COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ADJUSTMENT
OF THE ELECTRIC RATES OF DUKE ENERGY KENTUCKY, INC.

CASE NO. 2019-00271

FILING REQUIREMENTS

VOLUME 15

Duke Energy Kentucky, Inc.
Case No. 2019-00271
Forecasted Test Period Filing Requirements
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1	6	807 KAR 5:001 Section 14(3)	If a limited liability company, the applicant shall identify in the application the state in which it is organized and the date on which it was organized, attest that it is in good standing in the state in which it is organized, and, if it is not a Kentucky limited liability company, state if it is authorized to transact business in Kentucky.	Amy B. Spiller
1	7	807 KAR 5:001 Section 14(4)	If the applicant is a limited partnership, a certified copy of its limited partnership agreement and all amendments, if any, shall be annexed to the application, or a written statement attesting that its partnership agreement and all amendments have been filed with the commission in a prior proceeding and referencing the case number of the prior proceeding.	Amy B. Spiller
1	8	807 KAR 5:001 Section 16 (1)(b)(1)	Reason adjustment is required.	Amy B. Spiller William Don Wathen, Jr.
1	9	807 KAR 5:001 Section 16 (1)(b)(2)	Certified copy of certificate of assumed name required by KRS 365.015 or statement that certificate not necessary.	Amy B. Spiller
1	10	807 KAR 5:001 Section 16 (1)(b)(3)	New or revised tariff sheets, if applicable in a format that complies with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed	Jeff L. Kern
1	11	807 KAR 5:001 Section 16 (1)(b)(4)	Proposed tariff changes shown by present and proposed tariffs in comparative form or by indicating additions in italics or by underscoring and striking over deletions in current tariff.	Jeff L. Kern
1	12	807 KAR 5:001 Section 16 (1)(b)(5)	A statement that notice has been given in compliance with Section 17 of this administrative regulation with a copy of the notice.	Amy B. Spiller
1	13	807 KAR 5:001 Section 16(2)	If gross annual revenues exceed $5,000,000, written notice of intent filed at least 30 days, but not more than 60 days prior to application. Notice shall state whether application will be supported by historical or fully forecasted test period.	Amy B. Spiller
1	14	807 KAR 5:001 Section 16(3)	Notice given pursuant to Section 17 of this administrative regulation shall satisfy the requirements of 807 KAR 5:051, Section 2.	Amy B. Spiller
1	15	807 KAR 5:001 Section 16(6)(a)	The financial data for the forecasted period shall be presented in the form of pro forma adjustments to the base period.	Christopher M. Jacobi
1	16	807 KAR 5:001 Section 16(6)(b)	Forecasted adjustments shall be limited to the twelve (12) months immediately following the suspension period.	Sarah E. Lawler Melissa B. Abernathy Christopher M. Jacobi
1	17	807 KAR 5:001 Section 16(6)(c)	Capitalization and net investment rate base shall be based on a thirteen (13) month average for the forecasted period.	Sarah E. Lawler
1	18	807 KAR 5:001 Section 16(6)(d)	After an application based on a forecasted test period is filed, there shall be no revisions to the forecast, except for the correction of mathematical errors, unless the revisions reflect statutory or regulatory enactments that could not, with reasonable diligence, have been included in the forecast on the date it was filed. There shall be no revisions filed within thirty (30) days of a scheduled hearing on the rate application.	Christopher M. Jacobi

1	19	807 KAR 5:001 Section 16(6)(e)	The commission may require the utility to prepare an alternative forecast based on a reasonable number of changes in the variables, assumptions, and other factors used as the basis for the utility's forecast.	Christopher M. Jacobi
1	20	807 KAR 5:001 Section 16(6)(f)	The utility shall provide a reconciliation of the rate base and capital used to determine its revenue requirements.	Sarah E. Lawler
1	21	807 KAR 5:001 Section 16(7)(a)	Prepared testimony of each witness supporting its application including testimony from chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program.	All Witnesses
1	22	807 KAR 5:001 Section 16(7)(b)	Most recent capital construction budget containing at minimum 3 year forecast of construction expenditures.	Christopher M. Jacobi James Michael Mosley Ash M. Norton
1	23	807 KAR 5:001 Section 16(7)(c)	Complete description, which may be in prefiled testimony form, of all factors used to prepare forecast period. All econometric models, variables, assumptions, escalation factors, contingency provisions, and changes in activity levels shall be quantified, explained, and properly supported.	Christopher M. Jacobi
1	24	807 KAR 5:001 Section 16(7)(d)	Annual and monthly budget for the 12 months preceding filing date, base period and forecasted period.	Christopher M. Jacobi
1	25	807 KAR 5:001 Section 16(7)(e)	Attestation signed by utility's chief officer in charge of Kentucky operations providing: 1. That forecast is reasonable, reliable, made in good faith and that all basic assumptions used have been identified and justified; and 2. That forecast contains same assumptions and methodologies used in forecast prepared for use by management, or an identification and explanation for any differences; and 3. That productivity and efficiency gains are included in the forecast.	Amy B. Spiller
1	26	807 KAR 5:001 Section 16(7)(f)	For each major construction project constituting 5% or more of annual construction budget within 3 year forecast, following information shall be filed: 1. Date project began or estimated starting date; 2. Estimated completion date; 3. Total estimated cost of construction by year exclusive and inclusive of Allowance for Funds Used During construction ("AFUDC") or Interest During construction Credit; and 4. Most recent available total costs incurred exclusive and inclusive of AFUDC or Interest During Construction Credit.	Christopher M. Jacobi James Michael Mosley Ash M. Norton
1	27	807 KAR 5:001 Section 16(7)(g)	For all construction projects constituting less than 5% of annual construction budget within 3 year forecast, file aggregate of information requested in paragraph (f) 3 and 4 of this subsection.	Christopher M. Jacobi James Michael Mosley Ash M. Norton

1	28	807 KAR 5:001 Section 16(7)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget supported by underlying assumptions made in projecting results of operations and including the following information: 1. Operating income statement (exclusive of dividends per share or earnings per share); 2. Balance sheet; 3. Statement of cash flows; 4. Revenue requirements necessary to support the forecasted rate of return; 5. Load forecast including energy and demand (electric); 6. Access line forecast (telephone); 7. Mix of generation (electric); 8. Mix of gas supply (gas); 9. Employee level; 10.Labor cost changes; 11.Capital structure requirements; 12.Rate base; 13.Gallons of water projected to be sold (water); 14.Customer forecast (gas, water); 15.MCF sales forecasts (gas); 16.Toll and access forecast of number of calls and number of minutes (telephone); and 17.A detailed explanation of any other information provided.	Christopher M. Jacobi John A. Verderame Benjamin W. B. Passty
1	29	807 KAR 5:001 Section 16(7)(i)	Most recent FERC or FCC audit reports.	Danielle L. Weatherston
1	30	807 KAR 5:001 Section 16(7)(j)	Prospectuses of most recent stock or bond offerings.	Christopher M. Jacobi
1	31	807 KAR 5:001 Section 16(7)(k)	Most recent FERC Form 1 (electric), FERC Form 2 (gas), or PSC Form T (telephone).	Danielle L. Weatherston
2	32	807 KAR 5:001 Section 16(7)(l)	Annual report to shareholders or members and statistical supplements for the most recent 2 years prior to application filing date.	Christopher M. Jacobi
3	33	807 KAR 5:001 Section 16(7)(m)	Current chart of accounts if more detailed than Uniform System of Accounts charts.	Danielle L. Weatherston
3	34	807 KAR 5:001 Section 16(7)(n)	Latest 12 months of the monthly managerial reports providing financial results of operations in comparison to forecast.	Danielle L. Weatherston
3	35	807 KAR 5:001 Section 16(7)(o)	Complete monthly budget variance reports, with narrative explanations, for the 12 months prior to base period, each month of base period, and subsequent months, as available.	Danielle L. Weatherston Christopher M. Jacobi
3-9	36	807 KAR 5:001 Section 16(7)(p)	SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued during prior 2 years and any Form 10-Qs issued during past 6 quarters.	Danielle L. Weatherston
9	37	807 KAR 5:001 Section 16(7)(q)	Independent auditor's annual opinion report, with any written communication which indicates the existence of a material weakness in internal controls.	Danielle L. Weatherston
9	38	807 KAR 5:001 Section 16(7)(r)	Quarterly reports to the stockholders for the most recent 5 quarters.	Christopher M. Jacobi

10	39	807 KAR 5:001 Section 16(7)(s)	Summary of latest depreciation study with schedules itemized by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall identify current and base period depreciation rates used by major plant accounts. If information has been filed in another PSC case, refer to that case's number and style.	John J. Spanos
10	40	807 KAR 5:001 Section 16(7)(t)	List all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with application. Include each software, program, or model; its use; identify the supplier of each; briefly describe software, program, or model; specifications for computer hardware and operating system required to run program	Sarah E. Lawler
10	41	807 KAR 5:001 Section 16(7)(u)	If utility had any amounts charged or allocated to it by affiliate or general or home office or paid any monies to affiliate or general or home office during the base period or during previous 3 calendar years, file: 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each allocation or payment; 2. method and amounts allocated during base period and method and estimated amounts to be allocated during forecasted test period; 3. Explain how allocator for both base and forecasted test period was determined; and 4. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during base period is reasonable.	Jeffrey R. Setser
10	42	807 KAR 5:001 Section 16(7)(v)	If gas, electric or water utility with annual gross revenues greater than $5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from single time period.	James E. Ziolkowski
10	43	807 KAR 5:001 Section 16(7)(w)	Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file: 1. Jurisdictional separations study consistent with Part 36 of the FCC's rules and regulations; and 2. Service specific cost studies supporting pricing of services generating annual revenue greater than $1,000,000 except local exchange access: a. Based on current and reliable data from single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles.	N/A
10	44	807 KAR 5:001 Section 16(8)(a)	Jurisdictional financial summary for both base and forecasted periods detailing how utility derived amount of requested revenue increase.	Sarah E. Lawler

10	45	807 KAR 5:001 Section 16(8)(b)	Jurisdictional rate base summary for both base and forecasted periods with supporting schedules which include detailed analyses of each component of the rate base.	Sarah E. Lawler Melissa B. Abernathy Christopher M. Jacobi John R. Panizza James E. Ziolkowski Danielle L. Weatherston
10	46	807 KAR 5:001 Section 16(8)(c)	Jurisdictional operating income summary for both base and forecasted periods with supporting schedules which provide breakdowns by major account group and by individual account.	Sarah E. Lawler
10	47	807 KAR 5:001 Section 16(8)(d)	Summary of jurisdictional adjustments to operating income by major account with supporting schedules for individual adjustments and jurisdictional factors.	Sarah E. Lawler Melissa B. Abernathy Christopher M. Jacobi James E. Ziolkowski
10	48	807 KAR 5:001 Section 16(8)(e)	Jurisdictional federal and state income tax summary for both base and forecasted periods with all supporting schedules of the various components of jurisdictional income taxes.	John R. Panizza
10	49	807 KAR 5:001 Section 16(8)(f)	Summary schedules for both base and forecasted periods (utility may also provide summary segregating items it proposes to recover in rates) of organization membership dues; initiation fees; expenditures for country club; charitable contributions; marketing, sales, and advertising; professional services; civic and political activities; employee parties and outings; employee gifts; and rate cases.	Sarah E. Lawler
10	50	807 KAR 5:001 Section 16(8)(g)	Analyses of payroll costs including schedules for wages and salaries, employee benefits, payroll taxes, straight time and overtime hours, and executive compensation by title.	Sarah E. Lawler Renee H. Metzler
10	51	807 KAR 5:001 Section 16(8)(h)	Computation of gross revenue conversion factor for forecasted period.	Sarah E. Lawler
10	52	807 KAR 5:001 Section 16(8)(i)	Comparative income statements (exclusive of dividends per share or earnings per share), revenue statistics and sales statistics for 5 calendar years prior to application filing date, base period, forecasted period, and 2 calendar years beyond forecast period.	Danielle L. Weatherston Christopher M. Jacobi
10	53	807 KAR 5:001 Section 16(8)(j)	Cost of capital summary for both base and forecasted periods with supporting schedules providing details on each component of the capital structure.	Christopher M. Jacobi
10	54	807 KAR 5:001 Section 16(8)(k)	Comparative financial data and earnings measures for the 10 most recent calendar years, base period, and forecast period.	Melissa B. Abernathy Christopher M. Jacobi Danielle L. Weatherston
10	55	807 KAR 5:001 Section 16(8)(l)	Narrative description and explanation of all proposed tariff changes.	Jeff L. Kern
10	56	807 KAR 5:001 Section 16(8)(m)	Revenue summary for both base and forecasted periods with supporting schedules which provide detailed billing analyses for all customer classes.	Jeff L. Kern
10	57	807 KAR 5:001 Section 16(8)(n)	Typical bill comparison under present and proposed rates for all customer classes.	Jeff L. Kern
10	58	807 KAR 5:001 Section 16(9)	The commission shall notify the applicant of any deficiencies in the application within thirty (30) days of the application's submission. An application shall not be accepted for filing until the utility has cured all noted deficiencies.	William Don Wathen, Jr.

10	59	807 KAR 5:001 Section 16(10)	Request for waivers from the requirements of this section shall include the specific reasons for the request. The commission shall grant the request upon good cause shown by the utility.	Legal
10	60	807 KAR 5:001 Section (17)(1)	(1) Public postings. (a) A utility shall post at its place of business a copy of the notice no later than the date the application is submitted to the commission. (b) A utility that maintains a Web site shall, within five (5) business days of the date the application is submitted to the commission, post on its Web sites: 1. A copy of the public notice; and 2. A hyperlink to the location on the commission's Web site where the case documents are available. (c) The information required in paragraphs (a) and (b) of this subsection shall not be removed until the commission issues a final decision on the application.	Amy B. Spiller
10	61	807 KAR 5:001 Section 17(2)	(2) Customer Notice. (a) If a utility has twenty (20) or fewer customers, the utility shall mail a written notice to each customer no later than the date on which the application is submitted to the commission. (b) If a utility has more than twenty (20) customers, it shall provide notice by: 1. Including notice with customer bills mailed no later than the date the application is submitted to the commission; 2. Mailing a written notice to each customer no later than the date the application is submitted to the commission; 3. Publishing notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made no later than the date the application is submitted to the commission; or 4. Publishing notice in a trade publication or newsletter delivered to all customers no later than the date the application is submitted to the commission. (c) A utility that provides service in more than one (1) county may use a combination of the notice methods listed in paragraph (b) of this subsection.	Amy B. Spiller

10	62	807 KAR 5:001 Section 17(3)	(3) Proof of Notice. A utility shall file with the commission no later than forty-five (45) days from the date the application was initially submitted to the commission: (a) If notice is mailed to its customers, an affidavit from an authorized representative of the utility verifying the contents of the notice, that notice was mailed to all customers, and the date of the mailing; (b) If notice is published in a newspaper of general circulation in the utility's service area, an affidavit from the publisher verifying the contents of the notice, that the notice was published, and the dates of the notice's publication; or (c) If notice is published in a trade publication or newsletter delivered to all customers, an affidavit from an authorized representative of the utility verifying the contents of the notice, the mailing of the trade publication or newsletter, that notice was included in the publication or newsletter, and the date of mailing.	Amy B. Spiller

10	63	807 KAR 5:001 Section 17(4)	(4) Notice Content. Each notice issued in accordance with this section shall contain: (a) The proposed effective date and the date the proposed rates are expected to be filed with the commission; (b) The present rates and proposed rates for each customer classification to which the proposed rates will apply; (c) The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rates will apply; (d) The amount of the average usage and the effect upon the average bill for each customer classification to which the proposed rates will apply, except for local exchange companies, which shall include the effect upon the average bill for each customer classification for the proposed rate change in basic local service; (e) A statement that a person may examine this application at the offices of (utility name) located at (utility address); (f) A statement that a person may examine this application at the commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at http://psc.ky.gov; (g) A statement that comments regarding the application may be submitted to the Public Service Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602; (h) A statement that the rates contained in this notice are the rates proposed by (utility name) but that the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (i) A statement that a person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party; and (j) A statement that if the commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of the notice, the commission may take final action on the application.	Jeff L. Kern
10	64	807 KAR 5:001 Section 17(5)	(5) Abbreviated form of notice. Upon written request, the commission may grant a utility permission to use an abbreviated form of published notice of the proposed rates, provided the notice includes a coupon that may be used to obtain all the required information.	N/A

11	-	807 KAR 5:001 Section 16(8)(a) through (k)	Schedule Book (Schedules A-K)	Various
12	-	807 KAR 5:001 Section 16(8)(l) through (n)	Schedule Book (Schedules L-N)	Jeff L. Kern
13	-	-	Work Papers	Various
14	-	807 KAR 5:001 Section 16(7)(a)	Testimony (Volume 1 of 4)	Various
15	-	807 KAR 5:001 Section 16(7)(a)	Testimony (Volume 2 of 4)	Various
16	-	807 KAR 5:001 Section 16(7)(a)	Testimony (Volume 3 of 4)	Various
17	-	807 KAR 5:001 Section 16(7)(a)	Testimony (Volume 4 of 4)	Various
18-19	-	KRS 278.2205(6)	Cost Allocation Manual	Legal

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

The Electronic Application of Duke Energy Kentucky, Inc., for: 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief.	)))))))	Case No. 2019-00271

DIRECT TESTIMONY OF

RENEE H. METZLER

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

September 3, 2019

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Renee H. Metzler. My business address is 550 South Tryon, Charlotte North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC (DEBS), as Managing Director Retirement and Health & Welfare. DEBS provides various administrative and other services to Duke Energy Kentucky, Inc., (Duke Energy Kentucky or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. PLEASE SUMMARIZE YOUR EDUCATION.

A. I graduated from the University of Mary Washington with a Bachelor of Arts degree in Spanish Language and Literature. I also hold a Professional in Human Resources (PHR) certification.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. I have 30 years of human resources experience, primarily working with benefits and compensation programs. I joined Piedmont Natural Gas Company, Inc. (Piedmont) in 2001 and have held various leadership positions in human resources. Most recently I was the Managing Director – Total Rewards at Piedmont with responsibility for broad-based compensation, executive compensation, retirement benefits, health & welfare benefits, the human resources management system (HRMS) and payroll. I have served in a leadership role on several projects, including the redesign of Piedmont's retirement (pension, 401(k) and retiree medical) program, the design and implementation of a consumer-driven health plan with a Health Savings Account, the implementation of the Workday HRMS system, the design and implementation of Piedmont's wellness program, the redesign of Piedmont's long-term incentive plan and the integration of Piedmont employees into the Duke Energy compensation and benefits programs. I became an employee of Duke Energy in October 2016 when Piedmont was acquired by Duke Energy.

Q. PLEASE DESCRIBE YOUR DUTIES AS MANAGING DIRECTOR – RETIREMENT AND HEALTH & WELFARE.

A. I am responsible for all health and welfare and retirement benefits for Duke Energy, including all of Duke Energy's affiliated regulated and non-regulated companies, including Duke Energy Kentucky (collectively the Companies). Areas of responsibility include: management of key vendor relationships, benefit plan design and strategy, administration and compliance.

Q. HAVE YOU EVER TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION?

A. Yes. I previously provided written testimony in support of the Company's base natural gas rate increase request in Case No. 2018-00261.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to show that the benefits and compensation opportunities provided to employees are reasonable, customary, prudent and market-competitive. My testimony illustrates that the benefit programs and compensation opportunities provided to Duke Energy, including Duke Energy Kentucky's employees, are critical for attracting, engaging, retaining and directing the efforts of employees with the skills and experience necessary to efficiently and effectively provide electric services to Duke Energy Kentucky's customers. I also sponsor Schedules G-2 and G-3 in satisfaction of Filing Requirement (FR) 16(8)(g).

II. EMPLOYMENT CHARACTERISTICS

Q. PLEASE DESCRIBE THE GENERAL COMPOSITION OF THE COMPANIES' EMPLOYEE POPULATIONS.

A. As of July 31, 2019, Duke Energy has a total of 28,770 employees. Duke Energy Kentucky has 176 employees, comprised of 10 exempt employees and 166 union employees. Duke Energy Business Services (DEBS) has 7,652 employees, comprised of 5,740 exempt employees and 1,912 non-exempt employees, of whom 881 are union employees.

Q. WHERE DO THESE EMPLOYEES WORK WHEN PERFORMING SERVICES FOR DUKE ENERGY KENTUCKY CUSTOMERS?

A. Duke Energy Kentucky's customers receive services from employees of Duke Energy Kentucky and affiliated companies. The electric employees work at the East Bend Generating Station (East Bend), the Woodsdale Generating Station (Woodsdale) (collectively, the Plants) the Erlanger, Kentucky, Construction and Maintenance Center; the Little Miami Operations Center; and the Queensgate Operations Center. They also work in our Cincinnati, Ohio, headquarters and in the Duke Energy headquarters in Charlotte, North Carolina.

Q. WHAT TYPE OF SPECIAL SKILLS OR KNOWLEDGE IS REQUIRED IN ORDER TO OPERATE AN ELECTRIC UTILITY SUCH AS DUKE ENERGY KENTUCKY?

A. The operation and maintenance (O&M) of electric generating plants, transmission substations and transmission and distribution equipment requires specialized technical skills. Employees must have the requisite knowledge and technical skills to plan, design, operate and maintain electric generating plants and high voltage equipment in a manner that provides safe and reliable service. The operation and maintenance of a field office and a customer call center requires detailed knowledge of all aspects of customer service. Field office and call center employees must understand the characteristics of the electric generating and delivery service provided by Duke Energy Kentucky, the metering, billing and collection processes and various other customer service matters. At the corporate level, highly skilled managers, attorneys, engineers, accountants, computer hardware and software professionals, cyber security experts and other highly trained professionals are needed to support the employees who are directly responsible for generating and delivering electricity to Duke Energy Kentucky's customers.

Q. HOW IMPORTANT IS THE RECRUITMENT AND RETENTION OF SUCH EMPLOYEES TO DUKE ENERGY'S SUCCESS?

A. The recruitment and retention of such employees is critical to Duke Energy Kentucky's success. The skills needed for employees to render safe, reliable and high-quality utility service take several years to develop. For example, electric plant operators and line technicians are highly skilled positions that require experience and knowledge that is acquired over several years. If we were to lose such employees, we would incur additional costs to train replacements for these positions. Consequently, the fact that we strive to be an "employer of choice" that attracts qualified employees and retains such employees, benefits customers by providing a more highly skilled work force that provides safe and reliable service to customers at a reasonable cost.

Q. WHAT FACTORS AFFECT THE RECRUITMENT AND RETENTION OF SUCH EMPLOYEES?

A. The compensation, benefits and career development opportunities provided by Duke Energy directly affects its ability to attract and retain qualified employees. Industry and market conditions also impact the ability to recruit and retain employees.

Q. HAS THE COMPANY EXPERIENCED ANY COMPETITION IN RETAINING HIGHLY TRAINED AND SKILLED ELECTRIC WORKERS IN RECENT YEARS?

A. Duke Energy does experience challenges in retaining a highly trained and technical workforce across its enterprise. Duke Energy strives to provide a competitive compensation and benefits package and has a robust training program; however, we face competition from local and national electric companies and contractors that target their recruiting efforts at employees trained by Duke Energy.

For example, given that it requires a minimum of four years to fully train Line Technicians to perform their role safely and effectively, it is critical to the reliability of service to our customers that Duke Energy Kentucky be in a position to retain qualified employees. It would be imprudent for Duke Energy to not take measures to prevent potential losses of employees in all of its service territories. Maintaining a competitive total rewards package is instrumental in meeting Duke Energy and Duke Energy Kentucky's shared goals of providing safe, reliable and reasonable utility service.

Q. WHERE DOES DUKE ENERGY OBTAIN APPLICANTS FOR VACANT POSITIONS?

A. We draw applicants from various geographic areas, depending on the job we need to fill. As a general rule, the more highly skilled the job being filled, the broader the scope of the recruitment efforts. We generally recruit executives on a national level; exempt employees locally and regionally; and non-exempt employees locally. The Companies employ applicants drawn from other utilities and from diverse employment backgrounds in other industries.

III. COMPENSATION PHILOSOPHY

Q. PLEASE DESCRIBE DUKE ENERGY'S BASIC COMPENSATION PHILOSOPHY.

A. The Compensation Committee of the Board of Directors of Duke Energy establishes and reviews Duke Energy's overall compensation philosophy, confirms that our policies and philosophy do not encourage excessive or inappropriate risk-taking by our employees, reviews and approves the salaries and other compensation of certain employees, including all executive officers of Duke Energy, approves equity grants and reviews the effectiveness of compensation programs. Our compensation philosophy has three major parts.

First, we want our compensation to be market-based, meaning we are competitive to the external market of similar companies, allowing us to remain attractive against competition and retain qualified employees. Our compensation programs are targeted to deliver total compensation that is competitive with that provided by our peers. Duke Energy employs a compensation strategy that combines base pay and variable incentive opportunities for all levels of positions. This approach fosters efficiency, safety and a focus on the customer by motivating employees to lower costs and generate efficiencies that benefit customers while providing employee compensation opportunities at reasonable market-competitive rates that enable the Companies to attract and retain the expertise needed to efficiently and effectively provide its electric service to customers.

Second, we're performance-oriented. We believe that linking compensation to performance is one way that we can set high expectations for employees and reward results. Our compensation program is designed to provide total compensation that is consistent with performance. Finally, we're fair and flexible. Our well-managed policies and pay administration guidelines ensure that we pay employees consistently and fairly across departments, but we're also flexible when we need to align our policies with business needs as they grow and change.

In 2015, Duke Energy developed a strategy called The Road Ahead in which the Companies identified a number of important strategic initiatives to transform the energy future with a focus on customers, employees, operations and growth. With this focus, Duke Energy will continue to provide exceptional value to our customers and be an integral part of the communities in which we serve. Duke Energy is committed to lead the way to cleaner, smarter energy solutions that customers value through a strategy focused on, among other things, a transformation of the customer experience to meet the changing expectations through enhanced convenience, control and choice in energy supply and usage. In order to accomplish these goals, Duke Energy must be able to attract, retain and motivate employees who are able to carry out this mission. One of the keys to providing a desirable workplace is to provide competitive pay and benefit programs.

Q. DESCRIBE DUKE ENERGY'S COMPENSATION PHILOSPHY FOR EXECUTIVES.

A. The Companies' compensation philosophy is similar for both executive employees and all employees below the executive level. The compensation package for executives consists of a combination of fixed and variable pay using base salary, short-term incentives and long-term incentives. These components, in the aggregate, are targeted to deliver total compensation that is competitive with the applicable peer group and consistent with performance. Duke Energy adopted this executive compensation strategy in order to attract, retain and motivate the executive talent required to deliver superior performance. The strategy emphasizes performance-based compensation that balances rewards for both short-term and long-term results and that aligns the executives' interests with the long-term success of Duke Energy, including Duke Energy Kentucky.

Q. WHY MUST DUKE ENERGY PROVIDE EMPLOYEES WITH A MARKET-COMPETITIVE TOTAL COMPENSATION PACKAGE?

A. It is critical that Duke Energy provide a market-competitive total compensation opportunity to efficiently and effectively attract and retain an adequately skilled and experienced workforce. Attracting and retaining such a workforce is reasonable and necessary for the safe and efficient provision of service to customers and the operation of most aspects of the Company's business. As shown on page 6 of Attachment RHM-1, a 2016 Global Talent Management and Rewards study conducted by Willis Towers Watson, the top driver of attraction and retention is pay. This study captures the perspective of over 2,000 organizations — who collectively employ almost 21 million people worldwide — on key attraction, retention and engagement issues that are essential to the development of an effective employment package and total rewards strategy. The study describes a key point that employees want to work for organizations that offer fair and competitive pay, opportunities for advancement and job security. On page 9 of Attachment RHM-2, Mercer's 2017 Global Talent Trends Study, the top factor that employees in the United States indicate would make a positive impact to their work situation is compensation that is fair and market competitive. The study goes on to report that there is greater concern over base pay and benefits than in prior years, and employees are seeking the security of tangible and predictable rewards given a climate of uncertainty and change.

Q. WHAT WOULD BE THE IMPLICATIONS TO CUSTOMERS IF THE COMPANIES ALLOWED COMPENSATION LEVELS TO FALL BELOW MARKET-COMPETITIVE LEVELS?

A. Allowing compensation to fall below market-competitive levels would have substantial negative implications for the cost of service to customers. Many craft positions require lengthy apprenticeships to learn the skills needed to perform work independently and safely. The expense incurred to hire and train new employees and the loss of productivity realized through high turnover rates would negatively affect the ability of the Company to provide safe and reliable service at a reasonable cost. This is also true for leadership positions.

Duke Energy invests in developing highly effective leaders who carry out the organization's Road Ahead mission and inspire employees to work together to achieve results the right way. Paying less than competitive levels of compensation would put the Companies at risk of losing these valuable leaders to other companies and potentially having to pay more to attract the same level of leadership talent externally. On page 9 of Attachment RHM-1, the financial cost of turnover is illustrated to show how the negative implications from lost productivity, hiring, training, and job vacancy can put a significant level of productivity and financial value at risk to the Companies. In addition, turnover could negatively impact the service level provided to customers.

Q. WHAT ARE THE COMPONENTS OF DUKE ENERGY'S COMPENSATION PROGRAMS?

A. To achieve the objective of providing competitive pay, the components of the Company's Total Rewards compensation program include: (1) the establishment of a fair market value for all jobs; (2) annual pay increases to recognize individual performance; (3) annual short-term cash incentive awards that reward eligible employees with cash bonuses when pre-established goals are achieved; (4) long-term incentive (LTI) opportunities to attract and retain high-performing leaders; and (5) recognition awards given when employees make significant contributions to business operations due to exceptional personal initiative, dedication, perseverance or a uniquely effective approach to work.

Q. PLEASE DESCRIBE HOW DUKE ENERGY STRUCTURES ITS COMPENSATION PROGRAMS.

A. Duke Energy's compensation programs consist of a base pay component and incentive pay components that together provide a market-competitive total compensation package for all employees. The base pay component is a set amount, reviewed by management at least annually, and established at a level that: (1) provides competitive compensation based on the nature and responsibilities of the employee's position; and (2) is fair relative to the pay for other similarly situated positions in the organization. The short-term incentive pay component is variable based on performance and is at risk to the employees. Incentive pay is linked to the accomplishment of specific goals established in advance for the individual employee, his or her business unit, one or more of the

Companies, and/or Duke Energy. The purpose of incentive pay is: (1) to encourage employees to perform at a high level in order to accomplish specific objectives intended to ensure safe, reliable and economical utility service to our customers; (2) to ensure their business unit's and Duke Energy's overall success; and (3) to constitute a component of a compensation package that is competitive with the market. The LTI plans round out a competitive total compensation package for leaders. The goal of having a LTI component as part of certain employees' total compensation package is to attract and retain high-caliber leaders and align their interests with the long-term strategy of Duke Energy, including Duke Energy Kentucky, through equity-based compensation. The designs of the short-term and long-term incentive programs are also reviewed annually.

IV. REASONABLENESS OF COMPENSATION PROGRAMS

Q. DO YOU HAVE AN OPINION AS TO WHETHER DUKE ENERGY'S EMPLOYEE COMPENSATION PROGRAMS ARE REASONABLE AND NECESSARY TO ATTRACT, RETAIN, AND MOTIVATE THE QUALIFIED EMPLOYEES NEEDED TO PROVIDE SAFE, RELIABLE, EFFICIENT AND ECONOMICAL SERVICE TO DUKE ENERGY KENTUCKY'S ELECTRIC CUSTOMERS?

A. Yes. In my opinion, the Companies' base pay, short-term and long-term incentive compensation programs are market competitive, reasonable and necessary to attract, retain and motivate qualified employees that Duke Energy needs to provide safe, reliable, effective, efficient and economical electric service to Duke Energy Kentucky's retail customers.

