



# Hopes, fears, dreams... and employee benefits

Three ways to focus on employees' motivations and help them understand and maximize the value of their benefits

## White Paper

### Introduction

We've come a long way from the time when health insurance was 100% employer-paid and companies offered pension plans. Today, employers offer a complex variety of PPOs, high deductible plans, voluntary benefits and 401(k)s, many of which require an employee contribution. The evolution of employee benefits has put an increasingly significant decision-making responsibility on employees when choosing the medical, ancillary and retirement benefits that best suit their needs. While a more employee-driven landscape has its advantages, it has become evident that most employees lack the experience and expertise required to make confident, effective decisions that will maximize their benefits selection and outcomes.

Given the current, complex healthcare environment, this shouldn't come as a surprise. Today, employees are expected to fully understand which benefits will serve them best—now and in the future—and then effectively allocate their benefit dollars across a vast range of choices, including medical plans, dental and vision plans, life insurance, disability, accident insurance, critical illness insurance, 401(k) plans, and more.

In effect, employees are tasked with being portfolio managers as well as benefits and retirement plan design experts—an almost always overwhelming task.

In this paper, Lincoln goes inside the minds of employees to explore what they are thinking about, their level of knowledge, and how they prioritize when it comes to selecting employee benefits. We'll explore primary research conducted by Lincoln Financial, as well as from other industry sources. And we'll provide three key strategies for employers to help their employees effectively cope with the responsibility and make decisions required by today's benefits environment.

### Three key takeaways

- 1 Speak clearly about the coverage; we recommend a simple four-point formula.
- 2 Communicate in multiple ways; give employees the opportunity to talk to a benefits expert, as well as access to information via a website and printed materials.
- 3 Focus on motivations that most impact decision-making; develop messages based on your employees' individual needs.

## Are employees confident about their future? No...and yes.

Employees exhibit a low level of confidence when asked about their ability to cover expenses now and in the future. The most recent *Retirement Confidence Survey* from the Employee Benefit Research Institute indicates that just 14% of employees feel very confident they will be able to pay for medical expenses once they retire, and just 18% of employees feel very confident they will have enough money to live comfortably once in retirement.

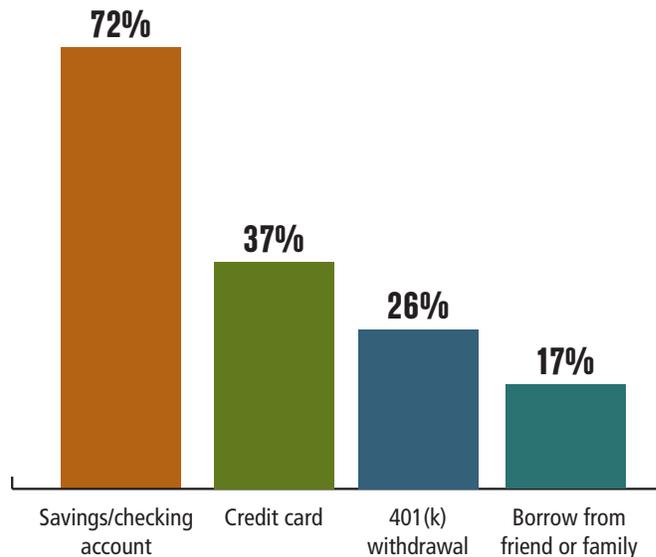
### Employees are concerned about their finances



Source: Employee Benefit Research Institute, *2017 Retirement Confidence Survey*.

This lack of confidence is also evident when employees were asked if they feel they could cover current expenses in the event they had to be out of work for a period of time as a result of a serious illness or injury. In the Lincoln Financial Group *2017 Employee Benefits Study*, only 19% of employees said they were very confident they could do so. The way that employees said they would pay those expenses provides additional insight into their lack of confidence.

