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# Get Better Forecasts With Granular Rewards Data

**Forecasting is an essential part of an HR executive's role. But their efforts are typically hampered by a lack of insight around one crucial element—the cost of the company's total rewards package. Granular rewards data can make all the difference.**

The total cost to reward and retain employees doesn't just include compensation and benefits, writes Perry D. Wiggins, chief financial officer at APQC. It also includes the cost of non-financial rewards and other perks. "Any expenses that a company incurs by hosting morale-boosting engagement activities or by gifting its employees—whether with financial assistance for childcare, employee wellness programs, or a gift card to recognize good performance—is part of this measure."

That's a lot to track, so much so that companies without a comprehensive rewards management platform struggle to do it accurately. Understand those costs at a granular level, however, and soon your HR team will be able to successfully forecast in the following ways.

 

## Forecast the Future Cost of Employee Rewards and Benefits

When you have a granular understanding of your total employee rewards costs, it becomes much easier to budget for them in the future.

Being able to estimate those costs is essential, says Tess Taylor, founder of HR Knows. “Knowing the estimated cost of benefits for an employee is vital for any organization because it helps to secure HR benefits budgets and ensure that firms have enough money in the bank to pay for benefits and maintain active coverage of plans your employees rely on,” she writes. “The more in-depth the forecast is, the better prepared a company will be and the fewer financial surprises it will face.”

The COVID-19 pandemic has shown the importance of not just understanding the costs of total rewards but in forecasting how those costs might change in the future, write WTW’s John M. Bremen and Amol Mhatre. “While organizations have long been focused on managing costs and risks of defined benefit plans, as well as implementing policies to manage rising costs of pay and health care, the COVID-19 crisis has highlighted the urgency of understanding sources of costs and risks; modeling future costs under various economic, demographic and health care trend scenarios; continuing to implement strategies to avoid risks; and measuring progress of actions taken,” the authors explain.

Fully understanding current and future costs of total rewards is even more important at a time when businesses are simultaneously trying to increase benefits while managing healthcare costs—especially when those costs are rising. Research from Mercer, for instance, finds employers expect health benefit costs to rise by an average of 4.7 percent in 2022 compared to the previous year.

## Optimize or Reduce Future Rewards Budgets

Labor is one of the biggest business costs facing companies. It can account for upwards of 70 percent of business costs, says the team at Paycor. Of those costs, benefits and rewards can comprise as much as 30 percent. Yet HR spends only a fraction of their time—about 15 percent—managing labor costs. That can change when companies have insights into how much rewards cost and to what extent they are used.

By creating an inventory of your company's total rewards, including costs and funding sources, you can better understand the current state of your programs and find ways to update your rewards program in the future, says Martha Cook, EY's global and EMEIA total rewards leader. "Gathering anonymized employee data (e.g., demographics, life stages, TR enrollment, etc.) can help HR establish a baseline of employee preferences and potential unmet reward needs."

Specifically, HR teams looking to reduce their rewards spending in the future can identify which rewards are both expensive and underutilized. With accurate cost and employee data, you can forecast the potential impact of eliminating these rewards on your budget and employees.

Of course, cost reduction comes with its own challenges. There may be negative consequences when you cut costs related to employee rewards and benefits, says Daniel Dirks, managing VP of HR research at Gartner. "Simply put, HR leaders must act to identify and capture short-term efficiency gains, including immediate spend reduction, while managing the risks associated with those cost decisions. In the case of HR, that primarily means protecting employee experience and productivity."

## Predict the Impact of Workforce Planning

Workforce planning is an HR department's bread and butter and the insights gained from their efforts can have a transformational impact on the entire company, says Carolyn Hirschman at SHRM. "The insights and knowledge gained from strategic workforce planning can help organizations decide, for example, where to locate new plants and offices, how to invest training resources, and whether to outsource certain work to meet business needs."

HR teams require a wealth of data to accurately assess the impact of these kinds of organizational moves, and, once again, total rewards data is pivotal.

Rewards packages can vary significantly from country to country. HR teams therefore must have an accurate understanding of what one department costs in, say, Europe, where healthcare is usually free, compared to the U.S., where health insurance premiums are expensive. With that understanding, HR can determine the most effective financial decision for the company.

This data can allow HR to help employees decide on internal moves too. Showing employees the impact on their total rewards of moving from one country to another or even just one department to another can improve the employee experience. It can also make it easier to deal with any negative blowback that can result from workforce planning.

