RESEARCH REPORT

DECEMBER 2017

2017 Strategy, Actions, and Behaviors Study

Employee benefits trends in the workplace and marketplace: Perspectives from the C-suite and HR/benefit managers

THE USI ONE ADVANTAGE®

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Executive summary

As 2017 comes to an end, it seemed the primary topic on most benefit leaders' minds during the year was whether the Affordable Care Act (ACA) would be repealed; however, it remains the law of the land. Now employers are more focused on cost pressures and other ways to improve their employee benefit plans. Both the C-suite and human resources (HR) teams continue to search for innovative solutions to balance rising costs with the quality of offered benefits packages.

Our Employee Benefits Practice commissioned the 2017 Strategy, Actions, and Behaviors Study to continue understanding the importance and role of employee benefits within companies' organizational goals.

Compared to 2016, the 2017 results show that C-suite and HR teams view maintaining employee productivity and staying current with federal regulations as significantly more important.

The ACA is past its infancy and woven into the mainstream. Employers that intended to make significant changes to their plans as a result of the ACA have generally done so. Due to the delay in the implementation of the excise ("Cadillac") tax to 2020, fewer respondents this year said they are expecting their costs to exceed tax thresholds.

Our research and this white paper offer helpful benefits insights for employers with 50 or more employees.

About the survey

This is our fourth annual study of C-suite executives and HR or employee benefits (HR/EB) managers and directors from across the U.S. We designed our survey to help understand how employers view benefits as part of their human capital attraction and retention strategies, and to compare the results to our prior-year surveys. Almost 700 respondents answered a series of questions that covered marketplace trends and concerns related to employee benefits, tactical, and topical issues pertinent in 2017, and the effects of the ACA on employers' benefit strategies.

KEY FINDINGS

Costs and productivity remain top goals, while complying with regulations becomes more crucial.

The 2017 study confirmed that, as in 2016, employers were in maintenance mode, remaining focused on managing costs and maintaining current benefits and worker productivity levels. This year, however, employers' other top priority shifted from maintaining benefit levels to understanding and adjusting to government regulations. Certainly the twists and turns of the ACA and any repeal legislation that was debated served to heighten this issue for employers.

In the next five years, managing the overall costs of offering employee benefits remains the number one goal, driven in part by the need to remain competitive in a complex business environment. Maintaining productivity continues to be a key focus for employers looking to maximize the workforce.

C-SUITE FOCUS CONTINUES TO SHIFT

Top three goals for C-suite executives and HR/EB managers combined

Top three short-term (next 12 to 18 months) goals

2014	2015	2016	2017
Maintaining productivity of employees (20%)	Managing the overall cost of healthcare benefits (21%)	Managing the overall cost of healthcare benefits (22%)	Managing the overall cost of healthcare benefits (21%)
Managing the overall cost of healthcare benefits (18%)	Attracting high quality new talent (16%)	Maintaining current level of benefits offered (18%)	Maintaining productivity of employees (17%)
Maintaining current level of benefits offered (17%)	Maintaining current level of benefits offered (15%)	Maintaining productivity of employees (15%)	Understanding/Complying with regulations (14%)

Top three long-term (next five years) goals

2014	2015	2016	2017
Managing the overall cost of healthcare benefits (26%)	Managing the overall cost of healthcare benefits (20%)	Managing the overall cost of healthcare benefits (20%)	Managing the overall cost of healthcare benefits (18%)
Maintaining productivity of employees (18%)	Maintaining productivity of employees (17%)	Maintaining current level of benefits (15%)	Continue to monitor/adjust to regulations (15%)
Maintaining current level of benefits offered (15%)	Maintaining current level of benefits offered (15%)	Attracting high quality new talent (15%)	Maintaining productivity of employees (14%)

From 2014 to 2017, our survey showed an interesting shift of focus in the C-suite:

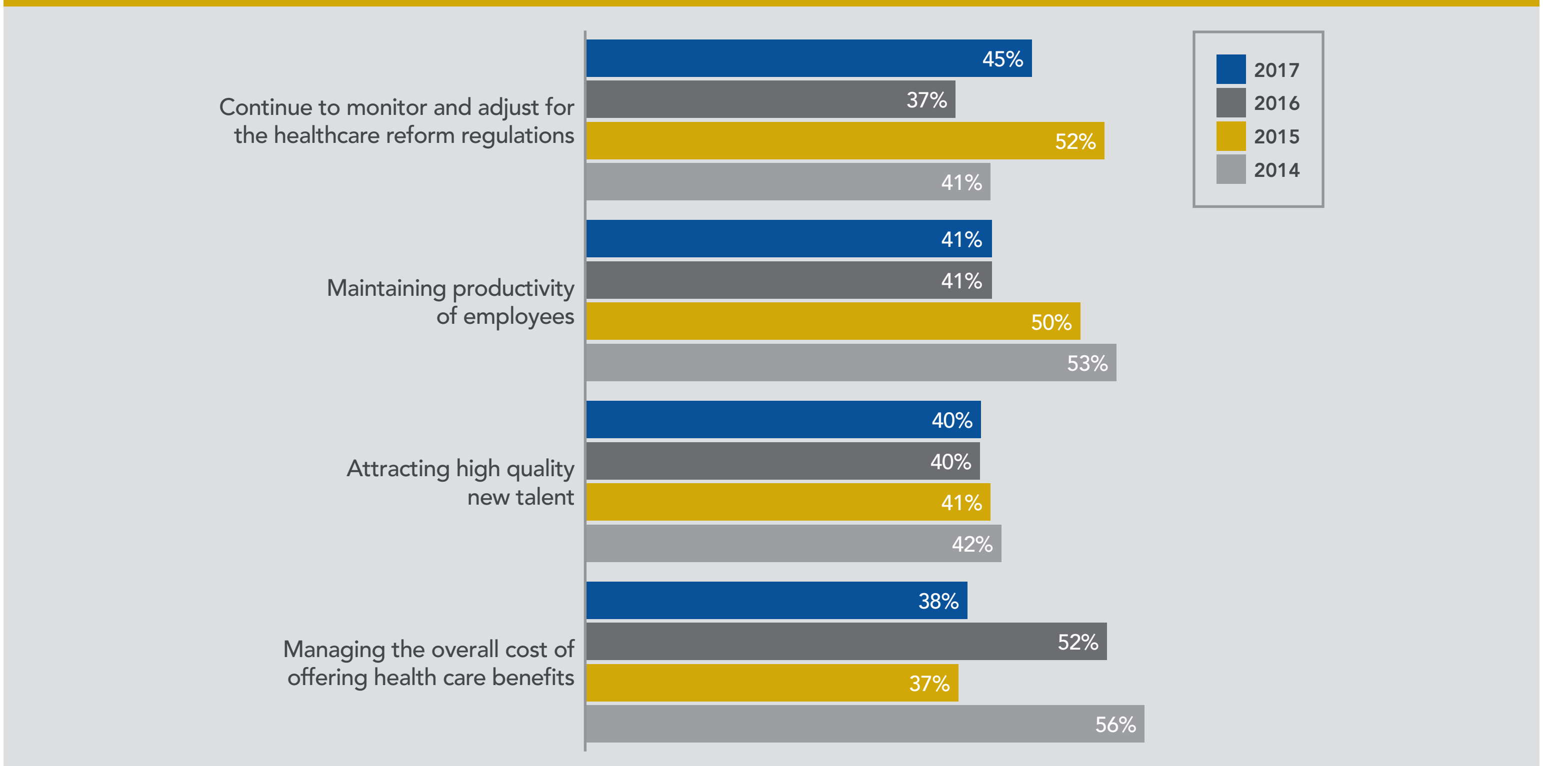
- In 2014, the top short-term goal in the C-suite was maintaining employee productivity. In 2015, attention shifted to expanding the offering of voluntary benefits. In 2016, managing the overall cost of benefits programs became the primary goal.
- Now in 2017, the top short-term goal is understanding and complying with healthcare reform regulations and maintaining worker productivity. This is no doubt a result of the tumultuous turns the ACA went through during the year.

