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Turning Point: Voluntary Benefits Market Needs Converge

By Mark Hebert

A client recently asked me what has changed in the Voluntary Benefits market to create the sudden increase in VB buzz. The short answer is *nothing… and everything*… From their beginnings voluntary benefits have filled voids in employer sponsored benefit plans. Now more than ever, employees need protection from these gaps. While the primary need is the same, factors surrounding voluntary benefits are reshaping this market and positioning it for the rapid growth the industry has been predicting for years.

Psychology of Risk Exposure – In the past, the rationale for voluntary benefits was rooted in the soft costs of a health crisis. Can an employee make ends meet on the 60% of salary that the disability plan covers? Will the spouse lose income taking time off to care for the impacted employee? Will childcare expenses increase as a result of the illness? The medical plan deductible and out of pocket costs were a part of the story, but not taxing enough, in and of themselves, to justify an insurance purchase. With the accelerating adoption of high deductible health plans, the perception of the exposure has changed. Employees and employers can now more directly link a health crisis to a crippling financial shock, and are more capable of seeing the need for protection.

Technological Solution Arrival – In the past, the only way to successfully enroll voluntary benefits was through direct person to person interaction. When voluntary benefits primarily covered the soft costs of a health crisis, it took a skilled agent to help an employee understand the need to insure those risks. This enrollment methodology still has a place in the benefits world, but not every employer is willing to make the commitment required of this process. Self-service enrollments, if done properly, are finally producing acceptable participation levels and gaining popularity in the places where one on one enrollments do not make sense. Some VB carriers have also taken note and are modernizing their products and systems to better support a self-service environment. These developments are leading to a better employer experience with voluntary benefits.

Broker Compensation Evolution – Major medical commission is under intense pressure from PPACA minimum loss ratios, forcing traditional group brokers to find additional revenue sources. Historically, voluntary benefits commissions were structured to support the high acquisition cost, face to face enrollment model. While traditional voluntary benefits brokers are skilled at justifying this compensation structure to clients, many group brokers have simply not been comfortable recommending products that pay heaped commissions. As lower cost enrollment methodologies have evolved, so have commissions on VB products. Many carriers now offer products that pay either heaped or level commissions, and rates that vary with the desired commission percentage. The ability to dial commissions to an appropriate level (or even net) is one of many factors making this business more palatable to traditional group brokers and consultants.

Carrier Margin Pressure – Just as broker revenue is under fire, carriers are feeling the squeeze of a hyper-competitive market. Beyond the minimum loss ratio requirements in major medical, the ancillary market has been embroiled in a feverish race to zero. Basic life rates that look more like AD&D rates and a hemorrhaging disability market are the new normal in the ancillary space. While some carriers are selling off their benefits business, or chasing greener pastures in new market segments, many see the VB market as the next great expansion opportunity. Low VB market penetration and decreased price sensitivity present an enticing opportunity for carriers willing to pursue it. The number of new entrants in the VB carrier market is growing every day, but not all are entering in a thoughtful, innovative way.

The voluntary benefits space, while still serving the traditional need of filling plan gaps, is evolving at a staggering pace. **In the history of voluntary benefits, there has never been a time where they made more sense for employers, employees, brokers, and carriers than right now.** It is imperative for brokers to recognize this needs convergence and begin proactive voluntary benefits discussions with their clients. However, there has also never been a time where the complexity of the voluntary benefits decisions has been higher. Mile 5 Benefits brings years of voluntary experience in multiple methodologies to bare, helping brokers and employers make better VB decisions. We can help simplify the complex VB space to develop a strategy and enrollment methodology that best meets an employer's needs and administrative capabilities. Could you use some help getting started with a voluntary strategy? Give Mile 5 a call!