Compensation, Retirement, and Benefits Trends Report

EXECUTIVE SUMMARY

NEWPORT GROUP™

2018/2019 Edition

Contents

Introduction

A Global View

In today's economy, employee compensation and benefits remain a crucial factor in the recruitment and retention of top talent. The challenge for employers is keeping their overall package current and in line with their peer companies, while still aligned with the overarching goal of attraction and retention.

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 8th edition of this valuable report.

The data which comprises this report was gathered from hundreds of for-profit and not-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 this 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 2018/2019 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 under 4% nationally.

Retirement Plans

The results of this year's survey are consistent with prior findings, with nearly all (97%) 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" in retaining executive level talent along with the tax efficiencies offered.

Employers' retirement plan costs continue to be an important criterion when choosing a retirement plan provider. However, in 2018, costs of investments were a secondary concern to the level and quality of service provided.

Finally, approximately 93% of plan sponsors use advisors with approximately 55% having worked with the same advisor for over five years.

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 help 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, with 55% 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 2019 are expected to stay rather flat, with 2018 levels at 3.0%
- Salary structure movement settled at 2.0% in 2018, and is expected to stay consistent in 2019
- 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 (97%) of employers offer a defined contribution plan
- The large majority (79%) of employers project their retirement plan contribution to remain the same as the previous year, with approximately 15% 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 in tandem with the tax efficiencies offered
- A majority (65%) 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 (79%) of all employers; PPOs continue to be the most popular option among employees
- The trend towards high-deductible health plans (HDHP) has continued, with 29% 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 deductibles

Summary

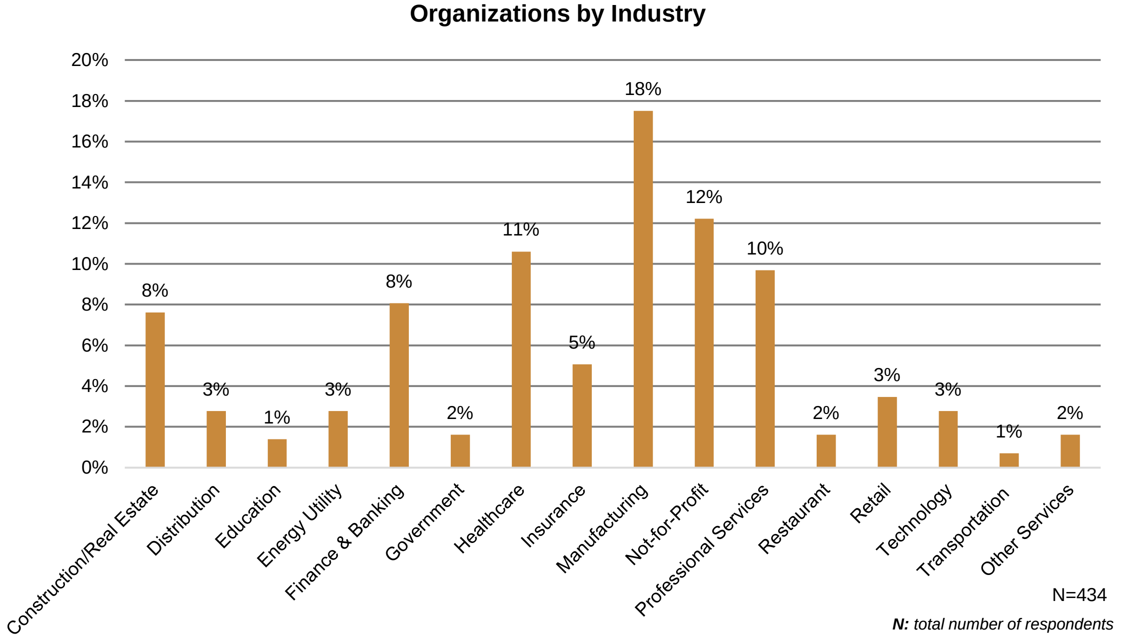
What we learned from this year's survey, and directly from our clients, is that employers are increasingly looking for ways to strategically utilize compensation, non-qualified plans, and benefits to more effectively align corporate objectives and results. While 81% of employers strive to position themselves at market with their base salaries, 37% 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 retain, while also keeping costs at acceptable levels.