"The current up-in-the-air situation, waiting to see what the government is going to do with the ACA in general, makes it hard to make decisions now."

– Business owner, survey respondent

- In 2014, the top long-term goal in the C-suite was managing the overall cost of healthcare benefits. In 2015, priorities shifted to expanding the offering of voluntary benefits. The most important goal reverted back to cost management in 2016, and while still critical in 2017, it dropped to fourth on the priority list.

C-suite long-term goals (top ranked)



HR/EB managers remain steadfast in their focus:

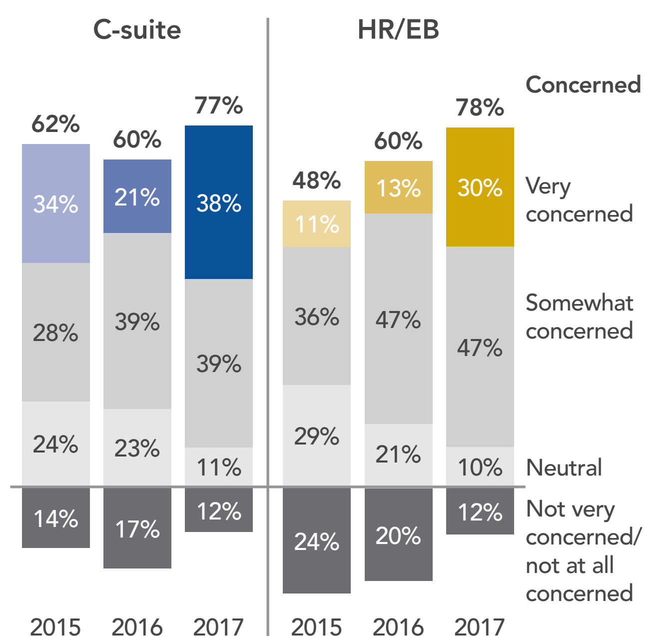
- The top short- and long-term goals in 2017 for HR/EB managers remained the same as they had been the prior three years — managing the overall costs of offering healthcare benefits. Maintaining the level of benefits remained the second goal in all four years of the study.

Managing the cost of programs and maintaining the level of benefits offered can be a difficult balancing act. In many instances, one goal will have to bend in favor of the other. As many employers have pushed the limits of their plan designs as far as they can, they are now looking at innovative solutions and strategies to reduce costs.

Employers report increasingly high levels of concern about attracting and retaining employees due to healthcare reform.

In our 2014 survey, 45% of C-suite executives said they were somewhat or very concerned about attracting and retaining employees in light of the ACA. By 2017, that figure had jumped significantly to 77%. The concern has also risen in HR/EB manager ranks, increasing from 48% in 2014 and 2015 to 78% in 2017.

Concern with attracting/retaining employees due to healthcare reform



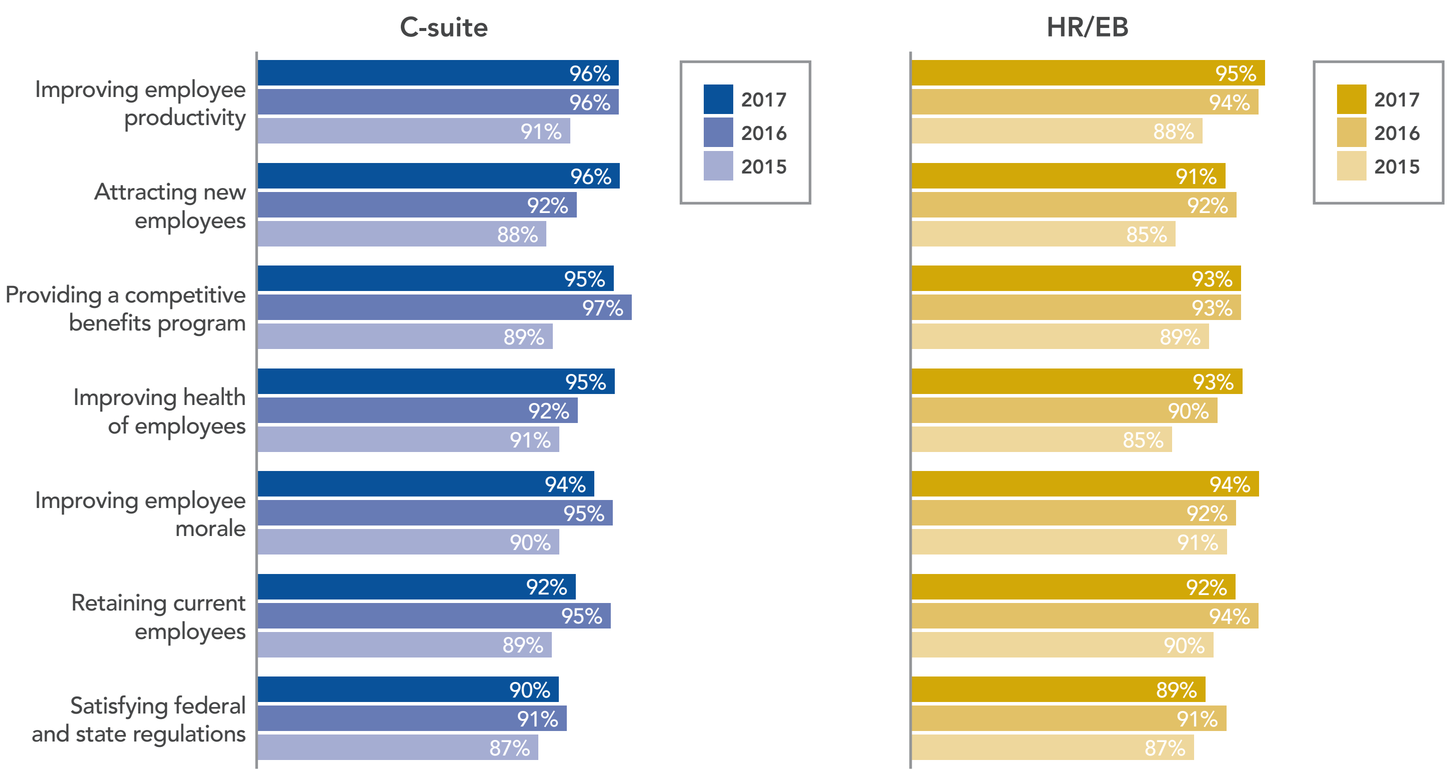
The job market continues to favor employees as demand for key talent remains high. Companies want a benefits package that is well-designed, comprehensive, and competitive. Employers must consider a number of critical questions, including:

- Is the package appropriate for the majority of your workforce and prospective employees?
- Do you consider the ages and salaries of your entire workforce when developing your benefits plan?
- Do you provide multiple plan choices?
- Do you provide your employees with an experience that is technology-enabled and transparent, and does it provide decision support guidance?
- Have your employees asked for enhancements that you have not been able to provide?
- Do you communicate your benefit offerings effectively and often, and do you publicize them to prospective hires?
- Are there gaps that leave some or all of your employees exposed?

Importance and effectiveness of many workforce strategies decreased or stayed the same compared with 2016.

C-suite executives view several human capital strategies as less important in 2017 than in 2016. The two exceptions to this include attracting new employees and improving the health of employees, both of which increased in importance from our 2016 survey. The most important areas of population management strategies for executives are improving employee productivity and attracting new employees, followed by providing a competitive benefits program and improving employee health.

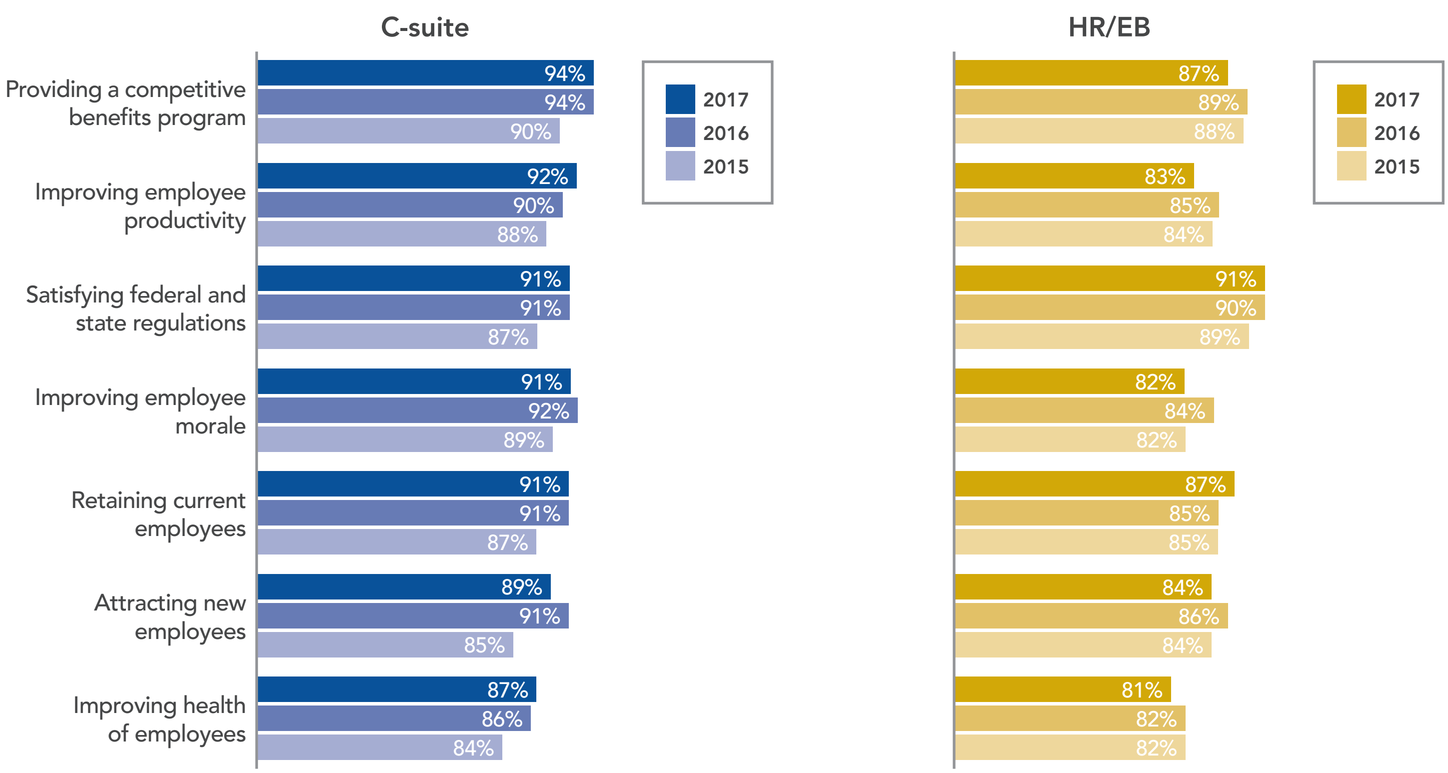
Importance of areas to success of human capital strategy



> *(Our employees) are happy to have health coverage and know that it is something that we have little control over. Most of them are very appreciative of the plan that we have available. They know that we are doing our best to control any costs to them. The changes that are happening in the next year or two shouldn't have much impact on our employees.*
>
> *– C-suite leader, survey respondent*

The perceived effectiveness of the human capital strategy for these mid- to larger-sized companies generally did not change from 2016 to 2017. C-suite executives continue to view their companies' support as more effective than HR/EB managers, especially in improving employee morale and providing a competitive benefits program.

