from the top, lack of definition around what behaviors to leave behind, preserve, or adopt will undermine the impact of these organizational changes.

CHANGING NATURE OF JOBS TOP THREE TRENDS

Management roles will have broader spans of control

A global trend in all countries with the exception of Italy, where less than one-third of HR leaders anticipate that managers will have a broader team remit

High value jobs will focus more on design & innovation

Jobs will focus more on sales & delivery and less on management

Especially in China, where 63% of HR leaders expect an increased focus on design & innovation over the next 3 years

THE VALUE OF JOBS IS SHIFTING — ARE YOU SET UP FOR SUCCESS?

Companies are seeking to eliminate the barriers to productivity growth that have crept into their internal business practices. One way is to redesign roles and reporting lines for simplicity, faster decision making, and team-based working. Today, HR is spending a significant amount of time classifying and cataloguing jobs (often driven by the implementation of a new HR technology system). HR leaders will be the first to agree that documenting current state is not enough. New style work arrangements require new style job frameworks that take into account not only the jobs of today, but also what will be needed in the future. The rapid pace of change and C-suite's focus on organization redesign mean that a very different future is not far off. **Without an underlying framework, the goals of agility, simplicity, and innovation will remain elusive**; the key is developing a strategic framework that can flex and adapt to the evolving needs of an agile workplace.

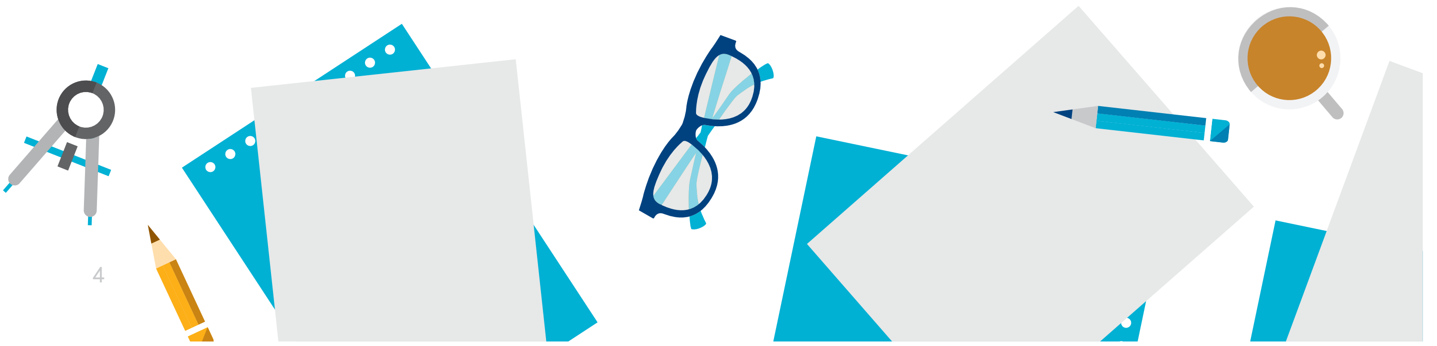
Having a strong decision science underpinning job design has never been more critical, especially as new jobs are emerging faster than ever before. Job design is where HR can truly add business value:

- How do you define jobs for which no precedents exist?
- How do you evaluate new jobs when you have no reference benchmarks?

The challenge is to consider the job's contribution to the creation of value in the organization. We all know that business leaders do not have the patience for a lengthy job evaluation exercise, so the process must be quick, intuitive, and accessible for all line managers. The good news is that HR realizes the need for change — **50% of HR leaders indicated that they will change their job evaluation methodology this year**. The majority are implementing a more scientific approach to valuing contribution.

In a recent Mercer snapshot survey[1], respondents were asked how job evaluation will contribute to the business agenda in the next 10 years; the most common response was "to enable flexibility."

[1]2016 Mercer Global Job Evaluation ROI Snapshot Survey



THE DIGITAL JOURNEY

Business executives see technology at work as the workforce trend likely to have the most impact on their organization over the next two years. Yet most are not doing enough to realize the benefits and head off the risks.

> Doing business without digital is like smiling at someone in the dark. You know what you're doing, but nobody else does.
>
> ~Adapted from Steuart Henderson Britt~

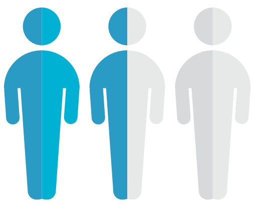
WHERE ARE YOU ON THE JOURNEY TO BECOMING A DIGITAL ORGANIZATION?

INTERNAL How we shape the employee experience	Not yet on the journey	Long way to go	Making great progress	We are a digital organization
We are a digital organization			1%	5%
Making great progress		8%	14%	1%
Long way to go	4%	37%	12%	1%
Not yet on the journey	8%	6%		

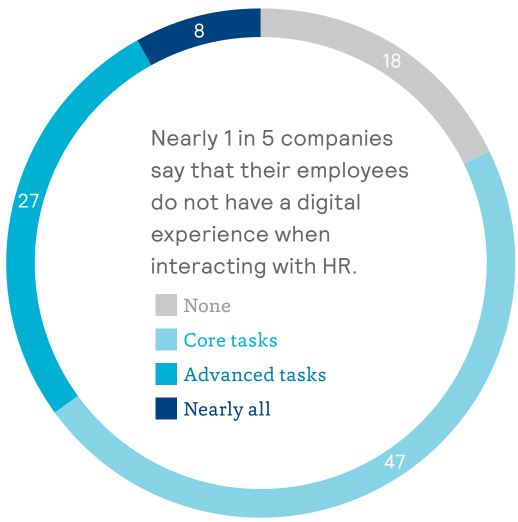
EXTERNAL How we conduct business

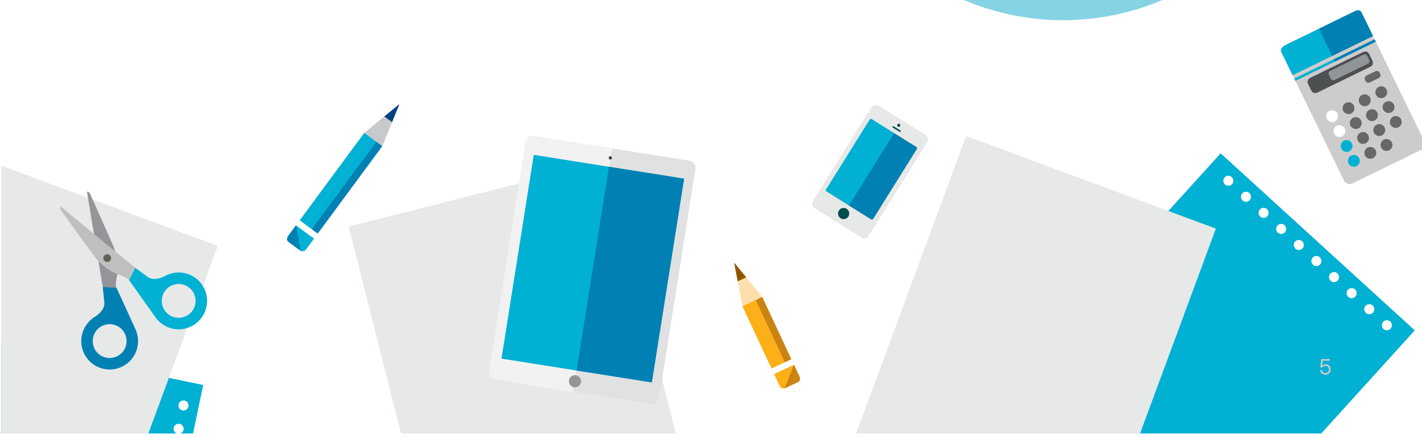
Less than 10% consider themselves a **Digital Organization** today. Companies that have begun their digital journey tend to focus first on external competitive forces, and later turn their attention internally toward the employee experience.

Only 35% of executives believe that HR provides a digital experience for employees.



Only 54% of employees say that they have access to state-of-the-art and innovative tools & technology to support their training and development.





TRENDS TO WATCH IN 2017

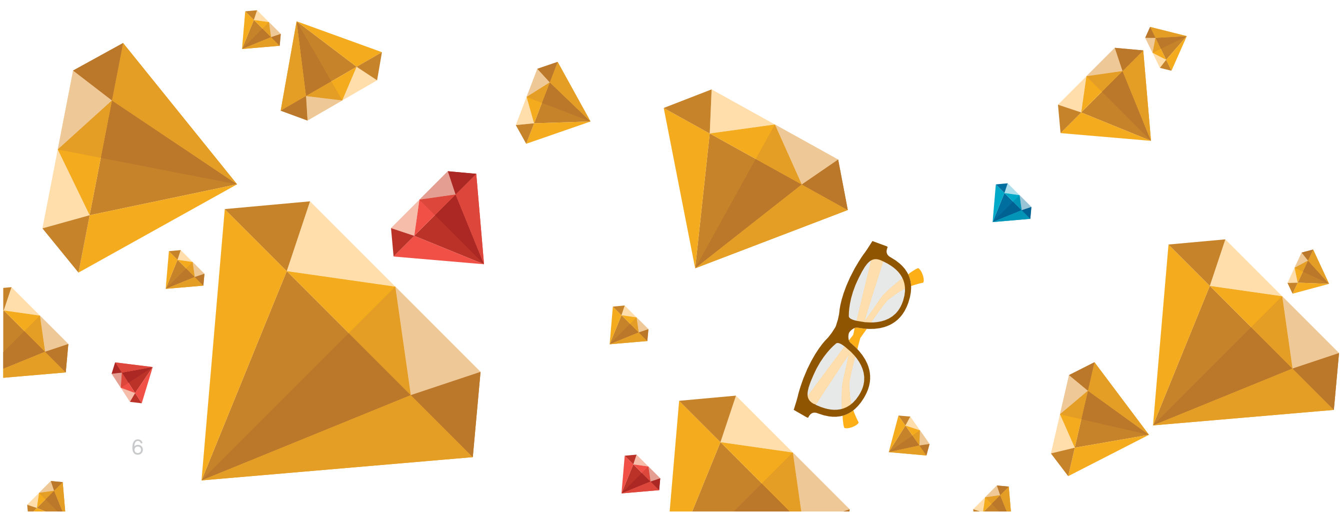
2. A SHIFT IN WHAT WE VALUE

A NEW REWARDS PARADIGM IS NEEDED

Fair & competitive pay and opportunities for promotion are top priorities for employees this year, which is not surprising given the climate of uncertainty and change.

The rapid rise of smart machines and the exponential increase in the complexity of organizations and roles are just some of the ways in which today's workplace is unrecognizable from 30 years ago. What it means to be an employee — and the value of an employee to an enterprise — must necessarily be adjusted. It's no longer just about output. In fact, **97% of employees want to be recognized and rewarded for a wide range of contributions**, not just financial results or activity metrics — but only 51% say that their company does this well today. How rewards are managed reflects an organization's culture and can send powerful signals about what is valued. The same principle applies to executive rewards.

Responsible and responsive leadership was the lead topic at the 2017 World Economic Forum Annual Meeting. The theme of inequality and income disparity is forcing policy discussions on minimum wage and living wage, the gender pay gap, and the pay ratio between the C-suite and the average employee. As organizations are being challenged to consider their societal impact, performance metrics have been broadened to include sustainability measures such as diversity and social responsibility rankings. The trend towards more effective and relevant disclosure of executive remuneration also shows that companies are responding to the demand for greater transparency — **83% of companies are planning to make changes to increase transparency of executive pay**. Market volatility is also adding pressure on executive pay levels — but at the same time, companies are unsure whether to make adjustments as the economic winds can change rapidly. For example, whether to shift to a currency-neutral approach for incentive plans is a hot topic for debate.



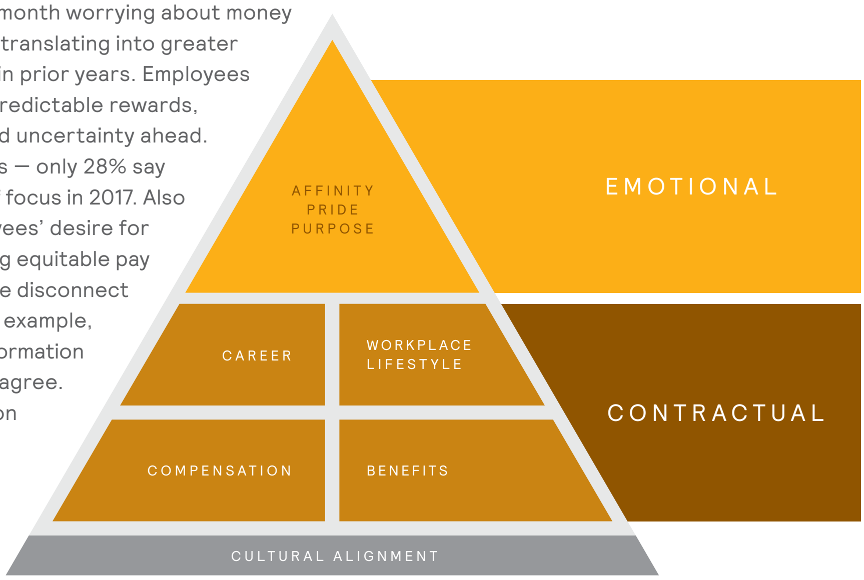
47%

of employees globally say the number one thing that would make a positive impact to their work situation is compensation that is fair & market competitive. Below are the top seven responses globally.

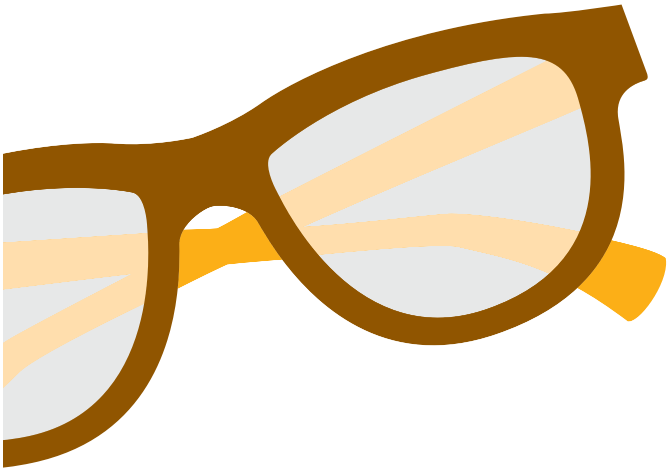
- FAIR & COMPETITIVE COMPENSATION — #1 for employees in Canada, China, France, Germany, Italy, Singapore, and US
- OPPORTUNITY TO GET PROMOTED — #1 for employees in Brazil, Mexico, India, and South Africa
- LEADERS WHO SET CLEAR DIRECTION — #1 for employees in Australia, Canada, Hong Kong, and UK
- WORKING WITH THE BEST & BRIGHTEST
- TRANSPARENCY ON PAY CALCULATIONS — #1 for employees in Japan
- CAREER PATH INFORMATION
- MORE FLEXIBLE WORK OPTIONS

People spend an average of 13 hours per month worrying about money matters at work[1]. A preoccupation that is translating into greater concern over base pay and benefits than in prior years. Employees are seeking the security of tangible and predictable rewards, which is not a surprise given the perceived uncertainty ahead. However, this is not reflected in HR's plans — only 28% say rewards competitiveness will be an area of focus in 2017. Also not reflected in this year's plans is employees' desire for fair pay, with only 16% of HR leaders putting equitable pay on their list of top five priorities. Part of the disconnect may be due to lack of communication. For example, 51% of companies say that they provide information on pay bands, but only 34% of employees agree. This can also impact employees' perception of their own "promotability" within the organization — lack of clarity around rewards at the next level can lead people to believe there is no path forward.

[1]Inside Employees' Minds Study, Mercer 2016



Even though employees are focused on the *contractual* aspects of the deal, we know that a greater *emotional* connection with the organization leads to less dependence on components such as compensation and benefits.



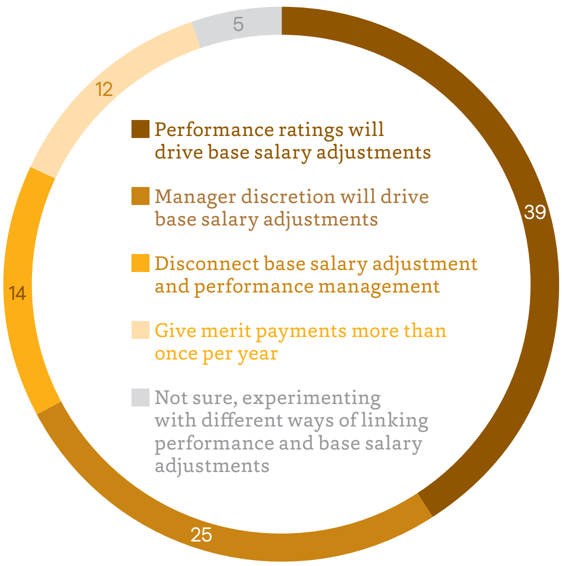
88% OF COMPANIES MADE CHANGES TO THEIR PERFORMANCE MANAGEMENT APPROACH LAST YEAR… AND THERE'S MORE TO COME

The climate of uncertainty is driving decisions about where employees want to work and what they value in the employment deal. So how are companies planning to respond? Changes to performance management processes lead the way and often have implications for rewards. This year, companies will continue to use performance ratings to drive annual base salary adjustments, but there is also a move towards greater manager discretion in how employees are paid.

CHANGES PLANNED IN 2017

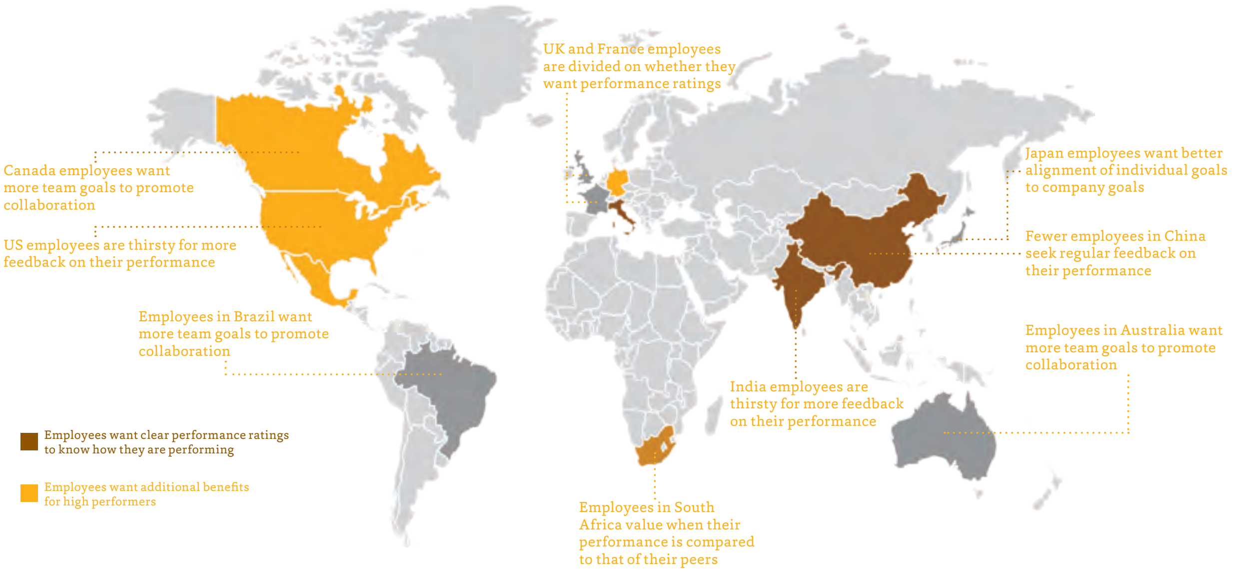
- Strengthen strategic goal cascade
- Calibrate goals across peer roles
- More team-based goals & metrics
- Replace ratings with descriptors
- Eliminate performance ratings altogether
- Add forced rankings
- Remove forced rankings
- Shift performance discussions to career & development
- Introduce continuous feedback technology

There continues to be a focus on goal calibration and cascade, with 83% of companies having made or planning to make a change to their goal setting process. Continuous feedback is also becoming more prevalent, no doubt enabled by technology, with 81% of companies having already put in place an "anytime feedback" tool or planning to do so this year. Managers are also being encouraged to balance backward-looking performance reviews with more future-focused career and development conversations — 81% of companies have made this shift or plan to do so this year. Companies are taking the opportunity to determine whether their performance management processes are "fit for purpose" and inspiring for employees.



Employees are clear on one thing: performance ratings give them clarity on how they are performing and motivate them to do better work. In addition to individual work contributions, they also want to be measured on team goals to promote collaboration. This is a trend set to continue, with 40% of employees expecting that their workplace will become even more team-based over the next two years.

UNIQUE VIEWS FROM AROUND THE WORLD



TO RATE OR NOT TO RATE?

61% of organizations eliminated performance ratings last year or are planning to do so this year.

NUMBERS OR WORDS?

75% replaced numerical ratings with descriptions or are planning to do so this year.

FORCED RANKINGS… OR NOT?

39% of companies that either added or removed forced rankings in 2016 are now planning to reverse their decision in 2017.

Industry sectors making the most changes:
Energy, **Life Sciences**

Countries satisfied with the status quo:
Japan, **China**, **UK**

TRENDS TO WATCH IN 2017

3. A WORKPLACE FOR ME

PERSONALIZATION OF THE EMPLOYEE EXPERIENCE

People expect their employer to "make work work" for their individual circumstances. Companies are starting to respond by taking a "whole person" approach and increasing the flexible work options available to their workforce. Advances in technology are enabling individualized choice without adding an undue administrative burden for HR.

While clarity on job responsibilities, rewards, and promotion criteria are fundamentals, there is another workplace revolution underway. Globalization and technology are making the world smaller and shaping employees' expectations of when and how they want to work. As part of the Era of the Individual and the rise of the free agent, employees are seeking more flexible and personalized work arrangements. Organizations are realizing that developing one employee value proposition that resonates across five generations, men and women, white and blue collar, working at the office or from home... is nearly impossible to achieve.

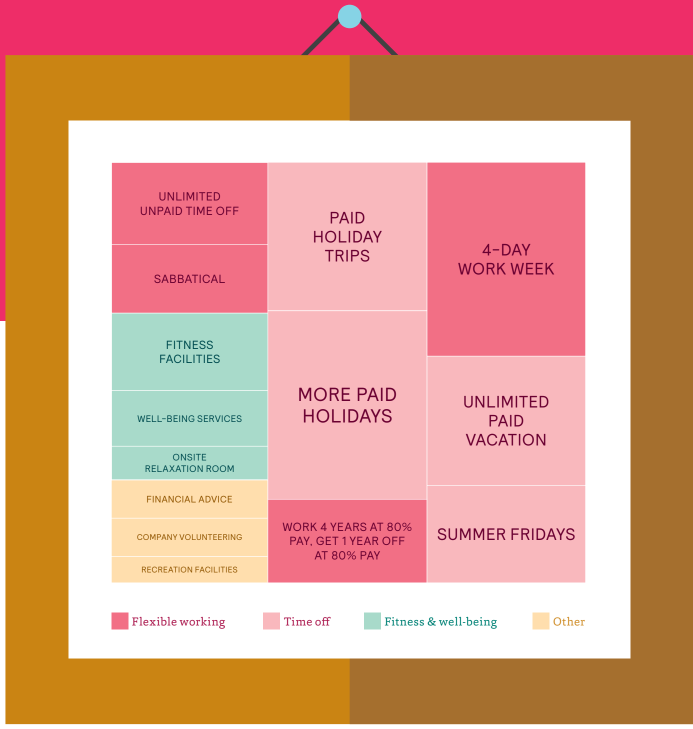
Personalization is not a new concept, but it's one that in the past has been difficult to address. The good news is that advances in technology (from employee portals to career matching apps to benefit management platforms) are making it much easier to bridge the gap. Responsive and intelligent software can adapt to the needs of each unique employee to provide the right support at exactly the right time. Additionally, the micro-segmentation science of personas commonly used in marketing is starting to be applied to people strategy. These realistic representations of employee "types" can enable HR to better target employee benefits and communications.

More than a list of cool benefits and perks, personalization itself is fast becoming a differentiator.

One way to achieve this is through flexible work options. This year's study showed that the majority of employees want more flexibility, and 40% of HR respondents acknowledge that offering more flexible ways to work would improve their employees' ability to thrive. Sixty-two percent of companies already have pockets of flexibility in place, but only 35% say that it is a core part of their value proposition. An additional 27% offer flexible work options only when requested by individuals and sanctioned by managers.

We also asked employees about their experiences with flexible working in practice. They generally reported support from their managers (61%) and colleagues (64%). However, 1 in 3 employees indicated that they had requested a flexible work arrangement in the past and were turned down, and **1 in 2 expressed concern that working part-time or remotely would negatively impact their promotion opportunities**. Certainly there is more work to be done to create a culture where flexibiltiy is not seen as a benefit, but as an opportunity for workforce optimization and personalization.

