

ADP® Annual Health Benefits Report

*2016 Benchmarks and Trends
for Large Organizations*



A more human resource.™





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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)¹ 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.

¹ 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.



About This Study

The ADP Research Institute® used anonymous, employee-level yearly panel data from a set of employers spanning 2014 to 2016. In total, the data used for this study consisted of nearly 300 U.S.-based organizations in each year, employing roughly 700,000 employees each year. Although the set of organizations is not identical year-to-year, companies that remain ADP® clients and remain above the minimum size threshold remain in the sample, and there is great consistency year-to-year. Each organization used in this study had 800 or more employees in each year it was included. For this study, the ADP Research Institute® focused on nonunion, full-time employees.

Data and Research Methodology

The research sample includes companies across all major industry groups, however, it does not exactly mirror the same distribution relative to the total U.S. The ADP® data have a comparatively larger portion of some industries (including manufacturing and retail), while having a smaller portion of others. Different industries may have different concentrations of age groups. For example, Retail and Leisure/Hospitality industries have a large proportion of younger workers, while Finance/Insurance industries have a large proportion of middle-age employees. As a result, the age distribution of ADP's client base may differ in comparison to the total U.S. market.

To ensure data quality, those reporting health plans costing less than \$200 or more than \$2,000 per month were excluded from the analysis. Individuals with extreme or missing values in demographic variables (age, marital status, number of dependents, compensation) were included in all aggregate calculations and also in demographic breakouts where unrelated to the suspect data, but were excluded from the relevant demographic breakout.

This research is divided into three main sections. The first considers the percent of employees eligible for employer-sponsored health insurance, and the percent of employees enrolled in a plan. The second explores the premiums charged for health insurance, and the fraction of those premiums covered by the employer. The third breaks out the mid-point and quartile ranges for premium costs and employer percentage contribution.

Eligibility and Participation

For eligibility and participation, this analysis considered variations across years, both for the entire employee panel and for specific employee subgroups based on marital status, gender and age.

Premiums

For the premium analysis, the study analyzed changes over time in total premiums for the entire group, as well as for specific demographic subgroups. This analysis evaluated differences in annual premium increases by age, industry, income and number of dependents. The study also analyzed changes over time in the percent of insurance premiums covered by the employer for the same demographic subgroups, as well as for the employee panel as a whole.

Eligible percentage refers to the segment of the employee population that is qualified to enroll in the health insurance offered by their employers.

Take rate refers to the percentage of eligible employees who enroll in the health insurance offered by their employers. Take rate is also known as “take-up rate.”

Participation rate refers to the percentage of all employees (eligible and ineligible) who enroll in the health insurance offered by their employers.

Total monthly premium refers to the total cost of the health insurance plan, including both the amount paid by the worker and that paid by the firm.

Employer contribution refers to the percentage of the premium paid for by the firm. For example, if the total monthly premium were \$500, of which the worker paid \$200 and the firm \$300, the employer contribution would be 60%.

Section One:

Participation in Health Benefits

Participation in Health Benefits

Eligibility & Participation Among Full-Time Employees

Eligibility rates rose since major provisions of the ACA were enacted, with a 2.3% increase in 2016 over 2014. There is an expectation that eligibility will continue to approach 95%, consistent with the ACA requirement that employers offer affordable minimum essential health coverage to at least 95% of their ACA full-time employees, or incur substantial tax penalties.² Even though the eligibility rate has gone up, the take rate has declined slightly, falling 1.8% since 2014.

Among various demographic groups, there was a wide range of change in eligibility, take rate and participation. These differences will be discussed in the following pages of this report.



Overall trend:

While eligibility among full-time employees increased slightly since 2014, participation rates remained steady

91%

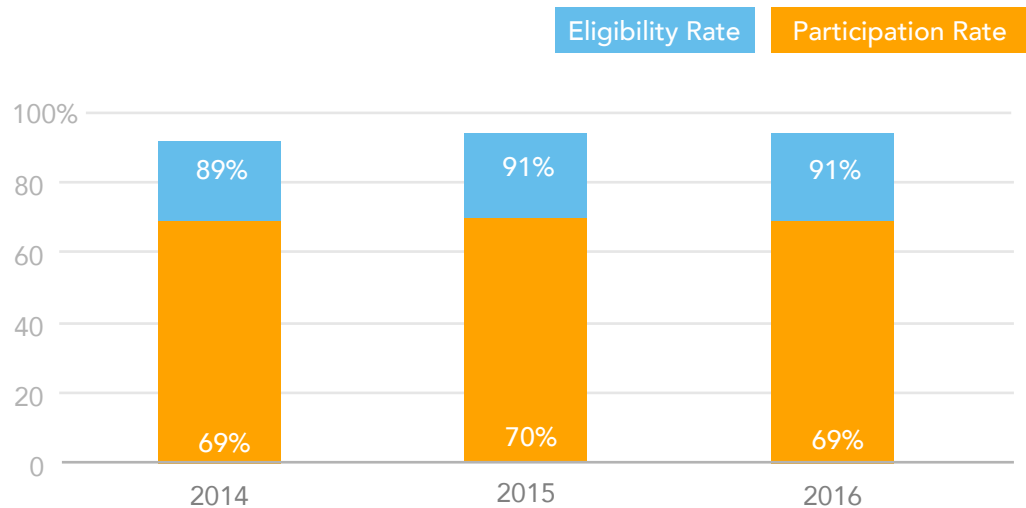
Eligibility rate in 2016

76%

Take rate – 76% of those eligible chose to purchase benefits in 2016

69%

Participation rate in 2016



² See IRS notice - <https://www.irs.gov/Affordable-Care-Act/Employers/Employer-Shared-Responsibility-Provisions>.

Eligibility & Participation Among Full-Time Employees by Marital Status

The difference in eligibility rates between married and unmarried employees diminished slightly between 2014 and 2016. There was a 2.8% difference between the two marital statuses in 2016, while in 2014 the difference was 3.3%.

The take rate was slightly higher for unmarried workers in 2014, but by 2016, married workers had a higher take rate, at a difference of 1.3% over unmarried workers.

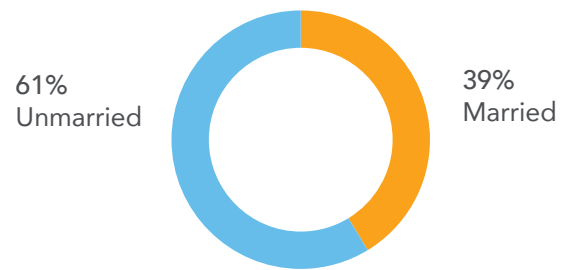
Although eligibility rates increased for both groups between 2014 and 2016, take rates declined. Unmarried workers experienced a -3.0% decrease in take rate over three years, while married workers saw a decrease of -1.1%. Despite this difference, the trend in the participation rates of the two groups remained fairly similar, with a 0.1% decline in participation rate among unmarried workers and a 1.2% increase for married workers in from 2014 to 2016.

It is important to note that there was a 3.0% increase in the percentage of unmarried workers. This number reflects demographic trends toward more single households than married households in the U.S. and an influx of younger employees entering the workforce.



