

Beyond Health Insurance:

Creating a competitive
benefits program in the
health care reform world

Benefits at Work Series
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Executive summary

In the land of health care reform, it can be hard to see the forest for the trees. Although employers have focused sharply on medical insurance in the past few years, they must look more broadly at their entire benefits package if they wish to remain competitive.

As the Affordable Care Act (ACA) enters its fourth year of implementation, employers brace for another round of regulatory changes by refining benefits strategies. Whether it's a business with fewer than 50 employees considering a defined contribution for employees entering the health insurance marketplace, or a large employer rethinking rich benefits in anticipation of the excise tax of 2018, the ACA is challenging the traditional employer role as benefits provider.

The vast majority of health benefits are provided by employers. Large employers have traditionally considered health insurance and other benefits a key strategy to remain competitive by helping them recruit and retain valued employees. And most of them remain committed to offering employee health benefits. In a recent survey of employers, 99 percent said they aren't considering moving core health benefits to private or public exchanges in 2014.¹

For the small percentage of businesses with more than 50 employees that do not already offer health insurance, postponing the enforcement of the mandate to offer employee health coverage by one year was a welcome reprieve. Meanwhile, the individual health insurance mandate takes effect January 1, 2014. As confusion about the ACA abounds, more than half of Americans surveyed say they don't have enough information about the law to understand how it will impact them and their families.² Among the uninsured, 62 percent express confusion about whether the health care law is even in force.³

Although the ACA is poised to radically change the employer-based benefits landscape, several truths are certain:

- Employees will need reliable, actionable information to make wise decisions about benefits.
- Voluntary offerings that are mostly untouched by the hand of health reform are more attractive tools than ever to enhance employment recruitment and retention.
- Voluntary benefits continue to offer valuable and affordable financial protection for working Americans.
- Benefits communication that is meaningful and personalized provides an effective means to combat the confusion of health reform and create an environment of choice, value and security.

Tight budgets and a still-recovering economy are spurring benefits managers to think beyond health insurance and look at their benefits as a whole.

Employers of all sizes are challenged to rethink employee benefits in this new world of health reform. Tight budgets and a still-recovering economy mean benefits managers must think beyond health insurance and look at the benefits they offer as a whole. They must think creatively and more broadly. And they must step up their communications to help employees manage the changes ahead. The task requires commitment, but the payoff is more than worthwhile: a benefits program that helps employers of all sizes compete more effectively in tomorrow's marketplace.



Entering the game: Employers gear up for health reform

Health care reform's first three years were noisy and chaotic. By design, measured implementation steps pushed states and federal regulators to meet dozens of deadlines, but had little real impact on the daily lives of consumers. Employers, who pay for health coverage for the majority of Americans,⁴ were in wait-and-see mode for the first two years after the ACA's passage. They began to seriously examine their options only after Supreme Court challenges to the law were settled in 2012.

January 1, 2014, changes all that, as the law becomes personally relevant for every American worker and employer. Fifteen ACA regulatory milestones⁵ come to full implementation that day, including the ACA's centerpiece: government-sponsored health insurance exchanges.

Employers and consumers will have little time to adjust to these new regulations before penalties for not providing employer-mandated health coverage hit in January 2015. Employers with more than 50 employees that don't comply will be assessed \$2,000 per full-time employee (excluding the first 30 employees) if at least one full-time employee receives a health insurance premium tax credit. Employers that do offer coverage are also at risk of fines of up to \$2,000 for each full-time employee if one or more full-time employees receives a premium tax credit because that coverage is unaffordable or does not offer "minimum value." Even the ACA's proponents conceded the burden of this mandate falls on employers. On July 2, 2013, the administration announced a one-year delay of the enforcement of the mandate to allow employers more time to adapt to the new rule.

