

WORKFORCE PLANNING PRIORITIES FOR 2025

Market Analysis Highlights– Multiple Survey Consolidation

Compiled: 11/18/2024

INTRODUCTION

Over the last few years, many high growth, small businesses have experienced significant difficulty in attracting and retaining key talent for delivering on and expanding their products and services. A recent 40 year high in inflation, combined with a tight labor market, has generated a spike in wage growth as well, increasing this difficulty from both a cost and competitive perspective. Since key talent can come from organizations of all sizes, keeping pace with strategic market workforce dynamics and investing in creative employee-centric benefits will be critical for organizations to effectively generate and retain a skilled workforce. This presentation provides you with a snapshot of some key findings regarding important workforce capacity planning and key policy and benefits trends from several prestigious consulting/publications firms; Mercer/MarshMcLennan, Korn Ferry, Forbes and Buck/Gallagher.

We hope you find this market information helpful as you implement your organization's strategic planning activities in 2025. Should you have any questions, feel free to contact *ICONIC Rewards* at 941-216-5792.

KEY WORKFORCE PRIORITIES

Companies and Employees

KEY WORKFORCE PRIORITIES

PRODUCTIVITY FOCUS WILL BE AN IMPERATIVE

- AI's integration into the business world is causing companies to rethink the productivity equation
- The key; how well AI can be used to augment human capability
- This augmentation will require more agile talent models and human-centric work design
- As a result, a deep understanding of skill supply and demand, existing skill gaps, and employee upskilling will be an imperative

Investments In Which Areas Would Give The Biggest Boost To Productivity? ⁶



KEY WORKFORCE PRIORITIES

What Keeps You From Being Most Productive At Work? ⁶

IDENTIFYING PRODUCTIVITY ROADBLOCKS

- Employee engagement is key to experience productivity gains. This requires companies to be in tune with workplace dynamics that drain worker energy and enthusiasm
- As a result, a strategic focus on work design and capacity planning is vital for sustained productivity improvement.
- This focus also includes sustaining a healthy talent pipeline, requiring a company to be continuously monitoring existing workforce skills and skill gaps.



KEY WORKFORCE PRIORITIES

RETAINING TOP PERFORMERS IN YOUR ORGANIZATION

- Retaining top talent has become an even higher priority, with many organizations providing perks not extended to all employees
- 84% of organizations in the Korn Ferry survey use targeted approaches for engaging top performers, with the most common approaches being accelerated promotions and career development opportunities as well as off-cycle increases and retention awards.

