Aflac

Maximize Open Enrollment to Avoid Costly Financial and Health Outcomes

With money top of mind for American companies and employees this year, making every dollar count is paramount. An uncertain economy, stagnant income levels, delayed raises and rising health care costs are just a few trends driving the need for workers and their employers to be fiscally conservative. As the open enrollment season approaches, both parties are susceptible to mistakes and oversights that unnecessarily waste money.

HR decision-makers and company leaders ought to be concerned about costly mistakes, not only in their own enrollment outcomes but for their valued employees. Financially strained workers often make for unproductive and distracted employees, an equally costly predicament in today's economic environment. According to the 2012 Aflac Open Enrollment Study[1], a full 56 percent of workers estimate they waste up to $750 a year because of mistakes they make with their insurance benefits, which could represent up to four months of an individual's critical grocery budget.[2]

Anticipated changes in health care plans among most of today's organizations will only exacerbate the potential for confusion and mistakes made by workers. Further, with the growing popularity of wellness initiatives to help curb and control health care costs, the engagement of workers in these programs will be crucial to reaping the financial and physical benefits of such initiatives.

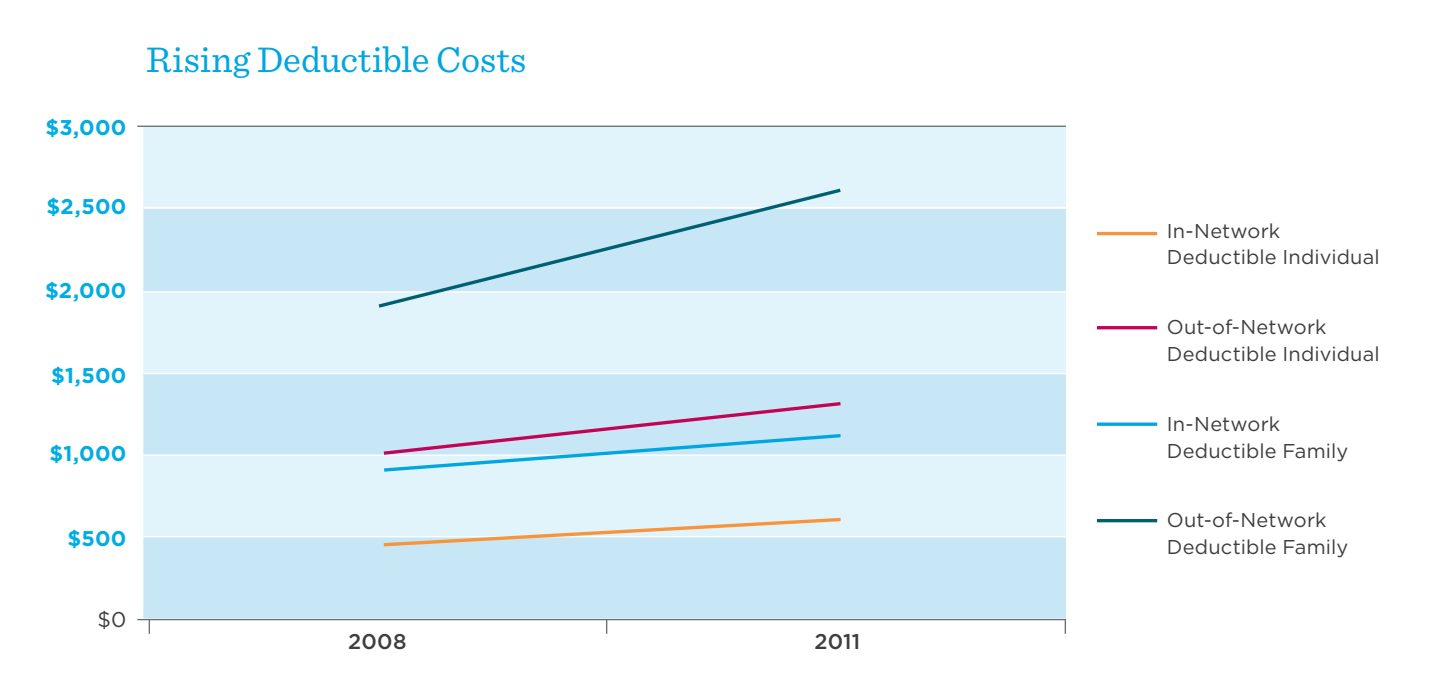
The upside is, curbing the problems can be easily accomplished through a few effective measures when implementing open enrollment. Aflac recently examined the issue of open enrollment with U.S. workers and uncovered common pitfalls and identified several best practices that will help guide HR decision-makers and executives during open enrollment and throughout the year.

