

# Voluntary Benefits and Services Survey

## A Fresh Look at Enriching Core Benefit Plans

### Executive Summary

Amid a fragile economy, tight benefit and salary budgets, and new, major health care reform legislation, employee benefits and HR professionals face significant pressure to control costs while delivering rewards that are competitive and aligned with employee needs. To manage this balancing act, employers are rethinking their financial commitment to employee benefits and redefining their total rewards strategies.

Against this backdrop, companies are thinking more creatively and strategically about how to design reward programs that are both within cost constraints and attractive to employees. Many are turning to voluntary benefits and services (VBS) to help achieve this goal. In some form, VBS have supplemented core benefit packages since the 1960s. Today, these benefits are evolving and deserve a fresh look, given the new landscape and their role in the overall employee value proposition (EVP).

For many employers looking to optimize the value of the benefit portfolio while meeting cost objectives, VBS are increasingly attractive. They serve to enhance

gaps in employees' security, health, wealth and personal needs. Also, employees are responsible for some or all associated costs.

For employees, the VBS model offers choice, convenience and affordability. They can select from an array of options to personalize their benefit package to fit their lifestyles. They can select voluntary products at open enrollment and fund them through payroll deductions. And in many cases, employees pay less when purchasing products in a group-offered model.

In promoting the value of VBS plans to employees, however, employers need to recognize that employees have limited compensation dollars to spend. They would do well to communicate to employees that — before turning to VBS options — they should appropriately fund their 401(k) plans, and understand the financial advantages of health savings accounts (HSAs) and how they can be used to close gaps in medical coverage. Ultimately, employers benefit from their employees being able to complement health care with some VBS options.

Towers Watson's 2013 Voluntary Benefits and Services Survey results shed light on how employers develop voluntary benefit strategy and design the VBS product portfolio. The responses of more than 320 U.S. companies ranging from 540 to 345,000 employees confirm a growing interest in and focus on voluntary benefits. The findings also reveal the role of VBS in a post-reform world, emerging products and relevance for workforce segments.

### Key Findings

The following themes emerge from this survey:

- VBS are gaining importance for companies' EVPs. Employers plan to reexamine VBS as a viable part of their reward package, with 21% planning to do so this year and 48% expecting to do so in 2018.
- Employers are turning to VBS to personalize their benefit offerings and support their total rewards strategy. More than 80% of companies have adopted VBS to enrich their current programs at a time when they are reconsidering their financial commitment to traditional benefits.

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### Four Categories of VBS

VBS meet employee needs by addressing concerns across four critical life needs: health, wealth accumulation, security, and unique personal interests or requirements. Health benefits foster employee and dependent well-being while mitigating risk at a reasonable cost. Wealth products protect income and assets; the security products protect survivors, the vulnerable or one's identity. The final category covering personal products provides convenient access to desired insurance coverages and other services that the employee perceives as personally important.

