Study of International Employee Benefits Trends

United Kingdom

MetLife®
MetLife has a proud tradition of investing in the financial and social well-being of the communities we serve. For nearly 140 years, we have focused on understanding and serving our customers through various life stages and economic cycles.

MetLife builds on this tradition by delivering leading insights through nationally acclaimed research, subject matter experts and educational resources. We serve as a leading voice on employee benefits issues by actively influencing public policy, educating the media and developing intelligent product solutions.

By aligning yourself with a company that applies insights to deliver innovative solutions, you can make things go right.
Introduction

Employee benefits are more than an important tool for companies around the world—they play a critical role in social and economic infrastructures as well. Benefits programs supplied by employers often end up filling gaps in national health and retirement systems.

Recognizing the importance of employee benefits to companies and society as a whole, MetLife conducted its first annual Employee Benefits Trends Study in the United States in 2001. This year, we have expanded the scope of our research to include several countries.

The inaugural edition of the complete MetLife Study of International Employee Benefits Trends reports on the results of our survey of both employers and employees across four countries that serve as a representative sample of different economic and workplace environments. Two of the countries—the United Kingdom and Australia—are mature economies with many of the demographic trends and challenges that characterize developed nations around the world. The other two countries—India and Mexico—are newly industrialized countries that share certain economic and societal traits with other rapidly growing nations.

The study reveals a set of common challenges facing employers in the countries surveyed. These include recruiting and retaining the best employees; increasing employee productivity; managing the costs of benefits; responding to employees’ need for financial planning and income protection; and recognizing the diminishing role of the state in health and social welfare programs.

The following pages focus on the findings from the United Kingdom. This supplement to the larger report provides insight into the financial needs, habits and perceptions of employees in this country, as well as details about the benefits objectives and practices of employers there. This information is distilled into a series of actionable conclusions that can help companies in the U.K. market develop strategies and make informed decisions about their employee benefits plans—whether the employers are local or multinational.

For almost 140 years, MetLife has been supplying innovative benefits solutions to companies and their employees. This study is but one of the many tools provided by MetLife to assist employers, brokers, consultants and other benefits professionals.

We invite you to contact your MetLife representative or specialist for a more detailed discussion about benefits strategies. In the meantime, we hope you will find the information and analysis presented in this report to be a valuable aid in assessing and improving the effectiveness of employee benefits plans.
United Kingdom

Market profile

- 6th largest global economy
- GDP over £1 trillion
- Highly developed, wealthy nation
- Economy dominated by services sector (73% of GDP)
- Working age population expected to increase from 39.7 million in 2005 to 40.7 million in 2030
- Median age: 38.9 years
- Life expectancy at birth: 78.9 years

Benefits at a glance

- The National Health Service provides publicly funded health care. However, private health insurance is common.
- The government provides the Basic State Pension, and provides tax incentives for workers to fund their own personal pensions.
- The insurance and financial products markets are highly developed and competitive.
United Kingdom: Employee Benefits Fill Gaps in Social Programs

U.K. employees have long used company pensions and insurance to supplement government benefits, but as national programs feel the strain of changing demographics, employee benefits could take on a new level of importance.

The convergence of powerful demographic and economic trends is highlighting the need for employee benefits plans in the U.K. At present, benefits have little impact on the employment decisions of U.K. workers, in large part because workers receive free health care through the National Health Service and guaranteed retirement income through the Basic State Pension. Because of these state programs, employees have had little reason to demand robust benefits plans—and their employers have had little incentive to offer them. However, a series of developments is causing U.K. workers to reassess their financial needs and job priorities:

• With life expectancy on the rise and the U.K. workforce aging, the Basic State Pension may not be enough to cover the full costs of retirement, and workers in some cases will need to supplement it with additional retirement savings.
• Likewise, some 45% of U.K. employees surveyed are augmenting their National Health Service coverage with private insurance—a practice that seems especially prevalent in the executive ranks.

At the same time, employers are facing new challenges that could increase the attractiveness of employee benefits plans. Steady economic growth and the prospects of a shrinking workforce are increasing the possibility of future labor shortages. With the competition for skilled workers already heating up in certain sectors, U.K. employers and employees alike might soon be reconsidering the value of benefits.
Social/Cultural Dynamics: A Strained System of Social Welfare

U.K. employees receive fundamental health and retirement coverage through government programs and have access to a well-established financial services industry that offers consumers a broad set of choices in private health care, insurance and investment products. In part due to the availability of these resources, workers in the U.K. express far less concern than U.S. employees about financial issues ranging from having enough money to live on (44% of U.K. employees, compared with 59% in the U.S.), to being able to afford appropriate health insurance for oneself and one’s family (28% in the U.K., 57% in the U.S.).

