Total Compensation Communication: No Strategy, No Solution

by Dennis R. Ackley

The total compensation communication bandwagon seems to be picking up speed. Quite a few organizations are jumping on it. But where's it going? Will it end up helping employees gain insight into the real economic value of their jobs — or give them unrealistic and confusing messages they'll toss on the scrapheap of empty slogans?

> ***"Throwing total compensation numbers at employees is not a quick fix for increasing appreciation of benefits."***

The huge amounts organizations are spending on pay, benefits, and other employee-related programs often surprise even members of senior management. Naturally, senior management wants to improve the return on this "investment." An obvious step seems to be simply to tell employees how much is being spent on each of them — their "total compensation." Yet there's much more to this important message than "simple" dollars and cents. Moreover, the results of the communication effort are not as predictable as they may appear. To avoid ending up like lemmings — who seem to know the general direction of their journey but may be surprised at the specific destination — management needs careful answers to these key questions:

- What does the organization expect employees to do with the total comp information?
- How will the organization show employees that total comp supports the organization's business and human resources values?
- How will the success of the total comp communication effort be measured?

In short, you need to define exactly where you want the program and communication effort to go and how you'll know when you've arrived.

If You Don't Know Where You're Going, You're Lost

Too often the total comp communication campaign is launched before the specific destination of the organization's program is defined. In other cases, only the vague general direction is stated, such as:

— increasing appreciation
— attaining fairness
— leveling the playing field
— improving satisfaction.

Each of these noble-sounding objectives has its own share of hidden perils.

"Increasing Appreciation"

Most employees grossly underestimate the dollar value of their benefits. They simply do not appreciate how well management is treating them in providing benefits. Won't employees have a much greater appreciation of their total comp after they see the cost?

The answer, unfortunately, is "probably not." After all, if telling people about costs were the key to increasing appreciation, colleges could cut out art history courses and simply put price tags on works of art. **It's human nature to have little appreciation for things that are not understood.** Before employees will appreciate them, employees must *learn about their benefits* — in sequential stages.

1. **Awareness:** Employees first must become aware of the benefits and programs.

2. **Motivation:** Employees must be motivated to learn — one of the best ways is by providing the "what's in it for you" explanation of coverage.
3. **Understanding:** Employees must be provided with a clear, straightforward explanation to gain an understanding of how the plans and programs work.
4. **Appreciation:** Employees, having gained an understanding of the benefits and programs, must be able to use them to help meet their needs. This is what generates appreciation.

Without going through steps 1, 2, and 3, appreciation cannot be attained — no matter how often employees are told about the costs. **Employees already rank health care as one of their most important benefits, so telling them how much the organization pays for it won't increase that ranking.** Besides, in a cost-cutting environment, the "how much we are spending on you" message — though intended to be positive — can strike terror into the hearts of employees. **What does management expect employees to do with the cost information?**

To increase appreciation, the focus of communication needs to be on the benefit *coverage.* Certainly, the company's cost should be mentioned. But an explanation of coverage — such as "you have $60,000 in company-paid life insurance" — provides much more understanding than merely saying, "the company pays $200 each year for your life insurance."

The "what's in it for you" message — the coverage message — is a powerful way of providing understanding. So why not tell employees such things as:

- Your medical plan assures you won't pay more than $3,000 out of your pocket for eligible network expenses in a calendar year — even if you have $100,000 or 500,000 in charges.
- Your dental plan provides benefits up to $l, 500 each year.
- Your disability plan ensures 66% of your pay while you remain disabled up to age 65.
- Your retirement plan pays a monthly income for as long as you live after you retire. To provide your projected age 65 retirement plan benefit, the company estimates that by the time you reach age 65 it must accumulate approximately $120,000 for every $1,000 it pays in monthly benefits for your lifetime.

Finally, though the "entitlement mentality" has faded a bit in recent years, a number of employees still believe that pay and benefits are a "right" rather than a reward for performance. These employees won't appreciate their total comp — they'll only expect more.

