

RETAINING EMPLOYEES:

How to be an employer of choice

The business world remains focused on **retention**.

That's because businesses run on people, and the challenges of powering through volatility have spurred businesses to sharpen how they attract and retain employees.

Employers have been boosting pay, adding benefits, and extending greater flexibility to retain workers.

We talked to employers and business experts alike to create this step-by-step guide to help you sort through the many trends and strategies rippling through the market.

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Business and academic sources:



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The urgency to improve retention

Attracting qualified employees and retaining them is a top concern of businesses and employees alike, according to Principal research of small and midsize businesses (SMBs) and full-time employees.¹ But the two groups don't always agree on how to retain. Some concerns show that your perceptions as an employer may not match those of your employees—gaps that could hamper your efforts to remain an employer of choice.

Top concerns of businesses and employees¹

Concern	SMBs	< GAP >	Employees
Attracting/finding qualified employees	80%	< 15% >	75%
Employees leaving	70%	< 16% >	66%
Spending more time on hybrid/flexible policies	24%	< 19% >	43%

How do your employees rank retention?

Even the best businesses may overlook how strongly employees feel about the important role of benefits in an effective retention strategy.

There's no ignoring compensation, but employees also seem to recognize that benefits are a tangible way they feel supported at work—above and beyond other ways you may try to cultivate a positive culture.

What businesses and employees say are the top ways to retain:

BUSINESSES

1. Increase salaries/offer competitive pay
2. Make employees feel valued
3. Cultivate a positive culture
4. Good communication
5. Keep employee workloads manageable

6. Increase/improve employee benefits

EMPLOYEES

1. Increase salaries/offer competitive pay
2. Make employees feel valued
- 3. Increase/improve employee benefits**
4. Keep employee workloads manageable
5. Allow hybrid/flexible work
6. Cultivate a positive culture

¹ Principal SMB survey, November 2022.

3 universal rules for retention

Whether the labor market is driven by employers or employees, three basic rules always apply, according to professional recruiter Peggy Shell:

1 | Be a good employer.

Do right by your employees, always have your people first in mind, and figure out what that authentically means for your business.

2 | Tell your own story.

Show the world what truly differentiates you as a great business. What will candidates find in your workplace to match their needs and expectations?

3 | Know what employees expect.

Whether your business can compete with compensation and benefits, flexibility, or in other ways, know what your employees expect in those key areas—and then go above and beyond their expectations.

A KEY TO THIS GUIDE:

Retention according to business lifecycle

For more specific retention strategies, take into account where you fall in the business lifecycle. Throughout this guide you'll see ideas organized around the needs of newer or more established businesses—or those transitioning ownership.



○ New business (1-3 years):

Establishing yourself in the market and reinvesting profits in the business.

◐ Growing business (3+ years):

Scaling up market share, revenue, and staff.

● Established business (10+ years):

An experienced management team oversees consistent cash flow and long-term planning.

◐ Transitioning business:

Reviewing employee benefits and business protection strategies to engineer a smooth sale and succession.

Principal research behind this guide

Principal continuously produces a variety of surveys to help the business community analyze workplace trends and employee benefits. One stream of this proprietary research is our quarterly SMB survey of our business clients (most with fewer than 500

employees) and employees at large (not necessarily working for our clients). Throughout this guide you'll see references to these surveys—which this year we expanded to include more than double the number of businesses²:

MAY 2022:

128 businesses and employees.

NOVEMBER 2022:

127 businesses and employees.

FEBRUARY 2023:

458 businesses and 251 employees.

² Not all businesses answer every survey question.

Create a holistic compensation plan and adjust as your business grows.

Pay is powerful, but not everything. Human resources (HR) professionals and business research continually remind us that compensation is a key talent magnet. Employees themselves, according to a Principal survey,³ continue to say that increasing or offering competitive salaries is the No. 1 way to recruit and retain.

How to be consistent with compensation

☐ New business

Build a strategy unique to your workforce.