PITFALL

1 *Choosing Wrong Coverage or Benefits*

According to the 2012 Aflac Open Enrollment Study, nearly one-quarter (24 percent) of workers say they chose the wrong level of coverage or benefits they did not need during their last enrollment. Another 15 percent did not check to be sure their coverage deductibles were correct or that their preferred medical professional was in their network.

Oversights on deductibles and in-network providers are particularly costly for workers. The average annual deductible for individual coverage in network rose 17.2 percent between 2008 and 2011 to $587, and family coverage increased 12.4 percent to $1,317, according to an annual study by Mercer. Meanwhile, deductibles for out-of-network care increased much more during that time. For individuals, the average rose to $1,084, a 27.5 percent increase, while the average for family coverage jumped 30.9 percent to $2,591.



Similarly, the median copayment for in-network provider services stayed at $20 for physician services, and median coinsurance for hospital stays remained at 20 percent. Out-of-network, however, rose from a median of 30 percent to 40 percent, while it rose from 35 percent to 40 percent for hospital stays.[3]

There are larger incentives for workers to utilize in-network and in-plan providers because it saves the plan sponsor money. So, workers who fail to choose a health care plan that includes a preferred provider can be a very expensive mistake.

Choosing the wrong level of coverage can also leave workers under protected or paying too much for a major medical plan that doesn't fit their situation. There are many workers who could enroll in a basic major medical plan with additional ancillary benefits plans to supplement areas that are particularly applicable to them. For example, if a worker has a family history of serious disease such as cancer, one solution would be to supplement a major medical plan with a voluntary cancer policy or a group critical illness plan. Since critical illness payments are cash benefits, they can be used in any way workers see fit; it gives them an affordable option to help with out-of-pocket medical expenses.

PITFALL 2

Low Flexible Spending Account Enrollment

The future of flexible spending accounts (FSAs) is questionable given the Congressional scrutiny during the examination and passage of health care reform. However, this valuable program will continue to be beneficial to both employers and employees – so long as the program is being maximized.

FSAs offer potential payroll tax savings for companies and employees. This is particularly vital today as income tax rates for some taxpayers are rising and health care costs and out-of-pocket medical costs are higher.

Despite the rewards to both employer and employee, the Aflac Open Enrollment Survey found that only 43 percent of workers currently contribute to an FSA. The majority of today's workers are missing an effective budgeting tool that can help manage out-of-pocket costs, medical or otherwise. At the same time, companies are essentially leaving money on the table, particularly considering that adding new participants in an FSA program requires only minimal administrative costs.

Not surprisingly, a lack of understanding of FSAs can deter workers from enrolling in the program. Some employees aren't aware of the broad range of healthcare-related expenses that qualify, such as prescribed over-the-counter medications or some holistic therapies. Other workers mistakenly believe they don't need it if they already have health insurance, not understanding that FSAs are a supplement to their major medical plan.

Another common objection many workers have to FSA programs is the fear that they won't use all the money set aside by the end of the year. This is a very real concern for employees and, in fact, is a challenge for most. The Aflac Open Enrollment Study found that of those workers currently participating in an FSA, 28 percent say they contribute too much or too little. Only 16 percent of workers contribute the right amount to their FSA.

PITFALL 3

Workers Underestimate Possibility of Unplanned Medical Expenses

One of the biggest drivers of financial strain related to health care is the unexpected out-of-pocket medical expenses that occur regardless of how extensive one's major medical plan is. For example, the Aflac Enrollment Survey found that although 63 percent of consumers say they are only somewhat or not at all concerned about a possibility of unexpected medical expenses, yet the majority have made significant sacrifices due to high unexpected medical costs.

