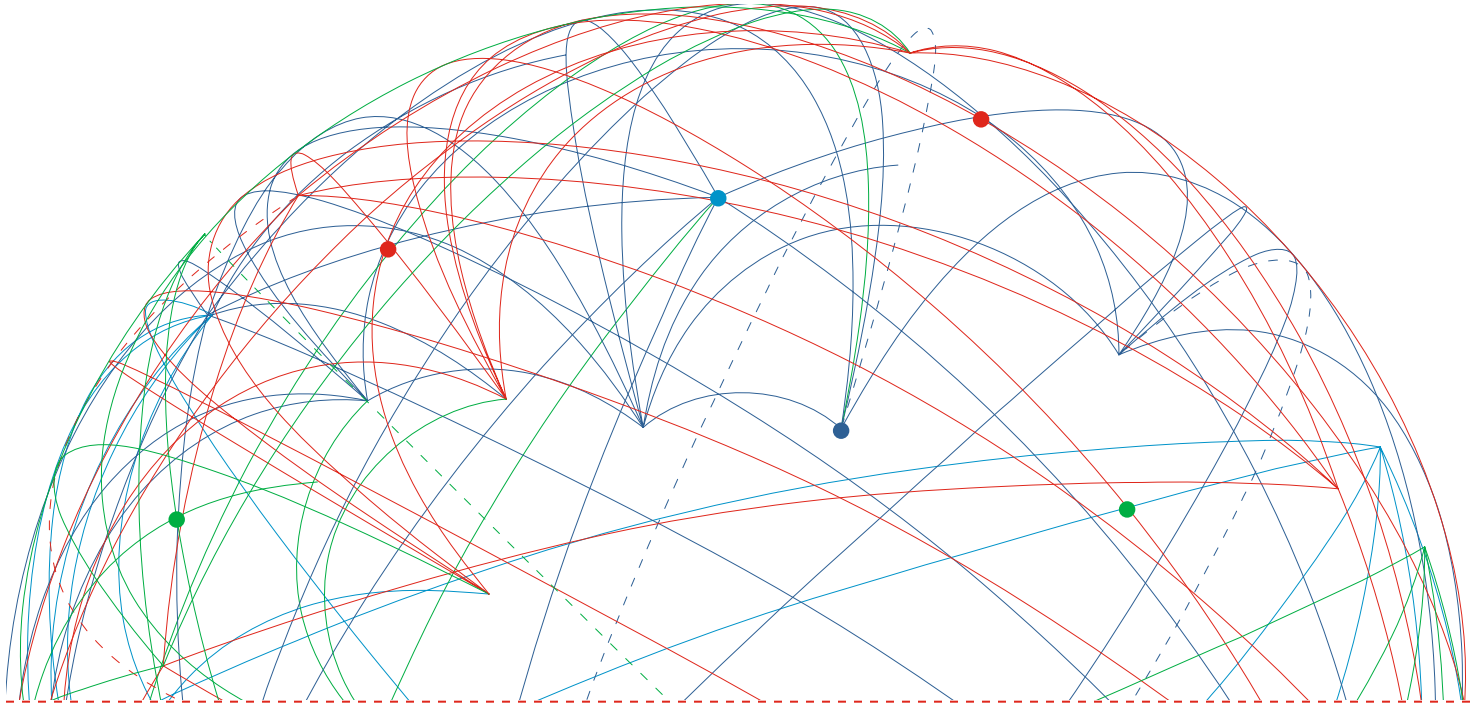


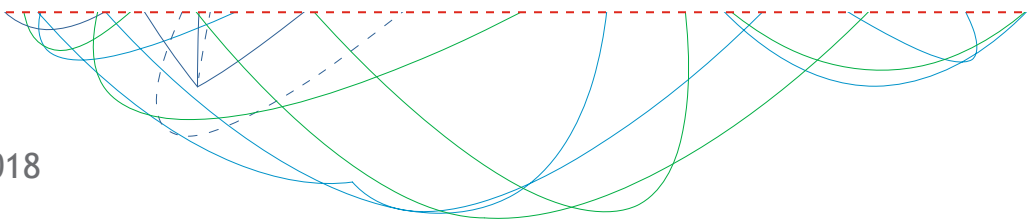


Private Exchange Research Council



# Understanding the Influence of Decision Support on Employee Benefit Selections

March 2018



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# Understanding the Influence of Decision Support on Employee Benefit Selections

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## Overview

Employers have long desired the ability to offer more choice in benefits to their employees in order to stay competitive. Delivering on this intention through traditional benefits models without increasing costs or complexity, or decreasing benefit value, has proven challenging. Now, with considerable advancements in new technology platforms, a high-value solution that makes choice manageable through decision support can be delivered in a cost-effective manner. What we only dreamed about 20 years ago is today a reality for thousands of employers who have already made the switch to a benefits marketplace, also known as a private exchange.

Benefits marketplaces have arisen to help employers optimize their benefits strategy by providing personalization in benefits while controlling costs. These marketplaces provide the following advantages to employers looking to offer more to their employees in terms of their benefits:

**Choice and flexibility:** Benefits marketplaces are online stores in which employees can shop among diverse benefit offerings from leading national and regional carriers.

**Decision support:** Giving employees more options without also providing the tools they need to make educated benefit decisions can lead to an overwhelming or intimidating experience. Decision support enabled by technology provides this guidance seamlessly.

**Price transparency:** When combined with comprehensive education and decision support, knowing the true prices of their plans and services makes employees better, more informed shoppers.



**Employee engagement:** By giving them money and letting them buy what’s right for them, employees are decidedly more engaged in their health care decisions and more aware of the overall value of their benefits.

**Personalization:** Employees can use decision support tools to help design a benefits package tailored to their unique needs at price points that work best for them.

Previous research conducted by the Private Exchange Research Council (PERC) considered product offerings and choices in benefits marketplaces. In this paper, we’ll explore how employees enrolling on benefits marketplaces utilize system recommendations to choose from among the products and plans available to them.



Specifically, we’ll address the following questions within each topic area:

### Recommendations and product choices

- What level of guidance do employees prefer?
- How many distinct recommendations do employees receive?
- What products are typically recommended to employees for purchase?

### Impact of recommendations on employee engagement and purchases

- Do employees buy what is recommended?
- Which employee groups are most responsive to product recommendations?
- Are employees buying the recommended medical plan, or to what extent do employees “buy up” or “buy down” from the recommended plan?
- Are employees buying Health Savings Account (HSA)-qualified plans when recommended to do so?
- Are employees buying the recommended dental and vision plans?

