Salt Lake City Corporation

Benefits Market Analysis

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Background and Objectives

Background and Objectives

Salt Lake City (the "City") requested a benefits market analysis

- This total benefits analysis will enable the City to do the following:
  - Compare the value of the City's benefits programs with the market
  - Understand the key drivers of cost for both the City and the market
  - Identify market trends with regard to benefits changes
  - Make decisions regarding the City's compensation program in the context of total compensation
- This analysis has been based on the benefits program information provided by the City for its current FY benefits program
- Hay Group used a comparator market comprised of the following:
  - Utah organizations contained in Hay Group's 2013 benefits database, including Utah organizations that have participated in previous custom surveys (including a 2013 survey sponsored by the State of Utah). A list of organizations comprising the comparator market is in *Appendix A*.

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Results Summary

Results Summary

Below is the summary of the City's benefits market competitiveness

Benefit Area	City vs. Market	Key Drivers
Total Benefits	P75	▪Strong retirement and health care drive total value
Retirement	> P75	▪Defined benefit plan provides more value than prevalent 401(k) type programs in the market
Health Care	P75	▪Very low employee premium cost sharing ▪Higher than median out of pocket costs (deductible, OOP max, etc.) in HDHP design
Disability	P50 > P50 – F&P	▪Combination of sick leave and employer paid STD ▪Less competitive LTD that is employee paid (except for Fire & Police)
Death	Varies by salary	▪$50,000 benefit is > P50 for employees earning < $50K ▪Market position drops to <P25 for higher paid employees
Other	P25 – P50	▪Post employment health contribution is not prevalent ▪Educational reimbursement is aligned with market

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Detailed Benefits Analysis

Benefits Analysis

The City provides a full range of benefits programs to its employees that is at the market 75th percentile in aggregate

- Health care and retirement, the two primary drivers of overall market competitiveness, are above market median relative to the Utah market
- Disability and paid leave are also competitive relative to the market, while death benefits are less competitive relative to the market. These benefits, however, comprise a smaller portion of the total benefit package
- This analysis has been based on the benefits program information provided by the City for its current FY benefits program
- Hay Group used a comparator market comprised of Utah organizations contained in Hay Group's 2013 benefits database, including Utah organizations that have participated in previous custom surveys. (Refer to the appendix for a listing of the market organizations)
- The following pages summarize the City's competitive position relative to the market
- It is important to note that this analysis compares the value of benefits for someone hired today by the City to a new hire in the market. This ensures an apples to apples comparison, that does not consider the impact of grandfathered or frozen benefits.

Market Competitiveness – Total Benefits

The following slides are graphical depictions of the City's benefits values compared to the market's values. The range of pay covers salaries from $20,000 to $100,000.

Market results are calculated according to the measures below:

- P25 is the 25th Percentile
  - 75% of the data is above this point, and 25% below
- P50 is the 50th Percentile
  - 50% of the data is above this point, and 50% is below
- P75 is the 75th Percentile
  - 25% of the data is above this point, and 75% is below

Market Competitiveness – Total Benefits

SALT LAKE CITY VS. HAY GROUP MARKET (UT)

Benefit Area	Market Comparison	Key Findings
Total Benefits	P75	Market position of health care, retirement weigh heavily in overall benefit program competitiveness
Retirement	> P75	The Tier 2 Hybrid retirement benefit for regular and Fire & Police (F&P) employees is above market (>P75), as only 18% of the UT market provides a defined benefit plan. The Tier 2 DC plan, while less valuable than the Hybrid plan, is also competitive against the UT market (P75) due to the City's fixed contribution of 10% (12% for F&P).
Health Care	P75	The competitive 5% premium contributions for the HDHP combined with the City's HSA contribution offset the relatively higher deductibles and out of pocket maximums associated with the HDHP design. Employees are required to pay 100% of dental coverage, which is slightly below typical market practice.

