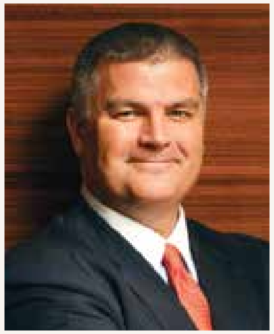
2015 Workplace Benefits Report

Helping employees live their best financial lives

Bank of America Merrill Lynch

Employers are adapting to a new normal in benefits plans



Financial wellness continues to be a hot topic for employers. This Workplace Benefits Report* finds that financial wellness has evolved from a buzzword to reality and is likely to grow in importance in the future. Meanwhile employers face a challenging environment in which the complexities of benefits offerings require greater expertise from HR professionals, and rising health care costs force hard decisions about how to spend valuable benefits dollars.

This report provides a clear picture of the data, trends and new ideas related to workplace benefits today. It uncovers new insights related to financial wellness, health care, incentives, the use of total rewards portals and employers' attempts to engage a multi-generational workforce.

We have focused much of our analysis on trends and perceptions among larger firms, which serve as the incubators of benefits innovation, the trailblazers in implementing new ideas and the bellwethers for the future of benefits. In several places we highlight where the pattern for the largest employers diverges from their smaller counterparts in order to gain insight into the direction of the benefits industry as a whole.

At Bank of America Merrill Lynch, we believe there are many reasons to promote employee financial wellness. Perhaps the most persuasive reason, as noted on page 5 of this report, is the finding that helping employees improve their financial wellness can boost the bottom line by increasing employee productivity, loyalty, satisfaction and engagement. But beyond that, we firmly believe offering assistance in managing an individual's entire financial picture is simply the right thing to do. It's a fundamental part of our commitment to both the employer and the individual.

That said, we are not blind to the challenges employers face in supporting employee financial wellness. We are committed to helping them overcome those challenges through intelligent implementation of workplace financial solutions that help employees manage their life priorities today and into the future. Our commitment stems from a strong conviction that helping employees live their best financial lives will have positive impacts for individuals, their firms and — ultimately — the country as a whole.

David Tyrie
Head of Retirement and Personal Wealth Solutions
Bank of America Merrill Lynch

* For survey methodology, please see back cover.

Helping employees live their best financial lives

Employees today must manage a wide range of difficult financial tasks, from paying down student debt to supporting aging parents to paying for health care and preparing for retirement. As employees reach out to their employers for help balancing and prioritizing multiple challenges, employers must adapt their benefits strategy. They should broaden the conversation they have with employees to encompass financial matters well beyond saving for retirement.

The range of assistance needed by employees is stretching benefits departments in new directions. In this Workplace Benefits Report, human resources professionals mentioned that they are spending more time on health care issues than they have in the past, and 74% of them feel they need to be experts in health care and retirement to do their jobs effectively.

These changes are affecting the time and budgets companies allocate to particular aspects of their benefits packages. This report helps identify some of the trade-offs employers are facing today as they adapt to the new benefits landscape. It also highlights a number of other challenges, including the more-targeted communications demanded by an increasingly diverse workforce and the need to better understand the unique circumstances of individual employees. Workplace financial solutions provide employers with a means to navigate the new benefits landscape while supporting employees' efforts to become more financially well.

Highlights of key findings:

97% of large firms said they feel at least somewhat responsible for helping their employees improve their financial wellness

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90% of large firms surveyed believe workplace financial solutions will be a standard element of benefits packages in a decade

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63% of all surveyed employers have experienced an increase in health care costs of 6% or more over the past two years

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1 in 4 large firms said they offer or are considering offering incentives to encourage employee participation in workplace financial solutions

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1 in 5 large firms indicated they target specific generations, such as Millennials or Boomers, with their communication efforts

