

EXECUTIVE SUMMARY

Trends & Challenges

on the journey to health care reform



Employers have grappled to understand the ACA's many regulations; as challenges to the legislation were resolved, employers had to shift their focus from "wait and see" to how to comply with the ACA.





The Aflac WorkForces Report was launched four years ago, coinciding with the enactment of the Affordable Care Act (ACA) in March 2010. In the ensuing years, the Aflac WorkForces Report has provided valuable information in connection with the evolution of employer, employee and broker attitudes toward health care reform, and the way health care benefits options in the U.S. are purchased and delivered.

Employers have grappled to understand the ACA's many regulations; as challenges to the legislation were resolved, employers had to shift their focus from "wait and see" to how to comply with the ACA. In developing ACA compliance strategies, employers have made, and continue to make, key benefits decisions that will impact their companies' performances, and the personal and financial well-being of their workers for years to come.

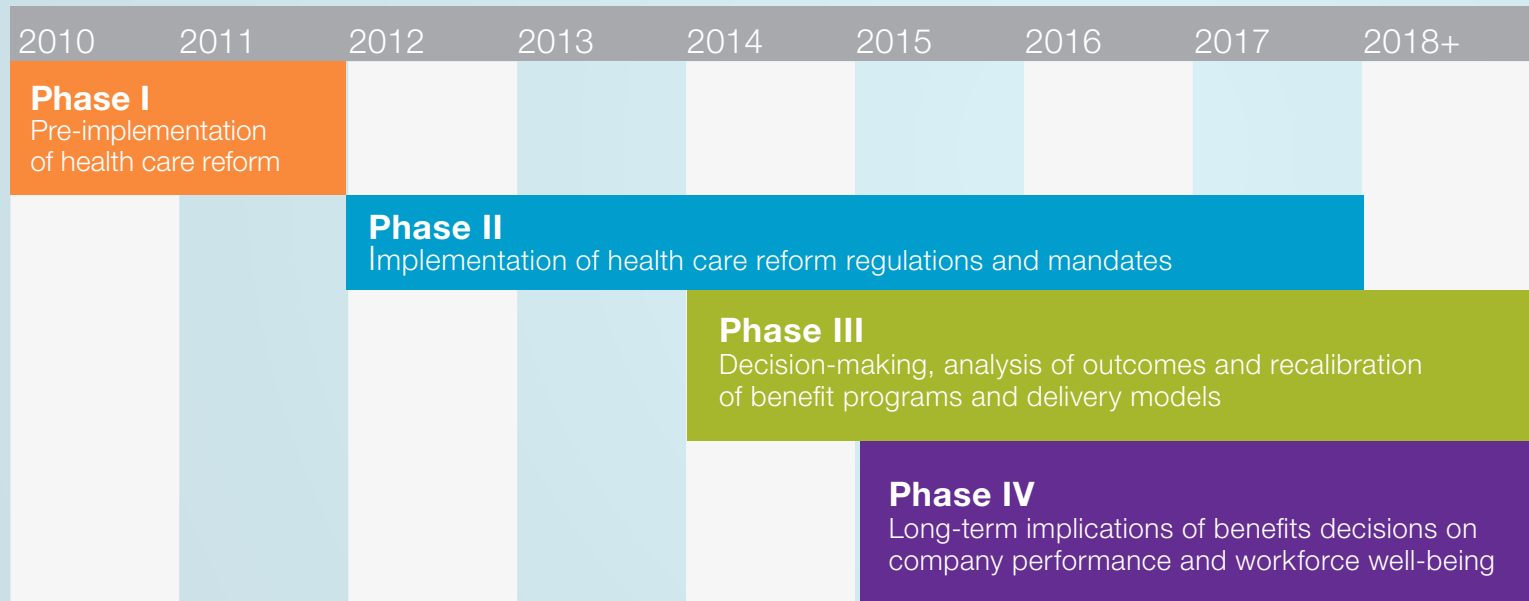
The 2013 Aflac WorkForces Report explored the crossroads at which companies found themselves when considering issues associated with health care reform. Would they take strides to understand and overcome the challenges of health care reform to emerge as benefits-savvy employers of choice? Or would they ignore the changing health care landscape to the potential detriment of their employees?