If they fail to plan ahead, employers offering generous health insurance coverage will not be exempt from the ACA penalties. In 2018, the final year of implementation will bring the "Cadillac tax" on rich core health insurance benefits. A recent survey of benefit advisors ranked advice about this looming tax as the most important information their clients needed.⁶

Some of the key ACA regulations affecting employers as of January 1, 2014:

1. State-based and federal health insurance marketplaces opened Oct. 1, 2013, allowing individuals and small businesses with up to 50 employees to purchase qualified coverage.
2. Health insurance premium subsidies become available to families with incomes between 133 to 400 percent of the federal poverty level, allowing them to buy insurance through the marketplaces at a reduced cost.
3. Essential health benefits mandated for health plans in the individual and small-group markets become available, both within and outside the new marketplaces. Self-insured plans, large group plans and grandfathered plans are exempted.
4. The individual health insurance mandate takes effect, impacting all U.S. citizens and legal residents. Those who fail to comply will face a phased-in tax penalty that starts at \$95 or 1 percent of household income, whichever is greater. That adds up to \$400 for a worker earning \$40,000 a year.
5. New annual fees will be charged to health insurers. Because self-insured plans are exempt, the tax will disproportionately impact small businesses as fees are passed through.





Employees gear up for health care reform — are they ready?

A wave of concern accompanies these changes. In a recent survey conducted on behalf of Colonial Life, U.S. employees were asked about health reform just one month before health insurance marketplaces began enrollment. More than 80 percent (with or without current coverage) were at least somewhat concerned about their ability to pay for health premiums, deductibles, co-pays, and noncovered or unexpected expenses.⁷

How concerned are you about your ability to pay for each of the following situations, as they relate to your health insurance?

	Very concerned	Concerned	Somewhat concerned	=	At least somewhat concerned*
Increased premiums	34%	27%	21%	=	83%
Increased deductible	30%	28%	24%	=	82%
Increased copay	27%	29%	26%	=	82%
Expenses no longer covered by health plan	37%	24%	21%	=	82%
Unexpected expenses	33%	25%	23%	=	81%

Source: Colonial Life-Harris Interactive Quick Query, Sept. 3-5, 2013.

* Totals are rounded.

Despite regulatory efforts to hand consumers the reins to make health insurance choices, most Americans come unprepared for the role. Only one in four Americans has tried to buy insurance on their own in the past three years, and only 39 percent of the uninsured has ever compared and selected a health insurance policy.⁸ And purchasing insurance doesn't rank at the top of the priority list of most Americans. Among the employed, 55 percent say they would spend a week or longer researching a new car purchase, but only 38 percent would spend that long on their research and decision to buy health or life insurance.⁹

Even though the ACA will significantly impact employer-provided benefits, employers can rest assured that:

- Employees will still need reliable information to help them make good decisions about their benefits.
- Voluntary benefits will become more attractive to employers in recruiting and retaining good employees.
- Voluntary benefits will still offer working Americans financial protection against loss of income, serious illness, accidents and death.
- Personalized benefits communication that is meaningful and relevant can help employees combat the confusion caused by health care reform.

Is making a good insurance purchase a real priority?

55% of employees would research a week or more before buying a new car.

Monday Tuesday Wednesday Thursday Friday Saturday Sunday

Only 38% would spend that long researching a health or life insurance purchase.



Source: Colonial Life-Harris Interactive Quick Query, Sept. 3-5, 2013.



Standing out from the crowd: Small employer strategies



Businesses with 50 or fewer employees are far less likely to offer core health insurance benefits than large employers because of the economy of scale. The larger the insured pool, the better rates employers can negotiate. Small employers that do offer coverage often do so at higher administrative costs and with fewer options than their larger counterparts.¹⁰ And because few small employers are self-insured, they won't benefit from the ACA exemptions from requirements for essential health benefit mandates and taxes on fully insured plans.

Benefits can be a competitive differentiator

Small employers need to be competitive in order to survive. And employee benefits can be just the differentiator they need. By embracing voluntary benefits, small business can provide a menu of choices that extend the traditional benefits package. Although core health benefits garner headlines, they represent only a fraction of the total employee benefits picture. A 2013 Towers Watson survey¹¹ found that 83 percent of employers offer voluntary benefits as a way to enrich their core benefit plans while leveraging group purchasing power.

Small employers can offer voluntary benefits that represent real value and choice for employees. From disability and life insurance to accident and critical illness coverage, voluntary benefits can be a true differentiator. Employees can purchase them at work for less than they could buy them on their own, and they offer the convenience of payroll deduction. Because they're typically employee-paid, voluntary benefits allow employers to offer an expanded benefits package without additional cost.

From disability and life insurance to accident and critical illness coverage, voluntary benefits can be a true differentiator for small employers.