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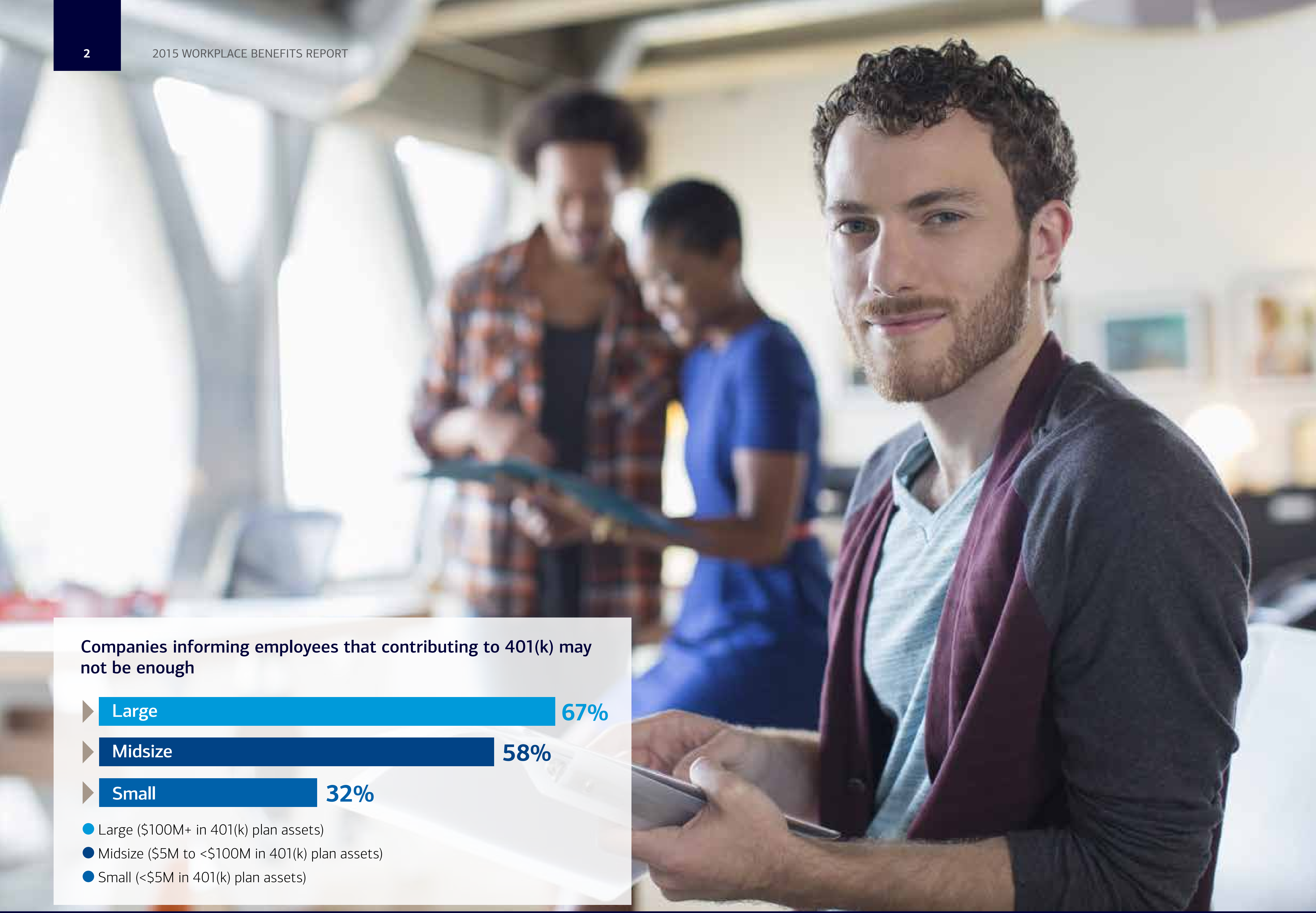

Companies informing employees that contributing to 401(k) may not be enough
Large 67%
Midsize 58%
Small 32%
Large ($100M+ in 401(k) plan assets)
Midsize ($5M to <$100M in 401(k) plan assets)
Small (<$5M in 401(k) plan assets)

The emergence of financial wellness

Employees look to their employers for help in becoming more financially fit. For their part, employers understand this need and overwhelmingly agree that they have a role to play in that effort: 83% of all employers, and 97% of large employers, say they feel at least somewhat responsible for the financial wellness of their employees. Moreover, more than half (51%) think employees on the whole are seriously interested in taking steps to improve their financial wellness.

This sense of shared responsibility appears to have prepared the ground for workplace financial solutions. Momentum for these programs is building, especially among large companies that pave the way on benefits innovation and adoption. As the graph table below shows, 69% of large companies indicated they have financial wellness strategies in place today or plan to have them in the next two years. Small and midsize companies lag their larger counterparts in adopting financial wellness strategies, yet they are showing momentum too: For example, midsize companies' numbers are identical to those of larger companies in 2013.

Financial wellness gaining momentum among employers (by company size)

		Financial wellness strategy in place	+	Plan to have one within two years	=	Total
LARGE	2013	35%		13%		47%
	2015	48%		19%		69%
MIDSIZE	2013	33%		10%		43%
	2015	34%		13%		47%
SMALL	2013	18%		8%		26%
	2015	23%		6%		29%
ALL	2013	20%		8%		28%
	2015	24%		7%		32%

What it means for employers

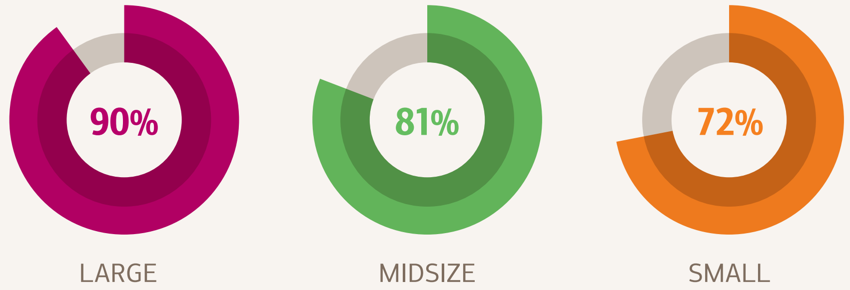
Employers said they think 49% of employees are not serious about improving their financial wellness. **Employers and providers can motivate these employees by:**

- **Focusing on topics that are relevant to their needs.**
- **Providing a clear action plan to enhance their present and future financial situation.**

The future of benefits

73% of all employers surveyed said that financial wellness programs will be standard elements of benefits packages in 10 years. The bigger the firm, the stronger that sentiment, as the table below illustrates. The expectation that financial wellness will become “the new normal” transforms this newest offering from a nice-to-have feature into must-have benefits for employers.

