

Why Supplemental? Final Report - Summary

April 29, 2009



Objectives

➤ **Through this research, Aflac seeks to understand:**

- The challenges currently faced by employers, including issues related to high healthcare costs, turnover, recruiting, retention, goodwill, employee productivity, an aging workforce and profitability.
- How these issues vary based on size of company and industry group.
- The key drivers of job retention and productivity among employees.
- The desirability and perceived value of these supplemental programs among employees.

Methodology

➤ **An online survey was conducted among 1,154 Employers and 1,017 Employees from March 5 – 25, 2009.**

- Employers were required to have decision making authority for benefits (either sole or part of a board)
- Employees were to be:
 - Age 18 or older
 - Employed full- or part-time by someone else

➤ **Quotas were set to achieve readable base sizes for:**

- Company Size (1 to 99, 100 to 999, 1,000 to 4,999 and 5,000+)
- Key Industry Groups (Construction, Hospitals, Hotels)
- Hispanic employees

Highlights

Highlights

- **Given the current difficult economic climate, employers are more focused on remaining profitable and controlling costs than on retention or recruitment**
 - However, companies agree that retaining, recruiting and developing staff are still important
- **Concerns over increasing productivity/remaining solvent among employers and job security among employees have edged out other workplace issues, such as reducing the financial impact of illness/injury, meeting the needs of an aging workforce and reducing “Monday Morning Claims”**
- **Retention is a slightly higher priority than recruitment**
 - Both employers and employees say that financial compensation is critical to retention
 - Employers are less likely to think healthcare benefits factor into either recruitment or retention, and even fewer say voluntary benefits play a role
- **The advantages of voluntary benefits are currently not fully recognized by employers or employees**

Highlights (continued)

➤ **Employers and employees have differing views on why voluntary benefits would be added**

- Employers say they would add a voluntary benefit to satisfy employee demand; employees say that companies would add a voluntary benefit to remain competitive
- There is an opportunity to leverage this cycle if Aflac can generate interest in voluntary benefits among employees

➤ **At this time, the majority of companies appear to be content with their current benefits packages, but their employees are less so**

- Most employers believe their employees are satisfied with current offerings
- A majority rate their packages as being “more competitive”
- But, weaker ratings of current benefits packages among employees indicate potential opportunity

Highlights (continued)

- **Employees do not appear to have a clear understanding of benefits, and especially voluntary benefits, because information about benefits tends to get passed from insurance companies to HR professionals at companies, who in turn educate employees**
- **Employers indicate that the biggest challenges to adding new voluntary benefits is getting employees to understand benefits and to find the time to educate employees, suggesting an opportunity for Aflac to directly interact with the end-user**
 - Employers do not agree that voluntary benefits improve employee satisfaction or productivity, and do not consider them part of their core package
 - Perhaps related to the confusion about voluntary benefits, employees are more likely to agree that non-voluntary, rather than voluntary, benefits lead to increased job satisfaction and loyalty
 - Those currently in a voluntary benefits program primarily view it as protection from the unexpected, while those who aren't enrolled mention lack of need or cost
- **Construction employees have the least exposure to HR/benefits professionals, and are the least likely to seek out information from colleagues or websites**

Highlights (continued)

- **Most employers have started reducing contributions to major medical, leaving employees with a greater share of the premiums and/or higher co-pays**
 - This trend is expected to continue in 2010
 - However, benefit reductions are projected to impact non-voluntary benefits to a greater extent than voluntary benefits
- **Employers and employees in larger companies tend to be more aware and have a better understanding of benefits than those in smaller companies**
 - They are also more likely to see the advantages of offering/receiving voluntary benefits
- **However, smaller companies, particularly those with fewer than 100 employees (who are perceived to offer less competitive benefit packages), present a potential target for voluntary benefits**
 - However, it is important to note that they do not have the time to educate their employees

Highlights (continued)

Employers

- **The large majority of Employers offer medical plans to their employees**
- **Retirement plans as well as dental, life and disability are also common**
- **Voluntary benefits are offered by 68% of surveyed companies**
- **Employers say the most important objective of their benefits program is to take care of employees. Reducing healthcare costs is also important**
- **Employee retention is regarded as more of an issue than recruitment**
- **Generating employee interest and finding the time to educate employees are also common barriers**
- **Half of Employers think that their employees need to be more engaged with benefits**
- **The most prevalent changes are increasing employees' share of premiums and/or co-pays, followed by implementing high deductible plans or HSAs**

Highlights (continued)

Employees

- **Job security is clearly the strongest concern among Employees in the current economy.**
- **Employees view financial compensation as the most important issue in their retention and recruitment.**
- **Half or more Employees say that companies are focused on retaining, recruiting, and developing staff.**
- **Employees cite medical plans as the most commonly offered and enrolled in benefit**
- **Voluntary benefits exhibit the largest gap between being offered vs. participated in.**
- **Among voluntary benefits, the largest group of Employees says they are offered and enrolled in dental**

Highlights (continued)

Employees (continued)

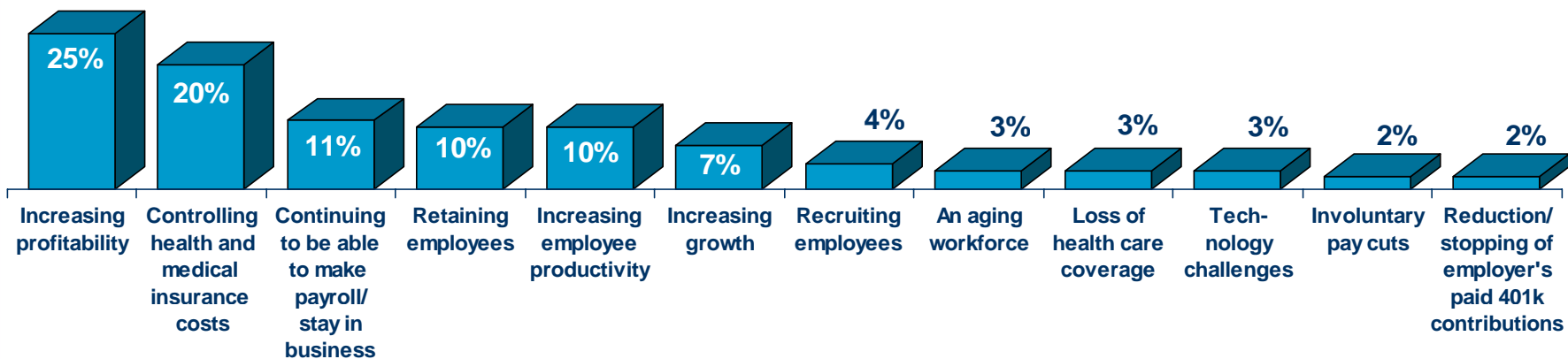
- **Employees believe companies add voluntary benefits primarily to remain competitive**
- **Protection from the unexpected is the most common volunteered reason for enrolling in voluntary benefits**
- **Employees are most aware of medical plan changes that affect them directly**
- **Confusion around benefit offerings/contributions may result from the trickle-down of information**
- **Employees tend to rely on HR professionals at their company or other colleagues**

Detailed Findings – Total Employers

Employers are most concerned about increasing profitability and controlling healthcare costs

