

Eighth Annual

Study of Employee Benefits Today & Beyond

Group Benefits and the Defined Contribution Model



The Prudential Insurance Company of America (Prudential)
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0255594-00001-00



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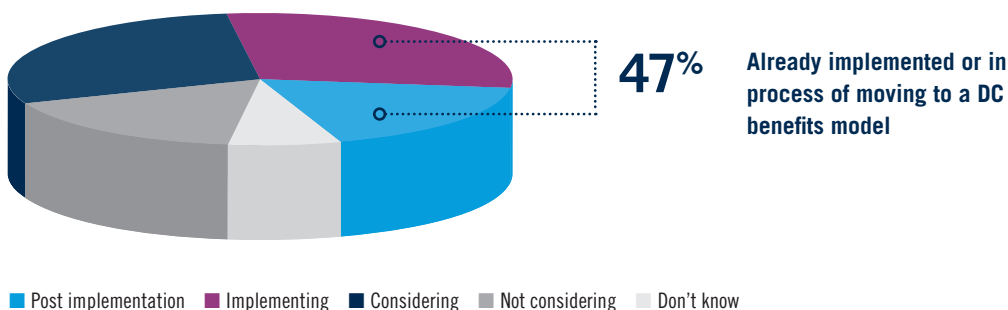
62%

Those of who are now both considering a DC benefits plan and those considering participating in an exchange will likely adopt a DC benefits plan in the next two years.

More companies are moving toward a defined contribution (DC) benefits model in the wake of health care reform.

In the year since the U.S. Supreme Court upheld the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act), companies have been reviewing their benefits strategy in anticipation of the full implementation of health care reform. We asked employers if they are moving to, or are considering moving to, a DC benefits model. A DC benefits model is one in which employers give their employees a lump sum dollar amount to spend on their benefits and let the employee decide to which benefits the money gets allocated. The top two reasons employers reported for considering making changes to their benefits model are to lower health care costs (59%) and to give employees more choice in the allocation of their benefit dollars (40%).

- 47% of employers report having already moved to this model or are currently implementing this type of program.
- 62% of those that are likely to move to an exchange and those that are currently considering participating in an exchange believe they will adopt this model in the next two years.



Employees would allocate over half of their benefits dollars to health insurance.

Though the timetable for “large companies”—those with 50 or more employees as defined by the Affordable Care Act—to fully comply with certain aspects of the law has been pushed back a year, employees know change is coming. Fifty-five percent of employees feel that employers will have to develop new strategies for covering health care costs, and the same amount of employees say they believe that costs will increase for the employees.

As employers move to a DC benefits model, employees will be faced with the task of allocating their dollars across a range of benefits. When asked how they would use \$100 across their benefits, 75% of the money will likely go to health, dental, and vision coverage. That leaves 25% for other coverages, such as 100% employee-paid (voluntary) life, disability, accident, or critical illness insurance.



