2021 MyChoice® Recommendation Engine Benefits Insights Report

Choosing benefits in the time of COVID-19

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SPRING 2021

An unexpected health crisis affects employees' benefits selection less than you'd expect.

mychoice Recommendation Engine

People love choice, but they really don't like making choices. As humans, we get overwhelmed and even experience psychological stress when faced with too many decisions.

This applies to everything from routine trips to the grocery store to employee benefits elections. According to a recent study, just over a quarter of employees would rather give up their favorite food than go through benefits enrollment, and 93% simply pick the same options year after year.

This inertia and avoidance aren't because employees don't appreciate their benefits package. In fact, the opposite is true: Almost three-quarters of employees believe their benefits are extremely or very important to their financial well-being.

However, benefits decision-making can represent some pretty advanced number-crunching, which can make it challenging. With core health and welfare coverage alone, making the best decision means employees need to calculate potential total costs—including their contributions, out-of-pocket spending and maximum limits, plus any FSA, HSA or HRA dollars. This is something HR and benefits professionals likely can do in their sleep; but for many employees, the easiest choice may often be seen as the best one.

Complexity isn't the only factor. As we learned in 2020, sometimes the unexpected—in this case, a global pandemic—can create unplanned and even dire consequences. COVID-19 cut the economy off at its knees, sending millions of people into un- or under-employment and associated significant financial hardship. Feeding America projected that as many as one in six Americans would face food insecurity as a result of the health crisis, while 40% of those seeking help from a food-distribution center had never used one before. Those who weren't prepared have fared the worst.

Benefits have come into sharper view as the health, financial and emotional toll of COVID-19 are increasingly pronounced. Research by Prudential found that employees are more likely to consider benefits as part of their overall compensation—77% versus 67% in the prior year—and three-quarters characterize their benefits as more important than ever.

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In the fall of 2020, we had been living with COVID-19 and its impact for the better part of a year. From an HR and benefits perspective, many parts of the nation had returned to something at least resembling stable. Fall annual enrollments occurred prior to the nationwide infection surges that resulted from holiday gatherings and before any vaccines were approved or administered. Much of the civil unrest that occurred during the summer had slowed and unemployment had decreased to 6.7% in November from a record 14.8% in April.

It was in this context that the American workforce made its benefits decisions for 2021.

In this third year of Businessolver's annual **MyChoice® Recommendation Engine Benefits Insights Report**, we look specifically at the impact of COVID-19 on three factors influencing employee decision-making that we've been tracking since 2019:

Benefits literacy

Risk tolerance

Financial preparedness

In examining these areas, we compare employees' self-reported responses as they made benefits selections over the last three years:

- **During 2019 annual enrollment in the fall of 2018**
  This was a period of low unemployment and strong economic growth.
- **During 2020 annual enrollment in the fall of 2019**
  This was a period with historically low unemployment, strong economic growth and high consumer confidence.
- **During mid-year annual enrollment in late spring/early summer of 2020***
  This was a period of significant nationwide health and financial uncertainty due to COVID-19. Many Americans had lost their jobs and many places within the U.S. were in some form of lockdown. The economy had contracted and vaccines were still in the early stages of development.
- **During 2021 annual enrollment in the fall of 2020**
  This was before the steep increase in COVID-19 cases associated with the holidays, and at a time where people were more or less successfully dealing with the day-to-day challenges of a pandemic.

*While most employers hold annual benefits enrollment in the fall for benefits effective on Jan. 1 of the next year, some organizations do their enrollments in late spring/early summer for a July 1 effective date. These are referred to as mid-year or off-cycle annual enrollments.

Based on employees' MyChoice responses as they reviewed their options and made their benefits choices, three primary findings around 2021 annual enrollment emerged:

Benefits literacy plummeted, but then recovered to its normal low level. Over the past three years, employees have indicated that they don't have a strong understanding of their choices. In 2020, employees who chose benefits during a mid-year annual enrollment reported more confusion than employees who enrolled in the fall.

COVID-19 has affected employees' risk tolerance. In general, employees don't like risk, which informs how they think about benefits. However, the pandemic appears to have made employees more loss averse than in prior years.

