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BENEFITS INSIGHTS

Employee Benefits Danger Zone:

3 Common Decision Pitfalls, and How to Help Your Employees Avoid Them

Whether they're choosing their benefits for the first time, or making changes during annual enrollment, it's no secret that employees don't always make the best decisions.

You can't really blame them; benefits can be complex. Some employees even find them (gasp!) boring. Unless it's done right, the enrollment process may seem overwhelming.

But, as employers, you can provide better support for empowered decision-making if you understand where employees are off base and focus on addressing the underlying reasons.

Here are the top three ways employees expose themselves to risk by not maximizing their opportunity to make informed benefits choices.

- Automatically staying in the same plan year over year without reviewing other options
- Only looking at premium and deductible amounts when deciding which plan to choose
- Over-insuring or under-insuring

Let's look at each of these perilous pitfalls.

Pitfall #1: Never considering other options.

Change happens. Employees get married or divorced. They have kids. They get sick or injured. They start eating right and exercising. They get a raise or a promotion. Their spouse retires. As the employer, you may make plan design changes or update rates.

All these things can, or should, impact their benefits decisions, but employees often don’t make the connection when it comes time to enroll for the coming year.

In behavioral economics terms, this is called *decision inertia*, or *status quo bias*. Even when other options come along that offer cost savings or better service, or when their own circumstances change, people may fail to act.

Example: *Ever simply order “the usual” at your favorite restaurant each time? That’s status quo bias in action (or should we say—inaction).*

What contributes to inertia and avoidance?

During any given year, it might make perfect sense for someone to remain in the same benefits options. However, there are a few reasons employees may let years-old decisions ride instead of thinking critically about their benefits choices.

The reality is: Employees don't like to shop for benefits.

They find the information provided to them confusing or overwhelming.

31% of employees are outright confused by their benefits. Businessolver.

51% don't understand some aspect of their health insurance. Aflac.

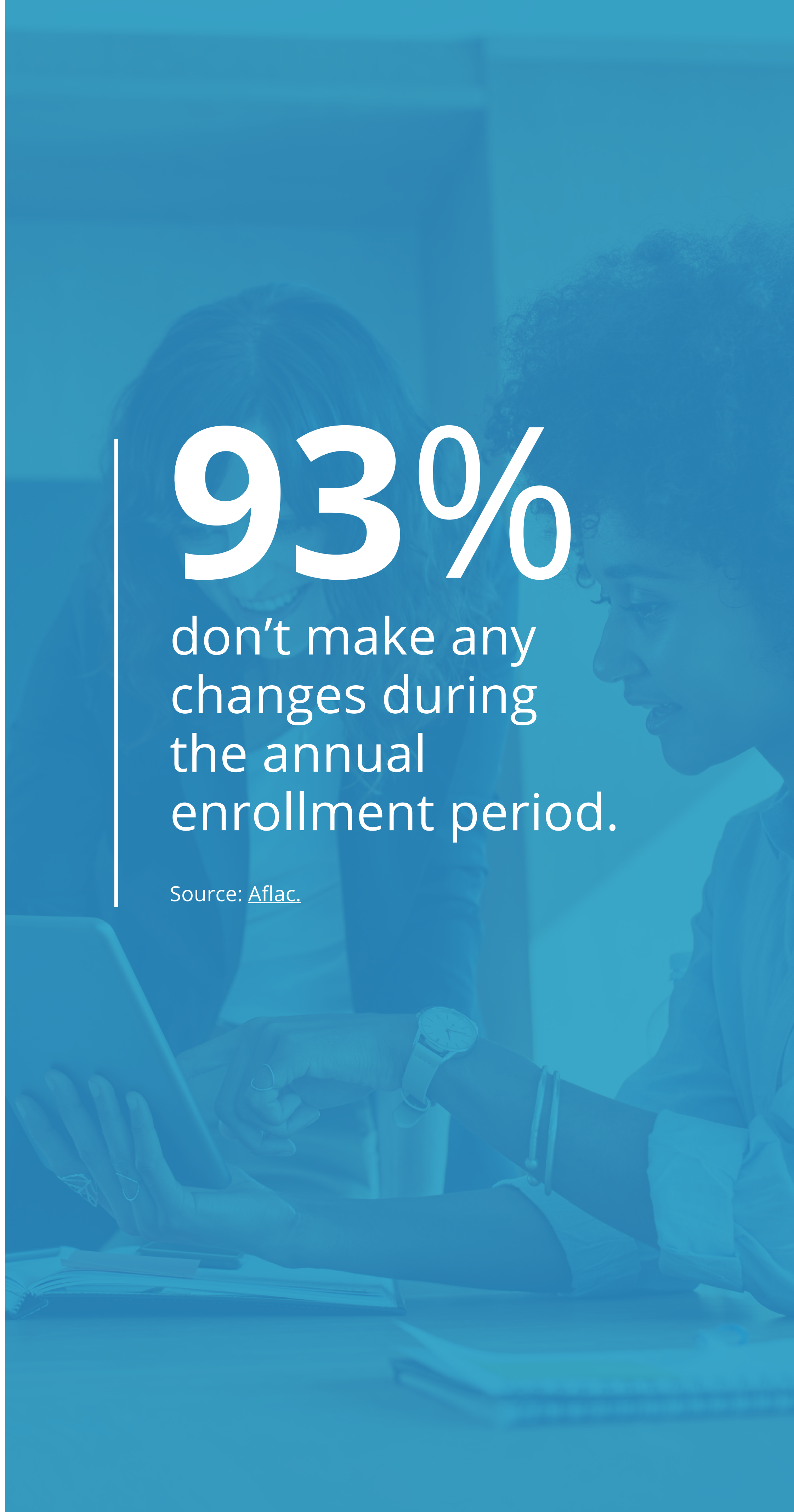
22% didn't feel confident that they understood everything they signed up for during their last enrollment. Aflac.

