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Executive Perspectives

What Todays Business Owner Needs To Know **August 2013**

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Survey Shows Increasing Use of Flexible Benefits to Improve Employee Engagement

Aon Hewitt recently announced further findings from its *Benefits Administration Survey 2013*, which highlights that increasing numbers of employers are offering flexible benefits plans to improve overall levels of employee engagement.

Andrew Woolnough, client development director at Aon Hewitt said: "The use of flex plans is becoming ever more widespread, with 70% of organizations surveyed offering them - up from 62% in 2012. This is increasing as employers also seek to enhance employee engagement as well as attracting and retaining the best staff.

"Flex is a growing part of the employee benefits 'menu', offering a real answer to organizations' problems by further allowing the shaping of benefits, the work environment, and the options they present to their employees to enable them to take control of their health, retirement, financial security and careers."

Aon Hewitt's Benefits Administration Survey 2013 attracted 361 respondents from organizations representing over two million employees. Respondents to the survey included professionals from HR, benefits, compensation, reward and other specialties, as well as pension managers and trustees.

The survey also revealed that employers are committing increasing resources to benefits packages, with one third of respondents spending more than 20% of payroll on benefits as they seek to use them to deliver better employee recruitment, retention and engagement.

As employers are spending more and more on benefits, they are understandably keen to derive as much value for money from their commitments and to be able to track measurable returns on their investment.

Andrew Woolnough said: "Monitoring and measurement of benefits is of paramount importance. Employers increasingly need to know what returns – both financial and otherwise – they are targeting and receiving. Unfortunately, many employers fail to measure accurately against their key objectives and so cannot track the true value of the benefits packages they are offering."

"It is not just a matter of increased measurement but also of enhancing perceptions. Effective employee communication is key to this process and is becoming more important than ever as the benefits agenda extends into engagement."

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As with other forms of administration, there is an increasing trend towards the outsourcing of flexible benefits administration. 73% of respondents outsource the administration of their flex plan, up from 60% in 2012.

Respondents to the survey indicated that the most common reasons for choosing an external provider are cost, the ability to have multiple services handled by one provider and a desire to improve the employee experience.

While satisfaction levels with outsourced service providers for flexible benefits administration are generally high, more than a quarter feel that their current service is average or poor.

Andrew Woolnough added: "In our experience, organizations are looking for the next generation service, where value is increasingly being defined by the employee."

Other key findings from the survey include:

- Over half of respondents spend more than 15% of payroll on benefits and more than a third spend more than 20% of payroll on benefits.
- The top engagement priority for the next 12 months is communicating the full value of reward to employees.
- 45% of respondents cite attracting and retaining talent as the most popular reason for offering benefits.
- More than half of respondents evaluate their benefits strategy. The evaluation measures they use are partly aligned with the reasons they give for offering benefits.

Delay in Health Reform Penalties for Employers Leaves Many Issues Still to Resolve

While the announcement that employer shared responsibility penalties will not apply until 2015 was a welcome relief for employers, addressing the fundamental challenges raised by the reform law remains a priority. At the heart of the matter is cost.

In the short term, new fees, plan design changes and the expectation of additional enrollment will add an estimated 2%–3% or more to health plan cost in 2014, even if employers table plans to extend coverage to all employees working 30 or more hours per week. Longer-term, avoiding the excise tax on high-cost plans slated for 2018 remains a daunting challenge. More than a third of employers surveyed by Mercer in May said that they were taking steps in 2014 to help bring down cost by 2018.

"The delay will give employers more time to cope with some of the requirements, but they know it's no free pass," said Julio A. Portalatin, President and CEO of Mercer. "We expect employers to stay 100% focused on cost management." Last year they slowed benefit cost growth to its lowest level in 15 years, but in 2014 they have the new fees and the likelihood of new enrollment to contend with, on top of normal medical inflation. As employers evolve their go-forward benefit strategies, private exchanges continue to be a powerful strategy for corporate cost management and expanded employee customized choice.

Mercer expects employers will continue to prepare

for compliance. In May, about a fourth of employers surveyed hadn't yet decided how they would track and report variable employee work hours and a third hadn't decided what look-back period to use. The delay gives them more time to address these administrative challenges. The Treasury department has suggested that proposed Reporting and Disclosure regulations will be provided this summer. However, public exchanges, which are slated to be operational in 2014, may still reach out to employers to verify applicant eligibility for health insurance.

Half of employers surveyed in May were concerned about handling employee questions about the exchanges, and 43% were concerned about establishing processes and systems for interacting with exchanges. Employers must still prepare to address employee confusion about their need to have health coverage and their options for coverage – both from their employer and the public exchanges.

Will employers move ahead with plans to expand coverage?

According to Mercer's survey, about a third of employers currently do not extend coverage to all employees working 30 or more hours per week, and many of these employers had already made plans to do so in 2014. "While we don't know for sure whether these employers will choose to expand eligibility early, they have sufficient lead time to decide to hold off," said Tracy Watts, a Senior Partner in Mercer's Washington, DC, office. "Most have not announced changes yet, and if they have an extensive part-time work force, the money to be saved by not expanding coverage in 2014 could be considerable."

