

AFLAC | WORKFORCES REPORT | 2016

EXECUTIVE SUMMARY

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their benefits plans.

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The 2016 Aflac WorkForces Report shows major shifts in employer, employee benefit goals

Study shows employers worry about competitiveness, employees focus on salaries and benefits

Aflac's sixth annual survey of employer and employee attitudes about health insurance benefits reveals a key shift in thinking. For the first time in three years, employers are more worried about staying competitive in today's marketplace than about controlling costs.

Are they correct about changing their focus? The 2016 Aflac WorkForces Report indicates the answer is yes. As the economy continues to improve, employee attitudes are changing, too. They're no longer happy just to have jobs. They want more money and better benefits – and employers who don't respond to their needs are in danger of losing their best and brightest workers.

For companies of all sizes, the message is clear: To hire and retain top employees, they must get smarter about their benefits plans. The days of "take it or leave it" benefits packages are gone. Blame global technology. Today, any employee with an internet connection can quickly find out exactly where

their company stands in terms of benefits – as well as which competing companies offer bigger, better, cheaper or more innovative options.

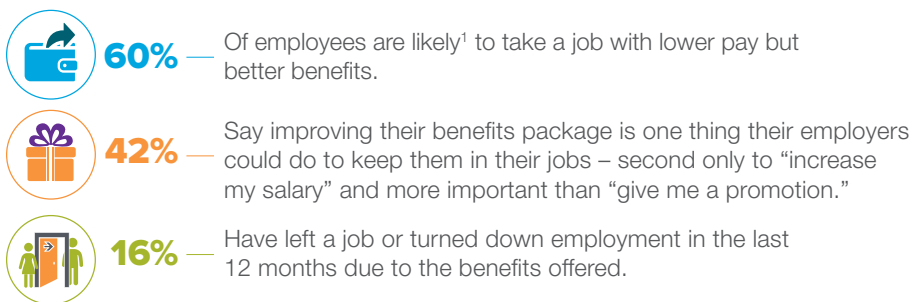
Just how willing are employees to move on? According to the WorkForces Report, many have itchy feet. Nearly half (47 percent) are at least somewhat likely to look for new jobs in the next 12 months, and almost one-third (31 percent) are extremely or very likely. Those most apt to seek greener pastures include millennials and higher earners.

Employers aren't keen about the prospect of seeing these valued assets move on, possibly to their rivals. That may be one reason "staying competitive" shot to the top of employers' lists of key business objectives. Of those surveyed, 34 percent named it as their primary mission, followed by finding the right amount and type of talent to achieve their business goals. The No. 1 objective since 2014, "controlling costs," dropped to No. 3 this year, at 22 percent.

Retaining your company's best assets

Given that many top employees – largely considered a company's best assets – have one foot out the door, what can businesses do to help ensure they remain in place? The answer can be found in the responses of the 5,000 employees who took part in the WorkForces Report survey:

Figure 1 Benefits are critical to employee retention



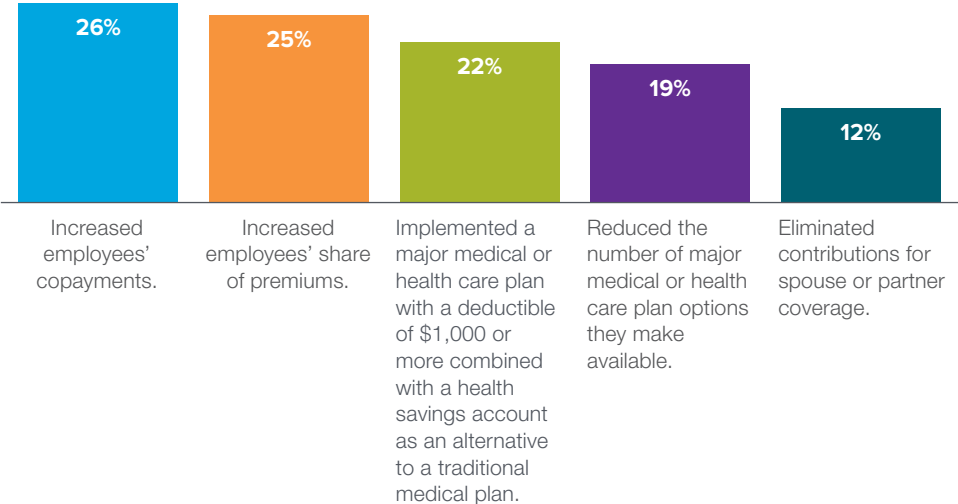
The bottom line? Employees today have dollars on their minds. First, they're looking for more money in the form of higher salaries. Many found their incomes stagnant or worse during the economic downturn, and now that the economy is improving, they expect to be rewarded. Second, they want to protect their salaries with the appropriate levels and types of health care benefits – and they expect their employers to help them do so.

