2018

Employee Benefits Outlook

Insights from the Employee Benefits Practice

THE USI ONE ADVANTAGE®

TABLE OF CONTENTS

In our 2018 Employee Benefits Outlook, USI's national practice leaders offer their timely insights, which we hope you will find beneficial as you plan for the year ahead.

EXECUTIVE SUMMARY

Rising healthcare costs remain a source of frustration for employers and consumers alike; however, as the market continues to evolve, several trends and innovations are coming forward that will help companies manage those costs and improve worker productivity.

Benefit plans are a critical part of an employer's overall rewards package, especially as the need to attract and retain qualified talent remains high. Ensuring that benefits are competitive and consistent with an employer's culture while simultaneously balancing costs is a challenge, and many employers will be focusing on these goals for the next few years:

Top three employer goals[1]

Short-term (next 12–18 months)	Long-term (next 5 years)
Managing the **overall cost** of healthcare benefits	Managing the **overall cost** of healthcare benefits
Maintaining **productivity** of employees	Continue to monitor/ adjust to regulations
Continue to monitor/ adjust to regulations	Maintaining **productivity** of employees

[1]USI Employee Benefits Strategies, Actions, and Behaviors Study, 2017

The Affordable Care Act (ACA) was under constant attack this past year with numerous attempts by Republicans to repeal and replace the law. None of those attempts were successful, so the ACA will be entering its eighth year and remains the law of the land. The last major outstanding item is the excise, or "Cadillac" tax, which is now set to take effect in 2022. This tax remains unpopular and is on the radar of multiple interest groups. While it appeared there was prior momentum to repeal or significantly modify the tax before it takes effect, it is now unclear if that will occur. Employers need to continue to plan accordingly.

There is always the possibility that Congress will try to repeal and replace the ACA in 2018. Even if that were to occur, the changes would need time to take effect and would impact the individual health market much more significantly than the employer group market. If the ACA remains in place, there is hope that the Trump administration will simplify or eliminate the employer reporting requirements, encourage improved use of wellness plans, and address the individual and employer mandates. Employers should closely monitor all developments. According to the chart at left from the USI Insurance Employee Benefits Strategies, Actions, and Behavior Study 2017, companies are clearly making this a priority.[1]

The current environment is encouraging new entrants and solutions to the market. Technology is continuing to evolve rapidly, eliminating many administrative challenges, and helping to bring insurance and the delivery of care into the mainstream digital world. The trends we highlighted a year ago have not faded away; they remain relevant and require continued attention from group plan sponsors. In this Employee Benefits Outlook, we will evaluate some new, key trends for employers to focus on for 2018.

INSURER FINANCIAL TRENDS AND MARKET CAPACITY

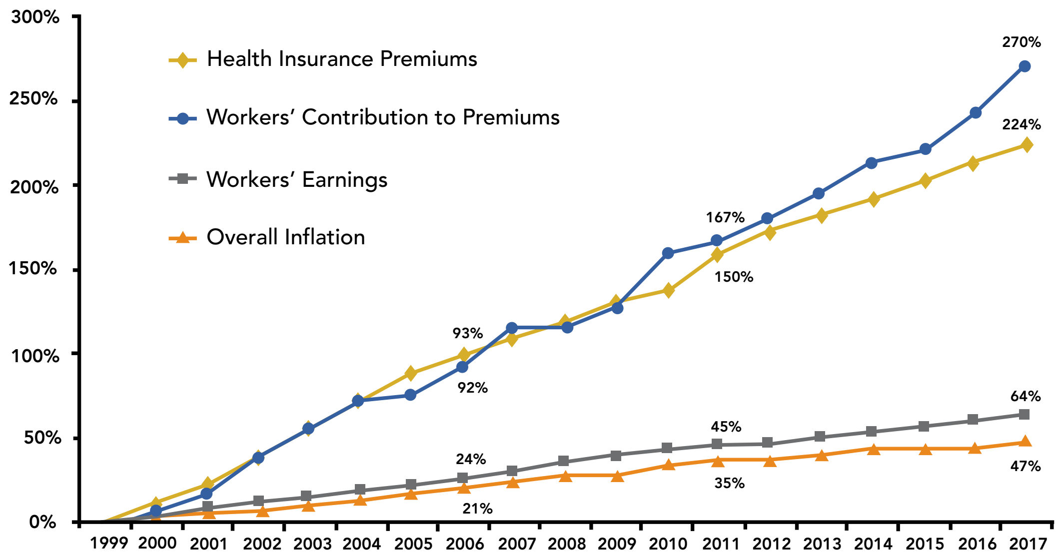
- Recent uncertainty in the ACA exchange market will have implications for any insurance carrier offering individual health insurance. Likely impacts include higher rates, carriers exiting specific products, markets or geographies, and potential expansion into other lines of business with less regulatory risk.
- Despite the failure of the Anthem/Cigna and Aetna/Humana mergers to overcome Department of Justice antitrust concerns, mergers and acquisitions will likely continue among smaller insurers as well as between health insurers and healthcare providers as scale continues to be necessary for investments, expense efficiencies, and to manage regulatory requirements.
- Absent a merger or acquisition, the smallest health insurers may require ongoing capital support to remain solvent, particularly those with substantial presence in individual health insurance. Pressure for carriers to expand into new product lines and/or geographies to increase scale will continue, particularly for smaller insurers. This type of expansion often increases solvency risk.
- The Medicare Advantage market will continue to grow due to relatively low penetration as well as demographic trends, with baby boomers reaching retirement age.
- The ACA health insurer tax (HIT), which was suspended for 2017, is scheduled to be in effect again in 2018. This will increase health insurance costs in 2018 unless Congress acts to repeal or suspend the tax. Partially offsetting this consideration, while federal tax reform is still an unknown at this point, any reduction in the corporate tax rate would benefit insurers' balance sheets and could provide modest downward pressure on rates.
- Insurers may also see an increase in claims costs as elective procedures, which may have been delayed in late 2017 due to hurricanes and natural disasters in some geographies, are rescheduled for 2018. This could have a particularly significant impact on small, local insurers in effected areas.
- Utilization of self-insurance will continue to grow and will extend to include to smaller-sized businesses which had previously been fully insured. Cost-sharing programs, which incentivize employees to be more conscious about their use of healthcare, will continue to grow as well.
- Overall, the health insurance industry remains adequately capitalized. While small, local insurers and those with substantial exposure to the individual exchange markets may continue to struggle, larger and more diversified carriers will likely remain strong.
- Life insurers in the group market remain adequately capitalized. There may be discussions/rumors of additional acquisitions in the year ahead.