### Top four ways employees will cover expenses in the event they are out of work due to a serious illness or injury

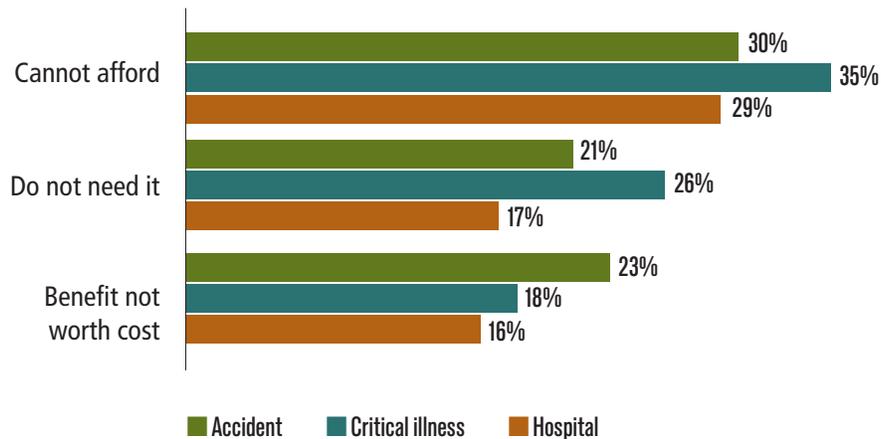


Source: Lincoln Financial Group, *2017 Employee Benefits Study*.

These results make it clear that unexpected changes in employment status will create pressure on employees' already limited financial resources. The rapid adoption of high-deductible health plans places more of the cost-sharing burden on employees, creating a situation where without other benefits, the out-of-pocket cost to an employee with a serious health condition may be catastrophic to one's financial well-being. And should an employee need to take out a 401(k) loan to pay medical expenses, not only do they spend more, but they negatively impact their retirement savings efforts as well.

Supplemental health benefits such as critical illness, accident and hospital indemnity are available and may help protect against high out-of-pocket costs, but adoption is low. This is largely due to a basic lack of understanding of how these benefits work, but much of the scenario is driven by employee perceptions that most voluntary benefits are too costly. In the Lincoln Financial Group *2017 Employee Benefits Study*, employees chose "too expensive" as one of the top three reasons why they do not enroll in specific benefits. Likewise in the *CBA 2016 Enrollment Study*, "affordability" was a top three reason for declining critical illness, accident and hospital indemnity for all employees, and it was voted the top reason among moderate and low-income employees, i.e., those with household incomes below \$75,000.

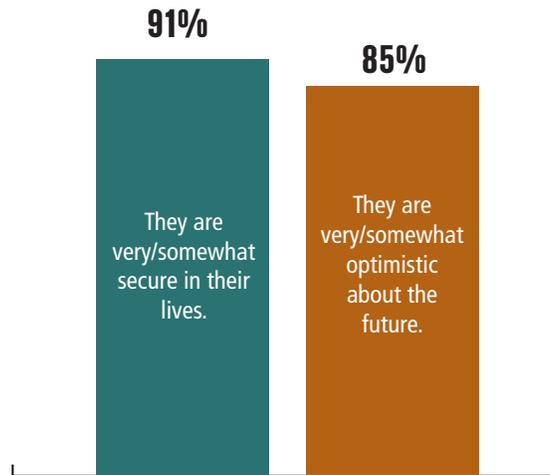
### Top three reasons employees don't enroll in a specific benefit



Source: Customer Benefits Analytics, *2016 Enrollment Study*.

Yet, when asked about their general sense of security, optimism and sense of control over their lives, most employees indicate they are actually quite positive. In the Lincoln Financial Group *2017 Employee Benefits Study*, 91% of employees said they feel secure in their lives and 85% of employees said they were optimistic about their future.

## Percentage of employees responding they are “optimistic” or “secure”



Source: Lincoln Financial Group, *2017 Employee Benefits Study*.

This contradiction can be explained, however, when considering that an employee’s personal sense of security and optimism is driven mostly by their current day-to-day situation—having a comfortable place to live, a supportive family, and feelings of general well-being (Lincoln Financial Group, *2017 Employee Benefits Study*). The disconnect occurs because employee benefits help to mitigate risks that may occur in the future, which most employees do not think about as being near-term necessities. Employees, instead, look at benefits as a cost or expense, without the actual context of the unknown or unexpected event to help them make the connection. As human beings, we have a natural tendency toward optimism and over-confidence, which can impede our ability to accurately assess risk, especially over the long-term.

Those in the benefits industry know that employee benefits are important. Employees, however, are not necessarily making the connection that benefits can contribute to their long-term sense of security and optimism.

