Economy Prompts Shifts in Benefits Market

August 2008 - 2008 Benefits Selling Guide

Please see Pres White's comment on Page 8 & 9

Written by Christina Pellett, Managing Editor

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Agent Media, MI2 survey identifies key challenges, employer concerns in the workplace

Rising costs and a soft economy have impacted bottom lines everywhere — and the workplace is no exception, according to the recent Benefits Market Study by Agent Media* and MI2.

While individual sales in some markets may be slumping, health and life insurance in particular remain core benefits at most worksites. Employers, however, are still searching for ways to stabilize their contributions with more employee sharing and high-deductible health plans tied to consumer-driven health plans.

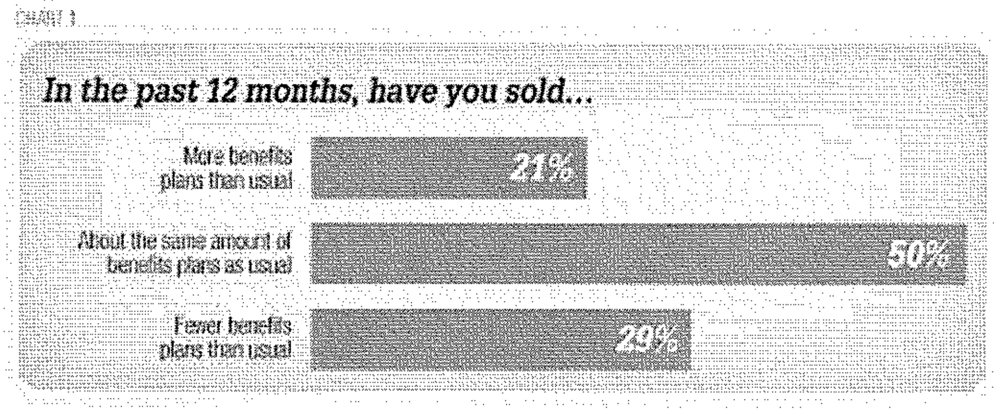
"The market is totally different from five years ago," said Pam Delaney, corporate vice president of health and executive benefit sales for MassMutual.

"There's a lot less money. Folks want to make sure they're getting the best talent and the best people, but how do they offer their employees and executives a package and benefits that provide little to no cost to them as the employer?"

This shift requires a different approach from agents — one that's tailored to servicing and providing solutions to the issues business owners face.
Following are the complete results of Agent Media and MI2's 2008 Benefits Market Study, along with tips and comments from experts for surviving in this competitive marketplace.

An agent's place

Overall, producers' business has remained solid, with half the agents saying they've sold about the same amount of benefits over the past 12 months as they did in 2006-07, and 21 percent selling more. (Chart 1)



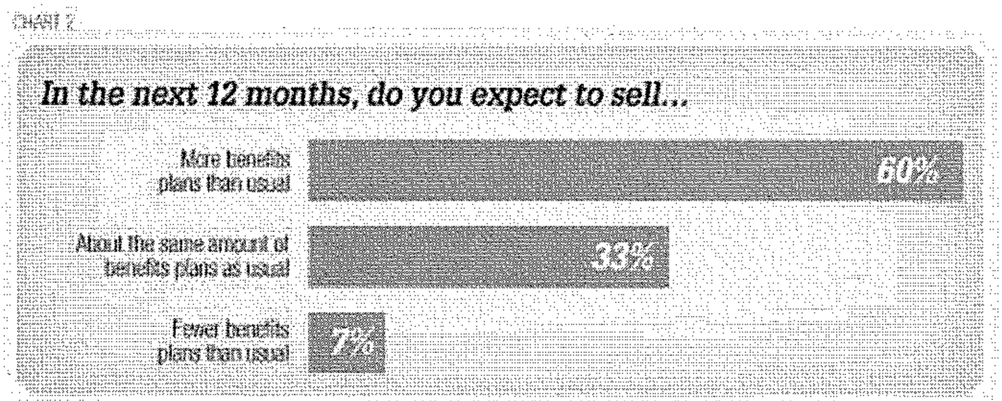
Interestingly, some agents credited the volatile market with bringing them success in the worksite.

"With rates continuing to increase, employers are always looking to save money," said one producer. "With the help of consumer HDHPs, I can save them money and maintain a quality plan."

Another agent pointed to his portfolio options, as well, to explain his increased performance.

