



AFLAC | WORKFORCES REPORT | 2016

EMPLOYER OVERVIEW



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The *2016 Aflac WorkForces Report* is the sixth annual benefits study examining benefits trends and attitudes among employers and employees. The research study captured responses from 1,500 employers across the United States in various business sizes and industries.

- 1** Benefits decision-maker outlook
- 2** Top benefits program challenges
- 3** Innovative and emerging benefits trends
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BENEFITS DECISION-MAKER OUTLOOK

Employers report sales and revenue growth, but continue to make changes to their benefits packages to stay competitive in a rapidly changing benefits environment

Today's marketplace is evolving — quickly.

Employers must keep pace with innovations in technology, customer service, management and much more, while also adapting to a drastically changing workforce with more millennials and Gen Zers filling the ranks than ever before.

The sixth Annual Aflac WorkForces Report found the proportion of employers reporting sales and revenue growth is up from previous years. This is also the first year that "controlling costs" didn't top their list of business objectives.¹ Instead, "staying competitive in today's marketplace" topped the list.

The marketplace isn't changing in a vacuum; employer-sponsored benefits are rapidly changing too.

Over the last several years, health care reform pushed many underlying benefits issues to the forefront. At first, many employers expressed concern and confusion, but time has been on the law's side. The majority of benefits decision-makers now say they understand health care reform at least somewhat well, and research continues to find that employers haven't dropped benefits coverage en masse, like many opponents of the law feared.

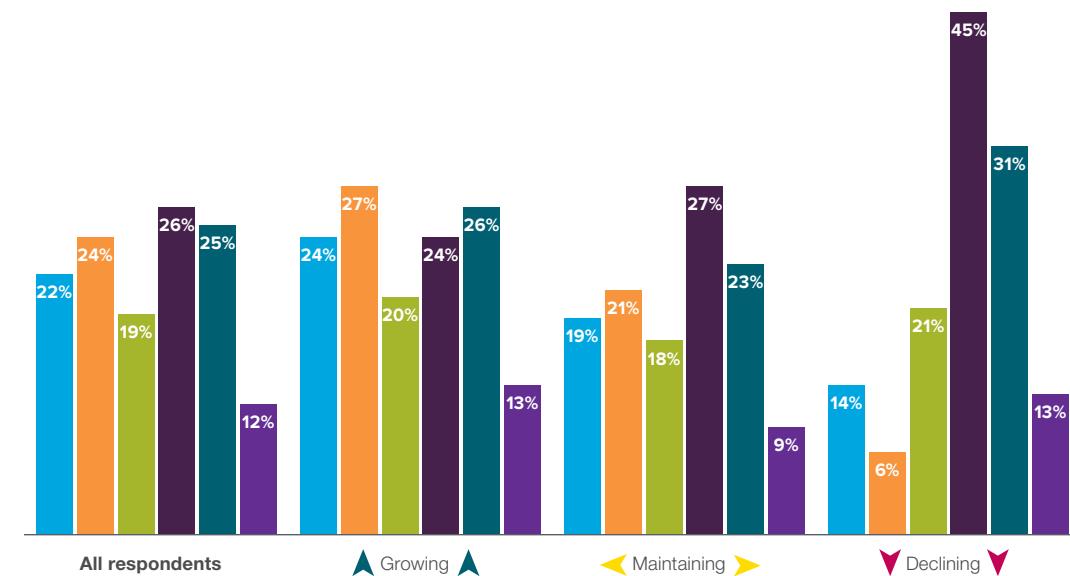
Still, the cost to provide health care continues to rise, expectations of the workforce are changing and requirements for employers are more strenuous than ever before — all factors deeply

| What did employers mention as their top business objective? | |
|---|-----|
| Staying competitive in today's marketplace. | 34% |
| Finding the right amount and level of talent to achieve our business goals. | 24% |
| Controlling costs. | 22% |
| Managing the productivity of our workforce. | 21% |

Even when companies experience growth, they are still making changes to their benefits packages.

Thinking specifically about your major medical/health care plan(s), did your company do any of the following in 2015?

- Implement a major medical or health care plan with a high deductible (over \$1,000) and HSA as alternative to traditional medical plan
- Introduce employee health care incentives
- Reduce the number of major medical or health care plan options
- Increase employees' copays
- Increase employees' share of the premium
- Eliminate contributions for spouse or partner coverage



affecting employer-sponsored benefits. Even though employers indicate feeling better about their budgets, many continue to say they are implementing cost-shifting benefits strategies. Many of these changes increasingly transfer the rising cost of health care to employees.

Although many employers continue to offer 80/20 coverage, lower-value plans are on the rise

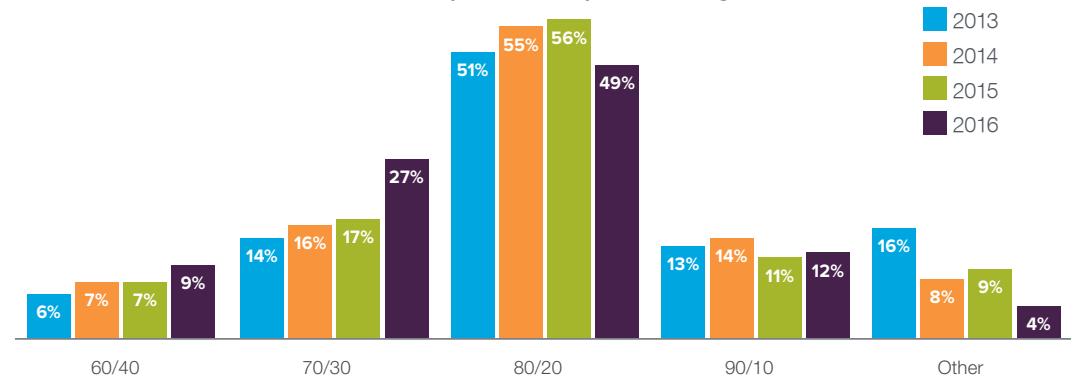
Health care reform established a standard for employer-provided health insurance, and it's noteworthy to mention that most employers still offer major medical coverage with an actuarial value between 80 and 90 percent, exceeding the new standard. Despite this good news, the Aflac study continues to see a trend toward high-deductible health plans and lower-valued plans.

