**REBA COVID-19 research series: report #5**

1 December 2020

# The ongoing effects of the Covid-19 crisis on pay and benefits


**www.reba.global/research**

## INTRODUCTION

Covid-19 has impacted reward and benefits thinking for almost every business. At the time of this survey, the UK had entered its second national lockdown, with disruption to some businesses likely to continue well into 2021.

The ongoing effect of Covid-19 will inevitably have future consequences for reward and benefits thinking. From the effect of reduced profit on executive bonuses, through to how best to remunerate staff who continue to work from home, reward and benefits directors' 2021 plans will still be shaped by the aftermath of the crisis – even if widespread vaccination becomes a reality.

Additional factors, such as a renewed focus on responsible business and the need to re-engage workers after a fragmented and uncertain year, will also be high priorities.

But employers' reward policies must also take into account a wider economic backdrop of unprecedented government borrowing, Brexit shifts in working patterns that will affect the UK and global business for decades to come.

REBA has been exploring the effect of these developments through its regular snap surveys, wellbeing research and ongoing webinar series. See www.reba.global for more details.

This is REBA's fifth survey specifically related to Covid-19. The previous waves of the research were conducted:

- between 17 and 19 March 2020
- between 31 March and 6 April 2020
- between 28 April and 5 May 2020
- between 9 June and 17June 2020

These are available to download from: www.reba.global/research

This survey covers the ongoing impact of the Covid-19 crisis on:

- Current pay
- Pay reviews in 2021
- Regionally weighted salaries
- Pay performance metrics
- Employee and executive bonuses
- Bonus and share option performance metrics
- Business performance
- Changes in talent needs
- Reward and benefits priorities for 2021 and beyond

REBA conducted a snapshot survey between 12 November and 20 November 2020, to gain employers' insights into pay, bonuses and benefits as they prepare for 2021, in the light of the ongoing effects of Covid-19.

REBA received 132 responses to the survey from its members, including organisations such as HSBC, Costain, Taylor Wessing LLP, Direct Line Group, Coutts, Co-op, Thomson Reuters, IKEA, Rolls-Royce and DHL Supply Chain.

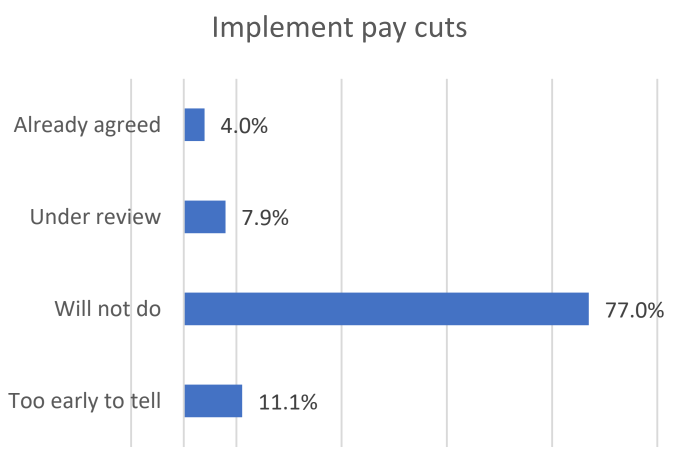
In total, the businesses that responded to the survey represent more than 700,000 employees from industry sectors including financial services, health and pharmaceuticals, professional services and technology. Over four fifths (86%) of respondents were from the private sector.

## THE IMPACT OF COVID-19 ON PAY STRATEGIES IN 2021

REBA's series of snap surveys across 2021 has monitored employers' views on pay strategy over the course of the Covid-19 crisis. As the effects of lockdowns in the UK and globally, as well as the virus's impact on different industry sectors, have become clearer, employers now have a better picture of how this will affect pay in 2021 and beyond.

