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INTERNAL COST MANAGEMENT DRIVES DEMAND FOR BENEFITS ANALYTICS

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The call to reduce labor costs is stronger than ever as HR grapples with how to meet the request while improving overall employee engagement and retention. As pressure is mounting from both ends, benefits management is quickly being targeted as one area where costs can be optimized to specific employee needs.

The State of the Workforce Matters

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Table 1: Top HR Priorities to Respond to Executive Pressures

	Best-in-Class	All Others
Increase productivity	95%	90%
Improve multi-generational management	73%	71%
Reduce labor costs	68%	73%
Reduce compliance costs	61%	51%

Table 1 shows the top priorities for HR departments in response to the executive call to reduce labor costs. When the call comes from finance and / or operations to reduce the operating budget, there are two ways to interpret it. Literally, meaning the company seeks to reduce its cost footprint; or figuratively, meaning that operations can be improved strategically, opening cost-savings opportunities without sacrificing current productivity gains.

What separates the Best-in-Class from All Others is that the Best-in-Class are statistically more likely to run with the second interpretation than the first. Table 1 illustrates this quite nicely. While the top priority for both the Best-in-Class and All Others is to maintain and increase overall productivity, the Best-in-Class focus next on improving management effectiveness while All

Other companies focus on directly reducing labor costs, even if it means penalizing underperforming — but recoverable — talent.

In the context of benefits management, the state of the workforce matters because competitive net-earnings packages are a key reason that employees join and stay with the company. Best-in-Class companies are 44% more likely than All Others (75% vs. 52%) to find that competitive salary growth, benefits, and compensation are the leading reasons that employees ultimately decide to join the firm. Beyond this, 34% of the Best-in-Class find that net-earnings packages are a top reason employees stay with the firm, with work-culture and engagement factors raising the percent for an employee to consider moving to another firm.

Benefits and Net Earnings

Net earnings are a tricky thing to manage. Where more than 60% of employers (controlling for government agencies) still standardize salaries by the level of employment within the firm (e.g., pay grading), managing benefits is not as easy, especially when there is no standard-use or consumption rate for the most common and expensive of all offerings: health benefits.

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Data from the Kaiser Family Foundation (reported in year-to-year comparisons) indicates that generational healthcare consumption is shrinking among younger populations. Controlling for the aging of the Baby-Boom generation, the percentage decreasing outpaces the rising percentage of people over 65 years of age. What this means is that younger members of the general population consume traditional healthcare resources at a far lower rate than previous generations while seeking preventative alternatives not offered traditionally by one-stop-shop insurance plans.

In response to changing demand patterns, the healthcare industry is diversifying how it offers resources. Among the under-30 age group, bias patterns toward insurance providers indicate increasing resistance toward traditional health-system engagement in the same way older generations do. Scaling down the generations, healthcare consumption among 19–34-year-olds is just less than one-third of that of the over-65 age group. For 35–44-year-olds, it's even less.

Statistically combining these two age-groups brings the market share of spend to just half that of the over-65 group — despite their percent share of the population exceeding the over-65. While older people do require more frequent care, the figures still indicate a drop in comparable, traditional healthcare consumption, even when factoring in age-based demand for care into the equation.

Where Benefits Meet Management

For HR, diversification in benefits products and services is a tricky proposition because it means that different people will demand different resources to handle the various situations that adversely affect their work patterns. Gone are the days when health insurance, as a benefit, covered and managed all of the add-ons that prevented negative health effects from detracting from workforce productivity. In other words, the value proposition of insurer-provided health insurance benefits is on shaky ground. In their place is a host of preemptive resources, such as employee-assistance-programs (EAPs), wellness and well-being offerings, holistic health resources, minute clinics, and non-hospital care designed to help employees manage a spectrum of preemptive health-risk inducers, such as diverse stresses, that can be directly offered by the employer outside of direct insurance offerings.

Best-in-Class companies are 36% more likely than All Others (53% vs. 39%) to configure non-required benefits offerings based on their understanding of how they strategically increase the financial return potential of the workforce. To manage this, Aberdeen has found that shared-services models are gaining popularity in response to the rising convolution in benefits options, as companies recognize a need for greater solution accessibility and cross-functional data management. The shared-services model lets various departments collaborate in the development of best practices that make outcomes more predictable. Aberdeen has found that the Best-in-Class are 11% more likely than All Others (31% vs. 28%) to use this model across the entire organization.

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While shared services are a good start toward understanding the internal landscape of workforce demand for benefits, it is only meeting accuracy and efficiency needs for 40% of small- to medium-sized firms. For larger firms, managing diverse benefits options while controlling the cost of benefits management requires a more competent model, one which incorporates the multiple metrics that categorize the various employee subsets (age, gender, tenure, employment type, eligibility status, etc.).