The enrollment experience isn't positive.

More than **50%** would rather do something unpleasant (like cleaning up after their dog) than enroll in benefits. Aflac.

14% don't do any research on their benefits during Annual Enrollment. Aflac.

Employees spend an average of just **17 minutes** enrolling in benefits. Businessolver.



93%

don't make any changes during the annual enrollment period.

Source: Aflac.

The process may be reinforcing this behavior.

When it comes to benefits enrollment, employers own both the process and the quality of the experience for employees.

Employers: These are the experience aspects that are in your hands.

- How, when and how often benefits information is communicated.
- Whether employees have access to live experts in a service center.
- If after-hours digital assistance is available.
- Whether mobile access is available.
- If intuitive, personalized decision guidance is offered.
- What platform is used, and whether it’s web-based.
- How long the enrollment period is.
- Whether enrollment is active or passive.

What employers can do: Improve the employee enrollment experience.

Making the enrollment experience easy and the process of running through an annual benefits review painless can go a long way toward overcoming employees' inertia.

An intuitive platform, mobile access and robust decision guidance can help employees use their 17 decision-making minutes productively.

Expert assistance through a service center along with after-hours support with an online digital benefits assistant provides additional help for employees who need it.

Bonus tip: If you do passive enrollment, be aware of how you communicate it. Don't lead with or glorify inaction. Instead, position enrollment as the time of year to review and make changes with the supporting message that current benefits will continue if the employee doesn't make changes.

Pitfall #2: Only considering premium and deductible when choosing a medical plan.

Most employees are confused by benefits, and that includes not really knowing how to effectively compare plans.

Without foundational knowledge, it's not possible to understand the true cost of different options. Less than half of employees say they understand their total annual healthcare costs.

The default position is to look just at the up-front costs. This leaves employees exposed to a potential higher overall financial risk, which is a concept they don't have great understanding around.

Risk and insurance are the financial concepts employees understand least, which can impact their benefits decision-making.

Only 9% of employees can correctly identify the core concepts of premium, deductible, coinsurance and out-of-pocket maximum.

Employee comprehension level:

Insuring	Risk
46%	38%

Source: TIAA

Choosing the wrong plan has real cost implications for employers and employees.

