

HUB



Employee Benefits Barometer: SMB Perspectives and Priorities in an Era of Disruption

A HUB International study

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HUB International undertook a study of over 400 senior level Human Resource and Finance executives at companies with 50 to 1,000 employees across the U.S. to understand their concerns about employee benefits. The study reveals the mindset of small to mid-sized companies on issues such as benefits cost management, employee wellness, and ACA compliance.

Executive Summary

HR leaders are operating in an era of unprecedented disruption brought on by ACA, rising health care costs and the increasing demands of a multi-generational workforce. A research study by HUB International, *Employee Benefits Barometer: SMB Perspectives and Priorities in an Era of Disruption*, captures decision-maker opinions, concerns and self-assessments on how well their employee benefit strategies are performing.

Among the key findings:

- 👤 Employee wellness and productivity is a top priority and two thirds of respondents are seeing a return on investment in their programs, specifically in improved employee productivity and morale.
- 👤 Respondents are reaping the benefits of their cost-cutting initiatives, but there appears to be many missed opportunities to deploy proven cost management strategies.
- 👤 Employers perceive themselves to be on top of ACA reporting issues but nearly two-thirds say that their business will struggle to stay afloat despite efforts to optimize plan designs and operations, an indication that employers are exhausted by ACA compliance.
- 👤 Despite a solid working relationship and common ground on major benefits issues, there are some troubling disconnects between HR and Finance leaders that could hinder their ability to achieve organizational goals.

HR's Top Benefits Priorities

Employee wellness & productivity, managing benefit costs and ACA compliance are dominant priorities for companies with 50-1000 employees.

When asked to identify their top benefits priorities, HR respondents ranked improving employee wellness and productivity (83 percent), and managing benefit costs (76 percent) as top priorities. The more immediate issue of Affordable Care Act reporting, audits and general compliance was of lesser concern – only 58 percent ranked it a top priority. **(See Figure 1)**

It's the smaller organizations in the study, however, that appear to be feeling more pressure around these issues. Among those employing between 50-99 employees, 82 percent ranked managing employee benefits costs as a top priority, while only 66 percent of respondents from organizations with 500-1,000 employees consider it the top priority.

Similarly, ACA compliance seems to be more worrisome to HR leaders in smaller organizations. It was ranked as a top concern by 69 percent of employers with 50-99 employees versus only 51 percent of those with 500-1000 employees.

While the issues of cost management and ACA compliance varied based on organizational size, all three groups were united in their view of the importance of employee wellness and productivity: It was a top concern of 90 percent of the largest organizations with 500-1,000 employees; 81 percent of those with 100-499 employees, and ranked by 78 percent of the smallest organizations with 50-99 employees as the top priority.

Figure 1. Top Employee Benefit Priorities

Which of the following are top employee benefits priorities for your company in 2016?



Managing Costs: Missed Opportunities

While the majority of employers believe they are doing everything they can to manage costs, in reality, they could be more proactive in leveraging proven solutions.

HR leaders are increasingly under pressure to achieve the seemingly impossible task of reining in rising health care costs while minimizing disruption to employees.

Employers are shifting from a reactionary, tactical approach, to implementing longer-term strategic solutions. Plan changes and other cost-cutting tactics are being evaluated in the context of a multi-year planning process, which a resounding majority – 86 percent – have put in place.

Are their efforts paying off? Sixty-five percent agree that they are doing all they can to contain rising benefits costs; 70 percent note that their strategies are successfully reining in costs. **(See Figure 2)**

In fact, a significant percentage of the HR respondents indicated they have revamped their plan designs to reduce costs. Leading that change, 51 percent have implemented voluntary benefits for the first time as part of their cost savings strategy. However, adoption of other proven approaches to manage benefit costs is lagging in both small to mid-sized companies. **(See Figure 3)**

Figure 2. Adequacy of Benefit Strategies and Programs

How much do you agree or disagree with each of the following statements?