Are companies making the right benefits decisions?

A look at the responses of the 1,500 business decision-makers who took part in the 2016 Aflac WorkForces Report survey shows their actions with respect to benefits may be at cross-purposes with their desire to remain competitive – at least in terms of employee hiring and retention.

That's because while employees want more and better benefits, companies are reducing benefits and asking their workforces to pay a greater portion of benefits costs. Here are some of the actions employers took in 2015:

Figure 2 Companies are reducing benefits; employees are contributing more



By the numbers

A major change some employers are making is measured in percentages: Instead of offering what's long been considered the norm – 80/20 coverage, in which insurance pays 80 percent of covered medical costs and employees pay the remaining 20 percent – some companies are shifting to 70/30 plans. This is one of the ways employers are passing on increased responsibility for medical costs to employees. According to Aflac's survey, 27 percent of employers currently have major medical plans with 70/30 splits, while another 9 percent have adopted 60/40 plans.

Naturally, these changes make financial sense for companies looking to trim benefits costs. However, employees may not be ready for these financial shifts, as medical expenses are a major worry for many of them.

Just how real is the working man's – and woman's – struggle with medical expenses? Pretty real: A staggering 65 percent of those who participated in the WorkForces Report survey have less than \$1,000 on hand to pay out-of-pocket expenses associated with an unexpected serious illness or accident. More than one-third of those individuals, 36 percent, have less than \$500. Here are some other startling statistics:

Figure 3 Employees struggle with unexpected medical costs

59%	The percentage of employees who agree they'd be unable to adjust to the large financial costs associated with a serious illness or injury.
52%	The percentage of employees who agree they regularly underestimate the total cost of an injury or illness.
37%	The percentage of employees who would use a credit card to pay out-of-pocket expenses associated with an unexpected serious illness or accident that occurred today.
19%	The percentage of employees who'd borrow or withdraw from their 401(k)s or other retirement accounts to pay costs stemming from an unexpected serious illness or accident that took place today.
35%	The percentage of employees who are not very or not at all prepared to pay out-of-pocket expenses related to unexpected serious illnesses or accidents that aren't covered by major medical/health insurance.
25%	The percentage of employees who have had difficulty paying a health care bill due to high medical costs.
15%	The percentage of employees who've missed a credit card, rent or mortgage payment due to high medical costs.
17%	The percentage of workers whose credit scores have been negatively affected by high medical costs.
8%	The percentage of employees who've filed bankruptcy due to high medical costs.



Trending now

Now that we've established that many employees are in a world of financial hurt – and that medical costs are putting serious strains on their budgets – let's look at some of the benefits trends revealed by the 2016 Aflac WorkForces Report. For example:

- » **Concerns about medical costs are shared by every age group and income level:** No one is immune from the inability to cope with unexpected medical expenses. The unpreparedness spreads across all generations, regions, incomes and business sizes. While employees with annual household incomes of more than \$100,000 are better prepared to pay costs than those earning less, many still report they don't have significant savings.
- » **Knowledge is power – and peace of mind:** Employees who better understand the total annual cost of their health care are more likely to be satisfied with their benefits – and employees who are more satisfied with their benefits are more likely to believe those benefits provide adequate protection for their families.
- » **Millennials are less informed than other employees about health care costs but believe they're better prepared to cope with them:** Millennials in the workforce are more likely than workers of other generations to say they regularly underestimate the total cost of an injury or illness. That's the bad news. On the other hand, they're also more likely to say they're extremely or very prepared to pay the related, uncovered out-of-pocket expenses.

