Top Five Total Rewards Priorities for 2005

A Survey of Certified Employee Benefit Specialists

Eleventh Consecutive Year

Audit . Tax . Consulting . Financial Advisory.

For the sixth consecutive year, benefit specialists have identified the issue of controlling the cost of health care benefits as their Number One benefit priority. Serving as counterpoint to this ongoing challenge of managing rising health care costs is an increased tension between balancing cost containment and the attraction and retention of workforce talent.

Key Findings

As the Top Five Total Rewards Priorities Survey enters its second decade, employee benefit specialists continue to voice – in near unison – their opinion that controlling health care costs is the top benefit priority for employers in 2005. Overall, 90 percent of respondents identified this issue in their top five priorities, with 58 percent naming it as the number one priority.

Following are the top five total rewards priorities for employers in 2005:

- Controlling the cost of providing health care benefits to employees (90 percent)
- Ensuring the ability of the company's total rewards programs to attract, motivate, and retain the workforce talent needed for business success (56 percent)
- Addressing the willingness of employees to pay a larger portion of their benefit plan coverage (52 percent)
- Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of their benefits) (42 percent)
- Managing the cost of providing retirement benefits to employees (41 percent)

Top Five Employer Priorities for 2005

Total Rewards Priority	Percentage
1. Control health care costs	90%
2. Provide rewards programs that attract, motivate, and retain talent	56%
3. Address employee willingness to pay a larger portion of benefits coverage	52%
4. Increase employee responsibility for managing their own rewards budget	42%
5. Manage retirement benefit costs	41%

Cost Containment a Consistent Theme

Although the ability of rewards programs to attract, motivate, and retain needed business talent ranked as the second highest priority, the remainder of the top five priorities are financially or cost-related. In particular, the third and fourth top priorities focus on increasing employees' responsibility in the benefits arena in two ways: directly sharing costs and indirectly managing how they utilize their benefit programs. Closely following these issues is the concern for managing retirement benefit costs, rounding out the top five priorities with 41 percent of employers responding.

Supporting the number three benefit priority of addressing the willingness of employees to pay a larger portion of their plan coverage, 83 percent of employers have either increased employee cost-sharing in health and welfare programs during the last 12 months or plan to do so within the next 12 months.

The survey also reflects an increased emphasis on the employee's responsibility as a consumer of his or her company's benefit programs:

- Almost three-quarters (72 percent) of employers are placing increased emphasis on consumerism for employee health and welfare programs.
- Eighty-five percent of respondents have improved, or will focus on improving, employee communication and education efforts related to their rewards programs. In addition, 65 percent have recently provided, or will soon provide, employees with better tools to plan for their retirement needs. This suggests that companies are providing additional support to employees, recognizing the fact that they expect employees to increase their involvement in addressing their benefit needs – both directly through cost-sharing contributions and indirectly through better utilization of their benefit programs.
- Sixty-eight percent of employers have increased, or will increase, the use of employee self-service technology.
- Few employers (15 percent) are planning to reduce the number of health plan options available to employees during the next year.

New Focus on Attraction and Retention

Interestingly, this year's survey shows an increased tension between (1) balancing cost containment – a consistent theme in previous Top Five Priorities survey results – and (2) the attraction and retention of employees. This non-financial issue surfaced as the second highest ranked priority, with 56 percent of employers placing it among their top five priorities.

Other Key Findings

- Forty-one percent of employers are undertaking actions to better measure return on investment of their reward programs.
- Almost half the respondents are placing an increased effort on outsourcing benefit plan administration services.
- Although over one-half of respondents plan to redesign some aspect of their rewards programs, only 21 percent plan changes to their equity-based compensation plans.

Methodology and Demographics

This is the eleventh consecutive year in which members of the International Society of Certified Employee Benefit Specialists (ISCEBS) have been asked to identify their total rewards priorities for the coming year. The survey is developed and conducted by Deloitte Consulting LLP's Human Capital practice in partnership with the ISCEBS.

In conducting the survey, participants were asked to respond as representatives of their employer organizations.

