

# Study of Employee Benefits Trends

Findings from the national survey of  
employers and employees

Seventh Annual

**MetLife**<sup>®</sup>





*The cohesion of art and science evident in this elegant, state-of-the-art cable-stayed bridge is evocative of the creative benefits solutions needed to span the gap between employers and employees as they move forward with 21<sup>st</sup>-century benefits programs. Bringing the two sides together and understanding the issues for these audiences will help benefits professionals engineer strong and lasting benefits solutions for our challenging times.*

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**MetLife has a proud tradition of investing in the financial and social well-being of the communities we serve. For 140 years, we have focused on understanding and serving our customers through various life stages and economic cycles.**

**MetLife builds on this tradition by delivering leading insights through nationally acclaimed research, subject matter experts and educational resources. We serve as a leading voice on employee benefits issues by actively influencing public policy, educating the media and developing intelligent product solutions.**

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# Executive Summary

The 7th annual *MetLife Study of Employee Benefits Trends* comes as the U.S. economy is facing significant challenges—challenges that present difficult choices for many companies, and financial uncertainty and concern for individuals. In the midst of these times, employee benefits professionals must continue to balance the benefits choices that best meet both the business objectives of their management—which continue to be employee retention and cost control—with the needs of their employee population. This Study highlights key insights that can help employee benefits professionals make sound choices in the face of economic and social challenges.

To ensure the relevance of the key issues discussed in this year's Study, MetLife fielded two sets of research interviews, one in August and a second in November after several months of further economic downturn. Details about the research methodology and segmentation of the respondents can be found on page 60. Significant differences between the responses gathered before and those gathered during the unprecedented economic events of the fourth quarter of 2008—as well as significant similarities—are highlighted for consideration.

The initial significant insight gained from this year's Study is that employees, faced with new economic realities, place a greater value on their benefits. The Study also confirms that, despite recessionary pressures, employee retention remains U.S. employers' most important benefits objective, and benefits remain a consistently important factor in employee loyalty. In strong financial times and in periods of economic recession, there continues to be a need to retain valued employees in order to successfully sustain business operations. Because cost control is a very close second benefits objective for employers—and the economy is asserting additional pressures to balance benefits expense and value—it is important that employers understand how to maximize the return on their benefits programs' investment. A key to taking advantage of benefits optimization lies in understanding the story that is told in the gaps between employer and employee perceptions about benefits and in improving the alignment between their views.

### **Employees value benefits more this year than in the past**

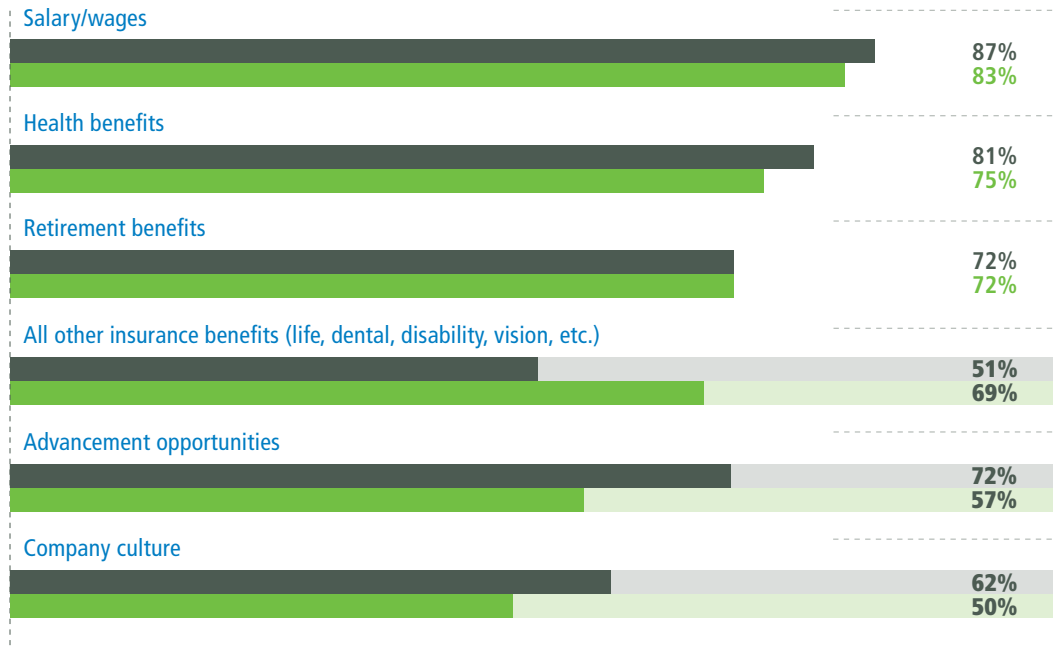
As employees assume more of the personal and financial responsibility for their health and welfare, they've also assumed a notable change in attitude. MetLife research has revealed that employees are attempting to take control of their finances and are increasingly looking to the workplace for help—even if it is fully employee-paid. Employees who are growing more aware of their personal risk exposures—and the economy is certainly a catalyst—have a greater appreciation for benefits and express greater degrees of employer loyalty.

Employees' loyalty to their employers and their job satisfaction increased during the fourth quarter of 2008. Retirement benefits and all other nonmedical benefits (such as life, dental, disability, vision, etc.) increased in importance as factors contributing to a sense of loyalty. Factors such as advancement opportunities and company culture were of less importance. The Study also indicates that 40% of employees say benefits play an important role in their decisions about whether to remain with their employer.

**46%**

of employees are concerned that the state of the economy will cause their employer to cut back on matches to 401(k)/403(b)/457 plans  
November 2008

**Benefits are an important factor in employee loyalty**



In this challenging job market, advancement opportunities and company culture are less important than benefits.

■ 2007 ■ November 2008

Employees were asked to indicate the importance of each factor regarding their feelings of loyalty toward their employer.

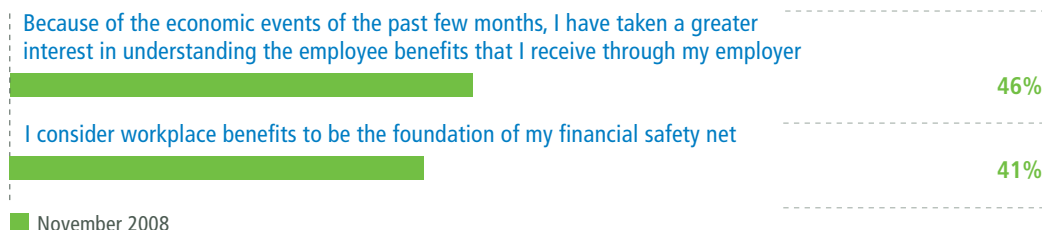
Surveyed employees (41%) consider workplace benefits to be the foundation of their personal safety net as they awaken to current realities about their financial security. It is also important to note that a majority of employees (51%) now report that they obtain most of their financial products through the workplace. Given the elevated importance employees have placed on benefits in recent months, it's not surprising that one-third expressed concern that their employers may reduce their benefits in response to economic pressures.

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**“Because of the current economic situation and other changes, my employer may not be able to offer me all the benefits.”**

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**Employees look to the workplace for advice and guidance**



Employees were asked to indicate agreement with the statements above.

It is notable that when faced with new economic realities, many employees place greater value on their benefits and are expressing greater interest in understanding the benefits offered by their employer. Financial security, specifically retirement security, is of significant concern to employees, again increasing in importance between August and November 2008.

In MetLife's *Study of the American Dream*, 68% of Americans polled in January 2009 said that the current economic situation has been a real wake-up call for them and that they are making changes in their lives with respect to their personal finances. Ninety-three percent have already started or plan to spend less and save more as a result. Ninety-five percent said that they were concerned about the current economic situation and 71% expect the economy to be about the same or worse in 2009 compared to 2008.<sup>1</sup>

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**46%**

of **employees** have been prompted to review their personal financial situations in light of the economic downturn

November 2008

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Only **39%**

of **employees** are confident in their ability to make the right financial decisions

November 2008

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**51%**

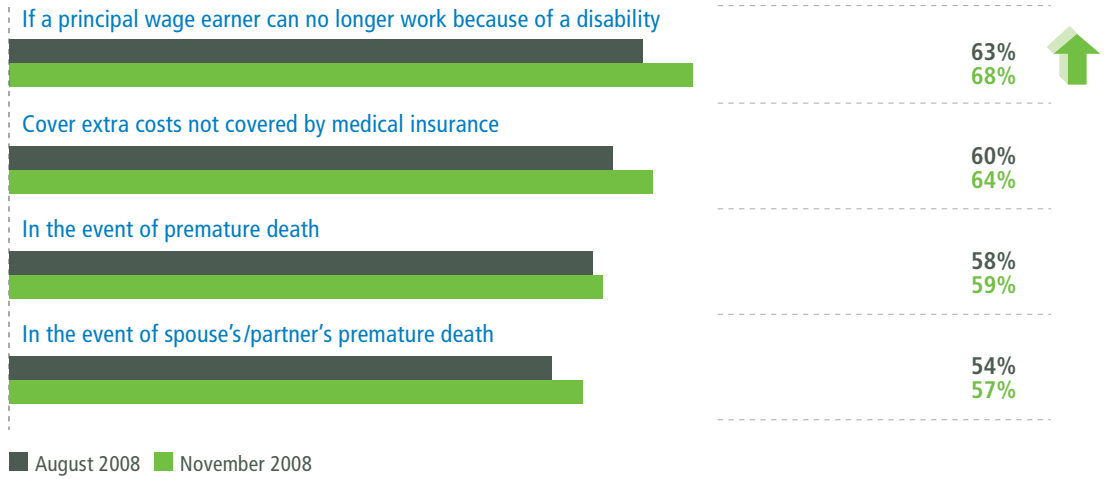
of **employees** obtain the majority of their financial products through the workplace

August 2008

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Employees' financial concerns increased noticeably in 2008.

**Employees feel unprepared to face critical financial situations**



Employees were asked to indicate their level of concern regarding premature death, disability, or serious illness.

**Retention and cost control remain steady as top employer objectives, while productivity increases in importance**

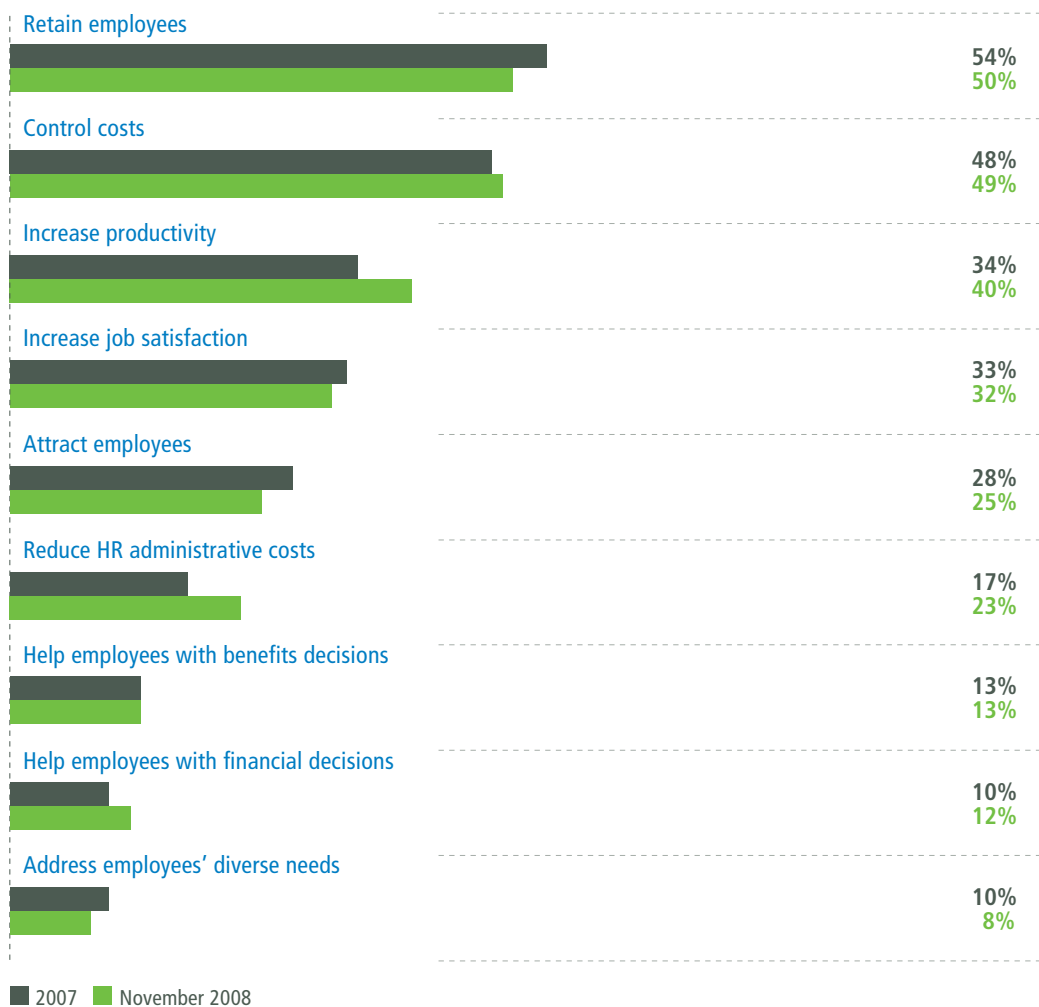
The Study asks employers to identify their most important objectives and top strategies for benefits. Economic concerns have caused surveyed employers to place increased emphasis on cost control and reducing human resources administrative costs compared with recent years. Over the period shown (from 2007 to November 2008), productivity has notably increased in importance among employers' benefits objectives, perhaps reflecting the reality of leaner times with a smaller workforce and the need to maximize employee resources.

Retention still remains the most important benefits objective for employers—a signal that employers have the long-term view in sight. Not surprisingly, there has been a decreased focus in attracting new employees.

To some, benefits may seem expendable when cost control takes precedence over other concerns, but the majority of employers responding to this Study do not intend to cut benefits in response to current conditions, citing reasons including the link between benefits and job satisfaction.

Indicates a statistically significant change from August 2008.

## Employers' most important benefits objectives entering 2009



Employers were asked to indicate their three most important objectives.

### **Employer objectives and employee priorities intersect but do not align**

Consistent with prior years' studies, we continue to observe a gap in perceptions between employees and employers regarding workplace benefits. While surveyed employers realize benefits are important, they may underestimate the degree to which they are valued by employees. Listening to employees' needs and concerns—particularly in this time of unique challenges—can point the way to benefits solutions that will serve both employer objectives and employee needs in a cost-effective way.

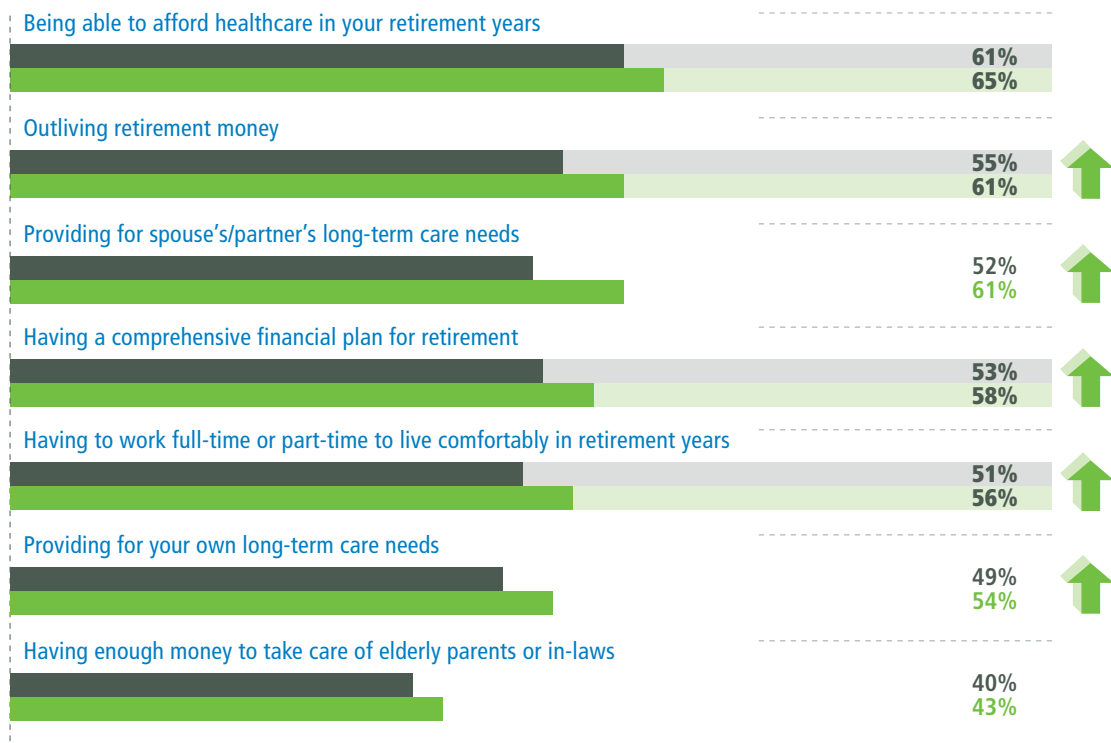
### **Benefits strategies for engagement and personal responsibility**

Benefits are not immune from economic considerations, but there is a healthy, growing interest in programs that drive employee engagement and personal responsibility. Trends in both work-life balance and wellness initiatives suggest growing employer interest in sponsoring programs that meet the needs of a diverse workforce. In addition, many employers may not be getting the maximum value from their benefits investment simply because employees are not getting the message about available benefits that best meet their individual needs. Now more than ever, employers can provide targeted benefits communication programs that seek to create greater awareness, understanding, and satisfaction with benefits.