TRENDS TO WATCH IN 2017



Flexibility comes down to finding a way to integrate one's work and personal life. We asked what would make employees choose one company over another — providing an exhaustive list and taking pay out of the equation. Time off was the clear winner — either more of it, or at least the flexibility to spread it out or even work fewer hours for less pay. Perks such as fitness and recreation facilities, well-being services, and financial advice were all present, but ranked lower down the list.

This focus makes sense when viewed alongside employee priorities. When asked about their biggest concerns in the near future, the themes across geographies and generations were all the same: first Health, then Wealth, and then Career. The findings were clear-cut, with 61% globally choosing Health as their top concern, followed by 23% choosing Wealth, and 16% choosing Career.

Staying healthy is directly tied to minimizing stress.

However, employees are expecting the opposite, at least when it comes to stress on the job — only 19% predict that their workplace will become less stressful over the next two years. Finding ways to seamlessly integrate all areas of one's life (home, family, job, community, etc.) through flexible working and creative time off arrangements can help mitigate this growing trend.

Ultimately, people want to fit work into their unique lives. Personalization, then, becomes the key to creating an employee experience that resonates with each individual.

TRENDS TO WATCH IN 2017

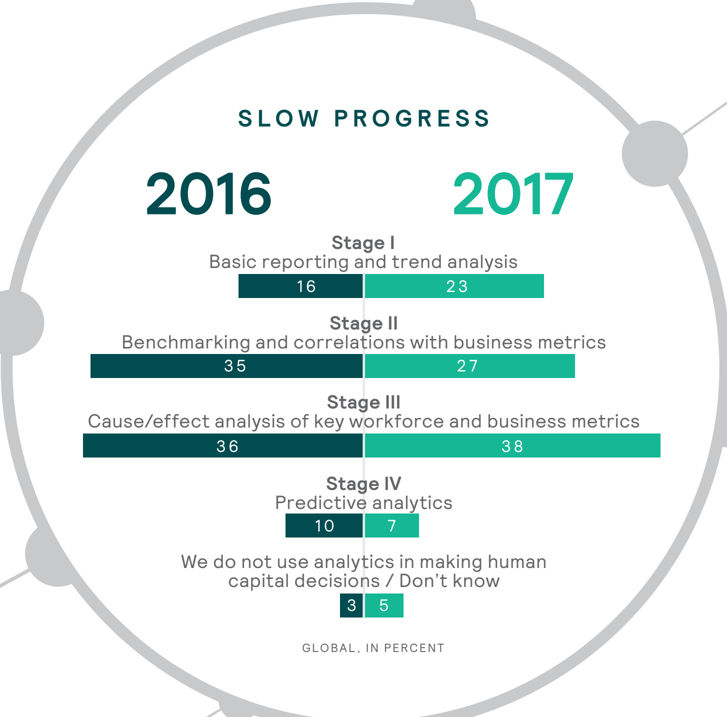
4. THE QUEST FOR INSIGHT

PREDICTIVE ANALYTICS ARE STILL OUT OF REACH

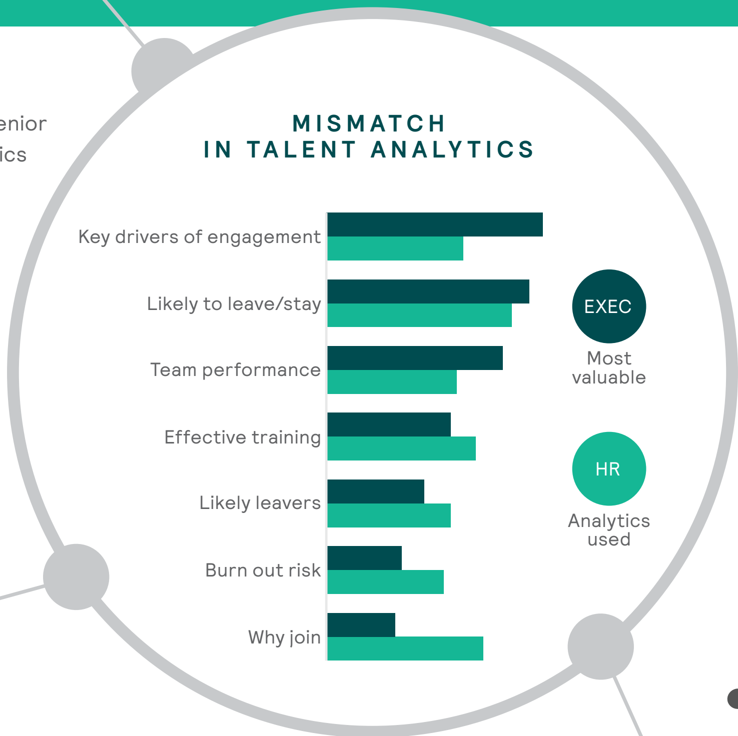
An empowered organization that is agile and responsive is one that listens and learns. The quest to derive actionable insights from talent analytics and big data is a core element of the empowerment agenda.

Just as marketing data and buyer insights are leading business transformation efforts, **talent analytics has the potential to deliver accelerated success on the people agenda** — both to enhance the employee experience and drive better decisions. But do companies have what they need? Certainly companies are collecting more information from both candidates and employees than ever before. As we add feeds from HRIS systems and candidate screening assessments, as well as passive data from social media, email traffic, and even wearables, the sheer volume of talent data we collect will only increase. So the problem is not a lack of data… it's what to do with it!

Companies around the world are making slow progress in using analytics to inform human capital decisions. Very few are able to translate data into predictive insights, and nearly 1 in 4 are still only able to produce basic descriptive reporting and historical trend analysis. Companies in the Life Sciences and Logistics industries are ahead of the curve, but still have a long way to go in delivering actionable insights that impact managers' day-to-day decisions.



Even with all of the data that is being collected, senior executives are not getting the kind of talent metrics they need to make better business decisions. For example, executives say that understanding the key drivers of engagement would be the insight that is most value adding to their business, but only 35% of HR leaders are able to provide this information. This is especially surprising given that most companies today have at least some form of engagement survey in place. Predictive analytics — such as identifying which employees are likely to leave or what causes one team to out-perform another — are even less common.



HR and employees recognize that the disconnect may be due in part to a capability gap — both groups ranked "data analytics & predictive modeling" in the top three in-demand skills for the next 12 months, with HR professionals in Canada, France, and the UK ranking it number one.

The risk of not leveraging talent data is especially acute when there is so much organizational change on the horizon. **When decisions are informed only by financial and marketing data, there can be unintended people consequences**. For example, the World Economic Forum's *Future of Jobs*[1] report found that "women are at risk of losing out on tomorrow's best job opportunities" as disruption and displacement are likely to occur in job families with the largest share of female employees. When HR is able to partner with business operations to facilitate an evidence-based decision making process, they help mitigate these risks and ensure that the talent implications are being considered, especially during organizational redesign.

[1]World Economic Forum (2016). The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution.

LEAP FORWARD:
ADVICE TO STAY AHEAD

ATTRACT & RETAIN TOMORROW'S TALENT

BUILD FOR AN UNKNOWN FUTURE

CULTIVATE A THRIVING WORKFORCE

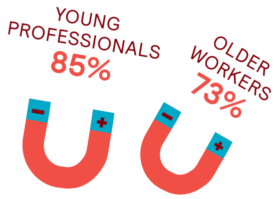
LEAP FORWARD: ADVICE TO STAY AHEAD

ATTRACT & RETAIN TOMORROW'S TALENT

In a talent-led economy, the employee experience has never been more critical to attracting the best and brightest. Getting it right is even more challenging now, in a more diverse workplace that must embrace five generations with different norms and expectations. The interactions that candidates have during the recruitment process, how employees engage with the organization during their tenure, and how they are treated after they leave — these are all vital opportunities to shape the "experience." **Notably, half of all employees rated their application and hiring process as average or below average**. Not to mention the candidates that fell out of the process along the way!

Increasingly, HR is being asked to leverage tools and techniques once reserved for the marketing function to build and sustain a strong employer brand. Anyone who has contact with the organization is a potential ambassador for the brand, and word of a less-than-stellar interaction can spread quickly. An often overlooked group is candidates who apply but are unsuccessful. They are a vocal majority who — if handled with care and provided with career advice — can serve as a source of positive word-of-mouth and a potential candidate pool for future recruitment drives.

DO YOU HAVE A STRATEGY IN PLACE TO MAKE YOUR COMPANY ATTRACTIVE FOR



A strong digital presence is now becoming a corporate imperative, especially when trying to reach the elusive, "great-fit" passive candidate pool. The power of brand attraction is strongest when the interactions that candidates, employees, and alumni have leverage the company's external brand. Technology is shaping this landscape, not only to increase efficiency and decrease time-to-hire, but also to ensure a positive candidate experience. Some examples include:

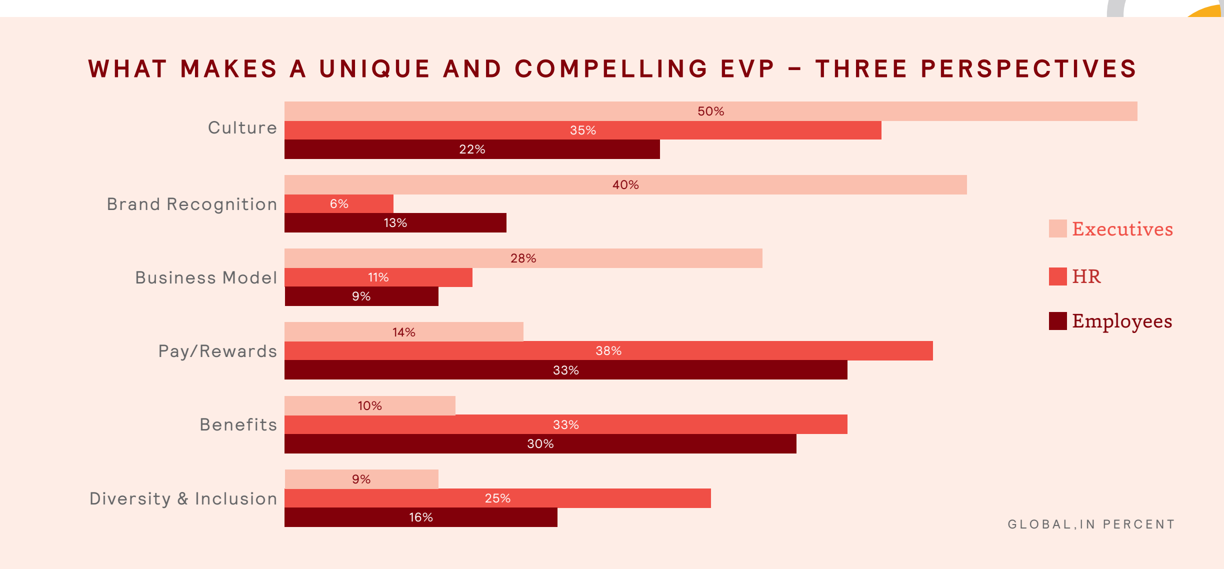
- **Chatbots** — Create a more scalable and engaging recruitment process by answering candidates' questions and gathering background information without the need for lengthy application forms.
- **Algorithms** — Enable more targeted sourcing by generating a list of qualified candidates in seconds by scraping social data.
- **Online assessments** — Drive more intelligent decisions through games that tap into employee judgment and shorter psychometrics that predict future potential.

In a shifting job landscape, recruiting on future-focused criteria may prove more fruitful than reviewing an applicant's current capabilities or past experience.

Goldman Sachs is leveraging innovative technology and a competency-based interviewing method to reach more candidates while continuing to make informed, data-driven hiring decisions. Undergraduate candidates now submit online, pre-recorded video interviews as their first round evaluation for internship positions. Candidates record answers to a set of pre-defined questions that align to core competencies such as teamwork, analytical thinking, judgment, etc. Interviewers then assess the extent to which the candidate's answer demonstrates that particular competency and can rank and compare candidates against one another, ensuring that objectivity and consistency remain key elements of the hiring process.

COURTING IS ONE THING, MARRIAGE IS ANOTHER

If the Employee Value Proposition (EVP) is not authentic to the company's DNA (i.e., how we do things around here), then this passion of attraction will not be translated into a passion for the job. Business executives, HR leaders, and employees have differing perspectives on what makes their company's EVP unique and compelling. HR and employees agree that compensation and benefits — the contractual aspects of the "deal" — are a core component. Leading on responsible rewards and pay equity can help, as can focusing on health and flexible work options. Companies that want to cut away from the pack should not rely on industry benchmarking, but rather choose one or two areas in which they can truly differentiate themselves. One recent example is companies setting global parental leave standards (regardless of country norms).



All three groups agree on the importance of organizational culture. The line manager's role in shaping how employees experience the organizational culture is pivotal to delivering the brand promise, as well as translating the EVP into an individual value proposition (IVP). Smart HR platforms can use talent analytics to nudge managers when employees might be an engagement or retention risk. But ultimately, it is managers' ability to have effective "stay" conversations and engage their team in future-focused career planning that will shape employees' perceptions of how they are valued.

COMMUNICATION — THE BASIS OF ALL GOOD RELATIONSHIPS

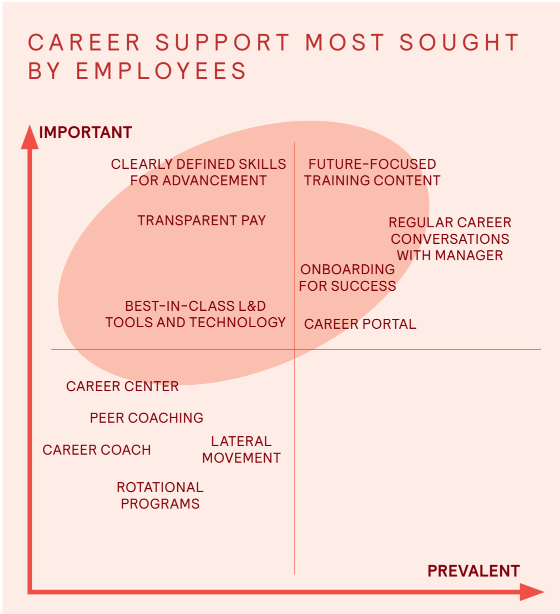
Delivering and sustaining a compelling EVP again draws on HR's "marketing" skills, in particular their ability to define personas and leverage digital channels for a responsive relationship with employees. An integrated communication strategy can bring an EVP to life, and resources that people can access on-demand and on-the-go put key messages at their fingertips. Targeted messaging can be pushed to the most relevant groups at the right times, meeting employees where they are today. **Simplicity is key** — get to the heart of the message quickly or put the content no more than three clicks away. Personal reminders and easy-to-use apps can encourage employees to make healthier choices, invest more wisely, and explore career possibilities. Together, these solutions deliver the consumer-grade work experience that employees today are craving.

LEAP FORWARD: ADVICE TO STAY AHEAD

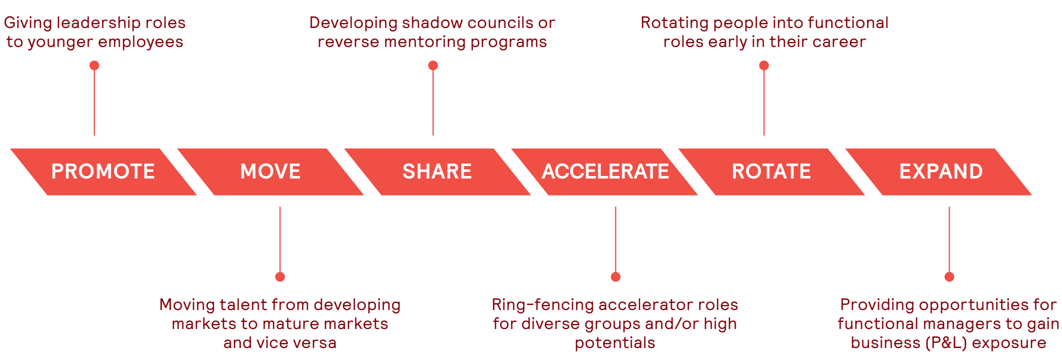
HOW TO PREVENT THE SEVEN-YEAR ITCH

With the contractual aspects of the deal sharply in focus, it's never been more critical to effectively communicate the total reward proposition. Pay disparity and unbalanced promotion rates are often accompanied by retention challenges and serve as early indicators of when the career engine is failing to fire.

Part of this equation is employees' desire for more flexibility. Organizations are now evaluating the type and degree of flexibility inherent in each role and intentionally modeling flexibility into job design. Another part of the equation is that employees want to understand their career options and the criteria for promotion. We asked employees what support is most important in moving their career forward. Setting aside pay, future-focused training, regular manager conversations, and clarity around skills came out on top. Lateral moves and rotation programs seem to be missing the mark, perhaps because they are not as prevalent or are perceived to be less effective career development tools.



One of the hallmarks of a healthy career framework is its ability to facilitate pathways for non-traditional talent. The usual suspects — often those who "look good on paper" — are always considered for new assignments, promotion, or rotation opportunities. But taking a chance on those with less experience or a different background can be beneficial in bringing diversity of thought and increasing retention in under-represented populations.



THE POWER OF DATA

Companies are recognizing that to attract and retain tomorrow's talent HR needs easy access to quality and actionable data to combine what people say with what they are actually likely to do.

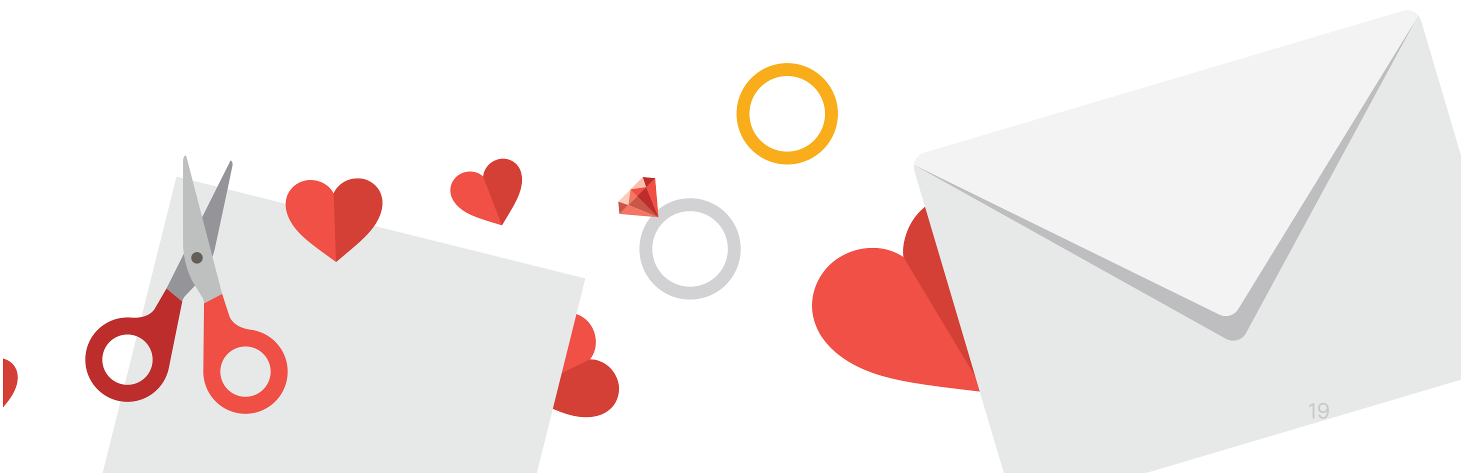
General Electric has experienced the power of putting data in the hands of those who can translate it into meaningful predictive insights. This has been pivotal in staying connected with future trends and building a dynamic relationship between insight and action.

> "By democratizing access to non-sensitive people data, all of HR can now more easily surface workforce insights and improve planning capacity globally."
>
> *Travis Barton, Workforce Planning, GE International*

ASK YOURSELF

- Do candidates who apply to our company have a brand-enhancing experience?
- Do our performance metrics reflect the wide range of contributions that employees can make?
- Do we take a "whole person" perspective when designing benefits programs, flexible work policies, and training for managers?
- Is it easy for individuals to understand the available career paths, compensation for roles of interest, and skills & experiences needed for promotion?
- Do we consider non-traditional talent (including younger and older workers) for development assignments, promotion opportunities, and internal mobility?

If you answered "no" to two or more of the above, attracting and retaining tomorrow's talent may be a focus area for your organization this year.



LEAP FORWARD: ADVICE TO STAY AHEAD

BUILD FOR AN UNKNOWN FUTURE

Everyone agrees — the future of work will look very different, and iterative changes won't be enough to generate sustainable growth and value. In particular, the skills, culture, and work models of today will likely not be relevant three years from now — and the effects will be felt even before that. But how do you prepare for the future if you don't know what it's going to look like? For companies struggling to get started, one way to demystify the unknown is by laying out a few tangible scenarios.

FUTURE THINKING:

Q: How can our strategy be shaped by non-traditional competitors? What can we learn from industry adjacencies and start-ups?

Q: What strategic capabilities are essential to delivering sustainable value to the business?

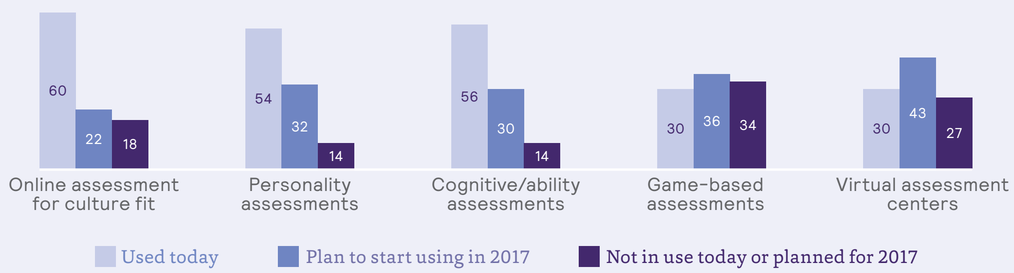
Q: What culture do we need to have in place to facilitate success? How does that translate into leader and colleague behavior?

Q: What is the desired work model — human or machine, full-time or freelance, virtual or on-site? How does the work model affect learning and culture?

PLANNING FOR GROWTH

This kind of integrated people strategy goes beyond capacity planning. It helps to clearly define the gap between today and the future state being modeled. Most organizations are planning to close the gap by building from within. Taking a future-focused approach means it's important to identify the people who will be able to drive the business forward — even if they are not in positions of influence today. The good news is that nearly **3 in 4 organizations globally have a clear method for identifying high potentials** and they are drawing on the rigor of talent assessments as part of the process. Psychometric measures of personality and cognitive ability are providing insight into the foundational attributes of potential, and Virtual Assessment Centers are answering the question of who is ready to take on a stretch assignment or move to the next level. These same assessment methodologies can also ensure that external candidates are being hired not only because they have the skills for the immediate job but also the underlying qualities to be successful in future roles, including some that may not yet exist.

DO YOU USE THE FOLLOWING TOOLS FOR SELECTING INTERNAL OR EXTERNAL TALENT? GLOBAL, IN PERCENT



PREPARING FOR CHANGE

There is an inherent tension between the C-suite's desire to flatten structures and employees' appetite for promotion.

The skills and knowledge that underlie success are constantly changing; thus, a company's career framework must be both structured and responsive to cope with this constant evolution. Portals and apps can seamlessly deliver updates directly to employees, keeping role profiles relevant and helping to drive forward-looking development efforts. These vehicles can also facilitate two-way conversation; for example, by crowdsourcing new and emerging competencies that can then be incorporated into existing frameworks and learning agendas.

Dynamic career paths are key to embracing the pervasion of digital competence across every organizational function. "Digital" is not a standalone skill but a set of competencies that is needed in every functional area. For example, researchers in the pharmaceutical industry who are trained in biochemistry will now need to acquire skills to operate advanced robotics to stay relevant.

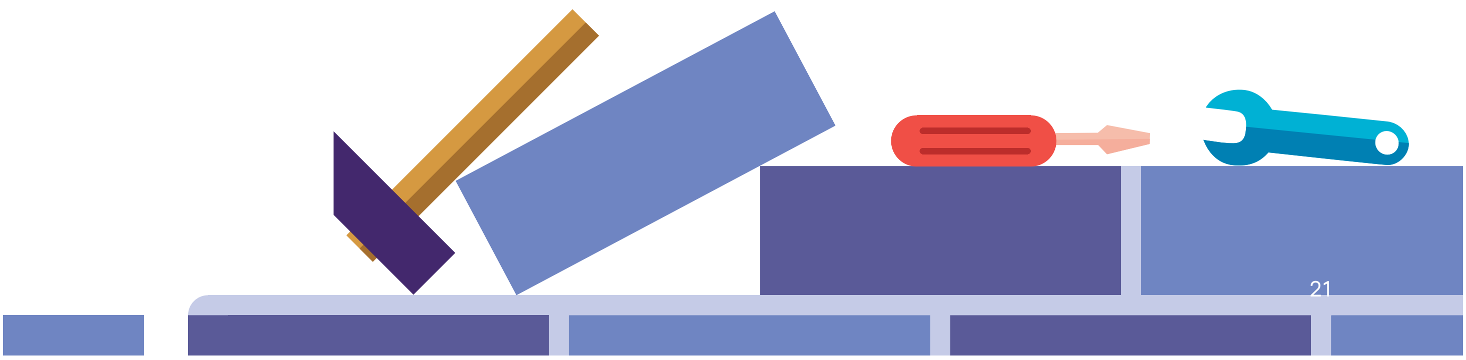
DEVELOPING DIVERSE SKILLSETS

Whether through external hiring or internal development, **assembling talent with a diverse set of skills allows organizations to pivot in response to market demands**. Both HR and employees named design thinking & innovation, as well as a global mindset, as the top in-demand skills for the year ahead.