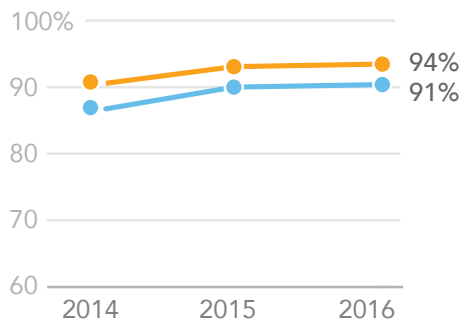
Overall trend:
Married workers had higher eligibility rates, take rates and participation rates than unmarried workers

Demographic profile — 2016



Unmarried Married

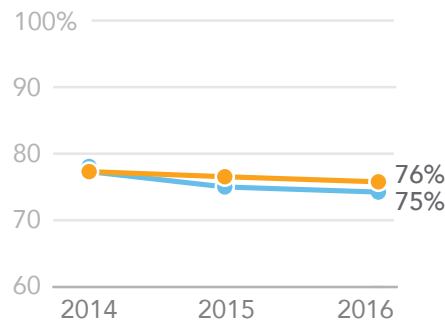
Eligibility by marital status



2.8%

Married workers experienced eligibility rates that were 2.8% higher than unmarried workers

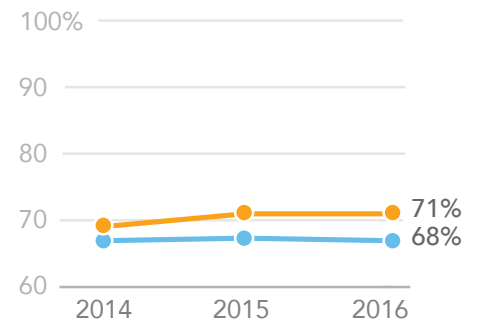
Take rate by marital status



1.3%

Take rate among married workers was 1.3% higher than the take rate for unmarried workers

Participation by marital status



3.3%

Participation rate among married workers was 3.3% higher than for unmarried workers

Eligibility & Participation Among Full-Time Employees by Gender

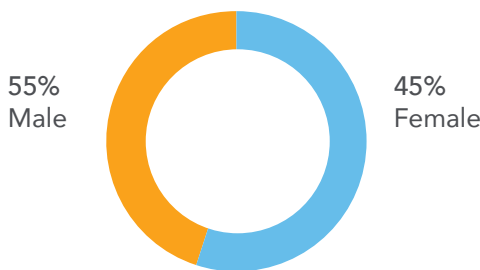
For both males and females, eligibility went up and take rates went down. Participation rates increased slightly for both males (0.2%) and females (0.1%) during the period studied.

Eligibility rates for males and females remained close, but the take rate among females was markedly lower. In 2016, eligible females enrolled in their health benefits at a rate that was 5.3% lower than males. This difference could be partially attributed to more females than males opting to be on their spouse's benefits plan.

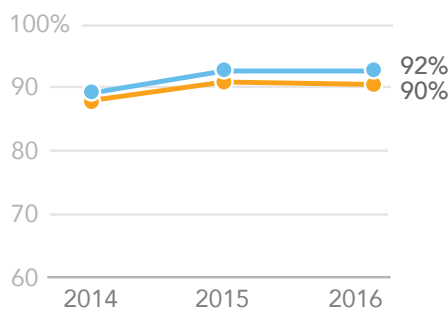


Overall trend:
Males had a higher take rate than females

Demographic profile — 2016



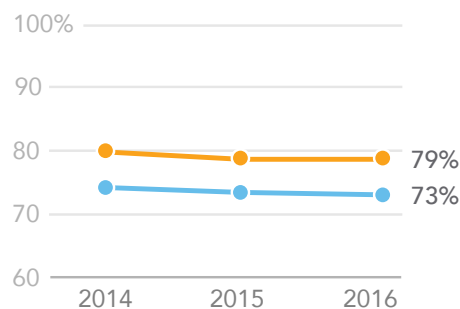
Eligibility by gender



1.9%

There was a slight difference in the eligibility rates of males and females in 2016

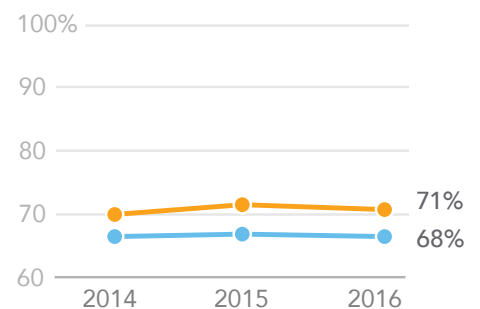
Take rate by gender



5.3%

Take rate among male workers was 5.3% higher than the take rate for female workers

Participation by gender



▲ 0.2% and 0.1%

Participation rate increased for males only 0.2% since 2014; the rate for females similarly increased by only 0.1%

Age Distribution of Full-Time Employees

Consistent with data from previous years,³ most older employees experienced higher eligibility rates and participation rates for employer-provided health care benefits. In 2016, employees ages 45 to 64 had participation rates higher than 74%. The highest participation was among those ages 55 to 64, at 77.7%. This age group had the largest increase in participation since 2014, with an increase of 2.5%.

Those in the 65 to 75 age group showed a lower rate relative to those 26 to 64 for Eligibility, Participation and Take Rate. This lower rate could be due to this population being eligible for Medicare; therefore, employer-sponsored health benefits may be of lesser concern to employees in this age group.

Participation was considerably lower among those under the age of 26, at 44.1%. This decrease represents a 1.7% decline in participation since 2014 for this age group. Lower participation in this age group may reflect the provision of the ACA allowing young adults to stay on a parent's health plan until age 26. Younger employees also may be more likely to have lower incomes and may place a lower priority on health coverage.



Overall trend:

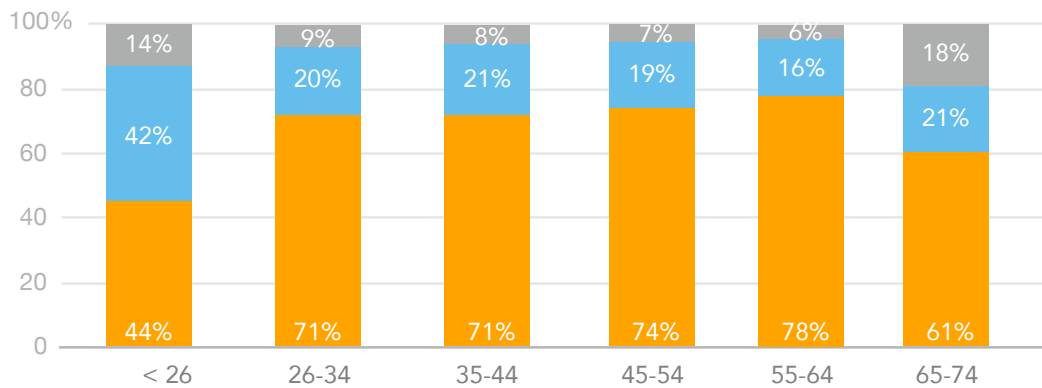
Employees under the age of 26 had the highest increase in eligibility at 3.9%, but this group had, by far, the lowest take rates and participation rates

Workforce distribution by age — 2016



44%

The smallest percentage participation — those under age 26



Percent change — 2014 to 2016

Age Group	< 26	26-34	35-44	45-54	55-64	65-74
Eligible	3.9%	2.7%	1.1%	0.8%	3.7%	2.8%
Participants	-1.7%	1.3%	-0.4%	-0.7%	2.5%	0.9%

▲ 3.9%

Workers under age 26 had the largest increase in eligibility, slightly above the 55 to 64 age group

▼ -1.7%

From 2014 to 2016, the participation rate declined among workers under age 26

³ ADP® Annual Health Benefits Report, ADP Research Institute®, 2015.

Eligibility Among Full-Time Employees by Age

An overall increase in eligibility was reflected across all age groups. Employees under age 26 experienced the largest increase in eligibility, at 3.9%, which was just ahead of those ages 55 to 64, who experienced a 3.7% increase in eligibility.



Overall trend:
Eligibility increased for all age groups from 2014 to 2016

At 81.9%, the 65 to 74 age group had the lowest eligibility in 2016. The under 26 group also had low eligibility rates at 85.6%. All other age groups had eligibility rates that were 91% or greater, with employees in the 55 to 64 age group having the highest eligibility rate at 93.8%.

