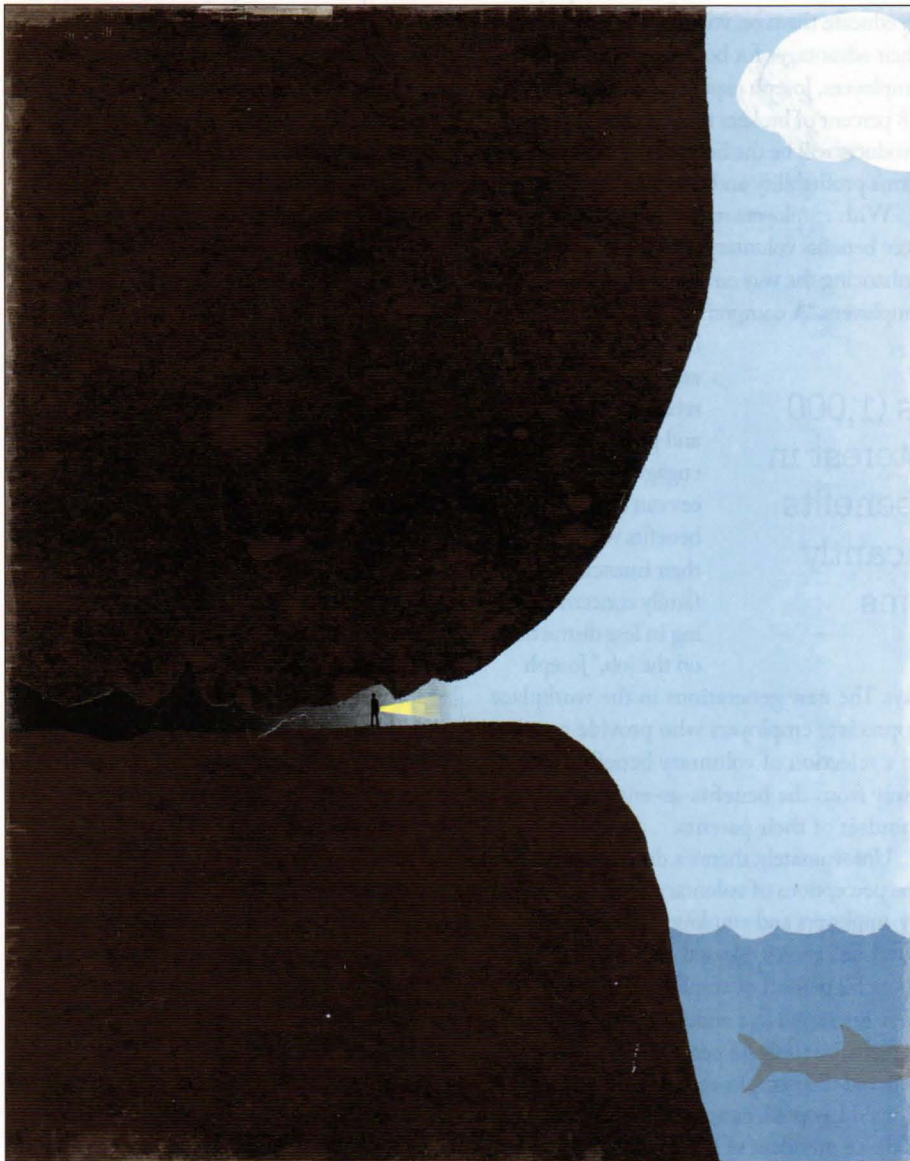


Light near the end?



THERE'S BEEN TALK THAT VOLUNTARY BENEFITS ARE THE UP-AND-COMING PRODUCT ON THE MARKET, BUT SURVEYS OF EMPLOYERS DON'T SEEM TO REFLECT IT. OVERALL, VOLUNTARY SALES ARE DOWN FROM A COUPLE YEARS AGO. CONFIDENCE HAS DIPPED. BUT SOME BROKERS SAY IT'S PREPARING ITSELF FOR FUTURE GROWTH. HERE'S HOW TO READ BETWEEN THE NUMBERS OF VOLUNTARY SURVEYS.