Competencies to accelerate innovation include an entrepreneurial spirit, a sense of adventure, scanning the market for new ideas, challenging the status quo, calculated risk tasking, and taking a long-range perspective. Tenacity and resilience — the building blocks of "grit" — are not things you learn in the classroom. Instead, they require hands-on experience and trial-and-error, whether through internal mobility or immersion learning. By creating a culture that fosters these traits, organizations can build agility and tolerance for an ambiguous future.

MOST IN-DEMAND SKILLS

HR PROFESSIONALS \ EMPLOYEES	L	M	H
H		DATA ANALYTICS	DESIGN THINKING/ INNOVATION GLOBAL MINDSET
M	INCLUSIVE LEADERSHIP CHANGE MANAGEMENT	DIGITAL SAVVY	
L	ENTREPRENEURSHIP SALES	VIRTUAL COLLABORATION	



LEAP FORWARD: ADVICE TO STAY AHEAD

EMBRACE THE UNKNOWN

There is an imperative to support stronger accountability and decision making throughout the organization and more quickly cultivate a commercial mindset earlier in people's careers. This imperative requires a shift in how employees are supported at different stages of their skill-readiness, engagement, and work status (full-time, part-time, contingent, etc.). It means being ready to embrace a more fluid workforce and more actively support continuous learning.

Sharing talent across the talent ecosystem, leveraging supplier and customer environments to speed up development, and building a sustainable model for redeployment and reskilling are all part of building an agile workforce capable of renewal. However, executives believe their organizations are lagging in retaining good talent during change.

How many C-suite executives are confident in their organization's ability to:

20% Reskill displaced workers

39% Redeploy talent internally

35% Provide outplacement services

43% Fill newly vacant positions with external talent

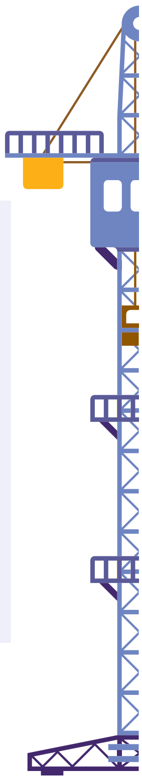
Encouraging employees to take control of their own career complements efforts to intentionally build capability. This year's study found that compared to employees who do not feel that they can create their own career success, those who feel "career empowered" describe their work environment differently in two important ways:

8x more likely to give an "A" rating on their manager's ability to **COACH & DEVELOP** them

4x more likely to report that their company supports **INNOVATION** efforts

THE PIVOTAL ROLE OF COACHING

The first aspect of the work environment as perceived by *career empowered* employees underscores once again the importance of the direct manager in creating a positive experience. However, in a world with frequent restructures and supervisory changes, an increase in team- and project-based work, and broader spans of control, placing full responsibility for coaching and mentoring on the manager's shoulders may be an outdated view. In a horizontal world, coaching must be supported by same-level peers, not just from above, in order to be sustainable. Knowledge sharing platforms and digital mentorship arrangements are helping to create a supportive culture, but more needs to be done to actively coach and develop employees.



Titan, the world's fifth largest watch manufacturer and a part of the Tata conglomerate, truly believes in the philosophy that all individuals have potential to succeed and should be empowered to lead at their level. The company has developed a tiered learning program, which utilizes an individualized approach to leadership assessment and development. This program meets high potentials' requirements at every step of their career. The programs instills not only autonomy but also a deep sense of pride in the employees that work for the organization. The results are clearly visible in the various instances of innovations and turnarounds the company has experienced over the course of its journey.

IDEAS, EVEN GOOD ONES, ARE NOT ENOUGH

Nearly 50% of companies say that they gather innovation ideas from their employees. However, crowd-sourced idea generation can fall flat if it fails to meet employee expectations on execution or doesn't deliver commercially-viable solutions. Organizations that are committed to building a culture of innovation need to think about the time, investment, and training required to truly embed this into their DNA.

HOW DOES YOUR COMPANY PROMOTE INNOVATION?

> "Experimentation is an effective way to de-risk innovation. Creating a minimum viable product (MVP) — the most basic version of the idea — extends the learning process and allows for the testing of hypotheses, the identification of various iterations and the opportunity to change course."
>
> *Amantha Imber, Chief Innovation Officer, Inventium*

ASK YOURSELF

- Is our current people strategy process future-focused and based on growth scenarios?
- Do we set aside sufficient time and budget for innovation and experimentation?
- Do we embrace a continuous learning approach beyond the traditional content that is delivered through classroom and online training?
- Do we have mechanisms in place to hire diverse talent, build a wide range of skills, and leverage diverse perspectives on project teams?
- Is our Career Framework detailed and dynamic enough to provide guidance on the skills and experiences needed for tomorrow's jobs?

If you answered "no" to two or more of the above, building for an unknown future may be a focus area for your organization this year.

LEAP FORWARD: ADVICE TO STAY AHEAD

CULTIVATE A THRIVING WORKFORCE

Creating an empowered workforce that responds to the changing work landscape means creating an environment where each individual employee can thrive. This new environment requires fresh styles of leadership, new rules for teaming, and updated thinking on how to develop and inspire.

To cultivate a thriving workforce, three elements must be in place.

Employees who:

1. Are healthy and energized
2. Can grow and contribute
3. Feel a sense of belonging

FOCUS ON HEALTH AND WELL-BEING

Embracing the "whole person" agenda requires attention to all aspects of employees' lives: their physical, social, financial, professional, and psychological well-being. Demonstrating care for employee health can be a significant attraction and retention strategy, but it also makes good business sense. Stress-related absences alone accounted for 11.7 million lost working days in Great Britain last year.[1]

With Health surpassing Wealth and Career as the number one concern for employees, this aspect of the value proposition will continue to grow in importance. Today, only 41% of companies are focusing on the physical well-being of employees, and even fewer have policies for psychological (37%) and financial (35%) well-being.

Johnson & Johnson aspires to have the healthiest workforce by helping its employees live well across their whole lives, providing flexibility and a breadth of whole-life health benefits and wellness resources. It offers innovative programs such as the Energy for Performance® training (which links personal health to an individual's purpose and mission) and unique digital health tools (that conveniently connect users to their everyday health and well-being). Johnson & Johnson is dedicated to providing an environment that fosters healthy choices so employees can achieve their personal best in body, mind, and spirit, igniting full engagement at work, at home, and in their communities.

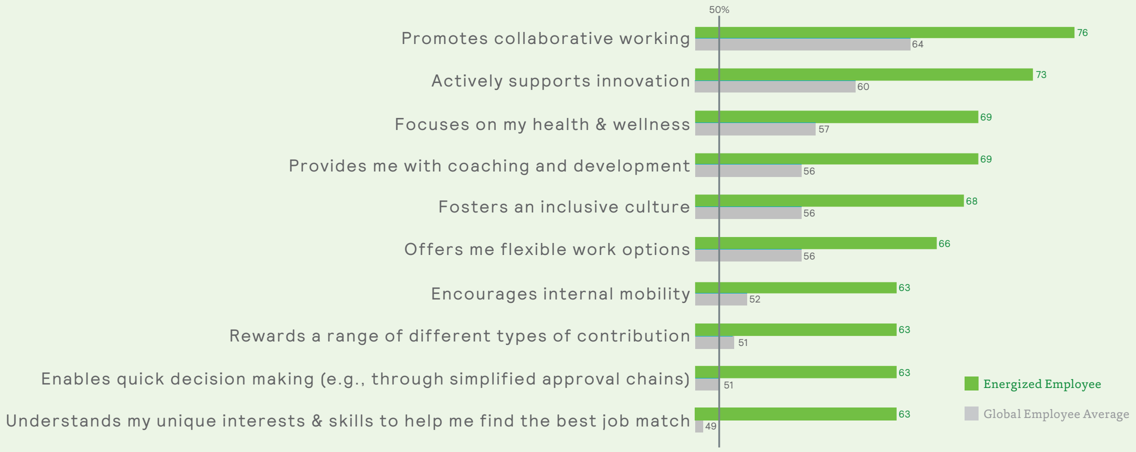
[1]Health and Safety Executive Statistics. http://www.hse.gov.uk/statistics/dayslost.htm. Last accessed March 2017.

FEELING ENERGIZED

People who describe themselves as "energized" at work (7+ on a scale of 1 to 10) view their work environment quite differently from those with lower reported energy levels. Below are the top ten differences.

WHAT IS DIFFERENT ABOUT THEIR WORK ENVIRONMENT?

83% feel they can bring their authentic selves to work — can "be themselves in their jobs" (compared to the overall global result of 68%)



CREATE A SENSE OF BELONGING

Employees are working more independently than ever before, while at the same time craving more collaboration. Office workers spend hours locked into one-to-one interaction with business machines, yet technology is bringing us closer together. How can organizations harness these opportunities and carve out a work environment that truly inspires? To help foster a sense of belonging, organizations can create communities of interest and networks that include people inside and outside the organization — experts from suppliers and customers, company alumni, and others in the broader talent ecosystem. Tapping into a broader network can also help employees to blend their social personas with their work personas to create connections without boundaries.

LEAP FORWARD: ADVICE TO STAY AHEAD

HELPING PEOPLE GROW AND CONTRIBUTE

It is clear that employees want more clarity on career options and more freedom to execute in the way they see fit. This provides each employee with the opportunity to contribute to the company's strategic agenda. A contribution culture does not need to be manager-led; rather, it could mean giving direction and getting out of the way. Setting up the right infrastructure is just the start. Exposing people to different experiences and reskilling individuals displaced by disruption are key to maintaining a thriving workforce. Removing complexity in decision making, implementing efficient knowledge management systems, and constantly realigning around goals and priorities are other ways that companies can ensure their culture supports employee growth and contribution.

> Engagement survey data shows that employees' views on 'opportunity to learn and grow' and 'freedom to use my own judgement' track very consistently with their 'confidence in the future of the company.' These Thrive dimensions show greater levels of movement and sensitivity than standard engagement scores – providing organizations with the ability to see patterns develop before they become business critical.
>
> *Peter Rutigliano, Ph.D., Managing Director of Data Analytics, Mercer | Sirota*

A WORKPLACE THAT ALLOWS ME TO BE ME

Diversity & Inclusion (D&I) falls well beneath HR's top five priorities for the year:

Building a culture of D&I **16%**
Ensuring equitable pay **16%**
Retaining culturally diverse talent **14%**
Retaining female talent **9%**

While 96% of companies have some form of D&I initiative in place, only 14% of executives indicated that D&I investment would make a sizable difference to their company's performance. Given that the C-suite has identified talent scarcity as their number one concern, a culture where D&I is not a top priority risks alienating a substantial percentage of the working population.

An inclusive culture has the ability to attract diverse and talented individuals, but more critically this environment enables diverse segments to contribute and thrive. Fewer than 1 in 3 HR professionals say that their D&I strategy is aligned to their company's business goals. Making the link between inclusiveness and metrics around engagement and retention (both areas of focus for business executives), as well as articulating the relationship between inclusiveness and customer intimacy, can help to position D&I goals as both a vital risk mitigation strategy and a prerequisite for innovation and growth.

PROMOTING INCLUSIVENESS IN MEETINGS

- ✓ Send materials ahead of time to help people with different styles feel ready to contribute
- ✓ Make it a norm to encourage less outspoken individuals to contribute
- ✓ Set a "no interruptions" rule to allow each person a chance to fully contribute
- ✓ Rotate the meeting chair, starting with someone who has been quieter in the past
- ✓ Summarize all the points (including the divergent ones)
- ✓ Provide an opportunity for counter-challenges before decisions are finalized

ADAPTED FROM "CREATING AN INCLUSIVE CULTURE" REPORT, CORPORATE RESEARCH FORUM, OCTOBER 2016

> "One of the key reasons that management attention and investment in D&I programmes have not yielded better results is that organisations have focused on increasing the proportion of people from underrepresented groups, rather than tackling the underlying culture."
>
> *Wanda Wallace and Gillian Pillans*
> *Authors of "Creating an Inclusive Culture" report*

ASK YOURSELF

- Are managers incentivized to promote a balanced and healthy work environment?
- Do we have thriving communities that foster a sense of belonging?
- Do our values and behaviors promote a climate of collaboration, inclusion, and contribution?
- Is it easy for new hires to join or for existing colleagues to get up-to-speed in a new area?
- Are people empowered to make decisions and take swift action based on what they believe is in the best interests of their customers?

If you answered "no" to two or more of the above, cultivating a thriving workforce may be a focus area for your organization this year.

LEAP FORWARD

A lot has been said about an organization's ability to bounce back when faced with adversity... but disruption brings adversity *and* opportunity, so let's explore three imperatives to enable organizations to bounce *forward*.

ATTRACT & RETAIN TOMORROW'S TALENT

OUR COMPANY HAS A COMPELLING & DIFFERENTIATED EVP

61% HR

57% C-suite

42% Employee

BUILD FOR AN UNKNOWN FUTURE

A CULTURE OF INNOVATION — EASIER SAID THAN DONE

86% of organizations say innovation is a core part of their agenda for this year

42% of employees say their company makes it easy to INNOVATE

CULTIVATE A THRIVING WORKFORCE

WHERE EMPLOYEES FEEL THE GREATEST SENSE OF BELONGING

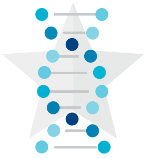
52% to company, department, manager, coworkers

42% to industry, profession, function

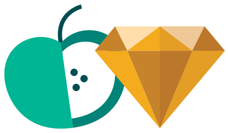
6% to clients

TOP TIPS TO WIN THE TALENT WAR

EMPOWERING YOUR WORKFORCE IN AN AGE OF DISRUPTION



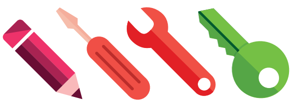
Align your Employee Value Proposition to your company's core DNA



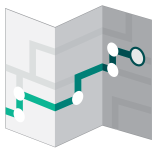
Focus on the "whole person" agenda, including Health and Wealth benefits

Define exciting career paths for a positive impact on retention

Take a chance on non-traditional talent who have potential but not experience

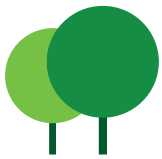


Mitigate risk by building a diverse portfolio of skills and a culture of innovation



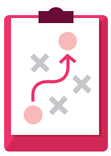
Quantify future-focused capability gaps through integrated people planning

Increase agility by simplifying decision making and encouraging talent mobility

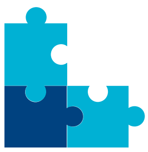


Accelerate progress through intentional developmental experiences and lifelong learning

Differentiate on a healthy workplace to address employees' top concerns



Understand talent flows and address choke points for key talent segments



Promote a contribution culture where everyone feels welcome to give input

Create a sense of belonging that resonates with your diverse workforce

IMPLICATIONS FOR HR

The C-suite certainly has People issues on their agenda this year. In fact, they see the increasing competition for talent even more acutely than HR does, and are planning bold changes to stay ahead. This focus on the talent agenda provides HR leaders with an incredible opportunity to align with business priorities and maximize their impact. To secure a seat at the table, HR leaders must continue to represent the needs of employees, while also keeping a finger on the pulse of external trends. Amplifying their voice requires leveraging data in ever more sophisticated ways to tell a story that is both compelling and relevant. Without talent insights from HR, CEOs' dreams and aspirations will struggle to leave the boardroom.

IF DISRUPTION IS THE NEW NORMAL, WHAT CAN WE DO TODAY TO PREPARE FOR TOMORROW?

Start by saying "yes" to flexible ways of working, listening to and trusting in your people, and being inspired by rule breakers from other industries or geographies. Recognize that disruption isn't something that happens *to* you, it's an opportunity to break away from the crowd. Top organizations shape the future through a culture of innovation, contribution, and inclusiveness. They outpace their competitors not by making decisions behind closed doors, but by empowering each and every employee to drive the company forward. These are the "power tools" that help companies not only survive, but thrive.

INDUSTRY REPORTS

Interested in industry-specific findings? This year's Global Talent Trends Study focused on 8 key industry sectors. Individual reports are available for Mercer Select Intelligence members through http://select.mercer.com and for non-members through www.imercer.com.

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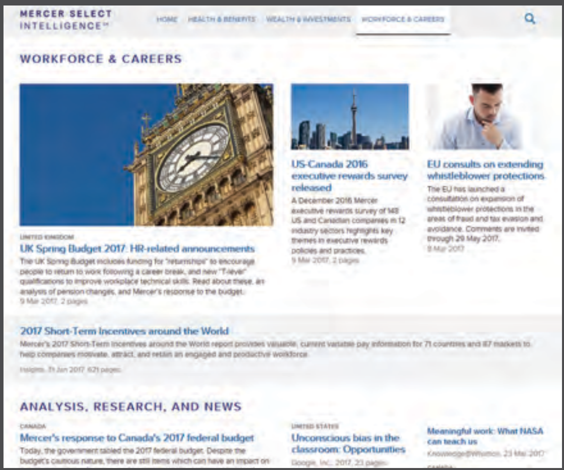

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MERCER CAREER

PROFESSIONAL PRACTICE AREAS

Talent Strategy
Forecast your talent needs and develop the strategies and infrastructure to ensure the right flow of talent to meet current and future business objectives. *Ask us about performance management design, virtual assessment centers, and Mercer Match.*

Talent Mobility
Optimize your talent investments by developing and executing on mobility strategies and maximizing the value of international assignments. *Ask us about AssignmentPro, Quality of Living report, Global Leadership Profile, and Mercer Passport.*

Workforce Rewards
Attract, retain, engage, and motivate your workforce through programs that reward the right behaviors and outcomes using globally consistent methodologies, insights, and data. *Ask us about pay equity/fair pay consulting, total rewards optimization, and Benefits Around the World reports.*

Executive Rewards
Align executive rewards with your business objectives to attract, retain, and motivate the best leadership talent to enhance business performance while meeting governance requirements. *Ask us for advice on executive plan design, performance measurement and goal setting, and pay disclosure.*

HR Transformation
Enhance the efficiency and effectiveness of your HR function and better align HR's focus with business needs to add long-term value. *Ask us about the HR function of the future, HR Capability Builder, and Mercer Learning.*

Workday Services
Go beyond the technical deployment with HR domain expertise and proprietary methodologies to quicken the time to value from your Workday Human Capital Management or Financials platform. *Ask us how technology can improve manager decision making and provide predictive analytics for change.*

Communication
Use proven methodologies and digital solutions to create and deliver results-driven communications to support major HR initiatives and M&A-related change. *Ask us about the Mercer Career View app, Belong portal, and award-winning Darwin benefits platform.*

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ABOUT MERCER

At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees — whether we're designing affordable health plans, assuring income for retirement, or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigor underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, helping organizations help their employees live healthier lives, grow their careers, and build more secure futures. At Mercer, we say we *Make Tomorrow, Today.*

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MARSH & McLENNAN COMPANIES

WorldatWork Salary Budget Survey

Published June 25, 2018

Top-Level Results

This is a high-level look at results from the "WorldatWork 2018-2019 Salary Budget Survey," which closed in May 2018. This year, WorldatWork received a total of 5,499 responses. Additional industry and geographic breakout information for the "WorldatWork 2018-2019 Salary Budget Survey" that can be customized in countless ways for the U.S. and Canada is included in the "Online Reporting Tool," which will be available with the full survey results in early August. Participants will receive a complimentary subscription.

United States

Salary Budget Increases, by Type of Increase

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
General Increase/COLA	1.4%	1.5%	1.6%	2.0%	1.5%	2.0%	1.8%	2.0%
Merit Increase	2.8%	3.0%	2.9%	3.0%	2.8%	3.0%	2.9%	3.0%
Other Increase	0.9%	0.5%	0.9%	0.5%	0.8%	0.5%	0.9%	0.5%
Total Increase	**3.0%**	**3.0%**	**3.1%**	**3.0%**	**3.1%**	**3.0%**	**3.2%**	**3.0%**

Note: "General Increase/COLA," "Merit Increase" and "Other Increase" do not add to the "Total Increase" because not every organization provides all three types of increase. In addition, each type of increase may include multiple responses if each respondent reports for more than one employee category for that type of increase.

Total Salary Budget Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly Nonunion	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%	3.1%	3.0%
Nonexempt Salaried	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%	3.1%	3.0%
Exempt Salaried	3.0%	3.0%	3.2%	3.0%	3.1%	3.0%	3.2%	3.0%
Officers/Executives	3.0%	3.0%	3.2%	3.0%	3.1%	3.0%	3.2%	3.0%
All	**3.0%**	**3.0%**	**3.1%**	**3.0%**	**3.1%**	**3.0%**	**3.2%**	**3.0%**

Total Salary Budget Increases, by State

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**3.1%**	**3.0%**	**3.2%**	**3.0%**
Alabama	3.0%	3.0%	3.0%	3.0%
Alaska	3.0%	3.0%	3.0%	3.0%
Arizona	3.0%	3.0%	3.1%	3.0%
Arkansas	2.9%	3.0%	3.0%	3.0%
California	3.1%	3.0%	3.1%	3.0%
Colorado	3.0%	3.0%	3.1%	3.0%
Connecticut	3.0%	3.0%	3.0%	3.0%
Delaware	3.0%	3.0%	3.0%	3.0%
Florida	3.0%	3.0%	3.1%	3.0%
Georgia	3.0%	3.0%	3.1%	3.0%
Hawaii	2.9%	3.0%	3.0%	3.0%
Idaho	3.0%	3.0%	3.1%	3.0%
Illinois	3.0%	3.0%	3.1%	3.0%
Indiana	3.0%	3.0%	3.0%	3.0%
Iowa	2.9%	3.0%	3.0%	3.0%
Kansas	3.0%	3.0%	3.0%	3.0%
Kentucky	3.0%	3.0%	3.0%	3.0%
Louisiana	3.0%	3.0%	3.0%	3.0%
Maine	3.0%	3.0%	3.0%	3.0%
Maryland	3.0%	3.0%	3.0%	3.0%
Massachusetts	3.0%	3.0%	3.1%	3.0%
Michigan	3.0%	3.0%	3.0%	3.0%
Minnesota	3.0%	3.0%	3.0%	3.0%
Mississippi	3.0%	3.0%	3.0%	3.0%
Missouri	3.0%	3.0%	3.0%	3.0%
Montana	3.0%	3.0%	3.1%	3.0%
Nebraska	3.0%	3.0%	3.0%	3.0%
Nevada	3.0%	3.0%	3.1%	3.0%
New Hampshire	2.9%	3.0%	3.0%	3.0%
New Jersey	3.0%	3.0%	3.0%	3.0%
New Mexico	3.0%	3.0%	3.0%	3.0%
New York	3.0%	3.0%	3.1%	3.0%
North Carolina	3.0%	3.0%	3.1%	3.0%
North Dakota	2.9%	3.0%	3.1%	3.0%
Ohio	3.0%	3.0%	3.1%	3.0%
Oklahoma	3.0%	3.0%	3.1%	3.0%
Oregon	3.0%	3.0%	3.1%	3.0%
Pennsylvania	3.0%	3.0%	3.1%	3.0%
Rhode Island	3.0%	3.0%	3.0%	3.0%
South Carolina	3.0%	3.0%	3.1%	3.0%
South Dakota	3.0%	3.0%	3.0%	3.0%
Tennessee	3.0%	3.0%	3.0%	3.0%
Texas	3.1%	3.0%	3.1%	3.0%
Utah	3.0%	3.0%	3.1%	3.0%
Vermont	2.9%	3.0%	3.0%	3.0%
Virginia	3.0%	3.0%	3.1%	3.0%
Washington	3.1%	3.0%	3.1%	3.0%
West Virginia	2.9%	3.0%	3.0%	3.0%
Wisconsin	3.0%	3.0%	3.0%	3.0%
Wyoming	3.0%	3.0%	3.0%	3.0%

All data includes 0% responses.

