SUMMARY

HIDDEN CURRENTS

Under-the-Surface Changes in the Employee Benefits Market

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Under-the-Surface Changes in the Employee Benefits Market

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Overview

The employee benefits market will inherently face the new challenges of altering employee demographics and employers who continue to fight the old hurdles of rising health benefit costs. Addressing these challenges sooner rather than later opens up new roads for market expansion.

Many challenges employers are facing today are not new. Cost concerns govern their benefit policies and employers continue to shift their costs to employees. The rebound of the U.S. economy appears to be too weak to spur any significant changes in employers' attitudes towards offering benefits. The number of employers who offer insurance benefits has not changed significantly since 2013, but employers have started to offer fewer benefits than they did three years ago.

While employer challenges are the same, employee demographics are changing, yet employers continue to cater to their traditional benefit constituents: full-time employees. Generally, companies offer benefits that they consider an important attraction and retention tool, yet, those tools are not utilized if employers have sizable remote, part-time, or contract workforces. This approach will impede any potential employee benefits market growth, considering projected changes in employee demographics going forward. The "gig economy" is here and projected to grow, reaching to 40 percent of U.S. workforce, according to Intuit estimations.[1] It brings new occupations, "open talent" economy and, as a result, the alternative work arrangements — all of which may be difficult to underwrite or administer. Avoiding these challenges now will inhibit the market growth in the future.

Things to consider:

As an industry, we should not treat employers as an "access point" within the employee benefits landscape. We should create a partnership with employers to help them uncover the value that employee benefits bring to their organization if all members of their workforce have access to benefits. We should help employers understand how the soft and hard dollar investments into employee benefits will benefit employers' business objectives.

[1] http://money.cnn.com/2017/05/24/news/economy/gig-economy-intuit/index.html

Current Benefit Landscape

The percent of employers offering benefits dropped significantly between 2000 and 2014 and has remained flat since then, despite the improving trends in the overall economy.

BENEFIT PENETRATION TRENDS

Officially, U.S. economy is at the expansion phase of its business cycle, with GDP rate gradually picking up, and unemployment rate rapidly decreasing compared to what we observed back in 2009–2012. But the economic recovery after the 2008 recession has been painfully slow, delayed by the debt crisis of 2011, fiscal cliff of 2012, and the government shutdown of 2013. While the economy is in its growth cycle, benefit penetration rates are nowhere near the level they were pre-recession. The lack of visible growth in the employee benefit marketplace is caused by employers' cautious response to an improving economy, challenges that ACA legislature is posing, and an overall continued increase in the average annual premium for employer-sponsored health insurance that drives employers' overall benefit policies (Figure 1).

- The decline in the overall percent of employers who offer employee benefits is also accompanied by the notable decline in the number of benefits offered across all employer segments. Evidently, despite the economic recovery, employers did not change their benefit policy from a strict budget.