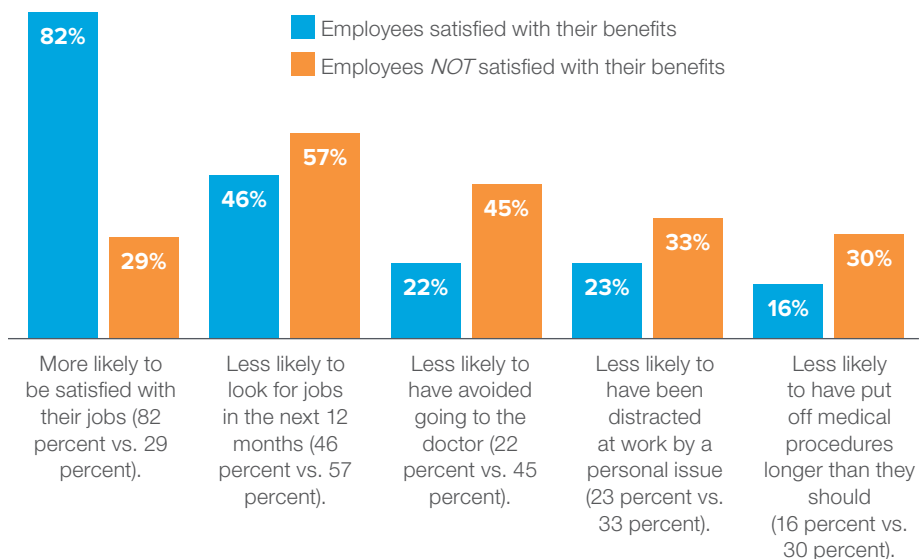
The benefits disconnect

It's fair to say there is a major disconnect between the benefits employers are making available to workers and the benefits employees want and need. In fact, one-third of employees (33 percent) say they are only somewhat satisfied

with their current benefits. Similarly, 29 percent say their benefits meet their families' needs only "somewhat well," and 10 percent say their benefits don't meet their needs very well or at all.

Yet, when employers get benefits right, there's a clear advantage. Employees who are satisfied² with their benefits are:

Figure 4 Strong benefits affect employees



Likely = At least somewhat likely, very likely and extremely likely.

Satisfied = Extremely satisfied and very satisfied

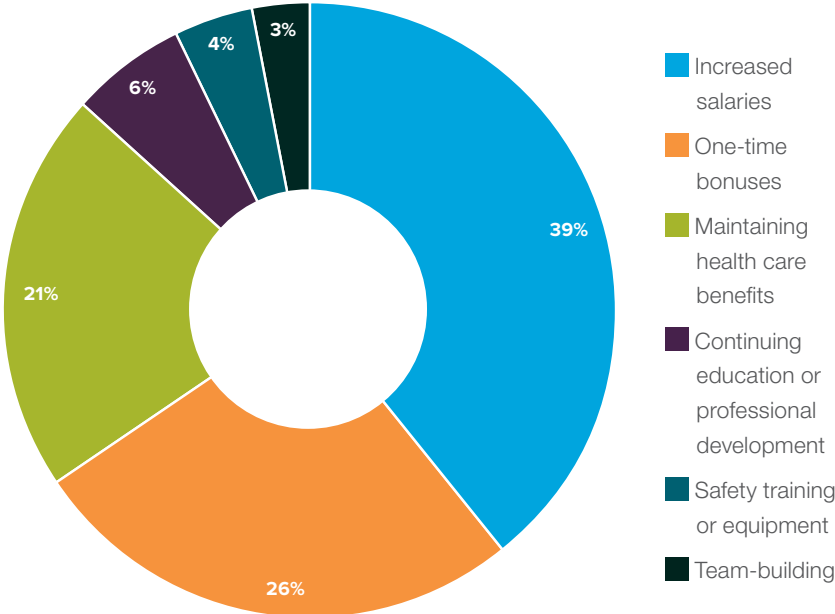
One way companies can improve employee satisfaction with their benefits is by allocating their per-employee dollars the right way. While many companies view employee and team-building events as critical and set aside considerable funds for those activities, employees aren't so sure.

According to information gathered by the Kaiser Foundation, the average company spent \$235 more per full-time worker in 2015 than in the previous year.^{3,4} The

Aflac survey asked employees how they'd prefer that \$235 be spent. Team-building and other events were way down on the list. Employees were more interested in salary increases, one-time bonuses and maintaining their health care benefits:

Figure 5 Spending habits: Employers, employees don't see eye to eye

If your employer could spend an additional \$235 on each full-time employee in one of the following ways, how would you prefer they spend it?



