



2020 MyChoice[™] Recommendation Engine Benefits Insight Report

Head or heart?

The reality behind what drives
employees' benefits decision-making



The Benefits Decision-Making Context: What Employees Are Really Thinking



When we talk about benefits, we often discuss employees' finances and their financial well-being. Are they saving for retirement? Are they taking advantage of the HSA?

Economic theory isn't typically part of the conversation. But it should be, because economic theory can help us understand how employees choose and use their benefits.

In traditional economics, people are often assumed to be rational decision-makers. When faced with choices, we consider all our options, weigh the strengths and weaknesses of each, take into account the potential downstream impact and then act for the best possible outcome. In this rational scenario, people are referred to as *homo economicus*.

Reality is different. People don't always act in our own best interest, whether we are making economic or other decisions. (If we did, every one of us would be exercising and eating right.) These "irrational" human actions are what behavioral economics studies.

This is important because that fallibility extends to our benefits, both in how we choose what options to enroll in and how we use our coverage. When it comes to benefits, *homo economicus* is often nowhere to be seen.

Forces other than rationality come into play when employees choose their benefits, and that's what the **MyChoice Recommendation Engine Benefits Insights Report** looks to uncover, learn from and share with the HR and benefits community. By understanding where employees are in terms of their emotional, financial and physical reality, employers can design and deliver better benefits that address the needs of a multi-generational workforce **and** the organization, for a better and more impactful return on investment all around.

About This Report:

In this report we review what employees were thinking and feeling as they made their 2020 benefits elections. Data related to 2020 elections were gathered in late 2019, as employees considered what benefits they would need for the coming year. The results are a powerful indicator of employees' state of mind and financial position going into the COVID-19 pandemic and it presents opportunities for consideration going into Annual Enrollment 2021.

The Benefits Insights Report: Year Two

During Annual Enrollment in the fall of 2019, millions of American workers enrolled in their benefits for 2020. As they reviewed their options and needs, no one knew that just a few short months into the new year their benefits choices might matter more than ever before. Had they picked the right medical coverage? Did they fund a pre-tax account for healthcare costs? Did they have access to and add voluntary options that would protect them from catastrophic costs?

In our inaugural **MyChoice Recommendation Engine Benefits Insights Report**, we explored employees' state of mind as they made their 2019 benefits decisions.

Three primary findings emerged based on employees' responses in our decision guidance tool as they reviewed their options and made their benefits choices:



Benefits literacy is low. Employees don't always have a strong understanding of their choices and the potential impact of their decisions.



Employees don't like risk, which informs how they think about benefits.



Generally, **people are not financially prepared for the unexpected**, although some are more prepared than others.

Using the data and our conclusions, we had planned an annual year-over-year comparison with 2019 as our baseline. However, employees' state of mind when making benefits decisions last fall was likely very different than it will be later this year when they choose their 2021 benefits.

Instead, we now have a unique snapshot that captures the situation prior to COVID-19.

In this report we review what employees were thinking and feeling as they made their 2020 benefits elections. This reflects economic, social and workforce realities in play before the pandemic and it offers insights into how American workers were feeling when things were *normal*. **Perhaps more importantly, it offers an indication of how employees were, or were not, prepared for what was to come.** It also gives employers actionable insights into what they can do for the next annual enrollment cycle to help employees make better benefits decisions.

Forces other than rationality come into play when employees choose their benefits, and that's what the MyChoice Recommendation Engine Benefits Insights Report uncovers.

Things Have Changed

What Fall 2019 Looked Like

At the end of 2019, on almost all fronts life looked very different than it does today.

Going into 2020 annual enrollment, people were feeling optimistic. Given historically low unemployment rates, employees were more confident about leaving a job and pursuing new opportunities. With a tight and fluid labor market, HR pros focused their energy and expertise on recruitment and retention.

There was a growing gig and alternative workforce and more employers were exploring options for offering benefits to these non-traditional employees.

Consumer confidence was also high and experts predicted a strong retail holiday season.

