

Saratoga
Human resource services

The Saratoga Review

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What's happening at PwC Saratoga

The key activities coming up at PwC Saratoga include:

- **June 2010:** PwC Saratoga's *Latin American Human Capital Effectiveness Report* remains under way. This year's survey will consist of approximately 50 metrics and will cover South and Central America as well as Mexico. *Coming soon*— we will also be announcing our plan to extend these efforts across India. To learn more, please contact **Scott Pollak** at scott.pollak@saratoga.pwc.com or (408) 817-7446.
- **June 16, 2010:** PwC Saratoga Metrics 101 course will be held in Dallas, Texas. To register for the course, please access the link or copy and paste the following URL into your Web browser: www.meetpwc.com/saratogaworkshops. After Dallas, the Metrics 101 and 200 series will be held in New York City in September.
- **Summer 2010:** PwC Saratoga will release the 2010/2011 US Human Capital Effectiveness Report.

To learn more about any of these activities, please see page ___ of this newsletter for the contact information of your local Saratoga representative or call 1-866-727-2864.

Improving exit survey strategy

The importance of exit surveys in a time of high unemployment

Despite today's high unemployment rate, many human resources officials expect voluntary turnover (which decreased in 2009) to increase in 2010. In fact, nearly 70 percent of participants in a recent PwC Saratoga webcast expected employee turnover to grow.

That echoes a much-discussed Conference Board report, which found that only 45 percent of Americans are satisfied with their jobs, the worst satisfaction rate in the 22 years of the survey, with younger workers voicing particular dissatisfaction.

It seems clear that many employees, particularly high-value employees, are riding out the troubled economic times with an eye toward moving on to better opportunities when hiring picks up. Unprepared companies may see an unusually large exodus of important employees. An article in Forbes magazine from May 2009 said that 20 percent of companies surveyed did not have an employee retention plan in place.

Exit surveys can be a valuable tool in preventing such an exodus of high-performance talent. When properly developed and deployed, employee exit surveys can provide an important foundation for an effective employee retention plan.

Reinventing your exit survey

In many companies, employee exit surveys function as a checklist formality and are not closely aligned with business or people strategies. In many cases, the surveys differ from business unit to business unit and rely on qualitative responses, making it difficult to develop statistically based insights into employee retention issues. These shortcomings often prevent companies from using exit surveys to identify strengths and weaknesses in employee retention policies.

By contrast, next-generation exit surveys incorporate careful consideration of how their results will be used when developed. For example, a well-developed survey can provide:

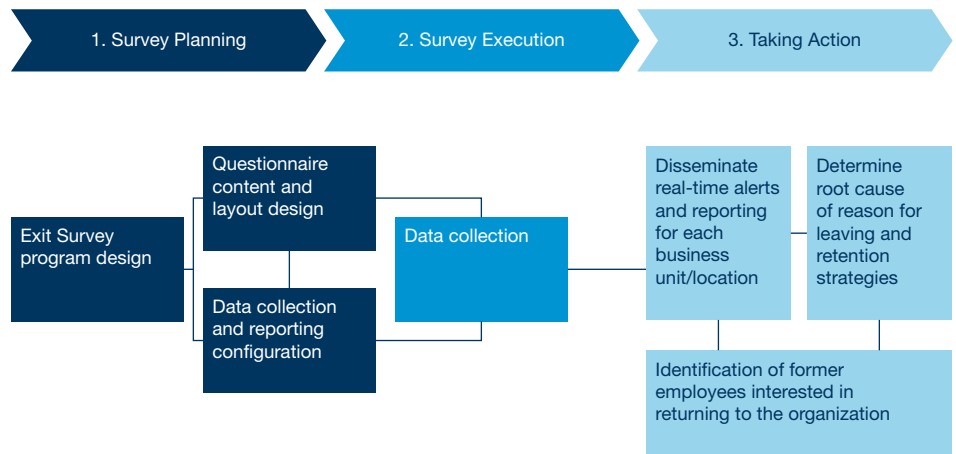
- Linkage to engagement surveys and workforce metrics
- Unbiased statistical information on the drivers of retention and turnover
- Assessment of retention strengths and vulnerabilities across region, country, business unit, and job role along with an understanding of why pivotal, high-potential, or Generational employees are leaving

- Real-time reporting updates standardized across all demographics including region, country, business unit, job role, etc.
- A valuable rehire sourcing channel and starting point for an alumni program

Building dynamic exit programs

PwC Saratoga recommends a three-part, structured approach to exit surveys.

Exit surveys—taking a structured approach



Survey planning

The process begins with careful consideration of the design, content, and timing of the survey to be completed by departing employees.

