GUARDIAN®

BENEFITS & BEHAVIOR:

The Voice of American Business Owners and Benefit Decision Makers Today

Introduction

American businesses face ongoing challenges when it comes to providing valuable employee benefits to workers. Cost increases continue to outstrip general inflation in many cases, especially for health benefits. State and federal mandates impose additional burdens. Yet employers continue to provide benefits in order to attract and retain the kind of workers they need. The "war for talent" did not end with the dot-com era; it is expected to heat up again as Baby Boomers retire.

Guardian surveyed 300 benefits decision makers at small (25–100 employees), mid-sized (101–1,000 employees), and large (1,000+ employees) companies nationwide to gauge their concerns. The findings provide a snapshot of how employers view themselves in the competitive landscape and what that may mean for employee benefit plans in years to come.

Benefits decision makers told Guardian:

- Medical costs are the most serious business challenge and will only get worse.
- Rising costs for other employee benefits are also a concern.
- It will be tough to fill jobs as Baby Boomers leave the workforce — and technology, immigration, or outsourcing will *not* fully alleviate the problem.
- Small companies believe they offer a more "creative" environment to workers, while large companies believe they offer better benefits, career advancement, and compensation.
- A broker's recommendation and a full product portfolio are the two most important factors in selecting an employee benefits carrier.
- Companies of all sizes see the value in implementing wellness and prevention programs, and most would like their insurance carriers to help.
- Large companies (71%) are twice as likely as small ones (37%) to have a formal absence management program.
- 39% of small business owners do not feel sufficiently prepared for retirement

Now in its 50th year of providing group employee benefit plans, Guardian offers these survey findings to help employers and brokers anticipate workplace trends and refine benefit plans to better serve American workers and businesses.

Sizing Up the Competitive Landscape

Survey respondents rated several business challenges by "seriousness" on a scale from 1 to 10, with the highest number indicating the most serious challenge. Medical costs, not surprisingly, top the list of concerns. Other issues, such as managing the needs of an aging workforce, take a back seat but are poised to become more prominent later.

Benefits decision makers in the Guardian survey say their top business challenges in today's marketplace are:

1. Controlling medical costs
2. Retaining and attracting employees
3. Achieving sustainable business growth
4. Competition
5. Controlling the costs of other benefits besides medical
6. Employee training
7. Changing technology
8. Marketing products and services
9. Succession planning
10. Managing the needs of an aging workforce
11. Employee diversity

Five years from now the picture looks a bit different:

1. Controlling medical costs
2. Retaining and attracting employees
3. Achieving sustainable business growth
4. Controlling the costs of other benefits besides medical (up from #5)
5. Competition (down from #4)
6. Managing the needs of an aging workforce (up from #10)
7. Changing technology
8. Employee training (down from #6)
9. Succession planning
10. Marketing products and services (down from #8)
11. Employee diversity

Medical costs are deemed to be the top business challenge, both today and five years from now. But in the future, this challenge will be even more serious. Respondents rate "controlling medical costs" a 7.7 on the 10-point scale today; the rating jumps to 8.1 when they consider the likely situation five years from now.

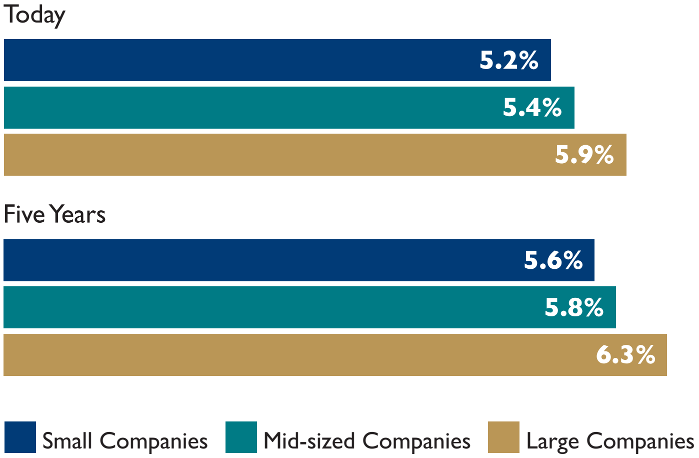
All respondents show concern for controlling the costs of other benefits besides medical, but those at mid-sized companies with 101–1,000 employees expect this challenge to become far more serious in five years. Among these respondents, the rating for this challenge jumps from 5.9 today to 6.3 five years from now.