Employers say financial wellness will be a standard benefit ten years from now



The survey also found that most firms, 57%, expect 401(k) plans a decade from now will look much more like pensions — suggesting that companies increasingly will make savings and investment decisions on employees’ behalf, likely through automatic features and diversified default investments to generate income in retirement.

A surveyed employer says:

> *“The landscape is changing whereby employers and employees need to look at the full view of health care, retirement and wellness. The employers will need to get the employees ready to manage the different pieces of their financial lives.”*

What it means for employers

Employers largely agree that financial wellness will be a must-have element of benefits plans and that financial education and health care will gain in importance.

- Employers looking to expand and rethink their benefits offerings can start by looking at benefits holistically, as part of a complete package — not in silos.
- Leading-edge employers have already started implementing workplace financial solutions to reflect this broader perspective.

Wellness boosts the bottom line

Why are employers so committed to financial wellness programs? One reason: Most of those surveyed believe improving employees' financial wellness meaningfully and measurably improves their company's bottom line. They say that greater financial wellness generally leads to a more satisfied, loyal, engaged and productive workforce, which in turn produces better business outcomes.

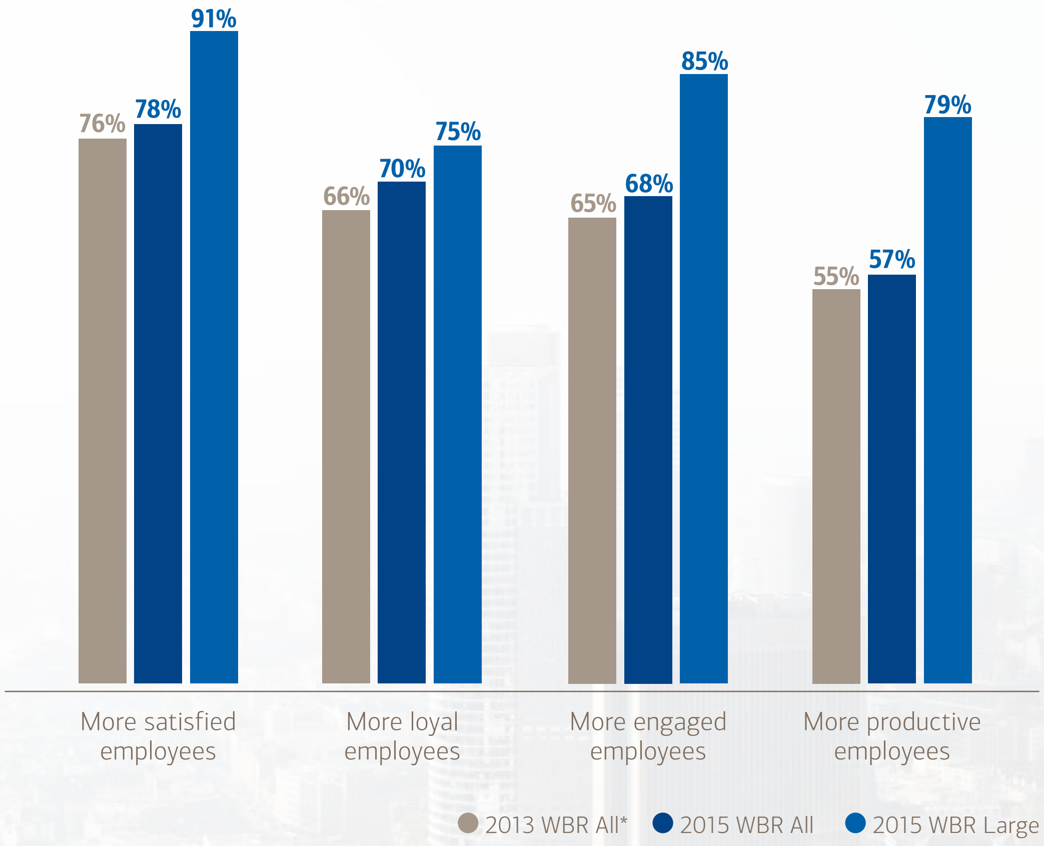
The experience at large firms underscores the relationship between wellness and company results. Large firms have embraced workplace financial solutions and are more likely to report a correlation between wellness and positive workplace attitudes and behaviors. Moreover, the percentage of companies noticing these benefits has risen since 2013.

What it means for employers

Employers are increasingly embracing the valuable role they can play in reducing employees' financial stress. As employers consider workplace financial solutions, they should know that:

- **Offering workplace financial solutions can help capitalize on the business potential offered which may lead to increased employee satisfaction, loyalty and productivity.**
- **Firms with limited resources may be able to work with their plan providers to develop customized workplace financial solutions tailored to their specific needs.**

Employers believe workplace financial solutions lead to ...



* Boston Research Group interviewed a national sample of 1,000 employers from July 2013 through August 2013 on behalf of Bank of America Merrill Lynch. To have qualified for the survey, employers must have offered their employees a 401(k) plan.

