Fifth Annual

Study of Employee Benefits Trends

Findings from the National Survey of Employers and Employees

MetLife®

As in nature's details, there's often more than meets the eye. Similarly, a new perspective on employee benefits can reveal qualities of strength, competitive advantage and protection for employers and their employees.

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

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

By aligning yourself with a company that applies insights to deliver innovative solutions, you can make things go right.

Introduction

For the fifth consecutive year, MetLife has surveyed employers and employees across the U.S. and compiled the findings into its annual Study of Employee Benefits Trends.

This edition of the study summarizes the results of a national survey of 1,514 benefits decision-makers and 1,202 full-time employees concerning employee benefits, marketplace trends and their overall financial situations. The trends identified from the compiled survey data create the foundation for what MetLife believes to be the most comprehensive and thoughtful picture of the U.S. benefits landscape available today.

The annual Study of Employee Benefits Trends is a testament to MetLife's commitment to providing its customers and the industry at large with thought-provoking analysis and insight that provides the basis for constructive action. MetLife has been supplying companies and their employees with important and innovative benefits solutions for nearly 140 years. This expertise may prove especially useful in today's marketplace, in which economic, demographic and competitive forces are redefining the role and value of benefits within corporate business models and transforming the needs of an ever-evolving work force.

MetLife is dedicated to helping employers and benefits professionals navigate those changes and help preserve the welfare and financial security of their employees. This study plays a central role in that effort. However, it is only one of many tools provided by MetLife to assist in the formulation and management of benefits plans. Benchmarking tools, Internet-based products and services, and other resources are also available at **whymetlife.com**.

All of these tools and resources have a common purpose: to present you with information and recommendations that lead to actionable ideas. The analysis presented in this report should spark conversation within companies and between employers, intermediaries and benefits providers. Hopefully, these conversations will give rise to creative strategies for optimizing the benefits solution.

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Executive summary

SECTION I

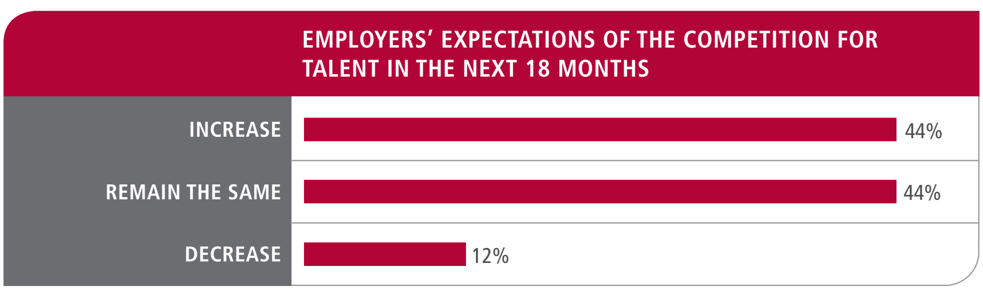
Benefits strategy becomes an imperative for employers

Employee benefits plans have long played an integral role in protecting the financial security of U.S. workers. Increasingly, however, benefits programs have become a commitment to the future for the very companies that provide them.

How so? It has become a truism in the corporate world that an employer's ability to compete is determined in large part by its success in attracting and retaining the best talent.

The issue of whether there will in fact be a labor shortage (and which industries could be most affected) continues to undergo much debate. However, many companies do see work force shortages as a potential risk. In fact, 88% of employers expect the competition for talent to increase or remain at current levels over the next 18 months. If the already fierce competition for skilled employees does indeed increase, recruiting and retaining talent may not be a question of corporate success—it could be one of survival.

CONCERN ABOUT RECRUITING AND RETAINING TALENT PERSISTS



As a result, it comes as no surprise that employers in the study, on metric after metric, say they are working to create benefits plans that will give them traction in the struggle to recruit and retain workers. What is somewhat surprising is the considerable difficulty that companies are encountering in this effort.

This study explores these difficulties in detail and highlights the strategies employers are taking to address them. Key findings are presented in three parts:

- **The struggle for balance: Financial concerns unite employer and employee**
- **Opportunities emerge: Benefits become a driver of business success**
- **The future of benefits: Winning with a holistic approach**

TAKING DIFFERENT PERSPECTIVES INTO ACCOUNT

Benefits may vary widely according to employer size, region and industry. Employee attitudes also may vary dramatically by demographic characteristics such as age, gender, or marital status. For this reason, certain findings of interest are highlighted in "callout" boxes throughout the study.

In order to provide an easy snapshot of differences among employees, we have grouped full-time employee respondents into four general life stage segments that form the basis of comparison in the pages that follow:

SINGLE:
Never married

YOUNG FAMILIES:
Parents of children under 6

BABY BOOMERS:
Ages 41 to 60

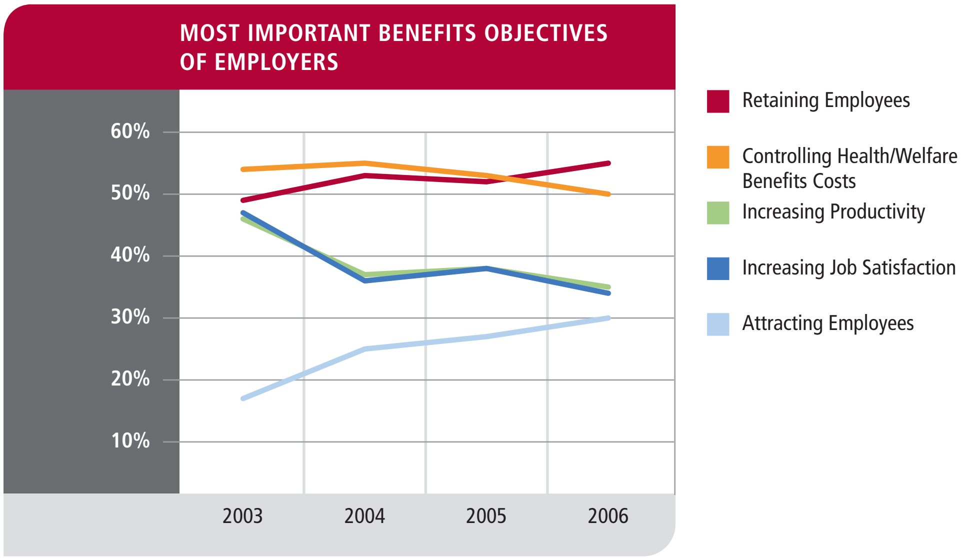
PRE-RETIREES:*
Ages 61 and over

* "Pre-Retiree" data cited in this report are based on all surveys conducted among full-time employees ages 61 and over at companies with at least two employees, including supplemental surveys that are not part of "All Full-time Employees." (See Methodology, page 52, for a description of the sample.)

The struggle for balance: Financial concerns unite employer and employee

For the first time since the inception of the MetLife Study of Employee Benefits Trends, "retaining employees" is cited most often as the primary objective of employers offering benefits, followed closely by "controlling costs." In 2006, 55% of participating companies identified employee retention as a top goal in putting together a benefits plan, while half named controlling health and benefits costs. In 2003, less than 50% of employers saw retaining employees as a primary goal.

EMPLOYEE RETENTION CITED AS TOP BENEFITS OBJECTIVE IN 2006



As companies face a difficult balancing act with potentially conflicting priorities, they cannot afford to view benefits as a cost center to be minimized. The growing challenge of recruiting and retaining talented workers solidifies the role of benefits as a top strategic consideration for company management and a key point of differentiation among companies competing for talent. This finding suggests that benefits will become a stronger business driver than they have been historically.

Indeed, when asked to quantify the importance of a broad range of benefits strategies, companies are giving higher scores to nearly all. From benefits designed to help work/life balance and 401(k) investment education to voluntary benefits and general financial planning, the proportion of U.S. companies rating these strategies "important" to their businesses increased from 2004 to 2006.

EMPLOYERS INCREASINGLY PURSUE A VARIETY OF BENEFIT STRATEGIES TO MEET THEIR OBJECTIVES

	PERCENTAGE OF EMPLOYERS WHO RANKED EACH OF THESE STRATEGIES "EXTREMELY IMPORTANT" OR "VERY IMPORTANT"		
	2004	2005	2006
BENEFITS TO HELP WORK/LIFE BALANCE	53%	52%	57%
EMPLOYEE DECISION SUPPORT TOOLS	49%	47%	56%
401(k) INVESTMENT EDUCATION	45%	43%	53%
INTERNET ACCESS FOR ALL EMPLOYEES	43%	46%	53%
COMMON PLATFORM FOR ADMINISTRATION	42%	43%	51%
RETIREMENT PLANNING	44%	46%	50%
EMPLOYEE SELF-SERVICE VIA INTER/INTRANET	41%	40%	49%
BUILD OR EXPAND BENEFITS WEBSITE	33%	31%	40%
WIDER ARRAY OF VOLUNTARY BENEFITS	34%	31%	39%
COST SHIFTING TO EMPLOYEES	35%	30%	39%
GENERAL FINANCIAL PLANNING	29%	29%	37%
OUTSOURCING BENEFITS ADMINISTRATION	24%	24%	30%

The growing focus on benefits is due in large part to increasing financial concerns, for both employers and employees. Both sides face increasing health care costs, and for many companies the task of remaining competitive in benefits represents a significant financial obstacle.

Employees are also being forced to shoulder more of the burden of saving for their own retirements. The historically low U.S. savings rate suggests that many workers are dangerously unprepared for this shift. Study findings indicate that eligible employees are still underparticipating in their company sponsored 401(k) plans—by not contributing enough to receive the maximum match and/or tax benefit—and thereby "leaving money on the table." In 2006, nearly half (48%) did not contribute at all to their 401(k) plan, and of those who did contribute, only 28% contributed the maximum amount allowable by law.

The impact of these trends is further magnified by the aging of the U.S. population—a demographic shift that will have many other profound implications for companies trying to maintain top-quality work forces. Indeed, worries of a labor shortage may be overstated, particularly if many workers need to stay in the work force for income and find that their talents command a premium.

Opportunities emerge: Benefits become a driver of business success

While certainly reflective of the concern employers have for the financial health of current and former employees, the study's findings also suggest companies are coming to the conclusion that adding new types of benefits to their plans is no longer enough. They are also broadening their coverages (e.g., to include retirees and domestic partners) as a means of distinguishing themselves from other potential employers and building loyalty among current employees.

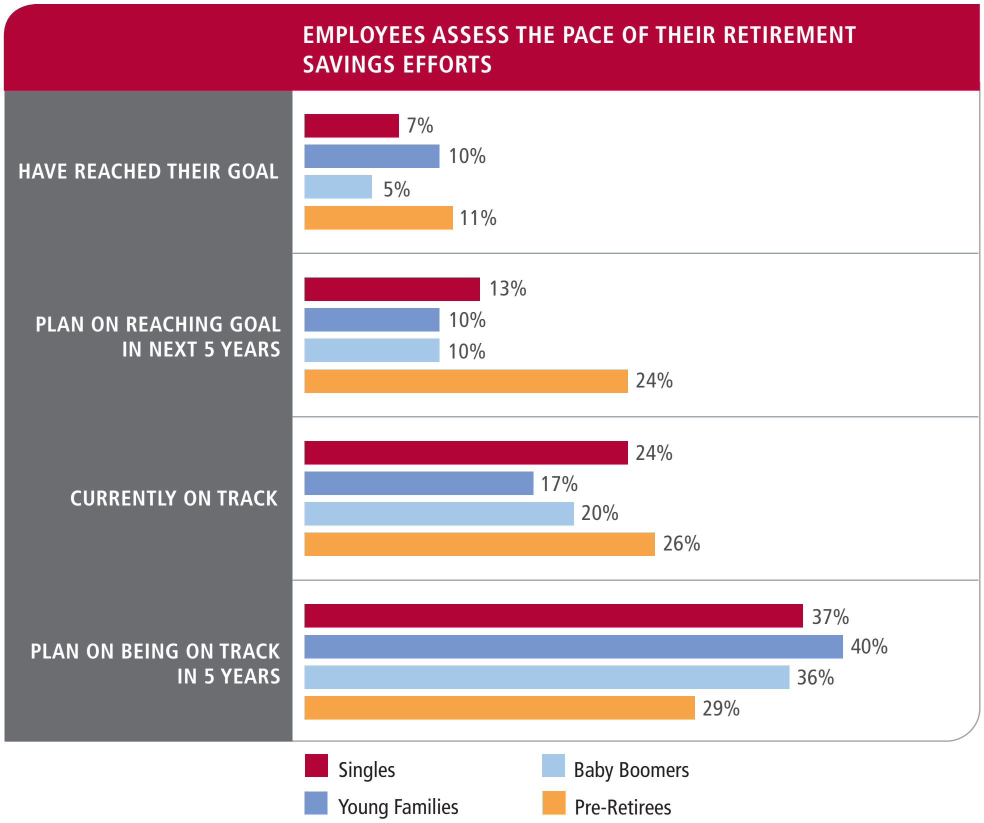
This effort could also serve another useful purpose: It will make companies more attractive in the eyes of older workers, who are likely to become an increasingly valuable resource as talent becomes scarce. This could be particularly true in sectors such as health care, government, education, manufacturing, energy, and aerospace, which are expected to be especially hard hit by the loss of veteran workers as baby boomers begin to leave the work force for good.[1]

MORE EMPLOYERS OFFER BENEFITS TO RETIREES

In keeping with these perceptions, a sizable proportion of U.S. companies report that they extend some form of benefits to retirees. Of these employers, almost one-third (31%) offer health insurance, followed by life insurance (22%) and dental coverage (18%). A growing proportion of these companies (63% in 2006 vs. 27% in 2004) generally expect their expenditure for retiree benefits to grow over the next five years.

