



Benefit Value Studies and Benefit Trends

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Consulting | Retirement and Investment



Agenda

- What is a Benefit Value Study?
- Benefit Value Study Methodology
- Benefit Value Study Process
- Trends in Benefit Design

What is a Benefit Value Study?

- A study which measures the value of a company's employee benefit plans compared to the employee benefit plans of a selected group of comparators
 - Used as a benchmarking tool to gauge competitiveness for attraction and retention
 - To assess where employer may wish to provide more or less benefits in a given area
 - May be used to communicate value of benefits to employees
 - Compare results to desired position in the market for compensation and benefits
 - Often considered in combination with compensation
 - Helpful for management to assess competitiveness of union benefits in advance of negotiations
 - May be used for one-on-one comparisons in the case of a merger
- Many companies prepare a study of this type as part of their ongoing review of benefits
 - Not mandated for general industry
- Not a prescriptive tool. Used as one data point, along with:
 - Organization's unique business objectives, mission and culture
 - Consideration of the business and competitive environment
 - Cost constraints
 - Employees' perceived value of benefits
 - Competitiveness of compensation, as well as other work-life programs and perks
- Aon Hewitt's Benefit Index® tool is a leading benefit value study
 - Capability exists to add compensation benchmarking for a total rewards perspective

What is a Benefit Value Study?

Questions a value study may answer:

- Quantitative assessment of value relative to the market
 - By what percent does each benefit and the aggregate exceed or fall short of the market?
- What programs are provided by each of the competitors?
- What specific plan features are found in the market place?
 - For example, what HSA contributions do other companies provide?
 - At what level do other companies auto-enroll employees in matched savings plans?
- What would happen to the values if proposed plan changes were implemented?
- Are benefits where management thinks they are? Why they want to be?
- Are benefits where employees think they are?

- As a result of study, employer may suggest changes to benefit programs to management:
 - New benefits or features
 - “Trading” high areas of coverage to improve areas of lower coverage
 - Increasing or decreasing employee contributions within the program