For purposes of this survey, "total rewards" is defined as all compensation, benefits, perquisites, and any other direct or indirect payments made to employees.

In addition to ranking their employer's top five total rewards priorities, respondents were asked to identify actions they have taken relative to their organization's total rewards issues within the past 12 months or expect to take during the next 12 months, [checking all that apply]. These actions were grouped in the following nine categories:

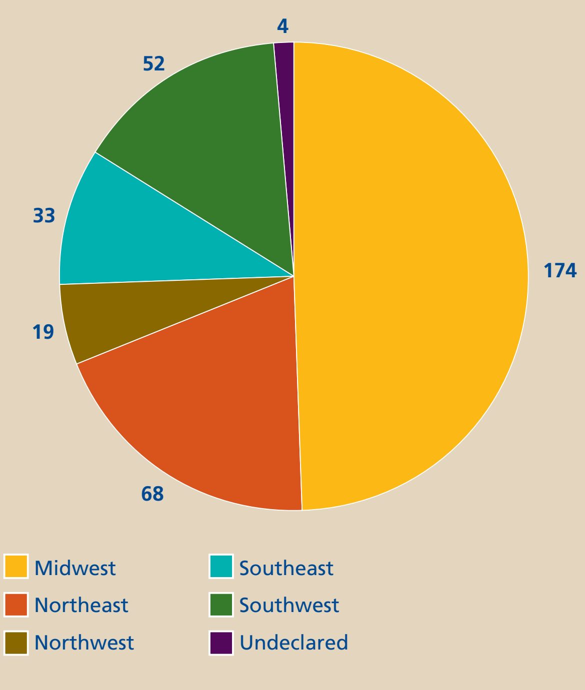
- Redesign some/all of compensation plans
- Redesign some/all of retirement plans
- Redesign some/all of health and welfare plans
- Restructure financing of some/all rewards programs
- Restructure administration of some/all rewards programs
- Increase employee communication/education surrounding rewards programs
- Improve governance and controls over some/all rewards programs
- Redesign some rewards programs to better align the interests of the employees and company
- Better measure return on investment of rewards programs

A total of 350 benefit specialists responded to this year's survey, representing all regions of the United States. In addition to geography, the survey asked respondents to identify their employer's primary industry. The results of geography and industry are captured in the following pie charts, with a few notable industry-specific trends noted below:

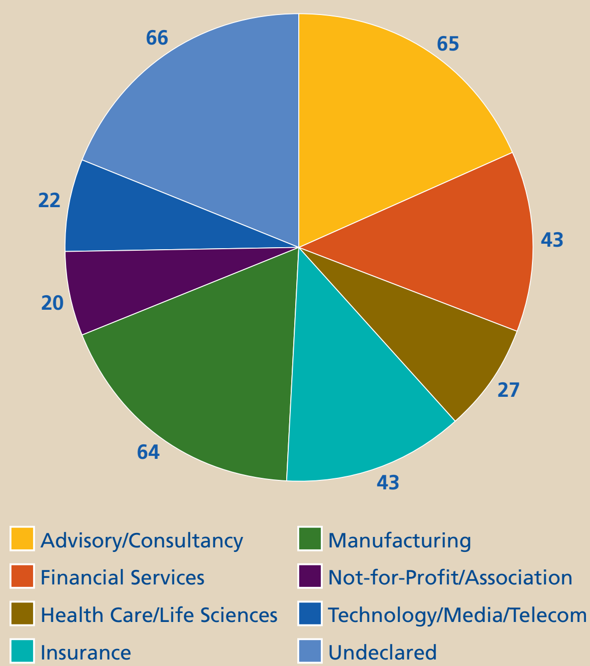
- **Non-profit employers.** Not surprisingly, non-profits show significantly more concern around cost increases and the ability of employees to absorb any increases that are passed along. In addition, they show little appetite for making ancillary changes (e.g., restructure financing, implement risk management techniques, employee self-service, outsourcing) that other industries are considering.

- **Technology/Media/Telecom (TMT).** One hundred percent of TMT respondents plan to increase employee communication and education around their total rewards programs. These employers also responded significantly higher around tightening governance and controls.