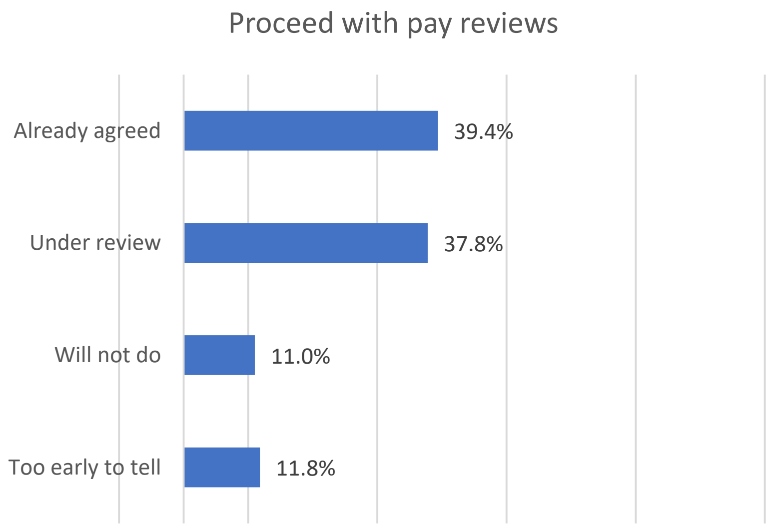
Our fifth snap survey showed that 77% of businesses say that they will not implement pay cuts, compared to 58.9% in May (third survey) and 66.4% in June (fourth survey).

However uncertainty still remains, with 11.1% saying that it is too early to tell if pay cuts will be necessary in 2021.




## PAY REVIEWS IN 2021

While the majority of employers have committed to not cut pay, there is ongoing uncertainty about pay reviews next year.  Around four in ten (39.4%) say that they have already agreed to proceed with a pay review in 2021, but almost half of respondents (49.6%) were not yet able to commit to this.  Over one in ten (11.8%) said that is still too early to tell – and 37.8% said that these are under review.  By comparison, 32.3% of businesses said pay decisions were under review in REBA's June snap survey.

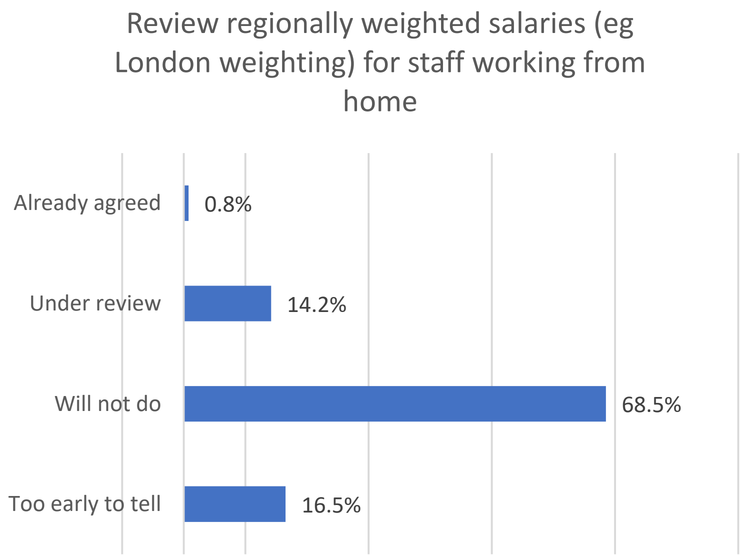



## REGIONALLY WEIGHTED SALARIES

In some industries, increased home working could prove be a permanent shift in workplace behaviour stretching beyond the pandemic. As a result, employers said that they are engaging in reviews of regionally weighted salaries for some home workers.

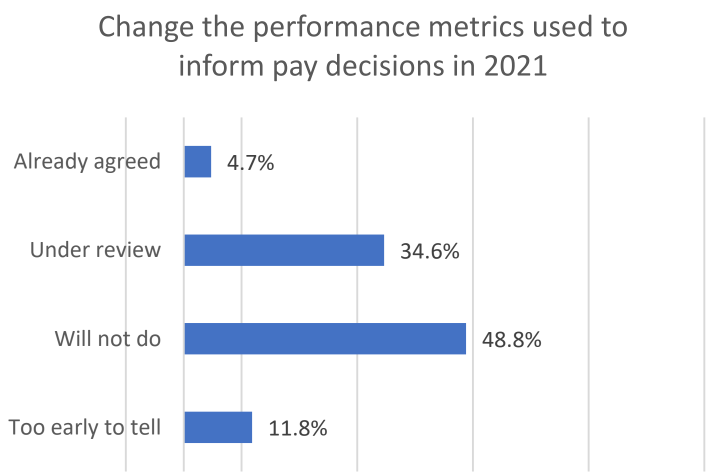
A total of 31.5% of respondents have not ruled out changes to their pay strategy that reflect this. Although only 0.8% have enacted change so far, 14.2% said that regional weightings are already under review, and a further 16.5% believe it is too early to tell.