Total Salary Budget Increases, by Major Metropolitan Area

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**3.1%**	**3.0%**	**3.2%**	**3.0%**
Atlanta	3.1%	3.0%	3.1%	3.0%
Baltimore	3.0%	3.0%	3.1%	3.0%
Boston	3.0%	3.0%	3.1%	3.0%
Chicago	3.1%	3.0%	3.1%	3.0%
Cincinnati	3.1%	3.0%	3.1%	3.0%
Cleveland	3.1%	3.0%	3.1%	3.0%
Dallas	3.2%	3.0%	3.2%	3.0%
Denver	3.1%	3.0%	3.1%	3.0%
Detroit	2.9%	3.0%	2.9%	3.0%
Houston	3.1%	3.0%	3.1%	3.0%
Los Angeles	3.2%	3.0%	3.2%	3.0%
Miami	3.1%	3.0%	3.1%	3.0%
Minneapolis	3.1%	3.0%	3.0%	3.0%

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
New York	3.1%	3.0%	3.2%	3.0%
Philadelphia	3.1%	3.0%	3.0%	3.0%
Phoenix	3.1%	3.0%	3.1%	3.0%
Pittsburgh	3.0%	3.0%	3.1%	3.0%
Portland	3.2%	3.0%	3.3%	3.0%
San Diego	3.2%	3.0%	3.1%	3.0%
San Francisco	3.3%	3.0%	3.3%	3.0%
San Jose	3.3%	3.0%	3.3%	3.0%
Seattle	3.3%	3.0%	3.2%	3.0%
St. Louis	3.1%	3.0%	3.1%	3.0%
Tampa	3.0%	3.0%	3.1%	3.0%
Washington, D.C.	3.0%	3.0%	3.1%	3.0%

Merit Increases Awarded, by Performance Category

	High Performers		Middle Performers		Low Performers	
2017	Mean	Median	Mean	Median	Mean	Median
Percentage of employees rated in this category for 2017	27%	24%	68%	70%	6%	4%
Average merit increase awarded to this 2017 performance category	4.0%	3.9%	2.7%	2.8%	0.7%	0.5%
2018						
Percentage of employees estimated to be rated in this category for 2018	25%	21%	69%	70%	6%	5%
Average merit increase estimated for this 2018 performance category	4.1%	4.0%	2.8%	3.0%	0.6%	0.0%

Note: The mean distribution of the percent of employees in each performance category will total 100% or, as a result of rounding, may be very close. However, by definition, the median value for each category will move depending on the frequency of values in the dataset. Therefore, the median distribution of the percent of employees in each category will not equal 100%.

Promotional Increases

	2016		2017		2018	
	Mean	Median	Mean	Median	Mean	Median
Percentage of employees that received promotional increases	7.9%	7.0%	8.6%	8.0%	--	--
Percentage of promoted employees' base salary	8.4%	8.0%	8.7%	8.5%	--	--
Planned spending on promotional increases as a percentage of total base salaries	1.5%	1.0%	1.6%	1.0%	1.5%	1.0%

-- Question was not an option in the survey questionnaire.

Salary Structure Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly Nonunion	2.0%	2.0%	2.1%	2.0%	2.0%	2.0%	2.1%	2.0%
Nonexempt Salaried	2.0%	2.0%	2.1%	2.0%	2.1%	2.0%	2.1%	2.0%
Exempt Salaried	2.0%	2.0%	2.1%	2.0%	2.1%	2.0%	2.2%	2.0%
Officers/Executives	2.1%	2.0%	2.1%	2.0%	2.0%	2.0%	2.2%	2.0%
All	**2.0%**	**2.0%**	**2.1%**	**2.0%**	**2.0%**	**2.0%**	**2.1%**	**2.0%**

Variable Pay Programs, 2017-2019

National	Nonexempt Hourly Nonunion		Nonexempt Salaried		Exempt Salaried		Officers/Executives	
2017	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Average percent budgeted	5.1%	5.0%	6.0%	5.0%	12.5%	12.0%	38.1%	35.0%
Average percent paid	5.3%	4.8%	6.1%	5.0%	12.6%	12.0%	39.6%	35.0%
Percent of employees eligible in 2017 for variable pay	87%	100%	92%	100%	82%	100%	93%	100%
Percent of eligible employees actually paid variable pay for 2017	82%	98%	88%	99%	82%	98%	91%	100%
2018								
Average percent budgeted	5.2%	5.0%	6.1%	5.0%	12.7%	12.0%	38.5%	35.0%
Projected percent paid	5.4%	5.0%	6.3%	5.0%	13.0%	12.0%	39.8%	35.0%
2019								
Projected percent budgeted	5.2%	5.0%	6.1%	5.0%	12.6%	12.0%	38.2%	35.0%

All data includes 0% responses.

Canada

Salary Budget Increases, by Type of Increase

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
General Increase/COLA	1.4%	1.5%	1.6%	1.9%	1.4%	1.5%	1.6%	2.0%
Merit Increase	2.5%	2.8%	2.7%	3.0%	2.6%	2.8%	2.8%	3.0%
Other Increase	0.9%	0.5%	1.1%	0.5%	0.9%	0.5%	0.9%	0.5%
Total Increase	**2.8%**	**3.0%**	**3.0%**	**3.0%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**

Note: "General Increase/COLA," "Merit Increase" and "Other Increase" do not add to the "Total Increase" because not every organization provides all three types of increase. In addition, each type of increase may include multiple responses if each respondent reports for more than one employee category for that type of increase.

Total Salary Budget Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonmanagement Hourly Nonunion	2.7%	3.0%	3.0%	3.0%	2.8%	3.0%	2.9%	3.0%
Nonmanagement Salaried	2.8%	3.0%	3.1%	3.0%	2.9%	3.0%	3.0%	3.0%
Management Salaried	2.8%	3.0%	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%
Officers/Executives	2.8%	3.0%	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%
All	**2.8%**	**3.0%**	**3.0%**	**3.0%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**

Salary Budget Increases, by Province

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**2.9%**	**3.0%**	**3.0%**	**3.0%**
Alberta	2.8%	2.8%	2.9%	3.0%
British Columbia	2.9%	3.0%	3.0%	3.0%
Manitoba	2.7%	2.7%	2.8%	2.8%
New Brunswick	2.5%	2.7%	2.7%	2.8%
Newfoundland	2.3%	2.5%	2.6%	2.5%
Northwest Territories	2.3%	2.5%	2.6%	2.5%
Nova Scotia	2.5%	2.5%	2.7%	2.7%
Nunavut	2.7%	2.8%	2.8%	3.0%
Ontario	2.9%	3.0%	3.0%	3.0%
Prince Edward Island	2.6%	2.7%	2.7%	2.8%
Quebec	2.8%	2.9%	2.9%	3.0%
Saskatchewan	2.6%	2.7%	2.9%	3.0%
Yukon	2.2%	2.1%	2.5%	2.5%

All data includes 0% responses.

Total Salary Budget Increases, by Major Metropolitan Area

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**2.9%**	**3.0%**	**3.0%**	**3.0%**
Calgary	2.7%	2.8%	2.7%	3.0%
Edmonton	2.6%	2.7%	2.7%	3.0%
Hamilton	2.5%	2.5%	2.6%	2.7%
Montreal	2.8%	2.9%	2.8%	3.0%
Ottawa	2.7%	2.7%	2.7%	2.9%
Quebec	2.6%	2.7%	2.7%	3.0%
Toronto	2.8%	3.0%	2.8%	3.0%
Vancouver	2.7%	2.8%	2.8%	3.0%
Winnipeg	2.6%	2.7%	2.7%	3.0%

Salary Structure Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonmanagement Hourly Nonunion	1.7%	2.0%	1.9%	2.0%	1.8%	2.0%	2.0%	2.0%
Nonmanagement Salaried	1.7%	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Management Salaried	1.8%	2.0%	1.9%	2.0%	2.0%	2.0%	2.1%	2.0%
Officers/Executives	1.7%	2.0%	1.8%	2.0%	1.9%	2.0%	2.0%	2.0%
All	**1.7%**	**2.0%**	**1.9%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**

All data includes 0% responses.

Global

Salary Budget Increases, by Type of Increase

		Actual 2018		Projected 2019	
	Type of Increase	Mean	Median	Mean	Median
Australia	General Increase/COLA	1.3%	0.2%	1.3%	0.3%
	Merit Increase	2.9%	3.0%	3.0%	3.0%
	Other Increase	0.7%	0.5%	0.8%	0.5%
	Total Increase	**3.2%**	**3.0%**	**3.3%**	**3.0%**
Belgium	General Increase/COLA	1.8%	1.5%	1.5%	1.7%
	Merit Increase	2.0%	2.3%	2.0%	2.3%
	Other Increase	0.7%	0.5%	0.7%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.5%**	**2.5%**
Brazil	General Increase/COLA	4.2%	4.0%	4.3%	3.2%
	Merit Increase	4.7%	5.0%	4.6%	4.4%
	Other Increase	2.5%	1.7%	2.4%	1.4%
	Total Increase	**5.9%**	**6.0%**	**6.1%**	**6.0%**
China	General Increase/COLA	3.6%	3.0%	3.4%	3.0%
	Merit Increase	6.2%	6.5%	6.3%	6.6%
	Other Increase	1.1%	0.7%	1.1%	0.8%
	Total Increase	**6.6%**	**6.9%**	**6.7%**	**7.0%**
France	General Increase/COLA	1.1%	1.0%	1.0%	0.5%
	Merit Increase	2.4%	2.5%	2.5%	2.5%
	Other Increase	0.7%	0.5%	0.7%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.7%**	**2.6%**
Germany	General Increase/COLA	1.4%	1.5%	1.3%	0.0%
	Merit Increase	2.8%	3.0%	2.9%	3.0%
	Other Increase	0.8%	0.5%	0.8%	0.5%
	Total Increase	**3.0%**	**3.0%**	**3.1%**	**3.0%**
India	General Increase/COLA	5.4%	5.5%	4.9%	2.5%
	Merit Increase	9.5%	10.0%	9.6%	10.0%
	Other Increase	1.2%	1.0%	1.2%	1.0%
	Total Increase	**10.0%**	**10.0%**	**10.0%**	**10.0%**
Italy	General Increase/COLA	0.9%	0.8%	0.8%	0.5%
	Merit Increase	2.4%	2.5%	2.5%	2.5%
	Other Increase	0.7%	0.5%	0.6%	0.5%
	Total Increase	**2.7%**	**2.6%**	**2.8%**	**2.6%**
Japan	General Increase/COLA	1.1%	0.8%	1.0%	0.1%
	Merit Increase	2.4%	2.4%	2.5%	2.5%
	Other Increase	0.7%	0.5%	0.6%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.7%**	**2.5%**
Mexico	General Increase/COLA	2.4%	2.5%	1.9%	0.6%
	Merit Increase	4.6%	4.6%	4.7%	4.8%
	Other Increase	1.1%	0.5%	1.2%	0.8%
	Total Increase	**4.9%**	**4.8%**	**5.0%**	**5.0%**

(Continued on page 8)

All data includes 0% responses.

Salary Budget Increases, by Type of Increase *(continued)*

		Actual 2018		Projected 2019	
	Type of Increase	Mean	Median	Mean	Median
Netherlands	General Increase/COLA	1.5%	1.5%	1.5%	1.5%
	Merit Increase	2.6%	2.7%	2.7%	2.8%
	Other Increase	0.6%	0.5%	0.6%	0.5%
	Total Increase	**2.8%**	**2.9%**	**2.9%**	**3.0%**
Russia	General Increase/COLA	3.5%	3.5%	1.9%	0.0%
	Merit Increase	6.9%	7.4%	6.9%	7.4%
	Other Increase	1.0%	0.5%	1.1%	1.0%
	Total Increase	**7.4%**	**7.5%**	**7.3%**	**7.5%**
Singapore	General Increase/COLA	2.0%	2.5%	1.8%	0.4%
	Merit Increase	3.8%	4.0%	3.9%	4.0%
	Other Increase	0.6%	0.5%	0.7%	0.5%
	Total Increase	**4.0%**	**4.0%**	**4.1%**	**4.0%**
Spain	General Increase/COLA	1.4%	1.8%	1.4%	2.0%
	Merit Increase	2.3%	2.3%	2.4%	2.4%
	Other Increase	0.6%	0.5%	0.6%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.7%**	**2.5%**
Sweden	General Increase/COLA	1.0%	1.0%	1.2%	1.0%
	Merit Increase	2.5%	2.6%	2.6%	2.7%
	Other Increase	0.8%	0.5%	0.8%	0.5%
	Total Increase	**2.8%**	**2.8%**	**2.9%**	**3.0%**
Switzerland	General Increase/COLA	1.3%	1.6%	1.4%	2.0%
	Merit Increase	2.0%	2.0%	2.2%	2.0%
	Other Increase	0.6%	0.5%	0.6%	0.5%
	Total Increase	**2.2%**	**2.0%**	**2.4%**	**2.2%**
United Kingdom	General Increase/COLA	1.5%	1.8%	1.3%	1.0%
	Merit Increase	2.9%	3.0%	2.9%	3.0%
	Other Increase	0.8%	0.5%	0.8%	0.8%
	Total Increase	**3.1%**	**3.0%**	**3.1%**	**3.0%**

Note: "General Increase/COLA," "Merit Increase" and "Other Increase" do not add to the "Total Increase" because not every organization provides all three types of increase. In addition, each type of increase may include multiple responses if each respondent reports for more than one employee category for that type of increase.

Total Salary Budget Increases, by Employee Category

	Employee Category	Actual 2018 Mean	Actual 2018 Median	Projected 2019 Mean	Projected 2019 Median
Australia	NHN	3.2%	3.1%	3.3%	3.0%
	NS	3.2%	3.1%	3.3%	3.0%
	MS	3.2%	3.1%	3.3%	3.0%
	OE	3.0%	3.0%	3.0%	3.0%
	All	**3.2%**	**3.0%**	**3.3%**	**3.0%**
Belgium	NHN	2.5%	2.5%	2.6%	2.5%
	NS	2.7%	2.5%	2.6%	2.5%
	MS	2.5%	2.5%	2.5%	2.5%
	OE	2.6%	2.4%	2.3%	2.4%
	All	**2.6%**	**2.5%**	**2.5%**	**2.5%**
Brazil	NHN	6.1%	6.5%	6.4%	6.3%
	NS	5.8%	6.0%	6.1%	6.0%
	MS	5.8%	6.0%	6.0%	6.0%
	OE	5.6%	6.0%	5.8%	6.0%
	All	**5.9%**	**6.0%**	**6.1%**	**6.0%**
China	NHN	6.7%	7.0%	6.8%	7.0%
	NS	6.7%	7.0%	6.8%	7.0%
	MS	6.7%	6.9%	6.8%	7.0%
	OE	6.2%	6.5%	6.3%	6.6%
	All	**6.6%**	**6.9%**	**6.7%**	**7.0%**
France	NHN	2.7%	2.5%	2.8%	2.5%
	NS	2.6%	2.5%	2.7%	2.6%
	MS	2.6%	2.5%	2.7%	2.6%
	OE	2.7%	2.5%	2.7%	2.7%
	All	**2.6%**	**2.5%**	**2.7%**	**2.6%**
Germany	NHN	3.0%	3.0%	3.1%	3.0%
	NS	3.0%	3.0%	3.1%	3.0%
	MS	3.0%	3.0%	3.1%	3.0%
	OE	3.0%	3.0%	3.0%	3.0%
	All	**3.0%**	**3.0%**	**3.1%**	**3.0%**
India	NHN	10.1%	10.0%	10.3%	10.1%
	NS	10.0%	10.0%	10.0%	10.0%
	MS	10.0%	10.0%	10.1%	10.0%
	OE	9.8%	10.0%	9.7%	10.0%
	All	**10.0%**	**10.0%**	**10.0%**	**10.0%**
Italy	NHN	2.6%	2.6%	3.1%	2.7%
	NS	2.7%	2.6%	2.7%	2.6%
	MS	2.7%	2.6%	2.7%	2.7%
	OE	2.6%	2.5%	2.7%	2.6%
	All	**2.7%**	**2.6%**	**2.8%**	**2.6%**
Japan	NHN	2.6%	2.5%	2.7%	2.5%
	NS	2.6%	2.5%	2.7%	2.5%
	MS	2.7%	2.5%	2.8%	2.5%
	OE	2.7%	2.5%	2.5%	2.5%
	All	**2.6%**	**2.5%**	**2.7%**	**2.5%**

NHN Nonmanagement Hourly Nonunion | **NS** Nonmanagement Salaried | **MS** Management Salaried | **OE** Officers/Executives *(Continued on page 10)*

All data includes 0% responses.

Total Salary Budget Increases, by Employee Category *(continued)*

	Employee Category	Actual 2018 Mean	Actual 2018 Median	Projected 2019 Mean	Projected 2019 Median
Mexico	NHN	4.9%	4.9%	5.0%	5.0%
	NS	4.9%	4.8%	5.0%	5.0%
	MS	4.9%	4.8%	5.0%	5.0%
	OE	4.7%	4.7%	4.7%	4.7%
	All	**4.9%**	**4.8%**	**5.0%**	**5.0%**
Netherlands	NHN	2.9%	2.9%	3.0%	3.0%
	NS	2.8%	2.8%	2.9%	3.0%
	MS	2.8%	2.8%	2.9%	3.0%
	OE	3.0%	3.0%	3.1%	3.0%
	All	**2.8%**	**2.9%**	**2.9%**	**3.0%**
Russia	NHN	7.4%	7.7%	7.4%	7.6%
	NS	7.4%	7.5%	7.3%	7.5%
	MS	7.3%	7.5%	7.4%	7.5%
	OE	7.2%	7.5%	6.7%	7.4%
	All	**7.4%**	**7.5%**	**7.3%**	**7.5%**
Singapore	NHN	4.1%	4.0%	4.2%	4.0%
	NS	4.0%	4.0%	4.1%	4.0%
	MS	4.0%	4.0%	4.1%	4.0%
	OE	3.9%	4.0%	4.0%	4.0%
	All	**4.0%**	**4.0%**	**4.1%**	**4.0%**
Spain	NHN	2.5%	2.5%	2.7%	2.5%
	NS	2.5%	2.5%	2.7%	2.5%
	MS	2.6%	2.5%	2.7%	2.5%
	OE	2.6%	2.4%	2.6%	2.5%
	All	**2.6%**	**2.5%**	**2.7%**	**2.5%**
Sweden	NHN	2.8%	2.9%	3.2%	3.0%
	NS	2.8%	2.8%	2.9%	2.9%
	MS	2.8%	2.8%	2.9%	2.9%
	OE	2.9%	2.8%	2.9%	2.9%
	All	**2.8%**	**2.8%**	**2.9%**	**3.0%**
Switzerland	NHN	2.2%	2.1%	2.4%	2.3%
	NS	2.2%	2.0%	2.4%	2.1%
	MS	2.2%	2.0%	2.4%	2.2%
	OE	2.2%	2.0%	2.5%	2.5%
	All	**2.2%**	**2.0%**	**2.4%**	**2.2%**
United Kingdom	NHN	3.1%	3.0%	3.2%	3.0%
	NS	3.1%	3.0%	3.2%	3.0%
	MS	3.1%	3.0%	3.2%	3.0%
	OE	3.0%	3.0%	3.0%	3.0%
	All	**3.1%**	**3.0%**	**3.1%**	**3.0%**

NHN Nonmanagement Hourly Nonunion | **NS** Nonmanagement Salaried | **MS** Management Salaried | **OE** Officers/Executives

All data includes 0% responses.

Please direct any questions or comments to surveypanel@worldatwork.org.

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THE CONFERENCE BOARD

US Salary Increase Budgets for 2019

US Salary Increase Budgets for 2019

RESEARCH REPORT 1666-18-RR

by Judit Torok

US Salary Increase Budgets for 2019

Results from The Conference Board annual Salary Increase Budgets Survey indicate that the median 2018 actual total salary increase budget and merit increases across all employee groups are 3.00 percent. This year, 258 organizations completed the survey, which was fielded between April 17 and June 18.[1] Data were requested for four employment categories: nonexempt hourly (non-union), nonexempt salaried, exempt, and executive. Results are reported overall and by industry.

The Conference Board currently projects the 2018 and 2019 inflation rates to be 2.4 percent and 2.4 percent, respectively.

The analysis provided below is based on the results including zero increases.

Salary Increase Budgets

The median 2018 actual total salary increase budgets are 3.00 percent across all employee groups. These increases are the same as the actual increases for the past seven years and are exactly the same as the projected increases for 2018 in last May's report (Table 1).[2]

The 2019 projected total median increase in budgets across all employee categories and industries remains at 3.00 percent overall.

The overall median 2018 actual merit percent increases are 3.00 percent for each employment category. The same is true for the increased budgets projected for 2019, which remain unchanged compared to actual increases. Both increases are universally 3.00 percent across industries, revenues, and employee numbers. (Tables 4, 5, and 6)

Both 2018 actual and 2019 projected median general increases are 0.00 percent for all employee categories and throughout industries, revenues, and employee numbers (Table 7, 8, and 9).

Other increases for 2018 (actual) and 2019 (projected) are 0.00 percent across the board (Table 10, 11 and 12).

Salary Structure Movement

The 2019 median structure movement is projected at 2.00 percent in all employee categories. The actual 2018 median increase in salary structures is 2.00 percent for all employment categories as projected in May of last year (Table 13).

In most industries, the structure movement is projected to be at the overall median level of 2.00 percent (Table 13).

FLSA Exemptions

In May 2016, the US Department of Labor revised the tests that private employers should conduct under the Fair Labor Standards Act (FLSA) to determine which employees are exempt from the FLSA's minimum wage and overtime requirements. Almost all surveyed companies stated that their reported budget increases for nonexempt employees (both the actual increases for 2018 and the projected increases for 2019) had not been affected by the changes to the exemption tests.

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1 Twelve organizations indicated that they provided information for their specific business units or did not answer this question; their responses are not included in the analysis.

2 See *TCB-US-Salary-Increase-Budgets-2018*.

Appendix

Table 1 **Salary increase budgets – Total, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget				2019 Projected salary increase budget			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Mean	3.01	3.04	3.09	3.03	3.09	3.17	3.17	3.10
	25th percentile	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	75th percentile	3.00	3.00	3.00	3.00	4.00	4.00	4.00	4.00
	n=	140	128	159	147	137	125	156	146
By industry*									
Banking	Median	N/A	N/A	3.00%	3.00%	N/A	N/A	3.00%	3.00%
	n=	3	4	5	5	4	4	6	6
Communications	Median	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00
	n=	6	7	6	7	5	5	5	6
Consulting services	Median	3.00	3.50	3.50	3.00	3.00	3.00	3.00	3.00
	n=	9	8	10	6	8	7	9	6
Diversified financial services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	9	8	10	10	9	8	10	10
Diversified services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	15	13	15	13	16	14	16	14
Energy/agriculture	Median	3.00	3.00	3.00	3.00	3.00	3.50	3.50	3.50
	n=	8	9	9	9	7	8	8	8
Insurance	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	17	14	22	21	18	16	23	22
Manufacturing	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	32	37	41	40	31	36	39	38
Trade	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	14	8	13	12	12	7	12	12
Transportation	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	7	9	8	9	5	7	6	7
Utilities	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	21	14	21	17	21	14	21	17

*Other industry groups are included in totals but not shown separately due to small sample size.

Source: The Conference Board, 2018

Table 2 **Salary increase budgets – Total, percent – by revenue** (zeros included)*

		2018 Actual salary increase budget				2019 Projected salary increase budget			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	3.00%	3.00%	3.00%	3.00%	3.00%	4.00%	3.00%	3.00%
	n=	23	18	25	23	22	17	24	22
$1 billion to under $3 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	35	26	37	34	33	25	35	34
$3 billion to under $5 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	13	13	15	11	13	13	16	12
$5 billion to under $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	20	16	21	19	22	18	23	21
More than $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	42	48	54	53	40	45	51	50

* Other revenue groups are included in totals but not shown separately due to small sample size.

Source: The Conference Board, 2017

Table 3 **Salary increase budgets – Total, percent – by number of employees** (zeros included)

		2018 Actual salary increase budget				2019 Projected salary increase budget			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
500-2,499	Median	3.00%	3.50%	3.50%	3.00%	3.00%	4.00%	4.00%	3.00%
	n=	25	18	28	25	24	18	27	25
2,500-9,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	56	51	62	57	55	51	61	57
10,000-19,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	18	15	18	14	19	15	20	16
20,000+	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	38	42	48	48	36	39	45	45

Source: The Conference Board, 2018

Table 4 **Salary increase budgets – Merit, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget (Merit)				2019 Projected salary increase budget (Merit)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Mean	2.71	2.80	2.82	2.77	2.81	2.90	2.90	2.85
	25th percentile	2.00	3.00	3.00	2.00	3.00	3.00	3.00	3.00
	75th percentile	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	188	172	224	207	178	165	214	202
By industry*									
Banking	Median	3.00%	3.00%	3.00%	3.00%	2.50%	3.00%	3.00%	3.00%
	n=	6	7	9	9	6	6	9	9
Communications	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	15	14	15	15	12	11	12	13
Consulting services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	13	11	16	12	12	10	15	11
Diversified financial services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	11	9	12	12	11	9	12	12
Diversified services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	19	19	21	18	19	19	21	18
Energy/agriculture	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	8	11	11	10	7	10	10	10
Insurance	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	26	19	30	27	25	18	29	28
Manufacturing	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	42	50	59	57	40	50	57	55
Trade	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	17	10	18	18	17	10	18	18
Transportation	Median	N/A	N/A	3.00	3.00	N/A	N/A	3.00	3.00
	n=	4	4	5	6	4	4	5	6
Utilities	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	24	15	25	20	22	15	23	19

*Other industry groups are included in totals but not shown separately due to small sample size.