This year's report examines the next phase of health care reform: the impact of employee benefits decisions that were made with health care reform in mind, as well as weighing the effectiveness of these decisions as future strategies are considered.

Specifically, the 2014 Aflac WorkForces Report:

- Reveals that health care costs significantly influence workers' overall financial well-being.
- Shows that the average American worker is one serious medical event away from financial hardship.
- Highlights the connection between benefits offerings and companies' key performance metrics.
- Outlines the growing importance of voluntary benefits options as the effects of health care reform become clear.

The phases of health care reform







Employers remain focused on controlling costs

For four consecutive years, employers participating in the Aflac WorkForces Report survey have named controlling health and/or medical costs as their top business concern. In the latest survey, 49 percent identified it as their top concern. Many took significant steps in 2013 to contain costs. For example:

Eliminated
or delayed raises.

32%

Eliminated or reduced
employee benefits offerings.

22%

Hired independent
contractors or consultants.

39%

Converted full-time
workers to part-time.

21%

According to the 2014 Aflac WorkForces Report, more than half of participating companies (56 percent) increased employees' copayments and/or shares of premium last year and 59 percent plan to do the same before the end of 2014. What's more, 19 percent of companies moved away from traditional major medical insurance in 2013 and instead paired health savings accounts (HSAs) with high-deductible health plans (HDHPs). That's one-third more than the 14 percent of companies that participated in the 2013 Aflac WorkForces Report that said they planned to make this type of change. Of course, shifting health care costs to employees isn't new; [see Figure 1](#) which consists of data from the 2011-2014 Aflac WorkForces Reports and illustrates employer cost shifting.

The 2014 Aflac study revealed that employees are well aware of their employers' efforts to pass health care costs on to them, and they expect the trend to continue. The majority of workers, 86 percent, at least somewhat agree the medical costs they're responsible for will increase. And although 41 percent of study participants say maintaining their health care benefits is the most important issue to them, the price of doing so has risen significantly: The Kaiser Family Foundation reports that health care premiums have increased 80 percent since 2003, nearly three times as fast as wages (31 percent) and inflation (27 percent).¹

FIGURE 1

Trends in shifting health care costs to employees

	2010	2011	2012	2013	Plan to change in 2014
Increased employees' share of premiums	34%	26%	25%	28%	30%
Increased employees' copays	36%	29%	25%	28%	29%
Implemented high-deductible health plans	20%	19%	20%	19%	15%
Eliminated family coverage	7%	4%	8%	9%	8%
Reduced health plan options	16%	11%	14%	14%	13%

86%

at least somewhat agree
the medical costs they're
responsible for will increase.



A blurred background image of an office setting. In the foreground, a man in a grey blazer is partially visible, looking towards the right. In the background, another person is seated at a desk. The overall scene is out of focus, emphasizing the text in the foreground.

The economy may be in recovery, but workers' finances remain in fragile condition

When U.S. businesses make changes to their workplace benefits plans, their actions often magnify the already precarious financial positions of many employees. After all, changes to benefits plans frequently involve increasing workers' deductibles and out-of-pocket costs.

Employers may not fully realize that many employees are one serious medical event away from financial hardship and that they aren't leaving concerns about money at home.

The 2014 Aflac WorkForces Report found many workers are distracted by their financial worries during working hours. In fact, the majority name "personal financial issues" the No. 1 non-work-related issue distracting them while on the clock.

Surprisingly, some employers haven't tuned in to workers' concerns about medical costs and benefits; just 14 percent of employers believe their benefits packages are extremely influential on employees' overall financial health.

69%

at least somewhat agree
they regularly underestimate
the total costs of an injury
or illness, including medical,
household and out-of-pocket
expenses.

Workers' financial woes

49%

have less than \$1,000 to pay for unexpected out-of-pocket medical expenses, and 27 percent have less than \$500.

53%

would need to borrow from a 401(k) and/or use a credit card to cover unexpected medical costs.

66%

feel they wouldn't be able to adjust to the large financial costs associated with a serious injury or illness.