Start with a detailed portrait of your workforce:

- Do you employ a large share of hourly workers earning lower wages?
- Do you compete with tech-heavy roles in high demand?
- Do you rely on thought capital specialists requiring deeper experience and expertise?

“Each different type of employee group stereotypically has different wants and needs,” says Staci Cunningham, HR professional. “Pause and think about the true nature of your workforce and how that profile suggests your pay and retention priorities.”

If you’re competing in a hot labor market (such as tech roles or skilled trades) you may need to pay higher wages. Or you may want to target a raise at midyear or upon completion of a big project to show you’re making a special effort to retain.

Also consider how your business location affects competition for talent—with today’s added layer of far-flung opportunities for remote work. If you have remote employees scattered nationwide, scale compensation as needed to account for regional costs of living, while still maintaining an equitable org chart among similar levels of skill and experience.

Don’t panic. If digesting all these factors leaves you feeling overwhelmed, remember you don’t need to—and can’t—do everything alone. Even if your business

It’s true that lack of attention to employee benefits, company values, inclusivity, and other areas of the employee experience can blunt the impact of competitive pay. But so can an inconsistent approach to how you handle compensation.

isn’t ready to add full-time staff for a specialty role such as HR, you may be able to rely on a consultant. A third-party HR manager or part-time chief financial officer may be an option.

Your business financial professional may have good recommendations in your local community.

Benefits are part of a holistic compensation plan.

Tailoring your benefits to your employee base is an important part of your plan. Read more about building a benefits package unique to your business in “Extending employee benefits to all” on page 9.

☐ Growing business

Look to your key partners.

These four key groups guide compensation for your growing business:

1. **Day-to-day managers** communicate most frequently and directly with employees about pay.
2. **HR professionals** support managers and oversee the pay infrastructure.
3. **Recruiters** communicate and sell your competitive pay strategy to the market.
4. **Finance officers** must understand the compensation strategy and balance it among the entire business budget.

³ Principal SMB survey, November 2022.

● Established business

Engage key employees with bonus plans and incentive compensation.

A bonus plan designed for key employees—the ones who make significant contributions to the daily operation and ongoing success of your business—can involve a life insurance policy that funds the plan and provides retirement income, death benefit protection, and more.

From an employee view, bonus plans help save for retirement beyond the limits of a 401(k). Or early distributions from the plan can support a child's education, a real estate purchase, or emergency expenses.

TIP: If you own a professional firm, consider offering incentive compensation sooner and to younger employees, says Nate Schelhaas, senior vice president and head of life protection solutions at Principal. This helps them feel more like co-owners as they work their way toward partner status. “You want employees to be focused on your business growth, so they’re encouraged to make the right decisions to help get you there,” he says.

Learn more: See how [bonus plans](#) can be a recruiting and retention tool for your key employees.

● Transitioning business

Approach employee compensation and business succession through an employee stock ownership plan (ESOP).

For business owners, an [ESOP](#) can be a valuable piece of a succession plan. It can be an efficient ownership transfer, letting you leave a legacy when you leave your company. You can exit on your timeline, not an outside buyer's requirement.

“I like to think about ESOP as a long-term wealth building plan—similar to a pension plan—where you come to a company, work there for your career, the company values you, and you have a piece of ownership and get to walk away with a nice retirement,” says Trey Winthrop, CEO of Bob's Red Mill in Oregon. His company became a 100% employee-owned ESOP after a decade's transition instigated by company founder Bob Moore.

Some key benefits of an ESOP for the employees and business:

- Sense of ownership, pride in ownership
- Teambuilding (“My success is your success.”)
- A consistent, long-term financial incentive for employees
- Stability of company ownership

ESOP is a cultural asset, Winthrop says, with “the ability for us all to be rowing the same direction because we understand we all have a stake in the value of the company.”

Learn more: See [five ways Bob's Red Mill supports its people through employee benefits](#)—including ESOP.

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TREY WINTHROP
CEO of Bob's Red Mill

Cultivating loyalty through a company culture that values employees

Most employees (86%) and even more businesses (91%) say it has become more important for employers to make their people feel valued.⁴ Many workers crave a greater sense of purpose from their jobs and employer.

