The changing nature of work – what does it mean for employee benefits?
In relation to the human resource strategy and specifically the provision of employee benefits, demographic and technological change have already resulted in some changes in relatively recent years. Yet there is much more potential for fundamental change coming, change in how we organise ourselves, our employees and our work. Work in the future will be different from what we have come to perceive as normal. In turn, employee benefits will change. How work gets done, when, where and by whom, is becoming more varied and fluid. Historically, a workplace has been a place where people come to undertake tasks needed by the employer, such as managing the supply chain, research and development, sales, marketing, customer service, financial reporting and so on. In future, work will be more malleable and the question as to which tasks are performed inside the organisation and which outside will arise more often. Increasingly work will be done outside of ‘jobs’ so the nature of employment will significantly change. Some of this change is evident today. In most, if not all, large employers today, there are traditional permanent full-time employees alongside contract employees doing fixed term projects, outsourced arrangements, offshore back offices, alliances and labour hire platforms ready to supply labour at very short notice.

Willis Towers Watson anticipates further variation in employment models, largely enabled by advancements in technology. In an article published in the Harvard Business Review in 2016, Willis Towers Watson consultants Ravin Jesuthasan, Tracey Malcolm and George Zarkadakis wrote about the difference between pivotal roles and proficiency roles. Pivotal roles are those in which discretionary behaviour and effort by the employee has the capacity to substantially increase value for the organisation. Proficiency roles are those where above a certain minimum standard, little additional value is generated by discretionary behaviours.

Job roles that reward discretionary effort are less likely to be automated or performed with artificial intelligence. Proficiency roles are more likely to be automated, a change which could well achieve a higher level of reliability in meeting the required proficiency standard.

This disaggregation of job value potential together with the disaggregation of how work functions can be performed is leading organisations away from the traditional employee relationship into bespoke arrangements for different people and different roles.

Some data regarding recent trends in the employment market in Australia are given in Appendix 1.

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1 From “The Leopard” by Guiseppe di Lampedusa
2 “Automation will make us think what a job really is” Harvard Business Review, October 12, 2016 available at https://hbr.org/2016/10/automation-will-make-us-rethink-what-a-job-really-is
The implications for employee benefits

As jobs are disaggregated into tasks and activities, so too will employee benefits. This paper explains that the key change in designing benefits will be to stop thinking about benefits in respect of a given employee and start thinking about benefits in respect of a given task.

Current thinking about the total reward package of remuneration, benefits and non-monetary rewards considers each component in relation to a given employee, or group of employees. This model will continue but will have to be supplemented by a new model, one that defines the work tasks to be done, how to achieve those tasks and how to pay for them. As is explained below, the purpose of benefits is primarily that of protecting and improving productivity in the workforce (see Figure 1).

It is common to justify the provision of benefits, at least partially, as a means of attracting and retaining staff. That is, benefits help create the employee value proposition and are useful in competing for labour talent. Particularly in markets where labour talent is scarce, such a competitive advantage in managing the workforce should be sought and exploited.

How valid is such justification? Is it a happy coincidence of wants that sees both employer and employee satisfied with their benefits? There can be a coincidence of wants between an employer and an employee, but there is much variation across businesses, employees and time as to the value of benefits, as perceived by the employees. The fact that benefits are provided even when the employees report they would prefer cash indicates that there must be other reasons for the provision of benefits. This topic is explored in Appendix 2.

...stop thinking about benefits in respect of a given employee and start thinking about benefits in respect of a given task.

The economics of non-wage labour costs (NWLC)

In fundamental terms, labour markets facilitate the payment to labour of only what that labour is worth. In short-run business planning decisions, capital is fixed while the labour supply is quasi-fixed, owing to frictions, rigidities and regulations. In the longer run, the rigidities are removed, diminished or avoided: over time employers can adjust the mix of labour and capital or change the source of its labour. However, since the labour supply is quasi-fixed in the short to medium run, businesses must protect their investment in human capital. It is expensive and time consuming to generate an increase in productive labour or to reduce unproductive labour.

Figure 1: The changing focus
Within this framework, what then is the purpose of employee benefits? Benefits are a type of NWLC. NWLC fall into three broad categories:

- Selection
- Protection
- Improvement

Selection, the process of recruiting the right resource for the job, involves finding, screening, assessing, skills validation, probity checking, cultural fit assessment and so on. Depending on the role, it can take months and can be an expensive process. As pivotal roles and proficiency roles become increasingly distinct, the selection costs for pivotal roles are likely to increase even further, although partly offset by lower costs of selection of proficiency roles. The incidence of selection costs for proficiency roles may shift to the intermediary that supplies the labour.

