Coming this September...

Gain perspective on the latest VB benefit trends

and how employers are maintaining balance through careful benefits management.

Benefits Buyers Study:
2015 Outlook

unum
Better benefits at work.

The VB benefits horizon is changing.

Are you ready for 2015?

With Unum's Benefits Buyers Study, you'll get an insider's look at the tactics your clients are using to manage their biggest benefits planning challenges. You'll also learn the latest benefits buying trends, collected from Unum's extensive sales database.

Did you know?

- The most common plan design for Accident insurance is on/off job
- Nearly half of all Whole Life policies include dependent coverage

These facts and more will soon be available from Unum.

1 Eastbridge, *MarketVision™ — The Employer Viewpoint After PPACA* (2012); Eastbridge, unpublished data (2014).
2 Eastbridge, *Worksite MarketVision™ — The Employee Viewpoint* (2013).

Unum data provided by Unum's 2013 database of inforce coverage.

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Better benefits at work.

NS14-324 (7-14) FOR BROKERS

Better benefits at work.

Benefits Buyers Study 2015
FAST FACTS

Benefits planning:

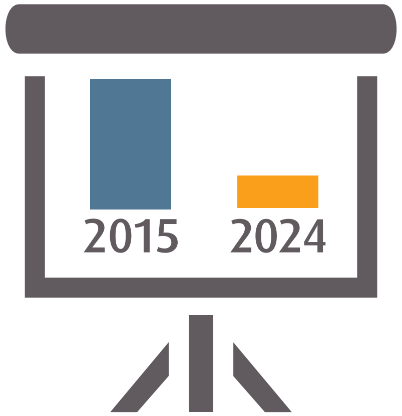
A balancing act for employers

While benefits planning has never been easy for employers, recent trends have made it even more challenging. This flipbook highlights some of these key trends, and how employers like you are using benefits to maintain balance.

Health care reform

TREND: **Companies are offering health care coverage (for now).**

FACT: In 2015, **95%** of companies expect to retain their employer-subsidized health care coverage as a very important part of their total rewards package.



However, only 25% believe they will offer employee health care coverage 10 years from now.

Towers Watson, *The New Health Care Imperative: Driving Performance, Connecting to Value* (2014).

Health care reform

TREND: The "Cadillac Tax" could drive change

FACT:

About **60%** of employers say their health benefit plan will require their company to pay the upcoming health care "Cadillac Tax" if they do not make any changes.

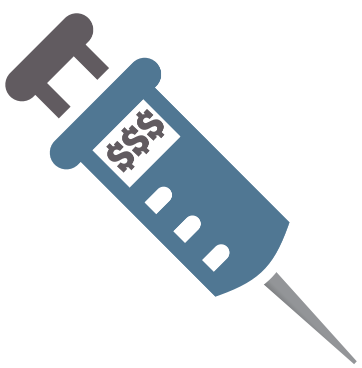
The Cadillac Tax is a 40% excise tax on high-value benefit plans, passed as a part of the Affordable Care Act.

Towers Watson, *2013 Health Care Changes Ahead Survey: Employers' Actions Today and Plans for the Future* (2013).

The economy

TREND: HR's biggest concern is NOT the economy

FACT: A recent survey showed that HR professionals are more concerned about the effects of health care coverage than economic challenges over the next five years.



79% are concerned with the continuing high cost of employee health care coverage in the U.S.

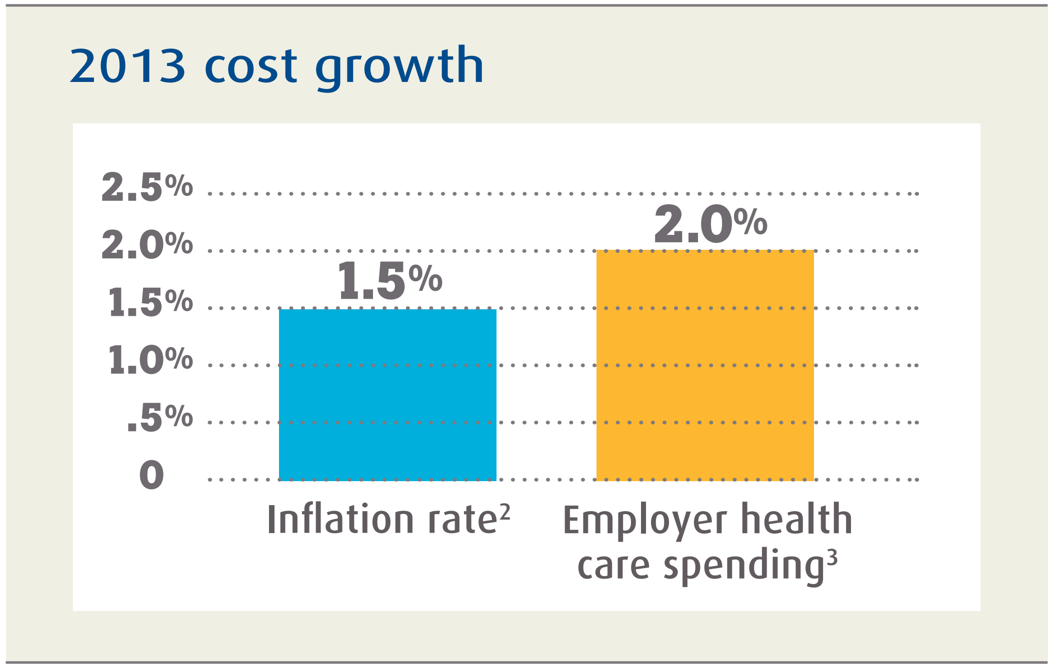
SHRM, *SHRM® Workplace Forecast: The Top Workplace Trends According to HR Professionals* (2013).

The economy

TREND: Health care cost increases are slowing, but still growing

FACT: Health care costs are increasing at a slower pace than in previous years — from **6%** in 2011 to **2%** in 2013.[1]

Still, 2013's growth in employer health care spending outpaced inflation by more than half a percentage point.



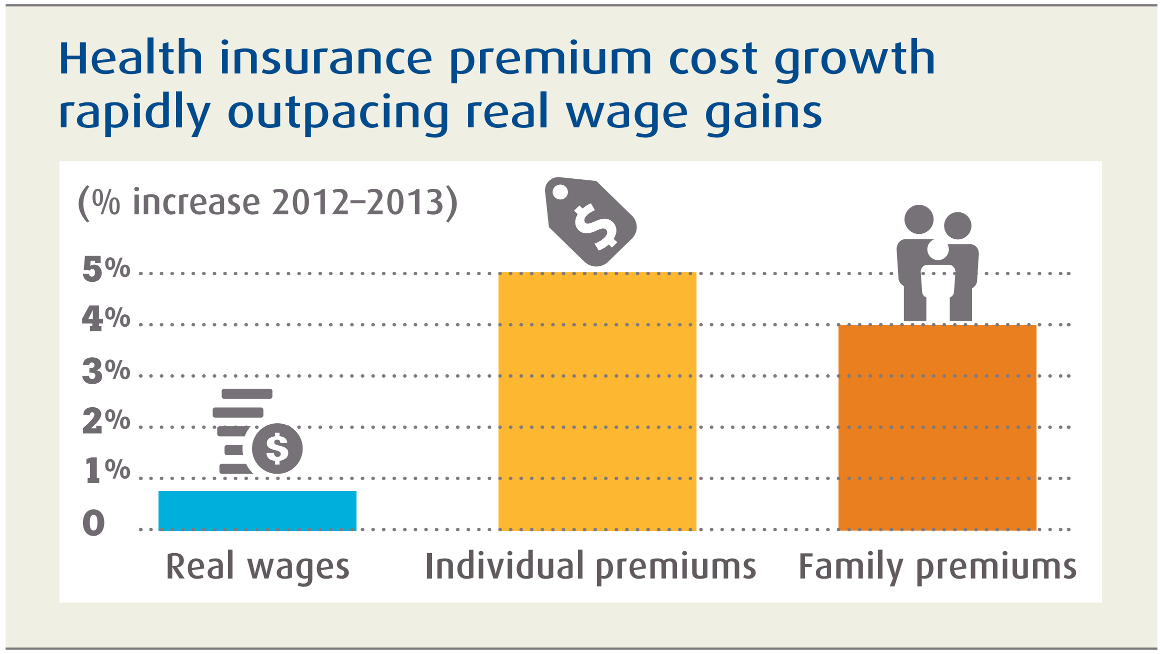
1,3 Mercer, *National Survey of Employer-Sponsored Health Plans: 2013 Survey Report* (2014). Average total benefit cost per employee over previous year.
2 Bureau of Labor Statistics, *Consumer Price Index — December 2013* (2014).

