



The Future of Total Rewards in Aged Care

October 2020

AON

Table of Contents

Introduction	3
Key Workforce Challenges	4
What is the Role of Total Rewards in the Future Workforce Strategy?	7
Remuneration	7
Environment	9
Benefits	9
Development	11
Does Pay for Performance Have a Role to Play?	12
Conclusion	13
How Can Aon Help?	15

Introduction

It has been two years since the Aged Care Workforce Taskforce released its report, *A Matter of Care: Australia's Aged Care Workforce Strategy*¹, which outlined 14 strategic actions for the sector to meet current and future workforce challenges and improve the quality of care. The report documented that the sector is facing multiple pressure points with regards to ensuring a stable, sufficient and suitably qualified and experienced workforce to deliver quality outcomes in line with government, customer, family and community expectations.

Throughout 2020 Aon conducted a study into the Future of Total Rewards in Aged Care to understand how HR leaders in the sector were thinking about the role of Total Rewards in solving the sector's well documented attraction, retention, qualification and quality of care challenges.

Aon's study was inspired by both the frequent references to elements of Total Rewards in the Taskforce's 14 strategic actions¹ and a recent conversation with an aged care provider who wanted to understand what the sector was planning to do in the next five years.

Rather than obtaining responses to a fixed set of questions, the study involved a series of one-hour interviews with HR and remuneration leaders, allowing the conversation to flow so that all voices and aspirations could be heard and explored.

This report by no means delves into the level of detail around current pay practices and market competitiveness that was so thoroughly explored in *A Matter of Care*¹. Comments throughout this report indicate where a topic being explored relates to one of the 14 strategic actions, highlighting alignment with topics raised by participants. This study provides insight into how organisations are responding two years since the strategic actions were published.

Participating organisations

- Australian Unity
- Baptistcare
- BaptistCare
- BUPA
- Estia
- HammondCare
- IRT
- New Horizons
- OzCare
- Uniting Communities

We acknowledge and thank all participants for their time

and contribution, particularly as the Australian aged care sector faced additional challenges created by COVID-19. We also acknowledge those organisations who were invited to participate but couldn't due to these challenges. Aon's doors remain open to all aged care organisations who would like to join the conversation at any time.

We recognise the limitations of a study for which participants opt in because it is likely to reflect a cohort who is more advanced or active in their thinking on the topic, however this is exactly the intent of the study. The insights gathered reflect a great deal of thoughtfulness and maturity in considering how Total Rewards may, or may not, play a role in solving some of the sector's most complex workforce challenges.

We also recognise that the aged care workforce is not a homogeneous group, but is comprised of many different professions and, as such, there are multiple responses to the questions we posed. We also note that the sector is diverse in regard to ownership structure and breadth of services offered. Despite these differences, the sector is aiming to come together to develop sector-wide responses to the 14 strategic actions described in *A Matter of Care*¹.

Aon's report aims to provide a window into the diversity of thinking among sector leaders.

The remainder of this report presents participants' insights into the following categories:

Key workforce challenges

- Attraction and retention of a suitably qualified workforce
- A casualised and highly mobile workforce
- Navigating industrial relations and administrative compliance challenges

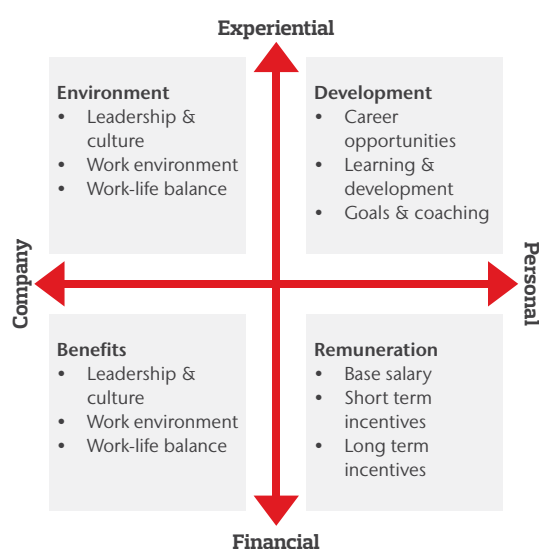
What is the role of Total Rewards in the future workforce strategy?

- Remuneration
- Environment
- Benefits
- Development/career path
- Does pay for performance have a role?

What exactly do we mean by 'Total Rewards'?

The total package of reward that employees access by working for the organisation, including quantifiable and non-quantifiable items, such as:

- Base salary
- Superannuation
- Incentives/bonuses
- Tangible benefits
- Culture
- Flexibility
- Access to learning & development and career path opportunities



A note regarding COVID-19

The interviews took place primarily in March and August 2020. To set the scope for the interviews, we asked participants to focus on the long-term horizon for the aged care workforce rather than the extreme and acute challenges presented by the COVID-19 pandemic. Short term remuneration and benefits responses to the COVID-19 challenges were not part of this study. However, where COVID-19 had perhaps accelerated the need to tackle longer term challenges, this became part of the conversation.

