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2005/2006 BENEFITS BENCHMARK REPORT

From the benefits experts at

Hay Group

The 2005 Hay Benefits Report analyzes benefits, perquisites, and personnel policies for exempt employees in 760 industrial, financial, service, and health care organizations throughout the United States. The following pages present major findings and trends found in the report.

Benefit Costs

Benefit costs continue to rise (especially over the past five years); due in large part to increasing health care and defined benefit pension plan costs. Exhibit 1 shows the change in benefit costs and funding methods over the past 10 years.

Exhibit 1

Medical Plan Funding Prevalence and Average Cost Compared with Previous Survey Results

	2005	2000	1995
Medical Plan Funding Method			
Self-Insured or Minimum Premium			
Fully Insured			
Combination			
Average Premium Cost			
Basic Group Life (Per $1,000 of Coverage)			
Long Term Disability (Per $100 of Monthly Benefit)			
Medical (prevalent plan)			
— Employee Coverage			
— Family Coverage			
Fee-for-Service — Employee Coverage			
— Family Coverage			
PPO — Employee Coverage			
— Family Coverage			
HMO — Employee Coverage			
— Family Coverage			
POS — Employee Coverage			
— Family Coverage			
Dental — Employee Coverage			
— Family Coverage			
Age 65 or Over Retiree Medical			
— Employee Coverage			
Average Employer Cost as a Percent of Payroll			
Statutory Benefits			
Active Employee Health Care Benefits			
Retiree Health Care Benefits			
Defined Benefit Pension			
Capital Accumulation			
Death Benefits			
Disability Benefits			
Other Benefits			
Total Benefits*			

**The sum of the component average costs does not equal the total benefits average cost because not all participants have or pay for all types of benefits categories.*

In 2005, Preferred Provider Organization (PPO) plans have the highest average premiums for single and family coverage. Point-of-Service (POS) plans have the next highest average premiums, followed by Fee-for-Service (FFS) and Health Maintenance Organization (HMO) plans.

2005 represents the seventh year of a notable increase in average medical premiums. For organizations reporting in both 2004 and 2005 (“same company” analysis), primary plan (the plan covering the most employees) premiums rose 10.0% for single coverage and 8.9% for family coverage.

In the past year, average age 65 and over retiree medical premiums increased 7.7%, while average dental premiums increased 3.7% for employee coverage and 5% for family coverage.

Health Care

The prevalence of completely employer-paid coverage continues to rapidly decline with 14% providing 100% employer-paid premiums in 2005 for single coverage and 6% for family coverage compared to 29% and 11% in 2000, and 32% and 15% in 1995. Exhibit 2 shows employees' contribution for single coverage to the prevalent medical plan in 2005.

Exhibit 2
Employees' Contribution for Employee Medical Coverage

Percent of Total Cost	Industrial %	Financial %	Service %	Health Care %	Total %
Less than 5					
5–9					
10–14					
15–19					
20–24					
25–29					
30–39					
40 or More					
Total	100%	100%	100%	100%	100%

Average Employee Contribution (Percent) for Those Plans with an Employee Contribution: 18.59%.

Average Employee Contribution (Percent) for Plans Including Fully Employer- and Employee-Paid: 15.84%.

Although preventive care is still more prevalent in managed care plans than Fee-for-Service (FFS), it is almost universally offered. In 2005, 97% of organizations provide well-baby care and 98% cover routine office visits.

Copays under separate prescription drug plans continue to increase significantly. In 2005, the most common copay for generic prescriptions is $10 (52% of respondents). Although 21% of respondents still have a $5 prescription copay this is rapidly on the decline.

Preferred Provider Organization (PPO) plans continue to steadily increase as the prevalent plan type. This year's data shows that PPO plans remain the largest in enrollment with 60% of organizations offering a PPO as the prevalent plan compared with 44% in 2000. Health Maintenance Organizations (HMO) account for 24% compared with 28% in 2000. Point-of-Service (POS) plans, Health Maintenance Organizations (HMO), and Fee-for-Service plans are all on the decline as the prevalent plan.

Exhibit 3
Prevalent Medical Plan Design

Design of plans with in-network and out-of-network provisions (PPO and POS plans) has changed significantly over the past five years. In 2000 a typical in-network design would have no deductible (64%) and most expenses covered at 90% of recognized charges. In 2005 this has changed to 30% having no deductible, while most expenses continue to be covered at 90% of recognized charges. This is a result of cost containment strategies used by organizations to gain control over rising health care costs.