13%

have been contacted by a collection agency about outstanding medical bills.

25%

completely or strongly agree their families are financially prepared for an unexpected emergency.

10%

say high medical costs have affected their credit scores.

With freedom comes responsibility

Consumer-directed and employee-driven health care are intended to give workers more control over their health care choices and budgets. The goal is to reduce employees' overall medical expenses by increasing their involvement in managing their health care. However, the 2014 Aflac WorkForces Report revealed that workers remain largely unfamiliar with the concept of consumer-driven health care and have little confidence in their ability to make the right health care decisions.

Understandably, few employees have the medical knowledge needed to evaluate the quality of health care providers or the appropriateness of proposed treatment or medication needs. Further, they don't generally understand the true cost of medical services – information that can be difficult to find.

These knowledge gaps make it challenging for employees to embrace the move to consumer-driven health care. But just who should educate workers isn't clear. Nearly 7 in 10 employees (68 percent) believe their companies will educate them about changes to their health care coverage as a result of health care reform. However, 60 percent of employers strongly or somewhat agree that workers themselves should be more responsible for learning about their benefits options.





The slow pace to health care reform

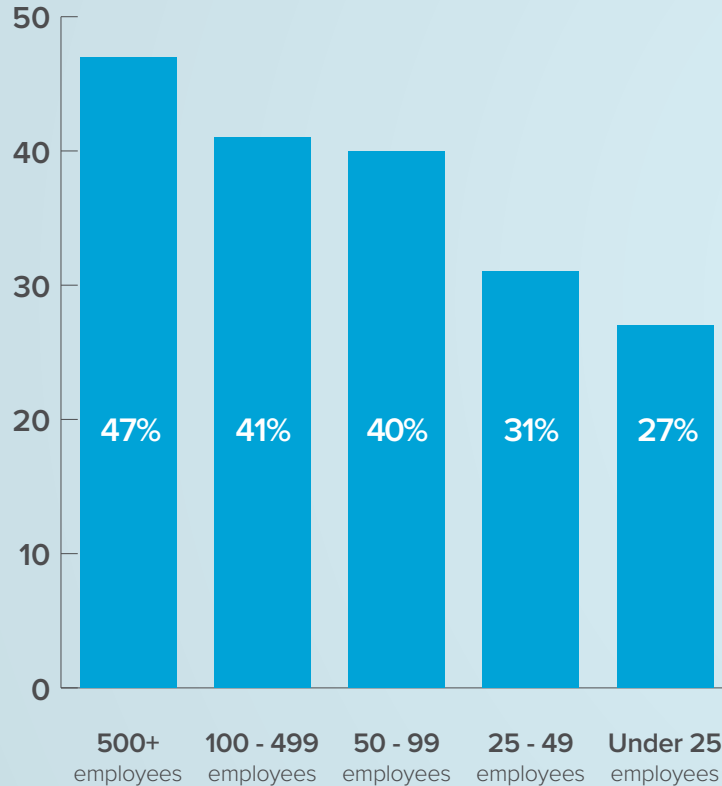
Employees may be having a difficult time coming to grips with health care reform, but the path to understanding hasn't been smooth for employers either. Health care reform's rollout has been riddled with delays and technology challenges. The law is complex and thousands of pages of guidance have been issued to help clarify its requirements. While most Americans must have major medical insurance in place beginning in 2014, several employer-focused requirements remain on the horizon.

Employers have already experienced various taxes and fees associated with health care reform, but large employers are gearing up for 2015, when the employer mandate goes into effect. In 2015, only those employers with 100 or more full-time equivalent employees will need to worry about the penalty, but, in 2016, the employer mandate will apply to employers with 50 or more full-time equivalent employees as well. Also, in 2018, a 40 percent excise tax, referred to as the "Cadillac tax," will be assessed against high-dollar health plans with coverage costs exceeding \$10,200 for individuals and \$27,500 for families. The 2014 Aflac study reveals many companies aren't ready for changes that lie ahead:

- 41 percent feel extremely or very prepared to address changes to the health care system in 2014.
- 40 percent overall say they understand health care reform extremely or very well, but the number drops to 30 percent for businesses with less than 100 employees (see [Figure 2](#)).
- 45 percent say they'll rely on brokers or insurance companies to suggest changes to their benefits packages due to the changing health care environment.