Retirees may need to depend heavily on their employers' help in retirement. The uncertainties surrounding Social Security and Medicare could place more responsibility for retirement planning on the individual. Yet only 21% of the employees surveyed say they are on track to meet their retirement savings goals. In fact, more employees surveyed in 2006 (52% vs. 45% in 2004) say they are "somewhat behind" or "significantly behind" where they had hoped to be at this point in terms of retirement savings. Perhaps most disconcerting are responses from older employees: only 5% of baby boomers and 11% of pre-retirees say they have reached their goals for retirement savings.

LITTLE PROGRESS TOWARD RETIREMENT GOALS



The future of benefits: Winning with a holistic approach

Study findings show that employees continue to regard their employers as an important source of financial security. Driven both by business imperatives and a real sense of responsibility, U.S. companies are doing their best to provide this security through a host of valuable—and often costly—employee benefits.

However, employers are driven by not one but two primary goals with regard to benefits plans: employee retention and cost control. Balancing these competing and often conflicting interests is one of the primary challenges facing companies today.

Meeting this challenge will require companies to adopt a holistic approach to benefits management. What does such an approach entail?

- **It starts with understanding.** In order to maximize the effectiveness of their benefits plans, employers must develop a clear understanding of two things: the needs of current and potential employees, and how benefits objectives fit within their overall business strategy.
- **It hinges on communication.** No matter how generous a corporate benefits package is, its full impact and effectiveness will be determined by how well its features are explained to—and appreciated by—employees.
- **It succeeds through flexibility.** The days in which companies could maintain a top-quality work force with a single, one-size-fits-all package of benefits are fast coming to an end. Today's work force is too diverse for such an approach to succeed. Technology and lifestyle changes have increased demands for flexible schedules. Societal changes have broadened the definition of "family." The aging of the U.S. work force is placing new demands on employee benefits programs. In this environment, companies can succeed only through personalization, customization and flexibility.

In the coming pages, MetLife presents analyses and insights intended to assist you in accomplishing the essential task of optimizing the benefits solution. Companies that succeed in this endeavor are building a real competitive advantage: a program that ensures the financial security of their work forces, and thereby their own.

SECTION II

The struggle for balance: Financial concerns unite employer and employee

- **Costs are increasing for both employers and employees**
- **The changing workplace is redefining employer/employee relationships**
- **Benefits satisfaction is a key driver of job satisfaction**
- **Employees have fallen further behind in retirement savings**

Benefits costs affect everyone

Employers and employees have often found themselves on opposite sides of the table in matters regarding compensation and benefits, but their concerns are converging.

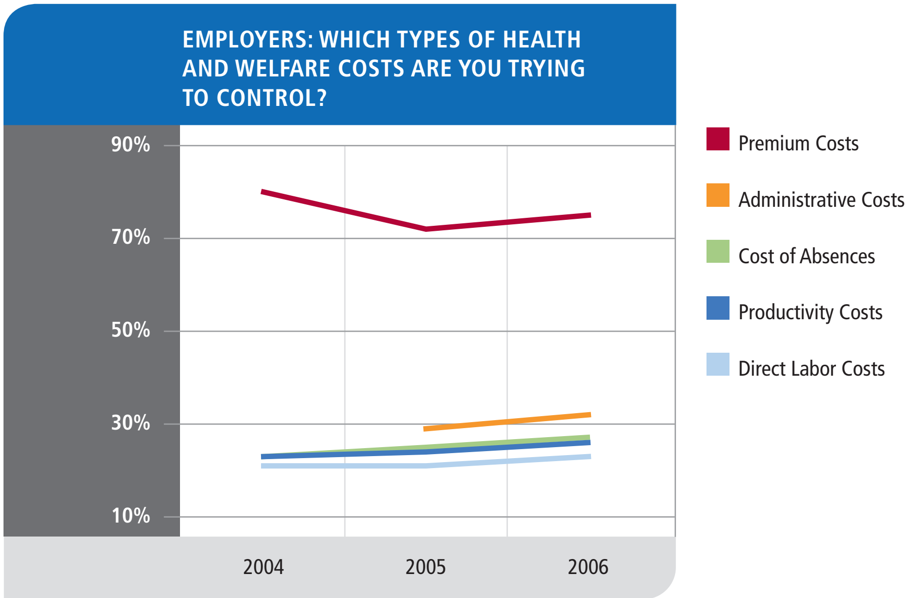
Both employers and employees worry about increasing costs and the need to allocate finite resources toward an expanding set of discretionary costs. Employees look to their company benefits as a financial safety net for many potential life events. Employers, in turn, are challenged to attract and retain increasingly elusive talent. Benefits programs may be an effective tool in this effort.

Broadly speaking, smaller employers are picking up more of the costs for benefits:

- Among small companies with 2–49 employees, 42% pay the full cost of medical coverage (excluding prescription drug coverage), compared with 29% of companies overall, up from 24% in 2005.
- 88% of companies now offer prescription drug coverage, and 24% of those (primarily companies with fewer than 200 employees) pick up all premium costs.

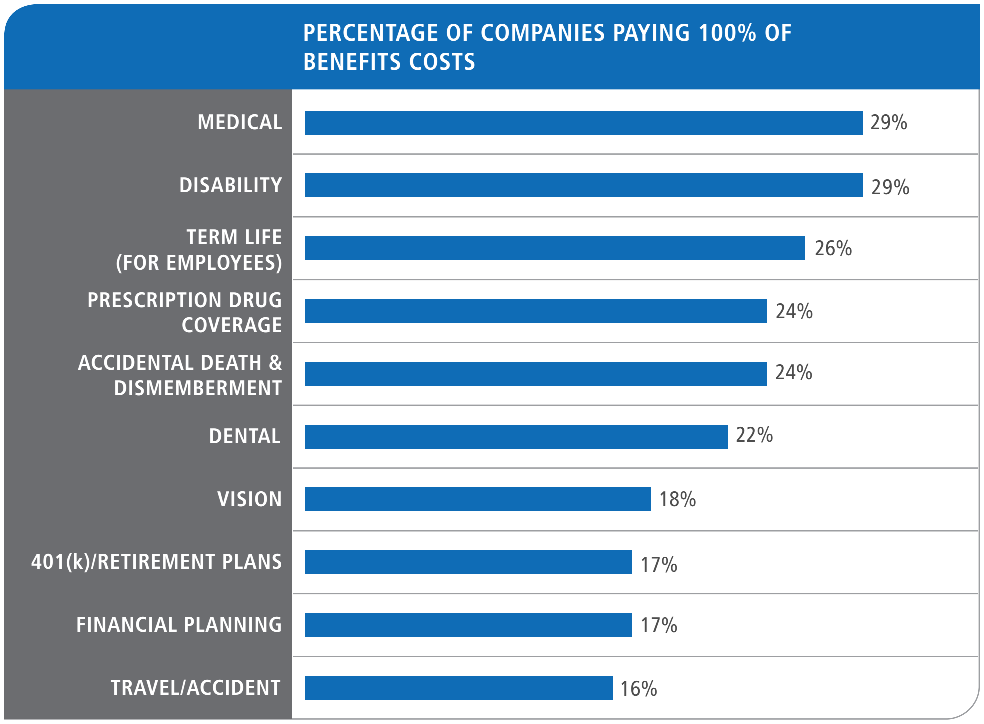
Employers are also picking up the tab for benefits other than health care: 22% paid the full cost for dental insurance and 18% paid the full cost for vision insurance.

PREMIUMS STILL LEAD COST-CONTROL PRIORITIES



Employers are becoming more sensitive to employee requests for guidance on complex issues such as financial planning. Some 37% of all employers cite "providing general financial planning services" as a very important priority. Indeed, 17% of employers paid all the costs for that service in 2006. The recently enacted Pension Protection Act (H.R. 4) gives employers an opportunity to provide employees access to more personalized investment advice. This is good news for employees, as almost one-third (30%) are open to the idea of their employer providing access to financial guidance.

WHERE EMPLOYERS PICK UP THE TAB



Employees pay more as well

Employees are confronting their own difficult choices on the cost front. Some 60% of all employees who share the cost of benefits say they are paying more in 2006 than they did last year, up from 47% in 2004.

Regional Perspective:
32% of companies in the Midwest cite "shifting costs to employees" as an important benefits strategy, compared to 24% in the West.

Life Stages:
44% of young families say they are worried about the affordability of benefits over the next five years, but other demographic groups appear less concerned—less than a quarter of singles say they are worried.

Benefits and the new workplace

Accommodating today's families

Married couples slipped below the majority threshold of all U.S. households in 2005 (49.7% vs. 52% in 2000 and 84% in 1930), while male single-sex and female single-sex unmarried couples rose 24% and 12%, respectively, according to the U.S. Census Bureau.[2]

As a result, more employers are adjusting benefits packages to accommodate nontraditional families. Indeed, approximately 50% of Fortune 500 companies now offer domestic partner health benefits, up from 43% in 2004.[3]

Buffeted by downsizing, outsourcing, buyouts and shifting demographics, the workplace is decidedly not what it used to be.

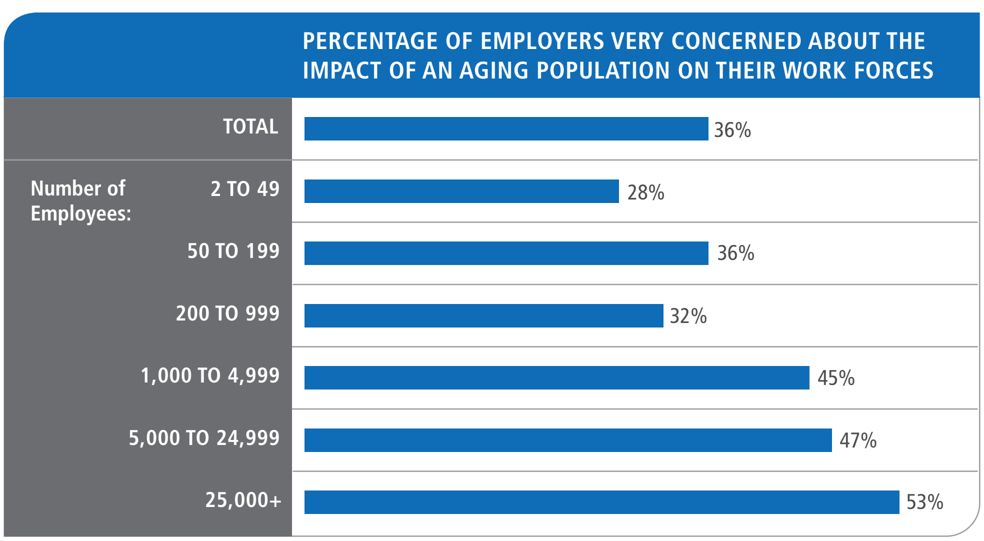
Both employers and employees are experiencing the dissolution of the old "social contract" that suggested employment for life and provided a sense of stability in the workplace.

Family dynamics are changing as well, and employers seem to be adapting. Meanwhile, the source of benefits remains a moving target. It may consist of one's workplace, a spouse or partner, an independent purchase, or some combination thereof. The dynamic of "whose benefits shall we use?" may become increasingly important in the future.

As a result, the employer/employee relationship is being reshaped. Armed with portable defined contribution plans, many of today's employees are less intimidated by the notion of job change—23% made a job change in the past 18 months. At the same time, employers are becoming more comfortable with nontraditional employment arrangements such as flex-time, job-sharing and even outsourcing certain tasks.

All of these changes are taking place against the backdrop of one of the most important demographic shifts in U.S. history: the aging of the baby boomer generation and its potential effect on the workplace. Employers, especially larger companies, continue to be concerned about the impact of an aging population on their work forces.