Sample Presentation of Results



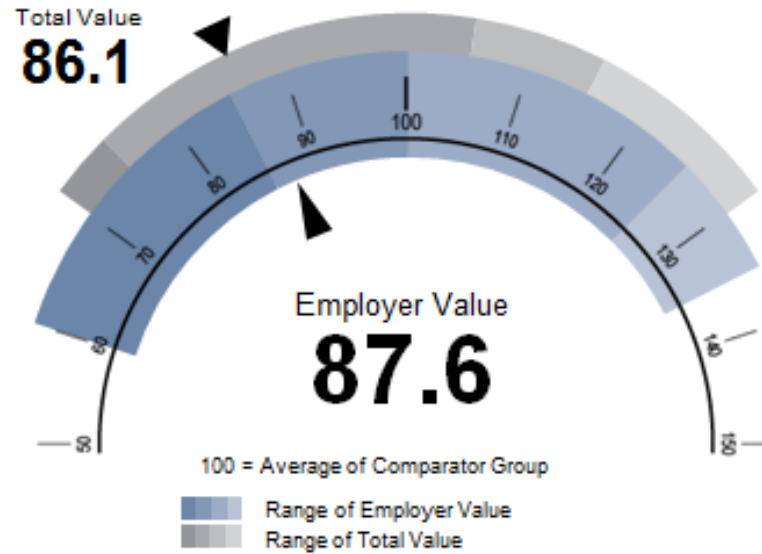
Rank

Between

10 and **11**

for employer value

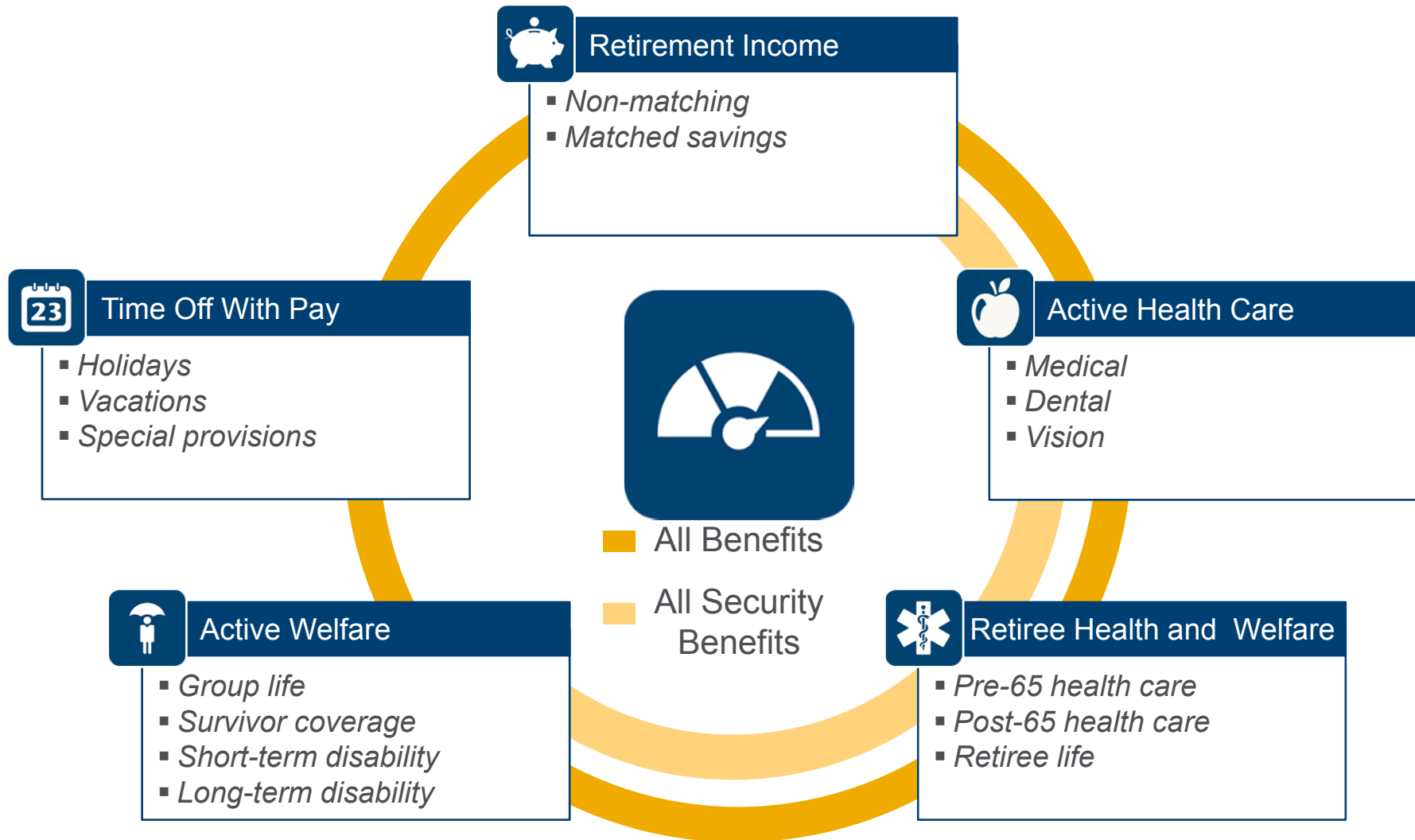
Versus 12 companies



Comparator Values

Rank	Employer	Total
1 st	117.4	117.4
3 rd	115.3	115.3
6 th	100.2	100.2
9 th	92.7	92.7
12 th	84.3	84.3

Benefits Included in the Study



Overview of Benefit Index®

Study includes two values

- The **Total Value** represents the total benefit offering, taking into account participation in optional programs, for example:
 - The value of the health plan design (90% coinsurance, \$500 deductible, doctor and drug co-pays, \$3,000 OOP limit)
- The **Employer-Paid Value** represents the Total Value less Employee Contributions, for example:
 - The Total Value in the example above, less the amount the employees have to contribute to participate in the plans

Benefit Index Methodology

- Provide reasonable comparisons of different types of benefits within a benefit area:
 - E.g., need assumption on pay increases to compare a final pay pension formula with a defined contribution plan allocation
 - Need to recognize certain parts of a benefit are more valuable than others
- Standard approach used to focus on benefit design differences
 - Standard population
 - Neutralizes demographic differences
 - Includes full distribution of age/service/gender/pay combinations
 - Consistent valuation assumptions and methods
 - Differences in funding/accounting approaches ignored

Valuation Approaches

Preretirement Benefits



DC Plans

- Insurance premium calculation
- One-year term cost
- Probability of event
- Lump-sum value

Postretirement Benefits



DB Plans

- Actuarial calculations: present value of projected benefits allocated over working career
- One year allocation

Active vs. Retiree

- Study measures benefit programs in place for new hires, and incumbent actives if applicable
- Existing retirees are NOT part of the study population
- Retiree health care benefits promised to current actives are included, however:
 - Only for those assumed to remain employed to retirement
 - Only for those eligible for the retiree benefit

Value that is provided to a future retiree is discounted back to their age today

- Example, a 40-year old is promised a retiree benefit if they retire at 60. The value provided at age 60 is discounted 20 years to today's age 40.

