

## Total Compensation Statements

*A Tool for Education and Retention*

During the past twenty years, total compensation statements made their appearance in the workplace. Whether they were called employee benefit statements, hidden paycheck statements, or most recently total reward statements, the purpose is to show true compensation value to employees. Surveys indicate that benefit premiums continue to increase, and many employers plan to increase salaries minimally. The net result on an employee's paycheck will without doubt create some negativity in the workplace and grumbings of job searches. The total compensation statement can provide a reassuring picture to your employees, and a tangible reminder, of the company's financial commitment to them. Here are some recent statistics for consideration:

- Benefits constitute 30% to 40% of an employee's total compensation package
- Next to direct pay, benefit expenditures represent the 2<sup>nd</sup> largest variable payroll expense
- 95% of employees receiving total compensation statements have a greater understanding of their benefits<sup>1</sup>
- 78% of employees receiving statements are more likely to stay with their employer<sup>1</sup>
- Total compensation statements have proven to improve morale and increase employee retention

### **What's Included in a Total Compensation Statement?**

The first total compensation statements were most likely referred to as benefit statements. Typically, only large companies with the help of outside consultants delivered these nice, glossy statements confidentially to employees. Although these statements were comprehensive, they captured only one part of an employee's total compensation – that being benefits value. The concept of "shared responsibility" was communicated effectively as they typically identified both the employee's and employer's contributions to benefits.

Without the inclusion of other pieces of the total compensation pie, the compensation statement is incomplete. Items that are typically not maintained in the benefit enrollment system also need to be communicated to employees. This includes various forms of cash compensation, retirement contributions, time-off compensation values, and federally mandated benefit values. Many HRIS systems now integrate all of the above items which simplify the process of capturing the data through one database.

At a minimum, the following items should be captured in a total compensation statement:

- ❖ Compensation Information
  - Base Wages/Salary, Overtime, Bonuses/Incentives, Commissions
- ❖ Leave Benefits
  - Holidays – X Days
  - Personal – X Days
  - Vacation/PTO – X Days
  - Sick Leave – X Days Available
  - Bereavement – X Days Available
  - Jury Leave – X Days Available

- ❖ Insurance Benefits – Employee Cost and Employer Cost
  - Medical Insurance
  - Dental Insurance
  - Vision Insurance
  - Flexible Spending/Cafeteria Plan
  - Health Care Spending Account
  - Basic Life Insurance & AD&D
  - Supplemental/Dependent Life
  - Short-Term Disability
  - Long-Term Disability
  - Business Travel Accident
- ❖ Financial Security – Employee and Employer Cost
  - Social Security
  - Medicare
  - Federal Unemployment Insurance
  - State Unemployment Insurance
  - Workers' Compensation
  - Retirement Plan – 401(k) Match and Defined Benefit
  - Employee Stock Ownership Plan
- ❖ Additional Benefits
  - Adoption Assistance
  - Auto Allowance
  - Childcare Program
  - Education/Tuition Reimbursements
  - Employee Assistance Plan
  - Employee Meals
  - Health Club Membership Discounts
  - Paid Parking
  - Uniform Expense

### **The Next Step – Communication**

Once the statements are completed, an important piece in the success of total compensation statements is communication. An organization may provide stellar benefits and reward employees fairly with compensation; however, with education and effective communication, the value of these two components increases exponentially.

Some critical success factors include communication leading up to the delivery of the statements. Giving employees advance notice that statements are on their way will increase the anticipation and awareness. When the statements are available, include a letter from the organization briefly outlining the project (see sample below). Don't assume that employees will automatically review their statements and understand the various components. Set up webinars or meetings to review the items listed and offer one-on-one meeting times for anyone who would like to review theirs individually. Ask for feedback from the employees so you can measure what you can keep, improve, or supplement for next year's statement.

### **Additional Resources**

As employees may want to review their earnings and benefits from the Social Security Administration (SSA) in addition to their company's retirement plan, there are resources available

which allow them to access this information electronically. Once a Social Security account is set up online, the following information can be accessed:

- ❖ Estimates of retirement and disability benefits
- ❖ A list of lifetime earnings according to Social Security's records
- ❖ The estimated Social Security and Medicare taxes that has been paid
- ❖ A printable version of an individual's Social Security Statement

Since paper Social Security statements are no longer produced, it is recommended employees access their information online annually to review for accuracy.

### **Summary**

Total compensation statements have evolved from including only benefit information to a complete outline of total rewards. As important as the content is the method of communication and education to employees. Reduction in turnover will reduce replacement costs, but the bottom line is improved morale which creates a happier workplace.

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### **Sample Compensation Statement<sup>2</sup>**

We appreciate the invaluable contributions made by our employees over the past year. We recognize that our success as a company is dependent upon our people, who truly are our greatest assets. Consequently, it has always been our policy to try to provide our employees with a comprehensive and competitive compensation and benefits program. While benefits costs have increased in recent years we are still committed to that goal.

We have provided the enclosed Total Compensation and Benefits Report to keep you informed of our programs and the company's contributions to those programs. Your compensation includes so much more than your wages or salary. It also includes significant company contributions to programs intended to help protect your personal and financial well-being. We've provided information on many of those key benefits.

Please review the report and share it with your family (as appropriate). If you have questions regarding the report or any of our benefits programs please don't hesitate to contact Human Resources.

Thank you for your contributions to our success.

<sup>1</sup>2007 Aon Consulting Study

<sup>2</sup>HRN Performance Solutions – HR Suite Library Forms & Tools