V. BASE PAY PROGRAMS

Q. PLEASE DESCRIBE THE COMPANIES' BASE PAY PROGRAMS.

A. Every employee receives base pay in the form of semi-monthly earnings (for exempt employees) or bi-weekly wages (for non-exempt and union employees).

Q. HOW DOES DUKE ENERGY KNOW THAT ITS COMPANIES' PROVIDE MARKET COMPETITIVE COMPENSATION?

A. Duke Energy employs a market-based compensation strategy by using annual compensation surveys to establish salary ranges and ensure jobs are paid competitively in base and in total direct compensation (base + incentives) as compared to jobs at companies that are similar to Duke Energy in size and revenue. Duke Energy participates in a variety of third party salary surveys on an annual basis and data from these surveys is analyzed to determine overall competitiveness of pay for jobs throughout the Companies.

Q. HOW ARE BASE SALARIES DETERMINED AND HOW DOES THE COMPANIES' BASE PAY COMPARE WITH THE MARKET TRENDS?

A. The Companies have adjusted their base pay in recent years to stay competitive based on market data from comparably sized companies. On an annual basis we look at market data for both general industry positions and energy services positions and compare that data to our total compensation package. Using this market data, competitive base salary ranges are established for non-represented positions, which consist of a minimum and maximum base salary for each job grade. These salary ranges are adjusted annually to remain competitive using market information found in studies conducted by third party consultants. Salary ranges are generally wider for higher level jobs, where the variance in skills and responsibilities is greater, and narrower at lower pay grades. Not every employee in a certain job enters the pay range at the same pay or performs work at the same level, so there may be differences in where each employee is paid within the salary range. Base pay for salaried positions is determined by management within the salary range for the job grade assigned to each position based on the qualifications and experience of the employee relative to the requirements for the position. For jobs with multiple incumbents, the base pay of other employees in the same position is also a consideration. Market data is also reviewed and used to determine annual wage increase recommendations. Currently, Duke Energy is forecasting a 2020 merit budget, set for exempt and non-exempt non-union employees of 3 percent, based on market information found in studies conducted by third party consultants. The chart below depicts the annual market adjustments reported in the annual WorldatWork Salary Budget Survey, U.S. Salary Increase Budgets study as compared to Duke Energy's overall wage increase budgets for the corresponding years.

Salary Increase History								
	All Groups		Executive		Exempt		Non-Exempt	
Year	Industry*	Duke Energy	Industry*	Duke Energy	Industry*	Duke Energy	Industry*	Duke Energy
2015	3%	3%	3%	3%	3%	3%	3%	3%
2016	3%	3%	3%	3%	3%	3%	3%	3%
2017	3%	3%	3%	3%	3%	3%	3%	3%
2018	3%	3%	3%	3%	3%	3%	3%	3%
2019	3%	3%	3%	3%	3%	3%	3%	3%
*WorldatWork Salary Budget Survey, U.S. Salary Increase Budget								

The 2019 merit budget for Duke Energy exempt employees, including executives, and non-union non-exempt employees was also 3 percent. The full 2018/2019 WorldatWork Salary Budget Survey, as well as another example of an external study conducted by third-party consultants that Duke Energy utilizes to determine the appropriate annual increase each year, can be found in Attachment RHM-3a and b. It should be noted that employees' individual increases may vary relative to the budget to allow for individual differentiators based on performance and current pay levels relative to the market. The increase awarded to each employee, if any, is based on a combination of factors, including his/her individual performance rating, his/her performance relative to his/her peers, the position of his/her salary within the salary range for his/her job and the size of the merit budget. The Compensation Committee of the Board of Directors of Duke Energy reviews data from nationally recognized, independent executive compensation consulting firms (Frederick W. Cook and Willis Towers Watson) to determine the compensation for Duke Energy's executive officers on an annual basis. The peer group of companies used for these analyses consists of companies that represent the talent markets from which Duke Energy competes to attract and retain executive employees.

Q. FOR REPRESENTED POSITIONS, HOW ARE BASE INCREASES DETERMINED AND HOW DOES THE COMPANIES' BASE PAY COMPARE WITH THE MARKET TRENDS?

A. Hourly represented employees, such as such as line mechanics and meter readers, are provided general wage increases negotiated with the labor unions that represent the Companies' employees. Wage increases are just one component of union negotiations, and must be negotiated in the larger context of work-related topics, such as benefits, work rules and overtime. These general increases are expressed as percentages of current base pay rates. The Companies base their positions in these negotiations on survey projections for market increases. The Companies also utilize survey market data to ensure pay is competitive to market. The current contracts in place with employees of Duke Energy Kentucky can be found in Attachment RHM-4 (a) through (d).

Duke Energy Kentucky and the Utility Workers Union of America (UWUA) Local No. 600 entered into a four-year collective bargaining agreement on April 1, 2019, that expires on March 31, 2023. The following is the wage increase schedule under the current Collective Bargaining Agreement. Each wage increase is effective at the beginning of the pay period that includes April 1:

Wage Increase Schedule	
Year	UWUA
3/25/2019	2.5%
3/23/2020	2.5%
3/22/2021	2.5%
3/31/2022	2.5%

Duke Energy Kentucky and the International Brotherhood of Electrical Workers (IBEW) Local 1347 entered into a four-year collective bargaining agreement on April 1, 2017, that expires on April 1, 2022. The following is the wage increase schedule under the current Collective Bargaining Agreement:

Wage Increase Schedule	
Year	IBEW 1347
4/1/2017	2.5%
4/1/2018	2.5%
4/1/2019	2.5%
4/1/2020	3.0%
4/1/2021	3.0%

VI. INCENTIVE PAY PROGRAMS

Q. PLEASE IDENTIFY THE COMPANIES' INCENTIVE PAY PROGRAMS.

A. The Companies' major incentive pay programs are: (1) Duke Energy Short-Term Incentive Plan (STI); (2) Duke Energy Union Employee Incentive Plan (UEIP); and (3) Duke Energy LTI Plan. Plan documents memorializing these programs can be found in Attachment RHM-5a through RHM-c. The STI and UEIP plan descriptions are included in Attachment RHM-5a. The two LTI plans, Restricted Stock Units (RSU) and Executive LTI Plan brochure are included as Attachments RHM-5b and RHM-5c, respectively.

Q. DESCRIBE THE STI PLAN DESIGN FOR 2019.

A. For 2019, the STI goals, weightings and payout opportunities are reflected in the table below:

TABLE 1: SUMMARY 2019 STI PLAN

		Executive Weight	Non-Executive Weight	Payout range
Financial Performance and Growth	EPS	50%	35%	0-200%
	O&M	10%	5%	0-150%
Operational Excellence		10%	10%	0-150%
Customer Satisfaction		10%	10%	0-150%
Team Goals		N/A	40%	0-150%
Individual Goals		20%	N/A	0-150%
Safety		± 5%	+ 5%	N/A

For 2019, the majority of executives have a weighting split 80 percent/20 percent between corporate and individual goals as shown above; however, there are some executives who are aligned with the weighting of the Non-Executive category due to their heavy operational focus.

If EPS is less than a designated minimal value, executive officers and the non-executives who participate in the LTI plan do not receive any portion of their STI payout. Non-executive employees who do not participate in the Executive LTI plan will not receive an STI payout related to Financial Performance & Growth, Operational Excellence, or Customer Satisfaction component.

Q. DO YOU CURRENTLY ANTICIPATE THE FINAL 2020 STI PLAN DESIGN TO BE MATERIALLY DIFFERENT?

A. No. Understanding that some changes could materialize before plan finalization, I anticipate the 2020 STI plan to be similar to the current design.

Q. PLEASE DESCRIBE THE CURRENT STI PLAN.

A. The annual cash incentive plan is available to all employees at Duke Energy; however, some represented employees, including those in Duke Energy Kentucky, participate in the UEIP sub-plan per their union agreement, which will be described in later testimony. The STI program promotes a corporate culture that is performance-oriented by setting forth goals and providing direction for the workforce to focus on our customers. At the beginning of each calendar year, corporate, business unit and individual performance goals are established for each annual incentive program, and a thorough review is performed at the end of the calendar year to determine the achievement levels for each performance goal. The Compensation Committee of the Board of Directors of Duke Energy approves the corporate performance goals as well as the executive officers' individual goals at the beginning of each calendar year and certifies the payout level achieved for such goals at the end of the calendar year. All non-union employees are subject to the following annual corporate metrics:

<u>Financial Performance & Growth:</u> The Financial Performance & Growth measure consists of Earnings Per Share (EPS) and Operations and Maintenance (O&M) expense measures.

(1) <u>Earnings Per Share (EPS)</u>: The EPS measure focuses on financial discipline, efficient operations and prudent use of resources, all of which are vital to the health and stability of the organization.

(2) <u>O&M Expense control</u>: Cost control is an integral part of any company's success. The intent of this goal is for employees to focus on

cost control on a day-to-day basis, which will allow Duke Energy to incorporate these savings into programs that will benefit our customers.

Operational Excellence: This metric is broken into the following two equally weighted measures, each of which motivates Duke Energy employees to strive to provide reliable and safe products and services to our customers:

(1) Reliability: To ensure that cost focus does not sacrifice our ability to provide reliable service, reliability measures are also included in the STI program. The reliability component includes among other things, a Customer Delivery Reliability target. All customers expect reliable service from Duke Energy. By including reliability in our annual incentive metrics, employees are provided extra motivation to ensure we provide reliable service to our customers.

(2) Safety/Environmental: This metric incorporates safety and environmental stewardship into our day to day activities, thus making the safety of our employees, customers and communities a priority. Safety is of utmost importance and is not only encouraged but continuously reinforced through all levels of Duke Energy, including through incentive pay opportunities. Safety refers to the health and safety of everyone who works here, as well as our communities and the environment.

Customer Satisfaction: The incentive program also includes a Customer Satisfaction goal, or CSAT, which measures the degree to which a customer has a favorable perception of an interaction, product, service or of Duke Energy overall. This goal is intended to keep customers central to all that we do across the company regardless of where we work. Achievement is based on the combination of our Net Promoter Score (NPS) and results from our Large Business Customer Perceptions Tracker and the J.D. Power business study.

Team: Business unit (or "team") goals are typically lower-level tactical and operational goals that increase line-of-sight to employees. Almost all employees have a component of their incentive assigned to team goals. Team goal results establish a pool of dollars allocated at the discretion of managers among employees based on their individual performance and contributions to the team. The team goals directly benefit customers by tying employee compensation to reliability, outage frequency, time required to restore service, lost-time accidents, customer satisfaction scores, O&M expense levels and capital expenditures. Superior performance relating to these goals directly benefits Duke Energy Kentucky customers through safe and reliable service, customer service quality, and low energy costs.

Safety: In addition, as an added focus on safety and to reinforce the Company's zero tolerance for controllable work-related employee fatalities, fewer life altering injuries, and no significant operational events, the STI programs reward all employees, exempt and non-exempt, with an additional 5 percent of their short-term incentive payout, if more stringent goals are met. Conversely, incentive payments for senior executives will be reduced by 5 percent if certain goals are not met. The results of the 2019 STI plan will be available in the first quarter of 2020.

Q. PLEASE DESCRIBE THE UEIP.

A. The UEIP is available to union employees of Duke Energy Kentucky and its affiliated companies. Employees participating in the UEIP may not also participate in the STI program offered to the general employee population described in the previous question. The purpose of the UEIP is to attract, retain and motivate employees, enhance teamwork and high levels of achievement, and to facilitate the accomplishment of specific corporate and business unit goals. We believe having these goals benefits the customer. We believe having this incentive plan is a necessary component of the total compensation package for union employees that attracts and retains the critical skills necessary to provide safe, efficient and reliable service to customers. These union employees include many of our back-office personnel, including administrative and clerical, as well as meter readers and employees who construct and maintain the Company's electric delivery system. All are functions that are critical to reliable customer service.

The UEIP is a short-term incentive opportunity that allows union employees to receive cash payments if the Company attains certain corporate performance goals and/or if their group attains certain operational performance goals during a calendar year. The UEIP award levels consist of a percentage of the employee's base and overtime earnings, and is based upon the achievement of corporate and business unit goals, such as financial results, safety and customer satisfaction. The award levels for employees participating in the UEIP may also vary based upon their participation in the various retirement programs. All union employees who participate in a cash balance feature under a Duke Energy sponsored pension plan or who don't participate in a Duke Energy sponsored pension plan are eligible for up to a 5 percent maximum annual incentive payment. Employees who participate in a final average pay feature under a Duke Energy sponsored pension plan are eligible for up to a 2 percent maximum annual incentive payment. Additionally, regardless of which retirement program they participate in, represented employees are eligible for a safety adder equal to 5 percent of their incentive payouts if there are no controllable work-related employee fatalities, fewer life altering injuries, and no significant operational event.

Q. WHY IS IT IMPORTANT FOR THE COMPANIES TO PROVIDE SHORT-TERM INCENTIVE OPPORTUNITIES AS A PART OF ALL EMPLOYEES' TOTAL COMPENSATION?

A. Short-term incentive opportunities are a component of a market-competitive total compensation offering necessary to attract and retain qualified employees. Having a portion of employees' total compensation "at risk" allows the Companies to tie specific performance measures to employees' pay, and focuses their efforts on performing the right work, the right way. If the Companies did not provide incentive opportunities to their employees, the same target value of incentive compensation would need to be added to base pay in order to maintain market-competitive compensation for its employees. Put another way, whether it is in base pay or a combination of base pay and incentives, Duke Energy must keep its overall compensation package competitive in order to attract and retain a competent workforce.

The annual incentive pay opportunity that all employees have as a part of their total compensation promotes a corporate culture that is performance-oriented in order to provide the greatest benefit to the customer. Annual incentive goals are communicated to managers and employees and reported throughout the year; therefore, high performance becomes part of the culture and employees are motivated to exhibit the behaviors required to meet the goals. In addition, the annual incentive pay opportunities provide the ability to raise the bar on performance expectations from year-to-year. By motivating employees to excel at such goals as customer satisfaction, safety, reliability, and financial stewardship, the Company is able to deliver the highest value at a reasonable cost. This also allows the Company to share its success with the employees who make that success possible. Incentive pay is similar to the other costs related to providing electric service. It is a necessary cost to provide customers safe and reliable service. In the competitive market for talent, employees consider the total rewards package, including base pay, incentive pay and benefits, as a key determinant in deciding whether to join or continue working for a particular employer.

Q. PLEASE DESCRIBE THE LTI PLAN.

A. Duke Energy's LTI programs provide equity-based compensation to executive and leadership-level employees in a manner that aligns their interests with the long-term interests of Duke Energy, including Duke Energy Kentucky. While no direct employees of Duke Energy Kentucky participate in the Companies' LTI programs, certain DEBS employees that provide services to Duke Energy Kentucky are participants. The goal of the LTI programs is to attract and retain high-caliber leaders by providing a competitive compensation package and to encourage our leaders to make sound business decisions from a long-term perspective. Stock awards are an important component — but not the only component — of a total rewards package that is reviewed annually to ensure ongoing competitiveness. Our LTI opportunities generally vest over a period of three years in order to focus our executives on long-term performance and enhance retention.

Duke Energy has two LTI programs. One is an Executive LTI program, called the Executive Incentive Plan (EIP), which is reserved for members of the Enterprise Leadership Team (ELT) and Senior Management Committee (SMC) to drive an ownership mindset and ensure accountability for making short- and long-term strategic decisions. For 2019, participants in this program have 70 percent of their target LTI opportunity awarded as performance shares. The performance shares granted in 2019 incorporate three performance goals based on cumulative adjusted EPS, Total Incident Case Rate (TICR), and Total Shareholder Return (TSR) compared to companies in the Philadelphia Utility Index. The goals correlate to long-term value, and are set at levels that we believe are reasonable in light of past performance and market conditions. LTI participants must generally continue their employment with Duke Energy for a three-year period to earn a full payout and the number of performance shares that participants ultimately earn is tied to Duke Energy's long-term performance. The other 30 percent of EIP participants' target LTI opportunity is awarded as restricted stock units (RSU). Vesting of RSUs is solely tied to the participants' continued employment through vesting dates over a three-year vesting period and is not dependent upon the financial performance of the Companies. Participants who remain employed with the Companies through a vesting date receive a share of Duke Energy common stock for each vesting RSU.

A different LTI program is available to other strategic leaders below the ELT level who are responsible for the most critical roles/responsibilities in each business group (population generally ranges between 2-3 percent of the total Duke Energy employee population). These employees participate in the RSU program and receive their LTI value in the form of RSUs that vest equally over three years, thereby encouraging retention of high-quality employees. The reward of these RSUs is purely aimed at continuing employment, and is in no way tied to the Companies' actual financial performance. Participation in the RSU plan is reserved for positions that meet at least one of the following criteria:

- Position has significant responsibility for a broad area or function or geographic region;
- The employee leads major projects or groups with substantial enterprise or business unit strategic or financial impact;
- The employee is in a role that has decision-making authority that impacts Company performance; and
- Position requires specialized expertise that is critical to business operations or strategy development.

The RSU plan is an equally important component within the market-competitive total compensation package for eligible leadership positions (below executive level) and is critical to maintaining market-competitiveness and retaining key leadership talent. These employees' base salary is set at such a level, that when factoring in the retention-driven RSUs, the total package results in a market-competitive package.

Q. DO YOU CURRENTLY ANTICIPATE THE 2020 LTI PLAN DESIGN TO REMAIN SIMILAR?

A. Yes. Understanding that some changes can materialize during the budgeting process, I anticipate the 2020 LTI plan to be similar to the current design.

Q. WHY IS IT IMPORTANT FOR DUKE ENERGY TO PROVIDE LONG-TERM INCENTIVE OPPORTUNITIES AS A PART OF CERTAIN EMPLOYEES' TOTAL COMPENSATION?

A. As mentioned above, LTI programs are necessary components of Duke Energy's compensation package. They allow the Companies, including Duke Energy Kentucky, to attract and retain high-performing leaders that are able to carry out our vision of leading the way to cleaner, smarter energy solutions that are valued by customers. The EPS, TSR and TICR measures associated with the performance shares granted as part of the long-term incentive plan tie a substantial portion of compensation for executive employees to both internal and external measures of the Companies' long-term financial performance and the safety of its employees. This encourages eligible employees to reduce expense, operate safely and efficiently, and conserve financial resources, which directly benefits customers by keeping rates low.

It is very common for public companies of Duke Energy's size and complexity to have similar programs. In fact, according to the study previously reference as Attachment RHM-6, conducted by Willis Towers Watson (the Trends and Issues in Utility Industry Compensation report), of 25 regulated electric utilities with median revenues of $12.3 billion, long-term incentive plans are used among *all* utilities within the sample. RSU plans are more prevalent among utilities with revenues greater than $12 billion. In a similar 2014 study conducted by Willis Towers Watson of long-term incentive practices among large utilities, the percentage of the employee population receiving LTI in the form of restricted stock was 3.5 percent. Attachment RHM-7 is a copy of the 2014 study. The number of Duke Energy leaders eligible for its LTI programs in 2019 was approximately 669 employees, equating to 2.3 percent of the total employee population, reflecting the conservative and selective approach the Companies take with providing this compensation component, limiting participation to those strategic leaders who can most closely affect the long-term sustainability of the business. As with annual cash incentive compensation, the long-term incentive opportunities provided to the Companies' leaders is a necessary component of a market-competitive target level of total compensation for these positions. If the Companies did not incorporate LTI as a part of the total compensation for these leadership positions, it would require higher base salaries in order to provide market-based total compensation. If an increase to base pay was not made in place of the LTI component and the overall level of total compensation was reduced, the Companies would not be able to effectively attract or retain the experienced leaders necessary to direct the efforts of its employees and make the best strategic decisions on behalf of the Company. Attachment RHM-1 shows the financial cost to the Company of turnover at the senior manager/executive level is 74 percent of annual compensation for each position.

VII. COST RECOVERY OF INCENTIVE PAY EXPENSE

Q. WHAT INCENTIVE PAY EXPENSE DOES DUKE ENERGY KENTUCKY PROPOSE TO RECOVER IN THIS PROCEEDING?

A. Duke Energy Kentucky proposes to share its incentive plan expense between shareholders and customers in a manner similar to what the Commission recently approved in Case No. 2017-00321. In that case, the Commission approved recovery of incentive pay expense related to performance objectives that directly benefit customers, such as reliability, customer satisfaction and individual performance objectives. The Commission disallowed recovery of incentive pay expense related to corporate performance objectives based upon achieving corporate earnings per share and RSUs.

Q. PLEASE FURTHER EXPLAIN DUKE ENERGY KENTUCKY'S PROPOSAL FOR RECOVERY OF INCENTIVE PLAN EXPENSE.

A. As shown below in Table 2: 2019 STI plan, the Company's Executive and Non-Executive STI continues to include a weighting factor for achieving corporate EPS. In 2009, Duke Energy added a weighting for achieving other goals such as O&M savings and reliability targets that continue today. Adding reliability targets provides a balance between the need to prudently manage costs and providing cost-effective, reliable and safe service to our customers. In 2015, Duke Energy added customer satisfaction, safety and environmental targets. Safety and environmental targets were added to encourage positive behavior of employees in our day-to-day operations, and customer satisfaction targets were added to keep customers central in all that we do. As previously explained, all of these various performance measures included in the Companies' incentive plans are designed to benefit customers. Accordingly, Duke Energy Kentucky proposes to recover the following amount of incentive compensation costs, based upon achieving target goal levels, in its revenue requirement calculation.

Q. WHY DOES THE COMPANY'S PROPOSAL FOR INCENTIVE COMPENSATION ASSUME REACHING 100% OF TARGET ACHIEVEMENT LEVELS?

TABLE 2: SUMMARY OF INCENTIVE PLAN COMPONENTS

Incentive Plan	Incentive Plan Components	Weighting	Percentage Recoverable
STI – Non Executive and operationally focused Executive Leadership team members	EPS	35%	0%
	O&M	5%	5%
	Reliability	5%	5%
	Safety/Environmental	5%	10%
	Customer Satisfaction	10%	5%
	Team/Individual Goals	40%	40%
	Employee Safety Objective	5% adder	5% adder
STI - Executive	EPS	50%	0%
	O&M	10%	10%
	Reliability	5%	5%
	Safety/Environmental	5%	5%
	Customer Satisfaction	10%	10%
	Individual Goals	20%	20%
	Employee Safety Objective	± 5%	± 5%
Non-Executive LTI	Restricted stock units	100%	0%
Executive LTI	Restricted stock units	30%	0%
	Performance shares (70%)		
	• Total Shareholder Return (TSR) relative to that of the companies in the Philadelphia Utility Index	17.5%	0%
	• Cumulative adjusted Earnings Per Share (EPS)	35%	0%
	• Total Incident Case Rate (TICR)	17.5%	17.5%
UEIP	Various by union - based on EPS, safety, customer satisfaction, etc.	100%	100%

A. These are the budgeted achievement levels for the performance goals for the STI and the UEIP. The 100 percent target achievement level is used for the budget because this is what the Company expects to achieve on average over time.

Q. DOES DUKE ENERGY KENTUCKY BELIEVE THAT THE EPS PORTION OF THE STI PLANS SHOULD BE RECOVERABLE?

A. Yes. Based on recent Case No. 2017-00321, we have made a pro forma adjustment to exclude recovery of incentive pay expenses related to corporate performance objectives based upon achieving corporate earnings per share. However, we believe the portion of STI related to EPS should be recoverable. As stated previously, it focuses on financial discipline, efficient operations and prudent use of resources, all of which are vital to the health and stability of the organization. Achieving financial success benefits customers by reducing cost of capital as the Company continues to invest in the necessary maintenance of the distribution system and transforms the customer experience by providing customers with more billing options, additional energy usage information and new tools to help manage and reduce energy costs. In addition, it is a very common practice both within and outside of the utility industry to use EPS as a primary goal in incentive programs. As reflected on page 11 of Attachment RHM-6, the 2019 Trends and Issues in Utility Industry Compensation report prepared by Willis Towers Watson, 83 percent of utility companies include EPS as a performance measure in their annual incentive plans. The EPS measure may reduce or completely eliminate any incentive during periods of time where the Companies cannot afford to pay it. For example, if 2019 adjusted diluted EPS is less than the EPS circuit breaker of $4.35, Duke Energy executives will not receive any payment under the STI plan, and other participants will not receive a payment in connection with any of the corporate measures, but will be eligible to receive payouts on the team component based on actual performance relative to their respective team goals.

Q. DOES DUKE ENERGY KENTUCKY BELIEVE THAT THE RSU PORTION OF THE LTI PLANS SHOULD BE RECOVERABLE?

A. Yes. Based on recent Case No. 2017-00321, we have made a proforma adjustment to exclude recovery of incentive pay expense related to RSUs. However, the Company continues to believe these costs should be eligible for recovery and are not related in any way to the Company's financial performance, but are in fact, a defined amount that is solely tied to retention of high-performing employees. Because this amount vests over a three-year term, employees are more likely to remain with the company to receive this benefit. If the company were to eliminate the RSU portion of its existing compensation package, its total package would fall below market, and the Company would have to increase cash compensation. Employees eligible for RSUs receive a fixed percentage of their base salary that is paid in the form of RSUs. Although other dollar magnitude of incentives paid to employees can vary with the Company's financial performance, the magnitude of RSUs are fixed whether the Company has a good year financially or a bad year, the expense for RSU payments to eligible employees is unaffected. The primary incentive associated with RSUs is job retention insofar as an employee must remain with the Company for at least three years to receive the full amount of the

RSU he or she was awarded. Excluding the cost of RSUs from the Company's revenue requirement would deprive it of the ability to recover the cost of incentivizing employees to remain with the Company. The Company has a legitimate interest in attracting *and retaining* a skilled workforce as this directly benefits customers through the accumulation of experience and knowledge. The RSU program is one way the Company is able to accomplish this objective at a reasonable cost. If the Company simply paid an employee a cash bonus for remaining with the Company, it is unlikely that the RSUs would have ever become an issue in a rate case.

Q. PLEASE EXPLAIN HOW AN RSU, AS A STOCK UNIT, IS NOT TIED TO THE OVERALL FINANCIAL PERFORMANCE OF THE COMPANY.

A. Assume an employee earns $100,000 and his compensation package includes a provision that he receives RSUs amounting to 30 percent of his base salary. The expense recorded on the Company's books for this RSU payment is $30,000, which would be accrued over the duration of the vesting period. Although the RSU provided to the employee is in the form of stock that may appreciate or depreciate in value to the employee, the "expense" to the Company is and will always be $30,000. It is true that the financial performance of the Company may increase or decrease the value of that stock to the employee, once the RSU is given to the employee; however, the only expense to the Company is $30,000, meaning that Duke Energy's cost of the award is independent of the Company's financial performance. The only factor that can affect the magnitude of the expense is if the employee terminates employment before the award is fully vested, which would only reduce the expense. Consequently, the Company believes the Commission should recognize that this RSU expense is independent of the Company's financial performance.

VIII. BENEFIT PLAN DESIGN

Q. WHAT IS THE COMPANY'S BENEFITS PHILOSOPHY AND HOW DOES IT TIE INTO THE COMPANIES' OVERALL COMPENSATION PHILOSOPHY?

A. At Duke Energy, we place a priority on attracting and retaining a diverse, high-performing workforce. An important way we do this is by providing a comprehensive, competitive total rewards package of pay and benefits that includes base pay, incentive pay opportunities and benefits. Benefits are the non-pay portion of an employee's total rewards. Generally, benefits are provided through one of two vehicles: health and welfare benefit plans and retirement plans. Health and welfare benefit plans include medical, dental, vision, life insurance, and disability plans. Our benefit programs are designed so that the Companies are able to maintain a highly trained, experienced workforce that is capable of rendering excellent utility service. Retirement plans include pension and 401(k) plans. Our retirement plans are designed to enable employees, through shared responsibility, to accumulate sufficient resources to be able to transition into retirement at the appropriate time. Employees' ability to retire at the right time increases opportunities for the workforce as a whole, and also helps the utility manage costs. Retaining experienced employees is important for us because our business involves complex processes such that employees must receive long-term training to perform their jobs safely and effectively.

Q. PLEASE DESCRIBE DUKE ENERGY'S EMPLOYEE BENEFIT PROGRAMS PROVIDED TO EMPLOYEES.

A. The benefit programs in which all eligible employees may participate include medical, health savings account, dental, vision, flexible spending accounts, employee assistance program, wellness, sick pay, short-term disability, long-term disability (LTD), life insurance, accidental death and dismemberment and business travel accident insurance. Retirement benefits include company contributions and company matching contributions to promote the shared responsibility between the company and employees for accumulating retirement resources.

Q. HOW DOES DUKE ENERGY DETERMINE THAT THE EMPLOYEE BENEFIT PROGRAMS THAT IT OFFERS ARE REASONABLE AND NECESSARY?

A. Duke Energy routinely examines its benefits to confirm how we compare with national trends among comparable employers, and we consider the most effective ways to serve our diverse workforce who reside in over 25 states. Because we are a company with a history of mergers and acquisitions, we try to ensure consistency and fairness among legacy company employee groups as well as cost-effectiveness for the Companies. We benchmark our programs against other large employers from both the utility industry and general industry, so that we are positioned to attract and retain qualified employees needed to support our customers. Duke

Energy leverages its consultants, vendor partners and nationally recognized surveys to evaluate the competitiveness of its benefits and costs. Examples of surveys include Willis Towers Watson's Financial Benchmarks Survey, Best Practices in Health Care Survey, Emerging Trends in Healthcare Survey, Benefits Data Source and BenVal. These surveys indicate that Duke Energy's benefit plans and employee contributions are in line with its utility industry and general industry peers, making them reasonable and necessary in order to compete with other employers for qualified talent. Based on Duke Energy's reviews of the competitiveness and reasonableness of its benefit programs and employee costs, Duke Energy routinely determines if any changes should be made.

Q. WHAT PORTION OF THE HEALTH AND INSURANCE COSTS OF BENEFITS DO EMPLOYEES PAY?

A. For company-sponsored Vision, Supplemental and Dependent Life, Supplemental and Dependent Accidental Death & Dismemberment (AD&D), and Optional Long-Term Disability (LTD) insurance, the employee is required to pay 100 percent of the cost of group coverage. The company pays 100 percent of the cost of Basic Life/AD&D, Basic LTD and Business Travel Accident Insurance.

Duke Energy employees' total cost of medical coverage (premiums and out-of-pocket costs) for 2019 is projected to be 33.3 percent, which falls between that of employers in general industry (35 percent) and utility industry (29 percent). When an employee enrolls in medical and dental coverage, he/she may also cover his/her eligible dependents. Duke Energy subsidizes more for the cost of employee coverage than for dependent coverage.

Q. PLEASE DESCRIBE DUKE ENERGY'S POST-EMPLOYMENT HEALTHCARE BENEFITS PROVIDED TO EMPLOYEES.

A. Duke Energy is the result of a series of many acquisitions and mergers and has worked hard at integration to minimize differences among legacy company employee groups. This includes the post-employment benefits available to employees when they retire. Newly hired employees will be eligible to enroll in company sponsored pre-65 retiree medical, dental and vision benefits at retirement on an unsubsidized basis by paying the full cost of coverage. Additionally, Duke Energy provides retirees access to a retiree exchange program for assistance with exploring options for coverage available on the individual market as an alternative to Duke Energy-sponsored retiree coverage. They will also have the option to convert or port their active life insurance to an individual policy at retirement. Active employees who were part of a closed group and eligible for a retiree healthcare subsidy towards the cost of Duke Energy-sponsored retiree health care coverage generally were transitioned to a common approach in the form of a pre-65 Health Reimbursement Account (HRA) benefit. As Duke Energy periodically reviews healthcare trends, we see that 30 percent of general industry and 48 percent of energy & utility industry companies provide financial support for pre-65 coverage for future retirees. We also see that 22 percent of general industry and 39 percent of utility industry companies provide financial support for post-65 coverage for future retirees.

