

## **Exclusive Study: Employers Turn to Voluntary Benefits, Cost-Sensitive Products**

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Written by Christina Pellett, Managing Editor

*Yet many companies still look toward solutions that can keep their clients secure and healthy*

The employee benefits market is among the most unpredictable segments of the insurance industry, with new products and challenges complicating the landscape at every turn. But in the past year, the market has seen tremendous changes. Many agents now have fewer (due to company closings) or smaller (due to layoffs) accounts. They may also be facing higher demand for products that can better meet the unique needs of today's employers.

**According to Erich Sternberg, president of AlwaysCare Benefits Inc., a third-party administrator of voluntary benefit plans, the employee benefits market has become more competitive in recent years with more carriers offering products. There's also been an increased effort to deliver the best value for an employer's dollar.**

**Then, there's always the economy.**

**"With the downturn, many businesses are closing, resulting in fewer clients and fewer opportunities for new businesses," Sternberg said. "Even the best insurance agents are challenged to keep up with that market and maintain business in a difficult economic timeframe."**

In addition, many employers may simply be afraid to make any moves regarding their benefits packages, especially with health care and employee benefits reform proposals being considered by the Obama administration.

"I just got off the phone with a potential client who's holding off because he doesn't know what's going on," said Todd Miller, president of Worth Benefits Consultants Inc. "I don't blame him. Every time he gets on MSN.com, there's something different."

**Yet Miller and Sternberg, along with several other industry experts who are thriving in this industry, agree that the turmoil is not necessarily a bad thing.**

**"I'm having fun with it," said Miller. "I think if you continue to learn, we've got a great job and a great industry, and we're not insurance companies. We're on the side of our clients, so we get to learn along with them."**

And part of learning is knowing what type of market your colleagues are encountering — along with how they're coping with today's challenges. To help you do this, Agent Media, publisher of the Agent's Sales Journal, surveyed agents nationwide on their experience in the employee benefits marketplace. Here, you'll find the results of the 2009 Employee Benefits Study.

### **What are you selling?**

When it comes to the types of employee benefits offered by agents today, voluntary products appear to be slightly leading the pack. These types of benefits are typically paid for by employees via paycheck deduction (as opposed to true group products, which are 100 percent employer paid).

**“We’re not necessarily seeing a change in the types of benefits offered, but in voluntary benefits, we’re seeing a very competitive, active market right now,” Sternberg said.**

Ninety-six percent of agents derive some portion of their total commission income from voluntary products, while fewer agents — 86 percent — sell group products.

When looking at the types of products offered in the workplace, 78 percent of agents said they sell life insurance, with disability insurance in second place at 69 percent. Other products sold include dental (65 percent), traditional health insurance (60 percent), and long term care insurance (53 percent). (Chart 1)

Forty-eight percent of agents also say they offer retirement savings plans — up from 40 percent last year and only 25 percent in 2007.

T. J. Gibb, national practice leader for Humana’s specialty benefits division said that many agents (and, in turn, clients) are using these solutions to meet such challenges as rate increases.

“Using voluntary benefits to complement medical plans has been a big deal,” Gibb said.

### **How are your sales?**

When asked about their employee benefits sales volume in the past 12 months, only 11 percent of agents said they’d sold more than usual, with 46 percent indicating they’d sold the same amount as usual, and 43 percent noting a decrease in their sales. Since 2007, the number of agents selling more benefits plans year-over-year has gone steadily down from 27 percent — perhaps a reflection of the economic challenges faced by businesses and agents across the board. (Chart 2)

“The market is really getting difficult in the sense that the economy and cost of health care today is out of control,” said one independent agent who has spent the past 15 years in the employee benefits marketplace. “There is a lot of shopping for more affordable health plans, and they are hard to find unless you go to a [high-deductible health plan], and the rates for those plans are high.”

Another agent, however, who has been involved in the benefits marketplace for three years, has seen an increase in group business.

“I have sold more group plans due to increased consumer awareness and the ability to customize benefit plans for small businesses that they didn’t realize exist,” the agent said.

