



Aon Consulting

**2006 National Employee  
Benefits Trends Survey Findings**

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March 2006

This document is designed to provide authoritative and accurate information. However, it is not a substitute for legal advice. Therefore, if you need advice on which you can rely, seek guidance from your consultant or legal advisor.

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## Aon Consulting's 2006 National Employee Benefits Trends Survey: Summary and Our Perspective

### Introduction

In January 2006, Aon Consulting conducted a survey of more than 1,000 employers in the United States to examine 2006 employee benefits trends and to determine what plan design decisions employers will be making for their 2007 benefit plans. The survey focused on four areas of concern to employers – health care, retirement, communication, and outsourcing – as they continue to struggle with increasing benefits costs, recruiting and retaining top talent, and developing a committed workforce. This report of the 2006 survey results addresses the following questions and offers Aon's perspectives:

- What are the trends in medical plan design, employer/employee costs, and vendor services? Is consumerism taking hold?
- What type of retirement benefits are employers offering, and are employees adequately preparing for retirement?
- How are employers communicating with employees and on what topics?
- What types of HR functions are employers outsourcing and what has their experience been?

### Participant Demographics

One thousand and seventy-one respondents participated in Aon Consulting's 2006 *National Employee Benefits Trends Survey*. The response rate allows for a 95% confidence interval of +/- .075. The following is a profile of respondents:

- Sixteen percent of the respondents represented organizations with more than 5,000 employees, 44% represented organizations with 501 to 5,000 employees, and 40% were from organizations with 500 or fewer employees.
- The following industries had the highest level of participation: manufacturing (19%), professional services (17%), health care (12%), and state and local public sector (10%). There was also strong participation from many other industries, including technology, retail, transportation, and food services.
- Organizations from all regions of the United States participated.
- The respondents were largely HR or benefits managers responsible for compensation and benefits for their organizations.

## Trends in Health Care Benefits

The 2006 benefits survey indicates that employers are implementing aggressive plan design changes within their traditional medical plans, as well as promoting health care consumerism by their employees. Employers are asking employees to take a more active role in their health care spending decisions.

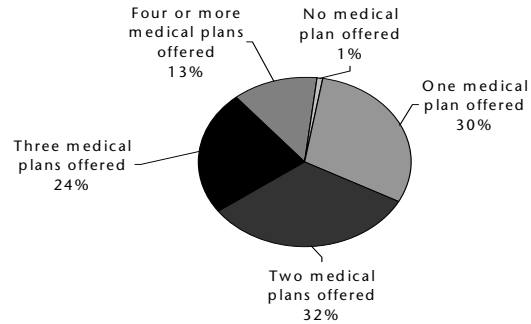
Respondents to the survey typically offer more than one medical plan option to their employees:

- 32% offer two medical options
- 37% offer at least three medical plans from which employees can choose

With respect to type of plan:

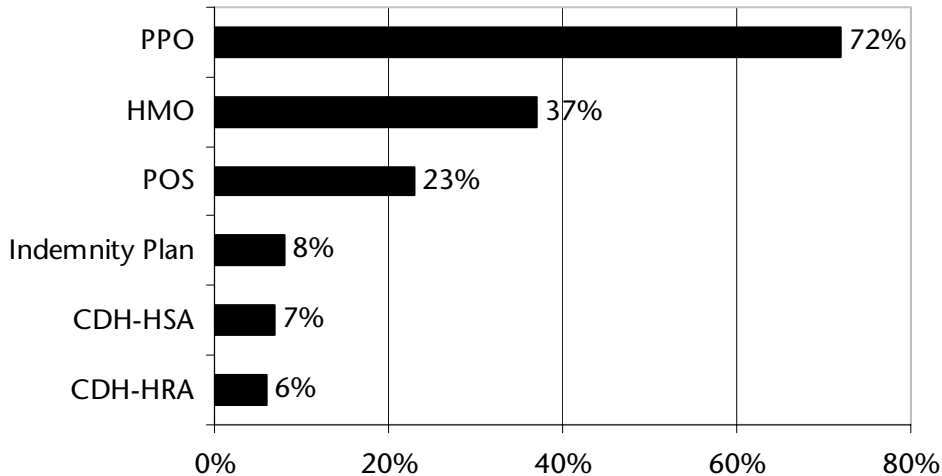
- 72% percent of employers offer a PPO (Preferred Provider Organization)
- 37% offer an HMO (Health Maintenance Organization)
- 23% offer a POS (Point of Service) plan
- 13% have implemented a CDH (Consumer Driven Health) plan. Of those employers that have introduced a CDH plan, Health Savings Accounts (HSA) and Health Reimbursement Arrangements (HRA) comprise almost equal shares.

**Number of Medical Plans**  
Please indicate the number of medical plans your organization currently offers your benefit-eligible employees.



## Types of Medical Plans

Please indicate which types of medical plans your organization offers to your typical benefit-eligible employee. (Indicate all that apply.)



Numbers will exceed 100% because survey participants were able to choose multiple responses.

While most of the survey respondents offer multiple medical plan options, the majority of employees choose coverage under a PPO plan. Only 19% of respondents report that an HMO covers the majority of employees.

**Aon Perspective**

After 25 years of HMOs and PPOs, the managed care era is coming to an end. We are now in the sixth year of the consumer driven health care movement. While still early in its evolution, the financial and employee satisfaction results have been very positive. We expect employers to continue to adopt CDH plans in 2006 and beyond. We estimate there are approximately six million Americans currently covered by CDH plans, and this number will double to 12 million in 2007.

After implementing plan changes, 66% of employers experienced a 10% or less health care cost increase. Of those employers that anticipated a 20% or higher cost increase in 2006, almost half were able to reduce these increases to below 20% through plan design changes.

The 2006 median medical plan employer subsidy for survey respondents is 80% for employee-only coverage and between 71% and 79% for family coverage. Only 13% of the respondents fully subsidize employee-only coverage and only 3% fully subsidize family coverage.

**Health care costs – Who’s paying?**

Employers are beginning to experience less of an increase in their year-over-year health care costs. Without making changes to their benefits package, 47% of employers expected a cost increase of less than 10% in 2006. This is a significant change over the past few years, where health care costs were rising at double-digit rates every renewal period.

Employers and employees are paying the following monthly amounts for medical coverage. (These figures represent costs associated with the medical plan identified by the survey respondents as covering the majority of employees in their organization.)

**Monthly Medical Costs**

<b>Plan Coverage</b>	<b>Median Monthly Employee Contribution</b>	<b>Median Monthly Employer Contribution*</b>	<b>Total Monthly Cost*</b>
Employee Only	\$50	\$291	\$341
Employee + One	\$137	\$553	\$690
Employee + Spouse	\$147	\$555	\$702
Employee + Child	\$134	\$552	\$686
Employee + Children	\$166	\$697	\$863
Family	\$203	\$777	\$980

\*Total monthly cost was determined by dividing the COBRA amounts in question 7 (see page 20) by 1.02%.

Monthly employer contribution numbers were derived by subtracting the monthly employee contribution from total monthly cost.

The annual increase in the cost of health care has driven employers to seek innovative cost-control solutions. In 2006, the most commonly implemented cost-control features include: disease management (37%); conducting a vendor search to ensure competitive rates (36%); enabling Internet- or intranet-accessed health care tools (36%); and developing wellness communication campaigns (32%).

The cost-control strategies generating the greatest interest for implementation in 2007 are: establishing a wellness communication campaign (26%); conducting a vendor search to ensure competitive rates (24%); health risk appraisals (21%); and implementing a CDH plan (20%).