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 5 **Salary increase budgets – Merit, percent – by revenue** (zeros included)

		2018 Actual salary increase budget (Merit)				2019 Projected salary increase budget (Merit)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	n=	29	20	31	29	29	20	31	29
$1 billion to under $3 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	40	33	46	45	37	32	43	42
$3 billion to under $5 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	16	18	23	17	15	17	22	17
$5 billion to under $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	32	28	36	33	32	28	37	34
More than $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	61	62	76	72	56	58	70	69

Source: The Conference Board, 2018

Table 6 **Salary increase budgets – Merit, percent – by number of employees** (zeros included)

		2018 Actual salary increase budget (Merit)				2019 Projected salary increase budget (Merit)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
1-499	Median	3.00%	N/A	3.00%	3.00%	3.00%	N/A	3.00%	3.00%
	n=	5	4	7	7	5	4	7	7
500-2,499	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	30	25	34	31	28	23	32	30
2,500-9,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	65	60	80	75	63	60	79	75
10,000-19,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	32	25	33	28	30	24	31	27
20,000+	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	56	58	70	66	52	54	65	63

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 7 **Salary increase budgets – General, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget (General)				2019 Projected salary increase budget (General)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Mean	1.25	0.55	0.71	0.48	1.17	0.44	0.48	0.38
	25th percentile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	75th percentile	3.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
	n=	44	29	34	31	42	27	31	29
By Industry*									
Diversified services	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	n=	5	5	5	5	5	5	5	5
Energy/agriculture	Median	3.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	n=	5	3	3	3	4	2	2	2
Insurance	Median	0.00	N/A	0.00	0.00	0.00	N/A	0.00	0.00
	n=	6	3	6	6	6	3	6	6
Manufacturing	Median	3.00	N/A	N/A	N/A	3.00	N/A	N/A	N/A
	n=	9	4	3	3	9	3	2	2
Utilities	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	7	5	6	5	7	5	6	5

* Other industry groups are included in totals but not shown separately due to small sample size.
N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 8 **Salary increase budgets – General, percent – by revenue** (zeros included)

		2018 Actual salary increase budget (General)				2019 Projected salary increase budget (General)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	n=	8	6	8	8	8	6	8	8
$1 billion to under $3 billion	Median	2.00	N/A	0.00	0.00	1.00	N/A	0.00	0.00
	n=	9	3	6	5	8	3	5	5
$3 billion to under $5 billion	Median	3.00	N/A	N/A	N/A	3.00	N/A	N/A	N/A
	n=	7	4	4	2	7	4	4	2
$5 billion to under $10 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	7	7	7	8	6	6	6
More than $10 billion	Median	1.00	0.50	0.00	0.00	1.00	0.00	0.00	0.00
	n=	9	6	6	6	8	5	5	5

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 9 **Salary increase budgets – General, percent – by number of employees** (zeros included)*

		2018 Actual salary increase budget (General)				2019 Projected salary increase budget (General)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
500-2,499	Median	0.00%	N/A	0.00%	0.00%	0.00%	N/A	0.00%	0.00%
	n=	7	4	7	7	7	4	7	7
2,500-9,999	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	25	15	17	15	24	14	15	14
20,000+	Median	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	6	6	6	7	5	5	5

* Other employee number groups are included in totals but not shown separately due to small sample size.

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 10 **Salary increase budgets – Other, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget (Other)				2019 Projected salary increase budget (Other)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Mean	0.37	0.43	0.39	0.40	0.31	0.39	0.37	0.38
	25th percentile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	75th percentile	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	n=	68	72	84	70	70	71	84	73
By industry*									
Consulting services	Median	1.00%	1.00%	1.00%	N/A	1.00%	1.00%	1.00%	N/A
	n=	5	6	7	3	5	6	7	4
Diversified financial services	Median	0.00	N/A	0.00	0.00	0.00	N/A	0.00	0.00
	n=	5	3	5	5	5	3	5	5
Diversified services	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	7	8	6	8	7	8	6
Energy / agriculture	Median	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	4	6	6	5	5	7	7	7
Insurance	Median	0.00	0.50	0.00	0.00	0.00	0.00	0.00	0.00
	n=	10	8	12	9	10	7	11	9
Manufacturing	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	11	19	19	18	11	18	18	17
Trade	Median	0.00	N/A	0.00	0.00	0.00	N/A	0.00	0.00
	n=	6	3	6	5	6	3	6	5
Utilities	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	10	9	10	8	11	10	11	9

* Other industry groups are included in totals but not shown separately due to small sample size.
N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 11 **Salary increase budgets – Other, percent – by revenue** (zeros included)

		2018 Actual salary increase budget (Other)				2019 Projected salary increase budget (Other)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	n=	12	12	14	12	12	12	14	12
$1 billion to under $3 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	14	14	17	16	14	14	17	17
$3 billion to under $5 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
	n=	6	8	10	5	6	8	10	6
$5 billion to under $10 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	8	9	7	10	9	11	9
More than $10 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	24	26	30	27	24	24	28	26

Source: The Conference Board, 2018

Table 12 **Salary increase budgets – Other, percent – by number of employees** (zeros included)*

		2018 Actual salary increase budget (Other)				2019 Projected salary increase budget (Other)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
500-2,499	Median	0.00%	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%
	n=	16	16	19	16	15	15	18	16
2,500-9,999	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	24	26	30	25	26	28	32	28
10,000-19,999	Median	1.00	0.50	1.00	0.00	0.50	0.50	0.50	0.00
	n=	10	10	11	6	12	10	12	8
20,000+	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	17	19	23	22	16	17	21	20

* Other employee number groups are included in totals but not shown separately due to small sample size.

Source: The Conference Board, 2018

Table 13 **Salary structure movement – by industry and overall** (zeros included)

		2018 Actual salary structure movement – percent				2019 Projected salary structure movement – percent			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
	Mean	1.93	1.77	1.90	1.82	2.04	1.98	2.01	1.92
	25th percentile	2.00	2.00	2.00	0.50	2.00	2.00	2.00	2.00
	75th percentile	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	178	155	205	168	168	146	192	156
By industry*									
Banking	Median	2.00%	2.00%	2.00%	0.50%	2.00%	2.00%	2.00%	1.00%
	n=	6	7	9	8	5	5	8	7
Communications	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	12	12	12	11	11	11	11	9
Consulting services	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	15	11	16	11	16	11	17	11
Diversified financial services	Median	2.00	1.50	2.00	1.50	2.00	2.00	2.00	1.50
	n=	10	8	10	10	9	7	9	8
Diversified services	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	18	17	19	16	17	16	18	15
Energy/agriculture	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	10	11	11	7	8	9	9	7
Insurance	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	21	15	25	19	21	15	23	19
Manufacturing	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	41	45	55	49	38	43	52	45
Trade	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	15	9	16	13	15	9	15	13
Transportation	Median	N/A	N/A	2.00	N/A	N/A	N/A	2.00	N/A
	n=	3	4	5	4	3	4	5	4
Utilities	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	24	13	24	17	22	13	22	15

* Other industry groups are included in totals but not shown separately due to small sample size.
N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 14 **Salary structure movement – by revenue** (zeros included)

		2018 Actual salary structure movement – percent				2019 Projected salary structure movement – percent			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
	n=	26	18	28	24	26	18	28	22
$1 billion to under $3 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	40	30	43	38	36	29	40	34
$3 billion to under $5 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	20	18	23	12	18	16	21	11
$5 billion to under $10 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	31	26	34	29	31	25	34	29
More than $10 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	54	55	69	57	49	49	60	51

Source: The Conference Board, 2018

Table 15 **Salary structure movement – by number of employees** (zeros included)

		2018 Actual salary structure movement – percent				2019 Projected salary structure movement – percent			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
1-499	Median	2.00%	N/A	2.00%	2.00%	2.00%	N/A	2.00%	2.00%
	n=	5	4	6	6	5	4	6	5
500-2,499	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	25	20	29	22	25	19	29	22
2,500-9,999	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	67	54	73	65	62	52	69	60
10,000-19,999	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	33	27	34	24	32	25	32	23
20,000+	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	48	50	63	51	44	46	56	46

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 16 **Has your reported 2018 actual salary budget increase for non-exempt employees been affected by such changes?**

	Percent
Yes, and the budget increase is higher than it would have been without those changes to the test.	3.4%
Yes, and the budget increase is lower than it would have been without those changes to the test.	0.0
No	96.6
	n=228

Source: The Conference Board, 2018

Table 17 **Has your reported 2019 projected salary budget increase for exempt employees been affected by such changes?**

	Percent
Yes, and the budget increase is higher than it would have been without those changes to the test.	2.1%
Yes, and the budget increase is lower than it would have been without those changes to the test.	0.4
No	97.5
	n=237

Source: The Conference Board, 2018

Table 18 **Response rate by industry**

Industry	n=	Percent
Banking	10	4.2%
Communications	17	7.1
Consulting services	18	7.5
Diversified financial services	12	5.0
Diversified services	22	9.2
Energy/agriculture	12	5.0
Insurance	31	12.9
Manufacturing	62	25.8
Trade	19	7.9
Transportation	7	2.9
Utilities	27	11.3
Not-for-profit*	3	1.3
Total	240	**100%**

* Included in totals but not shown separately due to small sample size.
Source: The Conference Board, 2018

Table 19 **Response rate by worldwide revenues**

	n=	Percent
Under $100 million	4	1.7%
$100 million to under $1 billion	33	14.2
$1 billion to under $3 billion	47	20.3
$3 billion to under $5 billion	25	10.8
$5 billion to under $10 billion	39	16.8
More than $10 billion	84	36.2
Total	232	**100.0%**

* Included in totals but not shown separately due to small sample size.
Source: The Conference Board, 2018

Table 20 **Response rate by worldwide employees**

	n=	Percent
1-499	7	2.9%
500-2,499	36	15.0
2,500-9,999	83	34.6
10,000-19,999	37	15.4
20,000+	77	32.1
Total	240	**100%**

* Included in totals but not shown separately due to small sample size.
Source: The Conference Board, 2018

About the Author

Judit Torok is a senior research analyst at The Conference Board. She is responsible for data analysis in several annual reports published by The Conference Board, including ***The Conference Board CEO Challenge®***. Prior to earning her MBA at Pace University in New York, she worked at several financial services firms in financial advisory services and M&A consulting.

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2019 Trends and Issues in Utility Industry Compensation

May 2019

Willis Towers Watson

Utilities experiencing pressure on multiple fronts

"The Impact of Environmental Regulations on Power Generation"

-Power Magazine, December 2018

Challenging regulatory environment

Continued focus on core business growth / technology

"Utilities Speed Up Closure of Coal-Fired Power Plants"

-Wall Street Journal, January 2019

Growth in renewables

ESG Impact on Human Capital Management

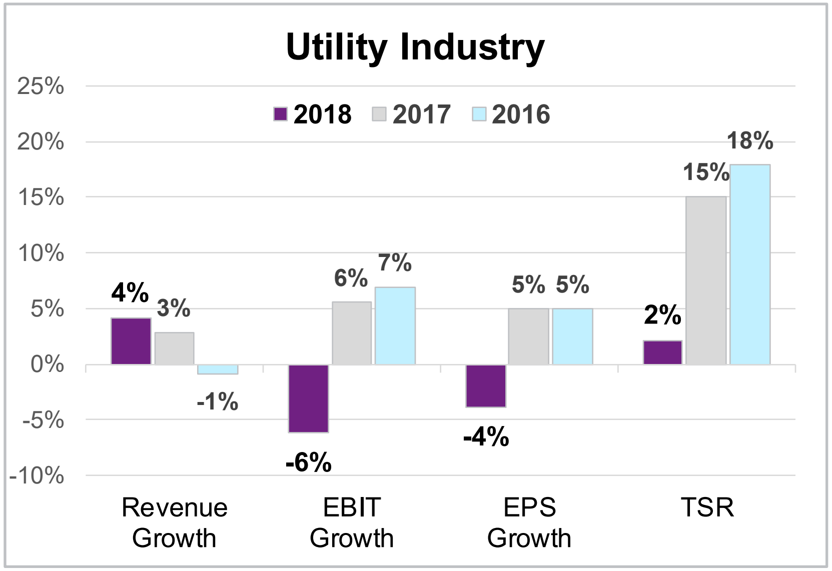
Distributed energy / beyond the meter focus

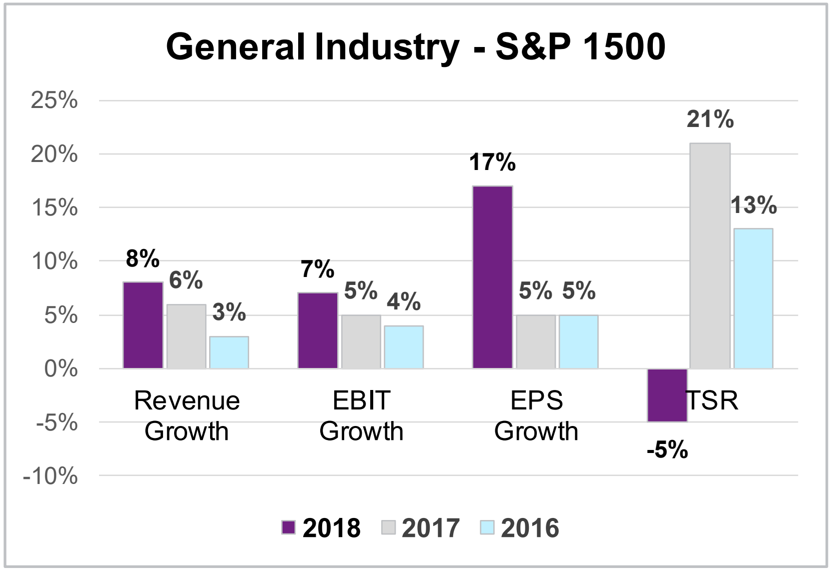
"California's 'smart' energy future glows on the horizon – but how to get there?"

-CalMatters, February 2019

Utility financial performance was mixed in 2018 with weak shareholder returns

- Top-line growth for utilities slightly improved after several years of sluggish growth
- Earnings (both EPS and EBIT) experienced a decline and lagged the general industry
- While 2018 TSR was positive for utilities, it was well below prior years





Source: S&P Cap IQ.
Note: 2017 and 2016 Utility Industry financial performance reflect prior years' peer groups.

Material compensation shifts not evident in 2018, but external pressures are a key force in driving utilities to reassess current program design

Pace of change in the industry and the need to attract and retain new talent is forcing utilities to revisit total rewards programs

Forces	Compensation issues to solve
Future of work/automation of work	**Attracting and retaining a younger, tech-savvy workforce in an environment where automation is becoming more prevalent**
Environmental, social and governance emphasis	**Driving focus on gender pay, talent alignment/inclusion, and diversity in a traditionally male dominated industry**
Increased regulation/scrutiny on pay	**Requiring assessment of pay practices (e.g., CEO pay ratio, pay equity, etc.) and efforts to support rate recovery**
Shift towards renewables	**Forcing changes in traditional compensation models to compete for talent**

Source: Utility Trends Pulse Survey.

Compensation Trends

Target compensation levels continued to increase, but at a slower pace

- Select utility peers granted substantially smaller long-term incentive awards in 2018 compared to 2017, impacting the median growth percentage of both long-term incentives and target direct compensation from 2017 to 2018

Pay Element	Median Change		
	2015-2016	2016-2017	2017-2018
Base Salary(1)	2%	3%	2%
Target Bonus(2)	5%	3%	4%
Target Long-Term Incentives(3)	10%	12%	2%
Target total direct compensation increased 3% in 2018 (compared to 11% in 2017)			

Source: Proxy filings. See Appendix for participants.
Data reflects CEOs in the role for the past 36 months (19 of 24 companies) and represents median of variances.
(1) Base Salary includes annual pay
(2) Target Bonus includes target annual bonus set at the beginning of the year
(3) Target Long-Term Incentives include grant date value of stock options, restricted stock and performance plan awards

"Hot jobs" – based on year-over-year median salary increase

- The following positions were noted to have significant base salary increases from the prior year:

Executive Roles

Position	% change year-over-year at base salary median
Top Information and Cyber Security Executive	12%
Top Nuclear Services Executive	11%
Single Profit Center Head (nonregulated)	10%
Top Technology Infrastructure Head	10%
Top Nuclear Operating Executive	10%
Top Applications Development Executive	10%
Top Strategic Planning and Development Executive	9%

Non-Executive Roles

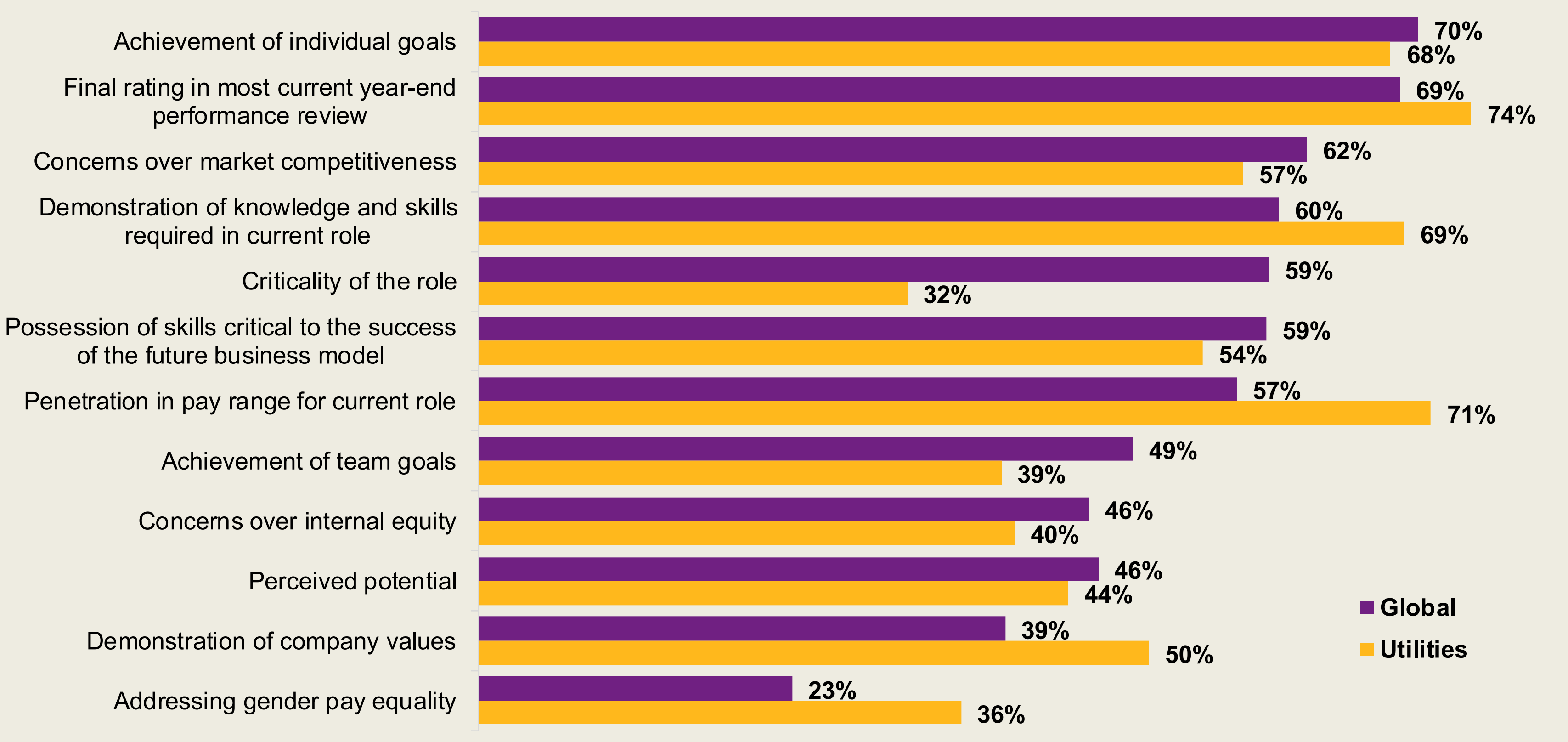
Position	% change year-over-year at base salary median
Nuclear Plant Operations Generalist	11%
IT Development Generalist	11%
Nuclear Quality Assurance Generalist	11%
IS and Cyber Security Development	10%
Application Development	10%
Nuclear Power Generation Technical Specialty	10%
Strategic Planning/Corporate Development Generalist	9%

Source: Willis Towers Watson 2018 Energy Services Compensation Surveys.

As base pay programs change, they are also getting more complex

- At most utilities, **six or more factors** impact base pay increases to a great extent today:

Percentage of organizations where factor affects individual base pay increases **to a great extent:**



Source: 2018 Willis Towers Watson Getting Compensation Right Survey

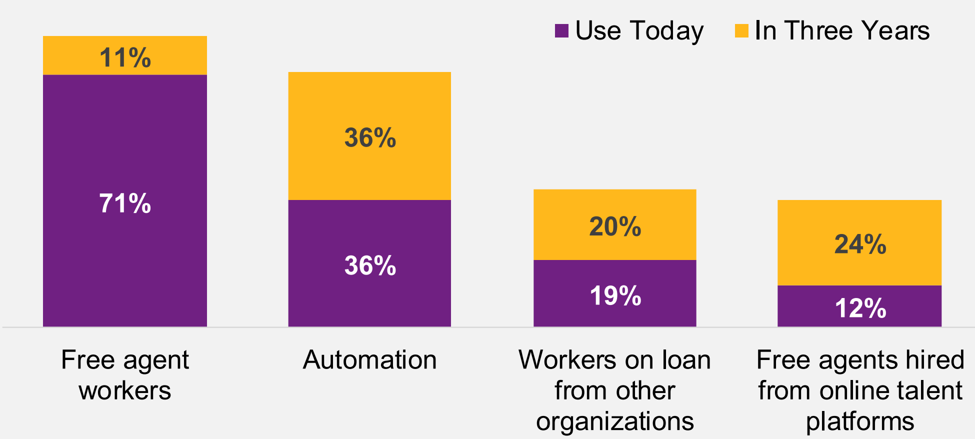
The move towards a more digital economy has disrupted traditional business models and increased the demand for digital talent

Landscape:

More than **9** out of **10** organizations are experiencing difficulty **attracting** and **retaining** professionals within **digital talent…** utilities are facing the same difficulties

As indicated in Figure 1, within the next three years, automation could be leveraged by 72% of organizations, while the use of free agents further increases to **82%**

Figure 1. **Current and planned usage of non-traditional work sources**



Most important factors for attracting

61%	**Cash compensation (including sign-on bonus)**
58%	**Reputation of the organization as a great place to work**
54%	**Interesting, challenging and varied work**
49%	**Flexible working arrangements**
37%	**Health and wellness benefits**

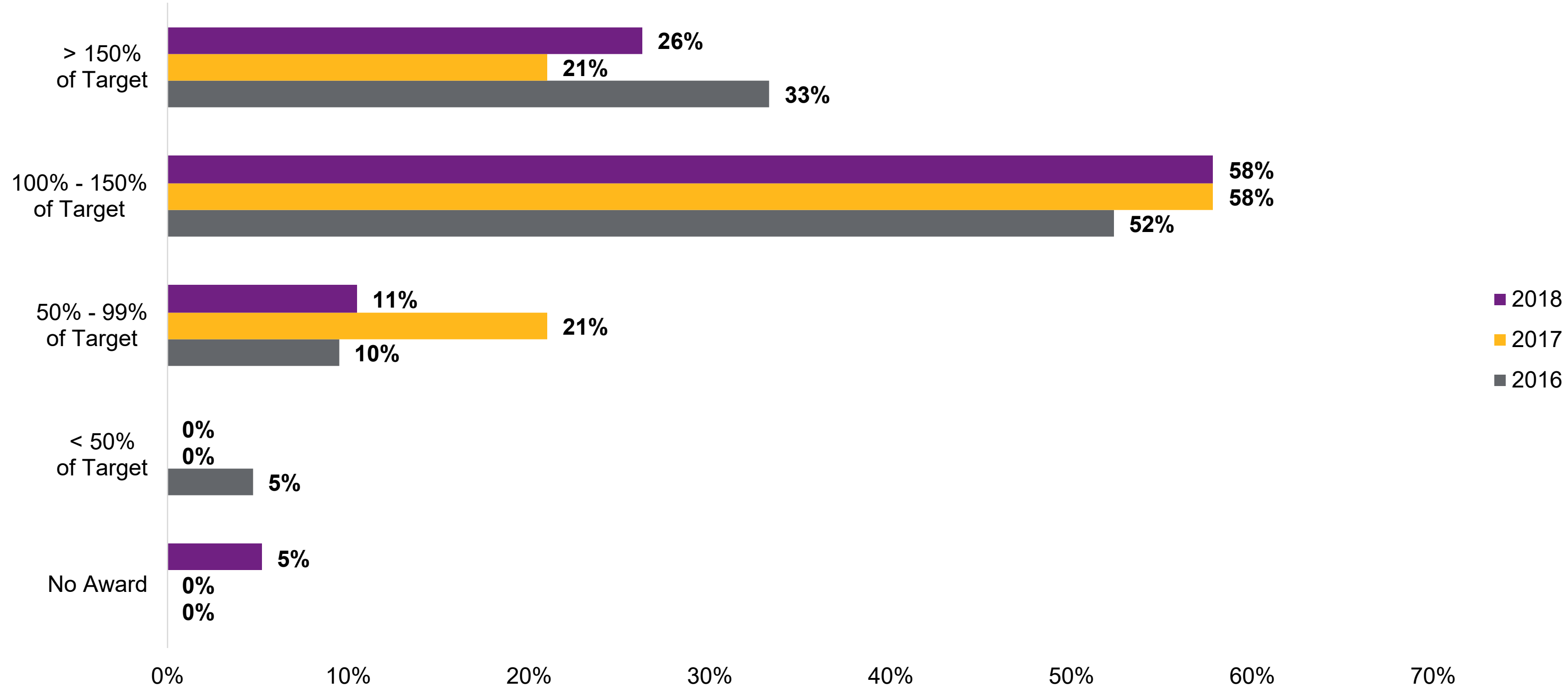
Most important factors for retaining

58%	**Interesting, challenging and varied work**
43%	**Flexible working arrangements**
42%	**Reputation of the organization as a great place to work**
39%	**Cash compensation (including sign-on bonus)**
35%	**Learning and development**

Source: 2018 Willis Towers Watson Digital Transformation Practices Report & 2018 Willis Towers Watson Artificial Intelligence and Digital Talent Compensation Survey – U.S.

