

With Entire Value in Mind

A Look at Employees' Decision-Making Process Regarding Voluntary Benefits



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As employers try to provide a comprehensive benefits plan to attract the best employees, they look to voluntary benefits as a key component of controlling costs. This has led to strong growth in voluntary sales over the past decade, influencing many carriers to incorporate voluntary benefits into their distribution strategies. Continued growth – combined with the ability to tap large numbers of potential customers on a cost effective basis – has attracted many additional carriers to the voluntary marketplace.

It as been often noted that worksite marketing is a multi-tiered sales process. What do employees (the end customer) think about the concept of voluntary benefits? What are their key considerations when deciding whether to purchase a voluntary benefit? To explore this issue, LIMRA International recently surveyed more than 2,500 consumers about voluntary benefits.

AWARENESS While there has been a lot of talk in industry circles about the advantages of voluntary benefits, consumers' lack of awareness is an issue. Building awareness is a crucial first step to successfully market almost any type of product (insurance or otherwise). If consumers do not know or understand what your company is selling, there is little

chance of them purchasing from you. Several worksite companies have spent considerable resources over the past few years building awareness of their particular brands among employers and employees. While their efforts have generally been very successful, heightened brand awareness alone will not create a significant increase in sales. Consumers must also have at least a basic understanding of how a product works before purchasing it.

Overall, just 54 percent of consumers are aware of voluntary benefits (defined as optional insurance products that can be purchased through employers and fully paid for by the employee, usually through automatic payroll deductions). Awareness is slightly lower in the Northeast than in other U.S. regions. Though voluntary benefits are often targeted to lower- and middle-income employees, higher-income households are a little more familiar with these products (*Figure 1*).

REASONS FOR PURCHASING Of those consumers who are aware of voluntary benefits, 63 percent have at least one voluntary benefit available to them where they work. Of that group, slightly more than half participate in the plan(s). Assuming the value of employer endorsement as a given, other factors play key roles in the decision-making process. While price clearly impacts the decision, it is far from the only consideration. More people cite other factors as "putting them over the top" when it came to decide whether to participate in the plan (*Figure 2*).

One fifth of the consumers reported the timing of the offer was the most persuasive reason, and another one fifth cited the convenience of payroll deductions.

It appears that certain types of consumers are less price-sensitive than others. For instance, those between the ages of 35 and 49 seem less price-sensitive than their older and younger counterparts.