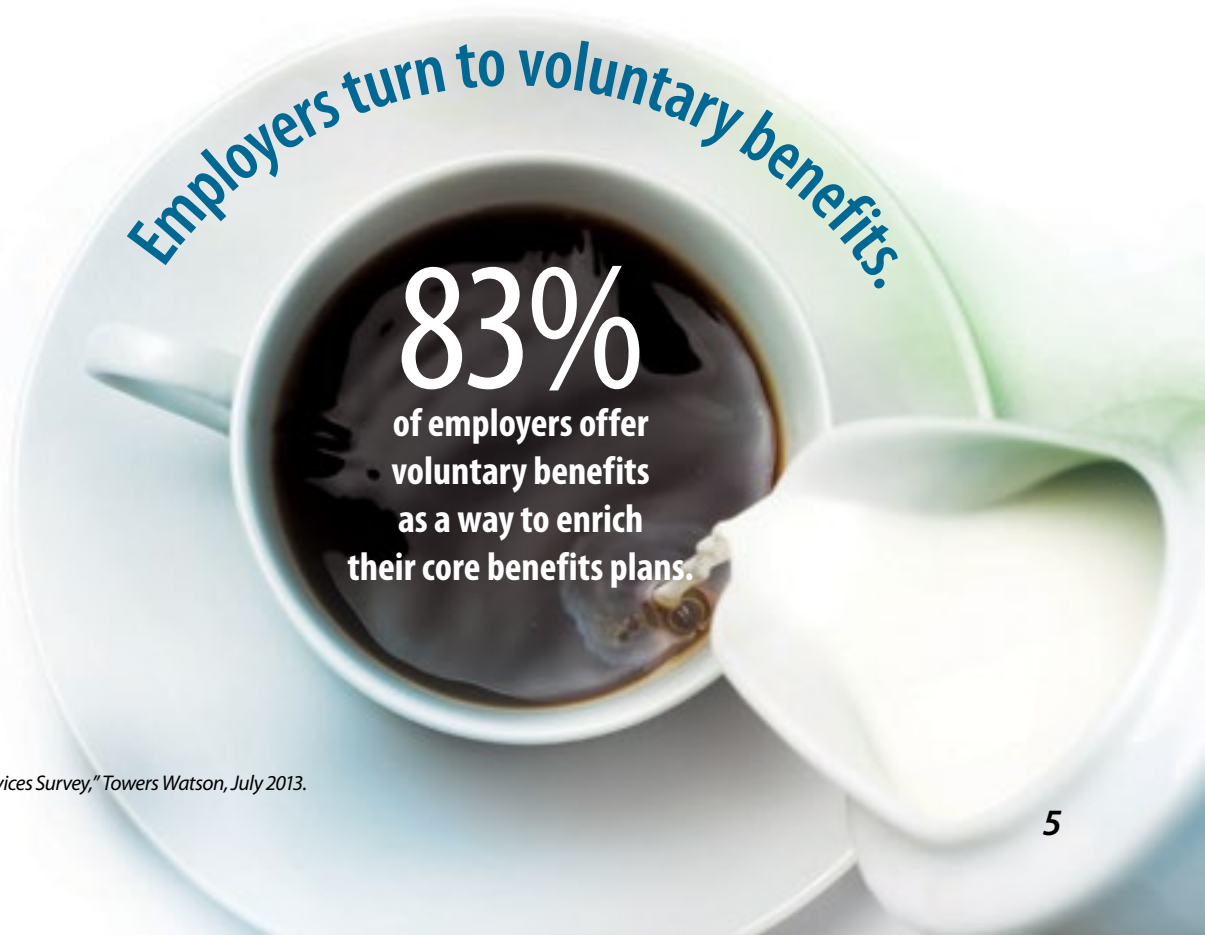
Most employees (65 percent) say a **one-to-one meeting** with a benefits representative is the **most helpful communication method** to introduce them to voluntary benefits available at work.

Source: Eastbridge Consulting Group, Sept. 2013.