“People are making decisions from their heart,” says Shell. “They feel more empowered to leave a job or industry that doesn’t match their values.”

That’s why her firm seeks business clients based on their company values and culture.

“We’ve shifted our entire company mission at [Creative Alignments](#) to be about making the world better through having people work at places where they feel fulfilled and satisfied and go home happier,” Shell says. “People can make their communities better by bringing their positive energy.

“And we start with our own culture.”

Help your employees feel valued.

1 | Provide quality feedback.

Focused, individual feedback is important to show employees their work is valuable to the business—a substantive way to encourage them to stay.

[A 2022 survey by Workhuman and Gallup](#) found that when employees receive the recognition they need, they’re:

- four times likelier to be engaged, and
- five times likelier to see a path for career growth within their organization.

“We can’t afford to lose our current employees and leave jobs open. I’m thinking about what we can do to keep our employees happy, what other employee benefits we can offer or improve, and how we can ensure they’re feeling valued and content with their work. And if they aren’t, how we can change that?”

MEG BURDICK

HR director of Soniq Transportation & Warehouse

2 | Focus on holistic employee well-being.

The business world recognizes how mental and physical well-being, health, wealth, and our work and home lives are interrelated.

“Wellness at work initially focused on physical health—think of company fitness centers,” says Joleen Workman, vice president of customer care for Principal. “And now there’s greater recognition of the need to support employees’ mental well-being.”

An emphasis on holistic well-being can help employers better support their staff. An employee with a medical crisis, for example, may struggle to afford high health-care costs, in turn triggering stress.

Focusing on this interplay not only helps individual employees but also supports a company’s overall output. An employee dealing with anxiety and depression might not be able to fulfill their normal job duties. Conversely, an employee with physical, financial, and mental support may be able to improve their work performance and feel more creative and empowered.

“Challenges and stress in our lives can’t always be neatly compartmentalized,” Workman says.

“Employee support should reflect that by addressing all dimensions of wellness.”

⁴ Principal SMB survey, February 2022.

3 | Cultivate true inclusion.

A culture of inclusion may have more impact on value—for not only employees but also your business—than you realize.

Miriam Lewis, chief inclusion officer for Principal, sees real value in empowering employees to bring their authentic selves to work.

“When you have that, you have the license to bring your ideas to the table and can focus on the business itself—because you’re not thinking about covering up,” she says. “That’s how companies get the best out of every employee. Different backgrounds and ideas lead to innovations and better outcomes and solutions for customers.”

Learn more: [Do you know what your employees really think about their jobs?](#)

☐ New business

Listen to employees.

The smaller your business, the more you can rely on routine personal conversations.

Shell and her business partner alternate weeks in which they host informal “coffee chats” to learn exactly what employees now expect, for instance, around dress codes or flexible hours—and how those expectations can cut differently across generations of employees.

Businesses of every size can benefit from the blunt honesty of anonymous feedback. It can be as simple as using a popular survey tool:

- [SurveyMonkey](#)
- [Google Forms](#)
- [Typeform](#)

☒ Transitioning business

Preserve your unique culture.

Make sure the new owner knows the company culture and can be a good steward to the employees who drive business growth. Everybody should be clear on how to answer these and similar prompts:

- › Our purpose is:
- › Our values are:
- › We ensure our employees feel valued by:
- › We encourage communication and connection through:
- › We measure accountability with:
- › We support employee mental well-being by:

Be flexible in how you manage hybrid work culture.

Flexibility has become a fixture in the workplace. “Remote work is the new normal—not an incentive,” says Crystal Granger, senior benefits administrator for Bob’s Red Mill.

Cunningham says that people are leaving jobs because they can have more flexibility in other places. She adds that there are two main dimensions:

Here’s how you can compete.

1 | Understand what employees really mean by flexibility.

Flexibility involves much more than freedom from a cubicle and clock. “If you listen closely and kind of read between the lines of what employees are saying, they are not really talking about flexibility,” says Radostina (Ina) Purvanova, professor of leadership and management at Drake University.

