



Arthur J. Gallagher & Co.

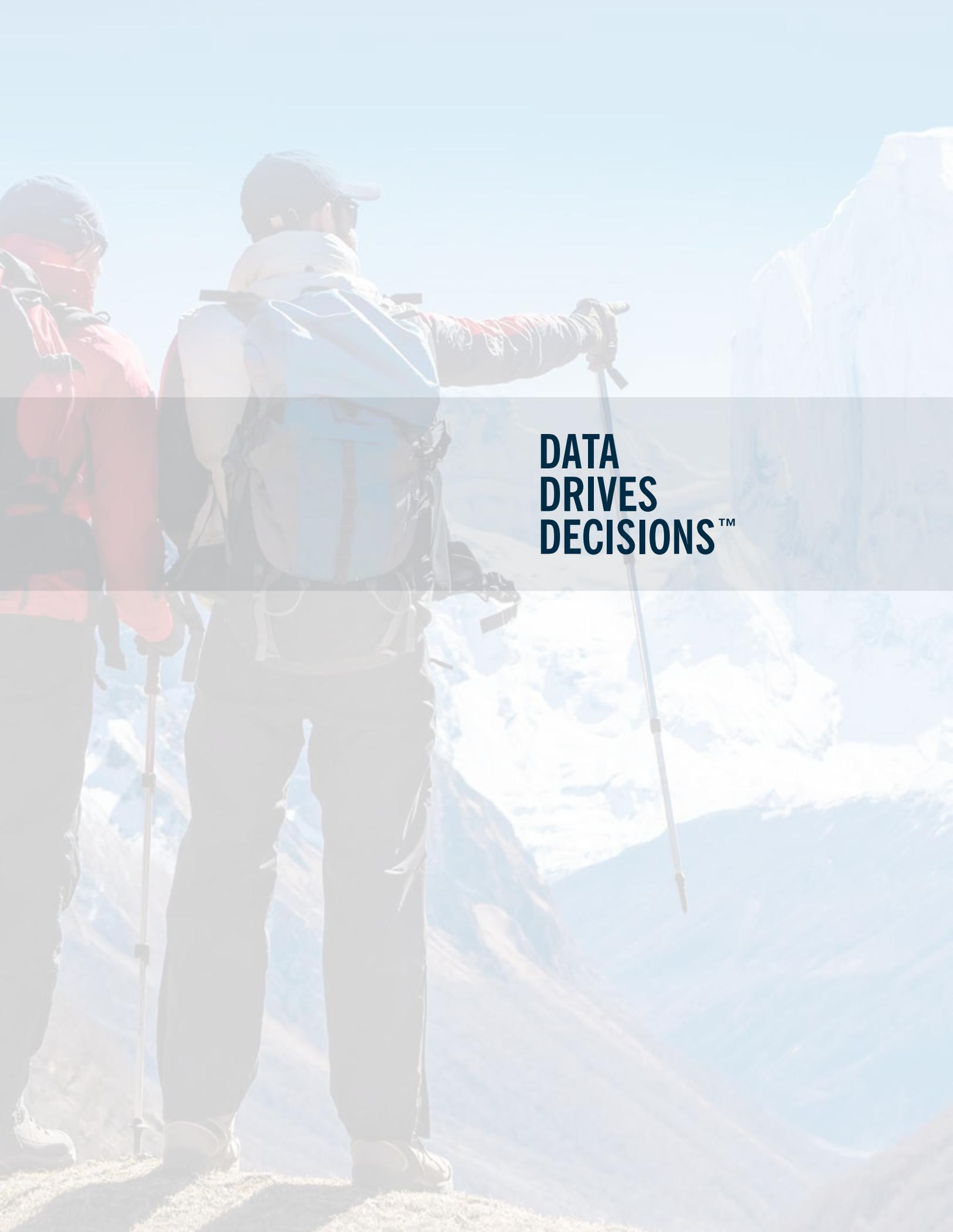
2017



BENEFITS STRATEGY & BENCHMARKING SURVEY

EXECUTIVE SUMMARY & STRATEGIC INSIGHTS

Guiding Your Ascent
with Data

A photograph of two hikers on a mountain peak. The hiker in the foreground is wearing a blue and white backpack, a dark cap, and a red jacket, holding a trekking pole. The hiker in the background is wearing a red jacket and a dark cap. The background shows a vast, snow-covered mountain range under a clear blue sky. The text "DATA DRIVES DECISIONS™" is overlaid on the right side of the image.

