

MetLife



SMALL BUSINESS BENEFITS

Address Growing Flight Risk With Benefits-Based Strategies

Decline in Worker Loyalty Threatens Small Business Stability

MetLife, a leading provider of employee benefits to more than 48,000 small businesses in the United States, has tracked and analyzed the impact of employee benefits on small businesses for nine years through its Annual *Study of Employee Benefits Trends*. As the economy shows mixed signs of recovery from the financial crisis and small businesses are expected to be at the forefront of potential growth, MetLife is committed to providing benefit solutions designed, priced and administered to fit the specialized needs of small business employers.

Address Growing Flight Risk With Benefits-Based Strategies is an addendum to the 9th Annual MetLife *Study of Employee Benefit Trends*. It has been developed to help small business employers and brokers navigate through these challenging times—and to equip them with practical benefits strategies and tools to help attract, motivate and retain their workforce while recognizing the need to closely manage costs.

High Museum of Art, Atlanta, Georgia



The High Museum of Art is considered by many to be the leading art museum in the southeastern United States. Located in midtown Atlanta's arts and business district, "The High" boasts more than 12,000 works of art in its permanent collection. In our graphic rendering of The High's unique and inspiring architectural splendors, we have highlighted both the particular and the more general, revealing the importance of both insight and perspective. In volatile and challenging times for America's small businesses, the use of benefits-based strategies to help achieve business objectives is as much art as it is the science of finance. It requires an appreciation of plan specifics as well as knowledge of general benefits trends. Talented, creative brokers can help ambitious, imaginative small business owners to artfully confront the challenges of the current economy with inspiration from the study of both past practices and new approaches. The clear objective for small businesses is a winning benefits strategy—one that helps employers manage to the bottom line and realize business objectives, while aiding employees in their pursuit of financial security and peace of mind on the job and at home.

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SECTION 01

Executive Summary — Key Findings

Work force loyalty is an abiding concern for all employers who rely on the productivity, commitment and hard-won experience of their employees. For the small business employer (2-499 employees), however, work force loyalty takes on a special urgency because key employee contributors often play a variety of different business roles, adding essential value in a number of different ways. There is no cushion or safety margin in the small business environment that provides protection against the negative impact of a top performer's defection.

STEADY, THREE-YEAR DECLINE FOR LOYALTY OF SMALL BUSINESS WORK FORCE

According to MetLife's small business proprietary research, the percentage of small business employees who feel a strong sense of loyalty to their employer has dropped to 44%—representing a steady decline over the last three years. Of course the potential negative implications of this low loyalty rating for small business employers are manifold—increasing absenteeism, lower productivity and, an increased risk of voluntary termination.

To complicate matters, small business employers seem to have misjudged the loyalty of their workers. In fact, there is a widening gap between employers' assessments of loyalty and actual worker loyalty. These findings and others are detailed in this white paper, with our key findings and other research-based observations summarized below.

- 1.** Although tentative and volatile, the economic outlook for small businesses shows some signs of improvement. Credit access has improved. Capital expenditures are growing. And hiring represents a clear strength among all indicators of growth. Nevertheless, at approximately mid-year 2011, small business owners remain wary of the economic outlook.
- 2.** The key findings from MetLife's 9th Annual *Study of Employee Benefit Trends—A Blueprint for the New Benefits Economy* hold true in the small business community. There is an erosion of employee loyalty and a potential retention issue.
- 3.** There is a widening gap in loyalty between small business employers and their employees.

In November, 2008, 55% of small business employers considered their employees very loyal. And, indeed, 62% of these employees called themselves very loyal. Loyalty, in fact, was actually better than the employers had suspected. But three years later, approximately the same percentage of employers, 54%, considered their employees very loyal, while only 44% of these employees identified themselves as very loyal.

- 4.** A little more than one-third of small business employees (34%) said they hoped to be working for a different employer some time in 2011.
- 5.** A benefits program is an appropriate, smart response to employee flight risk because the research shows a clear correlation between benefits satisfaction and job satisfaction. An unmistakably high percentage (72%) of small business employees who are very satisfied with their benefits feel a very strong sense of loyalty to their employer.

6. Attractive and powerful benefits programs can still be cost-effective. When faced with a choice of either paying for benefits or losing them entirely, employees indicated that they would choose to pay for them. Even if small business employees have to pay the full cost for these benefits,
- 55% feel it is important to have dental insurance,
 - 48% feel it is important to have life insurance, and
 - 43% feel it is important to have disability insurance.

However, about one-third of small businesses do not currently offer these benefits—68% of businesses with fewer than 500 employees currently offer dental benefits, 65% offer life insurance, and 63% offer disability—percentages that have remained relatively flat over the last several years. The volatile economy has created increased interest among employees with regard to the financial protection afforded by workplace benefits. During the past 12 months, 36% of small business employees place an even greater value on their workplace benefits.

7. Health care reform is on the mind of small business employers, but the legislation has often been shrouded in uncertainty with a suspicion of impermanence, giving rise to a wait-and-see approach. Forty percent of small business employers report they are unsure of their response to the new legislation. Over half, 57%, say they are going to rely more on their broker to help them sort it out.
8. MetLife suggests that small business employers and their brokers consider several action steps in order to make their benefits program a more powerful and cost-effective tool to help attract, motivate and retain key contributors.

