

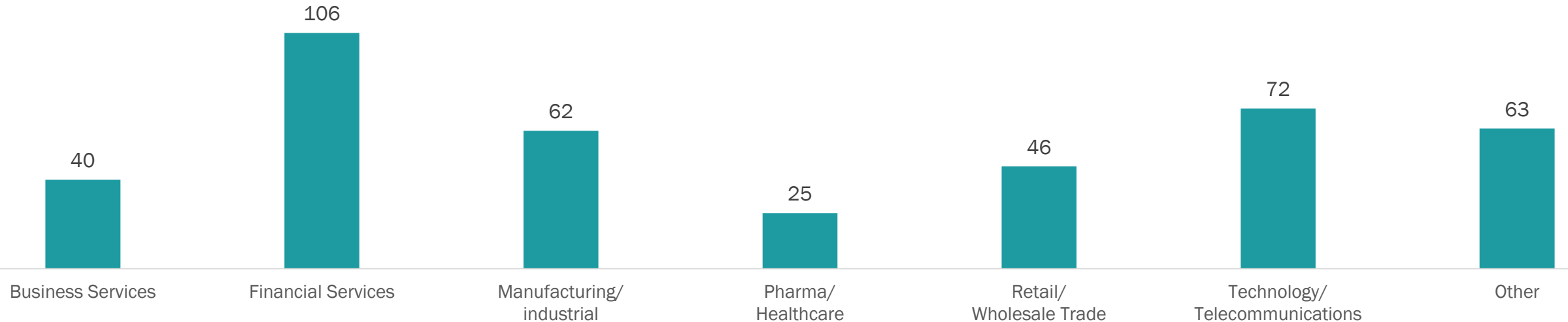
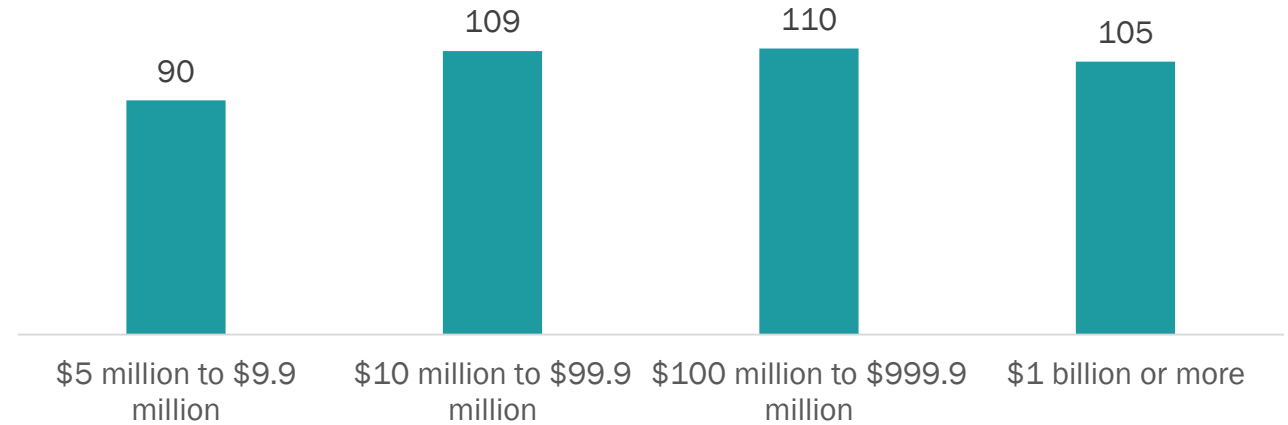
IRF Market Survey: Regulatory Environment

Reference Deck



Respondents

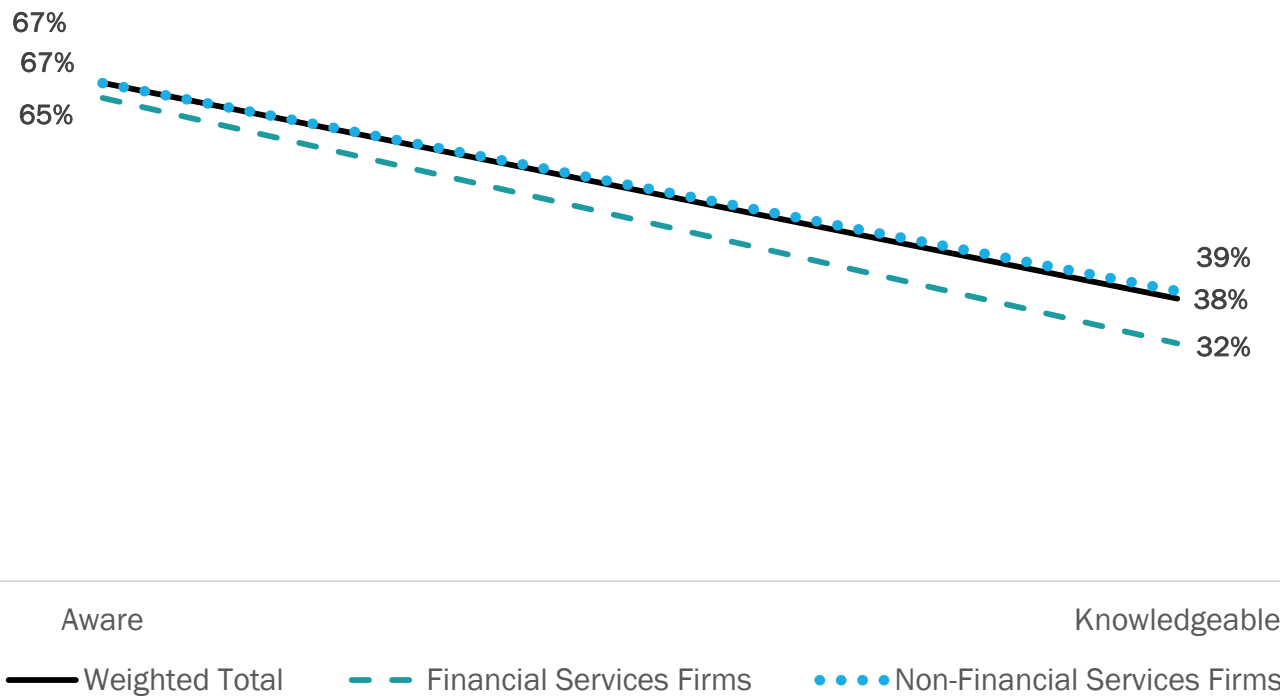
- 419 Respondents total
- Cross-section US businesses
- Decision-makers for non-cash rewards programs
- \$5M or more in revenue (balanced)
- 106 Financial Services





Overall Awareness of Regulatory Requirements

Percent indicating 'aware' and 'extremely knowledgeable'

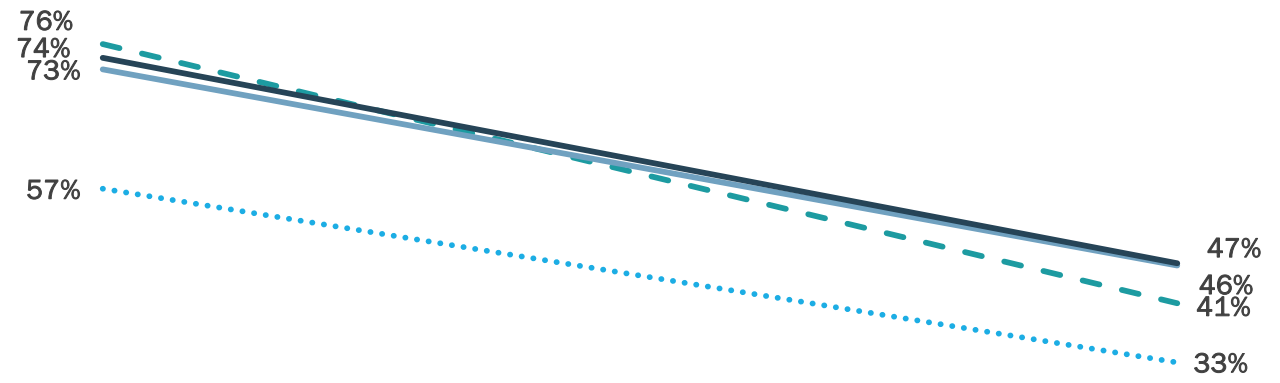


Are you **aware** of the **regulatory and tax codes** that impact the business use of non-cash rewards?
How **knowledgeable** are you regarding the **regulatory and tax requirements** that businesses must comply with for their non-cash reward programs?



Overall Awareness of Regulatory Requirements

Percent indicating 'aware' and 'extremely knowledgeable'

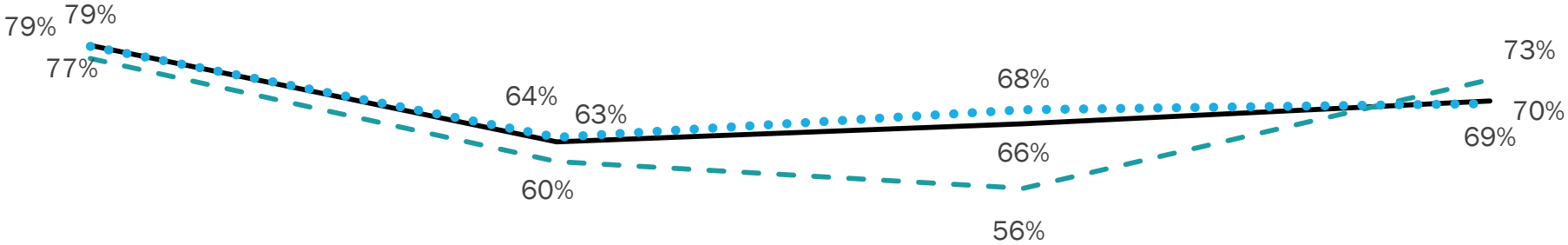


..... \$5 million to \$9.9 million - - - \$10 million to \$99.9 million — \$100 million to \$999.9 million — \$1 billion or more

Are you **aware** of the **regulatory and tax codes** that impact the business use of non-cash rewards?
How **knowledgeable** are you regarding the **regulatory and tax requirements** that businesses must comply with for their non-cash reward programs?

Confidence in Addressing Regulations

Percent indicating 'very confident'

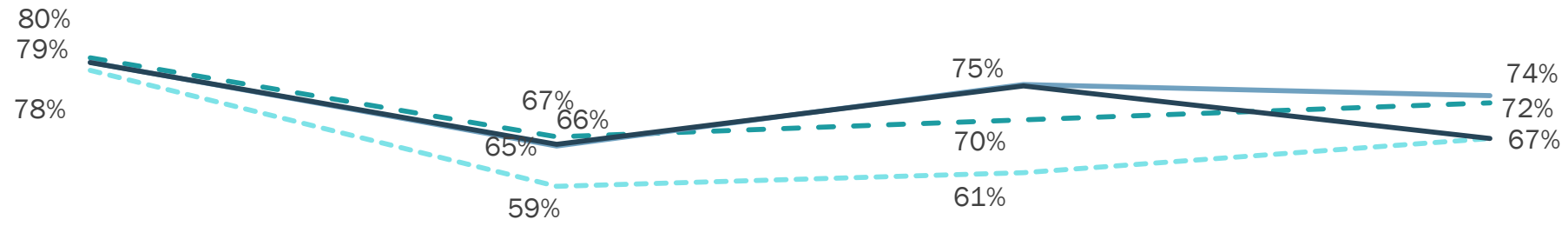


Identified ALL relevant regulations Understand IN DETAIL implications for our programs Understand potential consequences of failing to comply Adequate measures in place to ensure we remain compliant

— Weighted Total - - - Financial Services ••• Non-Financial Services

Confidence in Addressing Regulations

Percent indicating 'very confident'



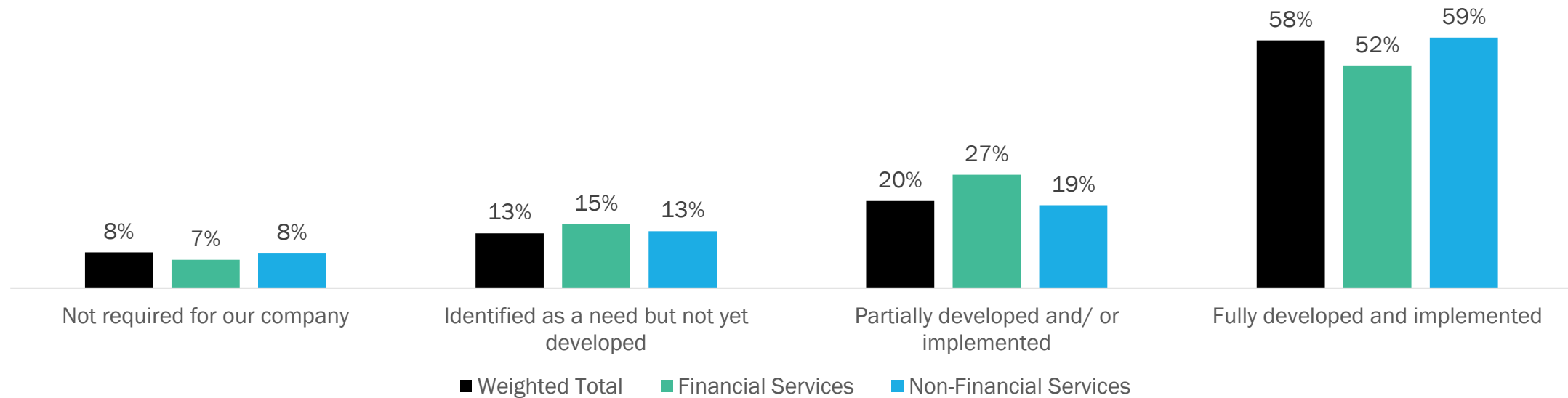
Identified ALL relevant regulations Understand IN DETAIL implications for our programs Understand potential consequences of failing to comply Adequate measures in place to ensure we remain compliant

--- \$5 million to \$9.9 million - - \$10 million to \$99.9 million — \$100 million to \$999.9 million — \$1 billion or more

Program Compliance Mechanisms

Explicit Policy

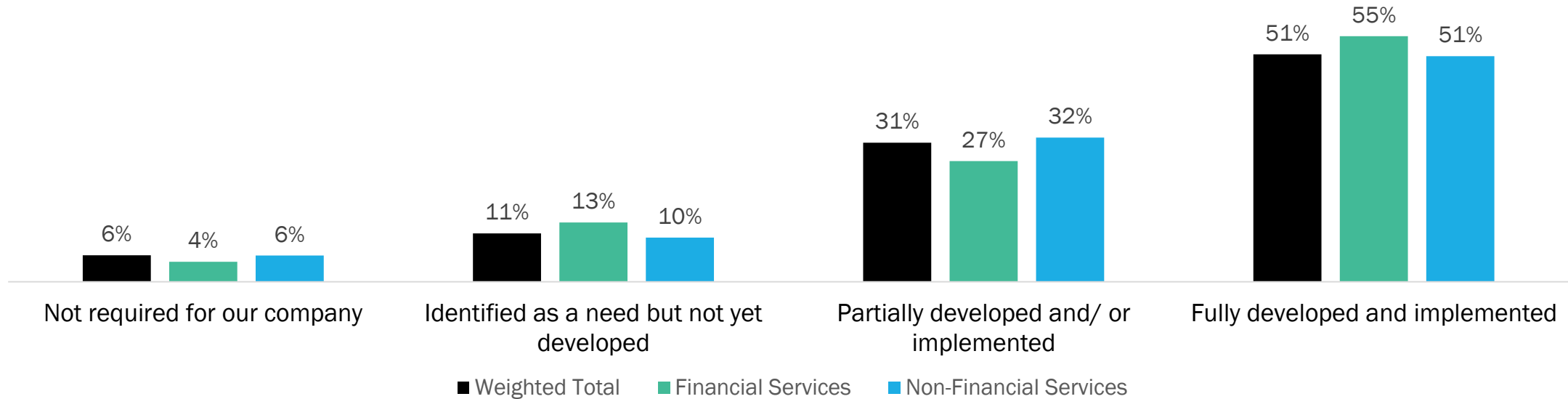
An explicit, documented policy to guide design, approval, and execution of non-cash reward programs



To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms Stakeholders Identified

Clearly identified stakeholders for review and approval of non-cash reward programs

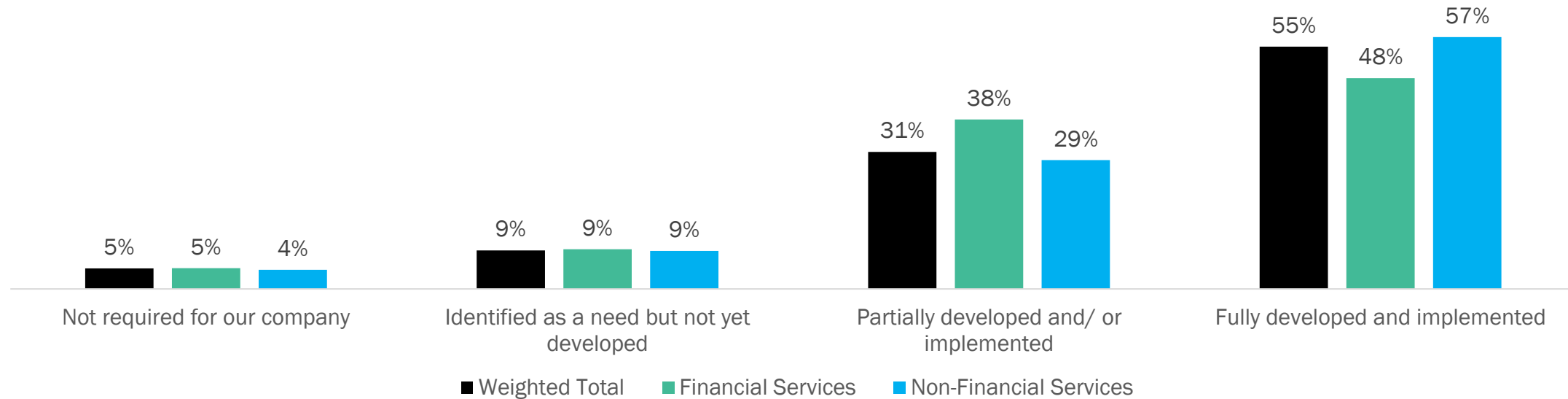


To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms

Formal Review of Design Changes

Formal review of any material changes in program design by compliance, legal, or audit team

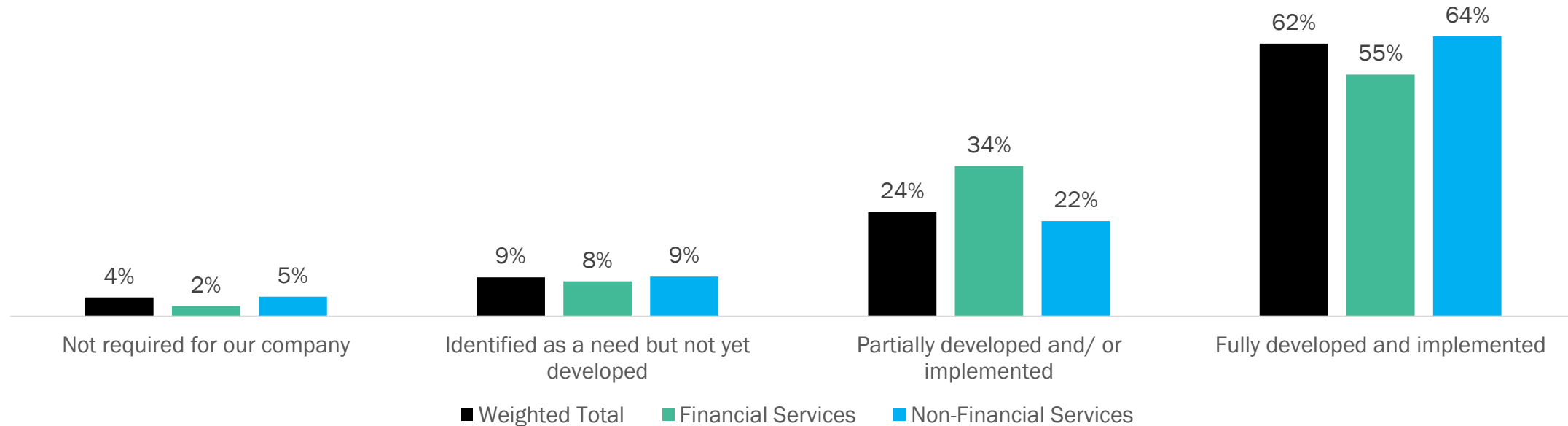


To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms

Regular Reviews

Regular reviews (annual or otherwise) by compliance, legal, or audit team

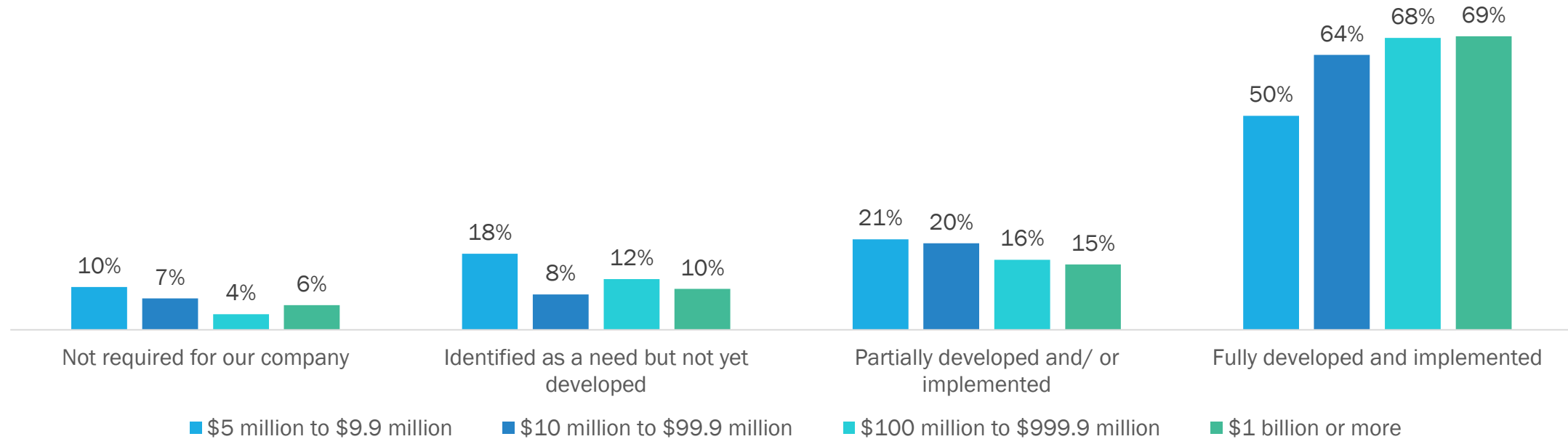


To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms

Explicit Policy

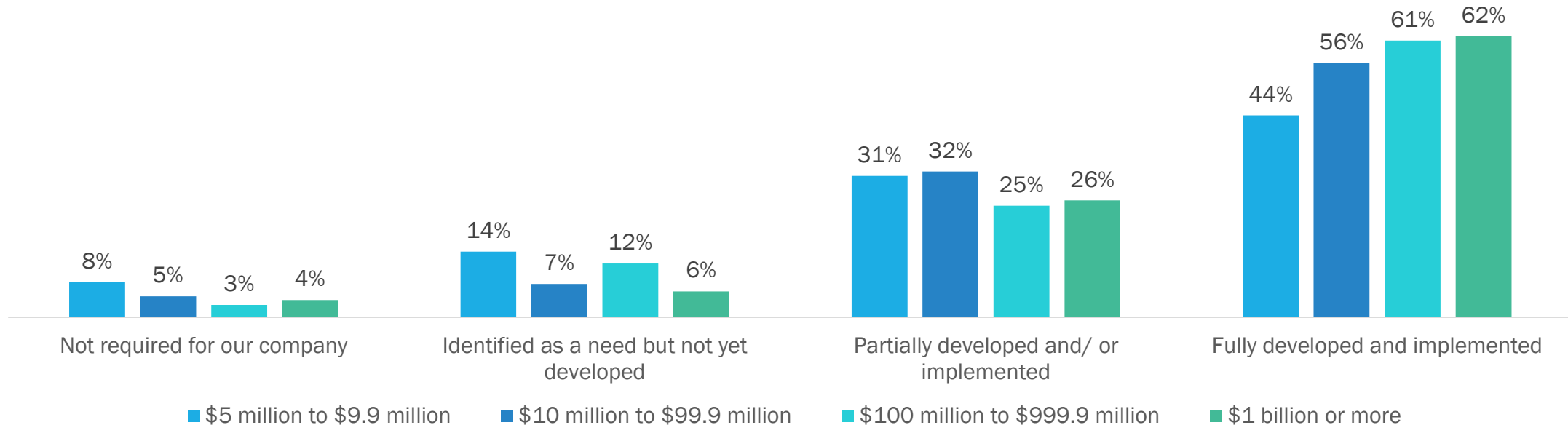
An explicit, documented policy to guide design, approval, and execution of non-cash reward programs



To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms Stakeholders Identified

Clearly identified stakeholders for review and approval of non-cash reward programs

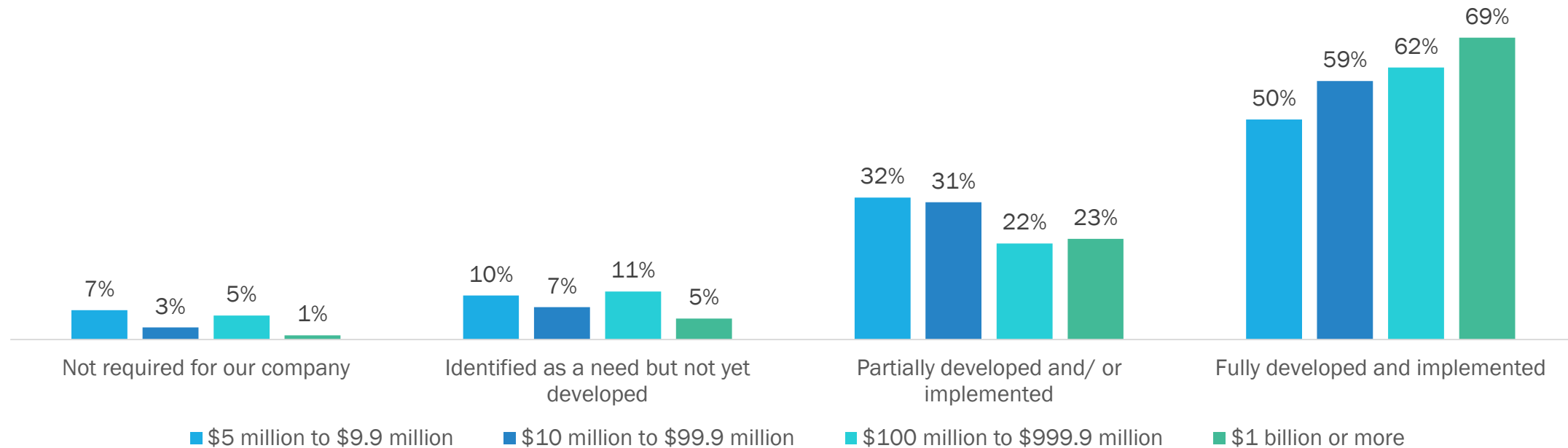


To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms

Formal Review of Design Changes

Formal review of any material changes in program design by compliance, legal, or audit team