Recruiting and retention is thought to be a serious business challenge today among all respondents (6.4 rating) and an even more serious challenge five years from now (6.8).

Large companies with over 1,000 employees are particularly concerned about achieving sustainable business growth in the future; their rating on that issue jumps from 6.4 today to 6.8 five years from now. They also expect increased competition, which is rated a serious issue today (6.4) and an even more serious one five years from now (6.8).

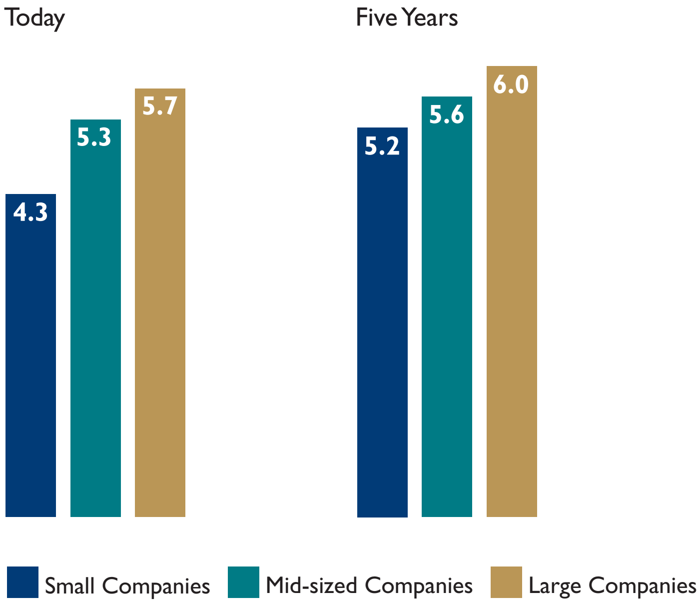
All companies anticipate that it will be more difficult to keep up with changing technology in coming years. For small companies with 25–100 employees, the rating for this challenge goes from 5.2 today to 5.6 five years from now, and the situation is similar for mid-sized (5.4 to 5.8) and large (5.9 to 6.3) companies.

ANTICIPATED DIFFICULTY TO KEEP UP WITH CHANGING TECHNOLOGY



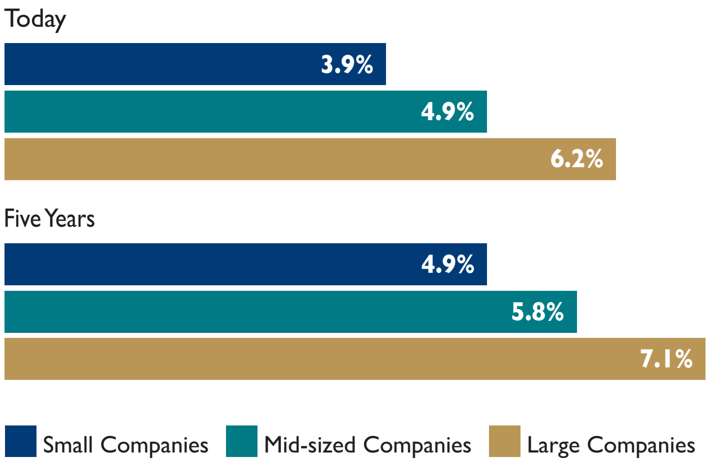
Succession planning is also expected to be a greater business challenge five years from now, with small businesses anticipating the impact more than others. Their rating of this challenge jumped from a 4.3 today to 5.2 five years from now, while the increase was more moderate for mid-sized (5.3 to 5.6) and large (5.7 to 6.0) companies.

