

Creating Benefit *Value* Statements

By Dennis Ackley

Employers deserve much greater appreciation from employees for the sizeable sums of money they pour into benefit plans each year – averaging \$18,000 per employee and rising.⁽¹⁾

Unfortunately, a remarkable 64 percent of employees in 2004 were not satisfied with their benefits.⁽²⁾

Shouldn't simply telling employees that their annual benefits cost their employer as much as a new car or a wonderful vacation make employees say, "Wow! Thanks for the benefits!"?

Apparently not. If the typical "here's how much your employer spends" approach used for decades by thousands of employers was an effective means of increasing employees' benefit appreciation, wouldn't it have worked by now?

Unintended consequences

With the goal of getting rid of starfish – "pests" that decimate oyster beds – the fishermen who snared them cut them up and threw the pieces back into the fishing grounds. Not until years later, when the fishermen analyzed the results, did they learn that because starfish have amazing regeneration powers, the fishermen were actually multiplying the number of starfish – increasing the problem, not eliminating it.

What do employees do as the result of receiving benefit statements?

Benefit statements send clear messages. For example, "Last year, the Company spent \$5,234 to provide your medical coverage."

But showing employees the estimated individual cost of what they don't understand may be causing unintended consequences.

Most employees don't understand the fundamental economics of employer-sponsored, self-funded health plans. In these plans, the cost is driven by the medical

claims. The money to pay those claims comes from only the employer and employees.

Surveys show the employers' communication of benefit costs has not worked. ***Roughly two-thirds of employees in a recent study said the employers' health plan costs do not or may not impact their employer.***⁽³⁾ Clearly, the employers' "health care costs are rising" messages have not explained the business issues of health plans.

Another survey found that 75 percent of participants in a self-funded plan believed they were spending an insurance company's money. Even worse, many of the employees believed they should spend the health plan's money so the insurance company could not keep it for profits.⁽⁴⁾

Test some of your employees. Ask them whose money pays their medical benefits.

If your plan is like most, more than half of your participants have less than \$1,000 in annual medical claims. What do these employees think when their

statement shows your company is paying more than \$5,000 for their medical plan? Could they believe they are wasting more than \$4,000 by letting the insurance company add that money to its profits? Does this unintentionally encourage employees to use the plan? Could this help explain why the fastest rising group using emergency rooms is people with medical coverage – twice as fast as those without it?⁽⁵⁾

Simple doesn't always work

It would be wonderful if simply showing the price of something generated appreciation for it. If it did, we would become art connoisseurs by touring a museum that had price tags hanging on the works of art.

To appreciate benefits, employees need to understand the *personal value of their coverage* – the "what does it do for me" view.

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For example, the real value of a medical plan is its strong financial protection – the million dollars or more for protection from enormous medical expenses. The 10 to 15 percent of plan participants who incur roughly 70 percent of the plan’s expenses likely know the value of the medical plan. Curiously, benefit statements routinely show the life insurance amount that could be paid – but rarely show how much the medical plan could pay. The communication ignores the millions of dollars of financial protection from the medical plan – the real purpose of the plan. Too often, medical plan explanations ignore the real value of this protection and focus on the wrong things – the deductibles and copays

Benefit statements can be great

Let’s be clear. Benefit statements are not bad. Employees appreciate receiving them. Statements provide employees with reinforcement that they have benefit coverage and their employer pays a lot to provide it.

Don’t stop sending statements. Just redo the message to get employees to appreciate the *value* their benefits provide ...and to get employees to use them wisely.

1. Focus on value, not just the cost

Before showing the employer’s cost, put the spotlight on the real ***value to employees***.

For medical plans, here’s how statements can highlight the value:

“For each enrolled person’s lifetime, our Medical Plan provides \$XX million in financial protection from the potentially enormous costs of a catastrophic illness or injury (insert your plan’s lifetime limit.).

Recently, our Medical Plan has protected our employees by paying: (maintain privacy by using general conditions or other summary techniques)

- \$ 8,000 on average for a regular term baby
- \$960,000 for a premature baby
- \$44,000 for a knee replacement
- \$55,000 for a heart attack
- \$360,000 for a kidney transplant

Last year, our Plan paid \$XX million in medical claims for our Plan’s participants – plus it cost \$XXX, XXX to operate the Plan. Every dollar of these expenses was paid with money the company and enrolled employees contributed to our self-funded Plan. Of this, \$XX million was paid by the company and \$X million came from enrolled employees. You can help control the Plan’s cost by maintaining healthy behaviors and becoming more involved in making sure our Plan’s money is spent wisely. The company’s contribution to the Plan this year averages \$X, XXX for each enrolled employee.”

