

BASELINE BENEFITS ANALYSIS

ABC COMPANY VS MY PEERS

US REPORT



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SAMPLE

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OVERVIEW

INTRODUCTION

The *Baseline Benefits Analysis* (BBA) is a custom, comparative, high level benchmarking report of your benefit plans' values and features to those of your selected industry peer organizations.

The BBA allows you to analyze how your benefit plans compare to the peer group by plan groupings (i.e., Total Benefits, Retirement/Savings, Health/Group, Time Loss and Paid Leave).

The BBA is organized into five sections.

- **OVERVIEW:** Provides an overview of the report purpose.
- **PEER PARTICIPANT LIST:** Provides the names of the organizations whose plans have been valued and make up the peer group.
- **BASELINE BENEFITS ANALYSIS:** Illustrate the quantitative benefits information consisting of calculations and statistics for your workforce. Your plans' status is shown relative to the peer group.
- **METHODOLOGY:** Details the methods used to value the benefit plans sections.
- **ADDITIONAL RESOURCES:** Additional reports that may be generated from this comprehensive benefits database.

IF YOU HAVE QUESTIONS

If you have any questions about this report, please call our customer service line for assistance.
Customer Service Line: 800 333 3070

ABOUT THE REPORT

PRIMARY FUNCTION

The BBA is a tool designed to allow you to assess the competitiveness of your benefit package, as a whole. Its results measure value to employees; *i.e.*, the estimated amount of pretax pay an employee would need in order to replace the employer-provided benefit. It does not show you what a benefit plan or provision costs to administer or support.

BENEFIT PLANS

This high level report illustrates competitive information and assessment for each of the following benefit categories: Retirement/Savings: Includes defined benefit, defined contribution, and stock purchase plans. Health/Group: Includes medical, dental, life insurance, flexible spending accounts, and post-retirement medical plans. Time Loss: Includes paid leave, short- and long-term disability plans. Paid Leave which is a subset of time loss: Includes vacation, holiday, personal leave, PTO banks, and sick leave plans. This subset has been included to show the comparison of traditional plans versus PTO plan designs.

OBJECTIVE COMPARISONS

The focus of BBA value calculations is on plan design. Other factors such as geographic differentials, claims experience, and negotiating power that can affect the cost or the perceived value of benefit plans are removed. As a result, the BBA lets you make objective comparisons of overall plan design.

CALCULATIONS

The following key values and statistics are used to generate your ranking: Benefit values: The estimated dollar value of pretax pay an employee would need in order to replace the employer-provided benefit. Rankings: The position of your plan values relative to the plan values of the peer group. Index: The percentage relationship of your values to the median values of the peer group — 100 represents the median.

NATIONAL COMPOSITE WORKFORCE

The BBA compares your benefit plans with those of your peer group based on a hypothetical national composite workforce. The composite workforce is a set of generic employee profiles that represents a typical employee population. The workforce composite profiles are derived and calculated from a national cross-section of representative organizations that vary by industry, size, and geography. The national composite workforce is described in greater detail in the Methodology section.

BASELINE BENEFITS ANALYSIS (BBA)

As you review the results of this report and evaluate the implications of the report, you may commission Mercer to provide a more detailed analysis of your benefits. The *Baseline Benefits Analysis* (BBA) is a custom, comparative, benchmarking report of your benefit plans' values and features to those of your selected peer organizations.

The BBA allows you to analyze how your benefit plans compare to the peer group by all plans together, and by plan groupings (*i.e.*, Retirement/Savings, Health/Group, and Time Loss).

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PEER PARTICIPANTS

ABC
DEF
GHI

SAMPLE

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BASELINE BENEFITS ANALYSIS

Baseline Benefits Analysis are a series of checks that show you how your benefit plans' market replacement value compares to the peer organizations in total, and by plan grouping based on a national composite workforce. Market replacement value is the estimated amount of pretax salary an employee would need in order to replace the employer-provided benefits.

The national composite workforce is a set of generic employee profiles that represents a typical employee population. These profiles were developed from a national cross-section of representative organizations that vary by industry, size, and geography. The national composite workforce is described in greater detail in the Methodology section.

POINTS OF COMPARISON

To compare your competitive position relative to the peer group, the following Baseline Benefits Analysis show where your organization leads and lags according to the following criteria:

- Favorable: Shows your range of dollar values are 11 points or more above the median value when compared to the organizations in the peer group.
- Competitive: Shows your range of dollar values are within 10 points above or below the median value when compared to the organizations in the peer group.
- Unfavorable: Shows your range of dollar values are 11 points or more below the median value when compared to the organizations in the peer group.

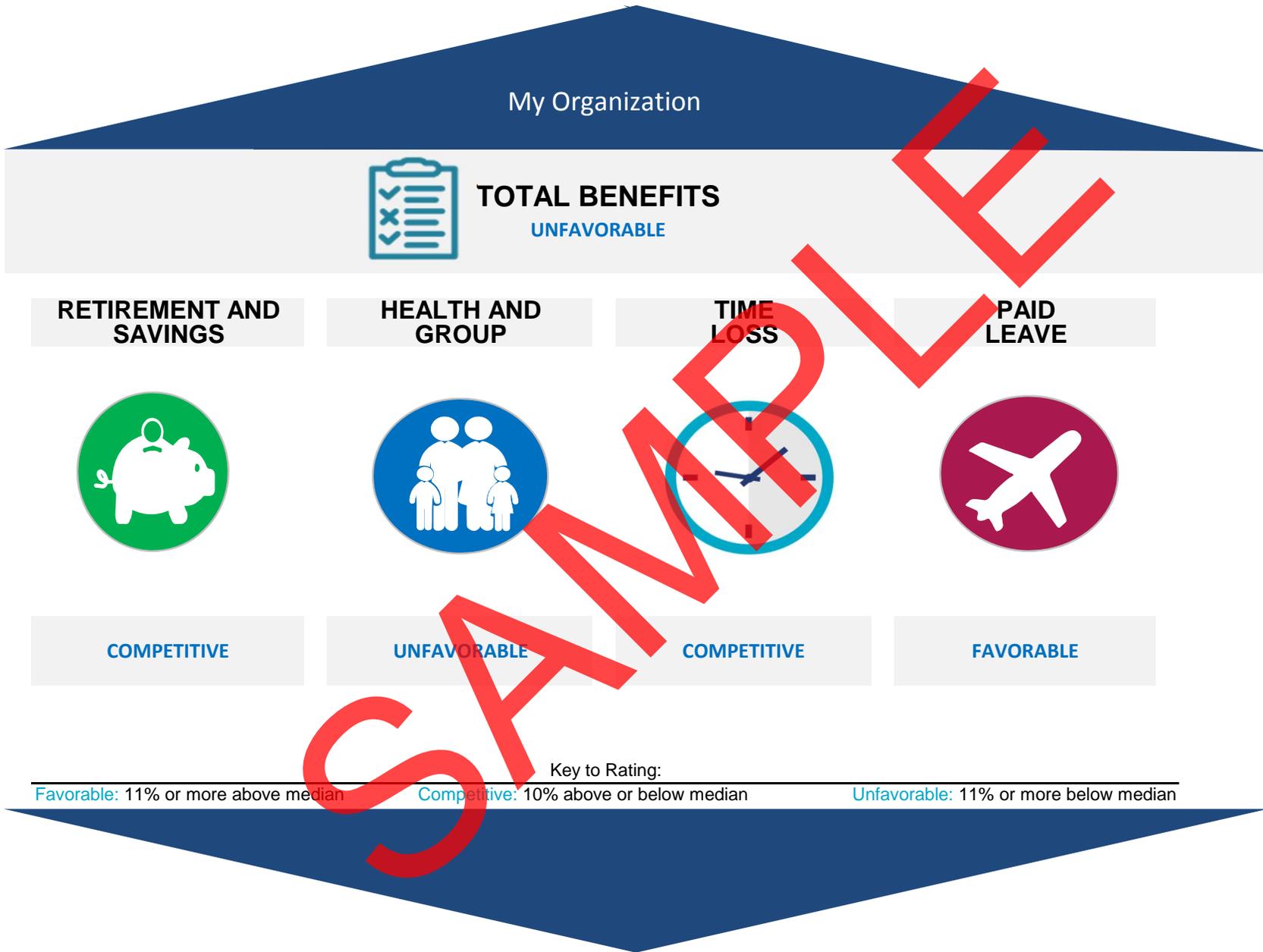
- Each plan grouping contains a marker of how each benefit offered compares against the peer groups benefit offerings.