How Do You Approach Engaging And Retaining Employees? ¹

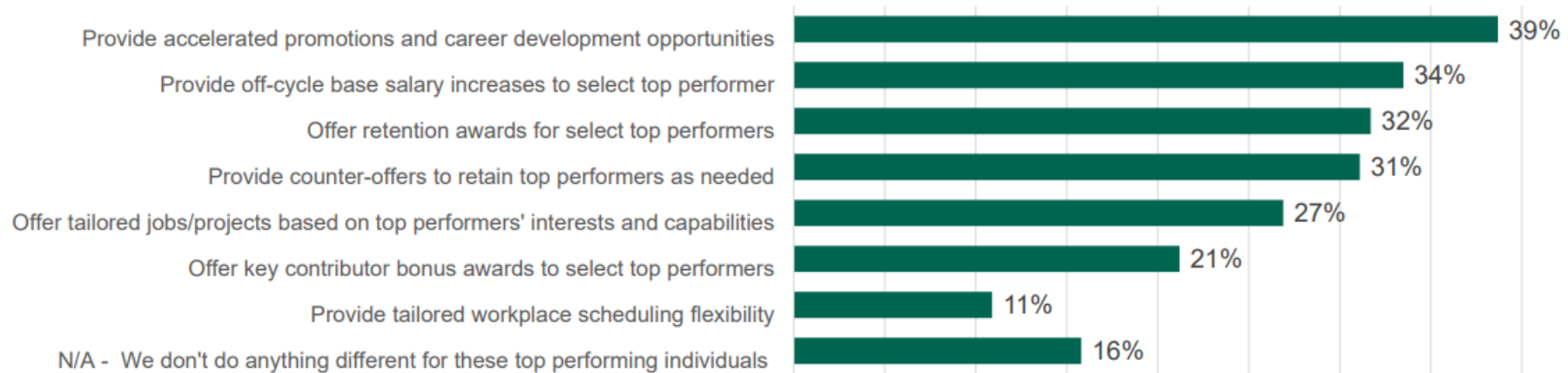


KEY WORKFORCE PRIORITIES

APPROACHES TO EMPLOYEE ENGAGEMENT AND RETENTION

- Companies in this tight labor market are primarily focusing on career development to engage and retain their employees; in line with the workforce skill assessments mentioned on the prior pages.
- Not far behind this priority are non-financial rewards such as well-being programs, workplace flexibility, non-financial recognition programs and increased employee communications for transparency.

How Do You Approach Engaging And Retaining Top Performers? ¹



KEY WORKFORCE PRIORITIES

What Approaches Have Been Most Successful In Ensuring You Have The Skills Needed In Your Company? ¹

REWARDING SKILL ACHIEVEMENT

- Most recently, companies are increasingly using rewards, not just talent levers, to address skill gaps.
- 45% of HR Leaders report that rewarding skill acquisition has been their top approach.
- In spite of this, only 18% of employees believes their company pays a premium for critical skills.
- If employees don't see the upside for them, upskilling and reskilling will most likely fail.

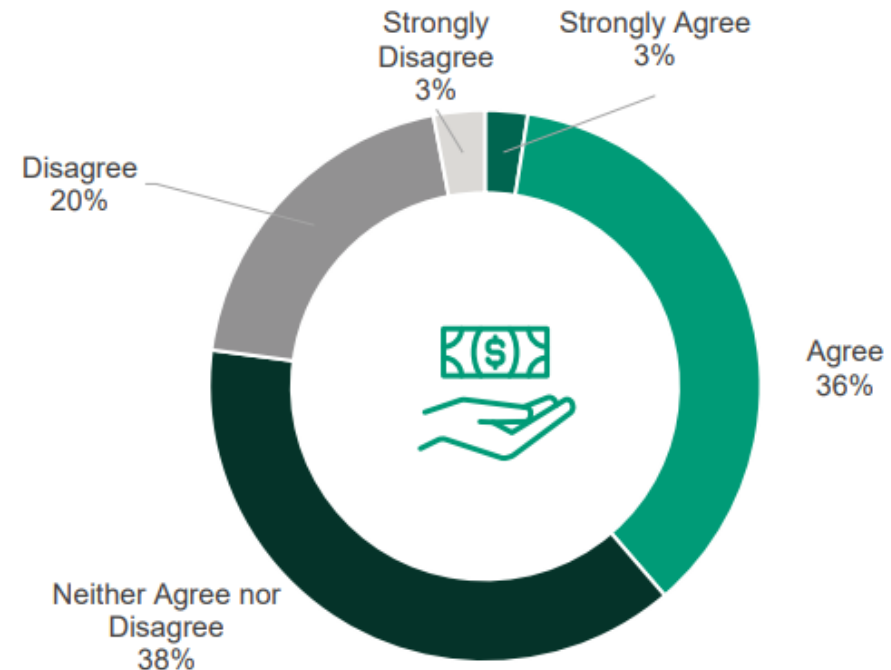


KEY WORKFORCE PRIORITIES

EMPLOYEE POLICY TRANSPARENCY

- Strong employee engagement and retention begins with trust in management. To gain this trust open and transparent employee communication is key
- As you can see from the survey results shown, when it comes to the important issue of employee rewards, a significant portion of employee populations do not have a good understanding of their company's rewards programs. Addressing this is key to retaining the employees you invested in.

