

MetLife



Where do we go from here?

Prospering in a Post-Health Care Reform World

Findings from MetLife's Broker and Consultant Study



THE GOLDEN GATE BRIDGE

San Francisco, California

With its sweeping span and iconic orange vermillion color, the Golden Gate suspension bridge, situated at the nexus of San Francisco Bay and the Pacific Ocean, is an internationally recognized symbol of the U.S. Originally thought by most to be an impossible engineering feat, it has since withstood ferocious winds and massive earthquakes. Today, maintaining the bridge is an ongoing challenge, with a large team of painters working continuously against the effects of the salty and foggy environment to ensure the bridge is open for the more than 41 million vehicles each year that depend on the bridge as a vital connection.

Like the Golden Gate Bridge, brokers and consultants serve as a vital connection between employers and benefits providers. And, like the bridge painters, they work continuously to build and maintain their expertise to deliver strong, cost-effective benefits solutions that keep clients connected to their employees and help them to achieve their business goals — no matter the environmental changes and challenges.

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Out of the Frying Pan, Into the Fire

The economic recession, followed by the anemic recovery, accelerated and brought into focus a number of long-term benefits trends such as the lack of employee retirement readiness and benefits cost-shifting. Yet before benefits professionals, including brokers and consultants, can fully absorb the implications of the new economy, they face the onset of health care reform legislation and an even more significant transformation.

This convergence of the economic recovery and health care reform will dramatically reshape the benefits landscape and will require new navigational skills for those who depend on the industry to make their living. At the same time, the full implications and scope of health care reform are still evolving, making it extremely challenging for brokers — and the benefits industry itself — to prepare.

Between today and 2014 when the Patient Protection and Affordable Care Act (PPACA) is fully enacted, employee benefits brokers and consultants will be answering some defining questions about their roles and how they demonstrate value to their clients in a post-health care reform era. To help brokers and consultants as they re-examine their current strategies and explore new ones, MetLife conducted an extensive survey and face-to-face interviews with brokers and consultants who work with employers of all sizes.

The results of this research reveal insights into the challenges and concerns brokers and consultants are facing, as well as the different strategies they are considering to sustain profitability and differentiate themselves in a post-health care reform world. In addition, MetLife's Study offers a unique dimension by comparing these responses with the employer and employee insights gained from MetLife's 9th *Annual Study of Employee Benefits Trends*. Identifying areas where brokers and their clients are not completely aligned serves to highlight additional opportunities for brokers and consultants going forward.

Optimism Despite a Tough Environment

Although concerned about perceived hurdles ahead, brokers and consultants express confidence that they will find a variety of ways to prosper. In fact, almost three-fourths (71%) anticipate that three years from now their clients will rely on their services even more than they do today — reflecting the expectation that emerging challenges for employers will reveal new opportunities for brokers and consultants to provide value. Overall, brokers and consultants are optimistic despite reporting low expectations for the growth potential of the benefits industry as a whole. Their optimism springs from their belief in the growth potential of their firms, and its ability to be a winner in a tough environment.

The Study also shows that brokerage and consulting firms have potentially unrecognized opportunities to strengthen their businesses by addressing their employees' concerns about career advancement, training and tools to effectively manage clients. Improving perceptions about personal career opportunities can pay off at the firm level through the retention of motivated and skilled brokers and consultants.

Compensation Model Changes Are Inevitable

As the market moves further from an employer-driven model to a more consumer-driven one, brokers and consultants have the opportunity to capitalize on this trend by placing greater emphasis on their consultative expertise in addition to plan design delivery. In parallel, PPACA's minimum medical loss ratio-related provision provides the impetus for significant changes to the commission-based compensation model for brokers. The Study examines broker and consultant expectations for changes in compensation — and how they are looking to fill anticipated gaps.

New Business Models Will Be the Norm

Significantly, the Study reveals that most brokers and consultants have moved far beyond a “wait and see” attitude and are taking action. They are considering a wide variety of initiatives to help solve their clients' evolving needs and, at the same time, increase the overall profitability and sustainability of their firms. While, for most, it's clear that a new business model is a given, there is a wide range of strategies and tactics being evaluated in response to the perceived changes ahead.

By analyzing the varying broker and consultant characteristics, perspectives, strategic focus and attitudes reported in the Study, four distinct approaches for adapting to new industry demands emerge. These different adaptation profiles are described later in this Study and offer interesting comparisons and contrasts to spark ongoing discussion and ideas.

Nearly three-fourths of brokers and consultants expect their clients to rely on them even more three years from now than they do today.

Section I

Indicators for an Optimistic Outlook

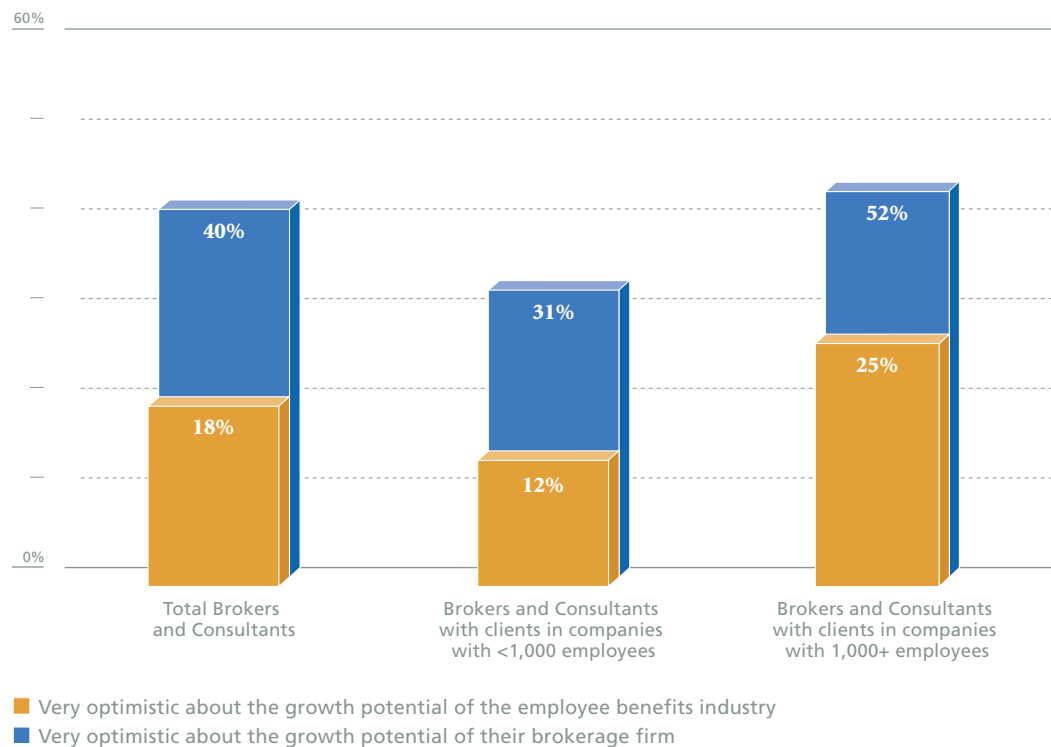
An Optimism Paradox

Brokers and consultants report significant concerns regarding the challenges and uncertainties facing employee benefits and say they are not optimistic about the growth potential of the benefits industry. Despite this unenthusiastic view of the business environment, they are more optimistic about the growth potential of their own firms. The message behind this seeming paradox is, "I believe my firm has what it takes to be one of the winners in a tough environment."

Not surprisingly, the degree of optimism about both the industry and their firm's growth is lower for brokers who work primarily with small and mid-size companies. The difference accurately reflects the anticipated impact of reform and the specific challenges facing small and mid-sized business owners, which will be discussed in more detail in the subsequent sections of this report.

fig. 1.1

Brokers and consultants are optimistic about their firm's growth despite a challenging environment.



Keeping Brokers and Consultants Positive Is Key to Their Retention

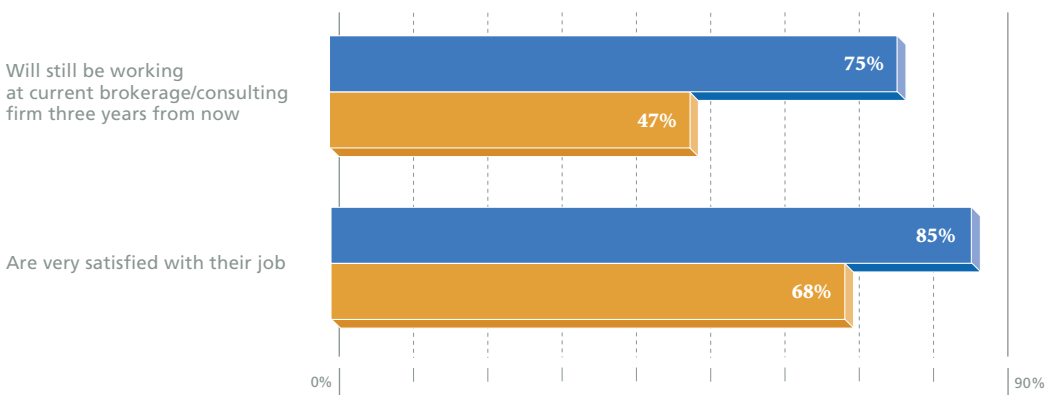
Maintaining high levels of optimism about the firm's opportunity is vital for retaining employees. Brokers and consultants who are optimistic about their firm's growth potential are nearly twice as likely to say they expect to be at the firm in three years, compared to those with low levels of firm optimism.

