REPORT BACKGROUND

The annual Compensation, Retirement and Benefits Trends Survey is designed to reveal key trends across a full range of compensation, retirement, health and welfare benefits and employee rewards programs. The result is a comprehensive view of firms’ total employee rewards programs that is rarely available from a single source.

The 2013 survey includes information from more than 1,000 organizations across the country. Respondents span a range of industries, with the deepest penetration in manufacturing, not-for-profit, health care and professional services.

KEY DEFINITIONS:

Northeast  
New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont  
Middle Atlantic: New Jersey, New York and Pennsylvania

Midwest  
East North Central: Illinois, Indiana, Michigan, Ohio and Wisconsin  
West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota

South  
South Atlantic: Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia and West Virginia  
East South Central: Alabama, Kentucky, Mississippi and Tennessee  
West South Central: Arkansas, Louisiana, Oklahoma and Texas

West  
Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah and Wyoming  
Pacific: Alaska, California, Hawaii, Oregon and Washington

Note: Not all respondents provided demographic information

DISTRIBUTION BY INDUSTRY SECTOR

- Manufacturing: 15%
- Professional Services: 15%
- Not-For-Profit: 13%
- Healthcare: 13%
- Finance & Banking: 8%
- Retail: 5%
- Distribution: 5%
- Construction/Real Estate: 5%
- Technology: 3%
- Insurance: 3%
- Energy/Utility: 3%
- Transportation: 2%
- Education: 2%
- Government: 1%
- Other: 7%

DISTRIBUTION BY SIZE—FULL TIME EQUIVALENTS (FTEs)

- 50 or Fewer: 24%
- 51-200: 38%
- 201-500: 19%
- 501-1,000: 8%
- 1,001-5,000: 5%
- 5,000+: 6%

DISTRIBUTION BY REGION

- Midwest: 43%
- West: 25%
- South: 24%
- Northeast: 8%
EXECUTIVE SUMMARY

As the fragile economic recovery continues, employers face a difficult balancing act. They must simultaneously keep benefits costs in check while providing effective total rewards programs that attract and retain the best and brightest employees.

Over the past 12 months, employers have responded to this challenge by offering rewards strategies aimed at providing employees with more choices and opportunities to tailor their benefits to their specific needs. By allowing employees to customize their benefits packages, employers ensure that their organizations’ limited budgets are channeled to the savings and health/welfare products that employees value most. From an employee’s perspective, deciding how much to save in the company retirement plan and choosing health care programs in which to enroll are important responsibilities, requiring careful consideration.

In addition to providing more flexibility and choice, employers continue to focus on cost containment. Consistent with last year’s survey results, employers reported that “health/welfare costs” had the most significant impact on their total rewards decisions for 2013.

With costs top-of-mind, employers continued to make reductions to staff and benefits in 2013, although at a slower pace than in 2012. Roughly one in four employers (28%) cut overtime and two in 10 (19%) considered reducing staff, down from 33 percent and 25 percent, respectively, one year earlier. The percentage of employers who increased the employee’s share of health/welfare costs (17%) and reduced health/welfare benefits (4%) also continued to decline, down from 18 percent and seven percent, respectively, in 2012 and 24 percent and 10 percent in 2011.