Respondent Distribution by Region



Respondent Distribution by Industry



Top Five Priorities – By Industry

(Ranked by the percentage of companies ranking each issue as one of their Top Five priorities)

Advisory/Consultancy

1. The cost of providing health care benefits to employees (97%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (56%)
3. The willingness of employees to pay for an increasing portion of benefit plan coverage (55%)
3. (Tie) Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (55%)
5. The cost of providing retirement benefits to employees (38%)

Financial Services

1. The cost of providing health care benefits to employees (89%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (61%)
3. The willingness of employees to pay for an increasing portion of benefit plan coverage (55%)
4. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (40%)
5. The cost of providing retirement benefits to employees (40%)

Health Care/Life Sciences

1. The cost of providing health care benefits to employees (71%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (61%)
3. The ability of our company to invest for growth while simultaneously meeting the financial obligations of our rewards programs (54%)
4. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (50%)
5. The willingness of employees to pay for an increasing portion of benefit plan coverage (46%)

Insurance

1. The cost of providing health care benefits to employees (98%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (51%)
2. (Tie) The willingness of employees to pay for an increasing portion of benefit plan coverage (51%)
4. The cost of providing retirement benefits to employees (47%)
5. The ability of our company to invest for growth while simultaneously meeting the financial obligations of our rewards programs (42%)
5. (Tie) Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (42%)

Manufacturing

1. The cost of providing health care benefits to employees (85%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (61%)
3. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (55%)
4. The willingness of employees to pay for an increasing portion of benefit plan coverage (52%)
5. The cost of providing retirement benefits to employees (40%)

Not-For-Profit/Association

1. The cost of providing health care benefits to employees (90%)
2. The willingness of employees to pay for an increasing portion of benefit plan coverage (79%)
3. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (63%)
4. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (54%)
5. The cost of providing retirement benefits to employees (52%)

Technology/Media/Telecommunications

1. The cost of providing health care benefits to employees (90%)
2. Impact of recent or proposed legislation/guidelines on our rewards programs (e.g., Sarbanes-Oxley/HIPPA/stock options accounting) (58%)
3. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (46%)
4. The willingness of employees to pay for an increasing portion of benefit plan coverage (44%)
5. Considering our Total Rewards programs holistically (on a more integrated basis) (40%)

Top Five Priorities – By Geography

(Ranked by the percentage of companies ranking each issue as one of their Top Five priorities)

Midwest

1. The cost of providing health care benefits to employees (89%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (57%)
3. The willingness of employees to pay for an increasing portion of benefit plan coverage (49%)
4. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (48%)
5. The ability of our company to invest for growth while simultaneously meeting the financial obligations of our rewards programs (40%)

Northeast

1. The cost of providing health care benefits to employees (93%)
2 The willingness of employees to pay for an increasing portion of benefit plan coverage (58%)
3 The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (57%)
4 The cost of providing retirement benefits to employees (53%)
5 The ability of our company to invest for growth while simultaneously meeting the financial obligations of our rewards programs (48%)

Northwest

1 The cost of providing health care benefits to employees (93%)
2 Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (67%)
3 The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (56%)
4 The willingness of employees to pay for an increasing portion of benefit plan coverage (50%)
5 Impact of recent or proposed legislation/guidelines on our rewards programs (e.g., Sarbanes-Oxley/HIPPA/stock option accounting) (44%)

Southeast

1. The cost of providing health care benefits to employees (95%)
2. The willingness of employees to pay for an increasing portion of benefit plan coverage (65%)
3. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of benefits) (60%)
4. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (50%)
5. The cost of impact of employee base pay (46%)

Southwest

1. The cost of providing health care benefits to employees (87%)
2. The ability of our rewards programs to attract and motivate and retain the talented employees we need to successfully run our company (60%)
3. The willingness of employees to pay for an increasing portion of benefit plan coverage (48%)
4. Increasing employee responsibility in managing their own rewards budget (i.e., becoming better consumers of health care) (48%)
5. The ability of our company to invest for growth while simultaneously meeting the financial obligations of our rewards programs (35%)