PLANS COVERED

Benefit value comparisons are shown for the following plan groupings:

- Total Benefits
 - All benefit components
 - Retirement/Savings
 - Defined Benefit
 - Defined Contribution
 - Stock Purchase
 - Health/Group
 - Medical
 - Dental
 - Life Insurance
 - Health Care Spending Accounts
 - Dependent Care Spending Accounts
 - Post-retirement Medical
 - Time Loss
 - Paid Leave*
 - Short-term Disability
 - Long-term Disability
- *Paid Leave – subset of Time Loss
- Paid Time Off
 - Vacation
 - Holiday
 - Personal Leave
 - Sick Days

2017 Baseline Benefits Analysis



2017 Baseline Benefits Analysis

My Organization



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METHODOLOGY

This section details the methods used by Mercer to value the benefit plans included in the Plan Value Comparisons and Employee Profile Comparisons sections.

For each item discussed, we provide an example illustrating how each plan is valued.

Note: Your organization's plan features may vary somewhat from the examples provided. However, we have applied these techniques, with adjustments where necessary, to the actual features of your plan.

SECTION CONTENTS

The Methodology contains the following sections:

PRINCIPLES

- Basic methodology
- Market valuation
- Gross salary equivalent
- Mean use
- Participation
- Personal substitution

NATIONAL COMPOSITE WORKFORCE

- Workforce demographics
- Target bonuses
- Position classification
- Cash Compensation
- Annual Salary
- Bonus

TIME LOSS BENEFITS

- Paid Time Off
- Vacation
- Holidays
- Personal Leave
- Sick Leave
- Short-term Disability benefits
- Long-term Disability benefits

RETIREMENT/SAVINGS

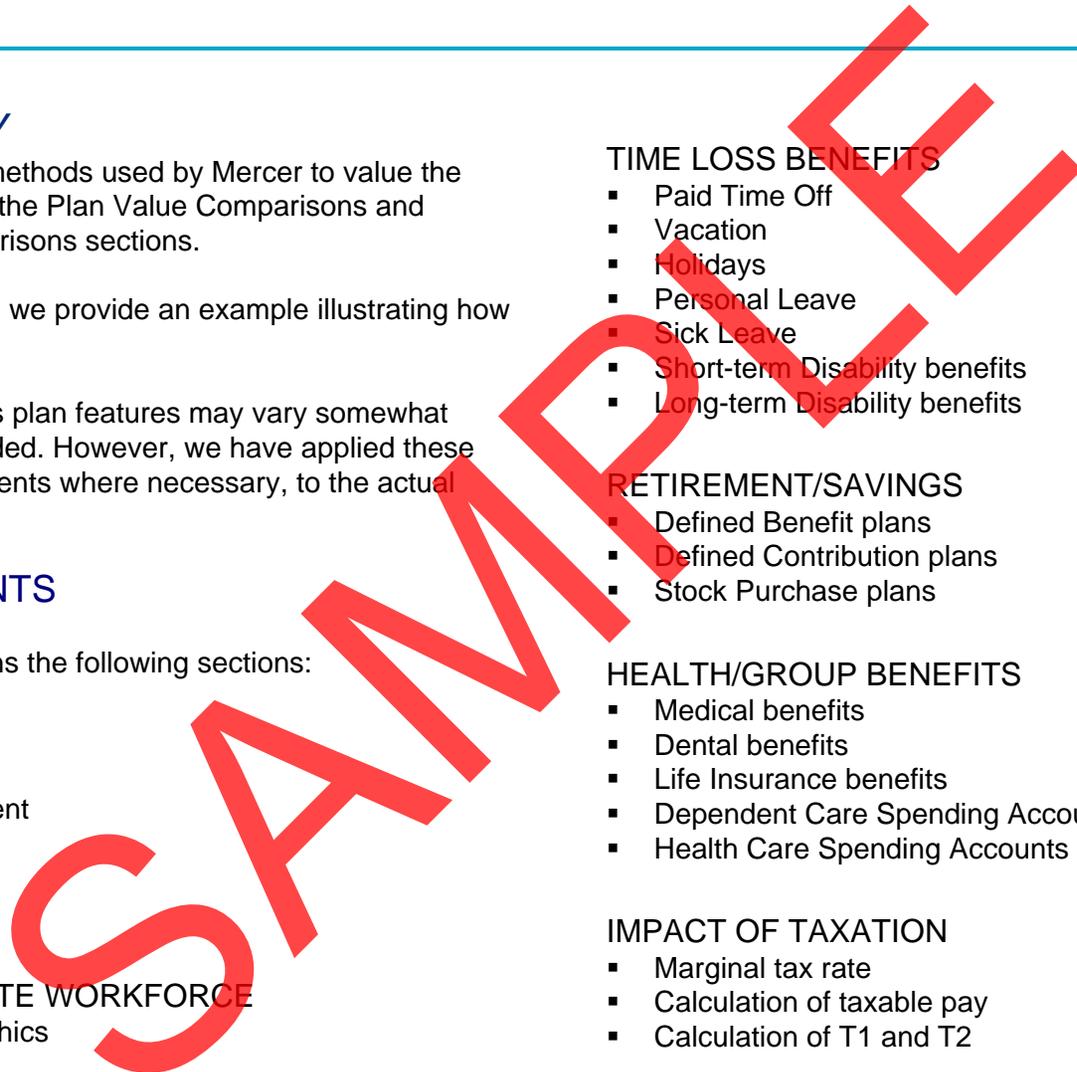
- Defined Benefit plans
- Defined Contribution plans
- Stock Purchase plans

HEALTH/GROUP BENEFITS

- Medical benefits
- Dental benefits
- Life Insurance benefits
- Dependent Care Spending Accounts
- Health Care Spending Accounts

IMPACT OF TAXATION

- Marginal tax rate
- Calculation of taxable pay
- Calculation of T1 and T2



PRINCIPLES

BASIC METHODOLOGY

Benefits are valued using the "walkaway" method. The values represent the cost to the employee of employer provided benefits if he or she left the employer and were to duplicate them in the marketplace. In many instances, these amounts will be greater than the cost to the employer. For example, an individual medical plan that is identical to the employer's medical plan will cost more because of the greater marketing, administrative, and underwriting costs associated with an individual plan.

MARKET VALUATION

Valuation reflects market pricing wherever possible. If there is a market yardstick which employees are likely to use to determine the personal value attributed to an employee benefit, this is used. Where market pricing does not exist, a valuation using standard assumptions and pricing techniques will be used. For example, although individual medical or dental policies containing provisions matching an employer plan would typically not be available in the open market, the value of the employer plan is estimated by valuing the employer plan using the same rate methodology as is used for individual benefit.

GROSS SALARY EQUIVALENT

Values normally reflect the amount of salary that would be required to purchase the equivalent benefit. Thus, the value of a benefit that enjoys a tax-preferred status in relation to salary (e.g., medical plans) will include a tax "gross-up" to equate it to taxable salary required to purchase a similar benefit.

MEAN USE

Two organizations with the same benefit plan will each have the same value attributed to their plan irrespective of the costs of the plan to the employers.

PARTICIPATION

Values are calculated assuming that all employees participate in the primary plans offered even when they are voluntary and certain employees may have opted out. For example, it is assumed that all employees participate in medical, 401(k), and Stock Purchase plans (where offered). This gives a measure of the opportunity value to the employee.

PERSONAL SUBSTITUTION

Values reflect as close substitution as possible to the benefit provided by the employer. For example, it has been assumed that employees will replace their life insurance benefit with the same amount of coverage. We understand that, in reality, this may not always be the case.

NATIONAL COMPOSITE WORKFORCE

Benefits are valued using a national composite workforce. The same workforce is used for all employers, so the effect of different employee demographics is removed from the value comparison.

The national composite workforce is a set of generic employee profiles that represents a typical employee population. These profiles were developed from a national cross-section of representative organizations that vary by industry, size, and geography. The workforce consists of 30,578 incumbents distributed over 115 employee profiles. Associated with each employee profile are number of incumbents, age, service, annual salary, target bonus, gender, and family status.