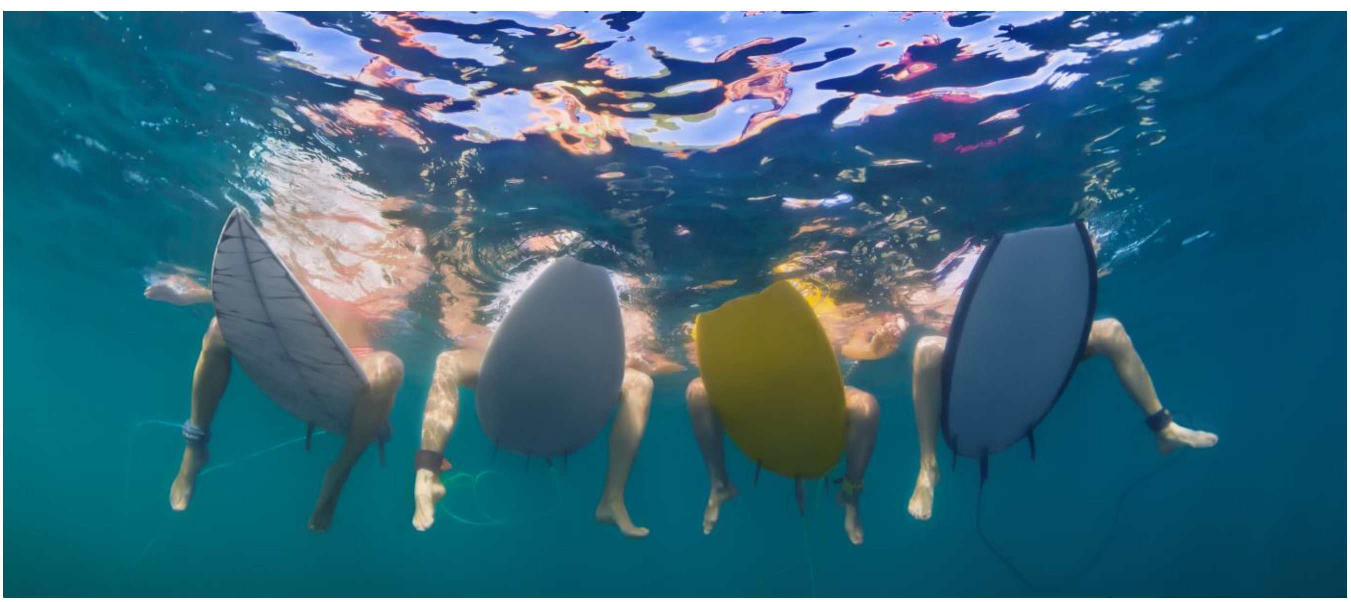


Figure 1 — Economic Trends and Total Insurance Benefits Offered

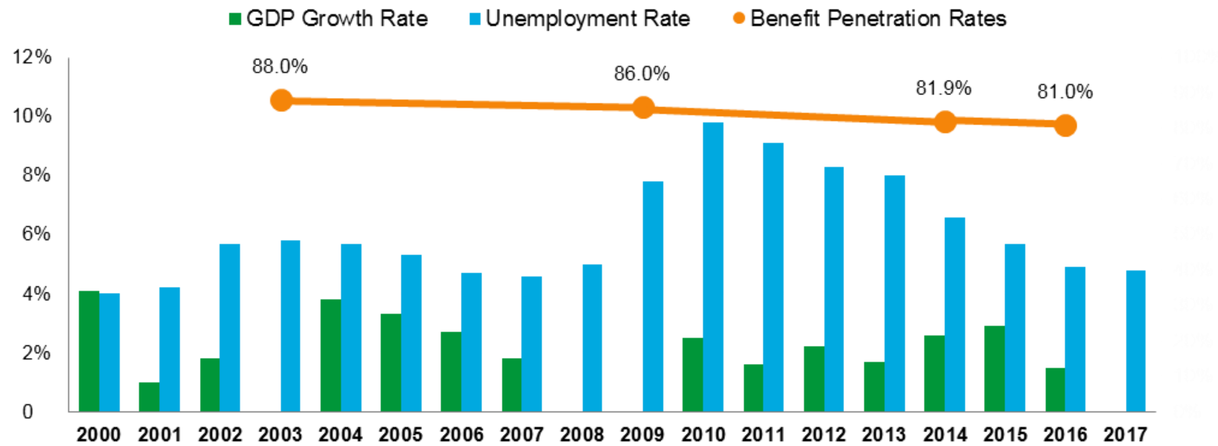
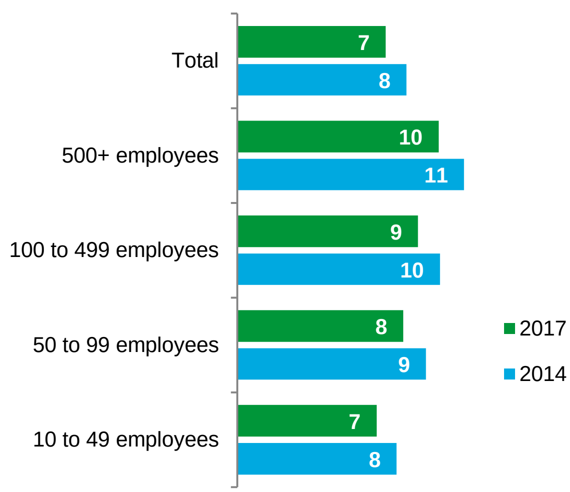
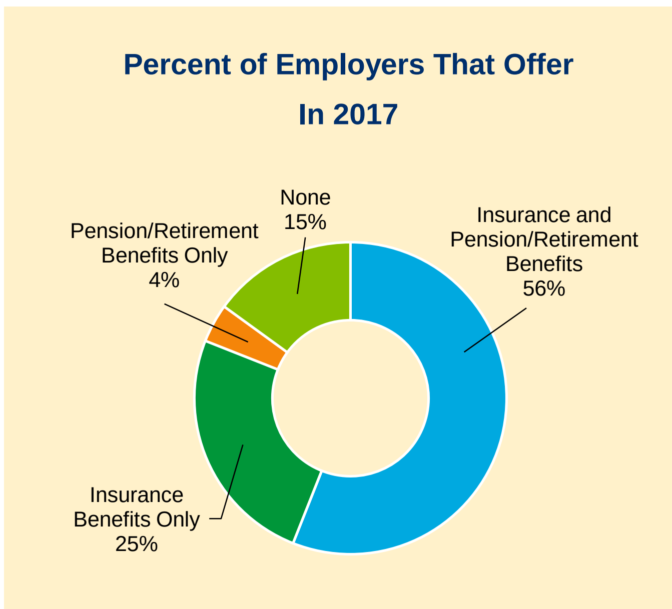


Figure 2 — Average Number of Benefits Offered





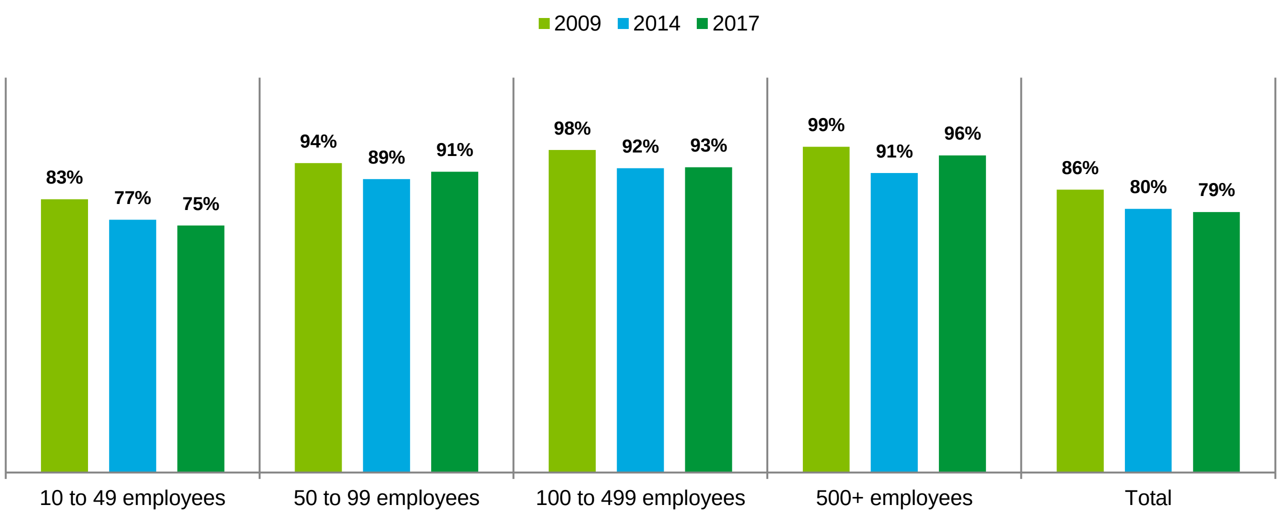
Benefits at a Glance: Spot on Medical

Employers' benefits policies are led by trends in health insurance, which, in turn, are driven by ACA legislation and past/present cost controlling challengers.

Since 2014, many provisions of the ACA reform went into effect and we started to observe the initial impact they made on the employee benefits landscape. The ACA directly and indirectly defined the dynamics of employer-provided healthcare benefits. Notably, the trends that we detect within different employer size groups reveal the ACA bearing.

- First, the overall decline in percentage of employers who offer medical benefits is markedly driven by employers with fewer than 50 employees. Yet, compared to 2014, the percentage of employers with 500 employees and more who offer medical benefits increased. This segment offers multiple healthcare benefits, and actively adds high deductible plans to its portfolio.

Figure 3 — Percent of Employers Offering Medical Benefits



- More than **half** of employers are offering just one medical plan with PPO being the most popular plan design option employers choose to offer.
- Only a fraction of employers offer a high deductible option, particularly smaller employers. The majority of employers with high deductible plans offer health saving accounts (HSAs) (85 percent).
- Health plan enrollment varies greatly by the type of plan.

