Our story

Offering traditional group benefits sucks. Why? They're too expensive, too complex, and too one-size-fits-all. PeopleKeep is a new way to offer benefits called personalized benefits. Most people believe benefits are the services a company offers, such as a health insurance plan or 401k. With personalized benefits, it’s the opposite. Companies give people tax-free money to spend on the consumer services they find most valuable. It’s as simple as wages. For small businesses that think offering traditional group benefits sucks, PeopleKeep is personalized benefits automation software that makes offering benefits simple, painless, and personal for everyone.

Today more than 3,000 companies use PeopleKeep to hire and keep their people across the United States. PeopleKeep is based in Salt Lake City, Utah.

To learn more about PeopleKeep, visit www.peoplekeep.com.

Ready to see how PeopleKeep can work for your company? Visit www.peoplekeep.com/demo to preview our software or click below to have a Personalized Benefits Advisor contact you.
Definitions

**Personalized health benefit:** Personalized health benefits allow companies to decide how much they want to contribute to employee health costs. That cash is then available tax-free to the employees. They get to use that money toward the services they choose instead of benefits the company sticks them with. Then, they request reimbursement for the expenses they incur with those services and get reimbursed from their allowance through their paycheck. First available in 2017, the qualified small employer health reimbursement arrangement (QSEHRA) quickly became the most popular personalized health benefit.

**Allowance:** The monthly benefit a company offers to employees. Amounts may vary by family status (self only or family). If employees don’t utilize their full allowance during the plan year, unused funds stay with the company.

**Reimbursement:** An untaxed amount the company pays to the employee as reimbursement for approved and substantiated health expenses, including health insurance premiums. The reimbursement amount—not the allowance amount—represents the amount the company spends on an employee’s health benefits.

**Utilization rate:** The percentage of an allowance an employee uses during the plan year. For example, if an employee receives an annual allowance of $4,000 and receives reimbursement for $3,120 in health expenses, the utilization rate for this employee is $3,120 divided by $4,000—78 percent.

**Family status:** An employee can be classified either as self only (single with no dependents) or family (married, married with children, or single with children).
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Introduction
For small businesses in the United States, offering traditional group benefits sucks. Today, less than 50 percent of small businesses offer group health insurance, and less than 15 percent offer a 401(k). Recent reforms have only made it harder, and costs are expected to continue to rise. After wages, benefits are the top influencer for where we work. Yet every year, fewer and fewer small businesses are able to use benefits to hire and keep their people.

It’s no wonder, then, that an increasing number of businesses choose to alleviate stress and cut costs by dropping health benefits altogether. In fact, only 53 percent of businesses with fewer than 50 employees offer any form of health benefits today.¹

Neither small businesses nor their employees are happy with this arrangement, however. Employees regret the loss of coverage, and businesses don’t like cutting benefits because it hurts their ability to hire and keep talented workers.

In this environment, more and more small businesses are turning to personalized health benefits.

¹ 2016 Employer Health Benefits Survey, Kaiser Family Foundation, September 14, 2016, 47.
Under a personalized health benefit, employees choose their own individual insurance policies and pay the associated premiums. The company, meanwhile, sets aside a fixed amount of money (an allowance) to reimburse employees for these costs each month. There are no minimum contribution requirements, and the company can choose to offer different allowance amounts based on an employee's family status.

Because employees must submit proof of their expenses, the company pays only for approved expenses. Any unused money stays with the company at the end of the year.

These plans help small businesses find the right balance between cost savings and value to the employee. This study examines the use of personalized health benefits across the country, including how businesses administer the plan, how employees use it, and the value of personalized health benefits compared to traditional group health insurance.
The 2017 Annual Report is based on a sample of 2,918 small businesses and 15,139 participants using a PeopleKeep personalized health benefit during the 2016 calendar year. This is the second annual report released by PeopleKeep.

Four primary conclusions from the report shed light on how companies are able to save money while providing greater value to employees.

