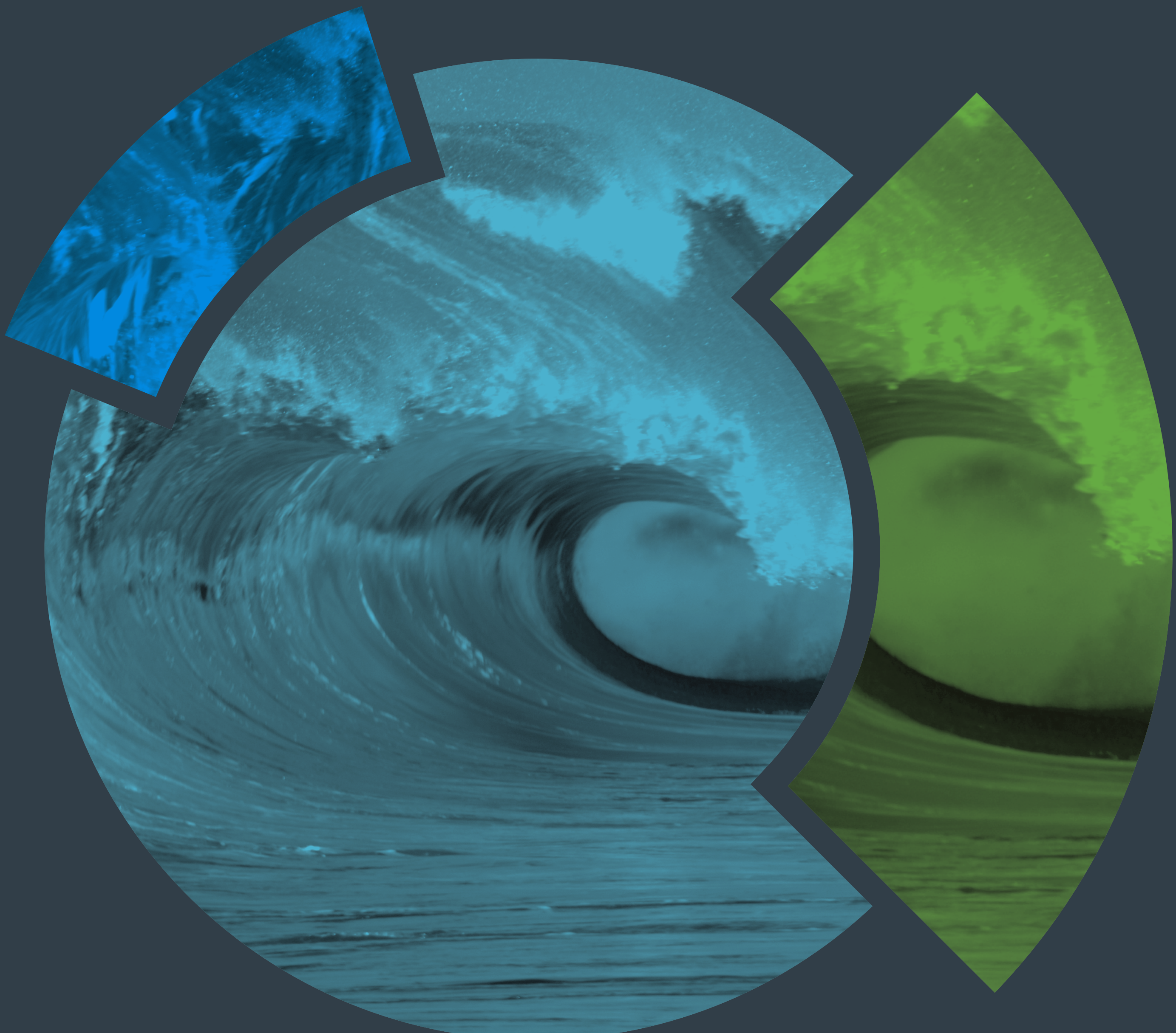
NFP

insights from the experts



US Benefits Trend Report 2020

US Benefits

Trend Report 2020

While many challenges remain the same, there is new context. Our goal is to look at the current landscape and help our clients chart a course toward better outcomes.

inside:

A letter from Kim

I am excited to present NFP's 2020 US Benefits Trend Report, a comprehensive report of employee benefits trends. This report is a cornerstone of our thought leadership and our ongoing commitment to provide employers with data and analysis to inform strategy and execution.

Since we started working on this report, the world has changed dramatically. The impact of the global pandemic has created new levels of uncertainty and a variety of new challenges. While the data in the report is from the previous year, our experts have pivoted to examine employee benefits trends through the lens of COVID-19 and offer actionable insights to address these challenges. We don't have all the answers – nobody does – but we will continue to identify opportunities to connect solutions with problems employers face as factors evolve.

In this year's trend report, we found that while many challenges remain the same, there is new context. Medical plan cost containment, managing your Rx spend, helping employees manage financial stress, ensuring employees are protected, and supporting a healthy and engaged workforce are not new objectives, but COVID-19 will affect how employers work to achieve them. Circumstances are also accelerating a digital transformation in how we work, engage customers and use data to drive product development. Our goal is to look at the current landscape and help our clients chart a course toward better outcomes for their organizations and their employees.

We value the opportunity to share our expertise and insight and help clients emerge stronger through this crisis. As we continue the dialogue with you and explore ways to move forward productively, NFP stands ready to help you adapt confidently and successfully. Please reach out with questions and feedback, and stay safe.

With Gratitude,

Kim Bell

SENIOR VICE PRESIDENT,
HEAD OF HEALTH & BENEFITS

We will continue to identify opportunities to connect solutions with problems employers face.

KIM BELL
SENIOR VICE PRESIDENT, HEAD OF HEALTH & BENEFITS

30%
Number of employees who believe a lack of transparency from insurers and providers is the biggest barrier to effectively shopping for coverage

9 of 10
Number of adults lacking the necessary tools to make well-informed medical decisions

40%
Potential share of independent contractors (gig workers) in the workforce by 2040

By the Numbers 2020

75%
Increase in share of employers offering mental health and depression benefits in 2018 (up from 34% in 2014)

1 in 7
Approximate number of adults in the United States — about 40 million people — providing some type of unpaid care to another adult

62%
Percent of individuals with employer-based insurance have a chronic or complex disease, which comprises 85% of total employer-based healthcare spending

Companies that prioritize employee well-being will rise out of this pandemic stronger and more agile.

General Trends

- **Increased spending:** Healthcare spending will increase at an annual average of 5.4% over the next decade to nearly $6.2 trillion by 2028. Healthcare's share of GDP is predicted to rise from 17.7% in 2018 to 19.7% in 2028.
- **Mental health:** The percentage of employers offering employee mental health and depression offerings increased from 34% in 2014 to 75% in 2018. These offerings will become even more significant as nearly half of Americans report an adverse impact on their mental health due to the COVID-19 crisis.

Compliance

- **The Families First Coronavirus Response Act** (FFCRA) was signed into law in March 2020. It encompasses emergency paid sick leave rules and emergency paid FMLA expansion for employees absent from work for COVID-19-related reasons. The CARES Act, which followed the FFCRA, further guarantees plan coverage of COVID-19 testing and vaccines and expands telehealth coverage without cost-sharing on a temporary basis.
- **The Affordable Care Act** continues to be challenged through the legislative process and in the courts. Congress – in 2019 through bipartisan effort – repealed three of the ACA's more onerous taxes: the health insurance tax, the so-called "Cadillac tax" and the medical device tax. At the same time, however, Congress re-upped the Patient-Centered Outlook Research Institute (PCORI) fee for another 10 years (originally set to expire in 2019, it now expires in 2029). This fall, the US Supreme Court will hear the latest challenge to the ACA in *Texas v. the US*, which challenges the ACA's individual mandate on constitutional grounds following the elimination of its penalty tax.

Healthcare Delivery Models

- **Healthcare delivery models** have undergone huge changes due to multiple factors, including rising costs, a desire for better care and the COVID-19 pandemic. As a result, two innovative healthcare delivery models – direct primary care and virtual care – have become more prevalent.
- **The direct primary care model** is relatively new, but according to the Direct Primary Care Coalition's estimates, there are 1,200 direct primary care practices in 48 states that provide care to over 300,000 American patients.

- **Among large employers, virtual healthcare** is one of the most-preferred tactics for managing health benefits and costs in 2020. In the US, the prevalence of employers utilizing telemedicine has increased from 7% in 2012 to 96% in 2018.

Leave Policy

- **Employers need to stay on top** of state legislative changes that affect how their leave plans are administered. While creating compliant leave policies, employers should look at their practices "holistically" and ensure that any type of employer paid leave (company paid parental leave) is offset by state paid family leave benefits whenever possible. In addition, employers are turning to third-party leave administration vendors, and before doing so, it's important to confirm their internal leave processes are up to date and comprehensive.

Healthcare delivery models have undergone huge changes due to rising costs, a desire for better care and the COVID-19 pandemic.

- **Many employers are looking** to benchmarking data to see how they rank in the marketplace regarding their time away from work benefits. Many use the data to see where they stack up against their competition while some organizations seek an indication of why they are having difficulty attracting and retaining top talent.

Innovation

- **Data will increasingly drive** everything we do. Ninety percent of data in the world today has been created in just the last two years.
- **The global pandemic** is forcing employers to find new ways to conduct business to remain viable. Shelter-in-place orders triggered by COVID-19 led to new ways of working (telecommuting, cloud computing, virtual meetings, webinars, etc.), which are only made possible by technology.
- **Data continues to fuel** new tools and solutions that drive behaviors and improve outcomes. Access to data and the demand to solve problems have re-routed roadmaps and accelerated time tables of companies as employers and employees are seeing and benefiting from real life examples of the power of technology.
- **Digital transformation** and data-driven decisions are empowering employees, engaging customers, optimizing operations, and shaping and revamping product offerings. Carriers and brokers are focusing on streamlining procedures, adopting digital processes such as automated underwriting, digital payments, collaborative and connected care delivery, and digital enrollment to improve access to data needed to perform business critical tasks.
- **In order to stay competitive**, organizations must embrace the digital aspect of business and position themselves to collect data and rapidly analyze it to innovate their products and services. The growth of ecosystems, along with other forces, will have significant implications for insurers in the next decade.

Rx Benefits

- **Specialty is the fastest growing** part of pharmacy spend — the pipeline is roughly 58% specialty vs. 42% traditional.
- **The global biosimilar market** is expected to grow from \$5.95 billion in 2018 to \$23.63 billion in 2023 and it's estimated that in the US biosimilars will cost 15% to 35% less than the originator.

- **The global market for gene therapies** is estimated to reach $17.4 billion in 2023 and the FDA expects 200 new gene therapy applications in the next two years.

- **Generics make up 90% of prescriptions** dispensed, up from 75% in 2009, and continue to be dispensed 97% of the time when available.

- **The cell and gene therapy pipeline** has increased 25% and now includes 362 therapies in trial, with almost half (173) made up of cancer treatments and a third (132) targeting rare diseases. There are currently nine treatments approved by the FDA.

Voluntary Benefits

- **Today's multigenerational workforce** is feeling the ramifications of COVID-19. The pandemic shined a spotlight on the fact that 100 million Americans live paycheck to paycheck.

- **While loyalty may not be a near-term concern** for employers, 46% of millennials and 44% of Gen Xers have said their loyalty is influenced by how much a company shows it cares about their financial well-being.

Well-Being and Engagement

- **Employers' well-being budgets** and financial commitments to well-being initiatives may not be impacted by the current pandemic; however, the allocation of those budgets may change as companies address needs stemming from COVID-19.

- **Regardless of which solutions rise** to the top during these unprecedented times, the demand for the technology necessary to deliver well-being solutions will continue to increase. Solutions must be mobile enabled and easily found on a comprehensive, app-based, hub and platform.

- **As we reintegrate and adjust** to the new normal, the guiding principle for business success will be "it's all about the people" and will hinge on an organization's well-being initiatives. Companies that prioritize employee well-being and the worker experience will rise out of this pandemic stronger and more agile.

8 Actionable Insights for Employers

1. **Explore strategies** to help contain rising costs — on-site clinics, incentives for employees to choose lower cost and/or higher quality healthcare services, and employee education campaigns that facilitate better shopping for lower cost and higher quality healthcare.

2. **Work with organizations** that have robust compliance capabilities that keep you informed of ongoing developments and provide guidance on navigating the many state and federal requirements effectively.

3. **Rethink healthcare delivery** in the context of the evolving needs and preferences of your employees, especially in the wake of COVID-19.

4. **Create holistic leave policies** that ensure that any type of employer paid leave (company paid parental leave) is offset by any state paid family leave benefits.

5. **Invest in well-being resources** that demonstrate your care for your employees and create a competitive advantage for attracting and retaining top talent.

6. **Consider the diversity** of employee needs and create options that empower them to customize benefits plans that address their most significant challenges.

7. **As prescription drugs** become a bigger part of your benefits spend, consider steps like utilizing manufacturer copay cards and replacing hyperinflationary drugs with comparable drugs to drive significant savings.

8. **Embrace digital transformation** and use data to inform decisions, assess progress and refine initiatives in ways that enhance competitiveness, efficiency and impact.

Joel Chapman
Assistant Vice President ,
Health & Benefits

A Take on Trends

US Health Expenditures

Healthcare spending will increase at an annual average of 5.4% over the next decade to nearly $6.2 trillion by 2028. Because this growth rate will exceed gross domestic product growth, the Centers for Medicare & Medicaid Services (CMS) predicts healthcare's share of GDP will rise from 17.7% in 2018 to 19.7% in 2028. [1]

As Xtelligent Healthcare Media notes in its recap of the CMS's projections,

> *Actuaries anticipate personal healthcare prices to rise at an average rate of 2.4% from 2019 through 2028, accounting for 43% of total projected growth in personal healthcare spending over the period while growth in use and intensity is set to represent about a third of total healthcare spending growth. Population growth and changing demographics will account for the remainder of the projected growth.* [2]

Essentially, the major movers in healthcare spending will be price increases, increased use and demographic change, in that order. Price increases remain the largest share of the spending increase. Looking just at prescription drugs, a section of spending expected to increase dramatically over the next decade, S&P Global Market Intelligence offers a projection of the long term costs of these impacts:

> *National spending on prescription drugs is projected to grow from about $335 billion in 2018 to $560.3 billion in 2028. After the annual growth rate increases from 2.5% in 2018 to 3.7% in 2020, the average growth rate is projected to jump to 5.4% from 2021 to 2023 and 5.9% from 2024 to 2028.* [3]

Ultimately, health spending is a consideration that isn't going away – or getting easier to grapple with – any time soon (figure 1).

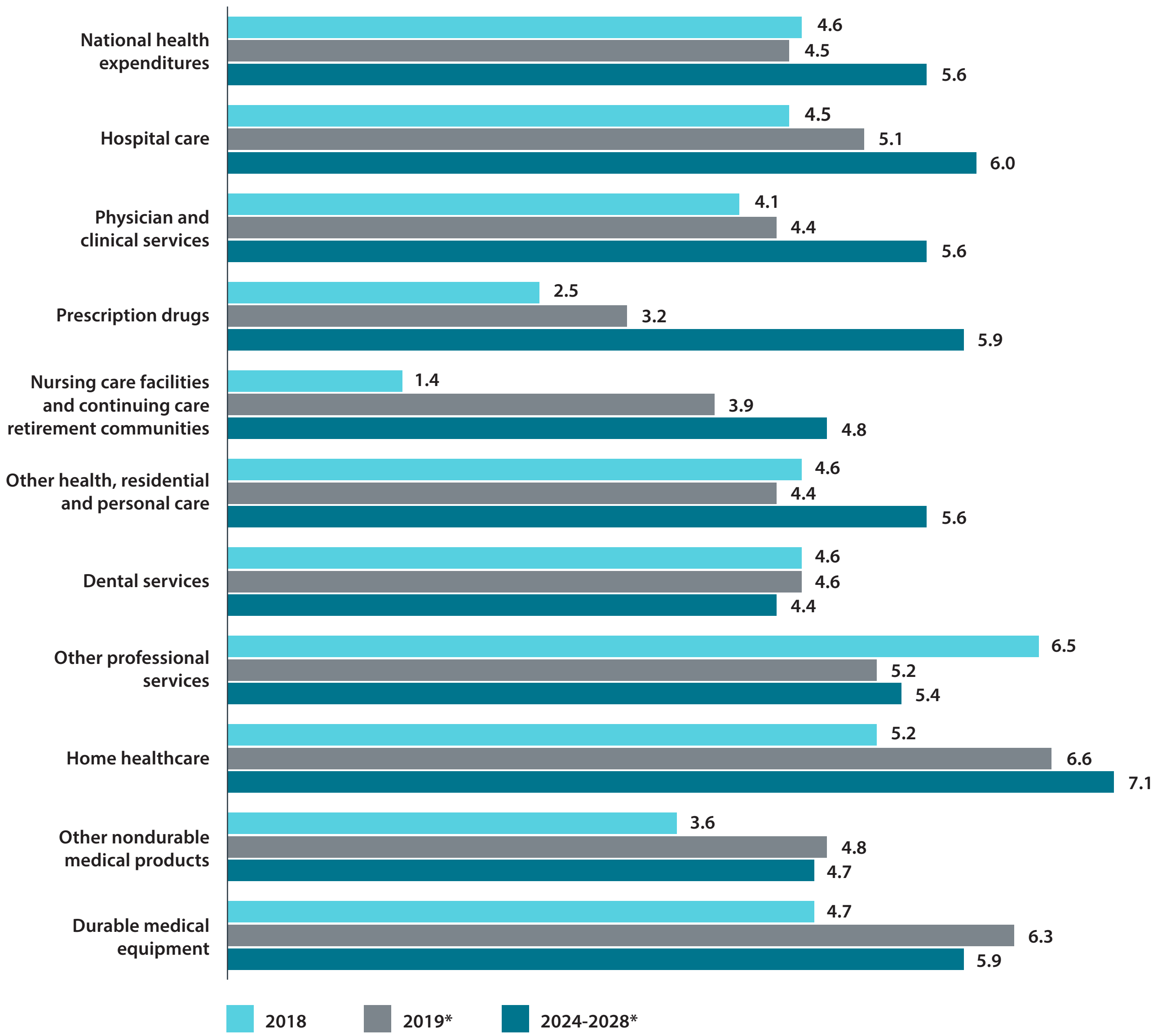
[1] "National Health Expenditure Projections 2019–28," Office of Actuary: Centers for Medicare and Medicaid Services, 2020; https://www.cms.gov/files/document/national-health-expenditure-projections-2019-28.pdf.

[2] Jacqueline LaPointe. "National Healthcare Spending to Climb to 19.7% of GDP by 2028," Xtelligent Healthcare Media, March 25, 2020, https://revcycleintelligence.com/news/national-healthcare-spending-to-climb-to-19.7-of-gdp-by-2028.

[3] Ricky Zipp. "US Healthcare spending to hit $6.2 trillion by 2028; growth set to outpace GDP," S&P Global Market Intelligence, March 24, 2020, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-healthcare-spending-to-hit-6-2t-by-2028-growth-set-to-outpace-gdp-57739003.

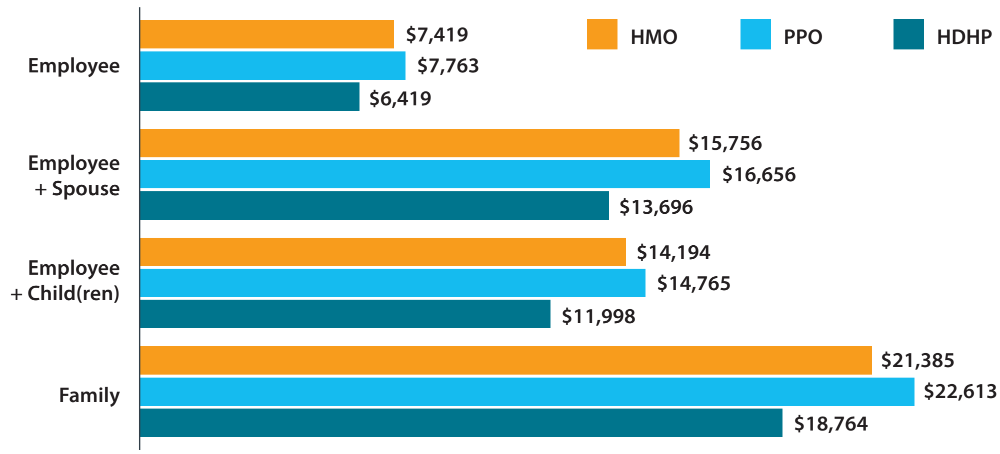
National spending on prescription drugs is projected to grow to $560.3 billion in 2028.

Figure 1: National Health Expenditures Annual Growth, by Spending Category (%)



Source: Centers for Medicare and Medicaid Services Office of the Actuary, March 24, 2020, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-healthcare-spending-to-hit-6-2-trillion-by-2028-growth-set-to-outpace-gdp-57739003

Figure 2. Annual Median Health Benefits Costs by Plan Type & Coverage Tier, NFP



Employer Health Benefit Costs (Medical And Pharmacy)

For the reasons noted below, it's no surprise that medical and pharmacy costs have continued to increase over the past decade (albeit at a decreasing rate). There appears to be a slight annual increase in medical costs heading into 2020, which now stands at approximately 6% per year relative to the flat trend seen in 2018 and 2019, with revised estimates coming in at 5.7% for both years.[4] Interestingly, NFP's proprietary data shows health plan costs have increased year-over-year at roughly half the annual rate of other national studies (figure 3).

Several factors continue to contribute to rising costs:

1. Specialty drugs, which include biologics (medications used for prevention, treatment and cure of human disease developed from blood, proteins, viruses and living organisms) constitute an increasing share of retail drug spending. According to a Q1 2019 HRI analysis of the OptumRx brand pipeline forecast, of the almost 300 drugs to be launched between 2019 and 2021, nearly two-thirds are specialty drugs.[5] Most will be high cost but also high impact — many being curative or life-saving treatments that could reduce employer costs over the long term.
2. Chronic diseases continue to be a source of difficulty when attempting to lower health plan costs. Two chronic diseases – obesity and diabetes – are on the rise among individuals with employer coverage, driving the utilization of healthcare services and inflating cost trends in 2020.[6] In fact, 62% of individuals with employer-based insurance have a chronic or complex chronic disease, comprising 85% of total employer-based healthcare spending.[7]
3. With the implementation of the Mental Health Parity and Addiction Equity Act of 2008, employers have expanded employee mental health service offerings. For example, the percentage of employers offering mental health and depression resources to employees increased from 34% in 2014 to 75% in 2018.[8] Those employees impacted by severe cases (chronic conditions and mental

[4] *Medical Cost Trend: Behind the Numbers 2020*, PwC Health Research Institute, https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html.

[5] PwC Health Research Institute analysis of OptumRx first quarter 2019 brand pipeline forecast, https://cdn-aem. optum.com/content/dam/optum3/professional-optumrx/news/outlook/2019Q1_OptumRxBrandPipeline.pdf.

[6] *Medical Cost Trend: Behind the Numbers 2020*, PwC Health Research Institute, https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html, p.10.

[7] PwC Health Research Institute, "Preparing future primary care physicians for the New Health Economy," March 2017, https://www.pwc.com/us/en/health-industries/health-research-institute/publications/ pdf/pwc-hri-primary-care-medical-education-new-health-economy.pdf.