FACTORS THAT HAD SIGNIFICANT IMPACT ON TOTAL COMPENSATION/REWARDS DECISIONS FOR 2013

<table>
<thead>
<tr>
<th>Factor</th>
<th>Implemented in Past 12 Months</th>
<th>Plan to Implement in Next 12 months</th>
<th>Considering Implementing at Some Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health/Welfare Benefits Costs</td>
<td>59%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>Corporate Performance</td>
<td>50%</td>
<td>31%</td>
<td>9%</td>
</tr>
<tr>
<td>Challenge of Retaining Key Employees</td>
<td>47%</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>Challenge of Attracting Key Employees</td>
<td>42%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Desire to Incent Employees</td>
<td>38%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Labor Costs</td>
<td>25%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Challenge of Engaging Key Employees</td>
<td>25%</td>
<td>1%</td>
<td>7%</td>
</tr>
<tr>
<td>Retirement Plan Costs</td>
<td>16%</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>1%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Looking ahead to 2014, employers remain wary of future economic conditions, with roughly one-third (32%) considering additional cost shifting to workers to cover health/welfare costs, up slightly from 30 percent last year. In keeping with the theme of shared responsibility, one in three employers plans to improve their wellness programs in 2014. Among those expecting to expand wellness offerings, nearly half (49%) anticipate providing an employee discount/credit for actively participating in these expanded programs.
COMPENSATION PRACTICES

The 2013 survey results demonstrate that employers are taking a strategic approach to total compensation, using numerous options at their disposal, including traditional base pay, short-term incentives, long-term incentives and other non-monetary rewards, such as professional development and leadership opportunities.

Average Base Salary Increases

Before the financial crisis, annual base salary increases averaged about 4.0 percent. In 2008, there were widespread declines, followed by modest increases in 2011 and 2012. Over the past 12 months, median salary increases for executive, managerial and salaried workers remained relatively stagnant around 3.0 percent. Median salary increases for union workers hovered below 2.0 percent.

Fully one quarter (25%) of employers did not give executives a pay raise in 2013. Executives who work for companies with 50 or fewer employees were more likely to not receive salary increases (37%) than those at companies with more than 5,000 employees (15%). Nearly 16 percent did not offer raises to employee groups below the executive level. However, even with salary increase budgets being limited and some organizations still freezing salaries, highest performing employees continue to be rewarded. Across all levels, high performers received an average increase of 4.8 percent, up from 4.0 percent last year.

Looking ahead to 2014, anticipated pay raises are on par with 2013. Two in 10 (20%) of the employers surveyed plan no pay raises for executives in 2014, and half as many (10%) plan to hold non-executive managerial salaries steady. Continuing a multi-year trend of stable median increases around 3.0 percent, budgets for median salary increases are flat across all employee categories except for union employees, while average budgets can vary by industry.

### BASE SALARY INCREASES ANTICIPATED FOR 2014 (Averages, as a percent of base salary, including salary freezes)

<table>
<thead>
<tr>
<th>Category</th>
<th>Executives</th>
<th>Salaried (Exempt)</th>
<th>Salaried (Non-exempt)</th>
<th>Hourly (Non-exempt)</th>
<th>Hourly (Union)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>2.7%</td>
<td>2.8%</td>
<td>2.5%</td>
<td>2.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Prof. Services</td>
<td>2.8%</td>
<td>3.1%</td>
<td>2.3%</td>
<td>2.6%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Finance/Banking/Insurance</td>
<td>3.2%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>3.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>2.0%</td>
<td>2.3%</td>
<td>1.8%</td>
<td>2.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.0%</td>
<td>3.0%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Not-For-Profit</td>
<td>2.8%</td>
<td>2.8%</td>
<td>2.8%</td>
<td>2.6%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

### STRUCTURE ADJUSTMENTS ANTICIPATED FOR 2014 (Averages, including zero percent structure adjustments)

<table>
<thead>
<tr>
<th>Category</th>
<th>Executives</th>
<th>Salaried (Exempt)</th>
<th>Salaried (Non-exempt)</th>
<th>Hourly (Non-exempt)</th>
<th>Hourly (Union)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>1.4%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>2.1%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Note: 2014 median salary increase budgets are anticipated to be 3.0% across all employee categories except union employees.
Pay for Performance

In addition to base pay increases, short- and long-term incentive plans continue to be an important form of total compensation. In 2013, roughly two-thirds of executives (65%) and salaried managers (64%) were eligible to participate in short-term incentive programs (e.g., annual bonuses, profit sharing) compared with 36% of salaried non-exempt, 43% of hourly non-exempt and nine percent of union employees. At almost every level, eligibility for short-term incentives was more prevalent at companies with more than 50 employees than at companies with 50 or fewer employees.