### Employee benefit elections compared with employer spend

- How much do employees spend compared with the recommendation and the subsidy provided by their employer?

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## Executive summary

As new products and plans continue to be introduced into the market, **it's important to consider how employees are responding to increased choice**. Based on employee behavior on Liazon-powered marketplaces, we can gauge the impact and usefulness of a recommendation engine to help guide decision making in an increasingly complex environment.

### The importance of a recommendation engine

- When providing a choice of benefits through a marketplace, most employers embrace decision support and individual product recommendations as a vital tool to help guide their employees in selecting their benefits.
- The majority of employees are receiving one distinct recommendation for a portfolio of products and plans from the system. However, 19% receive between two and four distinct recommendations, and just over 1% receive five or more.
- On average, female users, those with less income, older employees and those with dependents tend to receive more than one distinct portfolio recommendation.
- Medical, dental and disability insurance were among the most recommended products in 2017.

### The impact of recommendations on employee engagement and purchases

- Employees tend to purchase recommended products and plans, especially for more traditional benefits, such as medical, dental and vision insurance.

- Over time, more employees are likely to purchase the recommended medical plan: In 2013, 33% of employees bought the recommended medical plan, steadily increasing each year to 46% in 2017.
- The recommendation engine has a significant impact on purchases of HSA-qualified medical plans. Employees for whom these plans are recommended are far more likely to purchase them, compared with employees who either were not recommended to buy them or bypassed the recommendation.
- Employees tend to rely on their own judgment more than the recommendation when choosing dental and vision insurance. They are either choosing the recommended plan or not purchasing this coverage at all, rather than buying up or down from the recommended plan.

### Employee benefit elections compared with employer spend

- Employers using Liazon-powered marketplaces funded approximately 70% of their employees' benefits costs in 2017 (for employees who elected medical insurance) with an average subsidy of \$7,385.
- On average, employees spent approximately \$3,200 of their own money above their employer's subsidy toward their overall benefits for the 2017 plan year.
- Employees are making careful decisions based on their own budgetary concerns as to how they want to spend their money: The average cost for a recommended benefits portfolio on Liazon-powered marketplaces in 2017 was roughly \$11,800 for employees who elected medical insurance. On average, employees spent 11% under the recommended amount.



## Approach/Methodology

### About the data

This analysis of behavior patterns in benefits marketplaces is based on a study of 1,356 companies offering benefits through a Liazon-powered marketplace between 2013 and 2017. We considered a subset of 386 companies that utilized a marketplace in 2017, which only includes companies with a benefits effective date of January 1, 2017, and therefore is a smaller subset than for the previous years. Benefit enrollment data from nearly 155,000 employees were included in the study for 2017. The different samples analyzed include those who purchased at least one product across all categories, with the exception of employer-paid products, as well as those who purchased medical coverage. To make meaningful comparisons over time, data from the previous four years were also studied.

	2013	2014	2015	2016	2017 <sup>1</sup>
Total employees and dependents	49,674	152,335	325,834	368,951	353,505
Employees only	30,481	97,535	205,410	239,231	219,654
<b>Employee study sample</b>	<b>21,866</b>	<b>81,840</b>	<b>155,253</b>	<b>165,836</b>	<b>154,869</b>
Subgroups:					
Employee study sample who purchased any plan across all product categories (net employer-paid products)	16,730	54,108	116,215	126,567	129,236
Employee study sample who purchased medical insurance	13,908	44,278	88,704	97,265	97,810
<b>Number of companies in study sample</b>	<b>301</b>	<b>583</b>	<b>741</b>	<b>771</b>	<b>386</b>

<sup>1</sup> Represents groups with 1/1/2017 benefits effective dates only

Note: Some companies offer life and disability insurance as employer-paid offerings, which are excluded from our study sample.



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## Recommendations and product choices

Employees enrolling in benefits through Liazon-powered marketplaces have access to a robust decision support system, including a recommendation engine, in which they fill out a brief questionnaire to gauge important information about their health care utilization and preferences, along with other socioeconomic factors. Based on their responses, employees receive a personalized recommendation for a portfolio of benefit products and plans that will work together to meet their individual and family needs. Alternatively, employers may also include an option for employees to bypass the questionnaire and shop in the marketplace on their own without a recommendation. It's important to note that the option to receive a recommendation is always available, even if employers choose to include a mechanism to bypass

it. However, many employers choose not to make the bypass option available in their marketplaces, as they view the individual product recommendations as a vital tool to help guide their employees in selecting their benefits.

For 2017, less than half of employers (48%) using Liazon-powered marketplaces offered the option to bypass the recommendation, indicating the value employers place on ensuring their employees have decision support when enrolling in their benefits. Roughly 74% of employees used the recommendation engine to aid in their benefits selection.

For the remainder of this report, we focus primarily on data surrounding choices made by employees who used the recommendation engine in order to better understand employee behavior in benefits marketplaces with decision support.

### How Would You Like to Get Started?



Answer questions and get a custom recommendation highlighting the benefits that fit you best.

[Get a Recommendation](#)



Read information about the benefits and reasons why you should consider selecting them.

[Start Shopping](#)



## How many distinct recommendations do employees receive?

When using the recommendation engine, employees have the option of accepting the benefits portfolio recommended by the system (either by buying the recommended plans or using the recommended portfolio as a starting point from which to adjust their selections). They also have the option of going back to revisit some of the answers to their profile questions in order to generate a different recommended portfolio.

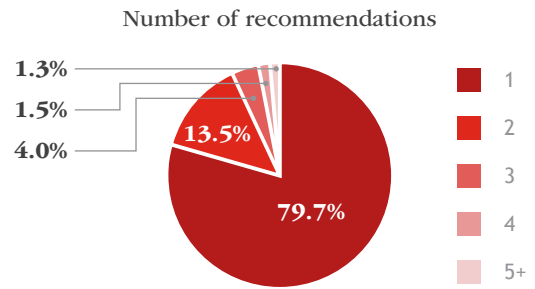
The majority of employees, 80%, receive one distinct recommendation for a portfolio of products and plans from the system. However, 19% receive between two and four distinct recommendations, and just over 1% receive five or more.

