



Benefits Briefing VOLUME 2

Perspectives on Current Offerings and New Choices from a Survey of Brokers (1Q07)

National Employee Benefits Advisory Forum (NEBAF)

Background & Methodology

The National Employee Benefits Advisory Forum (NEBAF) conducted an online information exchange in March 2007, 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 an online survey taken by 193 brokers.

The following pages include findings from these brokers regarding their perspectives on

- the relevancy of certain issues faced by employers,
- income annuities,
- group disability benefits,
- cafeteria plans, and
- third-party administrators.

Addressing Employers' Needs

Meeting current client needs, and correctly anticipating future requirements, is the lifeblood of the broker's business. To help brokers with their mission, a description of an informational resource that would help brokers approach and discuss certain issues with clients was presented, and brokers provided feedback as to whether this resource would meet their clients' needs.

A Resource For Starting Conversations

Almost half the respondents (49%) stated that they would be very or extremely **interested in learning more** about this resource, and about a third (32%) indicated that it would help them address or completely **address their clients' current needs**.

Brokers were then presented with a list of issues faced by employers which could be included in the resource, and asked to rate each topic's relevance to their clients — today *and* in the next three to five years.

Meeting Immediate Needs

Brokers stated that the **most relevant topic** for current *and* future client needs is the link between personal health and wealth. Over half (57%) felt it was very relevant for today, and eight in ten felt it will be very relevant in the next three to five years.

Brokers also agreed on the **second most relevant topic** for current *and* future client needs being benefits as a driver of employee retention and productivity, with half (49%) indicating it currently is very relevant, and seven in ten (72%) agreeing it will be very relevant in three to five years.

Likewise, brokers were consistent in indicating that the **least relevant topic** for current *and* future client needs is the growing employee need to focus on risk protection, even with changes occurring in assumptions around financial security. One in five thought it was very relevant for today's clients needs; less than half (44%) indicated it would be very relevant in three to five years.

Taken together, these findings suggest that brokers' clients are preoccupied with **meeting immediate needs** — controlling medical costs and retaining employees; a long-term issue such as financial security is not considered to be very relevant to clients.

Talking About Resources

“Any tool to better serve clients is valuable.”

“Sounds like it would be a good sales tool for existing clients and new ones. If it also had support materials such as best practices, industry standards, benchmark data, etc, I would find it extremely useful.”

“Proactive is the key! We are often not equipped with enough information and the information we have is constantly changing. Having current, relevant, industry-specific information would be very valuable.”

“In my experience, employer issues cannot be resolved with just a pamphlet that we download from a carrier (which is what this sounds like). Most issues are too complex and/or they are unique to that employer. For example, of course every employer is facing rising health care costs, but for some it's because they have a bad plan design. For others, it's because they have an older population. We don't know until we look at the data.”

Talking About Client Issues

“Health Insurance premiums are directly related to the health of their employees. It is critical that we communicate this. Every employer in the U.S. is working on how to communicate and how to tie employees to their health care coverage.”

“The recruitment market is shrinking and firms will need to provide benefits, not just medical, to attract and more importantly retain employees.”

“No prudent person under 45 that I know ever planned on having job security, decent Social Security, or a pension. Plus, 401(k)'s have done a fine job of replacing pensions.”

Strong Interest — And A Desire To Learn More

Brokers were interested in such a resource for a variety of reasons:

- Issues are **relevant** now and increase in relevancy in the future;
- It provides **reasons to call** on clients, and materials to use;
- It helps brokers **address client issues** of attracting and retaining employees, minimizing costs for employers, and providing more choices — especially as costs are increasing.

Indicating a desire to learn more about the resource, brokers had **questions and concerns** about it:

- Its specificity — generalities or actionable information;
- How well it reflects a solid understanding of a business or industry;
- A potential for bias, coming from a benefits provider.

More On Resources...

Asked about preferred methods to access the resource and related materials, eight out of ten brokers selected an **online format**.

Other resources mentioned to help address the issues include **educational** offerings (such as Webinars and reference materials) and **benchmarking** data.

Income Annuities

Not A Popular Offering...

Only about **one out of nine** brokers offers income annuities to their clients. The most frequently mentioned reasons for not offering the product are:

- The perception that brokers are not properly licensed to sell income annuities;
- A lack of familiarity with income annuities;
- The perception that income annuities do not meet the needs of the broker's target market.