Traditionally, employee benefits have referred to that collection of items that form part of the protection category. Benefits include insurances against death, disablement and sickness. They include retirement benefits, pensions and superannuation, and employee assistance programs.

Less traditional benefits include items that form part of the improvement category such as training and education, flexible working arrangements, wellness programmes, fitness club memberships, various types of absence from work, both paid and unpaid leave and other similar programmes.

**Managing productivity**

Businesses incur NWLC to protect and improve employee productivity. During the course of a typical employee's working life, employment productivity rises rapidly at younger ages, stabilises in the middle years and then declines on approach to older ages (see Figure 2). Total remuneration received does not typically follow the same pattern. Remuneration rises more rapidly at younger to middle ages, then flattens but does not tend to reduce for employees in a permanent role. This conceptual diagram will vary in practice according to the role and the employee.
Consequently, falling productivity, but stable or slightly rising remuneration will mean the employee eventually could become a strain on the business, rather than adding value. NWLC are incurred as a necessary part of doing business by running programs to help minimise this economic divergence.

Protection strategies include benefits that guard against sudden total loss of productivity owing to death, sickness, injury etc. such that the employee must immediately cease work. The availability of insured (or self-insured) funds allows the employer to compensate the employee (and their dependants) for essentially removing them from the business and replacing them with a fit and healthy new employee, either temporarily while the original employee recovers or permanently if necessary.

Exactly the same principle applies when it comes to old age. In economic terms, the pension, or superannuation lump sum, is in effect a depreciation fund for labour. As old age eventually results, inevitably, in the employee being unable to work as productively, having funds on hand provides the opportunity for employees to retire as they become less productive. The orderly retirement of employees and the workforce renewal process requires careful management as there are several potentially competing interests. Retirements open up opportunities for the promotion of younger employees. However, older employees also have skills and attributes that the younger employees have not necessarily developed, although younger employees will have more up-to-date technical skills. A balance is necessary.

Improvement strategies include wellness programmes, in the widest possible terms, including paid time off work, health management programmes, financial wellness programmes and family-friendly work practices to guard against poor health, stress, reduced energy and engagement. They include education opportunities to prevent the gradual decaying of productivity from skills obsolescence and the inability to adapt to change.
Disaggregating the productivity risk profile

New employment models and new ways of doing work will require changes in the mix of total rewards, part of which will be a change in the benefits provided, both in terms of quantum and type. Since the underlying purpose of benefits is, as explained above, to help mitigate the risks of deteriorating productivity, then the employer must analyse how it is to assess, if indeed it can assess, productivity among the widening groups of human capital (eg employee, contract, outsourced etc) and what are the risks to that productivity over time. In simpler times, old-age, sickness and accident were the prime risks of an employee failing to meet productivity standards for their pay-grade. In future, these components will still exist but there will be new additional components. New skills will be required for new jobs, old skills will become redundant; customer behaviour and expectations will change; employee health may change.

As jobs are disaggregated into tasks and activities, so too will the productivity risks disaggregate. Therefore, scope for the type of benefit to be provided to mitigate these risks will expand. However, it is not necessarily the responsibility of the business to facilitate the mitigation. The responsible party will depend on how that party is being used to add value to the business. Over the last few hundred years in the western market economy, growing from the feudalism prior to the industrial revolution, community expectations of employers increased to the point where the employer is accepted as owing a duty of care to employees, and has a moral obligation to employees and their dependants in times of sickness, death, disablement and old age. Legal liability has also developed and clarified around the responsibility of an employer to employees, contractors and the general public to provide a safe workplace.
There is nothing stopping such community sentiment developing this idea and expanding it across new varied forms of employment, but at least in the medium term, it is unlikely that an employer using a labour hire platform for short term staffing needs would feel any obligation or economic need to protect or improve the individuals who fulfil the short term role other than, say, for accidents occurring on the worksite. Instead, it is more likely that the labour hire platform and the individuals hired out would share that burden.

When it comes to the permanent employee, it is more likely that they will be needed in pivotal roles, and the need to protect and improve the human capital will increase, not reduce. We see businesses even more concerned about selecting the right employees and protecting that investment in the pivotal roles. There will be fewer such roles in any given business but they are the roles with the greater potential to add value. They will also be much harder roles to fill and it is here that the talent shortage will be obvious.

