

HEALTH BENEFITS OUTLOOK 2020

The convergence of consumerism, self-health, technology and the changing role of employers.

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EXECUTIVE SUMMARY

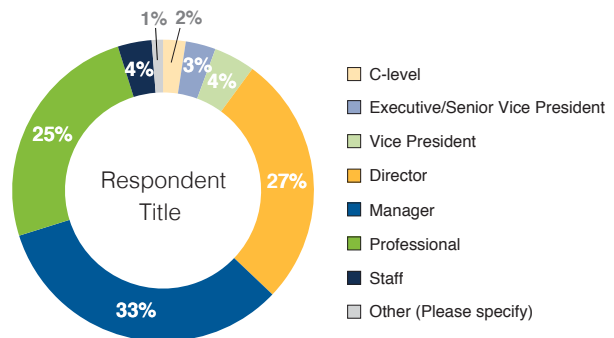
To understand and gain insight into large employers' perspectives on consumerism, self-health and technology, and the changing relationship between employers and members/consumers — today and on the five-year horizon — the research unit of SourceMedia (publisher of *Employee Benefit News*) surveyed 248 business professionals from employers on behalf of ActiveHealth.

The respondents cross a number of key industries including healthcare, manufacturing, insurance, government, transportation, banking and retail. More than two-thirds are at job levels of director or above, with 5% C-level or senior executives weighing in. Fully 38% are in employee benefits roles, followed by wellness (12%) and human resources (11%), with other job functions such as operations, finance, clinical and IT comprising the balance. Of the participants, 177 are from companies with greater than 10,000 employees (over 70%), with the rest from smaller organizations. More than two-thirds are from employer groups, while the remainder include non-profit, public sector and education institutions, and a small percentage of municipalities.

The survey reveals the challenges organizations face as they navigate what the future may hold for employers offering health benefits. Preparedness and the ability to adapt to a dynamically changing environment of consumerism, employee self-health and technology are recognized as critical for success, yet greatly lacking among respondents struggling with variables both inside and outside of their control. This report outlines detailed survey findings and concludes with a five step approach to bring clarity to chaos, and help organizations prepare for the future in a time of uncertainty.

JOB LEVEL

Q: Which of the following most closely matches your job level?



Base = 248. Source: SourceMedia Research, April 2015

More than one-third of respondents are director level and above.

FORCES IMPACTING CHANGE

Driven by the Affordable Care Act (ACA), or perhaps by the popularity of consumer-grade fitness trackers, consumers are more engaged with healthcare than ever. One of the leading trends highlighted by the survey is a shift away from a “patriarchal” benefits setting where an employer chooses health insurance and other benefit packages for employees. Due in large part to the ACA, employees now are being given more responsibility for making healthcare insurance decisions.

This shift is a double-edged sword, however. As consumers become more aware of health issues and take on more responsibility for decisions about their healthcare benefits, they need to be even better educated about the options and risks involved. Just as belonging to a gym doesn't make you stronger – you need to actually go there and exercise – smart phones don't make you smart without the training and skills needed to operate them. Education

“The landscape is shifting toward individual healthcare cost being determined by quality of self-care measures.”

– Director,
Regulatory Compliance,
Nonprofit Industry

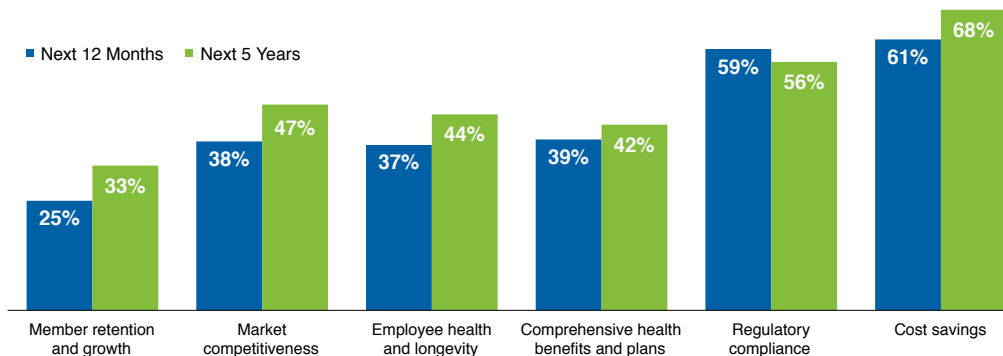
requires empowerment, and it will likely fall to employers to provide this education. Moreover, it's to the employers' benefit to help employees put what they learn into action so their employees can make decisions that comply with regulations and provide them with adequate coverage.