In 2005 five hundred fifty-four participants report a PPO or POS plan as their prevalent plan. Exhibit 4 compares in-network and out-of-network plan provisions.

Exhibit 4
Comparison of In-Network and Out-of-Network Plan Provisions

	In-Network	Out-of-Network
Hospitalization		
Deductible		
Medical Plan Deductible		
Separate Hospital Deductible		
No Deductible		
Coinsurance		
100% of Recognized Charges		
80%–99% of Recognized Charges		
Less than 80% of Recognized Charges		
Well-Baby Care		
Routine Office Visits		
Medical Plan Deductible		
No Deductible		
Of those with a deductible:		
Less than $200		
$200		
$201–$299		
$300		
Greater than $300		

Although fairly stable in the past five years, the prevalence of offering retiree medical coverage has changed since 1995.

Exhibit 5
Prevalence of Retiree Medical Coverage

1995 **2005**

Cost sharing for retiree medical has also changed significantly in the past 10 years. In 1995 normal retiree coverage was fully employer-paid for single coverage in 34% of plans and 23% of plans for family coverage. In 2005 those numbers are 17% and 11% respectively. For early retiree coverage in 1995, 26% of plans were fully employer-paid for single coverage and 17% were fully employer-paid for family coverage compared with 13% for single and 8% for family in 2005.

Executive Benefits and Perquisites

Executive benefits and perquisites provide a key component of an executive's total compensation package. These programs are designed to attract, motivate, and retain key employees. Exhibit 6 compares this year's top 10 executive benefits and perquisites to previous survey results.

Exhibit 6
Prevalence of Executive Benefits and Perquisites

	2005	2000	1995
Company Cars/Car Allowance			
Cellular Telephones			
Executive Severance Pay Practice			
Employment Contracts			
Voluntary Nonqualified Deferred Compensation			
Executive Parking			
Executive Long Term Disability			
Physical Examinations			
Nonqualified Defined Benefit Plan			
Executive Vacation Schedule			

The prevalence of cellular telephones has begun to stabilize after several years of sharp increases. This can be attributed to job demands on executives, which frequently take them on the road and away from the traditional office setting. Also, advancements in technology allow cellular telephones to be purchased at a more reasonable price than just several years ago.

Club memberships are attractive perquisites for executives, although the elimination of tax deductions and high costs have contributed to their decline. Two types of club memberships show a small, but steady, decline in prevalence over the last several years. Athletic clubs are the least prevalent of the three, reporting a 15% prevalence in 2000 compared to 12% for the current year, country clubs remain the most popular of the three and are offered by 25% of organizations, and lastly luncheon clubs have declined to a 15% prevalence from 19% in 2000.

As might be expected, the prevalence of executive benefits and perquisites is frequently tied to the size of an organization. Exhibit 7 shows some examples of this variation.

Exhibit 7
Prevalence of Executive Benefits and Perquisites by Size (Number of Employees)

	500 or Fewer	501–1,000	1,001–5,000	5,001–10,000	10,001–or More
Executive Group Life Insurance					
Executive Long Term Disability					
Physical Examinations					
Voluntary Nonqualified Deferred Compensation					
Nonqualified Defined Benefit					
Nonqualified Defined Contribution					
"Golden Parachutes"*					
Executive Severance Pay Practice					
Company Aircraft					
Chauffeur					

Retirement Plans

A trend away from defined benefit plans has been identified in the last 15 years. Not only are fewer employers offering or continuing defined benefit plans, there is also a change in retirement plan combinations offered, usually in the form of adding a capital accumulation plan alongside an existing defined benefit plan.

Exhibit 8
Qualified Retirement Plan Combinations

Nonqualified retirement plan combinations are 19% with a nonqualified defined benefit plan only, 13% with a nonqualified defined contribution plan only, 14% with both, and 54% offering neither type of plan.

For organizations participating in both the 2004 and 2005 surveys, the prevalence of defined benefit pension plans remains almost unchanged (56% for 2004 and 55% for 2005). This also holds true for nonqualified defined benefit plans with a 35% prevalence in 2004 and 33% in 2005.

Final average pay continues to dominate as the benefit formula of choice. Seventy-four percent of defined benefit plans use this type while only 4% report a career average pay formula.

