Who Will Build Your Future?
The New Employee Relationship

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Sponsor’s Perspective

One of the many outcomes of the difficult economic environment we’ve endured in recent years is the realization that each of us needs to take more personal responsibility for our future — including being adequately protected should the unexpected occur. For many working people and their families, the workplace is the ideal setting to acquire that protection in the form of employee benefits.

Though the current environment has led many employers to shift some of the cost of paying for benefits to their employees, the need for access to low-cost benefits in the workplace has never been greater. Working people today face dangerous gaps in their financial security, and for many people, employer-sponsored benefits are the primary defense against the potentially catastrophic fallout of death, injury, or illness.

Employer-sponsored benefits can also play a role in attracting and retaining top talent. In the enclosed survey conducted by Harvard Business Review Analytic Services, nearly 80% of human resources executives said the key to keeping employees engaged and motivated is showing them that the company cares about their well-being. One of the ways they can do that is by providing access to a well-rounded benefits package. In fact, most of those interviewed said they believe they have a responsibility for protecting employees’ and their families’ well-being.

Unum works every day with tens of thousands of business customers who are challenged by the demands and pressures of the times. We hope this research helps focus attention on the efforts that bring the greatest return — a workforce that is not only fully protected but also loyal, productive, and engaged.

Sincerely,

Thomas R. Watjen
President and Chief Executive Officer
Unum

ABOUT UNUM

Unum (www.unum.com) is a market leader in financial protection benefits, including disability coverage, group life insurance, long term care and voluntary benefits. The company’s products and services meet the needs of more than 171,000 businesses in the U.S. and U.K., including 38% of the Fortune 500. Unum supports employers as they navigate the shifting landscape of employee benefits, offering expertise, innovative products and relevant solutions that help them manage their businesses and take care of their employees.
Executive Summary

IN THE WAKE OF THE GLOBAL ECONOMIC CRISIS, human resource leaders have been under intense pressures to manage costs while maintaining benefits for employees — a challenge many believe could intensify as the impact of health care reform becomes clear.

But the need to recruit and retain key talent also is a critical concern, according to a new survey of HR leaders conducted by Harvard Business Review Analytics Services, and the pressure to improve employee engagement and get the most out of the very best people is expected to intensify over the next three years.

Even with the difficult job market, HR leaders said that they believed their company’s values and focus on employee fulfillment were the most important factors in attracting and engaging quality employees — even more important than a high starting salary and job security.

The survey also found:

- Companies that have continued to focus on the well-being of their employees have experienced fewer cutbacks in recent years, and were less likely to view turnover and employee engagement as top challenges now and in the future.

- Those companies that described themselves as employee-focused are more likely to offer benefits out of a sense of responsibility for their employees, and to view financial protection benefits as a very important component of the benefit plan.

- Most HR leaders anticipate that the benefits structures of their companies will face major change as a result of health care reform, and one in three is now working on adapting their plans. Employers will be looking primarily to their carriers and advisors as well as industry resources to keep them up-to-date on what actions they will need to take.

- Although the need to provide quality benefits education to employees will only intensify as health care reform advances, many employers acknowledge that they have not done a good job in implementing effective communication strategies to help employees understand their benefits. This is a concern because employees who believe that their benefits are effectively communicated are more likely to indicate greater levels of engagement, morale, and loyalty.
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FULL REPORT

The global downturn created tough financial challenges for businesses, forcing many organizations to slash jobs and make deep cuts in spending. In turn, employers and employees now work in a business landscape that has been dramatically altered.

A recent survey by Harvard Business Review Analytic Services found that for the majority of human resource leaders, the company's reputation as an organization that cares about the well-being of its staff is considered a top factor in attracting and retaining the right talent. The companies that can grab and hold on to the best talent, the respondents indicated, will be those organizations that can provide jobs that are challenging and fulfilling and that offer a well-rounded benefits package along with clear opportunity for learning and career growth, all within a company that has an ethical culture of transparency.

Clearly, keeping employees and keeping them motivated will be crucial to the future of organizations as they rebuild.

