ViewPoint

Turning tables: How benefits decisions will impact employers

The tables have turned on this 2013/2014 open enrollment season. An event that historically focused on the importance of benefits decisions for workers, this year it ushers in equally critical benefits decisions for employers. Much like the considerations workers must weigh each open enrollment season, employers are faced with open enrollment pressures of their own – the need to educate themselves on health care reform, evaluate the potential impact of benefits plan changes or removals, and choosing the right benefits plan to protect their workforce while managing increasing costs.

As companies consider changes to their benefits plans, and compliance with health care reform legislation, there is one primary matter that drives these decisions for nearly every organization – cost. In fact over the past decade, companies have been turning to consumer-driven health care plans and slowly shifting costs to employees even before the enactment of health care reform.

Health insurance premiums have increased by over 100 percent in the past 10 years. During that same time period, the percentage of Americans with employer-sponsored health insurance coverage has dropped by 10 percentage points.[1]

Today, 66 percent of companies with 1,000 employees or more offered a high-deductible health plan this year, and the figure is expected to grow to nearly 80 percent next year.[2] Other companies such as, Walgreens Co., Sears Holdings Corp., IBM Corp., and Time Warner intend to move employees to a private exchange for the next plan year. Home Depot Inc. and Trader Joe's Co. are dropping health coverage for part-timers, who will have to go to a public exchange for health insurance.[3]

A recent study by McKinsey & Company found that 45 to 50 percent of employers say they will definitely or probably pursue alternatives to the traditional offering of employer-sponsored insurance in the years after 2014. Those alternatives include dropping coverage, offering it through a defined-contribution model, or offering it only to certain employees. More than 30 percent of employers overall, and 28 percent of large employers, say they will definitely or probably drop coverage after 2014.[4]

> **"More than 30 percent of employers say they will definitely or probably drop employer-sponsored insurance coverage after 2014."**
>
> **–2011 McKinsey and Company Report**

As employers experiment with new health care options, they should carefully consider the potential negative impact on employee productivity, engagement and job satisfaction metrics of simply shifting expenses to their workers. Regardless of how companies restructure their benefits plans – adopting a high-deductible health plan (HDHP), sending workers to exchanges, or stop offering health insurance altogether – there are solutions and measures available to address what really matters, ensuring workers are protected and maintaining a positive work environment for the workforce.

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Decision point: To offer fewer or no benefits plans altogether

Implication: Acute challenges retaining and attracting U.S. workers

This year, more than one-third (36 percent) of companies have stated they intend to offer fewer or no benefits options as a result of health care reform.[5] Yet, the 2013 Aflac Open Enrollment Survey examined the potential impact of benefits plan changes and found that 55 percent of U.S. workers are at least somewhat likely to look for another job if their employers stop offering comprehensive benefits options, including sending them to a public exchange to buy health insurance. Furthermore, 85 percent of workers say their benefits package is important to their decision to leave their employer.

The overarching changes in the health insurance landscape will prove impactful on companies' ability to retain talent. In a pre-reform market, the fear of losing health insurance coverage resulted in employees continuing their employment with a particular employer rather than exploring other job opportunities. As a result of health care reform, it is easier for individuals and families to obtain affordable and comprehensive health insurance coverage, which might free employees to consider new job choices.

In fact, in the McKinsey & Company study, employers not likely to drop employer-sponsored insurance named talent attraction, employee satisfaction, and productivity as their top reasons for not doing so.[4]

As employers make choices about the exact make-up of their benefits program, a widening gap will likely emerge between those that continue to invest in comprehensive benefits plans, and those firms that don't. The "haves and have nots" of corporate America will be well-known, as benefits options have become a heightened issue and a subject of discussion among the majority of workers. Companies must assume today's workforce and job seekers will quickly know which organizations do and do not offer healthcare benefits options, given the social and digital transparent environment.

For companies that land on the side of hard-cost savings by sending workers to public exchanges, a decision that's understandable in the current economic landscape, the need to continue offering a well-rounded benefits program still exists. Generally, public exchanges will not directly offer ancillary benefits options that workers have come to expect and need to protect their health and financial wellbeing. Astute businesses will continue to offer employer-sponsored options such as, voluntary critical illness, accident, disability, employee-assistance programs (EAPs), and wellness initiatives to round out their benefits package.