Female users, those with less income and older employees (those born between 1946 and 1964), on average, are more likely to receive more than one distinct portfolio recommendation. Those with dependents are also more likely to receive more than one recommendation, likely driven by the fact that there are more elements that go into their decision (i.e., since they are covering multiple people, they may be more interested in adjusting their answers to certain questions to see the impact on their recommended portfolio). In contrast, those who buy single coverage may be less concerned about making what they perceive to be a “wrong” decision, so they feel more comfortable accepting the initial recommendation they receive. (See Figure 1-1.)

Figure 1-1

## How many distinct recommendations do employees receive?

Year=2017



### Average number of recommendations

#### Generation

Born in 1927 to 1945	1.24
Born in 1946 to 1964	1.38
Born in 1965 to 1980	1.35
Born in 1981 to 2000	1.27

#### Gender

Female	1.38
Male	1.28

#### Salary

<\$45K	1.35
\$45K to \$65K	1.32
\$65K to \$100K	1.31
\$100K+	1.29

#### Family status

With dependents	1.42
Without dependents	1.26

Sample: Data representative of all employees in the study sample with a recommendation. N=97,031.



## What products are employees typically recommended to buy?

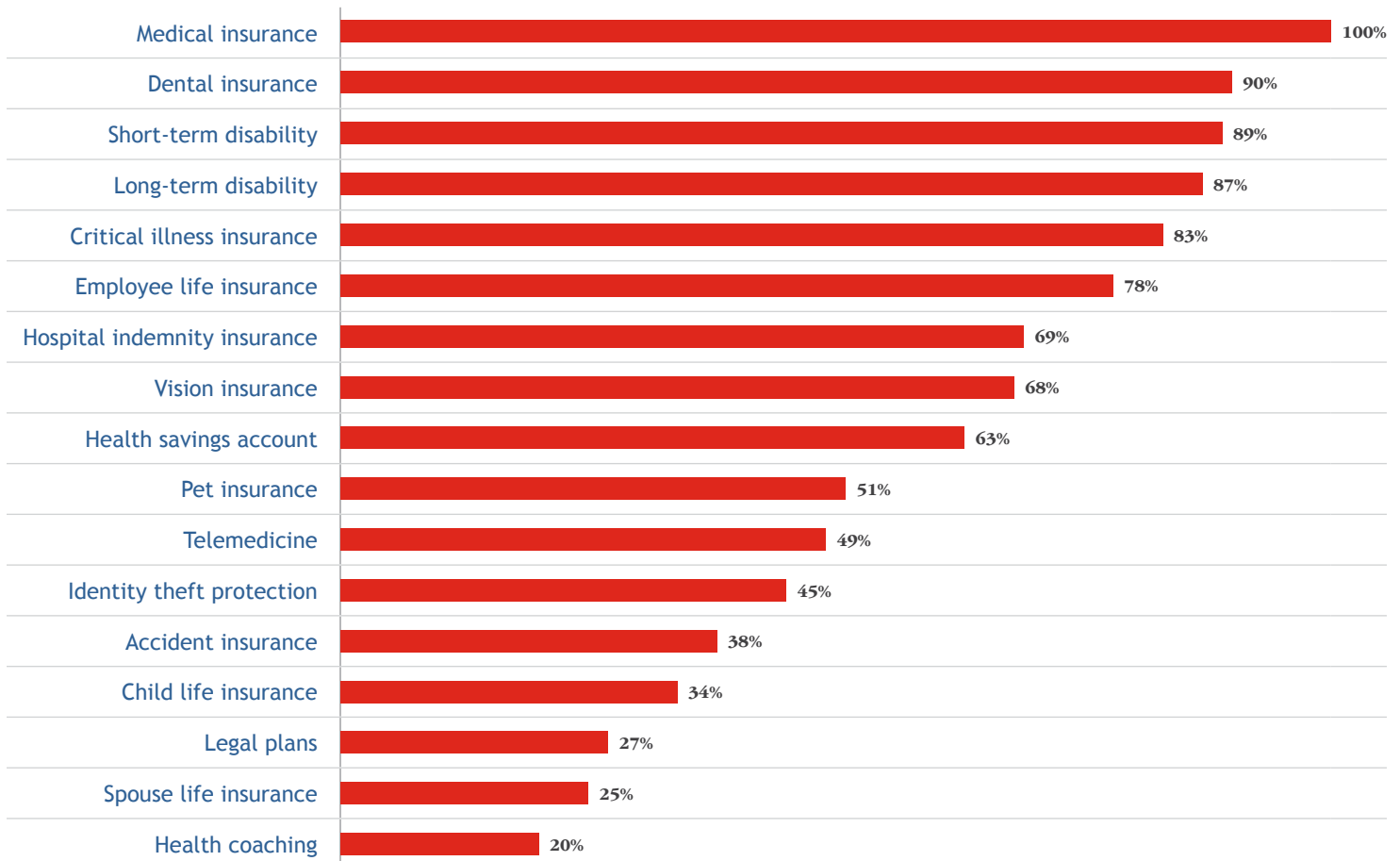
In addition to medical insurance (recommended to virtually 100% of employees), the majority of employees are recommended to buy dental (90%) and vision insurance

(68%). Beyond these traditional benefit offerings, other products employees might be seeing for the first time in their recommended portfolio include critical illness insurance (83%), hospital indemnity insurance (69%) and identity theft protection (45%). HSAs are recommended to 63% of employees. (See Figure 1-2.)

Figure 1-2

## What products are typically recommended for employees to buy?

Year=2017



Sample: Data representative of employees in the study sample who had recommendations.  
 Note: Some companies offer life and disability insurance as employer-paid offerings, which are excluded from our figures.