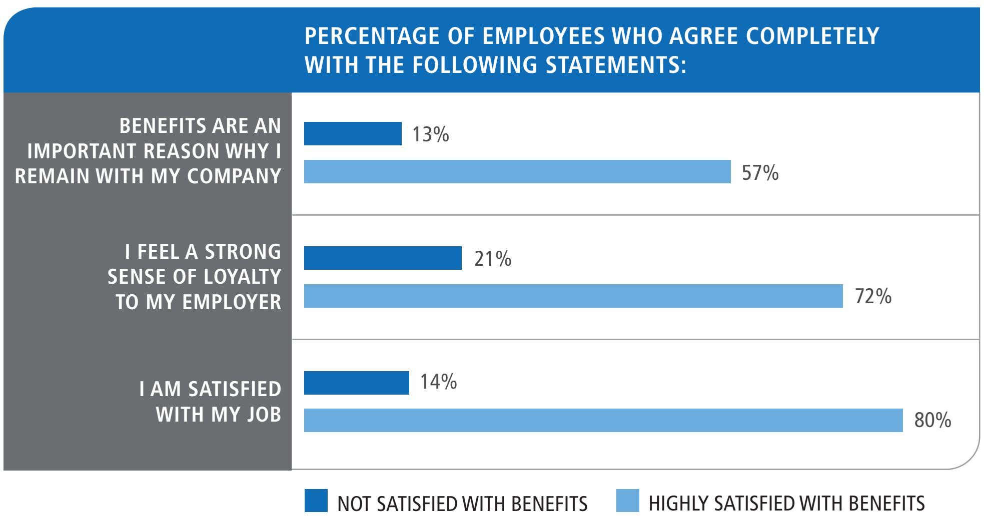
EMPLOYERS CONTINUE TO BE CONCERNED ABOUT AN AGING POPULATION



As large numbers of boomers become eligible to retire in the next 20 years, employers at large companies are taking note. Some 53% of the largest companies (25,000-plus employees), up from 46% in 2005, say they are very concerned about the impact on their work force (see chart on page 18). Smaller companies seem less concerned. Only 28% of the smallest companies (2–49 employees), unchanged from the prior year, voice similar concerns.

With the aging of the population and other demographic changes, the needs of the work force have grown increasingly diverse, challenging employers to reevaluate how best to retain workers. Benefits could be the key. The survey results reveal a strong correlation between benefits satisfaction and job satisfaction. Among employees who are "highly satisfied" with their benefits, 80% indicate strong job satisfaction, up from 65% in 2005.

EMPLOYEE BENEFITS SATISFACTION, JOB SATISFACTION, LOYALTY AND RETENTION



A similar correlation is shown between satisfaction with benefits and loyalty to employers. Of employees who are highly satisfied with their benefits, 72% report feeling a strong sense of loyalty to their employer. Likewise, 57% of employees who are highly satisfied with their benefits also feel that benefits are an important reason why they remain with the company.

Industry Perspective:

The 2006 MetLife Survey of the American Teacher showed that a majority of principals (67%) and deans/chairpersons (52%) cite low salary and too few benefits as a primary reason teachers leave the profession for a different occupation.[4]

Life Stages:

In 2006, 39% of all employees said they were very satisfied with their benefits, the same as in 2005. The least satisfied were singles (35%); the most satisfied were young families (49%).

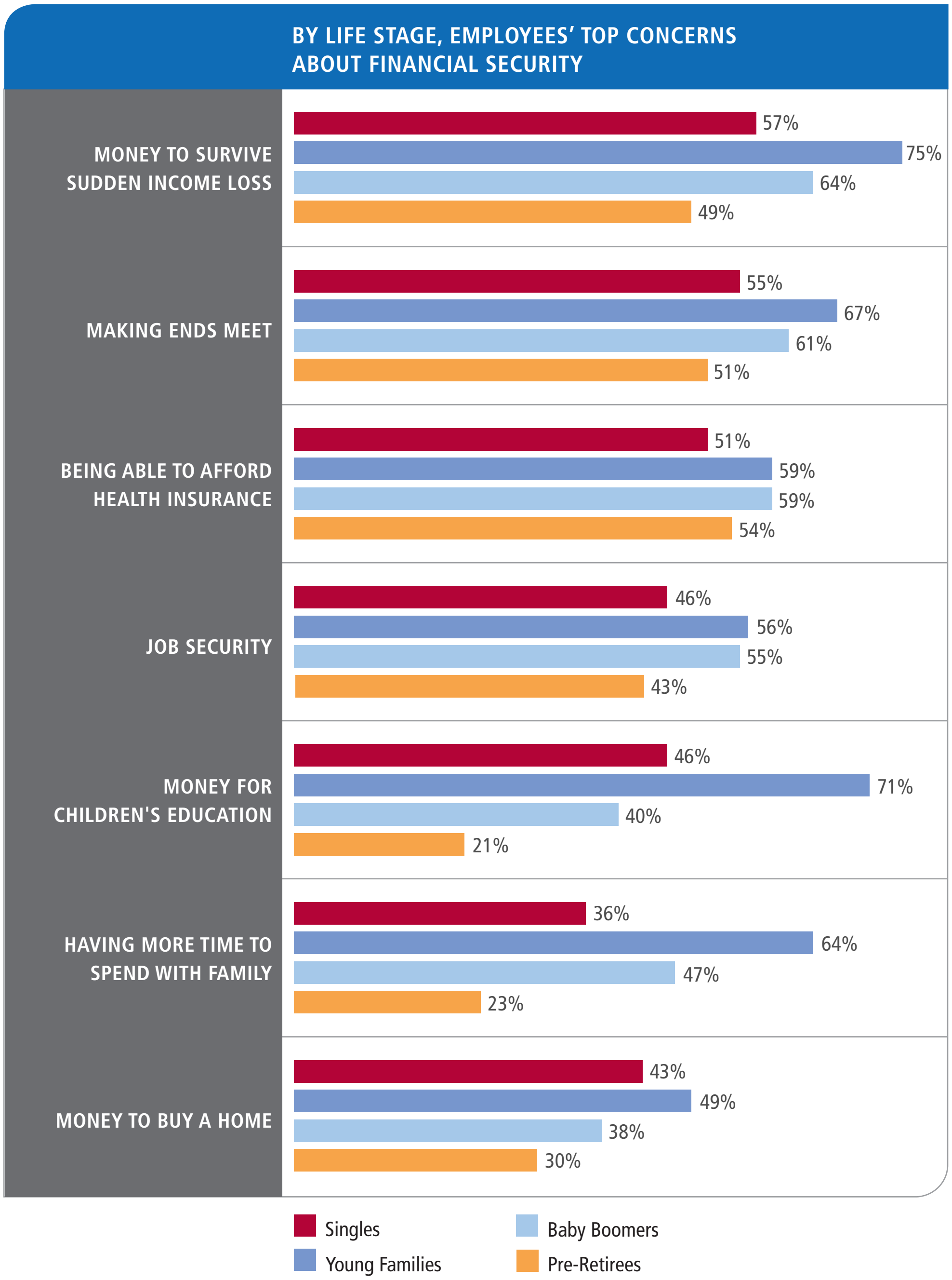
Rising concerns about financial security

Employees express many concerns about the need for a better safety net, and most fall behind in saving for retirement.

Decisions on benefits and retirement savings are increasingly being put in employees' hands. This greater responsibility has not made employees feel secure. Only 28% of employees feel confident in their abilities to make financial decisions for themselves and/or their families.

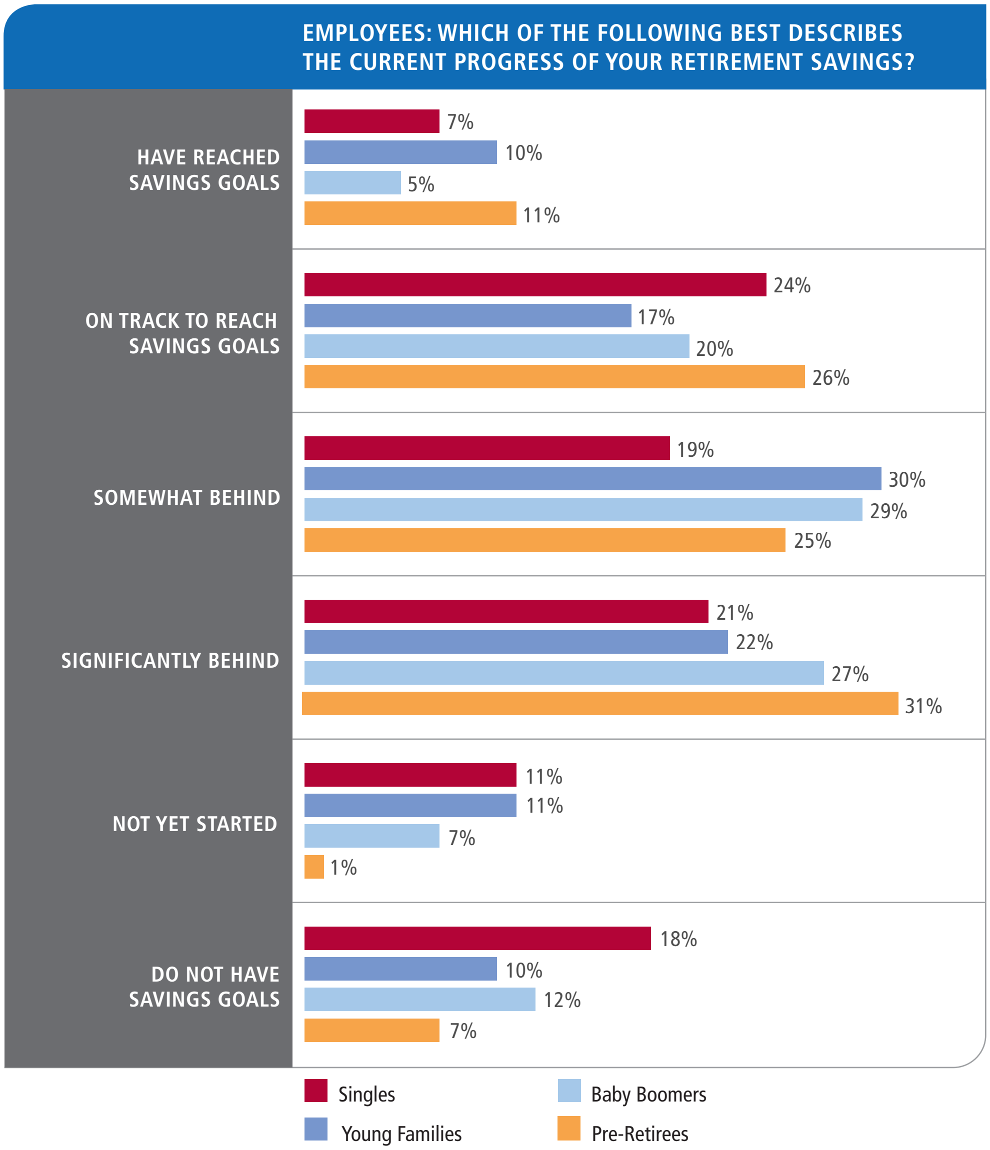
It is not surprising, therefore, that most workers (52% of respondents) say they are behind schedule on saving for retirement. Given this perceived lag, employees may be ready to consider solutions which can help build and protect their income and assets as they plan for their financial futures. Annuities, for example, may offer employees an easy way to accumulate income for retirement and/or allow them to turn the savings they have today into income that lasts. In addition, disability insurance can protect income during unexpected work absences, which could in turn be directed toward retirement. Furthermore, solutions such as long-term care insurance can protect income and assets by covering the high cost of long-term care should it be required in workers' later years.

PRIMARY FINANCIAL CONCERNS OF EMPLOYEES



The top concern among full-time employees (63%) is having enough money to pay bills during a period of sudden income loss. This is particularly worrisome to young families with children: 75% report it as their top concern. Yet employees are not doing much to protect themselves. Only 50% of employees own life insurance for themselves and 58% have disability coverage. Even among those who have such coverage, nearly half (45% for life; 43% for disability) acknowledge that the amount of their coverage is inadequate.

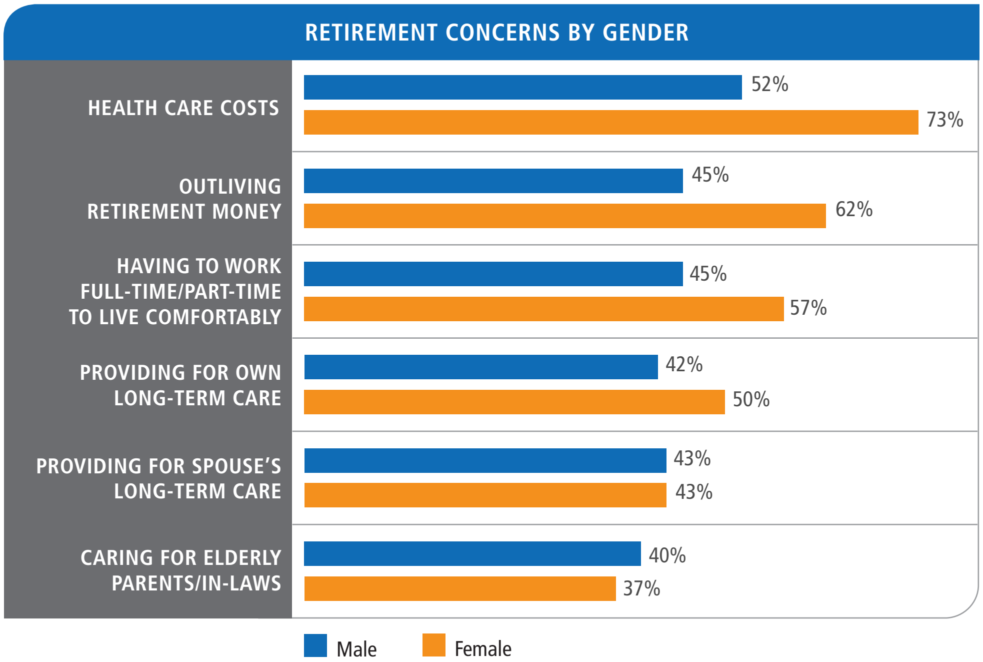
MOST EMPLOYEES REMAIN BEHIND ON THEIR RETIREMENT SAVINGS



A large percentage of employees feel they are behind in their retirement savings.