Indeed, as the economy improves, employers overall must pay greater attention to retention. The 9th Annual MetLife *Study of Employee Benefits Trends* found that 36% of employees across all sizes of companies hope to be working for another employer in 2011 and also noted declining rates of job satisfaction and loyalty. Brokers and consultants are no exception to this phenomenon. Thirty-two percent of surveyed brokers and consultants responded that they are neutral or negative about the prospect of working for their current firm three years from now, and the smaller the size of their client companies, the lower the broker job satisfaction scores and retention expectations.

As a result, firm leaders need to understand what drives optimism and job satisfaction among their employees and where to focus retention efforts to build and maintain their firm's competitive edge. Broker and consultant optimism can be impacted by their satisfaction with the tools the firm provides to help do the job effectively, with career advancement opportunities, and with training and development.

fig. 1.2

Optimism about their firm is closely correlated with job satisfaction and intent to remain with the firm.



Brokers and consultants who say they are:

- Very optimistic about the firm
- Not optimistic about the firm

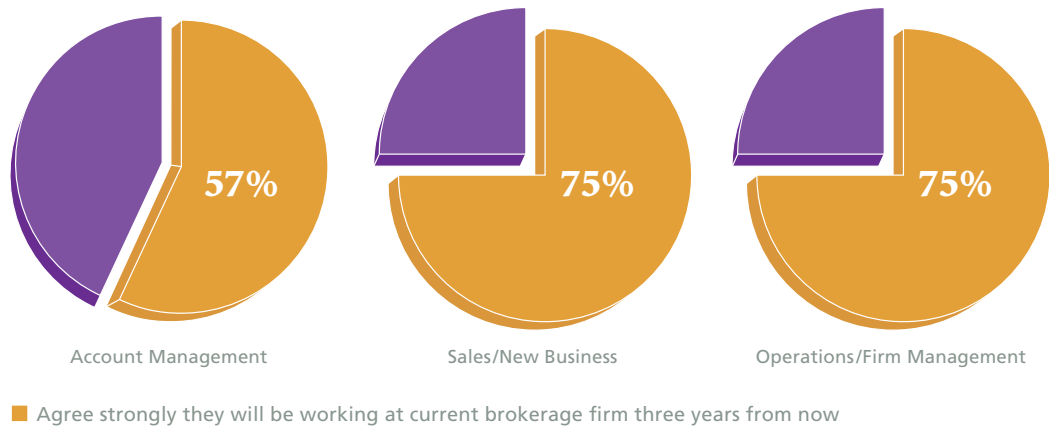
Brokers and consultants in account management positions have much lower expectations that they will be working for their current firm in three years.

Role within the Firm Impacts Retention

The Study shows that the roles brokers play within the firm relate to their perception of support from the firm and their expectations of staying with the firm. Those in account management are less committed to staying compared with those who focus primarily on new business, operations and firm management.

fig. 1.3

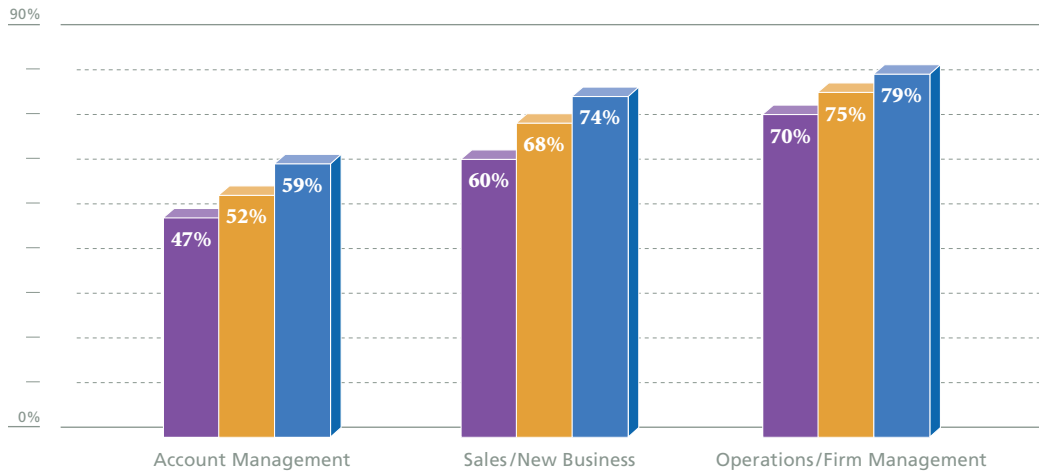
Brokers and consultants in account management roles say they are less likely to stay with the firm.



Compared to brokers and consultants who describe their roles as primarily focused in new business sales, operations or firm management, employees in account management positions are not as satisfied with the opportunities that their firms provide for their career advancement or with their training and development. This translates into a much lower expectation that they will be working for the firm in three years. Given the critical role that account managers play in terms of ongoing client interaction and relationship building, a focused employee retention strategy is key to ensuring that these brokers and consultants feel that the firm is investing in their success and offering a clear development path.

fig. 1.4

Firm optimism is associated with feeling positive about the tools and support provided by the firm.



Strongly agree that firm provides:

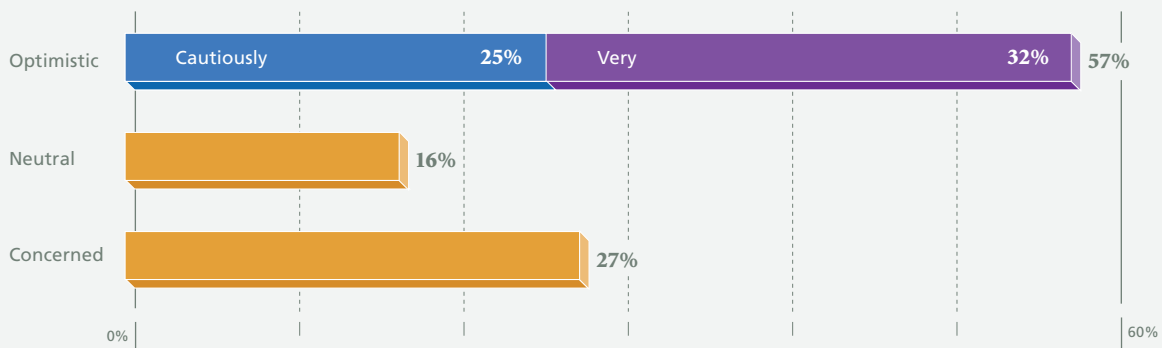
- Training and development to be more effective at job
- Career advancement opportunities
- Tools to help sell more products

The Broker Optimism Barometer — A Unique Insight on Broker Confidence

Given the importance of broker and consultant optimism as an indicator of confidence in their future professional success, MetLife has created a **Broker Optimism Barometer**. Based on the aggregation of responses to a subset of key survey questions, the **Broker Optimism Barometer** is a unique tool that provides an overall optimism rating for each survey respondent — whether they are very optimistic, cautiously optimistic or concerned about their future.

fig. 1.5

Distribution of survey respondents on the Broker Optimism Barometer



Section II

What Keeps Brokers and Consultants Up at Night?

Although most brokers and consultants are optimistic about their firm's future opportunities, there are definite concerns and challenges they are actively addressing. The strategic choices that brokers and consultants make today regarding these challenges are defining the role of tomorrow's employee benefits adviser and will determine which brokers, consultants and firms are successful going forward.

fig. 2.1

Brokers and consultants whose clients are primarily small and mid-sized companies are more concerned across the board.

Top Broker and Consultant Concerns	% strongly agree		
	Total Brokers and Consultants	Brokers and Consultants with clients with <1,000 employees	Brokers and Consultants with clients with 1,000+ employees
Keeping up with legislative changes and understanding impact	74%	78%	68%
Maintaining/growing top-line revenue at firm	74%	82%	63%
Reductions in commissions due to medical loss ratio	73%	85%	59%
Attracting and retaining clients	70%	75%	62%
Health care exchanges resulting in clients no longer offering medical insurance	64%	76%	49%
Differentiating firm from competitors	62%	67%	56%
Slow economic recovery causing companies to cut benefits	62%	71%	48%
Added demand for administrative services from clients	53%	53%	55%
Attracting and retaining talent to firm	41%	38%	45%
Personal job security	40%	47%	31%
Brokerage industry consolidation	32%	40%	22%

Health Care Reform Is Seen as a Threat to the Benefits Economy

Not surprisingly, health care reform is top of mind for brokers and consultants, with almost all expressing strong concerns about the impact of health care reform on both the industry and their income. The possibility that migration to health care exchanges will cause employers to stop offering medical insurance to their employees is of considerable concern to almost two-thirds (64%) of respondents, while 73% are very concerned about reductions in commissions due to PPACA's medical loss ratio provisions; and nearly nine in ten brokers and consultants surveyed believe that health care reform will cause both employer and employee costs to rise.

While nearly one in three (29%) are very confident that clients who currently pay most of the cost of medical insurance will continue to do so, more than half (56%) are still on the fence. This outlook is similar to the views expressed by employers. MetLife's 9th Annual *Study of Employee Benefits Trends* reveals that 32% of employers do not yet know what they will do in response to health care reform legislation — an uncertainty that is greater among smaller employers, where 45% of those with fewer than 50 employees are undecided about their future actions.