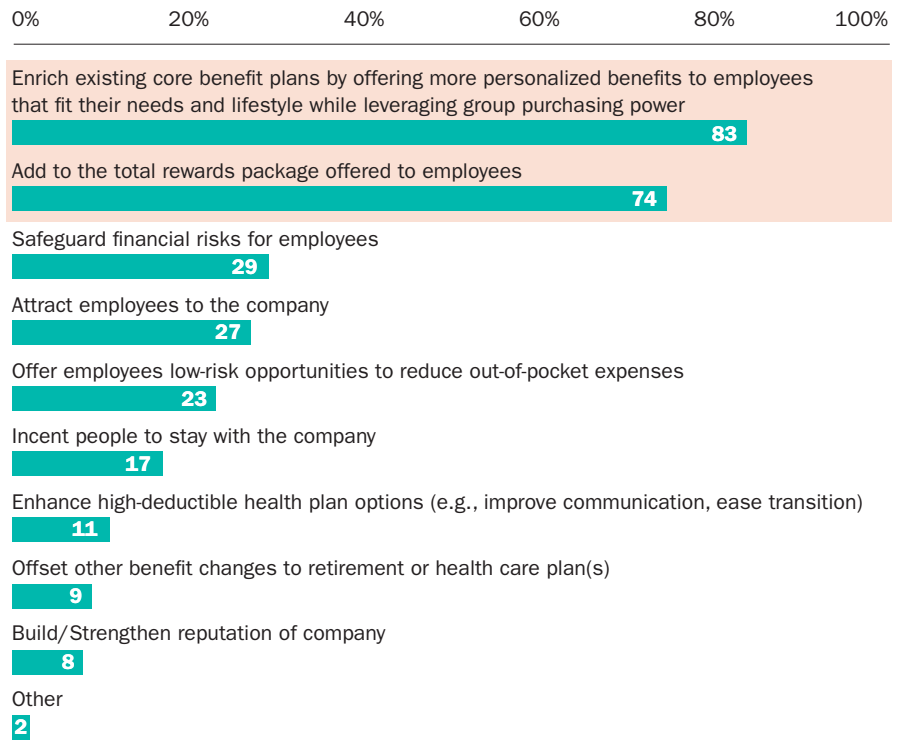
- VBS offerings today tend to be geared toward baby boomers, currently the largest segment of the workforce. However, as baby boomers begin to retire in larger numbers across the next decade, expect to see VBS redesigned for younger generations, who by nature are attracted to customized benefit packages.
- Private health benefit exchanges could encourage employers to invest in VBS because many of the emerging models are planning to make voluntary products available as an adjunct to their core health offerings. This trend could increasingly factor into future employer decisions about VBS as well as their larger decisions about health exchanges. Over one-third (34%) of employers report that the availability of VBS offerings will influence their exchange decisions.
- Employers are not adequately communicating the value of VBS to employees. Unlike traditional benefits offered only during open enrollment, many VBS offerings can be accessed throughout the year, yet fewer than a quarter of employers surveyed have a year-round communication strategy.
- Critical-illness and identity-theft insurance, along with financial counseling, are the emerging VBS offerings employers are considering for 2015.

## Reasons for Offering VBS

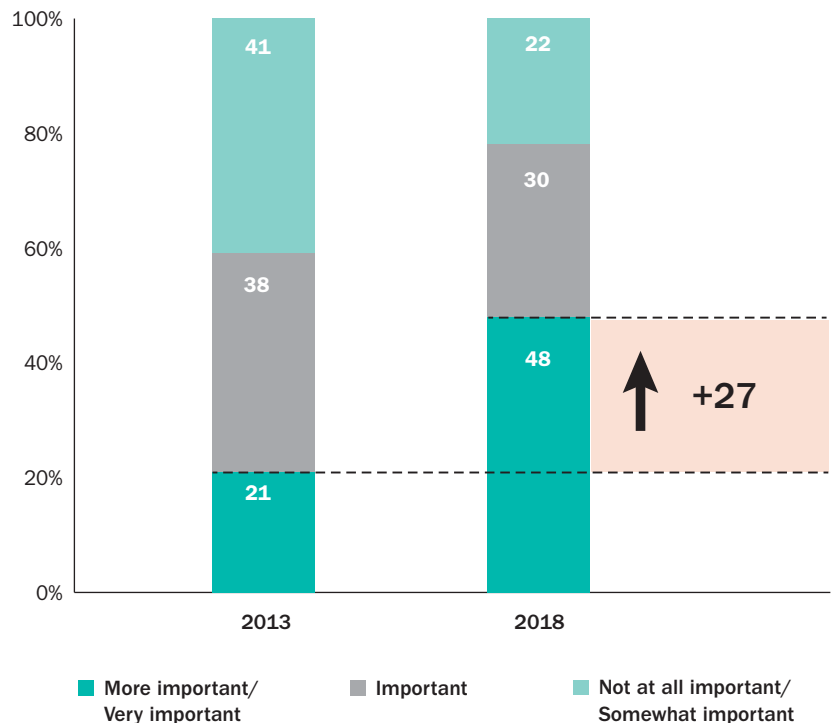
Traditionally, voluntary benefits have helped companies build a more appealing and personalized benefit platform to support attraction and retention efforts in a cost-effective manner. More than 80% of our respondents say they adopted VBS to support employees' personal needs (Figure 1). But as companies rethink EVPs and total rewards in today's health care reform world, VBS will likely play an even greater role in companies of all sizes and industries. Approximately 21% view voluntary benefits as important for 2013, but their enthusiasm more than doubles to 48% for 2018 (Figure 2).

