Arthur J. Gallagher & Co.
BUSINESS WITHOUT BARRIERS®

2017 HUMAN CAPITAL INSIGHTS REPORT

Finding Your Footing as a Destination Employer

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Bill Ziebell

Getting in the Loop — a Defined Process for Becoming and Remaining a Destination Employer

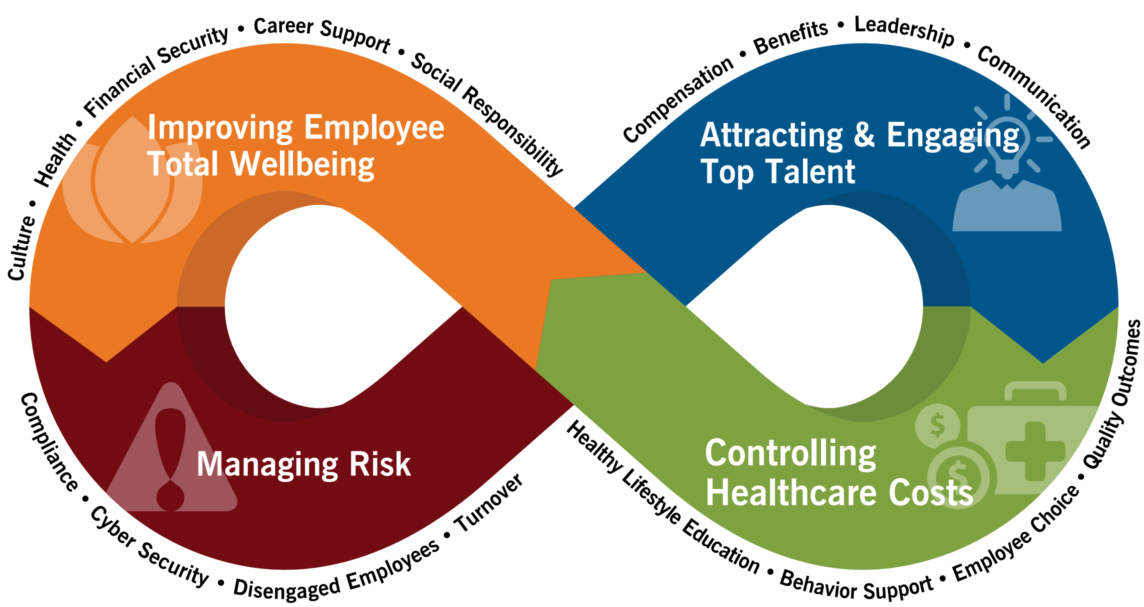
There are many factors that can influence an employee to join a company. What these motives have in common is the power to inspire a sense of connection to the organization. When candidates become engaged new hires, and then loyal employees who continue to envision building a successful career, they're more likely to turn down competing job offers. Companies that successfully identify and manage such factors are often recognized and honored as a "great place to work," a "top 100 employer," or generally speaking, a destination employer. Typically, companies widely regarded as the best have built and communicated a strong internal and external employment brand around their success.

Becoming a destination employer is not without challenges. External factors are creating many pressures within businesses and employment markets today. Technology is causing disruptions in revenue and profit models. Regulatory change — including potential updates to the Fair Labor Standards Act overtime rules, the pending repeal and replacement of the Patient Protection and Affordable Care Act,* and even immigration reform — may either shrink or increase the costs of labor pools for some companies. Employers also have to contend with employee demographic shifts, including the aging of many workforce segments and the difficultly in recruiting, engaging and retaining millennials. Nevertheless, the right strategy, insights and level of commitment can turn these issues into competitive opportunities.

Four areas of focus to drive success

How can a company achieve destination-employer status and get continued high performance from their workforce — without incurring prohibitively higher costs? It starts with the realization that becoming a destination employer is not an end point but an ongoing process that needs review and refinement each year.

As shown in the graphic, developing and refining an employee value proposition that drives destination-employer performance consists of four interdependent elements. Attracting and engaging top talent is the ultimate goal in this loop. In driving toward this destination, employers should couple competitive short-term and long-term rewards with a strong engagement program. There should also be a focus on linking local outcomes and costs to employee career and global business success.



*Information was current at the time of this report's publication in May 2017.

Two other closely related elements — controlling healthcare costs and improving employee total wellbeing — require employers to balance the increasing costs of healthcare with other total rewards costs by reducing controllable spend. In its simplest form, the process of becoming a destination employer starts with creating a culture of employee health. Survey analysis data shows that best-in-class employers experienced medical insurance premium increases of 3.9% or less in recent years, compared to overall increases of 5% to 5.9% or 6% or more for 41% of respondents.[1]

In an interesting parallel, these employers also use lower-than-average employee compensation percentages for health plan premiums, deductibles and copays. So it's clear that a relatively low best-in-class employer spend was not accomplished by just shifting more costs to employees.

A reduced spend helps fund recruitment and retention investments that can better position employers for attracting and engaging top talent. For instance, spending less than the norm on medical insurance each year allows scarce resources to be allocated to other high-impact benefits, such as:

- Additional employee training and career development opportunities
- Enhanced communication and team-building programs
- Better-than-average retirement funding and employee matching strategies

The other strategic element of this process is managing risks that can affect the achievement of both talent and overall business objectives. It's important to treat benefits as a platform for employee retention to minimize turnover and maximize career growth opportunities. Employers should also take steps to safeguard or improve workplace safety, which can correlate with higher engagement, and in turn, reduced risk.

The 2017 Human Capital Insights Report explores total rewards trends, strategies and solutions for competing as a destination workplace. At Gallagher, insights and expertise are informed by data to help employers compete with the "best in class" — and achieve performance outcomes that support the best interests of their employees, their customers and their future.

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Bill is responsible for day-to-day operations and management of Gallagher's employee benefits consulting and brokerage business across the globe.

[1]Arthur J. Gallagher & Co., "Best-in-Class Benchmarking Analysis," February 2017

Chuck Reynolds

Stephanie Bauman

Keeping a Strategic Focus on the Path to Achieving and Maintaining Peak Performance

Imagine being on a mountain trail surrounded by fellow hikers. Some are ahead, some are behind. Everyone maintains about the same pace and uses similar techniques to overcome obstacles, but as the group moves ahead, some of the other hikers break from the pack. They don't appear to have any special equipment or other advantages, but somehow they move more swiftly up the trail and more deftly avoid the obstacles. It's natural to wonder, "What's their secret?"

This scene is a metaphor for benchmarking and best-in-class analysis. Companies benchmark to gauge themselves against their peers, typically motivated by the goal of maintaining a respectable competitive position. On the other hand, best-in-class analysis focuses on understanding the high-performing outliers within that peer group as a way to inform and perhaps inspire improvement. Above this level of scrutiny, a best-of-the best analysis can help employers aspire to even greater heights by identifying insights into how to reach peak performance.

Mapping the ascent to best-of-the-best performance

Best-in-class and best-of-the-best research offers data-driven guidance that can lead organizations along a well-defined path to becoming a destination employer. Findings help identify employers' underlying characteristics that may enable or even compel them to outperform their peers.

When interpreting results from best-in-class or best-of-the-best research, a quadrant or "2x2" diagram often provides valuable insights. Employers that want to become destination employers can use this tool, somewhat like a mirror, to reflect on how to advance their standing from a strategic perspective. Key findings associated with the characteristics measured by the analysis serve as a starting point for plotting the organization's current position, and then planning improvements.

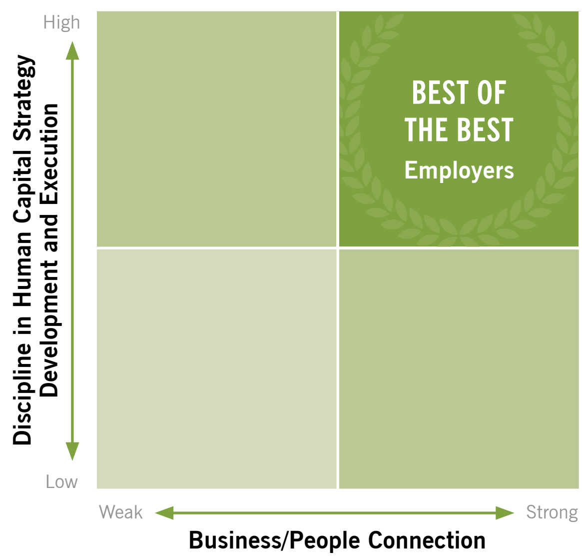
A 2x2 example

A recent best-of-the-best analysis, which used best-in-class benchmarking data from midsize and large employers, offers an example of how to use a 2x2 diagram to recognize opportunities for improving competitive standing.[1] The focus of the analysis was on identifying employers that excel at both controlling healthcare costs and achieving HR management goals such as talent retention.

The analysis concluded that best-of-the-best employers stand out in two important ways—one a matter of practical strategy and the other a matter of organizational philosophy. Compared to their peers, these top performers in healthcare cost control and HR management:

- Take a more disciplined approach to strategy development and execution
- Appear to see stronger links between business success and human capital performance

The 2x2 example helps illustrate an important point about these two characteristics: A disciplined approach combined with a business-focused human capital philosophy helps to set best-of-the-best employers apart.



Compared to their best-in-class peers, best-of-the-best employers performed at high levels for both characteristics, placing them in the upper-right quadrant in the diagram. These employers tend to view compensation and benefits as investments in maximizing human capital performance, and use their organization's strategic plan as a basis for benefits planning. At the same time, they're more likely to have a multiyear benefits strategy informed by data from a wide range of sources that provide insight on a variety of factors and priorities. Among others, these include workforce traits, employee engagement and retirement readiness. The best of the best also seem more committed to the strategic execution of their approaches to healthcare costs, absence management, employee engagement and communication.

Best-in-class employers would place in one of the other three quadrants. For instance, some may take a disciplined approach to strategy ("High" on the vertical axis). However, that strategy may focus exclusively on achieving objectives within the HR and benefits silo, lacking metrics that connect human capital to business performance ("Weak" on the horizontal axis). The net result would be a position in the upper-left quadrant. To move to the upper-right, best-of-the-best quadrant, these organizations would need to work on establishing stronger and more direct connections between their business strategy and their policies and programs. As they achieve this alignment, they become better positioned to attract, develop and retain talent.

When studying best-in-class or best-of-the-best employers, there's sometimes a tendency to focus on the "what" — the specific compensation and benefit tactics that leading employers use more, or less, than others. Instead, the most valuable insights for identifying needs and planning improvements lie within a broader understanding that informs better tactical decisions.

What's most important for employers is getting a clear grasp of the "how" — how they relate human capital investments to business performance, and how they approach strategic planning and execution. At the start of their climb to the top, those aspiring to be best-of-the-best destination employers should examine these underlying characteristics as they plan the next steps in their ascent.

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Chuck works with internal and external clients, providing research, strategy and strategic communications focused on understanding and capitalizing on market changes and customer opportunities.

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Stephanie drives strategic application of employer market research, strategy and consultative efforts with internal and external clients.

[1] Arthur J. Gallagher & Co., "Best-in-Class Benchmarking Analysis," February 2017

Kent Lonsdale

Joe Milano

Sustainable Culture—the Missing Link to Business Success

Today's blended workforce is drastically different from past generations of employees, and entails a whole new set of organizational challenges. Employers can try to drive engagement by offering the richest, most comprehensive benefits, compensation and wellbeing programs in their industry, but if employees dread coming to work every day, their organizations will not succeed in the long run.

Creating an environment and a distinct set of core values that appeal to all workers, regardless of demographics or career stage, is a relatively new phenomenon and an endeavor that offers no singular, proven model for success. However, employers' success—or failure—in realizing this cultural shift can determine their business outcomes. High-performing employers are digging deeper to solve the equation of cultural sustainability, which happens when views and expectations about the importance of balancing broader economic, social and environmental objectives are aligned within the organization. Greater progress toward cultural and business sustainability becomes possible when business motivations extend beyond internal change initiatives and a focus on competitive gains. The interests and health of the organization's interconnected community of external stakeholders should also be considered.[1]

Culture, a leading indicator of success

Well-known destination employers in Silicon Valley have built a distinctive workplace culture around certain attributes they feel are important to their success. For some that means creativity, flexibility and camaraderie among co-workers. For others the defining dimension is eccentricity, including pet-friendly work environments, free food and a long list of other perks. What they often have in common is a tendency to credit their culture as the driver behind an engaged and productive workforce.

