

# BENEFIT

## Plan Trends



A monthly update focusing on Retirement and Executive Viewpoints

Volume 54, Number 3

## Promotion Opportunities Can Help Attract Employees

While the potential for career advancement and taking on more challenging roles in an organization is generally considered a key element of a total rewards package, many companies do not communicate these opportunities to prospective employees during the recruitment process, according to a survey conducted by WorldatWork, a human resources nonprofit organization.

The survey of 720 compensation and benefits specialists showed that two-thirds of employers do not feature or market promotional opportunities as a key employee benefit when recruiting new employees. In addition, the survey found that organizations tend to be more reactive than proactive in communicating with employees about promotions, with just 22% of respondents saying they want all

employees to fully understand promotional guidelines and policies. By contrast, nearly two-thirds (63%) indicated they only share promotional guidelines when asked by employees, and 6% said they only communicate guidelines to employees who are actually receiving a promotion.

Commenting on the results, Kerry Chou, a senior practice leader with WorldatWork, said the

disconnect between the perceived benefits of career advancement guidelines and the failure to communicate those policies is not surprising.

“By their nature, promotions and merit increases are not doled out in equal fashion,” Chou said. “Therefore, managers may have a tendency to communicate less about them so as not to upset those who didn’t receive a promotion or received a smaller merit increase.”

When asked about their company’s practices and policies regarding employee promotions, 84% of respondents reported that, when a promotion is awarded, an increase to the employee’s pay grade or level is required, 73% said the employee must assume a higher level of responsibility, and one-third indicated that a new title must be assigned.

### *Also In This Issue*

- Trends In Life And Disability Benefits
- Gen Y Workers At Risk Of Inadequate Retirement Savings

**Kinloch**  
INSURING RESULTS

*Leaders in Employee Benefit Design*

25 Melville Park Road • Suite 260 • Melville, NY 11747  
516-496-0500 • Fax: 516-496-0526 • Outside (NYS) 800-552-0110



*The HR specialists also agreed that promotional opportunities have a positive or very positive effect on employee motivation (62%) and engagement (59%).*

According to the professionals surveyed, the average pay raise given in conjunction with a promotion is 7.1% for non-exempt employees, 8.3% for exempt employees, and 9.5% for officers and executives. Further, the most influential factors in determining the amount of the increase are the pay range of the new position, the rates paid to other employees in similar positions, and external pay data.

While one-third of respondents said their organization does not limit the size of the promotional pay increases, 40% reported that their company places limits on some increases, and 27% said all promotional increases are subject to limits. More than three-quarters (77%) reported that their company does not limit the number of grades or levels employees are permitted to move during a single promotion, but the remainder said their organization has established limits for at least some promotions. Results also showed that the average percentage of the workforce promoted during 2009 for all of the organizations polled was 7%.

Around four in ten of the compensation specialists said promotions are allowed at their organization any time following a hire. However, one-quarter said at least six months of service is required, and another quarter indicated that 12 months of service is required. Beyond these limits, three-quarters (74%) reported that their company allows promotions to occur “as needed,” with just 17% saying that promotions are only allowed at a set time annually.

When asked about funding, 44% of respondents reported that their company’s budget for promotional increases is separate from other pay increase budgets, and 24% said their organization adjusts the merit budget during the planning season to include funding for promotional increases. Moreover, vacancy savings, which come from not filling a vacated position permanently or for a period of time, were cited as a source of promotional increase funding by 22% of respondents, while salary savings from hiring a new worker at a lower rate than the previous employee were cited by 16% of respondents.

In addition, the survey found that the highest average promotional pay increases for non-exempt employees occurred in companies with turnover rates of more than 16%. Researchers speculated that this could be because these are industries in which rapid increases in pay are the norm and in which employees might be tempted to move from one employer to another for small differences in hourly pay. Results also indicated that companies with high levels of turnover promote a higher percentage of their workforce, most likely in order to fill vacancies caused by departures.

The HR specialists also agreed that promotional opportunities have a positive or very positive effect on employee motivation (62%) and engagement (59%). The findings further indicated that organizations that use promotional opportunities to attract new workers are more likely to say that their workforces view promotions as contributing to employee engagement and motivation.

“With continued tight salary and incentive budgets, organizations should take advantage of every opportunity to promote all elements of their total rewards packages,” Chou said. “This certainly includes promotional and future career opportunities.”

## Trends In Life And Disability Benefits

A majority of both private and public workers receive life insurance benefits from their employers, and around one-third of American employees are eligible to participate in employer-provided short- or long-term disability benefit plans, according to a report published by the U.S. Bureau of Labor Statistics (BLS).

The study’s findings are based on the results of the March 2010 National Compensation Survey: Employee Benefits in the United States. The report, which appeared in the December 2010 issue of the BLS’s “Program Perspectives” newsletter, observed that life insurance and disability benefits help provide “peace of mind” for

employees and their families in the event of death or inability to work due to injury or illness.

The survey showed that 56% of all private sector employees and 78% of all public sector employees participated in employer-provided life insurance plans in March 2010. Meanwhile, 38% of private employees had short-term disability coverage from their employers, compared with 23% of public employees. In addition, 31% of private employees had long-term disability insurance through the workplace, compared with 33% of public employees.