The economy

TREND: Health care costs are outpacing wage increases

FACT: Between 2012 and 2013, workers' wages increased **1.8%** — but much of that was eaten up by inflation.

In that same time frame, average health insurance premiums grew **5%** for single employees and **4%** for families.



Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits, 2013 Annual Survey* (2013).

The economy

TREND: Employees lack essential insurance coverage

FACT: Even though employees feel they need financial protection benefits, many do not have access to them through their employers.

Who needs it:	Who has it:
• **77%** of workers think that missing work for three months because of injury or illness would create a financial hardship[1]	• Only **40%** of private industry employees have access to employer-provided short term disability coverage[3]
• **34%** of households would have immediate trouble paying everyday living expenses if a primary wage earner died[2]	• **57%** of employees have access to employer-provided life coverage[4]

1 Consumer Federation of America and Unum, *Employee Knowledge and Attitudes About Employer-Provided Disability Insurance* (2012).
2 LIMRA, *Trillion Dollar Baby — Growing Up: The Sales Potential of the U.S. Underinsured Life Insurance Market* (2011).
3, 4 Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States" (Mar. 2013; accessed Aug. 7, 2014), http://www.bls.gov/ncs/ebs/benefits/2013/ownership/private/table12a.pdf.

The economy

TREND: Employees are open to automatic benefits enrollment

(When an employer enrolls an employee in a pre-selected insurance plan that the employee pays for, but provides the employee the option to decline the coverage)

FACT:

74% of employees are supportive of or do not object to employers **automatically enrolling new employees** in employee-paid disability plans, as long as the employee can opt out.

Unum Online Survey by Harris Poll, *2013 Employee Education and Enrollment Survey* (2014).

Demographic shifts

TREND: Benefits attract key employees

FACT: **78%** of workers — including Millennials, Gen X-ers and Boomers — say the **benefits package is an important factor** in their decision to accept or reject a job.

Paul Fronstin and Ruth Helman, "Views on the Value of Voluntary Workplace Benefits: Findings from the 2013 Health and Voluntary Workplace Benefits Survey," *EBRI Notes* (Vol. 34, no.11, 2013).

Demographic shifts

TREND: Employers are worried about skill gaps

FACT: **98%** of HR professionals surveyed said:

"A shortage of skilled workers" — especially those with STEM* skills — will have some type of impact on the U.S. workplace in the next five years.

SHRM, *SHRM® Workplace Forecast: The Top Workplace Trends According to HR Professionals* (2013).

*Science, Technology, Engineering and Mathematics

Demographic shifts

TREND: Boomers and Millenials are working side by side

FACT: With many Boomers working past retirement — alongside younger generations — benefit options need to appeal to a diverse range of needs.[1]

For example, voluntary life coverage is popular with employees under age 20 — and older workers who purchase policies for their children and grandchildren.[2]

Unum voluntary benefits — age of policyholder at purchase[3]

Age	<20*	20–29	20–39	40–49	50–59	60+
Life	26%	16%	19%	21%	14%	3%
ISTD	0%	16%	24%	31%	24%	5%
Critical Illness	0%	16%	26%	30%	23%	5%
Accident	1%	17%	23%	27%	25%	7%
Group Hospital Idemnity	0%	13%	23%	30%	28%	6%
All	13%	16%	22%	25%	19%	4%

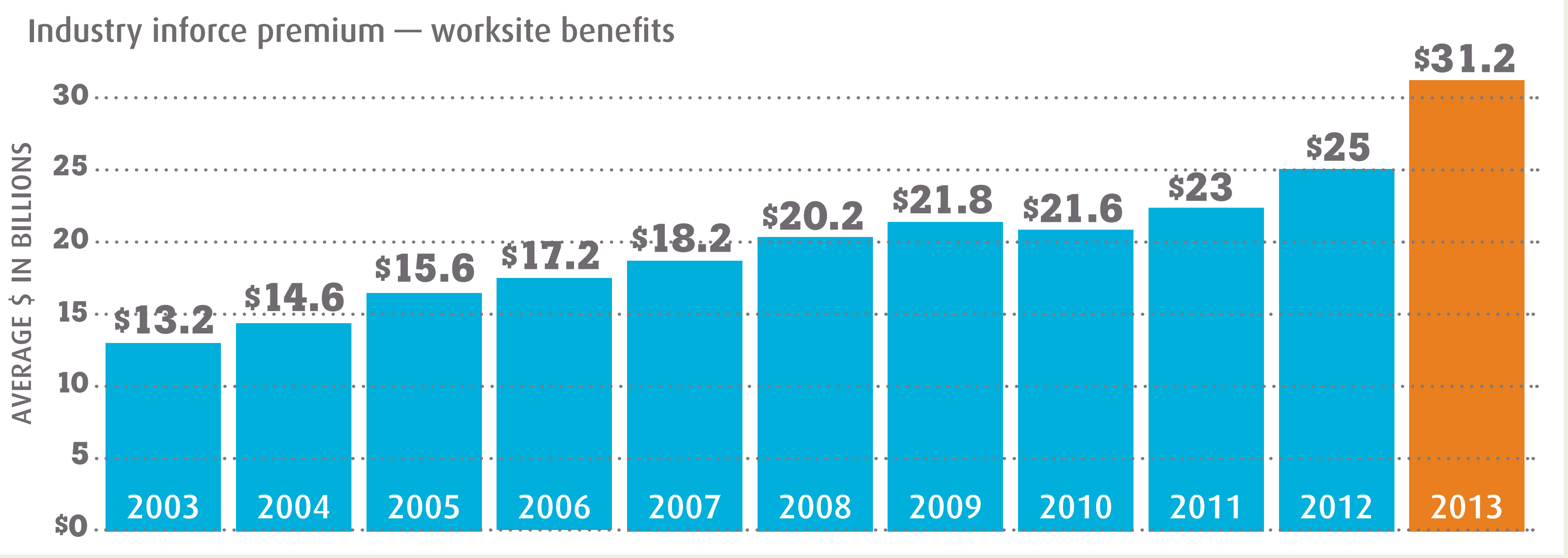
1 SHRM, *SHRM® Workplace Forecast: The Top Workplace Trends According to HR Professionals* (2013).
2, 3 Chart information taken from Unum's 2013 database of new and inforce coverage.
*Includes child policies.

Benefit buying trends

TREND: Employees are spending more on voluntary benefits

FACT: In the past 10 years, employees have increased their voluntary benefit purchases by **$18** billion dollars. In 2013 alone, employees increased this type of spending by nearly **24%**.

Voluntary benefits are experiencing significant growth



Eastbridge, *U.S. Worksite Sales Report Carrier Results for 2013* (2014).

