



# Compensation, Retirement, and Benefits Trends Report

## EXECUTIVE SUMMARY

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# Introduction



## A Global View

In today's economy, employee benefits remain a crucial factor in the recruitment and retention of talented and valuable workers. The challenge for employers is keeping their benefit packages current and in line with their peer companies, while still aligned with this overarching goal.

Newport Group's annual **Compensation, Retirement, and Benefits Trends Report** is designed to reveal key trends across a full range of compensation, retirement, and health and welfare benefits programs. This is the 7th edition of this valuable report.

The data which comprises this report was gathered from hundreds of for-profit and non-for-profit firms across the nation, covering a wide range of industries from finance and real estate to healthcare, insurance, retail, transportation to manufacturing and distribution. It was then compiled and analyzed by Newport Group's compensation consultants in an Executive Summary along with all information within our full report.

The result is a comprehensive look at trends in the ways that firms are structuring and administering their total employee rewards programs—a global view that is rarely available from one single source.

We hope you find this 2017/2018 edition of our **Compensation, Retirement, and Benefits Trends Report** useful and thought-provoking as you evaluate your own company's compensation and benefits programs.

## Compensation Practices

Our survey finds that employers are increasingly focused on flexibility in approaches aimed at recruiting, rewarding and retaining top performers. While median salary increase budgets remain around 3.0% for the foreseeable future, the salary increase gap between the highest and lowest performers has been widening, as employers reinforce desired performance and shift compensation investments to high performers.

Additionally, the use of short- and long-term incentives with performance measures aligned with strategic objectives is increasingly popular. These “strategic” compensation initiatives likely stem from employers' desire to motivate employees while margins remain tight and benefit costs continue to escalate. This has been a recurring theme over the past several years, even though most labor markets are tight and unemployment has fallen to almost 4% nationally.

## Retirement Plans

The results of this year's survey are consistent with prior findings, with nearly all (91%) of the employers surveyed offering a defined contribution plan. Significantly, over half of the organizations using non-qualified programs said they were “critical” or “very important” as a financial planning tool for the executive group in tandem with the tax efficiencies offered.

Employers' retirement plan costs continue to be an important criterion when choosing a retirement plan provider. However, in 2017, costs for service and investments were a secondary concern to the level and quality of service provided.

Finally, approximately 75% of plan sponsors use advisors for plan design, fee analysis and benchmarking and participant education. Over half of those with an advisor use them for some type of fiduciary services.

## Health and Welfare Benefits

With employer health plan costs continuing to climb, employer respondents still recognize the importance of offering employee group health coverage to attract and retain their workforce, with preferred provider organizations (PPOs) currently being the most widely offered and the most attractive plan to employees. The use of high deductible health plans (HDHPs) continues to increase rapidly, with 59% of our respondents now offering this as an alternative.

Premium costs have tempered as compared to past years, with the predominant increase in the range of 4% to 8%. To manage health plan costs, more and more employers reported passing on a greater portion of those costs to employees. They do so mainly through higher premium payments, higher deductible plans (which are growing in popularity with employees too), larger co-payments or co-insurance, and by offering an employee wellness initiative.

## Key Survey Findings

Our survey yielded a number of findings of interest to employers considering and planning for their organization's total rewards packages:

### **Compensation Practices**

- Overall median salary increases for 2018 are expected to stay rather flat, with 2017 levels at 3.0%.
- Salary structure movement settled at 2.0% in 2017, and is expected to stay consistent in 2018.
- Merit budget dollars continue to be allocated to differentiate high performers, with higher performers receiving an average approximate 4.5% adjustment.
- 75% of survey respondents provide short-term incentives. Eligibility for short-term incentive pay increases to 87% for executives and management.

### **Retirement Plans**

- Consistent with past findings, an overwhelming majority (91%) of employers offer a defined contribution plan.
- The large majority (80%) of employers project their retirement plan contribution to remain the same as the previous year, with approximately 14% of employers projecting an increase as compared to the previous year.
- Over half of organizations with non-qualified plans found them to be “critical” or “very important” in supporting executive retention and as a financial planning tool for the executive group in tandem with the tax efficiencies offered.
- A majority (70%) of organizations provide or are thinking of providing a financial wellness program to help employees prepare for current and future financial needs.

### **Health and Welfare Benefits**

- Preferred provider organization (PPO) plans remain the most widely available health plan, offered by (74%) of all employers. PPOs continue to be the most popular option among employees.
- The trend towards high-deductible health plans (HDHP) has continued, with one-third of employers having this option chosen by the largest number of their employees.
- The largest percentage of employers (36%) reported increases from 4.1% up to 8% in health insurance premiums.
- The most common methods of addressing healthcare costs among organizations of all sizes tends to be requiring employees to pay a greater share of the costs through increased premium payments and implementing wellness initiatives.