From a benefits perspective, more employees were enrolled and saving in an HSA. And, while not everyone was participating, those saving for retirement in a 401(k) were doing so at the highest-ever levels.

However, not everyone was enjoying what seemed like widespread prosperity. In early 2019, the government shutdown exposed the financial vulnerability of many federal workers. In the wake of the shutdown there was renewed focus on how fragile many Americans economic situation was with an oft-cited statistic that 40% could not afford to cover a \$400 emergency cost.

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The Emerging Situation: Spring 2020

As a result of the COVID-19 pandemic, the US economy contracts. A record number of jobs are shed and unemployment claims rise to historic highs. Forty-three states experience record-setting job losses and food banks around the country feel the pinch as people struggle to make ends meet.

The impacts are felt around the world with talk of a possible depression. Consumer confidence dips from 125.9 in October 2019 to 86.9 in April 2020.

One by one, states were reopening their economies but questions remain about the impact this will have as cases rise.

As this report is being published, experts continue to focus on creating an effective vaccine as well as testing drug therapies.

Perhaps one of the most marked developments with COVID-19 is the delineation between essential front-line workers and those able to work from home. As a result, there may be significant differences in how employees feel and behave when they choose their 2021 benefits depending on whether they were remote or continued to do essential work on site or in the field.

According to the **Businessolver Benefits Pulse**, in Q2 of 2020, there was a **55% increase in individuals coming off their employer-sponsored medical plan, whether due to termination or being placed in a benefits ineligible status.**



The MyChoice Recommendation Engine: Supporting Individual Employees, Understanding Trends

The MyChoice Recommendation Engine is an optional decision guidance tool 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 state of 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. 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 is a tool designed to support individual employees' benefits choices.

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.

The data in this report includes employees who engaged with the MyChoice Recommendation Engine during the 2020 annual enrollment period in the fall of 2019. This information can help employers looking to better align their benefits and benefits delivery with what employees want and need.

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

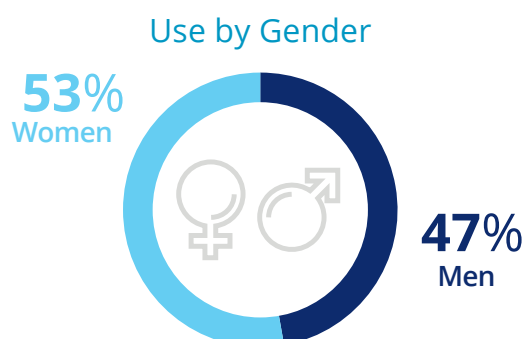
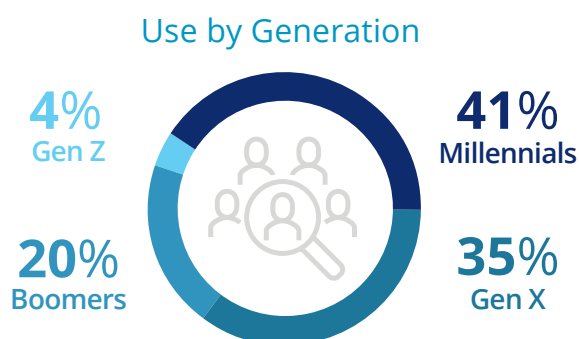
The data in this report represents approximately half-million individuals who used the MyChoice Recommendation Engine during the 2020 annual enrollment period.

As a result of rounding, some charts may include data that does not add to 100%.