According to figures released by the ONS, in November 2020 28% of the workforce were working from home rather than at their usual place of work. Although these figures were recorded during the second UK-wide lockdown, government recommendations at the time of writing are that employees should continue to work from home if they can until spring 2021. This could further cement emerging trends towards partial or full homeworking.




## PAY AND PERFORMANCE METRICS

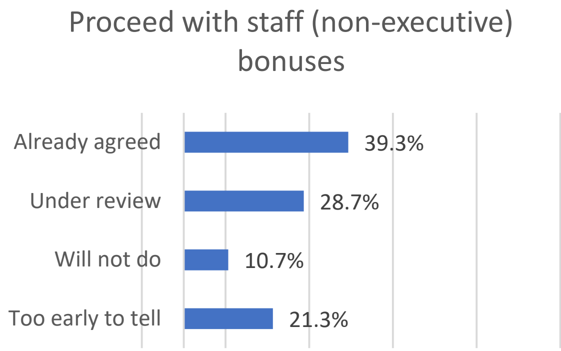
Respondents are also exploring changes to the performance metrics used to inform pay decisions in 2021. More than a third (34.6%) said that their pay metrics are under review for 2021, with less than half of participants (48.8%) confident that there will be no changes to their measures.

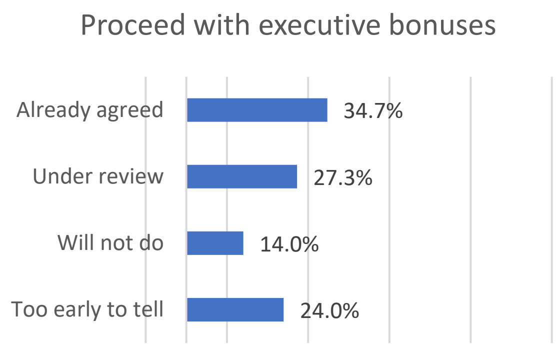



## IMPACT ON BONUSES IN 2021

Although most businesses are now confident they will not enact pay cuts, they are less clear about proceeding with bonus payments.  Only four in ten (39.3%) respondents said that they had already agreed to pay bonuses in 2021 for non-executives, and that number falls further to 34.7% for executives. Half of respondents (50%) said that that bonuses are either already under review for non-executives (28.7%), or that it is too early to tell (21.3%).

The figures tell a similar story for executive bonuses, with 27.3% already under review and 24% admitting that it is still too early to say if bonuses will be awarded in 2021.

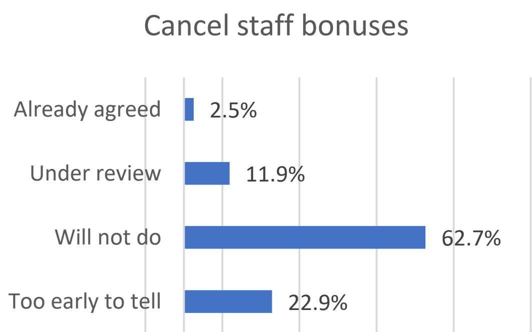


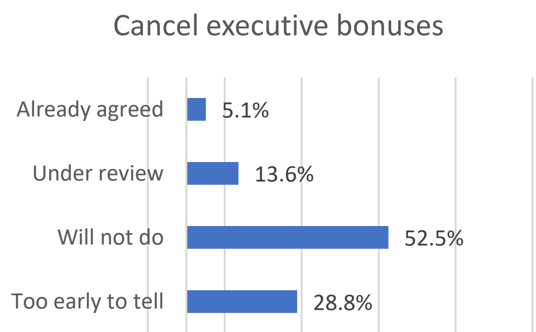




Respondents said that reducing, deferring or cancelling bonuses for non-executives and executives is still very much in their thinking.

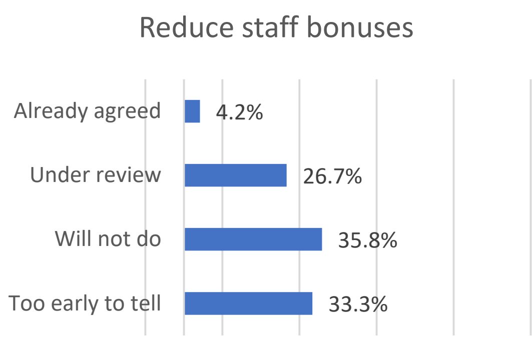
Only just over half of participants said that they would definitely not cancel executive bonuses (47.5%) – these answers were divided between those who said that it was too early to tell (28.8%) or said this was under review (13.6%). However, it is notable that one in 20 (5.1%) has already made the decision to cancel executive bonuses for 2021.