However, many brokers and consultants believe that the health care reform picture will change significantly. In interviews conducted as part of the Study, many expressed the opinion that there will be major modifications to the current PPACA legislation, and that some of the more bleak scenarios may not come to pass. A viewpoint echoed in the *Benefits Selling 2011 Health Care Survey*¹ which in May 2011 showed that 58% of surveyed brokers and agents believe that the final version of reform will be scaled down and 12% believe that implementation will be delayed.

Complexity of Health Care Reform Viewed as a Challenge and an Opportunity

While 72% of brokers and consultants consider themselves very familiar with the Patient Protection and Affordable Care Act (PPACA), the 9th Annual MetLife *Study of Employee Benefits Trends* revealed that many employers, especially those with fewer than 1,000 employees, lack a strong understanding of the key components of the legislation. Their solution for this lack of knowledge is to turn to their brokers and consultants; 54% of employers reported that they plan to rely, even more than usual, on their broker or consultant to keep them apprised and educated on health care reform issues.

Most brokers and consultants believe the health care reform picture will change significantly.

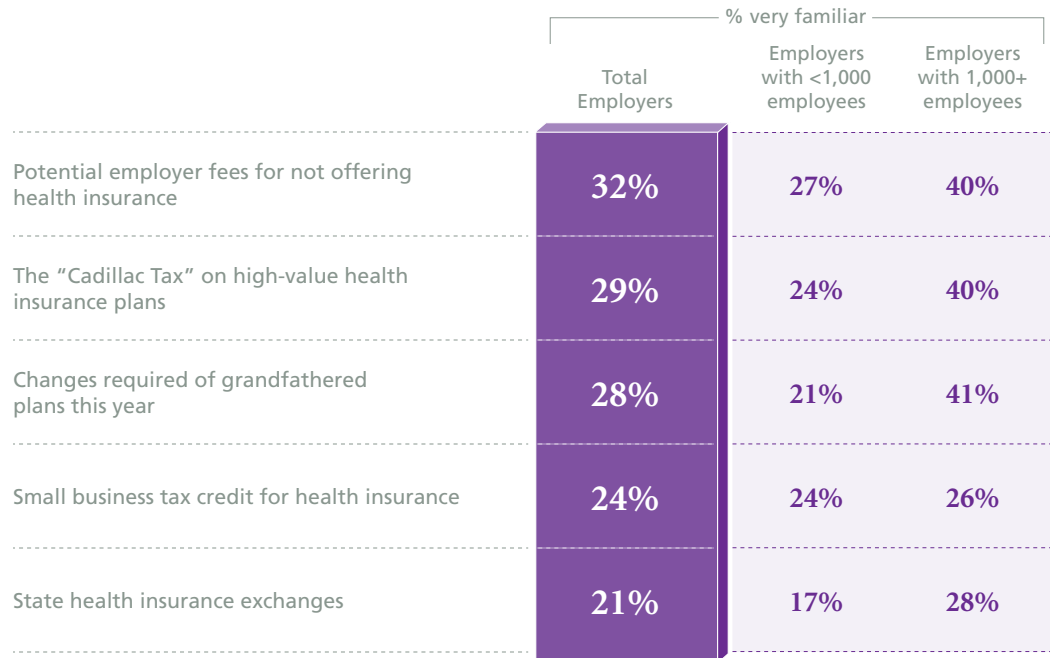
“They’ll edit and revise some of the steps that are supposed to be implemented. That seems to be the common feeling.”

(Broker and Consultant Interviews, 2010)

54% of employers plan to rely, even more than usual, on their broker or consultant to keep them apprised and educated on health care reform issues.

fig. 2.2

Few clients are very familiar with the features of the Patient Protection and Affordable Care Act (PPACA) — especially in companies with fewer than 1,000 employees.



Source: 9th Annual MetLife Study of Employee Benefits Trends

Every new piece of health care reform legislation is an opportunity for brokers and consultants to reach out to their clients and demonstrate their value.

"We have emailed newsletters and been very proactive in calling many of our clients, wondering if they have questions, meeting with them well ahead of their renewal as things have taken place...trying to be...educators and information-givers."

(Broker and Consultant Interviews, 2010)

Brokers and consultants recognize both this dependence and also the associated challenges and opportunities. When asked how their roles might be different three years from now, 83% of respondents see themselves spending more time consulting with clients on legal and compliance issues. As health care reform legislation is refined and articulated in detail between now and 2014, every new piece of legislation is an opportunity for brokers and consultants to reach out to clients and demonstrate their value.



TURN INSIGHT INTO ACTION

An impressive 97% of brokers and consultants report that they have worked to keep their clients up to speed on health care reform developments, utilizing client meetings, email communications and client newsletters. However, only 21% of employers said they are very satisfied with the information they are receiving. While recognizing that client expectations may be unrealistic — answers simply don't yet exist for many of their questions — brokers and consultants should continue to hone their client communication strategies to reflect specific client concerns, frequently asked questions and information gaps.

In addition to sharing general health care reform updates through regular communication vehicles such as newsletters, web pages and mailings, improved client understanding and satisfaction will come from providing targeted and customized advice and guidance for specific business issues and questions as they arise. Resources such as the non-profit *Kaiser Family Foundation Online Health Reform Source* (Healthreform.kff.org) or *The American Benefits Council* (Americanbenefitscouncil.org) can be helpful sources of non-partisan, detailed and current information to guide broker and consultant advice.

The Economy and Ongoing Cost Pressures Still Loom Large as Concerns

Brokers and consultants continue to face challenges in the aftermath of the recession. Sixty-two percent are very concerned that the slow economic recovery may cause employers to cut benefits further. And this apprehension may not be unwarranted. According to a recent study released by the Society of Human Resource Managers (SHRM), 32% of organizations reported that they will likely reduce employee benefit offerings if the economy does not improve.

Concerns about the economy are more pronounced among brokers and consultants who have more small and mid-sized companies as clients (<1,000 employees), which is likely a reflection of the particular stress and challenges faced by small businesses during the economic downturn and slow recovery.

A manifestation of the increased focus on benefits costs is the greater involvement of the CFO in benefits decisions that is noted by brokers and consultants. This reinforces the need to establish themselves in a role that includes discussing and presenting benefit recommendations that directly link to business objectives and financial strategies — specifically in the language of the C-Suite audience who ask “what is the return on investment for our benefits spend?” This requires being able to demonstrate how employee benefits drive loyalty and job satisfaction and contribute to attaining workforce retention and productivity goals.

The increased role of the CFO is especially apparent to brokers and consultants who receive fee-based compensation, which is indicative of the greater scrutiny that can be expected when broker and consultant costs are more transparent.

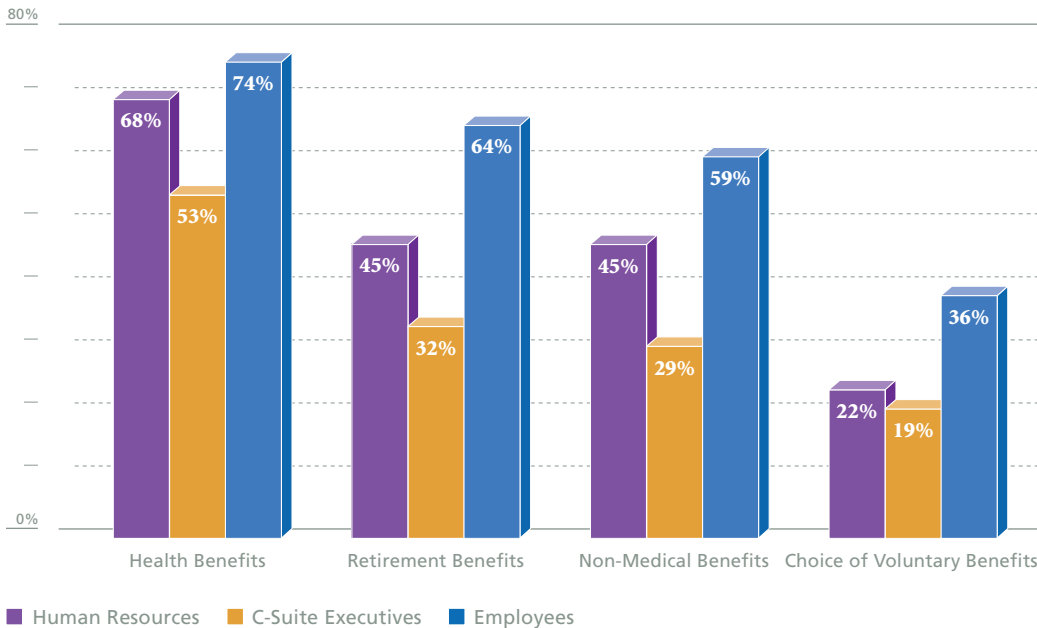
Compared to Human Resources, C-Suite executives seriously underestimate the value of certain benefits in driving employee loyalty, retention and productivity.

“The philosophy has evolved where employers are increasingly looking at benefits not as a perk or an attraction-retention tool, (but) more as cost overhead... and are trying to get more creative ways (to) manage that expense....”

