Table of Contents

Survey Overview ................................................................. 3
Key Findings ................................................................. 6
Implications ................................................................. 12
Final Remarks ............................................................ 14
About Gallagher .......................................................... 15
Gallagher’s 2015 Benefits Strategy & Benchmarking Survey finds U.S. employers struggling to manage the tension between two overriding and often competing concerns. They need to have the best possible people to achieve the organization’s goals, and at the same time, decrease or at least maintain overall operating costs, of which total labor cost is a significant part.

After years of relative stagnation, economies in the United States, much of Europe and other countries are reviving, creating new opportunities for workers and increasing their job mobility. While this expansion is a welcome development, it escalates competition for the next generation of employees needed to drive organizations forward.

The impact of the law of supply and demand in the labor markets complicates the ability of employers to find the right balance between recruiting, engaging and retaining the right people and providing appropriate compensation, benefits and other rewards. Social movements and legal mandates to increase wages and benefits only intensify these market forces.

Facing these complex challenges raises significant questions for employers, and finding the answers that lead to well-informed decisions requires the right data. Our 2015 survey covers everything from high-level questions about organizational priorities and benefit strategies, to current and future tactics related to medical and pharmacy benefits, wellness, work-life balance, retirement and employee communications.
Most employees place greater value on the entirety of their compensation, benefits and other rewards than on an individual component. And likewise, Gallagher’s survey reflects the belief that an integrated, holistic strategy — designed to maximize the overall value of your various human capital investments — can more reliably serve the purpose of helping you achieve your organizational goals, now and into the future.

A total of 3,031 organizations across the U.S. participated in this year’s research, representing a 66% increase in participation over the prior year. The charts in this section profile participating organizations by location, industry, size and type.

This Executive Summary focuses on the key findings of our research — insights drawn from meaningful patterns within the individual data points — and the strategic implications that emerged.

In addition to the Executive Summary, a comprehensive U.S. National Report is available covering the major benefit categories including Medical, Wellness, Dental, Absence & Disability, Life Insurance, Retirement, Voluntary and Employee Communication. Each of these sections features core data highlights and wraps up with key takeaways, providing you with insights into significant benefits category trends and best practices that our consultants are observing firsthand.
Corresponding data tables allow you to take a closer look at the survey questions and data broken out by the following parameters:

- Northeast
- North Central
- South Central
- Southeast
- West
- For-profit organizations
- Nonprofit organizations
- Under 100 FTEs
- 100 to 499 FTEs
- 500 to 999 FTEs
- 1,000 or more FTEs

We hope this Executive Summary stimulates discussion about your strategic vision for your human capital, and empowers you to move beyond business barriers to secure a competitive and sustainable future. To continue or begin that conversation, please contact your local Gallagher representative or one of the advisors listed on the back cover.

"An employer of choice relies on data to drive solid decisions on total rewards."

Thomas Cummins, CCP
Survey Practice Leader
Key Findings

An analysis of meaningful patterns across the issues explored in the survey identified five important conclusions:

**HR and benefit professionals are torn between competing priorities.**

When asked to choose their organizations’ three biggest overall challenges, employers’ responses make clear that they’re constantly striving to balance three interconnected, vital objectives — which often work in opposition. HR professionals need to control benefit costs in an effort to maintain or decrease operating costs. However, it’s equally important to attract and retain the right people with competitive benefits and compensation.

These challenges were identified as top-three picks by over 60% of respondents*, making them the most pressing for employers by a wide margin. Although these issues must be resolved, a simultaneous fix can be difficult. This is especially the case under current economic and labor market conditions, complicated by the legislative environment’s continued impact on time and spend.

### Greatest challenges

<table>
<thead>
<tr>
<th>Rank</th>
<th>Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Controlling employee benefit costs</td>
</tr>
<tr>
<td>2</td>
<td>Attracting and retaining a competitive workforce</td>
</tr>
<tr>
<td>3</td>
<td>Maintaining/decreasing overall operating cost</td>
</tr>
</tbody>
</table>

### Total annual benefits cost per eligible employee

<table>
<thead>
<tr>
<th>Cost Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $5,000</td>
<td>17%</td>
</tr>
<tr>
<td>$5,000 to $9,999</td>
<td>43%</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>21%</td>
</tr>
<tr>
<td>$15,000 to $19,999</td>
<td>10%</td>
</tr>
<tr>
<td>$20,000+</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Due to rounding, percentages do not total 100%.

