



# Benefit Index<sup>®</sup>

*B&W Pantex | PGU*

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## About This Material

In this study, the value of B&W Pantex's PGU employee benefit program is compared to a norm of the hourly benefit programs of the following 15 organizations chosen by B&W Pantex:

- The Aerospace Corporation
- Babcock & Wilcox Technical Services Y-12, LLC
- The Boeing Company
- Chevron Corporation
- Corning Incorporated
- E. I. du Pont de Nemours and Company
- General Electric Company
- Honeywell International Federal Manufacturing & Technologies
- Johnson Controls, Inc.
- Lockheed Martin Corporation
- Motorola Solutions
- Northrop Grumman Corporation
- Raytheon Company
- Sandia National Laboratories
- Sterling Chemicals Inc.

Some of these organizations may have more than one benefit package covering hourly employees. This study is based on one package offered by each company; generally, the one offered to the largest group of hourly (or nonexempt salaried) employees. Of course, in some cases, the same benefits may be provided for hourly and hourly employees. The information on the benefit programs represents 2011 data for all of the base companies.

This material is intended to be diagnostic in nature. One should not expect to find a prescription in this material. This study provides a thorough analysis of your benefit program as it exists today compared to the norm of these 15 base companies.

In addition to this report, B&W Pantex will receive access to our Benefit SpecSelect™ and Benefit Index Online tools. Benefit SpecSelect provides access to benefit specifications, like those shown in the Specifications section of this report, for hundreds of companies included in our database. Benefit Index Online provides the ability to examine results versus selected subsets of the 15 comparator companies and print bar charts of the results.



## Suggested Method for Reviewing Benefit Index

The heart of this study is a series of pages showing your organization's position in each benefit area relative to the base companies. The key at the beginning of the Index Displays section outlines the format of the display pages. Where there are contributory plans, two comparisons are presented—the "total" and the "employer-paid" values. Total value indexes are based on the value of total available benefits after consideration of participation in optional programs. Employer-paid value indexes are based on the excess of the total value of benefits over the value of employee contributions.

An index of 100.0 always indicates the average of the base companies. Your medical plan, for example, might have an index value of 104.5, indicating the value is 4.5% above average. The study also indicates where your company ranks relative to the base companies. In the medical example, if three of the base companies have higher medical values than yours, you would rank between the 3rd and 4th base companies (3rd/4th).

After you review the key, an appropriate second step might be to make a quick review of the display pages for each benefit area to get an overall impression of where your organization stands and to become familiar with the various areas covered. You might also want to review the final index display, which covers all benefit areas.

As a third step, we suggest reviewing the display pages in depth, considering the indexes and the rankings in light of the brief specifications (Notes) presented on facing pages. In many cases, the reasons for the relative position of your benefit and the characteristics of the companies that ranked high and low will be obvious from studying these pages. In making this more thorough review, keep the following questions in mind:

In each specific benefit area and in the total benefit program:

- Is this where I thought we would be? Higher? Lower?
- Is this where management thinks we are?
- Is this where our employees think we are?
- If we are high, is this by design? Do we intend to be a leader in this area (or what does it mean to be a leader in this area)?
- If we are low, is this intentional? Is this an area that needs attention? How much priority should this area have?
- Is our posture with regard to the total benefit program still appropriate? Should we be placing more (or less) emphasis on more direct forms of compensation?



In comparing the total value index with the employer-paid index in each area:

- How does our use (or lack) of employee contributions change our relative position in this area?
- How does our overall use of employee contributions compare with others?
  - Do we have heavier contributions?
  - Are we using employee contributions because of cost considerations?
  - Are we using employee contributions to provide more flexibility for an employee to elect only the benefits that are needed?
  - Are we using employee contributions because we feel employees should share benefit cost?
- Has management consciously decided on the relative employer-employee sharing (through our use of employee contributions) compared to other organizations?

After completing your own analysis, you may want to read the Comments section. It contains our comments developed during analysis of the programs of the base companies and your program.



## Applying the Results

These indexes and rankings, the accompanying analysis, and a manager's own view of the results should provide a comprehensive basis (and perhaps some supportive information) for review with other executives. The items to be reviewed might include:

- Whether the employee benefit program is providing comparative values consistent with your objectives (or to raise the question of organization objectives where they have not been formalized, or to review or question objectives when they have been formalized).
- The high and low portions of your organization's present employee benefit program.
- The use of employee contributions within the present program.
- Suggestions for change in the employee benefit program:
  - For new benefits.
  - For "trading" unnecessarily high areas of coverage for improvements in low areas of coverage.
  - For increasing (or decreasing) employee contributions within the program.