- Retention and Recruitment are lower on the list of “most” important issues

Most Important HR Issue

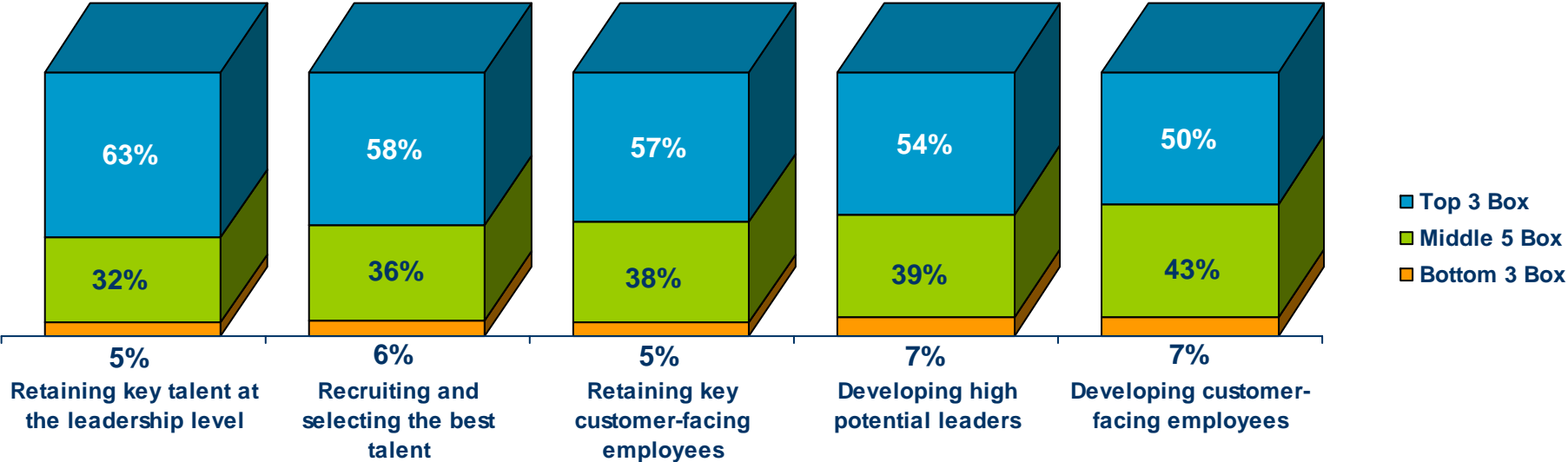


Base: Total Employers (n=937)

Q16: Which of these HR issues are the three most important issues for your company right now?

However, a majority of Employers agree that they are focused on retaining, recruiting, and developing staff

Importance of Retention/Recruitment Issues

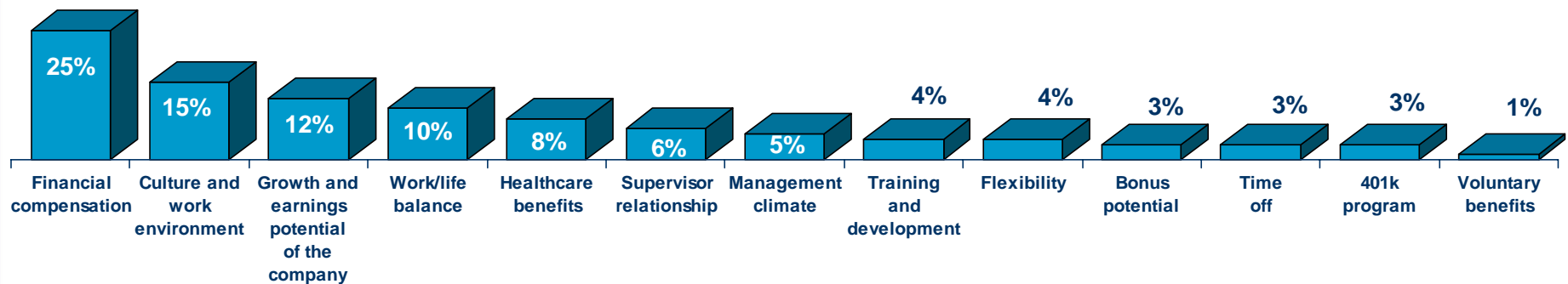


Base: Total Employers (n=937)
 Q24: How important are each of the following issues in your organization right now?

Employers identify financial compensation as the most important retention issue

- While healthcare benefits are mid-tier in importance, voluntary benefits are not considered a factor

Most Important Retention Issue

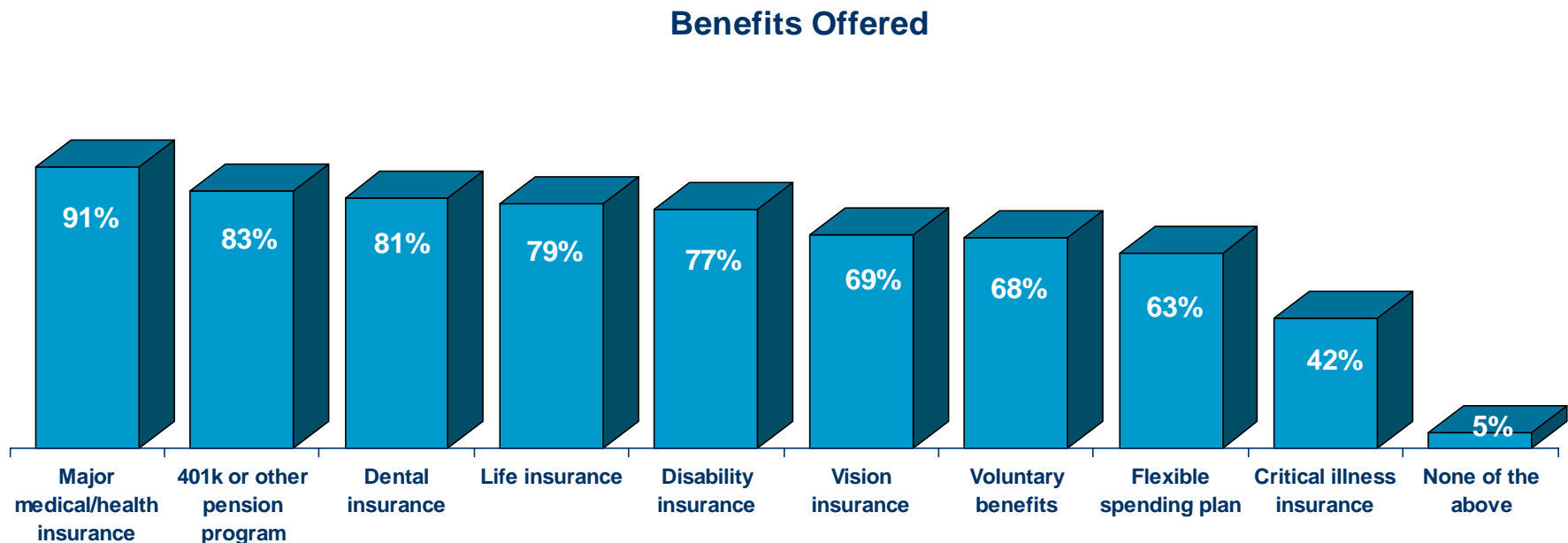


Base: Total Employers (n=937)

Q25: Listed below are several drivers of employee retention and successful recruiting. Please identify which are the most important, second most important, and third most important for your company in terms of employee retention and successful recruiting.