---

* Respondents representing organizations with fewer than 100 employees identified “attract and retain a competitive workforce” just 45% of the time. That’s enough to make it one of their top-two challenges, but less than larger respondent groups.
Organizations are beginning to adopt more comprehensive strategies to defend against rising medical and pharmacy costs.

Sixty percent (60%) of respondents indicated that their health plan premium increases in 2014 were greater than 4%, and over one-third of those (23% of the total sample) reported increases of greater than 10%. Despite this cost challenge, nearly all organizations surveyed (97%) intend to continue providing employer-subsidized medical benefits to their employees. With such a firm commitment, organizations will need effective strategies to contain healthcare costs.

The survey findings tell two different stories about healthcare cost-control strategies — one about the current efforts employers are making to better manage healthcare spending, and another about emerging changes.

Relative to current strategies, it’s notable that the dominant tactics for containing healthcare costs are: 1) cost-shifting to employees (67%), and 2) changing medical plan carriers (49%). Both approaches are likely to make it more difficult to attract and retain strong talent, but the comparative lack of more innovative methods may be more telling.
Consider the relatively low adoption rate that organizations reported for these tactics:

- 36% offer employees a health savings account (HSA) along with a high-deductible health plan
- 15% implement mandatory generic drug policies
- 12% use a mandatory specialty pharmacy (to help control the cost of expensive, biologic drugs)
- 11% offer reduced network access or narrow provider networks
- 2% offer a smaller pharmacy network

The second story unfolds when we look at what respondents intend to do going forward. In this scenario, a number of organizations are on the verge of making sometimes-significant strategy changes.

In the next three years, the following percentages of survey respondents may potentially implement one or more of the emerging cost-control approaches shown above:

- 35% may change the funding arrangement (most to self-funded)
- 13% may offer narrow provider networks
- 10% may use a mandatory specialty pharmacy
- 22% may implement mandatory generic drug policies
- 5% may offer a smaller pharmacy network

Often, it's appropriate to discount responses to such forward-looking questions, but with the Cadillac tax on the horizon, employers will likely become more interested in — and willing to — implement new and effective cost control tactics. In other words, change could be faster and stronger than these projections imply.

**Commitment to wellness remains strong with organizations investing in a wide variety of programs, but participation remains a formidable challenge.**

Over 40% of all respondents — including 70% of organizations with 1,000 or more employees — offer wellness programs. More impressive is the wide range of options employers provide to promote employee health and wellbeing. A look at the top-10 programs offered by the total survey sample, selected from a list of 25, reveals that traditional staples such as wellness communications (86%), flu shots (78%), health risk assessments (67%) and biometric screenings (62%) continue to be the bedrock for most wellness initiatives.
Beyond the top 10, however, there are still significant percentages of organizations investing in wellness programs, including weight management (43%), financial wellbeing opportunities (31%), healthy vending (30%), community engagement opportunities (28%) and onsite wellness coordinators (24%). Employers are also creating spaces that support wellbeing with features such as lactation rooms (39%), fitness centers (31%) and onsite walking paths (24%). Clearly, for many employers, traditional definitions of wellness are expanding to a more holistic concept of wellbeing.

Strong commitment to wellness persists in spite of the challenge most organizations continue to face with program participation. Asked to identify their top-three challenges from a list of 13 items, “participation” was selected by over 70% of respondents — far ahead of budget and culture change issues — which were identified as top challenges by 36% and 35% of respondents respectively. To increase participation, many employers use incentives. Among this group the choices are cash or gifts (63%), premium differentials (39%) and for 15%, funding contributions to health savings accounts (HSAs), health reimbursement arrangements (HRAs) or flexible spending accounts (FSAs).

<table>
<thead>
<tr>
<th>Top 10 components of wellness programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wellness communications</td>
</tr>
<tr>
<td>Flu shots</td>
</tr>
<tr>
<td>Health risk assessment</td>
</tr>
<tr>
<td>Biometric screenings</td>
</tr>
<tr>
<td>Wellness committee or wellness champions</td>
</tr>
<tr>
<td>Tobacco cessation</td>
</tr>
<tr>
<td>Classes to promote good health and wellbeing</td>
</tr>
<tr>
<td>Group and/or individual health challenges</td>
</tr>
<tr>
<td>Policies that support wellbeing</td>
</tr>
<tr>
<td>Program integration</td>
</tr>
</tbody>
</table>
In many organizations, there are important gaps in programs and policies that can help protect employee financial wellbeing. Employees of some organizations surveyed could be bankrupted by a serious accident, major medical event or death. This is because a third of respondents don’t offer their workforce short-term disability insurance, 28% don’t offer long-term disability coverage and 12% don’t offer life insurance. What’s more, 22% of organizations have no retirement program for their employees. These gaps, which are more typical of smaller organizations, not only leave employees exposed to tremendous financial hardships but also may have unintended consequences for employers. For instance, an injured employee without disability insurance may seek security through workers’ compensation, or an employee at a later career stage may cling to a job because of an inability to afford retirement.
Communications may be a weak link for many employers.

