



A Deeper Dive into Work and Rewards Implications of COVID-19

April 14, 2020 webcast

Recap

In the face of the unfolding COVID-19 crisis, leaders are grappling with a range of challenges including containing costs, responding with agility to massive changes in demand and reducing risk. At the same time, these leaders are also striving to virtualize work and ensure humane, fair and compassionate approaches to managing the workforce.

These five key principles can help employers shape an effective course of action:

1. **Understand this as a defining leadership moment.**
2. **Adopt an agile and continuous learning mindset.**
3. **Understand the perspectives of and engage all stakeholders.**
4. **Promote employee and company wellbeing.**
5. **Balance medium-term needs and longer-term business objectives.**

Rewards priorities

Pay. Employers are increasingly taking or planning to take actions that impact pay including: reducing or delaying merit increases (26%), offering additional pay premiums for employees who must be physically present (25%) and freezing (19%) or reducing salaries (17%). The responses vary

by industry. We expect that more companies will consider their options as they develop a better understanding of the economic impact of COVID-19. The nature of the workforce's potential exposure to COVID-19 and the impact of the crisis on operations are often the most important factors considered in finalizing pay strategy.

Incentive plans. The majority of employers are taking a wait-and-see approach when it comes to adjusting incentive plan design. But some have taken action, including: planning to use discretion, adjusting goals or delaying goal setting, and providing guarantees (sales). Adjustments will need to take into account potential constraints, including: CARES Act, 162(m), 409A, disclosures, etc.

Executive compensation. In the area of executive compensation, we advise organizations to stick with the long-term perspective if possible. Due to current uncertainty, we recommend against taking any immediate or drastic action. For executives, long-term incentive (LTI) pay is more likely to be impacted given its heavier weighting in the executive pay mix and its link to share price. Conversely, cash compensation, in the form of salary and annual bonuses, may be less impacted to the extent that it aligns with day-to-day operations. It's important to maintain good governance and alignment with your compensation philosophy. Moreover, regular communication with all stakeholders is essential to managing the optics of executive rewards.

Furloughs. A company's decision on how to implement a temporary ceasing of work without pay will depend on their business needs and governmental mandates. A completely closed business is more likely to implement a complete furlough whereas an open business that has suffered negative consequences may consider only a partial furlough – for example, a 20% reduction in work with a commensurate reduction in pay.

It's important to have the impacted employee population clearly defined. Exempt employees are subject to different rules than non-exempt hourly employees. And union employees must be furloughed in accordance with the terms of their collective bargaining agreements. Temporary and seasonal employees are generally being excluded from furlough programs.

Although the length of furlough is determined on a case-by-case basis, at present most companies are targeting a duration that does not extend beyond July 31, 2020. Many employers are doing a cost-benefit analysis to see which of their employee populations will benefit from state unemployment insurance coupled with the enhanced benefits provided through the CARES Act.

Companies are eager to maintain benefits, in particular health and welfare benefits, for furloughed employees. In doing so, they need to consider whether to pay for the benefits entirely during the furlough or to share the costs with employees pursuant to current arrangements. In our experience, most employers are sharing the costs with employees and allowing employees to go into arrears.

It is critical to model potential furlough/workshare scenarios to better understand the impact on cost containment and employees, and to monitor federal and state regulations.

Managing work

According to recent Willis Towers Watson research, the three most common workforce actions employers are taking include: freezing or reducing hiring (68%), eliminating or reducing hiring of seasonal workers (35%) and reducing the use of contract workers (31%).

Employers are also redesigning work in response to the COVID-19 crisis. This may involve: 1) introducing automation to improve performance and productivity, 2) using non-traditional talent, 3) making work portable, 4) using technology to shift where work is performed, 5) shifting when work is performed (e.g., implementing new work schedules such as “same team shift-work”) to minimize on-premise exposure risks, and 6) borrowing or lending talent through a talent exchange.

To shape a sustainable reset for your workforce and business, it's critical to deploy the right talent at the right cost. First, it is essential to identify immediate cost savings opportunities. Next, employers should determine which areas require great versus good capability and which roles influence these areas. Based on a segmented approach, employers can evaluate how work in these jobs can be adjusted to further improve performance, or whether some work should be shifted to another job or where it makes sense to use automation. As a new strategy is set and jobs are redesigned, it's important to identify talent gaps and mismatches relative to target capabilities. To realize the targeted gains, talent and reward programs may need to be adjusted to better support new work requirements.

To help ensure a sustainable reset, HR will have to deliver analysis and design capability faster than ever before using modeling and decision support tools that can reinvent jobs in minutes. Beginning this evaluation now will help facilitate solid business planning and a strong rebound.

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