(Broker and Consultant Interviews, 2010)

fig. 2.3

When it comes to appreciating the value certain benefits have in influencing employees’ feelings of loyalty, HR is closer to understanding — but still underestimating — the impact on employees.



Source: 9th Annual MetLife Study of Employee Benefits Trends



TURN INSIGHT INTO ACTION

The 9th Annual MetLife *Study of Employee Benefits Trends* finds that, compared with Human Resources, C-Suite executives seriously underestimate the value of certain benefits to drive employee loyalty and retention as well as productivity. Brokers and consultants can play a critical strategic role by translating these loyalty and retention insights into specific costs of benefits reductions in terms of business objectives, productivity and revenue. By optimizing the business consulting aspect of their role in this way, brokers and consultants will be in a credible position to bring creative benefit options to the table to help client decision makers fully leverage their benefits programs as a driver of their business goals.

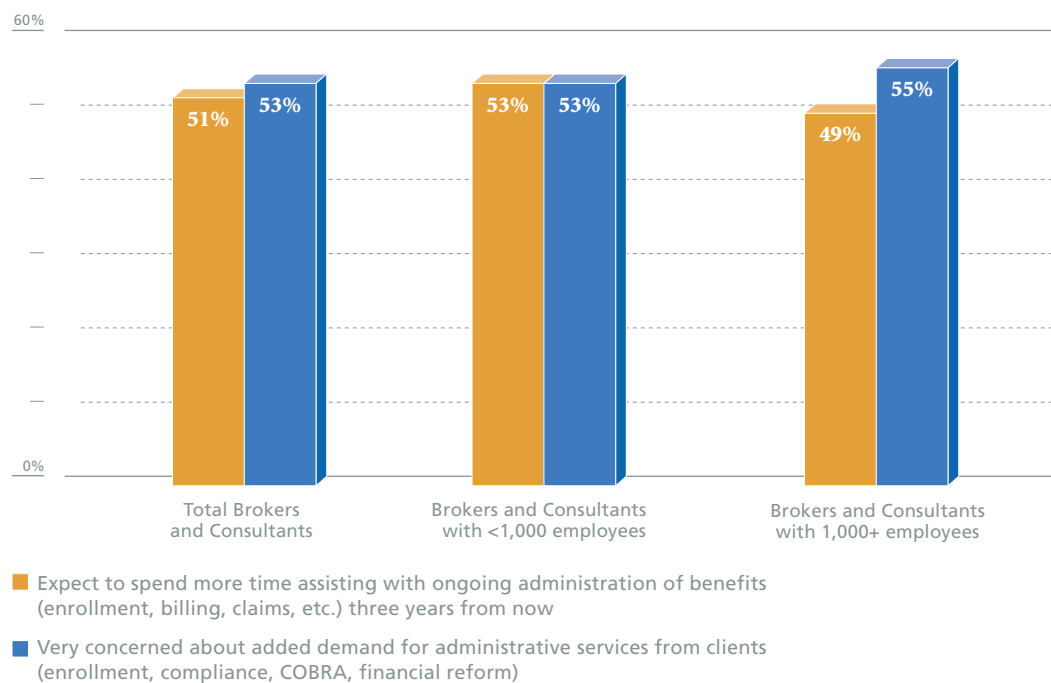
Ongoing Cost Pressures Also Bring Broker and Consultant Opportunities

Ongoing benefits cost pressures are also apparent as HR departments look for efficiencies and savings in the face of growing administrative and legal compliance burdens. In response, providers of outsourced payroll, attendance tracking, benefits administration and other HR functions are developing integrated solutions that consolidate services through a central source.

Brokers and consultants recognize this need, and more than half of respondents (53%) are very concerned about the added demand from clients for administrative services such as enrollment, compliance and COBRA. However, viewing this challenge as an opportunity may represent a potential business opportunity, one that is validated by the convergence strategies being pursued today by many payroll companies, as well as brokerage and consulting firms. In addition, providing these services could achieve significant differentiation in the marketplace — an issue that 62% of brokers and consultants say they are very concerned about.

fig. 2.4

Brokers and consultants express concern about added demand for administrative services from clients.





TURN INSIGHT INTO ACTION

In recognition of employer needs and convergence trends, employee benefit brokerage and consulting firms may consider a strategy that enables them to deliver an integrated or bundled solution to provide the HR service capabilities and value that clients expect. Access to integrated technology is the key to effectively delivering an integrated administrative and compliance solution — which makes the price of entry high. Exploration of potential partnered offerings, mergers or acquisitions as a way to achieve these value-added capabilities is a highly viable option. However, at this time only 23% of respondents see potential opportunity for partnering or merging with another brokerage firm or third party administrator (TPA) to offer additional products or services — with a third of respondents expressing strong concern about industry consolidation.

“HR departments have gotten leaner and clients are asking us to do more for them than they did in the past... trying to offload some of the things that their HR people would normally do.”

(Broker and Consultant Interviews, 2010)

Section III

Brokers and Consultants are Considering a Variety of Potential Initiatives to Help Them Prosper

83% of brokers and consultants say their firm is actively exploring new models and strategies to stay relevant and pursue growth.

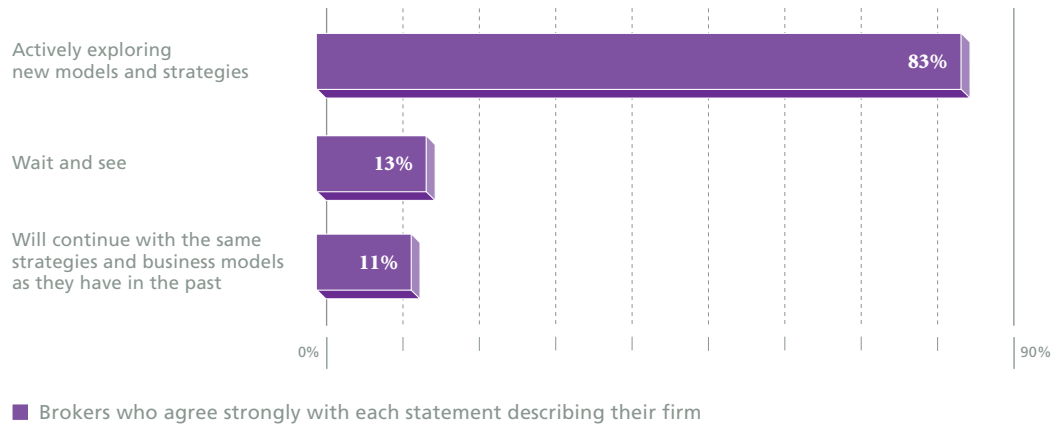
“...the anticipation (with health care reform) is that commissions... are going to go down...so we have to...figure out how we are going to make up the difference. How are you going to charge and how are you going to make money?”

(Broker and Consultant Interviews, 2010)

Brokers and consultants are resolved about the need for change. Eighty three percent of respondents say that their firm is actively exploring new models and strategies in order to stay relevant and pursue growth opportunities — regardless of the size of companies they work with. Only 13% of brokers and consultants say that although they suspect they will have to make changes, for now, they would rather wait and see what others do. And a mere 11% report that they will continue with the same strategies and business models as they have in the past.

fig. 3.1

Overwhelmingly, brokers and consultants are preparing themselves to stay relevant in a changing environment.



In light of industry changes and their concerns, brokers and consultants identify a wide range of potential strategies that are worth exploring to help increase the overall profitability and sustainability of the firm. The most popular strategies are:

- enhancing consulting services,
- selling more voluntary and ancillary products, and
- playing a greater role in health and wellness.

fig. 3.2

Brokers and consultants identify a wide variety of initiatives with the potential to increase firm profitability and/or sustainability.

	% strongly agree		
	Total Brokers and Consultants	Brokers and Consultants with clients with <1,000 employees	Brokers and Consultants with clients with 1,000+ employees
Enhancing/expanding broker consulting services	58%	56%	60%
Selling more voluntary products	58%	59%	56%
Selling more ancillary products	56%	62%	50%
Greater involvement in health and wellness programs	50%	44%	58%
Enhancing employee communications programs	40%	38%	43%
Expanding into new industries or territories	39%	40%	37%
Moving from commission to fee-based for medical	30%	34%	25%
Selling more retirement products	27%	28%	26%
Partnering/merging with broker/TPA firm	23%	25%	20%
Offering financial education to employees	20%	20%	20%
Commission to fee-based for ancillary	17%	20%	13%
Offering international employee benefits solutions	15%	9%	22%

Note: The lower ranking of the opportunity for moving from commission to fee-based for the larger employer segment reflects the increased prevalence of fee-based compensation as cases get larger.

Expanding Consulting Services is Both an Innovative and a Defensive Strategy

Anticipating reductions in medical commissions in the future, over half (58%) of brokers and consultants, working across all market sizes, identify enhancing or expanding consulting services as a strategy with potential for profitability. And more than three-fourths report that they expect to be spending more time consulting with clients on benefit solutions and cost-saving ideas three years from now. This means that they will need to show clients how they can more effectively integrate and leverage their benefits programs to better meet business objectives. They must also proactively offer alternative benefits options, rather than looking to match and replicate current plans.

