

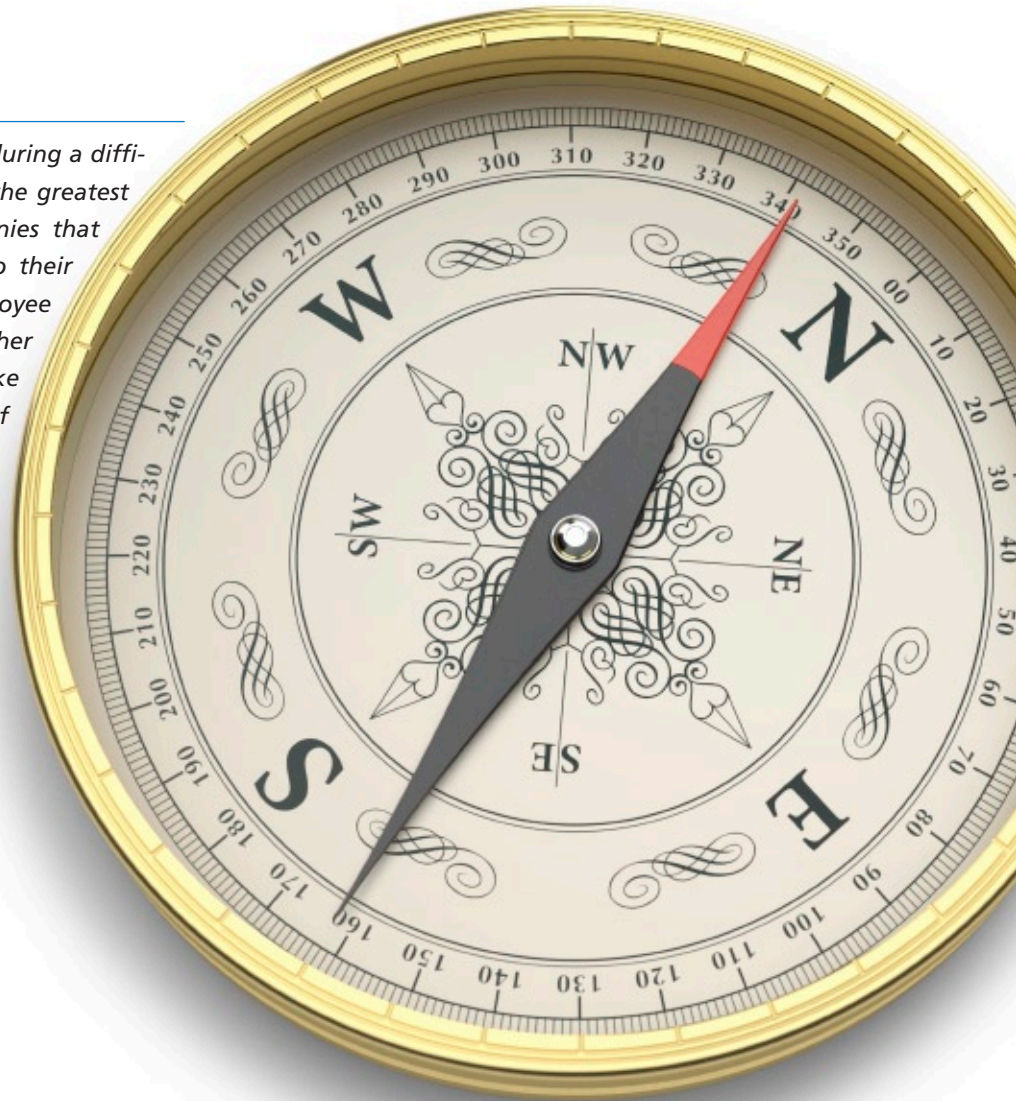
Employee Benefits: A Differentiator During Challenging Economic Times



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Helping employees remain on course during a difficult economic environment is one of the greatest challenges for any employer. Companies that demonstrate a steady commitment to their employees by continuing to offer employee benefits—especially at a time when other safety nets may have been eroded—take steps toward creating stronger bonds of loyalty. A number of recent research studies point to the fact that most employers are doing just that—taking a longer-term view by resisting the urge to pare back the benefits they offer to their employees.



EMPLOYEE BENEFITS: A DIFFERENTIATOR DURING CHALLENGING ECONOMIC TIMES

By Bill Mullaney, President, Institutional Business, MetLife



Every crisis presents a number of opportunities for innovative companies to pull ahead of the competition. One such opportunity is this year's Open Enrollment period for employee benefits.