As employers consider how to manage increasing health care costs and rethink their overall financial commitments to their traditional core benefit programs, most plan to take advantage of VBS to enrich existing core benefit plans (83%) and augment the total rewards package (74%) (Figure 1).

**Figure 1. Enriching core benefit plans and total rewards package cited as most important reasons for offering VBS**



**Figure 2. VBS becoming increasingly important to companies' EVP and total rewards strategy**



In fact, VBS can temper employees' reactions to sometimes unpopular benefit plan design changes made to manage health care costs under the excise tax threshold. For instance, employees are likely to view high-deductible health plans (HDHPs) more favorably when they have access to affordable and supplemental voluntary health products. VBS can minimize the out-of-pocket impact of HDHPs by giving employees access to an affordable supplemental medical benefit (e.g., accident, hospital indemnity or critical-illness insurance) in lieu of, or in combination with, HSA "seed" money. Employees that buy one of the supplemental VBS medical plans can receive a cash payment that may be used to offset the deductible and other expenses if they are injured in an accident, admitted to a hospital or diagnosed with a specified medical condition. Many employees will view the opportunity to offset their deductible through the purchase of one of these VBS medical supplements as appealing. Again, as a result, it is incumbent on the employer to educate and communicate to employees the role that supplemental medical benefits play and the value of contributing to an HSA if one is available to them.

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## Responding to Health Care Reform

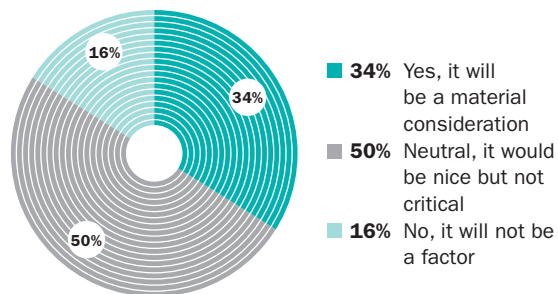
For employers concerned about the excise tax in 2018, offering popular VBS supplemental medical options can offer an unambiguous advantage: When appropriately implemented, the premium cost of these plans will not be included in the calculation of their excise tax burden, whereas HSA contributions will be included.

In addition, VBS can be attractive in other ways to employers seeking to balance plan affordability for employees with the looming excise tax challenges. Voluntary benefits offset the reduction in benefit value by closing coverage gaps. Organizations are not yet capitalizing on this opportunity, although we expect this to change as 2018 approaches.

In particular, industries that traditionally offer robust medical plans and have higher health care expenses, such as the Energy and Utilities sector, will need to be more aggressive than others in reining in costs before the excise tax effective date. VBS can be introduced as a lower-cost alternative in a high-cost plan.

In addition to taking steps to avoid the excise tax, employers will also explore public and private exchanges as a new health care delivery model. Over one-third (34%) of survey respondents agree that VBS will be a factor when selecting a private exchange provider (Figure 3). Under this arrangement, voluntary products serve to complement the medical benefit.

