

# BUYERS STUDY

How today's recession impacts the benefits landscape — and fuels consumer choice

- ▶ **Today's top trends** — in contrast with the current economy
- ▶ **Benefits buying habits now** — and in past downturns
- ▶ **Complex issues** that drive benefit strategies in tough times
- ▶ **How to maximize a benefits budget** — with cost control



# Implications of the current economic climate

**Today's economic downturn** is projected to have a far-reaching impact on America's financial future as well as the benefits landscape. In the process, many financial safety nets people have relied on for generations are weakening.

According to experts, the following issues are creating conditions for a "perfect storm" of economic uncertainty due to a decline in personal net worth:

- **Job losses** — 3.6 million American jobs lost as of February 2009<sup>1</sup>
- **Pension shortfalls** — 2007 surplus becomes 2008 deficit<sup>2</sup>
- **Medical debt** — may be linked to up to 75% of personal bankruptcy cases<sup>3</sup>
- **Retirement investments** — \$7 trillion lost in 2008 — the gain of 6 years<sup>4</sup>
- **Near-zero savings** — 71% of Americans living paycheck to paycheck<sup>5</sup>
- **Home equity losses** — 11.7 million Americans owe more than homes worth<sup>6</sup>

**“WHILE THE PRIMARY FOCUS RIGHT NOW  
MAY BE ON THE BOTTOM LINE AND THE  
BALANCE SHEET, IT’S EQUALLY CRITICAL  
TO ADDRESS YOUR LONG-TERM PEOPLE  
AND HR AGENDA.”**

— Towers Perrin

*Towers Perrin, “Managing Amid Market Turmoil: Top Priorities for Business and HR Leaders,” October, 2008.*

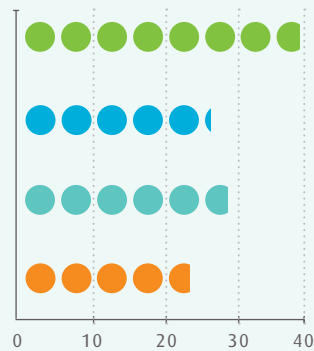
## As a result of the weakened economy:

**39%** increase in the number of employees asking for advances on 401(k) funds<sup>7</sup>

**26%** increase in the number of employees with wages garnished by collection agencies<sup>8</sup>

**29%** said they or a family member have postponed needed medical care<sup>9</sup>

**24%** went without a recommended medical test or treatment<sup>10</sup>



## The healthcare dilemma

Recent research by the Kaiser Foundation shows a troubling trend as rising healthcare costs and cutbacks in health insurance collide with the strained consumer budget.

As a result, more people now skip preventative care or medical treatment because they can't afford it. This leads to more expensive health problems and even greater financial stress — a problem that snowballs with severe consequences:<sup>11</sup>

- One in five adults ages 45 and older are suffering from health problems due to financial stress.<sup>12</sup>

Employee benefits play an important role in the midst of this financial storm. Employers forced to make cuts to healthcare coverage can use supplemental coverage to offset the impact of higher deductibles and copays on their workforce. It's important financial protection for today's employees, who can slide into medical debt due to a single illness or injury.

**IS THIS STRATEGY WORKABLE DURING AN ECONOMIC DOWNTURN — WHEN CONSUMER SPENDING IS SO LOW? A LOOK AT BENEFITS BUYING TRENDS DURING PAST RECESSIONARY PERIODS VALIDATES THE VIABILITY OF THIS APPROACH.**