Effectiveness of company support for each human capital strategy area

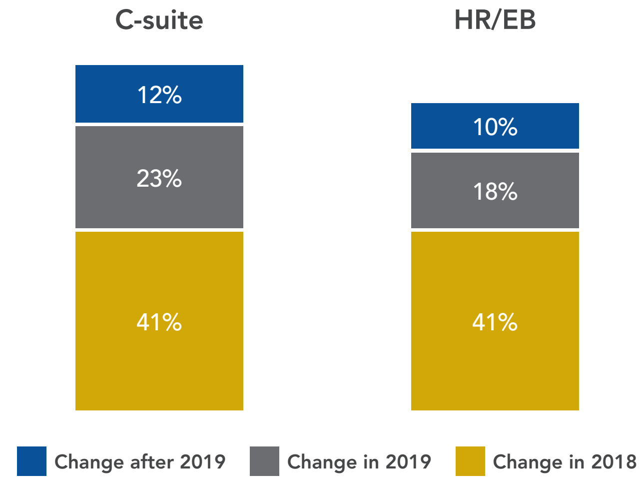


WELLNESS OFFERINGS AND BUDGETS WILL CONTINUE TO INCREASE

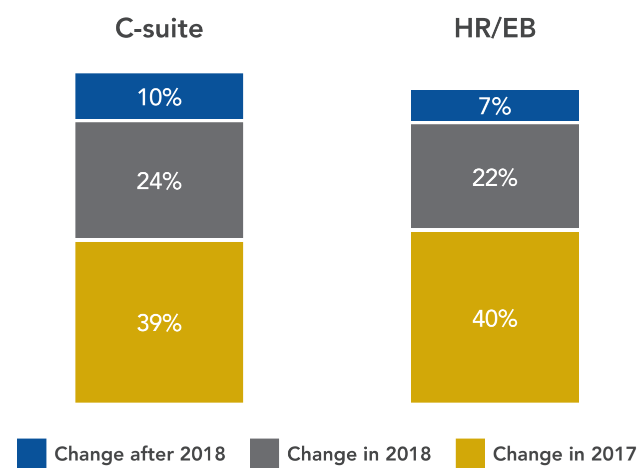
As previously mentioned, the number one goal of employers in both the short and long term is to manage benefits program costs. In order to have lasting impact, companies must invest in improving the health of the covered population. A continued focus on wellness is critical to achieving that goal.

Sixty-two percent of employers said they plan to increase the number of health and wellness offerings in the next year or two (up from 53% in 2016). While increasing offerings is vital, employers are also looking to invest financially in these programs; 61% will increase their budget in 2018 or 2019 vs. 54% a year ago.

Companies expecting to increase the health and wellness offerings



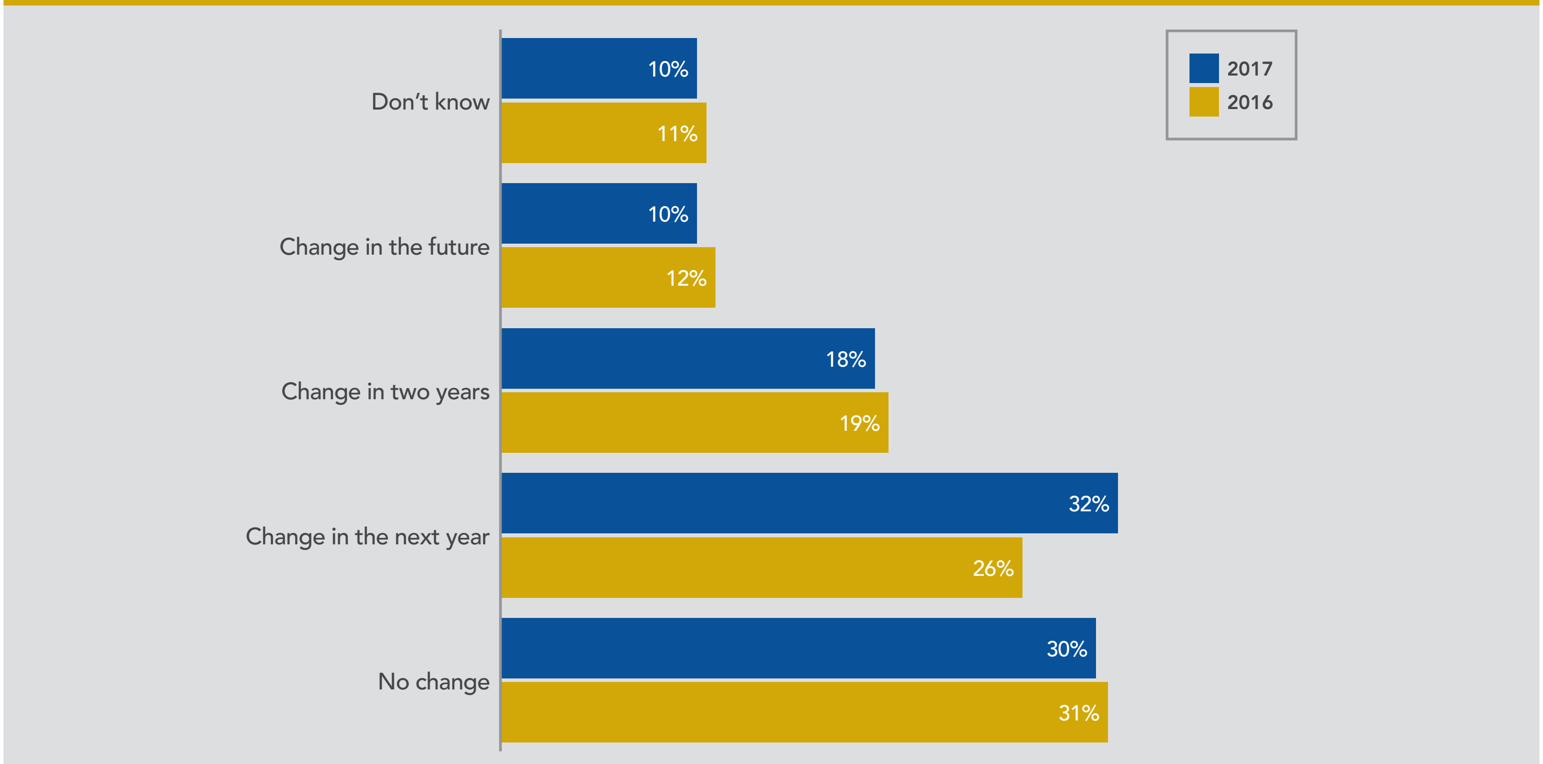
Companies expecting to increase the budget for health and wellness



Financial wellness programs continue to garner attention.