1. **Average allowance amounts follow—and are often larger than—premium costs.**

In 2016, small businesses offered an average monthly allowance amount of $501 per employee, across all states and family sizes. That’s up from $426 in 2015, representing an increase of 17.6 percent. By family status, allowance amounts were $357 for single employees with no dependents and $606 for employees with a family. These allowance amounts rose 23 percent and 20 percent from 2015, respectively.

By comparison, the average individual health insurance premium (for the lowest-cost silver plan) was $283 in 2016, up from $264 in 2015—a relative change of 8.3 percent.²

This suggests that while choosing monthly allowance amounts, small businesses not only respond to changes in the individual market, but they also tend to choose allowance amounts that cover the entire cost of the average premium.

2 Small businesses provide enough money to meet employee needs.

Employees in 2016 requested an average reimbursement of $435 per month—an 87 percent utilization of the average monthly allowance.

This suggests that small businesses grant allowances that more than cover their employees' health insurance costs.

Compared with offering traditional group health insurance coverage, small businesses using a personalized health benefit save between 27 percent and 52 percent, depending on employee family status.

3 Personalized health benefits save small businesses money.

Compared with offering traditional group health insurance coverage, small businesses using a personalized health benefit save between 27 percent and 52 percent, depending on employee family status.

Under a personalized health benefit, small businesses paid an average of $322 to single employees and $517 for employees with a family. This is compared to national averages of $442 a month for self-only employees and $1,072 a month for employees.
with a family under group health insurance.\textsuperscript{3} This gives small businesses the ability to afford and, in many cases, improve their health benefits offering.

\section*{Personalized health benefits provide greater value to the employee.}

Across the country, the average monthly allowance under a personalized health benefit covers 100 percent of the average individual premium cost. Comparatively, group health insurance covers an average of 82 percent of an employee’s premium.\textsuperscript{4}

This allows small businesses to provide more value to their employees while also allowing employees the benefit of choosing their own insurance policy.

\textsuperscript{3} 2016 Employer Health Benefits Survey, Kaiser Family Foundation, September 14, 2016, 90.
Participant profile
Small businesses nationwide are adopting personalized health benefits as a better alternative to traditional group health benefits. Businesses of all sizes and in all regions and industries are exploring this consumer-friendly solution, though the PeopleKeep data identifies clear and interesting trends despite this diversity:

Businesses using personalized health benefits are predominantly small businesses—those with fewer than 50 employees. The average number of eligible employees in each company is 10.

The most prominent industries represented in the study are: not-for-profit organizations (9 percent of businesses), health care (8 percent), technology (7 percent), construction (6 percent), and manufacturing (6 percent).
Participants studied are spread across the country, with 39 percent in the South, 28 percent in the West, 22 percent in the Midwest, and 11 percent in the East. These regional differences loosely follow population distribution in each region.\(^5\)

Under a personalized health benefit, small businesses choose how much money to make available for employee reimbursements each month. Because there are no minimum contribution requirements, a company can choose an allowance amount that fits its budget.

By establishing a monthly allowance, small businesses can control costs while adjusting amounts according to an employee’s family status.

Nationwide, the average employee allowance is $501 per month. By family status, average allowance amounts are $357 for single employees and $606 for employees with a family.

Allowance averages also vary by region, state, company size, and industry.
**Allowance amount by region**

Regionally, average allowance amounts were $499 in the Midwest, $546 in the Northeast, $477 in the South, and $517 in the West. The differences in allowance amount correlate with average premium amount by region. In the Northeast, for example, individual health insurance premiums are more expensive than in the South, so Northeastern businesses offer a greater average allowance than Southern businesses.

*By establishing a monthly allowance, small businesses can control costs while adjusting amounts according to an employee’s family status.*

Overall, small businesses in each region increased their allowance amounts in 2016. Average growth from 2015 was 20 percent in the Midwest, 24 percent in the Northeast, 25 percent in the South, and 27 percent in the West. This follows a trend of increasing premiums, which averaged an 8.3 percent change nationwide from 2015 to 2016.

