It's Now or Never

What to Do When Health Care Has Left the Building

By Kyle Healy, Vice President of Corporate Development, NFP

What if I told you employer-offered medical insurance is no longer unique enough between businesses to affect how you attract and retain top talent?

Over the years, medical insurance plans have started becoming more similar in both cost and design. Today, plans really aren't varied enough to be a crucial selling point to most employees — and, if trends of the last century continue, those differences will matter even less over the next five to 10 years and beyond.

So where in the benefits space can we stand out? How can employers win the war for talent in an environment where the differentiator in our non-cash arsenal is no longer medical insurance?

It's time to look at what we can all do to start shifting our organizations away from rewards platforms that rely too heavily on medical insurance and to set our sights on the future of benefits in the United States.

Where Here Is

How We Got Here

Medical insurance as an attraction and retention tool has been around since World War II — and the government has continuously passed legislation to further cement its place.

The more we mandate what medical insurance must be, the less chance there is to differentiate among plans.

The federal government, through the Affordable Care Act, has mandated that all employer-based medical plans provide a minimum actuarial value of 60 percent.

Actuarial value (AV), to put it simply, is a measure of how strong a plan is. It's the percentage of health care costs a plan will pay on behalf of an employee. Sixty percent means that that plan will, on average, pay 60 cents of every dollar incurred in health care costs for the employee or their covered family member(s).

According to a 2017 study for the Department of Labor (DOL)[1], the spread in value between traditional fee for service (FFS) plans, health maintenance organization plans (HMOs) and high-deductible health plans (HDHPs) is negligible. HMOs, on average, scored an AV of .89, FFS .87 and HDHPs .79 – only a ten point spread between high and low and almost 20 full points higher than the government-mandated minimum.

Even when employers select what they think is more affordable HMO coverage or an HDHP, there's actually little differentiation from an FFS, especially when funding vehicles like HSAs are also included.

THE REVENUE ACTS OF 1939 AND 1954

Formalized the non-tax treatment of the value of coverage and any employee contributions toward the coverage

HMO ACT OF 1973 & ERISA OF 1974

Established requirements and uniform minimums

HIPAA OF 1996

Continued trend of requirements and uniform trends and added privacy and portability requirements

THE AFFORDABLE CARE ACT, OR OBAMACARE, IN 2010

Further limited deviation of design

Not only is the percentage of expenses an employee can expect to have covered very similar, but the average premiums are generally similar as well.

The bottom line? When it comes to health care, we're all more or less providing the same thing.

So where's the opportunity to stand apart?

The Times Are Always A-Changin'

Our workforce is changing. They're not just confusing kids anymore; millennials now make up the largest cohort in the workforce by a good margin — and Gen Z, the next generation on the rise, is already about 6 percent of the current workforce. In fact, according to Boston Consulting Group and Oracle, in 2018 millennials will be the largest cohort in spending as well, with an estimated $3.39 trillion in spending power, larger than any other cohort. Not only are they the largest population cohort and employment cohort; they also have the "pocketbook power" to help drive how individual and business dollars are spent.

Both Gen Z and millennials are looking for different options from employers in terms of perceived value. Between millennials taking over, boomers retiring and values evolving with each generation, there's a massive shift in what our workforce looks like and what they expect — leading to a changing dynamic when it comes to hiring.

Topping it all off is a perfect demographic storm, resulting in what could turn into a sudden generational worker shortage: in the U.S., we're experiencing historically low unemployment and low fertility rates, and record labor participation and retirement rates. The fact is, we're not refilling our employees fast enough. Which means it's going to grow increasingly more competitive to find and retain talent.

If our reward and incentive programs aren't designed with the future – or even the realistic present – of our workforce in mind, we're bound to lose employees, and we risk the long-term productivity and profitability of our companies.

To put it simply: you can't rest on your laurels to attract talent.