Bonuses are well above target, but are decreasing year over year

- The vast majority of utilities (80%) continued to pay CEO bonuses at or above target in 2018, similar to prior years; the average bonus is still well above target (121% of target, on average)

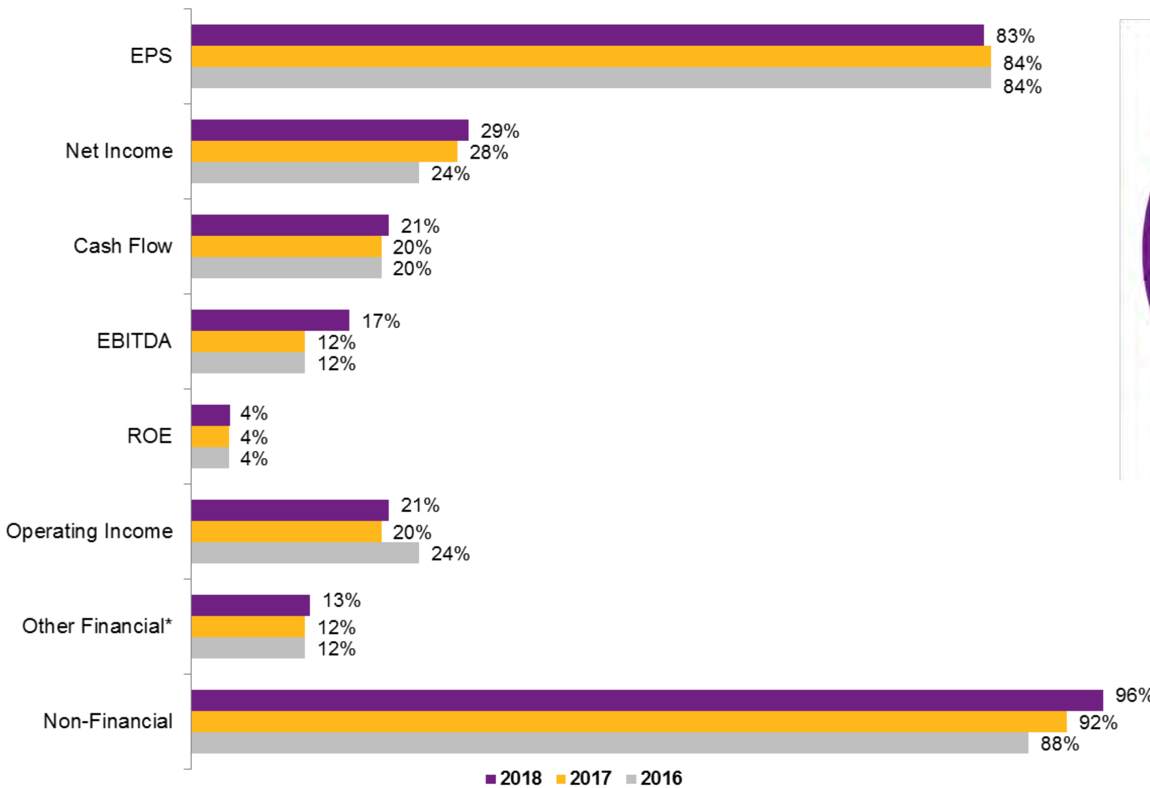


Average Actual Bonus Payout (as a % of Target)
2016: 134% 2017: 128% 2018: 121%

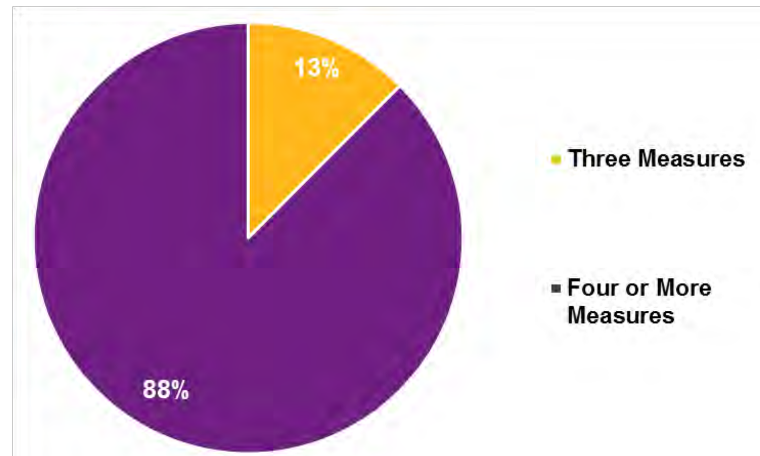
Source: Proxy filings. See Appendix for participants.

Annual incentive plan designs have not materially changed given need for "balanced" focus on financial and operational measures

Prevalence of Annual Performance Measures



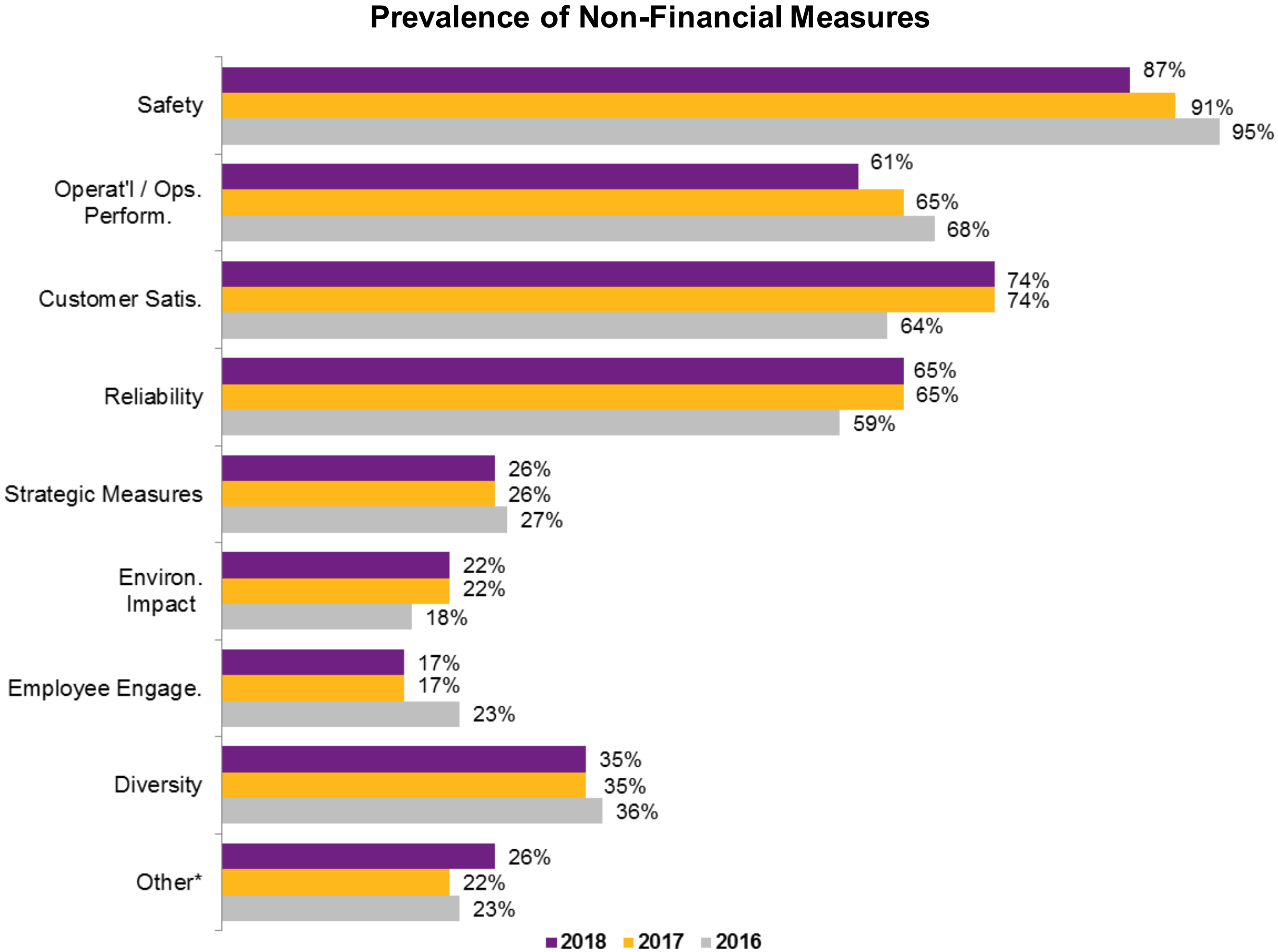
Number of Measures



- 50% of utilities consider **individual performance** in plan design

Source: Proxy filings. See Appendix for participants.
* Examples of "Other" include Capital Investment and Contracted Renewables Portfolio Growth.

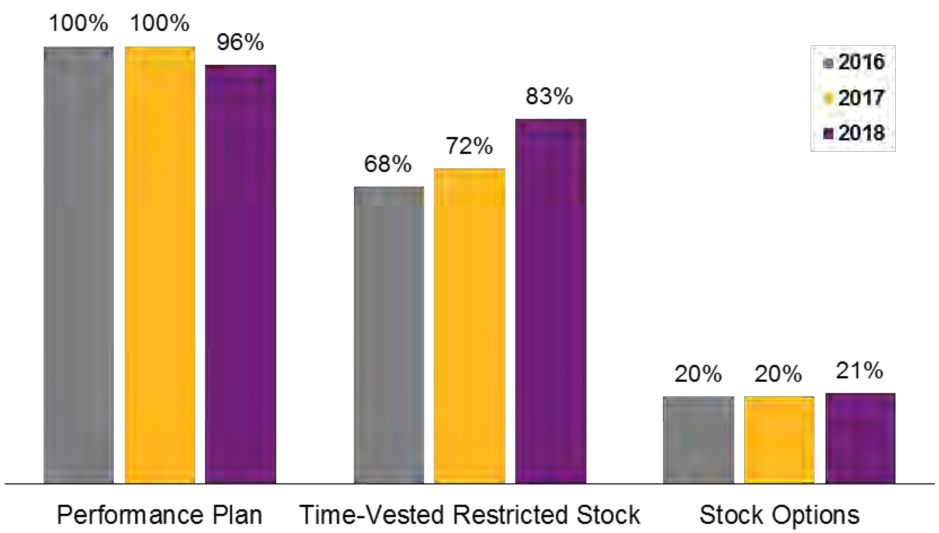
Operational measures ensure focus on customers/ratepayers



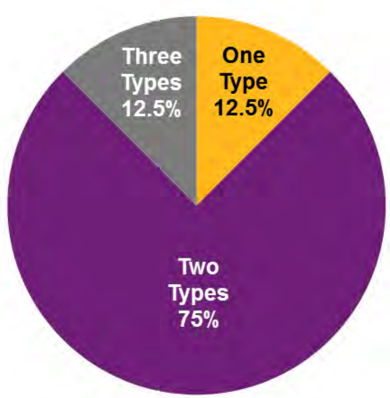
Source: Proxy filings. See Appendix for participants.
* Examples of "Other" include cyber safety and affordability.

LTI reflects continued use of performance plans and restricted stock

LTI Vehicle Prevalence

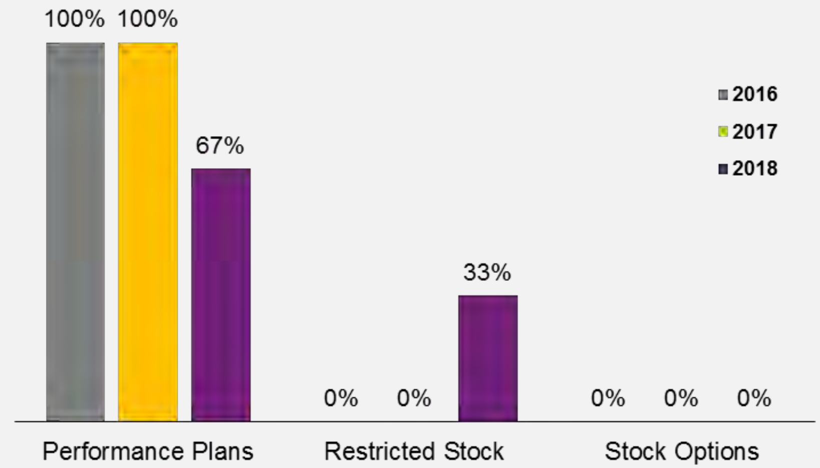


of LTI Vehicles

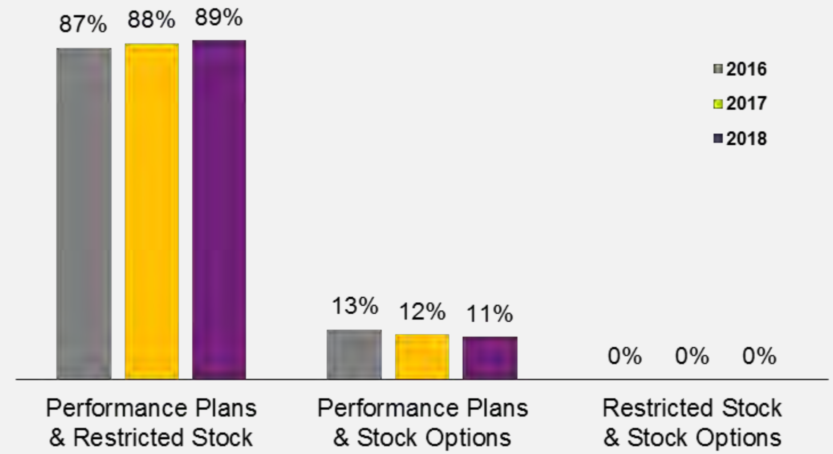


Source: Proxy filings. See Appendix for participants.

Companies using only <u>one</u> vehicle



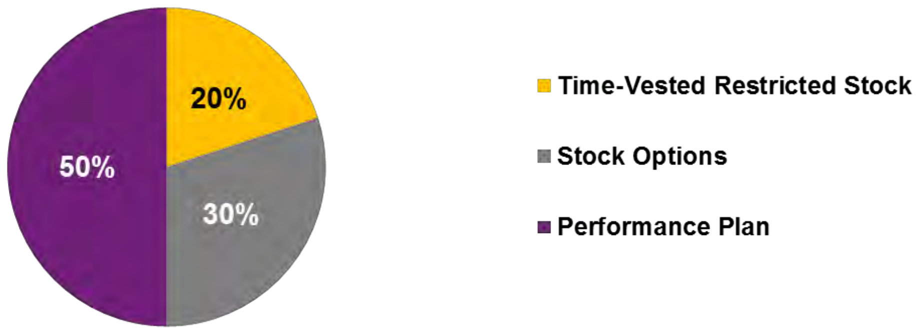
Companies using <u>two</u> vehicles



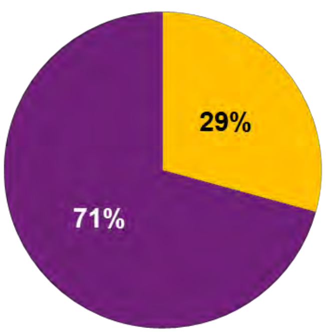
LTI award mix continues to emphasize performance-based awards

- Average LTI award mix is at least one-half performance-based
- Given the majority of companies use only 2 vehicles (71%), this mix swings to at least two-thirds performance-based

3 Vehicle Average Mix

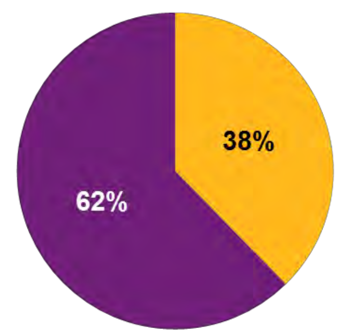


2 Vehicle Average Mix
(Performance Plan and Restricted Stock)



Most common mix

2 Vehicle Average Mix
(Performance Plan and Stock Options)

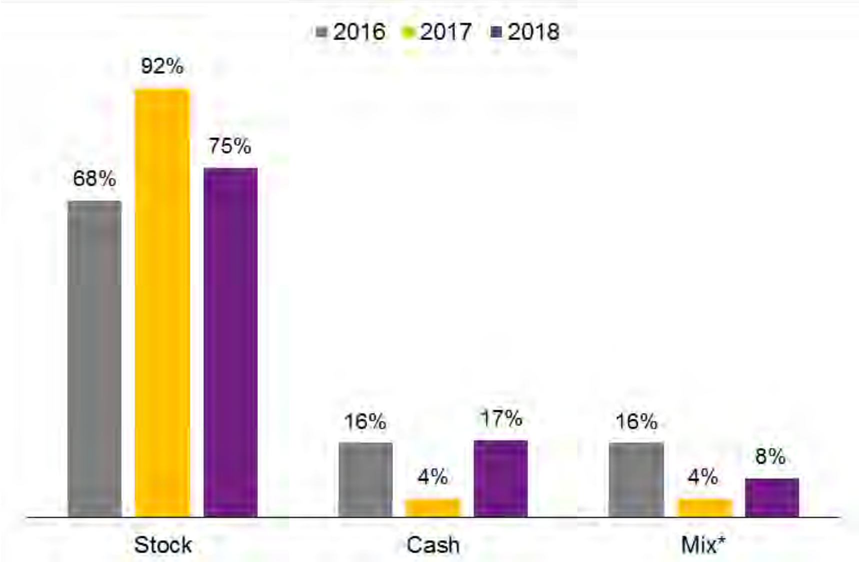


Source: Proxy filings. See Appendix for participants.

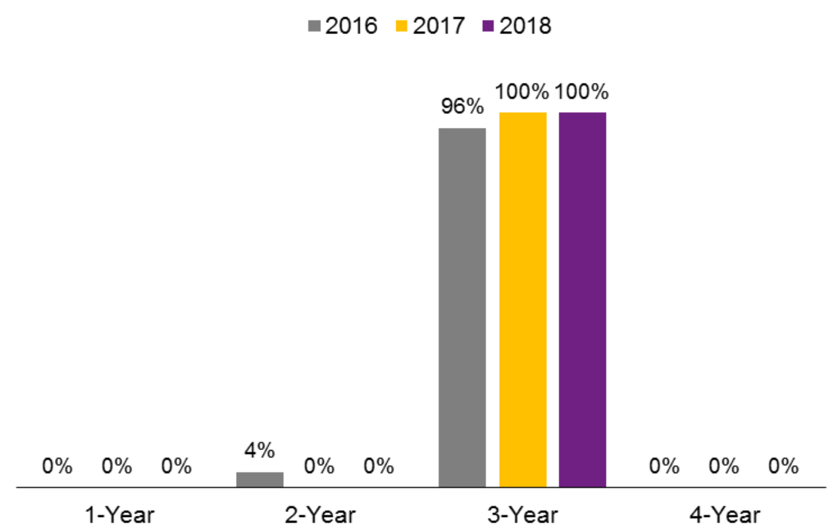
Performance awards tied to three-year performance cycles

- Performance plans typically pay out in stock, based on a three-year performance cycle

Prevalence of performance plan payout



Prevalence & length of performance plan cycle

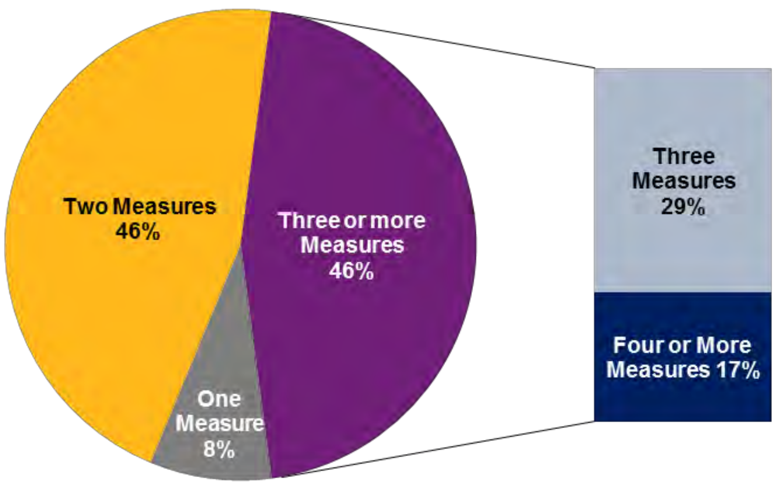


Source: Proxy filings. See Appendix for participants.
* "Mix" refers to a mix of stock and cash.

Multiple performance measures is the norm, with TSR being the most common measure

- More common "other" performance measures include Return on Invested Capital (ROIC), EBITDA, Funds From Operations (FFO), and Credit Rating

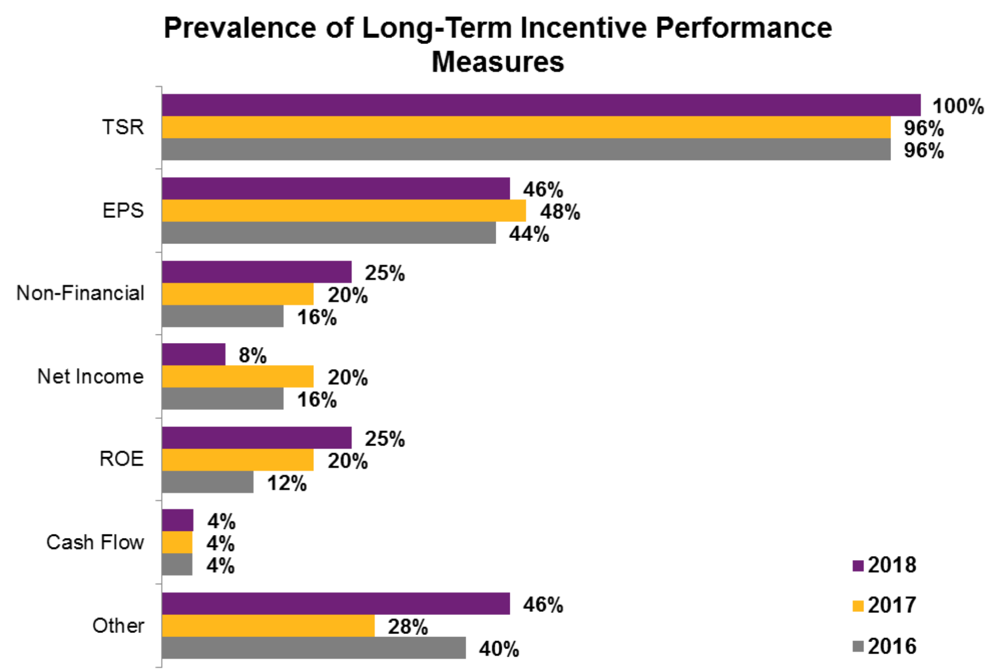
Number of Measures



- **92%** of companies use **2 or more** measures
- **100%** of companies use **TSR**

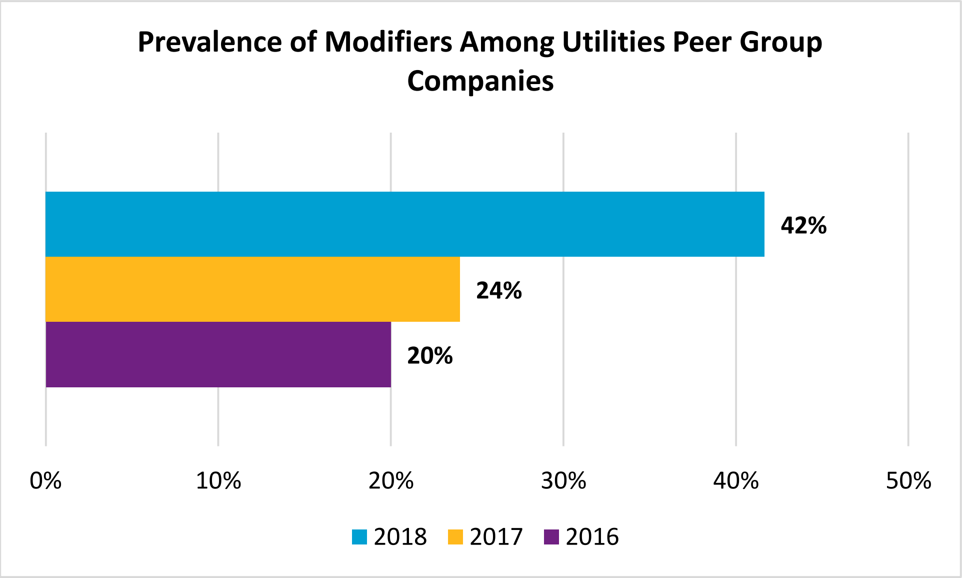
Source: Proxy filings. See Appendix for participants.