THE CHALLENGES THAT EMPLOYERS HAVE FACED, AND THE CHALLENGES THAT HR LEADERS EXPECT

Managing costs and maintaining reasonable benefits levels have been a primary focus of HR staffs over the past two years. The recession has put tremendous pressure on employers as they attempted to control spending, manage benefits, and keep down the cost of those benefits for employees. In the Harvard Business Review Analytic Services survey, managing benefits costs was most frequently identified as a top three challenge that HR staffs were currently dealing with. And they do not expect this challenge to ease — in fact, 78% expect that the challenge of managing benefits costs will increase in intensity. *(figure 1)*

Consistent with this, more than half of the companies surveyed said they had implemented a change in their health insurance plan design or carriers, or they expected to do so by end of 2010, and as many had shifted or expected to shift more of the cost of benefits from employer to employees. Shifting costs to employees or reducing the coverage was seen as preferable to eliminating the benefit altogether, as considerably fewer actually dropped a benefit. *(figure 2)*
Keeping quality employees, as well as keeping them motivated, is a considerable challenge for many employers. And HR leaders recognize that improving employee engagement will be crucial to the future of their organization as the economy improves. Improving employee engagement was ranked among the top three challenges for organizations that will increase over the next few years. And companies have their work cut out for them; according to the survey only 22% of the HR leaders surveyed thought that employee engagement was strong at their company, while 33% rated it as fair or poor.

“We don’t just want people to take a job, we want people to be really engaged in the work and in getting results,” said one HR leader in a large industrial manufacturing and design firm. “We’ve all been through a lot of uncertainty. But really great employees don’t hang around just for a paycheck. If you want to future-proof your company, you have to have people who want to be with you to build your company’s future.”

HR Leaders’ Views on Current and Future Challenges Figure 1

QUESTION 1: What are the three most pressing challenges you currently face with regard to benefits and workforce management?

QUESTION 2: To what extent do you think each of these challenges will increase in intensity over the next three years?

- Managing benefit costs
- Improving employee engagement
- Improving ability to recruit quality employees
- Dealing with the impact of health care reform
- Improving productivity
- Reducing turnover/boosting retention
- Updating staff on benefits/impacts of health care reform
- Improving workforce diversity
- Dealing with changing workforce demographics
- Managing benefits administration
- Managing employees’ financial retirement concerns

![Bar chart showing the current top three challenge and expected increase in intensity](image-url)
“We have to show that who you are really matters here, and we are concerned about your welfare, not just whether you show up and do a job.”

Changes in Benefits and Workforce  
**Figure 2**

**Question:** Considering all of 2009 and 2010, please indicate which of the following have taken place.

- A shift of benefit costs from the employer to the employee
- A change in your company’s health plan design/carriers
- A reduction of more than 10% in your organization’s workforce
- An increase in the number of temporary or contract workers
- A reduction in your HR staff
- An increase of more than 10% in your organization’s workforce
- A decision to drop one or more benefits
- A decision to offer some benefits that employees pay 100% of that were previously at least partially funded by the company

<table>
<thead>
<tr>
<th>Change</th>
<th>Has happened</th>
<th>Expected to happen by end of 2010</th>
<th>Has not happened and is not expected to happen</th>
</tr>
</thead>
<tbody>
<tr>
<td>A shift of benefit costs from the employer to the employee</td>
<td>30%</td>
<td>25%</td>
<td>47%</td>
</tr>
<tr>
<td>A change in your company’s health plan design/carriers</td>
<td>35%</td>
<td>18%</td>
<td>43%</td>
</tr>
<tr>
<td>A reduction of more than 10% in your organization’s workforce</td>
<td>5%</td>
<td>35%</td>
<td>64%</td>
</tr>
<tr>
<td>An increase in the number of temporary or contract workers</td>
<td>13%</td>
<td>25%</td>
<td>62%</td>
</tr>
<tr>
<td>A reduction in your HR staff</td>
<td>6%</td>
<td>20%</td>
<td>74%</td>
</tr>
<tr>
<td>An increase of more than 10% in your organization’s workforce</td>
<td>12%</td>
<td>17%</td>
<td>70%</td>
</tr>
<tr>
<td>A decision to drop one or more benefits</td>
<td>10%</td>
<td>20%</td>
<td>71%</td>
</tr>
<tr>
<td>A decision to offer some benefits that employees pay 100% of that were previously at least partially funded by the company</td>
<td>10%</td>
<td>8%</td>
<td>82%</td>
</tr>
</tbody>
</table>
While dealing with health care reform was currently considered a top three challenge among notably fewer (39%) employers, it was highly anticipated that this would be a greater challenge over the next two years. And along with that goes the increased need to communicate with their employees regarding the impact of health care reform on their benefits.