The workforce demographics are shown below. The average value for a data item is obtained by multiplying the value for each employee profile by the number of incumbents in that profile, summing the results, and dividing the sum by the total number of incumbents in the workforce.

Demographics	Average Value
Average Age	39
Average Service	8
Average Annual Salary	\$50,000
Average Target Bonus	\$9,000
Percent Male	42%
Percent Married	48%
Percent With Children	52%
Average Number of Children	2

TARGET BONUSES

A target bonus is assumed for each employee profile in the national composite workforce. Target bonus percentages vary with annual salary as follows:

Base Pay	Target Bonus (% of base pay)
Less than \$30K	4%
\$30K-\$40K	7%
\$40K-\$50K	13%
\$50K-\$90K	20%
\$90K-\$125K	23%
\$125K-\$150K	28%
\$150K-\$200K	34%
\$200K-\$250K	42%
\$250K-\$300K	48%
\$300K and over	61%

NATIONAL COMPOSITE WORKFORCE (CONT.)

POSITION CLASSIFICATION

The employee profiles in the national composite workforce do not have job titles. As a result, assumptions are made when benefits vary by job title or employee classification. These assumptions are applied uniformly across all employers.

When benefits vary by exempt vs. non-exempt status, it is assumed that employees with annual salaries below \$35,000 are non-exempt and employees with annual salaries of \$35,000 and over are exempt.

When benefits vary by manager vs. non-manager classification, it is assumed that employees with annual salaries of \$75,000 and over are managers.

When benefits vary by executive vs. non-executive classification, it is assumed that employees with annual salaries of \$150,000 and over are executives.

CASH COMPENSATION

ANNUAL SALARY

The annual base salary for any given profile is assumed and held constant across all organizations.

BONUS

The annual bonus for any given profile is assumed and held constant across all organizations.

TIME LOSS BENEFITS

VACATION/PAID TIME OFF

The amount of vacation or paid time off is based on years of service and the organization's vacation or paid time off plan. The number of days is translated into equivalent annual salary by multiplying the number of days by the value of one day. This value is equal to 1/260th of annual salary.

EXAMPLE: VACATION

Profile information:	10 Years Service, Annual Salary \$50,000
Vacation entitlement:	10 days plus 5 additional days for each full 5 years service to a maximum of 25 days
Basic entitlement:	10 days
For the first 5 years of service:	5 days
For the next 5 years of service:	5 days
Total entitlement:	20 days
Value of one day (\$50,000/260):	\$192.31
Vacation value:	20 x \$192.31 = \$3,486

TIME LOSS BENEFITS (CONT.)

PUBLIC HOLIDAYS

As for vacation, the number of public holidays recognized by each organization is translated into equivalent annual salary. If an organization indicates that holidays that fall on a weekend are lost, then the value of those days is 1/365th of annual salary. Floating holidays are also valued in this category.

EXAMPLE: PUBLIC HOLIDAYS	
Annual Salary:	\$50,000
Number of holidays not subject to loss:	4 days
Value of one day not subject to loss: (\$50,000 / 260)	\$192.31
Number of holidays subject to loss:	6 days
Value of one day subject to loss: (\$50,000 / 365)	\$136.99
Public Holidays value:	(4 x \$192.31) + (6 x \$136.99) = \$1,591

PERSONAL LEAVE

As for vacation, the number of personal days granted by each organization is translated into equivalent annual salary.

EXAMPLE: PERSONAL LEAVE	
Annual Salary:	\$50,000
Number of personal days:	3 days
Value of one day: (\$50,000 / 260)	\$192.31
Personal Leave value:	3 x \$192.31 = \$577

SICK LEAVE

As for vacation, the number of sick leave days granted by each organization is translated into equivalent annual salary. A 35% utilization rate is applied to plans that do not allow for cash-out upon termination of employment. If an organization allows carryover of unused sick leave, the value of any assumed unused accumulated sick leave is included in the short-term disability value

EXAMPLE: SICK LEAVE	
Annual Salary:	\$50,000
Number of personal days:	10 days
Value of one day: (\$50,000 / 260)	\$192.31
Sick Leave value:	10 x \$192.31 x .35 = \$673

SAMPLE

TIME LOSS BENEFITS (CONT.)

SHORT-TERM DISABILITY BENEFITS

The value of the short-term disability benefit is the amount needed to purchase insurance to provide short-term income replacement payable for the first 6 months of disability.

The reason for this definition of short-term disability benefits is to provide a consistent period of disability for the comparison. Assuming disabilities occur evenly throughout the year, the mean length of new benefit payments in a one-year time span would be 6 months. Thus, on average, the payments during the first 6 months of disability would be paid in that year.

These payments are considered to be salary continuation benefits in that they are substitutes for that cash compensation in the same manner that sick pay or vacation pay is a substitute for cash compensation.

We determine the waiting period, the benefit percentage, the benefit period and any maximum benefit per day. Present value calculations are done for benefit payment streams resulting from disabilities lasting 11, 22, 33, 65 and 130 days. The age-based weighted-mean of these five results constitutes the benefit value.

If an organization allows carryover of unused sick leave, the value of any assumed unused accumulated sick leave is included in the short-term disability value. If an organization provides a long-term disability benefit that commences within six months of disability, the value of any long-term disability benefits payable during the first six months of disability is included in the short-term disability value.

Underwriting risk factors: age and sex. Impacts on claim amount: benefit period and amount insured.

EXAMPLE: SHORT-TERM DISABILITY BENEFITS	
Plan Benefit:	100% of pay payable for four months, followed by 75% of pay payable for two months
Annual Pay:	\$50,000
Daily Benefit – first four months (\$50,000/260):	\$192
Daily benefit – next two months (.75 x \$50,000/260):	\$144
Maximum daily benefit	Unlimited
Employee's age and sex:	35, male
Value for one year to insure coverage (tax-neutral benefit):	\$604
Short-term Disability Benefits Value:	\$604

TIME LOSS BENEFITS (CONT.)

LONG-TERM DISABILITY BENEFITS

The value of the long-term disability benefit is the amount needed to purchase insurance to provide the long-term income replacement payable beginning after 6 months of disability.

The reason for this definition of long-term disability benefits is to provide a consistent period of disability for the comparison. We value the first six months of disability as short-term disability.

It is assumed that 70% of disabled individuals qualify for Social Security benefit payments.

If an organization provides short-term disability benefits that extend beyond the first six months of disability, the value of any short-term disability benefits payable after the first six months of disability is included in the long-term disability value.

Underwriting risk factors: age and sex. Impacts on claim amount: benefit period, actual elimination period of long-term disability benefit, social security offsets, and amount insured.

EXAMPLE: LONG-TERM DISABILITY BENEFITS

Plan Benefit:	60% of pay, reduced by family Social Security benefit
Annual Pay:	\$50,000
Family Social Security benefit:	\$23,000
Benefit amount $(\$50,000 \times .6) - (\$23,000 \times .7)$:	\$13,900
Employee's age and sex:	35, male
Insurance rate for employee's age/sex:	.564 per \$100 of benefit
Value for one year to insure coverage (tax-neutral benefit) $(\$13,900 \times .564) / 100$:	\$78
Long-term Disability Benefits Value:	\$78

SAMPLE LONG-TERM DISABILITY PREMIUMS

Annual premium rate per \$100 of annual benefit		
Age	Male	Female
25	\$0.322	\$0.499
30	0.397	.0564
35	0.564	0.999
40	0.829	1.405
45	1.424	2.046
50	2.577	3.146

SAMPLE

RETIREMENT/SAVINGS



DEFINED BENEFIT PLANS

The approach taken determines the present value of the target retirement pension based on total expected service and allowing for projected salary increases to retirement date. Then the value of future benefit accruals is determined by multiplying by the ratio of future service to total service. For cash balance plans, the value of future benefit accruals is determined by projecting an account balance at retirement resulting from future employer contributions and the interest credited to those contributions.

This resulting lump sum can be considered as the additional value attributable to staying with the organization to retirement, which is then spread as an even percentage of the employee's projected annual salary over the future working years until retirement.

This gives a value which reflects the percentage of salary one would need to place in a retirement account in each future year to substitute for the benefits expected to emerge from the retirement plan owing to future years of continued employment.

The annuity factor used to discount the future cash flow from the retirement annuity is determined at net interest rates (after federal tax). This represents the terms on which such a benefit could be replicated by the individual employee in the external market.