Despite financial strains from COVID-19, employees were able to save during 2020. However, some still were unable to save, and those employees are now in a worse financial position.

It may seem reasonable to assume that employees' benefits understanding, risk tolerance or financial preparedness would be more negatively affected by a global pandemic. However, for most employees, the shift has been minimal. In fact, looking at the entire workforce, more people are saving and prepared for the impact of out-of-pocket health care costs. But beneath the surface, some groups of employees entered 2021 far worse off financially than in years past.

As issues related to social justice and racial equity continue to rise to the top of our individual and collective consciousness, the disparity between employee experiences at different earning levels is something employers need to understand. Benefits can help with financial well-being, but not if employees don't understand how to select their benefits and ultimately act on them.

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The MyChoice Recommendation Engine:
A Resource to Help Individual Employees, A Tool to Uncover Trends

The MyChoice Recommendation Engine is an optional online resource that organizations can leverage to support employees as they make benefits elections in the Benefitsolver® platform.

The MyChoice Recommendation Engine connects employees to better benefits decisions by taking into account the whole person—their health, their finances and their emotional state.

When they use the Recommendation Engine, employees answer a special set of questions that reflect their employer's programs and offerings and help uncover their state of mind prior to the benefits selection process. Their responses drive a personalized set of recommendations appropriate for that employee's situation by taking into consideration their emotional, physical and financial well-being. In this way, MyChoice supports individual employees with their benefits decision-making.

However, when we aggregate the responses and demographic data from all users, we gain a unique snapshot into what's driving employees' benefits decisions including benefits knowledge, emotional state and financial well-being at the workforce level. In this version of the report, we highlight differences between employees' state of mind at the end of 2019 and how they were feeling when they enrolled for their next year's benefits at the end of 2020, while the nation continued to feel the impact of COVID-19. Since the MyChoice Recommendation Engine is a tool for employees, it doesn't capture of the state of mind of those who lost a job or whose benefits eligibility ended.

In this version of the report, we highlight differences between employees' state of mind at the end of 2019 and how they were feeling at the end of 2020, as they selected their benefits for the following year.

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A Cross-Section of the American Workforce:
Who Used the MyChoice Recommendation Engine?

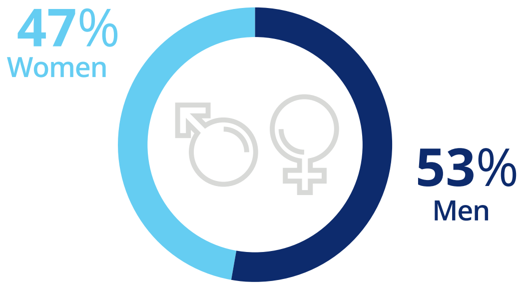
The data in this report represents employees who accessed the MyChoice Recommendation Engine during the 2021 annual enrollment period in the fall of 2020.

Here are some key demographics for the population.

Millennials were the largest group of users, followed by Gen Xers. Gen Z is also gaining in terms of being represented for the first time, but they were the smallest user group. Many may still be under a parent's health care coverage and they might not yet be enrolling in their own benefits.

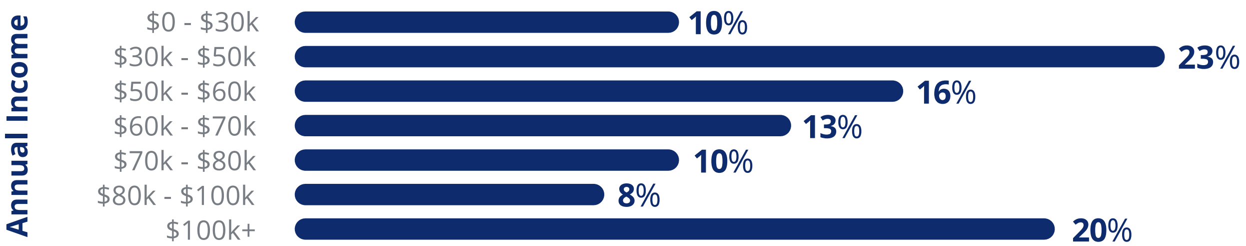
Users by Generation

Users by Gender



Employees who earned the least and those who earned the most were more likely to leverage the MyChoice Recommendation Engine.