Plan Design Changes and Legacy Benefits

- Many companies use value studies as one input into plan design decisions
 - Company sees that most of it's comparators no longer have open pension plans for new hires
 - Company's pension benefits are well above average v. comparator group
- Plan design process considers:
 - Cost projections of pension compared to alternatives
 - Projections of the impact of changes on current employees, especially longer-service employees
 - Ability of those employees to retire as needed if pension is changed/frozen
 - Legal, employee, and public relations considerations
- Decision to continue providing prior pension or provide additional transition benefits to existing employees is usually not made with respect to a value study
- Ongoing, value studies are usually not completed on legacy benefits as the analysis is no longer relevant
 - Company already knows those benefits were above market
 - Some employers do compare legacy benefits to new hire benefits in the market, to gauge the retention value of keeping the benefits in place
- Ongoing review of grandfathered benefits is almost exclusively financial
 - Is cost savings for cutting the grandfathered benefits worth the pain
 - Employee and public relations, losing employees, employees' inability to retire when it is time

Value Versus Cost

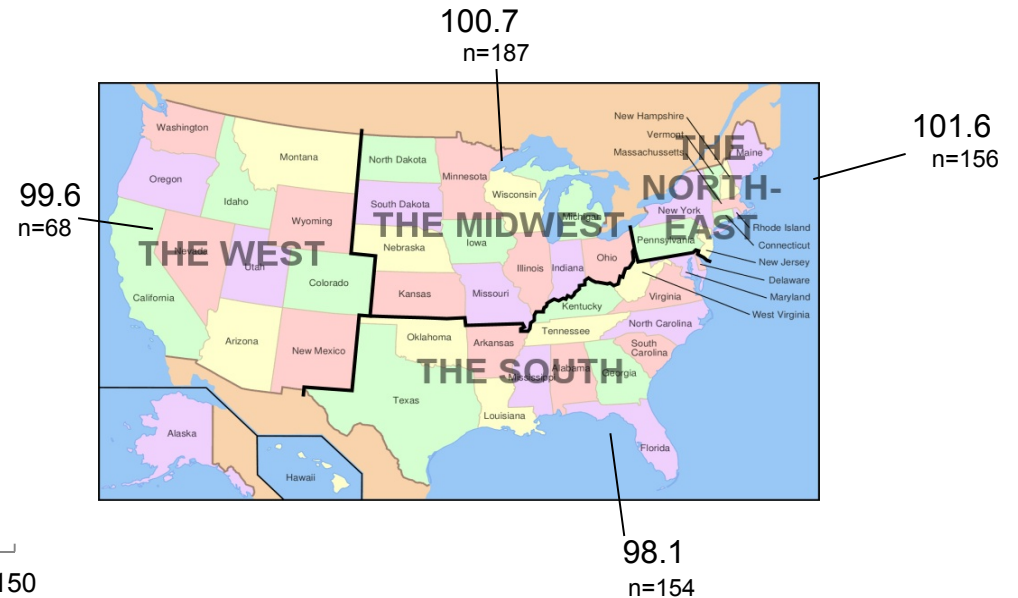
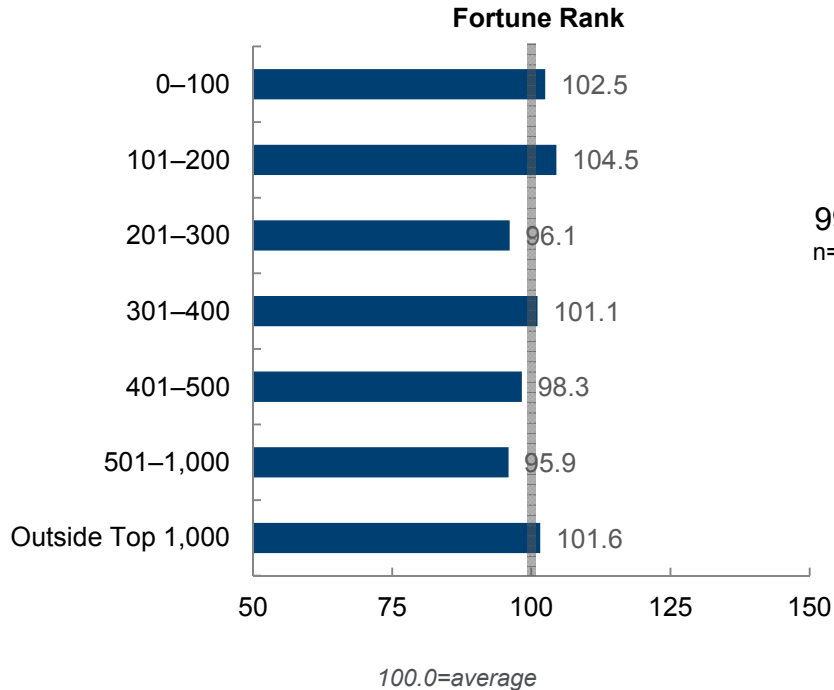
Factor	Influences Cost of Employer	Influences Value to Employee
Plan Design	✓	✓
Employee Demographics	✓	
Geographic Location	✓	
Administration	✓	
Plan Financing	✓	
Cost Assumptions	✓	