(5=Agree strongly, 4= Agree, 3=Neither, 2= Disagree, 1=Strongly Disagree)

	AGREE	AVERAGE RESPONSE
OUR HR TECHNOLOGY PLATFORM IS WELL-INTEGRATED ACROSS BENEFITS ADMINISTRATION AND PAYROLL	80%	4
WE ARE PURSUING A DEFINED MEDICAL CONTRIBUTION STRATEGY TO CONTAIN BENEFITS COSTS	79%	4
OUR HR TECHNOLOGY PLATFORM (OR SOFTWARE) MEETS OUR CURRENT NEEDS	73%	3.9
OUR PLAN DESIGN COST MANAGEMENT STRATEGIES ARE REINING IN BENEFIT COSTS	70%	3.9
OUR WELLNESS/HEALTH MANAGEMENT STRATEGIES ARE DELIVERING AN ROI	66%	3.8
WE HAVE DONE ALL THAT WE CAN REASONABLY DO TO CONTROL RISING MEDICAL COSTS	65%	3.8

Where else can savings be found?

Trailing at the bottom of adoption are other cost management strategies such as reference-based pricing, self-funding, telehealth, and narrow networks that are being implemented by less than 25 percent of respondents but could deliver significant annual savings. **(See Figure 3)**

65% of survey respondents believe they are doing all they can to contain costs. How do your cost management strategies measure up?

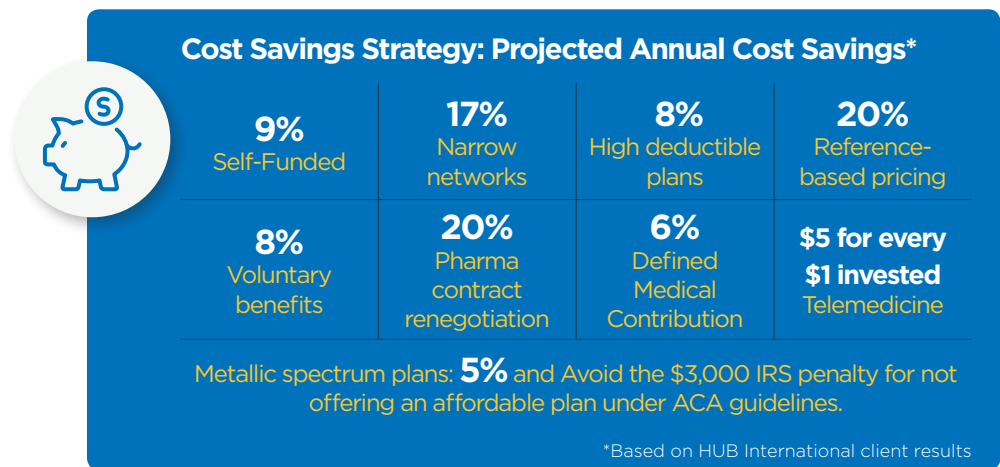
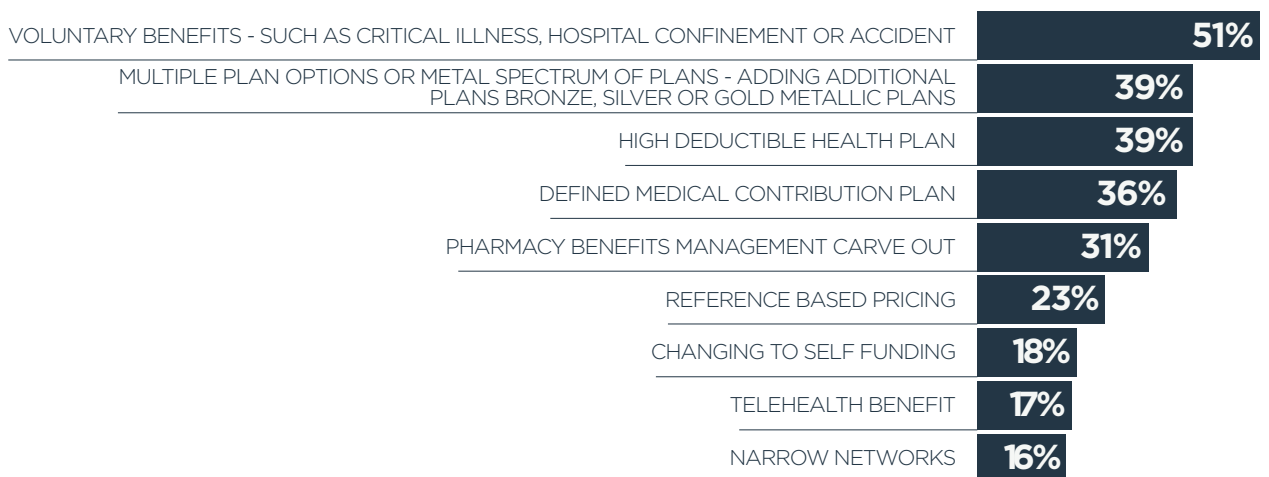