The delay creates a "gap year" for employees that had been enrolled in mini-med plans. These limited coverage plans may not be offered after the end of 2013 plan years. This may provide another reason for employers to consider offering a private health

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exchange in 2014 – to allow employees who do not qualify for subsidies in the public exchanges to purchase lower cost medical plans and supplemental medical benefits. Because employers don't have to make their coverage affordable for another year, employers can choose whether, or how much, to contribute to the cost of coverage.

"Offering employees lower cost plans through private exchanges is one way employers can reset plan value while giving employees the option to buy up for richer coverage," said Ms. Watts. "Creative cost management is going to be a fact of life under reform, and the delay doesn't change that."

Majority of Companies Already in Compliance with Next Wave of Healthcare Reform Requirements

Although the Treasury Department recently announced that it would delay the next wave of requirements for businesses under the Affordable Care Act (ACA) until 2015, the majority of private companies (56 percent) say they're already in compliance with the upcoming provisions, according to PwC US's latest *Trendsetter Barometer Survey* (the survey was conducted earlier this year, before the Treasury's announcement). Consequently, these companies don't plan to change their healthcare coverage or contribution levels in anticipation of the ACA requirements that will take effect in January 2015.

Overall, most private companies (72 percent) consider themselves prepared for the ACA's next wave of requirements. Work remains to be done, however — only 35 percent of private companies say they are well prepared. One-in-five (19 percent) of private companies cite specific actions they plan to take to comply with the ACA, but another 21 percent say they are uncertain about which steps they'll take to make themselves compliant.

"Having an additional year before the ACA's mandatory employer reporting requirements start should allay some of our clients' initial concerns about how best to comply with the ACA," says Ken Esch, a partner with PwC's Private Company Services practice. "Business owners should look forward to the Treasury Department's upcoming implementation guidance, as well as take advantage of the additional time by treating 2014 as a pilot year during which their companies can fully adapt health coverage and reporting systems. Taking such actions should help ensure a smooth transition in 2015."

Notably, very few private businesses plan to take negative steps in response to the ACA, such as dropping coverage (just 3 percent of companies) and scaling back to fewer than 50 employees to be exempt from the ACA (1 percent).

"We've seen private companies continue to conduct extensive assessments of how best to go about complying with the ACA," says Esch. "On the one hand, they recognize that they'll have to deal with complex implementation requirements in relatively short time, despite the one-year delay. On the other hand, companies are wary of rushing to embrace new healthcare-coverage solutions before they have an adequate sense of the strategic implications for their businesses. It's important to them that their choices be well considered."

Healthcare Costs Haven't Slowed Profit Growth but Are Still a Top Concern

PwC's *Trendsetter* survey finds that most private companies (70 percent) don't believe the ACA's cost-control provisions will help their businesses keep healthcare costs down over the next few years. But 58 percent also believe that increased healthcare costs haven't slowed their profit growth over the past year.

Among the 36% of companies that do believe healthcare costs have slowed their profit growth, most (79 percent) said the impact was moderate. Looking ahead, both sets of companies — those that think higher healthcare costs have slowed their profit growth, and those that don't — project similar 12-month revenue growth rates: 6.1 percent and 6.2 percent, respectively.

With low expectations that the ACA will help manage costs, a large majority of private companies (70 percent) say they're taking their own steps to control healthcare expenses over the next two years. Primarily, they're requiring employees to pay more — either more of the policy premium (31 percent of companies) or more at the point of care/service (29 percent of companies) — and increasing employer investment in wellness programs (40 percent of companies).

"Companies that plan to shift more healthcare costs to employees should be careful to calculate whether such cost-shifting could cause the company to fail the ACA's affordability test," cautions Esch. "Companies that offer wellness incentives also should remember to take those incentives into account when calculating the minimum value of their healthcare coverage plans."

Nearly three-fourths (74 percent) of private companies that have 50 or more employees say their healthcare coverage meets the ACA definition of affordability. In other words, no more than 9.5 percent of an employee's income goes toward healthcare coverage. Twenty percent of private companies cite an affordability problem — either their coverage is affordable to most but not all employees (15 percent) or it is not affordable (5 percent).

A noteworthy relationship exists between a company's affordability problem and the company's acknowledgement that it will need to make changes in its current healthcare policy in order to comply with ACA requirements. Nearly half (48 percent) of private companies with an affordability problem say they plan to adjust their healthcare policies, compared with only 12 percent of companies that do not have an affordability issue.

Challenging as the ACA may be for these companies, there are benefits, too, for businesses willing to take the initiative. One benefit is the opportunity to help employees be more engaged in their healthcare planning by educating them about their coverage options prior to open enrollment in the state healthcare insurance exchanges this fall.