In planning the survey, companies should develop a collection of quantitative, structured questions that:

- Resonate across the entire organization (additional questions can be customized by employee type, demographic segment, region, country, business unit, job role, etc. for more granular analysis)
- Create a view back into organizational key themes that are known to impact retention and engagement as identified in other workforce research you conduct

Interviews with key stakeholders, such as C-suite leaders, help establish that surveys align with key organizational goals and the business environment. Survey designers should also review employee engagement surveys to facilitate integration with the exit survey program.

It's also important to match the survey program with the exit process in a way that maximizes useful employee participation and sets the conditions for a potential rehiring through alumni programs.

Sample Steps	What is your process?
Step 1: Employee resigns	Step 1:
Step 2: HR is notified and sends employee the survey link to complete	Step 2:
Step 3: Employee completes survey (info matched to employee demographic list)	Step 3:
Step 4: Upon completion, a "completed" notice is sent to HR manager or supervisor	Step 4:
Step 5: Data available in on-line reporting tool	Step 5:
Step 6: Re-hire candidate information is compiled	Step 6:
Step 7: Re-hire candidates are contacted	Step 7:
Step 8: Recruiters provided with interested re-hire candidates	Step 8:

Survey execution

An exit survey process should reflect an organization's employee departure process and available employee data. In one scenario, survey execution might follow these steps:

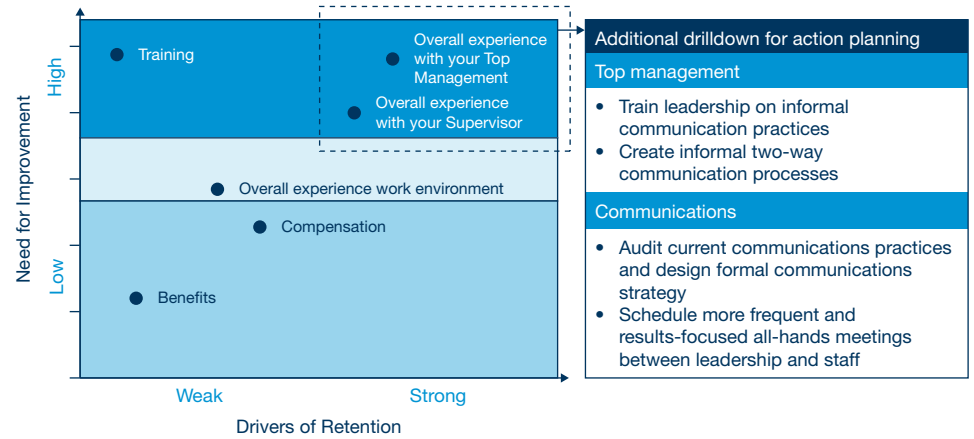
1. Departing employees enter their employee IDs, complete the survey, and submit via an internal Web portal. The interface produces a demographic file for the employee.
2. The organizational employee data file is sent to a centralized database, which includes a unique ID for each employee and all relevant reporting demographics.
3. The responses automatically update online reports, which are accessible by HR officials and can be converted into heat maps allowing for analysis by all available demographics. When necessary, critical issues generate an automated report to pre-identified senior HR and management executives.
4. Potential rehire data is provided to the company's recruiting system and is available through an online reporting tool. Three to six months after departure, select employees are contacted as part of a rehire campaign.

Taking action

Tools for analyzing exit survey results, such as the heat maps, should include statistical analysis that allows organizations to understand not only why employees leave, but what factors might have kept them.

Techniques can be employed to determine areas that statistically drive employees to leave, revealing immediate opportunities to increase retention in the top right quadrant of the analysis.

This analysis should also identify potential rehires. Rehiring staff is often a valuable staffing strategy because they are less expensive to train and achieve productivity much faster than new hires. They often have longer tenures as well. PwC Saratoga believes that a robust alumni program represents one of the best HR investments an enterprise can make.