RATE AND PRICING ENVIRONMENT

Premiums

Driven by rising healthcare costs and an aging, unhealthy population, health insurance premiums have increased 224% since 1999 (see chart below) and continue to rise at an unsustainable rate for both employers and consumers. Further complicating matters, premiums and employee contributions are increasing at a much faster rate than worker earnings.

Cumulative Increases in Family Health Insurance Premiums, Workers' Contributions to Premiums, Inflation, and Workers' Earnings, 1999–2016[2]



A greater emphasis on outcomes, health improvement, and provider risk-sharing is being accelerated by insurers and employers (moving from fee for service to fee for value).

[2]SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2017; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2017 (April to April). Retrieved from https://www.kff.org/slideshow/2017-employer-health-benefits-chart-pack/

Significant factors driving increasing healthcare costs include:

- **Paying providers based on volume:** The current reimbursement system offers an incentive for most providers to perform more tests and procedures, rather than provide efficient, high-quality care. A greater emphasis on outcomes, health improvement, and provider risk-sharing is being accelerated by insurers and employers (moving from a fee-for-service model to a fee-for-value model). Medicare is impacting the way hospitals and providers are reimbursed for services, as Medicare reimbursements are quickly transitioning to bundled episodic payments rather than reimbursing providers on a fee-for-service basis. Medicare payment reform mandates that hospitals and healthcare providers integrate their delivery of care, giving rise to more Accountable Care Organizations (ACO) and patient-centered medical homes (PCMH).

  This shift is also beginning to affect the commercial market, as methodologies such as primary care incentives, bundled payments, shared risk, and global capitation are introduced. As the public payment model changes, the private payment model will follow wherever possible. Twenty-three percent of employers said they plan to embrace the shift in provider reimbursement from volume to value in the next five years.[1]

- **Consolidation of healthcare delivery systems:** Healthcare providers are gaining market share and reducing competition through increased mergers and acquisitions. This enables them to better control costs, manage more medical services, and improve outcomes, but also to demand higher prices. In the next few years, it's possible that we will see some markets with no independent healthcare practitioners.

- **Aging populations**: According to US Census Bureau projections, the population of people age 65 and older is expected to more than double between 2012 and 2060.[3] While millennials (Generation Y) comprise more of the workforce, baby boomers and Generation X still account for the majority of employers' healthcare spend with an annual expenditure rate 6.3 times greater than for younger generations.[4] As the population ages and longevity increases, the healthcare system will be challenged to continue treating patients while controlling costs.

- **Rise of chronic illness:** Nearly 50% of the US population has one or more chronic health conditions, such as asthma, heart disease, obesity, cancer, or diabetes.[5] Moreover, 34% of Americans are affected by metabolic syndrome, which is a combination of elevated blood pressure and blood glucose, abnormal lipids, and high levels of body fat around the waist.[6] Metabolic syndrome compounds the risk of heart disease, stroke, and diabetes. Chronic disease accounts for more than 75% of annual US healthcare spending.[7]

- **Medical technology:** New technologies and treatments are generally more expensive than their predecessors, and are in high demand. While those technologies may shorten hospital stays or patient recovery time, they certainly add to rising costs.

- **Lack of information:** Today's consumers do not have accurate information readily available to them about the cost of various healthcare services, or which providers are most effective and efficient in delivering those services.

- **System inefficiencies:** The healthcare system is still fairly antiquated. There remain too many instances of procedure duplications, preventable mistakes, and unnecessary treatments. Consumers need to receive care in the right setting, without errors.

[3] United States Census Bureau, (December 12, 2012). U.S. Census Bureau Projections Show a Slower Growing, Older, More Diverse Nation a Half Century from Now [Press Release]. Retrieved from http://www.census.gov.
[4] U.S. Bureau of Labor Statistics, Consumer Expenditure Survey. 2013.
[5] Centers for Disease Control and Prevention, Chronic Diseases and Health Promotion. 2014. Retrieved from http://www.cdc.gov.
[6] American Heart Association, May 14, 2014. Retrieved from http://www.heart.org/HEARTORG/Conditions/More/MetabolicSyndrome/Metabolic-Syndrome_UCM_002080_SubHomePage.jsp.
[7] Centers for Disease Control and Prevention, *The Power to Prevent, The Call to Control: At A Glance. 2009*. Retrieved from http://www.cdc.gov.

RATE AND PRICING ENVIRONMENT

Claim trends

Medical claim trends have remained steady over the past few years but they remain in the high single digits—levels that are higher than indexes such as the medical consumer price index. These trend factors remain challenging for most employers as they plan their healthcare strategy for 2018 and beyond. We anticipate 2018 medical trends to remain relatively flat for every product, relative to 2017, driven mostly by the continued rise in chronic disease, increased utilization rates, and consolidation of medical providers. With the ACA capping deductible and out-of-pocket levels, and the consolidation of insurers and provider network discounts becoming obsolete, population health is the main lever employers can pull to influence these trend figures.

What does "trend" mean?

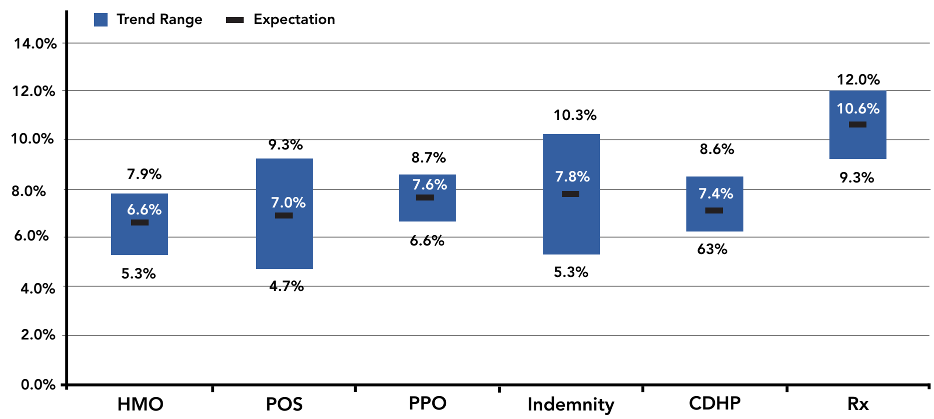
Trend represents the percentage by which a group's historical claims experience is increased to project future cost.

