

SEE WHERE YOU STAND

2018 Benefits Strategy & Benchmarking Survey —
Construction Industry Addendum



Gallagher

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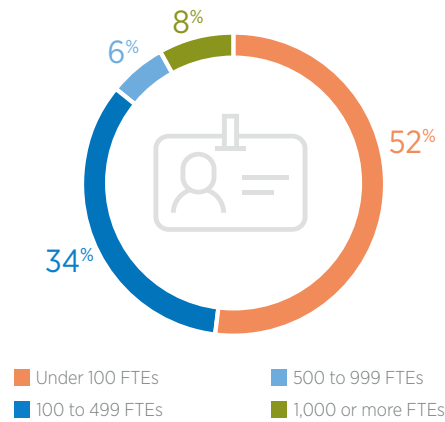
Survey Overview

Gallagher's 2018 Benefits Strategy & Benchmarking Survey asked U.S. employers more than 300 questions across the total rewards spectrum. This addendum highlights select key findings and implications based on responses from 274 employers in the construction sector.

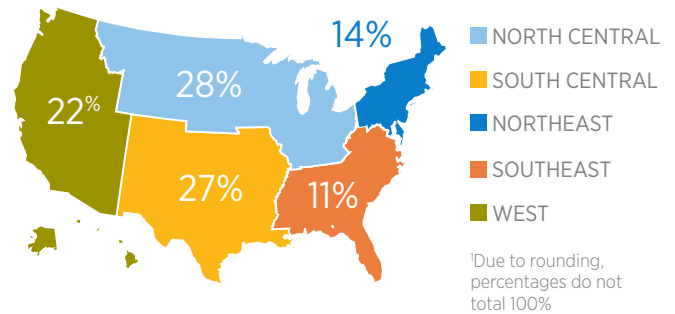
Construction employers anticipate sales and revenue growth in the year ahead. It's an enviable position, but not without challenges. Meeting demand requires an engaged, productive workforce that can hit performance targets safely and efficiently. Employers are also balancing high benefit costs with the need to attract and retain quality workers.

However, this year's findings reveal the way construction employers manage their talent and benefits may limit their ability to reach these goals. They often take an annual approach to planning, and are not actively exploring options to manage benefits or compensation more strategically. Instead, through thoughtful, data-driven planning that addresses human capital talent needs, employers can encourage strategic integration and identify areas of opportunity for benefits and compensation programs.

FULL-TIME EMPLOYEES (FTEs) — DOMESTIC



GEOGRAPHY¹



ANNUAL OPERATING REVENUE

Under \$1M	6%
\$1M to \$4.9M	18%
\$5M to \$19.9M	25%
\$20M to \$99.9M	30%
\$100M or more	21%



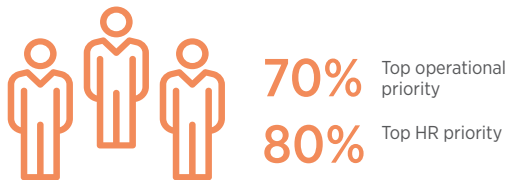
Human Capital Strategy

EXPECTATIONS FOR GROWTH OVER THE NEXT TWO YEARS

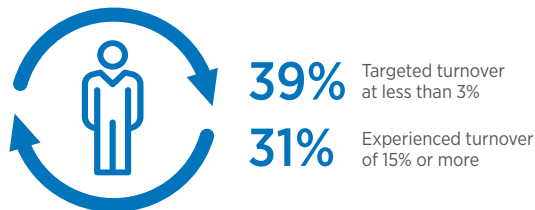


REVENUE	
Increase a little	61%
Increase substantially	21%
WORKFORCE HEADCOUNT	
Increase a little	60%
Increase substantially	16%

ATTRACTING AND RETAINING A COMPETITIVE WORKFORCE IS A TOP PRIORITY



TURNOVER RATES HIGHER THAN TARGETS IN 2017



Construction employers generally have a positive outlook: Eighty-two percent (82%) anticipate at least some increase in sales and revenue in 2018, and 76% anticipate increasing headcount to meet higher demand.