The Australian superannuation system is the dominant vehicle for delivering benefits in Australia, with the primary benefits being retirement benefits, life insurance and disablement insurance. What this usually means is that an employer contribution to a superannuation fund finances tax, expenses of administration and investment management, insurance premiums and what is left over finances retirement. It is an example of a group scheme.

The key structural arrangement is the link between the group of employees, their employer and the fund. The funds provide benefits to the employees but it is all financed by the employer. In effect, the employers are both the financial sponsor and the distribution channel by which a superannuation fund or insurance company distribute their product. This system has evolved over time and retains the links between benefits and the employment relationship (and specifically salary or wage.)

Group schemes have significant advantages over individual plans or policies. Group schemes are simpler to administer, less costly as a result and risk can be spread and hence absorbed more readily by the risk carrier. It is unlikely that the advantages of group risk plans will be abandoned simply because the old employer/employee groupings are changing. Instead, what is more likely is that there will be a number of new groups emerging. Some will be a group of employees of a single employer as we know today. Some will be based on affiliations of like-minded people with similar circumstances. Some will be based on the intermediary groups that facilitate labour supply to businesses.

The changing nature of work will therefore have ramifications for the world of employee benefits. The link between the employer, the fund or insurer providing the benefit and the employee in receipt of the benefit will be further weakened. The employer group scheme will become less prevalent. But new relationship groupings will emerge and they could generate their own type of group scheme.
What to do next?

The disaggregation of work will result in a disaggregation of benefits.

Figure 3 shows a Benefit Design model. It focuses on benefits that are designed to meet the protection and improvement motives. This model can be applied currently to a traditional workforce and it will also apply to the future workforce.

Three classes of Improvement policies and three classes of Protection policies are identified. Under each, the types of productivity risk to be mitigated are listed. At the outer level, all individual benefits must adhere to predetermined cost constraints, be designed and delivered in an effective way and meet the business' governance standards. Over time, the risks to productivity may change and the classes of benefits to mitigate those risks will develop.

As businesses redesign how work gets done, this analytic tool can then assist in developing the employee benefits part of the rewards framework.
As jobs are disaggregated, businesses will have to re-consider the risks to productivity that will arise and find new ways of mitigating those risks. This is essentially an optimisation exercise: some benefits will no longer be required. The savings created could be put to use to provide better and more effective benefits in other areas. The high value limited supply people will be able to demand personalised benefits, that are differentiated although provided in low volume. The less valuable workers will not be able to command that market premium. An analysis of the role that benefits should play should run in conjunction with an analysis of how remuneration should be structured.

Not only will the business have to consider its own workforce, but it will need to consider, at least to some extent, its supply chain. The underlying risks to productivity and human life are not changing – but the incidence of how those risks are borne will change. The Figure 3 model should be used as a guide for:

- Identifying protection needs and improvement needs
- Designing benefits to meet these needs
- Establishing the necessary governance restrictions, cost and risk constraints as the business determines how those benefits will be delivered to the developing workforce.

Given the increasing plurality of employment relationships, there will be different benefit practices emerging to address the selection, protection and improvement imperatives for each group.
Appendix 1: Recent trends in the employment market in Australia

The Australian workforce has become increasingly part-time and underutilised in recent years. The relative change in part-time vs full-time work is shown in Figure 4.

Secondly, the level of underutilisation is increasing. The rate of underutilisation is the sum of the unemployment rate and the underemployment rate, i.e. those people with no work, or some work, but wanting more. The rates have been rising, particularly for those aged 15-24.

Over the nearly 40 years charted in Figure 5, the rates of underutilisation have largely doubled across all age groups.
Now add to these trends, the increasing plurality of employment relationships. Figure 6 illustrates the number of different employment relationships already available to businesses. The full-time employee in a traditional employment model seems likely to continue to decline in relative importance.

A recent study of the United States labour market analysed employment numbers by type of job, distinguishing between cognitive and manual, between non-routine and routine skills. This study (see Figure 7) showed the growth areas for employment over the last 35 years have been in non-routine job functions, particularly those requiring a high level of cognitive skill.

It is likely that such a study of the Australian labour market would show a similar result.
Appendix 2: A happy coincidence of wants?

It is common to justify the provision of benefits, at least partially, as a means of attracting and retaining staff. That is, benefits help create the employee value proposition and are useful in competing for labour talent. Particularly in markets where labour talent is scarce, such a competitive advantage in managing the workforce should be sought and exploited. How valid is such justification? Is it a happy coincidence of wants that sees both employer and employee satisfied with their benefits?