Many employers are taking notice of the potential effect of workplace culture on business results. In a recent survey, 95% of respondents said culture drives business results, and 80% are planning improvements for 2017.[2] Aligned with these findings, a 2016 study of large best-in-class employers revealed that the best of the best—the topmost performers in healthcare cost control and HR management—show a firm commitment to employee satisfaction and workplace culture. This peer group also ranked creating a strong culture as one of their top three HR priorities far more frequently than other large employers (30% vs. 13%).[3]

Getting sustainable results

The opportunity to build a strong and sustainable culture begins with these key steps:

1. **Know what makes the culture unique**—To understand the makeup of their current culture, employers must take a multifaceted approach to assessment. Organizations named to the Ethisphere® Institute's annual list of the World's Most Ethical Companies use engagement surveys, management interviews, physical site visits, social media and other tactics to capture feedback.[4] These efforts help them define workforce populations and take a pulse check of their attitudes and opinions—by function, division, geography and other key demographic sub-groups.
2. **Act on feedback**—Many organizations obtain feedback but fail to act, leaving employees to wonder, "What will change?" The key to a sustainably engaged culture is taking next steps prioritized by the leadership team and communicated back to the organization. Areas for improvement that may emerge include adopting a more targeted approach to training, building a culture of transparency, defining and setting clear expectations for ethical conduct, and providing resources that support compliance.

Employers may also begin looking at lagging indicators to measure cultural health, such as exit interviews, manager focus groups and misconduct reports.[4] Resources like these provide opportunities for leaders to identify and remove any existing cultural barriers that may impede growth, or impact employee retention.

3. **Focus on key components**—The Ethics Quotient™ measured by Ethisphere describes several indicators of a sustainable workplace culture.[5] Three of these areas include: 1) a culture of ethics; 2) leadership, innovation and reputation; and 3) corporate citizenship, sustainability and corporate responsibility.

Indicators of a Sustainable Workplace Culture*	
Culture of ethics	Encouragement and achievement of ethical conduct, and a commitment to compliance with the law
Leadership, innovation, and reputation	Out in front leading and creating positive change, not standing on the sidelines and joining in once others have paved the way
Corporate citizenship, sustainability, and corporate responsibility	Strong environmental stewardship, community involvement, corporate philanthropy, workplace impact and wellbeing, and supply-chain engagement and oversight

*Measured by Ethisphere's Ethics Quotient™

Organizations that exhibit these qualities and behaviors are considered to be some of the world's most ethical, and they use their conduct as a profit driver and a competitive differentiator. In fact, an independent analysis provided a proof point by comparing the financial performance of publicly traded companies among the 2016 World's Most Ethical Companies to the S&P 500. The Ethisphere honorees had an excess return—or ethics premium—of 3.3%.[6]

Alignment and action

Strong culture is the foundation for positive employee experiences. And team alignment is critical to building and maintaining this essential business performance asset. A great culture may not "win over" the entire workforce, and does not guarantee the elimination of toxic employees whose behaviors counteract organizational values. However, defining a process and aligning leaders not only provides more accountability, but also allows managers to make decisions that foster and preserve a cultural advantage. On this solid groundwork, employers can build total rewards programs that continue to engage employees and inspire outstanding long-term business results.

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[1] Network for Business Sustainability, "Embedding sustainability in organizational culture: A How-to Guide for Executives," 2010

[2] Virgin Pulse, "Organizational Culture," 2017

[3] Arthur J. Gallagher & Co., "Best-in-Class Benchmarking Analysis," February 2017

[4] Ethisphere® Institute, "Leading Practices of The 2016 World's Most Ethical Companies®," 2016

[5] Ethisphere® Institute, "Ethics Quotient™ Analytical Scorecard," 2016

[6] Ethisphere® Institute, "Ethics is the Measurable Differentiator: Performance of 2016 Honorees as Compared to the S&P 500 Over the 2015 Calendar Year," 2016

Leslie Lemenager

Richard Polak

Creating Competitive Opportunities With a Cohesive Approach to Resolving Cross-Border Talent Challenges

U.S. companies are managing increasingly global workforces. In a series of surveys and panels conducted in 2015 by the Economist Intelligence Unit in partnership with the SHRM Foundation, most participants surveyed said they anticipated an increase in the number or size of cross-border teams in their organization.

Workforce globalization comes with many challenges, including offering total rewards appropriate for diverse labor markets, handling the legal complexities of compensation, managing benefits and HR across multiple regulatory frameworks, and balancing organizational culture with societal culture. For U.S. employers with an established or growing multinational presence, several key human capital trends can help them take command of a multitude of issues.

Heated competition for talent continues

Domestically, U.S. employers have seen labor markets tighten to pre-recession levels.[1] In search of a deeper talent pool, they now compete more fiercely across borders, recruiting scarce talent internationally, establishing offshore hubs for specific business functions, and forming multinational partnerships.

Employers face the need to form a meaningful global destination-employer strategy, in which benefits form a vital component.

In the technology field, U.S.-based organizations have long embraced hiring abroad as a standard talent-sourcing practice, but this trend is catching on with other sectors because of a shift in global resources for other skilled labor. Seeking to gain a competitive advantage, many countries besides the U.S. are offering migration incentives for skilled workers, including fast-track visa approval and tax holidays.

With these factors in play, employers face the need to form a meaningful global destination-employer strategy, in which benefits form a vital component. The two trends discussed below highlight recent developments in this area.

Simplifying benefits management with a unified strategy

Compensation and benefit practices vary greatly from country to country, reflecting local legal provisions, economic climates and cultural norms. And benefits present a particularly unique challenge given the diversity of laws and policies governing healthcare, pensions and time-off policies.

Healthcare benefits are often the most challenging to harmonize into a cohesive strategy because the growing cost of healthcare, although felt most acutely at home, is also a prevailing trend worldwide. The world's major regions are expected to see healthcare spending increases that range from 2.4% to 7.5% between 2015 and 2020.[2]

While many countries have single-payer healthcare systems, supplemental medical insurance is increasingly offered by employers. This trend is growing even in the European Union and other countries with robust universal coverage programs. Certain industry segments dependent on scarce talent, such as life sciences, technology and engineering, even offer supplemental medical insurance as a standard benefit. Their objective is to provide valued employees with greater alternatives and more immediate access to care than what is afforded by government-funded programs. In some countries, such as China, benefit offerings tend to be stratified into multiple levels depending on the employee's position with the company. This practice requires provisioning of multiple benefit plans even within one geographic region.

With so much benefits complexity, it's easy to understand why U.S. companies just venturing into the global talent sphere often maintain segregated country-specific benefit programs, sometimes under separate management structures. However, this approach not only costs more, but also inhibits the development of an organization-wide rewards and talent management strategy. Administering benefits under a unified umbrella helps to avoid these drawbacks and has emerged as a more effective option. Employers often gain an advantage from partnering with third parties that specialize in global benefits management, and provide expertise on benefit practices in hundreds of countries and access to related information.

The global issue of workplace mental health

A focus on productivity is at the top of many executive agendas in the globalizing economy. And the mental health of workers has come to the fore as a major factor that drives — or jeopardizes — the quality and quantity of employee output.

According to the World Health Organization, anxiety and depression cost the global economy over $1 trillion per year in U.S. dollars, with depression identified as the second-largest contributor to disability or health loss worldwide.[3] A number of countries have launched government-backed programs to increase awareness and expand access to treatment for mental health conditions.

A growing focus on mental health has also spotlighted work-life balance, and an emphasis on related issues has developed into an important trend affecting human capital management across the globe. Nearly a third of recently surveyed HR directors in the U.K. admitted that employee burnout is common in their organization.[4] In Japan, China and South Korea, suicide from overwork occurs frequently enough to warrant a special term in their countries' main languages. And France has recently enacted the "Right to Disconnect" law, under which companies with more than 50 employees will be obligated to set up hours — normally during the evening and weekend — when staff should not send or respond to emails.

U.S. companies expanding their workforce into foreign countries will want to carefully weigh the implications of this trend. Beyond providing the required amount of paid leave — strictly mandated in a number of countries — employers should be prepared to manage cultural differences, as well as formulate and communicate the company's philosophy on work-life balance.

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Richard advises multinational organizations on international HR as well as compensation and benefits, helping to develop solutions for employers undergoing rapid global changes. He focuses on driving innovation in international benefits, healthcare, pensions and HR.

[1] Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," January 2017

[2] Deloitte, "Global Health Care Outlook 2017"

[3] World Health Organization, "Infographic — Major depression inadequate treatment (2017)," April 2017

[4] Robert Half, "Employee burnout common in nearly a third of UK companies, say HR directors," February 2013

Rebecca Starr

Enhancing Employee-Employer Cultural Alignment Through an Effective Search and Selection Program

It's a well-worn annual ritual. Every year, employers invest a lot of time, energy and money in designing and implementing a benefits and compensation package that will help them compete more strongly for top talent. What they offer may differ based on organizational culture and the intensity of the competition in their industry. However, with a reasonably healthy U.S. job market and the rivalry for talent playing out on a global game board, most understand they're facing off in an environment where they must constantly "up their game." In fact, a recent survey shows that employers rank retaining (47%) and attracting (42%) talent as two of their top three HR priorities.[1]

Consistent, end-to-end internal communication reinforces a clear organizational vision and culture to job candidates throughout the search and selection process.

A winning total rewards program is only the starting point for securing sought-after talent. Top employers must also be adept at communicating the value of working at their organization. The way to do that is to ensure their search and selection programs not only highlight employee benefits, but also customize these offerings to both actively interested and passive job seekers. Specifically, the highlights should show potential hires how and why they'll fit within the organization. On top of customized marketing campaigns and recruiting strategies, employers must also be aware of employment law changes affecting the hiring and selection process.

Customized search and selection, powered by the right technology

Creating a customized search and selection program begins with aligning an organization's human capital growth strategies with its mission and vision. What this could mean for the future workplace experience of job seekers should be clearly communicated on the employer's career page and in job fair marketing materials. The message should also be woven into interview questions and articulated by all members of the interview team — from recruiters (contract and internal), to hiring managers and other contributors. Consistent, end-to-end internal communication reinforces a clear organizational vision and culture to job candidates throughout the search and selection process. And carrying over this message to onboarding, training and development programs will help new employees assimilate and engage in the workplace from "Day One."

In today's digitally infused workscape, technology plays an essential role in how employers connect with job seekers. Interactive job boards, applicant tracking tools and employers' social media sites are all messaging tools that can either help or hinder the company's search and selection program. It's important for employers to select job boards for their industry, niche or professional level that set the right tone for the right job seekers.

Outdated or cumbersome applicant tracking tools may reflect poorly on the potential employer overall. Job seekers can now download apps that allow them to review job postings, "swipe right" and immediately apply for a position. This trend toward ease and speed in the application process challenges employers to align their selection strategies to the behaviors and preferences of the candidates they want to attract.

Managing compliance risk and protecting marketplace perception

The ability of an employer to stay updated on employment law changes and adjust its search and selection program, as needed, can affect a job candidate's perception of the company. Employers must not only be aware of these changes, but also ensure their recruiting teams are trained properly on compliance and related best practices.

One concern is ban-the-box regulations that affect applications for jobs in 150 U.S. cities and counties within 25 states, as well as federal government employment applications.[2] Their intent is to protect job seekers with prior criminal records from immediate disqualification in the search process. In addition, cities within the U.S. have blocked hiring managers from requesting an applicant's previous compensation before extending a job offer. These laws can pose a different risk outside of the legal realm. If even one member of the recruiting team is unaware of recent employment law changes, and for example, asks an inappropriate interview question, the qualified job seeker may become disinterested in the company as a whole.

Making the best possible impression on job seekers who are the best possible fit for an organization requires a cohesive search and selection program. To attract these select candidates, employers must go beyond offering a competitive total rewards program. They also need to communicate a consistent, customized message about the workplace culture employees will experience using the most effective technology. And to ensure they convert these candidates into new hires, compliance with employment law — at every step — is essential.

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Rebecca has extensive experience managing, reviewing and evaluating HR functions. She specializes in strategic and tactical approaches to organizing compliant and efficient HR functions.

[1] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

[2] National Employment Law Project, "Ban the Box: U.S. Cities, Counties, and States Adopt Fair Hiring Policies," February 2017

Matt Frost

The Rules of Employee Attraction

Using communications to navigate new employee relationships and find a lasting connection

Nearly half of employers report annual turnover of 10% or greater.[1] In this competitive job market, how can organizations attract, engage — and keep — the right talent?

Attracting talent is a bit like attracting a new partner. The search and selection process can take a lot of hard work, and, as with any relationship, communication is key.

Make the first impression count

HR professionals put a lot of effort into making their organization stand out from the competition. But how do they dress their exciting career opportunities and great benefits for success in such a crowded field of suitors? Presentation counts.

It sounds simple, but it's amazing how many employers get it wrong. Only 16% have a comprehensive communication strategy.[1] They invest time and effort in designing a wonderful benefits package, but don't follow through with the same level of effort when they tell their candidates and new employees about it. Communications deliver the best results when they improve employees' perceived value of their benefits, inform their benefit decisions and reflect their thoughts and feelings. In fact, 61% report that their employees are well-informed on their benefit choices when an effective communication plan is in place.[1]

Communications should be eye-catching and appealing. Prospects and new hires receive a lot of information when they interview for a job and join a company, so benefit communications need to draw their attention.

Be honest and keep it simple

Of course, it's not just about looking good. What recruiters, interviewers and others in the company say to job candidates matters, too.

Honesty is the best policy when it comes to employee relationships. Nothing is gained — and someone valuable could be lost — when a candidate is promised more than reality can deliver. When disillusioned employees leave an organization, their negative impressions could also affect the company's brand reputation and competitive standing.

