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## Uncertainty Prevails

Benefits costs still #1 factor in total reward decisions; recruiting employees increasing in importance.

Nov. 15, 2012

A new study shows that 58 percent of executives say employee benefits costs are the leading factor impacting total reward decisions and, consequently, employers are balancing the need to control costs with the desire to attract (47%) and retain (48%) key employees. The findings were released as a part of the 2012/2013 [Verisight](#) and [McGladrey Compensation, Retirement and Benefits Trends Survey](#).

“As the dust from the economic crisis slowly settles, business leaders are challenged with rising benefits costs, evolving healthcare reform, calls for increased transparency and regulatory changes,” said Martha Sadler, managing director of Verisight, Inc. “Despite this strained economic backdrop, decision makers are staying the course when it comes to total rewards for employees. In general, leaders are being asked to do more with less and this directive is defining current practices in compensation, retirement and health and welfare benefits programs.”

“We applaud Verisight and McGladrey for their sharp focus on the increasingly challenging world of employee compensation and benefits,” said James Klein, president of the American Benefits Council, a Washington D.C. trade association representing employer sponsors of health and retirement benefit plans. The American Benefits Institute, the Council’s research and education affiliate, provided support during the development of this year’s study. “The 2012/2013 survey illustrates in great detail how employers are moving deliberately to promote health and financial security within their workforces.”

### Compensation Trending Upward

Companies responding to the survey indicate that they are looking closely at the

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Throughout 2012, employers increased their employees' share of the health and welfare benefits costs, reduced overtime and staff, and implemented hiring and pay freezes in an effort to reduce or contain labor costs. In addition, as a means to retain and motivate employees while further stretching their labor dollars, employers are favoring high performers with larger pay increases. On average, base salaries increased 4 percent for high performers in 2012, compared to 0.9 percent for low performers.

### **Retirement Plans Focus on Diversification and Transparency**

When it comes to evaluating retirement plans, costs of investments (59%), costs of services (57%) and quality of service (53%) continue to be the major factors influencing decision making. As employers strive to attain appropriate investment diversification without overwhelming their participants, providing choices to employees remains paramount. Half (51%) of the employers surveyed offer 11-20 plan investment options. Mutual funds are still the most common investment type and are offered by 92 percent of retirement plans.

"The survey makes clear that employers are conscientiously evaluating their retirement plans to ensure that participants are getting the best service at a reasonable cost," said Lynn Dudley, senior vice president, policy, of the American Benefits Council. "As we move into an era of increasingly shared responsibility, public policy needs to strike a similar balance between ensuring effective personal retirement saving and promoting continued plan sponsorship."

Fiduciary status is also becoming an increasingly important issue for employers today. Overall, 84 percent of organizations surveyed use external or third-party advisors for consultation on their defined contribution plans. Of these, 73 percent say that they understand their advisor's fiduciary status, up seven percentage points from 2011 (66%).

“The Department of Labor’s mandate for fee disclosure has brought the issue of

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Eighty percent of employers in the survey experienced an increase in healthcare costs in 2012. One-third say that their health plan costs rose by at least 8 percent from 2011 to 2012. To address this increase, employers are passing more of the cost to employees by raising their share of the premiums, deductibles and co-payments. For companies overall, the average monthly premium for family coverage edged up to \$1,252 for 2012, with employees contributing a historically high 36 percent of the cost. The average monthly premium for employee-only coverage was \$539 with employees contributing 22 percent of the cost.

“Employers are entering a key phase in the implementation of the healthcare law, with tough decisions to come about the risks and rewards of health plan sponsorship,” said Klein. Twenty-six percent of employers in this survey are undecided on whether they will continue group health coverage in the next 24 months.

“As the price of health coverage increases, employers will continue to consider additional cost-sharing with employees, as well as innovative new plan designs to promote better overall health, such as wellness programs,” Klein said. About half of respondents (45%) already offer wellness programs, and 3 out of 4 plan to improve their programs in the upcoming year.

Additional findings from the Verisight and McGladrey Survey:

- Some cost cutting has been necessary for companies to balance their resources during an uncertain economy:
- In the past 12 months, one-third of respondents reduced overtime, while one-quarter reduced staff and 16 percent implemented hiring freezes Fourteen percent anticipate a wage freeze below the executive level in 2013
- Defined contribution plans remain the dominant retirement savings vehicle across the U.S., regardless of company size:

- Ninety-nine percent of employers surveyed sponsor a defined contribution plan

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Seventy-five percent of employers offer a Flexible Spending Account (FSA) compared to 36 percent with a Health Deductible Health Plan (HDHP) compared to 36 percent with a Health Maintenance Organization (HMO)

## About the Verisight and McGladrey Compensation, Retirement and Benefits Trends Survey

Conducted online in August-October 2012, the survey polled more than 958 organizations drawn from a national sample. The majority of respondents are mid-sized companies; however, small and large firms are also represented. Respondents reflect a wide range of industry types including finance/banking, healthcare, manufacturing, distribution, construction, not-for-profit and services. Verisight and McGladrey maintain a strategic relationship since Verisight's acquisition of McGladrey's Human Capital Services practice in 2011.

Accounting • Benefits

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