Connecting financial education to life priorities

Most employers surveyed indicated they offer education and guidance to their employees about some aspect of financial wellness, primarily saving for retirement and planning for health care costs. More large companies than small companies are making these efforts, likely because of the greater resources at large firms. Guidance about other aspects of wellness are much less common, even at large firms, as you can see in the table to the right.

Moreover, eight in ten employers indicated they believe that one-on-one guidance from a financial professional can have a positive impact on how much employees save for retirement, and almost half of employees take advantage of employer-provided access to one-on-one guidance from financial advisors. This finding is further evidence that employers are taking concrete steps to help employees, and employees are responding favorably.

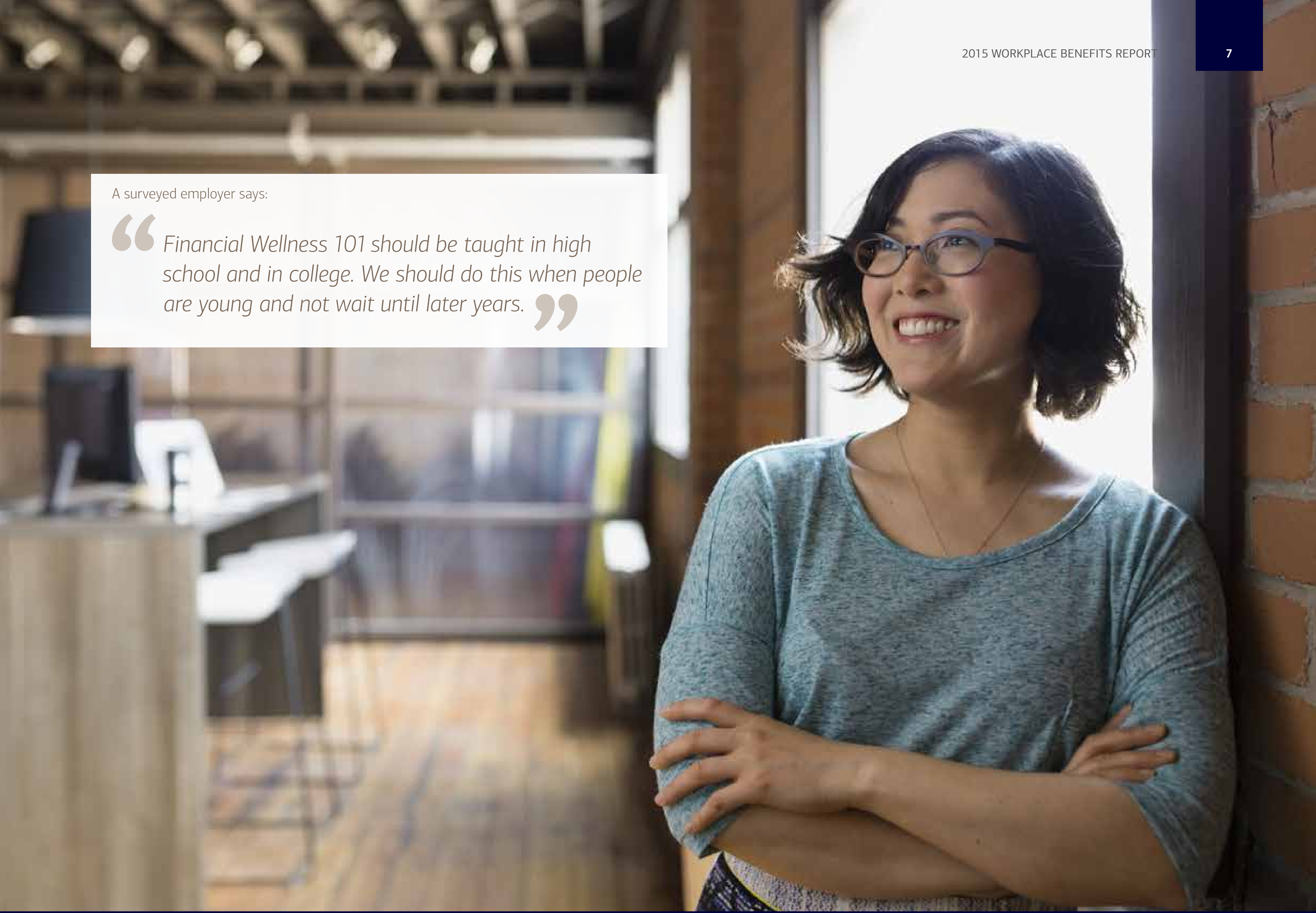
What it means for employers

Employers have opportunities to expand the conversation with employees to encompass not just saving for retirement and paying for health care, but connecting financial and life priorities.

- **Focusing on life priorities can help employees feel more in control of their financial lives and more confident in their futures.**
- **Employers can help change the dialogue from saving for "retirement" to saving for "the future." Such a shift can help employees connect the decisions they make today with their financial health in the coming years.**
- **Employees often question where to spend their future benefits dollars. They may wonder how the decisions they make will affect and fit into their overall financial picture in both the short and long term. Employers and providers can play a vital role in educating employees around these and similar questions.**

Firms (by company size) that offer employees financial education and guidance on ...

