2019

Benefits Strategy & Benchmarking Survey

Know Your Strengths and Opportunities

Executive Summary & Strategic Insights | U.S. Edition

Gallagher

Insurance | Risk Management | Consulting

Table of Contents

SURVEY OVERVIEW 4

KEY FINDINGS & IMPLICATIONS 6

ABOUT GALLAGHER 12

Survey Overview

People don't change their basic nature or their hopes and desires with economic conditions. No matter how strong or weak the labor market is, employees are more motivated and productive when their employer invests competitively in their total wellbeing — including their health, financial security and career growth. Better organizational performance correlates with a better employee experience. And that takes informed, strategic and sustainable decisions.

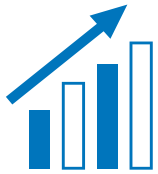
Gallagher's 2019 Benefits Strategy & Benchmarking Survey provides data and insights that help guide you to better outcomes through better benchmarking. From January to May 2019, 4,155 organizations across the United States responded to more than 300 questions covering the total compensation spectrum.

To add competitive relevance, the findings in this U.S. National Report are broken out by region, organization size, and for-profit or nonprofit ownership structure.

Key benefit and human resource (HR) interests explored in the report include human capital strategy; employee wellbeing; employee communication; employee engagement; medical, pharmacy, dental, and voluntary benefits; life insurance and supporting coverage; absence management; and retirement. Each topic section features core data highlights, contains tables that detail results for breakout categories, and wraps up with key takeaways. From broad insights to specific findings, you'll gain a practical perspective on significant trends and best practices that Gallagher is observing firsthand.

To discuss your total rewards strategies, contact your local Gallagher representative.

OWNERSHIP STRUCTURE



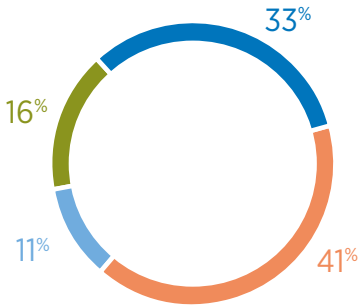
56%

FOR PROFIT

44%

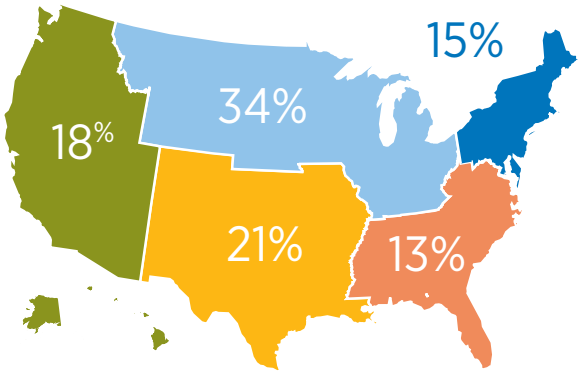
NONPROFIT

WORKFORCE SIZE — FULL-TIME EMPLOYEES (FTEs)*



- Small employer — under 100 FTEs
- Lower midsize employer — 100—499 FTEs
- Upper midsize employer — 500—999 FTEs
- Large employer — 1,000 or more FTEs

GEOGRAPHY*



- Northeast
- Southeast
- North Central
- South Central
- West

*Due to rounding, percentages do not total 100%

NUMBER OF PARTICIPATING ORGANIZATIONS BY INDUSTRY

MANUFACTURING	505
PUBLIC ENTITY	504
HEALTHCARE	488
BUSINESS SERVICES	325
K–12 EDUCATION	304
FINANCIAL SERVICES	250
TECHNOLOGY	234
CONSTRUCTION	220
SOCIAL SERVICES	217
HOSPITALITY/RESTAURANT/ ENTERTAINMENT	183
RETAIL	166
ENERGY	149
WHOLESALE	113
ASSOCIATIONS	101
HIGHER EDUCATION	99
RELIGIOUS INSTITUTIONS	90
TRANSPORTATION	90
LAW	82
PHARMACEUTICAL	35

KEY FINDINGS & IMPLICATIONS

During the 2008 financial crisis, employers began to increase employee benefits cost sharing through the design of their healthcare plan. Fast forward to 2019, when a strong economy has taken root over the better part of a decade. Most employers have a positive outlook on the future and are projecting both headcount and revenue growth. Yet competition for talent remains high, with attraction and retention ranking as top operational and HR priorities.