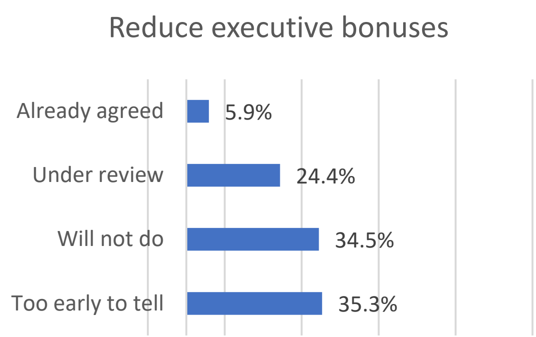
The picture is slightly more positive for non-executives, with 62.7% saying they will not cancel staff bonuses. However almost a quarter (22.9%) still felt it was too early to tell.



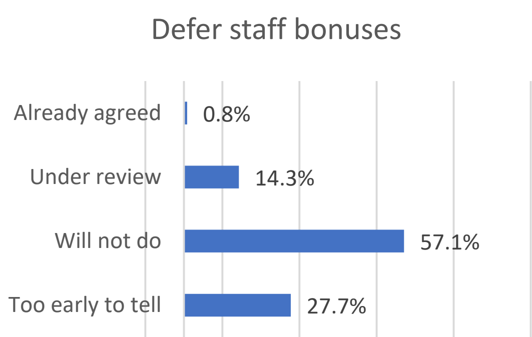



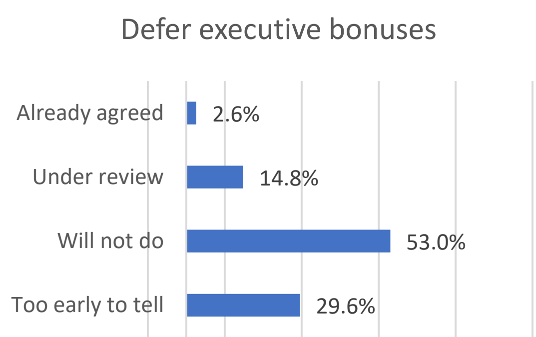

Reducing the size of bonuses is another option being considered by many businesses. Only around a third (35.8%) of respondents said that they would definitely not reduce non-executive bonuses next year, with a similar number (34.5%) committing to retaining current levels of executive bonuses.




The timing of bonus payments is another consideration. For more than a quarter of respondents (27.7% for non-executive; 29.6% for executives), it's too early to tell if 2021 bonuses will be deferred. Just over a half (57.1% for non-executives; 53% for executives) of respondents are committed to providing bonuses without deferrals.