Benefits offerings still matter to workers and job seekers, simply take into account the well-documented correlation between successful companies and the benefits options they offer their employees. While employees have come to anticipate and expect changes to their benefits packages, what matters most is they continue to feel valued and that their welfare is important to their employer. Without that, research points to a potential exodus of talent – with associated turnover costs that may well rival the cost savings the benefits changes were intended to deliver.

Decisions may erode brand reputation

Arguably, the benefits decisions a company makes as an employer affects its reputation and brand image among customers, business partners, investors, the community and its workforce. In addition, a company's benefits package is now a powerful tool in determining where it stacks up among competitors.

For example, Starbucks made headlines recently when the company's CEO said it will not follow the lead of other companies that are cutting health insurance benefits or reducing hours for employees.[5]

Starbucks has long offered one of the nation's most progressive benefits plans for retail workers, which pays more each year to insure its employees (over $200 million) than it pays for its raw coffee beans. This reputation has consistently put Starbucks on Fortune's annual "Best Companies to Work For" list and drives retention. The average quick-serve eatery's annual employee turnover rate is 200 percent. Yet, Starbucks maintains a 9 percent voluntary turnover rate.[6]

At a time when benefits plans are center stage, companies seeking a leg up on recruiting and retaining the country's top talent would be well-served to examine their approach to benefits offerings. Interestingly, all the companies that made Fortune's "Best Companies to Work For" list have three things in common – they all retained or even expanded their benefits options throughout the recession, they all looked for new benefits plans that would yield the most bang for a small amount of bucks, and they made sure the benefits packages matched the needs of their particular employees instead of taking a one-size-fits-all approach. In fact, 14 companies on the list pay 100 percent of their workers' health insurance premium.[7]

Decision point: To adopt High-Deductible Health Plan (HDHP) or Defined Contribution Plan

Implication: Lower employee satisfaction, workforce at high risk of financial fallout

According to the annual health benefits survey by Towers Watson and the National Business Group on Health, 66 percent of companies with 1,000 employees or more offered a HDHP this year, and the figure is expected to grow to nearly 80 percent next year.[2]

These forms of consumer-driven health plans can deliver significant benefits to both employer and employee, if implemented and communicated effectively. However, due to the higher out-of-pocket costs these plans often require, and increased employee involvement in health care spending decisions, there can be increased financial risks associated with HDHPs.

HDHPs are most effective when consumers are able to put aside enough money through a health savings account or other means to offset the high out-of-pocket costs, and simultaneously assume responsibility for health care decisions including shopping around for lower cost health care services. This can be challenging for some workers who have become content and comfortable with employer-provided and employer-driven health care programs.

Furthermore, with personal savings rates declining significantly from 5.4 percent in 2008 to a mere 2.6 percent in 2013[8], the dependence on savings that high-deductible health plans require may spell trouble for workers.

Backlash and lower job satisfaction due to cost-shifting

While shifting health care costs to workers may alleviate financial pressures for the organization, it can also lead to a new problem in the form of employee discord and dissatisfaction. In fact, nearly three-quarters (74 percent) of workers say it will impact their job satisfaction if their employer shifts an increasing portion of health care costs to them, and another 72 percent say it will impact their willingness to stay with their employer. Another 5 in 10 workers (47 percent) say they would feel more negatively towards their employer.[9]

However, most organizations haven't satisfactorily explained the effect of rising health care costs on their bottom lines, or the true cost of their contributions to workers' plans. The reality is that 4 in 10 workers (41 percent) say they don't fully understand their employers' contributions to their insurance plans.

Given that employee benefits packages are one of the largest expenses for any employer, companies must understand that with shifting more of that cost to employees, the cost will be significant to the company as well.

Decision point: For small employers, diminished or eliminated health care plans brings higher risk

Implication: Alarming turnover rates, hindered talent recruitment

According to Aflac research[9], 54 percent of small companies may consider pushing employees to pubic exchanges rather than offering major medical coverage. Further, one-fourth of small companies that plan to send employees to public exchanges will stop offering other insurance benefits.

Employers with 50 or fewer workers who are considering directing employees to buy insurance through public exchanges will need to take into account the projections for turnover among workers who are no longer offered comprehensive benefits plans by their employer. The costs of replacing valuable talent can stack up and must be measured when conducting a cost-benefits analysis of health insurance plan decisions. See example below from the 2013 Aflac WorkForces Report.