During good times and bad, employee benefits can help employers address loyalty, recruiting and retention goals. But they may be even more differentiating during an economic downturn. When profits and jobs are plentiful, employee expectations run high; just to keep pace, employers must add new offerings, customized information, decision support tools, etc.

During a downturn, however, employee benefits can become a strong differentiator. Companies that demonstrate a steady commitment to their employees—especially at a time when other safety nets may have been eroded—take steps toward creating stronger bonds of loyalty.

More than in years past, employees are looking to the workplace for access to

products and guidance that will help them protect their income, health and families—both today and during retirement. Companies that answer their call stand a greater chance to attract and retain the best and the brightest workers, and grow one of the most important assets on their balance sheet—their people.

Employee Retention a Top Concern

Happily, most employers recognize the contributing role benefits can play in attracting and retaining top talent. According to MetLife's 7th Annual Study of Employee Benefits Trends (2009), employee retention and cost control remain the top employee benefits considerations. Close behind is the employers' belief that benefits can help to increase—or at the very least maintain—productivity levels, which is particularly important when workers may be feeling a greater burden due to recent staff reductions. Finally, four in ten (39%) employers believe job satisfaction/morale is strongly linked to the quality of employee benefits [Chart 1].

Most Employers Resist Urge to Cut

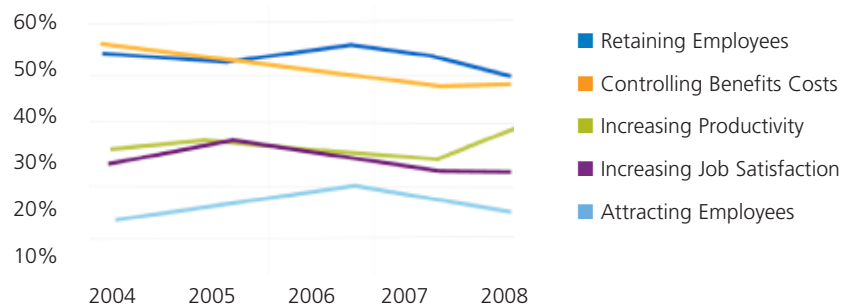
A number of recent research studies point to the fact that most employers

are taking a longer-term, more strategic approach to benefits by resisting the urge to pare back the benefits they offer to their employees. MetLife research shows that fewer than 15% of employers plan to reduce benefits significantly during 2009, and most of those who are considering action are focusing on 401(k) matches.¹ LIMRA International's study, *A Subtle Shift*, which examined employee benefits trends during the downturn, reports an even lower percentage (3%) of employers planning cutbacks.² Similarly, a study by the International Foundation of Employee Benefits Plans (IFEFP) found that less than 4% of plan sponsors are considering cutting healthcare benefits altogether, although more than one third (35%) are increasing employee deductibles, coinsurance or copays due to the financial crisis.³

Benefits More Important Than Ever

According to the Employee Benefit Research Institute (EBRI), employers spent nearly \$8 trillion on total compensation (salary and benefits) in 2007. Employee benefits—such as health insurance, retirement funding and non-health benefits—made up 18.6% of that amount.⁴

[CHART 1] MOST IMPORTANT BENEFITS OBJECTIVES OF EMPLOYERS



Source: 7th Annual MetLife Employee Benefits Trends Study, 2009

[CHART 2] EMPLOYEES MORE AWARE OF THE CENTRAL ROLE OF BENEFITS IN FINANCIAL SECURITY

Consider workplace benefits to be the foundation of my financial safety net



■ August 2008 ■ November 2008

Employees were asked to indicate agreement with the statement above.

According to MetLife's *7th Annual Study of Employee Benefits Trends* (2009), employees now view the workplace (and the paycheck and employee benefits associated with it) as the foundation of their financial safety nets [Chart 2]. 56% of employees say that, due to recent economic events, they have a greater appreciation of their workplace benefits. Most Americans now get the majority of their household's savings and protection products at work. It's where 85% of employees purchase health insurance, 82% buy prescription drug coverage and 76% get dental insurance.⁵

With greater appreciation comes more time spent on benefits decision-making. According to MetLife's latest *Study of the American Dream* (fielded in January 2009), 73% of Generation Yers and 65% of Generation Xers say they will pay more attention this year to the benefits offered by their employers as a result of the current economic situation [Chart 3].⁶

On the retirement savings front, in 2008 a majority of employees continued to put aside money in their employer-sponsored plans, despite growing pressure on household budgets. According to *World-at-Work's Trends in 401(k) Plans Study*, two thirds of companies say 70% of eligible employees participated in a 401(k) plan in 2008.⁷

Despite these steady contributions, retirement balances have declined steeply and employees are worried about their shrinking nest eggs. The *Study of Employee Benefits Trends*

(2009) shows that 58% of employees are now concerned about having adequate retirement income due to stock market volatility and only 39% are confident in their ability to make the right financial decisions for themselves and their families.

