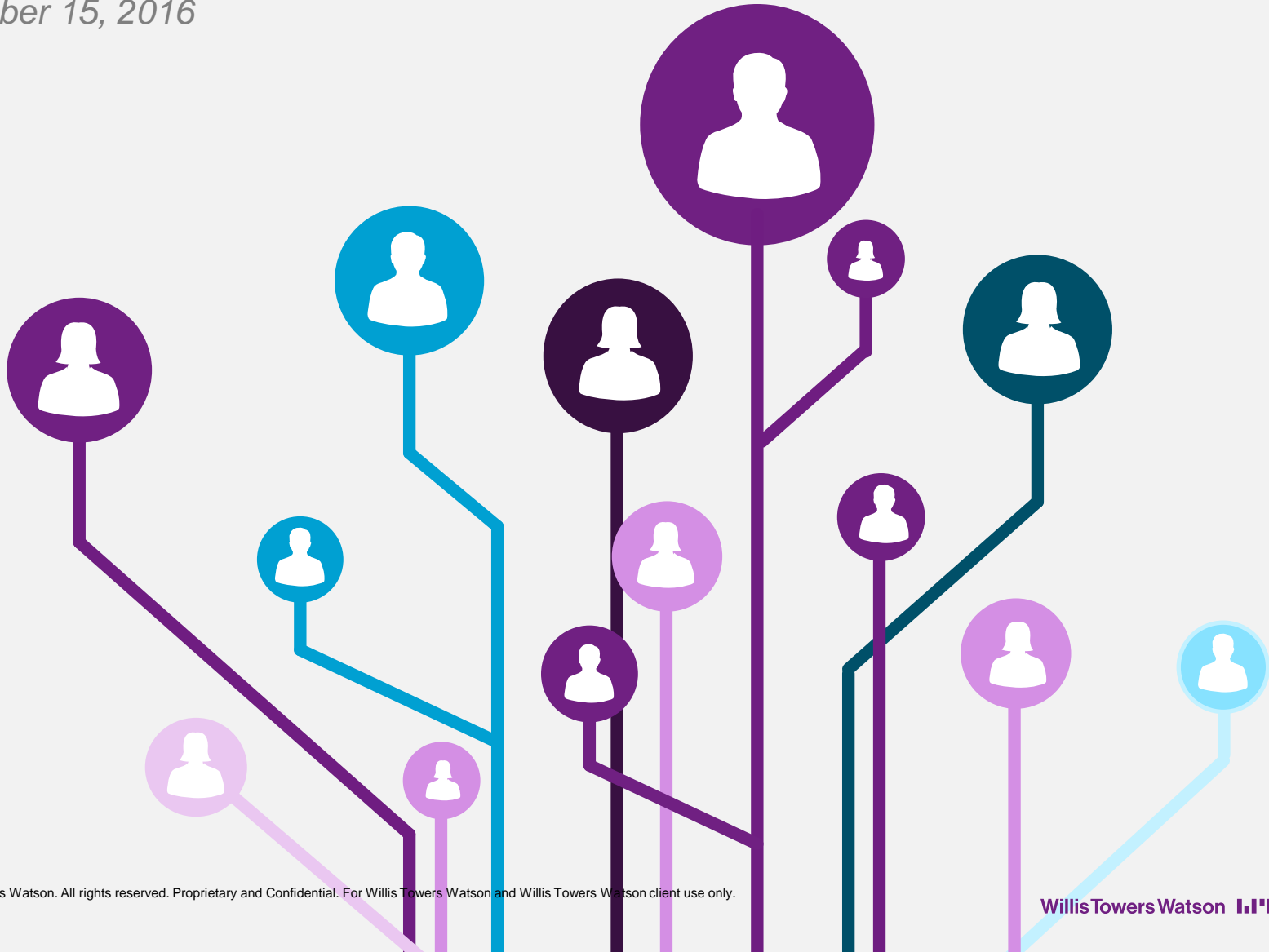


# Future of Benefits

*Bill Gulliver, North American Retirement Business Leader*

*Willis Towers Watson*

*October 15, 2016*



# Today's Discussion

- **The importance of benefits to sponsors and participants is on the rise**
- **Ironically, the financial commitment of sponsors to their benefit plans is shrinking**
  - Participants are paying more for the same
  - More and more benefits are being delivered in the form of pools of money instead of defined benefits
- **A number of factors explain this trend**
  - The trend is likely to continue
- **New types of benefits are emerging in this environment that**
  - Support greater participant involvement in their benefit plans
  - Encourage behaviors that reduce costs and are good for participants
  - Are often voluntary
- **Some trends are just beginning to evolve**
  - These trends inform a view of what lies ahead

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# BENEFITS MATTER NOW MORE THAN EVER BEFORE

Increasing media coverage

**The Washington Post**

**Benefits more important than ever  
to recruiters**

**benefitsPRO**

Companies have found something to give their workers  
instead of raises

**WIRED**

**GIG ECONOMY WORKERS NEED  
BENEFITS AND JOB  
PROTECTIONS. NOW.**

AT WORK

**The Secret to This Employer's Success? Pensions**

**NEW YORK POST**

**Want to hire more millennials?  
Get creative with your benefits**

**THE WALL STREET JOURNAL.**

**THE WALL STREET JOURNAL.**

**Perks With a Payoff**

Companies look for the freebies that actually help the bottom line

**CAREERCAST**

**Why Benefits Are More Important Than Salary**

# WHY DO BENEFITS MATTER TO PLAN SPONSORS?

## to boost productivity?



Attraction & retention



Links to participant performance

## to manage your workforce?



Managed retirement

## to enhance participants' experience?



Social responsibility

## to have more cost-effective delivery?



Tax advantages



Group rates/ discounts

## to respond to external pressures?



Agency forces/ Union focus

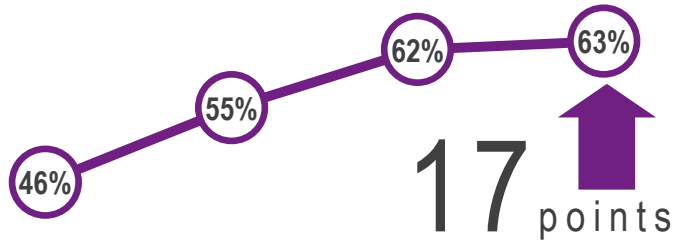


Pressure on government programs

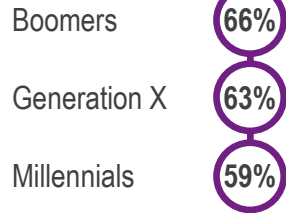
# BENEFITS MATTER NOW MORE THAN EVER TO PARTICIPANTS

## Flight to security

Participants are more willing to pay more in exchange for a guaranteed retirement benefit...

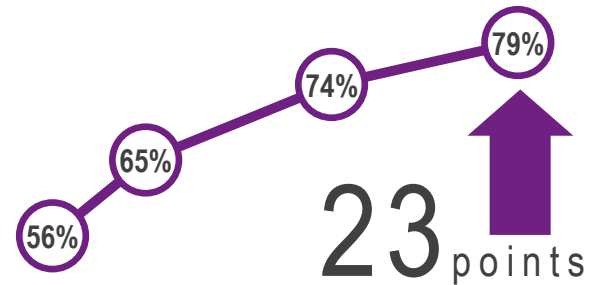


... across all generations

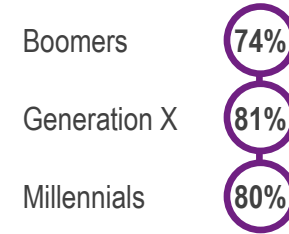


2009 2010 2011 2012 2013 2014 2015

Sponsor's retirement plan is the primary way participants save for retirement...