The voluntary insurance advantage

When it comes to improving employees' benefits packages, there's one clear winner – voluntary insurance products. Here's why: Employers have many options when it comes to voluntary products. There's everything from

dental and vision insurance, to accident and hospitalization coverage, to disability insurance and coverage for specified diseases. The good news is that companies can make voluntary insurance available to employees with no direct effect on their bottom lines because premiums usually are paid by those who elect to enroll.

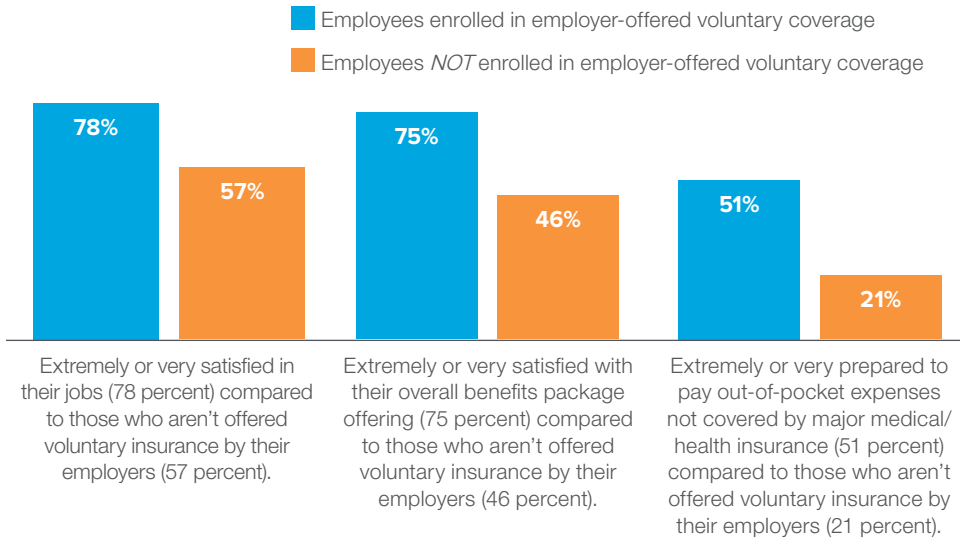
But are employees interested in voluntary insurance? According to the Aflac WorkForces Report, they definitely are. Here's what they had to say:

Figure 6 Employees gravitate toward voluntary insurance

81%	Believe the medical costs they're responsible for will increase.
57%	Completely or strongly agree they consider voluntary insurance part of a comprehensive benefits program, up from 33 percent in 2015.
79%	See a growing need for voluntary insurance benefits today compared to last year.
57%	Say they would purchase additional, affordable insurance products to ensure adequate coverage if that coverage was not provided by their employer.
60%	Among employees who see a growing need for voluntary benefits, say the need is driven by rising medical-services costs.

Many companies are already responding to employee interest in voluntary products, largely because there is a relationship between voluntary products and employee job satisfaction, benefits satisfaction and financial well-being. For example, according to the Aflac survey, employees enrolled in employer-offered voluntary coverage are more likely to be:

Figure 7 The effect of voluntary benefits on employees

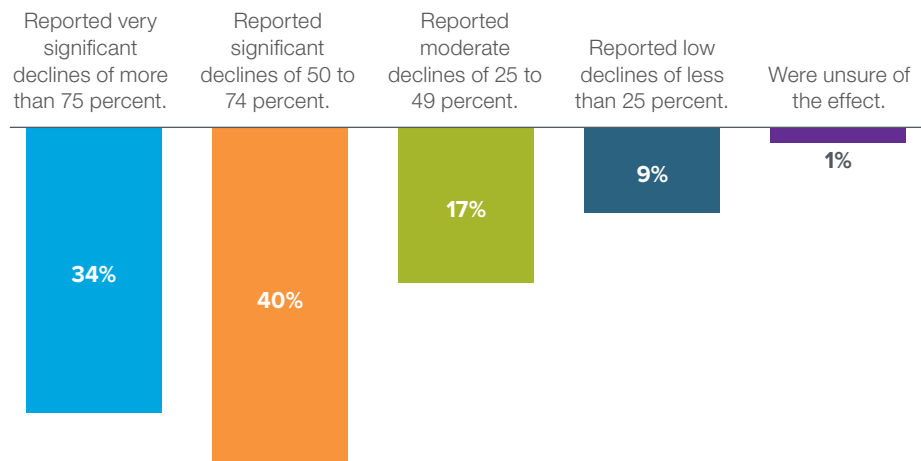


A surprising way for employers to reduce workers' compensation claims

Voluntary insurance isn't a new benefits option, but it is becoming a more essential component of employees' benefits packages. About 1 in 4 employers today (26 percent) offer voluntary insurance to their workforces, and the Aflac study shows a greater proportion of employers now offer critical illness, accident, cancer or other specified disease, and hospital insurance than in previous years. These employers most often say they offer voluntary insurance "to satisfy employee need, interest or demand."

In addition to providing employees with access to coverage they need and want, voluntary insurance helps employers in another, perhaps surprising, way: Fifty-one percent of companies offering voluntary accident insurance report reductions in their workers' compensation claims. When asked how they'd rate declines in workers' compensation claims since making voluntary accident insurance available to their workforces:

Figure 8 Voluntary insurance affects workers' compensation claims





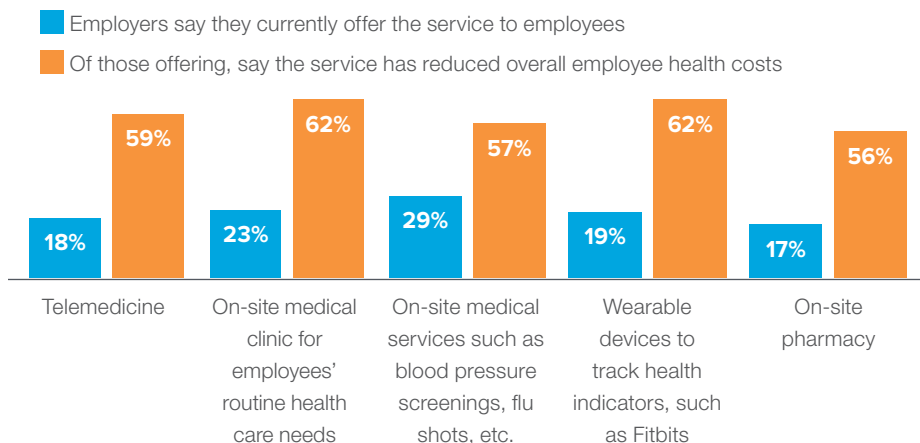
Wellness programs: Something employers and employees can agree on

While disconnects are abundant when it comes to benefits and how they're paid for, there's one area in which employers and their workforces see eye to eye: the value of wellness programs. Sixty-one percent of employees say they've made healthier choices due to their companies' wellness programs, and they also report higher job-satisfaction levels. At the same time, employers credit the programs with decreasing their overall health care costs.

Today, more than half (54 percent) of employers have company-sponsored wellness programs, up considerably from 30 percent in 2012. Many employers' programs include the expected elements, such as wellness screenings, healthy eating options or incentives, and smoking-cessation programs. More than half of those offering a new or emerging option, such as telemedicine and wearable technology, indicated their particular service reduced overall employee health expenses. Here's a look at some elements of current wellness programs, along with employers' estimates of their cost-saving benefits:

Figure 9 New and trending benefits may reduce companies' costs

Have any of the following service(s) reduced your overall employee health costs?



Sixty-one percent of employees say they've made healthier choices due to their companies' wellness programs, and they also report higher job-satisfaction levels.

Outside help: Brokers and benefits administration

If there's one thing employers can agree on when it comes to benefits, it's that offering them can be complex. Not only do companies want to please their workers by offering the right amounts and types of coverage, they must deal with evolving reporting and communications requirements. That's where outside help in the form of benefits experts and private exchanges can be invaluable.

