Executive Summary

Benefits Strategy & Benchmarking Survey 2013

Gallagher Benefit Services, Inc.

IPMA-HR
INTERNATIONAL PUBLIC MANAGEMENT ASSOCIATION for HUMAN RESOURCES

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Survey Overview

Human capital is an organization's most valuable asset and often its biggest expense. Gallagher Benefit Services, Inc. (GBS) believes that organizations can create a competitive advantage by including human capital as a central issue when determining strategic business plans. Total rewards programs can then be holistically crafted and integrated to align with chosen organizational and human resource objectives, and support their achievement.

The result will be a proactive benefits strategy that considers the physical, financial and career health of an organization's employees. Communicated as part of the employee value proposition, this strategy will help the employer to better recruit, retain and engage talent.

Historically, most organizations have treated medical benefits, retirement and work/life issues as distinct programs with their own measuring sticks and cost centers. The outcome of this fragmented approach is the diminished importance of human capital, which becomes relegated to the category of a "necessary expense," instead of being viewed as a critical and valuable strategic function. A "silo" structure also makes it extremely difficult to accurately evaluate the overall effectiveness of an organization's human capital and determine return on investment (ROI). With the intent of providing a single unified resource that paints the whole total rewards picture and offers practical insights, GBS is pleased to present the 2013 Benefits Strategy & Benchmarking Survey.

The Benefits Strategy & Benchmarking Survey explores all the major aspects of employee benefits, providing relevant strategic and benchmarking data from other organizations to help you efficiently navigate the total rewards landscape. We have also leveraged the thought leadership of GBS consultants and our robust database to identify several "Key Findings" and give you an in-depth "Strategic Insight" into the current and future employee benefits environment.

This executive summary provides a strategic overview along with a separate summary section for each major benefit category. By structuring the survey this way, we are able to present information for those who seek a high-level perspective on significant trends as well as those who will make use of the survey detail.

In contrast to the executive summary, the full report is far more extensive. Charts and graphs included in the full report display the data from each topic for all participants, and for various participant demographics, where available. The available demographics include:

- Not-for-Profit Organizations
- Northeast Region
- Southeast Region
- North Central Region
- South Central Region
- Western Region
- Revenue Under $100 Million
- Revenue of $100 Million–$500 Million
- Revenue Over $500 Million
- For-Profit Organizations

Each topic includes detailed benchmarking data that will allow you to accurately gauge where your employee benefits plans stand compared to your competitors and the market. Once your organization determines where it currently stands, you are able to identify any gap in your desired position, and can develop a strategy to close that gap. Accurate and current benchmarking information is critical to diagnosing and solving current employee issues such as recruitment and retention, and also acts as a springboard for future changes.

Industry reports for the survey are also available. These addendums contain benchmarking data from various industries presented in a format similar to the main report. The reports offer additional peer benchmarking opportunities and provide insight regarding the differences between relevant industries and the overall survey results. The industry addendums are provided for certain groups as part of the larger survey and are available on request.

Integrating the various total rewards programs involves a great deal of planning and discipline, but will likely yield a more effective, sustainable and balanced approach. Gallagher believes in business without barriers. It is our hope that this report will stimulate thoughtful discussions within your organization regarding your human capital and strategic vision.

To continue and expand the conversation, please contact one of our practice leaders, all of whom were instrumental in the compilation of this report.

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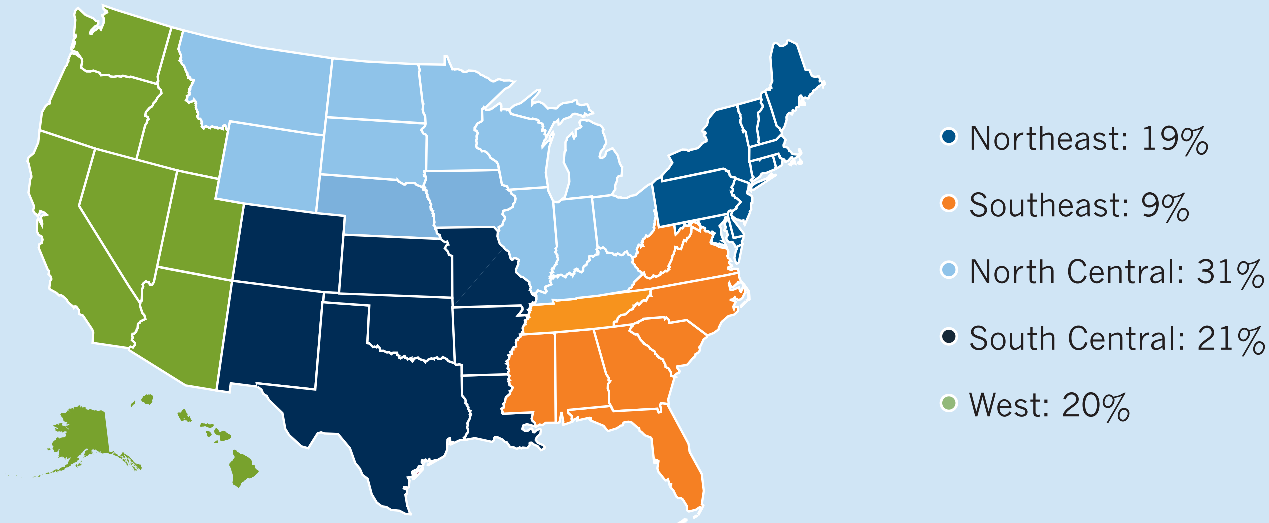
Participant Profile

The Benefits Strategy & Benchmarking Survey collected employee benefits data from 957 organizations throughout the United States. This robust data set contains participants varying in size, type, industry and geography, allowing the survey to accurately narrow the scope to the most relevant data for organizations.

Beyond the overall national results, the survey also provides data cuts based on region. The regions used in the main report are highlighted on the map below and include the Northeast, Southeast, North Central, South Central and the West.