86%

The eligibility rate for workers under age 26

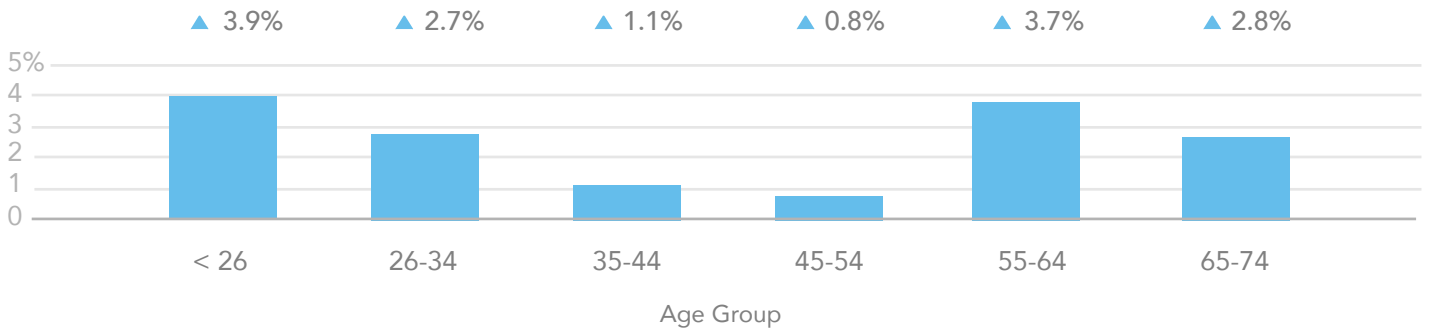
Ages 55-64

The age group with the highest level of eligibility, at 94%

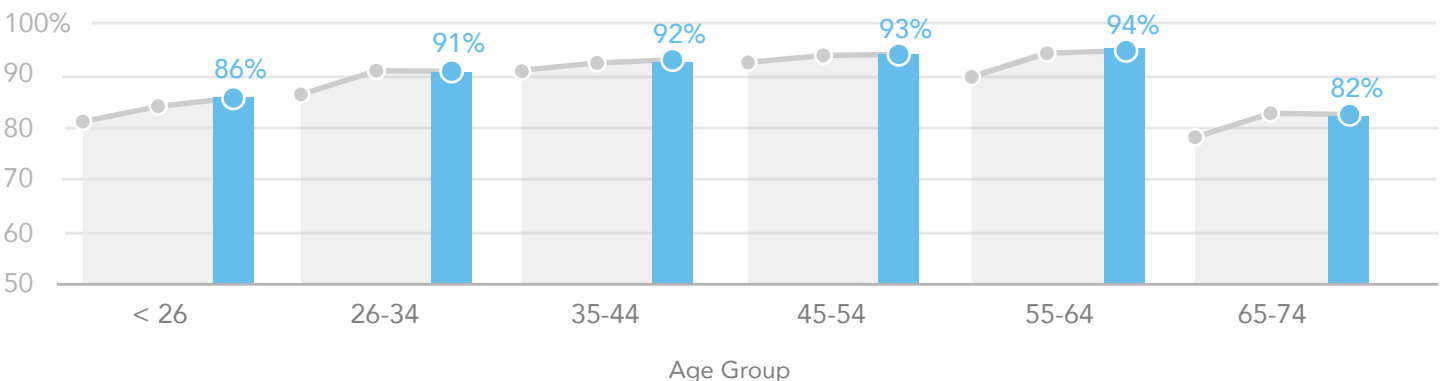
▲ 3.9%

The increase in eligibility rate for workers under age 26 was the highest of any age group from 2014 to 2016

Percent change in eligibility — 2014 to 2016



Eligibility rate by year



Take Rate Among Full-Time Employees by Age

The take rate decreased only slightly for all age groups except those under age 26. For this youngest group, the take rate declined considerably, at -4.5%. In 2016, this group had a 51.5% take rate, while all other age groups experienced a take rate of at least 74%. The lower take rate for workers in the youngest age group could possibly be linked to extended dependent coverage under the ACA, which allows dependents to remain on a parent's health insurance policy until age 26. Because of this, many eligible workers under age 26 may have declined their own employers' health plans in favor of continuing on a parent's plan.

The highest take rates were among those in the age group 55 to 64 at 82.9%. This group's take rate decreased at the lowest rate over three years at -0.6%.



Overall trend:
The take rate declined most considerably for those under the age of 26

▼-4.5%

The largest percentage decrease in take rate was among those under 26

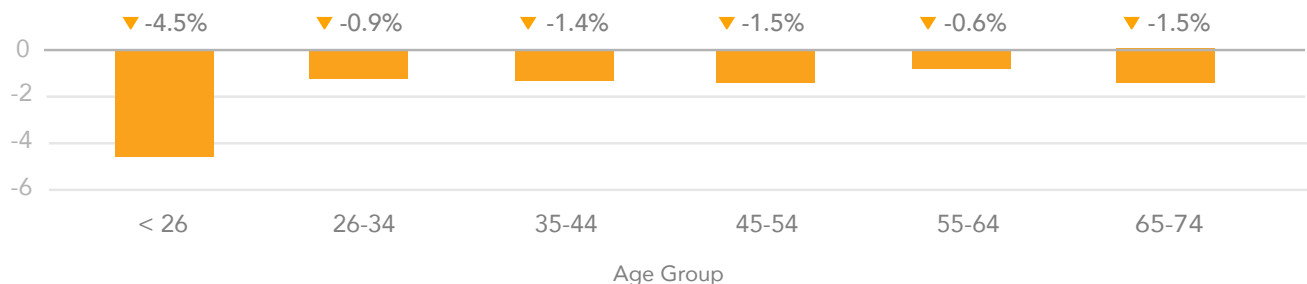
52%

The lowest take rate was among those under age 26

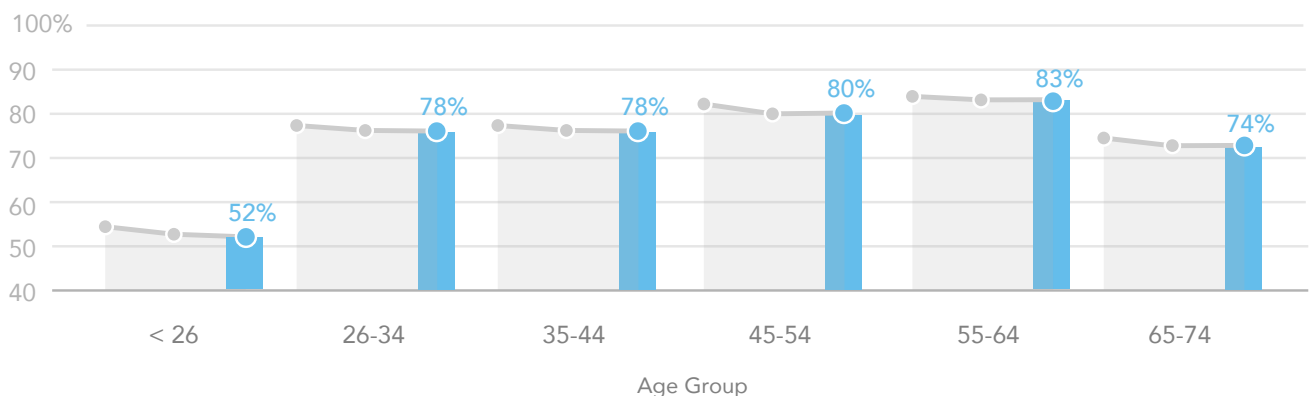
Ages 55-64

The age group with the highest take rate at 83%

Percent change in take rate — 2014 to 2016



Take rate by year



Participation Among Full-Time Employees by Age

Participation rates in employer-based health care remained relatively stable over the study period for most age groups. For employees in four age groups between ages 26 and 64, participation was between 71.0% and 77.7%, with only slight increases or decreases over time.

For employees under 26 years old, the participation rate declined by -1.7% with a participation rate of only 44.1%, far lower than that of the other age groups. The participation rate for those between the ages of 65 and 74 was also quite low, at 60.6%. As employees in this age group were already covered by Medicare, some may decline employer-sponsored health insurance.