**Figure 3. VBS offerings will factor into some employers' exchange decisions**



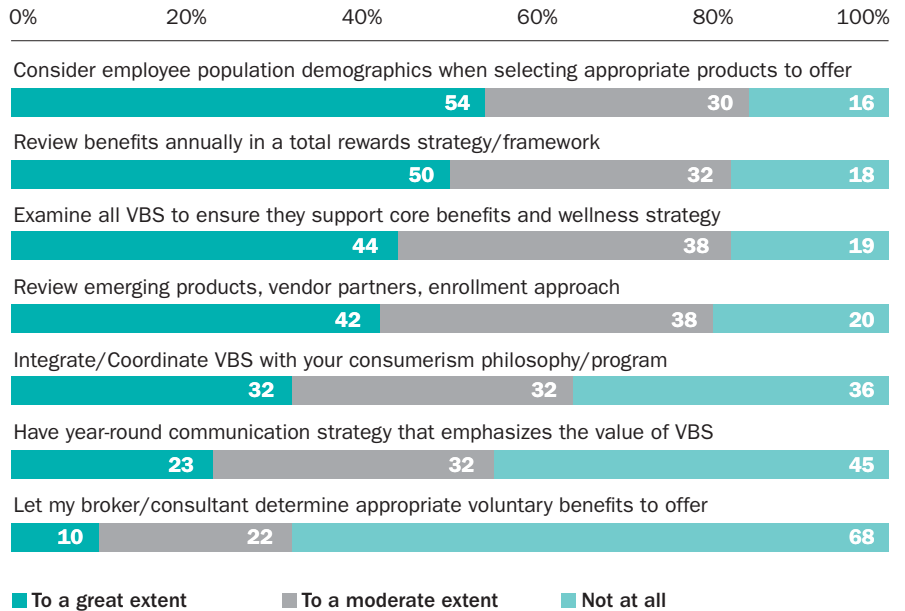
## VBS Product Suite and Employee Demographic Segments

In this critical year before the launch of major provisions of the health care reform law, voluntary benefits are growing as a key component of a competitive total rewards portfolio. Some of these products are commonly provided as extensions of the core employee reward package: vision, life, dental and disability. Emerging VBS, such as critical illness, hospital indemnity, financial counseling and identity-theft protection are just starting to capture employers' attention as additional options for employee choice in benefit coverage. Employers need to evaluate voluntary benefits in a holistic context to ensure that a strategic approach to support business goals, meet employee needs and deliver return on investment is taken.

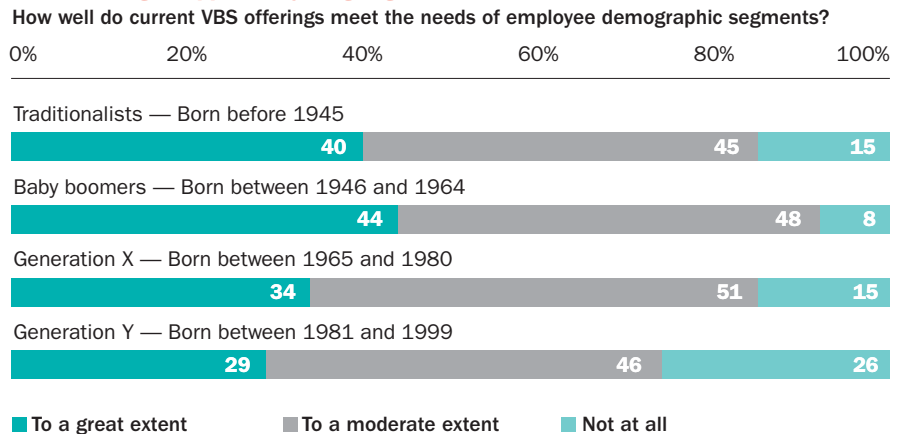
When evaluating VBS offerings, companies focus on employee demographics (54%), and how products fit within their total rewards (50%) and wellness strategies (44%) (Figure 4). Employers report that their current VBS offerings are geared slightly more toward older employees (Figure 5). Today, baby boomers represent a large population in the workforce, so meeting their needs is important to employee benefit professionals. However, we expect employers to reevaluate their VBS programs to ensure they are equally appealing to the Generation X and Y populations as well.

We know from experience that Generation Yers prefer choice and the ability to customize their benefits package, so we expect a VBS model tailored to their needs to be popular with them. In addition, 55% of employers offer a perk portal (Figure 6), which typically includes a website with employee discounts for movie tickets, computer hardware/software and travel, among others. This channel's similarity to mobile apps and common reward/point programs is especially appealing to younger generations.