By Kathryn Mayer

*Illustration by David Senior/
agoodson.com*

Voluntary is the hottest thing in the insurance market right now. Problem is a lot of people don't know it yet. ¶ But they should, experts in the benefits industry say. The fact is times are tougher than ever; the economy's taking its toll on employers and employees. Americans are skeptical about their 401(k)s and investing less than they used to, they don't have faith in Social Security or Medicare being available to them as they grow older. And the economy and health care reform are threatening employer-sponsored care. In fact, the most recent study coming from Towers Watson finds nearly one of every 10 mid-sized or big employers expects to stop offering health coverage to workers once federal insurance exchanges begin in 2014.



Voluntary is the new fallback, it's the new supplement (or even replacement) to important benefits plans, so the experts say. Or, at least it can be.

"Workers will begin to look for permanent type solutions," says John Penko, senior vice president of sales for Benefit Solutions, a division of American General Life Companies. "[Employees] are more prone to getting those voluntary services than they would have been maybe two, three years ago."

HALF of large firms (1,000 or more employees) show interest in transitioning their existing benefits to voluntary, which is significantly higher than smaller-sized firms.

Source: LIMRA

Traditional and non-traditional voluntary benefits are seen as "valuable new alternatives enabling employees to meet life needs no longer met by core employee benefits plans," explains Donna Joseph, CEO of Rhodes-Joseph & Tobiasson Advisors, an independent employee benefits advisory firm in Stamford, Conn.

"Today's growing menu of voluntary benefits bridges important coverage gaps in core health and wellness, retirement security and financial protection benefits," Joseph says. "These gaps widened as the economy stalled and further reductions in employer support for core benefits are likely in the face of predicted health care cost increases."

But do all employees, and employers, think they need them? Not exactly, as surveys reveal.

Aflac and MetLife reported on voluntary benefits trends this year, finding the "dramatic

need" to reach out to many more employers to educate them on voluntary benefits and their advantages for both employers and their employees, Joseph explains. MetLife shows 58 percent of brokers think selling voluntary products will be the best way to increase their firm's profitability and/or sustainability.

With employers reducing support for core benefits voluntary benefits can be key to enhancing the way employees perceive their employers. "A comprehensive offering of voluntary benefits helps attract new employees, retain critical talent and promote employee engagement. Employees can choose the benefits which address their financial and family concerns, resulting in less distraction on the job," Joseph

says. The new generations in the workplace appreciate employers who provide access to a selection of voluntary benefits, moving away from the benefits-as-entitlement mindset of their parents.

Unfortunately, there's a disconnect between the perceptions of voluntary benefits held by employers and employees. According to MetLife's survey released earlier in the year, about 52 percent of employees said they were interested in a wider array of voluntary benefits, but only 43 percent of employers believed their employees felt that way, says Ronald Leopold, national medical director and vice president of U.S. business at MetLife.

And perhaps more importantly, numbers aren't reflecting growth in the market, despite what analysts say about its importance. At best, the surveys show stability in the voluntary market.

As reported in our July issue, voluntary sales for the year were down, the first time there's been a decrease from the prior year's results since Eastbridge Consulting Group began tracking voluntary sales. New voluntary sales totaled an estimated \$5.243 billion, down from \$5.397 billion in 2009. Yet again, unemployment and the economy are to blame for those numbers, Eastbridge says.

"Tracking voluntary has been pretty much on the flat side," says Ron Neyer, lead researcher at LIMRA. "They aren't surging but at the same time they've been able to tread water." And treading water in a down economy is still a feat, he says.

Plus, you need to keep the decrease in perspective, Neyer urges. Since 2009 was the biggest year yet for voluntary benefits, everything after isn't going to look as spectacular. "If it's flat compared to 2009 that number can still look pretty good compared to 2006," he says.