Key workforce challenges

Participants spoke quite consistently about the workforce challenges they were experiencing and these can generally be grouped into three categories:

- Attraction and retention of a suitably qualified workforce
- A casualised and highly mobile workforce
- Navigating challenges in industrial relations and administrative compliance

Attraction and retention of a suitably qualified workforce

Attraction

Ninety percent of participants agreed that attracting employees is a multifaceted challenge related both to attracting younger workers into the sector as a desired career path, and to attracting workers already in the sector to a specific organisation.

The former challenge can be linked to the general perception of the aged care sector as boring, underpaid and 'the graveyard of nursing'. This particularly impacts the ability to attract experts, who may instead opt for 'exciting' environments like hospitals. One participant noted that, ironically, in hospitals clinical decisions are primarily made by doctors, while in aged care registered nurses (RNs) have more autonomy and hold more responsibility for day-to-day clinical decisions, even though the clinical issues tend to be less acute than you would find in an emergency room. One participant noted that this perception can also disadvantage aged care nurses who want to transition into hospital-based nursing because skills and experience gained in aged care may not be valued outside the sector. Many respondents noted that nurses employed by state health departments receive higher rates of pay than those employed by aged care providers, making it difficult to recruit from the acute sector unless other factors are motivating the candidate, such as a specific desire to work in aged care.

90% of participants agree that attracting employees is a challenge

This external perception of the aged care sector naturally restricts the pool of suitable candidates, taking into consideration minimum qualifications, demonstrated competency, personality traits, and alignment with organisational culture. Participants frequently mentioned the need for opportunities to ‘grow their own pool’ of potential candidates through targeted training, internships, graduate programs and high school outreach programs to improve perceptions of the sector early on. These opportunities are explored later in the paper.

The one organisation for whom attraction was not an issue, attributed their increasing pool of quality applicants to rising publicity around their innovative business model and programs and to the involvement of their senior leaders in industry networking groups and events.

A Matter of Care – Strategic Action 1

Creation of a social change campaign to reframe caring and promote the aged care workforce¹

A Matter of Care – Strategic Action 7

Implementing new attraction and retention strategies for the workforce¹

Retention

Only two of the ten participating organisations (20 per cent) mentioned retention as a key challenge, each noting a different employee segment as a concern. One mentioned a high turnover of residential managers, while the other noted entry level roles as problematic. However, these participants could not say with certainty why employees were leaving or where they went after leaving, raising the desire to collect more data around key workforce milestones, such as hiring/promotion/termination, to inform decision making.

A third participant remarked that, “Employees are either here forever or for less than six months. It suits you or it doesn’t”. This sentiment was also noted in the 2016 Aged Care Workforce Survey², which found that the sector has a strong retention record overall.

Study participants who didn’t feel retention was a major challenge for them said that specific strategies, such as consciously paying well against the market rate and offering stability of employment in the form of permanent contracts with guaranteed minimum hours, had been beneficial both for residents and employees.

Where are employees going? Both participants speculated about the relationship between attrition and employees’ desire to optimise preferred hours, considering whether the attrition rate is a signal that employees are working too much and want to scale down or whether it’s an indication that employees want to settle with a single employer who can give them all the hours they want. Whilst participants couldn’t say for sure, we can draw on the findings from the 2016 Aged Care Workforce Survey², which found that, although 78 per cent of direct care workers in residential aged care are employed on permanent part-time contracts, many people work full-time hours or more. Twenty-three percent of RNs actually work more than 40 hours per week, while only five per cent say they want that many hours.

The 2016 survey² also found that 71 per cent of aged care RNs and 60 per cent of enrolled nurses (ENs) had moved from a previous job in aged care to their current job, while only 35 per cent of personal care assistants (PCAs) had previously worked in aged care, suggesting that those who are leaving are likely staying within the sector. The reasons for leaving were primarily related to personal circumstances, such as working closer to home, moving house or having other caring responsibilities and this accounted for 45 per cent of PCA resignations, and one-quarter to one-third of resignations of ENs, RNs and allied health (AH) workers.

Other reasons cited² for leaving were varied, with around 15 per cent of ENs, RNs and AH workers leaving in pursuit of more challenging work. This is perhaps a symptom of limited career path opportunities in a sector with an older workforce and low turnover. Eleven per cent of RNs left for better pay, 10 per cent left because they didn’t get along with management and 7 per cent left because the job was too stressful.

“Employees are either here forever or for less than six months. (Aged care) suits you or it doesn’t.”

