

UPDATE

AN ELECTRONIC REPORT FROM THE CUNA HUMAN RESOURCE COUNCIL

The HR Odyssey Continues



...at this year's 2001 HR Council Summit. It promises to be a great conference, full of education and networking opportunities, in the heart of Charleston, South Carolina. The conference kicks off with a pre-conference workshop, *Executive Leadership Competencies*, on Wednesday, April 4, 2001 conducted by our very own Council Chair, Gayle Gustafson. The conference runs Thursday, April 5 - Saturday, April 7 and will cover such topics as retention, benefits, compensation and other issues at the core of the HR discipline. Participants are encouraged to stay through Saturday to see more of the history and beauty of Charleston, as well as benefit from the reduced flight expense associated with a Saturday night stay. For more conference information, select the conference tab from the front page of this web site. ♦

Looking For Feedback

We will be presenting a workshop on Credit Union Compensation Issues in Charleston at the CUNA HR Conference, and in order to help focus our presentation on your needs, please review the following article and provide

us with feedback on which areas you would like us to focus. You can provide feedback easily by emailing comments to ryanden@irisolutions.com. Please use the heading "CUNA HR Response re Compensation".

Developing a Total Compensation Package

Building, managing, and maintaining a Total Compensation Program is a process. Early in the process, it is important to define a Total Compensation Philosophy. The Total Compensation Philosophy should be linked directly to the overall business strategy. To accomplish this linkage, one should consider the business strategy, areas that impact Human Resources philosophy and the process/key players involved in developing the Total Compensation philosophy.

The Total Compensation Philosophy includes anything and everything that the employee or candidate perceives to be of value in the employment relationship. There are questions that you can ask to define this from the organization's viewpoint. The

framework of Total Compensation is a complex combination of Job Design and Accountabilities, Performance Measures and Objectives, and Personnel Selection and Development Strategies.

The primary components of the strategy are based on four areas: 1) Direct—Base Pay, Incentives, W-2 Earnings, 2) Indirect—Profit Sharing, 401k, 3) Deferred—Pension, Stock Options, and 4) Work Design & Environment. Important components to be considered are job descriptions, job analysis, SKA's, wage surveys, using data, pay ranges/grades, and pay administration. Together they make up the Total Compensation System of the organization. ♦

Monday Morning Blues (Part 2)

by Steve Sorenson and Lori Cushman, CUNA Mutual Group, Madison, WI

The chronic “Monday morning no shows” are a headache, for sure. But is your employee turnover rate really making you sick?

Employee turnover may not just be making you sick, it may be killing your bottom line. The direct costs of turnover are easy to measure. The direct costs involve the entire recruitment process - manpower, advertising, retraining and often equal 30% of the salary and benefits for the position. The indirect costs, however, have a much greater impact — lost productivity, low employee morale. Did you know that the total cost to replace one customer service representative earning \$25,000 annually is more than \$50,000?

The bottom line is that turnover can really hurt your bottom line!

As the workforce shrinks, your burden as an employer increases dramatically. To continue to build a successful organization, you need to recruit and retain the best staff possible ... you need to get creative. But before you can attack this problem - which is not unique to you — you must first understand the causes.

Factors that contribute to staff turnover include:

- Organizational culture
- Inadequate training
- Inadequate performance/recognition

measures

- Right job, wrong person

Exit interviews can provide you an insight into to what may be the leading turnover factor in your organization. Exit interviews that are conducted after the former employee is settled into his/her new job and after the fear of a bad reference report yield the best and most candid answers. You can ask all the questions you want, but it's what you do with that information that's most important. What steps are you taking to help heal your organization?

Are you:

- Evaluating your company culture
- Evaluating your training methods
- Evaluating your performance/compensation practices
- Evaluating your recruitment strategies

Sounds complicated? It doesn't have to be when you recognize that anything that helps people feel like your most important asset and helps people to balance work and home is going to be to your benefit. Companies pursuing a work/life strategy can help improve workplace perception, attract good people, and build employee commitment. Respect the fact that your employees have lives outside of your building.

Would you be open to:

- Flex time
- Telecommuting
- “Dress-down” Fridays

Technology and the Internet certainly have changed life in the 21st century. But, without employees giving their all, profit and productivity take a nose dive - no matter how technologically savvy you are.

