

SEE WHERE YOU STAND

2018 Benefits Strategy & Benchmarking Survey
Executive Summary & Strategic Insights



Gallagher

Canada Edition

Insurance | Risk Management | Consulting

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The intent of this document is to provide you with general information regarding the status of, and/or potential concerns related to, your current employee compensation and benefits environment. It does not necessarily fully address all of your specific issues. It should not be construed as, and is not intended to provide, legal advice. Questions regarding specific issues should be addressed by your general counsel or an attorney who specializes in this practice area.

Survey Overview

Gallagher's 2018 Benefits Strategy & Benchmarking Survey – Canada Edition provides data and insights that can guide you to better outcomes through better benchmarking.

This Executive Summary is an excerpt from the comprehensive National Report, which aggregates responses from 468 organizations across Canada. The survey asked questions regarding the spectrum of total compensation, using parameters spanning a wide range of industries, regions, employer sizes and organization types.

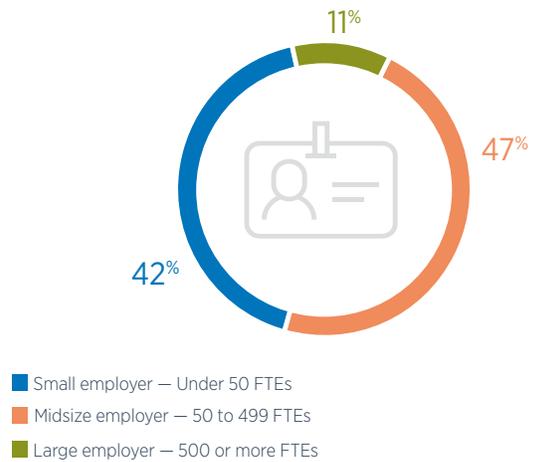
The report covers key benefits and related HR topics, including the following:

- Employee benefit challenges & strategy
- Communication & engagement cost
- Employee wellbeing
- Medical & prescription drug benefits
- Absence management
- Voluntary, life insurance & other benefits
- Dental benefits
- Retirement benefits

Each of these sections highlights important data from the survey, shows key takeaways, and features data tables showing survey results in-depth. With broad insights and specific findings, the survey gives a practical perspective on significant trends and best practices that Gallagher is seeing firsthand.

To discuss your human capital vision and strategies, contact your local Gallagher representative.

WORKFORCE SIZE — FULL-TIME EMPLOYEES (FTEs)



OWNERSHIP STRUCTURE



80%

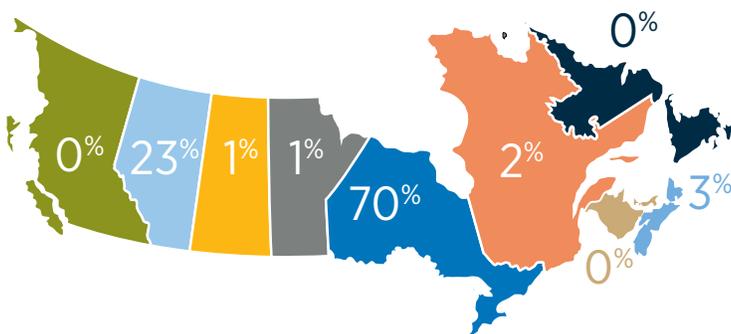
FOR PROFIT



20%

NONPROFIT

GEOGRAPHY



- BRITISH COLUMBIA
- ALBERTA
- SASKATCHEWAN
- MANITOBA
- ONTARIO
- QUEBEC
- NEW BRUNSWICK
- NOVA SCOTIA
- NEWFOUNDLAND & LABRADOR

NUMBER OF PARTICIPATING ORGANIZATIONS BY INDUSTRY*



*Seventy-seven additional participating organizations identified their industry as Other

KEY FINDINGS & IMPLICATIONS

To succeed in today's markets, organizations must be efficient, innovative and better positioned to weather the unexpected. Employers must cope with a competitive labour market, rising healthcare costs and international trade uncertainty. At the same time, Canadian employers are always searching for ways to improve employee engagement.

Employers may not know exactly how, where and when to address their particular challenges with the workforce. The benchmarking results in this report provide a starting point. The data can help employers and their trusted advisors confidently assess and design a total benefits and compensation approach that addresses their specific workforce issues.

Because of its focus on data, the report helps organizations determine where they stand in relation to their peers. They can identify opportunities to refine and redefine strategies, tactics and operational execution plans to address organizational priorities. Ultimately, employers can utilize this information to prepare, pursue and achieve their goals through assessment and continuous improvement.

2018 Benefits & Compensation Trends

Overall, employers have an optimistic growth outlook.