It's best not to mix messages, hide facts or use complicated terms and jargon. Tell it how it is. Lay out all information clearly and honestly, and allow candidates and employees to make the right choice for their futures.

Don't make it "all about me"

Show genuine interest in potential employees. Find out who they are and what's important to them. Employers should talk about why the organization's benefits and other strengths matter to candidates from a personally relevant point of view. For instance, a recent college graduate would probably be more interested in hearing about student loan repayment benefits than a college savings plan that fully funded the interviewer's tuition, room and board at a top university.

By directing potential and current employees to information that's most relevant and valuable for them, employers will experience a much higher level of benefits appreciation. Their greater reward will be a better return on their investment, measured in attracting, engaging and retaining valuable employees.

Don't get complacent

Getting comfortable in a relationship and taking it for granted is a common human pitfall, and not just at home. Employers do the same thing. They put in a lot of effort upfront to attract the best candidates, and then as soon as the relationship is sealed, a dull routine can set in.

It's important to show employees they're valued for the life of the relationship. Keep connecting through well-designed, user-friendly communications that give them useful information or access to practical resources.

Tell it how it is. Lay out all of the information clearly and honestly, and allow candidates and employees to make the right choice for their futures.

Effective communication is key to making any relationship work well in the long term. Employers that complete a one-off exercise to check a box each benefits election year are selling their investment in their employees short.

Employer-employee communication should be a constant two-way process of listening, learning and adapting. Overall, top-performing destination employers are much more likely than others to enlist the help of a strategic communication plan.[2] So the right guidance is important, too. As with all of the best relationships, employers will get out of their employees as much as they're willing to put in.

Matt Frost, Business Development Director, Communications
Matt crafts messages and creates campaigns that help employers think strategically, emotively and intelligently about engaging people. His goal for clients is an employee experience that connects the dots between the business, HR, total rewards and benefits strategy.

[1] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

[2] Arthur J. Gallagher & Co., "Best-in-Class Benchmarking Analysis," February 2017

David D. Rowlee, Ph.D.

Chris Dustin

Three Key Factors for Engaging Employees to Help Drive the Bottom Line

The workplace continues to change at a speed that is, at times, challenging to manage. Organizations constantly focus on improving customer satisfaction, increasing the bottom line and achieving other crucial business outcomes that impact their viability. But none of these outcomes can be optimized without employee engagement.

So, how do employers build and sustain a highly engaged workforce? This common question on the minds of many executives can be answered by focusing on the key drivers of engagement operating within their organization.

Identifying the key drivers of employee engagement — the factors that most influence sustained or increased engagement levels — is an ongoing process that relies on current, rich and relevant data. Each year, this data should be updated and key drivers reevaluated. The importance of this annual exploration can't be overstated. Just as workplaces are changing at a rapid pace, the drivers of engagement also shift routinely.

In early 2017, a study of engagement drivers in today's workplace was completed using a database that collects employee data across multiple industries and all U.S. geographies.[1] Research uncovered the three most powerful drivers affecting employee engagement today. They currently offer many employers the best odds of building engagement among their employees.

TOP THREE DRIVERS OF U.S. EMPLOYEE ENGAGEMENT IN 2017*

1. Strong senior leadership
2. Ample opportunities for employees to use their skills and abilities
3. A workplace environment that fosters professional development

*In order of influence

Employees' outlook on their senior leaders' performance

The top-most driver of engagement is employees' perspective on their senior leaders' stewardship excellence — how well they execute their duties and obligations to the organization. This finding not only makes clear that employees place a high value on senior leadership, but also suggests that eliminating the disconnection between the two groups has a profoundly positive impact on engagement.

In fact, improved employee engagement strongly correlates with senior leaders who are visible, transparent and actively participate with their employees.

Straightforward best practices that senior leaders should consider include:

- **Show commitment** — Willingly engage with employees
- **Remain visible** — Implement, for example, a "management by walking around" approach
- **Express concern** — Readily listen and encourage employees to share ideas
- **Act cohesively** — Work in unison with other senior leaders
- **Openly communicate** — Share organizational goals, remain transparent, provide a clear strategy and mission, and ensure that employees understand messages

Career development feeds job enthusiasm

Career development is a powerful theme found in senior leadership best practices. Although this process differs from career advancement, there's a frequent misconception that enhancing a career is directly tied to a promotion. In reality, career development focuses on using existing abilities on the job, learning new skills and improving business knowledge — opportunities that are incredibly important to employees and often affect their job enthusiasm. Leaders at all levels should work with employees on a regular basis to establish goals and create individualized short-term and long-term career plans.

Specifically, it's important for leaders to prioritize these objectives and behaviors to support employees' career development and aspirations:

- **Motivate**—Highlight the importance of growth
- **Coach**—Offer continual guidance and feedback
- **Participate**—Stay involved with employees on their development path
- **Guide**—Create a path that makes promotions and growth possible
- **Reward**—Use recognition, promotions and celebrations to mark accomplished goals

The compensation factor

A vast body of research has shown that aspects of compensation are not top drivers of engagement and have rarely influenced it. However, while compensation specifics may not predict engagement, emerging research suggests that employees' overall outlook on compensation plays an important role in building engagement. Recent studies show that when employees view compensation favorably, they feel more positive about the key drivers of engagement. An unfavorable view not only has the opposite effect, but also dampens the likelihood that employees will ever feel these critical drivers are optimal.

In summary, triggering sustained or increased employee engagement today relies on: 1) ensuring that employees think highly of the job that senior leaders are doing in guiding the organization; 2) empowering employees' confidence in pathways for learning and growing within their teams and the organization; and 3) fostering a fair perception of compensation.

While it's likely that these employee engagement tactics can help most employers, key engagement drivers can differ from organization to organization. The first step for any employer is to understand how their key drivers may be unique, and to make any needed adjustments to their engagement strategy. Once there's alignment, the key drivers of engagement will directly influence a positive and lasting effect on organizational outcomes.

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David oversees a team of highly skilled researchers and ensures the delivery of leading-edge measurement capabilities, advanced empirical analyses and innovative research studies to inform clients' operations and strategies.

Chris Dustin, Managing Director & Senior Advisor, Engagement Surveys
Chris conducts leadership presentations, training sessions and workshops that support best practices and share strategic advice on how to improve clients' overall business outcomes.

[1] Gallagher's U.S. National Employee Benchmarking Database

Chris Ratajczyk

Pay Equity Will Help Create and Promote a Destination Workplace

The political environment is shifting, and states and cities are passing their own legislation regarding gender pay equity. Clearly, organizations must strive to comply with all regulations to mitigate the risk of potentially costly lawsuits. And this approach is also good business. Fairness, real and perceived, helps organizations attract and retain the best talent possible regardless of personal characteristics such as gender, ethnicity and age.

An objective pay program, free from discrimination, will also help build the foundation for a destination workplace. A basic sense of fairness around pay decisions and employment actions makes it easier to engage employees and achieve maximum effectiveness from rewards programs.

A basic sense of fairness around pay decisions and employment actions makes it easier to engage employees and achieve maximum effectiveness from rewards programs.

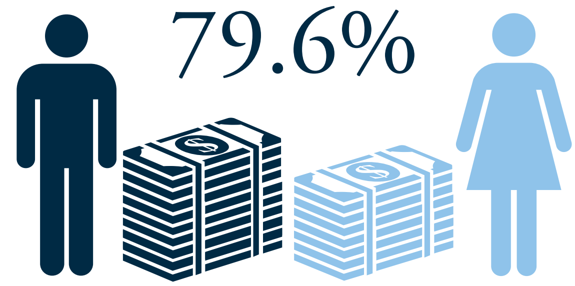
Pay equity, then and now

The first pay equity law in the U.S. was the Equal Pay Act of 1963. Since then, legislation at both the federal and state levels has targeted pay equity, especially with regard to gender. A number of countries across the world have similar legislation.

Beginning in 2018 (based on 2017 data), the Equal Employment Opportunity Commission (EEOC) is requiring U.S. organizations with more than 100 employees to provide employee W-2 pay data by EEO job category, gender, ethnicity and 12 compensation groupings.

There's no question that a gender pay gap exists in the U.S. While the size of the gap depends on the methodology and the statistics used, it's generally cited that women's earnings are 80% of men's. According to the Census Bureau, the full-time year-round earnings of women were 79.6% of men's pay in 2015.[1] The Bureau of Labor Statistics estimates that the wage difference in 2014 for full-time workers was 82.5%.[2]

GENDER PAY GAP



The portion of men's pay that women earned for full-time year-round work in 2015.[1]

Pay equity implications

Beyond the compliance requirements of pay equity, there's the potential to establish an objective and integrated approach not just for compensation, but for total rewards and the employee experience overall. Creating a culture of fair treatment will help engender a destination workplace and enable successful recruiting from an increasingly diverse talent pool.

Improving diversity means bringing in different views, ideas and innovations. Diversity will also appeal to many millennials, now the largest generation in the workforce. Millennials tend to appreciate transparent management and a focus on corporate social responsibility, both of which are improved by treating employees and candidates fairly and communicating openly with them. These characteristics are also likely to be well received by customers and investors.

Identifying pay equity gaps and opportunities

There are a number of ways to approach pay equity. Actions taken throughout the employment cycle will impact pay, including decisions about hiring, starting salaries, merit increases, promotions, training and development, and performance scores.

Subjectivity — and potentially discrimination — can be introduced through any of these actions and others. Once an organization makes pay equity a priority, there are many ways to improve any observed pay gap, including:

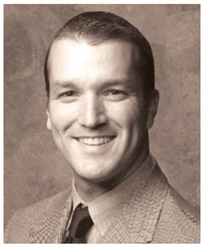
- **Conducting a pay equity analysis** — Conduct a statistical analysis to compare the pay of men and women or any other demographic. An organization may review base salary and total compensation by location, grade, EEO job category, manager, department or other criteria. Similar analyses can be done for annual performance scores and to determine the number of women in various higher- and lower-paying roles and grade levels.
- **Using an objective job evaluation methodology** — Combine job evaluation and market pricing to ensure objective and accurate internal and external valuations for organizational roles, an approach that may serve employers especially well in the context of pay equity.
- **Analyzing the data thoroughly** — Dig deeper where there are differences by reviewing employee education, experience within a role, performance and other legitimate, objective factors that may offer an explanation. Because workforce demographics change and data on the impact of any pay equity interventions is valuable, it may help to repeat the analysis every one or two years.
- **Conducting employee engagement surveys** — Use surveys to test the engagement levels of the workforce. Among their many benefits, these surveys can track changes in engagement over time, including before and after organizational and HR initiatives, and may sound a warning bell about any negative trends or sudden concerns.
- **Documenting and communicating employment decisions** — Document how, why and when employment decisions are made, and be transparent with employees about how compensation is determined.

The real downside to ignoring pay equity is the risk of a disengaged, less productive workforce that's more difficult to retain. As organizations continue to optimize their investment in employees, the true cost of disengagement is likely to exceed any lawsuits and penalties from noncompliance.

Chris Ratajczyk, Managing Director, HR & Compensation Consulting
Working from a foundation of nearly 20 years of progressive consulting experience, Chris helps organizations with evaluation and design of base compensation, variable pay and total rewards programs.

[1] U.S. Department of Labor Women's Bureau, "Issue Brief: Women's Earnings and the Wage Gap," January 2017

[2] Bureau of Labor Statistics, "TED: The Economics Daily — Women's earnings compared to men's earnings in 2014," November 2015



Stephen D. Mann

Executive Benefits — Locking in on a Strategy to Compete Effectively for Key Employees

The verdict is in: employees have options. The unemployment rate in the U.S. has dropped to levels not seen since 2007. More than 95% of the working population is employed today.[1] While this is a positive development for the American workforce, employers feel the challenge of attracting and retaining employees across the talent spectrum.

A recent survey identified this issue as the number one challenge for HR teams,[2] which is especially acute within the highly skilled key employee or executive ranks.[3] In this intensely competitive environment, employers are willing to pay more for specialized skills or developed talent.

The challenge of retaining talent

Effective leaders identify and appropriately reward employees who are critical to the company's growth and future. As these key employees take on more responsibilities and create more opportunities for the organization, they become deeply trusted and extremely difficult and costly to replace. Some surveys suggest that hiring a high-level or highly specialized replacement would cost 400% of the previous employee's compensation.[4]

An effectively designed, executed and communicated executive benefits program can support an employer's desire to pay for performance and protect against the risk of losing key personnel. By filling gaps in compensation and/or existing benefits, employers help set the tone for how rewards are given and support long-term business success and longer employee tenure.

Salary and incentive pay are obviously important, but total cash compensation is not the only reason employees choose to stay in their current jobs, or the only reason they decide to leave. Surveys also indicate work environment, team building and mentoring play a significant role in satisfaction or dissatisfaction with employers.[5]

REPLACEMENT COST

400%

The increase in replacement cost from the previous high-level or highly specialized employee's compensation.[4]

Staying competitive requires leadership teams to be aware of current trends in benefits as well as compensation. An effectively designed, executed and communicated executive benefits program can support an employer's desire to pay for performance and protect against the risk of losing key personnel. By filling gaps in compensation and/or existing benefits, employers help set the tone for how rewards are given and support long-term business success and longer employee tenure.