FIGURE 2

Companies that understand health care reform extremely/very well



73%

say health care reform is too complicated to understand.

71%

have not heard the phrase “consumer-driven health care.” Of those who have heard the phrase, just 6 percent understand the concept extremely well.

71%

say their personal insurance situations will become more confusing.

51%

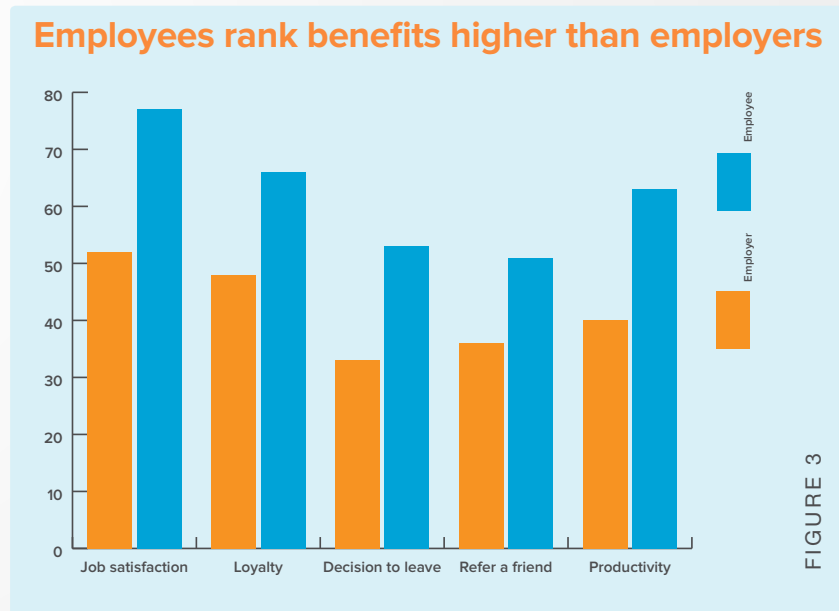
prefer not to have more control over their health care expenses because they don’t have the time or knowledge to effectively manage them.

Benefits options matter to employees

The 2014 Aflac WorkForces Report found that leading organizations work on the principle that benefits options matter to workers. And they're correct to do so: The majority of employees (80 percent) believe their overall benefits packages influence their engagement on the job and with their organizations. They also say benefits are influential with respect to workplace well-being and employer reputation (see Figure 3).

Top-tier companies offer their workers a wide array of benefits options, regardless of how they structure their major medical plans. For example, organizations named to Fortune's latest list of "Best Companies to Work For" have three things in common:

- All retained or expanded their benefits offerings throughout the recession.
- All looked for new benefits options that yielded the most bang for the cost.
- All aligned benefits offerings to the needs of their particular employees versus taking a one-size-fits-all approach.



As some companies made changes to traditional major medical plans, employees took a closer look at other health care benefits options. One type of option that's caught their attention – and favorably – is voluntary insurance:

- 88 percent consider voluntary insurance an important part of a comprehensive benefits program.
- 52 percent who do not currently have access to voluntary insurance say they'd be likely to purchase such benefits options if they were offered by their employers.
- 48 percent are more knowledgeable about voluntary benefits options now than they were last year.
- 63 percent see a growing need for voluntary benefits options in 2014 compared to previous years.

Employees who've noted a growing need for voluntary insurance say these benefits options help address health care challenges such as:

Rising
medical costs.
76%

Rising
coverage costs.
66%

Increasing deductibles
and copayments.
61%

Changes due to
health care reform.
51%



Managing change with powerful communications

Organizations with effective communication- and change-management programs in place are 3.5 times more likely to significantly outperform their peers than organizations that do not.² What's more, the most effective companies are three times more likely to focus on behaviors that drive organizational success than on program costs.

Despite the advantages of frequent and effective communication, the 2014 Aflac WorkForces Report found that many employers are not effectively using communication to manage change. When asked to assess their companies' communications efforts, here's what workers had to say:

9%

believe their human resources departments have communicated extremely effectively about health care reform and subsequent changes to their benefits packages.