Of employers offering major medical coverage to their workforces:

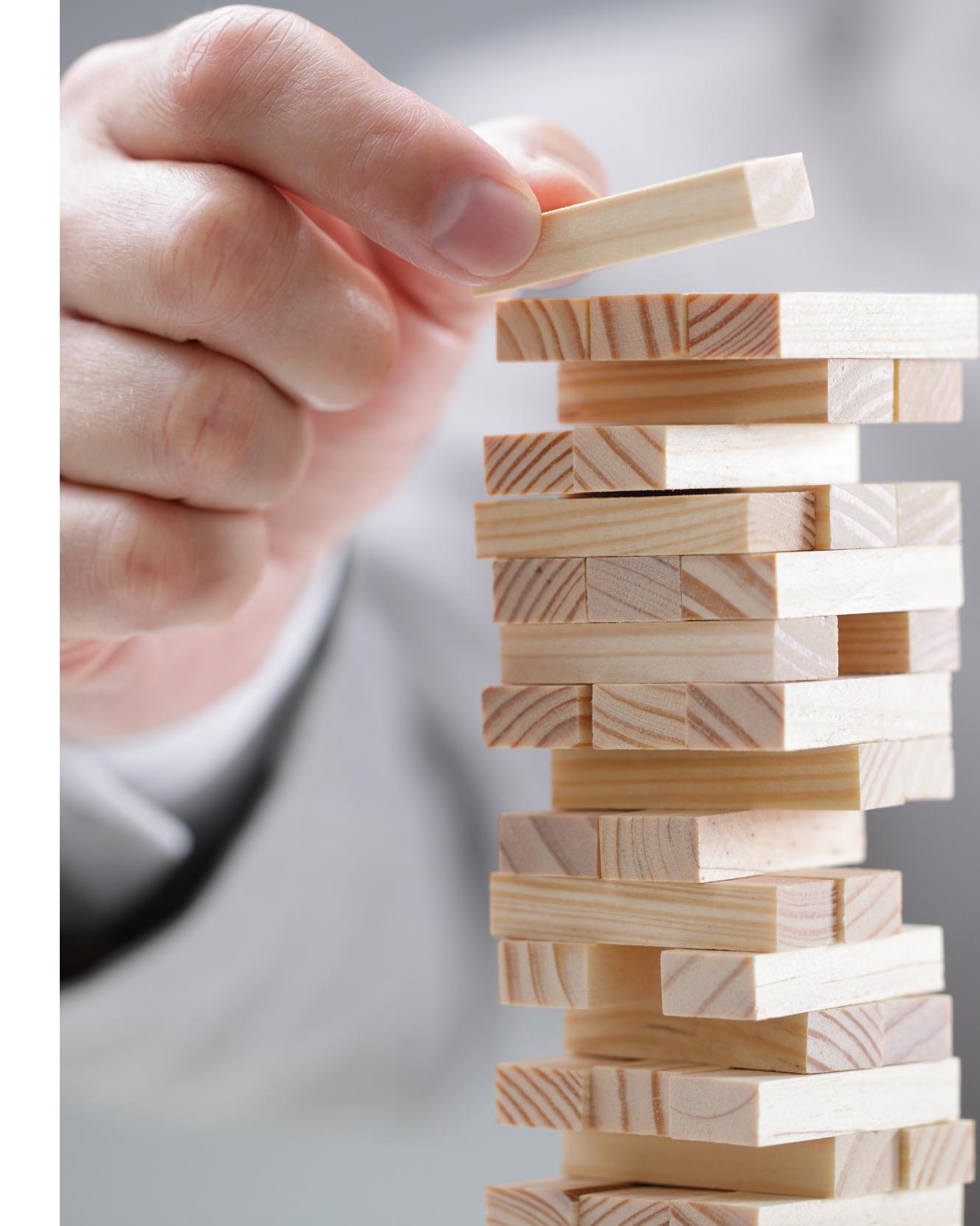
- » **35 percent** offer a major medical health plan with an actuarial value of 70/30 or 60/40.
- » **29 percent** offer a high-deductible health plan with an individual deductible of over \$1,000.
- » **11 percent** don't make major medical health insurance available to their employees' spouses.

A greater proportion of employers offer major medical plans with 70/30 or 60/40 coverage in 2016 than years past.

Which of the following best describes the actuarial value of your current major medical plan coverage?



What are employers required to cover? Health care reform requires employers with 50 or more full-time equivalent employees to provide health insurance with at least a 60 percent actuarial value. Additionally, the employee portion of the premium for self-only coverage must be considered affordable (less than 9.5 percent of the employee's W-2 income).



TOP BENEFITS PROGRAM CHALLENGES

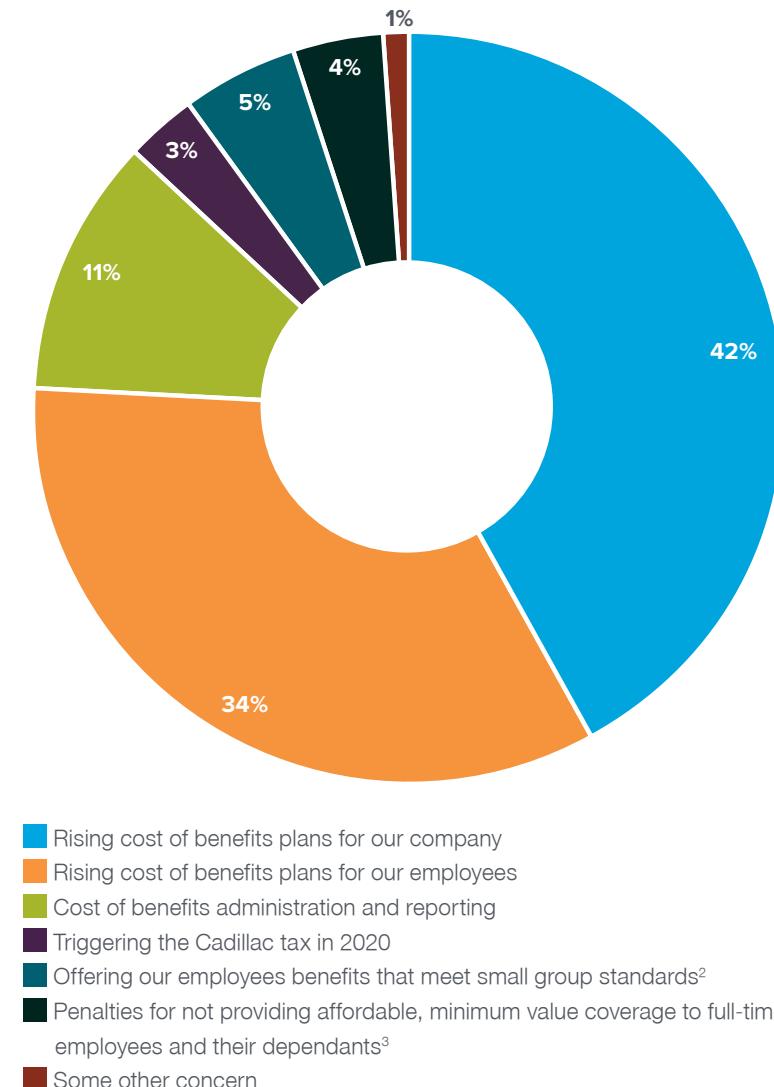
Employers say the rising cost of benefits plans is among their top concerns