Interestingly, while brokers do need a license to sell *variable* annuities, their life and health license does allow them to sell *fixed* annuities.

...But It Does Meet Clients' Needs

Of those brokers that offer income annuities, the overwhelming majority (91%) do so because it **meets the needs of their clients**.

And Expands Business Opportunities!

The top benefits mentioned of selling income annuities are:

- Broadening an existing client relationship,
- Cross-selling other benefits products, and
- Earning higher commissions.

How Income Annuities Are Offered

Brokers who offer income annuities generally do so **both** as a distribution option from the employer-sponsored retirement plan (77%) and as a voluntary employee benefit outside of the retirement plan (64%).

Brokers are evenly divided between those who offer income annuities **on their own** and those who **partner with another professional** (such as another broker who specializes in retirement products or a retirement plan sponsor).

Did You Know?

Income annuities are designed to provide regular, lifelong income payments for the life of the buyer. They are usually purchased with a single lump sum contribution, typically at or after retirement. They usually begin paying right after purchase.

Talking About Income Annuities

"I'm not sure this is something an employer would consider at this time. There are too many other products to consider that would have a more immediate impact on the employee (e.g., disability, LTC, etc.)"

"I do offer them to all of my groups that I work with on their retirement plans, which is most of my clients. Employees at or near retirement are eager to discuss these options."

Group Disability Benefits

Brokers were presented with two carrier scenarios for management and administration of group disability benefits and related products and services.

Did You Know?

Group Disability benefits and related products and services provide employees with income protection against disabilities and illnesses that prevent them from working. They include Family Medical Leave Act, Long-Term Disability, Short-Term Disability, leave of absence, disease management, workers' compensation, and other programs.

Talking About Integration

"Generally, clients are interested in simplification. [Having] fewer vendors helps accomplish this. Of course, the vendor would have to be top tier in each or most categories in order for this to work."

"The more the government involvement – i.e., regulations – the more of a need for a one-stop source that is responsible for all the existing as well as new."

Talking About Coordination

"It would depend on how the partnership functioned. I have been in this business long enough to see that some of the best intentioned partnerships end up dropping the ball in the middle of the road. Consequently, I probably wouldn't offer this type of product to a prospect until a track record was established. I may consider it for an existing client who is willing to take the chance."

"Although the companies may 'partner', their systems are not truly integrated and there is a loss of efficiency as an employee is handed off from one company to another. It is probably a better solution than me trying to bundle together vendors and trying to get them to work together, but I would prefer one company with a true integrated approach."

Integrated Vs. Coordinated

In the first, the insurance carrier offers all such products and services as a "one-stop shop". In the second, the insurance carrier specializes in group disability benefits, but in *partnership* with a third party who specializes in absence management related products, offers a coordinated solution. Brokers were asked how likely they would be to consider each service.

Simplicity Sells...

Two-thirds of respondents favored the "one-stop-shop" scenario, often citing **ease of administration** as the main benefit. Brokers see absence management as a key concern and cost driver for their employer clients, so a simplified, integrated solution could be appealing. As one respondent mentioned, "Disability is more likely than death."

However, a number of brokers cited concerns about the **costs and quality** of such an integrated offering.

...But Coordination Concerns

Slightly over half the respondents favored the coordinated solution, citing concerns about the **degree of coordination** between the parties. Brokers also expressed concern about costs, and many wanted more details about the solution before expressing a more defined preference.

Cafeteria Plans

They're Important...

Brokers recognize the importance of cafeteria plans. Almost half the respondents (46%) indicated it is very or extremely important for their clients to offer cafeteria plans when providing benefits to employees. The most frequently cited reasons are **cost savings** and the **flexibility and choice** that they offer. Only 2% of respondents indicated that cafeteria plans are not important to their clients.

...But Challenging And Confusing

First, there is a **mix of definitions** for cafeteria plans among their clients. Just over a third (35%) of respondents indicated the plan on a pre-tax basis, as allowed by Section 125, best described how most of their clients would define a cafeteria plan.

Indicating little consensus about how brokers' clients define cafeteria plans:

- About one-in-five selected the definition of a cafeteria plan as one that allows employees to establish flexible spending accounts for certain out-of-pocket health or dependent care costs on a pretax basis.
- About one-in-five selected the definition of a cafeteria plan as one that allows employees to choose the benefits from a menu of benefit options.
- Slightly less than one-in-five selected the definition of a cafeteria plan as one that the employer allots a dollar amount for employees that may be allocated, as the employee chooses, among a menu of benefit options.