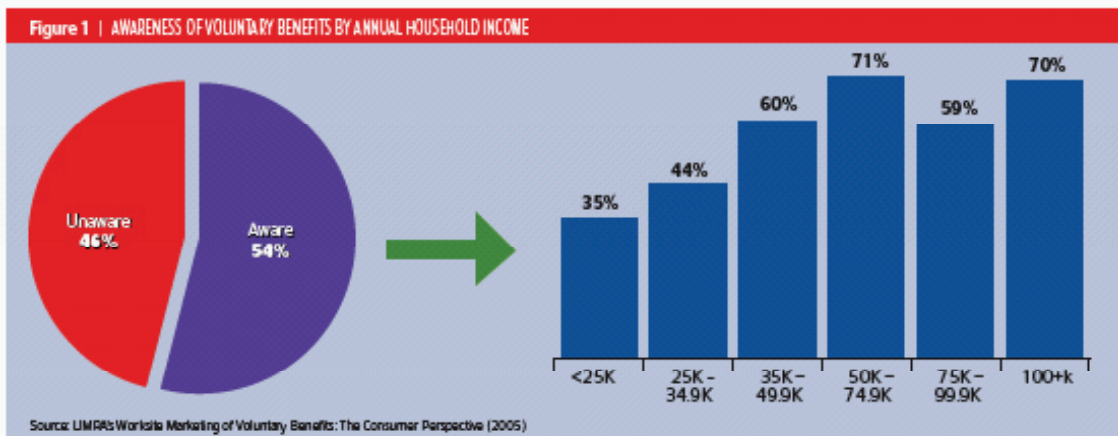


Figure 2 | PRIMARY REASON CONSUMERS PURCHASED VOLUNTARY BENEFITS

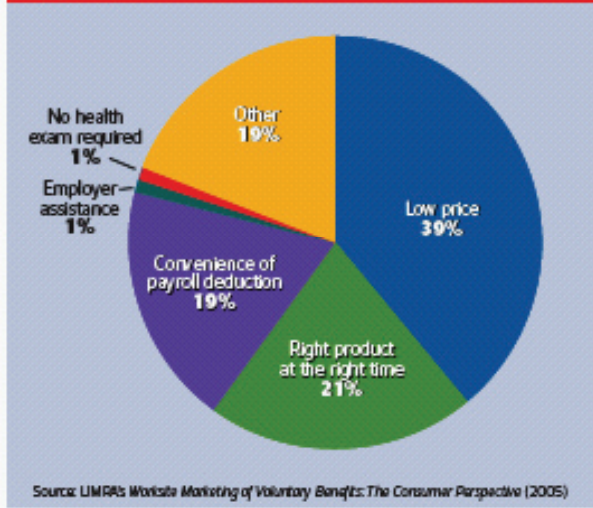
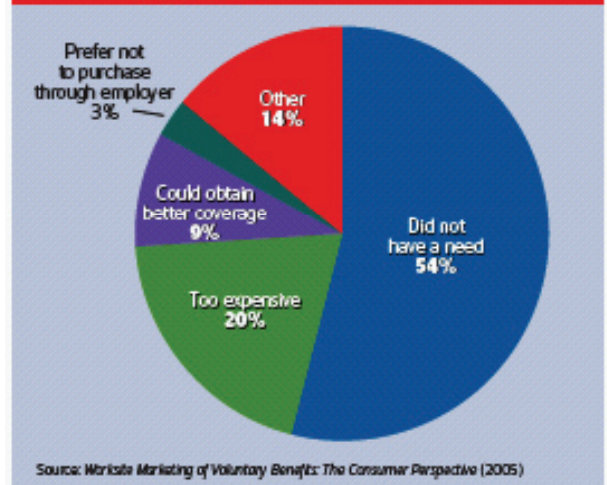


Figure 3 | PRIMARY REASON CONSUMERS DID NOT PURCHASE VOLUNTARY BENEFITS



This age band coincides with the life stage at which most people have the greatest need for insurance products. It is also when people tend to have numerous family commitments involving children, and likely place a higher value on timing and convenience.

Upper-middle-income households (those with annual earnings between \$75,000 and \$99,000) are more likely to purchase voluntary benefits because of the convenience of payroll deduction rather than the cost of coverage. Consumers living in the South also appear less price-sensitive than those from other U.S. regions. The primary reason Southern residents purchase voluntary benefits was almost evenly split among low price, payroll deduction convenience, timing, and "other".

REASONS FOR NOT PURCHASING Equally important to consider are the reasons why consumers do not participate in a voluntary benefit plan. Somewhat surprisingly, only 1 in 5 consumers indicated that price was their primary reason for declining coverage (with those from lower-income households being more price conscious). Many consumers recognize that the worksite can be a cost-effective way to purchase insurance coverages. It is encouraging to find that price is twice as likely to be a major factor in the decision to purchase as it is in the decision not to purchase.

Clearly a bigger stumbling block exists. Just over half of those who decided not to purchase a voluntary benefit did not have a need for the offering (Figure 3).

This issue is inherent in worksite marketing distribution, since employees working for the same firm (especially large companies) have different levels of existing insurance coverage (from various sources), and typically differ in their age, life stage, and income. It is nearly impossible for any single offering to meet the needs of the entire employee population. Worksite carriers and producers can improve their chances of a successful voluntary benefit enrollment by doing a little bit of advanced preparation. Participation rates will increase

dramatically when the specific voluntary offering is targeted to employer groups with a large number of potential employees having a need for the benefit.

Reasons for not purchasing voluntary benefits vary considerably by region. Consumers in the West are most likely to feel that they did not have a need for the product offering. Midwestern consumers have a greater belief than consumers from other regions that they can obtain better coverage elsewhere, while consumers in the Northeast are the most likely to decline because of price.

Higher-income households (having annual incomes of \$75,000 or more) are more likely to have other sources from which to obtain coverage. Traditional insurance agents as well as many emerging distribution channels (such as wirehouses, broker-dealers, CPAs, etc.) have focused their selling efforts on the affluent market. As a result, worksite marketers have more competition at the higher end of the market.

Younger consumers more often choose not to participate because of a perceived lack of need. While this is a natural feeling of many young Americans, perhaps showing consumers in this age group the potential cost of waiting to purchase insurance benefits would be more persuasive. Depending on the specific product, the cost of coverage may increase over time, while the likelihood of satisfying any potential underwriting restrictions will decrease with age.

CONCLUSION Given the popularity of worksite marketing – and given the emerging trends employees currently face at the workplace (rising health care costs, changes in retirement offerings, etc.) – voluntary benefits will continue to be a vital component of employers' benefit packages. Employees view these offerings as a cost effective way to obtain needed insurance benefits. But price is not their only consideration. Worksite providers need to ensure that the entire value of voluntary offerings are understood when the plans are communicated to employees.