According to our survey, 60% of companies plan to add a financial wellness component to their benefits package in the future. This is up from 57% a year ago. Employers most often design financial wellness programs to assess and support employees' overall financial health; their importance is becoming more critical and more employees rely on their availability at the workplace.

Companies adding a financial wellness component to the plan



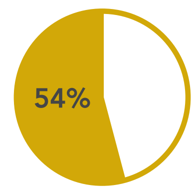
When employees are under stress or distracted on the job, productivity suffers, healthcare costs increase, and turnover rates can rise. In addition to missing work and being less productive, workers who struggle financially often resort to taking hardship withdrawals from their retirement plan savings. This not only jeopardizes their own retirement security, but can also negatively impact the financial success of a company's overall retirement plan.

Employers are using a variety of approaches to help employees manage their finances, from personalized coaching and contests with cash incentives, to mobile device apps and podcasts. Financial wellness is in large demand because employees feel burdened by their obligations and are not confident in their ability to manage their situation. A financial wellness benefit resonates with the entire workforce because it has multigenerational impact.

MORE TOTAL COST OF CARE BEING SHIFTED TO EMPLOYEES

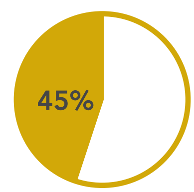
After a couple years during which few employers made changes to the basic elements of medical plans, the tide is changing for 2018 as employers plan to shift more financial responsibility to employees. More than half of companies plan on increasing the percentage the employee contributes to the premium, increasing the coinsurance feature, or both.

Companies expect to make even more changes to some element of their plan offerings in 2018 or 2019 capital strategy



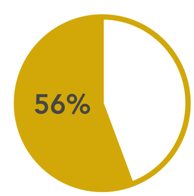
Increase in the number of medical plan options

Up from 46% in 2016



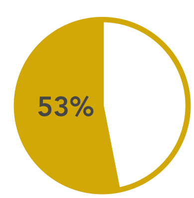
Adding a high-deductible plan offering

Up from 41% in 2016



Increase in employee contribution percentage

Up from 47% in 2016



Increase in coinsurance feature

Up from 42% in 2016

Strategic management initiatives, such as reducing employee headcount, moving employees from full-time to part-time, changing from self-funding to fully insured, and terminating plan offerings, are least likely to be targeted for change, and expected less by HR/EB managers than the C-suite.

Changes in strategic management initiatives

		No change	Future change: Change in 2018	Future change: Change in 2019	Future change: Change after 2019	Don't know
Reduce employee headcount	C-suite 2017	47%	23%	15%	6%	8%
	HR/EB 2017	54%	18%	16%	5%	8%
Reduce workforce hours	C-suite 2017	47%	20%	17%	9%	7%
	HR/EB 2017	53%	17%	15%	7%	8%
Decrease staff resources dedicated to employee benefits	C-suite 2017	45%	20%	17%	11%	8%
	HR/EB 2017	53%	22%	10%	7%	8%
Moving full-time employees to part-time	C-suite 2017	45%	22%	15%	9%	9%
	HR/EB 2017	52%	16%	15%	5%	12%
Decrease budget for employee benefits	C-suite 2017	46%	21%	19%	7%	7%
	HR/EB 2017	50%	21%	13%	8%	8%
Decrease budget for health and wellness	C-suite 2017	45%	20%	14%	12%	9%
	HR/EB 2017	49%	21%	13%	5%	11%
Terminating plan offerings	C-suite 2017	40%	17%	21%	11%	10%
	HR/EB 2017	48%	18%	14%	6%	14%
Change funding from fully-insured to self-funded	C-suite 2017	39%	17%	21%	11%	11%
	HR/EB 2017	46%	19%	15%	7%	13%
Change funding from self-funded to fully-insured	C-suite 2017	35%	24%	21%	10%	11%
	HR/EB 2017	40%	23%	14%	7%	15%
Change from defined benefit plan to defined contribution plan	C-suite 2017	35%	22%	22%	11%	9%
	HR/EB 2017	39%	24%	16%	7%	14%
Begin offering coverage for active employees through a private exchange	C-suite 2017	32%	25%	21%	8%	13%
	HR/EB 2017	39%	26%	14%	8%	13%
Offer a reference-based pricing plan	C-suite 2017	32%	29%	21%	9%	10%
	HR/EB 2017	33%	26%	15%	8%	18%
Technology investment dedicated to employee benefits	C-suite 2017	28%	33%	19%	12%	7%
	HR/EB 2017	26%	37%	16%	9%	11%
Increase employee headcount	C-suite 2017	24%	37%	22%	11%	7%
	HR/EB 2017	25%	42%	16%	9%	7%
Increase budget for employee benefits	C-suite 2017	24%	36%	24%	12%	3%
	HR/EB 2017	24%	39%	21%	8%	8%
Increase budget for health and wellness	C-suite 2017	21%	39%	24%	10%	5%
	HR/EB 2017	25%	40%	22%	7%	7%

No change | Change in 2018 | Change in 2019 | Change after 2019

Two-thirds of companies expect to increase the budget for employee benefits, and as many as 70% of employers expect to increase the budget for health and wellness, with the C-suite more expectant than HR/EB managers.