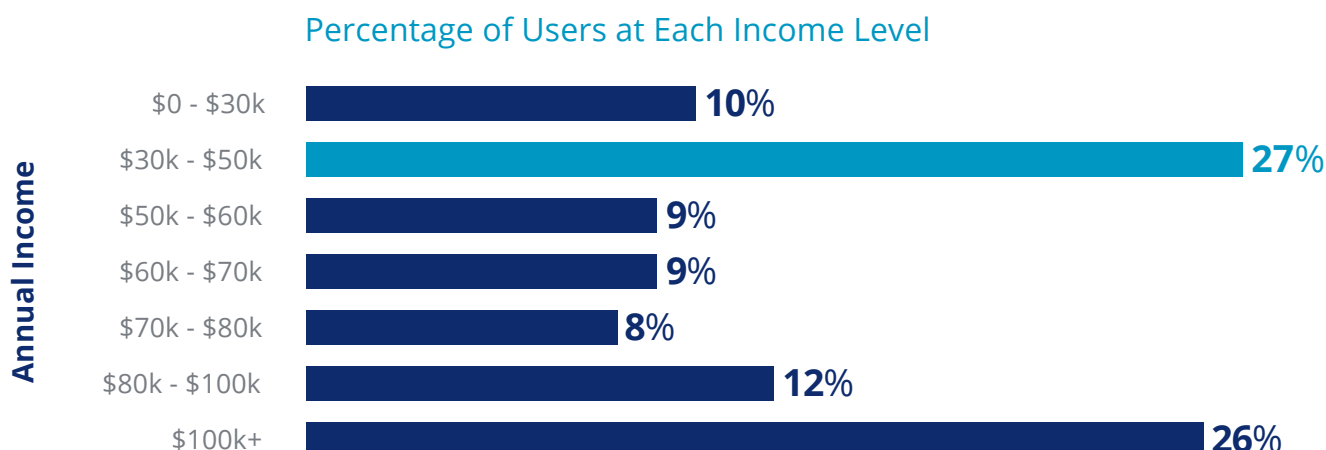
Here are some key demographics for the population.

Millennials were the largest group of users, followed by Gen Xers. Gen Z was also represented for the first time, but they were the smallest user group. This may reflect that many are still under a parent's healthcare coverage and they might not yet be enrolling in their own benefits.

Slightly more men than women used the tool.



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



Employees' State of Mind:

What the MyChoice Recommendation Engine Revealed

Going into 2020 annual enrollment, there was not much appreciable change from the prior year in terms of employees' benefits literacy, risk aversion or financial preparedness. **However, overall people seemed somewhat more positive, more prepared financially and slightly more willing to accept risk.**

Users' positive outlook is demonstrated in their self-reporting around health. More people than in the prior year indicated they were healthy as opposed to having average health.

This may have been a function of the positive economic conditions and high consumer confidence at the end of 2019.

However, even with the increased optimism, some groups continued to be left behind, especially in terms of financial preparedness, as we'll see on the following pages.

*Note: For all charts in this report the year refers to the year for which employees were choosing their benefits.

Describe your overall health.



2019	2020*	
55%	66%	Healthy
41%	30%	Average Health
4%	4%	Below Average Health





Benefits Literacy: Employees Still Don't Understand Benefits That Well

Benefits are complex. Within the entire benefits continuum there are various types of coverage and within those categories there may be numerous options with different costs. It can be challenging for employees to feel confident about their expertise and their ability to navigate through myriad choices.

To further add to the complexity, benefits evolve. Plan sponsors add more and new options, costs change. For employees, benefits literacy can feel like a moving target.

As a result, employees' self-reported level of confusion about benefits remained mostly constant from the prior year.

More than a third are outright confused, while just over half have foundational knowledge. **Less than one out of five employees claims to really understand their benefits.**

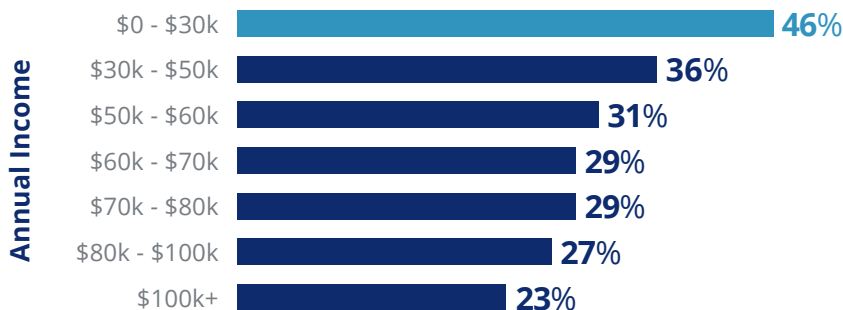
Perhaps not surprisingly, Gen Z—in the first year for which data about this generation is available—was the most confused about their benefits. New to the workforce, these employees have the least experience with benefits. Potentially still covered under a parent's plan, Gen Z might not be electing a full suite of benefits making it challenging for them to see and understand the whole picture.