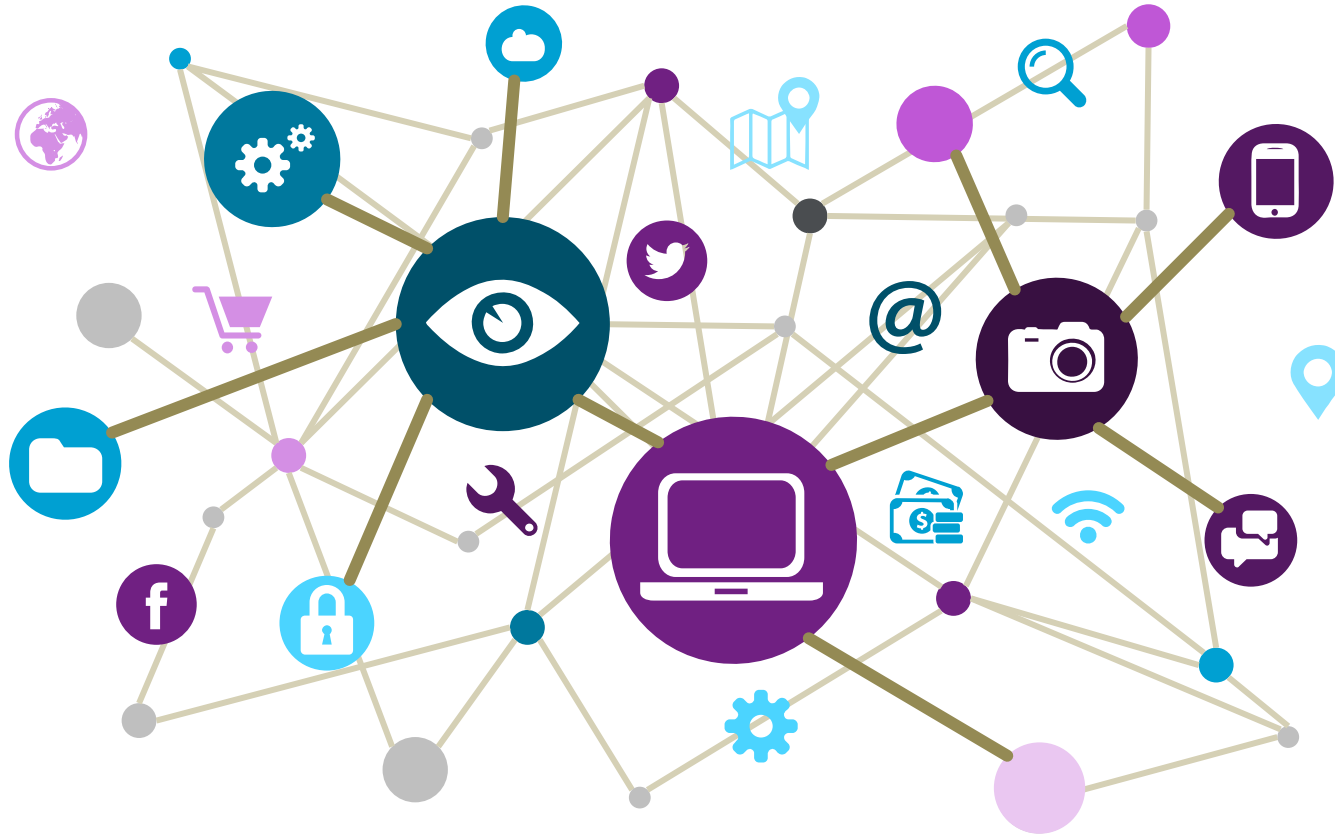
... across all generations



2009 2010 2011 2012 2013 2014 2015

Source: Global Benefits Attitudes Survey, U.S. (several waves).  
Sample: Full-time participants with sponsor retirement plans.

# THE FINANCIAL COMMITMENT OF PLAN SPONSORS IS SHRINKING



# PAY MORE FOR THE SAME

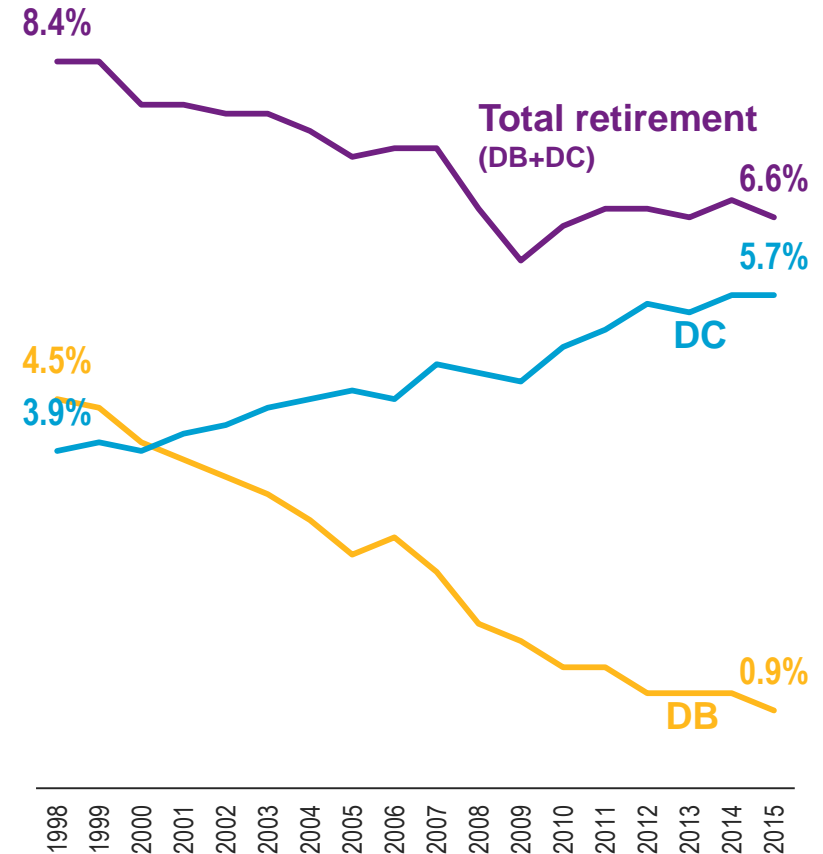
Deductibles and contributions have surged over the past decade, while earnings have lagged

Value of retirement benefits to a new hire as a % of pay

+153%	Average deductible for single only coverage
-------	---

+70%	Participant contributions to premiums
------	---------------------------------------

+23%	Average weekly earnings
------	-------------------------



Source: Willis Towers Watson Financial Benchmark Survey, Various years, Kaiser Family Foundation, Employer Health Benefits Annual Survey, Various Years, BLS and CPS.

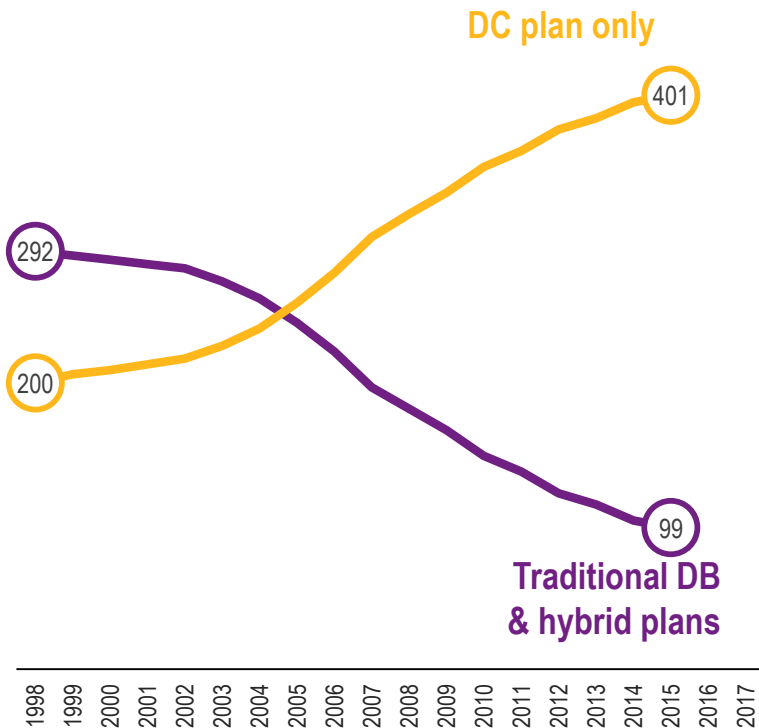
Source: Willis Towers Watson Benefit Data Source.