This is new and unfamiliar territory, particularly at a time when human resources staff members are already stretched thin. With employee turnover rates continuing to rise, HR departments have their hands full with hiring, onboarding and conducting various compliance tasks without adding the complex task of educating employees about healthcare benefits and choices, such as managing health savings accounts (HSAs) to guard against large medical cost deductibles that could arise in the future. These departments may be best served by partnering with outside vendors to help lessen the administrative burden.

As this shift in responsibility proceeds, one concern remains constant. Survey respondents rated “cost savings” as their number one priority in the short and longer term, followed by regulatory compliance. Interestingly, compliance was the only area that showed a decrease in priority in the longer term. One possible interpretation of this result is that benefits executives expect to see some resolution in the current conflicting mandates within that timeframe.

EMPLOYER PRIORITIES

Q: How do you rate each of the following priorities facing employers over the next 12 months, and how do you rate the same five years from now? (% of respondents rating “Significant Priority”)



Base = 248. Source: SourceMedia Research, April 2015

The largest increases in concern are from member retention and growth, market competitiveness and employee health/longevity.

The largest increases in concern, however, come in the more strategic categories: member retention/growth, market competitiveness and employee health/longevity. The implication is that tactical concerns are more or less well in hand, but that respondents are worried about the strategic benefits of their plans five years out.

The survey also revealed some differences between companies based on the number of employees. For example, “retention” was rated as a top priority by 40% of the respondents from companies with 20,000 or more employees over a five-year period. For companies with less than 20,000 employees, only 27% felt that this was a “significant priority.”

What's clear overall – no matter what size the company – is that concern about different priorities only continues to grow under the veil of benefits uncertainty facing employers. These employers will no doubt continue to feel increased pressure as they try to determine the best way to address their many competing priorities.

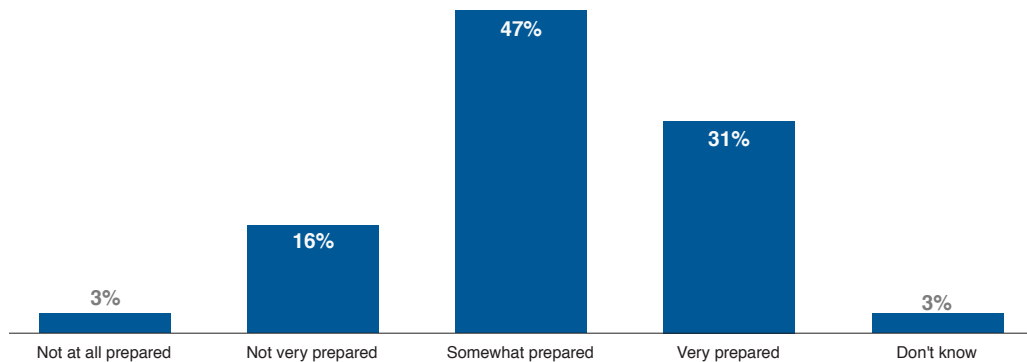
PREPARING FOR THE FUTURE – OR NOT

If preparation is a key to success, there may be trouble ahead. One early indicator and predictive measure of success may lie in participants' own perceptions of the readiness of their organizations, and how that stacks up against the competition.

Not many surveyed feel that their organization is adequately prepared for the rapid change to come. In fact, approximately two-thirds do not believe their organization is “very prepared” at all for the future. And that concern increases two-fold among smaller companies. Interestingly, however, about three-fourths felt that their organization will respond “as fast” or “faster” to changing market dynamics than the competition. Of those who identified themselves as in executive-level positions, 63% reported being “very prepared” while those below the senior management ranks show much less confidence. Moreover, benefits executives from smaller companies generally feel that they will be slow to respond to the changes. So, those on the front line do not share the same optimism and yet often are charged with implementing change. Combined, these findings reveal a common lack of readiness, but a perception that one's own circumstances are not as dire as that of their peers by comparison, and that lower level managers and staff are much more concerned than senior executives.

