Episode 1 – Modernising benefit programmes

SPEAKER: You're listening to Talking Heads, a Willis Towers Watson podcast series featuring interviews with senior leaders on the most pressing human capital and benefit-related topics.

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JOHN MACHON: Hello, and very warm welcome to the first of the Talking Heads podcasts from Willis Towers Watson. My name is John Machon, and I'm delighted to be joined by my colleague Kevin Newman, who heads up our health-and-benefits business here in Great Britain. Hi, Kevin.

KEVIN NEWMAN: Hi, John, glad to be joining you for this.

JOHN MACHON: Great. Kevin, as we move out of lockdown and the economies start opening up around the world, what are the sorts of things around benefits that companies should be considering; probably to ensure that their benefits are fit for purpose for the new world that we're going to live and work in?

KEVIN NEWMAN: Yeah, well, we've been discussing opportunities with clients for a while now, John, around modernising benefits. And our modernising benefit agenda really just become more relevant, as you say, as companies come out of lockdown and respond to the pandemic. And at a high level we break this down in sort of five main areas. One it's reviewing benefit portfolio. So are the benefits you have still relevant and appropriate to your employee population?

Secondly, we look at financing, and that's even more important around risk retention, risk transfer; has your appetite for risk changed in the new environment we're heading into? Third and an ever-increasingly important is employee experience and engagement.

Then, admin and operations; making sure you're efficient in delivering the benefits, and employees can access those benefits via platforms. And finally, insights and reporting, and we're seeing a greater need for this as we go forward-- really, reviewing data from a risk-management perspective and making sure that future decisions are on an informed basis.

And I'm sure, John, we'll dive in our discussion today into some of these areas in a bit more detail. But for example, we just ran a COVID-19 benefits survey that was concluded last month. And that showed that 42% of companies either have or are planning to make significant changes to their benefit programs.

It's important though, I think, that we understand the business drivers for change, because there's been a lot of talk in the press about what sort of shaped recovery we're going to get as we come out of the pandemic. Is it going to V shaped, U shaped, W shaped, an L shape?

But I think from our perspective, it's starting become clear that this is looking like an X-shaped recovery. And by that I mean there are some businesses that are operating almost as business as usual, or even thriving in the new environment. And for those businesses really what they're looking to do is undertake gap analysis review of their benefit provision, and really improve access and make sure they're relevant to their employee population.

And they're recognising that people are their most important assets, and they've seen that with what people have been doing to keep businesses going, how agile they've been able to work remotely. And therefore, these businesses are starting to invest even more in their health and wellbeing benefits. And really, it's time to deliver on the talk that we've had for a while that people are our most important assets, and businesses are realising that.

I think you need to recognise that there are some businesses that are struggling financially. And for them it's understandably about cost management and cash flow. Looking at the survey, 44% of clients anticipate an increase, not surprisingly, in sick-leave costs.

And also they anticipate there's going to be an increase in benefit costs at their next renewal. 34% belief group-life rates, quite rightly, are likely to increase. And 25% believe there will be increases in health care and disability costs going forward. So these are things to take in mind as they start looking at budgets for 2021 and beyond.

But it's still early days, and we have to realise that a number of companies are not in a sustainable position, and the economy is really still being propped up by furlough payments. But the positive thing is at the moment benefits are largely being maintained by employers. And this is key given that employees really need the support and protection from employee-benefit programs more now than ever before-- and also need to recognise there are some contractual constraints around making changes.

But John, this is no doubt that the pandemic is going to be a catalyst for change. And I think in the short term, some of that change comes through quite naturally in enhancing communications around benefits. And again, 61% of those clients that participated in that survey have indicated that this is something they are all going to do.

And I think it's important to note that this communication is not just coming from the traditional place of HR and benefit professionals, but actually it's being elevated and coming from the C-suite. So from the top-tier, which is really a big change, where we've started to see senior management actively communicate to employees around benefits, in areas such as employee-assistance programs, online mental health solutions, promotion of telemedicine through digital GP's and wellbeing apps.

JOHN MACHON: And why do you think that has been the case, Kevin, from the top? Has that not been the case in the past?