"I sell supplemental voluntary benefits exclusively. During a tough market, these will always sell because they are affordable and pay the client directly over any other product with no coordination of benefits."

And plenty expect to surpass or at least maintain their current production: Sixty percent say they plan to sell more benefits in the next 12 months, and 33 percent believe they'll sell about the same. (Chart 2)



According to Francine Young, senior vice president and chief business development officer with Nippon Life Insurance Company of America, the state of the individual market may also have a hand in the anticipated success of benefits agents.

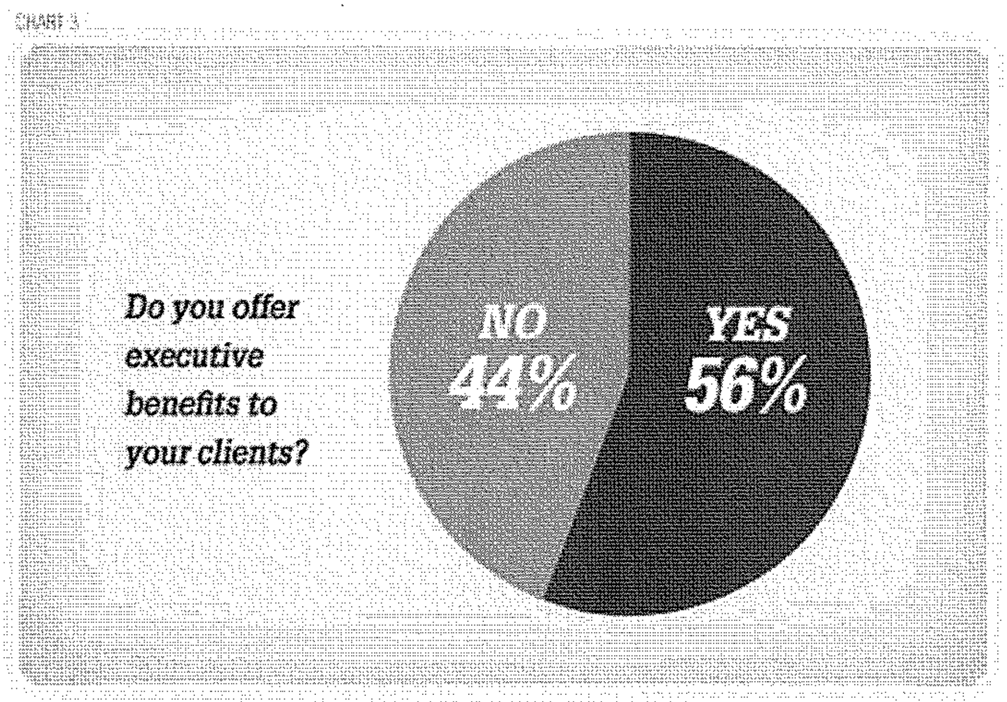
"It makes sense with the economy softening; maybe some of their individual market opportunities are diminishing," she said. "People don't have disposable income to buy individual plans, but most organizations will hold on to their benefits plan."

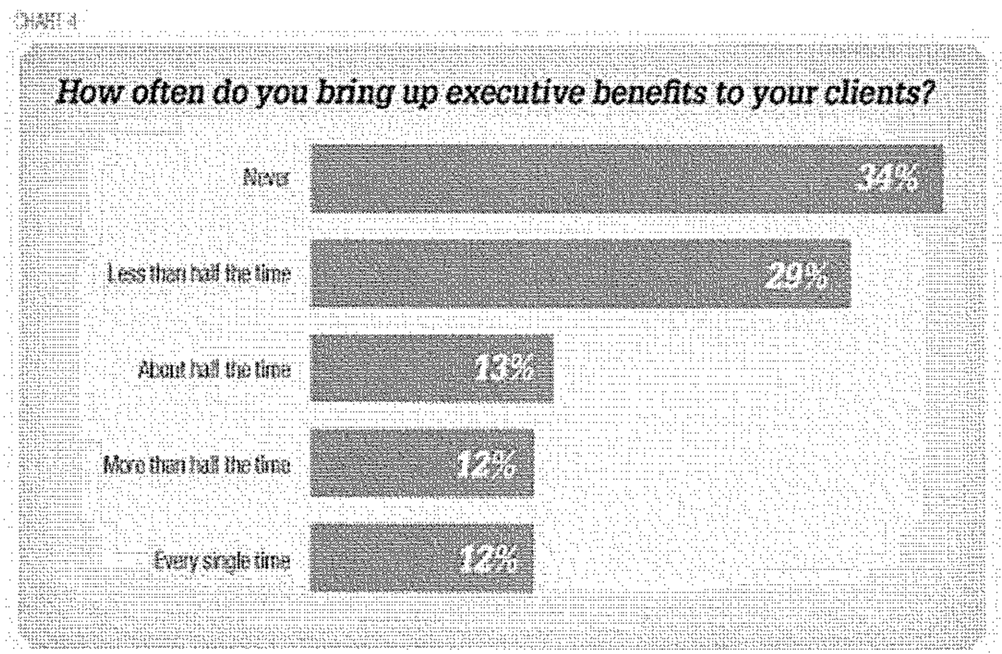
When looking for ways to achieve success in this market, said Delaney, agents will want to look beyond the typical health offering and add more voluntary benefits that can help differentiate themselves from every other agent selling group health. Such benefits include life insurance, disability, and long term care insurance.