Medical Plan Enrollment

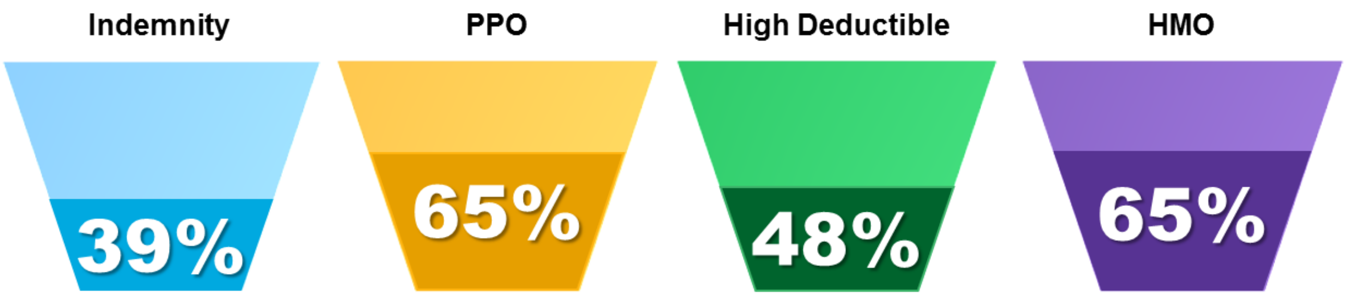
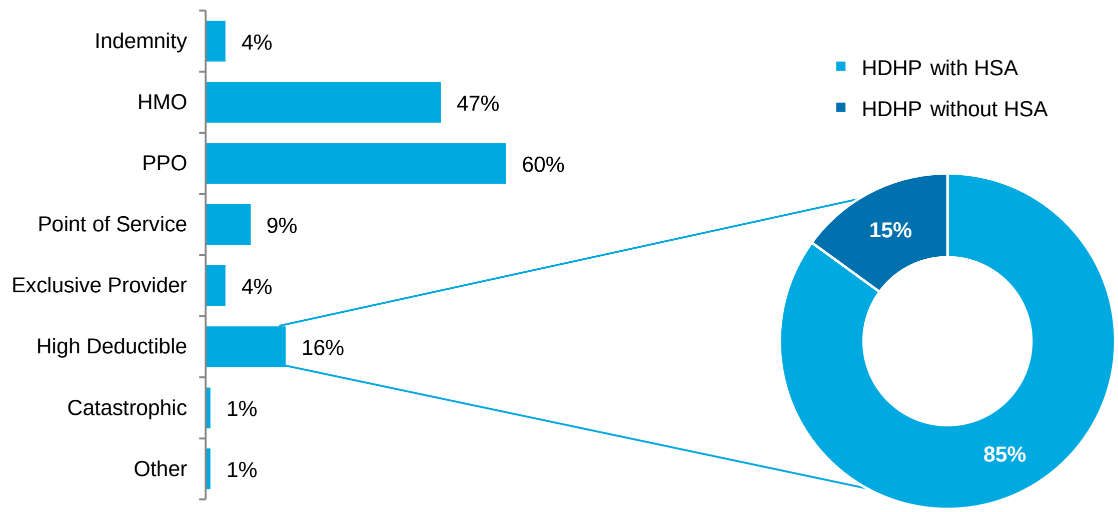


Figure 4 — Type of Medical Plans Offered

Figure 5 — Percent of Employers Offering HSA

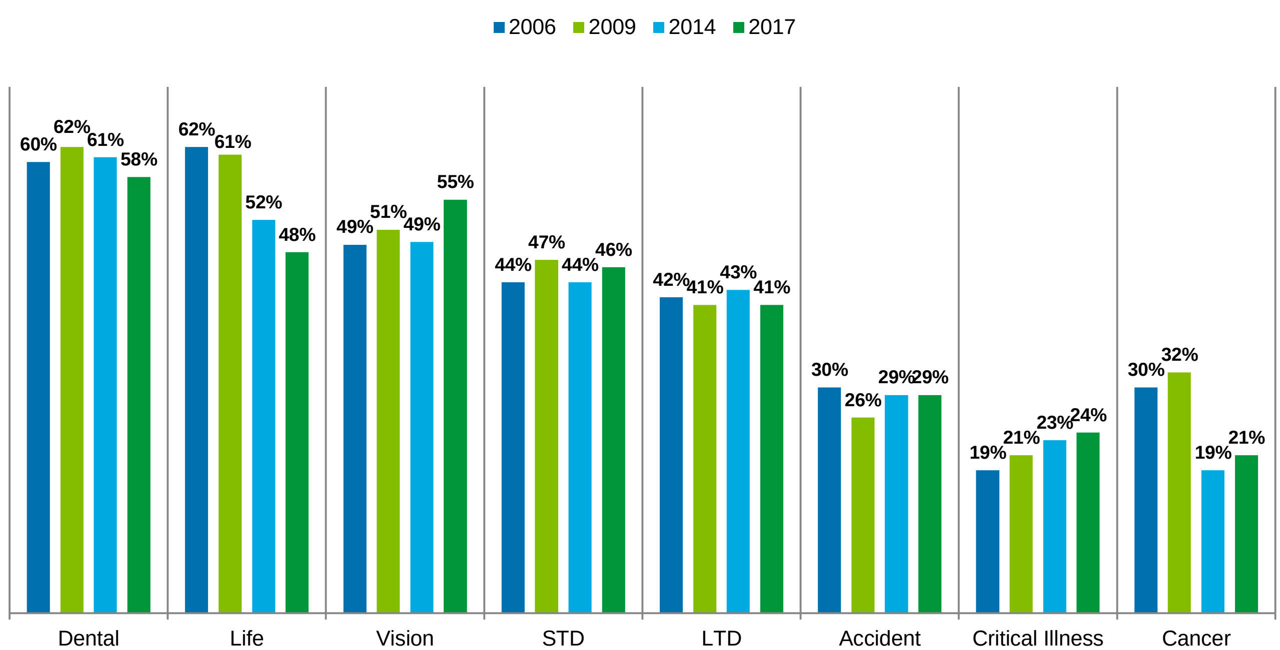


Benefits at a Glance: Non-Medical Benefits

Non-medical benefit penetration rates showed a great variety depending on the product and employer size. For example, smaller employers with fewer than 50 employees (exempt from ACA immediate pressure, yet faced with the burden of the overall benefit costs) cut out not only on healthcare benefits, but also reduced other core employee offerings such as dental and life benefits (Table A2).

In addition to growth in medical penetration benefits, employers with 500 employees or more, showed positive trends for other core benefits such as dental, life, vision, LTD, and CI.

Figure 6 — Percent of Employers Offering Benefits



Benefit Funding

To understand the scope of cost shifting processes in benefit funding, we need to take into account not only how the number of employers who offer a benefit on a strictly 100 percent employee-pay-all basis shifts, but also examine what happens with the contributory segment. Changes within the contributory segment disclose employers' active cost shifting approaches.