Benefit buying trends

TREND: Employee coverage preferences are clear

FACT: According to a 2013 LIMRA survey of top voluntary providers, these were the **top five voluntary benefits**, based on inforce premiums collected:

Dental

Short term disability

Accident

Long term disability

Term life

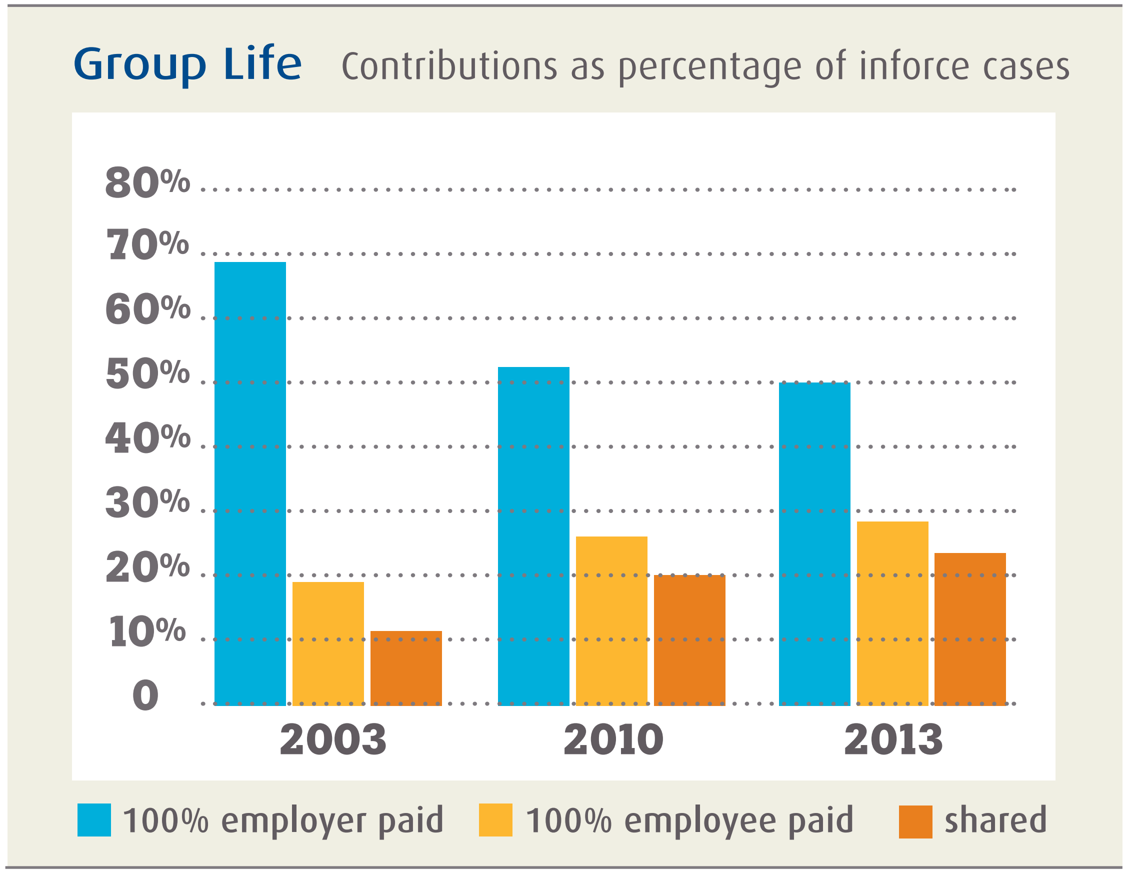
LIMRA, *LIMRA's Quarterly U.S. Worksite Sales Survey, Fourth Quarter 2013* (2014).

Benefit buying trends

TREND: Group cost sharing is gaining in popularity

FACT: While more Unum customers are shifting coverage costs, most are **splitting these costs** — instead of shifting the entire responsibility to employees.

This ten-year chart clearly demonstrates the trend in Group Life coverage:



Unum, internal sales data, 2003–2013.

Benefit buying trends

TREND: Many employers find solutions in combined coverage

FACT: Unum's top three most popular coverage combinations:

1. Life with Accidental Death and Dismemberment, Voluntary Disability
2. Life with Accidental Death and Dismemberment, Long Term Disability, Short Term Disability, Voluntary Life
3. Life with Accidental Death and Dismemberment, Long Term Disability, Voluntary Disability

Unum internal data, inforce premium, 2013.

For more information, contact your Unum representative today.

Visit **unum.com/benefitsbuyers15** to download the full, 24-page Benefits Buyers Study 2015 report.

Also, visit Unum's online thought leadership sites for brokers and employers to learn more about health care reform, benefits education and more.

unum.com/employers/resources/unumthoughtleadership.aspx

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Benefits Buyers Study:

New perspectives on balancing employer costs and employee protection

How health care reform and the economy are impacting benefits strategies

What your evolving workforce wants

Which buying trends you should watch

2015 OUTLOOK

A balancing act for employers

When it comes to benefits, U.S. employers have always had tough choices to make. Today, however, competing forces are converging to make benefits decisions more difficult than ever:

- **Implementation of the health care reform law has been complex, creating challenges for employers.**

  Key mandates have been postponed and other provisions have been changed or delayed. For employers, this stop-and-go process has meant that many key decisions are left up in the air.

- **The economy is showing only modest improvement.**

  As health care costs continue to rise faster than inflation, employers are challenged to get the most from their benefits budget. Employees are feeling vulnerable, too, as they struggle to make ends meet, reduce their financial risk and plan for a comfortable retirement. Some are even wondering whether they will be able to retire at all.

- **Employee demographics are changing the dynamic of America's workforce.**

  The last wave of the Baby Boomers is ten years from retirement, which could leave employers with unforeseen skill gaps in specialized areas. And younger workers are seeking fresh and varied benefit options — in plan design, education and enrollment methods.

- **Benefits planning is becoming more complicated.**

  The one-size-fits-all benefits plan is a distant memory, as regulations, economic conditions and employee needs continue to change. With so many factors impacting benefits decision-making, it can be hard to provide solutions that meet everyone's needs.

In this guide, you can learn more about these challenges — and how other businesses are succeeding.

Across the U.S., employers are using effective benefits management strategies to safeguard the financial health of their companies and their employees alike.

Contact your Unum representative to see how you can put this information to use.

Top challenges and benefits trends

	Which of these pressing issues has the greatest impact on your business?			How are employers using benefits to maintain balance?
	p. 4	p. 7	p. 12	pp. 16 & 20
EXTERNAL TRENDS	**Health care reform** Challenging implementation and increasing employer costs	**Economic strain** Cost-conscious businesses, vulnerable employees	**Workforce diversity** Different generations, different benefit needs	**Benefit buying trends** More diverse benefit offerings, more cost-sharing
BUSINESS IMPACT	• More participation in health plans • The need to plan around public and private exchange requirements • Shrinking plan values due to Cadillac Tax planning	• Rising medical costs continue to outpace inflation • An increase in benefits cost-sharing with employees • An increased need for employees to have financial protection benefits they can count on day to day	• A future skills shortage and an aging workforce • A need for effective recruitment and retention • A greater need for financial protection for every generation	• Impressive growth in voluntary benefits as popularity increases • Steady increases in group benefits • More "group voluntary" offerings
RELATED FACTS	• 29% of firms with more than 5,000 employees are considering private exchanges[1] • 50% of employees prefer to work for an employer who offers benefits, as opposed to one who pays more but doesn't offer benefits[2]	• 76% of American workers report they live paycheck to paycheck at least sometimes[3] • Average family premium costs rose 80% between 2003 and 2013[4] • 54% of employers have chosen to increase employee responsibility for health care costs[5]	• Nearly half of all employees say their lack of emergency savings is a top financial concern[6] • 62% of Gen X feels financially stressed[7] • Nearly a quarter of Millennials outspend their incomes[8]	• Since 2004, Eastbridge estimates that total voluntary inforce premium has more than doubled[9] • According to data from two recent LIMRA sales surveys, categories of group insurance showed marked increases in 2013[10] • Among Unum clients, there was a notable increase in group benefits cost-sharing

Health care reform:
Managing through change

For more information about PPACA and its impact on employers, visit **unum.com/healthcarereform**.