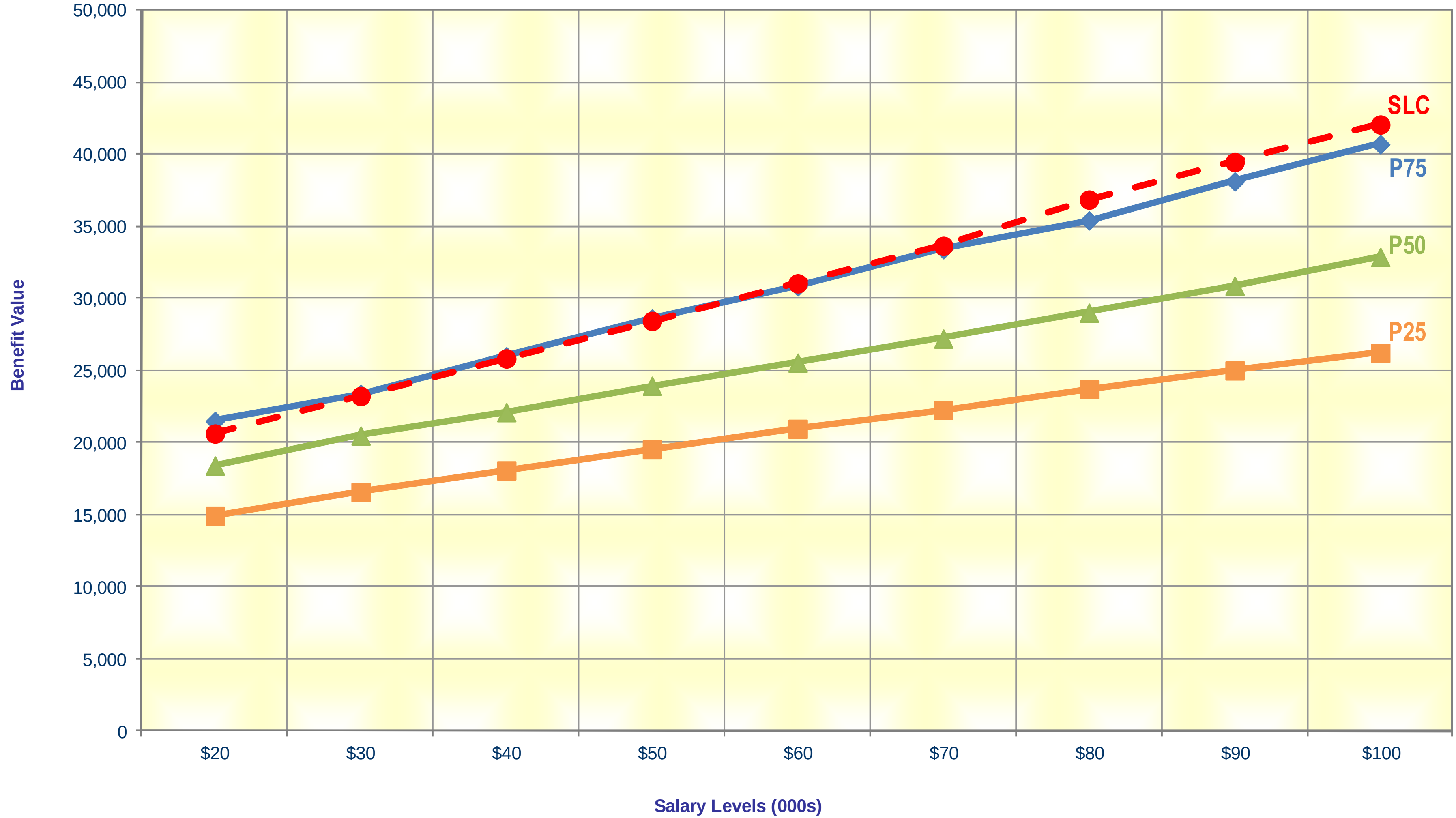
Market Competitiveness – Total Benefits

SALT LAKE CITY VS. HAY GROUP MARKET (UT)

Benefit Area	Market Comparison	Key Findings
Total Benefits	P75	Market position of health care, retirement weigh heavily in overall benefit program competitiveness
Disability (Personal Leave, STD & LTD)	P50 > P50 – F&P	Employee under Plan B receive 14 days of personal leave annually and employer paid short term disability coverage, which is competitive. Combined with the employee paid LTD (employer paid for F&P), the City provides a competitive disability program
Death	Varies based on salary	The City's flat dollar basic life and AD&D benefit of $50,000 is above market for lower paid employees and is below market (<P25) for those earning >$60,000. The City paid Line of Duty benefit of $50,000 enhances the value, but does not change the market position. Prevalent practice is to provide a salary based benefit (1 times pay).
Other & Executive	P50	Post Employment Health Plan contribution, educational reimbursement, EAP and commuter subsidy provide value in this category
Paid Leave	At Market	The number of paid holidays (13) is above typical market practice while the vacation schedule that provides 10 to 25 days of vacation based on service is aligned with typical market practice. Department Heads accrue vacation at the maximum rate, which is aligned with common executive vacation practice in the Utah market.

