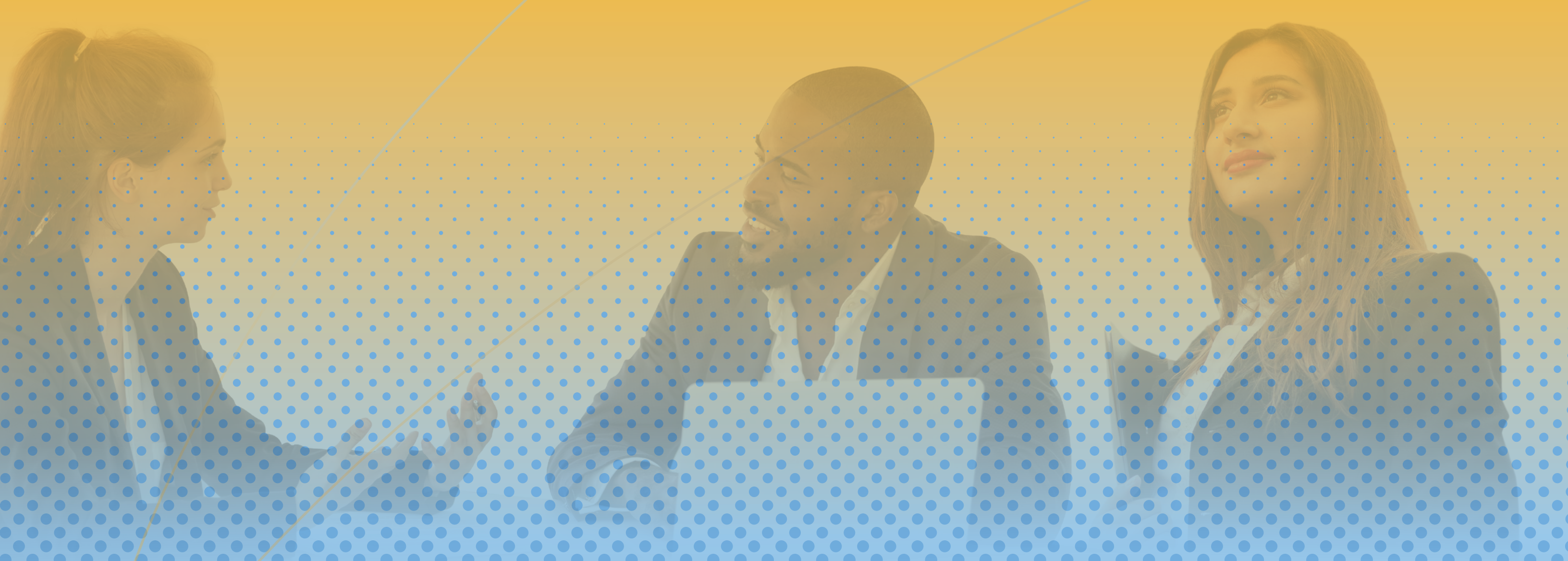

BETTER PERSPECTIVE

BENEFITS STRATEGY & BENCHMARKING SURVEY

2020

Executive Summary & Strategic Insights | U.S. Edition

Gallagher

Insurance | Risk Management | Consulting

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SURVEY OVERVIEW

In the near future, a post-pandemic world will look back on 2020 from a broader and wiser vantage point. But today, leadership discussions, decisions and strategies are focused on business continuity. While an integrated approach to compensation, benefits, retirement, employee communication and culture is always central to success, what worked in the past won't be sufficient in the years ahead. Total rewards may need to change to stay affordable—and flexible benefits are a top priority.

Gallagher's 2020 Benefits Strategy & Benchmarking Survey provides data and insights that help guide you to better outcomes through better benchmarking. From December 2019 to May 2020, 3,921 organizations across the U.S. responded to questions covering the total compensation spectrum.

Because most data was collected before the disruptive impacts of the pandemic were widely experienced, insights from a more recent series of Gallagher pulse surveys on employers' responses to COVID-19 are also included.