In fact, when asked what sacrifices they have had to make due to unexpected out-of-pocket medical expenses, the top reasons given include:

» Cut back on social activities (40 percent)

» Not take a vacation (28 percent)

» Work more hours (22 percent)

» Increased use of credit card/lines of credit (17 percent)

Furthermore, a recent report by medical bills consumer consultancy Simplee says consumer medical spending is rising in 2012 faster than the rate of inflation. The report finds that out-of-pocket medical costs have risen 3.3 percent from the first quarter of 2011 to the first quarter of 2012, well above the average U.S. inflation rate of 2.65 percent. The average annual amount of cash U.S. families pay to cover out-of-pocket expenses is $962.[3]

Total Consumer Out-Of-Pocket Health Care Costs

Spend Category	Q1, 2011	Q1, 2012
Medical	$636	$670
Pharmacy	$117	$143
Vision	$20	$28
Dental	$121	$158
Total Out-of-Pocket	**$931**	**$962**

Source: Simplee.com

Another contributing factor to large out-of-pocket expenses is a lack of understanding about deductibles, and exceeding deductible costs. According to the Aflac survey, only slightly less than one-third (30 percent) of workers, say that when selecting an insurance product they always have a full understanding of the deductible costs. In fact, less than half (48 percent) sometimes have a full understanding of the deductible costs.

Unfortunately, the result is that nearly four out of 10 workers (38 percent) always or sometimes exceed their deductible costs contributing to more out-of-pocket expenses and financial strain.

Best Practices to Help Avoid Pitfalls

1 *Make the connection between short-term enrollment decisions and long-term health and financial wellbeing.*

Nine out of 10 workers (89 percent) say they typically choose the same benefits (e.g. medical, dental, vision) year after year, according to the Aflac study. Yet, most employees don't fully understand their policies. For example, 73 percent of workers say when thinking about their choices for major medical insurance coverage, they only sometimes or rarely understand everything that is covered by their policy.

This uncovers a growing need for HR decision-makers to educate workers not only about insurance policy ins and outs, but also how decisions made today can impact their financial health throughout the year and in the future. Personal and professional dynamics change year over year, and often that means so should workers' benefit elections. Companies need to help workers overcome the tendency to "make things easier" by simply electing the same benefits year after year.

One way to drive this message home is to help employees see how benefits can work together. Most employees don't fully appreciate the importance of ancillary or voluntary benefits options beyond major medical, when in fact these types of policies effectively address unique coverage needs and are core components of a comprehensive financial protection plan.

Particularly when it comes to voluntary insurance, employees often misunderstand key distinctions of these types of policies or the breadth of such options to address individual situations. For example, voluntary benefit policies range from accident, critical illness and cancer policies to dental, vision and disability plans.

Another short-term decision that many workers make with long-term financial impacts is neglecting to enroll in FSAs. As discussed, a good number of employees lack a clear understanding of what flexible spending accounts are or how they work. This can be overcome by helping employees understand how enrolling today can result in year-long cost savings.

Convey to workers that FSAs are not just another deduction, but in fact money they are already spending, and the advantages of using pre-tax dollars as opposed to after-tax dollars. Most importantly, make every effort to overcome worker's fears about FSAs, including the expectation that they will not use or will lose money. In reality, making a solid estimate of the amount a worker should contribute is not very difficult. A review of an employee's annual out-of-pocket expenditures over two to three years will produce an average, and experts generally agree that 75 percent of your average is an effective amount to contribute to an FSA.

Guiding employees in determining the right amount to put into their FSA will help ensure they save their money.

2 *Start communicating now, and throughout the year.*

Alarmingly, the Aflac Open Enrollment Survey found that as of July 2012, more than half (52 percent) of companies have not communicated yet about the upcoming open enrollment period. This is illustrative of the growing disconnect between how companies communicate about their benefits and how the rest of the world communicates.

Although open enrollment periods come around once a year, the brevity of benefit decisions requires a comprehensive, year-long education and communication program. Workers are used to instant access to information, and being communicated with via digital/social media frequently. Companies can stand to adapt to this expectation and trend, especially when it comes to something as critical as benefit selections.

Some of the best practices for companies include diversifying materials to encompass print, Web, email and face-to-face meetings; hosting multiple in-person meetings throughout the year; and utilizing social and mobile media such as texts, Twitter and Facebook to communicate key messages and remind workers of upcoming open enrollment deadlines.

Making enrollment materials attention-grabbing or even holding mandatory enrollment meetings can help capture the busy and easily distracted employee's attention. Don't underestimate the power of creative design in making workers stop and engage.

Finally, tailor your communication program to fit the needs of your company structure and industry. For example, a manufacturing plant may put up posters in break rooms or in the cafeteria, whereas retailers with multiple locations might consider direct mailers to workers' homes.

3 *Keep it simple.*

As HR decision-makers prepare for the 2012–2013 open enrollment season, it's important to simplify the language of benefit communications, including clear explanation of health care jargon. Often, employees are embarrassed to admit they don't understand concepts such as deductibles or copayments.

