

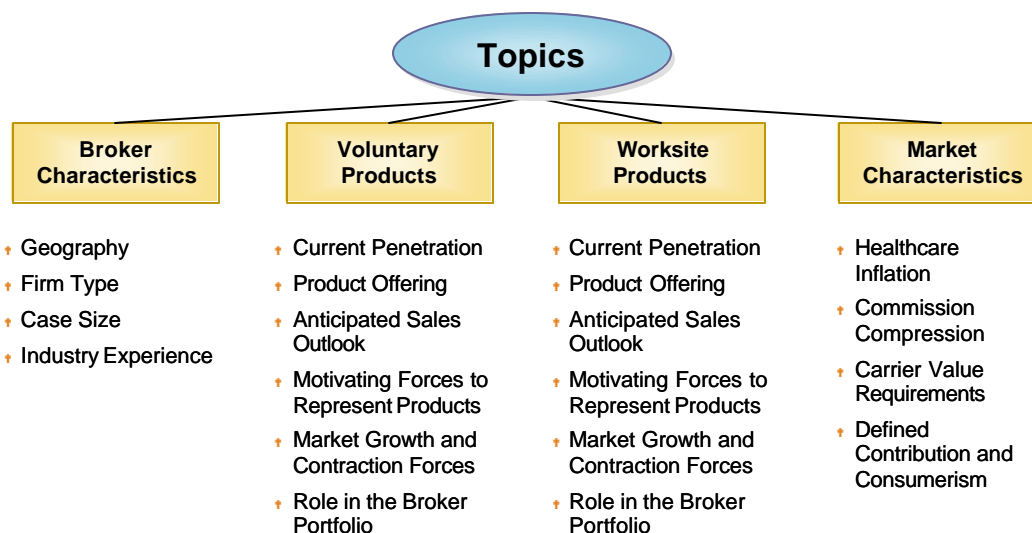
Voluntary and Worksite Product Distribution – Briefing Paper
Prepared by ChapterHouse, LLC
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Executive Summary:

Voluntary group products have long been and are a growing staple for Employee Benefit (EB) producers. However, a decade long debate has occurred in anticipation of individual products being distributed at the worksite (Worksite products). Voluntary (STD, LTD, Dental, Vision, Term Life) products on a group platform are commonly used to expand lines of coverage within an employer at nominal employer cost. Worksite (Cancer, Critical Illness, Universal Life, Hospital Indemnity) products have lagged somewhat in their adoption by EB producers and instead have largely been limited to direct marketers calling on smaller, underinsured employee populations (AFLAC, Colonial) – blue and gray collar employers. The debate about “if” and “when” worksite products being used by the much broader EB producer channel is now moot – Employee Benefit producers are distributing worksite products at a rapidly accelerating rate.

Research Overview:

In October of 2002, NAHU surveyed its national membership through a web-based questionnaire. Six percent of the overall membership responded – approximately 600 EB producers (limited to agents and brokers – carrier reps and home office employees were asked not to participate). Producers were segregated by region of the country, typical case size and type of firm in which they worked (sole proprietor, regional firm, national firm). The survey protocol is outlined in the following graphic:

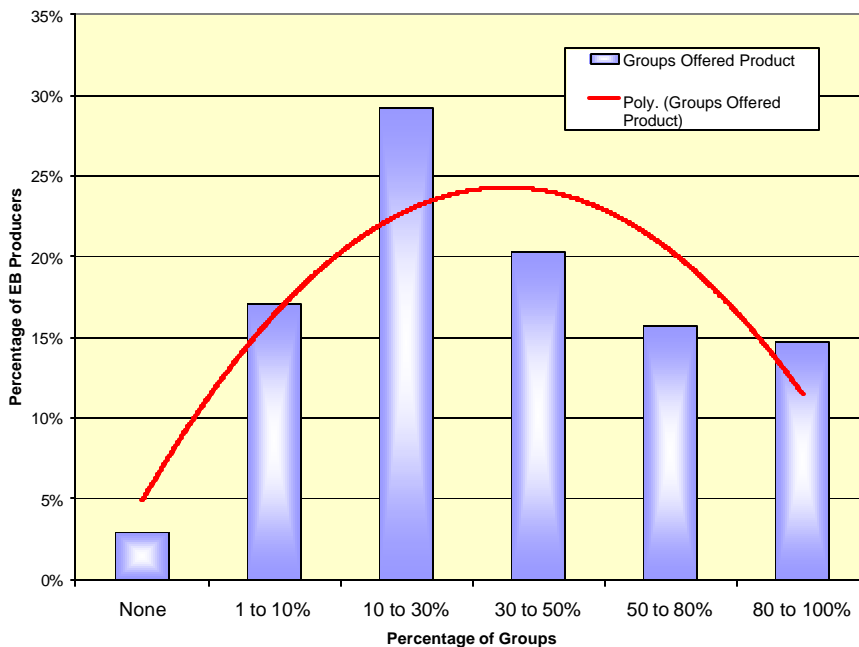


Questions were asked about 1) current offerings and distribution of both voluntary and worksite products, 2) product preferences and 3) trends and intent about future distribution. The following sections outline the responses.

Voluntary Products

Distribution

Overwhelmingly, EB producers indicated that voluntary products are being offered to groups in their control. More than 95% of respondents indicated that they have placed voluntary benefits on at least some of the groups they insure. More than 50% of respondents said that they have placed voluntary benefits on 30% or more of their employer clients. The mean score of EB producers that answered the survey suggests that the majority of groups represented by NAHU members are offered some kind of voluntary product.



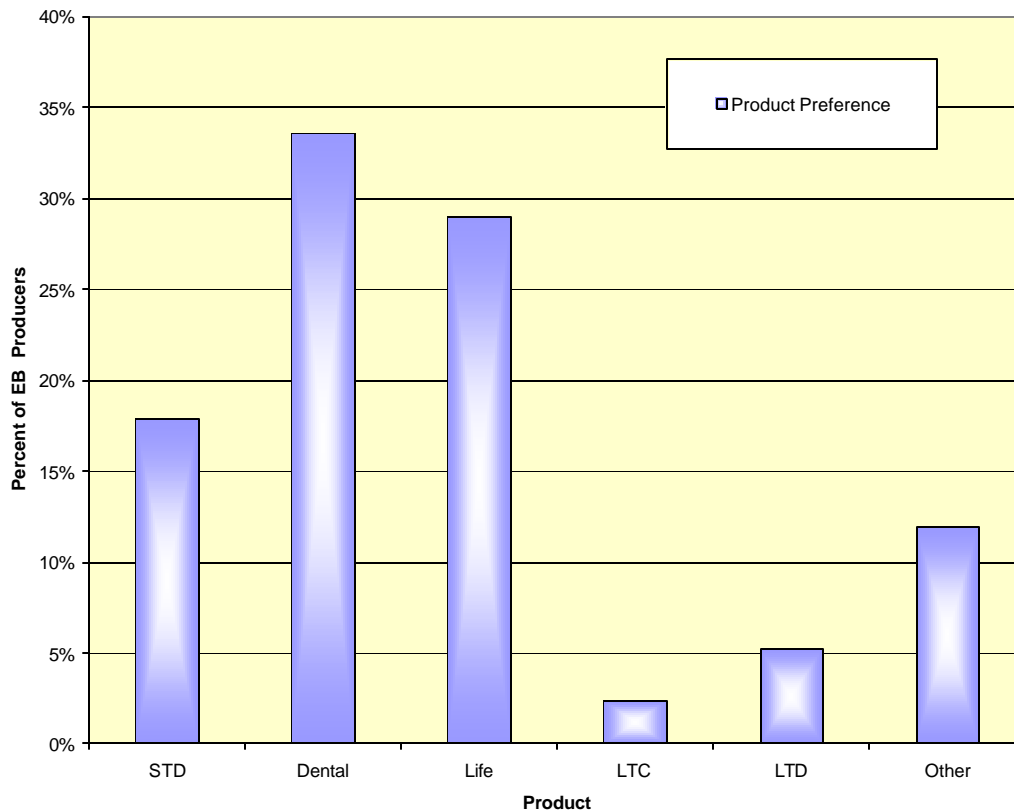
The graphic above illustrates both the percentage of producers who offer voluntary benefits to their clients and the percentage of groups being offered voluntary products. The red trend line shows the distribution of producers across the various ranges of group penetration.