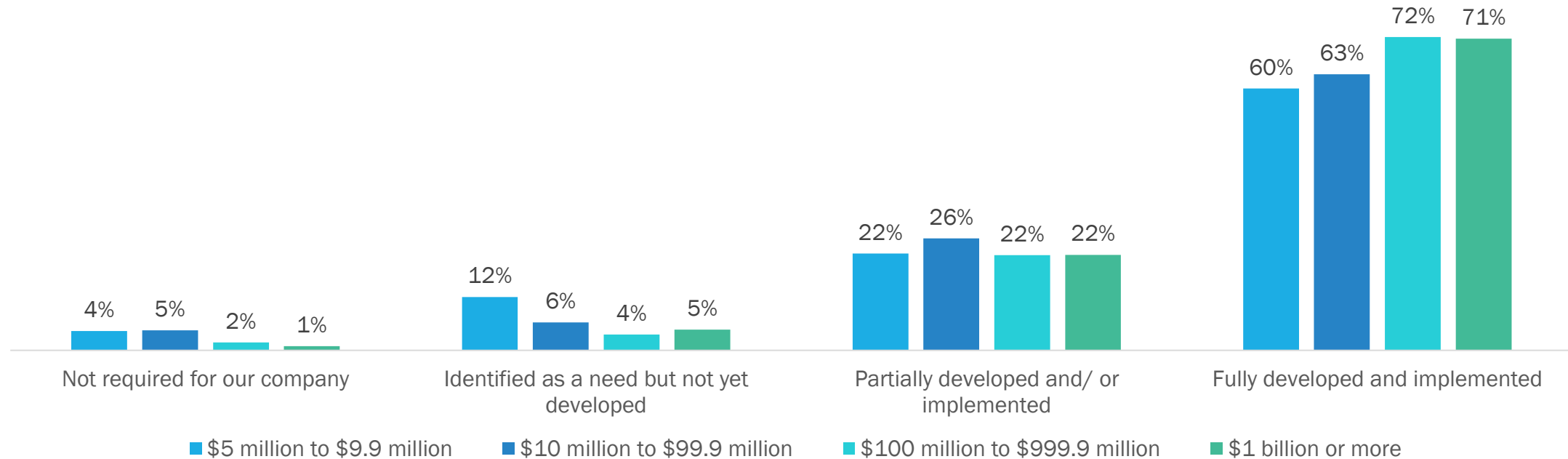


To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms

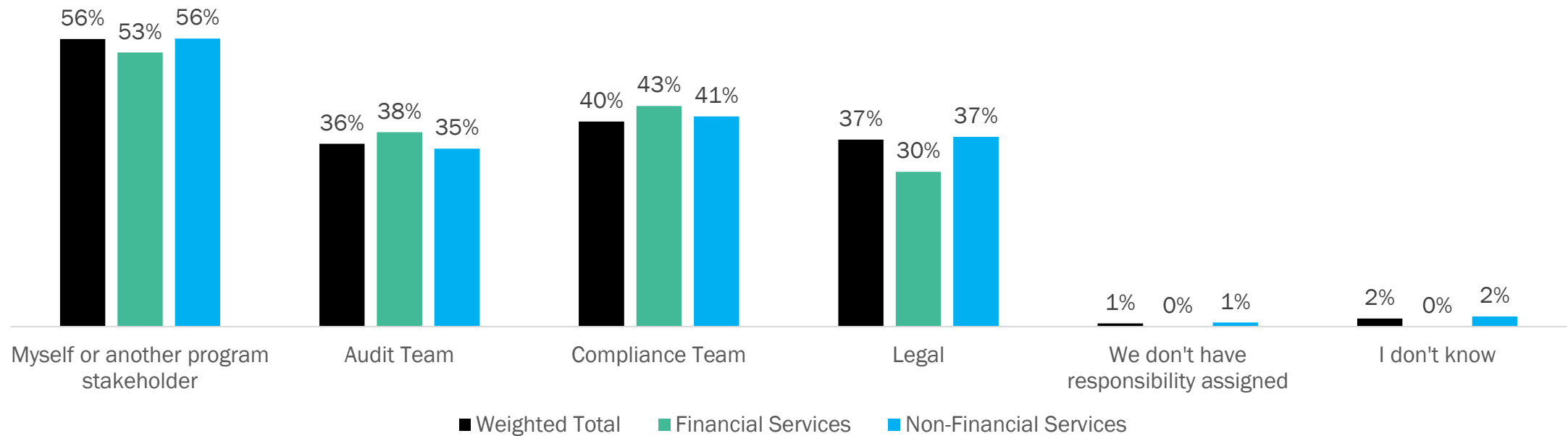
Regular Reviews

Regular reviews (annual or otherwise) by compliance, legal, or audit team



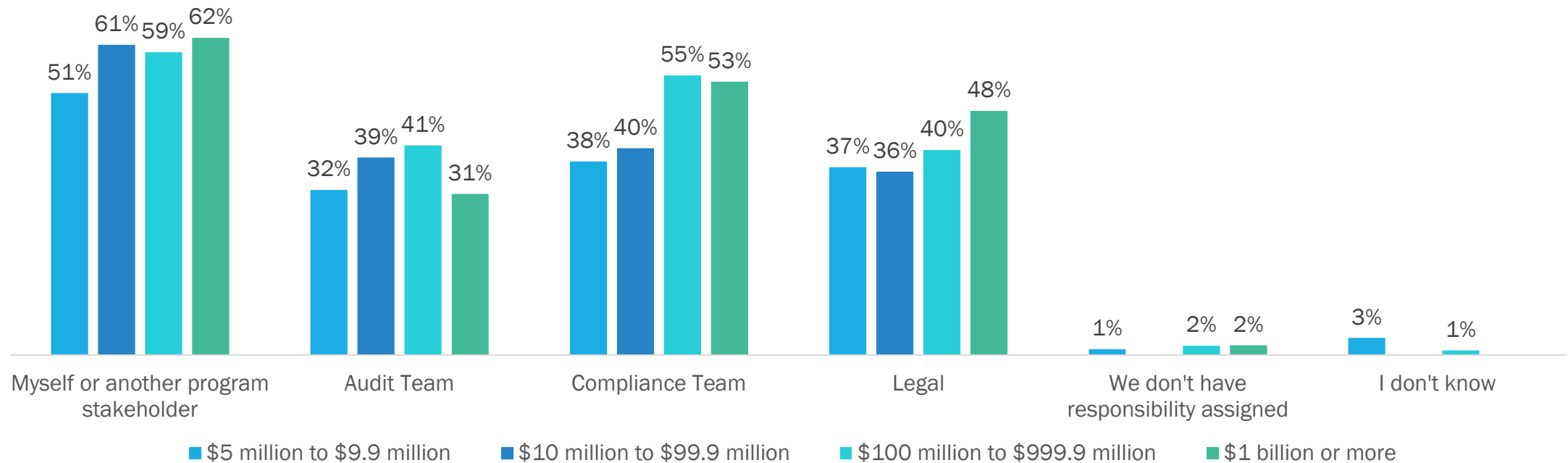
To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Ultimate Responsibility for Compliance



Who in your organization has *ULTIMATE* responsibility for understanding which rules apply to your business and ensuring compliance, as needed?

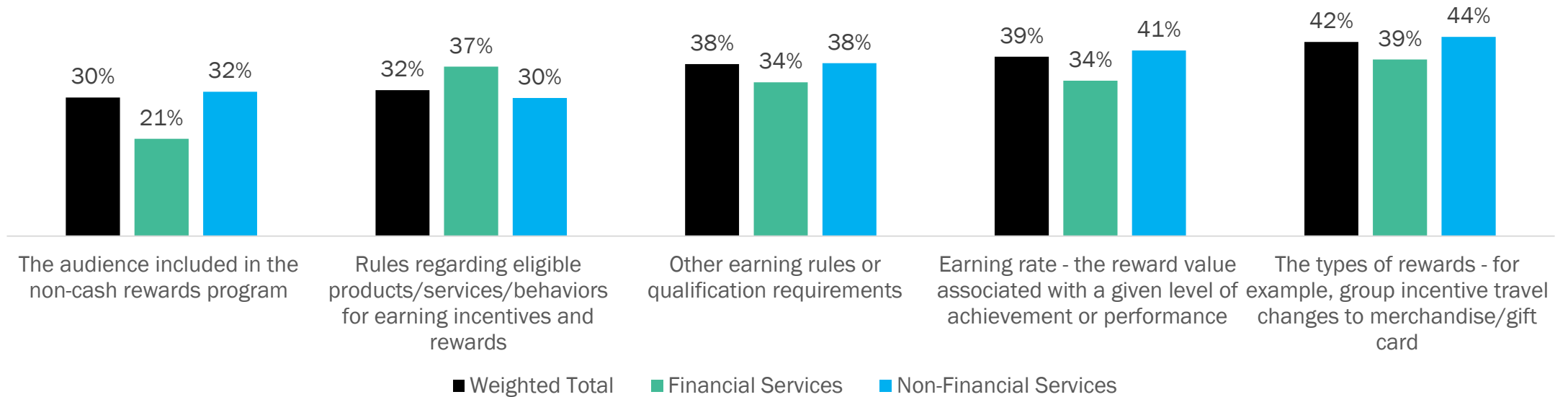
Ultimate Responsibility for Compliance



Who in your organization has **ULTIMATE** responsibility for understanding which rules apply to your business and ensuring compliance, as needed?

Year-over-Year Program Design Changes

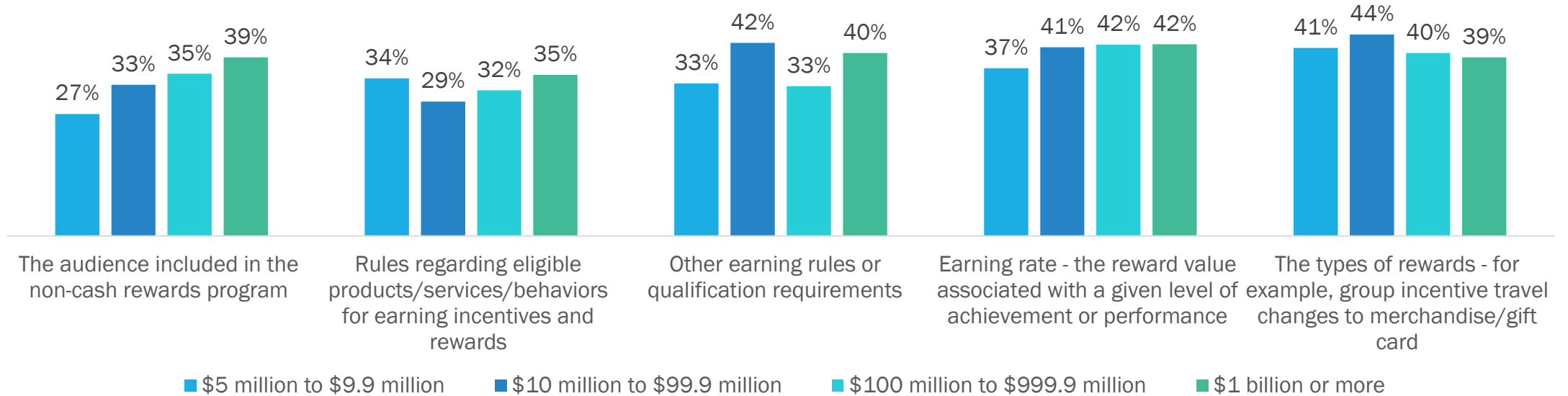
Percent indicating moderate to substantial program changes



Which of the options below best describe the extent to which the various components of your non-cash rewards programs would TYPICALLY change year-over-year?

Year-over-Year Program Design Changes

Percent indicating moderate to substantial program changes

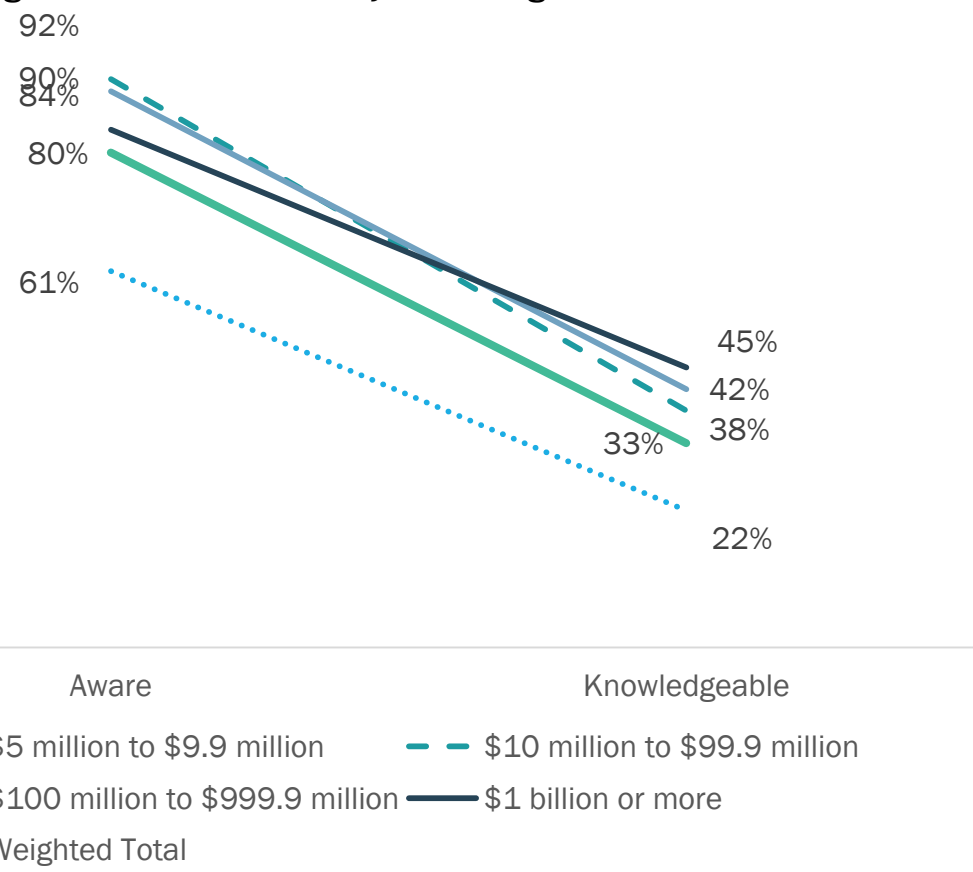


Which of the options below best describe the extent to which the various components of your non-cash rewards programs would TYPICALLY change year-over-year?

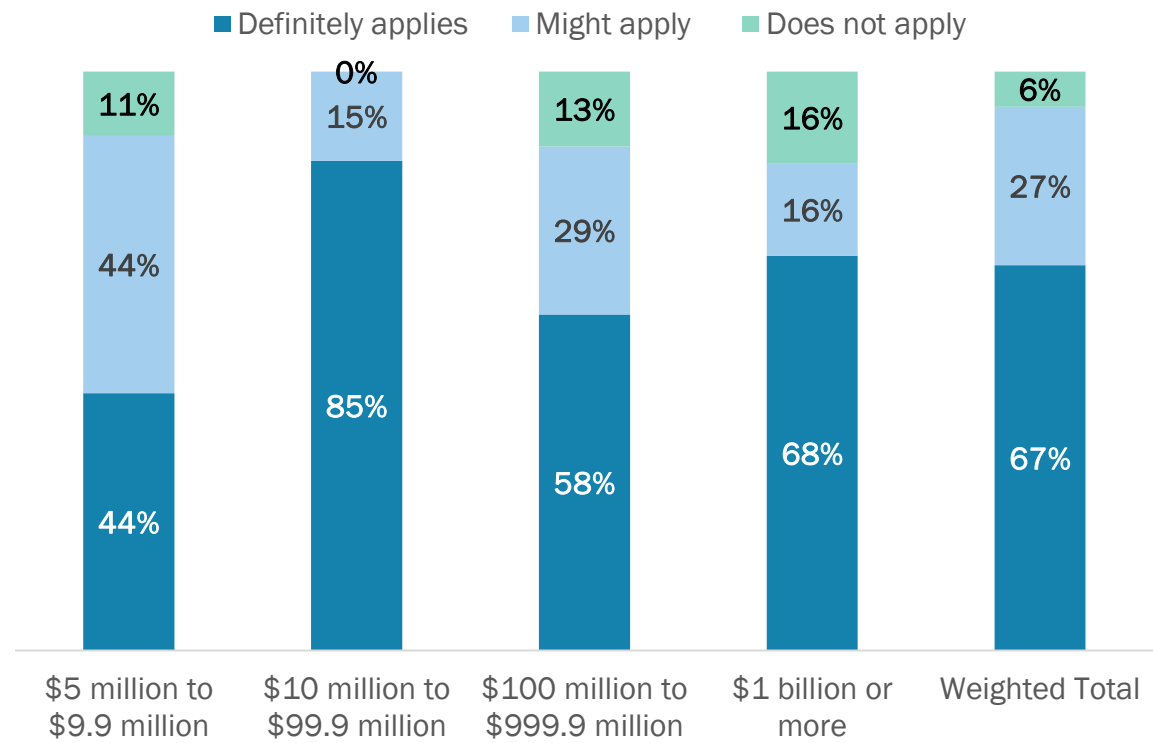


DOL (Department of Labor) Fiduciary Rule – Financial Services Firms

Percent indicating 'aware' and 'extremely knowledgeable'

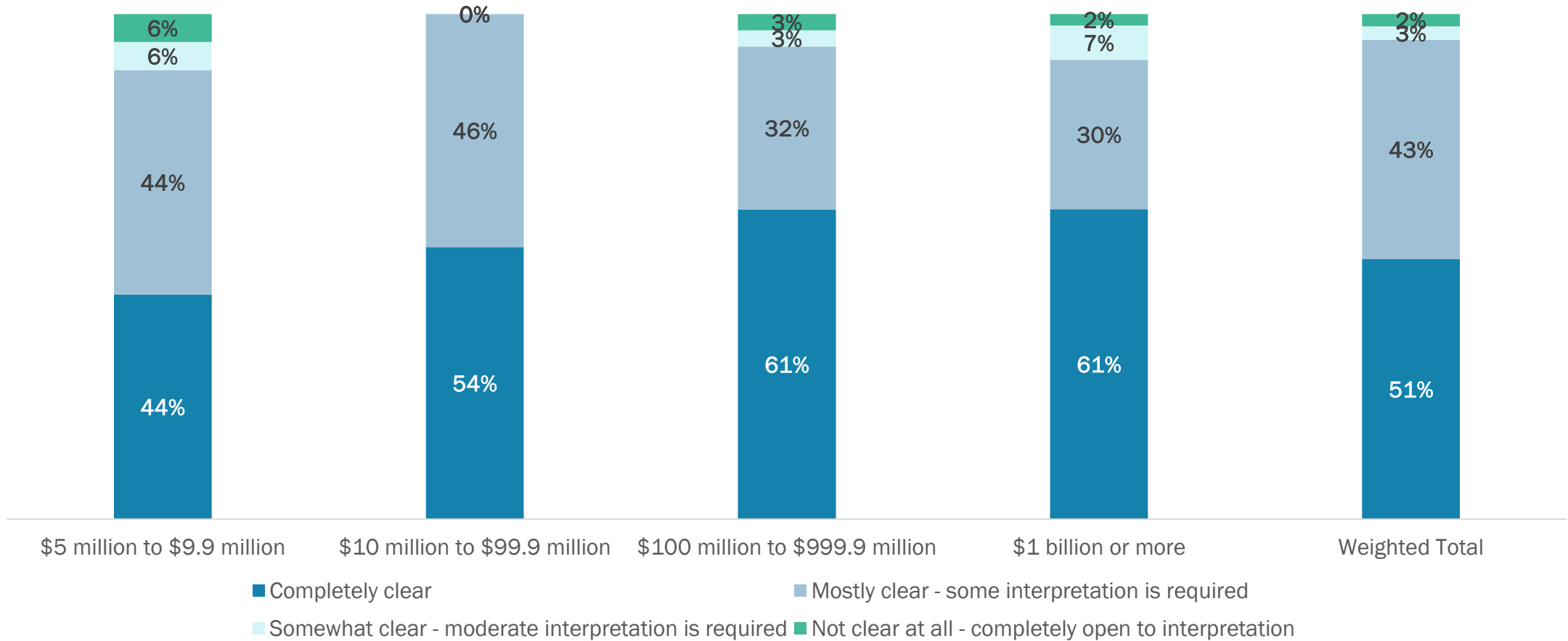


Companies may not create or continue to use incentives that allow financial advisors to act in a manner that is not in the best interest of their client, and they must disclose all conflicts of interest, including the use of such incentives.



- Were you **aware** of this rule?
- How knowledgeable are you regarding the specific regulatory and tax requirements that businesses must comply with for their reward and recognition programs?
- Does this rule apply to your programs?

DOL (Department of Labor) Fiduciary Rule – Financial Services Firms

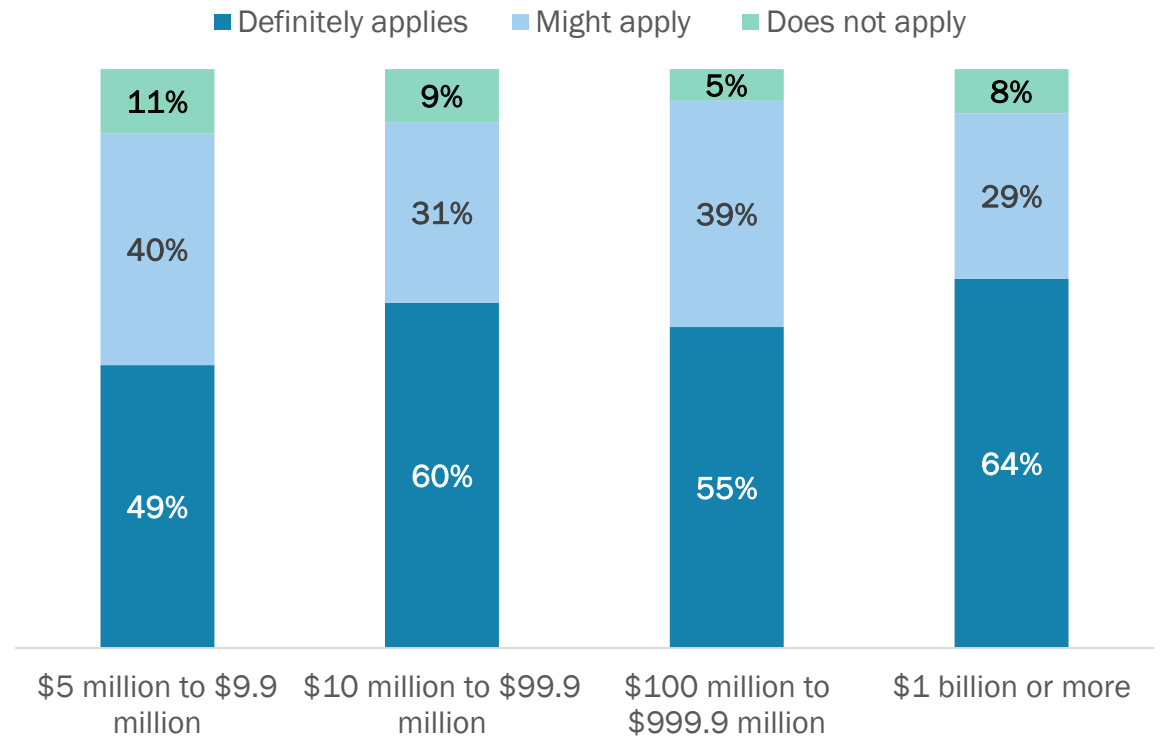
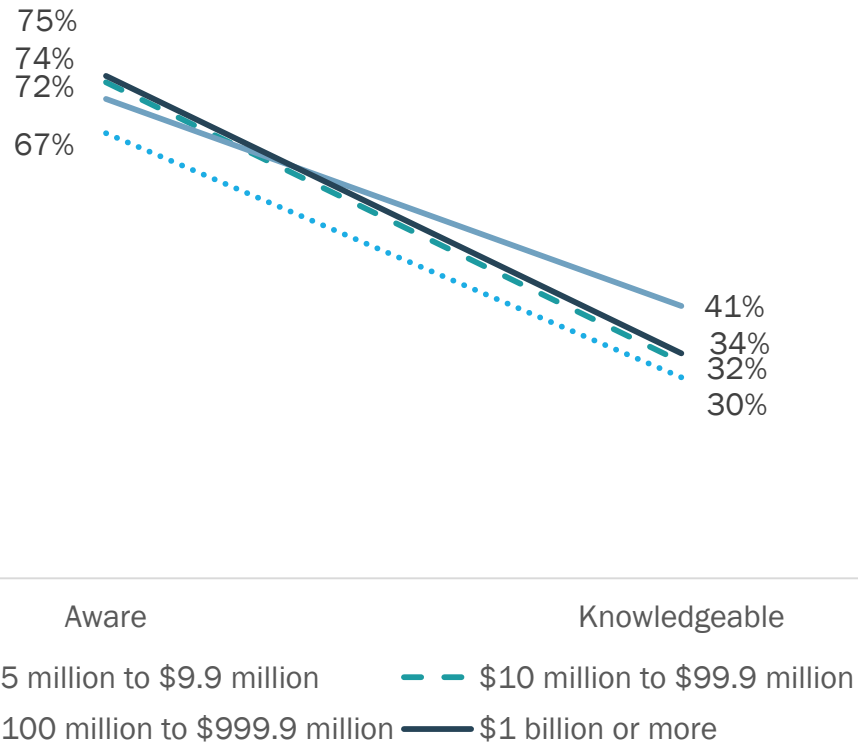


How clear do you feel each regulation is in terms of what companies must do to achieve compliance with that rule?

IRC Section 274(j) for Service and Safety Programs

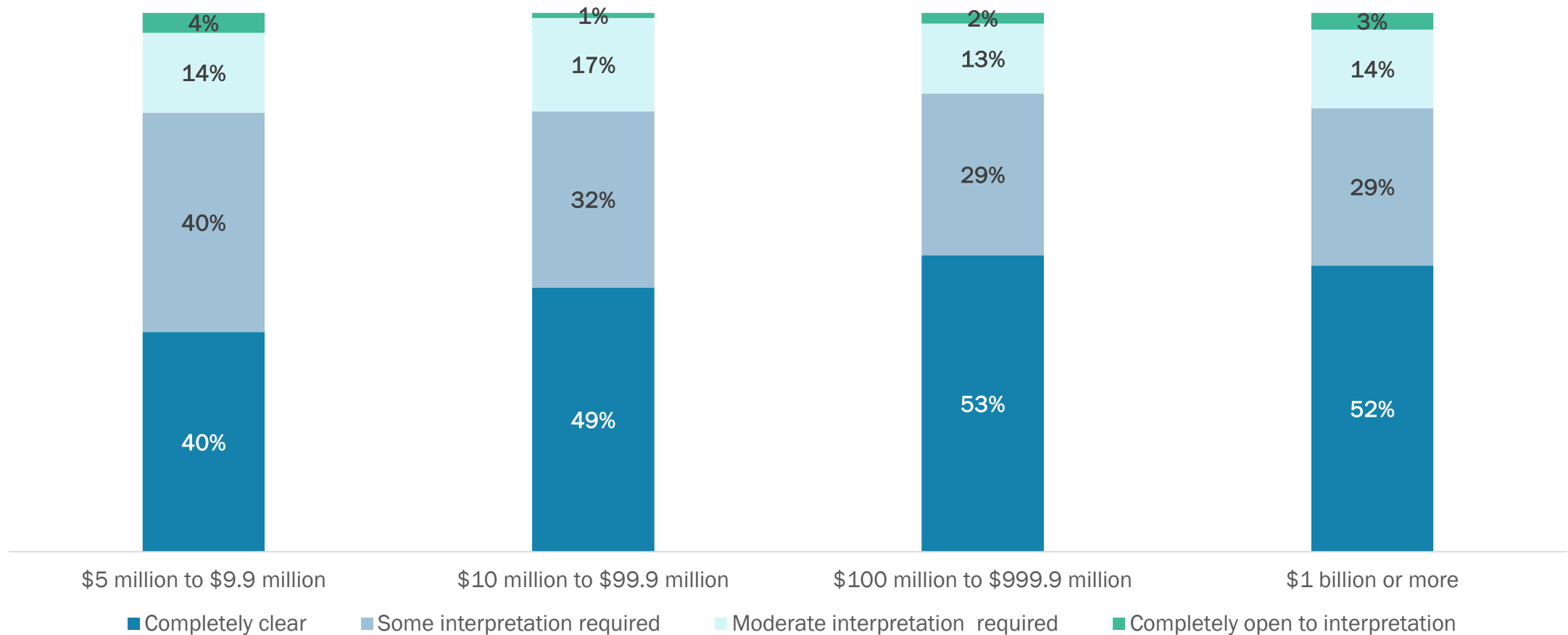
Percent indicating 'aware' and 'extremely knowledgeable'

Provides preferential tax treatment for employee service or safety awards (non-taxable to employee and deductible by employer), under certain conditions. (see notes for more detail)



- Were you **aware** of this rule?
- How knowledgeable are you regarding the specific regulatory and tax requirements that businesses must comply with for their reward and recognition programs?
- Does this rule apply to your programs?

