The State of Delaware

Health Care Trends and Benefits Modernization

SEBC Meeting

June 27, 2022
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Employee preferences are changing, and employers are re-evaluating and adjusting benefit offerings to meet employee needs

- The pandemic’s toll on employee health and wellbeing – and the Great Resignation – are prompting employers to modernize their benefits strategy to meet present-day business and workforce needs
  - In today’s tight labor market, employers continue to face significant exit risk among employees, though health benefits can be a differentiator in attraction and retention
  - WTW research shows that benefit needs and preferences among employees vary by cohort such as gender, generation and health status
    - Benefits review through Diversity, Equity and Inclusion lens can improve experience for all
  - Disconnect between employee and employer priorities for improving benefits, with employees placing higher value (by nearly 30 percentage points) on employers using listening strategies (e.g., surveys, virtual focus groups, etc.) to understand the diverse needs and preferences of their employees
    - To optimize the value of benefits and total rewards, organizations are using qualitative and quantitative data to determine the most impactful areas to allocate existing benefits investment

- Like other employers, the State is experiencing similar attraction and retention challenges, and evolving workforce demographics

Source: 2022 Global Benefits Attitudes Survey, United States. See appendix for further details.
The State offers rich non-Medicare retiree benefits, with both active employees and non-Medicare retirees being rated in one risk pool

- Active medical plan participants are subsidizing non-Medicare retiree costs
- Disconnect between medical premium revenue and expected cost of each plan option

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Highmark</th>
<th>Highmark</th>
<th>Aetna</th>
<th>Aetna</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Name</td>
<td>Comprehensive PPO</td>
<td>First State Basic</td>
<td>CDH Gold</td>
<td>HMO</td>
</tr>
<tr>
<td>Plan Type</td>
<td>PPO</td>
<td>PPO</td>
<td>HRA</td>
<td>HMO</td>
</tr>
<tr>
<td>Enrollment (Actives &amp; pre-65s)</td>
<td>29,536</td>
<td>3,492</td>
<td>3,023</td>
<td>9,278</td>
</tr>
<tr>
<td>Average Age</td>
<td>46.1</td>
<td>39.7</td>
<td>44.3</td>
<td>45.6</td>
</tr>
<tr>
<td>Account Funding (Maximum)</td>
<td>N/A</td>
<td>N/A</td>
<td>$1,250/$2,500</td>
<td>N/A</td>
</tr>
<tr>
<td>Deductible</td>
<td>$0</td>
<td>$500/$1,000</td>
<td>$1,500/$3,000</td>
<td>$0</td>
</tr>
<tr>
<td>Copays • PCP</td>
<td>$20</td>
<td>N/A</td>
<td>N/A</td>
<td>$15</td>
</tr>
<tr>
<td>• Specialist</td>
<td>$30</td>
<td>N/A</td>
<td>N/A</td>
<td>$25</td>
</tr>
<tr>
<td>• Urgent Care</td>
<td>$20</td>
<td>$25</td>
<td>N/A</td>
<td>$15</td>
</tr>
<tr>
<td>• ER</td>
<td>$200</td>
<td>N/A</td>
<td>N/A</td>
<td>$200</td>
</tr>
<tr>
<td>Plan Coinsurance</td>
<td>100%</td>
<td>90%</td>
<td>90%</td>
<td>N/A</td>
</tr>
<tr>
<td>Out-of-Pocket Maximum</td>
<td>$4,500/$9,000</td>
<td>$2,000/$4,000</td>
<td>$4,500/$9,000 Med</td>
<td>$4,500/$9,000 Med</td>
</tr>
<tr>
<td>Rx Tier 1/ Tier 2/ Tier 3</td>
<td>$8/$28/$50</td>
<td>$8/$28/$50</td>
<td>$8/$28/$50</td>
<td>$8/$28/$50</td>
</tr>
<tr>
<td>Plan Value (no HRA seed)</td>
<td>96.7</td>
<td>90.7</td>
<td>83.0</td>
<td>97.0</td>
</tr>
<tr>
<td>Plan Value (with HRA seed)</td>
<td>96.7</td>
<td>90.7</td>
<td>96.3</td>
<td>97.0</td>
</tr>
<tr>
<td>Contribution Percentage</td>
<td>13.25%</td>
<td>4%</td>
<td>5%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
The SEBC is tasked with solving for the needs of both employees and retirees, ideally within the existing State funding

