MORNEAU SHEPELL

Human Resources Trends for 2017

Insights on what HR leaders are expecting in the coming year

September 2016

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Executive Summary

Morneau Shepell's annual *Trends in Human Resources* survey canvasses Canadian employers on what they are planning for the coming year, and asks HR Leaders specifically about the opportunities and challenges they face. This year's survey results indicate that organizations are placing greater focus on improving employee health, engagement and productivity. Highlights of the survey findings include:

- Human Resources (HR) leaders identified their top two areas of interest as attracting and retaining the right skills for their organizations, and helping their organizations adapt to ongoing change.
- More than three-quarters (76%) said that improving employee engagement is a top priority for 2017. This is up from 66% in 2016 and from 57% in 2015.
- Over half (59%) of respondents said that improving physical and/or mental health was also a priority for the coming year.
- HR leaders want to spend more time delivering value, and less time on tactical activities. About half (51%) said that a lack of time is their most significant challenge in delivering on HR objectives, and 44% said that streamlining the administration of HR programs was a key priority for 2017.
- HR leaders also said they were looking for ways to reduce costs. Four of the top five targets for cost reduction in 2017 were are in the area of absence and disability management.
- HR leaders continue to be cautious about salary increases. They are expected to rise by an average of just 2.1% in Canada in 2017. The average increase forecast for 2016 a year ago was 2.5%. These are the lowest expected salary increases reported by the survey in more than two decades.
- There is a trend toward improved measurement of total health and the effectiveness of HR programs, looking for clearer evidence of a return on investment. More than 70% of respondents said they were not completely satisfied with the measurement tools they have today.
- About a third (31%) of HR leaders identified complex mental health claims as their top challenge in managing absence and disability costs, and a similar number (33%) saw better training for their managers as a key strategy for improving disability management.

- In dealing with mental health, HR leaders saw a lack of knowledge combined with stigma as their top challenges. More than 60% said they were planning to increase promotion of their Employee and Family Assistance Program (EFAP) to improve mental health and resilience, and about a quarter were planning specific mental health training for managers and employees.
- The survey also picked up some important changes in attitudes toward retirees. As employers move away from defined benefit retirement plans, 60% of HR leaders said they were concerned about the financial preparedness of their employees for retirement. There is growing interest in providing decumulation and health insurance options for retirees.

The results of the survey are discussed in greater detail in the body of this report, as are the results-related research and a review of new products and services that may be helpful in HR planning for 2017.

Morneau Shepell's 34th annual *Trends in Human Resources* survey was conducted in July 2016, with input from 335 organizations employing 840,000 Canadians in a broad cross-section of industry sectors.

HR priorities for 2017

Health, productivity and engagement are among the highest priorities

HR leaders identified their top two areas of interest as attracting and retaining the right skills for their organizations, and helping their organizations adapt to ongoing change.

The rapid pace of change is a challenge to organizations as they reconsider traditional approaches to human capital management and business execution. Employees need to learn how to adapt more quickly and be more flexible on the job. Leadership and skills development are now the top learning areas for organizations as both are critical to creating agile, competitive and engaged workforces.

For 2017, organizations will be investing in more programs designed to improve health, engagement and productivity.

- More than three-quarters of survey respondents (76%) said that improving employee engagement is a top priority for 2017. This is up from 66% in 2016 and from 57% in 2015.
- Over half (59%) of respondents said that improving physical and/or mental health was also a priority for the coming year. Looking at these components separately, 49% said improving physical health was a priority, while 41% said the same about mental health.
- 56% of employers identified Learning and Development as a top priority for 2017.

Table A

Top 5 priorities for *improving* health, engagement and productivity in 2017	% who see this as a priority
Improve employee engagement	76%
Improve learning and development programs	56%
Improve the physical health/wellness of employees	49%
Improve the mental health of employees	41%
Improve communication of Total Rewards	34%

Additional insights:

A 2014 study by Dr. Bill Howatt in partnership with The Globe and Mail found that more than a quarter of the workforce is putting in less than 70% of their best effort each day. That is a significant negative impact on productivity. Importantly, these employees also have lower engagement, higher health risks, more sick time, and a lower ability to cope with stress.

