Employee retention plans: A guide for employers.

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Historically low unemployment and improved job-seeking technology have created a worker's market. While retaining employees has always been an important factor in maintaining a successful business, recent economic developments have made employee retention strategies more important than ever for employers. Although some turnover is inevitable, a strong employee retention program can be a powerful factor to help business owners minimize the loss of key personnel.

Employees are appreciating assets; the longer they work at a company the more proficient they become and the more valuable they are to the business. When experienced employees leave, it can result in a loss of profits and customers. By utilizing employee retention strategies, employers can minimize these losses and keep their key people happily on board.

What Happens When Employees Leave?

Losing employees creates substantial costs for a business. First, there are the recruiting expenses—advertising, collecting and evaluating resumes, and conducting interviews. Employers also may incur entertainment expenses in the hiring process and sign-on bonuses may be necessary to entice a potential new hire. Additionally, the salary for the new employee may be higher than that of the departing employee.

Once hired, training becomes an additional expense. Experienced staff may be called upon to train the new hire, which can potentially reduce productivity until the training process is complete.

Once trained, the new hire will need time and experience to become as productive as the staff person he or she has replaced, resulting in ramp-up costs. New employees simply cannot do the job as well as the people they replace, at least for awhile.

Therefore, it is important for employers to be aware of the various reasons employees leave their jobs.

Why Do Employees Look for Other Opportunities?

Before creating an effective employee retention program, owners need to understand why employees leave their jobs.

According to a Pew Research Center study conducted in 2021 (The Great Resignation:

Why workers say they quit jobs), the most important reasons why employees left their jobs, in the order mentioned, included:

- Low pay.
- Lack of opportunities for advancement.
- Feeling disrespected at work.
- Child care issues (for workers with children less than 18 years old).
- Lack of flexibility with respect to hours.
- Lack of fringe benefits (e.g., health insurance and paid time off).
- Desire to relocate to a different area.
- Working too many hours.
- Working too few hours.

Exit interviews have revealed these additional reasons that can be important:

- Desire for a better work/life balance.
- Unhappiness with management.
- Concerns about the company's future.
- Lack of competitive perks and benefits (e.g. free drinks and snacks).
- Better opportunities with other companies.
- Lack of job security.
- Feeling overworked or underappreciated.
- A desire to find a job that contributes more to society.
- Burnout.

Designing an Employee Retention Program

An effective employee retention program addresses the reasons for leaving outlined above. The program might include a competitive compensation package; opportunities for professional development and career advancement; flexible work arrangements; a positive and supportive work culture; fringe benefits and perks; recognizing accomplishments; and open communication.

Competitive Compensation Package

Compensation is by far the most important item on the list. The first step in creating an effective employee retention program is offering a competitive salary or hourly wage. In the current economic environment, however, this may not be enough to address employees' compensation concerns. Competition is fierce, and employees expect a competitive overall compensation package that typically includes retirement benefits and long-term incentives.

The compensation package might start with matching contributions to qualified retirement plans like 401(k)s. The federal government provides tax incentives for these plans to encourage people to save for their retirement. Funds contributed to them would grow on a tax-deferred basis, providing much faster growth than taxable accounts. No tax would be payable until the employee began receiving distributions in retirement. Not only would the tax be deferred, but the employee also may be in a lower tax bracket when distributions are received after retirement.

Employers should make matching contributions competitive with or superior to that of other similar businesses. It's common for companies to match the first 3% to 5% of salary contributed by the employee.

Another possible element of the compensation package would be a profit-sharing plan. Under this kind of plan, an employee would receive a percentage of the company's profits based on its quarterly or annual earnings. This would align the employee's interests with the interests of the company. The more money the company makes, the more the employee would receive, providing additional motivation for the employee to continue to strive to make the company successful.

Finally, the package might include performance bonuses. These bonuses might be discretionary, or they might be based on meeting specific performance goals. For the latter type of bonuses, the employer should create a written document that lays out in detail what the bonus is given for and what the employee must do to earn it.

These plans would typically apply to all employees. Employers could add special compensation benefits that would apply only to the top management, benefits that might include stock options and non-qualified deferred compensation plans.