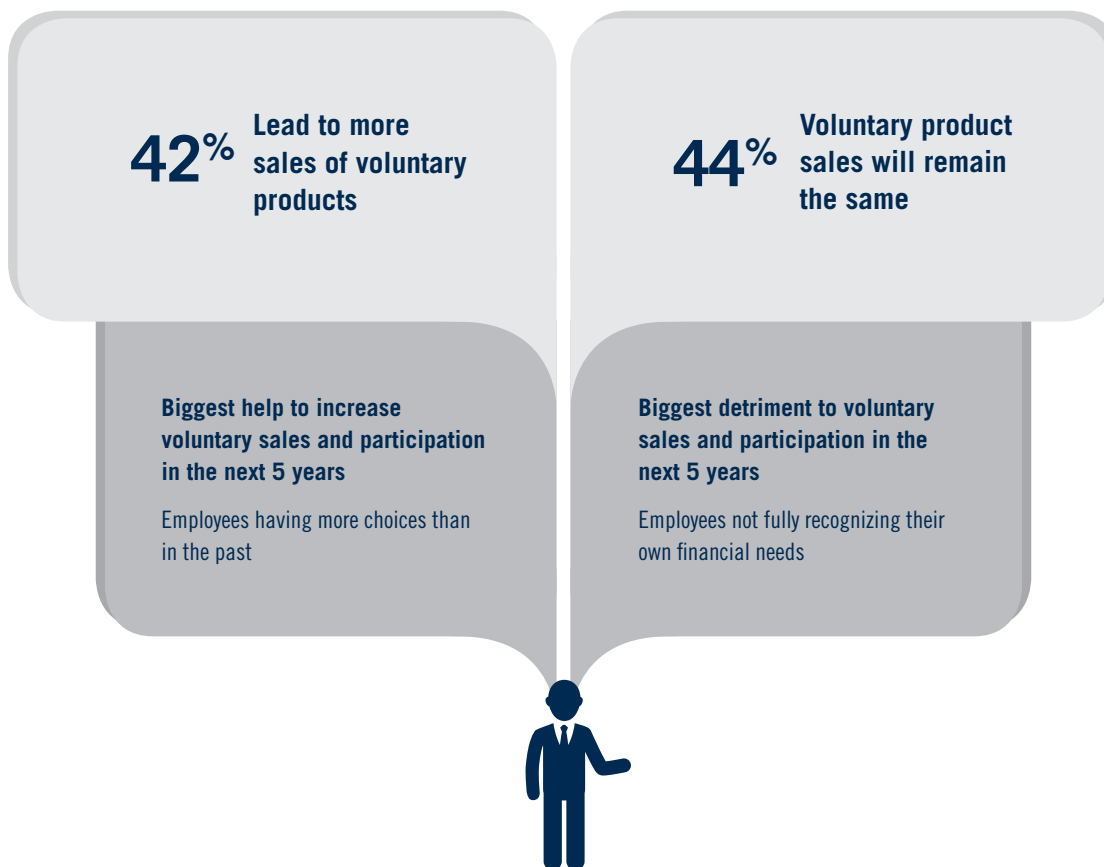
Brokers believe employees will spend more on health care benefits, while at the same time employers will add voluntary coverage.

Many brokers think DC benefits plans will result in more dollars being allocated to funding health care (47%). Twenty-six percent of brokers think it will not make a difference, while 22% expect fewer to be allocated to health care. Overall, brokers have a positive look on how voluntary sales will be affected by DC benefits plans—42% think this will lead to more sales and 44% think sales will remain the same.

Over the next five years, brokers see the biggest help in increasing voluntary sales is that employees have more choices than in the past. The biggest detriment is that employees may not fully recognize their own financial needs.

- Four in 10 (43%) brokers say DC benefits plans will not make a difference in funds allocated to life insurance.
- Twenty-eight percent of brokers think a DC model will result in more dollars allocated to life insurance (24% think fewer will be allocated).
- Similarly, 40% of brokers believe DC plans will not result in differences to allocations to disability coverage, while 29% think more will be allocated to disability (26% expect less to be allocated).

Defined contribution benefits plans and voluntary sales



Methodology

The *Eighth Annual Study of Employee Benefits: Today & Beyond* was fielded via the Internet during August and September 2013* and consists of three distinct surveys: one among employers, another among employees, and the third among group employee benefits brokers and consultants. The year's study was conducted for Prudential by MRops in conjunction with Oxygen Research.

Overview of Employer Survey

Employer results are based on a national survey of 1,000 employee benefits decision makers. Respondents included business executives, business owners, human resources professionals, and financial management professionals. The survey sample covers all industries, including government, and is nationally representative of all U.S. businesses with at least 25 full-time, benefits-eligible employees.

Data shown in this report is weighted to reflect the actual proportion of U.S. businesses by company size, industry, and region based on data from the U.S. Census Bureau. The margin of error is +/- 3.0% at the 95% confidence level.

Overview of Employee Survey

Employee results are based on surveys conducted among 1,000 employees, ages 22 or older, who work full-time for a company with at least 25 employees. The survey of employees was conducted during the same time period as the plan sponsor and broker surveys.

The survey sample is nationally representative of all U.S. workers at companies with at least 25 full-time employees. Data shown in this report is weighted to reflect the actual proportion of U.S. workers by gender, region, race and ethnicity, education level, household income, and age based on data from the Bureau of Labor Statistics and the U.S. Census Bureau. The margin of error is +/- 3.0% at the 95% confidence level.

Overview of Broker Survey

Broker/consultant results are based on surveys conducted among 318 insurance professionals. Additionally, 38 Prudential brokers also participated. Screening criteria ensured that these professionals spend a large portion of their time selling and servicing plan sponsors. The margin of error is +/- 4.0% at the 95% confidence level.

*The surveys were fielded from August 8 through September 13, 2013.

About Prudential Group Insurance

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