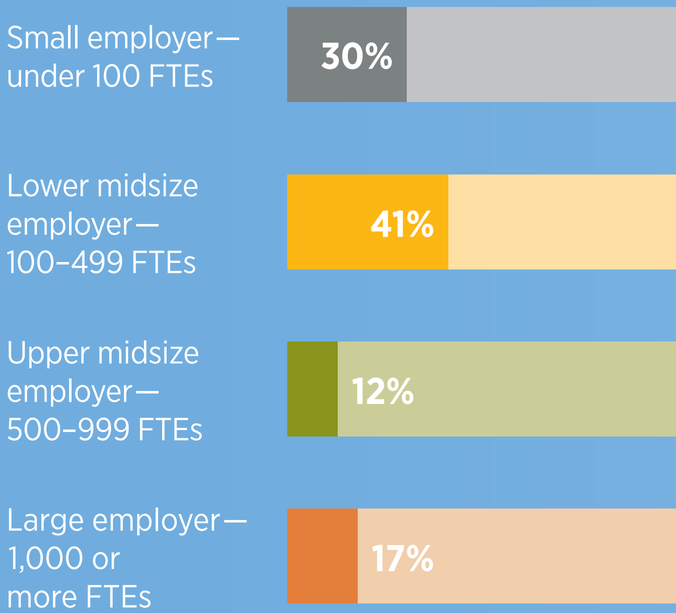
From broad insights to specific findings, you'll gain a practical perspective on trends and best practices to help you face your future with confidence.

To discuss your total rewards strategies, contact your local Gallagher representative or one of the advisors listed in the back of the report.

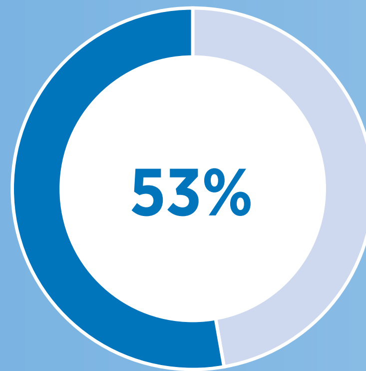
NUMBER OF PARTICIPATING ORGANIZATIONS BY INDUSTRY

HEALTHCARE	670
PUBLIC ENTITY	505
MANUFACTURING	431
K–12 EDUCATION	266
BUSINESS SERVICES	253
FINANCIAL SERVICES	216
TECHNOLOGY	207
CONSTRUCTION	200
SOCIAL SERVICES	182
HOSPITALITY/RESTAURANT/ENTERTAINMENT	143
ENERGY	122
WHOLESALE-DISTRIBUTION	108
RETAIL	106
TRANSPORTATION	93
HIGHER EDUCATION	89
ASSOCIATIONS	63
LAW	58
RELIGIOUS INSTITUTIONS	55
REAL ESTATE	52
AGRICULTURE	37
LIFE SCIENCES	34
PHARMACEUTICAL	31

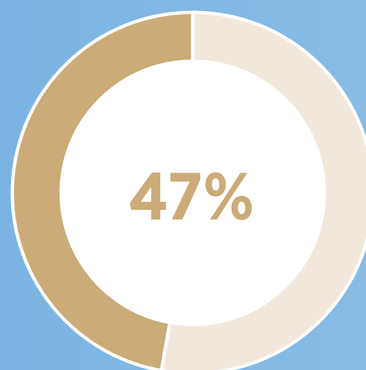
WORKFORCE SIZE—FULL-TIME EMPLOYEES (FTEs)