 

## The Impact of Rewards on Talent Acquisition and Retention

Regardless of how effective your workforce planning is, attracting top talent (and keeping it) is a challenge. There is an ongoing war for talent, and companies need to be willing to adapt to thrive.

Attracting top talent requires a first-class employee experience. Part of that is "understanding the needs and preferences of your critical talent segments," says Kristi Robinson executive vice president and head of talent acquisition at Citizens Bank. "Companies that win the war for talent will seek to understand how the workforce is evolving and create a consumer-grade candidate experience. And this doesn't just include new hires; adopt the same mindset with existing employees in the effort to retain talent."

Benefits are key to attracting and retaining the best talent. Research by McKinsey shows that 40 percent of employees are somewhat likely to quit their job in the next three to six months, often without a job to go to. At the same time, their research shows the number of employers reporting benefits as being "very important" in attracting talent is up 11 percent since the pandemic.

If better rewards attract better employees, it's only natural for companies to look at improving their total rewards packages. But HR executives need to understand the cost of doing so. Your employee's base salary likely makes up the majority of the rewards package, but the total cost is often understated unless you have granular insights. If all employees receive the same increase in benefits, then you must understand the global cost implications.

You should also consider the impact of changing the benefit status for employees, says Stacy Pollack at Workest. "While an employee may start off their career needing an individual/single health benefits plan, this situation could change as they potentially get married or have kids. This change will increase the cost of their benefits package for the employer."

HR teams can, of course, attempt to forecast without granular rewards data. But the results will be limited. It's only by using the data a total rewards management platform provides that they can create the kind of accurate and impactful forecasts we've discussed above.

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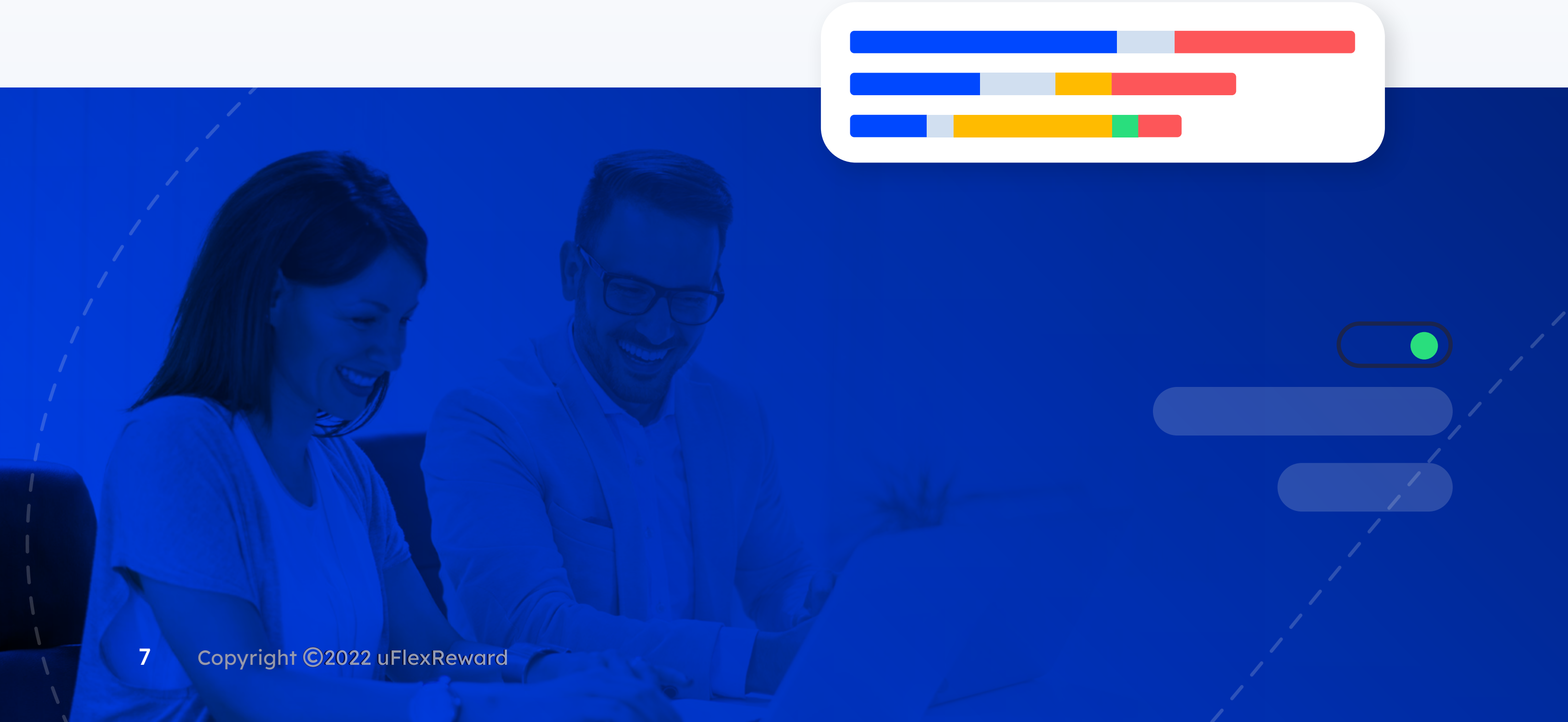
And if employees don't know what's available, that budget will go to waste whatever you offer. Stuart Hyland, head of reward advisory for Europe at Aon, says the current situation is an opportunity for reward professionals as well as a challenge. "During the last recession when pay was higher than inflation we reminded employees that, for example, they get life insurance so they don't need to get that from their mortgage provider. Or that their reward package included a tool that can help with the value of their shopping. Communicate with employees about the other benefits they receive from working for you as an employer—not just salary," he says. Where organisations have invested in large-scale online reward platforms, reinforce areas that can soften the impact of price rises—a purchasing scheme that enables the business to buy supermarket vouchers at a discounted rate, for example. "There will always be someone that can pay people more," adds Hyland, "but you can build loyalty by showing employees you were there with them through thick and thin. This year will be difficult for a lot of people, and showing them what they can have can create a sense of togetherness."