Comparator Groups

- Aon Hewitt's database contains benefits data for over 1,000 companies
 - Data updated annually for most companies
 - Database generally consistent from year to year, but a few companies update every other year
 - Some companies stop participating from time to time
- Comparator group decision for companies is based on who they compete with for talent
 - Local geography
 - Industry
 - Similar size companies
 - Some do two studies for different industries it competes with for different types of roles
- Most companies take fresh look at comparators for each study or periodically

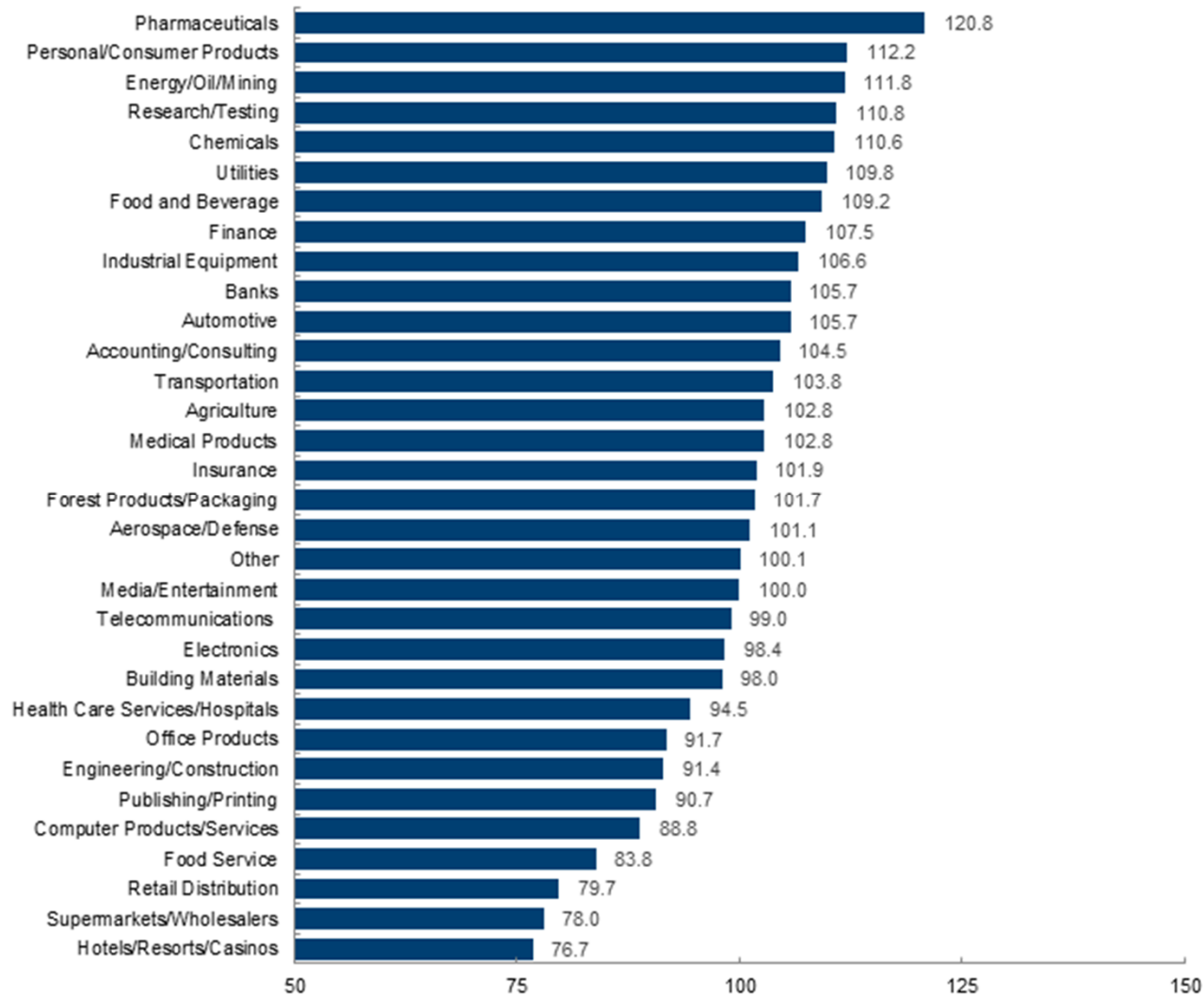
Benefit Values Vary Less By Company Size and Geography

