

# Executive Summary

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## 2013: A Defining Year

### Pivotal Choices That Can Change Your Company's Future

Many of today's iconic companies can point to a destiny-altering decision that propelled their organizations to great success. The year 2013 has ushered in one such future-altering decision for all companies – the result of which will have a long-term impact on business outcomes.

A massive sea-change in the health care landscape over the past decade has led business decision-makers to the point where their destiny-altering decision to be highly engaged in health insurance benefits, or highly disconnected from it, will influence the course of their business for decades to come.

Companies are at a crossroads, faced with adapting to one of the biggest shifts in the benefits landscape in our nation's history. Ironically, the traditional employer-sponsored health coverage emerged during World War II in response to several market dynamics – a tight labor market due to decreased supply of workers during the war; wage and price controls that prevented employers from raising wages enough to attract workers; and employer-sponsored health care coverage surfaced as a way to attract workers beyond pay.

Fast forward to 2013 and we are amidst strikingly similar market conditions, yet the long-held building blocks of employer-sponsored health care coverage are being shaved down or removed altogether – leaving a potentially unsteady environment for business leaders and workers alike.

Seismic shifts in the way health insurance is provided and paid for, the continuing rise of health care costs, the movement away from HMO and PPO plans toward consumer-driven options, and now history-making legislative reform, have left businesses with an array of health insurance benefit delivery models to choose from. Yet, nearly all of them place more financial responsibility, decision-making and control in the hands of consumers.

The degree to which companies stay involved in key aspects of benefits delivery will produce results or ramifications. Will companies choose to let workers drive their benefits decisions without offering driving lessons or a map to guide them in the right direction? Disengaging from benefit delivery and support will have serious consequences, much like handing over the keys to a student who's never driven a car.

Regardless of the specific health insurance model an organization chooses to implement, the 2013 Aflac WorkForces Report<sup>1</sup> uncovered several trends that point to the significance of preparing for benefit changes and in remaining engaged in the delivery of health insurance benefits. This year will determine which organizations emerge as benefit-savvy employers of choice and which remain apathetic and removed from the process. Specifically, Aflac's third annual employee benefits study discovered:

- » While more business leaders are embracing cost-friendly consumer-driven models, consumers are largely unequipped and unprepared to effectively take the reins.
- » There are long-term implications for businesses taking a short-term approach of shifting control and responsibility of health insurance decisions to workers.
- » An organization's degree of health care benefits engagement and knowledge factors heavily into an its HR metrics – attraction, satisfaction, productivity, and retention of talent.
- » Amid massive changes in health care, what remains unchanged is the unequivocal role benefits satisfaction plays in the welfare of the workforce.
- » The growing importance of voluntary products in a consumer-driven health care environment characterized by a largely financially fragile population.

## Businesses turn to consumer-driven health care, but are consumers ready?

Many systematic changes have occurred in the delivery of health care over the past several years, and they have all resulted in the future of health care being largely in the hands of consumers. The shift from copays and coinsurance to cost-shifting and consumerism has not evolved slowly over time; it has in many ways been a revolution. In a brief decade, an increasing number of employers have moved away from costlier HMO and PPO plans in favor of consumer-driven or high-deductible health plans. This, combined with the implementation of health care legislation, has fueled a seismic shift for employers and consumers alike.

Employers have arguably embraced the idea of consumer-driven health care more quickly than consumers, given the toxic combination of economic turmoil and rising health care prices. In fact, controlling health/medical insurance costs was again named the most important HR objective for companies in 2013.<sup>1</sup> As a result, companies are considering many consumer-driven options to help curb those costs, including high-deductible health plans (HDHPs) whereby employees are subject to higher deductibles but lower monthly premiums, defined contribution plans and state or federal exchanges.

According to the 2013 Aflac WorkForces Report, more than half (53 percent) of employers have implemented an HDHP over the past three years. Many experts characterize HDHPs as “entry-level” versions of the consumerism that state and private insurance exchanges will offer – moving from simply providing consumers money to purchase health care services to giving them money to buy insurance altogether. This shift requires an entirely new degree of decision-making for consumers.