The tight labor market continues to push employers away from cost shifting — toward health plan structures that are based on incentives and value. Across all design elements, including deductibles, copays, coinsurance and out-of-pocket maximums, almost half (47%) did not increase their employees' share in 2019. But underneath this restraint, cost pressures continue to build. It's difficult to balance goals that are often at cross purposes: offering competitive benefits and promoting employee health and productivity — while protecting employees from serious cost-shifting consequences.

Market Trends

Employer healthcare activism has started to grow — along with strategic planning efforts.

The difficulties of financing health plans are dug in. Long entrenched in a defensive battle to counter the rising costs of medical services and prescription drugs, more employers are attacking the problem head on. In 2016, 50 prominent companies that cover over 7 million lives formed the Health Transformation Alliance (HTA). These members have joined together to help employees become healthier, sharing data and insights to improve the quality-to-cost ratio of care.

In sync with this large-scale collaboration on remaking the healthcare benefits model, employers are thinking more strategically about their approach to benefits and compensation planning. They're gradually evolving from an annual cycle to one that spans two years or longer. And as the healthcare market continues its transition from "volume to value," employers are paying ever greater attention to tactics that can address healthcare spending, waste and population health — right now.

Many employers are pooling their efforts and even their resources, demanding more value for the money they spend, and exploring new models that can achieve that objective. Others are allowing the market to mature or are largely deferring to the recommendations of the health plan, pharmacy benefit manager (PBM) and advisor. In the latter case, employers expect this third-party guidance to bring proven tactics, ideas and solutions.

Interest in value-based healthcare purchasing initiatives has trended upward.

Large employers are paving the way for wider adoption of health management tactics focused on value (53%). While the current rate for employers overall is about half as much (26%), continued growth is expected. Another 17% plan to add these employee cost-saving measures by 2021.

SOME WAYS THAT EMPLOYERS HELP THEIR EMPLOYEES MINIMIZE MEDICAL AND PRESCRIPTION EXPENSES INCLUDE:

15% (up 6 points from 2018)	10% (up 3 points)	8%
Reducing employee costs for prescription drugs that treat high-cost chronic conditions	Designating centers of excellence for certain medical procedures	Offering second-opinion services for some conditions

Centers of excellence are selected providers that contract with employers to offer quality care for employees at a lower price. And second-opinion services focus on better outcomes by ensuring a correct diagnosis and optimal treatment plans.

Employers prioritize attraction and retention as they plan for continued growth.

Well aware that the advantage of record low unemployment tilts heavily in their favor, some employees are using their current job as leverage to gain increased performance recognition or renegotiated compensation. And others are casually or earnestly exploring new opportunities. The antidote to employee restlessness, churn — and a compromised organizational culture — is regularly identifying and refreshing rewards to match the preferences of distinct employee populations. Delay increases risk in a competitive market, so a relative sense of urgency is important.

Turnover comes at a high cost for employers. In 2018, 32% had actual FTE turnover of 15% or more — an 8-point increase from 2016. This is also twice the percentage that targeted this level. Because employee engagement is closely tied to employee retention, respecting and directing this interrelationship is important. Workforce burnout is an indicator of low engagement — and not only impacts productivity, but also serves as a strong predictor of turnover.

A clear opening exists for employers to make competitive headway with employee engagement. Half have not yet conducted a survey to formally and independently assess this critical measure of emotional commitment to the organization and its goals. And investing in a well-designed survey often provides a valuable return, if it supports the retention of even a few talented employees.

Cost Containment

Although healthcare premium increases are trending lower, employers remain challenged by the high costs of medical services and prescription drugs.

It's a given: As long as the predictable rise in healthcare costs coexists with a tight labor market, managing healthcare costs and attracting and retaining talent will both be top priorities. The fact that more employers are reporting lower premium trends in 2019 is good news from a cost standpoint, because higher levels of spending on employee health benefits can crowd out investments in organizational growth. Specifically, 66% of employers reported a premium increase of less than 6% at their most recent renewal. This is up from 55% in 2018 and 53% in 2017.