Across the board, employers report positive expectations for 2018. Fifty-three percent (53%) anticipate some increase in sales and revenue, and 16% expect a "substantial" increase. As for headcount, 47% of employers anticipate increasing headcount a little and 10% expect it to increase substantially.

Employers recognize the value of benefits and are committed to offering them.

Organizations understand competitive benefit packages are critical to employer differentiation, and to attract and retain talent. They also understand the importance of exceeding provincial or federal mandates and offer benefits that will be useful to employees. Typically, employers bear most benefit costs, increasing employees' total compensation.

The most popular benefits have near universal acceptance among employers: prescription drug coverage (offered by 99% of employers), paramedical services coverage (96%), dental plans (95%) and extended healthcare coverage (92%). More than three-quarters (77%) of organizations offer group retirement plans.

Canada's employers further demonstrate their commitment with robust benefits. For instance, 48% of employers match employee contributions to a group retirement plan up to 100%, and another 36% match a portion of employee contributions. In addition, 53% of employers begin making retirement plan contributions three months after an employee's hire. Employers also pay the majority of premium and coinsurance costs for medical and prescription drug coverage, paramedical services and dental plans.

Employers are generally satisfied with their benefit offerings, but identify weak spots.

Collectively, employers are satisfied with the benefits they offer and how those benefits meet the needs of their employees and organizations. Most (84%) say employees have access to the health benefits they need, and are satisfied with their benefits (63%). Respondents generally agree (at 75%) that their health benefits are competitive with their industry or in their region. Seventy-six (76%) percent believe their group retirement program meets organizational needs; 60% say their retirement plans reflect industry best practices.

Despite general satisfaction with their benefit packages, employers acknowledge gaps. For instance, employers most often cite the high cost of prescription medications (55%) and specialty drugs (47%) as top healthcare cost-management challenges, but just 36% say that they have an effective strategy to manage healthcare costs. And although a majority of organizations feel positively about their health and group retirement benefits, substantial numbers aren't as satisfied about performance, signalling opportunities to refine benefit packages to meet organizational and employee needs.

Resources to bolster benefits planning are underused.

The survey indicates that employers aren't fully leveraging resources to inform compensation and benefits planning. Organizations most often rely on benchmarking data and their current and projected financial performance when planning compensation and benefits. This data is crucial, but does not convey all the necessary information to make informed decisions. Few employers consult other resources like workforce characteristics (e.g., employees' length of service, age and gender), surveys of employee preferences, or multiyear labour cost modelling: No more than 36% of employers use one of these three resources for benefits planning, while no more than 31% use them for compensation planning.

2018 Employer Best Practices & Opportunities

Take a comprehensive approach compensation and benefits planning.

Canadian employers often take a piecemeal approach to compensation and benefits planning. For instance, 64% of employers manage their benefits on a year-to-year basis, while just 12% have a multi-year benefits strategy; 65% of organizations plan compensation annually, and only 15% have a multi-year compensation strategy. Because meeting annual revenue and performance targets are so important, a yearly approach to compensation and benefits appears to make sense. However, this model can leave employers vulnerable to unexpected cost increases and shifts in the market.

And while most (58%) employers develop communication and management strategies for individual core initiatives, such as safety campaigns or benefits enrolment, only 10% of organizations have an overarching strategy that guides all communications. About one-third (32%) lack any communications strategy. Similarly, while 38% of employers report some HR and benefits technology (HRBT) strategies, 48% have no such strategies. Just 9% have an HRBT strategy that supports the organization's human capital strategy, and 5% have a comprehensive HRBT strategy that aligns with organizational strategies. And fewer than half of these employers (46%) have a strategy to improve employee engagement.

Without a comprehensive approach to compensation and benefits planning — as well as an approach for the administration and communications that support benefits — employers may be undermining their own efforts. An approach that considers an employers' priorities and goals, and determines how benefits can be structured to best help to meet these objectives, allows organizations to create unified, consistent messaging for employees. A take-it-as-it-comes approach places employers in a reactive position, sending out competing, if not contradictory, messages about the importance of employees and their compensation and benefits.

13%

OF CANADIAN ORGANIZATIONS
ACCOUNT FOR EMPLOYEE PREFERENCES
IN COMPENSATION PLANNING.



Capture better data for compensation and benefits planning.

Most employers feel their benefits are competitive with other organizations' offerings, their communication efforts are strong, and employee engagement is healthy. However, firms shouldn't rely on self-assessments to show a complete picture. To better understand how their organizations truly stack up in compensation and benefits, employers need objective assessments based on data and metrics.

Consider employee engagement. Sixty percent (60%) agree or strongly agree that their workforce is highly engaged, but since 2016 only 42% of employers have conducted an engagement survey, meaning their opinions may be based more on perception than data. Many employers are devising engagement strategies without an objective measurement of their actual employee engagement.

