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# Voluntary benefits: Strategies for navigating a new landscape



**The once-familiar landscape of employee insurance benefits has undergone a seismic shift. Known landmarks have been rearranged– and new ones created–by rising healthcare costs, higher-deductible health insurance plans, employees shouldering a greater share of their benefit costs, an age-diverse workforce and growing expectations for more tailored coverage.**

Navigating this new landscape calls for new benefits strategies. Employers increasingly are venturing into voluntary benefit plans. These plans range from dental to critical illness to pet insurance. They're chosen by the employee, paid for by them—typically through payroll deduction—and often provide lump-sum payments that can be used to cover deductibles, co-pays, living expenses, out-of-pocket medical costs and more.

It's a strategy that empowers employees to prepare for unforeseen expenses while giving employers a tool for strengthening their benefits package to retain and attract talent and keep their own costs in line.

## New landscape, unexpected advantages

By adopting voluntary plans to help them navigate the new landscape, employers are seeing advantages to building a more robust benefits package:

- Employees value them. Sixty-three percent of employees believe voluntary benefits increase the value of their company's overall benefits program. Millennials feel most strongly about these benefits.<sup>1</sup>
- Voluntary benefits complement the investment companies make in retirement and healthcare benefits by bolstering their employees' financial security.
- They reduce the costs associated with employees being absent.
- These benefits increase employee engagement and productivity. Nearly 28 percent of employees say that personal financial issues have distracted them while at work.<sup>2</sup>
- Voluntary benefits provide choice, allowing employers to customize a package to fit their employees' specific needs. Nearly 65 percent of employees say they want a wider array of these kinds of benefits.<sup>3</sup>

- Employees are willing to pay for them. When offered, more than 25 percent of employees choose accidental death and short-term disability insurance; 21 percent opt for accident and critical illness plans. Sixty percent say they're willing to bear more of the cost to get the choice of benefits they want.<sup>4</sup> The top-four reasons<sup>5</sup> employees give for enrolling for voluntary benefits are:
  - They meet the employees' needs;
  - They bolster primary medical coverage;
  - The convenience of premium payment through payroll deduction;
  - Reasonable cost.
- Employees who are very satisfied with their benefits are much more satisfied with their jobs, more loyal and would recommend their company as a great place to work.<sup>6</sup>



**60% of employees say they're willing to bear more of the cost to get the choice of benefits they want.**

Nelson Griswold, "All benefits are voluntary benefits", August 2016

## Signs point to real need

No matter how careful people are or how well they take care of themselves on their journey through life, accidents and illnesses happen. Good health isn't a given, and trips and falls abound:

- In 2014, the top-five causes of death in the U.S. were: heart disease, cancer, lung disease, accidents and stroke.<sup>7</sup>
- One in four or 610,000 Americans die of heart disease every year; about 735,000 have heart attacks.<sup>8</sup>
- In 2015, more than 1.6 million new cases of cancer were diagnosed in the U.S.<sup>9</sup>
- In 2013, Americans made 28.1 million trips to the Emergency Room with injuries due to accidents.<sup>10</sup> For 2.5 million, the accident resulted in a hospital stay.<sup>11</sup>
- Each year, 795,000 Americans suffer a stroke; that's about one every four minutes.<sup>12</sup>

Employees who suffer an illness, accident or disability receive a wake-up call when they discover that even with medical insurance coverage they are exposed to unplanned-for expenses. The unexpected costs affect their financial security, and also their work performance.



**2.5 million people are hospitalized each year due to an accident**

U.S. Centers for Disease Control and Prevention, National Center for Injury Prevention and Control, 2016

While not new, unplanned-for expenses take on greater significance in the new landscape of rising healthcare costs, higher-deductible health insurance plans and employees bearing a greater share of their benefit costs—an increase of more than 50 percent over the last five years.<sup>13</sup> Most aren't prepared for the out-of-pocket medical costs, living expenses and loss of income associated with an accident, hospital stay or major illness:

- 62 percent of Americans have less than \$1,000 in savings.<sup>14</sup>
- A family with a high-deductible plan could pay \$12,700 before insurance covers 100 percent of the cost.<sup>15</sup>
- 63 percent of U.S. households are unable to cover the maximum out-of-pocket costs of a high-deductible plan.<sup>16</sup>