# INDIVIDUALIZATION OF BENEFITS

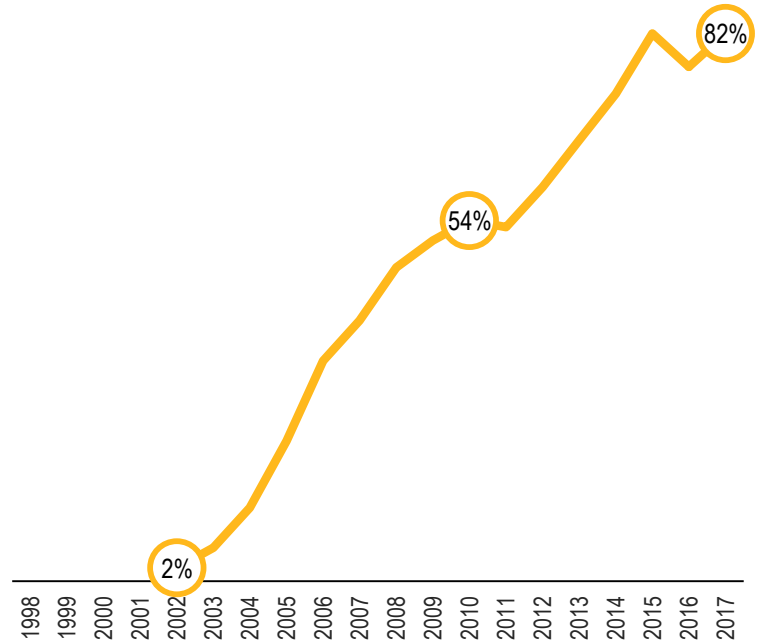
The move to an individual accountability model

Retirement plan prevalence for FORTUNE 500 companies (newly hired salaried participants)



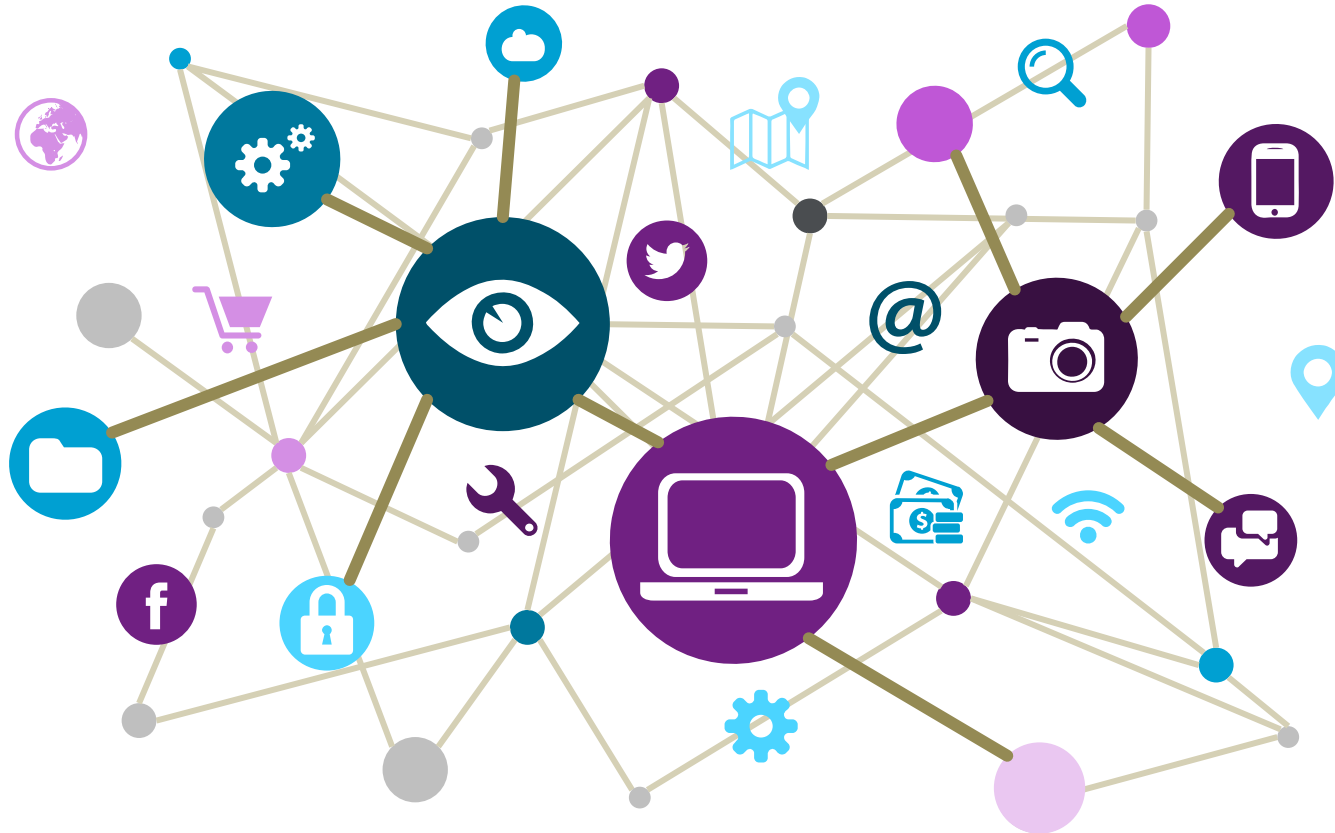
Source: A Continuing Shift in Retirement Offerings in the Fortune 500

Percentage of companies offering Account-based health plans



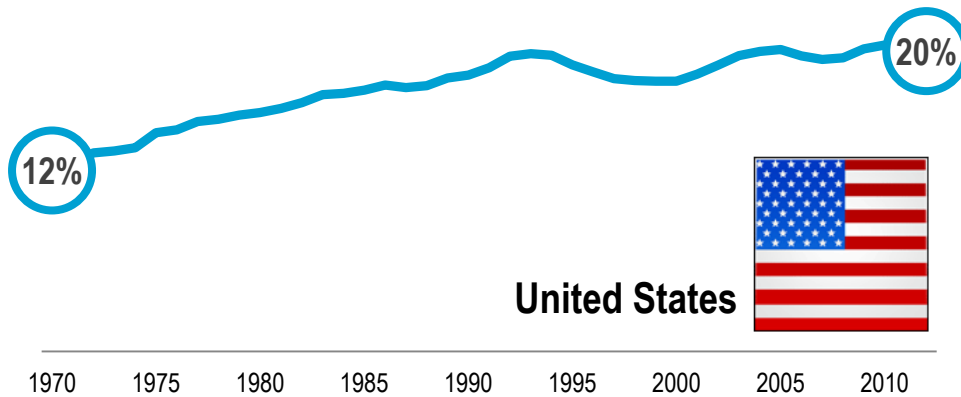
Source: Various years of Willis Towers Watson's Best Practices Survey. 2017 estimated.