- Pre-retirees are more likely (31%) than any other life-stage group to say they are significantly behind financially where they had hoped to be. Other MetLife research shows that while aging workers seek greater autonomy and flexibility, financial necessity is driving many older Americans to work—whether on a part-time, full-time, or self-employed basis—well past traditional retirement age.[5]
- Baby boomers, who as a group are rapidly approaching retirement, express similar concerns. 27% say they are significantly behind in their savings, and only 20% say they are on track.

WOMEN EXPRESS MORE RETIREMENT CONCERNS THAN MEN



Women are more concerned about financial security

Employees' financial concerns vary widely according to gender. Some 56% of female employees rate job security as a top concern versus 48% of males; 64% rate health insurance as a top priority versus 51% of males; and 65% are very concerned with having enough money to make ends meet versus 55% of males.

The gender divide also plays a significant role in how employees view retirement, with women expressing far more concerns about having enough savings.

- Being able to afford health care in retirement, the top concern for all employees, is far more important to females (73%) than males (52%).
- Women in the U.S., on average, will live seven years longer than men,[6] and are far more concerned about outliving their retirement money — 62% versus 45% for males.
- One reason women may be more concerned: Women of all ages are far behind men (17% to 24%) in feeling on track for reaching retirement savings goals.

Women are projected to account for 51% of the increase in total labor-force growth between 2004 and 2014, according to the U.S. Department of Labor.[7] Employers who are sensitive to their concerns may be better positioned to meet the talent retention challenge.

Life Stages:
Pre-retirees are the least concerned about having to work full- or part-time during retirement to live comfortably, with just 41% citing it as a top concern, compared to 59% for young families.

Conclusions

- With both companies and employees paying more for benefits, employers who pursue innovative ways to improve the cost efficiency of their benefits plans and reduce the financial burden on employees may gain a competitive advantage.
- To accommodate the changing needs of their employees, employers should look to a growing range of benefits programs and options—including financial planning guidance and programs that aid work/life balance.
- The strong relationship between benefits satisfaction and job satisfaction suggests that employers can boost employee loyalty through benefits enhancements.
- Women express more financial concerns than men. As women represent nearly half of the labor force (46%, according to the Department of Labor[8]), addressing their concerns directly could boost the effectiveness of a benefits plan as a recruiting and retention tool.
- A large percentage of employees feel they are not saving enough for retirement. Employers who can help empower them and provide incentive to plan and save more effectively may win employees' loyalty.
- Employers can help employees use their benefits to build a financial safety net for their retirement years. With traditional pensions dying out, an attractive alternative may be offering an annuity as a 401(k) distribution option, or offering an annuity as an investment option within the plan, both of which allow employees to secure themselves guaranteed income for life. Disability insurance and long-term care insurance can also help protect income and assets as workers prepare for their retirement.

Opportunities emerge: Benefits become a driver of business success

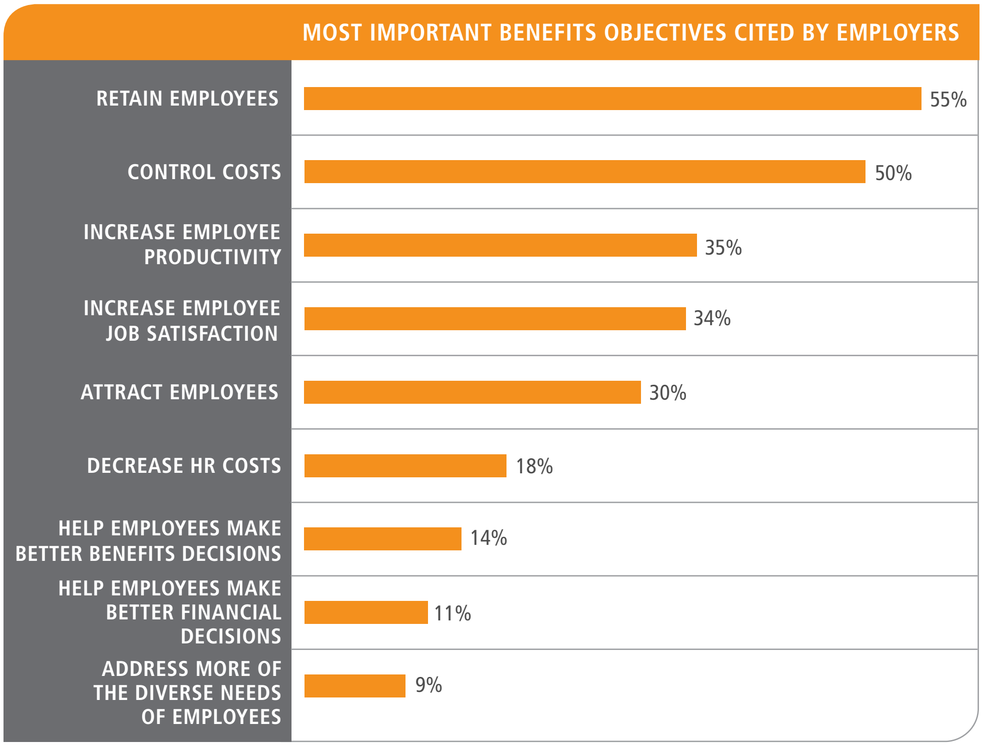
- **Employee retention takes center stage, though cost control is still a priority**
- **Voluntary benefits are becoming increasingly attractive**
- **Employers have an opportunity to better adapt benefits to an aging work force**
- **A wide communications gap remains between employers and employees**

New ways of looking at benefits

Employers' attitudes toward benefits are changing as they seek new ways to attract and retain employees.

Employers appreciate the importance of benefits programs as a recruiting and retention tool, yet many are struggling to determine how best to accommodate the needs of an increasingly diverse work force. Even companies that are meeting employees' changing demands with new approaches have found it difficult to effectively communicate the value of benefits plans to employees.

EMPLOYEE RETENTION AND COST CONTROL ARE TOP PRIORITIES FOR EMPLOYERS



Outsourcing grows

Outsourcing of employee benefits administration continues to gain traction as a tool to reduce costs. In 2006, 30% of employers cited outsourcing as an important strategy, up from 24% in the previous two years.

401(k) administration is the function most commonly outsourced (57% of all employers, up from 51% in 2005). Health and welfare administration was the second most common, at 42% of employers, compared to 31% in 2005.

Companies continue to have two clear yet potentially conflicting goals when it comes to their benefits plans: retaining employees and controlling costs.

- For the first time in the five-year history of the MetLife Study of Employee Benefits Trends, "retaining employees" became the most frequently cited "most important" objective of employers offering benefits. Overall, 55% of participating employers rated employee retention as one of their most important goals in assembling a benefits program, and half ranked controlling health and welfare benefits costs as a top objective. These two goals are top-of-mind for all companies, from the very largest to the smallest.
- After retaining employees and controlling costs, employers ranked "increasing employee productivity" and "increasing employee job satisfaction" as third and fourth in terms of important goals for their benefits programs.
- "Attracting employees" rose from 25% in 2004 to 30% in 2006 as an important goal, indicating that employers have not only retention in mind as they design benefits programs, but recruitment as well.

The challenge to employers is clear: how best to use benefits as a retention tool which meets the needs of an increasingly diverse work force, while also keeping rising costs at a reasonable level.

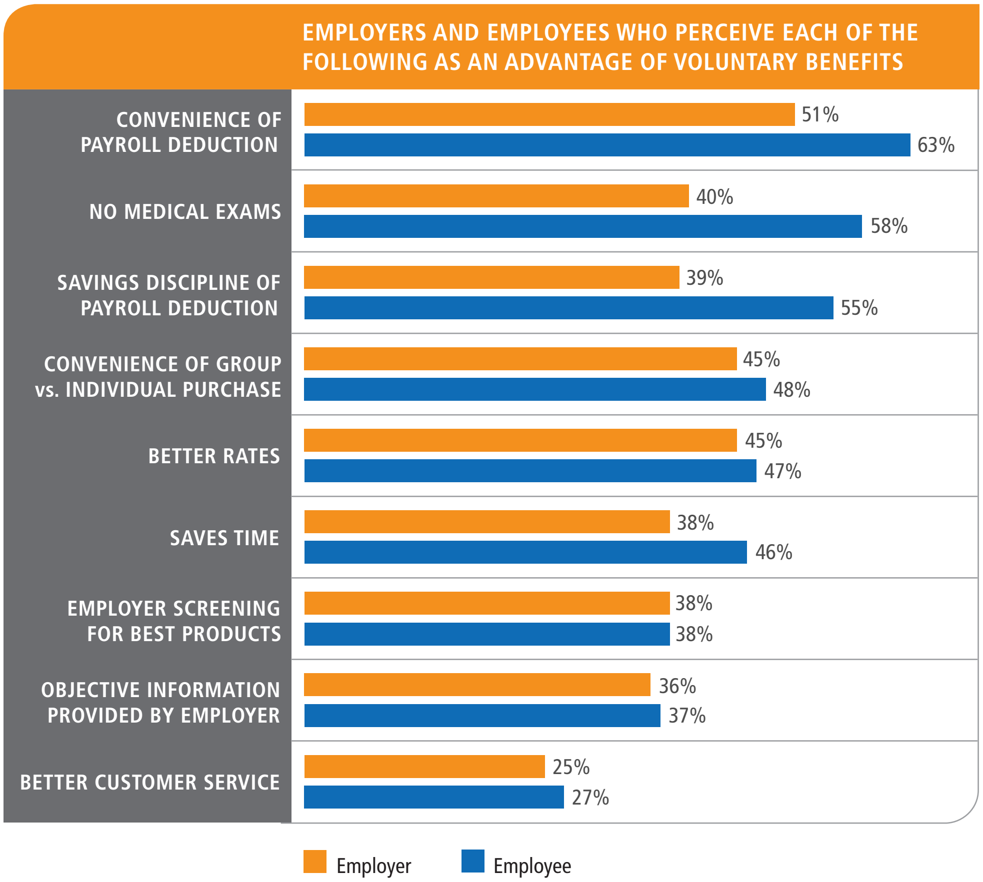
Company Size:
The largest companies (25,000-plus employees) are more likely to value increases in productivity ahead of increases in employee job satisfaction, whereas smaller firms tend to see employee job satisfaction as equally important as productivity gains.

Industry Perspective:
From 2004 through 2006, companies in the Services sector demonstrated the greatest increase (10%) in looking to use benefits to attract new employees.

Voluntary benefits provide a solution

Some employers are turning to voluntary benefits programs as a means to address the challenge of offering more with less.

EMPLOYEES PLACE GREATER EMPHASIS ON CERTAIN ATTRIBUTES OF VOLUNTARY BENEFITS



At a bottom-line level, voluntary benefits have an obvious appeal to employers, as employees pay 100% of the costs. Employers also see voluntary benefits as providing important and attractive advantages to employees. The study revealed the following employer attitudes toward voluntary benefits:

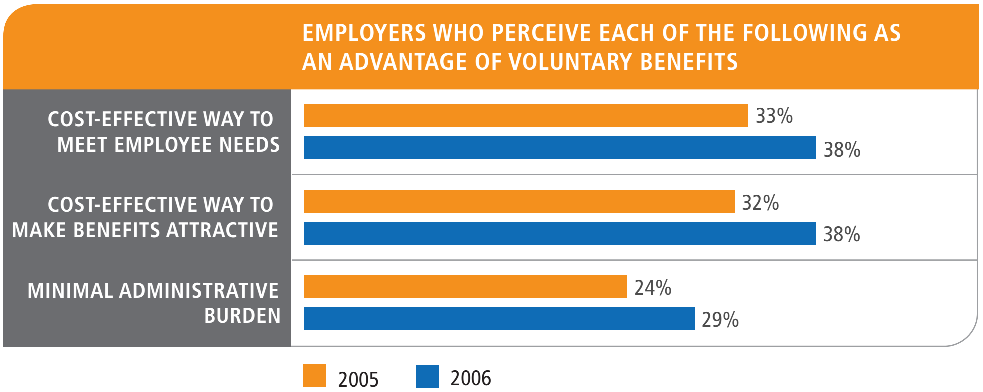
- More than half (51%) of the employers participating in the study say the convenience of payroll deduction as a means for employees to pay for services is a major advantage of voluntary benefits; 63% of employees also say this.

- 45% of the employers participating in the study rate the ability to provide employees with better group rates as an important attribute of voluntary benefit plans.

Although employers and employees agree on the convenience of payroll deduction to make payments as an important advantage, the study results also reveal that a gap remains between employers' lists of the most important advantages of voluntary benefits plans and those of employees:

- 58% of employees rank the ability to obtain insurance without undergoing a medical exam as one of the most important attributes of voluntary plans; only 40% of employers consider the absence of medical exams a key advantage of voluntary benefits.
- 55% of employees appreciate the fact that payroll deductions for voluntary benefits help them to be more disciplined about saving; however, less than 40% of employers recognize this as an important advantage.