Unfortunately for employers, a majority of those employees who say they are "extremely or very likely" to leave their job if their employer stops offering comprehensive benefits plans describe themselves as the kind of workers that companies need to retain the most to stay competitive in a tight economy. Aflac's 2013 WorkForces Report found that those most at risk of leaving share these qualities or traits – hard working (90%), high achiever at work (79%), highly educated (73%), and ambitious or strives to get ahead (64%).

30 employees
x 55% at risk
of leaving = 16

16 x $15,495
(33% x average
salary of $46,954) =

$250,000 in
TURNOVER COSTS

For some small businesses, and their workforce, steering employees to an exchange or dropping benefits offerings altogether will have immediate and long-term implications. Many small-business owners mistakenly believe they can't afford to offer benefits options or opt for short-term relief of benefits costs. But while disengaging from benefits offerings may boost their bottom line in the short run, it may jeopardize long-term prosperity.

Characteristics of workers most likely to leave

- High-performing
- Hard working
- Ambitious
- Strive to get ahead

There is a reason that offering good benefits options is considered good business. Smaller companies already face an uphill battle as they compete for top talent, and there are certain benefits offerings the markets' 'A' players feel they must have. The inability to lure key talent to the company will put small companies at a disadvantage as the labor market tightens.

Solutions to help companies avoid potential fallout from benefits changes

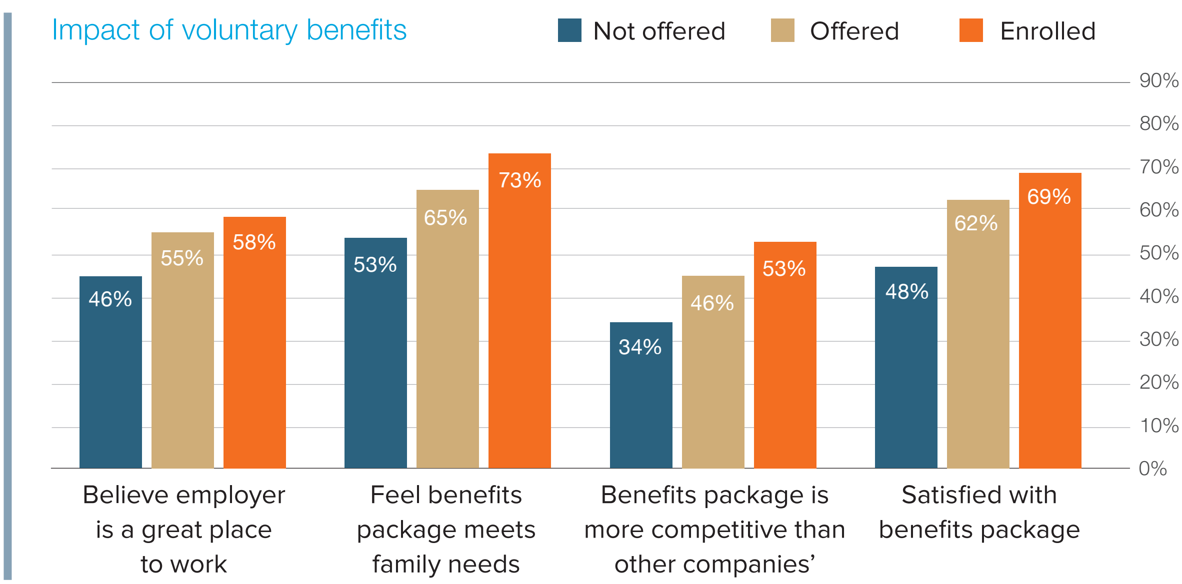
Health benefits designs and how they are communicated to employees and potential employees will be even more important to a company's competitiveness in the post-reform labor market. Nearly every organization has low-or-no-cost options available to them in order to maintain a comprehensive benefits program that provides opportunities to better protect their workforce.

Maintain comprehensive insurance options, with no impact on benefits budget

In nearly every scenario of benefits plan changes, workers will likely be exposed to higher out-of-pocket medical expenses than ever before. While these measures are necessary to thrive in today's economic environment, making these shifts without offering alternative or additional options for workers to help protect themselves financially can have negative consequences for all. The reality is more than 4 in 10 workers say they are not at all or not very prepared to handle an increase in out-of-pocket medical expenses.