- Underwriting the medical plans separately by risk-pool (e.g., actives and non-Medicare retirees with separate rates and contributions based on actual expenditures) would eliminate the cross-subsidization issue
  - Active employee premiums would decrease, which could allow the State to reinvest a portion of current funding in other employer-sponsored benefits
  - Consider alternatives to mitigate financial impact on pre-65 retirees (e.g., pre-65 Marketplace)
  - Moving to a “defined contribution” approach where the State contributes a fixed amount per plan participant could allow the State to make additional adjustments to where existing benefits funding is invested
- Employee listening and a Diversity, Equity and Inclusion benefits review could be leveraged to identify benefits preferences and gaps for underserved populations
- Could also explore options for plan participants to retain some choice in how the State’s investment is applied to their own individual needs
  - Example: Access to “lifestyle savings account” funded by the State and taxable to the employee for specific set of reimbursable expenses pre-defined by the State
Consider the following future state for the GHIP, which could include:

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Meaningful Choice</strong></td>
<td>Several medical plan options that are meaningfully different in terms of price tags and benefit value (including an IRS-qualified HSA plan)</td>
</tr>
<tr>
<td><strong>Personalized Benefit Offerings</strong></td>
<td>After-tax Lifestyle Savings Account aimed at meeting the participants life needs in any given year (e.g., child/elder care, student loan repayment, pet insurance, etc.)</td>
</tr>
<tr>
<td><strong>Voluntary Benefits</strong></td>
<td>Strategic approach driven by employee demographics, supported by robust benchmarking, market knowledge and enrollment services</td>
</tr>
<tr>
<td><strong>Flexible Subsidization</strong></td>
<td>Employees receive fixed amount towards suite of core and voluntary benefit offerings such that employees can purchase based on their own unique needs</td>
</tr>
<tr>
<td><strong>Meets Variety of Needs</strong></td>
<td>Scope of benefit offerings are flexible to meet the needs and preferences of the State’s diverse workforce</td>
</tr>
</tbody>
</table>
Proposed next steps

- Absent any concerns from the SEBC, the SBO and WTW can work with the Subcommittees to evaluate options for GHIP benefits modernization

- Recommendations would be brought before the SEBC in early 2023, which would include timing for phased-in approach starting with the FY24 plan year
The pandemic and the Great Resignation are prompting employers to adapt their benefits strategy to meet present-day business and workforce needs.

Benefits portfolio in line with organization’s culture, priorities, market norms and employee needs and values.

Optimize the financing cost of benefits by allocating costs and risks efficiently.

Engaging employees and retirees in their benefits with the ability to make informed decisions to maximize value and appreciation.

Data-driven insights for informed decision-making.

Efficiently administer benefits by leveraging technology and optimizing processes and resources.

Modernizing Benefits Strategy
Despite labor market tightness, worker attachment to their employer remains high, but many employees are looking for new opportunities.

**Intentions to stay**
I intend to remain with my employer for the next 2 years

- 71%
- 69%
- 64%
- 64%
- 71%

Quits are being driven up by greater demand for workers (especially as some people have left the labor market), but worker attachment remains high.