These organizations' priorities reflect their growth expectations. More employers (70%) consider attracting and retaining a competitive workforce a top operational priority than in 2017 (59%), making it number one for 2018, even surpassing revenue or sales growth (60%). HR-specific priorities reflect a similar focus with 80% ranking it most important.

Benefits are critical to construction employers' total compensation packages. Forty-seven percent (47%) view compensation and benefits as tools to attract and retain talent, while 26% view them as investments that maximize workforce performance.

Fairly high turnover rates challenge these employers' ability to reach human capital goals. Most targeted a rate of less than 3% for 2017 (39%), but 31% actually experienced turnover of 15% or more.

Fully 70% of industry employers manage their benefits on a year-to-year basis and 21% do so in one- to two-year cycles. A main drawback to either approach is that it leaves plans vulnerable to the unexpected, whether in the form of cost increases, higher-than-projected employee turnover, or changes to the healthcare system. When operational goals consistently seem out of reach, construction employers may want to consider a more intentional approach that incorporates greater deliberation, along with a stronger process and strategy.

Medical Benefits

EMPLOYER HEALTH BENEFIT PERCEPTIONS



53% View as a cornerstone of overall benefits

92% Provide access to quality services

AFFORDABILITY OF PREMIUMS FOR EMPLOYEES

73%

INDIVIDUAL COVERAGE



43%

FAMILY COVERAGE



MEDICAL PLANS WITH THE HIGHEST ENROLLMENT



55% Preferred provider organization (PPO)

19% Health maintenance organization (HMO)

17% High-deductible health plan (HDHP)/Consumer-directed health plan (CDHP)

Construction employers recognize the importance of healthcare benefits, especially in an environment in which recruiting and retaining employees is so important. Fifty-three percent (53%) agree medical and pharmacy options are the cornerstones of their total compensation, and are key for recruitment and retention.

Employers generally have a positive assessment of their health benefits, with 92% saying employees have access to the quality medical services they need. And 64% believe their health benefits are competitive regionally or industry-wide.

Despite access to care and perceived affordability of individual coverage, employers acknowledge that medical benefits can create cost concerns for employees. Only half say additional plan costs — like deductibles, copays and coinsurance — are affordable for employees, while just 43% say premiums for family coverage are affordable.

Employers in the construction industry are most likely to be fully insured (63%), and typically offer two or more health plan options to their employees (58%). About three-quarters offer a PPO plan, which is also the type with the highest enrollment (55%).

Thirty-nine percent (39%) offer HDHPs or CDHPs — that have a deductible of \$1,300 or more for individuals and \$2,600 or more for families. A CDHP combines the high deductible with a savings vehicle, like a health savings account or health reimbursement arrangement. The primary motivations for making HDHPs or CDHPs available are combating increasing healthcare costs (68%) and sharing financial responsibility with employees (52%). For 8 in 10, these plans will continue to be provided alongside other options in the near future.

Pharmacy Benefits

CHALLENGES IN MANAGING HEALTHCARE COSTS



47% High cost of prescription drugs

29% High cost of specialty drugs

61%

DON'T KNOW THEIR HEALTH PLAN'S
APPROACH TO SPECIALTY MEDICATIONS
AND BIOLOGICS



87%

HAVEN'T IMPLEMENTED ANY
VALUE-BASED BENEFIT TACTICS



High costs and inadequate resources to address them often challenge construction employers' ability to provide pharmacy benefits. The cost of prescription drugs (47%) — and specialty medications in particular (29%) — are two of their top cost-management concerns. Yet employers' efforts to manage drug costs are modest.

In attempting to minimize costs, organizations are more likely to apply cost sharing than sophisticated benefit design tactics. For instance, 47% increased employees' share of premiums in 2018, but few have cost and utilization management initiatives for biologics and specialty drug benefits. Just 13% mandate the use of a specialty pharmacy for all biologics, prohibiting purchase through a retail pharmacy and physician. And only 9% have moved biologics coverage from the medical to the pharmacy benefit.

Sixty-one percent (61%) don't know their health plan's approach to specialty medications and biologics. And 87% aren't aware of or haven't considered tactics such as step-care therapy, pre-authorization, or a fourth-tier pharmacy benefit for biologics.