In addition, when asked about a formal strategy to keep employees healthy and productive, more than 63% of respondents report either having one or are considering one for the future.

**Aon Perspective**

Most employers appreciate the relationship of employee health status to medical costs. An increasing number of employers understand that chronic illness accounts for a high proportion of direct medical costs and indirect costs associated with absence and work impairment (“presenteeism”). Consequently, more employers seek to coordinate medical, disability, and workers’ compensation service delivery and policies to improve worker productivity and contain costs. Improved data analytics and predictive modeling which make it possible to pinpoint interventions to maximize return on investment, aid these efforts. During the next few years, we anticipate increasing demand for integrated health and productivity programs focused on improving employee health status.

**How satisfied are employers with their medical claims administrator?**

Based on experience with their current medical claims administrator, employers are most impressed with the following administrators. (Note: The top two administrators shown below in each category received the highest scores, after excluding administrators rated by less than 5% of the respondents.)

Category	Administrator
Account management	CIGNA, TPA
Adequacy of provider network	BCBS (other than Wellpoint/Anthem BCBS)
Cost effectiveness of administration fees	TPA, Aetna
Customer service	Wellpoint, TPA
Flexibility in meeting employer needs	TPA, Aetna
Plan savings from provider discounts	Wellpoint, BCBS and TPA (same scores)
Plan savings from utilization and disease management	Aetna, Wellpoint
Usefulness of claims reports	TPA, CIGNA
Usefulness of organization's web site	Aetna, United

Answers for BCBS and TPA represent multiple administrators.

The three most frequently used CDH plan administrators are independent third-party administrators, Aetna, and Definity/United Healthcare.

For those employers who have implemented a CDH plan, the plan features that have met or exceeded expectations for over 75% of respondents include: controlling health care costs through reduction in utilization; controlling health care costs through provider discounts; encouraging

employee consumerism; providing effective health care tools and information to employees; and communicating how the plan works to employees.

**Retiree health – What impact has Medicare Part D had on employers?**

Employers of all sizes have addressed the implementation of Medicare Part D, which became effective January 1, 2006. While Medicare Part D offers cost relief for some companies, there is no “one size fits all” strategy concerning this prescription drug benefit for retirees. Employers were faced with numerous options, including retaining existing retiree coverage, offering modified retiree coverage, or offering no retiree coverage. A tailored communication campaign to retirees was critical for employers once they decided how to address Medicare Part D.

The majority of survey respondents (76%) indicated they do not subsidize retiree coverage or drug benefits for retirees over the age of 65. Of those respondents who are subsidizing retiree coverage,

54% are keeping some form of self-insured drug benefit for retirees and applying for a government subsidy under Medicare Part D.

**Other benefits**

In addition to medical benefits, many employers offer employees dental, group-term life insurance, and long-term disability insurance:

- Dental coverage is offered by 98% of the respondents, and 83% of the dental plans have some amount of employer subsidization.
- Thirty-six percent of employers offer subsidized life insurance at one-times pay and 26% offer subsidized life insurance at two-times pay.
- Thirty-five percent of employers fully subsidize a long-term disability program that provides for 60% of pay for salaried or exempt employees, and 27% also subsidize the same benefit for hourly or non-exempt. Sixteen percent of respondents do not offer any employer-subsidized coverage for long-term disability.

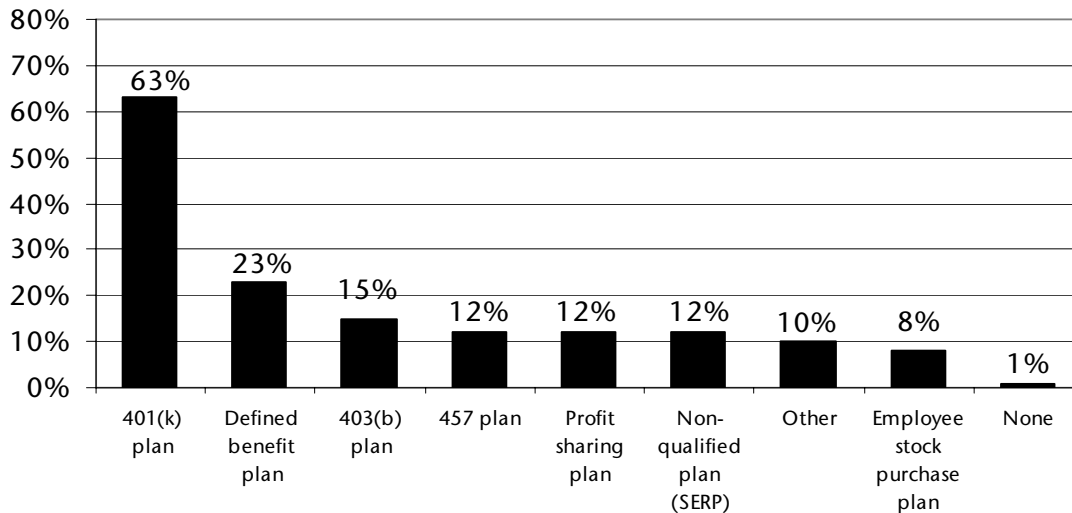
## Trends in Retirement Plans

An organization's retirement program is a significant tool employers can use to attract and retain employees. The data from the *2006 National Employee Benefits Trends Survey* show that 99% of organizations offer a retirement program. The data also reveal that, as with health care programs, the trend is to promote employee engagement and consumerism. With the prevalence of defined contribution plans, employees are more frequently confronted with decisions about how much, and where, their money is invested for retirement.

- 90% of employers offer a defined contribution plan, either a 401(k), 403(b), or 457 plan
- 23% offer a defined benefit (pension) plan
- 12% offer a profit sharing plan
- 12% offer a non-qualified plan (SERP)
- 8% offer an employee stock purchase plan

### Types of Retirement Plans

What retirement plans does your organization currently offer?  
(Indicate all that apply.)



Numbers will exceed 100% because survey participants were able to choose multiple responses.

### Aon Perspective

Defined contribution plans continue to have a broad appeal, with many organizations looking to increase investment options and offer alternative investments. Defined benefit plans are steadily being frozen or converted to defined contribution plans. With the potential for more stringent funding and accounting rules for defined benefit plans, we think this trend will accelerate.

A majority of employers responded that they are not planning to make significant changes, or will only make occasional changes, to their current retirement plan design.

**Aon Perspective**

Modifications to plan design typically are driven by regulatory changes or to accommodate a change in vendors or administration. Proposed pension reform legislation could impose much tougher funding requirements on defined benefit plans, further accelerating the trend of employers freezing or terminating their plans. Additionally, the pension reform legislation would significantly alter many of the current rules for defined contribution plans, including automatic enrollment, investment education, rollovers, and vesting.

Many organizations that offer both a defined contribution and defined benefit plan are looking at total retirement outsourcing or “DB/DC bundling.” This method provides a way to meet plan participants’ needs for more personalized total retirement information while decreasing the administrative load of managing multiple retirement plans. With bundling, one vendor, or an alliance, provides all services to the plans leading to simplification, reduced costs, and value-added services, such as participant education options that look at the entire retirement picture offered by the plan sponsor. Survey respondents who are considering bundling most often cite the following reasons: simplified data submission process for both plans (21%); reduction in vendor fees (19%); and enhanced participant website/phone support for both plans (19%).