Whether or not consumers are ready to take over the reins is still questionable, but that isn't slowing down employers' adoption of consumer-driven options. Many have moved towards defined contribution health insurance, whereby the company gives employees a set contribution toward coverage and the worker then picks a health plan among several options. In fact, a 2012 Employer Health Plan Study by J.D. Power and Associates found that 47 percent of employers say they “definitely will” or “probably will” switch to a defined contribution health care plan.<sup>2</sup>

### Are consumers *really* ready to be in the driver's seat?

When it comes to matters of financial security or health care, it's fair to say that many consumers would prefer for someone to take care of it for them while another segment is simply not equipped to take over ownership. In fact, more than half (54 percent) of workers responding to the 2013 Aflac study said “I would prefer not to be more in control over their health insurance expenses and options because I will not have the time or knowledge to effectively manage it.” The reality is that for most workers, despite being given more health insurance options to choose from, 89 percent typically choose the same benefits year over year.<sup>3</sup> Workers often find educating themselves about health insurance daunting – and as Aflac research uncovered, there is much to be learned.

The Aflac study found that 72 percent of workers have not heard of the phrase “consumer-driven health care.” Of those who had, 38 percent said that although they have heard of the phrase, they don't understand it very well or at all. The clear

#### Sea of Confusion

Workers who are not knowledgeable about

- » Federal & State Exchanges - 76%
- » Health Reimbursement Accounts - 49%
- » Health Savings Accounts - 32%
- » High Deductible Health Plans - 31%

majority of workers (76 percent) said they are not very or not at all knowledgeable about federal and state health care exchanges.

Employers need to acknowledge that while necessary, shifting more responsibility into the hands of its workers will require time, resources and support. Although Americans feel strongly about the freedom of choice, at the same time, many admit that greater control over health care decisions may not result in better protection or financial savings.

The Aflac report found that more than five-out-of-ten workers (53 percent) think that “I may not adequately manage my health insurance coverage, leaving my family less protected than we currently are.” A mere 26 percent of workers completely/strongly agree that they will “have better health insurance protection for their family because they will have greater control over how and where they utilize their health insurance.” Furthermore, only one-quarter completely or strongly agree that they will “be able to save more money in the long-term by taking greater ownership in their health care expenses and options.”

## At a critical crossroads

Companies are at a crossroads as to how they choose to handle the transition to a consumer-driven model within their own organization. The health care model a business adopts isn't as critical as how the business handles the adoption to the health care model. Given the importance of health care protection and the risk mismanagement poses to employees' wellbeing and financial stability, employers may need to retain control over several aspects of health care benefit delivery for a while longer.

Helping workers learn how to effectively manage their health care choices presents an opportunity for employers to demonstrate they care about their employees, and to curb potential absenteeism, low morale and low productivity. Workers may well be the ones responsible for their health care decisions but the wrong choices can greatly affect their performance and state of mind in the workplace.

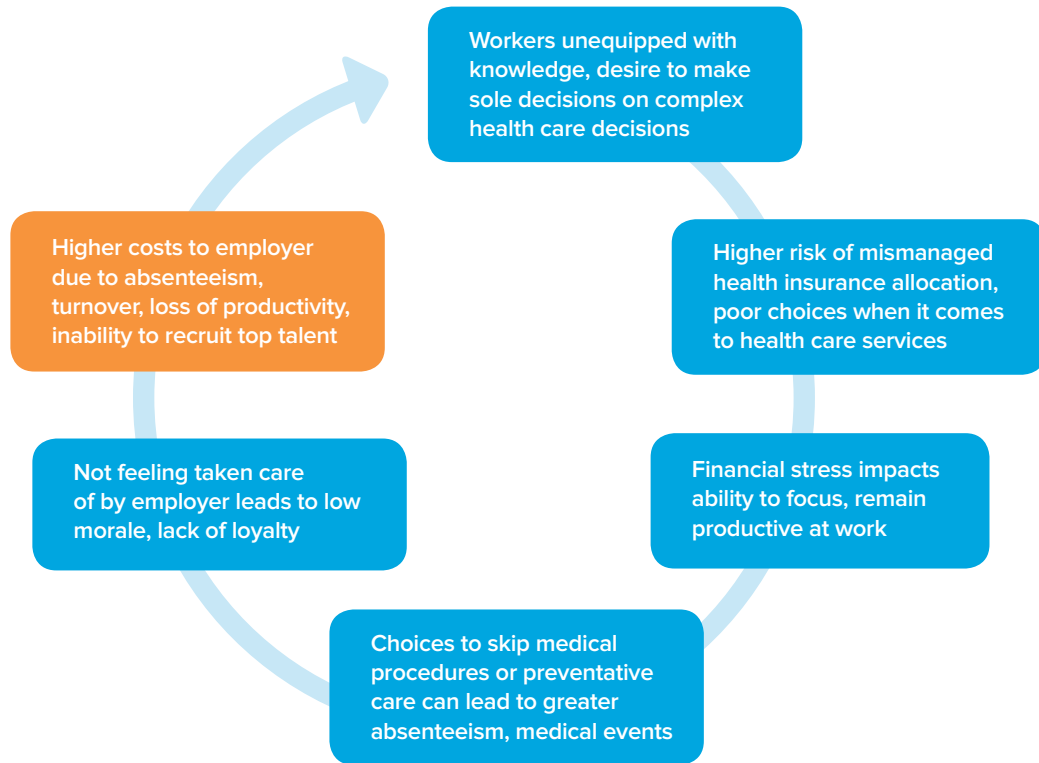
**“Workers may well be the ones responsible for their health care decisions but the wrong choices can greatly affect their performance and state of mind in the workplace.”**