The charts below compare Benefit Index scores for employer All Benefits values by Fortune rank and geography. The comparator group is the 565 organizations in and valued for the 2014 Aon Hewitt database. The index for each group represents the group average employer All Benefits value compared to the average of all the groups (i.e., the average of the seven Fortune groups or the average of the four geographic groups).



Note: Based on 2014 salaried benefit designs

Benefit Values Vary More By Industry



This chart compares industry averages of Benefit Index scores for employer All Benefits values. The comparator group is the 565 salaried companies in and valued for the 2014 Aon Hewitt database. The index for the industry represents the industry average employer All Benefits value compared to the average of all 32 industry groups.

Weighting of Benefit Areas

- The composite benefit indexes are not based on an arbitrary weighting of the individual programs
- The composite indexes reflect the relative value calculated for each program for each organization
 - For example, Company A's Health Care index may represent 30% of the All Benefits Index, and Company B's may represent 40%, based on the strength of those programs relative to each company's other programs
- Typical weightings are:
 - Retirement Income: 15%-25%
 - Active Health Care: 30%-35%
 - Retiree Health Care: 0%-5%
 - Time Off With Pay: 30%-40%
 - Active Welfare: 5%-10%
- If employer has subsidized retiree health care, depending on level of subsidy, benefit likely contributes about 2 to 10 points

Sample Company Results

Benefit Area	Industry 1		Industry 2	
	Index	Rank	Index	Rank
Retirement Income	162.6	> 1	155.5	> 1
Active Health Care	78.9	< 15	77.2	<29
Retiree Health and Welfare	0.0	7 - 15	0.0	10 – 29
Active Welfare	106.5	2/3	104.5	9/10
Time Off With Pay	102.3	6	99.4	16/17
All Benefits	109.2	> 1	105.9	8/9

Benefit Index Studies—Process



Initial Steps

- Collect/update your benefit information
- Choose/update a peer group from our database
- Choose an employee group to compare (salaried/hourly)



Deliverables

- Report with methodology, index displays, comments, supplement (opt.), and specifications sections
- Meeting or teleconference to discuss results
- Benefit SpecSelect and Benefit Index Online



Timing

- 6 to 8 weeks
- Start when your peer group is identified and your data is provided
- Added time to solicit comparators outside the database



Post-Study Follow-Ups

- Analysis linking pay and benefits
- “What if” analysis to review plan change proposals
- Cuts of results to compare to subset of peer group
- Meetings with senior leaders to review results