**Aon Perspective**

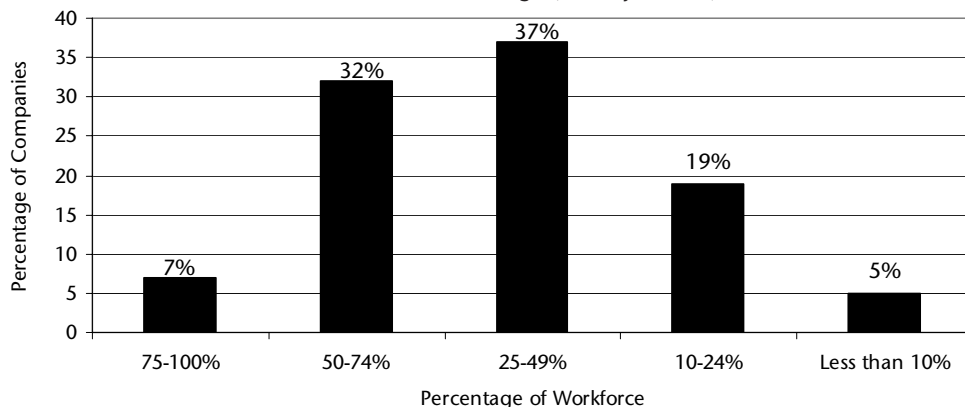
We expect significant growth in the trend towards bundled DB/DC arrangements during the next several years. This mirrors similar trends relating to outsourcing plan administration for other employee benefits and human resource functions. When considering a bundling arrangement, plan sponsors should insist on full and open disclosure of all plan-related costs, including revenue derived from investment funds. Access to a flexible investment platform can facilitate compliance with fiduciary responsibilities. Appropriate participant education and retirement planning services should be included as part of any bundling arrangement. Retirement planning has become a critical concern for many plan participants.

**Are employees preparing adequately for retirement?**

As the swell of Baby Boomers moves toward retirement age, many are realizing they will need to work longer than they expected because they do not have enough retirement income to maintain their pre-retirement standard of living. Employers are responding by reviewing their plan design and examining how it addresses retirement adequacy. Thirty-nine percent of employers believe that more than half of their employees will not have enough income to retire at a reasonable age (62-65 years of age).

**Retirement Adequacy**

What percentage of your workforce is likely not to have enough income to retire at a reasonable age (62-65 years old)?



With traditional pension and retiree benefits decreasing, defined contribution plans will play a more significant role in funding retiree health care costs and living expenses. While nearly 85% of employers contribute to their defined contribution plan, 26% believe that less than half of eligible employees are participating in the plan.

Survey data show that 84% of employers are offering at least 10 investment options in their defined contribution plan design. Nearly 81% of employers believe their employees understand to only some extent how to invest their defined contribution plan assets.

### **Aon Perspective**

Investment choices are one of the most important features of defined contribution plans. Yet, the vast majority of employees appear unprepared to determine their asset allocation strategy and manage this responsibility. The use of lifestyle or lifecycle funds and managed accounts is increasing. These options can be effective for participants who are intimidated by so many choices and for plans with automatic enrollment designs.

For employers, encouraging employees to participate fully in the retirement benefits that are offered to them is a priority. Seventy-six percent of employers view retirement education as important, very important, or absolutely critical. Employers are providing employees more information about their retirement options through resources such as web-based investment education tools (88%), advisor-based retirement planning tools (58%), and personalized total rewards statements (45%).

### **Aon Perspective**

Plan sponsors, concerned about fiduciary liability and risk, must walk the fine line between offering educational tools and offering advice. Nationally, Aon sees employers looking more and more to third-party, independent advisors for assistance in providing investment advice to their employee population. Plan sponsors should evaluate the various resources that can be offered (including vendors that will assume participant investment and allocation decision making) and determine what they are most comfortable with from a fiduciary perspective, as well as what would work best for participants. Congress is now considering various legislative changes that would, if enacted, make it easier for outside investment managers to also offer investment advice.

## Trends in Employee Communication

The best compensation, benefits, and HR programs produce little return on investment if they are unknown, unappreciated, or not understood. The critical link between plan design and employee understanding is a communication strategy that ties employee needs to the HR program and business goals – and vice versa.

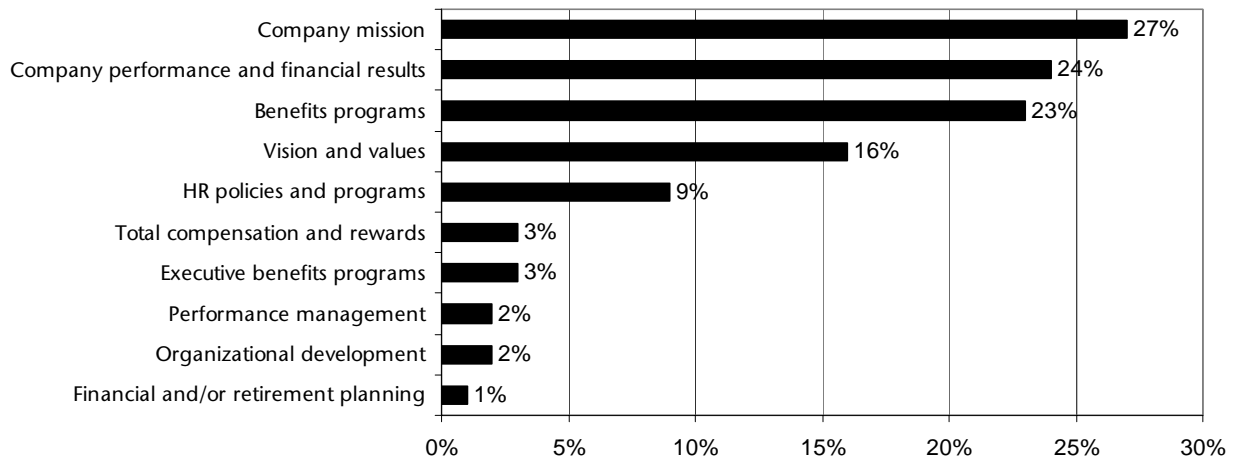
Results from the benefits survey show 92% of employers consider employee communication important, very important or absolutely critical, and yet only 70% of employers have a formal communication strategy for communicating benefits, HR, and company information to employees. And, only 46% of respondents report that they have a formal budget for internal or employee communication.

### How and when are employers communicating benefits information?

Many employers are now taking a less paternalistic approach to benefits by encouraging increased employee involvement. For example, employers are asking workers to take more responsibility in selecting, using, and managing their benefits, all of which require ongoing and sustained benefits communication and education. Sixty-six percent of respondents indicate that their organizations communicate with employees as needed. Overall, employers most frequently focus communication on broad topics, such as: corporate mission; organization performance and financial results; and benefits programs.

### Topics Organizations Communicate

Of the topics listed below, indicate the most important topic that your organization typically communicates.



Numbers will exceed 100% because survey participants were able to choose multiple responses.

### Aon Perspective

The evolution of the employment relationship from benefits “entitlement” to “partnership” is a long-term initiative requiring sustained communication and education. Most employers are diligent and conscientious communicators when introducing a new benefit or conveying a benefit change. But, without a sustained communication and coaching strategy, employers may fail to educate their employees about how to take on more responsibility to gather information and manage their benefits.