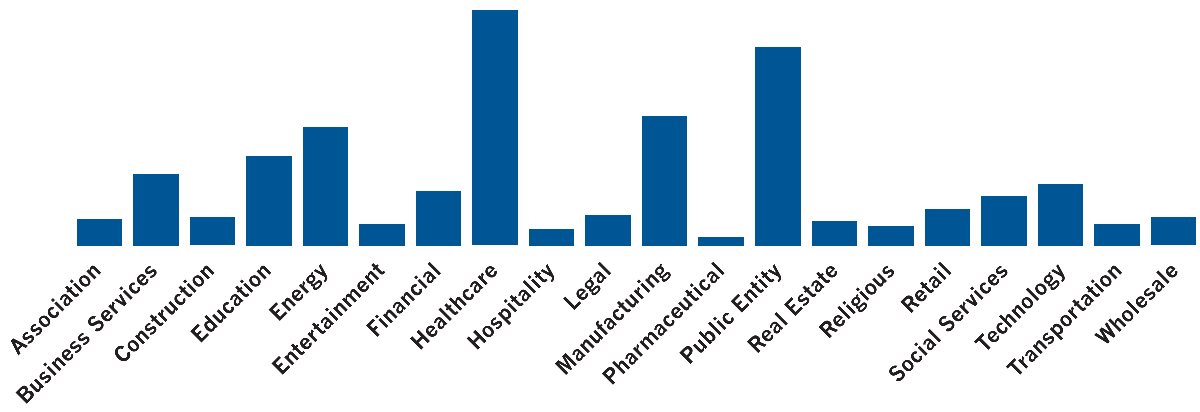


Full-time employees

UNDER 100	30%
100–499	31%
500–999	13%
OVER 1,000	26%

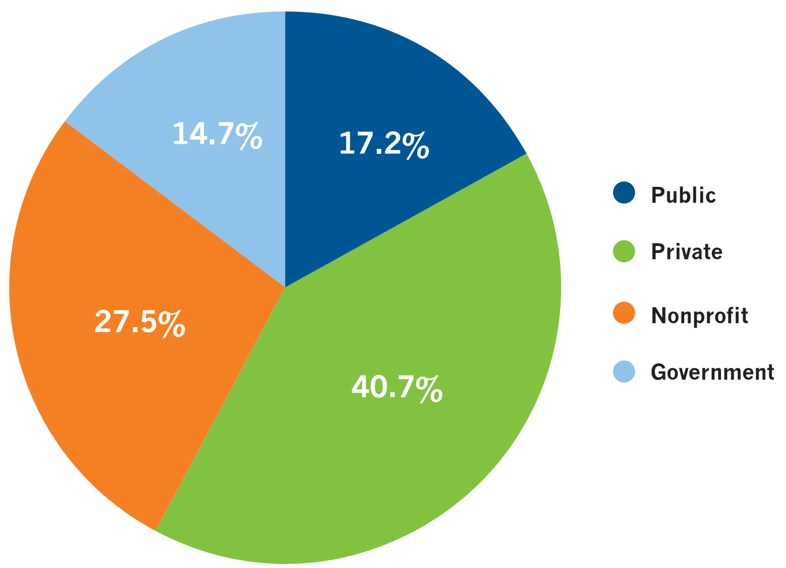
The Benefits Strategy & Benchmarking Survey collected the number of employees for each participant, allowing for additional data cuts based on the size of the organization. Market realities force companies to compete against organizations of various sizes, and these detailed data cuts will help employers of all sizes and structures to remain competitive in their respective markets.

Industry



Ownership Structure

Participants have been identified by ownership structure and the survey incorporates this information into the results by providing data cuts based on the type of organization. These data cuts will allow comparisons to peers with similar structures and challenges.



Key Findings

- **Controlling benefits costs is by far the number one issue for participants, with over 80% ranking it within their top three challenges.** Dealing with healthcare reform and keeping employees healthy rated a distant second and third. Among larger organizations, improving employee health was noted as a greater challenge, and the issue consistently grew in importance as the employee population increased.

- **The soft hiring market and the consistently high unemployment rate have had an effect on many employers' priorities.** While recruiting and retention have traditionally been a top priority, most participants do not currently feel this issue is as critical as the rising cost of benefits and dealing with healthcare reform. Only 14% of employers cited retaining employees as a critical issue and even fewer stated that hiring was a critical issue. As the unemployment rate falls and turnover rates start to rise, these issues will probably start to garner more attention.

- **When it comes to benefits management, strategic planning was cited most often as a top priority.** Employee communication and wellness/health risk management were also among the top three cited management priorities. In addition, organizations with more than 500 full-time employees reported placing a greater emphasis on healthcare reform impact analysis than their smaller counterparts.

- **Even with the recent delay in implementing the Patient Protection and Affordable Care Act (PPACA), most employers are not prepared for healthcare reform.** Overall, more than 73% of employers have not yet quantified the financial impact of healthcare reform. This trend remains significant throughout organizations of all sizes, with notable variations. More than 77% with fewer than 1,000 full-time employees have failed to quantify costs, compared to less than 60% with more than 1,000 full-time employees. In addition, more than 80% of all participants do not know how many of their employees may be able to purchase subsidized coverage more cost effectively through an exchange than the company plan.

- **Technology plays a large role in the benefits process.** Eighty-seven percent of organizations either have or are implementing an online benefits portal and 81% have online retirement and financial planning tools. Most companies are not on the cutting edge of technology, with only 9% reporting benefits applications for mobile devices. However, this area seems to be growing since another 28% reported that they plan to implement mobile applications in the near future.

- **Thirty-four percent of organizations reported that their benefits expense is between 11% and 20% of total compensation, while 30% said it was between 21% and 30% of total compensation.** The majority of organizations think that their benefits expense as a percentage of revenue will remain stable in the future, while 36% think that it will grow as a percentage of revenue.

The old rules of the employer-employee relationship are being rewritten as organizations face the prospect of dealing with a radically evolving benefits landscape combined with numerous political and economic challenges. Healthcare reform promises a radical transformation, but the final form is still in doubt, making it difficult to plan strategically without expert guidance. The economy is recovering but still faces headwinds, and continued sluggish growth weighs heavily on the employer's bottom line. In addition, a labor market that remains very soft is beset with challenges such as long-term unemployment, an aging population and a new wave of young employees who no longer value the "traditional" employer-employee contract. These issues are just the tip of the iceberg, and combined with other economic, social and political factors they make this a very challenging time for employers and their workforce.

Healthcare is usually an organization's largest benefits expense and its cost has grown significantly over the past decades. While the 1990s saw some reprieve from escalating costs due to the advent of managed care, that period of moderation quickly faded and large premium increases have become the norm. The future of healthcare is very uncertain now that the U.S. is on the cusp of major market changes due to PPACA. Most companies are very aware that change is coming, but the survey results reveal that many have not sufficiently prepared.

Organizations throughout the U.S. are anxiously awaiting the unfolding of healthcare reform. Most of them anticipate some financial consequences due to PPACA, but not all organizations realize that the overall impact heavily depends upon their strategy for dealing with the new law. Navigating the thicket of regulations and mandates brought on by PPACA is a tremendous challenge that requires thoughtful planning. Despite this fact, only 13% of organizations have written a strategic, actionable plan with measurable objectives. Even though the cost of complying with PPACA has received a great deal of coverage, 73% of employers reported that they have not started to quantify the costs of healthcare reform. While many organizations expect a substantial effect, it is interesting that most of them have not gone through the process of quantifying the costs and are uninformed about the future financial impact.

Choosing Optimal Healthcare Plan Options

Given how valuable health benefits are to many employees, it is not surprising that most organizations have relatively high healthcare utilization, with over 65% of organizations reporting that 80% or more of their eligible employees are enrolled in their health plans. A majority of organizations state that their preferred provider organization (PPO) has the highest enrollment, with health maintenance organizations (HMOs) coming in a distant second. This is a substantial change from the 1980s and early 1990s when HMOs were the major healthcare vehicle, but the demand for more flexibility and employee choice significantly decreased their popularity. Beyond actual enrollment, this drop in popularity is also reflected in the mix of plans offered by organizations. Over 77% of organizations offer a PPO, while just 32% of organizations still offer an HMO.

Continuing the trend that began in the 1980s, the prevalence of indemnity plans has shrunk to a point where they are almost extinct. Just over 2% of organizations offer a plan, and less than 1% of them identify it as their most popular plan. Conversely, high deductible health plans (HDHPs), also known as consumer-driven health plans, continue their rise in popularity among employers and are now offered by over 34% of organizations, the second highest among all health plans. Even with their increased availability, they still have not caught on with employees. Less than 16% of organizations stated that an HDHP was their most popular plan. Also, there are signs that the growth of HDHPs may be leveling off. Over 77% of organizations that do not have an HDHP state they have no plans to implement one in the near future.