Users by Income Level



Employees' State of Mind:
What the MyChoice Recommendation Engine Revealed

Going into 2021 annual enrollment in the fall, the country was in the midst of a global pandemic, but the most significant spread and morbidity was still to come.

There was no real change from prior years in terms of employees' benefits literacy, and risk aversion ticked upward as it pertains to health care spending. In terms for overall saving and financial preparedness, the workforce was at the highest level of a three-year upward trend.

Annual enrollment decoder

In this report, we refer to various annual enrollment periods.

Annual enrollment 2019: Employees choosing their 2019 benefits in the fall of 2018

Annual enrollment 2020: Employees choosing their 2020 benefits in the fall of 2019

Annual enrollment mid-2020: Not all employers do enrollment in the fall. Some hold their annual enrollments in the late spring for benefits generally effective July 1. This represents employees making annual elections that are effective from mid-2020 to mid-2021.

Annual enrollment 2021: Employees choosing their 2021 benefits in the fall of 2020

A Continuing Challenge Around Benefits Literacy: Employees Still Don't Really Understand Benefits

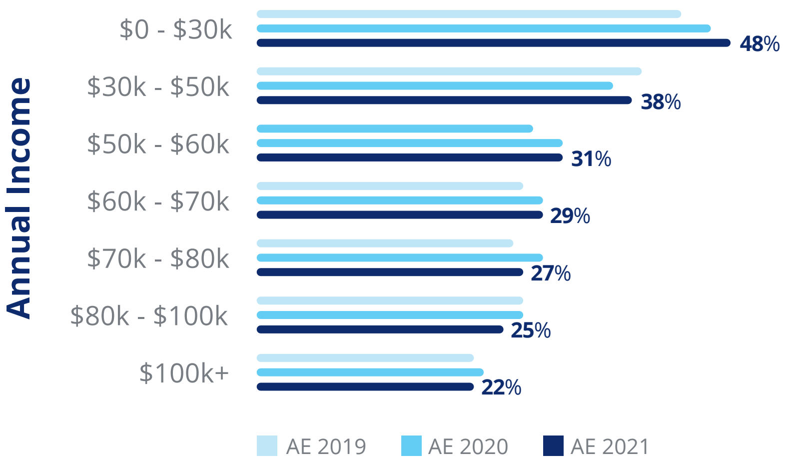
Lack of benefits knowledge isn't a new challenge for employers to combat. Benefits are complex, and many employees report being just plain confused. Since 2019, just under a third of employees say they don't understand their benefits. However, employees enrolling in the middle of 2020 reported more confusion, at just under 40%.

By the fall, the workforce displayed higher levels of confidence about their benefits comprehension, and the level of confusion had returned to pre-pandemic levels. However, less than one in five employees feel truly confident about their benefits knowledge, leaving the other 83% with either foundational understanding or downright confusion. These numbers have held steady for the past three years, suggesting benefits literacy and comprehension remains an issue that employees continue to struggle with.

Since 2019, both Millennial and Gen X employees have become less confused about their benefits, with Gen X gaining the most ground. Over half of Gen Z employees are confused, but this is the group with the least tenure in the workforce and the least experience with benefits. Presumably, over time these employees will become more familiar with their benefits and more confident in their knowledge.

When the workforce is broken down by earnings bands, with the exception of those earning the most, almost all employees report the same or more confusion about their benefits over time. Those earning the least is the only group that has trended up consistently for the past three years.

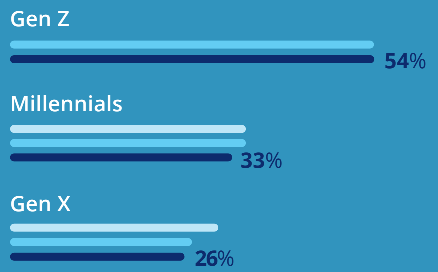
I'm confused about my benefits



On average, 86% of employees are confused about benefits, does this describe you?