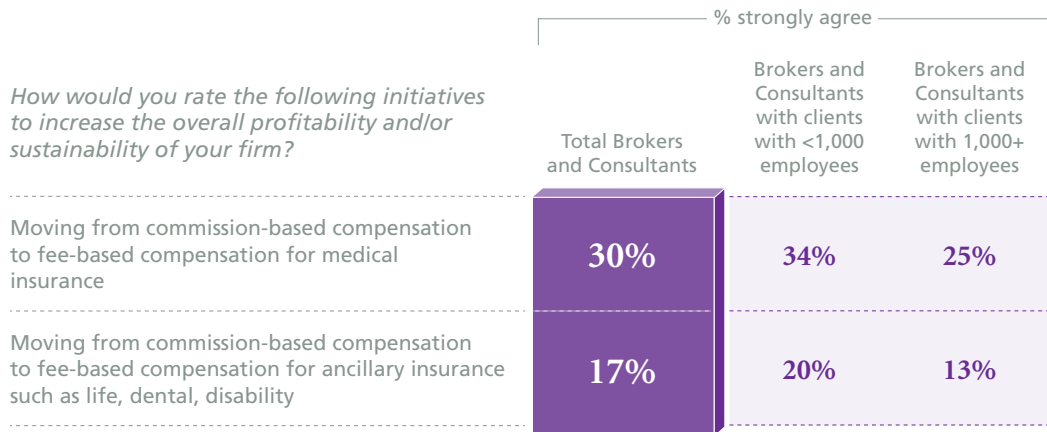
“Health care reform ... has made health care kind of a sexier thing to talk about in a way. So it has created some opportunity. It has given us an opportunity to get back out there and to differentiate ourselves as experts more so than a transactional type of consultant or broker. It’s given us a platform to have conversations and show our expertise and our value-add.”

(Broker and Consultant Interviews, 2010)

In one-on-one interviews, some brokers commented that, for those in the industry who have the ability to bring creative solutions to the table, health care reform can actually create new market opportunities. Once the economics of the state health care exchanges are known, clients will need to evaluate complex options to decide whether to “pay or play” for medical insurance. Well-informed brokers and consultants will be welcome advisers in this process.

fig. 3.3

Brokers and consultants are considering shifting to fee-based compensation for medical but less so for ancillary products.



The challenge is to turn fee transparency into a differentiator. The biggest unknown is the value clients and the market will place on the services provided by brokers and consultants.

Interest in shifting from commission-based compensation to fee-based compensation for medical insurance is considered a potential avenue to increase firm profitability among nearly a third of brokers — driven by increased interest from those who primarily work with small and mid-size companies. However, this may be less to do with recognizing a growth opportunity and more of a defensive measure in response to anticipated carrier changes in broker compensation.

At the same time, some brokers are nervous about making the transition to fee-based consulting, especially in a highly competitive environment. The challenge is to turn fee transparency into a differentiator and competitive advantage, which involves several unknowns. The biggest is the value clients and the market will place on the services provided by brokers and consultants.



TURN INSIGHT INTO ACTION

About two-thirds of survey respondents expressed strong concern about differentiating themselves from the competition — a potential issue as health insurance becomes more of a commodity in the future. Compensation offers a potential opportunity for brokers and consultants to achieve differentiation. Because PPACA provides the impetus for changes to the traditional commission-based compensation model, brokers have the opportunity to place a greater emphasis on their consultative expertise and educate clients about the value of the services and guidance they provide. Shifting toward a fee-based model could enable brokers to further leverage their firm's proprietary tools and assets, such as service platforms, enrollment support or communications tools.

Voluntary Benefits Are a Relatively Untapped Opportunity for Employers

Voluntary benefits (where employees pay 100% of the cost) are an area where brokers may be more forward-looking than their clients, with more than half (58%) of brokers seeing an opportunity to sell more voluntary benefits in the next three years. They report that they expect voluntary disability coverage (67%), voluntary life insurance (66%) and voluntary dental (62%) to be increasingly important for their firm's profitability in the future.

In contrast, the 9th Annual MetLife *Study of Employee Benefits Trends* shows that employers are comparatively slow to embrace the advantages of voluntary benefits and may underestimate how receptive their employees are to them. In fact, 52% of employees say that having a choice of benefits that meet their personal needs — *even if they have to pay 100% of the costs* — is an important driver of loyalty toward their employer. Brokers and consultants can lead the way by helping clients recognize the impact these types of products can have on employee loyalty and business strategies.

Voluntary benefits can also help brokers and consultants round out their medical recommendations with related voluntary supplemental health products — especially as a “plan B” in the event that medical commissions decline more than expected. Indeed, brokers report that they expect long-term care insurance (65%), critical illness insurance (59%) and prescription drug benefits (58%) to be more important for their firm in the next three years.

The Study shows that 54% of brokers and consultants have already taken steps to develop a new marketing strategy focused on voluntary benefits. Brokers and consultants who take it a step further, by looking beyond the basic voluntary product options and consider products such as auto and home insurance, vision care and legal services, can deliver fresh, forward-thinking options that help clients capitalize on employee interest, without adding to their benefits costs.

fig. 3.4

While employer-paid medical is still expected to grow despite health care reform, brokers are anticipating significantly increased importance for employee-paid products.

Importance of products to firm profitability over next three years	% much/somewhat more important		
	Total Brokers and Consultants	Brokers and Consultants with clients with <1,000 employees	Brokers and Consultants with clients with 1,000+ employees
Voluntary Disability	67%	66%	69%
Voluntary Life	66%	67%	64%
Long-Term Care	65%	64%	65%
Voluntary Dental	62%	68%	56%
Voluntary Medical	61%	64%	57%
Employer-Paid Medical	59%	58%	60%
Critical Illness	59%	59%	58%
Prescription Drug Coverage	58%	57%	59%
Executive Benefits	52%	50%	55%
Retirement Products	51%	51%	52%
Employer-Paid Disability	47%	49%	45%
Employer-Paid Dental	36%	37%	35%
Employer-Paid Life	36%	36%	36%

54% of brokers and consultants have developed new marketing strategies based on voluntary benefits.

“(Voluntary benefits are) going to take more of the spotlight. Basically, every client is asking, ‘OK, how could I round out my benefit offering without costing me more money?’ And the answer is typically voluntary benefits.”

(Broker and Consultant Interviews, 2010)



TURN INSIGHT INTO ACTION

The recession has raised awareness of financial exposure for many workers, and a greater appreciation for income protection products.² Indeed, these benefits are nearly twice as important for driving employee loyalty than employers recognize.³

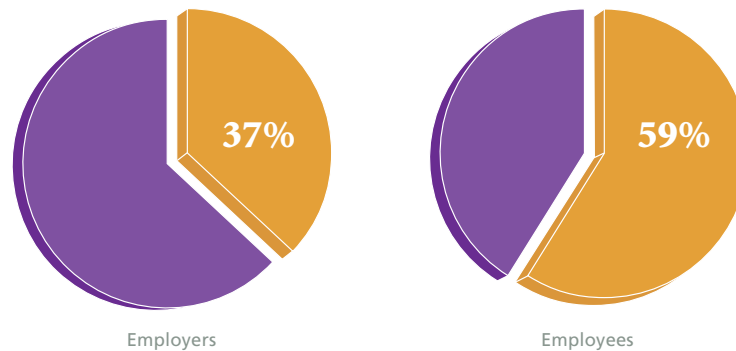
However, when it comes to disability and life insurance, 42% of employees for disability income protection and 19% for life insurance, report that they are currently underinsured because the maximum amount of coverage available through the workplace does not provide enough protection to meet their personal needs. Yet while employees are interested in the ability to purchase additional coverage at work, only 38% of employers who offer employer-paid life and 28% of those who offer disability coverages say that they are very likely to offer supplementary insurance.⁴

Brokers and consultants can emphasize the value of supplemental levels of insurance coverage on an employee-paid basis to help meet employee coverage needs. In turn, they can realize potential cross-selling opportunities with their clients.

fig. 3.5

Non-medical benefits such as life, dental and disability are nearly twice as important for driving employee loyalty than employers recognize.

% strongly agree non-medical benefits drive employee loyalty



Source: 9th Annual MetLife Study of Employee Benefits Trends

What about Retirement Products as a Growth Strategy?

The survey indicates that brokers and consultants may underestimate the opportunity represented by retirement products in larger companies. Only 24% of brokers and consultants with clients in companies with 1,000 or more employees see retirement products as becoming more important to their clients three years from now. This is a similar outlook to that of their clients. Just over a third (36%) of employers in larger companies expect retirement to be a more important strategy for them five years from now. However, the recession has highlighted the fact that financial security and preparedness for retirement are possibly the most significant issues facing employees today.