Factors that influence trends

- Price inflation or deflation (changes in unit prices for the same services)
- Increased utilization of services
- Aging of the population
- Leveraging effect on benefit design
- Changes in provider treatment patterns
- Improvements in technology and drug therapies
- Changes in federal and state legislation
- Cost shifting (from public payers, such as Medicare, to private plans)
- Costs of medical malpractice

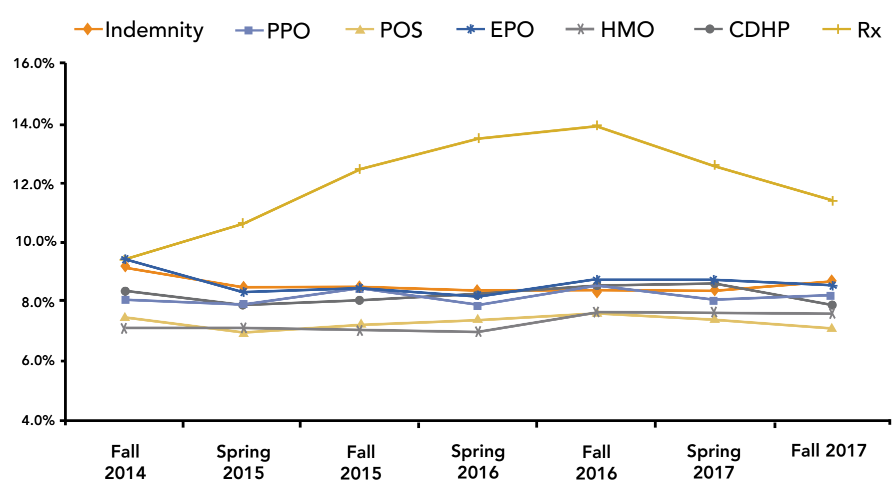
Medical claims trend forecast[8]

USI 2018 Medical & Drug Trend Forecast and Variance, by Product



*Based on probabilistic data provided by survey respondents and enrollment by carrier

Historical medical claims trends[8]



Median factors are reflected above

[8]USI National Healthcare Claims Trend Survey, Fall 2017.

The medical claims trend forecast chart (on previous page) shows our claim trend forecast for 2018. We paired data from our historical chart (also on previous page), with our actuarial judgment and market knowledge to provide a range of cost trends for each medical product. The range reflects the variance in survey responses as well as in healthcare delivery in a local market.

Cost drivers in both medical and pharmacy claims continue to present a challenge for employers. High-cost claimants, often exceeding $75,000 annually, present as both inpatient and specialty pharma cases, and have had tremendous impact for both self-funded and fully insured employers. Case management initiatives have been revitalized to help contain costs with five "rights" (see image below).

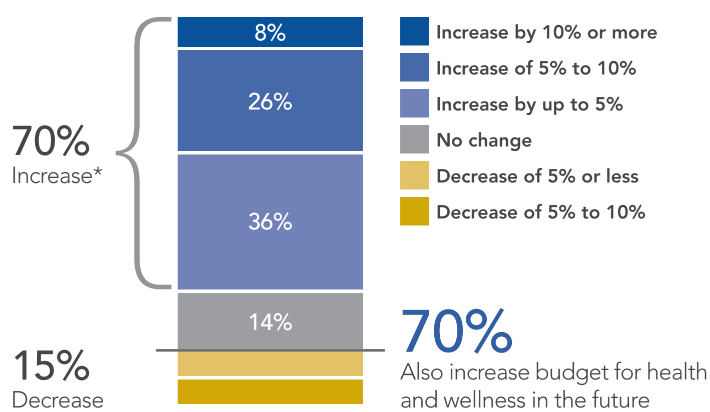
Containing costs with Five "Rights"

Health advocacy, navigation, and clinical case management programming are being employed to provide guidance on evidence-based medical guidelines, safeguarding that the right care is being provided to the right patient. Enhanced prior authorization, utilization management, and second opinion programs are being engaged to make sure the right care is given at the right time and the right place. Finally, benchmarking and increased cost transparency tools are being utilized to establish correct pricing and assist with fair and reasonable price negotiations. Case management initiatives will become mainstream for employers who want to impact cost containment strategies in the future.

The level of medical claim trends requires continued oversight. While we do not see any drastic changes in the trend factors next year, employers should be prepared for any shifts in the market, ranging from potential increases in prices to additional consolidation among care providers, to any possible epidemic or outbreak. All strategies should continue to keep the long-term view in mind.

Rising costs do not indicate any signs of slowing down for employers in 2018. Even after making modifications to their plans, 70% of employers indicated they would have some cost increases (see chart below).

2018 healthcare cost change estimate after all potential revisions made to the plan compared with 2017[1]