Communication is important

Communication is an important component of any employee benefits package. Although many small employers may be offering employee benefits for the first time, they should understand the strengths and weaknesses of various enrollment methods. The online enrollment for purchasing health insurance through the marketplaces may not be best for all benefits. Employees prefer speaking face-to-face when enrolling in their voluntary benefits. According to a study by Eastbridge Consulting Group, most employees (65 percent) say a one-to-one meeting with a benefits representative is the most helpful communication method to introduce them to voluntary benefits available at work.¹²

Employers need to take advantage of the competitive difference their new benefits program offers. Helping employees understand and appreciate their health insurance, as well as any other voluntary benefits offered, leads to a more satisfied and productive workforce.



Source: "Voluntary Benefits and Services Survey," Towers Watson, July 2013.



Dealing with change: Large employer strategies

Large employers remain committed to offering core health benefits directly to employees. A 2013 survey by the Kaiser Family Foundation shows employers aren't dropping health coverage. Ninety-nine percent of large firms with 200 or more employees offer health insurance to their workers today, up from 98 percent in 2012. And among employers with 50 or more workers, 91 percent offer medical coverage, a number statistically unchanged from the previous year.¹³

Employers aren't dropping health coverage



99% of large firms (more than 200 employees) offer health insurance today.

Source: Kaiser Family Foundation Employer Health Benefits Survey, 2013.

A 2013 National Business Group on Health survey found only 1 percent of its membership was considering moving active employees to private exchanges in 2014, although 30 percent would consider it for 2015 and later.¹⁴

But large employers are starting to implement changes to take advantage of the post-ACA landscape and to mitigate potential threats. Some will test the waters in private insurance exchanges with their retiree populations. IBM and Time-Warner announced in September 2013 they would send hundreds of thousands of retirees to exchanges to pick Medicare plans, in an effort to reduce health care costs by moving to a defined contribution model.¹⁵ A Towers Watson survey found that 25 percent of employers are likely to discontinue coverage of retirees over the age of 65 altogether and send them to private insurance exchanges to purchase gap coverage in 2014. This likelihood increases to 44 percent in 2015.¹⁶

While these shifts are limited to retirees, changes are coming for active employees as well. Large employers with traditionally rich core health benefits are planning now for the 2018 excise tax on employer-sponsored health plans with expenses that exceed \$10,200 for individual coverage and \$27,500 for family coverage. Enrollment in account-based health plans (where employers pair tax-advantaged accounts such as health spending accounts and flexible spending accounts with high-deductible health plans) has grown significantly in recent years. Sixty-six percent of companies have this type of plan in place now, and another 13 percent say they will add one in 2014.¹⁷ Growth is expected to jump as employers shift to higher-deductible plan designs to keep costs below the excise tax threshold.



Voluntary benefits offer advantages to large employers

For more than 50 years, voluntary benefits have served employers as a means to creatively attract and retain employees across a range of ages and needs. But surveys indicate voluntary benefits are now advancing as a strategy for total benefit design.

A 2013 Towers Watson survey¹⁸ showed just over one in five employers views voluntary benefits as important for 2013. But their enthusiasm more than doubles to 48 percent for 2018, the final year of the ACA implementation when the excise tax comes into play. As employers are pressed to rein in health care costs under the ACA, voluntary benefits become an attractive complement.

Voluntary benefits can help large employers temper disruptive change and reduce the cost impact of higher deductibles on employees. Accident coverage, hospital indemnity and critical illness insurance can be offered as voluntary choices. By introducing these supplemental benefits as a range of new benefits options, employers can turn a potentially unpopular change to their advantage.

Voluntary benefits can help temper disruptive change and reduce the cost impact of higher deductibles on employees.

Pay attention to benefits communication

Large employers should pay close attention to their benefits communication efforts. Although 77 percent of employers agree or somewhat agree that the benefits education they provide is very effective,¹⁹ employees feel differently. Only 60 percent of employees whose employers offer benefits agree that the communication they receive is very or fairly effective, and 9 percent say their benefits communication is not at all effective.²⁰ Paying extra attention to the communication of any changes in the employee benefits package, along with proper education about the existing benefits, will pay dividends in employee satisfaction and loyalty.

How do employees rate their benefits communication?