According to the survey, only 14 percent offer life insurance in the workplace more than any other product, 7 percent group disability, and 4 percent worksite LTCI.

"Everybody's going in talking about health and how can you differentiate your practice, so what a great way to go in," said Delaney. "They should see you as a financial advisor who can look at their benefits package holistically, creating a better relationship with more products."

And executive benefits are another great in, she said, though 44 percent of agents do not offer them and 34 percent never bring them up to their clients. (Charts 3 and 4)





Markets served

It should come as no surprise that most benefits business is being done with smaller companies, as they constitute more than 99 percent of businesses in the U.S. — 82 percent of producers did business in the past 12 months with companies employing two to 49 employees.

This trend places a high value on servicing the small-business owner who may not have the time or expertise to involve themselves with benefits plans, said Young.

We Ask Producers:
What Are the Biggest Benefits Issues?

"High costs are hurting everyone in the marketplace, especially with the rate of inflation in every other segment of the economy. I have found that people have a tendency to put insurance benefits at a low level of their priorities."

"I find that there is rarely a happy medium between price and benefit. Personally, I think that our clients would appreciate a more comprehensive policy for a smaller price. The so-called middle-of-the-line policies have great price points, but they still leave something to be desired in the way of coverage."

"Employers see benefits as a necessary evil and have no loyalty. They will go with whomever is cheapest and change on a whim regardless of relationship."

"The competition is fierce. Employers are not hiring new employees. Employees' paychecks are staying the same while all other costs are going up — less money for benefits."

"Employer education. They are very squeezed with rising premium costs but are reluctant to break free of an HMO mentality and look at a more managed option (e.g., HSA, HRA, CDHP, etc.)."

"Lack of employer and consumer education. Most employers stifle 'the voice' of their employees, not allowing them to have a say as to which benefits they desire to have most for their families."

"Gaining access to employees when employers are reluctant to allow on-the-
job meetings."

"Back-office support. You can sell the product, but if the customer is not being satisfied in the home office, it hurts your retention stats."

"I have leads for group insurance but lack the confidence to meet with them.

There are so many carriers and so many plans. I need training."

