2016 BENEFITS STRATEGY & BENCHMARKING SURVEY
EXECUTIVE SUMMARY & STRATEGIC INSIGHTS

Charting a Steady Course
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This Executive Summary focuses on the key findings of our research—insights drawn from significant patterns identified within the data—and their strategic implications.

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Survey Overview

It can sometimes seem — to many employers — like the only reliable constant in the benefits and human resources environment is change. And arguably, navigating the headwinds of today’s competitive climate is more challenging than ever. The purpose of Gallagher’s 2016 Benefits Strategy & Benchmarking Survey is to provide information and insights that make your work easier and support confident decision-making.

Gallagher’s comprehensive survey, conducted from January to March 2016, aggregates responses from 3,107 organizations across the United States. More than 300 questions covering the total rewards spectrum were included, using data parameters that allow you to focus on results specific to your relevant market. The charts in this section profile participating organizations by geography, ownership structure, workforce size and industry.
In addition to this Executive Summary, a comprehensive U.S. National Report is available covering major benefit and related categories. They include: Human Capital Strategy; Medical Benefits; Wellness Programs; Employee Communications; Employee Engagement; Dental Benefits; Life Insurance, Long-term Care & Voluntary Benefits; PTO, Leaves & Disability Benefits; and Retirement Benefits. Each of these sections features core data highlights and wraps up with key takeaways, offering you a practical perspective on significant benefit category trends and best practices that Gallagher is observing firsthand.

To discuss your human capital vision and strategies for securing a sustainable future, contact your local Gallagher representative or one of the advisors listed on page 11.

### Full-time employees (FTEs) — domestic

- **1,000 OR MORE**: 42%
- **500 to 999**: 14%
- **100 to 499**: 35%
- **UNDER 100**: 9%

### Ownership structure

- **FOR PROFIT**: 60%
- **NONPROFIT**: 40%
Key Findings & Implications

Recurring media headlines about the struggle of national and global economies to achieve more than modest growth are relatable for many people, in a variety of ways. For benefits and human resource professionals, they speak volumes about their day-to-day business challenges.

HR is tasked with securing the talent that will help their organization compete, succeed and prosper in a tightening labor market. For most employers, this means offering a standout benefits package that motivates key talent to join and stay with their organization, while controlling rising healthcare and other benefit costs — a tall order in the current environment. Combined with the changing demographics and related expectations of today’s workforce, as well as a complex patchwork of employment regulations, these challenges can make solutions seem anything but simple.

In reality, opportunities for a reliable and sustainable approach to achieving talent objectives and organizational performance goals are entirely attainable with a data-driven, integrated approach. This report begins by identifying four primary conclusions that shed light on how employers are managing the situation.

1. Similar operational and HR priorities drive efforts to maximize the total value of human capital investments.

Asked to identify their top three operational priorities, employers named attracting and retaining a competitive workforce (62%), controlling benefit costs (48%) and revenue growth (48%). These results aligned closely with their most important HR priorities, including controlling benefit costs (53%), retaining talent (47%) and attracting talent (42%). Ranked fourth and fifth, training and developing employees (40%) and increasing workforce engagement (34%) are equally important HR priorities.

The extent of this symmetry among the top priorities reflects a need to make the most of human capital investments — to attract, develop, engage and retain talented people while controlling costs.

2. The level of confidence in the effectiveness of key benefit program strategies is split, in many cases almost down the middle.

- Healthcare: Nearly half (47%) of all employers, and about 60% of large employers, agree or strongly agree they’re confident about the effectiveness of their strategy for managing healthcare costs.
- Engagement: Nearly 60% of all employers, and just over half of large employers, agree or strongly agree their workforce is highly engaged, motivated, satisfied and committed to their organization.
- Wellbeing: About half (51%) of all employers, including 53% of large employers, agree or strongly agree they have an effective strategy to promote employee health and wellbeing.
- Communications: Over half (53%) of all employers, and 50% of large employers, agree or strongly agree their organization communicates successfully with its employees.

Overall, these findings suggest that about 50% to 60% of employers are confident about the strength of their healthcare, workforce engagement, wellbeing and communication strategies. The balance have a neutral outlook or don’t think their efforts are successful.
While some employers use a data-driven, proactive approach to planning, many would likely benefit from strategic improvements to this process.

• **Benefits and compensation:** Slightly more than three-quarters (76%) of all employers (vs. 54% of large) plan their benefits year to year, based on costs and business conditions. In contrast, just 8% (vs. 20% of large) use a multi-year planning process with multiple data inputs.

  Similar to benefits planning, 70% of employers overall (vs. 54% of large) plan their compensation approach year to year, compared to 10% overall (vs. 18% of large) that take a multi-year, multi-data source approach. Possibly related to the use of limited data sources for year-to-year planning, 17% of all employers believe they spend too much on benefits compared to wages and bonuses. This shorter-term approach may also be a reason that over half of overall and large employers admit that they don’t spend enough on training and developing their workforce.

• **Engagement:** Just 38% of all employers, but nearly 60% of large employers, have a strategy to improve employee engagement. And, while over half of large employers have used a survey to measure their employees’ motivation, satisfaction and commitment in the past two years, under one-third of all employers have taken this step.

