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

Carrier	Highmark	Highmark	Aetna	Aetna
Plan Name	**Comprehensive PPO**	**First State Basic**	**CDH Gold**	**HMO**
Plan Type	**PPO**	**PPO**	**HRA**	**HMO**
Enrollment (Actives & pre-65s)	**29,536**	**3,492**	**3,023**	**9,278**
Average Age	**46.1**	**39.7**	**44.3**	**45.6**
Account Funding (Maximum)	N/A	N/A	$1,250/$2,500	N/A
Deductible	$0	$500/$1,000	$1,500/$3,000	$0
Copays				
• **PCP**	$20	N/A	N/A	$15
• **Specialist**	$30	N/A	N/A	$25
• **Urgent Care**	$20	$25	N/A	$15
• **ER**	$200	N/A	N/A	$200
Plan Coinsurance	100%	90%	90%	N/A
Out-of-Pocket Maximum	$4,500/$9,000	$2,000/$4,000	$4,500/$9,000 Med $2,100/$4,200 Rx	$4,500/$9,000 Med $2,100/$4,200 Rx
Rx Tier 1/ Tier 2/ Tier 3	$8/$28/$50	$8/$28/$50	$8/$28/$50	$8/$28/$50
Plan Value (no HRA seed)	96.7	90.7	83.0	97.0
Plan Value (with HRA seed)	96.7	90.7	96.3	97.0
Contribution Percentage	13.25%	4%	5%	6.5%

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:

Meaningful Choice – Several medical plan options that are meaningfully different in terms of price tags and benefit value (including an IRS-qualified HSA plan)

Personalized Benefit Offerings – 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.)

Voluntary Benefits – Strategic approach driven by employee demographics, supported by robust benchmarking, market knowledge and enrollment services

Flexible Subsidization – Employees receive fixed amount towards suite of core and voluntary benefit offerings such that employees can purchase based on their own unique needs

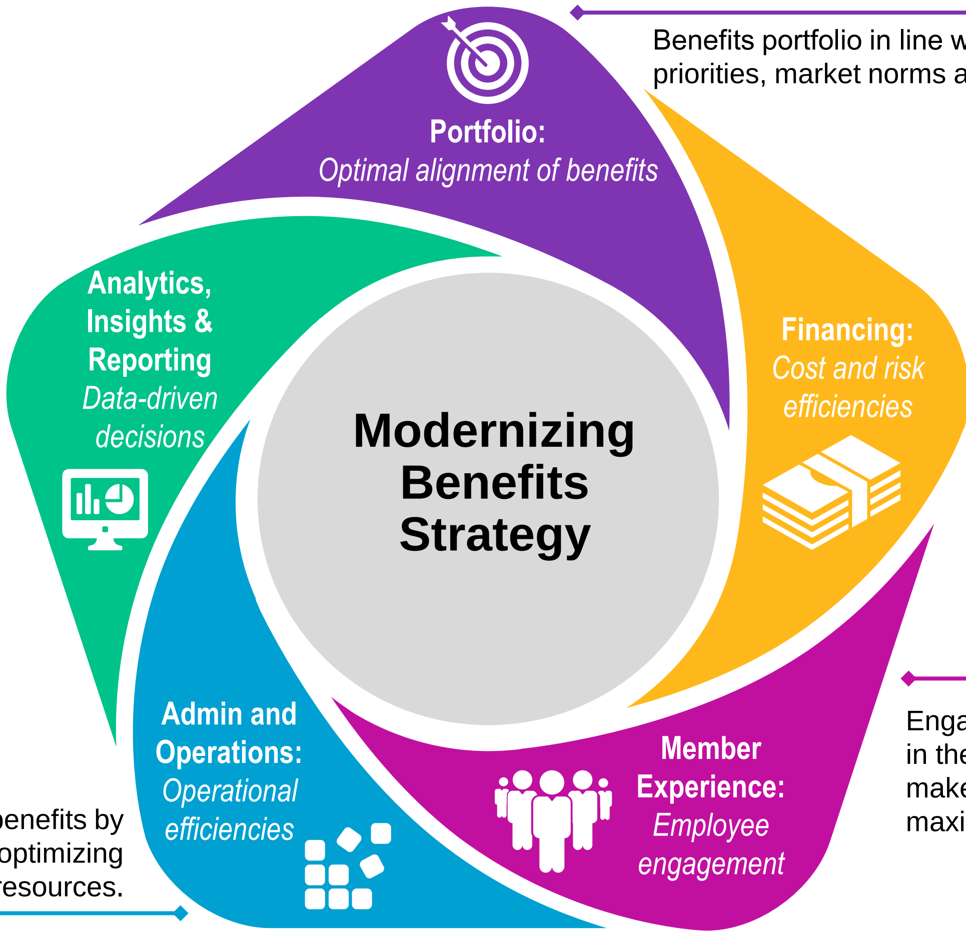
Meets Variety of Needs – Scope of benefit offerings are flexible to meet the needs and preferences of the State's diverse workforce