When looking ahead, agents are also less optimistic about their employee benefits activity than they have been in the past. Thirty-nine percent said they expect to sell more plans than usual in the next 12 months (compared with 60 percent who said the same in 2008), while 20 percent said they expect to sell fewer employee benefits plans (up from 7 percent in 2008). The remainder expect their business in this market to remain steady. (Chart 3)

It’s no secret that many agents must look at changing the way they do business. Miller said that, even in his own practice, he’s started offering voluntary LTCI and disability, in addition to his primary focus of health insurance and consumer-driven health plans. Part of this move, he said, is due to the fact that many agents — and their clients — aren’t sure what will happen to health care in the near future.

**According to Sternberg, however, much of the market turmoil is simply an opportunity disguised as a challenge.**

**“The first thing [agents need to do is] make sure they know more about their products and more about what they’re doing than anyone else,” he said. “Without a question, even**

**if they have a long-term client, that client is being approached by other agents. Agents need to be able to control all aspects of product distribution that they can.”**

### **What challenges are you facing?**

While agents are largely facing the same challenges in the employee benefits market as they have in the past, the reasons behind those challenges — and hence the solutions for overcoming them — may be slightly different today. (Chart 4)

When addressing the No. 1 challenge year-over-year — getting through to the decision-makers (53 percent) — it can be helpful to understand why decision-makers may be hesitant to discuss benefits.

Overcoming this challenge may simply be a matter of presenting a well-thought-out strategy, said Gibb, and not simply focusing on the need to save money in the short term.

“You need to say, ‘Here’s how I can save you money in the first year, and here’s what we’ll do over the next three to five years,’” said Gibb. “Make sure all the benefits are working together and that there are no overlaps to avoid over-insurance, but make sure you have a plan that will not only help employees but also help employers manage cost and take care of people over a number of years.”

The second most common challenge agents face — clients perceive it as too expensive — was named by 43 percent of producers this year. That number has gone up steadily since 2007, when 34 percent of agents named it as a primary challenge in the employee benefits marketplace.

Gibb said one way to overcome this challenge is by showing your clients how your plan will address their employees’ needs, depending on their family and personal situation and their current benefits plans. In many cases, adding employee-paid voluntary plans on top of existing employer-paid group benefits shouldn’t cost the employer anything additional at all. For example, said Gibb, adding a voluntary disability plan can help cushion employees against potentially devastating income loss.

“You need to think through what’s important for employees, and if the employer has a full-blown disability plan but wants to offer an additional disability plan to layer on top of that, you can really target the right amount of coverage,” he said. “You don’t want them to overbuy insurance, but if there are any gaps with the employer-paid coverage, that can be addressed.”

Prospecting can also be a difficult challenge for employee benefits producers, with 28 percent of agents ranking it as a top challenge. Learning how to properly approach decision-makers can go a long way toward helping you find and appeal to new clients, as it can be impossible to effectively prospect if you can’t even get your foot in the door.

Gibb also suggests targeting specific industries and identifying the unique needs of the people who work within those sectors. This can also help you build a niche market on which other agents may not focus as often or as intensively.

“Many agents and brokers have really done a nice job of targeting whether companies have a high female content, or a young male content, or certain ethnic groups, and personalizing that way,” he said.

For example, he said, workforces with a predominantly female population may benefit from solutions that address the needs of dual-income households, as well as richer plans that offer maternity benefits.

Producers may also see all their hard prospecting and advisory work come undone when their clients shop annually for the best rates (24 percent). This can be a painful symptom of the rate increases that have consistently plagued the health insurance industry; Gibb said this may be

alleviated by coming in with a long-term plan that plainly shows employers the benefits of staying the course.

Miller agreed, adding that he advocates against frequent shopping when he meets with employer prospects and clients.

"I want to focus on what's working and not the rates," he said. "If you buy cheap, you'll get cheap. That doesn't mean you need to have a Ferrari, either, but let's create a five-year strategy and not a one-year strategy."

Finally, 23 percent of agents said they are often challenged by clients who do not see the need to expand their current benefits package. By approaching this objection in much the same way as you would the others, however — addressing employees' needs, showing employers why it makes sense to cover them in the way you're proposing, and highlighting the benefits the plan offers to employers — you can help ensure that your employer clients are fully aware of their needs and how you can address them.