Methodology

Our 2018/2019 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 439 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

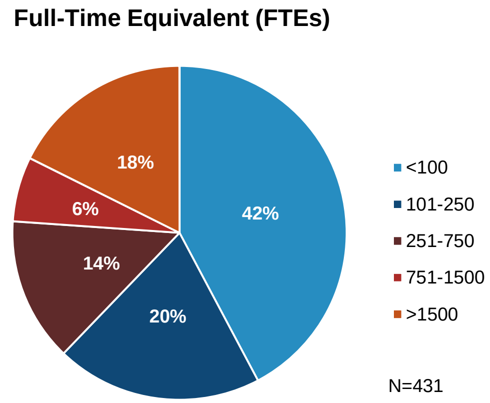
East South Central: Alabama, Kentucky, Mississippi, and Tennessee

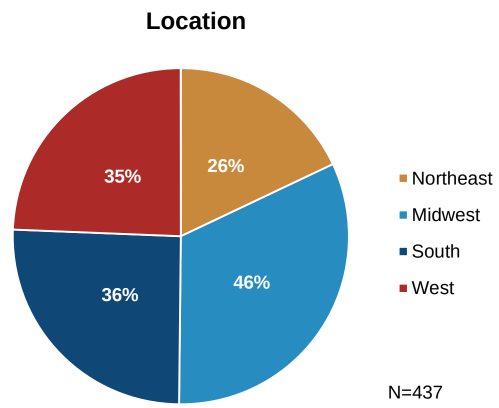
West South Central: Arkansas, Louisiana, Oklahoma, and Texas

West *Mountain:* Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming

Pacific: Alaska, California, Hawaii, Oregon, and Washington

Note: Not all respondents provided demographic information.





Compensation Practices

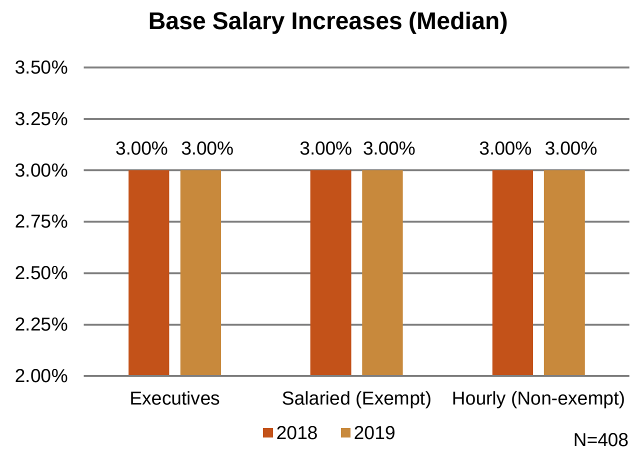
Base Salary Increases

QUESTION: *Please indicate the AVERAGE percentage amount allocated for base salary increases in 2018 and the amount anticipated for 2019, as a percent of base pay.*

Median base salary increases for executive, salaried exempt and hourly non-exempt stayed consistent with the past several years at 3.0%.

Key Definitions

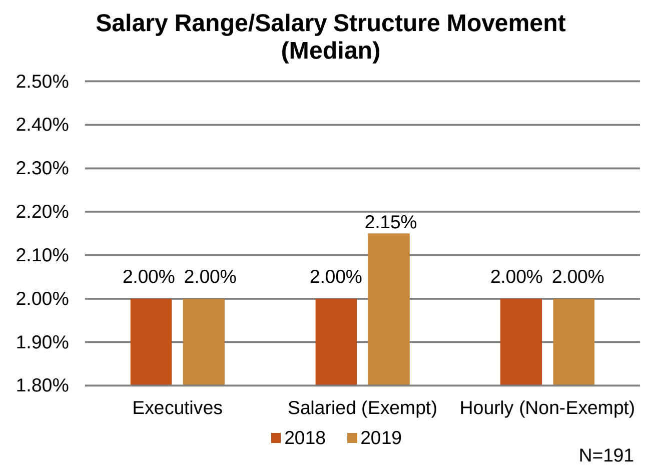
- **Median:** statistical point at which half of all reported responses reported are above, half are below
- **Average:** total of all reported data divided by number of responses



Salary Range/ Structure Movement

QUESTION: *Please indicate the percentage salary range/structure movement for 2018 and the amount anticipated for 2019.*

Projected median increases are expected to be similar to 2018 increases of 2.0%, with a slight uptick for salaried exempt populations.