"Attaining Fairness"

Some organizations say they are moving to total compensation to help attain fairness in their benefits and pay programs. Yet if "fairness" means "divided equally," there's very little fairness when it comes to pay: why should fairness be an objective for total compensation, or any element of it?

From an employee perspective, fairness could be: those who need more get more and, to be "fair," those who don't need that much get paid for what they don't use.

Although this may be a perfect "fairness-based" total compensation program, it could not exist in a competitive marketplace. Not only would the cost be staggering, but top performers would want special (unfair) treatment. They would have to go somewhere else to work.

Is this "fairness-based" total compensation program what senior management has in mind? If not, what does management's picture of fairness look like? And would employees view it as fair?

ELECTRO-WIDGET'S "FAIRNESS-BASED" TOTAL COMPENSATION	
Pay	Same amount for everyone
Health Care	100% coverage for all employees and their family members (as defined by each employee) — plus "equity reimbursements" (payouts) for: • not reaching the "average claim level" • not enrolling all family members • not using expensive doctors and hospitals • not needing maternity coverage — not smoking — not eating fatty foods • not needing glasses…and so on
Disability and Life Insurance and Retirement Income	100% coverage based on need (offset by Social Security)
Tuition, child care, fitness center, parking, lunchroom, etc.	100% paid — plus "average cost" reimbursements to employees who do not use the benefits or facilities

"Leveling the Playing Field"

Another frequently mentioned general direction for total compensation is the "level playing field" concept. It sounds great. But again, what would it look like when you arrived?

Unlike the "fairness-based approach," the "level playing field approach" is at least affordable for companies and has been the basis for some flexible benefit plans.

Unfortunately, employees who have had too many birthdays or children may not find it so affordable. It may be a good approach for organizations that want to attract and retain young, dependent-free employees. Is this the "level playing field" senior management has in mind?

ZIP-TECH'S LEVEL-PLAYING-FIELD-BASED TOTAL COMPENSATION	
Pay	Based on job value determined by the marketplace.
Medical	$4,000 payment to every employee (the level-playing-field approach). Employees could buy medical coverage on the open commercial market where it is sold on an age-rated, per person basis. Maybe a 25-year-old could buy it for $1,500. A 60-year-old might pay $6,500. And it might cost $1,500 for each child.
Dental and Vision Coverage	$500 payment to all employees (unfortunately, no commercial coverage is available to individuals, but employees would spend for services).
Disability Coverage	$150 payment to all employees. Commercial coverage may be available on an age-rated basis. The 25-year-old might pay less than $150, but the 60-year-old might pay eight or ten times that much.
Life Insurance	$200 payment to all employees. Again, younger employees could buy a lot of coverage. The 60-year-old would come up far short.
Tuition, child care, fitness center, parking, lunchroom	$1,000 payment to all employees. The company drops all of its free or discounted services.

"Improving Satisfaction"

If some of the luster of communicating total compensation has faded under close examination, maybe the "improving satisfaction" goal will provide a bright spot — or maybe not.

Where did the idea come from that any element of compensation is designed for satisfaction? Can employees really be satisfied with pay or benefits? Not even multimillion-dollar professional athletes are satisfied with their pay. Why would people with more modest pay levels be satisfied with pay or benefits?

If employee satisfaction were the objective for benefits, there would be:

- no employee contributions
- no employee out-of-pocket costs
- no restrictions on selection of care providers
- no limits of any type.

Nonetheless, it's quite common to hear of companies conducting benefit satisfaction surveys. Naturally, employees' expectations soar. It's apparent to them that management intends to attain benefit satisfaction — why else ask about it?

Surveys can create problems when employees are asked how they would fix things that management doesn't think are broken or has no intention of fixing (such as: Which benefits should be improved? Would you like a fitness center at your location?). Problems also are created when employees are asked for their opinions about things they don't understand (such as: How well is the "reasonable-and-customary" provision helping control costs? How well-balanced is the contribution level among the traditional medical plan and the health maintenance organizations?).