IX. BENEFIT COST MANAGEMENT CONTROLS

Q. HAS DUKE ENERGY TAKEN STEPS TO CONTROL THE COST OF EMPLOYEE BENEFITS?

A. Yes. On an ongoing basis, Duke Energy reviews its employee benefits and costs in an effort to keep costs reasonable, while continuing to provide benefits that are sufficient to attract and retain employees. Employees pay a portion or all of the cost for many of their benefits, so we strive to manage costs not just for the Companies, but for employees as well. Periodically, benefit plan changes are made and other steps are taken to control costs. The following are some examples of steps taken in recent years to control costs.

<u>Retirement Plans</u>

Duke Energy has taken significant steps to both control costs and reduce the risk associated with its retirement plans. Duke Energy closed its pension plans to non-union new hires in 2014, and has since negotiated closing pension participation for new hires for all union groups. New hires receive a Duke Energy retirement contribution to the 401(k) in lieu of pension participation, and have an opportunity to receive company matching contributions if they choose to contribute to the 401(k). Pension eligible employees have generally experienced reductions in future pension benefit accruals with transitions from a final average pay formula to a cash balance formula. As early as 1997, Duke Energy, through mandatory conversions and choice windows, moved non-union pension eligible employees to a cash balance design. Moving the existing employees allowed the Company to reduce future pension cost, and reduce risks associated with longevity and investments (since most participants take lump sum distributions). The emphasis throughout this process was to create a competitive retirement benefit, which provided as much comparability as possible across all legacy organizations and new hires, while aligning to the market.

Health & Welfare Plans

Ongoing steps:

Duke Energy performs an annual market check on the pharmacy benefit manager contract to ensure competitive contract terms and pricing. These have resulted in savings each year for employees and Duke Energy.

Duke Energy regularly evaluates the need to bid out Health & Welfare vendor contracts through a request for proposal (RFP) process so that contracts have competitive fees, discounts, and guarantees.

Duke Energy annually reviews its Health & Welfare plan design and costs to determine the need for changes to deductibles, copays, co-insurance, out-of-pocket limits and cost sharing strategies to align with market trends.

An ongoing dependent verification process has been in place since 2010, which requires proof of eligibility to ensure that only eligible dependents are enrolled in medical, dental, vision and life insurance coverage.

Duke Energy annually assesses utilization management programs and processes that may help eliminate unnecessary or inappropriate treatments and medications, including pre-certifications, prior authorizations, step therapy, safety and monitoring for fraud and abuse (*e.g.*, opioids), and specialty medication management.

Periodic steps:

In 2009, Duke Energy began to eliminate retiree medical subsidies for non-union new hires and has since negotiated the same with all unions.

In 2011, Duke Energy partnered with a new vendor for an integrated approach to health management with the goal of improving health and controlling costs through plan design, clinical and wellness programs and improved employee education/communications. Duke Energy deployed a mandatory 90-day supply for maintenance medications under its medical plans. In the first three years, significant savings were achieved compared to projected costs if programs remained unchanged.

In 2012, Duke Energy deployed wellness and non-tobacco user rewards as incentives to influence healthy behavior and help employees make the connection between their choices and health care costs. Duke Energy also deployed the mandatory use of Bariatric Centers of Excellence for bariatric surgeries. Duke Energy eliminated the standard exclusive provider organization (EPO) medical plan option to increase enrollment in the High Deductible Health Plan (HDHP), which encourages better health care consumerism. Co-insurance replaced copays for prescription drugs for the PPO and Enhanced EPO medical plan options in order to increase transparency into the cost of prescription drugs (the Enhanced EPO was a union negotiated option required to be offered by several collective bargaining agreements that was eventually eliminated, effective December 31, 2014).

Beginning in 2013, as part of Duke Energy's effort to encourage enrollment in an HDHP option and compliance with prescription drug therapy, certain preventive medications were covered at 100 percent.

In 2014, in an effort to further encourage good consumer decisions, Duke Energy replaced its existing medical plan options with new plan options and a cost sharing strategy to encourage enrollment in the HDHP options. The new plan options included two HDHP options and one PPO option. Since then, enrollment in the HDHPs has grown significantly. Current enrollment is 78 percent compared to 16 percent prior to 2014. Duke Energy deployed mandatory use of Spine and Joint Centers of Excellence for hip replacement, knee replacement, spinal fusion and disc disorder surgeries to improve clinical outcomes and better manage costs.

Active company-paid life and AD&D insurance was reduced from two times annual base pay to one times annual base pay. Company-paid retiree life insurance generally was eliminated for future retirees.

Duke Energy discontinued sponsorship of post-65 medical plan options and implemented a Medicare exchange solution for all retirees and their dependents. This provides retirees with a choice of individual policies to supplement Medicare.

Duke Energy changed the definition of eligible pay for LTD from total pay (base pay, overtime and incentive pay) to base pay only.

In 2015, wellness incentives were expanded to also reward spouses/domestic partners for healthy actions.

Duke Energy has worked hard at each integration of an acquired company to minimize differences among legacy company employee groups. This includes retiree healthcare subsidies for future retirees. From 2015 through 2018, employees who were part of a closed group and eligible for some form of subsidy towards the cost of Duke Energy-sponsored retiree health care coverage were transitioned to a subsidy in the form of a pre-65 Health Reimbursement Arrangement (HRA) benefit and the same has been negotiated with all unions. The HRA is a set amount for retirees that does not increase as health care costs increase.

In 2016, Duke Energy deployed a telehealth program as a low-cost option for doctor consultations. Duke Energy deployed strategies for compound drugs and non-FDA approved drugs to limit inappropriate use.

In 2017, Duke Energy deployed a virtual weight loss/diabetes prevention program because obesity is a primary diagnosis for a significant number of members. Out-of-network coverage for dialysis treatment was eliminated. The PPO co-insurance and annual out-of-pocket maximum were changed to better reflect the higher claims experience of covered members and to better align with market trends. Prior authorizations became a requirement for services such as chemotherapy and radiology. Employee contributions for the cost of spouse/domestic partner medical coverage were further adjusted to reflect the higher claims costs that spouses/domestic partners incur compared to other covered members.

In 2018, Duke Energy added a pre-65 retiree exchange program that provides assistance to retirees with finding medical, dental, and vision coverage on the individual market as alternatives to the Duke Energy-sponsored retiree coverage. An expert medical opinion program was added to enhance member confidence in the effectiveness of their treatment plan and improve diagnosis accuracy. Enhanced maternity and infertility support services were also added in 2018 to address maternity costs.

In 2019, Duke Energy changed the prescription drug coverage to exclude brand name preventive medications from 100 percent coverage if there is a generic equivalent available. Duke Energy contracted with a new life insurance vendor to mitigate cost increases from the prior vendor. Changes were made to the PPO option such that specialist visits, urgent care and emergency room services are no longer subject to copays but rather to deductible and co-insurance.

Q. PER THE COMMISSION'S ORDER IN CASE NO. 2017-00321, HAS DUKE ENERGY KENTUCKY ADDRESSED UNION EMPLOYEE RETIREMENT PLAN EXPENSES AS PART OF NEGOTIATIONS?

A. Duke Energy does not intend at this time to make additional changes to its retirement plans. The 401(k) plan is now our standard retirement plan that applies to all union and non-union new hires. As mentioned previously, Duke Energy has taken significant steps to both control costs and reduce the risk associated with its retirement plans by eliminating the pension benefit for all new hires, including union new hires, and moving all non-union pension eligible employees and the majority of union pension eligible employees to a cash balance design.

We believe all retirement plan costs should be recoverable since our retirement benefits are in line with industry benchmarks and are essential for the retention of the critical job skills that are needed to provide safe, reliable and high-quality service to our customers. However, to address the Commission's concerns around the expense for employees receiving both a pension benefit and a 401(k)-retirement benefit, we are making a proforma adjustment to remove the pension cost for employees who also receive 401(k) match. We will not seek to recover these costs as part of the rate case.

Q. HAVE THE RECENT STEPS TO CONTROL COSTS HAD AN IMPACT ON MEDICAL PLAN COSTS?

A. Yes, our efforts are having an impact. Duke Energy's Medical/Prescription Drug annualized per member trend from 2011 through 2017 was 1 percent. This compares to average trend reported by other employers for the same time period of 4.5 percent based on the Willis Towers Watson 2018 Best Practices Survey.

Q. HAVE OTHER COST REDUCTIONS BEEN IMPLEMENTED WITH REGARD TO RETIREE MEDICAL BENEFITS?

A. Duke Energy generally applies the same annual review and periodic changes to the pre-65 retiree medical coverage options as the active employee medical coverage options, including the utilization management processes, clinical programs, vendor contracts and annual plan design review. Duke Energy continues to pass along applicable increases in contributions to pre-65 retirees on an annual basis based on retiree claims experience.

Q. IN YOUR OPINION, WILL DUKE ENERGY ELIMINATE MEDICAL AND DENTAL BENEFITS FOR RETIREES?

A. Duke Energy eliminated retiree subsidies for new hires and generally eliminated company-paid life insurance for future retirees. At the time that this change was adopted, it was deemed necessary to maintain some level of financial support in the form of an HRA for a closed group of current employees who did not have sufficient time to save for retiree healthcare and to make up for a benefit they were relying on in retirement. Duke Energy no longer offers post-65 group coverage but facilitates enrollment in individual policies through Medicare exchanges. Duke Energy continues to provide access to future retirees for pre-65 medical, dental and vision coverage in order to attract and retain the qualified employees needed to provide quality service to our customers, especially given the uncertainty of private exchanges and the public marketplace for pre-65 coverage. Although Duke Energy reserves the right to amend, modify or terminate any of its benefits, there has been no decision to eliminate access to pre-65 retiree benefits in the future.

X. REASONABLENESS OF BENEFITS PROGRAM

Q. DO YOU HAVE AN OPINION REGARDING THE REASONABLENESS AND NECESSITY OF DUKE ENERGY'S EMPLOYEE BENEFITS PROGRAMS TO ATTRACT, RETAIN AND MOTIVATE QUALIFIED EMPLOYEES TO PROVIDE SAFE, RELIABLE, EFFICIENT, AND ECONOMICAL SERVICE TO DUKE ENERGY KENTUCKY'S ELECTRIC CUSTOMERS?

A. Yes. In my opinion, the Companies' employee benefits programs are market competitive, reasonable, and necessary to attract, retain and motivate the qualified employees that the Companies need to provide safe, reliable, effective, efficient and economical electric service to Duke Energy Kentucky's retail customers.

XI. SCHEDULES AND FILING REQUIREMENTS SPONSORED BY WITNESS

Q. PLEASE DESCRIBE SCHEDULES G-2 AND G-3.

A. Schedules G-2 and G-3 consist of certain compensation and fringe benefit costs as required as part of FR 16(8)(g). I provided this information to Duke Energy Kentucky witness Mr. Christopher Jacobi for his use in preparing the forecasted financial data.

Q. HOW DID YOU ESTIMATE THESE LABOR AND BENEFIT COST CHANGES FOR THE FORECASTED PERIOD?

A. I made reasonable estimates based on recent trends, current conditions, the market studies by independent consultants that I discussed previously in my testimony, and my previous experience with compensation and benefits matters. Based on these considerations, I provided Mr. Jacobi with the following estimates for the forecasted test period consisting of the twelve months ending March 31, 2020: the union and non-union labor rate increases the fringe benefit loading rates, payroll tax, and indirect labor loading rates for union and non-union labor.

XII. CONCLUSION

Q. WERE SCHEDULES G-2 AND G-3 AND ATTACHMENTS RHM-1 THROUGH RHM-7 PREPARED BY YOU OR AT YOUR DIRECTION?

A. Yes.

Q. ARE SCHEDULES G-2 AND G-3 AND ATTACHMENTS RHM-1 THROUGH RHM-7 TRUE AND ACCURATE COPIES OF THE DOCUMENTS THEY PURPORT TO REPRESENT?

A. Yes.

Q. IS THE INFORMATION YOU PROVIDED TO MR. JACOBI ACCURATE TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

VERIFICATION

STATE OF NORTH CAROLINA)
) **SS:**
COUNTY OF MECKLENBURG)

The undersigned, Renee Metzler, Managing Director – Retirement and Health and Welfare, being duly sworn, deposes and says that she has personal knowledge of the matters set forth in the foregoing testimony and that it is true and correct to the best of her knowledge, information and belief.

Renee Metzler

Renee Metzler Affiant

Subscribed and sworn to before me by Renee Metzler on this 12th day of August, 2019.

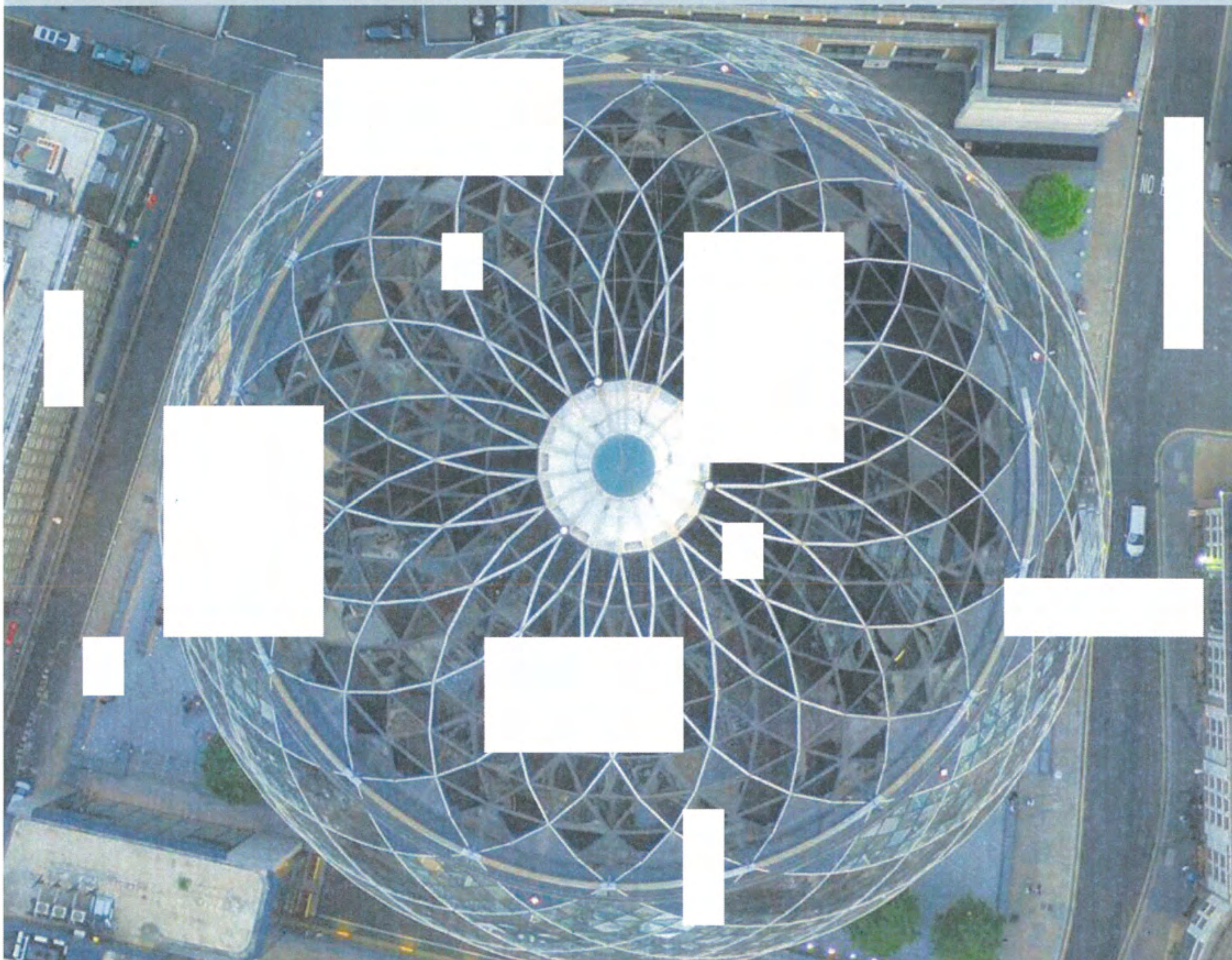
Felicia Sueann Rutty

NOTARY PUBLIC

My Commission Expires:

FELICIA SUEANN RUTTY
NOTARY PUBLIC
MECKLENBURG COUNTY, NC
My Commission Expires 9-17-2023

Willis Towers Watson



Under pressure to remain relevant, employers look to modernize the employee value proposition

Global findings report for the 2016 Global Talent Management and Rewards and Global Workforce Studies

The pace at which organizations are able to deliver on this modernization agenda will become a key differentiator of organizational success and help determine the winners and losers in the competition for high-value talent.

Under pressure to remain relevant, employers look to modernize the employee value proposition

Global findings report for the 2016 Global Talent Management and Rewards and Global Workforce Studies

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In the new world of work, employers and employees face pressures to remain relevant. The rapid rise of technology allows organizations to deconstruct and disperse work across a global virtual workplace, reshaping the workplace and redefining how and by whom work gets done. In some organizations, the traditional full-time employment model is giving way to contingent or alternative work arrangements typically associated with the gig economy. In addition, the accelerated pace of innovation, shifting demographics and increasing demands for transparency in many areas, including rewards, are contributing to profound shifts in today's workplace.

Employers are restless for change. To grow talent – and their business – they recognize that it's time to move beyond the default models, expectations and practices of the past. We see the outlines of a modernization agenda emerging as employers take a new agile approach to the development of talent and reward programs in order to position themselves for future growth.

However, employers may not yet fully understand the implications for their business of an ever-shifting workplace and new employment relationships. The pace at which organizations are able to deliver on this modernization agenda will become a key differentiator of organizational success and help determine the winners and losers in the competition for high-value talent.

For their part, many employees are uncertain of their place in a dynamic global economy. To remain relevant, they must understand emerging work options and develop collaboration, digital and global operating skills to help drive business value creation. In return, employees expect their employers to connect with them on a more meaningful level similar to how companies connect with their customers. For employers to meet this expectation they must provide not just a job but an experience that will offer rewards and work environments aligned with employees' changing needs and preferences.

Effective leaders and managers play critical roles in delivering a compelling employee value proposition (EVP) at the heart of the employee experience. Leadership, the top driver of sustainable engagement, is essential to success in today's ever-evolving business environment.

This report presents the key findings of two complementary research studies designed to capture both employee and employer perspectives on critical issues and trends in this new world of work.

- The 2016 Global Workforce Study measures the attitudes of a representative sample of over 31,000 employees around the globe to provide a detailed view into the expectations and concerns of employees.
- The 2016 Global Talent Management and Rewards Study captures the perspective of over 2,000 organizations – who collectively employ almost 21 million people worldwide – on key attraction, retention and engagement issues that are essential to the development of an effective employment deal and Total Rewards strategy.

The findings from this research will guide employers as they chart their own course in the high-stakes race to deliver human capital programs that attract, retain and engage talent critical to their future success.

Talent on the move puts value at risk

In today's shifting workplace, technology is disrupting jobs and labor markets. Almost 70% of respondents to a survey conducted by the World Economic Forum in partnership with Willis Towers Watson reported an increased use of digital media for work-related purposes over the prior three years.* Moreover, many of today's most sought-after specialties (e.g., cloud computing, mobile app design) did not even exist a decade ago. This disruption is causing a skilled worker deficit in certain areas (e.g., science, technology, engineering and mathematics [STEM] fields) and a low-skilled worker surplus in others (e.g., office support/administration, manufacturing/ production). Moreover, half of organizations are either moving or plan to move away from middle-skilled jobs in favor of jobs that will require more skills – many of which are already in short supply – or jobs that will require fewer skills, possibly shrinking or eliminating the surplus of low-skilled workers.

To navigate this landscape, employers must actively monitor labor market conditions and take actions to stay ahead of changing employee expectations.

Labor activity continues to pick up

Hiring activity is accelerating globally, notwithstanding some regional experiences. Nearly half of organizations in both mature and emerging economies report that hiring has increased in the last year (with only 19% reporting a decrease in hiring activity).

Turnover is also rising globally and remains a challenge. More firms report that turnover has increased (35%) rather than decreased (19%) in the past 12 months. Thirty-seven percent of organizations in emerging economies report an increase in turnover, as do 33% of those in mature economies.

*Implications of Digital Media Survey, 2015, World Economic Forum

Employers in emerging markets find it difficult to attract employees with...

Attraction and retention challenges persist

Organizations continue to experience attraction and retention challenges globally. In particular, employers everywhere are finding it difficult to get and keep top talent.

- **Mature economies.** Mature economies are experiencing attraction and retention challenges at levels slightly higher than those seen in 2014. Twenty-eight percent of organizations report difficulties attracting employees, a five-percentage-point increase over two years. Moreover, over half of employers find it difficult to attract talent in key segments: critical-skill employees (55%), high-potential employees (54%) and top-performing employees (56%).

  Twenty percent of employers in mature economies say it's difficult to keep employees, while 16% held this view in 2014. These companies are experiencing the most challenges in retaining high-potential employees (47%) and top performers (44%).

- **Emerging economies.** In emerging economies there's no significant relief in sight, with 44% of employers reporting difficulties attracting employees. The challenges of attracting top talent remain at levels similar to those reported in 2014. Sixty-six percent report difficulties attracting employees with critical skills and over three-quarters indicate that they are experiencing challenges attracting high-potential (77%) and top-performing (76%) employees.

  Retention remains a challenge in emerging economies with 41% of organizations reporting difficulties keeping employees in general. Organizations in these economies also face continuing problems attracting top talent, although generally not to the same extent as in 2014. Fifty-nine percent say that it's difficult to keep critical-skill talent. Even more organizations say the same for high-potential (70%) and top-performing (65%) employees.

Understanding what employees value

Even as changes are reshaping the workplace, employees globally remain focused on the fundamentals when deciding to join or leave an organization. Employees are looking to work for organizations that offer fair and competitive base pay, opportunities for advancement and job security. While employers generally understand these priorities, their views diverge from those of employees in a few key areas.

When it comes to attracting employees, companies understand the importance of competitive base pay, career advancement opportunities and challenging work. But they overestimate the importance of their mission and values, and don't place enough emphasis on job security *(Figure 1)*.

Employers recognize the value that employees place on competitive base pay and career advancement opportunities when deciding to stay with or leave an organization *(Figure 2)*. However, they overlook the importance of the physical work environment and job security.

Employees are looking to work for organizations that offer fair and competitive base pay, opportunities for advancement and job security.

There's a clear disconnect between employers and employees regarding the value of job security as both an attraction and retention driver. But to compete for employees who value job security, it's essential to understand what these employees are actually seeking. Only about one in four (26%) employees who express a desire for job security are worried about losing their job *(Figure 3)*. For other employees, job security is a proxy for financial concerns, their own ability to handle changes or an expression of employees' support for the current direction of their organization. Organizations can address employee needs in these areas without unrealistic promises of guaranteed jobs and within the framework of the modernization agenda.

Figure 1. **Top global drivers of attraction**

	Attraction drivers – employer view	Attraction drivers – employee view
1	Career advancement opportunities	Base pay/Salary
2	Base pay/Salary	Job security
3	Reputation of the organization as a great place to work	Career advancement opportunities
4	Challenging work	Challenging work
5	Job security	Opportunities to learn new skills
6	Organization's mission, vision and values	Reputation of the organization as a great place to work
7	Opportunities to learn new skills	Health care and wellness benefits

Figure 2. **Top global drivers of retention**

	Retention drivers – employer view	Retention drivers – employee view
1	Career advancement opportunities	Base pay/Salary
2	Base pay/Salary	Career advancement opportunities
3	Relationship with supervisor/manager	Physical work environment
4	Ability to manage work-related stress	Job security
5	Opportunities to learn new skills	Ability to manage work-related stress
6	Flexible work arrangements	Relationship with supervisor/manager
7	Short-term incentives (e.g., annual bonus)	Trust/Confidence in senior leadership

Figure 3. **Job security and the modernization agenda are not irreconcilable**

Job security is a top driver of attraction and retention but can mean different things to different people.

Group	**Fearful**	**Stable and steady**	**Financially concerned**	**Making a career of it**	**In a good place**
	26%	24%	22%	10%	19%
Key characteristic	Don't want to lose my job	Don't want my job to change	Don't want to lose my paycheck	In it for the long haul	I'm happy, for now
Employers can offer	Career security through training to remain relevant in the new market	Integrated performance management to help employees to adapt to changing workplace needs Alternative work arrangements to allow employees to do same tasks for more than one employer	Total Rewards programs redesigned to help employees with concerns about budgeting and financial planning	Leadership and managers who support an innovative culture Greater use of pay programs with emphasis on long-term payoffs (career management, long-term incentive pensions)	Pay for performance and skills Training for highly valued skills to remain relevant in marketplace

Note: Percentages represent those who selected job security as a driver of retention and who fall into this group.

In addition, the importance of the physical work environment for retention likely reflects the growing diversification of office arrangements in many organizations, such as open-space plans, hoteling, and more collaborative work spaces and supporting technologies. Understanding how to optimize employee work environments to provide a compelling experience is an emerging trend in the ongoing challenge to retain talent.

In addition to attracting and retaining employees, companies must focus on engaging employees in order to achieve better financial results.

Because today's employees are geographically dispersed, working longer with fewer resources, sustainable engagement requires enablement and energy in addition to traditional engagement in order to achieve maximum impact on retention and performance. Our sustainable engagement model includes the following three key components:

1. *Traditional engagement,* which refers to a willingness to give discretionary effort

Figure 4. **Top global drivers of sustainable engagement**

	Sustainable engagement drivers
1	Senior leadership
2	Clear goals and objectives
3	Supervision
4	Image and integrity
5	Workload and flexibility

2. *Enablement,* which depends on a local work environment that supports productivity and performance
3. *Energy,* which results from a healthful work environment – one that supports employees' physical, social and emotional well-being

As in 2014, the foremost driver of sustainable engagement globally is leadership *(Figure 4).*

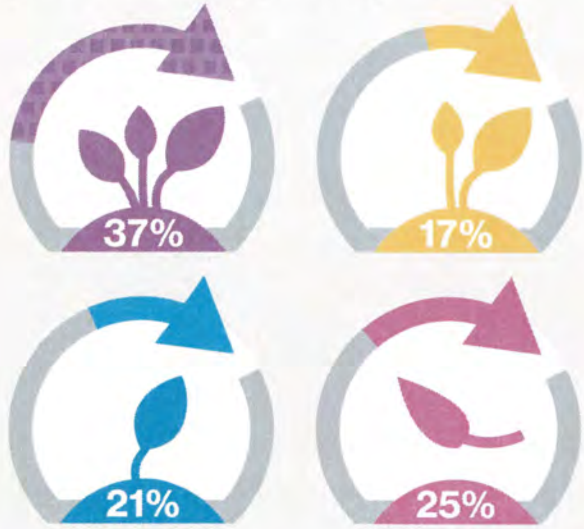
Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk.

How did employees score on sustainable engagement? There is considerable room for improvement as only slightly more than a third (37%) of employees globally are highly engaged, meaning they scored high on all three aspects *(Figure 5)*. A quarter of employees globally are disengaged in 2016.

Value at risk

Overall, the combination of increased hiring activity, gaps in employer understanding of retention drivers and low levels of sustainable engagement creates considerable turnover risk. In fact, fewer than half of workers (41%) globally say they intend to stay with their employer over the next two years by choice. Roughly a third of all professionals below the senior manager level are "soft stays" who will remain with their current employer because they do not believe they can find comparable options in other organizations *(Figure 6)*.

Figure 5. **Sustainable engagement segments**



- **Highly engaged:** those who score high on all three aspects of sustainable engagement
- **Unsupported:** those who are traditionally engaged but lack enablement and/or energy
- **Detached:** those who feel enabled and/or energized but lack a sense of traditional engagement
- **Disengaged:** those who score low on all three aspects of sustainable engagement

Figure 6. **A significant percentage of the workforce is at risk of leaving their organization within the next two years**

	Stayers	Soft stays	At risk	Leavers
Senior manager/Executive	42%	26%	18%	14%
Director/Manager/Middle manager	44%	32%	9%	15%
First-line supervisor/Team leader	43%	33%	7%	17%
Professional, nonmanagerial (including specialist/technician)	42%	32%	7%	19%
Administrative/Clerical (including sales associates and service workers)	38%	35%	7%	21%
Laborer/Manual worker (not a manager/supervisor)	40%	34%	5%	21%

Stayers – employees who prefer to remain with their current employer

Soft stays – employees who intend to remain with their current employer because they do not feel that they can find a comparable job elsewhere; however, if they could find another option they would take it

At risk – employees who prefer to remain with their current employer even if there is a comparable opportunity elsewhere but are likely to leave in the next two years

Leavers – employees who intend to leave their current employer within the next two years

New employees also represent a productivity drag on managers and other team members, adding significantly to the cost of turnover.

Actual and potential turnover among employees globally puts considerable value at risk in terms of productivity. Typically, it takes between five and nine months for employees to achieve full productivity depending on job level. Beyond this direct effect from their own reduced level of productivity during this period, new employees also represent a productivity drag on managers and other team members, adding significantly to the cost of turnover.

It's also possible to estimate the financial cost of employees at risk of turnover *(Figure 7)*. For example, at the senior manager/executive level, the cost of turnover equals 74% of annual compensation. Given that 31% of senior-level managers are at risk of turnover, the total value at risk due to senior managers' turnover is 23% of the total annual compensation. This value varies by job level and by organization – companies farther along on the modernization journey exhibit characteristics that can lower these costs – yet in every case represents a significant level of productivity and financial value at risk.

Figure 7. **The cost of turnover puts significant value at risk**

Job level	Financial cost of turnover (% of annual compensation)*	% of employees at high risk of turnover**	Financial cost at risk***
Senior manager/Executive	74%	31%	23%
Professional	59%	25%	15%
Sales and customer/Client management	59%	27%	16%
Business support	48%	27%	13%

*Financial cost of turnover (FCOT) measured in our proprietary benchmark database
**% at risk of turnover taken from 2016 Global Workforce Study results
***Financial cost at risk=FCOT × % at risk of turnover

The value of delivering a relevant EVP

To address engagement and turnover issues as well as accompanying productivity risks, it's critical for employers to understand employee expectations and preferences (see sidebar to the right).

Employees are looking for employers to connect with them on a meaningful and personal level similar to how companies connect with their customers and clients. Fifty-six percent of employees report that their employer should understand them as well as they are expected to understand their customers. However, only 39% report that their employers are meeting this expectation. This percentage represents a slight decline from 2014 when 43% of employees held this view.

This employee experience is part of the value exchange at the heart of the EVP (see sidebar below). The employee experience includes employees' interactions with the company, colleagues and customers; the work environment, and Total Rewards – which together, drive employee engagement. In return for delivering a meaningful and relevant employee experience, employers expect that employees will adopt the mindset and behaviors necessary to optimize their contribution to the organization's success.

Keeping up with employees' changing expectations

How do organizations stay up to date with the shifting needs and preferences of their employees? Companies across all industries globally are developing more agile employee listening strategies that go beyond exclusive reliance on the traditional employee survey. Today, advancements in technology make possible quarterly, monthly and even daily polls along with always-on tools, exit/onboarding surveys and a range of qualitative/unstructured alternatives – for example, online collaboration platforms and social media sites.

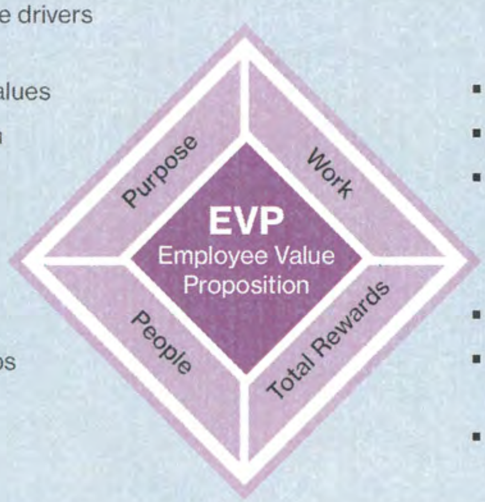
It's critical for employers to understand this broad set of solutions and how they can be best combined to form a comprehensive listening strategy. For a more in-depth discussion, please see "From survey event to listening strategy: capture the value of employee opinion."