• **Communications:** Most employers (71%) characterize their employee communications strategy as “program-by-program.” Only 16% overall and 23% of large employers take a comprehensive approach.

• **Retirement:** Large employers tend to invest more in retirement benefits than the total survey population. Almost all large employers offer some form of retirement benefits (86% vs. 72% overall), and at some level, have gauged their employees’ retirement readiness (44% vs. 33% overall).

• **Leaves and disability:** Most employers (59%) agree or strongly agree that the proper administration of lost time benefits is a top priority, including the need to consider Americans with Disabilities Act implications. Yet, many (40%) haven’t developed an absence management strategy.

Medical and pharmacy benefits are major areas of focus and emerging innovation.

It’s worth noting that two-thirds of all employers (vs. 77% of large) agree that medical and pharmacy benefits are a cornerstone of their total benefits offering. They also see these benefits as key elements of successful recruitment and retention efforts. However, medical and pharmacy benefits account for the majority of benefits spend and also drive cost increases. In fact, nearly one-quarter of employers experienced cost increases in 2016 that exceeded their 2015 outlay by 10% or more. Another 22% faced increases from 6% to 9.9%. 
With these factors in play, employers are more aggressively adopting changes to their medical and pharmacy benefits approach. Some changes could substantially improve cost-control outcomes, and even add employee value.

Consider these statistics:

- **Self-insurance**: Currently, 75% of large, 58% of upper midsize and 34% of lower midsize employers have a self-insured funding arrangement for their medical and pharmacy benefits. This choice appears to be on an upswing. Within the next two years, another 12% of upper midsize and 14% of lower midsize employers expect to follow suit.

- **Consumer-directed health plans (CDHPs)**: According to the survey, nearly half (46%) of employers may offer a CDHP within two years. This prediction is based on the 31% that now use this option and an additional 15% that are likely to adopt it by 2018.

- **Narrow or limited provider networks**: At present, 18% of all employers (vs. 26% of large) use narrow networks to help control healthcare costs, and often, to promote quality. Another 9% overall (vs. 17% of large) intend to adopt this tactic within two years.

- **Reference-based pricing**: About 10% of employers have adopted reference-based pricing. This practice sets a cap on how much a plan sponsor will pay for a specific healthcare service, and the patient covers the difference. Within two years, the use of this cost-containment solution is expected to nearly double, with the most robust growth among upper midsize and large employers.

- **Telemedicine**: On the rise in recent years, telemedicine is used by 24% of employers overall (vs. 43% of large). Within two years, another 18% of the total survey population expect to introduce this medical benefit (vs. 28% of large).

- **Pharmacy carve-out**: The number of employers that carve out pharmacy benefits from their health plan is predicted to increase from 14% to 24% within the next two years. Survey results also show strong growth for large employers, from 36% to 54%.

**Implications**

Gallagher’s survey results show that organizations are making a determined effort to maximize the competitive value of their compensation and benefit investments. While many are confident in their strategies, many others lack that certainty. And many, if not most, have gaps in their strategic processes and use of data — gaps that are often caused by short-term, reactive choices related to benefits and programs instead of longer-term, proactive decisions.

Regulatory complexity, competition for talent and upward pressure on costs are all strong forces that shape what seems to be the “new normal” for benefit and human resource professionals, making it difficult to allocate time, focus and energy to planning. Yet, prioritizing data-driven strategic planning, and taking deliberate steps toward process improvements, provides the structure and reliability needed to manage these compounded challenges. For some organizations, this could mean an end-to-end transformation. Others may do best by focusing on one or two areas such as retirement, engagement or wellbeing, where a data-driven process increases the potential for key insights and quick wins. Whatever the scope, it’s important to begin with a candid self-assessment of current programs and related processes, and based on findings, to set realistic goals for strategic process improvement.
Final Remarks

In the past year, HR and benefit professionals have heard the call to become more strategic. Organizations require outstanding people — more than anything — to drive and sustain their ongoing success.

The key findings and implications in this report offer you a compass for holistic, integrated compensation and benefits planning. Considered together, they provide context and direction that can help you transform your HR and benefit strategies, and in the process, create the engaging employer-of-choice environment your employees need to achieve and sustain success.

Additional Resources

This Executive Summary is part of a series of publications produced by Gallagher. The resources listed below provide additional insights and information for optimizing your human capital investment:

• 2016 Human Capital Insights & Strategies Report
• Healthcare Reform Employer Resources
• Institutional Investment & Fiduciary Services Weekly Market Update
• Directions Newsletter, published monthly

These materials and other resources are available in Gallagher’s online Knowledge Center at http://www.ajg.com/knowledge-center/.
About Gallagher

Brilliant benefit solutions build brilliant businesses.

How will healthcare affect your organization? What steps do you take to ensure your HR policies comply with federal, state and country-specific regulations? How are you helping your employees save enough for retirement? What’s the best approach for developing a competitive total rewards program that establishes you as an employer of choice?

You need answers. A tailored benefits solution provides them.

That’s what Arthur J. Gallagher & Co. does. Tailored benefit solutions. Our trusted advisors get to know you, your organization and employees. With that insight, we help you better manage your domestic and international benefits, HR, compensation and retirement challenges.

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