Employers display a wide variety in the percent of premium they choose to cover, and benefit funding varies greatly from company to company. As with the benefit penetration rates, employer size is central. Employers with fewer than 50 employees are not only less likely to offer employee benefits, but are less likely to pay for them, with a higher percentage of these companies opting for purely voluntary options where the employee pays 100 percent of the benefit costs.

- Overall, only 3 in 10 employers offer at least one benefit on a 100 percent employee-paid basis. The rest deploy different contributing arrangements. The analysis of this dynamic reveals that even while the overall percent of employers who offer 100 percent employee-paid benefits did not change since 2009, employers with 50 to 99 employees are actively decreasing their share of premium contribution across all benefits offered.
- While many employers continue to offer benefits on a contributing basis, they do decrease the share of premiums paid, which is the cost-shifting trend we have been observing for many years now.

Table 1 — Percent of Premium Paid by Employer*

	100%		10% – 90%		0%	
	2009	**2017**	**2009**	**2017**	**2009**	**2017**
Medical	25%	18%	74%	80%	1%	2%
Dental	20%	22%	68%	63%	12%	15%
Vision	22%	22%	66%	61%	11%	17%
Life	45%	46%	43%	41%	12%	13%
Short-term disability	30%	30%	45%	49%	25%	21%
Long-term disability	32%	40%	46%	34%	22%	26%
Critical illness	9%	8%	61%	55%	30%	37%
Accident	13%	19%	47%	46%	40%	35%
Cancer	5%	11%	44%	43%	51%	46%

** Respondents provided percent of premium in 10 percent increments, based on employee-only coverage.*

Benefits as an Attraction Tool

The analysis of changing employer attitudes towards benefits as an attraction tool provides helpful insights into what trends to expect in benefit penetration rates.

While employers continue to see medical coverage as the most important benefit to offer to attract employees, a few key movements in employer perspectives occurred over the last few years. It is no surprise that we saw an increase in the number of employers offering vison benefits. These plans had the highest increase since 2014 with regard to employers' perception of what benefits they must offer to attract employees.

However, almost all other benefits have declined in perceived importance to employers, which generally corresponds to the trends in benefit penetration. Quite logically, at a time of continuous effort to contain employee benefits costs, employers tend to offer only what they consider attractive to employee talent, and it seems that the number of traditional core offerings is continuously losing its appeal in the eyes of plan sponsors.

Interestingly, there is a direct link between employee demographics and employers' view of benefits as an attraction tool. Employers with fewer full time employees are less likely to view employee benefits as an attraction tool. In a sense, employers still tend to view benefits within the framework of their traditional full time workforce, despite the rapidly changing work environment that incorporates diverse work engagements, such as remote and contract arrangements.

Figure 7 — Difference in Perceived Importance of Benefits, 2017 / 2014

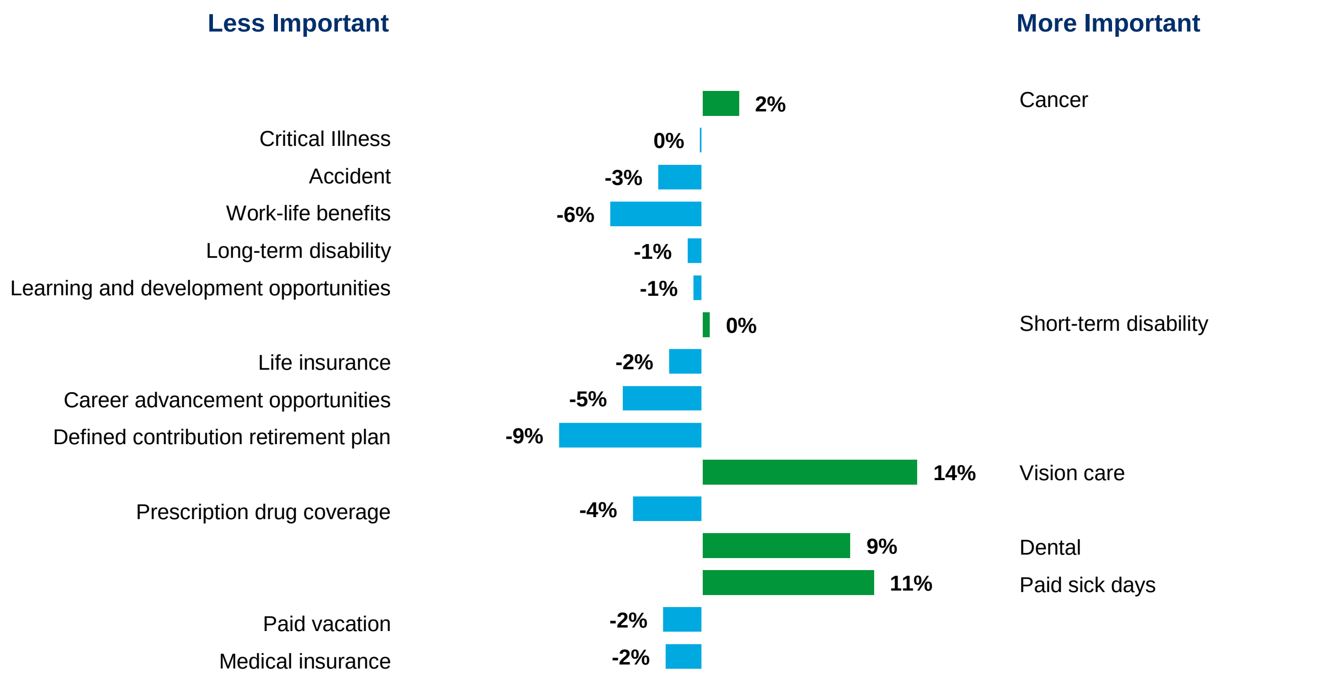
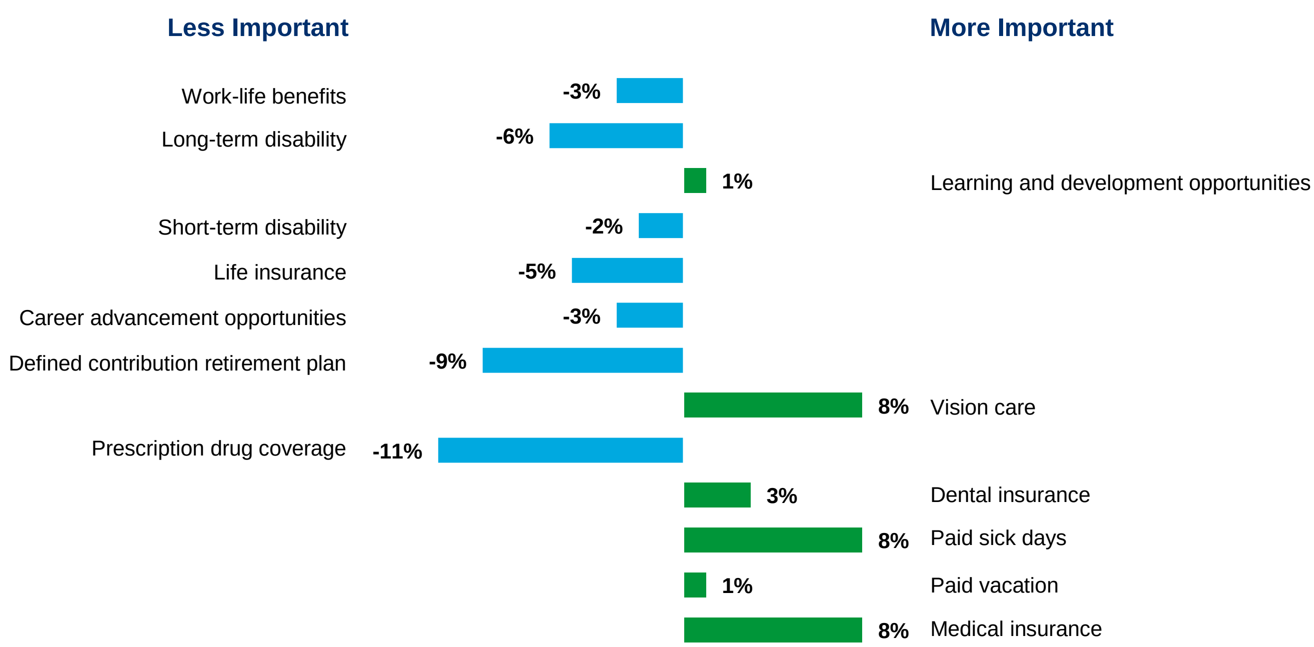


