

# SEE WHERE YOU STAND

2018 Benefits Strategy & Benchmarking Survey —  
Public Entity Industry Addendum



**Gallagher**

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# Survey Overview

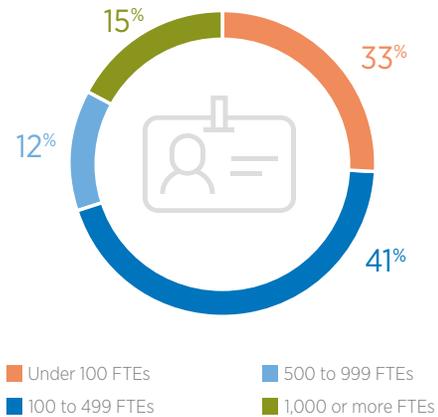
Gallagher’s 2018 Benefits Strategy & Benchmarking Survey asked U.S. employers more than 300 questions across the total rewards spectrum. This addendum highlights select key findings and implications based on responses from 464 public entities that participated in this year’s research.

Public entities constrained, tax-based revenue streams often conflict with the public’s expectations for uninterrupted and expanding services. For public entity employers — most who think revenue will remain relatively flat over the next two years — the challenge is to keep the rising cost of healthcare and other benefits from encroaching on operational funding.

At the forefront of benefits strategy are innovation and cost controls that maximize human capital investment. Meanwhile, public entity employers are competing to attract and retain the next generation of workers. A tight labor market and high employee expectations mean employers offering a competitive compensation and benefits package will have an edge in attracting and retaining top talent.

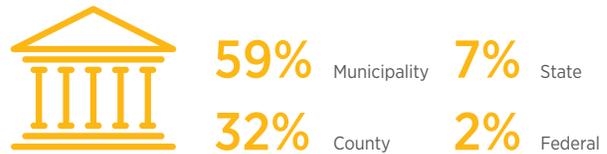
The uncertainty inherent in collective bargaining is another issue demanding attention from public entity employers. However, as this report illustrates, data-driven planning can help address these strategic challenges and identify areas of opportunity for better benefit and compensation programs.

## FULL-TIME EMPLOYEES (FTEs) — DOMESTIC<sup>1</sup>

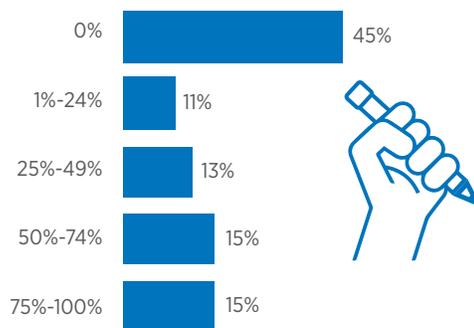


<sup>1</sup>Due to rounding, percentages do not total 100%

## TYPE OF PUBLIC ENTITY



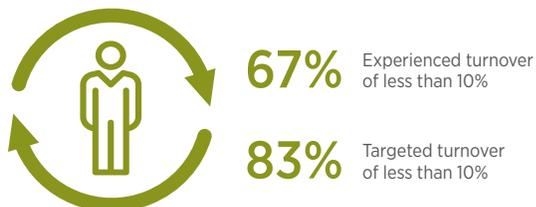
## PERCENTAGE OF WORKFORCE UNIONIZATION<sup>2</sup>



<sup>2</sup>Due to rounding, percentages do not total 100%

# Human Capital Strategy

## TURNOVER RATES HIGHER THAN TARGETS IN 2017



## UNDERUTILIZED BENEFITS PLANNING RESOURCES



Organization's strategic plan	38%
Workforce characteristics (e.g., length of service, gender, age)	33%
Survey of employee preferences	26%
Multi-year labor cost modeling	21%

## HRBT INVESTMENTS IN THE NEXT 24 MONTHS



To manage benefit costs while retaining experienced employees, minimizing turnover is a strategic imperative for public entities. Employers compete with surrounding municipalities — and, with increasing frequency, other industries — for talent. But although 83% of public entity employers targeted turnover of less than 10% in 2017, only 67% managed to meet that goal.