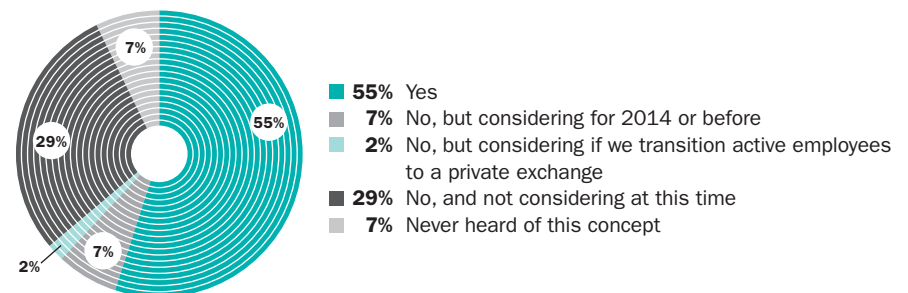
**Figure 4. Most companies consider employee demographics and how products fit within their total rewards and wellness strategies when evaluating VBS**



**Figure 5. VBS are more geared toward baby boomers today, but personalized benefit designs appeal to younger generations**



**Figure 6. Perk portals\* are common among companies with VBS**

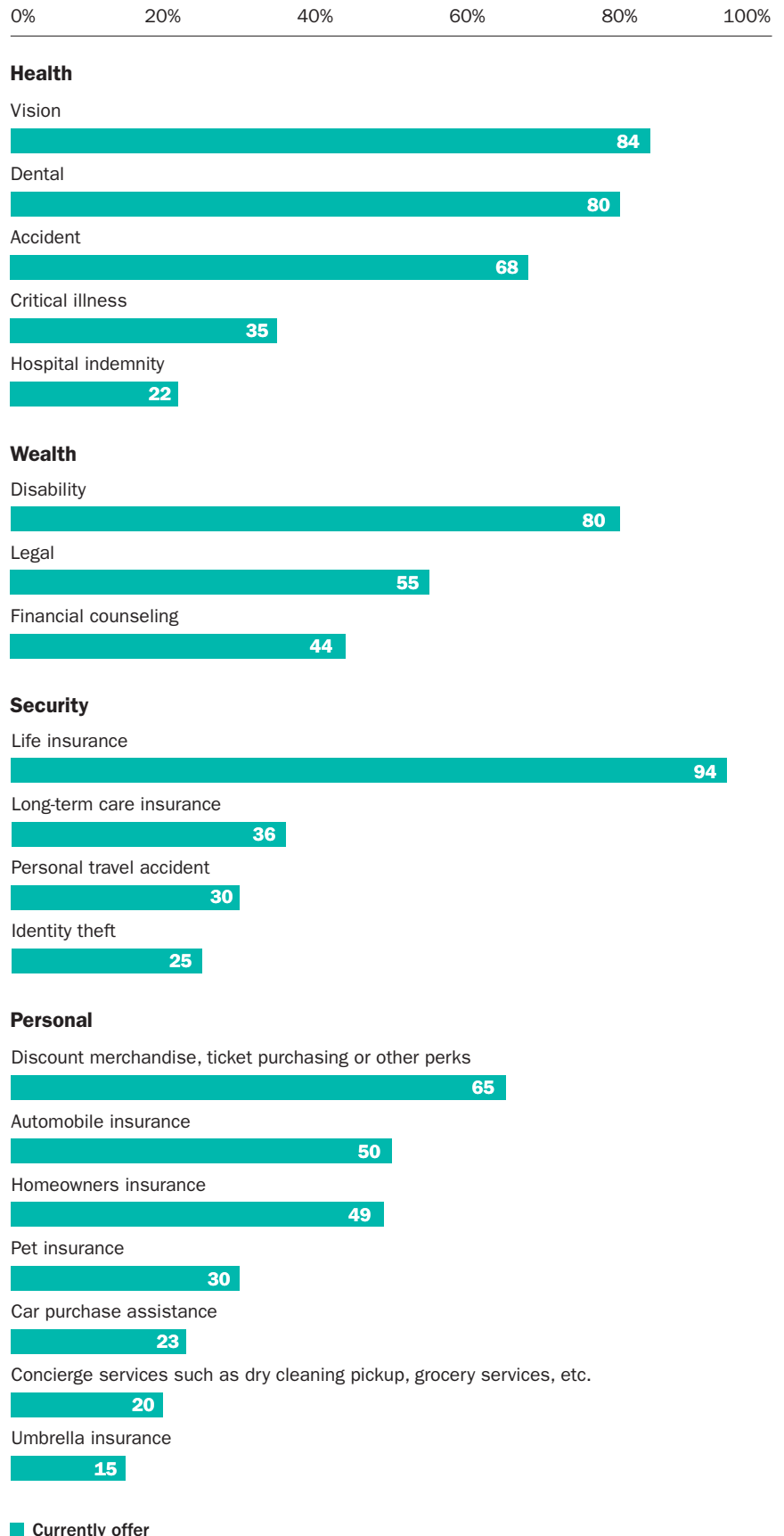


\*A perk portal typically includes a website available to all employees, with discounts on purchases like movie tickets, computer hardware/software, travel, etc.

Survey responses show that the most prevalent VBS offerings include vision, dental, accident, disability, life insurance and discounts/perks (Figure 7).

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**Figure 7. Summary of VBS offerings, 2013**