The most striking finding was that a mere 12% of respondents identified communications as one of their top human resource challenges. This percentage contradicts consultants’ experience with all types of employers that struggle to fully implement all sorts of programs and policies, due in large part to communication challenges. The fact that over 70% of organizations surveyed identified participation as one of their top wellness program challenges seems to acknowledge this disparity.

Employee communication tools currently being utilized

| Online retirement and financial planning | 66% |
| Online portal with benefits information | 56% |
| Onsite retirement, and financial planning and support | 50% |
| Online wellness and health improvement | 40% |
| Web-based health and financial modeling | 35% |
| Health plan cost-comparison for employees | 33% |
| Mobile-enabled benefit communications | 16% |

Looking beyond the combined data and observations, there is a clear need for effective communications that reach the right people with the right message — at the right time and in the right way. This objective will become increasingly important as employers strive to:

- Attract and retain the workforce they need to achieve the organization’s mission and goals
- Roll out new tactics to control healthcare spending
- Manage health risk in the areas of safety and wellbeing
- Support and equip employees in achieving financial security
**Implications**

**Investing time to put the organization and its strategy in an offensive position.**

As described in the introduction, the current environment is dynamic and challenging. This situation poses a risk because it can put organizational leaders on the defensive, causing them to react to a seemingly non-stop flow of demanding issues and prompting them to delay the launch of major initiatives due to overall uncertainty. If this rings true, investing time to put the organization and its strategy in a more offensive position is worth consideration.

**Employers should:**

- Completely update their organizational strategy for growth and sustained bottom-line success
- Gain a detailed understanding of how the workforce will support and drive organizational performance going forward
- Understand organizational roles and their contributions: What are the contributions of all roles? Where are the most critical contributions going to come from? What is the status of talent in the most critical roles — both existing talent and the ability to attract and retain the employees needed?
- Determine how all workforce rewards, systems and processes will align to support the organizational strategy now and in the future
- Identify the critical priorities for making changes in areas where the current strategy may be out of alignment

These are large and challenging tasks, but knowledge that is based on credible information and insight will help organizations drive an offensive strategy that strongly supports their goals.

**Focusing on Cadillac tax risk and considering a more comprehensive approach to healthcare cost control.**

It is significant that 35% of respondents — including over 20% of those with 1,000 or more employees — don’t know if one or more of their current medical plans is on target to trigger the Cadillac tax in 2018. Having this insight and planning accordingly is essential to avoiding substantial costs, or dramatic changes in plan design or cost sharing.

Relative to health benefits strategy, research findings conclude that employers are beginning to adopt a broader variety of tactics, beyond cost shifting and changing carriers, to help control rising healthcare costs. In spite of these efforts, the pace of change may be too slow for many of them to avoid paying the excise tax in 2018 and beyond.
For employers that need to accelerate changes in their compensation and benefits strategy, it’s useful to benchmark against the strategies of other organizations that have most successfully controlled their costs. Based on the attributes of employers identified as best-in-class for benefit costs and turnover metrics in Gallagher’s 2014 Best-In-Class Benchmarking Analysis, leading performers are more aware of their costs, more focused on proactive cost-control strategies, and more likely to use tactics besides cost-shifting to achieve cost control. The implication is that leading organizations are ahead of their peers in implementing tactics that many respondents to this year’s survey — though not enough — are considering. These measures include self-funding medical benefits, leveraging evolving changes in medical and pharmacy provider networks, establishing mandatory prescription policies and other tactics.

HR and benefit professionals know that change can be difficult — particularly innovative types of change — beginning with the job of gaining buy-in from senior leadership. For this reason, it’s important to note that benchmark leaders focus first on having good information about where their organization is now, and where it’s headed. This insight tends to: 1) sharpen the focus on finding new solutions, and 2) broaden thinking about the tactics that may be used. This time-tested approach can help employers struggling to control their costs.

Making communications an integral part of strategy.