"Golden handcuffs" plan design ideas

The most challenging gap for many employers is their compensation relative to long-term incentives (LTIs). When developing an LTI program, questions to ask include:

- Who are the employees that create the most value for the organization and are the most attractive for competitive offers?
- Where does an LTI plan fit into the overall compensation structure?
- What are the metrics that drive corporate value and growth?
- How much compensation should be "on the hook" versus paid out in the short term?

• What is the appropriate vesting schedule for the eligible group, and should it be different based on the roles and responsibilities of the team?

What are other low-cost options?

In addition to answering and acting on the questions provided, employers should consider benefits that support key employees' abilities to tax-efficiently save for the future. Almost every core benefits program limits benefits for life and disability. Every 401(k) has a maximum annual deferral limit for employees and a maximum compensation limit for employer-match or profit-sharing contributions.

Nonqualified deferred compensation plans (NQDCPs) provide the structure that businesses can use to supplement 401(k) savings options. These plans are not without challenges, but have become a standard benefit among larger employers. Statistics from a recent survey reveal that 77% of all employers and 97% of large employers offer NQDCPs,[6] making these plans a key component for any business looking to reward, retain, attract or retire key talent. A common plan design, typically called a "401(k) Excess" plan, allows the key employee to save pre-tax dollars in excess of the 401(k) plan limits up to 100% of total compensation.

Group long-term disability and group life plans typically include some sort of maximum benefit amount based on a percentage or a multiple of salary or total compensation. However, many executives will earn incomes in excess of these limits. So, two other considerations are individual disability and individual life insurance. Employers typically offer these gap coverages less frequently than retirement-gap benefits because employees tend to see the risk of death or disability as less significant than the risk of being unable to retire on time. However, these individual options can distinguish a firm's benefits offering.

Bringing it all together

Culture is a large factor in employee retention,[7] and businesses that take the time to develop theirs are often the ones that want to do the best for their employees. In building or sustaining an engaging workplace culture, it's a mistake to believe that an executive benefits program contributes to a division of "haves" and "have nots." Key employees invest greatly in their organization, and their energy and efforts pay back their employer in distinctive ways that create long-term value that's meaningful for the entire organization.

While businesses are unlikely to keep all of their key employees for their entire careers, there is much to be gained with an executive benefits program. A well-designed, effectively communicated program will support organizational culture and likely increase employee retention. This investment also has the power and the potential to differentiate employers in the middle market and increase their competitive standing with larger businesses.

Stephen D. Mann, Area Vice President, Executive Benefits
Steve assists clients with the design, implementation, communication, financing and investment monitoring of nonqualified deferred compensation plans. He researches and consults on plan document reviews, vendor selection and monitoring, and financial analysis.

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[1] United States Department of Labor – Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," January 2017

[2] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

[3] GALLUP, "Tough Task: Recruiting Top Leaders From Other Companies"

[4] LinkedIn, Karlyn Borysenko, "The Cost of Employee Turnover," July 2014

[5] CNN Money, "Top reasons why workers quit their jobs," May 2015

[6] Prudential/PLANSPONSOR, "Executive Benefit Survey Summary of Results," 2015

[7] Forbes, "Why Do Employees Leave Their Jobs?" October 2015

George K. Katsoudas

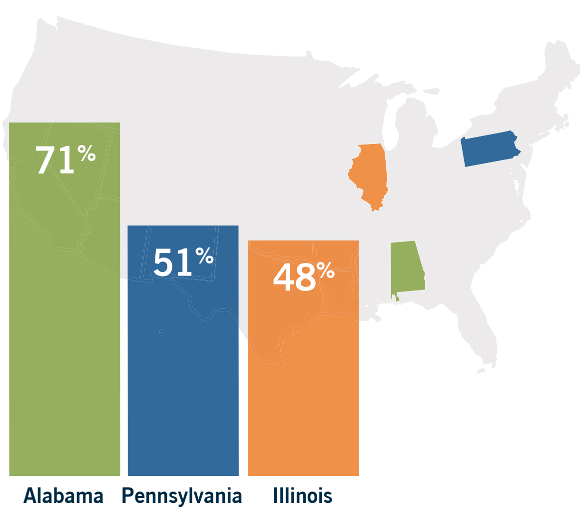
The Impact of PPACA Repeal and Replacement for Destination Employers

How to address uncertainties and take advantage of opportunities

Shortly after the 115th Congress was sworn into office, their efforts to transform healthcare reform began with a budget resolution containing fast-track instructions to defund the Patient Protection and Affordable Care Act (PPACA). The resolution was approved by the Senate on January 12, with the House of Representatives following suit the next day. Within hours of his inauguration, President Trump signed an executive order directing federal agencies to minimize the burdens caused by PPACA. On May 4, the House voted to repeal and replace significant portions of PPACA with the American Health Care Act (AHCA), taking the first decisive step toward dismantling major parts of former President Obama's signature legislation.*

While uncertainty about the future may cause angst among employers that sponsor health benefits for their employees, the insurance market has struggled to provide affordable care under PPACA. For example, premiums in Alabama for the second lowest cost Silver plan on the Health Insurance Marketplace increased by 71% in 2016. Residents of Pennsylvania were subject to increases of 51%, while the increase in Illinois was 48%.[1] Some states saw smaller increases, but these examples show how the law failed to control costs.

SILVER PLAN HEALTH INSURANCE MARKETPLACE PREMIUM INCREASES (2015 TO 2016)[1]



Continued compliance with current law

Because AHCA must be approved by the Senate before it can become law, employers need to follow current legislation while anticipating possible changes and the opportunities they present.

Based on the substantive and political complexity of AHCA, its passage by the Senate could remain a tall task. Early indications suggest the Senate will be deliberate in its consideration of AHCA and will likely propose additional modifications to the bill. As the debate over healthcare reform continues, employers are still looking to manage healthcare costs in an increasingly unstable market.

Opportunities with new legislation

AHCA retains some of PPACA's more popular provisions, such as coverage to age 26 for adult children and the prohibition on lifetime and annual limits. At the same time, AHCA would effectively eliminate the individual mandate and employer mandate, replace premium assistance for lower income individuals with age-based tax credits, nearly double the basic limit on annual aggregate Health Savings Account (HSA) contributions and free up how those contributions could be used. This latter change may signal a pendulum swing back toward consumer-driven health plans (CDHPs).

One in four employers saw double-digit premium increases in 2015, and 48% have indicated that controlling costs is one of their top three operational priorities. Even before the election, nearly half of employers were either using CDHPs or interested in exploring them.[2] The percentage of employers considering these plans is expected to increase.

*Information was current at the time of this report's publication in May 2017.

While it's difficult to predict the ultimate fate of AHCA, it's certain that employer-sponsored healthcare will continue to be an important way for many Americans to get coverage. The turmoil that may ensue with any widespread changes to the healthcare system will present challenges for employers, and it's imperative that they're mindful of proposed changes so they can understand the risks those changes may introduce. Undoubtedly, the changes will also force employers to reexamine and potentially recraft the suite of benefits they offer to their employees in order to stay compliant. However, as seasoned business professionals are well aware, dramatic change often ushers in opportunity along with risk.

> It is imperative that employers are mindful of the proposed changes, so that they can understand the risks those changes may introduce.

Employers should take care to analyze changes through the prism of opportunities they may provide for cost control and an improved benefits package. For instance, if the AHCA provisions on HSAs are voted into law, employers that have a large concentration of highly compensated professionals may use the opportunity to introduce a high-deductible health plan coupled with an HSA. The increased use of HSAs may also impact the employer's total compensation strategy.

As approved by the House, AHCA would alleviate many of the coverage mandates introduced by PPACA. In this case, employers in low profit-margin industries might craft plans that are more affordable for their employees. Whatever the needs of a specific workforce, the repeal of PPACA could provide greater flexibility for employers, and empower organizations pursuing destination-employer status to differentiate themselves more strongly from competitors.

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George leads the Benefits and HR Consulting division's National Compliance Team, and is responsible for key national publications for employers including the Healthcare Reform Update, Technical Bulletins and Directions newsletters.

[1]The Henry J. Kaiser Family Foundation, "2017 Premium Changes and Insurer Participation in the Affordable Care Act's Health Insurance Marketplaces," November 2016

[2]Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

John Edgerton

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Preparing for Uncertainty — Are Self-insured Plans Becoming the Preferred Choice?

Organizations encounter many forces that can challenge sustainable growth rates, including increasing healthcare expenses and rising compensation costs due to employees working past their retirement age. These factors often contribute to a spending rate that outpaces revenue growth — especially in mature or low-growth industries — creating the need to aggressively manage costs. A solution that's widely used to counter this trend is the self-insured medical plan. This approach offers organizations lower health plan fees, more control over healthcare costs and possible savings from managing them well. It also comes with greater financial risk than a fully insured plan.

Findings from a 2016 best-in-class benchmarking analysis showed that three-quarters of large employers self-insure their medical plans.[1] Although midsize employers have a history of slower adoption, those considered best in class were 40% more likely to take this approach. And, while the best-in-class percentage was relatively flat from the previous year, the number of other midsize employers using self-insured plans grew by almost 30%.[1, 2] Are self-insured plans becoming less risky, or is market turmoil a tipping point for more employers to make this shift?

Legislative uncertainty — combined with carriers' control over the healthcare provider market and the pace of pharmaceutical cost increases — makes traditional, fully insured plans a lot less attractive than they used to be.

What lies ahead?

Similar to the rollout of the Patient Protection and Affordable Care Act (PPACA), the proposed American Health Care Act may come with uncertainty.* Newly developed medical insurance plans expose carriers to a lot of risk because their underwriters rate plans based on claims experience. One unwelcome consequence was evident in the case of a major carrier that posted losses of $475 million on PPACA-compliant plans.[3] Industry experts consider such losses a risk to fully insured medical plans because they can get passed on to other health plan members. Legislative uncertainty — combined with carriers' control over the healthcare provider market and the pace of pharmaceutical cost increases — makes traditional, fully insured plans a lot less attractive than they used to be.

Getting out of the "carrier business" — things to consider

Moving to a self-insured medical plan provides more control and offers the potential for lower costs, but also requires employers to understand and assess an entirely new set of options. Some areas to consider are described below.

- **Securing stop-loss coverage** — Protection against catastrophic or unpredictable losses will become increasingly important to employers. Reliable third-party guidance in navigating the stop-loss provider space and negotiating premiums is extremely helpful. Expert evaluation of stop-loss providers' financial stability and their ability to pay large claims is also key, and should include a strict method of due diligence. Large claims may be more the exception than the rule, yet recent data suggests that 1.9% of members covered by a national stop-loss carrier had claims in excess of $1 million in 2015, representing 20.3% of reimbursements.[4] Experts anticipate that claims over a million dollars could continue to increase when factoring in pharmaceutical claims, because of the steep increase in specialty drug pricing.

*Information was current at the time of this report's publication in May 2017.

While the potential risk exposure of high claims could be a deterrent to self-insuring, the total exposure or "gap" in coverage should be made transparent to employers by third-party advisors. It's important to identify gaps and quantify differences in exposure between carriers using an approach that reflects the total insured risk. Smaller organizations that have strong claims management, wellbeing programs, or both, should consider the stop-loss captives trend toward partnering with like-minded organizations to achieve savings.

- **Finding the right pharmacy benefit manager (PBM)**—Uncoupling medical and pharmacy coverage can be a big advantage of moving to a self-insured plan. However, with specialty drugs expected to account for roughly 50% of all U.S. pharmacy expenditures by 2018,[5] working with the right PBM is crucial to containing costs. Strong PBM partners often use strict pre-authorization guidelines and aggressive step therapy, and adapt formularies and policies to changes in the market. Even with these components in place, most PBM contracts are not the same. Employers should seek help in assessing PBMs, understanding the differences in their contractual terms and negotiating financial guarantees.
- **Navigating the network**—If employers are using self-insured medical plans to more directly impact claim costs, they should also understand the vast network of services and emerging solutions that supplement cost-containment efforts. Care coordination, telemedicine, pricing transparency, onsite clinics, reference-based pricing, private exchanges and defined contribution, negotiated network discounts, and other solutions can round out the plan offering. Another emerging trend is to contract directly with healthcare providers, eliminating the need for traditional carrier networks altogether. Understanding the plan provider's method of reimbursement is necessary to truly understand risk. The claims impact of any performance-sharing arrangements with provider groups should be made clear. Because identifying the right cost-containment services to deploy will likely be based on an employer's unique workforce composition, third-party recommendations should include relevant demographic data.

Overall, self-insured plans can be challenging to administer. So it's essential to carefully deliberate about the most sensible approach to securing stop-loss coverage, finding the right PBM and understanding how to navigate the multitude of services and solutions that support cost containment.