Overall, target incentives ranged from seven percent of base salary for non-exempt employees to 23 percent for executives. Maximum opportunities averaged 32 percent for executives and eight percent for non-exempt employees, with awards varying significantly by organization size. Many employers with 50 or fewer employees capped incentives at 20 percent for executives, while employees with more than 50 employees tend to set higher maximums, some above 100 percent of base salary.

Across all levels, short-term incentives were based on a number of factors. The most important measurement criteria for executives was organizational performance (89%), while for workers at other levels, individual performance was most important. The most commonly used measure of organizational performance was EBITDA, cited by 55 percent of respondents.

Long-term incentive programs were most likely to be reserved for executives (36%, up from 31% in 2011). Roughly half as many salaried non-exempt employees (16%) were eligible for these plans, as were fewer than 10 percent of employees at lower levels. Employers offered a variety of long-term incentives including: stock options (33%), performance units (25%) and stock appreciation rights (23%). Roughly half of employers (47%) who offer long-term awards had a vesting schedule of three years or less. An additional 12 percent had a vesting schedule of four years and 26 percent had five years.

Sales Performance and Incentives

Contributing to employer uncertainty, more than two-thirds (70%) of companies said that they missed some or all of their sales targets over the past 12 months. Despite this, only 16 percent made or planned changes to their sales compensation plans over the past 12 months to tighten alignment between strategic objectives and rewards. Two in 10 (20%) employers are considering changes for 2014; an additional 26 percent of the employers surveyed are unsure.

Verisight Compensation Consulting Group’s Analysis:

The strategy for managing “total compensation” continues to evolve due to economic uncertainty.

Employers are increasingly focused on flexibility and approaches aimed at recruiting, rewarding and retaining top performers. While salary increase budgets hover around 3.0 percent, the salary increase gap between the highest and lowest performers continues to widen, as employers reinforce desired performance. Additionally, use of short- and long-term incentives with performance measures aligned with strategic objectives are increasingly popular. These “strategic” compensation initiatives likely stem from employers’ desire to motivate employees with increasingly limited financial resources, which has been a recurring theme over the past couple of years.

To complement short-term performance, there has been an evolution in long-term incentives. While reserved primarily for executives, employers are migrating toward shorter vesting periods, diversification away from stock options as the sole/primary form of award and stronger linkages to organization-wide performance measures.

VESTING SCHEDULE FOR LONG-TERM INCENTIVE PROGRAMS

- 10+ years: 3%
- 7-9 years: 5%
- 6 years: 7%
- 5 years: 26%
- 4 years: 12%
- 3 years or less: 47%
RETIREMENT PLANS

As the economy continues to recover, a growing percentage of employers have reinstated matching contributions for qualified savings plans. Employees have responded with increased levels of participation in their retirement plans, demonstrating a heightened sense of shared responsibility.

Over the past 12 months, employers have also become more aware of their retirement plans’ comprehensive fee structures. One sign of this is the acknowledgement from many that they require assistance analyzing and understanding fee disclosure information. Six in 10 employers likewise believe that plan participants have a limited understanding of plan costs, suggesting that additional employee education may be necessary.

Plan Types and Investment Offerings

The results of this year’s survey are consistent with last year’s findings, with nearly all (96%) of the employers surveyed offering a defined contribution plan that provides for employee contributions. Among companies with 50 or fewer employees, the percentage of employers offering a defined contribution plan drops slightly to 88 percent.

Over the past 12 months, participation in these plans has increased, fueled at least in part by growth in employer matching contributions. In 2013, more than three in four (76%) employees made salary deferrals into their plans and 77 percent of employers offered matching contributions, up from 68 percent and 74 percent, respectively, in 2012.

In terms of investment vehicles, the majority of employers surveyed continue to offer mutual funds (95%) as well as other choices such as model portfolios (35%, down from 49% last year), brokerage windows (14%, unchanged from last year) and ETFs (16%, down slightly from 20% last year).

