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December 2020

Executive Summary

Research Question

How does Generation Z evaluate compensation packages? How is this different from generations prior? Given generational priorities and considerations, what are ways employers can attract and retain top talent in regards to compensation and benefits in today's competitive environment?

Introduction

For the first time, there are now five generations in the workplace, which has resulted in diverse expectations on pay and benefits. For example, Baby Boomers and the Silent Generation value health insurance and a robust retirement plan, Gen X seeks a healthy work-life balance and a competitive 401-k plan, and Millennials and Gen Z prioritize flexibility.[1]

As the newest addition to the workforce, Gen Z (born between 1996-2010) is forcing companies to rethink the nature of their compensation packages. They are financially focused (prioritizing base salary and tuition reimbursement), require flexibility (more paid time off and the ability to work wherever, whenever) and value customization.[1] Since the job market is becoming increasingly competitive, companies must change their packages to accommodate and appeal to this new generation (see Exhibit 1).

Base Salary

Gen Z's focus on financial stability stems from seeing their relatives lose their jobs during the Great Recession; an increase in non-discretionary expenses, such as housing, transportation, and food; as well as the rise in higher education tuition and student debt.[2] With these considerations in mind, financial incentives, such as base salary, are top of mind when evaluating job opportunities.[3] For this reason, companies must redefine their approach to setting base salaries by benchmarking early talent roles and establishing salary ranges that lead the market.

Benchmarking: This is an effective strategy that allows organizations to compare their pay with industry and market averages. This can be done by obtaining salary data from public sources, industry surveys and other firms. As SHRM suggests, employers should invest in salary data in order to obtain current and accurate salary information.[4]

Establishing salary ranges: Through the insights gained from industry and market data, employers will have the tools to determine an appropriate salary range that is aligned with the financial bottom line as well as internally and externally competitive. In order to attract the financially-focused Gen Z population, organizations should lead the market and establish a minimum, median, and maximum salary to be offered during negotiations.[4,5]

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Personalized Total Rewards

Given generational priorities and considerations, companies must evolve their total rewards packages "to not only be a competitive differentiator in attracting and retaining talent, but also to engage existing talent and meet people where they are and where they want to be on their life journey."[6]

Hyper-customization: One way to evolve is by allowing employees the opportunity to choose their benefits. Gen Z, especially, has always focused on standing out from the crowd and so they want to feel that the job (and thus the benefits) being offered to them is unique.[7] Through this increase in flexibility, employees are able to choose benefits that not only directly address their needs but will also motivate them throughout their career. Some companies have taken this idea one step further by offering an **a la carte menu of benefits**. This is where employees pick and choose the perks they care most about.[1] For example, a Baby Boomer may choose a strong retirement plan whereas a Gen Z employee may value student loan repayment assistance.

Intangible Benefits

It is essential that employers offer a wide variety of benefits to satisfy all five generations. This is especially important for Gen Z as they want to stay at one company for a long time[1], as opposed to Millennials who are notorious for changing jobs.

For the short-term: Gen Z wants to know that a company will set them up for financial success as 71% say they are moderately to very stressed about finances.[8] As such, employers should incorporate financial wellness into their packages. In addition, similar to other generations, these employees care about career progression. Implementing a mentorship program from the beginning will help them understand what a long-term career could be like at the company and provide them with the tools to attain it.[9]

For the long-term: There are three intangible benefits that companies must consider in order to retain this new generation of employees: skill development, employee resource groups (ERGs), and stress management. These three benefits create a strong network and support system while simultaneously helping employees early on in their careers to understand the organization, where they fit in and why they matter.[9]

Conclusion

Gen Z is redefining the world of work. As the talent pool shrinks and the demand increases for Gen Z's skills, employers must adapt their approach when designing compensation packages to successfully capture the generation's talent. Companies must understand what is most important to them and provide a competitive base salary, personalized total rewards and intangible benefits. These incentives will not only attract and retain talent but will also ensure that individuals are well equipped with the tools to excel in their careers.

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Appendix

Exhibit 1 - Summary of Recommendations

Summary of Recommendations

Prioritize base salary in compensation packages
 	
   1) Benchmark early talent roles
   2) Establish pay ranges that lead the market

Provide personalized total rewards
 	
   1) Allow employees to choose their benefits
   2) Provide an a la carte menu of benefits

Consider the importance of intangible benefits in attracting and retaining talent
 	
   1) Short-term
       a) Financial wellness
       b) Mentorship program
   2) Long-term
       a) Skill development
       b) Employee resource groups
       c) Stress management