As advances in medicine ensure that more patients survive critical illnesses, nearly half of U.S. households have insufficient savings to cover a major medical condition, according to Steve Rowley, vice president, GenRe. “More than 42 million people in the U.S. have some sort of unpaid medical bill. Many have to choose between survival and bankruptcy, even when they have medical insurance,” he says.<sup>17</sup> According to the U.S. Census, 11.2 million Americans were forced into poverty because of out-of-pocket medical expenses in 2015.<sup>18</sup>

So, how do people plan to pay for uncovered expenses when life trips them up?<sup>19</sup>

- 30 percent will tap rainy-day funds.
- 33 percent say they can pay out of pocket.
- 52 percent will delve into their savings and investments.
- 25 percent say they have no idea where the money will come from.<sup>20</sup>

The reality? The go-to resources for coping with the unexpected costs of accidents and major illnesses include living paycheck-to-paycheck, withdrawing from savings and retirement accounts, running higher credit card balances and borrowing from family and friends.<sup>21</sup>

A LIMRA survey<sup>22</sup> captured the financial impact of a critical illness on families. Of those earning \$35,000 to \$59,000, 69 percent reported a drastic or significant change to their financial situation because of a major illness. Even those (64 percent) in a higher earnings bracket (\$75,000 to \$99,900) felt their finances had taken a drastic or significant hit.



## **11.2 million Americans were forced into poverty because of out-of-pocket medical expenses in 2015.**

Modern Healthcare reports, U.S. Census

## Identifying new landmarks

Some of the new landmarks in the insurance landscape include:

- Hospital indemnity insurance: Helps cover hospital stays.
- Accident insurance: Comes into play for injuries such as a broken arm or an accident-related Emergency Room visit.
- Critical illness insurance: Pays a lump sum at the diagnosis of illnesses such as cancer, heart attack or stroke; the amount these policies provide can range from \$5,000 to \$30,000.<sup>23</sup>
- Life insurance: Is an often-overlooked resource for income replacement.

As interest in voluntary plans has grown over the past decade, so has the availability of carriers and options to choose from. Currently more than 90 companies offer voluntary plans, but the top 15 companies account for about 78 percent of all sales. Estimated sales for 2015, depending on the size of the employer, ranged from \$407 million (less than 10 employees) to \$1.3 billion (100-499 employees) to \$2.5 billion (more than 2,500 employees).<sup>24</sup>

Carriers who traditionally have specialized in group plans are trending in the market, offering employers experience with marketing, enrollment and claims processing and tested technology, as well as deep knowledge of their clients' needs and the needs of their employees.

Eastbridge Consulting Group's survey revealed that of employers offering voluntary benefits nearly half provided three to five options, while about one-third offered six or more.<sup>25</sup> The size of the company wasn't a factor.

The two most popular voluntary insurance products were accident (30 percent) and life (29 percent). Dental, hospital indemnity/supplement medical, critical illness and disability also were in the top 10 (21 percent). Among the companies surveyed, critical illness, hospital indemnity and accident coverage have seen a dramatic growth surge since 2012.<sup>26</sup> A LIMRA survey of nearly 1,500 U.S. employers, as reported in the Wall Street Journal, showed a 10 percent increase from 2002 to 2014 of those offering accident and critical illness plans.<sup>27</sup>

**Group carriers providing voluntary insurance products offer current clients experience with marketing, enrollment and claims processing and deep knowledge of their clients' needs.**

## Seeking ‘trail guides’

Voluntary benefits, however, aren’t mainstream yet. Both employers and employees are looking for guidance as they navigate the new insurance landscape. Employees often aren’t aware of these benefits, the role they can play in their financial picture or what they cover. Employers seek strategies to cost-effectively round out their benefits packages, but aren’t quite sure how to go about it.

The first step along this new course is education.

### Educating employees

It’s human nature to think, “Oh, that will never happen to me,” “I’m young and healthy,” or “I’ll take my chances.” But that very mindset leaves employees financially vulnerable when the “impossible” happens. Education efforts need to help them understand the:

- Amount of risk they’re willing–and can afford–to take, given their financial situation.
- Coverage “holes” and how voluntary benefits can lessen their financial risk.
- Difference between their “core” medical benefit and voluntary options and how they work together. (“I already have life, disability and medical insurance, what do I need this other stuff for?”)
- Value of creating a package of benefits customized to their age, family situation, health status, etc.

