




BENEFITS & BEHAVIOR:

SPOTLIGHT ON BENEFITS AND THE ECONOMY

Executive Summary

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BENEFITS & BEHAVIOR: Spotlight on Benefits and the Economy

In the midst of a recession that has been called the worst since the Great Depression, workers prize employee benefit plans more than ever. In times like these, access to good benefits means employees can take care of themselves and their families, regardless of what is going on in the economy. At a time when employers may be looking to reduce costs any way they can, it's important to understand the long-term effects of cutting back on benefits. A short sighted decision now may have unanticipated effects down the road when companies are once again counting on loyal employees to help them maintain that "edge" in a competitive marketplace.

Impact of the downturn

The economic downturn has had a broad impact on both employers and employees. Two-thirds of respondents to a Guardian survey reported, for example, that their employers have taken some action in response to the economic downturn. Tactics include training employees to do more than one job (47%), employee layoffs (33%), requiring longer hours or more work (26%), and instating furloughs and unpaid time off (16%).

Meanwhile, the economy is influencing behavior and lifestyle decisions on the part of employees with regard to benefits. One-quarter of employed consumers are afraid to take time off for illness, vacation, or leave of absence. On the West Coast, where unemployment is particularly high, this figure jumps to one-third.

Employees say they're afraid to take vacation time (18%) and are not taking or cutting short leaves for medical or other reasons (16%). Some are returning early from maternity leave or other leave of absence (11%), while others who are pregnant or ill are afraid to take time off (10%). Some even say they're postponing a divorce to preserve coverage (8%) or accelerating a marriage to obtain benefits coverage (6%). Consumers in the West are more likely to consider the impact on benefits when taking time off, while those in the Northeast are more likely to accelerate a marriage or delay a divorce.

Workers also say they're willing to pay more or accept increased deductibles to preserve their current health coverage. Nearly two-thirds would choose a combination of a higher deductible and a higher premium to keep their medical coverage, while one in five would select a higher deductible only.

Willingness to accept higher deductibles drops off as deductibles increase. Nearly three-quarters of respondents indicated they would be willing to increase their deductible to maintain their current health coverage. However, most employees are willing to accept higher deductibles only if they do not exceed \$1,000 for individual coverage and \$2,000 for a family.

The true cost of health coverage remains a source of misunderstanding for many employees. Fully 71% either significantly underestimate or don't know the cost of individual health coverage in comparison to group coverage. What's more, nearly one-third of workers think it is more expensive to obtain healthcare coverage at work than it is to buy coverage on their own.

Importance of benefits to consumers

Because workers value their employee benefits so highly, firms that cut or eliminate benefits should be prepared for a sharp reaction from employees. Employers may wish to consider benefit strategies that are least likely to cause negative effects.

Loss of medical coverage provokes the highest level of action among employees. More than one-third of employees would purchase coverage on their own if they lost coverage at work, while another 20% would obtain coverage through a spouse or partner. What's more, despite the challenging economy, 27% of full-time employees say they would look for another job if their employer eliminated medical insurance.

Many employees say they would look to voluntary benefits as an alternative. Half of employees would consider paying all or most of the costs for benefits offered through their employer. Women and those in professional and managerial occupations are significantly more likely to consider the purchase of voluntary benefits.

Benefits are so important to employees that more than half (57%) say they would be willing to take a salary cut or do without a raise or bonus in order to maintain current coverage levels. Blue-collar employees are most willing to give up a pay increase to preserve benefits. They also value disability, life insurance, and retirement benefits more than do professional/managerial, sales, and clerical employees. However, two-fifths of employees are unwilling to sacrifice an increase in compensation in order to preserve benefits.

Nevertheless, many employees would prefer layoffs to losing benefits. These employees, presumably, believe they would survive the cuts. When asked to choose between layoffs or eliminating their health benefits if their employer had to take extreme measures to stay in business, 46% of employees said they would opt for layoffs while 44% would elect to give up their health benefits. Full-time employees (52%) and employees making more than \$50,000 were more inclined to prefer layoffs to dropped benefits than were part-time workers (37%) and lower-income workers. Regionally, employees in the North Central part of the country are more likely to prefer layoffs than benefit cuts.

The impact of those layoffs often takes its toll in the form of more work for remaining employees. The majority (68%) of full- and part-time employees report that their employers have taken some type of action such as requiring longer hours, layoffs, furloughs, and additional job responsibilities in response to the economic downturn. Some 25% of workers are afraid to take time off - or they know someone who is - for fear of being singled out during the next layoff.

In spite of a tight job market, some workers say they would seek new employment if their benefits were eliminated and others state that cutbacks will have an impact on how they view their employer when the economy recovers. Employers are wise to take workforce loyalty into consideration when evaluating their options.

In the event of unemployment

Consumers express a variety of ideas on what they would do about their benefits should they become unemployed. Just over one-quarter of respondents (26%) say they would go without benefits if they lost their job. Another 27% would obtain benefits through their spouse or partner's plan, while 21% would pay for benefits personally. Only 18% of consumers would opt for COBRA coverage, with professional and managerial employees much more likely to choose this option than sales, clerical, and blue-collar workers.

Younger workers and those with the lowest income levels are most likely to go without benefits if they lose their jobs. Fully 48% of employees earning less than \$35,000, say they would go without insurance if they lost their job. Meanwhile, 31% of those in the 18-34 age range say the same.

Just over one-quarter of individuals surveyed (27%) expect a reduction in headcount within the next six months. Those in the Northeast are more likely to expect layoffs (42%) than those in the South.

Among respondents whose employers have reduced or eliminated benefits since December 2008, mixed views emerge as to the long-term impact of the cutbacks. Nearly half (49%) expect their employer to reinstate benefits to former levels when the economy rebounds, while 44% do not. Another 6% say they don't know what to expect.

Conclusion: consider benefit cuts carefully

As companies seek to cut costs to remain competitive during recessionary times, it's important to consider the future as well. Employers should bear in mind that fully half of workers expect them to restore benefits when the economy improves. And 64% of full-time employees say the actions their employers take now with regard to benefits will influence their attitude towards their employer when the economy turns around. If employers must make benefit cuts, they should do so wisely and consider voluntary benefits whenever possible. The decisions companies make during tough times can have an important impact on the employees they count on to help turn their business around. And, a company's top talent will be the most marketable as the economy improves.

Economies ebb and flow, but workers have long memories. They appreciate employers that do everything they can to preserve and maintain the benefits they need to protect themselves and their families.

Methodology

This report presents the findings of a telephone survey conducted among a national probability sample of 1,007 adults comprising 507 men and 500 women, 18 years of age and older, living in private households in the continental United States.

The questions were asked of the 486 respondents - 281 men and 205 women - who are currently employed.

The interviews were conducted by the Opinion Research Corporation located in Princeton, NJ, from June 25 - 28, 2009.

All differences referenced throughout this report are based on two-tailed statistical testing at the 95% confidence level. The error range is $\pm 4.6\%$ for Total Employed and $\pm 5.8\%$ for Employed Full-Time.