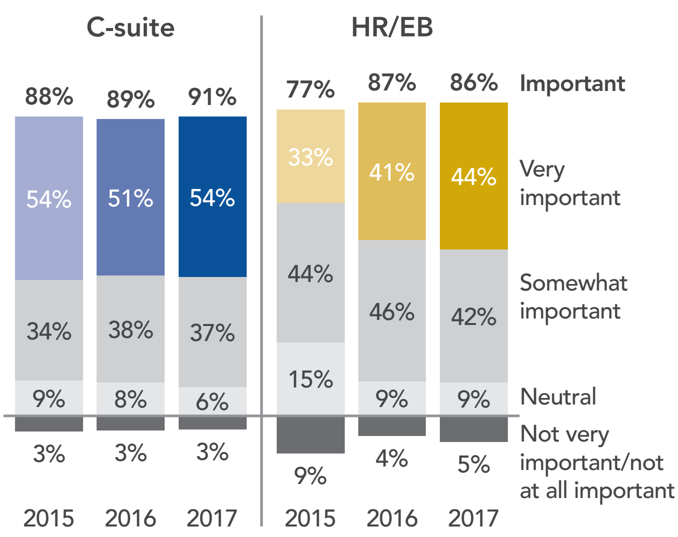
Employers recognize importance of measuring the financial impact of improving employee health, but effectiveness has leveled off.

The vast majority of the C-suite and HR are in agreement; it is important to measure the financial impact of improving employee health.

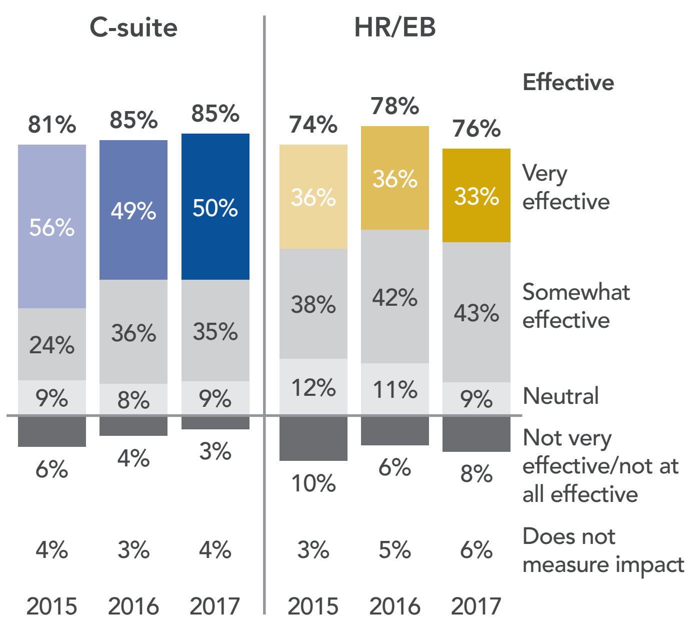
- The difference is that the C-suite is more likely to feel this is a very important task (54%), while HR/EB doesn't feel quite as strongly about the importance.

Employers feel they are effective at measuring the impact of improving the health of their employees; however, our survey showed no change between 2016 and 2017. This indicates that there is opportunity for some employers to improve their efforts in this area.

Importance of measuring financial impact of improving employee health



Effectiveness of measuring financial impact of improving employee health



HIGHER EMPLOYEE HEADCOUNTS, INCREASED WELLNESS OFFERINGS DRIVING INCREASED HEALTHCARE COSTS

More employers expecting healthcare cost increases in 2018.

The majority of C-suite executives and HR/EB managers expect 2018 healthcare costs to increase – 70% expect costs to increase, while 14% expect no change, and 15% expect costs to decrease. The percentage of employers expecting an increase is also 1.5% higher than in 2016.

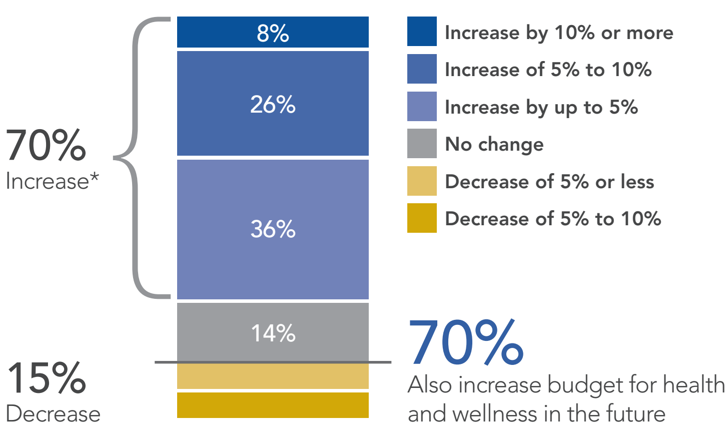
It's important to note that these are cost increases after accounting for any changes the employer might make for the next year (plan changes, contributions, networks, etc.). The two primary reasons indicated for the increase are higher employee headcounts and increased health and wellness offerings.

Those expecting a decrease cite raising the employees' premium contribution percentages as the top reason. Affordability remains a key issue for both the employer and the employee, so an effort to expand wellness options, while a short-term cost, is a welcome initiative.

> *Cost of insurance has increased and that increase is passed to the employee. (Our) employees already have to pay 50% of the costs and any increases will pass through to the employee.*
> *– CFO, survey respondent*

Employers in the healthcare/social assistance industry are more likely to expect a cost increase in 2018 (82%), followed by employers in the construction sector (76%). Geography appears not to play a significant role in whether costs are increasing. Employers everywhere expect costs to rise next year, from 68% of employers in the Midwest, to 72% of employers in the South.

2018 healthcare cost change estimate after all potential revisions made to the plan compared with 2017