OWNERSHIP STRUCTURE

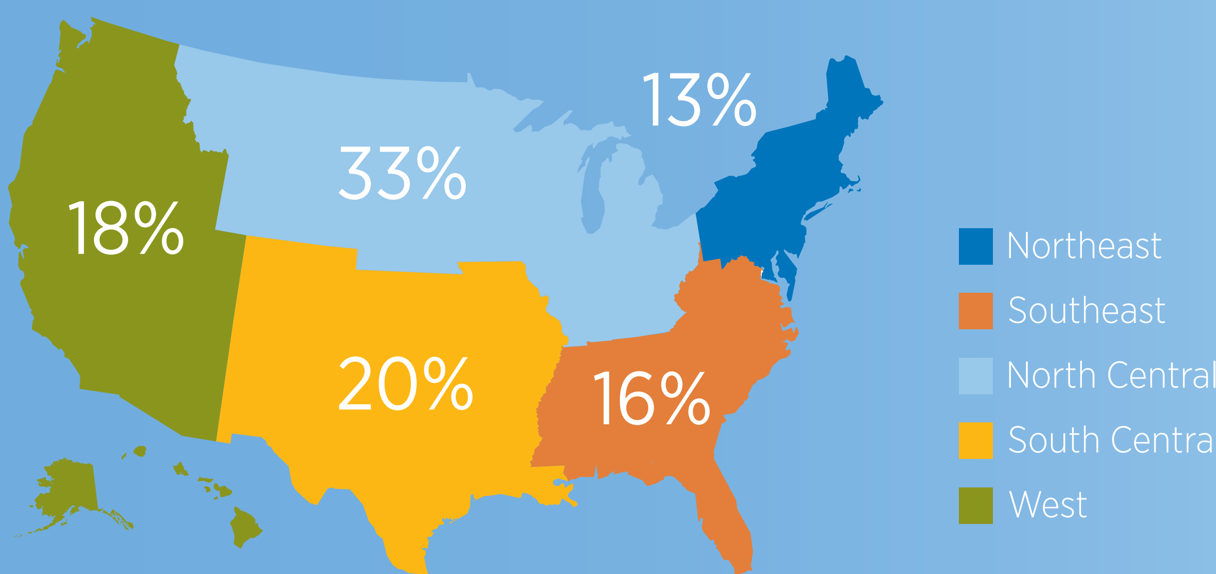


For profit



Nonprofit

GEOGRAPHY



KEY FINDINGS & IMPLICATIONS

In 2019, most employers projected headcount growth as an offshoot of strong economic and revenue prospects. What a difference a year can make, especially when it has the epic consequences of 2020. As total rewards strategies are reexamined with an eye toward rebuilding for the future, the focus has shifted from attraction and retention to business continuity, safety and compliance. A new framework for decision-making guides recovery and strengthens resiliency, helping organizations succeed when expecting the unexpected is now the norm.

Changes brought on by the pandemic have already reshaped the focus and direction of talent management strategies. As of July, almost 6 in 10 employers had furloughed (29%) or laid off (29%) employees.[1]

A changing workforce composition may continue to affect healthcare claims and talent management approaches.

Workforce changes of the magnitude experienced in 2020 can significantly affect future health claims. A demographic impact analysis will help employers financially prepare by assessing and comparing their pre-layoff and post-layoff populations. Based on findings, a proactive discussion with health plans about employee eligibility and associated carrier triggers is a solid step toward ensuring contract compliance.

In the process of minimizing costs, it's important not to compromise the end goal of providing employees with an affordable health plan. Employers are required to adhere to Patient Protection and Affordable Care Act (ACA) guidelines and other eligibility requirements—but they also need to secure the right talent to build their competitive strength within the industry. Under any circumstances, cultivating brand appeal is an overarching objective for sustainability.

One thing that's reasonably certain about the future is that technology will continue to improve the organizational response to rapid change. Under this assumption, evaluating emerging opportunities periodically, and upgrading capabilities as needed, protects operational interests and optimizes outcomes.

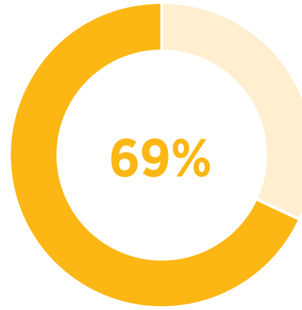
More than two-thirds (69%) of employers had planned to invest in HR technology platforms by 2022, before the outbreak in the U.S. took a sharp upward turn.

HR technology can support activities related to coverage alternatives under the Consolidated Omnibus Budget Reconciliation Act (COBRA)—including unemployment claims management, offboarding and outplacement. It also enables the use of video tools for safer onboarding of furloughed or new employees.

When employees are laid off, members of the remaining workforce must often do more with less—and their changing roles may require virtual development, training and mentoring. Over 6 in 10 employers offered development training for management or leadership (64%) as well as employees (62%), while a third (33%) provided mentoring programs.

Managing the absence of employees—while dealing with the added complexity of COVID-19—increases the possibility of a higher caseload due to illness, care of family members and public health emergencies. Though compliance with federal, state and municipal regulations continued to be the highest ranked absence management concern (56%), just 18% of employers outsourced Family and Medical Leave Act (FMLA) administration. For those contending with federal and state or multi-state leaves, the expertise of a provider can lessen the strain on HR members and prevent them from becoming overwhelmed.