Benefits decision-makers most often name “taking care of employees by providing the widest range of options” as the top objective for their benefits programs. Still, employers admit it’s a balancing act. Half say their top challenge is “offering robust benefits while staying within budget or cost constraints.” Upon closer examination, their biggest concern is not the cost of administration or even potential health care reform penalties. In 2016, the biggest concern mentioned by employers is the rising cost of benefits plans to their company and their employees.

| What is the most important objective for your benefits programs? | |
|--|-----|
| Taking care of my employees by offering the widest range of benefits options | 21% |
| Increasing employee satisfaction | 17% |
| Retaining employees | 15% |
| Reducing health care costs for our employees | 14% |
| Increasing productivity by maintaining a healthy workforce | 13% |
| Attracting new and qualified talent | 11% |
| Reducing health care costs for our company | 9% |

Cost of benefits to the company and employees mentioned more often than benefits administration, reporting or penalties.

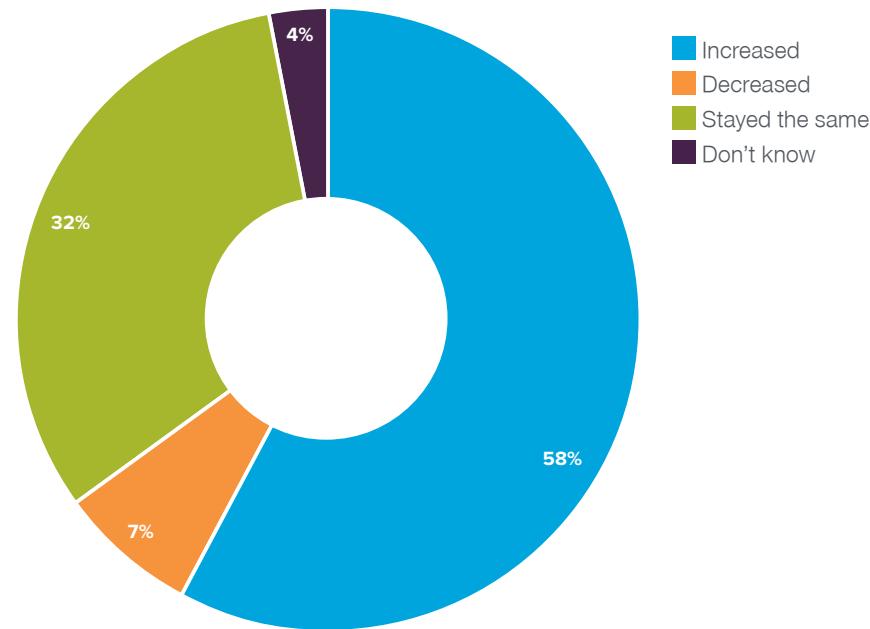
What is your company's top budget or cost issue when offering benefits?



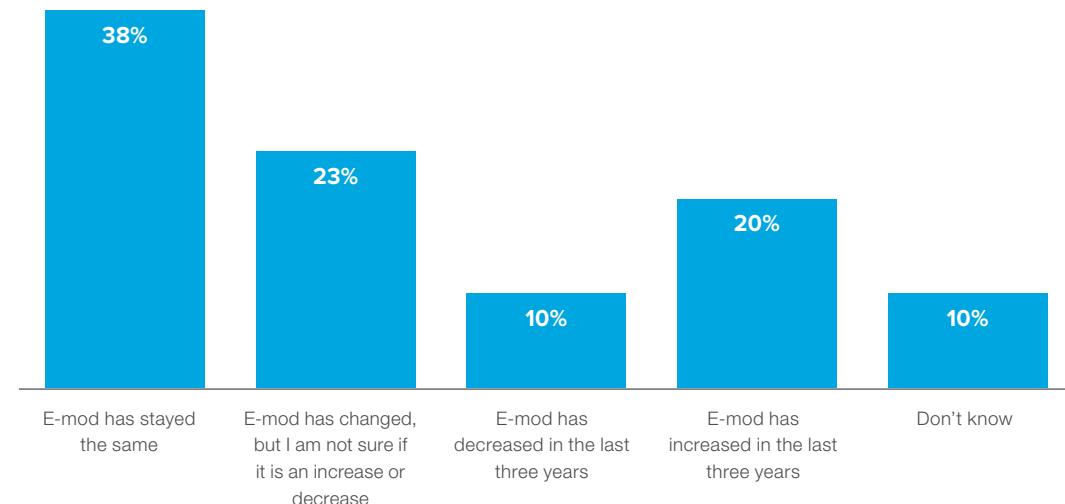
Over half of employers say workers' compensation claims increased within last three years

When employees are injured or become ill because of their work on the job, workers' compensation helps to cover employees' medical expenses and disability payments. Findings from the Aflac study suggest that employees are filing more of these claims, potentially adding to their employers' costs. Over half of employers (58 percent) say their workers' compensation insurance premiums increased within the last three years. Of those who know how workers' compensation premiums have changed, 20 percent say their experience modification factor, commonly referred to as their e-mod, has increased. Another 33 percent either don't know if their e-mod has changed or know it has changed, but aren't certain of whether it has increased or decreased. Just 10 percent say their e-mod factor has decreased.

Within the last three years, have your workers' compensation insurance premiums increased, decreased or remained the same?



