

**Eastbridge Consulting Group, Inc.**

Marketing Counsel To The Financial Services Industry  
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# **The Voluntary Explosion**

## **Worksite Marketing and the Future of Employee Benefits**

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**Actuaries' Club of Hartford/Springfield**  
**June 9, 2005**

# Agenda

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- 1. Sales Trends**
- 2. Product Trends**
- 3. Distribution Trends**
- 4. The Market Place**
- 5. The Future**
- 6. Lessons Learned**

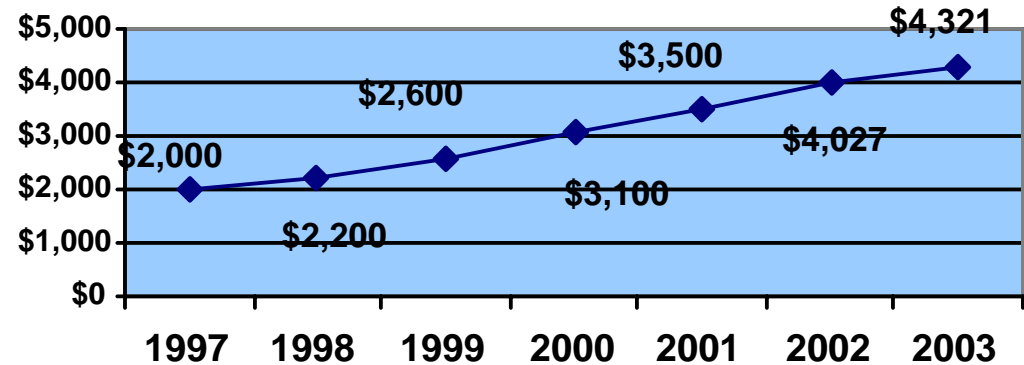
The terms “worksite” and “voluntary” are used interchangeably.

They both refer to life and health products that are sold at the worksite with premiums paid for by employees through payroll deduction.

## Sales Trends - Overall Sales Growth

- Worksite and voluntary sales have grown significantly since 1997 from \$2 billion to \$4.321 billion in 2003.
- 2003 sales increased seven percent over 2002.
- Historically, sales have shown double-digit growth rates year over year.
- 2003 results seem to be influenced heavily by the slow sales of several of the top players.
  - The problems seem to be internal issues within the carriers (many distribution related) and not reflective of a market trend or market saturation.

Sales Growth Since 1997



## Sales Trends - Top Players

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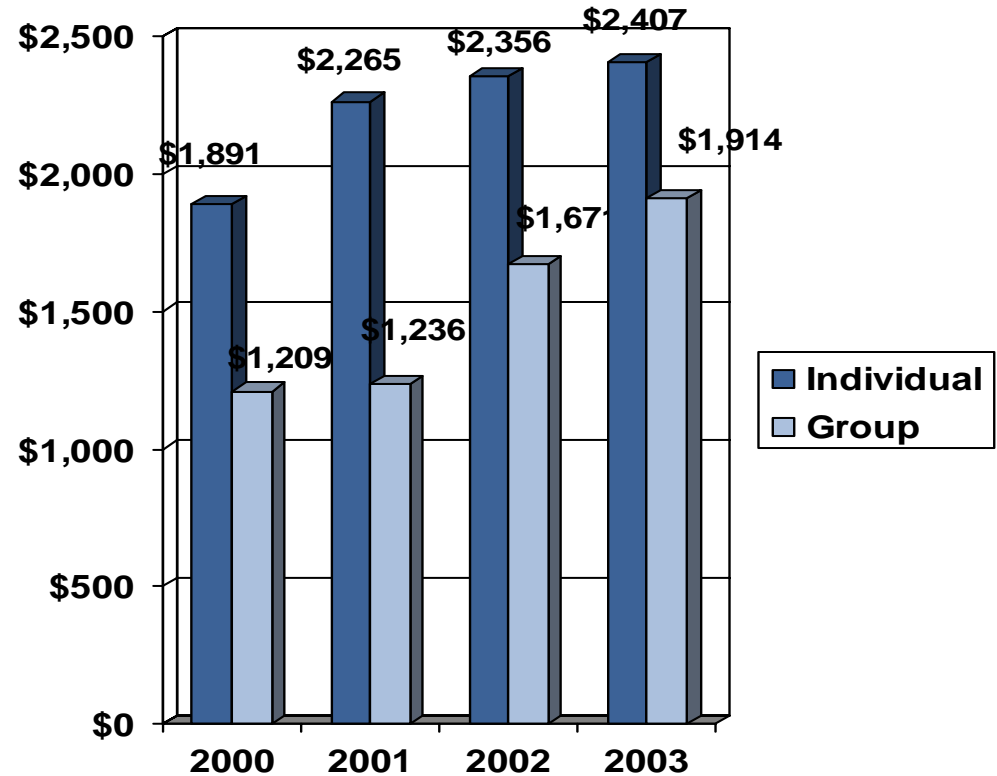
### Detail Removed

- There are about 120 players that consider themselves in worksite or voluntary today.
- The top 15 players account for approximately 75 percent of the total market sales.
- Many of the players have very small market shares.

## Sales Trends - Sales by Platform

- Sales of group platform products have been growing at a faster pace than individual platform products.
- In 2003 group sales increased 17 percent and individual increased 6 percent.
- In just three years, group products have grown from 35 percent of overall sales to just over 44 percent.
- But, individual product sales are still greater than voluntary group sales.
- The mix of sales between group and individual in 2003 was 44.3% group and 56.7% individual.

**New Sales By Platform (in Billions)**



# Agenda

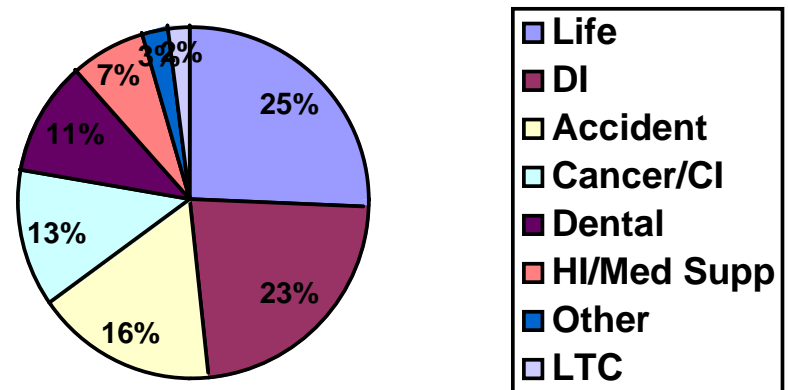
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## Product Trends - Mix of Sales by Product Line - Overall

- By line of business, life insurance accounted for the largest share of sales followed by disability.
- Also in 2003, life sales grew faster than disability sales for the first time in a couple of years.
- Voluntary term life sales slightly outpaced universal/whole life sales in 2003 (54 percent term life versus 46 percent UL/WL).
- We were unable to calculate a mix of short- and long-term disability plans this year as several carriers reported the numbers together.
- The product lines with the highest growth in 2003 were hospital indemnity/medical supplement plans, long-term disability, and universal/whole life.