There are important reasons why employers should be more concerned about the retirement challenges faced by their workers. Not only do almost two-thirds of employees regard retirement benefits as a very important driver of loyalty toward their employers, but there is mounting evidence

Brokers and consultants can emphasize the value of supplemental levels of insurance coverage on an employee-paid basis to help meet employee coverage needs. In turn, they can realize potential cross-selling opportunities with their clients.

that employee financial insecurity can impact company productivity and health costs. A substantive relationship exists between health risk and financial stress,⁶ and financial distress is one of the strongest predictors of illness-related absence from the workplace.⁷ Twenty-seven percent of workers admit that they have taken unplanned absences and/or they have been distracted at work dealing with personal financial issues.⁸

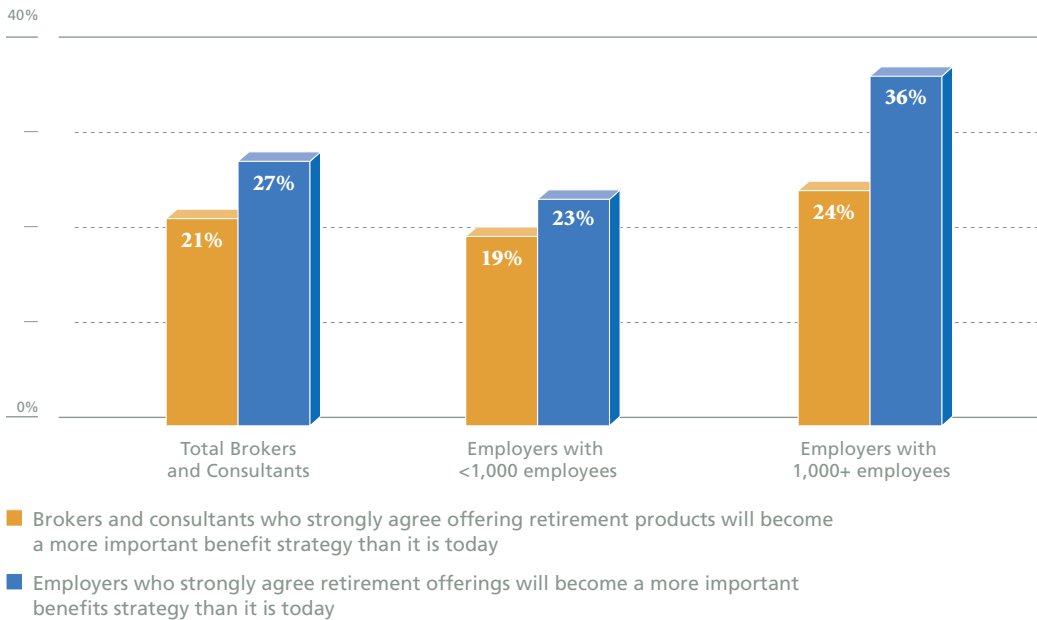
Employers may not be in a position to increase their contributions to employee retirement plans, but there are less costly ways they can help. Offering access to financial education through the workplace, including basic financial literacy as well as retirement planning, is key. In fact, 73% of employees are very interested in their employer providing programs to help them make decisions about their financial needs.⁵ Additionally, research indicates that employers who offer employees easy access to quality financial programs may realize a 3:1 return on investment in terms of workplace productivity, employee morale and company loyalty.⁹

This is an area of need that appears to be undervalued by brokers and consultants. Currently, only about 20% of brokers and consultants see potential in offering financial education services to clients. Yet, helping clients appreciate how a more proactive retirement strategy can help drive employee retention and productivity goals, and bringing cost-effective solutions to the table for employee financial education have the potential to be a growing and differentiating area of opportunity for brokers and consultants.

73% of employees are very interested in their employer providing programs to help them make decisions about their financial needs.

fig. 3.6

Brokers, consultants and their clients undervalue employee need and interest for help from employers in achieving financial security.



“There’s more receptivity than ever for clients to mandate wellness programs for their employees...so the broker is increasingly playing the role of helping the client engage their employee in the cost equation.”

(Broker and Consultant Interviews, 2010)



TURN INSIGHT INTO ACTION

If not already active in the retirement space, brokers and consultants may be reluctant to enter, especially if there is a need to obtain additional capabilities and credentials. Yet employer and employee need represents an additional potential avenue for building relationships and retaining clients.

One way for brokers and consultants to deliver highly credible financial advice and guidance solutions to clients without significant firm investment is by identifying a strong partner with these specialized skills. Not only do many programs not involve cost to employers, educating employees can boost interest for other products, and this increased demand can help brokers and consultants introduce voluntary and supplemental products to the workplace as part of a long-term strategy.

Health and Wellness Programs Have Profit Potential, Especially with Larger Clients

Brokers and consultants recognize opportunity for greater involvement in health and wellness programs across all sizes of companies — 58% of brokers and consultants with clients with 1,000+ employees, and 44% of those who primarily work with small/mid-size companies (less than 1,000 employees) consider this a growing area. Indeed, by creating meaningful incentives and opportunities to promote healthy behaviors, health and wellness programs are now broadly accepted as a way to help control company health care expense; 72% of employers who offer such programs say they are effective at reducing costs.¹⁰

These initiatives are a natural fit for many brokers and consultants, 59% of whom, despite their concerns about health care reform, expect that employer-paid medical insurance will still be an important growth opportunity in the next three years. Brokers and consultants can bring insights and solutions to clients about the value of wellness programs not only for cost control but also for enhancing employee productivity and contributing to employee loyalty and retention.¹¹



TURN INSIGHT INTO ACTION

There are many levers for promoting wellness. It is not only about weight loss and smoking cessation. Disease management programs, employee assistance programs, and absence management can all be part of an effective wellness strategy. The challenges for many employers are integrating these components, understanding their impact, and assessing their cost effectiveness. Brokers and consultants demonstrate value by working with carriers and vendors to help create and explain strategic options for delivering appropriate and seamless wellness program experiences for clients and their employees.

Executive Benefits Offer Potential Value — But Employers May Need Convincing

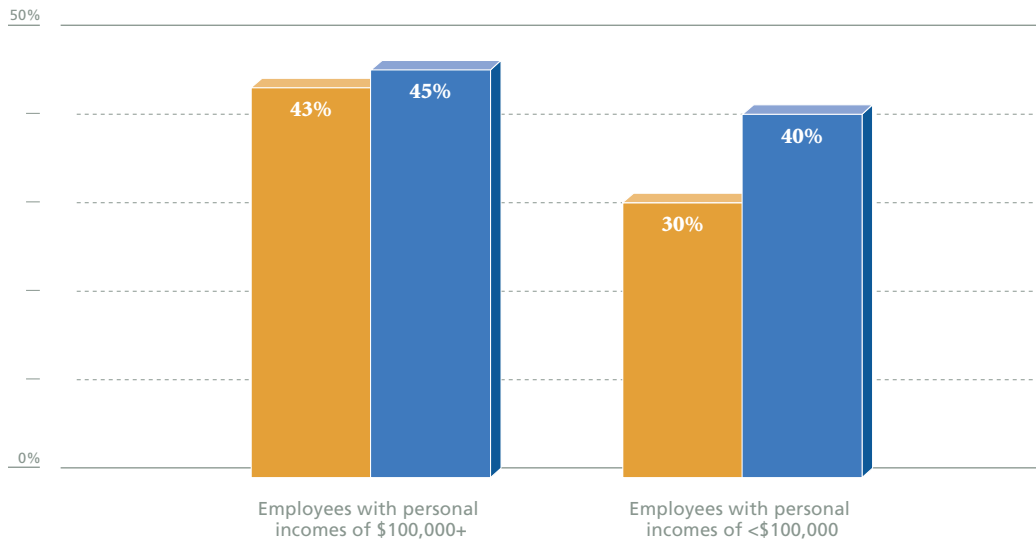
In the midst of high unemployment there is still a shortage of top talent. As a result, employers must often compete for these valuable workers with generous executive compensation and benefits programs. About a third (31%) of brokers and consultants anticipate that executive benefits will become more important for their clients in the next three years. However, only 18% of employers say they will be very likely to carve out special benefits for higher-income individuals or other preferred groups five years from now.¹² Today nearly half (49%) of all employers surveyed in the 9th Annual MetLife *Study of Employee Benefits Trends* do not offer any executive benefits.

Many employers underestimate how important benefits are to the executive employment value proposition, especially when it comes to non-medical benefits. In fact, 59% of those with personal incomes of more than \$100,000 say that benefits such as life, dental and disability have an extremely important impact on their loyalty, while only 37% of all employees believe this to be the case.¹³

Selling more non-medical insurance products such as life, dental and disability is seen as a potentially profitable direction by 58% of brokers and consultants surveyed. It is particularly endorsed by those who work with small/mid-sized companies where there is less penetration and potential opportunity to provide executive income protection products for business owners. In addition, this is a promising way to help replace lost medical revenue, while adding value for clients. Fifty-eight percent of respondents have already taken steps to develop new marketing strategies targeting ancillary benefits sales.

fig. 3.7

Highly compensated individuals value benefits even more than other workers.



Employees who strongly agree:

- My benefits are the foundation of my financial safety net
- My benefits are an important reason I remain with my employer

Source: 9th Annual MetLife Study of Employee Benefits Trends



TURN INSIGHT INTO ACTION

To capitalize on this opportunity, brokers may need to raise client awareness about the gap that often exists between the insurance coverages that highly compensated individuals need and the maximum available in standard group plans. Creating an executive carve-out program for the highly compensated can provide a cost-effective and efficient way to solve for this challenge. For the client, this strategy creates a pool of highly compensated employees and provides higher coverages and tax advantages to better meet executive needs; meanwhile the group plans remain untouched for the balance of employees. Products such as individual disability insurance (IDI) and group variable universal life insurance (GVUL) can be powerful carve-out solutions for executive recruiting and retention packages without adding to overall group costs. This is an innovative and practical — but often overlooked — solution for satisfying executive benefits needs without straining company budgets or resources.