Gen Xers made minor improvements in their level of benefits literacy, while Millennials and Boomers maintained their level of confusion.

Benefits knowledge seems to be tied to income. The less someone earns the more likely they are to indicate they are confused by benefits. Some of this may also be related to age as people early in their careers likely earn less than those with more experience.

However, a high salary doesn't inoculate against benefits confusion. Almost a quarter of employees earning more than \$100k still indicate they don't understand their benefits.

I'm confused about my benefits

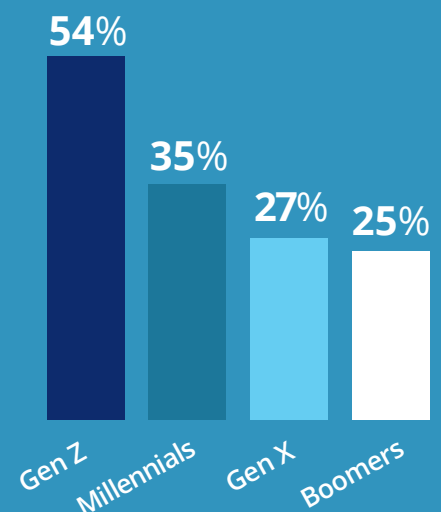


On average, 86% of employees are confused about benefits, does this describe you?



2019	2020	
51%	51%	I know where my ID card is
30%	31%	Yep! That's me
19%	17%	I'm a pro

Who's confused about their benefits?





Risk Aversion: Employees Don't Like to Take Chances

As people make their benefits decisions they should factor in the potential risk and reward of the options available to them and make an informed choice. However, employees go into the decision-making process with an imperfect understanding of benefits based on poor benefits literacy. That makes informed decision-making harder.

Employees also don't like to take risks, and they put a disproportionate importance on perceived loss.

From a benefits perspective, this can lead to poor choices as employees pick options they believe protect them from uncertainty and high out-of-pocket costs based on imperfect knowledge of how benefits work. Instead, they may be paying more upfront for coverage they don't actually need.

Overall, risk aversion was constant from the prior year with most people indicating their risk tendencies are low.

Another component of employees' state of mind is how they feel about paying for a large healthcare bill. Just under half indicate they would feel panicked.

A minority of 10% are prepared and ready to spend resources on needed healthcare costs. However, even if they have the ability to cover the bill, over 40% would just prefer not to.

Describe your risk tendencies.

2019	2020	
28%	27%	Lounger
37%	38%	Golfer
32%	32%	Biker
3%	2%	Rock climber

How do you feel about facing a large ER Bill?