Nearly four-out-of-ten workers (37 percent) attribute their inability to work to financial or health problems. The potential for increased medical expenses due to mismanagement of health care decisions or lack of understanding of consumer-driven options is very high. In fact, 62 percent of workers believe the medical costs they will be responsible for will increase, while only 23 percent are saving money for potential increases.<sup>1</sup>

Impending health care reform will only exacerbate the issue. Workers don't understand how new legislation may impact their lives, nor have they prepared for such changes. And the real crux of the situation is this – workers are looking to their employers to help bridge that gap.

Aflac research finds that 55 percent of workers have done nothing to prepare for possible changes to the health care system. Simultaneously, a full three-quarters of today's workers agree with the statement, “I believe my employer will educate me about changes to my health care coverage as a result of the health care reform.” Alarming, only 13 percent of companies named “educating our employees about health care reform” as an important issue for their organizations.

## Corporate Disengagement from Benefits Initiates Cycle of Difficulties



The bottom line is that workers want guidance from employers; without it, they may be inadequately protected, in financial duress and not as productive. The impact of the current economic landscape, combined with a general lack of basic understanding of financial principles, has left many American workers financially insecure and with high debt. Companies that don't view a worker's well-being holistically – both physical and financial – and continue to have a stake in protecting the overall health of workers will face unprecedented, often veiled costs. Clearly, many Americans are in a difficult financial position and that often means turning to their employer for help.

## Seize the opportunity to gain a competitive edge

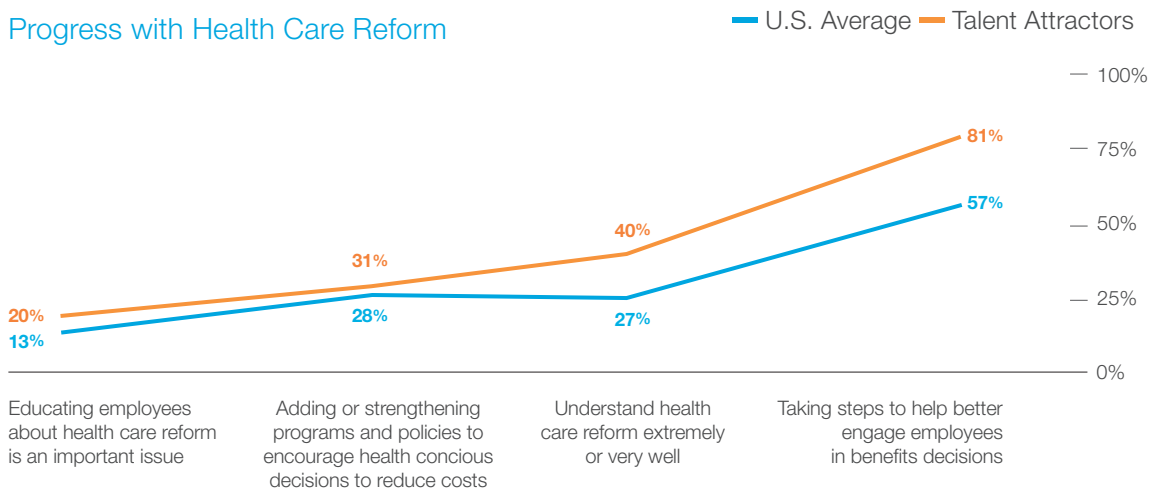
An opportunity exists for businesses to differentiate themselves from competitors and peers during the next few critical years, based on how they approach several HR and benefits decisions and practices. In fact, Aflac has tracked a small but elite segment (15 percent) of employers, named Talent Attractors, which currently exhibit best-in-class benefit practices and are reaping long-term rewards. To attain a similar competitive edge, organizations can mirror these elite companies by (1) seeking to understand and prepare for consumer-driven models, including health care reform; (2) linking benefits to profitability; (3) providing robust benefits options; and (4) engaging in frequent and two-way benefits communication.