### Short-term concerns; long-term safety nets

Financial stress is just one of many factors that create worry and distraction for employees. Due to the near-term nature of these concerns, it is not surprising that employees tend to lose focus on benefit offerings, which are more often than not viewed as longer-term safety nets.

### Areas of greatest concern for employees

Financial concerns:	Health concerns:
Paying bills	Getting cancer
Debt	Being unable to work due to a disability
Planning for retirement	Having a heart attack
Healthcare expenses	Chronic illness
Outliving my money	Being in a car accident

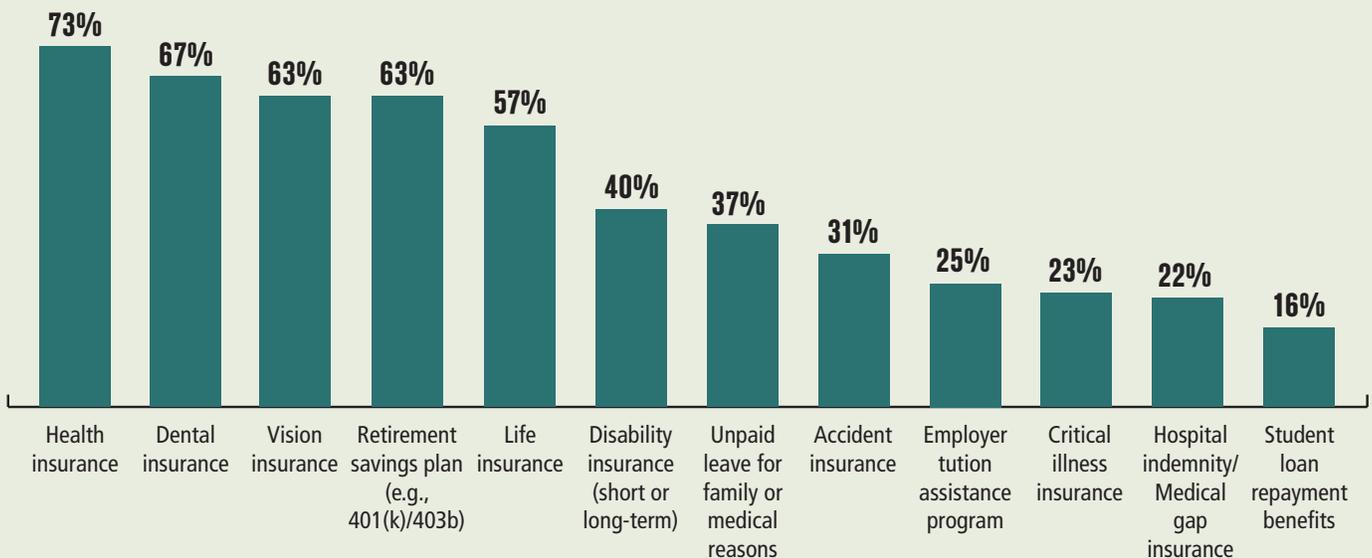
Source: Lincoln Financial Group, *2017 Employee Benefits Study*.

There's a lot on employees' minds and a lot they don't really have control over. This leads to lower levels of engagement with benefits overall. It is essential for those in the benefits industry to help employees recognize that their benefits can help mitigate the risks associated with the things they are concerned about—having the financial means to pay bills, receive medical care, and plan for retirement. Some concerns arise from unexpected events, such as a sudden illness or injury; others are expected parts of life, such as paying bills or retirement. But all are issues that employees need to plan for in order to maximize the usefulness of their employee benefits.

### More information = more confidence

Why aren't employees making the connection between benefits and longer-term security? A major issue is a need for more information. Lincoln research (Lincoln Financial Group, 2017 *Employee Benefits Study*.) shows that employees indicate significantly lower levels of understanding about benefits such as unpaid leave, disability, accident and critical illness. And while self-stated levels of knowledge for benefits such as retirement plans, and health, dental, vision and life insurance seem high, it is because employees have heard about these benefits far more often.

