

# ADP<sup>®</sup> Annual Health Benefits Report

*2016 Benchmarks and Trends  
for Large Organizations*



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## Executive Summary

Health benefits represent a significant cost for large employers. In light of substantial changes in the health care landscape in recent years, employers are finding it necessary to maintain a clear understanding of health benefits trends in order to effectively plan for the future and recruit and retain employees. To inform employers of the latest health benefits trends, the ADP Research Institute® has published the 2016 ADP® Annual Health Benefits Report. With major provisions of the Affordable Care Act (ACA)<sup>1</sup> enacted in 2014, this report details significant trends in employer-provided health benefits between 2014 and 2016. With the health benefit metrics presented in this report, employers can learn how employees are responding to changes in health care coverage, evaluate their current benefits strategies and gauge how to proceed in coming years.

The report tracks key health benefits data for a sample of nearly 300 large employers. Looking at anonymous empirical data drawn from employee benefit enrollment records, the report provides a precise source of employee participation, medical premiums and demographics.

The 2016 ADP® Annual Health Benefits Report provides employers with a snapshot of key benefits trends in light of changes in the economy, workforce demographics and the Affordable Care Act. Some of the metrics evaluated include employee eligibility overall and within key demographic groups, percentage of employees enrolled in coverage, premiums charged for health insurance, and the portion of premiums covered by employers. Organizations can leverage this information to inform future benefits strategy decisions.

### Employer-sponsored health benefits system remains stable

The data analyzed from 2014 to 2016 reflects stability in the way employer-sponsored benefits at large companies are offered and consumed. Although there were a few demographic shifts, the overall participation was consistent, and changes in premiums and employer costs were steady.

### Eligibility rates continue to rise

The percentage of full-time employees (as designated by the employer) eligible for employer-sponsored benefits continued to go up from 2014 to 2016, with a 2.3 percentage point increase overall, as employers have broadened coverage eligibility to comply with the ACA. Despite rising eligibility, take rate went down slightly and participation remains steady. This could be because the majority of employees covered by employer-sponsored health plans were already eligible.

Consistent with trends in the overall population, eligibility rates rose among both married and unmarried employees, but the change in take rate for unmarried employees decreased substantially more than for married employees. This difference may be due to multiple factors; for example, many younger employees, often single, may have the option of obtaining coverage through a parent. Also, in order to avoid complex reporting requirements, some employers may have chosen to comply with the ACA employer mandate by offering affordable health coverage to all employees, regardless of status.

### Employees under 26 have markedly low participation due to alternate options

Although employees in the 16 to 25 age group have, like the rest of the population, experienced a rise in eligibility, participation is far lower in this younger age group. This points to a trend of younger employees remaining on a parent's health plan until age 26 (as permitted by the ACA's extended dependent coverage provision) rather than participating in their own employer's coverage.

<sup>1</sup> The Affordable Care Act and Employer Confidence - Navigating a Complex Compliance Challenge, ADP Research Institute®, 2015.

## Premiums rising at a modest rate each year

Total health premium cost per employee rose 5.0% from 2014 to 2016. This moderate cost trend is likely due to focused cost management on the part of employers, including the use of self-funding, high deductible health plans, employee health and wellness programs, and resources to assist with provider selection.

Overall costs per covered member, a better indicator of overall health premium inflation, grew at a slightly more rapid pace of 7.9% between 2014 and 2016. However, the number of covered dependents per employee declined, leading to lower overall premium costs per employee.

Health premium costs increased for all workers, including those with and without dependents. The percentage of premiums covered by employers increased slightly. A reason for this could be that employers were making plans more affordable for lower income workers, consistent with affordability requirements mandated by the ACA.

## Premium increases vary by industry

This study analyzed the average monthly premiums in five selected industries: Finance and Insurance; Manufacturing; Retail Trade; Professional Services; and Health Care and Social Assistance. Over the period studied, average monthly premiums increased in all five selected industries, but at varying rates. The strongest increase occurred in Health Care and Social Assistance, which had a 10.2% increase in premiums. Manufacturing, however, had the lowest increase at 2.1%. In 2016, this industry also had the second highest total monthly premium, at \$949, just behind Professional Services. Retail Trade had the lowest monthly premium in 2016, at \$719.

Employer contributions to health plan premiums varied widely by industry, with some industries experiencing a slight rise or fall in the amount covered from 2014 to 2016.

## Plan costs directly tied to compensation

Health premiums correlated directly with employee earnings. Lower income workers tended to have lower premiums, and higher income workers tended to have higher premiums. But when premiums are adjusted to account for dependent lives covered, premium costs tend to be similar for employees across all income levels. The key insight is that income is highly correlated with number of covered dependents, resulting in the higher apparent premiums. Employer contributions to health premium costs also decreased slightly as income rose.

## The big picture

Overall, the results of the 2016 ADP® Annual Health Benefits Report reflect that employer-provided health care plans in the large employer market are stable, and employers are effectively adjusting to changes mandated by the ACA. Changes in costs have been modest, and shifting demographics in the workforce are keeping the overall growth in cost per employee lower than in the past. The stability of price and participation observed in the large employer group health market may not necessarily apply to other market segments. Most large employers have offered health benefits to their employees for years, and use some form of self-funding. For smaller employers utilizing full health insurance in a geographically confined market, variations in premiums and participation may be significantly greater.