Strategically Planning to Mitigate Healthcare Costs

Among organizations that have gone through the critical process of analyzing healthcare reform's financial impact, slightly more than a quarter have identified that their benefits costs will increase more than 10%. Over 40% have determined that healthcare reform will only increase their costs by less than 5%, and a handful have identified that healthcare reform will actually reduce their firms' overall costs.

In relation to future healthcare costs and planning, the large majority of organizations do not know how their costs compare to the exchanges and how their employees will react when given their choice of options. Although the slow rollout of pricing information from the exchanges has made planning difficult, only slightly more than 19% of organizations have determined what portion of their employees would be able to purchase cheaper healthcare through the exchange. This analysis is one of the key factors in determining overall costs, and should be completed by every organization in order to accurately predict the future financial consequences of healthcare reform.

Retaining or Dropping Healthcare Coverage

Even though most employers have not quantified the effects that healthcare reform will have on their organization, a great deal of discussion has centered on whether they would decide to drop healthcare altogether and essentially "get out of the healthcare business." While this choice would probably result in penalties, many outside observers have made the case that dropping healthcare and sending employees to the state exchanges could be financially beneficial in certain circumstances. Whether that is valid or not, most organizations are not currently considering this course of action. When asked whether they would stop providing healthcare once the employee mandate comes online, slightly less than 6% said they are either dropping healthcare or are considering dropping healthcare. Almost 75% of participants stated they will not stop providing healthcare to employees, and an additional 20% say they have not determined their future healthcare strategy.

It appears that the vast majority of organizations will continue providing healthcare to their employees. Most employers view their benefits offerings as a vital part of their employee value proposition and would hesitate to drop this attractive feature, especially if their competitors continue to offer it. If the situation changed and organizations started to drop healthcare from their benefits packages, most would try to offset the loss to employees. Of the organizations that discussed the scenario of dropping healthcare in the future and have determined a contingency plan, 64% would provide a lump sum of money to their employees to buy outside coverage. Twenty-eight percent would increase salaries to offset some, if not all, of the cost of purchasing an outside plan, while only 8% would not provide any financial relief. Most organizations stated that they have not determined how they would handle this hypothetical situation. This response is consistent with the finding that the large majority of organizations are not considering dropping healthcare, and so have not planned for that scenario.

Considering Healthcare and Other Benefits in the Context of Total Rewards

While all organizations will inevitably have to adjust their medical benefits to comply with PPACA and the evolving healthcare reform landscape, some of the larger trends related to healthcare will not change. Employers want more benefits for less cost and constantly try to ensure they provide both cost-effective and competitive benefits packages. Benefits costs are on the rise, though, and the desire to keep employee morale high while mitigating costs will continue to be a key priority and challenge for most organizations. Containing costs and accurately measuring program effectiveness is best accomplished within an integrated total rewards framework that evaluates the performance of the complete package. Although medical benefits play a vital role in this process, other factors such as retirement, wellness and voluntary benefits must be considered to achieve the optimal mix.

Keeping Popular Dental Coverage Viable

When thinking of employee benefits programs, organizations do not often put dental benefits on the same plane as healthcare, paid time off and retirement. Dental coverage is actually very popular with employees, even among those in the younger generation who tend to place less value on traditional benefits than their predecessors did. Within an overall benefits strategy that aims to keep employees healthy, engaged and productive, dental benefits play a critical role. The dental market, like the market for most other benefits plans, is changing and adapting to the current climate of cost constraints and increased cost sharing.

Employees usually rate dental as the third most important benefits program behind healthcare and retirement. Because of its popularity with employees and the obvious benefits of maintaining good oral health, dental should be a prominent part of most employers' benefits offerings. Unfortunately, the current environment of limited funding and cost constraints often forces difficult choices among the various benefits that an organization can offer. Employers need to be aware of market trends in order to properly position their dental plans within a successful total rewards strategy.

As healthcare costs continue to escalate and consume a larger percentage of the overall benefits budget, many employers are trying to compensate by lowering their dental costs through cost shifting to employees. Just as the days of 100% employer-paid healthcare are long over, 100% employer-paid dental plans are also disappearing. Over 70% of survey participants require employees to share the cost of the premium for a single plan and almost 88% of organizations require employees to pay a portion of the premium for a family plan. Another cost saving trend is the move away from traditional plans to PPO arrangements. PPO plans still provide substantial flexibility in choosing dental providers, but at a lower cost to both the employer and the employee.

Minimizing "Sick Care" with Wellness

While health and dental plans are critical in maintaining employee health, they are predominantly reactive in nature and do not focus on preventing costly medical issues. Since improving the health of employees could significantly improve the bottom line by reducing costs and increasing productivity, it is no surprise that a focus on healthy employees is a high priority for many organizations. Even though only 45% of respondents currently have a wellness program in place, the fact that wellness is among the top three benefits management issues indicates that these programs will continue to become a greater priority.

The prevalence of wellness plans has increased significantly over the past decade as organizations seek ways to control the rising cost of healthcare. Designing a wellness strategy is a process that involves identifying the unique needs of an organization's workforce and tailoring a plan to meet those specific requirements. Although there has been speculation about the investment value of wellness, the inherent nature of these plans combined with an ever-evolving industry makes identifying a true ROI difficult. It is important to accept that wellness is a long-term strategy that produces benefits over time when considering ROI.

Many organizations spend a significant amount on healthcare costs each year, and the majority of that cost goes toward treating illness rather than proactively focusing on prevention. Preventing illness is a more cost-effective strategy than treating illness, so a focus on prevention has a positive impact on employee health and the potential to decrease health insurance costs over time. Surprisingly, only a very small percentage of the total cost of health insurance is spent on wellness. Over 60% of survey participants reported a wellness budget of less than $25,000, a fraction of the amount they spend on traditional health plans.

Poor design, minimal ongoing management and a lack of effective employee communication are some of the reasons why so many wellness plans do not meet employers' expectations. Despite the fact that spouses make up about half of the typical healthcare spend, less than 6% of organizations extend wellness to spouses. This is one example of poor design and illustrates how important it is to consider all individuals who could benefit from a wellness strategy.

Designing and Communicating Wellness for a Diverse Workforce

A well-designed wellness strategy can help improve the overall health of employees and lead to a measurable impact through lower healthcare costs and higher productivity. Even though they can influence substantially positive results, most wellness programs are a relatively new addition and continue to face challenges. Over 69% of participants stated that the most significant challenge is gaining participation in their wellness program. In fact, over 60% of organizations said that less than half of their workforce participates in their wellness plan. Culture, communication, strategy and incentives play an important role in employee engagement of wellness initiatives and all of these aspects must be carefully considered when designing and implementing a plan.

Medical, dental and wellness programs are vital components of any comprehensive benefits plan, but it is important to consider the constantly diversifying workforce when evaluating additional options. Although wellness presents a relatively new approach that was almost nonexistent a decade ago, employees continue to seek more options. The government predicts a pronounced shift in demographics in future years and it will be increasingly important for organizations to accommodate this continual adjustment.

Providing Cost-effective, Flexible Voluntary Benefits Options

In light of a younger workforce that desires options, the ability to provide flexibility in a cost-effective manner might make the difference between a flourishing organization and a deteriorating one. Voluntary benefits could become the factor that will allow a company to provide flexible options to a workforce that is seeking a benefits package tailored to fit their needs.