THE MORE YOU KNOW

- **Millennials** make up **35%** of our workforce.[2]
- **Gen Z** is projected to make up **20%** of the workforce by 2020.[3]
- The summer 2018 **unemployment rate** in the U.S. is **3.9%.**[4]
- The **labor participation rate** is at **62%.**[5]
- Nearly **10,000 boomers retire** every day.[6]

Going Out on a Limb

So how do you branch out? What does the future workforce value?

Health care coverage is essentially table stakes. According to national AV reports, most employers offer something solid, satisfactory and, ultimately, the same.

Let's look instead at how talent is attracted and retained in environments where medical insurance is nationalized.

NFP has an office just outside of London, U.K., that works primarily with U.S.-based companies that have U.K. offices. In speaking with the head of that office, who is also a U.K. citizen, you start to appreciate how little basic medical or dental insurance actually means to employees there because of their nationalized health care system.

Divided Spending Between the U.S. and U.K.

The U.S. Bureau of Labor and Statistics estimates that the average U.S. employer contributes 3.5 percent of pay to 401(k) or retirement plan matches/contributions.

In the U.K., retirement contributions are set at a legal minimum of 8 percent (combined) in 2019.[7]

In the U.S., the average life insurance benefit is $50,000.

In the U.K., it's very common to see a life insurance benefit of four times salary with no cap.

In the U.S., 60 percent replacement on long-term disability is the most common benefit by far and is typically capped at income levels of between $100,000 and $200,000.

U.K. employers will typically have fully employer-paid programs that replace up to 75 percent of someone's income if they are disabled.

While these figures show some pretty notable variation, spending in the U.K. is still just a boost of what we already do — and they're still not looking hard enough toward the future.

Finding Something Special

Better health care, better life, better disability, better 401(k). All these things are great, and can be attractive — but it's not just about doing the same old benefits better.

As we've said before, the new workforce expects those benefits from their employer and, if your prospect is a talented, ambitious and desirable employee, they expect those benefits to be better than ever, too — by default. When it comes to what the incoming workforce is looking for, it's the soft stuff that matters.

Positive workplace culture, dynamic workspaces, flexible schedules, remote working opportunities and quality of life perks are outpacing and outmatching the traditional "more of the same" notions we've talked about.

For example, Dublin, Ireland has tapped into a booming tech industry. Established firms are having an incredibly difficult time retaining talent, with some seeing over 40 percent churn among highly educated, professional service roles.

Smaller tech firms are able to lure their sought-after employees through strong brand names and company culture as well as "lifestyle benefits": flexible work schedule, diversity among types of benefits offered and perks like free meals and coffee bars, according to consultants in NFP's international division. We're not suggesting that you stop providing medical insurance to employees and invest the savings into coffee bars — but these sorts of lifestyle advantages, in addition to stellar benefits, are what attract the growing cohort and tomorrow's workforce.

A 2017 study by marketing firm Fractl shows health insurance can still move the needle.[8]

54 percent of respondents said they'd give "heavy consideration" to efficacy of health and wellness benefits – medical, dental, vision – when selecting a job.

Further studies show boomers value **health and wellness benefits** much more heavily than millennials, but all cohorts tend to rank these benefits as highly important.

What we see when looking at the stats and surveys of benefits that are important to different generational cohorts is that diversity of offering – listening to and adapting to the varying segments of your workforce – is becoming critical.

Employees of all generations – but especially the emerging workforce – are expecting their employers to personalize their rewards. They want employers to understand where they are in their lives and careers and provide solutions and benefits that help them with the issues they experience at each stop along the way.

For Example…

Let's take a look at the support staff of a major sports team in the Northeast United States.

They'd done an incredible job attracting strong, fresh talent – their employees aged, on average, 31 years old – but they were a little worried about their retention factor and whether or not they were getting the most bang for their buck when it came to their benefits spending.

Ninety-six percent of their non-cash benefits funding was spent on medical insurance, but only a small percentage of employees were taking advantage of the plan, making it an inefficient investment when it came to the goal of rewarding employees. In other words, the organization was rewarding some employees with this design, but the vast majority were simply not gaining value.

