

Keeps Growing and Growing and...

While not registering the double-digit growth rates of previous years, work-site sales are steadily increasing.

by Gil Lowerre and
Bonnie Brazzell

Work-site carriers recorded another year of growth in 2004, according to *U.S. Work-Site Sales*, a recent study by Eastbridge Consulting Group Inc.

According to the study, new U.S. work-site sales totaled an estimated \$4.22 billion, a 3% increase over 2003 results. Growth improved from the 1.8% increase realized in 2003 (based on revisions several companies made to their reported 2003 sales). Over the past eight years, the work-site market has shown steady growth—doubling the sales in the past seven years.

“Work-site” sales as defined in the study are employee-paid products, either individual or group, sold at the work site, with premium paid through a payroll deduction. Eastbridge’s study examined overall work-site sales volume, and sales by product line and distributor segment. This year’s study included data from 1997 through 2004 and tracked the performance of 65 work-site car-

Illustration by Elen Wagner

Contributors: Gil Lowerre is president of Eastbridge Consulting Group Inc. and Bonnie Brazzell is vice president.

Key Points

- U.S. work-site sales of voluntary insurance products in 2004 increased 3% over 2003.
- Group products again saw a higher growth rate than individual products.
- New work-site premium sales are expected to reach almost \$15 billion in 2020.

riers (both group and individual).

Some highlights of the study are as follows:

- U.S. work-site sales totaled an estimated \$4.22 billion.
- The employee-benefit broker segment accounted for the largest percentage of sales of any single segment.
- Life insurance accounted for the largest share of sales.
- Hospital indemnity and supplemental medical plans had the highest growth rate.

Inforce Premium

Inforce premium increased about 11% in 2004, which is in line with historical averages (but slightly lower than the 13% growth in 2003 and the 17% growth in 2002).

Sales by Product Line

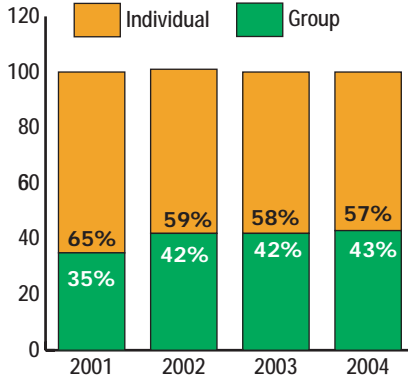
On a product basis, life insurance accounted for the largest share of sales

Continued on page 94

At a Glance: Work-Site

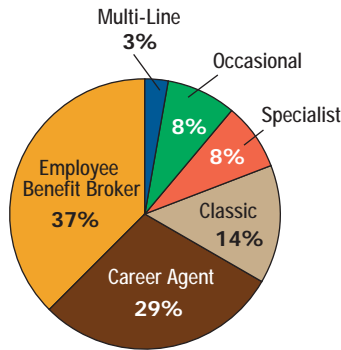
Group and Individual Work-Site Sales

Although individual products account for more new work-site sales, group product sales are steadily increasing.



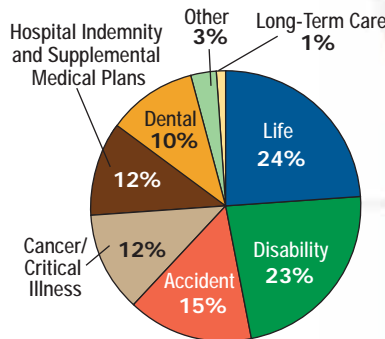
Work-Site Sales by Distributor Segment

Employee benefit brokers continue to account for the largest percentage of sales.



Mix of Sales By Product Line

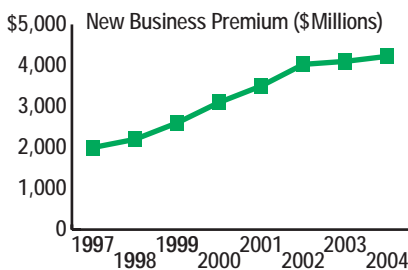
Although life and disability are the top sellers, year-over-year they have shown slower growth than other product lines.



New U.S. work-site sales totaled an estimated **\$4.22 Billion** in 2004

Work-Site Market Premium Growth

Work-site product sales have doubled over the past seven years.



Source: Eastbridge Consulting Group Inc.

In-Force Premium

In-force premium grew about 11% in 2004.

Year	Low Estimate of In-Force Premium (in \$ Billions)	High Estimate of In-Force Premium (in \$ Billions)
1997	\$5.20	\$6.20
1998	\$5.80	\$7.00
1999	\$6.70	\$8.00
2000	\$7.30	\$8.80
2001	\$8.50	\$10.30
2002	\$10.00	\$13.30
2003	\$11.30	\$15.00
2004	\$12.50	\$16.60

Health/Employee Benefits

Continued from page 92

with 24%, but disability was a close second at 23%. Year over year, both disability and life sales showed slower growth than other product lines. In fact, new life premium was actually somewhat lower than in 2003, while disability sales increased just 3%. Only a few product lines—disability, hospital indemnity/supplemental medical, and “all others” (such as annuities, accidental death, etc.)—showed increases from 2003 to 2004. The slight decrease in life sales may be attributed to the increasing percentage of work-site sales being made in established cases with life insurance already in place.