Voluntary benefits options have always been an important part of a company's overall benefits package, but they are without question gaining in significance and popularity as the nation moves towards consumer-driven health care to offset rising health care costs. These benefits options can be offered with no-direct-cost to employers, but help to protect workers from unexpected out-of-pocket medical expenses due to serious illness or accidents.

In fact, a Towers Watson Study recently found that 48 percent of employers expect voluntary benefits options and services, designed to supplement employees' health care, information security and wealth management needs, to become "very important" to their total rewards strategies over the next half-decade.[10] For employees, the ability to have voluntary benefits options is equally important and greatly impacts their attitudes toward a number of worksite issues. See below.



Impact of voluntary benefits

A study from WellPoint found that 9 in 10 U.S. workers believe companies that offer a full range of benefits options help them simplify and secure their lifestyles. The survey compared workers' knowledge and attitudes toward voluntary benefits options from 2010 with those of today. Employees continue to favor companies that offer voluntary benefits options, according to the survey, with 90 percent of Americans agreeing that voluntary benefits options are a good tool to help companies balance the needs of their employees while dealing with tightening budgets.[11]

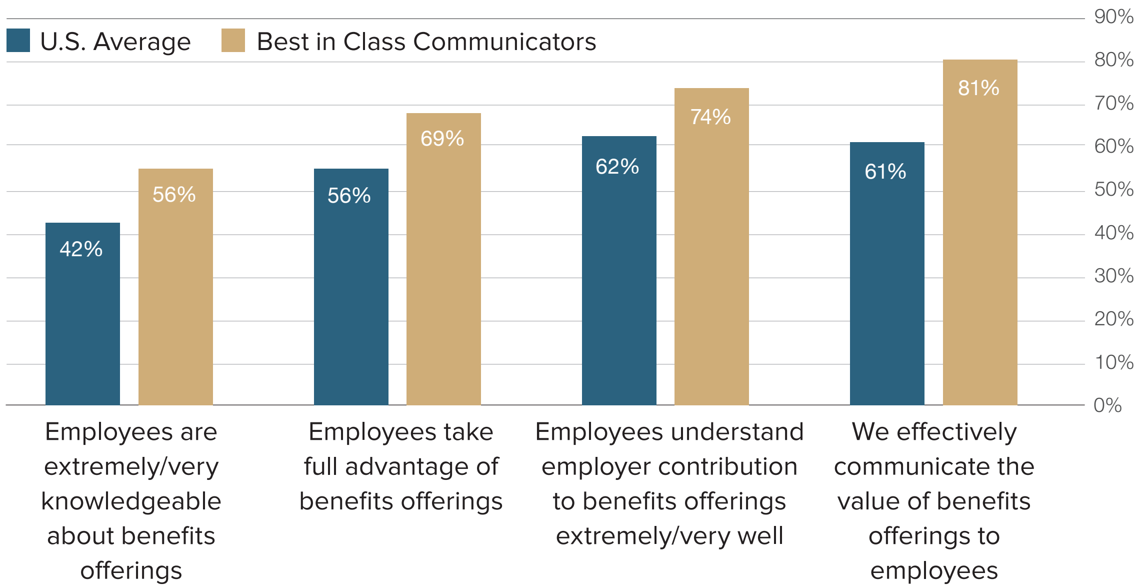
Employers who choose to offer an HDHP would be well-served to provide voluntary benefits options alongside these plans to better ensure the financial and personal well-being of their workforce.

Companies must focus on benefits messaging

Every employer must be prepared to explain the impact of health care reform, regardless of whether it is changing benefits offerings or not. Workers expect this information from their employers and with an abundant amount of complex information hitting the airwaves, they will need factual, easy-to-understand advice and guidance.

A full 35 percent of large organizations and 66 percent of mid-sized organizations don't have an employee communications budget related to benefits offerings.[12] Yet, as a recent Aflac survey demonstrates (below), organizations which employ best-in-class benefits communications strategies see improvements in employee attitudes and knowledge.

Effectiveness of benefits communication



Beyond the improvements in worker education, knowledge and understanding about benefits offerings, companies will need to negate the potential backlash of negative perceptions due to cost-shifting. Marketing and communications plans can help shed light on cost pressures and help workers truly understand the scope of company contributions. Often, in the absence of information, workers assume the worst or let rumor and gossip dictate their beliefs. Taking steps to manage the messaging and perception can greatly negate the potential damage to reputation and morale.