They didn't want to just throw money at the wall of employees to see what benefits would stick. They chose, rather, to survey and understand who their employees were and what problems they dealt with day in and day out.

Major stressors included:

- **FINANCIAL DEBT, USUALLY IN THE FORM OF STUDENT LOANS**
- **COMMUTING TIMES TO WORK**
- **A LACK OF COLLABORATION ACROSS THEIR ORGANIZATION**
- **LACK OF OPPORTUNITY FOR GROWTH**

With these results, they quickly discovered it was time to completely re-imagine what they could and should provide their employees.

First, they redesigned their training and learning programs to better address the types of development employees seemed to be craving. They also implemented student loan repayment and refinancing solutions to try and lessen the debt burden on their employees.

That was followed up by another round of surveys, this time piggy-backing on an already-planned office move. They took the results to their interior designers and architects and re-imagined the layout of their space. This meant more open spaces for cross-team collaboration, larger gathering spaces for multiple departments holding joint meetings, and larger training areas with smart boards and work pods to foster development while physically in the office.

Instead of just providing benefits over benchmark, they worked to serve their workforce at a more precise level. They adjusted their own approach – rather than expecting their employees to adjust toward them – to put everything on the table, not only non-cash rewards, but other aspects of work-life, even down to their physical space. They wanted to be an organization that delivered true value to their employees, not just good insurance plans.

Not every company needs to implement student loan benefits or re-design their work space or even invest more in training and development. More than any specific benefit, recognize that in order to invest dollars into areas that will truly impact your work force – in order to connect them to your brand and your purpose, motivate them to work harder to achieve your goals and keep them engaged in their relationship with your company – you need to better understand their problems and how you can fix them.

Organizations that figure out the best makeup of their personalized non-cash rewards program and make it a unique, organizational fingerprint that helps them stand out will never have to worry about getting the best talent to help the business succeed down the road.

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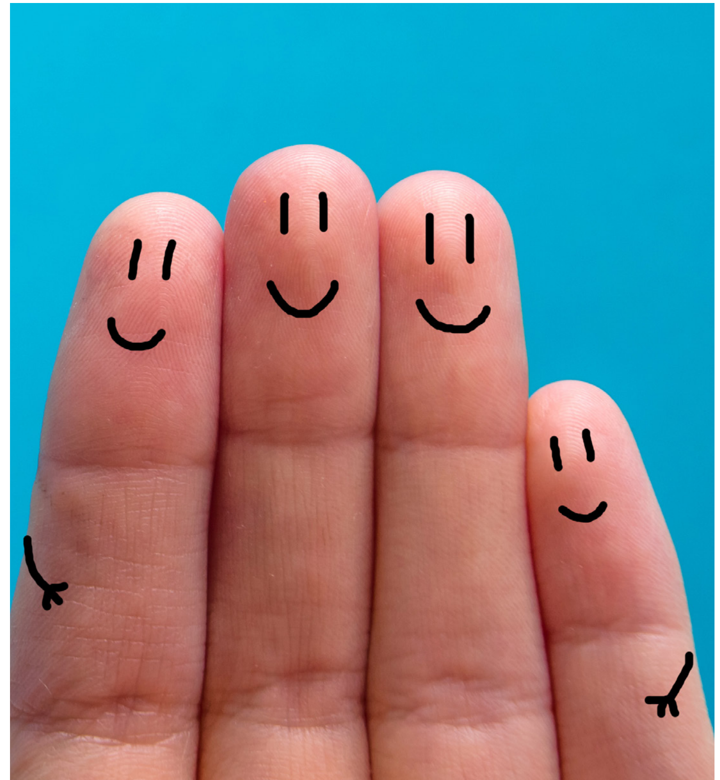
Putting People First



At NFP, we have a bit of a head start in this arena. In 2014, our own chief human resources officer identified the need for this sort of diversity within our own organization.