## Summary

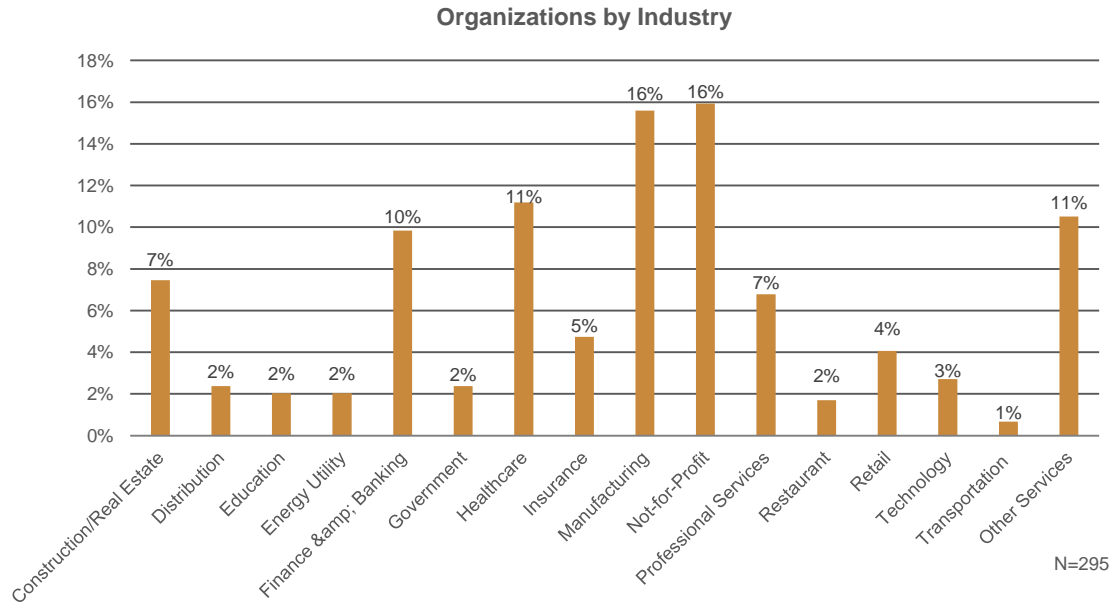
What we learned from this year's survey, and directly from our clients, is that employers are increasingly looking for ways to strategically utilize compensation, non-qualified plans, and benefits to more effectively align corporate objectives and results. While 79% of employers strive to position themselves at market with their base salaries, 33% look to health and welfare benefits as a way to be above market. Base salary increases continue to be modest, but we see an ever-increasing focus on aligning employee performance with increases and awarding those who perform at high levels. This is further supported through the use of non-qualified programs to provide a further means to reward those who are performing well, and allow executives an additional tool to assist with their financial planning and tax savings objectives. Organizations see the critical importance of implementing a total rewards package as a key means to reward and retention while also keeping costs at acceptable levels.

## Methodology

Our 2017/2018 survey questionnaire contained over 35 questions about compensation, retirement, and benefits programs. This survey instrument was sent to senior financial and human resources leaders at organizations nationwide with 299 respondents. The deepest penetration by industry was in manufacturing, not-for-profit, healthcare and professional services.

Data collection was administered via a secure web-based data submission tool. Results are based on answers to our questionnaire, which were analyzed for consistency and reasonableness, and prepared for presentation, by Newport Group's professional compensation consultants. All individually submitted data is kept strictly confidential, and only aggregate results are reported so as not to disclose any individually reported information.

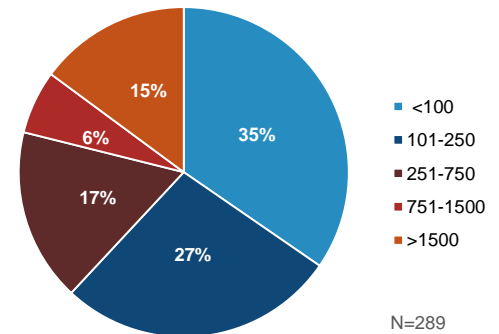
## Report Background



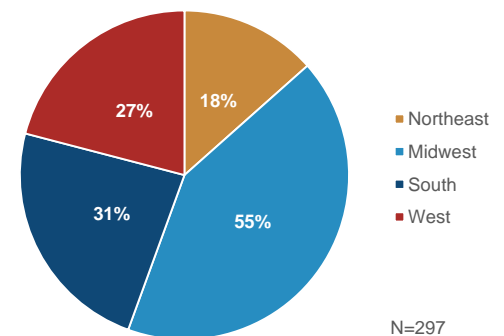
## Key Definitions

- Northeast** *New England:* Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont  
*Middle Atlantic:* New Jersey, New York, and Pennsylvania
- Midwest** *East North Central:* Illinois, Indiana, Michigan, Ohio, and Wisconsin  
*West North Central:* Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota
- South** *South Atlantic:* Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia  
*East South Central:* Alabama, Kentucky, Mississippi, and Tennessee  
*West South Central:* Arkansas, Louisiana, Oklahoma, and Texas
- West** *Mountain:* Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming  
*Pacific:* Alaska, California, Hawaii, Oregon, and Washington

## Full-Time Equivalent (FTE's)



## Location



Note: Not all respondents provided demographic information.