Study participant

A casualised and highly mobile workforce

The notion of a casualised and highly mobile workforce could, at first glance, sound like a positive characteristic, with many sectors trying to achieve ‘just in time’ workforce coverage and spruiking the benefits of the gig economy for workers, employers and consumers.

The media have shone a spotlight on high rates of casualisation and part-time employment in the services sector and its impact on efforts to minimise the spread of COVID-19, with some states temporarily prohibiting people from working across multiple employers. But even in the interviews undertaken before the impacts of COVID-19 were fully understood, we heard of the difficulties of managing a casualised workforce who work across multiple employers to attain the total hours they want to work.

We heard that differences in pay rates between employers, or even within employers depending on the type of work being performed on a given day, was creating competition to secure workers for each shift, as employees opted to take higher paying work.

It was also noted that it is very difficult to guarantee full-time hours in aged care and home care services due to fluctuating demand based on clients’ changing needs (for example, when home care clients are unexpectedly hospitalised or have the help of a family member at short notice). Therefore, contracts for minimum hours are common and lead employees to seek secondary employers to fill the gap to their preferred total hours.

A casualised workforce was also described sub-optimal for providing consistent client care and employee familiarity with a specific aged care facility. One participant reported having a very specific mandate to limit the use of casual workers to short periods, saying their EBA requires leaders to examine whether individuals employed on a casual basis for six months or more can be provided with permanent, part-time work. If part-time work is offered and declined, that individual cannot continue to work with the employer on a casual basis.

Differences in pay rates between employers is creating competition to secure workers for each shift.

Navigating challenges in industrial relations and administrative compliance

Approximately half of the participants noted challenges which could best be grouped into industrial relations and administrative compliance. One organisation had six enterprise agreements to be reviewed this year; many noted the confusion of having so many different EBAs and awards that apply across the whole organisation. Another noted that EBAs tend to reflect the traditional view of a linear ‘career path’ in which progression is based on tenure rather than on the demonstration of skills, and that this EBA structure would require union, employer, employee and government cooperation to change. Also mentioned was the administrative cost of meeting regulatory compliance obligations for onboarding. One participant said they experienced payroll system challenges because casual employees were working in multiple different roles and divisions throughout the organisation, under different conditions. This had created inefficiencies and increased the risk of payroll errors.

One organisation noted that they had committed significant time a few years ago to bring all employees under one EBA and that this had been worthwhile from an administrative and rostering perspective.

While the exact challenges weren’t always consistent across the group, participants consistently reported that they were spending a lot of time maintaining the status quo and wondering what the sector would look like in future, especially with regard to staff ratios and funding. These time constraints and uncertainty impacted participants’ own plans for setting up their workforce for future success.

With these challenges front of mind, we asked participants, ‘What is the role of Total Rewards in the future aged care workforce strategy?’

A Matter of Care – Strategic Action 8

Developing a revised workforce relations framework to better reflect the changing nature of work¹

What is the role of Total Rewards in your future aged care workforce strategy?

It is important to understand the difference between Total Rewards and Employee Value Proposition (EVP). The EVP is the communication of the Total Rewards offer, the articulation of why it's better or different to work for a specific employer. Although similar, the EVP differs from Total Rewards in that a competitive and generous Total Rewards package can exist but is unlikely to make a compelling EVP unless it is aligned with the organisation's values and culture and effectively communicated. Value is perceived by the individual, so unless an employee understands the Total Rewards on offer, they won't value them.

It is on this latter point that many participants expressed a desire to do better – to more clearly articulate the Total Rewards offer, including the culture and purpose of the organisation, and to ensure its effective communication to prospective and existing employees. They often expressed that their formal EVPs were either non-existent or not compelling and that they would be under review in the near future, including a review of the tangible benefits offered. As one participant expressed, they want to bring their EVP 'to life'. Another felt that even though it wasn't formally communicated, employees understood the EVP 'because they are living it in their day to day work'.

Managed well, an EVP is more than just a tool to market the organisation to potential employees. It can also help to retain existing staff who may be approached to work elsewhere.

The aged care sector has two key reasons to improve its EVP: the first is to attract workers into the sector and the second is to attract workers to particular organisations. As a relatively 'easy win' this is an area that will likely be improved by most organisations over the next five years. As the sector takes steps to develop a consistent narrative to improve the perception of aged care as a career, we can expect this to feed into each organisation's EVP.

Pay is usually a hygiene factor for frontline workers, but it becomes more important in supply constrained regions.

There is a role for Total Rewards, but it's not just about money

Participants stated that Total Rewards is a big part of the emerging response to the recommendations in A Matter of Care¹, particularly in terms of recognising employees and developing better career pathways. Some discussed the challenge of tailoring a Total Rewards package to suit a diverse workforce, with different employee preferences and access to benefits driven by life stage, location and socio-economic status making it difficult to create one offer to suit everyone.