The majority of the HR leaders said the exact impact of the reform legislation is still unclear, increasing the uncertainty around the financial pressures that may arise. Most companies see themselves in “wait and see” mode while gathering information and attempting to understand all the requirements of the new health care reform bill. Larger organizations (those with more than 2,000 employees) predict a more significant impact from reform than do the smaller companies.

Besides the changes that employers have been required to make as they manage their benefits costs, many have experienced reductions in their own HR staff. But while more than a third had experienced a significant reduction in their workforce, most believed the cutbacks were behind them. Almost as many had seen or were expecting to see an increase of more than 10% in the workforce before the end of 2010.

**RETAILING AND ATTRACTING MOTIVATED EMPLOYEES IS A CRUCIAL CONCERN**

The HR leaders surveyed believe that positive cultural/environmental characteristics and opportunities for personal growth are stronger magnets than immediate monetary benefits, and consistently rated factors that contribute to a strong relationship with employees as more important in recruitment and retention than a high base salary, perks, and profit sharing. The dominance of “softer,” less tangible benefits over nuts-and-bolts attractors is striking: being a company that cares about the well-being of its staff was twice as likely to be viewed as very important in attracting and retaining staff than was providing a high base salary. *(Figure 3)*

Offering a well-rounded benefits plan can go a long way in attracting employees to a company. But many employers view health and welfare benefits as a responsibility to their employees and not just a tool for recruitment and retention. They largely believe that employees are most productive when they feel financially secure, and they seek out benefits carriers that will provide excellent service to their employees. In fact, 71% of HR leaders in the survey agreed that their company has a strong sense of responsibility to protect employees’ financial well-being, while only 39% agreed that they offer only those benefits that are necessary to keep up with their competition. *(Figure 4)*
Relative Importance of Company Qualities and Offerings for Attracting and Retaining (Figure 3)

**Question:** How important do you feel the following elements are to attracting and retaining quality employees for your organization? (1 = not at all important, 10 = extremely important)

- A challenging and fulfilling role: 8.7%
- Being a company that cares about the well-being of employees: 7.8%
- An ethical and widely admired organizational culture: 7.3%
- A growing organization with potential for career progression: 7.2%
- Plenty of opportunities for learning and development: 6.8%
- Culture of transparency and shared information: 6.0%
- Attractive benefits package: 6.0%
- Job security: 5.1%
- Strong focus on internal communications: 5.4%
- A results-based bonus program: 5.1%
- Working for a recognized market leader: 5.0%
- A high base salary: 3.8%
- Excellent profit-sharing plan: 2.9%
- Attractive non-payroll perks: 1.4%

**Employers' View on Benefits** (Figure 4)

**Question:** Please rate the extent to which you agree or disagree with each of the following statements about your company's philosophy about benefits and how they relate to your employees.

- Our company is committed to using benefits providers that give excellent service to our employees: 22% Slightly agree, 55% Strongly agree, 22% Not sure
- Employees are most productive when they feel financially secure: 4% Slightly agree, 46% Strongly agree, 50% Not sure
- Our company has a strong sense of responsibility when it comes to protecting the financial well-being of our employees and their families: 20% Slightly agree, 32% Strongly agree, 48% Not sure
- We offer only those benefits that are necessary to keep us on par with the competition: 11% Slightly agree, 46% Strongly agree, 43% Not sure
- We have had difficulty recruiting/retaining quality staff because our benefits package is insufficient: 10% Slightly agree, 41% Strongly agree, 49% Not sure
“The people, they are my business,” said the HR leader in a networked health care company. “Everyone has to offer a very competitive salary, but we’d be foolish to try to outbid with dollars, so we think about the best total offer to the individual: right job, right opportunities, right package. We have to show that who you are really matters here, and we are concerned about your welfare, not just whether you show up and do a job.”

A DIVIDING FACTOR: THE EMPHASIS A COMPANY PLACES ON EMPLOYEE WELL-BEING

Based on how the surveyed employers had fared over the past few years, it is clear that a focus on the employee’s well-being is not only a “feel good” enticement; it may have meaningful implications for the company’s ability to thrive.

HR leaders who gave their organization strong marks on caring about the well-being of its employees represented companies that had experienced significantly less workforce reduction. These companies were also less likely to have dropped employee benefits.