Employers allocate a significant portion of total compensation to benefits, approximately 30% for private employers and 38% for state and local government employers as of September 2020. This includes almost $7,500 for individual coverage and over $21,000 for family health insurance coverage per employee. So, for both employees and employers, there's a lot on the line.

Employees could save an estimated $373

A study by the National Bureau for Economic Research in 2015* found that in a large employer group, the average employee could have saved $373 (equal to 42% of their typical contribution at that time) by choosing an equivalent plan with a higher deductible.

That would nearly cover a $400 unexpected expense

This may seem like a modest amount, but it would just about cover that $400 unexpected expense many Americans would struggle with.

Over time, potential savings add up

From a benefits perspective, poor decision-making can be cumulative. An employee would be much better served by funneling this "found" money into an HSA or 401k.

It's effectively robbing the future to overpay in the present.

*While these numbers are several years old, they are still useful to illustrate potential savings.

Value of $373 over 10 years assuming 5% rate of return:

$5,127

Balancing risk and cost.

Coinsurance and out-of-pocket maximum are the health plan terms employees understand the least, but they represent vital parts of the cost equation. Because it's represented as an open-ended percentage, coinsurance can be off-putting to employees who prefer the perceived predictability of flat-dollar copays.

Premium and deductible are always displayed as fixed dollar amounts and are easy to compare. But as you move down the columns in plan comparison charts it's difficult to measure a plan that has coinsurance against one that has copays, even when all else is equal.

Out-of-pocket maximums can be easily compared, but without being able to understand the cost-sharing that so often needs to happen before the maximum kicks in these can seem almost meaningless. This is especially true when the numbers are so large.

However, by not considering the out-of-pocket maximum, employees risk exposing themselves to high financial costs for which they are understandably unprepared.

What employers can do: Helping employees overcome their confusion.

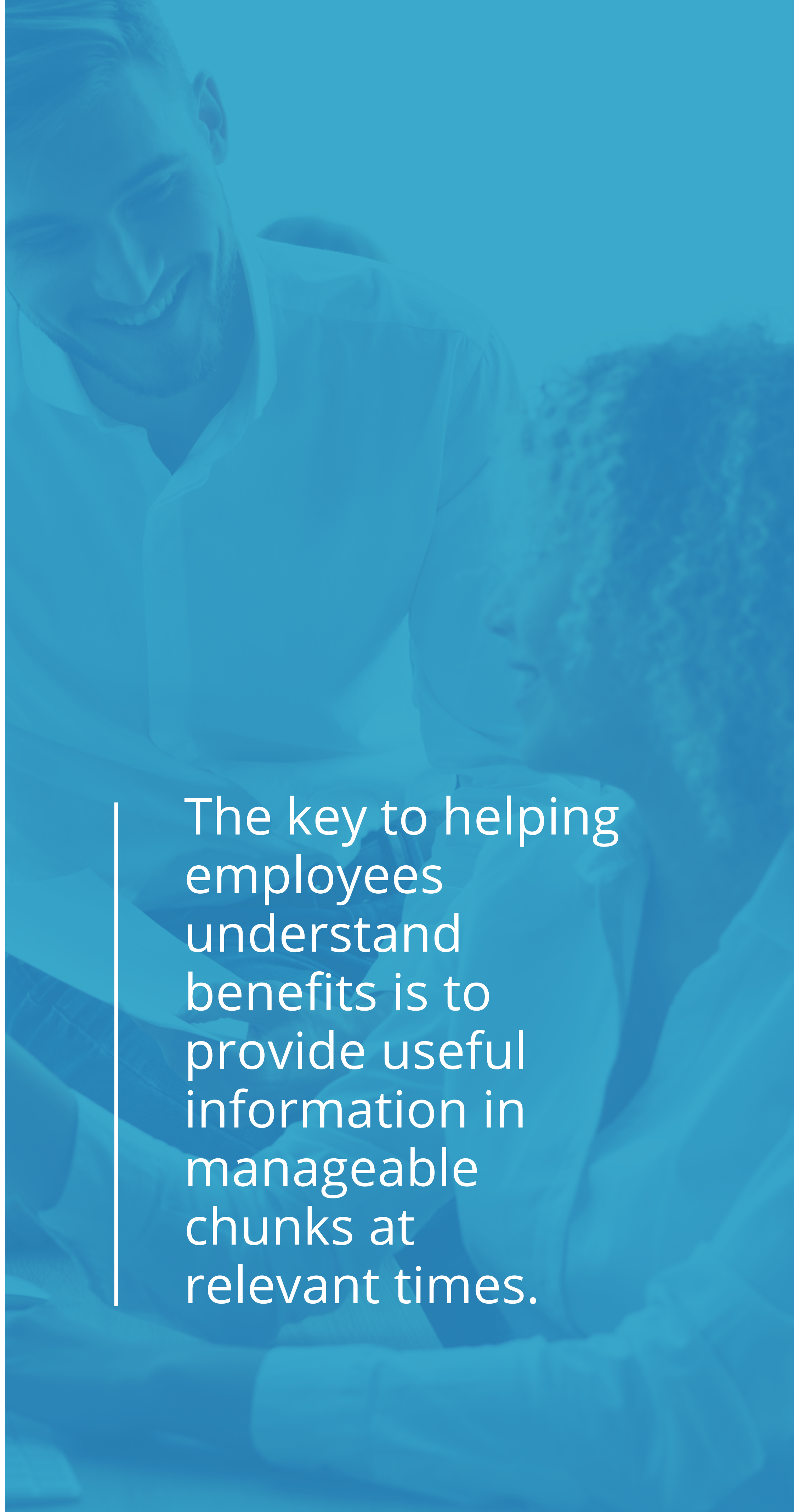
People need help understanding their benefits so they can make better decisions. Addressing the benefits literacy shortfall is important for several reasons.