Concern about pharmacy spending has shifted somewhat since 2018 — from traditional to specialty drugs.

The high costs of medical services (67%) and prescription drugs (42%) are recurring concerns for employers. Since 2018, the pharmacy spending spotlight has shifted from the management of prescription drugs (down 8 points) to specialty drug management (up 7 points).

While many employers recognize that specialty products represent step-change improvements in health outcomes for their employees, they fear escalating costs. This angst isn't unfounded considering the convergence of two trends — an expanding portfolio of drugs and rising utilization.

Fortunately, there are countermeasures that can help limit the expense. One best practice is mandating the use of a specialty pharmacy for some or all specialty drugs. Large employers have latched on to this solution more firmly (51%, up from 43% in 2018 and 34% in 2017).

To rein in rising healthcare costs and increase employee financial responsibility, most employers now offer a high-deductible health plan (HDHP).

2019 marked the first time that a majority of employers (51%) offered an HDHP. And with the expanded availability, employee enrollment is also on the rise. This plan now has the second-highest enrollment at 24% of employers — up 3 points in each of the last two years.

With strategically focused cost-containment efforts like specialty drug management and HDHP options, employers can build momentum toward more stable and sustainable investments. They can also control costs while consistently meeting the health needs of their employee populations — through existing and innovative tactics.

CURRENTLY, THE THREE MOST COMMON METHODS OF MANAGING COSTS INCLUDE:

Looking ahead, the outlook favors adoption of cost-transparency tools, cost sharing through plan design changes, and wellbeing incentives. About 1 in 5 employers expects to introduce each of these tactics by 2021.

Total Rewards Design

There's greater consensus that medical and pharmacy benefits are key for recruitment and retention.

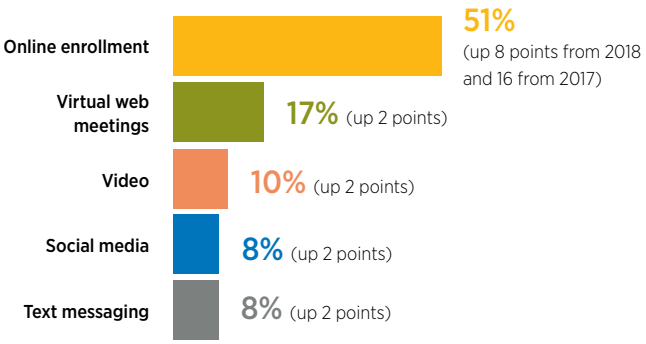
Employers made considerable efforts to improve the competitive strength of their rewards packages in 2019. Many enhanced compensation (73%) and medical benefits (52%), which should be carefully considered because higher wages and richer medical benefits can be easily outdone by competitors. Both of these total rewards elements are essential bargaining chips, but their stand-alone value is rarely high enough to limit turnover and secure talent. While they're necessary recruiting tools, they may not be sufficient differentiators. Other enhancements include increasing the benefits portion of total compensation, which is a two-year trend for 38%. Just 6% decreased their benefits allocation.

Only 3 in 10 employers are confident that communication promoting employees' awareness, understanding and use of total rewards produces tangible results — or drives behavioral change.

Employers are making progress in crafting total rewards that can hold their own against today's stiffer competition. Yet communicating the total value of these packages and improving employees' understanding of their benefits remains a challenge.

Digital platforms are helping HR leaders to get over this hurdle. While the use of tech-based media varies, far more employers currently invest in channels that serve single-purpose, large-scale communication objectives — mostly benefits enrollment and meetings.

THE IMPLEMENTATION OF PLATFORMS IS GROWING AT DIFFERENT RATES:



Confidence in communications also requires proof of success. Evaluating both the methods and the messages against targeted outcomes — and making improvements — helps move the bar in the right direction.

Elective supplemental and voluntary options can diversify benefits and simplify employee customization.

In 2019, when employers revamped their total rewards for improved competitive strength, between 31% and 40% of them enhanced supplemental and voluntary benefits, expanded leave policies, added wellbeing initiatives, and/or enriched retirement benefits. Apart from compensation and medical benefits, these four benefit categories received the most focus.