INSIGHTS TO ACTION

- Evaluate voluntary benefits for your program.
- Leverage unique advantages of small business.
- Look for administrative ease and simplicity.
- Communicate benefits program effectively.
- Consider supplemental benefits in light of productivity.
- Investigate whether a wellness program would help the business.
- Evaluate the federal government's program of tax credits for health insurance.
- Meet with your broker to develop a strategy.

SECTION 02

Background and Introduction

The *U.S. Small Business Administration (SBA)* defines small businesses as those enterprises with fewer than 500 employees. For the purposes of its research and this white paper, MetLife defines a small business as a firm with two to 499 employees.

LITTLE GIANTS: SMALL BUSINESSES MAKE ENORMOUS CONTRIBUTION TO NATION'S ECONOMIC WELL-BEING

It is difficult to overstate the role of small businesses in contributing to job growth and business expansion in the United States. Small businesses, in fact, help to power the nation's economic engine and determine its overall economic health. According to the *SBA's Office of Advocacy*, small businesses pay 44% of the total U.S. private payroll¹ and have created more than 65% of net new jobs over the past 17 years²—approximately 9.8 million jobs. Small businesses employ approximately 50% of all private U.S. workers and represent 99.7% of all employer firms.³

Increasingly, when economists endeavor to present a long-range forecast of the nation's economic performance, they turn to small businesses for a temperature check, making this sector of the economy a leading indicator.

FULL OPTIMISM NOT YET RESTORED FROM RECESSIONARY LOWS

The *National Federation of Independent Businesses (NFIB)*, an organization that calls itself "the voice of small business®", publishes an Index of *Small Business Optimism*⁴ that represents a comparative analysis and reality check of how small business owners view current business conditions. The Index has remained frozen at recession-level readings since December 2007. It seems safe to say that small business owners will believe in full recovery only when they experience it firsthand, such has been the anguish and loss associated with the financial crisis.

OUTLOOK IMPROVES FOR CREDIT AVAILABILITY AND CAPITAL EXPENDITURES

While the overall outlook for small businesses remains uncertain, some economic indicators show signs of improvement and provide reason to believe that a slow but steady recovery may be under way. *Greenwich Associates*, a consulting and research firm specializing in financial services and founded in 1972, reported in April 2011 that "...the share of small businesses reporting success in landing bank loans is returning to historic averages."⁵

The availability of credit has been an enormous obstacle to some small business owners who looked to invest in growth or reinvest in their business but were frustrated by tighter credit restrictions and a simple shortage of credit. *Conning Research and Consulting* identified this phenomenon as a serious impediment to growth before the credit crunch began to ease. "Small business growth is partly hampered because of inadequate access to convenient and affordable credit as personal assets have shrunk and as small bank lending has decreased."⁶

Greenwich Associates also found that approximately one-third of small businesses surveyed intended to increase capital expenditures, while 35% intend to either remove a salary freeze that is currently in force or institute salary increases for their employees. While not a comprehensive and ringing endorsement of small business growth, *Greenwich's* report suggested that its findings "...represent an important signal of recovery ..."⁷

HIRING PLANS CALLED ‘BRIGHT SPOT’

A growth in loan activity and capital expenditures demonstrates tentative signs of renewed life. Interpreting findings from March 2011 published in its *Small Business Economic Trends*, the *NFIB* reported that “Hiring and future plans to hire built on February’s gains and remain the bright spot in an otherwise discouraging report.”⁸

Of the small businesses that *Greenwich Associates* surveyed, 36% said they intended to hire in the short-term.⁹ This finding represents a favorable turnaround from the 47% of small businesses intending to lay off employees in the first quarter of 2008, as reported by *Greenwich*.

A likely increase in hiring plans among small employers was supported by an early-May 2011 report mentioned in the *Wall Street Journal* that small business owners “...plan to boost their workforce within the year.”¹⁰

Early signs of growing confidence in the more generalized labor force, not just employees of small businesses, were seen as early as February 2011 when the *U.S. Bureau of Labor Statistics (BLS)* released a report showing that more workers had voluntarily left their job than had been laid off for the fourth consecutive month.¹¹ This represented a clear indication that workers who were previously inclined to stay at their place of employment—even when dissatisfied with their job—now felt more comfortable seeking employment elsewhere. The sense of having to “settle for less” for fear of not being able to find another job seemed to be dissipating. A complementary report issued by the *BLS* in May 2011 showed that job openings were at or above three million, marking the first time that this figure had been achieved for two consecutive months since November 2008.

ADDRESSING FREEDOM OF MOVEMENT IN MODERATELY IMPROVED ECONOMIC CLIMATE

The American economy continues to follow a volatile, unpredictable course. Yet under even a moderately improved economic climate of job growth and mobility, the focus for small business employers will eventually shift from a recessionary theme of “doing more with less” to a recovery and growth theme in which key considerations like attraction, motivation and retention of top talent become paramount.

This paper is intended to suggest a practical course of action for small business owners who seek to protect their business against the risk of losing key contributors. The paper will examine research findings from MetLife that shed light on employers’ perceptions of loyalty as compared to actual employee loyalty among small businesses. A product of proprietary research conducted under MetLife’s 9th Annual *Study of Employee Benefits Trends*, the findings reveal a widening gap between the loyalty assumptions small business employers have made and actual small business employee loyalty.