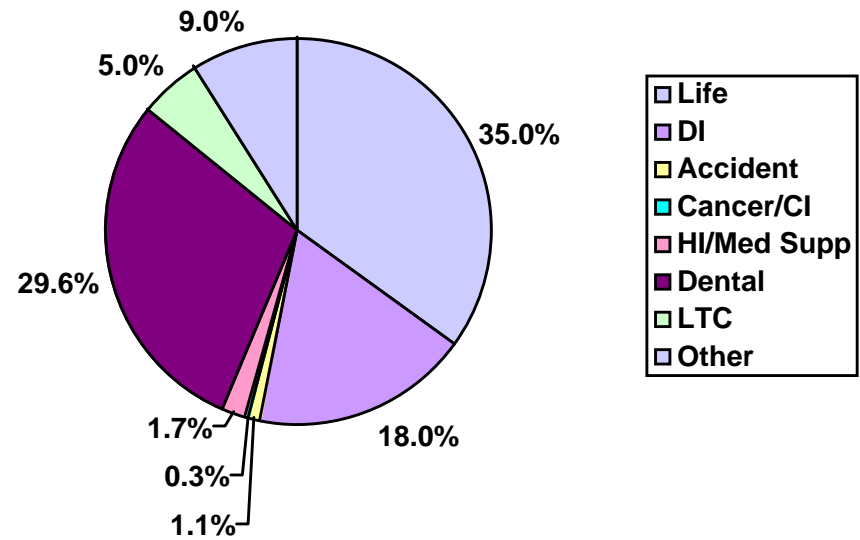
**Mix of Sales by Product (Voluntary and Worksite)**



## Product Trends - Mix of Sales by Product Line - Group Companies

- The data on group companies is from a very small sample (those companies capable of reporting voluntarily separately) and therefore may not be indicative of all “group” companies.
- However, this does illustrate the very different mix of products seen in the “typical” group company.
- Life insurance is the leading product with almost 100 percent of it being term life.
- Dental sales are almost thirty percent of the mix.
- Accident, cancer, and hospital supplement fall off drastically.
- LTC is 5 percent of the mix.
- Other is higher here at 9 percent (other includes product “unknowns” and AD&D).

Product Mix for Group Companies



## Product Trends - Product Line Growth Rates

- Products that help employees cover the costs of medical care are seeing significant growth.
  - Hospital Indemnity and Supplemental Medical plans (including “gap” plans and limited benefit medical plans) grew 55%.
  - Over ninety-percent of carriers surveyed confirmed this trend.
- Life insurance also saw double-digit growth in 2003.
- Disability sales relative to life were down somewhat in 2003 but still showed strong growth for the year.
- Cancer, dental and LTC sales were down slightly in our survey but this could be due to some reporting issues.

### Growth by Line of Business (Voluntary and Worksite)

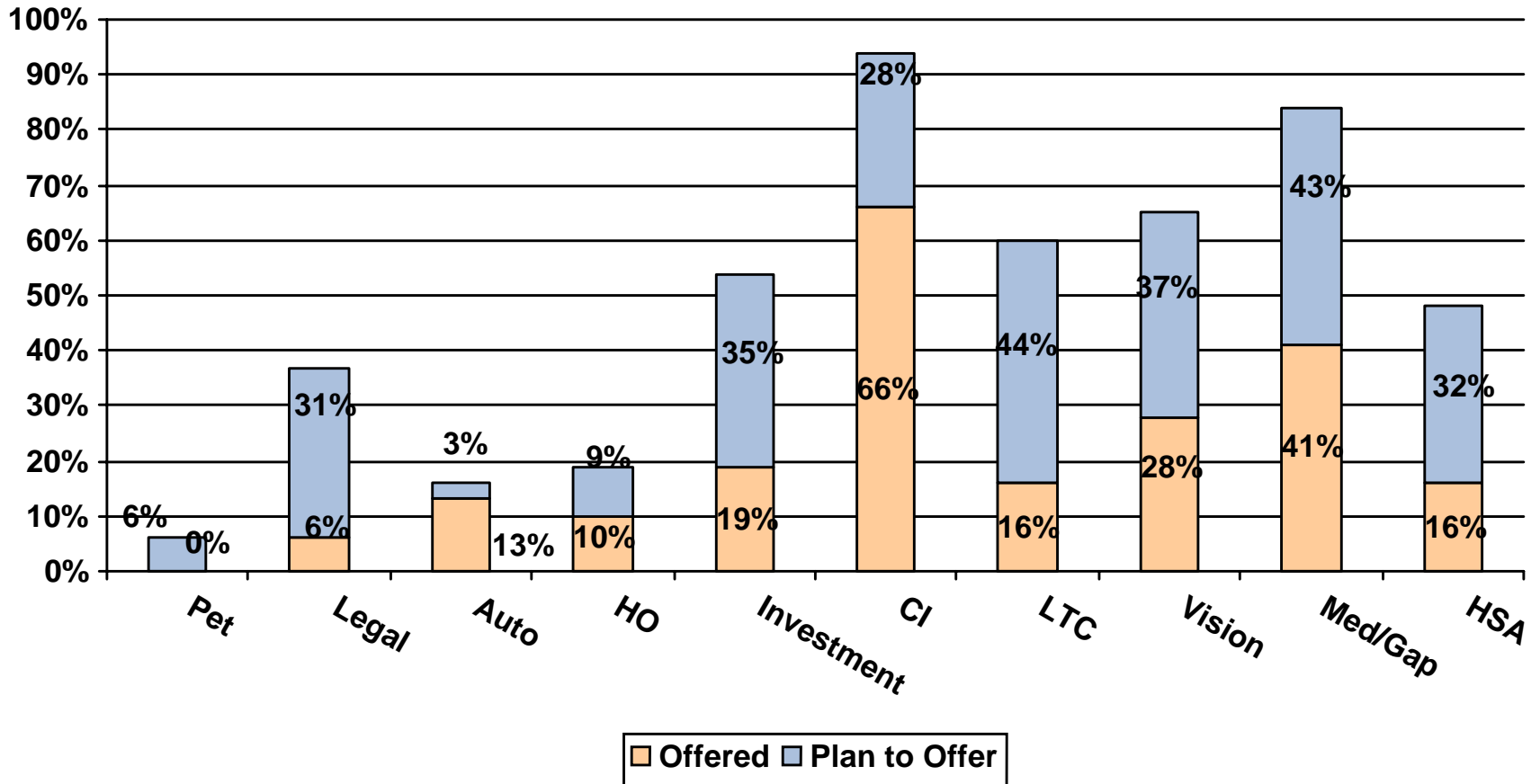
Line of Business (all companies)	03 Percent of Sales	Inc/Dec Over 02 in \$s
Hospital Indemnity/Medical Supplement Plans	7.0%	54.8%
Life (Term and UL)	25.2%	10.6%
Disability (STD and LTD)	22.6%	5.4%
Accident	16.4%	1.6%
Cancer/Critical Illness	13.0%	-2.8%
Dental	11.3%	-5.4%
Long-Term Care	1.8%	-6.3%