Figure 3. New Cost Strategies Implementing for the First Time

Which cost management strategies are you implementing for the first time in the next 12-18 months?

(5=Agree strongly, 4= Agree, 3=Neither, 2= Disagree, 1=Strongly Disagree)



Focusing on Healthier Employees for a Healthier Business

Employers who implement wellness programs are reporting improvements in employee productivity and morale.

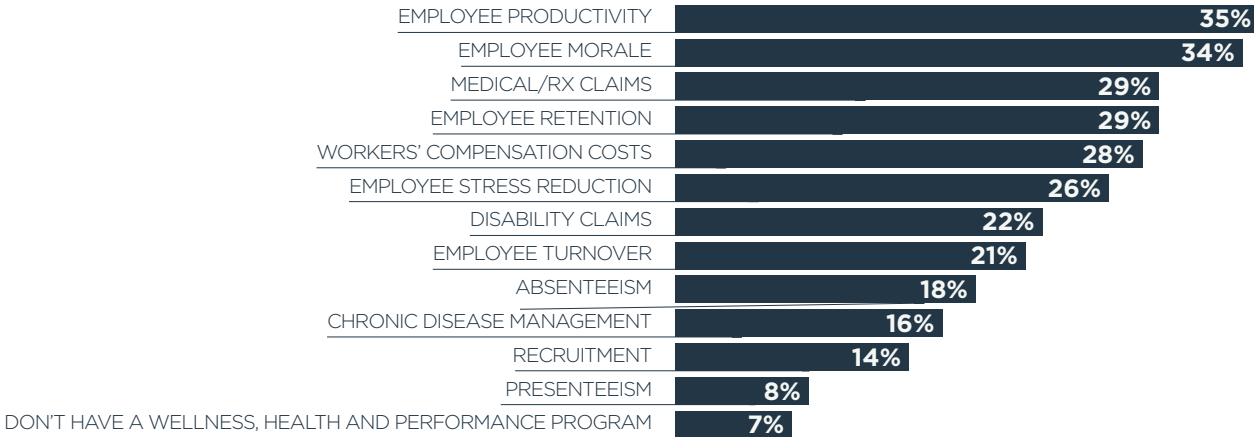
Middle market employers are starting to put more effort in longer term benefits initiatives that support the connection between healthy employees and business performance. These programs are the cornerstone of a long-term benefit strategy that supports a healthier and more engaged workforce.

There's a reason health and performance initiatives have gained traction among middle market benefits decision-makers. These strategies are delivering a return on investment, according to 66 percent of respondents. How has it been evidenced? More than a third of respondents cite improved employee productivity (35 percent) and morale (34 percent). This is especially true among the larger firms, at 40 percent and 38 percent respectively. **(See Figure 4)**

65% of respondents are getting a return on investment in their health & performance programs. Is your program delivering for you?