To help address these loyalty misapprehensions, the paper will examine ways in which a cost-conscious, cost-effective benefits program can be modified to meet the needs and expectations of key contributors in a challenging small business environment. Small business owners, principals and human resources professionals can work with their brokers to develop a flight risk avoidance plan, leveraging benefits as a strategic retention tool to help prevent the loss of key employees.



INSIGHT

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SECTION 03

Assumptions Can Be Dangerous: Research Reveals Loyalty Gap and Flight Risk



INSIGHT

The inescapable fact is that small business employees wear many different hats and work in a culture where employees perform a variety of indispensable functions.

The question of loyalty is especially important when it comes to operating in the small business environment. Here, employers with fewer associates can least afford reductions in “bench strength.” The inescapable fact is that small business employees wear many different hats and work in a culture where employees perform a variety of indispensable functions. In the smaller business real-world environment, the employee who authors the company’s five-year strategic plan may well be the same employee who is handling weekly payroll and also driving to the local office-supply store to purchase replacement ink cartridges for the printer.

THE HIGH COST OF LOSING HIGH-FLYING PERFORMERS

Of course there is considerable debate about the precise cost of replacing key talent. Some experts claim the cost is in the range of 150% to 200% of the employee’s annual salary.¹² Others estimate replacement costs at up to 500%.¹³ *Right Management*, a talent and career management consulting firm, figures the cost at approximately 300%, which includes recruiting, severance, lost productivity and opportunity costs. There is also the cost of training a replacement along with the cost of potential customer dissatisfaction until the replacement is brought up to speed. And all of these costs are almost certainly understated in the case of a valued employee for a small business where the associated inconveniences and expenses are likely to be amplified.

The bottom line: small business owners can ill-afford to lose experienced, effective contributors. The disruptive impact of such a loss could be devastating. But in order to manage this risk effectively, small business employers need to take a clear-headed look at the potential flight risks in their employee population.

NUMBERS SPEAK VOLUMES ABOUT GAP BETWEEN PERCEIVED AND ACTUAL LOYALTY

MetLife’s 9th Annual *Study of Employee Benefit Trends* found that 54% of surveyed small business employers believed their employees have a “very strong sense of loyalty” to the company.¹⁴ Unfortunately, their employees were not of the same opinion.

Less than half of employees (44%), said they felt a very strong sense of loyalty to their employers. More tellingly, a little more than one-third of small business employees surveyed (34%) said they hoped to be working for a different employer sometime in 2011.

The gap between perceived and actual loyalty was even wider at small businesses employing between two and nine employees. Here, 61% of employers believed workplace satisfaction was high, with only 39% of employees in agreement.

SMALL BUSINESS EMPLOYEE LOYALTY DECLINES STEADILY, REACHES THREE-YEAR LOW

Viewed from a wider perspective, the research on loyalty is even more revealing. Small business employee loyalty has declined steadily over the last three years, falling from 62% to 44%. This trend represents a disturbing development for small business owners, making them increasingly vulnerable to large-scale worker disaffection. Yet, as revealed in the research on employer perceptions previously discussed, the trend tells only part of the story. Small business employers, to date, seem unaware of declining loyalty. Instead, their assessment of worker loyalty remains largely unchanged over the same period in which the decline has taken place. The prevailing belief among small business employers



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that worker loyalty is unchanged serves to amplify declining worker loyalty, making it akin to an emergency for which small business management is unprepared. The first remedy to a work force problem is awareness. A lack of awareness invites added difficulties and challenges.