Just 10 percent of employers say their e-mod has decreased over the last three years.⁴



When it comes to being prepared for IRS reporting requirements, employers are split down the middle

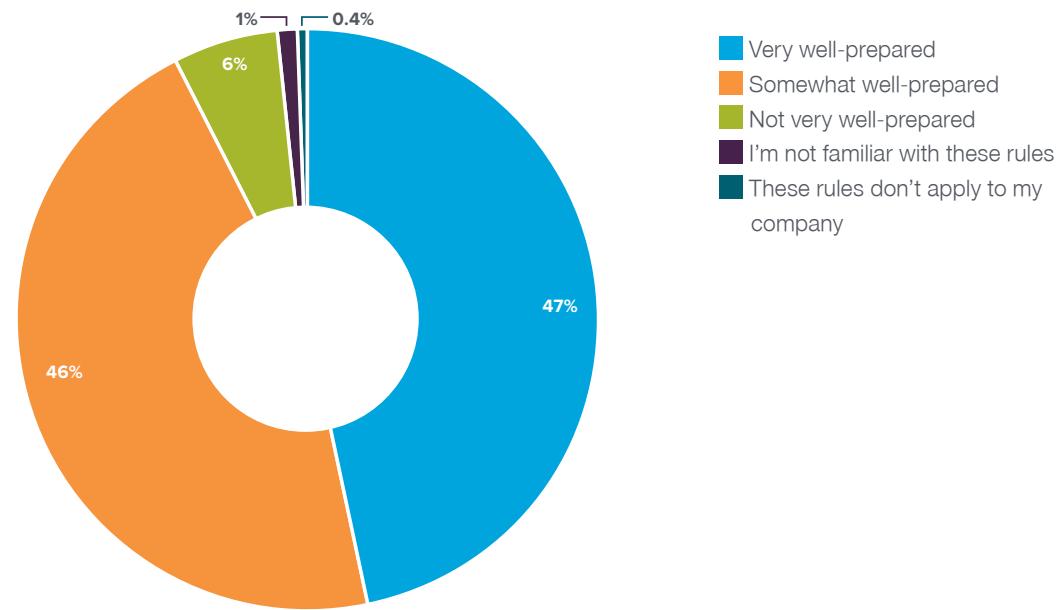
Six years into the enactment of health care reform, employers increasingly understand health care reform legislation. In fact, 93 percent of employers say they understand it somewhat, very or extremely well.

Still, with significant reporting requirements beginning this year, employers are mixed when it comes to being prepared. Nearly half are very well-prepared for reporting requirements, leaving another 52 percent only somewhat or not very well-prepared to comply with IRS reporting rules in 2016.⁵

When is reporting required? For the first required year, statements must be provided to employees by March 31, 2016, and submitted to the IRS by May 31, 2016 (if filing by paper), or June 30, 2016 (if filing electronically).



How prepared are you to comply with IRS health insurance coverage reporting rules in 2016?⁵

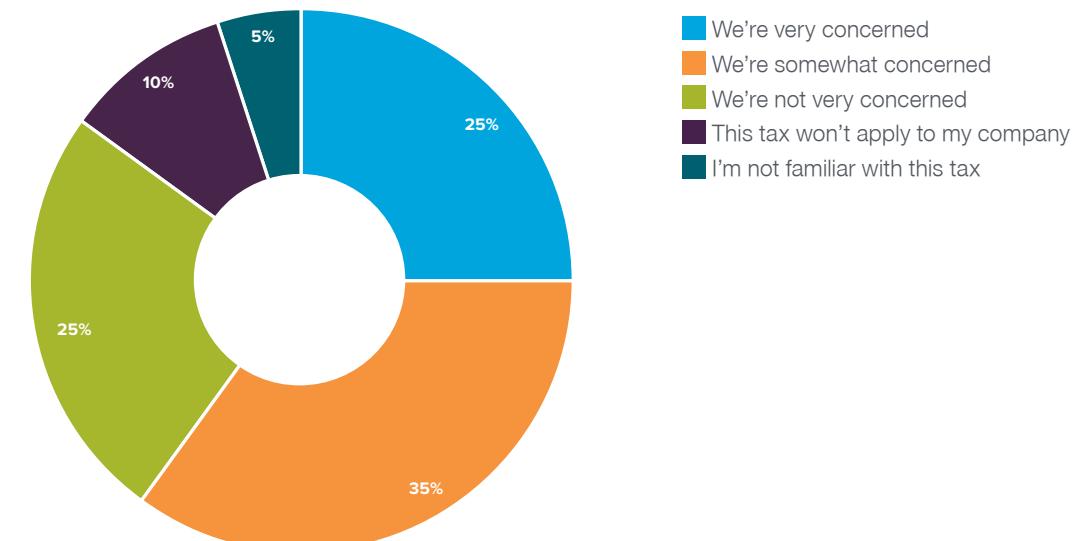


The Cadillac tax causes some concern, but few employers expect to drop coverage in response

The “Cadillac tax” is commonly used shorthand for the excise tax on “high-cost” health plans valued over designated thresholds. Originally, the tax was slated to go into effect in 2017, then was delayed until 2018 and later Congress passed another delay changing the effective date to shift to 2020.

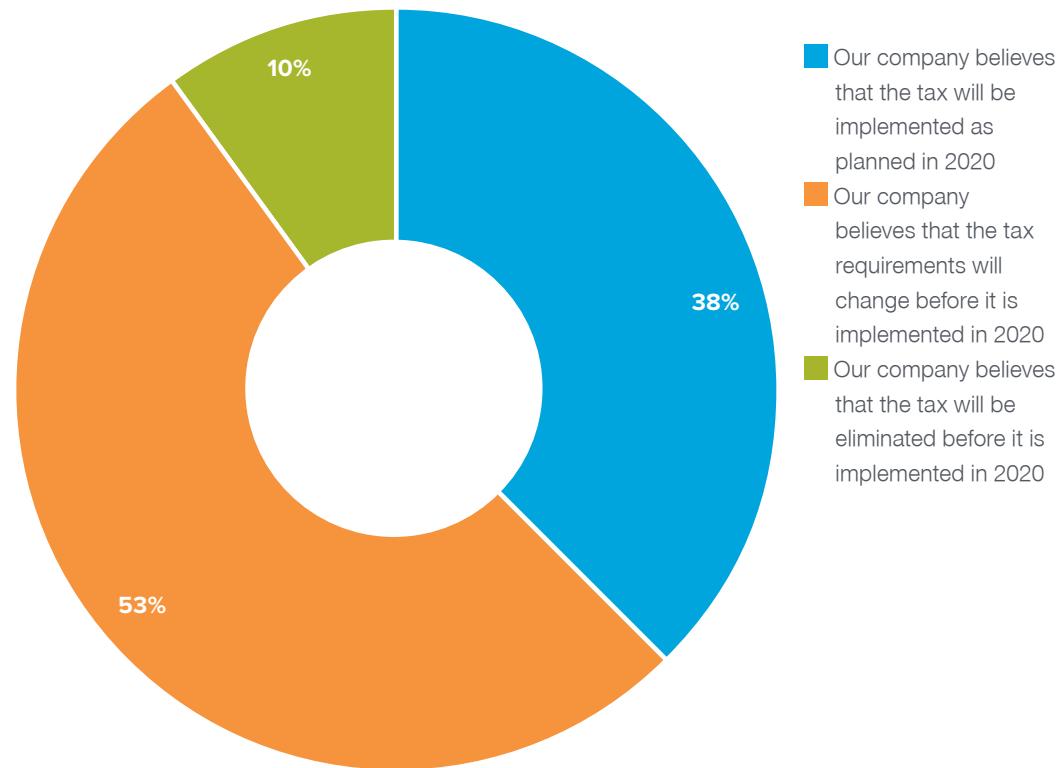
Even though the tax is several years away and regulations will likely evolve, employers are already thinking about the tax and its potential effect on their benefits packages. Well over half of companies (60 percent) say they are either somewhat or very concerned about the excise tax on high-value medical plans. Yet, 62 percent expect the tax to change or be eliminated before its implementation.