AE 2019	AE 2020	AE mid-2020	AE 2021	
30%	31%	39%	**31%**	Yep! That's me
19%	17%	15%	**17%**	I'm a pro
51%	51%	46%	**52%**	I know where my ID card is

Who's confused about their benefits?



Employees in some industries are also more confused. For this report, we looked at how employees in several different lines of work view their benefits and one industry stood out—accommodation and food service. Considering the impact of the pandemic on this industry during 2020, it's perhaps no surprise that these employees may have focused more on their benefits during annual enrollment and realized they don't understand them.

Who's confused about their benefits?

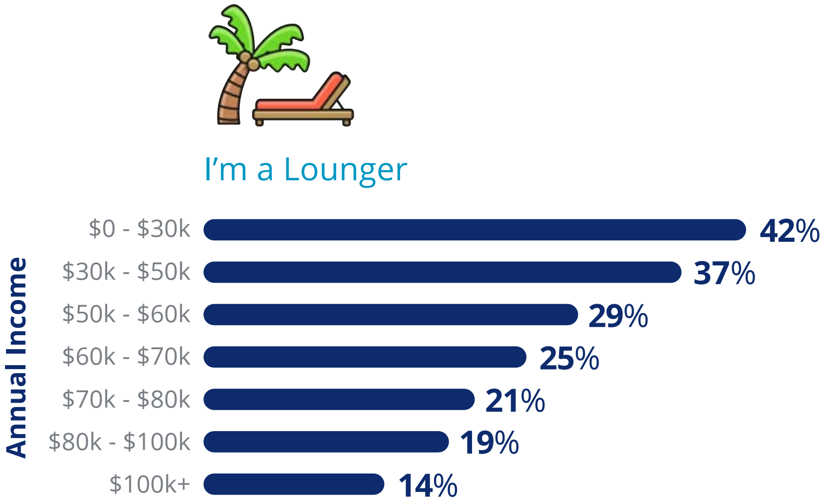
Even amid a pandemic where health coverage and benefits took on new importance, neither employees nor employers were able to move the benefits literacy needle.

Employees Don’t Like to Take Chances or Spend What They’ve Saved: Risk and Loss Aversion

In general, humans don’t like risk, and this is borne out when it comes to benefits.

When asked to rate their risk tendencies, employees overwhelmingly identify with activities that are low risk, including lounging and golfing (66%). About a third characterize themselves as bikers with just a small percentage considering themselves as high-risk-taking rock climbers.

There are differences in how employees identify their risk tolerance based on earnings. The more someone earns, the less likely they are to characterize themselves as the least risk-taking.



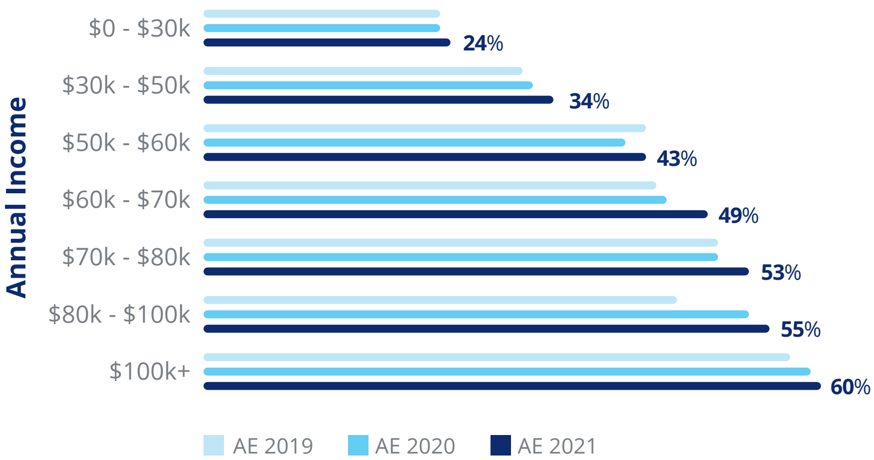
Describe your risk tendencies.