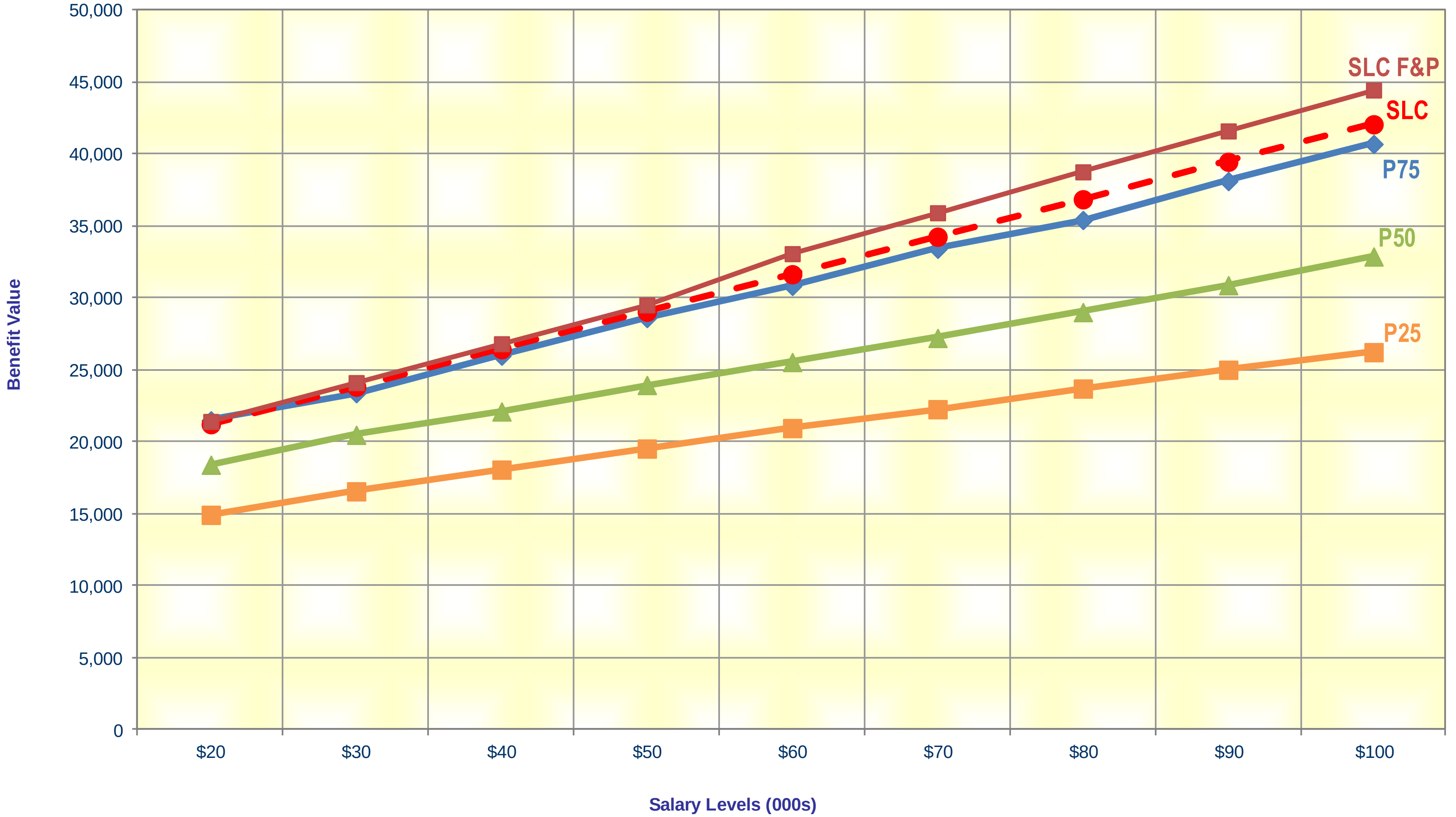
Market Competitiveness – Total Benefits

TOTAL BENEFITS VALUES – Salary Levels $20,000 - $100,000 **Utah Market**



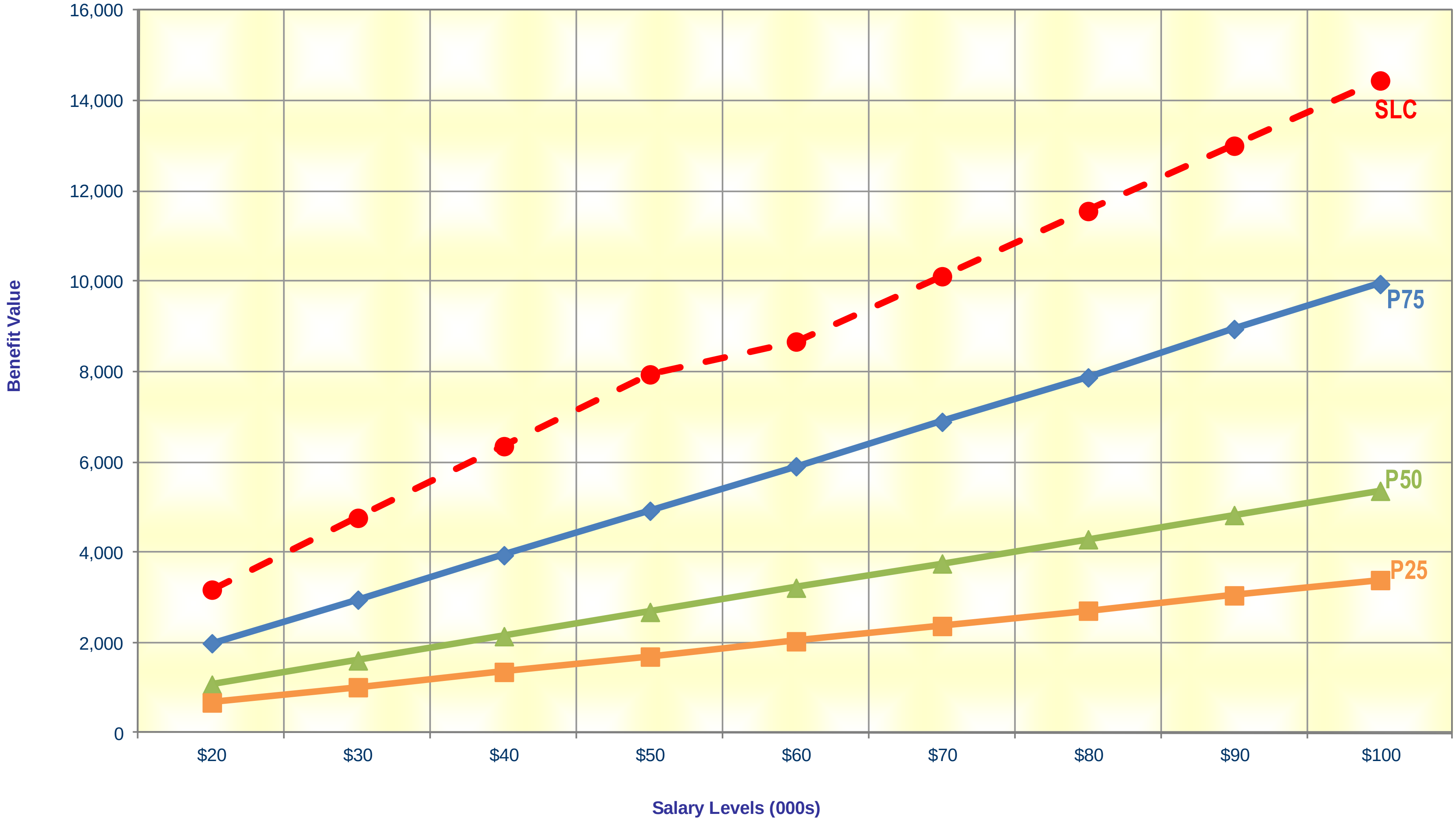
Market Competitiveness – Total Benefits (F&P)