*1.5% higher than those expecting an increase in 2017

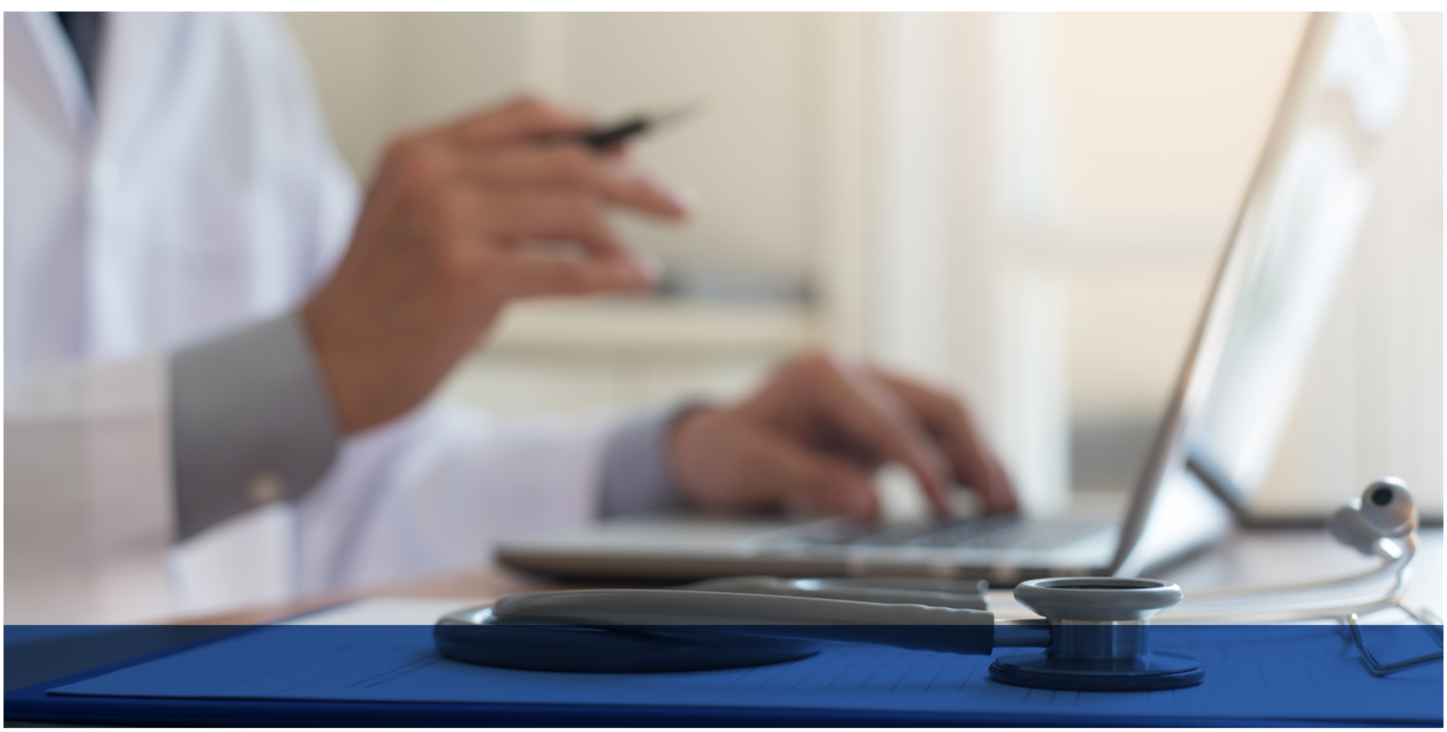
COST SHIFTING IS BACK AT THE FOREFRONT

Part of the controversy around the Affordable Care Act and whether or not it would implode, was the sharp rise in deductibles available on the public exchanges. While those plans only affected a small portion of the total population, cost-shifting is also impacting consumers covered under employer-sponsored plans. Employers continue to transfer costs to employees, by raising deductibles and out-of-pocket maximums, increasing payroll contribution sharing, and adopting high deductible health plans. This transfer has occurred in part because of the ACA's excise tax provision and also because plan design is still an easy lever for employers to pull to achieve budget thresholds. Employers that offer plans with an actuarial value of 85% or higher have a lot of room to adjust in the plan design area.

Benchmarks for national network plan[9]

Median amounts	2016	2017
Individual deductible	$750	$1,000
Family deductible	$2,000	$2,000
Individual OOP	$3,500	$4,000
Family OOP	$7,000	$8,000
Network coinsurance	80%	80%

While some employees will gladly take more of the cost-sharing responsibility to gain greater control over their healthcare decisions, others will feel intimidated by the accountability placed on their shoulders. Employers must remember that higher deductibles and consumer-driven plans require a greater level of support and guidance.



[9] USI Benefit Analytics and Benchmarking Study, 2016-2017

Some programs to consider:

- **Health advocacy:** It can be confusing for employees to navigate the healthcare system. This resource can assist consumers with finding the correct medical provider, negotiating insurance coverage, and improving health and wellbeing.
- **Telemedicine:** With all the time constraints on employees, finding time to go and sit in a doctor's office is challenging. This type of technology allows the employee to receive care virtually, which improves productivity and the consumer experience. These visits are sometimes half the cost of a primary care visit.
- **On-site/near-site clinics:** Much like telemedicine, an on-site or near-site clinic can address many of the care needs of a primary office visit, and can do so at a lower price point. Employees will find value in the convenience and personalized healthcare experience and can stretch their healthcare dollar.
- **Decision support tools:** As many employers offer multiple medical plan choices to meet a changing workforce, employees can find it difficult to decide between the options presented to them. This tool can take basic information and help employees choose the plan that best suits their needs.
- **Second opinion and treatment support tools:** Patients are finding it increasingly difficult to navigate the healthcare system and with more responsibility on their shoulders, they will become inclined to seek more information for their decisions. Providing these resources will allow employees to make sound decisions and have better outcomes.
- **Alternative funding strategies:** One strategy that continues to provide meaningful savings opportunities is an alternative funding strategy. For risk averse companies that are not yet ready to self-insure medical costs, there are options available—such as level-funding—that allow the employer to take on risk while still limiting cash flow volatility.

Employers that have exhausted their options to shift costs from employer to employee through plan design changes should be vigilant in observing utilization patterns of their population. As medical prices rise and utilization ticks up, plan sponsors may see an acceleration in total plan costs.

The amount of information available to employees has never been greater—but their ability to review and comprehend is still limited. Anything that an employer can do to help employees feel more comfortable in making decisions will help both the employee and the company rest easier.

Plan of action:

- Understand your balance between cost effectiveness and benefit competitiveness. Use benchmark data but go beyond traditional plan design features to better visualize the full cost picture.
- Ensure that you are truly providing plan choice.
- Evaluate whether you are providing the necessary tools and resources to assist your population in becoming good healthcare consumers. Select the correct partners to assist in providing those resources.
- Consider plan design incentives to reward employees that use high-performing providers or centers of excellence.
- Consider low-cost benefit products (e.g., accident or critical illness plans) to help employees fill coverage gaps.

While some employees will gladly take more of the cost-sharing responsibility to gain greater control over their healthcare decisions, others will feel intimidated by the accountability placed on their shoulders.

MENTAL HEALTH/MINDFULNESS

Mental health is a subject that remained in the background for many years in the US and even around the world. Recently, it has surfaced to be more front and center as additional research becomes available showing the connection between mind and body. According to the World Health Organization, stress is the global health epidemic of the 21st century. As employers continuously look for ways to improve the productivity of the workforce, savvy companies realize that improving the health of the employees leads to improving the health of the company.

Prolonged levels of stress can increase heart rates, which can lead to high blood pressure, stroke or cardiac arrest. The liver will create more sugar and over long periods this can lead to diabetes and weight gain. Chronic levels of stress can also create muscle tension, leading to headaches, muscle, and lower back pain.

Stress is unavoidable and can never be eliminated. Low levels and occasional periods of stress can actually help boost someone's immune system but chronic levels can make someone more prone to illness. This not only affects productivity; it also has a negative impact on employer medical and disability plans. Healthy emotions can help lead employees to healthier bodies.