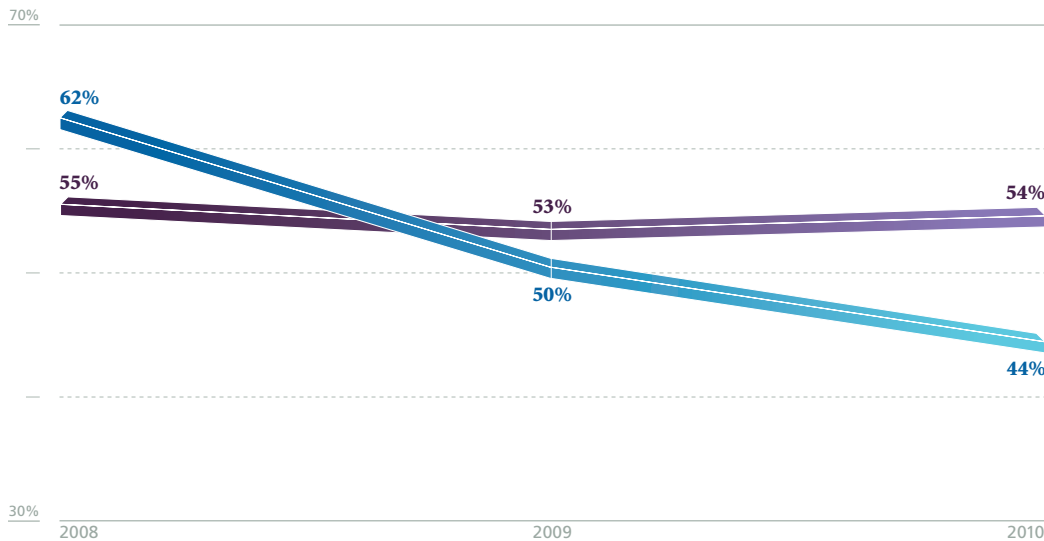
NOT JUST A SNAPSHOT, BUT A CLEAR SMALL BUSINESS TREND

More than a snapshot of employee discontent, the research suggests an important implication of declining employee loyalty. There is a widening gap between employer perceptions of loyalty and actual employee loyalty over the last few years. For example, in November 2008, 55% of small business employers thought their employees had a strong sense of loyalty to the company. And indeed, 62% of employees agreed with this assessment.¹⁵ Of course, this reading on employee loyalty represents the effects of the devastating financial crisis on employment outlook. Over the past two years, employee loyalty has declined to 44%, while employer perceptions of employee loyalty have remained flat at 54%. The ongoing research demonstrates that while employer assessments of loyalty have remained relatively constant, actual employee loyalty has declined.¹⁶

Fig. 1

Declining Employee Loyalty Creates Widening Gap in Perception

- Small business employees who feel a very strong sense of loyalty to their employer
- Small business employers who say employees have a very strong sense of loyalty to the company



More than a snapshot of employee discontent, the research suggests a developing trend: there is a widening gap between employer perceptions of loyalty and actual employee loyalty over the last few years.

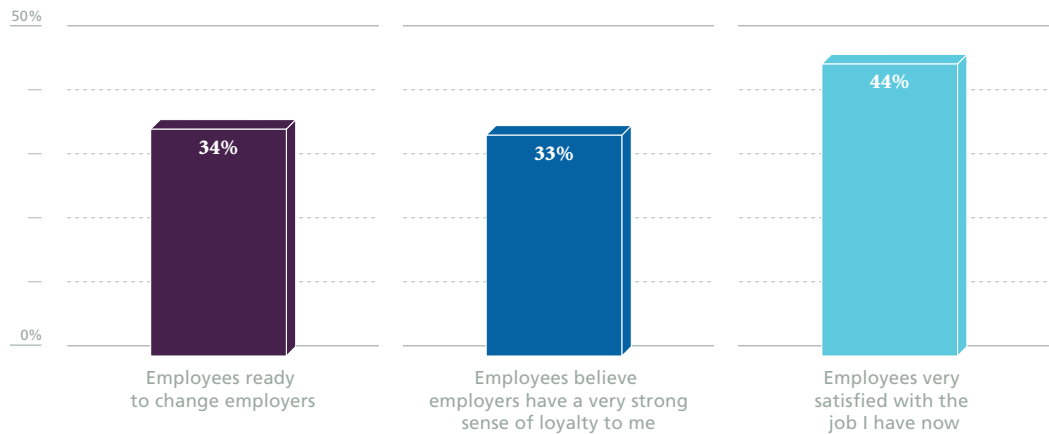
DISENCHANTMENT WIDESPREAD AND PRONOUNCED AMONG SMALL BUSINESS EMPLOYEES

MetLife research reveals significant disenchantment within small business employee populations. Only 33% of employees believe their employer “has a very strong sense of loyalty to me.” Similarly, less than half (44%) are very satisfied with the “job I have now.”¹⁷

The disconnect between employer and employee is even more pronounced in the 50-99 employee category. Here, employee perception of employer loyalty drops to 19%. Yet, 58% of employers in this same segment of the small business community believe the company has shown very strong loyalty to employees. Loyalties are even more strikingly misperceived in the two to nine segment, where 37% of employees think their employer is very loyal, while 70% of employers consider themselves very loyal—nearly a 2 to 1 difference.

Fig. 2

Low Levels of Small Business Employee Loyalty and Satisfaction



VOLATILE MATCH: INCLINATION TO MOVE MEETS OPPORTUNITY

Despite the confidence of employers in the loyalty of their staff, employees appear to be more inclined to search out new job opportunities. And this inclination, when coupled with potential long-term improvements in the job market, spells potential trouble for small business employers.

The reasons behind the shift in loyalty are open to debate. Of course reasons will vary from employee to employee, but it seems likely that employees have grown impatient with necessary spending constraints during a prolonged recessionary period. Hiring freezes have led to increased workloads for seasoned employees. The suspension of pay raises and bonuses has meant that outstanding performance under challenging circumstances could not be immediately rewarded. And a restriction on capital expenditures has led to a less satisfying work environment in which necessary and customary improvements could not be made. During a recessionary period these are, of course, necessary tactics for small businesses confronted with increased competition, tightened loan requirements and declining demand.

It is still imperative for small business owners to watch expenses and capital outlays with great caution. But it seems clear that belt-tightening has taken its toll on employees.

As a result, a movement of rising expectations seems to be taking place among employees. Better times are anticipated and employees want to be sure they don't miss out.



INSIGHT

A movement of rising expectations seems to be taking place among employees.

SECTION 04

Cost-Effective, Carefully Designed Benefits Programs Inspire Loyalty

A benefits program is an appropriate, smart response to employee flight risk because the research shows a clear correlation between benefits satisfaction and job satisfaction. According to MetLife research, of the small business employees who said they are very satisfied with their benefits, 71% are very satisfied with their job. This represents a strong, positive correlation between a small business benefits program and levels of job satisfaction among employees.¹⁸

ACCORDING TO RESEARCH, LOYALTY CONNECTED TO BENEFITS

Approximately 50% of small business employees who are not satisfied with their benefits hope to be working for a different employer in 2011.¹⁹ Yet small business employees who are satisfied with their benefits are less likely to leave their employer. An unmistakably high percentage (72%) of small business employees who are very satisfied with their benefits feel a strong sense of loyalty to their employer.²⁰

Simply stated, employees who are satisfied with their benefits are more likely to feel loyal to the employer who provided them. While not surprising, this is an insight that is often overlooked by employers who underestimate the power of benefits to produce desired characteristics in their workforce.