The remainder of this report will delve further into the discussion findings about each component of a Total Rewards offer:

- Remuneration
- Benefits
- Environment
- Development

Remuneration

- Base salary
 - Short term incentives
 - Long term incentives
-

Is pay important?

In thinking about pay for the aged care sector, it is worth noting the following recommendation from A Matter of Care:

*"The Taskforce recommends that industry develop a strategy to support the transition of PCWs and nurses to pay rates that better reflect their value and contribution to delivering care outcomes. More broadly, the Taskforce recommends that organisations develop, in accordance with their business model, remuneration strategies covering each job family."*¹

(p.73)

A common theme when we asked our participants about the role of pay was that pay is a ‘hygiene factor’ in this sector for frontline workers; they join for reasons other than pay, and higher pay may not be enough to attract and motivate someone to work in the aged care sector if they are not suited to the nature of the work. While this was the general consensus, a few noted cases in which pay was becoming more important:

- One participant remarked that good leadership (both general management and clinical leadership) in each home can lift the overall performance of all staff, and that reward and recognition has a role to play in attracting and retaining the right person to that leadership role. This idea is backed up by the findings of the Employee Engagement and Enablement Survey (EES) sponsored by the Aged Care Workforce Taskforce. The survey found that three of the top five key drivers for employee engagement and the top two key drivers for enablement in aged care related to confidence in leaders¹.
- It was noted that regional differences may emerge, and in supply constrained regions remuneration plays a greater role in candidate decision making.
- A few organisations are pro-actively elevating the importance of getting pay right in order to attract and retain the talent they need to take their organisation forward and meet client expectations. They do this by setting specific strategic initiatives and by taking a deliberate focus on designing pay policies to support the narrative around career progression.

There is an expectation that the outcomes of the Royal Commission will result in sector-wide elevation of qualification and experience requirements, which brings with it questions of how or if employees will be more highly remunerated in turn. Of course, this question is strongly linked to issues of funding models which are outside the scope of this paper. Nonetheless, it is worth acknowledging that although many of the participants noted that pay was not a motivator for the aged care workforce, it remains to be seen whether that will stay true when the entry bar is raised. There is also a question of fairness and equity – is it equitable to require higher qualifications but not to raise pay levels?

A Matter of Care – Strategic Action 13

Current and future funding, including staff remuneration¹

What is the target market position?

Target market position means where in the market the organisation wants to compare to. For example, do they want to pay in the middle of the not-for-profit market? Higher? Do they want to compare with the general industry? The answer to this question is likely to be different for various employee segments.

Management and head office

The overwhelming majority of participants were not-for-profit or profit-for-member -benefit organisations. We found a fairly even split between the group in terms of comparing to the median of the general industry market and the not-for-profit market for middle management and head office roles. A common comment was that these roles moved between the NFP and private sectors and so the remuneration and benefits needed to be sufficient to attract them. Some organisations, both in the for-profit and not-for-profit groups, identified that for particular roles requiring commercially savvy candidates they needed to, and were prepared to, offer commercially competitive pay and benefits, such as more leave.

Direct care roles

For frontline care roles primarily covered by EBAs, about 50 per cent of participants described their deliberate target position as ‘better than the market’, or ‘noticeably better than Award’, expressing a desire to pay well without paying the highest. One participant reported seeing a noticeable improvement in their organisation’s ability to attract and retain quality employees after increasing pay rates for nurses and site managers.

Only two participants mentioned that they were actively re-considering their organisation’s target market position and looking to offer more competitive salaries. Overall, affordability concerns appear to be the primary barrier to implementing salary increases.

Does performance affect pay?

According to participants, ‘Not at the moment’. We will explore this topic more later in the report.

EBAs reflect the traditional view of a linear ‘career path’ in which progression is based on tenure rather than skills.

Overall, there appears to be a growing movement of NFP organisations re-examining their remuneration strategy and looking to compare pay against their for-profit competitors for talent at the management and head office levels. Few organisations we spoke to had taken steps or were planning to take steps to improve pay rates for frontline workers. It could be that aged care providers are taking a ‘wait and see’ approach to making changes, given sector wide discussions are increasingly under way in response to the recommendations from A Matter of Care¹. For example, with the Aged Care Workforce Industry Council and other groups.

Environment

- Leadership and culture
- Work environment
- Work-life balance

In talking about environment we include issues of leadership, culture, work environment, and work-life balance.

It is the culture and leadership element that was most talked about by participants, particularly when it came to new candidates’ decisions to join, and it was generally agreed that the culture of the organisation can be a differentiator to attract good candidates from within the sector.