Understanding the workforce's expectations is essential for informed decision making; however, just 26% of public entities use employee preference survey results in benefits planning. A data-driven, structured approach to benefits planning can lead to a more efficient allocation of resources, and can also help reshape employee expectations. Innovation and change should be accompanied by a concentrated effort to inform and educate employees on the value of and rationale behind benefit offerings. Benchmarking will ensure that changes are aligned with other public sector organizations. Such activities may be best accomplished with external consultation and support.

Employers can also improve internal processes and their approach to total rewards through HR and benefits technology (HRBT). Only 16% of public entity employers have an HRBT strategy to support their human capital strategy; 12% have an HRBT strategy aligned with organizational strategies. Twenty-three percent (23%) say they have no HRBT strategy.

Despite the general lack of comprehensive HRBT strategies, 36% of public entities say investment in HR tech is a top solution in addressing human resource challenges. In the next two years, 42% are seeking to expand their HRBT platform, replace it, or both. The leading reasons to improve HRBT are process automation (82%), increased productivity (56%) and better support of human capital strategy (42%).

# Medical Benefits

## TYPES OF MEDICAL PLANS OFFERED



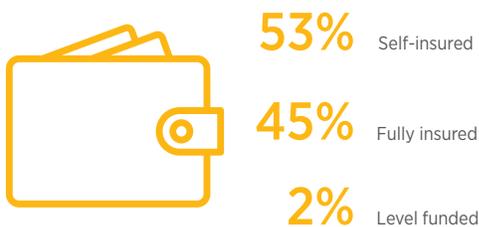
Preferred provider organization (PPO)	79%
Health maintenance organization (HMO)	29%
Consumer-directed health plan (CDHP)	20%
High-deductible health plan (HDHP)	20%
Point of service (POS)	7%
Exclusive provider organization (EPO)	3%
Indemnity	3%

# 56%

DID NOT INCREASE COST SHARING IN 2018



## FUNDING ARRANGEMENT



For public entities — as for employers in other industries — healthcare is considered an essential benefit, as 53% of sector employers agree and 15% strongly agree that medical and pharmacy benefits are the cornerstones of their benefits offering.

Nearly 80% of public entities offer PPOs, and 59% say they have the highest enrollment within their organization. Thirty-seven percent (37%) offer three or more medical plans; 29% offer two; and 35% offer a single plan. A choice of medical plans allows employees to select the plan that best suits their needs while giving public entities a path to a financially sustainable medical benefit. The right mix of options also provides an opportunity to introduce consumerism and increased cost sharing without alienating employees that have historically enjoyed traditional plan designs.

In 2018, 56% of public sector employers did not increase cost sharing; of those that did, higher premiums was the most common (35%) means of doing so. Notably, employees do not contribute to individual coverage premiums at 39% of public entities, although the number drops to 11% for family coverage.

Forty-five percent (45%) of public entities are fully insured while 53% are self-insured. Among those self-insured, most (91%) have stop-loss coverage to reduce risk exposure. No matter the funding approach, more than half (53%) of public entity employers say they have an effective strategy to manage medical costs.

Working to address cost concerns, reduce waste and improve outcomes requires significant effort but offers significant returns. For example, analyzing costs by category (e.g., prescription drug, specialty drug, procedural code, provider organization) will help public entities determine how to control medical expenses and improve outcomes.

# Employee Communication

## COMMUNICATION STRATEGY



**80%** Have strategies for some programs (safety, wellness, benefits enrollment, etc.)

**11%** Take a comprehensive approach

# 58%

CONSIDER MORE EFFECTIVE COMMUNICATIONS A TOP SOLUTION TO ADDRESSING HR CHALLENGES



## TOP EMPLOYEE OUTCOMES TARGETED THROUGH COMMUNICATIONS



**73%** Knowledge of benefits and how to use them

**62%** Understanding of the total value of compensation and benefits

The success of a compensation and benefits strategy relies upon the success of the organization's communication strategy. So it may be surprising that only 11% of public entities have a comprehensive communication strategy. As in other industries, a large number (80%) have a communication strategy for individual programs such as safety, wellness and benefits enrollment. Likewise, 77% tie their communication strategy to broader HR initiatives. The top option to address HR challenges and opportunities at public entities is more effective communication (58%).