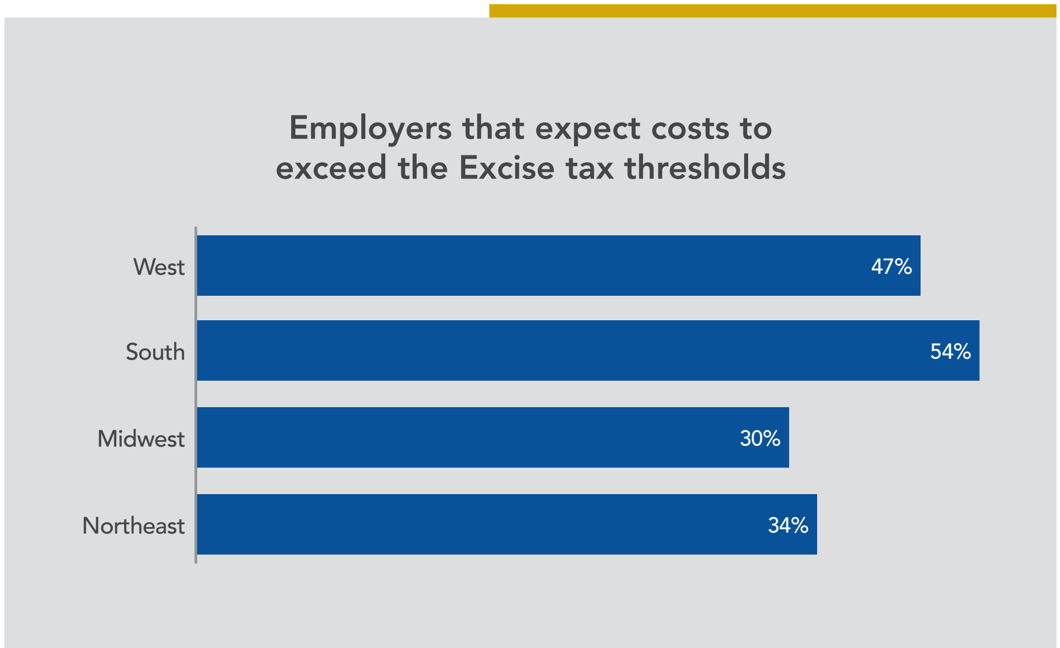


*1.5% higher than those expecting an increase in 2017

EXPOSURE TO THE ACA'S "CADILLAC" TAX CONTINUES TO DECLINE

The last major piece of the ACA to be implemented is the excise or "Cadillac" tax, which is set to take effect in 2020 for employers with medical plan costs exceeding certain thresholds. The number of companies expecting to exceed the thresholds continues to decline, due in part to the additional time employers have had to make changes to their plans.

- 44% expect to exceed the thresholds, compared to 47% in 2016 and 58% in 2015. In 2017, 38% do not expect to exceed the thresholds, and 19% are not sure.
- Among the industries surveyed, the retail trade and technology services cite the highest concern, with 58% of employers in both industries expecting to exceed the tax thresholds.
- Geography *does* play a role in this area, as employers in the South (54%) are most likely to project their costs will exceed the thresholds in 2020.



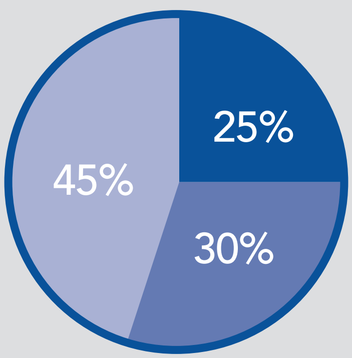
Employers who expect their plan costs to exceed the excise tax thresholds anticipate making some changes to avoid the tax. These changes include:

- Increase wellness initiatives to improve health of the population (43%)
- Reduce the value of the plan design (41%)
- Change employee health savings account (HSA) contributions to post-tax (39%)
- Eliminate flexible spending account plan (31%)
- Implement a spousal carve-out plan (30%)

STRONG DESIRE EXISTS FOR KEEPING EMPLOYER-SPONSORED TAX EXEMPTION INTACT

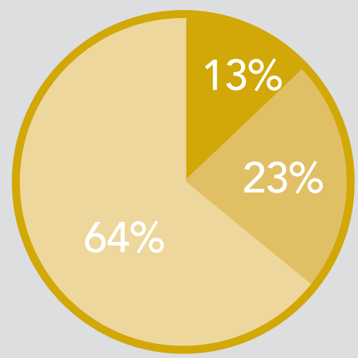
Some of the ACA replacement proposals discussed by Congress in 2017 examined limiting the tax exemption for employer-sponsored benefits. According to our survey, nearly half of employers want Congress to leave the exemption in place, and 30% would want only a portion to be taxable. HR team respondents felt stronger than the C-suite about the importance of keeping the exemption at 100%.

Employers that want Congress to leave the exemption in place where all employer-sponsored health benefits remain pre-tax



- Tax all employer-sponsored health benefits
- Tax a portion of employer-sponsored health benefits
- Leave the exemption in place where all employer-sponsored health benefits remain pre-tax

Employers that would continue to offer health benefits to employees



- Stop offering health benefits to employees
- Consider no longer offering health benefits to employees
- Continue to offer health benefits to employees

Even if Congress ultimately limits the tax exemption, nearly two-thirds of employers said they would continue to offer healthcare benefits. This would be welcome news to the 150+ million Americans who receive coverage through their employer today.

TECHNOLOGY, FIXED EMPLOYER COSTS ARE GROWING TRENDS

Increased technology investment dedicated to employee benefits:

In our 2017 Employee Benefits Market Outlook, we noted that technology would be a key trend for employers to monitor. The use of technology to deliver benefit offerings, improve the consumer experience, and simplify HR's workday has been on the rise, and appears to show no signs of slowing down. Innovation will continue in the market and will require employers to stay actively engaged in their strategy and perform necessary due diligence. This includes devoting financial resources to new solutions; it appears that employers recognize this and are prepared to increase their investment in this area.

Technology investment dedicate to employee benefits

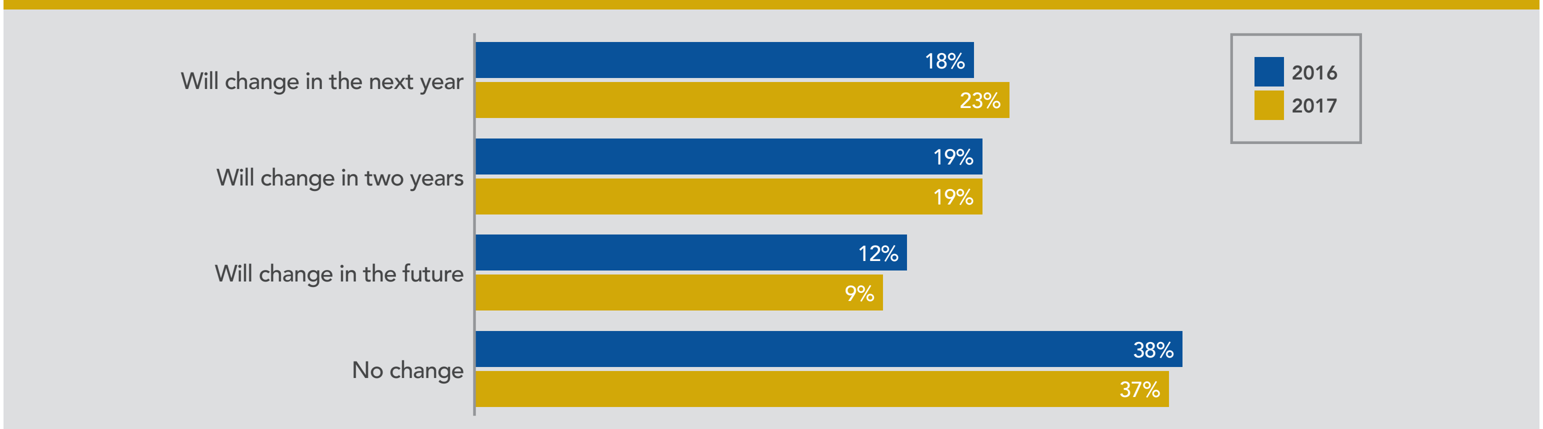
	2016	2017
Will change in the next year	25%	35%
Will change in two years	21%	18%
Will change in the future	11%	11%
No change	33%	27%
Don't know/NA	10%	9%