Supplemental health insurance coverage is also a growing area of interest. Options currently offered center on specific medical conditions and physical wellbeing needs.

THE SUPPLEMENTAL HEALTH INSURANCE ELECTIVES MOST OFTEN COVERED IN 2019 INCLUDE:

Coverage for genetic testing, gender reassignment and other transgender inclusive benefits is offered at lower rates, but notable growth is expected for several supplemental insurance options. Many employers plan to add infertility services or fertility treatment (31%), autism treatment (28%), hearing aids (26%) and genetic testing (24%) by 2021.

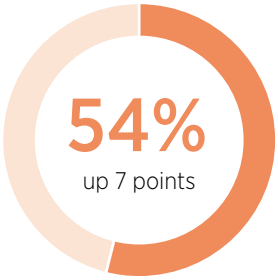
Voluntary options fill gaps in benefits and provide more financial protection, allowing employers to offer more comprehensive, population-relevant benefit packages. Stand-alone vision plans are both the most common (79%) and the most likely to be employer subsidized (33%). Pretax dependent care reimbursement accounts also rank among the most frequently used voluntary benefits (64%) — but only 3% are subsidized. Just under 30% of employers extend the opportunity for legal services, identity theft protection or supplemental individual disability insurance.

Employers must holistically address all elements of wellbeing — including financial security — to compete on culture.

While physical health programs are still core benefits supporting employees' wellbeing, more employers are diversifying and rebalancing their investments to focus more strongly on other aspects, such as financial security. Since 2017, 41% have increased their emphasis on financial wellbeing.

COMPARED TO LAST YEAR, EMPLOYERS ARE STEPPING UP EFFORTS TO HELP THEIR EMPLOYEES IMPROVE SAVING AND SPENDING HABITS BY OFFERING:

Financial advisor sessions



Financial literacy education

Tuition assistance is an entirely different form of educational assistance that boosts financial and career wellbeing simultaneously. Forty-nine percent (49%) of employers provide this opportunity, up 3 points from 2018.

Because it's important to address financial health at all career stages and beyond, 42% of employers help prepare employees for retirement by gauging their readiness. Providing resources that build knowledge and empower more confident decisions — from hire to retire — is the formula for improving and sustaining the financial health of both the organization and its workforce.

Other cost-effective options for strengthening employees' financial security are life insurance and supporting coverages. These customizable benefits complement employer-sponsored coverage — helping to reduce risk exposure and increase the value of total compensation.

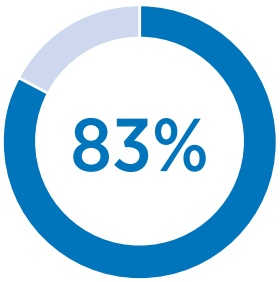
In 2019, 58% of employers offered a whole life insurance policy, up 15 points from the previous year. The prevalence of other coverage options also inched upward. Accidental death and dismemberment is the most common (89%) and also the most likely to be employer subsidized (64%). The relative rarity of long-term care insurance (23%) could make it an effective competitive differentiator, even though only 7% subsidize this benefit.

Leave policies also contribute to employees' financial security. Perhaps that's why 37% of employers upgraded this benefit in 2019 with the intent of boosting the competitive appeal of their total rewards. Approximately 3 in 4 offer disability coverage for their employees, including 74% that provide a short-term disability (STD) option and 77% that provide a long-term disability (LTD) option. Many employers pay the full premium for STD (55%), and even more do so for LTD (66%).

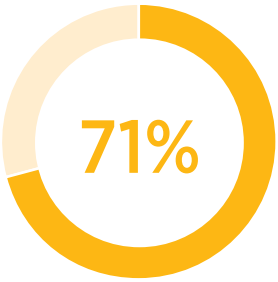
Opportunities for employees to connect with the community are plentiful — but a clearly defined corporate social responsibility (CSR) policy statement is scarce.

Many organizations see their communities as an important influence on their success and their employees' wellbeing. Likewise, they feel a sense of duty to give back.

