



The Economic Wave in Employee Voluntary Spending

The recession is over and the economy is on the mend. The equities markets are improving and lending is starting to show signs of life, but workers are still hurting.

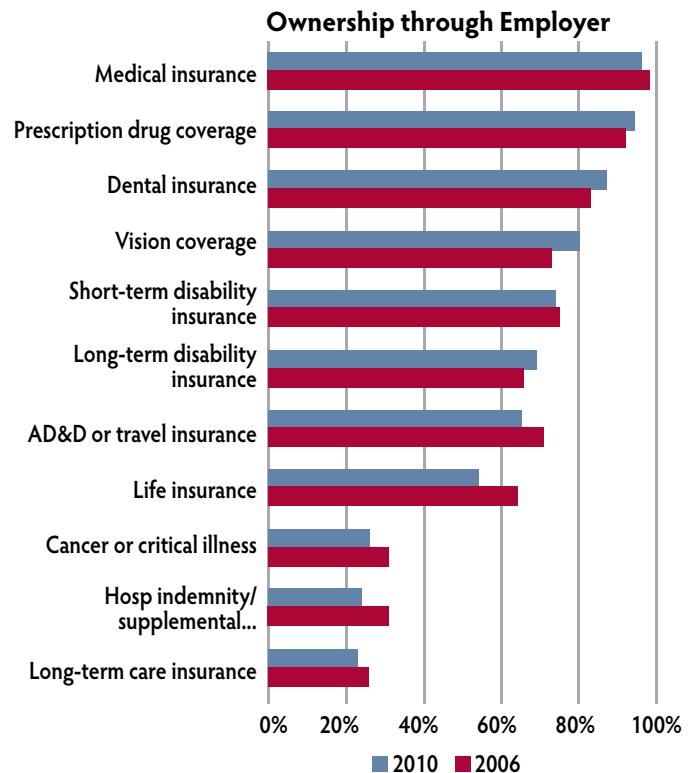
Unemployment remains high, job growth is spotty, and incomes are lagging. Not surprisingly, this scenario has had an impact on voluntary coverages, buyer behavior, and the benefits business in general. The retrenching is leading to a reorienting of employee priorities and is setting the stage for rebound growth over the coming several years.

Employers remain conservative about benefit spending. Even as profits improve and cash reserves recover, employers remain

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wary about spending. When asked about their plans for spending, employers disclosed significant plans to either reduce outlays or dampen the impact of cost increases.

At the same time that pressure is placed on them to contribute more, employees have been reacting to the overall economic uncertainty by increasing savings, cutting debt, and reducing payroll-based discretionary spending. This latter trend directly impacts



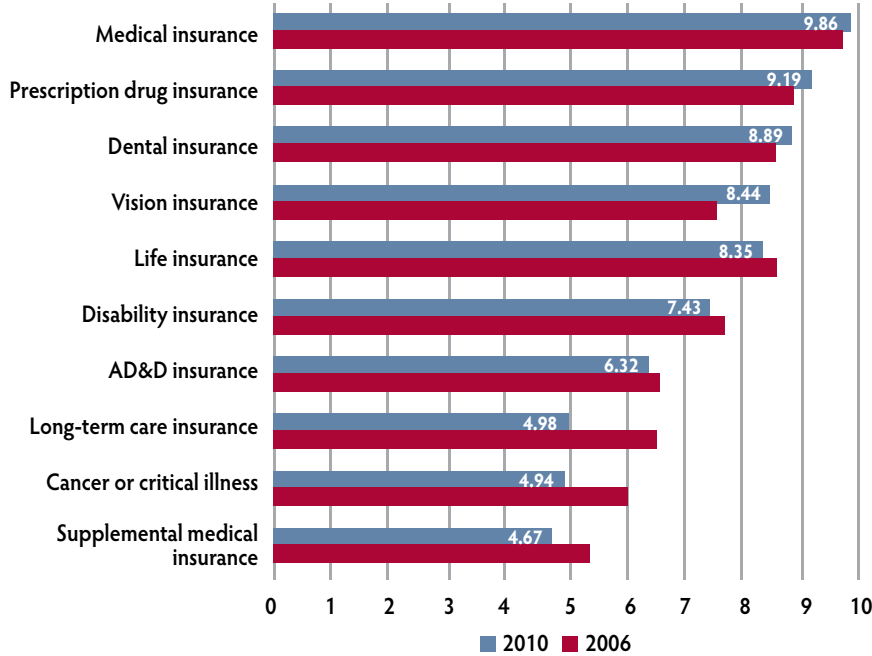
cafeteria and voluntary offerings and is already showing up in ownership numbers. In one recent study, Medical, AD&D, Life Insurance, Critical Illness, Supplemental Medical and Long-Term Care coverages all showed ownership decreases.

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Employer Moves Planned in the Next 12 to 24 Months	Percent
Increase the employee contribution towards benefits	37%
Increase deductibles, copay, or other	29%
Cap total costs by going to a "defined-contribution" approach	14%
Move certain benefits to voluntary	7%
Cap total costs some other way	6%
Drop some benefits completely	5%

VOLUNTARY & SUPPLEMENTAL BENEFITS

Importance of Different Types of Insurance



Employee needs and exposures aren't going away; the priorities have just been shifting in response to uncertainty.

The priority shift is reflected in employees' descriptions of how important various coverages are to them right now. The following chart uses a 10-point scale where 10 is the greatest importance and one is not at all important. We consider any coverage receiving an 8.0 or higher rating as "indispensable" or "extremely important" while those with a 7.0 or higher rating are "very important." Those with a 6.0 or higher rating are "important" and those below a 6.0 are "not so important."

than they have been to new purchasers. As a result, voluntary product ownership has actually decreased over the last few years. Consumers are holding back.