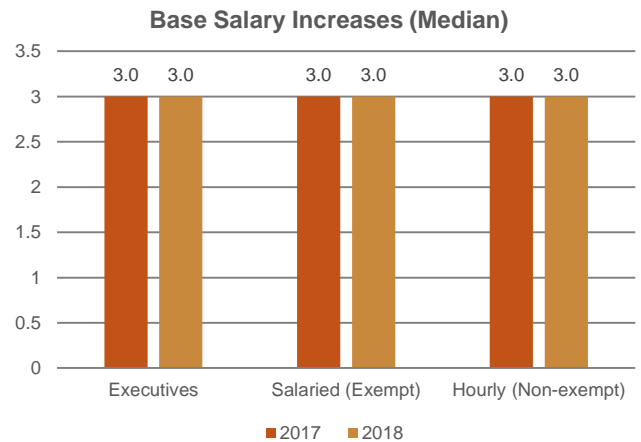
# Compensation Practices

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## Base Salary Increases

**QUESTION:** Please indicate the AVERAGE percentage amount allocated for base salary increases in 2017 and the amount anticipated for 2018, as a percent of base pay.

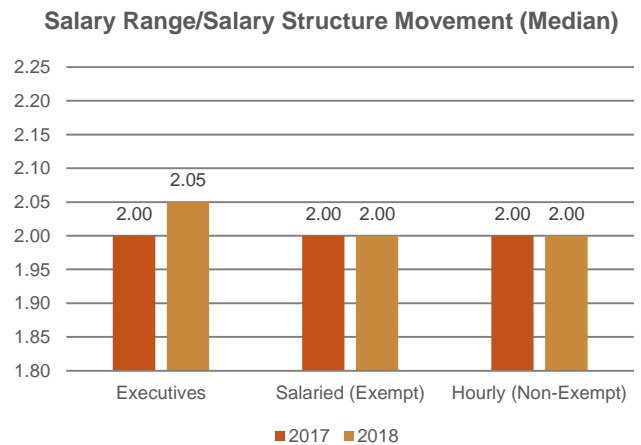
Identical to the past many years, median salary increases for executive, salaried and hourly non-exempt workers remained at 3.0% median increase. Projected average increases were higher for organizations in the West region and the Manufacturing and Technology sectors.



## Salary Range/Structure Movement

**QUESTION:** Please indicate the percentage salary range/structure movement for 2017 and the amount anticipated for 2018.

Salary structure increases are anticipated to remain identical in 2018 compared to 2017. This was generally consistent across all employee groups. Organizations with fewer than 100 employees increased structures at higher levels in 2017 and anticipate the same in 2018.



## Salary Structure by FTE's

**QUESTION:** Do you have a formal salary structure (i.e., ranges with a minimum and maximum) to manage compensation across levels within the organization?

There is essentially an even split of organizations that utilize a formal salary structure with grades (minimums, midpoints and maximums) to manage compensation. Larger organizations with more than 750 employees are far more likely than other industry groups to have a formal salary structure to manage their compensation investment.

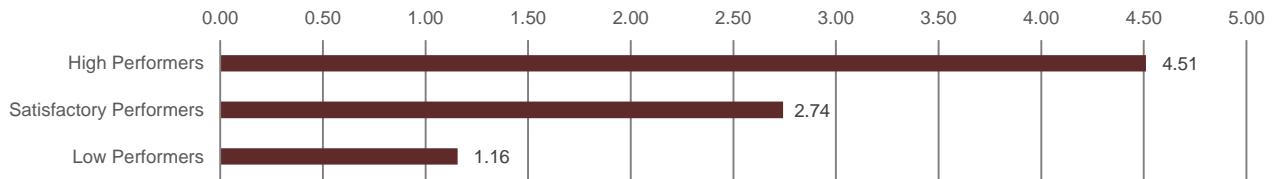
	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Yes</b>	57%	37%	54%	76%	61%	84%
<b>No</b>	43%	63%	46%	24%	39%	16%
<b>Base</b>	299	100	79	49	18	43



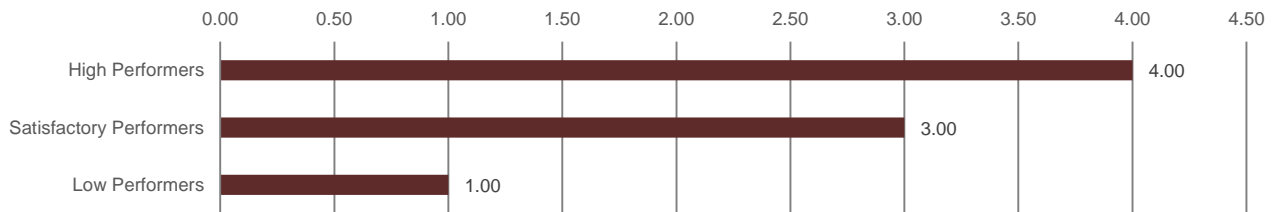
## Pay for Performance Increases

QUESTION: *In general, please indicate the average base salary increases in 2017 for each of the following categories:*

Increasingly, dollars continue to be allocated to differentiate high performers and less money is being utilized, as a percent of payroll, to reward low performers. While salary budgets increased 3%, higher performers received approximately a 4.5% adjustment.



QUESTION: *In general, please indicate the median base salary increases in 2016 for each of the following categories:*



## Short-Term Incentive by Industry

QUESTION: Which employee groups are eligible to participate in a short-term incentive or bonus program?