The Patient Protection and Affordable Care Act (PPACA) has created a great deal of uncertainty for those in charge of benefits. Employers have struggled to stay compliant, while also managing new costs associated with the law. Further, as employees are making more of their own benefits decisions — possibly outside of the company — employers have to work harder to make sure employees have all the information they need.

One thing is certain: Whether employers choose to provide health insurance or not, they must walk a careful line to ensure their employees are protected.

HOW CAN YOU PLAY WHEN THE RULES KEEP CHANGING?

PPACA requires all Americans to have a basic level of health insurance or pay a tax penalty. To help this happen, the law requires employers of a certain size to provide adequate, affordable coverage to most of their employees, or pay penalties of their own. This requirement is known as the "employer mandate" or, more informally, "pay or play."

Since the law was passed on March 23, 2010, businesses have been tasked with determining which parts of the law apply to them and how to manage benefits. Unfortunately, the employer mandate has been delayed twice, and will now take effect in different years for employers of different sizes, complicating benefits planning for many companies.

HOW EMPLOYERS ARE DEALING WITH THE PRESSURES OF HEALTH CARE REFORM

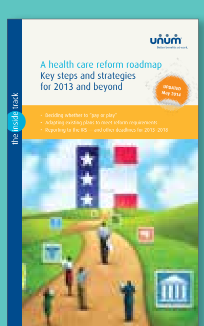
Within the turmoil of the changing law, employers are pursuing three main strategies to balance employee risk and budget constraints:

1. They're looking hard at "pay or play"

Many employers continue to wrestle with the pay-or-play decision — and may decide that it's more cost-effective to pay the penalties. If they decide not to play, some of their employees may be able to find comparable, affordable coverage on the public exchanges.[11]

Confused about health care reform responsibilities?

These tools can help.



See Unum's recent health care reform report for employers. It describes responsibilities, shows the trade-offs, and offers guidance on calculating potential penalties.

Unum's interactive pay-or-play tool walks you through the steps of this important decision: **unum.com/healthcarereform**.

But some employees may not be able to find adequate coverage. A company's decision not to offer benefits can also hurt employee morale and recruiting efforts.

2. They're exploring private exchanges and defined-contribution plans

Even before the pay-or-play deadline, some larger companies began to venture into the world of private exchanges.[12] Several consulting firms offer private exchanges, through which employers help employees buy insurance by providing them with a set contribution. Employees then have a choice of health plans that are managed by the exchange.

Few employers have adopted this approach to date, but many are considering it, including:

- 9% of firms with 200 or more employees
- 29% of firms with 5,000 or more employees[13]

3. They're cutting costs to avoid the "Cadillac Tax"

The "Cadillac Tax," planned to take effect in 2018, is forcing employers to look for ways to reduce premium costs. This levy will impose a 40% excise tax on the excess value of health care plans whose premiums exceed $10,200 for single coverage and $27,500 for family coverage. (These limits are different for certain groups.) Many employers who wish to avoid this tax are taking gradual steps to realign their health plans that have very high premiums.

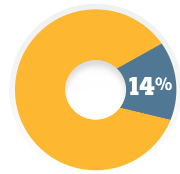
EMPLOYEES STILL NEED YOUR HELP

Whatever you decide to do about providing benefits, you still have a role to play. Many employees are not ready to go it alone when it comes to choosing benefits. A recent Eastbridge study reports that 42% of surveyed employees wanted their employer to offer them benefits at work, as opposed to having to deal with them on their own.[14]

Ensure they have the right level of benefits education and communication

Making sure employees understand their options should be high on your to-do list.

On one hand... PPACA has been very much in the news, making employees more engaged in their benefits decision making, and more aware of the offerings that may or may not be coming from their employers.



Only 14% of people with health insurance can explain the concepts of deductibles, co-pays, co-insurance and out-of-pocket maximums.[15]

On the other... Many consumers remain confused about how benefits work and what coverage they need to protect their way of life.

You can help... By providing appropriate benefits education and communication — so employees understand what is available to them, as well as the immediate impact of their decision-making.

Financial protection coverage can bring your benefits into balance

As you decide how best to address the Cadillac Tax — and rising health care costs in general — keep this in mind: Employees may view any reduction (or elimination) of benefits as a decrease in compensation.

To help balance changes in medical benefits, many employers are offering benefits that can help protect employees' finances in times of need. Most of these benefits are HIPAA-excepted, and are exempt from the Cadillac Tax. This means financial protection benefits make sense for cost-conscious employers, too.

See page 6 for more information about HIPAA-excepted benefits.

What are HIPAA-excepted benefits?

Many voluntary financial protection benefits are HIPAA-excepted and *not included in the Cadillac Tax calculation.**

These benefits include, but are not limited to:

- Disability
- Life
- Accident
- Critical Illness**
- Hospital Indemnity**

* HIPAA refers to the Health Insurance Portability and Accountability Act. For the purposes of health care reform, certain kinds of coverage are designated as "excepted benefits."

** Exempt only when paid with post-tax dollars.

SUMMARY:

Employers are coping with the pressures of health care reform by exploring new options for providing health insurance. The next several years will be important for employers as more key provisions are enacted, and other changes and delays are likely. Benefits can provide the tools they need to maintain balance.

TIPS FOR SUCCESS:

- **Consider financial protection coverage** that is health care reform-ready and complements your current benefits program.
- **Offer a range of benefits** that can help employees protect their lifestyle regardless of current or future health care offerings. Include disability income protection and a choice of benefits that can help employees pay out-of-pocket medical costs.
- **Ensure you have a solid communication plan** in place to help employees know how health care reform will or will not impact them.
- **Partner with a benefits provider** who can help you simplify enrollment for overwhelmed employees.

The economy:
Shifting priorities in an uncertain recovery

While the economy has recently shown some signs of improvement, these haven't been enough to ease the concerns of employers or employees. Employers are still faced with health premiums that rise every year. To cut costs, they've developed programs that shift risk onto the employee. Meanwhile, employees have faced stagnant wages and job insecurity, and are ill-prepared to handle this increased financial responsibility.

Employers must maintain a steady hand while focusing on the needs of their business and their financially vulnerable employees. Fortunately, they have several options for improving their benefits ROI.

HEALTH CARE COSTS TOP THE LIST OF CONCERNS

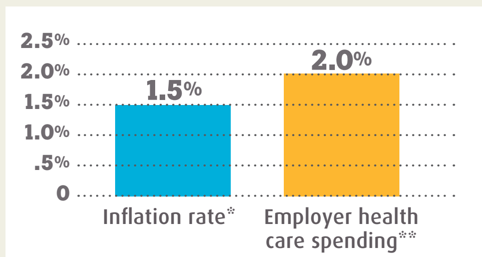
As noted in past Buyers Study reports, many employers feel the poor economy will continue to have a major impact on their benefits planning. Several trends — including economic uncertainty and the ongoing threat of dipping back into recession — were chief concerns for human resources professionals last year.[16] But the top trend was the **continuing high cost of employee health care**.

COSTS ARE SLOWING — BUT STILL GROWING

Research indicates that health care costs are increasing at a slower pace than in previous years — from 6% in 2011 to 2% in 2013.[17] Much of the slowed growth has been the direct result of careful benefits management to address rising costs and prepare for health care reform.[18]

Still, 2013's growth in employer health care spending outpaced inflation by more than half a percentage point.

2013 cost growth



Source: *Bureau of Labor Statistics, *Consumer Price Index — December 2013* (2014). **Mercer, *National Survey of Employer-Sponsored Health Plans: 2013 Survey Report* (2014). Average total benefit cost per employee over previous year.

And many costs are expected to increase at a higher rate in the future now that the health care law has been implemented.[19] For example, the Centers for Medicare and Medicaid Services (CMS) predicts costs to grow an average of 6.2% per year from 2015 through 2022.[20] One reason is that they expect employee enrollment to increase due to the individual mandate. Another is that employees — who may have waived coverage in the past — may be more likely to elect dependent coverage.