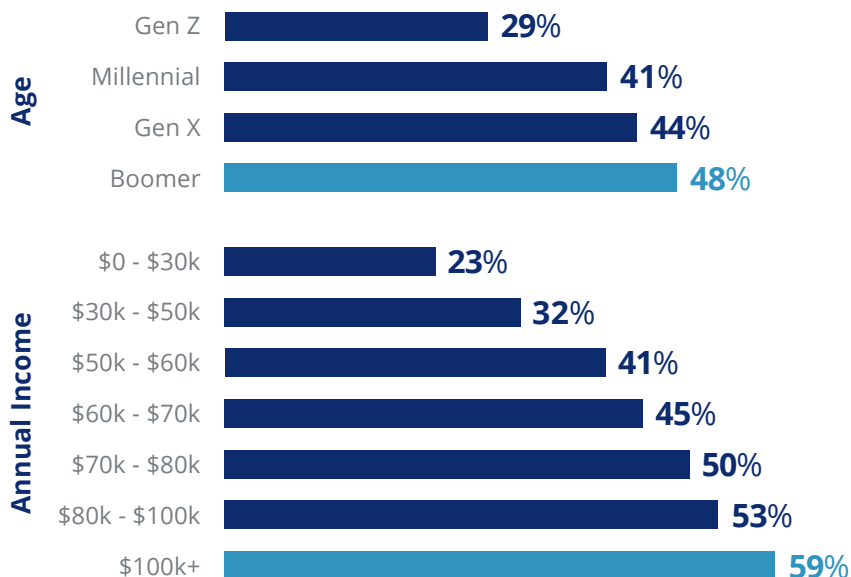


2019	2020	
50%	47%	I'd feel panicked
41%	43%	I could do it, but I prefer not to
9%	10%	No worries, I'm fully prepared



Older employees and those earning the most are the least likely to want to spend resources they have. The group of employees most reticent are those earning over \$70,000.

I'd prefer not to spend resources I have



This is juxtaposed by the fact that, overall, employees were in a slightly better position to be able to pay for these large bills. Fewer people indicated they would be soaked by a large ER bill, and more indicated their rainy day fund could cover it.

This higher level of preparedness spanned generations and gender. Even Gen Z, the group with the least amount of time in the workforce, included some employees already prepared for the potential of a large healthcare cost.

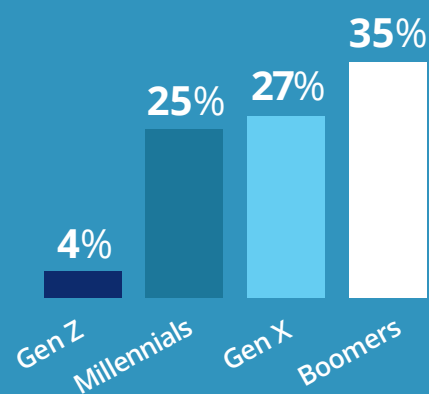
A growing number of employees have amassed savings to enable them to pay for a large cost, but most still don't feel emotionally ready to spend it. **From a healthcare benefits perspective, this state of mind may prevent employees from choosing a plan that they perceive has higher out-of-pocket costs instead preferring to safeguard their nest egg.**

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



2019	2020	
44%	40%	I'd get soaked
32%	32%	A light sprinkle
24%	27%	I've got an umbrella

I've got an umbrella





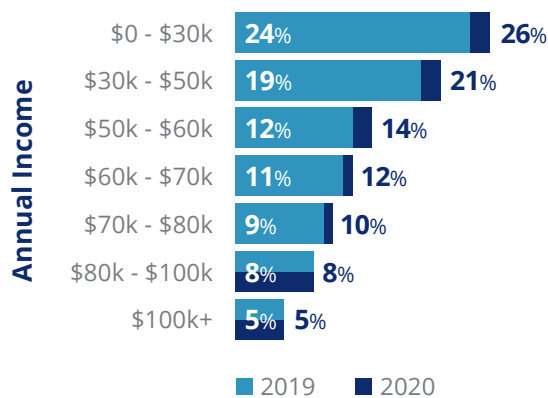
Despite Some Gains, Employees Are Still Financially Fragile

As they made their 2020 benefits decisions, employees trended slightly better off financially than the prior year. More people were able to save consistently, an increasing number had cash savings for an emergency and fewer overall would get soaked by a large healthcare bill.

However, even with the modest improvements, less than a third of employees were always able to save or were fully prepared for a large healthcare cost. Just under two out of 10 employees would have to go into debt if faced with an unexpected expense and almost the same amount didn't have a viable plan.

For those earning the least, saving consistently actually decreased as more employees indicated they were never able to save.

I spend less than I earn and regularly make deposits into savings accounts for emergencies (not including retirement accounts)?