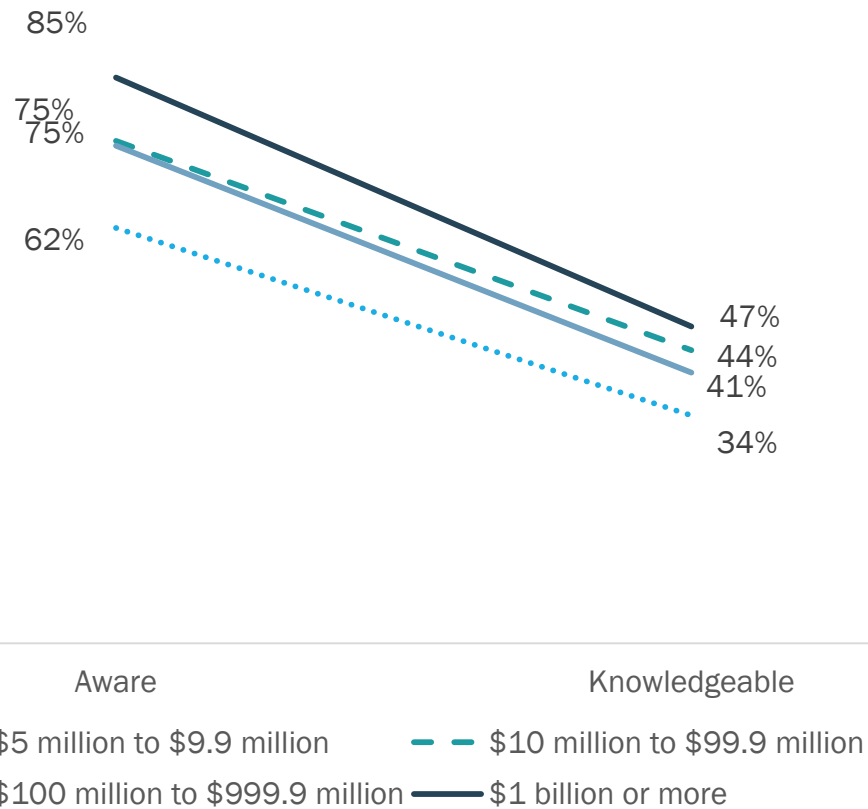
IRC Section 274(j) for Service and Safety Programs



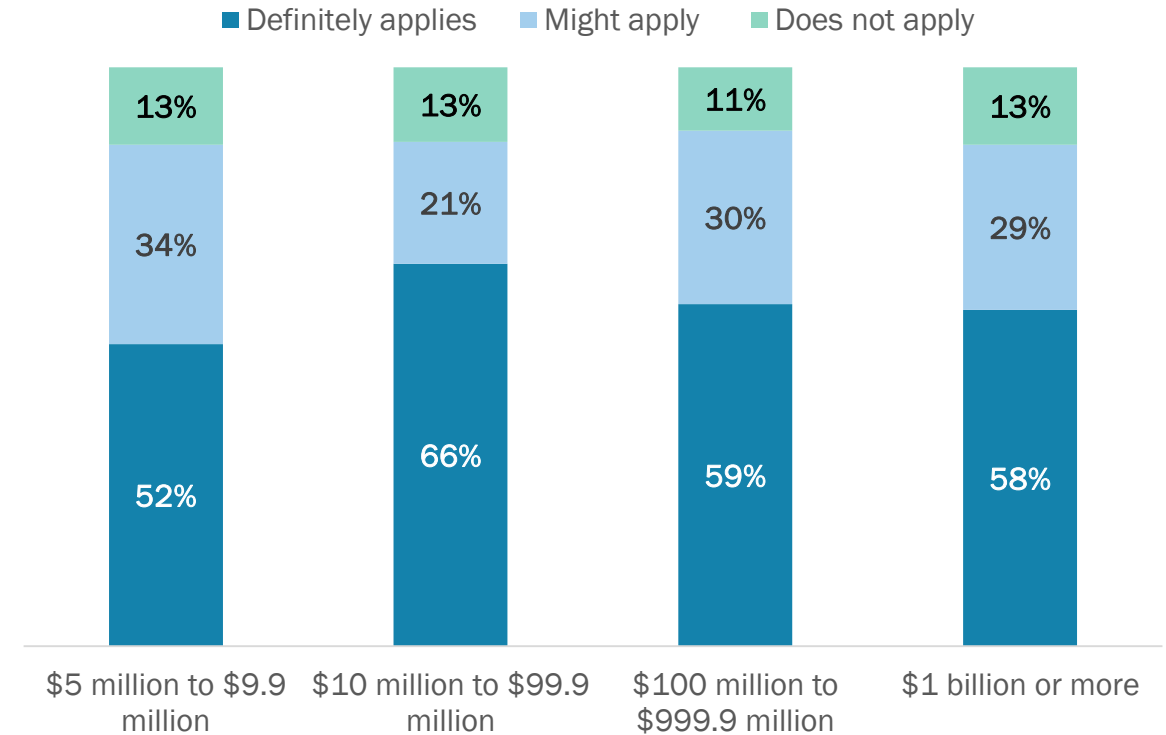
How clear do you feel each regulation is in terms of what companies must do to achieve compliance with that rule?

OSHA Safety Incentive Program Rules

Percent indicating 'aware' and 'extremely knowledgeable'

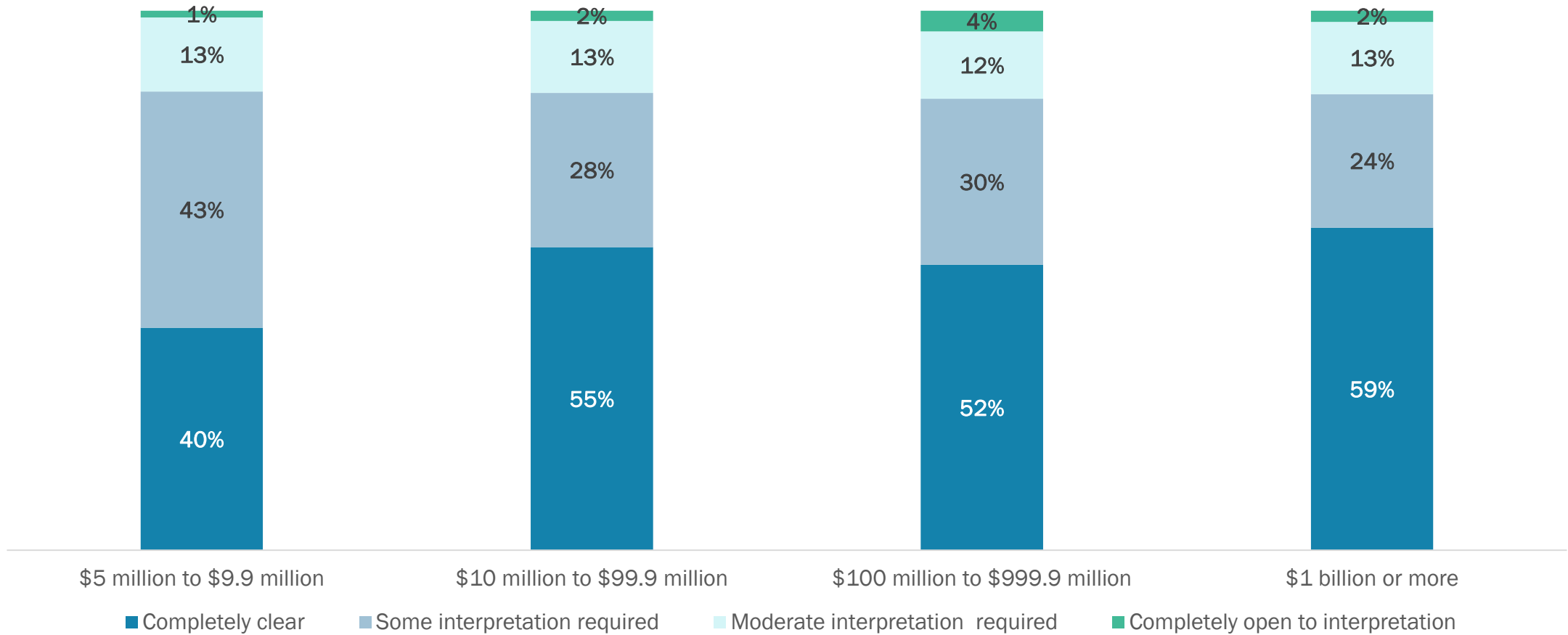


Safety incentive programs cannot be structured in such a way that discourages employees from reporting work-related injuries and illnesses, such as rewarding employees for maintaining low accident rates or days without safety incidents.



- Were you **aware** of this rule?
- How knowledgeable are you regarding the specific regulatory and tax requirements that businesses must comply with for their reward and recognition programs?
- Does this rule apply to your programs?

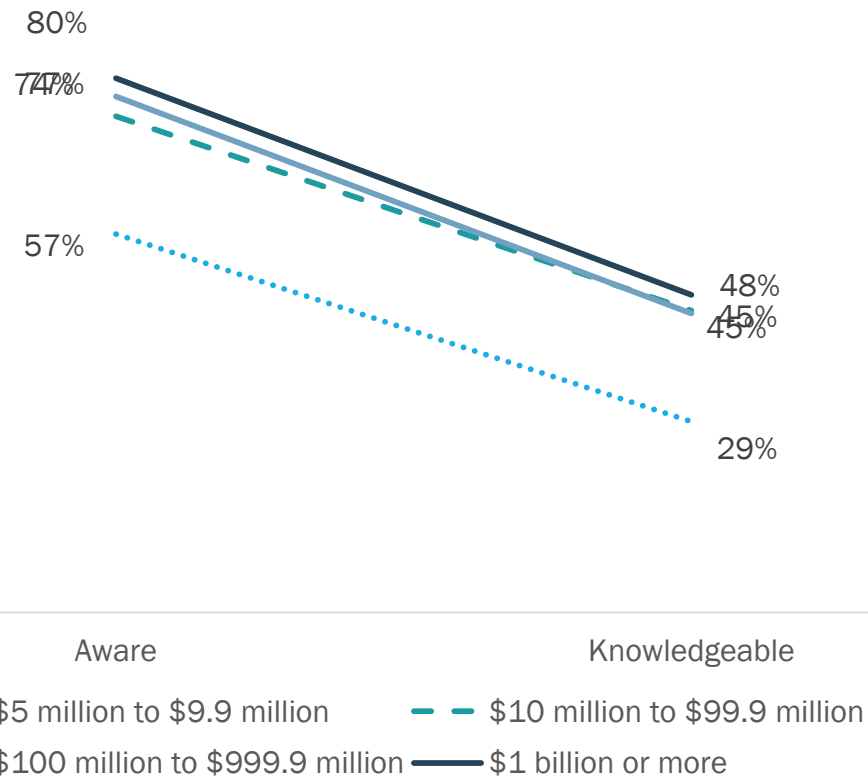
OSHA Safety Incentive Program Rules



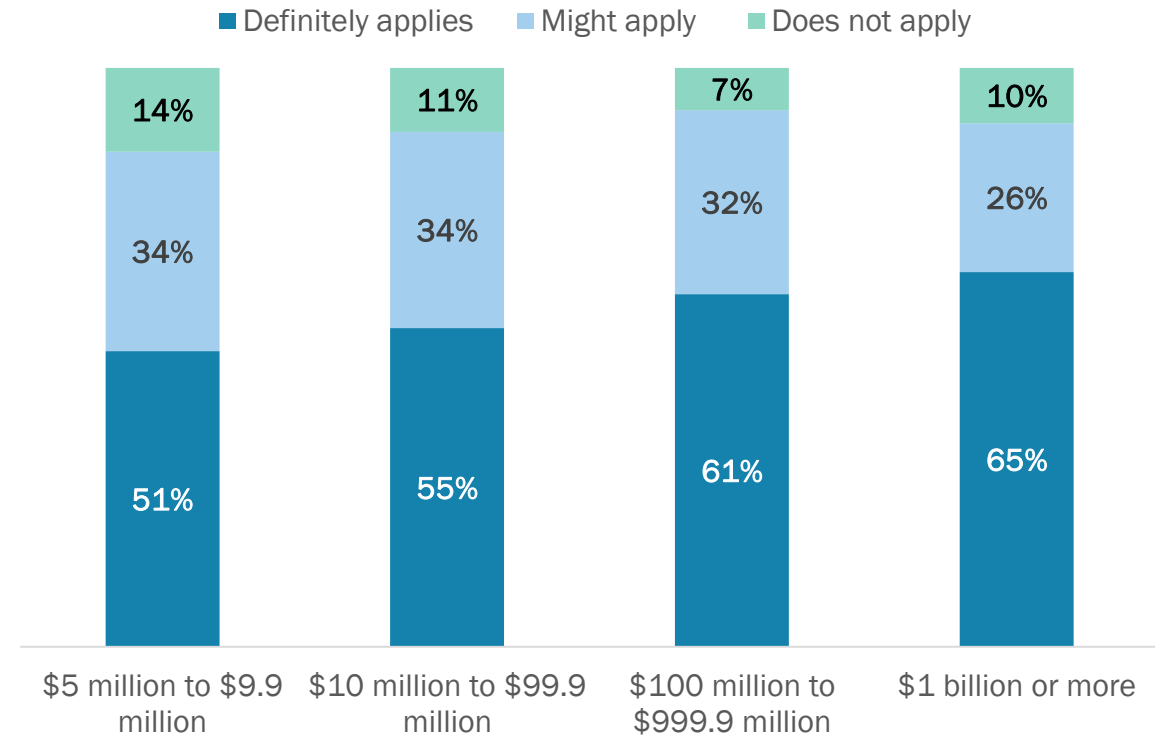
How clear do you feel each regulation is in terms of what companies must do to achieve compliance with that rule?

Fair Labor Standards Act (FLSA) Overtime Rule

Percent indicating 'aware' and 'extremely knowledgeable'

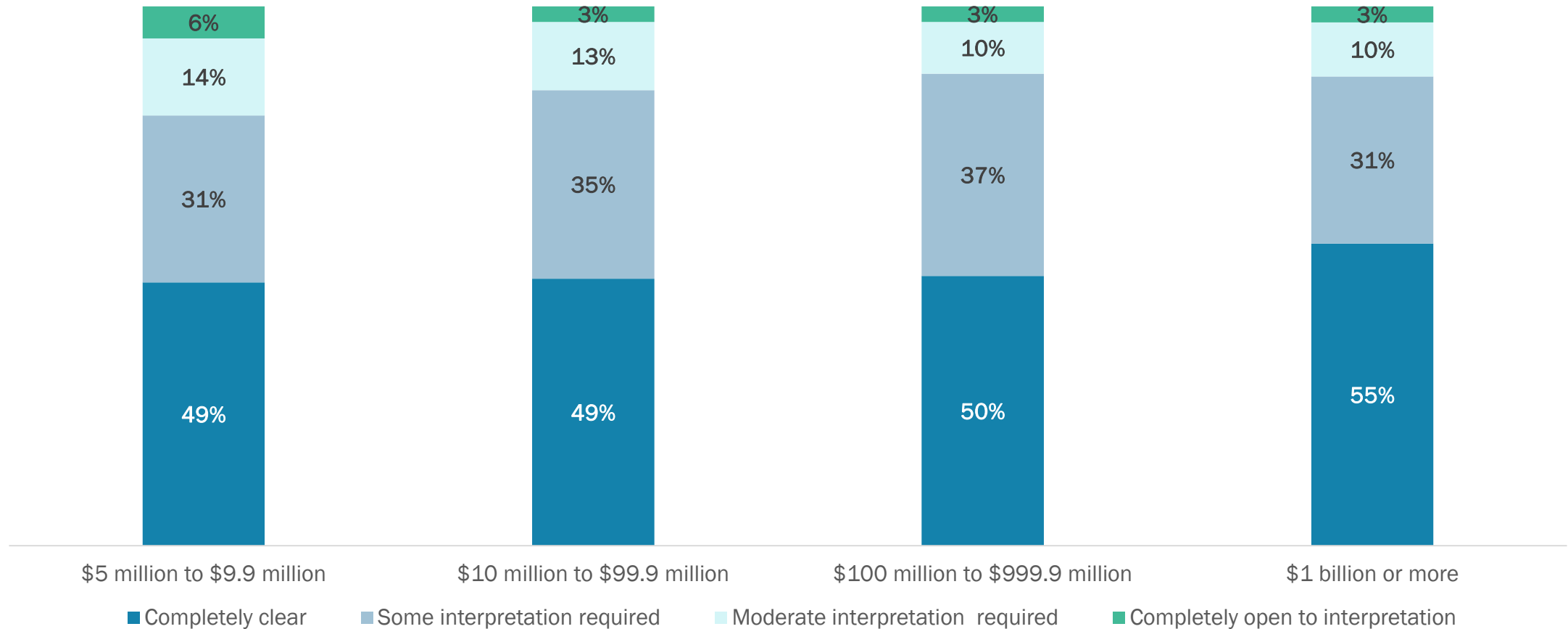


Certain types of "discretionary" awards taxable to employees can be considered additional compensation and may trigger requirements for overtime pay. (Does not apply to non-taxable awards.)



- Were you **aware** of this rule?
- How knowledgeable are you regarding the specific regulatory and tax requirements that businesses must comply with for their reward and recognition programs?
- Does this rule apply to your programs?

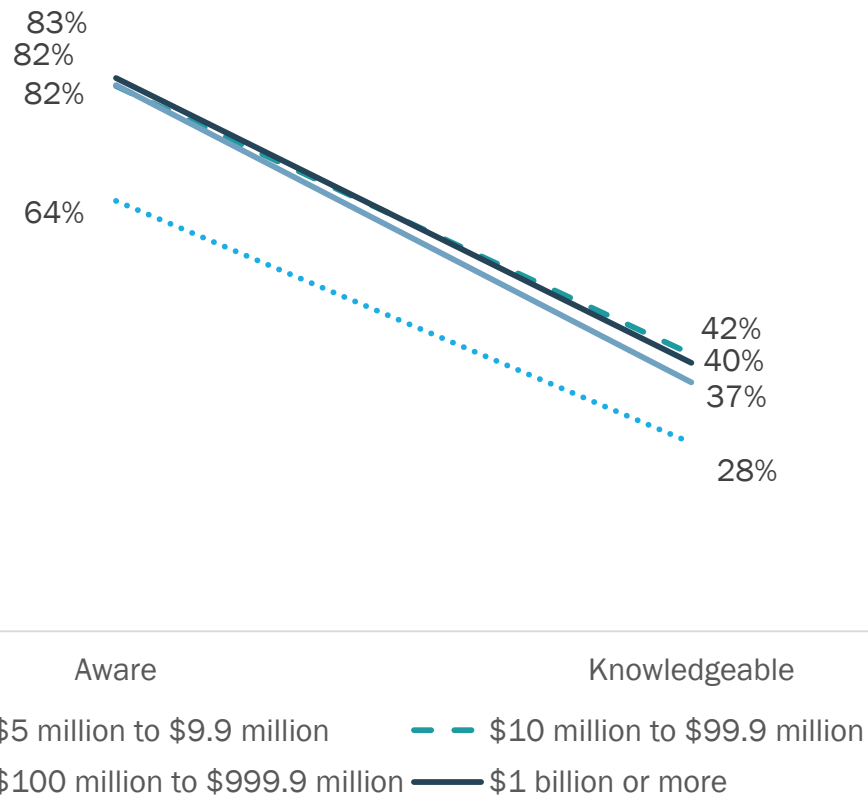
Fair Labor Standards Act (FLSA) Overtime Rule



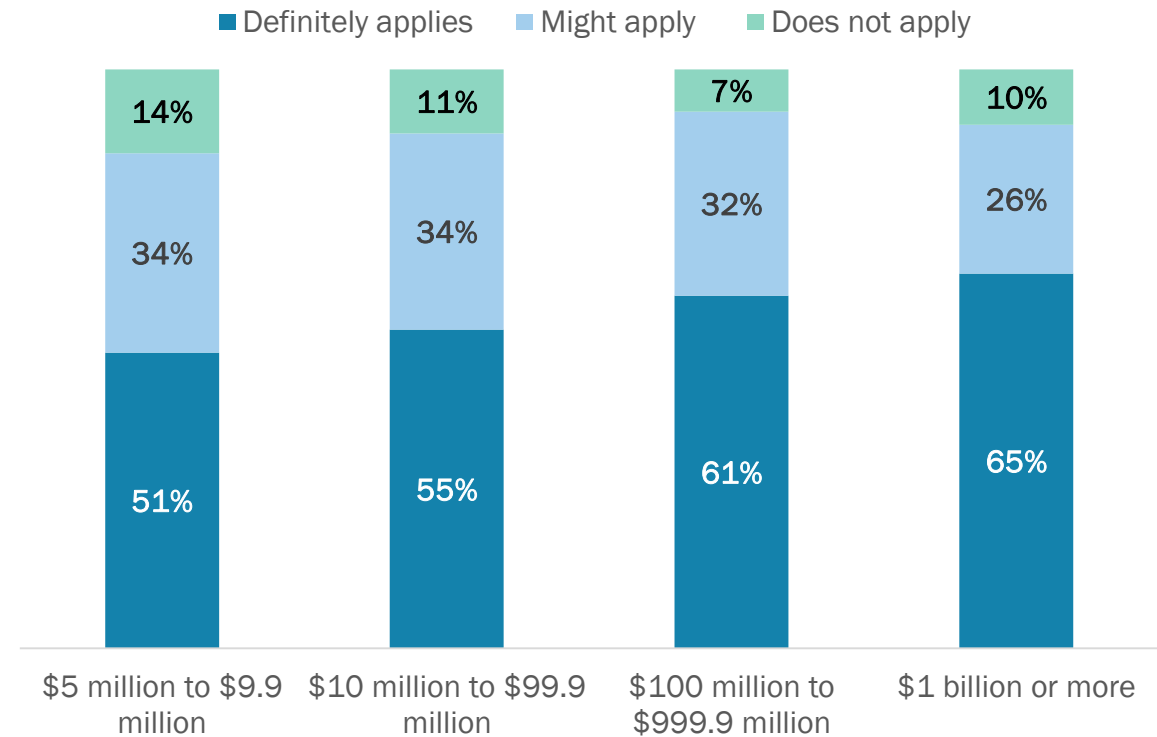
How clear do you feel each regulation is in terms of what companies must do to achieve compliance with that rule?

Fair Market Value Estimation on Forms 1099 or W-2

Percent indicating 'aware' and 'extremely knowledgeable'

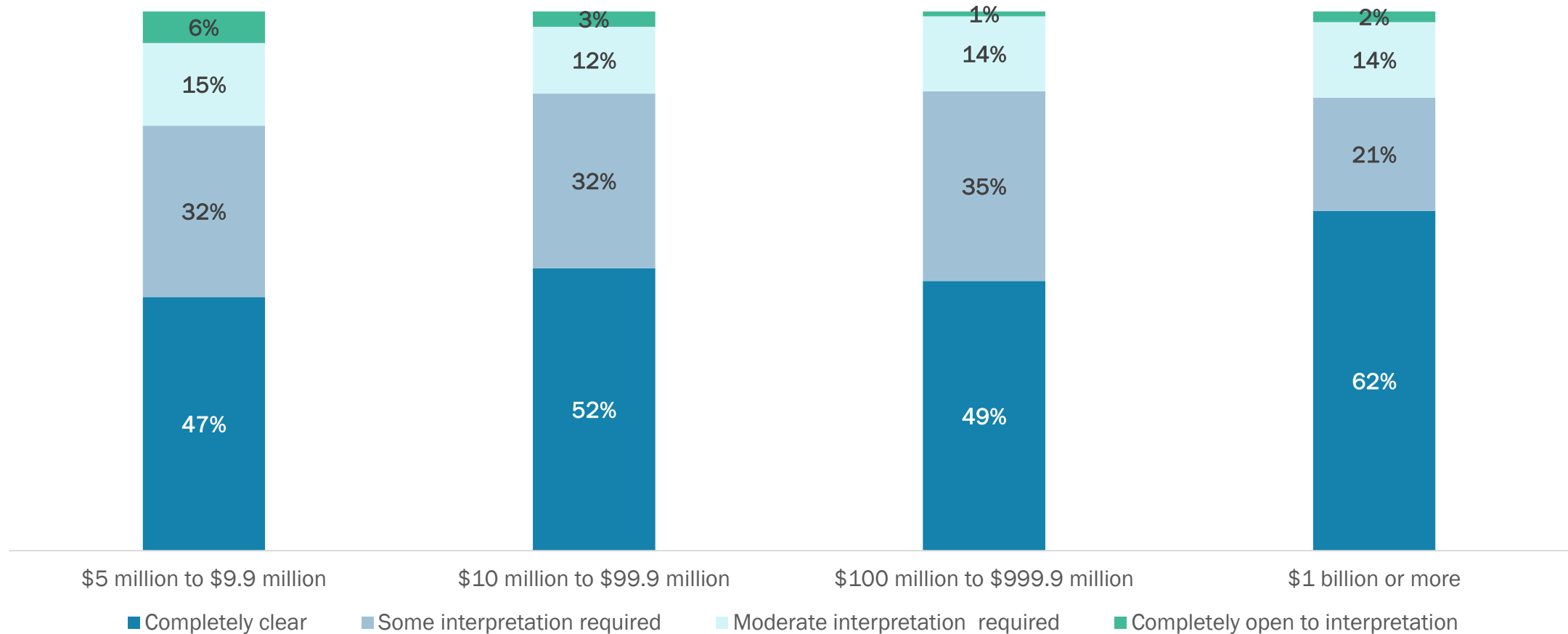


Accurate and appropriate estimation of reward value to be included on 1099s (to independent contractors) and W-2s (to employees), particularly for merchandise or incentive travel



- Were you **aware** of this rule?
- How knowledgeable are you regarding the specific regulatory and tax requirements that businesses must comply with for their reward and recognition programs?
- Does this rule apply to your programs?