Failing to follow leave policies invites legal risk. This deterrent may help explain why the importance of educating managers about available leave types, regulatory issues and compliance (43%) was up 4 points from 2019. Proactively communicating with managers promotes their understanding of leave programs, and training on leave-related responsibilities reinforces their compliance.



Expected to expand or replace HR technology—or both—by 2022

GAP BETWEEN FMLA COMPLIANCE CONCERNS AND OUTSOURCED ADMINISTRATION

56% Considered compliance the top absence management concern

18% Outsourced FMLA administration

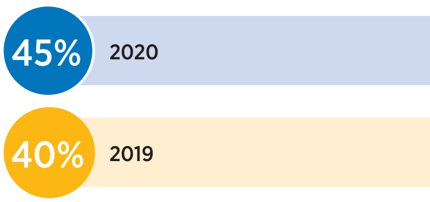
Over 6 in 10 Offered development training for employees and/or management

[1] Gallagher, "COVID-19 Work in a New Normal Pulse Survey," July 2020

↑5 points since 2018

Offered 3 or more medical plans

ENHANCED VOLUNTARY BENEFITS TO BOOST THE COMPETITIVE STRENGTH OF TOTAL REWARDS



Ongoing concerns about increased operating costs and lower revenues are prompting more creativity in planning total rewards.

For many employers, the task of planning compensation and benefits for 2021 can be improved by taking a hard look at the breakdown of expenditures in their previous fiscal year. Compensation and benefits amounted to a median of 35%–39.9% of total operating revenue in 2020. Exploring variable cost structures and rebalancing cost sharing will help employers determine an acceptable solution.

After the arrival of COVID-19, over 8 in 10 (83%) have more strongly emphasized the role of specific benefits within total rewards, including emotional wellbeing (65%), leave policies (47%), medical benefits (39%) and physical wellbeing (36%).[1] An option for boosting the perceived value of medical benefits is offering a variety of health plans. Since 2018, employers that provided three or more choices increased by 5 points to 40%, and those that offered only one declined by 6 points to 25%.

A unique trait of voluntary healthcare coverages is their ability to lower financial obligations for specific categories of need. Accidental death and dismemberment (AD&D) was the most common form of insurance, offered by 86%. Other options that provide extra financial protection while allowing total rewards customization included accident (64%), critical illness (58%), hospital indemnity (42%), supplemental disability (28%) and long-term care (22%).

In 2020, 45% of employers enhanced their overall voluntary benefits, both healthcare and non-healthcare, reflecting an increase of 5 points over the previous year.

The diverse savings opportunities of life insurance (94%) provide financial security for beneficiaries in the event of the policy holder's death. Some policies, such as whole (19%) or universal (8%), can be better alternatives to dipping into retirement plans because they build equity as employees pay premiums. This cash value accumulation offers the advantage of liquidity if employees are short of other funds to pay off unexpected expenses or outstanding debts.

As employers consider all creative options for cutting costs and motivating employees to mitigate the pandemic's effects, paid time off (PTO) policies shouldn't be off-limits. Different circumstances have brought new possibilities.

While 3% had already implemented unlimited PTO and 5% were reviewing its merit for 2021, the actual uptake may be trending higher. Days off under this policy would no longer come with an expiration date, so employees may not be inclined to take them within a certain period or remain eligible to cash them out.

At a time when over 40% of employers expect to freeze salaries, offering this flexibility could be a very effective attraction and retention tool.[1]

[1] Gallagher, "COVID-19 Work in a New Normal Pulse Survey," July 2020

Opportunities for more efficient and effective plan management, including disruptive approaches, exist across multiple coverage areas.

Entry points for uncovering more pliable, cost-effective total rewards strategies in 2020 include three action items. Breakthroughs can be made by thoroughly reviewing contracts and the formulary, as well as applying solutions for managing the network more creatively and targeting patient conditions more effectively.

The pandemic gives employers a reason to look twice at less commonly used tactics like audits of plan eligibility (18%) and claims (15%) that directly eliminate excess spending. Closer examination of options that focus on a better relationship between healthcare cost and value can also be rewarding. Narrow provider networks (14%), designated centers of excellence (10%), and integrated health and disability management programs (9%) are some of the newer approaches. All of these efforts potentially lead to savings from reducing unnecessary costs incurred with medical, pharmacy and ancillary benefits.