The findings also indicated, however, that there were large differences in the benefits provided to part-time and full-time workers in both the public and the private sectors. Among private sector employees, 71% of full-time workers participated in life insurance plans, compared with 13% of part-time workers; 46% of full-time workers participated in short-term disability plans, compared with 15% of part-time workers; and 40% of full-time workers participated in long-term disability plans, compared with 6% of part-time workers.

Meanwhile, among public sector employees, 88% of full-time workers participated in life insurance plans, compared with 22% of part-time workers; 25% of full-time workers participated in short-term disability plans, compared with 11% of part-time workers; and 38% of full-time workers participated in long-term disability plans, compared with 11% of part-time workers.

Results also showed that employees who were among the highest 25% of earners were far more likely to have access to life and disability benefits than employees who were among the lowest 25% of earners, though the gaps were found to be more pronounced in the private than in the public sector. Among private sector companies, organizations with 500+ employees were far more likely to offer these benefits than companies with fewer than 100 employees.

Coverage levels were also found to vary, with some organizations offering life insurance coverage equal to a fixed multiple

of earnings (most commonly one or two times earnings), and other employers offering coverage in the form of a flat dollar amount (with median amounts of \$15,000 for private employees and \$20,000 for public workers). For both sectors of employees with short-term disability coverage, the benefit duration was most commonly 26 weeks, with a mean benefit of 64% of annual earnings for private employees and 61% of annual earnings for public employees. A majority of employees with long-term disability insurance were covered by plans that placed a cap on disability benefit amounts, with a mean benefit of 58.8% of annual earnings for private employees and 60.8% of annual earnings for public employees.

## Gen Y Workers At Risk Of Inadequate Retirement Savings

Due to trends such as rising life expectancy, the phasing out of traditional pension plans, and low rates of participation and saving in defined contribution plans, workers aged 30 and under may be more at risk than previous generations of not having enough savings to cover their financial needs in retirement, according to a study released by human resources consultancy Aon Hewitt.

Estimates of the current and future retirement savings of Generation Y workers (aged 18 to 30) show that as many as eight in ten of these workers are not on track to meet all of their financial needs in retirement, unless they significantly change the behaviors that are leading to these shortfalls, such as the failure to participate in defined contribution plans, low savings rates, and high rates of cash-outs.

After inflation and post-retirement medical costs were considered, the analysis showed that Generation Y workers need to save 18.7 times their final pay in retirement resources—including Social Security, employer-provided defined benefit and



*The survey showed that 56% of all private sector employees and 78% of all public sector employees participated in employer-provided life insurance plans in March 2010.*

defined contribution plans, and employee savings—to maintain their current standard of living in retirement. Researchers noted that these projections assume that workers retire at age 65, and more savings are needed if they retire earlier.

The findings indicated that Generation Y employees who work a full career are on track to accumulate just 12.4 times their final pay, leaving a shortfall of 6.3 times pay, or one-third of their total needs. Results further revealed that workers without access to an employer-sponsored retirement plan are projected to have a shortfall of 8.0 times pay. As this assumes no early withdrawals from retirement plans and Social Security benefits at current levels, the study's authors caution that these scenarios may be optimistic.

While acknowledging that there are many reasons for these shortfalls, including rising health care costs, increased longevity, and the replacement of traditional pension plans with defined contribution plans, researchers nonetheless identified the main source of the problem as employees' saving and investing habits. The analysis showed that only half of Generation Y workers who are eligible to participate in a defined contribution plan do so. Among those who do save, the average pre-tax contribution rate is only 5.3% of pay, with 41% of workers not saving enough to receive a full employer-provided match. The analysis also found that, even if Generation Y workers begin saving early, most cash out their savings well before retirement, with nearly 60% withdrawing their retirement savings when changing jobs.

Pamela Hess, director of Retirement Research at Aon Hewitt, recommended that employers explore solutions for helping younger workers get on track, including automated tools with more robust defaults, innovative matches, investment advice, and personalized messaging.

The study found that the 2009 participation rate of Generation Y workers who

were automatically enrolled in retirement plans was 85%, compared to 42% under traditional enrollment. Results also indicated that Generation Y workers are more likely than older workers to benefit from contribution escalation features, which increase participants' contribution levels over time. In 2009, nearly one-quarter of Generation Y workers elected or were defaulted into contribution escalation when available in their employer's defined contribution plan, compared to just 10% of younger baby boomers (ages 46–54).

In addition, the study found that Generation Y participants used simplified investment solutions more frequently and correctly than other groups of workers, primarily because of the growing popularity of premixed portfolios as the default investment under automatic enrollment. The findings indicated that more than two-thirds (69%) of Generation Y plan participants used a premixed portfolio (mainly target-date funds), compared to 54% for Generation X employees and 45% of younger boomers. In addition, nearly 60% of Generation Y workers who held a premixed portfolio invested 100% of their assets in the fund, compared to 40% of Generation X workers. According to researchers, these developments represent a vast improvement from the years prior to automation, when younger generations tended to rely too much on conservative investments, such as stable value funds.

“Generation Y workers now have more diversified portfolios than other generations largely because of default behavior,” said Hess. “An increasing number of younger workers are automatically enrolled in their defined contribution plans and defaulted into a target-date portfolio. These funds are improving diversification and rebalancing, which have greatly helped defined contribution investors in recent years.”




---

*The analysis showed that only half of Generation Y workers who are eligible to participate in a defined contribution plan do so.*

---