Performance Measures



Increase in use of modifiers in performance plans continues

- Modifiers are becoming an **increasingly more common** design element of performance plans among utilities
  - Modifiers typically cap the maximum payout % of target if performance threshold for modifier is not achieved
  - For the few instances of reported adjustment % of modifiers, award payouts could be adjusted by approximately +/- 20% to 25% based on performance
- **TSR** is the most prevalent performance modifier
  - **Profit/income** and **return measures** are also utilized but less common



Year	Prevalence of TSR Measure Among Modifiers
2018	70%
2017	67%
2016	60%

Source: Proxy filings. See Appendix for participants.

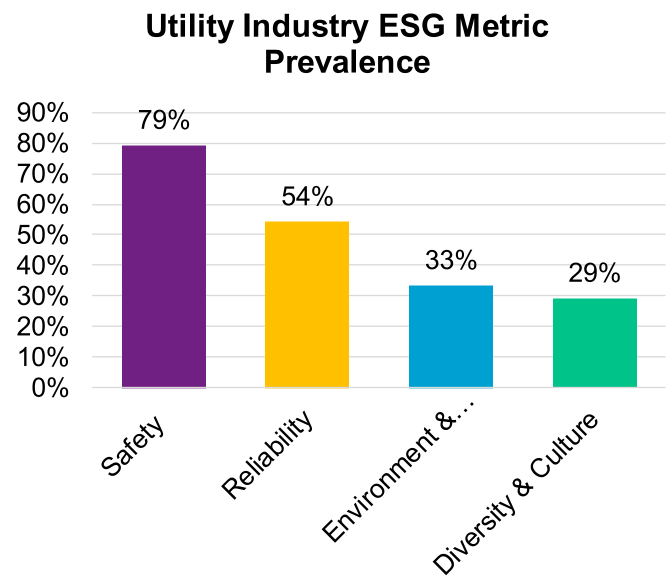
Aligning ESG with incentive design – utility industry leading the way

- Prevalence of Environmental, Social and Governance (ESG) related measures in utility company short and long-term incentive plan designs:

53% Use a fatalities, injuries or incidents metric to measure safety with a slightly smaller number using a DART, Days Away, Restricted Time or related metric (42%)

33% Use an environmental metric in their STIP or LTIP plans, with half specifically using renewable development

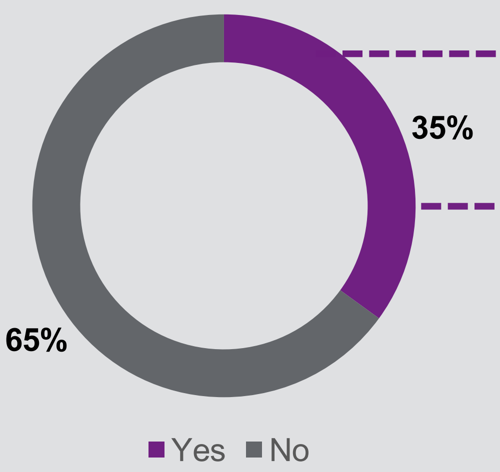
29% Have a diversity or culture related metric in their STIP, while none have an LTIP metric



Safety, by nature of the industry, is the most prevalent ESG metric category, however as investor opinions change on the environmental impact of operations, it is expected that pressure will increase to include environmental factors.

One out of five utilities have defined a formal Total Rewards philosophy for different segments of their workforce

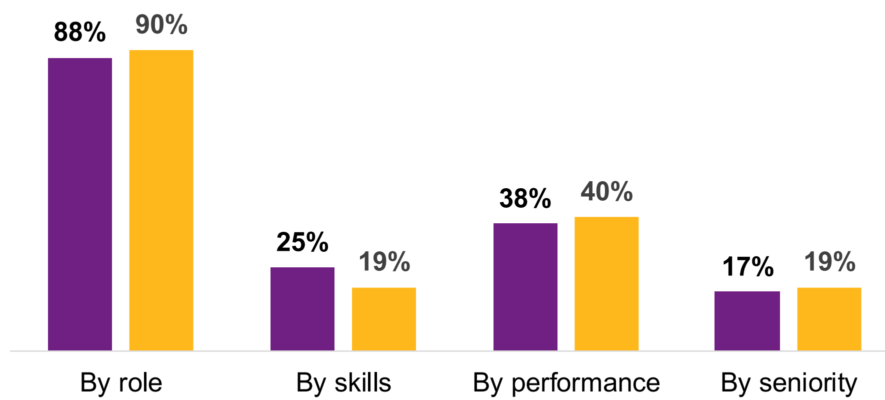
Has your organization defined a formal Total Rewards philosophy for different segments of your workforce?



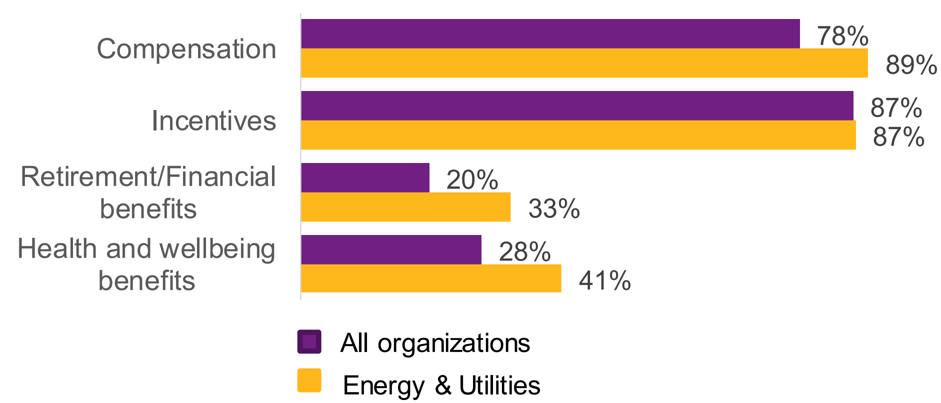
Energy & Utilities 20%

*Percentage of organizations that responded **Yes** to above question.*

On what basis do you segment your workforce?



Which Total Rewards elements do you differentiate?



Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey

Implications of Renewable Energy on Compensation

Renewable energy labor market compensation implications

- Tightening labor market, particularly for business development and specific supporting roles (e.g., project finance and engineering) with relevant industry experience
  - Variety of different organizations entering the industry, including traditional utility and energy, international power generation, infrastructure/asset managers and private equity, with different compensation models
- Increasing challenges with attraction and retention of key talent to deliver upon aggressive growth mandates
- Resulting in compensation pressures, including premium pay positioning (e.g., 75th percentile or higher) and **customized** incentive arrangements related to **development, construction and operations**
- The following summarizes a market-typical design of a customized incentive arrangement:

Illustrative – Pool-based Approach

Pool Definition *(Profitability = Volume x Margin)* → **Funding Rate** *(% of pool)* → **Individual Allocation** *(Awards made on a discretionary basis to participants)* → **Milestone Payments** *(Between close of deal through construction and 1-2 years post-operations)*

Majority of the pool is typically provided to Key Leads in the development process

Governance & Regulatory Trends (Utility and Broad-Industry)

The future of the Compensation Committee

Key drivers of the expanding role

Investors	Employees and customers	External parties	Disruption	Business imperative
▪ CEO letter from Blackrock ▪ Greater focus on human capital management	▪ Brand differentiator ▪ Depth and breadth of talent pools through organization	▪ U.K. gender pay reporting ▪ CEO pay ratio ▪ ISS/GL focus on gender diversity	▪ Increasing pace of change ▪ Cultural risks: cybersecurity, reputation, safety	▪ Positive human capital practices support business performance ▪ Total rewards leaders more easily attract / retain

Risk mitigation | **Value creation**

The future of the Compensation Committee

Expanding role of compensation committees

Gender or fair pay

- What is the demographic mix of employees through the organization?
- Do we have pay gaps related to female and male employees in similar jobs?
- Do we have systematic or historical biases in our performance ratings and related pay decisions?

Future of work

- What are the technology advances impacting business strategy?
- What is the future of how work will get done and how do we need to be structured?
- Do we have the right skills and capabilities – do we need to buy or reskill?

Inclusion and diversity

- How does our employee base align with the future needs of the business?
- How do we encourage greater diversity throughout the organization?
- How do we build an inclusive culture where employees feel valued and included?

Culture

- What is the organization's culture and how can the board better understand it?
- How does the culture of the organization impact key issues such as cybersecurity, reputation and safety?
- Does our culture align with the risk tolerances of the organization?

Pay Equity has recently sparked large media focus as the Gender Pay Gap remains a hot topic and investors are acting on it

What it **is**

A detailed comparison of specific factors and the degree to which they are "predictors of individual pay"

What it **does**

Establishes a predicted range of pay for all employees and highlights those that are paid outside of that range

What it **supports**

Ensures programs are administered as designed and operate as intended

- **Fair pay** enables organizations to ensure their programs are accomplishing their goals and optimizing employee engagement
- It also helps to **uncover risks** in reward and talent administration, where plans might be creating unintended consequences, both from a regulatory and employee engagement perspective
- Pay fairness analysis is part of a **broader inclusion and diversity agenda**

What utilities are doing to promote fairness:

Recruitment and promotion processes

49%

Nearly half (49%) have or are planning to review their recruitment and promotion processes to reduce any conscious and unconscious bias

Fair Pay Diagnostic

92%

Almost all (92%) globally responded that they have or are *intending* to conduct a gender pay or pay equity diagnostic in coming years

Inclusive culture

84%

Over three-quarters of employers (84%) responded that they have or are planning/ considering increasing their communications of activities to promote an inclusive culture

Flexible work arrangements

84%

Over three quarters (84%) responded that they have or are intending to promote flexible working arrangements.

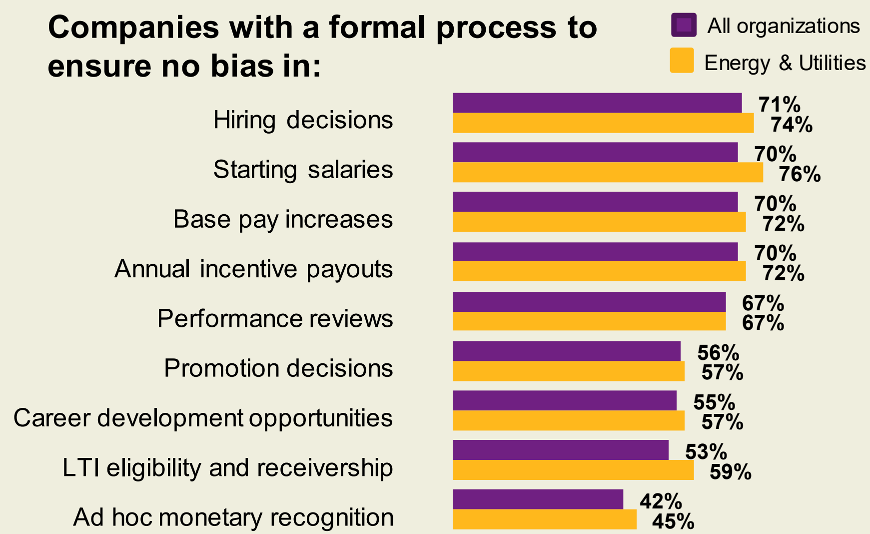
Internal Pay Equity

Currently affects individual base pay increases to a great extent for **40%** utilities

Will become a more important factor in base pay decisions in the next 3 years for **25%** utilities

Most Utilities report having formal processes to prevent bias or inconsistency across *hiring & pay* decisions; notably higher than the global market

Companies with a formal process to ensure no bias in:



Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey

Section 162(m)

A timeline of 162(m) changes and views

Tax Reform / 162(m) December 2017	**ISS Policy Update** December 2018	**Further Guidance** Expected: 2019
Performance-based compensation exception eliminated	**Problematic Pay Practice** Shifts away from performance-based pay to discretionary/fixed pay	**SEC** Unclear how discretion impacts proxy table disclosures
Expanded definition of **"covered employee"**	**Equity Plan Update** 162(m) provision removal may be viewed negatively	**Institutional Shareholders** Have yet to make specific policy changes to voting policies
Grandfathered protection continues for certain LTIP awards	**Example** Removal of individual award limits within the plan document	**Proxy Advisors** How will Say-on-Pay or equity request proposals be impacted?

Clawbacks

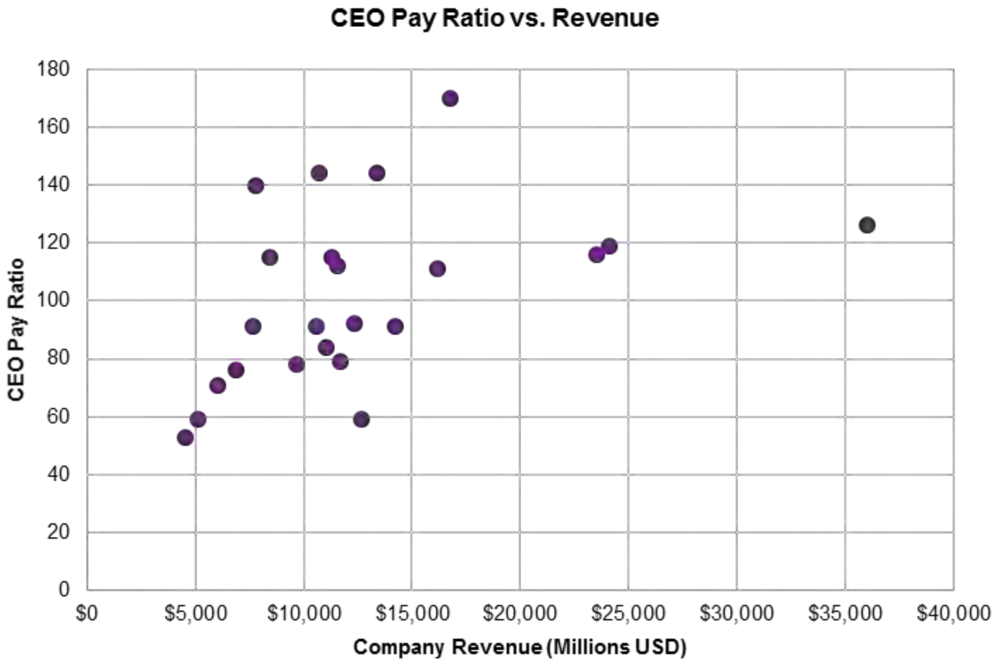
- Current recoupment provisions tend to cover two distinct areas:

Forfeitures of long-term incentives permitted for inappropriate activity	Dodd Frank Lite (discretion permitted) misconduct/fraud PLUS financial restatement

- Some companies have expanded their policies based on:
  - Executive action or inaction causing "financial or reputational harm"
  - Violations of Company Code of Ethics – #MeToo issues
- Dodd Frank clawbacks are still looming, even with a GOP-controlled SEC
  - A House bill is pending to require mandatory clawbacks and the proposed pay for performance disclosure
- Shareholder proposals for expanded clawbacks have been introduced in 2019 proxies

Utility industry CEO pay ratios continue to show wide disparity

- Even among the Top 24 utilities there are significantly disparate CEO pay ratios
  - Range of CEO pay ratios is 53 – 170 (median of 92)
  - Range of median pay is $67,771 – $166,888 (median of $110,125)



*Willis Towers Watson, in accordance with the SEC's own guidance, does not recommend drawing any specific conclusions to peer comparisons on the CEO pay ratio on a standalone basis. The SEC has provided all companies significant flexibility in the estimates and assumptions used in their CEO pay ratio calculation. Therefore, each company's unique methodological choices and demographic compositions render CEO pay ratio comparisons meaningless without a similarly rigorous analysis on the underlying assumptions and choices used to derive these ratios. Willis Towers Watson can assist you in the additional research, data and context required to render any meaningful conclusions from a CEO Pay Ratio deconstruction analysis to uncover and explain potential relative differences between your company's CEO Pay ratio and peers.

Note: Calculation excludes data for UGI Corporation due to unavailability of fiscal year 2018 data.

How have CEO pay ratio disclosures changed since 2018?

Same Median Employee

39%

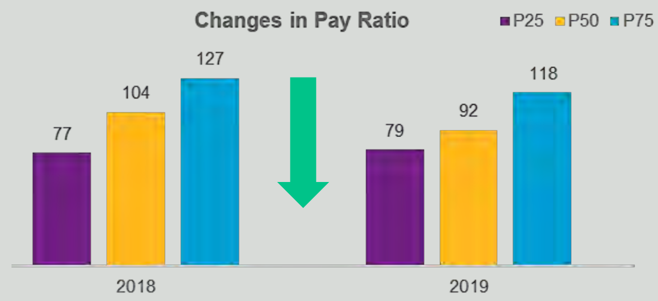
Just over one-third (39%) have used the same median employee from last year, highlighting changes in employee populations, compensation programs, and turnover as reasons

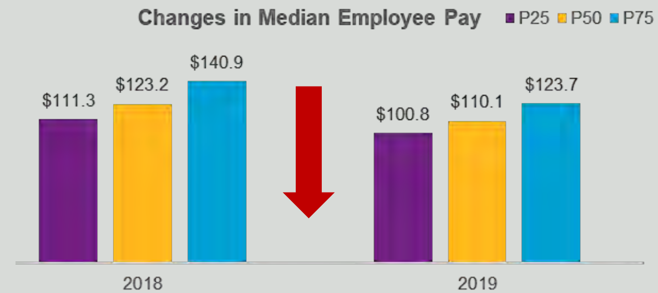
Supplemental Disclosure

17%

A very small number of companies included a supplemental disclosure (in addition to the mandatory) often stating subset populations (e.g. US only) with higher pay, and a would-be lower ratio

Changes in Pay Ratio & Median Pay



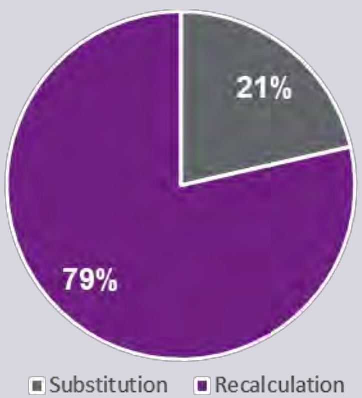


Pay ratios are down across the board (down an average of 3 points), in line with lower overall CEO pay, however **median pay has also declined an average of 8%**, which could raise public question

Substituting Similar Employees

Just under one-fourth (21%) of companies not using the same median employee have used the allowed "substitution" rule, where if the median employee from last year's calculation has terminated, and otherwise employee populations have not changed dramatically, you may substitute a similar employee from last year's calculation for the current years

Companies that did not substitute otherwise recalculated their median employees (79%)



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Trends in rate recovery for compensation

Increased scrutiny by PUC/PSCs driving utilities to present proactive compensation rate case recovery efforts

Disallowance of incentive plans tied to financial measures still common, but **some commissions allowing recovery**

Continued trend of commissions requesting market data to support **competitiveness and reasonableness** of compensation

- Continued trend of commissions preferring a total rewards (compensation and benefits) benchmarking approach for seeking recovery
- Recovery of incentive plans still hindered as commissions want shareholders to bare the burden of costs related to financial metrics, but some commissions allowing recovery for financial based measures
- Some utilities that show their compensation levels and design are comparable to and competitive with utility peers are having success with incentive rate recovery in several states

Appendix

Appendix: Utility proxy peer group

Company	Ticker	Revenue ($MM)[1]	Assets ($MM)[1] as of FYE	Market Cap ($MM)[1]
AES Corporation	AES	$10,736	$32,521	$11,976
Ameren Corporation	AEE	$6,009	$27,215	$18,051
American Electric Power Co., Inc.	AEP	$16,196	$68,803	$41,313
CenterPoint Energy, Inc.	CNP	$10,589	$27,009	$15,394
CMS Energy Corp.	CMS	$6,873	$24,529	$15,759
Consolidated Edison Inc.	ED	$12,337	$53,920	$27,231
Dominion Resources, Inc.	D	$13,366	$77,914	$61,282
DTE Energy Co.	DTE	$14,212	$36,288	$22,854
Duke Energy Corporation	DUK	$24,116	$145,392	$65,488
Edison International	EIX	$12,657	$56,715	$20,174
Entergy Corporation	ETR	$11,009	$48,275	$18,215
Eversource Energy	ES	$8,448	$38,241	$22,513
Exelon Corporation	EXC	$35,985	$119,666	$48,624
FirstEnergy Corp.	FE	$11,261	$40,063	$22,060
MDU Resources Group, Inc.	MDU	$4,532	$6,988	$5,077
NextEra Energy, Inc.	NEE	$16,727	$103,702	$92,439
NiSource Inc.	NI	$5,115	$21,804	$10,676
PPL Corporation	PPL	$7,785	$43,396	$22,883
Public Service Enterprise Group Inc.	PEG	$9,696	$45,326	$30,002
Sempra Energy	SRE	$11,687	$60,638	$34,509
Southern Company	SO	$23,495	$116,914	$53,466
UGI Corporation	UGI	$7,651	$11,981	$9,634
WEC Energy Group, Inc.	WEC	$7,680	$33,476	$24,946
Xcel Energy Inc.	XEL	$11,537	$45,987	$28,904

	Revenue ($MM)[1]	Assets ($MM)[1] as of FYE	Market Cap ($MM)[1]
25th Percentile	$7,759	$31,195	$17,478
Average	$12,487	$53,615	$30,145
50th Percentile	$11,135	$44,361	$22,868
75th Percentile	$13,578	$62,679	$36,210

Source: S&P Capital IQ.
1) Revenues and Assets are as of 2018 fiscal year end. Market Capitalization is as of March 31, 2019.

Appendix: Top attraction drivers – Energy & Utilities

What are the top five reasons a prospective employee would be attracted to your organization?

Rank	All employees	High-potential employees	Critical-skill employees	Non-employee talent
1	Base pay/salary	Challenging work	Base pay/salary	Base pay/salary
2	Challenging work	Base pay/salary	Challenging work	Organization's mission, vision and values
3	Reputation of the organization as a great place to work	Ability to have a real impact on the organization's performance	Ability to have a real impact on the organization's performance	Reputation of the organization as a great place to work
4	Opportunities to advance in his or her career	Opportunities to advance in his or her career	Opportunities to advance in his or her career	Challenging work
5	Organization's mission, vision, and values	Organization's mission, vision and values	Short-term incentives (e.g., annual bonus)	Flexible work arrangements
6	Short-term incentives (e.g., annual bonus)	Reputation of the organization as a great place to work	Organization's mission, vision and values	Opportunities to learn new skills
7	Flexible work arrangements	Flexible work arrangements	Opportunities to learn new skills	Job security

Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey, Energy & Utilities.

Appendix: Top retention drivers – Energy & Utilities

What are the top five reasons an employee would leave your organization?

Rank	Top-performing employees	Critical-skill employees	High-potential employees	Non-employee talent	All employees
1	Opportunities to advance in his or her career	Opportunities to advance in his or her career	Opportunities to advance in his or her career	Opportunities to advance in his or her career	Opportunities to advance in his or her career
2	Base pay/salary	Relationship with supervisor/manager	Base pay/salary	Relationship with supervisor/manager	Relationship with supervisor/manager
3	Relationship with supervisor/manager	Base pay/salary	Relationship with supervisor/manager	Base pay/salary	Base pay/salary
4	Trust/Confidence in senior leadership	Trust/Confidence in senior leadership	Flexible work arrangements	Trust/Confidence in senior leadership	Ability to manage work-related stress
5	Ability to have a real impact on the organization's performance	Ability to manager work-related stress	Trust/Confidence in senior leadership	Ability to have a real impact on the organization's performance	Job security
6	Flexible work arrangements	Job security	Ability to have a real impact on the organization's performance	Job security	Trust/Confidence in senior leadership
7	Ability to manage work-related stress	Ability to have a real impact on the organization's performance	Ability to manager work-related stress	Ability to manage work-related stress	Flexible work arrangements

Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey, Energy & Utilities.