[8] *Medical Cost Trend: Behind the Numbers 2020*, PwC Health Research Institute, https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html, p.13.

Figure 3. Year-over-Year % Increase in Annual Median Health Benefits Costs by Plan Type, NFP

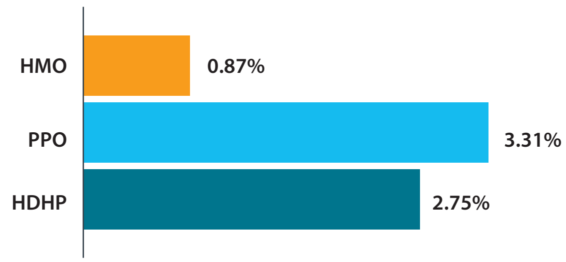
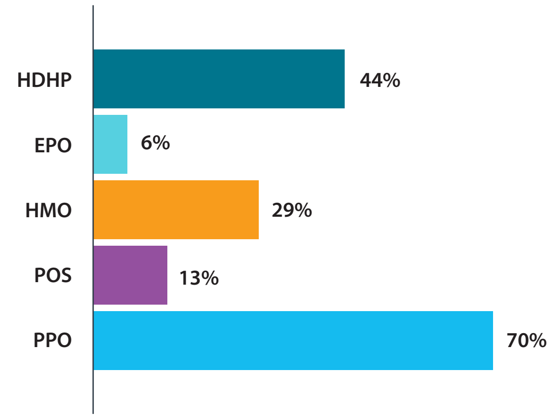


Figure 4. Prevalence of Medical Plan Types Offered by Employers, NFP



illness) incur healthcare costs that are two to five times more than employees with mental illness and no chronic conditions.[9]

While traditional models for combatting elevated medical costs continue to be implemented – higher deductibles and copays, shifting a greater portion of medical costs to employees, implementing consumer driven health plans – employers are trying some new methods to combat medical plan inflation:

1. Employers, particularly those in the larger market, are increasingly adding on-site clinics to their benefits package offering. In fact, 38% of large

62% of insured current employees have a chronic or complex disease

employers offered an on-site health clinic in 2019, up from the 27% offering a clinic in 2014.[10] The types of services offered through on-site clinics are expanding and becoming more diverse. The most common services typically offered are physician examinations, urgent care and immunizations/lab work. Some of the more advanced offerings can include physical therapy, specialty medical care and health coaching/navigation.

2. Employers are focusing more effort on encouraging and incentivizing employees to seek lower cost and/or higher quality healthcare services. Strategies include providing employee incentives to have health services performed at clinics, hospitals, etc., with documented outcome-based results measured by price and quality of care delivered, making a case to encourage employees who receive administered drugs to do so in lower cost settings, including their own home, and emphasizing virtual care options, such as telemedicine.

3. Employers are also implementing strategies to ensure employees are maximizing their benefits offerings. Some 30% of employees have stated that their biggest barrier to shopping for coverage is a lack of transparency by insurers and providers.[11] As a result, employers are starting campaigns to close this knowledge gap. In particular, some employers are educating employees on how to shop for lower cost and higher quality healthcare, while other employers have decided to directly contract with providers and commercial accountable care organizations (ACOs). The goal of these arrangements is to elevate transparency by disclosing medical prices and reducing prices through better utilization and outcome management.

[9] *Medical Cost Trend: Behind the Numbers 2020*, PwC Health Research Institute, https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html, p.16.

[10] Ibid, p.17.

[11] Ibid, p.22.

Prevalence Of Plan Offerings

Medical cost containment remains a primary challenge for employers, making it necessary to restructure medical plan offerings accordingly. PPO plans continue to be the most common medical plan offering by a significant margin, although enrollment has seen a gradual decline in the past several years.[12] More employees are enrolling in high deductible health plans (HDHPs), and the percentage of employers offering HDHPs is growing as well. HDHPs now reflect the second most common plan type offered by employers, with health medical organization (HMO) plans coming in third. (See figure 4.)

More On HDHPs

HDHP growth is driven by two foundational elements. Higher deductible plans (with the tradeoff of lower premiums) were conceptualized as a way to create "skin in the game" for consumers by sharing in the cost of healthcare, and drive down overall costs healthcare and service utilization. With increased cost share and higher plan deductibles, consumers would theoretically price shop medical services (for example, MRI exams, knee replacement surgery) in order to drive down medical costs and may opt out of nonessential care to drive down utilization.

At least up until 2012, the number of employers offering a high deductible plan peaked at 31%. Since 2012, the percentage of employers offering an HDHP has decreased slightly to 28%.[13] Interestingly, 44% of employers in the NFP proprietary benchmarking database offer an HDHP, greater than the industry average (figure 4).

Why has HDHP adoption leveled off?

- Consumers are forgoing or delaying treatments due to increased plan deductibles and out-of-pocket expenses.
- The lack of price transparency within the medical industry makes it difficult for consumers to effectively price shop services and procedures.
- Healthcare literacy among adults remains low.
- There is a lack of self-service consumer tools to increase transparency.
- Low wage growth prevents consumers – especially those economically disadvantaged – from contributing to tax favorable health savings accounts (HSAs).

In an effort to increase adoption, employers are supplementing HDHPs with other offerings such a telemedicine services, well-being initiatives and financial literacy education for employees.

[12] *2019 Employer Health Benefits Survey,* Kaiser Family Foundation, 2019, https://www.kff.org/health-costs/report/2019-employer-health-benefits-survey/.

[13] Ibid.

Figure 5. Median Annual Employee Contributions by Plan Type & Coverage Tier, NFP

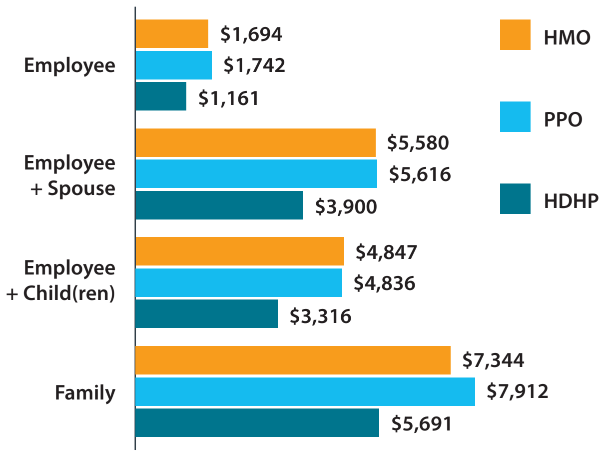


Figure 6. Year-over-Year % Increase in Median Annual Employee Contributions by Plan Type, NFP

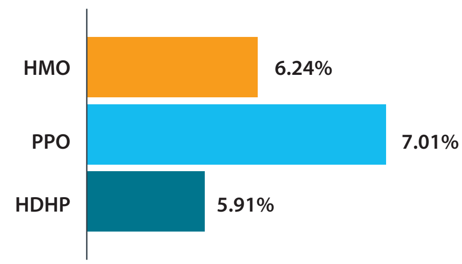


Figure 7. Percentage of Employers Implementing Various Contribution Strategies, NFP

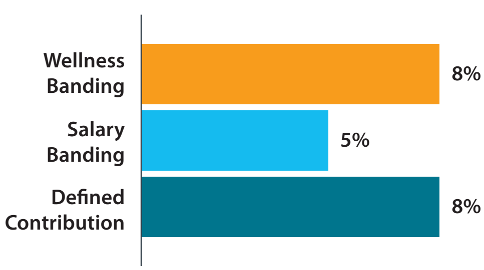
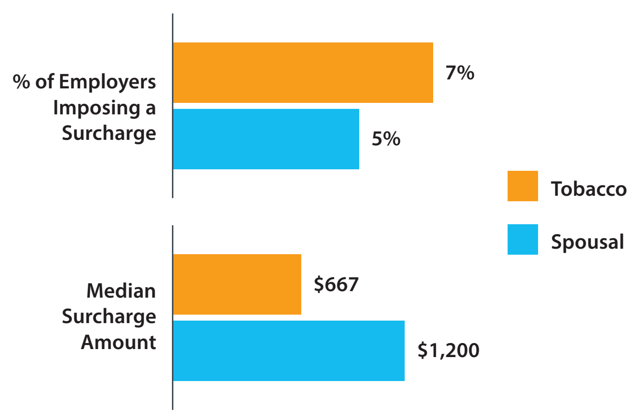


Figure 8. Spousal and Tobacco Surcharges, and Median Annual Surcharge Amounts, NFP



Employee Contributions (Medical And Pharmacy)

Elevated medical and pharmacy costs directly affect employee contributions as employers shift costs to them. Year-over-year, employees felt a 19% increase in their share of medical and pharmacy premiums (versus a 26% increase from the previous year).[14] At the same time, some employers are adopting contribution strategies (like a spousal carve-out, see below) that might support specific accountability or cost control initiatives. (See figures 5 and 6.)

Spousal Carve-Outs

A spousal carve-out is one way employers can control their healthcare spend. According to the Kaiser Family Foundation, 12% of employers will not allow a spouse to enroll and 3% require additional spousal contributions if spousal coverage is offered elsewhere.[15] Spousal carve-outs can come in the following forms:

- Imposing an additional charge (surcharge) to cover a spouse who has access to employer-sponsored coverage through their own employer (not unlike a tobacco surcharge, see figure 8)
- Imposing an additional charge (surcharge) to cover a spouse regardless of whether they have access to employer-sponsored coverage through their own employer
- Not offering access to coverage if spouse has access to their own employer-sponsored coverage [16]
- Not offering access to coverage to spouses under any circumstances

[14] "10 Trends Influencing the Future of Workplace Benefits," 2018 Aflac WorkForces Report, Aflac, 2018, p. 4; https://www.aflac.com/docs/awr/pdf/2018-overview/2018-aflac-workforces-report-employer-overview.pdf.

[15] *2019 Employer Health Benefits Survey,* Kaiser Family Foundation, 2019; https://www.kff.org/health-costs/report/2019-employer-health-benefits-survey/.

[16] Practice not permitted in NY, TX and WI.

[17] *2019 Employer Health Benefits Survey,* Kaiser Family Foundation, 2019; https://www.kff.org/health-costs/report/2019-employer-health-benefits-survey/.

[18] US Department of Health and Human Services. "Summary," *National Action Plan to Improve Health Literacy*, Health.gov, 2019; https://health.gov/sites/default/files/2019-09/Health_Literacy_Action_Plan.pdf.

Employee Deductibles (Medical)

Two trends involving employee deductibles have become apparent — a greater percentage of covered employees are now facing a deductible and those facing a deductible are seeing it increase.

Currently 82% of covered workers have a deductible in their plan, slightly down from 85% last year but still significantly higher than 63% a decade ago. More than a quarter (28%) of all covered workers are now in plans with a deductible of at least $2,000, up from 26% last year and 18% five years ago.[17]

Employee Out-Of-Pocket Costs/Plan Maximums (Medical And Pharmacy)

With the increase in employee plan deductible amounts, there is a corresponding increase in out-of-pocket costs for employees. Another factor leading to increases in employee out-of-pockets costs is widespread enrollment in HDHPs, which typically reflect higher plan deductible amounts than those found in other medical plan types. While there has been a slowdown in HDHP adoption over the past few years, consumer-driven health plans with an HSA component can help to mitigate some of the impact of an employee's out-of-pocket costs, especially when the employer contributes to employee HSA.

Another driver of higher out-of-pocket costs is lack of healthcare literacy. Nearly nine of 10 adults lack the necessary skills to make well-informed medical decisions.[18] This often results in the phenomenon of surprise medical bills where patients consent to treatment with limited or no understanding of the associated costs.

In an effort to reduce out-of-pockets costs, employers are also offering telemedicine services, access to urgent care centers and/or on-site clinics, and low-cost voluntary benefits plans that provide coverage for hospital stays, accidents, and even dental and vision services.

Figure 9. Median Annual HMO Deductible, NFP

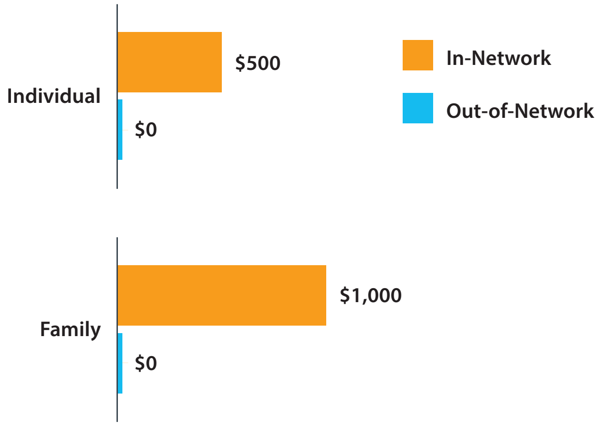


Figure 10. Median Annual PPO Deductible, NFP

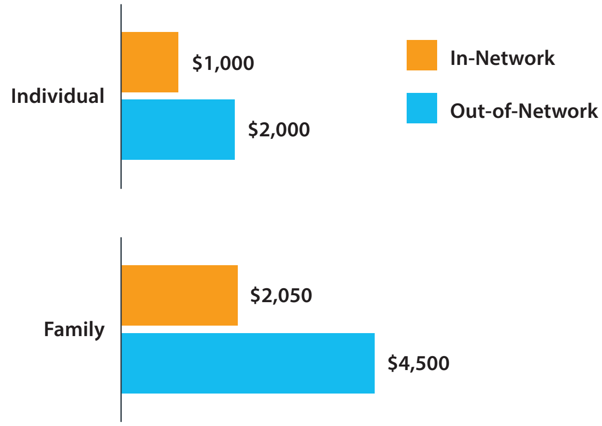


Figure 11. Median Annual HDHP Deductible, NFP

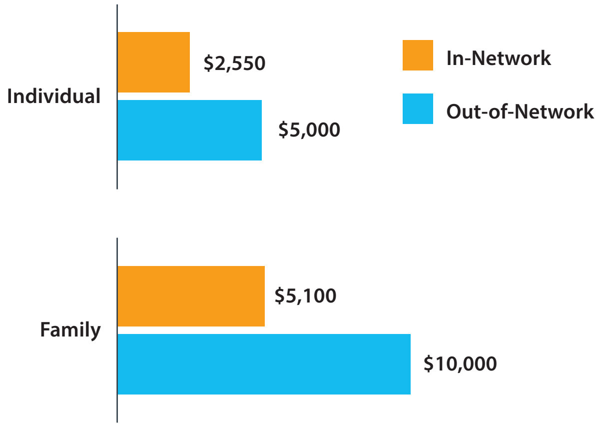


Figure 12. Median Annual HMO Out-of-Pocket Maximum Amount, NFP

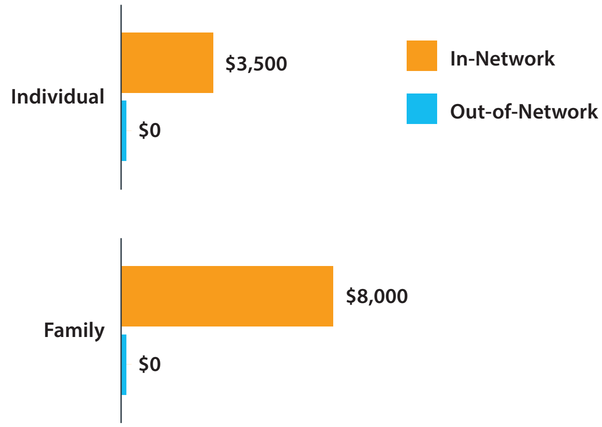


Figure 13. Median Annual PPO Out-of-Pocket Maximum Amount, NFP

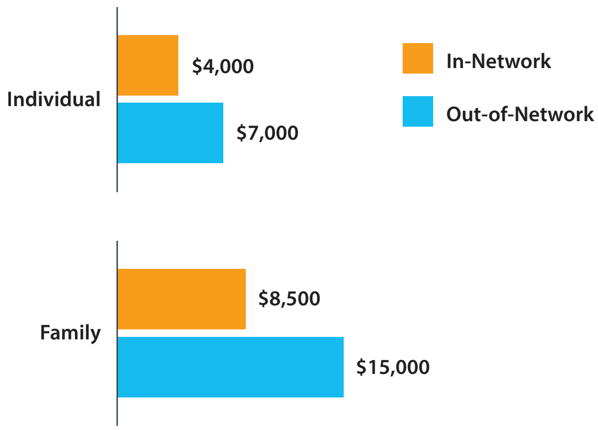
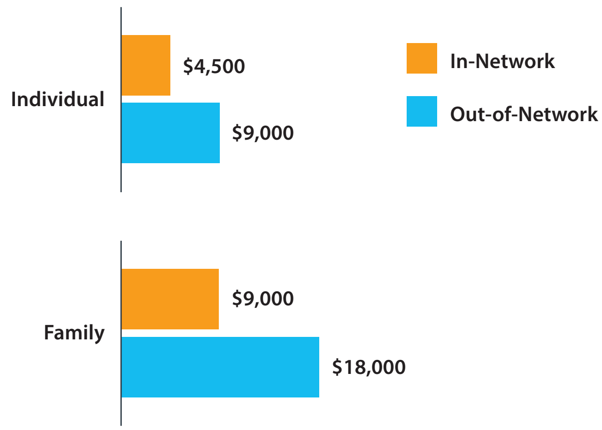


Figure 14. Median Annual HDHP Out-of-Pocket Maximum Amount, NFP



Part-Time Benefits

Currently, 78% of employers have part-time employees, with 90% of employers defining part-time as working less than 30 hours per week.[20] The advent of the "gig" economy, where employees are changing the nature of how they work by taking on more flexible work arrangements – and in some cases preferring temporary or short-term employment – is driving the part-time trend.

By some estimates, independent contractors will comprise up to 40% of the workforce by 2040. With workers seeking more flexible work arrangements, employers need to ensure their benefit plan offerings reflect the changing environment and align with the demands of part-time and temporary workers.

Dental

Since the enactment of the ACA, increasing benefit plan costs, especially medical costs, have been a challenge for employers. As result, employers have applied cost-shifting strategies to their dental plan offerings. This has taken two forms: The number of employers offering a dental plan has decreased from 62% in 2009 to 58% in 2017,[21] and the percentage of employers paying 10% to 90% of the dental premium decreased from 68% in 2009 to 63% in 2017.[22] Further, there has been an uptick in the number of employers offering a dental plan solely as a voluntary benefit. Interestingly though, only 5% of the employers in NFP's proprietary benchmarking database do not offer a dental plan to their employees.

However, with the growing diversity of today's workforce and challenges in attracting and retaining talent, employers may need to be more flexible. With 68% of employees considering dental benefits important when determining whether to stay at a job or move to a new one,[23] employers may want to consider reconfiguring dental benefits in their total benefits package.

Figure 15. Percentage of Employers Offering Part-Time Benefits, NFP

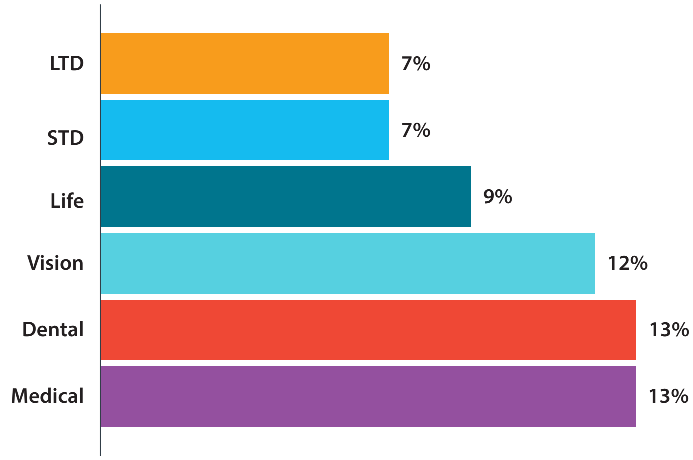
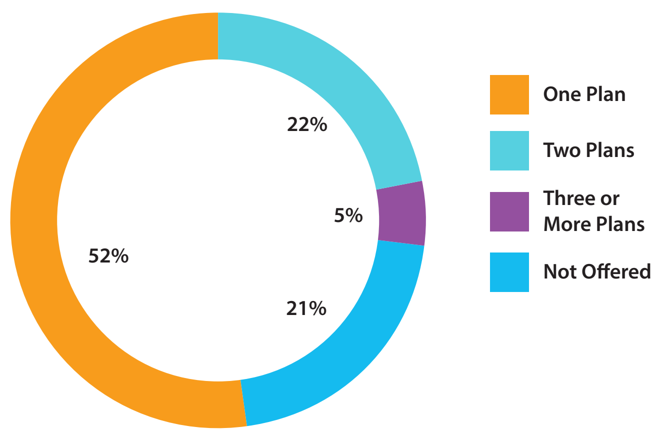


Figure 16. Percentage of Employers Offering One or More Dental Plans, NFP



[20] *Flexible Work Arrangements: 2017 Survey Results,* International Foundation of Employee Benefits Plans, 2017.

[21] *Trends in Dental Insurance: Employer, Employee, and Carrier Perspective,* LIMRA, 2019, p.8.

[22] *Employer Health Benefits: 2017 Annual Survey,* Kaiser Family Foundation, 2017.

[23] *Drill Down into Dental Insurance,* Unum, 2019, p.3, https://www.unum.com/en/-/media/UUS/Campaign/Dental-Buyers-Guide/MK-3725_Dental-Buyers-Guide_FINAL.ashx.