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Allowance amount by state

Average allowance amounts vary significantly by state. In 2016, states offering the highest average monthly allowances were Hawaii ($833), Rhode Island ($797), Washington state ($782), New Jersey ($745), and Alaska ($657).

In some states, allowance amount correlates with premium costs. In Alaska, for example, consumers pay one of the highest average premiums in the country ($684 for a self-only policy\(^6\)). Therefore, Alaskan participants in a personalized health benefit also receive one of the highest average allowances ($657).

In other states, other factors may influence average allowance amount. One

strategy small businesses may use is to set allowance amounts very high to ensure they cover 100 percent of employees’ qualified health costs. The $833 allowance amount in Hawaii, for example, more than covers the state’s average individual premium of $260.9

**Average allowance by business size**

Average monthly allowances correlate strongly with business size. In general, the fewer the employees, the greater the allowance. Allowance amounts by business size in 2016 were: $748 for businesses with 1 employee, $602 for businesses with 2–5 employees, $513 for businesses with 6–10 employees, $472 for businesses with 11–25 employees, and $434 for businesses with 26–50 employees.

Smaller businesses may choose to offer higher allowance amounts due to having greater budget flexibility for health insurance, or because hiring and keeping employees—a key reason businesses offer a benefits plan—is much more crucial for smaller organizations.

**Average allowance by industry**

Average allowance amounts also vary among industries. In 2016, industries offering the highest monthly allowance amounts were religious

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institutions ($833), biotechnology ($715), consulting ($688), government ($636), and communications ($609).

In many cases, allowance amounts within industries are influenced by other factors, such as business size or geographic location.

**Allowance by industry**

Religious institutions, for example, which offer the highest average monthly allowance, also tend to employ the fewest people. Religious institutions in this data set have an average of three employees enrolled. Because businesses with fewer employees tend to offer a higher average allowance amount, religious institutions tend to offer a higher monthly allowance than businesses in other industries.
Utilization and cost efficiency
Once established, the allowance amount represents the maximum annual expense to the company. However, the actual cost to the business is based on participants’ utilization of the allowance.

For example, if an employee has an allowance of $400 per month ($4,800 per year) and their approved expenses are $300 per month ($3,600 per year), they’ll be reimbursed $300 per month ($3,600 per year) for a utilization rate of 75 percent. Conversely, if the same employee has an allowance of $400 per month ($4,800 per year) and their approved expenses are $450 per month ($5,400 per year), they’ll be reimbursed only up to their maximum allowance amount of $400 per month ($4,800 per year). Under this scenario, the employee is utilizing 100 percent of the allowance.

In the first example, the unused $100 per month remains with the company at the end of the year, reducing the overall cost for providing health benefits to the employee. In the second example, the employee uses their entire allowance, and the remaining $50 per month is their own responsibility.

Nationally, the average reimbursement amount among all states and family sizes is $435 per month, per employee. That represents a utilization rate of 87 percent of the $501 average allowance.

By comparison, employees in 2015 requested an average of $380 in reimbursement per month (an 89 percent utilization rate of the $426 average allowance). That’s a decrease in utilization of 2 percent.

This minor dip reflects the fact that company-funded allowances increased at a slightly greater rate than did employee reimbursement requests: while reimbursement amounts increased by 12 percent annually, the average allowance increased by 18 percent.
As with allowance amounts, average utilization rates vary by family status, state, business size, and industry.

By family status, single employees with no dependents use 90 percent of their allowance and employees with a family use 85 percent of their allowance. This slight difference may be because employees with a family could have other insurance through their spouse, which could cover costs associated with the employee’s spouse or children.

**Average utilization rate by state**

Average allowance amounts and the general cost of health needs play a large role in differing utilization rates among states. Hawaii, for example, boasts a comparatively high utilization rate, as indicated on the map.

