

# CALIFORNIA BROKER

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SERVING CALIFORNIA'S LIFE/HEALTH PROFESSIONALS & FINANCIAL PLANNERS

SEPTEMBER 2017

## *Self-Funding Self Reliance Becoming a Broker Tool Kit For Do-It-Yourself Clients*



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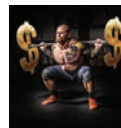


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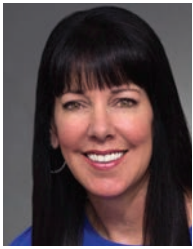
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# Can Shopping Save the Senate Health Care Bill?

**F**or now, the Senate health care bill is officially dead. But no matter if the Affordable Care Act ever gets repealed, replaced, canceled or reformed, we still need to urgently address the continued cost crisis gripping our system.

The current ACA is fundamentally insurance reform. And there are some positives to the law. It requires everyone to have health insurance. People with pre-existing conditions are covered. So are young adults under 26. Mental health and substance abuse treatment have received more funding. And Medicaid was expanded in many states to cover more people in need.

But none of this did anything to make health care more affordable. In fact, lawmakers projected that expanded coverage would equal increased cost. They even tried to solve for that increased cost in the initial ACA bill. The government introduced tax penalties for people who didn't buy coverage to broaden the risk pool with healthier people. But half of Americans don't even pay taxes (so they can skip the penalty), not to mention the cost of exchange products is 10 times higher than the tax penalty.

They also required larger health plans to reimburse smaller health plans that might lose money on the exchanges – but instead every plan lost money. UnitedHealth lost about \$850 million in 2016. Aetna, Anthem, and Humana each lost about \$300 million last year on ACA plans. As a result, plans are ei-



ther increasing their prices on the exchange or, in some cases, they are getting out of the exchanges altogether.

The Senate bill missed the mark, as well. At its core, it was a tax law that provided subsidies for insurance companies. But the bill was unpopular because it reduced access to health plans and Medicaid coverage. An additional 22 million Americans could have lost coverage, according to the Congressional Budget Office

So how do we accomplish health care reform that helps the majority of Americans while still controlling costs? From where I sit as the CEO of Vitals, a

health care pricing transparency company, we need to create a marketplace where consumers are able to purchase health care services as they do other goods and services.

We all know that prices for health care are out of whack. There is no rational pricing when it comes to most medical services. Costs vary drastically, even for the same service in the same neighborhood. For example, an MRI can cost \$5,000 at a hospital, but less than \$500 at an imaging center just down the road. And the final cost isn't known until the bill arrives. I, myself, once got a bill for a \$3,500 MRI

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*\*Gift cards are for illustrative purposes only. CCSB does not offer gift cards in lieu of health benefits coverage. \*\*Insurance companies vary by region.*

after the fact. I wish I had known then there were better choices in my area.

Twenty years ago, when there were rich benefit plans, these costs didn't matter to the average American. Consumers weren't paying for health care. Today, the most affordable plans are high deductible health plans – especially on the exchanges – where consumers can be paying \$5,000 or more in a deductible. However, in any given year, more than 80 percent of non-chronically ill individuals spend less than the average deductible for a Silver plan in the health insurance marketplace. That means that for these in-

dividuals, health care is totally paid for from cash out of their pocket.

This gives them an incredible incentive to shop for high-quality, low cost care. And in turn, lower costs for all through the economic principle of price elasticity. We've seen that when patients control the marginal dollars, health care marketplaces emerge. For instance, the cost of conventional Lasik decreased 25 percent from 1999 to 2011.

Last year, the Health Care Cost Institute found that 47 percent of the \$524.2 billion spent on health care by individuals with employer-sponsored

insurance was shoppable. That's \$246 BILLION dollars of shoppable care.

Shoppable services are common health care procedures that can be researched ("shopped") in advance. They are services that are available from multiple providers in a market (i.e., competition). And they are services where there is good data about prices and quality or where there is little to no difference between them, such as MRIs and lab work.

When consumers shop, they can save significantly on those services. Through claims data, we've verified that when members shop for CT

