

# Considerations for Your Total Rewards Strategy in Response to COVID-19

*The COVID-19 pandemic creates a wide range of challenges for business leaders to consider. When it comes to total rewards, here are the key issues to address.*

Every business is feeling the impact of the COVID-19. This unprecedented global pandemic is disrupting supply chains, consumer spending, business productivity, employee well-being — and the foundations of the way we work. While companies are responding to the day-to-day challenges of this crisis, executives and HR leaders should also be thinking about how to proactively adjust their total rewards strategy for the year ahead.

Below we describe some of the top concerns leaders should consider in this area, including employee communication, short-term assistance actions, sick leave policies, remote working policies, sales compensation, underwater equity awards, and annual incentive plan adjustments.

## Communicate Often and Transparently with Employees

Do your employees have the managerial support they need during this time? Employers should communicate more frequently with employees during these uncertain times, especially as more people are working remotely. Employees need to be reassured that their employer is considering their needs and well-being, as well as the needs of the business during this crisis. Make sure your managers have adequate resources by including them on strategic calls to ensure they are informed about changes to the business, as well as how the company is responding. They can then help cascade communications to their staff to ensure continuity and alignment. Remember to share good news when available. Any big corporate wins should be widely communicated so people know things are still moving forward. Additionally, share accounts of teamwork and charity as employees work together to support each other and their community during these stressful times.

Your employees are undoubtedly under varying degrees of stress. Communicate any programs the company offers that can reduce financial or emotional stress or help with childcare or physical or mental health needs. Employees will want to know if they are at risk, however, be mindful that privacy laws require employers to keep the identity of any employees who contract coronavirus confidential. It is permissible to disclose that there has been an employee diagnosed with the virus, but do not disclose the person's identity. (Reach out to your organization's human resources or legal team if uncertain about policy.)

Compensation is just one part of a larger set of total rewards that companies offer, so it's helpful to reinforce your employees' total rewards package that is available to them and their families.

Finally, acknowledge when you don't know the answer to pressing questions and be sensitive and open to concerns. If you do not have a direct answer or guidance on a particular question, advise on a department who may.

## Consider Short-Term Actions to Help Employees

As organizations develop business forecasts for the remainder of the year, many leaders will be making decisions on how to move ahead and sustain business operations and financial well-being. Companies that rely on consumer spending may see such a significant decline in revenue that they consider layoffs or are forced to cut hours for non-exempt workers. Below are several traditional and as well as a few new ideas to consider implementing in order to minimize the impact of lost earnings and reduce costs as an alternative to workforce reductions:

- Leaders taking temporary pay cuts and eliminating fringe benefits to maintain workforce levels
- Offering unpaid "sabbaticals" for employees who can and want to take them, securing their position and benefits, but foregoing a paycheck for a distinct period of time
- Offering non-exempt employees who cannot work from home to continue their pay due to an office closure
- Shifting budgeted bonus dollars to secure hourly wages for "furloughed" workers or hazard pay for employees still working in essential roles with public exposure
- Supplemental lump sum payments to help offset the pressure of school closures, elder caregiving, home office setups and other hardships
- Seeking input from your employees on hard choices (e.g., would you rather take a temporary pay cut to prevent larger layoffs); many businesses presented these scenarios during 2008-09 recession and employees reported that they were happy their voices were heard
- Expanded benefits like paid sick leave (more on that below)

In the unfortunate event that you need to close down a location and lay off employees, remember to consider which federal and state laws apply, like the federal WARN Act and state unemployment laws.

## Evaluate Your Sick Leave Policy

A growing number of businesses have enhanced their sick leave policies in response to COVID-19. In light, we recommend your organization consider re-assessing its sick leave policies as well.

According to Aon's proprietary database, sixty-one percent of technology and life sciences companies last year reported offering paid sick leave to both their exempt and non-exempt employees at an average of 61 hours per calendar year (or 7.6 days). However, COVID-19 can be contagious for up to 14 days. This means employees who have been exposed to the virus and who have tested positive, or who have symptoms, need more time off than most companies currently provide to prevent transmitting the virus.

Below are some enhancement options to consider for your sick leave policy — at least on a temporary basis:

- Set aside disciplinary policies for unscheduled absences common with hourly employees
- Allow employees to donate sick leave or PTO to others in need (Note that this approach in the current environment can be risky since otherwise healthy employees who donate leave now, may become sick in the future and need this time off)
- Allow employees to carry a negative balance or provide additional paid or unpaid leave to employees
- Set up emergency funds
- Enact a supplemental sick leave policy to provide additional paid sick time off or family leave to care for ill family members or children who are home as a result of school closures, even if your organization isn't subject to FMLA legislation
- Be informed and up-to-date on federal, state and local regulations. The federal government and many states are enacting temporary emergency changes to their paid family leave laws. The Families First Coronavirus Response Act has proposed enhanced FMLA requirements, and certain states have enacted laws that permit employees to use paid sick leave during a public health emergency to avoid getting sick. In addition, the Americans with Disabilities Act may require employers to provide paid leave as an accommodation to certain high-risk employees
- Above all, ensure your policy provides adequate (a definition each company needs to make for itself) paid sick leave to both hourly, exempt and non-exempt employees

## Have an Effective Remote Working Policy

While your organization may have a policy that permits some employees to work remotely on an ad hoc basis, now is the time to review and formulate a formal remote working policy. For example, many employers' current policies prohibit workers from caring for children when teleworking. In light of the current COVID-19 situation, employers should reconsider this provision, at least on a temporary basis.