Product Preferences

Of those producers who offer voluntary benefits, Dental was by far the most widely offered product – 34% of the respondents ranked Dental as their number one voluntary product. Life Insurance and Short Term Disability (STD) ranked second and third respectively. Some variances occurred in response rates by region and type of producer. Overall, the West most favored Dental and the East and Southeast most favored Life. Larger producers – those whose average case size exceeded 300 – also tended to prefer Life insurance to Dental. In the case of producers who identified themselves as being

affiliated with national brokerage houses (AON, Seabury, Gallagher, etc.), Life, STD and Dental were ranked first, second and third respectively.

One might conclude that the prevalence of employer paid Dental at the larger group size and the ability to offer voluntary Life to any group (no one ever has enough Life insurance) cause this disparity in product selection preference.



The graphic above illustrates product preference across the options given within the survey. Two relevant notes might be made; first, Vision was not an option in the survey, which may have caused the “other” category to be inflated; second, it is interesting to note the very low preference rate for LTC products – a concept that has received its share of attention over the years.

Sales Trends

Overwhelmingly, EB producers expressed an interest in selling more voluntary products and ranked voluntary as “very important” in their product portfolio. In total, 87% of producers indicated that they would sell moderately or significantly more voluntary products in the future. Consistent with other secondary research reviewed in preparation for this study, persistent double-digit healthcare inflation causing decreased spending in ancillary benefits and an increasingly consumer oriented market were among the dominant reasons given for selling more voluntary products – 37% and 12% respectively. Another 17% of producers specifically cited employers shifting from employer paid benefits to employee paid benefits as the reason for increased distribution. In terms of

rationale for selecting a carrier, producers cited “product” as the top reason with administrative platform and service and carrier rep ranking second and third respectively. The least important factor given for voluntary carrier selection was price. Finally, when asked what might cause a producer to offer less voluntary product to groups, “poor experience” with carriers was cited as the first reason. It would appear as though there is a market for voluntary benefits for carriers who are able to execute basic product and service delivery as expected by producers.

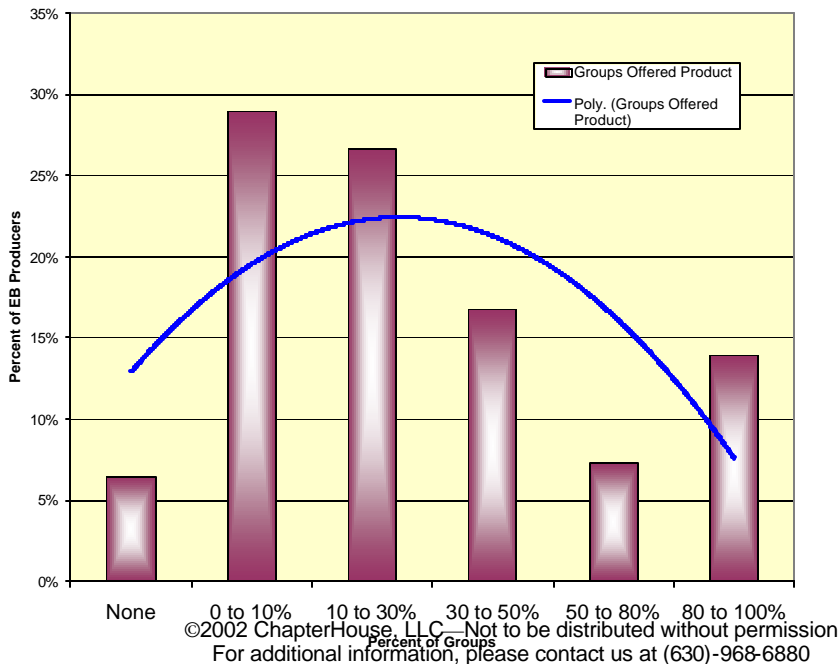
Worksite Products

Overview

As stated above, the distribution of worksite products (individually oriented products characterized by one-on-one enrollment) has been a source of debate for years – when (if ever) will EB producers adopt worksite products? Considered by many as being an emerging market – albeit emerging for the last ten years – worksite products just haven’t taken hold in the EB channel. Historically, two classes of producers – direct sales forces deployed by companies like AFLAC and Colonial, who traditionally call on smaller underinsured employee populations and Enrollment or Benefit Communications Specialists, distributed these products. For the purpose of this study, the direct distributors were not a point of our focus. Instead, the evolution of traditional brokerage (intermediated) sales channel was evaluated to understand opinions and behavior associated voluntary and worksite products. In concert with the NAHU survey, approximately 35 selected middle market brokerage firms were interviewed to add additional context and clarity to the NAHU results.

