

## Human Resources Trends for 2019

Insights on what HR leaders are expecting in the coming year:  
Summary report

October 2018



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## Executive Summary

Morneau Shepell's annual Trends in Human Resources survey canvasses Canadian employers on their priorities for the coming year, and asks HR leaders about the opportunities and challenges they face. In addition to looking at expected changes in compensation for 2019, this year's survey was extended to inquire about emerging issues that have the potential to impact the Canadian workplace in 2019.

Highlights of the survey include:

- **Employee engagement:** More than two-thirds of HR leaders (67 per cent) identified improving employee engagement as a priority, while 59 per cent identified attracting and retaining employees with the right skills as the top priority. This remains unchanged from the previous year.
- **Improving mental health:** Improving mental health of employees was one of the top five priorities in the coming year (at 48 per cent) and inched above the physical health/wellness of employees (47 per cent).
- **Employee turnover:** Employee turnover was also a top concern, with 43 per cent citing it as a tactic to reduce organization cost and improve efficiency, surpassing streamlined administration of HR programs (41 per cent) and reducing short-term disability costs (34 per cent), which were the top two priorities cited last year.

### Expected changes in compensation

Salaries are expected to increase by 2.6 per cent in 2019. The expected 2.6 per cent salary increase is consistent with the actual 2.6 per cent average increase in 2018 and with the current rate of inflation. In July 2018, the Bank of Canada noted that consumer price index inflation is expected to rise to about 2.5 per cent, before settling back to 2.0 per cent by the second half of 2019.

## Emerging issues for HR leaders

### The impact of the legalization of cannabis

The legalization of recreational cannabis in October 2018 has brought to the forefront the need to address some foundational issues in workplace policy and practice. Fifty-two per cent of HR leaders indicated they plan to update substance abuse policies to manage cannabis in the workplace at some point over the next 12 to 18 months. Thirty-four per cent of respondents said they already have these policies in place.

Managers also need to be trained effectively and employees need to be educated. When looking at effective training among managers, HR leaders' views were divided. Close to half (48 per cent) of respondents said that training managers to manage cannabis in the workplace is planned to take place in their organization over the next 12 to 18 months. However, 45 per cent of HR leaders have no plans to implement training.

### Dealing with increasing health costs

Many organizations are concerned about the entry into the marketplace of expensive drugs that are jeopardizing their benefit plans. Survey respondents felt confident with the measures they have to control the cost of high-cost specialty drugs. The majority of respondents have put in place measures such as prior authorization requirement, pooling arrangements and third-party managed formulary. However, few have considered more innovative approaches offered outside their insurer's services.

Investing in employees with health problems in order to help them improve or better manage their health condition and avoid future higher expenses seems to be a low priority for organizations. The majority of survey respondents are not considering any specific programs to support employees who have the greatest health needs. Health coaching and internet-based Cognitive Behavioural Therapy (iCBT) are only starting to get the attention of some organizations.

### Responding to the #MeToo movement

Another issue that has emerged is the growing #MeToo movement and navigating issues around sexual misconduct in the workplace. The majority of employers have existing processes in place to address these concerns. Almost all HR leaders (84 per cent) said they currently have zero tolerance policies implemented to address workplace harassment. Sixty per cent of employers effectively provided managers with tools and resources to address negative behaviours in the workplace and one-quarter (25 per cent) are planning to implement processes in the next 12 to 18 months.

### Optimizing retirement plans

Consistent with the results of last year's survey, HR leaders continue to cite concerns about their employees' financial preparedness in retirement (73 per cent) and nearly one-third (32 per cent) are concerned with their employees' level of understanding of the decumulation process in retirement and how they will manage it.

Morneau Shepell's 36th annual Trends in Human Resources survey was conducted in July 2018, with input from 356 organizations employing over 680,000 Canadians in a broad cross-section of industry sectors.



## HR priorities for 2019

### Improving employee engagement continues to be a priority

Looking to 2019, more than two thirds of HR leaders (67 per cent) said that improving employee engagement was a top priority, while 59 per cent identified attracting and retaining employees with the right skills as the top priority. This remains unchanged from the previous year.

**Table A**

Top 5 priorities for improving health, engagement and productivity in 2019	% who see this as a priority
Improve employee engagement	67%
Improve attraction and retention of employees with the right skills	59%
Help the organization adapt better to ongoing change	51%
Improve learning and development programs	50%
Improve the mental health of employees	48%

### Improving mental health of employees increased in importance

Improving the mental health of employees (48 per cent) inched above the physical health/wellness of employees (47 per cent) as one of the top five priorities in the coming year. This movement is not surprising given the increase in awareness of the relationship between employee mental health and business objectives. Organizations are also considering the increase in mental health risk among the younger cohort of their employees and the increased strain of organizational change, given the constant disruption of business models. With these two factors, plus the demands of high performance in the workplace, the importance of mental health among employees is likely to continue to increase.