Concern about high-priced specialty drugs (41%)—a recurring top challenge in managing healthcare costs—grew among upper midsize (55%) and large employers (65%) by 5 points each since 2019. Methods for managing drug utilization are also increasingly used. Pre-authorization is required by 33% overall and 60% of the large cohort, while similar comparisons apply to step-care therapy (25% vs. 54%) and the mandated use of a specialty pharmacy provider (24% vs. 54%).

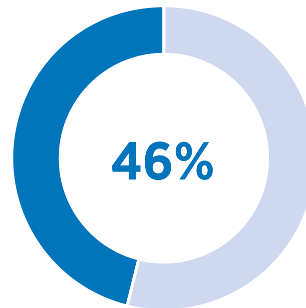
Meanwhile, disruptive approaches are becoming more instrumental in consistently curbing costs and ensuring employee access to affordable therapies. Options for employers to consider include aggressive medical management of specialty drugs, evaluation of pharmacy alliance models, acceleration of biosimilar adoption and monitoring emerging gene therapy programs.

Cost sharing is likely to rise through the use of CDHPs, health plan contribution increases and other mechanisms—in balance with changes that help maintain overall benefits affordability.

Employers offered a consumer-directed health plan (CDHP) at the rate of 46% in early 2020, which translates to almost twice as many large (63%) as small (33%) cohorts. The significant cost-saving features of this option have especially strong appeal during a period of economic uncertainty, so adoption may pick up starting with the 2021 plan year.

Premiums are lower than the amounts employers and employees would pay under other commonly used plans. And unique tax advantages apply, especially when paired with a health savings account (HSA) or health reimbursement arrangement (HRA). While CDHPs have comparatively higher employee deductibles, they encourage consumerism.

TOP HEALTHCARE COST MANAGEMENT CHALLENGES

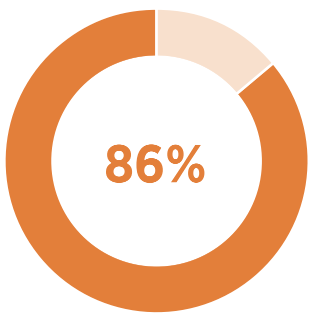


Offered a CDHP

SALARY FREEZES ANTICIPATED IN 2021[1]

42% Non-management

43% Management and executives



Expected to retain their work-at-home policies after the pandemic[2]

Another opportunity to contain medical plan spending is setting variable employee contributions, based on factors like salary (10%) or the number of family members on the plan (10%). For employers looking to share costs more equitably among their employees, this practice may provide a solution. Most continued to apply one amount for individual coverage and another for family coverage in 2020 (58%).

Expanding on a recent trend, more employers may introduce coinsurance for prescription drug plans. The use of this cost-sharing mechanism grew by an average of 5 points across all size groups since 2019, to 37%. The larger groups accounted for the greatest increases, including 39% of upper midsize (up 5 points) and 52% of large (up 7 points).

Financial pressures on business continuity can be eased by temporary cost cuts as well as longer-term measures.

Many people whose employment wasn't affected by the pandemic may not have entirely escaped its financial impact. As of July, incentive or bonus payment freezes for 2020 affected about half of non-management employees (51%) as well as management employees and executives (54%).[1]

In 2021, this impact on compensation is expected to diminish significantly to 11% and 17% respectively—but over 4 in 10 employers anticipate salary freezes for both groups (42% and 43%).[1]

Reducing salary increase budgets during the 2021 calendar year was also on the docket for about 1 in 3 (32%) with respect to non-management employees. And about 1 in 4 (27%) planned to apply this measure to management employees and executives.[1]

For organizations coping with more severe financial effects from COVID-19, recovery may require additional cutbacks. One cost-saving trend is terminating benefits for an extended leave and/or absence upon exhaustion of family and medical leave (39%), which increased by 14 points between 2016 and 2020.

Employers as a whole are more reluctant to impinge on retirement savings, but as of June 2020, 9% had suspended their employee plan contributions, and 9% considered this move a possibility.[2] If evaluating retirement plan contribution matching becomes too difficult to dismiss, discretionary matches can be changed at any time with a resolution by the board. Prompt notification of participants is also required.

Favorable costs, technology and workflow increasingly make the case for telecommuting.