### **Rebuilding retirement security**

Retirement is top of mind for many employees surveyed—employee concern about retirement issues increased significantly from August to November. Perhaps because of this heightened concern, retirement benefits increased as a contributor to employee's loyalty to their companies, from 67% in August to 72% in November.

## Retirement-related concern is on the rise



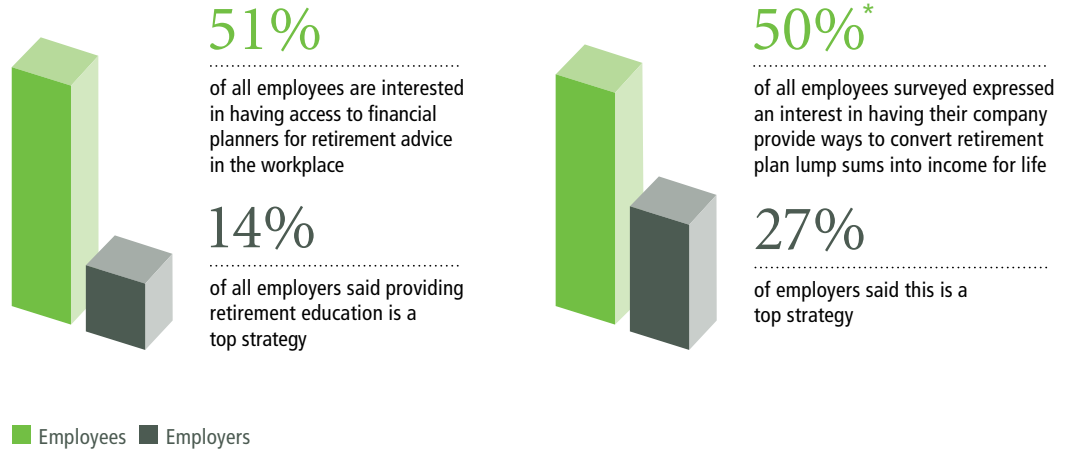
■ August 2008 ■ November 2008

Employees who indicated they were very concerned with the statements above.

↑ Indicates a statistically significant change from August 2008.

From advice to income, this year's Study suggests that employers and employees see the retirement landscape—and some potential actions and solutions—differently.

### Few employers are addressing employees' strong desire for advice and retirement income security



The government has enacted legislation and regulations to help address some of these retirement issues, such as providing income in retirement, encouraging participation through automatic enrollment, and the need for phased retirement for workers who want to stay in the workplace longer. But the effect of these ideas and regulation is not yet clear. Employers can take practical steps on both plan design and communication, even as public policy discussions continue to shape the future of qualified retirement plans.

Changes in employee attitudes toward retirement create challenges for benefits professionals even during stable economic times. However, the current economy creates complex and competing challenges for employers as they balance the need to retain valued talent, achieve the cost benefits associated with retention and productivity, and address the need to reduce or restructure their workforces. Benefits solutions that help create guaranteed retirement income and those that address financial planning and other retirement needs are just a few of the choices employers can make in an uneasy economic environment.

### Taking the long view

Before discussing the details of this year's Study, it is important to remember that the true value of research and trends analysis comes from the long-term view it affords. In tumultuous times, it may be tempting to focus on the more immediate cost-saving concerns. But the true value of this research is in understanding evolving trends in employee benefits for long-term viability. This year, employers have an opportunity to be more strategic in using their benefits programs to address the emerging priorities of their workforce while responding to their own business needs.

# Aligning Benefits in Challenging Times

A simple yet strong message has emerged: Now more than ever, employees value their benefits. In fact, they value benefits even more keenly in light of difficult economic times. But there also remains a gap in perceptions between the benefits employees value and those that employers believe are important, providing opportunities that may be perfectly suited for consideration in the current environment.

The Study provides the following insights into the emerging needs of employees, compared to the top benefits objectives of employers:

- Employees value benefits more this year than in the past, but are concerned that their employers may reduce benefits
- Retention and cost control remain steady as employer objectives, while productivity increases in importance
- Whereas employer objectives and employee priorities intersect, they do not fully align—this may offer insights into potential benefits opportunities

### Employees value benefits more this year than in the past

The economic downturn has affected many Americans' sense of security and preparedness. In November 2008, 33% of employees reported sometimes having difficulty paying bills—up from 28% in August. Generation Y employees surveyed in November appear to be having the most difficulty at 41%—up from 29% in August. In addition, in November 2008, almost half (45%) of employees surveyed said they live paycheck-to-paycheck, an increase from a low of 37% in 2006, and 71% say they carry some debt (other than mortgage or auto), with 63% carrying credit card debt.

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#### **Generation Y\***

Born 1977 to 1994

#### **Generation X**

Born 1965 to 1976

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#### **Younger Baby Boomers**

Born 1956 to 1964

#### **Older Baby Boomers**

Born 1946 to 1955

\*All respondents are age 21 and older.

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# 41%

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of **employees** consider workplace benefits to be the foundation of their personal safety net

November 2008

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# 46%

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of **employees** have expressed greater interest in learning more about the benefits offered through their workplace

The economy has in turn heightened the value employees place on benefits. More than 41% of employees surveyed in November consider workplace benefits to be the foundation of their personal safety net, up from 33% in August. The state of the economy seems to have delivered a wake-up call, creating renewed interest among employees not only in having benefits but in understanding them. Forty-six percent of employees have expressed greater interest in learning more about the benefits offered through their workplace as a result of the economic environment. Six in ten employees indicate that current economic conditions prompted them to review their needs for income in retirement. This percentage is even higher for older Baby Boomers (73%), who may be facing the reality of delaying retirement.

Of particular note is how the recent economic downturn has primed the interest of younger workers. In MetLife's *Study of the American Dream*, Americans were asked in January 2009 about their employee benefits. Seventy-three percent of Generation Y and 65% of Generation X said that they plan to pay or are already paying more attention to the benefits offered by their employers as a result of the current economic situation.<sup>2</sup>

Employee concerns regarding retirement have seen the most dramatic gains in issues such as the potential for outliving retirement money, inability to provide for long-term care, need for a financial plan for retirement, and having to work longer to cover costs in retirement, all of which increased significantly between August and November. Not surprisingly, employees are very interested in getting financial advice for their 401(k) or retirement plan through their employer—a trend that has risen from 43% in 2004 to 51% in November 2008.

This year's Study indicates the strength of benefits as a contributing factor to building loyalty among employees, after salary and wages. Health, retirement, and all other nonmedical benefits (including life, disability, dental, vision, etc.) were all key influences of employee loyalty. Factors such as advancement opportunities and company culture were of less importance. This research also shows that 40% of surveyed employees say benefits play an important role in their decision to stay with their employer. Seventy-four percent of employees plan to work for their current employer 18 months from now.

Of **employees** highly satisfied with their benefits

**73%**  
were also satisfied with their jobs

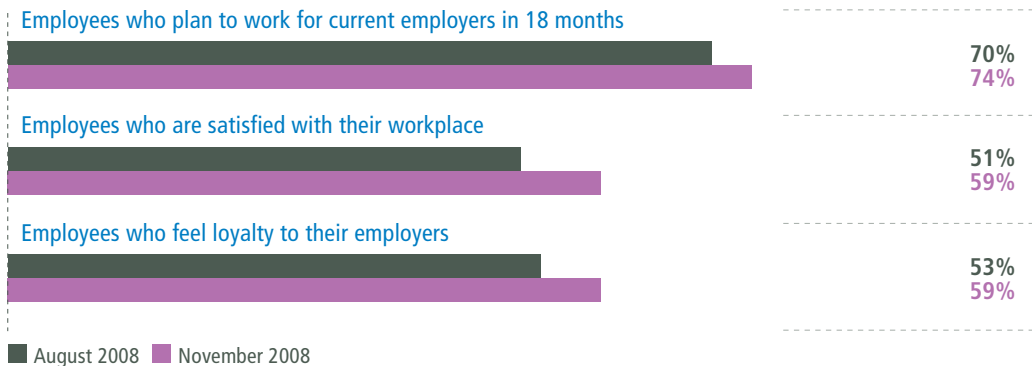
August 2008

Of **employees** not satisfied with their benefits only

**22%**  
said they were satisfied with their jobs

Given the importance employees place on benefits, they are understandably worried that their employers may reduce their benefits, with 33% stating that they were concerned that their employer may reduce or cut employee benefit expenses in the next 12 months due to the economy.

**Employee loyalty and job satisfaction have increased**



Employees who strongly agreed with the statements above.

### Despite challenging times, retaining employees remains employers' top objective

Retaining employees remains the top benefits objective in this year's Study; however, concern about controlling costs increased in importance, especially in light of the economic downturn. In addition, employers also indicate increasing productivity as a top objective—perhaps because they are faced with the realities of accomplishing more with fewer employees—placing even greater importance on maximizing workforce productivity during these tough economic times. Findings suggest that employers may be more focused on productivity by driving engagement and offering benefits solutions that mitigate distractions from work. Not surprisingly, attracting new employees was less important this year than in prior years.

The majority of employers continue to see the value in offering employee benefits and most do not plan the cutbacks that employees fear. Just 15% are considering a reduced 401(k) match, only 12% are considering reducing the coverage levels of benefits offered, and only 10% may shift additional costs to employees. It's interesting to note that the percentage of smaller companies (fewer than 500 employees) who are considering cutting benefits is not significantly different at 11%. This seems to reveal an appreciation that, even in challenging times, a balance must be struck between short-term and long-term business objectives regardless of company size.

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# 33%

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of **employees** expressed concern that their employer may reduce or cut benefit expenses in the next 12 months due to the impact of the economy

November 2008

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# 12%

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of **employers** are considering reducing the coverage levels of benefits offered

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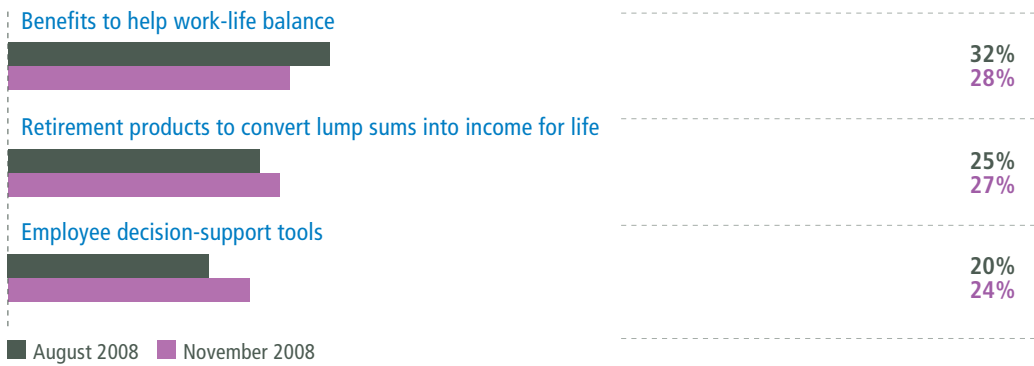
#### A WORD ABOUT THE WORLD

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Seventy-nine percent of Americans 18 years old and older are concerned about the potential long-term effects of the economy.<sup>3</sup>

To achieve their benefits objectives, employers indicated several important benefits strategies. Offering benefits to help employees with work-life balance remained the most important strategy cited by surveyed employers. They also cited providing retirement products that convert lump sum distributions into income in retirement and wellness programs as important strategies. It appears employers are choosing ways to help their employees address concerns about adequate work-life balance, retirement security, and health while trying to control costs and solidify retention—the top two objectives for employers.

**Employers' top strategies remain consistent in challenging times**



Employers were asked to indicate their top three strategies.

**A WORD ABOUT THE WORLD**

Record debt levels coupled with the state of the economy contribute to employee stress and confusion.

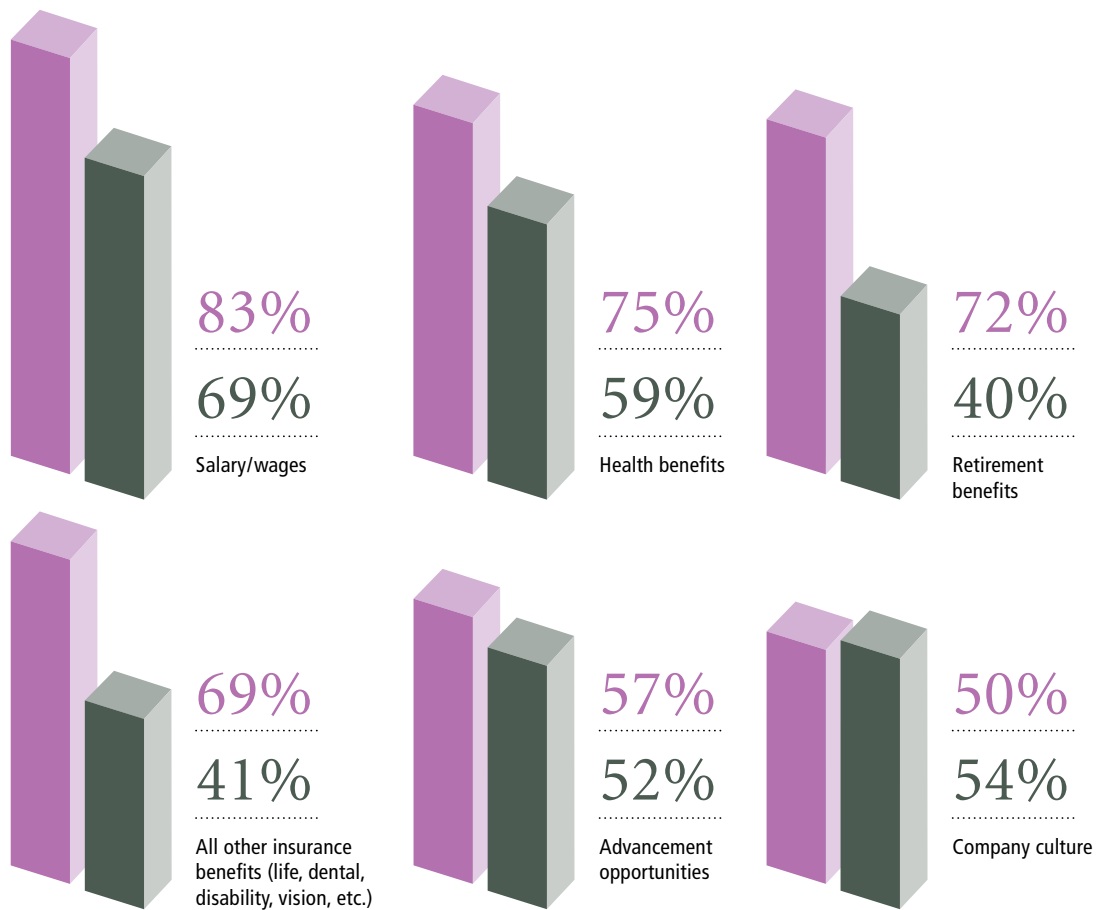
Americans have been using credit and loans to a greater degree than previous generations, entering the second decade of the century with an average \$175,154 in debt per person, compared to \$29,722 in 1957 (adjusted for inflation).<sup>4</sup>

**Employer objectives and employee priorities intersect but do not align**

Now that we have examined the concerns and priorities of employees and employers, we will focus on opportunities to maximize their benefits investment by comparing the gaps in employee perceptions regarding benefits compared with their employers. Years of benefits trends data send a clear, consistent message that is spelled out compellingly in the gaps.