Overall trend:
Participation rates continue to be low for the under 26 age group, and for those ages 65-74

▼ -1.7%

Largest percentage decrease in participation, workers under 26

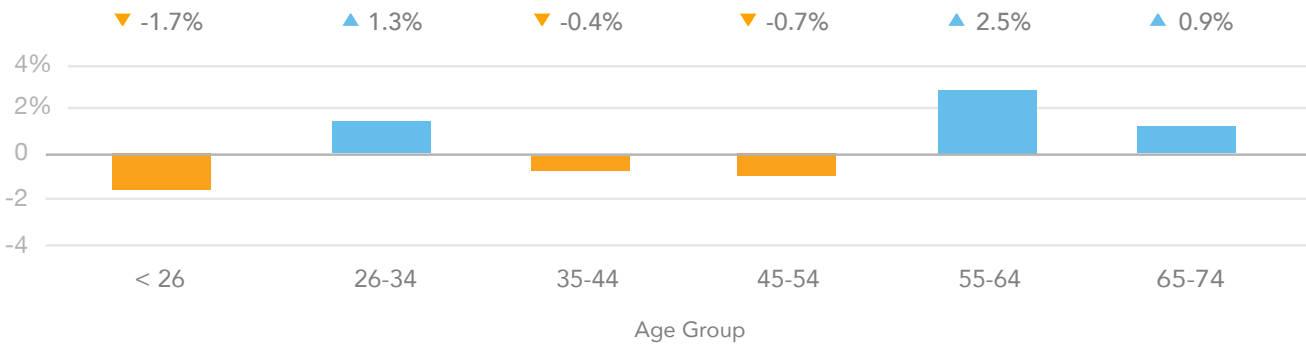
44%

Workers under 26 had the lowest percentage participation

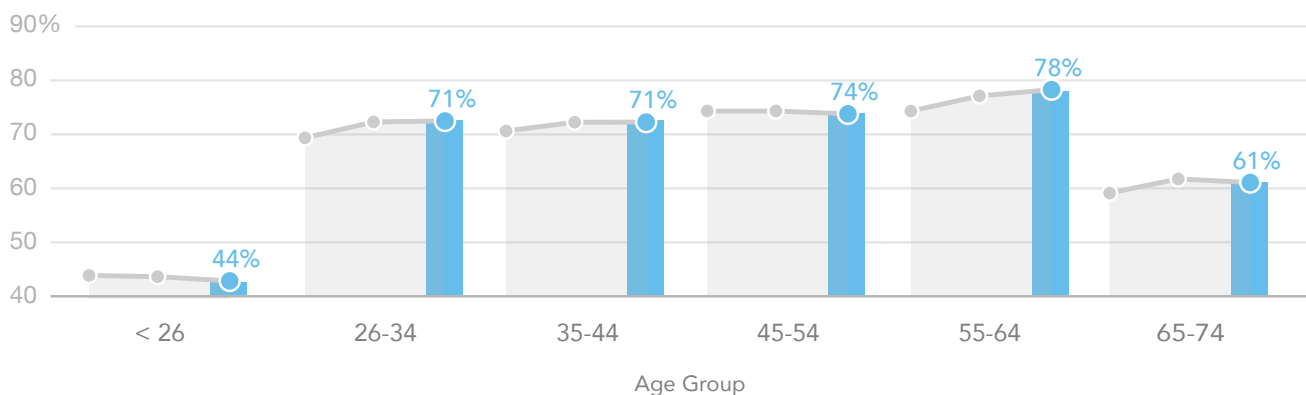
78%

The largest percentage participation was in the 55 to 64 age group

Percent change in participation — 2014 to 2016



Participation rate by year



Section Two:
Health Plan Premiums

Health Plan Premiums

Average Monthly Premium in the United States

This study looked at monthly premium costs of full-time employees in organizations in which both the employees and employers contributed to the health plan premium. From 2014 to 2016, the average monthly premium rose 5.0% across all industries and demographic groups combined. This slow growth stands in stark contrast to the double-digit inflation experienced in health premiums of previous decades.⁴

While the total plan cost increased by 2.8% over 2014-15 and 2.1% over 2015-16, the amount of premium paid by firms increased as well—by 3.1% and 2.5%, respectively. One explanation is that employers may be working to make plans more affordable for lower-wage workers.

It is also worth noting that the cost per covered life saw a growth rate of 7.9% over this time horizon. This could be considered a measure of medical health inflation. The growth rate difference between cost per employee (5.0%) versus cost per covered life (7.9%) can be explained in large part by a decline in dependent ratio.



Overall trend:
Premium increases
appeared to moderate
from 2014 to 2016

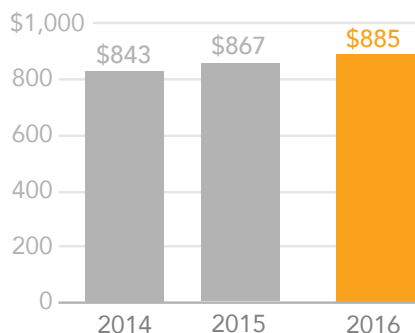
\$885

Average total monthly
premium in 2016

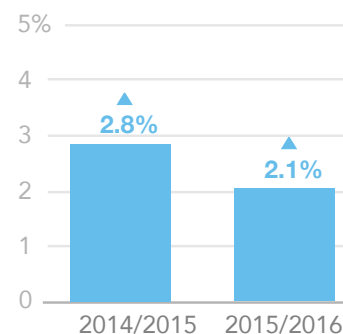
▲ 5.0%

Percentage premium
increase from 2014 to 2016

Average total monthly premium



Percent change in premium



⁴ <http://www.healthsystemtracker.org/2014/08/benefits-firm-predicts-health-spending-may-bounce-back-in-2015-but-double-digit-increases-still-unlikely/>

Employer Contribution as a Percentage of Total Premium

The employer contribution share of health plan premiums increased for most age groups, only declining slightly for age groups 55 and older. The percentage change ranged from an increase of 0.9% for employees under 26 to a decline of -0.1% for employees in the 55 to 64 and 65 to 74 age groups.

The highest employer contribution share was in the under 26 age group at 79.0%. That variance is partially explained by differences in family size and number of dependents across age groups.



Overall trend:
Employer contribution share increased slightly in most age groups and decreased only slightly for those 55 and older

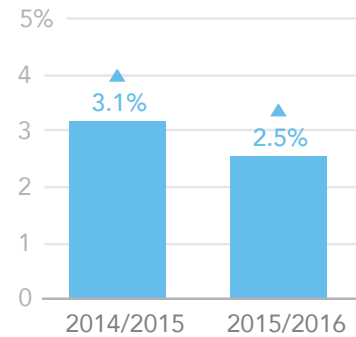
▲ 0.9%

The largest increase in employer contributions, among those under 26

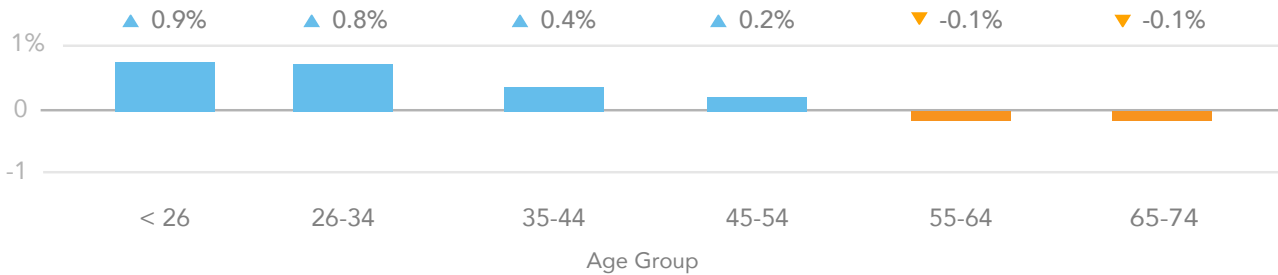
\$672 (76%)

