



A NEW DAY IN EMPLOYEE BENEFITS

A Companion Report to
The Study of Employee Benefits:
2009 & Beyond

A New Day in Employee Benefits

A Companion Report to the Study of Employee Benefits: 2009 & Beyond

This companion report to the **Study of Employee Benefits: 2009 & Beyond** from The Prudential Insurance Company of America provides quick access to the most salient findings as related to one of the main report's key themes: "A New Day in Employee Benefits." This theme focuses on employers' shifting priorities in response to the recent economic downturn.

Leading Economic Indicators Drive Significant Changes to the Way Organizations Conduct Day-to-Day Business, as Well as How They Manage Benefits

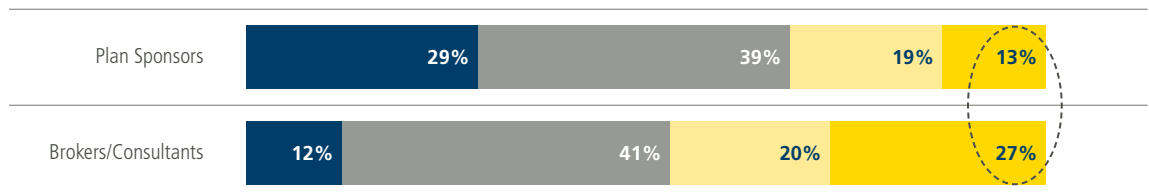
Large and small businesses alike have felt the impact of the recent economic downturn. Many companies have initiated hiring freezes, laid off a portion of their work force, and/or made changes to wages and benefits to help recover from this difficult period.

Most plan sponsors (68%) say that their companies have been negatively affected by current economic conditions. About one in five report that the economy has had a "neutral" effect, and 13% say the current economic conditions have positively affected their business.

Brokers and consultants have felt the sting of the recession as well, but may have weathered the conditions a little better than their clients. Just over half (53%) say their business has been negatively affected by the recent economic conditions, compared with 68% for plan sponsors, and more brokers/consultants than employers say that the economy has had a positive impact on their business (27% vs. 13%).

IMPACT OF RECENT ECONOMIC CONDITIONS ON BUSINESS PERCENTAGE OF BROKERS/CONSULTANTS AND PLAN SPONSORS

■ Very Negative ■ Somewhat Negative ■ Neutral ■ Positive



⊞ Area of significant difference

More Plan Sponsors Report Declining or Flat Benefits Budgets in 2009

The growth and optimism of the past few years is reflected in the percentage of plan sponsors who expected their benefits budgets to continue expanding as recently as last year. For example, as reported in Prudential's **Study of Employee Benefits: 2008 & Beyond**, 63% of plan sponsors said their benefits budgets increased from 2007, and nearly 90% expected continued increases by 2013.

This year, less than half (46%) of plan sponsors say their benefits budgets increased from 2008—a sharp drop from 2007 and 2006. About one-third of companies are maintaining their 2008 budget levels, while some (15%) say their budgets have decreased since last year (down an average of 16%).



CHANGE IN BENEFITS BUDGET PER EMPLOYEE

PERCENTAGE OF PLAN SPONSORS

Budget	2008 Actual	2009 Actual
Increase	63%	46%
Decrease	7%	15%
Remain the same	29%	37%
Don't know	1%	2%

■ Area of significant difference

Cost-Containment Efforts Are Now More Urgent, While Strategic Initiatives Are Becoming a Lower Priority

Cost-cutting initiatives were important to plan sponsors prior to this year. But the focus on reducing benefits costs and improving efficiency is clearly a mandate and central to the overall business strategy at many firms.

Cost-containment strategies are expected to be the most critical over the next five years. Nearly three in five plan sponsors say “using Internet technology to reduce costs/increase efficiency” and/or “attempting to control benefits costs by addressing workforce health” will be highly important objectives by 2014. Not only are these identified as the top objectives by 2014, but their importance is expected to increase more than all other objectives over the five-year period (27 and 23 percentage points, respectively).

Strategic initiatives that were the focus in the past few years are now taking a backseat to cost-cutting measures. In 2007, “increasing employee education and advice” was the top-rated benefits objective.

This year, it is tied for the most important objective and by 2014 it drops to third on the list.

IMPORTANCE OF EMPLOYEE BENEFITS OBJECTIVES

PERCENTAGE OF PLAN SPONSORS RATING ITEM “HIGHLY IMPORTANT”

Benefits Objectives	2007	2009	2009 Projection for 2014	Change 2009–2014
Applying/using Internet technology to reduce benefits costs or to increase efficiency	27%	32%	59%	+27
Attempting to control benefits costs by addressing workforce health by promoting wellness, prevention, and work/life balance	32%	34%	57%	+23
Increasing employee education/advice to help employees make the best benefits choices	34%	34%	51%	+17
Giving more financial responsibility to employees through high-deductible health plans, health savings accounts (HSAs), etc.	21%	24%	44%	+20
Cost-sharing—asking employees to bear a greater portion of the costs of benefits	19%	25%	42%	+17
Tailoring communication and enrollment to meet the needs of various employee segments	26%	25%	38%	+13

■ Area of significant difference



Use of Cost-Management Strategies Has Gradually Increased Since 2007 and Plays an Increasingly Important Role in Many Organizations' Benefits Priorities

More and more companies have been deploying cost-cutting initiatives since 2007, and the extent to which companies are involved in cost management has also increased (with the exception of voluntary benefits). It is evident that plan sponsors have identified cost-management strategies as effective approaches to combat increasing benefits costs.