<table>
<thead>
<tr>
<th>INVESTMENT OPTIONS OFFERED</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>MUTUAL FUNDS</td>
<td>95%</td>
<td>92%</td>
<td>96%</td>
</tr>
<tr>
<td>MODEL PORTFOLIOS</td>
<td>35%</td>
<td>49%</td>
<td>--</td>
</tr>
<tr>
<td>ETFs</td>
<td>16%</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>BROKERAGE WINDOW</td>
<td>14%</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>COLLECTIVE FUNDS</td>
<td>10%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>INSURANCE FUNDS</td>
<td>7%</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>OTHER</td>
<td>5%</td>
<td>7%</td>
<td>--</td>
</tr>
</tbody>
</table>

Note: voids in data indicate questions that were not asked in previous years.

DEFINED CONTRIBUTION RETIREMENT PLANS AND EMPLOYEE CONTRIBUTIONS

*Do you offer a defined contribution plan, and if so, what percentage of eligible employees contribute?*

- YES 96%
- NO 4%
- EMPLOYEE CONtributes 76%
- EMPLOYEE DOES NOT CONTRIBUTE 24%
Employers also continue to offer participants a wide variety of investment options, including cash, fixed income, equity, asset allocation and specialty funds. Consistent with market trends, employers migrated toward active bond funds and domestic equity funds (indexed and active) in 2013. We saw fewer standalone specialty options such as commodities, precious metals and real estate, leaving those areas to be addressed through the plans’ asset allocation options. More employers also offered balanced funds (61% versus 45% in 2012), while slightly fewer offered managed accounts (30% versus 38% in 2012) and lifestyle accounts (20% versus 30% in 2012).

There was a shift toward target date funds (55% versus 44% in 2012) and away from stable value funds (9% versus 17% in 2012) as the qualified default investment alternative (QDIA).

QDIA CHOICES IN 2013 AND 2012

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Date</td>
<td>53%</td>
<td>44%</td>
</tr>
<tr>
<td>Balanced</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Managed Accounts/ Model Portfolio</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>5%</td>
<td>9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>32%</td>
<td>30%</td>
</tr>
<tr>
<td>Stable Value/GIC</td>
<td>9%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Plan Cost Analysis

When it comes to evaluating retirement plan offerings, the cost of investments – i.e., fees – topped the list of employer criteria. Nearly two-thirds (63%) of survey respondents cited cost of investments as one of their top three concerns.

MOST IMPORTANT FACTORS WHEN EVALUATING RETIREMENT PLAN OFFERINGS

<table>
<thead>
<tr>
<th>Factor</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Investments (Mutual Fund Management Fees)</td>
<td>63%</td>
<td></td>
</tr>
<tr>
<td>Cost of Services (Recordkeeping, Compliance and Administration, Trust and Custody)</td>
<td>57%</td>
<td></td>
</tr>
<tr>
<td>Level and Quality of Service</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Number of Investment Options</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Availability of Specific Investment Options</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Reputation of the Provider</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Recommendation of Advisor</td>
<td>17%</td>
<td></td>
</tr>
</tbody>
</table>
When employers were asked if they had calculated total plan costs (including investments and record keeping), many indicated they do not fully understand the costs. Nearly one-third (31%) of employers said they didn’t understand plan costs after receiving the disclosures, up from just 16 percent when surveyed in 2012 in the midst of the initial disclosure period. In general, the smaller the employer, the higher the need for assistance in determining total costs. Nearly four in 10 (38%) employers with 50 or fewer employees said they do not fully understand their plan costs, compared with only eight percent of employers with more than 5,000 employees.

There was much more consistency among employers of all sizes when it came to their perspective on how well participants understand cost. Overall, 60 percent of employers believe that plan participants have a very limited understanding of plan costs, suggesting that additional employee education may be necessary regarding how costs are impacted by investment choices.