Approximately 75% of survey respondents provide short-term incentives. Eligibility for short-term incentive pay is more available to executives and management than to hourly non-exempt workers. The manufacturing industry is more likely to extend incentive opportunity across all employee groups with healthcare least likely.

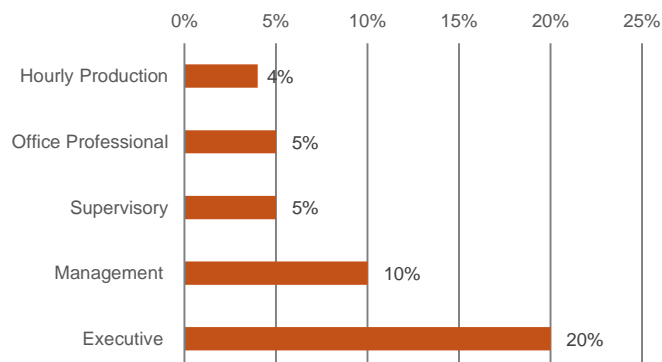
	Overall	Manufacturing, Distribution, Utilities, Technology, & Transportation	Not-for-Profit, Education, & Government	Construction & Real Estate	Other Services, Professional Services, Restaurant, & Retail	Finance, Banking, & Insurance	Healthcare
<b>Hourly Production</b>	60%	68%	46%	62%	61%	53%	70%
<b>Office Professional</b>	70%	75%	61%	76%	72%	68%	65%
<b>Supervisory</b>	74%	80%	68%	86%	80%	66%	61%
<b>Management</b>	87%	85%	79%	95%	89%	89%	83%
<b>Executive</b>	87%	88%	79%	90%	87%	87%	87%
<b>Base</b>	227	60	28	21	54	38	23

## Short-Term Incentive Award Opportunity

**QUESTION:** *What is the targeted short-term incentive pay opportunity at your company for 2017?*

Targeted levels of short-term incentive for 2017 are highest for executives with an average of 20% of base pay. Hourly production employees had a target opportunity of 4%.

Targeted Short-Term Incentive Pay Opportunity for 2017 (Median)



## Long-Term Incentive Vehicles by FTE's

**QUESTION:** *Which long-term incentive vehicles are offered to eligible employees?*

Over 40% of organizations offer a long-term incentive. The most common long-term incentive vehicles offered to eligible employees were other cash alternatives even though specified stock options and restricted stock were used frequently. Large organizations are significantly more likely to offer performance units and restricted stock than small organizations.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Stock Options</b>	22%	13%	20%	25%	30%	42%
<b>Stock Appreciation Rights</b>	4%	4%	0%	4%	10%	0%
<b>Phantom Stock</b>	4%	4%	0%	13%	0%	0%
<b>Performance Units</b>	18%	4%	10%	17%	40%	42%
<b>Restricted Stock</b>	19%	2%	15%	21%	30%	46%
<b>Other</b>	58%	74%	70%	46%	40%	38%
<b>Base</b>	129	46	20	24	10	24

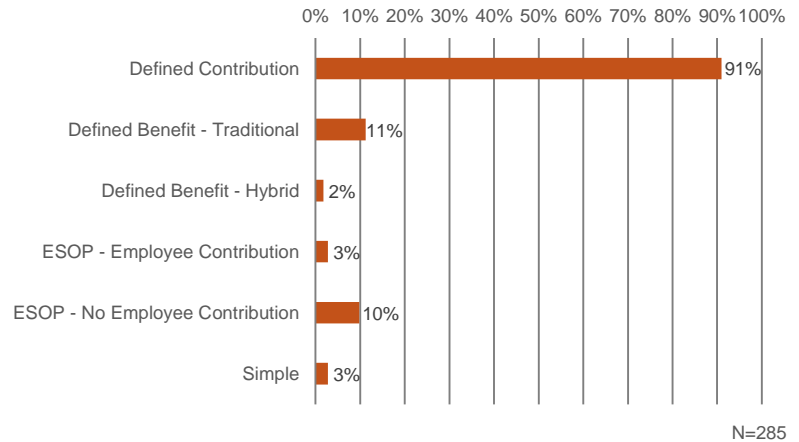
## Retirement Plans

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## Retirement Plan Options

QUESTION: *What type of retirement plan(s) do you offer?*

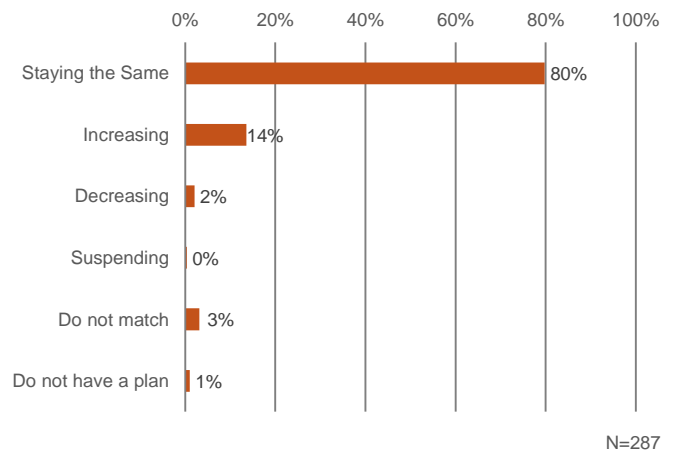
The results of the 2017-2018 survey are consistent with past findings, showing the large majority (91%) of employers offer a defined contribution plan. There are still 11% of employers offering a defined benefit plan either separately or in combination.