However, demographic realities mean that current U.K. employees may remain in the workforce longer than have past generations, and that workers—especially younger workers—will shoulder a larger share of the burden in planning for their own retirements. 40% of U.K. workers age 21-30 say they are worried about outliving their retirement money, as opposed to 34% of U.K. workers overall.

U.K. employees are recognizing the need to supplement government-provided retirement and health programs. Workers who purchase at least three financial products through the workplace cite pension plans as their most important employee benefit, ahead of paid vacation and holidays and sick leave.

Workplace: Meeting the Minimum with Employee Benefits

Most U.K. employers offer some benefits, which companies see primarily as a means of retaining and attracting employees.

<table>
<thead>
<tr>
<th>U.K.: MOST IMPORTANT BENEFITS OBJECTIVES OF EMPLOYERS THAT OFFER BENEFITS</th>
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<tbody>
<tr>
<td>RETAINING EMPLOYEES</td>
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<tr>
<td>ATTRACTING EMPLOYEES</td>
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<tr>
<td>INCREASING EMPLOYEE JOB SATISFACTION</td>
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<tr>
<td>INCREASING EMPLOYEE PRODUCTIVITY</td>
</tr>
<tr>
<td>CONTROLLING HEALTH AND WELFARE BENEFITS COSTS</td>
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</table>

Percentages have been rounded to nearest whole number.
While a majority of U.K. companies offer their employees pensions, private medical insurance and life assurance, few employers have sought to differentiate themselves by expanding benefits beyond this minimum. Perhaps as a result, only 14% of U.K. employees say that benefits were an important reason for taking their current jobs, and just 23% cite benefits as an important reason for staying.

One possible reason why U.K. companies have not rushed to expand their benefits offerings is that despite predictions that the U.K. workforce will shrink over the next 25 years, employers do not seem overly concerned about the impact of demographic trends on their businesses:

- Only 10% of U.K. employers surveyed expect the aging population to have a significant impact on their businesses, compared with 36% in the U.S. 27% in the U.K. expect no impact at all, compared with 7% in the U.S.

Despite their skepticism on the aging issue, U.K. employers have begun taking steps to address the needs of older workers in their benefits plans:

- 45% offer programs and resources geared toward aging workers, compared with only 18% in the U.S. Of U.K. employers offering these benefits, 88% offer flexible working arrangements and 62% offer time off for caregiving responsibilities.

The addition of products targeting aging workers suggests that some U.K. employers have already begun experimenting with benefits beyond pension and insurance staples as a means of attracting and retaining talented employees. They may need to—only 44% of U.K. employees say they are completely satisfied with their employer-provided benefits.
Employee work/life balance is one area that seems particularly ripe for employers looking to increase the impact of their benefits plans. Work/life balance has become an important issue for U.K. employees as their employers demand longer work hours and the rising cost of real estate forces them to endure longer commutes:

- More than 40% of U.K. employees surveyed indicate that when it comes to financial issues, they are extremely concerned with having more time to spend with their families, behind only job security and having enough money to live on.

- Asked to assess the importance of nine different employee benefits strategies, more than half of U.K. employers that offer benefits (51%) indicate that "benefits to help work/life balance" are "extremely" or "very" important—the highest share for any strategy.

Retirement/Financial Security: U.K. Employees Take a Proactive Approach

In contrast to Americans, the majority of U.K. employees say they have started planning for retirement and feel well prepared financially. Nearly 55% of U.K. employees consider themselves on track for reaching their retirement savings goals, as opposed to only 21% in the U.S.

More than 70% of U.K. employees surveyed have taken steps to determine their needs for retirement income, compared with only 52% of U.S. workers. However, 34% say they are very concerned about outliving their retirement savings.