ANTICIPATED IMPACT OF SUCCESSION PLANNING



All company size segments say managing the needs of an aging workforce will soon become a more serious challenge. Among small employers, the rating on this issue jumps from 3.9 today to 4.9 five years from now. The impact is also significant among mid-sized (4.9 to 5.8) and large (6.2 to 7.1) employers.

CHALLENGE OF MANAGING THE NEEDS OF AN AGING WORKFORCE

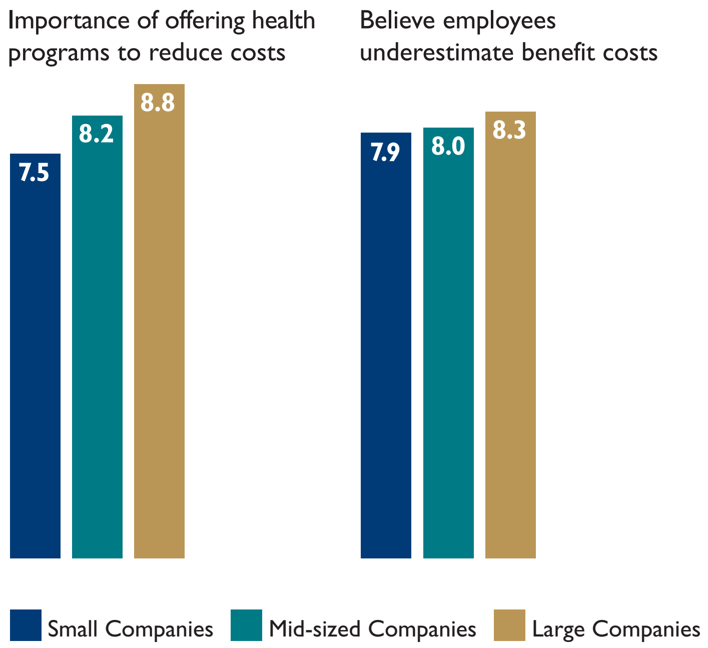


Larger companies particularly feel that it will be difficult to fill positions as Baby Boomers retire. They agree more strongly than do mid-sized or small companies with the statement that the loss of Baby Boomers in the workforce will create a shortage of talent. On a 10-point scale where the highest number means the highest level of agreement, large companies respond to this statement with a 6.2. They also disagree — with a 4.6 rating — that technology, immigration, and outsourcing would alleviate staffing concerns in the event of a worker shortage.

When and if the tight labor market returns, small and mid-sized companies expect to face greater challenges than do large businesses. But these companies feel they have some competitive advantages over larger firms. Fully 73% of small employers and 77% of mid-sized employers say their company offers a "creative environment," while just 54% of large employers make the same claim. Large employers are much more likely to tout their benefits (59%), career advancement opportunities (50%), and compensation (48%) as competitive advantages.

Companies of all sizes strongly agree it is important to offer programs to keep employees healthy as a way to reduce costs. Large employers agree most strongly with a response of 8.8, but agreement is also strong among mid-sized (8.2) and small (7.5) companies. All employers likewise believe employees underestimate the cost of their benefits. Agreement with this statement is most strong among large employers (8.3), followed by mid-sized (8.0) and small (7.9) employers.