Non-Qualified Deferred Compensation Plans – A non-qualified deferred compensation (NQDC) plan is any plan that allows a key employee to earn salary or bonuses in one year but defer receipt of the income and the tax on that income to a later year. This may enable the employee to reduce taxable income in high-earning working years and defer it until the employee is in a lower tax bracket after retirement. The employer gets a tax deduction in the year the employee takes the deferred amount into income.

Unlike qualified plans, the employer has the freedom to pick and choose which employees will participate as long as the plan is maintained for a "select group of management or highly compensated employees." The plans are flexible, enabling the employer to select a different benefit level for each key employee.

Along with the tax benefits, a NQDC plan can serve as additional financial incentive for a key employee to remain with his or her employer. The written agreement between the employer and the key employee will define what the conditions are for the key employee to receive the benefit, what the benefit will be, and when it will be paid.

As further motivation, a graduated vesting schedule might be included within the agreement that could make the key employee think twice about leaving when he/she sees the amount of money that will be left on the table.

NQDC plans include supplemental executive retirement plans (SERPs), Restricted Stock Units (RSUs), stock appreciation rights (SARs), and phantom stock plans. They are designed for high earners for whom qualified plans like a 401(k) do not provide the desired level of retirement income.

There are two general categories of NQDC plans, elective and non-elective plans.

- Elective plans are initiated by employees who elect to defer compensation that would otherwise be received currently.
- Non-elective plans, also known as "golden handcuffs," are initiated by employers and structured as fringe benefits.

Stock Options – Another way to encourage employees to stay with a company is by offering stock options that reward employees for increases in the company's value. The grant of options would align the employee's interests with the interests of the company, giving the employee a strong incentive to remain with the company and help make it profitable.

Professional Development and Career Advancement

Professional development opportunities could include paying for additional education and teaching employees new skills. This not only increases job satisfaction, but also strengthens the company. Promoting from within gives employees a chance of advancing their careers while remaining with the company.

Flexible Work Arrangements

Allowing employees to work from home may eliminate substantial commuting time from the employee's day. In a large city, this might give an employee an extra hour or two of free time in a day and also may significantly reduce commuting costs.

Of course, this would not work in some industries. Moreover, employees should not be required to work from home. Some would prefer to go to the office. Thus, in appropriate industries working from home should be presented as an option, not as a requirement.

Companies also could provide flexible scheduling to accommodate children's activities.

Positive and Supportive Work Culture

This involves making employees feel valued and supported and giving them a sense of belonging and purpose. Employees should be given equitable treatment and respect. A company should have a clear mission and employees should be given opportunities to contribute to that mission, giving them a sense of purpose.

Also helpful are an emphasis on teamwork, company participation in community activities, and training managers to be

mentors to employees. A positive and supportive work culture emphasizes collaboration over competition.

Also important are recognizing both employee accomplishments and outstanding effort. Finally, there should be open communication. Employees are typically given an annual evaluation, but it may be better to make an evaluation after each significant activity or project.

Providing Fringe Benefits and Perks

These might include health insurance, wellness programs, relaxed dress codes, gym memberships, or childcare support.

Conclusion

The currently strong labor market and unusually low unemployment rate has given workers increased bargaining power and technology has made it easy for them to find new employment. In 2021, almost 20% of all employees left for a new job. This seller's market for labor and the high cost of replacing employees have made employee retention plans more important than ever.

Employers can address this challenge by offering competitive compensation packages along with greater opportunities for advancement and other perks.

About the author.

Robert S. Keebler is partner at Keebler & Associates, LLP, and was named by CPA Magazine as one of the Top 100 Most Influential Practitioners in the United States. His practice includes family wealth transfer and preservation planning, charitable giving, retirement distribution planning, and estate administration. Bob frequently represents clients before the National Office of the IRS in the private letter ruling process and in estate, gift, and income tax examinations and appeals. He has authored many articles, columns, books, and treatises on wealth transfer and taxation, and has been a speaker at national estate planning and tax seminars for more than 20 years.

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