Average total employer contribution in 2016

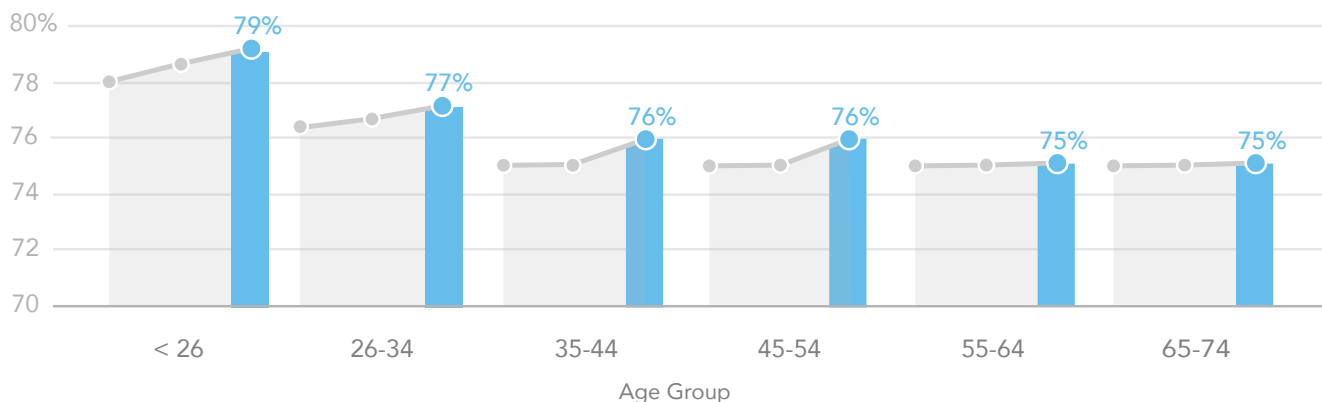
Employer Premium Contribution (percentage change by year)



Percentage point change in employer contribution share — 2014 to 2016



Percent contribution by age



Total Monthly Premium by Number of Dependents

Plan costs increased for all workers, including those with and without dependents. In addition, regardless of the number of dependents, employees saw a slight increase in employer contribution share.

Interestingly, while overall premiums increased by 5.0% from 2014 to 2016, the premium increase within each dependent category grew by a larger percentage. The reasoning behind this nuance is that the dependent ratio has also declined over time, thus pulling down the cost of the average premium paid.

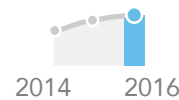
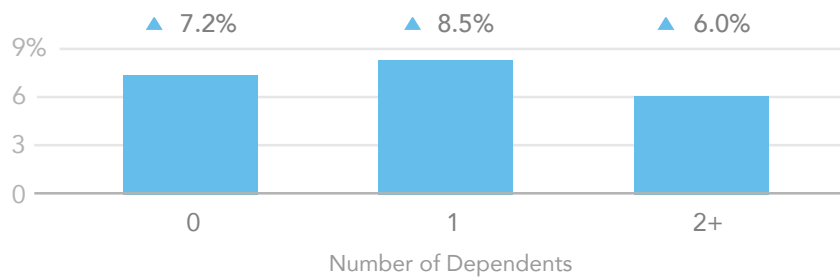


Overall trend:
All dependent categories experienced a rise in premiums

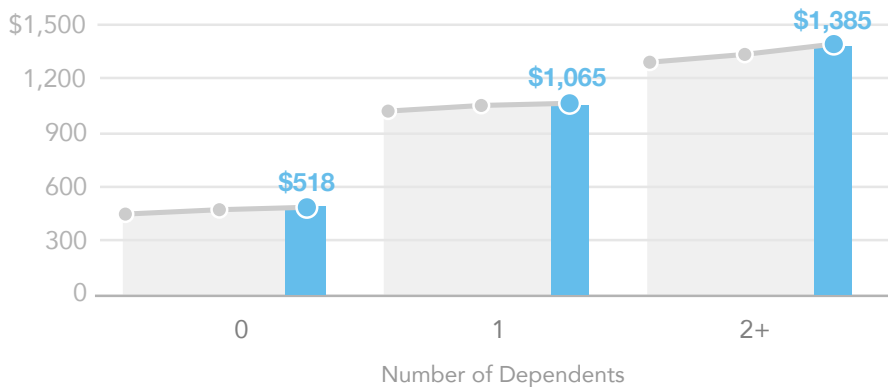
▲ 8.5%

Those with one dependent experienced the largest premium increase between 2014 and 2016

Percentage change — 2014 to 2016



Monthly premium by year



Employer Contribution by Number of Dependents

Employer contribution increased slightly for all employees regardless of their number of dependents. For employees with one dependent, employer contribution increased by 0.3%. For employees with at least two dependents, employer contribution increased by 0.4%.



Overall trend:
Employer contributions increased slightly across all dependent groups

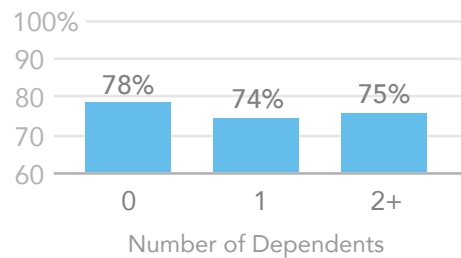
78%

Employer percentage contribution share for employees with no dependents; for those with one or more dependents, employer contribution was between 74% and 75%

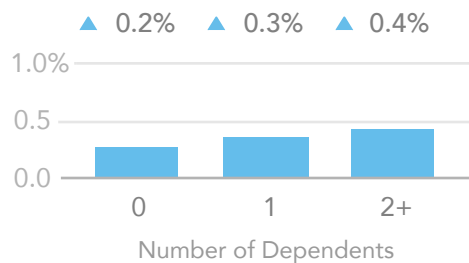
▲ 0.4%

Employees with two or more dependents had the largest percentage increase in employer contribution share since 2014

Employer percentage contribution — 2016



Employer contribution percentage point change — 2014 to 2016



Total Monthly Premium by Age

Health plan premiums rose for all age groups. The greatest annual percentage increase during the study period was for the oldest age groups; ages 55-64 increased 6.9% and ages 65-74 increased 6.5% from 2014 to 2016.

The highest monthly premium was in the 45-to-54 age group at \$993 per month, followed by the 35-to-44 age group at \$965 per month. Those who are ages 45 to 54 are likely to have the most dependents (including adult children staying on a parent's policy until age 26), which could explain their higher monthly premiums.

The lowest monthly premiums were for those under age 26, at \$579 per month.



Overall trend:

Premiums increased for all age groups from 2014 to 2016, but in particular for those aged 55 and older

\$993

Largest monthly premium in 2016, ages 45 to 54

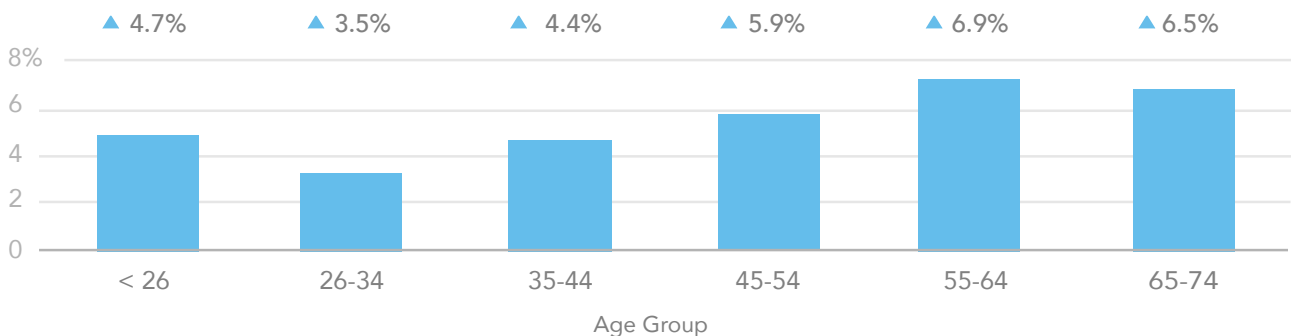
▲ 6.9%

Largest percentage increase in premium since 2014 was among employees ages 55 to 64