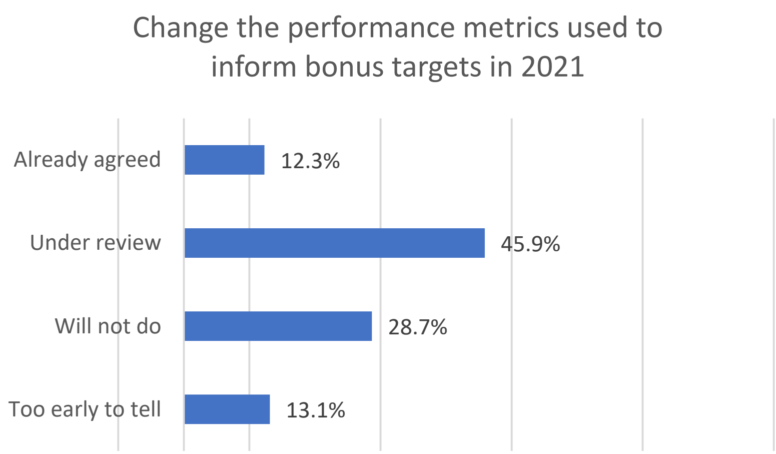




## PERFORMANCE METRICS FOR BONUSES AND SHARE OPTIONS

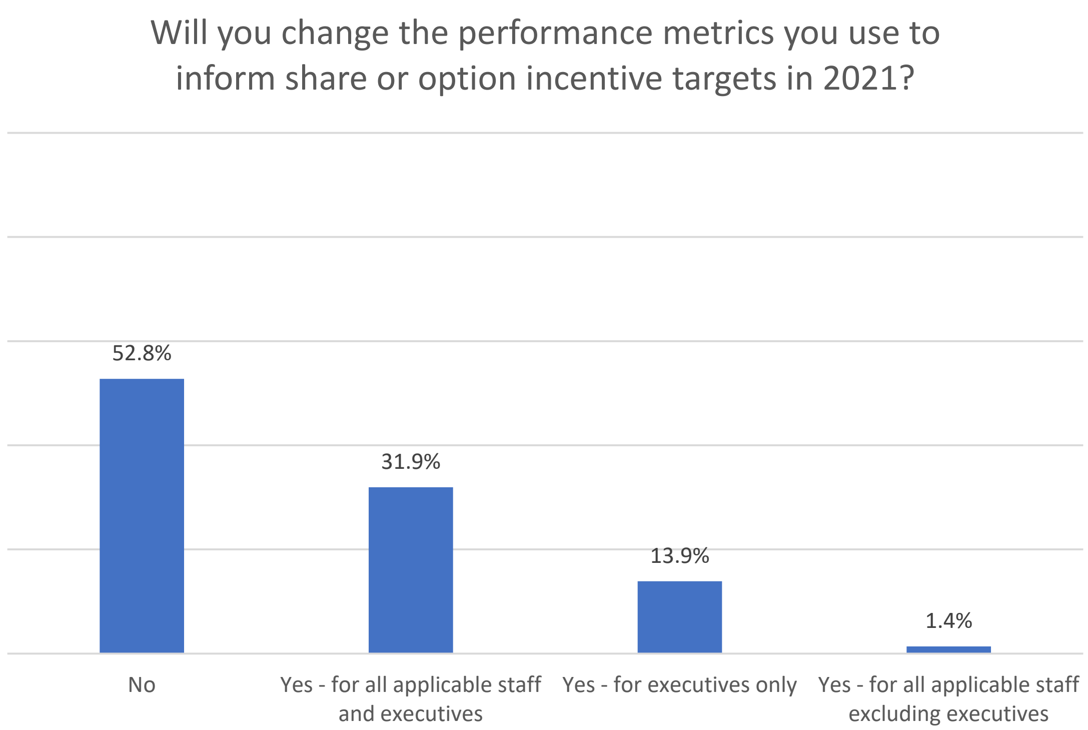
While the financial hit that Covid-19 has delivered to many businesses has been the most stark outcome of the pandemic, the events of 2020 have also entrenched longer-term shifts in business practice, such as greater automation and more flexible working models.

It has also brought the role of responsible business to the fore, as climate change, employee wellbeing and governance standards were all brought into the spotlight alongside commitment from government to 'build back better.

Given these broader changes, it is not a surprise that the performance metrics used to inform bonus targets are being reviewed by a sizeable 45.9% of respondents, with a further 13.1% saying that it's still too early to make a decision.




Performance metrics that inform share or option incentive targets for 2021 are also under scrutiny, with almost half (47.2%) of respondents saying that some, or all, aspects of their targets are under review next year. For most (31.9%) that applies across the board, with a smaller number focusing either on executives (13.9%) or non-executives (1.4%).




Respondents said that the types of measures under review include moving to purely finance-related metrics, often based on whole company performance.

Environmental, Social and Governance (ESG) factors are also a major focus with several participants saying that there will be more emphasis on these in future performance metrics.