The large majority of Employers offer medical plans to their employees

- Retirement plans as well as dental, life and disability are also common
- Voluntary benefits are offered by 68% of surveyed companies

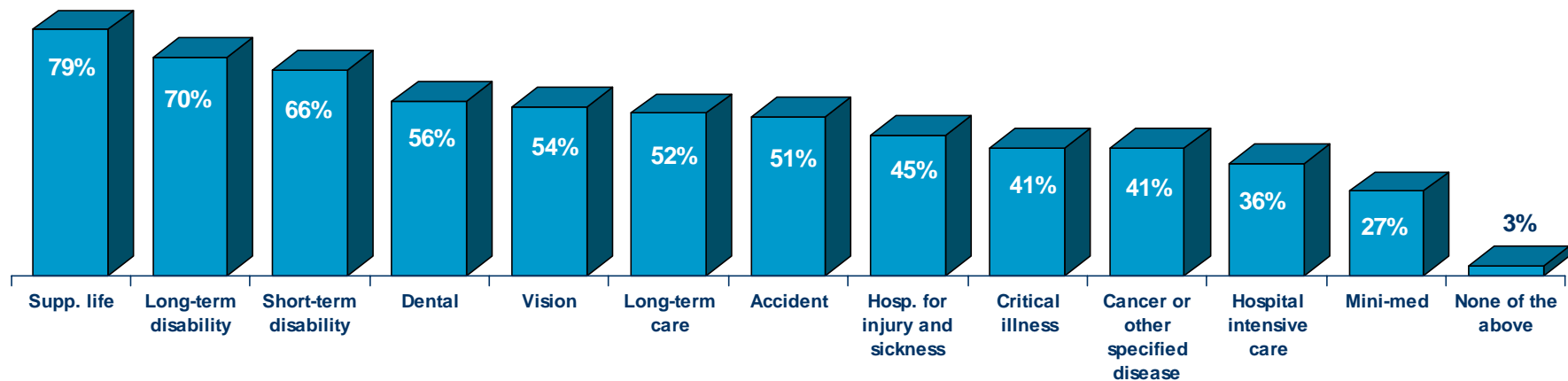


Base: Total Employers (n=937)

Q2: Does your company offer the following benefits to employees?

Supplemental life is the most widespread voluntary benefit, followed by long and short-term disability

Voluntary Insurance Benefits Offered



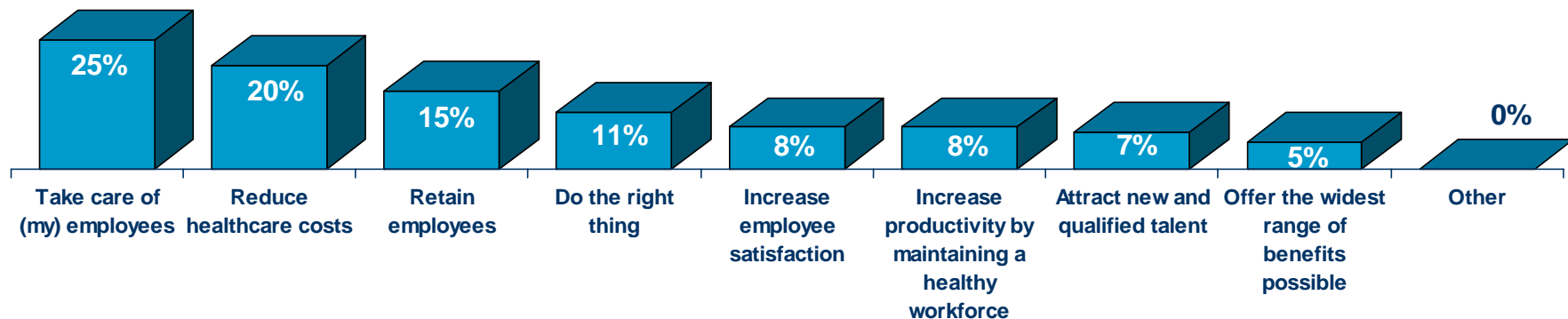
Base: Employers Who Offer Voluntary Insurance Benefits (n=637)

Q3: Do you offer the following voluntary benefits? Voluntary benefits are those that are made available to employees, but the employee must pay 100% of the premium.

Employers say the most important objective of their benefits program is to take care of employees

- Reducing healthcare costs is also important
- Employee retention is regarded as more of an issue than recruitment

Most Important Objective Of Benefits Program



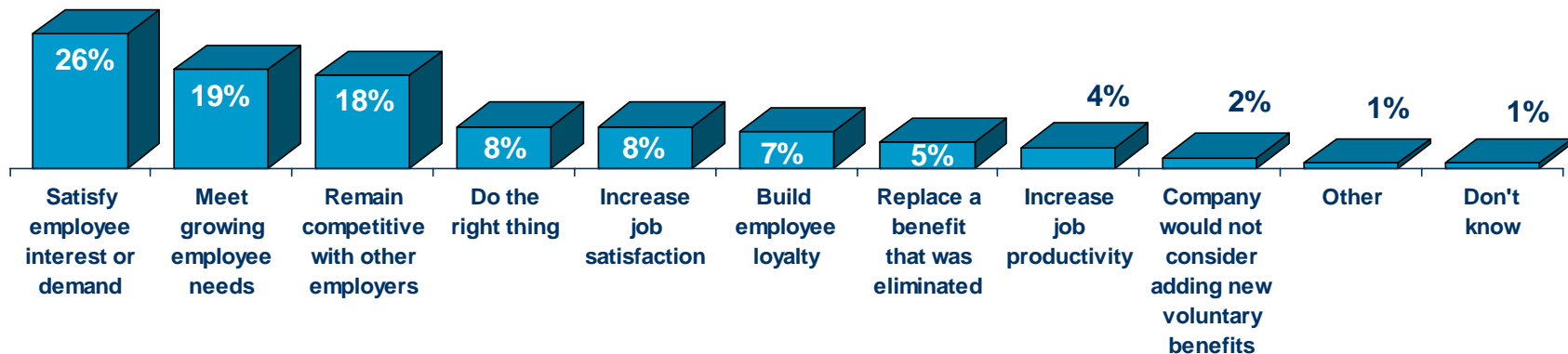
Base: Employers Who Offer Insurance Benefits (n=888)

Q6: What are the most important objectives for your benefits program?

Employers are most likely to add voluntary benefits to fulfill employee demand

- Employee needs and remaining competitive are also considerations
- Few think that voluntary benefits would increase productivity

Most Important Reason Company Would Consider Adding New Voluntary Benefits



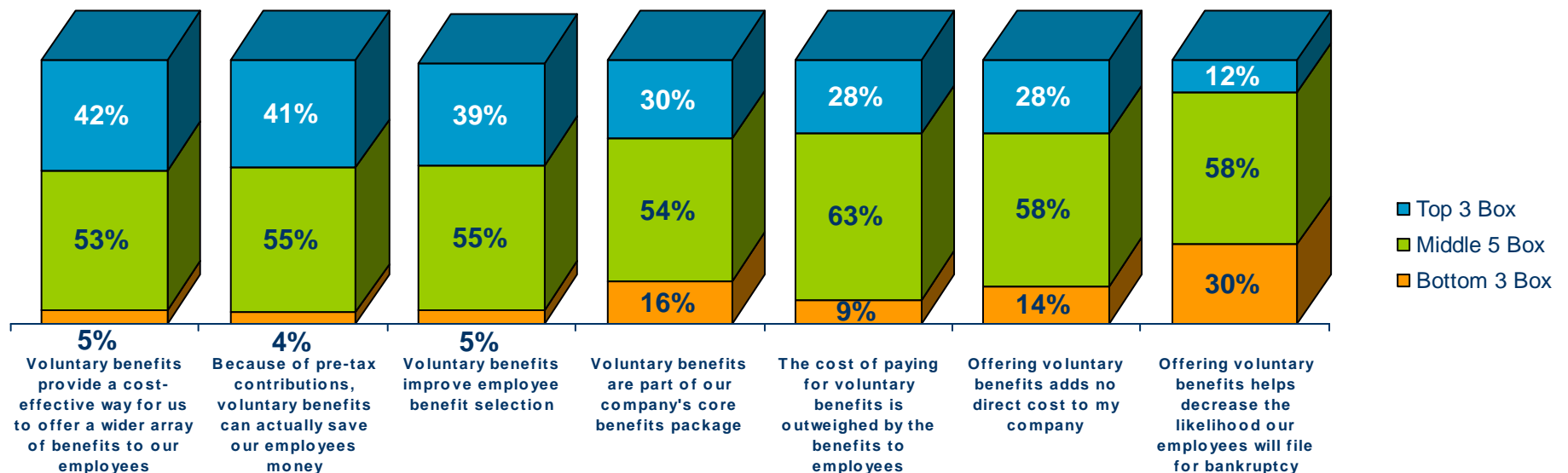
Base: Total Employers (n=937)

Q8: What is the most important reason your company would consider adding new voluntary benefits?