Looking forward, organisations are taking a broader, longer-term view of how pay sits with their values. As part of the push towards 'good work', they argue,

## How does inflation actually work?

Put simply, inflation is the rate at which prices are rising for goods and services. Small increases in inflation may feel unnoticeable, but over the long term can have an impact on how far our wages will stretch—the cost of living. If wages rise in line with inflation, in theory that cost of living should be manageable. Above or below-inflationary pay rises could mean the difference between being able to manage an unexpected bill and being thrown into debt.

That cost of living rose 5.4 per cent in the year to December 2021: the highest rate of inflation for 30 years. This is measured by the consumer price index (CPI), which tracks the average price of more than 720 goods and services purchased by households. But a number of unions want employers and the public sector to base wage increases on the retail price index (RPI), which tends to be higher. The RPI takes into account the cost of mortgages, so unions argue this is a more accurate reflection of what employees spend. In their terms, the 6.6 per cent rise in the national living wage from £8.91 to £9.50 in April 2022 will be below inflation, and workers on this rate will struggle to cover the rising cost of living.



In December, the Bank of England decided to increase interest rates for the first time in three years in response to rising inflation, from a record low of 0.1 per cent to 0.25 per cent. Increasing interest rates is a way of preventing inflation from rising at an unmanageable rate, as it softens demand for goods as the cost of borrowing rises. Interest rates have been at a record low since the start of the pandemic.

In November 2020, the government announced plans to overhaul the way it measures inflation, so by 2030, RPI will be replaced by CPIH. CPIH includes housing costs, but uses ‘rental equivalence’ that looks at how much someone would pay in rental for their property. While this is unlikely to have a major effect on pay bargaining, thousands of employees with pensions in defined benefit (or final salary) schemes could end up worse off.

## Why we don’t want to go back to the 1970s

While the current rate of inflation may seem high at around 5 per cent, this will seem like small fry to anyone who was in the workforce in the 1970s. In the early part of the decade, it was assumed that periods of high inflation were not a problem—a growing economy meant businesses would hire more people, there would be more demand for goods and services and this would keep consumer prices down. But after the oil crisis of 1973 forced petrol prices up sky high, inflation spiked, reaching a high of 22.6 per cent in 1975.

The end result was stagflation, where the prices of staple goods grew quicker than overall economic growth. The government ended up rationing electricity, there were queues at fuel pumps and unemployment grew because factory production became more expensive. An enforced three-day week was introduced. In the latter part of the decade, trade unions began making pay increase demands way above the 5 per cent cap the Labour government had imposed, and 1979 brought a wave of strikes and what became known as the ‘winter of discontent’.

Thatcher’s Conservative government came into power in May that year, and its first task was a sharp rise in interest rates. This tamed inflation, but unemployment and industrial unrest continued to soar until the late 1980s. The following three decades have seen governments maintain a balance of relatively low inflation and interest rates, but also minimal wage increases in real terms.