## Product Trends - Other Product Trends

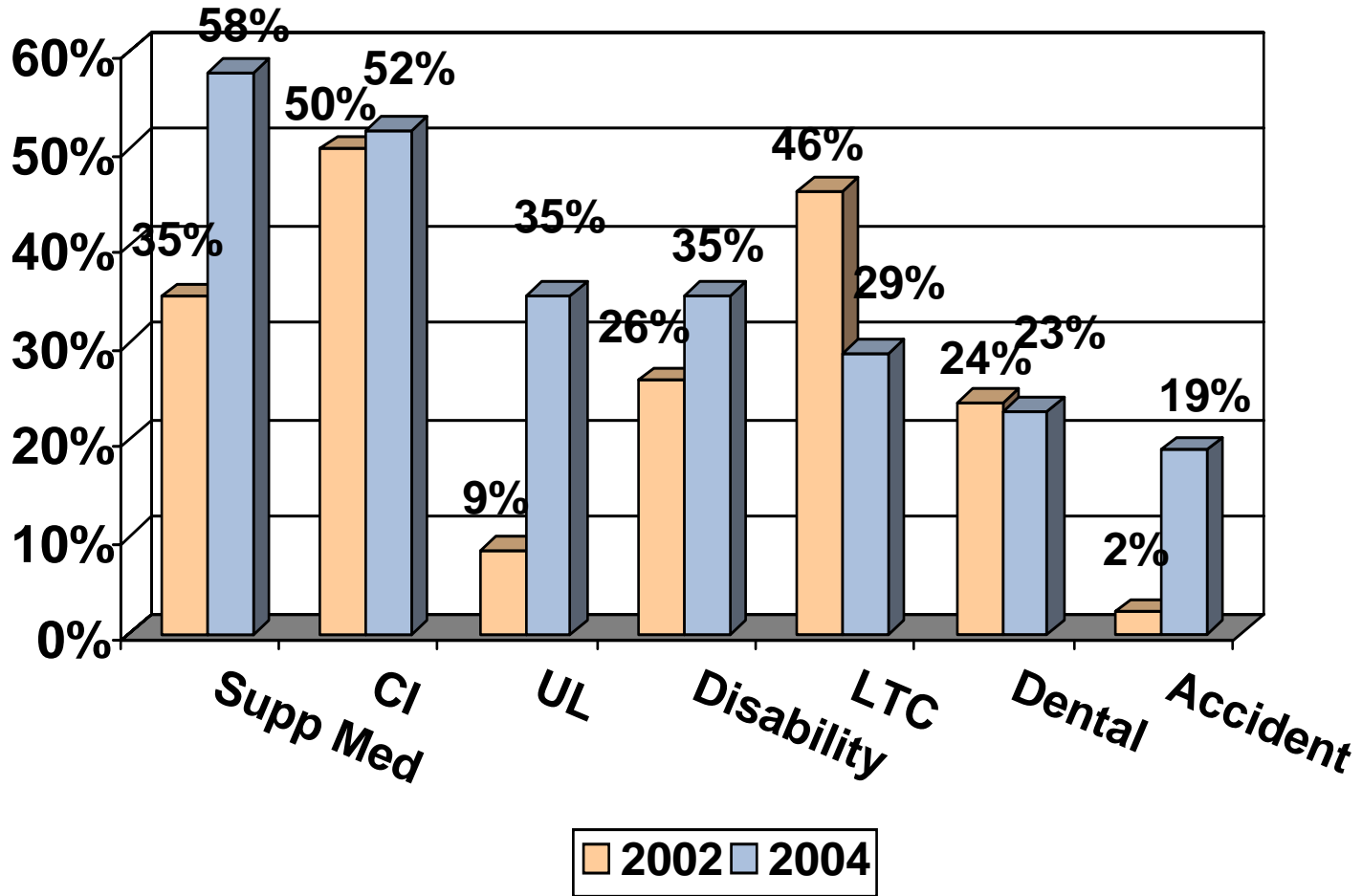
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- Sixty-eight percent of worksite and voluntary carriers believe that employers will move towards a defined contribution approach to employee benefits.
- Seventy-four percent of carriers believe we will see more “morphing” products (products that change over time or with certain occurrences such as disability that can become a long-term care plan).
- HSAs will likely increase the opportunity for certain voluntary products; 24 percent of carriers believe they will increase LTC sales and 44 percent believe they will increase sales of products like hospital indemnity and medical supplement.
- Sixty-eight percent believe that private labeling of products or joint ventures are an effective means of offering more voluntary products.
- Most see a “blending” of the group and individual platforms.
  - 78 percent believe products must be portable or convertible.
  - 78 percent believe carriers must maintain records on individual employees.
  - 60 percent believe that guaranteed issue is required.
  - 42 percent believe products must have low participation requirements.

## Product Trends - Emerging Products - Voluntary and Worksite



## Product Trends - Growth Products - For the Industry

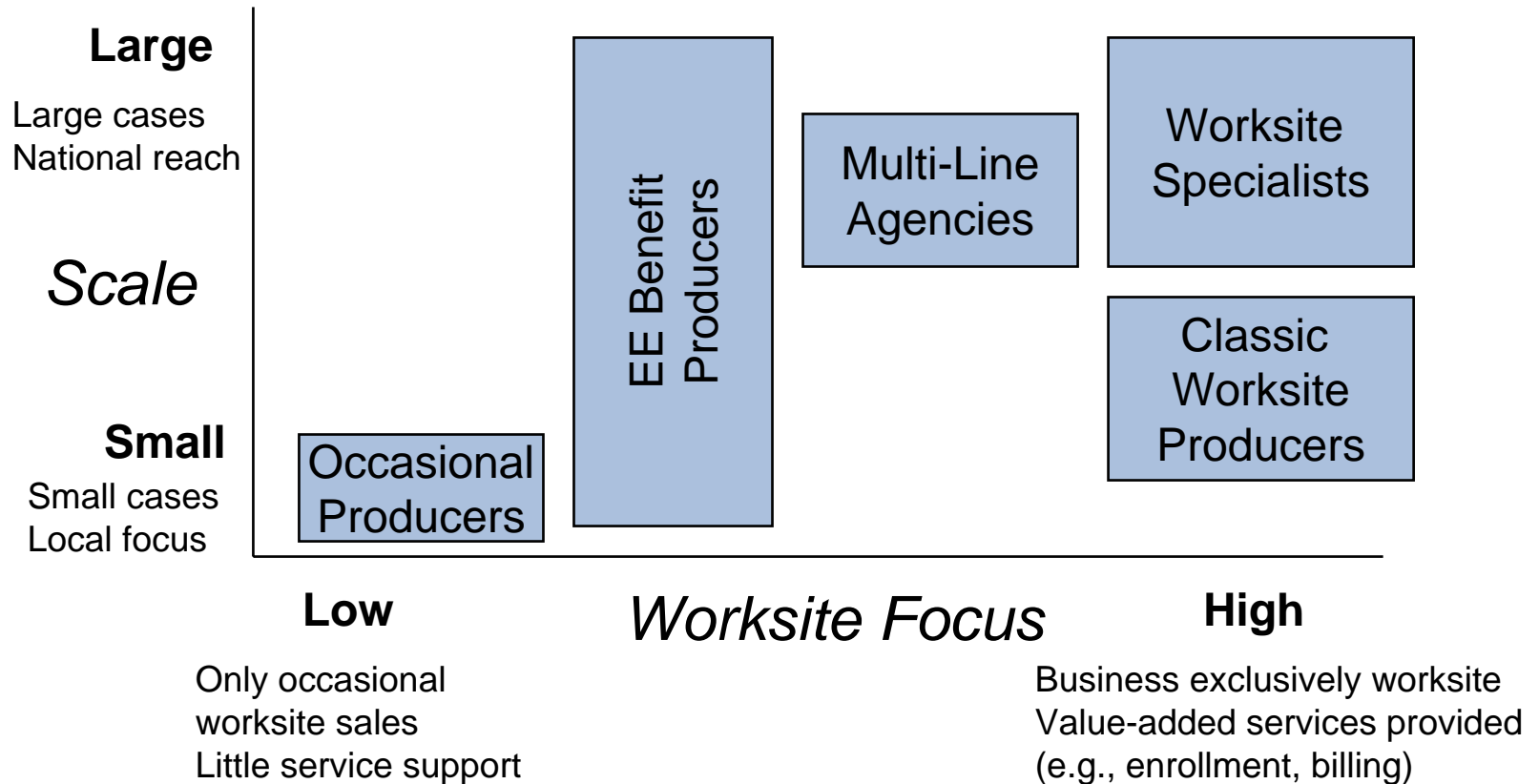


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## Distribution Trends - The Voluntary/Worksite Broker Segments



## Distribution Trends - The Worksite Market Landscape

Different segments tend to be successful in specific market segments based on the size of the market and the complexity of the sale. This chart shows where each segment is most likely to focus.