This material is intended to be diagnostic in nature. It may (or may not) corroborate other analyses done by the organization's compensation and benefit management. In any event, one should not expect to find a prescription in this material. In our experience, suggestions for change come more appropriately from consideration of the organization's objectives, and careful consideration of the business and competitive environment in which your organization operates.



## Methodology

### General Premises

We use different methods to value the various parts of a benefit program. In developing and refining these methods, we have used the following criteria:

- The method must give a reasonable comparison of the value of the different types of plans within a benefit area (e.g., a reasonable comparison of a final pay versus a career pay pension formula requires an assumption about pay increases; a comparison of the value of medical benefits should not depend on whether the benefits are insured or self-insured).
- The method must give a reasonable comparison of the value of the overall program, recognizing that certain parts of it are more valuable than others.

### Employee Population Base

To facilitate comparisons, one common population is used in determining the relative value indexes. This population has the characteristics of the hourly workforce found in a typical industrial organization.

As part of the development of this population, personnel data was collected from a number of major U.S. industrial corporations (chosen across industry and geographical lines). This data was considered in constructing the employee population base. It does not represent any one company; nor is it a composite of all the companies.

This population also does not represent your actual hourly employee mix. However, we do not think the use of your actual workforce would have significantly altered the relative values shown in this report or the conclusions to be drawn from them.



## Developing the Relative Value Indexes

In general, the value of a benefit is determined in one of two ways:

- For each individual in the population, the probability of an event (such as disability) is multiplied by the lump sum value of all amounts to be paid arising from that event, or
- A value is calculated by establishing the value of benefits accruing during the year (an allocation of postretirement values to working years).

The actuarial and employee participation assumptions used are chosen with the intention of being as "realistic" as possible. In effect, these values are summed up for all the employees in the population, recognizing that the value of the various benefits varies by the individual's circumstances—age, service, gender, compensation level. The relative value in any benefit area then recognizes, on a composite basis, the value to an entire employee group—using a mix of employees who have a variety of individual circumstances.

The overall benefit program indexes are not based on an arbitrary weighting of the individual program indexes; instead, the composite indexes reflect the relative value calculated for each program for each organization. Therefore, the Health Care index has more impact than the Postretirement Death index in determining the All Benefits index. The composite indexes are determined by first adding together your organization's benefit plan values for the benefit areas included, and then comparing the result with the average for the base companies.

The index base point of 100.0 is set as the average of the values of the base companies. An index of 97.6, for example, means the value assigned is 2.4% below the base company average.

## Treatment of Flexible Benefits

For companies with broad flexible benefits plans, the credits are allocated back to the benefit areas that generated them. For example, flex credits equal to the cost of one times pay life insurance are valued in the group life area, and medical price tags are valued net of any medical credits. Sometimes the pool of credits cannot be identified with specific benefit areas (e.g., credits that vary by pay or service). In these cases, the procedure for developing values is:

- The employees in the model population are assumed to elect the various benefits in the same percentages as each employer's own experience.
- Based on these elections and the price tags of each option, the required employee contributions are calculated.
- The pool of flexible credits is calculated based on the employer's credit-generation formula(s).
- The pool of flexible credits is allocated to each benefit area in proportion to the required employee contributions.

## A Note of Clarification

This study is an analysis of the value of the benefits provided within an organization's employee benefit program. This has been done with the objective of focusing on the question of benefit program design, and is not intended to be an analysis of cost. An organization's benefit "costs" are affected not only by the benefits themselves, but also by accounting and financing decisions and background, such as:

- Use of a conservative versus a liberal basis for funding the pension plan (e.g., low interest rate versus high interest rate).
- The number of years a pension plan has been in existence and its asset performance during that time.
- Decisions to provide directly or insure a particular benefit.
- An organization's internal accounting practices (e.g., for vacation time).
- Pooling of experience among groups (e.g., a disability benefit plan covering hourly and hourly employees).

The items in the above list are not benefit design and are not elements in this analysis. The question of whether the present funding-financing-accounting decisions are the most appropriate or the best "buy" is a separate subject.



## Benefit Areas Included

The benefits included are those which have substantial value and which can be fairly compared. Additional forms of direct compensation and government-required programs are not included.