MOST HONOR THE MUTUAL VALUE OF THIS RELATIONSHIP BY:



Supporting employee volunteer opportunities



Promoting community engagement

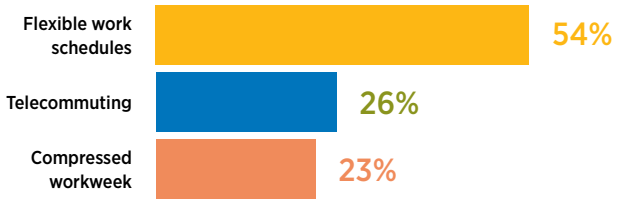
Also, over a third (35%) match charitable donations made by their employees — inviting workforce members to connect with causes that matter most to them. Yet just 14% of organizations have an explicit, well-defined CSR statement that communicates their operational model for corporate citizenship. This pledge holds an organization accountable to itself, its stakeholders and the public. In a global society where social awareness is on the rise, many employees — especially the younger generations — prize employer-sponsored opportunities for active, collaborative involvement in causes.

Employers are weaving career wellbeing into the fabric of their organization by aligning expectations of employee performance with incentives.

When the labor market is strong, employees are more aware and confident of their value. Employers can capitalize on this environment by proactively creating opportunities for career growth and performance rewards. These actions show a commitment to the best interests of the workforce, and more successfully promote engagement and retention.

Striking the right balance between organizational performance and the career goals and lifestyle needs of employees often requires a bit of creativity and flexibility. Employers are responding in a variety of ways.

SOME OF THE MORE FREQUENTLY OFFERED WORK ARRANGEMENTS INCLUDE:



Also, since 2018, family-friendly practices such as dedicated lactation spaces (64%, up 10 points) and adoption assistance (12%, up 3 points) have increased.

Structured performance reviews (90%) are essential opportunities to define clear goals and expectations. As part of a regular goal-setting and evaluation cycle, service awards and recognition (77%) acknowledge contributions and motivate future efforts. Employee training (63%) and leadership development (62%) also energize people and more deeply immerse them in their roles by expanding their expertise. Other popular career wellbeing programs include mentoring (32%), which provides a conduit for the transfer of generational learning and organizational knowledge.

Securing the right talent requires a focus on creating a richer employee experience — not pricier total compensation.

It's tougher to win talent today, but competing on higher wages can easily devolve into an expensive bidding contest. The smarter money is on creating stronger cultural attachment points for employees that address their physical, emotional, career and financial wellbeing. This is where the better opportunity lies for differentiating the organization — and strengthening attraction and retention.

What employers can least afford is stagnation, so total rewards approaches must evolve along with the market. They must also improve incrementally in ways that complement business priorities and sustainability. Achievement of these objectives can't be bought with the most expensive or extensive offerings, but they can be attained with competitive benefits that are designed to appeal more strongly to the wants and needs of key talent.

About Gallagher

Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent. What does that look like? It's a workplace where people feel they belong — where there's a sense of developing a career instead of punching a clock. And a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher Better Works℠ — a comprehensive approach to benefits, compensation, retirement, employee communication and workplace culture — aligns your human capital strategy with your overall business goals. It centers on the full spectrum of organizational wellbeing, strategically investing in your people's health, talent, financial security and career growth. And developing benefit and HR programs at the right cost structures to support a multigenerational workforce.

From evaluating the demographics of your workforce to surveying and analyzing competitor trends, Gallagher helps you gather new insights and apply best practices that promote productivity and growth. A data-driven focus allows you to continually improve. That's what it means to create a better workplace culture. It's about never being content to rest each time you reach your best. Your better is never finished.

As you develop and sustain this destination workplace culture, your people can thrive and perform at a higher level — optimizing your annual talent investment and mitigating organizational risk to maximize your profitability. Best of all, you gain a competitive advantage as a workplace that simply works better.

Arthur J. Gallagher & Co. (NYSE: AJG), an international insurance brokerage and risk management services firm, is headquartered in Rolling Meadows, Illinois, has operations in 35 countries and offers client-service capabilities in more than 150 countries around the world through a network of correspondent brokers and consultants.

Terms of Use

Gallagher

Insurance | Risk Management | Consulting

2019 WORLD'S MOST ETHICAL COMPANIES® ™

WWW.ETHISPHERE.COM

ajg.com

35874