Regardless of whether employers are inclined or not to address employee health and engagement, being clear on the cost of doing nothing is critical. This information helps in defining the core problems to be solved, that in turn frame the business case for action and expectations for success. Keep in mind both the tangible data (e.g., cost of missing a day of work), as well as the intangible data (e.g., negative gossip), when considering your approach.

Absence management and streamlining HR administration are focus areas to reduce costs and improve productivity

The survey showed that employers are also looking for ways to improve efficiency and reduce costs:

- 44% of survey respondents reported that streamlining the administration of HR programs is a key priority for 2017. HR leaders want to spend more time delivering value to their business stakeholders and less time on tactical activities that have minimal impact.
- 61% of employers reported that lack of time is the most significant challenge they have in executing their HR objectives, while 36% reported that being distracted by less important activities is a barrier to execution.

Four of the top five priorities for 2017 are in the area of absence and disability management:

- 40% of survey respondents indicated that reducing short-term disability costs is a priority.
- 33% of respondents reported long-term disability cost reduction is a priority.
- 32% of respondents reported that reducing the cost of incidental absence (1-2 days) is a priority.
- 29% of survey respondents indicated that reducing workers' compensation costs is a priority.

Table B

Top 5 priorities for reducing costs and improving efficiency in 2017	% who see this as a priority
Streamline administration of HR programs	44%
Reduce short-term disability costs	40%
Reduce long-term disability costs	33%
Reduce costs of incidental absence (1-2 days)	32%
Reduce workers' compensation costs	29%

Additional insights:

According to the Conference Board of Canada's June 2016 report, *Addressing Employee Absences: A look at Absence Management in Canadian Organizations,* an organization's absence management program can have a large impact on absence rates. Programs that enable consistent tracking and timely support to employees can reduce incidental absence, along with the number and length of disability claims. Additionally, when absences are reported and tracked centrally, data is more consistent and more easily accessible, making it easier for employers to recognize areas of concern.

A problem-solving approach to case management is key to better disability outcomes. Early personal contact between employees and disability case managers enables more accurate assessment of needs and earlier problem solving, which are both key to reduced disability duration and hence, lower costs.

Employers' increased interest in workers' compensation may reflect several issues. One is the projected increase in premiums as result of the aging workforce and its impact on funding needs. Another is the likely increase in acceptance of mental health claims: on a province-by-province basis, gradual onset stress claims are being considered for inclusion in applicable legislation as compensable. Even when not formally accepted by provincial legislation, tribunal decisions have increasingly allowed such claims based on the individual merits of the evidence. Additionally, Ontario now automatically attributes first responders' post-traumatic stress disorder claims to the workplace. This removes the typical requirement of establishing that an injury or illness did indeed arise as a result of work. Other provinces may follow suit.

You may also want to read:

The true picture of workplace absence

How mental illness increasingly impacts your workers' compensation program

Expected changes in compensation

Salaries expected to increase by 2.1 per cent in 2017

Employers in Canada are expecting salaries to rise by an average of 2.1% in 2017. This is down from the 2.5% increase expected for 2016, as reported in last year's survey. The average includes expected salary freezes and excludes promotional or special salary adjustments.

With low oil prices and slow economic growth, employers continue to be cautious. The survey showed that actual salary increases in this year averaged just 2.1%, and employers are expecting to stay at this level for 2017 as well. These are the lowest expected salary increases that we've seen in more than two decades.

Some sectors such as mining, oil and gas are expecting salary increases of just 0.6%, the lowest expected increase in any industry sector. The highest salary increases will be in professional, scientific and technical services at 2.8%, and finance and insurance at 2.7%. The manufacturing sector is also a bit higher than average at 2.4%, possibly reflecting certain benefits from our lower dollar.