Figure 4. Most Improved Metrics After Wellness Program Implementation

Areas of improvement after implementing a wellness or health and performance program for your employees.



Confidence in ACA Reporting Could be Misplaced

Employers did not rate ACA reporting as their top concern, but since the survey took place prior to completing year-one reporting deadlines, it may be an indication that employers don't know where they are most vulnerable.

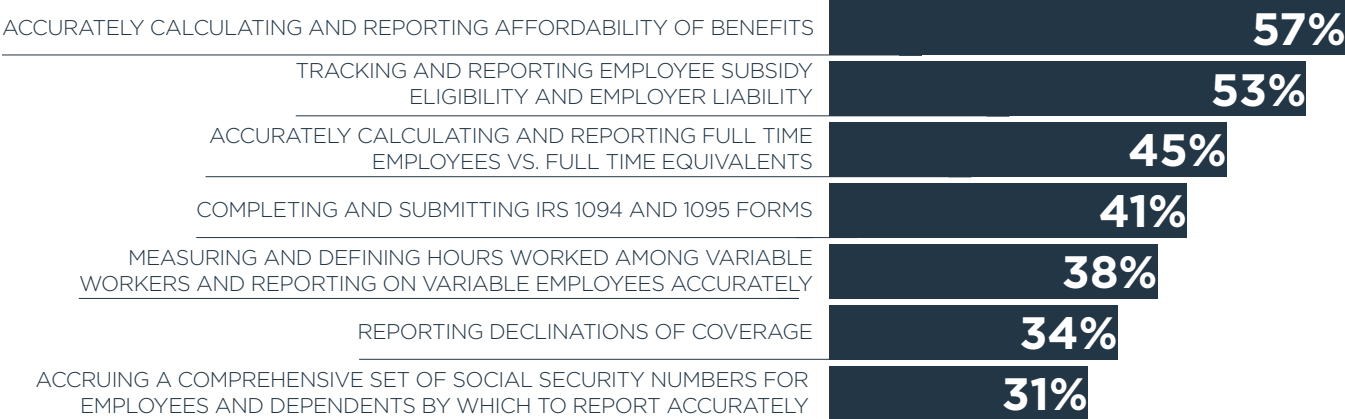
Most respondents ranked cost management and health and performance issues as bigger priorities over ACA reporting. This may be an indication that employers have under-estimated the complexity of ACA reporting.

Just over half of the HR leaders (57 percent) cited accuracy in calculating and reporting the affordability of benefits as their top concern for ACA compliance. While 55 percent of mid-sized and 56 percent of the largest middle market companies ranked this as their top concern, it was especially an issue among the smallest players (66 percent). Close behind, at 53 percent, were concerns over how employee subsidy eligibility and employer liability are tracked and reported. **(See Figure 5)**

Only **two out of five** respondents expressed concern about accurately calculating and reporting full-time versus full-time-equivalent employees (45 percent). How well do you know how to classify employees?

Figure 5. Top Concerns Regarding ACA Reporting Requirements 2016

The following are areas of concern regarding the Affordable Care Act (ACA) reporting requirements in 2016.



The lowest ranking concerns – at about a third of respondents – centered on reporting declinations of coverage (34 percent) and accruing a comprehensive set of Social Security numbers for employees and dependents by which to report accurately (31 percent). Waivers are a critical proof point of an employer’s good faith efforts to comply with ACA. It’s a commonly neglected best practice. Employers can protect themselves by inserting a waiver notification of an employee’s inaction as a declination of coverage in open enrollment materials.

Not surprisingly, given their apparent readiness for the ACA test, HR leaders are poised to respond as necessary for whatever the outcomes of the audits. A majority (69 percent) said they are ready to change their benefit plan structures and/or operations as a means of avoiding fines, and 61 percent expect any potential IRS fines to be negligible. Still, a significant proportion, or 64 percent, said they will struggle to stay in business as a result of ACA compliance. **(See Figure 6)**

Due to the potential audit implications of ACA reporting, organizations need to be able to defend and manage the decisions they made and reported on. Unfortunately, there may be confusion on who is responsible if the IRS chooses to audit an organization’s ACA reporting. Sixty percent of respondents said it is primarily an HR issue and 54 percent said it is primarily a finance issue. HR and Finance need to share the responsibility for ACA reporting and audit response, along with other key stakeholders.