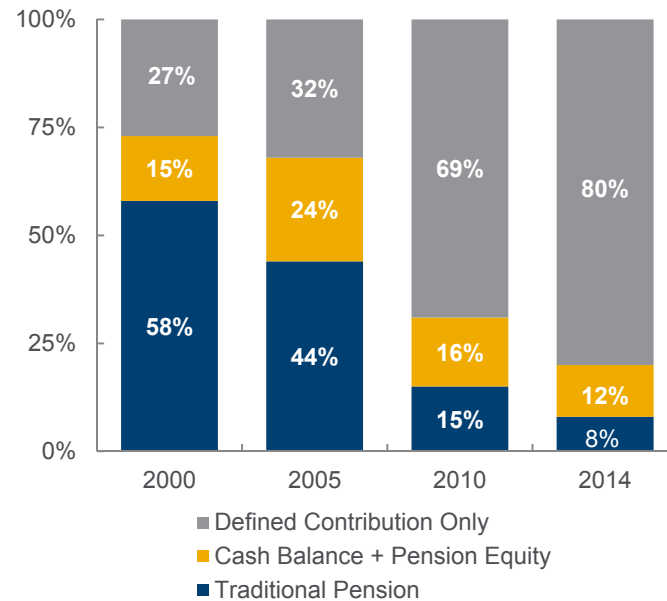
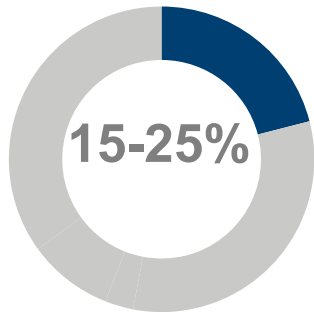


Trends in Benefit Plan Design

Retirement Income—Industry Prevalence



Relative Weight



DC Employer Contributions (as a % of Pay)

Non-matching DC	Maximum 401(k) matching
2.5%	3.9%

Over 6% of Pay in total for organizations not providing pensions

Observations

- Average 401(k) match is \$.80 per \$1.00
- Automatic features in 401(k) plans on the rise
 - 64% of employers auto-enroll new hires
 - 33% of employers use automatic escalation

Data based on Aon Hewitt Benefit SpecSelect™

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Active Health Care—General Trends

Exchanges on the rise



Employer

- ✓ Predictability
- ✓ Lower trend
- ✓ Reduced responsibility

Employee

- ✓ Choice
- ✓ Control adds value
- ✓ Engagement and accountability

Incentives

72%

offer incentives

Employers prefer



rewards

over



consequences



Wellness

72%

Of employers offer health programs and services to raise participants' awareness of their health status and risks

Highest Priorities



physical inactivity



lack of health screening



smoking



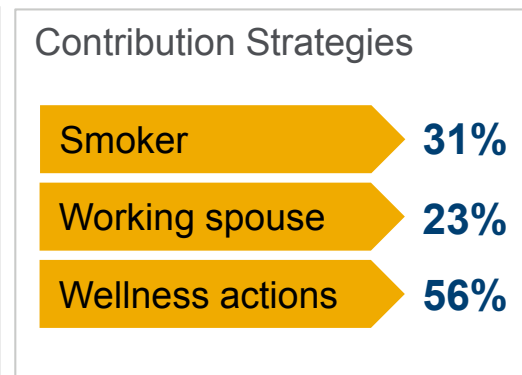
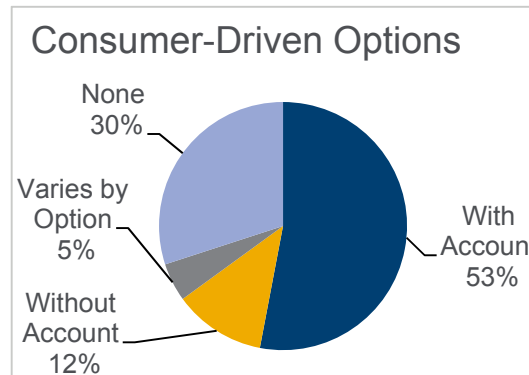
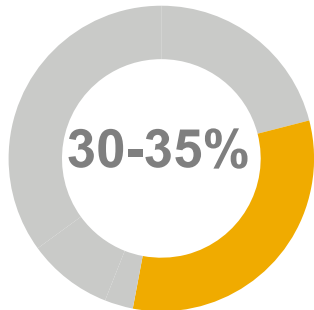
poor diet

Source: 2015 Aon Hewitt Health Care Survey

Active Health Care—Industry Prevalence



Relative Weight



Observations

- Average salaried employee pays
 - 23% of active medical costs via payroll deduction
 - 18% for employees and 29% for dependents
- Average individual deductible is
 - \$670 for traditional POS/PPO plans
 - \$1,750 for consumer-driven plans
 - \$580 account dollars for funded HRA/HSAs

Source: Aon Hewitt Benefit SpecSelect™

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¹According to Benefit Index methodology