Employers do not widely agree with any statements about voluntary benefits

- Agreement is strongest that voluntary benefits widen the array of benefits and selection, and can save employees money

Agreement With Value Of Benefits Statements
(General Attitudes)



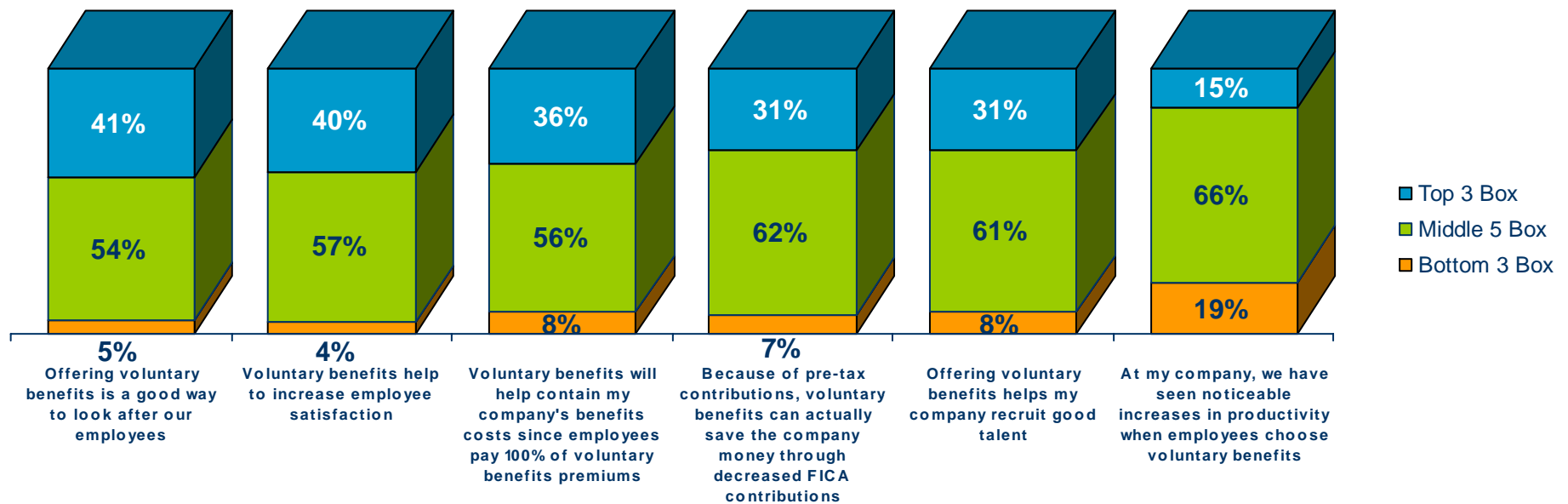
Base: Total Employers (n=937)

Q10: How strongly do you agree with the following statements about the value of offering benefits?

Employers see voluntary benefits helping morale, finances and recruitment more than productivity

- Employers are more likely to agree that voluntary benefits can help with retention than recruitment

Agreement With Value Of Benefits Statements
(Employer-Centric Attitudes)



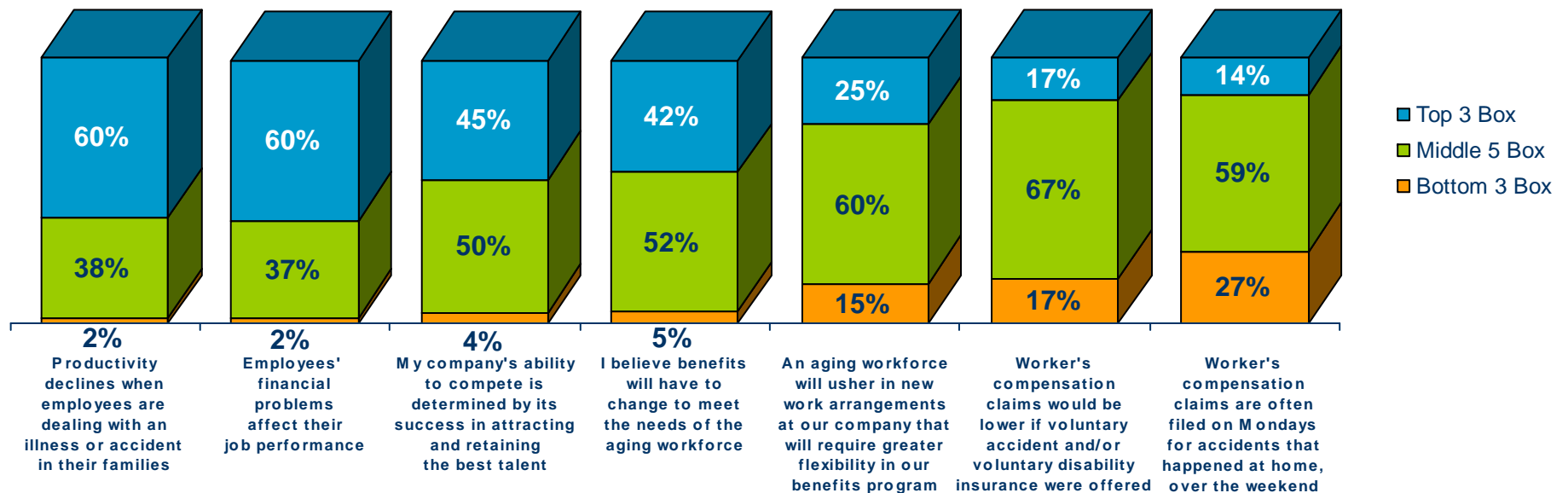
Base: Total Employers (n=937)

Q10: How strongly do you agree with the following statements about the value of offering benefits?

Most agree that illness/injury and financial problems can affect employee performance

- However one-fourth or less say that voluntary benefits can help address issues surrounding an aging workforce or workers' comp claims.
- Only a small percentage of Employers acknowledge that "Monday Morning Claims" exist

Agreement With Workplace Issue Attitudes



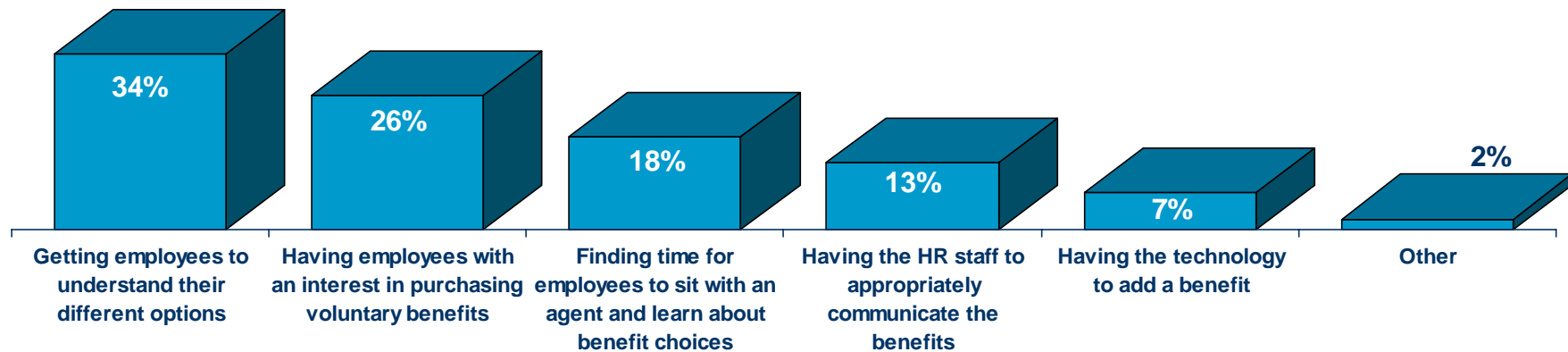
Base: Total Employers (n=937)

Q15: How strongly do you agree with the following statements?