Due to lawsuits related to mishandled claims, fees and other contractual matters, employers should also factor how a self-insured plan might be impacted by mandates such as preventive care, women's health, the Health Insurance Portability and Accountability Act, the Americans with Disabilities Act, and more.

Is it time to consider self-insuring?

The organizations most likely to benefit from self-insured medical plans take a farsighted approach to long-term sustainable growth. Their leaders factor changing market conditions into their healthcare and business decisions, and have a strong desire to offer a total rewards program that helps them compete for—and retain—top talent. Projecting plan costs based on self-insured models is a risk-free first step for testing the value of making the move to self-insurance.

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Kevin creates and drives regional organic growth strategies, working with branches and consultants to help them connect and leverage all Gallagher capabilities for the benefit of their clients.

Chris Shofner, Vice President, Sales & Marketing, Northeast Region
Chris equips his teams with innovative, proven strategies and solutions to optimize clients' health and welfare programs. Together, they focus on the right team, the right tools and the right resources to help clients plan and prepare for tomorrow, today.

Cherie Toffoli, Vice President, Sales & Marketing, South Central and Heartland Regions
Cherie guides her teams in developing innovative approaches to cost-effective benefit programs that optimize clients' talent outcomes. Through coaching and direct support, she connects consultants with best practices that help them deliver sustainable benefit strategies.

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[2] Arthur J. Gallagher & Co., "Best-in-Class Benchmarking Analysis," March 2016

[3] CNNMoney, "UnitedHealth expects to lose nearly $1 billion on Obamacare," January 2016

[4] Sun Life Financial, "2016 Sun Life Stop-Loss Research Report: Top ten catastrophic claims conditions," Spring 2016

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Mark Rosenberg

Betty Gwinn

Jill Watson

Controlling Healthcare Costs Through Innovative Methods That Target the Root Causes of Price Increases

Healthcare costs in the U.S. continue to climb, and consumers are shouldering the majority of price increases. From 2011 to 2016, average annual deductibles for individual medical plans have gone up 49% and premiums have risen by 19%.[1] Meanwhile, workers' earnings have lagged, growing only 11% in the same period. These numbers are proof of a decade-long trend: Unable to support their skyrocketing healthcare expenses, employers have increasingly passed on costs to employees, eroding their take-home pay.

In today's tight labor markets, many employers recognize that shifting rising healthcare costs to employees is not a sustainable strategy — just as it's unrealistic to absorb these costs into the company budget. Instead, these best-in-class organizations are finding innovative, progressive ways to target the root causes of price hikes — including reference-based pricing of healthcare services and pharmacy benefit management.

Making lower-cost healthcare options more compelling for employees

One key driver of underlying healthcare costs is the enormous gap in the price that healthcare providers can charge a patient for the same service. For example, a price comparison of 10 common medical services in the metro area of a large U.S. city, including a colonoscopy, abdominal ultrasound and others, showed an average difference of 670%.[2] That equates to gas prices ranging from $2 to $14 per gallon. Such stark contrasts are often driven by the facility where the procedure is performed and have little to no correlation with the quality of outcomes. Since the true price of medical services is usually hidden from patients until they see their bill, they tend to favor the facility that's most convenient or recommended by someone they trust, instead of evaluating cost and quality.

> At a deeper level, reference-based pricing gets at the cost issue by setting a cap on how much a plan sponsor will pay for specific healthcare services.

Several innovative solutions designed to counter inconsistent medical-service pricing are now available. One approach gives employees access to a database of prices and service-quality rankings, so they can choose the best value. At a deeper level, reference-based pricing gets at the cost issue by setting a cap on how much a plan sponsor will pay for specific healthcare services. The cap is typically set at multiples of the rate that Medicare would pay for the same service, such as 200%. Because employees pay the difference, reference-based pricing is a powerful incentive for them to choose a lower-cost option.

More than 25% of large best-in-class U.S.-based employers with 1,000 or more full-time employees apply reference-based pricing as a cost-control measure.[3] That's nearly triple the percentage of other same-size employers. A recent case involves an employer that wanted to decrease its healthcare spend without transferring the cost burden to employees. After an examination of the company's medical plan data, it became clear that covered patients who received dialysis services were billed widely variable prices, with some facilities charging up to 15 times the Medicare rate for the same procedure.

The employer had tried introducing a cost-transparency tool, but it did little for employees in rural areas where medical provider choices were limited. Discussing the situation with the company's medical insurance carrier did not yield any obvious answers either — most carriers have discount arrangements with their network providers and aren't willing to make custom adjustments. Moreover, many large insurance carriers pride themselves on fast claims processing, which is often cited as a key customer-service metric. An unfortunate downside is that the tight processing timeframe sometimes doesn't allow in-depth investigation of inflated charges.

The solution was to move claims administration to a third-party administrator (TPA). While it offered access to the same network discounts as the large national carriers, the company was able to provide a lot more flexibility in establishing reference-based pricing arrangements with dialysis facilities. Since a preset across-the-board arrangement did not make sense because of geographic differences, a custom pricing matrix was developed that accounted for the employer's workforce locations. Using this matrix, the TPA has been able to highly scrutinize each claim to determine the right level of reimbursement. And, the organization has realized millions in annual savings without asking their workers to pay more.

Tightening the costs of specialty and newly marketed drugs

Specialty drugs are expected to account for roughly 50% of all annual U.S. pharmacy expenditures by 2018.[4] So it's no surprise that plan sponsors with a history of controlling healthcare costs are focused on pharmacy benefit management. Among midsize best-in-class employers with 100 to 999 full-time employees, 31% use a pharmacy benefit manager (PBM) to help control specialty drug costs (vs. 19% of others).[3]

Like medical services, the prescription drugs sector also suffers from lack of cost transparency, so drug pricing is the most important area for scrutiny in the PBM procurement process and analysis. Consider the case of a public sector organization that had a long tenure with the same PBM, but selected a new partner after a very thorough, careful evaluation. This move alone improved the medical and pharmacy benefit level for the next plan year, and with no cost increase, bought some relief for employees.

Traditional drug utilization management tools also continue to offer opportunities for cost containment. Prior authorization and step-therapy processes encourage prescribers and patients to consider traditional, less expensive therapies first. The rationale for this approach is that some newer drugs deliver only modest improvements, or unproven long-term results, at costs that can be substantially higher. In fact, recent industry reports brought to light a lack of strong evidence for the relative cost-effectiveness of certain drugs.[5,6]

MANAGING THE COST OF PRICEY DRUGS

RX

31%

Midsize best-in-class employers that use a PBM to help control specialty drug costs (vs. 19% of others).[3]

While the U.S. healthcare sector continues to experience upheaval, cost-effective solutions for controlling seemingly out-of-control healthcare costs do exist, and more are emerging. Implementation requires proactive planning and expert advice to minimize challenges, but the excellent results realized by front-runners is encouraging others to embrace the change.

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Mark provides senior oversight and guidance to his Healthcare Analytics team, supporting accurate quantitative monitoring and helping to manage their clients' health plan experience. He consults directly with clients on topics such as cost-savings approaches, population health management and PBM analyses.

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Betty supports consultants and account management in the development, education and implementation of strategic benefit solutions. Her aptitude for innovation, grasp of industry complexities, and consistent ability to deliver significant cost-savings to clients through creative programs makes her a trusted mentor and adviser.

Jill Watson, Practice Leader, Health & Welfare, South Central Region

Jill works closely with her account management and compliance team members to ensure delivery of innovative solutions aligned with clients' organizational goals. She specializes in plan design, data and funding analysis, and mitigating complex exposures.

[1] The Henry J. Kaiser Family Foundation and Health Research & Educational Trust, "2016 Employer Health Benefits Survey," September 2016

[2] Healthcare Bluebook, "Fair Price Search," February 2017

[3] Arthur J. Gallagher & Co., "Best-in-Class Benchmarking Analysis," February 2017

[4] Project HOPE: The People-to-People Health Foundation, Inc., Health Affairs, "Specialty Medications: Traditional And Novel Tools Can Address Rising Spending On These Costly Drugs," October 2014

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Employee-Driven “Help Me Choose” and “Help Me Use” Technology is a Win-Win

Rhonda Marcucci

Sean Goheen

Ben Yomtoob

The business of healthcare remains a hot topic as we await the outcome of efforts to repeal the Patient Protection and Affordable Care Act and replace it with the American Health Care Act.* While there may be no current consensus on how the U.S. healthcare system should operate, most agree that costs must be managed. Employers are passing on greater percentages of healthcare cost to their employees in the form of defined contribution and consumer-directed health plans (CDHPs).** As the results of a recent survey on employee benefits found, 46% of employers may soon offer a CDHP.[1] In 2016, 31% used this option with an additional 15% reporting they are likely to adopt it by 2018.

Until recently, the lack of employee education and engagement, coupled with a lack of transparency at the point of care, made it extremely difficult for employees to make informed healthcare choices. With the expanded options associated with defined contribution and CDHPs, employers have a greater obligation to help employees both choose and use their healthcare benefits—giving rise to workplace healthcare consumerism, or employeeism. The good news in all this is that by helping their employees, the employer also stands to benefit.

The market has responded with an increasingly sophisticated set of decision-support tools. They’re designed not only to help employees find and use the healthcare products and services that are right for them, but also to support their ability to manage costs.

Help me choose

“Help me choose” tools make large volumes of healthcare plan information easier to understand, allow employees to evaluate options, and break decisions down into manageable steps. These tools broadly fall into three categories—communication and education, interactive decision, and predictive.

“Help Me Choose” Tools	
Communication and Education	Inform and educate employees on types of benefits and related terminology
Interactive Decision	Aid with plan comparison and selection, creating a personalized shopping experience
Predictive	Use predictive analytics to suggest best-suited plans based on responses to personal questions, or provide employees with out-of-pocket cost projections

Help me use

“Help me use” tools enable employees to maximize the use of their existing coverage, manage their medical spend and improve their health and wellbeing, by guiding them in comparing options and choosing an appropriate course of action for care, as well as a provider. There are three main types of tools—communication and education, transparency, and personal assistance/advocacy.

“Help Me Use” Tools	
Communication and Education	Inform employees about healthcare delivery methods, physicians, drug reviews, health tips, etc., and allow them to view and compare treatment options and effectiveness
Transparency	Provide employees with cost and quality data to support informed healthcare decisions
Personal Assistance/ Advocacy	Help employees track their medical spend and personal health and wellbeing. Other services assist patients in navigating the healthcare and benefits arena

*Information was current at the time of this report’s publication in May 2017.
**A high-deductible plan paired with a health savings account or health reimbursement arrangement.

Employees are embracing these tools, particularly recommendation engines that help them choose benefits. Employers are interested in the prospect of helping employees manage their healthcare spend, and the potential to control — and reduce — their own costs influenced by informed employees who now have more skin in the game. But employers need to think beyond just immediate cost savings. These tools can also enhance the company's success by enabling employees to optimize their use of the healthcare system, supporting an increase in their productivity and satisfaction.

While decision support is largely an employee-employer win-win, the market is still relatively immature. Standards for evaluation need to be better defined to measure how the tools' performance affects employee and employer satisfaction. Also, tools that "plug and play" with existing benefit administration systems have been slow to reach this space. But that will change.

The decision-support tool market is fast-growing, thanks to a relatively low market entry point and a flood of private equity money. Also, big-name technology players see opportunity to apply their existing technologies to the HR and benefits space where the simplification and aggregation of information is directly tied to decision support. Other large industry players are already there, and big money will help to quickly advance this sector and address its current deficiencies.

Regardless, consumers (and by extension, employees) have a great track record of embracing decision-support tools that manage costs. As healthcare consumers demand the same price transparency and quality information they have when purchasing other consumer products, the market will become more competitive.

Currently, there is no consensus on the end-user objective — the specific goal of decision-support tools. The very nature of decision support is to help individuals make personal, custom decisions. What one person wants (lowest cost plan) may be evaluated very differently from what another person wants (wide choice of care providers). Employees will always have varied interests and needs.

Ultimately, flexibility and the ability to support the "elasticity" of the decision-making process may be the basis for assessing decision-support tools. In the meantime, the technology is on the right track. There is a growing array of tools to help employees navigate and make informed healthcare decisions that are best for them, which also support employers' strategies for worker productivity, satisfaction — and yes — cost control.

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Sean Goheen, Consultant, HR & Benefits Technology
Sean advises brokers, carriers and employers on human capital management and decision-support technology. He translates technical, complex benefit issues into simple, actionable decision points, combining a detailed approach to client solutions with big-picture thinking.

Benjamin Yomtoob, Consultant, HR & Benefits Technology
Ben advises brokers, carriers and employers on private healthcare exchanges and benefits technology, including platform selection. His expertise in exchanges, healthcare reform, IT, product management, finance, and strategy implementation helps clients as they look to thrive in a changing benefits and technology environment.