<table>
<thead>
<tr>
<th>HR leaders’ assessment of company performance: “Being a company that cares about the well-being of its employees”</th>
<th>Strong</th>
<th>Moderate/Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had workforce reduction of 10% or more</td>
<td>29%</td>
<td>50%</td>
</tr>
<tr>
<td>Shifted more benefit costs to employees</td>
<td>29%</td>
<td>52%</td>
</tr>
<tr>
<td>Have had difficulty recruiting/retaining due to insufficient benefits package</td>
<td>10%</td>
<td>50%</td>
</tr>
<tr>
<td>Dropped at least one benefit</td>
<td>11%</td>
<td>38%</td>
</tr>
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</table>

Companies that view themselves as stronger on providing a caring environment place higher importance on benefits. They are more likely to agree that financial protection benefits such as disability and life insurance are a critical component of their benefits package, and offer voluntary benefits in addition to those that are employer-funded to ensure that employees’ coverage needs are met. Consistent with the high value they place on the financial protection offering, they are more than twice as likely to agree that they have a responsibility for protecting employees’ and their families’ well-being. And they are less likely to have difficulty recruiting quality employees because of an insufficient benefits package.

<table>
<thead>
<tr>
<th>HR leaders’ assessment of company performance: “Being a company that cares about the well-being of its employees”</th>
<th>Strong</th>
<th>Moderate/Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s philosophy regarding the importance of providing financial protection insurance benefits (disability, life, and voluntary benefits) (% rating very important)</td>
<td>78%</td>
<td>47%</td>
</tr>
<tr>
<td>Our company has a strong sense of responsibility when it comes to protecting the financial well-being of our employees and their families (% agree)</td>
<td>84%</td>
<td>38%</td>
</tr>
<tr>
<td>Our company offers only those benefits that are necessary to keep us on par with our competition (% agree)</td>
<td>34%</td>
<td>50%</td>
</tr>
</tbody>
</table>
As these companies begin to think about the future — and the potential of an improving economy, a softer job market, and the complexities of health care reform — the two segments are faced with distinctively different challenges.

Companies that have been addressing employee well-being as a high priority all along are already a step ahead because they are focused on — and measuring — employee engagement. Among those HR leaders who identified their company as strong on providing a caring atmosphere, 33% considered employee engagement to be strong and only 3% considered employee engagement to be weak. The situation was reversed among those who viewed their company as moderate or weak on providing a caring atmosphere.

| HR leaders’ assessment of company performance: “Being a company that cares about the well-being of its employees” | Strong | Moderate/Weak |
| Assessment of employee engagement (% strong) | 33% | 3% |
| Assessment of employee engagement (% poor) | 3% | 30% |
| Measure employee engagement | 51% | 34% |

While both groups of companies clearly view managing benefits costs as a top priority, those that did not consider their company especially strong in caring for employees’ welfare were focused much more on improving employee engagement and their ability to recruit quality employees. And retention was a clear concern for them; 31% identified reducing turnover as one of their top three challenges.

“When people are watching their colleagues go through layoffs, when they are being put on furloughs, the message can quickly become, “This company cares about the bottom line, more than employees,”” said an HR director of a media company. “I don’t think we did a good job through this period and now we have an enormous challenge.”

**Top three current challenges**

| HR leaders’ assessment of company performance: “Being a company that cares about the well-being of its employees” | Strong | Moderate/Weak |
| #1 challenge | Managing benefit costs (61%) | Improving employee engagement (55%) |
| #2 challenge | Dealing with the impact of health care reform (44%) | Managing benefit costs (55%) |
| #3 challenge | Improving employee engagement (39%) | Improving ability to recruit quality employees (51%) |

*For those who identified the issue as one of their top three challenges.*
“We think this benefits package is part of who we are. This is part of the relationship we have with the employees.”

THE ROLE OF FINANCIAL PROTECTION AND VOLUNTARY BENEFITS

In total, 69% of HR leaders indicated that their organization viewed financial protection benefits (such as disability and life insurance) as a very important component of the overall benefits package. Companies that view themselves as providing a caring environment are especially likely to place high importance on financial protection benefits.

Those organizations that consider financial protection benefits to be a very important component were more likely to report that their employees were satisfied with their benefits package. And they were considerably less likely to have difficulty in recruiting and retaining employees.