ORGANIZATION PREPAREDNESS

Q: In your opinion, how prepared do you think your organization will be to actively participate in an environment of converged consumerism, employee self-health and technology in the next 5 years?



Base = 248. Source: SourceMedia Research, April 2015

Fully 70% of respondents think that their organization is not very prepared for the changes ahead.

What's behind the concerns over preparedness? The reasons given for the lack of preparation cover a wide range of factors. Internal communications problems, regulatory issues and uncertainty about the political landscape were all mentioned. The political issues were of particular concern over the five-year timeframe, as the country will experience a presidential election as well as potential changes in the federal and state legislative bodies. It is uncertain what impact a victory by one party or another will have on the status quo, with a significant possibility of major policy upheaval following the 2016 elections.

With uncertainty remaining certain, organizations appear to lack the process and discipline necessary to prepare for multiple outcomes. Contingency planning remains a key component of preparing for the unknown.

LIVING WITH CONFLICT, FOCUSING ON BENEFITS

Conflicts in policy and regulation make benefits planning difficult, and may contribute to the climate of uncertainty. For example, the ACA supports incentive programs to encourage employees to make healthy lifestyle choices. The Americans with Disabilities Act (ADA), however, prohibits discrimination due to disabilities or some health conditions, and may make such incentive programs illegal. Furthermore, the Health Insurance Portability and Accountability Act (HIPAA) and the Genetic Information Nondiscrimination Act (GINA) may prohibit the gathering of health and wellness data or information from wearable devices at all, which would eliminate the data that could be used for such incentive programs. And that's just at the federal level; many states have their own laws and regulations covering the collection and use of an individual's health data.

Even aggregating data into groups and classes may not help. It may be impossible to “depersonalize” the collected information enough to prevent someone from matching it up with a specific person. For example, if you know the time and location where a certain data point is recorded, it can be easy to infer the subject's identity simply by analyzing where the person goes. Data collected from the same location every night would indicate the person's home, for example, a possibly impermissible thing to know.

As useful as collected data may be to a health benefit plan and its members, it may turn out to run afoul of the law. Or, it may not – a complex and unsettled situation that makes planning difficult. In spite of this uncertainty and confusion, benefits executives see incentives and wellness programs as a potential way to address their top concern: controlling healthcare benefits cost.

“There will be less flexibility and more common plan design. Consumers will have less choice.”

– Director, Employee Benefits,
Healthcare Industry

THE SEEDS OF DISRUPTIVE CHANGE

Clearly, much of the change has already been set in motion through legislation and government policy. But the regulatory uncertainty and contradictions must be resolved in the near future so companies can proceed to implement the required programs.

It is also likely that major changes will come from within the employee benefits industry itself as well. We have already seen other industries where innovative companies have become disruptive factors for massive change.

Consider the property and casualty insurance market. The personal auto insurance business has been dramatically redefined by Progressive Insurance and GEICO, with their strong media and internet presence and innovative consumer experience. With a few clicks on their PC or mobile device, consumers can make a purchase that once took stacks of paperwork to accomplish, thus changing their expectations for how insurance can (and should) be purchased.

In other fields, we have seen the rapid growth of Uber, Amazon, PayPal, Ryanair and Airbnb – all of which use technology and bold legal strategies to disrupt their industries' traditional models. Many of those industries had policies and practices that were subject to strong regulatory strictures, which the new players challenged, influenced and helped change to their advantage, at the expense of incumbent players. These companies have made it easier for consumers to purchase everything from a ride home to a place to stay, reinforcing the idea that access to information (consider Amazon reviews) and goods and services need not be a monumental task.

And then there are monsters of innovation, such as Google and Facebook, which have not only changed the way we communicate, but are changing the definition of what a benefit is. In their quest to gain the best and brightest talent, these companies offer popular perks, including bars at the office, unlimited snacks, access to massage

therapists and onsite arcades and gaming facilities, to name a few. These are in addition to the more-than-competitive traditional benefits packages they provide for employees. Companies looking to attract and keep young talent will need to closely watch what these outside-of-the-box employers are providing in the way of benefits and perks if they want to remain competitive when it comes to the employee retention and recruitment game.

“Employees are taking a more long-term look at how they use healthcare and the results.”

