The Age of Individualized Benefits

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Minneapolis, Minnesota

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Stepan Consulting
Plymouth, Minnesota
## Generational Trends are Changing Expectations

<table>
<thead>
<tr>
<th>Incentives</th>
<th>Traditionalists (1%) (Born 1945 and before)</th>
<th>Baby Boomers (22%) (1946-1964)</th>
<th>Gen X (20%) (1965-1980)</th>
<th>Millennials (50%) (1981-1997)</th>
<th>Centennials (7%) (1998 and after)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Appreciation and recognition</td>
<td>Individual rewards</td>
<td>Rewards for results</td>
<td>Constant feedback</td>
<td>Personalized</td>
</tr>
<tr>
<td>Benefits</td>
<td>Embrace defined benefit retirement program</td>
<td>Make employment decisions based on benefits</td>
<td>Self-reliance</td>
<td>Creative benefits and time off</td>
<td>Create my own package</td>
</tr>
<tr>
<td>Rewards</td>
<td>Satisfaction of a job well done</td>
<td>Money, title, recognition</td>
<td>Flexibility and autonomy</td>
<td>Meaningful work</td>
<td>Divergent experiences</td>
</tr>
<tr>
<td>Base Salary</td>
<td>Loyalty to organization</td>
<td>Internal competitiveness</td>
<td>Hired guns/ mercenaries</td>
<td>Accessing opportunity</td>
<td>Tailored to me</td>
</tr>
<tr>
<td>Pay Increases</td>
<td>Cost of living adjustments</td>
<td>Seniority and internal equity</td>
<td>Pay increases tied to performance</td>
<td>Likely to share pay info</td>
<td>Keep information private</td>
</tr>
</tbody>
</table>

### New Emerging Total Rewards Options

- Retirement transition
- Reverse Mentoring
- Part-time work
- Elder care
- Grandchildren

- Money and title
- Internal equity
- Recognition

- Career advancement
- Work/Life balance
- Flexible work
- Performance-based rewards
- Team rewards
- Financial Planning
- Child’s education savings
- Elder care

- Divergent career pathing
- Mobility/rotational opportunities
- Sabbaticals; intrapreneurship
- Engaging/meaningful work
- On-site services and amenities
- Open vacation policies
- Inclusion programs, community
- Upgraded technology
- Parental leave
- Financial planning
- College loan tools/match; Debt repayment
- Home-buying assistance

_Sources_: 2020 forecast data based on Future Workplace Survey; CDC BRFSS 2012; Experian; Aon Hewitt 2015 Universe Benchmarks
Key Questions To Consider

How do health care benefits fit into our long-term total rewards strategy?

How much effort are we willing to take on to maintain a competitive and cost effective program?

What will our current and emerging workforce expect and demand from us?

What level of cost increase can we afford?

Will employer-provided health care survive in the new political world?
Future Experience Supports Individual Optimization . . .

**My Money**
- 401(k)/Roth 401(k)
- Life/Disability Insurance
- Emergency Savings
- College Savings/Loans
- Long Term Care Insurance
- Universal Life
- Whole Life

**My Health**
- Health Insurance
- Dental Insurance
- Vision Insurance
- Saving / Spending Accounts
- Hospital Indemnity
- Critical Illness
- Accident

**My Career**
- Professional training
- “Jobbatical”
- Recognition programs
- Technology
- Flexible work options
- Tuition Reimbursement

**My Life**
- Time Off
- Auto / Home Insurance
- Group Legal
- Identity Theft
- Pet Insurance
- Home Warranty
- Child / Elder / Pet Care
- Commuter Benefits

Employer sets flexible dollars; likely combination of flat amount and percentage of pay.

Suggested portfolios of benefits and rewards:
- Portfolio 1
- Portfolio 2
- Portfolio 3

Refine
Define Voluntary Benefits

- **Voluntary** plans are 100% paid by the employee (though employers are able to contribute, too). Employees can choose which **voluntary** plans are best for their own situation. Some **voluntary** plans pay cash **benefits** directly to employees to cover living expenses, lost wages, copayments and deductibles.