Brokers also cautioned that **education is key** to understanding the value of a cafeteria plan. Additionally, their clients may be concerned about **plan complexity** and **administrative issues**. And cafeteria plans may not be appropriate for all their clients because of their **size** or the **type of workforce**.

Talking About Cafeteria Plans

"It is the future. Cafeteria plans are the basis of long-term planning and designing individual plans for each employee to make sure they have what they need at this age and stage of life."

"It's a no-brainer benefit. It costs virtually nothing to the employer and is a tremendous benefit to the employee if communicated correctly."

"Employers are going to continue to be forced to shift more of the cost of health care back onto the employee. If they do so in a cafeteria plan environment and give options, the burden will be less painful".

"Choice is important, but cafeteria plans sometimes over-complicate things."

"Depends on the industry. Lower wage workers usually do not sign up."

Talking About TPAs

“Like I said, integration is always better.”

“Economies of scale, simplification of account management, greater leverage with provider.”

“A good insurance company may not be a good administrator of electronic enrollment.”

“If pricing for either side was uncompetitive, it might be difficult to shop for other arrangements.”

Third Party Administrators

Brokers are familiar with third party administrators (TPAs) but have concerns recommending clients to use a provider for both benefits plans and benefits administration.

Second Thoughts About Third Party Administrators

About a third (35%) of respondents are very or extremely familiar with TPAs, and 31% are very likely to recommend TPAs to clients for both benefits plans and administration. Brokers cited **savings in cost and administration** as advantages for their clients, but also voiced concerns about **quality of service** — including accuracy, over-reliance on one vendor, and the vendor’s core competencies.

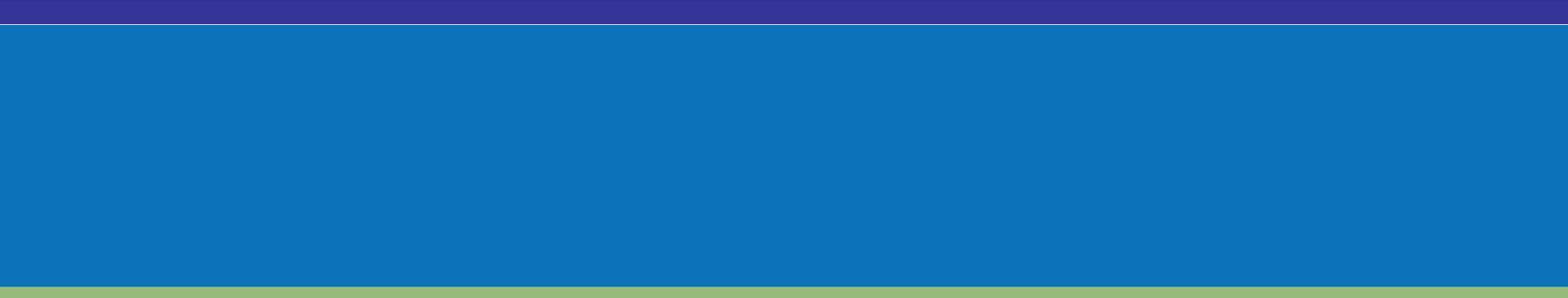
Brokers also seem to have **no clear expectations** on the cost of administrative services; there was uncertainty whether there would be a difference in costs for administrative services if provided by a benefits provider versus TPA.

Conclusions

How do these findings help brokers be more effective? The need for **education** seems to be a recurring theme:

- Brokers expressed a desire for educational materials on the informational resource described at the start of the survey.
- By learning how to secure a license to sell variable annuities, brokers not currently selling income annuities won’t risk missing openings for new client relationships and to broaden ones at hand.
- Brokers stated that education is key to understanding the value of cafeteria plans. Brokers have an opportunity to better educate their clients about mitigating any risks around cafeteria plans.
- As health-related expenditures continue to rise, cost savings for employers and employees become more critical. Brokers’ clients must educate their employees — both current and retired — on taking control of their financial situations.

Given the intricacies of today’s regulatory climate, and the multitude and increasing complexity of benefits offerings, brokers’ biggest challenge may well be simply keeping up with new information and conveying it to their clients.



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