Table C

Industry	Actual 2016 increases as a % of payroll	Expected 2017 increases as % of payroll
Educational Services	2.2%	2.2%
Finance and Insurance	3.0%	2.7%
Health Care and Social Assistance	1.4%	1.4%
Manufacturing	2.5%	2.4%
Mining and Oil and Gas Extraction	0.4%	0.6%
Other services (except Public Administration)	2.6%	2.6%
Professional, Scientific and Technical Services	2.6%	2.8%
Public Administration	1.7%	2.0%
Retail Trade	1.9%	1.9%
Transportation and Warehousing	2.0%	2.1%
Utilities	2.0%	1.9%
National average	**2.1%**	**2.1%**

Reflecting the mix of industries in the provinces, Alberta, Newfoundland and Labrador, and Saskatchewan are expected to have the lowest salary increases next year, at 1.4%, 1.5% and 1.6%, respectively. By contrast, other parts of Western Canada are expecting higher-than-average increases in the 2.6% range. Salary increases in other provinces will be close to the overall average.

Actual compensation increase in 2016 and expected increase in 2017 by province

Table D

Province	Actual 2016 increases as a % of payroll	Expected 2017 increases as % of payroll
British Columbia	2.6%	2.6%
Alberta	1.3%	1.4%
Saskatchewan	2.3%	1.6%
Manitoba	2.4%	2.5%
Ontario	2.2%	2.2%
Québec	2.3%	2.3%
New Brunswick	2.1%	1.8%
Nova Scotia	1.9%	2.1%
Prince Edward Island	2.0%	2.0%
Newfoundland and Labrador	1.1%	1.5%
National average	**2.1%**	**2.1%**

As organizations worked within a relatively modest 2.1% salary increase budget in 2016, they rewarded top performers with higher than average increases at the expense of those with weaker performance. The survey showed that the top-rated employees received average increases of 3.9% in 2016, compared to 1.8% for average performers, and just 0.6% for their weakest performers.

Of the 2.1% increase in salary budgets next year, employers are expecting an average 1.6% increase in base salary scales. The remaining 0.5% will be for merit and service increases. This compares closely to the actual increase in base salary scales and merit and service increases this year, at 1.5% and 0.6% respectively.

Bonuses continue to be a significant element of compensation for employees in technical and leadership roles. In 2016, actual bonuses were very close to target for most categories of bonus-eligible employees.

Improving workplace health and engagement

In the past, many employers viewed health, engagement and productivity as separate issues, but now understand that that they are strongly related. There is also a lot of interest in measurement tools that evaluate the "Total Health" of employees – not only physical and mental health, but also the health of their work and personal lives – and their skills in dealing with challenges in all of these areas. Interest in a Total Health measure is not surprising. When linked to engagement scores and productivity metrics, this data provides actionable insights to HR leaders and clearer evidence of a return on investment.

Employers are monitoring their data but not necessarily linking it all together

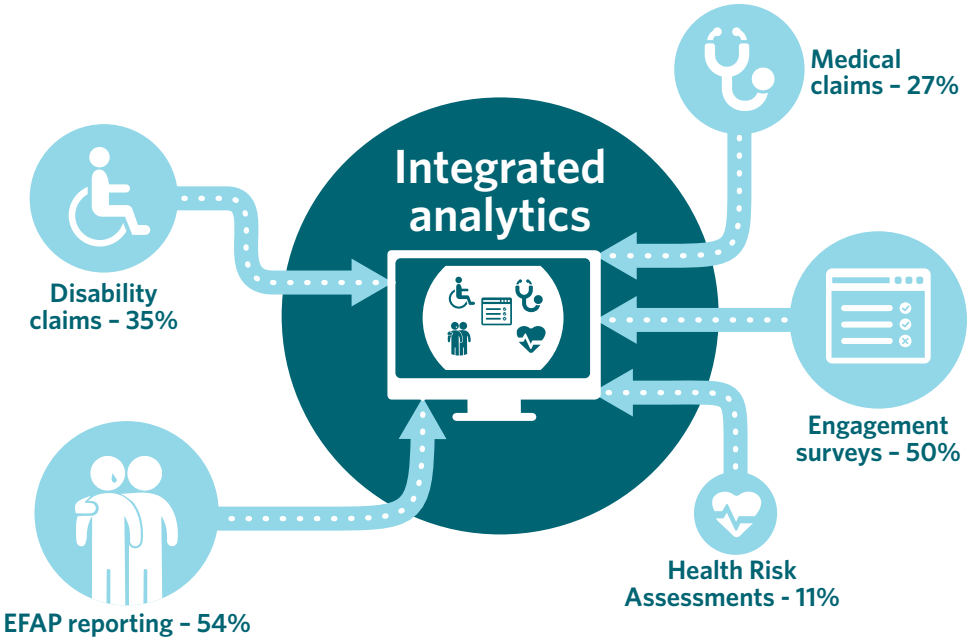
While there is increased understanding of the value of linking data from many sources, many organizations do not leverage this integration. When asked how employers monitor the health, productivity, and engagement of their employees, our survey showed that employers are typically monitoring data from their programs on a stand-alone basis. According to the survey:

- The data sources most often monitored by employers were from EFAP programs (54%) and engagement surveys (50%). The least-used data source was from Health Risk Appraisals (11%).
- Only 12% of employers have access to an integrated analysis of their data.
- With the lack of integration, it is not surprising that 71% of employers reported that the current way of measuring health and engagement does not fully meet their needs.

Solutions to consider:

- Total Health Index (THI) for measuring total health of the organization

Figure A. How does your organization monitor the health and engagement of its employees?



Additional insights:

According to the 2015 *Sanofi Canada Healthcare Survey*, 76% of employers want to better understand how benefits affect absenteeism, health outcomes and productivity, and 68% of employers would like to better understand the connections between drug, disability, EFAP and other data. That said, it has been difficult for employers to integrate their engagement, disability, drug, EFAP and other data together given the various sources and formats. This makes understanding the interrelationships between program variables difficult to figure out. By linking data together, employers can see the correlation between health risks and costs. Reviewing data in this integrative fashion will help employers identify where to invest in prevention and evaluate the impact of programs on employees and costs. But before considering an integrated view of data, it is important for employers to ensure that they have the type of data that will enable meaningful insights. In addition to claim information data, the four core factors that influence health, engagement and productivity provide critical predictive value.

This is what can be referred to as Total Health – employee health and organizational health. By using a tool that captures data in these areas, employers will be able to do much more than they can with traditional single-focus tools.

New, integrated tools that measure the Total Health of a workplace are being made available to HR leaders. For example, Morneau Shepell's Total Health Index (THI) evaluates all four components of total health and provides actionable insights for HR leaders.

You may also want to read:

The next evolution of strategic HR: Measuring program value through business results

Managing mental health in the workplace continues to challenge employers

Given the pace of change in most organizations, it is no surprise that employers are looking for ways to develop better coping skills and resilience in their workforce. When asked what employers see as the most significant challenges in managing mental health in the workplace, respondents reported a combination of lack of knowledge coupled with stigma. Employers identified the following as their top five challenges in managing mental health in their workplaces:

1. Lack of employee knowledge and/or willingness to use counseling and resources (49%).
2. Inadequate manager knowledge and behaviour when an employee is struggling (48%).
3. Stigma regarding mental health issues (46%).
4. Inadequate co-worker knowledge and behaviour when an employee is struggling (42%).
5. Poor employee coping skills in adapting to change (26%).

Solutions to consider:

- Workplace Mental Health Action Plan
- Mental Health Training for managers and employees

Consistent with the above, an effective prevention and training program is a first step in minimizing mental health issues in the workplace. According to the survey:

- Employers continue to see their Employee and Family Assistance Program (EFAP) as a core component of a mental health program. Sixty-three percent (63%) of survey respondents indicated that their organizations have focused on increasing promotion of their EFAP to improve mental health and resilience.
- 29% of survey respondents indicated that they have implemented mental health training for managers, while 24% have implemented training for employees to improve coping skills and resilience.