Cash balance plans continue to slowly emerge as a viable alternative to the traditional defined benefit plan. This defined benefit-defined contribution hybrid plan, which has a pattern of benefit accrual that closely resembles a defined contribution approach, currently comprises 21% of all defined benefit pension plans. This compares with a prevalence of only 2% in 1995.

Ad hoc inflation increases continue to be the choice of most employers who provide cost-of-living adjustments (COLAs). Of the 32% of participants that offer a COLA, 57% choose to give retirees ad hoc increases as opposed to an automatic increase provision. As a reflection of the current tight economy, only 18% of current participants have provided ad hoc increases in the past 10 years. This compares with 27% just five years ago.

The types of contributions comprising capital accumulation plans have not changed much over the past five years. In 2000, 82% of organizations' capital accumulation plans included employee and employer contributions, 16% were employee contributions only, and the remaining 2% were comprised of other scenarios. In 2005, 88% of plans have employee and employer contributions, 11% have employee contributions only, and the remaining 1% have employer contributions only.

The most popular of the capital accumulation plans is the 401(k) pretax plan. Although legislation allows 401(k) plans to be provided by not-for-profits, they are still primarily provided by for-profit organizations. 401(k) plans are offered by almost all (99%) of the participants that are for-profit organizations (and by 72% of all participants).

Benefit Trends and Personnel Policies

Prevalence of "lifestyle oriented" benefits continue to increase. Those already proven to be popular (such as child care) have not changed significantly over the years, but have retained their high prevalence. These plans have little or no cost to employers and allow employees a measure of flexibility and balance between their work and home lives. Exhibit 9 shows some of the more popular programs and their growth over the past 10 years.

Exhibit 9
Prevalence of Lifestyle Benefits

	2005	**2000**	**1995**
Adoption Expenses			
Casual Dress Days			
Child Care			
Community Service			
Commuting Assistance			
Convenience Services			
Dependent Care Days			
Domestic Partner Coverage			
Employee Assistance Programs			
Employer Discounts			
Flexible Hours			
Internet/Intranet Use			
Job Sharing Program			
Living Benefits			
Long Term Care			
Personal Computer Use			
Work-at-Home Policy			

Tuition reimbursement remains fairly consistent with a prevalence of 91% this year and 90% in 2000. Of those with reimbursement programs, over half (58%) fully reimburse tuition with the remaining either partially reimbursing or reimbursing depending upon a grade schedule.

Two new trends and practices reported in 2005 include Life Style or Life Cycle Accounts and 529 Education Savings plans. A life cycle account is an employer funded account that provides reimbursement for expenses such as adoption, health club membership programs, etc. Six percent of 464 respondents offer a life cycle account. Twenty-nine percent of 452 organizations offer a 529 education savings plan.

Flexible benefits programs achieved significant growth over the past decade. This growth has been a result of more organizations offering flexible spending accounts (FSAs), as full cafeteria plans appear to have reached a saturation point.

Exhibit 10

Group Life Coverages

Group life and accidental death and dismemberment (AD&D) programs provide a measure of financial security to beneficiaries and their families in the event of an untimely death of a participant. Such programs also provide participants with a sense of security knowing that in the event of their untimely demise, a lack of financial security will not compound the situation for survivors.

Ninety-nine percent of this year's participants offer a basic group life plan for their employees; typically being all employer-paid (93%). Plan coverage is most commonly one to two times base salary, with the maximum dollar amount most commonly $500,000. Seventy-two percent of respondents have a provision to continue coverage upon disability, at least for a limited time.

While providing basic group life coverage to retirees had been on a modest decline, in recent years it appears to be leveling off. Forty-three percent of organizations offered retiree coverage in 2000, compared to 35% in 2001 and 2003, 37% in 2004, and 36% in 2005.

Supplemental life insurance programs continue to be popular as employers, particularly those with flexible benefit plans, look for optional programs that employees can elect at their own expense. The typical plan allows employees to choose coverage according to their individual needs, based on an earnings multiple typically between one and three, four or five times salary. The maximum dollar amounts are typically between $500,000 and $1,000,000.

Dependent group life insurance has increased in popularity, with 81% of respondents in 2005 providing such coverage as compared with 72% in 2000 and 61% in 1995. As with supplemental life insurance, these plans are typically fully employee-paid (90%) with offerings usually $10,000 or more for spousal coverage and $5,000 or $10,000 for a dependent child.

Sickness and Disability Benefits

Sickness and disability programs provide employees with a regular income during periods of short term or long term disability. These plans not only provide sick and disabled employees with necessary income, but also with the security of knowing that in times of crisis, a lack of regular income will not compound the employee's problems.