Ensure the EVP articulates what the company delivers and expects in return

Structure the EVP to address employee drivers

- Company mission, vision and values
- Company image and reputation

- Job content
- Work environment
- Tools and resources to do work

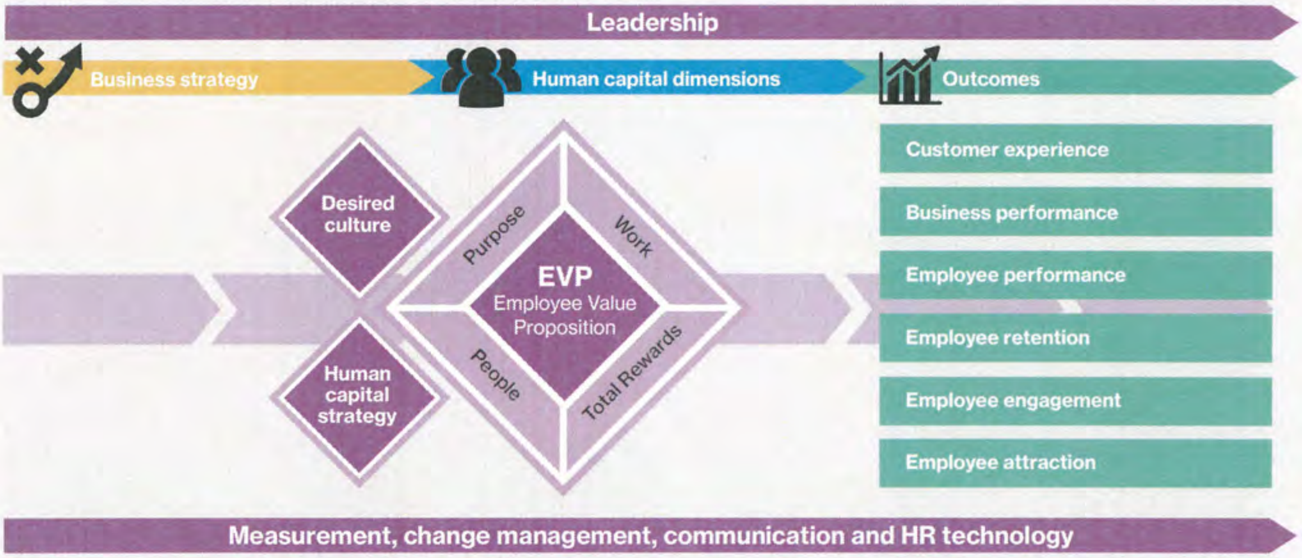


- Leadership
- Manager/employee relationships
- Peer relationships

- Foundational rewards
- Performance-based rewards and recognition
- Career and environmental rewards

Figure 8. **Modernizing your EVP should be accomplished in the context of an overarching human capital framework**

Organizations that align their human capital dimensions to business strategy achieve better outcomes



Only a quarter of employees report that their organizations have matured to the stage of best practice companies with highly evolved EVPs that are aligned with what they stand for in the marketplace and differentiated from those of other companies with whom they compete for talent. Employees of these EVP best practice companies tend to be among the most highly engaged.

To provide a framework for thinking about the elements that contribute to a modern EVP and accompanying talent and reward programs, we have developed the Willis Towers Watson Human Capital Framework *(Figure 8).* This framework helps leaders make decisions about the strategy, design and delivery of their programs from an integrated, holistic perspective. And it emphasizes the critical role that leaders play in ensuring human capital dimensions align with and support achievement of the company's business strategy.

The value of getting the EVP right

To win in the new world of work, employers need to redefine their approach to developing an EVP that they can offer to current employees as well as potential job candidates (the candidate value proposition or CVP). Organizations stand to capture considerable value by getting the EVP right and connecting with their employees in a meaningful way. EVP best practice companies report:

- **Better understanding of their employees.** Seventy-eight percent of EVP best practice companies report that their organization understands employees as well as employees should understand their customers (compared with 46% of companies overall).
- **Higher levels of financial performance and sustainable engagement.** Best practice organizations with highly evolved EVPs are almost twice as likely (1.9 times) to report financial performance substantially above that of their peers and almost three times as likely (2.7 times) to say that their employees are highly engaged as organizations without a formal EVP.
- **Fewer attraction and retention difficulties.** Best practice organizations with highly evolved EVPs in mature economies report less difficulty attracting and retaining employees in general as well as top performers and employees with critical skills. Their counterparts in emerging economies report fewer difficulties getting and keeping employees for some employee groups, including top performers.

Overall, a strong EVP drives engagement, and highly engaged employees are less likely to leave their employers. In fact, 72% of highly engaged employees report that they would like to continue working for their current employer until they retire, as opposed to only 26% of the disengaged.

The investment organizations make in developing a relevant EVP and accompanying employee experience clearly delivers strong returns.

The critical role of effective leaders

An organization's leaders are ultimately accountable for both establishing and delivering on the company's EVP. Senior leaders and managers play critical roles in ensuring that the employee experience at the heart of the EVP enables the organization to connect with its employees in a meaningful way. So how do employers and employees rate their senior leaders and managers?

Senior leadership

Employees not ready to follow

Employees give their senior leaders low marks. Roughly half or fewer say that senior leaders at their organization are doing a good or very good job of growing the business (52%), managing costs (47%) or developing future leaders (39%). Among the next generation of leaders, just 46% say that senior managers are doing a good or very good job of developing future leaders.

Less than half of employees report that the senior leadership in their organization has a sincere interest in employee well-being (44%) or that they have trust and confidence in the job being done by the senior leadership of their organization (48%). Only half report that they believe the information they receive from senior leadership. We conclude that many employees are not ready to follow their current leaders and do not have great confidence in the next generation of leaders.

It is essential for organizations to address shortfalls in key aspects of leadership in order to craft a meaningful EVP and relevant employee experience.

The value at stake

Employees' perception of their senior leaders is a key influencer in their decision to stay with or leave an organization. Leadership is the top driver of sustainable engagement in mature and emerging economies alike. Employees with positive perceptions of their leaders are much more likely to be highly engaged.

Employees say that **senior leaders** at their organization are doing a **good** or **very good job** of...

Time to reassess leadership competencies

Over half of employers indicate that their organizations develop leaders who will be able to meet changing business needs (64%) and hold leadership accountable for building the next generation of talent (53%). Yet given the low ratings from employees, it could be that organizations are overstating the effectiveness of their programs because they are more focused on meeting process objectives rather than the more difficult challenge of measuring results.

It may be time for employers to revisit their leadership competency models. Only around 60% indicate that their organizations use their models effectively.

What competencies should organizations be prioritizing in their models in order to develop effective leaders? Given that leadership continues to be the number one driver of sustainable engagement, employers can start by focusing on the competencies that support the drivers of employee engagement.

Our research shows that highly engaged employees are likely to give high scores to the following statements related to leadership competencies:

- I have trust and confidence in the job being done by the senior leadership of my organization.
- Senior leadership behaves consistently with the organization's core values.
- I believe the information I receive from senior leadership.
- Senior management is effective at growing the business.
- Senior management is effective at managing costs.
- Senior management is effective at developing future leaders.

Companies need to identify the drivers of sustainable engagement in their organizations, focus on defining the competencies that support those drivers and then hold leaders accountable for demonstrating the competencies that underpin effective leadership.

Make it relevant!

To develop more effective leaders: 1) build awareness within your organization of the importance of an effective leadership in delivering the EVP and driving higher levels of engagement; 2) revise your leadership competency model to focus on the skills and behaviors that affect an employee's intent to stay and his or her productivity; 3) use leadership assessment tools to identify who will make the best leaders and focus on the competencies that drive sustainable engagement.

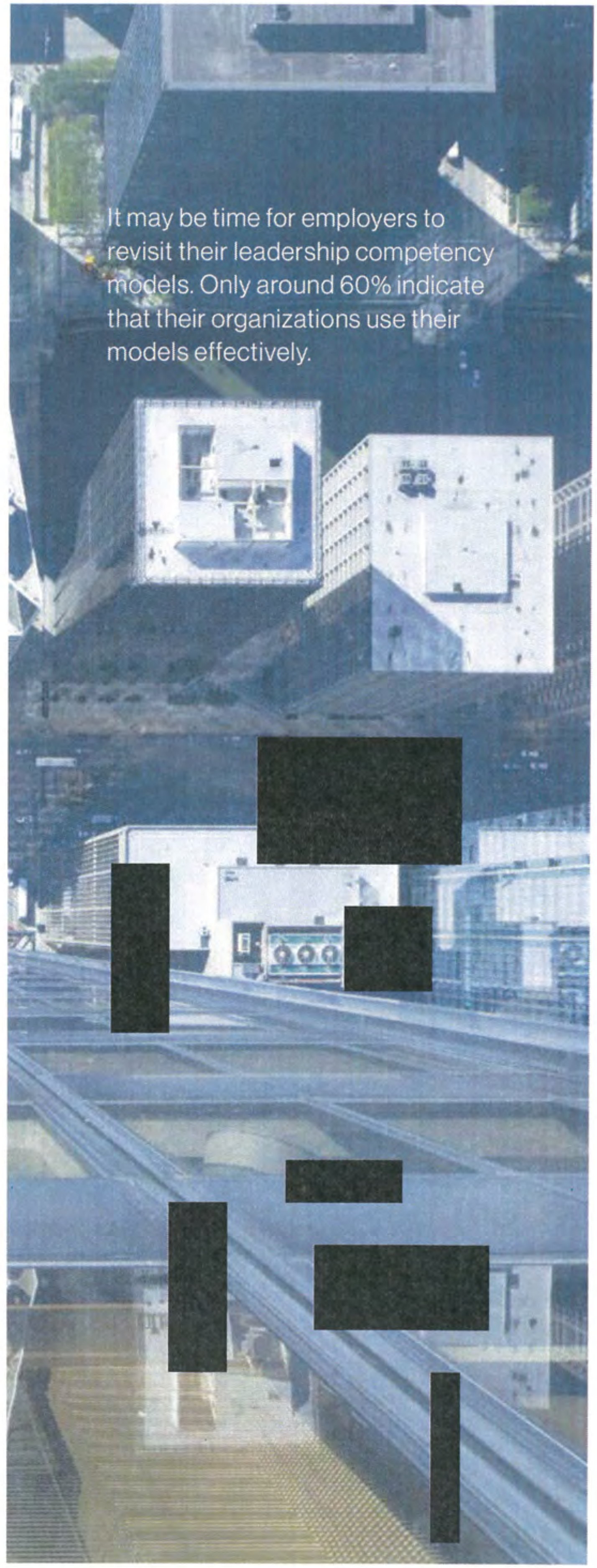
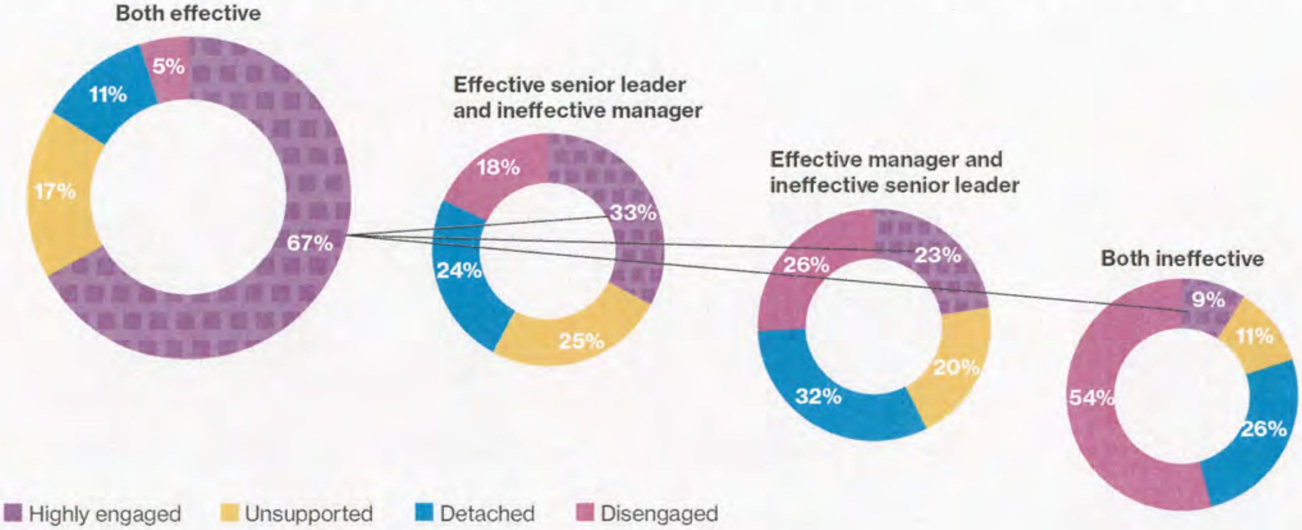


Figure 9. **The bottom line: Employees with effective senior leaders and managers are much more likely to be highly engaged**



Source: Willis Towers Watson 2016 Global Workforce Study – Global
Note: Proportions may not sum up to 100% due to rounding.

Managers

Employees view managers more favorably than HR

Employees have a generally favorable view of their immediate manager and give him or her higher ratings than the HR organization does. While employees recognize their manager's shortcomings in specific areas such as performance management and career advancement, this does not seem to affect their overall perception of their manager's effectiveness. In fact, 63% say their immediate manager is effective at his or her job.

However, only 45% say that the people manager role in their organization is respected. Why? Fewer than half (46%) think their manager has enough time to handle the people aspects of the job. And employees think that managers lack skills and tools in critical areas such as performance management.

The value at stake

An employee's relationship with his or her immediate manager is a key driver of retention and sustainable engagement.

Both supervision and leadership are drivers of sustainable engagement. However, the employees who perceive both their manager and senior leaders as effective are the most likely to be highly engaged *(Figure 9)*. Just 9% of employees who do not think either their manager or senior leaders are effective within their organization are highly engaged. When one of them is effective that number rises by 14% (if their manager is effective) or 24% (if the senior leaders are effective). But when both are effective, the percentage of employees who are highly engaged rises to 67%.

Make it relevant!

To improve the effectiveness of your managers, ensure they: 1) have the time to do their job well, 2) listen to and treat their employees with respect, 3) have the right tools and training in areas ranging from performance management to career development, 4) offer dual career tracks to help ensure the employees you promote to managerial positions are those best suited for the role versus employees seeking management positions solely for the opportunity to enhance their compensation, 5) use formal assessments to identify the best candidates for the manager role, and 6) make sure leaders and managers are aligned so that employees see both of them working together effectively.

How can employers enhance their EVP to remain relevant?

Step 1: Start with effective recruiting, onboarding and staffing.

Eighty-three percent of best practice organizations with a highly evolved EVP support the full employee life cycle, including recruiting and onboarding, while only 9% of organizations without a formal EVP do so.

HR software – specifically for talent assessment and onboarding – can help organizations ensure they recruit the right candidates and that new hires become fully productive faster. The vast majority of employers (70%) say that they currently have recruiting and onboarding software in place, and 20% plan to acquire this software in the next year or two.

However, employers can improve their use of software and online resources overall.

- **Develop a skills inventory**. Only 33% of employers say they maintain an inventory of employee skills to help match people to roles and assignments. An inventory of employee skills and identification of skill gaps can help employers ensure they recruit, hire and staff the right talent.
- **Use social media for brand building.** While employers are using social media to find candidates by posting jobs to sites such as LinkedIn, fewer than half (46%) report that they post content (other than job ads) to build the employer brand. By posting content about their brand on social media, organizations can raise the visibility of their culture and employee experience among high-value candidates.

Step 2: Focus on core practices and what matters most to employees.

The drivers of attraction, retention and sustainable engagement should be top of mind as employers look to modernize and improve their EVP. Our survey findings reveal employee and employer perspectives on the following key drivers and evolving best practices.

Base pay

Various factors contribute to the underlying pressure on base pay.

- Many employees are dealing with financial concerns that can distract from work and negatively affect productivity. Almost half of employees (49%) say that they often worry about their current financial state, and 53% report that they often worry about their future financial state.
- There's a growing expectation of openness and transparency regarding pay and pay equity issues. Legislative or disclosure changes in many countries, including the U.K. and U.S., are likely to increase the need for pay transparency.
- It's becoming easier for employees to gather salary information from online sources. Many employees have taken advantage of the opportunity to research online what people with jobs similar to theirs get paid at other firms (one in six in the last month).
- Despite the high prevalence of eligibility for other forms of rewards, for most employees, base pay remains the largest slice of the Total Rewards pie and is critical to meeting their fundamental financial needs.

50% of employees think they are **paid fairly,** but **one in five disagrees.**

How do employees view current base pay practices? Employees tend to think they are paid fairly relative to people holding similar jobs in other organizations – *however, the numbers are weak*.

- Half (50%) think they are paid fairly, but one in five disagrees.
- Only three out of five employees (62%) indicate that they understand how base pay is determined.
- Employees don't have a good understanding of relative pay. Only about half say they understand how their total compensation compares with that of the typical employee in their organization (47%) and with the typical employee in other companies like theirs who holds a similar job (44%).

Employers tend to hold managers at least partly responsible for the low effectiveness of base pay, with only 51% saying that their managers execute base pay well. And almost one in five (18%) disagrees with the statement that managers are effective at fairly reflecting performance in pay decisions, indicating a need for improved pay equity.

Employers also seem to recognize that program design could be an issue. Over 50% have already taken action, or are planning or considering taking action to change the criteria for base pay increases. But are they paying sufficient attention to the right factors?

The value at stake

Base pay continues to be the top driver of attraction and retention for employees in both mature and emerging economies. In addition, the perception of fairness in base pay is linked to an employee's engagement, which, in turn, drives productivity and financial performance.

Over half of employees who say they are paid fairly compared with people in other companies with similar jobs and compared with people in their organization with similar jobs are highly engaged.

Managers take a broader view of merit pay criteria

Our 2015 Talent Management and Rewards Pulse Surveys revealed HR's perception that managers are taking a more holistic and forward-looking perspective on the factors used to make merit increase decisions than is called for in their company's plan design. In this year's research, managers confirmed that they are equally likely to give weight to employee potential, skills required for future success, achievement of team goals, internal equity and market competitiveness. However, manager and employer perspectives differ in the following areas:

- Almost 60% of managers say *perceived potential* affects merit increase decisions versus 41% of HR professionals who say it should.
- 63% of managers say *possession of skills critical to future success of the organization's business model* affects merit increase decisions versus 46% of HR professionals who say it should.

Employers may be underemphasizing the criteria critical to the future growth of the business and rewarding past performance instead.

- 66% of managers say *achievement of team goals* affects merit increase decisions versus 49% of HR professionals who say it should.
- Managers are also more concerned than HR professionals about *internal equity* (52% versus 42%) and *market competitiveness* (55% versus 48%) in making merit increase decisions.

Seventy-two percent of employers say that an employee's final year-end rating should be considered in making merit increase decisions in contrast to just 63% of managers who say it does affect their decisions. In fact, only half of managers report that formal performance ratings are effective at driving higher levels of performance among their direct reports.

A clear disconnect exists between how managers are currently making reward decisions, the program design, and the tools and processes provided by HR. Employers may be underemphasizing the criteria critical to the future growth of the business and rewarding past performance instead.

Employers need to address internal pay equity

Only 51% of employees believe they are paid fairly compared with others in their organization in similar roles; this isn't surprising given that only 60% of organizations have a formal process in place to ensure fairness in compensation distribution. Consequently, employers have significant room for improvement in this area.

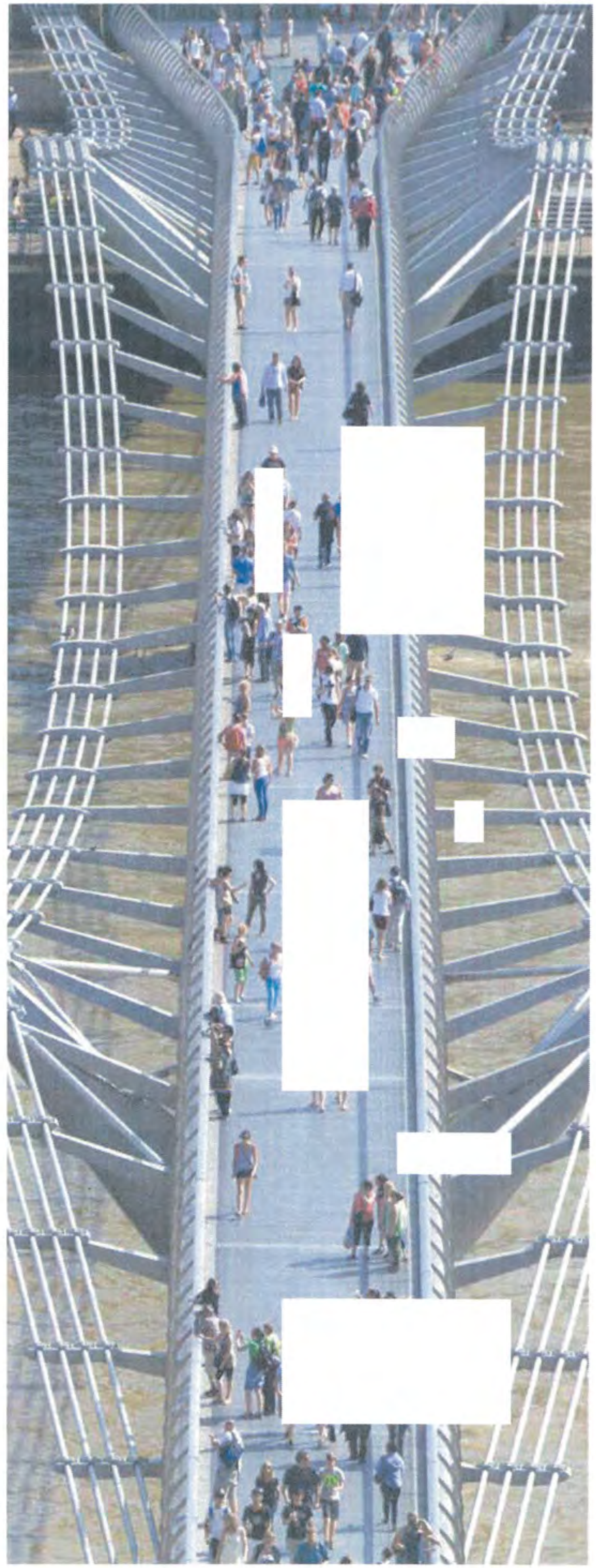
Make it relevant!

To modernize your base pay practices: 1) adopt a more holistic approach to making merit increase decisions that assesses not only an individual's past performance, but also future potential and ability to contribute to a team; 2) conduct a pay equity analysis and develop an action plan to address pay equity issues; and 3) improve communications in the area of rewards and base pay to increase transparency and enhance the perception of fairness. Using a multichannel approach, target communications about base pay policies to different workforce segments.

Pay for performance

To ensure that base pay and incentive compensation becomes a valuable component of the EVP, employers need to address shortfalls in key areas, especially those related to pay for performance:

- Only 40% of companies think base salary increases are effective at driving higher individual performance. Managers hold a similar view. Fewer than half (48%) say that annual base salary increases are effective at driving higher levels of performance among their direct reports. However, this figure increases to 51% among managers who spend seven or more hours per employee on performance management, compared with only 37% for managers who spend two hours or less per employee. The time managers invest in performance management activities appears to influence their perception of the effectiveness of base pay increases.
- Slightly more than half (55%) of employers report that base salary increases are effective at differentiating pay based on individual performance. And only 49% of managers say that annual base salary increases are effective at differentiating pay based on performance among their direct reports. This figure rises to 54% among managers who spend seven or more hours per employee on performance management, compared with 36% for those who spend two hours or less. Regardless, there is still significant room to improve the effectiveness of base pay salary increases when it comes to differentiating pay based on individual performance.
- Looking at bonuses, only one-half of companies (50%) and 52% of managers think that short-term incentive programs are effective at driving higher individual performance. And only 52% of both groups think that short-term incentive programs are effective at differentiating pay based on individual performance.
- As far as employees are concerned, less than half (45%) say there is a clear link between their performance and their pay; only 62% say they understand how their base pay is determined, and barely more than half (54%) understand how their bonus is determined.



These findings on the lack of pay-for-performance differentiation are supported by this year's data on the downside and upside of bonus awards based on performance. While employees who partially met expectations saw their bonus award cut in half relative to target, the very best performers (the roughly top 10% who far exceeded expectations) received bonuses that only exceeded target by 20%. Clearly, there is an opportunity to improve the execution of pay-for-performance promises.

The value at stake

Pay-for-performance programs customized for critical workforce segments provide a source of competitive advantage. These programs form a critical component of a highly evolved EVP, essential to attracting, retaining and engaging top talent.

Make it relevant!

To improve the effectiveness of your pay-for-performance program: 1) determine the performance dimensions (e.g., results, potential, behaviors, culture) to be rewarded by talent segment; 2) choose the right combination of reward vehicles (this may involve broadening the scope of reward programs to include components such as career management and paid time off); and 3) ensure all leaders and managers engage in an ongoing dialogue with employees on performance.

While employees who **partially met** expectations saw their **bonus award cut in half** relative to target, the very **best performers** (the roughly top 10% who far exceeded expectations) received bonuses that only **exceeded target by 20%.**

Performance management

Over two-thirds (67%) of employers say that the performance management process in their organization is effective at driving high performance across the workforce.

But employees disagree and give employers mediocre ratings on key aspects of performance management.

- **Program effectiveness**
  In many cases, performance management reviews have become simply a compliance exercise with little impact on future results, prompting employees to question the purpose of performance management.

  Fewer than half (48%) of employees report that performance reviews have helped improve their performance. And barely one-half (52%) think their performance was accurately evaluated in their most recent review. As noted above, pay-for-performance elements fall short, with only 45% of employees saying there is a clear link between their work performance and pay. And fewer than half (46%) indicate that high performers are rewarded for their performance.

  As already indicated, fairness is an issue for many employees. Only 55% of employers report that their organization has a formal process to ensure there is no bias or inconsistency in performance reviews. In the new world of work, where fairness and transparency are high priorities, this figure should be much closer to 100%.

- **Communication**
  For performance management to be effective, employees must understand the process. Yet only half (50%) say their organization does a good job of explaining the performance management process. Effective performance management relies on a continuous discussion-based process that involves providing feedback in a nonjudgmental way and having focused conversations on the type of performance – including fulfillment of accountabilities, possession of necessary skills and demonstration of desired behaviors – required to increase business impact.

Employees who find the performance management process effective are more likely to be highly engaged.

- **Manager's role**

  For many employees, their poor perception of performance management is due to a lack of manager capacity and capability. Among employees not reporting that their performance reviews helped improve their performance, over a fifth say that their managers do not have the time (20%) or skills (23%) to do performance management well. And employees who did find their performance reviews helpful indicate that their manager having the necessary skills is the leading facilitator of performance management.

  Poorly equipped, time-pressed managers are less likely to provide helpful feedback to their direct reports. Among employees who did not indicate that their performance reviews were effective in helping improve performance, over a third (34%) cite a lack of effective feedback as a barrier to their performance management experience. It's not surprising then that only 44% of employees report that their manager coaches them to improve their performance.

The value at stake

Employees who find the performance management process effective are more likely to be highly engaged. Over half of those (58%) who say that their performance review has helped them improve their performance are highly engaged versus 9% who are disengaged. Moreover, 55% of employees who indicate that their performance was accurately evaluated in their last review are highly engaged.

Employers take action to improve performance management

Only 51% of employers say that performance management is effective at creating a positive employee experience. But rather than scrapping the performance management process altogether, most employers are taking actions to improve their existing process.

Some of these actions target areas where employers perceive their managers to be ineffective:

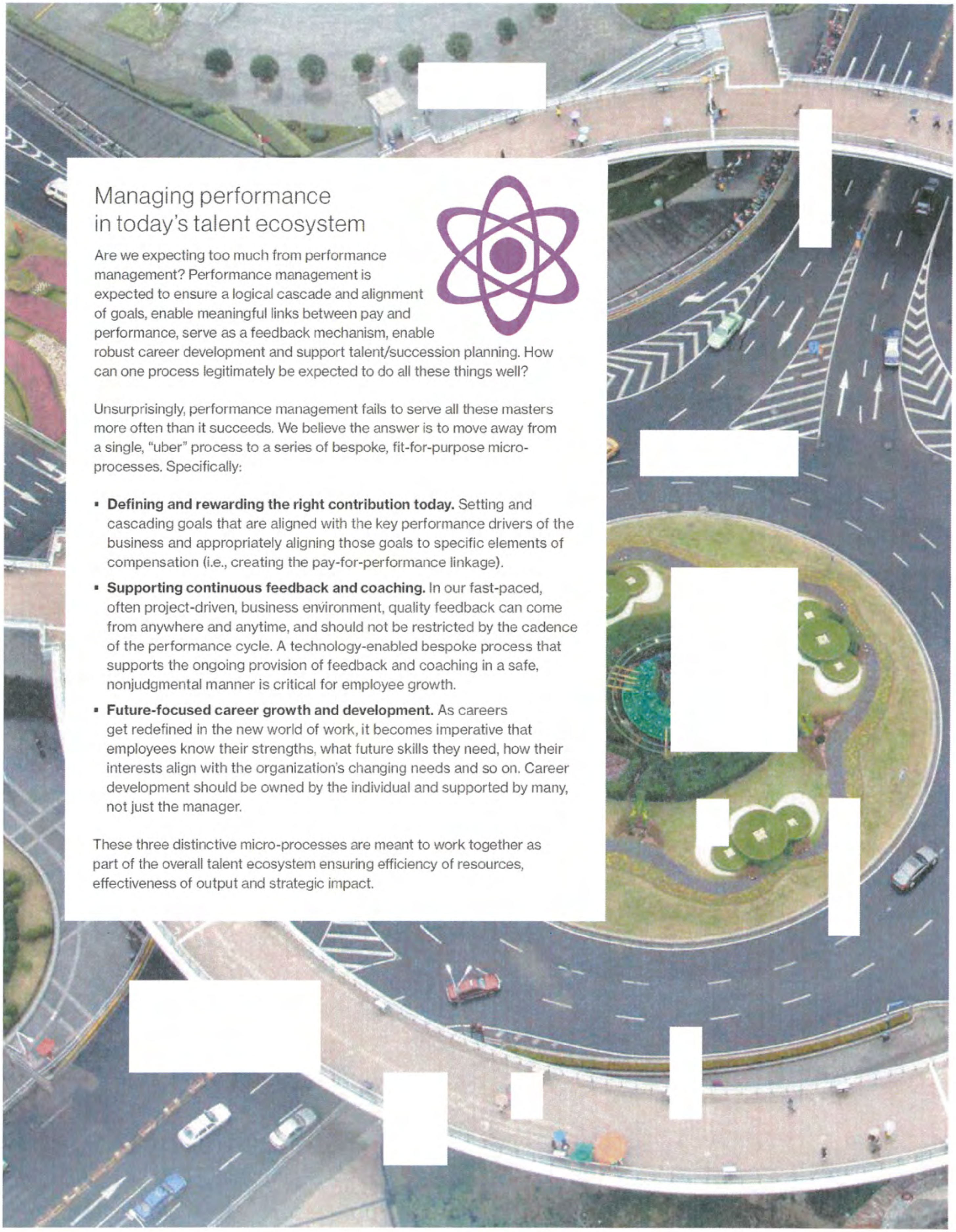
- **Coaching and feedback.** Only 35% of employers say their managers are effective at giving employees regular coaching and feedback on their performance. To improve this situation, a majority of employers have already taken action (33%), or are planning (23%) or considering taking action (24%) to increase frequency and improve the quality of performance conversations/dialogues between manager and employee.
- **Use of software.** Employers give managers low scores on the use of software in the performance management process. For example, only 38% say managers are effective at utilizing software to facilitate continuous feedback. This may have contributed to employers' decision to implement new enabling technology such as mobile platforms that facilitate continuous feedback. Over half of employers have either taken action (15%), or are planning (16%) or considering taking action (21%) to implement new technology in this area.