[1] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

Rick Strater

Ansu Kpandeyenge

Caroline Melson

Private Exchanges Offer Employees More Choices and Help Control Healthcare Costs

Baby boomers are retiring at a more rapid pace and millennials are steadily taking their place. In 2015, the presence of millennials in the U.S. workforce reached 34%, a growing majority they will continue to claim for years to come.[1]

With the generational shift, employers are increasingly competing for employees who not only bring their own experiences, but also their individual preferences and priorities to the table. These added dimensions complicate the war for talent and make it more challenging than ever to attract, engage and retain key employees.

Healthcare costs are on the rise

At the same time the workforce is becoming increasingly age-diverse, Americans are spending more for healthcare. A recent survey by the Henry J. Kaiser Family Foundation revealed that annual premiums for employer-sponsored family health coverage are increasing, up 3% last year to $18,142. On average, employees are paying $5,277 toward the cost of their coverage.[2]

One size no longer fits all

Baby boomers and Gen Xers entered the workforce when benefits were fairly rich, a choice of healthcare plans wasn't as common, and plans that were offered didn't have the out-of-pocket ramifications they have today. In addition, millennials and their younger counterparts, known as "digital natives," have grown up with technology that lets them personalize their experiences. They naturally want to be able to personalize every aspect of their lives, including their benefits.

Across all generations, there is substantial confusion about benefits plan design and how health insurance plans work — two of the most important aspects of choosing the right plan.

MILLENNIALS ON THE RISE

34%

AND GROWING

Majority percentage of millennials in the U.S. workforce — vs. boomers and Gen Xers*

*As of 2015

Choice promotes employee buy-in

Implementing a private exchange allows employers to offer a variety of health plans for employees to choose from — along with built-in decision-support and consumerism tools to guide this important buying decision. It seems to be working. Nearly three-fourths (72%) of employees enrolling in benefits through a private exchange are more likely to stay with their current employer because of their benefits program.[3]

Pairing a private exchange with a defined contribution approach can help employers predict and control healthcare costs. Also, employees gain a transparent view of their benefit costs that helps them compare and choose the best options for their needs.

A private exchange provides instant access to benefits and "help me use" support tools for employees. These features work together to guide employees' transition to savvy healthcare consumers. With the right support, natural consumerism behaviors kick in and employees "right-size" their healthcare coverage. Once they understand the true cost of their benefits, they're empowered to make educated choices that meet their current and future needs as their lives evolve. Employees can feel more confident in the level of coverage they purchase and are more satisfied overall with the benefits they select.

The future of private exchanges is now

Today's increasingly younger workforce expects choice and guidance for all their purchases, and benefits are no exception. A private exchange allows employers to meet the demand for choice backed by essential decision-support tools.

Coupled with a defined contribution approach, a private exchange gives employers the ability to control healthcare costs and reinforce the value of benefits to employees — at the same time. And appreciation of choice, savings and value in a convenient, digital consumer environment is second nature to a growing majority of the workforce. Offering this experience to employees for benefits selection helps employers secure the talent they have today, and compete effectively for the talent they need tomorrow.

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Rick leads the execution of Gallagher's private exchange strategy, and oversees the selection of carriers and vendors, plan designs, and products and services for the Gallagher Marketplace private exchange platform.

Ansu Kpandeyenge, Area Vice President & Regional Practice Leader, Exchanges
Ansu helps guide and grow the strategic vision and direction of the Gallagher Marketplace private exchange, trains consultants on this solution, and manages the regional sales pipeline.

Caroline Melson, Area Vice President & Regional Practice Leader, Exchanges
Caroline directs the distribution strategy and manages communications for the Gallagher Marketplace private exchange solution. She also advises consultants and clients on key considerations of moving to a private exchange.

[1] Pew Research Center, "Millennials surpass Gen Xers as the largest generation in U.S. labor force," May 2015

[2] The Henry J. Kaiser Family Foundation and Health Research & Educational Trust, "2016 Employer Health Benefits Survey," September 2016

[3] Liazon Corporation, "Liazon's 2016 Employee Survey Results," May 2016

Tim Easterwood

Richard "RAE" Egleston

Voluntary Benefits — a Creative Solution for a Changing Workforce

The right voluntary benefit options, supported by education, communication and technology, are no longer optional — they're necessary in today's competitive talent market. Going beyond essential benefits to engage employees with a more creative mix will help employers elevate their reputation as a destination employer.

With boomers rapidly retiring and millennials flooding the workforce, it's clear that employers need to be prepared for a new kind of employee. For today's workforce, the ability to personalize benefit options and use technology to find information and make choices are basic expectations.

Seeing nontraditional benefits through a new lens

Adding innovative voluntary options to a benefits package is one of the most important ways an employer can differentiate itself. Because the cost is usually covered by the employees, there is little downside to offering a wide variety of products to meet the needs of a diverse workforce. Nontraditional products go beyond the often-mentioned pet insurance to include legal/ID theft insurance, long-term care, and even student loan repayment programs. These coverages help ensure that employees have access to benefits they value and need, whatever their current stage of life.

With voluntary benefits, employers can fill gaps and strengthen the appeal of their offerings to unique populations that have distinct preferences.

Because employees' personal financial stress affects their work performance, companies are beginning to increase the availability of financial wellness offerings with services like financial education and counseling, employee purchase or discount programs, and even short-term loans.

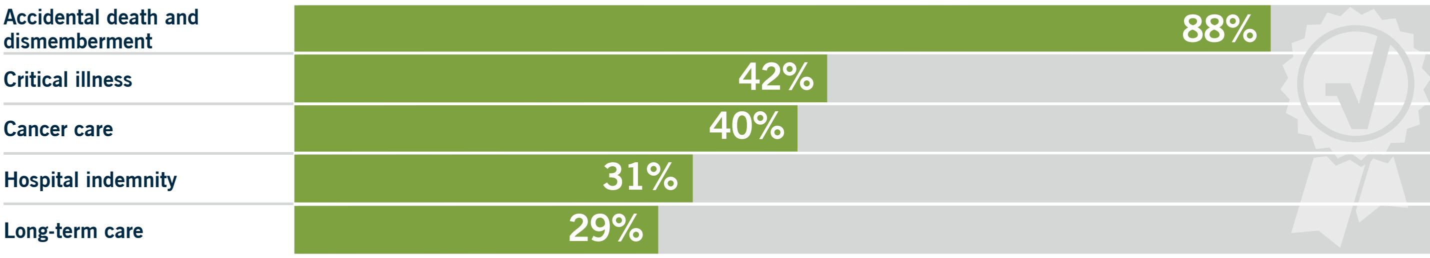
Another current trend is support of personal and professional development. For example, online career development is a benefit that could help employees avoid student loan debt. Education benefits can be a valuable part of employees' total rewards, especially when they are offered as a voluntary benefit at no cost to the employer. This includes options for employees and their dependents to access online college courses, but can also include credentialed programs like professional certifications and career diplomas.

Integrate voluntary benefits with traditional options

Offering new, appealing and diverse products is not enough — it's also essential to make sure these products are fully integrated with traditional options such as health plans. This process can be complicated, requiring a specialist who understands how benefits work together, especially when combined with a high-deductible health plan (HDHP) or consumer-directed health plan (CDHP) — both of which have higher out-of-pocket deductibles than traditional medical plans.

These newer health plans are becoming the norm for many employers. Nearly half (46%) of employers may offer a CDHP within two years,[1] and that change will create a growing need for supplemental coverage like accident, critical illness, cancer care and hospital indemnity insurance. With voluntary benefits, employers can fill gaps and strengthen the appeal of their benefit packages to unique populations that have distinct and changing preferences.

STRATEGIC VOLUNTARY BENEFIT INSURANCE COVERAGES[1]



Engage employees by communicating about benefits in new ways

With the continuing trend of workforces that span generations and locations, companies understand the value of multifaceted communications that fully promote the benefits of voluntary products. Creative employers could even explore the use of social media or internal social sites and tools. Other digital means, like mobile devices, video, benefit portals and interactive tools, will continue to help improve education and communication about voluntary and other benefits.

With the stable economy and an active job market, attracting, engaging and retaining top talent is a bigger challenge than it's been in the recent past. The desire of employees to choose benefits that are important to them aren't likely to change in a world where personalized experiences have become the norm. So it's up to employers to see the value in changes that conform to this reality. By enhancing traditional benefit staples with newer, more creative options, they have a fresh opportunity to distinguish their employee benefits package from the competition.

Tim Easterwood, Global Practice Leader, Voluntary Benefits
Tim co-leads the strategic direction and day-to-day operations of the national practice. He guides consultants, client-service staff and enrollment specialists on delivering industry-leading pricing, underwriting and enrollment solutions.

Richard "RAE" Egleston, Regional Practice Leader, Voluntary Benefits
Richard applies more than 20 years of experience in helping his teams provide exceptional value to clients. Working closely with consultants, he supports their ability to combine Gallagher's extensive national resources with their highly specialized expertise to deliver cost-effective solutions.

[1]Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

Updating Leave Policies in a Millennial-Driven Culture

Agnes Nines

James Albright

Today's younger generations of workers continue to grow at a rapid pace, and as they become a larger majority of the workforce their voices are being heard. They want more balance than their parents had between their professional and personal lives, including job-protected paid family leave. With so many millennials in their prime child-bearing years, this hot-button issue will likely remain in the headlines for some time. Employers looking to attract and retain the best and brightest talent need to consider a leave policy beyond the unpaid Family Medical Leave Act (FMLA)—one that contributes more extensively to their total wellbeing.

Overcoming tech-company envy

Because of certain well-known west-coast technology companies, today's millennial talent is well aware of the type of perquisites ("perks") that destination employers offer. America's tech companies are known for setting the bar high and have now dramatically changed the conversation around paid leave policies.[1]

Other employers struggle to adapt the policies of tech companies to their businesses. One mainstay of these policies is extended paid child-bonding leave, which sounds attractive to employees but creates a financial strain on many companies—even among the Fortune 500. And, for many employees, long periods away from work are not compatible with their career ambitions, even when the leave is paid.

As more large employers announce their parental leave policies, a pattern averaging around four to six weeks of paid leave begins to emerge, unrelated to the short-term disability period. Some employer policies offer different time allotments for primary and secondary caregivers, though defining the difference between the two and the self-reported nature of caregiver status can make such provisions overly challenging.

Practical policy considerations

For organizations that are ready to move forward with evaluating and updating their parental leave policies, here are some things to keep in mind:

- **Review specific language**—The time a woman takes for the treatment of pregnancy-related medical conditions and physical recovery from childbirth is separate from time allocated for parental bonding.[2]
- **Identify areas for improvement**—While the FMLA protects a new parent's job during a period of bonding it does not protect income, which prevents many new parents from taking time for bonding purposes.
- **Understand state-specific regulations**—Multi-jurisdictional companies must comply with an ever-growing body of legislation, making it challenging to treat new parents consistently from site to site.
- **Consider retention goals**—Today's mothers are more likely to leave the workforce for an extended period of time in their late 30s and early 40s, when their children are older, than they are in their 20s and 30s.[3] Companies that actively support a new mother's temporary leave and subsequent return to work will minimize their talent drain.
- **Recognize gender parity**—Recent research reveals employers are still treating men differently from women when it comes to paternity leave policies,[4] but the Equal Employment Opportunity Commission (EEOC) has made it clear that parental leave should be offered to men and women equally.[2]

Employers will want to ensure that managers are trained on company leave requirements and policies, as well as the legal ramifications of discriminatory and retaliatory practices related to leave administration. Companies facing EEOC inquiries about complaints of discriminatory employment practices will need to demonstrate that their policies are applied evenly throughout their organization.

Looking to the future — what's the next perk for absence management?

What started with a desire to appeal to younger workers through parental leave policies has evolved into a much broader discussion about supporting all employees as they try to solve the work-life equation. Many baby boomers are caring for sick or elderly parents. Other workers struggle to remain employed while caring for an immediate family member who is disabled. Forward-thinking employers will start to identify opportunities to address these needs in support of their employees' wellbeing. And, they'll recognize that unsupported workers confronting myriad family issues lose more productivity through absenteeism, presenteeism and disengagement. Turnover and healthcare costs are other consequences.[5]

Putting a stake in the ground

Employers are breaking new ground and should fully expect that paid leave policies will evolve as they are used and tested within their organizations. Consideration for change will include both employee and management feedback as well as periodic assessments of organizational impact such as cost, absence rates, product quality, productivity and more.

Agnes Nines, Practice Leader, Absence Management

Agnes heads a consulting team focused on large-group life and leave management programs. She provides specialized expertise in disability, total absence management, FMLA and ADA legislation, state and other jurisdictional leaves, and absence compliance.

James Albright, Consultant, Integrated Disability and Absence Management

James helps clients evaluate their leave of absence programs to make sure there are no gaps. His focus includes streamlining leave processes and maintaining compliance with FMLA and state leave laws.