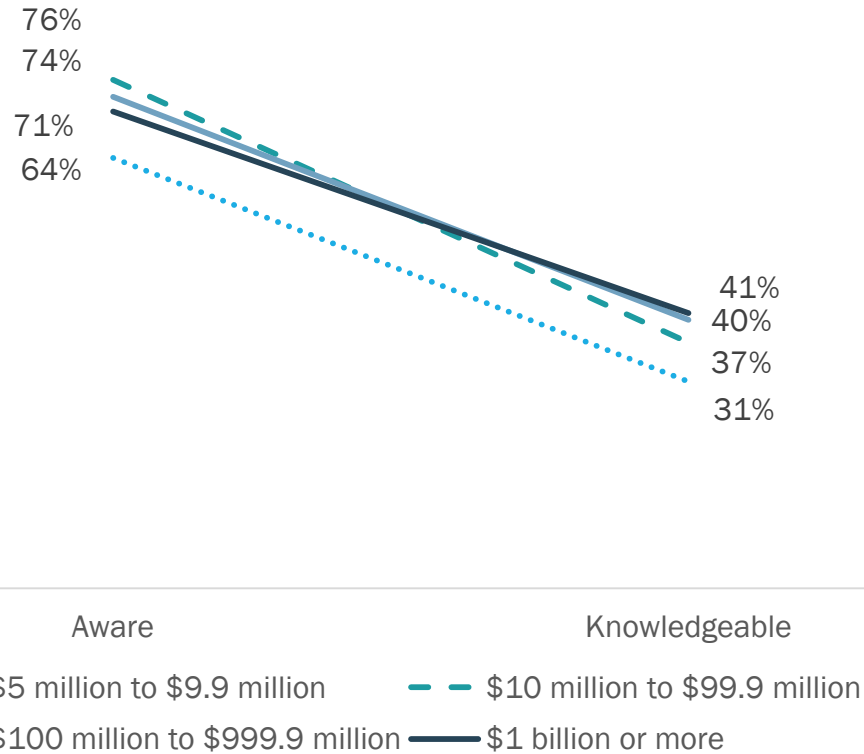
Fair Market Value Estimation on Forms 1099 or W-2



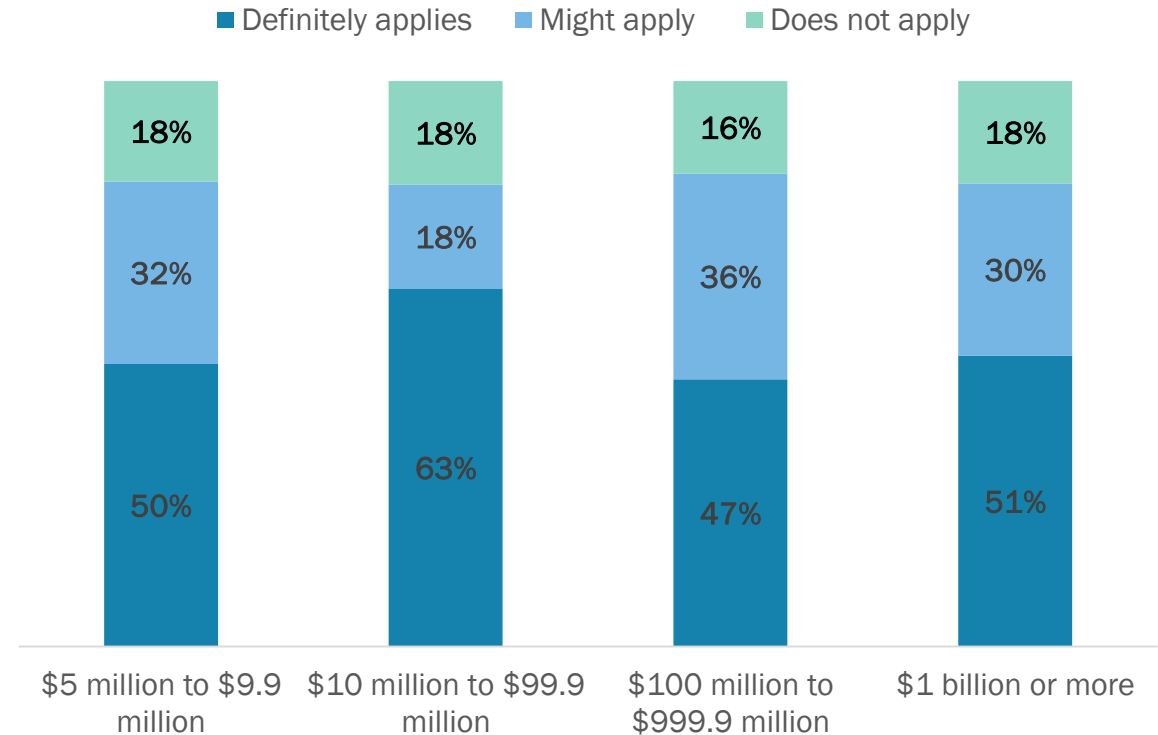
How clear do you feel each regulation is in terms of what companies must do to achieve compliance with that rule?

Sweepstakes and Lottery Rules

Percent indicating 'aware' and 'extremely knowledgeable'

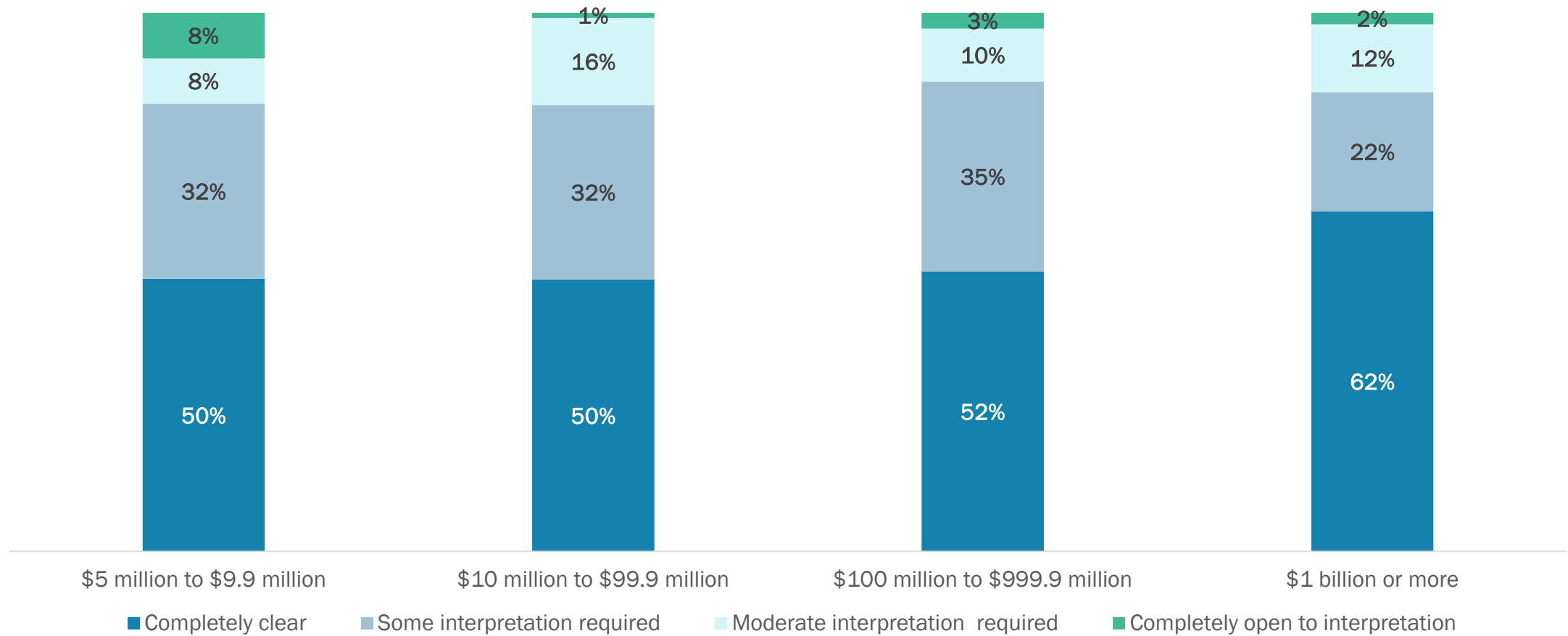


Requirements for operating a legal and compliant sweepstakes program as opposed to a lottery, which is illegal for companies to operate. Of particular concern for companies operating incentive programs in non-employee sales channels. (see notes for more detail)



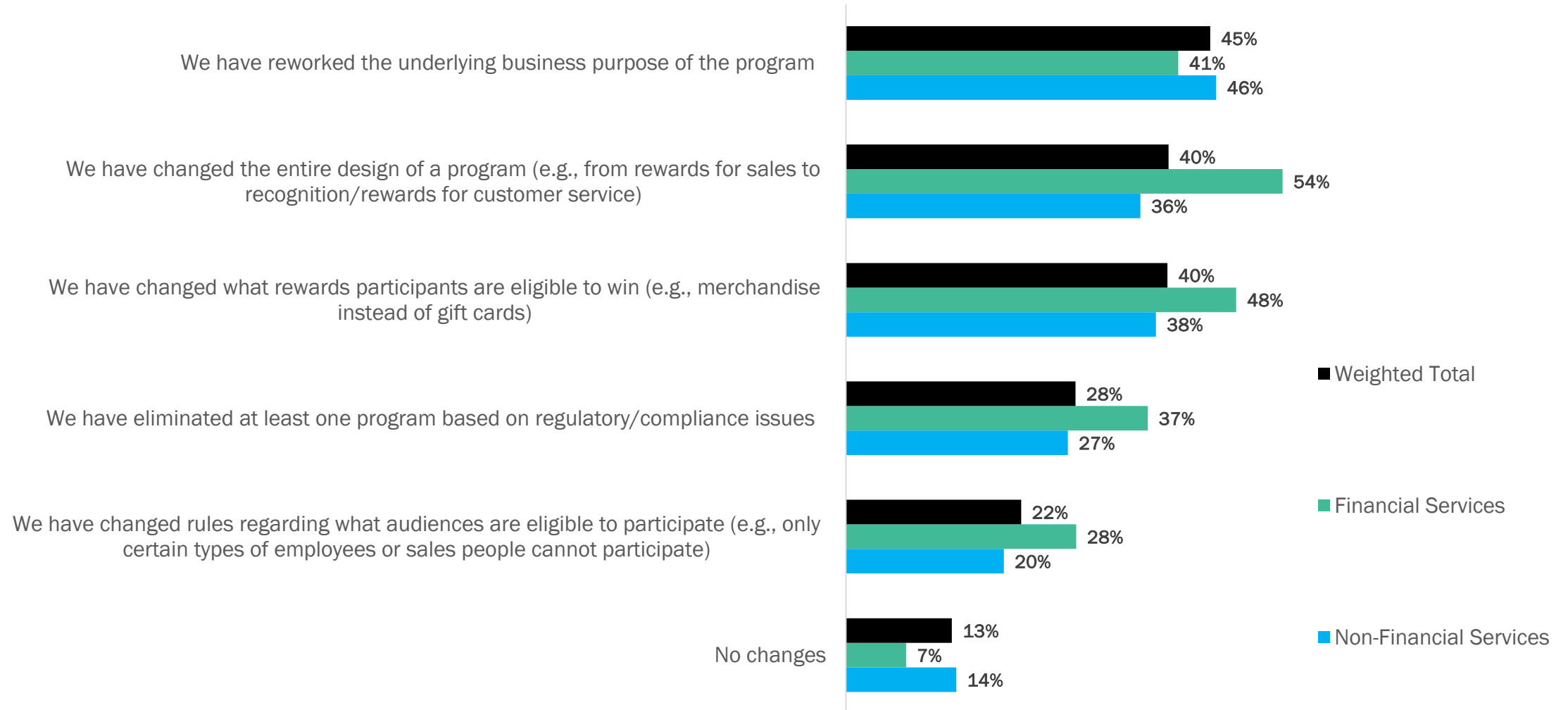
- Were you **aware** of this rule?
- How knowledgeable are you regarding the specific regulatory and tax requirements that businesses must comply with for their reward and recognition programs?
- Does this rule apply to your programs?

Sweepstakes and Lottery Rules



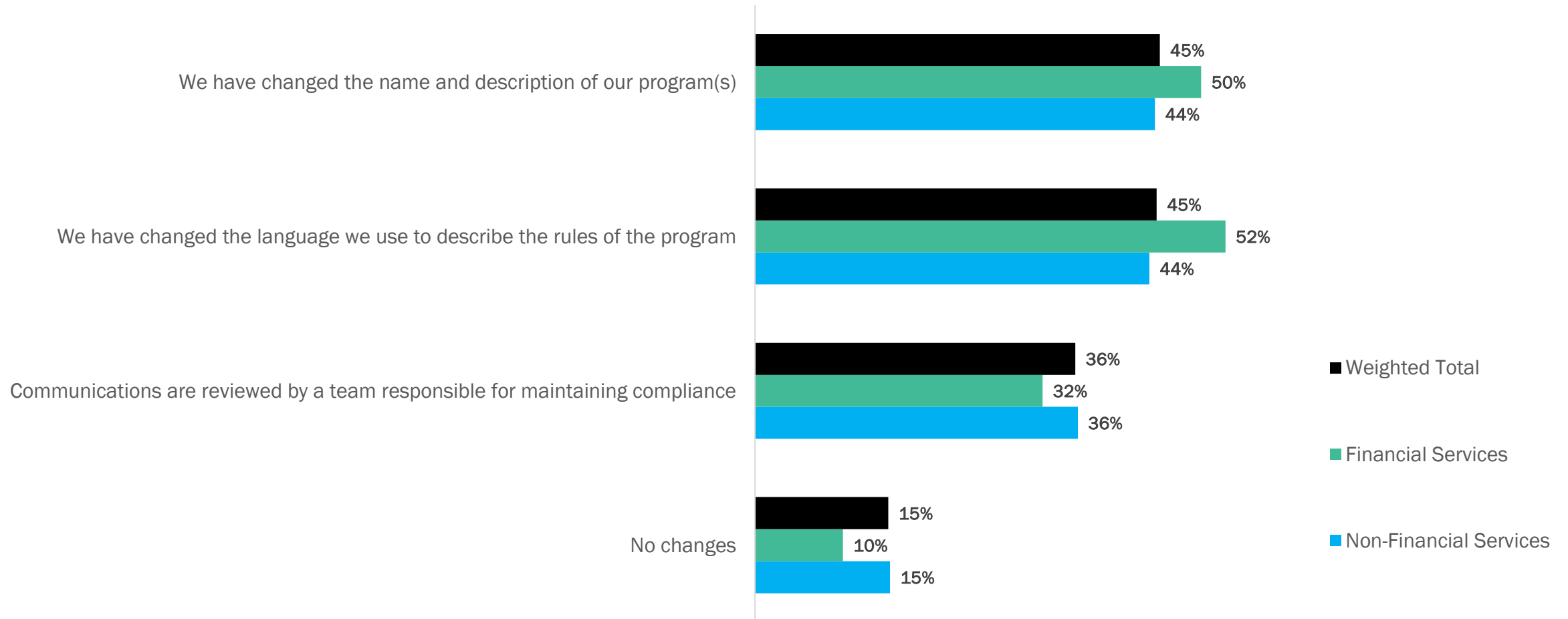
How clear do you feel each regulation is in terms of what companies must do to achieve compliance with that rule?

Regulatory Accommodations Program Design



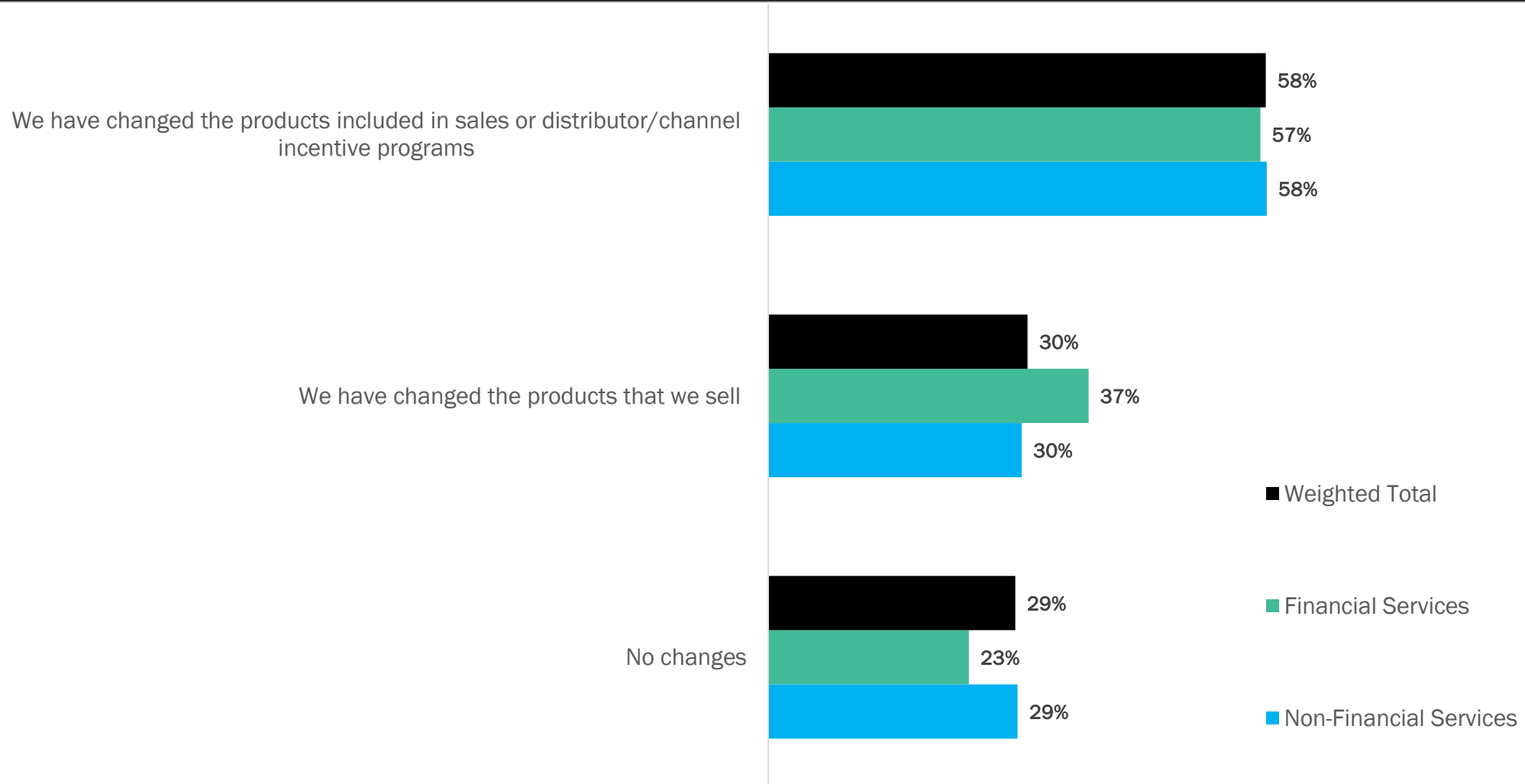
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Communications



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Products



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Rewards

Shifted spend from cash incentives (commissions, bonuses) to non-cash rewards (merchandise, incentive travel, gift cards, etc.)



Changed design of group incentive travel event (e.g., time in meetings, number of days, types of activities offered, destination)



Shifted spend from gift cards to other non-cash rewards



Shifted spend from cash incentives and/or non-cash rewards to other intangible rewards (e.g., professional development opportunities, education, etc.)



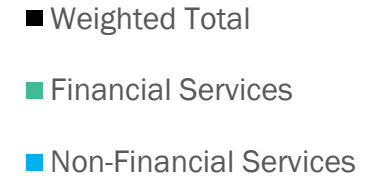
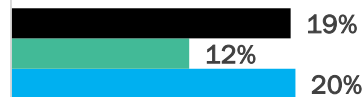
Shifted spend from cash incentives and/or non-cash rewards to recognition activities (awards banquet, etc.)



Shifted spend from non-cash rewards (merchandise, incentive travel, gift cards, etc.) to cash incentives (commissions, bonuses)

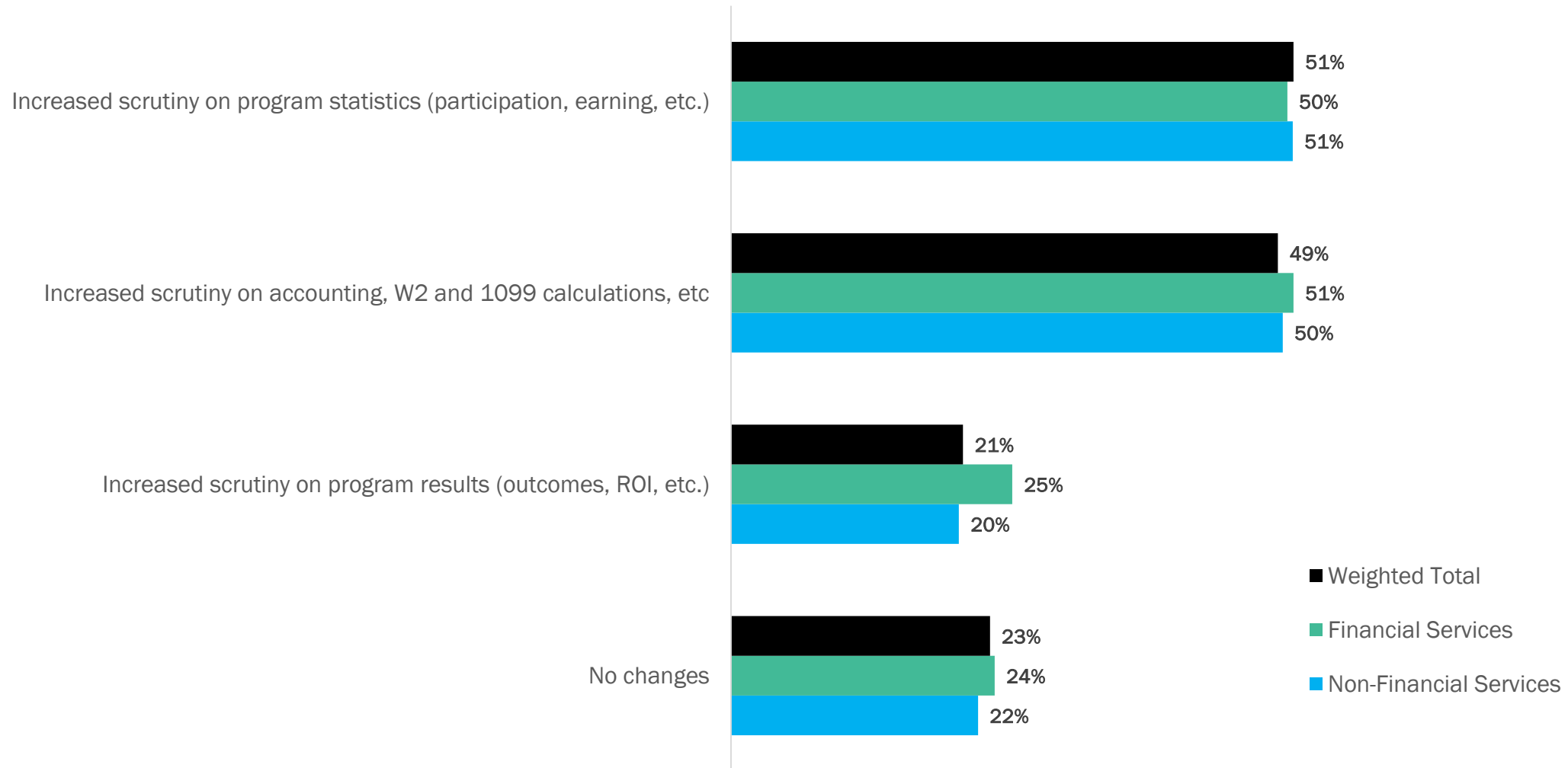


No changes



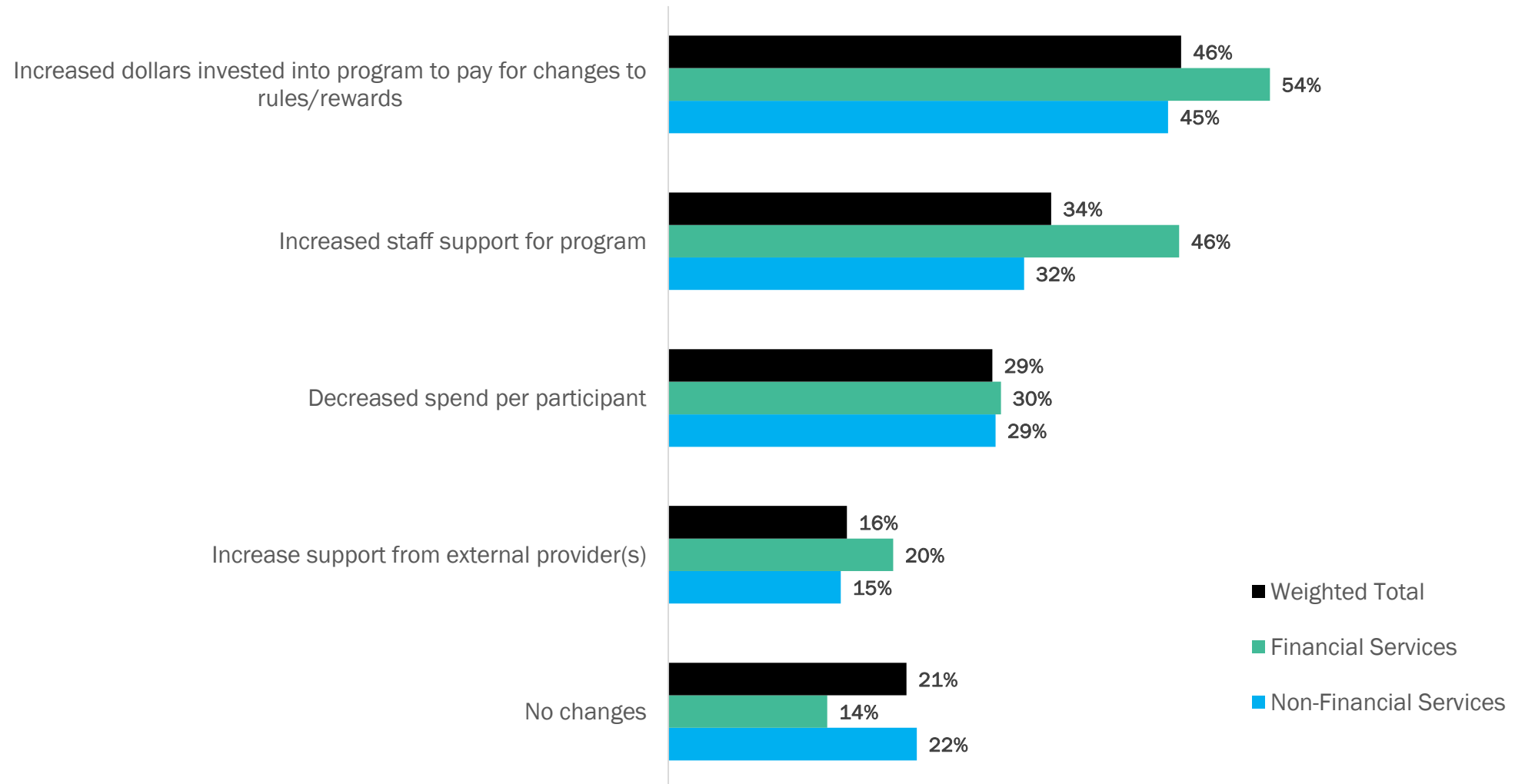
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Reporting & Analysis



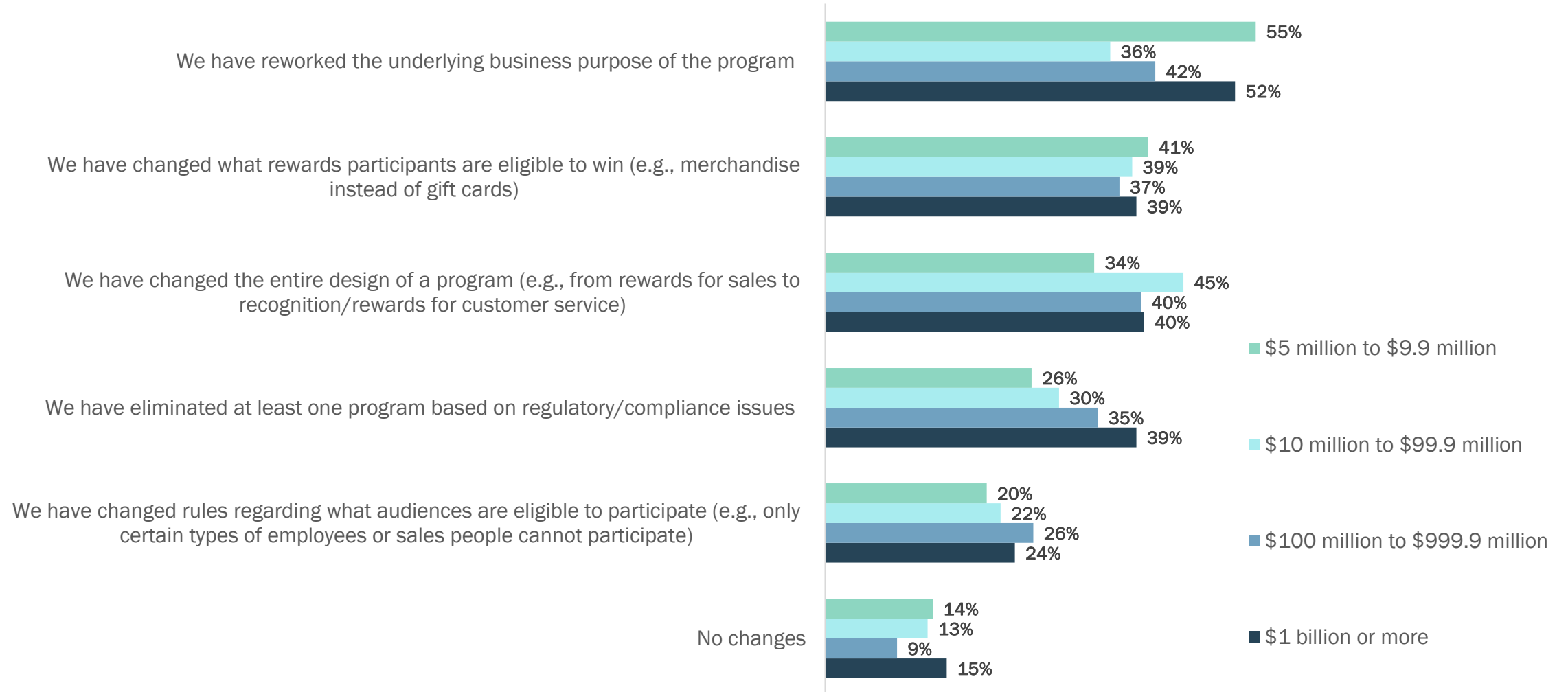
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Resources