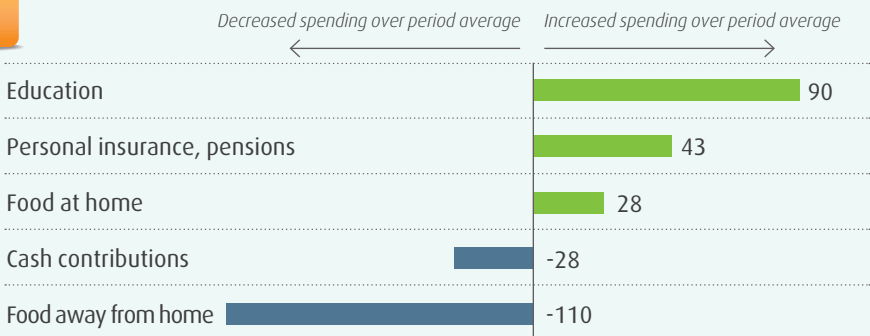
## A historical perspective

**There is a psychology** to understanding consumer spending in tight times. Buying patterns are linked to key human needs and emotions that prevail regardless of economic conditions, such as the drive for success, wealth and security.

McKinsey research conducted over the past two decades demonstrates how consumer reactionary spending is consistent — and somewhat predictable — during times of economic upheaval. For example, people shift their money from eating out to eating in. They also seek financial protection and security. **In recent downturns, McKinsey noted a 43% increase on spending for personal insurance and pensions.**<sup>13</sup>



### Consumer buying trends in recession<sup>14</sup>



Average growth in US consumer expenditures for recession (1990–91 and 2001–02) compared with average growth for entire period (1984–2006); index: average growth for entire period = 0. — The McKinsey Quarterly, December 2008

This data shows how consumers prioritize their spending when dollars are tight — and the value they place on benefits. It also helps explain why both employer and employee benefits buying habits remain relatively stable — contrary to steep sales declines in most other industries.

## Group and voluntary sales strong in last downturn

As these charts indicate, employers and their employees previously have chosen to stay the course when it comes to benefits — despite economic woes.

### Year-over-year sales growth in last recession



## Critical skills shortage — even amid job cuts

Despite tremendous job losses, 71% of employers surveyed in 2008 said their most pressing workplace planning issue is a scarcity of critical talent with a significant impact on the alignment of workforce requirements to business strategy.<sup>19</sup>

While the current job pool contains many job seekers, many highly-qualified workers are still employed — and much harder to woo amid today's uncertainty.

By the same token, the loss of a single top performer to a rival can tip the competitive balance enough to sink a business. According to CFO magazine, the repercussions go beyond the critical skills or clients these employees may take with them:<sup>20</sup>






- Other employees may see the departure as a sign that there are serious underlying problems in the organization — which can lower morale and productivity.

**THERE'S NO QUESTION A STRONG BENEFITS PLAN CAN DELIVER A COMPETITIVE EDGE — THE CHALLENGE IS IN MAKING IT WORK DURING A DOWNTURN. FORTUNATELY, THERE ARE COST-EFFECTIVE WAYS TO MEET THIS CHALLENGE.**

## Industries that buck the trend

While most industries lost jobs by year-end 2008, the healthcare and education sectors were exceptions.

### Examples of growth in health-related occupations<sup>21</sup>

Occupational title	Projected 2016 employment	Change from 2006–2016
Physical therapists	220,000	 27%
Occupational therapists	122,000	 23%
Registered Nurses	3,092,000	 23%
Physicians and surgeons	723,000	 14%
Emergency medical technicians and paramedics	240,000	 19%

NOTE: Numbers in this table are rounded.

*Employment in the healthcare industry rose by 19,000 in January 2009 and by 372,000 over the course of 2008.<sup>22</sup> This trend is predicted to intensify, despite the economic downturn.*

The private education sector grew by more than 33,000 jobs in January 2009 and in the education and educational services by 179,000 overall in 2008.<sup>23</sup>

## Anticipating today's landscape changes

Will history repeat itself with benefits buying trends continuing in 2009 and beyond? Recent sales figures demonstrate a significant pattern.

**As the recession has deepened,** many companies are implementing cost-cutting measures. But according to Watson Wyatt, employee benefits — such as life or disability insurance — have not been on the chopping block.<sup>24</sup> The chart shows the most common recession-related actions employers are taking — and planning.