Salary Structure by FTEs

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

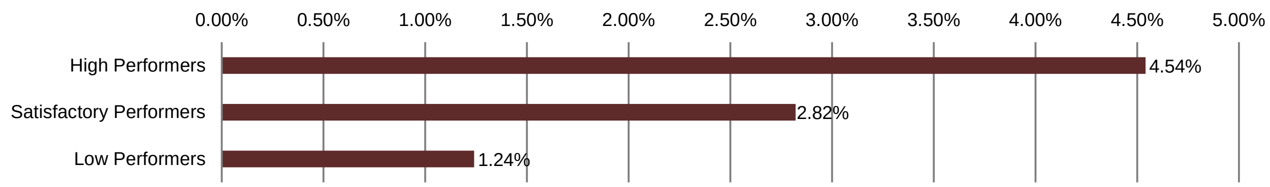
A slight majority of organizations utilize a formal salary structure with grades (minimums, midpoints and maximums) to manage compensation. As organization size grows (FTE count), the more likely they are to utilize a formal structure. From an industry perspective, healthcare, not-for-profit, and finance, banking & insurance sectors are more likely than other 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
Yes	54%	36%	56%	67%	74%	83%
No	46%	64%	44%	33%	26%	17%
Base	*439*	*182*	*86*	*60*	*27*	*76*

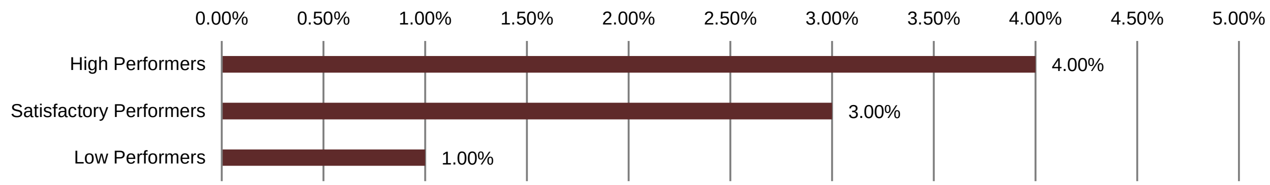
Pay for Performance Increases

QUESTION: *In general, please indicate the average base salary increases in 2018 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 2018 for each of the following categories:*



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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.

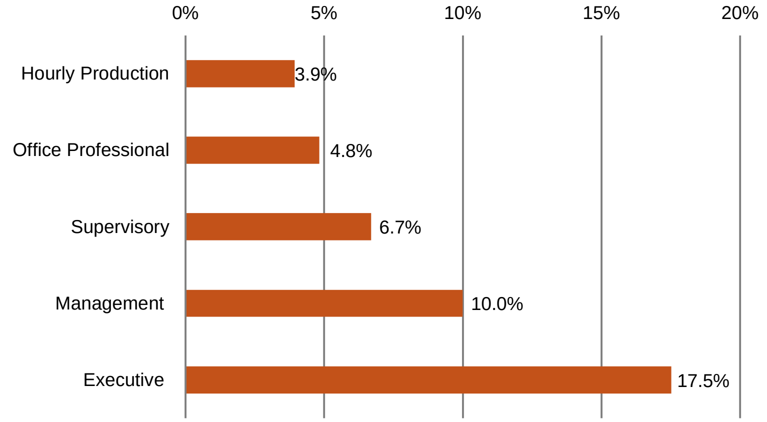
	Overall	Manufacturing, Distribution, Utilities, Technology, & Transportation	Not-for-Profit, Education, & Government	Construction & Real Estate	Other Services, Professional Services, Restaurant, & Retail	Finance, Banking, & Insurance	Healthcare
Hourly Production	63%	62%	58%	67%	57%	83%	56%
Office Professional	77%	71%	88%	93%	75%	91%	59%
Supervisory	79%	78%	85%	93%	77%	89%	53%
Management	89%	88%	88%	100%	91%	91%	81%
Executive	86%	90%	88%	87%	84%	89%	75%
Base	*352*	*100*	*33*	*30*	*99*	*53*	*32*

Short-Term Incentive Award Opportunity

QUESTION: *What is the targeted short-term incentive pay opportunity at your company for 2018?*

Targeted levels of short-term incentive for 2018 are highest for executives with an average of 18% of base pay. Hourly production employees had an average target opportunity of 4%.

Target Short-Term Incentive Pay Opportunity for 2018 (Average)



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Long-Term Incentive Vehicles by FTEs

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

Just under 40% of organizations in our study offer a long-term incentive opportunity. The most common long-term incentive vehicles offered to eligible employees were other cash alternatives. Organizations offering stock related opportunities used restricted stock more frequently than other vehicles. Large organizations (>1500 employees) are significantly more likely to offer stock options, performance units and restricted stock than smaller organizations.