Surveys are powerful communication tools. But the right questions must be asked about the right topics. **Rather than asking about satisfaction, more valuable information can be gathered by asking employees about the program's competitiveness, the perceived value, the level of understanding, or how well the plans attain stated goals or support the organization's mission.** Questions about satisfaction may be appropriate if they are focused on the level and adequacy of service provided by the HR staff, claims processors, and in some managed care programs, the health care providers.

Helping Your Organization Define the Destination

If you're wondering why, halfway through this article, "total compensation" has yet to be defined, that's the point. **Too many total compensation communication messages have been sent to employees before the organization has clearly defined what it means to be totally compensated.** When management is asked to define what total compensation means, how the total compensation philosophy will be demonstrated, what employees are expected to do with the information, and how the success of the new program will be measured, the answers do not always support introducing a total compensation campaign.

Unless these questions are asked and clearly answered at the start, the communication campaign runs a great risk of becoming another example of what employees asked and view as the "slogan of the month" ("zero defects," "work smarter," "pay for performance," "customer-driven") or the "say/do" gap — an unfortunate result that reinforces cynicism rather than reshapes the organization's values. Human resources professionals can prevent this problem by helping members of senior management define the behavioral issues — what the organization will be able to do when it has achieved a total compensation program, what employees will be able to do with their total compensation. If senior HR managers don't direct this discussion, they may have to clean up the mess left by the "increase appreciation," "attain fairness," "level the playing field," "improve satisfaction" messages that failed to measure up to expectations, whether of management or employees.

Defining Total Compensation

The first step in developing a total compensation communication campaign that will not be an empty slogan is defining the total compensation elements. Here is a starting point.

Total compensation can be separated into three broad categories — pay, protection, and perquisites.

> **Pay:** Salary, bonuses, profit sharing, stock options, and any other form of compensation that is convertible into money.

Protection: Health care coverage, life insurance, disability insurance, retirement programs and any other plan that provides employees or their families with financial protection.

Perquisites: Company-sponsored programs and activities employees can use under certain conditions, including tuition reimbursement, product discounts, child care centers, fitness facilities, wellness programs, flexible work schedules, parking discounts, etc.

It's important for employees to understand that all elements of total compensation have value. Some of the elements are easy to measure, others are not. And there are many ways of assigning a value — all leading to different dollar amounts. The challenge is to develop an accurate, meaningful, and uniform measure of value that employees — including managers and human resources representatives — will understand and believe. If this challenge isn't met, the values set for various elements of total compensation may not hold up under employee scrutiny. Worse yet, the dollar amounts shown for certain protection and perquisites may come back to haunt the organization as employees try to use the dollars they were told are part of their total compensation.

Communicating an Individual's Total Compensation

The value of an individual's pay is easily measured. Paychecks and W-2 Forms provide clear and simple total pay statements. Some stock plans are more difficult to value. The stock market provides one measurement, but it changes day to day. Anyone who has spent time trying to define the value of stock options can probably name several other measurement techniques, including some in the recent SEC guidelines for disclosing executive compensation.

The major challenge lies in defining the value of the protection elements of total compensation for each employee. **Many organizations spend far too little time thinking through the various cost methodologies when preparing the dollar amounts shown on the virtually ubiquitous computer-generated total compensation reports** that are distributed to individual employees. As a result, employees often doubt the validity and accuracy of the information. When this happens, the positive impact management expected may not be attained.

Assigning Dollar Values for Protection Benefits

Here are some of the common cost methodologies used to assign dollar values to the protection element of an individual's total compensation. For each method, you must carefully weigh the pluses and minuses against the objectives of your program.

Potential Coverage. one method of valuing various benefits could focus on "potential coverage" — the maximum amount that could be paid. This would include the $1 million in health care benefits and the hundreds of thousands in retirement benefits. **For employees, this is the ultimate "what's in it for me" message.**

Average Cost. The simplest and most often used method is to tell each employee the "average cost." No fancy sophisticated statistical measure is needed — just divide the total amount paid out for each protection element by the number of employees covered. It's simple but problematic. It ignores the realities of age, sex, and length of service. **The average amount is far too high for some employees and vastly understated for others.** (Check out the "level playing field" example.)