Consistent with these findings, fewer than half (41%) of the employers surveyed said they currently use an outside advisor or consultant for cost analysis or management. Among employers with 50 or fewer employees, this percentage falls to 33 percent. Not surprisingly, this finding correlates with the higher percentage of smaller employers reporting that they do not fully understand plan costs.

### UNDERSTANDING OF RETIREMENT PLAN COSTS

<table>
<thead>
<tr>
<th></th>
<th>YES, BUT DIDN’T REALIZE COSTS</th>
<th>YES, UNDERSTOOD COSTS</th>
<th>NO, STILL DON’T UNDERSTAND COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7%</td>
<td>62%</td>
<td>31%</td>
</tr>
</tbody>
</table>

After reviewing fee disclosures from service providers, have you calculated the total cost of your plan?

<table>
<thead>
<tr>
<th>NUMBER OF FTES</th>
<th>50 OR FEWER</th>
<th>51-200</th>
<th>201-500</th>
<th>501-1,000</th>
<th>1,001-5,000</th>
<th>5,001+</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTILIZES OUTSIDE ADVISOR/CONSULTANT</td>
<td>YES</td>
<td>76%</td>
<td>80%</td>
<td>84%</td>
<td>86%</td>
<td>91%</td>
</tr>
<tr>
<td></td>
<td>NO</td>
<td>24%</td>
<td>20%</td>
<td>16%</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>RETIREMENT PLAN SERVICES</td>
<td>PLAN DESIGN</td>
<td>59%</td>
<td>63%</td>
<td>69%</td>
<td>76%</td>
<td>72%</td>
</tr>
<tr>
<td></td>
<td>COST ANALYSIS/MANAGEMENT</td>
<td>33%</td>
<td>40%</td>
<td>48%</td>
<td>62%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>ERISA 3(21)</td>
<td>22%</td>
<td>31%</td>
<td>41%</td>
<td>52%</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>ERISA 3(38)</td>
<td>11%</td>
<td>8%</td>
<td>7%</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>INVESTMENT ADVISOR WHO IS NOT A FIDUCIARY</td>
<td>32%</td>
<td>34%</td>
<td>27%</td>
<td>14%</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>VENDOR SELECTION</td>
<td>16%</td>
<td>28%</td>
<td>33%</td>
<td>38%</td>
<td>44%</td>
</tr>
</tbody>
</table>
Advisors and Consultants

Although employers may not be using third-party advisors or consultants to their full capacity for plan cost analysis, they do understand the importance of third parties for overall plan decisions. Consistent with last year’s findings, employers identified “fiduciary liability” as the item that caused the most concern about their retirement plan. Overall, 82 percent of employers use outside advisors in some capacity. Among those who do, three-quarters (77%) hire them for plan design and an additional four in 10 engage them for investment advisory co-fiduciary services (40%) and vendor selection (35%). Respondents with 50 or fewer employees are less likely to hire outside advisors.

Automatic Enrollment and Education

This year has seen much congressional debate regarding universal retirement plans and increased use of automatic enrollment and escalation features. Yet, the number of employers using automatic enrollment remains fairly stable, down only slightly from last year. More than one-third (35%) of employers reported using automatic enrollment in 2013, with an additional two percent planning to add this feature in 2014 and 11 percent considering adding it in the future. Among those employers with automatic enrollment, 27 percent have an automatic escalation feature.

When it comes to participant education and guidance, on-line access is the dominant delivery method. In 2013, more than three-quarters of employers (77%) took advantage of technology to provide participants with investment advice through “do-it-yourself” Internet options, compared to 67 percent in 2012. For those participants comfortable with education resources in lieu of advice, there were more plans providing on-line education (85% versus 81% in 2012.)

Verisight Retirement Consulting Group’s Analysis:

Consistent with the survey data, the plan sponsors with whom Verisight retirement experts work see fiduciary responsibility as their top retirement plan concern. From this fiduciary perspective, employers consider plan costs and quality of service to be the most important factors when evaluating their retirement programs.