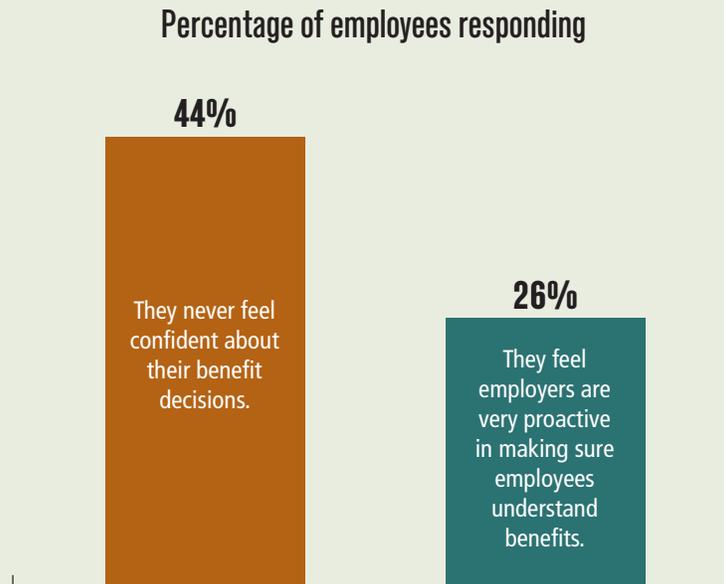
Percentage of employees responding "I know a lot about this benefit"



Source: Lincoln Financial Group, 2017 *Employee Benefits Study*.

Yet in the same study, many respondents who reported these high levels of understanding also made statements that revealed they don't feel confident about choosing their benefits. In fact, 44% of employees indicate that they never feel confident about their benefit decisions.

This seeming contradiction shows that while it's good when employees say they understand their benefits, we have to be careful not to assume this understanding will lead to confident, proactive benefit decisions. And since only 26% of employees feel that their employer is proactive in making sure they understand their benefits, there is an obvious need for more employer-employee communication.



Source: Lincoln Financial Group, *2017 Employee Benefits Study*.

### Analysis paralysis

This crowded and confusing set of benefit topics and concerns often adds up to a state of analysis paralysis, where employees don't make a decision or simply go with the benefits they already have by checking the same boxes every year during enrollment.

Indeed, the *Customer Benefits Analytics (CBA), Who Buys Voluntary Benefits and Why: 2016 Employee Benefits Enrollment Study*, found that more than 20% of employees who enrolled in benefits based their decisions on a desire to just keep the previous year's coverage.

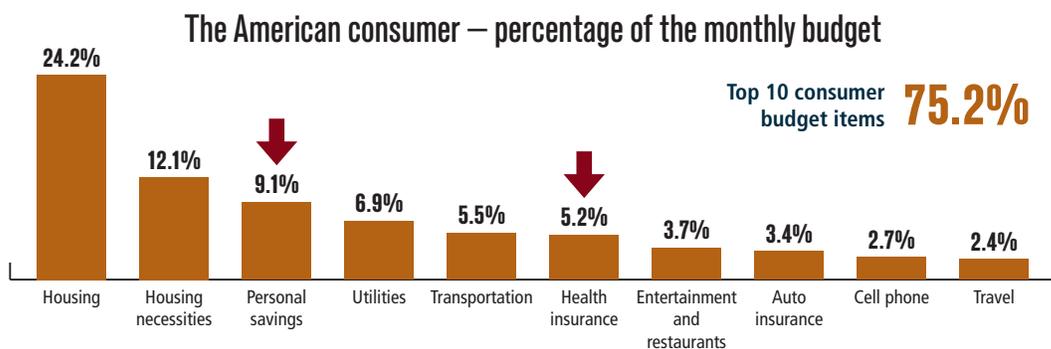
When you look at all the topics and competing priorities today's employee must consider, it's no wonder that most employees struggle to recognize and make sense of all the decisions required of them. In fact, CBA also found that the average employee has to make decisions on six benefit offerings in addition to medical and retirement options. Very few employees are masters of the benefits universe—they want and need help.



### Budgetary realities: What are employees' priorities?

Too many options, not enough money in the budget to cover them all—that's the reality for the majority of employees. Not surprisingly, when the Lincoln Financial Group *2016 American Consumer Study* sought to identify what matters most to employees based on their monthly budget allocation, it was clear that employees prioritize their spending on items they perceive to have the biggest impact on their lives today.