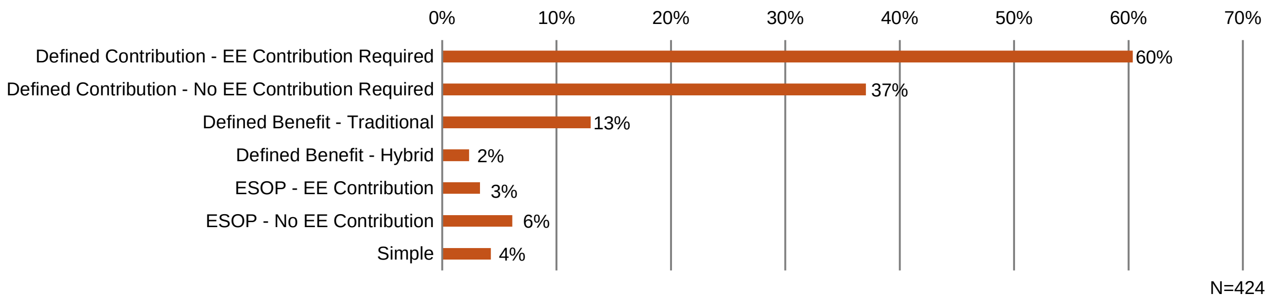
	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
Stock Options	9%	4%	3%	7%	0%	34%
Stock Appreciation Rights	1%	0%	0%	4%	0%	3%
Phantom Stock	3%	2%	0%	5%	4%	4%
Performance Units	8%	1%	1%	0%	13%	40%
Restricted Stock	13%	3%	4%	5%	17%	50%
No Long-Term Incentive Offered	61%	75%	77%	55%	54%	16%
Other	19%	16%	16%	27%	25%	19%
Base	*391*	*160*	*79*	*55*	*24*	*68*

Retirement Plans

Retirement Plan Options

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

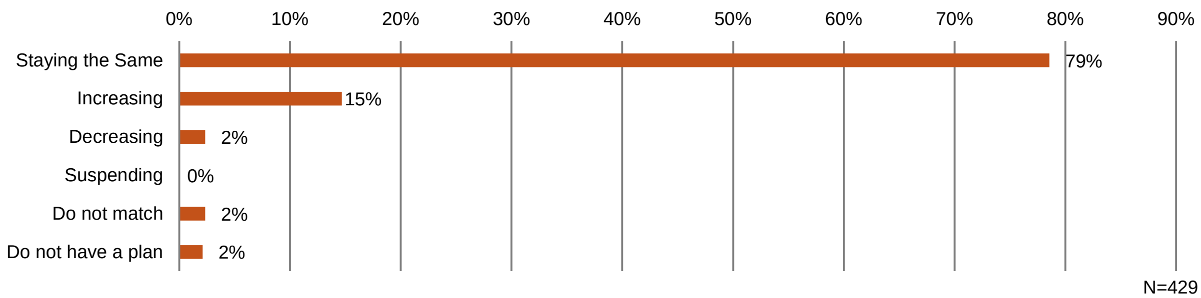
The results of the 2018-2019 survey are consistent with past findings, showing most employers (97%) offer some type of defined contribution plan.



Retirement Plan Contribution

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

Most employers (79%) project their retirement plan contribution will remain the same as the previous year. Across all sizes of organizations and industries though, approximately 15% of employers expect to increase their contribution as compared to the previous year.



Retirement Plan Automatic Enrollment by FTEs

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

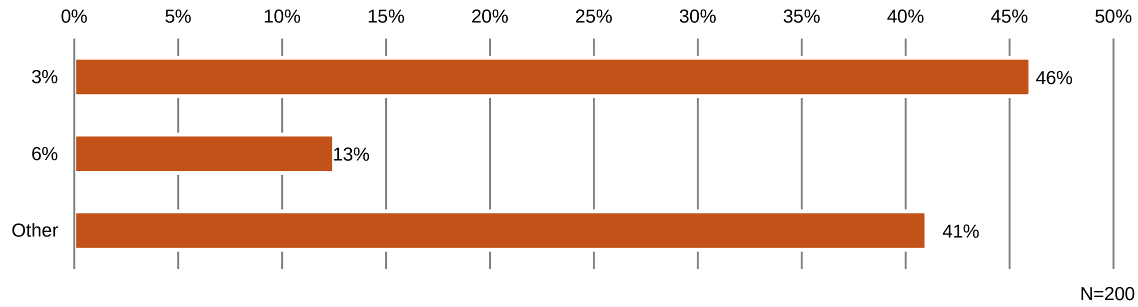
Close to half (48%) reported that their plan currently has an automatic enrollment feature, with an additional 20% of those not currently utilizing automatic enrollment either planning to add the feature next year, or considering it for the future.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
Yes	48%	38%	41%	57%	74%	58%
No, but planning to next year	2%	2%	3%	3%	0%	0%
No, but considering for the future	18%	24%	15%	13%	7%	13%
No, and not considering for the future	33%	36%	41%	27%	19%	29%
Base	*439*	*182*	*86*	*60*	*27*	*76*