### Market Segments:





#### Case Size

(eligible lives) Large  
(1,000 +)

Medium  
(101-999)

Small  
(15-100)

Very Small  
1-14)

	<b>Medium &amp; Large EE Benefit Brokers, Consultants, Worksite Specialist, Multi-Line, Professional Sales</b>	<b>Medium &amp; Large EE Benefit Brokers, Consultants, Worksite Specialist, Multi-Line, Professional Sales</b>
<b>Captive Salesforce, EE Benefits Brokers, Classic Worksite, Multi-Line</b>	<b>Captive Salesforce, EE Benefits Brokers, Classic and Worksite Specialist, Multi-Line</b>	<b>Medium &amp; Large EE Benefit Brokers, Consultants, Worksite Specialist, Multi-Line</b>
<b>Captive Salesforce, Small EE Benefit &amp; Occasional Brokers, Classic Worksite Broker</b>	<b>Captive Salesforce, Small EE Benefit &amp; Occasional Brokers, Classic Worksite Broker</b>	
<b><i>Non-Worksite Focus (many companies serve on an individual basis)</i></b>		

Simple

Medium/ Modest

Complex

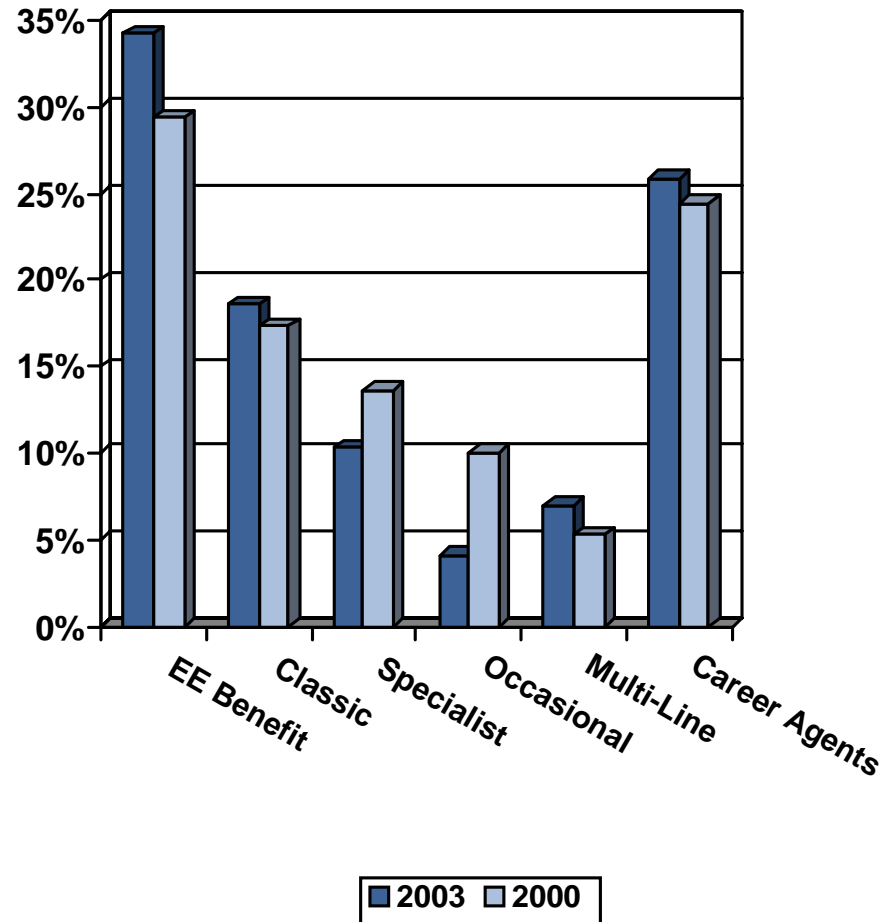
### Sales Sophistication

(salesforce skill and experience, employer decision-making process, etc)

## Distribution Trends - Sales by Distribution Type

- Twenty years ago career agents dominated the worksite/voluntary market.
- Today career agents account for about 25% of the market's sales.
  - This has remained stable over the past 4-5 years.
- The largest single segment of producers is the Employee Benefit Broker.
  - This includes the traditional group broker and the consultant market.
  - This is also the fastest growing segment of producer.
- Brokers specializing in voluntary or worksite sales have decreased their share of sales slightly.

Market Share by Distribution Segment



# The Market Place

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## The Market Place: Employers' Viewpoint - Market Penetration

- Sixty-four percent of employers offer at least one voluntary product.
- Likelihood of offering voluntary products varies by size of the employer.

Employer Size	Percent Offering
100 or fewer EEs	61.7%
101-500 EEs	61.6%
501-2,000 EEs	85.4%
2,001-5,000 EEs	76.5%
5,001 or more EEs	70.2%
Overall Average	63.5%

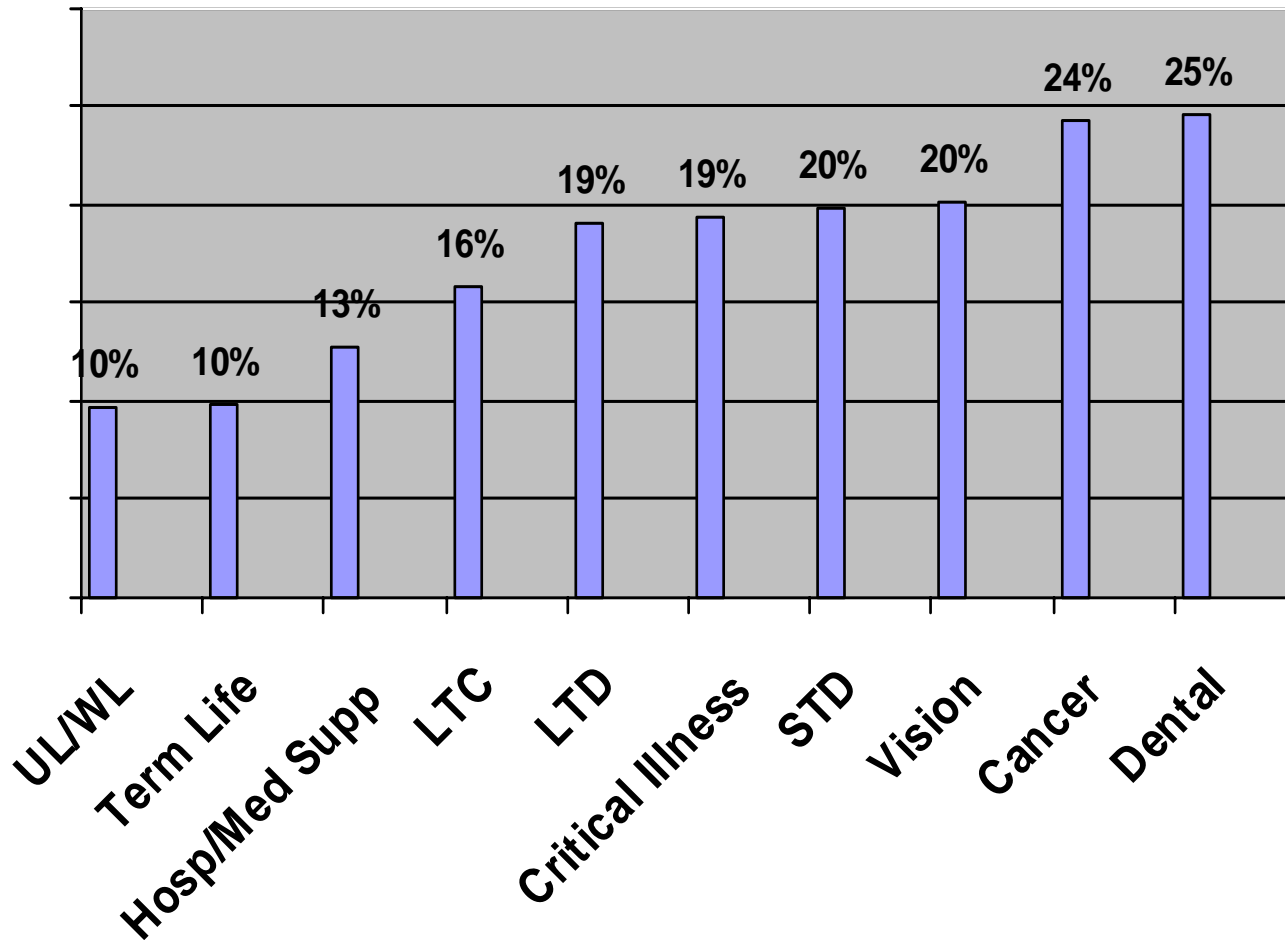
## The Market Place: Employers' Viewpoint - Motivations for Offering