While allocation to health insurance was significant (in many cases because it is mandatory), employees allocated significantly fewer dollars to all other employee benefits. Other financial priorities dominate the monthly budget allocation. Expenses related to housing, household necessities, transportation and utilities combine to account for just under 50% of the monthly budget allocation (the highest monthly budget allocation). By contrast, employees spend less than 5% of their monthly budgets on retirement plans and ancillary benefits such as dental, vision, disability, accident and critical illness insurance.



Source: Lincoln Financial Group, *2016 American Consumer Study*.

## Opportunity knocks

### Go beyond offering coverage and help employees understand their choices

Both challenges and opportunities arise from the fact that most employees find their benefits confusing and hard to understand. We've identified many of the challenges employees face during the benefits decision process. Next, we focus on the opportunities to help them overcome these hurdles, while positively supporting and influencing employees to help them maximize their benefits usage.

#### Opportunity #1: Do the basics well — and keep it simple

"Simple" is a dangerous—and potentially misleading—word. Yet it resonates with employees because they know it when they see it, especially when it comes to benefits. According to the Lincoln Financial Group *2017 Employee Benefits Study*, the top way to get employees to engage with their benefits is to provide a simple enrollment process that makes it easy for employees to understand the benefits they need.

The research shows that not only would employees be more engaged and more likely to purchase benefits if they understood them better, they would also be more likely to purchase higher levels of coverage.

And this result doesn't depend on in-depth, complicated explanations. What employees need is a better understanding of the basic, fundamental components of a benefit.

Employees want to understand four basic points:

- How much does coverage cost?
- Who is covered—just me, or also my spouse and children?
- Which benefits do I need, and how much?
- What, exactly, is the benefit (the coverage amount or payout)?

Source: Lincoln Financial Group, *2016 Marketing Materials and Benefit Study*.

These basic foundational elements need to be communicated upfront to employees in language they understand. Employees make it clear that they will not just use a benefit because it is offered to them by their employer.

They want to know:

- How the benefit helps them
- How it helps their family
- How it addresses near-term and longer-term needs

Employees' monthly budgets require them to make choices, but they are willing to spend on or invest in a benefit they find value in—if they can connect to a benefit's relevance and use in their own lives.

# 87%

of employees are more likely to purchase benefits they are familiar with.

#### **Solution:**

Speak clearly about the basics using a simple four-point formula.

## Why is it so difficult to communicate the simple, fundamental facts about benefit coverage?

Often, it's the way the benefits industry tends to communicate; the technical language used in marketing material can sound like a foreign language to most employees. As mentioned earlier, employees are not plan design experts. They are unlikely to understand their benefits in the same way as industry experts (employers, carriers and brokers). Keeping things simple and communicating frequently is a fundamental requirement if we want employees to maximize their benefit usage and make decisions based on what they really need, not what they are used to, or what costs the least (but may not provide the best value for their particular needs).

## Opportunity #2: Employees have questions — give them multiple ways to get answers

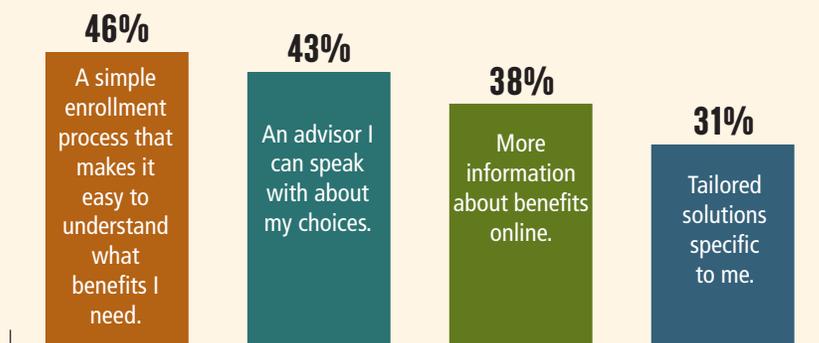
Keeping it simple also means making it easy to get questions answered—either in person, talking to a knowledgeable expert who can address specific questions and concerns, or through an informative benefits website.

How can a company increase employees' engagement?

For many employees, it's all about:

- Having someone to talk to about benefit choices, and
- Being able to access more information about benefits online through a benefits website.

