## Question

What are current best practices in large multinationals for benchmarking compensation and designing more equitable total rewards, in a global marketplace that includes many legacy benefits?

## Context

With the rising importance of DEI, companies are paying more attention to a more equitable compensation. One factor to consider when designing equitable compensation is legacy benefits--benefits grandfathered in for certain employee segments, such as early employees, acqui-hired talents, or senior executives. Preserving or eliminating these legacy benefits comes with advantages and disadvantages. Nevertheless, companies can still design compensation that works for all by giving employees **choices over their compensation mix** and shifting from standardization to **equitable personalization**.

## The Pros and Cons of Eliminating Legacy Benefits

Eliminating legacy benefits has its pros and cons and companies need to assess if the benefits outweigh the associated costs.

| Pros | Cons |
|---|---|
| ***Save costs.***<br>Some legacy benefits might cost a lot and are no longer financially viable to preserve. Eliminating legacy benefits would especially help companies stay afloat during an economic downturn. | ***Impact on employee relations.***[2]<br>Eliminating any benefits could hurt company's relations with employees impacted by the policy change. The impact could potentially outweigh the cost savings. |
| ***Improve equity.***[1]<br>As companies try to improve equity, some legacy benefits might not match companies' compensation philosophy anymore. Eliminating legacy benefits means less discrimination on how employees are compensated. | ***Difficulty retaining key talents.***<br>An adverse impact on employee relations could eventually drive key people to leave the company. |

## Addressing Issues in Each Scenario

### *If your organization decides to eliminate legacy benefits...*

Companies can still retain and maintain good relations with the impacted employee segments by following these steps:

**Identify what non-financial benefits each impacted employee segment might value**[3]
Different employee generations have differing needs due to their varying life stages. For instance:
- Older employees may be more concerned about health and job security
- Younger employees may value lifestyle-related benefits
- Working parents may value family-related benefits

**Consider offering valuable employees some other alternatives to replace the legacy benefits**[4]
After identifying what the impacted employees might value, companies can try offering them something to compensate for the lost benefits:
- One-time bonus payment

- Retirement benefits or other tax-advantaged forms of compensation, valued more by higher-income employees
- Career development opportunities, valued more by younger employees

***If your organization decides to preserve legacy benefits...***

Companies can still strive for equitable compensation by following these steps:

**Look at the bigger picture of total rewards spend**[5]

Even though some employees might have a benefit that others don't have, an organization's total rewards can still be equitable as a whole. For example, employee A might have a legacy benefit, while employee B does not. However, in the bigger picture of total rewards, including non-financial rewards, it could be the case that the companies actually spend the same amount of money for both employees. Hence, the compensation is equitable despite the presence of legacy benefits.

**Educate and improve communication to the employees about total rewards**

There is a difference between what employees perceive as their 'total compensation' and the actual amount an employer spends on them. A survey shows that **8 out of 10 employees underestimate the total value of the rewards they receive from their employer**[6]**.** To address this perception gap, a solid benefits communication plan is needed at all stages of employees' life cycles.

## Equitable Personalization as a Win-win Solution

By definition, equity does not necessarily mean providing everyone the same value.[7] Equity is about giving people what they need based on their unique situation. Irrespective of a company's decision about legacy benefits, equitable compensation can be achieved when companies' administration of benefits trust employees to decide what kind of compensation mix works best for them. After all, **83% of employees said they would be willing to take a small pay cut if it meant having a better choice of benefits.**[8]

An emerging trend in the business is a shift from standardization to equitable personalization[9][10]. Instead of offering similar types of compensation to all employees, which often only differs by job levels or job groups, companies can offer personalization up to individual level.

**Case Study 1: Liberty Mutuals**

Liberty Mutuals has a diverse menu of benefits built around specific life experiences and goals, from paying student loan debt, starting a family (including adoption or surrogacy benefits), managing overall physical and mental health, to dealing with legal issues.[11]

**Case Study 2: MBP**

MBP, a Virginia-based construction management consulting company, started providing personalized benefits when its younger employees demanded insurance for their pets. **For every $20,000 investment MBP makes in its new benefits, retention increases by 1 percentage point.**[11]

Administering equitable, personalized benefits is a go-to approach for two reasons. First, it gives companies a chance to improve equity while still maintaining good relations with all employee segments. Second, existing technologies have enabled HR to administer different types of benefits while still remaining efficient[12]. In addition, by utilizing analytics, companies can gain insights on how the investment links to other high-level metrics such as retention and productivity, making the business case easier to build and justify.

## Citations

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