Employers are also taking action to align themselves with managers' more forward-looking perspectives on performance management. Twenty-eight percent have already taken action, and 45% are planning (20%) or considering taking action (25%) to use performance management to evaluate future potential.

Ensure managers focus on high-value activities

To make the most of these efforts, employers need to ensure that managers spend their time on the activities that will most help improve performance.

Our findings reveal that in a typical year, 53% of managers report spending four hours or less per employee on performance management. Twenty-two percent spend five or six hours per employee. Among employees who did not agree that their performance reviews helped them improve their performance, 20% think their managers lack the time to devote to effective performance management. In many cases, managers are spending too much time on administrative activities. To improve performance management, organizations need to find ways to reduce the amount of time managers spend completing forms. Even among managers who spend less than two hours per direct report on performance management, managers are still more likely to report spending too much time on forms.



Managing performance in today's talent ecosystem

Are we expecting too much from performance management? Performance management is expected to ensure a logical cascade and alignment of goals, enable meaningful links between pay and performance, serve as a feedback mechanism, enable robust career development and support talent/succession planning. How can one process legitimately be expected to do all these things well?

Unsurprisingly, performance management fails to serve all these masters more often than it succeeds. We believe the answer is to move away from a single, "uber" process to a series of bespoke, fit-for-purpose micro-processes. Specifically:

- **Defining and rewarding the right contribution today.** Setting and cascading goals that are aligned with the key performance drivers of the business and appropriately aligning those goals to specific elements of compensation (i.e., creating the pay-for-performance linkage).
- **Supporting continuous feedback and coaching.** In our fast-paced, often project-driven, business environment, quality feedback can come from anywhere and anytime, and should not be restricted by the cadence of the performance cycle. A technology-enabled bespoke process that supports the ongoing provision of feedback and coaching in a safe, nonjudgmental manner is critical for employee growth.
- **Future-focused career growth and development.** As careers get redefined in the new world of work, it becomes imperative that employees know their strengths, what future skills they need, how their interests align with the organization's changing needs and so on. Career development should be owned by the individual and supported by many, not just the manager.

These three distinctive micro-processes are meant to work together as part of the overall talent ecosystem ensuring efficiency of resources, effectiveness of output and strategic impact.

Figure 10. **Managers say they spend too much time filling in forms and participating in calibration sessions and not enough time on collecting feedback, setting goals and discussing individual performance**

		Time spent per employee				
		2 hours or less	3 or 4 hours	5 or 6 hours	7 or 8 hours	9 or more hours
The amount of time spent completing forms	Too little time	12%	4%	6%	6%	4%
	About right	67%	72%	69%	68%	64%
	Too much time	21%	23%	24%	26%	32%
	Net	9%	19%	18%	19%	27%
The amount of time spent in ongoing conversations with employees about their individual performance, helping employees set performance goals or objectives and collecting feedback from colleagues	Too little time	38%	34%	30%	27%	27%

In regard to higher-value activities such as collecting feedback, having ongoing conversations with employees or helping employees set goals, the percentage of managers who say they spend too little time on these activities drops by 11 percentage points for those who spend seven or eight hours per direct report on performance management compared with those who spend fewer than two hours *(Figure 10)*.

Make it relevant!

To develop a performance management program that will deliver business impact: 1) establish cascading goals aligned with key business performance drivers and link goals to pay-for-performance programs; 2) consider future potential as well as past performance in your reviews – taking a longer-term, more holistic view of performance; 3) use a continuous discussion-based process instead of a static year-end assessment (make certain that your managers' efforts are focused on coaching employees to achieve their fullest potential); 4) ensure that your managers have adequate training on how to effectively execute their performance management accountabilities, e.g., providing feedback and coaching; and 5) provide training for managers on the use of performance management software to help minimize time spent on completing forms.

Figure 11. **Close to one-half of high-potential employees think they need to leave their organizations in order to advance their careers**

Career management

Employees give career management a thumbs down

Career advancement opportunities are among the top three drivers of attraction and retention globally. Yet over half of employees (54%) say that career advancement opportunities have remained the same over the past 12 months.

Only 43% of employees think that their organization does a good job of providing advancement opportunities. In fact, over 40% of employees think they need to leave their organization to advance their careers *(Figure 11)*.

Employees cite two key barriers in this area: ineffective supervisors and poor use of technology.

- **Supervisors.** Eleven percent of employees report that they did not have a career development discussion with their immediate supervisor in the past year. And only 38% report that their immediate supervisor helps with career planning and decisions.
- **Technology.** Only 47% of employees indicate that their company makes effective use of technology to help them advance their careers.

The value at stake

Effective career management is a key driver of attraction, retention and engagement. Of employees who say that their organization does a good job of providing opportunities for advancement, 61% are highly engaged, while only 9% are disengaged. Of the employees who indicate that their organization provides career planning tools and resources that are helpful, three in five are highly engaged and a mere 9% are disengaged.

Employers understand issues but investment falls short

Overall, almost 70% of employers say their career development processes are effective at providing traditional career advancement opportunities to employees (e.g., vertical moves/promotions, lateral moves). But meaningful career management in the new world of work requires a focus on the employee experience and skills development versus jobs and levels.

Employers recognize their shortcomings in key areas:

- **Technology.** Only 37% indicate their organization is effective at using technology to provide employees access to career management tools and resources. Less than half (49%) report that their organization is effective at using technology to provide employees access to employee learning and development programs.
- **Managers.** Only 39% of employers say their managers are effective at identifying development opportunities. And a mere 30% report that their managers are effective at conducting career development discussions.
- **Nontraditional advancement opportunities.** Only half say their organization's career development processes are effective at positioning career growth and movement opportunities to enhance skills and gain new experiences (e.g., special assignments, across or outside the organization).

Moreover, employers are not adequately investing in essential areas. Few say that their components of career planning and growth include the following: 1) defined lateral career paths (37%), 2) emphasis on dual career paths for people managers (33%), and 3) integration with technology systems such as HRIS (human resource information systems) and employee portals (35%) and employee self-service tools (29%).

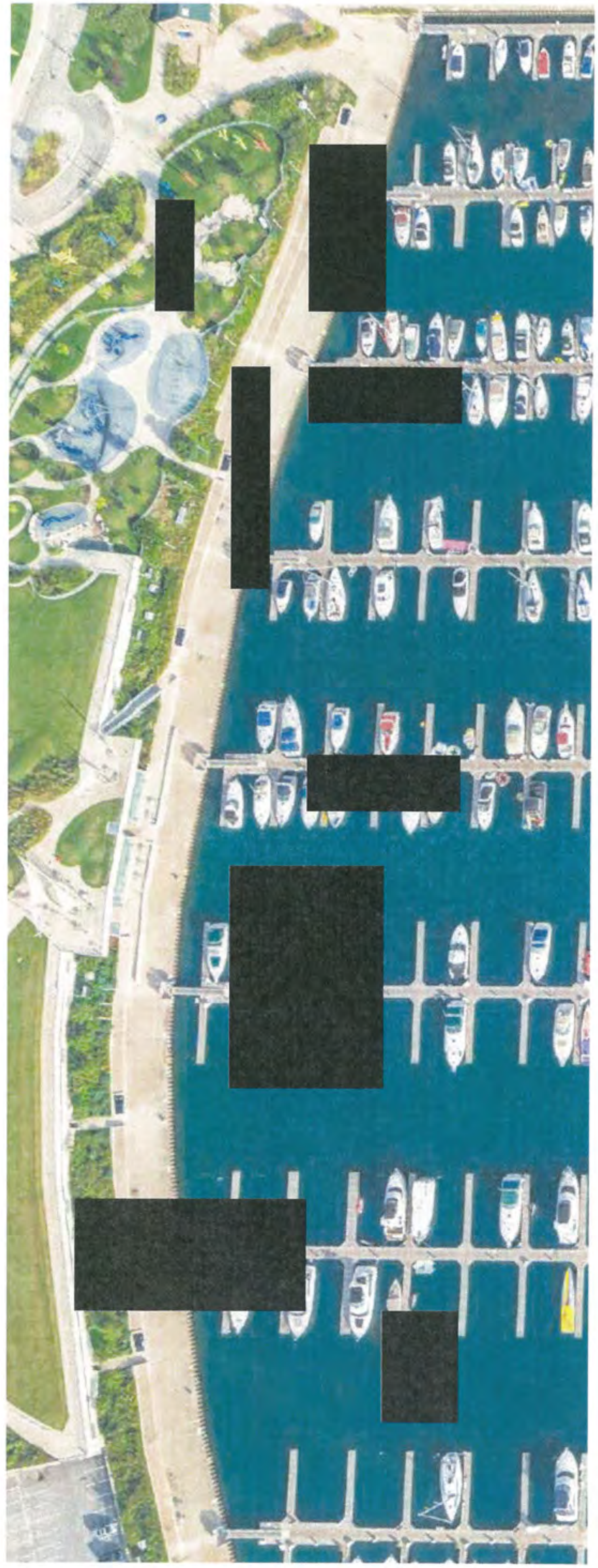
By increasing requirements for some jobs and lowering requirements for others, organizations are eliminating opportunities in the middle and reducing the possibilities for traditional career advancement within the organization.

In addition, going forward, technology will have a greater impact on how employers design jobs. Seventeen percent of employers say they are changing the way they design jobs so jobs can be done by employees with lower skills, and 33% expect to do so in the next three years. Twenty percent say they are changing the way they design jobs so jobs can be done by employees with more skills, and 30% expect to do so within three years. It is critical for organizations to monitor this trend to better understand how this might impact career advancement opportunities – for example, a greater focus on career experiences and job expansion over promotion through a series of levels. By increasing requirements for some jobs and lowering requirements for others, organizations are eliminating opportunities in the middle and reducing the possibilities for traditional career advancement within the organization.

Finally, it's important for employers to ensure that career management is integrated in other aspects of talent management and reward programs – for example, career discussions should be a key part of performance management, and training opportunities and mentoring programs should be an integral part of Total Rewards.

Make it relevant!

To modernize your approach to career management: 1) audit your baseline job architecture for relevance to the organization and alignment with your talent strategy; 2) ensure that your managers are trained to have effective career planning discussions (even in low-growth environments where it may be difficult to provide career opportunities for all, it's essential for managers to help employees understand and appreciate all of the opportunities that do exist); 3) invest in technology to provide managers and employees with career management tools and career development programs; 4) offer employees lateral career paths, dual career paths and nontraditional advancement opportunities such as special assignments, skill-building experiences and secondments; and 5) look for ways to design jobs that not only capture the changing nature of work but also can facilitate skill growth and career development for employees.



Modernization starts with a more relevant value exchange

Success in the new world of work requires a rethinking of the employer-employee relationship and the value exchange at the heart of the EVP.

While base pay may be the leading driver of attraction and retention, our findings show that a broader set of factors influences employees' decision to join and stay with a company. Employees are looking for more than a job – they expect a personalized work experience aligned with their values and preferences. The scope of the work experience encompasses all employee interactions with customers, nonemployee talent, other employees, and managers and leaders, and also includes the physical work environment and Total Rewards as well as supporting tools and resources.

By creating more relevant employee experiences, companies will be able to connect with employees on a deeper level. This requires adopting a mindset that prioritizes the following elements.

- **Senior leaders and managers.** Senior leaders are ultimately accountable for delivering the EVP and accompanying employee experience. To achieve this objective, they must prioritize building trust-based relationships with their employees and developing the next generation of leaders by focusing on the leadership competencies that both support business objectives and drive sustainable engagement within their organizations.

  In addition, senior leaders must ensure that managers have the aptitude as well as the training, resources and time necessary to fulfill their critical role in the organization. The manager is also a leader but affects employees in different ways than senior leaders or executives (see sidebar, page 23).

Employees are looking for more than a job — they expect a personalized work experience aligned with their values and preferences.

- **Transparency.** Transparency in all aspects of the work experience from base pay policies to performance reviews to career advancement opportunities promotes a sense of fairness and openness that is a growing employee expectation. Moreover, a lack of clear information about the organization and its policies may prompt some employees to turn to less reliable external sources of information.
- **Flexibility.** In an environment where employees have a wider range of work options, it's essential to offer alternative career paths (e.g., lateral or dual career paths) and nontraditional opportunities for skill development such as special assignments. Flexibility also involves providing employees with online training and development resources they can access as their schedule permits. In addition, it's critical for employers to be open to flexible work arrangements in terms of where and how work gets done.
- **Performance management.** Employers need to adopt a more holistic view of performance. It's essential for companies to define the type of performance (e.g., individual versus team) they are measuring and rewarding, and to determine how this might differ by employee segment. Individual performance goals should support strategic business priorities and link to specific elements of compensation, thus creating a pay-for-performance connection. Finally, to ensure the right performance is always top of mind, employers should engage in an ongoing performance dialogue with employees.
- **Pay for performance.** As the world of work, job definitions and expectations continues to evolve, companies need to leverage improved performance management processes to deliver on their pay-for-performance promise. It's time to rethink the basis for determining increases to base salaries and to improve the differentiation in bonus awards to reflect actual performance outcomes.

What makes an effective leader?

Three key aspects contribute to overall leadership effectiveness:

Professional
The expertise and technical knowledge critical to service and product delivery

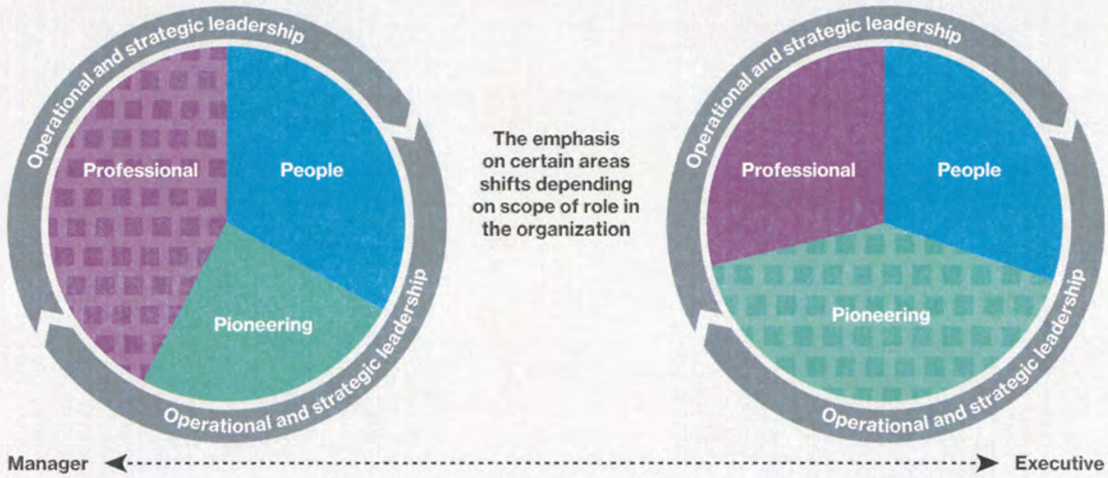
People
The people-related skills needed to engage, promote collaboration and manage a wide range of teams

Pioneering
Enterprising and out-of-the-box thinking necessary to implement change and grow the business

Our research indicates that the emphasis on performance factors changes, depending on leadership level.

Managers tend to focus more on the **professional** side than on other levels of leadership. And the impacts they create are related more to operational activities.

Successful **executives** focus more on the **pioneering** factor – but they don't lose focus on professional or people; they are still bringing their domain expertise to bear, and industry leadership. Additionally, the people side of their role is still a key area of focus.



- **Technology enablement.** Technology enables organizations to transform how work gets done and, by extension, the employee experience. The increased use of digital media is changing employees' expectations about how they can connect and collaborate at work.* Smart companies are also investing in HR software in areas ranging from onboarding to talent and compensation management in order to improve the employee experience.

Employers stand to realize significant business value by creating work experiences enabling them to connect with employees in both traditional and alternative work arrangements in a more relevant way. Not only will companies be better equipped to attract new employees, but also they will be better able to keep employees highly engaged and drive behaviors critical to achieving their desired business outcomes. This approach will reduce the value at risk as fewer employees will have one foot out the door.

In the new world of work, employers face a stark choice: modernize the value exchange that serves as the basis for their EVP or risk irrelevance. A strong EVP, including a meaningful employee experience, will go a long way toward reducing turnover, improving engagement levels and increasing productivity as well as financial performance.

*"Digital Media and Society: Implications in a Hyperconnected Era," World Economic Forum in Collaboration with Willis Towers Watson, January 2016. http://www3.weforum.org/docs/WEFUSA_DigitalMediaAndSociety_Report2016.pdf

About the studies

The **Willis Towers Watson Global Talent Management and Rewards Study** was fielded from April to June 2016 in 29 countries. It includes responses from over 2,000 participating organizations representing a workforce population of almost 21 million employees worldwide. The participants represent a wide range of industries and geographic regions.

The **Willis Towers Watson Global Workforce Study** covers more than 31,000 employees selected from research panels that represent the populations of full-time employees working in large and midsize organizations across a range of industries in 29 countries around the world. It was fielded during April and May 2016.

For more information, please visit https://www.willistowerswatson.com/en/insights/2016/09/employers-look-to-modernize-the-employee-value-proposition.

Final participation results

Global Workforce Study (GWS): More than 31,000 responses across 29 markets
Global Talent Management and Rewards Study (TM&R): A total of 2,004 organizations across 29 markets

North America	GWS	TM&R
Canada	✓	✓
U.S.	✓	✓

Latin America	GWS	TM&R
Argentina	✓	✓
Brazil	✓	✓
Chile	✓	✓
Mexico	✓	✓

TM&R includes one submission from Ecuador

EMEA	GWS	TM&R
Belgium	✓	✓
France	✓	✓
Germany	✓	✓
Ireland	✓	✓
Italy	✓	✓
Netherlands	✓	✓
Saudia Arabia		
Spain	✓	✓
Sweden*		✓
Switzerland	✓	✓
Turkey	✓	✓
U.A.E.	✓	✓
U.K.	✓	✓

TM&R includes submissions from other EMEA countries, including Saudi Arabia (22)

APAC	GWS	TM&R
Australia	✓	
China	✓	✓
Hong Kong	✓	✓
India	✓	✓
Indonesia	✓	✓
Japan	✓	✓
Korea	✓	✓
Malaysia	✓	✓
Phillipines	✓	✓
Singapore	✓	✓
Taiwan	✓	✓
Thailand*		✓

TM&R includes submissions from Australia (1) and Myanmar (1)

*Did not field GWS; GWS fielded in all other countries listed, plus Australia and Saudia Arabia

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 39,000 employees in more than 120 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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Willis Towers Watson

HEALTH WEALTH CAREER

MERCER TALENT TRENDS

2017 GLOBAL STUDY

EMPOWERMENT IN A DISRUPTED WORLD

MAKE TOMORROW, TODAY MERCER

THREE PERSPECTIVES ON

THE FUTURE OF WORK

400+ business executives
1,700+ HR professionals
5,400+ employees
From **37** countries
and **20** industries

We asked about topics as diverse as:

- The biggest disrupters on the horizon
- What executives are planning in the next few years
- How HR thinks jobs will change
- Which skills are most in-demand and how best to develop them
- What employees want more/less of in the workplace

WHAT'S INSIDE

SETTING THE CONTEXT

2017 has kicked off with a bang, but the optimism shown in the markets has not appeased the lingering concerns from HR and employees following a year of uncertainty and volatility. Conflict in the Middle East continues unabated, the fate of the European Union is in question, and anti-establishment sentiment is at an all-time high. Across the world, disruptive events at the ballot box and on the streets have provided a wake-up call to political and business leaders.

Rising nationalism is straining global cooperation, and economic problems have resulted in stagnant growth, unemployment, and productivity challenges. Fiscal fragility in many emerging markets and the pressure on social protection systems is compounding the stress on individuals and families.

IN THIS CLIMATE, IT IS MORE IMPORTANT THAN EVER BEFORE FOR COMPANIES TO TAKE A LEADING ROLE IN CARING FOR THE HEALTH, WEALTH, AND CAREERS OF THEIR WORKFORCE.

The fourth industrial revolution is upon us and is fast becoming a workplace reality. Artificial intelligence, robotics, 3-D printing, drones, and wearables are rapidly integrating into the work environment. Technology is enabling us to stay connected and give real-time feedback more than ever before. At the same time, business models are adjusting to take advantage of contract or contingent workers – in part to address the talent scarcity challenge but also in response to what people say they want out of a job. These forces are changing the notion of what it means to be an "employee," which has far-reaching implications and demands a re-think of how we prepare for the future.

The critical trends that are reshaping the world of work are colliding with the changing demographic profile of employees and shifting expectations of the work experience. Despite an uncertain future, there is optimism in the air. The events of 2016 and early 2017 have set a course of change that brings the promise of more equity and transparency and more accountable decision making. An overarching theme of *Empowerment* permeates how business leaders, HR professionals, and employees are viewing the world of work, both today and in the future.

C-SUITE CONCERNS: VIEW FROM THE TOP

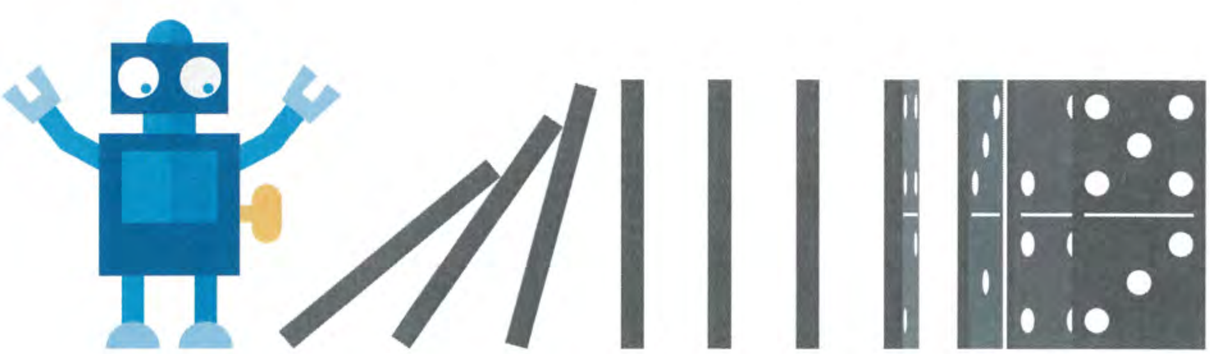
TECHNOLOGY AT WORK

TALENT DRAIN

AGING WORKFORCE

GENERATION Z

92%
of employers expect an increase in competition for talent this year



The talent scarcity challenge is keeping everyone awake at night. The C-suite and HR agree that the competition for talent will continue to increase this year, but executives see this even more acutely – 43% of C-suite respondents expect the competition to be significant, compared to 34% of HR professionals.

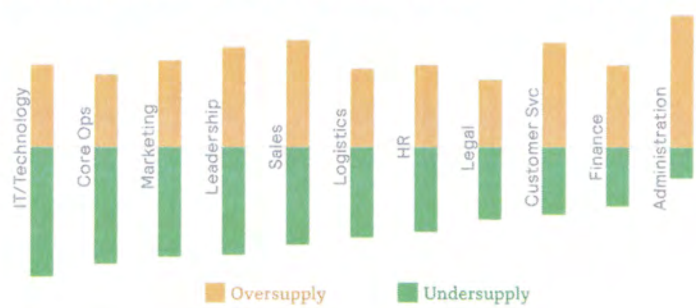
How are companies planning to respond? Just like in 2016, most are focused on a "Build" strategy to grow and promote their own talent from within – but nearly half are also increasing their recruitment from the external labor pool. Both strategies are reflected in the HR priorities for 2017:

The disconnect between supply and demand affects all industries, geographies, and functions, but it is predicted to be especially acute in leadership, core operations, sales & marketing, and IT.

BUILD, BUY, BORROW

PLANNING TO INCREASE IN THE NEXT 12 MONTHS

HR EXPECTS A DEARTH OF QUALITY TALENT DUE TO WORKPLACE DISRUPTION IN THE NEXT TWO YEARS



IN THE SPOTLIGHT (REPORTED OVERSUPPLY)

In areas with oversupply, competition for jobs will increase and there is potential for job displacement. However, for organizations that are able to move people to jobs, or jobs to people, this can be a great world-sourcing opportunity.

1. GROWTH BY DESIGN

DRIVING A BOLD CHANGE AGENDA

It's no longer about evolution – organizations are transforming structures and jobs with an eye towards the future. Ensuring that the People agenda is not lost amid the drive for change will be critical to sustainable growth.

REDESIGNING THE ORGANIZATION

Executives globally recognize that stasis is a formidable enemy of business growth. They acknowledge that existing structures often impede, rather than accelerate, change and that the heavily layered organization of yesteryear has proved a hindrance to the agility needed in today's competitive markets. Thus, they are driving an aggressive change agenda — 93% of business executives plan to make a design change in their company within the next two years. This trend is consistent across all geographies and industries.

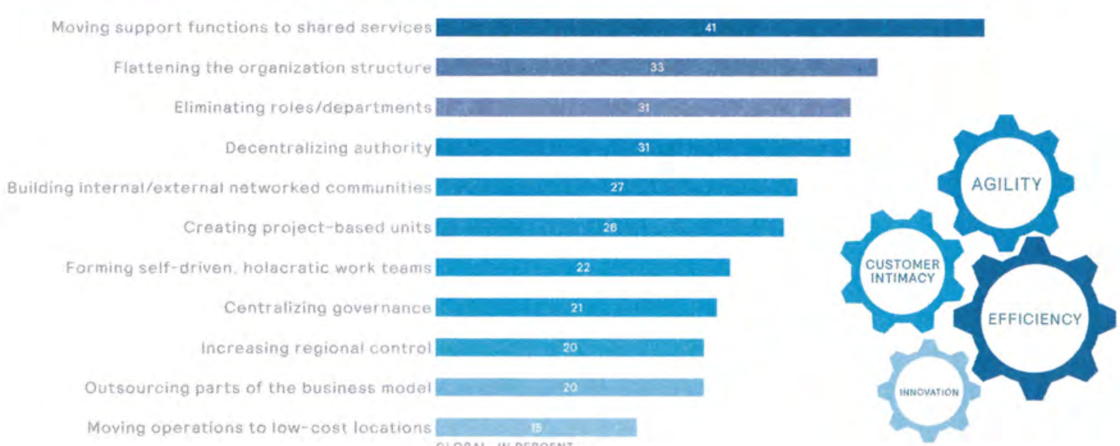
Vertical hierarchies are being replaced by simpler, more horizontal organizational structures. This change reflects a desire for greater efficiency and lower costs, closer relationships with customers, and increased agility and innovation. Companies in different industries are going about this in different ways. Executives in the Auto, Energy, and Healthcare sectors are flattening their organization structures, while those in Financial Services and Logistics are focused more on moving support functions to shared services. Consumer Goods organizations are also creating special units to handle project-based work.

There are interesting differences by geography as well. While greater efficiency is the number one driver of organization design changes in the majority of the countries we studied (including US and UK), it is less of a focus for executives in Japan (who are committed to improving collaboration) and in Hong Kong (for whom innovation is paramount).

The organization in a "world is flat" universe pushes decision-making authority further down the chain, thus employees must be more self-reliant and skilled enough to independently make day-to-day decisions. This requires a shift in how we support employees at different stages of readiness, career, engagement, and work status.

What do employees say they want? When asked in which areas their company should provide more support, simplified approval chains to enable quick decision making ranked third globally. This may reflect their company's current challenges in this area — with only 15% of employees saying that their company excels at this today.

93% WILL MAKE ORGANIZATION DESIGN CHANGES IN THE NEXT 2 YEARS
WHAT CHANGES ARE YOU PLANNING TO MAKE?



Redesign of organizational structures and jobs was among the top three areas of investment executives felt would create the most sizable difference to business performance in the near future. However, only 11% of HR professionals indicated that redesigning jobs, roles, and responsibilities is a priority this year. With structural redesign being driven from the top, lack of definition around what behaviors to leave behind, preserve, or adopt will undermine the impact of these organizational changes.

CHANGING NATURE OF JOBS TOP THREE TRENDS

Management roles will have broader spans of control

A global trend in all countries with the exception of Italy, where less than one-third of HR leaders anticipate that managers will have a broader team remit

High value jobs will focus more on design & innovation

Jobs will focus more on sales & delivery and less on management

Especially in China, where **63%** of HR leaders expect an increased focus on design & innovation over the next 3 years

THE VALUE OF JOBS IS SHIFTING — ARE YOU SET UP FOR SUCCESS?

Companies are seeking to eliminate the barriers to productivity growth that have crept into their internal business practices. One way is to redesign roles and reporting lines for simplicity, faster decision making, and team-based working. Today, HR is spending a significant amount of time classifying and cataloguing jobs (often driven by the implementation of a new HR technology system). HR leaders will be the first to agree that documenting current state is not enough. New style work arrangements require new style job frameworks that take into account not only the jobs of today, but also what will be needed in the future. The rapid pace of change and C-suite's focus on organization redesign mean that a very different future is not far off. **Without an underlying framework, the goals of agility, simplicity, and innovation will remain elusive**; the key is developing a strategic framework that can flex and adapt to the evolving needs of an agile workplace.

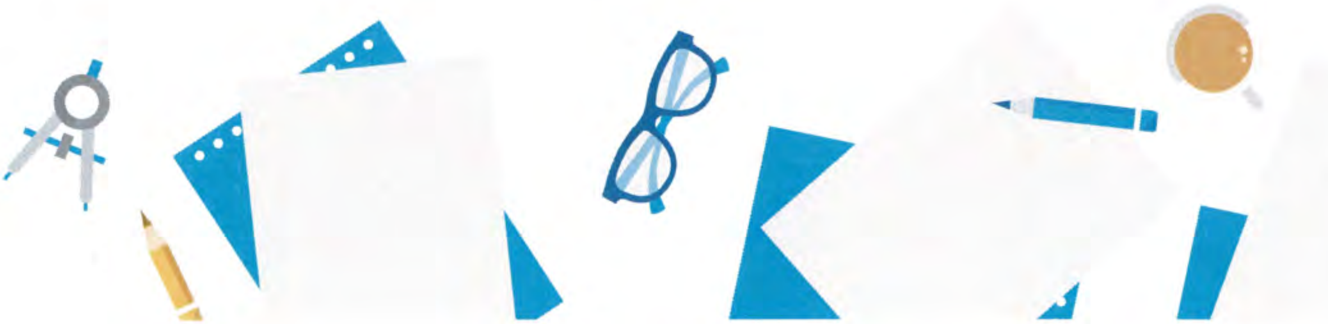
Having a strong decision science underpinning job design has never been more critical, especially as new jobs are emerging faster than ever before. Job design is where HR can truly add business value:

- How do you define jobs for which no precedents exist?
- How do you evaluate new jobs when you have no reference benchmarks?

The challenge is to consider the job's contribution to the creation of value in the organization. We all know that business leaders do not have the patience for a lengthy job evaluation exercise, so the process must be quick, intuitive, and accessible for all line managers. The good news is that HR realizes the need for change — **50% of HR leaders indicated that they will change their job evaluation methodology this year**. The majority are implementing a more scientific approach to valuing contribution.

In a recent Mercer snapshot survey[1], respondents were asked how job evaluation will contribute to the business agenda in the next 10 years; the most common response was "to enable flexibility."

[1]2016 Mercer Global Job Evaluation ROI Snapshot Survey

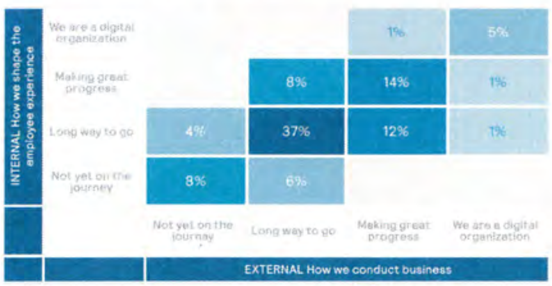


THE DIGITAL JOURNEY

Business executives see technology at work as the workforce trend likely to have the most impact on their organization over the next two years. Yet most are not doing enough to realize the benefits and head off the risks.