TOTAL BENEFITS VALUES – Salary Levels $20,000 - $100,000 **Utah Market**



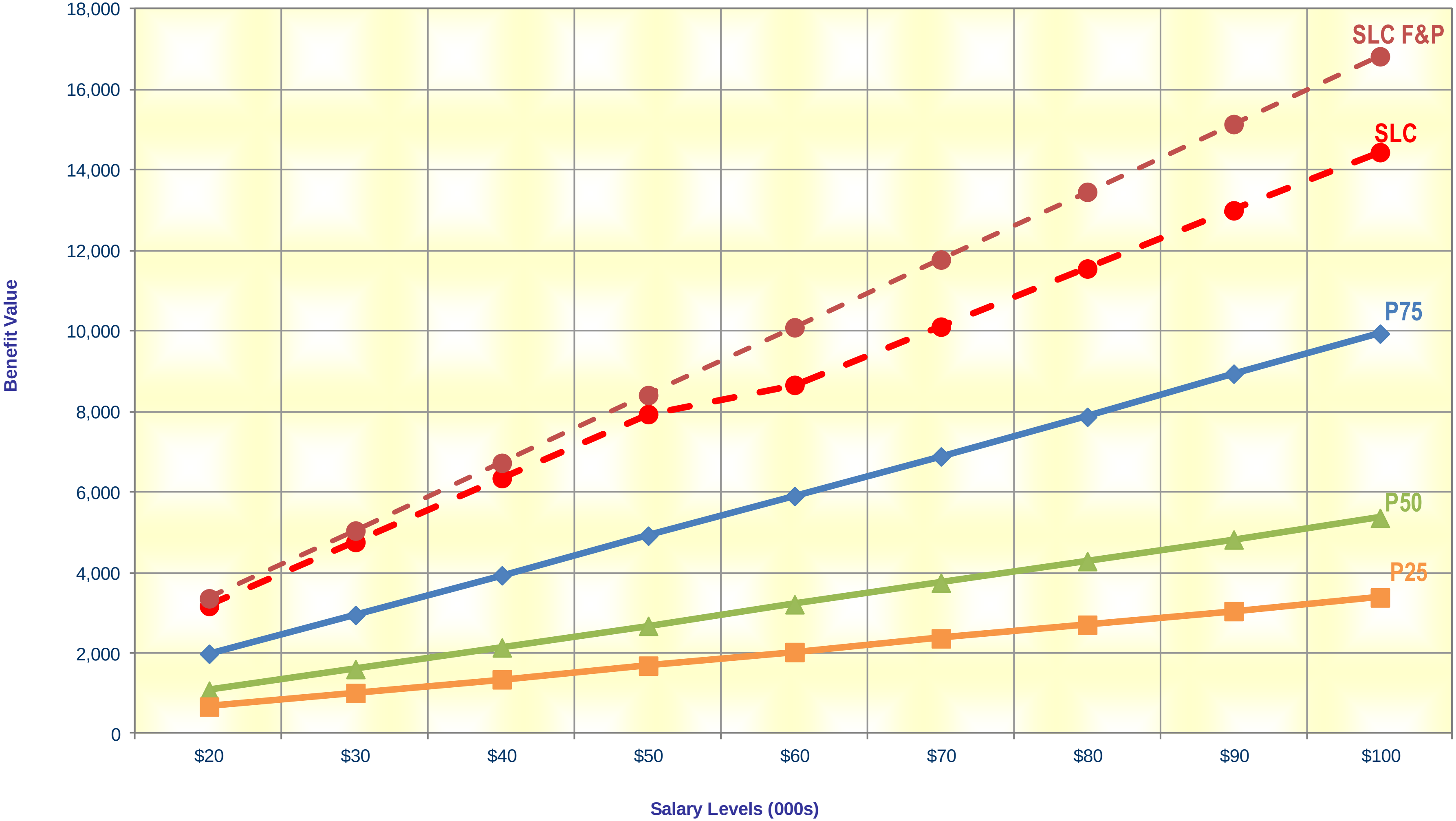
Market Competitiveness – Retirement

RETIREMENT BENEFITS VALUES – Salary Levels $20,000 - $100,000 **Utah Market**



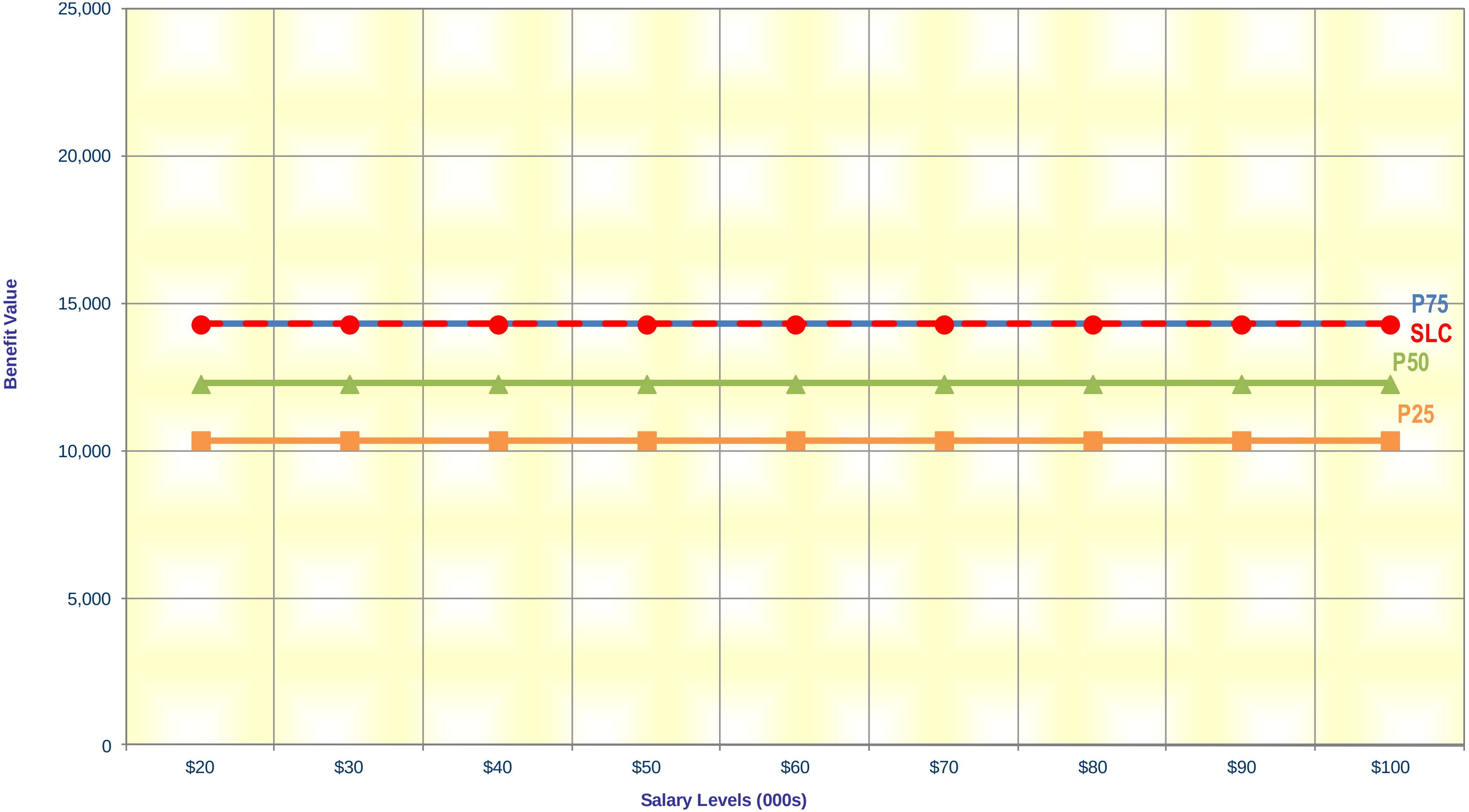
Market Competitiveness – Retirement (F&P)

