Study of International Employee Benefits Trends

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 Australia. 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 Australian 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.
Australia

Market profile

- 16th largest global economy¹
- GDP over AUS$931 billion²
- Developed economy, capitalist system
- Dominated by services sector (70% of GDP³)
- Working age population (ages 15-64) expected to grow from 13.7 million in 2005 to 15.5 million in 2030⁴
- Median age: 36.7 years⁵
- Life expectancy at birth: 80.6 years⁶

Benefits at a glance

- Superannuation is a government-regulated, mandatory retirement savings program for all Australian workers; 9% of employee salary is contributed annually by employers; additional contributions are voluntary.⁷
- All superannuation funds have an investment component; many also have, on either a voluntary or mandatory basis, an insurance component: term life, disability and income protection.⁸
- Employees may purchase additional insurance or benefits if offered, and costs are deducted from their investment account.⁹
- Government covers all Australians, but private health insurance is common.¹⁰
Australia: Aging Population Could Impact Retirement Dreams

Australians hope to achieve a good work/life balance today, and an active retirement tomorrow. But an aging population and overconfidence in government benefits programs could threaten that model.

As the baby boomer generation continues to leave the workforce over the next 10 to 20 years, there is growing concern that not everyone has appropriately planned for retirement. In part, this is because superannuation was not made compulsory until 1992. As a result, baby boomers had not focused as much on saving for retirement for most of their working lives. With the advent of compulsory superannuation, voluntary employer-provided benefits for employees previously dominated by employer superannuation took on less significance.

The current compulsory employer-sponsored program requires employers to contribute 9% of a worker’s salary. It also offers members life insurance protection as well as coverage for disablement and income protection. The super funds have been such a success story that a full 58% of Australians surveyed say that they have not done any other planning for retirement. However, some employees surveyed indicate that the superannuation contribution of 9% plus an automatic level of insurance protection provided within the funds may not be enough to protect their families and ensure their future well-being:

- Australians are living longer, and the workforce is growing older. Within the next 40 years, the proportion of Australians over age 65 will increase about 13% to more than 25%, putting pressure on the country’s health care system.
- Less than half of all Australians have taken steps to determine their retirement or life insurance needs.
- In terms of insurance, the coverage provided through superannuation may not be enough to cover family needs. Of employees surveyed who receive permanent disability insurance through superannuation, 23% feel their amount of coverage is not adequate and another 23% say they do not know if it is adequate.

Australians need financial advice and new ways to augment government-mandated coverage. Employers and superannuation funds that move quickly to meet this need by expanding their benefits offerings and establishing programs to educate workers about the value of benefits have a unique opportunity to distinguish themselves from their competitors.

"The aging of the population, and the changes it will bring, remains the biggest economic challenge for Australia over the medium and long term." 11 Peter Costello, Treasurer of the Commonwealth of Australia
Social/Cultural Dynamics: Aging Workforce Looks Toward Retirement

Life expectancy at birth in Australia is 80.6 years—higher than in any other country in this survey, and higher than in the U.S. (77.7 years).13 However, superannuation funds might fall short in providing Australians with the lifestyle they desire in retirement:

- 41% of Australian employees surveyed hope to retire in their 50s; 45% hope to retire in their 60s.
- 49% are extremely concerned about outliving their retirement savings.
- With its economy growing briskly and baby boomers leaving the workforce, the government has launched a campaign to encourage workers to continue working past their respected retirement age in an effort to stem a burgeoning labor shortage. The response has been largely positive, with 58% of employees reporting that they would consider working past their expected retirement age, and 80% saying they want a phased-in retirement, according to a recent survey by the University of Tasmania.14

As in Mexico, India and the U.K., good health is the top consideration for Australian employees, 87% of whom cite it as part of a satisfying lifestyle, followed by a happy marriage (67%) and financial security (65%).15

### Australia: Employees' Top Concerns About Financial Security

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enough money to live on</td>
<td>61%</td>
</tr>
<tr>
<td>Enough money to pay bills during sudden income loss</td>
<td>60%</td>
</tr>
<tr>
<td>Job security</td>
<td>58%</td>
</tr>
<tr>
<td>More time to spend with family</td>
<td>55%</td>
</tr>
<tr>
<td>Enough money to buy a home</td>
<td>53%</td>
</tr>
<tr>
<td>Enough money for children's education</td>
<td>44%</td>
</tr>
<tr>
<td>Enough money so one parent can stay home with children</td>
<td>42%</td>
</tr>
<tr>
<td>Appropriate health insurance</td>
<td>40%</td>
</tr>
</tbody>
</table>