Companies that promote employee health develop strong relationships with their employees. It's to your benefit to have healthy employees. As a result, you can keep your bottom-line low and employee retention high. Employees become loyal and motivated when they know that they acknowledged as being your most valuable resource.

Don't rely on the status quo or hope for things to improve on its own. You must constantly be finding new ways to celebrate your current employees. By doing so, all you need is word of mouth and new employees will be lined up around the corner.



According to the September 1, 2000 issue of *Employee Benefits News* (Karen Lee, page 56), “Any employer that wants to attract and retain a qualified and loyal work force needs to provide educational opportunities, particularly for those younger employees who expect education benefits as a matter of course.” If people

are learning, they’ll be more satisfied and stay longer. Are your new hires walking into your organization with expectations of developmental opportunities?

Invest today...Mondays don’t have to be blue any longer! ♦

Tips on Employees Legal Training

by Michael Patrick O'Brien, Jones, Waldo, Holdbrook & McDonough, Salt Lake City, UT

UPDATE ON OGDEN GUNS-AT-WORK CASE:

There have been a number of interesting developments in the guns-at-work lawsuit pending in Ogden, Utah. The employer, America Online (AOL), enforced a rule banning guns from its premises and discharged three employees who brought guns onto AOL’s leased parking lot. The employees sued. AOL asked the court to dismiss the lawsuit. Utah SHRM (all five chapters and the state council) filed a friend of the court brief. Our brief asked the court to recognize the concept of EMPLOYER CHOICE and allow each employer to assess its own morale issues, security needs and company culture, and decide whether or not to allow guns at work. You can read the court papers we filed at www.joneswaldo.com, click on “lawyer” then click on “O’Brien” and then scroll down to “publications.” Courts rarely grant a motion to dismiss without allowing some factual discovery. Thus, the Ogden court has decided to allow some discovery on the issue of AOL’s control of the parking lot. The court has instructed AOL to file another motion to dismiss the lawsuit later this year after this discovery is completed. The court’s opinion recognizes there are important employer interests at stake in the case and stated specifically that it wants to hear Utah SHRM’s views before ruling. We will monitor the case carefully and file another brief when the court is ready to again consider dismissing the lawsuit.

KIPLINGER EMPLOYMENT LAW TRENDS THROUGH 2025

One of the recent “Kiplinger Letters” noted several critical trends for employers through the year 2025. First, “freedom from geography,” meaning the ability to do business anywhere, anytime. The key employment challenge in this environment will be complying with laws that vary, sometimes widely, from

state to state and from country to country. Second, the impact of e-marketing, meaning electronic communications, will predominate. Employers must make sure they are able to deal with various employment issues (such as sexual harassment) in the new e-workplace. Third, greater diversity in race, religion, language and values. Employers must be more conscious to respect and accommodate diverse practices and to eliminate workplace bias. Finally, the aging of the workforce. The first baby boomers will celebrate their 65th birthdays in 2011; the last ones in 2029. By 2025, there will be twice as many people over the age of 65 than there is today. Employers must find ways of using the skills of older workers, meeting their benefits needs, and limiting the risk of age-discrimination claims. Are you ready for workplace 2025?

DUELING FMLA SURVEYS

National SHRM and the United States Department of Labor (DOL) have released dueling surveys examining the impact on employers of the Family and Medical Leave Act (FMLA). DOL’s survey concludes FMLA is working well without the burdensome business many feared would result. SHRM’s survey shows employers need much support to comply with the law, and that implementation has been a difficult and rocky road. If comments from my own clients are any indication, the SHRM survey is closer to the truth. Six years after the law was passed, employers are becoming more accustomed to dealing with FMLA issues, but are still finding it a challenging and burdensome law to implement.

OSHA ERGONOMICS RULES KICK IN

DOL’s new ergonomics standard took effect January 16, 2001. The regulations may be repealed by the new Bush administration, and also are being challenged in court. Stay tuned for developments. ♦

The Hidden Cost of Turnover

By Harris M. Plotkin, The Plotkin Group, Carlsbad, CA

My colleagues and I are convinced that the insidious cost of turnover is buried among other costs in an organization's trial balance sheets, and therefore rarely is identified as one of the primary causes of business failures or troubles.