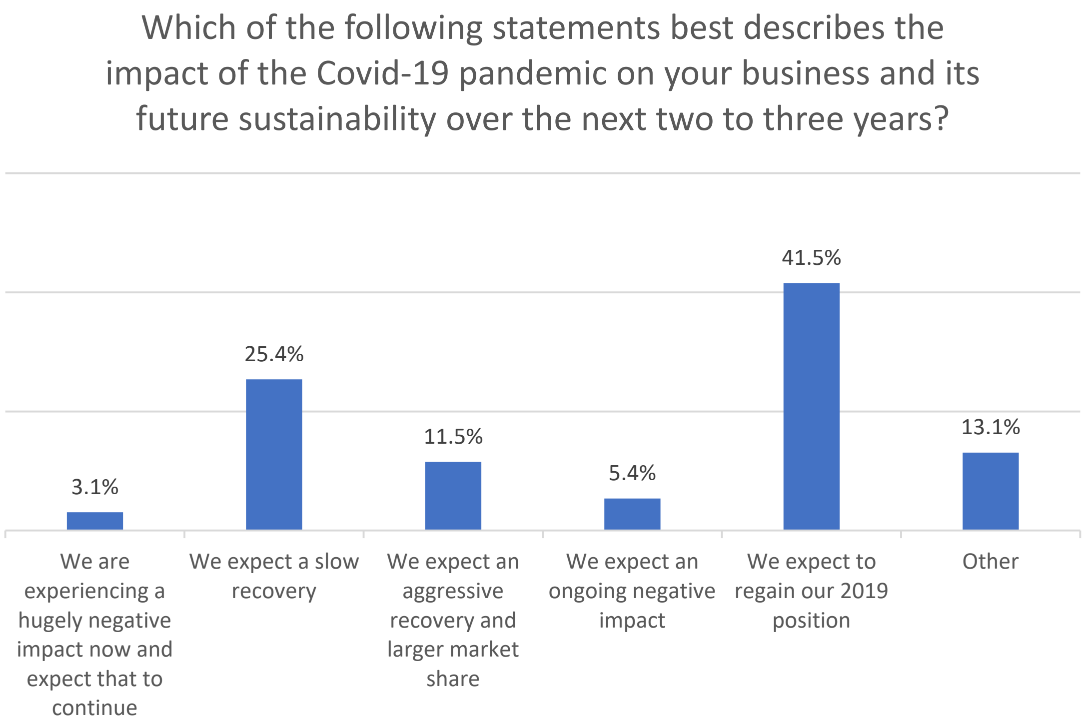
## THE IMPACT OF COVID-19 ON BUSINESS

In general, the effect of Covid-19 on businesses is becoming a known quantity. It is often sector-specific, with areas such as hospitality, travel and transport incurring huge financial losses, while others such as technology have been able to sustain growth, or even expand more aggressively.

At the time of the survey, positive news on vaccines and provisional dates for availability were emerging. The majority of businesses said they were optimistic about recovery, but that this will not be an overnight process. Over four in ten (42%) respondents expect to regain their 2019 position in the next two to three years, which is a more positive outlook compared to our June 2020 survey, where just 36% of businesses said that they expected to regain market share in the medium term.

A further 25% of respondents said that recovery will require a longer time period. However for 8% of businesses, there is an ongoing negative impact.

More than one in ten (11.5%) of respondents said that they expect a strong recovery with a larger market share, and commented that they had been able to grow during 2020.



Respondents also commented that selected areas within their businesses, such as e-commerce, had thrived, while other areas have struggled and incurred losses. In addition, some businesses said that they expect a delayed impact from the pandemic on revenue next year.

## CHANGES IN TALENT NEEDS

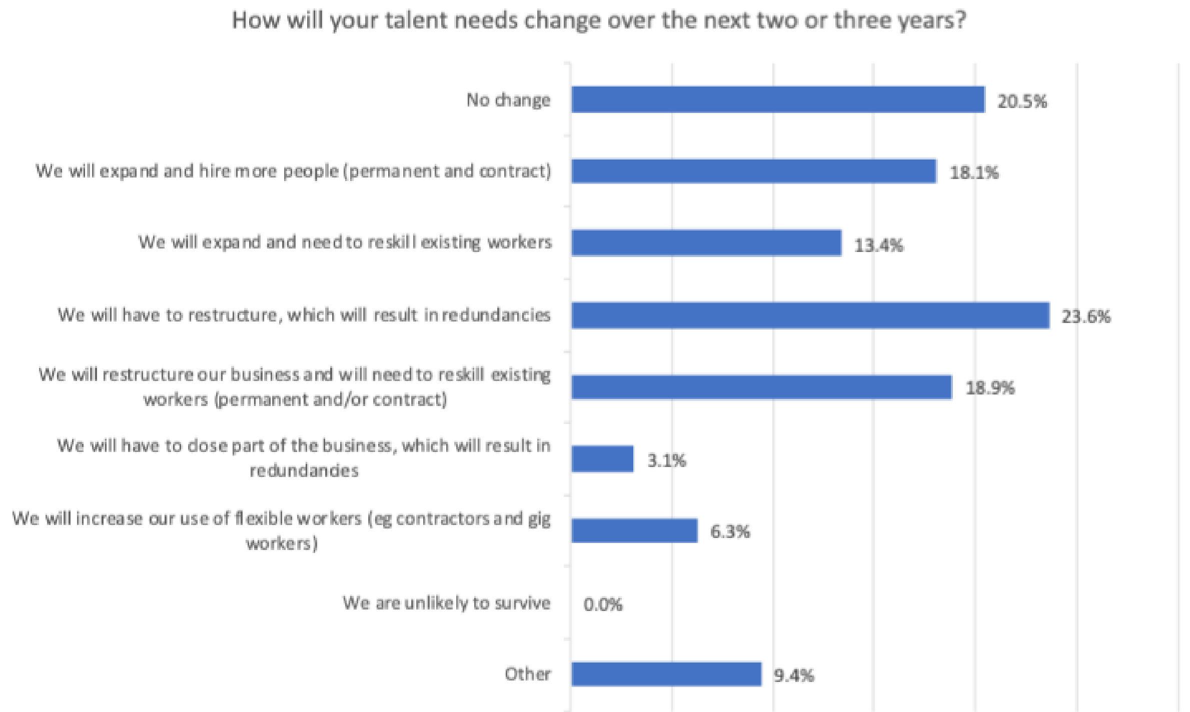
REBA asked employers how they expect their talent needs to change over the next two to three years.