Is your company concerned about the excise tax on high-value medical plans which is expected to be implemented in 2020?



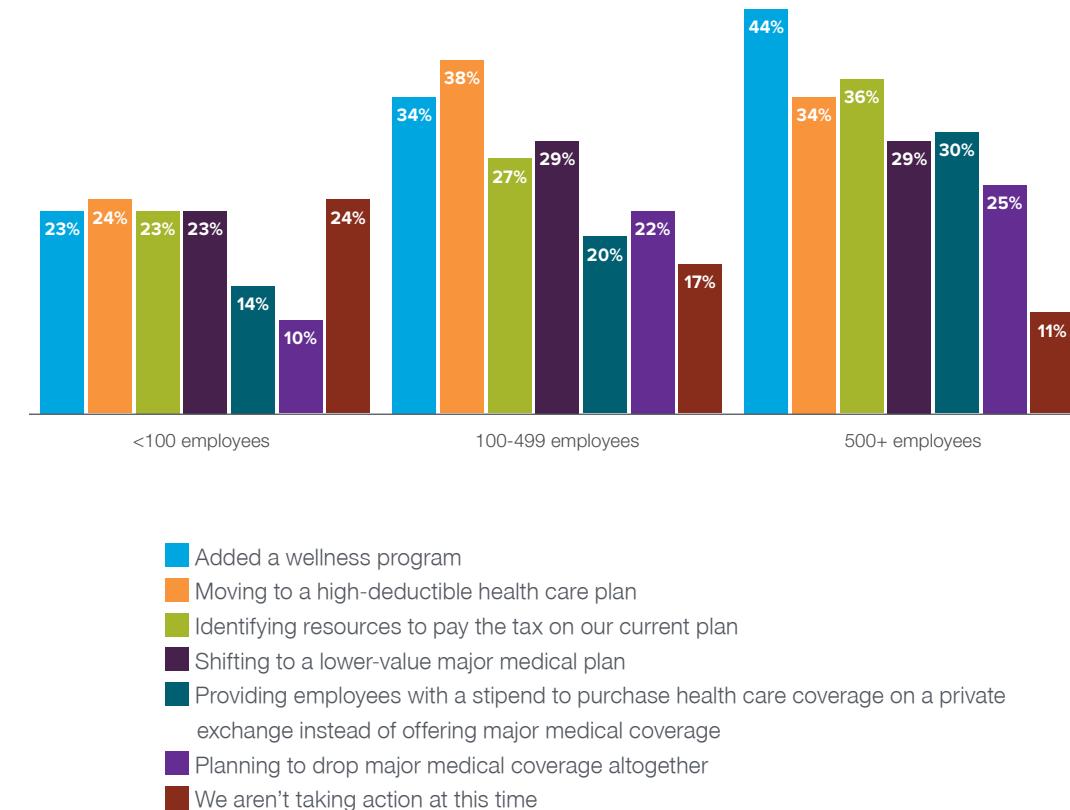
The Aflac study asked employers if they are preparing for the tax, and their responses varied based on the employer's size. Employers who are at least somewhat concerned about the tax most often named adding a wellness program, likely a pre-emptive measure to contain health care costs to stay below the high-cost thresholds. "Planning to drop major medical coverage altogether" was mentioned less often than other strategies — reinforcing the notion that, while health care reform has prompted uncertainty and change, it hasn't caused employers to stop offering health insurance coverage to their employees altogether.

Which of the following statements best describes your company's expectation for the future of the Cadillac tax?



Depending on the size of the company, employers are responding differently to the Cadillac tax.⁶

Has your company taken or are you planning to take any of the following steps to prepare for the Cadillac tax?



