



Benefits Briefing VOLUME 1

Perspectives on Current Offerings and New Choices from
Surveys of Employers and Brokers (4Q06)

National Employee Benefits Advisory Forum

Background & Methodology

The National Employee Benefits Advisory Forum (NEBAF) conducted an online information exchange, launched at the end of November 2006, to understand its members' interest and experience regarding important employee benefits and some new approaches to the kinds of choices employers and employees may have in the near future.

The information in this report is based on online surveys taken by 95 benefits decision-makers and 259 brokers. The surveys featured a mix of quantitative and qualitative questions.

The following pages include findings from both Employers and Brokers regarding their perspectives on current benefits offerings and new choices.

Did You Know?

Lifestage bundles are packages or bundles of products and services tailored to employees at different stages of their lives.

Talking about Lifestage Bundles...

"Based on our diverse population this may be of great interest to our employees. With the continued increase in benefits costs, our employees are looking for new ways to save."

"We have many employees in the recent grad/families and many employees in the empty nester groups whose benefit needs are drastically different."

"Seems like a unique way to offer benefits that can help everyone at different points in their life."

Talking about Voluntary Benefits...

"I am a firm believer in offering voluntary benefits. These benefits empower the team member to have a choice in what they are purchasing. This empowerment gives back some control over your health care and what options you as a team member have."

"It can offer ways for employees to fill in gaps in coverage not provided within the plan at savings over what they might pay on an individual basis."

Views of Benefits Decision Makers

Benefit decision makers gave their views on several topics including:

- Familiarity and interest in "lifestage bundles"
- Use and importance of benchmarking
- Use and importance of voluntary benefits

Lifestage Bundles: Familiarity Low, But Interest High

Almost two-thirds of decision-makers say they are not familiar with the concept of lifestage bundles. However, the majority (79%) say they are somewhat or very interested in learning more about these bundles. Further, for those who express interest, more than two-thirds say they are somewhat or very likely to offer such bundles, if they had the opportunity.

While few in number, those who express low or no interest in learning more about lifestage bundles (21%) give a number of reasons why:

- Administration of lifestage bundles may be harder.
- Company is too small to justify lifestage bundles.
- Company philosophy is not consistent with bundling.

Who's Best? Benchmarking Is Very Important

The majority of respondents benchmark aspects of their benefits program, and the majority of those who benchmark feel it is "very" important to do so.

Brokers are the main source of benchmarking information, with carriers the second or third most frequently cited source. For the largest companies, however, reliance on brokers is sharply lower; dependence on consultants and TPAs is significantly higher. Carriers also tend to be cited second most frequently by the largest companies.

Industry or trade associations are cited by between 30% and 55% of the respondents. And between 15% and 20% of respondents indicate that they turn to "other" sources — in most cases, their peer HR professionals at other companies.

Voluntary Benefits: Choice, Value, and Goodwill

The top three most frequently mentioned benefits of offering voluntary benefits are:

- Employees get a good value, can obtain a benefit at a lower cost than otherwise possible — often by using pre-tax dollars (36%).
- Employees value lots of choices, wide array of benefits (32%).
- Company is perceived as caring for the employee, which creates goodwill and higher satisfaction (29%).

Talking about Employees...

"One of our highest priorities. Without a happy and healthy workforce we will not produce quality products or represent our products at the highest level."

"It is extremely important to our company that employees feel important, know they are adding value and know they will continue to be developed in order for our company to meet our vision."

"Very strongly—they are of the belief that the people are their biggest asset."

Talking about Education...

"Educate the employees so that they can put together the best package for themselves."

"HR will have to have more information on plans; demystify the plans for the employees."

"More emphasis on consumer driven products such as HRA, HSA and flexible spending accounts will require HR to become more knowledgeable so they can inform their employees efficiently."

Going Strategic: The Changing Role of Human Resources

Asked how the role of HR has changed over the *past* five years, only a few respondents feel there has been no change (under 10%). The majority see HR gaining influence, becoming more strategic and more professional. Focus has also increased on employee-related issues — training, attraction/retention, etc., for almost 20% of the respondents.

Looking ahead over the *next* five years, some feel there will be few changes (under 15%), while other respondents see HR continuing to gain influence, becoming more strategic and more professional.

Responsibility To Employees Taken Seriously

The majority of respondents feel their company views its responsibility to its employees very seriously. Just over 30% of respondents believe that their company should offer as many benefits as possible. However, significantly more respondents believe that the company should watch out for the employee's welfare.

Employee Education and Cost of Benefits Among Greatest Challenges

Asked what the greatest challenges they will face over the next two or three years, respondents most frequently mentioned costs of benefits in general and healthcare specifically.

The top two reasons why the challenges mentioned were the greatest reflect the reality of rising costs: Healthcare costs continue to rise (23%); Costs (of benefits) continue to rise/becoming too expensive (20%).

Other challenges also mentioned include educating employees about benefits so as to make good decisions and increase participation, and specific issues such as wellness and disease management.