> Doing business without digital is like smiling at someone in the dark. You know what you're doing, but nobody else does.
>
> ~Adapted from Steuart Henderson Britt~

WHERE ARE YOU ON THE JOURNEY TO BECOMING A DIGITAL ORGANIZATION?



Less than 10% consider themselves a **Digital Organization** today. Companies that have begun their digital journey tend to focus first on external competitive forces, and later turn their attention internally toward the employee experience.

Only 35% of executives believe that HR provides a digital experience for employees.

Only 54% of employees say that they have access to state-of-the-art and innovative tools & technology to support their training and development.

TRENDS TO WATCH IN 2017

2. A SHIFT IN WHAT WE VALUE

A NEW REWARDS PARADIGM IS NEEDED

Fair & competitive pay and opportunities for promotion are top priorities for employees this year, which is not surprising given the climate of uncertainty and change.

The rapid rise of smart machines and the exponential increase in the complexity of organizations and roles are just some of the ways in which today's workplace is unrecognizable from 30 years ago. What it means to be an employee — and the value of an employee to an enterprise — must necessarily be adjusted. It's no longer just about output. In fact, **97% of employees want to be recognized and rewarded for a wide range of contributions**, not just financial results or activity metrics — but only 51% say that their company does this well today. How rewards are managed reflects an organization's culture and can send powerful signals about what is valued. The same principle applies to executive rewards.

Responsible and responsive leadership was the lead topic at the 2017 World Economic Forum Annual Meeting. The theme of inequality and income disparity is forcing policy discussions on minimum wage and living wage, the gender pay gap, and the pay ratio between the C-suite and the average employee. As organizations are being challenged to consider their societal impact, performance metrics have been broadened to include sustainability measures such as diversity and social responsibility rankings. The trend towards more effective and relevant disclosure of executive remuneration also shows that companies are responding to the demand for greater transparency — **83% of companies are planning to make changes to increase transparency of executive pay**. Market volatility is also adding pressure on executive pay levels — but at the same time, companies are unsure whether to make adjustments as the economic winds can change rapidly. For example, whether to shift to a currency-neutral approach for incentive plans is a hot topic for debate.

TRENDS TO WATCH IN 2017

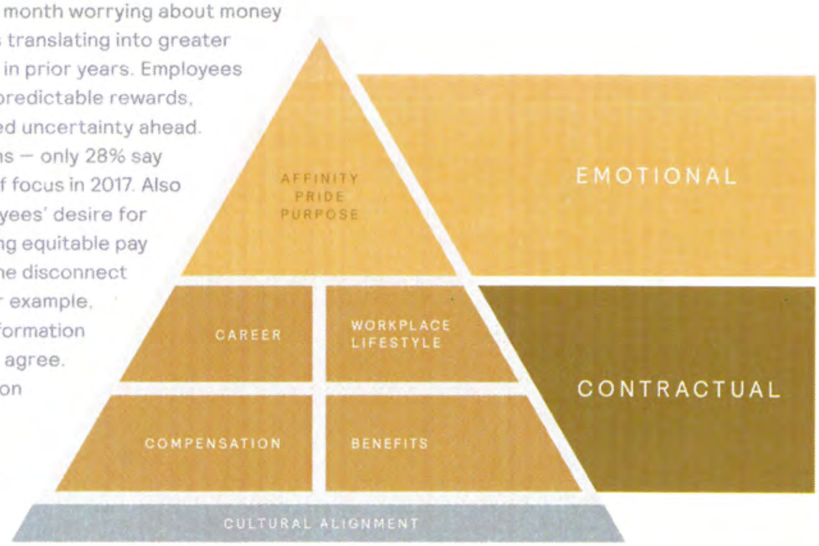
47%

of employees globally say the number one thing that would make a positive impact to their work situation is compensation that is fair & market competitive. Below are the top seven responses globally.

- FAIR & COMPETITIVE COMPENSATION — **#1** for employees in Canada, China, France, Germany, Italy, Singapore, and US
- OPPORTUNITY TO GET PROMOTED — **#1** for employees in Brazil, Mexico, India, and South Africa
- LEADERS WHO SET CLEAR DIRECTION — **#1** for employees in Australia, Canada, Hong Kong, and UK
- WORKING WITH THE BEST & BRIGHTEST
- TRANSPARENCY ON PAY CALCULATIONS — **#1** for employees in Japan
- CAREER PATH INFORMATION
- MORE FLEXIBLE WORK OPTIONS

People spend an average of 13 hours per month worrying about money matters at work[1]. A preoccupation that is translating into greater concern over base pay and benefits than in prior years. Employees are seeking the security of tangible and predictable rewards, which is not a surprise given the perceived uncertainty ahead. However, this is not reflected in HR's plans — only 28% say rewards competitiveness will be an area of focus in 2017. Also not reflected in this year's plans is employees' desire for fair pay, with only 16% of HR leaders putting equitable pay on their list of top five priorities. Part of the disconnect may be due to lack of communication. For example, 51% of companies say that they provide information on pay bands, but only 34% of employees agree. This can also impact employees' perception of their own "promotability" within the organization — lack of clarity around rewards at the next level can lead people to believe there is no path forward.

[1]Inside Employees' Minds Study, Mercer 2016



Even though employees are focused on the *contractual* aspects of the deal, we know that a greater *emotional* connection with the organization leads to less dependence on components such as compensation and benefits.

88% OF COMPANIES MADE CHANGES TO THEIR PERFORMANCE MANAGEMENT APPROACH LAST YEAR… AND THERE'S MORE TO COME

The climate of uncertainty is driving decisions about where employees want to work and what they value in the employment deal. So how are companies planning to respond? Changes to performance management processes lead the way and often have implications for rewards. This year, companies will continue to use performance ratings to drive annual base salary adjustments, but there is also a move towards greater manager discretion in how employees are paid.

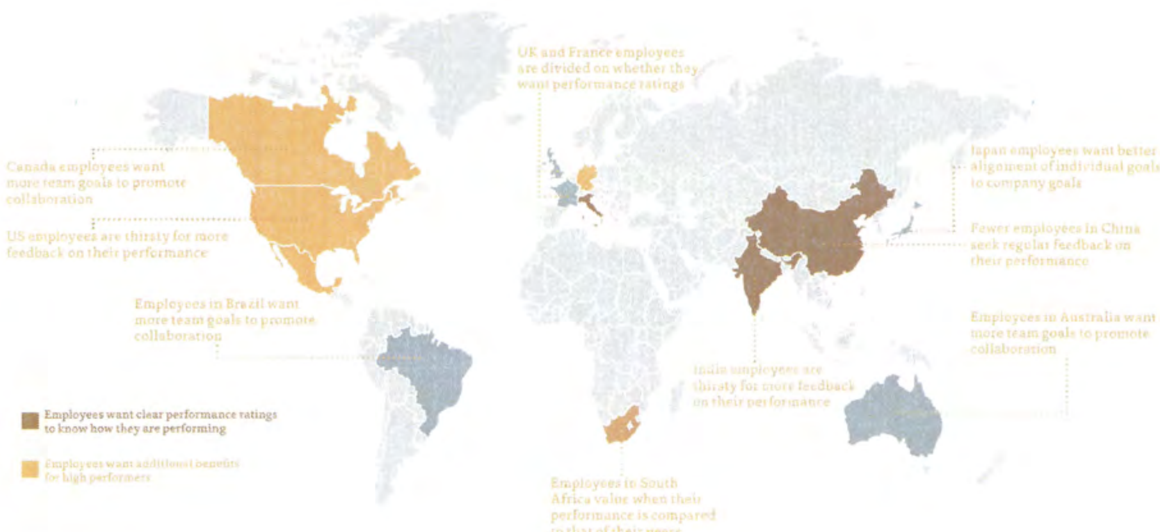
CHANGES PLANNED IN 2017

- Strengthen strategic goal cascade
- Calibrate goals across peer roles
- More team-based goals & metrics
- Replace ratings with descriptors
- Eliminate performance ratings altogether
- Add forced rankings
- Remove forced rankings
- Shift performance discussions to career & development
- Introduce continuous feedback technology

There continues to be a focus on goal calibration and cascade, with 83% of companies having made or planning to make a change to their goal setting process. Continuous feedback is also becoming more prevalent, no doubt enabled by technology, with 81% of companies having already put in place an "anytime feedback" tool or planning to do so this year. Managers are also being encouraged to balance backward-looking performance reviews with more future-focused career and development conversations — 81% of companies have made this shift or plan to do so this year. Companies are taking the opportunity to determine whether their performance management processes are "fit for purpose" and inspiring for employees.

Employees are clear on one thing: performance ratings give them clarity on how they are performing and motivate them to do better work. In addition to individual work contributions, they also want to be measured on team goals to promote collaboration. This is a trend set to continue, with 40% of employees expecting that their workplace will become even more team-based over the next two years.

UNIQUE VIEWS FROM AROUND THE WORLD



TO RATE OR NOT TO RATE?

61% of organizations eliminated performance ratings last year or are planning to do so this year.

NUMBERS OR WORDS?

75% replaced numerical ratings with descriptions or are planning to do so this year.

FORCED RANKINGS... OR NOT?

39% of companies that either added or removed forced rankings in 2016 are now planning to reverse their decision in 2017.

Industry sectors making the most changes:
Energy, Life Sciences

Countries satisfied with the status quo:
Japan, China, UK

TRENDS TO WATCH IN 2017

3. A WORKPLACE FOR ME

PERSONALIZATION OF THE EMPLOYEE EXPERIENCE

People expect their employer to "make work work" for their individual circumstances. Companies are starting to respond by taking a "whole person" approach and increasing the flexible work options available to their workforce. Advances in technology are enabling individualized choice without adding an undue administrative burden for HR.

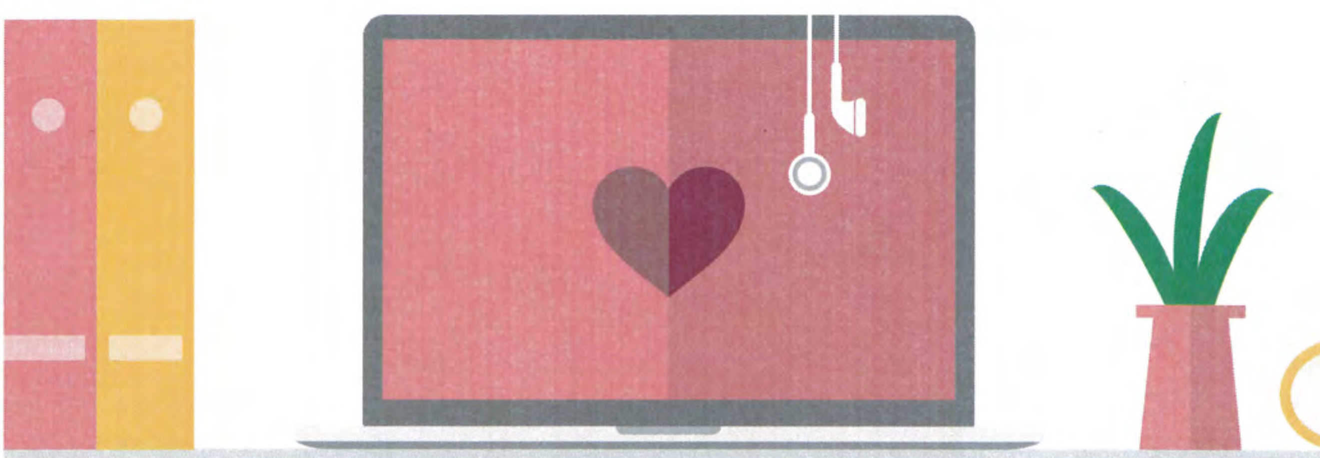
While clarity on job responsibilities, rewards, and promotion criteria are fundamentals, there is another workplace revolution underway. Globalization and technology are making the world smaller and shaping employees' expectations of when and how they want to work. As part of the Era of the Individual and the rise of the free agent, employees are seeking more flexible and personalized work arrangements. Organizations are realizing that developing one employee value proposition that resonates across five generations, men and women, white and blue collar, working at the office or from home... is nearly impossible to achieve.

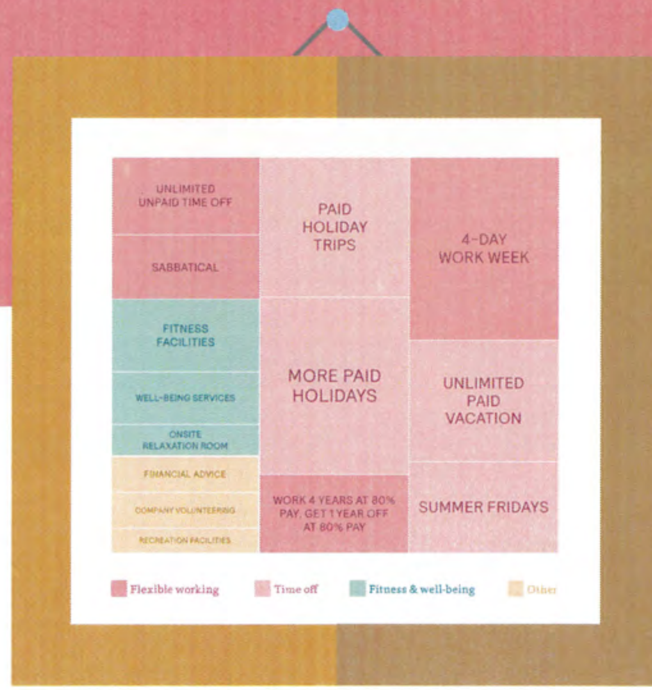
Personalization is not a new concept, but it's one that in the past has been difficult to address. The good news is that advances in technology (from employee portals to career matching apps to benefit management platforms) are making it much easier to bridge the gap. Responsive and intelligent software can adapt to the needs of each unique employee to provide the right support at exactly the right time. Additionally, the micro-segmentation science of personas commonly used in marketing is starting to be applied to people strategy. These realistic representations of employee "types" can enable HR to better target employee benefits and communications.

More than a list of cool benefits and perks, personalization itself is fast becoming a differentiator.

One way to achieve this is through flexible work options. This year's study showed that the majority of employees want more flexibility, and 40% of HR respondents acknowledge that offering more flexible ways to work would improve their employees' ability to thrive. Sixty-two percent of companies already have pockets of flexibility in place, but only 35% say that it is a core part of their value proposition. An additional 27% offer flexible work options only when requested by individuals and sanctioned by managers.

We also asked employees about their experiences with flexible working in practice. They generally reported support from their managers (61%) and colleagues (64%). However, 1 in 3 employees indicated that they had requested a flexible work arrangement in the past and were turned down, and **1 in 2 expressed concern that working part-time or remotely would negatively impact their promotion opportunities**. Certainly there is more work to be done to create a culture where flexibiltiy is not seen as a benefit, but as an opportunity for workforce optimization and personalization.





Flexibility comes down to finding a way to integrate one's work and personal life. We asked what would make employees choose one company over another – providing an exhaustive list and taking pay out of the equation. Time off was the clear winner – either more of it, or at least the flexibility to spread it out or even work fewer hours for less pay. Perks such as fitness and recreation facilities, well-being services, and financial advice were all present, but ranked lower down the list.

This focus makes sense when viewed alongside employee priorities. When asked about their biggest concerns in the near future, the themes across geographies and generations were all the same: first Health, then Wealth, and then Career. The findings were clear-cut, with 61% globally choosing Health as their top concern, followed by 23% choosing Wealth, and 16% choosing Career.

Staying healthy is directly tied to minimizing stress.

However, employees are expecting the opposite, at least when it comes to stress on the job – only 19% predict that their workplace will become less stressful over the next two years. Finding ways to seamlessly integrate all areas of one's life (home, family, job, community, etc.) through flexible working and creative time off arrangements can help mitigate this growing trend.

Ultimately, people want to fit work into their unique lives. Personalization, then, becomes the key to creating an employee experience that resonates with each individual.

TRENDS TO WATCH IN 2017

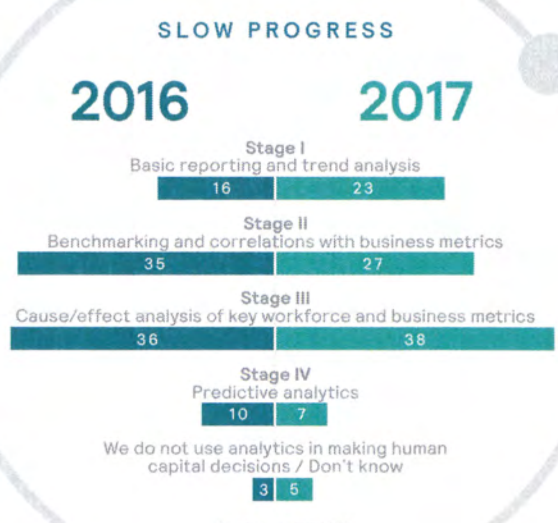
4. THE QUEST FOR INSIGHT

PREDICTIVE ANALYTICS ARE STILL OUT OF REACH

An empowered organization that is agile and responsive is one that listens and learns. The quest to derive actionable insights from talent analytics and big data is a core element of the empowerment agenda.

Just as marketing data and buyer insights are leading business transformation efforts, **talent analytics has the potential to deliver accelerated success on the people agenda** — both to enhance the employee experience and drive better decisions. But do companies have what they need? Certainly companies are collecting more information from both candidates and employees than ever before. As we add feeds from HRIS systems and candidate screening assessments, as well as passive data from social media, email traffic, and even wearables, the sheer volume of talent data we collect will only increase. So the problem is not a lack of data... it's what to do with it!

Companies around the world are making slow progress in using analytics to inform human capital decisions. Very few are able to translate data into predictive insights, and nearly 1 in 4 are still only able to produce basic descriptive reporting and historical trend analysis. Companies in the Life Sciences and Logistics industries are ahead of the curve, but still have a long way to go in delivering actionable insights that impact managers' day-to-day decisions.



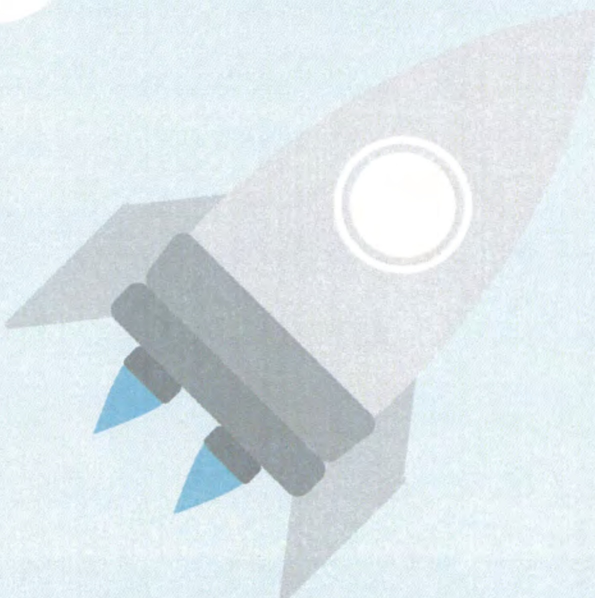
Even with all of the data that is being collected, senior executives are not getting the kind of talent metrics they need to make better business decisions. For example, executives say that understanding the key drivers of engagement would be the insight that is most value adding to their business, but only 35% of HR leaders are able to provide this information. This is especially surprising given that most companies today have at least some form of engagement survey in place. Predictive analytics — such as identifying which employees are likely to leave or what causes one team to out-perform another — are even less common.

MISMATCH IN TALENT ANALYTICS

HR and employees recognize that the disconnect may be due in part to a capability gap — both groups ranked "data analytics & predictive modeling" in the top three in-demand skills for the next 12 months, with HR professionals in Canada, France, and the UK ranking it number one.

The risk of not leveraging talent data is especially acute when there is so much organizational change on the horizon. **When decisions are informed only by financial and marketing data, there can be unintended people consequences.** For example, the World Economic Forum's *Future of Jobs*[1] report found that "women are at risk of losing out on tomorrow's best job opportunities" as disruption and displacement are likely to occur in job families with the largest share of female employees. When HR is able to partner with business operations to facilitate an evidence-based decision making process, they help mitigate these risks and ensure that the talent implications are being considered, especially during organizational redesign.

[1]World Economic Forum (2016). The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution



LEAP FORWARD:
ADVICE TO STAY AHEAD

ATTRACT & RETAIN TOMORROW'S TALENT

BUILD FOR AN UNKNOWN FUTURE

CULTIVATE A THRIVING WORKFORCE

LEAP FORWARD: ADVICE TO STAY AHEAD

ATTRACT & RETAIN TOMORROW'S TALENT

In a talent-led economy, the employee experience has never been more critical to attracting the best and brightest. Getting it right is even more challenging now, in a more diverse workplace that must embrace five generations with different norms and expectations. The interactions that candidates have during the recruitment process, how employees engage with the organization during their tenure, and how they are treated after they leave – these are all vital opportunities to shape the "experience." **Notably, half of all employees rated their application and hiring process as average or below average.** Not to mention the candidates that fell out of the process along the way!

Increasingly, HR is being asked to leverage tools and techniques once reserved for the marketing function to build and sustain a strong employer brand. Anyone who has contact with the organization is a potential ambassador for the brand, and word of a less-than-stellar interaction can spread quickly. An often overlooked group is candidates who apply but are unsuccessful. They are a vocal majority who – if handled with care and provided with career advice – can serve as a source of positive word-of-mouth and a potential candidate pool for future recruitment drives.

DO YOU HAVE A STRATEGY IN PLACE TO MAKE YOUR COMPANY ATTRACTIVE FOR

A strong digital presence is now becoming a corporate imperative, especially when trying to reach the elusive, "great-fit" passive candidate pool. The power of brand attraction is strongest when the interactions that candidates, employees, and alumni have leverage the company's external brand. Technology is shaping this landscape, not only to increase efficiency and decrease time-to-hire, but also to ensure a positive candidate experience. Some examples include:

- **Chatbots** – Create a more scalable and engaging recruitment process by answering candidates' questions and gathering background information without the need for lengthy application forms.
- **Algorithms** – Enable more targeted sourcing by generating a list of qualified candidates in seconds by scraping social data.
- **Online assessments** – Drive more intelligent decisions through games that tap into employee judgment and shorter psychometrics that predict future potential.

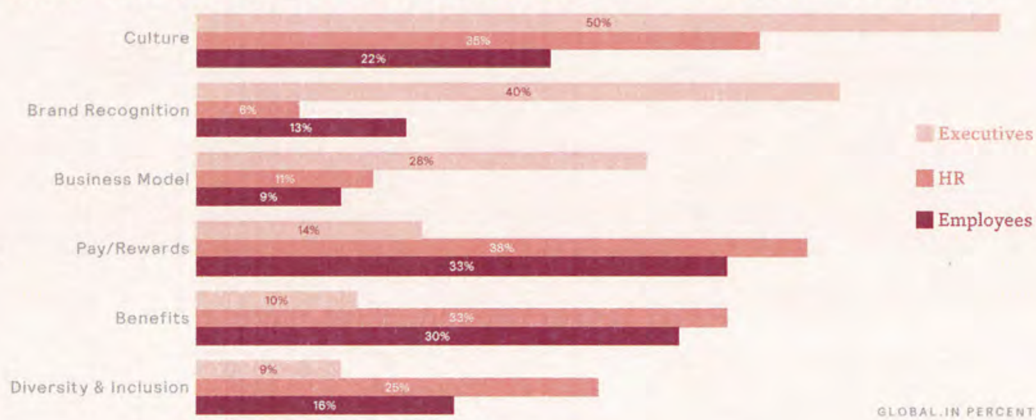
In a shifting job landscape, recruiting on future-focused criteria may prove more fruitful than reviewing an applicant's current capabilities or past experience.

Goldman Sachs is leveraging innovative technology and a competency-based interviewing method to reach more candidates while continuing to make informed, data-driven hiring decisions. Undergraduate candidates now submit online, pre-recorded video interviews as their first round evaluation for internship positions. Candidates record answers to a set of pre-defined questions that align to core competencies such as teamwork, analytical thinking, judgment, etc. Interviewers then assess the extent to which the candidate's answer demonstrates that particular competency and can rank and compare candidates against one another, ensuring that objectivity and consistency remain key elements of the hiring process.

COURTING IS ONE THING, MARRIAGE IS ANOTHER

If the Employee Value Proposition (EVP) is not authentic to the company's DNA (i.e., how we do things around here), then this passion of attraction will not be translated into a passion for the job. Business executives, HR leaders, and employees have differing perspectives on what makes their company's EVP unique and compelling. HR and employees agree that compensation and benefits – the contractual aspects of the "deal" – are a core component. Leading on responsible rewards and pay equity can help, as can focusing on health and flexible work options. Companies that want to cut away from the pack should not rely on industry benchmarking, but rather choose one or two areas in which they can truly differentiate themselves. One recent example is companies setting global parental leave standards (regardless of country norms).

WHAT MAKES A UNIQUE AND COMPELLING EVP - THREE PERSPECTIVES



All three groups agree on the importance of organizational culture. The line manager's role in shaping how employees experience the organizational culture is pivotal to delivering the brand promise, as well as translating the EVP into an individual value proposition (IVP). Smart HR platforms can use talent analytics to nudge managers when employees might be an engagement or retention risk. But ultimately, it is managers' ability to have effective "stay" conversations and engage their team in future-focused career planning that will shape employees' perceptions of how they are valued.

COMMUNICATION – THE BASIS OF ALL GOOD RELATIONSHIPS

Delivering and sustaining a compelling EVP again draws on HR's "marketing" skills, in particular their ability to define personas and leverage digital channels for a responsive relationship with employees. An integrated communication strategy can bring an EVP to life, and resources that people can access on-demand and on-the-go put key messages at their fingertips. Targeted messaging can be pushed to the most relevant groups at the right times, meeting employees where they are today. **Simplicity is key** – get to the heart of the message quickly or put the content no more than three clicks away. Personal reminders and easy-to-use apps can encourage employees to make healthier choices, invest more wisely, and explore career possibilities. Together, these solutions deliver the consumer-grade work experience that employees today are craving.

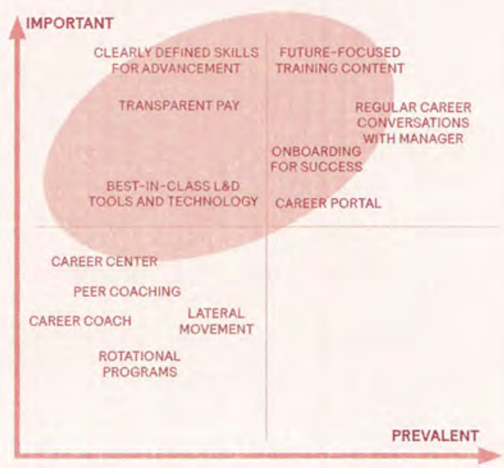
LEAP FORWARD: ADVICE TO STAY AHEAD

HOW TO PREVENT THE SEVEN-YEAR ITCH

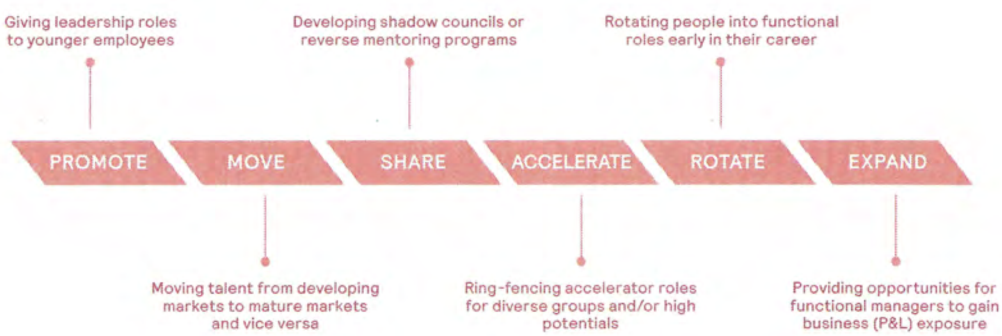
With the contractual aspects of the deal sharply in focus, it's never been more critical to effectively communicate the total reward proposition. Pay disparity and unbalanced promotion rates are often accompanied by retention challenges and serve as early indicators of when the career engine is failing to fire.

Part of this equation is employees' desire for more flexibility. Organizations are now evaluating the type and degree of flexibility inherent in each role and intentionally modeling flexibility into job design. Another part of the equation is that employees want to understand their career options and the criteria for promotion. We asked employees what support is most important in moving their career forward. Setting aside pay, future-focused training, regular manager conversations, and clarity around skills came out on top. Lateral moves and rotation programs seem to be missing the mark, perhaps because they are not as prevalent or are perceived to be less effective career development tools.

CAREER SUPPORT MOST SOUGHT BY EMPLOYEES



One of the hallmarks of a healthy career framework is its ability to facilitate pathways for non-traditional talent. The usual suspects – often those who "look good on paper" – are always considered for new assignments, promotion, or rotation opportunities. But taking a chance on those with less experience or a different background can be beneficial in bringing diversity of thought and increasing retention in under-represented populations.



THE POWER OF DATA

Companies are recognizing that to attract and retain tomorrow's talent HR needs easy access to quality and actionable data to combine what people say with what they are actually likely to do.

General Electric has experienced the power of putting data in the hands of those who can translate it into meaningful predictive insights. This has been pivotal in staying connected with future trends and building a dynamic relationship between insight and action.

> "By democratizing access to non-sensitive people data, all of HR can now more easily surface workforce insights and improve planning capacity globally."
>
> *Travis Barton, Workforce Planning, GE International*

ASK YOURSELF

- Do candidates who apply to our company have a brand-enhancing experience?
- Do our performance metrics reflect the wide range of contributions that employees can make?
- Do we take a "whole person" perspective when designing benefits programs, flexible work policies, and training for managers?
- Is it easy for individuals to understand the available career paths, compensation for roles of interest, and skills & experiences needed for promotion?
- Do we consider non-traditional talent (including younger and older workers) for development assignments, promotion opportunities, and internal mobility?

If you answered "no" to two or more of the above, attracting and retaining tomorrow's talent may be a focus area for your organization this year.

LEAP FORWARD: ADVICE TO STAY AHEAD

BUILD FOR AN UNKNOWN FUTURE

Everyone agrees – the future of work will look very different, and iterative changes won't be enough to generate sustainable growth and value. In particular, the skills, culture, and work models of today will likely not be relevant three years from now – and the effects will be felt even before that. But how do you prepare for the future if you don't know what it's going to look like? For companies struggling to get started, one way to demystify the unknown is by laying out a few tangible scenarios.

FUTURE THINKING:

Q: How can our strategy be shaped by non-traditional competitors? What can we learn from industry adjacencies and start-ups?

Q: What strategic capabilities are essential to delivering sustainable value to the business?

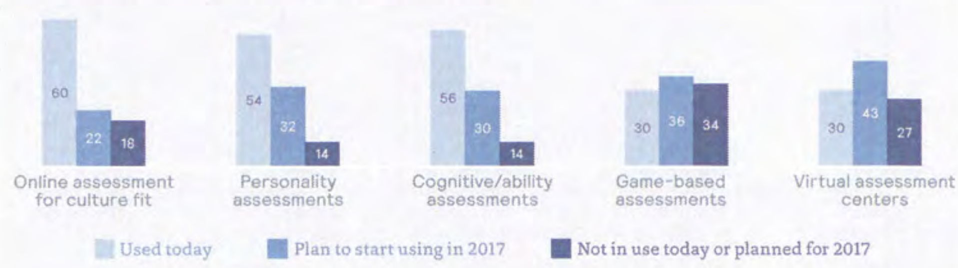
Q: What culture do we need to have in place to facilitate success? How does that translate into leader and colleague behavior?

Q: What is the desired work model – human or machine, full-time or freelance, virtual or on-site? How does the work model affect learning and culture?