EMPLOYERS INCREASINGLY RECOGNIZE KEY ADVANTAGES OF VOLUNTARY BENEFITS



As employers see certain advantages in voluntary benefits, they should also ensure that communications align with the value employees see, to encourage participation. One way to gauge what employees value in their benefits is to gather their feedback. An understanding of employee attitudes may reveal that what employers may perceive as only incidental issues are, in actuality, decisive factors.

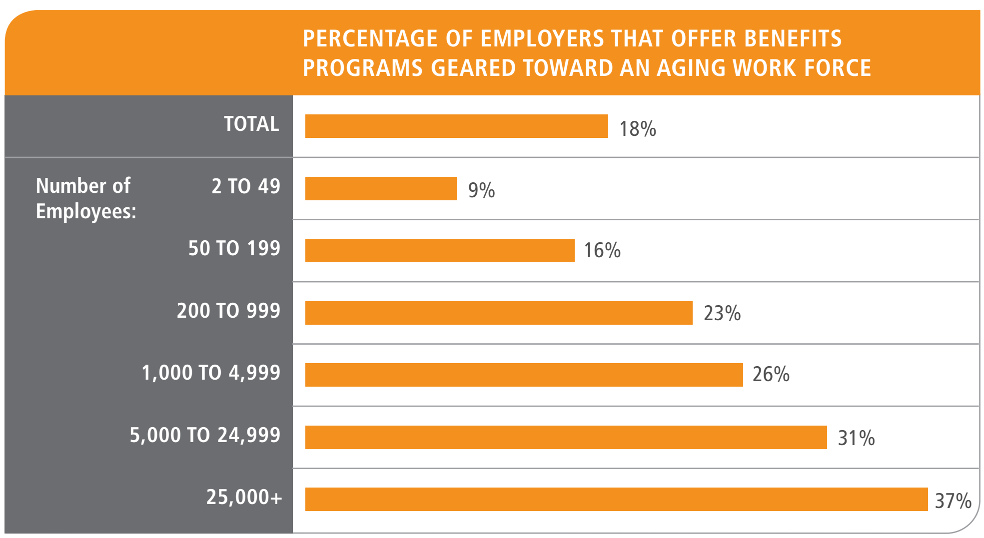
Meeting the needs of an aging work force

Confronted with compelling evidence that employee needs and demands are undergoing dramatic change, companies face new benefits challenges.

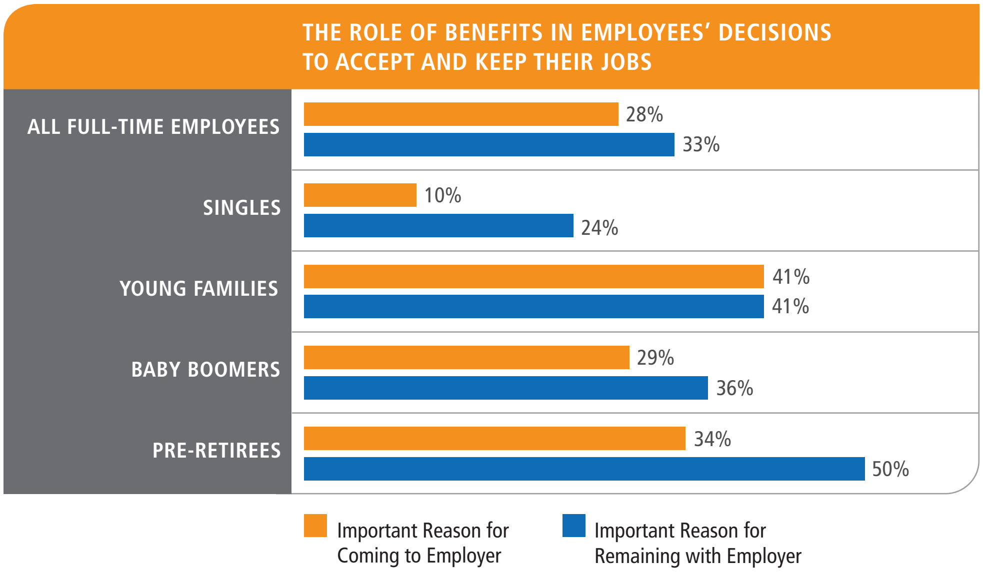
Approximately 89% of U.S. employers agree that the aging population will have a moderate or significant impact on their work forces. Nevertheless, only 18% of employers have supplemented their plans with resources and programs specifically geared to the needs of an aging demographic—a proportion that has not changed since 2004.

- Only 13% of employers offer eldercare information and referral services.
- Eldercare support groups are offered by only 7% of U.S. companies.
- Only 6% provide caregiver resource guides—a relatively low-cost product that can reduce employee absences related to caregiver responsibilities.

LARGER COMPANIES LEAD THE WAY IN OFFERING PROGRAMS GEARED TOWARD AN AGING WORK FORCE



BENEFITS ARE IMPORTANT IN RECRUITMENT AND RETENTION, PARTICULARLY AMONG PRE-RETIREES



Aging workers demand better benefits

The aging of the U.S. work force is elevating the importance of benefits plans in general to employers and employees alike:

- Life stage makes a difference when people consider benefits as part of a job package. Nearly 30% of baby boomers, and 41% of young families, say benefits were a primary consideration in taking their jobs. The share citing benefits as a compelling reason to remain at these jobs is 36% among baby boomers and more than 40% among young families.
- In contrast, only one in 10 singles say that benefits were an important reason for taking their current job, and less than a quarter say benefits are a compelling reason for staying with their present employers.

As the work force becomes weighted toward more mature life stages, the quality of employee benefits plans will go a long way in determining the success of individual companies in recruiting and retaining the best employees. To be more precise, employee perceptions of the quality of benefits plans will become a key differentiating factor for companies.

Communication may affect return on benefits investments

A company's ability to communicate the value of its benefits plans to employees may have a big impact on employee satisfaction.

Add value with clear communication

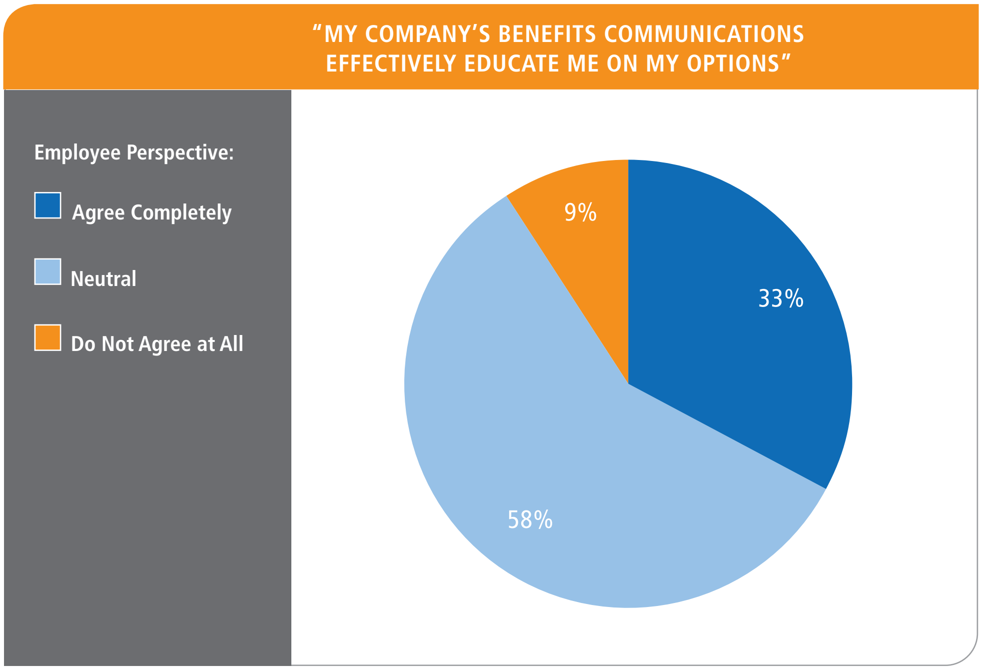
A failure to understand specific benefits may cause employees to make poor decisions. For example, employees consistently ranked "losing income due to disability or illness" as one of their greatest worries. Yet when they ranked benefits in terms of perceived value, disability insurance placed 10th—even behind paid vacation/holidays.

This indicates an opportunity for employers to maximize the effectiveness of benefits by clearly explaining what the benefits cover and why they are valuable.

Both employers and employees feel that failures to communicate are relatively common. Indeed, only 36% of employers believe their employees understand the true value and cost of the benefits they provide, a number that has held steady since 2004.

Employees confirm this perception. When asked whether their company's benefits communications effectively educate them on their benefits options, 67% of employees felt neutral or disagreed. Only 33% felt strongly that these communications help them select the options that best meet their needs.

COMMUNICATION GAPS PERSIST



These results should be of special note to employers struggling to balance the need to entice top talent with the need to control costs. Employers measure return on investment for benefits programs in terms of hiring, retention and employee productivity. When employees do not appreciate the full value of the products they are offered, some portion of these returns may be lost.

Thus, incremental costs associated with communication and education efforts must be weighed against potential gains in these critical areas. The study findings in this area suggest that additional investment in education and communications may be a cost-effective way for many employers to maximize the value of existing benefits programs.

Employees' need for advice

Many employees don't consult with anyone on their finances. The top reason cited is that they believe they don't have enough money to need financial advice. A relatively large number, 53% of pre-retirees and 38% of baby boomers, say this.

MANY EMPLOYEES DO NOT SEEK FINANCIAL ADVICE

	EMPLOYEES WHO DON'T CONSULT WITH ANYONE ON FINANCES
ALL FULL-TIME EMPLOYEES	46%
SINGLES	44%
YOUNG FAMILIES	36%
BABY BOOMERS	47%
PRE-RETIREES	51%

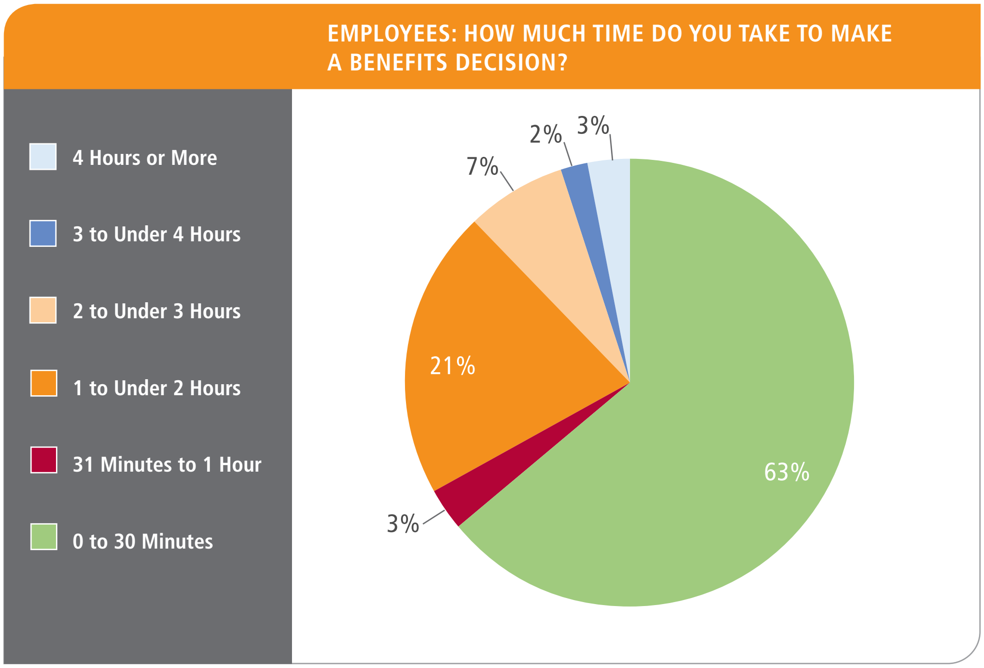
Some employers are extending their communication and education programs beyond the confines of their own product offerings and into the realm of financial planning assistance for employees. The reason: Employees are not devoting sufficient attention either to benefits or to their financial situations.

The Gender Gap: More than half of women say they never solicit outside advice on financial matters, compared with 42% of men.

Regional Perspective: Employees in the West were much more likely to judge their employers' communications as effective than those in other regions, with 40% giving positive responses, compared to 29% in the Northeast, 26% in the South and 24% in the Midwest.