There is a significant gap between employee and employer perceptions of how benefits contribute to loyalty. For example, health, retirement, and all other benefits are much stronger factors contributing to loyalty for employees than employers realize. In particular, the influence of all other nonmedical benefits (including life, disability, dental, vision, etc.) showed a gap—69% of employees said other benefits were an important contributing factor to loyalty, while only 41% of employers agreed. This has been an ongoing trend for the past several years and the importance of these benefits in contributing to loyalty has increased among employees from 51% in 2007 to 69% in November 2008.

**Benefits influence employee loyalty more than employers realize**



Employees say that benefits influence their loyalty to a significantly greater degree than employers anticipated.

■ Valued by employees ■ Employer perception of value by employee

November 2008

Employees and employers were asked to indicate the importance of various factors of employee loyalty toward their employer.

While gaps have appeared to varying degrees since the first study in 2001, the potentially positive impact of closing them may never be greater. Employees are telling a clear story about their concerns and priorities. A growing need for financial planning advice and guidance has been developing as employees indicate a lack of confidence in their ability to save and invest adequately for retirement.

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51%

of employees expressed interest in **financial planners for their 401(k)/403(b)/457 plans**

November 2008

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44%

of employees expressed interest in **retirement seminars**

August 2008

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43%

of employees expressed interest in **benefits advisors**

November 2008

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38%

of employees expressed interest in **financial planners**

November 2008

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Employees understand that they don't have the information they need to make the right financial decisions, and look to the workplace to obtain this type of advice and guidance. Yet, providing general financial planning and investment education is cited as one of the least important benefits strategies by employers.

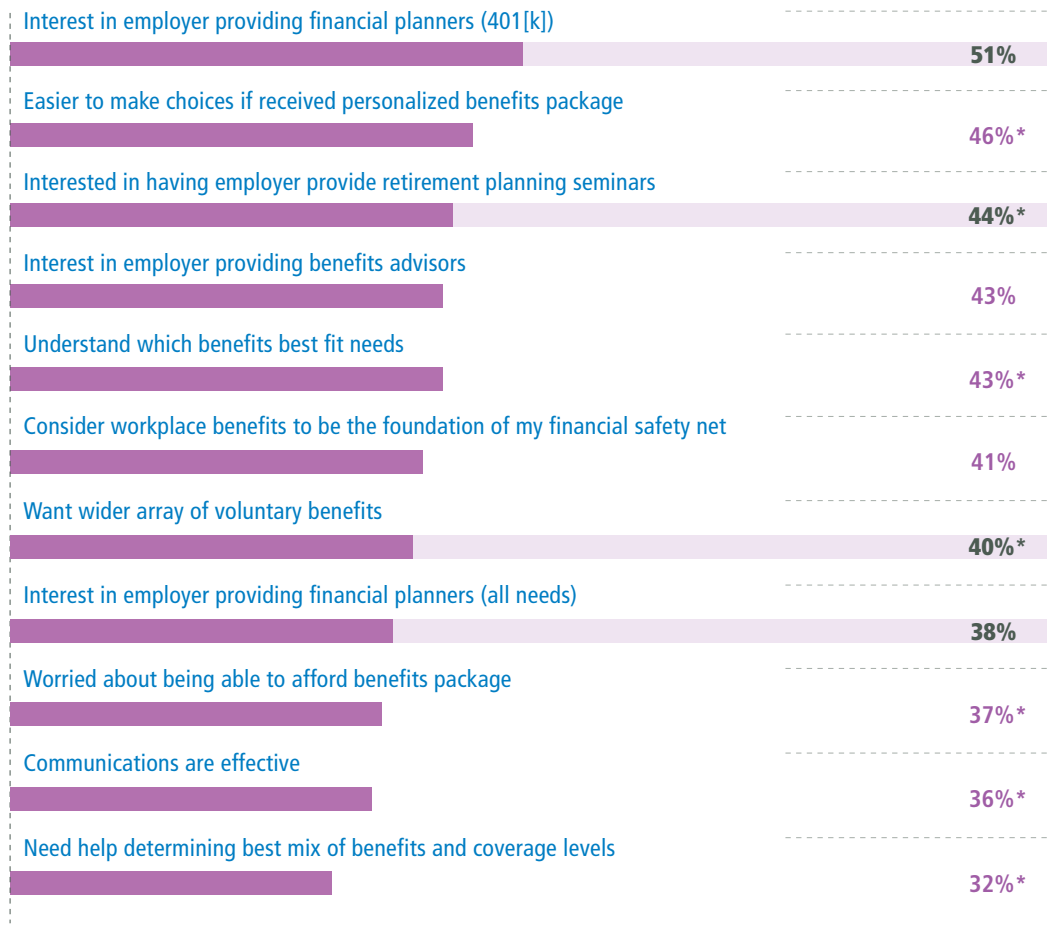
Although employees who are working full-time in a period of record-high job cuts do feel understandably more loyal to their employers, many consider the value of their benefits package as an important reason in deciding to stay in their current jobs.

One potential benefits solution to consider is the role of voluntary benefits, especially as the ability to sustain former levels of traditional benefits spending may begin to recede for the majority of employers. Employees clearly value these programs. Forty percent of employees are highly interested in a wider array of voluntary benefits, but only 17% of employers have included expansion of voluntary benefits among their top strategies for 2009.

This year in particular, there is an opportunity to better align meeting employee benefits priorities with the benefits strategies that employers say they are most interested in pursuing. The emerging recognition by employees for financial guidance and benefits customization represents an opportunity for employers. The road ahead won't be an easy one. The good news is that better alignment of employee and employer issues may offer better value on both sides of the equation.

## Employees and employers have different priorities

### Employee benefits priorities



November 2008

\*Question not asked in November; August data is shown.

Employees were asked to indicate agreement with the statements above.

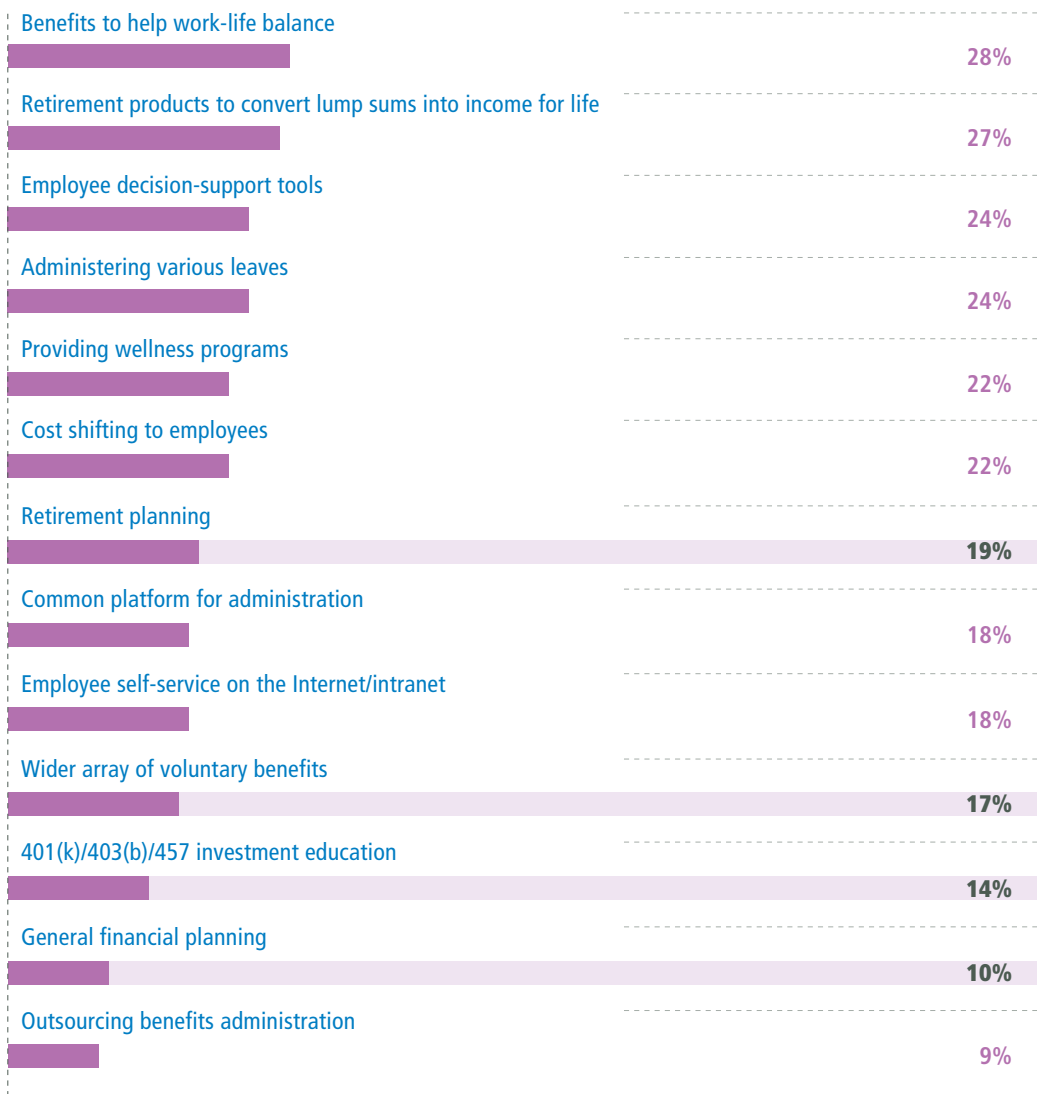
### A WORD ABOUT THE WORLD

Family dynamics are changing.

Married couples slipped below majority threshold of all U.S. households in 2005 to 49.7%, down from 52% just five years earlier.<sup>5</sup>

Single-parent families increased to 9% in 2006 from 5% in 1970.<sup>6</sup>

### Employer benefits strategies



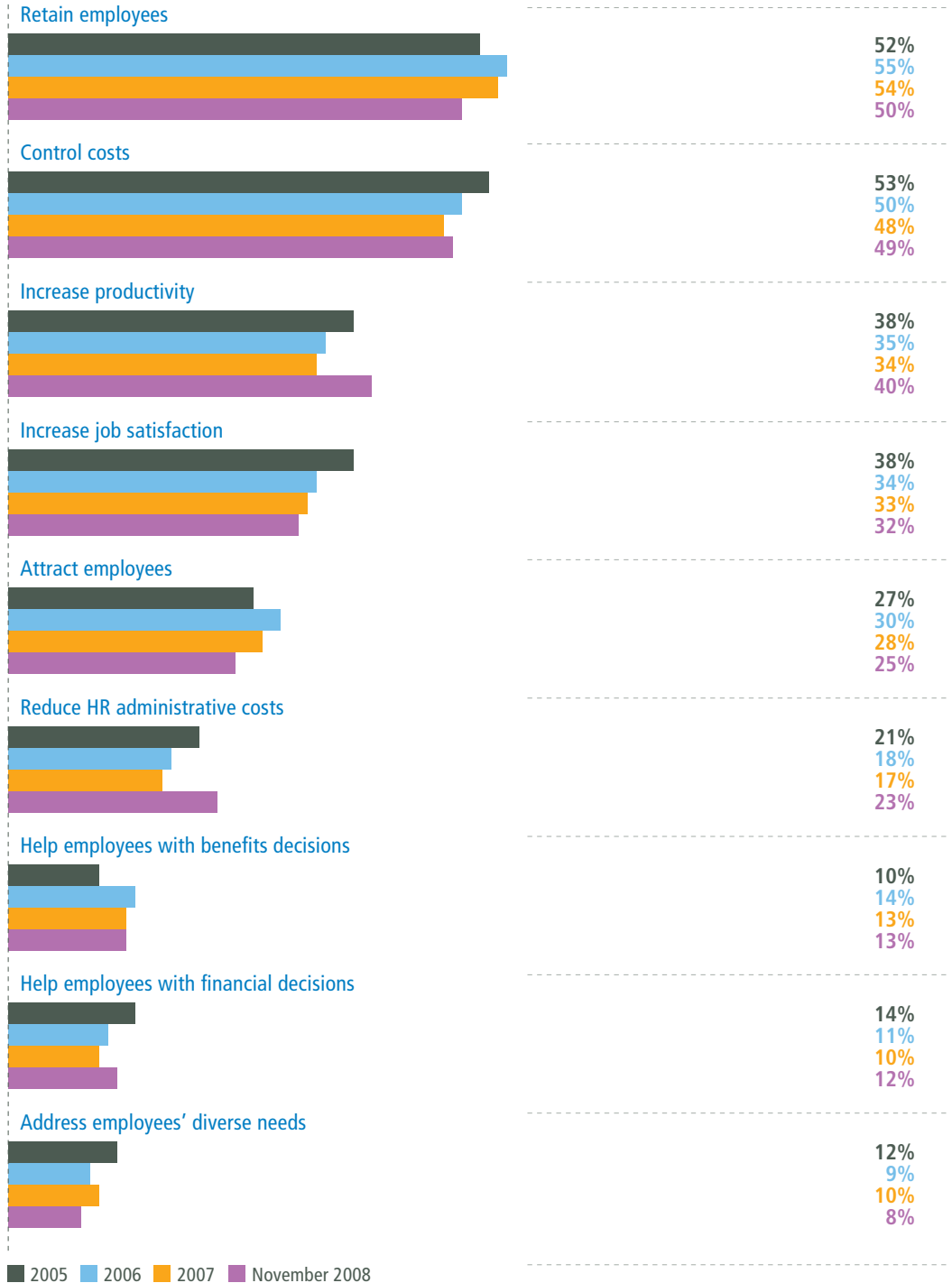
While employees place retirement planning first on their list of concerns, it is considerably lower on employers' list of benefits strategies. Similar gaps around financial planning, personalized benefits, and voluntary benefits present opportunities for employers to improve benefits effectiveness by responding to employee priorities.

November 2008

Employers were asked to indicate their three most important benefits strategies.

This Study identifies the top employer benefits objectives year after year, and suggests that the major business reasons for offering benefits to employees have remained remarkably stable since 2005.

**Employers' top objectives remain steady**



■ 2005 ■ 2006 ■ 2007 ■ November 2008

Employers were asked to indicate their three most important benefits objectives.

### **A final word about aligning benefits in challenging times**

While both employers and employees believe that benefits are a significant part of the decision to choose and stay with an employer, the types of benefits employees most value are perceived differently by each group. In particular, gaps are appearing in retirement and voluntary benefits. This gap in perception highlights missed opportunities to deliver and get the most from each benefits dollar.

# Benefits Solutions for Employee Priorities

Many of the benefits that have the greatest potential to influence employees' loyalty to their employers can actually be cost-effectively and efficiently implemented by employers. For employers who can leverage the significant opportunities revealed by this year's findings, the time could not be better to use benefits to help meet the top employer benefits objectives (retaining employees, controlling costs, increasing productivity) by addressing the changing needs of employees.

Employers can be instrumental in helping employees work toward greater personal responsibility in matters that affect their financial and personal well-being. This year's Study clearly points to the value of the following benefits solutions employees address as a need:

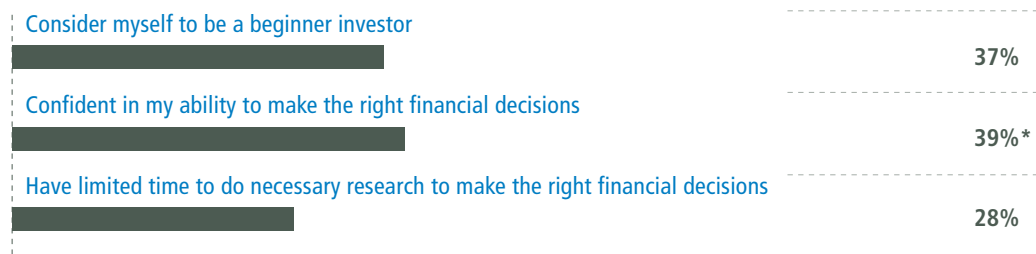
- Strengthening employee safety nets through financial advice and guidance programs in light of lower worker confidence in their ability to financially make ends meet
- Employees are often more interested in voluntary benefits than their employers recognize

### Responding to employees' need for advice and guidance

One way to meet employee needs is through advice and guidance in the workplace. The need for financial advice and guidance is deeply felt among employees—only 39% feel confident in their ability to make the right financial decisions. In the short time between the August and November Studies, employees' concern about having a financial plan for achieving financial goals increased from 42% to 49%. Employees also expressed interest in access to retirement planning (51% are very interested) and financial planning (38% are very interested).