Giving workers examples of realistic scenarios based on each benefit plan's options can help crystallize just how much out-of-pocket expenses they may be responsible for as a result of each enrollment choice. Use catchy headlines or relevant questions to drive home the importance of benefit choices, such as "Do you know how much you spent on medical out-of-pocket costs last year?" Some companies offer their workers customizable worksheets to plug in their own individual information and calculate their potential medical costs for the year.

Lastly, employers should use the same terminology and clear explanations in every

communication vehicle, keeping benefit materials consistent.

Repeating concepts multiple times can help assure your message has been heard and understood. Define any terms that may be confusing to employees. This is particularly crucial when introducing new benefit options or concepts, such as wellness programs or a consumer-driven health plan.

4 *Demonstrate how enrollment mistakes can and do happen.*

Some workers are simply embarrassed to admit their confusion or lack of understanding when it comes to benefits, despite the fact that most workers do make mistakes during enrollment. In fact, the Aflac survey found that only 16 percent of workers did not make a mistake during open enrollment last year. Furthermore, nearly six in 10 (58 percent) say they are only sometimes or rarely aware of the changes in the policies each year.

The acknowledgement to workers that the enrollment process is confusing, and the propensity for mistakes is real, will go a long way in easing the tension and frustration. Simply knowing they are not alone and that their concerns are being heard can make the process easier for employees. The fact is, only 10 percent of workers feel happy at the end of their benefit selections according to the Aflac Enrollment Survey.

In addition, the realistic acknowledgement that mistakes do happen and sometimes quite often may drive workers to pay more attention and focus towards their enrollment process. HR administrators can leverage real examples of common mistakes made, and the resulting financial and health impact of those mistakes.

5 *Reach out to the other halves.*

A very common mistake made by HR administrators is overlooking the spouses of their employees during open enrollment planning and communication. This can be detrimental to the process because often spouses share the responsibility of decision-making or the employee has little to do with the final selections.

The Aflac survey found that one-third (32 percent) of respondents say they share decisions about benefits selection. The remaining 68 percent claim to be sole decision-makers. But what if the decision-maker is not your employee?

Consider inviting spouses to group enrollment meetings or one-on-one discussions with benefit providers or brokers. Expand your communication vehicles to include at-home mailings or use a benefits-dedicated website that is outside your company's firewall.

6 *Don't forget to address the organizations' cost containment needs.*

In today's economic landscape, companies must leverage every dollar spent and maximize the return on that investment. Benefits, particularly health insurance, require significant resources and contribute greatly to the overall satisfaction, retention and well-being of its workforce.

One way to successfully contain costs when it comes to benefits is to empower employees to make smart health care and lifestyle decisions. Doing so helps companies reduce their claim costs and boost the productivity of their workforce.

With employers desperately trying to reduce medical costs, wellness programs have been touted as a useful tool in curbing these escalating expenses. Particularly considering that at least one-quarter of the health care costs incurred by working adults are attributed to modifiable health risks such as tobacco use, diet, and lack of exercise.

Enrollment is an opportune time to promote programs that truly drive cost savings for the organization or that may be underutilized by workers. These include:

- Wellness initiatives
- HSA/FSA/Dependent Care Savings Accounts
- Switching to generics
- Getting preventative care
- Voluntary benefits such as disability, life, and accident insurance

The bottom line is that the success of any benefits initiative, including wellness programs, depends entirely on the level of participation among employees.

CONCLUSION

With health insurance growing more complex daily, many industry veterans and HR decision-makers themselves are struggling to keep up. Imagine then the difficulty for workers to effectively choose among the array of insurance options that are touted, yet often not understood.

A heightened challenge this year is limited disposable income for many American workers, presenting companies and their HR benefits team with greater challenges of improving benefit communication and education strategies, and implementing a more effective enrollment process.

SOURCES

[1] 2012 Aflac Open Enrollment Study, conducted by Research Now, August 2012

[2] Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, February 2011.

[3] Simplee, "2012 First Quarter Health Care in America Out of Pocket Spending Statistics," **finance.yahoo.com/news/simplee-q1-2012-medical-spending-120600917.html**, accessed on April 10, 2012

[4] Mercer, "Annual Survey of Employer-Sponsored Health Plans," **pbs.org/newshour/rundown/2012/04/out-of-network-care-adds-to-health-expenses.html**, accessed on April 16, 2012