### U.K.: Number of Years That Full-Time Employees Plan to Spend in Retirement

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<thead>
<tr>
<th>Number of Years</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1-5 Years</td>
<td>12%</td>
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<tr>
<td>6-10 Years</td>
<td>14%</td>
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<tr>
<td>11-20 Years</td>
<td>42%</td>
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<tr>
<td>21-30 Years</td>
<td>25%</td>
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<tr>
<td>31+ Years</td>
<td>7%</td>
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Mean Number of Years: 20.2  Median Number of Years: 19.6

Percentages have been rounded to nearest whole number.

Although men outnumber women in the U.K. workforce, employers might consider tailoring their benefits plans and education programs for both men and women: 44% of U.K. women describe themselves as the sole decision-maker for their household when it comes to employee benefits, versus only 38% of men.
Insurance: A Shortfall in Coverage

Although all U.K. workers are covered by government-sponsored health insurance, employees nevertheless place a high value on private medical insurance (PMI):

- 55% of U.K. employees surveyed named PMI as one of the five benefits most important to them.
- 45% of employees surveyed currently own PMI; 82% of employers currently offer it.

In particular, PMI is a key ingredient in executive benefits plans. Of the 41% of U.K. employers who say they offer special executive benefits, 47% of them offer PMI to highly compensated executives only.

While most employers offer PMI to workers or executives, U.K. companies are much less likely to offer life assurance—a situation that could represent an opportunity for employers looking to expand their benefits plans, since life assurance is considered a necessity among many U.K. workers. 83% of U.K. employees surveyed have life assurance, but only 18% obtained it exclusively through the workplace.

When it comes to attitudes toward employers, smaller may be better, at least in the opinions of U.K. employees. 56% of employees at companies with 10-99 employees say they feel a strong sense of loyalty to their employer, while only 41% of those at companies with more than 1,000 workers agree. Likewise, 45% of employees at the smaller companies feel their employer is strongly loyal to them, compared with just 25% at the larger companies.

U.K.: WHERE EMPLOYEES OBTAINED DIFFERENT FINANCIAL PRODUCTS

- **PENSION**
  - Workplace: 12%
  - Outside Workplace: 22%
  - Both: 48%

- **CRITICAL ILLNESS**
  - Workplace: 10%
  - Outside Workplace: 34%

- **LIFE ASSURANCE**
  - Workplace: 18%
  - Outside Workplace: 51%

- **PERSONAL ACCIDENT COVERAGE**
  - Workplace: 11%
  - Outside Workplace: 32%

- **PRIVATE MEDICAL INSURANCE (PMI)**
  - Workplace: 14%
  - Outside Workplace: 28%

Percentages have been rounded to nearest whole number.
Employers looking for effective benefits options might also consider other types of insurance products. For a group that has been relatively proactive in assessing and planning for their financial needs, U.K. employees surveyed seem less than fully prepared in many other health-related areas:

- 45% have critical illness insurance.
- 35% have long-term disability, or permanent health insurance.
- 26% have dental insurance.
- 11% have long-term care insurance.

Among those that do own these products, most purchased them outside the workplace, indicating that they see value in them. Employers that can work with their insurance providers to communicate the value of these products as workplace benefits might gain an advantage in recruiting and retaining employees.

That opportunity is hardly limited to specific insurance products. In general, many U.K. employees do not seem to understand that benefits received through the workplace may deliver better rates and convenience:

- 42% of U.K. employers cite “better rates” as an advantage of voluntary benefits, compared to only 28% of employees.
- 40% of employers cite “convenience,” compared to only 28% of employees.

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<tr>
<th>U.K.: EMPLOYER AND EMPLOYEE ATTITUDES TOWARD VOLUNTARY BENEFITS (PERCENTAGE THAT “STRONGLY AGREE” THAT THESE ARE ADVANTAGES)</th>
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<tbody>
<tr>
<td><strong>Employers</strong></td>
</tr>
<tr>
<td>Payroll deduction, convenient way for employee to make payments</td>
</tr>
<tr>
<td>Better rates</td>
</tr>
<tr>
<td>More convenient than buying products on own</td>
</tr>
<tr>
<td>Receive objective information from employer</td>
</tr>
<tr>
<td>Payroll deduction helps employees be more disciplined about savings</td>
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</table>

Percentages have been rounded to nearest whole number.
Conclusion

Benefits Strategies for Tomorrow, Today

U.K. companies recognize the potential value of benefits programs in attracting and retaining workers—a task that looks to become increasingly challenging due to demographic changes occurring in the workforce:

- In moving from current benefits practices—which often entails offering the bare minimum of a pension and private medical and health insurance—to a more strategic approach that would differentiate them from other employers, U.K. companies might look to the U.S. for ideas. In the U.S., where the lack of national health care and doubts about the solvency of Social Security have made a competitive benefits plan a strategic imperative, employers are developing flexible, holistic and personalized approaches that meet the needs of a diverse workforce.