“What employees are actually wanting is autonomy in making those choices for themselves, in deciding where to work, when to work, how to work on their own terms,” she says. “When people feel like they have the opportunity to make autonomous decisions, they feel more engaged with the organization. They feel like they really have to perform, have to do their best to earn that trust.”

☐ New business

Don’t wait to get a read on what your employees want and need. Proactively seek employee input and set expectations early for how your business can deliver on them.

2 | Stay on top of workplace trends.

The four-day workweek has gained momentum outside of the United States, with some initial positive signs for employee wellness and business retention. Which workplace trends matter most for your business will depend on your industry, region, and other factors. But the point is that staying aware of key trends may

The philosophical: Flexibility can affect your workplace culture and how employees relate to each other. Intentional change management is key.

The practical: You need the proper technical infrastructure (such as effective videoconferencing) to help make flexibility as seamless an experience as possible across your organization.

help you meet employee expectations and, ultimately, guide better retention.

3 | Remind employees that flexibility works both ways.

Set the expectation that flexibility is a two-way street: You may need employees occasionally to use remote access to make themselves more available, depending on their role and responsibilities.

Even in an employee-driven labor market, businesses must protect their productivity and revenue, or they threaten their fundamental ability to extend any support to employees.

Dos and don’ts of accountability

DO ✓	DON’T ✗
Do ask employees to note any planned, significant time away on a shared calendar.	Don’t question why someone didn’t reply to a chat in less than 10 minutes.
Do set measurable goals for teams and track accountability. Be transparent with team members on how their performance is stacking up to what they’re accountable for.	Don’t activate your employees’ webcams or otherwise excessively monitor them.

Learn more: [Build your hybrid work culture plan for 2023 and beyond \(PDF\)](#).

Extending employee benefits to all

More business owners are looking to [employee benefits overall to improve recruitment and retention](#)—78% of them in our 2023 Principal Business Owner Insights survey.

While retirement savings and health insurance tend to be the most common benefit draw for employees, says Schelhaas, the pandemic reminded us of the value of different types of employee protection—think life and disability insurance.

“Virtually everybody knows of someone who passed away suddenly or has suffered a disability in the last few years,” he says. “There’s a heightened awareness that we’re not invincible.”

Explore competitive employee benefits like retirement savings, group benefits, and life and disability insurance.

How to approach employee benefits for your business

☐ New business

Establish your benefits philosophy.

Start with a big-picture question, says Cunningham: What’s your benefits philosophy?

Some questions to start with:

- › Are you expecting a certain percentage of employees to cycle through entry-level roles?
- › Do you hope employees stay and grow throughout their entire career?
- › Do you employ a gig workforce?
- › Do you employ more recent college graduates or mid-career workers?
- › Part-time or full-time?
- › Parents who want to work while also taking care of kids?

In terms of employee benefits, your business may be more of an economy or a luxury car. Either one can offer competitive jobs and a positive employee experience depending on your industry, size, region, and a host of other factors.

Outline a benefits philosophy in detail that you and your fellow leaders can endorse.

Then ensure employees also understand it.

Start with foundational benefits.

When current and potential employees think about benefits, they’re typically looking for foundational options such as employer-sponsored health insurance, life insurance, disability insurance, dental and vision benefits, and retirement plans. Those are a good place to start.

As you consider the right time and the best options to begin an employee benefit package for your business, remember that your goal as a business owner is three-pronged, says Schelhaas: You want to protect your employees, protect your business, and protect yourself and your family.