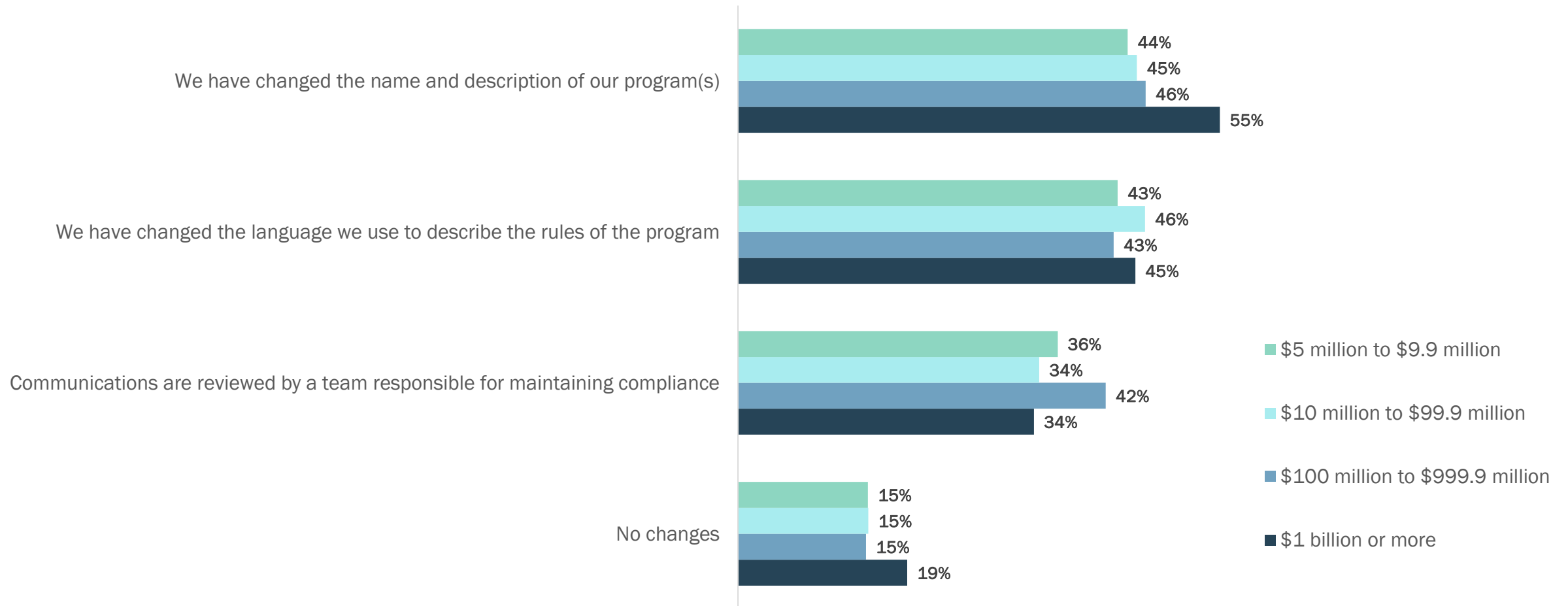
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Program Design



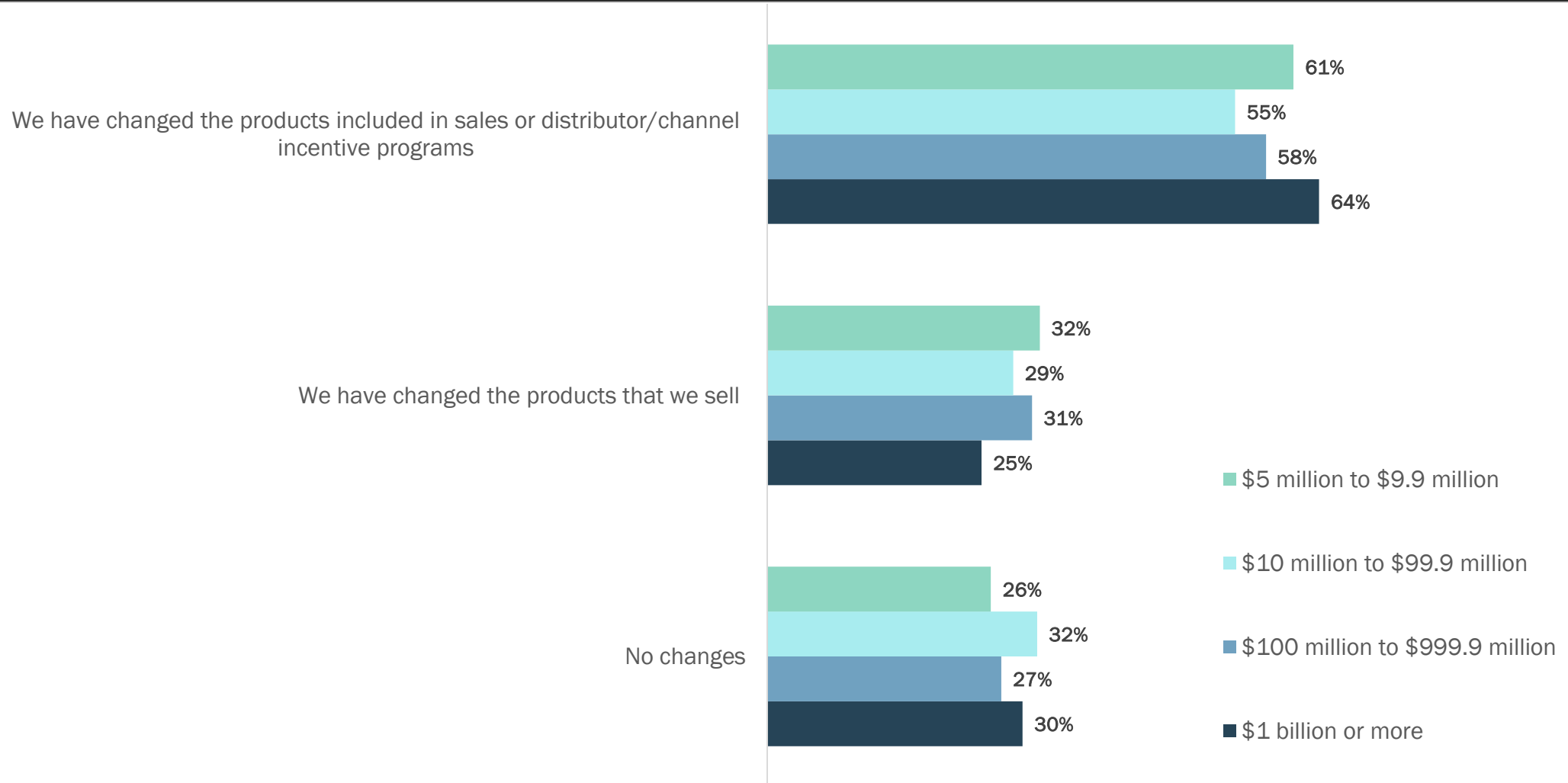
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Communications



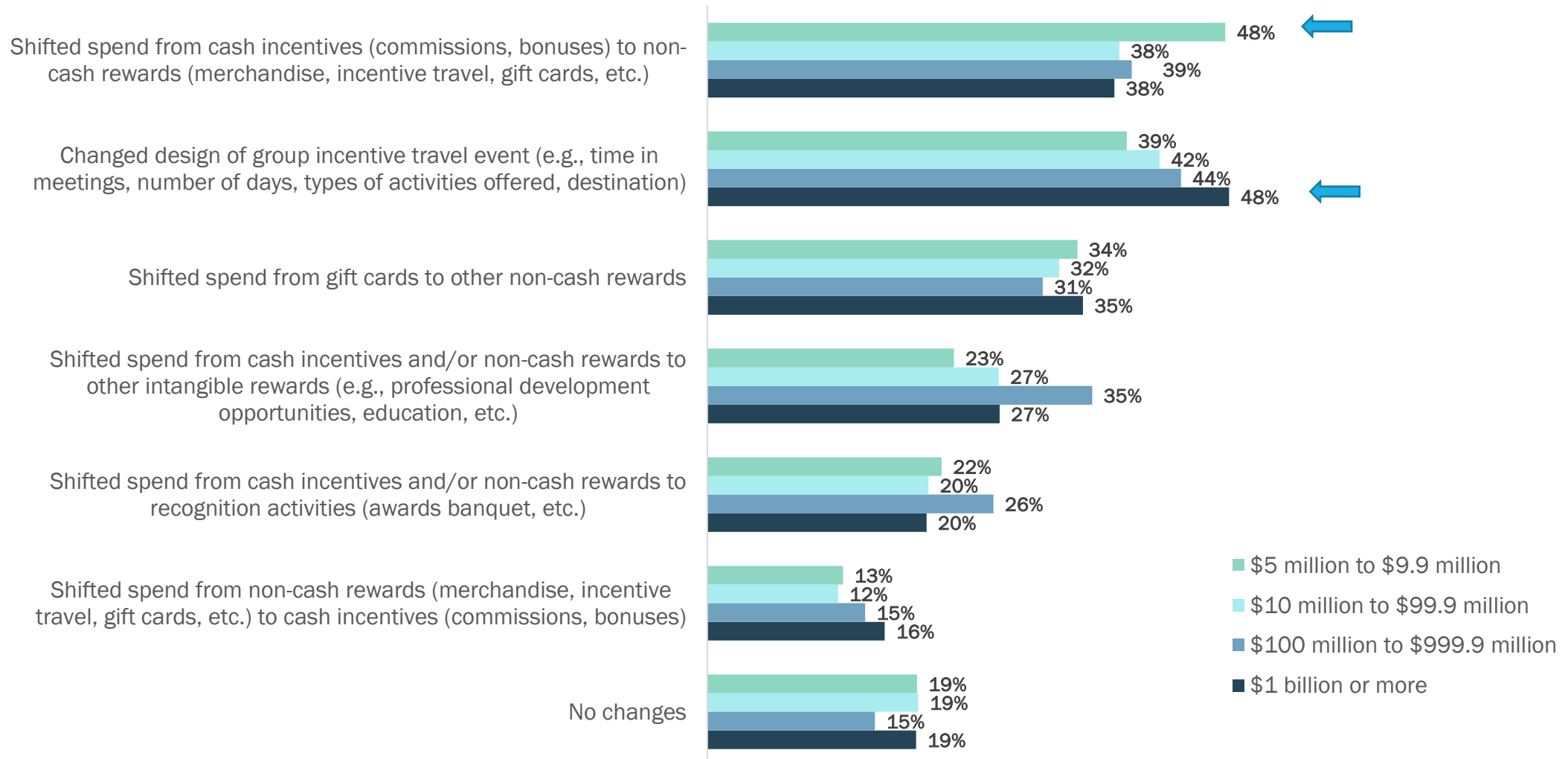
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Products



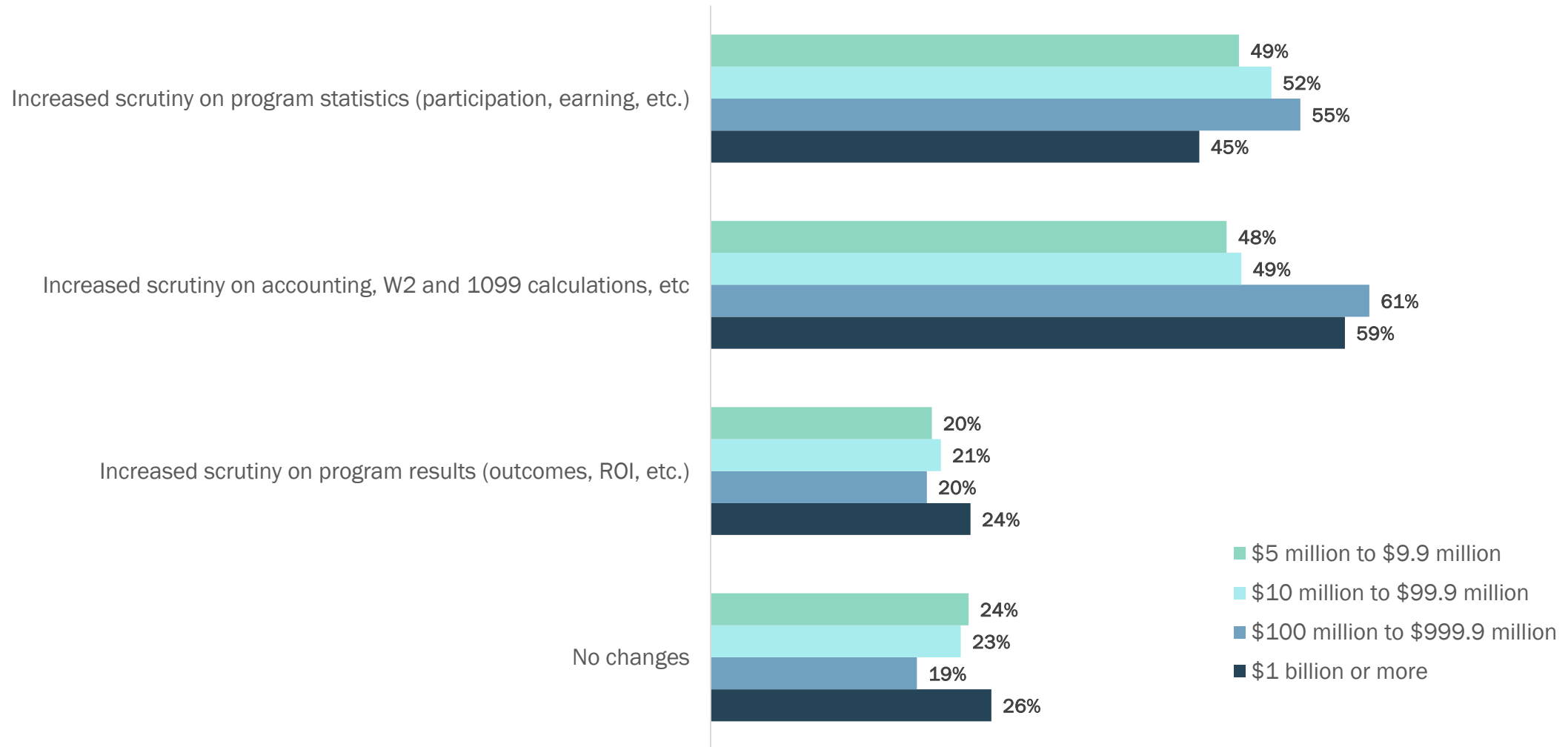
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Rewards



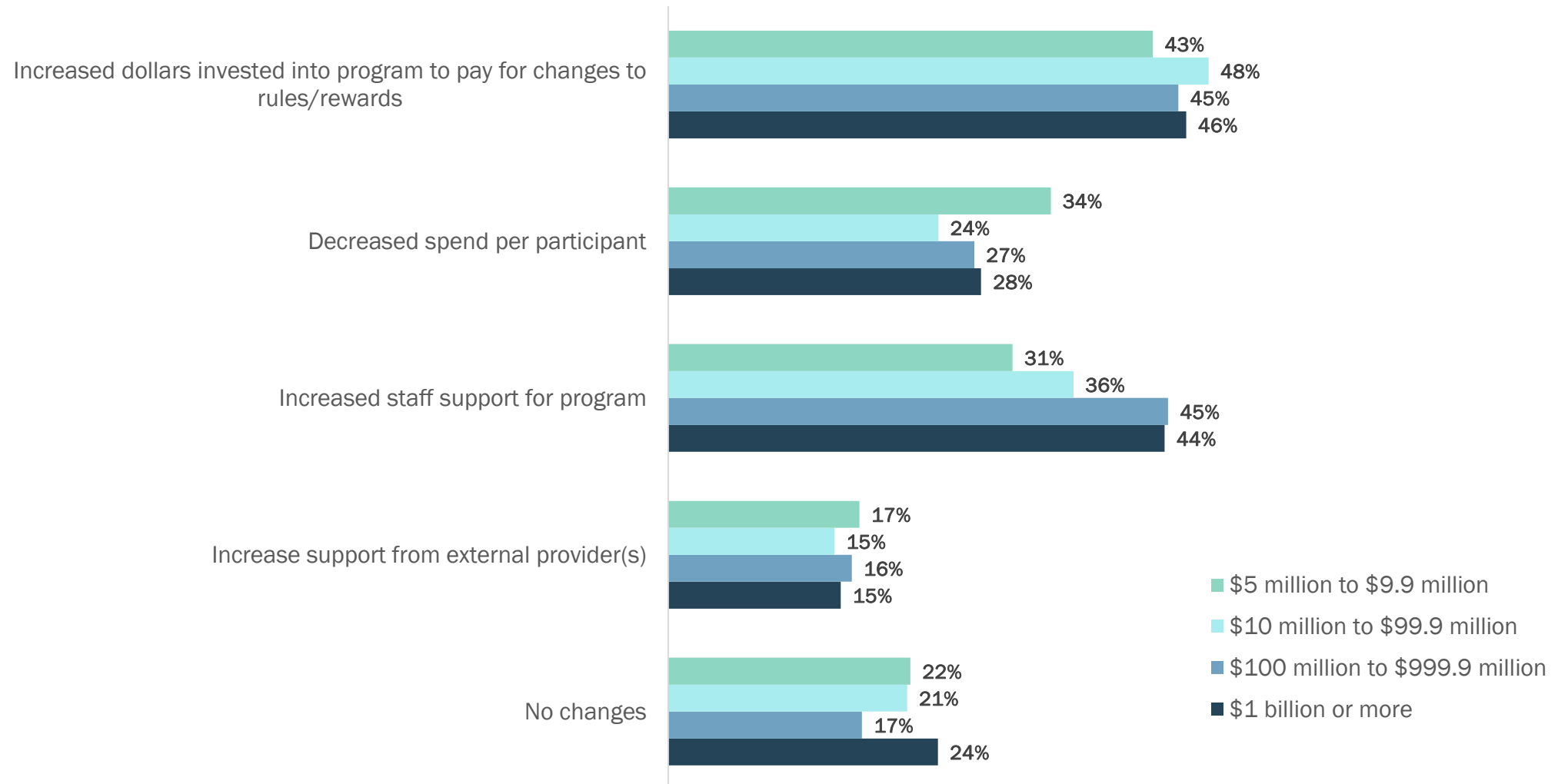
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Reporting & Analysis



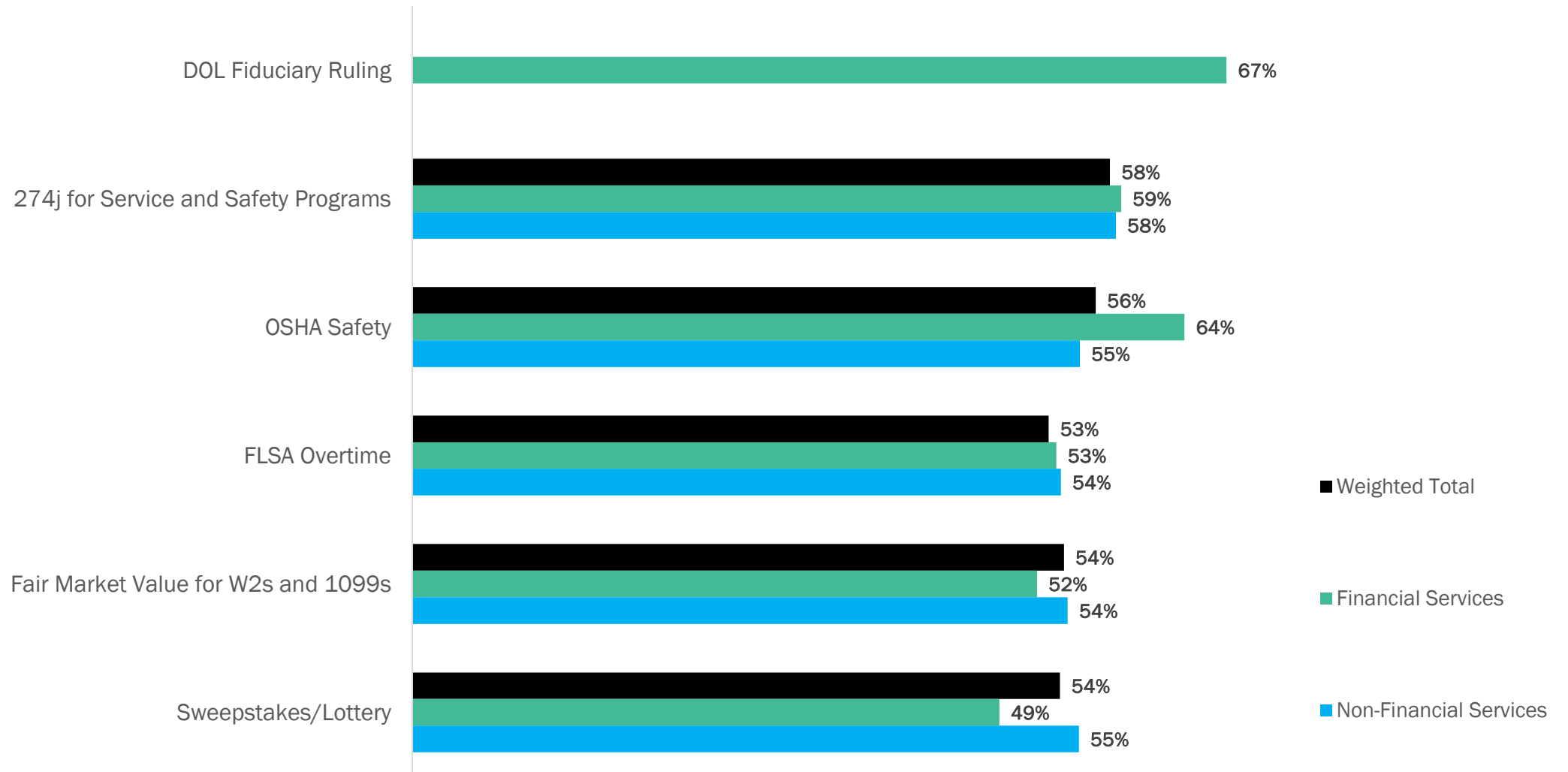
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Resources



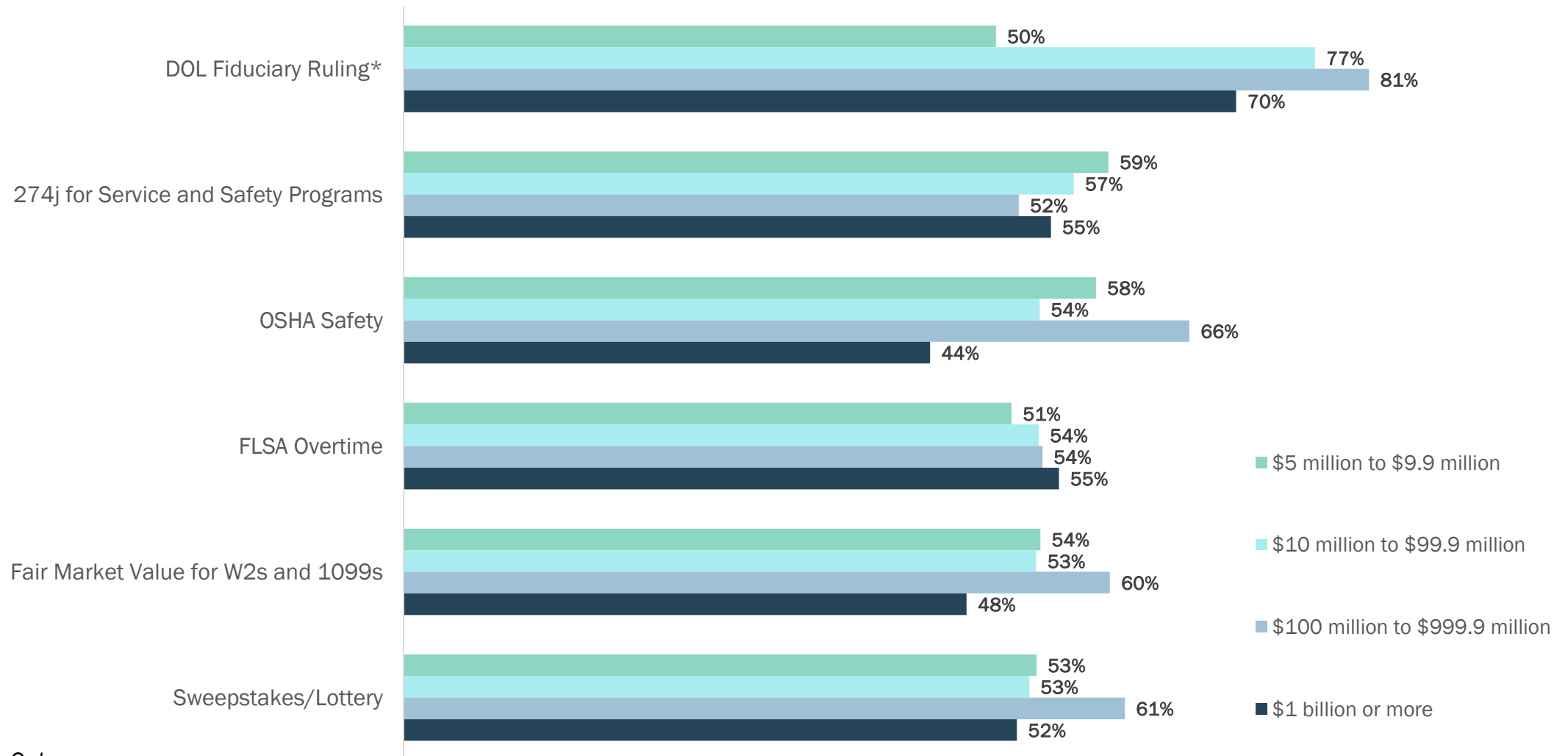
Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Challenging to Stay Compliant



For those regulations you've indicated apply to your company's non-cash reward programs, how challenging have you found it to achieve compliance with that requirement?