- Most employers offer voluntary products because they perceive that their employees need the coverage.
- Employers also see voluntary products as helping them attract and retain employees.

**(Scale: 1 to 5, with 5 being “Extremely Important”)**

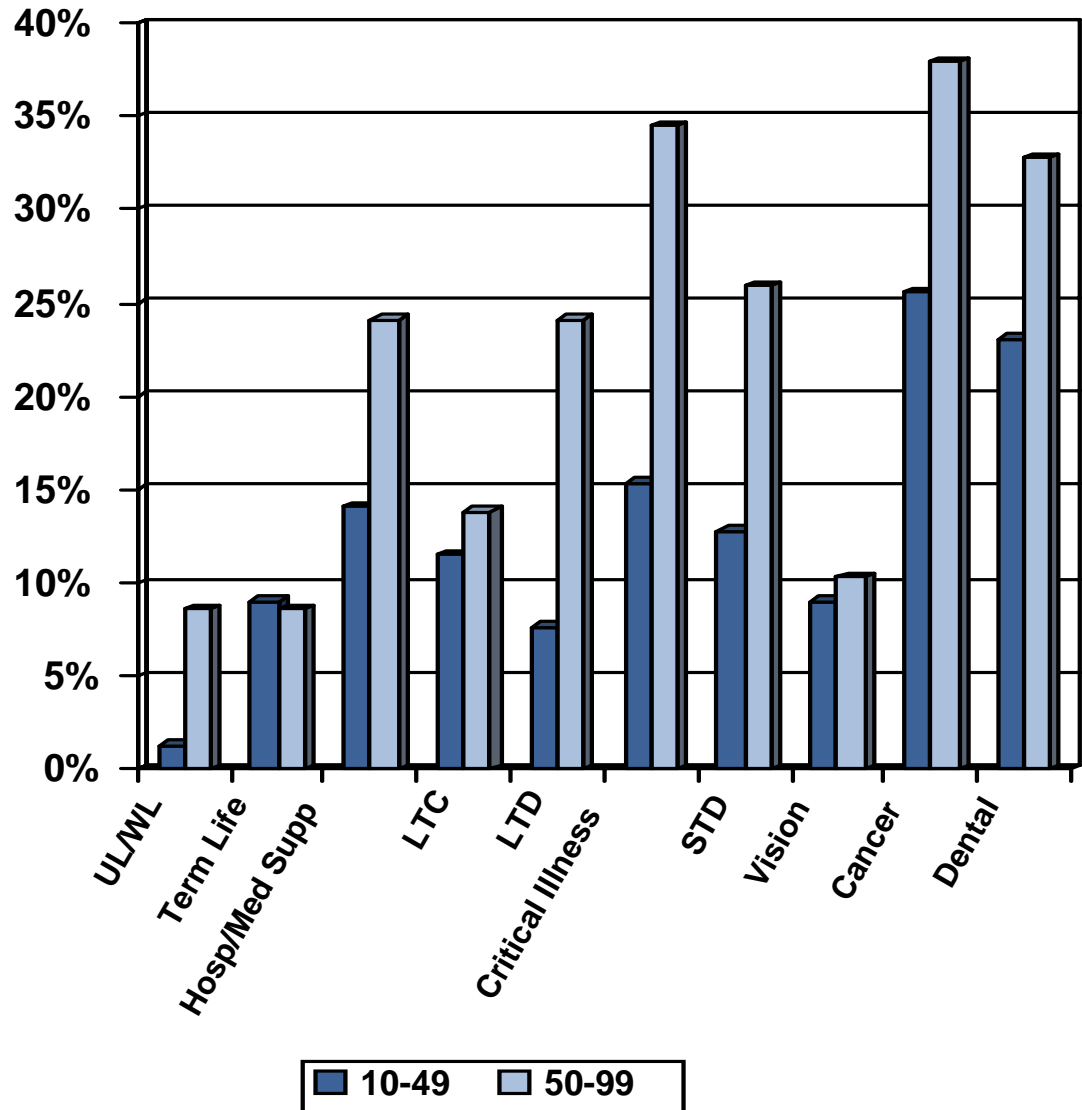
Factor	Percent Rating as 4 or 5
Employee interest in the product(s)	83.4%
To aid in recruiting and retaining employees	76.0%
Cost savings to the company	72.8%
Our broker recommended voluntary	20.2%