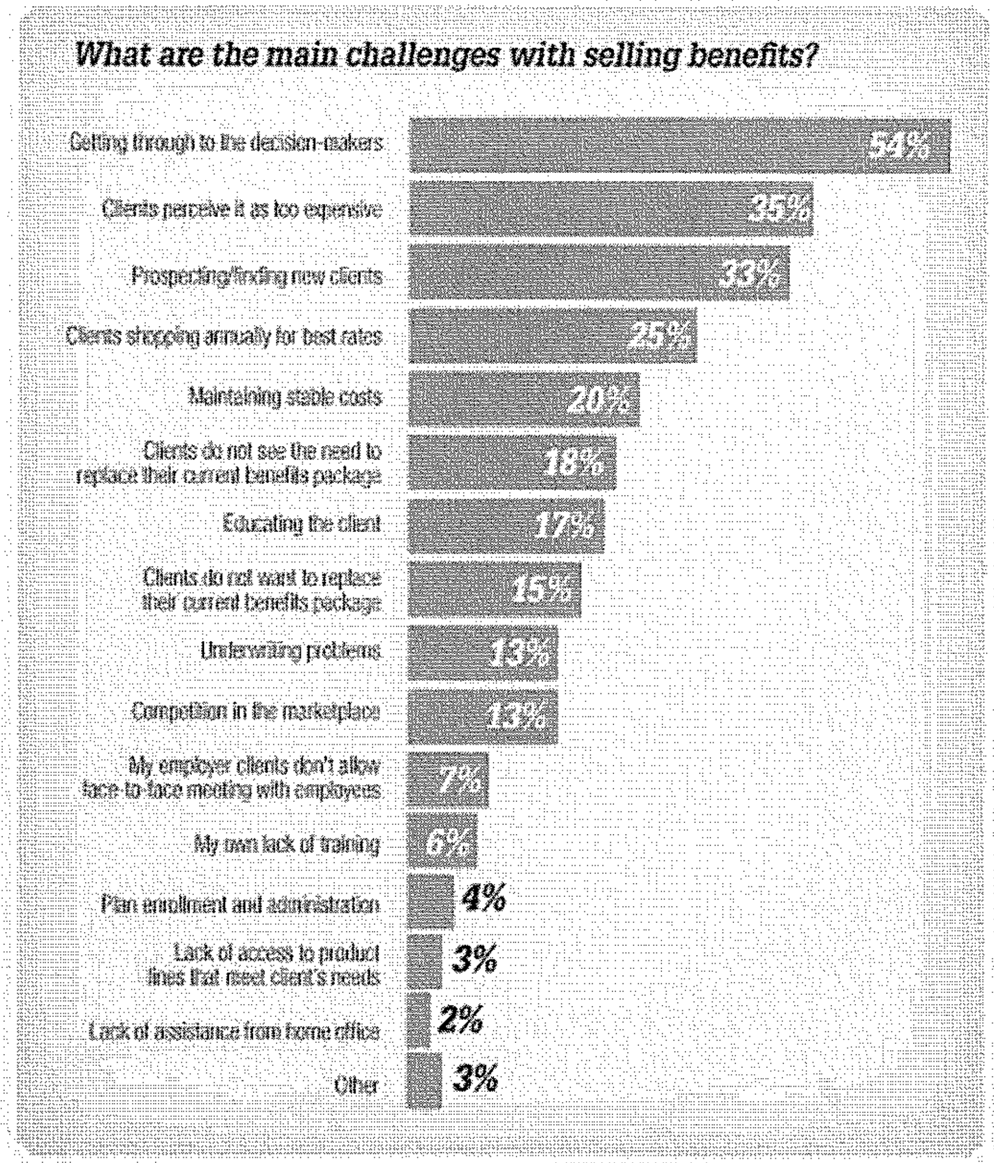
"There are subtle differences between (insurers) that are not apparent in the illustrations, like the way labs are treated. Also, the size/quality of the networks is hard to compare."

"They don't have resources to go out and be informed on this," she said. "The agent has to be a resource for the business owner."

In addition, most agents are writing benefits business in the professional and business services field (62 percent), with 42 percent in manufacturing and 32 percent in trades.

Major challenges
Getting through to the decision-maker remained the top challenge faced by 54 percent of agents serving the benefits marketplace. (Chart 5)

CHART 5



Three out of 5 of the challenges pertain to cost, a common concern among employers.

Networking is essential for getting your foot in the door, said Delaney, especially when talking to human resources professionals and chief financial officers. Joining associations, participating in local community events, and attending chamber of commerce meetings are a great way to gain visibility in the marketplace.

She also recommends taking baby steps.

"It's tougher with bigger companies in smaller communities," Delaney said.

"But when you get to companies looking for people with expertise, start with smaller companies. Under 50 employees is a huge growth spot from the marketplace perspective."

In addition to agents getting their feet in the door, other challenges include:

- Clients perceive it as too expensive (35 percent)
- Prospecting/finding new clients (33 percent)

- Clients shopping annually for best rates (25 percent)
- Maintaining stable costs (20 percent)

As for cost perception, Dave Parker, senior vice president of sales with Meritain Health, said few producers are bringing solutions to employers, instead merely maintaining the status quo and acting as "me-too" salespeople.

A more refined approach is necessary when approaching clients who are gun shy about so-called expensive benefits plans and concerned with maintaining stable costs. And with so many agents facing clients who are shopping around annually, a huge opportunity awaits those who work hard at becoming a solutions-oriented producer rather than a product pusher, Parker said.

Prospecting is another common challenge, he said, and one that can be coupled with cost.