#### Employees lack confidence and seek planning resources

##### Employees lack time and confidence for financial decisions



August 2008  
\*November 2008

Employees were asked to indicate agreement with the statements above.

The concern about having a comprehensive financial plan for retirement increased from 53% in August to 58% in November—younger Baby Boomers expressed the biggest increase from 56% to 67% during this three-month period.

##### The need for financial planning and advice is on the rise



■ August 2008 ■ November 2008

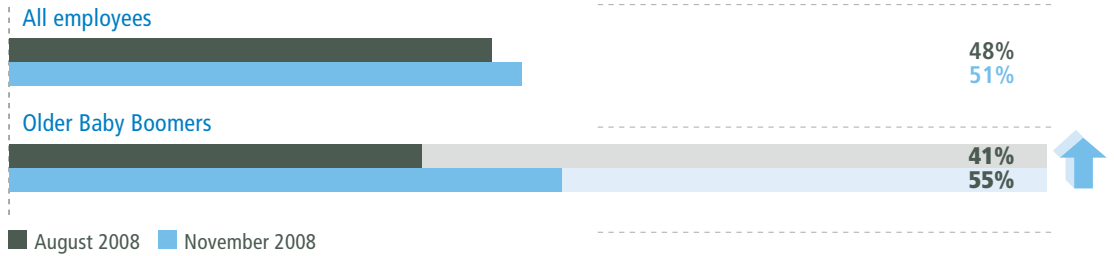
Employees who were very concerned with estate and financial planning.

↑ Indicates a statistically significant change from August 2008.

13%

of employers indicate that helping employees with benefits decisions is a priority  
November 2008

Interest in retirement planning through employer showed the biggest jump among older Baby Boomers

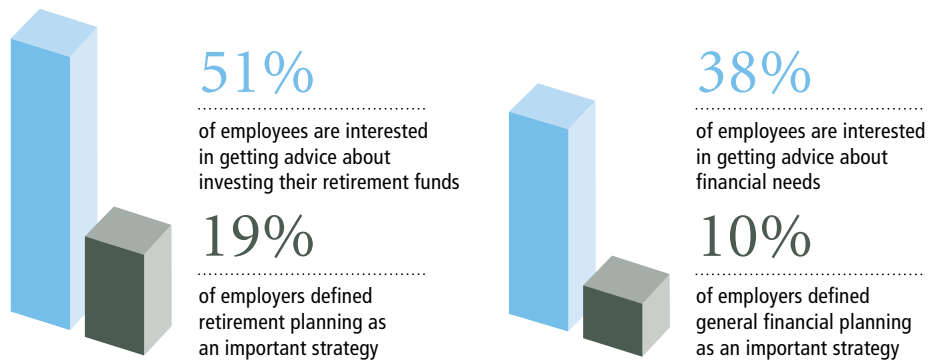


Employees were asked to indicate interest in their employer providing financial planners for 401(k), 403(b), and 457 plans.

Employers may not realize that employees would welcome more direction and guidance. It is low on their list of benefits objectives, perhaps because of fiduciary and liability concerns. Only 13% of employers indicate helping employees with benefits decisions as one of their top benefits objectives. In addition, benefits strategies associated with financial advice and guidance are low on the list of important employer strategies, with only 19% deeming retirement planning as one of their most important benefits strategies, 14% agreeing that 401(k)/403(b)/457 investment education is important, and 10% identifying general financial planning as a top benefits strategy.

As individuals seek to maintain a secure financial footing, employers have an opportunity to offer valuable access to financial experts, programs, and information. These planning tools can foster personal responsibility and help employees feel more confident that they are making sound financial decisions.

Employees are interested in advice and guidance at the workplace



Employees have expressed interest in financial and retirement planning, but few employers have placed a high priority on benefits that would respond to those needs.

November 2008

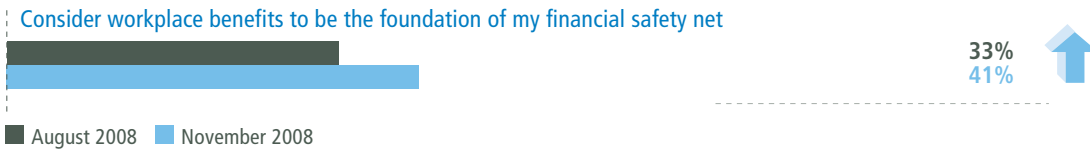
Employees were asked to indicate agreement with the statements above. Employers were asked to indicate their top three strategies.

↑ Indicates a statistically significant change from August 2008.

### Strengthening the employee safety net with voluntary benefits

Employees increasingly view benefits as the foundation of their financial safety net. At the same time, many employees surveyed do not necessarily feel prepared to face significant unforeseen events such as income loss due to disability, eldercare, or premature death. This heightened awareness and concern point to the value of voluntary benefits offerings such as individual disability coverage, group variable universal life products, and long-term care insurance as potential solutions that would be well received by employees.

#### Employees awake to the central role of benefits in financial security

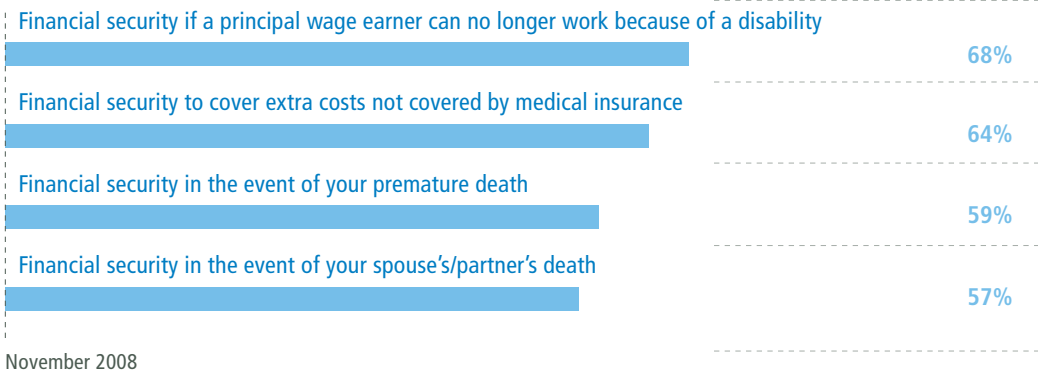


Employees were asked to indicate agreement with the statement above.

It is clear that many employees are concerned about both their current financial security and their retirement security. Seventy percent of employees are highly concerned about the ability to pay bills during sudden income loss and 61% are concerned about having enough money to make ends meet. Employees appear to be taking an interest in many core financial protection products. The economic situation has also prompted many employees to review their financial needs. Forty-four percent have reviewed their life insurance needs, 38% have reviewed their disability needs, 35% have reviewed their long-term care needs, and the majority (62%) have reviewed their financial needs for retirement.

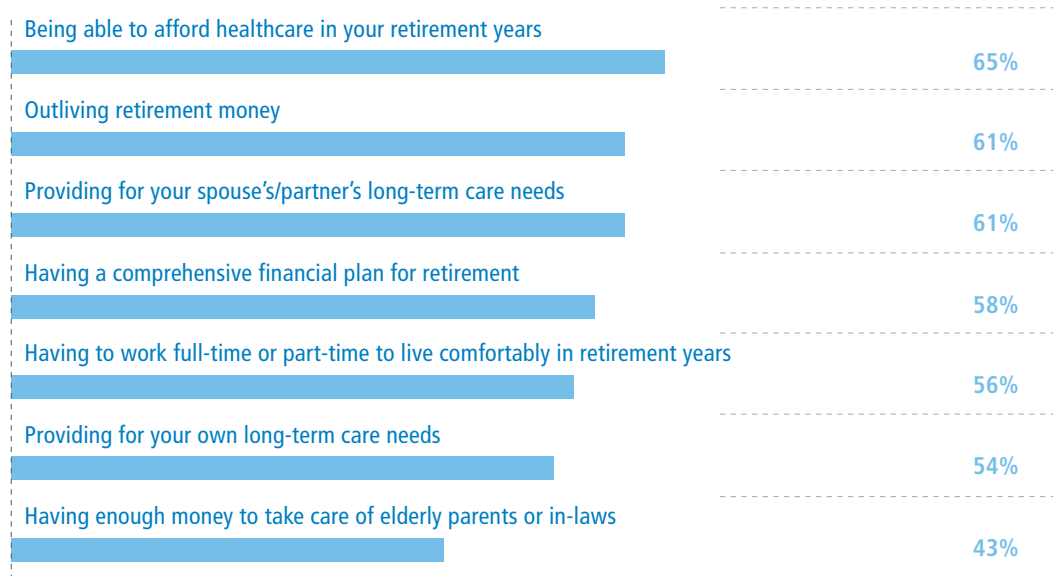
### Employees do not feel prepared for financial crises

#### Employee financial concerns are acute



November 2008  
 Employees were asked to indicate their concern regarding unforeseen events such as premature death, disability, or serious illness.

**Employees' retirement concerns are prominent and play heavily in evaluating their financial future**



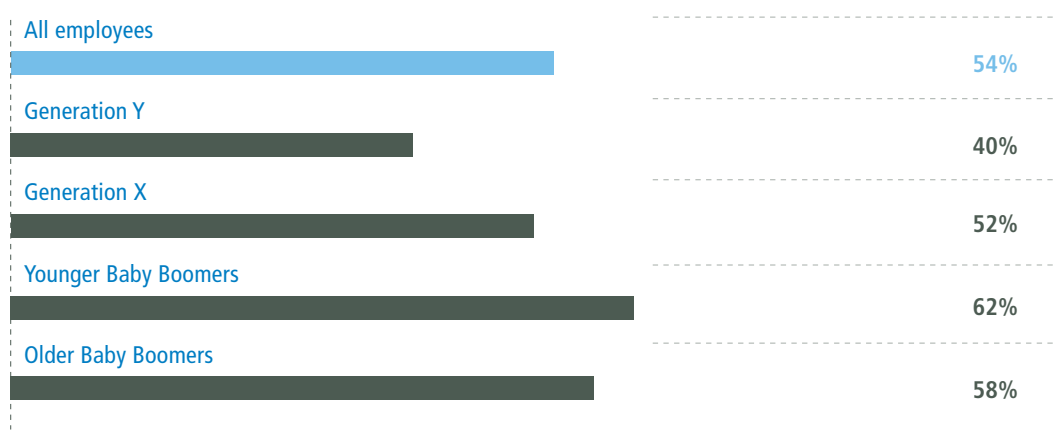
November 2008

Employees were asked to indicate their concern about retirement issues.

**Employees seek financial assistance with long-term care needs**

Regardless of life stage, employees look to the future in evaluating their financial security. Anticipating long-term care needs is a growing concern. Forty-three percent of employees said they were concerned about caring for aging parents and the majority of employees see the need to provide for their own long-term care needs.

**All generations see the need to anticipate long-term care needs**



November 2008

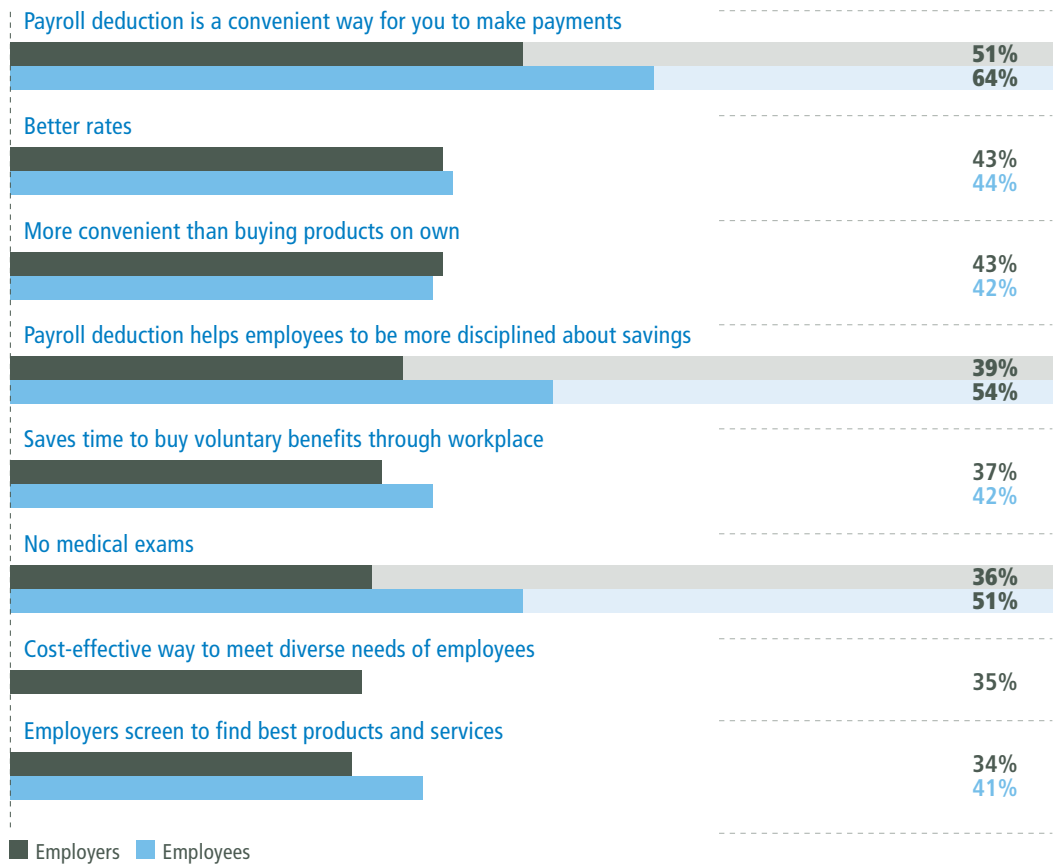
Employees were asked to indicate their concern with providing for their own long-term care needs.

### Closing the gap with voluntary benefits

Many voluntary benefits provide an opportunity for employees who seek convenient and affordable benefits solutions. Employers have the opportunity to implement a cost-effective program with a wide variety of voluntary benefits options that fit the needs of a diverse workforce and help close the gap between employees' priorities and employers' current focus, to everyone's advantage.

The Study has been tracking a growing discrepancy in how employers and employees view voluntary benefits. Whereas interest in voluntary benefits by both employers and employees has remained steady over the past several years, employees have been indicating greater interest in many of the attributes of voluntary benefits such as the convenience of payroll deduction or the value of employer screening of quality products and services, significantly beyond what their employers might recognize.

### Employees consistently value attributes of voluntary benefits more than employers realize



August 2008

Employees and employers were asked to indicate agreement with the statements above.

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The MetLife *Study of the American Dream* shows that over

**90%**

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of Americans believe that it is important for companies to continue to offer benefits, even if they must pay most or all of the cost<sup>7</sup>

### Actions and solutions

- Provide or update an online summary or outline that helps inform employees about advantages of benefits such as life, disability, and dental, and how these benefits can meet their needs and priorities.
- Regularly communicate with employees regarding the various ways your benefits program may address growing financial concerns.
- Survey your workforce to get a reading on its level of interest in financial advice and guidance programs. This year's Study suggests that you might be underestimating employees' appetite for these programs.
- Consider working with external partner(s) to offer retirement programs and financial planning sessions for your employees.
- Help your employees help themselves by providing appropriate tools to help them better understand what they will need to do to reach their financial objectives under current economic conditions.
- Recognize that with financial uncertainty there are considerable levels of stress. Think about new ways to tap into stress-reduction programs and Employee Assistance Programs.
- No news can be worse than bad news in troubling times. Regular communication and open dialogue on benefits programs can powerfully reinforce your company's ongoing commitment to your employees.
- Conduct a workplace survey of potential voluntary benefits to understand priorities, needs, and potential participation levels of the various generations of the working population.
- Explore offering voluntary benefits with a particular emphasis on enabling a choice of products.