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2019	2020	
57%	56%	Sometimes
17%	14%	Never
26%	30%	Always

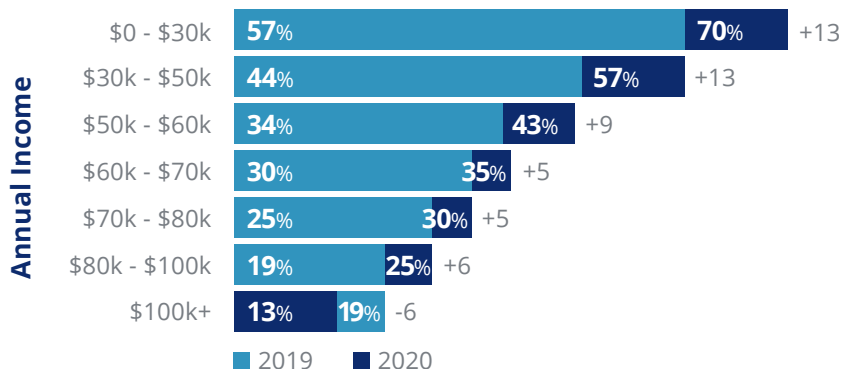
If you had an unexpected large expense, how would you pay for it?



2019	2020	
19%	16%	I don't know
21%	19%	Go into debt
58%	63%	Cash savings
2%	2%	Retirement fund

While the workforce was more prepared overall, in all but the highest salary level (\$100,000+), more employees indicated they would be soaked by a large ER bill. For employees earning the least, the increases were more substantial.

Q: Would your rainy day fund cover a large Emergency Room bill? A: I'd get soaked.



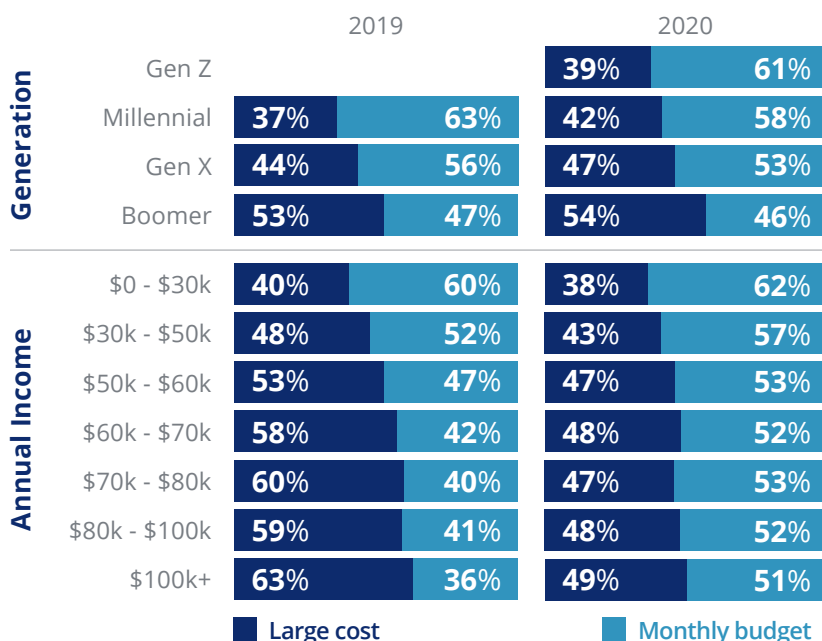
When making their benefits choices, employees were also weighing their constant budgeted costs (premium contributions) against large variable costs (deductibles, out-of-pocket expenses and maximums).

More employees were concerned about large costs at the end of 2019, indicating they might be more inclined to insulate themselves from out-of-pocket expenses by over-insuring.

The increased concern around large costs seems largely to be a function of generation, with Millennials demonstrating the greatest shift. For Boomers, the increase was negligible.

By contrast, when you look at employees' responses based on earnings, there was more focus on monthly budget with the most increase among the highest earners.

Financial concerns



Are you more concerned with your monthly budget or protecting yourself from large unexpected costs?