Older workers have not been especially receptive to voluntary benefits, and according to the U.S. Department of Labor, the baby boomers' influence on the labor market will significantly decrease as more of this generation reaches retirement age. In combination with younger workers' attitudes, a trend in favor of voluntary benefits could also be affected by women. The most recent U.S. Census reports that women are more receptive to voluntary benefits, and women's representation in the labor force has increased from 38% in 1970 to 47% in 2010. These shifts in the labor force have greatly contributed to both the prevalence and increased participation in voluntary benefits programs.

Voluntary benefits offer flexibility and allow employees to tailor them to meet their individual needs at a minimal expense to the organization. These benefits complement a strategically designed core benefits package while mitigating financial exposure to the organization. As diversity in the workplace continues to grow, a well-structured voluntary benefits offering will be the separating factor for employers.

Investing in a Secure Future for Employees

Just as soundly structured core and voluntary benefits programs provide an immediate sense of well-being for employees, a well-planned retirement offering can help provide them with a future sense of security. Although there are various approaches to implementing an attractive retirement program, a knowledgeable implementation of this feature will support an increase in employees' sense of security and morale.

Defined contribution structures like a 401(k) plan have been increasing in popularity over the years. These plans appeal to employees because they allow them to play an active role in their retirement planning while relieving organizations of potentially costly future retirement liabilities. Over 60% of responding organizations currently offer a 401(k) plan to their employees and over a third of these employers use the automatic enrollment feature. This feature ensures that employees plan for their future by contributing to their retirement. The default percentage for automatic enrollment varies widely and is usually far from sufficient for financial security, but this tactic at least ensures that this critical benefit is not being entirely overlooked.

Employers often contribute to their employees' future well-being by matching employee contributions to the plan after an allotted duration of employment. Almost 68% of survey participants offer some form of contribution match. The parameters of the employer contribution vary, but over a third of employers currently match half of the employee investment up to a specified amount of their salary, usually between 3% and 6% of their base compensation.

The popularity of the defined benefit plan structure continues to fade. Less than a third of employers currently possess such a plan and many do not allow new enrollment. Although the decline of the defined benefit model is prevalent throughout all markets, the private sector realizes the most substantial impact. Slightly under 7% of privately held companies report maintaining a defined benefit plan that is still open to enrollment. These plans are far more prevalent in the public sector.

Although many employees embrace the defined contribution structure and welcome the active involvement in their future financial security, others want these decisions dictated by the employer. While the defined contribution structure continues to evolve, many employees are currently unaware of their options. Change, whether positive or negative, will almost certainly create turmoil among a number of employees. Mitigating these uncertainties by actively educating the workforce and demonstrating a vested interest in their future will account for secure and satisfied employees, allowing employers to retain their talent for years to come.

Protecting Family Well-Being with Life Insurance

Another important aspect of a comprehensive package is life insurance. Employer-sponsored life insurance can serve as an attractive feature to prospective employees and also plays a vital role in retaining the management that steers an organization. The group life policies that employers use to attract and retain their talent come with lower premiums than a typical individual policy. The group underwriting process is diminished compared to other policies and often allows employees coverage without requiring them to pass a formal medical examination. Insurers consider an overall risk pool as opposed to an individual person, and the premium is based on the whole employee population. Because the chance that an entire workforce will be affected simultaneously is much less than the risk to one person, the reduced premiums make employer-sponsored life insurance a cost-effective benefit that also attracts talent effectively.

Premiums paid on group term life policies are often tax deductible to employers, making this benefit even more financially favorable. While this is often the case, the structural components of a company can affect this aspect in numerous ways. Although these tax deductions are one of the driving factors for organizations, it is important to identify which workforce populations may not meet the guidelines for these savings. Groups such as partners and large stakeholders within an S corporation may not qualify as employees for tax purposes, while owner-employee premiums within an organization that is not set up as an S corporation may be tax deductible. Although there are many considerations like these to address while deciding the best approach, life insurance can serve as a cost-effective vehicle for attracting prospective employees and retaining current talent.

Managing PTO and Other Absences to Create Efficiencies

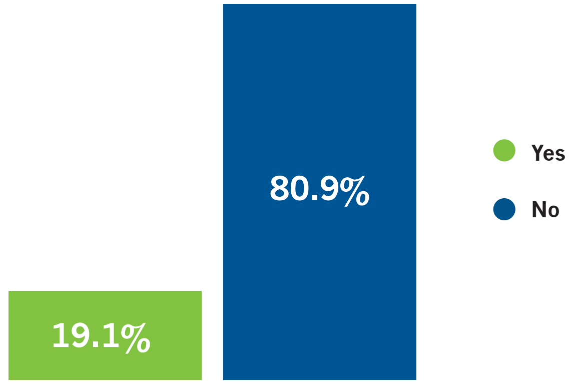
Combined paid time off (PTO) programs, the plans that give employees a "bank" of days to use as they see fit, have grown in popularity over the years. These plans allow employees more flexibility while easing some of the administrative burden for managers and the organization overall. Almost half of organizations use a combined PTO program as their paid time off program. In addition, many organizations are finding it beneficial to take a more holistic approach and integrate all absence management programs (e.g., PTO, short-term and long-term disability). Rather than treating each absence management program as a silo, organizations have the opportunity to create synergies between the programs and administer them more efficiently and effectively.

A well-constructed absence management strategy aligns with business objectives and employee preferences, and likely results in cost savings to the organization by encouraging a healthy workforce, improving return to work and reducing absenteeism. A comprehensive PTO program can provide a competitive advantage when used as part of a total rewards package.

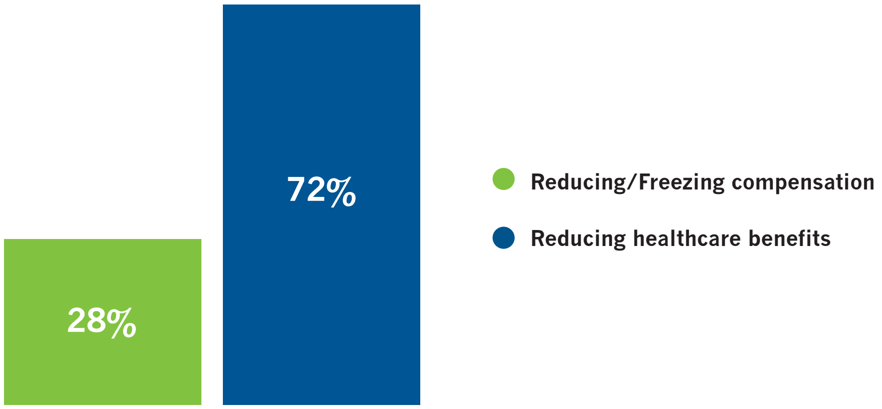
Healthcare, wellness, retirement, PTO and voluntary benefits all play a role in developing an optimal strategy for organizations to flourish in the coming years. Despite the fact that survey participants cited strategic planning and health risk management as two of the top three benefits management issues, many organizations have not done much of the underlying work required to proceed effectively in strategic planning around human capital. In order to ensure their financial and competitive well-being, organizations need to engage in a robust planning and evaluation process focused on these issues. When they understand that human capital is a vital component of their success, not just a group of disjointed plans and programs, they can see the importance of addressing it in a holistic manner using a total rewards framework.