The biggest challenge to adding a voluntary benefit is getting employees to understand the options

- **Generating employee interest and finding the time to educate employees are also common barriers**

Top Challenge When Adding A New Voluntary Benefit



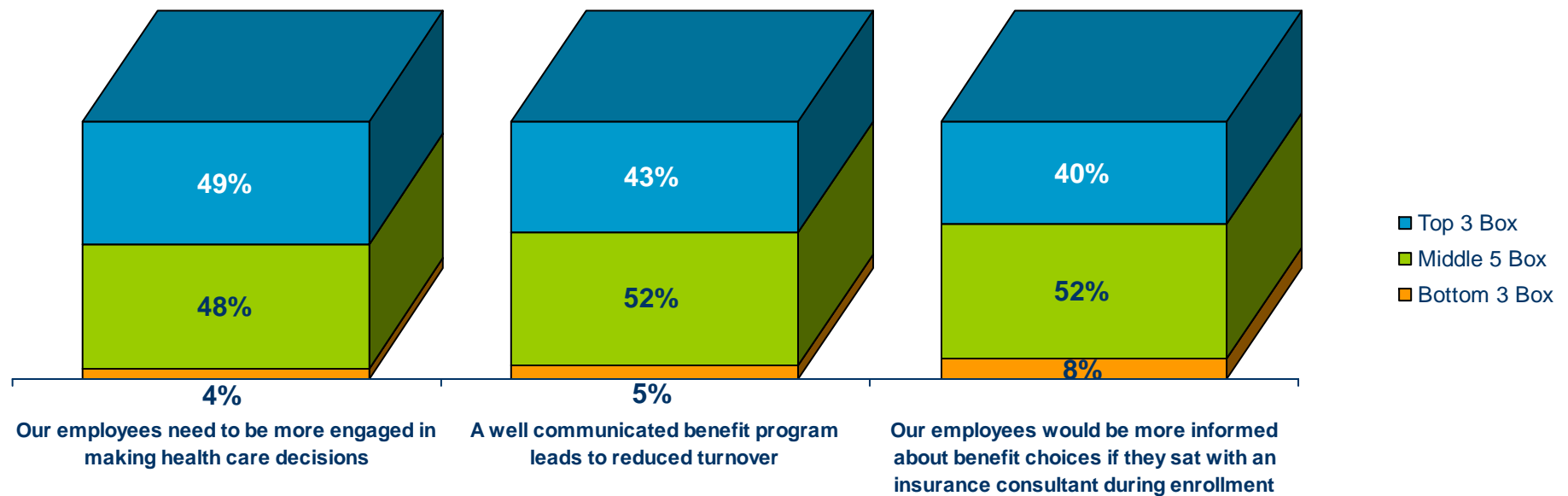
Base: Total Employers (n=937)

Q12: What are the top 3 challenges you face when adding a voluntary benefit?

Half of Employers think that their employees need to be more engaged with benefits

- Slightly fewer agree that better communication would aid retention, and sitting with a consultant would help employees

Agreement With Benefits Selection Attitudes



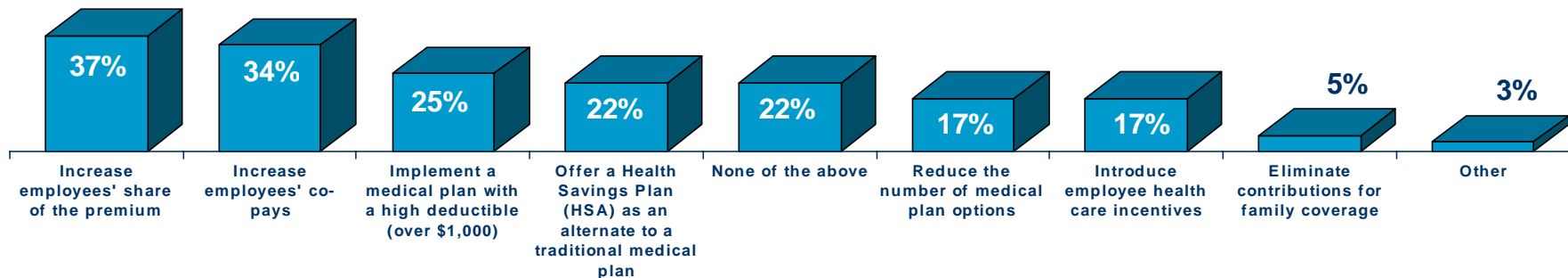
Base: Total Employers (n=937)

Q13: How strongly do you agree with the following statements?

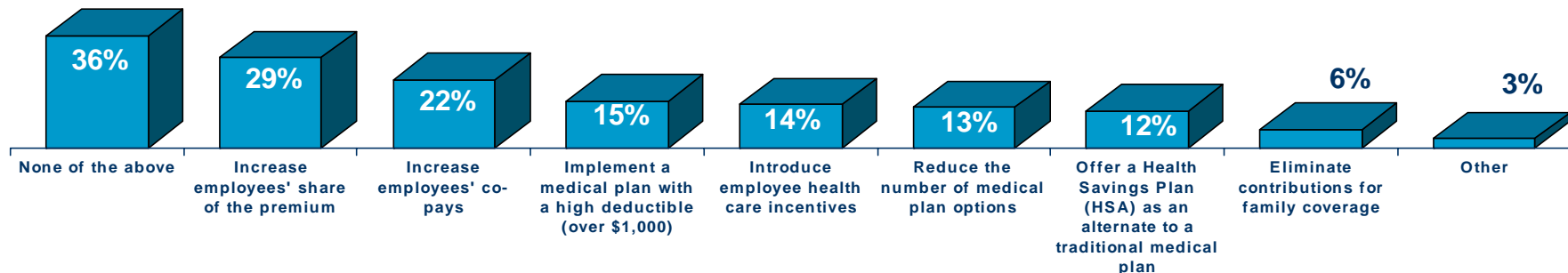
Employees are shouldering more health care costs as of '09, and the trend is expected to continue in '10

- The most prevalent changes are increasing employees' share of premiums and/or co-pays, followed by implementing high deductible plans or HSAs

Changes Made To Medical Plan In 2009



Changes Plan To Make To Medical Plan In 2010



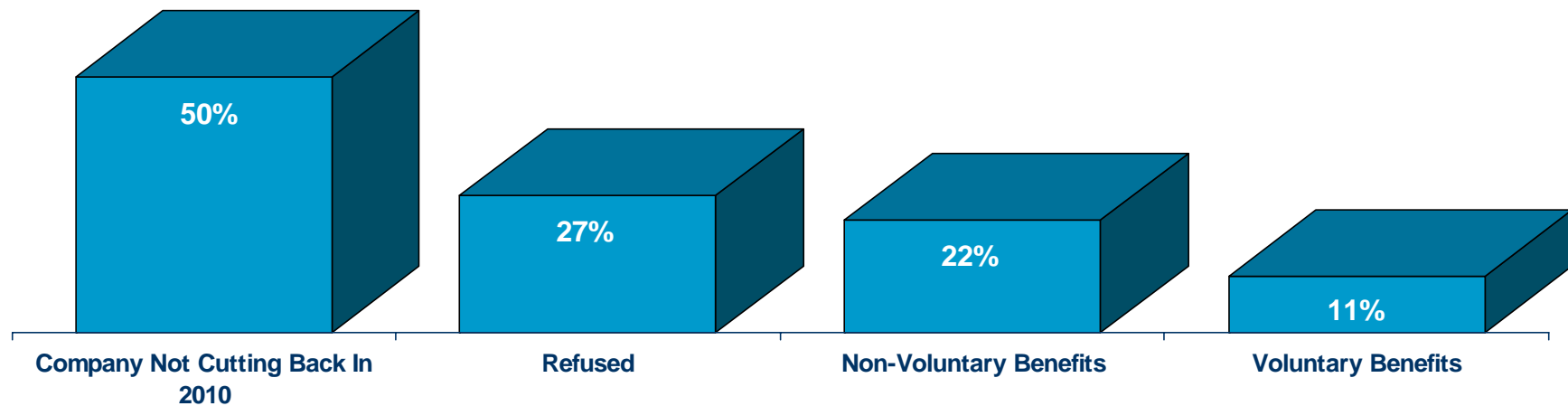
Base: Employers Who Offer Major Medical (n=852)

