



A **Thompson Associates** White Paper

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How to improve retention, morale, and productivity with employee benefits

Manufacturers Edition

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About the Author: Mike Nackle helps manufacturing companies design employee benefits strategies to meet their growth objectives.

He is the host of *Employee Magnetism*, the talk show that offers practical advice on employee retention and attraction strategies and the executive editor of *The Top Talent Newsletter*.

Your Benefits are Boring!

It's true. Until recently, employee benefits have been just another corporate obligation. The good news is that by reading this paper, you've decided to do something about it. What do your employees think about that? Are they happy with their current benefits? If not, why not? Are they aware of the value of their benefits? Are your benefits competitive with companies vying for your talent? These and many other questions are common concerns from employers who want to get a better bang for their benefit buck. It is my hope that this paper answers these and many other of your questions.

The purpose of this paper is to guide you in the process of developing employee benefits that cause your employees to fall in love with your company, your culture, and their jobs while controlling and ultimately reducing benefits costs. The end product should improve employee retention, morale, productivity, and engagement while reducing absenteeism.

What are Employee Benefits?

The term *employee benefits*, covers a broad range of "extras" that employers offer to their employees in addition to their normal wages and mandatory government benefits like Medicare and Social Security. *Traditional benefits* include health, dental, and life insurance and are offered by 61% of companies according to a 2006 Kaiser Family Foundation study.

In a more broad sense, employee benefits includes things like nutrition and fitness programs, child care facilities, dry cleaning pickup and any variety of things that improves the lives and the effectiveness of your workforce. These are the *creative benefits* that, when combined with the right combination of traditional benefits, can have far reaching implications on the welfare of employees.

Employee benefits are powerful tools used by savvy manufacturers to build a competitive advantage with their workforce. For some examples of the results of strategic benefits, see

<http://www.thompsoninc.com/why-thompson/testimonials.asp>

Mistakes to Avoid in the Beginning

Perhaps the biggest mistake employers make is not involving the employees during benefits changes. **Open communication is key.** Finding out what employees need and want in regard to benefits should be the first step before making any changes. Being honest and open about your intentions will make employees an active part of the decision making process. Different employees have different needs and assuming that employees in the warehouse are interested in the same benefits as the middle managers in accounting is a big mistake.

Here is a list of other mistakes to avoid along the way:

- **Cutting benefits to control costs:** This is a short term solution to a long term problem. While cost sharing is an important element to integrate in a long term plan, you must strike a careful balance while developing a timeline to share costs appropriately. Done wrong, this is a serious morale killer.
- **Giving everything but the kitchen sink:** Offering everything known benefit causes more problems than it solves. When you offer every benefit you can get your hands on, you set yourself up for skyrocketing costs. Also, several years down the road, your employees will ask why you never add new benefits.
- **Offering the benefits your management team suggests.** Don't assume that getting feedback from managers will give you a strong enough idea of what benefits to offer. While this is a valid way to gauge several business issues, employee benefits desires are often

Gathering feedback from employees is a critical first step.

Most mistakes can be avoided with careful planning and communication.

Short term improvements without considering long term objectives can be disastrous.

personal and not communicated from employees to managers.

- **Taking a short term approach.** Anything you do to make short term improvements without considering long term objectives can be disastrous. This is often where an outside advisor can be advantageous, especially one with a long history in business and can share success stories that support or refute possible changes.

The Two Approaches

There are really two ways to design an employee benefits strategy: (1) by focusing on cost management or (2) by concentrating on the long term results you hope to achieve with your workforce. The cost management or “nickel and dime” approach focuses **exclusively** on traditional insurance benefits by making little changes such as increasing deductibles, lowering pharmacy benefits, etc in order to keep annual cost increases to a minimum.

The cost management approach is based upon the mistaken belief that employee benefits are just another cost center, and should be handled like every other cost center. This method doesn't take into consideration the personal needs that employees have of their employers that build employee loyalty and retention. It also disregards the competitive advantage a company can achieve by employing the right people.