27.1% **of organizations expect a cost impact of greater than 10% as a result of healthcare reform**

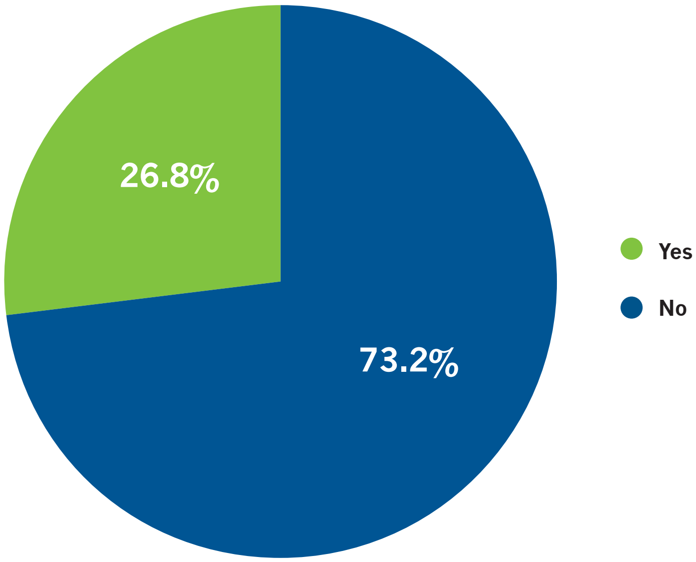
Do you know how many of your employees may be able to purchase subsidized coverage more cost effectively through the exchange than the company plan?



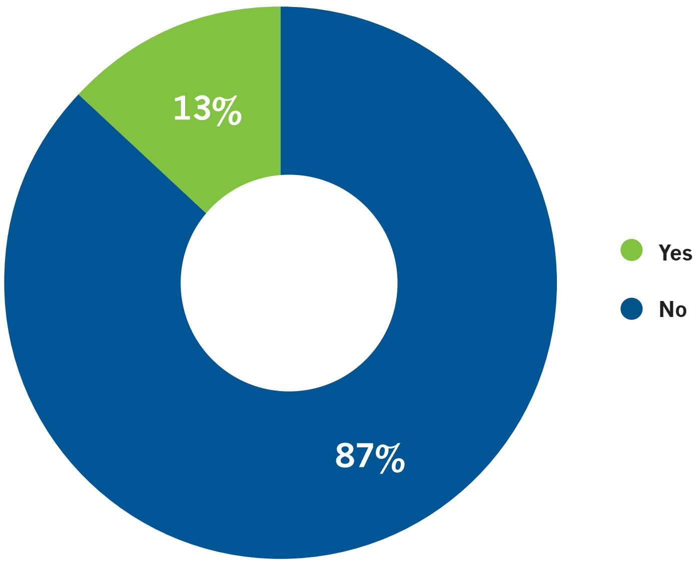
How is your organization planning to manage costs?



Has your organization quantified the cost impact of healthcare reform?



Is your organization using a written strategic plan?



Healthcare premiums have moderated to some extent in the past couple of years, but the individual experience of participants has varied greatly. While just over 20% of the survey participants had premium increases of over 10%, almost half of them stated that their most recent increase was less than 5%. Eight and a half percent reported an actual decrease in their premiums, although some of it may be due to plan design. Roughly 44% of participants said their most recent increase was lower than expected, while 46% stated that the premium increase was somewhat larger than expected. PPACA will have a big influence on premiums but the actual effect remains to be seen.

Cost Sharing

One way organizations have dealt with escalating healthcare costs is to shift more of the expense to employees. Even though most employees are now accustomed to paying a percentage of their plan premium, some organizations still pick up the entire premium cost. Most firms, over 75%, require employees to pick up 20% or less of the premium cost for a single plan, but almost 22% of organizations do not require employees to pay any of the premium costs. When it comes to actual dollars, close to half of the survey participants reported the average monthly amount was less than $100, while just over 6% of firms reported their employees paying more than $200 per month for a single plan.

Surprisingly, some firms still cover 100% of the premium for a family plan, although the number is very small, accounting for less than 5% of the participants. Family plans, which entail far higher premiums than single plans, generally come with high cost shares. The majority of organizations require employees to pick up more than 20% of the premium for a family plan. In fact, a significant percentage of organizations require the employee to pay for more than 40% of the premium. This is often found in firms that pay the expense for a single plan and require employees to pick up the rest of the cost of a family plan.

Deductibles, Copayments and Coinsurance

Deductibles, copayments and coinsurance are all methods of medical cost sharing that tended to increase over the past decade. The majority of healthcare plans reported in the survey contain both copayments and coinsurance, while over 32% only have copayments. A much smaller percentage, 13%, has only coinsurance. Virtually all copayments for office visits amount to less than $50 and most are $20 or $25. Overall, only 34% of the health plans in the survey have coinsurance for a regular office visit. The opposite applies for hospitalizations with more plans relying on coinsurance as the cost-sharing mechanism. Forty-seven percent of plans have coinsurance for emergency room visits and slightly more than 65% have coinsurance for hospitalization. When it comes to percentages, the majority of plans with coinsurance have an 80/20 split for regular office visits, while the next largest group, less than 20% of the sample, have a 90/10 split. The 80/20 coinsurance structure is also most prevalent for hospitalizations and emergency visits.

Almost 85% of survey participants reported that their most "popular" health plan (i.e., highest enrollment) had an annual deductible. The deductible for the majority of single plans was under $750, although a significant number of single plans, over 27%, had a $1,500 or greater deductible. High deductible plans probably constituted the large majority of the latter category. As for family plans, more than 37% had annual deductibles over $2,000, while the next largest group, just under 14% of the sample, had deductibles between $500 and $999.

Out-of-Network Plan Components

In order to satisfy employees' demand for choice in healthcare delivery, the majority of plans include an out-of-network component. While these options may be desired, the added flexibility comes with a tradeoff in the form of higher costs for the employee. About 15% of plans do not have a deductible for in-network services, and just over 3% do not require a deductible for out-of-network services. Only 44% of plans require coinsurance for in-network office visits, but 80% of plans require them for out-of-network office visits. The same general trend holds true for most healthcare services.

Beyond the higher prevalence of cost-sharing mechanisms involved with out-of-network services, the actual dollar costs are also higher. While the majority of single plans have in-network deductibles of $750 or less, almost half of out-of-network deductibles are $1,500 or more for a single plan. Most in-network out-of-pocket maximums for single plans range from $1,000 to $3,000, while the out-of-network equivalent is $4,000 or more. For coinsurance, most plans have the employer paying 60% or less of the costs and just over 8% have an 80/20 split for out-of-network services.

HSAs and HRAs

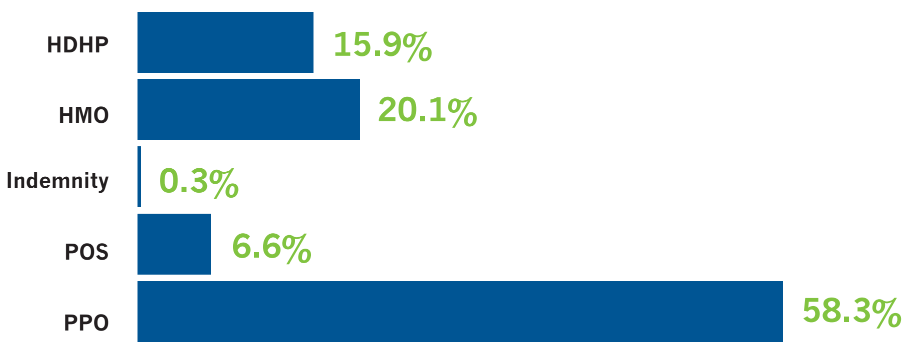
A health savings account (HSA) is a medical savings account open to people who are enrolled in an HDHP. Health reimbursement arrangements (HRAs) are similar, but they are "owned" by the company, not the individual, and the employee does not have to be enrolled in an HDHP to qualify. A third of the survey respondents offer an HSA, and participation rates among qualifying employees varies widely. Among firms that offer HSAs, 44% reported that less than 10% of eligible employees use the plan. On the other end of the spectrum, 22% of firms reported that over 75% of their employees used the plan. Forty-five percent of employers make contributions to their employees' HSAs.