2019	2020	
58%	54%	Monthly Budget
42%	46%	Large Costs

Putting the Data to Work

These insights represent the state of mind of American employees before a pandemic that has significantly changed the landscape for many people. As HR professionals, understanding how things were before can help prepare for a more strategic benefits approach going forward.

As HR and benefits pros consider the future, here are five suggestions for where to concentrate.

1 Benefits literacy needs a renewed emphasis.

Benefits provide employees with an important financial and emotional safety net, but without a better degree of understanding, their value is not fully realized. This is important since both employers and employees make a significant investment in benefits. **While they want options and choices, employees continue to be confused by their benefits, which renders decision-making challenging.** It can also undermine people's ability to use benefits appropriately.

Conventional communications continue to be part of the solution; but more is needed. Benefits communication shouldn't be just a function of annual enrollment, it should be a priority throughout the year with an emphasis on benefits utilization. Messaging and education should be released in small, easy-to-understand chunks, using multiple media, especially considering the barriers to access and overall information overload currently impacting the American workforce.

As employees choose and use their benefits, information and education should be an integral part of the process. Leveraging technology with integrated just-in-time messaging and prompts, AI-enabled virtual benefits assistants and decision guidance tools can provide employees with micro-learning and personalized support.

Action items

- ☑ Make communication year-round, not just during annual enrollment.
- ☑ Create specific training for Gen Z around benefits knowledge.
- ☑ Ensure the enrollment process supports employees getting easy-to-understand information when they need it.
- ☑ Make sure you keep on top of changing regulations and communicate to your employee base.
- ☑ Provide multiple avenues for people to access needed information 24x7, wherever they are.

The current pandemic is significantly impacting employees across their 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

2 Helping people make good decisions is key.

Employees need help throughout the entire benefits lifecycle—from when they make their enrollment choices to when they use their coverage. **Since employees are not experts, they need easy-to-understand guidance that is intuitive, actionable and right at people's fingertips.**

Part of the paradigm shift in employee support is related to modern consumer experience. As emerging technologies have changed the way we interact with information and make decisions in our personal lives, employees need a benefits experience that follows suit and includes the opportunity to gain information in multiple ways that spans the continuum from comprehensive online resources to live expert support.

Action items

- ☑ Audit your enrollment and administration flow from the employee perspective to ensure ease of use.
- ☑ Ensure enrollment offers integrated, intuitive decision guidance.
- ☑ Offer online and mobile access and streamline processes to remove as much paper as possible.
- ☑ If you can't provide live support 24x7, leverage AI-enabled virtual assistants to answer questions when employees need it, which is often outside what is considered traditional work hours.

Since employees are not experts, they need easy-to-understand guidance that is intuitive, actionable and right at people's fingertips.

3 Financial well-being is more important than ever.

While employees going into 2020 annual enrollment were slightly more confident and somewhat better off financially, overall employees lacked the ability to deal with unforeseen costs—both healthcare- and non-healthcare related. This included not only the financial wherewithal but the emotional preparedness.

And, this was before a pandemic wiped out many peoples' jobs, savings and left an uncertain economic future in its wake.

Helping employees understand the importance of having appropriate, right-sized benefits coverage while also creating savings for healthcare expenses and emergency needs can't be overstated.

Because employees can amass money over time, HSAs are a potential bulwark against the unforeseen, especially when HSA dollars can be used for unexpected expenses like COBRA or individual healthcare coverage. However, when employees' regular out-of-pocket expenses like deductibles and cost-sharing are significant and out-of-pocket maximums are unattainable except in the case of catastrophic costs, it's challenging for employees to use these accounts to their full, long-term potential.

Plan design changes that rein in employees' costs can help them avoid over- or underinsuring and put them on a more solid path to saving. This will enable them to better balance their monthly budget considerations with the potential for a large healthcare cost outlay.

Action items:

- ☑ Consider adding consumer account options that help employees save for everyday needs or specific goals or fund a rainy day account.
- ☑ Redouble efforts to communicate the advantages of pre-tax accounts for healthcare costs—both FSA and HSA.
- ☑ Look critically at healthcare plan design to see if there are ways to help employees address the financial implications of high entry fees like deductibles.