Retirement Plan Automatic Enrollment

QUESTION: *What percentage contribution rate do you use for automatic enrollments?*

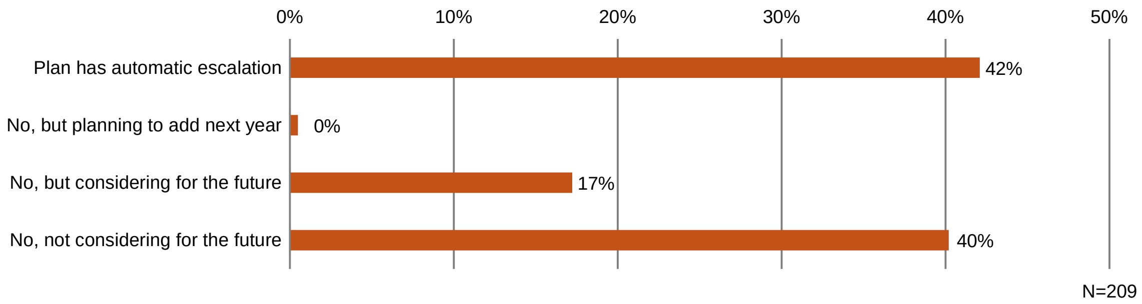
Most organizations (46%) use a 3% contribution rate as the default enrollment level, but there appears to be a wide range of other contribution rates being used by 41% of organizations.



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?*

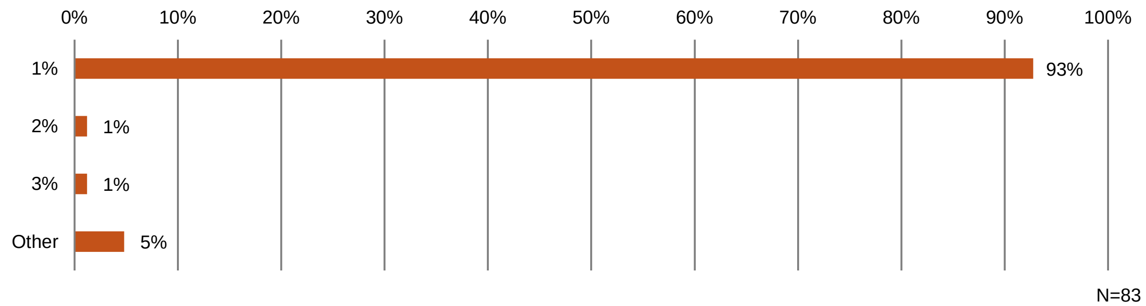
Our survey found that 42% of plans that include an automatic enrollment feature also have an automatic escalation feature, and an additional 17% are considering adding automatic escalation for the future.



Retirement Plans Automatic Escalation

QUESTION: *If "yes," for automatic enrollment and/or automatic escalation, what percent are you considering escalating each year?*

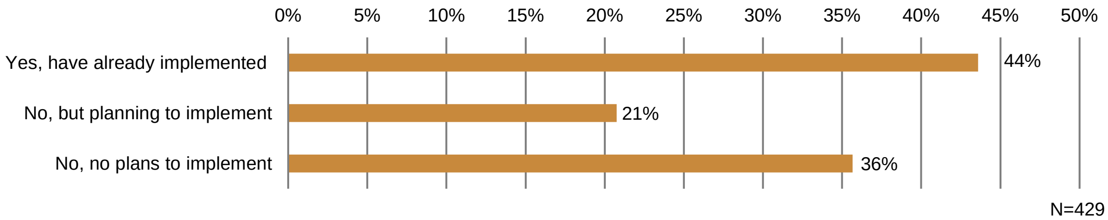
Overwhelmingly, automatic escalation is targeted at +1% with low variance based on employee size or industry sector.



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?*

Just under half of organizations (44%) have implemented a financial wellness program to help employees prepare for current and future financial needs with another 21% planning to implement financial wellness programs.