Calculating the exact cost of turnover is not easy. I've tried to make it fairly simple in several different ways. The Plotkin Turnover Survey identifies most of the contributors to turnover. If you and your staff will take a little time to fill this in, you might be astonished to find out what it is costing you to replace a front-line employee or one of your managers. In filling out the form, keep in mind when somebody does a phone interview or reviews a resume, they are spending time. They are paid for their time, and **time is money**. You can calculate the cost of how many telephone calls it takes to check out a reference, or of scheduling a person to come in for an interview, or any other steps in your hiring process. In calculating the cost of advertising, please keep in mind somebody has to write the ad, proof the ad, submit the ad, check the ad, etc., etc., etc.

PLOTKIN TURNOVER SURVEY

Annual Turnover Cost-Front-line Employees or Management Employees

1. Check items used in your recruiting/screening process for Front-line or Management employees.

2. Calculate the average cost of each item in your recruiting/screening/hiring process. (Include the cost to process and screen unsuccessful candidates.)

3. Total recruiting/screening costs and other related costs to determine total replacement costs per employee.

4. Determine annual turnover cost for Front-line position using formula.

If you've done a good job of training, it should cost you **more to train a person than it should cost to hire a person**. There are lots of ways to hire that are very efficient, accurate, and inexpensive. There are not many inexpensive training programs. Therefore, your hiring costs should be substantially smaller than your training costs.

However, what I think you will find is what most of my workshop attendees find. It's the cost of loss of productivity that exceeds those

other two costs. I did a workshop for about 120 PGA golf professionals in Northern California. We had 12 tables of people. Every table, except one, came up with the cost to hire an assistant golf professional of about \$2,500 to \$3,500. One table composed of most of the senior professionals in that area, came up with costs exceeding \$25,000. The main difference in the two figures was the **loss of productivity**. After you go through the hiring process and the training process, it will take generally three to nine months to get somebody up to the speed of the person that they replaced. Please keep that in mind in calculating your costs.

The Cost of Turnover

The cost of turnover is an elusive figure that

RECRUITING/ SCREENING PROCESS	COST/HIRE
<input type="checkbox"/> advertising	_____
<input type="checkbox"/> recruiters-internal/external	_____
<input type="checkbox"/> application/resume review	_____
<input type="checkbox"/> interviews	_____
<input type="checkbox"/> personality test	_____
<input type="checkbox"/> honesty test	_____
<input type="checkbox"/> aptitude test	_____
<input type="checkbox"/> skill test	_____
<input type="checkbox"/> criminal background investigation	_____
<input type="checkbox"/> reference checks	_____
<input type="checkbox"/> credit check	_____
<input type="checkbox"/> driving history check	_____
<input type="checkbox"/> workers' comp. Claim check	_____
<input type="checkbox"/> drug test	_____
<input type="checkbox"/> medical exam	_____
<input type="checkbox"/> other:	_____
Other Related Costs	
est. COBRA, bonding, misc. costs _____	
est. training cost _____	
est. lost productivity during transition _____	
Total Replacement Cost	
per employee _____	
annual turnover cost = (annual turnover) x (# of employees) x (replacement cost per employee)	
annual turnover cost: (____%) x (____) x (\$ _____)	
Annual Turnover Costs = \$ _____	

can sabotage your bottom line without you ever seeing it. Turnover isn't an easily identifiable expense. Instead, it lurks in the background like a shadowy figure in a mystery novel. How much better it would be if the cost of turnover showed up as a line-item on your financial statement, but calculating its dollars-and-cents impact isn't that exact. Those who have analyzed the effects of turnover say that **as much as 80% of its costs is hidden.**

There are numerous estimates about the cost of turnover and its effects on various industries. Other studies indicate that **labor turnover costs are between \$10,000 and \$20,000.** A study of upper-level managers and executives estimated **the average cost of turnover at 1.5 times the annual salary of the job.** It also said that it took an average of

13.5 months for new employees to maximize their efficiency.

Although estimates vary, no one disputes the idea that reducing turnover expenses is a worthwhile objective. The starting point for taking action is to determine, "Where are we now?" To estimate the cost of turnover in your company, use the following formula as a starting point. It could alert you to a situation you must correct to assure your company's success.