## The Market Place: Employers' Viewpoint - Top Voluntary Products Offered



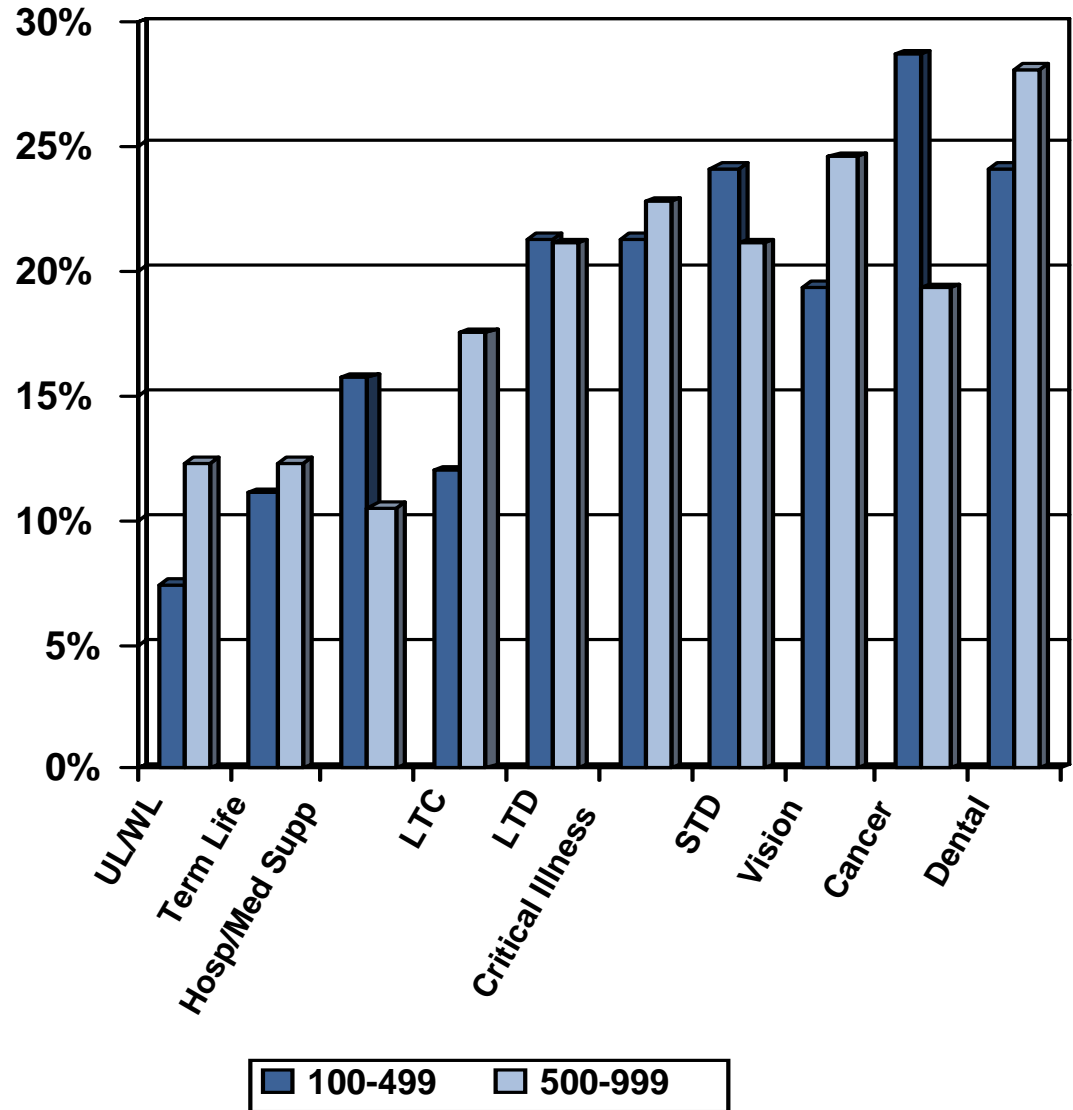
## The Market Place: Employers' Viewpoint - Top Voluntary Products

### ➤ 10-99 Employees



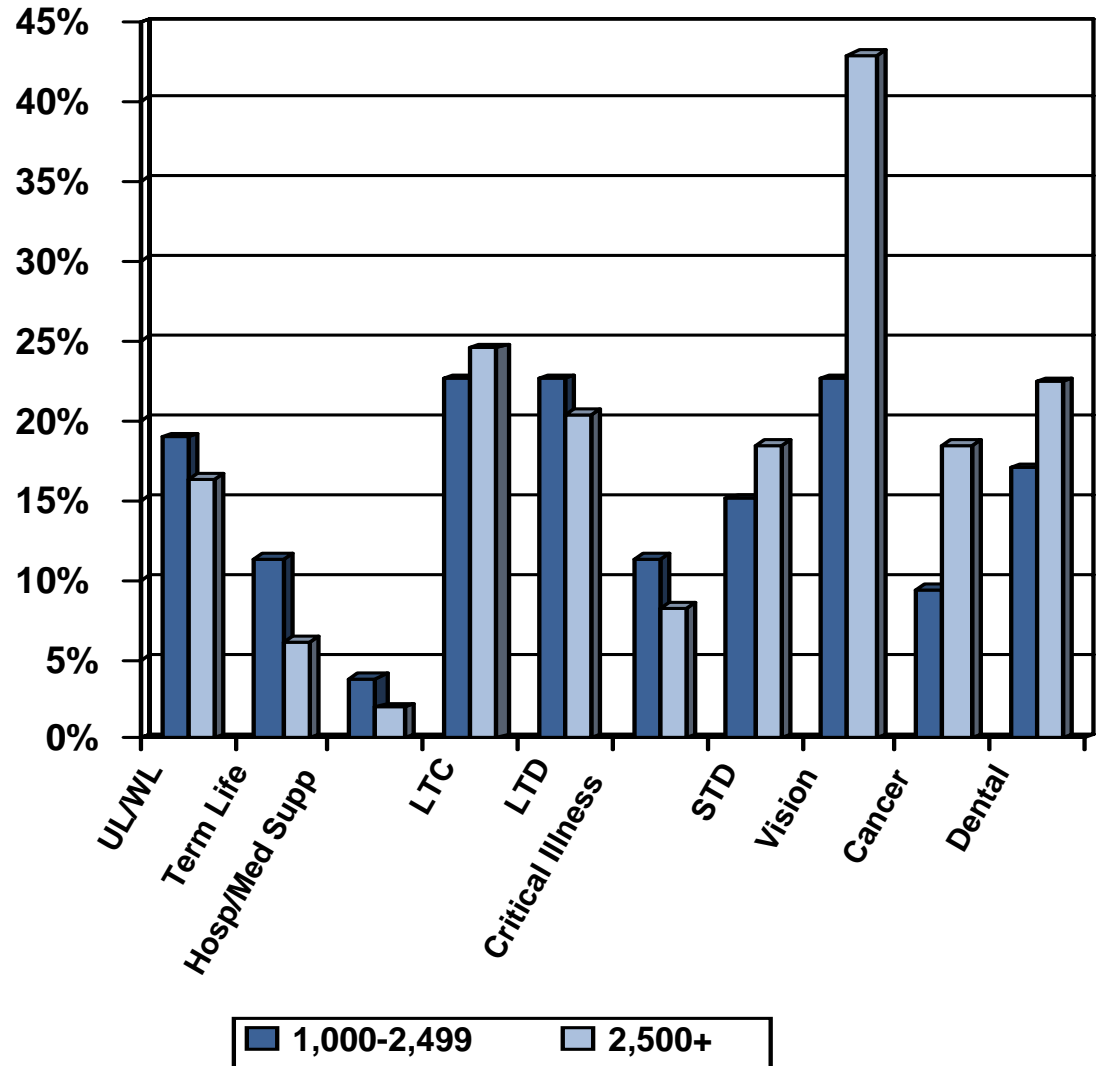
# The Market Place: Employers' Viewpoint - Top Voluntary Products

