

# From Recession to Recovery: The New Benefits Landscape



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Road to Recovery Series  
*A Purchasing Power White Paper*

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## Executive Summary

As organizations steered their way through the economic downturn, they had a laser-like focus on cost reduction and cost management. According to a recent Deloitte survey, companies continue to place a strong focus on costs, making it their No. 1 challenge by a significant margin.<sup>1</sup>

Stronger forces are now helping to rebuild the U.S. economy, but HR professionals responsible for planning, designing and implementing benefits programs within their organizations are still feeling the heat to maintain competitive packages. With the economy still influencing business decisions, organizations appear to be making cost-conscious modifications to their benefits packages—without losing sight of the roles they play in driving organizational strategy and success.

Employers recognize they cannot sit idly by and wait for a clearer view of how recovery from the economic downturn will look. Successful companies are taking measures to adjust their benefits programs by adding voluntary benefits to their core offerings that often revolve around medical plans, retirement plans and basic life insurance. In fact, a substantial number of companies (53 percent) viewed the economic crisis as an opportunity to try or think about new benefits strategies they would not have considered otherwise.<sup>2</sup>

This discussion, the first in the “Road to Recovery Series” of white papers, takes a closer look at today’s benefits landscape—how companies are shifting gears to address the challenges and opportunities the economic recovery now holds for them. HR professionals will learn how new non-traditional voluntary benefits offerings, such as employee purchase programs, can make a positive impact on their workforce’s morale, productivity and financial well-being while working to give their companies a business edge in what will be an increasingly demanding and competitive marketplace in the years to come.



## The Economic Tide Has Shifted the Benefits Shoreline for Employers

Because benefits take up a 30-percent block of employer costs for employee compensation,<sup>3</sup> it comes as no surprise that 60 percent of organizations recently surveyed by the Society for Human Resource Management (SHRM) say their benefits offerings have been affected by the recession.<sup>4</sup>

The recent economic challenges have forced a fundamental swing in the supply and demand for labor over the past several years, leading to a change in HR priorities and concerns. For example, in 1999 and 2000, nearly all U.S. employers were pressured to find and retain workers—not just good employees, but any employees.<sup>5</sup> During this time, employers lavished candidates with compensation, benefits and other perks such as signing bonuses and concierge services in order to attract and retain the workforce they needed.

Courtesy of the recession, the tide shifted and forced organizations to be more concerned with downsizing than upsizing. Downsizing became a common business practice and resulted in a marketplace flooded with job seekers. As of March 2010, the unemployment rate was holding steady at nearly 10 percent (9.7 percent), translating into 15 million unemployed workers.<sup>6</sup>

Organizations right now are evaluating whether they have the right people, in the right numbers, so they can emerge from the recession successfully. Because companies are still operating under enormous cost pressures and with limited resources, it has become even more critical for HR professionals to invest in a benefits package that provides the greatest impact. And, that often means striking just the right balance between talent, performance and cost.

Company executives and HR departments are feeling overwhelmed as benefits costs—mostly related to health care—continue to rise, often negating any savings they may have realized elsewhere. HR professionals, in particular, want to do their part to help their companies' bottom lines, but they also want to keep employees happy, healthy and productive. HR departments are also challenged to remain competitive in the marketplace in order to retain the quality employees who currently make up their workforce.

## Employees Hit Hard Financially, But Still See Benefits As Essential

The recession has also created a host of personal financial anxieties that weigh heavily on employees. Seventy-seven percent of workers are worried about their ability to afford retirement and 60 percent are concerned about remaining employed.<sup>7</sup> Additionally, employees have a real sense of skepticism about their ability to earn additional compensation. The fact that median weekly earnings for American workers have not grown in real terms during the last eight years<sup>8</sup> coupled with today's current business environment of wage freezes and layoffs leaves many believing economic relief may be hard to realize in the near future.

On the other hand, the recent economic events have caused many employees to be more engaged with and appreciative of the benefits provided to them at work. Justly so, as these workplace benefits contribute substantially in building employees' overall economic security.

Despite some decreases in discretionary income, very few employees plan to pare back when it comes to selecting benefits for 2010. This shows that they continue to value their benefits as essential to helping them plan for the future while protecting themselves and their families.<sup>9</sup>

## The Recession—If Anything—Elevated the Role of Voluntary Benefits

The recession has forced employers to take a closer look at benefits when identifying areas where they can potentially cut fat from the company books. For many HR executives who do not want to tinker with employee coverage, this means getting creative with benefits packages. However, employers are reluctant to take on new benefits that cost more money for their company—creating the perfect environment for voluntary benefits.

