

## 2020 Vision

An expert predicts benefits industry changes by 2020 for brokers, carriers and third-party administrators.

### Fast Focus

- In 15 years, employers will still be the main source of benefits.
- More employees making decisions on how to spend employer-provided benefit dollars.
- The benefit advisor will be the dominant intermediary.

*Could you have predicted just 15 years ago that you would regularly take calls from clients while walking down the street or sitting in your car? Send e-mails to the office on something called a Blackberry? Carry a computer in your briefcase?*

*We think of evolution as a slow and torturous process, but look how quickly our day-to-day business practices and many business models evolved through the use of these tools? The nature of the group benefits business has evolved, too, in concert with product innovations and changes in technology, regulation and the U.S. and global marketplace. And it's a good thing, too, because in business, if you don't innovate and move forward quickly, you go the way of the dinosaur. Evolution creates fossils out of losers.*

*So how will the group benefits business evolve over the next 15 years? We asked benefits guru Gil Lowerre, president of Eastbridge Consulting Group, to give us a glimpse into his crystal ball. —Editor*

By Gil Lowerre

Employers and employees are rapidly changing, as are insurers and distributors. What will these players and their products and systems look like in 2020?

Over the last several decades, the U.S. has continued to evolve toward a service-based economy and away from its historical manufacturing base, primarily because of increased

automation, cost differentials (primarily for labor), and the resulting move to offshore manufacturing. By 2020, the economy will be increasingly dominated by “service-producing” businesses rather than “goods-producing” ones, with service providers accounting for 80% of all businesses. The trend toward more small businesses (with fewer than 100 employees) and mega businesses (with more than 1,000) that began in the 1990s will continue well into the next decade. Medium-sized businesses will decline as a percentage of all businesses with many being downsized, merged or acquired.

The growth of the labor force will slow significantly over the next decade, and labor shortages will become common in all industries. Companies will begin to use more non-traditional employment, such as part-time employees, at-home workers, contractors and leased employees. As such, the trend toward greater work mobility will accelerate. This means keen competition for employees and more emphasis on benefit portability.

Even amid all this change, one thing will remain the same: the workplace will continue to be the primary source of benefits for most Americans.

By 2020, employers will no longer design benefit packages for employees, reflecting a shift in decision-making power from the employer to the employee. Tomorrow's employers will simply provide some of the money for employees (most likely under a defined-contribution approach) to purchase the benefits they want and need and act more as facilitators in the decision-making process. From the employee's perspective, jobs will be easier to compare: the decision will be based on the job itself and the dollars offered, not the benefits. Benefit funding will simply be considered part of compensation.

Employers will also be responsible for selecting an intermediary, arranging for advisory services and monitoring and managing the services provided by the intermediary and administrator. Much of this will be driven by employee demand for impartial advice from an independent advisor and for a portfolio of “best of breed” products.

### The Product Drivers

In addition to changes in American business, the workforce, and the fundamental relationship between employers and employees, other factors will affect future product designs. These include Social Security, taxation, legislation and regulation.

Given the uncertain future of Social Security as a “safety net” for most people and the demographic realities for retired Americans, personal savings and health care costs will overwhelmingly dominate as the most pressing financial concerns. Coupled with the relatively stagnant asset growth of most individual non-qualified savings plans, qualified savings plans will become a much more important factor in people's financial security.

By 2020, more products will be unbundled into their cash fund and risk components, following the trend started by universal life insurance in the 1980s and taken one step further by Medical Savings Accounts, Health Savings Accounts and “consumer-driven health care” designs in the beginning of this century. As with those products, employees make investment and management choices about their funds. Eventually, this unbundling will give employees three major accounts to manage: retirement plan (qualified and employee-directed), savings (non-qualified, employee-directed) and protection (the funding, transaction, or reserve elements of insurance-based products).

Under the retirement plan account, the owner (employee) will select the investment vehicles and allocate the funds, much like today's 401(k) plans. Accounts will contain

assets from previous pension or profit-sharing plans. In addition, the plan may receive sweep additions from the protection account. Most plans have specific advisory services attached as account features. For example, most retirement accounts include asset allocation, income projection and rebalancing services. Some employees will also contribute to a non-qualified savings account, which is separate from the retirement and protection accounts.

All insurance-based benefits—life insurance, medical, and income replacement—will be included in the single protection account. Here, employees select the coverages they desire and purchase stop-loss coverage (risk component) for each, for the desired level of protection. The employee sets the level of risk, which in turn, is used to create a funding schedule for that particular coverage. The “risk deposit” for each coverage is calculated, all coverages are combined, and the employee makes payroll-deducted contributions based on that set level of risk.