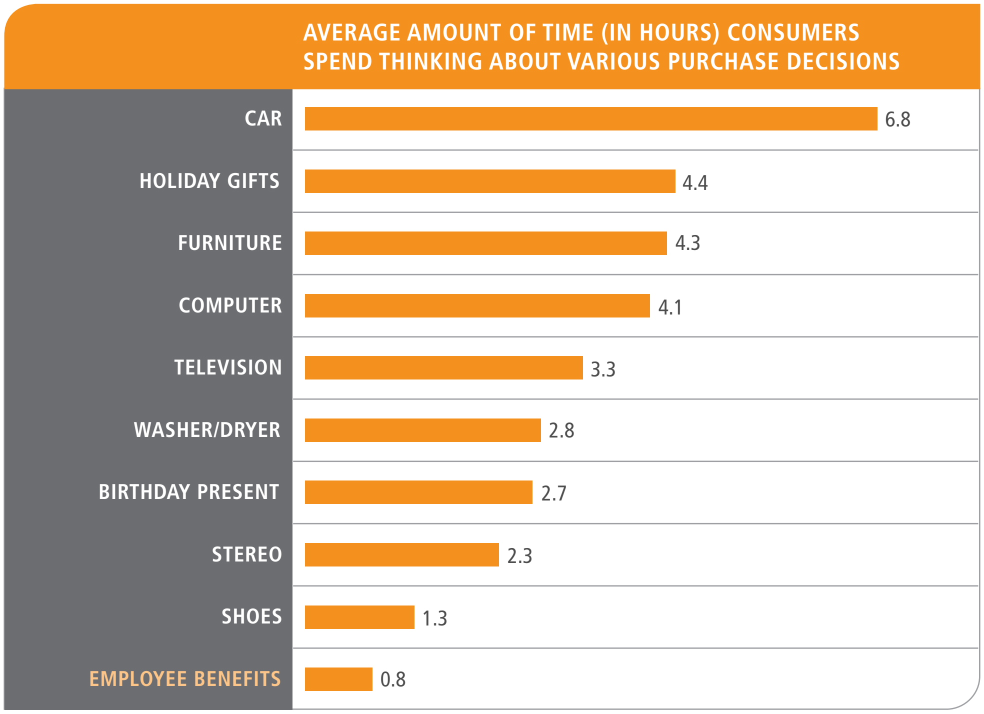
Almost two-thirds of employees in the United States spend 30 minutes or less making benefits decisions. The median time spent making these decisions is just 28 minutes. Singles appear to spend the least amount of time, with nearly three-quarters saying they devote 30 minutes or less.

LITTLE TIME SPENT BY EMPLOYEES ON BENEFITS DECISIONS



Despite the minimal attention given to benefits decisions, other MetLife research indicates that the majority of workers actually look forward to their company's benefits open enrollment period. MetLife's 2006 Study of Open Enrollment Benefits Trends revealed that 43% of employees say their company's open enrollment makes them feel "responsible," "like a good protector," and few indicate that they feel "detached" (6%), "annoyed" (3%), or "overburdened" (4%). But when employees actually go to make benefits decisions they do not necessarily receive the kind of guidance that could help them make the right choices.[9]

BENEFITS RANK LOW AMONG CONSUMER PRIORITIES



While employees may feel positively toward open enrollment, findings show that benefits are still a low priority compared to other purchase decisions, suggesting that employees are willing to spend more time on decisions with an immediate, tangible payoff. Employers have an opportunity to help employees understand the value and importance of employee benefits in terms of minimizing their overall financial risk. Employees do not seem to be seeking this kind of guidance on their own. Across the entire U.S. work force, only 54% of employees consult with external sources—professional financial providers or personal acquaintances—about their finances. Among pre-retirees, more than 50% say they never seek outside advice on personal financial matters.

Conclusions

- With retention of employees a top objective of many employers, companies are recognizing that the right benefits program can provide an advantage in a competitive labor environment.
- Voluntary benefits provide an attractive solution to the challenge of retaining employees while controlling costs.
- The aging of the U.S. work force is causing dramatic shifts in employee needs and demands, presenting opportunities for companies that can respond quickly with benefits strategies tailored to these changing needs.
- Employers can maximize the effectiveness of benefits without substantially increasing costs, through clear communication of their intrinsic value.
- In addition to effectively communicating the value of benefits programs, employers should also gather employee feedback. An understanding of employee attitudes may reveal that what employers perceive as incidental issues are, in actuality, decisive factors.

The future of benefits: Winning with a holistic approach

- Today’s employees are accustomed to personalized communication and service
- Cafeteria plans and consumer-driven health plans (CDHPs) are slow to gain traction, despite employee interest
- Benefits tailored to senior executives continue to grow
- More companies express interest in tailoring benefits to life stage or demographics
- Companies are preparing to spend more on benefits for retirees
- More companies offer health and wellness programs

Benefits in the age of personalization

Technology, demographics and societal trends are altering traditional notions of the employer/employee relationship. Benefits strategies must adapt.

Using flexibility as a retention tool

Practices that were once considered radical have now become mainstream, thanks in large part to advances in technology. For example, some 70% of all employers surveyed offer flexible work hours to employees. 43% also allow employees to telecommute at least part of the time.

These tactics could be useful in retaining aging workers in particular, as they tend to value flexibility and autonomy.[10]

The workplace has changed dramatically in recent years, reflecting the impact of technology, shifting demographics and changing attitudes. With social norms evolving, employees increasingly expect employers to be sensitive to their individual needs relating to marital status, children and other lifestyle factors.

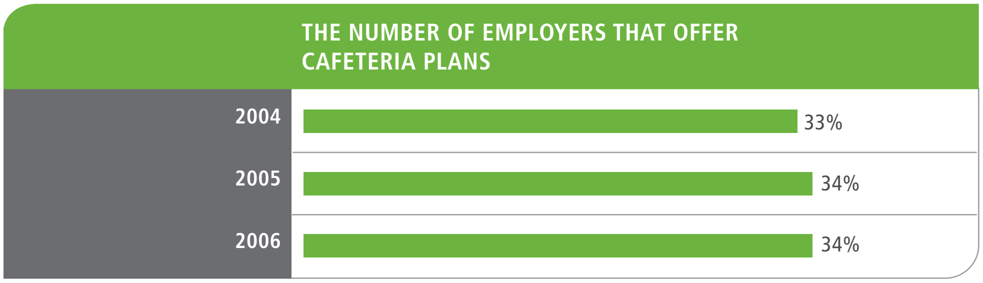
In such an environment, personalization—"benefits for a group of one"— is an important strategy for employers looking to optimize the benefits solution. Implementing personalization is not without complications, however. First among the challenges is cost. In addition, education and guidance for employees must take into consideration the diversity of employees—their levels of education, grasp of financial concepts, learning styles and preferences.

Cafeteria plans and consumer-driven health plans (CDHPs)

At the forefront of the effort to personalize benefits are structures such as "cafeteria" benefits plans and consumer-driven health plans. Both offer innovative solutions to the dilemma of controlling costs while allowing employees greater latitude in their benefits choices.

Cafeteria plans enable employees to withhold a portion of pretax salary to pay certain medical and childcare costs or to pay premiums for a range of medical, life and other insurance products.

CAFETERIA PLANS STILL LAG IN POPULARITY



Although cafeteria plans have been in existence since the late 1970s, the proportion of companies offering them to employees has not changed from roughly the one-third mark for the past three years. Usage of these plans is lowest among the smallest U.S. companies (22% of those with 2–49 employees), versus 42% for companies with 5,000–24,999 employees.

Consumer-driven health plans (CDHPs) have been praised for their flexible structures, which give employees more control, and their ability to control costs by giving individuals an incentive to spend less. Among their key features:

- CDHPs typically have lower premiums than other types of health plans.
- They generally have a higher deductible.
- They often include Health Savings Accounts (HSAs) — accounts into which employees can contribute pretax dollars to pay for medical expenses, with unused money rolling over for use in future years.

Because employees enrolled in CDHPs manage payments for most health-related expenses out of their HSAs or their own pockets, they are free to choose any provider they want. Since wages transferred into HSAs can be rolled over, employees have an incentive to hold down their own costs of care.

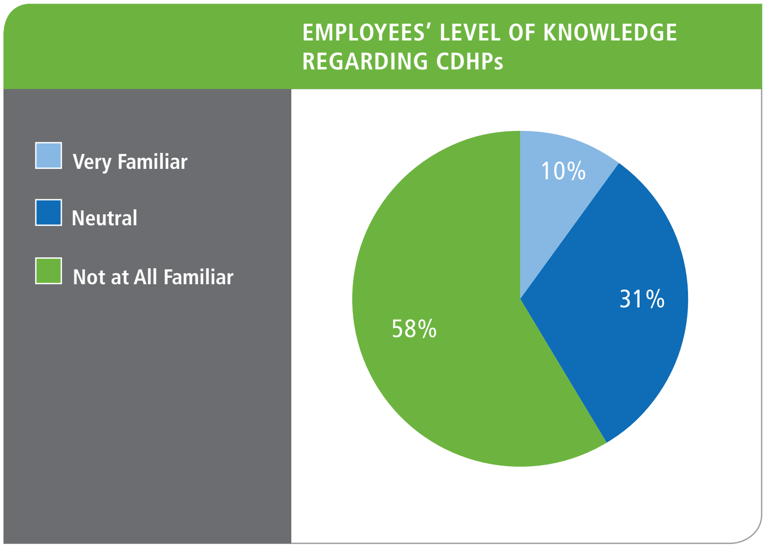
Life Stages:
Young families (18%) lead other groups in being most familiar with CDHPs. In contrast, 62% of baby boomers and 60% of pre-retirees are not at all familiar with CDHPs.

Regional Perspective:
Southern companies lead the way in expressing familiarity with CDHPs, at 31%. West Coast employers are the least familiar, at 22%.

Industry Perspective:
Manufacturing companies (39%) are more likely to offer CDHPs than services companies (29%).

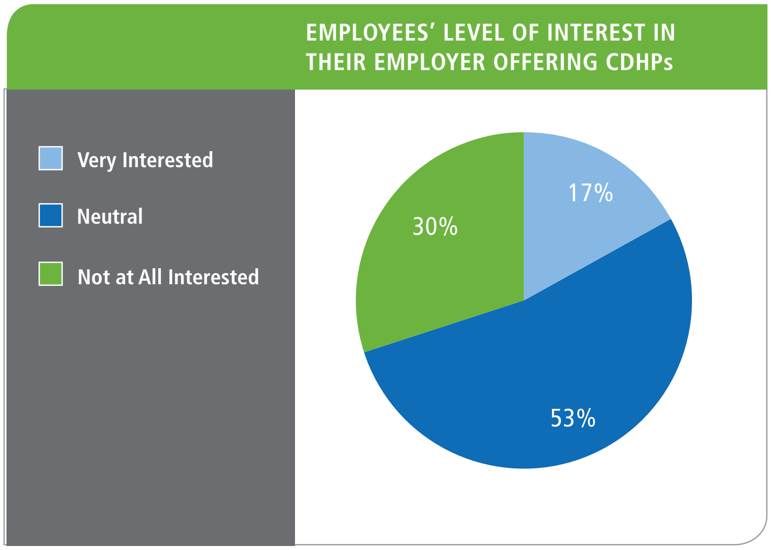
Although CDHPs offer important advantages, particularly for employees with low health care costs, the structure remains a bit of a mystery to most employees. Only 10% of employees say they are very familiar with the product.

EMPLOYEE FAMILIARITY WITH CONSUMER-DRIVEN HEALTH PLANS (CDHPs) IS LOW



Despite their general lack of familiarity with CDHPs, 70% of all employees say they would be very or somewhat interested in their employers offering CDHPs.

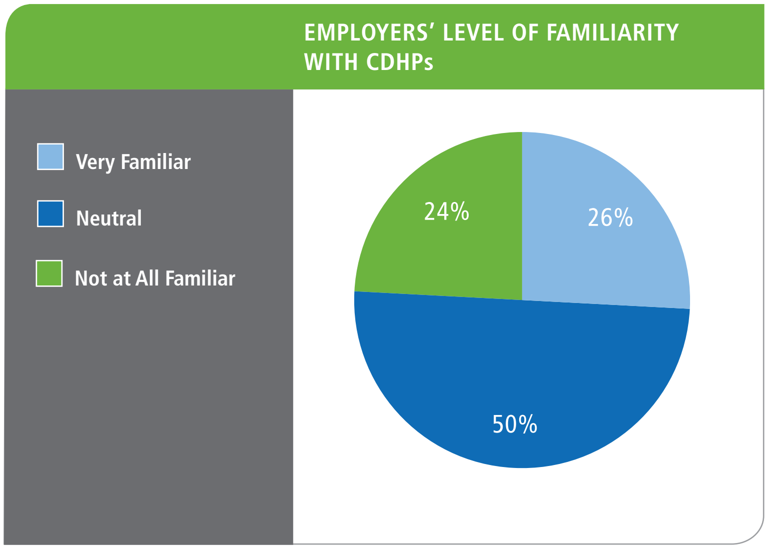
EMPLOYEES ARE OPEN TO CONSUMER-DRIVEN HEALTH PLANS (CDHPs)



Like employees, a significant percentage of employers (74%) are not very familiar with CDHPs.

- Companies with fewer than 50 employees are the least knowledgeable about CDHPs, with 31% describing themselves as unfamiliar with them.
- Awareness increases as employer size grows, as only 17% of companies with 5,000–24,999 employees say they are not at all familiar with the plans.