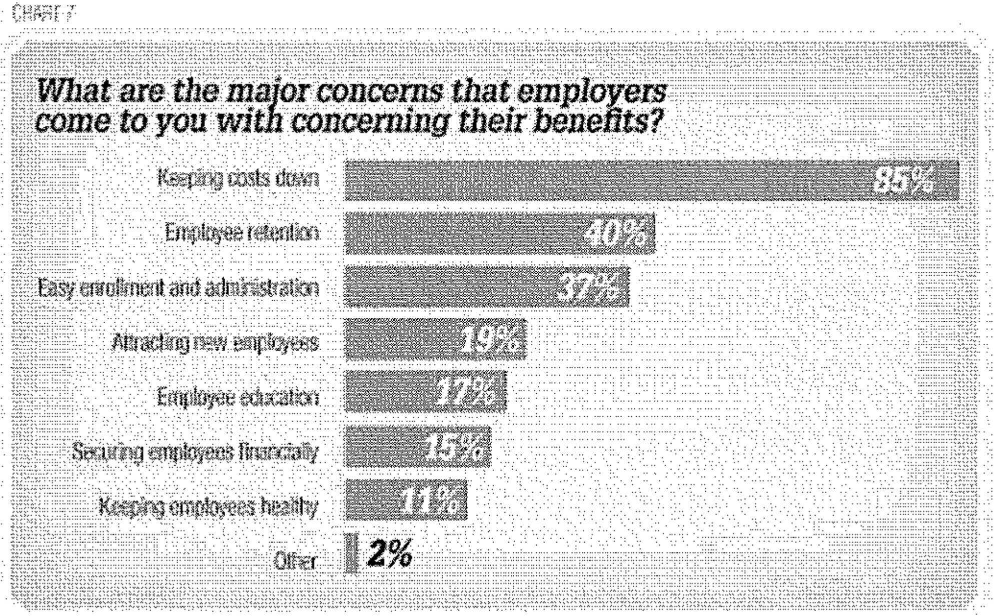
"If you save a client money or do something extremely good for them, they're your reference," Parker said. "Get out of the 'same old, same old' routine.

Clients are comfortable with relationships, so you do have to separate yourself and show why you're different."

Client concerns

Employers are most concerned with the price tag of group benefits — a whopping 85 percent are most concerned with keeping costs down. In addition, 40 percent look at employee retention as a hot button issue, 37 percent easy enrollment and administration, 19 percent attracting new employees, and 17 percent employee education. (Chart 7)