Increased interest in fixing the employer cost share:

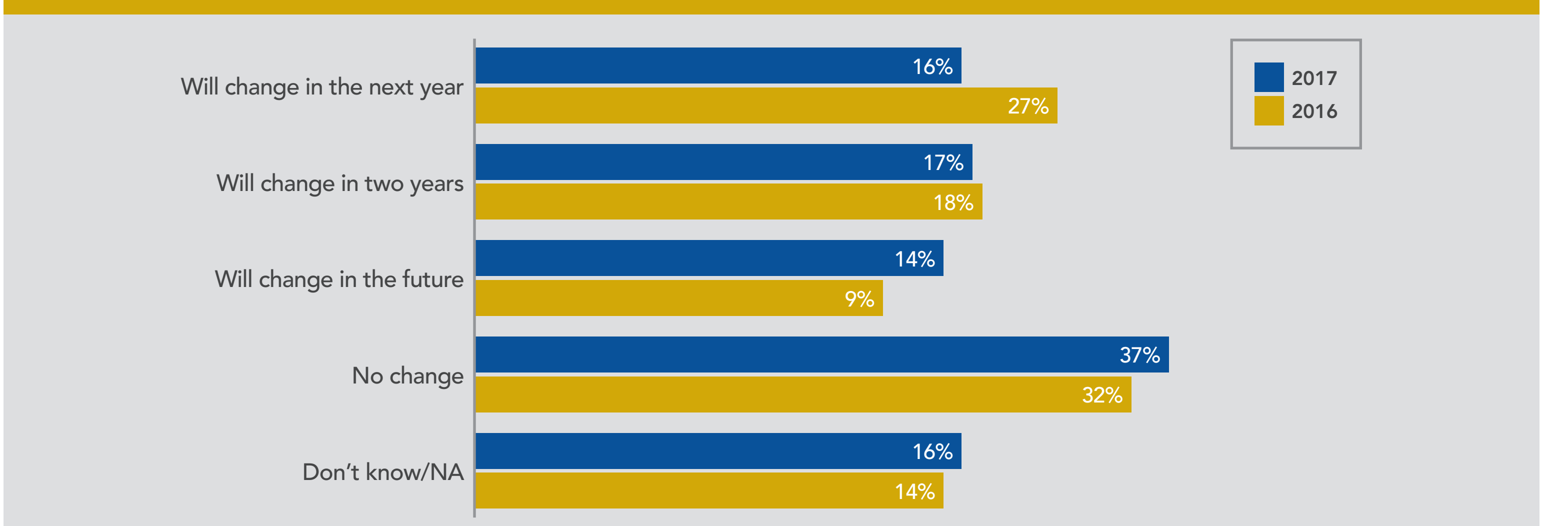
One way that employers have explored managing their expenses is by defining the amount they are willing to spend. Two strategies for accomplishing this include: 1) Shifting from a defined benefit plan to a defined contribution plan, or 2) Shifting the plan design to a reference-based model.

Under the first option, employers modify their approach from defining the benefit design offered to defining the amount they will contribute to help the employee purchase insurance (e.g., $5,000). With the second option, the employer establishes a fixed amount to be reimbursed for a specific procedure or service (e.g., a knee surgery or MRI). From 2016 to 2017, our survey showed an increase in the percent of employers planning to implement one of these strategies in the next two years.

Change from defined benefit plan to defined contribution plan



Offer a reference-based pricing plan



Companies with more than 1,000 employees are most likely to implement one of these two options in 2018 but there is a growing interest among smaller employers to offer.

HOW CAN WE HELP?

Rising costs, workforce productivity, a multigenerational workforce, and a shifting regulatory landscape are just a few of the ongoing challenges facing employers today. Addressing these issues while offering a competitive benefits package that attracts and retains key talent is a daily challenge. Our Employee Benefits National Practice team can help you create a smart and strategic benefits program that provides the best value for your business and the best benefits for your workforce that takes into consideration your corporate philosophy, financial plan, and most importantly, your employees.

> *The future is as uncertain as ever before. We will be required to react to the options available.*
> *– C-suite leader, survey respondent*

We can also help you:

- Identify and assess health and productivity issues in your employee population
- Employ the use of data mining and clinical analysis
- Identify and address any pharmacy issues within your population **(23% of employers intend to have greater focus on utilization and coverage of specialty pharmacy in the next five years)**
- Develop a strategic plan aligned with your corporate culture and overarching business objectives
- Implement tools to measure ROI or other outcome measures **(71% of employers use employee satisfaction)** and the financial impact of improving employee health

To learn more about how USI's employee benefit solutions can help better manage your benefits costs, contact your local USI consultant, or visit www.usi.com.

Source

1. USI Insurance Services 2017 Employee Benefits Strategy, Actions, and Behaviors Study

About the research: The Strategy, Actions, and Behaviors Study of executives and benefit managers from across the United States at companies with 50 or more employees, was conducted from July 6–21, 2017. In the poll, a total of 695 surveys were collected (348 from C-suite executives, 347 from human resources/employee benefits directors/ managers). In order to qualify, the respondent had to have knowledge about the company's benefits offerings. The total data are weighted to reflect the actual distribution of companies by employee size and revenue as specified by Dunn & Bradstreet. The survey was designed to better understand how employers view benefits as part of their human capital attraction and retention strategy, and trends, as well as capture current marketplace trends and concerns related to employee benefits.