Non-Qualified Deferred Compensation Plan by FTEs

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

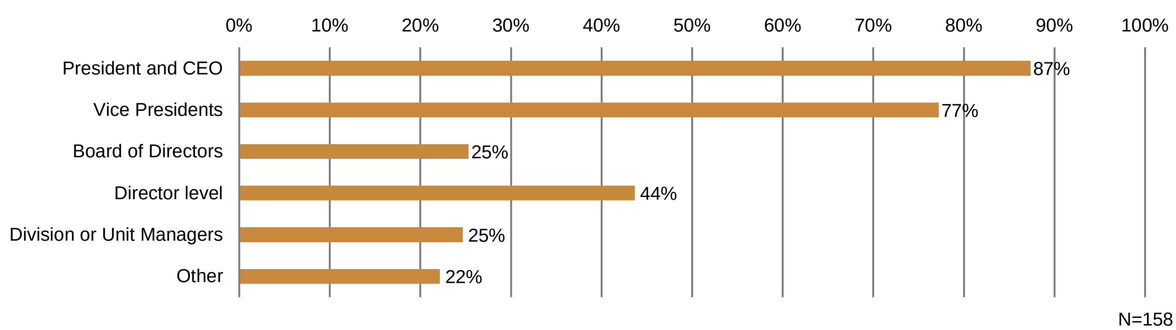
Thirty-seven percent of organizations offer a non-qualified deferred compensation (NQDC) plan or benefit program to their employees. The survey indicates that the prevalence of NQDC plans is growing, as only 33% of companies offered these plans according to last year's survey. The use of NQDC plans increase as the size of the company increases. For instance 87% of companies with over 1,500 employees offer these plans. When Newport Group surveyed *Fortune* 1000 companies, 92% of respondents indicated they have an NQDC plan and 93% of those responded that it is important to them to have an NQDC plan which is competitive with their peer companies.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
Yes	37%	17%	19%	45%	59%	87%
No	63%	83%	81%	55%	41%	13%
Base	*439*	*182*	*86*	*60*	*27*	*76*

Non-Qualified Deferred Compensation Plan Eligibility

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

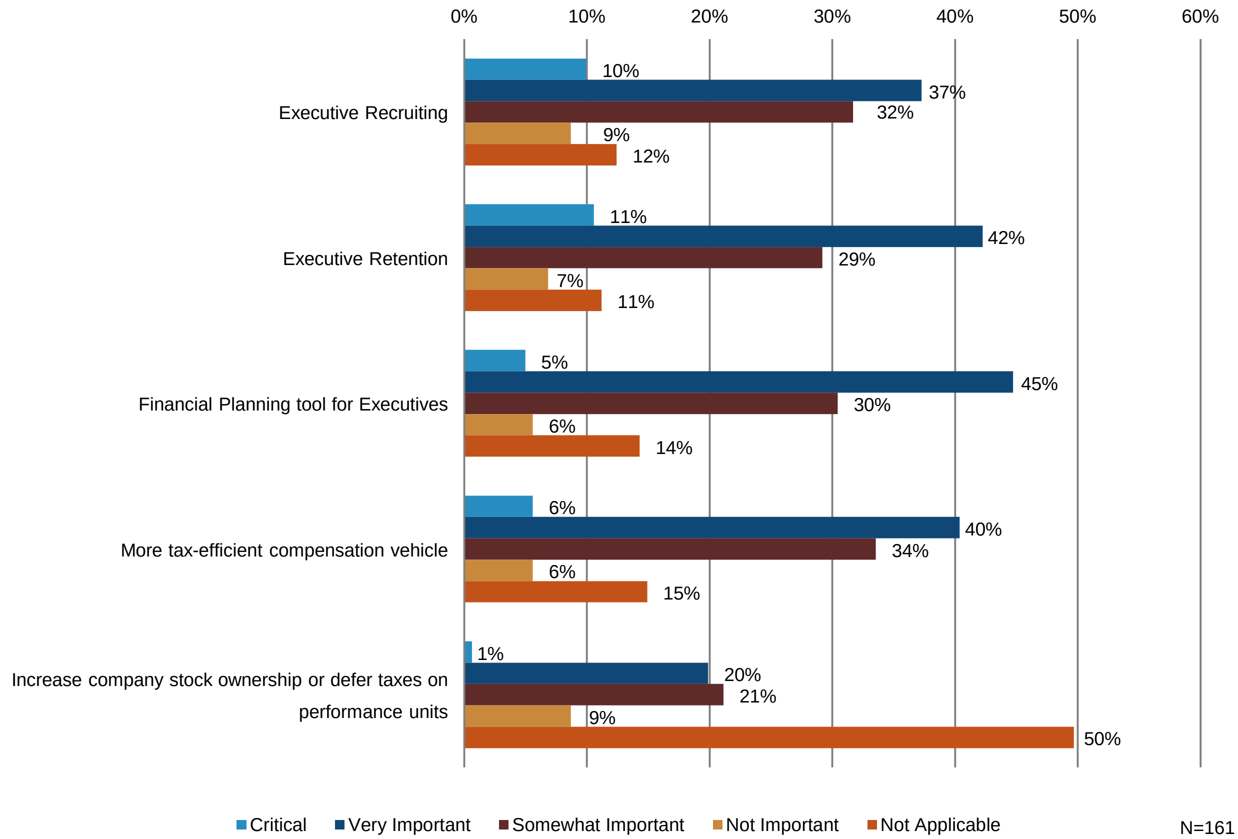
As anticipated, due to the importance of the leadership responsibilities, eligibility in a non-qualified plan is most often for those in the CEO and Vice-President roles.