It’s important for HR and benefit professionals to continue finding new and better ways to address their connected and often competing challenges. By rethinking how to control benefit costs and attract, engage and retain key talent, they can formulate a plan that gets the results the organization needs from its people. Achieving these goals begins with well-informed policies and programs, but even the best strategies will fall short of their potential if changes are not communicated effectively. Workforce diversity, evolving communication technologies, and employers’ needs and desires to strengthen their unique cultures require them to focus proactively on the role of communications in successful strategies.

The bottom line implication is simply to make communications an integral part of strategic planning with its own work stream. This work stream should feature steps to better understand employee needs and preferences, evaluate existing communication practices, and develop a strategy that drives efficient and effective delivery of messaging. Informative, authentic messaging that’s aligned with the organization’s cultural aspirations is essential to make these efforts pay off in full. By more strongly engaging employees through communications, employers can increase their competitive edge.
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 Executive Summary aren’t exactly a road map. However, considered together, they do provide context and direction that can help employers transform their HR and benefit strategies, and in the process, create the engaging employer-of-choice environment their 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 that can help employers optimize their human capital investment:

• 2015 State of the Market Report
• Healthcare Reform Employer Resources
• Institutional Investment & Fiduciary Services Weekly Market Update
• Directions Newsletter, published monthly
• Rethinking and Rebalancing Compensation and Benefits with Revenue: How to Better Align Business and Employee Objectives (Whitepaper)
• Critical Thinking — From Employee to Stakeholder: The Unsustainable Status Quo in Compensation and Benefits (Whitepaper)

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 benefits 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 benefits solutions help your people work better so they can make your business perform better.
The intent of this Survey is to provide you with general information regarding current practices within the employee benefits environment. The data does not constitute recommendations or other advice regarding employee benefit programs, and the user is in no way obligated to accept or implement any information for use within their organization(s). The decision to utilize any information provided rests solely with the user, and application of the data contained does not guarantee compliance with applicable laws or regulations regarding employee benefits. Information provided by the Survey, even if generally applicable, cannot possibly take into account all of the various factors that may affect a specific individual or situation. Additionally, practices described within the survey should not be construed as, nor are they intended to provide, legal advice.

The Web Site and the Content do not constitute accounting, consulting, investment, insurance, legal, tax or any other type of professional advice, and should be used only in conjunction with the services of a Gallagher consultant and any other appropriate professional advisors who have full knowledge of the user’s situation.

Gallagher does not represent or warrant that the Content will be correct, accurate, timely or otherwise reliable. Gallagher may make changes to the content at any time. Gallagher assumes no responsibility of any kind, oral or written, express or implied, including but not limited to fitness for a particular purpose, accuracy, omissions and completeness of information. Gallagher shall in no event whatsoever be liable to licensee or any other party for any indirect, special, consequential, incidental, or similar damages, including damages for lost data or economic loss, even if Gallagher has been notified of the possibility of such loss. For the purposes of this section the term “Gallagher” shall be construed so as to include Gallagher Surveys as a marketing division and/or Gallagher Benefit Services, Inc. and its affiliates.

Consulting and insurance brokerage services to be provided by Gallagher Benefit Services, Inc. and/or its affiliate Gallagher Benefit Services (Canada) Group Inc. Gallagher Benefit Services, Inc., a non-investment firm and subsidiary of Arthur J. Gallagher & Co., is a licensed insurance agency that does business in California as “Gallagher Benefit Services of California Insurance Services” and in Massachusetts as “Gallagher Benefit Insurance Services.” Securities and Investment Advisory Services may be offered through NFP Advisor Services, LLC, Member FINRA/SIPC. Investment advisory, named and independent fiduciary services are offered through Gallagher Fiduciary Advisors, LLC, a Registered Investment Adviser. Gallagher Fiduciary Advisors, LLC is a single-member, limited-liability company, with Gallagher Benefit Services, Inc. as its single member. Not all individuals of Gallagher and none of Gallagher Fiduciary Advisors, LLC individuals are registered to offer securities or investment advisory services through NFP Advisor Services, LLC. NFP Advisor Services, LLC is not affiliated with Arthur J. Gallagher & Co., Gallagher Benefit Services, Inc. or Gallagher Fiduciary Advisors, LLC. Neither Arthur J. Gallagher & Co., NFP Advisor Services, LLC, nor their affiliates provide accounting, legal or tax advice.

©2015 Gallagher Benefit Services, Inc.

All rights reserved. No part of this book, including the text, data, graphics, interior design and cover design may be reproduced or transmitted in any form, without explicit consent from Arthur J. Gallagher & Co.