Other provisions that may require attention include details such as technology systems (VPN, teleconference systems, etc.), data security, expense reimbursement, expectations for work hours and availability, and cadence of communication between managers and their direct reports. For example, do all employees have the proper security credentials and remote access systems to work from home, or does the company need to provide additional equipment or access to technology?

In addition, organizations may need to consider asking non-exempt employees to work remotely, which may be a new policy for both the workers and employer. How will you manage and oversee work hours, overtime, and meal and rest periods? Make sure that you have the answers to these questions so that employees are confident and assured, your record-keeping continues to be accurate, and wage and hour policies are not at risk of violations

With so many employees working from home, some additional tips for managing the workforce and maintaining engagement include:

- As much as possible, try to keep routines and business as usual
- Have regular check-ins leveraging video conferencing as much as possible
- Focus on goals rather than on how employees are spending each minute of their day
- Encourage fun activities, such as virtual happy hours or learning opportunities

## Assess Your Sales Compensation Plan

During uncertain economic times, the pressure on the sales force to continue to produce is never greater. With the ambiguity surrounding COVID-19, a slowdown in productivity is perhaps inevitable. What is not known is how long this slowdown will last or how fast the productivity will ramp up once we move beyond this crisis.

Before making any substantive changes to your compensation plan, understand and be empathetic to the breadth of the challenges the sales force is facing. Familiarize yourself with the numbers as they apply to different scenarios to understand the impact of any changes to goals and targets, expected swings in performance, and direct correlation to pay. This information can help you make informed decisions on what changes to make and the core areas and verticals of focus.

The most effective short-term solutions will help the sales organization stay focused and incentivize sales representatives to continue selling and working toward their goals. These solutions include:

- Increase ramp times for new hires
- Offer temporary non-recoverable draws or guarantees to both new hires and impacted reps
- Provide flexible short-term goals and/or temporarily adjust sales targets (e.g., update new performance levels, measurement periods or plan measures)
- Lower threshold for performance on primary sales measures
- Adjust payout curves to make it easier for reps to get in the money
- Shift to small team or company-based measures
- Consider moving to activity-based measures to keep reps engaged (If disruption extends beyond a couple of months)
- Deliver retention bonuses for top talent identified as a flight risk

## Get Ready to Address Underwater Equity

Since the stock market started experiencing wild swings last month, officially hitting a bear market on March 11 for the first time since 2009, many of our clients are asking us what to do about their employees' loss of equity

value, either through full-value equity that has materially diminished in value or stock options that are now underwater.

During the Great Recession of 2007-09, companies made multiple adjustments to the design of their long-term incentives to add resiliency in their plans against severe market volatility. This included adding relative total shareholder return (TSR) as a long-term performance metric, which was crucially important, as it compares your performance against your peers regardless of the macroeconomic setting. Absolute TSR awards can yield no value in this environment because macroeconomic events are driving prices down regardless of how the company performs. A relative comparison helps mitigate this situation, allowing the company to truly assess performance even when the entire market is down.

Furthermore, now is a good time to revisit the lessons learned during the recession related to declining value of long-term incentives. Many companies addressed underwater equity by conducting underwater stock option exchanges or re-pricings, adding supplemental full-value shares or awarding supplemental cash-based incentives. While these are still tools at companies' disposal, each approach carries pros and cons that should be weighed against alternatives. You can read more about these strategies for addressing underwater equity in our recent article, [Tips for Addressing Underwater Equity During Market Volatility](#)

## Adjust Your Annual Incentive Plan Design

As businesses evaluate their short-term incentive plans, consider whether changes need to be made compared to the prior year — and, in many cases, they will. We recommend reviewing how discretion will be utilized. Many businesses may not be able to adequately set performance goals for many months. In this environment, how does your annual incentive plan take discretion into account? With the implementation of the Tax Cuts and Jobs Act at the end of 2018, and the associated removal of the \$1 million deductibility for performance-based compensation, businesses have more flexibility with the use of discretion. During the present crisis, this should be viewed from the perspective of overall plan design, governance and employee motivation. You may want to exercise discretion differently for your officer and non-officer employee population. If after assessing your governance profile you find that reporting positive discretion for the C-suite in your proxy statement will risk a negative say-on-pay vote, it may be wise to hold off on using positive discretion for officers.

It is possible that some companies will pay out much smaller, or potentially even no bonuses or merit increases this year. In order to retain and engage top performers, organizations should develop a contingency plan now to address whether across-the-board merit increases, as well as the bonus pool, should be reduced in order to reward those high-impact employees.

## Next Steps

At the start of the year, most of us didn't anticipate having to navigate the level of disruption and uncertainty we are faced with today. Executives and HR leaders have an important role to play in keeping their workforce engaged during this crisis. This ranges from evaluating communication policies and sick leave benefits to enabling remote work, assessing rewards programs to address declining equity values and adjusting goalposts for short-term incentives. We'll dive deeper into these topics in the subsequent weeks to keep you informed.

If you would like to speak with one of our experts about anything addressed in this article, please write to [rewards-solutions@aon.com](mailto:rewards-solutions@aon.com).

## About Rewards Solutions

The Rewards Solutions practice at Aon empowers business leaders to reimagine their approach to rewards in the digital age through a powerful mix of data, analytics and advisory capabilities. Our colleagues support clients across a full spectrum of needs, including compensation benchmarking, pay and workforce modeling, and expert insights on rewards strategy and plan design. To learn more, visit: [rewards.aon.com](https://rewards.aon.com).

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