COSTS

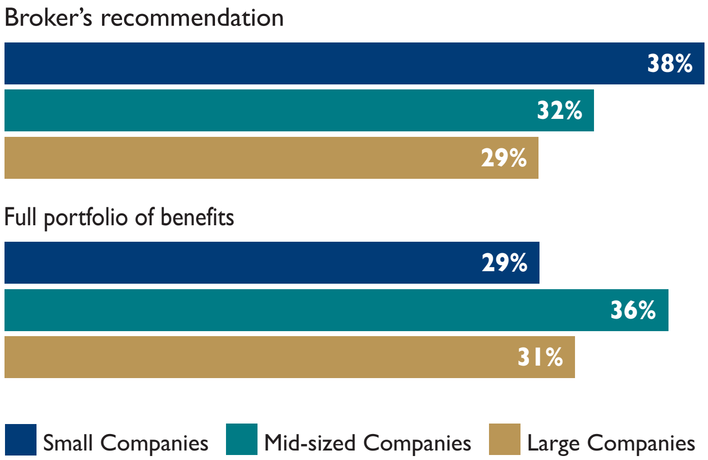


How Benefit Offerings Compare

Benefit plans are richest at large companies, the Guardian survey findings confirm. Nearly all companies provide medical insurance, but the situation changes with other benefits. For example, 99% of large firms offer dental insurance, as do 91% of mid-sized firms. But only 78% of small firms do so. The figures are similar for vision plans, life insurance, and disability insurance.

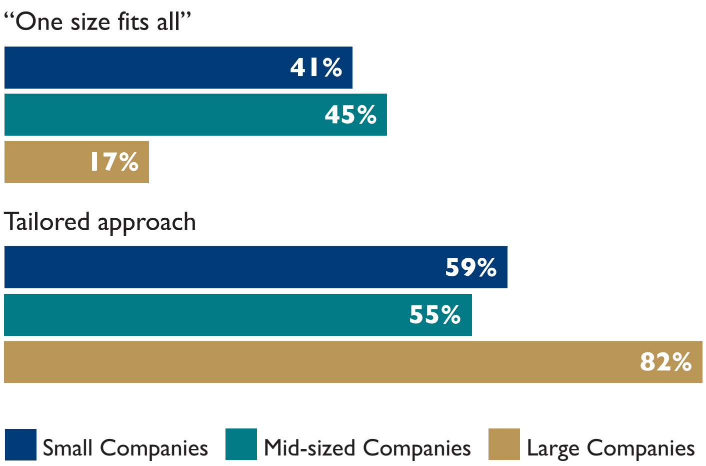
When choosing a carrier, employers are likely to go on their broker's advice or to be influenced by a carrier's full portfolio of benefits products. Brokers carry a lot of clout with employers, survey findings reveal. Thirty-eight percent of small firms say a broker's recommendation is the most important factor in selecting an employee benefits carrier, while 32% of mid-sized firms and 29% of large firms say the same. Meanwhile, mid-sized employers are particularly impressed when a carrier has a full portfolio of benefits products. Thirty-six percent of them say this is the most important factor in their choice, while the same is true for 29% of small and 31% of large employers.

HOW FIRMS CHOOSE A CARRIER



Small and mid-sized companies are significantly more likely to say a "one size fits all" employee benefits package is appropriate for their workers, while large firms strongly desire to tailor benefits to individual employee needs. Forty-one percent of small and 45% of mid-sized employers say one-size-fits-all is fine for their company, while just 17% of large firms say the same. Most large employers (82%) say a tailored approach is more appropriate for their workers, and many small (59%) and mid-sized (55%) employers also agree with this statement.