AE 2019	AE 2020	AE 2021	
28%	27%	27%	Lounger
37%	38%	39%	Golfer
32%	32%	32%	Biker
3%	2%	2%	Rock Climber

This aligns with a basic concept of behavioral economics—loss aversion. People don’t like to give up what they have. So, even though saving may feel good, spending what you saved can be uncomfortable. From a benefits perspective, this applies to employees who have money earmarked for health care costs but are uncomfortable with the prospect of using it for an out-of-pocket cost.

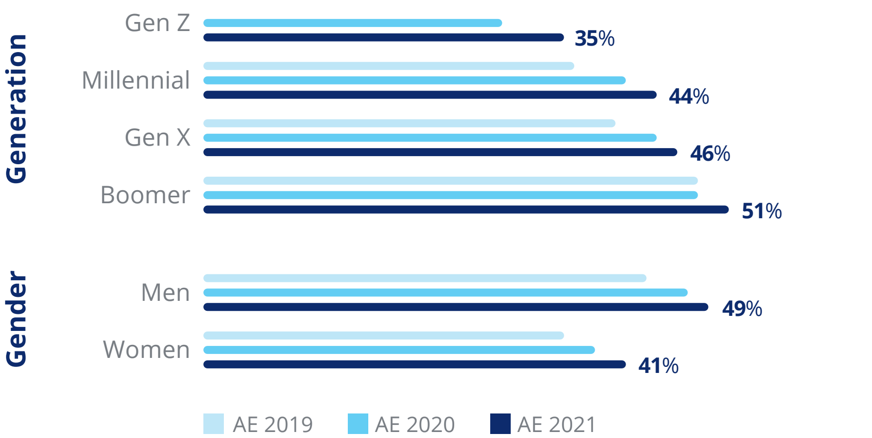
Generally, the more an employee earns the more likely they are able to bear the cost of a large bill (and this is affirmed by our findings in the next section.) However, the ability to pay for a bill doesn't correlate with someone feeling good about doing so. In fact, the more employees make, the more averse they are to spending their health care nest egg.

I could do it, but prefer not to



When looking at generation and gender, the three-year increase in loss aversion remains.

I could do it, but prefer not to



Interestingly, during the same three-year period, the percentage of employees who had "no worries" about facing a large ER bill increased only slightly, which seems to demonstrate that how employees feel about out-of-pocket costs is more related to avoiding a loss than to how much they have actually saved.

How do you feel about facing a large ER Bill?

AE 2019	AE 2020	**AE 2021**	
9%	10%	**11%**	No worries, I'm fully prepared
50%	47%	**44%**	I'd feel panicked
41%	43%	**45%**	I could do it, but I prefer not to

A Growing Gap in Financial Well-Being and Preparedness

In the past few years, employees seem to have doubled down on saving and, overall, the workforce is saving more consistently. The number of employees indicating they are always able to save has increased, while those reporting they are never able to save has decreased.