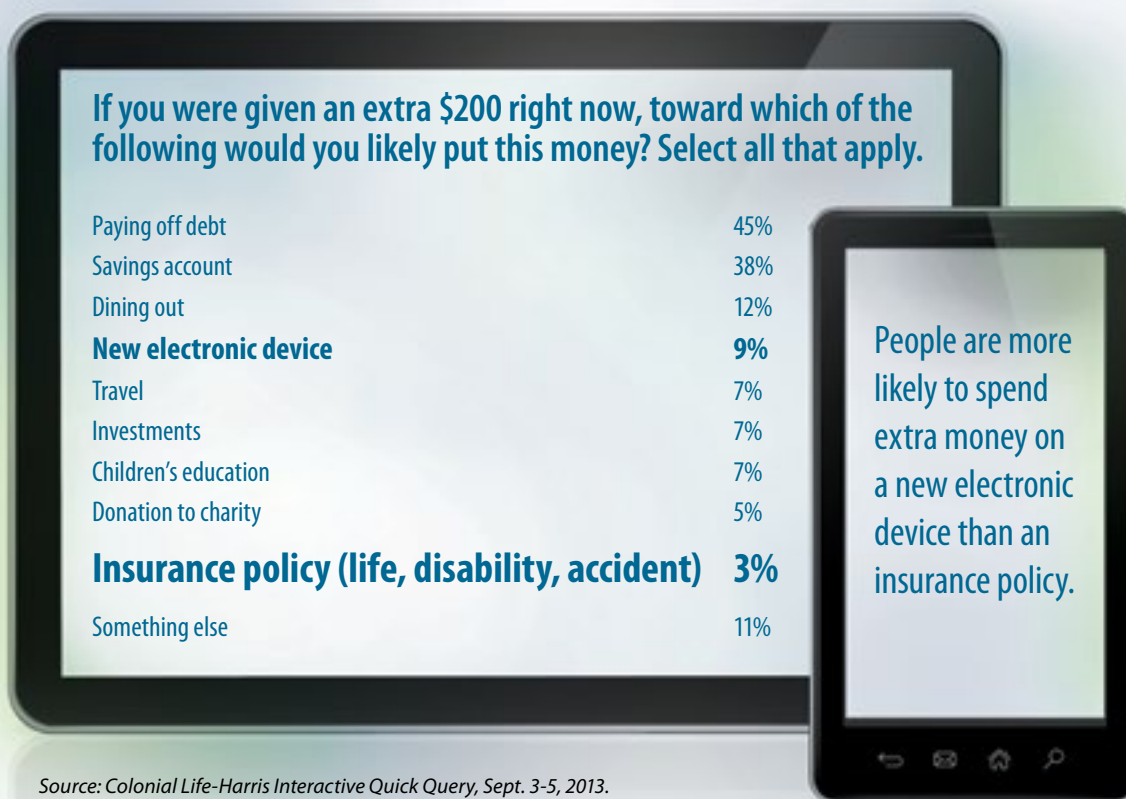




Benefits communication— more important than ever

With the added confusion health care reform brings to employees about their benefits, employers must place greater emphasis on benefits communication. Most workers don't understand and appreciate the value of their current benefits program and the financial protection it provides. A September 2013 Colonial Life survey revealed a strong majority of employees are concerned or very concerned about their ability to pay for health care cost increases, but they are more likely to invest an extra \$200 in a new electronic device or dinner out than buy an insurance policy.²¹ Educating employees about the importance of their benefits and protecting themselves and their families from financial risk is more important than ever.

Where are our priorities?



Proactive benefits education will also soften the blow in 2018 when the value of core benefits may actually decrease. But that will take planning and budgeting that is the exception rather than the norm today. A survey of employee benefits managers²² found only 22 percent of organizations funded employee benefits communication in 2011. Of those, 67 percent said their budgets remained level in 2012.

Benefits communication can be achieved without a big budget, however, by taking advantage of relevant resources from the experts: benefits vendors. In addition to product descriptions and written explanations, they often supply retirement and life insurance calculators, online tools and planning guides that can enhance employee benefits communication — at no cost to the employer. Other value-added services include personalized websites, group meetings, call centers, benefits statements and paycheck illustrations.



Employees value individual, personalized communication

For workers, the burden of evaluating and selecting their own benefits can seem confusing and even overwhelming. Nearly 53 percent of employees say personal benefits counseling with a professional would help them make better decisions, but only one in four employers offers this avenue.²³

Fortunately, some vendors are willing to explain the full range of employee benefits in one-to-one, personalized sessions with employees and their spouses as a complimentary part of their enrollment process. These experts can, in essence, expand the human resources team with expert advice and a personalized approach.