### BY THE NUMBERS: Employer reactions to recession<sup>25</sup>

#### Actions taken in 2008

- 39% cut workforce
- 25% raised employee contributions to healthcare plans
- 32% increased benefit communications

#### Actions will take in 2009:

- 23% plan layoffs
- 17% plan higher employee healthcare contributions
- 35% plan additional benefit communications



*Watson Wyatt, December 2008*

**An interesting point from the survey:** Watson Wyatt shows that employers are actually ramping up their benefits communications, highlighting the value that benefits can occupy in an overall HR strategy. At a time when healthcare benefits are taking a hit, it's important to make sure employees understand the value and full range of benefits their employers offer to help reduce their financial exposure. Today's voluntary plans provide an additional benefit: if an employer must reduce jobs, the employees can take this coverage with them — continuing their financial protection at a time they are most vulnerable to the expense of an illness or injury.

### CHOICE ESSENTIAL WHEN BUDGETS ARE TIGHT

**“EMPLOYEE DOLLARS WILL BE STRETCHED, (SO) ALLOWING EMPLOYEES TO CHOOSE THEIR BENEFITS WILL BECOME EVEN MORE IMPORTANT THAN EVER... EMPLOYEES MAY NOT BE ABLE TO AFFORD ‘FULL’ COVERAGE, BUT THEY MAY WANT TO COVER SOME OF THEIR NEEDS.”**

— Eastbridge

*Eastbridge Consulting Group, “Outside Input, Two Steps Forward or One Step Back?” by Bonnie Brazzell, Fall 2008, Issue 77.*

## Benefits buying remains steady in current market

### Employer-paid benefits see solid start

The latest life and disability benefits sales data indicates that the actions of many employers and their employees are following the track of past benefits buying trends.

According to LIMRA, consumers do not take a “kneejerk” reaction to economic concerns when it comes to their benefits — particularly life insurance.<sup>26</sup>

- In fact, only 1% of life insurance policy holders had reduced or cancelled their coverage by the end of 3Q08 — a reflection on the value they place on this vital protection.

#### Life and disability earned premium<sup>27</sup>



	Midyear 2007	Midyear 2008
Life	N/A	\$8 billion*
Disability	\$6.3 billion	\$6.7 billion

*\*2008 is the first year the Group Life Midyear data is available; 2008 midyear data is over 50% of 2007 full year market survey data.*

*JHA data; most recent available at press time*

### Voluntary benefits show growth

**LIMRA research<sup>28</sup> shows** that voluntary benefits sales remained stable — and even showed growth in some areas — in part due to the move to employee choice plans. Some highlights:

- Increased sales for 10 consecutive quarters

Unum voluntary sales figures for 2008 reflect this continuing buying trend:

- Unum 2008 voluntary benefits\* sales grew 15% over 2007 levels.

*\*Internal data. Unum’s overall voluntary business, including group voluntary sales, grew 9% over 2007 sales.*

**EARLY INDICATIONS FROM UNUM INTERNAL DATA REFLECT THE AVERAGE ANNUALIZED VOLUNTARY BENEFITS PREMIUM PER EMPLOYEE HAS RISEN SLIGHTLY FROM 2007 TO 2008. THIS ECHOES INDUSTRY EXPERTS’ VIEWS<sup>29</sup> THAT EMPLOYEES ARE KEEPING VALUABLE BENEFITS ON THEIR FINANCIAL PRIORITY LIST.**

# Case study: Leveraging benefits in recession



This case study illustrates the effectiveness of a strong benefits strategy for an employer facing tough times.