Just 13% of construction employers have implemented value-based tactics such as reducing employee costs for medications to treat high-cost chronic conditions like diabetes, while only 12% are considering these tactics in the next two years. Employers' lack of knowledge about the programs is a telltale indication of inadequate strategy in managing pharmacy costs.

Whether fully insured or self-insured, when employers are unfamiliar with common ways to control benefit costs, they yield their decision-making power to vendors — and leave themselves at the mercy of market factors.

Employee Engagement

47%

REPORT A HIGHLY ENGAGED WORKFORCE

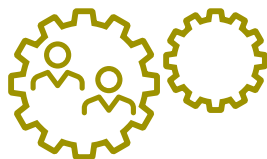


59%

LACK A STRATEGY TO IMPROVE EMPLOYEE ENGAGEMENT



TOP TACTICS USED TO IMPROVE ENGAGEMENT



Define clear performance goals	78%
Give timely and constructive feedback	78%
Support employees in developing and pursuing a career path	71%
Communicate in a way that fosters trust and confidence	71%
Identify development needs and create action plans	63%

Although a high percentage of construction organizations cite employee engagement and productivity as a top HR priority, only 47% agree their workforce is highly engaged. The struggle with engagement is perhaps reflected in higher-than-anticipated turnover.

Employers in the construction industry are likely to rely on anecdotal or observational evidence to gauge employee engagement: Just 27% have conducted a workforce engagement survey within the past two years. In addition, most employers (59%) lack a strategy to improve engagement. Industry employers most often cite “employee feedback or questions received by HR” as their measure of successful communication, a critical part of engagement (73%).

Popular tactics to improve engagement include defining clear performance goals (78%), giving timely and constructive feedback (78%), and supporting employees in their career path (71%).

Despite efforts to strengthen engagement, only about half (52%) of construction employers agree with the statement “Our organization communicates effectively with employees.” Again, part of this challenge may be the manner in which employers communicate. Merely 10% have a comprehensive communication strategy, and only 46% of those that do link it to broader organizational and HR initiatives. Rather, employers are most likely to have separate communication strategies for selected programs (e.g., safety, benefits enrollment).

Final Remarks

The 2018 construction findings show an industry that's poised to thrive, but its employers don't always have the strategic total compensation approach they need to outperform competitors. Employers in these companies anticipate headcount growth and prioritize retaining their talented employees. But often, they aren't attuned enough to the tools, benefit plan designs and data that can help them meet their objectives.

For instance, employers see the need to further engage their workforce, but most have not deployed an engagement survey to assess what's working in their current approach. Another example: Benefits cost containment is a priority, but sophisticated tactics commonly used in other industries aren't explored. Construction employers rely on cost sharing instead, which can backfire if employees leave for other companies where they can lower their benefit expenses.

Construction is a cyclical and volatile industry; some years boom, others go bust. That makes it is easy to see why employers may prefer year-to-year to benefits and compensation planning. But when they don't take a comprehensive and strategic approach, they leave themselves vulnerable to surprises and fiscal pain. Through internal assessment, benchmarking and thoughtful deployment of cost-control tactics, construction employers can make steady headway in cost-effectively meeting the needs of their workforce to build better employee and business outcomes.

To learn more, contact your local Gallagher consultant.

About Gallagher

Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent. What does that look like? It's a workplace where people feel they belong — where there's a stronger sense of developing a career than punching a clock. And a culture of opportunity that draws new talent because it inspires employees to deliver their personal and professional best.

Gallagher's comprehensive approach to benefits, compensation, retirement, employee communication and workplace culture aligns your human capital strategy with your overall business goals. It centers on the full spectrum of organizational wellbeing — strategically investing in your people's health, talent, financial security and career growth. And developing benefit and HR programs at the right cost structures to support a multigenerational workforce.

From evaluating the demographics of your workforce to surveying and analyzing competitor trends, Gallagher helps you gather new insights and apply best practices that promote productivity and growth. A data-driven focus allows you to continually improve.

That's what it means to create a better workplace culture. It's about never being content to rest each time you reach your best. Your better is never finished.

As you develop and sustain this destination workplace culture, your people can thrive and perform at a higher level — optimizing your annual talent investment and mitigating organizational risk to maximize your profitability. Best of all, you gain a competitive advantage as a workplace that simply works better.

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