Do You Feel That Most Employees Understand The Organization's Reward Strategy? ¹



KEY WORKFORCE PRIORITIES

STRATEGIC WORKFORCE PRIORITIES IN 2025 ^{2,3}

- **Strategic Workforce Planning:** More volatile business environments creates a needed priority focus on workforce optimization. Yet most companies admit their current workforce planning activities is limited to comprehensive headcount management. As mentioned in some of the engagement surveys, with the advent of AI integration in the workplace, there will be roles that become obsolete while new roles emerge. Effectively reskilling, upskilling and identifying skill gaps will define a company's future success.
- **The Rise of Human-Centric Leadership:** As AI takes on some of the traditional managerial tasks, leadership roles will be transforming. Leaders who can excel at building cohesive teams through talent development, facilitation of effective human-technology collaboration, and team nurturing to manage rapid change will be in high demand.
- **Change Resilience:** With the rapid pace of business change, the traditional tops-down change management approach is no longer sufficient, allowing change fatigue to develop. What is needed is the development of change resilience within the organization and teams, empowering employees to participate in the change process, and identifying "change influencers" who can help champion the process.
- **Flexible Work Relationships:** In reality, there is no turning back from the work flexibility experience by employees during the pandemic. Hybrid work schedules and 4 day workweeks will be the new talent attraction tools to attract needed skills. A company's effective integration of virtual reality (VR) and augmented reality (AR) in support of more immersive online working will be key for driving productivity in the new work environment.

BENEFITS AND COMPENSATION TRENDS

BENEFITS AND COMPENSATION TRENDS

Generational Values And Work Attitudes ⁷

EMPLOYEE POLICY TRANSPARENCY

- To accomplish effective workforce capacity planning and maximize employee attraction, engagement, and retention, it's vital for companies to understand the dynamics of their workforce's personal priorities.
- These priorities vary significantly by generation as depicted by the chart. →
- Striking an effective balance of these varying employee priorities within your company's work design and benefits/ reward policies will help your company to maximize programs success in driving engagement and retention.

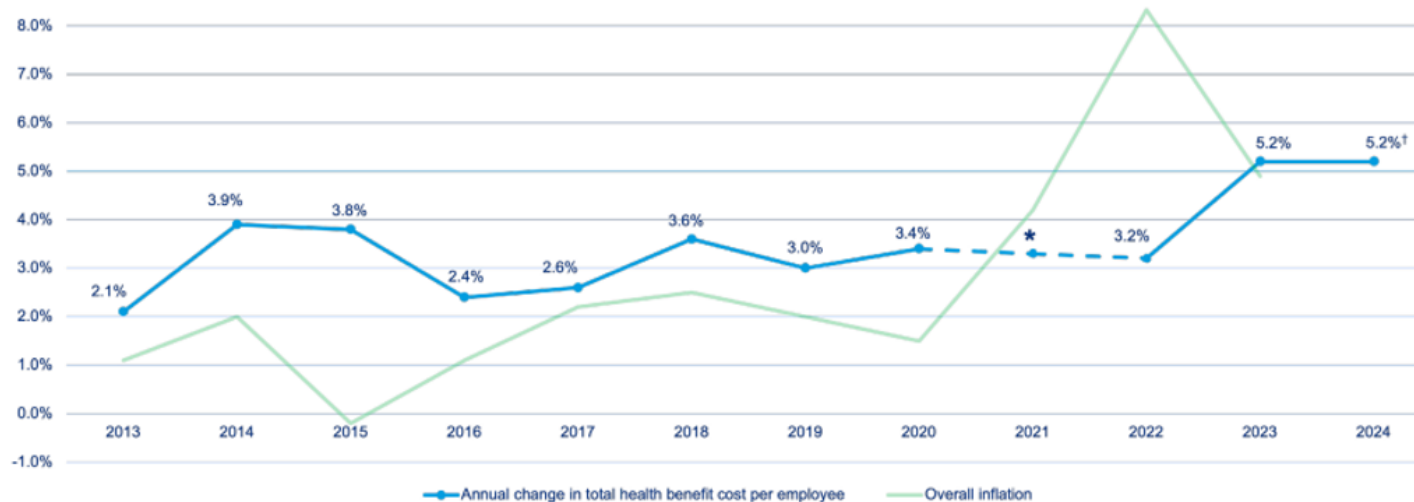
Generations at a glance	BOOMER	X	Y	Z
Born ¹	1946-1965	1966-1980	1981-1996	1997-2012
Ages ¹	77-58	57-43	42-27	26-11
% of global population ²	14%	19%	23%	25%
% of U.S. workforce ³	18%	31%	36%	15%
Aspirations ⁴	Job security	Work-life balance	Freedom and flexibility	Security and stability
Motivated by ⁴	Company loyalty, teamwork, duty	Diversity, work-life balance, personal-professional interests over company interests	Responsibility, quality of their manager, unique work experiences	Diversity, personalization, creativity, individuality
Worldview ^{4,5}	Achievement comes after paying one's dues; sacrifice for success	Diversity; quick to leave if needs unmet; resistant to change at work if it impacts their personal lives	Seeking growth and development; fun environment; work-life balance; quick to leave if workplace unwilling to change	Independence, individuality, and diversity; innovative co-workers; concerned about the future
Communication preference ^{5,6}	More formal; in-person or phone call	Informal but direct style; email and text messages	Frequent and timely feedback; text/ chat messages	In-person preferred; video calls