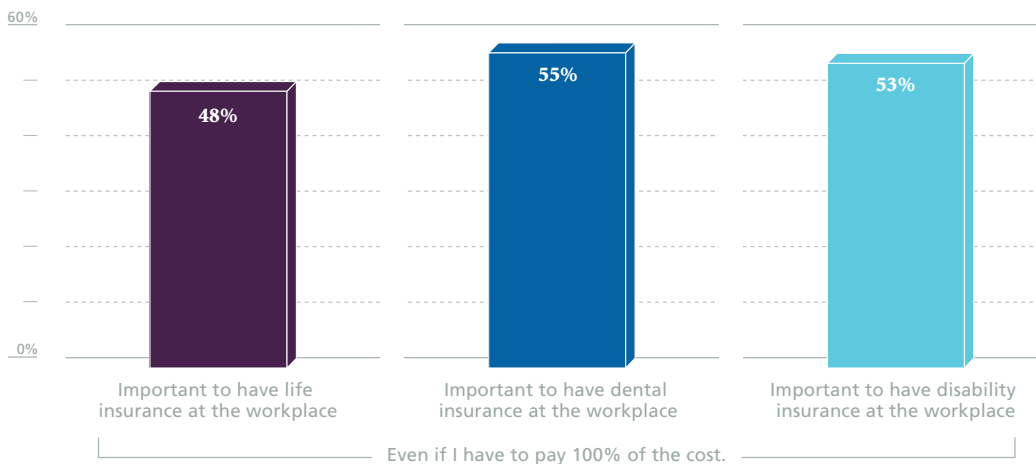
Although the growing gap between small business employers and their employees is certainly cause for concern, employers are not without tools for addressing loyalty issues. A well-designed benefits program that embraces voluntary benefits can provide a cost-effective answer. When faced with a choice of either paying for some benefits or losing them entirely, many employees indicated that they would choose to pay for them.²¹

MetLife's research found that even if they have to pay for the full cost of some benefits, a significant percentage of small business employees feel life, disability and dental insurance through the workplace are important.²²

Fig. 3

The Appeal of Voluntary Benefits

Small business employees would assign importance to these benefits even if they have to pay 100%.



INSIGHT

When faced with a choice of either paying for some benefits or losing them entirely, many employees indicated that they would choose to pay for them.¹⁹



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Employers do not need to spend a small fortune in taking steps to address loyalty. With an effective employee benefits program, it is not necessarily a question of spending more, but of spending more wisely.

INSIGHT TO ACTION: Evaluate Voluntary Benefits for Your Program

Among businesses employing 100–499 employees (a wide swath of the smaller business community), 58% of employees say that non-medical benefits such as dental, disability, life and vision insurance, etc., are a very important consideration in contributing to loyalty.²³ Forty-one percent of their employers assign the same value to these benefits.²⁴ Clearly, small business employers are underestimating the importance of these benefits in helping to determine employee loyalty.²⁵

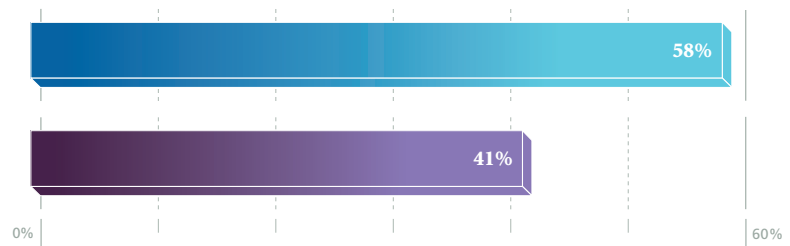
By offering these non-medical benefits on a voluntary basis, small business employers can work towards achieving better workforce loyalty without negatively impacting bottom-line costs. Do small business employers assume their employees would be unhappy with a program of voluntary or supplemental benefits that require employee payments? Or are small business employers even aware that voluntary benefits are available to them? In fact, an array of voluntary benefits can be attractive to both the small business employer hoping to design a cost-effective program — and their employees looking for meaningful financial protection products.

Fig. 4

What Helps Determine Loyalty?: A Disconnect

Employees who strongly agree all other benefits (dental, disability, life and vision) contribute to a sense of loyalty

Employers who strongly agree



INSIGHT TO ACTION: Leverage Unique Advantage of Small Business

Small business owners enjoy a unique advantage when it comes to the task of designing a valued benefits program: because they have fewer employees and often a much flatter organizational structure, they tend to have a clearer understanding of the needs of their employee population and are thus able to better identify benefits that will work to the advantage of their employees.

With more easily obtained insights into what their employees need and want from a benefits program, small business employers can be strategically selective in choosing available options when working with their broker and carrier. As a result, they can offer benefits that their employees will not only appreciate, but are more likely to use.