<table>
<thead>
<tr>
<th>How important are financial protection benefits?</th>
<th>Very Important</th>
<th>Moderately/Not Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees are satisfied with benefits</td>
<td>53%</td>
<td>22%</td>
</tr>
<tr>
<td>Have difficulty in recruiting/retaining employees</td>
<td>9%</td>
<td>27%</td>
</tr>
</tbody>
</table>

As companies continually confront the challenge of managing their benefits costs, more and more companies are finding that offering voluntary benefits allows them to meet the needs of their diverse worker populations. Sixty-eight percent of the HR leaders surveyed offered voluntary benefits that employees could purchase at the workplace.

Employers believe that voluntary benefits offer employees choice and the opportunity to protect their financial well-being in ways that are important to them. Very few indicated that they offered these benefits as a way to compensate for a reduction in core benefits or to replace benefits that were previously offered as employer-paid. (Figure 5)

“We are under cost pressures, but we are trying to be creative to keep those costs off employees who have worked very hard to get us through this period.”
"We are under cost pressures, but we are trying to be creative to keep those costs off employees who have worked very hard to get us through this period."

THE IMPORTANCE OF BENEFITS COMMUNICATION IN ENGAGING EMPLOYEES

"You have to see communication about benefits as one of the benefits of working here," said one HR leader. "It's all complicated stuff that no one wants to think about it. But it's important — and it's an important part of our job."

Previous research conducted by Unum shows the importance of effective benefits communication to employee engagement from the employee perspective. The data indicates that employees who believe their benefits were effectively communicated are more likely to feel their employer values their work and cares about their well-being — and they show higher levels of engagement, morale, and loyalty. And according to Towers Watson, there is a direct correlation between higher levels of employee engagement and productivity, with highly engaged employees being 26% more productive. But many companies are falling short on putting in place and/or measuring the effectiveness of their benefits communication strategies. While 68% indicated that they had a benefits communications strategy in place, only half of those (33%) measured employee satisfaction with the benefits communication. They were more likely to measure employee satisfaction with the benefits programs themselves.

Primary Reasons for Offering Voluntary Benefits

QUESTION: Which of the following are the primary reasons for offering voluntary benefits to your employees?

- Provide benefits that address needs specific to employees: 74%
- Provide more choices to employees: 69%
- Offer employees opportunity to protect financial well-being: 55%
- Reduce out-of-pocket costs for employees: 30%
- Compensate for a reduction in core benefits package: 6%
- Replace benefits that were previously offered through the company: 6%
In the Harvard Business Review Analytic Services survey, 43% of the HR leaders believed that their employees were very satisfied with their benefits, but considerably fewer (30%) could say the same about their employee satisfaction with their benefits communications — and as many (29%) noted that their employees would view their benefits communications as weak. This is extraordinarily similar to the result seen in the previous Unum research among employees conducted in 2009 that found that 29% rated their benefits education as excellent or very good and 30% rated it as fair or poor.

“We have a relatively young group of employees, and they are not always focused on the benefits, so we view communicating around that as extremely important,” said the HR head of a small software company. “They may not be looking for that initially, but when they understand it and, more important, they value those benefits they have for their future, it is important.”

The need to provide quality benefits education to employees will only intensify over the next few years as health care reform advances and its impact on businesses becomes better understood. Although many of the HR leaders surveyed had not taken any action related to the reform act at the time of the survey, 85% believed that it would have at least some meaningful impact on their benefits structure.

CONCLUSION

Leadership guru, management consultant, and successful author Tom Peters captures the predicament that many companies are feeling this way: “Maybe the boss can force a person to show up for work, especially in trying times, but one cannot, by definition, force a person to contribute his or her passion and imagination on a regular basis.”

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Methodology and Participant Profile

Harvard Business Review Analytic Services completed research with 394 individuals who identified themselves as benefits and HR decision makers via an online survey during June and July 2010. Respondents were largely drawn from the list of Harvard Business Review magazine and email newsletter subscribers.

Forty-four percent of the respondents were HR executives, directors, or managers, while another 25% were line-of-business managers. Owners and C-suite executives made up another 22%.

Among the respondents, 22% reported that they were the primary decision maker regarding employee benefits, while 32% said they made recommendations, and 46% said they were part of the team making decisions on benefits.