Table Two is from an article in the Personal Injuries Employers Newsletter that gives you a very simple method of calculating turnover costs. It also contains some excellent information on the severe impact of turnover and how as much as 80% of the cost is usually hidden.

In Table Three there is a Commerce

Table 2

Turnover Cost Formula

To complete this analysis, select a department or job function with turnover. Use an actual number or, if lacking exact statistics, estimate the number of people who left the job or department during the year. Write the number below on Line D.

The average cost of turnover is 25% an employee's annual salary (Line A) plus 25% of the cost of the benefits (Line B) you provide. Typical benefits amount to approximately 30% of wages. The total cost per employee (Line C) is the total from Line A and Line B.

- A. Annual Wage: _____ x .25 = _____
- B. Annual Wage: _____ x .30 = _____ x .25 = _____
- C. Total turnover cost per employee:..... _____
- D. Total number of employees who left:..... _____
- E. **Total Cost of Turnover:** (Multiply C and D)..... _____

Table 3

Hourly Rates-Annual Salary Turnover Costs on Dollars

Hourly Rate	Social Sec.	Federal Medicare	Workers' Comp	Health Benefits	Hourly Total	Annual Total	Turnover Costs
5.25	0.37	0.08	0.04	1.05	6.79	14,114.10	3,528.58
5.75	0.41	0.08	0.04	1.15	7.43	15,458.30	3,864.58
6.58	0.46	0.09	0.04	1.30	8.40	17,474.60	4,368.65
7.00	0.50	0.10	0.05	1.40	9.05	18,818.80	4,704.70
8.50	0.61	0.12	0.06	1.70	10.99	22,539.00	5,712.85
9.50	0.68	0.14	0.07	1.90	12.28	25,539.00	6,384.95
10.00	0.71	0.14	0.07	2.00	12.93	26,884.00	6,721.00
12.00	0.86	0.17	0.08	2.40	15.51	32,260.80	8,065.20
15.00	1.07	0.21	0.10	3.00	19.39	40,360.00	10,081.50
18.00	1.28	0.26	0.12	3.60	23.27	48,391.20	12,097.80
20.00	1.43	0.29	0.14	4.00	25.85	53,768.00	13,442.00
24.00	1.71	0.34	0.17	4.81	31.07	64,629.14	16,757.28
25.00	1.78	0.36	0.17	5.00	32.31	67,210.00	16,802.50

Clearing House summary on how turnover costs can be tied back to the hourly rate paid individuals and how that cost is accumulated from Social Security payments, Medicare, Worker's Compensation, and health benefits. In any event, in looking at that table, it is easy to see that the minimum people generally cost most companies about \$3,000 to replace. That figure seems pretty consistent with other studies done by a wide variety of organizations. The cost of replacing a more senior employee in supervision or management who makes \$20 to \$25 per hour, shows figures of about \$17,000. This looks a little low. The employees with more seniority who either manage employees or are in sales, generally receive the most amount of training and are a lot more costly to replace because of that training figure.

We have several clients who spend between \$50,000 and \$100,000, and one that spends over \$100,000 over the course of a year to train their sales people. These people, of course, generate millions of dollars in sales, and are well worth the expense. The key is to make sure you only hire those who have a chance to be trained to be successful sales people.

For those of you who have a small credit union and don't think it's important to keep track of turnover, or even make a rigorous effort in the hiring process, you couldn't be further from the truth. The smaller you are, the more important it is to hire the right person. If you have five employees in your credit union and one of them is an idiot, or a crook,

or will offend your members, you're in a lot of trouble. Large corporations that have thousands of employees can have hundreds of idiots, but they will be diluted by the higher percentage of employees who are dedicated, hard-working, honest individuals. When you are small, you can't afford to have one bad person. When you are big it doesn't help you, but the impact is less severe.

I emphasize this again to the small credit unions, because they tend to think that a rigorous hiring process is strictly something big credit unions must do, and they can't afford to do it. They can't afford not to do it. ♦

About the author... Harris (Hank) Plotkin is the author of Building A Winning Team, and creator of the ABOVE and BEYOND customer service training program. His expertise is in the area of hiring, training, managing, and retaining employees. Hank is a nationally known speaker who delivers dynamic, informative, and humorous presentations on topics vital to the success of all businesses—building a winning team, taking the guesswork out of hiring, recruiting and retaining quality employees, and a number of other subjects. He is the founder of The Plotkin Group, a 32-year-old management consulting and training firm which uses the latest scientific employee testing and training programs to help organizations select, train, and retain employees. For more information call The Plotkin Group at (800) 877-5685, or Fax: (760) 603-8570, or E-mail: buytests@plotkingroup.com.

