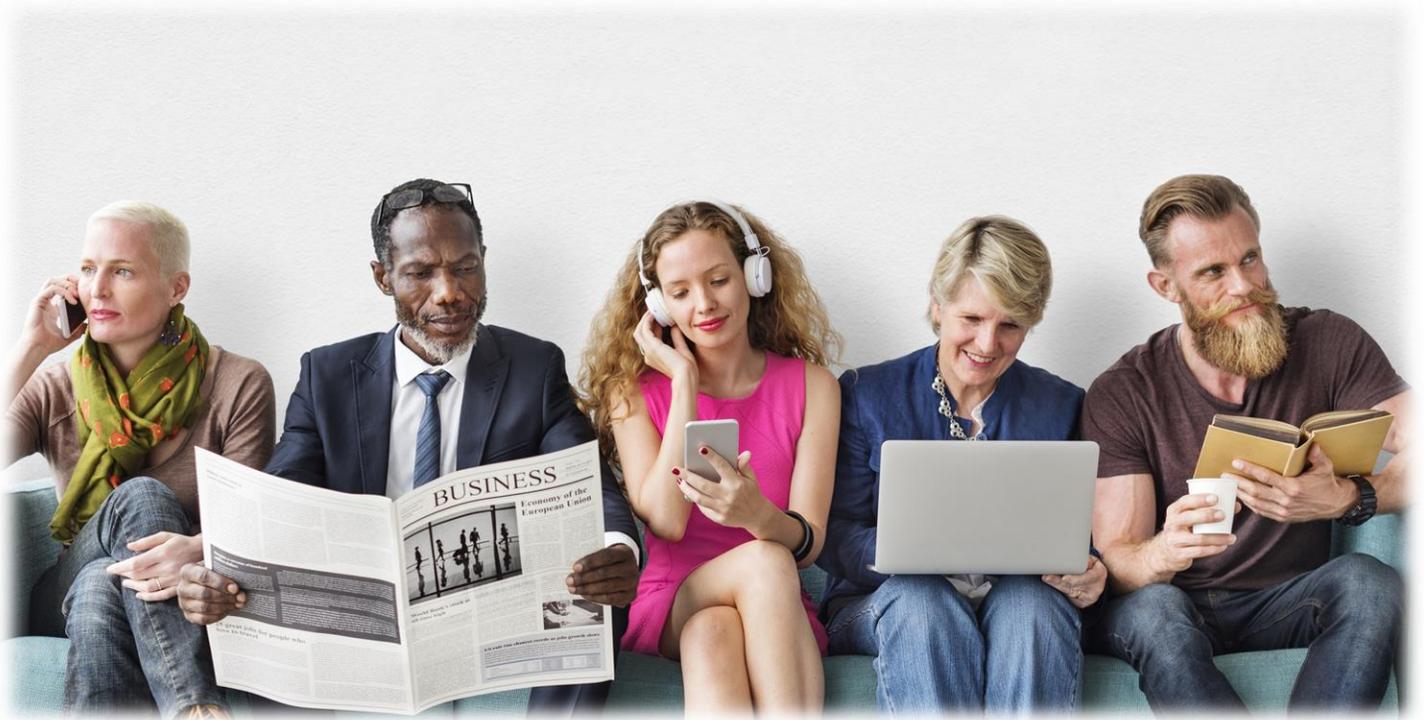


Modern Compensation and Performance Practices



# WHAT MOTIVATES TODAY'S WORKFORCE

An Optimum Comp Advantage, Inc. Study

Third Edition

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## About This Study

For the third edition, Optimum Comp Advantage, Inc. (OCA) conducted a research study of professional level employees in southern California. The study collected data that revealed the respondents' preferences regarding workplace compensation and performance practices.

The following describes the demographics for participating employees and the study categories.



3,000+ college educated professionals



Ages 25 to 65

Study participants were equally distributed between the age groupings. Participants were asked to rank the following components of total rewards as motivating factors.