### **A final word about benefits solutions for employee priorities**

A shift of the burden for creating a secure financial future to employees coupled with the economic downturn has employees feeling more uncertain than ever about their future. Workplace benefits can help them create a strong financial foundation.

Employers who recognize the opportunity to take a leadership role by offering creative benefits solutions and financial advice and guidance will position themselves to emerge from these challenging times with their most valuable asset—the people who work for them—focused and engaged.

# Benefits Strategies for Engagement and Personal Responsibility

Employers are increasingly recognizing that recent events have made an irreparable and indelible mark on how benefits will need to be addressed going forward. This year, companies indicated a greater focus on work-life balance, wellness, effective communications, and individualization of benefits offerings. In spite of mounting economic challenges, there remains a resilient spirit of innovation.

Benefits are not immune from economic considerations; but there is a healthy, growing interest in programs that drive employee engagement and personal responsibility. Trends in both work-life balance programs and wellness initiatives suggest growing employer interest in sponsoring programs that better acknowledge the needs of today's worker. Offering programs that coincide with employee needs and preferences is an area of growing interest reflected in this year's Study.

Many employees may still not be getting the message about available benefits that best meet their individual needs. Overall, only one-third of surveyed participants (33% of employers and 36% of employees) agree that benefits communication effectively educates employees. The need for effective communication is an opportunity for many employers to enhance the cost-effectiveness of benefits.

The Study points to the following strategies for engagement and personal responsibility:

- More employers are finding value in responding to the needs of a diverse workforce through work-life balance programs
- Wellness solutions may have a positive effect on medical costs and encourage greater personal responsibility for individual health
- There is a significant correlation between benefits communication and benefits satisfaction that employers should carefully consider

As employers review benefits plans in light of current economic conditions, they want to be as certain as possible that their benefits dollars are well spent. Often, benefits are evaluated based on participation rates alone. Employers may be quick to reject those with low employee participation without weighing the role of effective targeted communication in stimulating enrollment in certain benefits. In some cases, employees may not have enough education about the importance of certain benefits. For example, the most important financial concern of employees is sudden loss of income, and while 71% of employers offer disability insurance, only 57% of employees own it through the workplace, most likely because they don't understand how this benefit addresses their financial income replacement need. The goal is to get the most value from every benefit offered. Awareness and engagement have a role to play in ensuring this.

**39%**

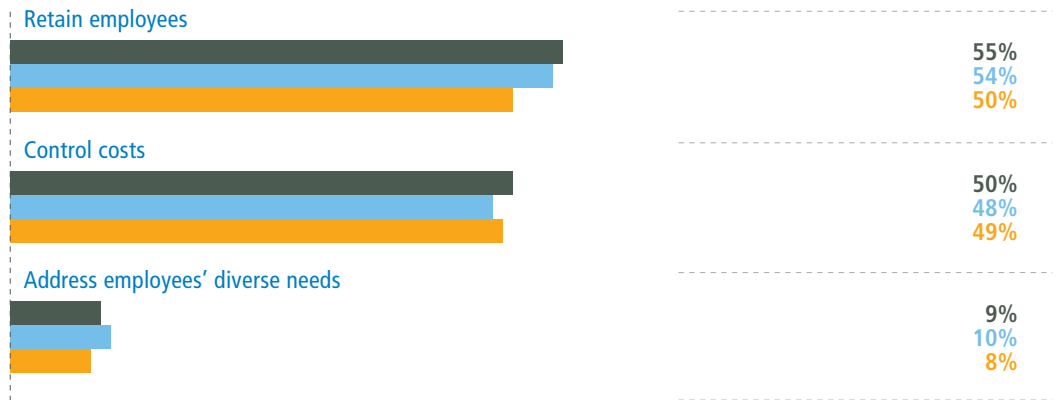
of employers who rate their benefits packages better than the competition tend to see the value in working with outside experts, such as group insurance carriers, to target benefits communications (compared to 22% of the total employer group)

August 2008

**Achieving benefits objectives through employee engagement**

The employer who can align benefits programs with employee needs and preferences will be likely to see increased participation and engagement. Forty percent of employees say they want a wider array of voluntary benefits and would welcome help for all of their financial needs. But choice and access are only part of the equation; 46% of employees would like a personalized benefits package that is relevant to their life-stage needs and personal preferences.

**Top two employer objectives remain steady, but may not be aligning with employee needs**



Retaining employees and controlling costs are reasonable goals in the current economic climate. However, employers may be missing an opportunity to achieve both when they place such low emphasis on meeting employees' diverse needs.

■ 2006 ■ 2007 ■ November 2008

Employers were asked to indicate their top three objectives.

**Creating balance through work-life benefits and responding to diverse needs**

While providing benefits to help work-life balance was surveyed as employers' top benefits strategy (28%), there is still a lack of emphasis on meeting the diverse needs of the workforce, such as those influenced by life stage. Only 8% of employers indicate that meeting employees' diverse needs is one of their most important benefits objectives. However, 46% of employees are interested in receiving personalized benefits packages.

Employee concerns vary by generation. More than half of Generations X and Y—51% and 53%, respectively—are highly concerned with the cost of childcare, and those numbers have increased steadily over the past three years. Similarly, 66% of families with children under 18 are extremely concerned with funding their child's college education. In addition, 37% of employers acknowledge that an aging workforce will have a significant impact on their companies, yet only 17% of employers offer resources or programs, such as staged or phased retirement, geared toward the aging workforce.

51%

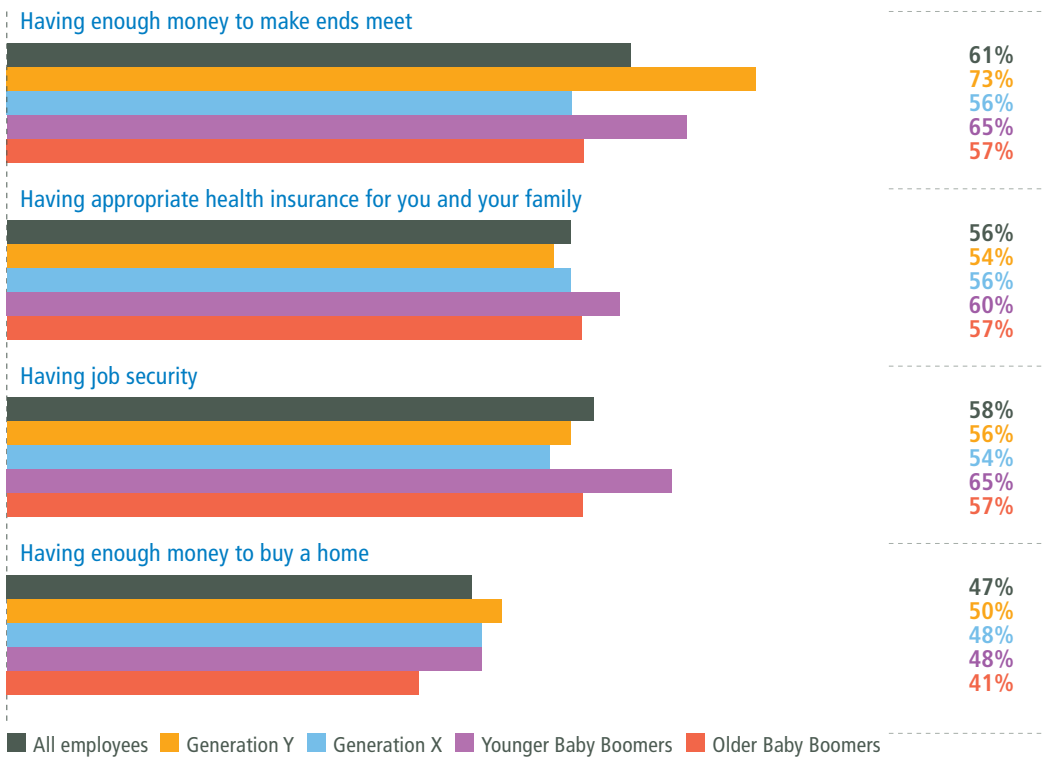
of **Generation X** are highly concerned with the ability to afford childcare

August 2008

53%

of **Generation Y** are highly concerned with the ability to afford childcare

**Financial concerns vary by life stage**

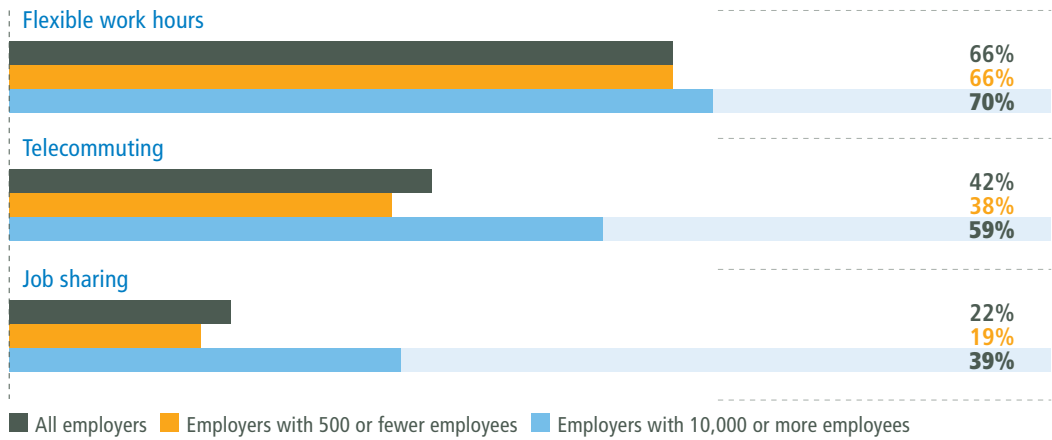


November 2008

Employees were asked to indicate level of concern.

Employers can attempt to increase productivity levels and simultaneously help their employees find a balance between work and life by offering programs and services that help ease these burdens. Larger employers (10,000+) are leading the way in helping employees cope through flexible work hours (70%), telecommuting (59%), job sharing (39%), and phased retirement (29%).

**Large employers lead the way with key responses to work-life solutions**



August 2008

Employers were asked which work-life benefits they offer.

**Wellness**

Wellness programs represent one of the most logical, timely, and potentially cost-saving initiatives that employers can adopt in the coming years. As employers discover their potential in counteracting rising medical costs, U.S. employees are also developing more interest in participating in these programs.

Both employees and employers may stand to gain substantially from engaging in wellness programs. Employers believe that a majority of employees (57%) value wellness programs and 66% think that these types of programs are at least fairly effective in reducing medical costs. For employees who participate, three-quarters (73%) indicate that the most common reason for participating is to help them achieve or maintain healthier lifestyles.

Employers, especially smaller companies, have been slow to move into the wellness arena. Even so, the number of employers offering wellness programs has gradually increased over the past four years, from 27% in 2005 to 33% in 2008. Thirteen percent of small companies (those with fewer than 50 employees) currently offer a formal wellness program, compared to 61% of large companies (those with more than 10,000 employees) who do the same.

### Employers are slowly but steadily adopting wellness programs



Employers were asked whether they offered wellness programs.

All employer groups can consider the wide range of wellness programs that may be right for their employee population, including:

- Smoking cessation
- Weight loss
- Stress reduction
- Chronic disease management

# 61%

of large companies reported having a wellness program in 2008—up from 47% in 2005

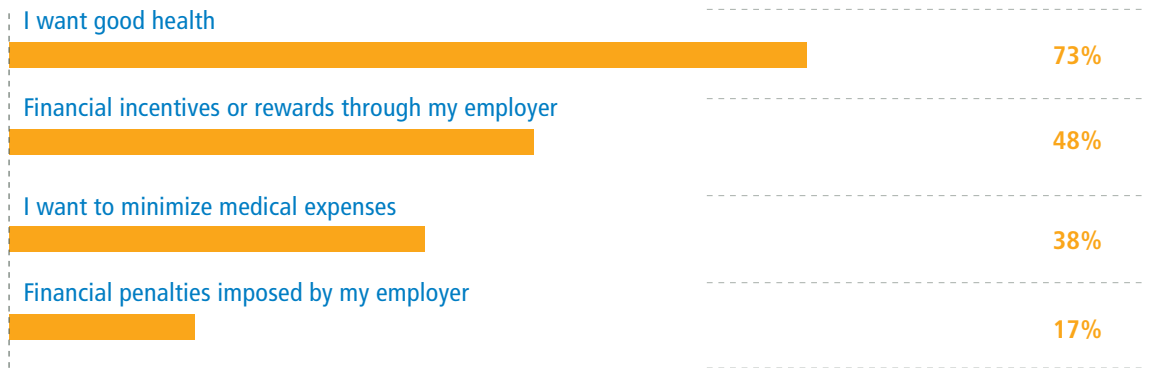
August 2008

# 11%

of companies that do not currently offer wellness programs plan to do so within the next 18 months

**Wellness programs are perceived positively, regardless of life stage and motivation**

**Reasons employees participate in wellness programs**



**Of those who participate in wellness programs, Baby Boomers are the most likely to participate for health reasons**



**Of those who participate in wellness programs, younger employees are most likely to respond to incentives**



August 2008

Employees were asked the reasons for participating in their employers' wellness programs.

**A WORD ABOUT THE WORLD**

As employees search for relevance, employers can provide solutions.

Work-life benefits are congruent with the consumer trend of "recentering" identified by GfK's *Roper Reports*. Since 2006, consumers have evolved to become happier with self and community and are more concerned about the state of the nation, economy, climate, and world.<sup>8</sup>

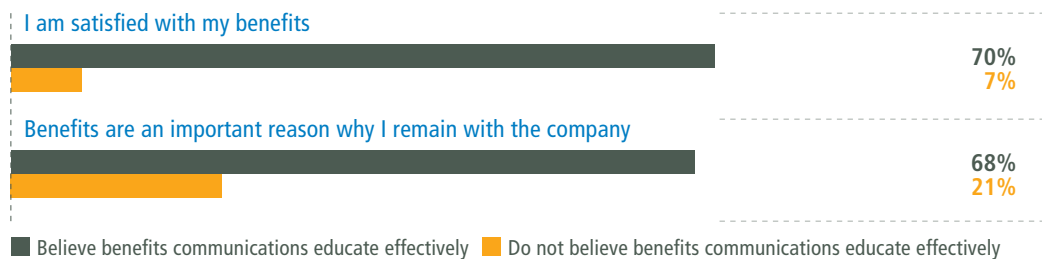
### Importance of communication

Overall, almost half of employees surveyed show an interest in benefits and communications that are personalized to reflect their individual needs. Customization is perceived as a valuable way in which employees can make better benefits decisions.

Total compensation statements, which combine personalized salary and benefits investment reporting in a seamless, holistic way, are effective tools for communicating with employees about available benefits, as well as communicating the monetary value of the benefits they already receive. Forty-three percent of surveyed employers provide total compensation statements, and 73% of those who provide them say they are extremely or very effective in helping employees understand the value and cost of benefits. Forty-six percent of employers who provide the statements also give themselves high marks for employee satisfaction with communications.

The Study indicates that 37% of employers communicate on a periodic, quarterly basis about benefits, rather than in an ongoing dialogue. Utilizing today's online environment and the continual access that employees experience through the Internet and social networking can make information available and actionable as it is needed.

### Correlation between benefits satisfaction and loyalty, and effective communications



August 2008

Employees were asked if they agree with the statements above.

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Consumers are seeking new solutions, such as the green movement and social networks, and display a growing demand for leadership.<sup>9</sup>

**46%**

of employees view customization as a valuable way to make better benefits decisions

August 2008

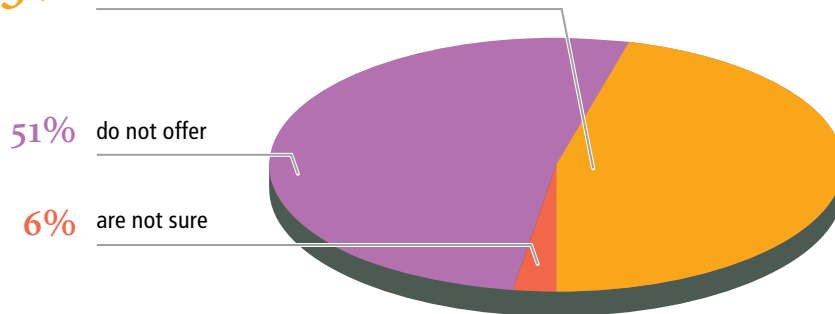
Yet another telling trend is the brief attention employees pay to benefits decisions; the median time spent is just 30 minutes (this figure has remained consistent over the years). This may be an outcropping of the sense that these decisions must be made during open enrollment, which is a specific, tight window of time. It may also be indicative of employees' inability to relate to the materials and information in a meaningful way.