Figure 17. Median Annual Employee Dental PPO Contributions by Coverage Tier, NFP

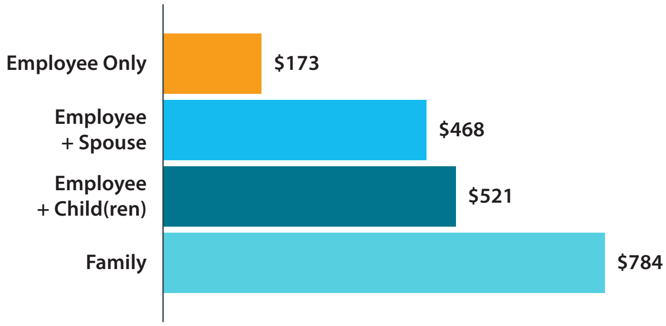
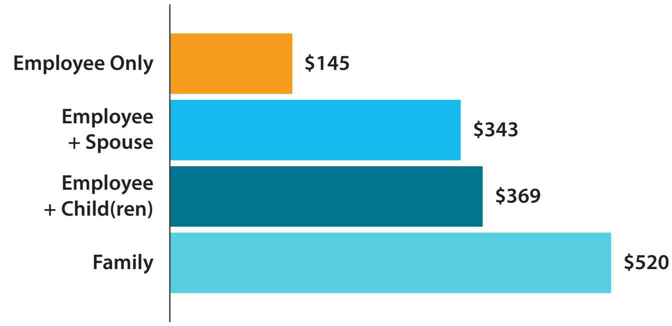


Figure 18. Median Annual Employee Dental HMO Contributions by Coverage Tier, NFP

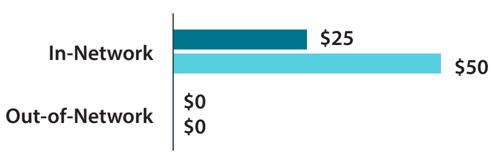


Figures 19-23. Year-over-Year % Increase in Employee Contributions, Median Annual Dental Deductibles & Dental Plan Maximums Per Person

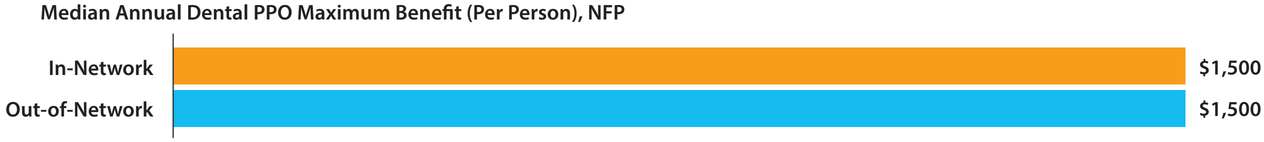
Year-over-Year % Increase in Median Annual Employee Contributions by Plan Type, NFP

Median Annual Dental PPO Deductible, NFP

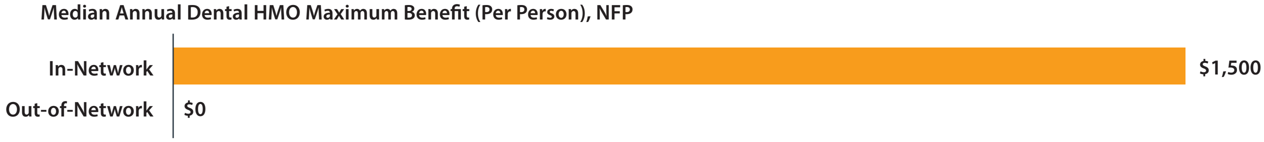
Median Annual Dental HMO Deductible, NFP



Median Annual Dental PPO Maximum Benefit (Per Person), NFP



Median Annual Dental HMO Maximum Benefit (Per Person), NFP



Disability

Short-Term Disability

According to Zywave, a leading insurtech provider of benefits advisor technology, 70% of employers offer a short-term disability plan.[23] Data from NFP's proprietary benchmarking database (figures 24 and 25) reveals the key median benefit plan details for employers offering a short-term disability plan:

Weekly Maximum Benefit:	$1,500
Replacement Percentage:	60%
Waiting Days for Injury:	7
Waiting Days for Illness:	7
Duration Weeks:	13

Long-Term Disability

According to Zywave, 62% of employers offer a long-term disability plan.[24] Data from NFP's proprietary benchmarking database (figures 26 and 27) reveals the key median benefit plan details for employers offering a long-term disability plan:

Monthly Maximum Benefit	$7,500
Replacement Percentage	60%
Waiting Weeks	13

Life Insurance

Multiple of Salary

According to Zywave, 88% of employers offer a basic life insurance plan and of those about 35% offer life insurance based upon an employee's salary.[25] Data from the NFP proprietary benchmarking database (figures 28 and 29) reveals the key median benefit plan details for employers offering group life plans:

Maximum Benefit:	$250,000
Multiple Factor:	1
AD&D Included?	92%

[23] *2019 Employee Benefits Survey Results*, Zywave, 2019, p.26.

[24] Ibid, p.29.

[25] Ibid, p.19.

[26] Ibid, p.19

Flat Amount

According to Zywave, 88% of employers offer a basic life insurance plan and of those about 65% offer life insurance based upon a specific dollar amount of coverage.[26] Data from NFP's proprietary benchmarking database (figure 30) reveals the key median benefit plan details for employers offering group life plans:

Flat Benefit	$25,000
AD&D Included?	91%

Figure 24. Percentage of Employers Offering One or More Plans, NFP

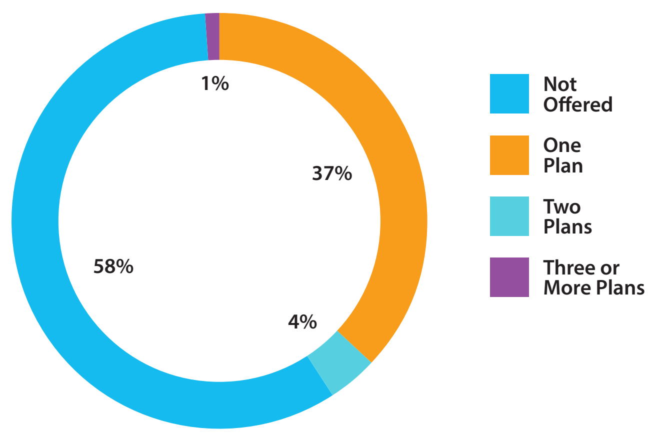


Figure 25. Plan Premium Cost Share Arrangement by Percentage of Employers, NFP

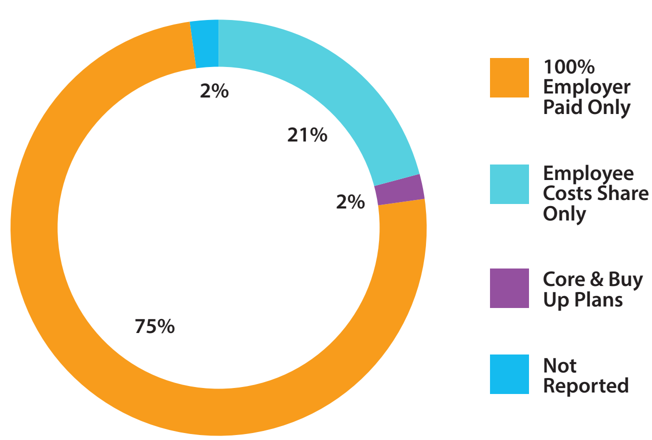


Figure 26. Percentage of Employers Offering One or More Plans, NFP

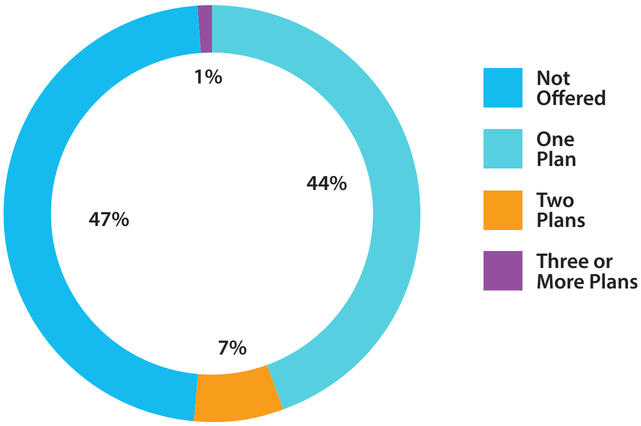


Figure 27. Plan Premium Cost Share Arrangement by Percentage of Employers, NFP

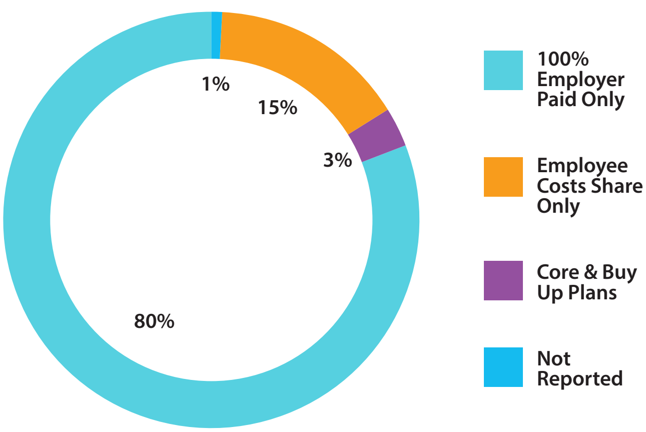


Figure 29. Premium Cost Share Arrangement by Percentage of Employers, NFP

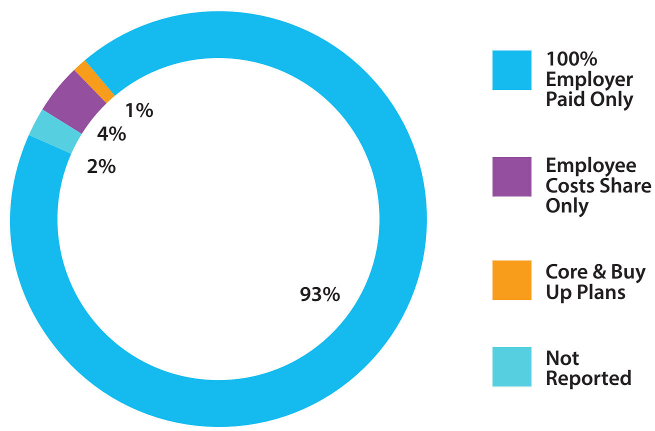


Figure 28. Percentage of Employers Offering One or More Plans, NFP

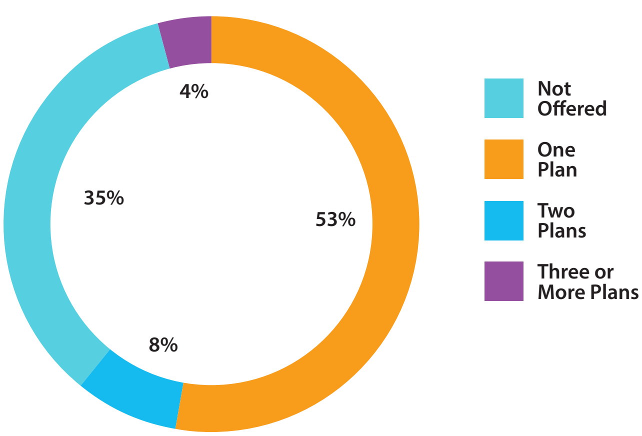


Figure 30. Premium Cost Share Arrangement by Percentage of Employers, NFP

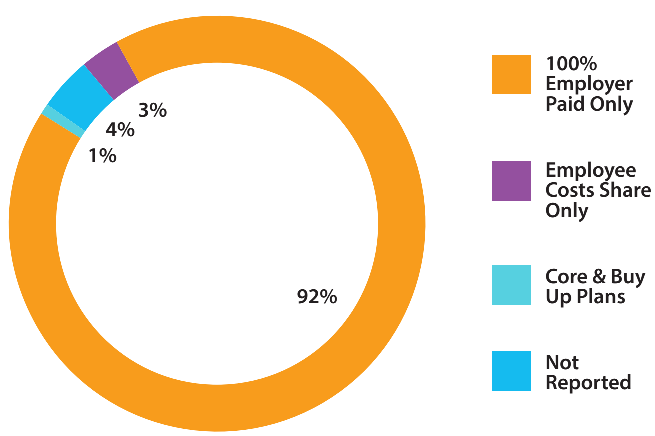
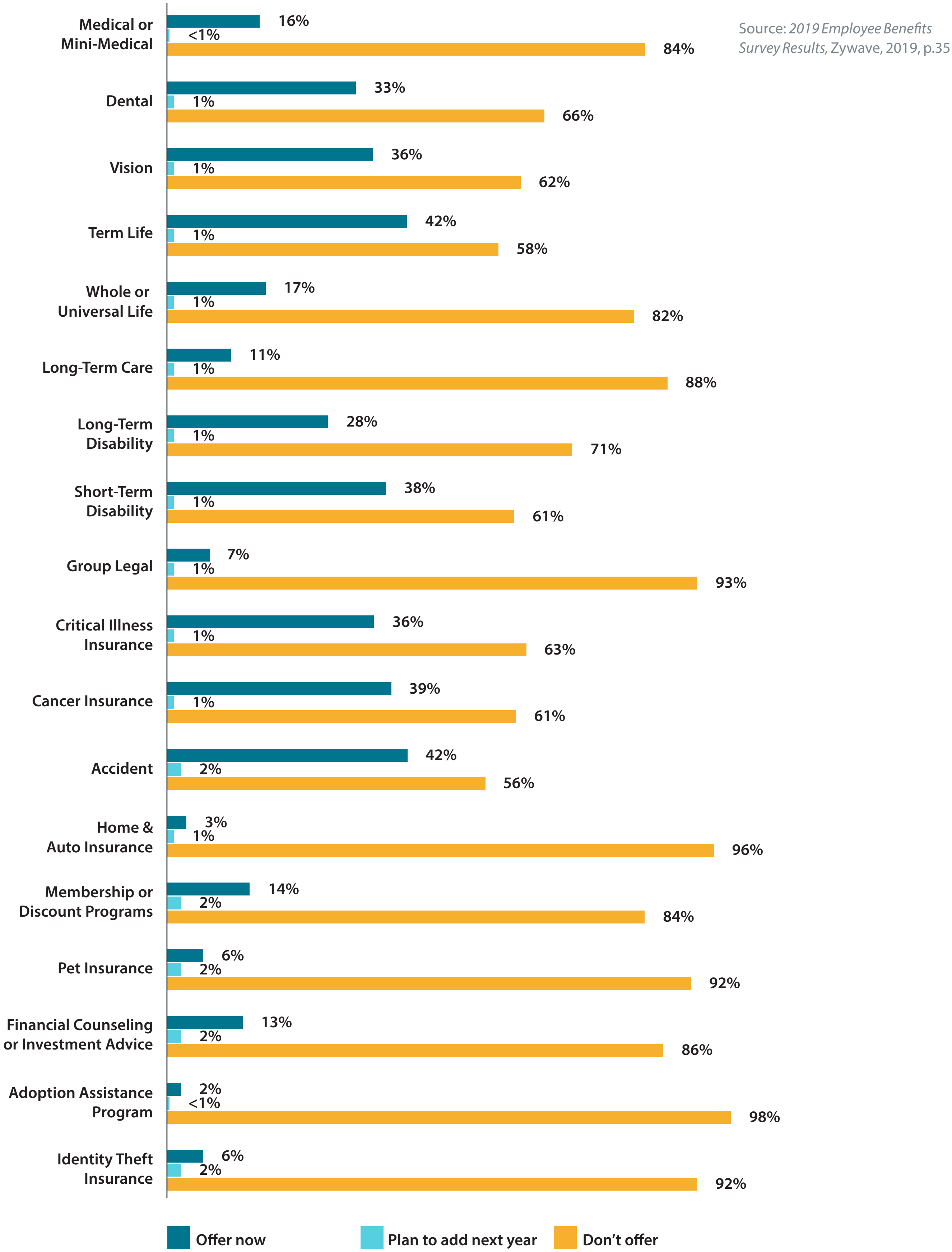


Figure 31: Types of Voluntary Group Benefits that Employers Offer Now, Plan to Add Next Year and Don't Offer



Voluntary Benefits

With the emergence of a more diverse workforce, employees expect a broader range of personalized benefits to meet their preferences and lifestyles. While the "typical" array of voluntary benefit offerings, such as life, short-term disability and long-term disability, are still being offered, employers realize that attracting and retaining key employees requires expanded offerings.

The graph from Zywave (figure 31), illustrates the percentage of employers currently offering various types of voluntary benefits, those who plan on adding them in the next year, as well as those not offering them at all.

In addition to the growing emphasis on expanding offerings, a new wave of more personalized voluntary benefits is emerging.

- With more households comprised of single parents and dual-income earners, families are having a difficult time juggling the responsibilities of caring for their children and aging parents. According to a Pew Research Center analysis of US Bureau of Labor Statistics (BLS) data, approximately one in seven adults in the United States – about 40 million people – provide some type of unpaid care to another adult.[27] Consequently, employers have started to introduce policies and offer benefits to ease this burden, including flexible work patterns and extended leave of absence policies, as well as offering benefits through employee assistance programs to help locate caregivers and, in some instances, subsidize payments for parental care. (See figure 32.)
- With changing family demands and advances in technology and security, more workers want flexible work arrangements and telecommuting options, especially among the millennial generation. Further, employees resoundingly say employer provided flexible work and telecommuting arrangements would significantly influence their decision to stay with or choose an employer. According to Owl Labs, 74% of survey respondents agree that the ability to work remotely would make them less likely to leave their employer and 71% agree that the ability to work remotely would make them more likely to choose one employer over another in their next job.[28] Employers agree as well, with 72% of talent professionals stating that work flexibility (which includes remote work options) will be very important for the future of HR and recruiting. [29] (See figure 33.)
- Among US employees, 67%, say they are stressed about their finances.[30] Employers know the time employees spend away from work to deal with financial concerns leads to decreased levels of engagement and productivity. However, employers are taking note of the importance of financial well-being. Nine of ten employers now consider financial well-being to be one of the top three components of an employee's overall well-being (physical and emotional health are the other two). (See figure 34.)

[27] Gretchen Livingston. *"Adult caregiving often seen as very meaningful by those who do it,"* Pew Research Center, November 8, 2018, https://www.pewresearch.org/fact-tank/2018/11/08/adult-caregiving-often-seen-as-very-meaningful-by-those-who-do-it/.

[28] *State of Remote Work 2019,* Owl Labs, September 2019, https://www.owllabs.com/state-of-remote-work/2019.

[29] *2019 Global Trends Report,* LinkedIn, 2019, p.4, https://business.linkedin.com/content/dam/me/business/en-us/talent-solutions/resources/pdfs/global-talent-trends-2019-old.pdf.

[30] *2019 Employee Financial Wellness Survey*, PWC, 2019, p.18.

Figure 32. Percentage of Employers Offering Family and/or Elder Care Leave Benefits

Leave Benefits

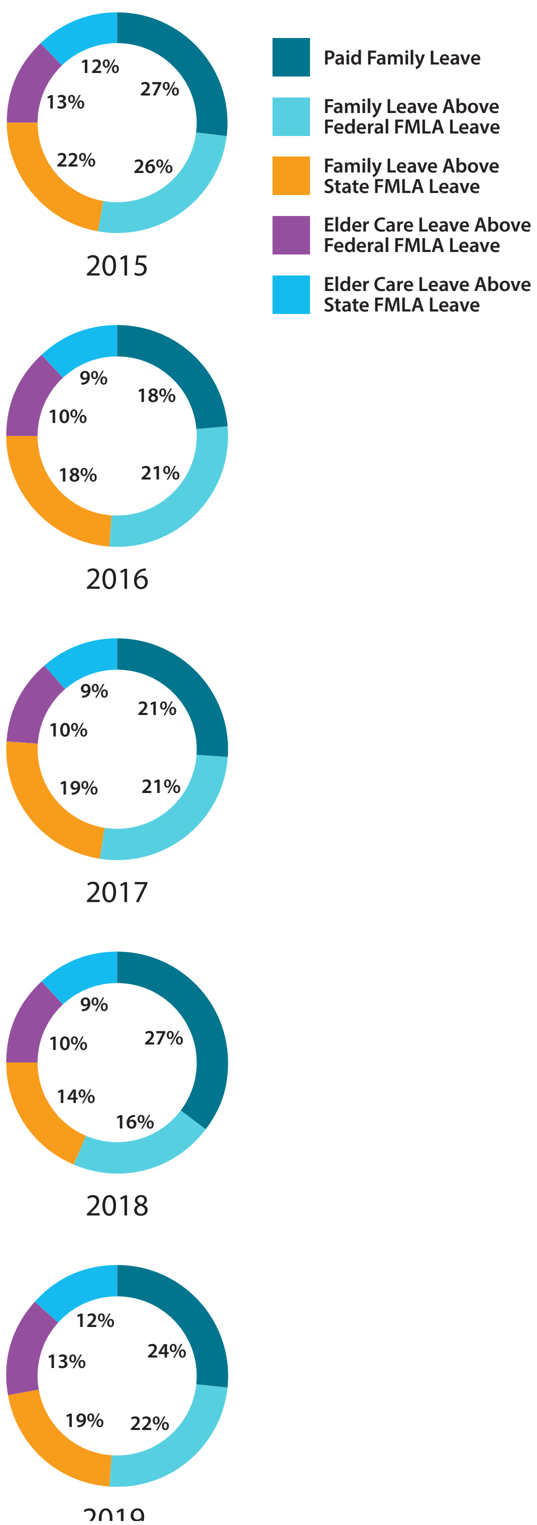
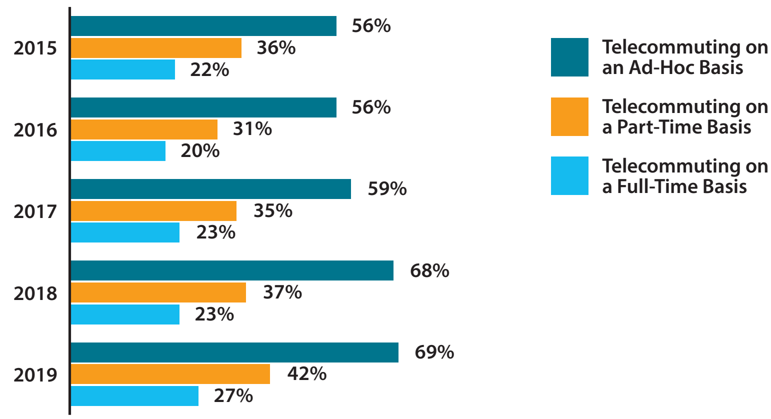
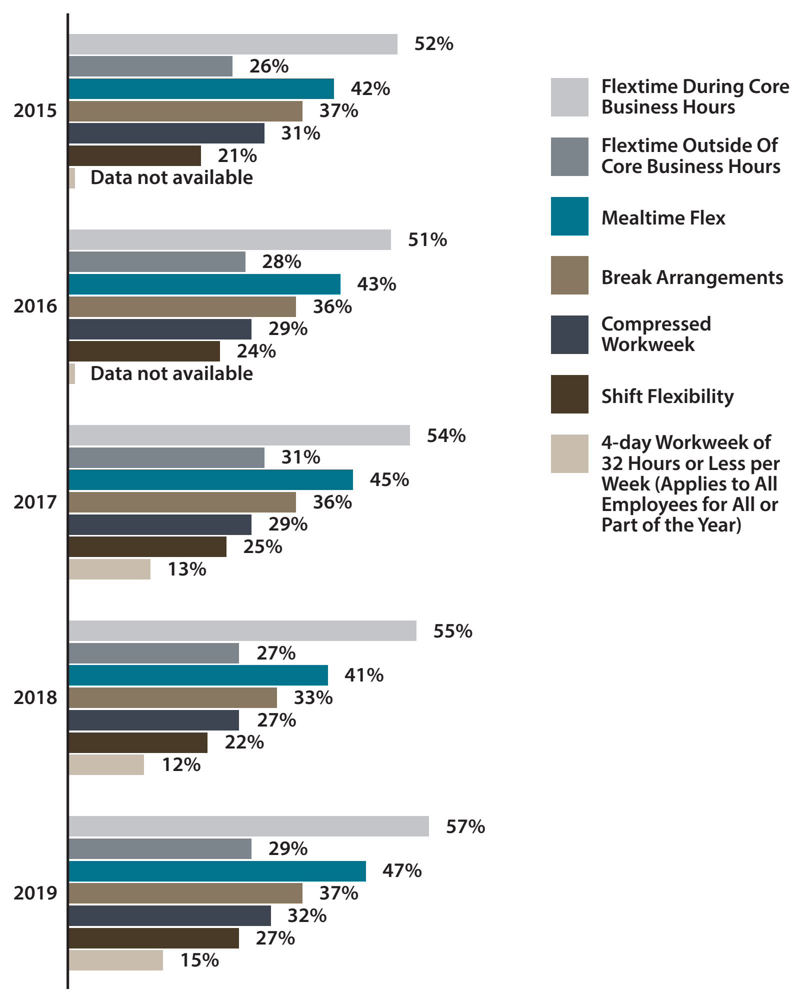