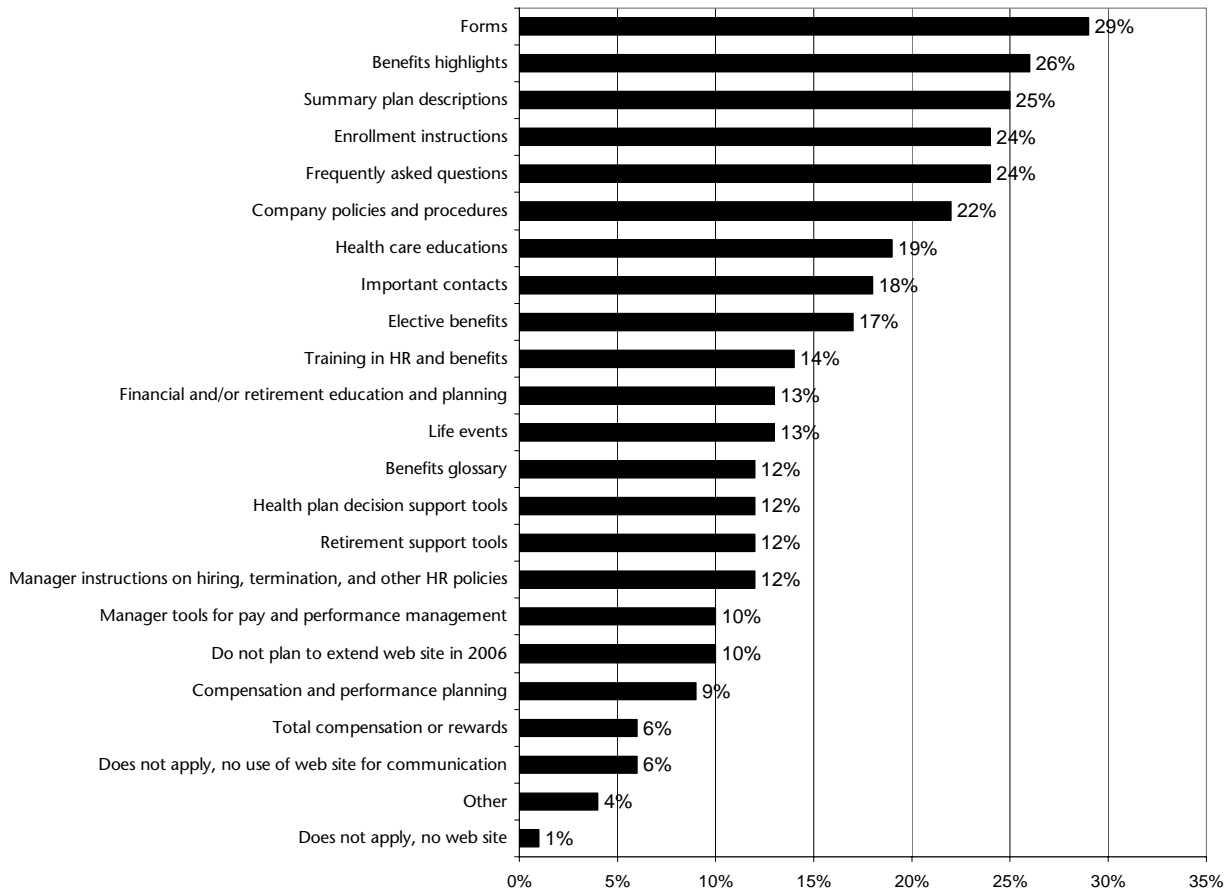
Technology provides the distinct advantage of communicating benefits changes or other employee issues through a company Internet and/or intranet site. Since web communication is “real time” and can be updated without reprinting large documents, the web allows employers to communicate more frequently and on-demand. Web-based communications are most often used for transactions or for accessing reference information, including: benefits programs; HR policies and programs descriptions; and company mission. Employers who implemented additional web-based communication in 2006 developed the

following types of content: benefits forms; benefits highlights; summary plan descriptions; enrollment instructions; frequently asked questions; and company policies and procedures.

Total compensation/rewards statements are often a primary vehicle used to educate employees about the value of their total compensation, which includes salary and benefits. Forty-five percent of employers provide an annual statement to their employees. Most often, these personalized statements are distributed in print (versus online).

### Web Functionality for Employee Communication

If you plan to do more web communication in 2006, what types of content or new functionality have you developed?



Numbers will exceed 100% because survey participants were able to choose multiple responses.

## Trends in Outsourcing

The majority of employers (75%) who responded to the survey outsource at least one HR function and, if given the opportunity to renew their outsourcing arrangement with the same vendor, would do so. The responses are similar for organizations of all sizes, which highlights the expansion of outsourcing arrangements beyond large employers to now include small and mid-sized employers as well.

### Aon Perspective

Mid-sized and small organizations face the same pressures as larger organizations: squeezed HR budgets; escalating health care costs; expensive and inflexible technology solutions; changing business environments due to mergers and acquisitions; and employees expecting more from their HR departments. These same organizations must offer a similar suite of benefit and retirement options as their larger counterparts to attract and retain top leadership and employee talent. As a result, basic business tenets are pushing mid-sized and small organizations to engage in and increase outsourcing activity.

In 2006, survey respondents report that the most heavily outsourced functions are defined contribution plan administration, FSA administration, and COBRA/HIPAA administration. At least three-quarters of organizations are outsourcing those functions.

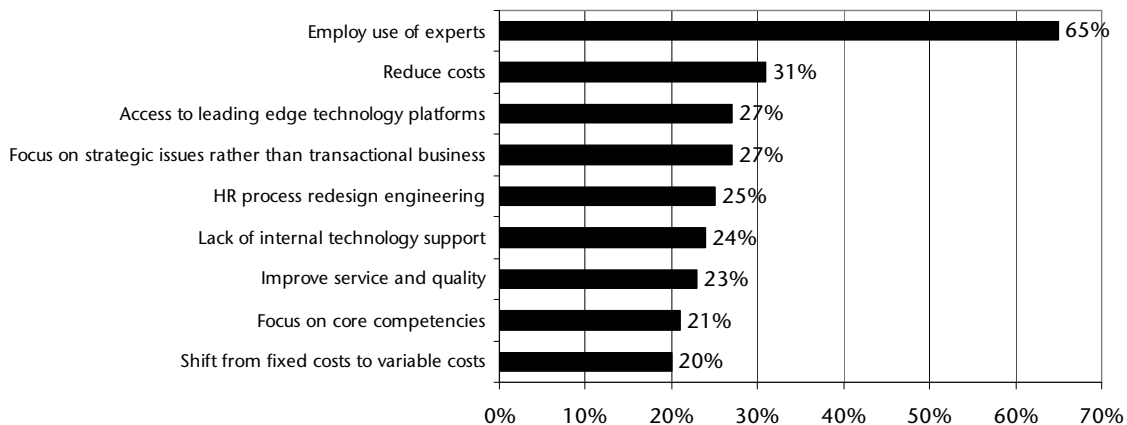
Survey respondents cite use of experts, reduced costs, access to leading-edge technology platforms, and their own ability to focus more on strategic issues rather than transactional business as the factors most important in the decision to outsource. Sixty-eight percent of organizations that have outsourced at least one function report that they are satisfied to a great or very great extent with their outsourcing arrangement. And, at least 25% of organizations report improved service, quality, and productivity with the functions they outsourced.

### Aon Perspective

The design of HR programs and the development of solutions to administer them are processes that must be closely integrated. The ability to develop programs that best fit an organization's needs, and then to be able to offer employees and managers the most convenient and efficient means for managing them, increases the value of those programs while reducing overall cost.

## Reasons for Outsourcing

If your organization does currently outsource at least one HR function, which factors listed below were the most important leading to the decision to outsource?