Additional insights:

According to research by Morneau Shepell, *Workplace Mental Health Priorities: 2016*, depression is now as significant as high blood pressure in terms of the top issues physicians see in their practices, with musculoskeletal issues a distant third. The majority of physicians have seen depression, anxiety and stress disorders as the fastest-growing issues over the past two to three years. Among chronic health conditions, employees with mental health issues report it has the greatest impact on their work.

Mental health issues are driven by a number of factors. Biology and experiences are key; however, social supports and coping skills are strong protective factors. Coping skills can be developed or improved at any stage in life with training, coaching and role modeling. This presents a significant opportunity for employers in terms of their investment in workplace mental health. Conversely, lack of coping skill increases an individual's vulnerability to stress, which has negative physical, mental and interpersonal impacts, all of which reduce productivity and increases the risk of disability.

You may also want to read:

Workplace Mental Health Priorities

Coping skills can help mental health

How coping skills can keep your employees engaged at work

Reducing the cost of absence and disability

One of the top priorities among employers for 2017 is reducing the cost of sick leave and disability, and helping people get back to work sooner. Forty percent (40%) of employers in the survey said this is a key priority for the coming year. The survey found two main areas of focus among employers: managing mental health claims, and training managers to be more effective partners in managing absence and disability.

Employers are struggling with disability claims related to mental health

Similar to last year's *HR Trends* survey, complex mental health claims continue to be the top disability management concern for employers. There can often be significant delays in getting help for employees who are off work due to mental health issues. Employers are looking for help, including expedited referrals for proper assessment and treatment for employees, with a focus on return to work. They are also looking for help to better monitor mental health conditions. This is critical because it can be difficult to stabilize mental health conditions, which increases the risk of relapse and recurring periods of disability. Some of the key findings in the survey were:

- 31% of respondents indicated that the number and length of complex mental health claims was their greatest challenge in managing short-term disability. In comparison, only 17% of respondents saw complex physical health claims as a concern.
- 27% of employers participating in the survey indicated that accommodation and modified work requests as part of the return-to-work plan is a challenge in managing short-term disability.

Solutions to consider:

- Optimizing your disability management strategy
- Integrated absence and disability management

Better training for managers in managing absence and disability

In addition to specialized resources for mental health claims, employers see better training for managers as a key component in managing disability claims, given that managers play a critical role in getting employees back to work. One-third of employers (33%) indicated that they are considering manager training to improve their disability management outcomes.

In addition to training, employers are looking at making better use of technology to improve the effectiveness of absence and disability management, and lower costs. Almost 20% of employers are looking at a change in their policies or processes to improve disability management.

Additional insights:

Addressing complex claims requires a disability management process that is both responsive to the health and work that claimants face, and efficient in its delivery. Efficiency is a key enabler of success in disability management. Delays and undue administrative time make it less likely that critical interventions will occur in a timely and comprehensive manner. Increasingly, new technology is being leveraged to improve efficiency and effectiveness. Technology is used to support people leaders in an organization, and provide more meaningful data to policy makers and disability case managers.

Given the significance of mental health issues in disability, an effective disability management program must also have depth in its tools and approach to mental health issues. Given that care issues and return-to-work transition are key challenges, solutions in these areas are pivotal.

You may also want to read:

Best practices in absence & disability management

4 keys to an effective absence & disability management solution

Optimizing retirement plans

How plan sponsors measure the success of their retirement plans

When plan sponsors were asked how they evaluate the success of their retirement plans:

- The top three success metrics for Defined Benefit (DB) plan sponsors were the funded status of their plans (71%), their investment performance (64%), and the level of cost and volatility of their plans (49%).
- The top three success metrics for Defined Contribution (DC) plans were their investment performance (84%), the percentage of employees who participated in their plans (76%), and the competitiveness of their plans (69%).

Relatively few plan sponsors evaluate the adequacy of retirement income as one of their success criteria – just 23% of DC plan sponsors, and 31% of DB plan sponsors.