Figure 33. Percentage of Employers Offering Flexible Working Benefits

Telecommuting

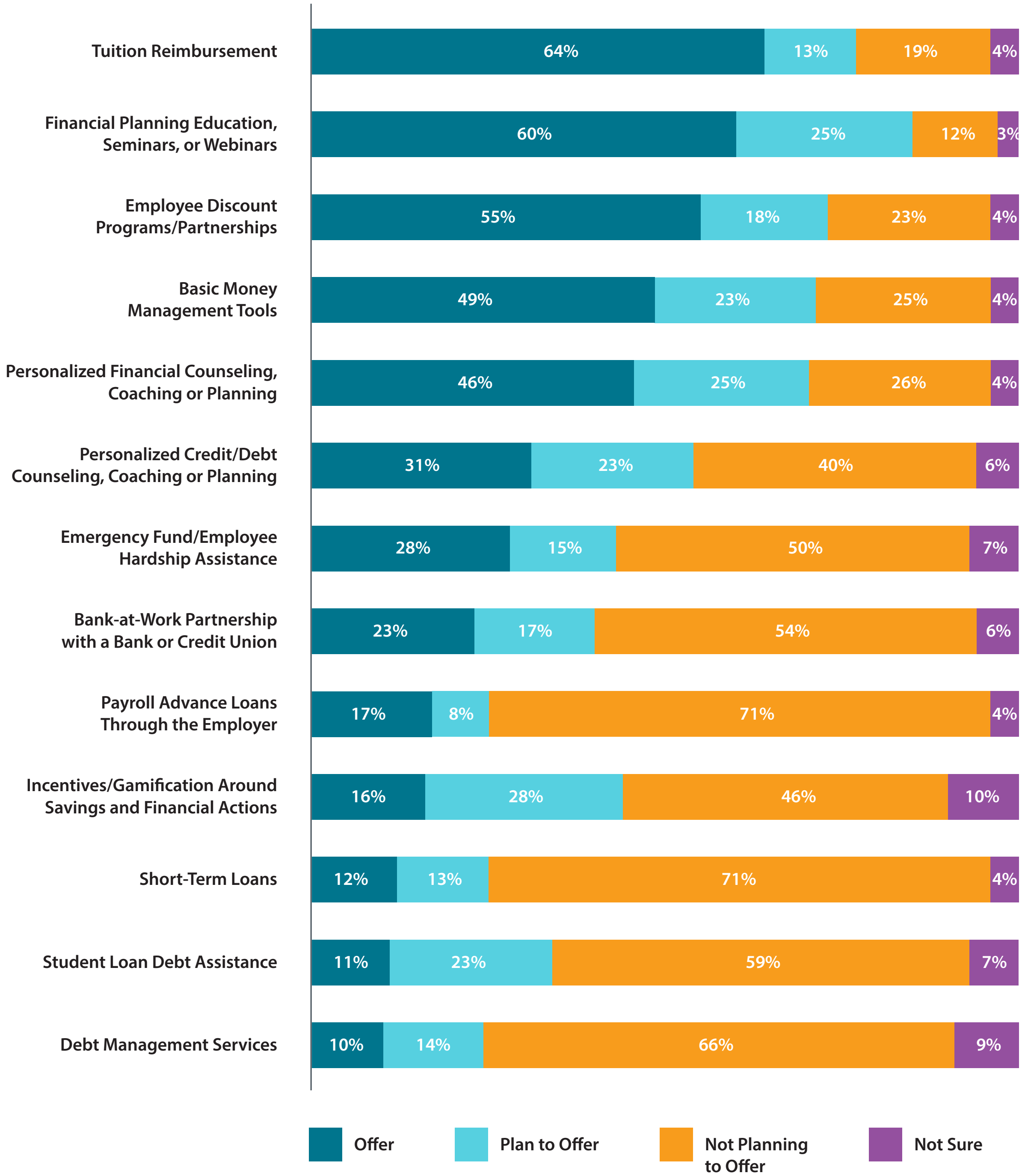


Flexible Scheduling



Source: *2019 Employee Benefits Survey: Leave and Flexible Working,* Society of Human Resource Management, 2019, p.7-8

Figure 34. Financial Well-Being Benefits Offered by Employers



Source: *2019 Employer Approaches to Financial Wellbeing Solutions*, The Employee Benefit Research Institute, September 26, 2019, p.19

Chase Cannon
Vice President
Benefits Compliance,
Deputy CCO

The Ebb and Flow of Legislation and Regulation

With presidential and other elections, and the US Supreme Court agreeing to hear yet another challenge to the ACA, 2020 was already set to be a watershed year for healthcare legislation and regulation. Then the COVID-19 pandemic struck, and along came a flood of new state and federal rules. As employers continue to wade through pandemic-related issues, including furloughs, layoffs and benefits challenges, the ebb and flow of federal and state legislation and regulation will continue to shape their strategies.

Employer Flexibility Required: The Additional Compliance Challenges Of COVID-19

Employers have faced immense challenges with the COVID-19 pandemic. First, they were up against incredibly difficult decisions on furloughing or laying off employees and continuing benefits (including medical, dental, vision, HRA, and health and dependent care FSAs). Then, employers were flooded with a flurry of federal and state legislative and regulatory rules in reaction to the pandemic. The resulting web of requirements, considerations and reactions continues to ebb and flow as employers form, implement and refine their response strategies.

Furloughs, Layoffs and Benefits

When employees are furloughed or laid off, employers must work closely with carriers and vendors as they determine whether employee eligibility and employer contributions will continue or cease (all with the ACA's employer mandate lurking in the background). The situation is similar to other unpaid leaves of absence (and is another reason to review and amend employer leave policies). If employees continue to be eligible for coverage, employers have to decide whether they want to pick up the tab on premiums, maintain premiums as they were, or shift the entire contribution to the employee.

For the latter two options, the employer must decide how to manage employee premium payments (employees who are no longer at work or receiving paychecks). Two main options are to have employees:

- Pay as they go (via check, money order or electronic payment)
- Pay in arrears when they return

On the other hand, if employee eligibility ceases during a furlough or at layoff, the employer would need to distribute COBRA notices — and some employers may choose to subsidize COBRA (which would require clear communication on the length and amount of such a COBRA subsidy). Either way, the decision requires coordination with carriers, vendors, plan documents and

Rule relaxation increases flexibility, but creates additional administrative challenges.

Ultimately, whatever strategies employers choose in response to the pandemic will affect their strategy in response to the pandemic's end.

CHASE CANNON
VICE PRESIDENT OF BENEFITS COMPLIANCE
DEPUTY CCO

IMPACT ITEM

In reaction to COVID-19, states have opened the floodgates with new laws, rules, bulletins and other guidance.

During 2020, employers – with applicable insurer approval – can allow employees to enroll in any group health plan mid-plan year.

with all interested parties within the company itself (HR, legal, C-suite and finance).

Federal Legislative and Regulatory Changes

First (for employers with fewer than 500 employees) came the FFCRA with new emergency paid sick leave rules and emergency paid FMLA expansion for employees absent from work for COVID-19-related reasons (both with refundable tax credits to employers that provide such paid leave to employees). The FFCRA also guarantees that plans will cover COVID-19 testing without cost sharing.

The CARES Act followed, further guaranteeing, on a temporary basis, plan coverage of COVID-19 testing and vaccines and expanding telehealth coverage without cost sharing (and without affecting HSA eligibility). The CARES Act also included a few surprises, as it permanently allowed HSA/FSA/HRA reimbursement for nonprescription over-the-counter drugs and for menstrual products, and added student loan repayments (up to $5,250) as a type of educational assistance expense reimbursable to an employee on a tax-free basis (temporarily through 2020). Congress continues to work on Phase Four legislation, which could include governmental COBRA subsidies, a guarantee of COVID-19 treatment coverage without cost sharing, and a potential expansion of FFCRA-related paid sick and emergency FMLA for larger employers (those with 500 or more employees).

On regulation, the DOL and IRS weighed in with several rounds of guidance, including myriad clarifications under the FFCRA and CARES Act. The DOL jumped in to provide an extension of certain timeframes and deadlines for benefit plan notices, including COBRA notices, HIPAA special enrollment notices, claim submission deadlines, and appeals and external review deadlines. The extension essentially delays any notice due during the "outbreak period," starting March 1, 2020, and extending 60 days after the White House signals that the pandemic is officially over. While helpful in removing immediate burdens of compliance during a difficult time, the deadline extensions create huge administrative challenges.

The IRS followed suit shortly thereafter, providing a relaxation on some of the election change rules under section 125. Specifically, during 2020, employers – at their discretion and with applicable insurer approval – can allow employees to enroll in any group health plan mid-plan year, to change from one plan of the employer to another, or to add, cancel, increase or decrease health and dependent care FSA elections. Employers can also allow employees to drop coverage, but only if the employee attests that they are enrolled (or will enroll) in other coverage. This rule relaxation increases flexibility for employers and employees, but creates additional administrative challenges (and potential plan document amendments).

Ultimately, whatever strategies employers chose in response to the pandemic will affect their strategy in response to the pandemic's end. As employers bring back employees, they'll have to consider how benefits will work (reenrollment in the plan, collection of contributions in arrears, etc.). If employee eligibility was lost upon furlough or layoff, the employer may have to make a new offer upon return. In either scenario, a large employer will have to follow the ACA's rehire rules, which require the employer to reenroll the employee as soon as possible if the rehire is within 13 weeks (26 weeks for educational institutions). That means large employers cannot apply a waiting period to rehires, unless they meet that 13/26 week threshold between furlough/layoff and rehire.

On COVID-19 response, employers will first have to decide their strategy — whether to maintain/furlough/lay off employees. It will be critical to make the decision in conjunction with carriers, plan administrators and other vendors and this collaboration will drive the employer's decisions relating to eventual return to work. Wherever they land, employers must be careful to notify employees fully. Employers must set appropriate expectations with respect to plan eligibility, premium contributions, and election changes. While neither the DOL nor the IRS has model notices on any of the above rules, changes or extensions, employers must nevertheless notify employees of plan changes (they can do so electronically via email, assuming employees have email or internet access, and can do so as soon as reasonably practicable). Eventually, employers will also need to review and formally amend plan documents (although for many amendments, this will not be required until the end of 2021).

A Biden presidency would likely preserve the ACA and add additional **options.**

State Reaction Continues to Add to the Oscillation of Compliance Complexities

Even prior to COVID-19, states were increasing their regulatory activity, particularly on the paid sick, family and medical leave front. However, in reaction to COVID-19, states have opened the floodgates with new laws, rules, bulletins and other guidance. For multistate employers, the state regulatory web continues to increase in complexity, with no end in sight. State action falls into three basic buckets of activity.

First, states have expanded coverage in several ways during the pandemic, mostly applying to fully insured plans in each state. Almost all states guarantee coverage for COVID-19 testing, screening, vaccines and in some cases treatment, without cost sharing or preauthorization. In many states, telehealth coverage is expanded and treated the same as in-person visits. And in almost all states, carriers are encouraged to waive restrictions relating to prescription refills (to allow individual access to appropriate prescription supplies while sheltering at home).

Second, states are interested in protections for employers related to premium payment relaxations—carriers are encouraged, and in some states required, to relax deadlines and extend grace periods, and not cancel policies for nonpayment of premiums.

Third, states (and in some instances cities or municipalities) are expanding paid sick, family and medical leave to cover situations arising in connec-

The remainder of 2020 could hold big answers for the future of the ACA.

tion with COVID-19. While some states may be simply expanding the reasons to take leave, other states have created specific rules and interactions with current state family and medical leave protections.

While the swell of state regulatory action has likely reached its height, the flow will continue through 2020, as states continue to respond to the unique circumstances of the COVID-19 pandemic. Employers will need to continuously monitor these developments, review employer leave policies and plan documents, and maintain close communication with carriers, administrators, vendors and, most importantly, employees.

The ACA Remains Steady, But Murky Waters Lie Ahead

As employers deal with the immediate needs of the COVID-19 pandemic, opponents continue to attack the ACA. The ACA has been challenged on many levels, both through the legislative process and in the courts. On the legislative process, after the ACA survived the Republican's repeal and replace efforts in 2017 and 2018, Congress, through bipartisan effort in 2019, repealed three of the ACA's more onerous taxes: the health insurance tax (HIT), the so-called "Cadillac tax" and the medical device tax. However, at the same time, Congress re-upped the Patient Centered Outlook Research Institute (PCORI) fee for another 10 years (originally set to expire in 2019, it now expires in 2029).

While Congress doesn't appear willing to enact any additional changes in the near future, the ACA (and healthcare in general) will be a centerpiece of 2020 presidential and other debates. While Republicans and President Trump will continue to talk full repeal of the ACA, Democrats – with Joe Biden as the presidential nominee – will aim to protect and improve the ACA. Chatter on single payer systems was high during the Democratic debates, but nominee Biden appears more focused on expanding the ACA's tax credits for lower income individuals and Medicaid expansion, and on adding a public health insurance option. A Biden presidency would likely preserve the ACA and add additional options, but would not significantly erode the employer-sponsored health insurance model as the primary means by which Americans receive coverage.

That said, the highest court in the land may have something to say about the ACA, and the repercussions could be wide and deep. This fall, the US Supreme Court will hear *Texas v. the US*, which challenges the ACA's individual mandate on constitutional grounds following the elimination of its penalty tax. If successful, the lawsuit may affect the entire ACA on the basis that the mandate cannot be severed from other portions of the law. The court's decision is not expected until after the elections conclude. But if the entire ACA falls, the outcome of the elections might matter even more.

Nonetheless, with the ACA still in effect (for now), large employers will have to continue offering coverage to full time employees, completing reporting (Forms 1094/95-C), and paying the PCORI fee (employers must pay this directly if they sponsor a self-insured plan (including HRAs), but carriers will pay it for fully insured plans). The remainder of 2020 could hold big answers for the future of the ACA.

Maria M. Trapenasso
Vice President,
HR Solutions

State Leave Compliance

Keeping Up with Evolving Regulations

During this global pandemic, it is critical for employers to stay on top of state legislative changes and how they impact the administration of leave plans. According to Reed Business Information, Inc., as of March 2020, 12 states had passed paid sick leave regulations and of those 12 states, four had enacted local regulations. Municipalities within another four states enacted their own paid leave laws in the absence of statewide legislation.

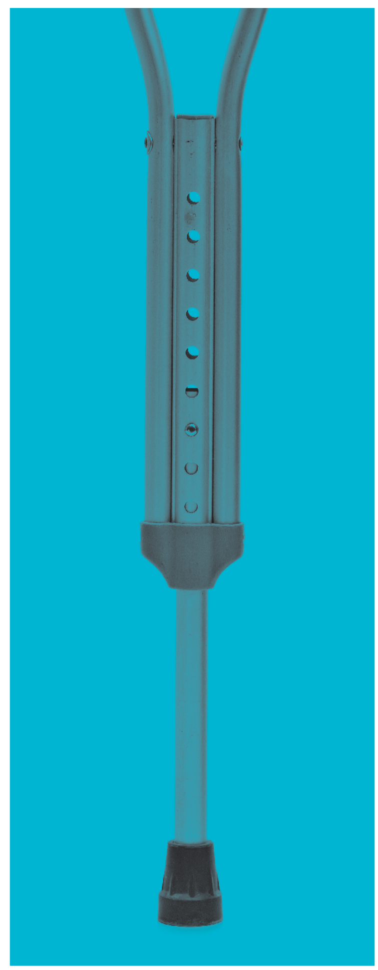
With a fresh focus on family and well-being in the workplace, some states have gone a step further and expanded legislation to include family and medical leave. Regulations have already been enacted in five states: California (and San Francisco), New Jersey, New York, Rhode Island and Washington. There are more on the horizon:

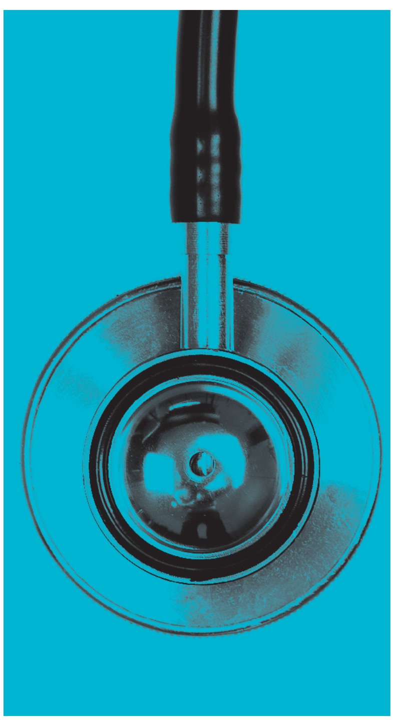
- Connecticut – Effective January 1, 2022
- District of Columbia – Effective July 1, 2020
- Massachusetts – Effective January 1, 2021
- Oregon – Effective January 1, 2022

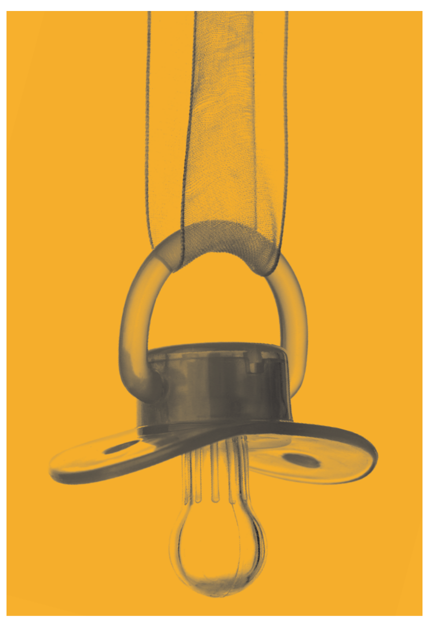
Best Practice: While multistate employers are challenged with creating compliant sick leave policies, it's a best practice to review state regulations, identify the most generous requirements and provide the appropriate amount of leave across the company to ensure compliance. Employers should identify outlier states and municipalities with higher annual allowances and accrual rates (Emeryville, Berkeley and Los Angeles, California are examples) and industry-specific requirements (including hotel employees in Los Angeles) and make those accommodations as necessary. It's also important to review "front loading" permissions if this is a method an organization wants to employ.

Employers faced with creating compliant leave policies should look at their practices holistically. Policies should be written to ensure that any type of employer paid family leave and/or paid parental leave runs concurrently with available state leave and is offset by state paid family leave benefits whenever possible. For example, carriers will reimburse employers in New York directly for NYPFL if they are making the employee "whole" during the leave period (i.e. paying the employee at 100% through salary continuation.) Employer paid leave policies should mirror the state plan (i.e. provide up to 52 weeks from the date of the event to take the leave and permit intermittent leave), if they want the plans to run concurrently. Failure to do so could lead to noncompliance (with the state plan) and potentially open the door for the employee to "stack" time. This means that the employee could conceivably take time off under the employer's plan, and then still be eligible to take time off under the state plan. Policies should also include a requirement that all employees apply for any state paid leave benefit available to them,

Multiple state leave regulations create new levels of complexity.







Many employers are looking to benchmarking data to see how they rank in the marketplace.

and that company provided leave programs will run concurrently with any federal and/or state leaves wherever possible.

Many states have expanded their current leave regulations to reflect the impact of COVID-19. New York has enacted specific COVID-19-related emergency sick pay benefits, and the federally enacted FFCRA provides employee protections and COVID-19-related paid leave for certain employees (the federal provisions are only applicable to employers with fewer than 500 employees).

Employers should review these provisions and consider modifying their policies where necessary. It's important to note that in many instances an employer must permit the employee to take federal and/or state provided emergency sick leave, while preserving their employer-provided leave balances.

Identifying HR Responsibilities When Utilizing A Leave Management Vendor

For many years, employers have administered leave of absence requests through internal means and resources. Now that the current workforce has placed a greater emphasis on family leave, and multiple state leave regulations have created a new level of complexity, employers are turning to third-party leave administration vendors.

Unfortunately, engaging a leave vendor does not completely eliminate the responsibly of HR professionals involved in leave administration. Employers still play a vital role in the leave process and, if they don't ask the right questions early in the vendor selection process, the employer could be administering more of the leave process than anticipated.

For simplicity's sake, employers may look to their current short-term disability carrier for a leave of absence administration solution. While in some cases this may be a good option, certain carriers may not handle unpaid state leave processes. Employers must understand what the carrier manages and what will fall under the employer's scope of responsibility. For example, an employee expecting a baby in the state of California would be eligible for:

- FMLA (if eligible) – Federal/unpaid leave
- Pregnancy Disability Leave – CA/unpaid
- SDI – CA disability/paid
- CA Paid Family Leave – Paid leave (and possibly San Francisco Paid Parental Leave)
- CA Family Rights Act – Unpaid leave

If the leave vendor does not manage the unpaid state leaves, then the employer will be responsible for notifying the employee of their rights and responsibilities under these state provisions. Additionally, since employees in California need to file their claims for paid leave benefits online, it will be important for employers to understand the leave vendor's process in these circumstances. Employers must ensure coordination of state leave benefits with their own internal leave programs as well. A better option may be to select an independent absence management vendor that concentrates solely on leave administration to provide a comprehensive approach, however there still needs to be communication and coordination between your absence management vendor and your short- or long-term disability carrier.

Best Practice: Prior to engaging a third-party leave administrator, an employer should confirm that its internal leave processes are up to date and comprehensive. A leave vendor will take a deep dive into your policies to understand your processes, and identify any necessary modifications, before implementing their services. Not having these processes in place could delay your implementation timeline.

Ask the right questions, including how the vendor will manage paid and unpaid state leave regulations and how that will coordinate with your company's leave policies. Ask the vendor to outline the specific details for each state. Some states handle the claims process differently. Also, ask the vendor about your organization's roles and responsibilities once the service is implemented. Following these best practices may prevent employers from being disappointed with their leave administration selection.

Competitive Time Away From Work Policies – How Does Your Organization Measure Up?

In order to provide competitive time away from work benefits, many employers are looking to benchmarking data to see how they rank in the marketplace. Once an employer identifies its position, it can leverage that knowledge to implement innovative changes that can create competitive advantages in recruiting and retaining top talent.

There are instances, however, where employers may not be ready to make drastic changes in policy. For example, an organization's culture may not be ready for an "unlimited" or "flexible" PTO policy. And while many employers advocate for parental leave policies to allow employees to spend more time with new families through birth, adoption or fostering, they may not be ready to implement a 16 – 18 week leave policy paid at 100%, like the ones being offered by large financial firms and e-commerce giants.

In all instances, employers must consider the financial and cultural impact of these changes. It's also important for employers to recognize that it's acceptable to implement incremental changes to achieve their goals over the long term.

For many employers, benchmarking time away from work benefits, such as PTO, traditional sick and vacation time, parental leave, family leave, personal leave, company paid holidays and bereavement leave, will give them an opportunity to see where they stack up against their competition. For many it may be an indication of why an organization is having difficulty attracting and retaining top talent.

HR professionals will be able to build a stronger business case for policy change when it's backed by data. An organization's strategic goals, culture and financial well-being will ultimately dictate the level of policy change that organization will be willing to undertake.