## Challenges

**Industry:** Manufacturing

**Location:** Michigan

**Number of employees:**

- 650 employee workforce
- Reduced by 150 while evaluating plan options

**Existing benefits offered from three different providers:**

**Employer-paid benefits**

- Long term disability (LTD)
- Short term disability (STD)

**Employee-paid benefits**

- Accident
- Critical illness
- Voluntary group life

**Employer objectives:**

- Keep compensation package on par
- Motivate and retain remaining 500 employees
- Provide cost-effective choices that meet needs of diverse workforce
- Communicate employer's commitment to offering competitive benefits
- Streamline benefits administration

*This case study is true, although identifying characteristics have been excluded to preserve confidentiality.*



## Solutions

- **Flexible funding and benefit choices — from a single provider — meet employer objectives and employee needs**

### Employer-paid benefits

- Group short term disability for key employees
- Group long term disability for salaried employees
- Group term life for all employees
- Group long term care for salaried employees

### Employee-paid benefits

- Group voluntary term life buy-up offered to all employees
- Individual short term disability for employees not provided group coverage
- Individual accident offered to all employees
- Individual critical illness offered to all employees

- **1x1 employee meetings to explain overall changes & educate on value of offering**
- **Reduce the number of different billing and service contacts**

### Results

- Saved enough from restructuring the inforce benefits plan to add long term care coverage
- Offered more comprehensive protection to employees by dovetailing benefit designs
- Gained needed employer value add services to stretch HR support
- Strengthened employee education and perceived value of benefits
- Competitively positioned to succeed when economy rebounds

## What happens next?



Today's economy is challenging HR executives to flex some strategic muscle.

One smart tactic is to leverage today's cost-effective benefits solutions to ratchet up the value of your compensation package.

### Here are four key steps to remember going forward:

#### 1. Maximize the value of your benefits plan

To offer a comprehensive plan that provides choice for today's diverse employee workforce, work with a benefits provider who offers funding and product choices. This makes it possible to offer employees the range of coverage they need while meeting your financial objectives.

- Start with a foundation of traditional employer-paid group benefits.
- Layer on voluntary coverage to add more choice with little or no additional cost to the company.

#### 2. Insist on simplified benefits administration

Look for a provider who can take the complexity out of offering multiple lines of coverage, especially when combining group and voluntary offerings. Many plans include valuable services that provide time-saving support for your HR staff, increasing productivity and saving money.

##### **Look for:**

- Dedicated services teams and help lines staffed by knowledgeable U.S.-based employees who are well trained in the details of your company's benefits.
- Online billing and access to policy information, forms, claims status, and other documentation, to reduce paperwork and unnecessary delays.
- A company that offers assistance with today's complex regulatory and compliance issues, with expert advice that can help reduce the risk of costly litigation.

### 3. Evaluate a provider's education and communication capabilities

To get the highest return from your benefits strategy, your employees need to understand the value of what you offer them. A benefits provider who includes top-notch employee benefits education and communications can accomplish this effectively for you, at no additional cost.

#### The advantages:

- Unum research shows that when employees are well educated, employers can increase the ROI of their benefits plan with increased employee satisfaction and loyalty.
- The consumer-choice benefits model works best when employees understand how their benefits can provide optimal protection from financial risk relevant to their age and stage of life.
- This is especially important for today's Gen Y workforce — a group 75 million strong — who have no background or education on the value of employee benefits.<sup>31</sup>
- Both Boomers and Gen Y workers consider the worksite the preferred and most reliable source for benefits information.<sup>32</sup>

### 4. Work with trusted partners

2008 may be best remembered as the year of the bailout. With a number of highly-recognized financial services institutions in trouble or closing their doors, choosing a solid benefits provider is vital.

It's also key to work with a trained benefits professional — one who understands the challenges of the current market and is equipped to provide consultative solutions.

#### Best bets:

#### Look for a benefits provider with:

- Little or no investment exposure in the subprime mortgage market
- A diversified financial portfolio to mitigate risk
- A long history in the employee benefits business
- Service metrics that prove the company can serve your employees well at claim time
- Administrative service that makes work easier
- Clear and easy-to-understand educational materials offered in a variety of languages



*To find out how a customized benefits plan can help your business during this economic downturn, talk to your Unum representative.*

*For more information about macro trends that affect benefits buying patterns, ask your Unum representative or login to [www.unum.com/buyerstudy](http://www.unum.com/buyerstudy).*

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