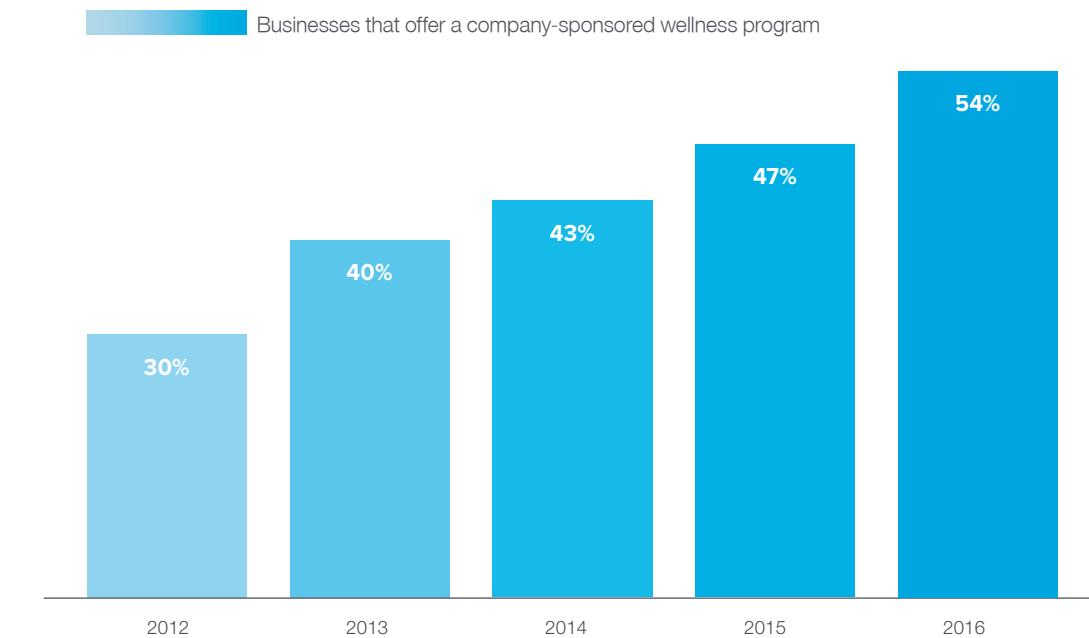


INNOVATIVE AND EMERGING BENEFITS TRENDS

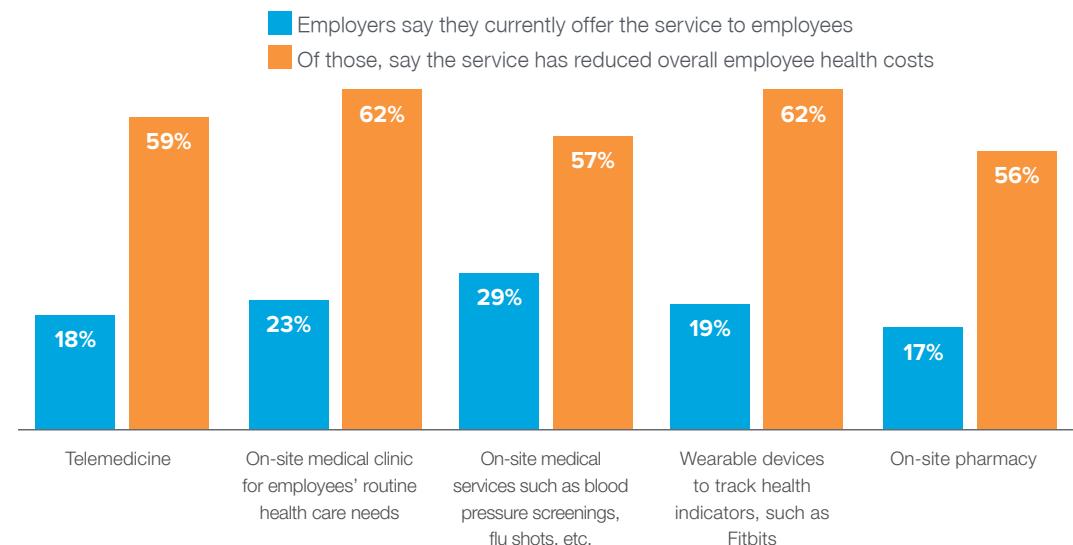
Employers look to wellness technology to combat rising costs

Over half (54 percent) of employers have a company-sponsored wellness program — up considerably from 30 percent in 2012. Many employers report including the typical elements: wellness screenings, healthy eating options or incentives, smoking cessation programs and much more. Some employers also report offering new and emerging wellness options, such as telemedicine and wearable technology. Of those offering a new or emerging wellness option, over half said the service has reduced overall employee health costs. With many employees interested in these new options, they may prove especially influential in reducing health care costs as more employers adopt them.

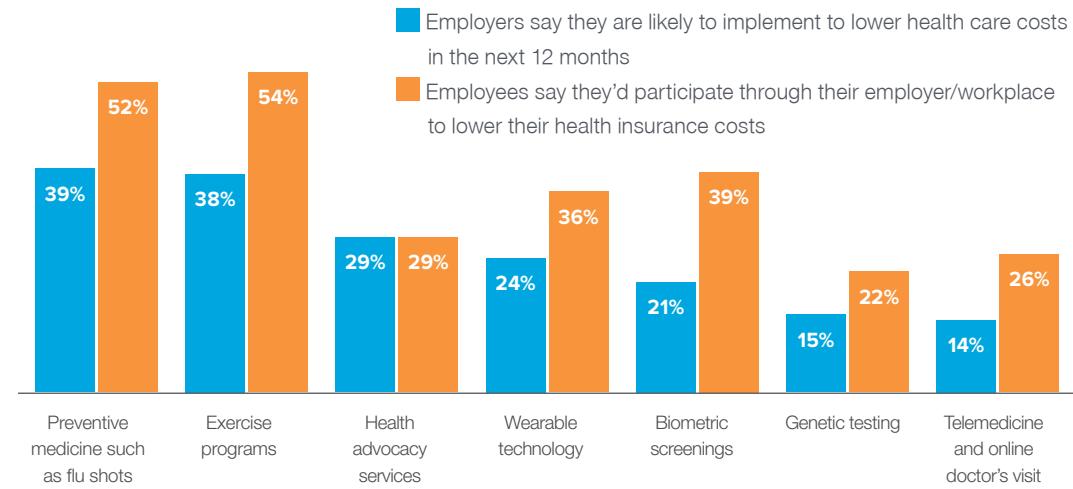
Company-sponsored wellness programs are on the rise.



Have any of the following service(s) reduced your overall employee health costs?



Employers report considering new and emerging wellness concepts or initiatives in the next 12 months.

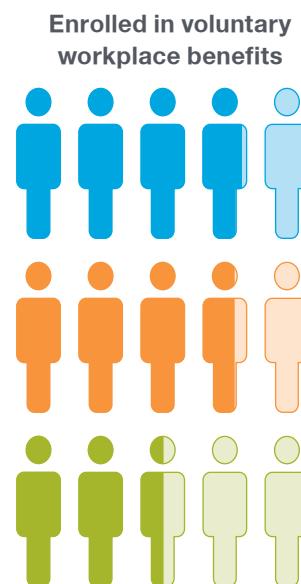


Voluntary insurance is increasingly seen as essential insurance

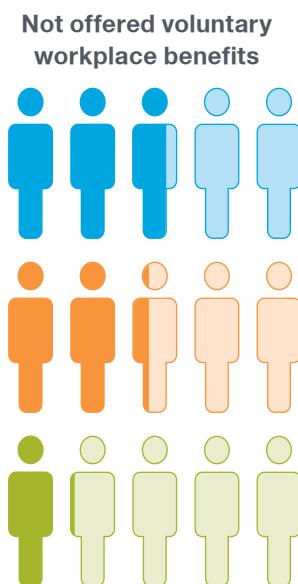
Voluntary insurance isn't a new benefits option, but it is becoming more of an essential and innovative component of the employee-benefits package. These products include supplemental life, disability, critical illness, hospital, accident, cancer insurance and much more. They pay policyholders cash benefits when they are sick or injured, and are usually bought through an employee's workplace. Approximately 1 in 4 employers (26 percent) offer voluntary insurance to their workforce.

Results from the Aflac study show a greater proportion of employers offering critical illness, accident, cancer and hospital insurance than in previous years. These employers most often say they offer voluntary insurance "to satisfy employee need, interest or demand." With the cost of health insurance and out-of-pocket costs rising, it's no surprise that nearly 4 in 5 (79 percent) employees see a growing need for voluntary insurance today compared to last year.