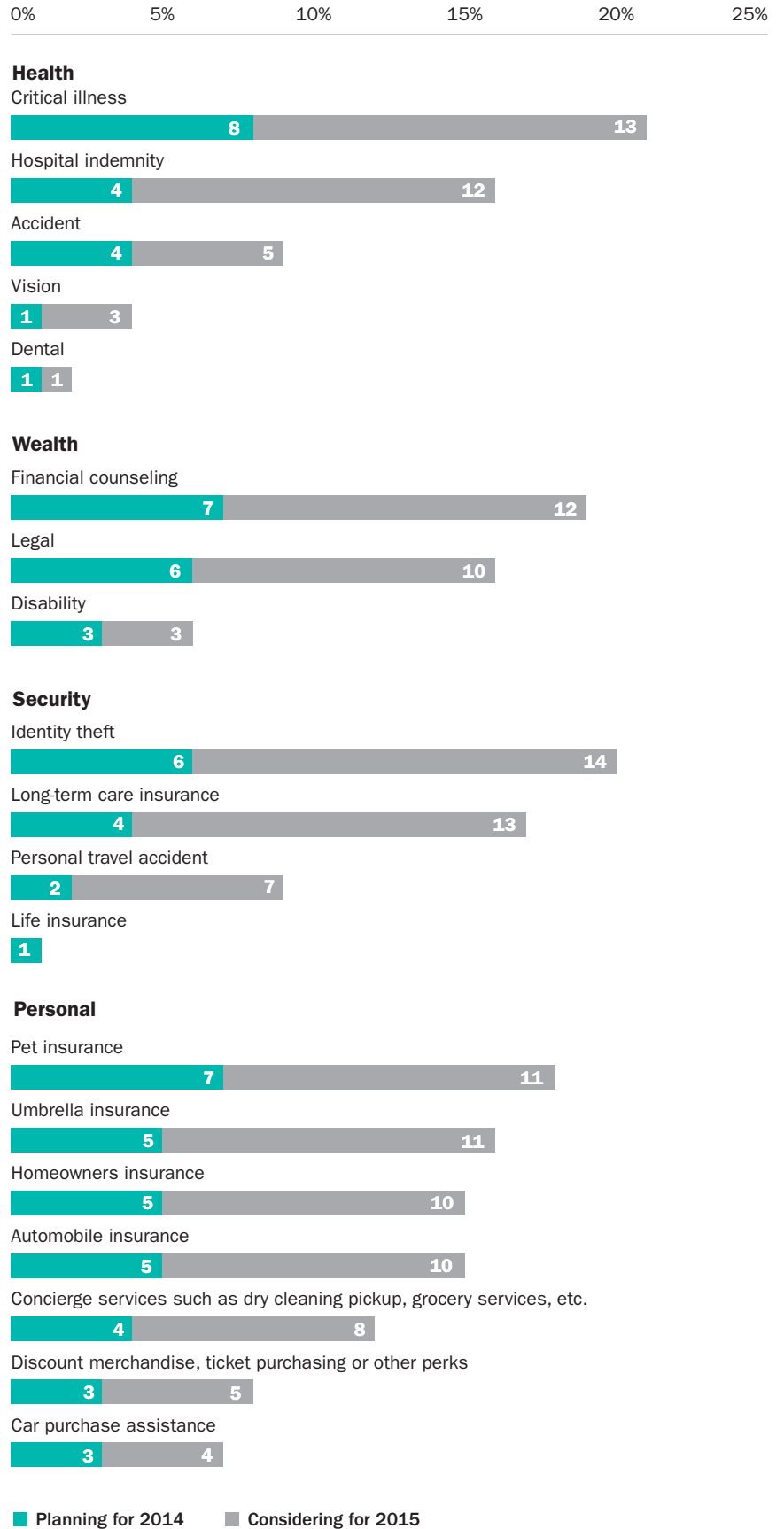


The top emerging VBS offerings under consideration include critical illness, financial counseling and identity-theft protection (Figure 8). Offering these emerging benefits may not be the right solution for every organization. Employers need to assess if they will add value to the total rewards portfolio.

## Employee Engagement and Communication

Fewer than a quarter of respondents (23%) have a year-round communication strategy that promotes the value of VBS (Figure 4, page 4). In a post-reform and cost-sensitive environment, employers need to remind employees frequently of how VBS can enhance the core benefit plan and customize the benefit experience with products that fit lifestyle needs. Inadequate or ineffective communication may inadvertently limit participation and the power of voluntary benefits to attract, retain and engage key talent. Moreover, we know from experience that employees place more value on benefit plans that are well communicated and promoted.

**Figure 8. Emerging VBS offerings, 2014 – 2015**



## Conclusion

VBS products can help employers achieve benefit objectives by supporting the total rewards strategy, compensating for benefit cutbacks, enriching existing core plans, influencing attraction and retention, and meeting the needs of a diverse workforce.

When designing the VBS product portfolio, employers need to consider what adds value for the employee population. Some benefits are more meaningful than others. Taking the time to understand the differences is key to building the right reward package for your unique workforce.