Plan of action:

- Provide employees with a quiet area for meditation/deep breathing.
- Provide exercise classes/instruction, like yoga or Pilates, to help promote the mind-body connection.
- Encourage employees to use all their paid time off and to really "unplug" from work.
- Provide programs to help with anxiety and stress management.
- Provide napping pods (early adopters).

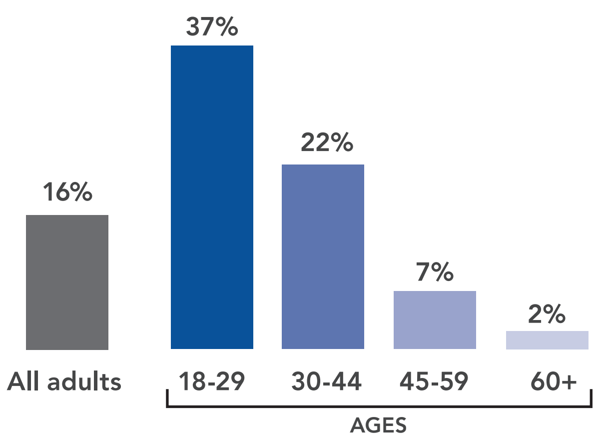
STUDENT LOAN REPAYMENT BENEFITS

In last year's Employee Benefits Outlook, we devoted space to the emerging emphasis being placed on financial wellness. This trend continues to gain momentum for 2018. Employees continue to turn to their employers for education, guidance, and products that will help them make good financial decisions and prepare them for the future.

One product within the financial wellness space that is getting attention and will be a hot topic in 2018, is student loan repayments. As the US workforce leans more and more towards millennials (born 1981–1997) and Generation Z (born 1998 and later), employers should address how the growing student debt issue affects their efforts to attract and retain candidates in these generations. Americans owed more than $1.3 trillion in student loans after Q2, 2017. This debt is causing young Americans to prioritize their debt over other key decisions such as retirement, healthcare, and the purchase of a home.

About four-in-ten of those ages 18 to 29 currently have student loan debt[10]

% of adults saying they currently have outstanding student loan debt for their own education



Employers that decide to offer this benefit in 2018 will be early adopters and have an opportunity to market themselves as an employer of choice. In a recent survey, 84% of respondents said they would strongly consider a job offer from an employer with this benefit over others without it.[11] Companies that wait may find themselves trying to play catch up.

Plan of action:

- Review your current demographics and turnover rates. Strategize future hiring patterns.
- Make it easy for employees to understand and participate.
- Don't assume the product requires a large investment from the employer. A minimal monthly contribution will be well received.
- Watch for developments as Congress considers legislation to incentivize employers to offer the product.

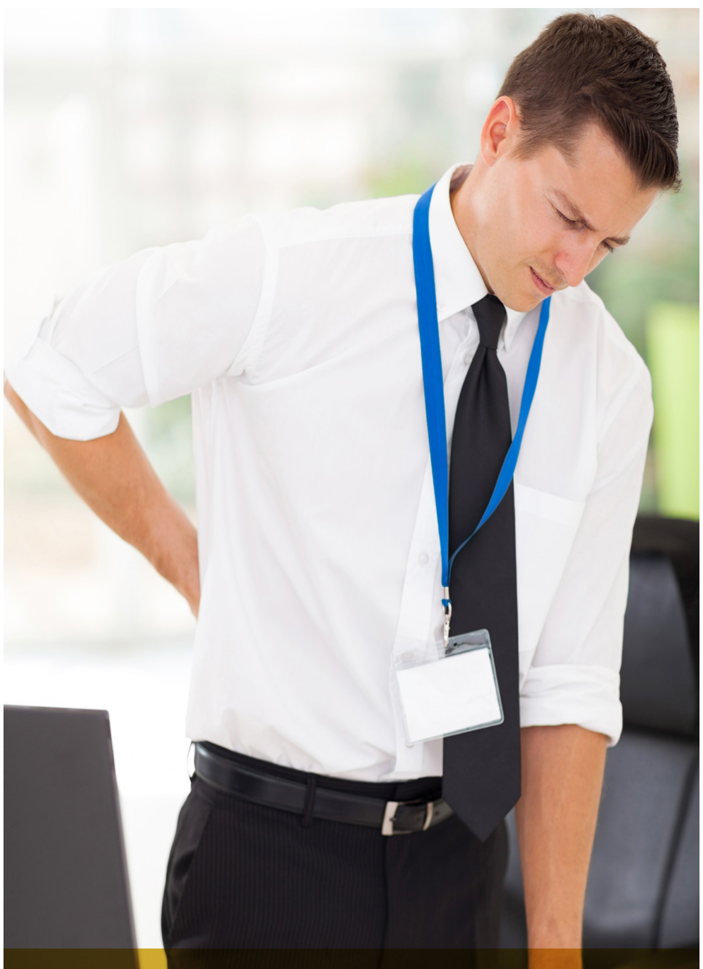
[10]Pew Research Center analysis of Federal Reserve Board's 2016 Survey of Household Economics and Decisionmaking

[11]Millennial Personal Finance, "New Survey: What Do Young Workers Think About Student Loan Repayment Benefits?" October 24, 2017. Retrieved from https://www.millennialpersonalfinance.com/student-loan-repayment-benefits-study/

CHRONIC PAIN

While high-cost claimants and chronic conditions are expensive, the epidemic of chronic pain afflicts more people than heart disease, diabetes, and cancer combined.[12] According to the National Institutes of Health, 100 million Americans suffer from chronic pain, and incur between $560-$635 billion a year in healthcare costs and lost productivity. Since many conditions can cause chronic pain, and there is no simple solution, identifying the proper treatment, as well as the true costs, can be difficult. Further complicating the issue, the use of opioids for chronic pain has contributed to a nationwide drug crisis and creates an even greater financial burden and risk.

Since chronic pain encompasses a wide variety of conditions and can occur with other conditions, such as depression, proper diagnosis and treatment can help restore function and mitigate costs. Solutions should be aimed at creating awareness and better on-site solutions to prevent and manage pain, streamlining care, providing effective care solutions, and managing opioid use.