The benefits are grouped as shown below. Benefits not included in this index are severance pay, supplemental unemployment benefits, travel accident, extra individual accident coverage, tuition refund, matching donations, work and family benefits, and government-required programs.

- Retirement

- Primary

- Includes all postretirement payments to an employee and spouse from defined benefit pension plans and noncontributory defined contribution plans (e.g., excludes savings plans). Excludes payment of Medicare premiums and lump sum death benefits under a formula (e.g., a flat \$1,000 postretirement death benefit is not included, while a subsidized 50% spouse's annuity is included). Vested benefits and disability benefits payable after age 65 are included. Preretirement death benefits (lump sum and annuity-type) and the portion of any disability pension prior to age 65 are not included (these benefits are reflected in the Death and Disability indexes).

- Matched Savings

- Includes 401(k) and 403(b) savings plans with a direct and significant employer subsidy. Only the employer provided retirement value of savings plans has been included. Any assumed payment due to death prior to retirement has been included in the Death indexes. Payments that occur upon disability are considered to be retirement benefits.

- Death

- The preretirement portion includes all lump sum payments and annuity or periodic payments resulting from preretirement death, including those that are insured, self-insured, or payable from the defined benefit and defined contribution plans. Group life benefits have been shown in a separate index. The postretirement death benefits include lump sum benefits from a pension plan. They do not include postretirement benefits that result from pensions paid on other than a single life annuity basis (whether automatic or through an option); these are included in the pension area.

- Disability

- Has been split into short-term and long-term by defining short-term benefits as those payable in the first six months, without regard to source. That is, the Short-Term Disability index includes long-term disability plan benefits if they are payable in the first six months of disability. Similarly, the Long-Term Disability index includes accident and sickness and salary continuation benefits payable after six months.

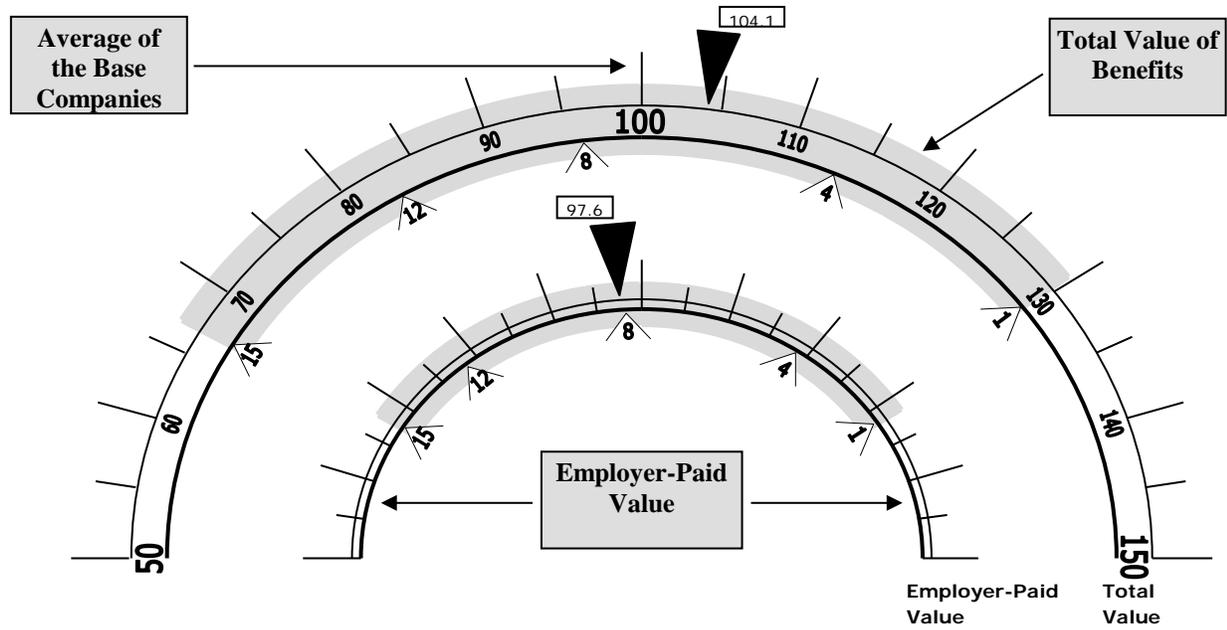


- Health Care

Includes the traditional medical benefits such as hospital, surgical, doctor visits, prescription drugs, etc; dental and vision. The index for preretirement benefits is developed with and without dental, vision, accounts, and credits to allow for specific analysis of medical plans. The Postretirement Health Care index includes not only the package available to a retiree (including dependent coverage) who is over age 65, but also the coverage in the postretirement, pre-Medicare period for the "early" retiree. The payment by the employer of the employee's share of Medicare premiums is included in this index, even if the source is the pension plan.