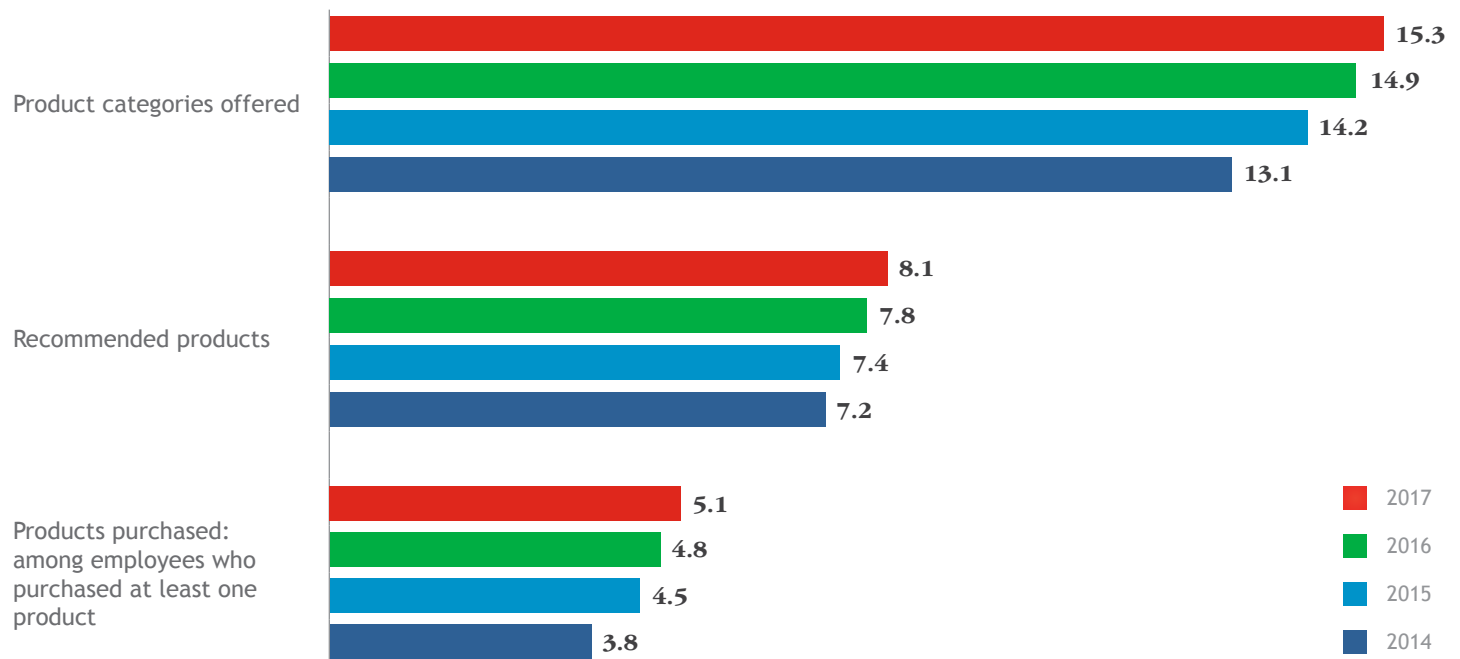


## Impact of recommendations on employee engagement and purchases

Over time, employers are steadily offering more products to their employees, from an average of 13.1 to 15.3 between 2014 and 2017. As a result, employees have seen increases in the number of products being recommended. Subsequently, the average number of products they purchase has increased by 34% during this same period – from 3.8 to 5.1 – indicating that employees are taking advantage of the newer products being offered to them. (See Figure 2-1.)

Figure 2-1

How many product categories are offered, recommended, and purchased, 2014 to 2017?



Sample: Data representative of all employees in the study sample who had a recommendation. Net employer-paid product categories.



## Do employees buy what is recommended?

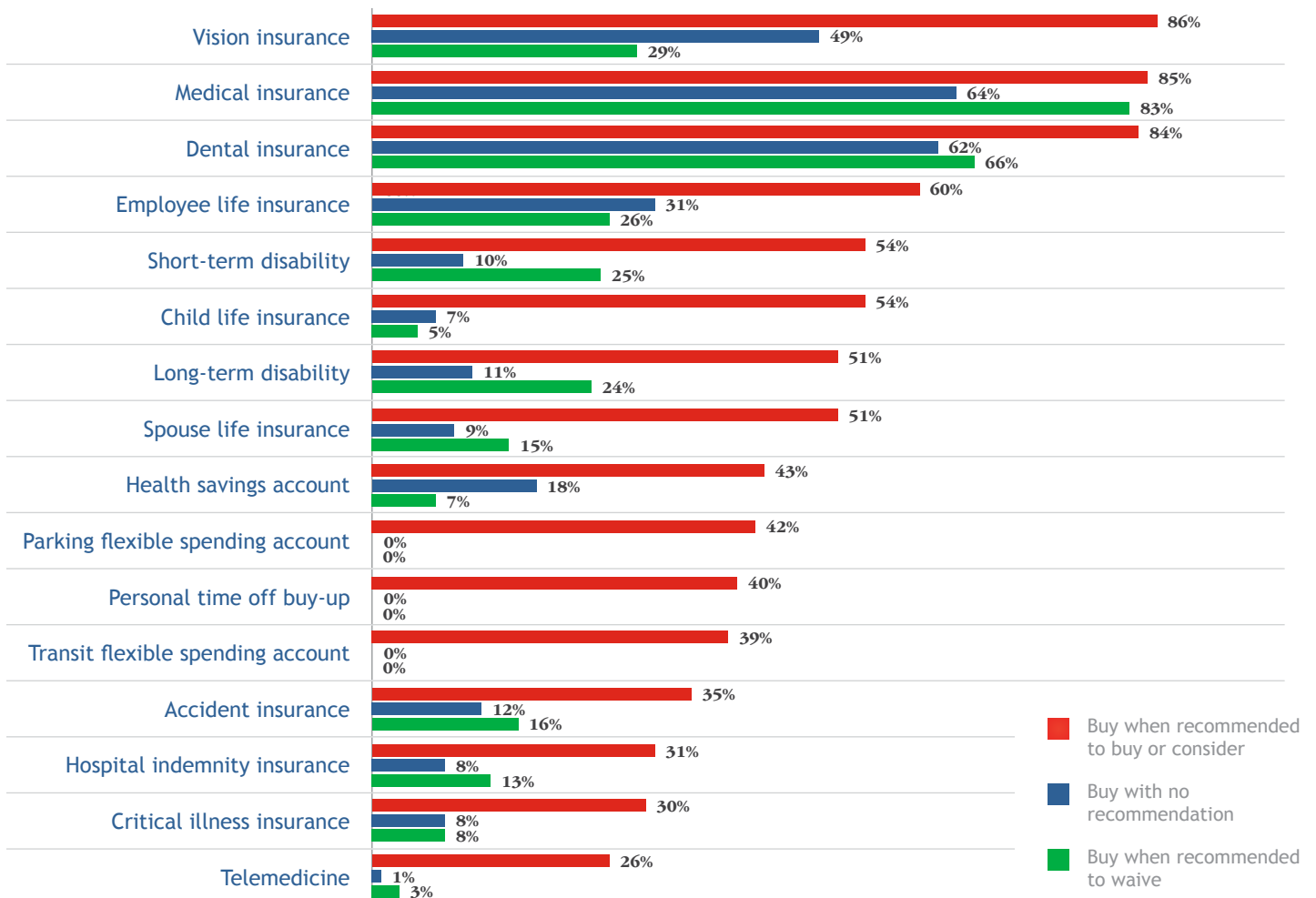
Taking a closer look at product selections, we find that vision, medical, dental and life insurance are the most purchased when recommended. When it comes to other

products, such as short- and long-term disability insurance, we see that the recommendation is helping to drive employee decisions to purchase, i.e., more employees are buying when recommended, as compared with buying when there is no recommendation. (See Figure 2-2.)