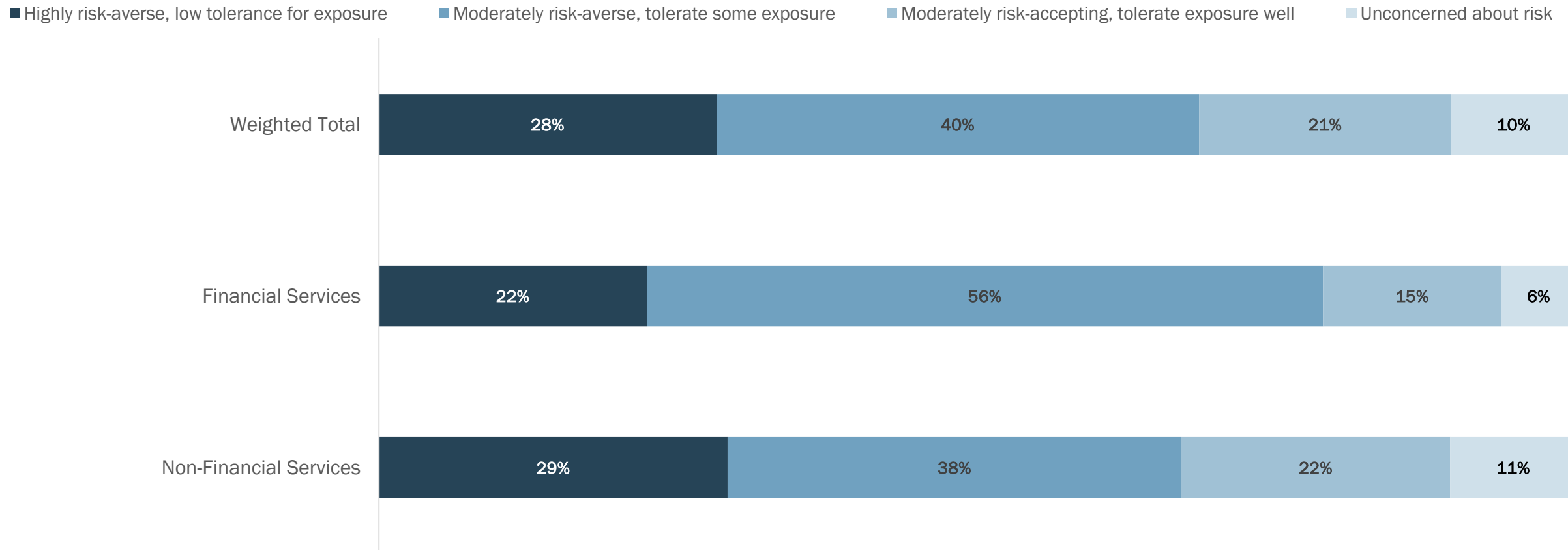
Challenging to Stay Compliant



* Financial Services Firms Only

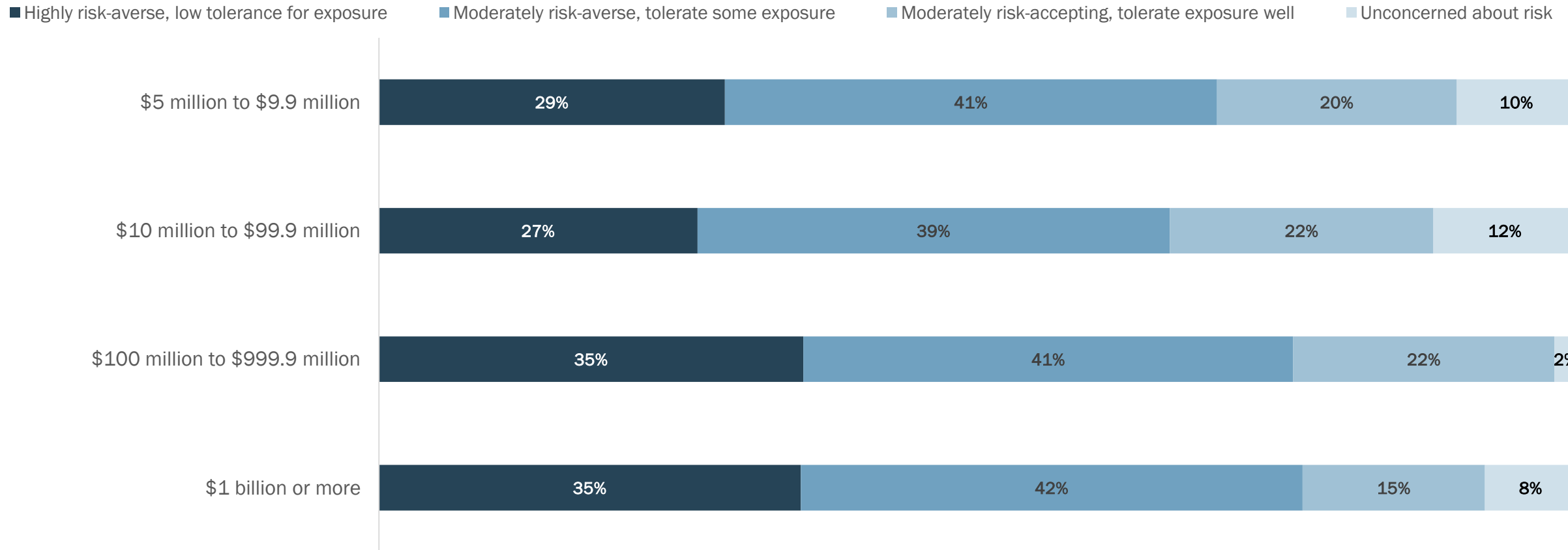
For those regulations you've indicated apply to your company's non-cash reward programs, how challenging have you found it to achieve compliance with that requirement?

General Risk Tolerance



How would you assess the general approach of your company when it comes to interpreting regulatory and compliance requirements for your non-cash rewards programs? We tend to be:

General Risk Tolerance



How would you assess the general approach of your company when it comes to interpreting regulatory and compliance requirements for your non-cash rewards programs? We tend to be:

The regulatory requirements for non-cash rewards programs make it difficult for us to reward and recognize good performers.



The regulatory requirements for non-cash programs have led to significant changes in how we design and operate or non-cash reward programs.



The regulatory requirements for non-cash programs have diminished the effectiveness of our reward programs.

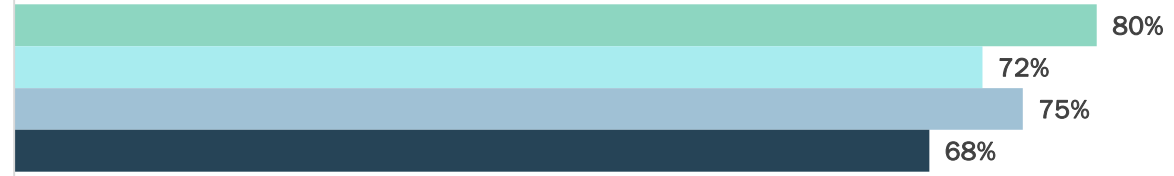


Our company has taken a proactive approach, understanding and addressing regulatory compliance in our non-cash rewards programs before the rules are put into enforcement by the government.



■ Weighted Total ■ Financial Services ■ Non-Financial Services

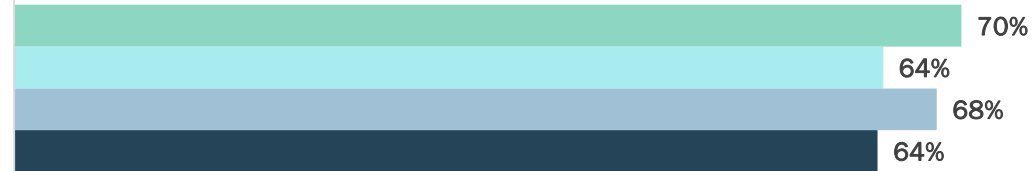
The regulatory requirements for non-cash rewards programs make it difficult for us to reward and recognize good performers.



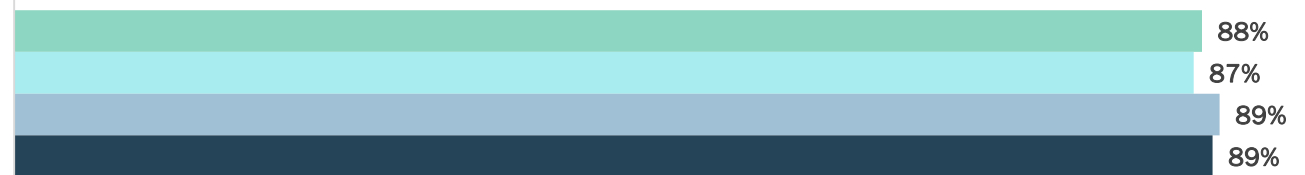
The regulatory requirements for non-cash programs have led to significant changes in how we design and operate or non-cash reward programs.



The regulatory requirements for non-cash programs have diminished the effectiveness of our reward programs.

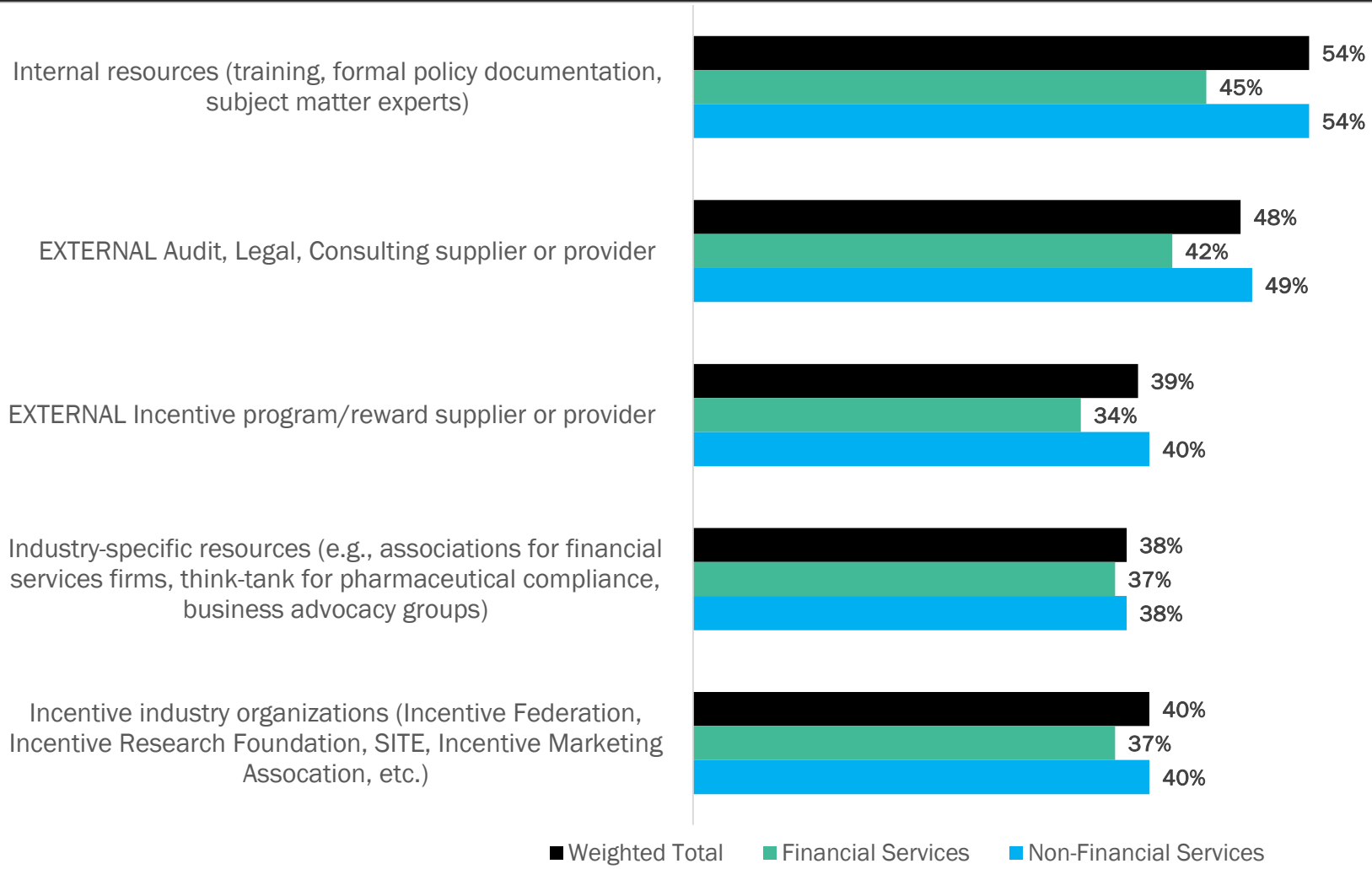


Our company has taken a proactive approach, understanding and addressing regulatory compliance in our non-cash rewards programs before the rules are put into enforcement by the government.



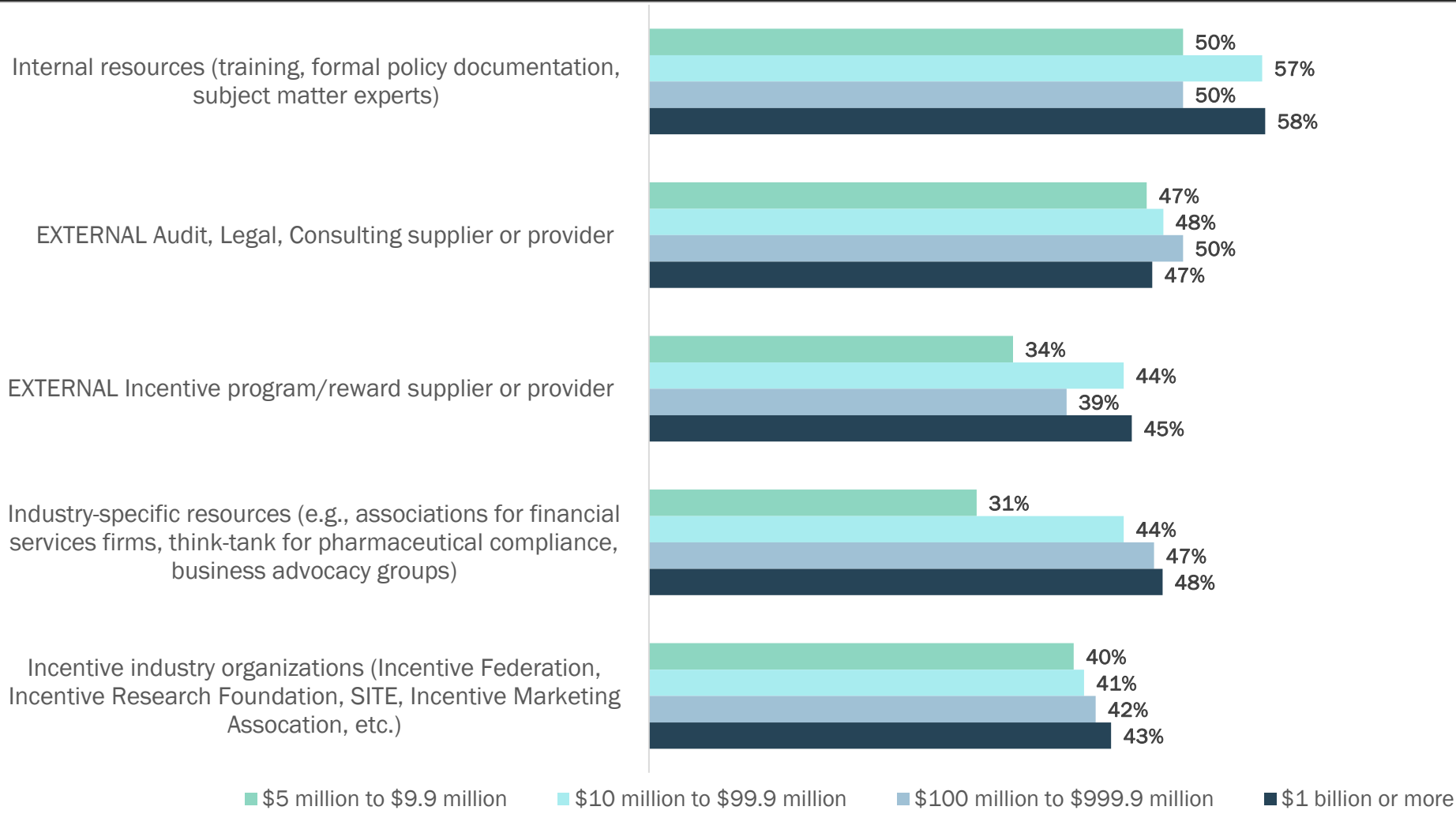
■ \$5 million to \$9.9 million ■ \$10 million to \$99.9 million ■ \$100 million to \$999.9 million ■ \$1 billion or more

Information Resources



Which of the below are sources of expertise and information you have found useful in remaining informed and compliant with federal and state regulations regarding non-cash rewards?

Information Resources



Which of the below are sources of expertise and information you have found useful in remaining informed and compliant with federal and state regulations regarding non-cash rewards?

Additional Review of Data

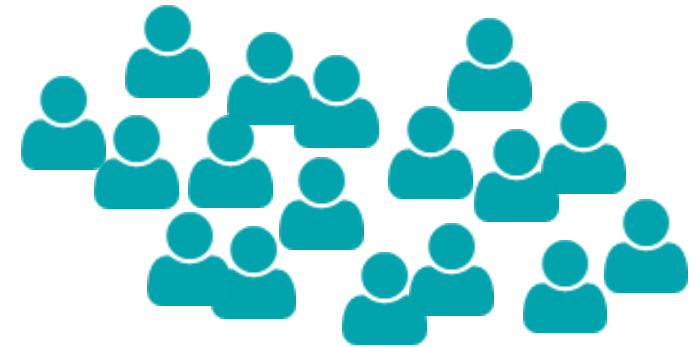
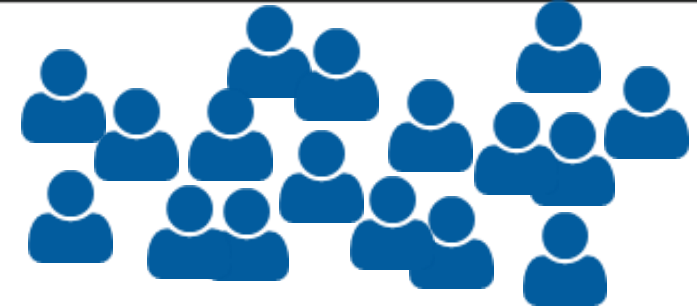
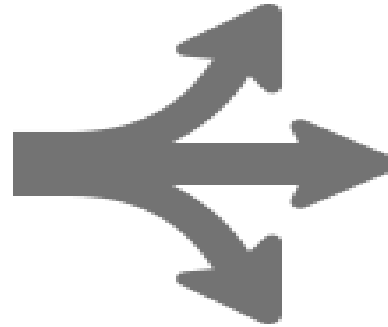
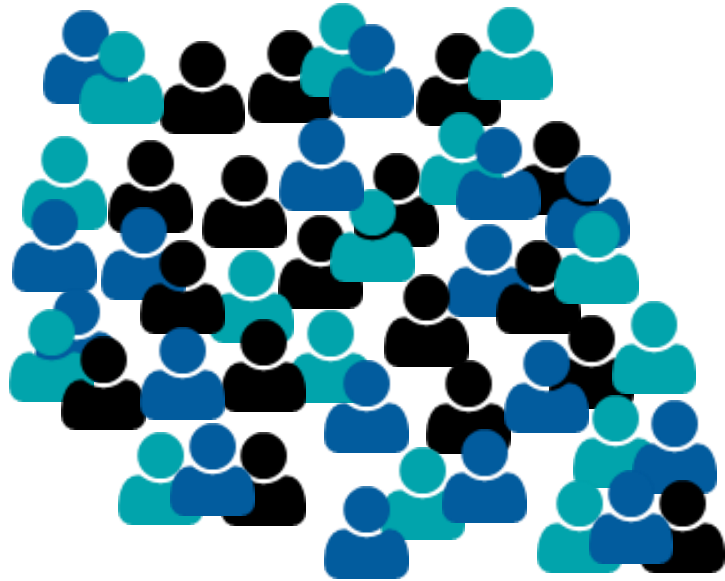
September 1, 2017



Segmentation

What is Segmentation?

Segmentation allows us to find groups of similar people when comparisons by known characteristics (e.g., firm size or sector) don't fully explain patterns observed in the data. Segmentation is useful to understand how people cluster together based on values, attitudes, and behaviors.



Defining Our Segments

Statistical analysis revealed two distinct segments among respondents. Program managers are assigned to segments based on several variables:

- Degree of awareness of the 6 specific regulations addressed in this research
- Degree to which they assess those regulations to apply to their company's programs
- Their self-assessed level of knowledge regarding the 6 specific regulations

'Absolutes'



1. Very high levels of awareness across most/all regulations
2. Believe multiple/most regulations apply to their company's programs
3. Feel extremely knowledgeable about these regulations

'Abstracts'



1. Moderate/low levels of awareness across most/all regulations
2. Likely to say regulations may apply to their company's programs
3. Feel somewhat knowledgeable about these regulations

☆ Statistically significant difference between segments

'Absolutes'

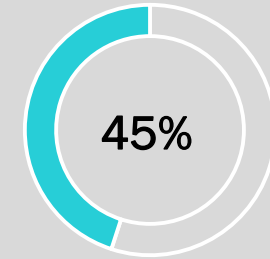
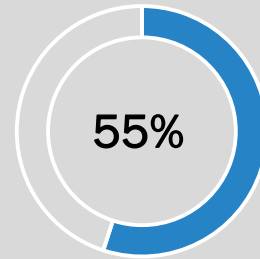


'Abstracts'



Percent of Survey Respondents

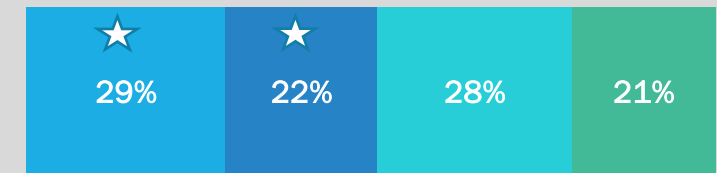
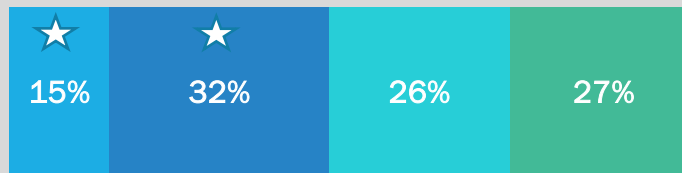
The segments are evenly distributed - a little more than 1/2 of the respondents fall into the Absolute segment.



Firm Size

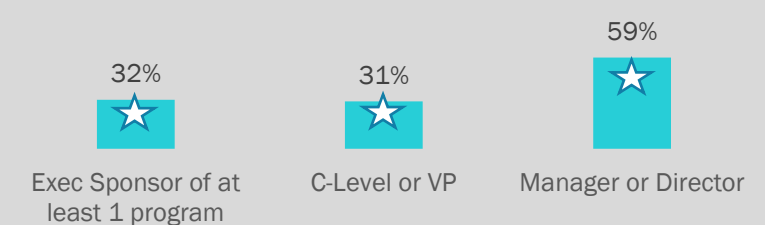
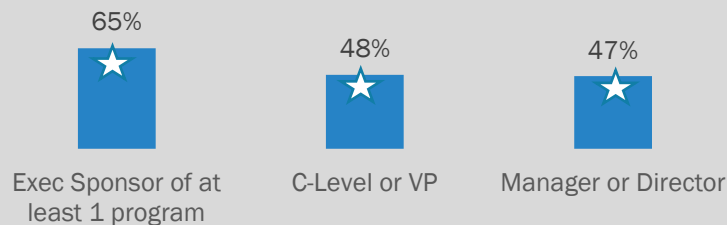
More than 1/4 of Abstracts are very small firms, while nearly 1/3 of Absolutes are between \$10 and \$100 million in annual revenue.

- \$5 million to \$9.9 million
- \$10 million to \$99.9 million
- \$100 million to \$999.9 million
- \$1 billion or more



Executive Role

Absolutes have a higher proportion of program executive sponsors, as well as more C-suite and VP level respondents.

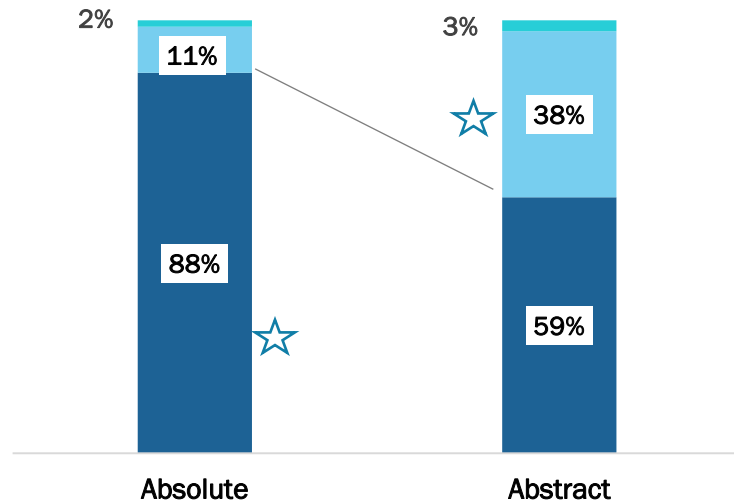


General Awareness & Knowledge

☆ Statistically significant difference between segments

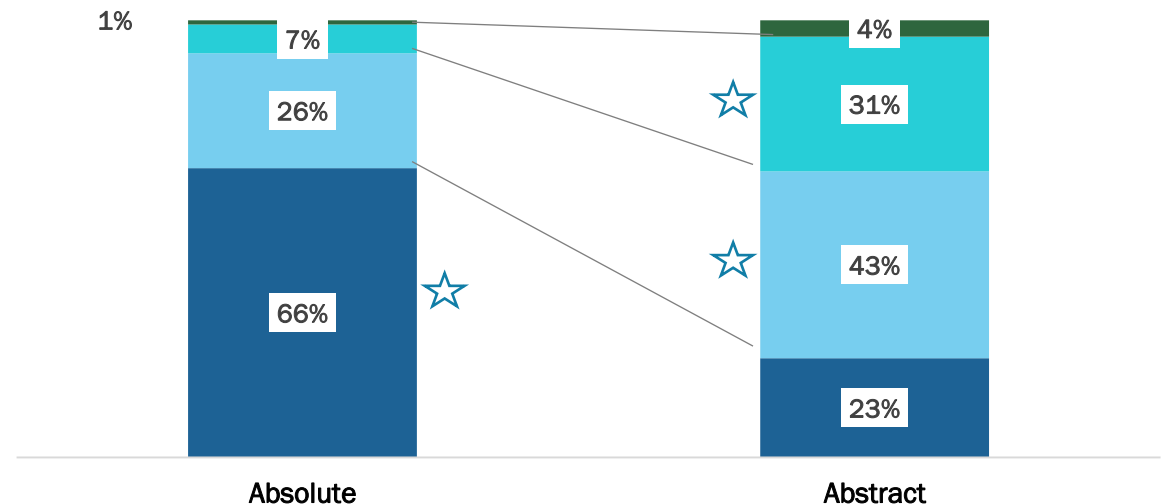
Generally Aware of Relevant Regulations

Most Absolutes are aware there are regulations impacting non-cash reward programs. More than 1/3 of Abstracts are only 'somewhat aware.'



Generally Knowledgeable of Relevant Regulations

Absolutes feel 'extremely' knowledgeable regarding these regulations, while Abstracts are less confident in their understanding.