**Employers continue to face significant exit risk**

- 53% of employees are either actively looking for new opportunities or at risk of leaving
- 13% plan to leave/are looking for career change
- 15% plan to leave/are looking for a new employer
- 25% plan to stay/would leave for right offer
- 47% plan to stay/are not open to offers

Sample: Full-time employees only.
Note: Percentages indicate ‘agree’ or ‘strongly agree’.
Source: Various years of Global Benefits Attitudes Survey, United States
Security is top of mind for employees, and benefits can play a large role in attraction and retention

**Key considerations are similar when deciding whether to stay or leave**

<table>
<thead>
<tr>
<th>Top reasons for staying</th>
<th>Top reasons for moving to new job</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay and bonus</td>
<td>Pay and bonus</td>
</tr>
<tr>
<td>39%</td>
<td>56%</td>
</tr>
<tr>
<td>Job security</td>
<td>Health benefits</td>
</tr>
<tr>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Health benefits</td>
<td>Job security</td>
</tr>
<tr>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Flexible work</td>
<td>Flexible work</td>
</tr>
<tr>
<td>29%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Note: Percentages indicate being selected as the top 5 most important reasons.
Sample: Full-time employees.
Source: 2022 Global Benefits Attitudes Survey, United States

**Health and retirement benefits are growing in importance as attraction and retention tools**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2022</th>
<th>2010</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement plan</td>
<td>25%</td>
<td>47%</td>
<td>41%</td>
<td>60%</td>
</tr>
<tr>
<td>Healthcare plan</td>
<td>32%</td>
<td>48%</td>
<td>50%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Note: Percentages indicate “agree” or “strongly agree”

**When benefits meet employee needs, employers see a boost in retention**

<table>
<thead>
<tr>
<th>Would like to remain with my employer for the next 2 years*</th>
<th>Gap 30%</th>
<th>51%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not meet needs</td>
<td>81%</td>
<td>51%</td>
</tr>
</tbody>
</table>

*Agree or strongly agree
Meeting employees where they are – and – where they want to go through a modern, sustainable employee experience

Are benefits meeting employee needs?

65% of employees say their benefits meet their needs – but varies significantly by demographic cohort

Source: 2022 Global Benefits Attitudes Survey, United States
WTW research shows that benefit needs and preferences vary by cohort

Which of the following would you most want your employer to support you with or focus on? *Ranked in top 3.*

<table>
<thead>
<tr>
<th>Gender</th>
<th>Generation</th>
<th>Health Status</th>
<th>Chronic Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>Boomers</td>
<td>Very good</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Gen X</td>
<td>Good</td>
<td>Flexible work</td>
</tr>
<tr>
<td></td>
<td>Gen Y</td>
<td>Fair or poor</td>
<td>Flexible work</td>
</tr>
<tr>
<td></td>
<td>Gen Z</td>
<td></td>
<td>Manage health</td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td></td>
<td>Manage health</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Manage health</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Manage health</td>
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<td></td>
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<td>Manage health</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Manage health</td>
</tr>
</tbody>
</table>

Sample: Full-time employees only.
Source: 2022 Global Benefits Attitudes Survey, United States
Employer-sponsored programs have unintentionally created inequity (examples)

**Equality**
- Same plan design offerings
- Consistent payroll contributions
- Equal access to carrier programs and resources
- Voluntary benefits to supplement core programs
- Retirement benefits with employer match for those who contribute
- Paid and unpaid leave parental leave
- Offering of perks and resources

**Equity**
- Designs that are affordable when using care
- Affordable payroll contributions relative to salary (not just ACA)
- Provider diversity, navigation, multi-language communications, etc.
- Access to suite of voluntary benefits that support diversity of needs
- Automatic employer retirement contributions, providing financial education, tools and resources
- Paid caregiving, parental, military and other leaves supporting wellbeing
- Meaningful resources to address SDoH like transportation, healthy food, ERGs, etc.
WTW data shows that there is a disconnect between employee and employer priorities for improving benefits

<table>
<thead>
<tr>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 44% Increased Flexibility and Choice</td>
<td>Wellbeing Support 69%</td>
</tr>
<tr>
<td>2. 41% Wellbeing Support</td>
<td>Improved Communication 58%</td>
</tr>
<tr>
<td>3. 40% Listening Strategy</td>
<td>Enhanced Tools 49%</td>
</tr>
<tr>
<td>4. 39% Benefits for Low-wage</td>
<td>I&amp;D in Benefits Provision 46%</td>
</tr>
<tr>
<td>5. 28% Enhanced Tools</td>
<td>Increased Flexibility and Choice 33%</td>
</tr>
<tr>
<td>6. 27% Improved Communication</td>
<td>Listening Strategy 12%</td>
</tr>
<tr>
<td>7. 24% I&amp;D in Benefits Provision</td>
<td>Benefits for Low-wage 6%</td>
</tr>
</tbody>
</table>

Employees want to be heard!