Q29: Thinking specifically about your medical plan(s), did your company do any of the following for 2009?

Q30: And, does your company have plans to implement any of these changes for 2010?

Employers are twice as likely to plan on cutting non-voluntary benefits than voluntary benefits

Benefits Plan on Cutting Back On In 2010



Base: Employers Who Offer Major Medical (n=852)

Q30e: Is your company planning on cutting back on any benefits for 2010?

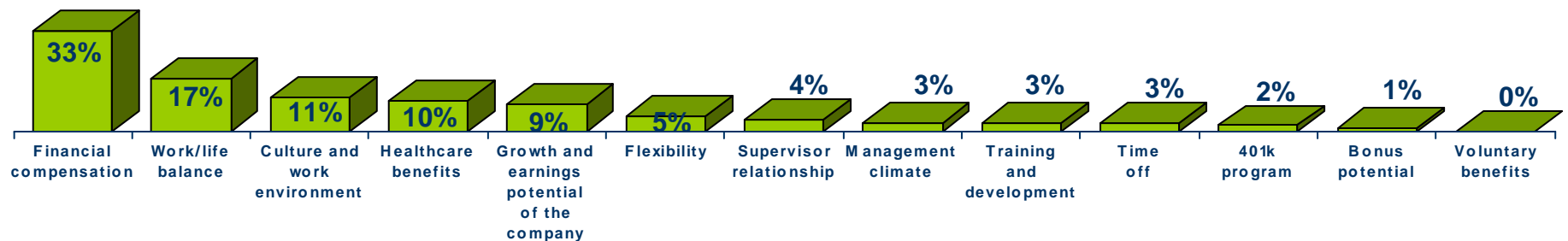
Q30f: Which benefits is your company planning on cutting back on?

Detailed Findings – Total Employees

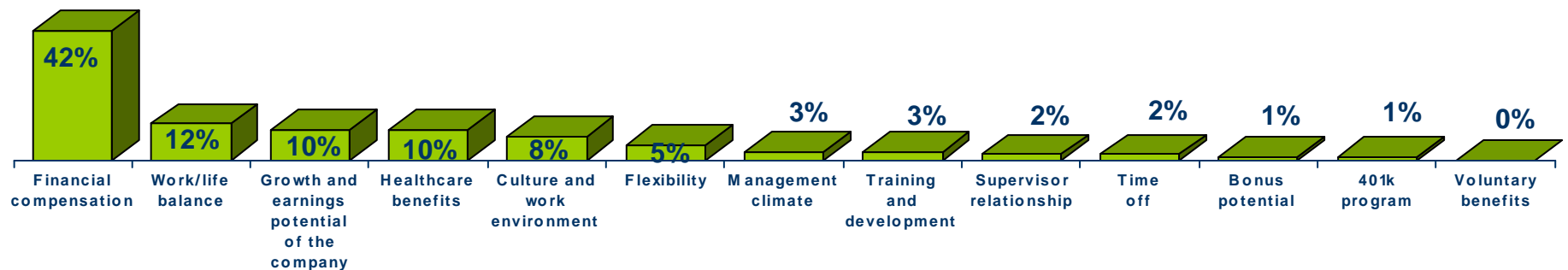
Employees view financial compensation as the most important issue in their retention and recruitment

- While healthcare benefits are mid-tier in importance, voluntary benefits are considered a non-factor

Most Important Retention Issue



Most Important Recruitment Issue

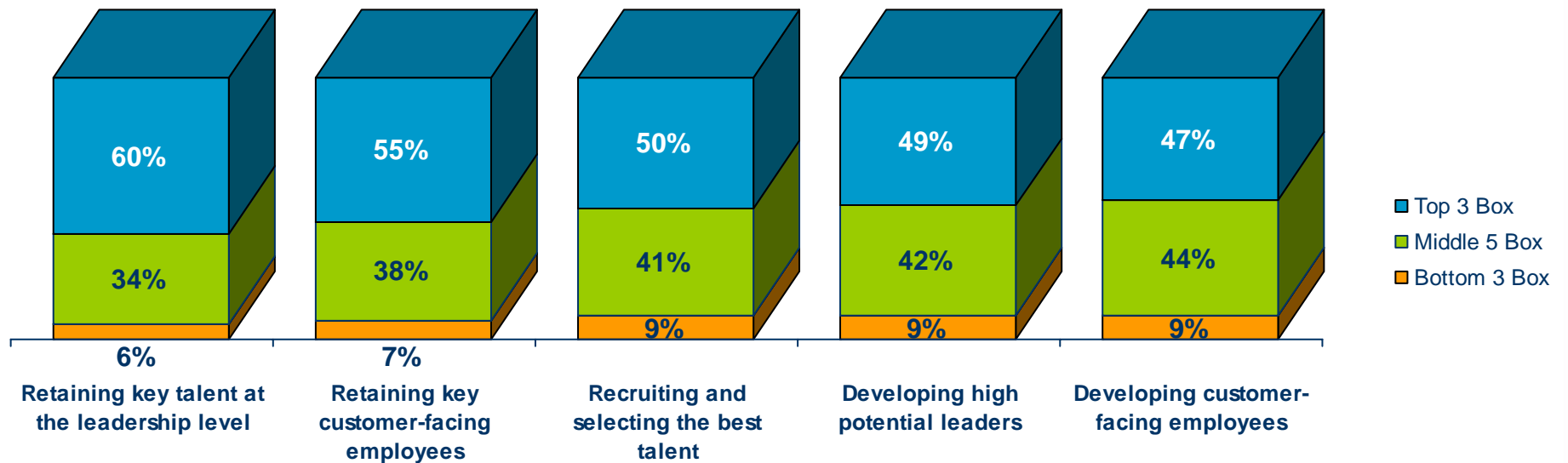


Base: Total Employees (n=1017)

Q25: Listed below are several drivers of employee retention and successful recruiting. Please identify which are the most important, second most important, and third most important for you in terms of staying at your current job and what you would look for if you were to switch to another job.