While it is common in most sectors for candidates to enquire about an organisation’s culture, several participants noted that candidates for management roles in the residences want to see the facilities, experience the community and understand how the organisation is run, in some cases before they will even agree to an interview. Culture is shaped by far more than pay and rewards practices, but their role should not be underestimated when it comes to attracting the right leadership and supporting the people strategy. For example, creating reward programs that reinforce the value the organisation places on continuous development. It appears that savvy candidates may no longer take the word of their prospective employers and want to see for themselves the reality of their potential new workplace.

Some organisations incorporate this into their process for hiring frontline workers via on-site assessment centres, so that candidates can experience the working environment and opt out if they do not feel suited to the work or the values of the organisation.

It was mentioned earlier in the report that frontline aged care workers’ decision to join or leave an organisation is often linked to personal circumstances, such as wanting to work close to home, needing more/fewer hours, and other caring responsibilities. This factor links to the flexibility of working hours generally available in aged care. While no participant spoke specifically about reducing that flexibility, any move toward increasing workforce stability and reducing the need for employees to work for multiple employers may result in perceptions of reduced flexibility.

Overall, environment should be considered a key pillar of the Total Rewards offering but is not something that is quickly or easily changed.

A Matter of Care – Strategic Action 5

Developing cultures of feedback and continuous improvement¹

Benefits

- Health and benefits
- Superannuation
- Leave programs

During our discussions with participants, we wanted to understand if anyone was offering benefits that were particularly different or generous, or thinking of doing so.

As one participant put it, ‘In this sector it is important to look at other non-monetary rewards as people are not attracted to the work because of the money’.

When we talk about benefits, we consider both the things that might fall under the banner of entitlements, such as leave embedded in an EBA or contract, and things that might be better termed as ‘perks’, such as access to discounts and wellbeing programs.

One participant commented that because their employees were covered by multiple EBAs, each with their own set of agreed entitlements, they had made a strategic decision to work with unions to bring all employees under one EBA and to align the benefits. They took the view that, regardless of which part of the organisation or which role the employee works in, they should have access to the same benefits. While this was a difficult process, it was considered ‘worth it’.

Discussions revealed that a fairly typical range of benefits are being offered by the participating organisations across employers, falling mainly into the categories of leave, wellbeing, salary packaging and discounts.

Leave

Annual leave

Only one organisation volunteered that they provided additional leave, in this case an extra week each year and one day off per month, with leave loading paid on all leave.

Domestic violence leave

A couple of participants noted domestic violence leave as something employees had access to. However, it was noted by one that it is becoming more of a standard expectation that this is offered, rather than something that would stand out to a potential employee. It is also rather like compassionate leave - something that nobody hopes to have to use. It can, however, send a powerful signal when paired with a strong cultural message about support for victims of domestic violence, and its ubiquity need not mean it should be discounted in the Total Rewards messaging to employees.

Extended time off

One participant noted that younger employees like taking significant time off to travel and mentioned that their organisation is considering creative ways to allow this extended leave while maintaining the employment relationship.

Wellbeing

In terms of employment benefits, wellbeing used to largely relate to physical wellness; the provision of gyms, massages and other health-related perks. At Aon, we are finding that clients are increasingly thinking about wellbeing in terms of physical, financial, psychological and social pillars. This trend is also evidenced by the wide range of benefit types participants mentioned, with wellbeing related benefits being at the front and centre of organisational responses to wellbeing challenges presented by the COVID-19 response. Some of these benefits included:

- Flu vaccinations
- Standard Employee Assistance Programs
- Counselling and/or spiritual wellbeing
- Bespoke and comprehensive self-care wellbeing programs linked to services, information and advice to support employees through financial, legal, physical and mental health challenges.

Wellbeing models are becoming popular and are easier to tie into a Total Rewards narrative that aligns with an organisation's mission, values and culture, particularly in the aged care and community services sectors.

Salary packaging

In the aged care sector, many not-for-profit organisations have access to valuable salary packaging benefits, allowing employees to boost their take home pay. For-profit providers cannot offer the same level of salary packaging, being limited to items such as novated leases and laptops.

Aside from noting this difference, salary packaging was not discussed at length. It is not something that differentiates aged care employers from other not-for-profit employers. Aon's experience in working with not-for-profit clients is that, as common as it is, salary packaging is often poorly understood, particularly by those who are joining a not-for-profit employer for the first time. This represents an opportunity for employers to ensure they clearly explain salary packaging and its benefits or to potentially partner with a preferred salary packaging firm to communicate effectively with existing and potential employees.

Discounts

Another benefit mentioned by a few participants was access to discounts, such as discounted health insurance, retail discounts, discounts for products/services offered by the organisation or its network, or via a third party 'reward gateway' platform.

While discounts like these are common across all sectors, they tend to be more powerful when they are linked to a Total Rewards narrative. For example, if the narrative is, 'We care about making your dollars stretch further, so we've partnered with our network to give you access to discounted grocery gift cards' or, 'We value the opportunity for our employees to take time to relax and recharge, so we've partnered with our corporate travel providers to give you access to discounted flights, hire cars, accommodation and unique experiences'.