Seventy percent of employers currently use brokers or consultants to help determine their benefits options. Large companies, employers in metro areas and those in the Northeast are more likely to use brokers or benefits consultants than small companies with fewer than 50 employees, employers in rural areas and those in other regions. Aflac survey participants who rely on the expertise of benefits advisers say:

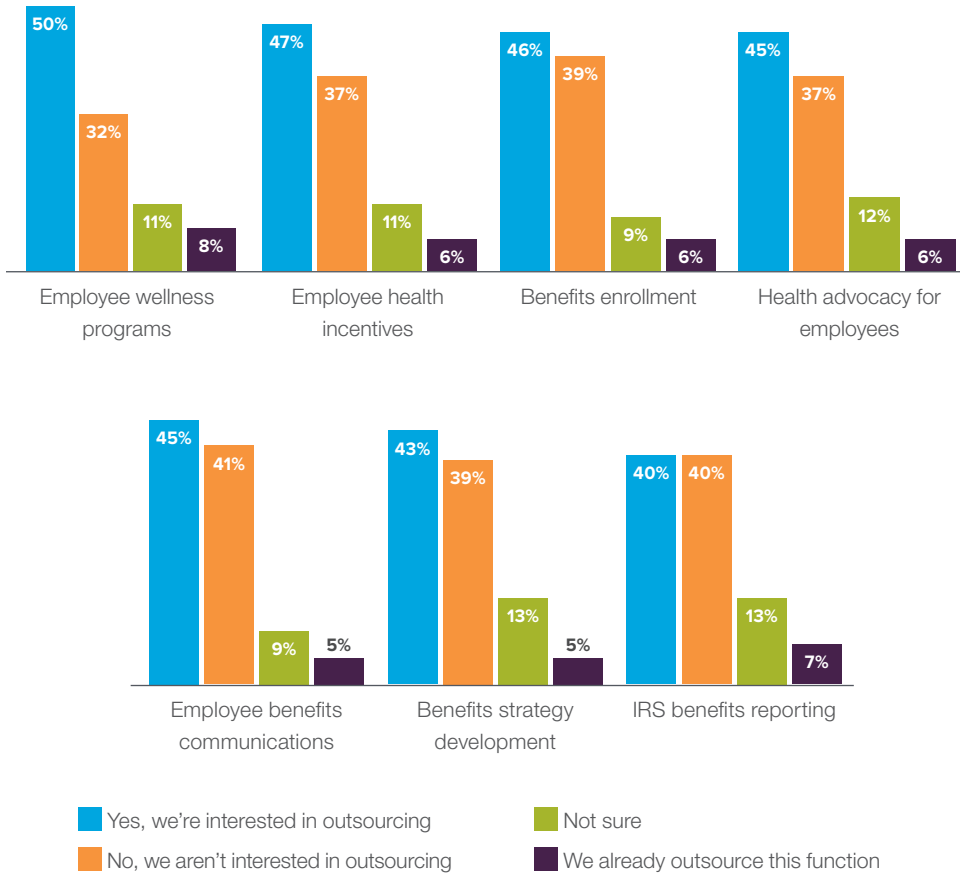
- » The benefits their company offers enable them to reduce turnover (80 percent), compared to 66 percent of those that don't use a broker or benefits adviser.
- » The benefits their company offers increase worker productivity (75 percent), compared to 65 percent of those that don't use a broker or benefits consultant.

Many employers are also looking for help with benefits administration, such as paperwork and coordinating between multiple carriers. The Aflac survey found they are starting to look to private health insurance exchanges and multiline platforms as solutions.

Sixteen percent of employers project they'll move their employee health insurance benefits to private exchanges in 2016, up from 6 percent in 2014 and 2015. Additionally, the survey found that while very few employers currently outsource benefits administration, 68 percent are interested in outsourcing at least one service.

Figure 10 Growing interest in outsourcing benefits administration

Are you interested in outsourcing any of the following benefits administration services to a third party?



Sources:

¹ Includes at least somewhat likely, very likely and extremely likely.

² Includes extremely satisfied and very satisfied.

³ Henry J. Kaiser Foundation. "2014 Employer Health Benefits Survey." Accessed June 1, 2016. <http://kff.org/report-section/ehbs-2014-summary-of-findings/>

⁴ Henry J. Kaiser Foundation. "2015 Employer Health Benefits Survey." Accessed June 1, 2016. <http://kff.org/report-section/ehbs-2015-summary-of-findings/>

Aflac herein means American Family Life Assurance Company of Columbus and/or American Family Life Assurance Company of New York.

About the Aflac WorkForces Report

The 2016 Aflac WorkForces Report is the sixth annual Aflac study examining benefits trends and attitudes. The study, conducted by Lightspeed GMI on behalf of Aflac, captured responses from 1,500 employers and 5,000 employees across the United States. To learn more, visit AflacWorkForcesReport.com.

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