KEVIN NEWMAN: It hasn't been the case in the past. I think it is because they're recognising that that employee base are working in different circumstances-- now working remotely-- and that remote working puts additional pressure and strains and change management as employees adapt. And that's going to have an impact on their resilience and their mental health-- and also the physical workspace from a muscular-skeletal perspective.

It's taking clients, quite rightly, a time to adapt to people working from home and get them the equipment that they need. So there's a recognition that they need to support their employees as much as they can in a working environment, which is now their own home, than when they were in the office.

JOHN MACHON: It's a very different world we live in now, which is interesting. You mentioned there-- and I know it's very early days, Kevin. What has been the response from the providers around this sort of change? Are they coming up with new ideas or new solutions, or is it too early to say?

KEVIN NEWMAN: Yeah, we are starting to see. I mean, some of those solutions, to be fair, John, were already in place pre-pandemic. I think what we're starting to see is increased promotion and take-up. I mean, we've seen that from a telemedicine perspective. Digital GP services were starting to take off the tail end of last year and early this year. And we've already seen a 55% increase in take-up rates of primary-care telemedicine. So those investments were already there and better access to them, and the same in terms of other online mental health solutions and digital solutions in the wellbeing space.

And this is where we're starting to see clients actually now say, we're going to invest in some of these solutions that the carriers are providing. And then 60% say they're going to invest in this wellbeing space-- 58% in mental health and stress management. And also, interestingly, some investment in the annual leave space-- clients saying, we're going to give employees access or more flexibility around annual leave.

And I think part of the developments as well that we're seeing, and need to happen both from the provider perspective and employers asking for this, is an improvement in clinical pathways -- and just making it easier for employees to access benefits. Employees need this help to navigate the plethora of support they have access to, both public and private. We've been helping clients and their employees do that through our health care concierge service-- really helping employees get access at a time of need to both information and clinical provision, when required.

JOHN MACHON: So Kevin, that's really interesting. I'd like to come back to the health care delivery landscape, because there's been a lot of change on that, I know. Before we do that, you've described a lot of what's gone on in Great Britain. In your experience and your contact with other colleagues around the world, is our experience the same, or are we very different in terms of the market?

KEVIN NEWMAN: From a health care perspective, John, globally it is different, because of the interaction between public and private health care provision in a particular country. If you look at the UK and the US, you've probably got two extreme ends of the spectrum there. From a US perspective all of the COVID-19 related costs are going to fall into private health care plans. And employers are planning for what that looks like in terms of medical inflation and the financial impacts of that, as they get through 2020 and beyond.

Whereas from a UK perspective, the majority of those COVID-related costs fall to the NHS, as we're aware. And therefore, private provision is somewhat protected from a financial perspective by these costs. And the knock-on impact from a UK perspective is that we've seen the private health care capacity acquired by the NHS back in March, which in essence led to a cessation of non-urgent elective surgery and diagnostic facilities in the private sector. And these basically became unavailable. So we've got a key dynamic there, which you see a bit through some areas in Western Europe that have that similar public/private health care provision.

But this is really unprecedented - we've not seen this before. And so trying to help clients understand the financial impact of that is not easy, and it's not easy as we try and model this. We've looked historically at for cases where private health care has been turned off for a while. We looked at the Hong Kong experience with the troubles, tail end of last year and earlier, just to try and understand this.

But to quote, sort of, Donald Rumsfeld, what we do know is there is a known unknown here. And it's just trying to unpick that and understand the financial implications for clients. Because there is a period of claim suppression in private health care, and we've seen that since March. The last couple of months, we've seen expected-claim levels reduced to 55% below where they would have anticipated.

So we're seeing this period of claim suppression for the moment, which will last for a period of time - how long is debatable. But what we're then going to see as private capacity comes back online is claims then actually exceeding anticipated levels.

So what we need to do, John, is help clients understand what that 18-month view in terms of claims is likely to be. And the school of thought there really varies between 75% of expected claims, right through to something like 110%, 115% of where clients may be expecting claims pre-COVID to have landed. And there's a number of variables here. The first variable is capacity backlog - so how long is private provision unavailable? At the moment, we now have an NHS multidisciplinary decision making hub, which is making non-COVID-related treatment decisions on a clinical priority, not a funding approach.