EMPLOYER FAMILIARITY WITH CONSUMER-DRIVEN HEALTH PLANS (CDHPs) IS LOW



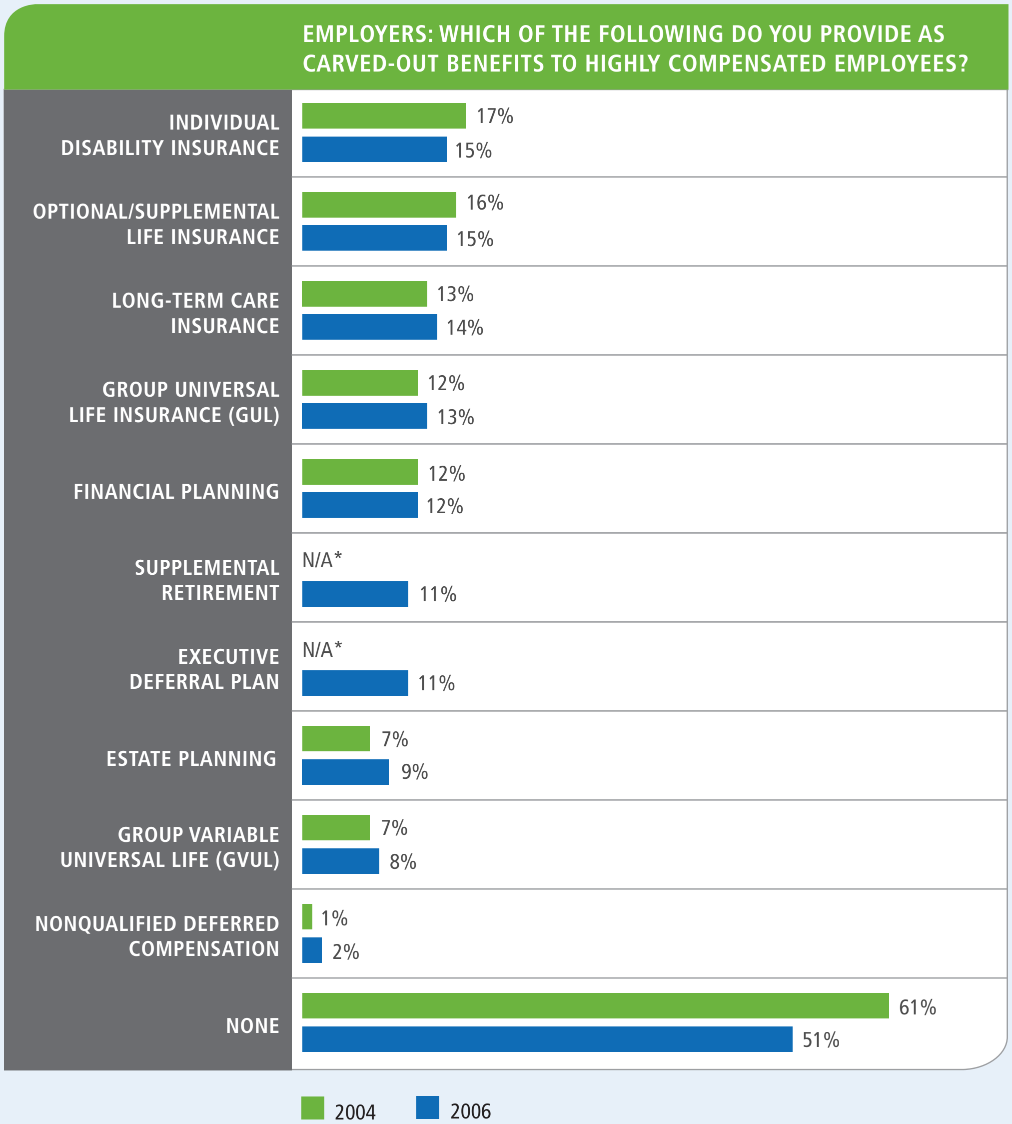
An analysis of the survey data reveals a strong relationship between companies that expect competition for talent to rise in the next 18 months and those that are likely to consider offering CDHPs. More than half (54%) of employers who are interested in offering a CDHP in the next 18 months expect the competition for talent to intensify. Fewer of those who are not interested in CDHPs (36%) think competition for talent will increase.

Part of the hesitation concerning CDHPs may be uncertainty over how to implement them successfully. Employers may want to think about CDHPs in the context of an overall benefits strategy. For example, a recent MetLife white paper demonstrates that short-term disability (STD) insurance can actually help drive the success of a consumer-driven health care program. STD insurance can provide employees with income replacement coverage to help provide a financial safety net as employers shift health care costs, risks, and responsibility to individual workers.[11]

EXECUTIVE BENEFITS ON THE RISE

As companies compete to hire or retain highly paid senior executives, more are offering special "executive benefits" (49% in 2006, up from 39% in 2004).

MOST POPULAR EXECUTIVE BENEFITS



*Question was not asked in 2004.

Study results confirm that executive benefits vary widely with company size:

- Among companies with between 5,000 and 24,999 employees, nearly 75% provide special "carve-out" benefit plans for highly compensated employees, as do nearly 70% of companies with between 1,000 and 4,999 employees.
- The percentage of companies with 25,000-plus employees in the study that offer special executive benefits plans declines to 65%, perhaps due to increased scrutiny of executive compensation by shareholders and the media.
- Across companies of all sizes, the most popular executive benefits are individual disability insurance and optional/supplemental life insurance, followed closely by long-term care insurance and group universal life insurance (GUL).

Regional Perspective: More employers in the Northeast offer special "carve-outs" (52%) to their highly compensated executives than do companies in the Midwest (45%).

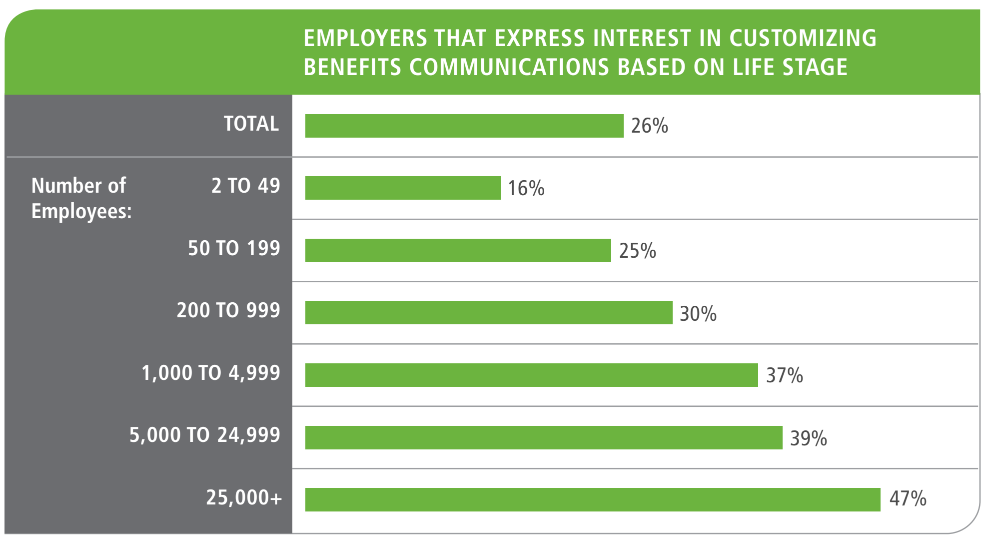
Emphasizing benefits delivery, advice and education

Communication is key to understanding choices in a personalized program.

Given the evidence of generally low employee attention to benefits issues, employers need to clearly articulate the meaning and value of benefits. Companies that undertake a personalized benefits effort without a simultaneous employee communication function could undermine the effectiveness of the initiative.

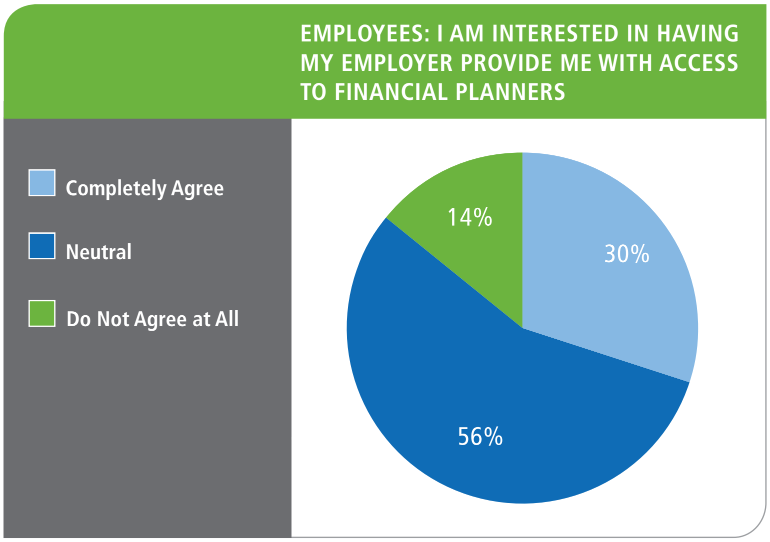
Large companies appear to be on the right track in this regard. Nearly half of the largest companies (25,000-plus employees) express a great deal of interest in working with group insurance carriers to target benefits communications to their employees based on demographics and/or life stage.

LARGE COMPANIES LEAD THE WAY IN TARGETING COMMUNICATIONS BY LIFE STAGE



As the chart above illustrates, interest in such a joint approach between employers and group insurance carriers is directly correlated with company size. A majority of companies express at least some interest in delivering benefits information based on employee demographics or life stage. Only 21% of all employers say they are “not at all interested” in this approach.

EMPLOYEE RECEPTIVITY TO EMPLOYER-PROVIDED FINANCIAL PLANNERS IS LOW



Investments in employee communications can help employers optimize their return on investment in benefits plans, and help employees make more informed choices regarding health and retirement benefits. Because the choices employees make could have a huge impact on their future economic status, many companies see the provision of financial planners as a valuable incentive.

Nearly one-third of employees would be very interested in meeting with an employer-provided financial planner, while 56% remain neutral to the idea. Why so many neutral responses? One reason may be that one in three respondents who say they consult with a friend or nobody on their finances feel they do not have enough money to warrant professional help. This is a notion that employers could help overcome.

Financial planners and life stages

Young families are the most likely (35%) to be very interested in meeting with an employer-provided financial planner. Other MetLife research also shows that nearly 64% of employees under the age of 35 say they would definitely or probably sign up for financial planning if it were offered as a voluntary benefit through the workplace.

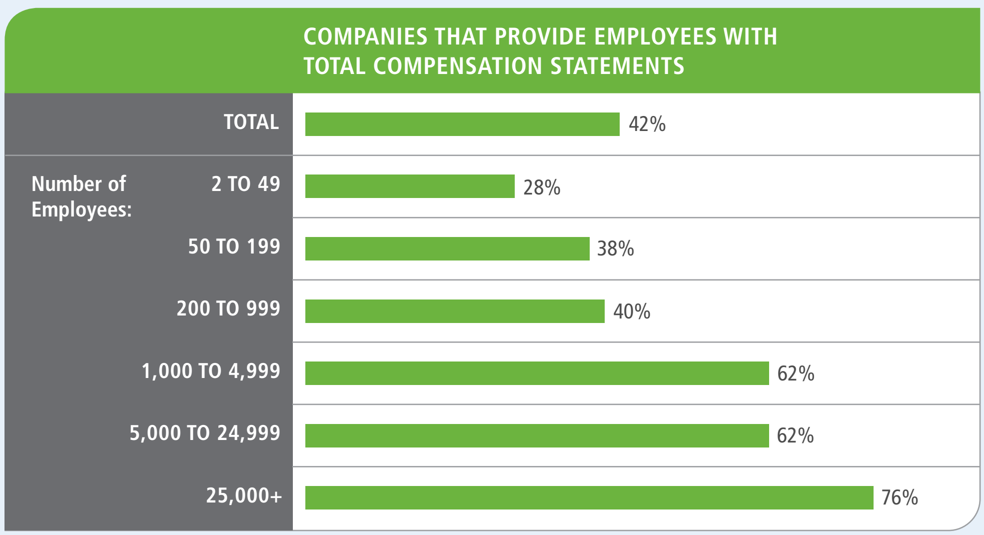
Employees in the under-35 age group are also more interested than their older counterparts in hearing about benefits they have not had before and having access to resources to help them better determine what changes they may need to make due to recent life events.[12]

Gender Gap:
47% of women, compared to 37% of men, believe benefits decisions would be easier with personalized benefits statements, including costs and options.

TOTAL COMPENSATION STATEMENTS: SIMPLE AND EFFECTIVE

Total compensation statements can be a simple but effective tool for communicating the value of benefits to employees. Of all employers surveyed, 42% say they provide employees with total compensation statements, including 76% of employers with 25,000-plus employees.

TOTAL COMPENSATION STATEMENT USAGE INCREASES WITH COMPANY SIZE



Extending benefits to retirees

Both employers and employees recognize that benefits are taking on a greater importance in their lives. But the role that employee benefits play in society at large has been less noticed.