The alternative approach, and the one I strongly recommend, is to focus on achieving the long term results that you desire from your workforce. This can be accomplished by (1) setting goals for issues such as employee and customer retention before (2) formulating an employee benefits strategy to help in meeting those goals. To many people this sounds strange because benefits are usually considered unrelated to corporate goal setting, but a growing

The cost management approach is a trap that ensnares many companies into short term planning.

First Tennessee National Corp. doubled the average length of employment and kept 7 percent more of its customers by reshaping their employee benefits to be more family friendly.

"86% of employees who report being satisfied with their benefits package reported being satisfied with their jobs overall."
SHRM

trend in the United States shows that employee benefits play an important role in business growth. Consider the two quotes in the sidebars.

The first quote shows the results a bank in Tennessee received just by changing their benefits to be more family friendly. Not only did their improve employee retention, but they improved customer retention by 7 percent, a critical metric of success in the banking industry.

The second quote shows us that benefits are critical to job satisfaction. A study published by The Journal of Occupational Psychology revealed that "low job satisfaction is correlated with high rates of anxiety, depression, psychosomatic symptoms, and coronary heart disease;" (Wall, Clegg and Jackson, 1978). Poor benefits lead to poor job satisfaction. This leads to poor health and increased healthcare costs for the employer.

Areas to Consider

The goal of an employee benefits strategy is to rally the troops to help management meet their overall business objectives. To accomplish this, you must take a holistic approach to your benefits design. Here are a few areas that may help you design a strategy that hits a home run:

- **Get Employee Buy-in:** Get employees involved in the process early, in fact, from the very beginning by developing a survey to collect information about what they want from their benefits. If necessary, form a committee to explore this further. Develop champions of the process through leaders in the organization to encourage others to get involved.
- **Take the Long View:** A long term approach is the only way to achieve lasting results with employee benefits. While cutting benefits can

*Wellness drives down utilization
and improves employee welfare.*

*In 2005, 90% of manufacturers
reported a moderate to severe
shortage of skilled workers
according to The Manufacturing
Institute.*

cause short term savings, it disregards the underlying problem of global cost inflation and doesn't take advantage of the many benefits of taking a long view. A three year commitment should be the minimum that you undertake.

- **Control Utilization with Wellness:** A good wellness program should be a cornerstone of your employee benefits strategy. This is one of the few proven ways to address the problem of poor employee health and high employee insurance utilization. I recently interviewed one of the top executives at the oldest wellness company in Louisville. In this experience “only 1 in 94 companies didn’t get a good ROI in a 3 year span.” National statistics show that employers save \$3 for every \$1 they invest in wellness. If employee participation is a concern, a creative contribution strategy should consistently drive over 70% participation in the program.
- **The Competition:** Benchmarking the benefits of companies competing for your talent can provide additional insight when planning a benefits package. This should be performed after surveying your employees for their wants and needs. Your offering should reflect the desires of your workforce and provide a differentiating factor from your competitors.
- **Funding:** When referring to traditional employee benefits, funding is a critical component. Determining what percent your employees should pay is a vital part of the equation. The two components to remember in funding are (1) What does your competitor offer and (2) what have you offered in the past? The second point is extremely important when you consider major plan changes or the impact of a high deductible health plan.

Funding issues arise from a lack of planning regarding the implications of big changes.

A Successful Implementation

Key #1 – Get Top Management Approval

Your benefits strategy should support your business goals.

As with any big change, the management team has to be on board. The simplest way to accomplish this is to align the employee benefits strategy with the company's 3 to 5 year goals. If the company wants to increase revenues, which is highly dependant on hiring top notch sales reps, then the employee benefits strategy should reflect the company's commitment to building the best place for sales reps to work.

Key #2 – Customize Your Strategy

It's okay to get ideas from other companies, as long as you customize them to make them unique for your company.