Plan of action:

- Include coverage of conservative therapies to reduce pain, improve function, and decrease opioid use (chiropractic care, massage therapy, physical therapy).
- Utilize data integration and analytics to properly identify chronic pain cases under medical, pharmacy, disability, and workers' compensation.
- Educate employees on risks associated with opioid use and resources available for help (such as employee assistance programs).
- Improve worksite ergonomics, and include on-site strength and conditioning to reduce and prevent back and neck pain.
- Provide coverage for integrative pain management centers to address functional and emotional aspects of pain; consider incentivizing members to receive care at centers of excellence.
- Provide support for caregivers.
- Include tools for proper steerage and disease management for chronic pain.

[12] NIH, Pain Management Fact Sheet. Retreived from https://www.report.nih.gov/nihfactsheets/ViewFactSheet.aspx?csid=57

TECHNOLOGY

Technology focused on human resources continues to grow and change at a rapid pace. In 2016, $2.2 billion were invested in human resource (HR) technology companies.[13] The first half of 2017 saw $402 million in investments.[14] The majority of HR technology companies receiving this funding are focused on employers with 50 to 10,000 employees. This is encouraging news, as investments historically have focused on very large employers. According to CB Insights, the bulk of the money is going to integrated HR technology platforms, but there are noteworthy investments in evolving technologies such as cloud computing, mobile technologies, social media, and artificial intelligence. A common theme in the last several years has been the continued creation of new vendors providing niche functionality, while legacy providers have been strengthening their core functionality. Looking ahead to 2018, the expectation is for the overall pattern to continue—with more creative platforms that are more widely available and more enthusiastic financing for startups. The reason for this lies largely with the groups that are driving new technology. HR teams are playing a more defined role in telling providers what they want and need, rather than legacy providers telling HR what they have available. This push from resources outside the legacy providers is enabling the start-ups to thrive. We believe 2018 will see continued market re-invention to help address the HR disruption trend.

Is your HR technology in the cloud? Five years ago, this was a new concept. Today, employers are either working on it, already there, or are pioneers on the forefront of the next wave of technology. Realistically, we know the majority of employers are still working on it and the smaller the employer, the less likely they are to have robust HR technology. Our recent Benefit Analytics and Benchmarking Study (BABS) results showed us that many employers are still very manual in their processes, with 46% managing their benefits enrollment functions through paper enrollment forms. However, 47% of respondents indicated they are considering a change to their current vendor or process. HR professionals are striving to engage employees of all backgrounds and want to better manage their people and processes, becoming more strategic with less time spent on administrative tasks.

[13]CB Insights. "Upward Mobility: HR Tech Hits A New Record," March 24, 2017. Retrieved from https://www.cbinsights.com/research/hr-tech-startup-funding

[14]Larocque. Retrieved from http://larocqueinc.com/hrwins/2017/07/11/hr-tech-vc-2017/

"Consumerizing" the employee experience

Despite the significant investment dollars going into the HR technology market, much of the technology we use in our work lives is woefully behind what we use in our personal lives. Today, there is a lot of effort to bring a consumer-level experience to the workplace. HR leaders are focusing on how services and information are brought to employees. If an employee has an inquiry, is it easy for them to find an answer? If you're like many employers, your answer may be "no." A question in our 2017 Benefits Analytics and Benchmarking Study asked "What is your preferred form of benefits communication to your employees? Rank in order of preference." A solid 85% of employers still prefer face-to-face meetings. Technology platforms came in second, at 63%. Employers with a wide-ranging employee engagement strategy have the best chance of reaching employees of all backgrounds.

A lot of time was spent during the past two years focusing on the differences between employees across generations. There is a lot less attention on specific generational differences as we move into 2018. Employees of all ages and backgrounds have unique needs, and the focus is shifting to a multigenerational approach. There is no such thing as a "one-size-fits-all" communication and technology strategy and it is important to provide employees with multiple ways to access information.

Globally, by November 2016, the internet was accessed more frequently by mobile and tablet devices than by desktops.[15] Demographic shifts in the labor market and expectation of access to consumer-level technologies at the workplace will push the demand for a superior mobile experience forward in 2018. With mobile technology, the truck driver, the retail employee, the home health nurse, and the office worker can all be equally engaged with your benefit program. For some employers, a strong mobile experience is another key in attracting and retaining top talent. In 2018, we expect to see benefit administration solution providers and other HR technology providers further their mobile roadmap. While most may say they offer "mobile," look closely at the details—as the definition of mobile varies widely—to ensure alignment with your benefit program strategy. An engaging mobile experience is more important than ever.

Artificial intelligence (AI) is making big strides in the world of HR technology service providers, with the goal of engaging employees and saving time for HR professionals. AI has infiltrated our personal lives in more ways than we realize. Google Maps intuitively knows to provide you with the best route to the office in the morning. Amazon has an uncanny ability to suggest what your next purchase should be. Merriam Webster defines artificial intelligence as "a branch of computer science dealing with the simulation of intelligent behavior in computers," and "the capability of a machine to imitate intelligent human behavior." AI is one of the biggest trends in HR technology systems. Often AI tools are chatbots, whereby an employee can ask the bot a question, such as "How many PTO days do I have left?" or make a statement such as "I got married," and the bot will respond with an answer and will even navigate the employee to the area in the technology system where the employee can take the action needed. Bots can analyze open-ended text and decipher emotions and themes and can adapt over time to user habits and preferences. AI works best to moderate high-volume and repetitive tasks, and much of HR work is transactional, repeatable, auditable, and documentable. Industry experts believe that AI will not replace jobs but will enhance them. We expect to see continued growth and development of AI and related tools for HR technology over the next 12 to 18 months.

[15] StatCounter Global Stats, November 1, 2016 http://gs.statcounter.com/

Integrations and partnerships

Poor integration between HR technology systems, insurance carriers, and other vendors continues to be a pain point for many employers. Our BABS results indicated 67% of employers that are seeking a change to their technology system(s) identified improved integration as a main driver. Trying to integrate disparate systems, or tie them into the main system, can be incredibly expensive and challenging (if not impossible). However, if achieved, it can have big payoffs. HR teams achieve easier access to insightful workforce data, ensure consistency, and deliver a more seamless experience to all users—saving time for everyone. Fortunately, we continue to see HR technology service providers invest heavily in integrations, specifically through real-time application program interfaces (APIs). APIs allow for data exchange to occur between systems immediately, rather than the once-per-week file feeds or manual data uploads that had been the norm for many years. HR technology service providers realize they can't be one size fits all and solve every specific need of every customer. Using APIs allows their customers to "plug and play" the best-in-breed service providers to meet their specific needs. The days of data existing in different systems that don't talk to each other are numbered. Leading HR technology service providers already have an API strategy.