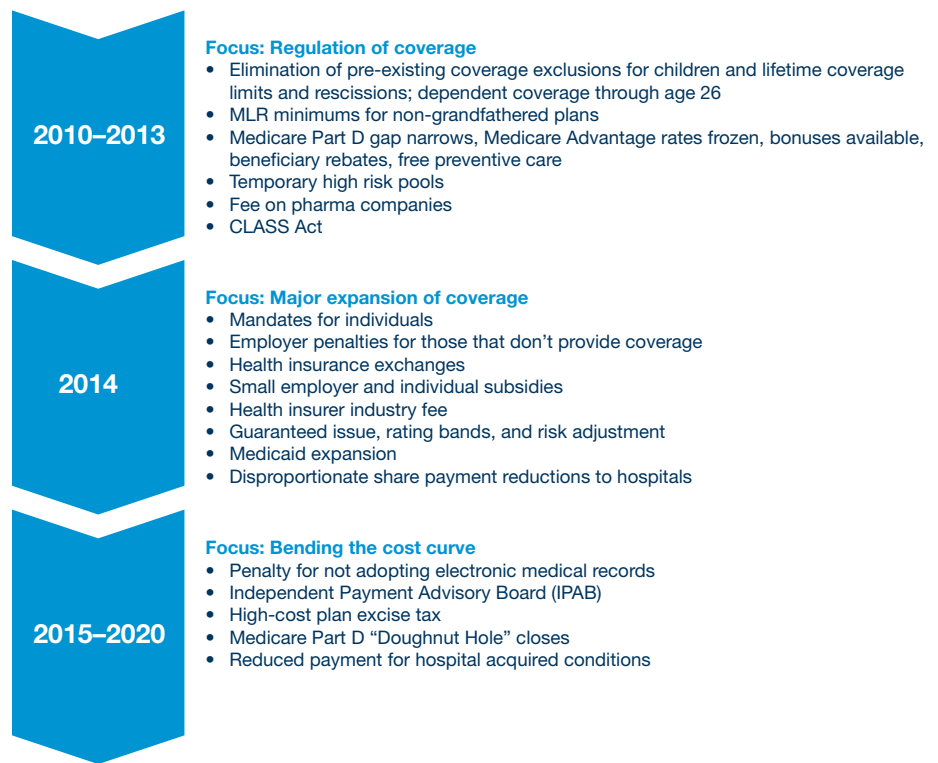
The Reform Effect

How health reform is expected to affect employers

The passage of the landmark healthcare and insurance reform law this year presents a two-fold challenge for companies.

Over the short term, they must digest and react to the immediate mechanics of the law, implementation of which begins this year and stretches until 2020. The law creates a myriad of new requirements, taxes, fees, and subsidies. While some businesses will benefit from these changes, others will not. Businesses need to understand how the changes affect them.

For the longer term, after determining the effects of reform on their businesses, every employer will need to review its benefits strategy in light of the changes brought by the new law. Employers will face fines if they don't provide health coverage for their employees starting in 2014, but their employees may also have access to subsidized insurance offered through state exchanges. Employers will need to examine whether the costs of providing insurance to employees outweigh the benefits.



Immediate issues

For group health plans, a number of provisions take effect for the first plan year beginning on or after September 23, 2010. They relate primarily to coverage for children and retiree benefits.

- **New coverage requirements:** By September, employer-sponsored plans that cover dependents must cover children up to age 26, must eliminate lifetime limits on coverage, and ensure that annual limits are “reasonable.” Employer-based plans must also end rescissions and pre-existing condition exclusions for children.
- **Taxing the retiree drug subsidy:** Since 2003, companies that pay for prescription drugs for their retirees have received a 28 percent untaxed federal subsidy. Health reform changes that, reducing an employer’s tax deduction for employee health benefits by the value of the subsidy received, beginning in 2013. In addition, companies will now need to account for that change on their income statements.
- **Narrowing the Medicare doughnut hole:** At the same time, the new law begins to close the Medicare coverage gap known as the “doughnut hole.” This is the difference between a Medicare beneficiary’s initial prescription drug coverage limit and the threshold for catastrophic coverage.
- **Additional federal funding for early retirees:** By the summer, the government will create a temporary re-insurance program for high-cost early retiree claims. This could reduce costs for pre-65 retirees by 25 to 30 percent, according to PwC estimates.¹ Companies that provide benefits for pre-Medicare eligible retirees will need to apply for this program as soon as it is available in order to qualify for any of these federal moneys.

¹ PricewaterhouseCoopers, HRS Insight, April 9, 2010

Longer-term: Exchanges, “Cadillac” tax, and cost-cutting measures

The health insurance landscape changes more dramatically for employers in 2014 with the creation of state health exchanges and a package of incentives and fees designed to encourage companies to provide insurance for their employees.