This short-term trend is not based on finding replacement products for voluntary coverages. Most Americans still get their financial security products through their employer. In one recent survey, only 23 percent of employees said they owned insurance (other than auto and homeowners') outside the workplace.

So what is happening?

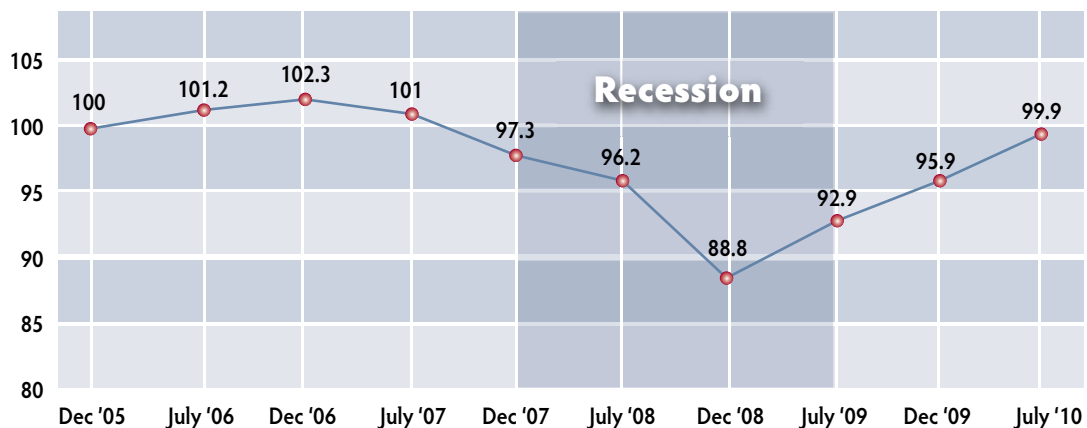
First, they are reorienting their protection priorities and, secondly, they are delaying purchase until the economic climate becomes more stable (and predictable).

As you can see, overall, most coverages continue to be important, even in this economy. However, there is clearly a shift in priorities. The big four, Medical, Drug,

Dental and Vision, are seen as more important today, while the others have taken a step back in importance. Employees have become more conservative, focusing on what they perceive as the core coverages. Importance overall hasn't changed much, but the priority coverages have shifted.

This shift is reflected in buying interest. When asked which not-owned coverage they would be interested in buying today, if

Voluntary Confidence



it were offered on a voluntary basis, the same pattern emerged. Keep in mind these employees had not seen a sales presentation or any materials about these products and yet they are interested in buying.

Top Five Voluntary Products of Interest to Employees

Employees are focusing on perceived core needs and are delaying purchases of coverages that are deemed less essential. With increasing economic stability over the next few years, the historic patterns of buyer behavior should reassert themselves.

On the front lines of the voluntary business, brokers and voluntary executives have been living with these trends and forces

	2010
Vision	30%
Dental	28%
Prescription Drug	19%
Short-Term Disability	17%
Long-Term Disability	15%
Drop some benefits completely	5%

every day. As they have watched preferences change and sales shift, they have become excellent predictors of voluntary activity at an industry level. The Eastbridge Voluntary Confidence Index tracks their attitudes towards sales, employee behavior, and industry performance. Left is

the aggregate index score, which can be seen as a measure of their overall confidence in the future of the voluntary business.

Voluntary Confidence Index

During the recession, many brokers focused more on core coverages and the key voluntary products employees were demanding. But as the job markets recover, the wider array of voluntary offerings again takes its place in the portfolio.

Employee needs and exposures aren't going away; the priorities have just been shifting in response to uncertainty. As that uncertainty diminishes those additional needs will become more compelling, and in a climate where employers continue to look for ways to control benefit costs, the future for voluntary insurance can only become brighter. ■

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Following his field experience as a producer and field sales manager for a major insurance company in New York State, Lowerre spent 10 years with the Life Insurance Marketing and Research Association (LIMRA) in Hartford, Conn. In 1989, Lowerre left his position as an officer at LIMRA to start Eastbridge Consulting Group, Inc. After 21 years, Eastbridge has become the leading U.S. consultancy with a specialty in voluntary product and worksite marketing and is known internationally for its research and consulting skills. His specialties include business strategy design, distribution development, marketing planning, worksite marketing, voluntary insurance, and employee benefits. Lowerre helps design new business models, enhance the performance of existing businesses, and helps companies enter new markets. He was inducted into the International Worksite Marketing Hall of Fame in 2006, and was named to Benefit Selling Magazine's top 10 power list of influential people in the employee benefits industry in 2008. He has an undergraduate degree in psychology and a master's degree in management. He has three grown children and lives with his wife in Avon, Conn.

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Brazzell is a leading expert on worksite marketing of financial services products. Prior to Eastbridge, she had 25 years of experience with a major worksite/voluntary carrier. During her carrier career, Brazzell worked in various positions, including underwriting, product development, market development, and customer marketing. She joined Eastbridge in 1999. She manages consulting projects for both worksite/voluntary and group clients. Brazzell focuses on strategic, business, and marketing planning; competitor, product, and market analyses; and business line assessments. She also oversees a variety of research projects—both consortia and client specific—designed to improve the marketing of group and voluntary products. She has helped clients of all types develop and improve their marketing strategies. Brazzell is a frequent speaker at industry events and has had articles published in numerous publications. She has a degree in mathematics and lives in Columbia, S.C. Contact Bonnie at bbrazzell@eastbridge.com or 803-738-1236