BENEFITS AND COMPENSATION TRENDS

MEDICAL BENEFIT PLAN COSTS A BIG CONCERN

- After a decade of annual cost growth averaging 3%, total health care cost per employee is now rising by more than 5%
- With the significant impact health care costs have on company profitability, companies are struggling with how to manage cost while staying competitive to ensure their ability to attract and retain talent.

Change In Total Health Benefit Cost Per Employee Among All Employers Compared To CPI ⁴

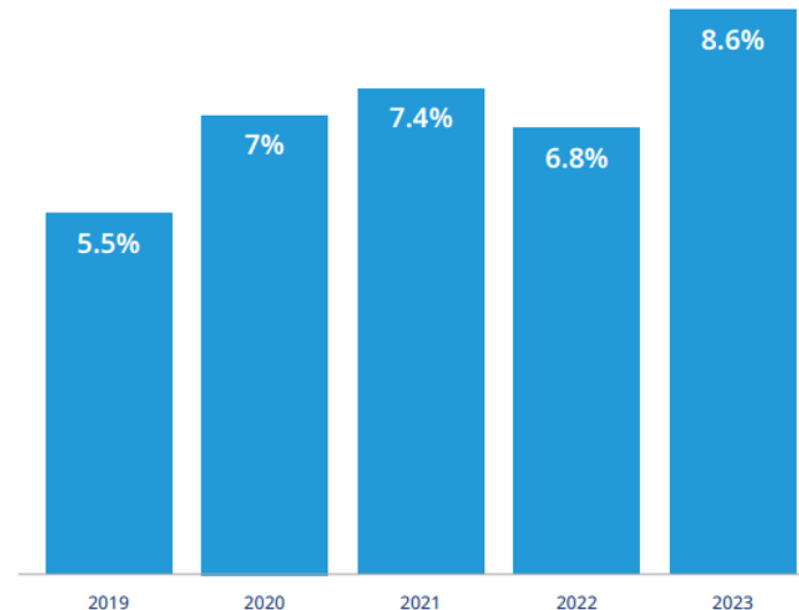


BENEFITS AND COMPENSATION TRENDS

PRESCRIPTION DRUG IMPACT SIGNIFICANT

- Prescription drug costs jumped 8.6% in 2023, driven by surge in the use of GLP-1 drugs and rising specialty drug costs.
- Specialty drug costs per employee alone rose 10.2% in 2023.