WHICH PLAN SIZE FITS BEST

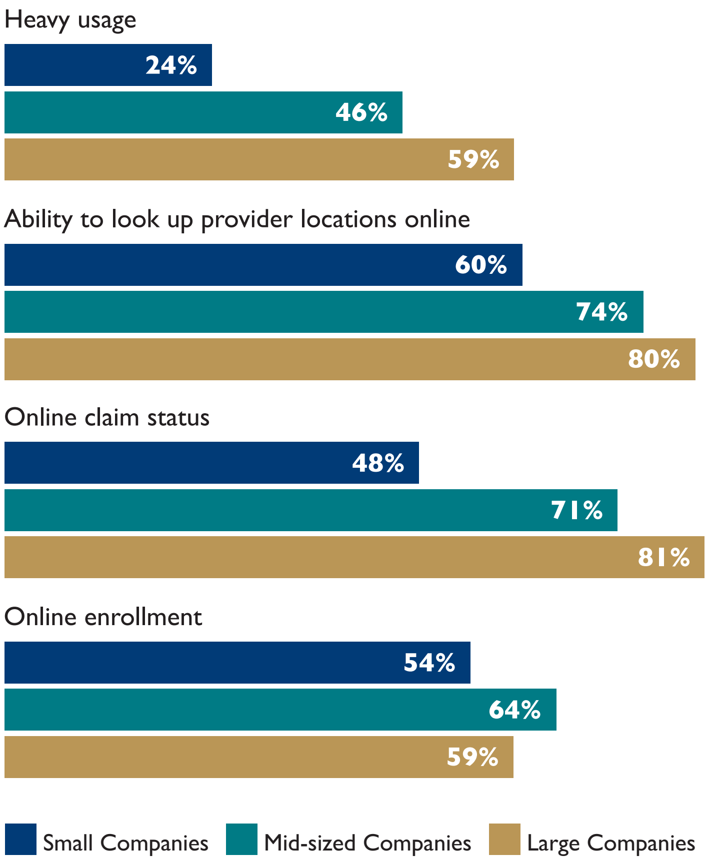


Voluntary benefits are becoming more prevalent in employee benefit plans, and survey results show that most companies now offer them. Large (81%) and mid-sized (76%) firms are most likely to offer voluntary benefits, but 64% of small firms do as well.

OFFER VOLUNTARY BENEFITS

The heavy use of technology to administer employee benefit plans is most common among large employers (59%), followed by mid-sized (46%) and small (24%) employers. One of the most common technologies adopted is allowing employees to look up medical provider locations online. Eighty-percent of large companies offer this capability, as do 74% of mid-sized and 60% of small firms. Online claim status is another technology that is most prevalent among large employers (81%) but less so with mid-sized (71%) and small (48%) firms. Online enrollment, however, is most prevalent among mid-sized employers (64%) and less among large (59%) and small (54%) employers. The use of interactive voice technology is slight. For example, just 25% of large employers offer provider locations through IVR.