Distribution

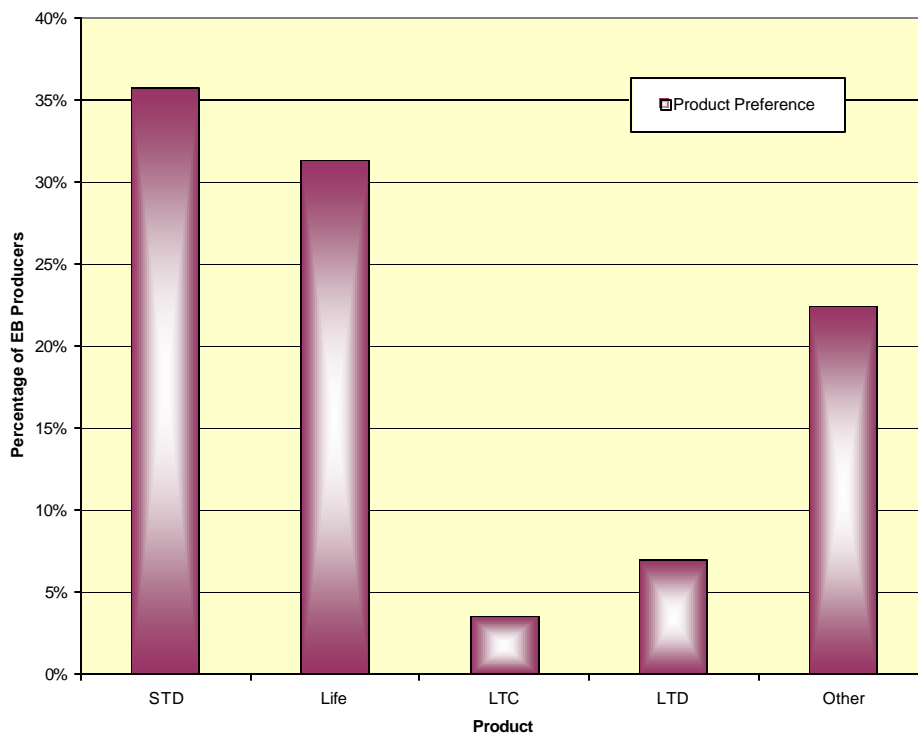
Like voluntary products, NAHU respondents indicated that a robust 94% of producers distributed at least some worksite products. Overall, the level to which worksite products are offered to groups somewhat lags that of voluntary. The majority of producers surveyed indicated that the ease of voluntary enrollments over the more labor-intensive one-on-one worksite enrollments caused this pattern.



By contrast to voluntary products, the majority of respondents (56%) indicated that less than 30% of their groups were offered worksite products. Also in contrast, the worksite offering peaked at less than 10% and again at between the 80 to 100% offering. Additional review of the data found that the dominant reason for this disparity was the significantly different response rate given by national brokerage houses, who appear to have more readily embraced worksite products. Of the national brokerage houses, nearly 30% indicated that worksite products are offered to between 80 and 100% of their employer groups compared to the sole proprietors who responded that 10% of their groups were offered worksite products (72% indicated less than 30% of their groups were offered worksite). Interviews directly with national brokerage firms indicated that the additional resources at their firms and both their defensive and offensive strategies caused them to offer worksite products. Their defensive strategies are intended to keep direct writers and worksite specialists out of their client companies while their offensive strategies are focused on improving their “return on relationship”. This position was starkly opposite from non-national firm producers.