Average Annual Change In Prescription Drug Benefits Cost Per Employee Among Employers With 500 Or More Employees ⁴

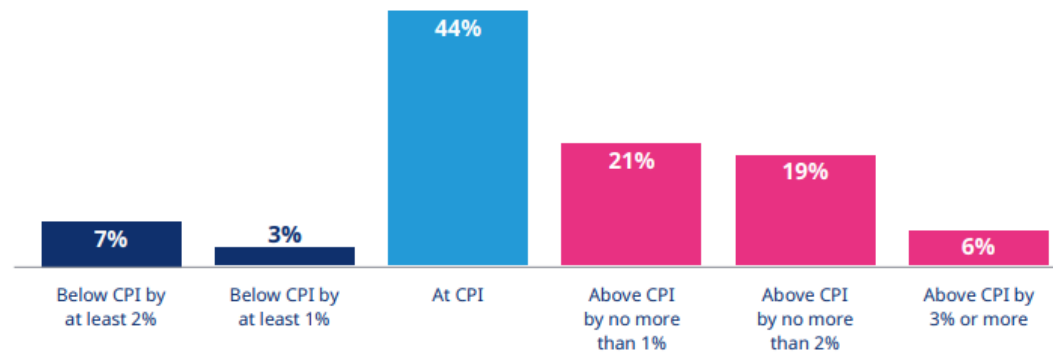


BENEFITS AND COMPENSATION TRENDS

CFO OPINIONS ON HEALTH CARE COSTS

About half of the survey respondents felt that their organization's health care costs needs to rise at no more than the rate of general inflation; a very difficult goal to try and achieve.

What Would Be A Sustainable Annual Increase In Health Care Cost For Your Company Over The Next 3-5 Years ⁵

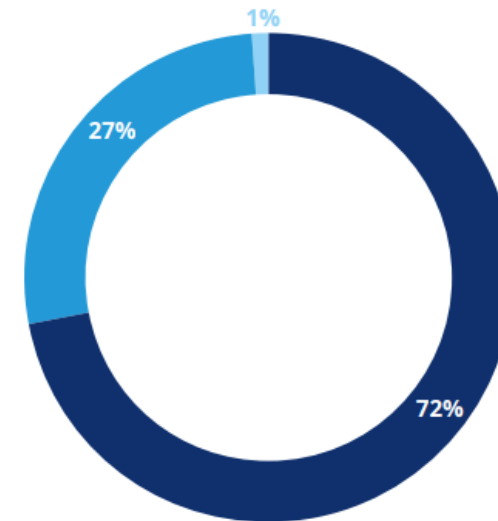


BENEFITS AND COMPENSATION TRENDS

HEALTHCARE COST VARIABILITY

- Healthcare expenses can vary year over year to a significant degree, and if you have a self-funded plan even within a plan year.
- This volatility is what makes it difficult to achieve some increase stability related to CPI that CFOs sited on the prior slide.

How Does Healthcare Expense Compare With Other Expenses In Terms Of Predictability? ⁵