HRA plans are not as prevalent as HSA plans and only about 15% of the survey participants offer them. This comes as no surprise because these plans require an extensive amount of regulatory compliance, and their popularity may decrease further since stand-alone HRA plans (not integrated with a group health plan) will incur significant new restrictions under healthcare reform in 2014.

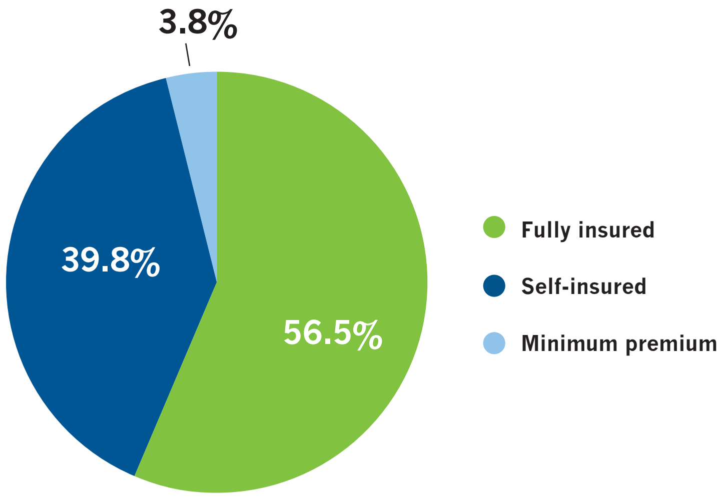
Prescription Coverage

Prescription coverage has been identified as one of the main drivers of the overall increase in healthcare costs. Carving out the prescription plan from the medical plan is one strategy to rein in costs, but only slightly more than 8% of participants currently have a prescription carve-out. Another strategy for containing costs, at least on the employer's side, is to increase the employee's cost share, much like the trend within medical plans. Copayments are the dominant cost-sharing mechanism in prescription plans and are a part of about 95% of plans. Coinsurance is only used as a cost-sharing mechanism in about one-third of plans. The majority of plans charge a $10 copay for generic prescriptions, while the copay for preferred drugs varies from $20 to $40. Nonpreferred copays are even higher, with the majority being over $50.

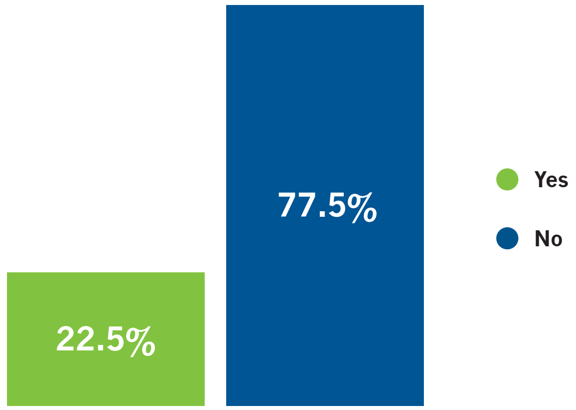
Medical plans with the highest enrollment



Plan funding arrangement



Organizations that plan to add an HDHP to their health plan package next year



Wellness Plans

While many organizations operate with a purely reactive approach to employee health, a growing number of employers are taking a more proactive approach to curtail costs and increase productivity. Although they have grown in popularity over the past decade, only 45% of organizations currently have a wellness plan.

The majority of wellness plans now in place are relatively new and continue to confront challenges. Over 69% of survey respondents stated that participation was their greatest issue to resolve, and the majority reported that less than half of their workforce participates in their wellness plan. Cultural shifts and reluctance to change, cited by just over 43% of survey participants, is the second biggest obstacle that employers face. Almost 40% of participants also cited an insufficient wellness budget as one of the major concerns their plan encounters.

Plan design and the correct features will dictate the plan's value, so a knowledgeable approach to this implementation is crucial in generating a positive return on the investment. Over 58% of employers currently administer their wellness plan internally, but many of these organizations could benefit by seeking external counsel to help optimize and run the plan more efficiently. The most popular features among current plans include wellness communications, health risk assessments and biometric screenings.

Given the total amount of money most organizations spend on healthcare, it is surprising how little is allocated to wellness. Over 60% of organizations report a wellness budget of less than $25,000, a fraction of the amount spent on healthcare.

62.2% **of organizations have a wellness budget under $25,000**

Most popular methods to increase wellness program participation

1. Cash/Gift Incentives
2. Premium Differentials
3. HRA/HSA/FSA Contributions

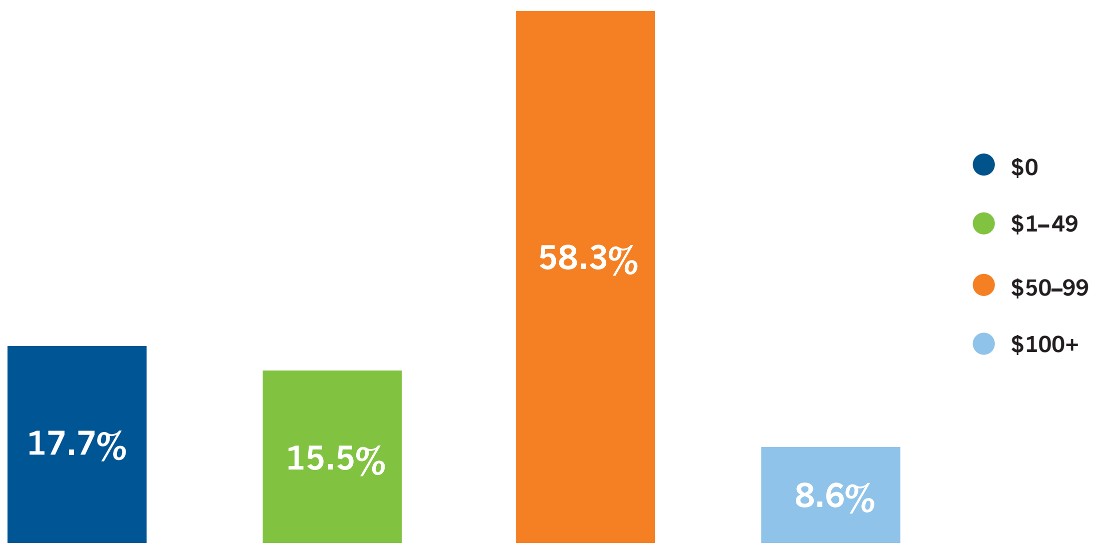
Dental Plans

The survey results show that dental has a high utilization rate within the large majority of organizations. Over 71% of survey participants reported at least 75% of their employees were enrolled in the company's dental plan. The majority of dental plans are fully insured and just over one-third of plans are self-insured.

More than 70% of organizations require employees to pay part of the dental premium, and almost half of them set a minimum amount of 40%. This group includes employers that offer dental as a "voluntary" benefit (i.e., the employee pays all of the cost) and those that have a relatively high cost share. Other popular employee contribution amounts are 10% and 20% of the premium, both cited by just over 11% of participants.