	ALL	LARGE
Saving for retirement	70%	94%
Planning for health care costs	42%	64%
Good general savings habits	26%	51%
Budgeting	18%	40%
Debt management	18%	43%
Saving for college	15%	38%



A surveyed employer says:

> *"Financial Wellness 101 should be taught in high school and in college. We should do this when people are young and not wait until later years."*

Rising health care costs pressure benefits plans

Employers are facing challenging decisions about how best to allocate their benefits dollars, in part because of increases in health care costs. Some 63% of employers report their costs have risen 6% or more over the past two years, and employers on average report their health care costs have risen 11% in that time. Large firms experienced smaller cost increases, presumably due to economies of scale and bargaining power.

Employers report health care cost increases of 6% or more over the past two years (by company size)

Of those employers that experienced an increase, more than half (60%) have passed on at least some of these costs to employees. Interestingly, many more large firms than small firms (92% versus 57%) passed along increases to their employees, despite experiencing lower cost increases.

What it means for employers

The rise in health care costs puts a strain on benefits budgets, heightening the need to maximize the efficiency of benefits spending.

- **Employers should determine which benefits employees value most in order to ensure that any benefits plan properly aligns with employee needs and values.**
- **Firms of all sizes should carefully consider the pros and cons of passing higher health care costs on to employees versus absorbing the costs themselves.**

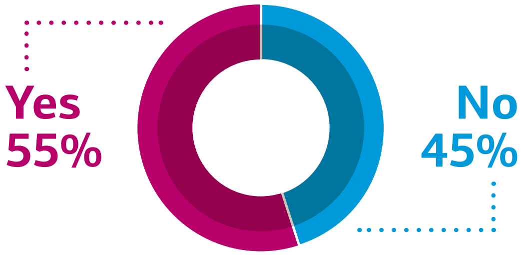
Trade-offs between benefits

Our survey found evidence that rising health care costs were sapping resources from other benefits. Among employers that reported an increase in health care expenses, half reported at least a moderate impact on other aspects of benefits spending. Those that cut back spending in other areas most often reduced 401(k) benefits, pension benefits and employee education.

Rising health care costs' impact on other benefits, among employers with rising health care costs

17%	Major impact
34%	Moderate impact
50%	No impact

Where there was an impact, was there reduced spending on other benefits?



Which benefits were affected?

401(k) plans and pension plans	56%
Employee education	40%
Equity compensation	36%
Nonqualified deferred compensation	34%
Other	20%

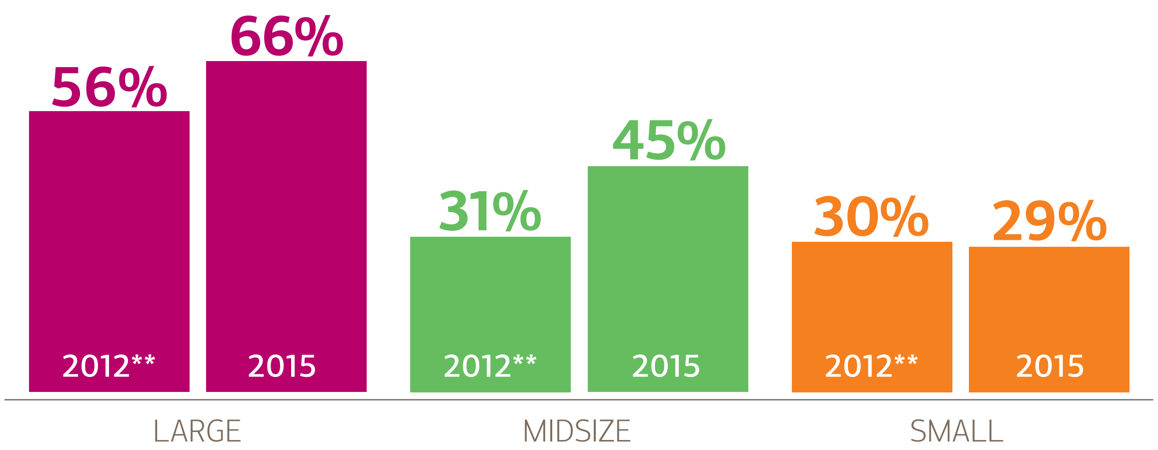
What it means for employers

- As employees face higher medical expenses, employers may want to provide more education and guidance to help employees better manage their health care costs.
- Providers may be in a position to help employers make informed decisions about where to spend their next benefits dollar — and to convey that financial wellness and retirement plans are just as important as health care benefits.

HSA adoption grows, but understanding lags

Health saving accounts (HSAs) are gaining popularity at larger firms. This finding dovetails with our experience at Bank of America Merrill Lynch: The number of Bank of America, N.A. HSAs grew 36.7% from 2013 through year-end 2014.*

Employers who currently offer HSAs (by company size)



Most employers that offer HSAs (85%) say their employees understand the value of contributing to their HSAs. Yet respondents suggest that employees are not maximizing the benefits of these accounts. About eight in ten employers report that their employees view the accounts mainly as near-term spending accounts rather than a long-term health care savings vehicles.