Americans' top financial worries:

- Having enough money for a comfortable **retirement**
- Supporting self if **disabled and unable to work**
- Paying for **long-term care services**
- Paying for **medical expenses**[21]

EMPLOYEES ARE SHOULDERING MORE OF THE BURDEN

In response to past and predicted health care cost increases — as well as the upcoming Cadillac Tax — employers have been forced to find ways to save on employee health insurance. Most cost-cutting strategies involve changes to cost-sharing arrangements and plan design — and these, unfortunately, tend to result in employees paying a greater percentage of their health care costs.

A decade of increases

The past decade has seen a clear trend toward increased employee responsibility. A recent study notes that:

- Between 2006 and 2013, the average deductible for employee-only coverage rose from $584 to $1,135. Further, more workers with employee-only coverage were enrolled in plans with general annual deductibles.
- Between 2003 and 2013, the average premium for family coverage increased 80%. Worker contributions increased almost 90%.[22]

A similar future

Unfortunately, it is expected that employees are in for more of the same, as employers prepare for the predicted effects of health care reform:

- A 2013 Deloitte report showed that 54% of surveyed employers had already chosen to increase employee financial responsibility for health care costs.[23]
- A 2013 LIMRA survey showed that 34% of employers with 100 or more employees — and 42% of those with 300 to 999 employees — expected to increase employee contributions for medical benefits in the next two to three years.[24]

A difficult position

Meanwhile, employees are still feeling the effects of the recent economic crisis. During the recession, more than 8 million jobs were eliminated.[25] People who kept their jobs often decided to delay their retirement — and some retirees returned to the workforce — as retirement savings lost value and economic growth slowed.[26] Today, employees are saving less and borrowing from their retirement income:

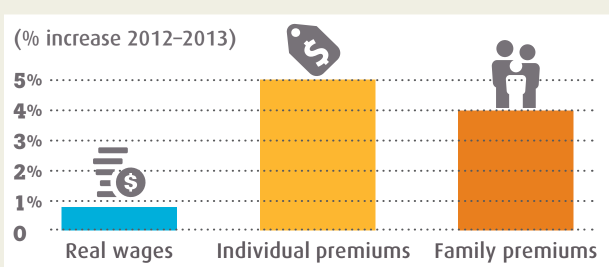
- In 2013, 31% of American workers surveyed said they had to tap their savings to pay for basic expenses within the past 12 months.[27]
- More than 25% of U.S. households that use a 401(k) or similar plan have used all or some of their savings for non-retirement needs, amounting to over $70 billion in annual withdrawals.[28]

In this sluggish recovery, employees are often poorly positioned to take on the increased risk employers are transferring to them.

Employee's wages are not keeping up

- Between 2012 and 2013, workers' wages increased 1.8% — but much of that was eaten up by 1.1% inflation
- In that same time frame, average health insurance premiums grew 5% for single employees and 4% for families

Health insurance premium cost growth rapidly outpacing real wage gains



Source: Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits 2013 Annual Survey* (2013).

Not surprisingly, an estimated one in three Americans report having difficulty paying their medical bills,[29] and 80 million people say they were not able to get needed medical treatment due to cost.[30]

Thus, employers' efforts to shift more responsibility for health care costs onto employees are likely placing extra stress on an already financially stressed workforce.

HOW EMPLOYERS ARE IMPROVING THEIR BENEFITS ROI

The hardships employees are facing in this sluggish economy have not gone unnoticed by their employers. Many feel trapped between two bad options when it comes to making health plan changes that increase employee costs. So a large number of companies are turning to other approaches to find an appropriate solution.

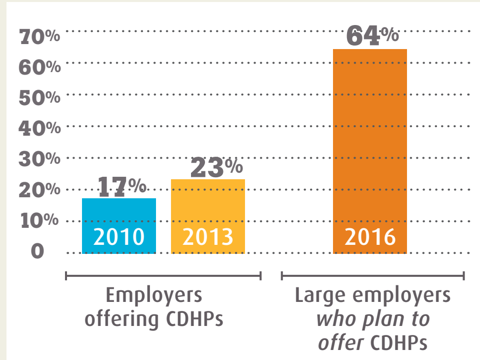
CDHPs: More choice for consumers, lower costs for employers

CDHPs (Consumer-Driven Health Plans) are a smart option for employers looking for a low-cost way to offer health insurance to employees. They are often paired with Health Savings Accounts (HSAs), which allow employees to set pre-tax money aside and use it to cover health-related costs.

According to one recent study, HSA-eligible CDHPs cost about 20% less than preferred provider organizations (PPOs) and health maintenance organizations (HMOs). And the trend appears to be catching on. According to the same study:

- The number of employers offering CDHPs increased from 17% in 2010 to 23% in 2013.
- Sixty-four percent of employers with 500 or more employees say they expect to offer a CDHP by 2016.[31]

Employer interest in CDHPs



Source: Mercer, *National Survey of Employer-Sponsored Health Plans: 2013 Survey Report* (2014).

Health and wellness management: Helping employers make better use of their health care spending

In a recent Aon Hewitt survey, employers confirmed that health and workforce performance, wellness, prevention and health risk management are front and center in the minds of HR leaders:

- Nearly 70% identified the need to achieve cost savings by motivating employees to change their health behavior.
- Nearly half indicated they would begin offering programs to improve workplace productivity and reduce absence.[32]

More than one-third of large firms that offer at least one wellness benefit also offer financial incentives to employees who participate in wellness programs.[33]

Wellness programs can be successful: 35% of firms offering health benefits stated that they thought wellness programs were very effective at containing health insurance costs — more so than higher cost-sharing or offering CDHPs.[34] One study showed that employees engaged in health-smart programs offered through consumer-driven health plans lowered their total medical costs an average of $7,900 per employee over a five-year period.[35]

Wellness programs can include:

- Employee assistance programs (EAPs)
- Health screenings
- Lifestyle or behavioral coaching
- Classes in nutrition or healthy living
- Flu shots[36]

Voluntary benefits: A cost-effective way to enhance employee coverage

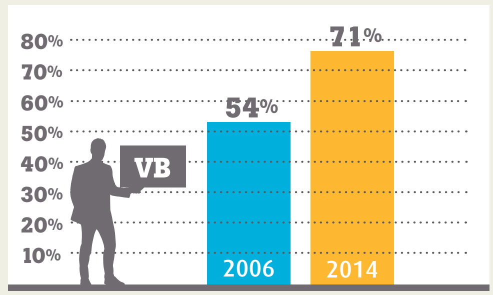
Voluntary financial protection benefits are another option for employers seeking to balance their own costs while providing the choices employees want. Because they are often paid in whole or in part by employees, these benefits are cost-effective for employers. And since they are typically low cost and payroll deducted, they can provide employees with a smart and convenient way to manage out-of-pocket costs that may not be covered under traditional medical plans:

- **Accident, critical illness and hospital indemnity.** These benefits pay lump-sum amounts, with no deductibles, directly to employees, so they can apply the money toward the out-of-pocket costs major medical may not cover. These benefits can be especially helpful when combined with CDHPs, which often have high deductibles.
- **Disability insurance.** This coverage can provide essential income to employees when they are unable to work, and can also provide support to help employees return to work when they're able.
- **Extra services.** Many benefit plans include EAPs, leave and absence management assistance, and other value-added benefits and services. These can act like an extra pair of hands for employers' HR departments, enhancing employee health and productivity, while reducing companies' administrative burden.

VOLUNTARY BENEFITS CONTINUE TO GROW

Research indicates that voluntary benefits are showing strong growth. Between 2006 and 2014, the number of employers who offered at least one voluntary benefit grew 31%.[37]

The rise in employers offering voluntary benefits:



(Employers with 10 or more employees)

Source: Eastbridge, *MarketVision™ — The Employer Viewpoint After PPACA* (2012); Eastbridge, unpublished data (2014).