— *Manager, Employee Benefits, Healthcare Industry*

And we are seeing similar changes in the Electronic Health Record (EHR) industry. Mandated by the ACA, physicians and healthcare professionals have struggled to comply with the requirements. Many report that the “time-saving” features of EHR requirements actually take away from time otherwise spent interacting with patients. As a result, a new service industry has developed that provides turnkey systems for healthcare providers, as the companies behind those services leverage technology and economies of scale to deliver the benefits originally promised by the EHR mandate.

It may be that similar change agents will arise in the employee benefits field. Perhaps using the internet as a tool of disintermediation, they will take services directly to employees without tying up valuable HR or management resources in client companies. Rather than settling for compliance, these services will seek competitive advantage to gain broad market share. Client

companies will not have to reinvent the wheel for themselves in order to create an incentive program or integrate the latest wearable fitness device into their data service. Instead, the service providers will have the scale and clout to make sure that their programs are compliant with all laws and regulations, saving their clients time and money.

A shifting workforce demographic will help that trend along. We are in a period when many in our aging workforce are retiring; this will continue and accelerate. As a result, the younger workers are going to have a big impact on employee benefit plans as they choose employers based on the healthcare and other programs offered by their prospective companies. This generation, raised on the internet, is accustomed to making choices for themselves, gaining direct access to the information that they want and need. Their preferences will help drive this shift to innovation in the employee benefits industry.

A PRESCRIPTION FOR THE FUTURE: 5 STEPS TO SUCCESS

It is clear from our survey that uncertainty about the future remains a primary concern relative to employee benefits programs. Preparedness and the ability to adapt to the changing conditions of consumerism, employee self-health and technology are recognized as critical for success, yet greatly lacking among respondents.

With so many variables outside of an organization’s control – from political change and legislation, to rapidly advancing technology and unpredictable consumers – it is imperative for organizations to plan for multiple outcomes. In fact, contingency planning is central to mitigating the risks inherent in the uncertainty of employee benefits moving forward.

We recommend 5 steps to achieve optimal preparedness:

- 1. Listen:** Get input internally from your employees about their behaviors, views, opinions, hopes and fears regarding health, wellness and benefits. Take a pulse externally of your competition to stay ahead of changes. Incorporate ongoing feedback loops throughout your planning process.
- 2. Educate:** While uncertainty is uncomfortable for organizations, it can be even more unsettling to your employees. Take time to educate your team about market conditions and what you’re doing to stay ahead of the curve. And when it comes to productivity, create a culture that pays equal attention to the health of the employees and the organization.

“Employees will have to pick up more and more of the costs; eventually pay 100%.”

– EVP, Finance,
Financial Services Industry

for prioritizing cost savings, improving member retention and growth, remaining competitive, and robustly supporting employee health and longevity. Find partners suited for the long haul, able to guide your journey from today to five years out.

3. Review: Itemize and scrutinize the important components of your employee benefits program including program options, vendors, cost models and technology – both the technology available at a consumer level as well as the solutions available to organizations.

4. Plan: In the context of today’s political and regulatory environment, create a specific roadmap based on two to three scenarios you feel represent the highest probability outcomes for your business. Create a comprehensive planning process that you repeat annually so that you can make course corrections as new information becomes available both internally and externally.

5. Collaborate: Don’t go it alone. Build relationships with trusted partners to complement each component of your plan including best practices

ABOUT ACTIVEHEALTH MANAGEMENT

ActiveHealth Management is passionate about improving quality of care, reducing costs and saving lives. Our suite of population health management services span the continuum of health needs, from pre-life to end of life – including Wellness, Care Management, Compassionate Care, Member Engagement and Communications and Reporting and Analytics.

We employ a consultative approach to ensure that we understand the unique needs of your organization and your employees. We help businesses grow and flourish with a flexible solution suite that’s adaptable to meet evolving needs. We can help you:

- Enhance and empower individuals in better health and wellness
- Improve the quality of care
- Enrich clinical decision making
- Lower health care costs

Find out more: www.activehealth.com

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SourceMedia Research (a unit of SourceMedia, publisher of *Employee Benefit News*) provides complete custom B2B research solutions for strategists, marketers, agencies and others seeking in-depth insight into select segments of the financial services industry. SourceMedia Research combines a strong technical competency in market research with deep market knowledge and focus. www.sourcemedia.com