# REASONS WHY PLAN SPONSORS ARE REDUCING THEIR FINANCIAL COMMITMENTS



# RISING COST OF BENEFITS

Share of benefits over total compensation\*



**8** points  
Since **1970s**

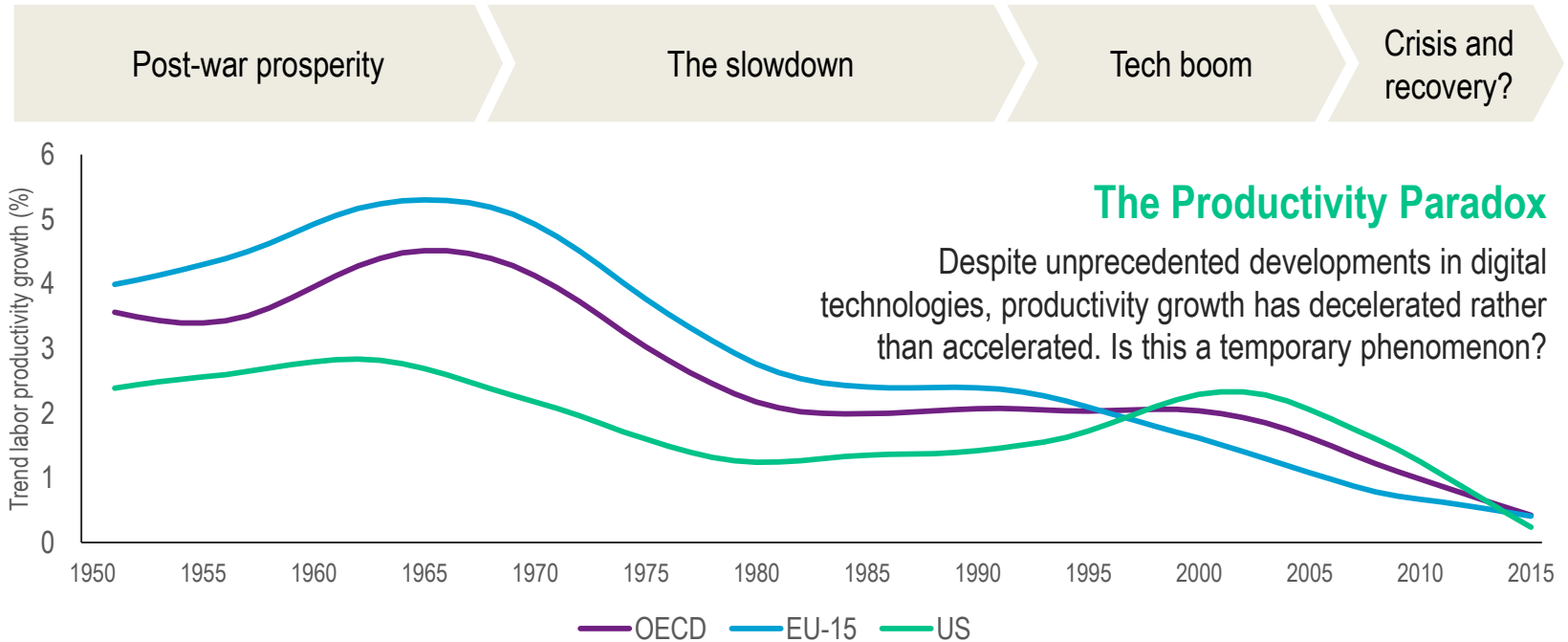
## What explains the rising cost of benefits?

Health Care	DB Pensions	DC Plans
Medical inflation	Contribution holidays	Introduction of 401(k)/403(b)
Pharmacy spend	Declining interest rates	Benefit improvements
New services/procedures	Improving longevity	

\* Sponsors' contributions to compulsory, contractual and private social security schemes, pension plans, casualty or life insurance schemes and benefit plans.

Source: Organization for Economic Co-operation and Development

# STAGNANT WAGE GROWTH



## Participants' motivation problems

- less margin to reward participants' performance
- lower increases in compensation

## Participants more reliant on sponsor benefits

- government limits financing of health & retirement
- participants save less for retirement
- lower interest rates present challenges

Source: Willis Towers Watson's calculations based on data from the Conference Board Total Economy Database (September 2015).

## GENERATIONAL SHIFT

How old are the oldest Generation X participants today?



52

## GENERATIONAL SHIFT

How old are the oldest Generation Y (also called “Millennials”) participants today?

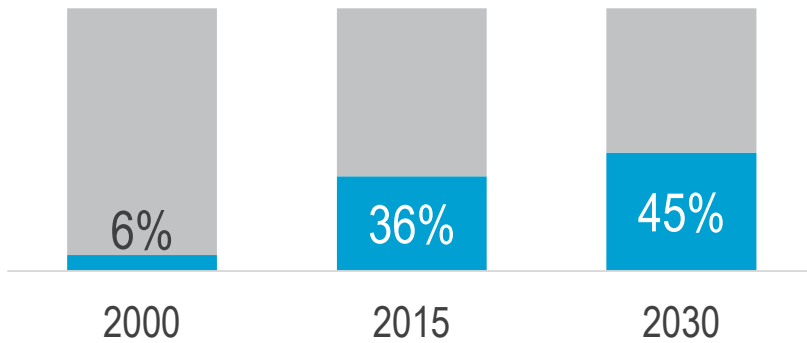


36

# GENERATIONAL SHIFT

## The rise of the millennials

Now the most numerous generation in the U.S. labor force



Source: 2000 from OECD, 2015 from CPS, and 2030 from Willis Towers Watson estimates based on Census and BLS.

### Millennials' dilemma: financial challenges

#### Debt crisis

Mortgage and student loan debts

#### Career uncertainty

Are boomers' longer careers limiting millennials' opportunities?

#### Rise of HDHPs

Offered by 82% of companies in 2015

#### Eroding retirement

Value of retirement benefits in decline

Guided by a new value system

Boomers & Xers	Millennials
 Live to work	 Work to live
 Individual achievement	 Group orientated
 Corner office	 Flexible schedules
 Prestige	 Giving back

**If Facebook were a country  
it would be the third-largest in the  
world.**

Source: facebook.com.



The number of text messages sent  
and received in one day  
**exceeds the population of the  
planet.**