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

Appendix

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.

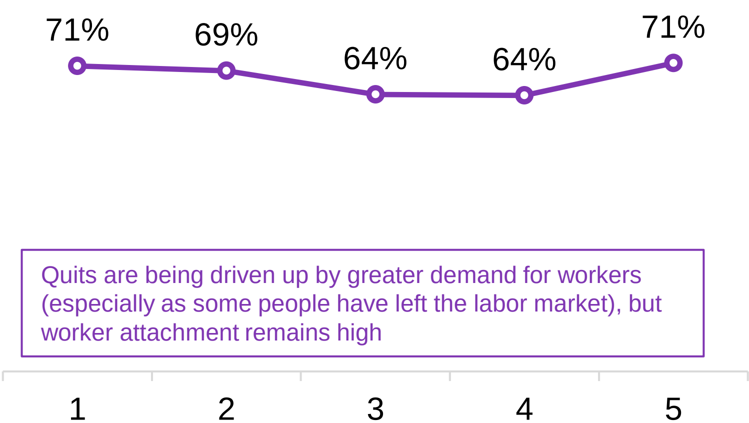
Efficiently administer benefits by leveraging technology and optimizing processes and resources.

Data-driven insights for informed decision-making.

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



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

Sample: Full-time employees only.
Note: Percentages indicate 'agree' or 'strongly agree'.
Source: Various years of Global Benefits Attitudes Survey, United States

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.
Source: 2022 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

Top reasons for staying		Top reasons for moving to new job	
Pay and bonus	39%	Pay and bonus	56%
Job security	38%	Health benefits	39%
Health benefits	34%	Job security	33%
Flexible work	29%	Flexible work	31%

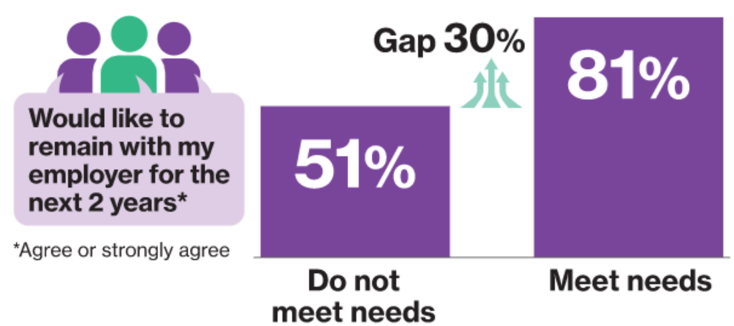
Note: Percentages indicate being selected as the top 5 most important reasons.
Sample: Full-time employees.
Source: 2022 Global Benefits Attitudes Survey, United States

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

	An important reason to join		An important reason to stay	
	2010	2022	2010	2022
Retirement plan	25%	47%	41%	60%
Healthcare plan	32%	48%	50%	60%