Across multiple, demographically varying business lines, we employ a wide range of professionals at different points in their careers and in offices all over the country and beyond. These factors, in addition to generational placement, all impact perceived value of the rewards.

Our HR team came up with the concept of what we call "People First." It's not a remarkably different take on the employee experience – a lot of organizations and white papers have since keyed in on this concept – but we developed a framework that would allow us to reward scalability while simultaneously providing opportunity for customization across different offices or amongst different groups with discrete needs. Through this framework, we think about rewards as overarching buckets, then design solutions within each bucket to help the most prevalent personas in our organization.

It turned out to be a great way to provide unique value — without having to reinvent the wheel.

Putting People First into Practice

The first soft employee benefits buckets we looked at looked at were Financial Wellness and Recognition.

Turns out, in terms of financial stress, the ability to retire isn't what keeps our early-career employees awake at night.

THE 2017 PRICE WATERHOUSE COOPER FINANCIAL WELLNESS SURVEY TELLS US:[9]

52 percent of millennials are worried about emergency funds to cover unexpected expenses.

Only 20 percent of millennials said they're concerned about not retiring when they wanted to.

Conversely, 29 percent of Xers and 41 percent of boomers said retiring on time is their biggest financial concern.

WHEN ASKED WHAT THE BIGGEST HELP WOULD BE TO ACHIEVE THEIR FINANCIAL GOALS:

Only 9 percent of millennials said lower health care costs.

19 percent of Xers and 31 percent of boomers said lower health care costs could help.

Remember: ~79 percent of the average American's medical expenses occur after the age of 40.

YOU KNOW WHAT MILLENNIALS SAID WOULD HELP THEM FINANCIALLY?

12 percent: Lower education costs

28 percent: Better job security

Only 10 percent of boomers and 20 percent of Xers were concerned about job security

Getting There Together

What we've learned is that it all comes down to truly caring about your employees — both before they're hired and once they're a part of the team.

It's time to change your thinking.

Not all employees are the same. Work with them, get to know them, find out what they need and align your values with what workers are looking for. Think about your workforce in population segments and cater to your people. Tailor your offerings to meet their needs.

Good people do good business. If you're lucky, you'll attract good talent. If you're unlucky, you'll get no one.

At NFP, we know these things work because we put them into practice every day. We see the results in our amazing people year after year, and we're always happy to help you find the best benefits blend for your organization if you're looking to do the same.

Looking To Take the Next Step on Your Benefits Journey?

Kyle Healy is the vice president of Corporate Development for NFP. With over a decade of expertise in helping organizations control their long-term spend while maintaining competitive reward programs for employees, he currently helps lead the NFP strategic growth initiative and supports national sales opportunities. Kyle is a frequent public speaker on topics ranging from progressive employee engagement solutions to alternative funding strategies within medical benefits.

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For more information, visit **NFP.com**.

[1] Actuarial Research Corporation. "Table 4.1. Participants and Average AV by Plan Type and Funding." *Analysis of Actuarial Values and Plan Funding Using Plans from the National Compensation Survey*, p. 9, 2017.

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[3] Alison Branch. "**Millennials to Rule the Workforce by 2020.**" Park Communications online, 2017.

[4] Bureau of Labor Statistics. "**Economic News Release: Employment Situation Summary Table A. Household data, seasonally adjusted.**" Bureau of Labor Statistics online, 2018.

[5] Kimberly Amadeo. "**Labor Force Participation Rate and Why It Won't Improve.**" The Balance, 2018.

[6] Russell Heimlich. "**Baby Boomers Retire.**" Pew Research Center Fact Tank, 2010.

[7] The Pensions Regulator. "**Minimum contribution increases planned by law (phasing).**"

[8] Fractl. "**Employee Benefits Study.**" 2016.

[9] PwC. "Employee Financial wellness Survey: 2017 results." 2017.

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