**DATA
DRIVES
DECISIONS™**

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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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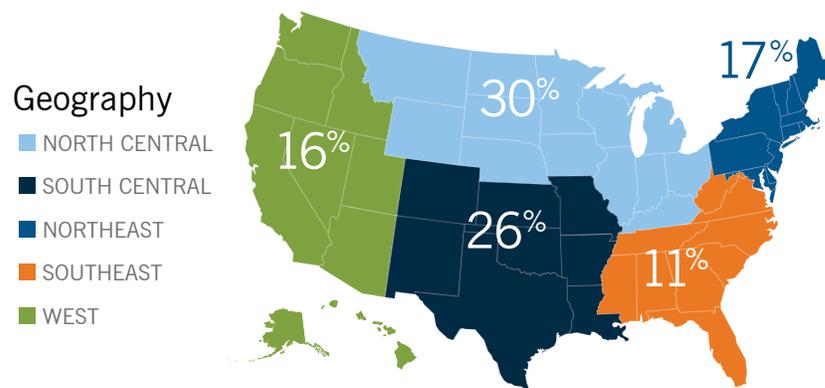
Survey Overview

Staying on top of benefits and human resource changes takes endurance. When climbing an ever steeper competitive slope, employers need the latest information on how to negotiate unsteady terrain such as new regulations, demographic shifts, and technology disruptions in revenue and profit models. Gallagher's 2017 Benefits Strategy & Benchmarking Survey provides data and insights that help steadily guide you along the path to peak performance.

Gallagher's comprehensive survey, conducted from January to March 2017, aggregates responses from 4,226 organizations across the United States. More than 300 questions covering the total compensation spectrum were included, using data parameters that allow you to focus on results specific to your relevant market.

In addition to this Executive Summary, a comprehensive U.S. National Report is available covering major benefits and related categories. They include Human Capital Strategy, Medical Benefits, Employee Wellbeing, Employee Communications, Employee Engagement, Dental Benefits, Life Insurance & Voluntary Benefits, Absence Management, and Retirement Benefits. Each section features core data highlights and wraps up with key takeaways, followed by tables that show participants' responses to survey questions. From broad insights to specific findings, you gain a practical perspective on significant trends and best practices that Gallagher is observing firsthand.

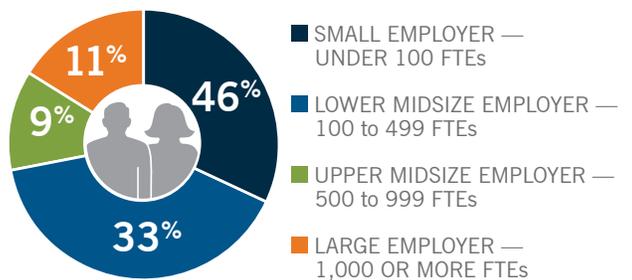
To discuss your human capital vision and strategies for reaching new heights of performance, contact your local Gallagher representative or one of the advisors listed on the back cover.



Ownership Structure



Workforce Size — Full-Time Employees (FTEs)¹



¹Due to rounding, percentages do not total 100%

Number of Participating Organizations by Industry



MANUFACTURING

550



EDUCATION

509



PUBLIC ENTITY

441



HEALTHCARE

418



BUSINESS SERVICES

359



CONSTRUCTION

277



FINANCIAL SERVICES

240



SOCIAL SERVICES

223



TECHNOLOGY

214



RETAIL

212



HOSPITALITY/RESTAURANT/
ENTERTAINMENT

160



WHOLESALE

133



TRANSPORTATION

121



ENERGY

116



ASSOCIATIONS

89



LEGAL

75



RELIGIOUS INSTITUTIONS

58



PHARMACEUTICAL

31

Key Findings & Implications

Much like mountain climbers aspiring to reach the summit, employers are striving to achieve 360-degree integration across total compensation strategies and programs. A big-picture perspective makes it possible to more fully address employee wellbeing and human capital talent needs while controlling costs and managing risk. As employers gain a deeper understanding of how these elements work together, they can see more clearly how to align human resource and organizational strategies to drive better business results.

Human resource departments serve as a base camp for organizational effectiveness. In fulfilling this function, they face persistent challenges, including changing workforce demographics, regulatory complexity and a competitive labor market. This summary offers insights to help employers execute on three key steps — assess, map, and climb — so they can overcome obstacles on their way to growth and profitability.