Surprisingly, although mid- to large-sized companies tend to believe their communications are doing a better job, only in the largest companies do a substantial number of employees (45%) agree. Smaller companies (2–49 employees), which logically have more immediate access to employees, fare 19 points lower than the largest companies in employee perception of communication.

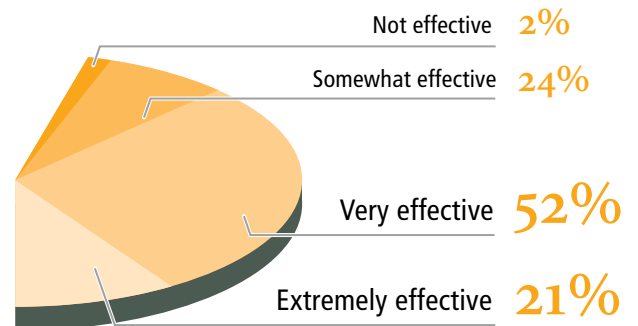
Employees are exhibiting a heightened interest in and appreciation for workplace benefits. While many of their needs are being met, some programs are not fully maximized. Employers can strive to raise participation levels and return on the benefits dollar by improving communication with their employees.

**Employers offering total compensation statements find them effective**

**43%** offer total compensation statements



**Of the 43% who offer total compensation statements**



August 2008

Employers were asked whether their company provides a total compensation statement and how effective it was in helping employees understand the value/cost of the benefits the company provides.

33%

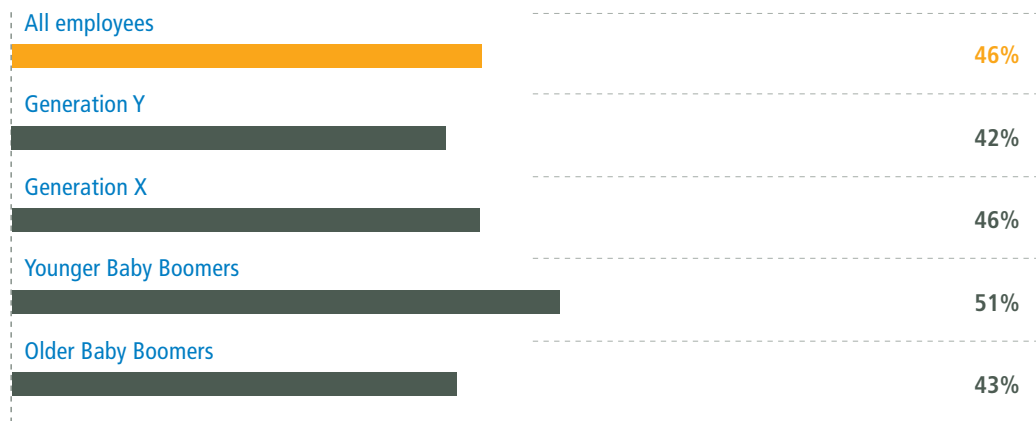
of **employers** strongly believe that current benefits communications educate employees effectively

August 2008

36%

of **employees** strongly believe that current benefits communications educate employees effectively

### Employees across all generations want personalized information



Employees indicated that personalized benefits communications would help them make better decisions about benefits.

August 2008

Employees were asked to indicate agreement with the statement, "It would be easier for me to make choices if I received a personalized benefits package that outlined my costs for the different options."

### Actions and solutions

- Seek out personalized benefits programs that speak directly to each life stage remembering that work-life balance is a high priority among surveyed employees.
- Customize your programs to reflect your employees' diverse needs. Think of online tools that are available to help employees calculate their benefits needs. Explain to employees in simple terms how benefits can help "people like me."
- Communicate not only what is available, but why it matters at the time that it matters. Consider off-cycle enrollment so employees don't receive all the information at one time. Establish an ongoing dialogue of communications that allow employees to ask questions or seek information when the need arises. Consider communicating more frequently during tough economic times when employees may need direction and reassurance.
- Coordinate benefits for employees—through total compensation reporting and other integrated approaches—so that employee benefits become the strongest thread in their personal safety nets.
- Use wellness programs, financial planning groups, and seminars to try to build a sense of community among your employees for increased loyalty.
- Get the word out about programs. Form teams or peer groups in either online forums or in-person settings to keep participation high.
- Explore standard wellness programs such as smoking cessation, weight loss, stress reduction, and/or chronic disease management as a cost-effective way to extend your medical coverage.
- For companies that offer wellness programs, increase communication levels to help educate employees about the benefits, centralize information for ease of access, and consider offering incentives as a way to increase participation.
- Consider enhancing absence management programs, which can improve productivity and employee experience. Absence management solution providers can help reduce the administrative burden on employers and improve employee satisfaction.

## **A final word about benefits strategies for engagement and personal responsibility**

Employers can anticipate two outcomes from greater employee engagement with benefits that exemplify the mutual advantages benefits can bring.

- Employees who are engaged in benefits programs at work and who participate fully in the benefits offered tend to have a greater sense of connection that could translate into increased loyalty and greater job satisfaction.
- Employers who experience high degrees of employee participation in benefits may receive a higher return on their benefits spending through economies of scale.

# Rebuilding Retirement Security

People are living longer. And although as a nation we have recently begun to turn attention to saving, savings rates are historically low.<sup>10</sup> At the same time, the reach of defined benefit plans to active workers has decreased, the prevalence of workplace defined contribution plans has increased, and, perhaps most importantly, the reality has emerged for many that the role of their defined contribution plans—once established as supplemental savings plans—has changed. These plans are now expected to serve as the primary or only source of retirement income.

In addition, the largest single generation in American history—those born between 1946 and 1964—is relying on the much smaller generations behind them to fund its Social Security and Medicare benefits, which have traditionally been financed on a pay-as-you-go basis. These trends, coupled with the economic realities of the past year, explain why retirement benefits are receiving unprecedented attention.

With the emergence of defined contribution plans as the primary workplace retirement vehicle, most employees now have the task of managing some or all of their own retirement plan investments and longevity risks (responsibilities that in defined benefit plans are managed by experts). Recent economic turmoil has shed light on the need for new solutions to provide a clear path from savings to lifetime retirement income, as well as to maximize and protect retirement savings for younger workers to preserve the ability of their plans to create income for retirement in the future.

Even with the shift to employee responsibility for retirement security, employees are increasingly looking to the workplace as the source for broader retirement solutions. Employers are just starting to recognize the potential importance of their role.

Coincident with this is an emerging structural change in what it means to “retire” that quietly began well before 2008’s economic events. For the past decade, government and private sector studies have focused primarily on the Baby Boomers’ anticipated exodus from the workforce, and their focus was the loss of knowledge that would ensue and how employers could hold on to some of those workers, or “revolving retirement,” in which employees would retire from their primary job but, for a combination of economic and personal/social reasons, would continue to work but in a different capacity.

However, beginning in mid-2008, concerns about market declines in retirement savings balances, documented by many as already inadequate to fully fund retirement, complicated this dynamic, making it necessary for both employers and employees to accelerate their rethinking about many of the issues that affect retirement.

The Study results, viewed against the backdrop of current economic challenges and emerging national debate about the efficacy of current defined contribution retirement plans, provide some clear insights that may help guide employers as they seek new ways to develop their corporate benefits programs, balancing workforce and financial objectives in the years ahead:

- Employers and employees are out of sync on workplace retirement education
- Employees are ahead of employers on the need for guaranteed income
- Economic events have highlighted an emerging disconnect on retirement patterns
- Early returns on legislation and regulation: employer support for automatic enrollment is about twice as high as support for current Qualified Default Investment Alternatives (QDIA)

### Many employees and employers are out of sync on workplace retirement education

This year's Study suggests that employers and employees see the retirement landscape—and some potential actions and solutions—differently.

Advice is one key example. It is hard to overestimate employee appetite for advice and guidance in financial planning—and specifically retirement planning—offered through the workplace. More than half of all surveyed employees are interested in receiving retirement-related advice in the workplace. This desire has understandably increased in the current economic conditions, especially among older workers. Fifty-one percent of all workers indicate an interest in access to financial planners for retirement through their employers—for older Baby Boomers this number increased from 41% in August to 55% in November 2008.

The Pension Protection Act and related regulations are also clarifying the guidelines for offering advice to plan participants, recognizing the importance of advice in helping participants build retirement security. The Study points not only to the opportunity for employers to make this solution available to employees, but also the opportunity to build appreciation and utilization of this benefit through better education. Only 37% of employers indicate they have a responsibility to help their employees in this area, and they tend to overestimate their employees' ability to manage their individual account plans. Even after all of the focus on this area over the past two years, only 36% of employees agree that they are able to make good financial decisions.

Among firms that do provide retirement planning seminars, more employers report offering the programs than employees report awareness of them. This is especially acute among larger firms. One explanation may be that retirement planning offerings may be limited only to a subset of employees; another may be employee confusion between investment education and retirement planning. Whatever the reason, this suggests that there may be an opportunity for employers to more effectively communicate an important employee benefit.

Even with recent indications that consumers may be beginning to reverse long-standing spending in favor of increased savings,<sup>11</sup> consumers have fewer personal resources available to convert to retirement income. Growing recognition that government safety nets are straining from disproportionate numbers of recipients versus contributors, coupled with the personal impact of the economic downturn, has caused many employees to review their retirement needs. It is important to note, however, that few have taken action, perhaps pointing to the need for more advice and guidance especially during times of uncertainty.

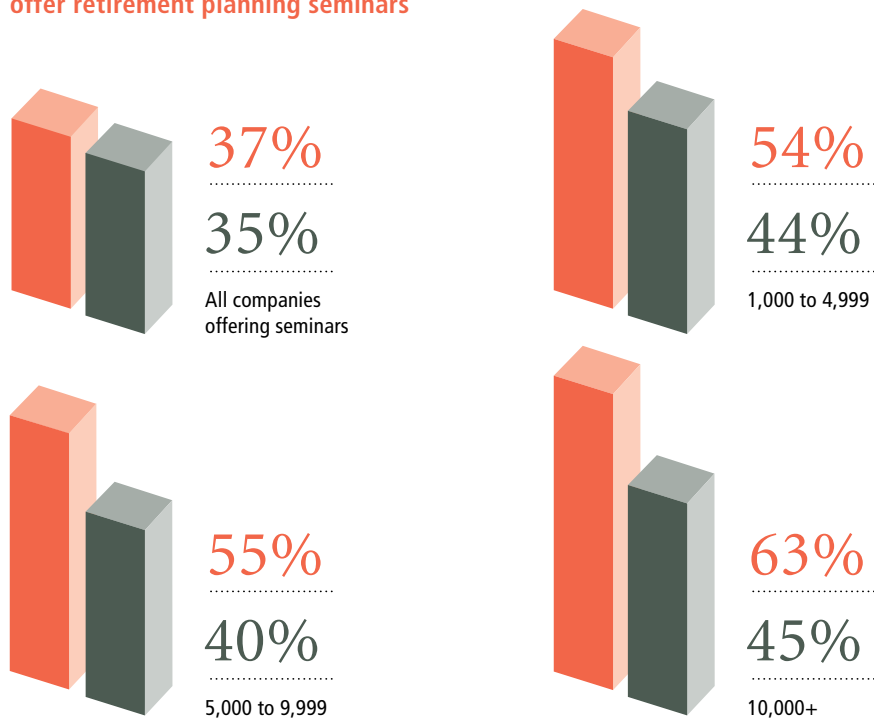
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#### A WORD ABOUT THE WORLD

Many Americans haven't saved enough for retirement.

Longer retirements (because of increased life expectancy) and greater likelihood of need for medical insurance, prescription drug, and long-term care have increased the cost of retirement significantly. Affording healthcare in retirement is the biggest concern of employees.

Many employees, across company size, are unaware that their employers offer retirement planning seminars



Mid- and large-size companies seem to have the biggest gap between offering and awareness.

By company size ■ Employers offering seminars ■ Employees aware of seminars

August 2008

Employees and employers were asked whether their company offers retirement planning seminars.

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Forty-three percent of eligible employees simply don't participate in their 401(k) plans,<sup>12</sup> and the median 401(k) account balance is only \$21,515.<sup>13</sup>

### Recent economic events raise awareness about retirement saving and income needs

The financial situation of the past few months made me realize that I need to take more control in saving for my retirement

46%

The financial situation of the past few months made me realize that I need to shift some of my retirement savings (e.g., IRA, 401(k) plan) to savings and investments that have guaranteed rates of return

30%

Employees understand that they need to take personal responsibility for their retirement. Employers can help by providing educational products that facilitate their needs.

■ November 2008

Employees were asked to indicate the importance of the issues above.

### Employees are ahead of employers on seeing the need for their retirement plans to provide guaranteed income

Many employees are very interested in getting a guaranteed income stream for life—more than employers realize. Fifty percent of surveyed employees voice an interest in their employers providing ways to convert retirement plan lump sums into income for life. On the other hand, only 21% of employers have expressed interest in having their company provide solutions that accomplish this goal. In companies with over 500 employees, employee interest spikes to nearly 60%, and the greatest disconnect is in companies with 500 to 5,000 employees that offer only a defined contribution plan. In all cases, there is at least a 20-point differential between employer and employee interest in adding guaranteed income elements to defined contribution plans.

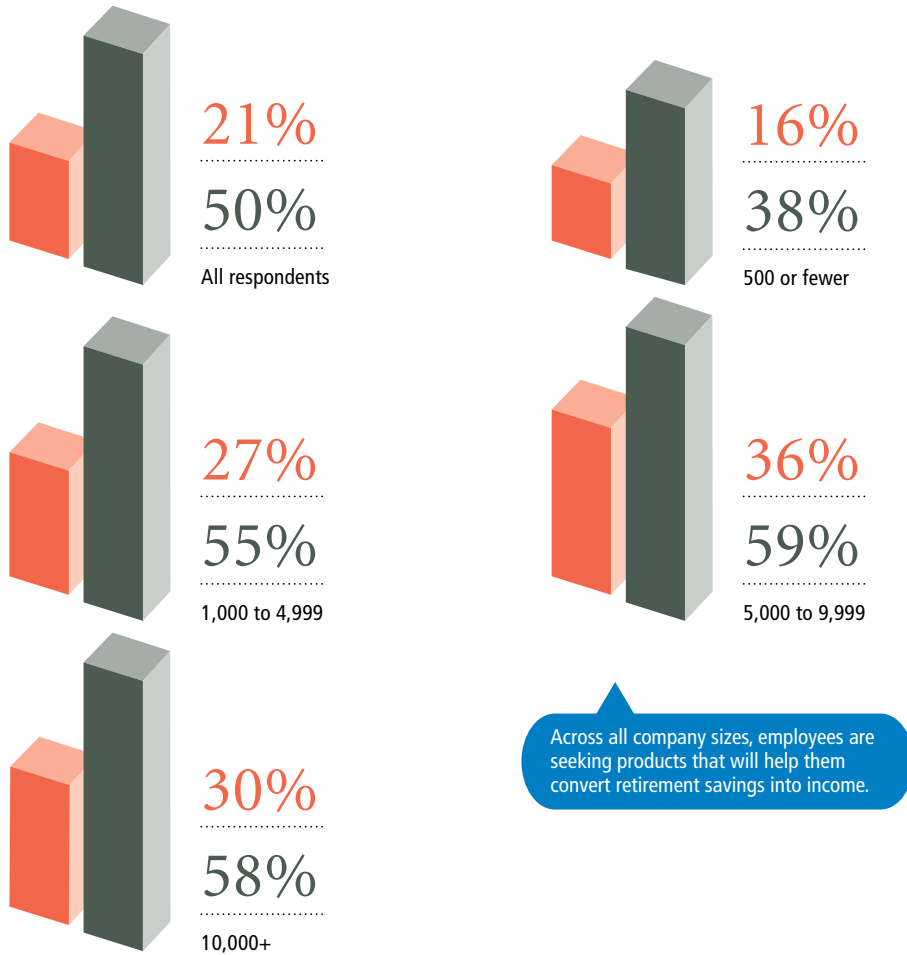
Guaranteed income that lasts for an employee's lifetime has been viewed by many as a critical missing element in defined contribution plans. Most 401(k) participants were affected by recent stock market volatility and its impact on 401(k) savings account balances.