Retirement age is a key factor when determining the value of the benefit because it affects both the accumulation period and the pay-out period. Early retirement subsidies such as unreduced benefits or bridge supplements are also a factor.

In order to produce values which differ based on plan provisions, we use a single set of retirement probabilities. The following table shows the assumed distribution of retirements:

Age	Likelihood of Retirement
55	5%
60	15%
62	20%
65	60%

Integration using Social Security is fully accounted for. To complete the valuation, the following assumptions are made.

Financial assumptions underlying the valuation:	
Rate of investment return:	7.0%/year
Rate of salary increase:	4.0%/year
Rate of increase in the Social Security Taxable Wage Base:	3.5%/year
Rate of increase in prices:	2.5%/year

Demographic assumptions underlying the valuation:	
Pre-retirement mortality:	none
Post-retirement mortality:	RP-2000 Mortality Table, no collar, fully generational
Withdrawal rates:	none
Disability rates:	none

RETIREMENT/SAVINGS (CONT.)



DEFINED BENEFIT PLANS

ADDITIONAL COMMENTS:

Pension indexing after retirement is assumed to be at the guaranteed rate of increase (where applicable). Ad-hoc increases, if reported with some frequency, result in an assumed indexing percentage equal to the reported rate divided by the frequency in years.

Temporary supplements payable at an early retirement age are included in calculations for organizations that reported such provisions.

EXAMPLE: DEFINED BENEFIT PLANS

<i>Membership Statistics</i>	
Age:	35
Service completed to date:	10
Current annual salary:	\$50,000
Current mean salary:	\$48,102
<i>Plan Details</i>	
Retirement pension:	2% x mean salary x service
Mean salary:	Mean of last three years' annual salary
Normal Retirement Age	65

EXAMPLE: DEFINED BENEFIT PLANS (cont'd.)

<i>Calculation of Benefit Amounts</i>	
Expected pension at age 65	\$124,811
$.02 \times 40 \times \$48,102 \times 1.04^{30}$	
<i>Calculation of present value</i>	
Tax rate:	25%
Net discount rate 7% x (1-25%):	5.25%
Annuity factor at age 65 (using 5.25% discount rate):	10.94
Present value of benefits payable at age 65:	\$294,176
$\$124,811 \times 10.94 / 1.0525^{30}$	
Service from now to age 65:	30 years
Total service at age 65	40 years
Present value of future benefit accruals: \$294,176 x 30 / 40	\$220,632
<i>Equivalent level rate of contribution over next 30 years</i>	
Spread factor for 30 years (5.25% discount and 4.0% salary scale)	25.20
Benefit value spread	\$8,755
$\$220,632 / 25.20$	
Assume the value (\$8,755) is taxed at rate t_{65} , i.e., multiply by $(1-t_{65})$	
Gross-up the value (\$8,755) by dividing by $(1-t_1)$ where t_1 is the marginal tax rate at the current date	
Value (assuming $t_1=t_{65}$):	\$8,755

RETIREMENT/SAVINGS (CONT.)



DEFINED CONTRIBUTION PLANS

This category of benefit plans includes several common types of capital accumulation arrangements, including:

- 401(k)
- 403b (Tax-Sheltered Annuity)
- After-Tax Savings
- Deferred Profit Sharing
- ESOP/LESOP

Valuation is performed as follows:

1. Calculate the expected fund at retirement, taking into account the payment of future contributions and assumed investment return. (Gross rate of 7.0% assumed.)
2. Spread this amount over the period to retirement yielding the annual level percentage contribution required to provide the benefits expected to emerge at retirement, due to continued years of future employment. For this purpose, the spread factor is calculated using a net discount rate (e.g., $5.25\% = 7.0\% \times (1 - 25\%)$).

We use discount rate net of tax because the employee is only able to achieve an "after-tax" accumulation rate outside the organization plans.

3. The principle of utilizing four probable retirement ages applies, just as for defined benefit plans.

In all instances, the matched and unmatched employee contributions are constrained by plan rules and any government maximums, provided no "excess" plan or SERP exists.

ADDITIONAL COMMENTS:

For plans with employee contributions, we assume the maximum percent of salary an employee is willing to contribute. These percentages are based on the employee pay level. Employer contributions are limited by the maximum amount that an employer will match. Following are specimen rates:

Mean Contribution Rate For Participating Employees	
Salary Level	Mean Contribution (% of pay)
Up to \$25,000	5.5%
\$25,001-\$35,000	6.5%
\$35,001-\$45,000	7.0%
\$45,001-\$60,000	7.75%
\$60,001-\$75,000	8.50%
\$75,001-\$100,000	8.25%
\$100,001 and over	6.50%

RETIREMENT/SAVINGS (CONT.)



VALUATION OF EMPLOYER CONTRIBUTIONS TO QUALIFIED PLANS

The value of the benefit to the employee is the equivalent amount he/she would need to receive in pay in order to accumulate a similar benefit after tax without the existence of a qualified plan. The employee does not pay tax on the employer contributions until maturity.

It is assumed that the tax rate at maturity is equal to the employee's current marginal tax rate (the rate that would be applied to extra cash pay) and thus no additional value is calculated for a change in tax status. The employee is only able to achieve an after-tax accumulation rate outside the plan and thus discounting is at after-tax rates.

EXAMPLE: EMPLOYER CONTRIBUTIONS

Current annual employer contribution:	\$100
Gross accumulation factor for next 20 years (7.0% interest and 4% salary scale):	57.91
Net accumulation factor for next 20 years (5.25% interest and 4% salary scale):	48.56
Equivalent cash value to employee $100 \times 57.91 / 48.56$:	\$119.56
Employer contribution value:	\$119.56

VALUATION OF PRETAX EMPLOYEE CONTRIBUTIONS

Pretax employee contributions may be accumulated in the organization plan at a gross rate. Tax deferral provides additional value. Therefore, the entire accumulation is taxable at maturity.

For simplicity, the tax rate at maturity is assumed to be the same as the current tax rate.

The benefit to the employee, then, is the accumulated value of the pretax contributions, minus the tax payable when the benefit is received, and minus the value which could have been accumulated outside of a plan that allows pretax contributions.

EXAMPLE: PRE-TAX EMPLOYEE CONTRIBUTIONS

Employee contribution:	\$100 pre-tax, \$75 after tax
Gross accumulation for next 20 years (\$100 x 57.91):	\$5,791
Net accumulation for next 20 years (\$75 x 48.56):	\$3,642
Tax rate:	25%
Tax (\$5,791 x 25%):	\$1,448
Gain to employee ($\$5,791 - \$1,448 - \$3,642$):	\$701
Equivalent cash value to employee $\$701 / (48.56 \times (1-.25))$	\$19.25
See previous comment regarding contributions in excess of IRS limits	
Pre-tax contribution value:	\$19.25

RETIREMENT/SAVINGS (CONT.)