Numbers will exceed 100% because survey participants were able to choose multiple responses.

## 2006 Aon Consulting National Employee Benefits Trends Survey Responses

### Health Care Section

1. Please indicate the number of medical plans your organization currently offers your benefit-eligible employees.

0	<1%
1	30%
2	32%
3	24%
4 or more	13%

2. Please indicate which types of medical plans your organization offers to your typical benefit-eligible employee. (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

PPO	72%
HMO	37%
POS	23%
Indemnity Plan	8%
CDH - HSA	7%
CDH - HRA	6%

3. Of the following plans, which plan covers the majority of employees in your organization?

PPO	65%
HMO	19%
POS	13%
CDH – HRA	2%
CDH – HSA	<1%
Indemnity Plan	<1%

4. What is your target employer subsidy for the medical plan “Employee Only” coverage?

50% or less	7%
51%-59%	1%
60%	2%
61-69%	4%
70%	8%
71-79%	15%
80%	22%
81-89%	15%
90%	6%
91-99%	7%
100%	13%

## 5. What is your target employer subsidy for the medical plan "Family" coverage?

50% or less	18%
51%-59%	4%
60%	5%
61-69%	8%
70%	8%
71-79%	20%
80%	18%
81-89%	10%
90%	4%
91-99%	3%
100%	2%

## 6. What are the approximate 2006 monthly employee contributions for the medical plan (including prescription) that covers the majority of employees at your organization? (Complete only applicable lines.)

Employee Only	\$ 50.42
Employee + 1	\$136.50
Employee + Spouse	\$147.25
Employee + Child	\$134.04
Employee + Children	\$165.80
Employee + Family	\$203.33

## 7. For the medical plan that covers the majority of employees in your organization, what are the approximate 2006 monthly contributions, as shown on your COBRA enrollment form, that terminated employees pay for COBRA coverage (including the 2% fee)? (Complete only the applicable lines.)

Employee Only	\$348.00
Employee + 1	\$703.47
Employee + Spouse	\$715.75
Employee + Child	\$700.00
Employee + Children	\$879.90
Employee + Family	\$1,000.00

## 8. Who provides the claim administration for the plan that covers the majority of employees in your organization?

BCBS (other than Wellpoint/Anthem BCBS)	28%
United Healthcare (includes Pacificare)	17%
Independent Third Party Administrator	15%
Aetna	10%
CIGNA	9%
Other insurer	8%
Wellpoint/Anthem BCBS	6%
Great West	2%
Principal	2%

Humana	1%
Kaiser	1%
Unicare	1%

9. For your claims administrator or insurer, rate the organization on the following criteria (5 = Well above expectations, 4=Above expectations, 3=Meets expectations, 2=Below expectations, 1=Well below expectations):

<b>Aetna</b> (average rating based on 85 respondents)	
Usefulness of organization's website	3.65
Account management service to employer	3.49
Flexibility in meeting employer needs	3.39
Adequacy of provider network	3.38
Plan savings from utilization and disease management	3.24
Plan savings from provider discounts	3.23
Cost effectiveness of administration fees	3.22
Customer service to employees	3.19
Usefulness of claim reports	2.96
<b>BCBS</b> (average rating based on 239 respondents)	
Adequacy of provider network	3.98
Account management service to employer	3.47
Plan savings from provider discounts	3.43
Usefulness of organization's website	3.33
Flexibility in meeting employer needs	3.14
Cost effectiveness of administration fees	3.05
Usefulness of claim reports	3.04
Plan savings from utilization and disease management	2.92
Customer service to employees	2.44
<b>CIGNA</b> (average rating based on 76 respondents)	
Account management service to employer	3.70
Usefulness of organization's website	3.50
Flexibility in meeting employer needs	3.38
Adequacy of provider network	3.37
Plan savings from provider discounts	3.22
Customer service to employees	3.18
Usefulness of claim reports	3.14
Cost effectiveness of administration fees	3.11
Plan savings from utilization and disease management	3.04
<b>Great West</b> (average rating based on 22 respondents)	
Account management service to employer	3.73
Usefulness of organization's website	3.68
Flexibility in meeting employer needs	3.62
Adequacy of provider network	3.52
Plan savings from provider discounts	3.45
Plan savings from utilization and disease management	3.45

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Cost effectiveness of administration fees	3.43
Customer service to employees	3.36
Usefulness of claim reports	3.30
<b>Humana</b> (average rating based on 10 respondents)	
Account management service to employer	3.60
Plan savings from utilization and disease management	3.45
Usefulness of organization's website	3.30
Flexibility in meeting employer needs	3.00
Plan savings from provider discounts	3.00
Adequacy of provider network	2.90
Customer service to employees	2.90
Usefulness of claim reports	2.80
Cost effectiveness of administration fees	2.70
<b>Independent Third Party Administrator (TPA)</b> (average rating based on 134 respondents)	
Flexibility in meeting employer needs	3.64
Adequacy of provider network	3.63
Account management service to employer	3.59
Cost effectiveness of administration fees	3.52
Plan savings from provider discounts	3.43
Customer service to employees	3.42
Usefulness of claim reports	3.38
Usefulness of organization's website	3.16
Plan savings from utilization and disease management	3.12
<b>Kaiser</b> (average rating based on 9 respondents)	
Plan savings from utilization and disease management	3.38
Usefulness of organization's website	3.22
Customer service to employees	3.22
Cost effectiveness of administration fees	3.22
Plan savings from provider discounts	3.13
Account management service to employer	3.11
Adequacy of provider network	3.11
Flexibility in meeting employer needs	3.00
Usefulness of claim reports	2.88
<b>Principal</b> (average rating based on 14 respondents)	
Customer service to employees	3.79
Flexibility in meeting employer needs	3.77
Adequacy of provider network	3.71
Usefulness of organization's website	3.64
Account management service to employer	3.64
Cost effectiveness of administration fees	3.50
Usefulness of claim reports	3.43
Plan savings from utilization and disease management	3.15
Plan savings from provider discounts	2.57

<b>Unicare</b> (average rating based on 8 respondents )	
Adequacy of provider network	3.63
Account management service to employer	3.25
Cost effectiveness of administration fees	3.17
Plan savings from provider discounts	3.00
Plan savings from utilization and disease management	3.00
Flexibility in meeting employer needs	2.88
Customer service to employees	2.75
Usefulness of organization's website	2.63
Usefulness of claim reports	2.57
<b>United Healthcare</b> (average rating based on 145 respondents)	
Usefulness of organization's website	3.61
Adequacy of provider network	3.48
Plan savings from provider discounts	3.21
Account management service to employer	3.20
Flexibility in meeting employer needs	3.19
Customer service to employees	3.13
Plan savings from utilization and disease management	3.06
Cost effectiveness of administration fees	3.05
Usefulness of claim reports	3.01
<b>Wellpoint</b> (average rating based on 55 respondents)	
Adequacy of provider network	3.81
Plan savings from provider discounts	3.60
Account management service to employer	3.47
Customer service to employees	3.33
Flexibility in meeting employer needs	3.30
Plan savings from utilization and disease management	3.21
Usefulness of organization's website	3.20
Cost effectiveness of administration fees	3.06
Usefulness of claim reports	2.98

10. What was the anticipated overall increase in the total cost of your medical plan rates for 2006, before any plan changes?