The overall prevalent type of short term sick leave has changed very little over the last 10 years. Fifty-seven percent of 2005 participants provide either an accumulation of days policy (34%) or one that varies based on length of service (23%). The remaining 43% provide a uniform benefit (28%) to all employees or a combination/other type (15%) of program.

The design of short term disability plans varies considerably depending upon industry. For instance, plans that are based on an accumulation of days are offered by 53% of Service organizations, whereas only 17% of Industrials offer such a plan type. Alternatively, a plan providing a uniform benefit is provided by 38% of Industrials compared to only 19% of Service organizations.

The amount of LTD benefit provided has remained consistent over the past decade. The most common amount of plan benefit is 60% of pay. This amount is offered by 68% of organizations with LTD plans.

Organizations have consistently been increasing the monthly dollar maximum for LTD plans. Of those plans with maximums, only 40% had a dollar maximum of $10,000 or greater in 1995. In 2000 this figure rose to 48% and for the current year, 60% of organizations offer a $10,000 or greater monthly maximum.

Holiday and Vacation Policies

Holiday and vacation policies continue to be the most stable benefit from a design standpoint even though they represent significant costs in the overall benefit package. They are also one of the most important to employees.

The average number of total holidays (including floating holidays) provided by employers in 2005 is 10.3 days, with 47% of employers providing 11 or more days.

For organizations, which provide floating holidays, 2.5 days is the average.

The typical employee with 10 years of service will average 29.75 days in holidays and vacation in 2005. This is a slow but steady increase over the past decade with an average of 28.5 days reported in 2000 and 28.3 days reported in 1995.

Trends by Region, Industry, and Size

Variations exist in the benefits practices of different regions, industries, and organization size. Sometimes these differences are considerable. Exhibits 11a, 11b, and 11c illustrate a sampling of these differences.

Exhibit 11a
Prevalence by Region

	New England	Mid-Atlantic	Central	Plains	South	Mountain and West
Domestic Partner Coverage						
Sick Leave Bank						
Community Service						
Work-at-Home Policy						
On-Site Cafeteria						
Convenience Services						
Commuting Assistance						
Special Inducement for Early Retirement						
Full Cafeteria Plan						
Retiree Basic Group Life						
Dependent Group Life						
Medical Coverage Offered to: Age 65 or Over Retirees						
Vision Plan						

Exhibit 11b
Prevalence by Industry

	All Industrials	All Financials	All Services	All Health Care
Retiree Basic Group Life				
Maximum LTD Benefit $10,000 or Greater				
Employee Medical Coverage Fully Employer-Paid				
Cost of Living Adjustment to Defined Benefit Pension Plan				
Money Purchase Plan				
Full Cafeteria Plan				
Commuting Assistance				
Dependent Care Days				

Exhibit 11c
Prevalence by Size

	500 or Fewer	501 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 or More
Full Cafeteria Plan					
Retiree Basic Group Life					
Profit-Sharing Plans					
Employee Medical Coverage Fully Employer-Paid					
On-Site Cafeteria					
Personal Computer Use					
Convenience Services					

Characteristics of Participating Organizations

The 2005 Hay Benefits Report (HBR) is composed of data received from 760 organizations. These participants include a representative portion of large and medium-sized employers, from a broad selection of industry groupings, throughout the United States.

Industry Groupings

Size Groupings

Analyses Available

Benefits Prevalence Report

This “encyclopedia” of benefits information summarizes plan provisions and analyzes current trends, as reported by survey participants, in all major benefits practices areas:

- benefit costs
- executive perquisites
- group life coverages
- sickness and disability benefits
- health care plans
- defined benefit pension plans
- capital accumulation plans
- holiday and vacation policies
- flexible benefits
- trends and personnel practices, including:
  – dependent care days
  – child care programs
  – drug testing policies
  – health promotion programs
  – AIDS policies
  – smoking policies
  – commuting assistance

Benefits Value Report

This is a custom “client versus market” report comparing your company’s competitive position with a select comparator group. Hay’s unique “common cost” methodology assigns a quantitative value to benefit plan provisions so you have an “apples-to-apples” benchmarking comparison.

Displayed as custom charts, this report evaluates the competitive position of the total design and the employer-paid portion of the plan. Benefits values are calculated over a wide range of salary levels representative of an exempt population.