Overview of Health Care Reform Impact

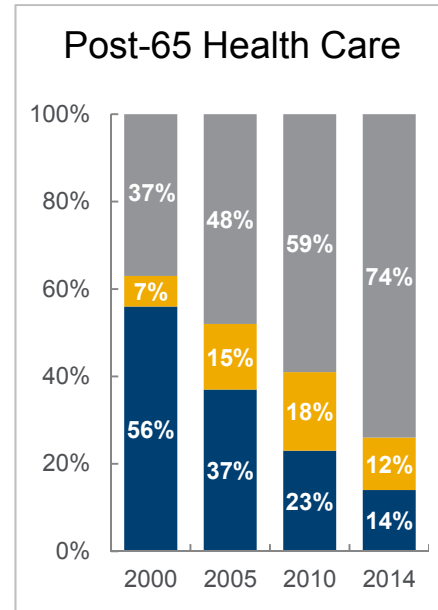
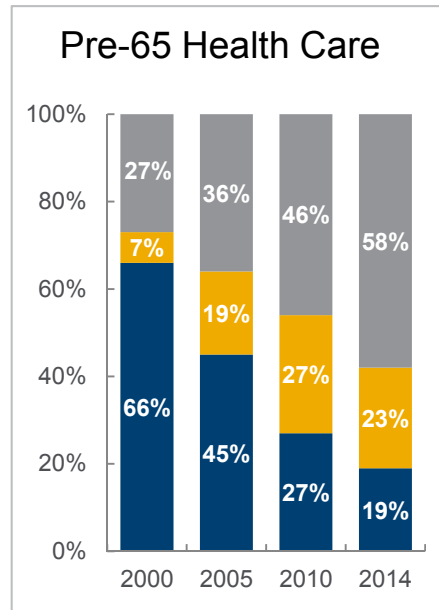
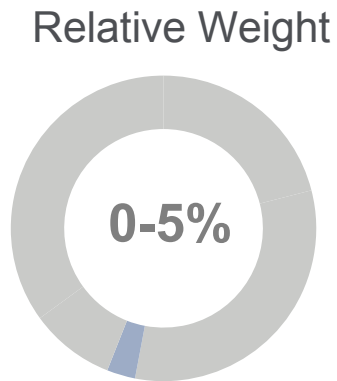
- Overall, health care reform has not had a significant immediate impact on Benefit Index® studies
- Many of the requirements and outcomes of Health Care Reform do not impact the economic value of benefits provided to the majority of employees
 - We value full-time benefits
 - Most employer plans are providing more than the minimum level of coverage and subsidy to avoid penalties
 - Somewhat increased enrollment and fees would be assumed to hit across the board, so no change to relative values
- More significant impact to evolve as employers use reform as a reason to reassess their design and long term cost strategies
- Excise tax likely to have more long-term impact

Health Care Reform Impact—Excise Tax on High Cost Plans

- Scheduled to first apply in 2018
- Excise tax itself not likely to impact Benefit Index® results since it is a value, not cost, study, however...
- Many employers likely to lower the value of their plans or work to improve health of employees to avoid hitting the threshold
- If organization does not lower value of plan to avoid hitting the threshold, medical values likely to increase versus market
- Companies reactions:
 - Not expecting to be impacted by excise tax in 2018: Wait and see
 - Expecting to be impacted: Looking at ways to lower cost, likely to offer lower plan option
 - Doesn't impact benefit value if overall employer subsidy remains the same
 - Some companies expecting or hoping the excise tax will be deferred beyond 2018 or threshold adjusted
- Some are chipping away at the value of the benefit to avoid hitting Excise Tax threshold in 2018
- We will monitor how this evolves

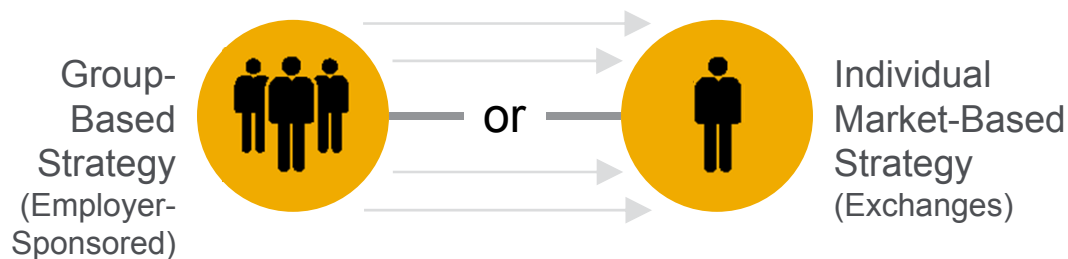
Retiree Health and Welfare—General Trends