Overall, wellbeing initiatives are the standout benefit offer within the participant group, however the actual delivery of these benefits varies. The role of benefits in the future of Total Rewards in the short to medium term is likely to be, like the EVP, simply a matter of making tweaks, aligning benefits with culture, and ensuring benefits are well communicated. There was nothing in the conversations to suggest that a major overhaul of benefits is likely.

Development

- Career opportunities
- Learning and development
- Goals and coaching

Employee development and career path was a popular topic among participants, which is unsurprising given two of the 14 strategic actions described in A Matter of Care¹ were:

- Reframing the qualification and skills framework – addressing current and future competencies and skills requirements; and
- Defining new career pathways including accreditation

Learning and Development (L&D) tended to be talked about in two categories: training for frontline staff and training in preparation for management roles.

Frontline staff

All participants had some kind of training program in place for frontline staff, to support students (high school or nursing placements), to maintain minimum CPD or compliance training, and in some cases to provide additional training in relevant areas, such as customer service. The high school and placement programs provided a valuable opportunity for both sides to ‘try before you buy’ and to identify star candidates for recruitment programs. One organisation mentioned that the placement program also delivered good candidates who hadn’t done a placement with them but who had heard from friends about their experience – word of mouth is a powerful differentiator.

Management

Training for middle management or to prepare nurses for leadership roles was also common, but delivered in different ways, such as:

- A 3-year graduate leadership program for nurses
- Leadership development programs for residential leaders
- Ongoing programs of continuous education (both for frontline and management roles).

Participants generally reflected that their L&D programs were popular among employees but the difference in overall assessment of these programs seemed to be reflected in how well the learning opportunities subsequently translated into genuine career development.



Some participants said they struggled to promote frontline staff due to a lack of available positions, and that this was causing employees who attended targeted management training to remain in entry level roles or leave the organisation.

Those organisations who were more optimistic about the outcomes of their programs also talked of formal development planning with employees relating to their career aspirations, linked to targeted L&D courses or opportunities, and/or of middle step roles created between the frontline and the residential management role. More than one organisation spoke of well organised, sophisticated and funded L&D programs as their major differentiator compared to others in the sector, while others aspired to create such a program.

It was clear from these discussions that there is energy from the sector to harness the opportunity to innovate in the area of L&D for all employees. Indeed, those who have already done so are enjoying the benefits in terms of attracting, retaining and elevating employees’ skills.

A Matter of Care – Strategic Action 3

Reframing the qualification and skills framework—addressing current and future competencies¹

A Matter of Care – Strategic Action 4

Defining new career pathways, including how the workforce is accredited¹

Does pay for performance have a role to play?

When developing remuneration strategies, the option of linking pay outcomes with performance is often contentious, particularly in not-for-profit organisations or among those responsible for the wellbeing of clients, whether that be healthcare, community services or education. So, does pay for performance (PFP) have a role to play in the future of Total Rewards in aged care? We've already mentioned the diversity of organisations and their employee types in the aged care sector, and again this diversity makes it difficult to provide a single answer to that question. At Aon, we have noticed an increase in NFP clients starting to explore how pay for performance might help them achieve their organisation strategy, albeit change is conservative.

'Pay' in this context can be considered one of three types:

- 1. Differentiating base salary increases:** awarding different increases during annual review, linked to individual performance or competency.
- 2. Incentives:** awarding one-off cash or equity amounts as recognition of achievement of pre-determined goals and defined by a formal incentive plan and/or policy.
- 3. Bonuses:** awarding one-off cash amounts in the absence of a formal incentive policy and/or plan, but in recognition of individual, team or organisation outcomes.

Aon's research tells us that linking pay with performance is an important lever for increasing employee engagement, but only where that link is perceived as fair and is well communicated.

We asked participants whether PFP currently played a role in their Total Rewards offer, and whether that might change in future.

Enterprise Agreement/Award employees

Unsurprisingly, we found that the use of formal PFP programs was non-existent for EA and Award based employees, and that there was little indication of any intention to change that, with just one organisation expressing a desire to recognise high performing employees in some way. Small, ad-hoc recognition payments were paid by 30 per cent of participants, typically worth \$500 - \$1,000 each.

The remainder of this section of the report deals only with salaried employees.

Salaried employees

The picture was quite different for salaried employees. Fifty per cent of participants said they differentiate pay increases linked to performance while sixty per cent say they have a formal incentive program in place, usually for a select group of roles, although at one organisation all but frontline staff were included.

It is worth noting that, although sixty per cent of participants said they have incentive plans in place, these plans typically apply to a very limited number of roles, either at the executive team level or for roles such as sales, where the performance measure is more obvious.