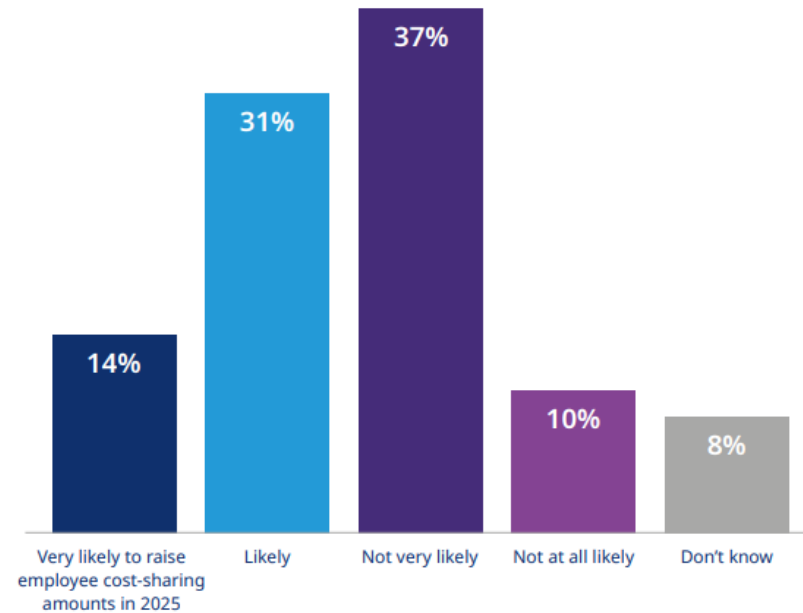
- Healthcare is less predictable than our other expenses
- In line with our other expenses
- Healthcare is more predictable than our other expenses

BENEFITS AND COMPENSATION TRENDS

HOW ARE COMPANIES ADDRESSING COSTS

- With cost growth accelerating, some employers are considering plan design changes that would shift cost to employees in 2025.
- But with one of the employee priorities and concerns being financial stability, more companies are trying to avoid this tactic to maintain their talent attraction and retention capability.

Percent Of Participating Companies Considering Increase in Cost Sharing To Address Rising Medical Care Costs ⁴



BENEFITS AND COMPENSATION TRENDS

HOW ARE COMPANIES ADDRESSING COSTS

- In Mercer's National Survey of Employer Sponsored Health Plans, about two-thirds of large employers said that improving healthcare affordability will be an important or very important health program priority for the next few years.
- As companies of all sizes are competing for similar talent, small businesses need to consider large companies' strategic direction in their plan designs to remain competitive.

Boosting Affordability ⁴

Helping employees keep more of their paychecks



Offer free employee-only coverage in at least one medical plan

Providing cash to help pay for healthcare



Make larger HSA contributions to low-earners

Removing financial barriers to seeking care



Offer medical plan with no/low deductible (e.g., copay plan)



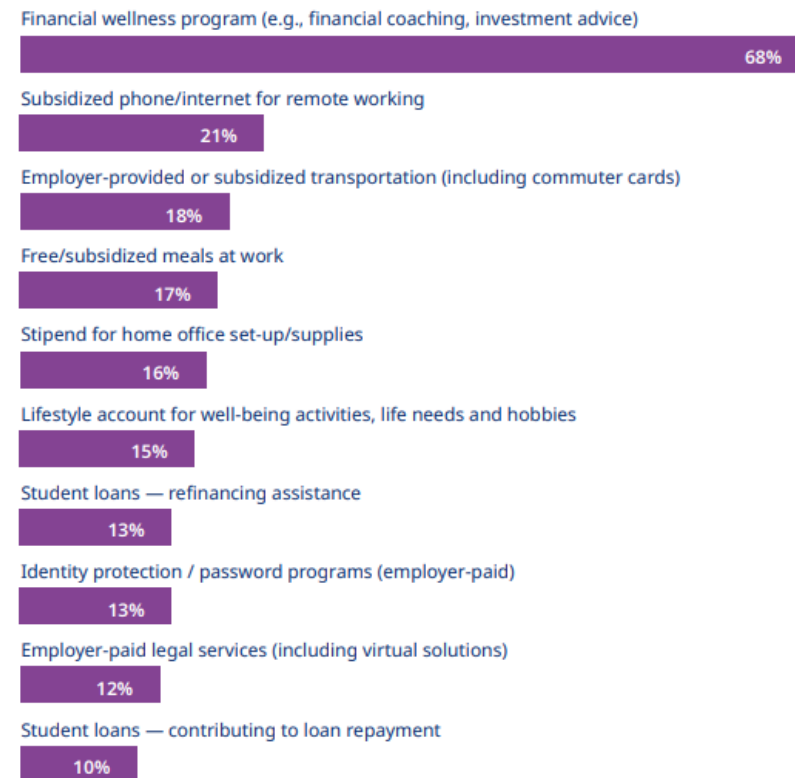
Offer telemedicine to employees not eligible for medical plan