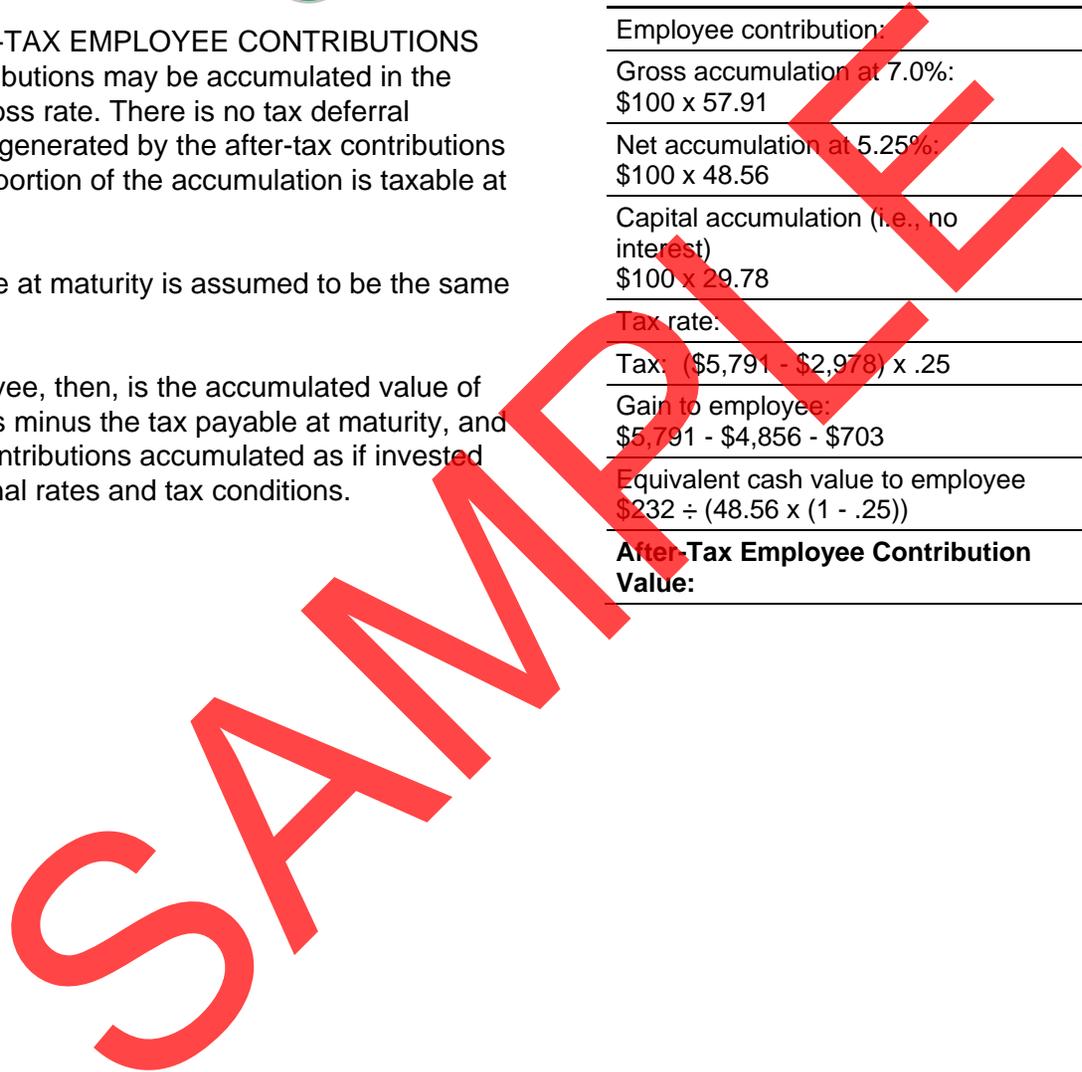
VALUATION OF AFTER-TAX EMPLOYEE CONTRIBUTIONS

After-tax employee contributions may be accumulated in the organization plan at a gross rate. There is no tax deferral benefit, but the earnings generated by the after-tax contributions are tax-deferred. Only a portion of the accumulation is taxable at maturity.

For simplicity, the tax rate at maturity is assumed to be the same as the current rate.

The benefit to the employee, then, is the accumulated value of the after-tax contributions minus the tax payable at maturity, and minus the employee's contributions accumulated as if invested outside the plan at external rates and tax conditions.

EXAMPLE: AFTER-TAX EMPLOYEE CONTRIBUTIONS	
Employee contribution:	\$100
Gross accumulation at 7.0%: $\$100 \times 57.91$	\$5,791
Net accumulation at 5.25%: $\$100 \times 48.56$	\$4,856
Capital accumulation (i.e., no interest) $\$100 \times 29.78$	\$2,978
Tax rate:	25%
Tax: $(\$5,791 - \$2,978) \times .25$	\$703
Gain to employee: $\$5,791 - \$4,856 - \$703$	\$232
Equivalent cash value to employee $\$232 \div (48.56 \times (1 - .25))$	\$6.37
After-Tax Employee Contribution Value:	\$6.37



RETIREMENT/SAVINGS (CONT.)



STOCK PURCHASE PLANS

We assume that employees sell their stock immediately after the offering period. Each organization's offering period and discount rate are factored into the valuation. Where applicable, employees are assumed to "lock in" to the lowest possible stock price during the offering period. Therefore, the value is taken as the amount of the gain available to the employee on the basis that the stock could be bought and sold on the same day. For valuation purposes, the employee contribution is determined in a similar manner to other defined contribution "matched" plans. We assume the stock price growth rate to be 7.0%. The contribution assumption is as follows:

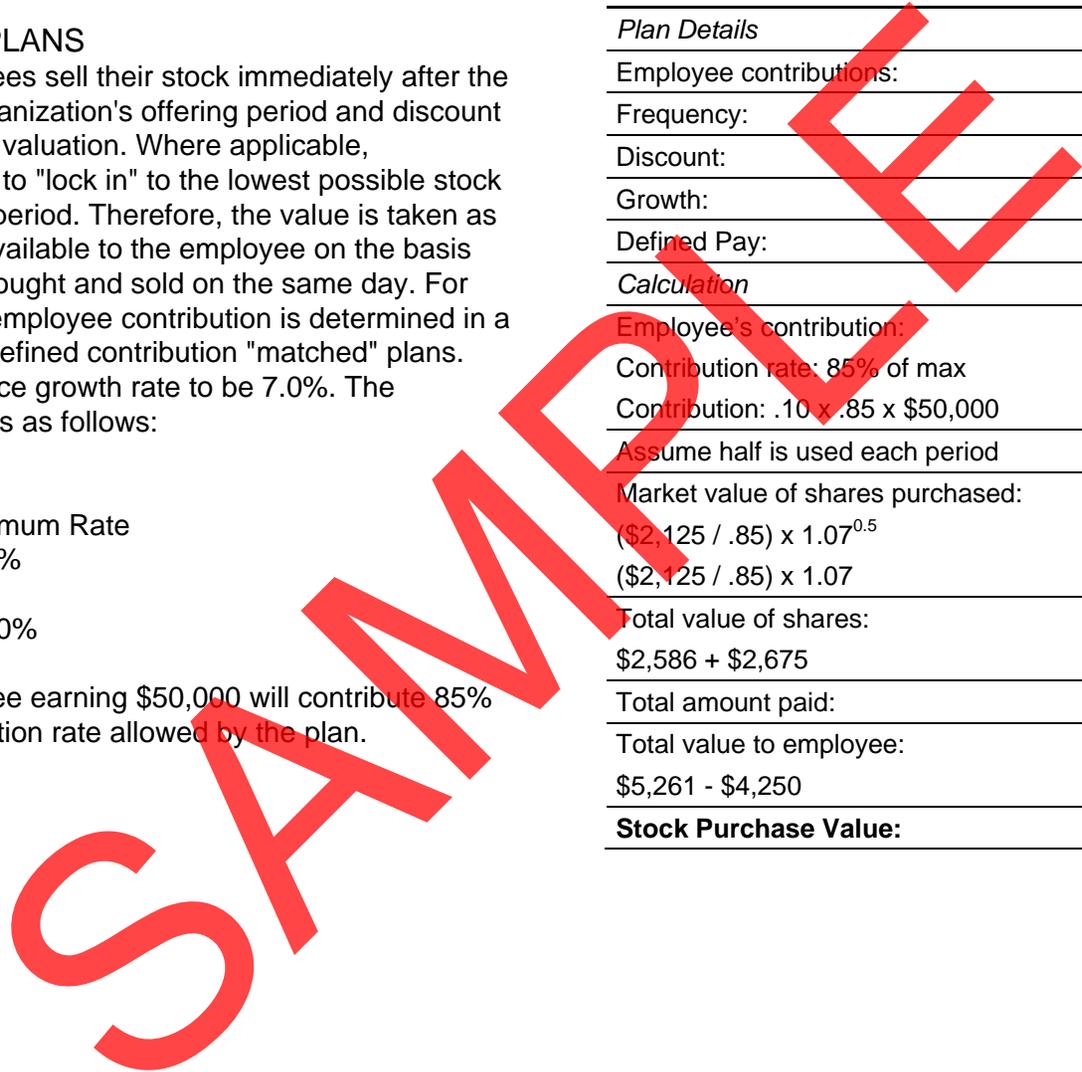
Contribution Rate:

Pay	% of Maximum Rate
< \$30,000	75%
	grading to
> \$80,000	100%

For example, an employee earning \$50,000 will contribute 85% of the maximum contribution rate allowed by the plan.