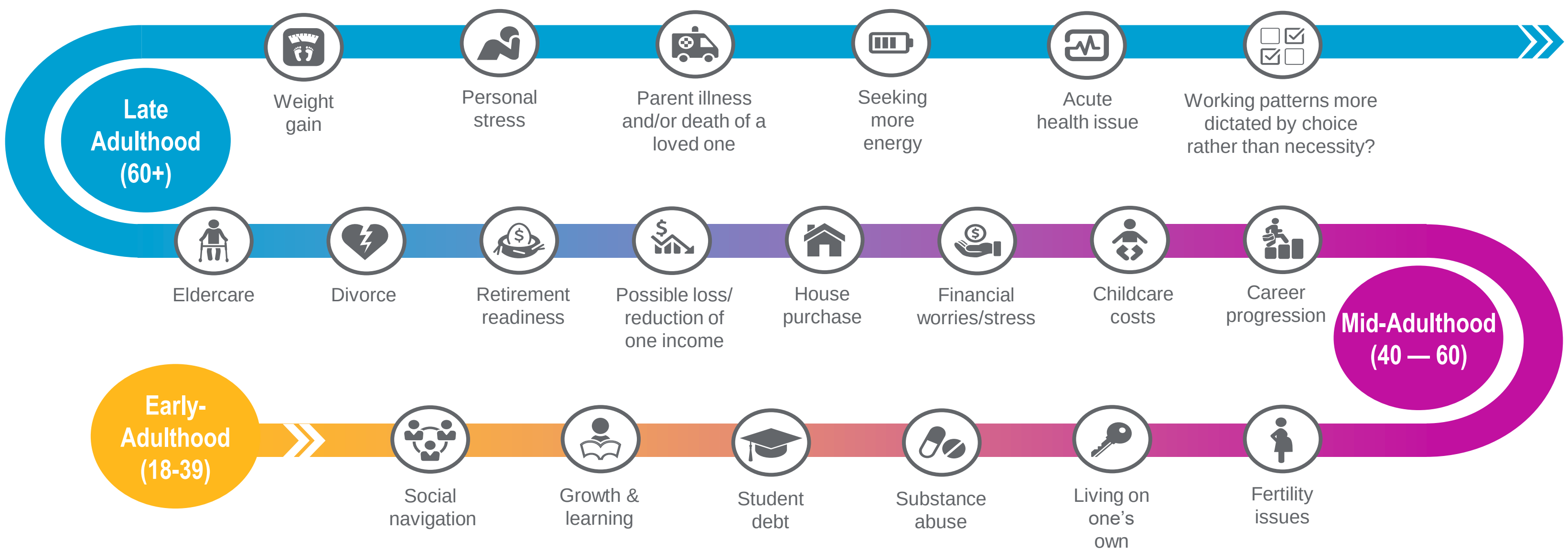
Note: Percentages indicate "agree" or "strongly agree"

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



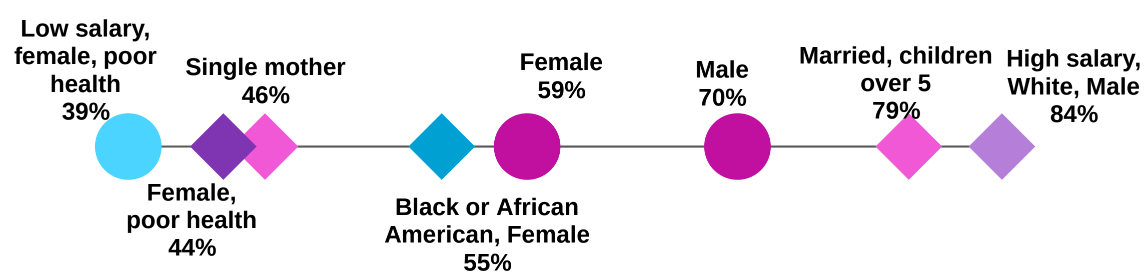
*Agree or strongly agree

Meeting employees where they are – and – where they want to go through a modern, sustainable employee experience



Are benefits meeting employee needs?