Probably the most troublesome use of the "average cost" technique is with health care benefits. Nearly every personalized benefit statement sent to employees contains something like, "The company pays $4,000 for your health care." Most employees doubt the accuracy of this number — and for good reason. It is an average. over 80% of the employees will get less than $4,000 back from this "investment." Furthermore, they can prove that this dollar amount is bogus. When employees ask for the $4,000 because they have coverage under their spouse's employer's plan, often they do not get a dime. **Even under flexible benefit programs, employees who elect no medical coverage can receive only a few hundred dollars — not the "average cost."**

Actuarial Value. So if the "average cost" methodology isn't the perfect answer, how about "actuarial value?" This technique takes the total amount paid by the organization for the protection plans and actuarially adjusts the amount for each individual based on age, sex, length of service, and other factors. Any actuary armed with morbidity and mortality tables can develop some weighting factors to reflect the value of each plan to an individual.

Personal Use. Another method to determine the individual value is to use the amount of protection coverage the person actually used. This provides employees with the "what the company has done for you" view of the value of protection benefits. Like the other methodologies, this is not without problems. For most employees, the actual claims paid or HMO membership costs will be a modest figure. For a few employees, the claims paid out will be quite large — and may generate a negative reaction. Would the parents of a premature baby who lost its struggle to live appreciate a reminder of how much the company spent on the medical bills?

Retail Price. Clearly, there is no perfect way to value the protection benefits on an individual basis. Using average costs, actuarially weighted average costs, or even actual costs all miss an important element — the amount the employee would spend to buy the coverage. In other words, what would be the retail price of the same coverage if an employee bought it on the open market from an insurance agent or HMO?

The retail approach has a lot of merit. Insurance companies and agents can be contacted to provide the prices. Employees can test the accuracy of the information by making their own phone calls. There are two small drawbacks. First, not every plan is available on an individual basis — no individual dental coverage is sold. Second, sometimes the retail price may be lower than your "average cost" because insurance companies can restrict the coverage to people in good health (those who can provide "proof of insurability," in insurance terms). Nevertheless, this methodology is the easiest to explain.

Determining the Value of Perquisites

Many of the same challenges in determining the individual value of protection plans are encountered when setting the value of perquisites. Organizations could show the potential coverage — the total dollar amount that could be paid out if the employee made maximum use of every available service and program. This could be a huge number. It is more realistic to take the total amount actually paid out and divide it by the number of employees to determine the average cost. The organization could estimate the actuarially weighted cost or the retail cost of the right services and programs. Another approach could be to show each employee the actual amount used. Yet, how can a dollar value be placed on some of the emerging work/family programs such as flexible work schedules?

As in the case when communicating an individual's protection benefits, selection of the "right" methodology must be based on the answer to the question, "Why are we telling employees this information and what do we expect them to do with it?"

Getting on the Right Path

As you have seen, there are many things you could step in on the path to communicating total compensation. To make the trip as trouble-free as possible, you need to start with a clear view of your organization's definition of each element of total compensation.

In defining the goals, there are several other questions to answer. Does senior management want to mix all elements of compensation — pay, protection, and perquisites — into a total compensation package? Do all the elements have similar objectives that can be blended together? Do all forms of compensation have a clear and easily explained dollar value? Does management intend to imply that protection benefits and perquisites can be bartered for pay — or vice versa? Does senior management have a uniform competitive target level that applies to all compensation elements — or different targets for various elements? For example, if management wants the organization's program to be rated high in the marketplace for pay, but low on benefits, does a total compensation philosophy enhance that objective or blur it? Is "fairness" or the "level playing field" a goal management truly wants to attain?

With answers to these questions, senior management can decide if communicating a total compensation philosophy is the right approach for your organization.

Total compensation can be an important concept that employees should understand. But clearly, throwing total compensation numbers at them is not a quick fix for improving satisfaction or increasing appreciation of benefits and perquisites. Management at your organization must first identify what it expects employees to do with the information, what it wants employees to know about total compensation, and how the success of the communication effort will be measured. By knowing the specific destination in advance, you can thoughtfully create the communication campaign and make it a solution to an employee relations problem — not another empty slogan.

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