Half or more Employees say that companies are focused on retaining, recruiting, and developing staff

Importance of Retention/Recruitment Issues



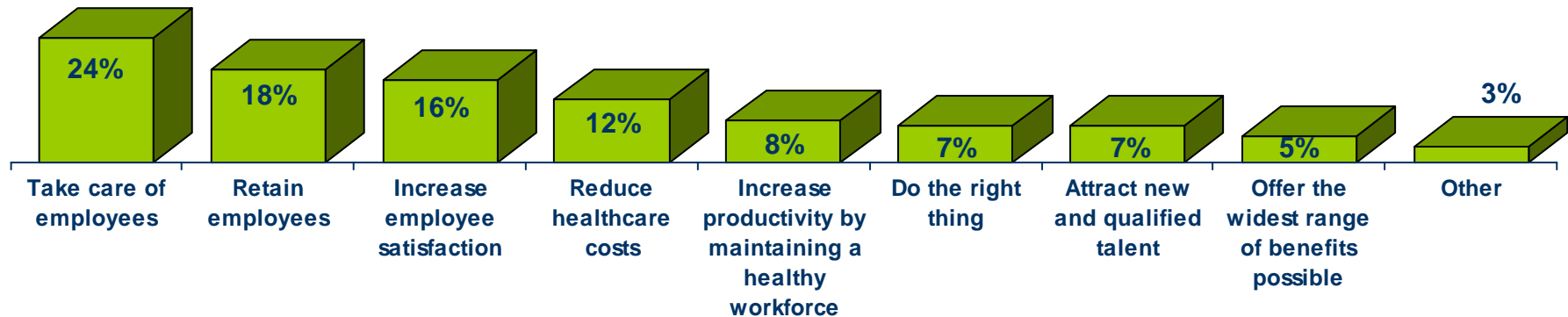
Base: Total Employees (n=1017)

Q24: In your opinion, how important are each of the following issues in your organization right now?

Employees believe their welfare is the most important objective of a benefits program

- Associated with this, retaining employees and increasing their satisfaction are also important
- Recruitment is not viewed as a key objective of benefits

Most Important Objective Of Benefits Program



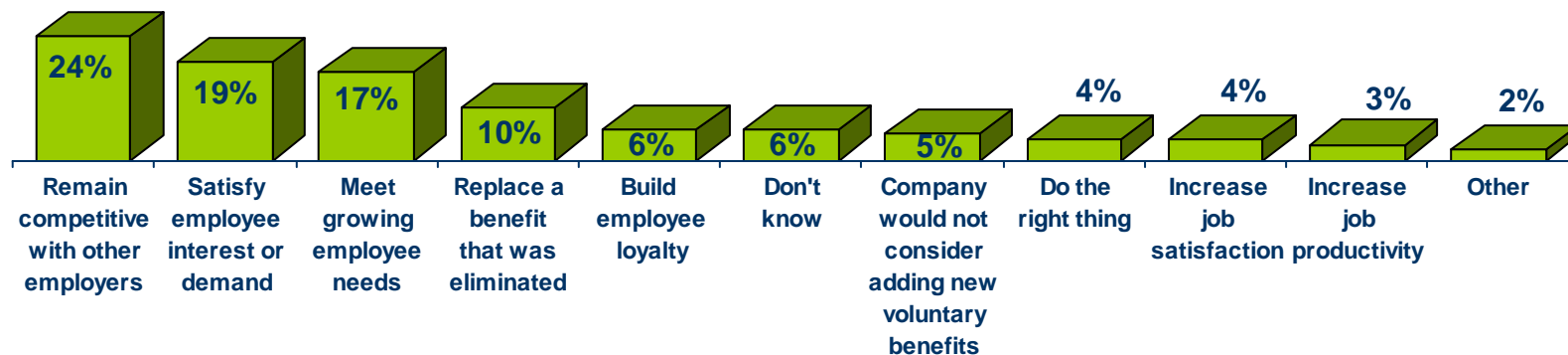
Base: Employees Whose Company Offers Insurance Benefits (n=979)

Q6: What are the most important reasons you think your company offers a benefits program?

Employees believe companies add voluntary benefits primarily to remain competitive

- Many also say it is driven by employee demand and needs
- Few employees think that voluntary benefits would increase their job satisfaction or productivity

Most Important Reason Company Would Consider Adding New Voluntary Benefits



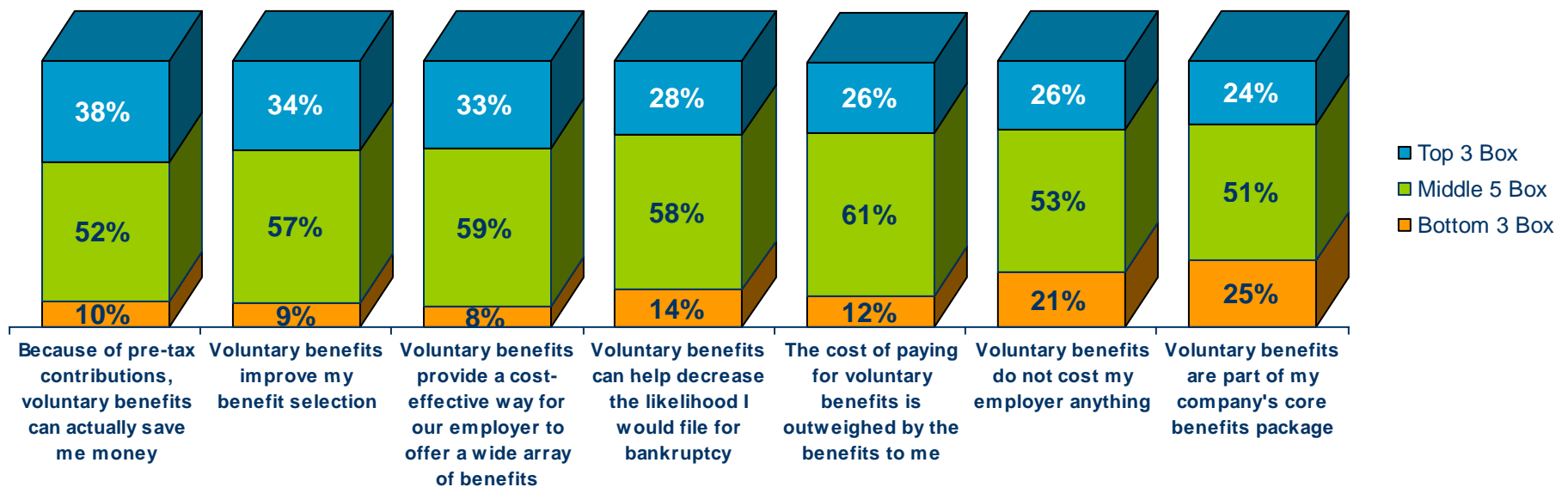
Base: Employees Whose Company Offers Insurance Benefits (n=979)

Q8: What is the most important reason you think your company would consider adding new voluntary benefits?

Employees do not generally agree with any of the statements regarding voluntary benefits

- Agreement is slightly higher for voluntary benefits being a money-saver and providing a wider array/selection of benefits

**Agreement With Value Of Benefits Statements
(General Attitudes)**



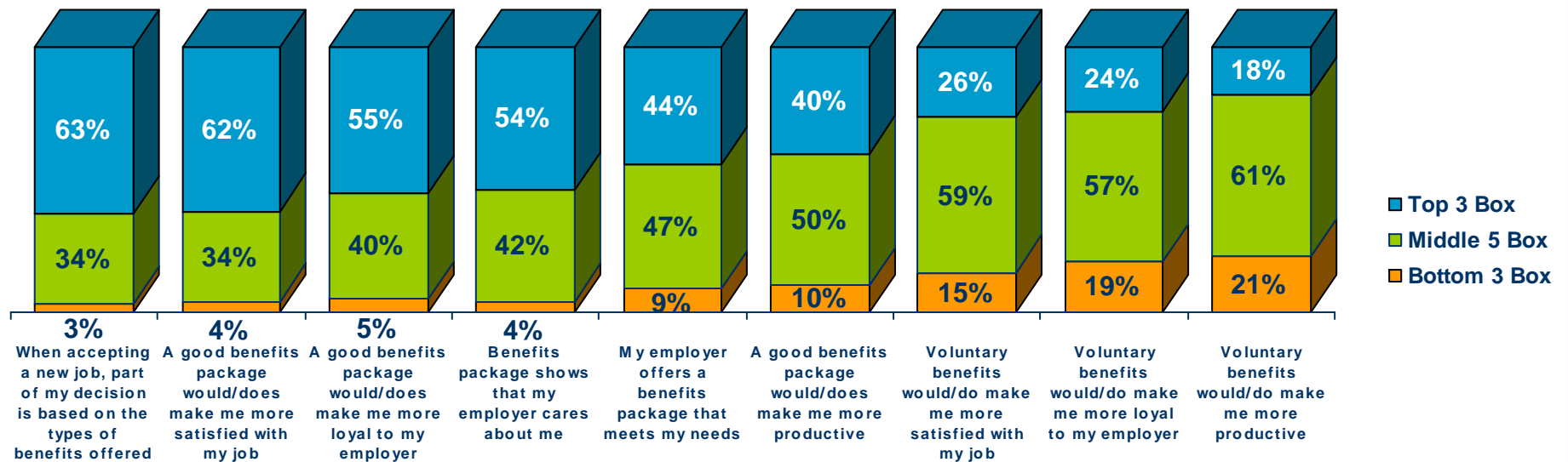
Base: Employees Whose Company Offers Insurance Benefits (n=979)