Reskilling will play an increasingly important role, with almost a third (32.3%) saying that they will either expand their business and reskill existing workers (13.4%) or will restructure and need to reskill staff (18.9%).

According to [Office for National Statistics (ONS) figures](), in the three months to September 2020, redundancies reached an all-time record of 314,000. The responses to this survey show that this is far from the end of job losses related to Covid-19, with over a quarter (26.7%) either saying that they will need to restructure, which will result in redundancies (23.6%) or close parts of the business causing job losses (3.1%).

Respondents also added that they are restructuring for reasons other than Covid-19, including broader shifts in business dynamics and sectors.

In contrast, 18.1% said they will expand and hire, with 20.5% anticipating no change to their talent needs. Respondents also commented that the shift towards remote and flexible working will contribute to reviews of skills and talent, taking employee needs into account.

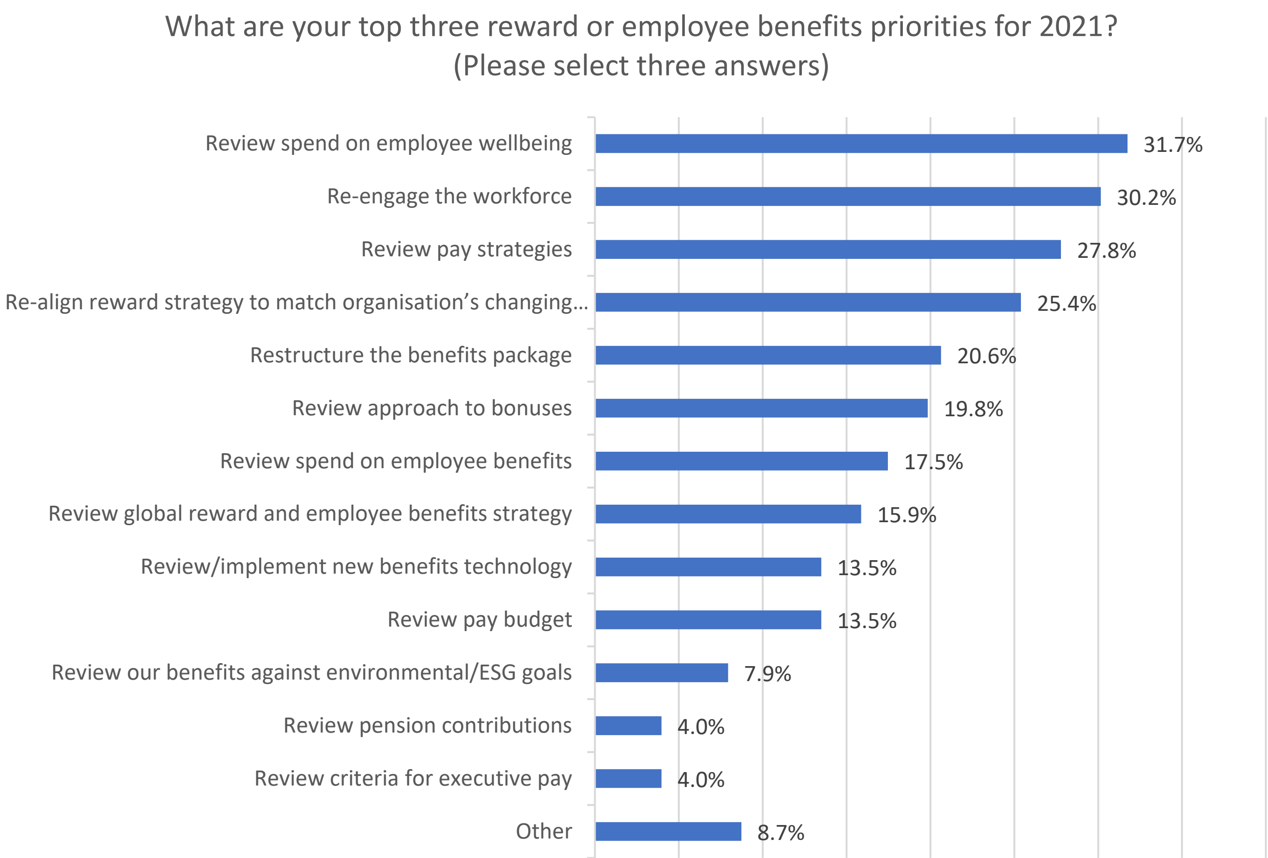


## PRIORITIES FOR 2021

Employee wellbeing and the need to re-engage the workforce are key themes for 2021, with around a third of employers naming these in their top three priorities for next year.

Continuing the theme shown in the above section on changes in talent needs, a quarter of employers said that they will need to re-align their reward strategy to meet changes in purpose and values in the business. For one in five businesses (20.6%), restructuring the employee benefits package, and reviewing spend on employee benefits (17.5%) will be a priority. For 15.9% of respondents, a global benefits approach is under review.

In comments, respondents said that part of the review is related to new company policies that allow more employees to work remotely.  Inclusivity was another consideration – and 8% of employees said that they will be reviewing benefits against environmental or ESG goals.




## ABOUT THE SURVEY

This survey had 132 responses from employers, representing an estimated collective total of more than 700,000 employees. It took place between 12 November and 20 November 2020.