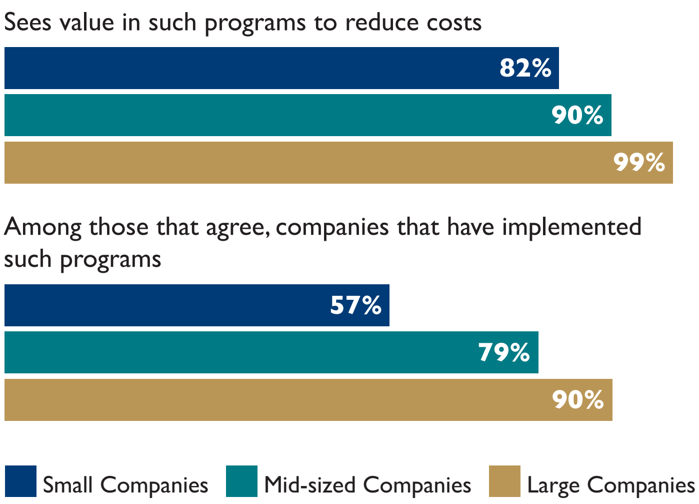
HOW COMPANIES USE TECHNOLOGY



Wellness, Prevention and Other Programs

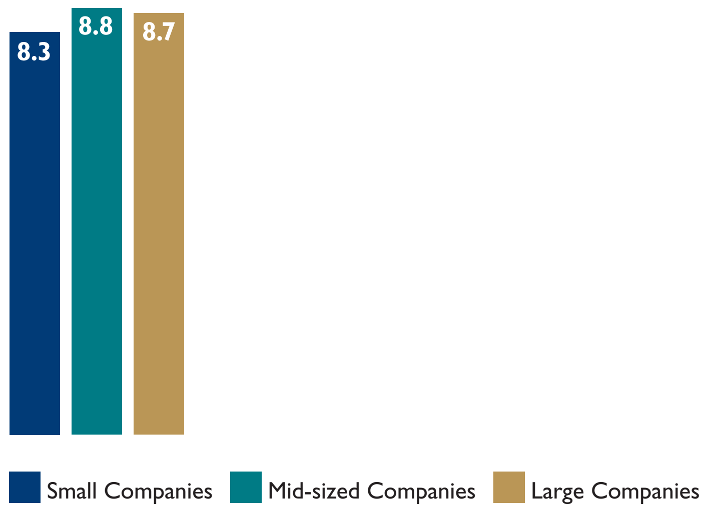
Most companies see the value in implementing wellness and prevention programs to reduce absenteeism and health care costs. Nearly all (99%) of large companies and a large majority of mid-sized (90%) and small (82%) companies agree with this idea. Among those that agree, however, large companies are most likely to have taken action. Ninety-percent of large companies that believe in the value of wellness and prevention programs have actually implemented one, while the same can be said for 79% of mid-sized companies and 57% of small companies.

WELLNESS AND PREVENTION PROGRAMS



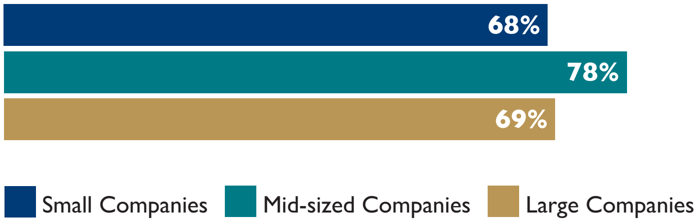
Respondents agree most strongly with that idea that implementing a wellness and prevention program is the “right thing to do” because it demonstrates a commitment to employee health. Mid-sized employers rated this statement an 8.8 on the 10-point agreement scale, where higher numbers mean stronger agreement. Large (8.7) and small (8.3) employers also strongly agree with this idea. The responses suggest that employers primarily view wellness and prevention programs as a way to show that the company cares about its employees. In that sense, these programs may be viewed as an enhancement to the health benefits plan. But employers also care about cost savings, and they also strongly agreed that wellness and prevention programs are valuable because they make the workforce healthier, increase productivity, and are an innovative investment.

AGREE THAT SUCH PROGRAMS ARE “RIGHT THING TO DO”



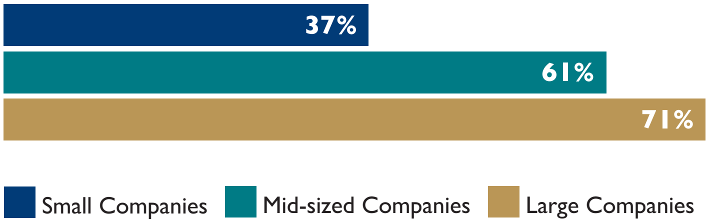
Among the respondents who see value in wellness and prevention programs, most would like an insurance carrier to facilitate implementing one. Seventy-eight percent of mid-sized companies say they would like this, and most large (69%) and small (68%) firms say the same. It is likely that employers see efficiencies in having their health insurer take part in implementing a wellness plan.