Rate decrease or no change in rates	9%
Under 5%	10%
At least 5% but less than 10%	28%
At least 10% but less than 12%	19%
At least 12% but less than 14%	10%
At least 14% but less than 16%	7%
At least 16% but less than 18%	5%
At least 18% but less than 20%	3%
At least 20% but less than 25%	4%
At least 25% but less than 30%	3%
30% or higher	2%

11. What is the overall increase in the total cost of your medical plan rates for 2006, after factoring in any plan changes made for 2006?

Rate decrease or no change in rates	15%
Under 5%	16%
At least 5% but less than 10%	35%
At least 10% but less than 12%	15%
At least 12% but less than 14%	6%
At least 14% but less than 16%	4%
At least 16% but less than 18%	3%
At least 18% but less than 20%	1%
At least 20% but less than 25%	3%
At least 25% but less than 30%	1%
30% or higher	1%

12. If you provide an employer subsidy for medical benefits for retirees over age 65, what is your primary strategy to incorporate Medicare Part D for these retirees in 2006?

Do not subsidize retiree coverage for retirees over age 65	69%
Keep some form of self-insured drug benefit for retirees and apply for government subsidy under Medicare Part D	13%
Previously didn't subsidize drug benefits and still do not subsidize drug benefits for retirees over age 65	7%
Keep some form of self-insured drug benefit for retirees, but (for administrative or other reasons) not apply for the government subsidy under Medicare Part D	5%
Drop retiree drug coverage and not subsidize any retiree drug benefit	1%
Subsidize and enroll retirees as a group into an insured Medicare Advantage Plan	1%
Subsidize and enroll retirees as a group into an insured Medicare Part D Plan, which is not a Medicare Advantage Plan	1%
Provide an employer subsidy to retirees by reimbursing their purchase of an individually-purchased, insured Medicare Advantage or other Medicare Part D Plan	1%
Change self-insured retiree drug coverage to wrap under Medicare Part D	1%
Become a Prescription Drug Provider (PDP) under Medicare Part D	1%

13. If your organization offers a Consumer Driven Health (CDH) plan, which company provides the claims administration?

Independent Third Party Administrator (TPA)	21%
Aetna	19%
Definity/United Healthcare	19%
BCBS (other than Wellpoint/Anthem BCBS)	16%
Lumenos/Wellpoint/Anthem BCBS	9%
Other insurer	7%
CIGNA	6%
Humana	3%

14. If you currently offer a CDH plan, rate how well the plan has met your expectations in the following areas (5 = Well above expectations, 4=Above expectations, 3=Meets expectations, 2=Below expectations, 1=Well below expectations):

<b>Aetna</b> (average rating based on 27 respondents)	
Providing effective health care tools and information to employees	3.37
Encouraging employee consumerism	3.24
Controlling health care costs through provider discounts	3.04
Communicating how the plan works to employees	2.93
Controlling health care costs through reduction in utilization	2.91
<b>BCBS</b> (average rating based on 20 respondents)	
Controlling health care costs through provider discounts	3.06
Controlling health care costs through reduction in utilization	2.95
Encouraging employee consumerism	2.75
Providing effective health care tools and information to employees	2.55
Communicating how the plan works to employees	2.48
<b>CIGNA</b> (average rating based on 6 respondents)	
Controlling health care costs through provider discounts	3.17
Communicating how the plan works to employees	3.17
Controlling health care costs through reduction in utilization	3.17
Providing effective health care tools and information to employees	3.17
Encouraging employee consumerism	2.83
<b>Definity/United Healthcare</b> (average rating based on 24 respondents)	
Encouraging employee consumerism	3.25
Providing effective health care tools and information to employees	3.25
Controlling health care costs through reduction in utilization	3.13
Communicating how the plan works to employees	3.04
Controlling health care costs through provider discounts	2.91
<b>Humana</b> (average rating based on 4 respondents)	
Providing effective health care tools and information to employees	2.75
Communicating how the plan works to employees	2.50
Controlling health care costs through reduction in utilization	2.25
Controlling health care costs through provider discounts	2.25
Encouraging employee consumerism	2.25
<b>Independent Third Party Administrator</b> (average rating based on 23 respondents)	
Providing effective health care tools and information to employees	3.27
Controlling health care costs through reduction in utilization	3.26
Encouraging employee consumerism	3.22
Controlling health care costs through provider discounts	3.17
Communicating how the plan works to employees	3.13
<b>Lumenos/Wellpoint/Anthem BCBS</b> (average rating based on 11 respondents)	
Encouraging employee consumerism	3.64
Providing effective health care tools and information to employees	3.64
Controlling health care costs through reduction in utilization	3.55
Communicating how the plan works to employees	3.45
Controlling health care costs through provider discounts	3.09

15. What medical benefit cost control features has your organization implemented? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Disease management	37%
Bidding new insurer/claims administrator	36%
Internet or intranet-accessed health care tools	36%
Wellness communication campaign	32%
Prescription drug coinsurance	23%
Health risk appraisals	19%
Smoking cessation program	18%
Eligibility audit	14%
Converting from insured to self-insured plan	13%
Prescription drug deductible	13%
Prescription drug additional tier for specialty drugs	13%
Incentive (cash or flex credit) for employees choosing to opt-out	13%
CDH plan	12%
Prescription drug carve out	12%
Weight management program	12%
Incentive (cash, flex credit, premium savings, or benefit improvement) for employees to participate in wellness program	10%
Predictive modeling/data analysis	8%
Salary-based premiums	7%
In-house medical clinic	6%
Other	6%
None; we have not implemented any cost control features	6%
Spousal surcharge or other restrictions on coverage of spouses	6%
Prescription drug additional tier for lifestyle drugs	5%
Large claim discount audit	4%
Clinical audit	4%
Incentive (cash, flex credit, premium savings, or benefit improvement) for employees to participate in disease management	3%
Length of service based premiums	2%

16. What medical benefit cost control features is your organization considering for 2007? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Wellness communication campaign	26%
Bidding new insurer/claims administrator	24%
Health risk appraisals	21%
CDH plan	20%
Disease management	18%
Internet or intranet-accessed health care tools	16%
Weight management program	16%
Incentive (cash, flex credit, premium savings, or benefit improvement) for employees to participate in wellness program	15%
Smoking cessation program	15%

Prescription drug coinsurance	10%
Predictive modeling/data analysis	9%
Incentive (cash or flex credit) for employees choosing to opt-out	9%
Incentive (cash, flex credit, premium savings, or benefit improvement) for employees to participate in disease management	8%
Eligibility audit	8%
Prescription drug deductible	8%
Spousal surcharge or other restrictions on coverage of spouses	8%
None; we have not implemented any cost control features	8%
Prescription drug additional tier for specialty drugs	7%
Prescription drug additional tier for lifestyle drugs	6%
Salary-based premiums	6%
Other	6%
Prescription drug carve out	5%
Converting from insured to self-insured plan	4%
Large claim discount audit	4%
Clinical audit	3%
In-house medical clinic	3%
Length of service based premiums or benefits	2%

17. Does your organization have a formal strategy to keep employees healthy and productive?

Yes	20%
No, but we are considering implementing one	43%
No, we are not considering implementing one	32%
Don't know	5%

18. Does your organization offer dental coverage for active employees?

Yes, with a subsidy by the employer	83%
Yes, but fully paid by the employee	15%
No, and we don't plan to offer this benefit	1%
No, but we are considering offering this benefit in the future	1%

19. What level of employer subsidized group term life insurance do you provide to most employees? (If you provide flat amounts of coverage or some other multiple of pay, show the answer with the multiple of pay that most closely matches your coverage.)