Figure 8 — Difference in Perceived Importance of Benefits, 2017 / 2009



NOTE: Data was not collected for Accident, Cancer, and CI insurance in 2009.

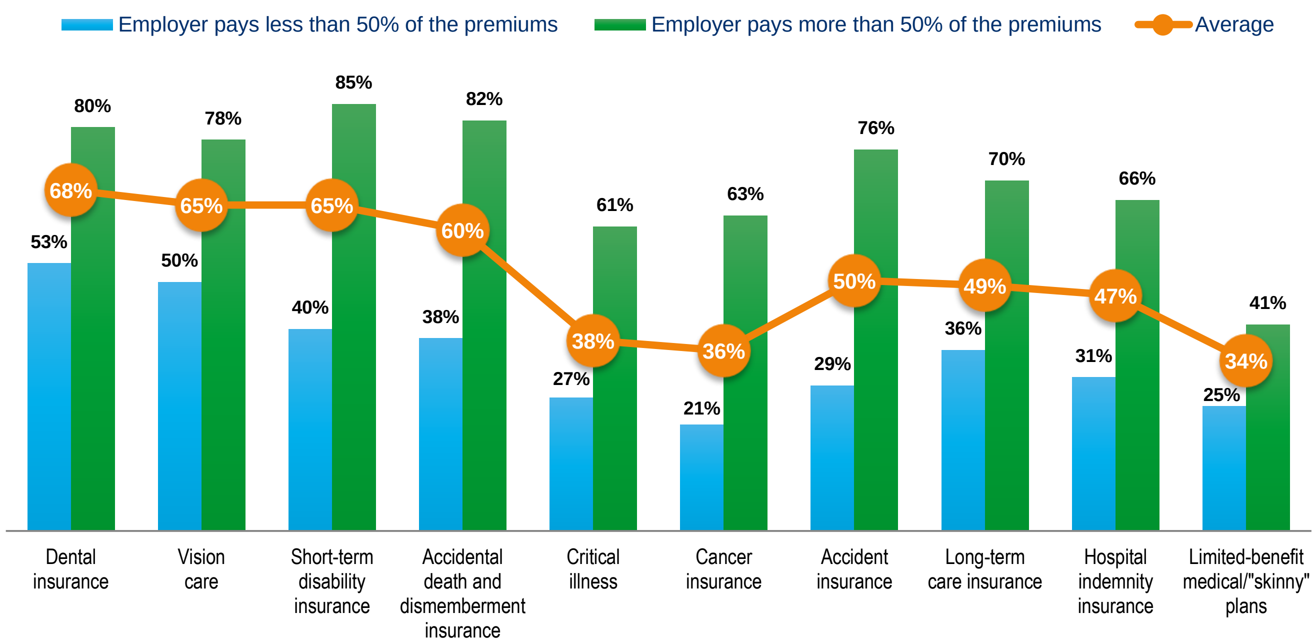
Participation Rates

Despite increased efforts to create effective benefit communications, the messages are not getting across and enrollment rates are often a derivative of employers' funding methods, versus the value of these products to employees.

In the past few years, the employee benefit insurance industry actively promoted the need for effective benefit communications. Indeed, many employers — while treating employee benefits as an attraction and retention tool — deal with disengaged employees and rarely focus on benefit participation rates. The discrepancies in benefit enrollment for voluntary benefits and the ones where employers contribute to insurance premiums speak for themselves.

- A look at current participation rates opens up a distinct perspective into the employee benefits world. Benefit participation rates climbs as soon as employers are paying more for them. Yet, even in this scenario, some benefits have much lower enrollment versus others.
- Despite a call for a more targeted and effective benefit communication campaign,[2] employers are slow to establish measurable goals in benefit participation, and enrollment rates have not changed since 2014.

Figure 9 — Average Benefits Participation Rates



[2] *Help Employers Connect the Dots,* LIMRA, 2016.

Adding Benefits

Employers' cautious response to economic recovery contributes to their low interest in bringing any changes to the current benefit portfolio. Overall, just 1 in 10 employers who currently offer insurance benefits definitely plan to add an insurance benefit in the next 18 months. Another 2 in 10 employers may be adding at least one benefit in the near future. These have not changed much since 2014.

- When employers are considering adding benefits, 2 in 10 are not sure what percent of the premium they are going to pay, and another 4 in 10 plan to contribute less than 50 percent of the premiums.
- There are significant differences in employers' plans to add insurance benefits based on employer size, with larger employers are more likely to expand their benefit portfolio in the future.

Table 2 — Three Insurance Benefits to Add*

	Percent Of Employers
Prescription drug	20%
Medical	15%
Dental	11%

**Based on employers who currently do not offer a benefit but planning to add a benefit, "yes" responses only.*

Note: Please, refer to the complete list of benefits in the appendix.

Dropping Benefits

While employers are reluctant to add any benefits in the near future, they are also not in a rush to drop any.