Interestingly, brokers will recommend all cost-management strategies to their clients in five years time. Large companies (5,000+) and large-market brokers are more likely than small employers and small-market brokers to try various cost-management tactics.

USE OF COST-CONTAINMENT STRATEGIES

PERCENTAGE OF PLAN SPONSORS DOING EACH "TO AT LEAST SOME EXTENT"

	2007	2008	2009	Change 2007–2009
Providing accommodations to assist employees in returning to work following a leave of absence, serious illness, or disability	18%	26%	25%	+7
Sharing more of the cost of contributory benefits with employees	16%	20%	22%	+6
Implementing consumer-directed health plans	17%	21%	22%	+5
Coordinating/integrating parts of medical, pharmacy, disability, and workers' compensation plans	15%	19%	21%	+6
Providing a wider array of voluntary benefits offerings (i.e., employees pay 100% of the cost)	14%	13%	14%	0

Note: Ranked based on 2009 ratings

A Majority of Plan Sponsors and Brokers Have a Positive Outlook for 2010

Six in 10 of plan sponsors surveyed (60%) expect their companies to be doing better financially one year from now. Only 8% believe that they will be worse off than they are today, while another 30% expect no change in their financial condition.

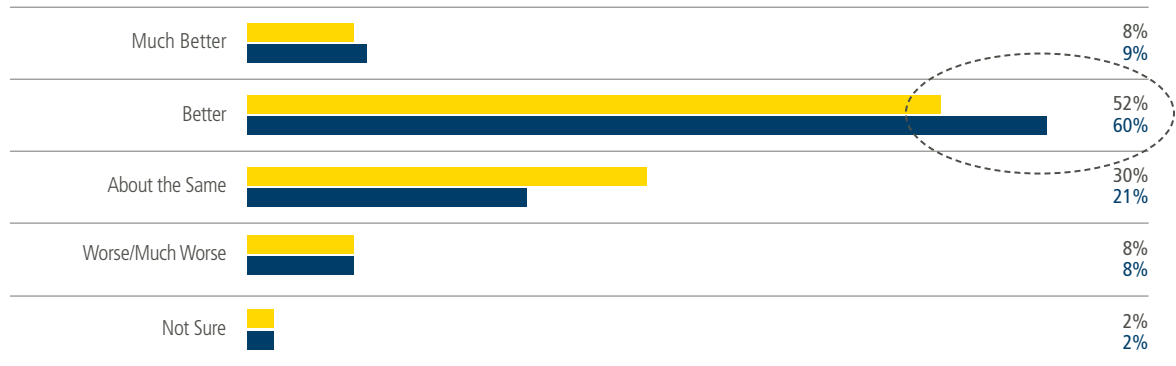
Despite being optimistic about their company's ability to prosper after the recession, most plan sponsors are less positive about the short-term prospects for their benefits staffing levels and benefits budgets. Apparently, companies see benefits cost management as a longer-lasting reality and, perhaps, a necessary concession on the road to recovery.

Interestingly, brokers and consultants are even more optimistic—seven in 10 expect that their firms will be doing better financially in 2010. Similar to their clients, only 8% believe that their firms will be worse off.



PROJECTED FINANCIAL HEALTH OF THEIR BUSINESS IN 2010

PERCENTAGE OF PLAN SPONSORS AND BROKERS/CONSULTANTS



■ Plan Sponsors

■ Brokers/Consultants

○ Area of significant difference

The **Study of Employee Benefits: 2009 & Beyond** delves into a wide range of topics to uncover important trends in the marketplace and reveal top concerns of employers, employees, and brokers/consultants regarding benefits. This study contains significant—and often surprising—findings about the emerging issues and trends we believe will shape the delivery of employee benefits programs now and in the future. We hope this research gives you new insight into the benefits landscape and proves to be a useful tool as you plan your benefits strategies.

The research for **Study of Employee Benefits: 2009 & Beyond** was conducted via the Internet during April and May of 2009 and consisted of three distinct surveys:

- One among 1,207 benefits decision-makers
- One among 1,212 full-time employees, age 22 or older, who work for a company with at least 50 benefits-eligible employees
- One among 573 group employee broker/consultants who work full time for a company with at least 50 employees

The surveys were conducted for Prudential by the Center for Strategy Research, Inc., a Boston-based, independent, market research firm.

©2009. The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102-3777.

Prudential and the Rock logo are registered service marks of The Prudential Insurance Company of America.

0161166-00002-00

112229