## Retirement Plan Contribution

QUESTION: *How does the projected retirement plan contribution compare to last year? (Please select one)*

The large majority (80%) of employers project their retirement plan contribution will remain the same as the previous year. Across all sizes of organizations and industries though, approximately 14% of employers expect to increase their contribution as compared to the previous year.



## Retirement Plan Automatic Enrollment by FTE's

QUESTION: *Does your plan have an automatic enrollment feature?*

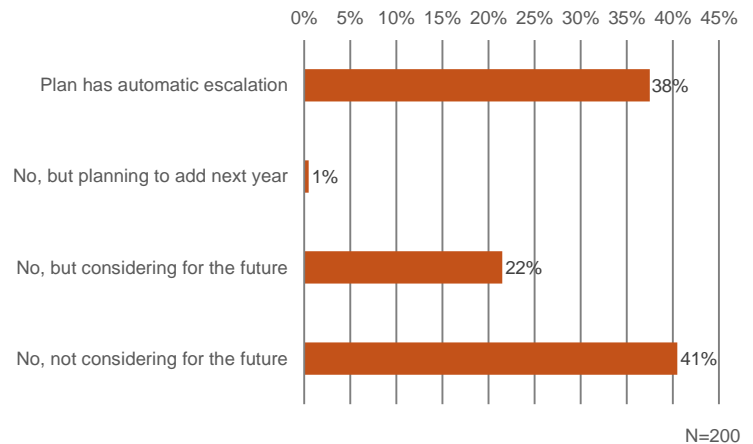
Close to half (49%) reported that their plan currently has an automatic enrollment feature, with an additional 17% of those not currently utilizing automatic enrollment either planning to add the feature next year, or considering it for the future.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Yes</b>	49%	33%	51%	67%	67%	58%
<b>No, but planning to next year</b>	1%	0%	3%	0%	6%	0%
<b>No, but considering for the future</b>	16%	26%	15%	12%	0%	9%
<b>No, and not considering for the future</b>	33%	41%	32%	20%	28%	33%
<b>Base</b>	299	100	79	49	18	43

## Retirement Plan Automatic Escalation

**QUESTION:** *If you have or are planning to add an automatic enrollment feature, will your auto enrollment include an automatic escalation feature?*

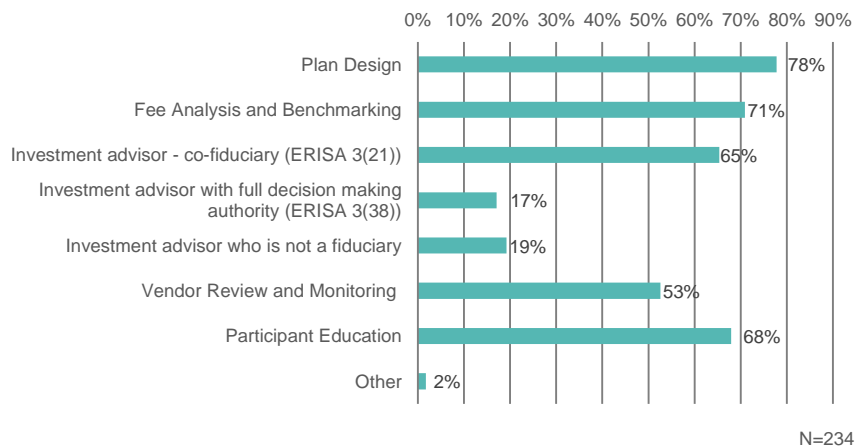
Slightly over one-third of respondents whose plans have an automatic enrollment feature, also have an automatic escalation feature (38%) with over 22% considering for the future.



## Retirement Services with Outside Advisors

**QUESTION:** *Please select the types of retirement plan services for which you engage an outside advisor. (Select all that apply)*

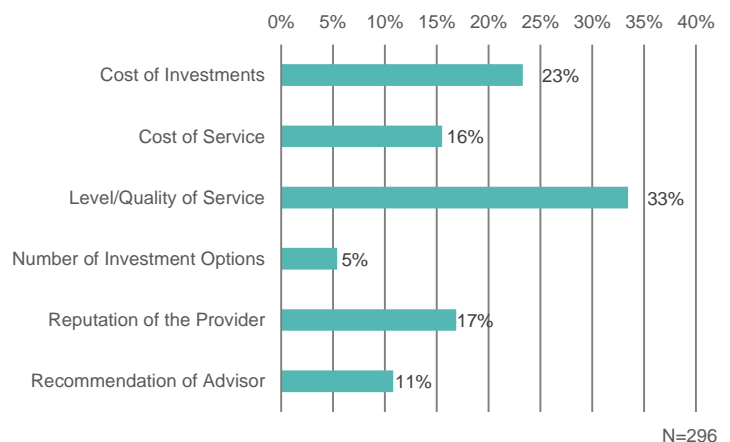
In 2017, plan sponsors were relying most on assistance from third-party advisors for plan design, fee analysis and benchmarking and for participant education.