Here’s how a personalized benefit statement can use an individual employee’s age and eligible pay to provide a calculation of the real value of a Long-Term Disability Plan.

“Our Long-Term Disability Plan ensures – when combined with your Social Security benefits – that you will receive

\$2,042 each month if you become and remain eligible for benefits. If you had become disabled as defined by the Plan on March 1, 2005, and remain disabled until age 65, the Plan would have ensured that you would have received **\$735,120** during that time.

To provide your LTD coverage this year, the company is paying \$XXX.”

Using personalized benefit statements to show the real and potential value of benefit plans can generate more understanding – which leads to more appreciation for the benefits.

2. Shatter the “insurance illusion”

Most employers that send out statements have self-funded medical plans. These plans act as accounts that are funded by the employer and employees based on how much is paid out for medical claims. The administrator, often an insurance company, writes checks from the account for covered medical expenses. Certainly, there may be some stop-loss coverage. But in general, the money comes from the employer and employees – not an insurance company.

So let's get the insurance company out of the explanation by eliminating the insurance jargon that inadvertently reinforces the "it's insurance" message. For example:

- The *Monolithic Insurance Company Plan* pays ... remove the insurance company's name – make your company's name part of the name of the plan and refer to it as "our plan"
- Your *premiums* are ... change to "your enrollment cost is"
- Your *co-insurance or copay* is ... say "you pay"
- *Services the insurance pays* ... change to "the plan pays" or "services you buy"

3. Tell employees what they can do to help control the medical plan's costs

In a real sense, employees are the employer's purchasing agents for the medical plan. Except in emergencies, employees often have some control over how the money is spent. Shouldn't they be more involved health care purchasers and consumers? Here are some things that can be listed on the statement to highlight what employees can do:

- **Stay healthy** – eat well, wear seatbelts, exercise, don't use tobacco, and avoid unsafe activities.
- **Watch for health problems** – get checkups and attend to small health problems before they become more serious.
- **Look for equally effective outcomes at lower costs** – contact a health nurse before going to the doctor for a common ailment, ask for generics rather than brand-name drugs, use discount "network" doctors and providers.
- **Help make the treatment work** – tell your doctor about your health history, all your symptoms, and your current medications ... and ask what you can do to help get well and stay well.
- **Act like a consumer** – learn about your condition, become your own advocate (but not your own doctor), and if you are not satisfied with your treatment or the cost, tell your health care providers.

The employees' lack of knowledge of basic health plan economics, plus their natural emotional and rational concerns regarding medical coverage, needs to be addressed in benefit communication. Until that is done, too many employees will continue to believe their medical "insurance" offers an "all you want to

consume health care buffet that's paid with someone else's money – and if employees don't spend it, the insurance company keeps it."

Changing the traditional "what your benefits *cost*" statements to include the "what *value* your benefits provide" isn't a panacea for improving benefit appreciation or reducing medical plan costs – but it might help stop making the problem worse.

(1) "2002 Employee Benefits Survey," The United States Chamber of Commerce, January 2004

(2) "2004 MetLife Employee Benefits Trend Study," Metropolitan Life Insurance Company, November 2004

(3) "Making Health Care Consumerism Work--Aligning Employer and Employee Interests," Towers Perrin, August 2004

(4) "How to Enlist Employees in Rx Cost Control," Employee Benefit News, December 2003

(5) "Insured Americans Drive Surge in Emergency Department Visits," Center for Studying Health System Change, Issue Brief 70, October 2003



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Dennis Ackley is a nationally recognized leader in benefit communication and retirement education. His innovative, award-winning communication programs have reached more than three million employees on topics such as retirement planning, investing, health care, benefit choices, pay, and incentive plans. Dennis has created communication campaigns for hundreds of the country's largest employers. He has written more than four dozen articles for such publications as *HR Magazine*, *Benefits Quarterly*, *Employee Benefits News*, and *Communication World*. He is a featured speaker at scores of conferences including the International Foundation of Employee Benefit Plans, Profit Sharing/401(k) Council, the PBGC, The Conference Board, Pensions & Investments, and Benefits Management Forum and Expo.

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