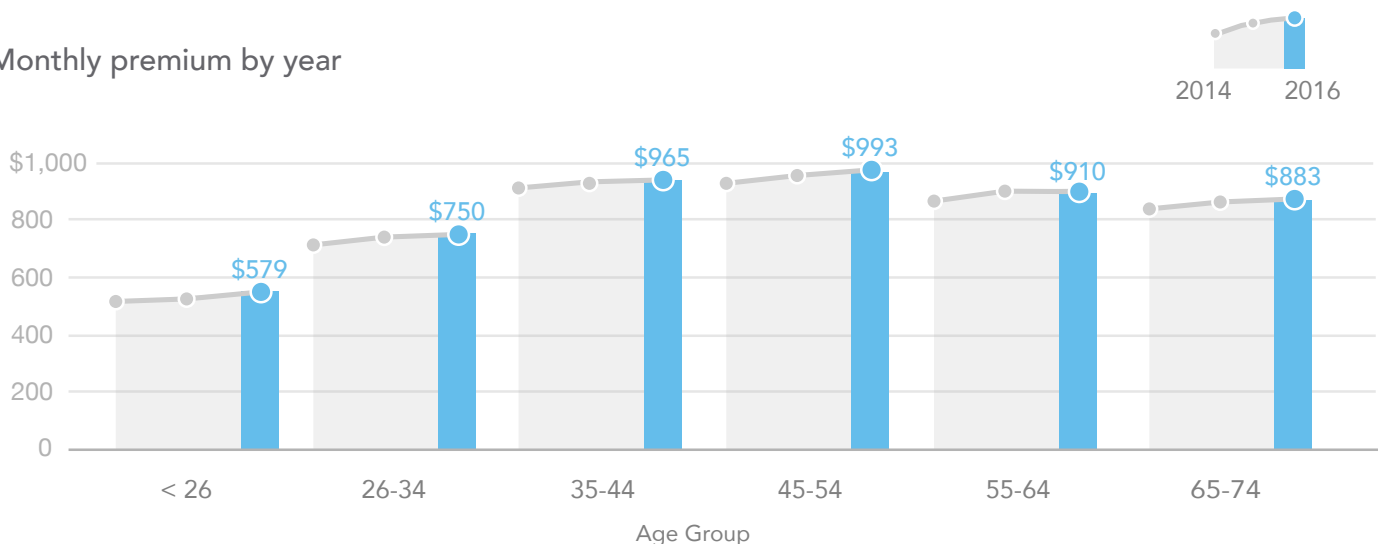
▲ 3.5%

Smallest percentage increase in premium since 2014, ages 26 to 34

Percent change — 2014 to 2016



Monthly premium by year



Total Monthly Premium by Industry (selected industries only)

This study looked at the monthly premiums in five selected industries: Finance and Insurance; Health Care and Social Assistance; Manufacturing; Professional Scientific and Technical Services; and Retail Trade. From 2014 to 2016, total monthly premiums increased at varying rates in all five industries. Health Care and Social Assistance saw the highest percentage increase at 10.2%, while Manufacturing had the lowest percentage increase at 2.1%.

A general observation of premiums by industry is that the areas that have seen the most increase in premiums tend to be industries that had lower benefits and younger workers. These industries are more likely to have raised benefits in order to reach minimal essential coverage. For industries that were more likely to offer benefits that complied with minimum coverage, the covered population was more stable.



Overall trend:
All industries studied saw an increase in total monthly premiums from 2014 to 2016

▲ 10.2%

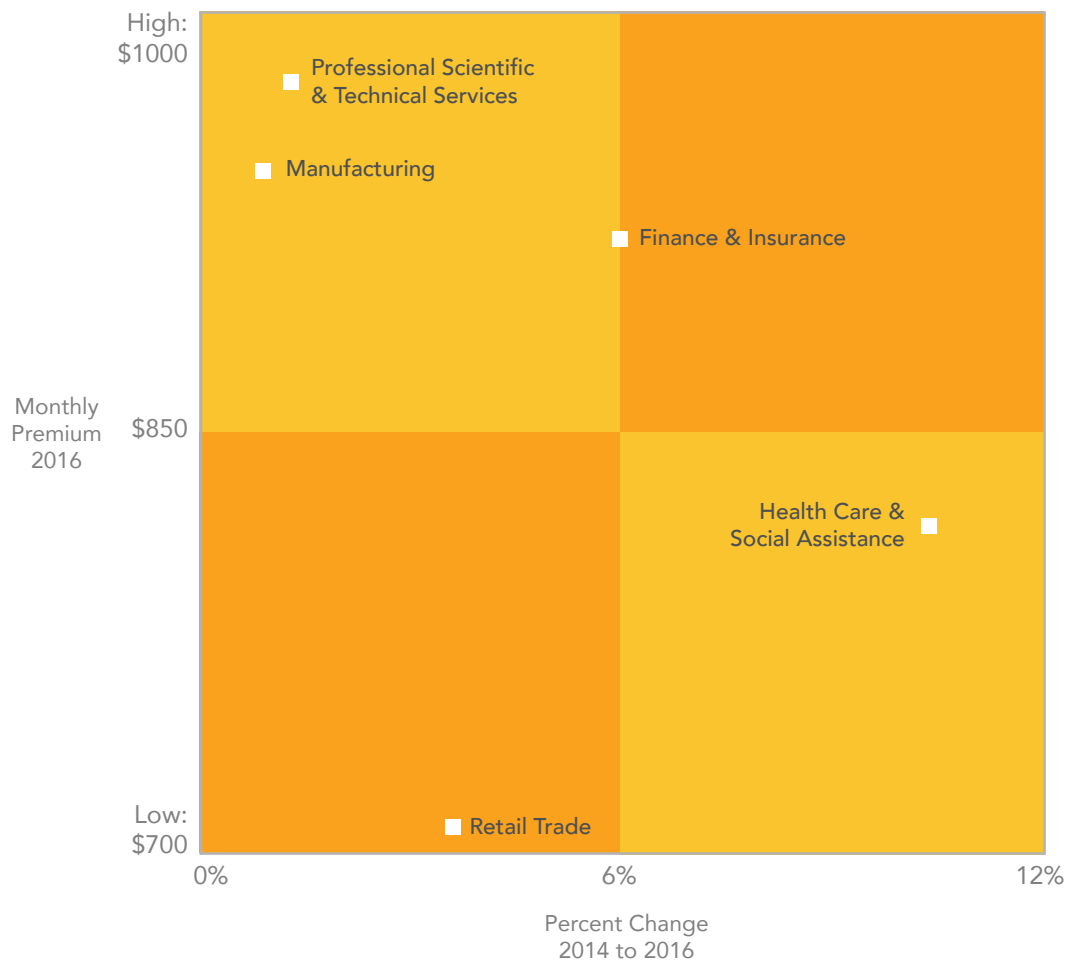
Largest percentage increase in premiums since 2014, in Health Care and Social Assistance

\$966

Largest monthly premium in 2016, in Professional Scientific and Technical Services

\$719

Smallest monthly premium, in Retail Trade



Employer Premium Contribution by Industry (selected industries only)

Employer premium contributions decreased slightly in two of the five industries selected for this report—Professional Scientific and Technical Services and Retail Trade. The three industries that experienced an increase in employer contribution were Finance and Insurance, at 1.6%; Health Care and Social Assistance at 0.9%; and Manufacturing at 0.2%.

Manufacturing had the largest percentage employer contribution at 78%, while Retail Trade experienced the lowest percentage employer contribution at 73%.

Employer contribution can vary among industries for many reasons, including differences in the types of positions within each industry.



Overall trend:
Employer contribution remained steady from 2014 to 2016 with only slight increases or decreases over the study period

▲ 1.6%

The greatest percentage increase in employer contribution was in Finance and Insurance