Best Practice: Before making major policy changes, it may be prudent for an employer to understand where they stand compared to their competitors and use that as a guide. Employers should also analyze the financial impact of the change. For example, when considering implementing a family leave policy, an employer may want to look at how many employees would have been eligible in the prior year had the policy been in place. This might be determined by looking at how many employees requested leave in the prior year for any of the reasons permitted under the proposed policy. Employers will also want to look at any state-provided leave benefit that may offset the employer's cost of providing this benefit. If an employer is faced with implementing only one type of policy, or increasing benefits for limited offerings, it may be best to engage employee opinions through focus groups or surveys to find out what matters most to employees, and then implement those changes first for the broadest and most significant impact.

> Many states have expanded their current leave regulations due to **COVID-19.**

Mark Rieder
Senior Vice President,
Head of Innovation

Ready or Not, Digital Transformation is Here

In a short span of time, our world has changed. COVID-19 has proven to be a formidable catalyst for transformation. What was often talked about around the boardroom is now being acted on by operational leaders. Driven by necessity rather than desire, digital transformation is happening.

Pieces of the puzzle

Transformation requires the willing participation of a few key stakeholders. Until now these stakeholders were misaligned and their advocacy or reluctance for change lacked authenticity. While events were occurring in society that pointed to a need for transformation – shifting demographics, evolving employee needs, advancing technology – and most realized that insurance and benefits were in need of innovation, transformation just wasn't top of mind.

Unfortunately, as has been the case throughout history, a catastrophic event had to force the change.

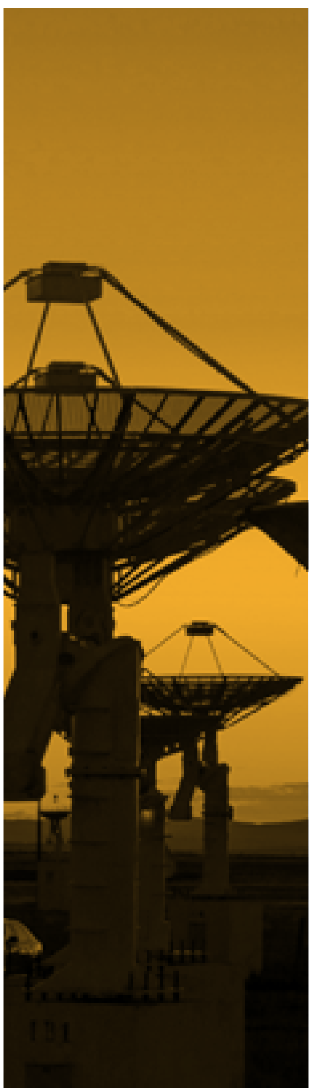
The Employers

One key stakeholder group – employers – was once reluctant to change. However, they have been forced to find new ways to conduct business. The goal of offering benefits to keep employees healthy has taken on a new and urgent context. The once simple task of going to work now requires numerous steps, some only made possible by technology (telecommuting, cloud computing, virtual meetings, webinars and so on). Once seen as futuristic, virtual/digital care delivery models are vital today and have proven to be an invaluable benefit during the COVID-19 pandemic. The fear of disrupting the workforce and the mindset of "my older employees are resistant to technology" have been forever altered. Virtual/digital care is no longer positioned as a convenience or something to consider for the future — it is a necessity for the new normal.

Employers' buying habits have advanced years in just a few short weeks.

> As has been the case throughout history, a catastrophic event had to force the **change.**

Digital is not a thing. It's the world we live in.



Access to data and demand

to solve problems have rerouted roadmaps and accelerated time tables.

MARK RIEDER
SENIOR VICE PRESIDENT, HEAD OF INNOVATION

IMPACT ITEM

5G is destined to create unprecedented opportunities for innovation and progress in data-hungry categories like artificial intelligence, advanced manufacturing and remote healthcare.*

* https://www.forbes.com/sites/forbestechcouncil/2019/09/13/what-effect-will-5g-have-on-our-world/#1a0f31096de9

The Start-Up Community

Having spent the past several years developing solutions that solve for big problems, but struggling to gain adoption, many innovators are now in high demand to help in these times of crisis.

IBM was quoted a few years back as saying that "90% of the data in the world today has been created in the last two years alone, at 2.5 quintillion bytes of data a day!"[31] This data continues to fuel new tools and solutions that drive behaviors and improve outcomes. Further, access to data and the demand to solve problems have rerouted roadmaps and accelerated time tables for companies like never before. Although it took a catastrophic event, even the most reluctant nonbelievers are seeing the need to transform and benefiting from lived examples of the power of technology.

The Insurance Industry (Carriers and Brokers)

As a result of the shift in consumer behavior and restrictions imposed in response to COVID-19, legacy insurers and agencies are being pushed to increase digital and tech-enabled capabilities. The new normal brings a new set of variables, shining a light on the importance of data modeling, advanced analytics and risk management.

Carriers and brokers are focusing on streamlining procedures. Underwriting, contracting, client engagement, member management, care delivery, analytics…the list goes on. All in need of a digital face lift and all in play.

Digital is more than a project. It's integrated in everything we do.

Strategy Before Technology

Digital transformation, in business, is the process of rethinking the way business is conducted and utilizing digital technology to create value. It is tremendously dependent on the aggregation of data and using data to support better business decisions. These data-driven decisions lead to empowered employees, engaged customers, optimized operations and transformed product offerings. Having a portal is no longer good enough.

The race to accumulate and decipher data will drive the benefits industry to leverage partnerships across the technology spectrum. Partnerships built using the newest technology – the internet of things, artificial intelligence and machine learning – are just the beginning.

> Having a portal is no longer good enough.

A Platform Economy

A platform is a business model/strategy that allows multiple participants to connect to it, interact with one another, and create and exchange value. With the speed of technology advancements and the volume of insurtech products coming to market, it would be hard to believe that any one tool could be the best in all areas. An ecosystem approach provides an integrated experience for the end user despite having myriad best-in-breed tools working behind the scenes.

The rise of ecosystems is both the result of innovation and digitization as well as the opportunity for more innovation and digitization. Innovation is driven from data, and digitization releases that data.

Adaptability

Organizations with adaptability at the core of their design and strategy will be well positioned in the "new norm." The key to surviving – and thriving – is anticipating and responding to change over the long term. Putting the end user at the center of every digital activity will drive engagement and allow companies to capture previously unimagined value.

Digital health, genomics, virtual care, and well-being apps are just the beginning. The insurtech of today is digitally transforming yesterday's insurance industry.

The question is, after this transformation is complete, will the term "insurtech" even be relevant?

[31] Jack Loechner. "90% of Today's Data Created in Two Years," Research Brief, 2016; https://www.mediapost.com/publications/article/291358/90-of-todays-data-created-in-two-years.html.

Kim Heald
Vice President, Voluntary Benefits Practice Leader

Voluntary Benefits

A **Workforce** Safety Net

Today's workforce is comprised of four different generations – Gen Z, Gen Y (millennials), Gen X and baby boomers – each with their own diverse financial challenges and goals. While COVID-19 has altered the employment landscape for the time being, as we move forward, employers will need to go beyond the traditional one-size-fits-all approach to benefits to attract and retain talented employees.

Financial stress is a particular area of focus for all four generations. According to the *2019 MetLife Employer Survey*, 30% of employees would take a lower salary as part of a comprehensive benefits package that alleviated their financial stress. Notably, benefits packages are a close second behind salary when considering a job offer or staying in a position.

Even though the US stock market pre-COVID-19 hit new highs and unemployment was at an all-time low, many employees were struggling financially. In a thriving economy, 70% of Americans were unable to save $1,000 to pay for unplanned medical expenses while 45% had no savings at all. COVID-19 is likely to exacerbate these numbers and employers and employees face a new reality. Benefits can be a safety net that alleviates financial stress and creates opportunities for employees to improve their financial well-being.

"Voluntary benefits" is an umbrella term for a growing list of benefits that employers can offer to complement traditional benefits and address the diverse needs of multigenerational workforces. Employers have access to a wide selection of voluntary benefit options, which they can offer to employees with little or no cost to the company, to build comprehensive benefits packages that can help employees navigate financial hardships and a variety of other challenges. When used in a strategic manner and positioned/communicated effectively, voluntary benefits can turn a one-size-fits-all program into a meaningful customized benefits package that enhances recruiting competitiveness.

Voluntary benefits can be broken into two distinct categories: supplemental health benefits and lifestyle benefits.

Supplemental Health Benefits

These medical-related options are designed to mitigate risk inherent in medical plans (deductibles, coinsurance, copays and out-of-pocket expenses). The Kaiser Family Foundation expects the average out-of-pocket expense to hit $4,000 for single coverage and $8,000 for family coverage, which will be painful for many employees. As deductibles and out-of-pocket expenses continue to

Access to funds beyond a paycheck will be vital to protecting employees.

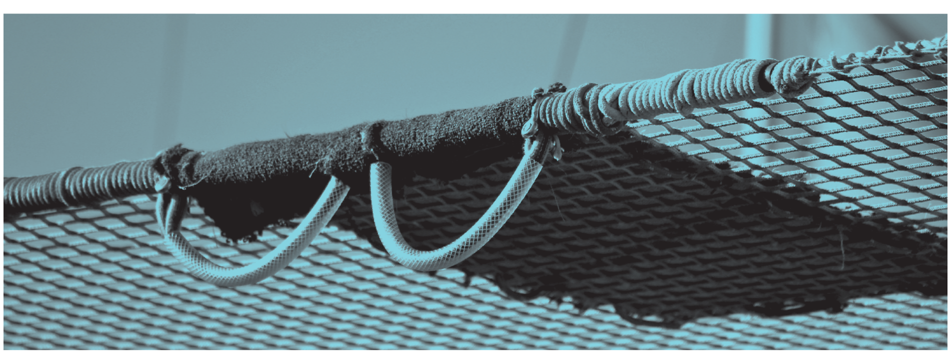


Figure VB1: Voluntary/100% Employee-Paid Product Growth Rate Sales Summary (3Q 2019)

Product	1Q 2018	2Q 2018	3Q 2018	4Q 2018	YE 2018	1Q 2019	2Q 2019	3Q 2019	YTD 2019
Annualized Premiums									
Life Total	+	-3%	1%	-2%	-1%	4%	5%	26%	8%
Term Life	-2%	-10%	1%	-1%	-3%	5%	3%	36%	95%
Permanent Life	15%	14%	2%	-4%	7%	1%	10%	2%	3%
Standalone AD&D	-22%	233%	104%	365%	62%	39%	-56%	–	+
Disability Total	2%	6%	1%	1%	3%	-3%	7%	-1%	+
Short-Term Disability	8%	6%	5%	+	5%	-8%	1%	-6%	-4%
Long-Term Disability	-6%	7%	-11%	4%	-2%	5%	27%	14%	12%
Supplemental Health Total	11%	3%	9%	-3%	4%	19%	9%	2%	12%
Accident	12%	5%	4%	-2%	5%	11%	2%	-1%	5%
Critical Illness	17%	8%	11%	-3%	8%	23%	19%	4%	18%
Cancer	-3%	1%	9%	–	1%	18%	-14%	-12%	-3%
Hospital Indemnity	5%	-6%	21%	-10%	+	35%	19%	7%	23%
Subscribers									
Dental	NA	NA	NA	NA	-1%	17%	-5%	-7%	12%

Sources: LIMRA's quarterly U.S. Workplace Benefits Life Insurance, U.S. Workplace Benefits Disability Insurance, U.S. Workplace Benefits Supplemental Health, and U.S. Workplace Benefits Dental and Vision Plans Sales Surveys.

Data include revisions to prior quarters. Percent change from same period prior year. Based on carriers providing two years of comparable sales data.

+/- refers to growth/decline of one-half of one percent.

NA means not available.

Even before COVID-19, 70% of Americans were unable to save $1,000 to pay for unplanned medical expenses.

rise, benefits like critical illness, hospital indemnity and accident will take center stage in helping medical plans work better for employees.

The supplemental health industry grew by 12% in 2019. As the COVID-19 pandemic continues, employers are beginning to look at critical illness and hospital indemnity through a different lens as they help to cover costs associated with COVID-19-related illnesses and hospital stays. The trend line for these two benefits has increased by 18% and 23%, respectively from 2018 to 2019 and we expect that to continue through 2020. (See figure VB1.)

Lifestyle Benefits

These benefits are nonmedical options built to protect an employee's assets through financial programs like student debt repayment support, identity theft protection, legal coverage and socially responsible credit acquisition.

According to a PWC employer survey, 8% of employers offer student loan repayment programs, up from 4% in 2018. This is a valuable benefit.

- Nearly half of all millennials entering the workforce have at least one student loan and 80% surveyed said the debt is affecting their ability to meet their financial goals. Fifty-five percent of millennials feel that student loan assistance is an important benefit.
- Ten percent of boomers and Gen X employees, often cosigners of this debt, believe student loan assistance is a valuable benefit.

The COVID-19 pandemic has highlighted the fact that 100 million people live paycheck to paycheck in this country. Paychecks for the gainfully employed will not stretch as far as people work fewer hours and experience wage cuts. In some cases, multiple wage earners in a household face these challenges. Unfortunately, financial obligations don't just go away, so access to funds beyond a paycheck will be vital to protecting an employee's financial viability.

- We expect a class of lifestyle benefits to emerge that allow third-party credit acquisition with repayment via payroll deduction.
- Some of the companies look at credit, while others do not, but all limit the amount of credit they provide to employees based on their ability to repay the loans within 6-12 months.
- By providing access to this kind of benefit, employees have alternatives to borrowing from their 401(k)s or using high interest rate credit cards and putting themselves further into debt.

Core employee benefits help employees take care of medical needs for themselves and their families. Voluntary benefits help employers provide an essential safety net for all generations in today's workforce as employees build greater financial security.

Nelly Rose
Assistant Vice President, Clinical Pharmacy

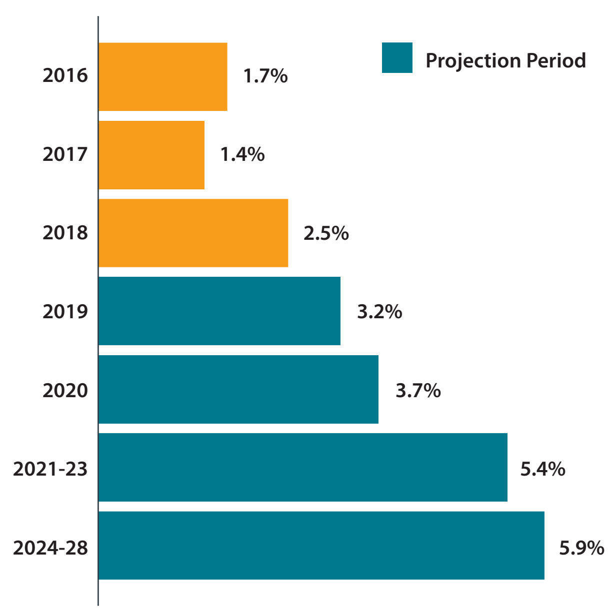
Rx Benefits Landscape

Industry Stats[32]

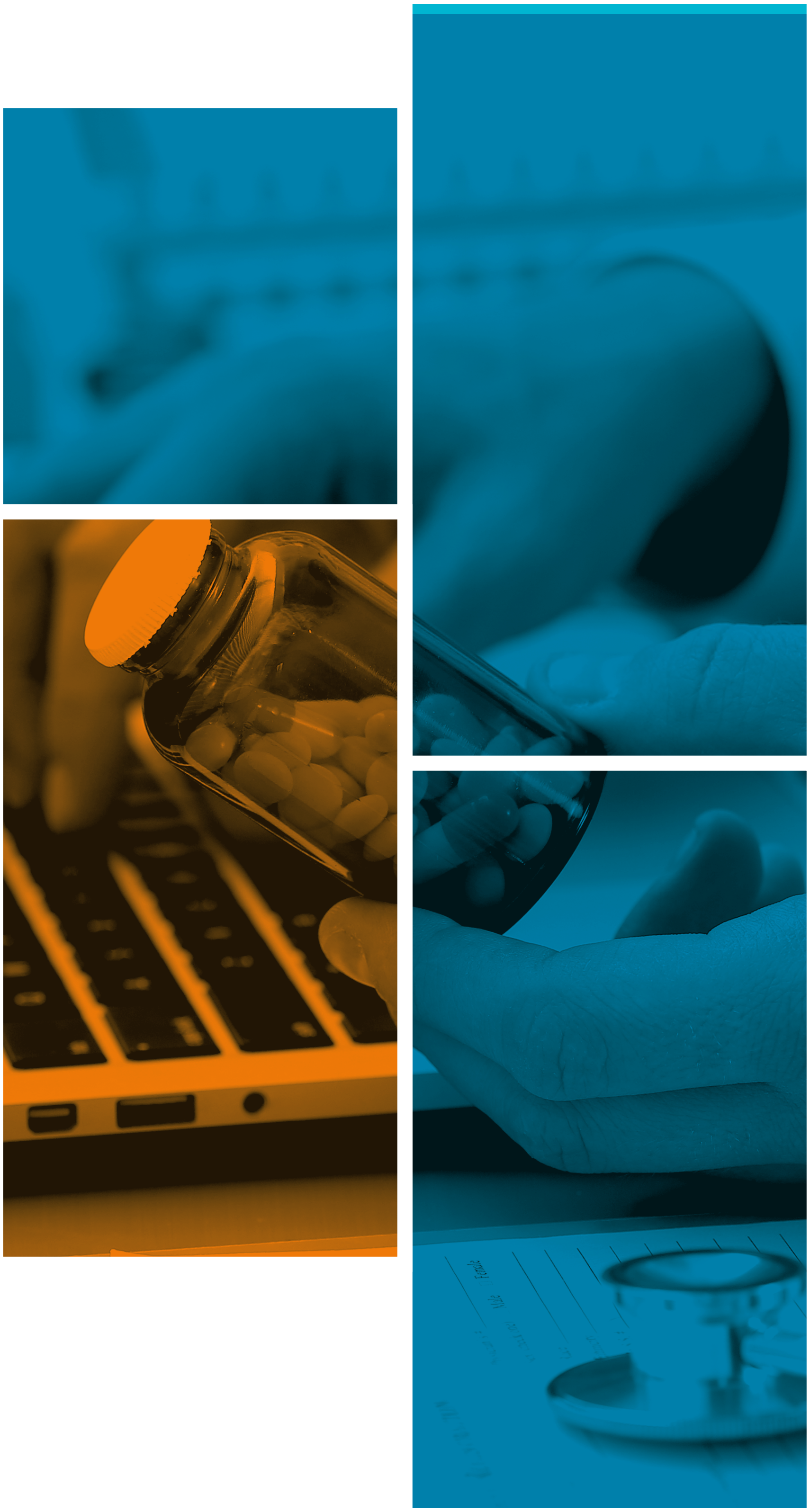
National health spending is projected to grow at an average annual rate of 5.4% for 2019 – 2028 and to reach $6.2 trillion by 2028.

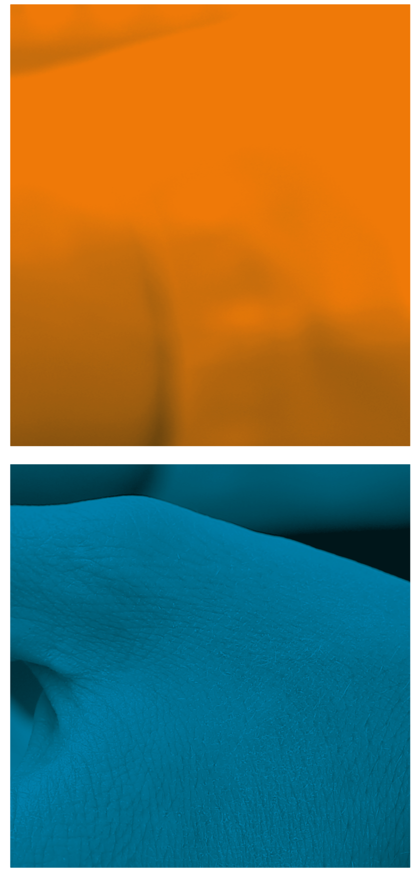
- The health share of the economy is projected to rise from 17.7% in 2018 to 19.7% in 2028.
- Price growth for medical goods and services (as measured and adjusted for inflation by the CMS) is projected to accelerate, averaging 2.4% per year for 2019 – 2028, reflecting, in part, faster expected growth in health sector wages. (See figure R1.)
- Among major payers, Medicare is expected to experience the fastest spending growth (7.6% per year over 2019-2028), largely as a result of having the highest projected enrollment growth.
- The insured share of the population is expected to fall from 90.6% in 2018 to 89.4% by 2028.
- Nearly 5.8 billion prescriptions were dispensed in 2018, up 2.7% from 2017. (See figure R2.)
- Growth in total medicine spending remained at historically low levels in 2018, increasing 4.5% and reaching $344 billion.
- Real net per capita prescription spend in 2018 was $1,044, nearly the same as in 2009 when it was $1,000.

Figure R1. Spending Growth for Prescription Drugs



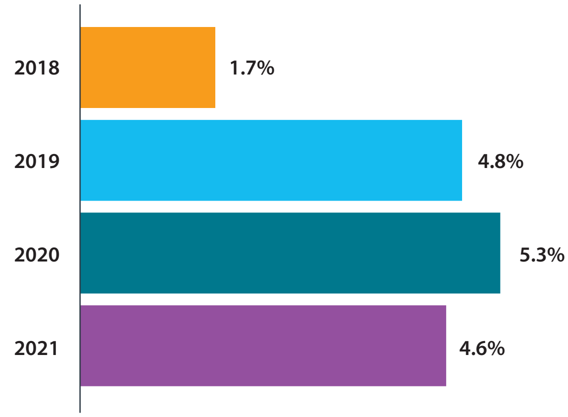
[32] Centers for Medicare and Medicaid Services. "NHE Fact Sheet," CMS.gov, 2020; https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet.





Specialty medicine spending has risen $255 per person since 2009.

Figure R2. Overall Drug Trend



Source: *Employer Market Insights Report,* MagellanRx Management, 2019

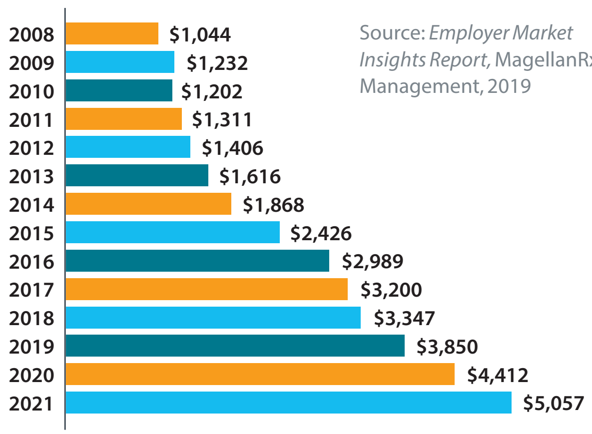
Specialty Trend[33]

- Specialty medicines were 2.2% of prescription volume in 2018, but accounted for 50% of all drug costs. (See figure R3.)
- Leading therapy areas have had significant prescription growth in the past five years as a range of new therapies have been introduced in oncology, multiple sclerosis, autoimmune, HIV and viral hepatitis.
- The number of patients with autoimmune diseases being treated per year is up 63% since 2013, an increase of six million patients.
- Biosimilar share has increased to 31% across multiple therapy areas, but the accessible market is less than 1% and only seven molecules have biosimilars available in the market.
- Specialty is the fastest growing part of pharmacy spend — the pipeline is roughly 58% specialty vs. 42% traditional.
- Fifty-five percent of the drug spend in the US by 2020 is estimated to be in specialty costs ($402 billion).
- Specialty spending has risen $255 per person since 2009, while traditional medicine spending has declined by more than $210 per person over the same period. (See figures R3 and R4.)
- Spending on traditional medicines has declined primarily due to patent expiries and associated brand losses of exclusivity, as well as a general shift in the focus of innovation.
- Autoimmune and inflammatory disease drugs, followed by oncology and multiple sclerosis led the spend. Higher utilization, aided by newer therapies and indication expansions, also contributed to specialty drug spend.
- In the past few years, game changers, such as chimeric antigen receptor (CAR)-T therapies and curative products for Hepatitis C, have revolutionized standard of care.
- A continued trend toward the approval of specialty medications and the growth of biosimilars is expected, including first-time approvals for select biosimilars and market launches, digital therapeutics, and new treatment modalities using gene therapy.
- Noteworthy trends to watch in the upcoming quarters include the development of complex therapies, therapeutic options for rare hereditary diseases (orphan drugs), oncology, and immunology. Moreover, gene therapy for hemophilia, women's health, and sprouting products for ophthalmology await on the horizon. (See figure R6.)