BENEFITS AND COMPENSATION TRENDS

FINANCIAL SUPPORT FOR WORK/LIVING EXPENSES

- Affordable healthcare is only one aspect of overall financial wellness. The Mercer survey also asked about other forms of financial support employers can provide as well.
- While financial coaching/advice is by far the most popular financial support area, companies are also helping to ease the financial burden of work-related and other living expenses.

Plans Offered Or Will Offer In 2025 ⁴

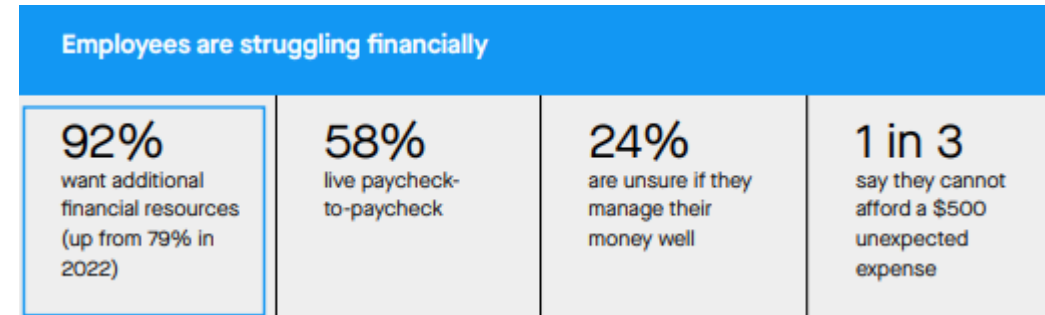


BENEFITS AND COMPENSATION TRENDS

RANKING OF FINANCIAL WELLBEING

- Employees rank financial wellbeing the lowest and almost all want more resources
- While two-thirds of employees rate themselves as financially healthy, this was lowest across all dimensions of wellbeing.
- 58% of employees live paycheck-to-paycheck, and an additional 55% say they are doing the same or worse financially since a year ago.
- The good news; 72% of employers in the Buck survey say they are likely to address financial wellbeing in 2024. This places more market competitive pressure on companies not planning such changes

Employees Are Struggling Financially⁸



BENEFITS AND COMPENSATION TRENDS

OF INCREASING IMPORTANCE – VOLUNTARY BENEFITS

- Voluntary benefits can play a key role in supporting employee wellbeing
- These benefits, while a minimal expense to employers, can play a significant role in enhancing employee attraction, engagement and retention.
- Per the Buck survey, employers on average offer 13 voluntary benefits, up from 11 in 2022.
- What is key is identifying the top needs and priorities given the demographics of the workforce, which is why having a thorough understanding of the generational dynamics outline on page 11 of this presentation is key.

Top Voluntary Benefits Offered ⁸

Top voluntary benefits offered by employers

- | | |
|---------------------------|--------------------------------|
| 1. Supplemental life/AD&D | 6. Identity theft protection |
| 2. Critical illness | 7. Pet insurance/pet discounts |
| 3. Legal services | 8. Mental/emotional health |
| 4. Discount marketplace | 9. Hospital indemnity |
| 5. Health accident | 10. Vision |

Fastest growing voluntary benefits

- | | |
|-----------------------|-------------------------------|
| 1. Long-term care | 6. Cancer support and savings |
| 2. Emergency savings | 7. Identity theft protection |
| 3. Caregiving | 8. Pet insurance |
| 4. Financial coaching | 9. Hospital indemnity |
| 5. Critical illness | 10. Student loan support |

BENEFITS AND COMPENSATION TRENDS

WELLBEING NEEDS VARY BY GENERATIONS AND LIFE STAGES

- As stated on the prior slide, understanding your workforce's generational dynamics is key. While these variations in priorities has been generally defined, it's always a good idea to conduct an employee opinion survey to more accurately assess your workforce demographic's specific preferences.
- The Buck survey did identify some variances in wellbeing preferences that were notable:
 - Women rate their wellbeing lower than men in all areas of wellbeing
 - Younger employees seek more resources overall from their employers
 - Lower income employees prioritize support for day-to-day expenses
 - Nearly 40% of Millennials identify as parents and priorities include family forming benefits, childcare, and education support.