First, the more employees understand their benefits, they better they can both choose and use them. Better employee choices translate into more manageable costs for employers, both from a plan enrollment perspective and when employees seek care.

Second, the more employees understand their benefits, the more they are able to appreciate them. With benefits being such a driver in both recruitment and retention, having employees truly understand the value of the benefits your organization provides is vital in a challenging labor market.

The key to helping employees understand benefits is to provide useful information in manageable chunks at relevant times. While annual enrollment is important, it's equally if not more important to support employees throughout the year with benefits information. And, what you share needs to be relevant.

For example, *if your organization hires new grads, consider providing foundational benefits literacy training as part of onboarding and throughout their first year on the job. And, what about a targeted campaign as they embark on their first-ever annual enrollment?*



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Pitfall #3: Over-insuring or under-insuring.

Cost is easy to see and understand, while risk can be an abstract concept. (In fact, risk is the financial concept people understand the least.) And, the challenge for employees is getting the right balance between the two.

Not to sound like a broken record, but with low benefits knowledge and literacy, and in the face of emotional and financial factors, it can be hard for employees to make decisions that don't lead to over- or under-insuring.

Emotions play a part.

Most employees are risk and loss averse, and the thought of a high ER bill can instill panic.

66%

Employees who identify as risk-averse

44%

Employees who would be panicked by a large ER bill.

Source: Businessolver

Human emotions impact benefits decision-making.

After all, benefits are intended as a safety net to protect employees and their families from the impacts of sickness, diseases, accidents and all manner of other bad things. Everyone wants the most protection they can afford.

But, do they need it?

In some cases, employees are so risk averse they may buy into plans with a level of benefits they will likely never use, or they pile on optional coverages they don't need. They are paying for this coverage with resources that could be better allocated elsewhere.

While the highest earners can likely afford the present cost of being over-insured, for most employees, it's throwing good money after bad. They'd be much better offer siphoning those extra premium dollars to a retirement account or short-term savings goal plan.

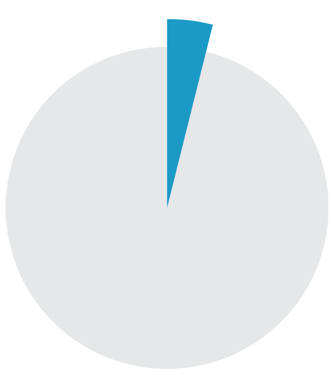
Too much risk is also bad.