3%

completely agree their employers have prepared them well for the impact of health care reform.

20%

say the frequency of their employers' benefits communications increased in 2013 compared to the previous year.

65%

say their employers communicated about company benefits offerings two or less times in the past year.





Key takeaways for today's business leader

Seek communication- and change-management solutions.

Because benefits decisions often dramatically affect an organization's performance as well as workers' engagement, productivity and loyalty, the benefits decisions companies make carry tremendous weight. Now is the time for employers to adopt change-management strategies that help workers adjust to the new health care environment. By doing so, they can lower their costs and simultaneously boost the satisfaction, engagement, loyalty and productivity of their workforces.

Embrace the value of benefits options for your organization and tailor them to help fit employee needs and budget constraints.

The 2014 Aflac WorkForces Report found that leading organizations work on the principle that benefits offerings continue to matter to employees. Top-tier companies offer their workers the widest array of benefits options, regardless of the way they structure their major medical plans. Many successful companies are using benefits options to drive employee engagement, perhaps because they understand that engaged workers are the most productive workers and that they outperform their non-engaged co-workers.

Equip employees for the unexpected with resources and voluntary benefits options.

Recognizing that there's a tangible relationship between the well-being of their workforces and their companies' profitability, best-in-class organizations address the diverse needs of their employees and protect them from high out-of-pocket medical costs. For benefits programs to be successful, employees must have access to the education, resources and decision-making tools they need to become informed consumers. Voluntary benefits options and other financial tools are low-cost ways to help employees build smart safety nets.

Invest in frequent and effective benefits communication.

Successful companies believe they need to do more than provide best-in-class benefits packages. They encourage company leaders to take active roles in change management and in urging employees to make benefits choices that enhance their physical and financial well-being.

Work with benefits advisers and professionals for guidance.

Health care reform necessitates working with benefits advisers and professionals to develop workable health care insurance strategies. Tactics may vary, but the goal is to provide employees with information about and access to coverage that offers broad health and financial protection.

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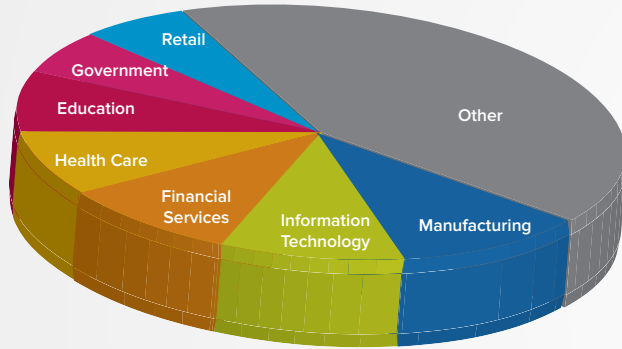
The road forward

Since passage of the ACA, employers have journeyed through many phases of health care reform – and their journeys have often required significant restructuring of their company-sponsored health care benefits offerings. Employers are making key decisions as many of health care reform’s significant provisions take effect. The impact of these decisions is already beginning to take shape. Decisions that not only impact their organization’s performance, but that also affect their workers’ engagement, productivity and loyalty. Successful organizations are identifying and implementing strategies that balance robust employee benefits packages with the containment of health care costs.

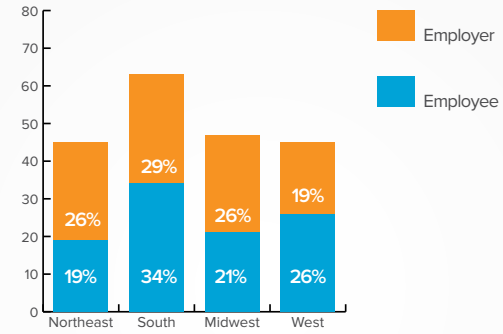
The 2014 Aflac WorkForces Report outlined compelling reasons for companies to restructure their benefits programs to meet their budgetary goals without compromising the well-being and effectiveness of their employees.