[1] Integrated Benefits Institute, "…And a Baby Makes Three (Months Off), Paid Parental Leave at 15 High Technology Firms," August 2016

[2] U.S. Equal Employment Opportunity Commission, "Enforcement Guidance: Pregnancy Discrimination and Related Issues," June 2015

[3] The New York Times, "More Women in Their 60s and 70s Are Having 'Way Too Much Fun' to Retire," February 2017

[4] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

[5] MetLife Mature Market Institute, "The MetLife Study of Working Caregivers and Employer Health Care Costs," February 2010

Ali Payne

Rebecca Kruske

Kathleen Schulz

The Power of Wellbeing and Engagement — Finding Success by Connecting the Dots

Containing costs and attracting and retaining a competitive workforce continue to be top priorities for employers.[1] As employers consider how to address these concerns, they increasingly understand that organizational issues surrounding mistrust, not feeling valued, poor leadership, ineffective communications, workplace instability and other factors drive down employee engagement and can impact healthcare costs. These factors threaten to derail engagement and impact employee health, which in turn affects other key business outcomes.

With this in mind, wellbeing strategies have started to shift. They're evolving from a narrow focus on physical health to a broader look at how wellbeing, employee engagement, culture, and communication strategies connect with an organization's overall business strategy. This is a different conversation, with different tactics and considerations.

> The opportunity is to build workplace cultures that promote positive behaviors to enhance both personal and organizational health, engagement and productivity.

The repositioning of wellbeing and engagement from a healthcare cost-management program to a more inclusive solution focuses on helping organizations execute on their employee value proposition and become destination employers.

Nearly three-fourths of surveyed employers (72%) are frustrated that they're investing in wellness programs their employees don't use.[1] When they think first about employee and organizational health from a holistic standpoint, there's a significant opportunity to change the paradigm.

By understanding the answers to questions that are raised during this process, an organization can begin to connect the dots between wellbeing and engagement strategies, total rewards, and corporate culture. Wellbeing and engagement strategies that differentiate companies from the competition are employee-centric and holistic, assessing all avenues of the employee experience and including all dimensions

Start connecting the dots when considering these questions:

- What is the political climate of the organization?
- How are employees recognized? Do recognition programs align with business objectives and ideal outcomes?
- What type of behaviors are rewarded in the workplace, and do they align with the overall vision and mission?
- Is the workforce prepared to be resilient? How do employees manage stress?
- Are leaders modeling positive behaviors?
- And, arguably one of the most important considerations — how do communications show employees they're valued and motivate positive action?

of wellbeing (physical, emotional, financial, career and community).

Often the first step to helping an organization determine the right approach for their employees starts with a workforce evaluation. This diagnostic workforce assessment identifies where employees fall in the spectrum of life, ranging from early career to mid-career and retiree, among other key statistics. Workforce evaluation data can be the starting point for identifying opportunities to integrate wellbeing, engagement, communication and other solutions to best meet the needs of a diverse workforce. Data and insights on financial wellbeing support effective retirement programs, and should also be part of the evaluation.

When looking for the best way to contain costs, promote health and elevate employee engagement, wellbeing continues to be a key component of a sustainable and competitive solution. However, it's even more impactful when paired with a comprehensive engagement and employee communication approach. By connecting the dots, organizations should experience improved outcomes across the board.

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Ali leads the wellbeing and engagement practice. Taking a collaborative approach to communication, retirement, compensation, voluntary benefits, HR, and training and development solutions, her team helps clients achieve their talent attraction, retention and engagement goals while containing costs.

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Rebecca develops, implements and evaluates wellness programs, manages related programs and projects, and lends wellness support to client teams. She specializes in consumer healthcare, vendor relations, management of population health and disease, culture audits, employee engagement and holistic health.

Kathleen Schulz, Area Vice President & Practice Leader, Wellbeing & Engagement, Northeast & Southeast Regions
Kathleen works with Gallagher teams and clients to design holistic strategies that address the total employee value proposition, including physical and mental health management, employee engagement and productivity. She focuses on supporting high performance by fully understanding and supporting the organization's mission.

[1] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

Bill Kline

Dean Clune

The Workplace Costs of Employee Financial Stress

Help employees at every life stage spend and save wisely

It should be a major concern for employers that 72% of Americans surveyed in a recent study reported feeling stressed about money, and 22% rated that stress "extreme."[1] If 62% can't cover a $1,000 emergency out of their savings,[2] how productive and present are they during work hours?

Proactive executives and HR teams at destination employers can point to a variety of approaches they've taken to help their employees improve financial wellbeing. In addition to providing competitive wages, employers offer total rewards benefit programs that include affordable healthcare coverage, retirement plans and other benefits.

Opportunity for the taking

Just 31% of organizations are taking steps to address financial wellbeing, and 33% are gauging the retirement readiness of their workforce.[3]

Across all life stages, employees have made poor spending decisions in the past that are controlling their current financial state, leading to an increase in stress. No matter the stage, poor spending habits and financial decision-making can handicap employees' freedom and increase the stress they bring to work each day. Educating employees about saving for the future is pointless if their current financial state is poor. Unfortunately, Americans receive little education on spending wisely. If employers can educate, train and focus more of their financial wellbeing efforts on spending, then saving becomes easier.

For proactive employers, there are two major areas of opportunity to effectively tackle these financial wellbeing issues: 1) meeting employees at their life stage with specific, targeted financial wellbeing tactics, and 2) ensuring those tactics address spending habits in addition to saving habits. Increasingly, employers are addressing the latter issue through retirement plan design with auto enrollment and auto escalation — improving savings dramatically.

ONLY ONE IN THREE EMPLOYERS ARE PROACTIVE

31%
Taking steps to address financial wellbeing

33%
Gauging the retirement readiness of their workforce

Meeting employees at their life stage

Before deploying any financial wellbeing approach, it's important to establish a baseline of specific workforce data. Performing a workforce evaluation of employees' demographics and benefits coverage can help employers see their workforce holistically, and understand the distribution of entry level, mid-career, established and pre-retiree employees. Identifying employees' benefits use and the results of their decisions, and exploring ways to approach their learning style will help ensure the right resources are deployed to meet their needs.

A workforce evaluation will reveal how many employees are in each career stage and help define the types of financial wellbeing programs to offer.

CAREER STAGES

Entry Level: Millennials, age 20 to 30		
Life stage:	**Big expenditures:**	**Learning style:**
• Single or newly married, no children • No home ownership	Repaying student loans, buying a car	Technology expected, guidance and structure needed
Mid-Career: Millennials to Gen Xers, age 30 to 45		
Life stage:	**Big expenditures:**	**Learning style:**
• Young family with daycare needs • Growing financial obligations	Buying a home, saving for children's education	Summarized and visually appealing communications preferred
Established: Gen Xers to Baby Boomers, age 45 to 55		
Life stage:	**Big expenditures:**	**Learning style:**
• Established financial routines • Elder care for aging parents	Paying for children's education, saving for retirement	Practical, factual information with individual attention preferred
Pre-Retiree: Baby Boomers to Traditionalists, age 55+		
Life stage:	**Big expenditures:**	**Learning style:**
• Minimal family responsibilities • Focus on securing steady income in retirement	Saving for income and healthcare expenses in retirement	Peer advice preferred, individual attention required

Spend time on spending habits

Once the workforce is assessed and their varied needs understood, employers can address the spending part of the financial wellbeing equation. Employers have invested enormous resources to address the front and back ends of this equation — compensation and retirement respectively. The opportunity lies in addressing the middle part — how people spend their take-home pay. For example, employers could provide training around the 50/20/30 rule, where 50% of net income is for housing, food, gas and other essentials; 20% goes to retirement savings, cash savings and paying off debt; and the remaining 30% is for discretionary spending such as clothing, leisure pursuits and other treats.[4]

Destination employers understand that financial stress is distracting and negatively impacting the total wellbeing of their workforce. Stressed-out employees can become physically unhealthy, which increases absenteeism rates and drives up health insurance claims. When people aren't saving for retirement, they stay on the job longer, again driving up healthcare costs and stifling positive turnover. Financially stressed-out employees put organizations at risk.

In addition, destination employers understand that employees who have made poor financial decisions in the past may struggle to make the right financial decisions today and into the future. Providing employees with resources to help improve financial knowledge and decision-making can help drive both financial wellbeing and retirement readiness. This has become the equation for a financially healthy organization and financially healthy employees.

Addressing employee financial wellbeing helps organizations protect their corporate assets, improve engagement and productivity, and position themselves as destination employers.

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Bill guides his team in partnering with clients to optimize the financial wellness of their organizations and employees. Together, they help clients make,save and protect money through a strategic focus on key retirement concerns.

Dean J. Clune, Regional Practice Leader, Retirement Plan Consulting
Dean guides his team in helping to manage both the risk and benefit of employers' retirement plans. Together, they help clients evolve their total rewards by appropriately aligning and integrating all aspects of their philosophy, institutional capital, and financial wellbeing culture, including managing the risk and realities of an aging workforce.

[1] American Psychological Association, "American Psychological Association Survey Shows Money Stress Weighing on Americans' Health Nationwide," February 2015

[2] Bankrate.com, "Budgets can crumble in times of trouble," January 2015

[3] Arthur J. Gallagher & Co., "2016 Benefits Strategy & Benchmarking Survey – U.S. National Report," August 2016

[4] FinancesOnline.org, "Guide to Budgeting and Saving – Section 4: Income Allocation," accessed April 2017

Partnering With Investment Advisors Under the Appropriate Fiduciary Framework

Barbra Byington

Phil Fabrizio

Helping employees secure their financial wellbeing begins, in part, with the well-thought-out decisions of plan sponsors. One of the most important choices these employers make is their fiduciary model for managing plan risk.

Defined benefit and defined contribution plan sponsors confront many persistent challenges in today's complex investment landscape. They continue to face limited staff, increased investment regulation and a complicated investment environment. Against this backdrop, many sponsors are looking to partner with a knowledgeable investment advisor that can help shoulder the burdens placed on the plan fiduciary, typically an investment or benefits committee.

Two common fiduciary models for managing plan risk

The relationship between a committee and investment advisor can take different forms depending on the fiduciary role each party plays. Investment consulting engagements generally fall under either an advisory consultant model or a discretionary fiduciary model (outsourced chief investment officer or OCIO). These models are defined, respectively, under §3(21) and §3(38) of The Employee Retirement Securities Act of 1974, as amended (ERISA).

While most institutional consulting relationships continue to be advisory, use of the OCIO model has increased significantly over the last decade. In fact, a recent industry survey of institutional asset owners showed that 40% of respondents either outsourced their investment functions in some capacity, or planned to do so in the short term.[1] Given today's demanding environment and the need to manage risk effectively, the committee's choice of fiduciary framework for working with its investment advisor becomes critically important.

Differences between consultative advisory and OCIO roles

The difference in roles between the two models lies primarily in the level of fiduciary responsibility the investment advisor accepts. Under a §3(21) agreement the advisor assumes a consultative role, providing advice and recommendations to the named fiduciaries who make all decisions about the investment program. The advisors are fiduciaries with respect to their recommendations, but the committee maintains fiduciary responsibility for any investment actions.

In a §3(38) model, the advisor takes on a higher level of fiduciary responsibility and can be a co-named fiduciary. This role also includes the delegated authority to make and implement all, or some portion of, investment-related decisions such as hiring and firing investment managers or rebalancing plan assets. However, committees are not completely relieved of fiduciary responsibility when hiring a §3(38) investment manager. They still have a duty to monitor the investment advisor and the services it provides.

Evaluating the OCIO option

The OCIO model has gained popularity in the institutional investment community because it addresses a number of operational challenges plan sponsors may face under a traditional consulting engagement. These issues include:

- **Evolving capital market dynamics**—Investment management is not a "full-time job" for many plan fiduciaries.
- **Resource allocation**—Plan sponsors with limited resources can shift investment related burdens to a better resourced investment advisor.
- **Delays in decision-making and implementation**—Typical investment committee meeting schedules are relatively infrequent (e.g., quarterly or semi-annually).

- **Inability to delegate fiduciary responsibility**—Given the structure of some investment products, such as most limited partnerships, a committee may not be able to delegate fiduciary responsibility to the investment manager, and therefore retains increased responsibility.

Demand for OCIO services in the institutional investment consulting marketplace has grown through two avenues—or opportunities—for plan sponsors or committees. They can delegate investment decision-making to an advisor over an entire portfolio. Or, they have the option to assign this responsibility for a specific portion of a plan's assets. The latter is most often seen with alternative assets, such as private market strategies where there's generally a higher level of investment expertise and a shorter timeframe required to make decisions.

Making a decision about the right plan model based on the extent that investment decisions are delegated, and the related fiduciary responsibility, is increasingly important to managing risk. With the greater investment complexities and regulative scrutiny that fiduciaries experience, the best practice is to review the relationship framework when engaging an investment advisor. After a variety of internal factors are evaluated, plan fiduciaries will have more insight into the relationship they're better suited to work under—traditional advisory or §3(38)/OCIO.

Key Questions When Considering an OCIO Relationship

Committees should consider the following:

- Do we have the investment expertise needed to make investment decisions?
- Do we have the time and resources available to both make and direct investment decisions?
- What level of fiduciary responsibility do we want to accept for the oversight of our plan(s)?

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Barbra provides investment advice to retirement plans and other institutional investors on a variety of matters, such as investment policy and asset allocation. She is a member of the Research Committee and the Investment Committee within the practice.