CHART 7

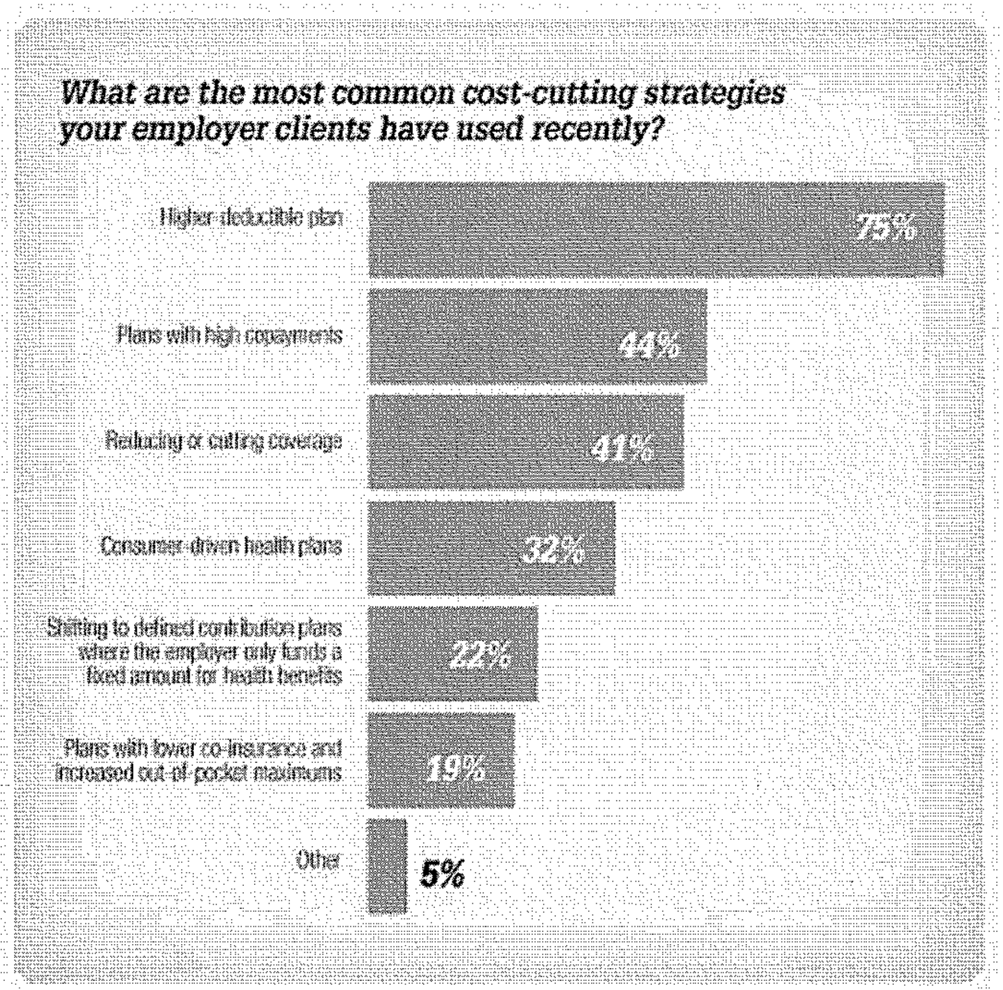


According to Sue Conway, employee benefits partner with Warner, Norcross & Judd LLP, high-deductible health plans are a popular way to help employers keep their health insurance costs to a minimum.

"This year in particular, a lot of our clients are starting to put these kinds of programs in place for their employees," she said, "along with wellness incentives, though that's more of a long-term cost savings measure."

Indeed, higher-deductible plans lead the pack among common cost-cutting measures on the part of employers (75 percent). Other popular moves include plans with higher copayments (44 percent), reducing or cutting coverage (41 percent), consumer-driven health plans (32 percent), and shifting to defined contribution plans where the employer only funds a fixed amount for health benefits (22 percent). (Chart 6)

CHART 6



Concerns about attracting and retaining employees present a huge opportunity to benefits producers, allowing them to present packages to employers who are invested in their workforce, said Chris Jardin, director of marketing, small group division, for Pres White Agency.

"Many companies have high competition for quality employees, and those types of employers really don't have a lot of leeway," he said. "They have to pay a higher cost for higher benefits, and if they don't provide them, someone else will."

Not only is it important to provide the benefits in the first place, but agents will want to encourage their clients to let employees know just how valuable their benefits are, said Hana Rubin, CEO of Pres White Agency.

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There was a time, she said, when employees simply took for granted that they would receive benefits. Today, however, with so much churn in the workplace, employees who understand how much their employers are contributing may tend to appreciate their benefits more, she said.

Easy enrollment and administration is another important issue for employers wishing to make things easier on both themselves and employees. According to the survey, 57 percent still favor paper enrollment over any other type (electronic, call centers, and kiosks).

"Especially in the small to mid-sized market, agents have got to figure out how they can get employers more into electronic mode," said Parker. "These are not expansive HR departments. Again, those bringing solutions to the table differentiate themselves and get new business."

And employee education on the part of the agent helps take more of the burden off of executives and human resources departments, said Jardin and Rubin.

Where are we going?

Overall, the benefits market presents a unique challenge — how can clients get the best coverage at the lowest cost and with minimal hassle? When employers provide benefits to employees, it can significantly impact their bottom line through higher productivity and retention and more successful recruiting efforts. The opportunity is there, then, for savvy agents to take the lead — with a few strategic offerings and tactics to help them move toward success.

Methodology

In May 2008, Agent Media (publisher of the Agent's Sales Journal) and MI2 (an association of insurance companies and professionals that provide voluntary employee benefits to businesses) conducted a survey among licensed benefits 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 market and their outlook for and opinion on the benefits market in general. More than 500 producers responded to the invitation. As an incentive, a drawing was held for an Apple iPhone. The survey results reflect answers given by personal producing agents who have sold at least one worksite benefits plan in the past 12 months.

And there is an even bigger reward in the future, said Delaney, with a new generation of college graduates moving from job to job and even career to career. These employees look for good, portable coverage that can help them meet their changing life needs, and producers will want to help employers face this incoming wave.

"It's very important to think of when getting into the market five years from now," said Delaney. "These graduates from college are becoming the next 25 to 30-year-olds in the marketplace."

Christina Pellett is managing editor of the Agent's Sales Journal. She can be reached at ASJeditor@AgentMediaCorp.com or 800-933-9449 ext. 226.

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