Views of Brokers

Brokers gave their views on several topics including:

- Factors when recommending carriers
- Use and importance of voluntary benefits
- Familiarity and interest in the multi-carrier model

When Recommending Carriers, Service Ranks Highest

Brokers ranked in importance criteria when deciding which carriers to recommend to clients for voluntary benefits.

- Ranking highest is service to employees and employers
- Second highest in importance is the carrier's overall expertise, service to advisor/broker, and financial strength
- In third place are factors such as the carrier's reputation/credibility and cost effectiveness

Only one in seven brokers sees a pre-existing relationship with a carrier as a very important factor when recommending carriers.

Voluntary Benefits Add Value — and Revenues

Around three out of four brokers find voluntary benefits somewhat or very important to their firm's overall book of business. They add value to the benefits packages, generate revenue, and are a competitive advantage for brokers.

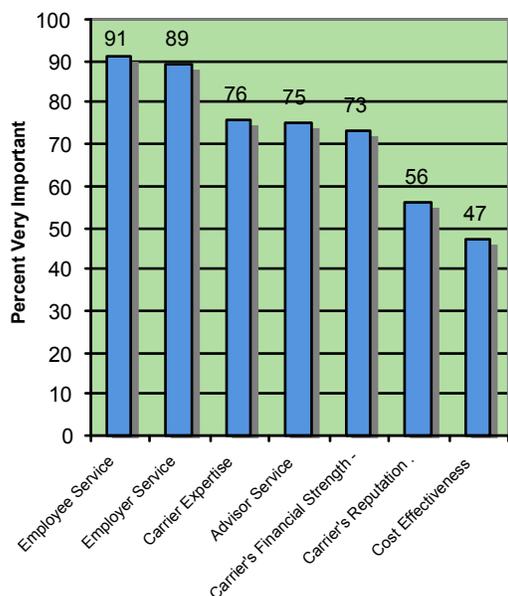
Offering voluntary benefits has become more important to brokers over the last five years, and will continue to become more important over the next five years. Brokers offer voluntary benefits to broaden an existing client relationship (92%), to be competitive in the marketplace (53%), and to get a foot in the door with a new client (37%).

According to brokers, employers offer voluntary benefits to their employees to round out benefits packages (87%), meet the needs of a diverse workforce (78%), be competitive in the marketplace (64%), and help attract and retain top talent (59%). This is consistent with the advantages of offering voluntary benefits most frequently mentioned by employers.

But there are barriers to successfully selling voluntary benefits: employers perceive additional work (88%), low participation (59%), additional cost (25%), and fear service complaints (43%) and fiduciary responsibility (31%).

Nine out of ten brokers say that high employee participation in the voluntary benefits that they sell is somewhat or very important. It shows that a need is being met, that brokers have demonstrated their ability to add value to their clients, and greater revenue is generated.

Importance of Factors When Recommending Carriers



Talking about Voluntary Benefits...

"Voluntary benefits are not the primary driver of our book of business, but they are for many of our competitors. Therefore, proper attention needs to be given to voluntary benefits. If we don't talk/present voluntary benefits, someone else will."

"As (the cost of) traditional group products, especially medical, continue to increase, voluntary benefits will be an increasingly important part of our portfolio for solving our clients problems."

"One of the fastest growing practice areas within our firm."

A Lot of Quack

“Great advertising... everyone knows the duck.”

“I think they are all dominant players in the voluntary market, but AFLAC has the best name recognition with employees. When employees are given a choice, they tend to enroll in AFLAC products over other carriers.”

“AFLAC is a great marketing company with low value products.”

“AFLAC probably has the largest market share, but most employers are turned-off by their sales tactics.”

Did You Know?

Some employers are now using a **multi-carrier model** for benefits they offer to their employees. In other words, they give their employees a choice of more than one carrier to select from for a particular benefit, rather than having a single carrier.

Leading Voluntary Benefits Carriers

Respondents were asked to state the carrier they perceive is the leader in voluntary benefits. AFLAC was cited most frequently, by two out of five brokers. Other firms often mentioned include MetLife and UnumProvident. No other carrier was cited by more than one in 10 brokers.

Brokers who service larger companies are twice as likely to mention MetLife and UnumProvident than are brokers who service smaller companies.

Asked why they chose the carrier as a leader, brokers tend to mention wide product offerings, competitive pricing, and good service as key reasons.

Multi-Carrier Model Familiar But Not Widespread

The majority (72%) of brokers are familiar with the multi-carrier model. Not surprisingly, more brokers that service larger companies (82%) are familiar with the model than are brokers who service smaller companies (66%).

Although brokers are generally familiar with the model, relatively few say their clients use it (half of the respondents say they offer it to 5% or less of their client base). However, a minority (slightly less than one in five) report that 20% of their clients currently use this model.

Brokers Getting Wired

Brokers were asked to name new services their brokerage firm is considering offering to its clients within the next 18 months. The most frequently cited service, mentioned by nearly one in five brokers, is some kind of online capability. Roughly one in eight brokers feels they are already providing a full suite of services and are not considering adding any new services.

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