### Percentage of employees responding they want



Source: Lincoln Financial Group, 2017 Employee Benefits Study.

# 43%

of employees suggest that having someone to talk to about their choices would increase their engagement.

# 53%

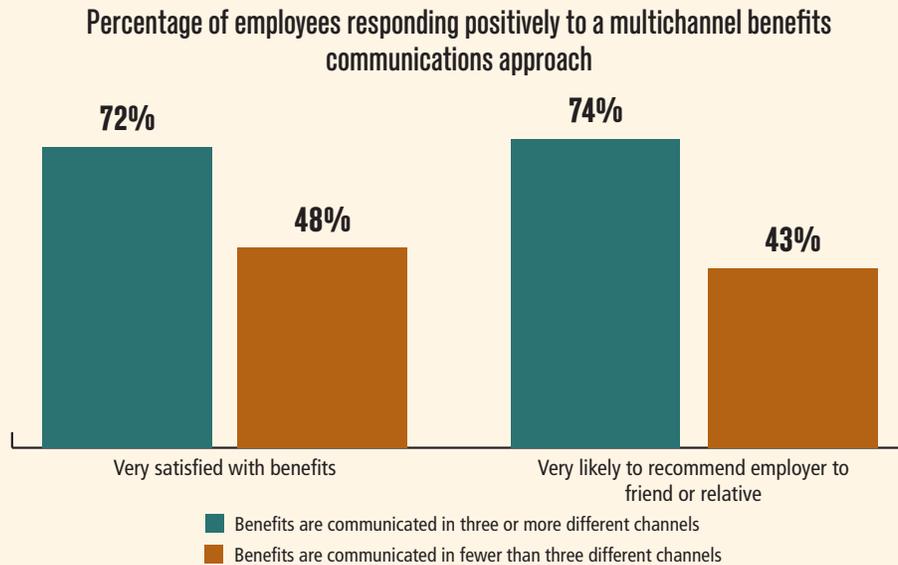
would like their manager to talk to them about their benefits.

### Solution:

Employees want their companies to reach out with information. Communicate in multiple ways: Give employees the opportunity to talk with a benefits expert, as well as access to information via a website and printed materials.

The importance of a multichannel approach can't be overestimated. There is no one-size-fits-all solution. The best communications channel is the one that each employee finds most helpful and most relevant at the moment.

In fact, using at least three different types of communication—for example, personal meetings, online and print—increases employees' satisfaction with their benefits as well as their likelihood to recommend their employer to a friend or relative. CBA's *2016 Enrollment Study* finds that when at least three different types of benefits communications were used, 72% have the highest levels of satisfaction with their benefits versus 48% of those with fewer than three different types.



Source: Customer Benefits Analytics, *2016 Enrollment Study*.

This multichannel approach likewise has a positive impact on employees' likelihood to recommend their employer as a good place to work. 74% of employees were very likely to recommend their employers when at least three different types of benefits communications were used versus 43% when fewer than three different types were used. This effect can bring hard dollar savings to organizations who use employee-referral programs to help recruit new talent.

Of similar importance is the idea that the benefits meet the specific needs of employees. They do not want to feel that they are purchasing a generic benefit. Relevance and repeatedly making connections really do matter when the employee is considering which benefits to choose.

### Opportunity #3: Understanding not just the “what” but also the “why”

Employees want employers, carriers and brokers to understand who they are, what they are about, what and who influences them the most, what they care about, and what they value. They want all of us in the industry to understand these things in the context of their lives, not just employee benefits.

**The question is:** How do we learn these intimate details, and how do we deploy communication strategies to effect positive change in attitudes, perceptions, behaviors and benefits-related outcomes? This process includes a change in the way that we think about employees.

Traditional analysis uses segmentation techniques that seek to understand benefits-related behaviors based on the “what” — demographic categories like gender, generation or ethnicity, as well as behavior-based characteristics based on what and how much people buy.

While these do help us understand groups of people, they ignore the most important question: WHY? Understanding the “why” requires an examination of multiple human characteristics that are not as obvious or apparent as gender or generation, but play an important role in leading to deeper engagement and benefits usage.

Employees want to be seen as individuals, with individual needs.

#### **Solution:**

Focus on characteristics that impact decision-making the most; develop messages based on your employees’ individual motivations.