Mental health challenges can be a significant factor in the workplace. Top employers understand that they need to invest in programs that maximize and support productivity, and the performance of their team. Cognitive Behaviour Therapy (CBT) is the most widely used evidence-based practice for improving

mental health. It focuses on the development of personal coping strategies and skills that target solving current problems and changing unhelpful patterns of thought, beliefs, attitudes, and behaviours.

### Employee turnover is also a top concern

When looking at tactics to reduce organizational costs and improve efficiency, close to half (43 per cent) of HR leaders said that reducing employee turnover was a top priority for 2019, surpassing streamlined administration of HR programs (41 per cent) and reducing short-term disability costs (34 per cent), which were the top two priorities cited last year.

The focus on engagement, attracting and retaining employees and reducing turnover demonstrates a strong link to a tight labour market. It is important that organizations determine the factors that are keeping employees engaged and committed to their organizations. One of these factors, which increased in importance in this year’s survey, is prioritization of employee mental health. By determining the processes needed to improve employee well-being, organizations can reduce employee burnout and ultimately turnover.

**Table B**

Top 5 priorities for reducing costs and improving efficiency in 2019	% who see this as a priority
Reduce employee turnover	43%
Streamline administration of HR programs	41%
Reduce short-term disability costs	34%
Understand the predictors of turnover to better inform strategy	32%
Understand the predictors of absence & disability to better inform strategy	30%

# Expected changes in compensation

## Salaries expected to increase by 2.6 per cent in 2019

Employers in Canada are expecting salaries to rise by an average of 2.6% in 2019. This is unchanged from a 2.6% average increase in salaries for 2018. The national forecast for salary budget increases for 2019 includes expected salary freezes, with 4.6 per cent of respondents expecting a zero salary budget for 2019.

The survey identified some industry sectors that are expecting higher than average salary increases in 2019. They include real estate, rental and leasing at 3.8 per cent, professional, scientific and technical services at 3.0 per cent, educational services at 3.0 per cent and public administration at 2.8 per cent. These industries may be catching up after below average increases over the past few years. Expected salary increases in sectors such as finance and insurance, manufacturing and retail trade are expected to remain strong at 2.7 per cent next year.

Lower than average salary increases are expected in certain industry groups. Information and cultural industries salary increases are among the lowest at 1.5 per cent. Health care and social assistance employers are expected to average 1.7 per cent next year, with arts, entertainment and recreation slightly higher at 2.1 per cent.

**Table C**

Compensation changes by industry	Actual 2018 increases as a % of payroll	Expected 2019 increases as % of payroll
Accommodation and Food Services	3.0%	3.0%
Agriculture, Forestry, Fishing and Hunting	2.5%	2.4%
Arts, Entertainment and Recreation	2.3%	2.1%
Construction	2.2%	2.2%
Educational Services	2.1%	3.0%
Finance and Insurance	2.4%	2.7%
Health Care and Social Assistance	1.9%	1.7%
Information and Cultural Industries	1.8%	1.5%
Manufacturing	3.0%	2.7%
Mining and Oil and Gas Extraction	2.2%	2.5%
Other services (except Public Administration)	2.8%	2.4%
Professional, Scientific and Technical Services	3.2%	3.0%
Public Administration	2.4%	2.8%
Real Estate, Rental and Leasing	5.1%	3.8%
Retail Trade	2.7%	2.7%
Transportation and Warehousing	2.4%	2.4%
Utilities	2.4%	2.6%
Wholesale Trade	2.4%	2.6%

The survey highlighted some provinces that are expecting higher than average salary increases in 2019, including British Columbia at 2.8 per cent and Alberta at 2.7 per cent. This follows the trend witnessed last year, with western Canada taking the lead in the country's growth tables - Alberta recorded the fastest expansion and British Columbia posted its strongest pace in more than a decade. Quebec and Ontario are expecting salary increases of 2.6 and 2.5 per cent respectively, while salary increases in other provinces ranged from 2.3 to 2.6 per cent.

**Table D**

Compensation changes by province	Actual 2018 increases as a % of payroll	Expected 2019 increases as % of payroll
British Columbia	2.9%	2.8%
Alberta	2.4%	2.7%
Saskatchewan	2.3%	2.6%
Manitoba	2.4%	2.3%
Ontario	2.5%	2.5%
Québec	2.8%	2.6%
New Brunswick	1.9%	2.3%
Nova Scotia	2.4%	2.6%
Newfoundland and Labrador	2.0%	2.0%
<b>National average</b>	<b>2.6%</b>	<b>2.6%</b>

The expected 2.6 per cent salary increase in 2019 is consistent with the current rate of inflation. In July 2018, the Bank of Canada noted that consumer price index inflation is expected to rise to about 2.5 per cent, before settling back to 2.0 per cent by the second half of 2019.