- One in 10 employers who currently offer insurance benefits indicated that they are planning to drop a benefit in the next 18 months.
- While almost half of employers who are planning to drop at least one insurance benefit in the next 18 months stated that they plan to drop medical benefits, this number is driven by companies who offer multiple medical plans, and indicates an intent to decrease a number of medical plans offered, rather than eliminating a medical benefit entirely.

Table 3 — Top Five Insurance Benefits to Drop, Percent of Employers 2017 / 2014*

	2017	2014
Medical insurance	47%	59%
Prescription drugs	29%	45%
Dental insurance	22%	41%
Vision	19%	32%
Life insurance	17%	24%

**Based on employers who plan to drop at least one insurance benefit in the next 18 months.*

Note: See Appendix for a complete list of benefits.

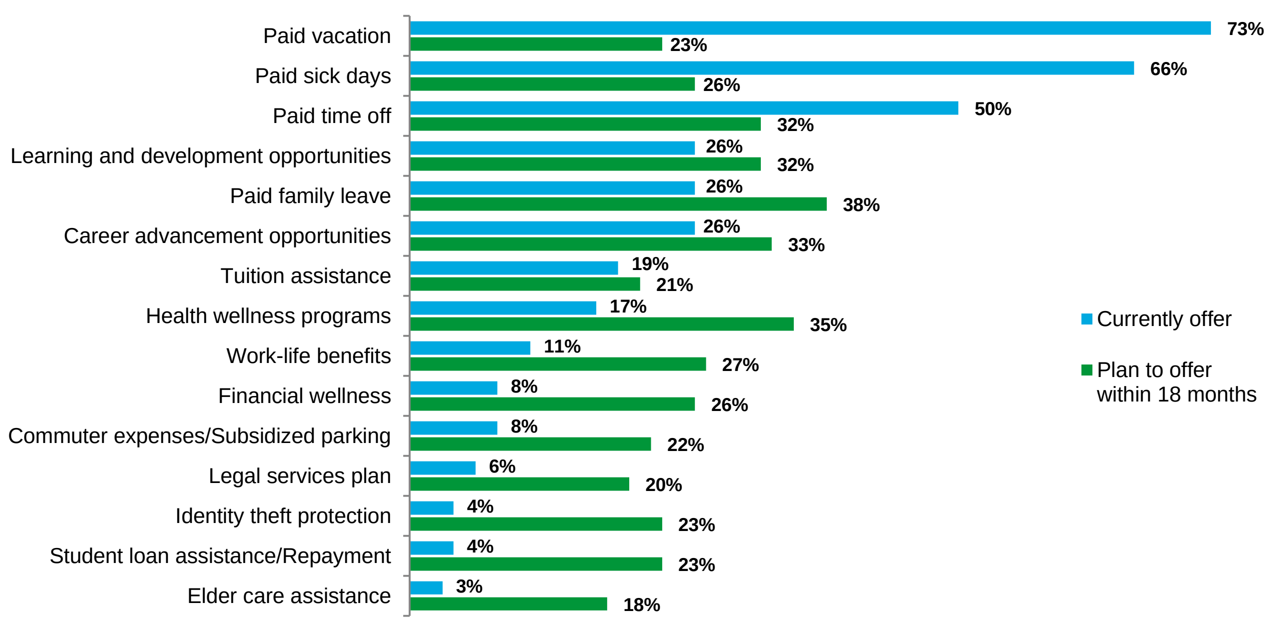
New Favorites: A Spotlight on Non-Insurance Employee Benefits

While there is a decline in benefit offerings across a number of core insurance benefits, employers are actively filling the void with a variety of non-insurance products, such as work/life benefits and learning and development opportunities.

"Non-traditional" benefits have become the new favorite for full time employees as well as for the emerging contingent workforce. Expanding benefit portfolios to include a variety of innovative and non-conventional benefits creates an engaging work environment and is a win-win situation for both employers and employees. Not surprisingly, 9 in 10 employers who currently offer insurance benefits offer at least one non-insurance benefit as well.

- Similar to traditional insurance plans, benefit penetration rates for non-insurance offerings increase exponentially with employer size, and to some degree start to compete with core benefits. For example, half of employers who offer only two core insurance benefits, offer more than three non-insurance benefits to their employees.
- However, health wellness programs — widely discussed in light of the ACA reform that created new incentives and builds on existing wellness program policies to promote employer wellness programs — have surprisingly low traction, especially among smaller employers, yet these benefits are one of the most likely to be added in the near future.