- Time Off With Pay

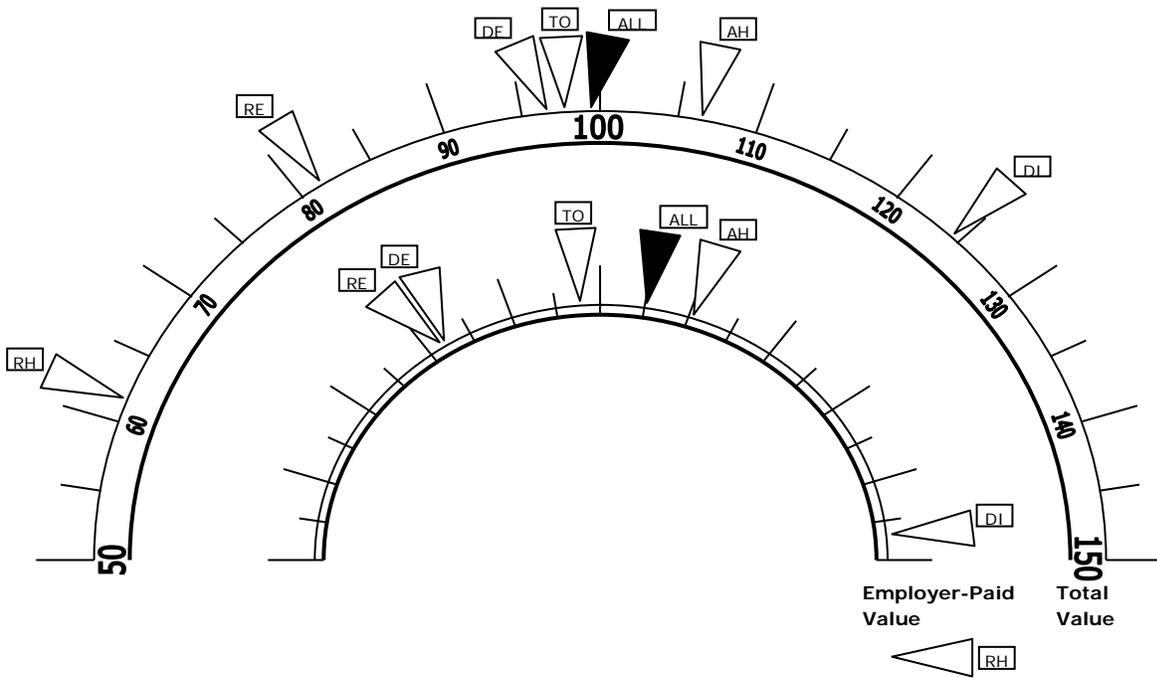
Includes holidays and vacations, which are shown combined as well as separately, recognizing that planning decisions on number of holidays are sometimes influenced by the amount of vacation provided and by the flexibility an employee has in scheduling vacation.



Ranking Among Plans in Study	Employer-Paid Index	Total Index
1st	131.7	129.6
4th	118.7	113.4
8th	98.3	96.1
12th	78.4	83.2
15th	67.7	67.0

Your Position Relative to the Base Companies	Employer-Paid Value	Total Value
Index	97.6	104.1
Ranking	8th / 9th	5th / 6th

# Overall Results



Your Position Relative to the Base Companies		Employer-Paid Value		Total Value	
		Index	Ranking	Index	Ranking
All Retirement	(RE)	81.6	12th / 13th	81.5	12th / 13th
All Death	(DE)	82.0	10th / 11th	96.7	9th / 10th
All Disability	(DI)	146.9	2nd / 3rd	124.4	5th / 6th
Active Health Care	(AH)	110.3	2nd / 3rd	106.5	1st / 2nd
Retiree Health Care	(RH)	220.1	2nd / 3rd	61.6	7th / 8th
Time Off With Pay	(TO)	97.8	10th / 11th	97.8	10th / 11th
All Benefits	(ALL)	105.0	5th / 6th	99.5	9th / 10th