[33] IQVIA Institute Medicine "Use and Spending in the U.S. A Review of 2018 and Outlook to 2023."

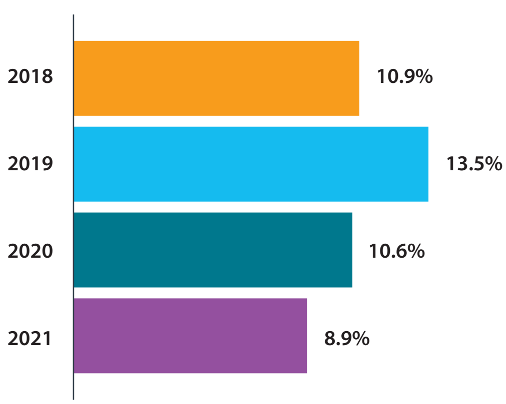
Specialty medicines were 2.2% of Rx volume in 2018, but accounted for 50% of all drug costs.

Figure R3. Specialty Drug and Cost Trend



Source: *Employer Market Insights Report,* MagellanRx Management, 2019

Figure R4. Specialty Drug Trend Forecast 2018–2021



Source: *Employer Market Insights Report,* MagellanRx Management, 2019

Biosimilar drugs and Gene Therapy [34, 35]

- The global biosimilar market is expected to grow from $5.95 billion in 2018 to $23.63 billion in 2023.
- It's estimated that in the US biosimilars will cost 15% to 35% less than the originator.
- There are more than 400 biosimilars in the pipeline with 26 FDA-approved biosimilar drugs, but only 12 commercially available biosimilar products to date.
- Biosimilar savings for inflammatory conditions are not expected to reach market before 2023.
- The global market for gene therapies is estimated to reach $17.4 billion in 2023.
- The FDA expects 200 new gene therapy applications in the next two years.
- Ten to twenty gene therapies are expected to be added to market annually by 2025.

[34] IQVIA Institute Medicine "Use and Spending in the U.S. A Review of 2018 and Outlook to 2023."

[35] MagellanRx Management. *Employer Market Insights Report,* Magellanrx.com, 2019; https://www1.magellanrx.com/read-watch-listen/read/our-publications/employer-market-insights-report/.

Figure R5. PBM Consolidation Logo Table

1. Cigna partners with providers via its Cigna Collaborative Care Program. However, Cigna does not directly own healthcare providers.
2. AllianceRX Walgreens Prime is jointly owned by Prime Therapeutics and Walgreens Boots Alliance.

Non-Specialty Trend Drivers [36]

- Generics make up 90% of prescriptions dispensed, up from 75% in 2009, and continue to be dispensed 97% of the time when available.
- Use of prescription opioids in 2018 declined by 17% as clinical guidelines and public awareness reduced high-dose prescriptions.
- New flu and shingles vaccines are being widely used, leading to 88% of new therapy starts in 2017 and 2018 in vaccines.
- Diabetes treatments with newer mechanisms of action continue to be adopted more widely and added $3.8 billion in 2018.

PBM Consolidation

The largest insurers, PBMs and specialty pharmacies have now combined into vertically integrated organizations that are:

- Poised to restructure US drug channels by exerting greater control over patient access, sites of care/dispensing, and pricing
- Adding provider services that deliver medical care to patients, primary care/medical groups, ambulatory care, hospice and home health

[36] IQVIA Institute Medicine "Use and Spending in the U.S. A Review of 2018 and Outlook to 2023."

Legislative

PrEP/ACA Changes[37,38]

Despite public health efforts, about 40,000 Americans and two million people worldwide are newly diagnosed with HIV each year. That means that without intervention, 400,000 additional Americans could be diagnosed with HIV over the next ten years.

Pre-exposure prophylaxis (or PrEP) helps prevent HIV for those at a high risk of getting the infection by taking a daily tablet. Oral once-daily Truvada and Descovy, available options for PrEP, cost approximately $1,900 per 30-day supply. A generic for Truvada is expected in the fall of 2020, although the price will not substantially decrease for some time after that generic is released.

The medications work to prevent HIV from establishing itself in the body and are very effective. In fact, when taken daily, they are 99% effective at preventing sexual transmission and at least 74% effective at reducing transmission from IV drug use transmission. For example, taking Truvada daily for a year prevents one case of HIV in about 60 men who have multiple male sexual partners. People tolerate the medication very well with only 2% of people discontinuing PrEP because of adverse effects.

HIV PrEP medications are now on the ACA preventative services list, a change supporting the goal of a future without new HIV transmissions. This means that all non-grandfathered plans will be required to cover HIV PrEP therapies at a $0 member cost share beginning on their next plan renewal date starting on or after July 1, 2020. This mandate targets those who are at a high risk of contracting the disease and meet certain criteria. The good news, however, is that HIV prevention is much cheaper than HIV treatment. It can cost $20K more each year to treat HIV than to prevent. There are more than one million people is the US living with HIV and fewer than 20% of those at risk are estimated to be receiving preventative treatment.

(Some states may mandate implementation at an earlier time. For example, New York state coverage at $0 is required 1/1/20.)

[37] Riddell J 4th, Amico KR, Mayer KH. HIV preexposure prophylaxis: a review. JAMA 2018;319:1261-8.

[38] CDC. Pre-exposure prophylaxis (PrEP). Updated December 13, 2019. https://www.cdc.gov/hiv/risk/prep/index.html. (Accessed April 30, 2020).

Figure R6. Medicines in Development for Cell and Gene Therapy

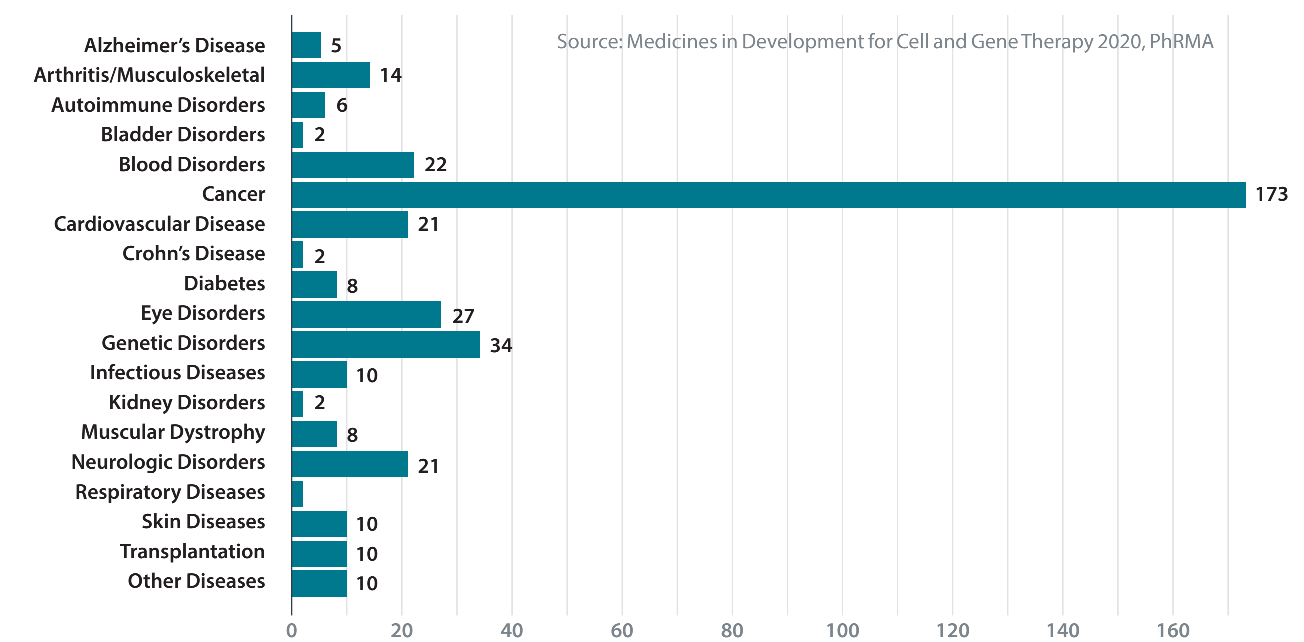
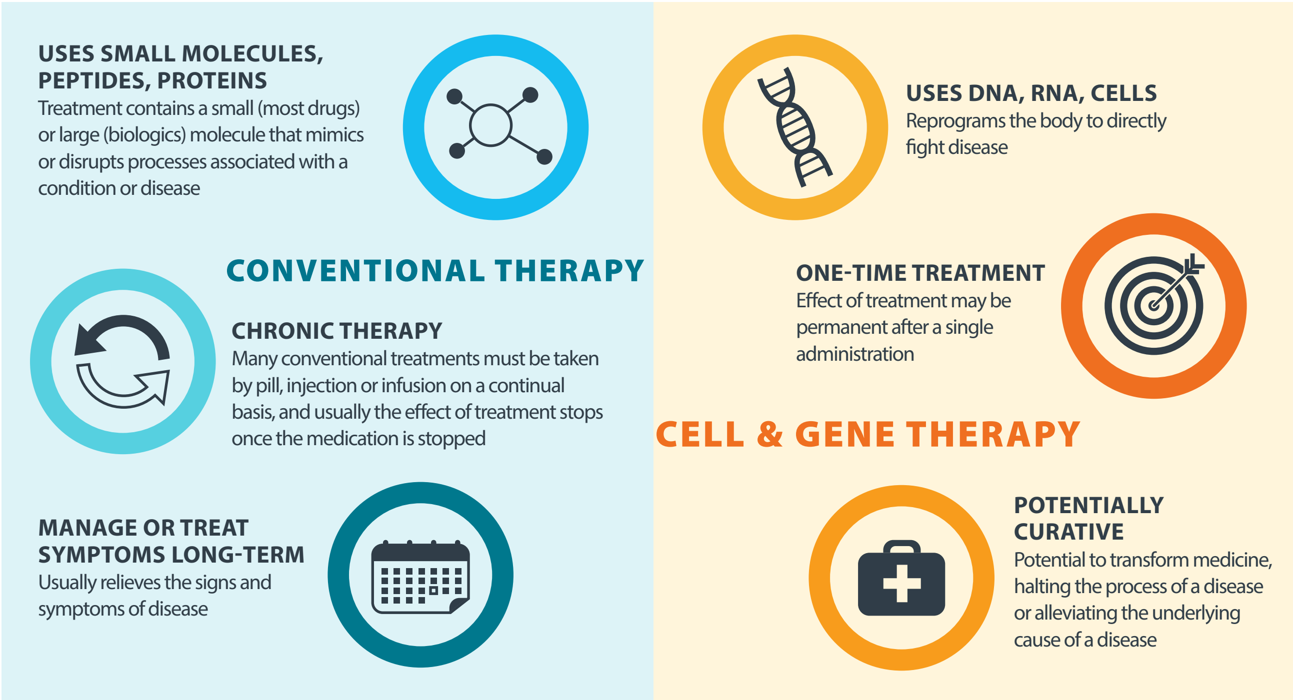


Figure R7. Conventional and Cell & Gene Therapy



Gene Therapy

The cell and gene therapy pipeline has increased 25% and now includes 362 therapies in trial, with almost half (173) made up of cancer treatments and a third (132) targeting rare diseases. There are currently nine treatments approved by the FDA, although only four of these (Kymriah, Luxturna, Yescarta and Zolgensma) are currently available in the market. [39, 40]

The extremely high cost of these therapies remains one of the large roadblocks as they attempt to enter the market. Zolgensma, famously titled the world's most expensive drug, is priced at $2.1 million for a one-time treatment. The current healthcare system is set up as a pay-as-you-go or fee-for-service model designed around traditional maintenance drug therapies. This would require upfront payment for treatment, which places a burden on patients and plan sponsors to cover the extremely high cost of these often one-time, curative treatments. The upfront payments are also risky for insurers who could lose their return on investment if a patient leaves the plan for another.

Since these gene therapies hit the market there have been attempts to establish alternative payment models. There have been more outcomes-based and risk-sharing arrangements proposed that seek to balance access and affordability, while also appreciating the significance of these curative treatments. We are seeing three main themes to the proposed payment programs.

1. Value- or outcomes-based model: Plan offers rebate or reimbursement if a patient fails to achieve a promised outcome. The difficulty with this design is achieving the necessary follow-up over an extended time, especially if they change to coverage under a new plan/employer.

[39] PhRMA. "Medicines in Development for Cell and Gene Therapy 2020," PhRMA.org, 2020; https://www.phrma.org/en/Report/Medicines-in-Development-for-Cell-and-Gene-Therapy-2020.

[40] US Food and Drug Administration. "Approved Cellular and Gene Therapy Products," FDA.gov; https://www.fda.gov/vaccines-blood-biologics/cellular-gene-therapy-products/approved-cellular-and-gene-therapy-products.

Pharmacy tourism is a popular discussion point between clients and consultants.

2. Pay-over-time/annuity model: Payments are spread over time (usually five years). This model could result in one-time treatments being paid for by a previous payer/employer, unless a process is developed for the payments to become transferable with the patient.
3. Risk-pooling model: Upfront treatment cost is spread among a pool of plans to protect an individual plan from bearing the full financial burden. An example of this model is the Express Scripts/Cigna Embarc Program where participating plans pay a per-member per-month fee to participate in the gene therapy network. One benefit of this design is that it provides plans with a predictable way of budgeting for these high cost therapies. [41]

NOVEL PATHWAYS

Rx Tourism

Medical tourism has been around for decades. With increased drug costs and specialty pharmaceutical use, pharmacy tourism is a popular discussion point between clients and consultants.

Multiple medical tourism companies operate around the world. Popular destinations include Europe, Mexico, Canada and the Caribbean. A member travels to a country and visits with an in-country physician who has consulted with the patient's physician in the US. The patient brings medication home, usually a three-month supply. The patient travels every three months, or at a minimum, annually, with video chats occurring quarterly.

Savings reported by these companies range from 20% to 30% of current medical carrier/PBM specialty drug costs.

Patient Drug Assistance Access

Most people have heard of drug coupons, but another approach is accessing manufacturer or charity programs that are financially and/or criteria based. Third-party vendors have focused on specialty drugs as a business model to reduce spend by plan and member. Instead of the plan paying for a specialty drug, the vendor charges a fee to the plan to facilitate a labor-intensive qualification and enrollment for the member. While the drug cost drops to zero for the member and the plan, there are substantial service fees that the plan must pay.

Canadian Drug Importation

Many were excited to learn about a proposed rule that would allow states and other nonfederal entities to import drugs from Canada. Of note, US citizens have always been able to import drugs for personal use. The proposal would require drug manufacturers to apply to the FDA for authority to import. Ineligible medications include injectables, biologics (including insulin), and drugs that require special handling (specialty agents). No coordination with Canadian officials has occurred.

[41] Brandeis Seymore. "Payment Models for Pricey Transformative Pharmaceuticals," Pharmacy Times, 2020; https://www.pharmacytimes.com/news/payment-models-for-pricey-transformative-pharmaceuticals.

Deb Smolensky
Vice President, Well-Being and Engagement Practice Leader

Well-Being Trends

In a blink of an eye, COVID-19 shifted our attention from "future of work" trends, hyper-personalization, burnout and the attention economy, to hunkering down and getting laser focused on the basics of how to get employees back to work safely.

Some of the trends going into 2020 will remain a key focus area as we move forward in this new normal, like mental health and financial well-being, while other trends will move to the background, at least temporarily, as business operations, financial concerns, and people-focused objectives and priorities shift dramatically. (See figure WB1.)

As we reintegrate and adjust to the new normal, the guiding principle for business success will be "it's all about the people" and will hinge on an organization's well-being initiatives. Refining (or creating) a well-being strategy will be one of the most critical objectives and will help to reset the definition of business success. Well-being initiatives that were once top of mind (but at the bottom of the priority list when it came to resources) will be reprioritized (see figure WB2). Employee well-being and the worker experience in particular are areas where organizations will be working to be more effective and agile in light of the pandemic.

Specifically, those organizations that have a broader definition of well-being, incorporating solutions from all the pillars within the framework (physical, emotional, mental, social, community, financial, career), and have a clearly stated philosophy and goals will reap the benefits sooner and be more resilient as new challenges arise. (See figure WB3.)

Figure WB1. COVID-19 Impact on NFP Well-Being Trends Identified for 2020

Figure WB2. Importance Outstrips Readiness for all 10 Trends

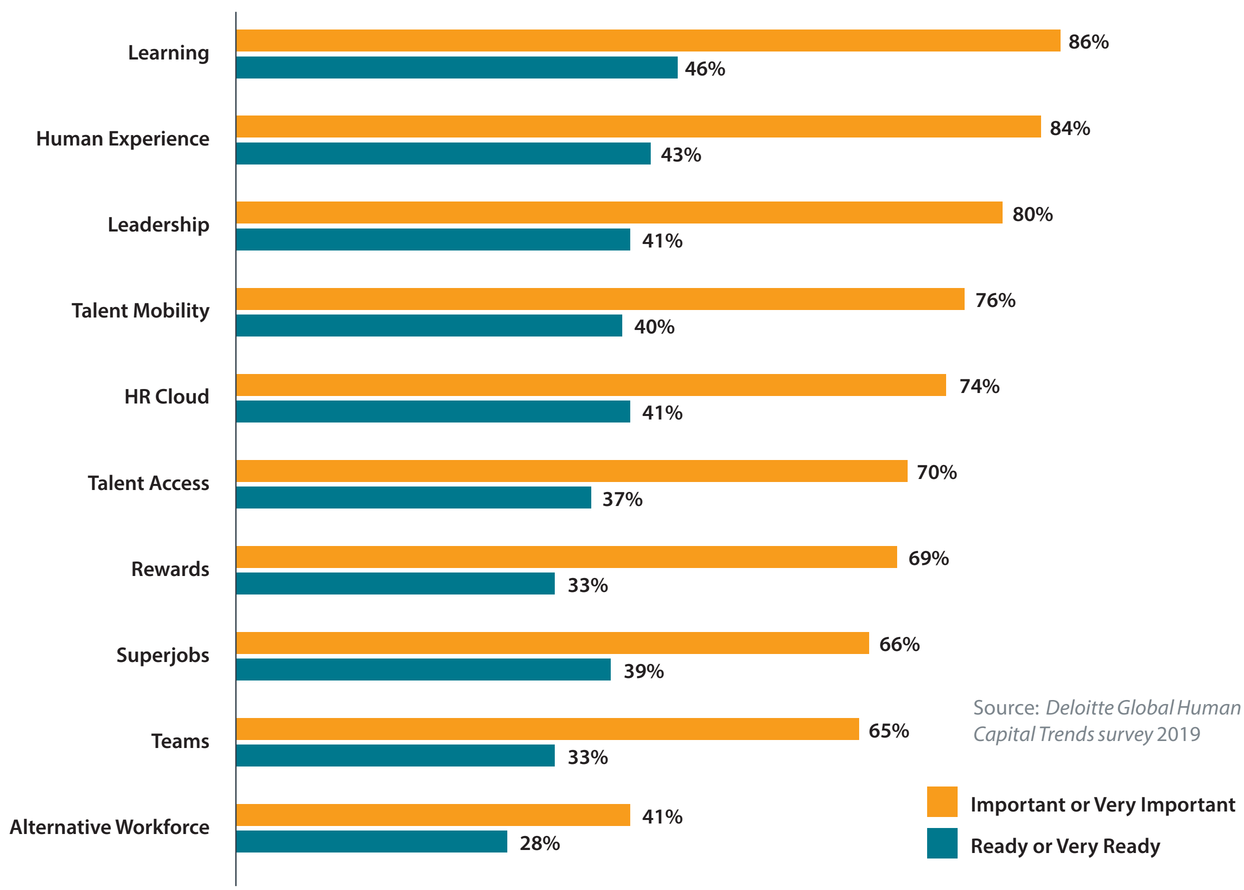
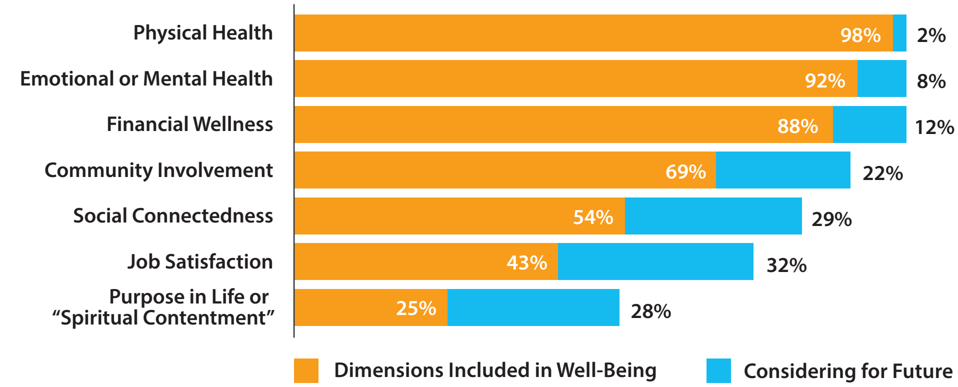


Figure WB3. Employers Have a Broad "Whole Person" View of Well-Being



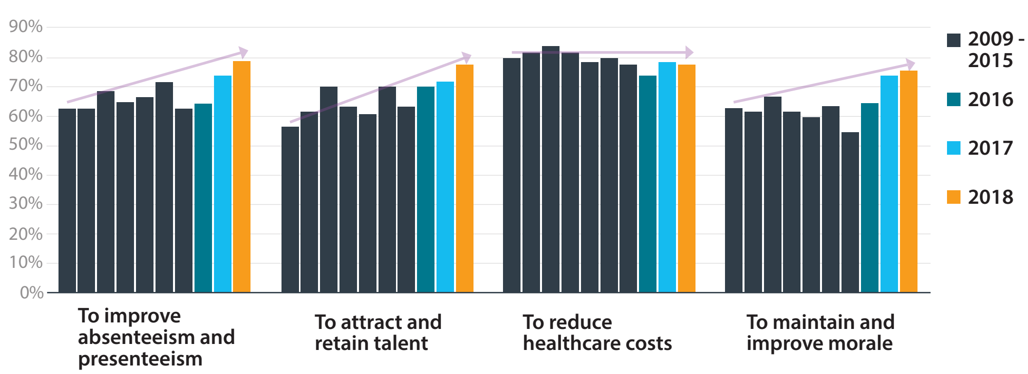
Source: *NBGH 10th Annual Employer-Sponsored Health and Well-being Survey,* 2019

Industry Landscape

We are seeing more companies take an expanded approach, strategically moving away from the myopic view of using well-being as a means to reduce health-care costs (figure WB4). Instead, more companies are implementing well-being initiatives to improve broader people metrics and key performance indicators tied to growth and profitability.