☐ Growing business

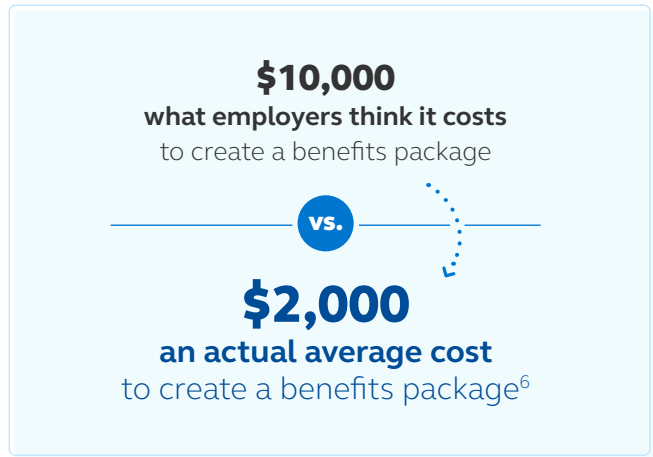
Add or enhance one benefit at a time.

Enhance your group benefits (dental, vision, life, and disability) to help employees protect themselves and their loved ones.

Remember that benefits may be more affordable than you think. Let’s say there’s a potential benefit your employees want, but it’s outside your employee benefits budget. Maybe all your employees really need is easier access to buy that benefit as part of your workplace benefit plan. Your organization may have a range of options to pay for it—either all, some, or none of the cost.

For example, Schelhaas says, “Maybe they just want to buy extra life insurance. It doesn’t have to be either—or—you offer it and pick up the cost or you don’t offer it. It could be as simple as making it accessible at work.”

Depending on the unique characteristics of your business and employee needs, there may be a specific area of employee support to enhance first, such as [benefits for key employees](#) (see more in the next section). Listen to what your employees really want, using some of the tools already outlined in this guide.



70% of workers want at least one additional employee benefit added within the next year—compared to **56%** of small and midsize businesses.⁵

● Established or ● transitioning business

Compare coverage with your peers.

Use the [Principal® Benefit Design Tool](#) to see how others like you are handling employee demand for benefits and addressing any gaps. Benchmark your employee benefits with other businesses of your size, industry, and region—and download a convenient online report. Compare relative levels of coverage for:

- Dental insurance
- Life insurance
- Short- and long-term disability insurance
- Retirement plans—401(k) and 403(b)

Remind employees about the benefits you already offer.

Your business may not get enough credit for your current employee benefits and support. This is common. For instance, 52% of employees say their colleagues don’t use an employee assistance program (EAP) simply because they’re unsure whether one is offered or, if so, how to access it.⁷ Learn and follow [good communication tips](#) to help you stay in touch with your team and make them aware of available employee benefits.

Providing benefits isn’t a set-it-and-forget-it job, according to Shell.

“Staying on top of what your employees really want is one of the best things you can do as an employer,” she says.

12 hybrid-friendly work perks to consider

There’s a growing list of new and emerging benefits catering to persistent trends and a hybrid workforce.

- | | | |
|---|---|---|
| 1. Housecleaning services | 6. Workstation and office supply stipends | 11. Mental health benefits |
| 2. Wi-Fi reimbursement | 7. Pet insurance | 12. Flexible monthly stipends for employees to use as they see fit, or access to a choose-your-own perks platform |
| 3. Coffee-shop credits | 8. Travel discounts | |
| 4. Fitness programs | 9. Caregiving support | |
| 5. Professional development opportunities | 10. Telehealth services | |

⁵ Principal SMB survey, February 2023.

⁶ [Bureau of Labor Statistics](#)

⁷ Principal SMB survey, May 2022.

Using key employee benefits to retain top talent

You know how critical it is to retain the employees whose performance most affects your business's success.

Key employee benefits can provide additional benefits and/or help them make up for benefits limited due

to government restrictions placed on qualified retirement plans.

And more employers are turning to them to recruit, reward, retain, and retire their key employees.

Here's how to show key employees how valuable they are.

According to a Principal survey, 88% of businesses have key employees.⁸ And 66% of employers view nonqualified deferred compensation plans for key employees as a valuable retention tool.⁹

"Retain" is one of the four Rs of key employee benefits:

- 1. Recruit.** Attract top talent by offering highly competitive benefits.
- 2. Reward.** Provide performance-based incentives to help motivate key employees and achieve organizational goals.
- 3. Retain.** Encourage loyalty by helping your employees achieve their financial goals throughout their career.
- 4. Retire.** Help key employees save for retirement beyond what 401(k) plans allow.