➤ **100-999 Employees**

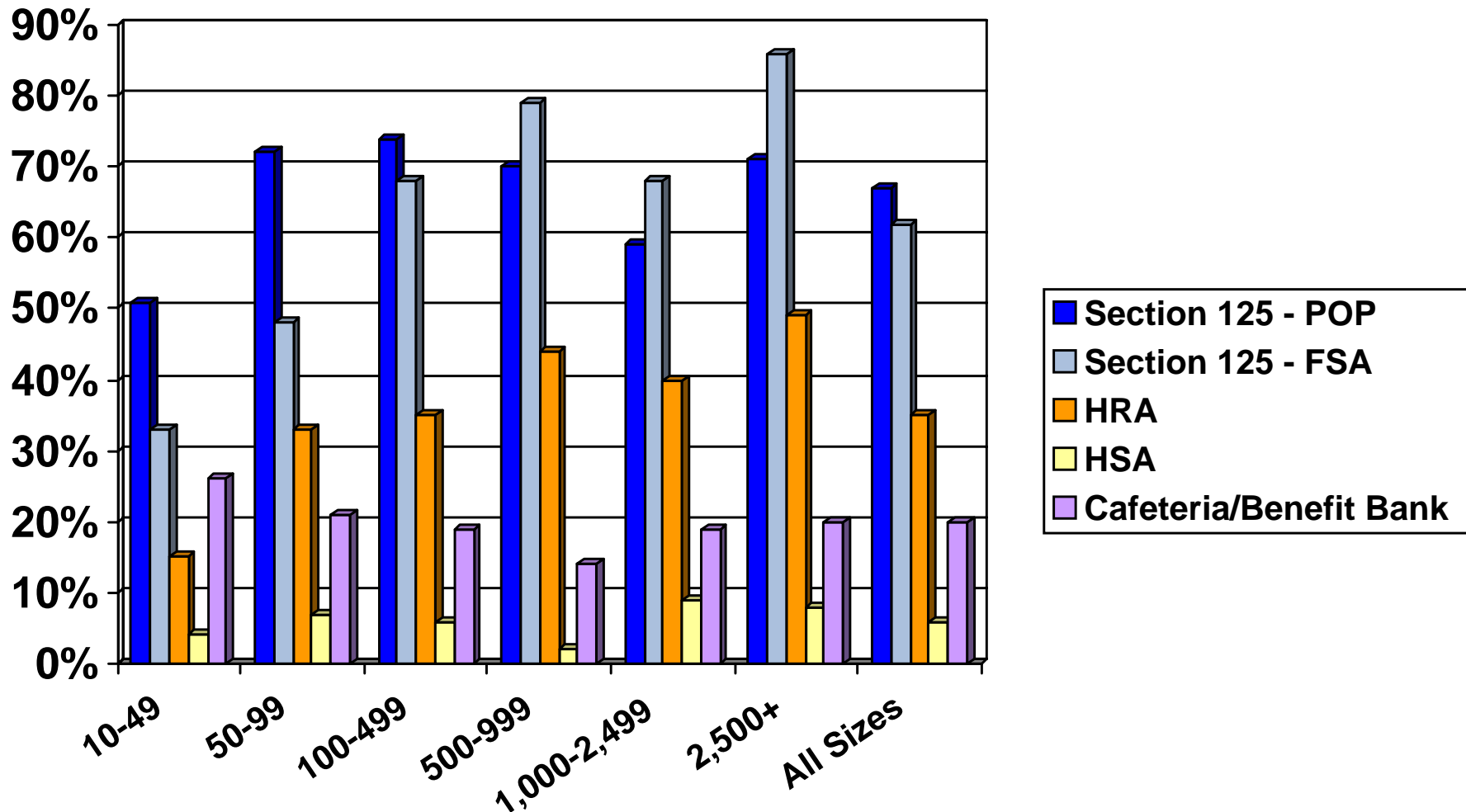


# The Market Place: Employers' Viewpoint - Top Voluntary Products

➤ 1000 & over Employees



## The Market Place: Employers' Viewpoint - Programs Offered

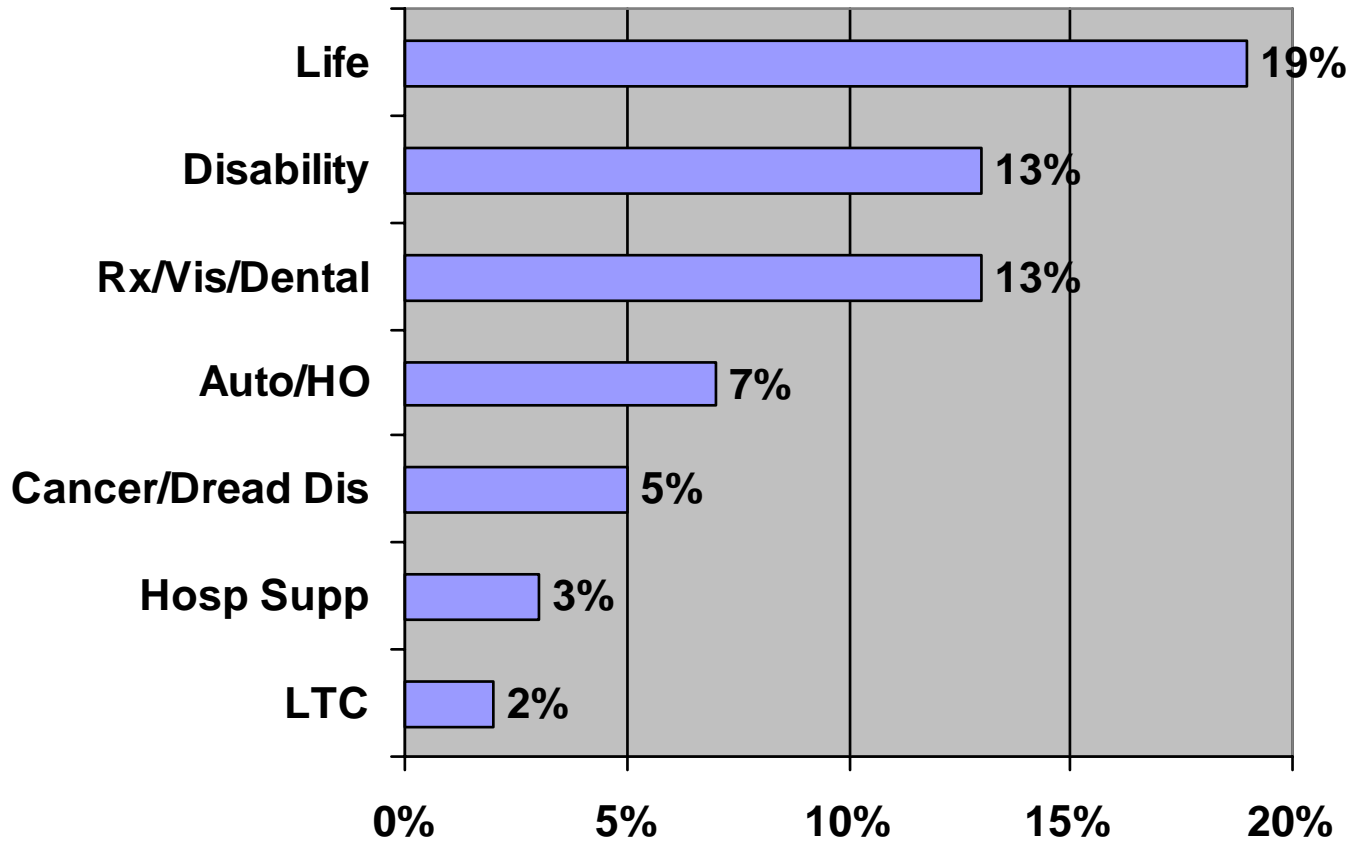


## The Market Place: The Employees' Viewpoint - Market Penetration

- Thirty-five percent of employed Americans own at least one voluntary product.
- Ownership varies by employer size.
  - Those in the smallest businesses are least likely to own any voluntary products.