Interestingly, as Chart 1 below shows, it wasn't the same organisations using both fixed pay differentiation and incentive programs. Each colour represents a participating organisation. For example, Organisation A has differentiated salary increases, uses ad-hoc bonuses, and sees PFP as a continuing part of its reward strategy. It uses neither short-term incentives nor formal performance measurement processes.

**Prevalence of Use
Pay for Performance – Salaried Roles**

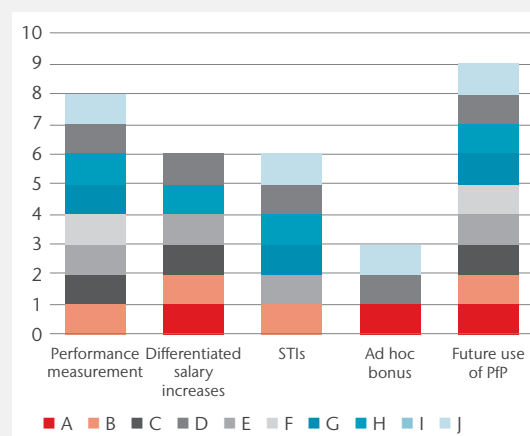


Chart 1: Participating organisations' use of pay for performance levers

Challenges in using pay for performance

Defining performance

Whether the organisation was differentiating fixed pay or paying incentives, a common challenge was the definition of a suitable set of performance measures. Eighty per cent of participants have a formal performance measurement

system in place. However, these were typically described as subjective, lacking a sufficient number of rating levels or poorly implemented by managers. Most participants described systems with gateways or heavy weightings to compliance, safety and behaviours, reflecting a desire to ensure that pursuit of financial targets did not come at the expense of client care, compliance or organisation culture. As mentioned above, employee perceptions of fairness in pay decisions impacts engagement levels – while employees do not often get a window into the pay decision making process, they do experience first-hand the process of determining performance ratings and will form their own decisions about whether this process seems fair and accurate.

Differentiating pay increases with a small budget

Those that were differentiating fixed pay increases by performance typically used a merit matrix (a combination of performance rating and current competitiveness to market) to determine the remuneration increase outcomes. For example, a high performer paid low compared to the market would get a higher increase than a high performer paid high compared to market. The difficulties described largely centred around the small budgets of recent years, making it very difficult to allocate meaningfully different pay increases to high performers without having to freeze the pay of others. This is coupled with the above described concerns about the robustness of the performance management system which would feed into the matrix.

Alignment with organisation philosophy

Those organisations that did not use any incentives in their reward mix often cited that paying incentives was not in line with their organisation philosophy.

Changes ahead?

Eighty per cent of participants saw an emerging or continued role for pay linked to performance amongst salaried employees, but their specific responses varied. There was a strong theme of first solving the problem of implementing a performance management framework to ensure the targets, measures and processes are robust and appropriate. Others spoke of developing bespoke incentive plans for different role segments such as sales, residential managers and other roles with key parts to play in the delivery of the organisation strategy. Of course, the continued constraints of funding were raised, with the idea floated that funding for incentives would need to come from commercial revenue streams rather than from government funding or client payments.

Conclusion

“In a highly competitive environment where there is increasing demand for workers with similar skills, action is needed at industry, organisational and local levels to address the factors influencing attraction and retention of the workforce.”

(A Matter of Care, 2018, p. 44)

Taking into account all that we heard through our discussions, it is clear that Total Rewards has a role to play in tackling aged care workforce challenges. However, unlike most sectors the solution lies not only in singular organisations making changes to improve their EVP or Total Rewards package but on the sector as a whole joining forces to raise the profile of aged care work. While that work has started with the formation of the Aged Care Workforce Industry Council in 2019, we heard of existing and planned (or desired) changes to Total Rewards at an organisation level.

Total Rewards has a role to play, but it is definitely not all about pay packets, particularly with questions still unanswered about changes to funding models.



Remuneration

- Base salary
 - Short term incentives
 - Long term incentives
-

We noticed a trend among this group towards targeting pay rates at the general industry rather than the not-for-profit sector, and to pay well but not the highest. Laws of statistics tell us that if a majority of organisations do this then ‘paying well’ becomes the median of the market. But we must acknowledge that these observations are from a group of organisations that are actively engaged in a study about Total Rewards, and thus they are more likely to be leaders in their field. It is not necessarily so that a majority of the overall sector is thinking this way.

While pay for performance was not seen as appropriate for frontline workers, eighty per cent of participants saw an emerging or continued role for pay linked to performance for some salaried employees, including sales, residential managers and other roles with responsibility for key strategy delivery. A barrier to this was a general view that existing performance measurement systems were not fit for that purpose.