☐ New and ☒ growing business

Identify those employees that are critical to your success. Consider key employee benefits like supplemental life and disability insurance, nonqualified deferred compensation, and bonus plans to help them save more for retirement and other savings goals.

☒ Established and ☒ transitioning business

Take a moment to think about the success of your business. How much of that success is related to your employees? Chances are, you have certain employees who play an important role.

Key employee benefits can provide significant advantages—like helping them make up for benefits limited due to restrictions on qualified retirement plans and Social Security. The result? The potential for more engaged and motivated employees and a great retention tool, too.

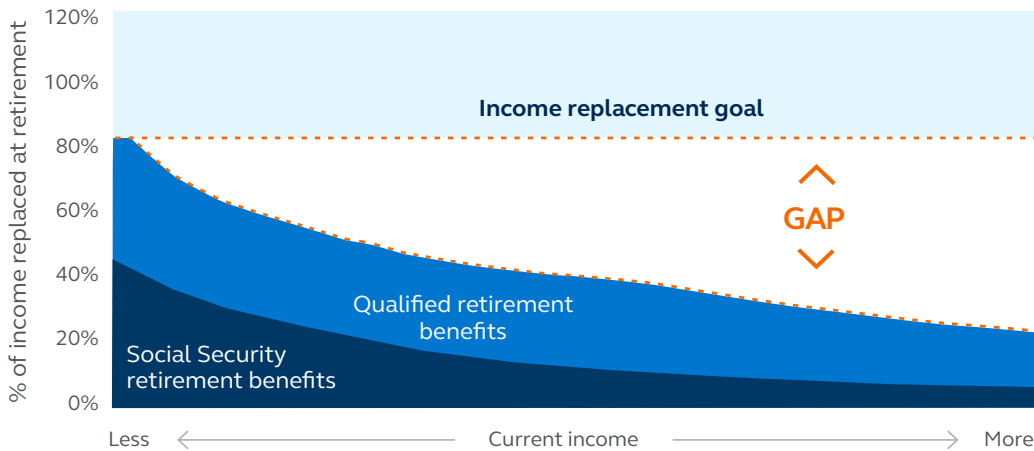
If you already have such a plan, review it to make sure it's still meeting the needs of key employees and your business. Maybe it's time to expand your benefits to more key employees or with fuller plan features.

⁸ Principal SMB survey, February 2023.

⁹ Principal survey of 159 nonqualified deferred compensation plan sponsors, March-September 2022. See more at principal.com/nqresearch.

Consider the income replacement gap for key employees.

Typical retirement sources might not be enough. And you can help. You've likely heard experts say that people need about 80% of their pre-retirement income to maintain their standard of living in retirement. Are your key employees on track?



It doesn't matter if your organization is for-profit or tax exempt.

Some plans offer tax benefits for your business, while others do the same for employees. Some may allow for employee deferrals, discretionary employer contributions, or both.

Nonqualified solutions such as:

- [bonus plans](#),
- [deferred compensation plans](#), and
- [split dollar plans](#)

can provide a win-win for both the employees and your business.

Learn more:

› [Key employee benefits can be your key to success \(PDF\)](#). › [Explore key employee benefits through Principal](#).

Better retention is within reach.

We hope this guide helps you see that better retention is possible. There are ways to focus on compensation, company culture, flexibility, and benefits (for all workers or key employees) to make steady progress.

This is part of an ongoing series of Principal guides to help you balance business growth, employee care, and your personal well-being as a business leader.