### Competitive Edge 1: Seeking to understand and prepare for health care reform

Many regulations and deadlines are quickly approaching, with little understanding of how it will ultimately impact a variety of constituents. According to the Aflac study, the majority of U.S. companies admit they have a low understanding of health care reform, while only 27 percent understand it extremely or very well. Talent Attractor companies, however, are distinctly different. A full 40 percent of these organizations say they understand health care reform legislation extremely or very well. These Talent Attractors are also significantly more likely to be taking steps to prepare for health care reform, including helping employees to become better engaged in benefits decisions and educating employees about health care reform (figure 1).

Figure 1

#### Progress with Health Care Reform

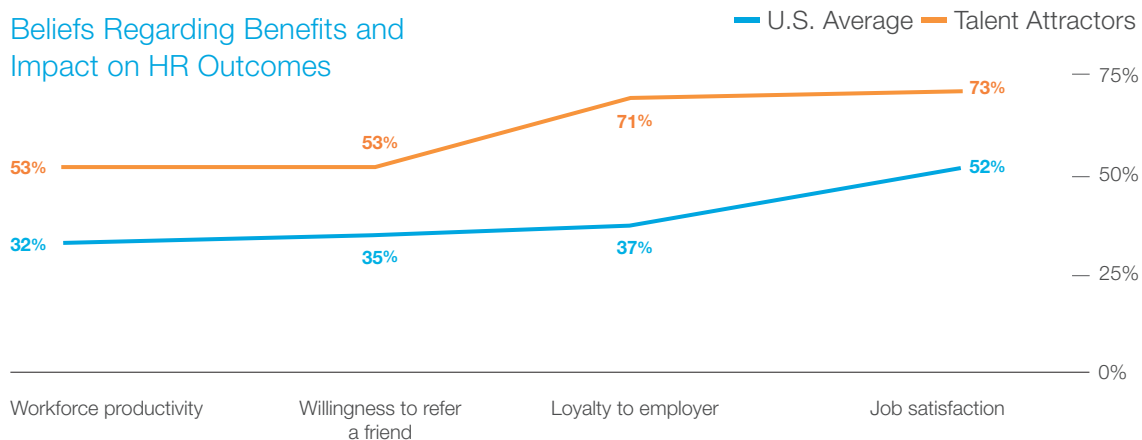


### Competitive Edge 2: Linking benefits to profitability

Talent Attractor companies appreciate the power benefits can have on profitability and see a significant correlation between benefits and other important HR outcomes such as, job satisfaction, loyalty to employer, willingness to refer a friend, and workforce productivity (figure 2). Additionally, they are more than twice as likely to agree strongly or very strongly that their organization's profitability is due in part to offering a robust benefits package (71 percent vs. 28 percent of all other companies). It's clear these companies view benefits as a key component in driving business objectives and a healthy bottom line.

Figure 2

### Beliefs Regarding Benefits and Impact on HR Outcomes

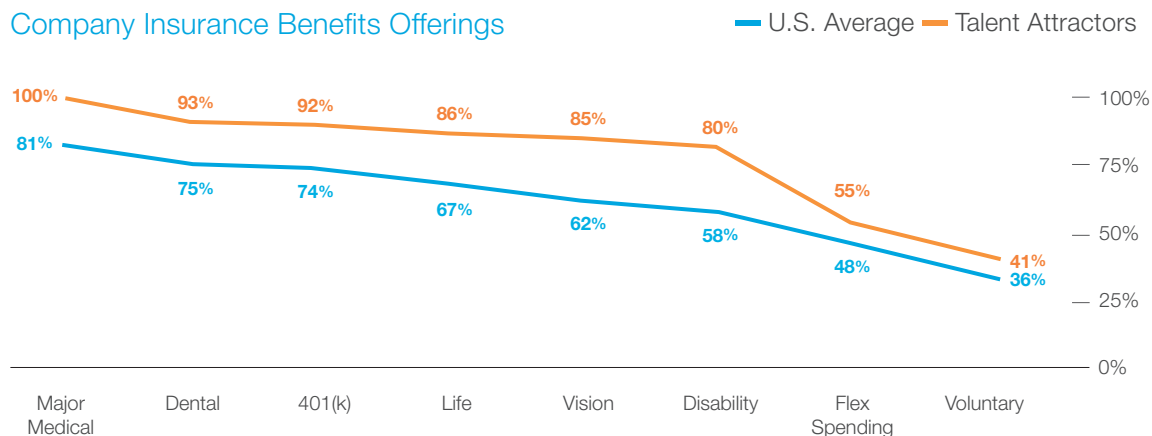


### Competitive Edge 3: Providing robust benefit options

Economic pressures resulted in many companies decreasing or eliminating benefit options altogether in recent years. However, those measures can come at a high price when taking into account the expectations workers have about benefits and their role in protecting employees' health and financial well-being. On the contrary, organizations seeking a competitive edge actually invest in employer-provided benefit options more aggressively. In fact, Talent Attractors are significantly more likely to offer employees a comprehensive menu of insurance benefits, compared to the U.S. average (figure 3). This included wellness programs and workplace benefits such as, Employee Assistance Programs (EAPs) and flextime. Lastly, Talent Attractor companies are also less likely to say they plan to terminate benefits in 2014.