- U.K. employers looking for high-value offerings to enhance benefits plans should consider financial education programs. These can assist their employees in making the many important decisions facing workers forced to shoulder more responsibility for their own financial security.

- Because of longer work hours and commutes, employers can increase the impact of their benefits plans by offering programs that provide employees with a better work/life balance.

- When expanding benefits plans, start with insurance. While U.K. workers may be ahead in their ownership and understanding of financial products, many lack adequate coverage in long-term disability, dental and long-term care insurance.
Methodology

The MetLife Study of International Employee Benefits Trends was conducted between November 2006 and March 2007 by GfK Custom Research, one of the top global market research consultants. The targeted sample for each country was designed to appropriately represent the full-time employee population base. Totals below may not equal 100%, due to rounding.

United Kingdom

**DEMOGRAPHIC PROFILE OF THE EMPLOYER SAMPLE**

INTERVIEWS WERE CONDUCTED WITH 250 EMPLOYERS (207 OFFERING BENEFITS AND 43 NOT OFFERING THEM). ELIGIBLE RESPONDENTS WERE THOSE DEALING WITH EMPLOYEE BENEFITS OR EMPLOYEE POLICIES IN COMPANIES WITH 10+ EMPLOYEES.

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>COMPANY SIZE</th>
<th>GEOGRAPHY</th>
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<tbody>
<tr>
<td>Professional Services</td>
<td>50%</td>
<td>50%</td>
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<tr>
<td>Heavy Industry</td>
<td>28%</td>
<td>North 27%</td>
</tr>
<tr>
<td>Sales/Trade</td>
<td>13%</td>
<td>Midlands 23%</td>
</tr>
<tr>
<td>Technology/Science</td>
<td>9%</td>
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<table>
<thead>
<tr>
<th>COMPANY SIZE</th>
<th>10-99</th>
<th>100-999</th>
<th>1,000+</th>
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<tbody>
<tr>
<td>50%</td>
<td>35%</td>
<td>14%</td>
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**DEMOGRAPHIC PROFILE OF THE EMPLOYEE SAMPLE**

A TOTAL OF 471 INTERVIEWS WERE CONDUCTED WITH FULL-TIME EMPLOYEES IN COMPANIES WITH 10+ EMPLOYEES. 303 WORKED FOR COMPANIES THAT OFFER BENEFITS; 168 FOR COMPANIES THAT DID NOT.

<table>
<thead>
<tr>
<th>GENDER</th>
<th>Male 64%</th>
<th>Female 36%</th>
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<tbody>
<tr>
<td>AGE</td>
<td>30 or under 10%</td>
<td>10%</td>
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<thead>
<tr>
<th>MARITAL STATUS</th>
<th>Married 54%</th>
<th>Single, never married 24%</th>
<th>Domestic partnership 10%</th>
<th>Divorced 6%</th>
<th>Separated 3%</th>
<th>Widowed 2%</th>
</tr>
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</table>

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<tr>
<th>ANNUAL HOUSEHOLD INCOME</th>
<th>£25,000 or less 28%</th>
<th>£25,001-£50,000 44%</th>
<th>£50,001+ 28%</th>
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</table>
About MetLife

MetLife, a subsidiary of MetLife, Inc. (NYSE: MET), is a leading provider of insurance and financial services with operations throughout the United States and the Latin America, Europe and Asia Pacific regions. Through its domestic and international subsidiaries and affiliates, MetLife, Inc. reaches more than 70 million customers around the world. The MetLife companies offer life insurance, annuities, auto and home insurance, retail banking and other financial services to individuals, as well as group insurance, reinsurance and retirement & savings products and services to corporations and other institutions.

For additional information, please visit us online at www.metlife.co.uk.
Endnotes

1 World Bank, World Development Indicators Database, July 1, 2007
2 EconStats.com, Normalized Global Statistics (2006 figure)
3 World Bank, World Development Indicators Database, April 2007
6 World Bank, World Development Indicators Database, April 2007
9 Index of Economic Freedom 2007, United Kingdom, www.heritage.org