Q10: How strongly do you agree with the following statements about the value of offering benefits? Several of these statements refer to voluntary benefits; as a reminder, voluntary benefits are benefits that are made available to employees, but the employee must pay 100% of the premium.

Employees are more focused on/influenced by standard benefits than by voluntary benefits

- Employees tend to agree that the effect of benefits (and esp. voluntary) on productivity is more limited

Agreement With Value Of Benefits Statements
(Employee Attitudes)



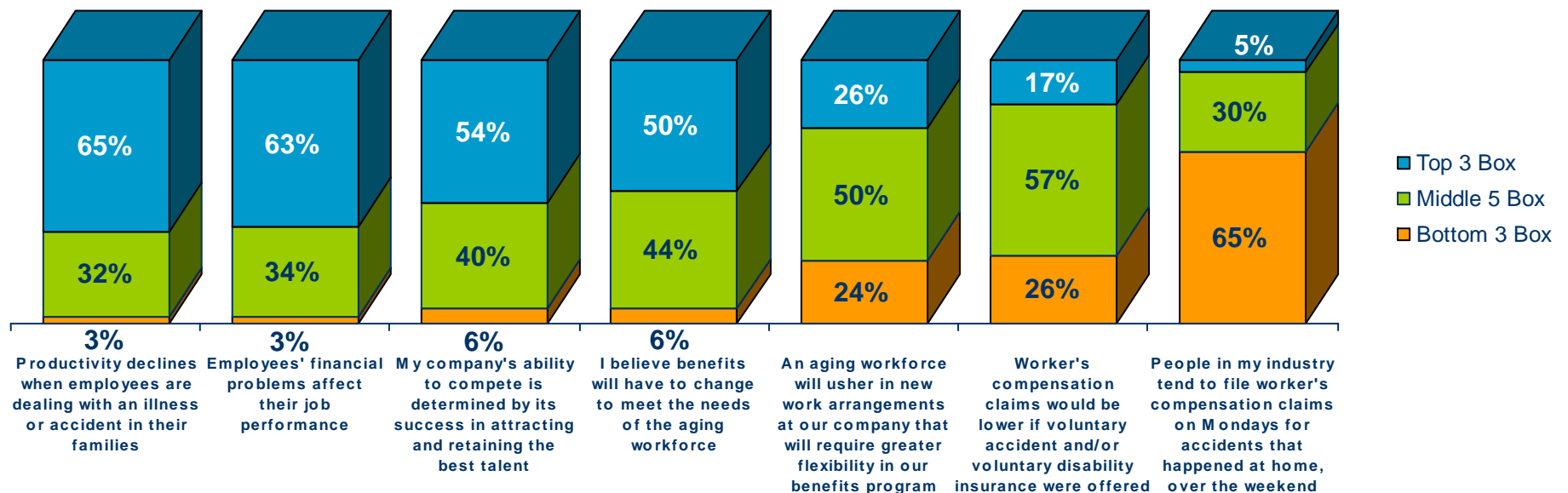
Base: Employees Whose Company Offers Insurance Benefits (n=979)

Q10: How strongly do you agree with the following statements about the value of offering benefits? Several of these statements refer to voluntary benefits; as a reminder, voluntary benefits are benefits that are made available to employees, but the employee must pay 100% of the premium.

Most Employees agree that their performance can be affected by illness/injury and financial problems

- Over half believe that recruitment and retention are important determinants in company success
- But, only one-fourth or less say that voluntary benefits can help with an aging workforce or workers' comp claims

Agreement With Workplace Issue Attitudes



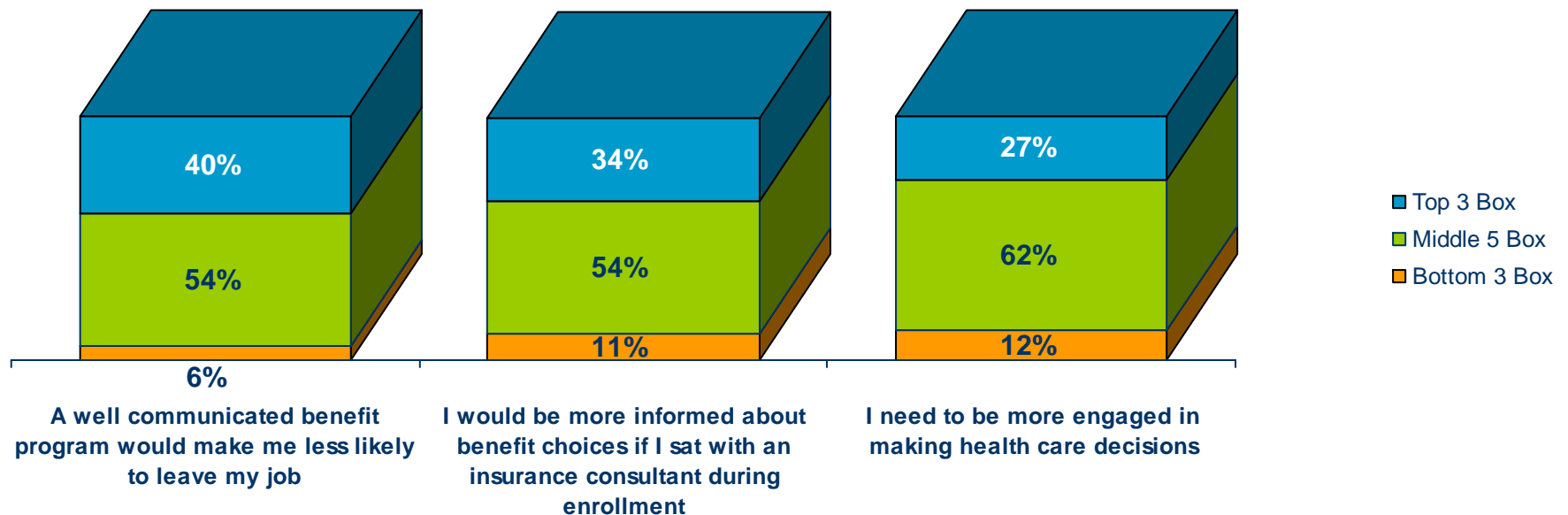
Base: Total Employees (n=1017)

Q15: How strongly do you agree with the following statements?

Employees don't see the need to become better informed about benefits decisions

- Although, two-in-five employees agree that a well-communicated benefits program would help with retention

Agreement With Benefits Selection Attitudes



Base: Employees Whose Company Offers Insurance Benefits (n=979)
Q13: How strongly do you agree with the following statements?

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➤ April 29, 2009

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