And this growth should continue into the future. Another employer survey revealed that 21% of employers viewed voluntary benefits as important for 2013 — but this number more than doubled when asked about planning for 2018 (the year the Cadillac Tax is expected to kick in).[38]

HOWEVER, MANY EMPLOYEES STILL LACK FINANCIAL PROTECTION COVERAGE

Employers who do not offer financial protection benefits should consider this: Not only are they cost-effective ways to protect employees' health and finances, they are also an important way to recruit and retain key employees.

Employees *need* financial protection benefits...	...but many still don't have them
• 77% of workers think that missing work for three months because of injury or illness would create a financial hardship[39] • 44% of long term disability beneficiaries believe they would not have been able to afford to stay in their home without their employer-sponsored disability benefits[40]	• Approximately 6 out of 10 private-industry employees *do not have access* to employer-provided **short term disability coverage**[43]
• 27% of Americans say they need more life insurance[41] • 34% of households would have immediate trouble paying everyday living expenses if a primary wage earner died[42]	• Nearly half of employees *do not have access* to employer-provided **life coverage**[44]

Improving access through auto enrollment

With automatic enrollment, employees are enrolled in a standard set of benefits automatically. This helps improve employee access to financial protection benefits by ensuring they are covered until they decide to opt out or cancel coverage.

In one study conducted by Unum, employees reacted positively to automatic enrollment.

And Congress has endorsed the automatic enrollment concept for financial protection plans — specifically 401(k)s.[45]

74% of employees favor or do not object to employers auto enrolling new employees[46]

The key is to provide excellent employee benefits education and communication, so employees feel they have made an informed decision about their benefits.

SUMMARY:

As health care plans get more and more expensive, you can control costs while providing a way for employees to protect what's important to them. With the right benefits plan, you can also get value-added services that help you stretch your benefits dollar further.

TIPS FOR SUCCESS:

- **Look for value-added services** — such as enrollment and education — to go with your benefits programs. These can help you make the most of your benefits dollar and give HR an extra set of hands.
- **Introduce wellness programs** that improve employee health while enhancing employee engagement.
- **Uncover new opportunities to manage costs:** Work with a benefits provider that can help you manage absences and complicated Family and Medical Leave Act (FMLA) requirements.
- **Offer disability coverage,** so employees can protect their income and support their households if they are unable to work.
- **Offer employee-paid coverage options,** so employees can choose the benefits that fit their needs without affecting your bottom line.

Demographic shifts:

Keeping pace with a changing workforce

According to the Bureau of Labor Statistics, America's workforce will undergo major shifts over the coming decade:

"The next 10 years will bring about an aging labor force that is growing slowly, a declining overall labor force participation rate, and more diversity in the racial and ethnic composition of the labor force."[47]

These changes will create new challenges for employers and their benefits management planning: Older workers view and use benefits differently than younger ones — and increased competition for labor could make benefits even more important in attracting talent.

Employers will need to make sure they understand what benefits their increasingly diverse workforce needs — and how best to communicate with employees about financial protection and health benefits.

A word about generations

For this report, we classify the generations like this:

Baby Boomers: Born 1946–1964

Gen X: Born 1965–1980

Gen Y/Millennials: Born after 1980

AN AGING LABOR FORCE

Although the final wave of Baby Boomers is within ten years of retirement, a large number of employees say they will delay their retirement, in part because of losses they sustained during the recent recession.[48] One study reports that 65% of Baby Boomer workers plan to continue working past age 65, or do not plan to retire at all.[49]

HR professionals are already dealing with the Baby Boomers' impact on health care costs. The aging population is more likely to suffer from chronic health conditions, including diabetes, high blood pressure, heart problems and cancer.[50] Employers need to be prepared to provide their workforce with the right coverage.

A LOOMING SKILLS SHORTAGE

While employers are not sure exactly when their Boomers will retire, one thing is for sure: The generation behind the Boomers — Gen X — may not be large enough to replace the older, experienced employees. As a result, employers may be looking at a labor shortage sometime in the next decade.

Gen Y, the generation behind X, is larger — in fact, it represents a larger percentage of the U.S. population than the Baby Boomers.[51] But research indicates that this generation, also called Millennials, may be taking longer to acquire the skills employers need.[52] In fact, HR professionals are nearly all in agreement that a skills gap already exists.

98% of HR professionals surveyed said:

"a shortage of skilled workers"

— especially those with STEM* skills — will have some type of impact on the U.S. workplace in the next five years.

*Science, Technology, Engineering and Mathematics

Source: SHRM, *SHRM® Workplace Forecast: The Top Workplace Trends According to HR Professionals* (2013).

One survey indicated that employees with specialized skill sets are already in high demand and short supply, and that employers are concerned about finding and keeping talented employees.[53] Half of employers surveyed for a 2014 CareerBuilder study said they currently had positions for which they could not find qualified candidates; 46% said these positions went unfilled for three months or longer.[54]

The skills shortage indicates that employers may soon be facing stiff competition for talent — and the benefits they offer can either help their recruiting efforts or hurt them.

FINANCIAL CHALLENGES FOR YOUNGER WORKERS

As employers balance the need for cost-effective benefit plans with coverage that protects employees, they have another set of parameters to consider: addressing the divergent financial concerns of their newly diverse workforce. Younger workers are facing greater financial challenges than their older counterparts.

Gen X feels the most financially stressed

According to a PricewaterhouseCoopers survey, Gen X feels more financial stress than the other working generations. They are the most likely to find it difficult to meet their household expenses on time each month and to consistently carry balances on their credit cards. Competing financial priorities — including mortgages and caring for children and parents — have them stretched thin.[55]

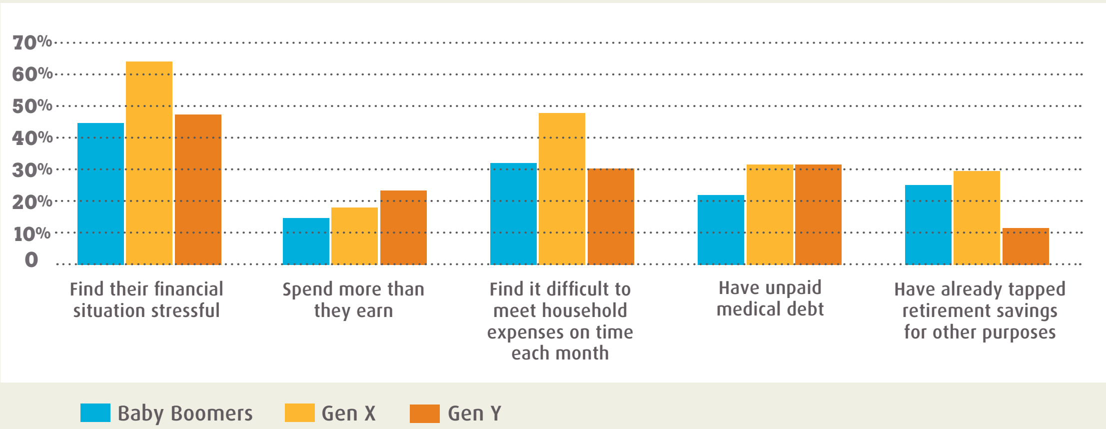
Gen Y is actually worse off

Millennials are the first generation in the modern era to have higher levels of student loan debt, poverty and unemployment, and lower levels of wealth and personal income than their two immediate predecessor generations had at the same age.[56]

Millennials need financial education

Despite their financial vulnerability, more than 80% of Millennials say they currently have enough money to lead the lives they want or expect to live in the future.[57] On average, Millennials are the least knowledgeable about financial protection benefits and require more assistance attaining the coverage they need.[58]

Different generations have different kinds of financial stress



Source: PricewaterhouseCoopers, *Employee Financial Wellness Survey: 2013 Results* (2013); Gary R Mottola, *The Financial Capability of Young Adults — A Generational View* (FINRA Investor Education Foundation, 2014).