Percentages have been rounded to nearest whole number.
Workplace: Benefits Education Begins

Australian employers are feeling pressure to attract and retain talented workers:

- Only 23% of employers surveyed expect to be affected by a workforce shortage, but 53% expect the competition for talent to increase over the next 18 months.
- 61% of Australian employers surveyed experienced difficulty in 2007 finding the right people to fill jobs, up from 32% in 2006 and significantly above the global average of 41%.16

Nevertheless, employers in Australia are only beginning to consider employee benefits as a tool with which to address this challenge. Changes in superannuation, such as choice of fund legislation, that give employees much greater latitude to choose between funds, may heighten employers’ awareness that differences in benefits attached to individual super funds make a difference to employees. Throughout the country, super funds are starting to distinguish themselves, not just by their performance and investment platform, but also through value-added insurance products and programs around education and advice. There appears to be ample opportunity for super funds to differentiate themselves from their peers: Only 29% of employees are very satisfied with their current fund provider.

Companies have started taking advantage of this competition among super funds by shopping for the ones that provide the most value to their employees. To date, however, few employers have taken the next step by offering employees other voluntary benefits outside of the superannuation program. The most common product offered is term life insurance, offered by 39% of employers.

![Australia: Benefits Currently Offered by All Employers](chart.png)

Percentages have been rounded to nearest whole number.
One reason employers may not focus on benefits is that although 89% of them name retaining employees as an extremely important benefits objective, as a whole they do not believe that benefits are an important reason why employees join or stay with a company:

- Only 35% of Australian employers surveyed name benefits as an important reason employees come to work at their companies.
- Only 37% name benefits as an important reason employees stay at a company.

Employee responses seem to support employer attitudes: Only 15% of employees say benefits are an important reason to stay with a company, and only 9% say benefits are the reason they joined.

Australian employers looking to increase the effectiveness of benefits plans in meeting business objectives would do well to focus on benefits that assist employees in managing work/life balance. Flexible work hours are viewed as the most important benefit by 87% of employees, followed only at a considerable distance by excess superannuation contributions (78%) and training (77%). More than 80% of employers surveyed now offer a form of flexible working hours.

Australians might have a false sense of security when it comes to the insurance coverage they receive through their super funds. Only 38% of Australians say they own term life insurance for themselves in addition to any insurance they may receive through superannuation.
Given their ambitious plans for retirement and their long life expectancy, most Australians are worried about having enough money to afford it. Nearly half of Australian employees surveyed (49%) are extremely concerned that they will outlive their retirement savings.

Half of Australian employees consider themselves beginner investors, but only 38% currently consult with a financial professional, and only 31% had interest in company-provided financial planners.

Despite these concerns, only 43% of Australian employees have taken steps to understand their retirement income needs and just 42% have planned for retirement in addition to superannuation. Of those who have planned for retirement, only 40% feel they are currently on track to meet their goals, although 60% say they expect to be on schedule five years from now.
Few Australians have purchased products to guarantee income during retirement—just 7% have purchased annuities—and many Australians see themselves working to some extent in their retirement years.18 43% of Australian employees are extremely concerned that they will have to work full- or part-time to live comfortably. Employers may have an opportunity to help. Currently, just 18% offer annuities as an employee benefit.

**Insurance: Uninformed Workers are Underinsured Workers**

Insurance, offered by many fund providers as part of their super fund package, is another component of financial health that is advancing the benefits conversation in Australia. Superannuation funds often include three basic insurance coverages for employees (life, disability and income protection). The required coverage is low—less than most people would need in the case of income loss or death.

Employees may have a false assumption that coverage is adequate. Although more than half of Australian employees surveyed say they are extremely concerned with premature death, disability or serious illness, only 42% have taken steps to determine their life insurance needs and 35% their income protection needs.

In 2007 there are five Australians of working age to support every person age 65 and over. By 2047, there will only be 2.4 people of working age supporting each person age 65 and over.19

Only 38% of Australian employees surveyed have purchased term life insurance for themselves outside the workplace, and only 23% have purchased it for a spouse or dependents. 58% purchase additional insurance for income protection or disability through their super fund, and more than half say they have adequate disability insurance coverage.