Phil Fabrizio, Area Senior Vice President and Area Director, Institutional Investment & Fiduciary Services
Phil focuses on improving plan sponsors' benefit plan investment programs and other investment pools. He is part of a group of investment professionals who provide objective insights, analysis and oversight on asset allocation, investment managers and risks, as well as independent or outsourced CIO services.

[1]Chief Investment Officer, "2017 Outsourced-Chief Investment Officer Survey," February 2017

Actively Managing Risk for Long-Term Sustainability—Looking Beyond Insurance Limits and Premiums

Bill Ziebell

Mike Pesch

Most organizations approach their risk in the same way. They select a broker, compare policies, and oftentimes default to buying the lowest priced option. Yet, insurance is about much more than just limits and premiums—it's about managing the risk that companies face every day. When business is routine, management may be lulled into a sense of security about surrounding dangers. However, when unexpected developments disrupt predictable patterns the perils can seem glaring. Management's senses go on high alert and risk appears in places that were never before identified as problematic.

Properly anticipating and managing all risk is challenging for any organization no matter what its circumstances are. New companies tend to be vigilant, constantly evaluating and monitoring their risk. In contrast, established businesses may become comfortable with their risk and related decisions, unaware of subtle changes in exposure that occur as their company grows and evolves.

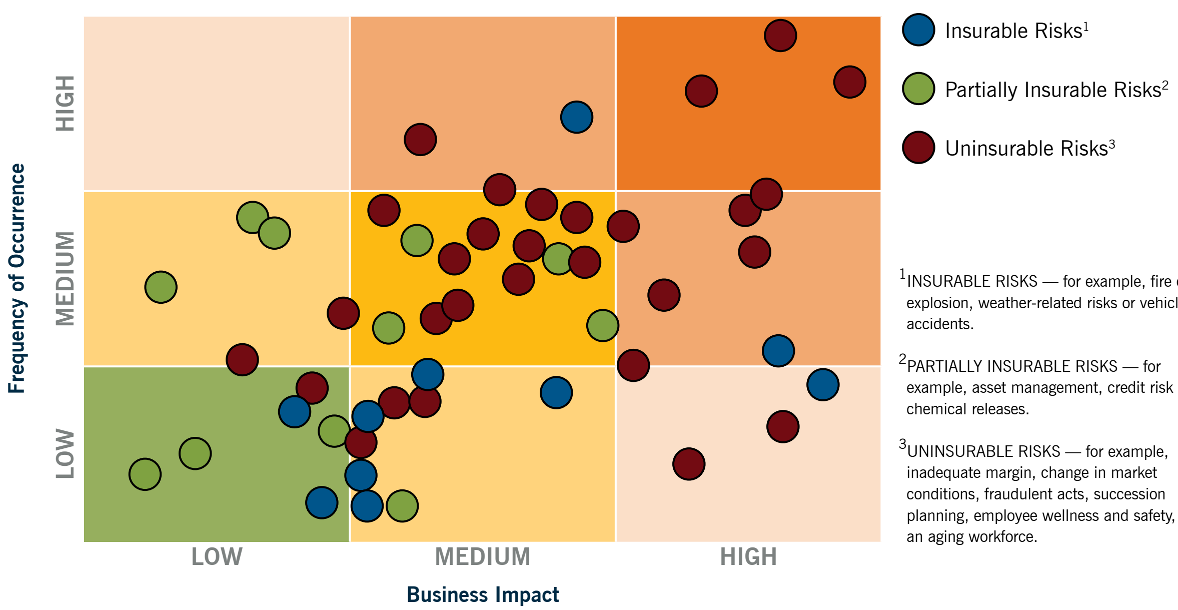
Assessing the significance of specific risks

Effective risk management requires a holistic approach with a focus on establishing structure, organization and discipline. It's also important to ground this approach in a thorough understanding of the specific risks the company faces and their potential impact.

Beyond the traditional property and casualty concerns, it's important to consider human capital risks. Some of the most significant include a weakened ability to compete due to lost talent, an unsustainable cost structure caused by overpaying key employees to retain them, and the expense of employee claims, injuries and absences when safety programs are missing or lacking.

Looking at all aspects and potential risks from both a benefits planning and an insurance coverage perspective helps determine alignment with overall organizational goals.

FOOD AND AGRIBUSINESS RISK MAP



[1]INSURABLE RISKS — for example, fire or explosion, weather-related risks or vehicle accidents.

[2]PARTIALLY INSURABLE RISKS — for example, asset management, credit risk or chemical releases.

[3]UNINSURABLE RISKS — for example, inadequate margin, change in market conditions, fraudulent acts, succession planning, employee wellness and safety, or an aging workforce.

The versatile and valuable risk survey

Companies use risk surveys as assessment tools to quickly hone in on the top risks facing their organization — or even their entire industry. Participants are asked to rank a set of potential risks based on their perceived frequency and severity of impact should they occur. One way to effectively study the results is to plot this data on a scatter graph known as a heat map (or risk map) — a depiction of client or industry risk that compares the frequency and business impact of each risk to the others that are shown.

This consolidated, simplified view identifies risks along a spectrum from "cold" (low value) to "hot" (high value). Colder risks are more likely to pose a reduced threat while hotter risks are potentially the most damaging. As shown in the "Food & Agribusiness" example, the individual values are categorized by color. Low-frequency/low-impact risks appear in the green quadrant and high-frequency/high-impact risks are shown in the orange quadrant.

The completed risk map provides a quick-reference guide for an informed discussion about the state of the organization's overall risk management program. In the example, an added feature of the survey's risk map is the ability to identify risks that are insurable, partially insurable or uninsurable. This helps bring insights to the surface about feasible risk transfer methods, and how to manage risks that can't be transferred.

Multiple uses and insights

When risk survey results are aggregated across multiple organizations, it's easy to create a risk map that shows data across an industry. Companies can then compare their risk survey results with those of their peers. By providing this additional perspective, the survey helps identify risks that could be overlooked or underestimated, or even risks that have been overestimated. An industry risk map is an excellent cross-check to help ensure that an organization is properly focused on the most critical risks.

A formal risk assessment may be a great opportunity to combine the efforts of benefits and property/casualty programs. Taking a holistic inventory of risk paves the way for a productive discussion not only about where these programs overlap, but also how to coordinate them across the business. For instance, a deeper understanding of how the organization's wellness program can impact employees' return-to-work times could have significant implications for its worker's compensation program and overall risk management program costs. This is why it's often valuable for several key executives and employees to participate in the risk survey — not only to create a more accurate organizational risk map, but also to talk through the differing responses.

A formal risk assessment may be a great opportunity to combine the efforts of benefits and property/casualty programs. Taking a holistic inventory of risk paves the way for a productive discussion not only about where these programs overlap, but also how to coordinate them across the business.

Risk is everywhere, and just because something isn't expected to happen doesn't mean it won't. Completing a risk survey can provide organizations with a clearer picture of all the risks they face and their potential impact on the business, helping guide them to make more confident decisions and better prepare for optimal outcomes.

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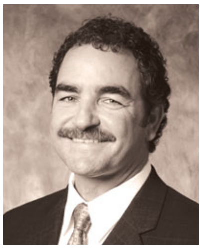

John Ergastolo

Managing Risk Is Key to Containing Costs and Staying Competitive

When it comes to cost management, taking a look at risk strategy is paramount. High-performing organizations assess risk identification, mitigation and transfer to determine opportunities for better outcomes.

Risk identification

There is increasing regulatory and media oversight of how employers behave on behalf of their diverse employees, stakeholders and shareholders, and how they engage with them. A 2016 study of health system risks, which should be addressed in the boardroom, found key risks that were specific to health systems, but not necessarily exclusive to the healthcare industry. Executive oversight, key-employee contracting (in this case, physicians) and tax exemption stood out as key risks for other industries, too.[1]

Poor oversight of executive and middle-manager decisions may weaken an organization's agility and resilience, ultimately affecting performance. Improper labor relationships, harassment and multigenerational tension in the workforce can result in inappropriate compensation or behaviors that run afoul of state and federal regulations and statutes. For nonprofit organizations that don't adequately demonstrate their services are delivered within their mission, the consequences can include reduced philanthropic support and loss of tax-exempt status. And these are just a few examples of potential risks.

Success for all organizations in 2017 and 2018 demands that they map their way through a challenging landscape. They must establish systems and cultures that attract, onboard, govern and compensate a multigenerational workforce — one that faces a multitude of external risks. These risk sources include globalization, aggressive competition, disruptive technologies, an ever-more diverse customer base and the pressures of a litigious society. Increasingly, it's essential for the enterprise to manage risk at the intersection of the work performed by the boardroom and the C-suite.

Risk mitigation

With the boardroom and C-suite playing a significant role in managing organizational risk, five strategies are recommended:

1. Working with internal and external specialists (attorneys, compliance staff and financial analysts) to define, map and quantify the wide array of risks facing the enterprise
2. Developing a policy, monitoring framework and set of related procedures that trigger careful identification and probes of each error, variation of accepted policies, and contributing factors, which may either exacerbate or reduce the risks and associated costs
3. Investing in ongoing education of frontline and middle managers to minimize and avoid risk-sensitive behaviors and distractions
4. Periodically retaining external advisers to assist in audits, risk mapping and risk-reduction activities that encourage the staff's understanding of behaviors and activities that reduce and avoid risk, and their compliance with them
5. Embracing workplace cultural mechanisms and programs that celebrate risk avoidance and mitigation behaviors, and reward individuals and teams that go above and beyond to deliver superior services within the organization's exempt purpose

Risk transfer

Once the risks have been reduced, board and C-suite leaders can determine the insurance coverage needed. While a full assessment of potential risks and solutions provides security and assurance, directors' and officers' (D&O) liability insurance may also be needed as a backstop, serving two purposes:

1. Balance sheet protection for claims brought directly against the organization and reimbursement of the indemnification obligation, which is provided to directors, officers and executives
2. Coverage with no retention or deductible for claims brought against directors, officers and executives that the organization can't indemnify

Non-indemnifiable coverage is critical to individual insureds. It's their only way to recoup funds they may have to use for claims brought against them, if the organization isn't able to reimburse.

This coverage must be designed appropriately to maximize protection of the directors' and officers' personal assets. Organizations should also assess appropriate D&O limits, and modeling of peer data and damages should be incorporated into this process.

Ultimately, risk management should be a key piece of the cost-containment puzzle. The right consultative assistance can yield positive results and support organizational resiliency and sustainability.

PHARMACEUTICAL COMPANY SETTLES CASE FOR $350 MILLION

Six whistle-blower lawsuits culminated in state and federal allegations under the False Claims Act against a multinational pharmaceutical company and its subsidiary. The company agreed to pay $350 million to settle allegations that they used kickbacks and other illegal means to promote the use of certain skin-treatment products.[2]

Managing and mitigating risk starts with these questions:

- How do we make our employees aware of the legal and ethical considerations of their decisions?
- How do we conduct oversight of employee actions to ensure they are complying with our processes?
- How do we protect our organization, directors and officers from liability in the event of failure to adhere to federal, state and local regulations?

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Jim focuses his consulting work on: strategic governance structures and systems for high-performing, tax-exempt health sector organizations and integrated care systems; visioning for health sector and nonprofit organizations; and leadership development for physicians and medical groups.

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John focuses on public, private and nonprofit management liability exposure analysis and product placement. He is recognized as a national D&O specialist for Fortune 500 and other large accounts.

[1] Arthur J. Gallagher & Co, "Risks in the Boardroom: Mitigation for 13 Risks In Era Of Accountable Care," February 2016

[2] Becker's Hospital Review, "Shire Pharmaceuticals settles landmark kickback case for $350M," January 2017

About Gallagher

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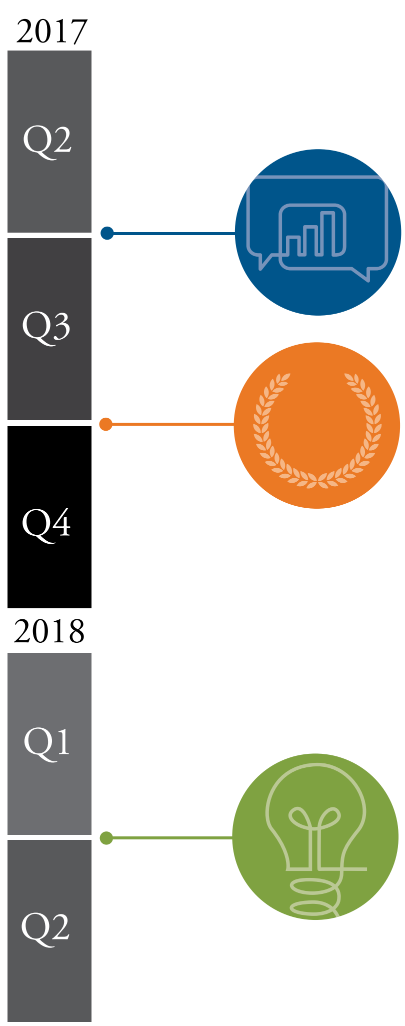

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