Figure 10 — Percent of Employers Who Offer Non-Insurance Benefits*



**Based on employers who currently offer insurance benefits.*

Appendix

Figure A1 — Percent of Employers Who Consider Benefits as an Attraction Tool

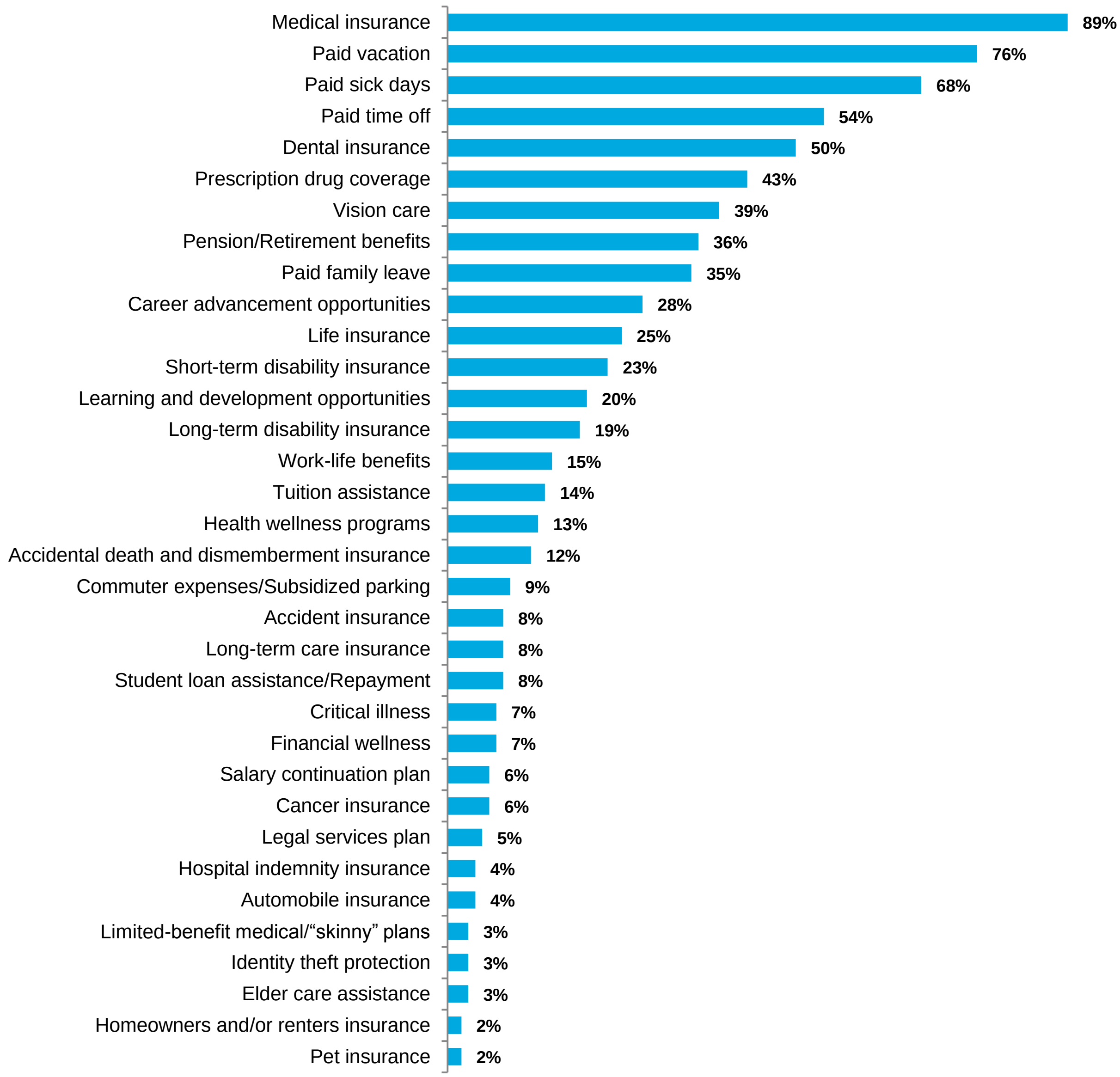


Figure A2 — Benefit Enrollment Based on Employer Premium Contribution

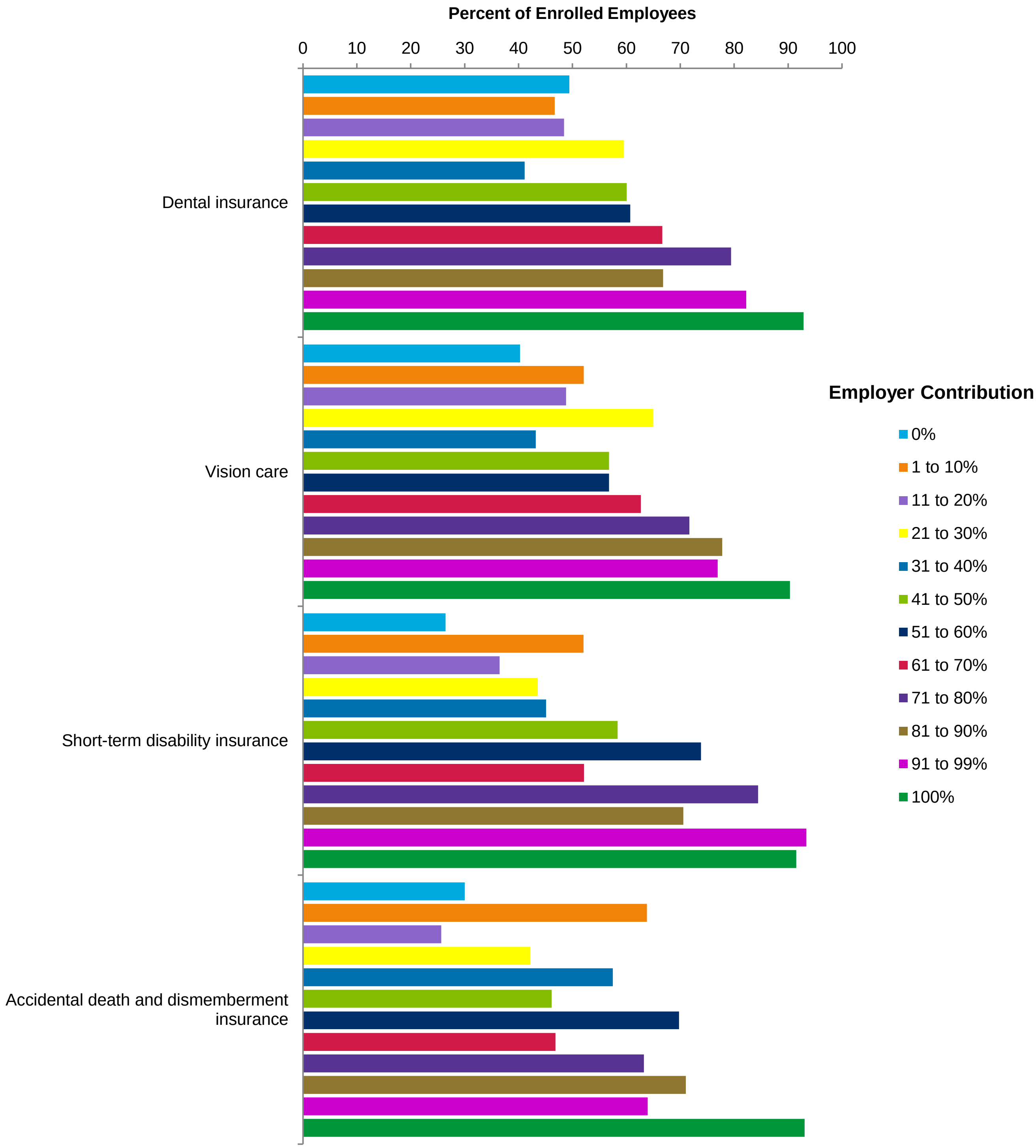


Figure A2 — Benefit Enrollment Based on Employer Premium Contribution *(cont'd)*

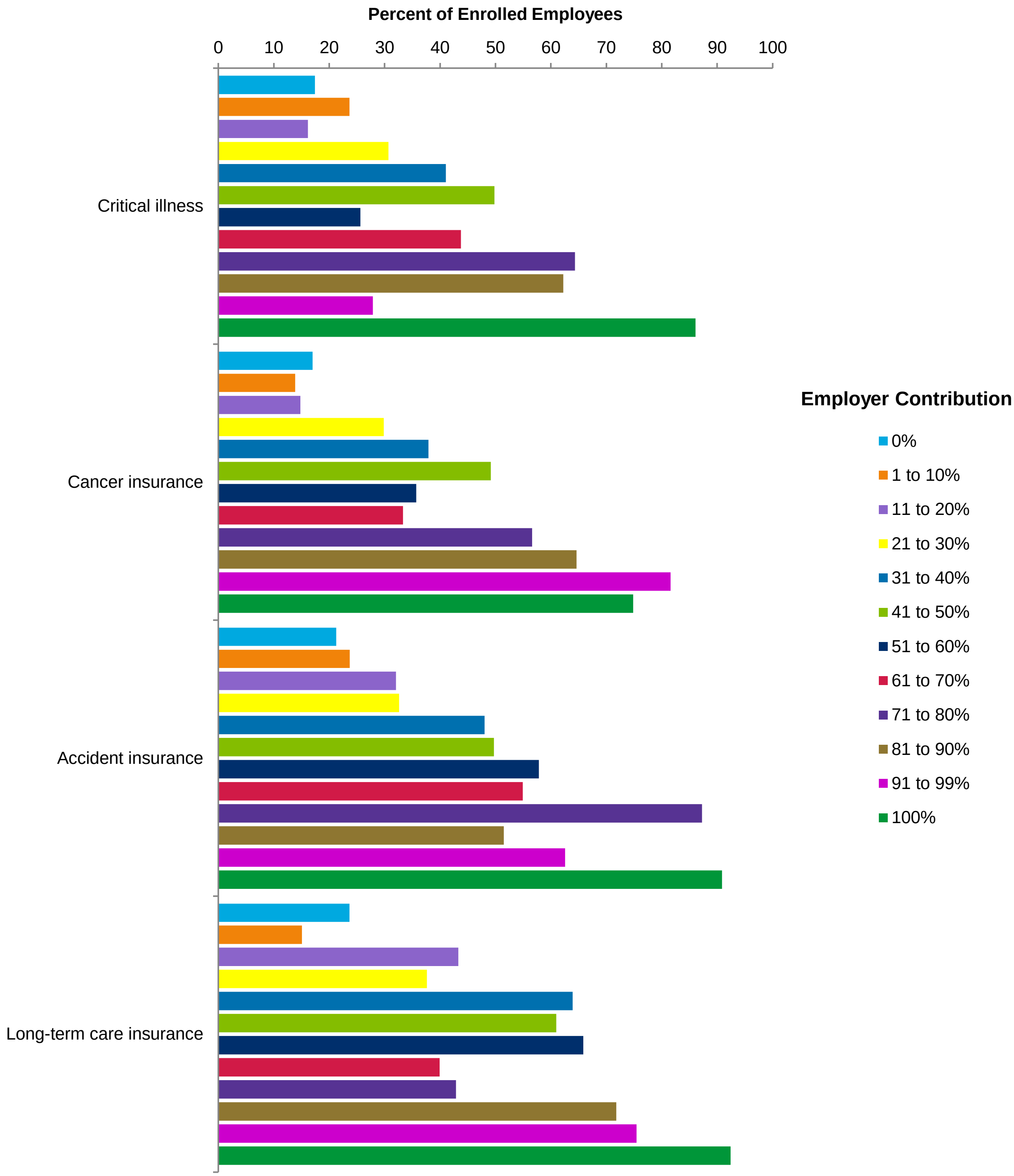


Figure A3 — Benefit Participation Rates: Life and Long-Term Disability Insurance

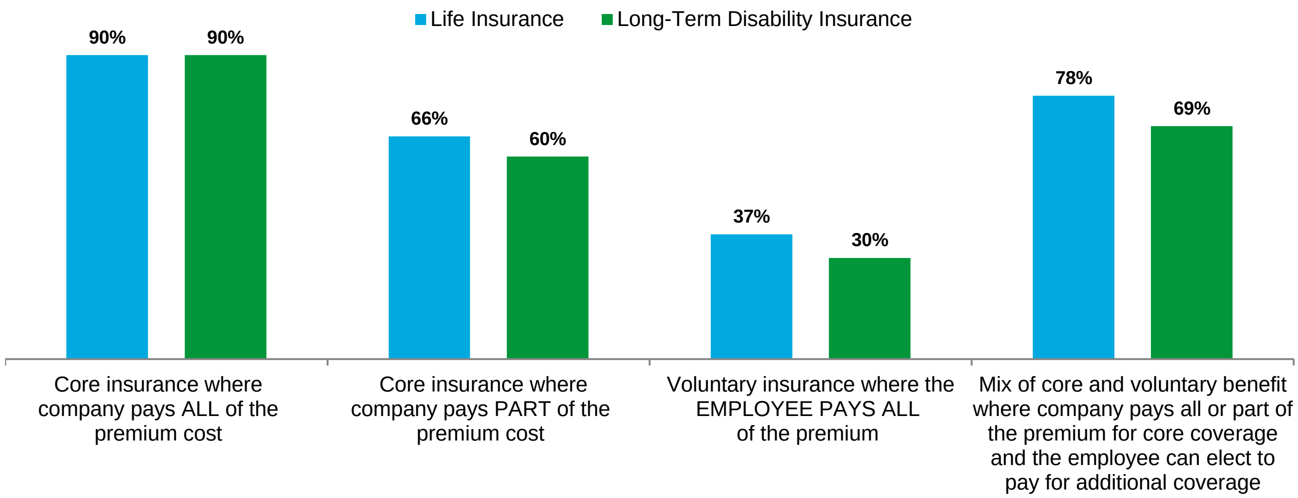


Table A1 — Insurance Benefits to Add*

	Percent of Employers
Prescription drug	20%
Medical insurance	15%
Dental insurance	11%
Short-term disability insurance	5%
Vision care insurance	4%
Life insurance	4%
Accidental death and dismemberment insurance	4%
Cancer insurance	4%
Long-term care insurance	4%
Critical illness insurance	3%
Long-term disability insurance	2%
Hospital indemnity insurance	2%
Accident insurance	1%
Limited medical benefit insurance	1%

**Based on employers who currently do not offer a benefit but planning to add a benefit, "yes" responses only.*

Table A2 — Benefits to Drop

	2017
Medical insurance	47%
Prescription drugs	29%
Dental insurance	22%
Vision care insurance	19%
Life insurance	17%
Long-term disability insurance	15%
Accident insurance	14%
Critical illness insurance	12%
Cancer insurance	10%
Hospital indemnity insurance	9%
Accidental death and dismemberment insurance	9%
Hospital indemnity insurance	9%
Short-term disability insurance	8%
Long-term care insurance	6%

**Based on employers who plan to drop at least one insurnace benefit in the next 18 months.*

Methodology

In September 2017, LIMRA surveyed U.S. employers to determine the latest trends in penetration rates of employee benefits and retirement and savings plans; e.g., what percent of employers offer various benefits. The survey included 1,497 private employers with 10 or more employees that had been in business for at least three years. Respondents were the individuals that made or shared in the firms' decisions concerning employee benefits. The sample was weighted by company size and industry to be representative of the total population of U.S. employers with 10 or more employees, based on data from the U.S. Census Bureau.

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