The large majority of dental plans have an annual deductible, roughly 82% for both single and family plans. A majority of single dental plans have an annual deductible between $50 and $99, while a much smaller group (16.5%) has a deductible between $1 and $49. The annual deductible for about half of the family plans was between $100 and $199. These deductibles were waived for preventive care in over 90% of the plans.

Annual deductible amounts of dental plans for an in-network, single plan



Life Insurance

Over 90% of participants stated that they offer management employees between one and two times their salary in basic life insurance, with the full expense covered by the organization. An employee's only expense for company-paid basic life involves the possibility of imputed income, which is the tax liability of the policy above a specified amount. This tax liability is usually minimal in relation to the size of the benefit.

Most employer-sponsored plans allow employees to "buy up" supplemental life insurance in addition to their company-provided basic life. Over 78% of organizations make this option available to their workforce. Although the employee pays for this extra coverage, the premiums are often substantially lower compared to similar coverage purchased on the open market. The plan often presents this option in a dollar amount or in multiples of the employee base salary and usually sets a maximum limit.

Premiums paid on group term life policies can be tax deductible to employers, making this benefit even more cost-effective. While this is often the case, an organization's structural components can affect this aspect in various ways. Although employers need to address many considerations like these when deciding the best total rewards approach, life insurance can serve as a cost-effective vehicle for attracting prospective employees and retaining current talent.

78.3% **of organizations offer supplemental life insurance**

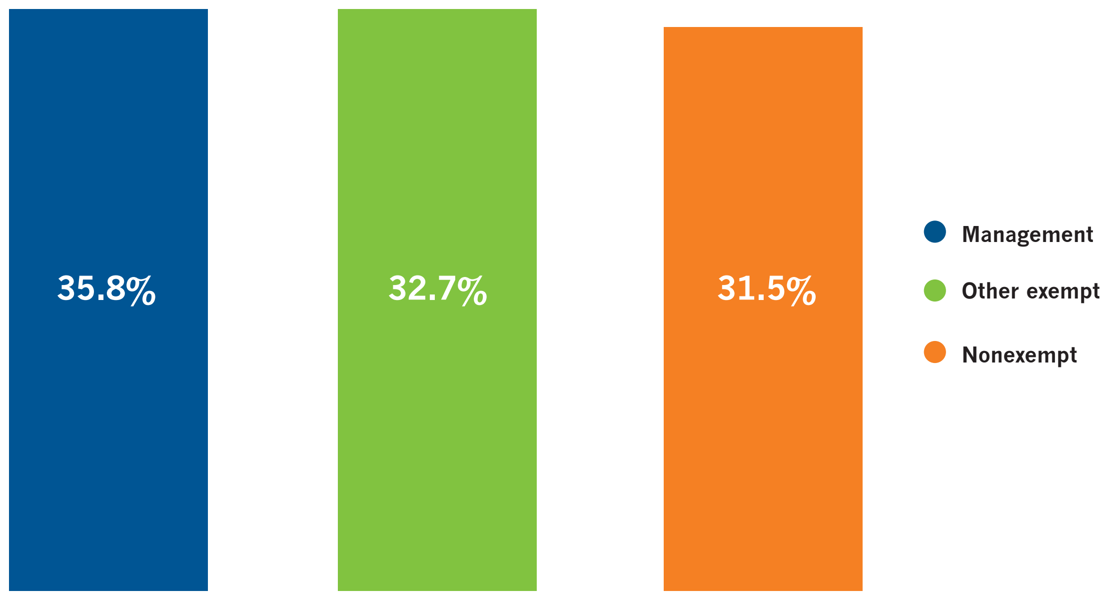
Paid Time Off

Paid time off (PTO) is a critical part of any total rewards package that most employees highly value. As a major expense, PTO needs to be evaluated as a whole in order to best determine its effectiveness. The survey results concentrate on the total number of days off for various employee groups and lengths of tenure, a benchmark that can be used by all organizations regardless of the structure of their PTO program.

Most organizations base PTO on tenure with the number of days increasing with length of service. Although it varies widely, most employers provide first-year management employees with 15 to 25 days of paid time, with just under 9% providing over 30 days. The number of days systematically rises with length of tenure culminating with the majority of organizations offering at least 26 days to management employees with 15 years of experience, and almost 36% offering at least 31 days. This same general trend holds true for other exempt and nonexempt employees as the number of days rises in tandem with length of service.

The large majority of organizations allow employees to carry over days. About 70% of employers limit the number of days that can be carried over annually and 66% cap the total days that can be accrued over the years.

Employees with 15 years of service who have 30 or more PTO days



Retirement Plans

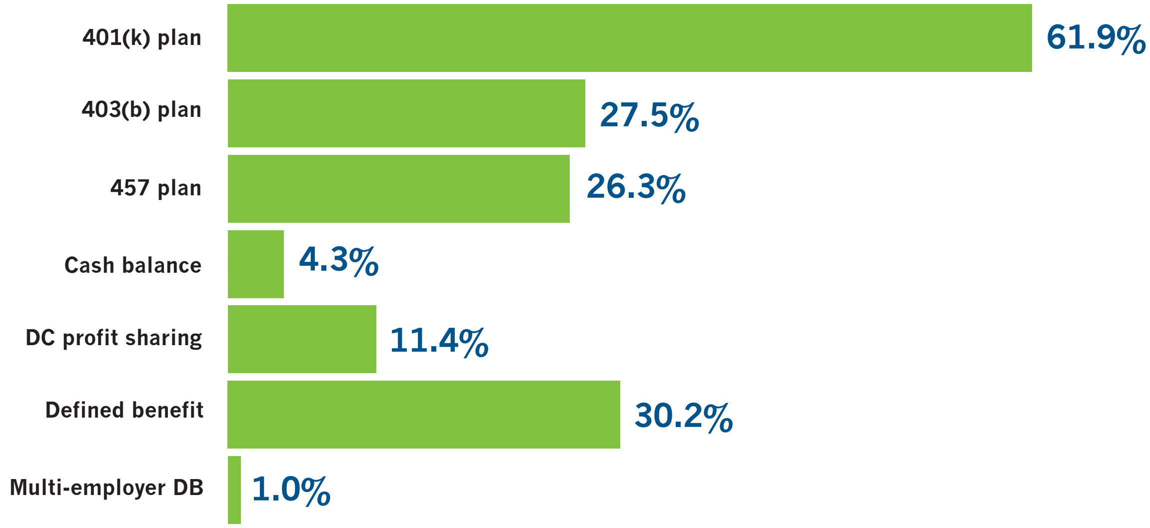
Defined contribution structures like the 401(k) plan have seen increased popularity in recent years and almost 62% of responding organizations currently offer a 401(k) plan to their employees. Over 36% of survey participants use the automatic enrollment feature that ensures employees are contributing to their retirement upon enrollment. Automatic enrollment has proven to be very beneficial because once enrolled, the majority of employees continue to make 401(k) contributions and build their retirement account.

Almost 68% of organizations match their employees' contributions to their defined contribution accounts. While the exact percentage of the match varies, the largest group (38%) matches 50% of the employee contribution up to a specified amount of their base salary, which is usually between 3% and 6%.