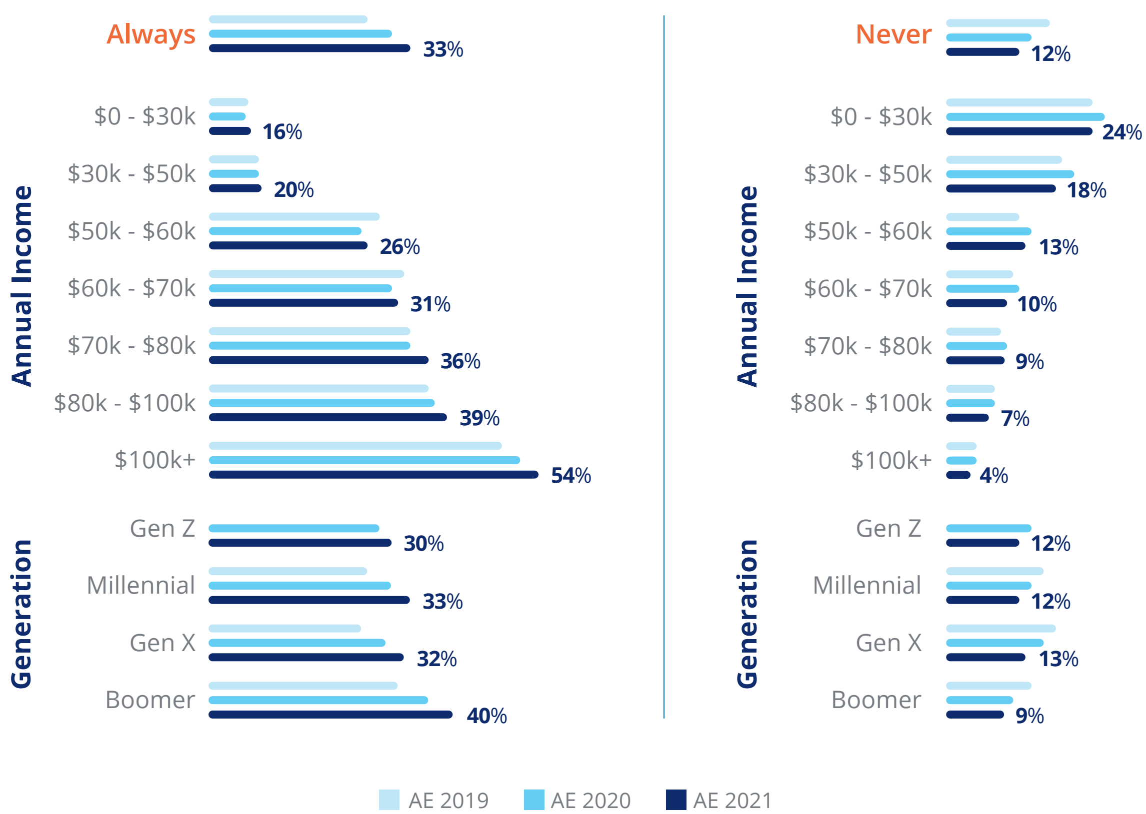
Each generation has made strides, with Boomers seeing the most improvement in their ability to save consistently.

However, saving seems to be more a function of income than generation.

Those earning the least showed the smallest improvement in a consistent ability to save, while some employees in the middle range actually lost ground during the past three years. Employees earning over $100,000 showed the most gain in their saving habits, with 54% indicating they always save.

There is still part of the workforce that never saves, and this is true regardless of how much employees earn. However, the less people earn, the less likely they are ever able to save. Just under a quarter of those earning less than $30,000 never save while for those earning over $100,00 it's fewer than 5%.

I spend less than I earn and regularly make deposits into savings accounts for emergencies.



The ability to save is related to income, but people have different spending habits. Even when someone makes over $100,000 it's certainly possible to overspend and be in debt. However, there is a persistent portion of the workforce that is never able to save, and it tends to be those workers earning the least.

Employees in certain industries have less ability to save, which is likely associated with earning. Those working in accommodation and food service, health care and retail were more likely than others in the workforce to report never saving.

I never spend less than I earn and regularly make deposits into savings accounts for emergencies.

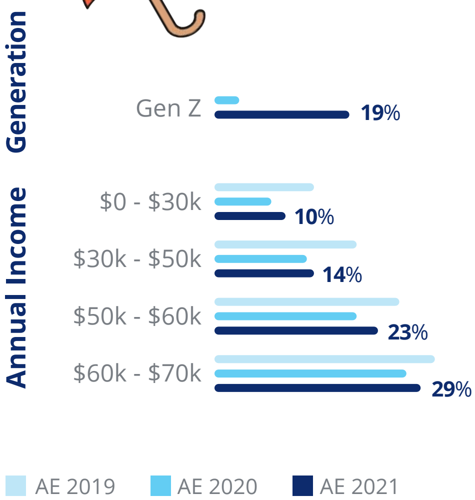
In terms of saving for health care costs, more employees have the protection of an emergency fund than in previous years. Those who indicate they would "get soaked" by a large bill has decreased, while more have an "umbrella" to protect them.