Despite having optimized design and operation strategies to eliminate ACA fines and penalties, **64 percent** of respondents said they will struggle to stay in business.

Figure 6. Employer Expectations Regarding ACA

How much do you agree or disagree with each of the following statements?

(5=Agree strongly, 4= Agree, 3=Neither, 2= Disagree, 1=Strongly Disagree)

	AGREE	AVERAGE RESPONSE
WE WILL CHANGE OUR BENEFIT PLAN STRUCTURE AND/OR OPERATIONS TO AVOID ACA REPORTING FINES AND PENALTIES	69%	3.8
WE EXPECT THE IRS FINES FOR AFFORDABLE CARE ACT (ACA) REPORTING TO BE NEGLIGIBLE TO OUR BOTTOM LINE IN 2016	61%	3.7
AFFORDABLE CARE ACT (ACA) REPORTING IS AN HR ISSUE PRIMARILY	60%	3.7
WE HAVE OPTIMIZED DESIGN AND OPERATIONS STRATEGIES TO ELIMINATE THE FINES/PENALTIES BUT WILL STRUGGLE TO STAY IN BUSINESS	64%	3.6
AFFORDABLE CARE ACT (ACA) REPORTING IS A FINANCE ISSUE PRIMARILY	54%	3.6

What Finance Thinks of HR

Despite a solid working relationship and common ground on major issues, there are some disconnects between HR and Finance that could hinder the organization.

Because benefit decisions are a shared responsibility, we explored the perspectives of decision makers from the Finance department. The survey also captured the perceptions of middle market finance executives on HR and employee benefits issues, which provided additional insights as to their mindsets and concerns going forward.

When asked about their financial priorities, Finance ranked more precise cash forecasting (29 percent) and avoiding a cyber breach (22 percent) over reducing the cost of employee benefits (19 percent). Considering that benefits are a top five business expense in most organizations, these findings suggest that decision makers need to rethink employee benefits as a strategic imperative.

The majority of Finance executives polled (78 percent) said they consider HR a strategic partner, with 83 percent noting that HR keeps them apprised of potentially budget-busting developments. **(See Figure 7)** That view might have contributed to the group’s apparent confidence in their organizations’ ACA compliance readiness: Only 56 percent ranked it as a top HR priority. In fact, only 15 percent ranked ACA compliance as the top priority compared to 18 percent of HR leaders.

Figure 7. Finance Perspectives on Human Resources

How much do you agree or disagree with the following statements?
(5=Agree strongly, 4= Agree, 3=Neither, 2= Disagree, 1=Strongly Disagree)

	AGREE	AVERAGE RESPONSE
MY HR DEPARTMENT KEEPS ME APPRISED OF EVERYTHING I NEED TO KNOW IN FINANCE THAT COULD IMPACT MY BUDGET	83%	4.1
I SUPPORT THE FUNDING OF NEW HR TECHNOLOGY/SOFTWARE TO MANAGE/REDUCE COMPLIANCE WITH ACA REPORTING	79%	4
I THINK OF OUR HR DEPARTMENT AS A STRATEGIC PARTNER	78%	4.1
I SUPPORT THE FUNDING OF NEW HR TECHNOLOGY/SOFTWARE TO ENSURE COMPLIANCE WITH ACA REPORTING	70%	3.9
I DON'T EXPECT TO PAY ANY FINES/PENALTIES TO THE IRS DUE TO ACA REPORTING NON-COMPLIANCE FOR OUR FILING THIS YEAR	70%	3.9
AS A COST CENTER MY HR DEPARTMENT HAS COME IN ON BUDGET	70%	3.8

Despite the characterizations of HR as a strategic partner, the findings suggest that faith in HR may be only skin deep. Most of the surveyed financial executives indicated some level of deeper concern over various benefits issues.