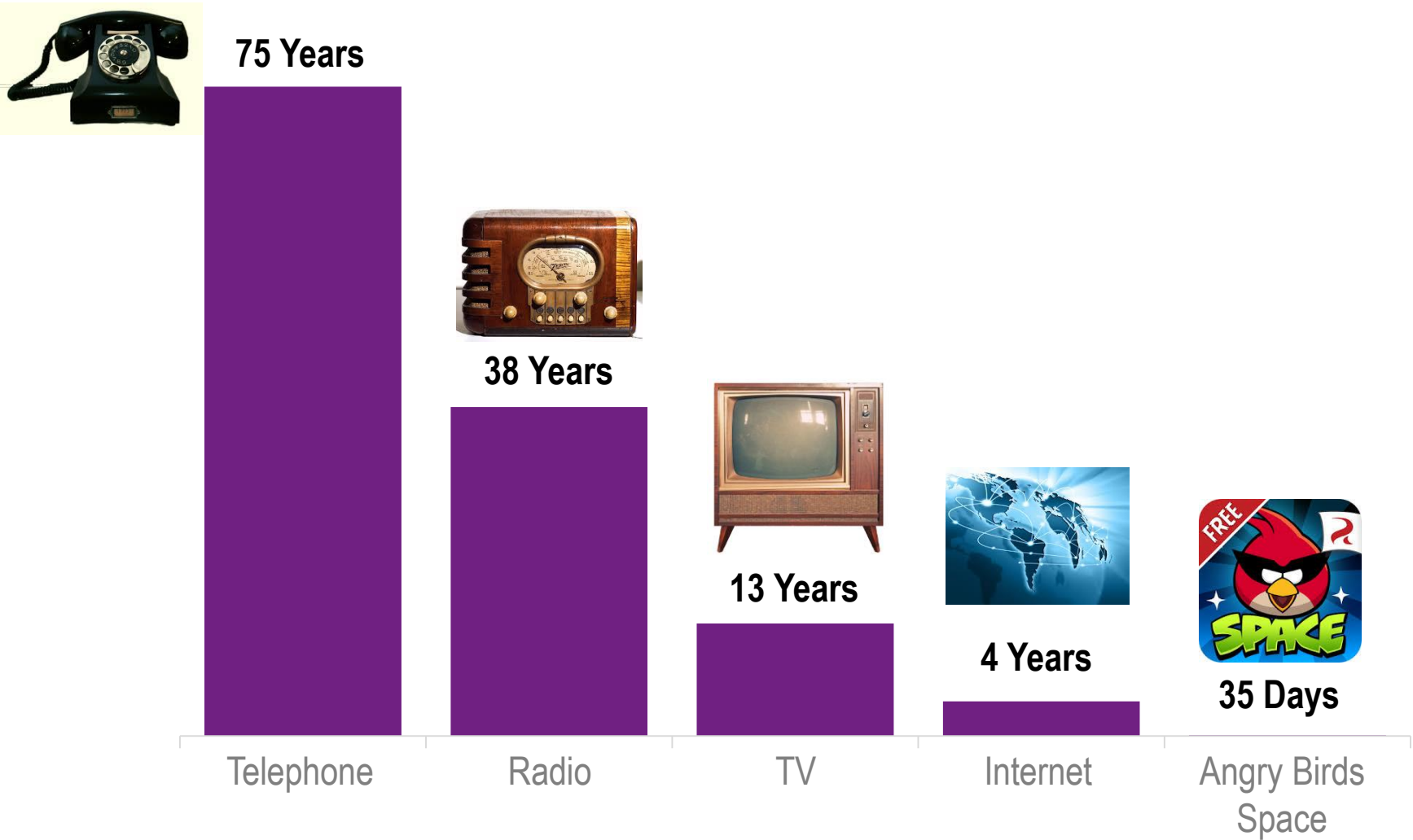
Source: wikipedia.com.

**The average U.S. student today  
will have 10 to 14 jobs  
before age 40.**

*Source:* U.S. Department of Labor.

# RAPID CHANGE IS THE NEW NORMAL

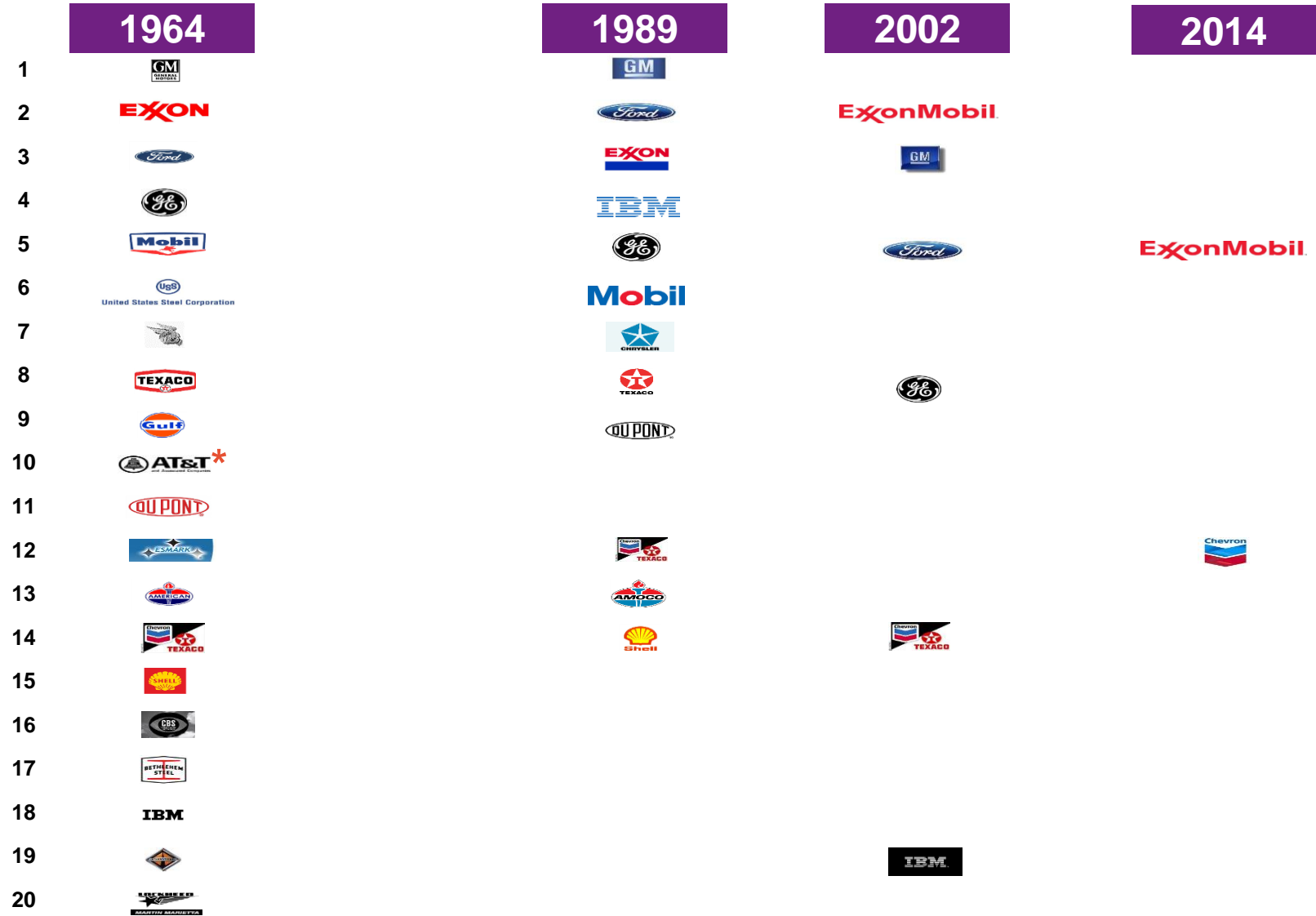
## Time to Reach 50 Million Users



Source: *Attributed to Carl Benedikt Frey and Michael Osborne (Oxford Martin School, University of Oxford) and G. Kofi Annan, author; note: some figures disputed*