Taking a closer look, employees enrolled in workplace voluntary insurance are more likely to say they're:

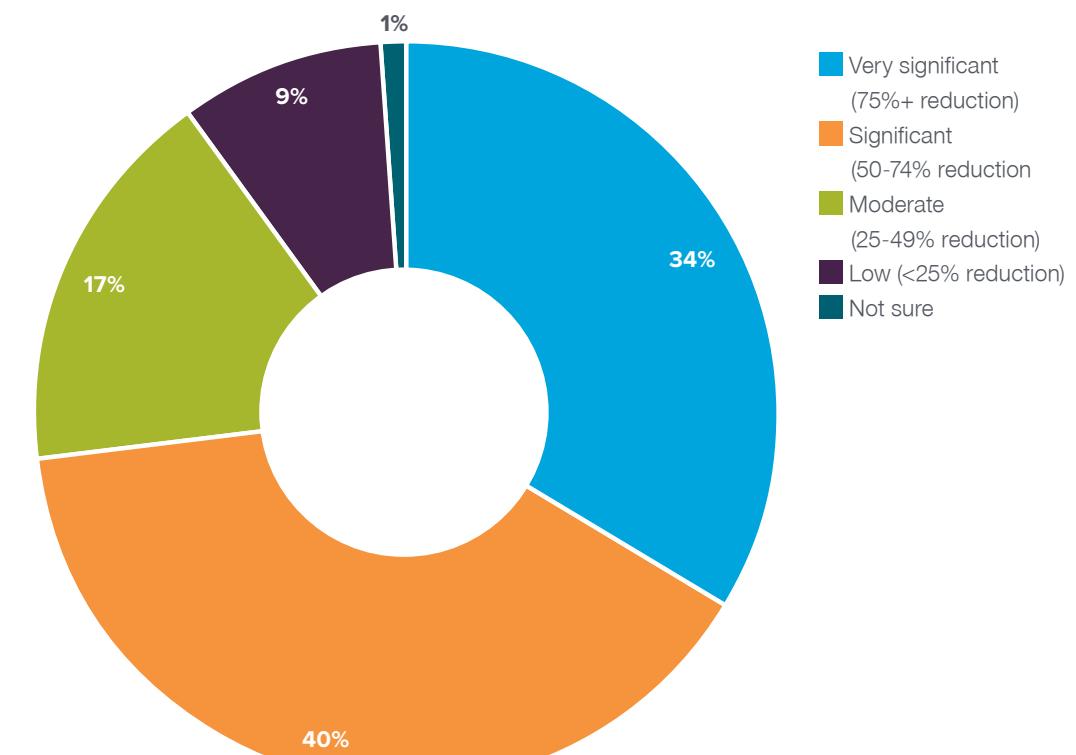


- Extremely or very satisfied in their jobs (**78 percent**) compared to those who aren't offered voluntary insurance by their employers (**57 percent**).
- Extremely or very satisfied with their overall benefits packages (**75 percent**) compared to those who aren't offered voluntary insurance by their employers (**46 percent**).
- Extremely or very prepared to pay out-of-pocket expenses not covered by major medical/health insurance (**51 percent**) compared to those who aren't offered voluntary insurance by their employers (**21 percent**).



Additionally, employers that offer voluntary accident insurance saw a reduction in workers' compensation claims. Since offering the product to their employees, 51 percent of employers noticed a decline and 74 percent say it was significant or very significant. These products are increasingly a low-cost option for employers to effectively round out their benefits packages.

How would you rate the decline in your workers' compensation claims since offering voluntary accident insurance to your workforce?⁷

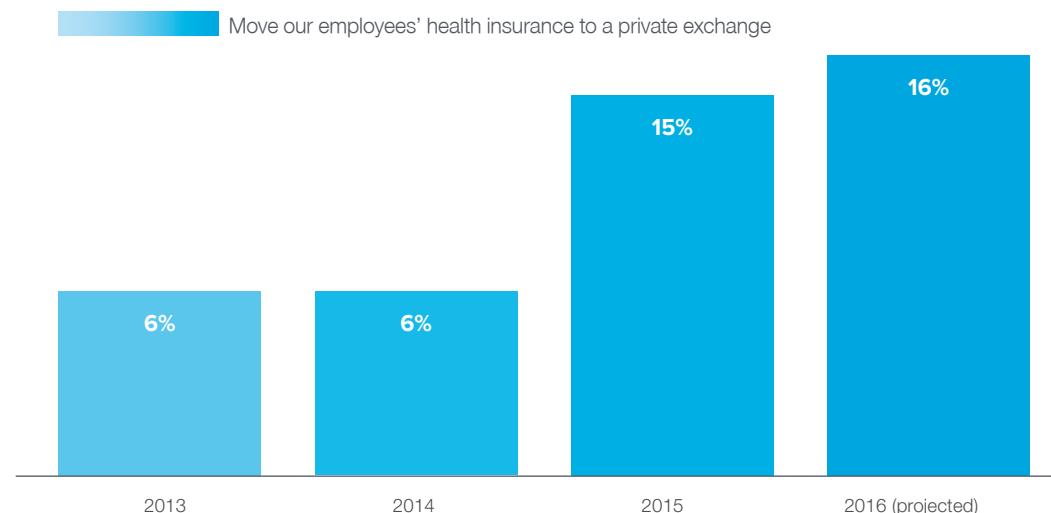


Private exchanges and third-party outsourcing ease the benefits administration burden

If there's one thing employers can agree on when it comes to benefits, it's that offering them can be complex — especially with evolving reporting and communications requirements. The Aflac study found that employers are starting to look to private health insurance exchanges and multiline platforms as solutions. These online marketplaces can do some of the heavy lifting when it comes to benefits administration, such as paperwork and coordinating between multiple carriers, helping businesses to save on administrative costs.

In 2016, 16 percent of employers project that they'll move their employee health insurance benefits to a private exchange, up from 6 percent in 2014 and 2015. Additionally, the report found that while very few employers currently outsource benefits administration, 68 percent are interested in outsourcing at least one service.