With the widespread practice of fees being paid from the investment funds to retirement service providers, it is not surprising that 41 percent of plan sponsors use an outside advisor/consultant to assist them in analyzing plan costs. Also as expected, we see that smaller employers, who are less likely to use outside consultants for this assistance, are also more likely to acknowledge they do not understand their fees even after receiving all the detailed information required in the Department of Labor disclosures. This suggests that merely having the information is only one step.

Employers must take action to analyze the fee information provided, and many will need assistance from outside professionals.

From the employees’ perspectives, the days of relying solely upon their employer’s pension plan for their retirement needs are a thing of the past. Employees recognize that they must assume responsibility to save for retirement, and with the increased access to education, they are more aware of the advantages of directing those savings through a company-sponsored retirement plan. This awareness, along with the incentive provided from more employers making matching contributions, has fueled the increase in the number of employees actively deferring.

It appears that both employers and employees are gaining more confidence in making smart decisions about their retirement plans.
HEALTH AND WELFARE BENEFITS

Over the past several years, rising benefits costs, particularly health insurance, have been a major concern for companies across industries and sizes. Escalating premiums have resulted in more cost-sharing with employees, an uptick in wellness programs and a surge in account-based health plan options, such as High Deductible Health Plans (HDHPs) paired with Health Savings Accounts (HSAs) and Health Reimbursement Accounts (HRAs).

Last year, employers had many unresolved questions regarding the Patient Protection and Affordable Care Act (PPACA). This year, some of those questions have been answered, though others remain unclear; however, the vast majority of employers expect to continue group coverage over the next 12 months.

Over the next year, employers anticipate significant changes to plan design, premiums, surcharges and co-pays, reflecting the cross-sector reality that (for most employers) health care costs continue to rise more quickly than revenue.

Health Insurance Options

By far, Preferred Provider Organization (PPO) plans remain the most widely available health plan and are offered by nearly three-quarters (74%) of all employers. They also continue to be the most popular among employees, with 47 percent selecting this plan option in 2013. HDHPs continue to grow in popularity and remain the second-most popular option, with 43 percent of employers offering this type of plan, compared to 39 percent in 2012. Employees have shown a slight increase in the selection of HDHPs, up to 22 percent in 2013, compared to 16 percent last year. Health Maintenance Organization (HMO) plans have declined in popularity, offered by just 29 percent of employers, compared to 36 percent in 2012 and 38 percent in 2011. Employee selection of HMOs has also shown a slight decrease, down to 31 percent in 2013, compared to 35 percent last year.

Cost-Sharing

Concerns by employers regarding rising benefits costs are well-warranted, as 86 percent of employers saw an increase in health premiums in 2013, up from 79 percent in 2012. Half (50%) of survey respondents said their premiums increased by eight percent or less, and more than one-third (36%) reported increases of more than eight percent. Employers addressed these rising costs through increased cost-sharing with employees, mainly in the form of increased contributions, higher deductibles, co-pays, wellness programs and various other changes to plan design.

In 2013, average monthly premiums for family coverage totaled $1,248, with employees contributing 36 percent of the premium. Employee-only coverage premiums averaged $506, with employees contributing 23 percent of the premium.

In order to address premium costs, one in four (27%) employers reported that they raised the employee portion of premiums over the past 12 months, down only slightly from 30 percent the year prior. An additional one in four (26%) raised employee deductibles...
and 20 percent raised employee co-payments/co-insurance and implemented wellness programs over the past 12 months. Two in 10 (21%) implemented consumer-driven health options.

Employers with 50 or fewer employees have been less likely than their peers to take cost-sharing actions over the past 12 months. Among this segment of employers, only 14 percent raised premiums, 19 percent increased deductibles and 14 percent raised co-payments or co-insurance. By contrast, 36 percent of companies with 1,000 or more employees raised premiums, 36 percent raised deductibles and 27 percent raised co-payments or co-insurance.