These low percentages are counter-intuitive, given that the fundamental purpose of these plans is to provide income at retirement. A recent Morneau Shepell *60-Second Survey* sheds some light on this result. In that survey 49% of plan sponsors felt that workplace pension plans should provide a decent standard of living after retirement, but not necessarily the same as that experienced before retirement.

Employers with DB plans are looking for ways to de-risk them

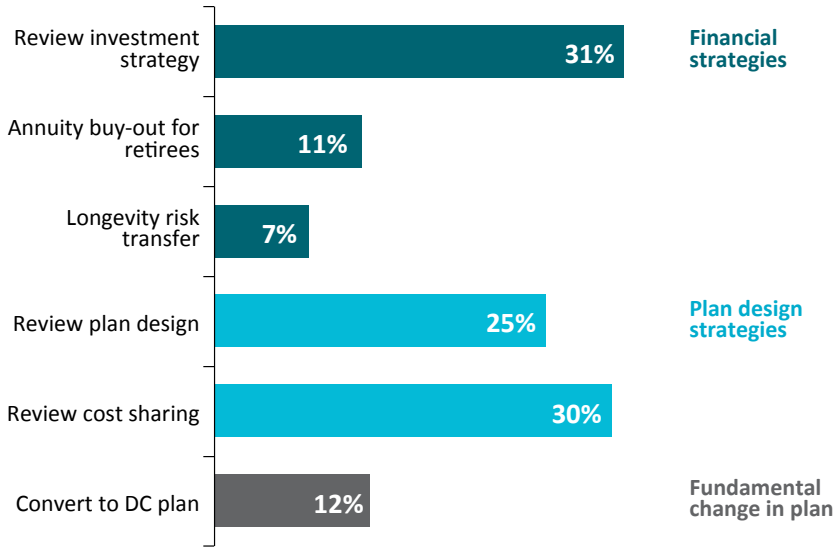
DB plan sponsors are continuing to use a mix of financial, investment and plan design strategies to reduce the cost and risk of their plans. However, the results of the survey highlight a shift in the way employers are thinking about de-risking. A few of the areas being de-emphasized are:

- Changing plan design (e.g., removing indexing or early retirement subsidies) – down from 38% last year to 25% this year.
- Reviewing investment strategy - down from 38% last year to 31% this year.
- Conversions from DB to DC plans – down from 18% last year to 12% this year.

The shrinking percentages likely reflect the fact that sponsors who were considering these changes in earlier years have already implemented them, or have decided not to proceed. Offsetting this, the survey showed much greater interest in reviewing cost sharing arrangements with plan members – up from 25% last year to 30% this year.

Despite much discussion about annuity buy-outs for retirees and longevity risk transfers, interest in these options remains relatively low. The limited incidence of annuity buy-outs likely reflects a reluctance to purchase annuities when interest rates are at historic lows.

The imminent expansion of the Canada Pension Plan (CPP) provides a special one-time de-risking opportunity for DB plans: sponsors can integrate the CPP enhancement into the existing pension formulas of their plans. In addition, the possibility that some provinces will no longer require solvency funding will significantly reduce funding volatility for DB plan sponsors.



DC plan sponsors are concerned about the income needs of their employees after retirement

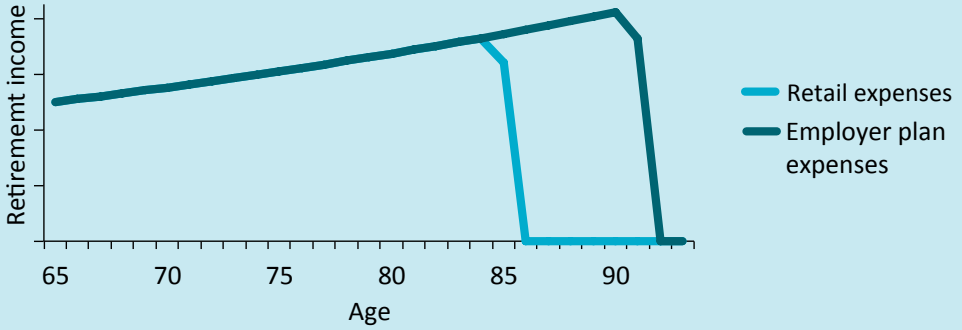
The survey picked up some important changes in attitudes toward retirees. As employers move from DB to DC plans, 60% of HR leaders said they were concerned about the financial preparedness of their employees for retirement. This suggests that many retirement-eligible workers have not participated long enough in DC plans to accumulate an adequate account balance. Plan sponsors are starting to take action to address these concerns:

- 51% said they were currently providing or considering education/information to assist employees after retirement.
- 24% said they were currently providing or considering decumulation options (such as group LIF, RRIF, or payout options) to assist employees after retirement. Decumulation options within pension plans are now permitted in the majority of federal and provincial jurisdictions, though notably not yet in Ontario.

It is likely that there will be a continued trend in this area as the number of retirees from DC plans increases in the future. If income levels are inadequate, this will create a potential risk to plan sponsors.

Additional insights:

In the past, sponsors of DC plans left it up to their employees to fend for themselves when they retired. The retirees often struggled to choose amongst relatively expensive investment options, and figure out how much of their savings they could safely withdraw each year to avoid running out of income later in life. Poor decisions can have a very significant impact on retirement income and plans sponsors are taking notice. Investment fees paid by retirees can be up to 2% higher than they pay in their DC plans during their working lives. The following analysis shows that these additional charges can wipe out up to 30% of an employee's retirement income – equivalent to losing about 6 years of retirement income.



A new CAPSA (Canadian Association of Pension Supervisory Authorities) DC guideline suggests that sponsors should provide information and education on options at retirement. While CAPSA doesn't go so far as to require that sponsors provide options, it signals that regulators are becoming more interested in this issue. The fact that many of the provincial regulators have amended legislation to allow pensions to be paid out of decumulation arrangements is also a sign that regulators are focusing on this point.

You may also want to read:

The benefits of offering a decumulation program - Video

The Canada Pension Plan: Part 1 – Past and Present and Part 2 – The Future

Employers are also concerned about the health care needs of their retirees

When asked whether employees are prepared to deal with the loss/reduction in coverage in their group health benefits plan when they retire, 82% of employers said they did not believe their employees were prepared or were not sure they were.

Solutions to consider:

MyFuture. Canada's first online retiree benefits marketplace

Additional insights:

According to Morneau Shepell's *Forgotten decisions: The Disconnect between the plan and reality of Canadians regarding Health and Finances in Retirement*, almost three in four employees are concerned about not being able to afford health services when retire. Declining health is their number one non-financial concern, and health care cost is second only to shelter in what employees believe will be their primary expense in their seventies. Furthermore, as health care costs climb, almost one half of organizations with post–employment benefits indicated they are likely to change their retiree benefits plan in the next five years.

Their concern is well founded. Health care costs increase with age, and an increasing number of employers are discontinuing health coverage after retirement. This means that retirees need to be prepared to bear these increasing costs themselves. Furthermore, government-funded seniors' coverage is rarely comparable to an employer-sponsored health plan. Typical options for retirees include individual health plans, which are often costly and may have exclusions for pre-existing conditions. As such, employers are moving toward solutions like hybrid models that are structured like group plans, but are designed to meet retiree needs, and provide the option of being fully retiree-funded or partially funded by the retiree through a defined contribution. One example of a hybrid solution is a Retiree Benefits Marketplace, and this type of solution has recently been introduced in Canada.

With a Retiree Benefits Marketplace, employees are not restricted to a single insurance provider, and can compare prices and features across a range of providers to ensure they get the best coverage and cost for their needs. Costs can be paid as a deduction from pension income or by bank deduction. If the employer chooses to subsidize retiree benefits, the retiree would pay the difference between employer coverage and the cost of the plan.

You may also want to read:

Forgotten decisions: The disconnect between the plan and reality of Canadians regarding Health and Finances in Retirement

Notice

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MORNEAU SHEPELL

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