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.*

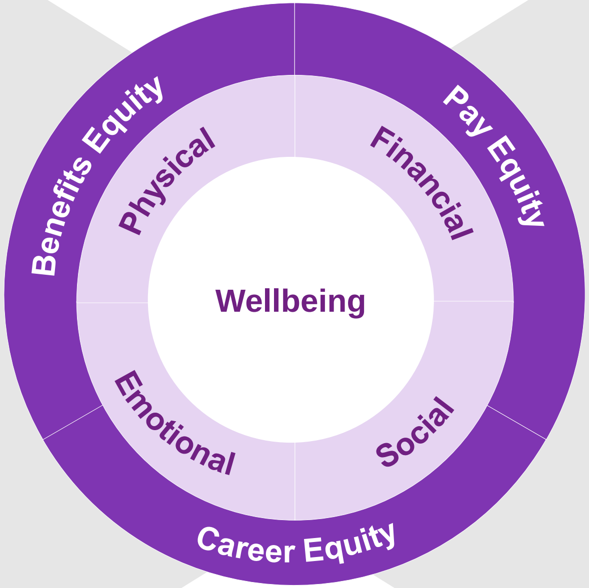
Gender		Generation				Health Status			Chronic Conditions	
Female	Male	Boomers	Gen X	Gen Y	Gen Z	Very good	Good	Fair or poor	No	Yes
Flexible work	Retirement	Retirement	Retirement	Flexible work	Manage emotional health	Retirement	Retirement	Retirement	Retirement	Retirement
Retirement	Flexible work	Getting most from benefits	Flexible work	Retirement	Flexible work	Flexible work	Flexible work	Flexible work	Flexible work	Flexible work
Manage emotional health	Getting most from benefits	Flexible work	Getting most from benefits	Career	Manage health	Getting most from benefits	Manage health	Manage health	Getting most from benefits	Manage health
Manage health	Manage health	Manage health	Manage health	Manage health	Career	Manage health	Getting most from benefits	Getting most from benefits	Manage health	Getting most from benefits
Getting most from benefits	Career	Insurance products	Career	Manage emotional health	Retirement	Career	Manage emotional health	Manage emotional health	Career	Insurance products
Career	Insurance products	Manage emotional health	Manage emotional health	Day-to-day finances	Insurance products	Insurance products	Career	Insurance products	Manage emotional health	Manage emotional health
Insurance products	Manage emotional health	Career	Insurance products	Getting most from benefits	Day-to-day finances	Manage emotional health	Insurance products	Career	Insurance products	Career

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

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

Rank	Employee		Employer		Rank
1	**44%**	Increased Flexibility and Choice	Wellbeing Support	**69%**	1
2	**41%**	Wellbeing Support	Improved Communication	**58%**	2
3	**40%**	Listening Strategy	Enhanced Tools	**49%**	3
4	**39%**	Benefits for Low-wage	I&D in Benefits Provision	**46%**	4
5	**28%**	Enhanced Tools	Increased Flexibility and Choice	**33%**	5
6	**27%**	Improved Communication	Listening Strategy	**12%**	6
7	**24%**	I&D in Benefits Provision	Benefits for Low-wage	**6%**	7

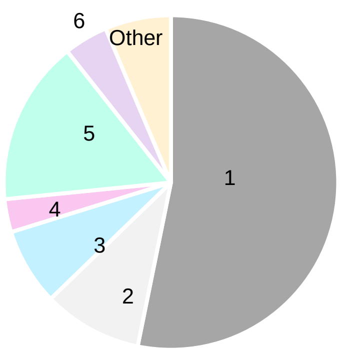
Employees want to be heard!

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



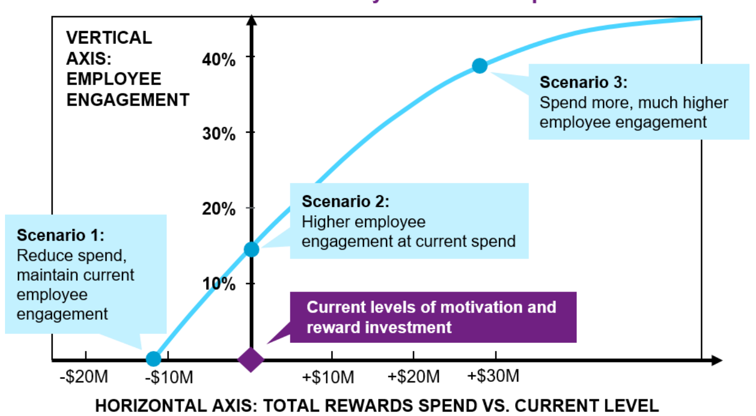
Conjoint Analysis + Financial Optimization