Employer Size	Percent Owning
1 - 25 employees	18.1%
26 – 300 employees	33.4%
301 - 500 employees	44.1%
501 - 2,000 employees	42.1%
2,001 - 5,000 employees	44.4%
5,001 - 10,000 employees	41.5%
Over 10,000 employees	43.1%

## The Market Place: The Employees' Viewpoint - Products Owned



## The Market Place: The Employees' Viewpoint - Sales Potential

### Interest in Buying Other Voluntary Products (Those Employees Owning at Least One)

Product	Interest
Dental	33.7%
Vision	32.2%
Prescription Drug	28.2%
Long-Term Care	24.8%
Long-Term Disability	24.2%
Mutual Funds	23.3%
Auto	22.9%
Homeowner/Renters'	22.6%
Universal Life	21.8%
Hospital Supplement	19.4%

## The Market Place: The Employees' Viewpoint - Sales Potential (continued)

### Interest in Buying

(Those who currently don't own any voluntary products)

Product	Percent Interested
Dental	26.8%
Vision	22.8%
Prescription Drug	19.4%
Universal Life	16.5%
Long-Term Care	15.8%
Homeowner/Renters'	14.9%
Auto	14.6%
Mutual Funds	13.5%
Long-Term Disability	13.4%
Term Life	13.2%

## The Market Place: The Employees' Viewpoint - Satisfaction & Enrollment Method

### Percent Rating Satisfaction as 5, 6, or 7

Satisfaction Statement	Grp Mtg/Self Enrolled	Grp Mtg/Rep Enrolled	One-on-One
My needs were identified	55.5%	64.3%	73.1%
Appropriate type of product was available	57.0%	66.1%	76.9%
Benefits were easy to understand	58.6%	58.9%	68.0%
Application process was simple and straightforward	69.5%	73.2%	73.1%
Overall satisfaction with the enrollment process	62.8%	71.7%	72.0%

# The Future

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## The Future - Employers

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### **The growth rate of the labor force is slowing significantly.**

- Competition for workers is keen.
- Supply will fall behind demand over the next ten + years.
- The respective “power” of the parties will shift.

### **More “non-traditional” employment including:**

- Part-time and contractor
- At-Home and leased employees
- Emphasis on benefit mobility and portability

### **Employers no longer “design” benefit packages for employees.**

- Employers provide funding for benefits.
- The 401k analogy
  - Products
  - Advice

## The Future - Employers (continued)

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**The funding for benefits is considered part of compensation.**

- Comparisons between jobs are easier to make.

**The employer's role in benefit selection is now three-fold:**

- Select an intermediary
- Arrange for advisory services
- Monitor and manage the services provided by the intermediary and administrator

## The Future - Employees

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### Employees are driven by traditional forces:

- Life expectancies continue to increase, putting pressure on consumer's financial well being.
- Priorities continue to migrate towards “quality of living” needs.
- The workplace is the primary source of benefits for most Americans.

### They are looking for:

- Impartial advice
- From an independent advisor
- Who offers a portfolio of “best of breed” products

### In Summary:

- Employment-based benefits are crucial.
- Portability and flexibility are mandatory.
- Employees, not employers, are the key decision makers.
- Product quality is one key; independent advice is the other.
- Employers are facilitators and provide some funding.

## The Future - Products

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### The Lesson from consumer-driven health care, HSAs and HRAs

- Capping costs
- Giving the insured cost control motivation
- Separation of savings and protection
- IRS and popular support
- Precedent: Universal Life

### The Future

- There are no longer separate lines for group, voluntary, and retirement plans.
- Products are unbundled into separate funding and insurance components.
- Other products follow the trend.
- Funding accounts are combined and regulated.
- Employees have three types of accounts: Retirement, Savings and Protection.

### Summary

- Competition to manage and invest “savings” accounts is intense.
- Protection elements are commodity products with extremely thin margins.
- Brokers fight to control both elements, regardless of the institutions that win/lose the battle for product control.

## The Future - Distribution

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### The Intermediary (Distributor):

- Sells all product lines
- Is an independent advisor paid primarily through fees and asset-based compensation
- Needs an independent “platform” to provide services, enrollment, evaluate products, etc.

The enrollment function serves as the financial planning and risk management advisor

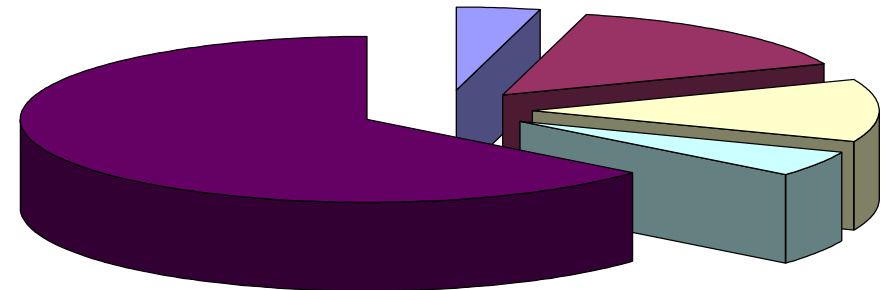
### Intermediary Segments:

- Human
  - Representatives (Agents)
  - Benefit Advisors
  - Benefit Consultants
- Electronic (Internet)
- Direct

## The Future - Distribution (Continued)

### Intermediaries by Segment

Agents (Reps)	4%
Benefit Consultants	15%
Internet	12%
Direct	5%
Benefit Advisors	64%



■ Reps   ■ Consultants   ■ Internet   ■ Direct   ■ Advisors

## The Future - Distribution (Continued)

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### Benefit Advisor Characteristics

- Independent of manufacturers and platforms
- Typically align themselves with one particular Benefit Administrator
- Compensation takes three forms
  - Consulting fees
  - Asset-based compensation
  - Commissions

## The Future - The Platform

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### The Benefit Administrator

Combines the functions previously performed by three different entities:

- Full-service third-party administrator

- Enrollment
- Underwriting
- Customer service
- Issue and Claims
- Combined Billing
- Reconciliation
- Cash management

- Human resource information system/payroll companies

- Electronic, Internet-based interfaces and web functionality
- Payroll management and processing
- HR record-keeping
- Eligibility data record-keeping
- Tax reporting, filing, etc.

- Broker/dealers

- Full portfolio management
- Marketing and sales support
- Compliance management
- Integrated Account data
- On-line access to information

## The Future - Short Term Changes

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- Almost all Employee Benefit Brokers will all sell both voluntary and core products.
- Voluntary brokers will sell both product types or partner with traditional group brokers.
- Employers resist another round of “fixes” and accelerate their move towards defined contribution benefit programs.
- Enrollment systems will make strides in offering “advice” to help employees sift through the choices.
- The Internet will play an increasingly important role in educating employees on benefit options and choices.
- The blurring of the lines between group and individual products will continue with more products having characteristics of both and with GI (or something similar) and true portability (for group) being standard.
- The blending of voluntary and group manufacturing strategies will accelerate.
- Distinctions between group and worksite carriers will disappear completely.

# Lessons Learned

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## Lessons Learned: Danger Signs

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**This is a largely untapped, wide open marketplace, but that doesn't mean that success will come easily. Carriers have made many mistakes, including:**

- Treating worksite as an extension of group insurance
- Thinking worksite is individual insurance with simplified underwriting
- Going into worksite because “everyone is doing it”
- Believing that good products equal good sales
- Using worksite as a response to problems in other aspects of the business
- Offering worksite products to use up excess underwriting capacity
- Believing that distributors can be forced to conform to our systems and needs
- Thinking that product platform is of overriding importance
- Not solving for distribution--first!

## Lessons Learned: Guiding Principles for Worksite Success

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### But many have also proven the importance of certain principles:

- Master the basics
  - Billing capability – flexible for larger accounts and scalable standards for smaller accounts
  - Underwriting and issue speed and simplicity
  - Retail level service to employee
- Establish a management team dedicated to the worksite business
- Build a stand-alone strategy and structure for worksite
- Foster a senior management team willing to invest in worksite
- Create a business model that targets the specific distribution channels in which the company can be most successful
- Focus on scalable distribution capabilities and appropriate support levels
- Offer competitive commissions for brokers and a “quality” commission system
- Build a comprehensive product portfolio, with products and their guidelines developed specifically for the voluntary market. Build product quality that is competitive relative to price and features. Build what you should, in-source the rest.
- Remember that the appropriate technology’s utility is far more important than its source
- Move fast; be responsive; be flexible

## Thanks

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