These include HR's long-term benefits cost management strategies (97 percent), ACA reporting fines (89 percent), audits for noncompliance with ACA reporting (88 percent), and other potential missteps that might result in executive liability claims (93 percent). **(See Figure 8)**

The study further revealed skepticism by a significant proportion – albeit not a majority – of finance respondents over the repercussions of ACA compliance audits. For example, 32 percent expect their HR departments to go over budget as 34 percent of them believe their HR teams are not on top of the ACA reporting challenge. And over a third (35 percent) of the finance executives are expecting IRS audits of their ACA reporting and to pay considerable penalties for non-compliance.

Figure 8. Finance Concerns About Human Resources

How much do the following concern you when thinking about your company's Human Resources department?
(5=Extremely concerned, 4= Very concerned, 3= Somewhat concerned, 2= A little concerned, 1=Not at all concerned)

	CONCERNED	AVERAGE RESPONSE
ESCALATING COSTS OF PROVIDING BENEFITS	97%	4
HR MISSTEPS THAT MAY AFFECT EXECUTIVE LIABILITY	93%	3.4
HR MISSTEPS THAT MAY AFFECT CYBER LIABILITY FOR THE COMPANY AND EMPLOYEES	91%	3.4
AFFORDABLE CARE ACT (ACA) REPORTING FINES AND PENALTIES	89%	3.3
AFFORDABLE CARE ACT (ACA) CADILLAC TAX BEING APPLIED TO PLANS FOR ALL EXECUTIVES	88%	3.3
AUDITS TO BE CONDUCTED FOR NONCOMPLIANCE WITH AFFORDABLE CARE ACT (ACA) REPORTING	88%	3.3

And beyond ACA, there appeared to be a lack of alignment on the importance of long-term benefit strategies. That disconnect might hinder the organization's ability to effectively manage the financial burdens of the changing benefits environment.

Clearly, there is a significant opportunity to grow the relationship between HR and Finance and elevate it to a true strategic partnership.



Improving benefits cost and compliance will require closer alignment and improved communication between Finance and HR.

Technology's Role in Managing Complex Benefits Needs

Technology's impact on today's HR environment has yet to be fully realized, as HR and Finance look to new funding to better manage benefits costs.

HR executives don't believe the issues they face with ACA reporting and benefits administration are necessarily compounded by a lack of technology support. A majority of respondents, or nearly three-fourths (73 percent), said their HR technology platforms meet current needs. Finance executives, however, were not so sure. Nearly half (49 percent) of finance participants say new or improved benefits administration systems are needed. Further, 79 percent would support funding new technology to reduce benefits costs and 70% would supporting technology funding for ACA reporting.

Strategic Alignment, Partnership is Key to Success

Middle market HR managers have made significant strides advancing their organizations on a more strategic benefits continuum that supports the well-being of employees as well as the business. This will go a long way toward ensuring they are well-positioned to anticipate the implications of the evolving health care environment and have the agility to respond effectively to emerging trends.

That's not to say there are no roadblocks. ACA compliance may be more worrisome than anyone wants to admit. Further, there's substantial room for improvement in adopting a wider range of cost-savings tactics, many of which can be put in place without disrupting employees.

Improving benefits cost and compliance will require closer alignment and improved communication between Finance and HR. And given the impact on organizational performance and employee satisfaction, employee benefits must be viewed as a strategic imperative with clear alignment on short and long-term priorities.



Additional Resources from HUB International

Ebook: The Employee Benefits Cost Management Challenge: Nine strategies to help you get benefits costs under control.

Ebook: From Wellness to Peak Performance: Create a culture of health to boost employee health and productivity.

Now's the Time to Act

Let's work together to create an employee benefits strategy that meets your short and long-term goals.

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