INSIGHT TO ACTION: Look for Administrative Ease and Simplicity

Small business employers frequently function as their own human resources department and benefits administrator. This means they are unable to delegate benefits-related tasks which can be time-consuming and burdensome. At the same time, they simply cannot afford to divert their attention from core business concerns. It is therefore imperative that small business employers look for a benefits carrier and broker who can help them streamline many of the administrative functions associated with their plan.



Employees who are satisfied with their benefits are more likely to feel loyal to the employer who provided them.

While not surprising, this is an insight that is often overlooked by employers who underestimate the power of benefits to produce desired characteristics in their workforce.

Web-based reporting, employer web-portals, and simplified enrollment can lift many of the burdens of plan administration from their shoulders. Employers should make it a priority to leverage these advantages in order to maximize the value of their program and avoid losing their business focus.

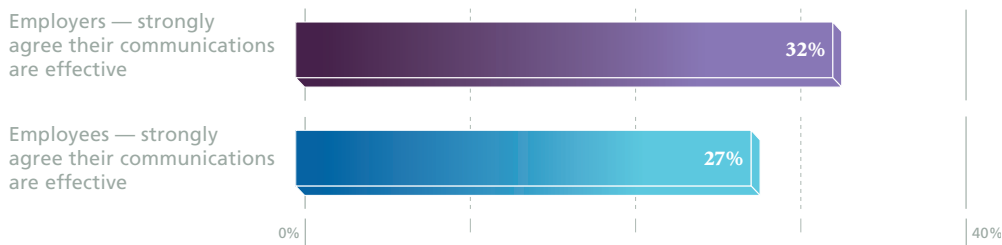
INSIGHT TO ACTION: Communicate Your Benefits Program Effectively

When it comes to employees recognizing the value of a benefits program, perception is reality. If employees are unaware of a life insurance benefit, for example, it might as well not exist. Why then would an employer want to pay the premium for a poorly communicated, under-utilized benefit? Working with their broker and carrier, small business employers should make every effort to ensure that employees understand the company's benefits offering, that they know how to use the benefits, and that the benefits address their needs.

An ongoing theme of MetLife research is the agreement among employers *and* employees that benefits communications are generally ineffective. The most recent small business research shows that communications programs are found lacking. When asked if their benefits communications effectively educate employees, only 1 in 3 small business employers (32%) were in strong agreement.²⁶ Similarly, a mere 27% of small business employees considered the benefits communications at their workplace to be very effective.²⁷

Fig. 5

A Failure to Communicate



By working with their brokers and carriers on the relevance, helpfulness, accuracy and overall effectiveness of their communications, small business employers will ensure that they are getting full value for the investment they have made in workplace benefits.

Aside from a better understanding and utilization of benefits, improved benefits communications can also increase loyalty among employees. Among small business employees who strongly agree that their employer improved communications over the past year, almost 60% feel strongly that their employer is loyal to them. This compares very favorably with the 27% loyalty rating of small business employees who did not strongly agree that their employer improved communications over the past year. Employees appear to interpret an interest in communications as an interest in their well-being.



It is therefore imperative that small business employers look for a benefits carrier and broker who will help them to streamline many of the administrative functions associated with their plan.

INSIGHT TO ACTION: Consider Benefits in Light of Productivity

An employee benefits program can be much more than an appealing, powerful ingredient of a total compensation package. Benefits can be a highly effective tool in helping to promote desirable habits and characteristics in a workplace population.



INSIGHT

Benefits can be a highly effective tool in helping to promote desirable habits and characteristics in a workplace population.

FINANCIAL CONCERNS PREOCCUPY, DISTRACT EMPLOYEES

While 52% of small business employers agreed that “employee financial stress contributes to employee absences at our company,”²⁸ only 16% of employers, a rather distinct minority, strongly believed that a broad-based financial and/or retirement education program delivers much value in addressing employee productivity.²⁹

It is therefore not surprising that 77% of small business employers report that they do not plan to offer financial/retirement planning seminars within the next 18 months.³⁰ Yet 75% of small business employees who report taking time off to deal with, or spend more time at work thinking about personal financial issues than they think they should, said they would be interested in receiving advice and guidance through their employer.

The reluctance of small business employers to take on added benefits is understandable—especially during a challenging business climate. But there are clearly some productivity implications for an employer’s decision not to address the financial worries of employees. And many financial advice and guidance programs and tools can be implemented with minimal cost and effort.

The problem should not be underestimated. Small business employees report a consistent, fairly high level of concern with financial and health matters. Having enough money to pay bills during a period of sudden income loss was reported as a source of serious concern for 63% of small business employees.³¹ And 51% of employees expressed strong worries about having enough money to cover the cost of health insurance, e.g., premiums and/or out-of-pocket expenses.

The research suggests, and employers acknowledge, that financial concerns are impacting productivity. Broad-based financial and retirement education programs that familiarize employees with life and disability insurance and retirement savings vehicles, including annuities, can have a positive impact on the financial planning of employees. Presumably this will improve their outlook, peace of mind and ultimately their productivity.

SMALL BUSINESS BOOMERS REPORT BEING UNPREPARED FOR RETIREMENT RIGORS

Aside from the productivity implications of employees distracted by financial concerns, the research also reveals that Baby Boomers (born 1946-1964) in the employ of small businesses are dealing with significant challenges in their attempts to achieve a secure retirement. These challenges represent potential workforce management issues for small business employers as they look to make an effective and timely transition from older to younger workers.