Benefits Value By Generation? ⁸

Top benefits valued by Gen Z	Top benefits valued by Millennials*
<ul style="list-style-type: none"> • Student loans • Anxiety/depression • Emergency savings • Budgeting/money management • Improved credit score • Pet health 	<ul style="list-style-type: none"> • Child education • Child caregiving • Pregnancy/fertility • Life/disability • Banking services • Tuition assistance <p><small>*Largest segment of the U.S. workforce</small></p>
Top benefits valued by Gen X	Top benefits valued by Boomers
<ul style="list-style-type: none"> • 529 college savings • Long-term care readiness • Identity/cyber protection • Elder care • Musculoskeletal issues • Exercise 	<ul style="list-style-type: none"> • Retirement readiness • Charitable involvement • Elder care • Identity/cyber protection • Unexpected medical expenses • Chronic condition management

BENEFITS AND COMPENSATION TRENDS

SALARY INCREASE DATA – ACTUAL 2024 AND PLANNED 2025

- Employees lost financial ground for several years as inflation outpaced salary increases. The last 2 years saw a reversal of that trend, with slight gains made over inflation.
- For your 2025 salary planning efforts, the below survey data from, Buck/Gallagher provides information on salary increases for 2024 and planning increases for 2025. There is consistency throughout all employee groups.

Benefits Value By Generation? ⁸

Category	All Employees		Executive/ Senior Management			Middle Management/ Seasoned Professional			Supervisory/Junior Professional			Clerical/ Operations		
	Avg.	Med.	P25	P50	P75	P25	P50	P75	P25	P50	P75	P25	P50	P75
Actual 2024 Increase Budgets	3.7%	3.5%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%
Planned 2025 Salary Increases	3.5%	3.5%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%	3.0%	3.5%	4.0%

There were 255 participating companies in the survey.

SUMMARY

The business environment has shifted dramatically since the end of the COVID pandemic. Employees now look for flexible work arrangements, financial and personal wellbeing and career progression as top priorities for them to have a mutually productive relationship with their employer. Companies, faced with a dramatically changing work dynamic due to AI integration and a tight labor market, need to retool their strategy for managing their workforce and attract, retain and engage talent. And key to this process is skill gap identification and upskilling. Organization culture and management philosophies need to be re-engineered to create and sustain a strong, symbiotic relationship between employees and business leaders. Only then will organizations be able to maximize productivity gains in a more chaotic and reactionary business environment.

I hope you found this market summary to be beneficial as you plan for 2025. For more information on how ICONIC Rewards can assist in your strategic workforce planning needs, please feel free to contact us.

APPENDIX

SURVEY DATA SOURCES

- Source 1: **Korn Ferry** - Managing Rewards in Challenging Economic Times – June 2024
- Source 2: **Forbes** - Top 5 Workplace Priorities For Leaders in 2025
- Source 3: **Forbes** - 8 Workplace Trends That Will Define 2025
- Source 4: **Mercer** - Survey on Health & Benefits Strategies for 2025
- Source 5: **Mercer** - The CFO Perspective on Health – 2024
- Source 6: **Mercer** - Workforce 2.0 – Global Talent Trends 2024
- Source 7: **MarshMcLennan** - The Evolving Workforce – 2024 Empl. Health & Benefits Trends
- Source 8: **Buck/Gallagher** - 2024 Wellbeing and Voluntary Benefits Survey