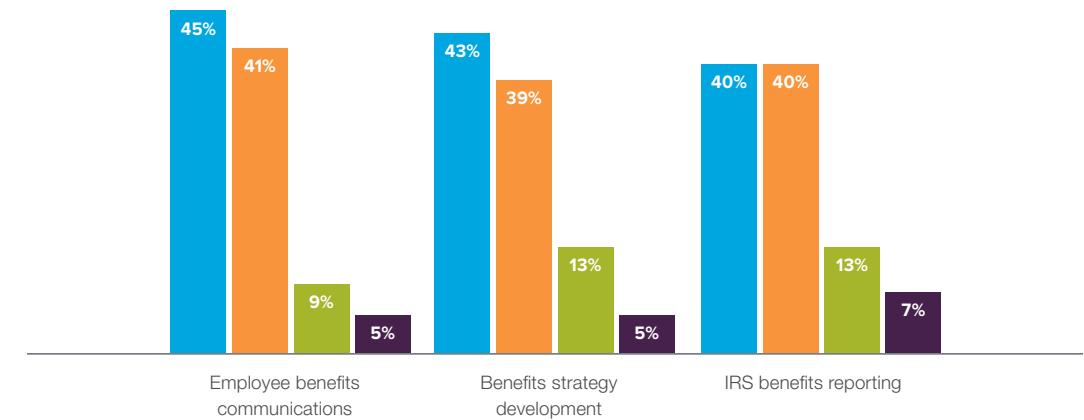
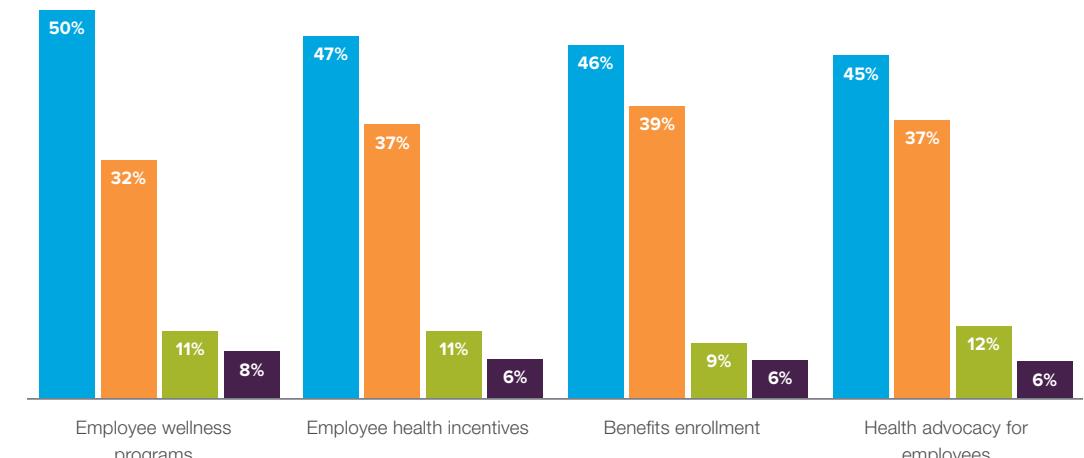
Thinking specifically about your major medical/health care plan(s), did your company do any of the following?



Few employers outsource benefits administration, but many express interest in doing so.

Are you interested in outsourcing any of the following benefits administration services to a third party?

█ Yes, we're interested in outsourcing █ No, we aren't interested in outsourcing █ Not sure █ We already outsource this function

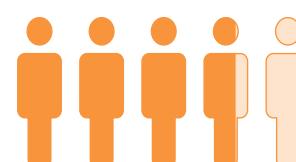
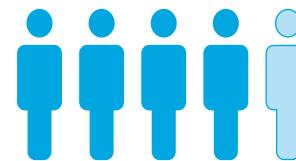




Brokers and agents play an important advisory role

Seven in 10 employers (70 percent) currently use a broker or benefits consultant to determine their benefits options. Large companies, employers in metro areas and those in the Northeast are more likely to use a broker or benefits consultant than small companies with fewer than 50 employees, employers in rural areas and those in other regions. Respondents who use a broker or benefits advisor to determine benefits options are more likely to say:

Using brokers or benefits consultants



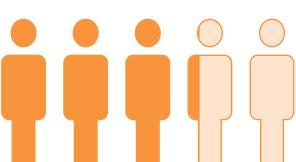
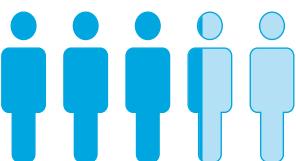
- The benefits their company offers enables them to reduce turnover (**80 percent**) compared to **66 percent** of those that don't use a broker or benefits advisor.

- The benefits their company offers increases worker productivity (**75 percent**) compared to **65 percent** of those that don't use a broker or benefits consultant.

- They understand health care reform extremely or very well (**67 percent**) compared to **44 percent** of those that don't use a broker or benefits advisor.

- They're very well-prepared to comply with IRS reporting rules (Code sections 6055 and 6056) in 2016 (**51 percent**) compared to **37 percent** of those that don't use a broker or benefits advisor.

NOT using brokers or benefits consultants



About the study

The 2016 Aflac WorkForces Report is the sixth annual Aflac employee benefits study examining benefits trends and attitudes. The study captured responses from 1,500 benefits decision-makers and 5,000 employees across the United States in various industries.

The Employer Survey was conducted online within the United States between Jan. 11, 2016, and Feb. 11, 2016, among 1,500 benefits decision-makers at companies with at least three employees. Results were weighted to enable year-over-year trending. No estimates of theoretical sampling error can be calculated; a full methodology is available.

The Employee Survey was conducted online within the United States between Jan. 20, 2016, and Feb. 3, 2016, among 5,000 adults ages 18 and older who are employed full or part time at a company with three or more employees and not retired. Results were weighted to match U.S. demographics. No theoretical sampling error can be calculated; a full methodology is available.

The 2016 Aflac WorkForces Report survey was conducted by Lightspeed/GMI on behalf of Aflac.

Resources

- ¹ This question was asked in 2014, 2015 and 2016.
- ² Among employers with fewer than 50 employees.
- ³ Among employers with 50 or more employees.
- ⁴ Of employers who know how their workers' compensation claims have changed.
- ⁵ Because of the nature of the legislation, this question was only asked of employers with 50 or more employees.
- ⁶ This question was asked of employers that said they are either somewhat or very concerned about the Cadillac tax.
- ⁷ Among employers who noticed a decline in their workers' compensation claims since offering voluntary accident insurance.

This article is for informational purposes only and is not intended to be a solicitation.

Content within is for informational purposes only. This material is intended to provide general information about an evolving topic and does not constitute legal, tax or accounting advice regarding any specific situation. Aflac cannot anticipate all the facts that a particular employer or individual will have to consider in their benefits decision-making process. We strongly encourage readers to discuss their HCR situations with their advisors to determine the actions they need to take or to visit healthcare.gov (which may also be contacted at 1-800-318-2596) for additional information.

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