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4 Employees need options to truly customize coverage.

Given that employees don't understand benefits, and in the absence of solid decision guidance, it may not seem appropriate to offer more and varied options. But, it's only with a comprehensive suite that employees can create the personalized benefits that meet their needs, especially when those needs vary widely across the four generations active in the workforce. (And this fact reinforces the need for strong decision guidance.)

In addition to core coverage, **offering optional choices like hospital indemnity, critical illness and cancer insurance can help employees allay some of their irrational fears around out-of-pocket costs as well as potentially rational concerns about their health.** For example, an employee may be more likely to forego costly PPO coverage when there is hospital indemnity available to complement a high-deductible plan. This can free up dollars to fund an HSA while potentially not increasing the employee's monthly budget.

Along with options that complement the core healthcare offerings, employees are interested in lifestyle benefits like legal insurance, ID theft and pet insurance. These coverages often come at a modest cost but can help insulate employees from large or unlooked-for costs and add peace of mind, both emotionally and financially.

Action items:

- ☑ If you don't already offer them, look at complementary coverages like hospital indemnity, critical illness and cancer insurance.
- ☑ Consider adding lifestyle benefits to your mix of options.
- ☑ Help employees make good choices from what's available with strong, easy-to-use decision guidance tools.

Along with options that complement the core healthcare offerings, employees are interested in lifestyle benefits like legal insurance, ID theft and pet insurance.

5 Alternatives to traditional group coverage may make sense.

Most employers only offer a couple of healthcare coverage choices. So, for employees eligible for coverage, options are often limited. At the same time, there may be others in the workforce for whom coverage is not available at all, for example, part-time or contract workers. This creates an uneven and somewhat limited benefits delivery model, but this approach has been the norm for some time.

With employees' continuing financial challenges, including large groups of working Americans for whom there is no employer-sponsored coverage, it may be time to consider an emerging way to connect employees to benefits—the Individual Coverage Health Reimbursement Arrangement (ICHRA).

These are accounts funded by the employer that enable employees to purchase individual coverage. They are flexible, so they allow employers to potentially cover different classes of employees differently—for example, full-time salaried employees receive a different ICHRA funding level than part-time hourly employees.

Given what are likely to be challenging economic conditions, employers can benefit from a level funding approach that minimizes risk. From an employee perspective, there's more opportunity for choice and coverage flexibility, which can help people better manage their benefits spend and overall finances. However, with increased potential choice, an ICHRA strategy needs to include robust, comprehensive education and support so employees can continue to make informed and appropriate benefits decisions.

ICHRAs also enable employers to potentially extend benefits to those not traditionally eligible for group coverage, safeguarding the financial health of more of the workforce.

And, because ICHRAs fund healthcare coverage gained outside the group arena, if the employment relationship ends—as it did for so many people with the COVID-19 crisis—the employee is in a better position to potentially continue personalized coverage they already have.

Action items:

- ✓ Consider whether Individual Coverage HRAs make sense for your employee population—whether it's for part of your workforce or everyone.

Given what are likely to be challenging economic conditions, employers can benefit from a level funding approach that minimizes risk.

Laying the Foundation for What's Next



The world has shifted since employees made their 2020 benefits decisions. However, the realities of their state of mind in what seems like another time can help inform benefits strategy, design and delivery going forward.

As benefits become even more important as Americans and the world continues to adopt to the impacts of the COVID-19 pandemic it's important to know where people were in order to support them in where they will need to be. Benefits knowledge and understanding has to continue to improve, especially as employees rely on their coverage to address potentially significant financial needs in the coming years. It's likely that people's risk tolerance may diminish further during and after a pandemic, and their thinking about spending and saving will change.

HR pros should understand the context in which employees choose and use their benefits, as well as their attitude, behaviors and challenges around managing their finances. This knowledge can help inform what will be appropriate benefits strategy in the *new normal*, ensuring employers and their employees are poised for a strong recovery and a successful future.





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