▼ -0.4%

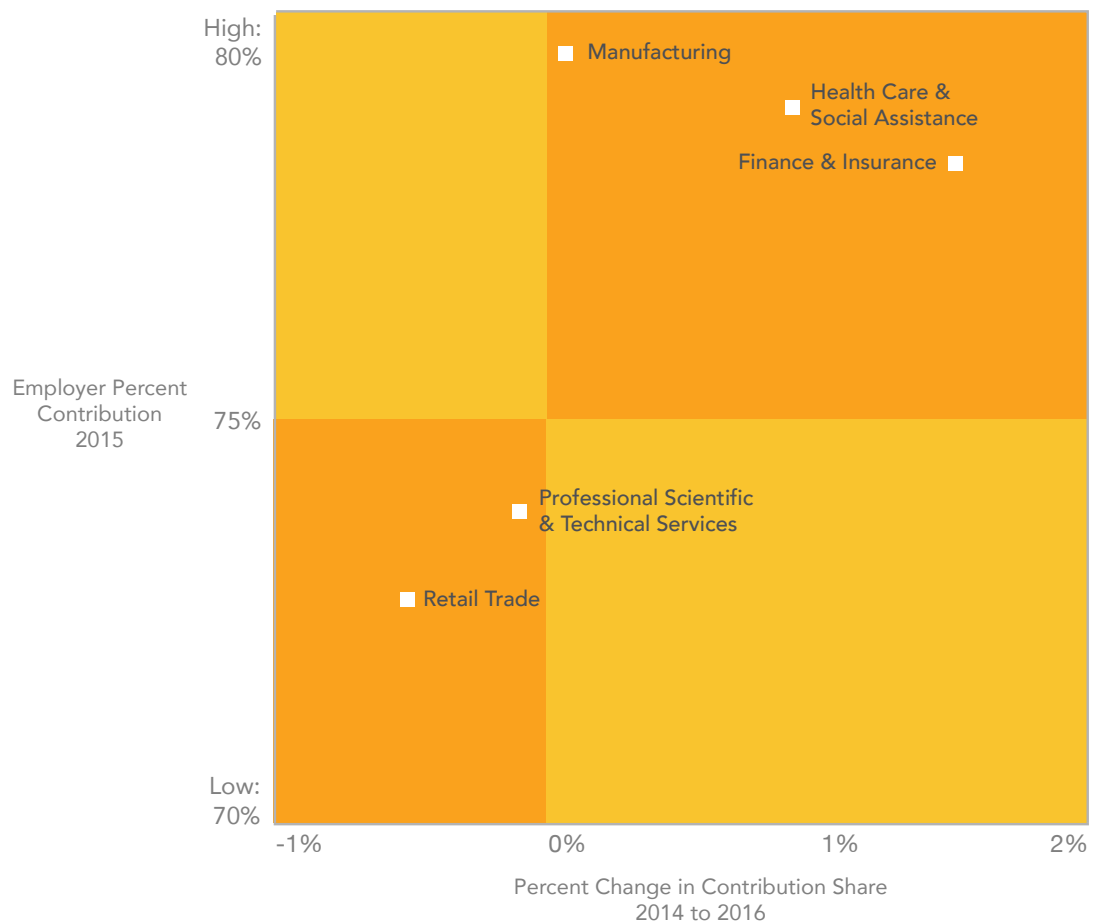
The greatest percentage decrease in employer contribution was in Retail Trade

78%

The largest percentage employer contribution was in Manufacturing

73%

The lowest percentage employer contribution was in Retail Trade



Premium by Income Range

The health plan premium per participating employee increased as income levels increased. In 2016, employees earning an annual salary of \$15,000 to \$20,000 had the lowest monthly premium of \$625 while those earning more than \$120,000 paid \$1,190 per month.

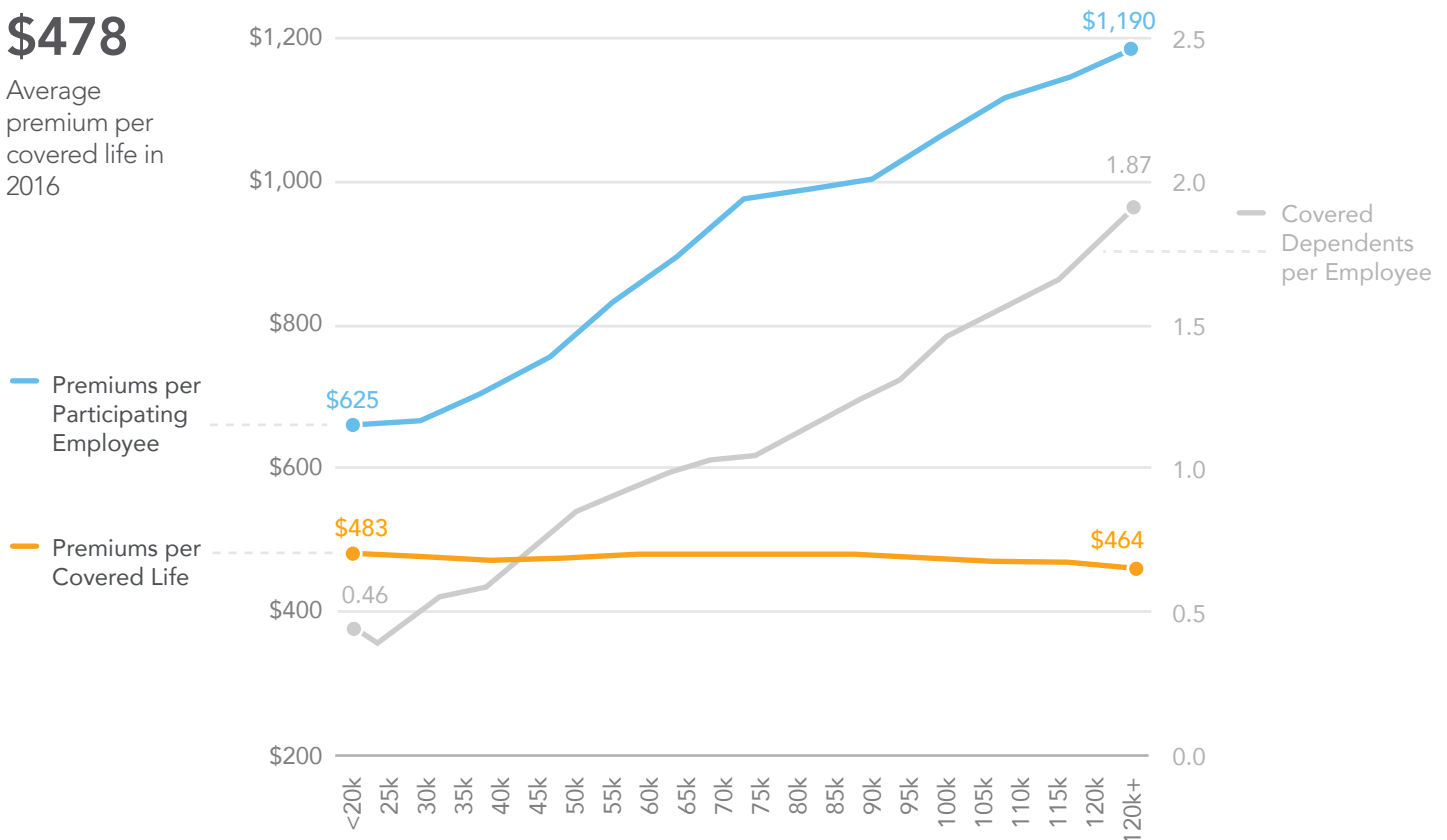
There is a clear relationship between the number of dependents and income. As income goes up, so do the number of covered dependents. Across the board in all income levels, there is a significant decline in the number of dependents, which is consistent with the overall decline in dependent ratio.



Overall trend:
Employees with higher incomes tended to cover more dependents, resulting in higher premiums

\$478

Average premium per covered life in 2016



Employee Premium Contribution as a Percentage of Income

The percentage of income employees paid for health plan premiums generally decreased as income rose, averaging approximately 5.0% in aggregate for 2016. However, with wages beginning to increase, premium as a share of income remained stable from 2014 to 2016. Both compensation and premiums have increased at about the same rate within each income level.

For different income categories, the average premium is, by and large, above the affordability threshold,⁵ and there is not a lot of evidence of change over the period of this study. As expected, premiums across income categories appear to be compliant with the ACA affordability requirement.