Figure 3

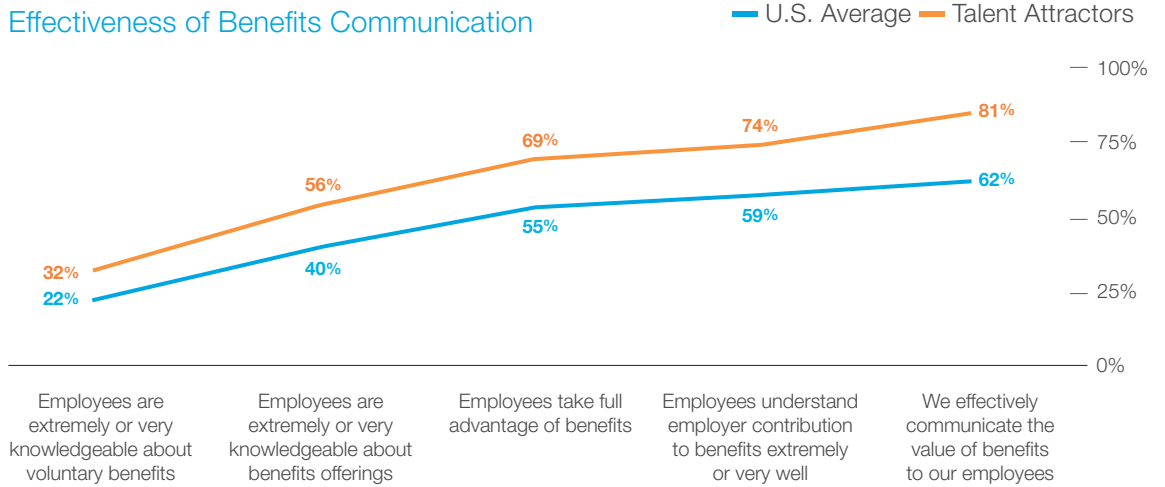
### Company Insurance Benefits Offerings



### Competitive Edge 4: Engaging in frequent and two-way benefits communication

Today's elite organizations understand the importance of frequent communication and ensuring that communication is mutual. Many companies make assumptions about what their workforce prefers when it comes to benefits, or in their level of satisfaction with their benefits package. This is a dangerous practice, and can lead to wasteful investments and unhappy workers. To secure a competitive edge, Talent Attractor companies put benefit communication efforts into overdrive, and are more likely to be effective at it (figure 4). In fact, they are significantly more likely to survey their workforces about their satisfaction, engagement and understanding of benefits compared to companies overall. Furthermore, these companies are 1.5 times more likely to communicate about benefits 3 to 10 times throughout the year, compared to companies overall.

Figure 4



When it comes to understanding and acting on health care trends and employer-provided benefit delivery, the majority of companies appear to be missing out on important opportunities to build workforce productivity, satisfaction and loyalty. Though the marketplace is still changing and uncertainties remain, taking strategic and proactive steps can help companies get ahead of the curve and gain a competitive edge.