The hospital indemnity and supplemental medical plans had the highest growth rate again this year—increasing by more than 80%—indicating that employers and employees continue to be interested in products that help cover deductibles and out-of-pocket expenses. Perhaps that's why more carriers than ever are offering and promoting this product to producers and their clients.

Sales by Product Platform

Group platform products continued to outpace individual plans. Group products grew 4% in 2004, while individual grew just 1%. Individual platform sales, however, still exceeded group platform sales; in 2004, group products accounted for 43% of new sales while individual plans accounted for 57%.

Sales by Distribution Channels

The study also tracked the distribution channels for work-site products. Past research has identified six distinct segments selling voluntary/work-site products: career agents and five brokerage segments—employee benefit brokers, classic work-site brokers, work-site specialists, occasional work-site producers and multiline brokers. Eastbridge found that the employee benefit broker segment, again this year, accounted for the largest percentage of sales of any single segment.

They produced 37% of the new premium, a 2% increase over 2003.

The classic work-site broker, work-site specialist and multiline broker shares decreased from 2003 to 2004, while the occasional broker segment gained some ground (from 4% to 8%). Career agents, the second-largest segment in terms of work-site sales generated, also increased, to 29% from 26% in 2003.

Trends and a Look to the Future

While still impressive compared with many segments of the insurance industry, 2004 was the second year in a row that the voluntary segment did not realize double-digit growth. As a result, the question is raised if this slower sales pattern is a sign that there's a fundamental change taking place in the work-site market.

Eastbridge believes, based on its analysis of the 2004 results and its views of the changes occurring in the industry, that the work-site market will continue to grow—and evolve—in the years to come.

Upon further analysis of the data, the results indicated that just a few companies had an “off” year in 2004. In fact, almost 70% of the companies surveyed registered sales increases. What's more, more than 50% had double-digit sales growth while only six companies had decreases of \$5 million or more in new business premiums. These companies often were facing internal issues that caused them to be “off momentum” in 2004. Eastbridge calculated that had these six companies sold the same amount of new business as they did in 2003, the industry growth rate would have been 6.9%.

Other changes in the benefits world reveal that sales will continue to grow, although probably at slightly lower levels than the double-digit sales of the past. Voluntary sales are a viable (and often used) tool for dealing with the well-document-

ed increases in the costs of health and welfare benefit programs. While health plans have seen increasing co-pays and deductibles, premium sharing is becoming common, and traditional benefits are morphing into base/buy-up plans. These pressures will continue to squeeze employers and fuel the interest in consumer directed health care, benefit banks, and defined contribution concepts. As a result, the migration from employer-paid coverages to employee-paid plans has begun and is certain to continue. Today, all major group carriers are preparing for the voluntary migration. These trends ensure that growth will continue in the voluntary/work-site market.

Eastbridge also believes that voluntary sales will be positively impacted by a growing tendency among Americans to purchase financial-security products at the workplace. As traditional distributors and agents abandon the middle market for (usually) affluent market niches, more and more Americans will find that the workplace is their primary source of benefits. Add the fact that consumers are comfortable buying at the workplace and that they appreciate paying through payroll deduction, with its implicit budgeting mechanism.

As a result of these trends, voluntary sales will continue to grow at a faster rate than most insurance industry segments. While the requirements for success will grow more stringent and competition will become more daunting, those that can weather the storm will be well rewarded. In total, Eastbridge forecasts an average compound growth rate of 8% between now and 2020, raising industry new premium sales in 2020 to almost \$15 billion. **BR**

Insurance is a multi-billion-dollar industry.
Who knows where the money goes?

You will.

The Best's Review[®] 2005 Guide To *Understanding The Insurance Industry*

This new reference is packed with charts and graphs that explain—in a colorful, concise and easy-to-understand way—how insurers make and spend money.

The *Guide* showcases exclusive information about:

- The property/casualty, life, health and reinsurance industries
- How insurance is sold and regulated
- Solvency and ratings
- Background on well-known insurers
- Plus: Industry overview, calendar of meetings and events, and glossary of insurance terms

The *Guide* is an excellent source for industry facts and figures—perfect for reports, speeches and presentations—and a great gift for:

- New employees
- Board members
- Customers
- Anyone who wants to gain a better understanding of how the insurance industry works

The *Guide* is yours with a one-year subscription to *Best's Review* magazine. For only \$20—half the regular subscription price—you'll get 12 issues of *Best's Review* plus the *Best's Review 2005 Guide to Understanding the Insurance Industry* as a free gift.



Reserve your copy of the *Guide* today by calling (908) 439-2200, ext. 5742, or visiting www.bestreview.com/subscribe. Once you receive your *Guide*, you'll have the opportunity to purchase up to five additional copies for \$10 each by filling out the order form at the back of the book.