Figure 2-2

### Do employees buy the recommended products?

Year=2017



Sample: Data representative of employees in the study sample with at least one plan purchase.  
 Note: Some companies offer life and disability insurance as employer-paid offerings, which are excluded from our figures.



For employees who don't receive a recommendation and instead shop on their own, we see the largest percentage of employees buying medical (64%), dental (62%) and vision insurance (49%). As these are typically the most commonly known and understood benefits, it's not surprising that employees would gravitate to these products when shopping on their own. However, there is a drop-off in purchases of other products that employees are likely to be less familiar with, such as supplemental health products. This leads us to believe that employees might not be taking the time to learn about the advantages of these products and how they can help to provide protection in ways that medical insurance alone doesn't cover. Further, it shows the value of the recommendation engine in encouraging employees to consider different benefit products. (See Figure 2-2.)

## Which employee groups are most responsive to the recommendation they receive?

We set out to learn if there were any variations among demographics in terms of how people respond to the

recommendation. As discussed, we see that certain demographic groups are more likely to revisit the recommendation process a second or more times. But how do different demographic groups respond to specific product recommendations? (See Figure 2-3.)

Of note:

- Employees who choose HSA-qualified medical plans tend to round out their benefits portfolio with supplemental health plans, such as accident and critical illness insurance, when recommended to do so.
- Accident and critical illness insurance are chosen among those in poor health, when recommended.
- Generations X and Y are more likely to follow recommendations concerning the purchase of life insurance.
- Not surprisingly, younger employees gravitate toward pet insurance and paid time off (PTO) buy-up, when recommended.

Figure 2-3

## Which employee groups are most responsive to recommendations to buy particular products?

Year=2017

Dental insurance	Generation X and Y; Higher income
Vision insurance	Generation X and Y
Accident insurance	Male; Generation Y; Poor health; Single; Purchased HSA-qualified plan
Critical illness insurance	Generation Y; Poor health; Single; Purchased HSA-qualified plan
Employee life insurance	Generation X and Y; With dependents; Poor health
Health savings account	Male; Generation Y; Highly paid; Good health status; With dependents
Medical flexible spending account	Baby boomers; Highly paid; With dependents; Did not purchase HSA-qualified plan; Poor health
Pet insurance	Male; Generation Y
PTO buy-up	Female; Generations X and Y; Lower income; Single; Poor health

Sample: Data representative of employees in the study sample with at least one plan purchase and who received a recommendation.



## Are employees buying the recommended medical plan?

According to 2017 research conducted by Willis Towers Watson, 84% of companies offer choice in medical plans.<sup>2</sup> With choice becoming more widespread, it's worthwhile to examine how employees utilize the system recommendation in choosing a medical plan.

Nearly half, or 46%, of those employees who received a recommendation to buy medical insurance purchased the recommended plan in 2017 – a 39% increase compared with 2013. This increase year over year signals that employees are becoming more trusting of the recommendation over time.

These figures are in line with expectations, as data later on in this analysis indicate that employees use the recommendation as an anchor point, and then adjust their purchase decisions from there. (See Figure 2-4.)

### Recommendations lead to satisfying benefit choices

Liazon's 2017 Employee Survey report found that after one year, 92% of employees were satisfied with the benefits they purchased on the marketplace.<sup>3</sup>

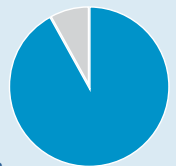
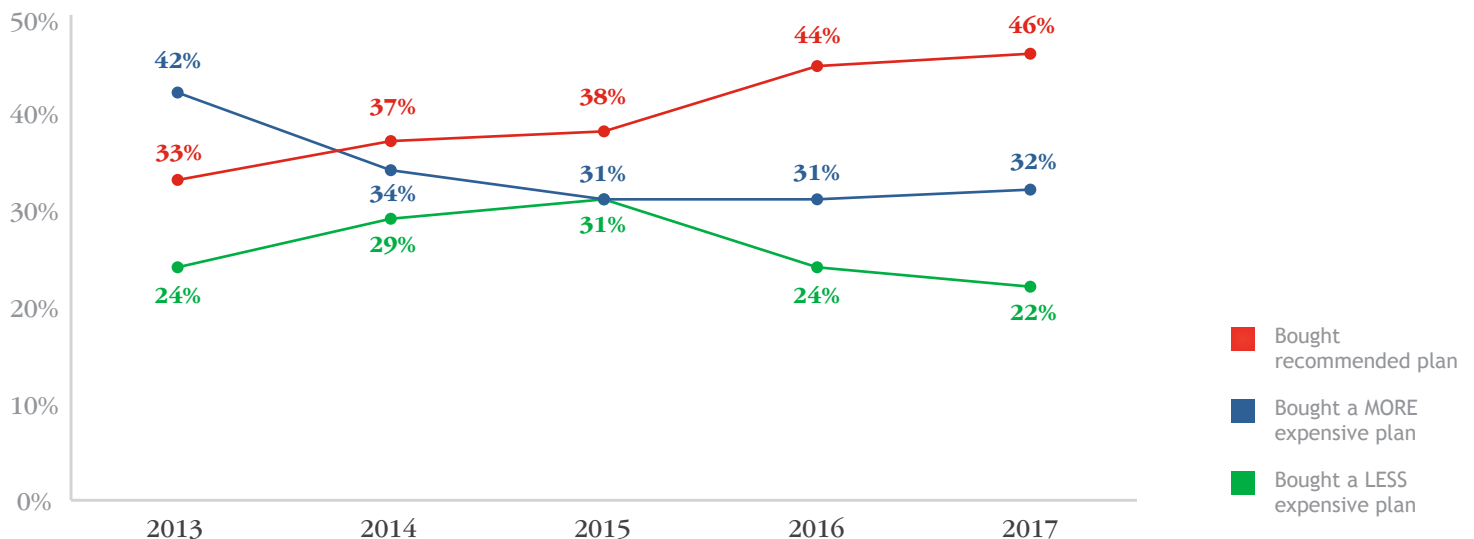


Figure 2-4

### Did employees buy the recommended medical plan?



Sample: Data representative of all employees in the study sample who are recommended to buy a medical plan. Recommended plan is based on any recommendation the employee received and was matched based on same product ID, coverage tier and price.