**Utilization by state**

- MA: 82%
- DE: 100%
- DC: 76%
- NH: 68%
- MD: 90%
- RI: 97%
- CT: 92%
- VT: 86%
- NJ: 73%
high average allowance amount under personalized health benefits ($833) compared to a relatively low average individual premium ($260). Therefore, the state has a relatively low utilization rate of 54 percent.

Similarly, Wyoming’s high utilization rate (100 percent) is likely dictated by the state’s $454 average premium—the third highest in the nation.

Overall, there are 6 states in which employees are, on average, using 100 percent of their allowance: Delaware, Louisiana, Montana, New Mexico, West Virginia, and Wyoming.

Average utilization rate by business size

Like state utilization rates, differing allowance amounts seem to influence differences in utilization rate by business size. For example, employees of businesses with 26–50 employees use the greatest amount of their available allowance (96 percent); they also receive lower allowance amounts ($472) than employees of small businesses.

All utilization rates are below 100 percent, however, suggesting that, on average, businesses of all sizes offer enough money for employees to sufficiently cover their health expenses.


Utilization rate by industry

Again, utilization rates among industries correlate loosely with average allowance amounts. Religious institutions, for example, receive more per month than any other industry ($833), while their utilization rate is among the lowest (66 percent).
There are some exceptions, however. Employees in the health industry receive a comparatively high allowance ($636) and use an average of 95 percent of their allowance.

There are five industries in which employees are, on average, using 100 percent of their allowance: agriculture, dental, energy, legal, recreation, and vision.
Personalized benefits vs. group health insurance
Businesses using a personalized health benefit in 2016 realized average cost savings of 27 percent and 52 percent for self-only and family status employees, respectively, compared with average group health insurance costs. This cost comparison is based on the Kaiser/HRET 2016 Employer Benefits Survey, which concluded that businesses pay a national average of $442 a month for self-only employees and $1,072 a month for employees with a family under group health insurance.\textsuperscript{12} This is compared with average reimbursements of $322 for single employees and $517 for employees with a family under a personalized health benefit.

The comparative value of personalized health benefits is consistent across the country, but varies slightly by region.

For employees with a self-only status, average reimbursements in 2016 were $315 in the Midwest, $341 in the Northeast, $315 in the South, and $326 in the West. Under group health insurance, the average cost to the company for a self-only employee was $425 in the Midwest, $440 in the Northeast, $431 in the South, and $465 in the West.\textsuperscript{13} That means by region, cost savings to the business were 26 percent in the Midwest, 23 percent in the Northeast, 27 percent in the South, and 30 percent in the West.

\textsuperscript{12} 2016 Employer Health Benefits Survey, Kaiser Family Foundation, September 14, 2016, 90.
\textsuperscript{13} 2016 Employer Health Benefits Survey, Kaiser Family Foundation, September 14, 2016, 28, 84, and 100.
Small businesses saved even more with personalized health benefits for employees with a family. Average reimbursements in 2016 for this group were $518 in the Midwest, $605 in the Northeast, $489 in the South, and $523 in the West. Meanwhile, businesses’ average contributions under group health insurance were $1,105 in the Midwest, $1,163 in the

### Health reimbursement by family status

<table>
<thead>
<tr>
<th>Region</th>
<th>Reimbursement plan (self only)</th>
<th>Group insurance (self only)</th>
<th>Reimbursement plan (family)</th>
<th>Group insurance (family)</th>
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<tbody>
<tr>
<td>Midwest</td>
<td>$315</td>
<td>$518</td>
<td>$425</td>
<td>$1,105</td>
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<tr>
<td>Northeast</td>
<td>$341</td>
<td>$605</td>
<td>$440</td>
<td>$1,163</td>
</tr>
<tr>
<td>South</td>
<td>$315</td>
<td>$489</td>
<td>$431</td>
<td>$987</td>
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<tr>
<td>West</td>
<td>$326</td>
<td>$523</td>
<td>$463</td>
<td>$1,043</td>
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Northeast, $987 in the South, and $1,043 in the West.\textsuperscript{14} That takes businesses’ cost savings to 53 percent in the Midwest, 48 percent in the Northeast, 50 percent in the South, and 50 in the West.