Recent Market Changes:

- Market based product refinements that are creating a more consumer friendly focused experience and understanding of value
- Employer group approach that leverages size and administrative ease to drive premium reductions and best-in-market terms and conditions
How Voluntary Benefit Fit into the Bigger Benefits Picture

- Varying generational wants and needs
- High Deductible Health Plans
- Expanded Eligibility
- Financial Well-Being

One Outcome of offering Voluntary Benefits is enhanced employee satisfactions
**Employer Voluntary Benefit Trends**

**Reasons for offering Voluntary Supplemental Medical Benefits**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet employees' needs with expanded options for coverage</td>
<td>48%</td>
</tr>
<tr>
<td>Support employee migration to or comfort with HDHP</td>
<td>29%</td>
</tr>
<tr>
<td>Design and pricing strategy to prepare for excise tax</td>
<td>7%</td>
</tr>
<tr>
<td>All of the above</td>
<td>26%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Supplemental Medical Coverage—Part of an Overall Strategy**

<table>
<thead>
<tr>
<th>Coverage Type</th>
<th>Current Approach/Keeping</th>
<th>Future Approach (may add in 3–5 years)</th>
<th>Not Interested or Discontinuing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident</td>
<td>59%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Critical Illness</td>
<td>45%</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Whole Life</td>
<td>32%</td>
<td>15%</td>
<td>53%</td>
</tr>
<tr>
<td>Hospital indemnity</td>
<td>22%</td>
<td>27%</td>
<td>52%</td>
</tr>
</tbody>
</table>

1Aon Health Survey 2016

2Aon Health Survey 2017

Among those employers using or interested in voluntary supplemental benefits, the primary purpose is to meet employees’ needs.
# What’s Hot: Supporting New Value Through Voluntary Benefits

<table>
<thead>
<tr>
<th>Established Plans</th>
<th>My Health</th>
<th>My Money</th>
<th>My Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Hospital Indemnity</td>
<td>• Long term care</td>
<td>• Auto / Home</td>
<td></td>
</tr>
<tr>
<td>• Critical Illness</td>
<td>• Universal and Whole Life</td>
<td>• Group Legal</td>
<td></td>
</tr>
<tr>
<td>• Accident</td>
<td>• Permanent Life with LTC</td>
<td>• Identity Theft</td>
<td></td>
</tr>
<tr>
<td>• Minimum Essential Coverage</td>
<td>• Term to Age 100 Life</td>
<td>• Discount Merchandise Purchasing</td>
<td></td>
</tr>
<tr>
<td>• Fixed Indemnity</td>
<td>• Disability</td>
<td>• Pet Insurance</td>
<td></td>
</tr>
<tr>
<td>• Dental / Vision</td>
<td></td>
<td>• Home Warranty</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emerging Opportunities</th>
<th>My Health</th>
<th>My Money</th>
<th>My Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Accident Expense</td>
<td>• Group Personal Umbrella</td>
<td>• Purchasing Power</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Home Loans</td>
<td>• Road Side Assistance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Student Loan Refinancing</td>
<td>• Home Warranty</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Short Term Loans</td>
<td>• Healthy Meals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Level Pay for Variable Hour Employees</td>
<td>• Onsite/Near site Pet Care</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 529 Plan Advising</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Involuntary Unemployment Coverage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Supplemental Health Plan Overview

<table>
<thead>
<tr>
<th></th>
<th>Critical Illness</th>
<th>Hospital Indemnity</th>
<th>Accident Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Offer</strong></td>
<td>• Guaranteed issue up to $30,000 in coverage</td>
<td>• Guaranteed issue coverage for employee, spouse, and child(ren)</td>
<td>• Guaranteed issue coverage for employee, spouse, and child(ren)</td>
</tr>
<tr>
<td></td>
<td>• Annual increases of $5,000 up to $30,000 in subsequent years</td>
<td>• 24-hour coverage (on and off the job)</td>
<td>• 24-hour coverage (on and off the job) and off-job coverage</td>
</tr>
<tr>
<td></td>
<td>• Issue age rates/attained age rates</td>
<td>• Hospital admission benefit ($1,000)</td>
<td>• Health Savings Account (HSA) compliant</td>
</tr>
<tr>
<td></td>
<td>• Includes $50 wellness benefit</td>
<td>• Hospital confinement (non-ICU and ICU)</td>
<td>• No pre-existing limitation provision</td>
</tr>
<tr>
<td></td>
<td>• Health Savings Account (HSA) compliant</td>
<td>• Includes wellness benefit</td>
<td>• Portable</td>
</tr>
<tr>
<td></td>
<td>• Portable</td>
<td>• Health Savings Account (HSA) compliant</td>
<td>• Claims are paid directly to the employee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Portable</td>
<td>• Payments are based upon injury</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Composite rates</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Pregnancy coverage</td>
<td></td>
</tr>
<tr>
<td><strong>Important Considerations</strong></td>
<td>• Pre-existing limitation provision</td>
<td>• Number of hours for admission benefit</td>
<td>• Fracture and dislocation benefits</td>
</tr>
<tr>
<td></td>
<td>• Benefit reductions</td>
<td>• Pre-existing limitation provision</td>
<td>• Accident follow-up benefit</td>
</tr>
<tr>
<td></td>
<td>• Additional occurrence and recurrence benefits</td>
<td>• Maternity coverage</td>
<td>• Emergency room benefit</td>
</tr>
<tr>
<td></td>
<td>• Additional benefits (Travel Connect, Health Advocate)</td>
<td>• Rehab facility daily benefit</td>
<td>• X-ray benefit included</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Accidental death and dismemberment (AD&amp;D) benefit</td>
</tr>
</tbody>
</table>
### Who? Demographic Benchmarking