<sup>2</sup> 22nd Annual Willis Towers Watson Best Practices in Employer Health Care Survey, 2017

<sup>3</sup> 2017 Liazon Employee Survey



For employees who don't buy the recommended medical plan, we see a trend toward buying a higher level of coverage: In 2017, 32% bought a more expensive plan, whereas 22% bought a less expensive plan. This finding highlights that employees will not always gravitate toward the lowest-cost plan when given meaningful choice with full price transparency, but instead will seek out the best level of coverage for them and their families. (See Figure 2-5.)

Digging deeper into the cost levels of recommended medical plans, 40% of employees received a recommendation to buy a plan that cost somewhere between the least expensive and the median in terms of annual premium. We also see that nearly one-third of employees received a recommendation to buy a plan that cost somewhere between the median and the most expensive.

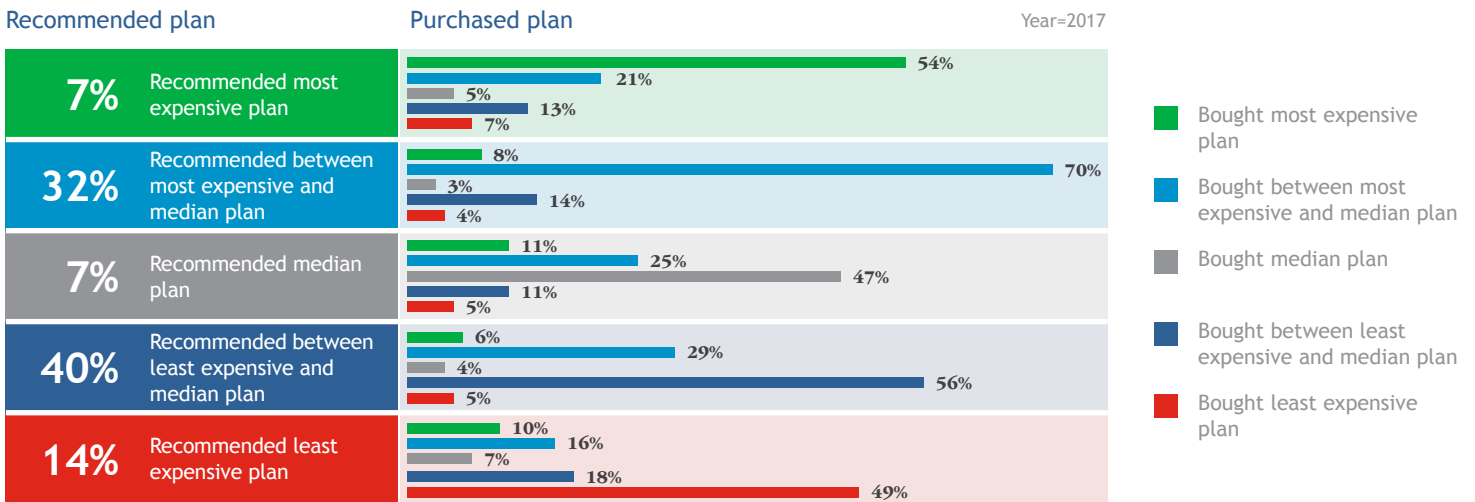
Additionally, we can see that nearly 50% or more of employees are following these recommendations, or making small adjustments by selecting a medical plan that is slightly more or less expensive than what was recommended, but still selecting a plan that falls generally within that price range.

This finding suggests that employees are using the recommendation as an anchor point for their decision, and then making minor adjustments from there.

The data further emphasize that employees are not automatically gravitating to the lowest- or highest- cost plan in spite of the recommendation. Instead, the recommendation is helping to identify those employees who may need more comprehensive coverage, and employees are then making educated decisions about what's best for their unique needs and their budgets.

Figure 2-5

## How much do employees “buy up” or “buy down” from the recommended medical plan?



Sample: Data representative of employees in the study sample who purchased a medical plan and had a recommendation.



## Are employees buying HSA-qualified medical plans when recommended?

Over time, more employees are receiving a recommendation to purchase an HSA-qualified plan (50% in 2017 versus 40% in 2015). This helps to explain why we are seeing a trend toward employees buying a medical plan that is more expensive than what was recommended. Since HSA-qualified plans tend to be lower in cost, there are more opportunities for employees to spend more on another option. (See Figure 2-6.)

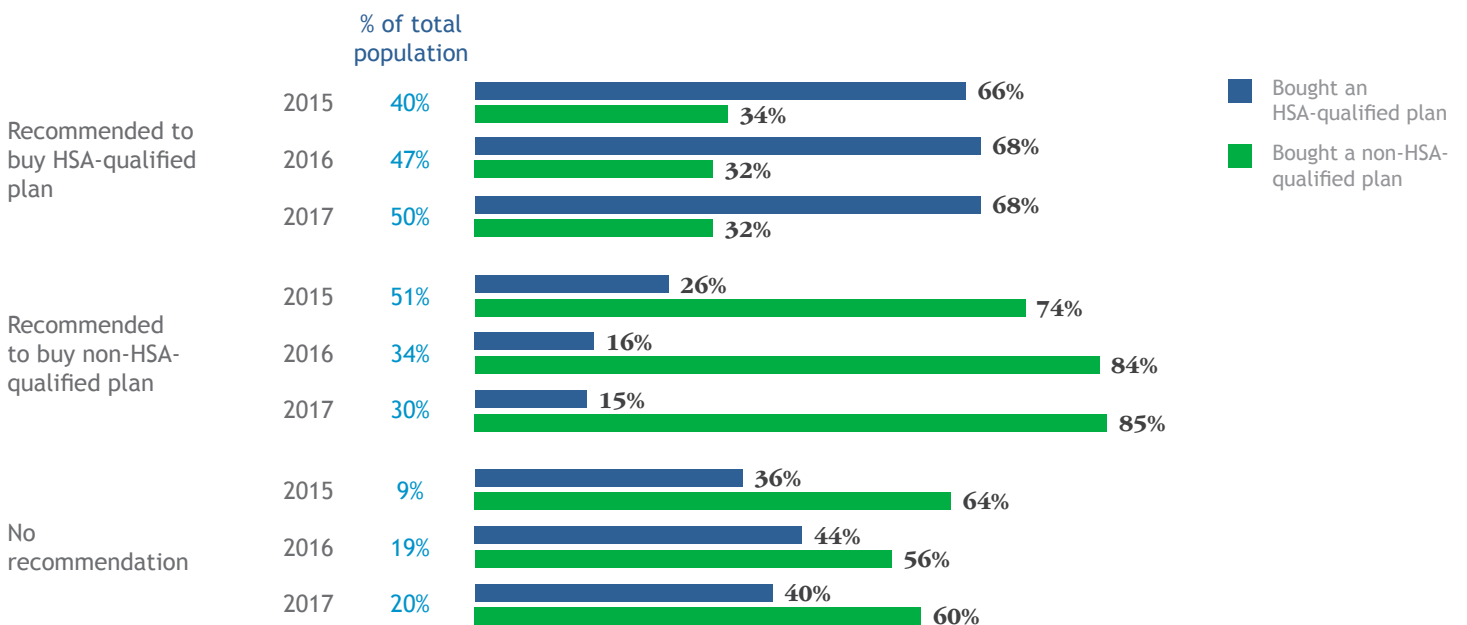
As more employees receive recommendations to buy HSA-qualified plans, about two-thirds are following through and purchasing; this rate has increased slightly over