## Evaluating Retirement Plan Services

**QUESTION:** *Which of the following factors is MOST important in evaluating retirement plan offerings? (Please rate by level of importance, with 1 being the most important and 6 being the least important)*

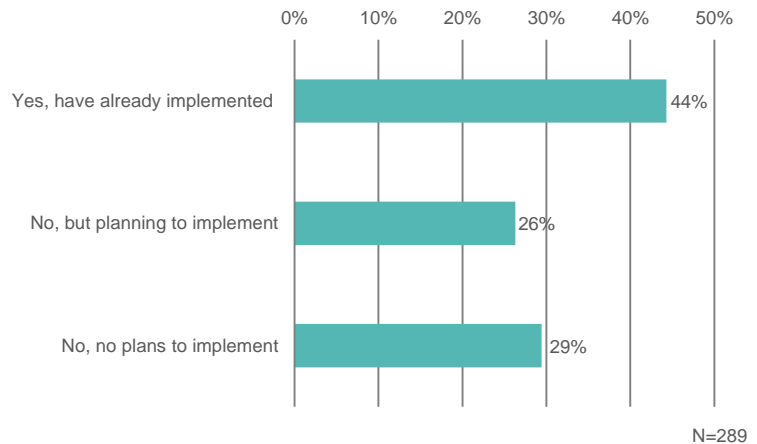
In 2017, one-third of employers focused most on the level and quality of services offered. The cost of investments follow close behind in importance to employers.



## Financial Wellness Programs

**QUESTION:** *Has your company implemented "financial wellness" (financial literacy and education) programs to help employees prepare for current and future financial needs—whether separately or as part of the overall health and wellness program?*

Over one-third of organizations (44%) have implemented a financial wellness program to help employees prepare for current and future financial needs with another 26% planning to implement financial wellness programs.



## Non-Qualified Deferred Compensation Plan by FTE's

**QUESTION:** *Do you offer a Non-Qualified Deferred Compensation, Non-Qualified Benefit, or other Key Person benefit plan?*

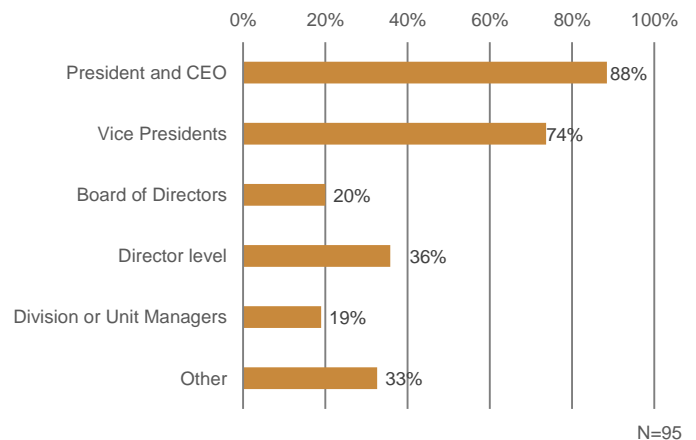
One-third (33%) currently offer a non-qualified deferred compensation or benefit program to their employees. This is a significant increase over last year when only 24% of companies were offering non-qualified plans.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Yes</b>	33%	18%	18%	41%	50%	72%
<b>No</b>	67%	82%	82%	59%	50%	28%
<b>Base</b>	299	100	79	49	18	43