These protection elements are commodity, stop-loss type products with extremely thin margins. Brokers will handle both the account and stop-loss aspects of these products with the insurance piece offering a thin commission and the funding account paying a far richer asset-based fee. Competition among brokers to manage and invest these “savings” and protection accounts will become intense regardless of which institutions win the battle for product control.

### The Role of Distribution

Over the next 15 to 20 years, there will be major shifts in distribution patterns affecting broker practices and their supporting institutions. Why? Because employers and employees will demand that their distributors be truly independent, demonstrably representing their best interests in each transaction, not those of a product manufacturer or service provider.

As employees gain greater control and responsibility for their savings and benefits, they will want—and appreciate—more information, education, and most importantly, advice. They'll want to work with an intermediary that is free to align with any type of administrative platform and to sell any type of product.

By 2020, there will be different categories of distributors or intermediaries in the business: human (agents, benefit advisors, benefit consultants), electronic/Internet and direct. Of these, the benefit advisor will clearly emerge as the dominant intermediary, offering retirement, protection, savings accounts and products.

Benefit advisors will be truly independent of manufacturer influence and will be free to recommend products and services as they see fit. Advisors may work independently, in small agency groups (benefit boutiques), or may band together in professional groups. They will largely be compensated by fees for assets under management (generated by the retirement and fund portion of the protection account), plus a small commission on the stop-loss products. But they also will receive some compensation, either directly or indirectly, from employers in exchange for offering consulting services, such as assessing current plans, shopping for new plans and serving as an outside advisor to an employer's staff. Advisors typically align themselves with one particular benefits administrator. Almost two-thirds of all new business in 2020 will come through these benefit advisors, and their dominance will continue to increase.

## The Administrative Evolution

While employer and employee needs will affect the distribution process, the combination of technology, the benefit advisor and product changes will revolutionize benefits administration. These administration platforms will provide the required products and services to the benefit advisor or other intermediary—usually from a variety of manufacturers—as well as the support that the intermediary needs to be competitive and successful.

In the long term, the industry will see three different categories of platforms:

- Manufacturer-owned—Agency, broker, electronic intermediary and direct
- Independent—Benefit administrators and aggregators, which are companies that have purchased boutiques, seeking to streamline the operations of many smaller sales organizations while adding new, efficient services and negotiating more lucrative contracts with manufacturers
- Shared—Joint ventures or alliances where manufacturers and others share platforms.

The benefits administrator of the future will evolve to meet the changes in the market by combining the best elements of three older forms of insurance-related businesses: full-service third-party administrators, HRIS/payroll companies and broker/dealers.

The benefits administrator in 2020 will be able to deal with the full gamut of employer-based retirement accumulation and protection products (qualified and non-qualified, variable and fixed). Having shopped among manufacturers for the best products to offer, the benefits administrator will serve as the benefit advisor's product supermarket. The administrator also will perform a variety of TPA-type functions. These include enrollment, underwriting, customer service, issue and claims, combined billing, reconciliation, and premium collection.

## The Future of Insurance Carriers

Most companies will respond to the separation of the funding element in their products, deciding that they could not survive based purely on stop-loss coverages and premiums (which quickly become commodity businesses). As a result, companies will aggressively enter the funds-management business. Some will build their own businesses, while others will merge with existing fund companies; still others will fail.

By 2020, manufacturers will provide both stop-loss protection and fund-management services. However, both will be highly competitive businesses where scale is vitally important. Even after 2020, we predict a continuing shakeout among the remaining players.

## Innovation, Upheaval, Evolution

The changes in our industry will never be over. This is truly a dynamic business. In the near term, we're going to see more innovation and upheaval. As time passes, almost all producers will sell both voluntary and core products, and more will be adding retirement products or teaming up with those who do. Employers will accelerate their move toward

defined-contribution approaches to their benefit programs. Enrollment systems will make strides in bundling “advice” or “counseling” to help employees sift through their choices. Carriers and brokers will accelerate the blending of voluntary and group manufacturing and marketing strategies. And the distinction between group and worksite carriers and group and individual products will disappear completely.

In the longer term, by 2020, we'll see even more evolution. Employment-based benefits will still exist, but employees—not employers—will be the key decision makers. Instead, employers will act as facilitators and provide some funding. Additionally, there will no longer be distinct lines of business for group, voluntary, and retirement plans, and products will look very different with separate risk and savings components.

The Internet will be the primary tool for service delivery, and independent administrators will handle all product lines. As for distribution, brokers will sell all product lines and will serve as independent advisors paid primarily through fees and asset-based compensation. And enrollment of the future will provide financial planning and risk management advice.

Are you ready for these changes?

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