Employers whose employees have fared well working at home on a temporary basis have a new interest in transitioning them to full-time remote work and developing supporting policies. A distinct advantage of this arrangement for organizations is the opportunity to downsize their real estate footprint and related costs.

The 26% of employers that offered full-time telecommuting before COVID-19 started to surge in the U.S. nearly tripled to 77% by June 2020. Overwhelmingly, most (86%) expected to retain their work-at-home policies. Flex scheduling has also become more firmly rooted within organizational cultures as a result of the pandemic (42%) and the majority (59%) plan to retain this benefit as well.[2]

[1]Gallagher, "COVID-19 Work in a New Normal Pulse Survey," July 2020
[2]Gallagher, "COVID-19 Return to Workplace Pulse Survey," June 2020

According to a recent study, employees who work at home demonstrate three unique engagement drivers. They need 1) structure and expectations set by their manager and leaders, 2) an understanding of changes that affect their team or role, and 3) assurance that their individual contributions make a difference to the customer experience.[3] Employers have responded by recommending video conferencing (74%) to help preserve a level of connectivity that can only be achieved face-to-face, and arranging more frequent team calls to keep people informed and engaged (65%).[4]

When employee and organizational wellbeing are appropriately aligned, their interdependence becomes mutually beneficial.

In the early months of 2020, half (50%) of employers indicated they had increased the importance of financial wellbeing since 2018. Large employers more strongly emphasized this dimension over physical and career wellbeing across the two-year period (58%).

Benefits offered during open enrollment also showed more employers were taking an integrated approach to financial wellbeing options. The use of financial advisor sessions was used by about two-thirds (65%), complemented by the availability of financial literacy and related educational opportunities provided by over half (52%).

Some were connecting their employees with resources for reducing monetary stress, such as stability tests and resets of personal finances, debt reviews, and help with budgeting and managing risk factors. As financial worries are resolved, emotional wellbeing improves.

Investments in physical wellbeing favored telemedicine as the most common healthcare cost-control tactic in early 2020 (59%)—and COVID-19 continues to accelerate adoption. Digitally delivered health services benefit employers because they help protect employees from exposure while shifting patients to a lower-cost setting.

As a consequence of the nationwide shutdown, many employees were shut off from getting preventive healthcare due to closed facilities or their fear of exposure. Encouraging them to receive delayed services helps maintain their optimal physical and emotional wellbeing, and may reduce the risk of higher treatment costs by increasing the possibility of early detection.

Dental checkups should also be part of helping employees return to a regular routine, because oral and overall physical health are linked. For the 83% of employers that waive in-network deductibles for preventive care, reminding plan members of this benefit removes cost barriers.

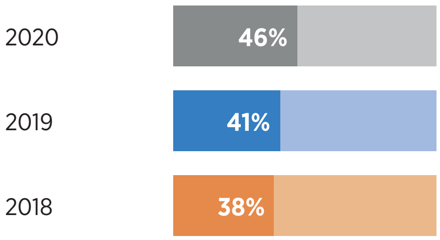
WORK-AT-HOME EMPLOYEE ENGAGEMENT DRIVERS[3]

1. **Tangible structure and manager expectations**
2. **Understanding of changes that affect the team and role**
3. **Knowledge that individual efforts add to the customer experience**

Elevated the importance of financial wellbeing since 2018

[3]Gallagher, "Driving Connection and Engagement in a Remote Workforce," May 2020
[4]Gallagher, "COVID-19 Employer Response Pulse Survey," May 2020

CONDUCTED AN EMPLOYEE ENGAGEMENT SURVEY WITHIN THE LAST TWO YEARS



Communication cultivates employee engagement, and builds the resilience required for rapid recovery and organizational regeneration.

Together, the physical, emotional and financial stressors of a pandemic raise the stakes for wellbeing initiatives. The whole health of employees and organizational wellbeing are inseparable. Communicating regularly through clear and consistent messages that support this cultural philosophy—backed by compatible decisions and behaviors across all internal functions—is fundamental to shared success.

From an employee wellbeing and engagement standpoint, increasing societal stress was already becoming a pervasive mental health issue under the "old normal." The pandemic, which has intensified the pressure to adapt and cope, has implications for safety, addiction and absence. Fortunately, employers can cost-effectively manage and minimize these risks.