Maintaining employee health and welfare will remain priority for foreseeable future

Even for companies that decide to drop employer-sponsored insurance altogether, the need to maintain their workers' health, productivity and satisfaction will continue to be important and have an impact on profitability. Employers will need to consider expanding or instituting wellness programs and initiatives to focus on elements that have a substantive and documentable impact on employee health and satisfaction, but that also provide the right incentives to encourage participation.

The many health benefits of exercise are important for work productivity, job satisfaction and reducing absenteeism.[13] Wellness programs provide incentives for businesses to offer on-site health facilities, gym membership discounts, fitness programs and other platforms that encourage physical activity. No matter the size of budget, encouraging workers to include physical activity in their daily routine will show workers you care about their health and well-being. In fact, nearly 7-in-10 employees (69 percent) who believe that one of their employer's top objectives is to care for its employees are also very or extremely satisfied with their job.[14]

Conclusion

As businesses decide whether to offer employer-sponsored health insurance after 2014, they will have to balance the need to remain attractive to talented workers with the net economics of providing benefits options – taking into consideration all the penalties and tax advantages of offering or not offering any given level of coverage. The bottom line is when employees receive the benefits they need and value, they are more satisfied, miss fewer workdays, are less likely to quit, and have higher productivity and engagement levels.

How companies formulate their benefits package, beyond major medical insurance, will have implications greater than just cost. A clear division between the benefits options "have and have nots" will emerge. Reputations will be formulated, and the result may be hidden expenses in the forms of hard-to-recruit talent, high turnover and decreasing productivity.

The 2013 Aflac WorkForces Report is the 3rd annual Aflac employee benefits study examining benefits trends and attitudes. The study, conducted by Research Now between January 4 and January 24, 2013 captures responses from 1,884 benefits decision-makers and 5,299 employees across the U.S. For more information, visit AflacWorkForcesReport.com.

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[1] Wall Street Journal Online, accessed http://online.wsj.com/article/SB10001424127887323582904578488781195872870.html, October 2013

[2] Annual Health Benefits Survey, conducted by Towers Watson and National Business Group, March 2013, http://www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2013/03/Towers-Watson-NBGH-Employer-Survey-on-Value-in-Purchasing-Health-Care

[3] Crain's Chicago Business, Sept. 23, 2013 accessed http://www.chicagobusiness.com/article/20130921/ISSUE07/309219993/editorial-employers-hidden-costs-of-obamacare#

[4] Employer Survey on US Health Care Reform, conducted for McKinsey & Company by Ispos, June 2011, http://www.mckinsey.com/features/us_employer_healthcare_survey

[5] Huffington Post, 8/29/2013, http://www.huffingtonpost.com/2013/08/26/starbucks-worker-benefits-obamacare_n_3818870.html

[6] Fortune Best Companies to Work For 2013, accessed on cnn.money.com, http://money.cnn.com/magazines/fortune/best-companies/2013/snapshots/94.html

[7] CNN Money, accessed http://money.cnn.com/magazines/fortune/best-companies/2012/benefits/

[8] http://www.policymic.com/articles/19401/fiscal-cliff-2013-why-household-savings-matter-the-most-for-us-economy

[9] 2013 Aflac WorkForces Report, conducted by Research Now in January 2013, captured responses from 1,884 benefits decision-makers and 5,299 employees across the U.S. For details, visit AflacWorkForcesReport.com

[10] 2013 Voluntary Benefits and Services Survey, August 2013, conducted by Towers Watson, http://www.businessinsurance.com/article/20130807/NEWS03/130809875#

[11] Wellpoint Omnibus Survey, conducted in July 2013, http://ir.wellpoint.com/phoenix.zhtml?c=130104&p=irol-newsArticle&ID=1837874&highlight=

[12] Survey of midsize & large organizations, conducted by ADP Research Institute, accessed: http://www.adp.com/~/media/Media/WSR_FebMar13.ashx

[13] Daley, A.J and Gaynor P. (2011). Good health – Is it worth it? Mood states, physical well-being, job satisfaction and absenteeism in members and non-members of a British corporate health and fitness club. Journal of Occupational and Organizational Psychology.

[14] 2013 Benefits Landscape Survey: A look at buyers and non-buyers of supplemental benefits, a study conducted by Prince Market Research on behalf of Aflac, August 2013.

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 healthcare.gov (which may also be contacted at 1-800-318-2596) for additional information.