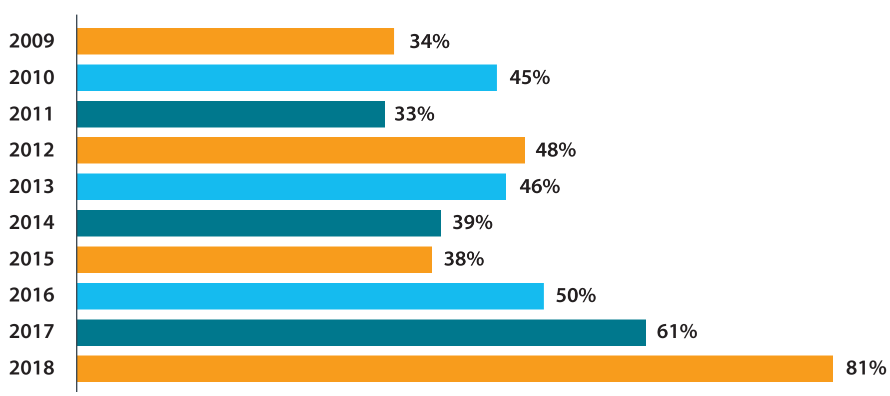
Complementing a more expansive well-being philosophy is an increasing financial commitment to well-being solutions and initiatives. Over 80% of employers surveyed in the Optum 2020 report plan to increase their health and wellness spending over the next three years (figure WB5).

Figure WB4. What is your Company's Well-Being Philosophy?



Source: *Ten Years Of Health And Well-Being At Work;* Optum 2020

Figure WB5. Employers that Expect Well-Being Spending to Increase



Source: *Ten Years Of Health And Well-Being At Work;* Optum 2020

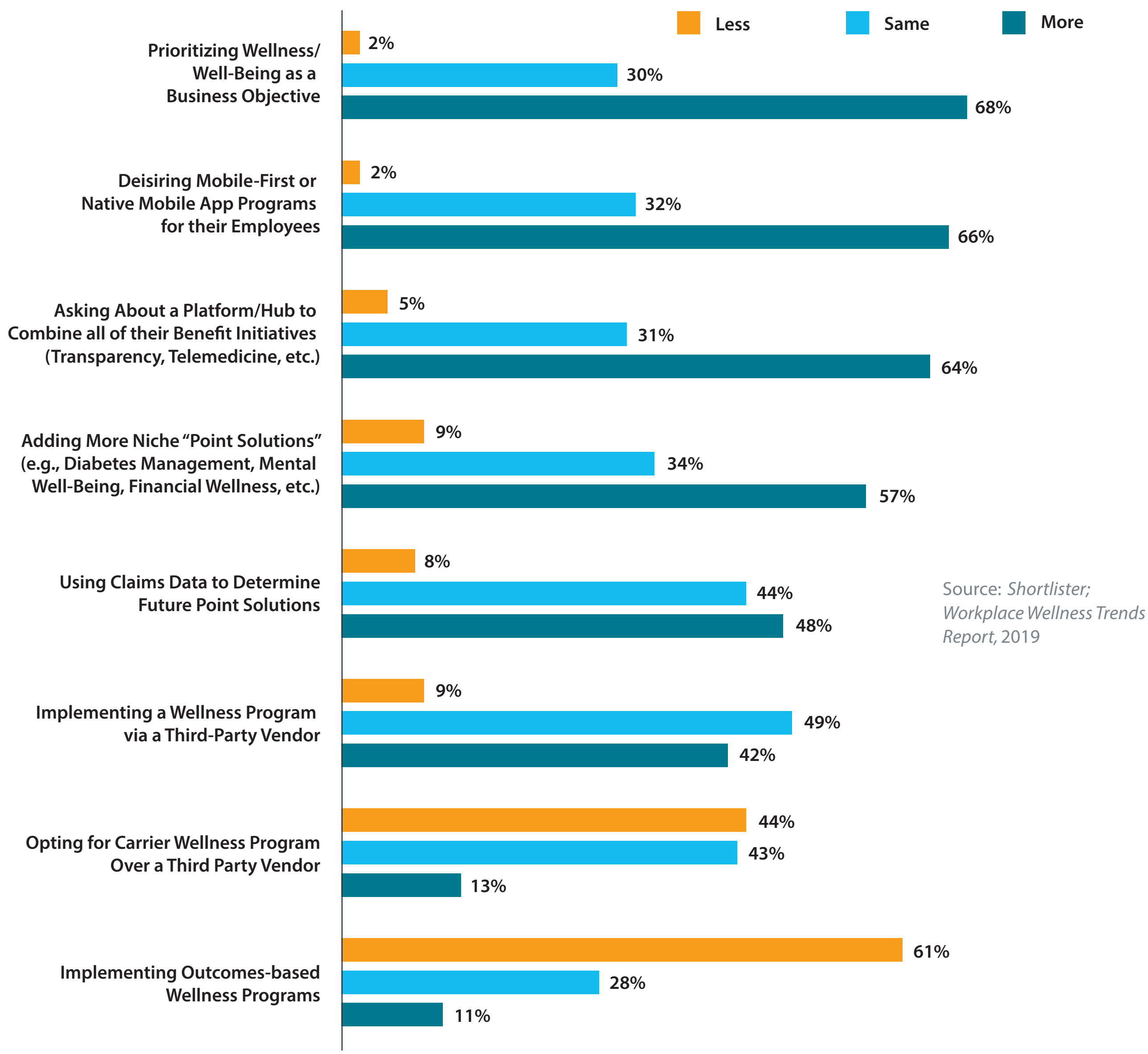
COVID-19 Impact on Workplace Well-Being

Overall, we don't expect to see an adverse effect on well-being budgets and financial commitments as a result of COVID-19. In fact, well-being initiatives may ultimately benefit from additional resources as companies pivot to address needs stemming from COVID-19. Going into 2020, a Shortlister survey noted that 43% of employers planned to move away from health plan carrier solutions to more specialized, point solutions.[42] However, these more progressive solutions, viewed as "nice-to-haves," may quickly be replaced with "must-haves" like securing flu shots, testing, personal protective equipment, additional cleaning, office reconfigurations and other preventive measures directly related to physical health and wellness.

Regardless of which solutions rise to the top during these unprecedented times, one thing is certain: the technology necessary to deliver well-being solutions – and engage users – will grow in demand. Solutions will need to be mobile enabled (66%) and easily found on a comprehensive, app-based, hub and platform (64%). (See figure WB6.)

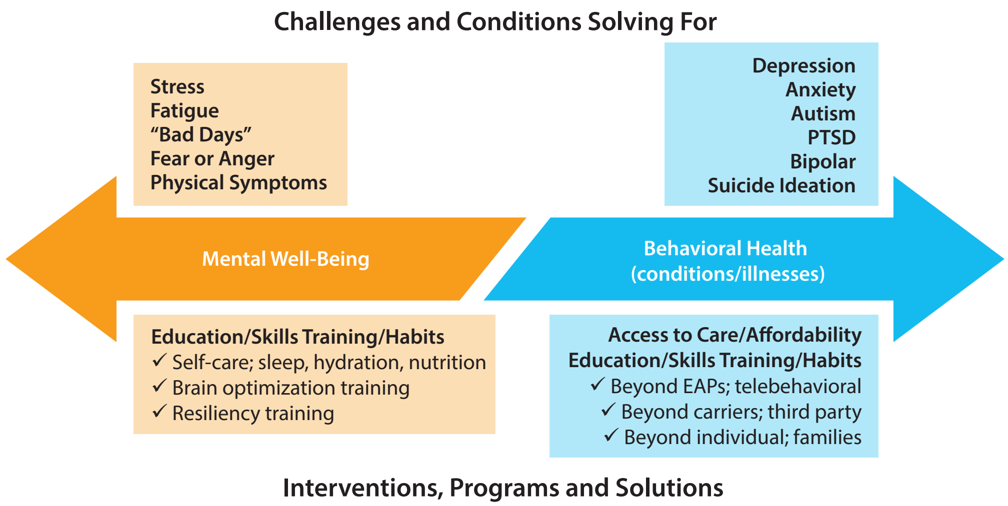
[42] Shortlister. "Workplace Wellness Trends Report - 2019." 2019. https://www.myshortlister.com/workplace-wellness-trends.

Figure WB6. COVID-19 Impact on Workplace Well-Being



Source: *Shortlister; Workplace Wellness Trends Report,* 2019

Figure WB7. Mental Well-Being and Behavioral Health



Four Key Trends

Mental Health (Behavioral Health) and Mental Well-Being

One key trend we see is a continued increase in focus on mental health and mental well-being. According to Shortlister, mental well-being was the top intervention growing in demand (53%), with financial wellness (51%) and behavioral health (28%) coming in second and third, respectively.[43] Although mental health and mental well-being were top-of-mind for employers heading into 2020 due to the opioid crisis, higher suicide rates and increased worker burnout, the specific focus areas and interventions may shift to address the different mental health conditions and concerns resulting from COVID-19.

COVID-19 is unique in that it has had a broad and significant effect on everyone in some way. Although the percentage of people displaying physical symptoms of COVID-19 might be low, it's fair to say that nearly everyone has experienced or is still experiencing mental health symptoms – depression, anxiety, social isolation, increased stress, grief, loss and/or other mental and emotional health distress – related to the global pandemic. To make meaningful progress toward a healthier, more balanced workforce, employers must implement multiple solutions designed to address the broad impact on mental health.

In terms of solutions, some employers may not have to do much more than reintroduce their mental health resources, especially if they have a robust EAP. Unum found that while 54% of workers say their employer offers an EAP, 46% say their employer did not or that they weren't sure.[44] The fact is most employers do offer an EAP. In 2019, among 500 HR professionals, 93% of 500 HR professionals surveyed indicated their organization offers an EAP.[45] Yet, many employees don't realize this benefit exists.

For many organizations, however, solutions that provide access to quality, affordable care will expand. (See figure WB8.) Some will continue to move away from carrier-provided EAP solutions and implement standalone EAP solutions that can also provide targeted emotional well-being programs. Others will look to continue to solve access and affordability issues by seeking out telehealth that includes telebehavioral services.

Even if an employer wants to provide additional resources to employees, the biggest challenge they face is that demand heavily outweighs the current supply. Most behavioral health specialty solutions still don't serve the small-to-mid-size market. Given this gap, we expect to see growth in mental health startups (new and existing) to help address these demands.[46]

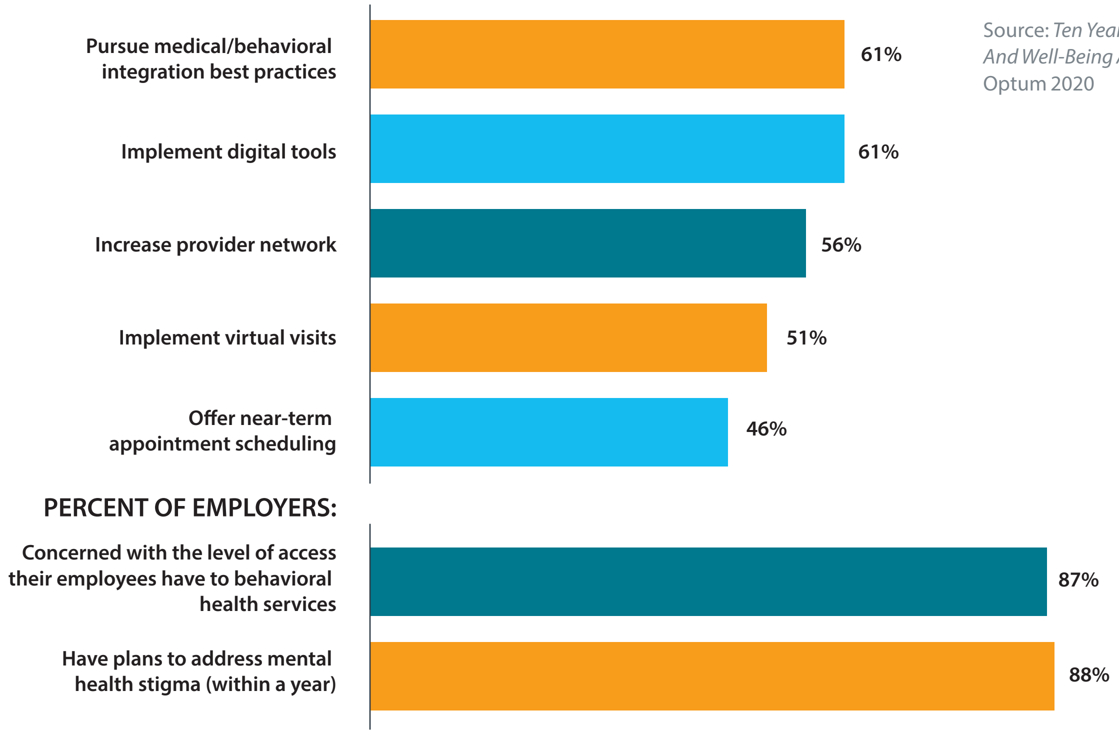
[43] Shortlister. "Workplace Wellness Trends Report - 2019." 2019. https://www.myshortlister.com/workplace-wellness-trends.

[44] Unum. "Mental Health In the Workplace." 2020.

[45] Unum. "Mental Health In the Workplace." 2020.

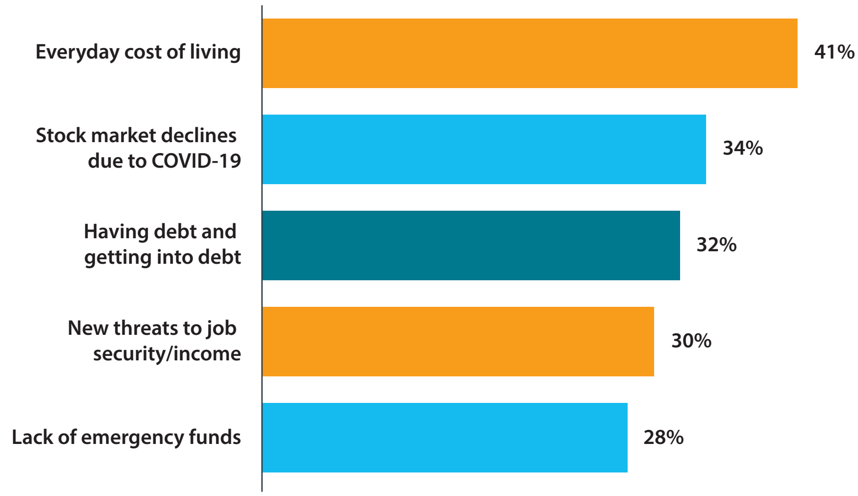
[46] Stephen Hays. "Approaching 1,000 Mental Health Startups in 2020." 2020. https://medium.com/what-if-ventures/approaching-1-000-mental-health-startups-in-2020-d344c822f757.

Figure WB8. Employers Are Exploring a Variety of Ways to Increase Access to Behavioral Health Services



Source: *Ten Years Of Health And Well-Being At Work*; Optum 2020

Figure WB10. Financial COVID-19 Stressors



Source: MetLife

Financial Wellness

Financial wellness was a top priority going into 2020, but with COVID-19, some reports show financial wellness moving to the top position ahead of mental health (figure WB10). According to new research, MetLife found that 52% of US employees say finances are their biggest concern, more than any other aspect of their well-being, including physical (44%), mental (44%) and social health (44%).[47]

The original solutions employers deployed to address this issue may shift slightly, but the main goal will be to continue providing employees with the support and resources they need, especially in light of the economic downturn and financial stress caused by COVID-19. Looking back to the priorities going into 2020, as illustrated in NBGH's graph (figure WB11), we see that most employers expected to have financial support programs in place by the end of the year (if they didn't already). Additionally, student loan related programs, which had lagged behind other supports in implementation, were expected to make a significant jump in adoption this year. It remains to be seen how these priorities evolve in light of recent social and economic upheaval.

[47] Metlife. "Navigating Together: Trends Study 2020 Supporting Employee Well-Being in Uncertain Times." Pg. 29. 2020.

Figure WB11. Prevalence of Programs Among Employers

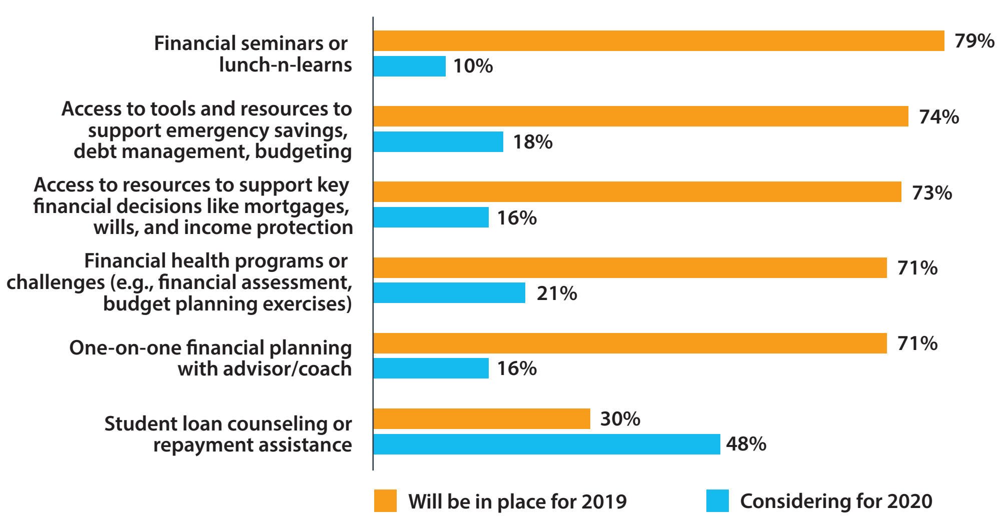


Figure WB12. Employers on Offering Women's Health Programs

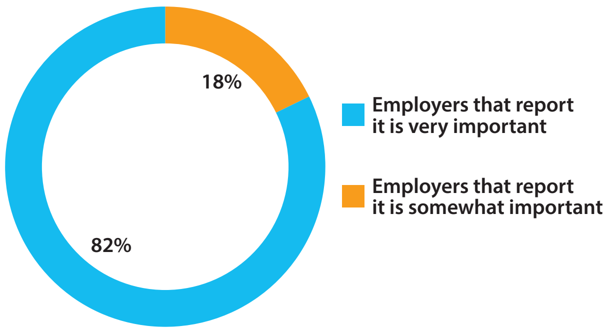
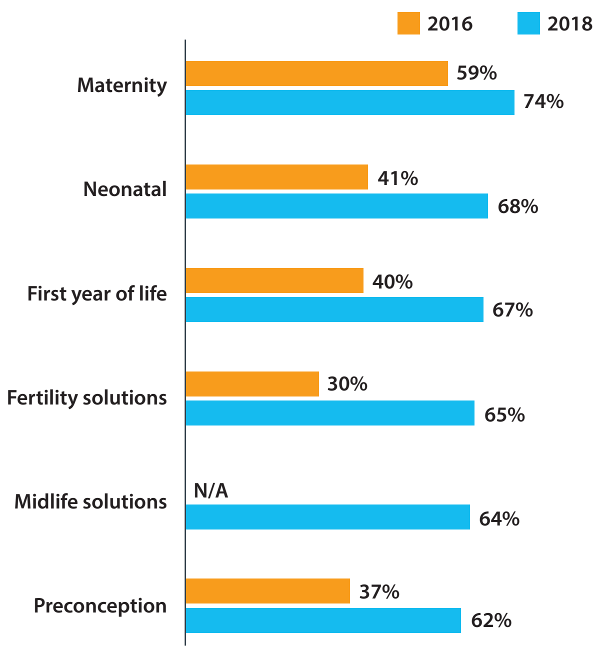


Figure WB13. Employers Offering the Following Programs



Source: Optum. "Ten Years of Health and Well-Being at Work. 2020. https://www.optum.com/content/dam/optum3/optum/en/resources/ebooks/wiw10-ebook_2019.pdf.

Women's Health

When it comes to well-being offerings, hyper-personalization (tailoring your offering to individuals as much as possible) has proven to be an effective strategy and remains popular with employers. For example, more than eight of 10 employers say it is very important to offer health and well-being programs tailored specifically for women's needs (see figure WB12) .

In the women's health category, several areas have gained traction: maternity, neonatal, first year of life, fertility, midlife and preconception.

Fertility solutions, in particular, looks to gain the most traction, especially given the prevalence of infertility and the enormous cost burden that some couples endure when trying to fulfill their dream of starting a family.

The steep projected increase in this trend could lessen, at least temporarily, due to the pandemic. Modern Fertility's survey of their original participants found that 61% are now more worried and anxious about their ability to have kids and family planning in general, and 31% said COVID-19 has changed their fertility or family planning decisions entirely. Money concerns and access to pre-natal services were the biggest motivators in delaying timelines with starting a family.[48]

On the flipside, starting a family later in life comes with the risk of increased infertility, which is one reason there has been a surge in the number of women freezing their eggs. The Pacific Centre for Reproductive Medicine reported a 180% increase in the number of women freezing their eggs from 2017 to 2018. The clinic also reported a 150% increase in the last half of 2018 over the first half. This upward trend may continue as people incorporate this solution as part of their family planning strategy during COVID-19.[49]

[48] Modern Fertility. "Modern State of Fertility 2020: Career & Money." 2020. https://modernfertility.com/modern-state-fertility-2020-so-fi-career-money.

[49] Global News. "Canadian Fertility Clinic Reports 180% Increase in Elective Egg Freezing." 2019. https://globalnews.ca/news/4903303/family-matters-fertility-clinic-180-increase-social-egg-freezing/.

Chronic Disease Management (Blurred Lines)
A few years ago, wellness expanded in scope into well-being solutions with the addition of several pillars (financial wellness, career well-being, social well-being, etc.). Today, with the boom of point solutions, often incorporating well-being components like nutrition, sleep and mental health counseling, well-being lines are blurring further into condition management/ chronic disease management.

Prior to COVID-19, musculoskeletal needs were projected to increase the most going into 2020 according to the NBGH's survey. However, since people are avoiding regular doctor visits and care for nonemergencies due to COVID-19 concerns, more support for the typical chronic conditions may emerge and regain the priority and focus of employers.

COVID-19 Impact On Future Well-Being Trends

Physical and Mental Well-Being
Realizing that things change daily, early indications show emerging trends leaning toward "going back to basics." Care via virtual telehealth and telebehavioral health will become standard for employers. In addition, on-site screenings may be revitalized as wellness screening companies enhance the original biometric solutions with temperature screeners, various COVID-19 testing options and flu (and potentially, at some point, COVID-19) vaccination. In addition, delayed preventive care and a general avoidance of hospitals may lead employers to bring preventive services and screenings (vision, dental, physical exams) to the workplace.