The financial crisis is also affecting worker behavior vis-à-vis core and voluntary benefits. On the one hand, the IFEBP study found that health plan participants are increasing use of their benefits, perhaps due to a fear of layoffs. About one third of plan sponsors reported seeing an increase in the number of participants filling prescriptions and engaging in costly medical procedures. Still others, 20% in total, are delaying medical care and skimping on prescription drugs because of financial problems.⁸

One area where employers are considering scaling back is the company match for 401(k) plans. As reported in a recent *Associated Press* story, last year more than 58 million US workers set aside a portion of their paycheck in a 401(k) retirement plan, and some industry surveys indicate as much as 90

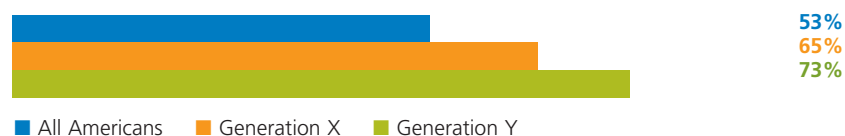
percent of employer-sponsored plans provide a company match.⁹ The Center for Retirement Research at Boston College reports that dozens of companies have already cut back on retirement contributions.¹⁰ And, according to EBRI, the ability to discontinue contributions in lean times is one of the features of the 401(k) plan that makes it so attractive to employers.¹¹

Benefits Continue to Provide a Solid Return on Investment

As companies prepare for this year's benefits enrollment season, MetLife recognizes that cost control is important, particularly in the current environment. But, of all the places where employers could put their investment dollars, employee benefits is one of the few that has held its value. In fact, while most investments have decreased sharply over the past 12 months, the perceived value of employee benefits programs has increased.

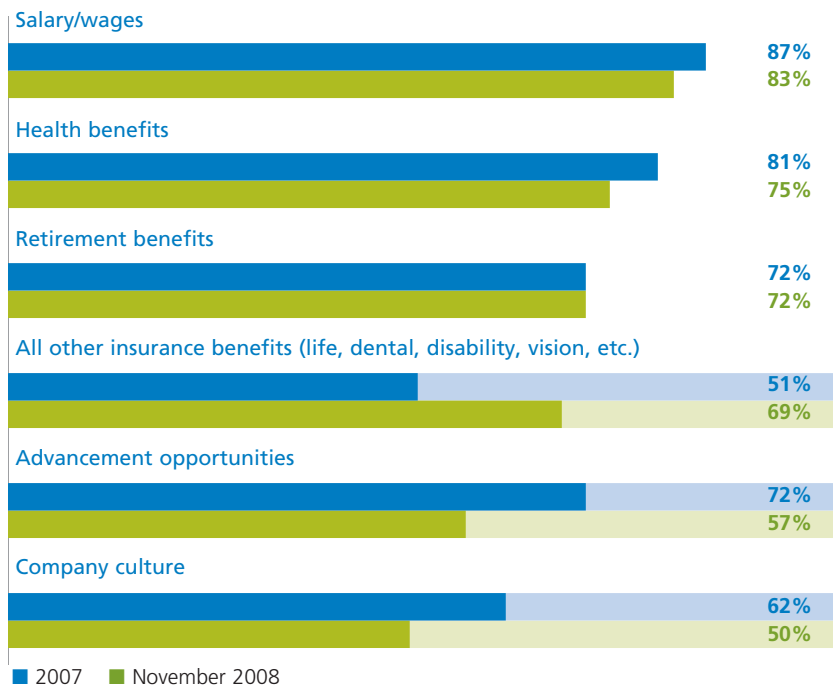
According to MetLife's *7th Annual Study of Employee Benefits Trends* (2009), employees now view benefits as the second most important driver of employee loyalty, behind salary/wages but ahead of advancement opportunities and company culture. And, while health insurance still consumes a disproportionate share of an employer's benefits spend—with the typical healthcare plan costing employers \$5,000 to \$15,000 per worker annually—"other insurance benefits" (i.e., life, dental,

[CHART 3] AMERICANS PAYING MORE ATTENTION TO WORKPLACE BENEFITS



Data compiled by MetLife, *The American Dream Study 2009*

[CHART 4] BENEFITS ARE AN IMPORTANT FACTOR IN EMPLOYEE LOYALTY



Employees were asked to indicate the importance of each factor regarding their feelings of loyalty toward their employer.