# RAPID CHANGE IS THE NEW NORMAL

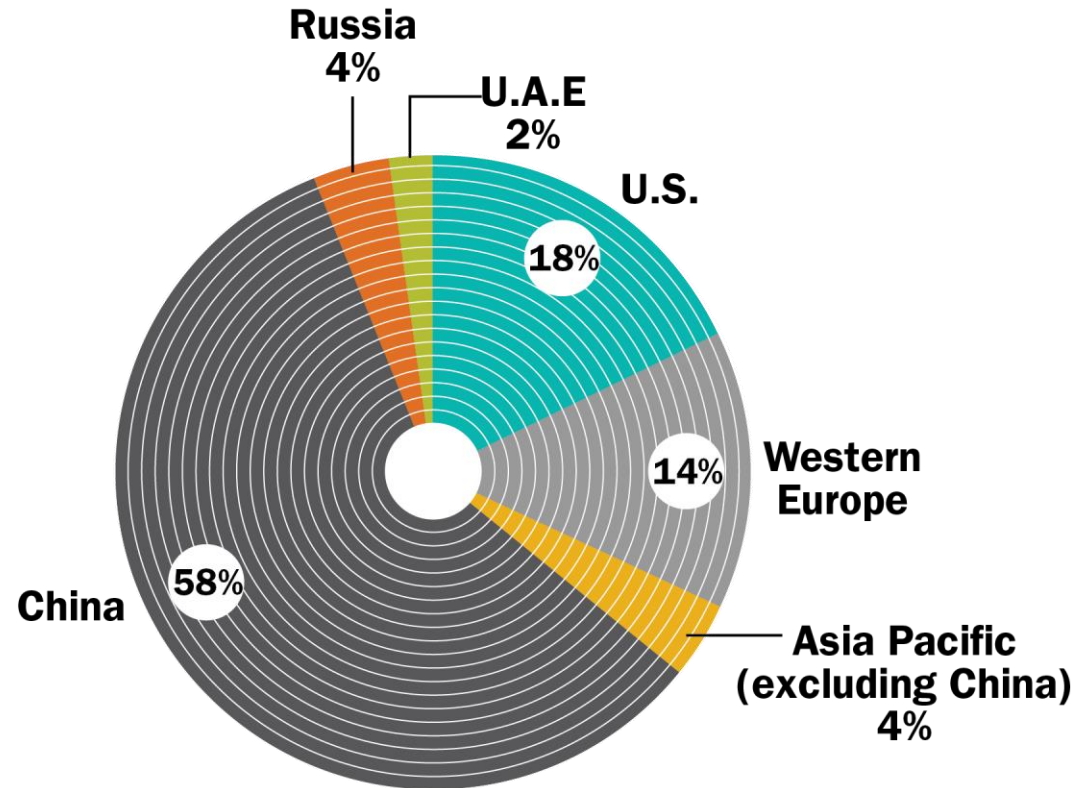
## Fortune 20 (1964 – 2014)



# RAPID CHANGE IS THE NEW NORMAL



What percentage of the fifty largest companies in the world will be based in the U.S. in 2020?



Source: *Fortune*

# NEW TYPES OF BENEFITS ARE EMERGING



# THE RISE OF CONSUMERISM

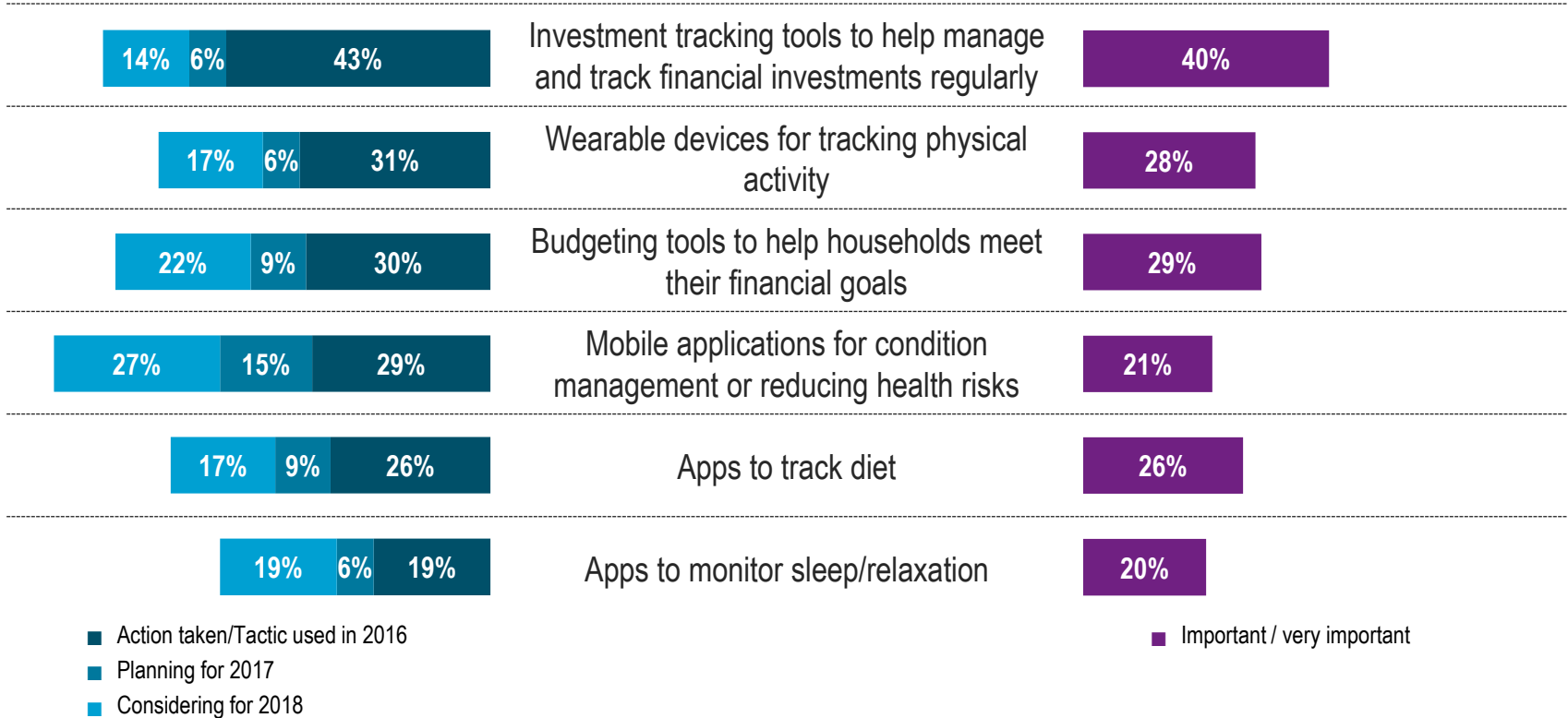
Participants rely increasingly on apps to manage health and finances ... and sponsors are responding



Sponsors Offer



Participants Use



Sample: Full-time participants, with an sponsor retirement plan or a health care plan depending on question.

Source: 2016 Willis Towers Watson Best Practices in Health Care Employer Survey and 2015/2016 Global Benefits Attitudes Survey, US.

# EMERGENCE OF WELL-BEING

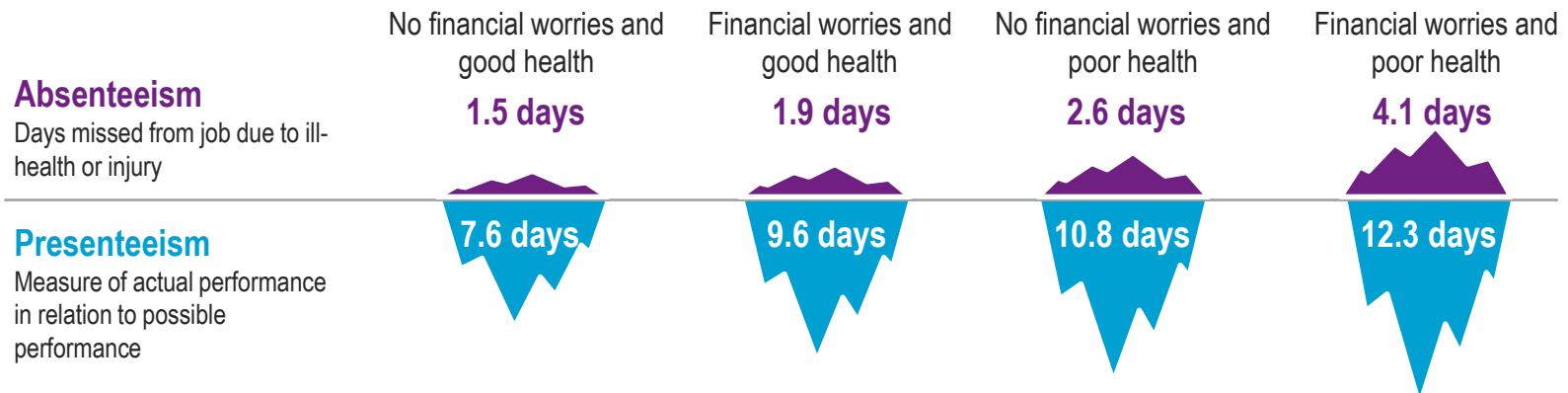
Need to offset the burden placed on participants



