U.S. Employers Once Again Not Planning to Fully Fund Annual Bonuses, Towers Watson Survey Finds

September 17, 2015

Three in ten companies, however, still plan to give bonuses to workers who fail to meet performance goals

ARLINGTON, Va.--(BUSINESS WIRE)--Sep. 17, 2015-- U.S. employers aren't expecting to fully fund their annual employee bonuses in 2015, marking the fifth consecutive year that annual bonus pools will be below target, according to a new survey by global professional services company Towers Watson (NASDAQ: TW). Even as companies are not fully funding their bonus pools, the survey found a majority of employers are having difficulty both attracting and retaining critical-skill employees, reflecting a rise in talent mobility.

The Towers Watson Talent Management and Rewards Pulse Survey found that U.S. companies' average projected bonus funding for current-year performance is 89% of target. Last year, these same organizations funded their plans at 93% of target level. Since 2005, U.S. companies have fully funded their bonus pools only twice.

The survey also found three in 10 employers (30%) plan to give bonuses to employees who fail to meet performance expectations, the lowest performance ranking possible. While some of these organizations give the same payout to every employee regardless of their individual performance level, other employers that pay bonuses to employees with the lowest rating typically pay them around 65% of their target payout. Conversely, employees who far exceed performance expectations are in line to actually receive bonuses around 19% above the target amount.

"Employers are continuing to take a conservative approach to funding their bonus pools," said Laura Sejen, managing director at Towers Watson, who notes that funding for incentive pools is generally tied to a company's financial performance. "While most incentive programs are designed to recognize and reward employees for individual performance, the fact that some companies continue to deliver substantial bonuses to weak performers raises questions as to whether they are investing their bonus dollars as effectively as possible or truly holding workers accountable for performance."

The survey also found the number of U.S. employers having difficulty retaining critical-skill employees has risen sharply in the past two years. More than half of respondents (52%) are reporting difficulty keeping critical-skill employees, compared with 41% in 2013. At the same time, two in three employers (66%) also reported having problems attracting critical-skill employees. Difficulty attracting these workers has stabilized after rising steadily since the end of the recession. This comes as talent mobility is increasing. According to the survey, just over half (53%) of respondents said hiring activity has increased compared to last year, while 40% indicated that turnover is rising.

"Attracting critical-skill employees and other key talent has been a real challenge for many employers for several years. However, with hiring activity on the increase and employees more receptive to changing jobs, there is greater competition for talent, making it more difficult for companies to keep their most valued employees. Employers need to ensure they don't underestimate the role of pay, career advancement opportunities and challenging work in attracting and retaining critical workers," said Sejen.

Many Employers Not Prepared to Implement FLSA Proposed Changes

Half of the respondents (50%) believe the proposed changes to the Fair Labor Standards Act (FLSA) classification rules regarding eligibility of and compensation for overtime are likely to have a significant impact on their organizations. However, less than half (47%) are prepared to implement the changes.

"The proposed FLSA rules are likely to have some impact on many employers' compensation and reward programs. While the rules won't become final and take effect for at least another year, employers can take steps now to prepare for the anticipated changes. This includes reviewing the classification of their exempt employees, overtime policies and workforce planning strategy," said Sejen.

When asked about possible changes to the minimum wage, six in 10 respondents (61%) said they conducted an analysis, with only a quarter (23%) indicating their organization would be significantly affected. Just over one-third (37%) said they are prepared for a minimum wage increase.

About the Survey

The Towers Watson Talent Management and Rewards Pulse Survey was conducted in August and September 2015. A total of 170 large and midsize U.S. employers representing a cross section of industries participated.

About Towers Watson

Towers Watson (NASDAQ: TW) is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 16,000 associates around the world, the company offers consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management. Learn more at towerswatson.com.

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