What it means for employers

Our findings indicate that although HSA use is growing, employees could get more out of the accounts.

- **Employers can educate employees on the value of HSAs paired with a high-deductible health plan in funding future health care costs.**
- **Track the trade-offs employees make between 401(k) and HSA contributions, and use the information to better design incentive and education programs.**

* Source: Bank of America, N.A. HSA analysis, year-over-year growth from 2013 through year-end 2014.
** In 2012, Boston Research Group interviewed a national sample of 1,000 employers of all sizes and 1,000 employees from January 2012 through March 2012 on behalf of Bank of America Merrill Lynch. To have qualified for the survey, employers must have offered their employees a 401(k) plan.

About eight in ten employers report that their employees view their HSAs mainly as near-term spending accounts rather than a long-term health care savings vehicle.

Engaging employees through incentives

Employers generally agree that incentives encourage and reinforce positive behavior. Among those that use them, 70% say they are effective. However, relatively few offer incentives for employees to take advantage of workplace financial solutions — just one in seven overall. Less than one-quarter of large employers offer or are considering offering incentives.

A surveyed employer says:

> *We give out gift cards when people complete certain training — small amounts like $25. Employees appreciate that.*

Most popular incentives at large employers

29% Cash incentive/gift card/bonus

14% Points program for discounts/cash

11% Discounts on health insurance premiums/other products

11% Drawings/raffles

What it means for employers

Given the broad agreement on the effectiveness of incentives, there is room for growth of this element in most benefits plans. Employers that consider incentives appropriate for their benefits offerings might consider the following tactics:

- Determine the effectiveness of existing incentives. Tweaking the approach to current incentive strategies may be more efficient than developing new ones.
- Ask employees what they want. Surveying employees provides the information employers need to use resources where they will have the greatest impact.
- Incentivize underused benefits. Target incentives strategies toward benefits that employees overlook.
- Monitor. Track earned incentives through an intranet portal as a way to measure the effectiveness of your strategy. If incentives prove ineffective in one area of your plan, adapt the strategy accordingly.

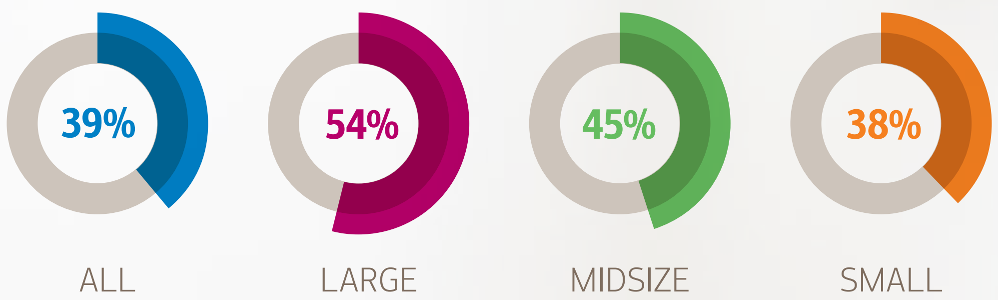
Employers are reminded to work with their legal counsel regarding any expenditures of plan assets.

The early returns on total rewards portals

Total rewards portals — intranet sites where employees can track their use of the company's benefits offerings — help employers bring their benefits information together in one place. Four in ten employers have introduced the portals in an effort to address benefits holistically. Among employers that offer total rewards portals, 72% report they believe employees understand how the portal works to maximize the value of their benefits.

Only two-thirds of employers with total rewards portals have assessed their effectiveness, however. Among companies that can give an assessment of the portals' value, 83% of large employers reported increased employee usage and engagement with benefits, compared to 58% for midsize employers and 34% of small employers.

Employers offering total rewards portals (by company size)



What it means for employers

Total rewards portals can help employees engage with their benefits and help employers integrate their approach. To make total rewards portals work:

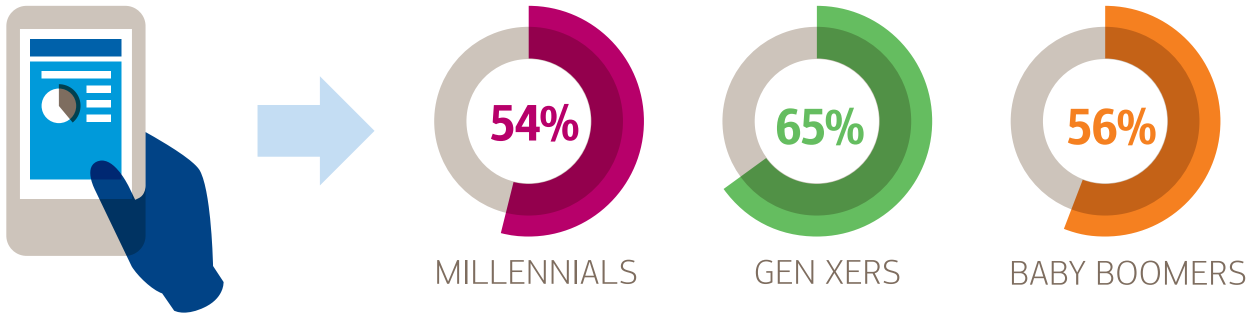
- Educate employees about the value and benefits of their total rewards portal. Any outreach and communication must be based on the needs and concerns of the employees and should drive employees to engage with the portal.
- Drive employees to visit the total rewards portal. Communications strategies should encourage repeated engagement with the portal, and make it the central location for employees to take action.
- Show employees how total rewards fits into their overall financial picture. Engage with your employees directly to help them make the necessary connections.