the three-year period we studied. Similarly, the rate of those following the recommendation to purchase non-HSA-qualified plans increased from 74% to 85% over the three-year period. This lends support to the notion that employees tend to follow the recommendation of medical plan type. Employees are also staying in these plans – 81% of employees who enrolled in an HSA-qualified plan in 2015 also enrolled in an HSA-qualified plan in 2016 and 2017.

Among employees who bypass the recommendation, there is a strong preference toward purchasing non-HSA-qualified medical plans. This further highlights the recommendation engine’s ability to drive employees to make appropriate decisions, as we see they are considering lower-cost plans that tend to be a better fit financially, in many cases.

Figure 2-6

## Are employees buying HSA-qualified medical plans when recommended to do so?



Sample: Data representative of employees in the study sample who had a choice between an HSA-qualified and non-HSA-qualified medical plan, who purchased a medical plan and received a recommendation.



## Are employees buying the recommended dental and vision plans?

When it comes to dental and vision insurance, employees tend to either buy the recommended plan or buy no plan at all. Of those employees for whom dental insurance was recommended, 50% bought the recommended plan and 22% chose to forgo this insurance.

Interestingly, of the employees who did not receive a recommendation to buy dental, 33% purchased this coverage anyway. This could be because of a common perception that dental is the next most important insurance coverage after medical. (See Figure 2-7.)

Of those employees who bought vision insurance, 41% bought the plan that was recommended to them, while

more than one-third (36%) chose not to purchase any vision plan. Of those not recommended to buy vision insurance, more than a quarter of employees purchased this coverage. (See Figure 2-7.)

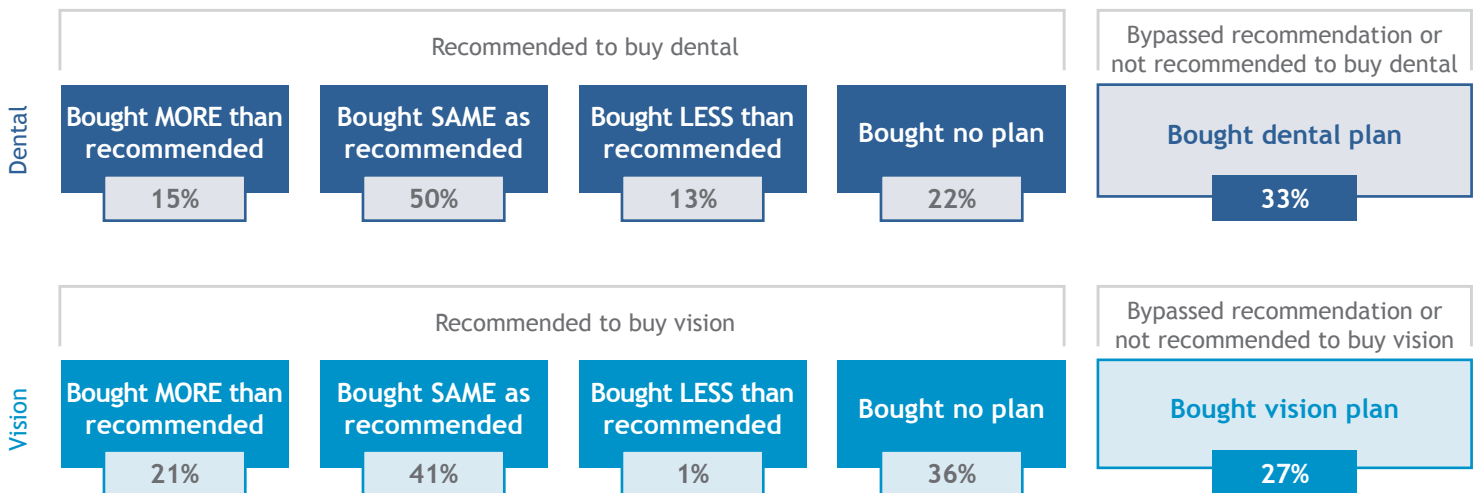
For both dental and vision, we see a sizable number of employees choosing not to purchase these products when recommended to do so, which may be surprising. However, when given access to full premium costs and a number of new benefit products, it appears that employees are deciding to spend this money elsewhere.

In addition to considering how employee spending differs from what is recommended by the system, it's also interesting to look at how much employees spend, compared with what is subsidized by their employer.

Figure 2-7

### Did employees buy the recommended dental and vision plans?

Year=2017



Sample: Data representative of employees in the study sample.



## Employee benefit elections compared with employer spend

Employer subsidies of their employees' health insurance has been ingrained into our system of benefits since World War II. Often in a benefits marketplace, the amount of these subsidies is made transparent during the shopping experience, so that employees can choose exactly how they want to spend this money. They then have the option of spending only this money, or supplementing with their own dollars to create a more robust benefits package – which most employees choose to do.

For employers, providing each employee with a fixed sum of money allows them to allocate a precise amount to set for their benefits budget each year.

### How much do employees spend relative to what's recommended and to their employer's subsidy?

The average cost for a recommended benefits portfolio on Liazon-powered marketplaces was roughly \$11,800 for employees who elected medical insurance in 2017. On average, employees spent roughly \$10,500, or 11% under the recommended amount, on their benefits. This indicates employees are making careful decisions based on their own budgetary concerns as to how they want to spend their money.