At the opposite end of the spectrum are those employees who are so concerned about costs, they only look at premium and deductible (see pitfall #2) and end up with less coverage than they actually need.

People may overestimate how healthy they are, or they may not understand the out-of-pocket costs associated with one plan over another. Those with high-deductible plans may fail to allocate money to an HSA account to protect themselves against current-year costs and potentially build a safety net for expenses in coming years. They may not take advantage of supplemental coverage designed to address the cost implications of a serious illness, hospitalization or disability.

These employees are not transferring enough risk, and the effects can be financially devastating.

People's reported prescription drug use doesn't support their perception of health.



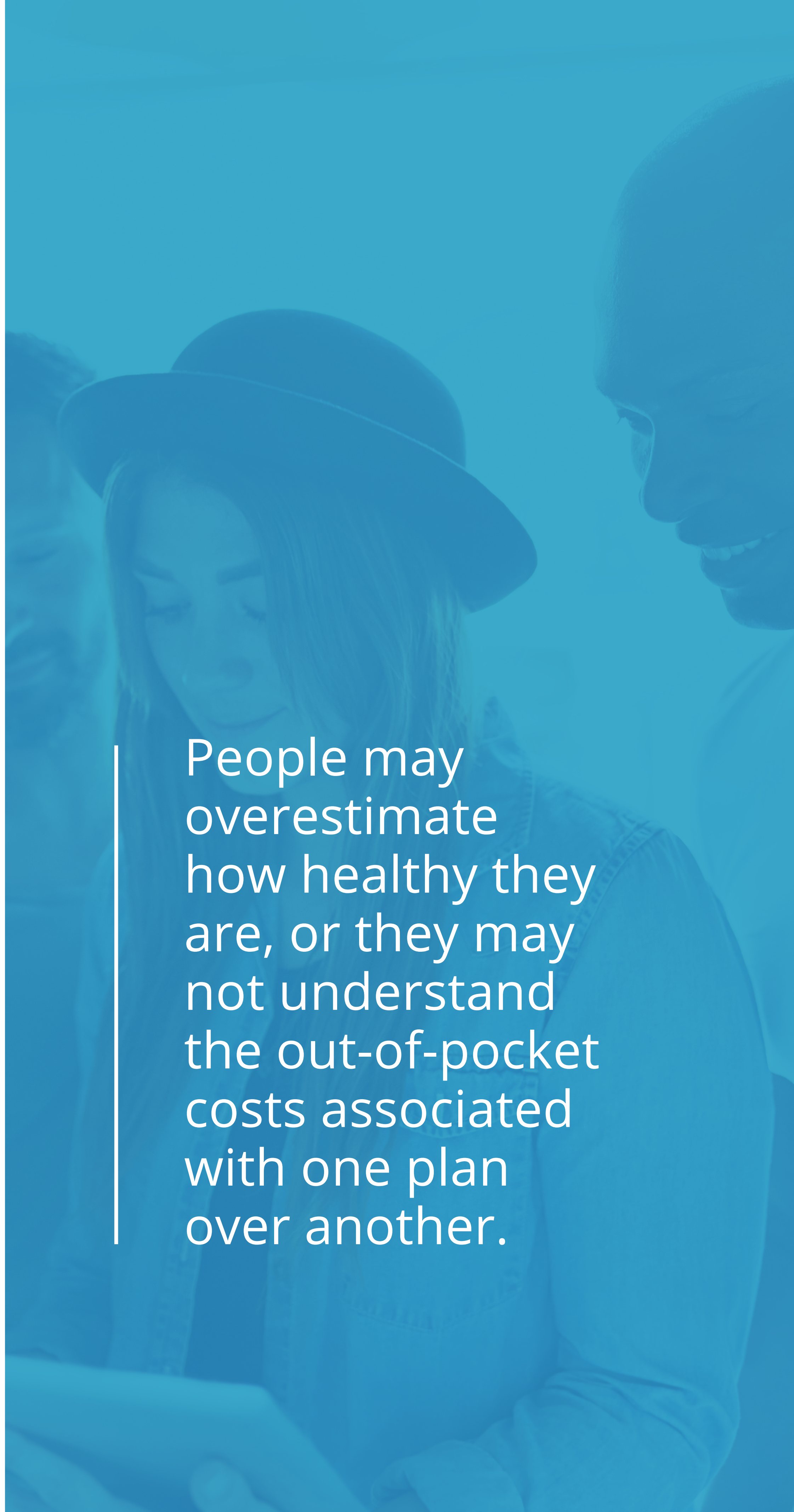
4%

of people say their health is below average.

20%

say their medicine cabinet is full or they actually need two cabinets.

Source: Businessolver



What employers can do: Help employees achieve risk/reward balance.

Whether employees are spending valuable earnings on too much coverage, or exposing themselves to risk with too little, they aren't using benefits wisely or appropriately, and that can lead to financial impacts and dissatisfaction.

At the end of the day, employees make their own benefits decisions, but this is another area where meaningful guidance can help bring elections in line with real needs, mitigating perceptions around risk and cost. When real-time decision tools were available, research shows that employees made better decisions.