Environment

- Leadership and culture
 - Work environment
 - Work-life balance
-

We heard that participants were fielding candidates for key residential management roles who wanted to know about the culture of the organisation and the specific home they would be managing, and how some organisations were holding recruitment assessment centres on site to help candidates better understand what they were applying for. Overall, environment should be considered a key pillar of the Total Rewards offering but is not something that is easily changed in the shortterm.

After increasing pay rates for nurses and site managers some employers saw an improvement in their ability to attract and retain quality employees.

Benefits

- Health and benefits
 - Superannuation
 - Leave programs
-

We heard a desire from across the group to create and communicate better benefits packages, but in terms of detail there was nothing groundbreaking on the horizon. Overall, wellbeing initiatives are the standout benefit offer within the participant group, but the delivery of these benefits varied. The role of benefits in the future of Total Rewards in the short to medium term is likely to be simply a matter of making tweaks, aligning benefits with culture and ensuring benefits are well communicated.

Development

- Career opportunities
 - Learning and development
 - Goals and coaching
-

We heard that organisations that focus on, and invest in, training and development are differentiating themselves in the market. In these organisations the focus is not only on training for training’s sake, but on translating this into genuine career path opportunities. It was clear from these discussions that there is energy from the sector to harness the opportunity to innovate in the area of L&D for all employees. Indeed, those who have already done so reported that they are enjoying the benefits in terms of attracting, retaining and elevating employees’ skills.

Bringing all these themes together is the EVP, which, when managed well, is more than just a tool to market the organisation to potential employees. It is also a powerful employee retention tool. As the sector takes collective steps to develop consistent narratives and campaigns to improve perceptions of aged care as a career, we can expect these narratives to feed into each organisation’s EVP in coming years, combined with a more comprehensive articulation of their individual Total Rewards offers.

References

1. Aged Care Workforce Strategy Taskforce (2018), A Matter of Care: Australia’s Aged Care Workforce Strategy, June 2018
2. Mavromaras, K, Knight, G, Isherwood, L, Crettenden A, Flavel J, Karmel, T, Moskos, M, Smith, L, Walton, H, & Zhang, W 2016, The Aged Care Workforce, 2016, Canberra: Australian Government Department of Health.

How can Aon help?

Rewards Solutions

Aon relies on a fact-based methodology to help clients design and deliver effective reward programs that directly connect the organisation's goals and objectives to its employees' focus and actions.

We analyse and interpret market remuneration data in the context of our clients' current and preferred competitive positioning. Aon's Community, Advocacy and Social Services (CASS) Remuneration Report provides market remuneration data for for-profit and not-for-profit residential and home-care service providers.

Aon's advice can help with:

- market positioning
- fixed pay and benefits
- short and long-term incentives
- strategic and customised analysis

Assessment Solutions

Aon's talent assessment solutions are brand-supporting, engaging and employ the best of artificial intelligence (AI) and psychometric advancements. With over 30 million assessments conducted each year in 40 languages across 90 countries, more and more organisations are choosing Aon's assessment solutions to inform their talent selection and development decisions.

People Risk

Aon's employee wellbeing and workplace safety and risk assessment solutions can help clients improve productivity and employee engagement.

Employee wellbeing

Without proper frameworks in place, a constant high-performance culture aimed at increasing productivity and profitability can create the risk of decreasing both, resulting in a workforce that's disengaged, burnt out and failing to perform at optimum levels.

At Aon, we help leaders understand the key people risks facing their organisation. Conducting deep analysis of data from claims and related sources, we work hand in hand with companies to design and implement wellbeing plans that will directly address these identified risks.

Insured benefits

To attract and retain the best talent in today's competitive environment, leaders need to be managing a well-executed insured benefits program. Whether it is subsidised private health insurance, voluntary discounted health insurance offerings, group salary continuance or group personal accident insurance, these benefits need to be considered.

At Aon, we can help you benchmark your organisation's benefits program to ensure you have a well-structured strategy in place now and into the future.

smartMonday by Aon

At smartMonday, we've created a corporate super fund that brings new depth to employee benefits and engagement. But we go beyond super. We work with you and your employees to ensure you receive the best products and services over the whole spectrum of employee benefits, creating a total solution that will leave your staff better off, more valued and more engaged.

Learn more at aonhumancapital.com.au

Aon Contact

Jodie Fraser

Principal Consultant

Rewards Solutions

t +61 3 9211 3183

e jodie.fraser@aon.com

aonhumancapital.com.au



About Aon

Aon plc (NYSE:AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com.au for more information.

© 2020 Aon Advisory Australia Pty Ltd ABN 50 068 620 771

Aon has taken care in the production of this document and the information contained in it has been obtained from sources that Aon believes to be reliable. Aon does not make any representation as to the accuracy of the information received from third parties and is unable to accept liability for any loss incurred by anyone who relies on it. The recipient of this document is responsible for their use of it.