“Sometimes with our clients, we think medical and then stop...we leave a lot of opportunity on the table with the non-medical and retirement products and we won’t broach the topic with the client...but there is tremendous growth opportunity.”

(Broker and Consultant Interviews, 2010)

Section IV

Adaptation Profiles — Where Brokers and Consultants are Headed after Health Care Reform is Implemented

The Study clearly identifies the issues that brokers believe they are facing and also a multitude of solutions they are considering in order to be successful despite industry change and challenge. But among these options, which paths are brokers and consultants choosing? How do individual brokers and consultants plan to adapt for the future? And what can they learn from the different models that others might be exploring?

A close analysis of the survey responses reveals four distinct adaptation profiles. By reviewing these profiles, brokers and consultants may recognize themselves in the various attributes and find valuable insights to help them refine their own adaptation strategies.

fig. 4.1

Four adaptation profiles emerged from analysis of the Study.



A broker or consultant's adaptation profile is identified by aggregating select responses to survey questions including their concerns about the state of employee benefits, their degree of optimism about the future (i.e. where they fall on the Broker Optimism Barometer), and their degree of focus on particular strategies, as well as certain firm demographics.

These profiles reflect what individual brokers and consultants see as more, or less, important than others. The distinctions between profiles are more often gradations rather than absolute differences on any given metric. As such, brokers and consultants may recognize aspects of themselves in one or more of these profiles, providing further insights into the choices they face.

The Study shows that brokers and consultants have a good grasp of the challenges ahead and are actively pursuing a variety of adaptation strategies.

Adaptation Profile:

CORE STRIVERS *Do More of What We Do*

When compared to others, Core Strivers are more likely to focus on the following:

Market Segment	Small/mid-size companies (clients with fewer than 1,000 employees)
Compensation	More likely to receive compensation that is 100% commission-based
Broker Optimism Barometer	Optimistic (second highest scoring) — despite deeper concerns about the market
Product Mix Strategy	Core products (medical, life, dental, disability) with an emphasis on medical insurance
Benefit Type	Primarily employer-paid
Innovation	Health and wellness programs, employee communications
Growth Initiative	Business as usual — with renewed focus and determination

Growth Strategy *Core Strivers* plan to continue to focus on traditional, or core, benefits products (medical, life, disability and dental insurances) for growth opportunities. In fact, this group is 50% more likely than all respondents to say that employer-paid medical insurance will continue to grow in importance in the next three years from their firm's profitability perspective.

Future Relevance This group feels strongly that clients will rely on them more in the future. *Core Strivers* expect to spend more time on new business pricing, renewal negotiations, benchmarking trends and consulting on solutions and cost-saving alternatives.

Voluntary Point of View While *Core Strivers* agree that voluntary benefits will become more important in the future, this is less of a strategic focus for them than it is for other profiles.

Attitude Toward Ancillary Products *Core Strivers* are also positive about the potential firm profitability of employer-paid ancillary products and place most emphasis on employer-paid dental and disability insurance.

Compensation Changes *Core Strivers* are more likely than other profiles to agree that moving from commission-based to fee-based compensation for both medical insurance, and to a lesser degree, ancillary products, is a strategy with potential for increasing overall firm profitability. This view may be somewhat defensive — reflecting expectations that broker compensation is likely to change in the medical field first — an area where this profile group is looking for growth.

Potential Issues and Opportunities for *Core Strivers*

- With a concentration on growth through core products and employer-paid medical insurance, *Core Strivers* may be more at risk if clients opt to drop workplace medical insurance in favor of coverages provided by state health exchanges. As an alternative, these brokers may want to round out their medical insurance offerings with health-related voluntary products such as critical illness and vision insurance to provide additional revenues and value for their clients.
- Dental products are a viable growth strategy given employee interest in this coverage, which was ranked the fourth most important insurance product in the 9th Annual MetLife *Study of Employee Benefits Trends*. Dental is an evolving benefit and *Core Strivers* will want to stay current with carrier product innovations and support tools in order to optimize plan designs and facilitate benefits administration, especially for their smaller clients.

Adaptation Profile:

Market Expanders *Find New Markets for Doing What We Already Do*

When compared to others, Market Expanders are more likely to focus on the following:

Market Segment	Larger companies (clients with 1,000 employees or more)
Compensation	Mix of fees and commissions
Broker Optimism Barometer	Concerned, especially about their firm's level of support
Product Mix Strategy	Medical and retirement products
Benefit Type	Primarily employer-paid
Innovation	International benefits
Growth Initiative	Same products as usual but with expansion into other geographies and industries

Growth Strategy With lower expectations for profitable growth for most benefits, *Market Expanders* plan to focus on medical and retirement benefits, and to grow their business by expanding into new industries and geographical territories — presumably at the expense of their competitors. They are also interested in growth through offering international benefits solutions, which fits with their likelihood to have clients with global footprints.

In pursuing these new markets, *Market Expanders* remain especially confident that clients will continue to pay most or all of the cost of medical insurance. They also anticipate increased importance for executive benefits and prescription drug plans.

Future Relevance Despite expressing fewer concerns than other profile groups, *Market Expanders* have a lower optimism score. Their lack of optimism likely stems from lower expectations about the future importance of most benefits from a firm profitability perspective. In the face of this concern, they plan to continue to focus in the areas of medical insurance and retirement. They also expect to spend more time consulting with clients on benefits solutions and cost-saving alternatives.

Voluntary Point of View Although this group shares in the general expectation for the growing importance of voluntary benefits, it is to a much lesser degree. *Market Expanders* are significantly less likely than others to say that voluntary products will be more important to clients in the future or that they represent a significant profit opportunity for their firm.

Attitude Toward Ancillary Products *Market Expanders* see much less growth potential in employer-paid life, dental and disability insurance than other profiles. However, they currently have less revenue from these products today and may have made a strategic choice not to pursue this market segment.

Compensation Changes Of the four profiles, *Market Expanders* feel most strongly that they will spend more time in the future consulting with their clients on benefits solutions and cost-saving alternatives, as well as consulting on legal and compliance issues. At this time they do not see a significant profit opportunity in going more fee-based for ancillary products and are not ready to change.

Potential Issues and Opportunities for *Market Expanders*

- Given their interest in expanding retirement and consulting services, *Market Expanders* may want to revisit their outlook for associated product offerings that could help differentiate them — such as financial education programs and income protection insurance products, especially in the context of executive benefits.
- To pursue a growth strategy of geographical and industry expansion, this group should reconsider their approach to voluntary benefits. Given employee receptivity to employee-paid benefit options, a marketing strategy focused on voluntary benefits can be a good conversation starter with prospects, especially in competitive, cost-conscious industries. As a further differentiator, non-traditional voluntary products can catch the interest of prospects when targeting new markets.

Adaptation Profile:

VOLUNTARY VOLUMIZERS

The Market Is Changing and So Is Our Approach

When compared to others, Voluntary Volumizers are more likely to focus on the following:

Market Segment	Small/mid-sized companies (clients with fewer than 1,000 employees)
Compensation	Split of 100% commission-based brokers and brokers and consultants earning a mix of fees and commission
Broker Optimism Barometer	Most concerned, especially about declining broker and consultant relevance
Product Mix Strategy	Voluntary medical and voluntary ancillary products
Benefit Type	Primarily employee-paid
Innovation	Executive benefits
Growth Initiative	Replacing anticipated medical commission loss with voluntary core products

Growth Strategy *Voluntary Volumizers* are fully embracing a voluntary strategy as a way to adapt to the market after health care reform is implemented. They share a strong belief that employer-paid medical insurance will be much less important for their firm in the future. As a result, *Voluntary Volumizers* expect to spend less time on new pricing and renewal negotiations. However, they do foresee an increase in time spent consulting on legal and compliance issues.

Future Relevance *Voluntary Volumizers* believe their current services may be less in demand in the future. They are also less likely to believe their clients will rely more on their firm's consultation three years from now. In fact, they feel that employer-paid products in general will decline in importance.

Voluntary Point of View In light of their views about the declining importance of employer-paid benefits, voluntary life, dental, disability, long-term care and critical illness insurance will all be more important in the *Voluntary Volumizers'* adaptation strategy. They also see more potential in auto and home insurance than any of the other profiles. And, they are taking action. Sixty-two percent of brokers and consultants in this profile group have developed a marketing strategy that targets voluntary benefits and 94% report that they are actively reviewing client lists for voluntary benefits sales opportunities.

Attitude Toward Ancillary Products *Voluntary Volumizers* expect less growth from employer-paid ancillary products than other profiles. This may be because they have high levels of concern about the slow economic recovery causing employers to cut benefits.

Compensation Changes This group sees some potential for increased profitability in moving from commission-based to fee-based compensation for ancillary products such as life, dental and disability. Given that they expect employer-paid ancillary products to be less important in the future, they may also anticipate that the traditional commission structure will become less viable.

Potential Issues and Opportunities for *Voluntary Volumizers*

- In addition to the more typical voluntary products, *Voluntary Volumizers* may be able to differentiate themselves by offering some non-traditional products and services such as group auto and home insurance, legal services, or health and wellness integration.
- Overall, *Voluntary Volumizers* are less committed to the benefits industry as a long-term career compared to other profiles. This presents a potential retention challenge for their firms that should be addressed with a careful review of perceived opportunities for comparable compensation in a voluntary environment.

