Outlook for 2008

CONSUMER-DRIVEN/ VOLUNTARY BENEFITS

For 2008, Employee Advice Lifts the Benefit Fog

Voluntary employee benefits have become a mainstream part of most companies' benefits portfolio. Today, 54 percent of all U.S. employers offer at least one voluntary benefit, and large employers are even more likely to offer them (80 percent of employers with more than 2,000 employees offer at least one voluntary product).

As voluntary sales soar, we will see more products, options and designs, with more manufacturers, vendors and administrators squeezing into the marketplace, adding more choice and flexibility to benefit packages. Sixty-five percent of employees own at least one such product, up from 40 percent as recently as 2002.

An additional driver of voluntary growth is that employees are purchasing multiple voluntary products. Twenty-two percent of those employees now own more than five voluntary products.

But as employers focus on the range of decisions they must make, the key to voluntary benefit success is in danger of getting lost.

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The Benefit Fog

From a product viewpoint, employers increasingly will be faced with voluntary versions of traditional benefit plans (term life, disability, dental), other products that have been primarily offered as voluntary (critical illness, dread disease, accident, whole life or universal life), a range of non-traditional plans (pet insurance, legal plans, travel insurance) and an increasing list of health-related plans such as hospital indemnity and mini-medical plans. Within each, the number of choices and design options are increasing.

The fact is that most Americans rely on their employer to offer them their financial security products. The local life insurance agent no longer is serving them, and they seldom buy through direct mail or Internet sites or have access to comparable plans. That fact puts pressure on employers to expand their voluntary portfolios far beyond what used to be considered an appropriate benefit offering. The voluntary portfolio is becoming the financial supermarket for many Americans.

Beyond product, employers will grapple with whether to use a consolidated billing company or rely on separate carrier bills; whether to outsource administrative tasks; how to enroll; when to add tax-favored or pre-tax options, etc. The list is becoming overwhelming, and employers will have to put more pressure on their brokers, consultants and HR staff to help them make appropriate decisions.

But behind all of these confusing details, employers must not lose focus on the essential element that rarely gets the attention it deserves.

Clearing the Air

Today, employees are facing the task of making increasingly difficult choices within their core benefits. Which plan? Which design? Which network? Which provider? And voluntary benefits are bringing a host of additional decision requirements:

- Which products are most important for my situation?
- How do I prioritize?
- How do I spend the available dollars?
- What benefit structures make the most sense?

And the sheer number and complexity of these decisions is growing rapidly.

Not long ago, 401(k)s went through a similar period, as the number of fund and investment choices began to explode. As the decisions became more complex, the differentiating value of product design became less important and the de-motivating impact of too many choices began to be felt.

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Employers today focus less on the selection and variety of funds when choosing 401(k) providers because the specific fund choices have become more commoditized. No one selects provider A because the Far Eastern Small Cap Value Fund is better than provider B's Far Eastern Small Cap Value Fund. It's more often about administration, fees and, most importantly, the advice component that is offered. Advice is the antidote for complexity as well as the lower contribution levels and participation rates that too many choices can cause.

Benefit programs are on the same track, headed for the day when everyone offers everything, and the number of choices and decisions causes employees to throw up their hands in frustration. Offering meaningful, personalized advice from a trusted source will become the major benefits battleground in the future.

Employers still construct their benefit programs with an eye to attracting and retaining employees. But as the number of benefit choices increases, we can expect, if we do nothing, fewer employees to take advantage of the options and frustration levels to rise. We need to drive toward advice-based service models that lead the pack rather than trying to backfill once the need becomes acute.

What is Advice?

Advice in the benefits world will be a complex offering. We know it is more than data and education. And we are discovering that it is more than calculations and needs analysis engines that compute a life insurance necessity. Advice has an affirming, personal aspect that we will need to accommodate through our enrollment, Web support and servicing functions.

The process for defining what advice means at your company looks deceptively simple:

- Define the benefit product set.
- Examine and quantify the choices that employees will be facing.
- Determine what type of decision support (information, prioritization, calculation and decision affirmation) is needed.
- Identify methods for delivering that support.

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Going forward, the starting point is an examination of your current employee-support model. What does enrollment mean at your company, and what support does it offer? Where do employees currently turn for help? Is there Web support from your company, your advisers or from your carriers? How is advice integrated into the service function? And who controls these touch points?

The key players will be your internal human resources team, your brokers or consultants, your insurance companies, and other product manufacturers. Also included may be third-party administrators, outsourcing vendors, associations or unions. Each may control a touch point, and each may, therefore, be a part of the advice-dispensing process (either currently or potentially).

Employers in the future will have to team up with these benefit partners to solve the advice question. The smart ones already have begun[1].

At Eastbridge Consulting Group Inc., Gil Lowerre works with many of North America's leading insurance companies, brokers and third-party administrators. His specialties include business strategy design, distribution development, marketing planning, and worksite marketing and employee benefits. Lowerre helps design and enhance the performance of existing marketing functions by structuring business units, identifying and segmenting target markets, and designing effective marketing campaigns. He can be reached at 860-676-9633 or glowerre@eastbridge.com. For more information on Eastbridge, visit www.eastbridge.com.

1 All data are from research reports published by Eastbridge Consulting Group Inc.

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