### COMPENSATION/BENEFITS



- ✓ Competitive base pay
- ✓ Incentive compensation
- ✓ Health care benefits
- ✓ 401(k) benefits
- ✓ Other traditional benefits
- ✓ Non-traditional benefits

### PERFORMANCE/WORK ENVIRONMENT



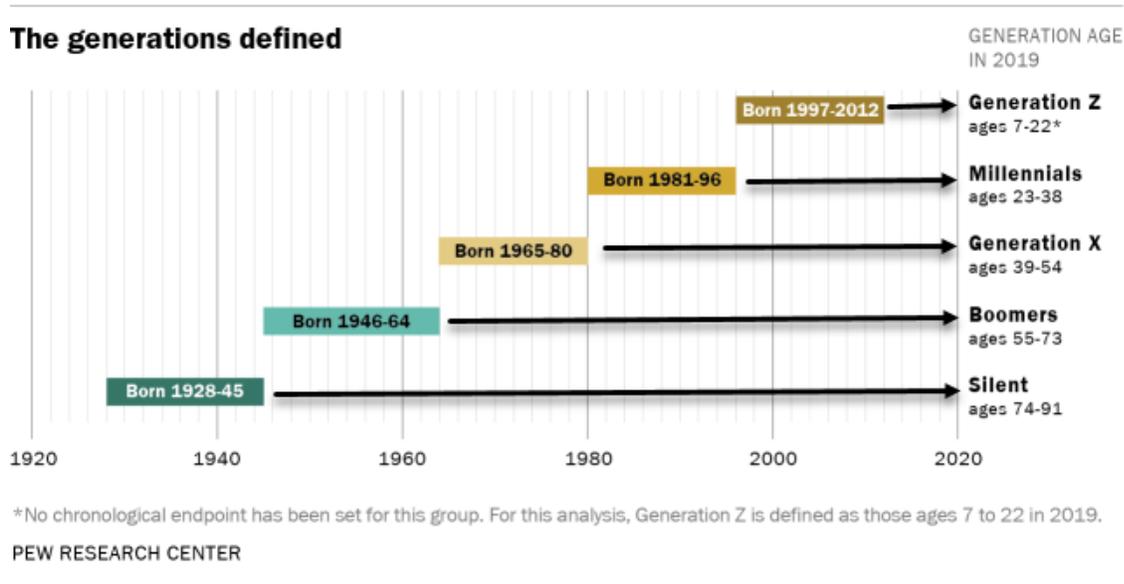
- ✓ Performance reviews
- ✓ Merit increases (Pay-for-Performance)
- ✓ Interesting and challenging work
- ✓ Manager engagement

## Introduction

Today's workforce may include four generations with another knocking on the door. However, as the largest segment, millennials still wield a powerful influence over companies and how they manage their business.

**Defining generations is not a precise process.** The millennial birth date range for one study may overlap with another's Generation Z. Some studies even created subgroups for those on the cusp of two defined generations. It's like an exercise in astrological signs.

The graphic below is an example of how Pew Research Center defines the generations.<sup>1</sup>



While most are weary of all the millennial chatter (including millennials), the numbers cannot be ignored. Forecasters predict by 2020 millennials will make up more than half of the American workforce. By 2025, 75 percent of the global workforce will be millennials.<sup>2</sup>

Studies report the following about other generations in the workforce.

- Boomers are working longer than previous generations<sup>3</sup>
- Nearly half of boomers expect to retire after age 65<sup>4</sup>
- By 2026, workers age 55 and older are projected to drop to 39% of the workforce<sup>5</sup>
- Generation Z (post-millennial) employees are beginning to enter the workplace

No matter how you define the generations, an estimated 75 percent of the workforce will be 45 years of age or younger by 2028.<sup>6</sup>

Optimum Comp Advantage, Inc. (OCA) conducted our first compensation and performance practices study in 2015. Its main objective was discovering which practices were most important to millennials. OCA used a similar method in 2017 and received comparable responses.

For our third edition we took a different approach. Categorizing generations is arbitrary (at best). And we certainly understand the millennials' resistance to stereotyped labeling. Few of us appreciate being typecast into someone's definition of who we are, based on when we were born.

So, OCA decided to broaden our scope. We studied employees between the ages of 25 and 65 and grouped their responses into the following classifications.



Our study observations are made using specific age groupings for identification. However, this report may use generational terms when sharing outside studies or survey results.

*What Motivates Today's Workforce* focuses on how employees ranked specific components of total rewards. Our analysis reviews compensation influencers and the role of performance in compensation. We hope by learning what motivates today's workforce you can create optimum compensation and performance practices for your business.

## Optimum Compensation

For all the competitiveness of today's benefits, compensation still reigns supreme. Four out of eight countries in a global study cited "minimal wage growth" as the top reason millennials would quit a job.<sup>7</sup>

*An astounding 78% of millennials in the U.S. ranked minimal wage growth as the top reason they would quit a job.*

EY Global Generations Study

### Competitive Base Pay is Still #1

The OCA study found similar results. Respondents, age 55 and younger, rated competitive base pay as their top motivating factor. Only employees ages 56 to 65 did not give it top billing. That is not surprising as older employees transfer their focus toward retirement and benefits such as 401(k) contributions.