Don't be a copycat when you're looking for a good benefits package. It won't work for your unique workforce and it won't make you competitive for talent. Customization is critical. Use the feedback you received from your Employee Opinion Survey to tailor your individual strategy. By incorporating what is important to your employee, you can build a customized strategy based upon your unique needs and goals.

Key #3 – Communicate Everything

During times of change, communication is critical.

Communicate your intentions, expectations, and results at every opportunity. A change in employee benefits can be a dreadful experience for most people and creates fear in individuals that rely heavily upon them. Develop a "*Total Rewards Statement*" to explain the value of the benefits they will be receiving in specific dollar amounts. This is a great communication and retention tool.

Make your benefits information easily accessible by building a password protected web site with pertinent

benefits information available to all employees. This will plainly communicate any changes, and reduce a good portion of administrative work for your HR staff.

Make sure that you have a plan for your communication before you begin anything. Helpful tools include email and letter templates, educational flyers, and regular debriefs for managers.

The Important Details

Create a 3 to 5 year timeline

This document should be the first page of your benefits strategy. An effective timeline should span a minimum of 3 years and include the following type of information.

- **Employer contribution changes:** Are you planning on shifting additional costs to your employees? Are you going to include a consumer driven health plan in the future that might change your funding strategy?
- **Future benefits:** When do you plan to begin a wellness program? If you would like to include more family friendly benefits, when do you plan on introducing them?
- **Technology Integrations:** When do you expect to have your benefits information online for easy access by employees? What other internet driven benefits do you plan to integrate?
- **Educational Opportunities:** When are you planning seminars to educate your employees on smart healthcare consumerism? When will you bring in speakers to discuss weight management and fitness programs?

A timeline serves as an accountability tool for process development and administration.

On-going education is a key part of a solid strategy.

Results should be measurable.

Measure results annually and tweak the plan.

Your employee benefits strategy, when properly aligned with your business goals, should produce measurable results in specific areas. Meet annually to measure improvement in the targeted areas. Just as your business goals change from year to year, your employee benefits strategy must change with them.

Coming up with fresh ideas requires keeping up with changes in the benefits landscape.

The Changing Landscape of Employee Benefits

The laws surrounding traditional benefits are always changing. You'll need to stay on top of these changes if you want to stay on top of what's working and what's not. There are web sites that track these changes and some even have news feeds that will send you an e-mail when something happens that may affect you. Here are a few that I recommend.

- BenefitsNews.com – <http://www.benefitsnews.com>
- TheIndustryRadar.com – <http://www.theindustryradar.com>
- The Society for Human Resource Management – <http://www.shrm.org>
- Bureau of Labor and Statistics - <http://www.bls.gov/ebs/>
- International Foundation of Employee Benefit Plans - <http://www.ifebp.org/>

HR has a critical role during benefit changes.

Who Should Design your Benefits Solution?

This is a biggie. You might think that this should be your employee benefits administrator who is immersed in every area of employee benefits or your HR manager who oversees the recruiting and retention of employees. This could not be further from the truth. Asking someone who is immersed in the daily details of your employee benefits is like asking a sales rep to design a sales training program. Sure, he or she might initially be interested in

developing the program, but it will most likely fail for a couple of very important reasons.

First, a good benefits administrator or manager is often too close to the issues. You need someone who is two steps away from your benefits challenges to develop your strategy, with an eye on bottom line results. Sometimes, this person might be the president or CFO but asking a CFO to handle employee benefits strategy often results in this being delegated back to human resources. CFO's are typically immersed in the hard core financial operations of a business and don't often get involved in personnel issues.

Second, assess the cost of having a president or CFO take the time to design an employee benefits strategy. It may be cost-prohibitive to ask a high-cost employee to take two weeks to design a strategy and then continue the ongoing management during the roll out.