Employees enrolling mid-year indicated they were much less prepared than those enrolling in the fall.

Gen Z employees have almost quadrupled their preparedness for health care costs in the past year.

However, not everyone has been able to build their rainy-day fund. Once again, income matters—for employees earning less than $70,000, fewer are covered for a large bill going into 2021 than they were on the cusp of 2019.

I've got an umbrella.



Would your rainy-day fund cover a large Emergency Room bill?

AE 2019	AE 2020	AE mid-2020	AE 2021	
24%	27%	27%	31%	I've got an umbrella
32%	32%	33%	33%	A light sprinkle
44%	40%	43%	36%	I'd get soaked

A Data-Based Approach to Moving Forward

These insights represent the state of mind of American employees during a pandemic that has significantly changed the landscape of our national life. Understanding employees' state of mind during these unprecedented times can help HR and benefits professionals with strategic planning and execution as they begin to shift their focus toward economic recovery and renewal.

As HR and benefits pros work toward creating a benefits approach that addresses the emerging needs of the new workforce, here are three suggestions for where to concentrate:

1 Benefits literacy and decision-making need continued emphasis.

Benefits are an important part of compensation and offer a valuable financial and emotional safety net for employees, a reality people increasingly appreciate. But selecting and activating benefits appropriately is still an area where employees need significant support since they lack a high level of benefits knowledge. In addition, risk or loss aversion can contribute to poor decision-making.

Employees require support during the entire benefits lifecycle—starting with enrollment and continuing as they use their coverage or hit employment or life milestones. While traditional annual enrollment communications continue to have a role, they increasingly represent the bare minimum. Employers who rely solely on once-a-year enrollment guides are missing the opportunity to connect with employees in the more diverse ways they now consume information.

As benefits consumers, employees want and expect their benefits experience to be more like the rest of their lives. Benefits enrollment and access should be available online and via mobile applications that offer embedded resources and support tools. This helps employees get the real-time information and guidance they need to feel confident in their choices.

As employees choose and use their benefits, information and education should be part of the process. Integrated just-in-time messaging and prompts provide employees with micro-learning and personalized decision support.

> The current pandemic is significantly affecting employees' physical, financial, mental and social health. Benefits, perhaps now more than ever, play a pivotal role in supporting employees through times of crisis, helping them feel confident and secure in times of uncertainty and beyond. In particular, financial wellness benefits add a layer of protection to medical insurance and can ease the financial impact of the pandemic.
>
> *MetLife*

Action items

- **Focus on year-round communication and engagement**, not just during annual enrollment.
- **Use multiple channels to address employees' varying needs for education and information.** Employ a suite of touch points—while benefits guides have their place, don't stop there. Tools like videos, emails, postcards and virtual benefits fairs can also help you reach employees more effectively.
- **In addition, create multiple touchpoints within your benefits technology** to amplify your non-electable benefit programs that serve as a conduit to better understand the activation of your benefits as a whole. By encouraging participation in your full benefit program (i.e. telemedicine, EAP, cost transparency tools, etc.) you increase the likelihood of employees becoming more informed on their benefits selection in the following year.
- **Ensure the enrollment process supports employees getting easy-to-understand information when they need it,** including integrated, intuitive decision guidance.
- **Don't rely on paper for administration.** Offer online and mobile access and streamline processes to remove as much manual work as possible—both for you and your employees.

2 Financial well-being is more important than ever.

For the past several years, employees overall have made strides in financial preparedness. They are saving more and have more set aside for out-of-pocket health care costs.

However, much of the improvement has been among employees earning the most. For those in the middle and on the lower end of the earning spectrum, things have not improved and in some cases have gotten worse.

That's why the importance of helping employees make good benefits decisions while also supporting them in creating savings for health care expenses and emergency needs can't be overstated.

Tax-advantaged accounts can be helpful. However, for those employees who aren't able to regularly save, allocating dollars to health care accounts may seem unattainable, no matter how advantageous those accounts may be.