Subsidies are rapidly disappearing for new hires



■ No coverage
■ Access only
■ Subsidized coverage

Retiree Health Care Approaches



Some considerations:

- Pre-65 vs. post-65 coverage
- Market evolution
- Public and private exchanges
- 2018 excise tax

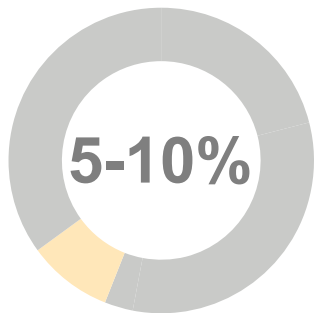
Source: Aon Hewitt Benefit SpecSelect™

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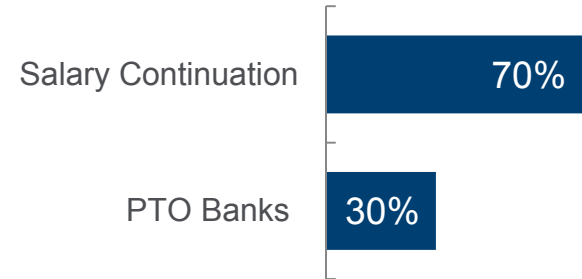
Active Welfare—Industry Prevalence



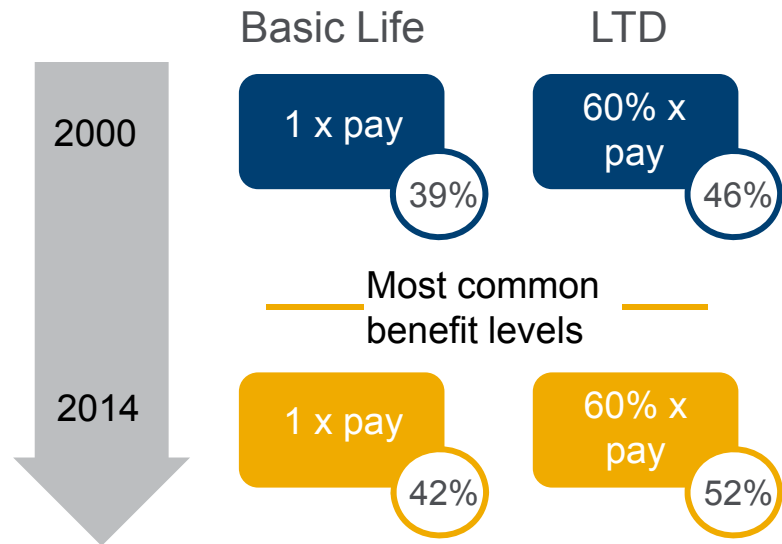
Relative Weight



Short-Term Structures Changes

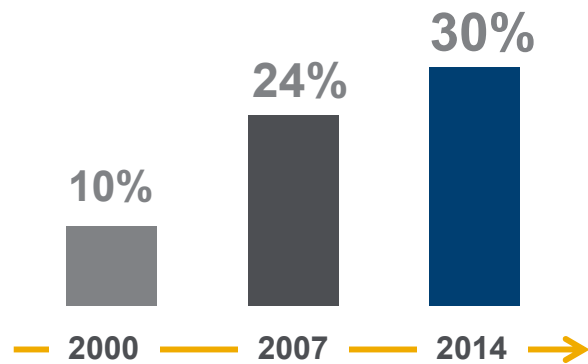


Status Quo Elsewhere

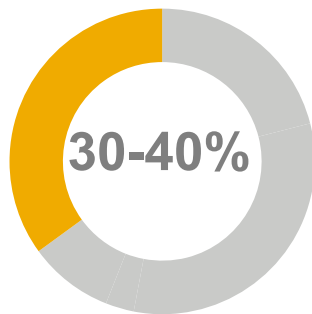


Time Off With Pay—General Trends

PTO Programs Expanding



Relative Weight



Holiday Flexibility



While total stays the same, more are floating

Themes

- ✓ Flatten accruals—more sooner
- ✓ Standardize across company
- ✓ Consider hours not days
- ✓ Reduce carryover or impose/lower maximum (financial)
- ✓ Simplify
- ✓ Flexible to address individual needs
- ✓ Manage absence

Source: Aon Hewitt Benefit SpecSelect™