**How important is competitive base pay?** One employee engagement report found 43% of workers would be willing to leave their companies for a 10% salary increase.<sup>8</sup>

PERCENT RANKING COMPETITIVE BASE PAY AS TOP MOTIVATING FACTOR



SOURCE: OCA'S 2019 COMPENSATION AND PERFORMANCE STUDY

In the OCA study, the highest ranking (71%) for competitive base pay came from employees ages 25 to 35. The next two age groups were not far behind at 66% (ages 36 to 45) and 62% (ages 46 to 55).

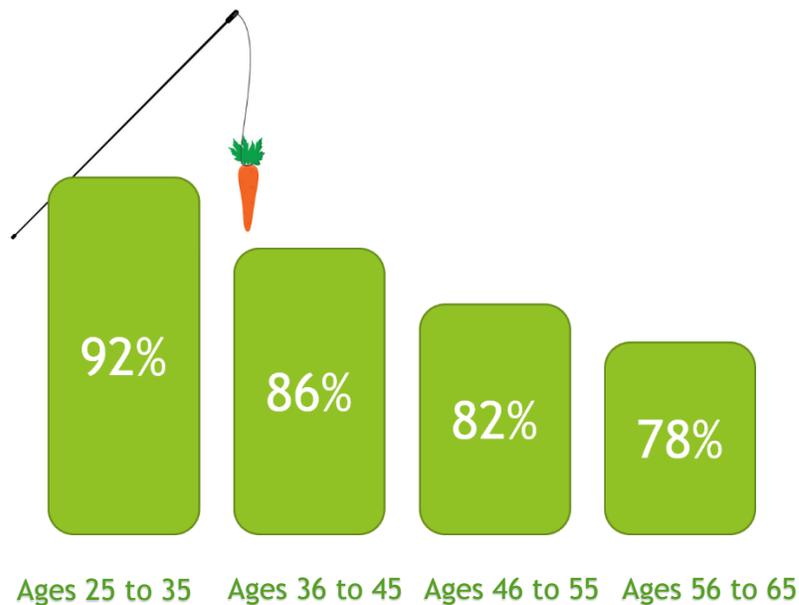
2019 was the third year where employees ages 25 to 35 ranked competitive base pay as their top motivator. Yet, additional findings show this age group's responses *are* evolving.

### The Value of Incentive Compensation is Changing

Think about your own career. As you gained more knowledge and experience, your career goals probably changed. What motivated you in the past, may have shifted while other influencing factors became more important.

The third edition of the OCA study shows the same shift in respondents ages 25 to 35.

PERCENT RANKING COMPETITIVE BASE PAY + INCENTIVE COMPENSATION  
WITHIN TOP 3 MOTIVATORS



SOURCE: OCA'S 2019 COMPENSATION AND PERFORMANCE STUDY

Most employees from all age brackets ranked competitive base pay plus incentive compensation (also known as variable pay) in their top three. But it was in the 25 to 35 age grouping where we saw the biggest change.

In the first OCA study, 62% from that age group rated incentive compensation among the *least* important reasons to stay with a company. Today, most (92%) rank incentive compensation (coupled with competitive base pay) as one of their top three.

This employee group is “growing up.” They want it all – competitive base pay, career/incentive opportunities, and interesting or challenging work. In one survey, over half (52%) of millennials selected “career progression” as the main attraction for staying with an employer.<sup>9</sup> If these essential components are missing, other rewards, such as equity, will fail to act as a motivator.

Much has been reported about turnover in this age group. However, if you deliver on what motivates them, you will have a distinct competitive advantage.

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*“Turnover behavior is not so much about generational behavior as it is about career stage.”*

2019 Retention Report, Work Institute

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### Non-Traditional Benefits are the New Norm

Employer-sponsored health insurance exploded in the 1950s when the U.S. government ruled employer payments would be tax-free. Companies continued to expand their benefits to lure top talent for job openings.

Traditional benefits are no longer the strong attraction they once were. Employees expect them and every employer needs them. However, with unemployment at a low 3.7%,<sup>10</sup> the hunt for talent is incredibly competitive. Retention has also become a challenge. One global survey showed nearly half (49%) of millennials would quit their job within the next two years if they have the choice.<sup>11</sup>

Employees are looking for more than the standard benefits. Yet, most employers offer the same benefits that have been around for over half a century. How does that make one company stand out from others? The simple answer is – it doesn't.