No employer subsidized group term life coverage	3%
Under one-times pay	6%
One-times pay	36%
One and a half times pay	10%
Two-times pay	26%
Three-times pay	3%
Greater than three-times pay	1%
Other	15%

20. What amount of employer subsidized, long-term disability coverage do you offer? (You may choose more than one answer. Show the answer(s) that most closely match(es) your benefit(s). Numbers will exceed 100% because survey participants were able to choose multiple responses.)

No employer subsidized, long-term disability coverage	16%
Partially pay for 50% of pay, for salaried or exempt	2%
Partially pay for 60% of pay, for salaried or exempt	10%
Partially pay for coverage above 60% of pay, for salaried or exempt	2%
Partially pay for 50% of pay, for hourly or nonexempt	1%
Partially pay for 60% of pay, for hourly or nonexempt	7%
Partially pay for coverage above 60% of pay, to hourly or nonexempt	1%
Fully pay for 50% of pay, for salaried or exempt	7%
Fully pay for 60% of pay, for salaried or exempt	35%
Fully pay for coverage above 60% of pay, for salaried or exempt	5%
Fully pay for 50% of pay, for hourly or nonexempt	4%
Fully pay for 60% of pay, for hourly or nonexempt	27%
Fully pay for coverage above 60% of pay, for hourly or nonexempt	5%
Supplemental executive disability plan (fully or partially paid by employer)	8%
Supplemental executive disability plan (paid for by executive)	3%

21. Did your organization add the 2½-month extension to your Flexible Spending Account (FSA) for 2005 or 2006?

Yes, for health care FSA only	21%
Yes, for dependent care FSA only	<1%
Yes, for both health care and dependent care FSA	23%
No, because our FSA administrator cannot easily administer the extension	11%
No, because we did not want to reduce the forfeitures from the FSA	5%
No, for some other reason	40%

### **Retirement Section**

22. What retirement plans does your organization currently offer? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

401(k)	63%
Defined Benefit Plan	23%
403(b)	15%
457 Plan	12%
Profit Sharing Plan	12%
Non-qualified plans (SERPs)	12%
Other (seems pretty significant with 106 people)	10%
Employee Stock Purchase Plan	8%
None, we do not offer any retirement plans	1%

23. Are you currently in the process of making significant changes to your retirement plan design?	
Yes, we are actively reviewing this area	20%
No, but we expect to make significant changes some time in the next two years	7%
No, but we continue to make occasional changes to the plan options under the plan	33%
No, we are not planning changes to the retirement program	40%
24. Are you planning on increasing, decreasing, or keeping the same amount of employer cost related to your retirement plans?	
Keeping the same amount	80%
Increasing	10%
Decreasing	10%
25. In your opinion, to what extent do employees in your organization understand how to invest their 401(k), 403(b), or 457 plan assets?	
Very great extent	2%
Great extent	17%
Some extent	63%
Little extent	15%
Very little extent	3%
26. What percentage of your workforce is likely to not have enough income to retire at a reasonable age (62-65 years old)?	
75-100%	7%
50-74%	32%
25-49%	37%
10-24%	19%
Less than 10%	5%
27. If your organization offers a 401(k), 403(b), or 457, what percentage of eligible employees contribute to the plan?	
75-100%	42%
50-74%	32%
25-49%	19%
Less than 25%	7%
28. Does your organization make contributions to the 401(k), 403(b), or 457 plan?	
Yes	85%
No	15%

29. What is the method of calculating your employer contribution?	
Employer matches employee contribution	54%
Other	24%
Both match and profit sharing	18%
Employer contributes to all employees (not a match) based on profits	4%
30. Rate at which employer matches employee contribution:	
100%	29%
75%	7%
50%	39%
25%	8%
Less than 25%	17%
31. Percentage of pay saved used for the match calculation:	
6.0% and over	41%
5.0% - 5.9%	16%
4.0% - 4.9%	18%
3.0% - 3.9%	16%
2.0% - 2.9%	5%
Less than 2.0%	4%
32. If your organization offers a 401(k), 403(b), or 457, how many investment options does your plan offer?	
1-9	16%
10-14	37%
15-18	22%
19 and above	25%
33. Does your 401(k), 403(b), or 457 plan allow for loans?	
Yes	87%
No	13%
34. Do your retirement plan participants use web-based retirement planning tools?	
Yes	88%
No	12%
35. Do you offer personalized advisor-based retirement planning tools to retirement plan participants?	
Yes	58%
No	42%

36. Would your organization consider offering a qualified defined benefit pension plan if:

No, we would not consider it	84%
The cost of the program was predictable each year	12%
Senior management's participation would not be limited by the compensation limit	4%

37. If you have implemented (or are considering) a fully bundled approach (one vendor or an alliance providing all services for your plans), which of the following factors had a significant impact on your decision? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Not applicable	45%
Simplified data submission process for both plans	21%
Reduction in vendor fees compared to unbundled approach	19%
Enhanced participant website and/or phone support for both plans	19%
Enhanced retirement education and planning services for participants	18%
Enhanced plan sponsor website and planning tools	16%
Flexible approach to investment funds available for both plans (open investment architecture)	14%

38. If you rejected the use of a fully bundled approach, which of the following factors had a significant impact on your decision? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Not applicable	75%
Satisfied with current vendors for both plans	12%
Satisfied with current actuary for DB plan	5%
Restrictions or limitations regarding investment funds available for both plans would be imposed by bundled vendor	4%
No reduction in vendor fees compared to unbundled approach	3%
Enhanced participant web site and/or phone support would not be used by our participants	1%

**Communication Section**

39. Does your organization have a formal strategy for communicating benefits, HR, and organizational information to employees?

Yes	70%
No, and we are not planning to develop one	10%
No, but we are considering developing a communication strategy for the future	20%

40. Does your organization budget specifically for internal or employee communication?

Yes	46%
No, we have not in the past and are not planning to in the future	40%
No, but we are considering budgeting for communication programs in the future	14%

41. How frequently does your organization distribute communication about employee benefits or human resources policies and procedures?

Quarterly	23%
Once a year	11%
Less than once a year	<1%
As needed	66%

42. Please rate the importance that your organization places on employee communication.

Absolutely critical	30%
Very important	43%
Important	19%
Somewhat important	7%
Unimportant	1%

43. Of the topics listed below, please rank (in order of importance) the topics that your organization typically communicates, with "1" being the most important topic. Please use each rank only once; leave blank any that are unimportant to your organization. (Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Company mission	27%
Company performance and financial results	24%
Benefit programs	23%
Vision and values	16%
HR policies and programs	9%
Total compensation or rewards	3%
Executive benefit programs	3%
Performance management	2%
Organizational development	2%
Financial and/or retirement planning	1%

44. Does your organization provide employees with annual total compensation or total rewards statements?

Yes, electronically and hard copy	5%
Yes, electronically only	5%
Yes, hard copy only	35%
No, but we are considering it for the future	37%
No, and we are not planning to	18%

45. If you do provide employees with electronic annual total compensation or total rewards statements, what percent of your employees view this statement on an annual basis?

0-20%	8%
21-40%	6%
41-60%	9%
61-80%	8%
Over 80%	19%
Don't Know	50%

46. If you do provide employees with electronic annual total compensation or total rewards statements, how often do you refresh data on the statement?