↓

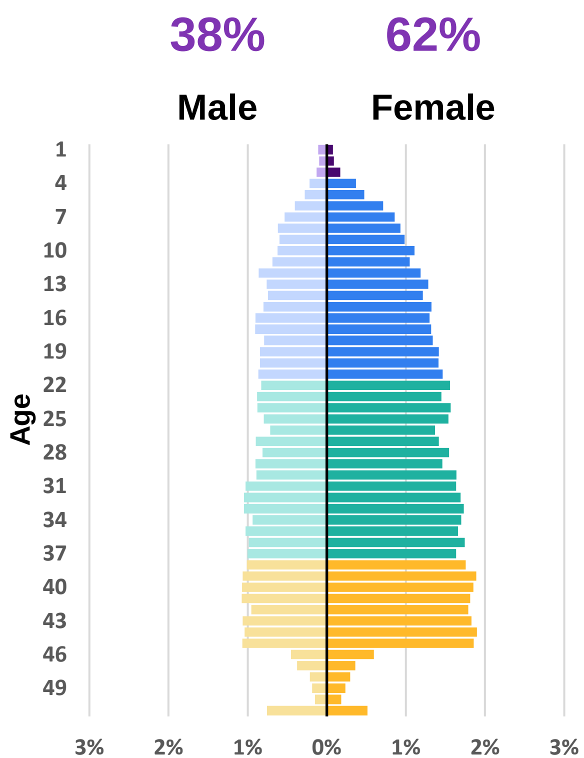
Optimum level and allocation of investment

Segment-specific strategy

Outcome to be driven by total rewards priorities



Shifting demographic profile of the GHIP



47.1

Average age

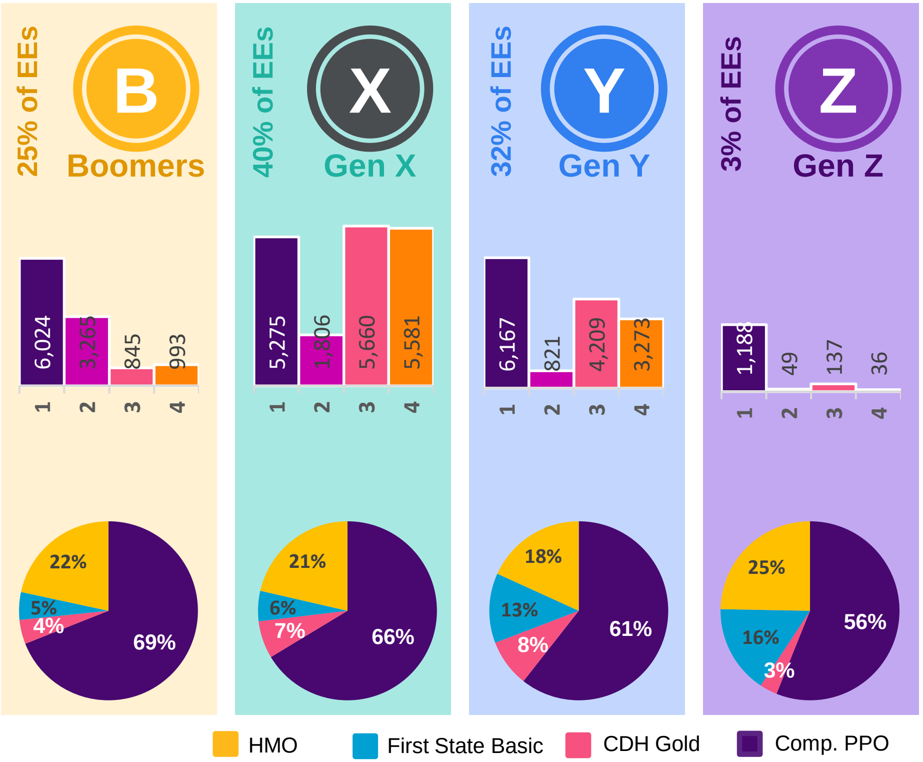
59%

% Covering dependents

65%

% Enrolled in Comprehensive PPO

Breakout by generational cohort (Includes non-Medicare retirees)



- 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

Foundational Benefits

- Base life
- STD
- Base LTD
- Base AD&D
- PTO
- Leaves
- Holidays
- 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.)

Personal Choice Benefits

- Dental and Vision
- Dependent Life
- Buy-up LTD
- FSA contribution
- Buy up AD&D
- Life Insurance

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

NEW
Two Areas for Consideration

Pre- and Post-Tax Elections

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 <u>taxable</u> to the employee and is a “use it or lose it” notional annual dollar amount and is used throughout the year

Considerations:

- Cost/Funding
- Subsidization
- Communication
- Administration
- Compliance

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

Which model best meets the needs of your US employees?