RETIREMENT BENEFITS VALUES – Salary Levels $20,000 - $100,000 Utah Market



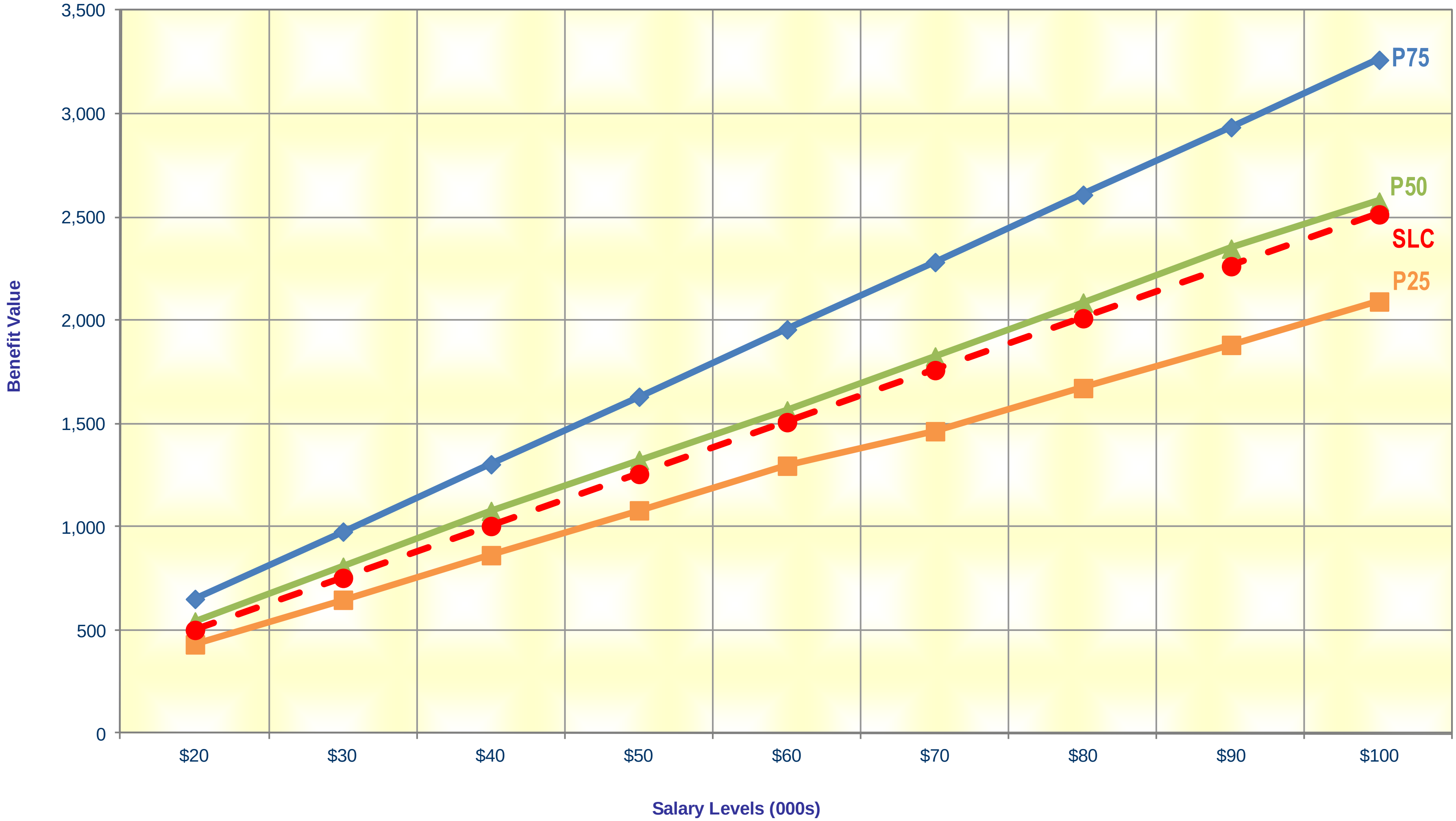
Market Competitiveness – Health Care

HEALTH CARE BENEFITS VALUES – Salary Levels $20,000 - $100,000 Utah Market



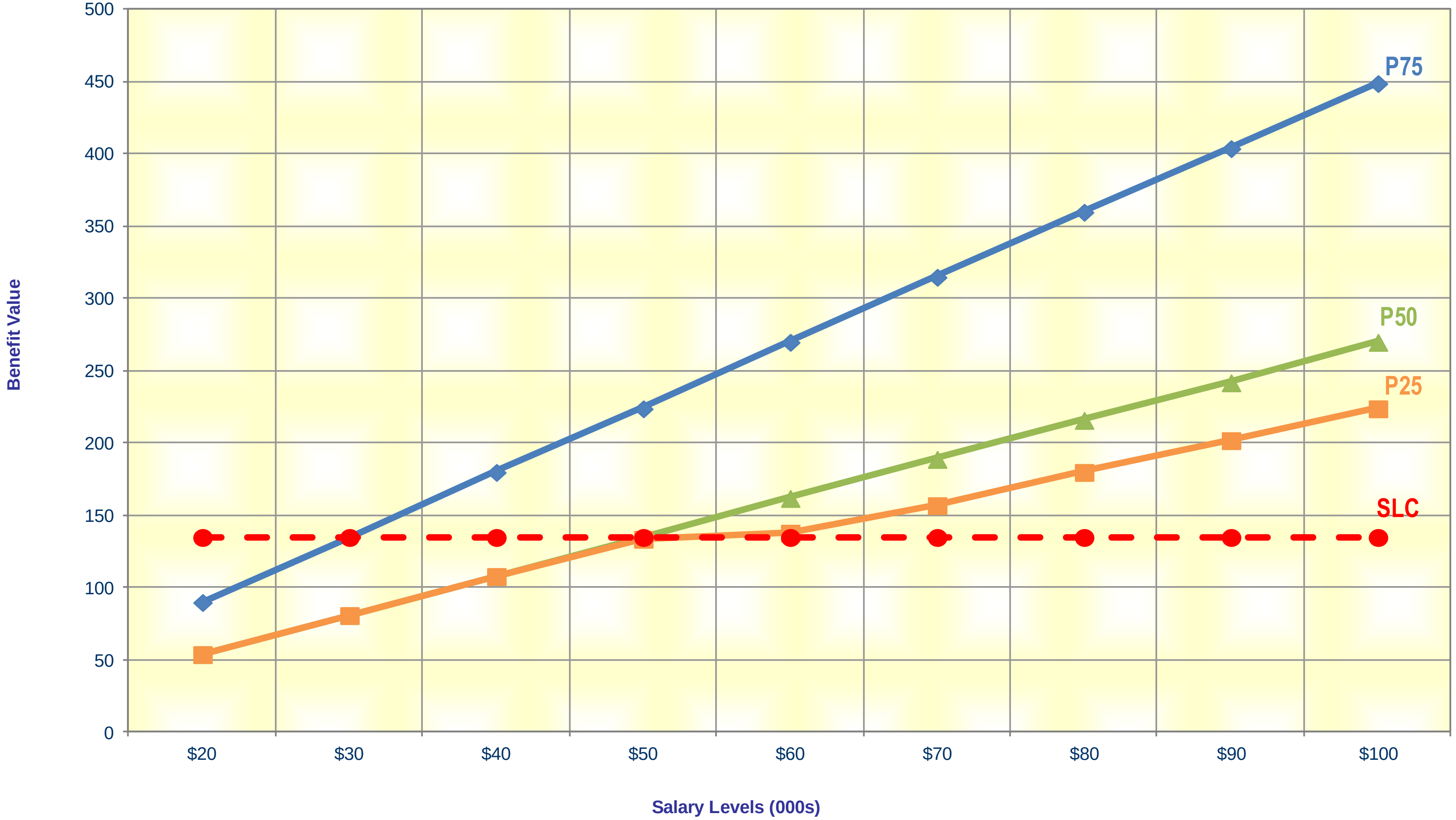
Market Competitiveness – Disability

DISABILITY BENEFITS VALUES – Salary Levels $20,000 - $100,000 Utah Market



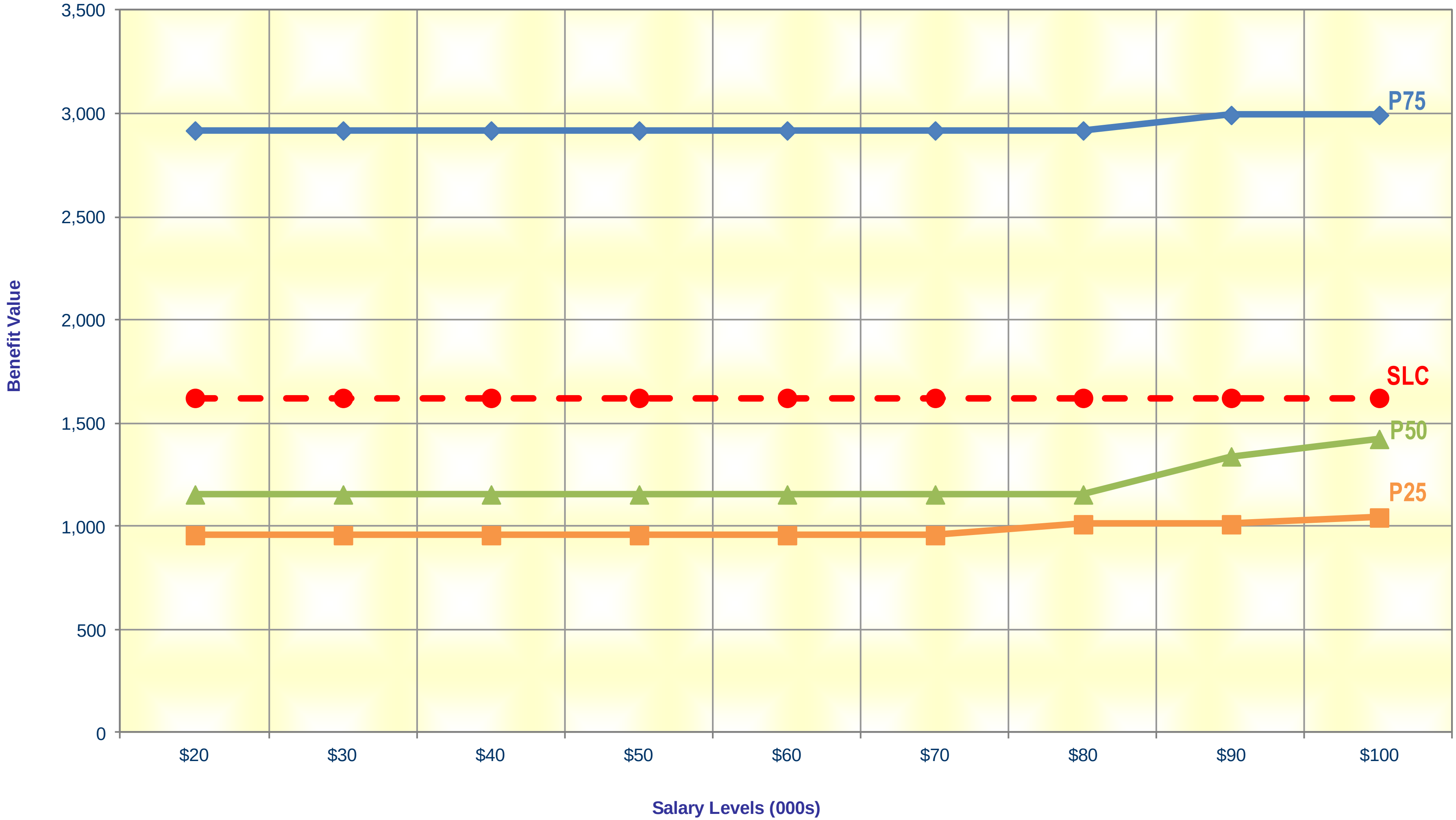
Market Competitiveness – Death

DEATH BENEFITS VALUES – Salary Levels $20,000 - $100,000 **Utah Market**



Market Competitiveness – Other

OTHER BENEFITS VALUES – Salary Levels $20,000 - $100,000 **Utah Market**



Market Competitiveness – Retirement

- The Tier 2 Retirement benefit which provides employees a choice of a 1.5% cash balance hybrid plan or 10% defined contribution continues to be competitive when compared to the Utah market
  - For purposes of this analysis only the hybrid programs were valued for public employees and Fire & Police
  - The F&P program has a slightly higher value than the public employee program due to the shorter service requirement – 25 years vs. 35 years
- UT organizations typically provide a defined contribution plan with employer contribution only (82%), with only 18% providing both a defined benefit plan