## AUGUST 1, 2017

Company Name	Ratings			Product (Qual./Non-Qual.)	Type SPDA FPDA	Initial Interest	Guar. Period	Bailout Rate	Surrender Charges	Mkt. Val. (y/N)	Min. Contrib.	Comm. Street (May Vary)
	Bests	Fitch	S&P									
American Equity	A-	A-		ICC13 MYGA (Guarantee 5) (Q/NQ)	S	2.30%*	5 yr.	None	9%, 8, 7, 6, 5, 0	Yes	\$10,000 (Q) & \$10,000 (NQ)	3.00%, age 18-75 & 2.10%, age 76-80** 1.50% age 81-85**
				ICC13 MYGA (Guarantee 6) (Q/NQ)	S	2.45%*	6 yr.	None	9%, 8, 7, 6, 5, 4, 0	Yes	\$10,000 (Q) & \$10,000 (NQ)	3.00%, age 0-75 & 2.10% age 76-80** 1.50% age 81-85**
				ICC13 MYGA (Guarantee 7) (Q/NQ)	S	2.60%*	7 yr.	None	9%, 8, 7, 6, 5, 4, 3, 0	Yes	\$10,000 (Q) & \$10,000 (NQ)	3.00%, age 0-75 & 2.10%, age 76-80** 1.50% age 81-85**
*Effective 7/10/17. Current interest rates are subject to change on new issues. **Commission may vary by issue age and state. See Commission Schedule for details												
American General Life Insurance Companies	A	A+	A+	American Pathway Solutions MYG (*Guarantee Return of Premium) (Q/NQ)	S	2.40%* <sup>a</sup> 2.70%* <sup>b</sup>	5 yr.	None	8%, 8, 8, 7, 6, 5, 4, 3, 2, 1, 0	Yes	\$10,000 (Q&N)	1.5% age 0-75 .75% age 76-85
*CA Rates Effective 6/2/17. First year rate includes 1.50% interest bonus. a (less than \$100K) ; b (100K or more)												
American General Life Insurance Companies	A	A+	A+	American Pathway Fixed 5 Annuity (*Guarantee Return of Premium) (Q/NQ)	S	1.40%* <sup>a</sup> 2.40%* <sup>b</sup>	5 yr.	None	9%, 8%, 7%, 6%, 5%, 0%	No	\$5,000 (NQ) \$2,000 (Q)	2.00% age 0-85 1.00% age 86-90
*CA Rates Effective 8/7/17 Includes 1.15% 1st year bonus, 1.00% base rate subsequent years. a (less than \$100K) b (100K or more)												
American General Life Insurance Companies	A	A+	A+	American Pathway Fixed 7 Annuity (*Guarantee return of premium Q/NQ)	S	2.40%* <sup>a</sup> 3.40%* <sup>b</sup>	7 yrs.	None	9%, 8%, 7%, 6%, 5%, 4%, 2%, 0%	No	\$5,000 (NQ)	3.00% age 0-85 1.50% age 86-90
*CA Rates Effective 6/2/17. First year rate includes 4.0% bonus 1 <sup>st</sup> year. a (less than \$100K) b (100K or more)												
Great American Life	A	A+	A+	SecureGain 5 (Q/NQ)	S	2.05%	5 yrs.	N/A	9%, 8, 7, 6, 5	Yes	\$10,000	2.50% 18-80 (Q), 0-80 (NQ) 1.50% 81-89 (Q&NQ)
Effective 8/7/17 Includes .25% first-year bonus and is for purchase payments over \$100,000. Escalating five-year yield is 2.30%. For under \$100,000 first-year rate is 1.90%. Escalating rate five-year yield 2.15%												
Great American Life	A	A+	A+	SecureGain 7 (Q/NQ)	S	1.60%	7 yrs.	N/A	9%, 8, 7, 6, 5, 4, 3	Yes	\$10,000	3.50% 18-80 (Q), 0-80 (NQ) 1.50% 81-85 (Q&NQ)
Effective 8/7/17. Includes 1.00% first-year bonus and is for purchase payments over \$100,000. Escalating seven-year yield is 2.49%. For under \$100,000 first-year rate is 1.50%. Escalating rate seven-year yield 2.39%												
Great American Life	A	A+	A+	Secure American (Q/NQ)	S	1.55%*	1 yr.	N/A	9%, 8, 7, 6, 5, 4, 3	No	\$10,000	5.75% 0-70 4.65% 71-80 *Effective
8/7/17. Eff. yield is 2.67% based on 1.65% first year rate, 1.00% available portion of 10% annuitization bonus (available starting in contract year two) and 0.02% interest on available portion of bonus at the rate of 1.65%. Surrender value interest rate 1.65%. Accepts additional purchase payments in first three contract years. COM12255												
North American Co. for Life and Health	A+	A+	A+	Guarantee Choice II (Q/NQ)	S	2.25%* <sup>a</sup> 2.50%* <sup>b</sup>	5 yr.	None	10, 10, 9, 9, 8	Yes	\$2,000 (Q) \$10,000 (NQ)	2.00% (0-80) 1.50% (81-85) 1.00% (86-90)
*CA rates effective 8/8/17 - a (less than \$200K) b(200K or more)												
Reliance Standard	A+		A	Eleos-MVA	S	3.55%*	1 yr.	None	8%, 7, 6, 5, 4	Yes	\$10,000	3.25%**
*Effective 12/2/16. Includes 1.50% 1st yr. bonus. Min. guarantee is 1.00%. **Reduced 20% ages 76-80, and 40% ages 81-85												
Reliance Standard	A+		A	Apollo MVA (Q/NQ)	S	4.25%*	1 yr.	None	9%, 8, 7, 6, 5, 4, 2	Yes	\$5,000	4.00% to age 75**
Includes 2.00% 1st yr. bonus. Min. guarantee 1.00% **Reduced 20%, ages 76-80, and 40% ages 81-85. Effective 7/17												
Symetra Life, Inc.	A	A	A	Custom 7 (Q/NQ)	S	2.85%*	7 yrs.	N/A	8%, 8, 7, 7, 6, 5, 4, 0	No	\$10,000	Varies
*Effective 7/24/17. 2.35% base rate with no guaranteed return of purchase payments. Plus 0.50% bonus for \$250,000 and above.												

scans, they save an average of \$507; An average \$586 on MRIs; And an average of \$1,250 for colonoscopies.