Breaking down communication silos yields consistent and effective messaging; using different communication channels ensures messages reach the widest possible audience. Listening to employees — and taking a fresh look at who they are — is a first step towards crafting the right messaging in employee communication. Currently, only 36% of employers use satisfaction or engagement surveys to measure success of communication.

The top desired communication outcome is employees understanding and how to use benefits (73%). Successful implementation of benefit changes occurs when deployment of educational tools precedes and then accompanies rollout. Helping employees select benefits and appropriate medical coverage during enrollment is a particularly worthy strategic investment, as it helps lead to better employee physical, emotional and financial wellbeing.

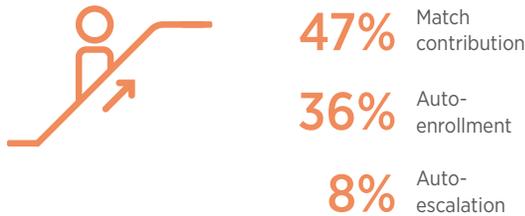
The second-most important communication outcome for public entities is for employees to understand the total value of their compensation and benefits (62%). However, just 25% provide a total compensation statement to employees. This type of statement is an opportunity to communicate the true value of employer investment in the workforce.

# Retirement Benefits



TYPES OF PLANS OFFERED	
Defined benefit	75%
Defined contribution	60%
Cash balance	4%
Non-qualified	3%

## METHODS USED TO INCREASE RETIREMENT PLAN ENROLLMENT



MEASURE RETIREMENT READINESS



Retirement plans are a core component of employee total compensation. For public entity employees, the landscape of retirement has changed since the last generation of workers left the workforce. Public pensions are chronically underfunded, and employers have needed to redirect retirement funding for operations, and towards other compensation and benefit expenses.

As a result, public entity employees can no longer rely on pensions (when available) to ensure financial stability in retirement. That said, nearly all public entity employers offer a retirement benefit, the most common ones being a defined benefit plan (75%) or a defined contribution program (60%). Whether it's a stand-alone plan or a supplement to a pension, the success of a defined contribution plan depends on employee investments, a process that begins with enrollment.

Employer contribution can be a powerful incentive: Matching not only augments retirement readiness but makes enrollment more attractive in the first place. Nearly one-half (47%) of public entity employers match employee contributions to retirement plans, most commonly a 100% match up to 4% of employee salary (though matching up to 8% is not uncommon). Auto-enrollment obviously boosts participation, but is less popular than matching, with 36% of public entities using it. Less popular still is auto-escalation, with only 8% of public entities automatically increasing employee contributions at certain intervals.

Measuring retirement readiness is slowly gaining traction across the industry at 42%, an increase of 3 points from last year. The stress and uncertainty of poor financial positioning takes a toll on employee health and often their productivity. As a result, 67% of public entity employers offer financial advisor sessions to employees. Through education, engagement and financial incentive, top employers are building retirement programs that enrich overall benefit offerings and provide employees a chance at financial security in their next chapter of life.

# Final Remarks

Faced with a constant battle against rising benefit costs and innumerable pressures on performance, public entities can make major gains on both fronts through a data-driven, sophisticated approach to benefits. But few are taking advantage of this opportunity: Half (51%) of public entities still manage benefits on a year-to-year basis, although doing so limits an employer's ability to harness information for long-term planning.

Shifting employee demographics require public entities to reexamine traditional benefit plan designs, and, in turn, develop holistic communication strategies. Through internal assessment, benchmarking and thoughtful deployment of cost-control tactics, public entities can design their benefits to meet the needs of an increasingly diverse workforce. And, equipped with insights and data, employers can offer benefits that provide a sustainable competitive advantage to attract and retain the next generation of workers.

This report explores key public entity compensation and benefit management issues, trends and solutions. It is intended to provide direction that can help HR and benefit planning take a more strategic approach that is more efficient, aligns with sustainable operational goals and builds better employee and organizational outcomes.

To learn more, contact Public Sector Managing Director, Scott Baldwin ([scott\\_baldwin@ajg.com](mailto:scott_baldwin@ajg.com)), or your local Gallagher consultant.

# 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 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 multi-generational 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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