Cost savings vary even more widely by industry.\textsuperscript{15} On employees with self-only coverage, small businesses in agriculture saved an average 28 percent; in banking and finance, 17 percent; in communications, 11 percent; in government, 49 percent; in health care, 34 percent; in manufacturing, 26 percent; in retail, 17 percent; in transportation, 22 percent; and in utilities, 39 percent.

Businesses in these industries saved even more on employees with a family. On these individuals, small businesses in agriculture saved an average of 27 percent; in banking and finance, 47 percent; in communications, 45 percent; in government, 62 percent; in health care, 57 percent; in manufacturing, 54 percent; in retail, 42 percent; in transportation, 59 percent; and in utilities, 70 percent.

\textsuperscript{14} 2016 Employer Health Benefits Survey, Kaiser Family Foundation, September 14, 2016, 28, 84, and 100.\textsuperscript{15} These savings are based on estimates of employer contribution by industry provided by Kaiser/HRET. Not all industry information was available in this study.
At the same time, personalized benefits provide employees with just as much value as group health insurance in terms of premium coverage—in fact, they provide more.

Regionally, average premium amounts for individual coverage were $261 in the Midwest, $307 in the Northeast, $284 in the South, and $281 in the West.\textsuperscript{16} Meanwhile, increases in 2016 Marketplace Nongroup Premiums, the Robert Wood Johnson Foundation and the Urban Institute, May 2016, 3-4.
average allowance amounts for employees with self-only coverage were $499 in the Midwest, $546 in the Northeast, $477 in the South, and $517 in the West. In each region, small businesses provide enough to cover 100 percent of the average premium.

Under group health insurance, however, businesses cover an average of just 79 percent in the Midwest, 80 percent in the Northeast, 82 percent in the South, and 86 percent in the West.\(^\text{17}\)

### Percentage of premium covered by company contribution, reimbursement plan vs. group insurance

All told, personalized health benefits cover more of employee health expenses at a lower overall cost to the company.

\(^{17}\) *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 28 and 100.
Looking ahead to the QSEHRA
As of early 2017, the most popular form of personalized health benefit for businesses with fewer than 50 employees was the qualified small employer HRA (QSEHRA). This new benefit functions much like a standard personalized health benefit, though it comes with a few updates.

First, there is an annual cap for employee allowance amounts of $4,950 for single employees ($412.50 per month) and $10,000 for employees with a family ($833 per month) in 2017.18

Second, the QSEHRA can reimburse individual health insurance and medical expenses for employees and their families. Employees can submit reimbursement for any expense defined in IRS Publication 502.19

The QSEHRA can reimburse individual health insurance and medical expenses for employees and their families.

18 21st Century Cures Act, Title 18.
19 Medical and Dental Expenses, Internal Revenue Service, November 11, 2016.
Conclusion
Small businesses all over the country are adopting and implementing personalized health benefits. Instead of paying too much, spending too much time and effort, and wasting taxes, companies who use personalized health benefits offer a tangible benefit that helps hire and keep employees. It's much simpler, and it's all tax-free.

As group health insurance costs continue to increase, solutions like personalized health benefits are expected to grow and become the dominant benefits approach of small businesses in the future.
Methodology
The data in this report was gathered from the current PeopleKeep customer base. The report analyzed a statistically valid set of active company accounts during the 2016 calendar year.

Averages for states and industries consider different sample sizes and have been weighted accordingly. Where applicable, the 2017 QSEHRA cap of $833 per month was placed on these averages to represent available allowance amounts under the QSEHRA.

Approximately 15,000 participant records contain industry information.

Industry premium information was taken from the Robert Wood Johnson Foundation and Urban Institute’s May 2016 report, *Increases in 2016 Marketplace Nongroup Premium*. Averages were based on the lowest-cost silver policy for a 40-year-old male nonsmoker.

Individual states have been categorized by region according to Census.gov practices.
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