Activity Challenges
In addition to the biometric and healthcare aspects, COVID-19 will motivate employers to help their employees build and sustain healthy habits. COVID-19 may be the biggest well-being challenge we'll ever see. People responded with positive action, from good hygiene (washing hands and sneezing into your elbow) to being more grateful and connecting with others. But unhealthy habits also emerged, like emotional eating, lack of exercise, skipping preventive screenings, self-medicating, etc. Activity challenges have always been a key staple in the well-being delivery model, but there may be an increased need to reinforce good, healthy behaviors and build resilience for the new normal.

Social Well-Being
With the most unknowns in terms of trends likely to emerge, social well-being will be a critical category requiring employer attention. As the pandemic spread and social distancing protocols began, questions around etiquette and supporting employees remotely surfaced. A few short months later, issues of social well-being took a backseat to the collective reckoning – in the US and around the world – with issues of racism.

Connecting Remotely
COVID-19's challenges to social well-being, however, remain worth discussing. When, inevitably, we begin working on-site again, employers will need to help employees transition comfortably.

- Office etiquette and interactions: What does office etiquette and team-building look like with physical distancing, masks covering smiles and no more shaking of hands? Diane Gottsman, an expert of etiquette, says there is no right and wrong, but we'll have to give employees language to use in awkward situations, like hand shaking. "If someone extends their hand and you are not comfortable, it's perfectly fine to say 'If you don't mind, I am going to continue to skip handshakes for the time being, but be assured I am happy to see you," Gottsman said.
- Training: How do employers instill empathy in conversations, emails and other communications knowing that individuals may be dealing with various issues and challenges that aren't visible or known to others? How do employers prevent discrimination and escalating fear and anxiety when they hear someone cough or sneeze, or see someone go home sick?

Anti-Racism and Social Justice
The Black Lives Matter movement is a pivotal moment in our nation's history. Employers should use this opportunity to spread awareness and educate themselves

A more diverse organization correlates to a stronger company..

and their employees regarding issues of race, while finding ways to commit to supporting Black community members and moving against injustice across the board. The first step on this journey is acknowledging and addressing racism and social justice while providing a safe environment for employees to discuss these issues.

It's a good time to remind employees of your organization's policy towards workplace discrimination. Doug Hammond, CEO at NFP recently stated:

> *As troubling events continue to unfold across the country, protests go on around the world, and members of Black and brown communities share their stories, I continue to listen, learn and contemplate how our actions can have an impact and help move us forward in positive ways. NFP's other senior leaders are also committed to educating themselves and others, taking action, and working toward a world where social and racial injustices are a thing of the past.*

We want to reiterate that NFP rejects discrimination in any form for our employees, clients, and vendors, and within the communities where we live and work. It is unacceptable for anyone – all races, religions, ages, colors, genders, orientations, backgrounds and experiences – to live with concern for their own safety. No matter what we've done to date, we must – and we will – do more to support these values.

In addition to the ethics and social benefits of investing in a more just society, this is a significant business issue: a more diverse organization (from entry level through senior management) correlates to a stronger company. Supporting the movement can reinforce employee confidence in their employer, promote equality at work and help you to attract diverse, skilled talent in the future, increase innovation and creativity, lower risk, and strengthen your company. [50]

No matter what changes come, it's clear that employee well-being initiatives will be integral to helping every employee be more resilient and successful.

[50] Sallie Krawcheck. "Ask Sallie: How is Equality in the Workplace Better for the Bottom Line? (Video)." Ellevest, 2019. https://www.ellevest.com/magazine/disrupt-money/ask-sallie-workplace-equality.

Dr. Mark Tomasulo
National Medical Director

Healthcare **Delivery Model** **Trends**

Healthcare delivery models have recently undergone huge changes due to multiple factors, including rising costs, a desire for better care and the COVID-19 pandemic. Specifically, the COVID-19 pandemic is creating unprecedented challenges for physicians and patients across the healthcare system. As a result, two innovative healthcare delivery models have become more prevalent:

- **Direct Primary Care (DPC)** is a membership-based healthcare delivery model where an individual pays a flat, fixed fee on a monthly basis. The monthly fee covers unlimited appointments and direct access to a doctor at all times via phone, text or email. The DPC model is relatively new, but according to the Direct Primary Care Coalition's estimates, there are 1,200 direct primary care practices in 48 states that provide care to over 300,000 American patients.[51]
- **Virtual Care** is a broad term for how patients and doctors use digital tools to communicate in real-time. Virtual care includes telehealth, which provides a person with remote, 24/7 access to DPCs and other healthcare providers via electronic information and telecommunications technologies. Virtual care incorporates telehealth as well as other virtual and digital technology-based options for healthcare services. Virtual care technologies can include videoconferencing, streaming media, instant messaging, and landline or wireless communications.

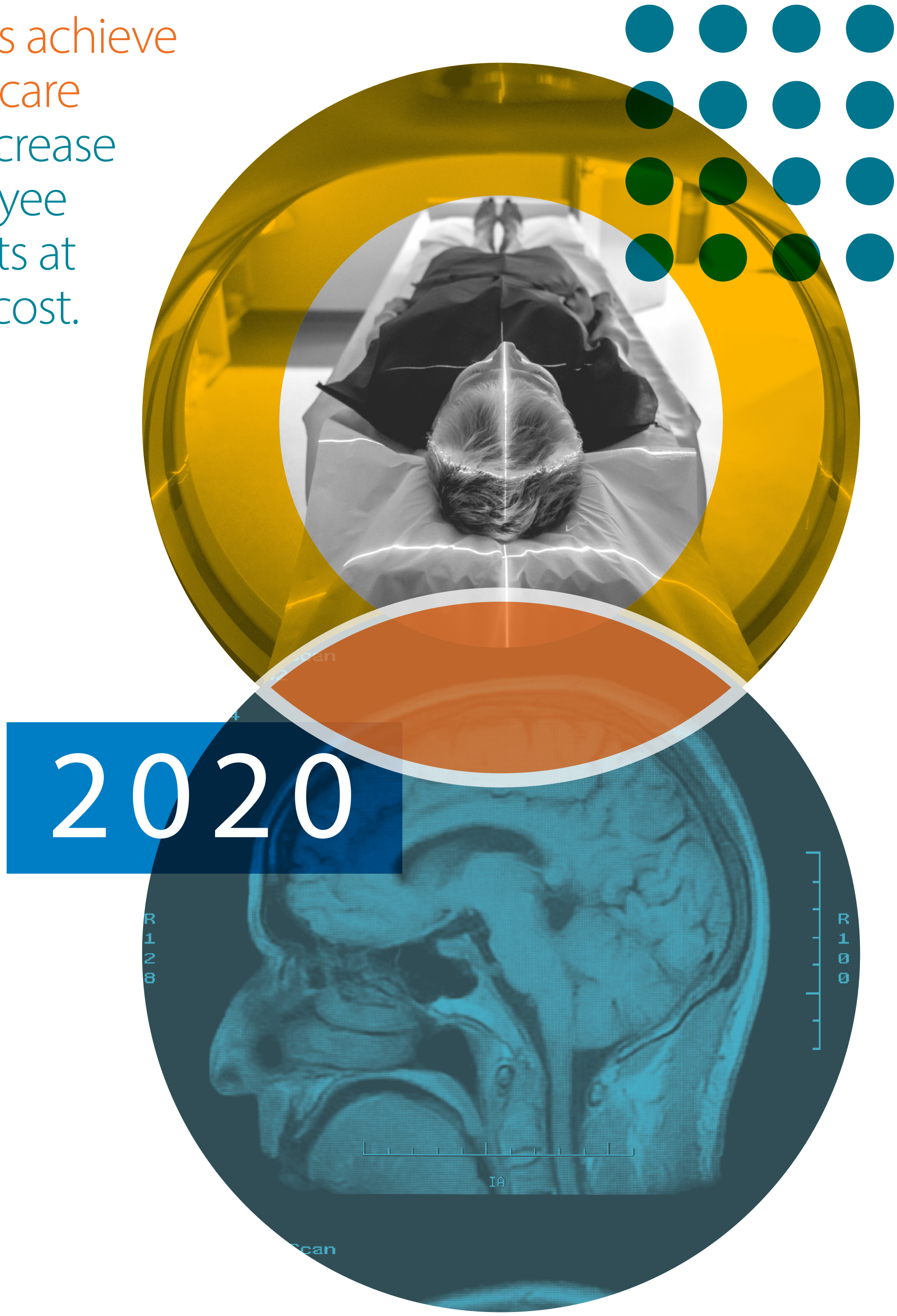
Traditional healthcare delivery models scrambled to meet the challenges posed by COVID-19 by embracing virtual care. Many DPC practices, however, were already set up to provide virtual office visits through telephone and video consults, in addition to providing access by email and text message.

Direct Primary Care And On-Site/ Near-Site Strategies

As employers continue to navigate the ever-increasing costs of healthcare, consultants are working to become more knowledgeable about alternative models of care in addition to cost mitigation strategies that achieve better care and increase employee benefit offerings

[51] Garrison Bliss, MD. "An Open Letter to Congress." Direct Primary Care Coalition, 2019. https://www.dpcare.org/.

Alternative models achieve better care and increase employee benefits at lower cost.



at lower cost. A key factor in lowering total healthcare costs, improving patient access and increasing quality of care is Primary Health Care (PHC). According to the World Health Organization article Building the Economic Case for Primary Health Care, "what we can deduce about the economic benefits of PHC is derived from measurable outcomes such as mortality, hospital admissions and healthcare costs."

When it comes to solving the PHC need for employers, while also improving clinical outcomes, lowering cost and creating a better patient experience, there are three main strategies:

1. Traditional fee-for-service primary care
2. On-site/Near-site clinic
3. Direct Primary Care (DPC)

Traditional Fee-for-Service Primary Care

When it comes to the fee-for-service environment over the last 15-20 years, not only has accessing a primary care doctor become more difficult for patients, multiple barriers are driving lower primary care utilization. The two most prevalent barriers facing patients today are:

- Access: which is determined by how many patients a doctor has in a panel; and
- Cost: which, in a high deductible world, has changed how patients receive care.

According to an article by Medical Group Management Association and a survey by Merritt Hawkins in 2017, a new patient appointment in the 15 large metro markets surveyed resulted in a wait time of 24.1 days while the 15 mid-sized metro markets experienced an average wait time of 32 days. [52]

This lack of access forces patients to seek out higher cost solutions such as urgent care and emergency rooms for their primary care needs, ultimately driving up the total cost of care for an employer. Worse still, having to access primary care services via urgent care and emergency room decreases continuity of care, degrades effective chronic disease management, and significantly decreases opportunities for prevention and well-being. It also increases unnecessary referrals to specialists for issues that may have otherwise been addressed by a primary care provider.

On-Site/Near-Site Clinic and Direct Primary Care

On-site/near-site clinics and DPC help address the access and cost issues in primary care. They also are believed to provide patients with more readily available care, optimize and increase the odds of achieving better care, lower total healthcare costs, and improve patient access and quality of care.

These two strategies also provide different economics for an employer.

When determining whether one of these primary care strategies is right for an employer, a major factor is upfront costs, in addition to continuation of cost for the program. On-site/near-site clinics are generally capitalized by the employer (typically around $250,000, but upwards of $1M depending on buildout and location) and typically become economically feasible when there are 1,500+ employees in a focused geography. This allows the clinic vendor to regain the investment for the employer over several years and begins to generate an ROI (typically a three-to-five-year recovery of initial investment). Continuation of clinical operations for an on-site clinic typically costs at least $300,000 per year (for one provider, two staff, medical supplies and management fees), and increases depending on the scope of services provided and pass-through costs (such as medications and labs).

DPC, on the other hand, is capitalized by the doctor who owns the facility. Initially, there is no capitalization required by the employer (and typically no minimum requirements for the size of an employer). The continuation costs of a DPC clinic ranges from $50-$100 per employee per month (PEPM), without any additional costs for the provider, clinic staff, medical supplies or management fees. The limitations of DPC, however, may be lack of footprint in a specific geography – as this is a growing field – and this should be evaluated on a case-by-case basis with each employer to determine geographic coverage.

Determining which primary care strategy works best for each employer varies and requires an assessment of the each employer's unique characteristics and goals. Detailed claims data is a good place to start to better identify the economic opportunities to help determine a strategy. Understanding an employer's financial tolerance for short- and long-term investment and recovery, employee retention, employee

[52] Pamela Ballou-Nelson. "How long are patients waiting for an appointment?" MGMA. https://www.mgma.com/data/data-stories/how-long-are-patients-waiting-for-an-appointment#:~:text=According%20to%20the%202017%20MGMA,new%20patients%20is%206.3%20days. }.

This sample comparison of on-site and DPC strategies is a good quick reference, but not a comprehensive list of all the factors:

	Direct Primary Care	On-Site Clinic
Program Description	Small to large employer group, not capitalized by employer	Large employer group, on-site clinics capitalized by the employer
Preferred Employer Size	1–35,000+	1,500+
Typical Provider Panel Sizes	600–800 per provider	800–1,500 per provider
Scope of Services	Newborns to elderly	Typically adult-focused
Copays	$0	Vendor- and plan-specific
Same Day/Next Day Access	•	•
Appointment Times	30–60 minutes	20–30 minutes
Telemedicine	•	•
Text Your Doctor	•	•
Your Doctor's Cell Number Provided	•	Not typically
24/7 Personal Provider Access	•	On call provider group typically
In-House Dispensing	State dependent	State dependent
Wholesale Medication	State dependent	State dependent pass through to client
Wholesale Labs	•	Pass through to client
Wholesale Imaging	•	Not typical
Facility Capitalization	None	Capitalized by employer
Dependent and Children Accessible	•	Vendor dependent
Integrated Care Plans	•	•
Preventative Focused	•	•
Chronic Disease Management	•	•
Urgent Care Access	•	•
Bill Insurance	No	Vendor dependent
Specialty Navigation	•	•
Pricing	Monthly PEPM ranges from $50–$100	Costs typically pass through with management fee attached or pass through PEPM
Facility Location	Near- or on-site	On-site

recruitment, well-being, prevention, behavioral health, employee satisfaction, ROI requirements and commitment to a long-term primary care strategy are other important topics that provide context for understanding and evaluating the strategies.

When an employer implements a primary care strategy correctly, it's a win-win-win scenario for the employer, employee and healthcare system as a whole, and it mitigates total cost of care dollars. The decision to implement a DPC or on-/near-site clinic is multifactorial, complex and must be integrated within the plan design to optimize the ROI and achieve success for all stakeholders.

Virtual Healthcare At The Forefront

In the wake of COVID-19, virtual healthcare (which encompasses telehealth and telemedicine) has become an integral part of how our healthcare system works. Virtual healthcare is a great way for healthcare professionals to evaluate, diagnose and treat patients from a distance. Additionally, virtual healthcare can be extremely beneficial to patients too busy for an office visit and helps those who lack mobility, have limited access to transportation or live in remote areas. It can be used for online second opinions, doctor-to-doctor consultations and home monitoring of certain conditions.

Gaining Traction

Virtual healthcare is also, among large employers, one of the most-preferred tactics for managing health benefits and costs in 2020. In the US, the prevalence of employers utilizing telemedicine has increased from 7% in 2012 to 96% in 2018, according to the Business Group on Health.[53] Another study by the Business Group on Health found, "Nearly all employers will offer telehealth services for minor, acute services [in 2020] while 82% will offer virtual mental health services, and that could grow to 95% by 2022."[54] Large employers prodigiously covered telehealth services in the past year and, going forward, specific offerings will allow for more selection and personalization.

> When an employer implements a primary care strategy correctly, it's a **win-win-win** scenario.

There is strong motivation for employers to embrace and promote telemedicine. The expanding use of the technology can lower employer spending by $6 billion per year.[55] Furthermore, by lowering readmission rates and complications, employees will realize additional expense efficiencies. In 2019, the healthcare industry saw $2.6B in funding go to virtual care while healthcare policy became more receptive to

[53] Business Group on Health. "Telehealth and Virtual Health Benchmarking Call Summary." https://www.businessgrouphealth.org/resources/telehealth-and-virtual-health-benchmarking-call-summary.

[54] Business Group on Health. "Large Employers Double Down on Efforts to Stem Rising U.S. Health Benefit Costs which are Expected to Top $15,000 per Employee in 2020." https://www.businessgrouphealth.org/who-we-are/newsroom/press-releases/large-employers-double-down-on-efforts-to-stem-rising-us.

[55] Webster, K. (2018, 10 19). "Employers, insurers work to knock down barriers to telemedicine." C-TAC. 2018. https://www.thectac.org/2018/10/employers-insurers-work-to-knock-down-barriers-to-telemedicine/.

Traditional delivery models scrambled to meet the challenges of COVID-19

technological solutions,[56] with 40 states adopting more substantive telehealth policies.[57] These changes were most likely driven by two factors:

- Evolving consumer preference for accessible healthcare as 61 million members of Generation Z entered the workforce[58]
- Data showing that nearly half of the 83 million millennials prefer convenience, fast service and connectivity over traditional office-based primary care. [59]

Potential for Growth

Virtual healthcare has been around for decades, but we are now seeing its true value (and the potential for more benefits) in the fight against COVID-19. From reducing emergency room visits to conserving healthcare resources to avoiding the spread, virtual continues to be a key element of fighting the disease. As we continue to embrace this new form of healthcare, the following are examples of why we should expect virtual healthcare adoption to expand:

- Generational demand: Millennial and Generation Z patients prefer virtual visits to traditional visits.
- Insurance support: As telehealth becomes more widely used, insurance companies are taking more actions to cover telehealth expenses.
- Expanded reach: Virtual healthcare services can help address the needs of the growing aging population and those who live in rural areas.
- Technology: Technology will continue to evolve and advance.
- Workforce shortage: Telehealth services can help further alleviate current and future nursing shortages.

The Future of Virtual Healthcare

The desire for convenient and immediate care, coupled with the rising costs of healthcare in the US, will continue to drive the popularity and adoption of telemedicine.

Hospitals routinely prepare for crises but they typically had not fully leveraged telehealth technologies until the emergence of COVID-19. There are currently two main areas of adaptation for telehealth: 1) hospitals expanding their telehealth services or 2) hospitals finding ways to train staff quickly to use it.

With the expectation that many patients will favor using telehealth even after the current coronavirus pandemic, this technology is here to stay. Things will only improve as healthcare providers continue to invest in offerings, formally train employees on a longer timeline and enhance the user experience.

As the healthcare industry is quickly responding to, and evolving with, COVID-19, we are at a tipping point for telehealth to go mainstream. Coming out of the pandemic, the general public will shift their approach to doctor visits as virtual healthcare is expected to become part of our new normal.

[56] CB Information Services. "Healthcare Anywhere: 120+ Telehealth Startups Transforming Patient Care." CBInsights, 2019. https://www.cbinsights.com/research/telehealth-startups-market-map-expert-intelligence/.

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About the Authors

Kim Bell

Kim is senior vice president, head of Health & Benefits at NFP, where she directs the overall strategy and operations for NFP's national employee benefits practice. With more than 30 years of experience in the employee benefits industry, Kim is an influential thought leader in the corporate benefits space.

Kim graduated from Indiana University's Kelley School of Business with a Bachelor of Science in finance and has a Master of Science degree in management from Indiana Wesleyan University. She also holds a CEBS designation from the International Foundation of Employee Benefit Plans.

Joel Chapman

Joel is an assistant vice president of Health & Benefits at NFP, where he coordinates the portfolio of proprietary and third-party technology offerings for group benefits advisors. Joel facilitates market research to identify optimal technology solutions to improve efficiency and optimization of services provided to NFP's benefits clients.

Joel holds a Bachelor of Arts in economics from Indiana University.

Mark Rieder

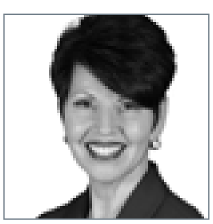
As senior vice president and head of Innovation at NFP, Mark serves as a leader in developing ideas for new technologies, products, services and practices. He works to drive adoption and manage high-quality execution across organizational lines while enhancing business outcomes by establishing processes that allow for cross-company collaboration, customer feedback and marketplace intelligence.

Mark has a bachelor's in finance with an emphasis on economics from Pennsylvania State University.

Chase Cannon

Chase is vice president of Benefits Compliance, deputy CCO at NFP. He currently works with firms, employers and brokers to help solve their employee benefits-related compliance, regulatory and legal issues.

Chase holds a Bachelor of Science in political science from the University of Utah, a Juris Doctor from the University of San Diego School of Law and a Master of Laws in Taxation from Georgetown University Law Center. He is a member of the State Bar of Maryland.



Maria M. Trapenasso

Maria is the vice president of HR Solutions for NFP. Maria provides guidance on HR-related topics such as employee relations, policies, procedures and processes. She has expertise in HR audits and compliance, and assists clients in identifying and creating strategic HR solutions.

Maria holds a Senior Certified Professional designation from the Society of Human Resources Management and has been a professional member of SHRM and the National Association of Female Executives since 1998. Maria also holds a New York State Insurance license for Health, Life and Accident Insurance.

Kim Heald

As vice president and NFP's Voluntary Benefits practice leader, Kim is developing NFP's Voluntary Benefits Center of Excellence. In addition, she is improving organizational procedures and creating scalable and repeatable processes that help NFP's clients understand how voluntary benefits can be a strategic and integral part of their total benefits portfolio. With over 15 years of experience, Kim has helped brokers and employers build comprehensive and competitive supplemental health programs with a disciplined focus on technology platforms and enrollment best practices designed to enhance the employee's experience and overall level of understanding.

Kim holds a bachelor's degree in sociology from the University of California, Los Angeles.

Deb Smolensky

Deb is vice president and NFP's Well-Being and Engagement practice leader. In addition, Deb serves as a subject matter expert for the insurtech, fintech and digital health verticals of NFP Ventures. She consults with a variety of clients, including numerous Fortune 500 companies, to develop programs and practices that empower employees and leaders to lead healthy, productive lifestyles through innovative and highly engaging solutions.

Deb holds a bachelor's degree in accounting from Illinois State University as well as a multitude of certifications and designations in organizational health and productivity.

Nelly Rose

As assistant vice president of Clinical Pharmacy, Nelly supports NFP Rx Solutions with clinical insights and new initiatives while also providing strategic analysis for drug trends and utilization. She works directly with members to support and educate on clinical programs and drug interventions.

Nelly received her Doctor of Pharmacy degree from St. Louis College of Pharmacy.

Mark Tomasulo

As National Medical Director, Dr. Tomasulo provides insights, guidance and risk mitigation expertise to NFP clients seeking to reduce costs and improve employee well-being and productivity. Performing a thorough analysis of population health and claims data, he identifies cost drivers and health risks and makes recommendations regarding appropriate lifestyle and medical management programs and strategies. Dr. Tomasulo is also the creator and founder of PeakMed Direct Primary Care, a doctor-centered and patient-focused platform that allows doctors and patients to communicate, collaborate and manage individualized care plans.

Dr. Tomasulo obtained his Doctorate of Osteopathic Medicine from Nova Southeastern University and completed his medical training through the United States Army, where he served eight years as one of the top officers in his field and was part of small unit deployments in support of Operation Iraqi Freedom.

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