Daily	10%
Monthly	10%
Quarterly	6%
Annually	74%

47. If you do provide employees with annual total compensation or total rewards statements, in relation to print statements, do you think that the electronic statement is:

An equally effective vehicle	49%
A less effective vehicle	30%
A better vehicle	21%

48. How important is retirement education to your organization?

Absolutely critical	7%
Very important	36%
Important	33%
Somewhat important	20%
Unimportant	4%

49. If you currently use an organization web site to educate or communicate with employees, indicate the topics included on the website. (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Benefit programs	53%
HR policies and programs	51%
Company mission	42%
Vision and values	37%
Company performance and financial results	25%
Financial and/or retirement planning	23%
Performance management	23%
Organizational development	21%
Does not apply, because we do not use our company web site for communication within our organization	11%
Total compensation or rewards	9%
Executive benefit programs	3%
Other	3%
Does not apply, because we do not have a company web site	1%

50. If you plan to do more web communication in 2006, what types of content or new functionality have you developed? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Forms	29%
Benefit highlights	26%
Summary plan descriptions	25%
Enrollment instructions	24%
Frequently asked questions	24%
Company policies and procedures	22%
Health care education	19%
Important contacts	18%
Elective benefits	17%
Training in HR and benefits	14%
Financial and/or retirement education and planning	13%
Life events	13%
Benefit glossary	12%
Health plan decision support tools	12%
Retirement support tools	12%
Manager instructions on hiring, termination, and other HR practices	12%
Manager tools for pay and performance management	10%
Do not plan to extend website in 2006	10%
Compensation and performance planning	9%
Total compensation or rewards	6%
Does not apply, because we do not use company web site for communication within our organization	6%
Other	4%
Does not apply, because we do not have a company web site	<1%

### **Outsourcing Section**

51. Does your organization currently outsource at least one HR function?

Yes	75%
No, and we are not planning to	22%
No, but we are considering it for the future	3%

52. If your organization does not currently outsource any HR functions, what is the primary reason for that decision?

Does not apply, because we currently outsource at least one function	55%
Not current management priority	20%
Sufficient in-house technology	17%
Price	7%
Employee resistance	1%
Selection of vendors	<1%

53. If your organization does currently outsource at least one HR function, which of the three factors listed below were the most important leading to the decision to outsource? Please rank those three factors based on their importance, with “1” being the most important. (Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Employ use of experts	65%
Reduce costs	31%
Access to leading edge technology platforms	27%
Focus on strategic issues rather than transactional business	27%
HR process redesign reengineering	25%
Lack of internal technology support	24%
Improve service and quality	23%
Focus on core competencies	21%
Shift from fixed costs to variable costs	20%

54. Which of the following benefit administration functions is your organization currently outsourcing or considering outsourcing? (Numbers will exceed 100% because survey participants were able to choose multiple responses.)

	Currently Outsourcing	Considering Outsourcing	Not Planning to Outsource	Do Not Have This Function	I Don't Know
401(k), 403(b), 457 plan administration	87%	2%	10%	1%	1%
Applicant processing	12%	9%	71%	2%	7%
COBRA/HIPAA administration	75%	7%	18%	<1%	1%
Defined benefit administration	38%	3%	24%	33%	3%
Employee benefits call center	18%	4%	50%	27%	2%
Enrollment only	21%	9%	64%	3%	2%
FSA administration (health care, dependent care, and/or transportation reimbursement)	84%	3%	8%	4%	<1%
Health and welfare administration	47%	3%	44%	4%	3%
HRIS	12%	4%	70%	9%	6%
IT	10%	3%	80%	3%	5%
Non-HR back office processes	3%	4%	69%	7%	18%
Payroll	42%	4%	51%	1%	2%
Profit sharing plan administration	25%	1%	28%	41%	5%
Retiree administration	22%	4%	32%	40%	3%
Talent management	2%	2%	57%	28%	11%
Vendor management	5%	2%	66%	17%	10%

55. If your organization does currently outsource at least one HR function, has your organization achieved any of the following through outsourcing? (Indicate all that apply. Numbers will exceed 100% because survey participants were able to choose multiple responses.)

Improved service	36%
Improved quality	31%
Improved productivity	28%
Reduced costs	19%
Improved analytics	18%
Improved cost management	18%
Improved profitability	4%
Does not apply, because we do not outsource	3%
Other	2%

56. If your organization does currently outsource at least one HR function, how satisfied is your organization with the results of your outsourcing arrangement?

Very great extent	12%
Great extent	56%
Some extent	30%
Little extent	1%
Very little extent	1%

57. If your organization does currently outsource at least one HR function, and you are given the opportunity to outsource again or renew your current outsourcing arrangement, would you chose to do so?

Yes	84%
Don't know	14%
No	2%

58. For 2007, is your organization considering significant changes in your current HR processes?

No	61%
Don't know	21%
Yes	18%

## About Aon Consulting

Aon Consulting is among the world's top global human capital and management consulting firms, providing a complete array of consulting, outsourcing and insurance brokerage services. Aon's 7,000 human capital consultants and outsourcing specialists in 120 offices around the world work with clients of all sizes to attract and retain top talent and improve employee and business performance.

### Capabilities

Aon Consulting leverages its global network of offices and consultants to provide innovative and high-impact talent management, benefits rewards and strategies. Our services include:

- **Global Benefits:** We provide global services in employee benefits, coalition purchasing, outsourcing, membership group purchasing programs, voluntary benefits services and benefit assessment surveys. In addition, our health and productivity experts evaluate all factors that affect workforce productivity—health status, chronic disease, leadership, training, compensation, benefit plan designs, etc.—to help clients identify new health and productivity management strategies in support of their business objectives.
- **Retirement:** We help our clients design, administer, fund and communicate a defined benefit and/or a defined contribution plan, whether it is brand new or an improvement to an existing plan. Our approach to a bundled DB/DC solution saves clients time and money and improves employee satisfaction and retention. We also have expertise in executive benefits, tax, investment and insurance consulting.
- **Talent Selection, Development and Rewards:** We align our clients' talent and reward strategies with their organization's goals. We do this by designing tools for enhanced competency modeling; aiding in employee sourcing, recruiting, selection and onboarding; talent and performance management; helping with leadership selection, assessment and development; and workforce training.
- **Human Resources Outsourcing:** We help our clients improve their quality of service, reduce costs, improve workforce effectiveness and streamline their HR infrastructure. Using state-of-the-art systems, including our HR Portal(R), we help clients with total HR outsourcing, payroll administration, HRIS implementation, benefits and compensation administration, employment process/recruitment outsourcing, and employee and manager self-service.
- **Executive Compensation:** Our executive compensation experts can help you define, design and deploy executive compensation and reward strategies that are both legally compliant and geared to your business needs. We create pay systems that encourage productivity, focus executives on desired behaviors and outcomes and reward achievements that are strategically aligned with the company's short- and longer-term objectives ensuring competitive business processes and visionary thinking.
- **Financial and Litigation Consulting Services:** We provide financial investigation and litigation consulting services, including financial statement investigations, securities litigation, financial due diligence, damage calculations, financial valuation services, expert testimony and computer forensics.

- **Management Consulting:** We drive improvements in both individual and corporate performance through Six Sigma consulting and training, coupled with related leadership and organizational development programs. We provide services in process improvement and design, Six Sigma and leadership and organizational effectiveness.
- **Communication Consulting:** We work to understand your audience's perspectives—to make a connection. We illuminate the tangible value of a situation, and we deliver communication strategy, change management communication and personalized employee communication in areas such as benefits statements, retirement planning, total rewards and wellness.
- **Research:** We conduct specialized research on global human capital issues as well as conduct customized studies for our clients.

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