  - Median contributions toward DC retirement programs are 4% of pay in the UT market, which puts the Tier 2 DC plan (10%, or 12%) well above market median practice
- When compared to DB plans in the UT market, the Tier 2 hybrid retirement program is <u>at P75</u> of the market
- When considered in total (DB and DC Plans), the City's retirement program is <u>above P75</u> of the market

Market Competitiveness – Health Care

- The City's most prevalent plan is the Summit Star HDHP. PPO plans are the most common plan type, with HDHP's a subset of this group
- The City requires employees to pay 5% of the premium for single and family coverage. This feature puts the City above market, where organizations typically require contributions of 20% to 25%
  - Higher premium contributions are typical of plans that have lower deductibles and out of pocket costs
  - Premium contributions for HDHPs are typically lower for two reasons: they are a lower cost option for both the employee and employer, employers provide an incentive for employees to enroll in this plan
- The City's HSA contribution of $750 individual and $1500 family serves to cut the deductibles in half for employees, which boosts the overall value of the program
- The Summit Care Plan requires premium contributions of 20% and has a plan design aligned with the market median
- The table on the following slide compares key plan design elements of the City's Summit Star HDHP

Market Competitiveness – Health Care

Plan Design Element	Utah Market	Salt Lake City (HDHP)
In network deductible – Single	$500	$1,500
In network deductible – Family	$1,050	$3,000
Out of pocket maximum – Single	$2,500	$4,000
Out of pocket maximum – Family	$5,000	$8,000
Coinsurance	80%	90%

- In aggregate, the City's health Care program is above market, as the low premium contributions and employer HSA contribution more than offset the higher out of pocket costs associated with the HDHP design

Market Competitiveness – Benefit Costs

- With the exception of retirement, the City's benefit costs appear to be within market norms
- The City's health care costs, which have declined over the past two years are currently 16.6% of payroll
- In the general market, health care costs average 13% of payroll, but range from 8% at the 25th percentile to 19% at the 75th percentile*. The average is higher for public sector employers at 18%**, as health benefits are typically more generous and salaries are less competitive
- As a result, the City is optimizing its health care spending, as the value of the City's plans are at the market 75th percentile, while costs for the program are more aligned with the average of the market and well below the public sector average