Just thirty percent of U.S. employers (10 employees or more) say they are considering adding a new voluntary option within the next two years, according to LIMRA's report, Voluntary Worksite Benefits: Penetration and Market Potential. The survey interviewed about 1,200 employers across the country. Still, more than half (57 percent) of U.S. employers already offer voluntary benefits, and the rate rises quickly as employer size increases.

MIXED RESULTS

Plus, things look a little murky at first glance of Eastbridge's Voluntary Industry Confidence Index survey. Overall confidence index dipped to 98.4 percent after reaching a high of 102.1 at the end of 2010, the group found. But it may not mean confidence is dipping too much.

"The results of the survey are interesting,"

11 TIPS

- 6) **Stay in touch.** This one's simple: Employers are looking for proactive support. Be in regular contact with the employer and become a valuable source of information and support.
- 7) **Report back.** Employers want to know whether their employees are having a positive experience with voluntary benefits. Provide regular and frequent feedback on employee satisfaction, employee use of the plan and its resources, and patterns of claims outcomes.
- 8) **Personal best.** You're already an expert on voluntary benefits. Why not expand your overall personal employee benefits knowledge and experience to better understand and serve your employer clients?

says Gil Lowerre, Eastbridge president. "In the survey, more participants reported that 2011 sales had thus far exceeded their expectations, making the negative predictions difficult to understand."

Almost 40 percent of participants said year-to-date sales exceeded expectations, 39 percent said they were in line with expectations and only 22 percent said they were below expectations.

Yet despite the optimistic report, all three components of the index declined compared to the year-end 2010 results. The index is calculated using three key expectation measures about the voluntary industry: sales growth, profitability of the industry and employee enthusiasm about voluntary products.

TYPES OF BENEFITS

The year's studies confirmed life and cancer insurance remain the most commonly offered voluntary benefits, with more than 300,000 businesses offering each product type to their workforce. In fact, total individual life insurance new annualized premium increased four percent in the first half of 2011, another study released in late August revealed.

Eastbridge's annual survey of voluntary benefits also reflects that significance, finding voluntary life was the only voluntary benefit to experience an increase in sales. Voluntary life sales accounted for 25 percent of all voluntary sales, giving life insurance the top market share for the second year in a row. New life sales were \$1.331 billion for the year, up just slightly (1.5 percent) over 2009. Term life generated the most sales premium in 2010 with just under \$930 million, down one percent from 2009. Universal life and whole life sales had one of the few increases with \$400 million in new sales, up almost eight percent over 2009.

1/3

of all employers are considering offering new voluntary benefits to replace existing employer-paid and contributory benefits – where the employer pays some of all of the costs.

Source: LIMRA



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LIMRA reports voluntary long-term and short-term disability insurance products are also very popular, with more than 20 percent of companies offering these benefits to their employees. Still, sales for both of them were down again this year for the second year in a row, Eastbridge found. However, total disability sales were \$1.046 billion despite the three percent decrease. Short-term disability accounted for 74 percent of all voluntary disability sales.

On the employer radar, vision (20 percent) and dental (19 percent) remain the most popular voluntary benefits, according to LIMRA. Interest in most products has risen, at least somewhat, from 2006 levels, and is greater at businesses that are not current worksite marketing clients.

CHANGE IS GONNA COME

Still, outlook on the market is best for future growth. If LIMRA's numbers are correct, with almost a third of employers considering offering new voluntary benefits to replace existing employer-paid and contributory benefits (where the employer pays some of all of the costs), there could be a significant change in numbers. One-third of employers adding those benefits would potentially affect between 19 million and 45 million employees over the next two years. Half of large firms (1,000 or more employees) show interest in transitioning their existing benefits to voluntary, which is significantly higher than smaller-sized firms.

That's significant, too, since an earlier LIMRA study released in May reports growth is brighter with mid-sized employers (firms with 100-999 employees). "Marketing to larger firms is challenging due to saturation and small firms often are less focused on benefits and offer a smaller pool of warm pros-

pects. In contrast, mid-size firms, looking to be more competitive, are interested in finding ways to expand their benefit package without adding cost to their business," Neyer says.

