

WHITEPAPER

# How Total Compensation Communications Can Increase **Employee Retention**

## The Total Compensation Message – Making the Case

The need to communicate the total compensation message to employees has become increasingly self-evident among HR practitioners. Recognizing this need is only the first step; in many cases, HR needs to secure buy-in from other executives in the organization. This white paper provides HR professionals with the background and knowledge to speak confidently with executives and educate them about the important benefits of providing total compensation communications to employees.

## The Increased Cost of Providing Benefits

Remember the term “fringe benefits?” Over the past decades, employer-provided benefits such as health insurance, disability insurance and 401(k) plans have become the norm rather than the exception; consequently, the idea that benefits are something extra has faded away. Today, employee benefits are an integral piece of the overall compensation structure; according to many recent surveys, employee benefits account for over 30% of overall compensation costs.

Benefit costs are rising rapidly and have been for some time, easily outpacing gains in wages and salaries. According to the U.S. Department of Labor’s Employment Cost Index, for the 12-month period that ended in March 2005, wages and salaries rose 2.4% while benefit costs increased by 5.9%. The same report notes that in the first quarter of 2005, increased benefit costs accounted for almost 60% of the increase in compensation costs.

While some employers cope with rapidly rising costs by decreasing benefits or passing along cost increases to employees, most do not. When it comes to health insurance, for example, most employers still pay a significant share of the overall cost. According to the Kaiser Family

Foundation’s 2004 Annual Survey of Employer Health Benefits, employers covered, on average, 73% of the cost of health insurance premiums.

## Helping Employees Understand the Total Compensation Picture

While many employers believe they are doing a good job of insulating employees from the rising cost of benefits, most rank-and-file employees have a different perspective. Employees who do not regularly receive total compensation statements are generally unaware of how much their employer spends on benefits.

When an employee thinks about how much he or she earns, the figure that usually comes to mind is the dollar amount on their paycheck. Most employees don’t realize that their paycheck is only one part of their overall compensation package.

Consider a hypothetical employee whom we will call John. John’s base salary is \$75,000. If you ask him what he earns he will likely tell you “\$75,000.” Unfortunately, John is forgetting about the benefits package he receives which probably looks similar to this:

Benefit	Annual Cost to Company
Health Insurance	\$7,000
Dental Plan	\$500
Life/AD&D Insurance	\$150
Disability Insurance	\$600
Employer share of FICA	\$5,738
401(k) Match	\$1,700
<b>Total</b>	<b>\$15,668</b>

John’s total compensation is \$90,668, 21% higher than his base salary. John would certainly take note of a 21% raise. Communicating the true value of his total compensation package can have a similar impact at a far lower cost.

## Personalized Information Bridges the Knowledge Gap

The key to bridging this knowledge gap is educating employees on the true value of their total compensation. One of the most effective means of educating employees is to utilize personalized information that clearly lays out the details of a total compensation package. This approach has a number of benefits, including:

- Increased employee satisfaction
- Increased loyalty to employer
- Reduced turnover

Let's return for a moment to our hypothetical employee. As we noted, he has a base salary of \$75,000 but his total compensation is \$90,668. With the employment market picking up, John may be thinking of looking for a new position, figuring he can earn a better salary elsewhere.

If John has received a total compensation statement from his employer he will be sensitized to the fact that he needs to look beyond just base salary when comparing new opportunities to his current job. All else being equal, he will be more critical when evaluating job offers and, assuming his employer provides a competitive total compensation package, the company is in a good position to keep John on board.

## Reduce the Cost of Employee Turnover

Turnover costs are high and affect an organization in a number of different ways: increased costs for recruitment and training, and lost productivity are the most obvious, not to mention the many soft costs associated with high turnover. Keeping solid

performers is a common goal of all employers; personalized total compensation communications is an important tool for meeting this goal.

"If a tree falls in a forest and nobody is there to hear it," wrote a philosopher long ago, "does it make a sound?" One can easily apply the same logic to the area of employee benefits; namely, if employees do not understand the total benefits they receive, are those benefits having the intended effect?

## Conclusions

As the economy continues to improve, finding and keeping good employees is becoming a higher priority. Clearly, retention is a multifaceted issue that requires a range of actions from various parts of an organization. Personalized total compensation communications represent a critical first step in any retention initiative. Educating employees serves to maximize the effectiveness of an organization's current compensation and benefit plans, thereby increasing the return on the investment being made in pay and benefits.

For more information on total compensation communications and to learn how Charlton Consulting Group can help your organization, contact us at 877-203-5625 or via email at [totalcomp@charltonconsulting.com](mailto:totalcomp@charltonconsulting.com).



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