EXAMPLE: STOCK PURCHASE PLANS

<i>Plan Details</i>	
Employee contributions:	Up to 10% of pay
Frequency:	Twice a year
Discount:	15%
Growth:	7%
Defined Pay:	\$50,000
<i>Calculation</i>	
Employee's contribution:	\$4,250
Contribution rate: 85% of max	
Contribution: $.10 \times .85 \times \$50,000$	
Assume half is used each period	
Market value of shares purchased:	
$(\$2,125 / .85) \times 1.07^{0.5}$	\$2,586
$(\$2,125 / .85) \times 1.07$	\$2,675
Total value of shares:	\$5,261
$\$2,586 + \$2,675$	
Total amount paid:	\$4,250
Total value to employee:	\$1,011
$\$5,261 - \$4,250$	
Stock Purchase Value:	\$1,011



HEALTH/GROUP BENEFITS



MEDICAL BENEFITS

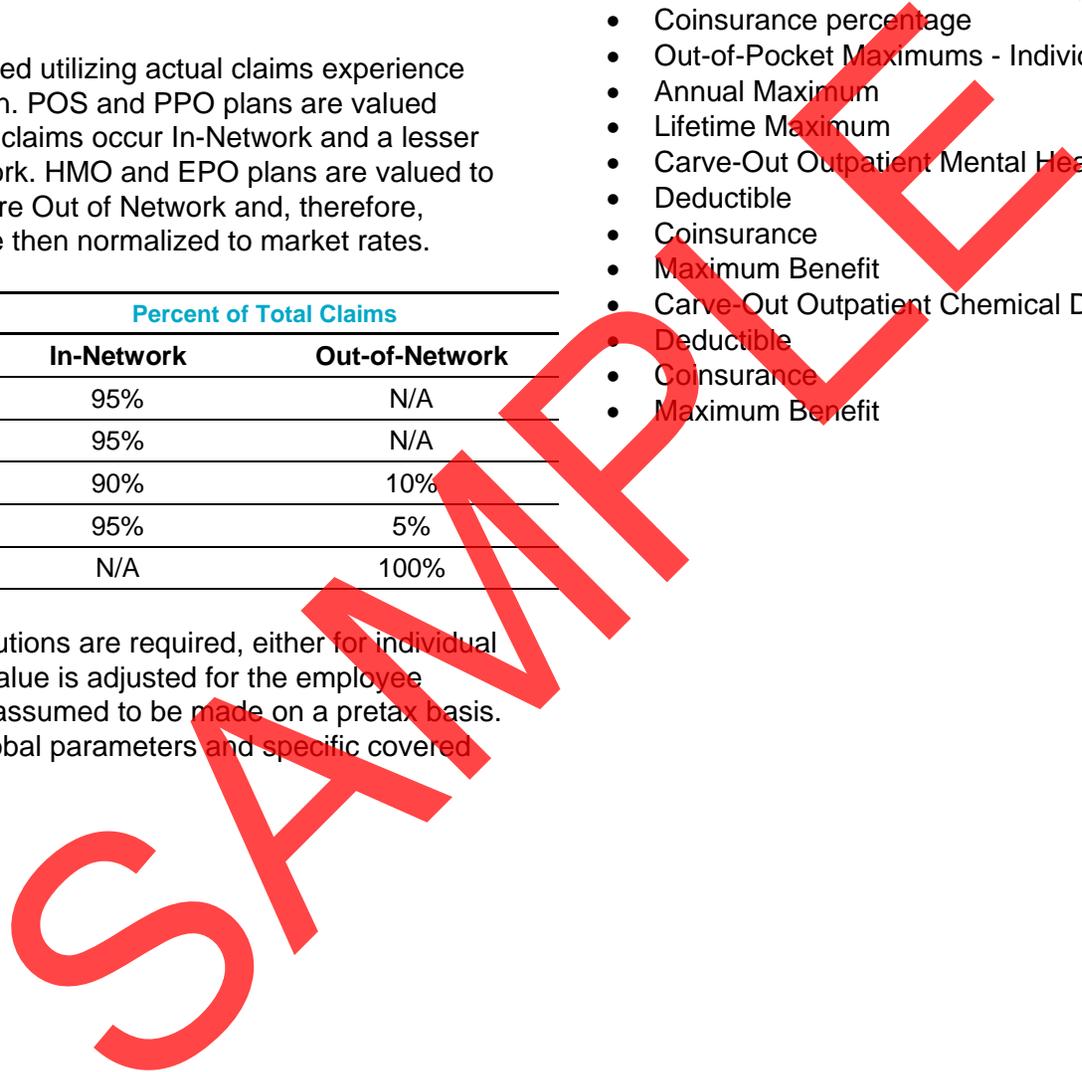
Medical benefits are valued utilizing actual claims experience from a sample distribution. POS and PPO plans are valued assuming the majority of claims occur In-Network and a lesser percentage Out-of-Network. HMO and EPO plans are valued to recognize some claims are Out of Network and, therefore, unpaid. These values are then normalized to market rates.

Plan	Percent of Total Claims	
	In-Network	Out-of-Network
HMO	95%	N/A
EPO	95%	N/A
PPO	90%	10%
POS	95%	5%
Indemnity	N/A	100%

Where employee contributions are required, either for individual or family coverage, the value is adjusted for the employee contributions, which are assumed to be made on a pretax basis. Valuation is based on global parameters and specific covered charges.

The global parameters available for use are:

- Deductible - Individual and Family
- Coinsurance percentage
- Out-of-Pocket Maximums - Individual and Family
- Annual Maximum
- Lifetime Maximum
- Carve-Out Outpatient Mental Health
- Deductible
- Coinsurance
- Maximum Benefit
- Carve-Out Outpatient Chemical Dependency
- Deductible
- Coinsurance
- Maximum Benefit



HEALTH/GROUP BENEFITS (CONT.)



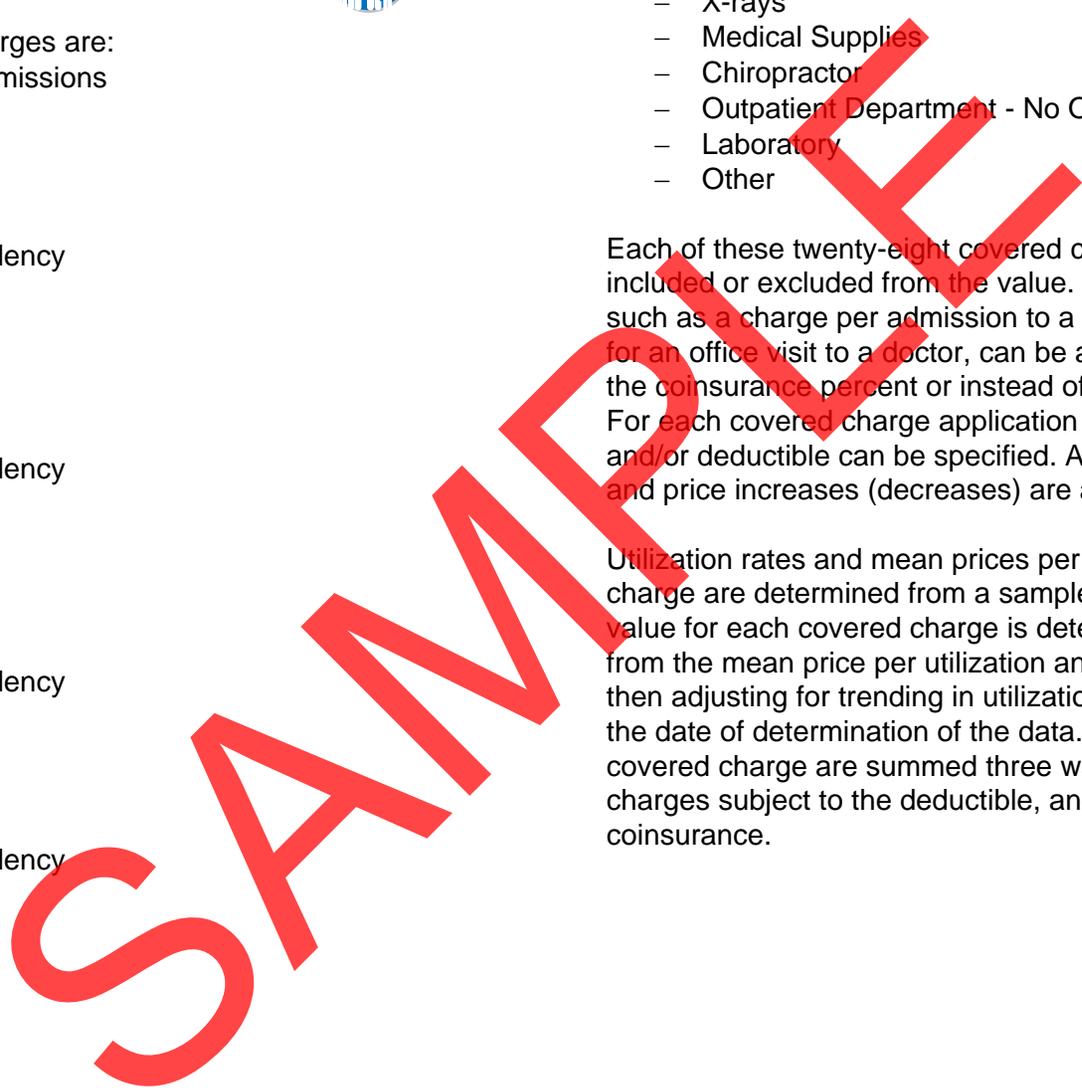
The specific covered charges are:

- Inpatient Hospital Admissions
 - Medical
 - Surgical
 - Maternity
 - Mental Health
 - Chemical Dependency
- Outpatient Facilities
 - Medical
 - Surgical
 - Maternity
 - Mental Health
 - Chemical Dependency
- Inpatient Physician
 - Medical
 - Surgical
 - Maternity
 - Mental Health
 - Chemical Dependency
- Outpatient Physician
 - Medical
 - Surgical
 - Mental Health
 - Chemical Dependency
- Wellness Benefits
 - Newborn Nursery
 - Well Baby
 - Immunizations
 - Physical Exams

- Outpatient Miscellaneous
 - X-rays
 - Medical Supplies
 - Chiropractor
 - Outpatient Department - No Other Specification
 - Laboratory
 - Other

Each of these twenty-eight covered charges can be either included or excluded from the value. Per incidence charges, such as a charge per admission to a hospital or a per visit copay for an office visit to a doctor, can be applied either additionally to the coinsurance percent or instead of the coinsurance percent. For each covered charge application of the coinsurance amount and/or deductible can be specified. Annual trends for utilization and price increases (decreases) are also applied.

Utilization rates and mean prices per utilization for each covered charge are determined from a sample claims distribution. A value for each covered charge is determined by first subtracting from the mean price per utilization any per utilization copays and then adjusting for trending in utilization and price changes from the date of determination of the data. The values for each covered charge are summed three ways: total included charges, charges subject to the deductible, and charges subject to coinsurance.



HEALTH/GROUP BENEFITS (CONT.)



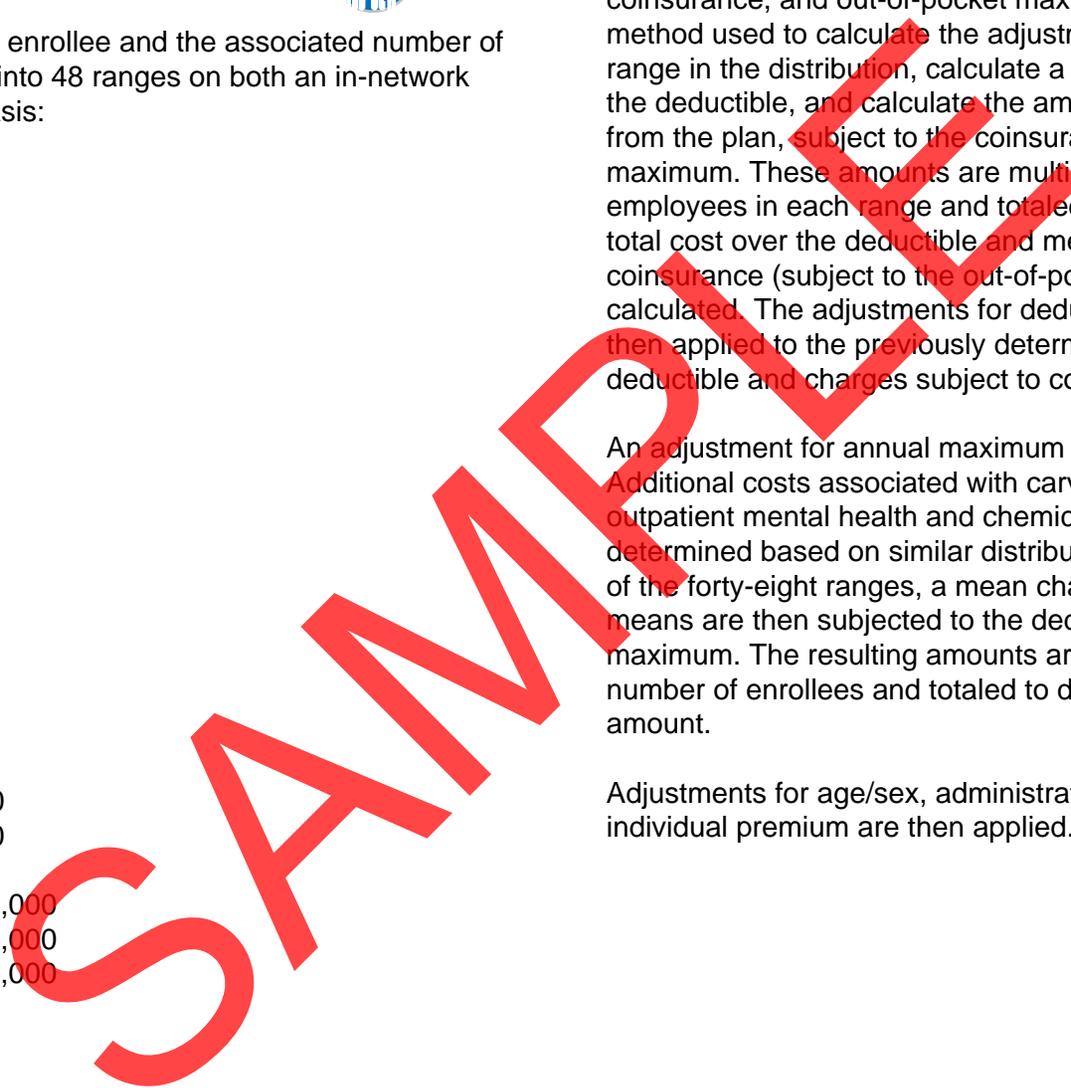
Total annual charges per enrollee and the associated number of enrollees are distributed into 48 ranges on both an in-network and an out-of-network basis:

\$0	-	\$0
0	-	50
50	-	100
100	-	150
200	-	250
250	-	300
300	-	400
500	-	600
600	-	800
800	-	1,000
1,000	-	1,500
1,500	-	2,000
2,000	-	2,500
2,500	-	3,000
3,000	-	4,000
4,000	-	5,000
5,000	-	6,000
6,000	-	8,000
8,000	-	10,000
15,000	-	20,000
...		
4,000,000	-	5,000,000
5,000,000	-	6,000,000
6,000,000	-	8,000,000
8,000,000+		

From these distributions, adjustments for deductible, coinsurance, and out-of-pocket maximum are determined. The method used to calculate the adjustments is to, first, for each range in the distribution, calculate a mean annual charge, apply the deductible, and calculate the amount that is then payable from the plan, subject to the coinsurance level and out-of-pocket maximum. These amounts are multiplied by the number of employees in each range and totaled. The mean percentage of total cost over the deductible and mean percent saved from coinsurance (subject to the out-of-pocket maximum) are then calculated. The adjustments for deductible and coinsurance are then applied to the previously determined charges subject to deductible and charges subject to coinsurance.

An adjustment for annual maximum is similarly calculated. Additional costs associated with carve-out provisions for outpatient mental health and chemical dependency are determined based on similar distributions of charges. For each of the forty-eight ranges, a mean charge is computed. These means are then subjected to the deductible, coinsurance, and maximum. The resulting amounts are then weighted by the number of enrollees and totaled to determine the adjustment amount.

Adjustments for age/sex, administrative expenses, and individual premium are then applied.



HEALTH/GROUP BENEFITS (CONT.)