Finally, consider your timeline. How quickly do you need to start seeing results in areas like employee morale and retention? If you're competing for talent or trying to please stockholders, you could be in trouble if this doesn't get off the ground.

Sometimes it's important and appropriate to bring in outside help. A good benefits strategist should be able to conduct a few interviews with key executives, implement a brief employee survey and have a package designed and running in a matter of weeks. The advantages of doing this can be very significant. You get the benefits strategy formed quickly, you free up your expensive in-house labor and you get a high-quality benefits strategy with management and administrative support included.

What to Look for in a Benefits Strategist

Finding the right person to design your employee

Weigh the cost when considering development options.

How soon do you need to start seeing results?

Your benefits strategist should keep their eye on the bottom line...period.

benefits strategy is not an easy task. Here are a few things to look for:

- **Results Oriented:** Does this person focus on measurable improvements? Do they insist on improving bottom line results? Are they committed to using employee benefits as a means to meeting your overall business objectives?
- **Creativity:** Can this person consistently suggest new ways of improving your benefits? Do they have an eye for new ways of getting results? A benefits strategist is similar to a marketing consultant and should be a constant source of fresh ideas.
- **Process Driven:** Once a benefits strategy is rolled out, communication with employees and management of the process is an on-going task. Can this person stay the course and handle all the details over the years?
- **Verbal and Written Communication Skills:** Can the strategist communicate effectively with your staff in both the written and verbal media? Enrollment meetings and wellness initiatives must be clearly communicated to skeptical employees and on-going education takes a skilled writer.
- **Motivation:** The path to higher productivity and employee morale among other things is possible, but it requires a long term commitment and motivation to see things to completion. Motivation driven by commitment to excellence should round out the qualities of your benefits strategist.

Comments about Hiring Outside Help

Benefits strategists range from brokers who focus exclusively on traditional insurance to consultants who specialize in large international businesses. Somewhere in the middle lies a rare species - the benefits advisor. Many claim to have perfected the

The true benefits advisor is a rare species.

skill of designing employee benefits strategy, but few truly specialize in creating long term holistic solutions covering traditional *and* creative benefits. When you seek an employee benefits advisor, be sure you ask a few key questions:

Industry focus is critical.

- **Who are your clients?** This question alone will reveal the quality of the advisor but may also provide insight into their industry experience.
- **How long have you been in business?** Ask for examples of successful strategies from other companies, along with testimonials and references.
- **Who will actually be working with me?** Many times, you will only be working with the person sitting in front of you and a part time support person. Make sure the company has a team to work on your benefits and ask to meet those people as well.
- **What is your process?** A benefits strategy should be based upon a time tested, replicable process that produces probable results. You may be surprised to find that no process exists past the initial meeting and proposal.
- **Do you have a service guarantee?** Guaranteeing the performance of an employee benefits strategy is like guaranteeing the performance of an investment. While there should be expectations of likely results, there is no absolute guarantee of a specific outcome. However, the service you receive should be second to none. Make sure your advisor has a written service guarantee ensuring top notch service and advice.

Long term success requires administrative process excellence.

Where to Go From Here

This paper merely touches the surface of the art of designing an employee benefits strategy that achieves bottom line results. If you need help designing a benefits strategy, consider Thompson Associates. We offer benefit solutions that tackle tough issues such as:

- Employee turnover
- Morale
- Productivity
- Absenteeism
- Attracting qualified talent
- Controlling the cost of insurance

To do this, we offer the following services to help you:

- Health and Group Benefits Design
- Employee Opinion Survey
- Online Employee Benefits Center
- Retirement Plan Services
- Thompson Wellness Works
- Human Resource Consulting
- HR Outsourcing / On-site HR Professional
- Manager Training and Development
- Compensation Analysis and Design

How to Reach Us

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Conclusion

Thank you for your interest in this paper. We welcome your feedback, comments and suggestions. Please consider sending us a note about how this paper has helped you.

For more information about Thompson Associates, check out www.thompsoninc.com.