disability, vision) are now significantly more important.¹² Sixty-nine percent of today's employees say that these non-health benefits play a strong role in workplace loyalty, up from 51% in 2007 [Chart 4].¹³

A Smart Path Forward

Rather than trimming benefits programs (and the morale/satisfaction that can accompany them), employers should consider innovative ways to boost benefits satisfaction without increasing spend, particularly because employee benefits can have a significant impact on employee loyalty. According to MetLife's research, benefits can often influence loyalty even more than employers realize. For example, even though only 41% of employers perceive that employees value group insurance benefits, nearly seven in ten employees (69%) indicated that they value these offerings [Chart 5].¹⁴

One approach is to broaden workplace offerings by ensuring that they offer a mix of employer-paid benefits, as well as contributory/voluntary offerings, which are typically 100% employee paid. For employers, voluntary benefits are a cost-effective way to appeal to employee needs and work/life balance issues. At the same time, employees appreciate the group rates and the convenience of workplace enrollment and payroll deductions.

Another approach is to offset reductions in high-cost health insurance benefits by supplementing plans with other benefits such as critical illness insurance, dental insurance, disability insurance, life insurance and long-term care insurance. Employees, especially during this difficult economic climate, are increasingly recognizing the importance of the benefits made available by their employer. To protect against

future financial risks, many have been prompted by the current economy to take steps to determine their household's needs for life insurance (44%), disability insurance (38%) and long-term care insurance (35%). For those with children under the age of 18, those percentages climb to 57%, 49%, and 46%, respectively.¹⁵

A third approach is to implement customized benefits communications and education programs, targeted to employees' personal/life-stage needs. According to MetLife research, employees who rate their benefits communications as "effective" are ten times more likely to say they are satisfied with their workplace benefits. They are also three times more likely to say benefits are an important reason why they remain with their company.¹⁶

Best Practices During Open Enrollment

Consistent communications and open dialogue about benefits programs throughout the year can powerfully reinforce your company's ongoing commitment to employees. This is especially important during uncertain times. Quite simply, many employers often miss an opportunity to garner employee appreciation by not communicating enough with their employees about the programs that have been put in place for their benefit. More frequent communications represents a win-win for employers and employees alike. The good news for employers is that better communication tactics typically cost little or nothing to implement, yet can yield a strong benefits return on investment.

A few simple ways to meet employees' growing demand for guidance in the workplace and have a successful benefits enrollment include:

- **Personalized materials**—Provide access to information based on employee life stage and life events (e.g., getting married, having a child, buying a home). Recognize that the “one-size-fits-all” approach to benefits communication is not as effective, and many employees want customized advice for “people like them.” Companies with a large number of older workers, for example, might offer and feature retiree benefits as well as voluntary products such as long-term care insurance.¹⁷

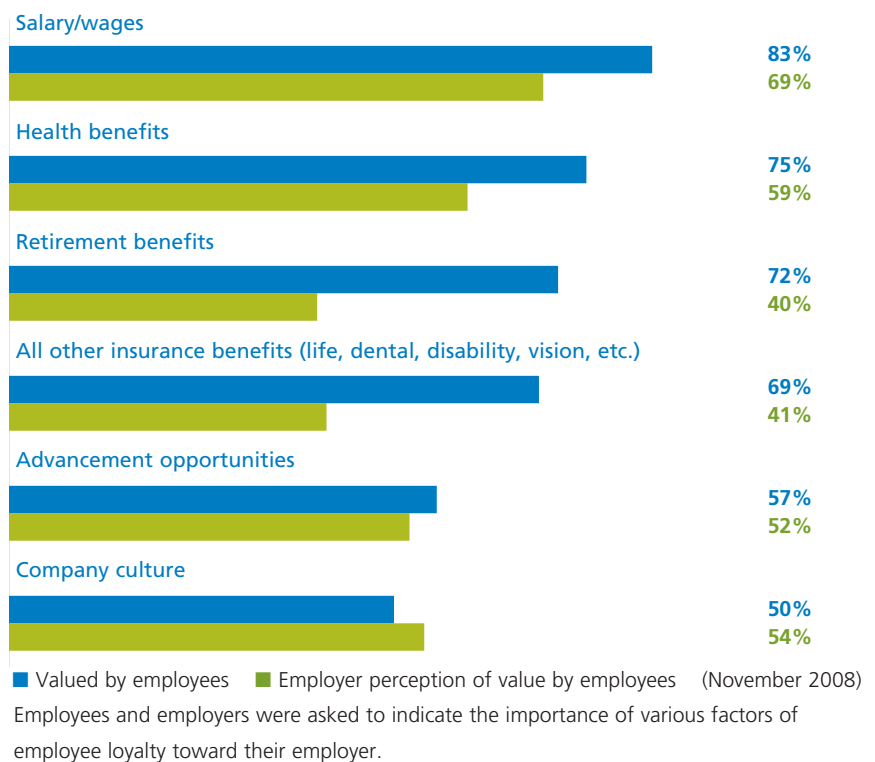
- **Executive level support**—At a time where voluntary, or 100% employee-paid, benefits are on the rise, employees might need an extra nudge from management to focus their attention. Something as simple as a short email from an executive can have a significant impact by spurring employees to take action.