Assess

Employers are at different places on the path to an integrated, holistic approach to benefits and compensation. They use different sets of tools to meet their goals and are equipped with different experiences and expertise. Regardless, benchmarking data can anchor them along the way with insightful analysis of their current programs, policies and incentives, framing their expectations and identifying gaps. Key insights related to assessment — the first foundational step — are described on the next page.

360-degree view



Evolving employer priorities reflect a need to make the most of human capital investments and drive business growth.

- Attracting and retaining a competitive workforce is the top operational priority for 58% of employers, and attracting (43%) and retaining (41%) talent rank as the second and third most important HR priorities.
- Controlling benefit costs remains the highest HR priority at 52%, but declined slightly in overall importance compared to 2016. However, boosting workforce engagement and productivity (37%) and creating a strong workplace culture (33%) increased in importance.
- Properly administering and managing lost time is a top pursuit for 62% of employers, including Family Medical Leave Act (FMLA) compliance, incidental absences, short-term disability, workers' compensation, and related implications of the Americans with Disabilities Act (ADA) and the ADA Amendments Act.

Employers are still challenged by talent acquisition and retention, healthcare costs, wellbeing and engagement.

- Nearly one-third or more midsize and large employers report 15% or greater turnover in full-time employees.
- Increases in employee contributions to the cost of premiums (48%) and higher cost sharing through plan design changes (48%) remain the top two healthcare cost-control tactics.
- While promoting health and wellbeing is an organizational priority for over two-thirds of employers, just 52% believe they have an effective wellbeing strategy.

Tactics are often hindered by a lack of strategy, highlighting opportunities to get better value from health and human capital investments.

- An increased use of tactics to improve employee engagement occurred across all sizes of employers,

especially large employers that reported double-digit increases for all tactics. Yet, less than half of employers (44%) report a formal strategy to strengthen employee motivation, satisfaction and commitment to the organization.

- Approximately two-thirds of employers offer long-term disability and short-term disability or salary continuation. Far fewer (44%) have developed an absence management strategy for administering leaves for both occupational and non-occupational disabilities.

Map

Once employers have clearly and completely assessed the status of their compensation and benefits, they're prepared to determine where to go next and what it will take to achieve their goals. This next step includes thoughtful, integrated planning that connects the dots between compensation and benefits, policies, and program offerings — as well as organizational objectives. Directional insights below point to opportunities for increasing the planning time horizon and for striving toward greater alignment between HR strategies and business goals.



The potential to drive business performance by aligning compensation, benefits and communication strategies is often overlooked.

- Half of employers view compensation and benefits as tools to attract and retain talent. Just 31% regard compensation and benefits as investments in maximizing workforce performance and achieving business objectives.
- Employers identified greater effectiveness of their communications as the most helpful solution for managing HR-related challenges and opportunities (62%). Yet, only 15% have a comprehensive communication strategy. Employers typically use communication strategies for some of their programs such as safety, wellness and benefits enrollment, but not all (70%).

Some employers seek advisors as extensions of their organization to help them navigate difficult benefit-related tasks, and identify opportunities to improve outcomes based on marketplace insights and expertise.

- For communications, most employers shifted toward greater use of external support, including 38% overall and 53% of large organizations that count on the help of vendors. At the other end of the spectrum, just 3% overall and 11% of large employers work with consultants that specialize in this discipline.
- Sixteen percent (16%) of employers rely on health plan vendors to administer wellness programs and 14% enlist the expertise of an outsourced wellness vendor, including 24% of large.
- For pharmacy benefits, 19% of all and 50% of large employers use a specialty pharmacy benefit manager.

Long-term planning and a broader wellbeing strategy that promotes employees' physical, emotional, financial, social and career health are gaining ground.

- While more than 70% of employers plan benefits and compensation strategies annually, a higher percentage reported a multi-year strategy for both benefits (12%) and compensation (14%) in 2017. Long-term planning is more common among upper midsize and large employers.
- Growth in the adoption of wellness programs is expected with 29% of employers planning to add this benefit by 2019, potentially increasing total use to 70%. Offerings are expanding to reflect a broader wellbeing focus with 28% connecting employees to volunteer opportunities, 27% fostering community engagement and 18% offering other social wellbeing initiatives.
- Financial wellbeing opportunities are promoted by one-third of employers. Nearly half use auto-enrollment for retirement planning to help employees improve savings on target with their goals.