They also need to be assured that their employer has made product choices to fit employees’ needs; pricing of the products generally will be more affordable than if they bought them on the open market; and being part of a “group” minimizes underwriting restrictions. Ideally, employee education should start three months before the beginning of the enrollment period, if not presented year-round.<sup>28</sup>

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Employee Benefit Advisor/Employee Benefit News, December 2015

## Educating employers

Although they may be familiar with voluntary benefits, employers still need to have a sound grasp of what these products do for them and their employees.

- **Covering the basics.** Why, what and how are a good place to start—or to serve as a refresher. Once employers understand why these benefits are needed, what they are and how they can provide solutions for them and their employees, they can better educate employees and encourage enrollment.
- **Choosing a carrier.** With more than 90 carriers offering voluntary benefits, there's plenty of choice in the market. But not all carriers are created equal.

In the Eastbridge survey, employers who offer voluntary benefits identified key factors influencing their choice of voluntary carrier: price; online access to information, claims forms and status reports; reputation for quality; technical support; and “best of breed” products.<sup>29</sup> Other factors include ease of doing business, competitive underwriting guidelines; quick and accurate claims payment; and customer service tools for plan administrators and employees.

- **Choosing plans.** It's a big market out there, but simple plans with popular features best serve employees and employers. All aspects of the plans, from features to enrollment to filing claims, should be as easy to understand, flexible and as free of hassles as possible.

**When considering a voluntary benefits carrier, employers are interested in price; online access to information, claims forms and status reports; quality reputation; technical support; and “best of breed” products.**

Eastbridge Consulting Group, “State of the Industry: An Overview of the Voluntary Market,” 2016

## Navigating the new landscape: a case study

Most employers understand that voluntary benefits can reduce some of the uncertainty and risk inherent in the new benefits landscape.

How do these navigational strategies work in practice? A Michigan-based manufacturer offered a voluntary plan to two groups within its 11,000-employee population:<sup>30</sup>

- Employees participating in the Health Savings Account (HSA) plan, which included employer-paid critical illness coverage. They also were given the opportunity to buy an additional level of coverage at their own expense.
- Employees participating in the Health Reimbursement Account (HRA), who were given only the option of buying additional coverage.

The results were impressive. By coupling employer-paid critical illness coverage with its medical plan, participation in the HSA increased 350 percent. Thirty-one percent of the HSA group took advantage of the buy-up option for additional coverage. (Overall participation in the group critical-illness plan is 15 percent.) With such promising results, the company will be rolling out critical-illness insurance to its entire plan population in 2017.

This company, along with more than 35 percent of employers nationwide, has discovered that critical illness insurance is a voluntary benefit their employees need and want.

Overall, voluntary benefits—“insurance on insurance”<sup>31</sup>—can be a creative, flexible and cost-effective way for employers to navigate the new insurance landscape and help their employees plan for life’s unplanned trips and falls.

**By coupling employer-paid critical illness coverage with its medical plan, a Michigan-based employer increased participation in its HSA by 350 percent.**

Securian Financial Group, Group Voluntary insurance case study, 2016

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## Voluntary Solutions from a Group Insurance Leader

With nearly a century of group insurance experience, Securian is an industry leader in client retention and among the highest-rated financial services companies.\*

Our Group Critical Illness, Group Accident and Group Hospital Indemnity insurance products are thoughtfully designed to help give employees peace of mind and employers a way to meet their benefits objectives at minimal administrative cost. Our voluntary products are fully customizable to meet each employer's needs and offer unique features such as:

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- All voluntary coverages can be employer-paid, employee-paid, or a combination of the two
- No minimum participation requirement
- No maximum age to issue coverage
- Health and wellness benefit available – includes an annual physical exam
- Multiple coverage continuation options

To learn more, contact your Securian Regional Sales Vice President or Client Relationship Advisor or visit **[www.securian.com/voluntary](http://www.securian.com/voluntary)**.

\* Leadership comparisons based on direct group life insurance in force as of December 31, 2015 on a consolidated basis as reported in the Annual State Policy Exhibit State Pages. Source: SNL Financial LC, page 25. 97% one-year retention as of December 31, 2015. Minnesota Life and Securian Life are highly rated by the major independent rating agencies that analyze the financial soundness and claims-paying ability of insurance companies. For more information about the rating agencies and to see where our ratings rank relative to other ratings, please visit, [Securian.com/ratings](http://Securian.com/ratings).



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