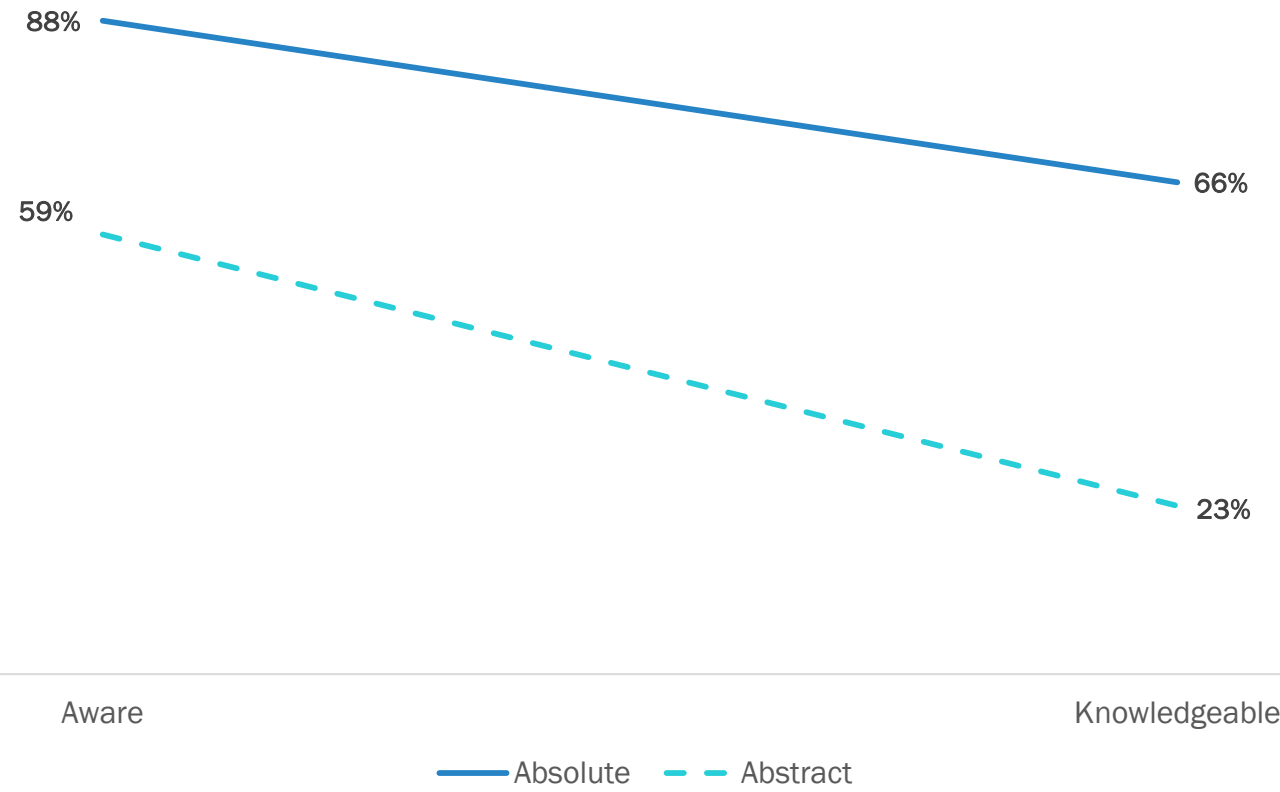
■ Aware ■ Somewhat aware ■ Not at all aware

■ Extremely knowledgeable ■ Very knowledgeable
 ■ Moderately knowledgeable ■ Slightly knowledgeable

Overall Awareness of Regulatory Requirements

☆ Statistically significant difference between segments

Percent indicating 'aware' and 'extremely knowledgeable'

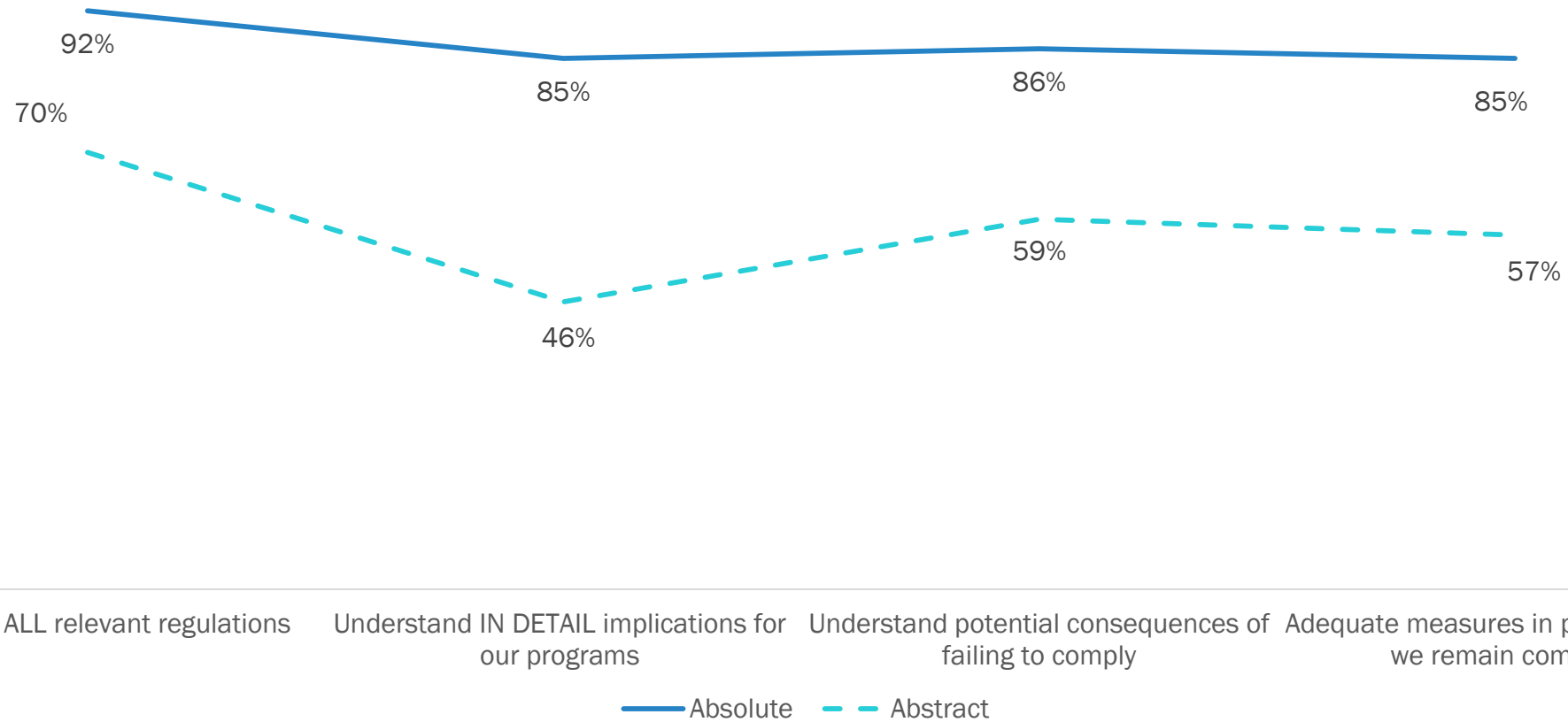


Are you **aware** of the **regulatory and tax codes** that impact the business use of non-cash rewards?
How **knowledgeable** are you regarding the **regulatory and tax requirements** that businesses must comply with for their non-cash reward programs?

Confidence in Addressing Regulations

☆ Statistically significant difference between segments

Percent indicating 'very confident'

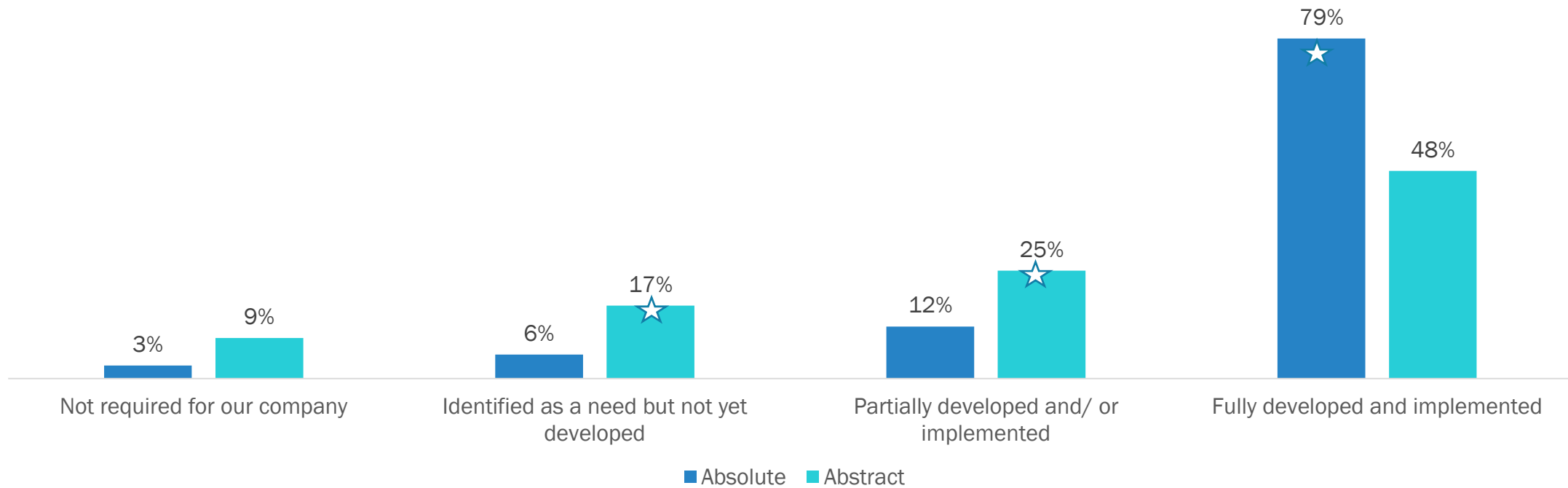


Program Compliance Mechanisms

Explicit Policy

☆ Statistically significant difference between segments

An explicit, documented policy to guide design, approval, and execution of non-cash reward programs

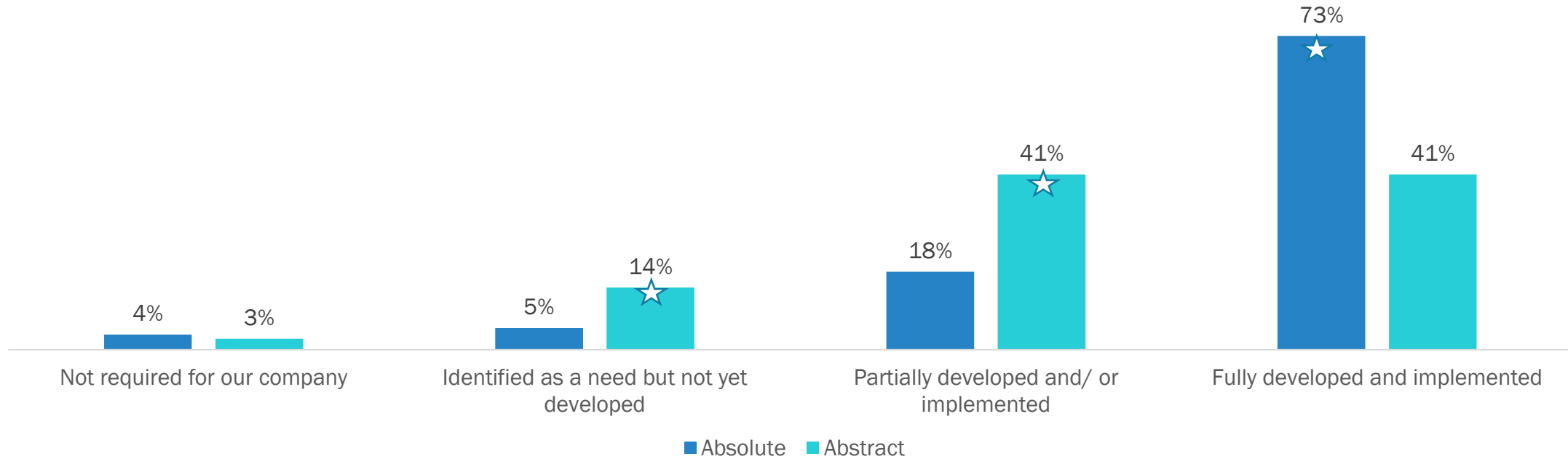


To what extent does your organization have the following oversight mechanisms in place for your non-cash reward programs?

Program Compliance Mechanisms Stakeholders Identified

☆ Statistically significant difference between segments

Clearly identified stakeholders for review and approval of non-cash reward programs



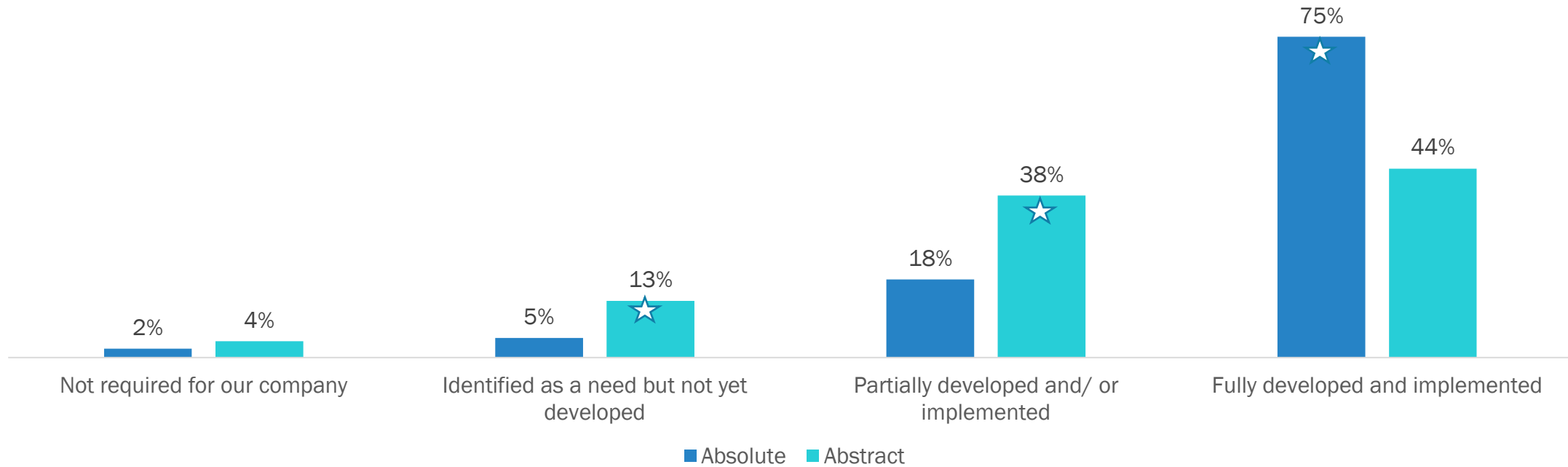
To what extent does your organization have the following oversight mechanisms in place for your non-cash reward programs?

Program Compliance Mechanisms

Formal Review of Design Changes

☆ Statistically significant difference between segments

Formal review of any material changes in program design by compliance, legal, or audit team



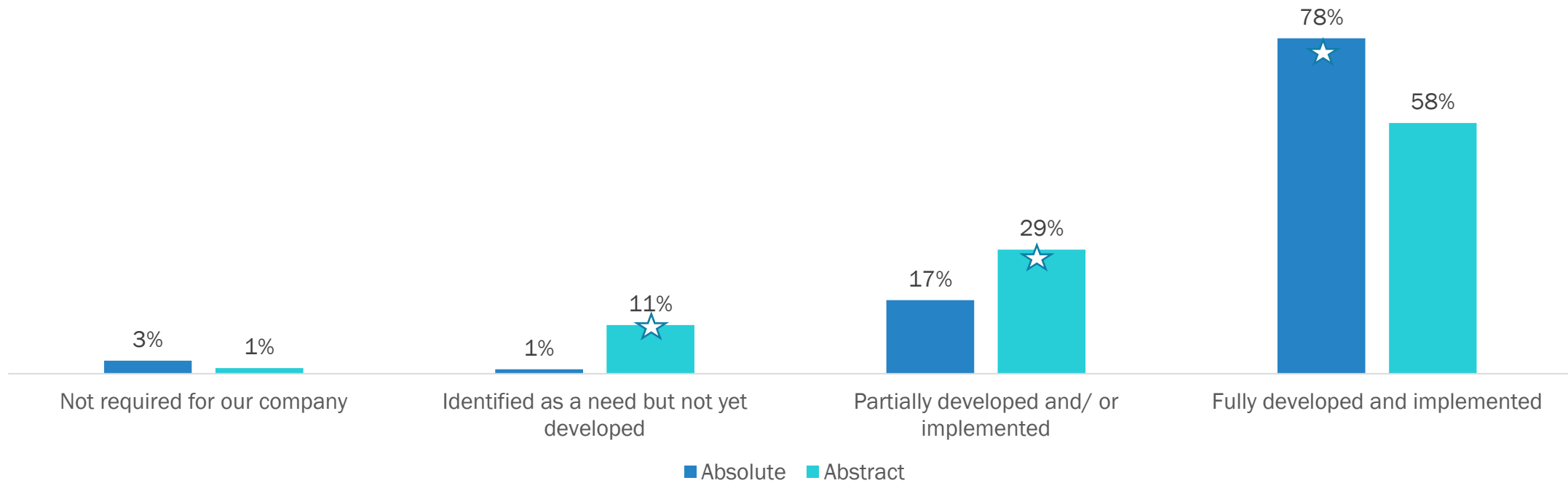
To what extent does your organization have the following **oversight mechanisms** in place for your non-cash reward programs?

Program Compliance Mechanisms

Regular Reviews

★ Statistically significant difference between segments

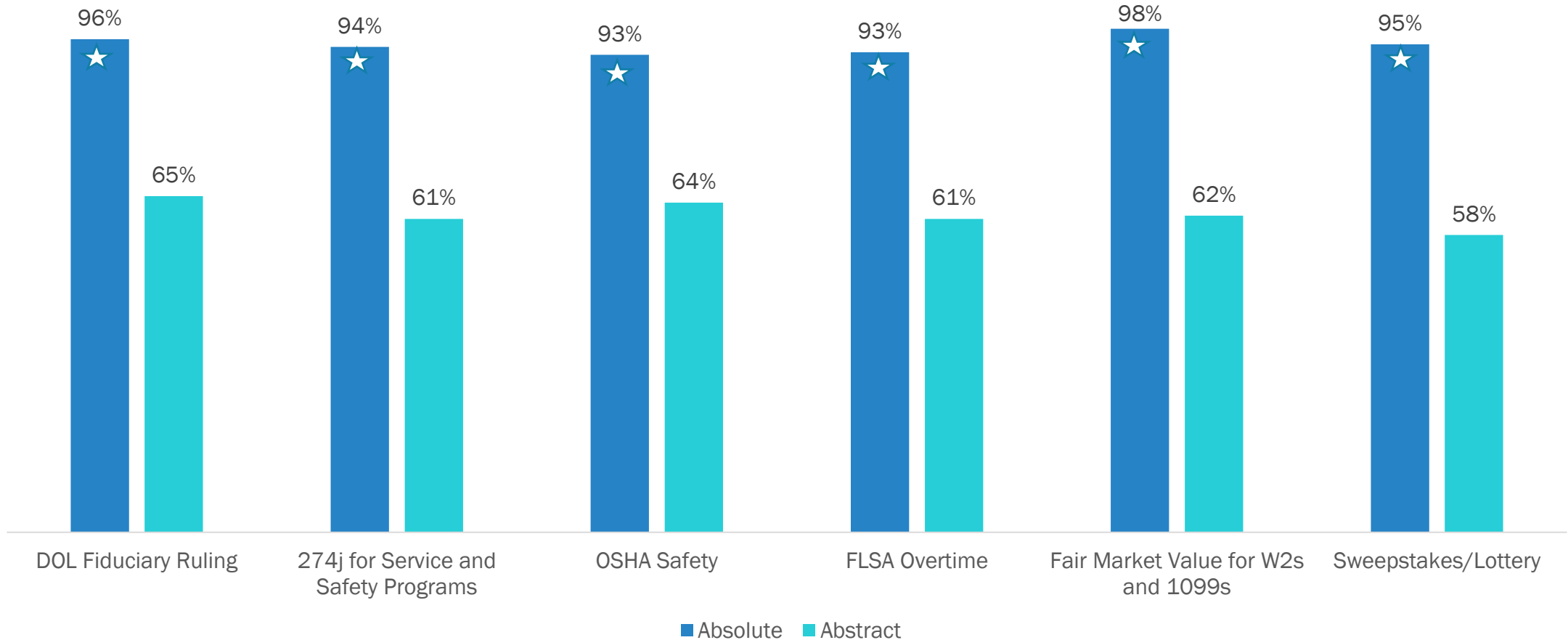
Regular reviews (annual or otherwise) by compliance, legal, or audit team



To what extent does your organization have the following oversight mechanisms in place for your non-cash reward programs?

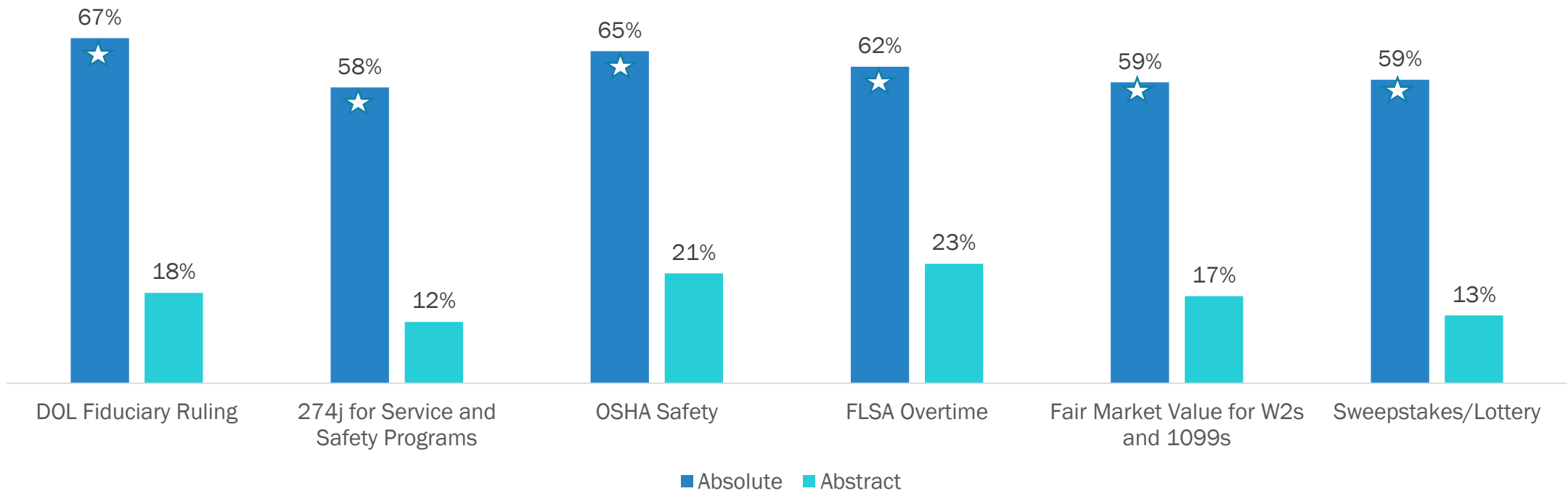
Specific Regulatory Awareness

☆ Statistically significant difference between segments



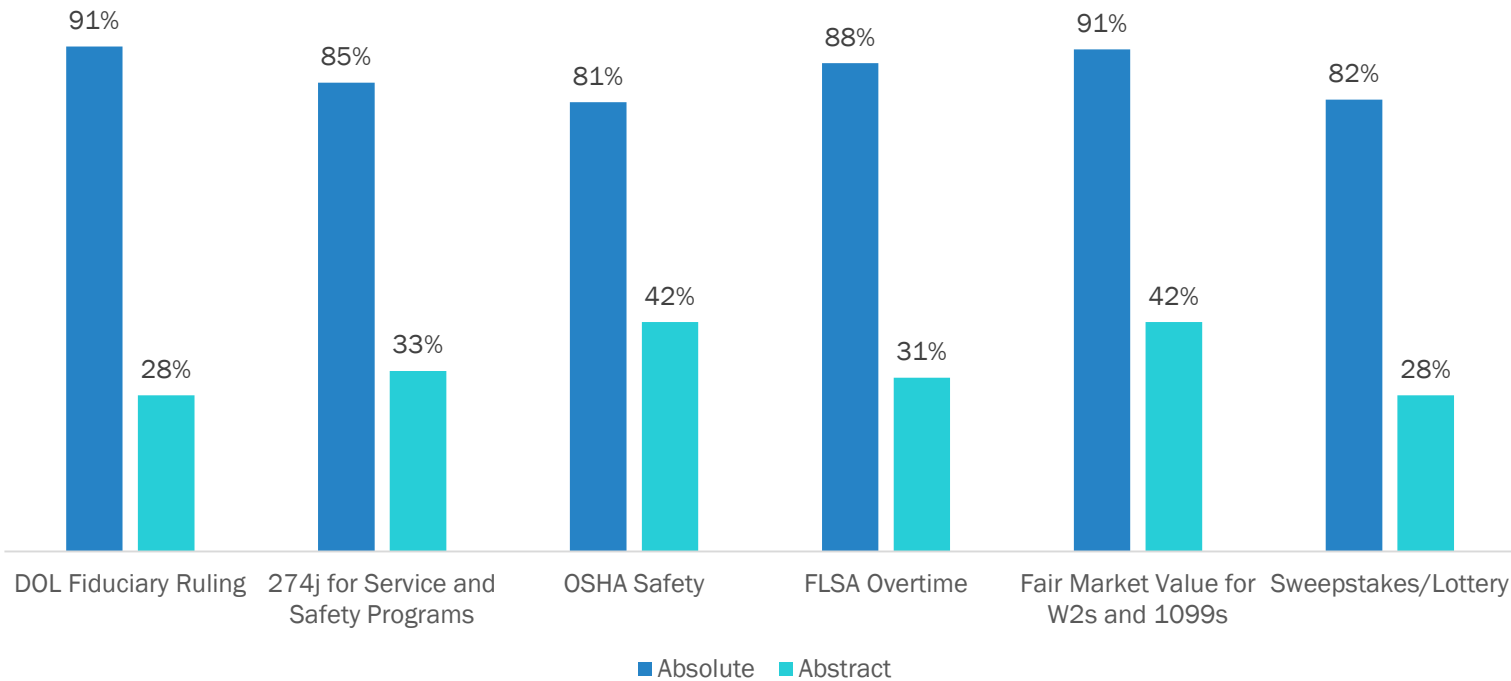
Specific Regulatory Knowledge

☆ Statistically significant difference between segments

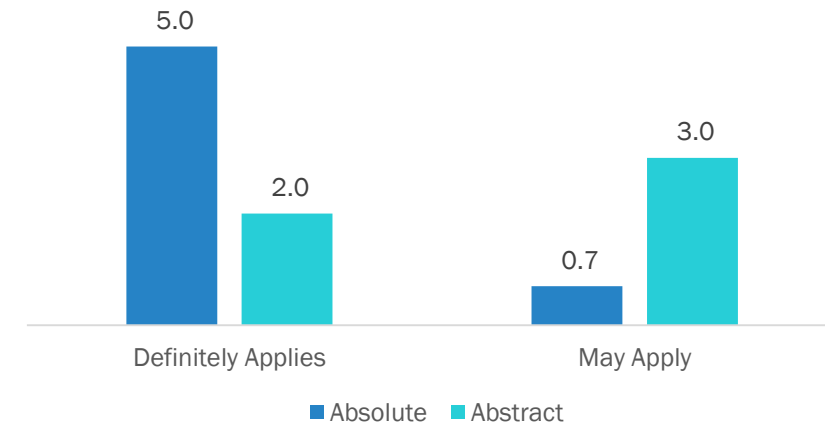


Regulations Applying to Company's Programs

Regulation Definitely Applies

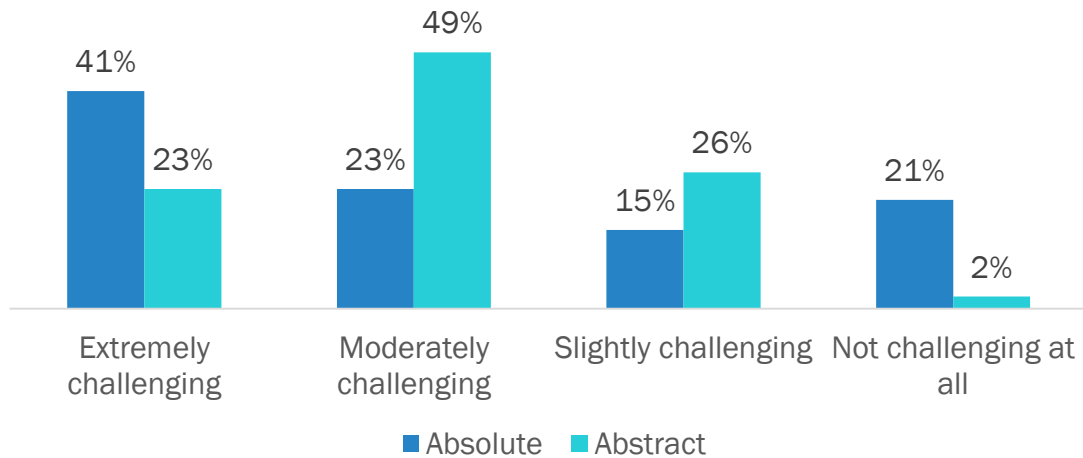


Average # Regulations Applying

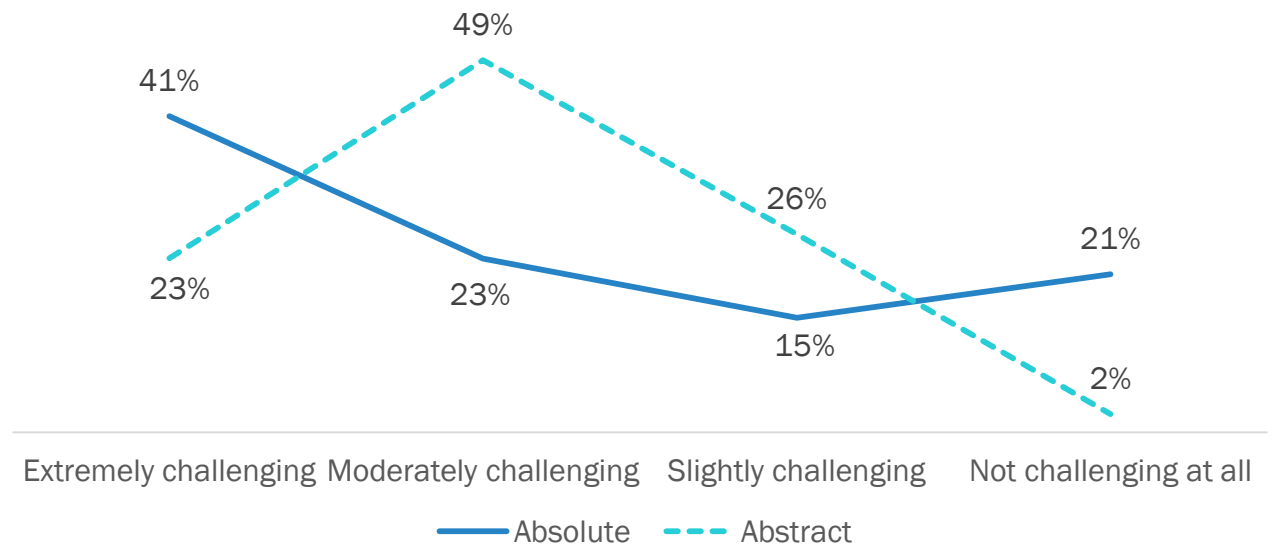


Challenging to Stay Compliant: DOL Fiduciary Rule

Challenging to Stay Compliant?