Climb

Meaningful changes to organizational culture take time, including the engagement and wellbeing of employees. The most successful employers pursue their long-term goals with resolve, taking small and distinct steps to measure progress. Those that have baseline measures in place are looking to pair these data outputs with data inputs from employees, gathered from their formalized feedback on engagement and wellbeing. Through these efforts, employers are better able to tie metrics on healthcare costs, productivity, employee engagement and other focal areas to broader strategic goals such as market share, revenue and profitability. Insights from the results of this process can drive continuous improvement of employee engagement. The key findings below are evidence of employers' openness to considering and adopting different and newer methods of cost control that support employee needs. While there's more reliance on data to drive informed benefits and compensation planning decisions, measurement of programs currently offered to employees is a missed opportunity for many.

Self-insurance, quality-focused and value-based tactics, and consumer-directed health plans are incremental steps employers are taking to control healthcare costs and achieve employee wellbeing goals.

- There is a trend toward increased self-insurance of medical plans among lower midsize (42%), upper midsize (68%) and large employers (83%), up 8 to 10 percentage points from 2016.
- One-third or more of employers use quality-focused and value-based tactics to control medical costs, including cost-transparency tools, telemedicine, and healthcare decision support for employees. Some of the tactics employers expect to adopt by 2019 include cost-transparency tools (24%), healthcare decision support (19%), and reference-based pricing for healthcare services (11%).
- Looking to engage employees in their health and healthcare spending, 44% of all and 72% of large employers offer a consumer-directed or high-deductible health plan.

More employers need a reliable way to gauge the effectiveness of programs and tactics used to enhance the employee experience and strengthen engagement.

- The primary measure of communication success is employee feedback and questions asked of HR (74%). Large employers also rely heavily on healthcare benefit enrollment trends (62%).
- Just 32% of all and 53% of large employers conducted an engagement survey from 2015 to 2016, and 9% of those that didn't run a survey plan to do so by 2019.
- Among the 78% of employers that offer a retirement program, only 37% take steps to measure employee retirement readiness.
- While three-quarters of employers evaluate wellness program performance, employee participation is the leading indicator at 58%. Few look at financial claims data (21%), the impact on lost work time (6%) or lost productivity (3%).

Data increasingly helps employers prepare, refine and reroute when environment or business dynamics shift.

- For benefits planning, the data source most referenced by employers is their organization's current and projected financial performance at 68%. The use of benchmarking (59%) and multi-year labor cost modeling (13%) rose in 2017.
- Compensation planning trends show more application of all data types and resources except for workforce characteristics. Double-digit increases in the use of benchmarking information were reported by 89% of large and 82% of upper midsize employers. For upper midsize employers alone, there was also a significant increase in factoring their organization's current and projected financial performance (69%) and strategic plan (51%).

Achieving sustainable costs while engaging employees and driving business growth can seem as precarious as scaling Everest or ascending Denali. Yet, more employers are building momentum for a fuller employee experience of wellbeing that integrates emotional, financial, social and career dimensions with physical health. There's also a trend toward easing cost pressures by changing funding strategies, adding value-based and quality-focused benefits, and encouraging healthcare consumerism. Those that aspire to compete at the highest level as a destination employer are setting their sights on a more holistic and integrated approach to total compensation management. Increased data integration, longer-term planning and the strategic use of external advisors help guide them along this path.

Data-driven insights show many opportunities for making steady progress toward better value from health and human capital investments. When employers assess total compensation trends — and then map, measure and realign strategies and solutions — they continue to reach new heights.