We also then have this issue around, what is the ultimate cost of treatment per episode? And could it be higher? Because diagnostics have been delayed, because treatments being delayed, does that ultimately mean that an episode of treatment post-COVID, when we come out, is it going to be higher than it would have been before just because of the delay?

And also there are additional COVID-related costs, which are going to come into the private sector that opens up. Private hospitals are going to require patients to be tested. There's going to be a COVID-19 pre-admission protocol, cost for PPE, and NHS cash benefit. All that will be picked up by employer health care plans. So there's quite wide parameters as we start to model these costs.

But one thing that we are doing, John, is assisting clients-- understanding the financial implications, the budgetary planning, and then the options that are open to them from a private health care position.

JOHN MACHON: So Kevin, there's an awful lot of dynamics there and a lot of moving parts. I mean, again, I suppose the other moving part here is if there is another spike, because that could have yet another sort of issue, in terms of claims going forward in this year as well.

KEVIN NEWMAN: Very much so. And as I say, for UK health care and clients, it's really about those non-COVID-related tests and the impact that the spike has on getting timely treatment. That's the key thing. But yeah, there's another variable as well, definitely.

JOHN MACHON: Any sort of feel, Kevin, around costs and premiums? Are we likely to see big premium increases this year or first of the next year-- the next renewals?

KEVIN NEWMAN: No. Speaking to insurance carriers, really the way they're looking at it is over a two-year contract period. As I say, you've got this period of suppression followed by a period of costs being greater than anticipated.

So what carriers are hoping happens is that clients really stick with them over a two-year period. And you sort of get this smoothing effect. So hopefully, over a two-year contract period, you would hope that the cost isn't too far off pre-COVID expectations. But for the reasons anticipated, there could well be some additional inflation once you look at these additional COVID costs that could come through. But it's a really difficult one, where we are at the moment, to model, although we are starting to help clients to, say, understand the implications of the options open to them.

And a lot of this depends on their funding basis. If you're fully insured, probably less implications than if you run a cost-plus or a trust-type model, John.

JOHN MACHON: Hence the importance of doing the insights, the analytics, as well, I suppose, Kevin, to keep a track of that.

KEVIN NEWMAN: Very much so.

JOHN MACHON: So if we move on to the other sort of risk benefits-- things like life and disability-- what impact has the crisis had on that.

KEVIN NEWMAN: Well, I think if we start with the disability market first, John, I think there's no doubt there's a very strong correlation in the disability market with an economic downturn. And I don't think many people would argue that we're heading into a period of an economic downturn. There's a strong link there between the economic state of the economy and an increasing morbidity risk.

I mean, we saw this back with the financial crisis in '08-'09, where the market saw an increase in claims incidence, duration, and value-- albeit that most of that was related to the financial service sector, which was really hit heavily in '08-'09-- whereas this time we anticipate the impact being more broadly from economy perspective. So you've got that economic link.

You've then got what I was just talking about, in terms of on top of that. This time we've got this lack of timely treatment and diagnosis for conditions such as mental health, musculoskeletal, cardiac, and cancers-- the big causes of long-term disability. Just that lack of getting timely treatment means that we're more likely to see claims incidence and the duration of those claims to be longer.

And on top of that, from a price perspective, we've now got gilt yields, which just look like they're going to be lower for longer. You put those three factors together, John, we've really got what I call a perfect storm in terms of disability pricing. And I think it means that the rates are going to harden and only go one way, and we're starting to see some evidence of that.

So from a budgetary perspective, clients need to start to be aware of that. It won't be immediate, but certainly, if they're insured, at their next renewal cycle that's something that they need to be aware of and we can help them with expectations there. But again, if you're self-funded, this is something else that really needs some more modeling and understanding of the potential implications. Because yeah, I see this as being a one-way move.

JOHN MACHON: In terms of disability, Kevin, are there any major things that clients could consider around design for disability?

KEVIN NEWMAN: There's always design options, John, and we've been helping clients with that for a number of years. Detaching designs from state benefits-- we see that as less relevant going forward. And of course, the other big trend is really moving from full-term disability to limited-term disability, potentially with some sort of lump sum at the end. But now typically, disability schemes that last around five years are starting to be the common-- because that sort of employment deal does change.