Expanding the role of private insurance outside the superannuation structure will require a strong push in employee education. Of employees who have purchased additional outside insurance coverage, only 24% express a definite interest in purchasing income protection insurance, and just 22% are interested in total permanent disability insurance. These findings may suggest low awareness of the value these types of benefits can bring.
Conclusion

Benefits Strategies for Tomorrow, Today

Australia’s superannuation funds have succeeded in providing workers with fundamental coverage for retirement and family protection in case of disablement, but this success appears to have bred a degree of complacency among workers when it comes to savings and insurance. However, the need for additional financial advice and education about their value opens a door for growth in employer-provided benefits. As employees become aware that economic and demographic realities could threaten their visions of financial security and retirement lifestyle, they will increasingly look to augment their current superannuation coverage. This will provide an opportunity for employers looking to improve employee retention rates, as well as for super funds looking for ways to grow their asset base:

- Australian employees may be underinsured—but many do not realize it. In creating benefits plans, employers should first focus on educating employees about financial risks and appropriate coverage.

- For companies looking to differentiate themselves from other employers on the basis of benefits, financial planning services will likely prove appealing to the large share of Australian employees that are worried about paying for retirement, but have done little to prepare.

- Australia has a diverse and increasingly multinational workforce (one in five Australians was born in another country). Employers may find good results in constructing benefits packages that provide a high degree of personalization, with offerings that span insurance, investments and work/life options.
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.

Australia

DEMOGRAPHIC PROFILE OF THE EMPLOYER SAMPLE

INTERVIEWS WERE CONDUCTED WITH 250 EMPLOYERS. ELIGIBLE RESPONDENTS WERE THOSE DEALING WITH EMPLOYEE BENEFITS OR EMPLOYEE POLICIES IN COMPANIES WITH 2+ EMPLOYEES.

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<thead>
<tr>
<th>INDUSTRY</th>
<th>COMPANY SIZE</th>
<th>GEOGRAPHY</th>
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</thead>
<tbody>
<tr>
<td>Professional Services</td>
<td>2-9 employees 41%</td>
<td>Victoria 31%</td>
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<tr>
<td>Heavy Industry</td>
<td>10-99 30%</td>
<td>New South Wales 27%</td>
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<tr>
<td>Sales/Trade</td>
<td>100-999 18%</td>
<td>Queensland 18%</td>
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<tr>
<td>Technology/Science</td>
<td>1,000+ 11%</td>
<td>Other 23%</td>
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DEMOGRAPHIC PROFILE OF THE EMPLOYEE SAMPLE

A TOTAL OF 500 INTERVIEWS WERE CONDUCTED WITH FULL-TIME EMPLOYEES IN COMPANIES WITH 2+ EMPLOYEES.

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<thead>
<tr>
<th>GENDER</th>
<th>CHILDREN</th>
<th>ANNUAL HOUSEHOLD INCOME (AUSTRALIAN $)</th>
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<tbody>
<tr>
<td>Male</td>
<td>Yes 31%</td>
<td>Under $50,000 23%</td>
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<tr>
<td>Female</td>
<td>No 69%</td>
<td>$50,000-$100,000 53%</td>
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<td></td>
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<td>More than $100,000 23%</td>
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<tr>
<td>AGE</td>
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<td>30 or under</td>
<td>30%</td>
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<td>31 to 40</td>
<td>29%</td>
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<td>41 to 50</td>
<td>23%</td>
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<td>51+</td>
<td>18%</td>
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<td></td>
<td></td>
<td>Married 48%</td>
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<td></td>
<td></td>
<td>Domestic partnership 22%</td>
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<td></td>
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<td>Single, never married 19%</td>
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<td></td>
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<td>Divorced 7%</td>
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<td></td>
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<td>Separated 3%</td>
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<td>Widowed 1%</td>
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<th>MARITAL STATUS</th>
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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.com.au.
Endnotes

1 World Bank, World Development Indicators Database, July 1, 2007
2 EconStats.com, Normalized Global Statistics (2005 figure)
3 World Bank, World Development Indicators Database, April 2007
6 World Bank, World Development Indicators Database, April 2007
13 World Bank, World Development Indicators Database, April 2007
16 Manpower. Inc, Talent Shortage Survey: 2007 Global Results, p. 2