### **What do your clients need?**

Speaking of employer needs, we also asked agents for the most common issues they're hearing from clients in the employee benefits market. For many employers, it remains important to keep their costs down (78 percent), though the number of agents naming this as one of their clients' most pressing issues has gone down from 95 percent in 2007. This may be due to an increased emphasis on employee education (28 percent) and securing employees financially (13 percent).

(Chart 5)

**"Price, in my experience, is not the most critical factor," said Sternberg. "It's really about the service level, whether it comes to billing issues, or the claims process, or telephones being answered. [Service] can really make or break the agent's ability to deliver the best value to their clients."**

Gibb added that more of an effort may be necessary on the part of agents when it comes to educating employees. Many of today's solutions — such as consumer-driven health plans, voluntary benefits, and wellness plans — may be confusing to employees who are used to receiving rich benefits packages paid for entirely by their employers.

Another factor driving the need for education, however, is simply the lack of awareness surrounding the benefits of voluntary products.

"I think there's a perception that some of the voluntary benefits of the past were sold with pressure tactics and sold with coverage that people may not have needed," said Gibb.

When looking ahead at the future of agents in the employee benefits industry, a lot may appear uncertain. However, many experts are confident that the changes taking place today will end up benefiting the industry and the agents who can stick with it. And those with diversified practices who can offer a wide variety of benefits that complement each other will end up seeing the most success, said Gibb.

"We've got a very dynamic marketplace, and I think it's changing more now and more rapidly than it ever has," he said. "I think everyone has to improve their game."

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Chart 1

**Which types of voluntary/group benefits do you offer?**

Life insurance	76%
Disability insurance	69%
Dental	65%
Health insurance (PPO, HMO, etc.)	60%
Long term care insurance	53%
Retirement savings plans	48%
Consumer-driven health plans (HSAs, HRAs, etc.)	45%
Vision	41%
Accident/injury	39%
Critical illness	38%
Employee assistance programs (EAPs)	10%
Wellness plans	10%
Prepaid legal	6%

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CHART 2

**In the past 12 months, have you sold...**

	2007	2008	2009
More employee benefits plans than usual	<b>27%</b>	<b>21%</b>	<b>11%</b>
About the same amount of employee benefits plans as usual	<b>53%</b>	<b>50%</b>	<b>46%</b>
Fewer employee benefits plans than usual	<b>20%</b>	<b>29%</b>	<b>43%</b>

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CHART 3

**In the next 12 months, do you expect to sell...**

	2007	2008	2009
More employee benefits plans than usual	58%	60%	39%
About the same amount of employee benefits plans as usual	37%	33%	42%
Fewer employee benefits plans than usual	5%	7%	20%

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Chart 4

**What are the main challenges with selling voluntary/group benefits?**

Getting through to the decision-makers	53%
Clients perceive it as too expensive	43%
Prospecting/finding new clients	28%
Clients shopping annually for best rates	24%
Clients do not see the need to expand their current benefits package	23%
Clients do not want to replace their benefits offerings	22%
Educating the client	16%
Competition in the marketplace	12%
Maintaining stable costs	12%
Plan enrollment and administration	12%
Underwriting problems	10%
My own lack of training	7%
Lack of access to product lines that meet clients' needs	5%
Lack of assistance from home office	5%
My employer clients don't allow face-to-face meetings with employees	5%
Other	2%

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CHART 5

**What are the major challenges that employers come to you with concerning their voluntary / group benefits?**

	2007	2008	2009
Keeping costs down	95%	85%	78%
Employee retention	44%	40%	39%
Easy enrollment and administration	48%	37%	39%
Employee education	28%	17%	28%
Attracting new employees	25%	19%	21%
Securing employees financially	7%	15%	13%
Keeping employees healthy	2%	11%	8%
Other	0%	2%	1%

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## Methodology

In June 2009, Agent Media, publisher of the Agent's Sales Journal, conducted a survey among licensed agents nationwide. Producers were invited via an emailed survey link to take part in the study and were asked questions about their experience in the employee benefits market and their outlook for and opinion on the benefits industry. More than 430 individuals responded to the invitation. As an incentive, a drawing was held for a \$100 American Express gift card. The survey results reflect answers given by personal producing agents who have sold at least one employee benefits policy in the past 12 months.