#### A WORD ABOUT THE WORLD

Many Americans haven't saved enough for retirement.

The savings rate in the U.S. has been at a record low, but has started to increase.<sup>14</sup>

**Employees' interest in guaranteed-income products is stronger than employers' interest in providing them**



By company size ■ Employers ■ Employees  
August 2008

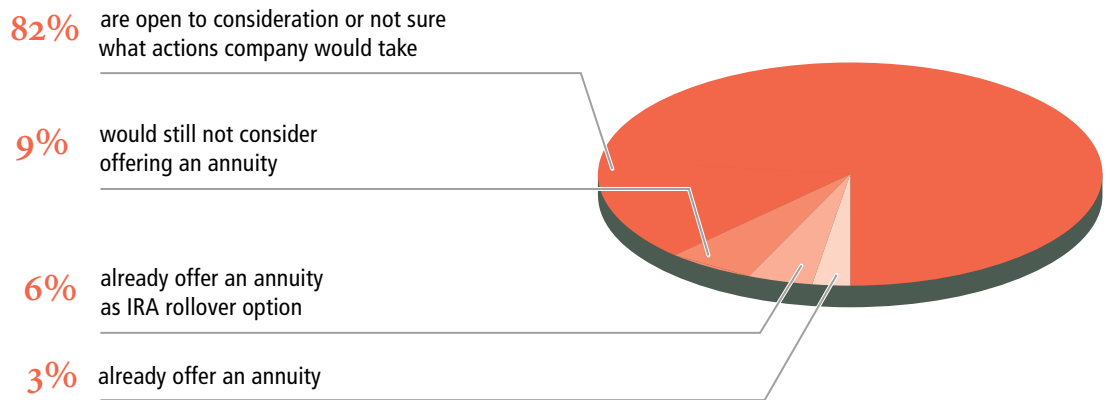
Employees were asked how interested they would be in their employer providing ways to convert some or all of their retirement plan lump sums into income for life. Employers were asked how interested they would be in providing employees with ways to convert some or all of their defined contribution plan lump sum money into a stream of income for life.

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Market fluctuations have reduced even healthy retirement accounts. Of those adults 45+ who lost money in their investments over the past year and are currently working or looking for work, more than half (57%) expect to delay retirement and work longer as a result of their investment losses.<sup>15</sup>

As employers gradually seek ways to reposition their defined contribution plans from the savings plans they once were to the retirement programs they are expected to become, they have an opportunity to help workers create a distribution strategy that includes lifelong retirement income, which could serve as an important element in the retirement security employees need. Income annuities can be a cost-effective way to help fill this need. While few employers currently offer annuities and, as indicated on the previous page, most have not seen a guaranteed income feature as a priority, most surveyed employers say they would be open to discussing the option. For example, the majority of employers say they are open-minded about offering annuities as a distribution option for their defined contribution plans, with only about one in ten choosing not to consider the idea.

### Most employers are open to offering annuity products



Though fewer than 10% of employers already offer annuity products, 82% would consider, or at least have not ruled out, annuities.

August 2008

Employers were asked what action their company was likely to take based on the Pension Protection Act.

#### A WORD ABOUT THE WORLD

Social Security and Medicare may no longer provide a sufficient safety net.

The number of people receiving Social Security benefits is growing while the number of workers paying into Social Security is shrinking. The ratio of workers to retirees is barely 3 to 1 today, compared to the nearly 17-to-1 ratio of the system when it was established.<sup>16</sup>

### Will working longer be a solution?

Economic events, and increasingly workforce layoffs, are challenging employee assumptions that they can work longer.

The closer employees are to the traditional retirement age, the longer they anticipate they will continue to work. For example, while more than half of employees 21–30 years old say they plan to retire by age 61, that figure drops to only 15% among those who are now ages 51–60.

As many of the older Baby Boomers who have already reached “traditional” retirement age are planning to stay in the workforce, and younger Baby Boomers face increasing needs to address their own financial security, they too may seek to remain in increasing numbers.

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### Baby Boomers say they are considering delaying retirement for several reasons:

Any savings they had were reduced by the economic downturn of 2007–2008.

**Average 401(k) account balances dropped 20%–25% in the first 11 months of 2008.<sup>17</sup>**

Because of financial concerns:

**65%**

were concerned about being able to afford healthcare

November 2008

**61%**

were concerned about outliving their retirement money

**61%**

were concerned about being able to provide for a spouse’s/partner’s long-term care needs

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Younger Baby Boomers’ concern for outliving their retirement increased from **59% in August to 69% in November**

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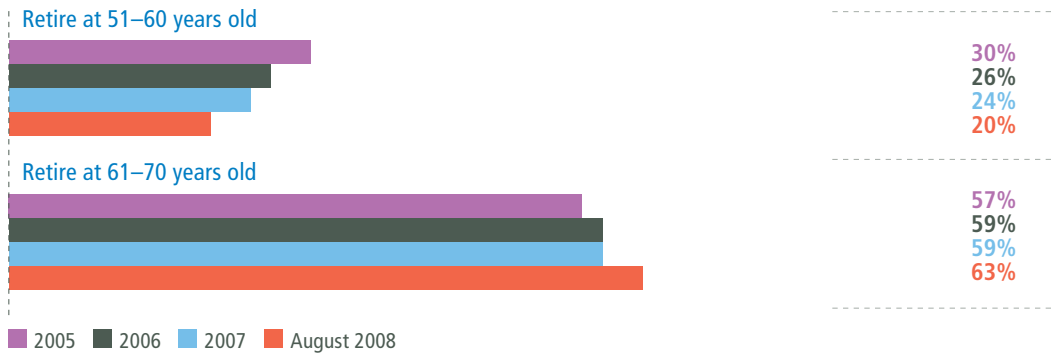
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The trust funds that sustain these two major systems will begin to dwindle within the next decade as they must be used to supplement receding worker contributions.<sup>18</sup>

It is clear that if they have the choice, more individuals are planning to postpone retirement. In 2005, 57% of employees expected to retire between the ages of 61 and 70. By 2008 that number had increased to 63%. Although most age groups cite financial issues as standing in the way of an earlier retirement, among older employees (aged 61–69) the reasons for retiring later also revolve around social concerns (such as staying busy, useful, and intellectually active), perhaps because that generation may be able to rely on the security of a defined benefit plan.

Even so, among those most likely to be covered by a traditional defined benefit plan, 65% of older Baby Boomers plan to retire later than they had planned to last year. More employees (63%) also plan to keep working full-time well into their 60s.

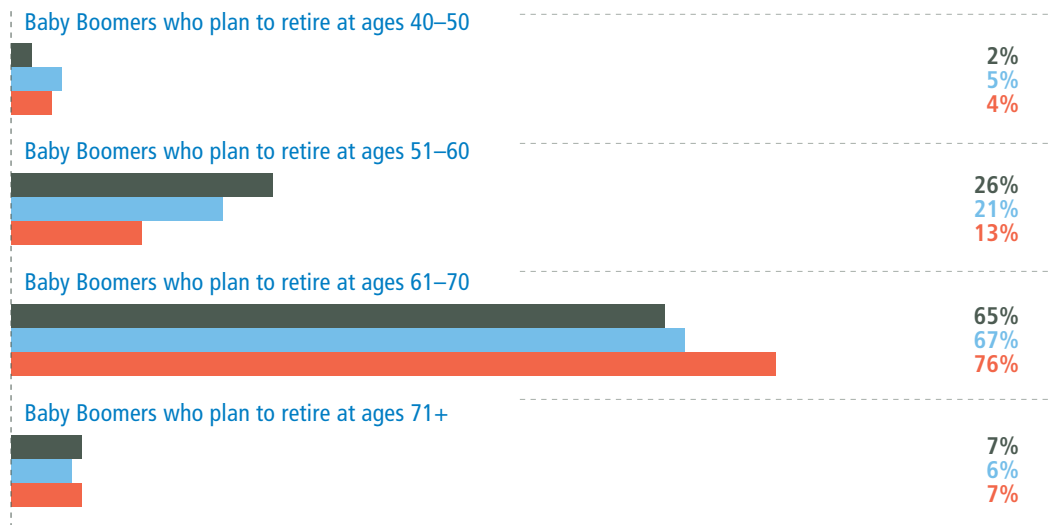
**In 2008, more employees planned to retire after age 61**



■ 2005 ■ 2006 ■ 2007 ■ August 2008

Employees were asked at which age they planned to retire from full-time work.

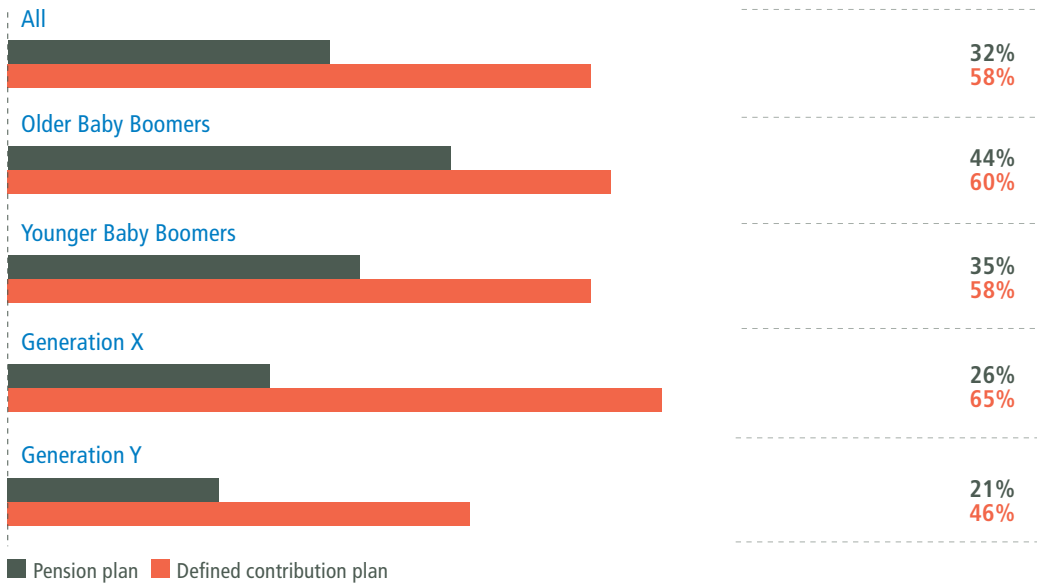
**Baby Boomers are the clearest about the need to postpone retirement**



■ 2006 ■ 2007 ■ August 2008

Baby Boomers were asked at which age they planned to retire from full-time work.

**More active employees have defined contribution plans than defined benefit plans**



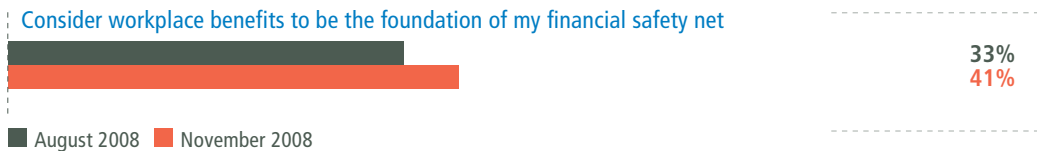
Not surprisingly, Baby Boomers with pension plans outnumber Generation Ys who have them by more than 2 to 1.

August 2008

Employees were asked whether they own a pension plan or defined contribution plan at work.

Employees are awakening to the understanding that they may not be able to rely on the traditional safety nets, such as Social Security and Medicare, that previous generations of employees have enjoyed as the foundational levels of retirement income and security. As this burden has increasingly fallen to employees, they continue to rely more than ever on workplace benefits as the foundation for their financial safety net—even more so with the advent and deepening of 2008’s economic crisis.

**More employees realize the central role of benefits**



Employees were asked to indicate agreement with the statement above.

↑ Indicates a statistically significant change from August 2008.

The biggest barrier to retirement is financial necessity; many employees rely on their salaries to pay for their day-to-day expenses. In addition, many feel they need to continue working to save for retirement or because they rely on employee benefits such as healthcare.

Employees have a heightened sense of urgency about their finances for retirement in light of current economic events. This is reflected in their acknowledgment of a lack of preparedness to meet expected needs for healthcare and long-term care in retirement; the absence of a comprehensive retirement income plan; increased concerns about outliving retirement savings; and having to work longer in retirement.

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# 14%

of **younger Baby Boomers** said they were on track to reach their retirement savings goals, down from 24% in August

Market fluctuations clearly affected even those who previously felt they were achieving their goals.

November 2008

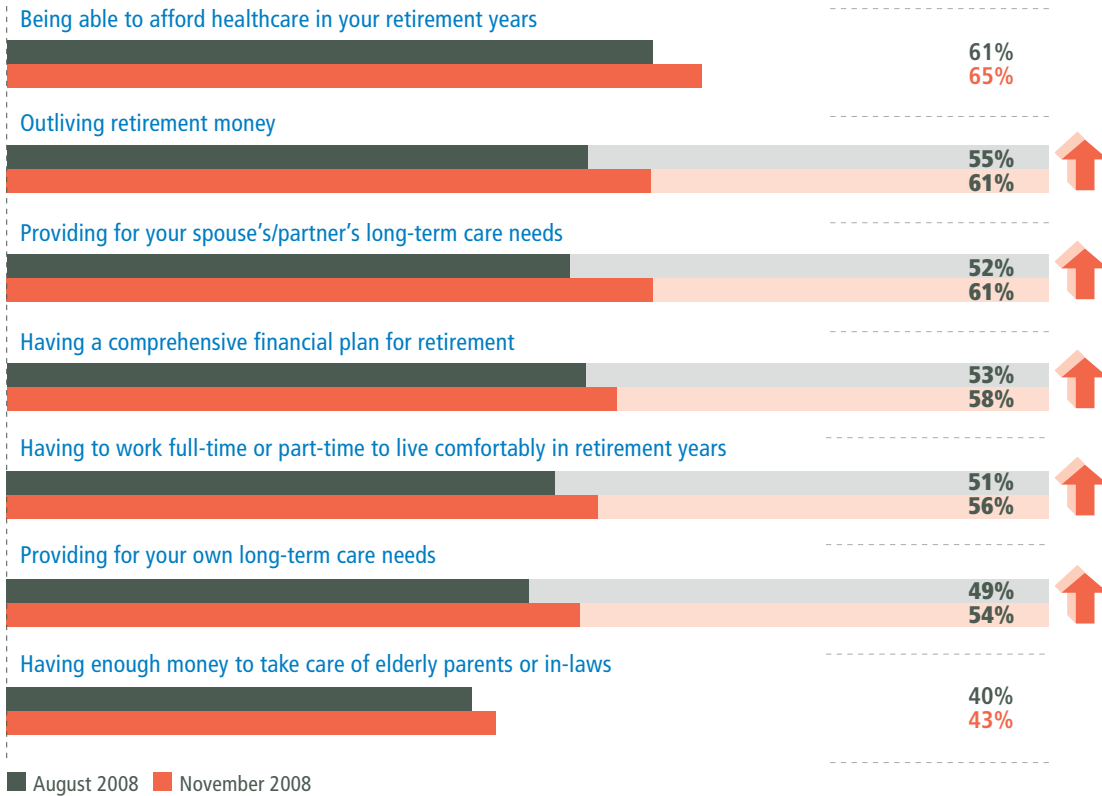
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# 58%

of **all employees** are concerned about having adequate retirement income due to fluctuations in the stock market

Concerns about everything from affording healthcare to helping aging relatives have increased in importance in the wake of recent economic events.

**Employees' retirement-related concerns are on the rise**



Employees were asked to indicate their level of concern.

In August, before the market decline steepened, only 23% of employees surveyed said they were on track in saving for retirement; by November those who felt on track fell to 17%. Younger Baby Boomers showed the biggest change from August to November, with 34% saying they were somewhat behind, up from 25% in August.

The current financial crisis prompted 62% of employees to review their retirement plans; however, the majority of surveyed employees did not make any changes, suggesting concern that may not be matched with the tools, knowledge, or options to take action.