Many insurance carriers are also investing in deeper relationships with benefits administration and other HR technology vendors. Employers today are taking a holistic approach to employee physical and financial wellness in an effort to reduce work absences, increase employee presenteeism, lower medical insurance costs, and attract and retain talent. Insurance carriers are increasingly aware of this and are offering voluntary benefits to fill coverage gaps. Forming relationships with benefits administration providers allows insurance carriers to increase education and awareness of their products through these technology systems, and therefore increase sales of their products. Often these relationships include monetary subsidies that can offset the cost of a technology system for the employer, based on the number of product lines offered and other variables.

Plan of action:

- Have an HR technology strategy—a solution to move your organization from where it is now to where you want it to be.
- Recognize that employees want a wide range of options to access benefits and HR information. Technology tools need to be part of your employee engagement strategy.
- Review your processes. If they haven't been revised in the past five to seven years, they are likely outdated. If adopting new technology, review current processes and what you want to change. Don't just try to fit current processes into new technology. Understand that a new technology platform doesn't end at "go-live." Go-live should be the kick-off to your new way of working and new way of managing your people and processes.
- Understand how to continue to get value out of your system. Think of it as a program, not a project with an end date.

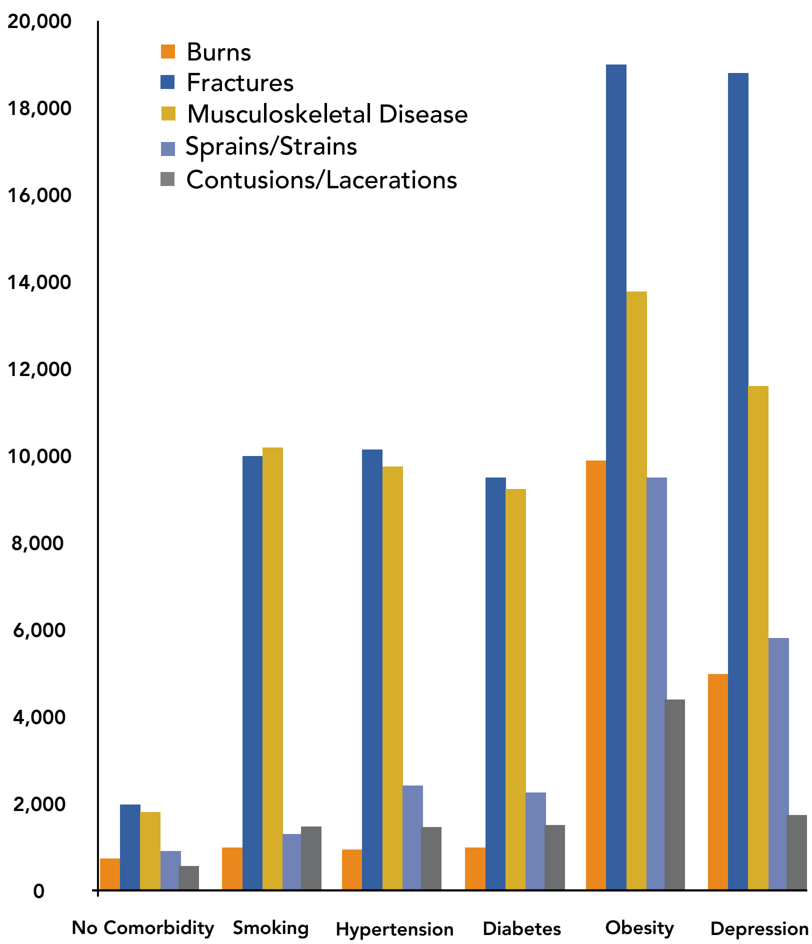
…we continue to see HR technology service providers invest heavily in integrations, specifically through real-time application program interfaces (APIs).

BRIDGING THE GAP BETWEEN WELLNESS AND SAFETY

For many years employers have been focused on safety in the workplace. Wellness has also been an area of emphasis and has become more prominent in the past twenty years. The issue has been that these areas have typically been separate from one another, operating in silos. Wellness was under the direction of the Human Resource department and safety was under the purview of the risk management team. It is becoming clear that the costs for population health and workers' compensation (WC) are tightly correlated and a comprehensive approach is necessary. It is believed that healthier employees have fewer injuries, cost less in both medical and workers' compensation claims, return to work sooner, and are more productive. As noted earlier in the report, employees are facing higher deductibles and cost-sharing elements in the medical plan. When this occurs, most employers see a rise in their workers' compensation claims. Other employer challenges include lack of aggregated data, an aging workforce, high healthcare costs, increasing chronic conditions, absenteeism, presenteeism, and rising rates of stress, anxiety, and pain management needs.

Cost impact of a comorbid condition[16]

Comorbidity drives costs for healthcare and workers' compensation



The reason employers should turn their attention to an integrated approach is because of the rise of co-morbid conditions (e.g., obesity, depression, diabetes) in the US workforce. These conditions lead to higher costs on both the medical and WC plans. For example, according to a March 2016 Best's review, obese workers file twice as many claims as normal-weight employees and obese workers lost 13 times as many workdays when they have a claim.

An employee who is healthy is less likely to suffer an injury, either on the job (thereby protecting the WC plan) or off the job (protecting the group disability plan). Employer commitment to and measurement of rigorous wellness and safety management integration can help reduce and improve healthcare and workers' compensation costs. The goal is to move from the current state to the next state (see charts on next page).

[16] Coventry Workers' Comp Services study, "Exhibit A: Median 12-month Medical Allowed Amount by Complicating Condition & Injury Classification." December 2010. Retrieved from http://www.workcompwire.com/2010/12/impact-of-comorbid-conditions-on-workers-compensation-medical-costs-2/

Total population health risk management[1]

Current State

Business Owner	CFO/HR	HR/Benefits
Strategy	Safety & Risk	Population Health
Tactics	Physical Hazards Safety Strategies Loss Runs DART Analysis	Health Hazards Wellness Strategies Medical Management Engagement/Compliance
Investment	$ $ $ $	$ $

Total population health risk management[1]

Next State

Business Owner	CFO/HR
Strategy	Safety & Risk
Tactics	Physical and Health Hazards Safety and Wellness Strategies Return to Work and Medical Management Loss Runs/DART Analysis
Investment	$ $ $ $ $ $

Plan of action:

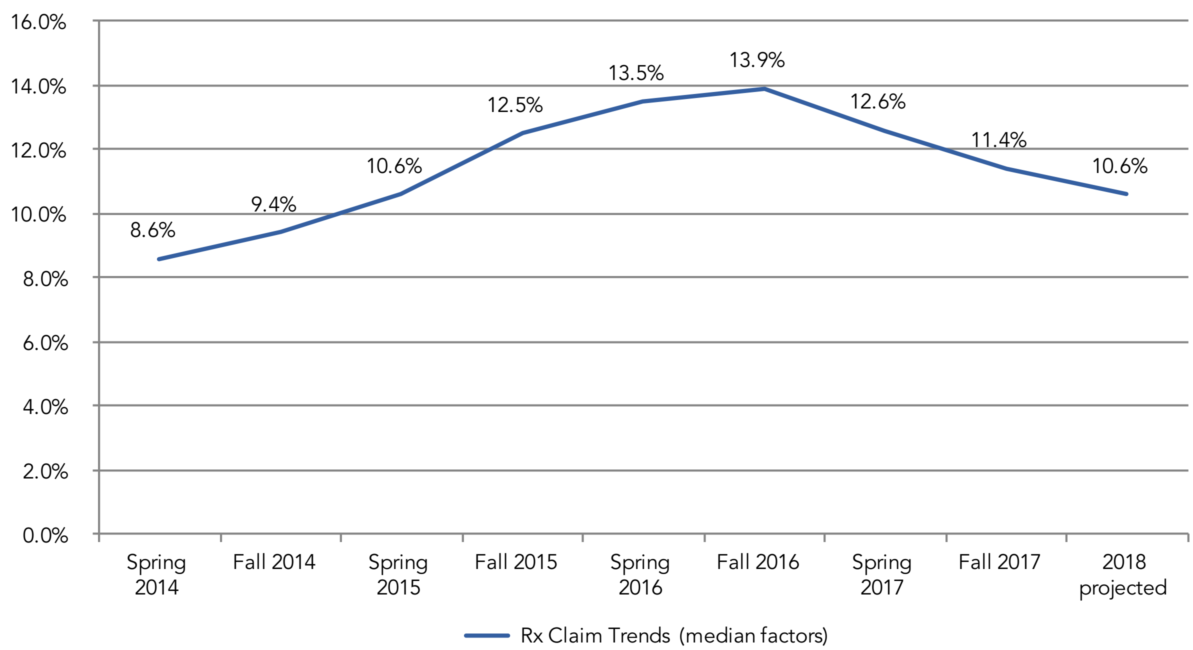
- Establish a formal, strategic plan for health and wellbeing.
- Establish an interdisciplinary committee for health, safety, and productivity that enlists talent from across different parts of the business (e.g., HR, safety, health promotion, legal).
- Integrate data from multiple sources to get the total picture of healthcare and workers' compensation costs.
- Recognize that this will be a learning experience and accept at the onset that failure may occur.

…the costs for population health and workers' compensation (WC) are tightly correlated and a comprehensive approach is necessary.

PHARMACY

While trends for medical claims have remained relatively steady the past few years, trends for pharmaceuticals have spiked to higher levels in the past few years. Fortunately for plan sponsors, the pharmacy trend is slowing down in recent years—making things more unpredictable in the three-year time horizon. There are some very expensive specialty drugs in the pipeline that will be very good for patient health, but could be very hard on some unlucky plan sponsors' financial results.

Prescription Drugs Claim Trends[8]



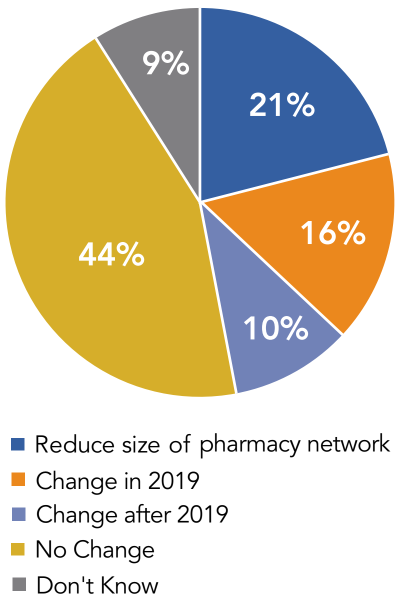
The growth in costs has been driven by manufacturers raising prices and changing the composition of drugs, an increase in the number of specialty medications, the consolidation of pharmacy benefit managers (PBMs), and increased utilization driven by poor overall health. While none of these factors are changing anytime soon, there are strategies employers can use to help mitigate some of the cost increases.

- One option is to reduce the size/scope of the pharmacy network. This strategy can go a couple different ways. An employer can choose to limit the number of pharmacies available or limit where certain drugs are dispensed.
- Consistent with last year, 23% of employers said they will put greater focus on utilization and coverage of specialty pharmacy.[1] While specialty medications account for a very small portion of the total scripts dispensed in the US, this area presents a sizable opportunity for employers to explore further.
- Review utilization management programs with the pharmacy benefit manager. Employers can employ programs such as prior authorization, step therapy, and quantity limits to maximize potential savings.

On the political front, presidential candidate Trump was promising to stop pharmaceutical companies from "getting away with murder" regarding rising prices. President Trump, however, has been very quiet on this particular topic. If his candidate to take over at HHS, Alex Azar, is confirmed, 2018 is expected to be friendly to big pharma.

Employer strategies to address pharmacy cost increases[1]

Reduce size of pharmacy network



Plan of action:

- Review your current formulary to determine if some high cost drugs can be excluded.
- Benchmark your current member copays/cost-share amounts to ensure they remain in line.
- Review your pharmacy data monthly or quarterly to identify any trends, especially in specialty drug utilization.
- Utilize evidence-based prior authorization and ensure price protection provisions are included for specialty pharmacy.

CONCLUSION

The cost of employee benefits plans accounts for a significant portion of a company's expenses, and costs continue to put pressure on holding the expense line. As their workforce transforms, diversifies and fragments, employers should understand their benefits offering will have to evolve as well.

As costs are expected to increase in 2018 for many companies, it's critical for employers to explore any and all solutions to determine how these can impact their cost trajectory, while still attracting the key talent needed to be successful.

How can we help?

USI can help employers navigate the complex world of employee benefits by developing strategic programs that provide the best value for your business in 2018 and beyond. For more information regarding this topic, please contact your USI Employee Benefits consultant, or visit us at www.usi.com.

Additional resource

2017 Strategies, Actions, and Behaviors Study: Perspectives from the C-suite and HR/Benefits Managers