Educating the workforce about mental health issues, ensuring access to affordable treatment, and adjusting leave and return-to-work policies destigmatizes a relatively common experience. These efforts also help to control costs by promoting proactive care.

Related to healthcare, compliance is another important action item. Checking that insurance benefits meet the requirements of the Mental Health Parity and Addiction Equity Act avoids violations and potential lawsuits. Federal and state governments recently increased enforcement of these regulations.

Employers have made impressive headway on employee engagement in recent years. Early in 2020, over half (53%) reported their workforce was highly engaged, up 11 points in the short span of a year. Now that in-person face-to-face contact is more limited, digital forms of communication are more critical to maintaining workforce cohesion and camaraderie.

Engagement surveys send a direct message to employees that their organization cares about their wellbeing—and the findings are an important test of how accurately leadership's perceptions reflect the current reality. The proportion of employers that had conducted a survey in the two years before they were polled increased markedly from 38% in 2018 to 46% in early 2020.

Evolving talent management and total rewards will be recognizable, but retooled to help employers compete in a post-pandemic environment.

Total rewards have been swept up by a tidal wave of change in 2020 and, like many other aspects of running a business, their future looks different. There's a good chance that benefits will be shaped more strongly by innovative design, and healthcare will be driven by value-based care, cost sharing and consumerism.

Tighter management of population health gaps and more specialized support from third-party vendors are also realistic. Adjusting leave policies, adding voluntary or life insurance options, and emphasizing wellbeing benefits will continue to give employers the latitude to more easily update total rewards for a custom fit with shifting workforce preferences. And always, effective communication is the connector that holds everything together.

In a tumultuous year when a global pandemic and a national U.S. election are converging, tolerance of uncertainty will continue to be tested. Relying on the stabilizing influences of a collective vision and clear organizational priorities can help organizations persevere. But the relatively short history of coexisting with COVID-19 has already made the outcome of this standoff easy to call. Employers and employees will win the long game—because they've already shown a relentless commitment and an enormous capacity to adapt in the face of an unpredictable adversary.

Total rewards have been swept up by a tidal wave of change in 2020 and, like many other aspects of running a business, their future looks different.

ADDITIONAL RESEARCH & INSIGHTS

The 2020 Benefits Strategy & Benchmarking Survey is one of a series of benchmarking reports on benefits and HR management produced by Gallagher throughout the year. Together, they provide ongoing context and direction for optimizing human capital investments.

2020

Q3

COVID-19 PULSE SURVEY

Trends in strategies, policies and practices for HR, compensation and benefits, arising from the pandemic's operational and organizational challenges. The fifth in a series on a variety of timely topics.

Q4

HR TECHNOLOGY PULSE SURVEY

Findings on HR technology experiences and their connection to an organization's people strategy. Topics include optimizing investments, supporting budgets through strategic alignment, successfully executing projects and maximizing value.

SALARY PLANNING SURVEY

Study of employers' salary strategies that provides a comparative framework for pay practices. Data on salary increase budgets and structures as well as promotional increases, lump sum awards and variable pay is included.

COVID-19 PULSE SURVEY

Trends in strategies, policies and practices for HR, compensation and benefits, arising from the pandemic's operational and organizational challenges. The sixth in a series on a variety of timely topics.

2021

Q1

RETIREMENT PULSE SURVEY

Financial benchmarking that helps to address retirement plan sponsor challenges and build employee wellbeing. Data covers retirement strategy, plan decision-making, limiting fiduciary liability, and promoting employees' participation in plans and programs.

Q3

BENEFITS STRATEGY & BENCHMARKING SURVEY

Annual survey providing comparative, aggregate data on organizations and their peers. Insights support decisions that are more closely aligned with business performance goals.

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

Gallagher Better Works[SM]—a 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 multigenerational workforce.

From evaluating the demographics of your workforce to surveying and analyzing competitor trends, Gallagher helps you gather new insights and apply best practices that promote productivity and growth. A data-driven focus allows you to continually improve. That's what it means to create a better workplace culture. It's about never being content to rest each time you reach your best. Your better is never finished.

As you develop and sustain this destination workplace culture, your people can thrive and perform at a higher level—optimizing your annual talent investment and mitigating organizational risk to maximize your profitability. Best of all, you gain a competitive advantage as a workplace that simply works better.

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