- **Decision-support tools**—Tools like web-based calculators remain the #1 unsatisfied employee request. They can advise employees on which benefits to select and proper coverage levels—and many can be found free-of-charge on the Internet or through a benefits provider.

- **Multiple communication channels**—Recognize that a diverse workforce will have people who want to receive information in different ways. According to MetLife’s 2008 *Open Enrollment Survey*, among those workers that report having access to resources to help them make informed decisions, 82% were satisfied with their benefits offerings—compared to half (51%) of employees who stated that they didn’t get the resources they needed.¹⁸

- **Focused attention**—As healthcare tends to consume employee mind-share during open enrollment, employees

[CHART 5] BENEFITS INFLUENCE EMPLOYEE LOYALTY MORE THAN EMPLOYERS REALIZE



often spend less time thinking about their need for other benefits. But some of these other protection products (e.g., life insurance or disability) can have a huge impact on family finances during times of income loss. One solution is an off-cycle enrollment period with a focused enrollment on one single benefit. Employers can draw attention to new benefits offerings, and HR can devote their attention to educating employees about the voluntary options that best meet their life-stage needs. This could result in higher enrollment rates, and greater employee benefits satisfaction and confidence in Open Enrollment decisions.¹⁹

- **Survey employees**—Survey your workforce to get a sense of the level of interest in financial advice programs and different product offerings. This approach will not only help focus company spending on areas of greatest employee need but also help identify

generational clusters and their top priorities.

Retention and Cost Control: A Balancing Act

As both employers and employees struggle with tight budgets, the need to do more with less is significantly greater than in past years. So, too, is the importance of strong benefits programs that can help companies as they seek to attract and retain the best workers, maintain productivity levels, increase morale and provide employees with peace of mind knowing they and their families are protected and their retirement plans are on track. Companies that do this effectively will find themselves well-positioned to help retain and motivate their workforce and provide a competitive advantage to their business long after the economy has swung back to recovery.

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Throughout its history, MetLife has collected a vast knowledge of the marketplace, with input from businesses, brokers, benefits consultants, and employees. The depth and breadth of MetLife's research and insight into the marketplace are accessible by visiting the MetLife research center on www.metlife.com.

¹ *7th Annual Study of Employee Benefits Trends*, MetLife, March 2009.

² *A Subtle Shift: Examining Employee Benefits in the Midst of Economic Uncertainty*, LIMRA International, March 2009.

³ *Health Care Plans: Impact of the Financial Crisis*, International Foundation of Employee Benefits Plans, April 2009.

⁴ Petrecca, Laura, "Employee Benefits Squeezed," *USA Today*, April 7, 2009.

⁵ *7th Annual Study of Employee Benefits Trends*, MetLife, March 2009.

⁶ *The 2009 MetLife Study of the American Dream*, MetLife, March 2009.

⁷ *Trends in 401(k) Plans*, WorldatWork and the American Benefits Council, March 2009.

⁸ *Health Care Plans: Impact of the Financial Crisis*, International Foundation of Employee Benefits Plans, April 2009.

⁹ Pitt, David, "Recession May Jeopardize 401(k) Contributions," Associated Press, November 4, 2008.

¹⁰ Petrecca, Laura, "Employee Benefits Squeezed," *USA Today*, April 7, 2009.

¹¹ Ibid.

¹² Ibid.

¹³ *7th Annual Study of Employee Benefits Trends*, MetLife, March 2009.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ *Open Enrollment at a Crossroads: White Paper*, MetLife, May 2008.

¹⁸ *2008 Open Enrollment Survey*, MetLife, May 2008.

¹⁹ *Open Enrollment at a Crossroads: White Paper*, MetLife, May 2008.



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