The two benefits that are most likely to be shifted to voluntary arrangement, LIMRA reports, are medical and prescription drug

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Source: LIMRA

plans. The compounding health care premium increases over the last several years have forced many firms to re-examine their benefit offerings and shift costs to their employees. Of those employers considering adding a voluntary major medical or prescription benefit, the study revealed three of four employers may be adding the voluntary benefit to replace their existing medical or prescription benefits. Employers appear considerably less likely to similarly replace other benefits.

"The workplace has evolved from a niche distribution channel into a preferred venue for employees to acquire insurance products," Neyer says. "This is a great opportunity for carriers to take advantage of employers' desire to offer a robust benefit package to their em-

ployees while still keeping costs in check."

EMPLOYER ADVANTAGE

In the past, employers offered voluntary worksite benefits to boost morale, attract strong candidates and retain employees. Now due to growing economic pressures, nearly 80 percent of employers say they are interested in using voluntary worksite benefits because these plans carry no direct costs to the business. And employers' costs are not the only motivating factor for offering voluntary benefits. Two thirds of employers said they offer voluntary benefits because it is more affordable for their employees than if they purchased the coverage on their own, and to provide them with a wider array of benefits.

LIMRA's study also confirmed that an employer's decision to offer a particular benefit is largely dependent on the amount of value they anticipate their employees deriving from the plan. Few of these employers appreciate how important insurance protection can be to younger employees. Only two in three employers believe a major medical plan is less important to employees under age 40 and less than a quarter believes that life insurance is truly valuable to their younger workers. However, this assumption may be unrealistic.

According to LIMRA research, younger workers are more engaged in learning about various benefits than in the past and most employees—both young and old—value benefits like medical insurance and dental insurance. This disconnect will likely challenge worksite marketers to get plan sponsors with a younger work force to expand their benefit offerings.

The study found that overall voluntary benefits penetration improved across the board during the recession. LIMRA also examined regional trends, and found that the recent recession may have been the great

11 TIPS

9) **Hear me now?** The channels for communicating benefits are rapidly evolving and what you knew last year may already be out of date. Recognize that different generations of employees may look to different media. Know a client's preferred communication style.

10) **A time for all seasons.** Some employers schedule voluntary benefits introductions as part of annual enrollment while others prefer off-cycle implementations. Be flexible.

11) **One size does not fit all** Offer a flexible selection of alternative enrollment methods, not only to newly eligible employees, but also to current employees who may wish to begin or increase their participation.

level. Traditionally, voluntary benefits were more likely to be offered in the South, with Northeast employers considered to be the toughest sells. But differences between regions have diminished compared with previous studies. Greater employer awareness of voluntary worksite programs and strong marketing efforts played important roles in building employer participation in the previously less-welcoming areas.

NUMBERS LOOKING UP

The numbers don't necessarily suggest an exciting short-term outlook for voluntary benefits. But longer-term, there's hope. Just consider: Participation rates of voluntary products have held relatively steady over the past four years. Employers who currently sponsor voluntary benefits say they are very satisfied with their programs. And half of employers not offering (but aware of) voluntary benefits are receptive to purchasing voluntary products.

"A great opportunity has emerged with employers who don't currently offer voluntary benefits. They now display greater awareness of the benefits and more likelihood of purchasing a worksite product than in the past," Neyer says.


"Unfortunately, our research shows that the industry is targeting these employers less frequently. Companies should consider adjustments to their strategies, product features, producer incentives, etc. to better reach and educate these employers, and capitalize on this warming market."

So although some brokers see voluntary as their saving grace in the biz, many aren't following through. Even a Sun Life Financial survey of 3,000 employed adults released in June found workers are virtually clueless about voluntary benefits. Except for medical insurance, workers spend no time reviewing their benefits options. That's where brokers can—and should—step in.

"If you place focus on the American worker, you'll differentiate yourself by focusing on the employee," Penko says. "That's the way the industry is moving these days." ■

19 to 45 million

employees potentially would be affected over the next two years by offering new voluntary benefits to replace existing employer-paid and contributory benefits.



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