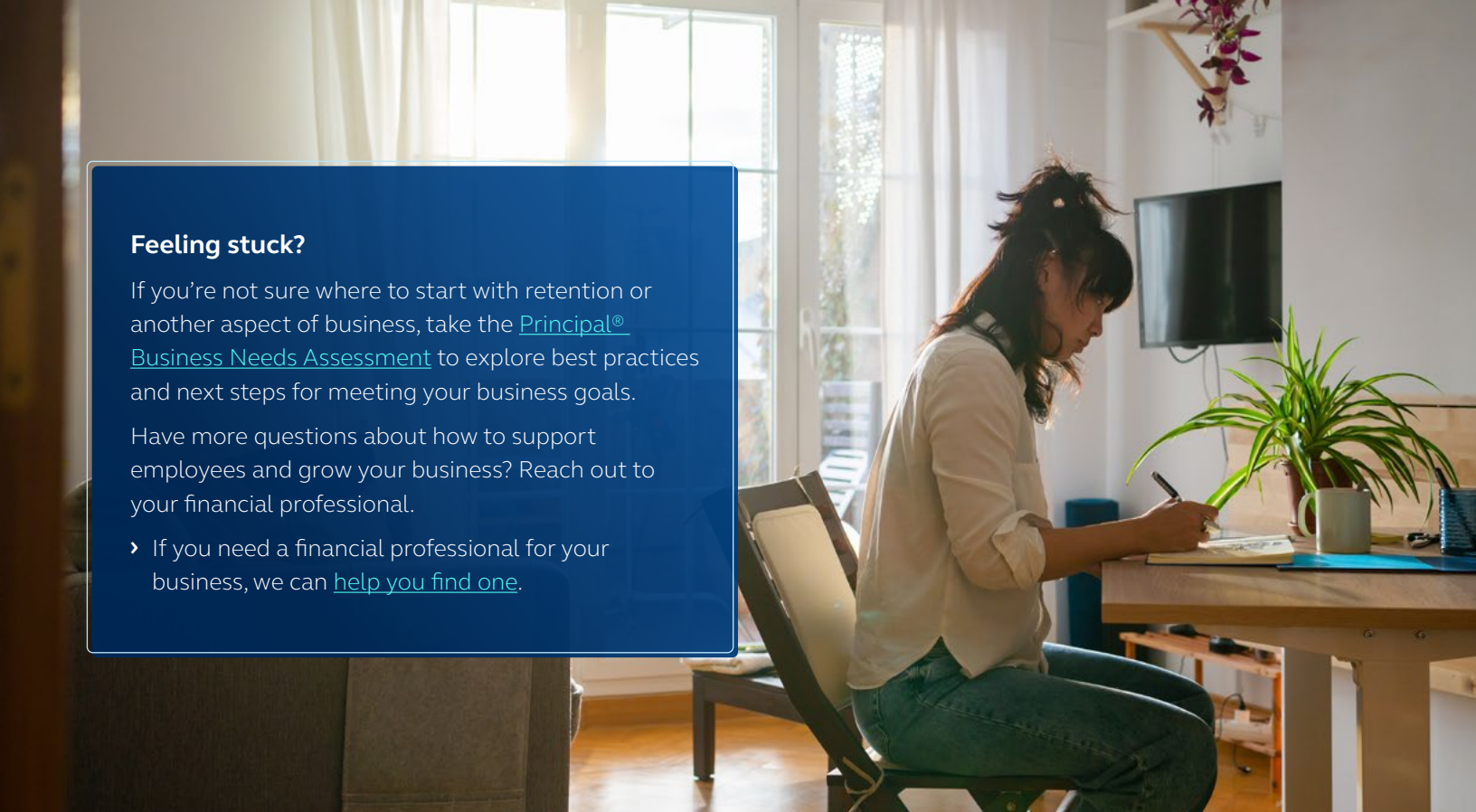
OTHER GUIDES:



[Employee mental health: One of the most important retention moves \(PDF\)](#)



[Build your hybrid work culture plan for 2023 and beyond \(PDF\)](#)



Feeling stuck?

If you're not sure where to start with retention or another aspect of business, take the [Principal® Business Needs Assessment](#) to explore best practices and next steps for meeting your business goals.

Have more questions about how to support employees and grow your business? Reach out to your financial professional.

- › If you need a financial professional for your business, we can [help you find one](#).



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