Millennials aren't prepared for a disability

When the discussion turns to financial setbacks, Millennials indicate they are not so comfortable with their financial status.

A recent study by the TIAA-CREF Institute reports that less than one-half (48%) of Millennials feel they have sufficient funds set aside to cover expenses for three months in the event of an unexpected shock.[59]

According to the Social Security Administration, one in four 20-year olds will become disabled before they reach the age of 67.[60]

Yet only 35% of Millennials have disability insurance.[61]

Only 48% of GEN Y have 3mos of emergency savings

IMPLICATIONS FOR BENEFITS PLANNING, EDUCATION AND ENROLLMENT

Younger workers have some distinct preferences in the type of benefits they are offered, how they want employers to communicate with them and how they prefer to enroll.

What younger employees want in benefits: Relevance and flexibility

When Gen X and Gen Y talk about their benefit preferences, what stands out is their desire for benefits that fit them. According to a Towers Watson survey on voluntary benefits and services, younger generations are attracted to offerings that are tailored to their needs.[62] In another survey, 51% of Generation X and 55% of Generation Y employees said they would pay more for benefits flexibility.[63]

What they want in education: Assistance and options

See Unum's ***Beyond the Usual Benefits**: Five-year trends point to link between benefits education and business success.*

Younger employees also need assistance in understanding their benefits. According to a recent study, 38% of Gen X and 54% of Gen Y employees "strongly agree that they need more help understanding how their benefits work and how these options meet their needs."[64]

Gen X and Y employees also want options in benefits education. In a recent LIMRA study of life-insurance purchasing preferences, many Gen X and Y consumers said they want information and service online.[65] According to internal Unum research, employees aged 18 to 34 are two to three times more likely than older workers to prefer online chats or message boards involving a benefits advisor, and five times more likely to prefer a mobile app.[66]

The online shoppers interviewed for the LIMRA study said they would appreciate calculators that could help them assess their needs and guide them toward the type and amount of coverage they should buy. They also want benefits providers to "integrate channels" — that is, they expect information they provide through one channel (online, telephone, etc.) to be shared and available across channels, so they do not "have to tell their story more than once."

The Gen X and Gen Y consumers interviewed by LIMRA said that even when they are shopping online, they want the option to talk with someone on the telephone.

How they want to enroll: Online

According to the LIMRA study, many younger consumers — especially those from Gen Y — want to complete their life insurance purchase online. And these consumers typically want to be able to stay online for the whole process — from education through purchase and service later on.[67]

Millennials are the most ethnically diverse generation in the U.S.

The most dominant group among Millennials is the bilingual Hispanic.[68]

19% are of Hispanic origin

This mirrors the overall Hispanic growth we've seen in the U.S. population over the years. It also reinforces the need for employers to provide bilingual benefits education and communications that are culturally relevant.

For more information on providing benefits to Hispanic employees, visit our Hispanic Connections website: unum.com/hispanicconnections.

What Millennials need: Clear education and communication, just like everyone else

For the past five years, Unum has conducted research to help understand the way benefits impact employee satisfaction and engagement. Year after year, we have found that employees value:

- The assistance employers provide in understanding the benefits package offered and in enrolling for the benefits they choose.
- Multiple communications about their benefits, a variety of educational tools and enrollment methods, and ample time to review and discuss the information.
  - A minimum of *three* communications and *three* weeks to review are required for good decisions at enrollment time.
  - These communications need to be in clear language employees understand.

SUMMARY:

Benefits can make a big difference to the success of your business. Through careful partnership and planning, you can manage the changes by providing the choices everyone needs.

TIPS FOR SUCCESS:

- Conduct an assessment of your workforce demographics. Ensure you have the right coverage in place for each working generation.
- Explore simplified benefit offerings that are easy to understand and hard to pass up. Consider automatic enrollment to make sure employees have coverage when they need it.
- Make certain your benefits plan has a strong communication component to help recruit and retain the employees who are critical to your company.
- Provide a choice of education and enrollment methods, and give employees enough time to consider the choices that are right for them.
- Explore coverage with "guaranteed issue" provisions, so that employees can count on at least a basic level of coverage now, with the ability to increase coverage later — no health questions or exams required.

Purchasing data:
Benefit buying trends

The first three sections of this report discuss several of the external trends impacting employer benefit buying decisions. This section takes a close look at what benefits employers are buying, drawing from a combination of respected third-party resources and Unum's extensive sales database.

More than ever, employers are embracing the value of financial protection benefits. And they're offering a wider range of choices, enabling employees to choose the coverage that suits their needs.

VOLUNTARY BENEFITS CONTINUE TO STEAL THE SHOW

Over the years, there has been a steady increase in the amount of money employees spend on voluntary benefits.

Since 2004, Eastbridge estimates that total voluntary inforce premium has more than doubled.[69]

LIMRA data also highlights recent sales growth of two specific voluntary benefits — short term and long term disability insurance.

One possible explanation for the increase may be the fact that employees are buying more types of voluntary coverage.

From 2008 through 2013...

Voluntary long term disability
sales increased
4.5%

Voluntary short term disability
sales increased
13.1%

Source: LIMRA, *U.S. Disability Sales Survey,* 2013. Five-year compound annual growth rate (CAGR) for voluntary disability sales based on participating carriers.

A recent Eastbridge employee survey showed that for those who own at least one voluntary benefit:

- More than half of employees owned two or three voluntary benefits
- More than a quarter of employees owned four or five[70]

Voluntary benefits remain a popular solution for employees and employers alike, because they offer choices employees want, at little or no cost to the employer. Some also help offset the out-of-pocket costs of high-deductible health plans, providing financial assistance for a wide range of events — from everyday injuries to serious illnesses.

The top reasons why employees buy voluntary benefits at work:[71]

1. They meet employee needs
2. Ease of purchasing at work
3. Convenient payroll deduction
4. Reasonable cost of coverage

Top five voluntary benefits:

In a recent LIMRA U.S. Worksite Sales Survey, the top five voluntary benefits based on inforce premiums collected were:

- Term life
- Dental
- Short term disability
- Accident
- Long term disability[72]

What do Unum's numbers show?

While voluntary benefits have gained a lot of attention since the introduction of health care reform, employers have been using them to diversify their benefits portfolios for some time. Unum data over the past ten years shows exceptional growth in the company's voluntary lines of coverage.

The chart below demonstrates one essential measure: The increasing ownership of Unum voluntary benefits.

Increase in number of people with Unum voluntary benefits

This provides powerful validation of the importance of voluntary benefits for employees, since Unum voluntary benefits are optional, and they are typically funded entirely by the employee.

One growing trend for Unum — "group voluntary" coverage

Since 2012, Unum has seen impressive employee ownership growth in two newer group voluntary offerings — Accident and Critical Illness coverage.

Unum group voluntary coverage combines many of the best features of traditional group and voluntary coverage. Group voluntary has just one group policy contract, and regulatory guidelines are set by the state in which the business is headquartered. However, employees typically choose and pay for the coverage themselves.

For employees, these plans are simple to understand, and provide lump-sum benefit payments they can use to cover out-of-pocket costs major medical may not cover.

For more information about purchasing trends for your industry, visit our Benefits Buyers Guide site at **unum.com/benefitsbuyers15.**

Specific voluntary trends from Unum

Over the years, Unum has seen consistent growth across all age groups, all company sizes and all industries. However, it's important to note several interesting trends in each category.

Industries

Between 2003 and 2010, employees from these industries carried the most voluntary coverage:

- Health services and research
- Manufacturing
- Retail trade
- Financial services
- Wholesale trade

However, between 2010 and 2013:

The largest *increase* in employee voluntary ownership was in these industries:

- Legal services
- Information services
- Engineering
- Architecture
- Management and marketing

For Unum, these shifts demonstrate the growing appeal of voluntary benefits outside of the traditional voluntary benefits market. More employees are taking ownership of their benefits choices, and voluntary benefits provide an easy way for them to enhance their financial protection.