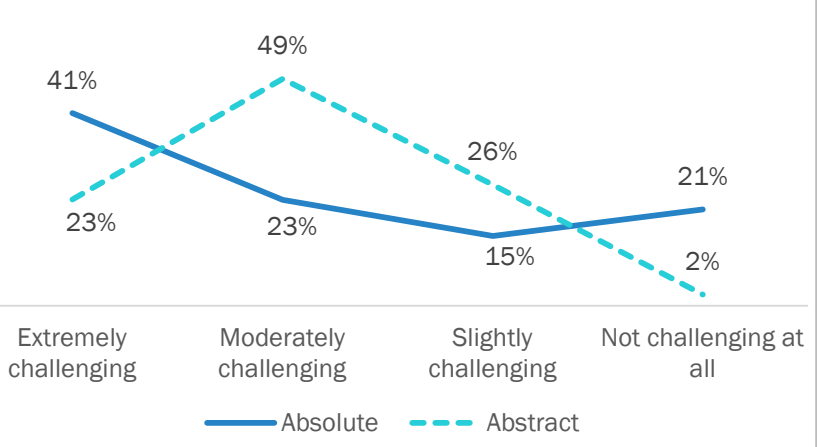
Challenging to Stay Compliant?



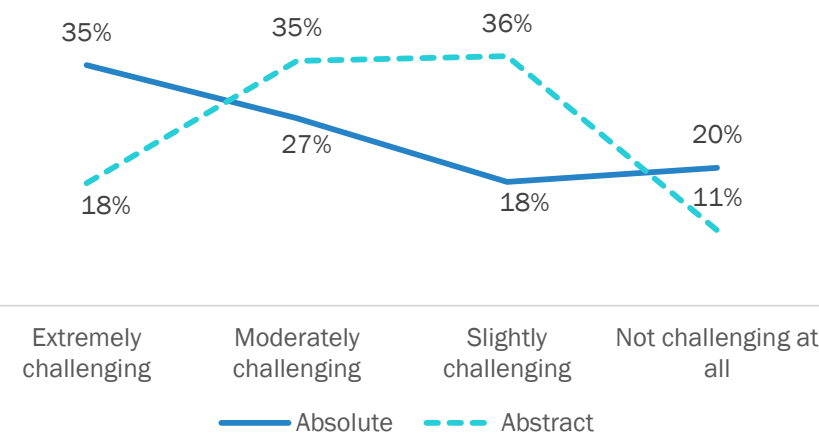


Challenging to Stay Compliant: DOL Fiduciary Rule

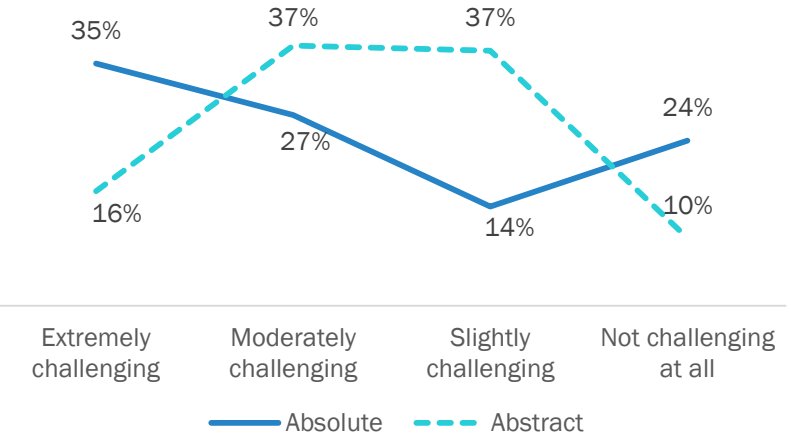
DOL/Fiduciary Rule



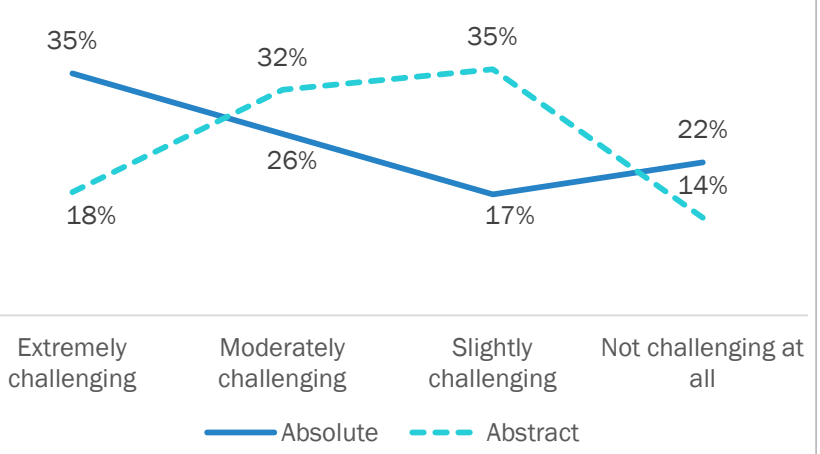
274j



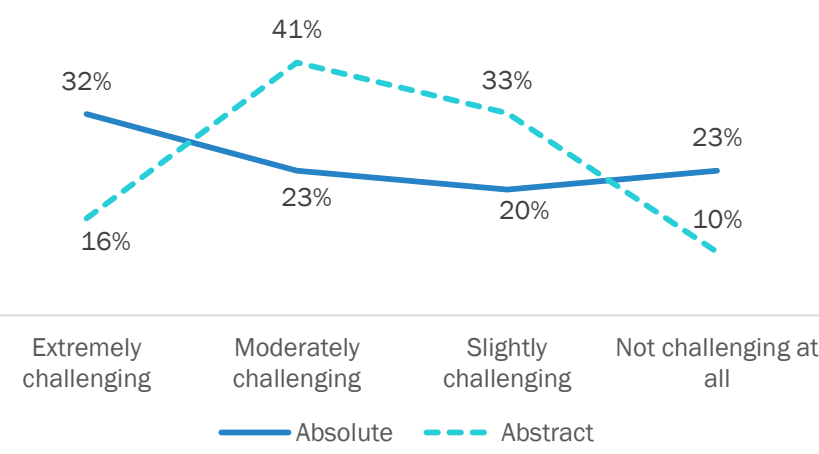
OSHA



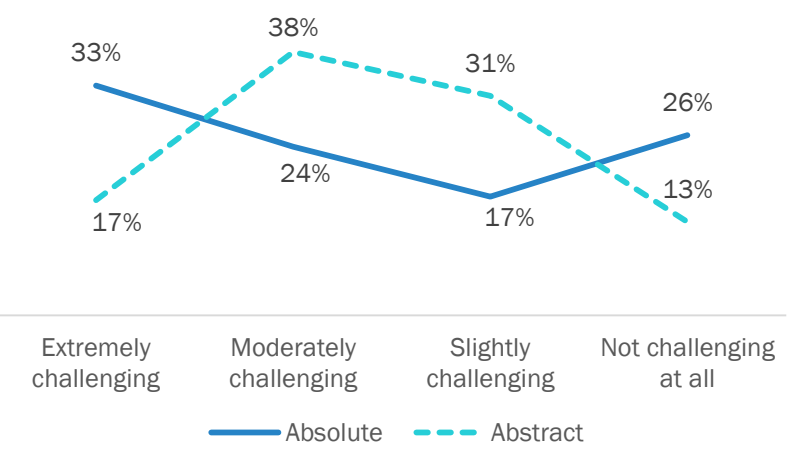
FLSA



Fair Market Value

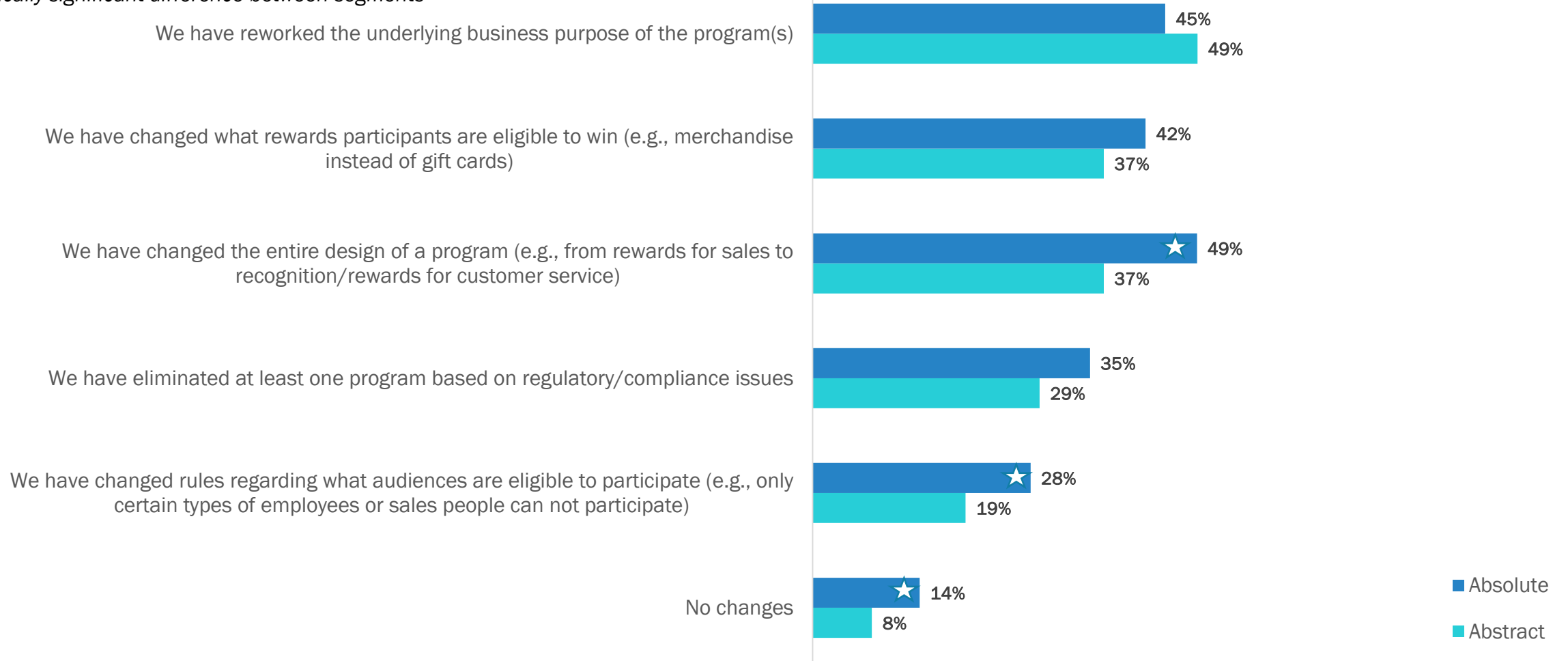


Sweepstakes/Lottery



Regulatory Accommodations Program Design

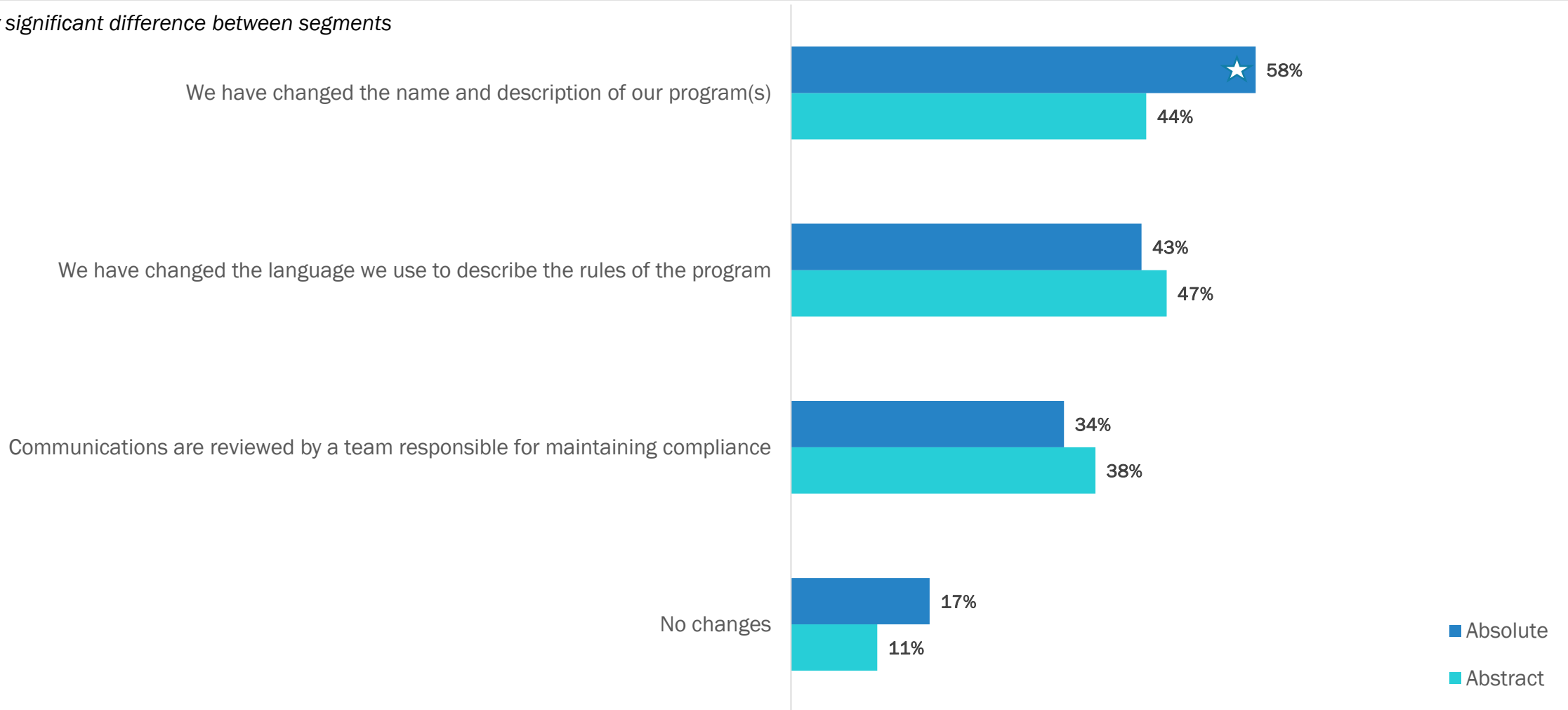
☆ Statistically significant difference between segments



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Communications

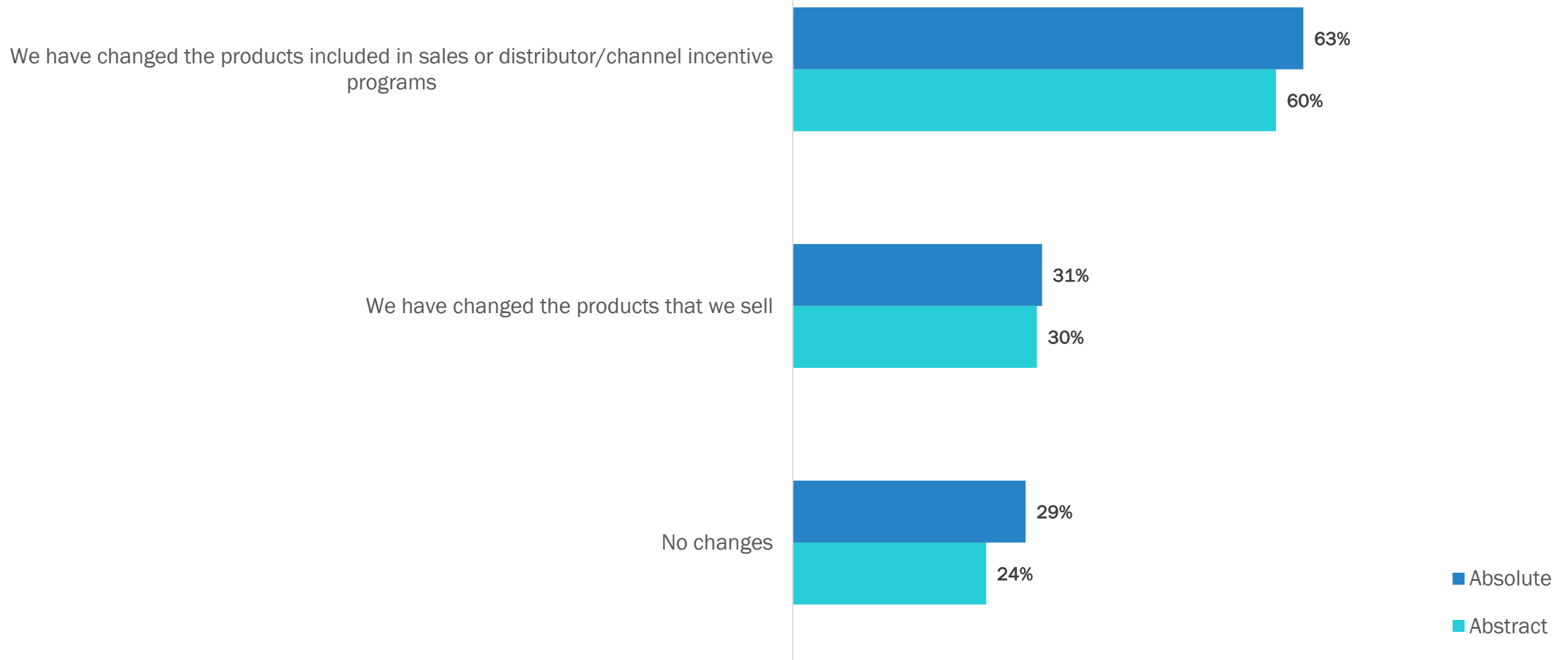
★ Statistically significant difference between segments



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Products

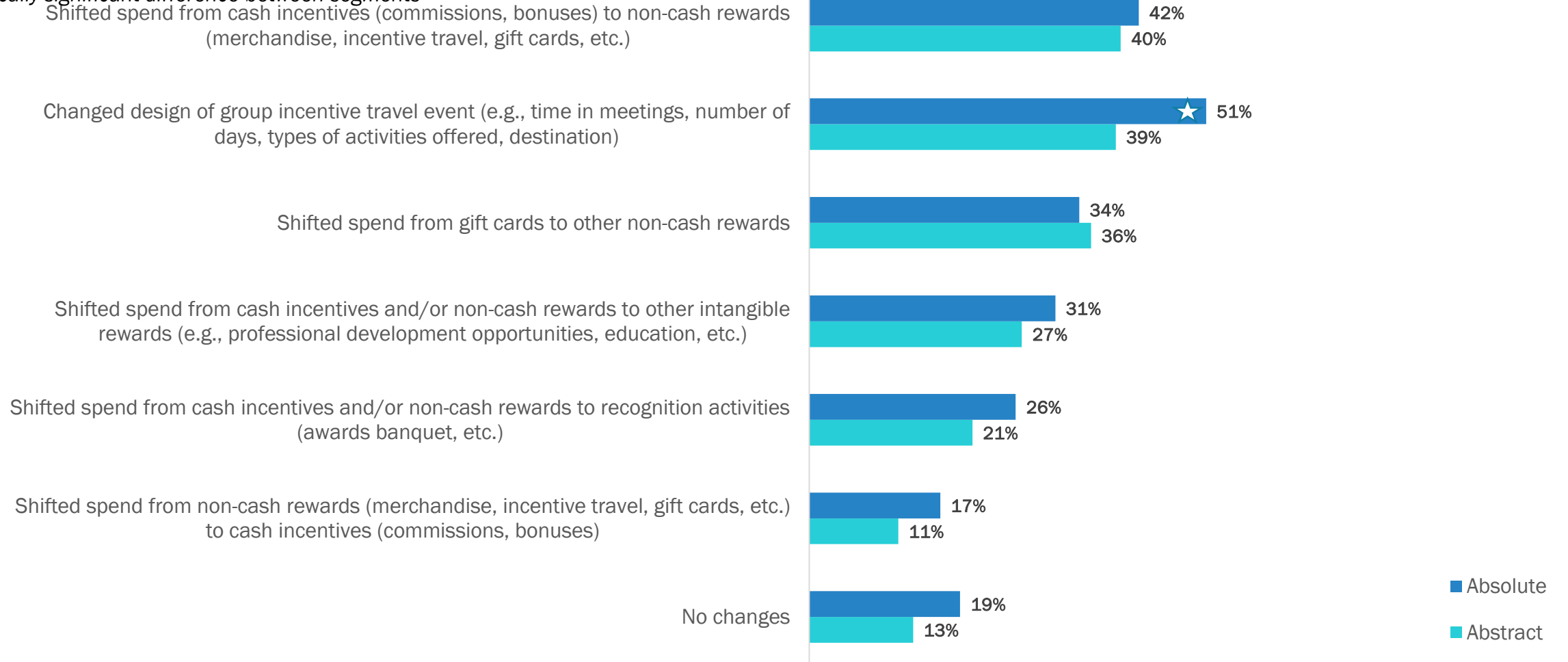
☆ Statistically significant difference between segments



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Rewards

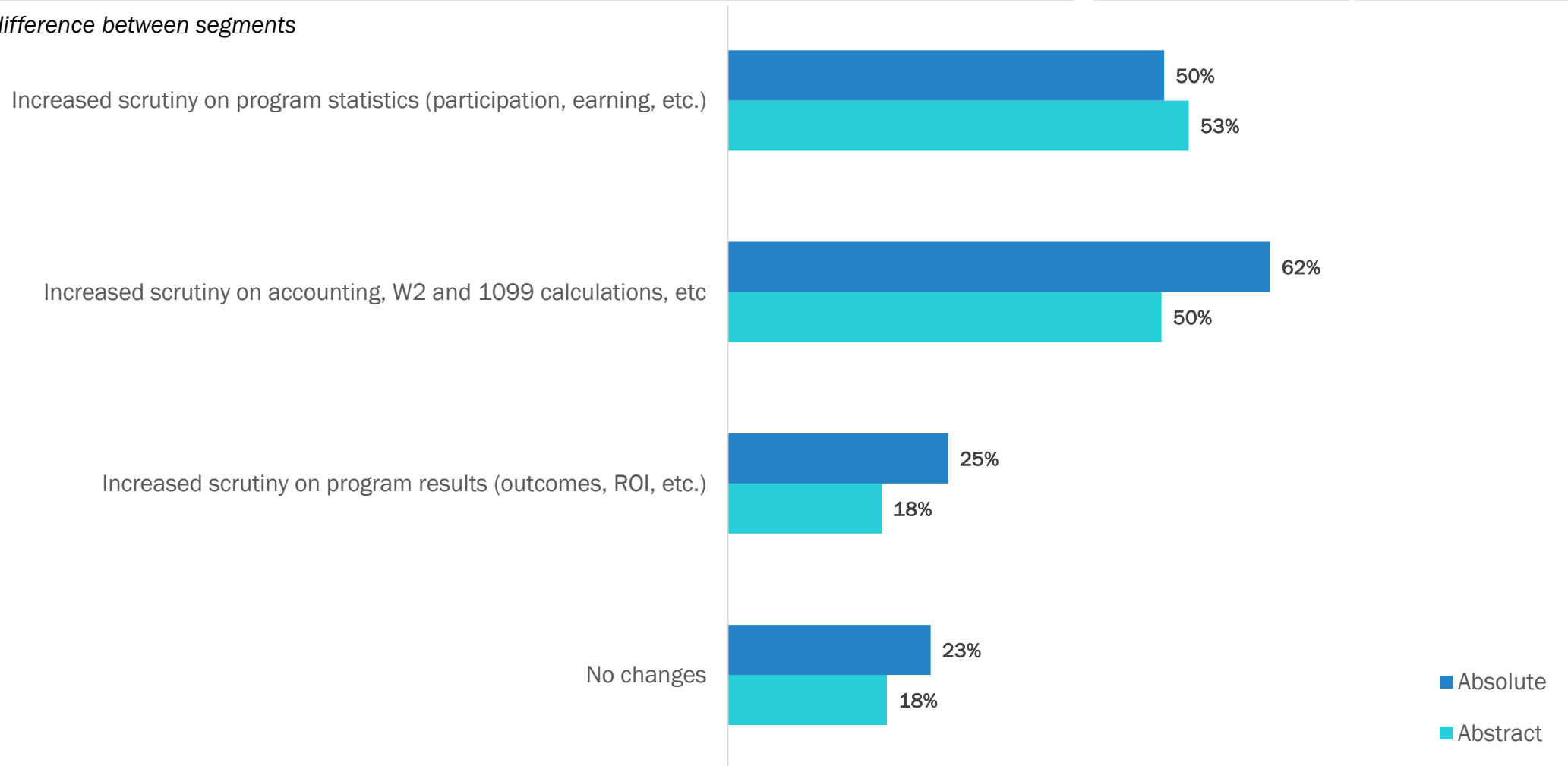
★ Statistically significant difference between segments



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Reporting & Analysis

★ Statistically significant difference between segments



Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.

Regulatory Accommodations Resources

☆ Statistically significant difference between segments

Increased dollars invested into program to pay for changes to rules/rewards



Decreased spend per participant



Increased staff support for program



Increase support from external provider(s)



No changes



■ Absolute

■ Abstract

Which of the options below **best describes** how your non-cash reward programs have been designed or changed to comply with regulatory and tax requirements: Select all that apply.