Attitudes and opinions among small business Baby Boomers reveal considerable distress in a variety of retirement-related topics, including: progress of retirement savings, concern with outliving money and the necessity of working full- or part-time in retirement.

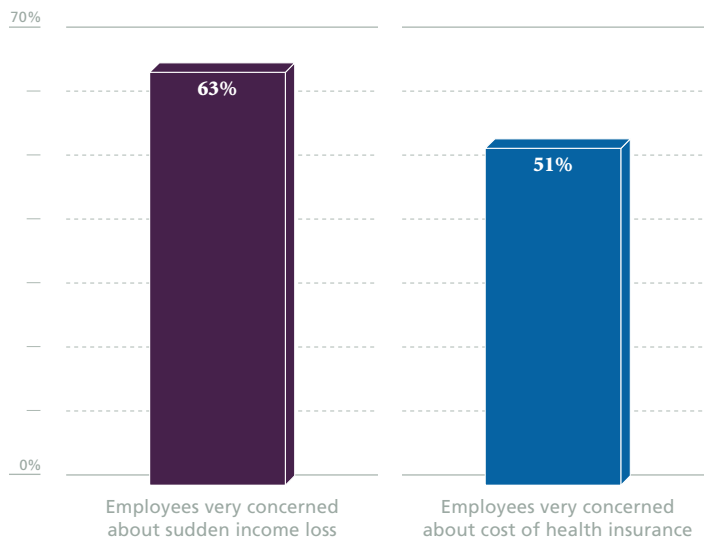
Few Baby Boomers, 16%, said that they were on track to achieve or have already achieved the right retirement outcome. Retirement angst in the small business community is even more apparent among Baby Boomers when the subject turns to worries about outliving retirement funds. Nearly two-thirds, 62%, of Baby Boomers are very concerned about out-living their savings. Finally, 59% of small business Boomers are very concerned about having to work either full- or part-time in retirement.

During a period of increased global competition, uncertain economic growth, and additional obligations associated with health care reform, it seems unreasonable to expect small business employers to assume increased expense and liability in the form of a new retirement plan obligation. Nevertheless, the research reveals an obvious problem for both small business employees and their employers. In light of the research, it makes sense for employers and their brokers to investigate new small business retirement plan product solutions and plan-related innovations.

Solutions that can help contribute to saving for retirement, protect people from prematurely tapping into savings, and promote physical and financial wellness can have a profound and long-term impact at all life stages. These solutions are needed even more urgently in the small market where most employees are shouldering heavy responsibilities for their health and financial decisions.

Fig. 6

Addressing Financial and Productivity Concerns With Benefits



SECTION 05

Reform Moves Forward, Creates Greater Urgency for Small Business Decision-Making

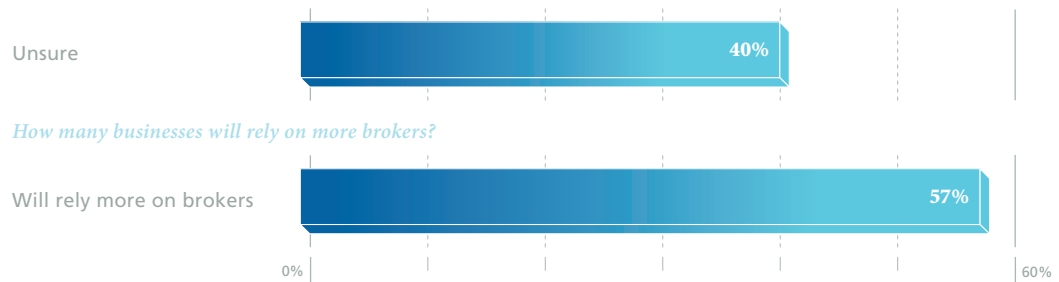
Health care reform has certainly been on the mind of small business employers, but the legislation has often been shrouded in uncertainty and the aura of impermanence. Various legislative and judicial challenges along the way have encouraged employers to adopt a wait-and-see approach. Nonetheless, as more days fall off the calendar since the March 2010 enactment of *The Patient Protection and Affordable Care Act (PPACA)* there will be growing urgency behind the decisions employers are required to make.

When asked the question, “What is your company most likely to do in response to the Health Care Reform legislation passed by Congress in Spring, 2010?”, 40% of small business employer respondents said they were unsure.³³ This high percentage of undecided employers probably reflects a variety of factors: lack of familiarity with specific aspects of the legislation; the previously mentioned wait-and-see approach; and a reliance on brokers to sort things out. (Over half of small business employers, 57%, say they are going to rely more on their broker as a result of health care reform legislation.³⁴)

Fig. 7

Uncertainty Still Dominates as Time Runs Out

What will small business do as health care reform takes effect?



But the indecision and uncertainty also reflect the serious ramifications involved. The stakes are high. According to the *Small Business Administration*, costs for small business health insurance have risen approximately 123% over the last decade.³⁵ Only 6% of small business firms surveyed report an intention to stop paying for health insurance in the wake of health care reform,³⁶ some are considering shifting more of the cost and risk to employees.

It is vital for small business employers to think strategically about the decisions that the new legislation requires and carefully evaluate the ramifications of their health care choices.