Towers Watson Data Services

2014
Long-Term Incentives Policies and Practices Survey Report – U.S.

TOWERS WATSON

TOWERS WATSON

Data Services Terms and Conditions

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Use of Surveys. You may use the surveys only within your own organization for internal human resources planning and may not modify, sell or transfer such surveys. Surveys may not be reproduced in employee newsletters or posted on your company's intranet. If you desire to share the surveys (in whole or in part) with a third party (including any entity controlling, controlled by, or under common control with your company, Towers Watson's competitors and/or independent contractors working solely for your company), you must first obtain the written consent of Towers Watson. Any use of the information contained in the surveys is not a substitute for seeking expert legal, consulting or other advice on the reasonableness or appropriateness of compensation and/or benefits levels and practices.

Limitation of Liability. The aggregate liability of Towers Watson and its employees, directors, officers, agents and subcontractors (the "related persons") whether in contract, tort (including negligence), breach of statutory duty or otherwise for any losses relating to the surveys provided hereunder shall not exceed in aggregate the greater of (a) $25,000 USD or (b) the total fees paid to Towers Watson for the particular survey(s) and/or custom report(s) related to such survey(s), unless otherwise agreed in writing. Nothing in these terms shall exclude or limit the liability of Towers Watson or our related persons in the case of: (a) death or personal injury resulting from Towers Watson's or Towers Watson's related person's negligence; (b) willful misconduct; (c) fraud; or (d) other liability to the extent that the same may not be excluded or limited as a matter of law. In no event shall Towers Watson or any of our related persons be liable for any incidental, special, punitive, or consequential damages of any kind (including, without limitation, loss of income, loss of profits, or other pecuniary loss).

General. The validity and interpretation of these terms will be governed by the laws of the State of New York, United States of America, excluding its conflict of law rules. The parties submit to the exclusive jurisdiction of the State of New York, United States of America Courts to resolve any dispute between them, provided that Towers Watson shall have the right to initiate proceedings in any court of competent jurisdiction in the event of breach of Towers Watson's proprietary rights. The parties hereby waive any right they may have to demand a jury trial. These terms will apply to purchase orders generated by your company for survey results provided hereunder. In the event of a conflict or inconsistency between the terms and conditions of such purchase orders and these terms, these terms will prevail. Separate terms and conditions apply to use and access of online tools. You shall not assign or otherwise transfer any rights or obligations under these terms without Towers Watson's prior written consent.

Participation Terms

By participating in Towers Watson's surveys, you will be deemed to have agreed to the following participation terms on behalf of your company and you represent that you have authority to submit data. As a participant in this survey, your company's name will be included on survey participant lists. Survey participants must submit data on a timely basis and provide an accurate and complete data submission, including, if relevant, long-term incentive information and responses to the policies and practices questions. If your company's data submission is late or does not meet the requirements for a particular survey, Towers Watson may, at its discretion, limit/deny access to such survey results. For select surveys, participants must submit executive data to purchase executive products, middle management, professional and support data to purchase non-executive products and industry-specific functions/disciplines/positions to purchase associated industry-specific survey products.

Confidentiality and Use of Data. Participant data submitted to the surveys will be held in confidence. Towers Watson takes reasonable security precautions, including the same precautions Towers Watson takes to protect our own confidential information, to prevent unauthorized access. Participant data will be used by Towers Watson for purposes of creating aggregated survey results which are presented in a manner that protects individual company confidentiality. Towers Watson reserves the right to use participant data in multiple surveys, where relevant, which may be available to participants and non-participants. Participant data and survey results may be used by Towers Watson for training, quality assurance, research and development, compensation and/or benefits consulting services (e.g., market/job pricings) and general promotional activities such as trends analysis that are provided to survey participants and other selected clients of Towers Watson.

Data Protection. Towers Watson may pass participant data, which may include individually identifiable information within its global network of offices and affiliates (including the Towers Watson Global Resource Centre) and to subcontractors and providers of IT outsourcing who will be subject to appropriate data protection standards. The Global Resource Centre is located in Manila, The Philippines, and will be used to analyze such data in connection with the surveys. The Manila corporate entity is a wholly owned subsidiary in the Towers Watson group, and it is governed by the same information security policies and internal controls that govern the Towers Watson group as a whole. Towers Watson confirms that, acting as data processor, Towers Watson will take appropriate technical, physical and organizational/administrative measures to protect such data against accidental or unlawful destruction or accidental loss or unauthorized alteration, disclosure or access. Towers Watson will use such data only for the purposes described above or for other reasonable purposes which are related to the surveys and services, unless a participant instructs Towers Watson otherwise. Participant and Towers Watson shall each comply with applicable data privacy legislation and regulations.

Table of Contents

Introduction

Towers Watson is pleased to present the **2014 Long-Term Incentives Policies and Practices Survey Report - U.S.**

The survey was developed jointly by Towers Watson compensation consultants and Towers Watson Data Services to provide information on long-term practices for use by participating organizations in their individual compensation planning.

The results are based on the responses of 903 organizations. Refer to the Overview of Survey Participants section for more information including a complete list of the participating organizations.

The Towers Watson Long-Term Incentives Policies and Practices Survey is a unique summary of current design and administration aspects of long-term plans in the U.S. In addition, the survey includes grants by salary level.

The following are individual sections of the report:

- Methodology
- Overview of Survey Participants
- Executive Summary
- LTI Prevalence
- LTI Grants
- Grant Process
- LTI Plan Design
- Stock Ownership and Restrictive Covenants

Contact Us

If you have any questions or comments regarding this report or any of our other products, contact us at +1 800 645 5771 or at **twusdata@towerswatson.com**.

In addition, participants in this U.S. Long-Term Incentives, Policies and Practices study may also be interested in participating in our 2014 International Long-Term Incentives Survey. This report provides detailed information on international LTI policies and grant values.

Methodology

In accordance with our objective to publish only the most accurate and representative information possible, each questionnaire was thoroughly reviewed by survey associates as well as our proprietary data diagnostic programs before it was included in the results. The data was further reviewed using statistical modeling techniques. Survey respondents were contacted to discuss and clarify specific policy and practice responses.

All grants were collected during 2014. For the majority of the organizations, the grants were awarded in calendar year 2014. There is a limited number of organizations with the most recent grants reported from 2013 or prior.

Our publishing guidelines require not only the statistical minimum number of responses, but also a sufficient sample to provide meaningful analysis. Therefore, not all questions are summarized.

As with all the survey references, the confidentiality of individual participant's data is maintained, and individual participant data are never revealed or identifiable.

LTI Grant Values - Valuation Methodology

The LTI grant values in this report represent the LTI award opportunity. Specifically, the values represent the annualized present value of LTI awards at grant date. In the case of equity awards, the values reflect each organization's equity valuations under ASC 718 or IFRS(2). Equity awards include stock options, restricted stocks/units, performance shares and stock appreciation rights (SARs). Long-term cash performance plans are valued at target.

Overview of Survey Participants

Overview of Survey Participants

The findings in this report are based on the responses of 903 organizations. The industry sectors and revenue size of the participants are shown below.

INDUSTRY SECTORS PARTICIPANTS REPRESENT

	# of Organizations	% of Organizations
Total Sample	903	100.0%
Energy Services	109	12.1%
Financial Services	158	17.5%
High Tech*	164	18.2%
Manufacturing	387	42.9%
Media/Entertainment*	25	2.7%
Pharmaceutical/Biotechnology*	53	5.9%
Retail/Wholesale Trade	64	7.1%
Services	165	18.3%
Health Care	20	2.2%

* Companies included in these industries are also included in Manufacturing or Services as appropriate.

REVENUE ($MILLIONS)

	25th	Median	75th	Average	# of Organizations
Total Sample	$2,104.7	$5,657.3	$16,050.10	$19,308.0	903
Industry Sector					
Energy Services	$1,293.0	$3,886.3	$11,930.0	$10,338.5	109
Financial Services	$1,194.2	$6,023.3	$19,358.3	$18,954.0	158
High Tech	$2,508.7	$4,874.7	$17,485.2	$17,859.1	164
Manufacturing	$2,612.2	$5,702.8	$17,663.0	$21,843.3	387
Media/Entertainment	$1,457.7	$2,800.0	$9,945.7	$8,053.0	25
Pharmaceutical/Biotechnology	$2,509.6	$6,909.1	$19,552.0	$17,152.6	53
Retail/Wholesale Trade	$2,383.6	$7,968.5	$22,093.4	$23,577.5	64
Services	$1,895.5	$5,441.0	$15,146.5	$16,714.9	165
Health Care	$4,921.1	$9,864.0	$38,345.7	$29,662.7	20

REVENUE SIZE OF PARTICIPANTS

Revenue	# of Organizations	% of Organizations
Under $500 Million	41	4.5%
$500 Million - $1 Billion	52	5.8%
$1 Billion - $3 Billion	207	22.9%
$3 Billion - $6 Billion	169	18.7%
$6 Billion - $10 Billion	95	10.5%
$10 Billion - $20 Billion	145	16.1%
$20 Billion or More	194	21.5%

A complete list of the participants follows.

Overview of Survey Participants

Participant List

3M
7-Eleven
AH Belo
AO Smith
ABB
AbbVie
ABM Industries
Accellent LLC
Accenture
Access Midstream Partners
ACE Limited
ACES Power Marketing
ACH Food
Acorda Therapeutics
Actavis
Adecco
Aditya Birla Management Corporation
Aera Energy
Aeropostale
AES Corporation
Aetna
AFLAC
AGCO
Agilent Technologies
AGL Resources
Agrium
AIG
Aimia
Air Products and Chemicals
AK Steel Holding
Alcoa
Alexander & Baldwin
Alexion Pharmaceuticals
Allegion
Allergan
ALLETE
Alliance Pipeline
Alliant Energy
Alliant Techsystems
Allianz Life Insurance
Allstate
Ally Financial
Altria Group
Amazon.com
AMC Networks
Ameren
American Century Services
American Electric Power
American Express
American Family Insurance
American Greetings
American Sugar Refining
American Water Works
Americas Styrenics
AmeriHealth Caritas
Ameriprise Financial
AmerisourceBergen
AMETEK
Amgen
AMSTED Industries
Amway
Anadarko Petroleum
Andersons
Anheuser-Busch
ANN, INC.
Ansell
Apache
Apple
Appvion
AptarGroup
ARAMARK
Archer Daniels Midland
Areva
Arkema
Armstrong World Industries
Arrow Electronics
Arthur J Gallagher & Company
Ashland
ASM International
Aspen Specialty
Associated Banc-Corp
Astellas Pharma
Astoria Bank
AstraZeneca
AT&T
ATC Management
Atmos Energy
Aurora Healthcare
Auto Club Group
Automatic Data Processing
Avis Budget Group
Avista
Avnet
Avon Products
AXA Group
Axiall Corporation
Axis Capital Holdings
Babcock & Wilcox
BAE Systems
Ball
Bank of America
Bank of Montreal
Bank of the West
Banner Health
Bard (CR Bard)
Barrick Gold of North America
Baxter
Bayer Business & Technology Services
Bayer CropScience
Bayer Healthcare
Bayer MaterialScience
BB&T
BBA Aviation
BBVA
BD (Becton Dickinson)
Beam Suntory
bebe stores
Bechtel Systems & Infrastructure
Beckman Coulter
Belk
Best Buy
BG US Services
Big Heart Pet Brands
Big Lots
Biogen Idec
BioMarin Pharmaceutical
Black Hills
BlueCross BlueShield of Arizona
BlueCross BlueShield of Florida
BlueCross BlueShield of Tennessee
Blue Ridge Electric Membership Corporation
BlueShield of California
BMC Software
Bob Evans Farms
Boehringer Ingelheim
Boeing
Boeing Employees Credit Union
Boise Cascade
BOK Financial
Booz Allen Hamilton

Overview of Survey Participants

Participant List (continued)

BorgWarner
Boston Scientific
BP
Brembo
Bremer Financial
Bristol-Myers Squibb
Broadridge Financial Solutions
Brown-Forman
Brunswick
BT Global Services
Bunge
Burberry
Burger King
Burlington Northern Santa Fe
C & J Clarks
Cablevision Systems
Cabot
Calgon Carbon
California Independent System Operator
Calpine
Campbell Soup
Canadian National Railway
Canandaigua National Bank
Capital One Financial
Capital Power
Cardinal Health
Cargill
Carlson
CarMax
Carmeuse North America Group
Carnival
Catamaran
Caterpillar Financial Services
CBRE Group
CDI
CEC Educational Services
Celanese
Celestica
Celgene
Centene
CenterPoint Energy
Cepheid
CF Industries
CGI Technologies and Solutions
CH Energy Group
CH2M Hill
Charter Communications
Chemtura
Cheniere Energy
Chesapeake Utilities
Chevron
Chevron Phillips Chemical
Chicago Board Options Exchange
Chico's FAS
Children's Place
Chiquita Brands
CHS
Chubb
Cigna
Cintas
Cisco Systems
Citrix Systems
City National Bank
Clear Channel Communications
Clearwater Paper Corporation
Cleco
Cliffs Natural Resources
CMS Energy
CNA
CNO Financial
Coach
Coca-Cola
Coca-Cola Enterprises
Colfax Corporation
Columbia Sportswear
Comcast
Commerce Bancshares
Commercial Metals
Compass
ConAgra Foods
ConocoPhillips
Consolidated Edison
Constellation Brands
Continental Automotive Systems
Cooper Standard Automotive
Corning
Cott Corporation
Covance
Covidien
Cox Enterprises
Cracker Barrel Old Country Stores
Crate & Barrel
Crown Castle
CSAA Insurance Group
CSC
CSL Limited
CST Brands
CSX
CTI BioPharma
Cubic
Cullen Frost Bankers
CUNA Mutual
Curtiss-Wright
CVS Caremark
Cytec
Daiichi Sankyo Inc.
Dana
Danaher
Dannon
Darden Restaurants
DCP Midstream
De Lage Landen
Dean Foods
Deckers Outdoor
Deere & Company
Delhaize America
Dell
Delta Air Lines
Delta Dental Plan of Michigan
Deluxe
Dentsply
Devon Energy
Dex Media
Diageo North America
Dick's Sporting Goods
Dignity Health
Direct Energy
DIRECTV Group
Discovery Communications
Dollar Financial Group
Dominion Resources
Domino's Pizza
Domtar
Donaldson
Dow Chemical
Dow Corning
Dr Pepper Snapple
DST Systems
DSW
DTE Energy
Duke Energy
DuPont
Dynegy

Overview of Survey Participants

Participant List (continued)

EW Scripps
East West Bank
Eastern Bank
Eastman Chemical
Eastman Kodak
Eaton
ebay
Ecolab
EDF Renewable Energy
Edison International
Education Management
Edwards Lifesciences
Eisai
El Paso Electric
Eli Lilly
Emblem Health
EMC
EMD Millipore
Emerson Electric
Employers Mutual Casualty Company
Encana Services Company Limited
Encompass Digital Media
Encore Capital
Endo
Energen
Energy Northwest
Energy Transfer Partners
EnLink Midstream
Entergy
Enterprise Products Partners
EP Energy
Equifax
Erie Insurance
Essilor of America
Estée Lauder
Esterline Technologies
Evraz North America
Exelis
Exelon
Expedia
Experian Americas
Express Scripts
Exterran
ExxonMobil
Family Dollar Stores
Farm Credit Foundations
Farmers Group
Federal Home Loan Bank of San Francisco
FedEx
Ferrovial
Fidelity Investments (FMR)
Fifth Third Bancorp
Fireman's Fund Insurance
First Data
First Financial Bancorp
First Horizon National
First National of Nebraska
First Solar
FirstEnergy
Flowers Foods
Fluor
Follett Corporation
Ford
Forest Laboratories
Fortune Brands Home & Security
Franklin Resources
Fred's
Freeport-McMoRan Oil & Gas
Frito-Lay North America
Frontier Communications
Fujitsu
Fulton Financial
G&K Services
GAF Materials
Gannett
Gap
GATX
Gavilon
GDF SUEZ Energy North America
GE Capital
GE Energy
GE Healthcare
General Dynamics
General Electric
General Mills
Gentiva Health Services
Genworth Financial
Gibson Energy
Gilead Sciences
Glatfelter
GlaxoSmithKline
Godiva Chocolatier
Google
Graco
Graham Holdings
Granite Construction
Great-West Financial
Green Plains Renewable Energy, Inc.
GROWMARK
GTECH
Guardian Life
H&R Block
HB Fuller
Halcon Resources
Hanesbrands
Harley-Davidson
Harman
Harsco
Hartford Financial Services Group
Hasbro
HBO
HCA Healthcare
HD Supply
Health Net
HealthSouth Corporation
Helmerich & Payne
Henry Ford Health Systems
Henry Schein
Hercules Offshore
Herman Miller
Hershey
Hertz
Hess
Hexcel
Hillshire Brands Company
Hilton
Hiscox
Hitachi Data Systems
HNI
HNTB
Hoffmann-La Roche
HollyFrontier Corporation
Home Depot
HomeServe USA
Honeywell
Horizon BlueCross BlueShield of New Jersey
Hormel Foods
Horsehead
Hospira

Overview of Survey Participants

Participant List (continued)

HTC Corporation
Hubbell
Hudson City Savings Bank
Humana
Hunt Consolidated
Huntington Bancshares
Huntsman
Husky Energy
Iberdrola USA
Iberia Bank
IBM
Icon Clinical Research
Idaho Power
IDEXX Laboratories
IMS Health
Independence Blue Cross
Indianapolis Power & Light Company
Infineum USA
Ingenico
Ingersoll Rand
Ingram Industries
Inland Bancorp
Integrys Energy Group
Intel
Intercontinental
International Flavors & Fragrances
International Game Technology
International Paper
Intuit
ION Geophysical
ISO New England
ITC Holdings
ITT Corporation
J. Crew
JC Penney Company
JM Smucker
Jack in the Box
Jackson National Life
Jacobs Engineering
Janus Capital Group
JetBlue Airways
JM Family Enterprises
John Hancock
John Wiley & Sons
Johns Manville
Johnson & Johnson
Johnson Controls
Jostens
K. Hovnanian Companies
Kaiser Foundation Health Plan
Kao Brands
Kate Spade & Company
KB Home
KBR
Kellogg
Kelly Services
Kennametal
Keurig Green Mountain
Kewaunee Scientific Corporation
KeyCorp
Keystone Foods
Kimberly-Clark
Kinder Morgan
Kindred Healthcare
Kinross Gold
Knowles
Kodak Alaris
Kohl's
Kraft Foods
Kroger
LL Bean
L-3 Communications
Laclede Group
Lafarge North America
Land O'Lakes
Lands' End
Laureate Education
Lawson Products
LBrands
Leggett and Platt
Lehigh Hanson
Leidos
Leprino Foods
Level 3
Levi Strauss
LG&E and KU Energy
Liberty Bank
Liberty Global
Liberty Mutual
Lifetouch
Lincoln Financial
Linde Group
LinkedIn
Littelfuse
Loews
London Stock Exchange Group
Lonza
L'Oréal
Lorillard Tobacco
LPL Financial
Lululemon Athletica
Luxottica Group
LyondellBasell
M&T Bank
Macy's
Magellan Health Services
Magellan Midstream Partners
Mallinckrodt
Manulife Financial
MAPFRE USA
Marathon Oil
Marathon Petroleum
Markit
Marquette Financial Companies
Marriott International
Mars North America
Marsh & McLennan
Mary Kay
Masco Corporation
Massachusetts Mutual
MasterCard
Mattel
MB Financial
McCain Foods USA
McClatchy
McCormick
McDonald's
McGraw-Hill Financial
McKesson
MDU Resources
Mead Johnson Nutrition
MeadWestvaco
Medtronic
Mercedes-Benz Financial Services
Merck & Co
Meredith
Meritor
MetLife
Micron Technology
Microsoft
Midwest Independent Transmission System Operator
MillerCoors
Molson Coors Brewing

Overview of Survey Participants

Participant List (continued)

Momentive Specialty Chemicals
Mondelez
Monsanto
Moody's
Morton Salt
Mosaic
MTS Systems
Munich Re Group
Murphy Oil
Mutual of Omaha
Mylan
Nationwide
Navient
Navigant Consulting
Navistar International
Navy Federal Credit Union
NCCI Holdings
NCR
Nestle Purina PetCare
Nestle USA
New Jersey Resources
New York Independent
System Operator
New York Life
New York Times
Newell Rubbermaid
Newmont Mining
Newport News Shipbuilding
NextEra Energy Inc.
Nike
NiSource
Nissan North America
Nobel Biocare
Noble Corporation
Noble Energy
Nokia Corporation
Norfolk Southern
Nortek
Northeast Utilities
Northrop Grumman
NorthWestern Energy
Northwestern Mutual
NOVA Chemicals
Novartis
Novo Nordisk Pharmaceuticals
NRG Energy
Nu Skin Enterprises

NuStar Energy
NuVasive
NW Natural
Occidental Chemical
Occidental Petroleum
Office Depot
OGE Energy
Ohio National Financial Services
Oil-Dri Corporation of America
OM Group
Omnicare
Oncor Electric Delivery
ONE Gas
OneAmerica Financial Partners
OneBeacon Insurance
ONEOK
Osram Sylvania
Outerwall
Owens Corning
Oxford Industries
Oxford Instruments America
PF Chang's China Bistro
Pacific Gas & Electric
Pacific Life
Pall Corporation
PANDORA
PAREXEL
Parker Hannifin
Parsons Corporation
Peets Coffee & Tea
Penn Mutual Life
People's Bank
Peoples Natural Gas
Pepco Holdings
PepsiCo
Perrigo
PetSmart
Pfizer
PHH
Phillips 66
Phillips-Van Heusen
Phoenix Companies
Pier 1 Imports
Pinnacle West Capital
Pitney Bowes
PJM Interconnection
PlainsCapital

Plexus
PNM Resources
Polaris Industries
Polymer Group
PolyOne
Popular
Portfolio Recovery Associates
Portland General Electric
Post Holdings
Potash
PPL
Praxair
Principal Financial Group
PrivateBancorp
Progressive
Protective Life
Prudential Financial
Public Service Enterprise Group
Puget Energy
PulteGroup
Purdue Pharma
Quad/Graphics
Quaker Oats
Qualcomm
Quest Diagnostics
Questar
Quintiles
QVC
RR Donnelley
Rackspace
Radian Group
RadioShack
Ralph Lauren
Rayonier
Realogy
Recreational Equipment
Reed Business Information
Regal-Beloit
Regency Centers
Regeneron Pharmaceuticals
Regions Financial
Republic Services
Revlon
Reynolds American
RGA Reinsurance Group of America
Rich Products
Ricoh Americas

Overview of Survey Participants

Participant List (continued)

Ritchie Brothers Auctioneers
RLI
Rockland Trust Company
Rockwell Automation
Rockwell Collins
Rollins
Rolls-Royce North America
Rowan Companies
Royal Bank of Canada
Royal Caribbean Cruises
Royal DSM
RTI International
Ryder System
SC Johnson & Son
Safeway
SAIC
Saint Gobain
Samson
Sanderson Farms
Sanofi
Saputo Cheese USA
Saudi Aramco
SCANA
Schlumberger
Schreiber Foods
Schwan Food Company
Scripps Networks Interactive
Seagate Technology
Sealed Air
Sears
Securian Financial Group
Sempra Energy
Sensata Technologies
ServiceMaster Company
ShawCor
Shell Oil
Sherwin-Williams
Shire Pharmaceuticals
Siemens AG
Sigma-Aldrich
Sinclair Broadcast Group
Smith & Nephew
Snap-on
SNC-Lavalin
Sonoco Products
Sony
Southern Company Services
Southwest Airlines
Southwest Gas
Southwestern Energy
SpartanNash
Spectra Energy
Spirit AeroSystems
Spirit Airlines
Sprint Nextel
SPX
SSAB
St. Jude Medical
Stage Stores
Stanley Black & Decker
Staples
Starbucks Coffee
Starwood Hotels & Resorts
State Farm Insurance
State Street
Statoil
Steelcase
STP Nuclear Operating
Stryker
Sun Life Financial
Sun National Bank
SunCoke Energy
Suncor Energy
SunGard Data Systems
SuperValu Stores
SWIFT
Syngenta Crop Protection
Synovus Financial Corporation
Takeda Pharmaceuticals
Target
Taubman Centers
TD Ameritrade
TE Connectivity Limited
Tech Data
TECO Energy
Tektronix
Tenet Healthcare
Tennant Company
Tennessee Valley Authority
Teradata
Terex
Tervita
Tesoro
Teva Pharmaceutical
Textron
Thermo Fisher Scientific
Thomson Reuters
Thrivent Financial for Lutherans
TIAA-CREF
Tiffany & Co.
Time Warner
TJX Companies
T-Mobile USA
TMX Group Limited
TomTom
Toro
Total Petrochemicals USA
Total System Service (TSYS)
TransAlta Corporation
Transamerica
TransCanada
Transocean
Travelers
Travelport
Tribune
Trinity Industries
Tronox
TRW Automotive
Tupperware Brands
Tyson Foods
US Bancorp
UBM
UGI
UIL Holdings
ULTA Salon, Cosmetics & Fragrances
UMB Financial Corporation
Under Armour
Underwriters Laboratories
Unilever United States
uniQure
Unisys
United American Insurance
United Launch Alliance
United Rentals
United States Cellular
United States Steel
United Technologies
United Water
UnitedHealth Group
Unitil
Universal Studios Orlando