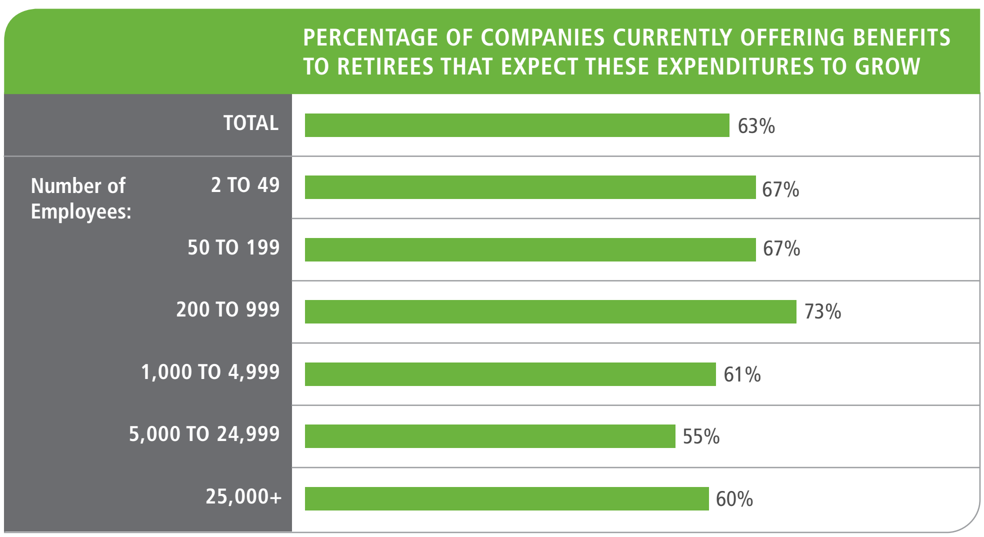
The aging of the U.S. population is having a profound effect on health care costs. It is also straining essential programs such as Social Security and Medicare, which could threaten the solvency of both. Even as these trends take root, employees are doing far too little to ensure their own financial security. Many are simply overwhelmed by the sheer number of choices and need help in navigating through the maze of options.

Employers are stepping up to meet the challenge. They are developing innovative programs that control costs, provide better guidance to employees and, in many cases, personalize benefits to the needs of specific groups or individuals.

The task is difficult. How well employers craft those personalized programs, keep costs down and at the same time help employees make informed decisions, will play a decisive role in the financial future of tens of millions of U.S. workers.

Company Size:
The larger the company, the more likely it is to offer benefits to retirees. While just 19% of the smallest companies (2–49 employees) offer such benefits, the rate increases with company size, peaking at 84% of employers with 25,000-plus employees.

MANY EMPLOYERS ANTICIPATE GROWTH IN RETIREE BENEFITS



Forty percent of all employers currently offer benefits to employees after they retire. Among these companies, 63% expect the amount they spend on the benefits offered to this group to increase over the next five years.

Although the majority of companies that already extend benefits to retirees plan to spend more on these products and services over the next five years, smaller companies appear to be taking the lead. Those with fewer than 1,000 employees are the most likely (69%) to say their expenditures for retiree benefits will grow.

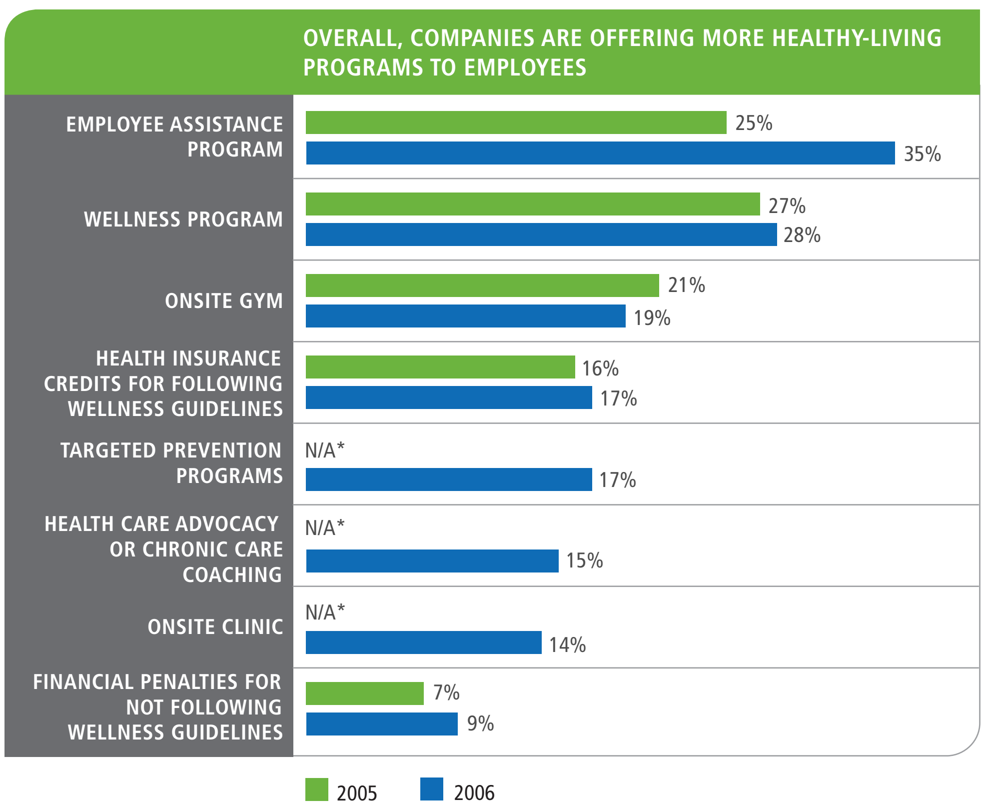
Encouraging healthy living

While employer decisions are dictated by business needs, their new benefits strategies may have a profound impact on society.

A growing number of companies are turning to benefits strategies to help them attract and retain their future work force. As they do so, employers are pushing the envelope of what constitutes "benefits." Concepts finding growing acceptance include wellness programs and benefits for retired workers.

Companies' efforts to help employees cover soaring medical costs, save for retirement and otherwise make sound financial decisions may help solve some of the most pressing issues facing U.S. workers today.

INNOVATIVE HEALTH-RELATED PROGRAMS GROW



*Question was not asked in 2005.

Over the past year, a growing number of U.S. companies have begun providing their employees with innovative products and services related to physical and mental health and related services. These types of programs are not only a way to improve the overall health of employees, but can also be an effective means of controlling benefits costs. As a case in point, MetLife's disability claims data show that the 10% of the working population who need to be out of work for more than a week because of medical reasons can drive in excess of 50% of the medical costs (and transactions) of that population.[13]

- The offering of incentive programs for healthy living is directly proportional to company size. For example, 57% of the largest employers (25,000-plus employees) offer a wellness program (e.g., smoking cessation, weight management, cancer screening, etc.) versus 10% of the smallest (2–49 employees).
- Some 35% of all employers surveyed now offer an Employee Assistance Program (EAP). Incidence rises along with company size, as 63% of the largest employers (25,000-plus employees) offer them, as compared to 12% of the smallest (2–49 employees).

Each of these programs furthers a simple economic goal on the part of employers: to reduce spending on more costly employee health care expenditures in the future by targeting wellness and prevention now. The economic benefits accrue to society at large as well.

Conclusions

A changing and diverse work force requires flexible benefit plans.

- Personalize benefits offerings: Increase the value of the benefits plan by tailoring it to the needs of an increasingly diverse work force.
- Consider supplementing benefits plans with resources and programs that are specifically geared to the needs of an aging work force, such as flexible work arrangements, eldercare referral services and long-term care insurance.
- Adjust the definition of "family" to include the growing share of the work force living in nontraditional households.

New structures and approaches can maintain important benefits while also controlling costs.

- Voluntary benefits are a cost-effective means of providing employees with important benefits that might otherwise be unaffordable.
- Health and wellness programs can reduce health care costs for both employers and employees.

Effective communications maximize the value of benefits plans.

- Focus on communications. The value of a plan can be undermined if employees do not understand the costs and benefits of the products and services provided.
- Work with benefits providers to tailor communications to employees based on demographics and/or life stage.
- Total compensation statements are a simple but effective tool for communicating the value of company benefits.
- Make sure that top executives both inside and outside the human resources function understand that incremental costs associated with communication and education efforts may result in potential gains in hiring, retention and employee productivity.

Employers cannot win the competition for talent without a holistic approach to benefits.

- Consider implementing a financial planning program with a corresponding effort to communicate the value of such consultations to employees.
- Conduct an analysis of competitors and peers to determine if comparable employers are offering benefits to retirees. Extending benefits to retirees may increase costs, but it might also be a competitive necessity.
- Perform a cost–benefit analysis of executive benefits to determine if such a program could add value to the company's executive ranks.

SECTION V

Methodology of the study

- Methodology
- Online resources
- About MetLife
- Endnotes

Methodology

The MetLife Study of Employee Benefits Trends was conducted during the third quarter of 2006 and consisted of two distinct studies fielded by GfK NOP. The employer survey consisted of 1,514 interviews with benefits decision-makers at companies with a minimum of two employees. The employee survey polled 1,202 full-time employees, ages 21 and over, at companies with at least two employees. Totals do not always equal 100% due to rounding.

DEMOGRAPHIC PROFILE OF THE EMPLOYER SAMPLE

EMPLOYERS SPAN A BROAD RANGE OF INDUSTRIES AND GEOGRAPHIC LOCATIONS. IN KEEPING WITH THE GENERAL COMPOSITION OF U.S. BUSINESSES, THE MAJORITY (61%) OF EMPLOYERS SURVEYED ARE SMALL TO MID-SIZED COMPANIES WITH FEWER THAN 500 EMPLOYEES. ONE IN FIVE (20%) HAS 5,000 OR MORE EMPLOYEES.

INDUSTRY

Services	30%
Heavy Industry	18%
Financial, Insurance, and Real Estate	14%
Sales/Trade	11%
Public Administration	4%
Transportation, Communications and Utilities	6%
Pharmaceutical/Biotech/Life Science	5%
Technology, Software, and Services	12%

GEOGRAPHY

Northeast	21%
Midwest	24%
South	31%
West	23%

EMPLOYER SIZE (STAFF SIZE)

2–9	20%
10–49	20%
50–99	13%
100–499	8%
500–999	5%
1,000–4,999	13%
5,000–9,999	10%
10,000+	10%

UNION MEMBERSHIP STATUS

Work force includes union members	31%
Less than 30% of work force	10%
30% to 69% of work force	14%
70%+ of work force	6%
Does not include union members	69%

DEMOGRAPHIC PORTRAIT OF THE EMPLOYEE SAMPLE

THE EMPLOYEES POLLED REPRESENT AN EQUALLY BROAD CROSS-SECTION OF RESPONDENTS. EMPLOYEE DATA ARE WEIGHTED TO REFLECT THE TOTAL U.S. POPULATION AGES 21–69 FOR SEX, RACE, GEOGRAPHIC REGION, EDUCATION, AND HOUSEHOLD INCOME.

GENDER

Male	57%
Female	43%

MARITAL STATUS

Married	55%
Single	19%
Divorced/Separated	15%
Domestic Partner	9%
Widowed	3%

ETHNIC BACKGROUND

Caucasian	74%
Hispanic	9%
African-American	7%
Asian	7%
Other/No Response	4%

FAMILY STATUS

Have Children Under 18	34%
Do Not Have Children Under 18	66%

EMPLOYER SIZE (STAFF SIZE)

2–9	9%
10–99	20%
100–499	15%
500–999	8%
1,000–4,999	13%
5,000–9,999	6%
10,000 +	28%

AGE

21–30	18%
31–40	22%
41–50	23%
51–60	30%
61–69*	6%

HOUSEHOLD INCOME

Less than $40,000	26%
$40,000–$74,999	29%
$75,000 or more	45%

GEOGRAPHY

Northeast	20%
Midwest	23%
South	32%
West	24%

* To provide a more robust sample for analysis of "Pre-Retirees," additional surveys were conducted among full-time employees ages 61 and over at companies with at least two employees. The responses from those supplemental surveys are included only in the "Pre-Retiree" data cited in this report; they are not included in "All Full-time Employees," which is a balanced cross-sectional sample.

Online Resources

Visit **whymetlife.com/trends1** for additional resources to help you navigate and use the Study of Employee Benefits Trends. There you will find downloadable charts, interactive polls on the latest benefits issues, press releases, information about events featuring the Study, and other tools for employers and intermediaries.

Other MetLife published reports and press releases, including those referenced in the Study, can be found at **metlife.com**:

- Closing the Gap in Consumer-Driven Health Care
- Living Longer, Working Longer: The Changing Landscape of the Aging Workforce
- 2006 Study of Open Enrollment Benefits Trends (press release)
- 2006 Benefits Benchmarking Tool

About MetLife

MetLife, a subsidiary of MetLife, Inc. (NYSE: MET), is a leading provider of insurance and financial services with operations throughout the United States and the Latin America, Europe and Asia Pacific regions. Through its domestic and international subsidiaries and affiliates, MetLife, Inc. reaches more than 70 million customers around the world. MetLife is the largest life insurer in the United States (based on life insurance in force). The MetLife companies offer life insurance, annuities, auto and home insurance, retail banking and other financial services to individuals, as well as group insurance, reinsurance and retirement & savings products and services to corporations and other institutions.

For additional information about The MetLife Study of Employee Benefits Trends, please visit **whymetlife.com/trends1** or contact Neil Marcus, Director of Marketing Research, at 212-578-7713 or nmarcus@metlife.com.

Endnotes

[1] MetLife Mature Market Institute, "Living Longer, Working Longer: The Changing Landscape of the Aging Workforce–A MetLife Study," April 2006, p. 7.

[2] U.S. Census Bureau, "2005 American Community Survey," American Community Survey Online, 31 December 2005, <www.census.gov/acs/www/index.html> (15 November 2006).

[3] Samir Luther, "Domestic Partner Benefits: Employer Trends and Benefits Equivalency for the GLBT Family," March 2006, p. 1.

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