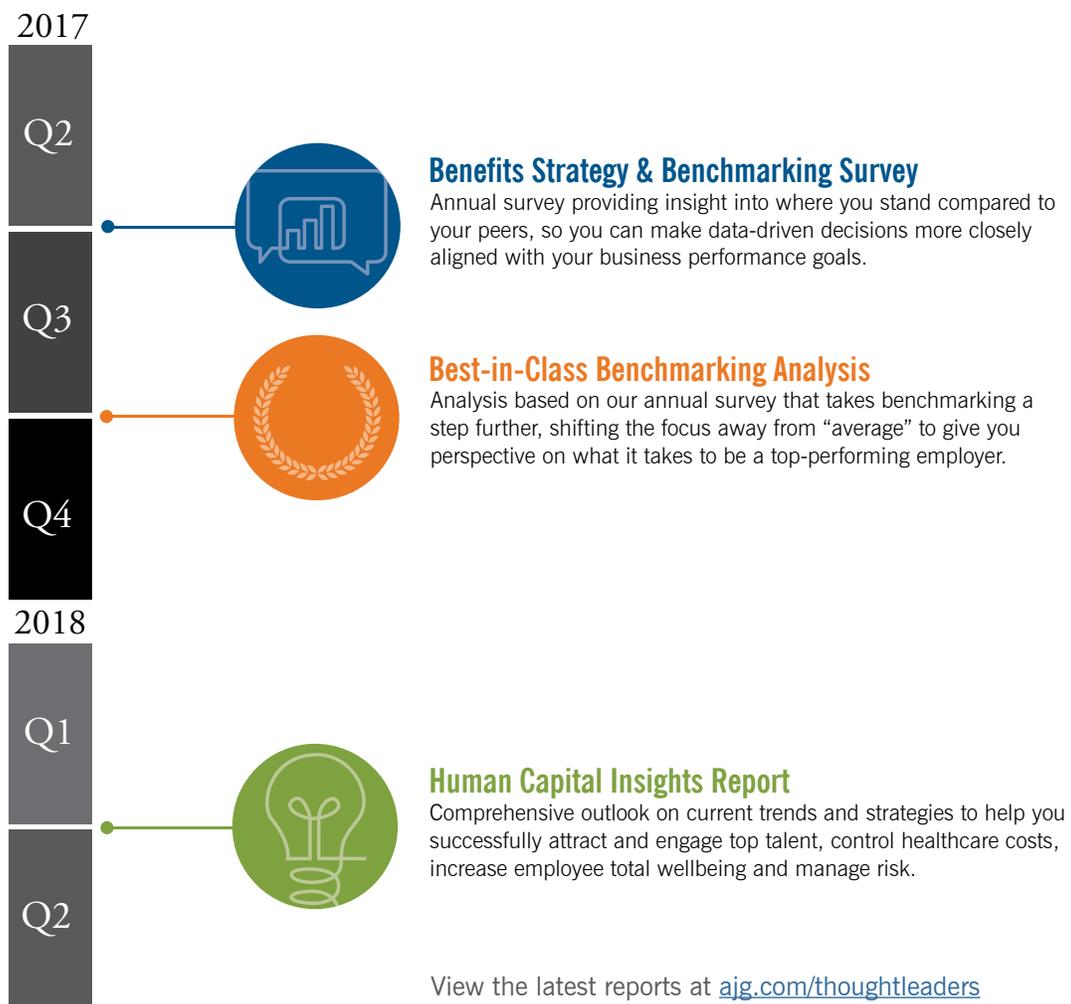
Final Remarks

The key findings and implications in this report offer you a data-guided compass for improving your marketplace standing — including an ascent to destination-employer status. Employers are setting their sights on a broader set of benefits to proactively address employee needs and human capital objectives while controlling costs and managing risk. With a multi-year, holistic and integrated approach to human resource strategies, you can drive better business results by creating the right environment for you and your employees to achieve targeted outcomes and sustain success.

Additional Gallagher Thought Leadership

Year-round data and expertise on marketplace trends to help you drive decisions.

This Executive Summary is one of a series of benefits benchmarking and human resource reports produced by Gallagher throughout the year. Together, they provide ongoing context and direction for helping you optimize your human capital investment.



About Gallagher

If you could name one thing that drives your organization's success, what would it be? Chances are, it's your employees.

Attracting and retaining the right talent is a top priority for most organizations, but they struggle with managing the costs in a highly competitive and complex climate. To secure your place as a destination employer, you need the right data to make smart benefits decisions, to keep a firm grasp on the state of the employee benefits market, and to focus on the needs of a diverse workforce while effectively communicating the value you offer your employees.

You're not on this journey alone. Gallagher will work closely with you to map out a strategic, measurable and customized plan that helps you invest wisely in your workforce. All aspects of your HR programs — compensation, benefits, wellbeing, communication and culture — need to work together to effectively manage the risks associated with your human capital. By developing benefit and HR programs that support a multigenerational workforce, you'll create a culture that's focused on organizational health and your employees' total wellbeing.

When you take this holistic approach to investing in your employees, you'll have an engaged team that's more productive, more loyal and willing to support your organization's journey to success. You'll be in a strong position to attract and retain the best talent and to prosper as an organization.

Arthur J. Gallagher & Co. (NYSE: AJG), an international insurance brokerage and risk management services firm, is headquartered in Rolling Meadows, Illinois, has operations in 33 countries and offers client-service capabilities in more than 150 countries around the world through a network of correspondent brokers and consultants.

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