Voluntary plans allow employers to add the necessary depth and breadth of choices that workers crave—all in a cost-effective package at little to no direct cost to the company. In turn, employees choose the benefits that best meet their individual and family needs. They typically pay for these products themselves, usually through convenient payroll deductions.

Voluntary benefits are utilized within a number of companies across the United States. LIMRA estimates nearly 650,000 firms (with at least 10 employees) now sponsor at least one employee-pay-all option. This equates to 82 million workers who have the opportunity to purchase a voluntary product.<sup>10</sup> Young families express the strongest interest in voluntary benefits—a major employee group readily admitting to living paycheck to paycheck.<sup>11</sup>

Originally limited to insurance-related products such as disability, life, and accident coverage, voluntary offerings have evolved to include more non-traditional benefits such as prepaid legal services, pet insurance, wellness initiatives, and purchase programs.

Besides just being cost-effective, employers find non-traditional voluntary products attractive for a variety of other reasons. Unlike insurance products, they provide tangible benefits employees can start enjoying right away. For example, many of these types of benefits help promote a healthy work-life balance by providing responsible purchase options to help families stay within a budget or discounted gym memberships to promote a healthy lifestyle. In an era of heightened importance for retaining employees, these unique products can help set a benefits package apart, making the employer more competitive.



## Purchase Programs As Voluntary Offerings Gain Traction

The effects of the recession, from damaged credit scores to unattainable financing to a simple lack of funds to buy things, have accelerated the evolution of purchase programs in particular.

Retailers held the monopoly on computer and electronics buying programs initially, giving consumers the options to purchase products with cash, credit card and flexible financing options. However when money got tight for consumers, credit scores plummeted, and financial-lending options all but dried up, retailers struggled to incent individuals to make these types of purchases. Soon manufacturers tried to get into the game by offering corporate discount computer programs. Typically, with manufacturer discount programs, employees must pay cash up front or apply for the in-store financing option. Most are denied for credit altogether and the rest face high interest options and payments spread out over many years.

Consumers also turned to rent-to-own (RTO) programs as a means to acquire everything from furniture, electronics, major appliances and computers to jewelry. However, for the credit-challenged consumer living paycheck to paycheck, RTO no longer represents a viable option.

Purchasing programs deployed as voluntary benefits through employers and facilitated through payroll deductions offer eligible workers the ability to buy brand-new, current-line products from many recognized computer, electronics and appliance manufacturers such as:

- Desktops and laptops
- Standard and flat-panel monitors
- Refrigerators
- Washer/dryer sets
- Flat-screen televisions
- Digital cameras



A purchase program isn't an "all-employee" benefit. It's designed to help a special segment of your employee base that may not always have access to the financial means to make these types of purchases. What's more, this voluntary offering has gained tremendous traction throughout Corporate America in the last several years.

Recent surveys show many full-time working adults whose company provides them with employee benefits say they would be at least somewhat likely to purchase computers (45 percent) and home appliances (37 percent) through payroll deduction at work if the option were available.<sup>12</sup> Additionally, 76 percent said they would purchase a desktop, laptop, high-definition television or home appliance (washer, dryer or refrigerator), power tools and/or a lawnmower in the next 12 months if credit or financing were not an issue.<sup>13</sup>

Budget-conscious employees who don't want to use cash or credit to buy name-brand products to meet their individual needs can choose to participate. And, companies can feel good about adding a useful benefit as another effective tool in their total rewards packages to help drive loyalty, productivity, recruiting and retention. In fact, a purchase program using payroll deduction can complement any cash discount programs employers may already have in place.

Both employers and their workers benefit immensely from purchase programs.

Employer benefits:

- No participation requirements
- No employer liability for purchases
- Enhances employee benefits packages
- No implementation or participation fees
- Minimal administration costs
- Improves employee retention
- Supports business objective of improving computer literacy and increasing participation in employee self-service of benefits
- Encourages employees to be more productive
- Allows some HR functions to move online
- Improves quality of work-life balance

Employee benefits:

- Easy qualification
- Convenient payroll deduction
- High-interest rates and long terms are avoided
- Simplified shopping experience
- Computer access improves both employees' and families' knowledge base
- A physical reminder of an employer's benefit program
- Twelve-month repayment plans save employees money

## Health System Gets Creative with Benefits, Empowers Employees to Purchase

Cape Fear Valley Health System (CFVHS) in Fayetteville, N.C., serves as an example of one company adjusting its benefits approach not only to respond to the downturned economy, but also to address projected industry labor shortages and related pressures to achieve operational efficiencies. With 4,800 doctors, nurses, technicians, housekeepers and administrators in five hospitals, CFVHS decided to get creative with its benefits offerings.