For postretirement coverage, retirement age assumptions are the same as for the defined benefit retirement plans. Current premium rates are projected and an increasing annuity (reflecting the plan's coordination with Medicare) is valued using the same techniques as are used for the defined benefit retirement plans. Medicare benefits are valued on the same manual rating basis and projected. It is assumed that there will be no cost shifting from Medicare to the employer plan.

No assumption is made to take into account future caps on the level of benefits that can be provided to retirees. Therefore, the values that are shown for postretirement health may overstate the values of the benefits for employers with caps. However, given the current uncertainty in the health care system in the U.S. and the lack of regulatory guidance regarding benefit changes for retirees, we feel this is a reasonable assumption. These benefits are assumed to accrue with service. Thus an employee who is age 50 with 10 years of service who is retiring at age 65 will have earned 10/25 of the postretirement health benefit.

Assumptions for Post-retirement Medical:

Discount rate:	7.0%
Pre-retirement increases in medical costs and Medicare:	9.0% for the first two years 7.5% for the next eight years 6.0% thereafter
Post-retirement increases in medical costs and Medicare:	Annual increase: 6.0% Aging: 1.5%

DENTAL BENEFITS

Dental benefits are valued using a standard insurance organization manual rating technique. These values are then normalized to market rates. Where employee contributions are required, either for individual or family coverage, the value is adjusted for the employee contributions, which are assumed to be made on a pretax basis. The resulting amount is then grossed-up to recognize the tax-free status of benefits.

Scheduled dental plans present unique challenges in the determination of value given our chosen methodology. We have valued these types of plans as if they are indemnity plans with the following characteristics: no deductibles, 80% coinsurance for preventive treatments, 60% coinsurance for basic treatments, 40% coinsurance for major treatments, and 40% coinsurance for orthodontic treatments, where applicable.

Manual rating adjustment factors: age, marital/dependency status.

HEALTH/GROUP BENEFITS (CONT.)



LIFE INSURANCE BENEFITS

Death benefits are valued as the amount of insurance premium an individual would need to pay to provide the same level of coverage. For valuation purposes, the value determined is based on the expected coverage in the year following the valuation date. The coverage amount valued is equal to the amount of coverage which is provided (i.e. paid for) by the employer. The value reported is net of any required employee contributions.

The tax-favored status of the first \$50,000 of organization-provided coverage is factored into the benefit value.

Underwriting risk factors: age, sex.

Underwriting classification: standard non-medical, nonsmoking.

SAMPLE LIFE PREMIUMS

Age	Annual premium rate per \$1,000 lump sum	
	Male	Female
25	\$1.73	\$1.57
30	1.76	1.62
35	1.81	1.67
40	2.11	1.83
45	2.77	2.23
50	3.93	2.96
55	5.68	4.01

EXAMPLE: LIFE INSURANCE BENEFITS

Group Life Coverage, Lump Sum Benefit	
Plan benefit:	2 x pay
Defined pay:	\$50,000
Employee's age and sex:	35, male
Insurance rate (based on age/sex)	1.81
Value for one year to insure coverage (before tax effect):	\$181
$(2 \times \$50,000 \times 1.81) / \$1,000$	
Marginal tax rate:	25%
U.S. tax table annual premium rate per \$1,000 of benefit:	1.08
U.S. tax table premium:	\$54
$(\$100,000 - \$50,000) \times .72 / \$1,000$	
Value after gross-up:	\$223
$(\$181 - (\$54 \times .25)) / (1 - .25)$	
Life Insurance benefit value:	\$223

HEALTH/GROUP BENEFITS (CONT.)



DEPENDENT CARE AND HEALTH CARE SPENDING ACCOUNTS

Dependent care and health care spending accounts provide a means for employees to pay for these expenses on a tax-favored basis. Where no employer contributions are made, the value of the benefits is the tax advantage enjoyed by the employee. Because the employee is at risk of losing any monies not used, the valuation method assumes a conservative level of use of the accounts. The value determined for these benefits is generally small relative to other benefits, but is being determined and included due to the current high visibility of such plans. Employer contributions to spending account plans are fully tax effective.

For dependent care, the amount of salary assumed to be deferred into the plan is determined as follows:

- \$2,000 per child family member for an employee under age 50 (\$1,300 for a male employee with a spouse), up to the maximum specified by the plan.
- Where employer contributions exist, the resulting total is provided first from the employer and supplemented by the employee; if there are no employer contributions, the entire amount is contributed by the employee.
- This amount is adjusted based on pay levels to recognize the availability of the child care tax credit. The adjustment is a linear interpolation between 0% at \$25,000 pay to 100% at \$45,000 pay for a married employee and 0% at \$18,000 pay to 100% at \$33,000 pay for an unmarried employee.
- This amount is multiplied times 25% to recognize the proportion of children who require care.

For medical spending accounts, the amount of salary assumed to be deferred into the plan is determined as follows:

- \$125 per adult family member plus \$175 per child family member, up to the maximum specified by the plan.
- Where employer contributions exist, the resulting total is provided first from the employer and supplemented by the employee; if there are no employer contributions, the entire amount is contributed by the employee.
- This sum is adjusted based on pay levels to recognize the risk of losing unused amounts in the account (lower paid employees receive a lesser tax advantage and so cannot afford the risk that higher paid employees can). The adjustment is a linear interpolation between 0% at a \$25,000 pay to 100% at a \$75,000 pay.

IMPACT OF TAXATION

When performing valuations we take into account taxability of the benefit provided. If the benefit provided by the organization is taxed beneficially compared with how an externally purchased benefit would be taxed, the difference is recognized in the calculation.

For example, a Medical Insurance plan may be provided to an employee with no tax consequences. If the organization did not provide the plan, an employee would have had to buy Medical Insurance out of after-tax income. In this case, the value of the organization plan is grossed-up by dividing by (1-MTR) where MTR is the Marginal Tax Rate of the employee.

MARGINAL TAX RATE

The Marginal Tax Rate is generally computed using the following formula:

$$\text{Marginal Tax Rate} = (T2 - T1)/(P2 - P1)$$

Where: P1 = current taxable pay
P2 = current taxable pay + \$1,000
T1 = The tax on P1
T2 = The tax on P2

That is to say, the Marginal Tax Rate is the effective rate of tax on the next \$1,000 of remuneration. The remuneration may be in the form of cash or benefits that receive either a beneficial tax treatment in the current year or on which tax is deferred to a later date. .

CALCULATION OF TAXABLE PAY

Taxable Pay is computed based on single or married status rates, assuming standard deduction and dependents in accordance with the employee profile.

CALCULATION OF T1 AND T2

Tax is determined using the United States federal tax rate schedule. P2 changes as the marginal tax rate changes so the process is iterative. A sufficient number of iterations are performed to determine the final marginal tax rate.

5

ADDITIONAL REPORTING OPTIONS

Additional reports that may be generated from our comprehensive benefits database include:

MARKET COMPARISON (MC)

This easy-to-read, graphical interpretation compares values to the median by plan type for the workforce as a whole and 11 benchmark employees by ranges of ranking.

BENEFITS VALUATION ANALYSIS LIGHT (BVA LIGHT)

The BVA Light is a perfect opportunity for a client to gain a high level benefit comparison that includes their ranking and index rating against a custom peer group or a broad base industry. The BVA Light report generates a common dollar value for benefit plans with varying plan designs and provisions. Statistical comparisons are then made to create an objective “apples to apples” comparison of their plans to those of the peer group.

BENEFITS VALUATION ANALYSIS (BVA) MOST POPULAR

BVA is the core tool Mercer utilizes to compare the value of the benefits offered by your company versus a peer group is our Benefits Valuation Analysis (BVA). The BVA report generates a common dollar value for benefit plans with varying plan designs and provisions. Statistical comparisons are then made to create an objective “apples to apples” comparison of their plans to those of the peer group. Unique to Mercer’s methodology is the recognition that the value of benefit plans vary based on a given employee’s specific situation. The BVA provides an additional in depth analysis by not only focusing on a value of the benefits for a general employee population, but also taking a deeper dive into the possibility of benefit discrepancies among different employee segments.

TOTAL REMUNERATION INDEX (TRI)

The most in-depth analysis available – the TRI takes the BVA a step further to value both compensation and benefits programs for an accurate evaluation of your total rewards package.

For more information on each of the above reports, please visit www.imercer.com/getbenefits or call 800-333-3070.

SAMPLE