The competitive marketplace compels employers to become more creative. Employers need to tap into what attracts the kind of talent they are looking for. Modern benefits reflect today's workforce and incorporates our digital world.

Non-traditional benefits are a strong attraction tool every employer should consider for their workforce. The challenge is combining the right benefits and keeping them relevant and competitive as your labor force changes.

THE RIGHT BENEFITS ATTRACT AND KEEP  
THE RIGHT TALENT.

EXAMPLES OF TRADITIONAL VERSUS NON-TRADITIONAL

TRADITIONAL

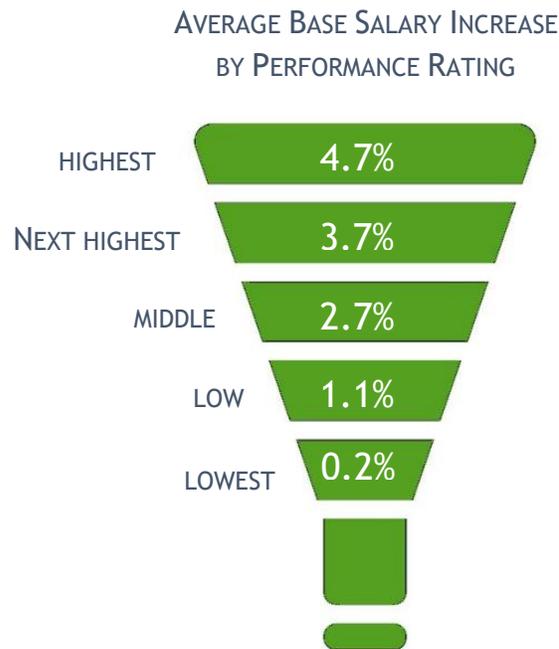
- HEALTH CARE BENEFITS
- DENTAL BENEFITS
- LIFE INSURANCE COVERAGE
- SHORT/LONG-TERM DISABILITY COVERAGE
- PAID TIME OFF (PTO)
- SICK TIME BENEFIT
- TUITION REIMBURSEMENT

NON-TRADITIONAL

- UNLIMITED OR OPEN PTO BENEFITS
- FERTILITY SERVICES
- FINANCIAL WELLNESS
- COLLEGE DEBT ASSISTANCE
- PRESCRIPTION COST TOOLS
- PROVIDER QUALITY TOOLS

## Performance Optimization

Although employers are concerned with attracting and keeping talent, average salary increase budgets remained at 2.9% in 2019. Most organizations (88%) use individual performance for base salary adjustments. However, nearly half (48%) still use merit increases with a five-level rating structure.<sup>12</sup>



SOURCE: MERCER'S 2018/2019 US COMPENSATION PLANNING SURVEY

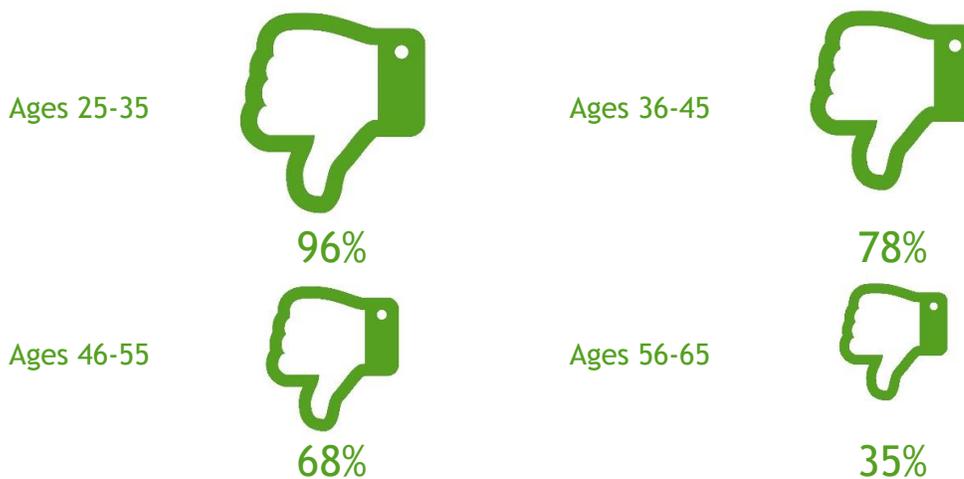
Traditional merit increases “...reward mediocrity. At best, your top performers receive 1% to 2% more than average performers.”<sup>13</sup> The above survey results confirms those findings.

## Merit Increases Do Not Measure Up

Outdated merit increases did not fare well among younger workers in the OCA study. Merit increases have been and continue to be a mere cost of living increase. They do not reward the true value or results of individual performance.