Generational engagement: Baby Boomers, Generation Xers and Millennials

Most workplaces include a mix of three generations — Baby Boomers, Gen Xers and Millennials. This diversity can be challenging to employers seeking an efficient way to design and deliver benefits that serve all employees' needs. Understanding the differences among these generations, such as the benefits they value most and the ways in which they want to be engaged, will help employers tailor their messages to the specific concerns and wishes of their employees. For example:

- Among employers who say that Baby Boomers value benefits differently, 68% say they believe Boomers value financial wellness more than other generations.
- Nearly half of firms using or planning to engage Millennials contact them with text messages.

Percentage of each generation that can access their benefits and HR websites through their smartphones, according to employers



The ubiquity of smartphones provides one avenue for employers to engage with employees across generations. More than half of firms report that employees have mobile access to their benefits and to the human resources website. Bank of America Merrill Lynch data also demonstrate the growing importance of smartphones for employee engagement: Use of our Benefits OnLine® (BOL) Mobile smartphone-optimized site continues to grow, with 303,803 unique mobile users as of the end of 2014 versus 208,320 users at the end of 2013 — a 46% increase.

What it means for employers

Identifying what is important to each generation can help employers meet employees where they are. Employers may want to:

- **Survey employees** to learn more about how they prefer to be engaged. Employers need to close the gap between their current communication strategy and the reality of how employees want to be engaged.
- **Identify topics** that are important to individual employees and then tailor education to address them. An increasingly diverse workforce is making targeted messages more important.
- **Use a multi-channeled approach** to stay accessible. Reaching out to employees where they are is essential.

Connecting with Millennials

Millennials are the youngest generation in the workforce, and they came of age at a time of great financial turbulence and great technological advancement. It stands to reason that these employees may have distinct attitudes toward workplace benefits and strong preferences for the ways they want their employers to communicate with them. Our findings bear this out:

- Of employers that employ Millennials, more than half believe that they view benefits plans differently than Boomers or Gen Xers. The number increases to 75% among large firms.
- More than half of employers (60%) say that they believe Millennials value health benefits more than other generations.
- Among employers that use new technology to engage their younger workers, approximately 41% use LinkedIn, 38% use Facebook and 24% reach out via Twitter.

Benefits valued more by Millennials than other generations (by company size)

	ALL	LARGE
Health benefits	60%	60%
Prefer to invest on their own	49%	47%
Equity compensation	38%	48%
Financial wellness	26%	43%

Employers who said they have marketed their benefits packages to specific generations in their workforce are much more likely to have targeted communications for Gen Xers (43%) or Baby Boomers (91%) than Millennials (7%). Of the one-in-five large companies engaging Millennials directly, 62% said they are doing so using targeted education and communication. The lack of broader efforts to target Millennials isn't especially surprising, given limited benefits budgets and Boomers' pressing need to prepare for retirement. That said, the long careers Millennials have ahead of them make any improvement in their financial wellness especially powerful.

What it means for employers

Millennials are a fast-growing part of the workforce, and their young ages mean they stand to benefit if they develop strong financial habits now.