Self-Directed Accounts—Are They Right For Everybody?

by Lee Kliebert, Kliebert Pension Investment Counsel (KPIC), Okemos, MI

The latest innovation in 401(k) plan offerings comes as no surprise. Self-directed accounts (SDA's), or brokerage windows are being offered to 401(k) participants so they can buy and sell a wider variety of publicly traded securities that go beyond their traditional 401(k) plan offerings. If you have not already considered this for your plan, be prepared to do so. Is such a program right for everybody? Absolutely not. What kinds of things should you think about when considering this option?

The first thing to consider is the sophistication of your workforce. Recognize that this

option must be made available to all participants. Trading individual securities is considerably more risky than mutual fund investing. In plans where the workforce has very diverse levels of investment exposure I recommend against the SDA option and encourage people who want to invest in individual securities to "do the wild thing" with the assets they have outside of the 401(k) plan.

If you still want to pursue such an option after looking at its viability for your workforce, consider each of the following areas carefully:

- What investments does the SDA offer?
Some SDA's allow participants to pur-

chase almost any publicly traded security, while others simply allow the purchase of mutual funds outside of those in your core lineup.

- Understand all associated fees completely - As a fiduciary, you must understand the fee structure of the SDA thoroughly, and be convinced that it is competitive in the market. Your participants must gain that same understanding. There will usually be a minimum annual fee, along with the commissions associated with each trade. In small accounts, these fees alone make the SDA impractical for many participants.
- Review and revise your Investment Policy Statement - Chances are, your Investment Policy Statement (IPS) as written does not contemplate SDA accounts. As a fiduciary, you must be able to evaluate your SDA program along with the other investments available to participants. Appropriate IPS language will provide you with the means to do that. You don't have an IPS? You better get one, even if you don't allow SDA accounts.
- Consider the impact on audit costs - The cost of completing the audit of your annual 5500 form is likely to go up significantly due to the number of investments owned and transactions made by participants. You should discuss this in advance with your auditing firm, rather than be surprised at the end of year. Your auditor might be able to help you institute procedures to minimize the cost increase.
- Consider your vendor's experience with 401(k) plan SDA's - Simply because these options are in greater demand, more vendors are adding them to their plan. In some cases, these options take the form of alliances between brokerage companies, recordkeepers and insurance companies that have not coordinated their systems before. Administrative SNAFU's are bound to occur. I recommend that self-directed brokerage accounts be added only if they can be provided efficiently by your current 401(k) vendor. If this is not something normally available inside your

current 401(k) product, it might be time to begin looking for a new vendor with a demonstrated track record with SDA accounts.

- Review your fiduciary exposure - The Department of Labor published guidelines to limit fiduciary liability in participant-directed retirement plans, but these regulations were written before SDA's were anticipated in 401(k) plans. Therefore, to some degree, you are plowing new ground here. Will some participants lose money in individual brokerage accounts? Sure they will. Will they blame you for their shortfall? They might, and the impact of a resulting lawsuit cannot be gauged at this time. You might want to consider fiduciary insurance over and above the fidelity bond your plan currently has.
- Limit SDA account availability - Yes, the accounts must be an option for everyone. However, you can design the program so that only a percentage of each participant's account balance, say 50%, can be diverted to the SDA option.
- Provide extensive participant education - If you add an SDA option to your plan, participant education is the most important consideration of all. SDA's are best left for people with large account balances, investment expertise and the time and interest to invest wisely. If you can get your employees to fully understand these principles, and if you offer them a good core selection of mutual funds as an alternative, you'll have the greatest protection of all: an educated workforce, the majority of whom will not bother to sign up for the self-directed approach. ♦

Lee Kliebert is the President of Kliebert Pension Investment Counsel (KPIC), located in Okemos, MI. KPIC is a fee-only pension consulting and Registered Investment Advisory firm specializing in 401(k) vendor search services. Lee can be reached at (517) 349-3234 or visit www.401kpic.com for more information.



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