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 and a good financial planning tool for executives. Executive recruiting and the tax efficiencies offered by these plans were also valued by respondents.



Health and Welfare Benefits

Health Insurance Plan Options by FTEs

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

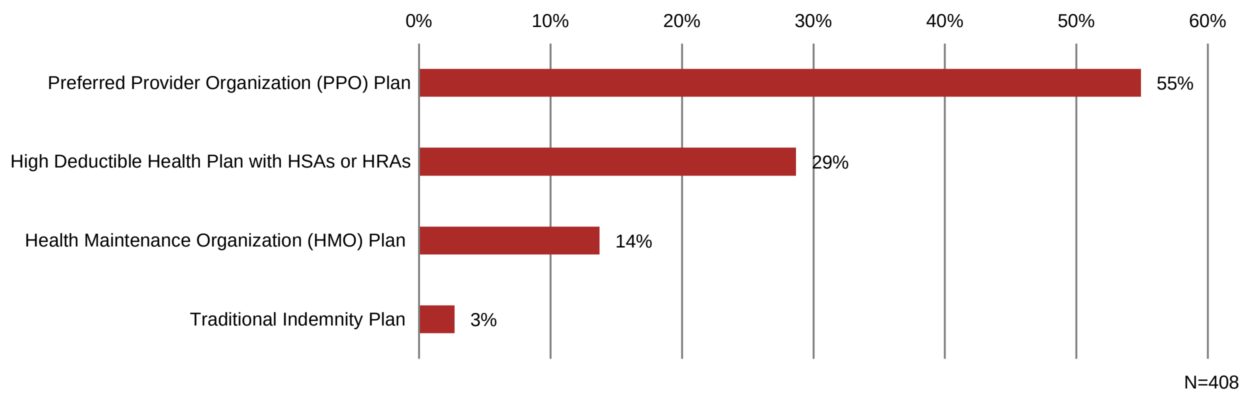
Preferred Provider Organization (PPO) plans remain the most widely available health plan, offered by 79% of all employers. High Deductible Health Plans are holding steady with 55% offering as a plan option.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
Preferred Provider Organization (PPO) Plan	79%	74%	72%	88%	96%	86%
High Deductible Health Plan (HDHP) with HSAs or HRAs	55%	41%	57%	61%	70%	77%
Health Maintenance Organization (HMO) Plan	28%	31%	27%	23%	30%	25%
Traditional Indemnity Plan	3%	3%	2%	2%	0%	3%
Do Not Offer Health Insurance	1%	2%	0%	0%	0%	0%
Other	2%	1%	4%	4%	4%	1%
Base	*421*	*174*	*83*	*57*	*27*	*73*