PLANNING FOR GROWTH

This kind of integrated people strategy goes beyond capacity planning. It helps to clearly define the gap between today and the future state being modeled. Most organizations are planning to close the gap by building from within. Taking a future-focused approach means it's important to identify the people who will be able to drive the business forward – even if they are not in positions of influence today. The good news is that nearly **3 in 4 organizations globally have a clear method for identifying high potentials** and they are drawing on the rigor of talent assessments as part of the process. Psychometric measures of personality and cognitive ability are providing insight into the foundational attributes of potential, and Virtual Assessment Centers are answering the question of who is ready to take on a stretch assignment or move to the next level. These same assessment methodologies can also ensure that external candidates are being hired not only because they have the skills for the immediate job but also the underlying qualities to be successful in future roles, including some that may not yet exist.

DO YOU USE THE FOLLOWING TOOLS FOR SELECTING INTERNAL OR EXTERNAL TALENT? GLOBAL, IN PERCENT



PREPARING FOR CHANGE

There is an inherent tension between the C-suite's desire to flatten structures and employees' appetite for promotion.

The skills and knowledge that underlie success are constantly changing; thus, a company's career framework must be both structured and responsive to cope with this constant evolution. Portals and apps can seamlessly deliver updates directly to employees, keeping role profiles relevant and helping to drive forward-looking development efforts. These vehicles can also facilitate two-way conversation; for example, by crowdsourcing new and emerging competencies that can then be incorporated into existing frameworks and learning agendas.

Dynamic career paths are key to embracing the pervasion of digital competence across every organizational function. "Digital" is not a standalone skill but a set of competencies that is needed in every functional area. For example, researchers in the pharmaceutical industry who are trained in biochemistry will now need to acquire skills to operate advanced robotics to stay relevant.

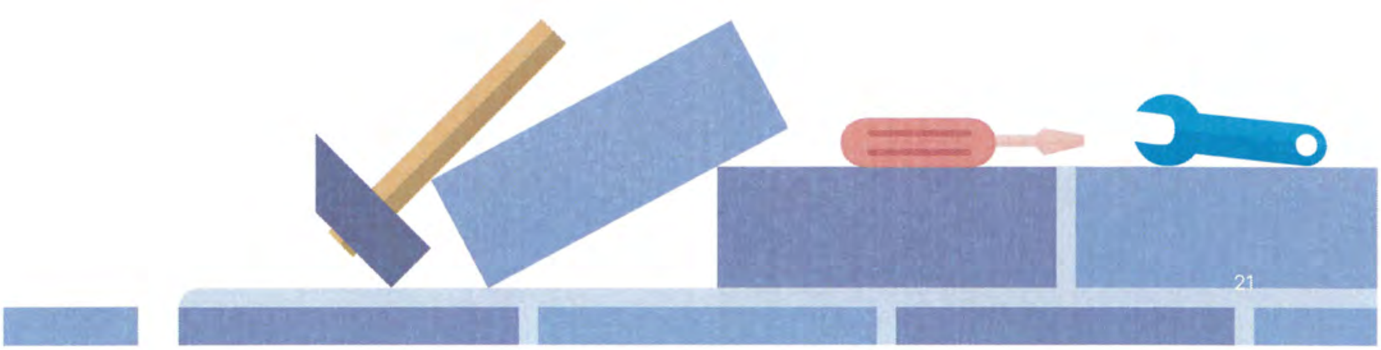
DEVELOPING DIVERSE SKILLSETS

Whether through external hiring or internal development, **assembling talent with a diverse set of skills allows organizations to pivot in response to market demands**. Both HR and employees named design thinking & innovation, as well as a global mindset, as the top in-demand skills for the year ahead.

Competencies to accelerate innovation include an entrepreneurial spirit, a sense of adventure, scanning the market for new ideas, challenging the status quo, calculated risk tasking, and taking a long-range perspective. Tenacity and resilience – the building blocks of "grit" – are not things you learn in the classroom. Instead, they require hands-on experience and trial-and-error, whether through internal mobility or immersion learning. By creating a culture that fosters these traits, organizations can build agility and tolerance for an ambiguous future.

MOST IN-DEMAND SKILLS

HR PROFESSIONALS \ EMPLOYEES	L	M	H
H		DATA ANALYTICS	DESIGN THINKING/ INNOVATION GLOBAL MINDSET
M	INCLUSIVE LEADERSHIP CHANGE MANAGEMENT	DIGITAL SAVVY	
L	ENTREPRENEURSHIP SALES	VIRTUAL COLLABORATION	



LEAP FORWARD: ADVICE TO STAY AHEAD

EMBRACE THE UNKNOWN

There is an imperative to support stronger accountability and decision making throughout the organization and more quickly cultivate a commercial mindset earlier in people's careers. This imperative requires a shift in how employees are supported at different stages of their skill-readiness, engagement, and work status (full-time, part-time, contingent, etc.). It means being ready to embrace a more fluid workforce and more actively support continuous learning.

Sharing talent across the talent ecosystem, leveraging supplier and customer environments to speed up development, and building a sustainable model for redeployment and reskilling are all part of building an agile workforce capable of renewal. However, executives believe their organizations are lagging in retaining good talent during change.

How many C-suite executives are confident in their organization's ability to:

20% Reskill displaced workers

39% Redeploy talent internally

35% Provide outplacement services

43% Fill newly vacant positions with external talent

Encouraging employees to take control of their own career complements efforts to intentionally build capability. This year's study found that compared to employees who do not feel that they can create their own career success, those who feel "career empowered" describe their work environment differently in two important ways:

8x more likely to give an "A" rating on their manager's ability to **COACH & DEVELOP** them

4x more likely to report that their company supports **INNOVATION** efforts

THE PIVOTAL ROLE OF COACHING

The first aspect of the work environment as perceived by *career empowered* employees underscores once again the importance of the direct manager in creating a positive experience. However, in a world with frequent restructures and supervisory changes, an increase in team- and project-based work, and broader spans of control, placing full responsibility for coaching and mentoring on the manager's shoulders may be an outdated view. In a horizontal world, coaching must be supported by same-level peers, not just from above, in order to be sustainable. Knowledge sharing platforms and digital mentorship arrangements are helping to create a supportive culture, but more needs to be done to actively coach and develop employees.

Titan, the world's fifth largest watch manufacturer and a part of the Tata conglomerate, truly believes in the philosophy that all individuals have potential to succeed and should be empowered to lead at their level. The company has developed a tiered learning program, which utilizes an individualized approach to leadership assessment and development. This program meets high potentials' requirements at every step of their career. The programs instills not only autonomy but also a deep sense of pride in the employees that work for the organization. The results are clearly visible in the various instances of innovations and turnarounds the company has experienced over the course of its journey.

IDEAS, EVEN GOOD ONES, ARE NOT ENOUGH

Nearly 50% of companies say that they gather innovation ideas from their employees. However, crowd-sourced idea generation can fall flat if it fails to meet employee expectations on execution or doesn't deliver commercially-viable solutions. Organizations that are committed to building a culture of innovation need to think about the time, investment, and training required to truly embed this into their DNA.

HOW DOES YOUR COMPANY PROMOTE INNOVATION?

> Experimentation is an effective way to de-risk innovation. Creating a minimum viable product (MVP) — the most basic version of the idea — extends the learning process and allows for the testing of hypotheses, the identification of various iterations and the opportunity to change course.
> *Amantha Imber, Chief Innovation Officer, Inventium*

Is our current people strategy process future-focused and based on growth scenarios?

Do we set aside sufficient time and budget for innovation and experimentation?

Do we embrace a continuous learning approach beyond the traditional content that is delivered through classroom and online training?

Do we have mechanisms in place to hire diverse talent, build a wide range of skills, and leverage diverse perspectives on project teams?

Is our Career Framework detailed and dynamic enough to provide guidance on the skills and experiences needed for tomorrow's jobs?

If you answered "no" to two or more of the above, building for an unknown future may be a focus area for your organization this year.

LEAP FORWARD: ADVICE TO STAY AHEAD

CULTIVATE A THRIVING WORKFORCE

Creating an empowered workforce that responds to the changing work landscape means creating an environment where each individual employee can thrive. This new environment requires fresh styles of leadership, new rules for teaming, and updated thinking on how to develop and inspire.

To cultivate a thriving workforce, three elements must be in place.

Employees who:

1. Are healthy and energized
2. Can grow and contribute
3. Feel a sense of belonging

FOCUS ON HEALTH AND WELL-BEING

Embracing the "whole person" agenda requires attention to all aspects of employees' lives: their physical, social, financial, professional, and psychological well-being. Demonstrating care for employee health can be a significant attraction and retention strategy, but it also makes good business sense. Stress-related absences alone accounted for 11.7 million lost working days in Great Britain last year.[1]

With Health surpassing Wealth and Career as the number one concern for employees, this aspect of the value proposition will continue to grow in importance. Today, only 41% of companies are focusing on the physical well-being of employees, and even fewer have policies for psychological (37%) and financial (35%) well-being.

Johnson & Johnson aspires to have the healthiest workforce by helping its employees live well across their whole lives, providing flexibility and a breadth of whole-life health benefits and wellness resources. It offers innovative programs such as the Energy for Performance® training (which links personal health to an individual's purpose and mission) and unique digital health tools (that conveniently connect users to their everyday health and well-being). Johnson & Johnson is dedicated to providing an environment that fosters healthy choices so employees can achieve their personal best in body, mind, and spirit, igniting full engagement at work, at home, and in their communities.

[1] Health and Safety Executive Statistics. http://www.hse.gov.uk/statistics/dayslost.htm. Last accessed March 2017

FEELING ENERGIZED

People who describe themselves as "energized" at work (7+ on a scale of 1 to 10) view their work environment quite differently from those with lower reported energy levels. Below are the top ten differences.

WHAT IS DIFFERENT ABOUT THEIR WORK ENVIRONMENT?

83% feel they can bring their authentic selves to work — can "be themselves in their jobs" (compared to the overall global result of 68%)

CREATE A SENSE OF BELONGING

Employees are working more independently than ever before, while at the same time craving more collaboration. Office workers spend hours locked into one-to-one interaction with business machines, yet technology is bringing us closer together. How can organizations harness these opportunities and carve out a work environment that truly inspires? To help foster a sense of belonging, organizations can create communities of interest and networks that include people inside and outside the organization — experts from suppliers and customers, company alumni, and others in the broader talent ecosystem. Tapping into a broader network can also help employees to blend their social personas with their work personas to create connections without boundaries.

HELPING PEOPLE GROW AND CONTRIBUTE

It is clear that employees want more clarity on career options and more freedom to execute in the way they see fit. This provides each employee with the opportunity to contribute to the company's strategic agenda. A contribution culture does not need to be manager-led: rather, it could mean giving direction and getting out of the way. Setting up the right infrastructure is just the start. Exposing people to different experiences and reskilling individuals displaced by disruption are key to maintaining a thriving workforce. Removing complexity in decision making, implementing efficient knowledge management systems, and constantly realigning around goals and priorities are other ways that companies can ensure their culture supports employee growth and contribution.

> "Engagement survey data shows that employees' views on 'opportunity to learn and grow' and 'freedom to use my own judgement' track very consistently with their 'confidence in the future of the company.' These Thrive dimensions show greater levels of movement and sensitivity than standard engagement scores – providing organizations with the ability to see patterns develop before they become business critical."
>
> *Peter Rutigliano, Ph.D., Managing Director of Data Analytics, Mercer | Sirota*

A WORKPLACE THAT ALLOWS ME TO BE ME

Diversity & Inclusion (D&I) falls well beneath HR's top five priorities for the year:

Building a culture of D&I **16%**
Ensuring equitable pay **16%**
Retaining culturally diverse talent **14%**
Retaining female talent **9%**

While 96% of companies have some form of D&I initiative in place, only 14% of executives indicated that D&I investment would make a sizable difference to their company's performance. Given that the C-suite has identified talent scarcity as their number one concern, a culture where D&I is not a top priority risks alienating a substantial percentage of the working population.

An inclusive culture has the ability to attract diverse and talented individuals, but more critically this environment enables diverse segments to contribute and thrive. Fewer than 1 in 3 HR professionals say that their D&I strategy is aligned to their company's business goals. Making the link between inclusiveness and metrics around engagement and retention (both areas of focus for business executives), as well as articulating the relationship between inclusiveness and customer intimacy, can help to position D&I goals as both a vital risk mitigation strategy and a prerequisite for innovation and growth.

PROMOTING INCLUSIVENESS IN MEETINGS

- ✓ Send materials ahead of time to help people with different styles feel ready to contribute
- ✓ Make it a norm to encourage less outspoken individuals to contribute
- ✓ Set a "no interruptions" rule to allow each person a chance to fully contribute
- ✓ Rotate the meeting chair, starting with someone who has been quieter in the past
- ✓ Summarize all the points (including the divergent ones)
- ✓ Provide an opportunity for counter-challenges before decisions are finalized

ADAPTED FROM "CREATING AN INCLUSIVE CULTURE" REPORT, CORPORATE RESEARCH FORUM, OCTOBER 2016

> "One of the key reasons that management attention and investment in D&I programmes have not yielded better results is that organisations have focused on increasing the proportion of people from underrepresented groups, rather than tackling the underlying culture."
>
> *Wanda Wallace and Gillian Pillans*
> *Authors of "Creating an Inclusive Culture" report*

ASK YOURSELF

- Are managers incentivized to promote a balanced and healthy work environment?
- Do we have thriving communities that foster a sense of belonging?
- Do our values and behaviors promote a climate of collaboration, inclusion, and contribution?
- Is it easy for new hires to join or for existing colleagues to get up-to-speed in a new area?
- Are people empowered to make decisions and take swift action based on what they believe is in the best interests of their customers?

If you answered "no" to two or more of the above, cultivating a thriving workforce may be a focus area for your organization this year.

LEAP FORWARD

A lot has been said about an organization's ability to bounce back when faced with adversity... but disruption brings adversity *and* opportunity, so let's explore three imperatives to enable organizations to bounce *forward*.

ATTRACT & RETAIN TOMORROW'S TALENT

OUR COMPANY HAS A COMPELLING & DIFFERENTIATED EVP

61% HR

57% C-suite

42% Employee

BUILD FOR AN UNKNOWN FUTURE

A CULTURE OF INNOVATION — EASIER SAID THAN DONE

86% of organizations say innovation is a core part of their agenda for this year

42% of employees say their company makes it easy to INNOVATE

CULTIVATE A THRIVING WORKFORCE

WHERE EMPLOYEES FEEL THE GREATEST SENSE OF BELONGING

52% to company, department, manager, coworkers

42% to industry, profession, function

6% to clients

TOP TIPS TO WIN THE TALENT WAR

EMPOWERING YOUR WORKFORCE IN AN AGE OF DISRUPTION

Align your Employee Value Proposition to your company's core DNA

Focus on the "whole person" agenda, including Health and Wealth benefits

Define exciting career paths for a positive impact on retention

Take a chance on non-traditional talent who have potential but not experience

Mitigate risk by building a diverse portfolio of skills and a culture of innovation

Quantify future-focused capability gaps through integrated people planning

Increase agility by simplifying decision making and encouraging talent mobility

Accelerate progress through intentional developmental experiences and lifelong learning

Differentiate on a healthy workplace to address employees' top concerns

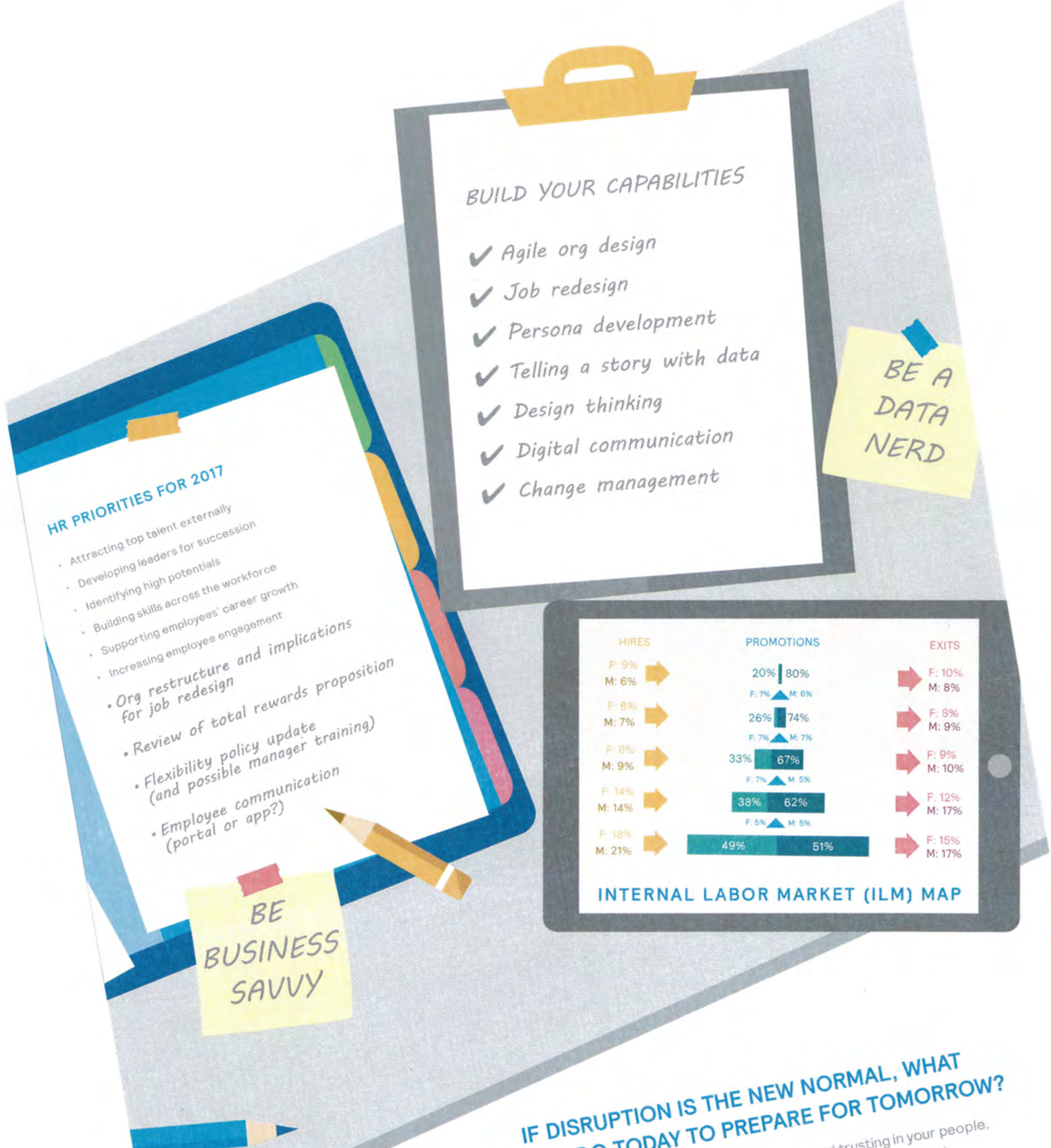
Understand talent flows and address choke points for key talent segments

Promote a contribution culture where everyone feels welcome to give input

Create a sense of belonging that resonates with your diverse workforce

IMPLICATIONS FOR HR

The C-suite certainly has People issues on their agenda this year. In fact, they see the increasing competition for talent even more acutely than HR does, and are planning bold changes to stay ahead. This focus on the talent agenda provides HR leaders with an incredible opportunity to align with business priorities and maximize their impact. To secure a seat at the table, HR leaders must continue to represent the needs of employees, while also keeping a finger on the pulse of external trends. Amplifying their voice requires leveraging data in ever more sophisticated ways to tell a story that is both compelling and relevant. Without talent insights from HR, CEOs' dreams and aspirations will struggle to leave the boardroom.



IF DISRUPTION IS THE NEW NORMAL, WHAT CAN WE DO TODAY TO PREPARE FOR TOMORROW?

Start by saying "yes" to flexible ways of working, listening to and trusting in your people, and being inspired by rule breakers from other industries or geographies. Recognize that disruption isn't something that happens *to* you, it's an opportunity to break away from the crowd. Top organizations shape the future through a culture of innovation, contribution, and inclusiveness. They outpace their competitors not by making decisions behind closed doors, but by empowering each and every employee to drive the company forward. These are the "power tools" that help companies not only survive, but thrive.

INDUSTRY REPORTS

Interested in industry-specific findings? This year's Global Talent Trends Study focused on 8 key industry sectors. Individual reports are available for Mercer Select Intelligence members through http://select.mercer.com and for non-members through www.imercer.com.

AUTOMOTIVE

CONSUMER GOODS

FINANCIAL SERVICES

ENERGY/MINING

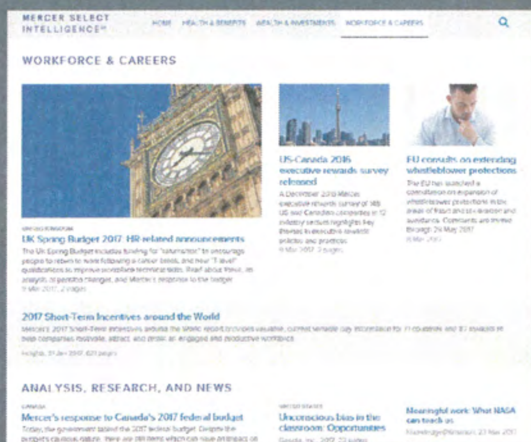
HEALTHCARE

HIGH TECH

LIFE SCIENCES

LOGISTICS

MERCER SELECT INTELLIGENCE℠



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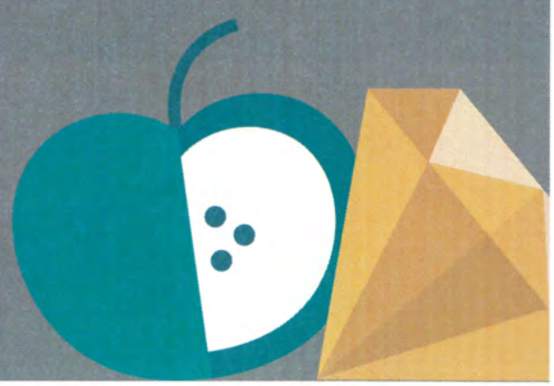

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At Mercer, we make a difference in the lives of more than 110 million people every day by advancing their health, wealth, and careers. We're in the business of creating more secure and rewarding futures for our clients and their employees — whether we're designing affordable health plans, assuring income for retirement, or aligning workers with workforce needs. Using analysis and insights as catalysts for change, we anticipate and understand the individual impact of business decisions, now and in the future. We see people's current and future needs through a lens of innovation, and our holistic view, specialized expertise, and deep analytical rigor underpin each and every idea and solution we offer. For more than 70 years, we've turned our insights into actions, helping organizations help their employees live healthier lives, grow their careers, and build more secure futures. At Mercer, we say we *Make Tomorrow, Today.*

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MARSH & McLENNAN COMPANIES

WorldatWork.
Salary Budget Survey

Published June 25, 2018

Top-Level Results

This is a high-level look at results from the "WorldatWork 2018-2019 Salary Budget Survey," which closed in May 2018. This year, WorldatWork received a total of 5,499 responses. Additional industry and geographic breakout information for the "WorldatWork 2018-2019 Salary Budget Survey" that can be customized in countless ways for the U.S. and Canada is included in the "Online Reporting Tool," which will be available with the full survey results in early August. Participants will receive a complimentary subscription.

United States

Salary Budget Increases, by Type of Increase

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
General Increase/COLA	1.4%	1.5%	1.6%	2.0%	1.5%	2.0%	1.8%	2.0%
Merit Increase	2.8%	3.0%	2.9%	3.0%	2.8%	3.0%	2.9%	3.0%
Other Increase	0.9%	0.5%	0.9%	0.5%	0.8%	0.5%	0.9%	0.5%
Total Increase	**3.0%**	**3.0%**	**3.1%**	**3.0%**	**3.1%**	**3.0%**	**3.2%**	**3.0%**

Note: "General Increase/COLA," "Merit Increase" and "Other Increase" do not add to the "Total Increase" because not every organization provides all three types of increase. In addition, each type of increase may include multiple responses if each respondent reports for more than one employee category for that type of increase.

Total Salary Budget Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly Nonunion	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%	3.1%	3.0%
Nonexempt Salaried	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%	3.1%	3.0%
Exempt Salaried	3.0%	3.0%	3.2%	3.0%	3.1%	3.0%	3.2%	3.0%
Officers/Executives	3.0%	3.0%	3.2%	3.0%	3.1%	3.0%	3.2%	3.0%
All	**3.0%**	**3.0%**	**3.1%**	**3.0%**	**3.1%**	**3.0%**	**3.2%**	**3.0%**

Total Salary Budget Increases, by State

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**3.1%**	**3.0%**	**3.2%**	**3.0%**
Alabama	3.0%	3.0%	3.0%	3.0%
Alaska	3.0%	3.0%	3.0%	3.0%
Arizona	3.0%	3.0%	3.1%	3.0%
Arkansas	2.9%	3.0%	3.0%	3.0%
California	3.1%	3.0%	3.1%	3.0%
Colorado	3.0%	3.0%	3.1%	3.0%
Connecticut	3.0%	3.0%	3.0%	3.0%
Delaware	3.0%	3.0%	3.0%	3.0%
Florida	3.0%	3.0%	3.1%	3.0%
Georgia	3.0%	3.0%	3.1%	3.0%
Hawaii	2.9%	3.0%	3.0%	3.0%
Idaho	3.0%	3.0%	3.1%	3.0%
Illinois	3.0%	3.0%	3.1%	3.0%
Indiana	3.0%	3.0%	3.0%	3.0%
Iowa	2.9%	3.0%	3.0%	3.0%
Kansas	3.0%	3.0%	3.0%	3.0%
Kentucky	3.0%	3.0%	3.0%	3.0%
Louisiana	3.0%	3.0%	3.0%	3.0%
Maine	3.0%	3.0%	3.0%	3.0%
Maryland	3.0%	3.0%	3.0%	3.0%
Massachusetts	3.0%	3.0%	3.1%	3.0%
Michigan	3.0%	3.0%	3.0%	3.0%
Minnesota	3.0%	3.0%	3.0%	3.0%
Mississippi	3.0%	3.0%	3.0%	3.0%
Missouri	3.0%	3.0%	3.0%	3.0%
Montana	3.0%	3.0%	3.1%	3.0%
Nebraska	3.0%	3.0%	3.0%	3.0%
Nevada	3.0%	3.0%	3.1%	3.0%
New Hampshire	2.9%	3.0%	3.0%	3.0%
New Jersey	3.0%	3.0%	3.0%	3.0%
New Mexico	3.0%	3.0%	3.0%	3.0%
New York	3.0%	3.0%	3.1%	3.0%
North Carolina	3.0%	3.0%	3.1%	3.0%
North Dakota	2.9%	3.0%	3.1%	3.0%

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
Ohio	3.0%	3.0%	3.1%	3.0%
Oklahoma	3.0%	3.0%	3.1%	3.0%
Oregon	3.0%	3.0%	3.1%	3.0%
Pennsylvania	3.0%	3.0%	3.1%	3.0%
Rhode Island	3.0%	3.0%	3.0%	3.0%
South Carolina	3.0%	3.0%	3.1%	3.0%
South Dakota	3.0%	3.0%	3.0%	3.0%
Tennessee	3.0%	3.0%	3.0%	3.0%
Texas	3.1%	3.0%	3.1%	3.0%
Utah	3.0%	3.0%	3.1%	3.0%
Vermont	2.9%	3.0%	3.0%	3.0%
Virginia	3.0%	3.0%	3.1%	3.0%
Washington	3.1%	3.0%	3.1%	3.0%
West Virginia	2.9%	3.0%	3.0%	3.0%
Wisconsin	3.0%	3.0%	3.0%	3.0%
Wyoming	3.0%	3.0%	3.0%	3.0%

All data includes 0% responses.

Total Salary Budget Increases, by Major Metropolitan Area

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**3.1%**	**3.0%**	**3.2%**	**3.0%**
Atlanta	3.1%	3.0%	3.1%	3.0%
Baltimore	3.0%	3.0%	3.1%	3.0%
Boston	3.0%	3.0%	3.1%	3.0%
Chicago	3.1%	3.0%	3.1%	3.0%
Cincinnati	3.1%	3.0%	3.1%	3.0%
Cleveland	3.1%	3.0%	3.1%	3.0%
Dallas	3.2%	3.0%	3.2%	3.0%
Denver	3.1%	3.0%	3.1%	3.0%
Detroit	2.9%	3.0%	2.9%	3.0%
Houston	3.1%	3.0%	3.1%	3.0%
Los Angeles	3.2%	3.0%	3.2%	3.0%
Miami	3.1%	3.0%	3.1%	3.0%
Minneapolis	3.1%	3.0%	3.0%	3.0%

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
New York	3.1%	3.0%	3.2%	3.0%
Philadelphia	3.1%	3.0%	3.0%	3.0%
Phoenix	3.1%	3.0%	3.1%	3.0%
Pittsburgh	3.0%	3.0%	3.1%	3.0%
Portland	3.2%	3.0%	3.3%	3.0%
San Diego	3.2%	3.0%	3.1%	3.0%
San Francisco	3.3%	3.0%	3.3%	3.0%
San Jose	3.3%	3.0%	3.3%	3.0%
Seattle	3.3%	3.0%	3.2%	3.0%
St. Louis	3.1%	3.0%	3.1%	3.0%
Tampa	3.0%	3.0%	3.1%	3.0%
Washington, D.C.	3.0%	3.0%	3.1%	3.0%

Merit Increases Awarded, by Performance Category

	High Performers		Middle Performers		Low Performers	
2017	Mean	Median	Mean	Median	Mean	Median
Percentage of employees rated in this category for 2017	27%	24%	68%	70%	6%	4%
Average merit increase awarded to this 2017 performance category	4.0%	3.9%	2.7%	2.8%	0.7%	0.5%
2018						
Percentage of employees estimated to be rated in this category for 2018	25%	21%	69%	70%	6%	5%
Average merit increase estimated for this 2018 performance category	4.1%	4.0%	2.8%	3.0%	0.6%	0.0%

Note: The mean distribution of the percent of employees in each performance category will total 100% or, as a result of rounding, may be very close. However, by definition, the median value for each category will move depending on the frequency of values in the dataset. Therefore, the median distribution of the percent of employees in each category will not equal 100%.

All data includes 0% responses.

Promotional Increases

	2016		2017		2018	
	Mean	Median	Mean	Median	Mean	Median
Percentage of employees that received promotional increases	7.9%	7.0%	8.6%	8.0%	--	--
Percentage of promoted employees' base salary	8.4%	8.0%	8.7%	8.5%	--	--
Planned spending on promotional increases as a percentage of total base salaries	1.5%	1.0%	1.6%	1.0%	1.5%	1.0%

-- Question was not an option in the survey questionnaire.

Salary Structure Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly Nonunion	2.0%	2.0%	2.1%	2.0%	2.0%	2.0%	2.1%	2.0%
Nonexempt Salaried	2.0%	2.0%	2.1%	2.0%	2.1%	2.0%	2.1%	2.0%
Exempt Salaried	2.0%	2.0%	2.1%	2.0%	2.1%	2.0%	2.2%	2.0%
Officers/Executives	2.1%	2.0%	2.1%	2.0%	2.0%	2.0%	2.2%	2.0%
All	**2.0%**	**2.0%**	**2.1%**	**2.0%**	**2.0%**	**2.0%**	**2.1%**	**2.0%**

Variable Pay Programs, 2017-2019

National	Nonexempt Hourly Nonunion		Nonexempt Salaried		Exempt Salaried		Officers/Executives	
2017	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Average percent budgeted	5.1%	5.0%	6.0%	5.0%	12.5%	12.0%	38.1%	35.0%
Average percent paid	5.3%	4.8%	6.1%	5.0%	12.6%	12.0%	39.6%	35.0%
Percent of employees eligible in 2017 for variable pay	87%	100%	92%	100%	82%	100%	93%	100%
Percent of eligible employees actually paid variable pay for 2017	82%	98%	88%	99%	82%	98%	91%	100%
2018								
Average percent budgeted	5.2%	5.0%	6.1%	5.0%	12.7%	12.0%	38.5%	35.0%
Projected percent paid	5.4%	5.0%	6.3%	5.0%	13.0%	12.0%	39.8%	35.0%
2019								
Projected percent budgeted	5.2%	5.0%	6.1%	5.0%	12.6%	12.0%	38.2%	35.0%

All data includes 0% responses.