Post-enrollment surveys by Colonial Life show the value of personal benefits counseling. Ninety-eight percent of employees surveyed after their benefits enrollment indicated their personal counseling sessions were important.²⁴ And 97 percent of them say the sessions improved or significantly improved their understanding of their benefits.

There is a strong association between benefits knowledge and employee satisfaction in the workplace. Employees who understand their employer's benefits investment are more likely to be satisfied with their workplace. A 2011 Unum survey found that more than four out of five workers who rated their employee benefits education highly also rated their benefits packages positively and said their workplace was an excellent or very good place to work.²⁵

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Employees value personal benefits counseling



98%

of employees surveyed after their benefits enrollment indicated their personal counseling sessions were important.

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of them say the sessions improved or significantly improved their understanding of their benefits.

Source: Colonial Life Post-Enrollment Survey, Jan. 2013.



A strategy for all: Selecting the right employee benefits partner

Choosing a good benefits partner is important. Before employers partner with a carrier for voluntary insurance, benefits education and communication, and enrollment support, they should look for these key capabilities:

- **Industry expertise and a proven track record:** The right partner should offer verifiable evidence of company financial strength and a proven track record of benefits communication across different types of industries. The partner should know the employee population's needs, understand the nuances of the industry, and be able to customize the campaign to meet the employer's needs.
- **One-to-one benefits counseling experience:** Online and paper brochures are still the primary means of corporate benefits communication, but if used alone, the employee must assess personal needs and make choices without the benefit of expert guidance. One-to-one communication offers the personalized attention needed to significantly improve employee understanding of benefits.
- **Full portfolio of individual and group voluntary benefits:** The right benefits communication partner has a versatile product portfolio and a deep understanding of how benefits support individual needs. The vendor should be able to answer a range of questions about the employer's entire benefits mix, communicate in easy-to-understand language, and illustrate the benefits using personalized benefits statements.
- **Administration and support services:** A qualified partner can distribute materials, conduct group or individual education sessions, and handle the entire enrollment process. Online reporting of the enrollment process should offer a dashboard of key milestones to help employers keep abreast of the enrollment process via daily updates.

If a company has employees at multiple locations, the benefits partner should have the capability to deploy professional benefits counselors and educators wherever the employer has employees. For remote employees, it may be preferable for benefits representatives to co-browse over the Internet while they counsel employees on the telephone.



Conclusion

As major provisions of health reform come online, employers face a balancing act to remain competitive and to ensure employees have access to an attractive portfolio of benefits. Despite the heightened focus on health insurance, employers must not lose sight of their entire benefits program and its value in attracting and retaining employees.

Voluntary benefits can be a tremendous asset to employers looking for a cost-effective way to offer a competitive benefits package. In addition, a qualified voluntary benefits vendor can help tame the chaos of health reform, acting as a trusted partner to close information gaps — without increasing the cost of benefits or benefits communication.

A qualified voluntary benefits vendor can help tame the chaos of health reform, acting as a trusted partner to close information gaps — without increasing the cost of benefits or benefits communication.

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About Colonial Life

Colonial Life & Accident Insurance Company is a market leader in providing financial protection benefits through the workplace, including disability, life, accident, cancer, critical illness and supplemental health insurance. The company's individual benefits education, innovative enrollment technology and personal service support more than 79,000 businesses and organizations, representing more than 3 million working Americans and their families.

We help our customers design benefit programs to address their business needs. In one-to-one counseling sessions with employees, we offer simple, straightforward advice about the benefits they have and those they may need to fit their individual lifestyles and budgets.

Colonial Life's 10,000 career agents work in one of the fastest-growing segments of the insurance industry. The company has received national recognition for excellent training programs, and annually receives top recognition in a national awards program as brokers' partner of choice in the workplace benefits market.

Colonial Life is a business unit of Unum, a world leader in employee benefits, which has been recognized as one of Forbes' 150 Most Reputable Companies, the Best Place to Work in Insurance, Best Employers for Healthy Lifestyles and Newsweek's Green Company listing. Colonial Life has been named one of the Best Places to Work in South Carolina. Its national headquarters building in Columbia, S.C., has earned the Environmental Protection Agency's ENERGY STAR® certification.



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