Company size

Between 2003 and 2010 voluntary coverage was most popular with companies with fewer than 500 employees.

However, between 2010 and 2013:

- Unum experienced double-digit case growth for every company size — ranging from fewer than 100 to more than 2,000 employees.

This indicates a trend that employers of small and large companies are seeing the value of voluntary benefits. Not only can employers offer a broader choice of benefits for little or no cost, in most cases they also benefit from complementary educational and enrollment offerings.

Age at time of purchase

Between 2003 and 2010, voluntary benefits were most popular with employees in the 30–49 age range.

However, between 2010 and 2013:

- Employees in the 20–29 and 50–59 age ranges increased their percentage of voluntary benefit ownership by a higher margin than employees in the 30–49 age range.
- Employees in the 60+ age range increased their voluntary ownership the most.

These shifts indicate a trend that voluntary ownership is gaining importance with every age group — from employees who are just starting out to those who are approaching retirement age. There's a real value to employees, since they can typically keep their coverage if their health or work status changes, even past retirement.

Another Unum Trend:

Voluntary coverage appeals to both genders, but women purchase more coverage than men.

2013	
Women	56%
Men	44%

More women buy voluntary benefits

Based on employee policy ownership, these were the top voluntary coverage choices for 2013:

- Whole Life
- Individual Short Term Disability
- Critical Illness (Individual and group voluntary)
- Accident (Group voluntary)
- Individual Disability

What voluntary plan options are employers choosing?

Here are some specific purchasing trends from Unum's voluntary sales database.

While these are common plan options, you may have a different set of needs based on your company size, industry and employee demographics. By working with a benefits partner, you can better decide what coverage options make the most sense for your specific situation.

Voluntary sales trends from Unum data	
Accident	• Most common plan design is on/off job • 30% of plans include spouse and/or family coverage • Between 2012 and 2013, there was a 10-point increase in plans that include wellness benefits • Between 2012 and 2013, there was a 7-point increase in plans with Sickness Hospital Confinement Riders
Critical Illness	• 22% of plans have a Spouse Rider • 86% of plans have a wellness benefit
Hospital Indemnity	• 34% of policies include spouse and/or family coverage • 90% of group plans written are considered HSA-compatible
Individual Short Term Disability	• 96% of policies are non-occupational (off-job) plan types
Whole Life	• 46% of all policies have dependent coverage • 20% of all policies have a Long Term Care Rider
Individual Disability	• 53% of policies have an 180-day elimination period; 36% have a 90-day elimination period • 81% of policies have benefit periods that cover accidents and sickness until age 65

Source: Unum's 2013 database of inforce coverage.

A STEADY PERFORMER: TRENDS IN EMPLOYER-PAID GROUP COVERAGE

As a result of the recent recession, many companies saw shifts that affected their group insurance coverage. Not only were plan administrators tasked to reduce benefit spending, many companies also experienced hiring freezes and workforce reductions.

However, in 2013 the industry showed a resurgence in new premium sales growth. According to data from two recent LIMRA sales surveys, categories of group insurance showed marked increases in 2013.[73]

Life numbers reflect employer-paid (basic) term sales only.

Disability numbers reflect employer-paid and contributory fully insured and ASO sales only.

*Percent change is in annualized new premiums (sales).

**Excludes Reserve Buyouts.

Coverage type	2012–2013 (1-year growth)*
Group term life	3.3%
Group short term disability	4.8%
Group long term disability**	0.5%

What do Unum's numbers show?

Between 2010 and 2013, Unum showed impressive growth in the number of employees carrying group Term Life and group Short Term Disability coverage. **One interesting trend is that the coverage increased the most for companies with 500–1,999 employees.**

Coverage type	2010–2013 inforce growth*
Group Term Life	21.9%
Group Short Term Disability	24.1%
Group Long Term Disability	5.6%

*Companies with 500–1,999 employees.

Cost-sharing: It's happening with group plans, as well

Unum data also shows a trend in the way employers are funding their group coverage — slowly moving away from 100% employer-paid coverage to shared funding with employees. Unum experience shows the majority of these employers are choosing to split the cost with employees, as opposed to shifting the entire cost to them.

The following three charts demonstrate the trend:

What Unum group plan options are employers choosing?

The following charts show the most popular Unum group coverage options for 2013:

LONG TERM DISABILITY

	Most common	Notes
Benefit maximum	$5,000–$9,999 per month (58% of cases)	$10,000–$14,999 (20% of cases)
Benefit amount	60% of salary (86% of cases)	Other choices typically range between 40% and 70% of salary
Definition of disability	2-year residual (72% of cases)	Long term income protection residual (21% of cases)
Elimination period	90 days (71% of cases)	180 days (25%); < 90 days (3%)
Funding	54% employer paid	32% shared; 13% employee paid

Unum's top three most popular combinations:

1. Life with AD&D, Voluntary Disability
2. Life with AD&D, Long Term Disability, Short Term Disability, Voluntary Life
3. Life with AD&D, Long Term Disability, Voluntary Disability

Source: Unum internal data, inforce premium, 2013.

SHORT TERM DISABILITY

	Most common	Notes
Benefit duration	≤13 weeks (62% of cases)	≥26 weeks (23% of cases)
Benefit maximum	<$1,000/wk (66% of cases)	>$1,000 (34% of cases)
Benefit amount	60% of income (71% of cases)	50% (12% of cases)
Definition of disability	Residual (57% of cases)	Total (34% of cases)
Elimination period	7 or 8 days for both accident and sickness (37% of cases)	14 or 15 days for both accident and sickness (27% of cases)
Funding	54% employer paid	31% shared; 15% employee paid

Summary:

Unum has provided this information to demonstrate the many options available to you — but we also acknowledge that your specific needs are different from those of other employers. Your Unum benefits representative can help you determine the coverage that's best for your company — and your employees.

GROUP LIFE

	Most common	Notes
Benefit	Flat benefit amount: $50,000 (25% of cases) Multiples of earnings amount: 5x earnings (49% of cases)	Flat benefit amount: $25,000 (21% of cases) Multiples of earnings amount: 1x earnings (26% of cases)
Funding	49% employer paid	27% employee paid; 24% shared

Source: Unum's 2013 database of inforce coverage.

Managing change:

How a broader perspective can help you prepare

Benefits changes will affect everyone in the coming years. Change can be stressful — but it can also help businesses transform into more resilient, creative enterprises. Here are some key takeaways:

Health care reform will continue to create challenges for employers. But it will also make your employees more appreciative of the benefits you offer.	**Stay up to date and keep employees up to speed on the importance of benefits.** With effective planning and employee education, you can maintain compliance and ensure your workforce has access to essential financial protection benefits.
The economy will continue to stress benefit budgets and employee savings. But it will also encourage spending discipline and health-management awareness.	**Make your benefits work harder.** Provide choice and wellness incentives to employees, while seeking value-added services to improve your ROI.
Younger, more diverse employees may demand more from their employers. But their energy and ideas can foster the innovation companies need to excel.	**Provide a range of benefits, simplified choices, and the right level of benefits education,** so you can attract, retain, protect and engage your valued employees.
Such optimism is backed by the purchasing trends we are seeing. With thoughtful planning, you can turn these ideas into tangible results.	**Continue to seek and provide balance in your benefits portfolio.** Work with an experienced partner who can offer the solutions that make sense for your company and your employees.

Learn how we can help you make the most of your benefits planning for 2015 and beyond.

Contact your Unum representative today.

For updated benefit information specific to your industry, visit our Benefits Buyers Guide site at **unum.com/benefitsbuyers15**.

Unless otherwise stated, all Unum data was sourced from 2013 Unum sales data.
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