Adaptation Profile:

CONFIDENT CONSULTANTS

Keep On Consulting...and Leveraging Firm Capabilities

When compared to others, Confident Consultants are more likely to focus on the following:

Market Segment	Larger companies (clients with 1,000 employees or more)
Compensation	Mix of commission and fee-paid
Broker Optimism Barometer	Highly optimistic — about industry and their firm
Product Mix Strategy	Focus more on ancillary products with emphasis on voluntary
Benefit Type	Mix of employer-paid and employee-paid
Innovation	New marketing strategy development
Growth Initiative	Advise and conquer. Confident in the firm's ability to be successful — no matter what

Growth Strategy *Confident Consultants* are most likely to embrace expanding and enhancing their consulting services as they adapt their strategies for future growth. They are also more positive than other respondents — except for *Market Expanders* — on the potential for expansion into new industries and territories to increase overall profitability.

Confident Consultants are far less interested in the future profit potential of retirement products compared with other survey respondents. They anticipate no significant increase in their clients' focus on retirement products in the future and as a result they are also much less bullish on executive benefits and exploring employee financial education products. This may be because they are more likely to have larger companies as clients and these firms could already have effective retirement practices in place.

Future Relevance *Confident Consultants* have the highest score on the Broker Optimism Barometer, an optimism that is characterized by an especially strong belief in their firm's ability to succeed and by a slightly more optimistic view than other profiles on the growth potential of the industry.

Voluntary Point of View This group sees growth potential in voluntary products and also complementary medical products such as critical illness insurance and to a lesser degree, vision benefits, reflecting their interest in a wide range of product offerings.

Attitude Toward Ancillary Products *Confident Consultants* expect to continue to grow with the same product mix as before, but with an increased emphasis on ancillary benefits — especially life and disability insurance. The group is ahead of the curve when it comes to taking action on their growth strategy — 70% have developed new marketing strategies that focus on products such as group life, dental and disability and 92% report identifying potential target prospects on their client lists.

Compensation Changes *Confident Consultants* feel very strongly that moving from commission-based to fee-based for ancillary products for their primarily 1,000+ employee-sized client base would not be the right strategy for their firm's profitability.

Potential Issues and Opportunities for *Confident Consultants*

- *Confident Consultants* express some concern about the ability to differentiate their firm's services from competitors. They may want to consider expansion into less crowded benefit spaces such as executive benefits, employee financial education and health and wellness. They may be overlooking the opportunity to leverage their considerable firm capabilities and bring new solutions to their clients.
- For the most part, *Confident Consultants* believe they have what they need in their current situation to be successful. Therefore, they do not see an advantage in their firm partnering with or merging with another brokerage firm or TPA in order to offer additional products and services. But they shouldn't overlook the potential for additional fee-generating opportunities that a strategic partnership or merger could bring.

CONCLUSION

Over the next decade the benefits industry will wrestle with accelerating change and challenges. Cost pressures, cost shifting and legislative modifications of the social safety net will continue to shape both government and employer contributions to employee support systems. The survey shows that brokers and consultants have a good grasp of the challenges ahead and are actively pursuing a variety of adaptation strategies. But this is just the beginning. Brokers and consultants must radically recast their roles and lead the benefits industry forward — or risk irrelevance.

Changes in broker compensation models are an inevitable accompaniment to this development, and demonstrating value to clients in an era of greater fee transparency will prove to be a make-or-break situation for many firms. At the same time as they strike out in new strategic directions, brokers and consultants must grapple with the challenge of generating new and replacement revenue streams and develop the skills and resources to gain a competitive advantage and maintain sustainable firm profitability.

Based on the insights revealed by the Study's Broker Optimism Barometer and the four adaptation profiles, this paper offers a range of practical research-based actions and ideas that brokers and consultants can consider and implement as they take the next important steps in this challenging journey.

METHODOLOGY

The Broker and Consultant Study was conducted during the fourth quarter of 2010 and the first quarter of 2011 and consisted of a telephone survey fielded by GfK Custom Research North America and face-to-face interviews conducted by the Churchill Group. The survey comprised 502 interviews with brokers and consultants who sell group employee benefits to companies of all sizes. Face-to-face interviews were conducted with 24 brokers and consultants, representing various geographic areas in the United States.

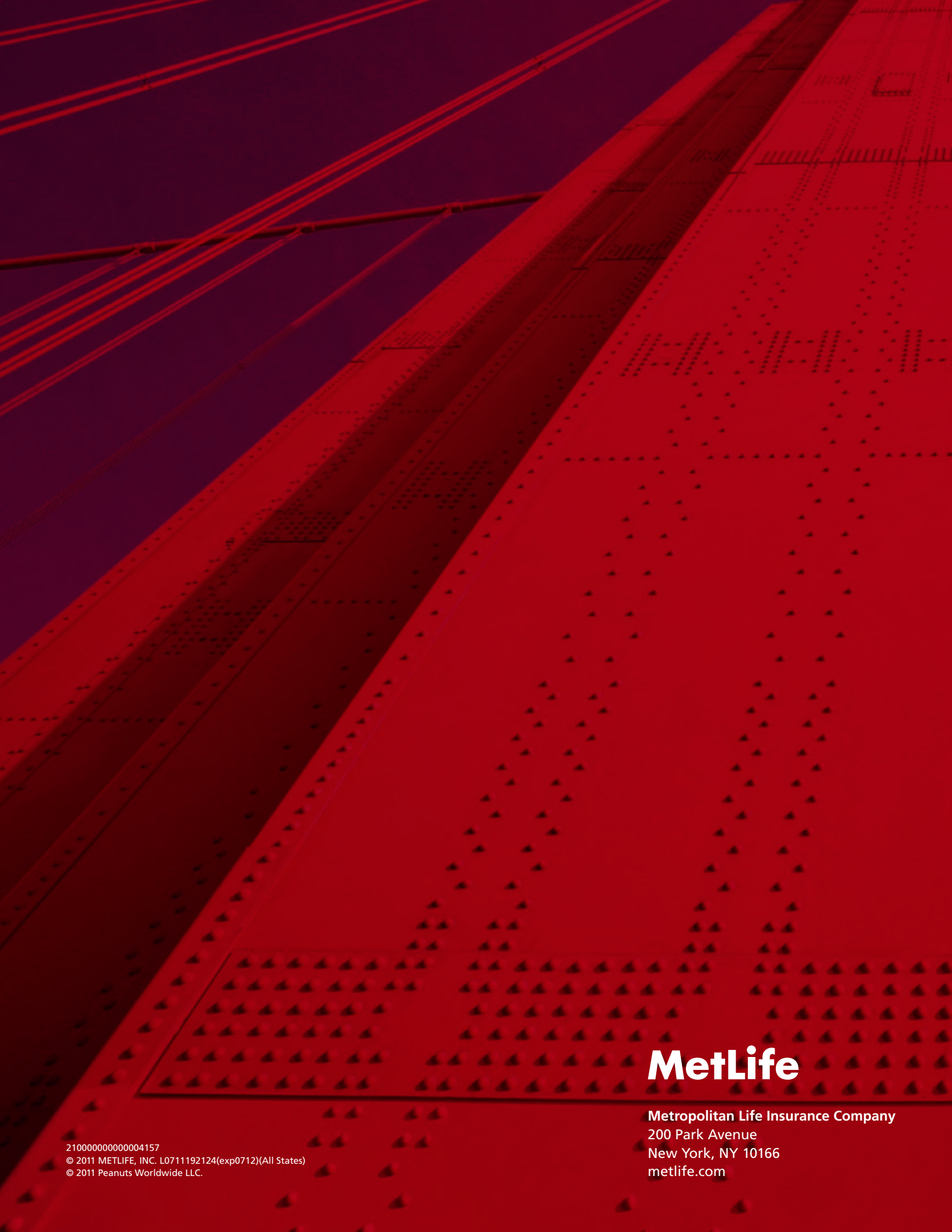
“For the more nimble or ambitious consultant and broker, there are just tons of opportunities out there right now to start a conversation with virtually anybody.”

(Broker and Consultant Interviews, 2010)

Endnotes

- ¹ *Benefits Selling 2011 Health Care Survey*, May 2011
- ² 9th Annual MetLife *Study of Employee Benefits Trends*
- ³ 9th Annual MetLife *Study of Employee Benefits Trends*
- ⁴ 9th Annual MetLife *Study of Employee Benefits Trends*
- ⁵ 9th Annual MetLife *Study of Employee Benefits Trends*
- ⁶ "Financial Fitness and the Mayo Clinic Health Risk Assessment Use of the Personal Financial Well-Being Scale" Ref: Shatwell et al, *Consumer Interests Annual Vol. 53* 2007
- ⁷ "The relationship between perceived stress and self-reported illness-related absenteeism" Jacobson et al *Am J. of Health Promotion 1* (1996)
- ⁸ 9th Annual MetLife *Study of Employee Benefits Trends*
- ¹⁰ *The Personal Finance Employee Education Foundation*
- ¹¹ 9th Annual MetLife *Study of Employee Benefits Trends*
- ¹² 9th Annual MetLife *Study of Employee Benefits Trends*
- ¹³ 9th Annual MetLife *Study of Employee Benefits Trends*
- ¹⁴ 9th Annual MetLife *Study of Employee Benefits Trends*





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