So there are options. But then there's also options in terms of trying to mitigate the risk, in terms of good preventative policies and schemes. So some of the wellbeing initiatives that we spoke, clients who are investing in some of the mental health apps as well. I think investment in that area can also help mitigate the risk and potential cost increases coming through, from a disability perspective.

I mean, unfortunately, if we move on to life, it's very difficult to mitigate those costs. We have seen a number of claims coming through in the group-risk market unfortunately, COVID-related. From our research across the market, we think the group-risk industry is going to see, or has at the moment seen at least 300 additional claims-- probably at the cost of somewhere north of 40-million pounds-- purely COVID-related.

Now, clearly there's a lag for this-- typically a week or two weeks. And also there'll be a lag for other non-COVID-related deaths, unfortunately, that are going to still occur in the weeks and months ahead. So naturally you see the appetite for risk changing in the market, both from the major carriers but also the reinsurers. And this will have both price and contract-term implications in the medium term.

But there are some opportunities. The opportunity there from a financing perspective for clients that currently self-finance but are going through that risk-retention, risk-transfer debate, we're seeing some very attractive short-term pricing deals available.

Now, I don't anticipate that they'll be available for long. But as always, when you get a big market change, there are windows of opportunity. And there's a couple of large major clients we're helping at the moment, John, transition from self-insured into an insured basis at an attractive price at the moment, to mitigate their risk there.

JOHN MACHON: So Kevin, it sounds like there's a lot of turbulence, which is I suppose what we all expected, coming from both the markets and what companies are going to be looking for here. Hence, I suppose, your discussion we had at the very beginning around modernising benefits; It's making benefits fit for the purpose for the future.

And it doesn't feel like one size is going to fit every client either, because some companies are, as you say, going through business as usual. Others are financially struggling and struggling with the new

world we're to be working in. If you had a final message for employers, Kevin, what would you be saying to them now?

KEVIN NEWMAN: I think it's probably three things, John. I think, firstly, I would encourage employers to embrace what is an accelerated move to digital-health solutions. We've mentioned it before, but just to recap-- primary care, mental health solutions, muscular health-- MSK, definitely, from both a triage perspective but also a digital-injury-management perspective-- and these online-preventative-health programs.

I think all of these are compelling, because, one, they improve the access and pathway for employees to benefits. Two, in the current environment, they're COVID-safe, because the treatment and the advice is remote access. And thirdly, they can offer in the long term a potentially lower-cost solution.

So I think move to digital health is one, John. It's a trend we saw, It will trend continue and I'd encourage employers to embrace that.

Second one really is to focus on cost-management value, but also risk management-- so investment in chronic-disease management.

It's something that from an employee benefits perspective we haven't done that well-- and example there being sort of management of long-term chronic disease such as diabetes-- I mean, very topical. We've seen that this is a key risk factor in COVID-19 mortality. But giving employees access to programs that can help them proactively manage chronic diseases, I think that's good.

Preventative solutions-- again, from that risk-management perspective, investing in these areas are going to be appreciated by employees-- as there is just a heightened health awareness and risk of both employers and employees. And this is likely to continue - It's not going to go away.

And thirdly, invest in data analytics-- enhanced data analytics. You can actually make informed decisions. Know what health risks you have in your population and provide benefits and treatment accordingly.

And finally, the big one that we touched right back at the start was really enhanced communications around benefits. We've seen this and employers really are jumping on this; but I would encourage them to continue. It just helps improve that coordination of benefits, make it easy for employees to understand what benefits they have and how to navigate and access them. And I think those three things are trends that we're starting to see, but I'd certainly encourage employers to embrace.

JOHN MACHON: It's interesting, I think, Kevin, though, as we look back, a lot of the trends were there-- the move toward digital medicine and stuff like that. I suppose the crisis has really accelerated those-- made it become more the norm now than it was in the past.

KEVIN NEWMAN: Without a shadow of a doubt it's a different landscape going forward than it was to the past. And as you say, some of this is just accelerating initiatives that were already there. But we will no doubt see other new benefits and initiatives coming out of the back end of the pandemic, too, John.

JOHN MACHON: So Kevin, thanks very much indeed, it's been really good talking to you today. We hope you enjoyed the podcast, and we look forward to welcome you back very soon.

SPEAKER: Thank you for listening to this edition of Talking Heads. For more information, visit our Insights page on WillisTowersWatson.com.

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