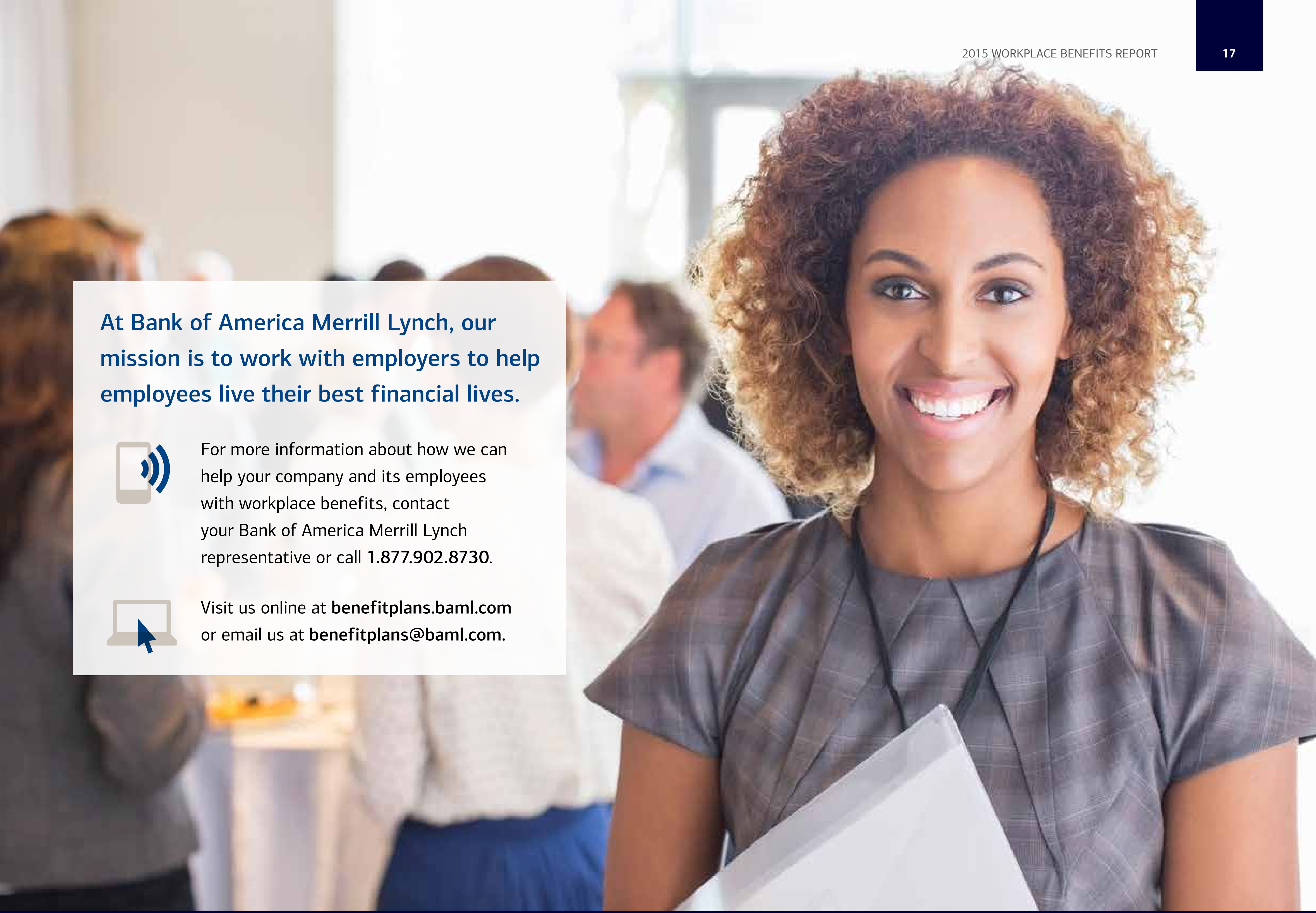
- **Employers can work with providers to develop and implement workplace financial solutions that incorporate communications, channels and solutions designed specifically for Millennials.**

Our Mission: Help Employees Live Their Best Financial Lives

Today's employees feel overwhelmed and under-prepared. They are dealing with challenging decisions made harder by rising health care costs. Employers feel responsible for supporting their employees as they try to navigate financial obstacles and see the advantages of doing so, but they must work with limited budgets.

It is becoming clear that employers' messages can no longer focus only on enrolling and participating in a 401(k) plan. Employers can engage their employees with a more holistic approach, promoting financial wellness based on each individual's life priorities. That effort will require a workplace financial solutions curriculum that is targeted to employees of different generations, life stages, wealth and financial literacy. Built and managed properly, workplace financial solutions can help both groups — giving employees the tools they need to feel in control and better manage their financial lives, while helping employers integrate their benefits offerings.

At Bank of America Merrill Lynch, our mission is to work with employers to help their employees live their best financial lives. We have realigned our organization to deliver financial wellness, and we've changed how we engage with employees. We are committed to an integrated approach firmly rooted in our ability to understand each employee's unique situation and needs.



At Bank of America Merrill Lynch, our mission is to work with employers to help employees live their best financial lives.

For more information about how we can help your company and its employees with workplace benefits, contact your Bank of America Merrill Lynch representative or call **1.877.902.8730**.

Visit us online at **benefitplans.baml.com** or email us at **benefitplans@baml.com**.

About the Workplace Benefits Report

The Bank of America Merrill Lynch Workplace Benefits Report is a study focused on the role financial benefit plans play in employers' talent management strategies — and in the overall financial wellness of their employees. This study focused on the latest trends and insights from employers of small-, mid- and large-size companies. Benefits officers and human resources executives participated in the survey.

Separately, an earlier study (the 2013 Bank of America Merrill Lynch Employee Workplace Benefits Report) focused on employee perspectives about the benefits offered by their employers and the closer integration of retirement benefits and health care. For a copy of this report go to **baml.com/benefitsreport**.

Understanding the ever-evolving retirement landscape, the new implications for financial wellness as a result of the changes in health care and the ways changing demographics and priorities affect employers and employees continues to be a top priority for Bank of America Merrill Lynch. By monitoring and keeping abreast of these key indicators and opinions, we can more confidently empower employers to stay ahead of the curve while helping meet the varied needs of their employees.

Methodology: Boston Research Technologies interviewed a national sample of 1,020 employers — from October 14, 2014 to December 4, 2014 — on behalf of Bank of America Merrill Lynch. To qualify for the survey, employers must have offered their employees a 401(k) plan. For purposes of the survey, small companies are defined as having less than 5 million in 401(k) plan assets, mid-size companies are those with at least 5 million but less than 100 million in plan assets and large companies have 100 million or more in plan assets.