To resolve this challenge, Best-in-Class companies are 26% more likely than All Others (43% vs. 34%) to engage in benefits analytics to optimize plan offerings based on performance and lifestyle data sourced straight from the workforce. The Best-in-Class are also 2x more likely than All Others (26% vs. 13%) to consolidate plan access into a centralized marketplace for easy access and comparison prior to selection. Something to consider as well is that Best-in-Class firms are 5.6x more likely than All Others (50% vs. 32%) to have expanded spend on these digital resources to optimize plan rollout and cost management in the past year.

When it comes to deploying benefits analytics, firms first consolidate their internal data via the shared services model before using the organization-wide data in one of two ways for benefits plan optimization and selection.

- **Broker Relationship:** Employers engage an outside benefits broker to decide on the combination of insurance and benefits components that will be offered to employees. HR and the benefits team provide data from inside the company pertaining to factors (e.g., eligible headcount, past benefits consumption patterns) to the benefits broker, who has a pre-negotiated set of benefits plans configured to meet the categorical needs of the employer. The broker guides HR and the benefits team through their plan selection based on statistical use cases but often does not negotiate on behalf of small- to medium-sized eligible headcount pools. Employers with these pools are guided into pre-configured offerings that optimize their cost threshold against the resource offerings likely to satisfy employee demand. While larger firms enjoy more negotiating power with benefits providers, the broker may still opt to promote pre-negotiated offerings in lieu of opening up individualized, private plan negotiations.

- **Benefits Marketplace:** Employers have the option of engaging with benefits providers directly. Barring any participation costs associated with offering benefits, HR and the benefits team may offer as many of any type of benefit in the marketplace opting to let the workforce decide which benefits get consumed in any given quantity. Over time, the marketplace generates consumption data that the firm can use to optimize offerings, introduce new ones, and retire old ones all while the employee use and consumption rate, and competition between similar benefits, controls for overall plan and offering costs.

Regardless of the model used, from 2017 to today, Best-in-Class companies have gained more confidence in their benefits data and in the selection of benefits plans they offer to employees. On the management side, the Best-in-Class have also reduced cost variability and increased cost visibility year-to-date. Aberdeen has found that the Best-in-Class are 6.3x more likely than All Others (25% vs. 4%) to be able to reduce complexity in benefits plan audits while improving the accuracy of reported data. Ultimately, the Best-in-Class are 2.2x more likely than All Others (50% vs. 23%) to have seen revenue per FTE increase in the last 12 months and are 41% more likely than All Others (31% vs. 22%) to have seen productivity increase in the same time frame.

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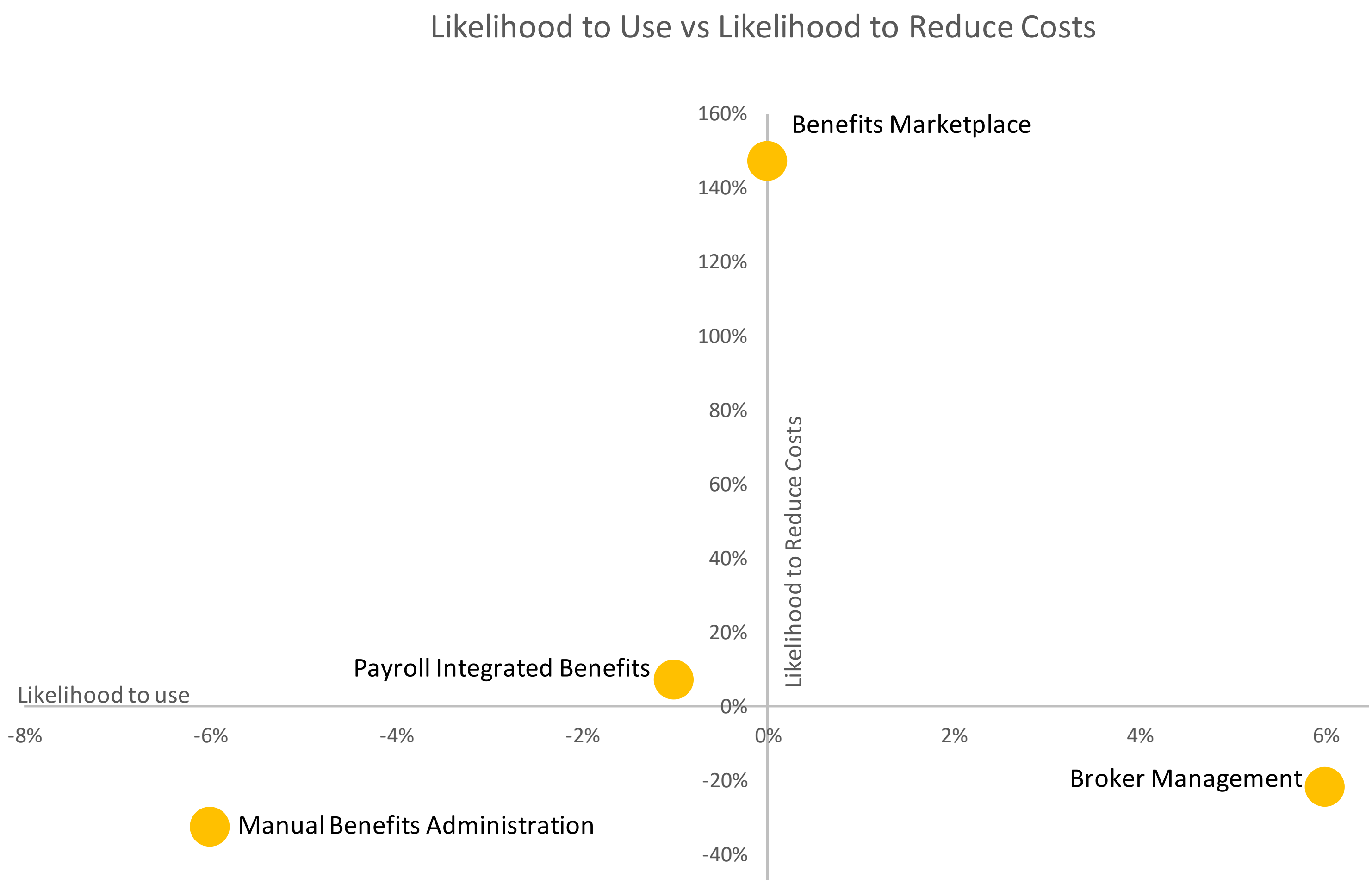
Figure 1: Top Benefits Management Models - Use vs. Cost Reduction