## Non-Qualified Deferred Compensation Plan Eligibility

**QUESTION:** *What specific positions are eligible to participate in the plan?*

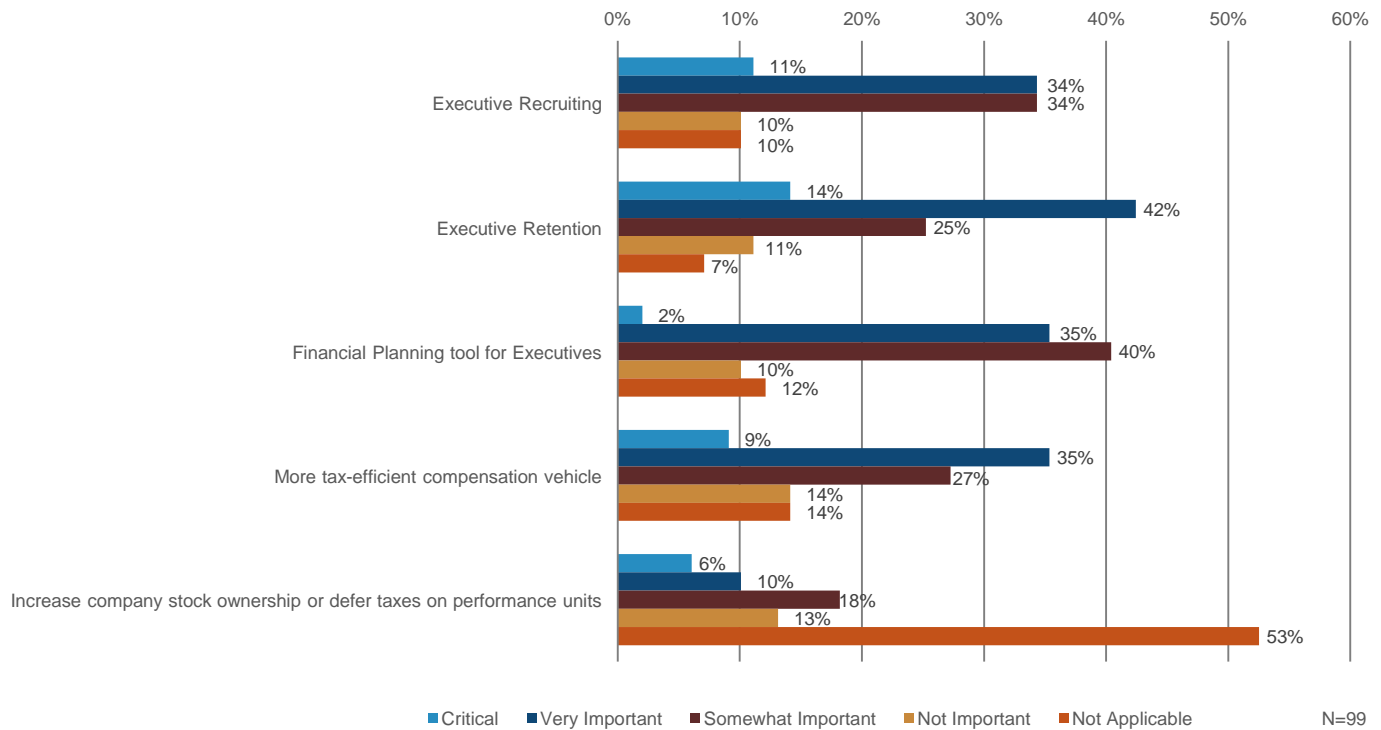
As anticipated, due to the importance of the leadership responsibilities, eligibility in a non-qualified plan is most often for those in the CEO and Vice-President roles.



## Non-Qualified Deferred Compensation Plans Importance

QUESTION: *How important are each of the following for your non-qualified benefit programs? (Check one box for each row)*

Over half of organizations found the use of non-qualified programs to be “critical” or “very important” as a tool for executive retention. Executive recruiting in tandem with the tax efficiencies offered are supported by these plans as well, according to respondents.



# Health and Welfare Benefits





## Health Insurance Plan Options by FTE's

QUESTION: Which of the following plans do you offer as health insurance options?

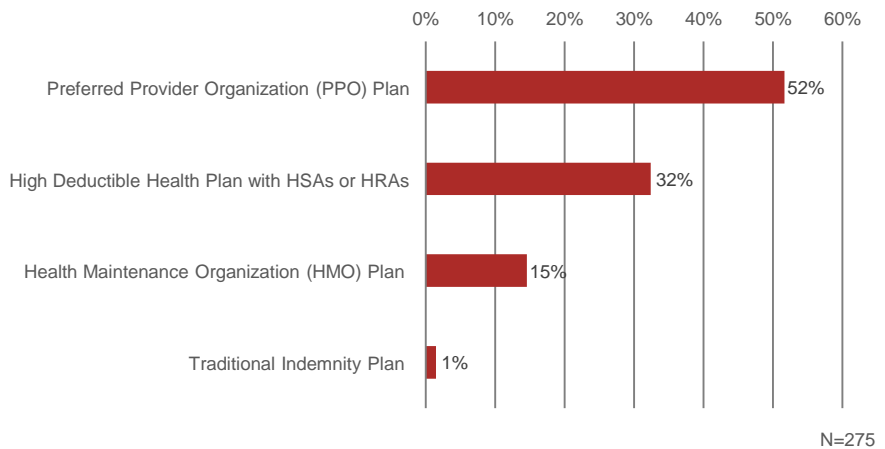
Preferred Provider Organization (PPO) plans remain the most widely available health plan, offered by 71% of all employers. However a shift continues toward High Deductible Health Plans with 59% offering as a health plan option.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Preferred Provider Organization (PPO) Plan</b>	71%	69%	77%	78%	81%	61%
<b>High Deductible Health Plan (HDHP) with HSAs or HRAs</b>	59%	50%	58%	62%	69%	73%
<b>Health Maintenance Organization (HMO) Plan</b>	25%	26%	27%	20%	31%	17%
<b>Traditional Indemnity Plan</b>	4%	3%	1%	7%	6%	5%
<b>Do Not Offer Health Insurance</b>	0%	1%	0%	0%	0%	0%
<b>Other</b>	3%	2%	4%	2%	6%	5%
<b>Base</b>	282	96	74	45	16	41

## Health Insurance Plan Preference

QUESTION: For your most recent open enrollment, which of the following health insurance options was selected by the largest number of employees?