**Forecast: Cost-Sharing to Intensify**

In the wake of health reform, employers anticipate further cost-sharing in 2014. One-third (35%) of employers expect to raise the employee portion of the premium next year, up from 27 percent who raised premiums in 2013. Additionally, 23 percent expect to raise co-payments, up from 20 percent of employers who raised co-payments in 2013. A small percentage of employers (5%) expects to discontinue/place a surcharge on dependent benefits.

Consistent with trends over the past year, expectations for additional cost-sharing are lowest among companies with 50 or fewer employees, with almost two in 10 (19%) of these employers expecting to raise employee premiums, compared with 53 percent of respondents with more than 1,000 full-time employees (FTEs). One-third (33%) of employers with more than 1,000 FTEs anticipate an increase in deductibles and 32 percent plan to raise co-payments, compared to 13 percent and 12 percent of employers with 50 or fewer FTEs. Additionally, 17 percent of all companies expect to offer consumer-driven health care options, while 12 percent of companies with 50 or fewer FTEs plan to do the same.

**Wellness Benefits**

Consistent with last year, most employers plan to make no changes in 2014 to dental, vision, life insurance, short-term disability and long-term care benefits.

However, 30 percent expect to increase wellness programs, giving employees new ways to take an active role in their health and overall wellness. Among those employers currently offering wellness programs, seven in 10 (71%) provide disease management/wellness educational programs, 66 percent provide health risk assessments and 56 percent provide group wellness activities. Programs such as biometric screening, tobacco cessation and health coaching are much more prevalent at companies with more than 200 FTEs. However, weight management programs, health risk assessments, educational programs and group wellness activities are popular across companies of all size. In terms of incentives to encourage participation, two-thirds (63%) of employers offer raffles/giveaways, while roughly half (49%) offer discounts/credits for participation.
Health Reform

Despite cost-sharing with employees, the dust has begun to settle on health care reform, allowing employers to be more confident in their offerings. Eight in 10 (82%) employers plan to continue group coverage over the next 12 months, up from 70 percent last year. Only 14 percent of employers remain unsure, down from 26 percent in 2012. A small percentage of employers (5%) expects to pursue insurance via an exchange.

Cost, however, remains top of mind for employers, with 80 percent of 2013 respondents citing cost as the most important factor in determining how to respond to health care reform. The second-most important factor cited by respondents is providing the best health care plan for employees (52%), followed by waiting-and-seeing how competitors respond (41%), regulatory complexity (32%) and meeting minimum coverage requirements (28%). Only 9 percent of survey respondents expect to increase the number of employees working fewer than 30 hours per week due to the health care reform requirement to offer health insurance to all full-time employees (30+ hours per week), while an additional 13 percent are unsure if they will add or shift to more part-time staff.

Verisight Health and Welfare Consulting Group’s Analysis:

Health care costs continue to increase at a rate two to three times inflation, and employers continue to look for strategic ways to lower costs and improve outcomes. Unfortunately for employees, the cost burden has shifted to them through increased contributions and higher point-of-care cost. Employees are now, more than ever, becoming much more involved in the direction, cost and delivery of their health care.

In keeping with this trend, employers have moved away from HMO plans (which haven’t proven cost effective) and toward High Deductible Health Plans (HDHPs). These high-deductible plans put more responsibility on employees, encouraging them (at least in theory) to make more cost-conscious decisions about their treatment options.

This shift toward employee responsibility extends beyond cost-sharing. Employees are now being encouraged (and sometimes mandated) to take a much more active role in their overall health and well-being via employer-sponsored wellness programs.

In the wake of new health care legislation (PPACA), most employers have decided to continue offering group insurance to full-time employees, at least for the next 12 months. While some companies have announced their decision to discontinue employer-sponsored health coverage for part-time employees — directing them to the public health exchanges for coverage -- more than eight in 10 survey respondents expect to continue coverage for full-time employees during the next plan year.

Longer-term, most respondents are taking a wait-and-see approach, with 80% of employers reporting that their decisions will be shaped by many factors, among them: cost (80%), providing the best care for employees (52%), competition for labor (41%) and regulatory complexity (32%).
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