WOULD LIKE TO SEE INSURANCE CARRIERS FACILITATE IMPLEMENTATION



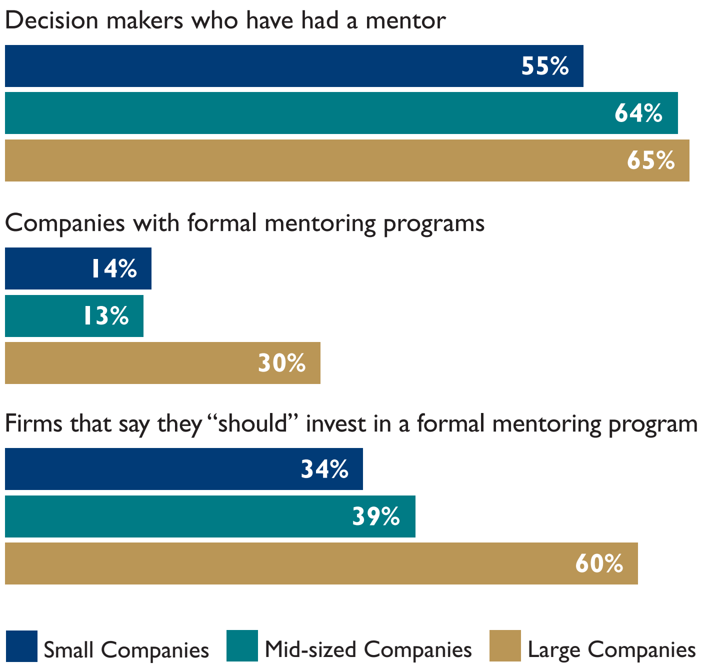
The Guardian survey also gathered data on other benefits, including absence management, mentor programs, and small business retirement plans. Findings show most large employers (71%) and mid-sized employers (61%) have a formal absence management program, which helps them comply with the Family Medical Leave Act. But small companies lag in this area, with only 37% having such a program.

HAS FORMAL ABSENCE MANAGEMENT PROGRAM



Most benefits decision makers claim to have had a mentor at some point in their career. Sixty-five percent of those at large companies say they've had a mentor, as do the majority of respondents at mid-sized (64%) and small (55%) firms. Few companies have formal mentoring programs, according to survey results. Just 30% of large companies offer such a program and the figures are even lower for small (14%) and mid-sized (13%) companies. Yet 60% of large firms say they "should" invest in a formal mentoring program, and sizable numbers of mid-sized (39%) and small (34%) employers also think it would be a good idea.

MENTORING PROGRAMS



Fifty-six percent of small business owners and partners feel sufficiently prepared for retirement, according to survey findings, and 39% plan to retire within five years. Anticipating their departures, 56% of small business respondents claim to have a succession plan in place at their company.

Conclusion

American employers, particularly those with 1,000 workers or more, agree that it will be harder to recruit and retain workers as Baby Boomers retire. Technology, immigration, and outsourcing are not expected to alleviate staffing challenges entirely. Therefore, companies will continue to seek ways to improve employee benefits to attract the kinds of workers they will need as shortages unfold.

Medical costs, deemed the most serious business challenge, are likely to get worse as the talent pool shrinks. Firms will therefore continue to look for new ways to provide health benefits that are both affordable to the company and valued by employees. They will also tout, in recruiting efforts, whatever natural advantages they have. For example, small companies may highlight their "creative" work environments while large firms may emphasize their better benefits and compensation packages and "fast-track" advancement opportunities.

Companies see a great deal of value in implementing wellness and prevention programs. Most strongly agree that it is the "right thing to do," but larger firms are more likely to have actually done so. Employers of all sizes would like an insurance carrier to help them implement a wellness program. They also highly value a broker's advice; it is the single most important factor in choosing an employee benefits carrier, followed closely by the carrier's offering a full product portfolio.

Guardian's survey findings offer a view of how the employee benefits marketplace may better serve its employer clients, who are, in turn, seeking to better serve their employees through valuable, innovative benefits. In 50 years of providing Group employee benefit plans, Guardian has learned the importance of anticipating demographic and workplace trends in order to satisfy market demand. The findings shared here are meant to help businesspeople better decide where their practice fits within a rapidly changing marketplace.

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The Guardian Life Insurance Company of America
7 Hanover Square
New York, NY 10004-4025
www.GuardianLife.com

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