Canada

Salary Budget Increases, by Type of Increase

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
General Increase/COLA	1.4%	1.5%	1.6%	1.9%	1.4%	1.5%	1.6%	2.0%
Merit Increase	2.5%	2.8%	2.7%	3.0%	2.6%	2.8%	2.8%	3.0%
Other Increase	0.9%	0.5%	1.1%	0.5%	0.9%	0.5%	0.9%	0.5%
Total Increase	**2.8%**	**3.0%**	**3.0%**	**3.0%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**

Note: "General Increase/COLA," "Merit Increase" and "Other Increase" do not add to the "Total Increase" because not every organization provides all three types of increase. In addition, each type of increase may include multiple responses if each respondent reports for more than one employee category for that type of increase.

Total Salary Budget Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonmanagement Hourly Nonunion	2.7%	3.0%	3.0%	3.0%	2.8%	3.0%	2.9%	3.0%
Nonmanagement Salaried	2.8%	3.0%	3.1%	3.0%	2.9%	3.0%	3.0%	3.0%
Management Salaried	2.8%	3.0%	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%
Officers/Executives	2.8%	3.0%	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%
All	**2.8%**	**3.0%**	**3.0%**	**3.0%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**

Salary Budget Increases, by Province

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**2.9%**	**3.0%**	**3.0%**	**3.0%**
Alberta	2.8%	2.8%	2.9%	3.0%
British Columbia	2.9%	3.0%	3.0%	3.0%
Manitoba	2.7%	2.7%	2.8%	2.8%
New Brunswick	2.5%	2.7%	2.7%	2.8%
Newfoundland	2.3%	2.5%	2.6%	2.5%
Northwest Territories	2.3%	2.5%	2.6%	2.5%
Nova Scotia	2.5%	2.5%	2.7%	2.7%
Nunavut	2.7%	2.8%	2.8%	3.0%
Ontario	2.9%	3.0%	3.0%	3.0%
Prince Edward Island	2.6%	2.7%	2.7%	2.8%
Quebec	2.8%	2.9%	2.9%	3.0%
Saskatchewan	2.6%	2.7%	2.9%	3.0%
Yukon	2.2%	2.1%	2.5%	2.5%

All data includes 0% responses.

Total Salary Budget Increases, by Major Metropolitan Area

	Actual 2018		Projected 2019	
	Mean	Median	Mean	Median
National	**2.9%**	**3.0%**	**3.0%**	**3.0%**
Calgary	2.7%	2.8%	2.7%	3.0%
Edmonton	2.6%	2.7%	2.7%	3.0%
Hamilton	2.5%	2.5%	2.6%	2.7%
Montreal	2.8%	2.9%	2.8%	3.0%
Ottawa	2.7%	2.7%	2.7%	2.9%
Quebec	2.6%	2.7%	2.7%	3.0%
Toronto	2.8%	3.0%	2.8%	3.0%
Vancouver	2.7%	2.8%	2.8%	3.0%
Winnipeg	2.6%	2.7%	2.7%	3.0%

Salary Structure Increases, by Employee Category

	Actual 2017		Projected 2018		Actual 2018		Projected 2019	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonmanagement Hourly Nonunion	1.7%	2.0%	1.9%	2.0%	1.8%	2.0%	2.0%	2.0%
Nonmanagement Salaried	1.7%	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Management Salaried	1.8%	2.0%	1.9%	2.0%	2.0%	2.0%	2.1%	2.0%
Officers/Executives	1.7%	2.0%	1.8%	2.0%	1.9%	2.0%	2.0%	2.0%
All	**1.7%**	**2.0%**	**1.9%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**

All data includes 0% responses.

Global

Salary Budget Increases, by Type of Increase

		Actual 2018		Projected 2019	
	Type of Increase	Mean	Median	Mean	Median
Australia	General Increase/COLA	1.3%	0.2%	1.3%	0.3%
	Merit Increase	2.9%	3.0%	3.0%	3.0%
	Other Increase	0.7%	0.5%	0.8%	0.5%
	Total Increase	**3.2%**	**3.0%**	**3.3%**	**3.0%**
Belgium	General Increase/COLA	1.8%	1.5%	1.5%	1.7%
	Merit Increase	2.0%	2.3%	2.0%	2.3%
	Other Increase	0.7%	0.5%	0.7%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.5%**	**2.5%**
Brazil	General Increase/COLA	4.2%	4.0%	4.3%	3.2%
	Merit Increase	4.7%	5.0%	4.6%	4.4%
	Other Increase	2.5%	1.7%	2.4%	1.4%
	Total Increase	**5.9%**	**6.0%**	**6.1%**	**6.0%**
China	General Increase/COLA	3.6%	3.0%	3.4%	3.0%
	Merit Increase	6.2%	6.5%	6.3%	6.6%
	Other Increase	1.1%	0.7%	1.1%	0.8%
	Total Increase	**6.6%**	**6.9%**	**6.7%**	**7.0%**
France	General Increase/COLA	1.1%	1.0%	1.0%	0.5%
	Merit Increase	2.4%	2.5%	2.5%	2.5%
	Other Increase	0.7%	0.5%	0.7%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.7%**	**2.6%**
Germany	General Increase/COLA	1.4%	1.5%	1.3%	0.0%
	Merit Increase	2.8%	3.0%	2.9%	3.0%
	Other Increase	0.8%	0.5%	0.8%	0.5%
	Total Increase	**3.0%**	**3.0%**	**3.1%**	**3.0%**
India	General Increase/COLA	5.4%	5.5%	4.9%	2.5%
	Merit Increase	9.5%	10.0%	9.6%	10.0%
	Other Increase	1.2%	1.0%	1.2%	1.0%
	Total Increase	**10.0%**	**10.0%**	**10.0%**	**10.0%**
Italy	General Increase/COLA	0.9%	0.8%	0.8%	0.5%
	Merit Increase	2.4%	2.5%	2.5%	2.5%
	Other Increase	0.7%	0.5%	0.6%	0.5%
	Total Increase	**2.7%**	**2.6%**	**2.8%**	**2.6%**
Japan	General Increase/COLA	1.1%	0.8%	1.0%	0.1%
	Merit Increase	2.4%	2.4%	2.5%	2.5%
	Other Increase	0.7%	0.5%	0.6%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.7%**	**2.5%**
Mexico	General Increase/COLA	2.4%	2.5%	1.9%	0.6%
	Merit Increase	4.6%	4.6%	4.7%	4.8%
	Other Increase	1.1%	0.5%	1.2%	0.8%
	Total Increase	**4.9%**	**4.8%**	**5.0%**	**5.0%**

(Continued on page 8)

All data includes 0% responses.

Salary Budget Increases, by Type of Increase *(continued)*

		Actual 2018		Projected 2019	
	Type of Increase	Mean	Median	Mean	Median
Netherlands	General Increase/COLA	1.5%	1.5%	1.5%	1.5%
	Merit Increase	2.6%	2.7%	2.7%	2.8%
	Other Increase	0.6%	0.5%	0.6%	0.5%
	Total Increase	**2.8%**	**2.9%**	**2.9%**	**3.0%**
Russia	General Increase/COLA	3.5%	3.5%	1.9%	0.0%
	Merit Increase	6.9%	7.4%	6.9%	7.4%
	Other Increase	1.0%	0.5%	1.1%	1.0%
	Total Increase	**7.4%**	**7.5%**	**7.3%**	**7.5%**
Singapore	General Increase/COLA	2.0%	2.5%	1.8%	0.4%
	Merit Increase	3.8%	4.0%	3.9%	4.0%
	Other Increase	0.6%	0.5%	0.7%	0.5%
	Total Increase	**4.0%**	**4.0%**	**4.1%**	**4.0%**
Spain	General Increase/COLA	1.4%	1.8%	1.4%	2.0%
	Merit Increase	2.3%	2.3%	2.4%	2.4%
	Other Increase	0.6%	0.5%	0.6%	0.5%
	Total Increase	**2.6%**	**2.5%**	**2.7%**	**2.5%**
Sweden	General Increase/COLA	1.0%	1.0%	1.2%	1.0%
	Merit Increase	2.5%	2.6%	2.6%	2.7%
	Other Increase	0.8%	0.5%	0.8%	0.5%
	Total Increase	**2.8%**	**2.8%**	**2.9%**	**3.0%**
Switzerland	General Increase/COLA	1.3%	1.6%	1.4%	2.0%
	Merit Increase	2.0%	2.0%	2.2%	2.0%
	Other Increase	0.6%	0.5%	0.6%	0.5%
	Total Increase	**2.2%**	**2.0%**	**2.4%**	**2.2%**
United Kingdom	General Increase/COLA	1.5%	1.8%	1.3%	1.0%
	Merit Increase	2.9%	3.0%	2.9%	3.0%
	Other Increase	0.8%	0.5%	0.8%	0.8%
	Total Increase	**3.1%**	**3.0%**	**3.1%**	**3.0%**

Note: "General Increase/COLA," "Merit Increase" and "Other Increase" do not add to the "Total Increase" because not every organization provides all three types of increase. In addition, each type of increase may include multiple responses if each respondent reports for more than one employee category for that type of increase.

Total Salary Budget Increases, by Employee Category

		Actual 2018		Projected 2019	
	Employee Category	Mean	Median	Mean	Median
Australia	NHN	3.2%	3.1%	3.3%	3.0%
	NS	3.2%	3.1%	3.3%	3.0%
	MS	3.2%	3.1%	3.3%	3.0%
	OE	3.0%	3.0%	3.0%	3.0%
	All	**3.2%**	**3.0%**	**3.3%**	**3.0%**
Belgium	NHN	2.5%	2.5%	2.6%	2.5%
	NS	2.7%	2.5%	2.6%	2.5%
	MS	2.5%	2.5%	2.5%	2.5%
	OE	2.6%	2.4%	2.3%	2.4%
	All	**2.6%**	**2.5%**	**2.5%**	**2.5%**
Brazil	NHN	6.1%	6.5%	6.4%	6.3%
	NS	5.8%	6.0%	6.1%	6.0%
	MS	5.8%	6.0%	6.0%	6.0%
	OE	5.6%	6.0%	5.8%	6.0%
	All	**5.9%**	**6.0%**	**6.1%**	**6.0%**
China	NHN	6.7%	7.0%	6.8%	7.0%
	NS	6.7%	7.0%	6.8%	7.0%
	MS	6.7%	6.9%	6.8%	7.0%
	OE	6.2%	6.5%	6.3%	6.6%
	All	**6.6%**	**6.9%**	**6.7%**	**7.0%**
France	NHN	2.7%	2.5%	2.8%	2.5%
	NS	2.6%	2.5%	2.7%	2.6%
	MS	2.6%	2.5%	2.7%	2.6%
	OE	2.7%	2.5%	2.7%	2.7%
	All	**2.6%**	**2.5%**	**2.7%**	**2.6%**
Germany	NHN	3.0%	3.0%	3.1%	3.0%
	NS	3.0%	3.0%	3.1%	3.0%
	MS	3.0%	3.0%	3.1%	3.0%
	OE	3.0%	3.0%	3.0%	3.0%
	All	**3.0%**	**3.0%**	**3.1%**	**3.0%**
India	NHN	10.1%	10.0%	10.3%	10.1%
	NS	10.0%	10.0%	10.0%	10.0%
	MS	10.0%	10.0%	10.1%	10.0%
	OE	9.8%	10.0%	9.7%	10.0%
	All	**10.0%**	**10.0%**	**10.0%**	**10.0%**
Italy	NHN	2.6%	2.6%	3.1%	2.7%
	NS	2.7%	2.6%	2.7%	2.6%
	MS	2.7%	2.6%	2.7%	2.7%
	OE	2.6%	2.5%	2.7%	2.6%
	All	**2.7%**	**2.6%**	**2.8%**	**2.6%**
Japan	NHN	2.6%	2.5%	2.7%	2.5%
	NS	2.6%	2.5%	2.7%	2.5%
	MS	2.7%	2.5%	2.8%	2.5%
	OE	2.7%	2.5%	2.5%	2.5%
	All	**2.6%**	**2.5%**	**2.7%**	**2.5%**

NHN Nonmanagement Hourly Nonunion | **NS** Nonmanagement Salaried | **MS** Management Salaried | **OE** Officers/Executives *(Continued on page 10)*

All data includes 0% responses.

Total Salary Budget Increases, by Employee Category *(continued)*

	Employee Category	Actual 2018		Projected 2019	
		Mean	Median	Mean	Median
Mexico	NHN	4.9%	4.9%	5.0%	5.0%
	NS	4.9%	4.8%	5.0%	5.0%
	MS	4.9%	4.8%	5.0%	5.0%
	OE	4.7%	4.7%	4.7%	4.7%
	All	**4.9%**	**4.8%**	**5.0%**	**5.0%**
Netherlands	NHN	2.9%	2.9%	3.0%	3.0%
	NS	2.8%	2.8%	2.9%	3.0%
	MS	2.8%	2.8%	2.9%	3.0%
	OE	3.0%	3.0%	3.1%	3.0%
	All	**2.8%**	**2.9%**	**2.9%**	**3.0%**
Russia	NHN	7.4%	7.7%	7.4%	7.6%
	NS	7.4%	7.5%	7.3%	7.5%
	MS	7.3%	7.5%	7.4%	7.5%
	OE	7.2%	7.5%	6.7%	7.4%
	All	**7.4%**	**7.5%**	**7.3%**	**7.5%**
Singapore	NHN	4.1%	4.0%	4.2%	4.0%
	NS	4.0%	4.0%	4.1%	4.0%
	MS	4.0%	4.0%	4.1%	4.0%
	OE	3.9%	4.0%	4.0%	4.0%
	All	**4.0%**	**4.0%**	**4.1%**	**4.0%**
Spain	NHN	2.5%	2.5%	2.7%	2.5%
	NS	2.5%	2.5%	2.7%	2.5%
	MS	2.6%	2.5%	2.7%	2.5%
	OE	2.6%	2.4%	2.6%	2.5%
	All	**2.6%**	**2.5%**	**2.7%**	**2.5%**
Sweden	NHN	2.8%	2.9%	3.2%	3.0%
	NS	2.8%	2.8%	2.9%	2.9%
	MS	2.8%	2.8%	2.9%	2.9%
	OE	2.9%	2.8%	2.9%	2.9%
	All	**2.8%**	**2.8%**	**2.9%**	**3.0%**
Switzerland	NHN	2.2%	2.1%	2.4%	2.3%
	NS	2.2%	2.0%	2.4%	2.1%
	MS	2.2%	2.0%	2.4%	2.2%
	OE	2.2%	2.0%	2.5%	2.5%
	All	**2.2%**	**2.0%**	**2.4%**	**2.2%**
United Kingdom	NHN	3.1%	3.0%	3.2%	3.0%
	NS	3.1%	3.0%	3.2%	3.0%
	MS	3.1%	3.0%	3.2%	3.0%
	OE	3.0%	3.0%	3.0%	3.0%
	All	**3.1%**	**3.0%**	**3.1%**	**3.0%**

NHN Nonmanagement Hourly Nonunion | **NS** Nonmanagement Salaried | **MS** Management Salaried | **OE** Officers/Executives

All data includes 0% responses.

Please direct any questions or comments to surveypanel@worldatwork.org.

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THE CONFERENCE BOARD

US Salary Increase Budgets for 2019

US Salary Increase Budgets for 2019

RESEARCH REPORT 1666-18-RR

by Judit Torok

US Salary Increase Budgets for 2019

Results from The Conference Board annual Salary Increase Budgets Survey indicate that the median 2018 actual total salary increase budget and merit increases across all employee groups are 3.00 percent. This year, 258 organizations completed the survey, which was fielded between April 17 and June 18.[1] Data were requested for four employment categories: nonexempt hourly (non-union), nonexempt salaried, exempt, and executive. Results are reported overall and by industry.

The Conference Board currently projects the 2018 and 2019 inflation rates to be 2.4 percent and 2.4 percent, respectively.

The analysis provided below is based on the results including zero increases.

Salary Increase Budgets

The median 2018 actual total salary increase budgets are 3.00 percent across all employee groups. These increases are the same as the actual increases for the past seven years and are exactly the same as the projected increases for 2018 in last May's report (Table 1).[2]

The 2019 projected total median increase in budgets across all employee categories and industries remains at 3.00 percent overall.

The overall median 2018 actual merit percent increases are 3.00 percent for each employment category. The same is true for the increased budgets projected for 2019, which remain unchanged compared to actual increases. Both increases are universally 3.00 percent across industries, revenues, and employee numbers. (Tables 4, 5, and 6)

Both 2018 actual and 2019 projected median general increases are 0.00 percent for all employee categories and throughout industries, revenues, and employee numbers (Table 7, 8, and 9).

Other increases for 2018 (actual) and 2019 (projected) are 0.00 percent across the board (Table 10, 11 and 12).

Salary Structure Movement

The 2019 median structure movement is projected at 2.00 percent in all employee categories. The actual 2018 median increase in salary structures is 2.00 percent for all employment categories as projected in May of last year (Table 13).

In most industries, the structure movement is projected to be at the overall median level of 2.00 percent (Table 13).

FLSA Exemptions

In May 2016, the US Department of Labor revised the tests that private employers should conduct under the Fair Labor Standards Act (FLSA) to determine which employees are exempt from the FLSA's minimum wage and overtime requirements. Almost all surveyed companies stated that their reported budget increases for nonexempt employees (both the actual increases for 2018 and the projected increases for 2019) had not been affected by the changes to the exemption tests.

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1 Twelve organizations indicated that they provided information for their specific business units or did not answer this question; their responses are not included in the analysis.

2 See *TCB-US-Salary-Increase-Budgets-2018.*

Appendix

Table 1 **Salary increase budgets – Total, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget				2019 Projected salary increase budget			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Mean	3.01	3.04	3.09	3.03	3.09	3.17	3.17	3.10
	25th percentile	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	75th percentile	3.00	3.00	3.00	3.00	4.00	4.00	4.00	4.00
	n=	140	128	159	147	137	125	156	146
By industry*									
Banking	Median	N/A	N/A	3.00%	3.00%	N/A	N/A	3.00%	3.00%
	n=	3	4	5	5	4	4	6	6
Communications	Median	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00
	n=	6	7	6	7	5	5	5	6
Consulting services	Median	3.00	3.50	3.50	3.00	3.00	3.00	3.00	3.00
	n=	9	8	10	6	8	7	9	6
Diversified financial services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	9	8	10	10	9	8	10	10
Diversified services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	15	13	15	13	16	14	16	14
Energy/agriculture	Median	3.00	3.00	3.00	3.00	3.00	3.50	3.50	3.50
	n=	8	9	9	9	7	8	8	8
Insurance	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	17	14	22	21	18	16	23	22
Manufacturing	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	32	37	41	40	31	36	39	38
Trade	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	14	8	13	12	12	7	12	12
Transportation	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	7	9	8	9	5	7	6	7
Utilities	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	21	14	21	17	21	14	21	17

*Other industry groups are included in totals but not shown separately due to small sample size.

Source: The Conference Board, 2018

Table 2 **Salary increase budgets – Total, percent – by revenue** (zeros included)*

		2018 Actual salary increase budget				2019 Projected salary increase budget			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	3.00%	3.00%	3.00%	3.00%	3.00%	4.00%	3.00%	3.00%
	n=	23	18	25	23	22	17	24	22
$1 billion to under $3 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	35	26	37	34	33	25	35	34
$3 billion to under $5 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	13	13	15	11	13	13	16	12
$5 billion to under $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	20	16	21	19	22	18	23	21
More than $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	42	48	54	53	40	45	51	50

* Other revenue groups are included in totals but not shown separately due to small sample size.

Source: The Conference Board, 2017

Table 3 **Salary increase budgets – Total, percent – by number of employees** (zeros included)

		2018 Actual salary increase budget				2019 Projected salary increase budget			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
500-2,499	Median	3.00%	3.50%	3.50%	3.00%	3.00%	4.00%	4.00%	3.00%
	n=	25	18	28	25	24	18	27	25
2,500-9,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	56	51	62	57	55	51	61	57
10,000-19,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	18	15	18	14	19	15	20	16
20,000+	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	38	42	48	48	36	39	45	45

Source: The Conference Board, 2018

Table 4 **Salary increase budgets – Merit, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget (Merit)				2019 Projected salary increase budget (Merit)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Mean	2.71	2.80	2.82	2.77	2.81	2.90	2.90	2.85
	25th percentile	2.00	3.00	3.00	2.00	3.00	3.00	3.00	3.00
	75th percentile	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	188	172	224	207	178	165	214	202
By industry*									
Banking	Median	3.00%	3.00%	3.00%	3.00%	2.50%	3.00%	3.00%	3.00%
	n=	6	7	9	9	6	6	9	9
Communications	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	15	14	15	15	12	11	12	13
Consulting services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	13	11	16	12	12	10	15	11
Diversified financial services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	11	9	12	12	11	9	12	12
Diversified services	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	19	19	21	18	19	19	21	18
Energy/agriculture	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	8	11	11	10	7	10	10	10
Insurance	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	26	19	30	27	25	18	29	28
Manufacturing	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	42	50	59	57	40	50	57	55
Trade	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	17	10	18	18	17	10	18	18
Transportation	Median	N/A	N/A	3.00	3.00	N/A	N/A	3.00	3.00
	n=	4	4	5	6	4	4	5	6
Utilities	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	24	15	25	20	22	15	23	19

*Other industry groups are included in totals but not shown separately due to small sample size.

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 5 **Salary increase budgets – Merit, percent – by revenue** (zeros included)

		2018 Actual salary increase budget (Merit)				2019 Projected salary increase budget (Merit)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	n=	29	20	31	29	29	20	31	29
$1 billion to under $3 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	40	33	46	45	37	32	43	42
$3 billion to under $5 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	16	18	23	17	15	17	22	17
$5 billion to under $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	32	28	36	33	32	28	37	34
More than $10 billion	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	61	62	76	72	56	58	70	69

Source: The Conference Board, 2018

Table 6 **Salary increase budgets – Merit, percent – by number of employees** (zeros included)

		2018 Actual salary increase budget (Merit)				2019 Projected salary increase budget (Merit)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
1-499	Median	3.00%	N/A	3.00%	3.00%	3.00%	N/A	3.00%	3.00%
	n=	5	4	7	7	5	4	7	7
500-2,499	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	30	25	34	31	28	23	32	30
2,500-9,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	65	60	80	75	63	60	79	75
10,000-19,999	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	32	25	33	28	30	24	31	27
20,000+	Median	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	n=	56	58	70	66	52	54	65	63

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 7 **Salary increase budgets – General, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget (General)				2019 Projected salary increase budget (General)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Mean	1.25	0.55	0.71	0.48	1.17	0.44	0.48	0.38
	25th percentile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	75th percentile	3.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00
	n=	44	29	34	31	42	27	31	29
By Industry*									
Diversified services	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	n=	5	5	5	5	5	5	5	5
Energy/agriculture	Median	3.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	n=	5	3	3	3	4	2	2	2
Insurance	Median	0.00	N/A	0.00	0.00	0.00	N/A	0.00	0.00
	n=	6	3	6	6	6	3	6	6
Manufacturing	Median	3.00	N/A	N/A	N/A	3.00	N/A	N/A	N/A
	n=	9	4	3	3	9	3	2	2
Utilities	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	7	5	6	5	7	5	6	5

* Other industry groups are included in totals but not shown separately due to small sample size.
N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 8 **Salary increase budgets – General, percent – by revenue** (zeros included)

		2018 Actual salary increase budget (General)				2019 Projected salary increase budget (General)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	n=	8	6	8	8	8	6	8	8
$1 billion to under $3 billion	Median	2.00	N/A	0.00	0.00	1.00	N/A	0.00	0.00
	n=	9	3	6	5	8	3	5	5
$3 billion to under $5 billion	Median	3.00	N/A	N/A	N/A	3.00	N/A	N/A	N/A
	n=	7	4	4	2	7	4	4	2
$5 billion to under $10 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	7	7	7	8	6	6	6
More than $10 billion	Median	1.00	0.50	0.00	0.00	1.00	0.00	0.00	0.00
	n=	9	6	6	6	8	5	5	5

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 9 **Salary increase budgets – General, percent – by number of employees** (zeros included)*

		2018 Actual salary increase budget (General)				2019 Projected salary increase budget (General)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
500-2,499	Median	0.00%	N/A	0.00%	0.00%	0.00%	N/A	0.00%	0.00%
	n=	7	4	7	7	7	4	7	7
2,500-9,999	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	25	15	17	15	24	14	15	14
20,000+	Median	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	6	6	6	7	5	5	5

* Other employee number groups are included in totals but not shown separately due to small sample size.

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 10 **Salary increase budgets – Other, percent – by industry and overall** (zeros included)

		2018 Actual salary increase budget (Other)				2019 Projected salary increase budget (Other)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Mean	0.37	0.43	0.39	0.40	0.31	0.39	0.37	0.38
	25th percentile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	75th percentile	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	n=	68	72	84	70	70	71	84	73
By industry*									
Consulting services	Median	1.00%	1.00%	1.00%	N/A	1.00%	1.00%	1.00%	N/A
	n=	5	6	7	3	5	6	7	4
Diversified financial services	Median	0.00	N/A	0.00	0.00	0.00	N/A	0.00	0.00
	n=	5	3	5	5	5	3	5	5
Diversified services	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	7	8	6	8	7	8	6
Energy / agriculture	Median	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	4	6	6	5	5	7	7	7
Insurance	Median	0.00	0.50	0.00	0.00	0.00	0.00	0.00	0.00
	n=	10	8	12	9	10	7	11	9
Manufacturing	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	11	19	19	18	11	18	18	17
Trade	Median	0.00	N/A	0.00	0.00	0.00	N/A	0.00	0.00
	n=	6	3	6	5	6	3	6	5
Utilities	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	10	9	10	8	11	10	11	9

* Other industry groups are included in totals but not shown separately due to small sample size.
N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 11 **Salary increase budgets – Other, percent – by revenue** (zeros included)

		2018 Actual salary increase budget (Other)				2019 Projected salary increase budget (Other)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	n=	12	12	14	12	12	12	14	12
$1 billion to under $3 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	14	14	17	16	14	14	17	17
$3 billion to under $5 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
	n=	6	8	10	5	6	8	10	6
$5 billion to under $10 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	8	8	9	7	10	9	11	9
More than $10 billion	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	24	26	30	27	24	24	28	26

Source: The Conference Board, 2018

Table 12 **Salary increase budgets – Other, percent – by number of employees** (zeros included)*

		2018 Actual salary increase budget (Other)				2019 Projected salary increase budget (Other)			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
500-2,499	Median	0.00%	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%
	n=	16	16	19	16	15	15	18	16
2,500-9,999	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	24	26	30	25	26	28	32	28
10,000-19,999	Median	1.00	0.50	1.00	0.00	0.50	0.50	0.50	0.00
	n=	10	10	11	6	12	10	12	8
20,000+	Median	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	n=	17	19	23	22	16	17	21	20

* Other employee number groups are included in totals but not shown separately due to small sample size.

Source: The Conference Board, 2018

Table 13 **Salary structure movement – by industry and overall** (zeros included)

		2018 Actual salary structure movement – percent				2019 Projected salary structure movement – percent			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
All responses	Median	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
	Mean	1.93	1.77	1.90	1.82	2.04	1.98	2.01	1.92
	25th percentile	2.00	2.00	2.00	0.50	2.00	2.00	2.00	2.00
	75th percentile	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	178	155	205	168	168	146	192	156
By industry*									
Banking	Median	2.00%	2.00%	2.00%	0.50%	2.00%	2.00%	2.00%	1.00%
	n=	6	7	9	8	5	5	8	7
Communications	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	12	12	12	11	11	11	11	9
Consulting services	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	15	11	16	11	16	11	17	11
Diversified financial services	Median	2.00	1.50	2.00	1.50	2.00	2.00	2.00	1.50
	n=	10	8	10	10	9	7	9	8
Diversified services	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	18	17	19	16	17	16	18	15
Energy/agriculture	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	10	11	11	7	8	9	9	7
Insurance	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	21	15	25	19	21	15	23	19
Manufacturing	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	41	45	55	49	38	43	52	45
Trade	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	15	9	16	13	15	9	15	13
Transportation	Median	N/A	N/A	2.00	N/A	N/A	N/A	2.00	N/A
	n=	3	4	5	4	3	4	5	4
Utilities	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	24	13	24	17	22	13	22	15

* Other industry groups are included in totals but not shown separately due to small sample size.
N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 14 **Salary structure movement – by revenue** (zeros included)

		2018 Actual salary structure movement – percent				2019 Projected salary structure movement – percent			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
$100 million to under $1 billion	Median	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
	n=	26	18	28	24	26	18	28	22
$1 billion to under $3 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	40	30	43	38	36	29	40	34
$3 billion to under $5 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	20	18	23	12	18	16	21	11
$5 billion to under $10 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	31	26	34	29	31	25	34	29
More than $10 billion	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	54	55	69	57	49	49	60	51

Source: The Conference Board, 2018

Table 15 **Salary structure movement – by number of employees** (zeros included)

		2018 Actual salary structure movement – percent				2019 Projected salary structure movement – percent			
		Nonexempt hourly	*Nonexempt salaried*	*Exempt*	*Executive*	*Nonexempt hourly*	*Nonexempt salaried*	*Exempt*	*Executive*
1-499	Median	2.00%	N/A	2.00%	2.00%	2.00%	N/A	2.00%	2.00%
	n=	5	4	6	6	5	4	6	5
500-2,499	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	25	20	29	22	25	19	29	22
2,500-9,999	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	67	54	73	65	62	52	69	60
10,000-19,999	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	33	27	34	24	32	25	32	23
20,000+	Median	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	n=	48	50	63	51	44	46	56	46

N/A = Insufficient (less than 5) cases to report.

Source: The Conference Board, 2018

Table 16 **Has your reported 2018 actual salary budget increase for non-exempt employees been affected by such changes?**

	Percent
Yes, and the budget increase is higher than it would have been without those changes to the test.	3.4%
Yes, and the budget increase is lower than it would have been without those changes to the test.	0.0
No	96.6
	n=228

Source: The Conference Board, 2018

Table 17 **Has your reported 2019 projected salary budget increase for exempt employees been affected by such changes?**

	Percent
Yes, and the budget increase is higher than it would have been without those changes to the test.	2.1%
Yes, and the budget increase is lower than it would have been without those changes to the test.	0.4
No	97.5
	n=237

Source: The Conference Board, 2018

Table 18 **Response rate by industry**

Industry	n=	Percent
Banking	10	4.2%
Communications	17	7.1
Consulting services	18	7.5
Diversified financial services	12	5.0
Diversified services	22	9.2
Energy/agriculture	12	5.0
Insurance	31	12.9
Manufacturing	62	25.8
Trade	19	7.9
Transportation	7	2.9
Utilities	27	11.3
Not-for-profit*	3	1.3
Total	240	**100%**

* Included in totals but not shown separately due to small sample size.
Source: The Conference Board, 2018

Table 19 **Response rate by worldwide revenues**

	n=	Percent
Under $100 million	4	1.7%
$100 million to under $1 billion	33	14.2
$1 billion to under $3 billion	47	20.3
$3 billion to under $5 billion	25	10.8
$5 billion to under $10 billion	39	16.8
More than $10 billion	84	36.2
Total	232	**100.0%**

* Included in totals but not shown separately due to small sample size.
Source: The Conference Board, 2018

Table 20 **Response rate by worldwide employees**

	n=	Percent
1-499	7	2.9%
500-2,499	36	15.0
2,500-9,999	83	34.6
10,000-19,999	37	15.4
20,000+	77	32.1
Total	240	**100%**

* Included in totals but not shown separately due to small sample size.
Source: The Conference Board, 2018

About the Author

Judit Torok is a senior research analyst at The Conference Board. She is responsible for data analysis in several annual reports published by The Conference Board, including *The Conference Board CEO Challenge*®. Prior to earning her MBA at Pace University in New York, she worked at several financial services firms in financial advisory services and M&A consulting.

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