## The importance of benefits in shaping your company's future

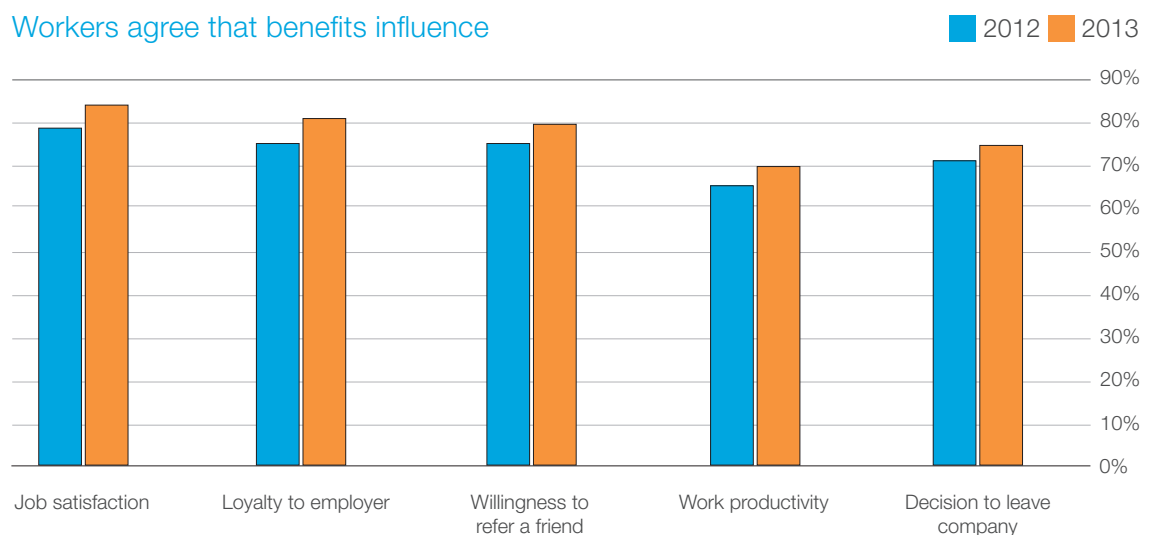
Any discussion about the right health care strategy for your company must begin with the simple understanding that benefits matter to employees, and they matter to your bottom line. They remain a crucial and influential lever in how well you are able to manage your company's biggest expense item – labor. In fact, the 2013 Aflac report found that employee satisfaction with benefits continues to greatly influence overall job satisfaction, productivity and whether to remain working for you, or not.

The ability of an organization to keep its top talent engaged and loyal is growing ever more important, particularly given the projected gap of highly skilled workers to fill job openings. In fact, the U.S. is projected to have a gap of three percent, or 1.5 million too few workers with college or graduate degrees in 2020.<sup>4</sup> Higher demands on companies to improve productivity output require maintaining an engaged and satisfied workforce. According to Gallup, nearly nine-in-ten (86%) of engaged employees said they felt happy very often at work, compared to 11 percent of the disengaged.<sup>5</sup>

Business leaders must take note that as the country begins to adapt to a more employee-driven health care system, it will also be faced with an employee-driven job market, and workers' benefit satisfaction plays a pivotal role in how well you adapt to both. We are seeing signs of a talent war, with 48 percent of workers likely to look for a new job in the next 12 months even in today's labor market. And, when it comes to seeking new employment, nearly six-in-ten (59 percent) will consider a job offer with lower compensation but a more robust benefits package.<sup>1</sup>

The Aflac report also found that benefits play in a role in keeping workers from leaving in the first place. In fact, 74 percent of workers are extremely/very satisfied with their job if they are extremely/very satisfied with their benefits plan. Furthermore, workers who are extremely to very satisfied with their benefits program are three times more likely to stay with their employer, compared to those workers who are dissatisfied with their benefits program. Moreover, 69 percent of workers who are not satisfied with their current benefits package indicated that by improving their benefits package, their employer could entice them to stay.

### Workers agree that benefits influence



The Aflac WorkForces Report also found that employee perceptions of the degree to which their employers care about them weighs heavily on their loyalty or lack thereof. More than 4-in-10 (44 percent) of workers who disagree that their employer takes care of its employees are at least somewhat likely to leave in the next year, compared to only eight percent of those who at least somewhat agree their employer takes care of its employees.

Employers risk losing workers to competitors if they don't offer flexible benefits plans that employees believe meet their needs. In fact, the Aflac report found that 61 percent of workers would be at least somewhat likely to accept a job with a more robust benefits package, but lower compensation.

As the job market improves, companies are looking for more ways to combat turnover. Many of these solutions may be closer than they think. Making benefits offerings part of the retention effort is often forgotten, but an essential factor contributing to job satisfaction, and creating the perception that an employer truly cares about the well-being of its workforce.