## A sponsor responsibility or necessity?

Sponsors are investing in participants to offset the greater responsibilities they are now facing around their benefits

Participants in good health and financially secure are **70%** more engaged than those with financial and health issues



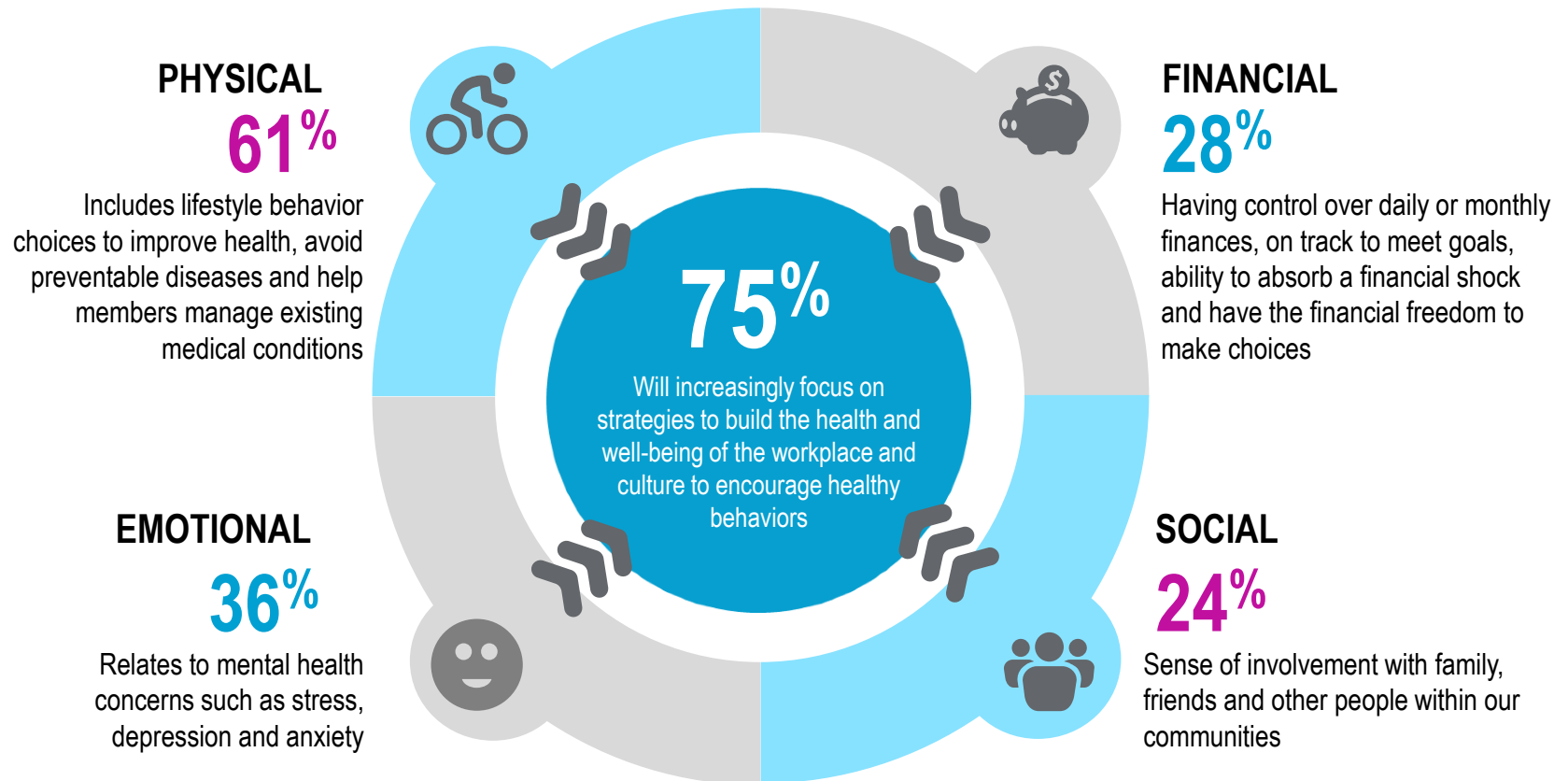
Source: 2015/2016 Willis Towers Watson Global Benefit Attitudes Survey.



# EMERGENCE OF WELL-BEING

Sponsors define participant well-being broadly

To what extent do your organization's health and well-being programs focus on the following aspects of participant well-being?

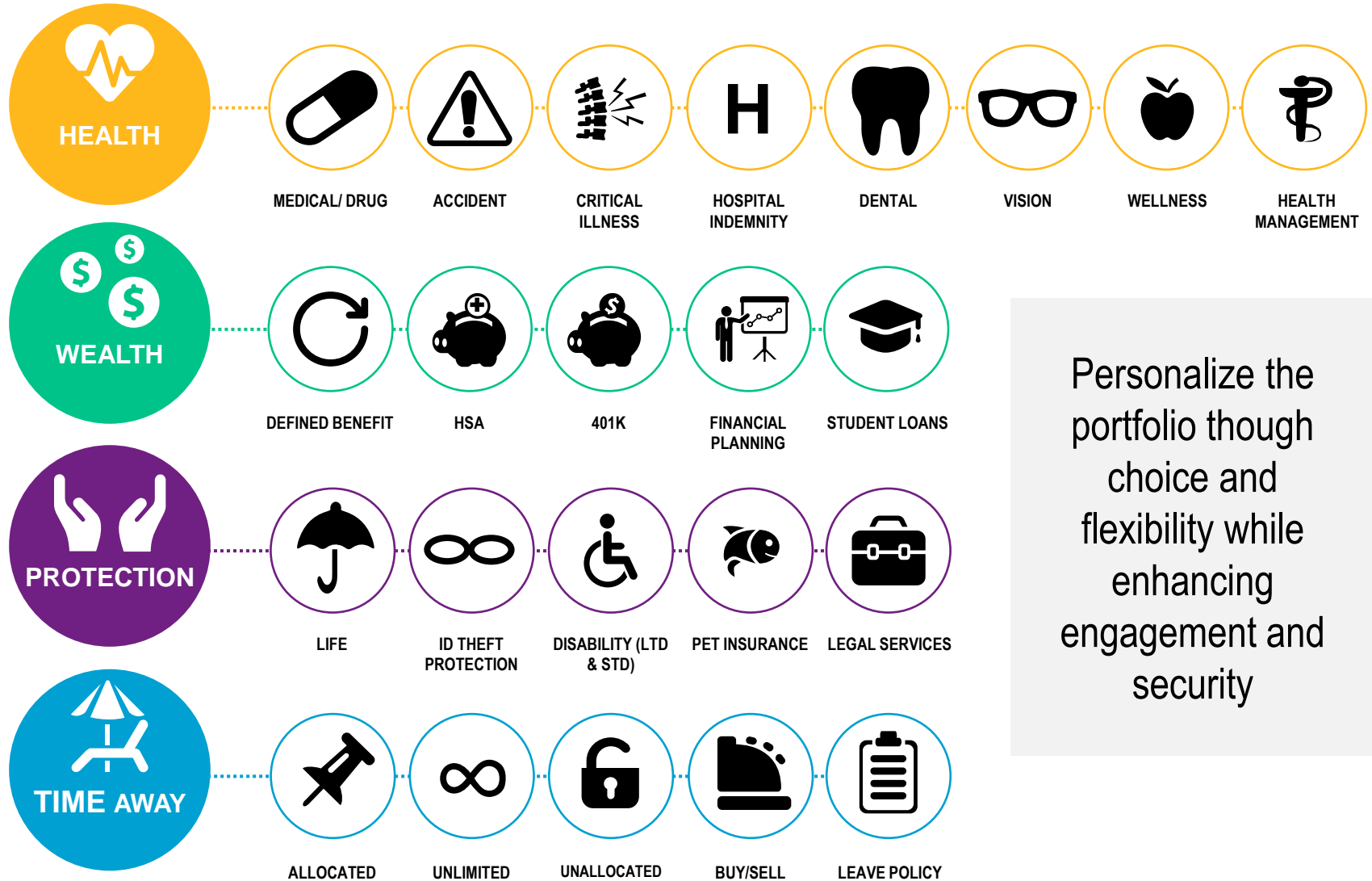


Sample: Companies with at least 1,000 participants.