The sections that follow identify key provisions and mandates for small business employers arising out of the PPACA.



INSIGHT

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ENCOURAGEMENT: NEAR-TERM REFORM PROVISIONS AVAILABLE TO EMPLOYERS

Grants for Wellness Programs—Now Effective

Beginning in January of 2011, the federal government began awarding grants for “comprehensive workplace wellness programs” offered by small businesses. These grants have been funded for an initial five-year period and are available to employers:

- with fewer than 100 employees working 25 or hours or more per week, and
- who did not have a workplace wellness program as of March 23, 2010 (the date of PPACA’s enactment).

INSIGHT TO ACTION: Time for a Wellness Program?

Given the federal government’s available funding, small business owners who fit the criteria described above should investigate the possibility of adding a workplace wellness program. The addition of a wellness program may represent a chance to solve for a variety of productivity, expense and related concerns that are impeding the growth of many small businesses. Nearly three out of four employers (70%) of all sizes who offer wellness programs say they are effective at reducing medical costs.

Tax Credit—Effective Through 2013

With its passage in March 2010, the new healthcare legislation began offering a tax credit for businesses with up to 25 employees. This provision was effective in March 2010 and continues through December 2013. The credit represents a subsidy of up to 35% (25% for non-profits) of the employer-paid portion of health insurance premiums. In order to qualify, employers have to pay at least 50% of total premium costs under their plan. There are exceptions under the law, but, generally speaking, employers with more than 25 employees or an average company salary over \$50,000 will not qualify.

INSIGHT TO ACTION: Evaluate the Program of Tax Credits

MetLife research revealed that only 23% of small business employers had a very strong understanding of the details of the tax credit for health insurance.³⁷ Employers should work with their brokers or carriers to determine if they are eligible for tax credits under the reform legislation.

Access to Insurance Exchanges—Effective 2014

Beginning in 2014, small businesses will be able to purchase health insurance from new *Small Business Health Options (SHOP)* exchanges. The idea is that these exchanges will be online marketplaces where eligible individuals and businesses can choose among insurance carriers for health insurance coverage. There is no requirement to purchase from these exchanges, but they will likely offer lower premiums than those available elsewhere. The definition of small business may vary from state to state, but will generally be interpreted as employers with 100 or fewer employees. Employers who make use of the *SHOP* exchanges will have to offer plans that contain: no restrictions on pre-existing conditions; no rescissions; and other specific underwriting standards.

MANDATES TAKE EFFECT: KNOW WHAT STEPS ARE NECESSARY

Reporting of Health Expenses on W-2s—Effective 2013

Beginning in 2013, employers with more than 250 employees will be responsible for reporting the cost of group health benefit plan coverage on their employees' W-2 forms. The reporting requirements are expected to apply to the 2012 W-2 forms, which is information employers must report to employees in January 2013. This requirement is purely informational and does not mean that employer-provided coverage will become taxable. Employers filing fewer than 250 W-2 forms in 2011 will not be required to report the cost of coverage on any forms furnished to employees before January 2014.

Employer-Provided Coverage Requirements—Effective 2014

Small businesses with fewer than 50 employees are currently exempt from mandatory coverage requirements. However, businesses with 50 or more employees will be required to provide coverage as of 2014 or pay a fine. For some small business employers, a discussion of the requirements will include a decision about whether to pay the penalty rather than provide health benefits.

INSIGHT TO ACTION: Meet with Your Broker, Develop a Strategy

Only 16% of small business employers think they have a very strong familiarity with health insurance exchanges.³⁸ Surprisingly, only 27% were very familiar with the penalty effective in 2014 for not offering mandated coverage.³⁹ The time for decisions and action is drawing near. Small business employers should meet with their broker to make sure they have a strategy in place.

SECTION 06

Conclusion

While no one can be certain of the economic outlook for small businesses in six, 12 or 18 months, a variety of economic indicators suggest some improvements in the business climate. Under current conditions, small business employers seem notably unaware of declining loyalty among their employee populations. Improving economic conditions and low relative levels of job satisfaction increase the likelihood that small businesses will face the risk of losing one or more key contributors—leading to a seriously negative impact on business. Not surprisingly, given the opportunity to find employment elsewhere under improved conditions, a high percentage of small business employees seem prepared to change jobs.

The research reveals that satisfaction with benefits is related to job satisfaction and loyalty. To help address a potential brain drain or flight risk, small business employers can work with their brokers to make sure their benefits program is meeting the needs of employees and that the benefit offerings remain relevant and desirable.

A well-designed, cost-effective benefits program can help small business employers attract, retain, reward and motivate key contributors. An assessment of the PPACA's provisions and mandates is part of a strategic benefits approach that small business owners will want to adopt, ensuring they are getting optimal value from their benefits program.

SECTION 07

Methodology

The 9th Annual MetLife *Study of Employee Benefits Trends* was conducted during the fourth quarter of 2010 and consisted of two distinct studies fielded by GfK Custom Research North America. The employer survey comprised 1,508 interviews with benefits decision-makers at companies with staff sizes of at least two employees. The employee sample comprised 1,412 interviews with full-time employees age 21 and over, at companies with a minimum of two employees. Of the interviews, 953 were conducted with decision makers at companies with fewer than 500 employees, and 631 interviews were conducted with employees who work for these smaller businesses.

SECTION 08

Endnotes

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