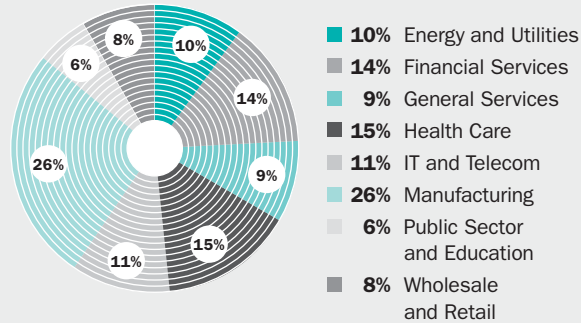
For employees, they address the need for personalized benefits that are affordable and portable. Also, VBS may serve to mitigate risk and expenses associated with a catastrophic medical event. Employees can access the voluntary options at discounted group rates, funding them via convenient payroll deduction and selecting products during the core benefit enrollment period. In addition, some companies provide access to voluntary offerings via a portal where certain benefits may be available throughout the year.

What's more, vendors are continually launching new VBS to match consumer preferences and close any potential gaps resulting from out-of-pocket increases in more traditional employee benefits. At a time when the employee benefit landscape is undergoing substantial change, companies need to evaluate the real and perceived value of these emerging products to ensure they align with their total rewards strategy and EVP, and make sense for their workforce.

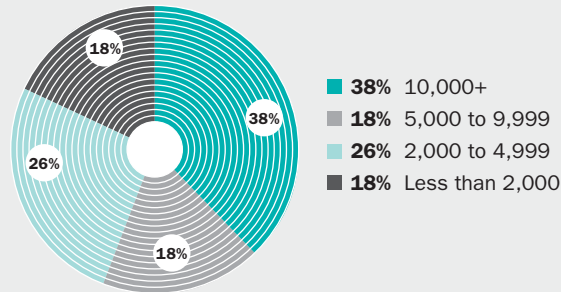
## About the Survey

Towers Watson's 2013 Voluntary Benefits and Services Survey was conducted online from late March through early April to determine how U.S. employers use and deliver voluntary programs. More than 320 employee benefit professionals from midsize to large companies across a variety of industries participated in the survey.

### Industry groups



### Total number of employees



## About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of benefits, talent management, rewards, and risk and capital management.