As companies engage in benefits analytics to configure the best resource offerings to meet employee demand while controlling for costs, some benefits management models are succeeding over others.

Figure 1 shows a comparison of the four top models used by companies today. The x-axis shows how likely each model is to be deployed when compared to the average benefits automation use case. For example, the broker management model is used about 6% more often than the average automation case, while the benefits marketplace is used about on par with the average.

The y-axis shows how likely each model is to reduce costs compared to the average benefits automation case. While the broker partner model is the top choice by about 6% more than the average, it is about 20% less likely than the average to reduce costs. By comparison, the benefits marketplace model, while about on par with the average automation case, is more than 140% more likely than the average to reduce labor costs.

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Figure 1 exposes some striking feature differences between various benefits management models. The top two deployment models — the broker relationship and the benefits marketplace — have very different value propositions. While the broker may save time on negotiations and configurations, firms risk paying higher premiums due to non-transparent benefits cost models that include added costs paid to both the broker and the provider's administration. The marketplace puts multiple benefits resources in competition with each other, forcing more transparency into the cost structure and letting the workforce crowdsource the best options to remain available. In this way, while the quality of the resources matters, cost and accessibility factors into the resources that survive versus those that get cut. In the long run, HR and the benefits team can save time deciding what benefits to offer while relying on benefits analytics to save time determining what benefits combinations best meet employee demand and overall cost considerations.

Why This Matters

Diversity in benefits products and services is raising the cost-basis for employers to offer strategic benefits as a draw-in for employees to stay with the firm. Whereas salary potential leads to growth and provides employees with money-in-hand to manage outside the firm, benefits are firm-specific and contribute net income that cannot follow to another employer. Getting the formula right on benefits management boosts retention by as much as 20% over simply focusing on boosting employee engagement, improving both employee-manager relationships and workplace culture. As a contribution to total earnings, personalizing benefits to each employee increases retention likelihood by another 12% over salary growth potential.

Meanwhile, as the lineup of benefits resource offerings grows by the day, HR and benefits teams still face the challenge to reduce and manage the cost basis of these offerings while ensuring enough diversity to satisfy the demands of an employee-base that is diverse across multiple axes (race, gender, age-group, etc.). As Figure 1 shows, shifting to a benefits marketplace maximizes the likelihood of reducing costs while increasing the diversity of resource offerings. Underlaying this with a strategic analytics layer to understand resource consumption and net resource benefits year-in and year-out further increases the benefits of this model: For every 1% that firms use an analytics-backed benefits marketplace, they are 60% more likely to be able to streamline their benefits offerings, and 2.3x more likely to be able to reduce the overall cost of benefits administration.

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About Aberdeen

Since 1988, Aberdeen has published research that helps businesses worldwide improve their performance. Our analysts derive facts-based, vendor-neutral insights from a proprietary analytical framework which identifies Best-in-Class organizations from primary research conducted with industry practitioners. Aberdeen provides intent-based marketing and sales solutions that deliver performance improvements in advertising click-through rates and sales pipelines, resulting in a measurable ROI. Aberdeen is headquartered in Waltham, Massachusetts, USA.

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