Demographic charts

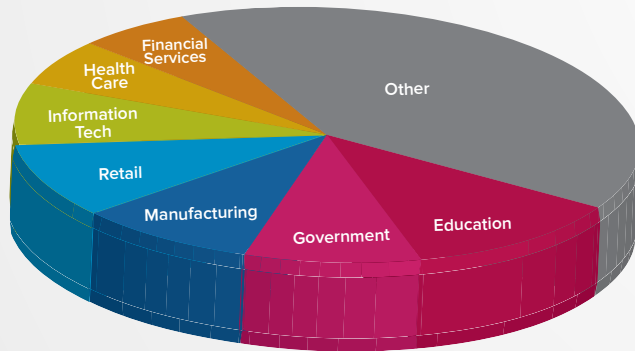
Industry Segments - Employer



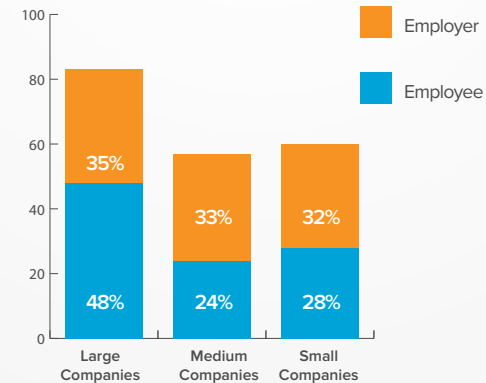
Regional Segments



Industry Segments - Employee



Company Size



Key themes seen in 2011-2014 Aflac WorkForces Report results

Controlling costs is a top HR issue for companies.

Most important HR issue:	Most important	Second Most Important
2011	28%	49%
2012	38%	23%
2013	32%	23%
2014*	49%	27%

*Study worded the answer differently in 2014.

While employer understanding of health care reform has increased, confidence in understanding the law has not.

Employers say they understand health care reform legislation:	Extremely/very well	Extremely well
2011	23%	7%
2012	23%	4%
2013	27%	5%
2014	40%	8%

Fewer than 15 percent of employees say they are extremely satisfied with their benefits packages.

Employees who are extremely satisfied with their current benefits package:	
2011	8%
2012	10%
2013	14%
2014	14%

Employers are relying more on email to communicate with employees about their benefits options.

Employers ranked most-frequently used benefits communication channels:			
	Face to face	Email	Employee benefits booklet
2011	37%	23%	16%
2012	45%	27%	12%
2013	30%	37%	11%
2014	54%	64%	42%

Employee concern has shifted from job security to maintaining their health care benefits.

Most important issue to employees right now:	
2011*	Job security 34%
2012	Maintaining health care benefits 32%
2013	Maintaining health care benefits 31%
2014	Maintaining health care benefits 41%

*Lists presented to groups changed.

About the Aflac WorkForces Report

The 2014 Aflac WorkForces Report is the fourth annual Aflac employee benefits study examining benefits trends and attitudes. The study, conducted in January 2014 by Research Now, captured responses from 1,856 benefits decision-makers and 5,209 employees from across the United States. To learn more about the Aflac WorkForces Report, visit AflacWorkForcesReport.com.

Sources

- ¹ Kaiser Family Foundation and the Health Research & Educational Trust (2013). Employer-Sponsored Family Health Premiums Rise a Modest 4 Percent in 2013, National Benchmark Employer Survey Finds. Accessed on April 3, 2014, from kff.org/private-insurance/press-release/employer-sponsored-family-health-premiums-rise-a-modest-4-percent-in-2013-national-benchmark-employer-survey-finds/.
- ² Towers Watson Study (2013). 2013 – 2014 Change and Communication ROI Study. Accessed on April 3, 2014 from towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2013/12/2013-2014-change-and-communication-roi-study.

Content within is for informational purposes only.

This material is intended to provide general information about an evolving topic and does not constitute legal, tax or accounting advice regarding any specific situation. Aflac cannot anticipate all the facts that a particular employer or individual will have to consider in their benefits decision-making process. We strongly encourage readers to discuss their HCR situations with their advisors to determine the actions they need to take or to visit health-care.gov (which may also be contacted at 1-800-318-2596) for additional information.