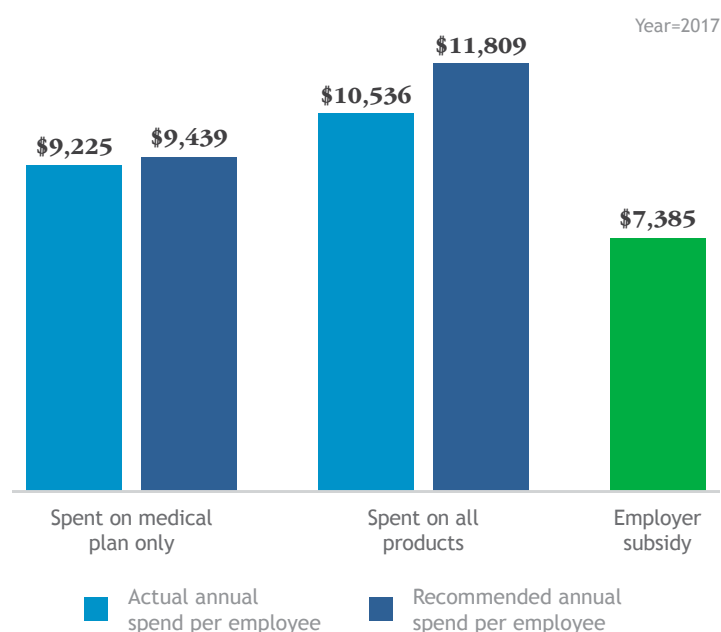
Meanwhile, the average employer subsidy for employees who purchased medical insurance was approximately \$7,400. (Note: The purchase of medical insurance is often

a prerequisite for employees to receive the full employer subsidy.) This means that employers funded approximately 70% of their employees' benefits costs. Said another way, employees, on average, spent approximately \$3,200 of their own money above their employer's subsidy toward their overall benefits for the 2017 plan year. (See Figure 3-1.)

This finding highlights the true value of the benefits marketplace, in that employers are able to set a fixed budget for employee benefit costs, and employees can make informed decisions as to how to spend that money. Further, they may opt to spend their own money on top of their employer's contribution in order to access benefits they truly value.

Figure 3-1

How much did employees spend relative to the recommendation and employer subsidy, on average?



Sample: Data representative of employees in the study sample who had recommendations and purchased medical insurance.





## Conclusion

Many employers have moved to benefits marketplaces in order to give employees more choice and flexibility in offerings, as well as increase their overall benefits engagement. This gives employees more freedom in choosing their benefits than ever before, so decision support is critical in helping them to understand their options and make informed decisions based on their individual needs and preferences.

Our research shows that over time, **employers are offering more product choices**, which leads to more products being recommended to employees through decision support. Employees, in turn, are 1) embracing recommendations as they become more familiar with a broader array of offerings, and 2) becoming more comfortable shopping for their benefits in a marketplace environment.

**Employees are also making educated decisions about how much to spend on their benefits**, and they are evaluating these decisions in light of how much their employer is contributing. They value the additional benefits offered enough to spend their own money on them to optimize their benefit portfolios.

While the recommendation certainly helps to guide employees, these findings demonstrate that **employees are making their own independent decisions about buying what they feel fits their own personal needs**. The data suggest most are using the recommendation as an anchor point from which to decide if they need more, or less, protection. Employees are treating the “shopping” experience as just that – an opportunity to shop around

and find the best “merchandise” for them. While they appreciate recommended products, they are making educated decisions and not just blindly accepting the recommendation as provided, which shows that they are being smart benefit consumers.



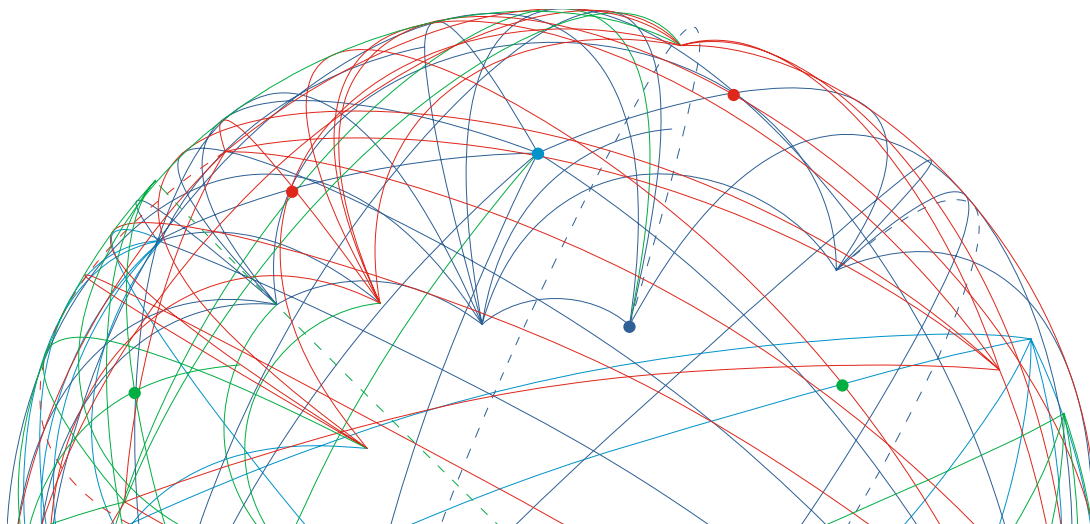
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## About the Private Exchange Research Council (PERC)

The Private Exchange Research Council was established in 2015 to access and analyze data from hundreds of thousands of employees who have purchased benefits through Liazon-powered benefits marketplaces. PERC is comprised of benefits marketplace experts and top national brokers and consultants. As marketplaces have increasingly been shown to strengthen employee engagement, empowerment and education, PERC has provided the market with insights into how people are making decisions when shopping for their benefits.

PERC explores frequently asked questions with respect to benefits marketplaces, such as how demographic and behavioral factors influence buying decisions, the impact of decision support on buying patterns, and how buying patterns change over time, among others. PERC provides this information, which is unprecedented in the industry, because of access to enrollment data from Liazon, a leading operator of benefits marketplaces with over a decade of experience in the industry.

**PERC member companies include:** Arthur J. Gallagher & Co., HUB International, Lawley Insurance, Liazon/ Willis Towers Watson, and Lovitt & Touché, along with health law and policy expert Chris Condeluci of CC Law & Policy.



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