Note: Percentage responding 4 or 5 on a 5-point extent scale.

Source: 2016 Willis Towers Watson Best Practices in Health Care Employer Survey.

# RETHINKING THE BENEFITS FRAMEWORK



Personalize the portfolio through choice and flexibility while enhancing engagement and security

# RETHINKING SUBSIDIES

What we subsidize conveys commitments and desired behaviors...our EVP and our brand

## Benefit Subsidies

- Core benefits, services or policies
- Election-based benefit awards
- Discretionary funds

## Behavior-based Penalties and Rewards

- Matching designs
- Tobacco
- Spousal coverage
- Health behaviors
- Point-of-care decision-making
- Company-determined default options

## Workplace

- Parking or transportation
- Food and beverage
- Onsite services
- Work spaces
- Workplace policies

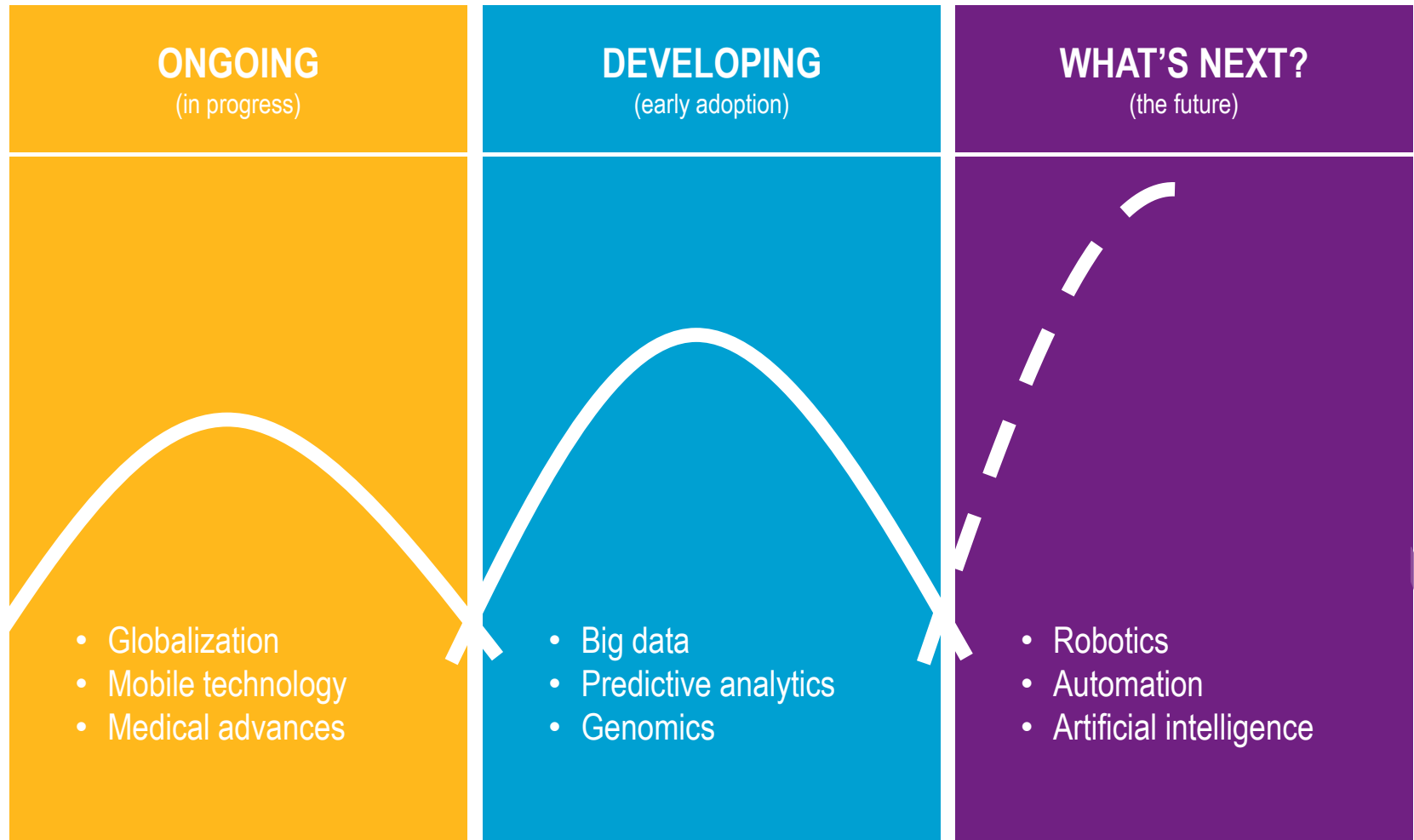
**Convey Alignment  
with Total Rewards strategy, EVP and Brand**

# SOME NEW TRENDS

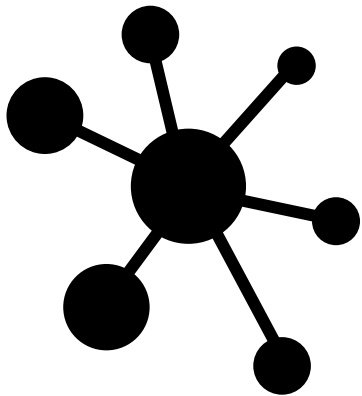


# TECHNOLOGY WAVE

The changes shaping HR and Benefits



# DATA DRIVEN DECISIONS



## Performance

Better detect top performers and segment participants. New insights on increasing engagement and productivity.

## Retention

Estimate participant' attrition risk. Estimate optimal rewards.

## Career progression

Evaluate links between L&D and performance. Identify efficient training activities and recommend to participants.

## Recruitment

Analyze applicant data to identify best candidates based on characteristics of current top performers.

## Financial wellness

Offer customized default benefit packages. Enhance decision-support and education.

## Health

Personalize well-being programs (wearables, sensors). Earlier disease detection.



### Data integration

Difficulty in integration of data in different formats

### Data overload

Big data does not imply good data

### Privacy issues

Breaches of privacy law and reputational damage

### Human judgement

Interpret the data in context

# PLATFORMS TO DELIVER HIGH-PERFORMING PROGRAMS

Enabling new ways to think about the benefits experience

## The private exchange concept



COST MANAGEMENT



PARTICIPANT EXPERIENCE



CHOICE AND FLEXIBILITY



PROGRAM EFFICIENCY



PRICE TRANSPARENCY & DC



RESPONSIVE BENEFITS

## Aggregate best in class smartphone apps



ACTIVITY TRACKING



NUTRITION



FITNESS



TELEMEDICINE



STRESS  
MANAGEMENT



COST  
TRANSPARENCY



WEIGHT  
LOSS



CHRONIC  
CONDITIONS



LAB TESTS



YOUR  
PROGRAM

# WHAT LIES AHEAD





## What Lies Ahead

- **Higher participant contributions**
- **More use of account-based benefits**
- **Increasing number of voluntary benefits**
- **Growing focus on well-being**
- **Expanded use of behavioral incentives**
- **Participant-specific default options**
- **New ways to deliver benefits**