## The rewards of voluntary benefits

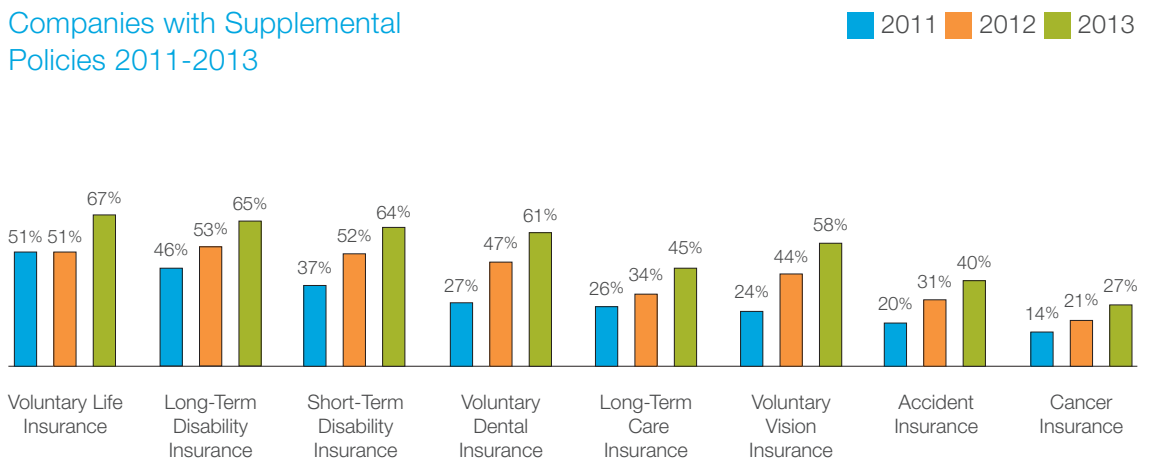
It's a truism of business that companies must evolve to succeed. Market conditions fluctuate, customer needs and expectations change and the need for new products grows. The health insurance industry is no different. There is unprecedented transformation taking place, resulting in a rising importance and use of voluntary benefit solutions.

A number of factors are contributing to this evolutionary trend, including steadily rising health care costs, the connection between offering voluntary benefits and employee satisfaction, and the move towards consumer-driven plans that place additional financial burden on consumers. Regardless of what type of major medical health care coverage a person has, the amount of out-of-pocket costs to consumers is growing higher and higher. The real cost of care, from a broken leg to a serious illness, is simply more expensive today than it was even five years ago – and that means higher costs coming out of consumers' wallets. This is one significant driver behind the growth of voluntary insurance products which help workers cover costs that major medical plans do not.

## Greater use of voluntary products

According to Aflac's research, nearly all voluntary insurance products on the market today have grown in popularity over the last three years (figure 3). In fact, several of these voluntary products have doubled in popularity from 2011 to 2013. Additional findings from LIMRA show nearly 750,000 of the 1.3 million private U.S. employers offer voluntary options, making them available to more than 90 million full-time workers.<sup>6</sup> Approximately 400,000 businesses are considering adding a new voluntary plan and another 120,000 are very much interested. Finally, 30 percent of employers say they are considering voluntary benefits as a replacement to employer-paid and contributory benefits within the next two years.<sup>7</sup>

Companies with Supplemental Policies 2011-2013



Additionally out-of-pocket costs are increasing rapidly. The U.S. government predicts that household out-of-pocket health care expenses will reach an average of \$3,301 per year by 2014<sup>8</sup>, not to mention any other costs associated with taking time off work, childcare, fuel costs, etc. This can intensify the challenges of an already financially vulnerable segment of consumers today.

In fact, 65 percent of workers agree, “I would be unable to adjust to the large financial costs associated with a serious illness or accident.” And only one-quarter of today’s workforce agrees strongly or completely with the statement “I have confidence in my ability to cope with the financial impact of an unexpected medical event.”

### Workers Financially Unprepared for Out-of-Pocket Medical Expenses

- » 43% not very or not at all prepared to pay for out-of-pocket expenses for medical illness or accident
- » 45% have less than \$1,000 to pay for out-of-pocket medical expenses for illness or accident
- » 25% have less than \$500 to pay for out-of-pocket expenses for medical illness or accident
- » 40% would have to borrow money from friends/401K; 28% would have to use credit card; 14% don’t know how they would pay

Voluntary policies, including critical illness, short-term disability, accident, dental, life and more, pay the policyholder directly for unexpected costs associated with serious illness, injury or loss. Since many of these costs are not covered by major medical insurance and families do not have extra cash for these emergencies, voluntary insurance plans help provide a safety net to protect the policyholder’s assets.

### Voluntary benefits provide key advantages

First and foremost, workers want access to voluntary benefit options particularly as they look for products that help them cover costs that major medical plans do not. Additionally, 60 percent of workers say they would purchase voluntary products if they were offered by their employer.