- **Exchanges:** States will establish health insurance exchanges where standardized packages of benefits will be sold to small employers and individuals. In 2017, states may open their exchanges to large employers.
- **Employer tax incentives and fees:** Tax credits totaling \$40 billion will be made available over 10 years to help small businesses subsidize coverage purchases through the exchanges. Beginning in 2014, employers with more than 50 workers must provide coverage for full-time workers (those who work 30 hours a week or more) or pay a \$2,000-per-worker “free rider” penalty, excluding the first 30 full-time employees.
- **Employee mandate:** By 2016, individuals will need to enroll in coverage or pay a phased-in fine of up to \$695/\$2,085 (individual/family) or 2.5 percent of income, whichever is greater.
- **Excise tax on “Cadillac” plans:** In 2018, a 40 percent excise tax on high-value health plans takes effect. In general, “high-value” refers to \$27,500 for family coverage and \$10,200 for individual coverage.
- **Other cost-cutting measures:** The new law emphasizes greater access to preventive care and flexibility for companies to use financial incentives to encourage healthy behaviors. In addition, Medicare will employ incentives for providers to improve the efficiency and coordination of care, which officials hope will spill over into private coverage as well.

Key questions for executive consideration

Overall, employers need to look at the full reform package to assess challenges and opportunities for their businesses. That process can benefit from consideration of several key questions, including:

Eligibility

- What role should businesses play in providing health benefits when access is guaranteed in the open market?
- How will employment policies (e.g. minimum work week) be influenced by “free rider” requirements?
- How does the perceived value of health benefits compare with other rewards?

- How will health benefits policies be influenced by labor issues?
- Will there need to be specific solutions targeted for unique populations?
- How will changes to tax policy and the closing of the Medicare prescription drug doughnut hole change retiree coverage strategies?

Contribution and funding strategies

- What coverage should businesses provide for dependents?
- How will tax policies and tax subsidies influence contribution and funding strategies?
- Can defined contribution medical plan designs be sustained when the employer provides the benefits?
- Can defined contribution medical plan designs be sustained if subsidies are provided for the state exchanges?
- How should a defined contribution plan design take into account age, gender, area, and health status?

Compliance and administration

- What are the long-term risks and burdens associated with a post-reform environment?
- How could third parties relieve the increased burden and risk of compliance and administration?

Businesses in the US face an extended transitional period in the landscape of employee healthcare, with short-term imperatives and long-term strategic decisions looming ahead.

Metric of the Month: Voluntary Separation Rate of employees with 1-3 years of service

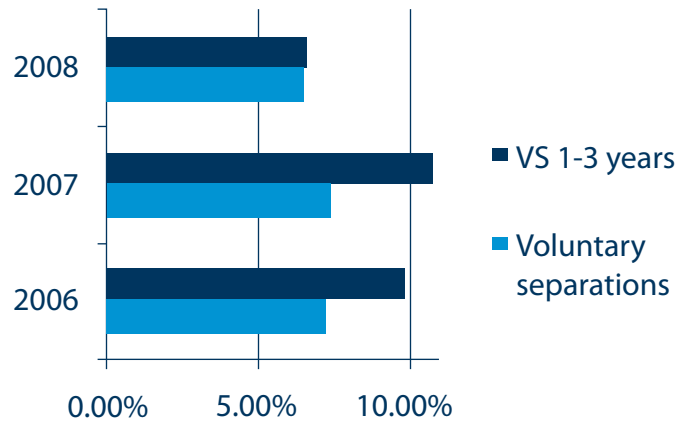
The month's article on exit surveys discusses an important tool in improving retention. Our exit and engagement surveys frequently cite limited career development as a cause for leaving the organization. Especially as reward programs are facing intense scrutiny over the course of the recession, with bonuses frequently being cut, caps on merit increases, cuts to health care spending, and options that are under water, companies need to look to determine different ways of driving retention and engagement.

For companies that are not satisfied with retention, one metric to consider is Voluntary Separation Rate of Employees with 1-3 years of service. Saratoga considers this metric an important assessment of career development (along with the voluntary separation rate of employees with 3 to 5 years of service). While last month's metric—first year separation rate—helps assess the ability to successfully recruit and onboard new hires, these first five years of service define a company's ability to develop an employee's career.

We also recommend that companies evaluate only voluntary separations as an assessment of career development. Total turnover for employees with 1-3 years of service, because it includes involuntary separations, is not an accurate metric for assessing career development.

Other important measures of a company's career development may include: *internal hiring as a percentage of headcount*, and *internal management hiring as a percentage of headcount* as these will assess the degree to which internal candidates are moving within the organization; and *training hours per employee* which will identify how much formal instruction an employee receives.

The graph below shows the US trend for this metric, and compares the voluntary separation rate for the first 1-3 years of employment with the overall voluntary separation rate. Many companies cite a tenure of around 3 years as the point at which “if they stay that long, we’ll keep them a long time.” The chart below helps demonstrate this point. Companies that focus on career development can do a better job of getting employees to that key 3 year point.



To learn more about PwC Saratoga’s measurement programs, visit www.pwc.com/saratoga or call (866) 727-2864.

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