Employers are also expecting to increase their salary structures by an average of 1.9% in 2019.



## Emerging issues for HR leaders

### The impact of the legalization of cannabis

It's important to recognize that while medical cannabis has been legal since 2001, the issue of recreational access and use brings with it uncertainty for both the general public and employers. However, it's important to recognize that the issues that recreational cannabis use may bring to the workplace are not new. Employers have been dealing with implications of alcohol, cocaine, opioid and amphetamine use for years. Although recreational cannabis will become legal to access and use, recreational (and medical) cannabis in the workplace should be treated like any other substance that can cause impairment. Legal does not mean acceptable in the workplace.

With the increased availability of cannabis there is greater risk of an entirely new population that is at risk of abusing or becoming dependent on a substance. Absenteeism, lost productivity, accidents, turnover, recruitment and training are only a few of the costs organizations might bear if substance abuse and misuse is not identified and treated. Additionally, employers remain responsible for the safety of all employees in the workplace, so it's even more important than ever, to have clear, well defined policies and processes, along with supportive employee focused programs. It's also important that leaders be trained on the policies and programs, and employees understand the organizational expectations as it relates to impairment in the workplace.

With the upcoming legalization of cannabis in October, 52 per cent of HR leaders indicated they plan to update substance abuse policies to manage cannabis in the workplace at some point over the next 12 to 18 months. Thirty-four per cent of respondents said they already have these policies in place.

The biggest issue that employers will need to address regarding the upcoming legalization of cannabis is determining the appropriate application of policy and process regarding impairment in the workplace, and the distinction between recreational and medical use. Managers will need to be trained effectively as well as the employees need to be educated. There are many misconceptions about cannabis that lead to an underestimation of the risk to personal health and well-being in certain situations.

When looking at effective training among managers, HR leaders' views are divided. Close to half (48 per cent) of respondents said that training managers to manage cannabis in the workplace is planned to take place in their organization over the next 12 to 18 months. However, 45 per cent of HR leaders

have no plans to implement training. Despite being legal in Canada since 2001, only three per cent of organizations reported currently covering medical cannabis under their benefits plans, while nine per cent plan to cover it within the next 12 to 18 months.

**Table E. How is your organization planning to respond to the Cannabis Act that will become law on October 17, 2018?**

Response	Currently in Place	Planned for the next 12-18 months	Not Planned
Update substance abuse policy to manage cannabis in the workplace	34%	52%	13%
Update employee drug testing protocols	11%	19%	71%
Train managers to manage cannabis in the workplace	7%	48%	45%
Cover medical cannabis under our drug benefits plan	3%	9%	88%
Cover medical cannabis under a health spending account (HSA)	8%	7%	85%

### Managing the risk of high-cost drugs in benefit plans

Many organizations are concerned about the entry into the marketplace of expensive drugs that are jeopardizing their benefit plans. Survey respondents felt confident with the measures they have in place to control the cost of high-cost specialty drugs. The majority of respondents have put in place measures such as prior authorization requirement, pooling arrangements and third-party managed formulary. However, few have considered more innovative approaches offered outside their insurer’s services. Some new initiatives such as a switch from biologic drugs to biosimilar drugs, a preferred provider network and drug formulary, offer great saving opportunities.

The use of biologic drugs is growing significantly faster and is expected to account for a quarter of the pharmaceutical market by 2020. These drugs are very expensive (more than \$20,000 per year for an individual). Biologic drugs are about 20 per cent of all drug spending in a typical Benefit Plan, even though they represent less than 1 per cent of the number of claims. Biosimilars (which are similar, but not entirely identical copies of reference or original biologics) are entering the market very slowly but could save a lot of money to benefit sponsors. Biosimilars are getting more attention from insurers and new strategies such as promoting a switch to biosimilars are being considered.

**Table F. How are you managing the risk of high-cost specialty drugs in your benefit plan?**

Response	Currently in Place	Planned for the next 12-18 months	Not Planned
Our insurance provider requires prior authorization of all specialty drugs	65%	3%	32%
We use a consultant to review all requests for specialty drugs in advance	26%	2%	71%
We use a carrier or third-party managed formulary	53%	2%	45%
We use a preferred provider network for specialty drugs	17%	3%	80%
We have stop loss and pooling arrangements with our insurer	60%	2%	38%
We have stop loss arrangements with an organization other than our insurer	4%	1%	95%

Investing in employees with health problems in order to help them improve or better manage their health condition and avoid future higher expenses seems to be a low priority for organizations. The majority of survey respondents are not considering any specific programs to support employees who have the greatest health needs. Health coaching and internet-based Cognitive Behavioural Therapy (iCBT) are only starting to get the attention of some organizations.