If benefits were of value in competing for talent (i.e. the attract and retain argument) then this would be observable in practice by two measures. Firstly, the provision of benefits would be less prevalent in sections of the economy with a surplus supply of labour. Secondly, employees would place a higher value on a benefit programme than on the cash equivalent in wages or salary.

It is not clear that these two outcomes exist. There is a high degree of similarity in benefits provided across economy sectors within countries. Even comparing international practice, there is similarity in the benefits provided. Differences where they do exist are more likely to be caused by nationally specific factors, local regulation or specifically tactical reasons. This may be partially explained by the difficulty in removing a benefit programme once in place.

In the case of the second outcome, if it were true that employees place a higher value on non-cash benefits, then employers providing benefits could gain a direct economic advantage in that total remuneration costs could be lower relative to employers paying in cash components only. Willis Towers Watson conducts a Global Benefits Attitude Survey every two years. In the 2015/16 study, we asked employees whether they would prefer a pay increase or an increase in another form (with the options including a more generous retirement benefit, a greater potential bonus, more paid time off, better health care benefits etc). In all countries and at all ages the number one preference was for an immediate pay increase. The Australian results are shown in Figure 8.

Figure 8. Australian employee preferences for benefits

Are employees willing to forego pay for superior benefits?
From the following list, please rank the areas you would choose if offered a choice by your employer.

<table>
<thead>
<tr>
<th>Pay and Bonus</th>
<th>Getting larger base pay increases</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Getting larger bonus opportunity</td>
</tr>
<tr>
<td>Retirement</td>
<td>Getting a more generous contribution to a retirement plan</td>
</tr>
<tr>
<td></td>
<td>Having a guaranteed retirement benefit that does not alter with financial markets</td>
</tr>
<tr>
<td>Other</td>
<td>Getting more paid time off per year</td>
</tr>
<tr>
<td></td>
<td>Having greater opportunity for flexible work-life arrangements</td>
</tr>
<tr>
<td></td>
<td>Having greater opportunities for future career advancement</td>
</tr>
<tr>
<td></td>
<td>Having the option to purchase a wider variety of benefits</td>
</tr>
</tbody>
</table>

Source: 2015/2016 Global Benefits Attitudes Survey, Australia
Sample: Employees with retirement benefits.
The survey did show the importance of benefits to employees in many respects and it is clear that employees do value benefits. However, it is instructive to note that, at least at the margin, additional cash was valued more highly by the employees than additional benefits.

Preferences differ according to age. When the study split the preferences for benefits over cash by generational group, it showed that younger employees have very little preference for retirement benefits (a protection strategy), and instead value cash and other non-traditional benefits such as more flexibility in work arrangements, more time off work, career advancement opportunities (an improvement strategy), as shown in Figure 9.

Figure 9. Preference differences by generation

Note: Labels for percentages below 5% were not included in the chart.
Source: 2015/2016 Global Benefits Attitudes Survey, Australia
Sample: Employees with retirement benefits.
The prevalence of benefits supports the proposition that employers provide benefits to employees because it is in the interests of the employer to do so. This suggests it is not a sufficient reason that the benefit programmes are in the interests of the employees. If employee benefits are a business management tool first and foremost – employers should focus on the effectiveness of benefit programmes in protecting and improving labour productivity towards its theoretical maximum.

However, employers should also consider the second-order advantages of benefits:

- Group benefit schemes may be more cost efficient than individually arranged benefits because of scale
- There may be tax advantages that can be passed on to the employees
- There can be a genuine coincidence of wants such that the employees value the benefit at least as much as cash.

OECD data shows that relative poverty is shifting from the old to the young, see Figure 10. In relative terms, those aged above 65 have progressed over the last 30 years to the point where their economic lifestyles are the same as, or better than, average over all ages. The younger half of the population, coinciding with most employees, have seen their relative poverty rates rise over this time.

With this background, it is understandable that employees, particularly younger ones, would value cash over retirement benefits.

While there is some doubt as to whether employees value benefits over cash-in-lieu, clearly employers do provide a range of benefits. This is the case in all advanced economies around the world. Certain benefits are compulsory under employment law in a minority of countries, e.g. retirement benefits in Australia. However, it was common practice to provide retirement benefits (although, skewed towards ‘white collar’ occupations) in Australia before the law was introduced to make it compulsory. If the number one preference of employees given the choice between immediate cash and some form of benefit is to take the cash, then why do employers bother to provide benefits?
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