By adding a purchase program as a new voluntary benefit, CFVHS gave employees the ability to buy big-ticket computers and electronic devices through payroll deductions—allowing budget-conscious employees to make easy payments on needed items when finances might be tight.

Forty-four percent of eligible employees made purchases in the first year, compared to an average 15 to 20 percent buy rate for similar purchase programs. Purchase prices averaged \$1,205, which translated into manageable \$45 to \$50 bi-weekly payroll deductions. Additionally, CFVHS's repeat buyer metric was 85 percent—well beyond the 50-percent average for other companies.

CFVHS attributes the success of its purchase program to the ability to:

- Give its highly mobile workforce the same access to the latest computers and electronic devices as workers in other industries;
- Empower employees to face mounting work-life challenges; and
- Offer workers an affordable and convenient way to purchase items that will improve their daily quality of life and make situations more manageable at home.

## Once Recovery Is Fully Underway, Talent Will Once Again Garner the HR Spotlight

The recession forced many companies to hunker down and focus on cutting costs in order to survive. However, companies—if they haven't done so already—need to position themselves to take full advantage of the economic recovery. By keeping an eye on talent now, companies can position themselves more strategically in the critical fight for highly skilled and high-performing employees that will ensue during the course of the next several years.

History, unfortunately, has shown that such employees are very likely to “jump ship” once economic conditions improve. A recent report from Hewitt Associates indicates 47 percent of companies think that employee trust has declined as a result of the way their organization has managed cost reductions while 37 percent specifically feel their organizations' handling will make talented employees “much more” or “somewhat more” likely to leave.<sup>14</sup>

Voluntary benefits can help employers survive and thrive within the new benefits landscape. Non-traditional offerings, such as purchase programs, will continue to gain traction as businesses look to boost employee morale; attract, retain and develop talent; and drive productivity.



## About Purchasing Power

Purchasing Power is an employee purchase program that helps American workers purchase name-brand products with manageable monthly payments through payroll deduction. Since 2001, Purchasing Power has serviced more than 400,000 orders for employees of companies, including Fortune 500, and government agencies. Purchasing Power is licensed in all 50 states as a reseller of personal computers, consumer electronics, and home appliances and maintains relationships with major manufacturers, as well as resellers, distributors and other suppliers. For more information, visit [www.PurchasingPower.com](http://www.PurchasingPower.com).

<sup>1</sup>Deloitte, "2010 Top Five Total Rewards Priorities Survey," November 2009.

<sup>2</sup>Towers Perrin, "The Benefits in Crisis – Weathering Economic Climate Change," Pulse Survey Report, April 2009.

<sup>3</sup>U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation Summary," Economic News Release, June 10, 2009.

<sup>4</sup>Society for Human Resource Management, "Examining Employee Benefits in a Fiscally Challenging Economy," Employee Benefits Survey, 2009.

<sup>5</sup>Brown, Judith, "HR Professionals Shift Priorities in a Changing Economy," International Personnel Management Association survey, October 2002.

<sup>6</sup>Bureau of Labor Statistics, U.S. Department of Labor, Economic News Release, April 2, 2010.

<sup>7</sup>Deloitte, op. cit.

<sup>8</sup>Associated Press, "Report: Workers Worse Off on Pay, Employment," MSNBC.com, September 1, 2008.

<sup>9</sup>Halkos, Elizabeth, "Selling Non-Traditional Voluntary Benefits and How it Can Increase Your Sales," Health Insurance Underwriter, March 2010.

<sup>10</sup>Neyer, Ron, "Analyzing the Size and Potential of Voluntary Worksite Benefits," Research Briefings, LIMRA International, August 2007.

<sup>11</sup>MetLife, "MetLife Study of Employee Benefit Trends," 2006.

<sup>12</sup>Harris Interactive and Purchasing Power, Survey, January 2009.

<sup>13</sup>Ibid.

<sup>14</sup>Hewitt Associates, "Cost Reduction & Engagement Survey," 2009.