For employers, this change in employee attitudes toward traditional retirement patterns would create benefits and workforce planning challenges even during stable economic times. As it is, they face a complex mix of competing challenges that includes the need to retain needed skills while also addressing the need to reduce or restructure their workforces in light of economic challenges. At the same time, the nature of this economic downturn highlights the problem with employee assumptions that continuing to work longer will be possible as layoff levels spread across the U.S. economy.

Indicates a statistically significant change from August 2008.

### Legislation paves the way, but has some unexpected effects

There are a number of ways that legislation and regulation are seeking to help employers help their employees work toward retirement security. Changes in legislation, including the Pension Protection Act of 2006 (PPA) and related regulations, were designed to help address some of the key shortcomings of defined contribution plans relative to defined benefit plans. The extent to which plan sponsors will take advantage of this opportunity, and the effects of these new regulations in practice, is not yet fully apparent.

### Employer support for automatic enrollment is about twice as high as support for current QDIAs

By instituting automatic enrollment and automatic escalation of deferred salary amounts for those who might not otherwise elect to enroll in defined contribution plans, employers can encourage better participation and increased contribution rates, helping to overcome the savings inertia that is well documented among employee populations. These changes are new, and are just beginning to be tested as they are implemented. For example, 41% of employers responding to the Study have implemented automatic enrollment for new employees in pretax retirement savings plans. However, only about half of those employers who offer automatic enrollment do so with one of the defined QDIAs outlined in the Department of Labor's regulations. This is a key finding, especially in light of the effect of the economic downturn on account balances in general and the relatively modest fiduciary protection afforded by the current QDIA regulation.

### Selecting annuity providers for individual account plans—new final regulations offer promise for the future

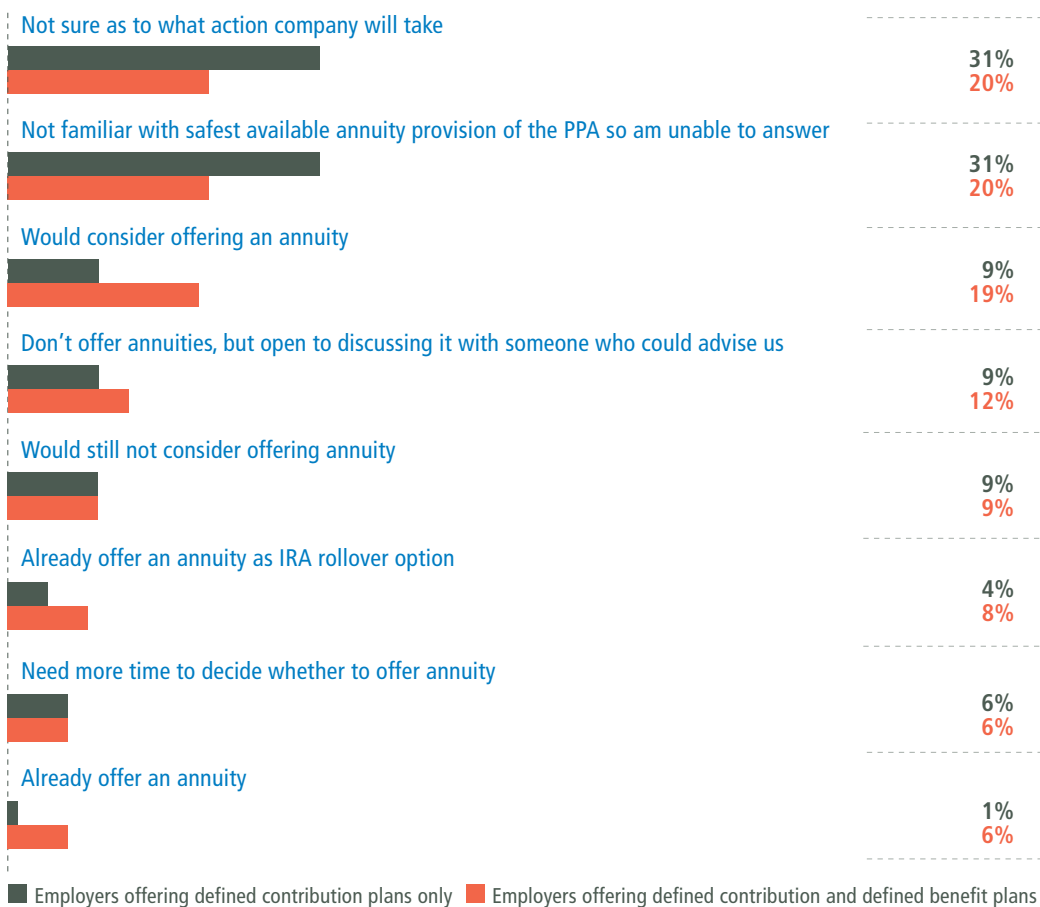
In line with the emerging need for defined contribution plans to facilitate retirement income, one of the Department of Labor's most recent regulations stemming from one of the PPA's provisions<sup>19</sup> addresses guaranteed income in defined contribution plans. This regulation establishes a regulatory framework that can provide employers with a high degree of comfort that they have satisfied their fiduciary duties under the Employee Retirement Income Security Act of 1974 (ERISA) when selecting annuity providers for individual account plans. This helps address one long-standing perceived barrier to offering annuity products within defined contribution plans, helping clear the way for employers to help employees create the guaranteed retirement income that is considered by many to be the foundation of retirement security.

Many employers are still unsure about the implications of the PPA's "safest available annuity" provision, as the final regulations became effective in December 2008. Interest in offering an annuity in response to the "safest available annuity" provision is highest among large-size companies (10,000+ employees) and among employers whose companies offer a defined benefit plan in addition to a defined contribution plan, across all company sizes (small, medium, and large).

**Phased retirement: a new concept reflected in legislation for the first time, but the jury is out on its effect**

The Pension Protection Act reflected this emerging area of concern with a modest initial step intended to help begin facilitating phased retirement, setting conditions where employees could draw partial pensions and paychecks simultaneously.<sup>20</sup> In the future, as this concept develops further, employers may find that offering phased retirement programs may be a solution for employees who need to work longer due to financial necessity. So far, about eight in ten employers would consider, or at least do not oppose considering, phased retirement as a result of the PPA provision. About 20% of surveyed employers indicate an interest in the concept and how it would work. Phased retirement programs may become an important trend as a way to address the need to retain key workers as demographic trends and economic conditions continue to challenge employers. We believe that this is an area that employers will want to monitor closely in the future.

**Most employers seek more clarification of safest annuity options, but remain open to annuities as a possible solution**



August 2008

Employers were asked what action their company was likely to take based on the Pension Protection Act.

### **Actions and solutions**

The challenge of rebuilding retirement security may seem very complex, but there are practical steps of both plan design and communication that sponsors can take now to begin addressing this critical employee need, even as public policy discussions continue to shape the future of qualified retirement plans. Some of these include:

- Consider implementing automatic enrollment and automatic escalation programs to encourage saving and overcome employee saving inertia.
- Consider adding income annuities as an allocation, partial 401(k) distribution option, or both inside the plan.
- Explore opportunities for providing flexible programs geared to an older workforce by instituting phased retirement and return-to-work programs.
- Provide education to help employees realize and prepare for the costs associated with retirement, as well as how to create guaranteed income for life. Recognize that there may be an appetite for this type of information earlier than traditional “pre-retiree” ages.
- Communicate the benefits that are important to encourage participation such as employer match, advantages of dollar cost averaging, and tax advantages.
- Offer retirement education programs that help employees realize and prepare for the costs associated with retirement such as healthcare, prescription drug cost, and long-term care.
- Encourage employees to develop healthier lifestyles earlier in life to reduce future healthcare costs in retirement.
- Follow and actively participate in the emerging national debate about retirement security and retirement program design.
- Design programs to help ensure that your retirement programs will best fit the needs of your workforce as well as your company’s benefits and financial objectives.

### **A final word about rebuilding retirement security**

The timeliness of engaging in a dialogue with employees about their financial security cannot be overstated. The need for education, advice, and guidance to help employees make the right financial decisions is keenly perceived by employees. The importance of offering programs that make it easier for employees to participate in and become more disciplined about planning for retirement income, as well as new retirement distribution options that offer guaranteed income in retirement, has arguably never been more important in providing long-term solutions for American employees.

# Methodology

The 7th annual *MetLife Study of Employee Benefits Trends* is based upon two separate sets of research interviews conducted during August and November 2008 among two distinct respondent groups. The August Study survey comprised 1,524 interviews with benefits decision-makers at companies with staff sizes of at least two employees. The employee sample comprised 1,349 interviews with full-time employees age 21 and over, at companies with a minimum of two employees. The November Study comprised 569 employer and 627 employee interviews at companies with at least two employees. Both sets of studies were fielded by GfK Custom Research North America.

## DEMOGRAPHIC PROFILE OF THE EMPLOYER SAMPLE

Employers span a broad range of industries, company sizes, and geographic locations.

|  | August<br>2008 | November<br>2008 |                                   | August<br>2008 | November<br>2008 |
|--|----------------|------------------|-----------------------------------|----------------|------------------|
| <b>Industry</b>  |                |                  | <b>Employer size (staff size)</b> |                |                  |
| Services   | 25%            | 24%              | 2–9                               | 20%            | 20%              |
| Heavy Industry   | 18%            | 18%              | 10–49                             | 20%            | 20%              |
| Finance, Insurance,<br>Real Estate                                     | 13%            | 13%              | 50–199                            | 18%            | 17%              |
| Sales/Trade  | 11%            | 11%              | 200–499                           | 4%             | 5%               |
| Technology, Software,<br>and Services                                  | 11%            | 13%              | 500–999                           | 4%             | 5%               |
| Education  | 9%             | 7%               | 1,000–4,999                       | 13%            | 14%              |
| Public Administration  | 5%             | 6%               | 5,000–9,999                       | 10%            | 10%              |
| Transportation,<br>Communications, Electric,<br>Gas, Sanitary Services | 5%             | 6%               | 10,000+                           | 10%            | 10%              |
| Pharmaceutical/<br>Biotechnology/Life Sciences                         | 3%             | 2%               | <b>Geography</b>                  |                |                  |
|  |                |                  | South                             | 32%            | 32%              |
|  |                |                  | Midwest                           | 23%            | 23%              |
|  |                |                  | West                              | 24%            | 23%              |
|  |                |                  | Northeast                         | 20%            | 22%              |

Totals do not always equal 100% due to rounding.

## DEMOGRAPHIC PROFILE OF THE EMPLOYEE SAMPLE

The employees polled represent an equally broad cross-section of respondents. Employee data are weighted to reflect the total U.S. working population, excluding those who are self-employed.

|  | August<br>2008 | November<br>2008 |                                   | August<br>2008 | November<br>2008 |
|--|----------------|------------------|-----------------------------------|----------------|------------------|
| <b>Gender</b>  |                |                  | <b>Geography</b>                  |                |                  |
| Male   | 57%            | 57%              | South                             | 36%            | 36%              |
| Female   | 43%            | 43%              | Midwest                           | 22%            | 23%              |
| <b>Marital status</b>  |                |                  | West                              | 23%            | 23%              |
| Married  | 61%            | 61%              | Northeast                         | 19%            | 18%              |
| Single   | 19%            | 17%              | <b>Employer size (staff size)</b> |                |                  |
| Divorced/Separated   | 11%            | 12%              | 2–9                               | 7%             | 9%               |
| Domestic partnership   | 8%             | 7%               | 10–49                             | 13%            | 10%              |
| Widowed  | 2%             | 2%               | 50–199                            | 14%            | 18%              |
| <b>Ethnic background</b>   |                |                  | 200–499                           | 9%             | 16%              |
| Caucasian  | 69%            | 69%              | 500–999                           | 9%             | 7%               |
| Hispanic   | 14%            | 14%              | 1,000–4,999                       | 15%            | 13%              |
| African-American   | 11%            | 11%              | 5,000–9,999                       | 7%             | 7%               |
| Asian  | 5%             | 5%               | 10,000+                           | 27%            | 20%              |
| Other/No response  | 2%             | 1%               | <b>Age</b>                        |                |                  |
| <b>Family status</b>   |                |                  | 21–30                             | 15%            | 15%              |
| Do not have children under 18                                    | 59%            | 55%              | 31–40                             | 30%            | 30%              |
| Have children under 18   | 41%            | 45%              | 41–50                             | 23%            | 28%              |
| <b>Industry</b>  |                |                  | 51–60                             | 25%            | 20%              |
| Services   | 23%            | 24%              | 61 and over                       | 6%             | 6%               |
| Heavy Industry   | 21%            | 20%              | <b>Household income</b>           |                |                  |
| Sales/Trade  | 14%            | 14%              | Under \$30,000                    | 10%            | 11%              |
| Transportation, Communications, Electric, Gas, Sanitary Services | 10%            | 8%               | \$30,000 to \$49,999              | 19%            | 19%              |
| Finance, Insurance, Real Estate                                  | 10%            | 10%              | \$50,000 to \$74,999              | 24%            | 23%              |
| Education  | 9%             | 9%               | \$75,000 to \$99,999              | 17%            | 17%              |
| Technology   | 7%             | 9%               | \$100,000 to \$149,999            | 18%            | 18%              |
|  |                |                  | \$150,000 and over                | 11%            | 11%              |

Totals do not always equal 100% due to rounding.

## Endnotes

- <sup>1,2</sup> The 2009 MetLife *Study of the American Dream*, MetLife, 2009.
- <sup>3</sup> GfK Roper Reports® U.S. 2008 Consumer Perspective, *Leadership Now*, December 2008.
- <sup>4</sup> Michael Hodges, "The Grandfather Economic Report," March 2008, <http://mwhodges.home.att.net/nat-debt/debt-nat-a.htm>.
- <sup>5,6</sup> U.S. Census Bureau Special Report, "Married-Couple and Unmarried-Partner Households: 2000," February 2003, <http://www.census.gov/prod/2003pubs/censr-5.pdf>.
- <sup>7</sup> The 2008 MetLife *Study of the American Dream*, MetLife, 2008.
- <sup>8,9</sup> GfK Roper Reports® U.S. 2008 Consumer Perspective, *Leadership Now*, October 2008.
- <sup>10,11</sup> Bureau of Economic Analysis, "Personal Income and Outlays," December 2008.
- <sup>12</sup> Fidelity Investments, "Building Futures Volume VIII: A Report on Corporate Defined Contribution Plans," 2007.
- <sup>13</sup> Jack VanDerhei, Sarah Holden, Luis Alonso, and Craig Copeland, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007," *EBRI Issue Brief* no. 324, December 2008.
- <sup>14</sup> Bureau of Economic Analysis, "Personal Savings Rate January 1, 1959 to 2007," March 2008.
- <sup>15</sup> AARP, "A Year-End Look at the Economic Slowdown's Impact on Middle-Aged and Older Americans," January 2009.
- <sup>16</sup> *2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Social Security Administration, [www.ssa.gov](http://www.ssa.gov).
- <sup>17</sup> Jack VanDerhei, Sarah Holden, Luis Alonso, and Craig Copeland, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007," *EBRI Issue Brief* no. 324, December 2008.
- <sup>18</sup> *Summary of the 2008 Annual Report of the Board of Trustees of the Social Security and Medicare Trust Funds*, Social Security Administration, [www.ssa.gov](http://www.ssa.gov).
- <sup>19</sup> Department of Labor, "95-1 Interpretive Bulletin Relating to the Fiduciary Standard under ERISA When Selecting an Annuity Provider," March 1995.
- <sup>20</sup> Department of Labor, "Pension Protection Act of 2006 Sec. 905. Distributions During Working Retirement," January 2006.

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MetLife has a proud tradition of investing in the financial and social well-being of the communities we serve. For more than 140 years, we have focused on understanding and serving our customers through various life stages and economic cycles. MetLife builds on this tradition by delivering leading insight through nationally acclaimed research, subject matter experts, and educational resources. We serve as a leading voice on employee benefits issues by actively influencing public policy, educating the media, and developing intelligent product solutions. When you're aligned with a company that applies insights to deliver innovative solutions, you can be certain things will go right.

**For additional information about the 7th annual *MetLife Study of Employee Benefits Trends*, please visit [whymetlife.com/trends1](http://whymetlife.com/trends1) or contact Neil Marcus, Director of Marketing Research, at 212-578-7713 or [nmarcus@metlife.com](mailto:nmarcus@metlife.com).**



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