#### Bar Chart

- **Total VB Block**
  - Male: 44%
  - Female: 56%

- **Accident¹**
  - Male: 49%
  - Female: 51%

- **Critical Illness¹**
  - Male: 41%
  - Female: 59%

- **Life**
  - Male: 47%
  - Female: 53%

#### Table

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Total VB Block</th>
<th>Accident¹</th>
<th>Critical Illness¹</th>
<th>Life</th>
<th>All Lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age &lt; 20</td>
<td>2%</td>
<td>1%</td>
<td>26%</td>
<td>26%</td>
<td>12%</td>
</tr>
<tr>
<td>20–29</td>
<td>21%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>30–39</td>
<td>24%</td>
<td>26%</td>
<td>21%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>40–49</td>
<td>25%</td>
<td>28%</td>
<td>19%</td>
<td>19%</td>
<td>23%</td>
</tr>
<tr>
<td>50–59</td>
<td>21%</td>
<td>20%</td>
<td>11%</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>60+</td>
<td>7%</td>
<td>5%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>

¹: VB Block = Vehicle Block

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5C-10
Target/ AON Partnership

• 2012 began to look at the market
  – Education on available benefits
  – RFP conducted
  – For internal reasons decided not to buy

• 2016 went to market again
  – Education on the market and available benefits
  – RFP for Life then RFP for voluntary supplemental medical coverages
  – Made decision to buy
Target’s Process

- Voice of Customer—What do employees want
- Design Plan to meet employee needs
- Start Simple
- Competitive Bid Process
- Communication
- Various Enrollment processes
- Decision Tools
# Target’s Voluntary Benefit Decision

## Recommended:

- Supplemental Medical Benefits
- Identity Theft
- Group Legal Renewal Contract

Solutions that integrated into the strategic goal to support Team Members overall Wellbeing—Physical/Financial/Emotional health

## Not Recommended:

- Pet Insurance

Product had not matured to the group level—greater value proposition and ease of administration
Eligibility

• All Full-time and part time team members who work more than 20 hours
• Do not have to take a Target Medical Plan to enroll in Supplemental Medical Benefits
• Team members can cover their spouse, children or family
Promoting the New Benefits

• Announced in the communication sent to all TMs in early January

• Highlighted in:
  – Get Ready to Enroll Email
  – It’s Time to Enroll Email
  – Don’t Forget to Enroll Email
  – OE Kit Flyer
  – Welcome Back Page (Personalized)
  – Tools to Help You Choose Page

• Education provided in Decision Guide

• Guidance and education provided by Build Your Own Adventure Tool (Supplemental Medical only)
Decision Tools

Choose Your Own Adventure
- Critical Illness Insurance
- Hospital Indemnity Insurance
- Accident Insurance
Enrollees by Product
Total Eligible 183,405

- Critical Illness: 22,064 (12% of Eligible)
- Accident: 20,701 (12% of Eligible)
- Hospital Indemnity: 16,229 (9% of Eligible)
- ID Theft: 8,391 (5% of Eligible)
Target’s Results

HQ
7,981 of 12,794 TMs
- Enrolled: 38%
- Unenrolled: 62%

DC
9,969 of 17,974 TMs
- Enrolled: 45%
- Unenrolled: 55%

Stores
41,044 of 152,637 TMs
- Enrolled: 63%
- Unenrolled: 37%
How many plans people enrolled in

- **1 Plan**: 12,514
- **2 Plans**: 8,249
- **3 Plans**: 9,994

**Total TMs**
Decision Tool Learnings

Most Common Answers for Critical Illness:
- Meds for chronic condition
- Non-smoker
- No money saved

Most Common Answer for Hospital Indemnity:
- Routine check-up

Most Common Answer for Accident:
- No money saved
Evolving Voluntary Benefits

- Don’t overwhelm employees first year with too much
- Single Coverage Option vs Multiple Coverage Options
- Once employees have some experience with the product, you can offer more options
Questions?

Thank you!