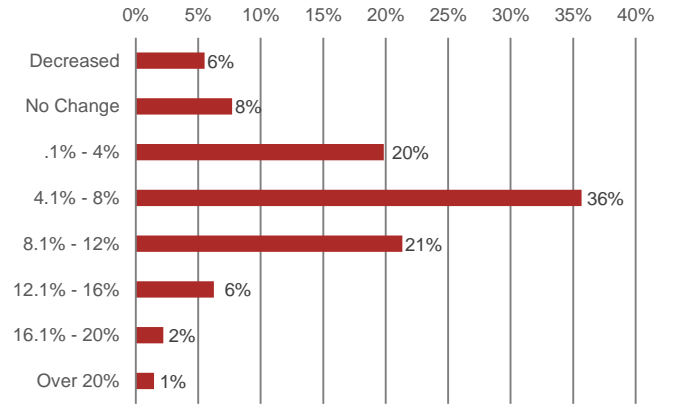
Similar to last year, PPOs continue to be the most popular option among employees. Overall, 52% selected PPOs during the most recent open enrollment period. High Deductible Health Plans continue to grow in popularity, and are now preferred by 32% of employees.



## Health Insurance Percentage Change for 2017

QUESTION: *What was the average percentage change in your health insurance plan costs for the 2017 plan year?*

While most employers (86%) saw an increase in health plan costs in 2017, the largest percentage of employers (36%) reported increases from 4.1% up to 8%.



N=272

## Health Insurance Total Premium Amount by FTE's

QUESTIONS: *For the health insurance option selected by the majority of your employees, what is your average total premium amount? What percentage do your employees contribute to the premium amount?*

Overall, the average family premium was highest for those organizations with fewer than 100 employees with employees sharing just over one-third of the premium. For all tiers, premium cost was lowest for those organizations with 1500+ employees.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Average Monthly Premium</b>						
Family	\$1,325	\$1,534	\$1,346	\$1,188	\$1,122	\$1,030
Employee + One (Spouse or Child)	\$999	\$1,140	\$1,000	\$869	\$940	\$756
Employee + Children	\$913	\$1,017	\$925	\$842	\$923	\$741
Employee Only	\$517	\$619	\$494	\$426	\$514	\$396
<b>Employee Share of Premium</b>						
Family	34%	37%	37%	38%	30%	23%
Employee + One (Spouse or Child)	33%	36%	34%	37%	30%	26%
Employee + Children	33%	35%	34%	37%	30%	26%
Employee Only	22%	22%	23%	21%	25%	23%
Base	226	78	61	38	13	28

## Plans to Address Health Care Costs by FTE's

QUESTION: *What actions do you plan to take for the 2017 plan year to address health care costs?*

Requiring employees to pay a greater share of healthcare costs through increased premium payments and raising deductibles are the most common method of addressing healthcare costs among organizations of all sizes. However, the largest firms with 750 or more employees are focused on implementing wellness as a way to address their costs, and conducting dependent audits.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Raise Employee Portion of Premium Payment</b>	37%	26%	45%	44%	25%	50%
<b>Raise Employee Deductibles</b>	20%	15%	25%	23%	25%	25%
<b>Implement Wellness Program</b>	17%	11%	18%	16%	25%	22%
<b>Offer Consumer Driven Health Care Option</b>	11%	8%	10%	12%	25%	11%
<b>Conduct Dependent Audit</b>	7%	1%	1%	2%	31%	22%
<b>Discontinue Coverage to Dependents</b>	0%	0%	0%	0%	0%	0%
<b>Offer Opt-Out Incentive</b>	4%	4%	3%	5%	6%	0%
<b>Pursue Coverage through a Private Exchange</b>	3%	3%	3%	5%	0%	0%
<b>Discontinue Coverage to Part-Time Employees</b>	0%	0%	0%	0%	0%	0%
<b>Discontinue Retiree Medical</b>	0%	0%	0%	0%	0%	0%
<b>Discontinue Coverage in State or Federal Exchange</b>	0%	0%	0%	0%	0%	0%
<b>Institute On-Site Health Center</b>	1%	0%	0%	2%	6%	0%
<b>No Actions Planned</b>	46%	62%	36%	40%	25%	39%
<b>Base</b>	261	89	67	43	16	36

## Benefits by FTE's

QUESTION: *Which of the following benefits do you currently offer?*

The majority of organizations currently offer various types of health and wellness benefits to their employees. Wellness benefits show particular popularity at organizations with 251+ employees. Long-term care insurance shows greater prevalence at organizations with 751+ employees.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
<b>Dental</b>	98%	97%	100%	100%	100%	98%
<b>Life</b>	95%	90%	99%	100%	100%	100%
<b>Long-term Disability</b>	88%	84%	85%	91%	100%	100%
<b>Short-term Disability</b>	80%	74%	79%	84%	100%	93%
<b>Vision</b>	88%	80%	93%	91%	94%	98%
<b>Wellness Programs</b>	54%	28%	57%	80%	63%	80%
<b>Long-term Care Insurance</b>	19%	11%	18%	20%	31%	33%
<b>Retiree Medical</b>	9%	4%	6%	5%	19%	28%
<b>On-site Health Center</b>	7%	0%	4%	16%	6%	18%
<b>Base</b>	275	93	72	44	16	40

## For More Information

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### Contact information

For questions about this survey or Newport Group services,  
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## About Newport Group

Newport Group helps companies offer their employees a more secure financial future through retirement plans, insurance and consulting services. Newport Group offers comprehensive plan solutions and consulting expertise to plan sponsors and the advisors who serve them. As a provider and partner, Newport Group is independent, experienced, and responsive.



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