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?*

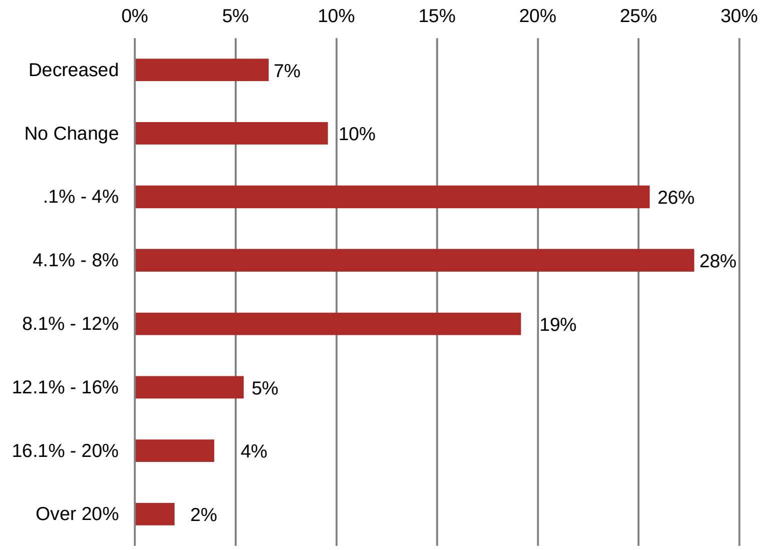
Similar to recent years, PPOs continue to be the most popular option among employees. Overall, 55% selected PPOs during the most recent open enrollment period. High Deductible Health Plans continue to remain popular with almost one-third choosing this option.



Health Insurance Percentage Change for 2018

QUESTION: *What was the average percentage change in your health insurance plan costs for the 2018 plan year?*

While most employers (83%) saw an increase in health plan costs in 2018, the largest percentage of employers (28%) reported increases from 4.1% up to 8%.



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Health Insurance Total Premium Amount by FTEs

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
Average Monthly Premium						
Family	$1,382	$1,548	$1,385	$1,320	$1,359	$1,051
Employee + One (Spouse or Child)	$985	$1,087	$1,043	$952	$841	$739
Employee + Children	$921	$1,033	$975	$901	$764	$649
Employee Only	$522	$606	$462	$552	$436	$385
Employee Share of Premium						
Family	32%	35%	38%	28%	20%	23%
Employee + One (Spouse or Child)	30%	33%	34%	28%	21%	24%
Employee + Children	29%	31%	33%	27%	21%	23%
Employee Only	19%	17%	19%	23%	21%	21%
Base	*336*	*145*	*69*	*50*	*24*	*47*

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Plans to Address Health Care Costs by FTEs

QUESTION: *What actions do you plan to take for the 2019 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 continue to implement wellness programs as a way to address costs.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
Raise Employee Portion of Premium Payment	30%	24%	33%	35%	42%	32%
Raise Employee Deductibles	16%	14%	23%	18%	12%	15%
Implement Wellness Program	14%	11%	14%	18%	15%	19%
Offer Consumer Driven Health Care Option	6%	6%	6%	4%	12%	6%
Conduct Dependent Audit	5%	3%	6%	5%	8%	9%
Discontinue Coverage to Dependents	1%	0%	0%	0%	0%	3%
Offer Opt-Out Incentive	4%	4%	3%	4%	4%	6%
Pursue Coverage through a Private Exchange	1%	2%	0%	2%	4%	0%
Discontinue Coverage to Part-Time Employees	0%	0%	1%	0%	0%	0%
Discontinue Retiree Medical	0%	0%	0%	0%	4%	0%
Discontinue Coverage in State or Federal Exchange	0%	0%	0%	0%	0%	0%
Institute On-Site Health Center	0%	1%	0%	0%	0%	0%
No Actions Planned	55%	59%	50%	53%	54%	50%
Base	*395*	*160*	*80*	*55*	*26*	*68*

Benefits by FTEs

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

When considering additional benefit offerings, dental plans are most prevalent (97%) with life insurance closely following. Wellness programs are offered at approximately 52% of organizations.

	Overall	100 or Fewer	101-250	251-750	751-1,500	1,500 or More
Dental	97%	96%	95%	98%	100%	97%
Life	94%	94%	93%	95%	89%	96%
Long-term Disability	83%	79%	83%	90%	81%	85%
Vision	86%	85%	86%	81%	81%	92%
Short-term Disability	78%	76%	73%	85%	78%	78%
Wellness Programs	52%	51%	49%	58%	48%	54%
Long-term Care Insurance	18%	17%	15%	24%	22%	19%
Retiree Medical	10%	12%	4%	8%	11%	11%
On-site Health Center	6%	7%	4%	8%	7%	5%
Base	*406*	*161*	*81*	*59*	*27*	*74*

For More Information

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About Newport Group

Newport Group is a leading independent retirement services firm that helps employers—and the advisors who serve them—prepare employees for a more financially secure retirement. Newport Group maintains investment objectivity, fee transparency and a commitment to flexible, responsive service. Staffed by an exceptional team of retirement, insurance, and consulting professionals, the company provides retirement solutions tailored to the needs of employers of every size, from small businesses to the *Fortune* 1000.

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