Which of the following are priorities to improve your benefits (employee) / the benefits you offer (employer)? Please select the top 3.

Sample: Full-time employees only.
Source: 2022 Global Benefits Attitudes Survey, United States; 2021 Benefits Trends Survey, United States
An effective listening strategy combines qualitative and quantitative data to optimize the value of Total Rewards.

**Employee Listening and Insight Tools**

- **In-person Focus Groups**
- **Virtual Focus Groups**
- **Conventional Preferences Survey**

**Total Rewards Prioritization**

**Total Rewards Optimization**

**Conjoint Analysis** + **Financial Optimization**

- Optimum level and allocation of investment
- Segment-specific strategy

**Outcome to be driven by total rewards priorities**

- Scenario 1: Higher employee engagement at current spend
- Scenario 2: Reduced spend, maintain current employee engagement
- Scenario 3: Spend more, much higher employee engagement

**HORIZONTAL AXIS: TOTAL REWARDS SPEND VS. CURRENT LEVEL**

**VERTICAL AXIS: EMPLOYEE ENGAGEMENT**

- Current levels of motivation and reward investment
Shifting demographic profile of the GHIP

- Gen X is the largest generational cohort of the active benefits-eligible workforce (40%) followed by Gen Y (32%)
- Gen X significantly more likely to cover child dependents; majority of Boomers and Gen Z are enrolled in single coverage
- Boomers are most likely to enroll in the Comprehensive PPO option and least likely to enroll in First State Basic
- Gen Z have the greatest proportion enrolled in the HMO and First State Basic options
- Gen X and Gen Y have the highest proportion enrolled in the CDH Gold option
**Illustrative: ABC Inc. Choice and Subsidization Models**

Sample framework for expanded choice, flex and Lifestyle Spending Account (LSA) options

### Considerations:
- **Cost/Funding**
- **Subsidization**
- **Communication**
- **Administration**
- **Compliance**

### Foundations
- **Benefits**
  - Base life
  - STD
  - Base LTD
  - Base AD&D
  - EAP

100% ABC Inc. Subsidized

### Medical/Rx Benefits
- **Annual Enrollment**
  - Medical Plan 1
  - Medical Plan 2
  - Medical Plan 3
  - Medical Plan 4

### Shared Subsidy between ABC Inc. and Employees.
(Fixed dollar subsidy to choose between medical/Rx plans with meaningful differentiation. ABC Inc. also subsidizes HSA and HRA accounts with automatic seed.)

### NEW
Two Areas for Consideration

1. **Expand Personalized Benefits** *(100% employee paid)*
   - Develop more robust Voluntary Benefit package which meets the current multi-generation needs of the workforce

2. **Lifestyle Spending Account (LSA)** *(Funded by ABC Inc. when submitted)*
   - Fitness membership or equipment
   - Classes (Yoga, boxing, cooking)
   - Active wear
   - Healthy food
   - Day care, elder care
   - Pet adoption
   - Cell phone bill, wi-fi bill
   - Home office set up
   - Student loans
   - Personal Apps and more….

**Lifestyle Funding is taxable** to the employee and is a “use it or lose it” notional annual dollar amount and is used throughout the year.

**ABC Inc. sponsors the Plans** *(Employees pay 100% of the cost)*

Dental and Vision
- Dependent Life
- Buy-up LTD

FSA contribution
- Buy up AD&D
- Life Insurance

Which model best aligns with your Total Rewards Strategy and budget?

Which model best meets the needs of your US employees?