Online tools that capture people's unique situation using specially designed questions—including about their health, their state of mind and their financial reality—can take that information and offer a relevant, personalized set of suggestions based on these holistic factors. This creates the best fit for the employee while taking into account the overall benefits goals of the employer.

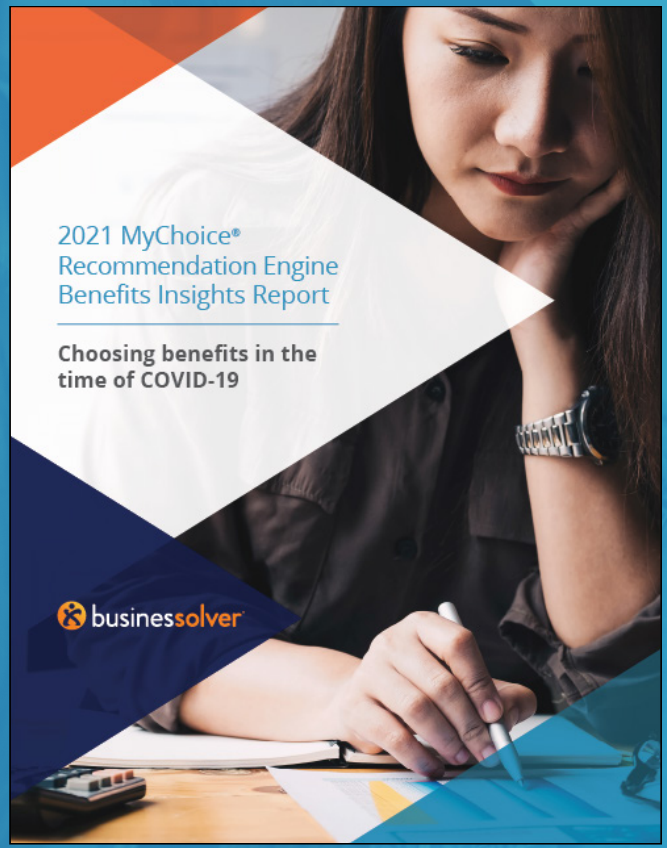
It’s in everyone’s best interests for employees to make better benefits decisions.

They may never become benefits gurus, but as HR professionals, we can help people connect the dots and be more informed and confident benefits users. To overcome the most common decision pitfalls, employees need three things:

1. **Support to improve their benefits comprehension.**
2. **An easy-to-use, intuitive choice-making benefits technology.**
3. **Meaningful, real-time decision guidance.**

Employers are in the best position to implement the solutions that will support better decision-making. These include strategic benefits communications and education, along with technology that provides employees with the tools to understand their options and make informed, personalized choices.

For more information about what drives employees as they make benefits decisions, read our white paper—The 2021 MyChoice® Recommendation Engine Benefits Insights Report.



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