Companies may call merit increases “Pay for Performance,” but most study participants are not motivated by this form of compensation.

### PERCENT RANKING TRADITIONAL MERIT INCREASES IN BOTTOM 3



SOURCE: OCA'S 2019 COMPENSATION AND PERFORMANCE STUDY

Nearly all respondents (96%) in the 25 to 35 age bracket placed merit increases in the bottom three of motivators. Most employees in the next two age brackets also relegated merit increases to the bottom.

## Performance is Personal

Older workers tend to be more accepting of traditional forms of performance reviews. Younger workers? Not so much.

Employees in the 25 to 35 age group want to see evidence that their performance makes a difference. They look for that connection between the company's success and their individual efforts.<sup>14</sup> Performance is definitely personal. Traditional performance reviews fail to make that connection.

## How You Can Help Make Performance Personal

Traditional compensation and performance practices act on auto-drive – set it and forget it. But the business world is dynamic. Think about how many times you adjust to customer or market changes. Why wouldn't you do the same for your workforce?

Modern compensation and performance practices make the connection for your employees. They show how an individual's personal results influence the success level of your business. Staying competitive requires an ongoing and interactive process driven by your business needs.

The following offers a framework for evaluating your current compensation and performance practices. How do your practices measure up?

### MODERN COMPENSATION AND PERFORMANCE PRACTICES FOR BETTER BUSINESS RESULTS

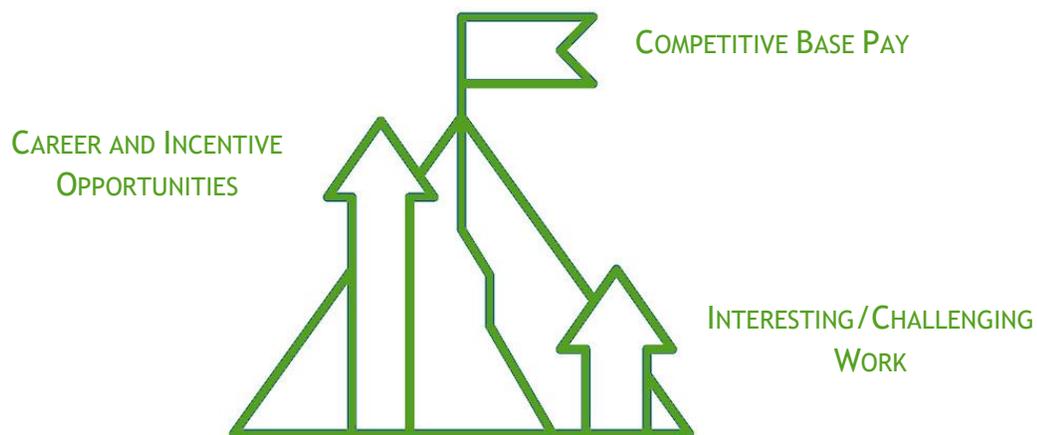


## Conclusions

Today's workforce is an influential powerhouse. Employees want an integral role in shaping the world, their careers, and the way businesses work.

**You need to deliver on essential employee motivators.** Low unemployment rates and changes in work behaviors challenges employers to attract and keep the best talent. Today's workforce has little patience when essential work motivators are missing.

### ESSENTIAL MOTIVATORS FOR TODAY'S WORKFORCE



Cruising along with traditional compensation and performance practices jeopardizes your competitiveness in the marketplace.

**Modernize compensation and performance practices to reward value and results.** Take a hard look at your company's practices. Do they deliver what today's workforce is looking for?

- ★ An acknowledgement of each employee's value through competitive base pay
- ★ Rewarding individuals and teams for achieving goals and metrics
- ★ Giving top rewards to top performers who make the biggest business impact

Modern compensation and performance practices reap their own rewards. The right performance optimization tools motivate employees to create a success-driven culture, which inspires better business results. And that spells victory for everyone.



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Optimum Comp Advantage, Inc. (OCA)'s consulting practice specializes in designing essential compensation and performance practices for today's workforce.

We specialize in executive and broad-based compensation studies, which include a comprehensive market study for base pay, annual incentive targets, target total cash, and equity. In addition, we design short and long-term incentive plans to align and reward employees and executives for delivering financial and non-financial results.

OCA also specializes in sales compensation designs and practices, which are based on our extensive experience and deep expertise. Our mission is to design effective sales compensation practices that motivate and reward sales professionals to achieve and exceed the company's business strategy.

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