Reliance on perception over data also extends to compensation and benefits planning. No more than 36% of employers plan compensation and benefits with the aid of employee preferences data or essential workforce information. Only 13% of Canadian organizations account for employee preferences in compensation planning.

Incorporating more data into decision making — especially low-hanging fruit like demographics — can result in better informed, more effective benefits planning. Contrary to common opinion, data collection doesn't have to be expensive or overly complex. The key requirements for proper data collection are that the instruments and processes are well thought out and intentionally designed to identify organizational and workforce needs and inform strategic thinking.

Manage prescription drug coverage strategically.

Prescription and specialty medications costs are employers' top healthcare challenges, but 64% of employers don't think they have an effective strategy to manage healthcare costs. Though 96% of employers manage drug coverage to some degree, they typically use a few rather than multiple cost-management tactics. The most popular (64%) tactic, mandating the use of generic or least-cost alternative drugs, is fairly blunt in how it affects the entire workforce.

Yet there are other tested tactics that can help ensure access to necessary medication while controlling expenses. These tactics include step therapy, streamlining the supply chain, mail-order pharmacy, and policies based on behavioural economics, such as a tiered formulary for certain classes of drugs. No more than 5% of employers use any of these plan features. But organizations that consider all solutions will position themselves to effectively manage drug expenses, especially before facing annual price hikes.

Consider the business case for employee wellbeing.

The survey suggests employers are generally unaware of the business case for a strategic approach to employee wellbeing, or find the business case unconvincing. In part, this may be attributable to general misunderstanding about what wellbeing actually is. It is more than helping a single component of an employee's health, but instead reflects the whole state of a person. Employees bring their entire selves — with all the joys and challenges of life — with them to the job, and their state of wellbeing affects their job performance.

Less than half (46%) of employers have a strategy for employee wellbeing. In trying to implement a wellbeing strategy, organizations face legitimate barriers, including the lack of staff or time to plan and implement initiatives (58%) or budget concerns (32%). But there are also compelling reasons to forge ahead in spite of obstacles, because wellbeing can improve employee satisfaction and engagement, and foster a desirable workforce culture. These outcomes help individuals, but also organizations overall: Employees with reduced stress over their finances, health or other personal concerns are more focused and perform better than if they lacked access to wellbeing initiatives.

Many organizations have the resources to bolster employee wellbeing efforts. The key to leveraging these resources lies in recognizing what tools employers currently have and deploying them adroitly. For instance, many voluntary and miscellaneous benefits may already be in place to bolster employees' financial security and work-life balance, but these offerings could be made even more effective when knitted together through a comprehensive strategy to reinforce employee wellbeing (which also will improve employers' total compensation and benefit packages)

Offer regular benefits education.

Benefits are complicated topics. Employers can't take for granted employees have the wherewithal to understand how to use benefits to their greatest advantage.

And organizations educate employees on benefits infrequently at best. For instance, just 42% of employers conduct regular employee education on retirement programs; most often (29%), that education happens merely once a year. With limited information, employees may be unaware why they should contribute to retirement funds, how to manage accounts and why early withdrawals can be detrimental to their retirement. Similarly, only 39% of employers conduct regular employee benefits education, with 24% doing so annually and 6% every two years.

As important as benefits are in differentiating employers from the competition, it's important to ensure benefits are actually valuable to employees. Benefits that sit on the shelf serve no purpose for employees and, by extension, their employers.

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 stronger sense of developing a career than punching a clock. And a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher's comprehensive approach to benefits, compensation, retirement, employee communication and workplace culture aligns your human capital strategy with your overall business goals. It centres 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.

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Contributors

GROUP BENEFITS

Lori Grant
Lori_Grant@ajg.com

David Guttman
David_Guttman@ajg.com

Tim Lychy
Tim_Lychy@ajg.com

Lisa Muzyka
Lisa_Muzyka@ajg.com

Henry Toby
Henry_Toby@ajg.com

HR & COMPENSATION CONSULTING

Ehren Baldauf
Ehren_Baldauf@ajg.com

RESEARCH & REPORTING

Stephanie Bauman
Stephanie_Bauman@ajg.com

Sarah Daley
Sarah_Daley@ajg.com

RETIREMENT

Neil Craig
Neil_Craig@ajg.com

Rob Mitchell
Rob_Mitchell@ajg.com

SURVEY DEVELOPMENT

Michelle Barrett
Michelle_Barrett@ajg.com

Thomas Cummins
Thomas_Cummins@ajg.com

ADDITIONAL CONTRIBUTORS

Mark Borowsky
Mark_Borowsky@ajg.com

Joe Eisenhardt
Joe_Eisenhardt@ajg.com

Leslie Lemenager
Leslie_Lemenager@ajg.com

Alison Muth
Alison_Muth@ajg.com

Stacy Silkaitis
Stacy_Silkaitis@ajg.com

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