Benefits Benchmarking Report

This report contains over 40 pages of customized charts and prevalence tables comparing your organization’s benefits plans with those of a custom comparator group.

Data are presented by individual plan area (such as health care, pension, death benefit, etc.) and for the total benefits package.

Each benefit plan area is compared to a comparator group that you select through charts that illustrate the plan’s quantitative value and position; and prevalence tables that compare major plan design features and illustrate the valuation.

Benefits Consulting Capabilities

Hay Group Benefits consultants help organizations offer the most attractive benefits packages to their staff at an acceptable cost to the organization.
Part of what makes an attractive benefits package is a great range of options. We have substantial comparative information on benefits schemes round the world. We can tell you what works, where. And we can price our options accurately, using our proprietary methodologies, which are constantly updated to take account of the latest tax regulations.

Hay Group consults on employee benefits. We do not run benefits schemes on behalf of clients. We can therefore give impartial but informed advice on benefits administration or outsourcing.

About The Survey

Celebrating its 36th anniversary, the Hay Benefits Report (HBR) is recognized as the most comprehensive and essential source of comparative benefits data. The three-volume HBR is a multi-use reference source and planning tool. It provides an objective, unabridged range of statistics on nearly every type of benefit, perquisite, and personnel practice in use today. Readers can probe the results and draw their own conclusions on trends and prevalent benefit patterns. At the same time, the report furnishes key summary information at the beginning of each section. In addition to total participant findings, some results are shown by industry group, geographic region, and organization size. The findings for those specific categories may suggest the need to explore, in more detail, the specific benefit patterns in your particular industry, organization size, and/or location. The database is available to participants for these purposes.

In January 2005, Hay mailed an invitation to participate to past respondents as well as employers who might be interested in participating. A total of 760 responses were received by the cutoff date of April 16, 2005, and are included in this report. Since the cost and design of benefits programs typically remain constant throughout a calendar year, the survey results are representative of benefit programs of employers in 2005.

For More Information
For more information about Hay Benefits Report (HBR) volumes, contact Hay Information Services at 1-800-716-4HAY.

Hay Information Services

Hay Group is one of the largest human resources consulting firms in the world with more than 78 offices in 43 countries.

Hay pioneered the development of the employee benefits measurement and comparison system. In addition, Hay maintains the most detailed database of employee benefits and personnel policies in the United States, and has developed unique state-of-the-art actuarial and benefits valuation technologies that permit clients to perform updates, plan benefit and actuarial experience studies, and assess benefits package competitiveness.

Hay consultants and actuaries also help establish an important bridge between the two organizational functions most concerned with employee benefits, Human Resources, and Finance, by using a “total remuneration” approach to employee benefits. This approach takes into account the full picture of cash compensation, incentives, and benefit compensation including employee benefits, perquisites, and related personnel policies.

About Hay Group

Hay Group is a global organizational and human resources consulting firm that helps its clients—Boards, CEOs, Executives, and HR Managers—on virtually all aspects of their people-related business issues. Founded in 1943, Hay Group has over 2,200 employees working from 78 offices in 77 cities and 43 countries.

Our areas of expertise include:

- Design and analysis of organizations and jobs;
- Talent management through assessment, selection, and development;
- Compensation, benefits, and performance management;
- Executive remuneration and corporate governance; and
- Employee and customer attitude research.

Hay Group works with nearly three-quarters of FORTUNE's top-50 Most Admired Companies, as well as many mid-sized and non-profit corporations, public institutions, and governments.

Hay Group has offices in the following North American cities:

Worldwide Headquarters
Philadelphia
The Wanamaker Building, 100 Penn Square East
Philadelphia, PA 19107-3388
(215) 861-2000

Canadian Headquarters
Toronto
Standard Life Centre
121 King Street West, Suite 700
Toronto, Ontario M5H 3X7
(416) 868-1371

Atlanta
(404) 575-8700
Boston
(617) 425-4500
Calgary
(403) 215-6730
Charlotte
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Chicago
(312) 228-1800
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Kansas City
(816) 329-4900
Los Angeles
(213) 892-7000
Mexico City
+52 55 5523 2121
Montreal
(514) 866-7831
New York Metro
(201) 557-8400
Norwalk
(203) 750-6200
Ottawa
(613) 238-4785
Regina
(306) 359-0181
San Francisco Metro
(925) 279-3700
Vancouver
(604) 682-4269
Washington, D.C. Metro
(703) 841-3100

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