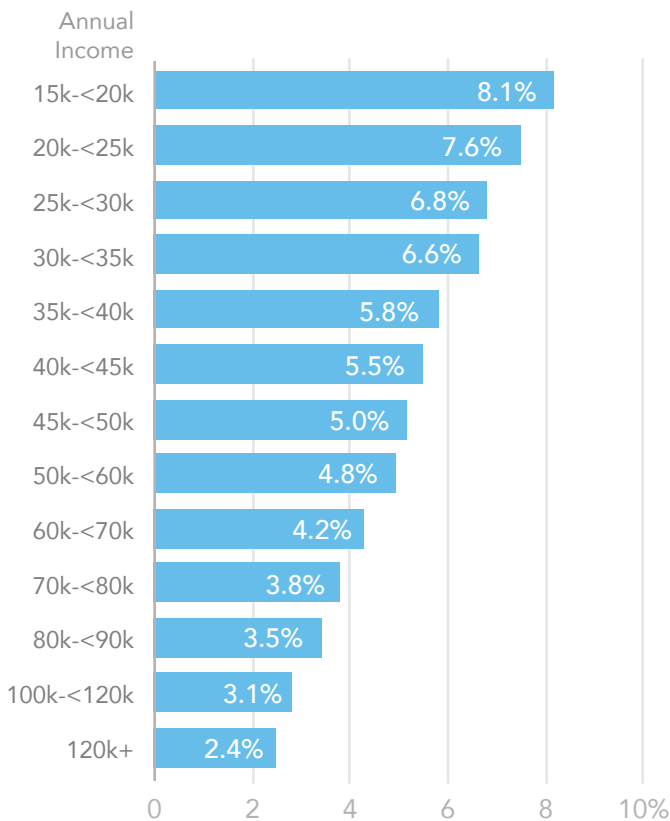


Overall trend:
Cost of premium as a percentage of income remained steady across all income levels between 2014 and 2016

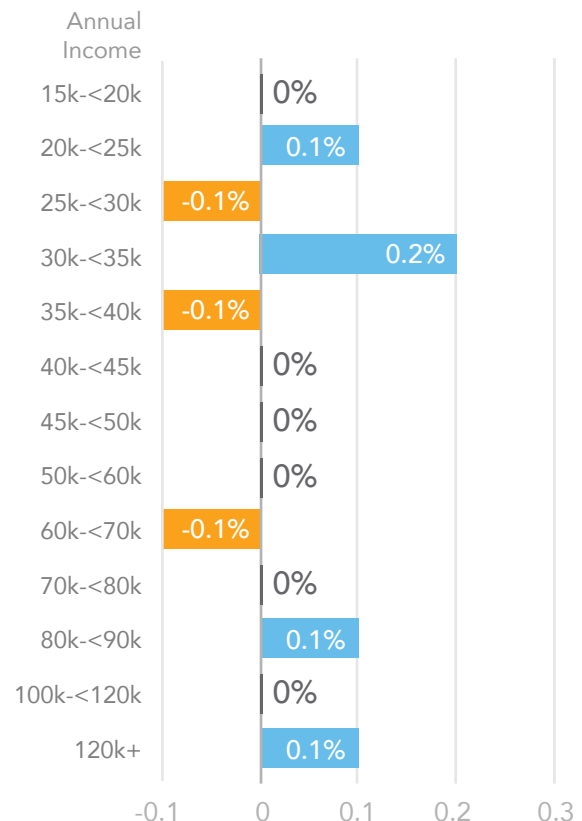
5.0%

Health premium as a percent of income averages approximately 5.0%

Percentage of income, 2016



Percentage change — 2014 to 2016



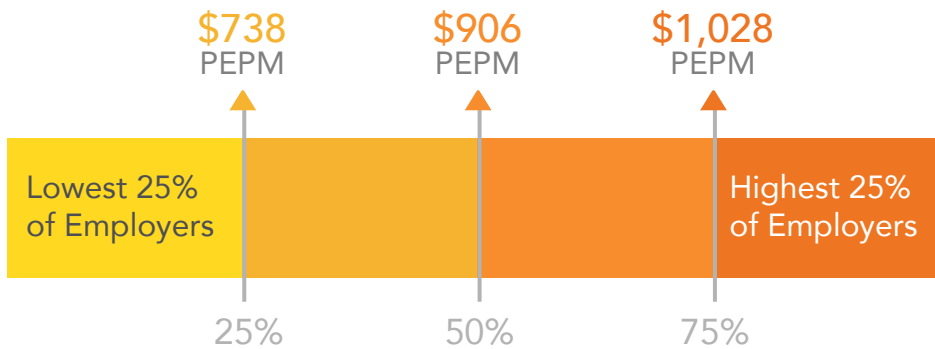
⁵ See IRS notice 2015-87 – https://www.irs.gov/irb/2015-52_IRB/ar11.html

Employer Benchmarks: How Does Your Company Compare?

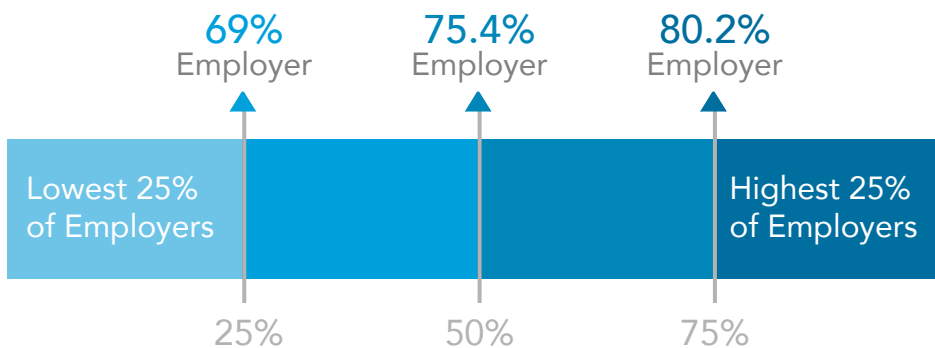
While our study focused on aggregate health premium costs across the entire study population, the actual health premiums per employee vary substantially between individual employers, and some employers contribute a higher percentage of total premium costs than others.

To provide employers with comparative guidance around health premiums, we have broken out the actual mid-point and quartile ranges for premium costs and employer percentage contribution. The mid-point, or median number, identifies the premium levels where 50% of employers paid more and 50% paid less than the specified number, and quartile ranges are provided as well.

Distribution of Employer Average Premium Cost



Distribution of Employer Contributions as a Percentage of Total Premium



Source: ADP Research Institute, N=291.

While these charts show how an organization compares to other employers, it doesn't show why or how some employers achieved different results than others. Demographic composition of employees and variations in industry benefit practices may explain some of these differences. In other cases, however, some organizations may achieve lower health premium costs through redesign of deductibles, formularies and provider networks, or better population health management. Medical costs may also be driven by cost of living and compliance with state insurance laws for specific geographies.

All else being equal, employers with higher medical costs relative to their peers will have a competitive disadvantage. With higher operating costs, there is less discretionary cash to fund employee direct compensation, retirement benefits and workforce training.



Conclusion

The 2016 Annual Health Benefits Report by the ADP Research Institute® analyzes three-year trends among large employers. This three-year snapshot provides insights into employer-sponsored health coverage in a post-Affordable Care Act environment.

This year's study confirms what we observed in 2015. For large employers, we continue to see stability in the way benefits are offered and consumed. There are some key trends noted in this study, but as in last year's report, the large-employer market within this data set appears to be stable overall.

Within the period of this study, the individual shared responsibility provision of the ACA has fully been enacted. With the individual shared responsibility tax penalty being gradually imposed between 2014 and 2016, the substantial changes in health care law have entered the consciousness of American workers. A key trend in this report finds that the tax penalty and the concept of shared responsibility may be factors driving greater participation in employer-sponsored health coverage.

In addition, another trend confirmed in this year's data is that changes in workforce demographics are keeping the overall growth rate in cost per employee lower than in the past. While cost per covered life has increased, employees are more likely to be unmarried and have fewer dependents, and as a result the annual cost per employee has increased only 5.0% from 2014 to 2016. At the same time, there is a trend of younger employees remaining on a parent's health plan until age 26 in lieu of obtaining coverage offered by their own employer. As a result, participation in plans by employees under age 26 continues to decline—a trend we first observed beginning in 2011.

Overall, the data was noteworthy in its lack of dramatic swings. Employers appear to have made appropriate adjustments to contain costs, while complying with ACA requirements.



Looking Ahead to 2017

The Annual Health Benefits Report published by the ADP Research Institute® gives employers a valuable baseline for measuring key trends in the years ahead. It is the intention of this report to provide strategic insights that will enable organizations to create effective benefits strategies. As ADP® conducts this study annually, the ongoing research should reveal important information regarding the changing health care landscape, which may help employers plan for the future.



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