Product Preferences

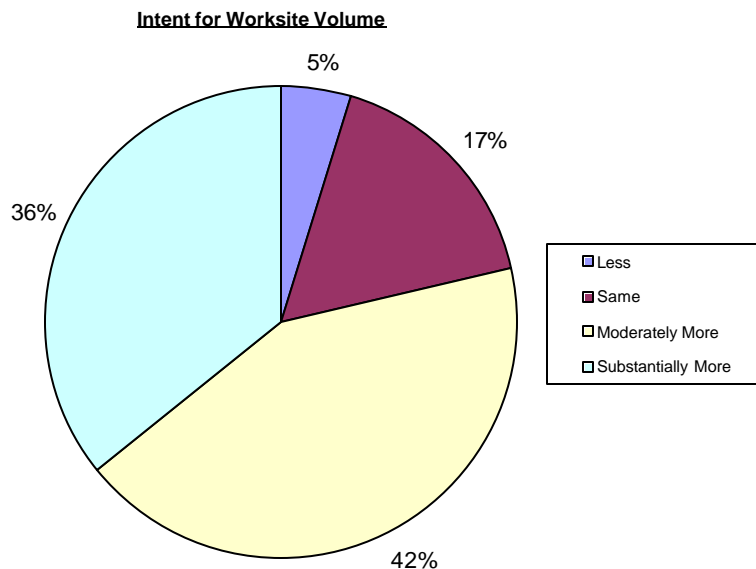
Variation from voluntary occurred within product preferences also. Both STD and Life insurance products dominated the ranking. LTC and LTD were almost irrelevant. Other products like Cancer and Hospital Indemnity were not included in the survey, (perhaps causing the cumulative “other” category to exceed 20%). Interviewees indicated a fairly strong disdain for those products and therefore were not included in the NAHU survey instrument. Instead, EB producers favored worksite products that more closely resembled voluntary or traditional group products.



Regionally, the most significant difference was the dramatically higher preference rate for Life over STD in the South. EB producers who identified themselves as being from the South preferred Life 28% of the time and STD for only 21% of their groups. Otherwise, across the other regions, product preferences roughly followed the graphic above.

Sales Trends

Trend rates for worksite products were almost as favorable as for voluntary products. In the case of worksite, 77% of EB producers said they would sell more worksite in the future. Like the voluntary category, healthcare inflation causing cutbacks in ancillary benefit spending and an increasingly consumer driven market were the dominant factors affecting this positive trend. Several other significant trends were indicated in survey responses. In a virtual tie, producers indicated that both increased product offerings and the ability to integrate enrollment of employer paid benefits with worksite enrollments were increasing their interest and ability to offer worksite products. Surprisingly, despite the previous hype of technology revolutionizing product distribution, only 6% of respondents indicated that “technology enabled service models (reducing the hassle factor)” would affect their worksite sales behavior.



In the case of worksite products, product offering, administrative platform, and carrier rep relationships were the top three reasons (in that order) for carrier selection. Unlike the answers to the same question in the voluntary section, carrier reps were more highly valued in worksite sales – perhaps due to the service intensity and still relative “newness” of worksite products. Respondents also cited negative experience with carriers as the main reason they might offer less worksite products in the future. Remarkably, negative employer response was noted as a reason to offer less worksite product more frequently than in the voluntary section – possibly due to the increased “invasiveness” and “start up efforts” required of worksite enrollments and the higher potential for loss of worker productivity during the enrollment process. Overall, a bullish 83% of EB producers said

that worksite products were an important part of their tool set in providing quality representation to their clients.

Summary

Healthcare inflation, employer cost shifting, commission compression, increased consumerism and defensive strategies are all contributing to the increased distribution of both voluntary and worksite product sales. Interviews with EB producers also indicated that major advertising (the AFLAC “duck”) and sales efforts by national carriers were causing a “convergence” of voluntary and worksite products. In many of the interviews that were conducted, producers made the point that while worksite and voluntary products were distinctly different products from a platform perspective, they saw the two as part of a single set of employee paid solutions – each with their own unique application. In any interpretation of the statistics above and the interview findings, it would appear that the debate over when worksite products will finally take hold is over. Both voluntary and worksite benefits are overwhelmingly becoming a much larger element in Employee Benefit producer’s portfolios.