A subset of the workforce continues to struggle with an inability to save and may be experiencing financial stress, which has serious implications in terms of productivity and retention. Many employer-provided resources, such as an employee assistance program (EAP), are underutilized but can provide support to employees who are struggling financially.

Employers may also look to benefits approaches that take employees' earnings more into account. One example is contribution structures that are tied to earnings. Another option that helps with out-of-pocket health care costs are employer-funded health reimbursement arrangements (HRAs). These arrangements enable employers to offer lower-cost medical plans to save on premium but soften the landing for employees.

Seeding HSAs with employer dollars or increasing the employer contribution can provide employees with an additional savings cushion.

Action items

- **Consider adding after-tax consumer account options** that help employees save for everyday needs or fund a rainy-day account.
- **Communicate the advantages of pretax accounts for health care costs**—both FSA and HSA—but consider whether messaging is appropriate for all employees. For example, promoting HSAs as an investment vehicle may not make sense for everyone and could deter certain employees from participating.
- **Look critically at health care plan design** to see if there are ways to help employees address the financial implications of high entry fees like contributions and deductibles, especially among a workforce with lower earners.
- **Engage members in making the most of all the programs they have**, both those they elect and those they do not. For example, use technology to identify members who may have forgotten to file a claim for a voluntary benefit plan they purchased, or who haven't taken advantage of lower-cost health care options such as telemedicine or an EAP.

3 Add-on options can address financial pressures and enhance decision-making with personalization.

Health care isn't the only spending employees need to be prepared for. People face the possibility of having to fund a range of unexpected expenses from loss of income due to an accident or disability, to a sick pet, to a lost smartphone.

In addition to core coverage, offering optional choices that complement medical coverage can be a significant step in minimizing the financial impact of health care costs. This includes options like hospital indemnity, critical illness and accident insurance that can help employees allay some of their legitimate fears around out-of-pocket costs. When offered these adjunct options, employees may be more likely to elect a high-deductible plan. The contribution savings could free up dollars for an HSA while potentially not increasing the employees' per-paycheck costs.

In addition to benefits, programs like provider guidance and cost transparency tools are simplified ways to help employees make informed choices in where and how they seek care. This holds even greater significance given the Transparency in Coverage Rule, released by three federal agencies in November 2020.

The rule, which features two major components going into effect across the next three consecutive plan years (2022-2024), aims to allow Americans to more accurately predict their health care costs by helping them find and filter care providers within their medical plan network and location, and even given their current accumulations toward their deductible and out-of-pocket maximum.

Action items:

- As you consider benefits for 2022 and beyond, **make sure to include options that complement medical plans** such as hospital indemnity and critical care coverage. (Remember: Since these are not Sec. 125 plans, you can offer voluntary options at any point during the year, not only during annual enrollment.)
- **Also consider the importance of cost transparency and provider guidance tools.** With regulation requiring greater visibility into your plans and networks starting in 2022, now is the time to provide your employees with access to these valuable tools from the same solution in which they elect their benefits.
- **Don't dismiss lifestyle benefits.** Employees are increasingly interested in these optional coverages to safeguard their finances.
- When offering more choices, **ensure employees are empowered to make good choices** from what's available with strong decision guidance tools, and consider strategies to remind them to use these offerings throughout the year.

The Next Normal: HR Can Help Lead the Way

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HR professionals have always understood the value of benefits—from boosting recruiting and retention to safeguarding the health and welfare of an organization's people.

With COVID-19, the world at large has caught up and benefits have taken a center-stage role.

However, there is a tension. Employers want to provide valuable, cost-effective protection, but there is a substantial cost. In the face of an economy that contracted swiftly and significantly in 2020, employers' goals may collide with the financial realities of a potentially long recovery.

Understanding what employees are thinking and the challenges they face can provide a foundation for HR/benefits professionals to plan pragmatically for the short term while strategizing for the long term.

Helping employees to better understand their benefits options so they can make better decisions, mitigating the twin pressures of risk and loss aversion and supporting financial well-being for employees at all earning levels, can help ensure that organizations have the people they need, ready, willing and able to devote their full productive selves to the task of rebuilding a successful future.

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+ Innovative, High-Touch Services

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