It was conducted by the Reward & Employee Benefits Association among its 2,000 Professional Members.

Responses primarily represent medium to large workforces:

- 61% of responding businesses had more than 1,000 employees
- 26% had 250-999 employees
- 86% are private sector employers

## REBA WOULD LIKE TO THANK ITS CONTRIBUTING MEMBERS WHO TOOK PART

A&O LLP, AbilityNet, Abtran, Accell Group, ACO Technologies, AGS Airports, Air Products, Amadeus IT Services UK, Angel Trains, Anglian Water Services, Applus UK, Arup, Ascom, Asendia UK, ATS Euromaster, Avant Homes, AWE, AXA XL, B&Q, BA, BCLP, Belron UK, Bombardier Transportation, Boston Scientific, Brambles, British Medical Journal, Cabinet Office, CDK, Charles Stanley, Cisco, City & Guilds Group, Civil Nuclear Constabulary, Cnooc Petroleum Europe, Co-op, Coca-Cola, Cohesity, Computershare, CooperVision, Cushman & Wakefield , Defence Equipment & Support, DHL Supply Chain, Direct Line Group, DNV GL, Dogs Trust, Dunelm, E.ON UK, EMCOR UK, Expro Group of Companies, Ferguson Group Services, Financial Conduct Authority, Financial Reporting Council, FM Global, Frontline, Galliford Try, Gap Partnership, GEA, GoDaddy, Greencore, Hastings Direct, Havas Group, Healthcare at Home, Hexcel, Hymans Robertson, IHG, IKEA , Imagination Technologies, Inchcape Retail UK, INTO University Partnerships, ITN, Kao , Kellogg, Lendlease, Loomis UK, Maersk, Marriott Hotels, Mazars LLP, Merck Group, Milton Keynes College, Molson Coors Beverage Company, Natixis, NatWest Group, Nottingham City Council , NOV, Novartis, Orange Business Services, Ordnance Survey, OVO Energy, Oxygen House, Palletways, Personal Group, PragmatIC, Rabobank, Rathbones, RBWM, Rolls-Royce, Ruffer LLP, Save the Children UK, SDL , Secure Trust Bank, Severn Trent, sketch, Skyscanner, Slaughter and May, Smiths Group, Smiths News, Springer Nature, Standard Chartered Bank, Stone King LLP, ST, Sunrise Senior Living, Suntory Beverage & Food, Systemiq Earth, Take-Two Interactive, Taylor Wessing LLP, The Adecco Group, The Body Shop, The Salvation Army, Thirteen Housing Group, Thomson Reuters, TSB, University of Manchester, UTB, Valmet, VMware, WebhelpUK, Wickes, Wienerberger, Withers, WMCA, Wood, Wyndham Hotels & Resorts, Yusen Logistics UK.