But beyond satisfying worker demand, Aflac research shows that workplace benefits and voluntary insurance specifically, improve key aspects of the workplace:

- » Workers with voluntary benefits are more likely to be extremely or very satisfied with their benefits than workers who do not have voluntary benefits offered to them.
- » Employees with voluntary coverage are more likely to be engaged with their benefits.
- » Employees with voluntary insurance are more likely to say they are not looking for a new job in the next year vs. those workers without voluntary insurance.
- » Employees with voluntary benefits are more likely to score higher on multiple HR indicators including job satisfaction and likelihood to recommend their workplace to others.
- » Employees who are offered and enrolled in voluntary options are significantly more likely to say they have peace of mind, they understand the total cost of an injury or illness, and have health insurance as part of their financial plan.
- » They are also more likely to have more than \$1,000 in savings to pay for an unexpected illness or injury.

## The Roadmap to Navigating a Bumpy Health Care Road Ahead

Businesses and workers alike will face abundant challenges as they seek to understand, and react to, an evolving benefits and health care landscape. Understanding the trends and roadblocks that face business decision-makers and valued employees can alter future outcomes for all involved. The growing adoption of consumer-driven health care models will have implications if not carefully designed and delivered. Whether or not organizations continue to share the responsibility for educating and guiding workers in their health care decisions will likely produce a variety of consequences.

For companies that view this situation as an opportunity to distinguish themselves from competitors by enhancing, rather than scaling back, their involvement and delivery of benefits will likely thrive. Companies will be well-served to accept that any discussion about the right health care strategy for their organization must begin with the simple understanding that benefits matter, and they remain an influential lever in how well they are able to manage the company's biggest expense item – labor. As such, new and innovative approaches to building robust benefits packages are becoming more mainstream including a growing reliance upon voluntary benefits to achieve multiple benefits objectives.

How companies decide to proceed will shape their futures.

## About the study

The 2013 Aflac WorkForces Report is the 3<sup>rd</sup> annual Aflac employee benefits study examining benefit trends and attitudes. Research Now conducted the Employer Survey online within the United States between Jan. 4, 2013 and Jan. 15, 2013 among 1,884 benefits decision-makers. Results were representative of U.S. companies with at least three employees, based on company size (number of employees) and industry. No estimates of theoretical sampling error can be calculated; a full methodology is available.

The Employee Survey was conducted online within the United States between Jan. 7, 2013 and Jan. 24, 2013 among 5,299 employed adults ages 18 and older who are employed full or part time at a company with three or more employees and not retired. The first 3,038 interviews were nationally representative, while the remaining 3,602 interviews were conducted among the top 20 DMAs—100+ interviews per DMA. Results were weighted as needed for household income. No estimates of theoretical sampling error can be calculated; a full methodology is available. To learn more about the Aflac WorkForces Report and to read the in-depth articles on Consumer-Driven Health Care, The Competitive Edge, Benefits Matter and The Rewards of Voluntary Products, visit [AflacWorkForcesReport.com](http://AflacWorkForcesReport.com).

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<sup>1</sup> "2013 Aflac WorkForces Report," conducted by Research Now on behalf of Aflac, January 2013

<sup>2</sup> "2012 Employer Health Plan Study," J.D. Power and Associates, June 18, 2012; [jdpower.com/content/press-release/fFZdNI3/2012-employer-health-plan-study.htm](http://jdpower.com/content/press-release/fFZdNI3/2012-employer-health-plan-study.htm)

<sup>3</sup> "2012 Aflac Open Enrollment Survey," conducted by Research Now on behalf of Aflac, August 2012

<sup>4</sup> "The State of Human Capital 2012," The World at Work, McKinsey Global Institute, accessed ([www.mckinsey.com/Insights/MGI/Research/Labor\\_Markets/The\\_world\\_at\\_work](http://www.mckinsey.com/Insights/MGI/Research/Labor_Markets/The_world_at_work)).

<sup>5</sup> Gallup and Towers Watson Studies, cited January 10, 2012, accessed March 25, 2013 [bloomberg.com/news/2012-01-10/why-csr-s-future-matters-to-your-company.html](http://bloomberg.com/news/2012-01-10/why-csr-s-future-matters-to-your-company.html)

<sup>6</sup> "Voluntary Benefits Magazine," July 2012, accessed March 27, [voluntarybenefitsmagazine.com/article/voluntary-benefits-an-emerging-force.html](http://voluntarybenefitsmagazine.com/article/voluntary-benefits-an-emerging-force.html)

<sup>7</sup> "eBenefit News Industry Currents," 2011 LIMRA study, accessed March 27, [eba.benefitnews.com/eletter/profile/5/3514.html](http://eba.benefitnews.com/eletter/profile/5/3514.html)

<sup>8</sup> "Bankrate.com" accessed March 27, [bankrate.com/finance/insurance/coping-with-out-of-pocket-health-care-cost-1.aspx](http://bankrate.com/finance/insurance/coping-with-out-of-pocket-health-care-cost-1.aspx)