### Which dimensions have the greatest influence on outcomes?

Have the greatest influence

Have the greatest influence		Have the least amount of influence	
<b>Motivators</b>	<b>Decision styles</b>	<b>Origins/geography</b>	<b>Ethnicity/race</b>
<b>What I value</b>	<b>Communication preference</b>	<b>Wealth</b>	<b>Gender</b>
<b>Emotions</b>	<b>Relationships/influencers</b>	<b>Life stage</b>	<b>Age/generation</b>

These dimensions incorporate multiple characteristics, including traditional segments, as well as very personal perspectives.

These dimensions tend to yield stereotypes that are viewed as limiting and almost insulting by members of their respective segments when addressed individually.

## Hearts and minds

A simple, straightforward survey that asks employees to identify the emotions, values and motivators in their lives can unlock insights into employee hearts and minds. Using such a tool can enhance engagement because employees will recognize that they are being asked to open up and share who they are and what matters most to them—beyond simply their views about benefits. Lincoln Financial Group implemented such an approach to identify the characteristics that determine employee behavior in America. The analysis yielded significant insights into the hearts and minds of employees.

### Four segments emerged that are defined by these dimensions

30%	27%	23%	20%
<b>Fearful</b>	<b>Unhappy</b>	<b>Conscientious</b>	<b>Confident</b>
Afraid of making mistakes, so they don't act ..... Want to belong to something, but don't feel they do ..... Want to trust, but have overarching lack of trust ..... Benefits decisions influenced mostly by family	They are unhappy due to perceived lack of compassion from others ..... Value honesty from others, lack confidence they are getting it ..... Feel misunderstood ..... Benefits decisions influenced mostly by friends	Anchor on doing the right thing ..... Value honesty from others, lack confidence they are getting it ..... Believe in causes greater than themselves, struggle to participate in them ..... Benefits decisions influenced mostly by selves	Very confident ..... Value expertise ..... High level of trust in those who demonstrate expertise ..... Benefits decisions influenced totally by an advisor

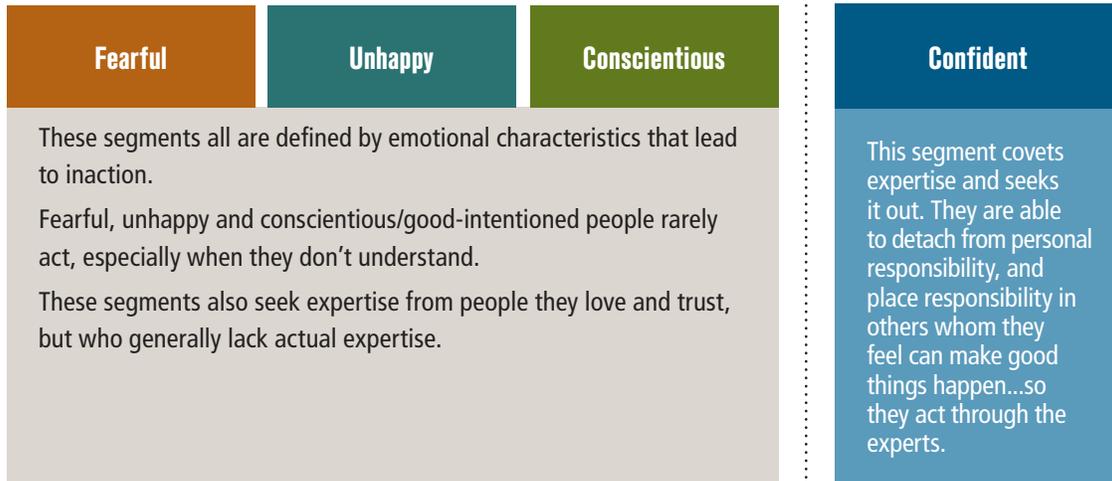
Source: Lincoln Financial Group, *2017 Consumer Segmentation Study*.

What we found was that gender, generation and ethnicity did not have outsized influence on the segments. Rather, factors such as emotions, personal values, motivators and influencers were the primary characteristics that determined each segment.