**Table G. Are you considering any specific programs to support employees who have the greatest health needs?**

Response	Currently in Place	Planned for the next 12-18 months	Not Planned
Telemedicine or video health access - to provide more timely access to health care	6%	13%	81%
Pharmacogenetics - to improve the effectiveness of drug therapy	3%	9%	88%
Health coaching to set goals and improve employee health	21%	17%	62%
iCBT (internet-based Cognitive Behavioural Therapy)	5%	6%	88%
Increased mental health support services other than iCBT	15%	15%	70%

### The impact of the #MeToo movement

Another issue that has emerged across several industries is the growing #MeToo movement and navigating issues around sexual misconduct in the workplace. The survey found that the majority of employers have existing processes in place to address these concerns. Almost all HR leaders (84 per cent) said they currently have zero tolerance policies implemented to address workplace harassment. Similarly, 83 per cent of organizations stated that they foster a culture where employees feel confident reporting bullying or harassment and 79 per cent have senior leadership commitment to eliminating negative behaviours.

Despite having the processes in place to address sexual misconduct, the increasing awareness created by the #MeToo movement has employers looking for ways to educate and equip managers with the appropriate tools to discuss the issue with employees. More than half (60 per cent) of employers effectively provided managers with the clear tools and resources to address negative behaviours in the workplace, with one-quarter (25 per cent) planning to implement processes in the next 12 to 18 months. However, there is a continued need for improvement regarding providing appropriate support for victims. While more than half of HR leaders (62 per cent) currently provide support services for victims, one-third (32 per cent) do not plan to provide support.

**Table H. Are you considering any actions to deal with the growing #MeToo movement and its impact on your workplace?**

Response	Currently in Place	Planned for the next 12-18 months	Not Planned
Zero tolerance policies about workplace harassment	84%	5%	11%
Whistleblower hotline	41%	4%	55%
Support services for victims	62%	6%	32%
Culture where employees feel confident they can report bullying or harassment	83%	8%	9%
Giving managers clear tools and resources to address negative behaviours	60%	25%	16%
Effective measurement and reporting processes	59%	17%	25%
Senior leadership commitment to eliminate negative behaviours	79%	9%	11%

### Concern for employees' financial preparedness for retirement

Consistent with the results of last year's survey, HR leaders continue to cite concerns about their employees' financial preparedness in retirement (73 per cent) and nearly one-third (32 per cent) are concerned with their employees' level of understanding of the decumulation process in retirement and how they will manage it.

As organizations look to emphasize the value that their employees derive from their Defined Contribution plans (76 per cent of survey respondents reporting that they offer a DC program), HR leaders have focused most of their efforts to-date on the availability of on-line retirement planning tools, educational materials and seminars, as well as on the selection of an appropriate plan default option.

When asked about changes to plan design in light of the CPP / QPP enhancements, only 22 per cent of employers have implemented changes to their DC plans or are planning to make changes in the next 12 to 18 months.

**Table I. Are you taking any action to improve the value your employees are getting from the DC retirement plan?**

Response	Currently in Place	Planned for the next 12-18 months	Not Planned
Auto enrolment, so that all eligible employees participate in the plan	55%	2%	44%
Streamlining of DC investment options	63%	6%	31%
Default investment option, so that employees do not leave their funds in cash	69%	3%	28%
Educational material and seminars	75%	15%	10%
On-line retirement planning tools	82%	5%	13%
Independent financial advice to employees	52%	9%	39%
DC variable benefit payments based on new regulations in most jurisdictions	23%	5%	72%
Decumulation options when they retire (e.g. group life income funds, or payout options)	40%	6%	55%
DC plan design changes in response to CPP expansion	10%	12%	78%

From the perspective of plan design, Canada Pension Plan (and QPP) enhancements, which will begin to come into effect on January 1, 2019, have only begun to pique the interest of HR leaders. From a member perspective, increased benefits to be derived from CPP/QPP programs in the future should result in either a reduced savings rate or an increased risk tolerance in the investment of their assets in their employer sponsored programs and personal savings, all other factors being equal. In light of CPP/QPP contributions set to increase over the next 6 years, there is an opportunity for HR leaders to revisit the design of their programs. Enhancement of communication strategies and retirement planning tools may be required to help employees consider these implications when making decisions on contribution levels and investment of retirement assets to achieve their retirement spending goals.

Thank you to all participants for sharing insights on their plans for 2019. We hope this information is helpful to employers in their HR planning for the coming year. We are available to answer any questions and can be reached at: [HRtrendsSurvey@morneaushepell.com](mailto:HRtrendsSurvey@morneaushepell.com)

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