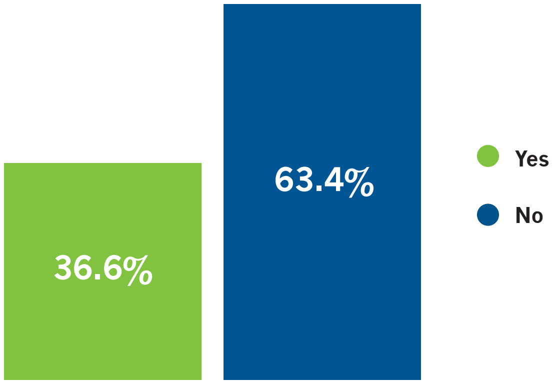
The popularity of the defined benefit plan structure continues to fade. Slightly more than 30% of employers report having these plans, many of which are not open to new enrollment. Although the decline of the defined benefit model is prevalent throughout all markets, the private sector experiences the most substantial impact. Less than 7% of privately held companies have a defined benefit plan, and among these companies almost 40% determine the retiree payout based on the highest three to five years of compensation. Entitlement to the funds usually relies upon career duration with the company and 50% of employers report using a three to five year vesting schedule.

Non-qualified plan offerings are designed to meet the specialized retirement needs of an organization's top talent, yet the survey results indicate they are not widely offered today. As the economy improves, organizations will have an opportunity to determine how these kinds of plans can help them attract, reward and retain their key talent.

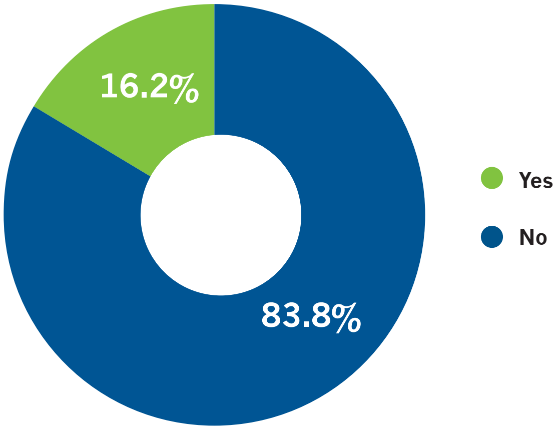
Which retirement plans are your competitors offering?



Does your organization use the automatic enrollment feature?



Does your organization offer nonqualified retirement plans?



Voluntary & Miscellaneous Benefits

Voluntary benefits continue to increase in popularity and provide value to employers in all industries and demographics throughout the United States. These benefits are becoming a staple of organizations around the country and will continue to gain acceptance.

Accidental death and dismemberment proves to be a popular option among employers, with over 76% offering the benefit. While 45% of organizations require participating employees to pay 100% of the cost, another 31% offer this feature with a company subsidy.

Another popular voluntary benefit is the stand-alone vision plan. Almost 70% of organizations offer this type of plan and 45% of them pay for part of the premium. The remainder of this group offers vision as an employee-paid voluntary benefit.

Tuition reimbursement serves as a valuable retention tool by demonstrating the employer's commitment to invest in employees and their futures. Although over 64% of organizations offer reimbursement, many plan designs contain criteria to ensure employers capitalize on their investment. More than 79% of employers choose to reimburse solely for job-related courses, and over 84% require achievement of a minimum grade. The monitoring of employee performance combined with specific class parameters ensures value for the organization while still providing the incentive for employees to gain new knowledge and skills.

About Gallagher

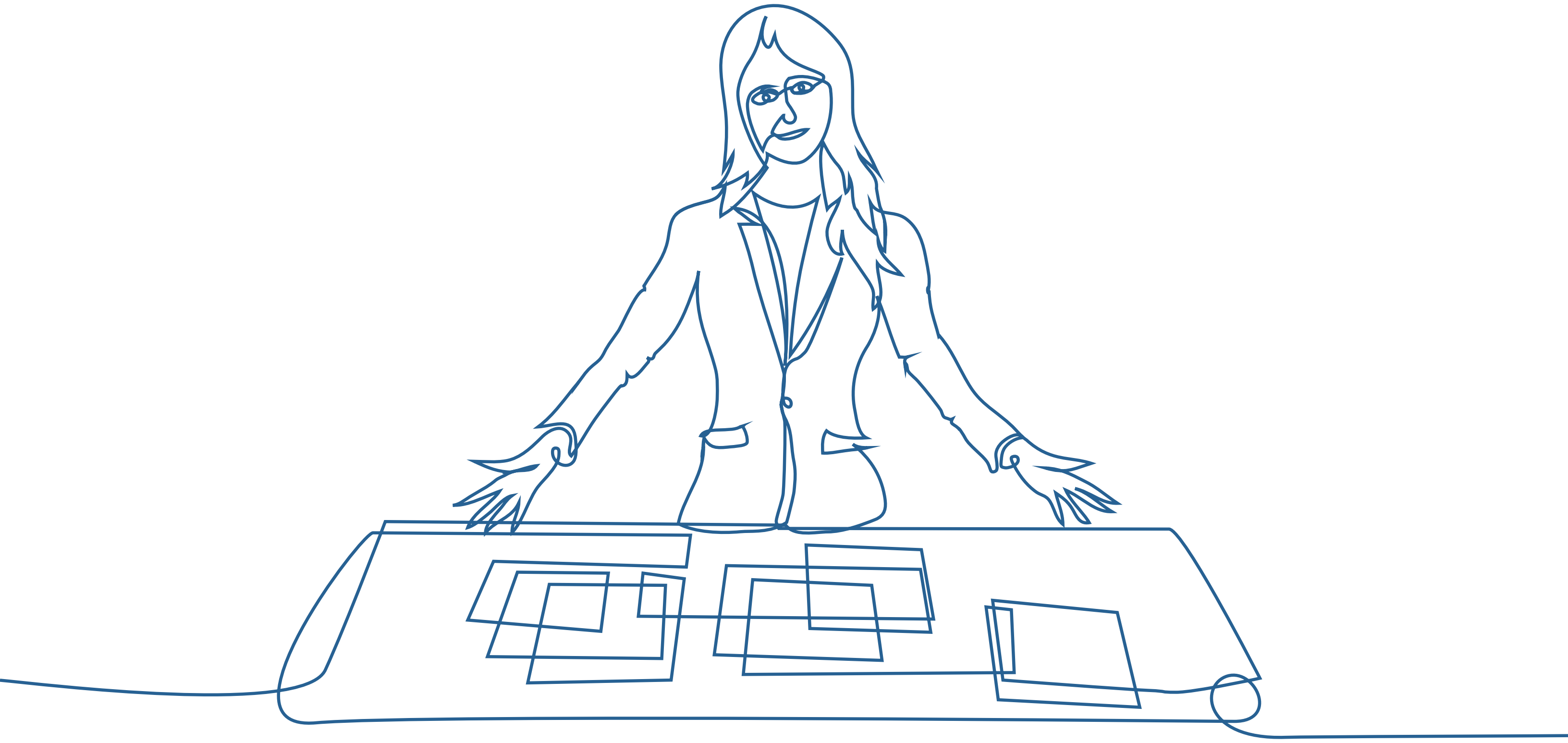
Brilliant benefits solutions build brilliant businesses.

Are your HR policies compliant with federal, state and country-specific regulations? Do your employees save enough for retirement? How will healthcare affect your business? Do you have a total rewards program that attracts and retains talent?

You need answers. A tailored benefits solution provides them.

That's what Gallagher Benefit Services, Inc. does. Tailored benefits solutions. Our trusted experts get to know you, your business and employees. With that insight, we help you better manage your domestic and international benefits, HR, compensation and retirement challenges.

Our benefits solutions help your people work better so they can make your business perform better.



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