Based on Lincoln's proprietary research in this area, an employer can ask their employees to choose the description that is most closely aligned with their own personal view of themselves. Once this is done, communication strategies can be developed to:

- Acknowledge the individual's choice
- Empathize with their personal situation
- Encourage employees to pursue the necessary knowledge and course of action that is best suited to support their needs

## What is driving the gap in actual outcomes



Source: Lincoln Financial Group Consumer Insights team analysis

### Case studies: Peer-to-peer confirmation

Another way to demonstrate a true understanding of each employee's priorities, needs, and motivations is to share case studies of peers that resonate and reflect these characteristics. Case studies can demonstrate both the process and the result of making smart benefit choices. Employees will see actual examples of how benefits can support their specific values and goals, and have a higher level of confidence in their benefit decisions.

The Lincoln Financial Group *2017 Employee Benefits Study* shows that many employees consult a friend or relative about their benefit choices, including 43% of those 18–29 years old. The peer-to-peer approach used by case studies takes advantage of this tendency. It also acknowledges the importance of showing, not just telling, how benefits are relevant to a person's overall well-being and success.



## **In conclusion**

Employers have many reasons and goals why they offer their employees benefits. These range from making the employer more competitive and managing costs, to providing benefits that help employees feel more confident, and in turn, more productive. But those reasons will not be as significant and the goals will not be reached without more participation and engagement from employees.

The days of companies making all the decisions and providing 100% of the benefits for their employees are long gone. It's abundantly clear—employees want and need help making better decisions about their benefits. These days, they simply can't do it alone. It is essential for employers, benefits brokers, consultants, providers and carriers to work together to implement practical strategies and solutions to improve employee participation in their benefits, help them engage more fully, and ultimately make the kinds of decisions that will maximize the positive impact benefits can have on their lives.

## Sources

### **Employee Benefit Research Institute, 2017 Retirement Confidence Survey, March 2017.**

This annual survey of American workers and retirees, ages 25 and older, was conducted in January 2017. It seeks to measure the level of confidence that Americans have with regard to retirement and other benefits-related issues.

### **Lincoln Financial Group, 2017 Employee Benefits Study, May 2017**

This report investigates the attitudes of American employees surrounding health and nonmedical benefits provided by employers, among other key personal finance topics. Results are based on a national survey of employees conducted by PSB on behalf of Lincoln Financial Group. The research was conducted between April 13 and May 2, 2017, among 2,500 employed adults above the age of 18. Data shown in this report is weighted to reflect the proportion of U.S. employees by gender, age, region, race and ethnicity based on data from the Bureau of Labor Statistics and the U.S. Census Bureau. The margin of error is  $\pm 2\%$  at the 95% confidence interval for the entire sample.

### **Customer Benefits Analytics (CBA), *Who Buys Voluntary Benefits and Why: 2016 Employee Benefits Enrollment Study*, March 2016, in partnership with the Lincoln Financial Group Consumer & Marketing Analytics team.**

Results are from a multiclient study by Customer Benefits Analytics and Lodestar Advisory Partners, sponsored by Lincoln and other carriers. The report includes an in-depth analysis of consumer needs, motives, and trends in the voluntary benefits market. Findings are based on an online survey of 2,877 adults across the U.S. employed full-time at employers with at least 50 workers. The survey was conducted in December 2015.

### **Lincoln Financial Group Consumer Insights team analysis**

The Lincoln Financial Consumer Insights team developed the graphic on page 13, depicting the landscape of dimensions that currently and potentially can help to define consumer segments.

### **Lincoln Financial Group, 2016 American Consumer Study, October 2016.**

Results of the *American Consumer Study* are based on an online survey of 2,550 adults 18 years of age or older across the United States, conducted in August 2016 by Lincoln Financial Group and Penn Schoen Berland. The sample was weighted to reflect the proportion of adults 18 or older by a variety of measures. The margin of error is  $\pm 2\%$  at the 95% confidence level.

### **Lincoln Financial Group, 2016 Marketing Materials and Benefit Study.**

This study of American consumers, who are fully employed and participate in benefits programs offered by their employer, measures perceptions of ancillary benefits marketing materials.

### **Lincoln Financial Group, 2017 Consumer Segmentation Study.**

This study of American consumers, who are fully employed and participate in benefits programs offered by their employer, was used to identify four consumer segments, as well as the key dimensions that are used to define those four specific segments.

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