** Kaiser Family Foundation, Snapshots: Employer Health Insurance Costs and Worker Compensation*

*** Bureau of Labor Statistics, Employer Costs for Employee Compensation, December 2013*

Market Competitiveness – Benefit Costs

- Retirement contributions to URS, as a percentage of payroll are as follows for the City's various employee groups:

Employee Group	Total % Cost	UAAL Portion	Employer	401(k)
Tier 1 Noncontributory	17.29%	5.49%	11.80%	
Tier 2 Hybrid	15.58%		13.99%	1.59%
Tier 2 DC	15.58%		5.58%	10.00%
Public Safety	44.83%	22.25%	22.58%	
Fire Tier 1	21.17%			
Fire Tier 2 Hybrid	12.11%		11.02%	1.09%
Fire Tier 2 DC	12.11%		0.11%	12.00%

- In the market, total retirement costs, as a percentage of payroll are typically 6% to 8% of pay at the median
  - DB program costs have been higher over the past several years due to market conditions, exceeding the typical market range
  - Costs for DC programs are typically on the lower end of the range

04

Appendices

A

Market Comparator Group

Market Comparator Group

- Abercrombie & Fitch
- ACUITY
- Advance Auto Parts
- Air Liquide America
- Air Products & Chemicals
- Akzo Nobel
- Alpine School District
- Andersons, The
- Anheuser-Busch InBev -- Anheuser-Busch
- Apple
- Aramark
- ASML
- Associated Materials
- AutoZone
- Bayer -- AG
- Belden
- Big-D Construction
- Carter's
- Caterpillar -- Solar Turbines
- CBRL Group -- Cracker Barrel Country Store
- Centene Corporation
- Charlotte Russe
- Children's Place
- City of Bountiful, UT
- Clearlink
- Coach
- Colvin Engineering
- Comcast Cable Communications
- Crown Imports
- De Lage Landen - USA
- Delta Dental Plan of California
- Department of Veterans Affairs
- Dick's Sporting Goods
- Dow Chemical
- DSW
- Dyno Nobel
- EarthFax Engineering
- Eaton
- Express
- FBL Financial Group
- Fossil
- Gap
- Hallmark Cards
- HC Healthcare
- Health Net
- Hershey Foods
- Holcim Group Support
- Home Depot
- Humana Care Plan
- Iasis Healthcare
- Intermountain Healthcare

Market Comparator Group

- J.Crew
- jcpenney
- Jordan Valley Water Conservancy District
- Joy Global
- Kellogg
- Kimberly-Clark
- Knowledge Universe
- Kohl's
- Limited Stores
- Macy's
- Merit Medical
- Michelin North America
- Moog
- Nordstrom
- Office Depot
- Payless ShoeSource
- PETCO
- Phillips-Van Heusen
- Ply Gem Siding Group
- Praxair
- Questar
- Ralph Lauren
- SABIC Innovative Plastics
- Safeway
- Salt Lake Community College
- Sanofi-Aventis
- Sears Holdings
- Shopko
- Solvay America -- Solvay North America
- Sonoco Products
- Staples
- State of Utah
- SUPERVALU
- Talbots
- Target
- TJX
- Toys R Us
- Tumi
- University of Utah
- Utah Valley University
- Valley Mental Health
- Walgreens
- Walmart Stores
- Weber State University
- Wells Fargo
- Williams-Sonoma
- Workers Compensation Fund
- Zale

HayGroup®

B

Benefits Valuation Methodology

Methodology:
Hay Benefit Valuation Methodology

- Hay Group utilizes a proprietary actuarial valuation methodology to evaluate benefit plans in terms of the cash equivalence of the benefits.
- In establishing a program's overall market competitiveness the Hay Benefit Valuation model uses "standard cost assumptions", instead of a company's specific costs, which eliminates the impact of such cost variables as demographics, geography, funding method, or purchasing power, etc.
- The utilization of "standard or common cost assumptions" provides a uniform quantitative evaluation method which produces values based solely on the level of the benefit provided.
- The valuation model places a relative value on each specific feature of a benefit program. The value for each plan is then compiled to produce an overall program value appropriate for market comparison. In general, the more generous a particular feature is the higher the relative value.

Methodology:
Hay Benefit Valuation Methodology

The valuation method is applied to a full range of employee benefits including:

- Healthcare Insurance (medical, dental, RX, vision, physical exams);
- Retirement Plans (defined benefit and defined contribution plans);
- Death Benefits (employer paid and voluntary life insurance plans);
- Disability and Sick Leave (sick leave, short-term, long-term disability plans); and
- Other benefits such as Tuition Reimbursement, Flex Plans, Statutory Benefits, etc.

Benefit values are calculated on an “Employer-paid” basis. Employer- paid benefit values are discounted to reflect the relationship of any required employee contributions to the program’s total value. For fully employee-paid plans, the discount is 95% (some value remains due to such things as group purchasing power, etc.). For fully employer-paid plans, there is no discount, and for cost shared plans, a pro-ration is applied.

Methodology: Internal Equity

- Internal equity is the inter-relationship between reward opportunities within an organization. Many benefit plans (death benefits, disability, retirement, etc.) have features or benefit levels that are related to salary. Internal equity is achieved in a benefit program when the relationships between the benefit level and the employee salary are consistent within each employee population (Note: While benefit program differences can often be found between employee classes, most organizations provide consistent policies within a class).
- Organizations that wish to achieve internal equity within a benefit plan typically establish benefit levels that are based on uniform salary multiples (i.e. death benefits of one times salary or disability income replacement level of 60% of salary).
- In order to observe the internal equity of an employee benefits program, benefit values are typically illustrated at several salary levels. For this review of benefits, values are shown for salaries from $20,000 to $100,000.