These dollars add up. Consider that there are 80 million CTs performed in the United States. Multiply that and the potential savings on that service alone is \$40.6 billion.

When we start to alter the economy of health care that drastically – billions taken out of the system – change is inevitable. For instance, when Vitals SmartShopper, our cash reward and price transparency program, was adopted in the State of Kentucky, the CFO of a major hospital system noticed the drop in number of MRIs being performed at his facility. He called us, and then called the health plan to renegotiate and lower their MRI rate with the health plan. The new price was 55 percent less than what it was originally.

We know consumers don't want to pay for a \$5,000 MRI. We know they can't. It's unsustainable. Cash rewards, price comparisons, options to shop via the web and with phone

assistance are a good start. But in our experience, it also takes powerful advocates that can help consumers understand their choices.

Today, millions of health plan members can access phone support from our Vitals Personal Assistants. They help members find lower cost options for routine medical services and procedures, change a doctor's referral, book an appointment and even arrange transportation if needed. Proving that health care takes a human touch, members who use phone support are twice as likely to switch to a better value facility for their medical procedure or test.

The right blend of tools and rewards can breed market competition that moves volume, saves money for consumers and lowers prices overall. We've seen it in Kentucky, New Hampshire, Florida, Indiana, Texas. We've started the work in Massachusetts, New Mexico, Oklahoma, Pennsylvania, Illinois, Indiana and Louisiana. And we'd like to see the rest of the na-

tion access information – both online and off – that helps them meaningfully shop for the affordable care they and their families deserve. ★

*Heyward Donigan is president and chief executive officer of Vitals, a New Jersey-based company dedicated to making health care consumers better decision makers. Heyward is a recognized leader in the health care industry with 30 years of experience in all aspects of the health plan business. She has a passion for health care consumerism and helping people make better, more informed decisions about their care. Prior to Vitals, Heyward was president and CEO of ValueOptions, driving innovation through disciplined execution and taking company revenues to over \$1 billion. She also served as executive vice president and chief marketing officer at Premera Blue Cross. There, she architected the organization's consumerism strategy, a precursor for their cost and quality transparency solution. Heyward also held executive roles at Cigna Healthcare, General Electric, Empire BCBS and U.S. Healthcare. Heyward holds a Master of Public Administration from New York University. She graduated with a Bachelor of Arts in English from the University of Virginia.*

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# COMMISSIONS AND LIFE EVENTS

## *PART 2: TRANSFERRING OR SELLING YOUR COMMISSIONS*

By PHIL CALHOUN and MAGGIE STEDT



*“If the ideal situation for an agent is to have a secure plan that allows them to stay active for as long as desired... helps to retain commissions at the point one decides to retire, and also pays out a survivor payment to loved ones for a few years, then the CCP is a fit.”*

In last month’s Part One, we covered how carriers will pay agents when certain life events occur. Armed with the knowledge of how commissions are handled by carriers upon death or disability, we now turn to how commissions can be sold or transferred during one’s lifetime or after death. Part Two completes the commission planning process as the focus turns to a review of the impact of either selling or transferring one’s book of business. The table on page 12 outlines how doing nothing, selling, or transferring commissions compare in regard to net income, tax friendliness, the impact of disability or death and the relative value of each option.

### COMPREHENSIVE PLANNING

Any comprehensive plan will include details and instructions for survivors pertaining to the sale of one’s book of business. Most agents do not consider how their commissions can provide for their family in the event of their disability or death, which is an unfortunate oversight. The plan must be in writing, clearly outline how your loved ones will handle the sale if you are not able to be involved, and the process will likely require legal input. In the event the sale or transfer occurs as part of an agent’s retirement, the plan should address commission retention and client retention solutions as most buyers will want to keep as many of the clients built over

years of hard work to transfer to them as the new agent or agency.

### ARE OPTIONS WORTH IT?

Agents who want to retire someday often consider either a transfer of their book of business to a partner or family member or look to find buyers. Many agents put off planning or willingly decide that they will “die at their desk.” The table on page 12 shows the impact of various planning options when it comes to taxation, length of payout, and disability or death.

### SOLUTIONS

Many agents have been told they need to incorporate and move their book

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into the corporation. Under a corporate structure, carriers pay commissions to the corporation rather than the individual agent, and agreements are not directly impacted by the disability or death of the agent. However, agents need to know that there must always be a licensed agent in the corporation and for Medicare Advantage and Medicare Prescription Drug Plans, there must be someone certified each year to retain renewals and continue to sell these plans. These requirements add a level of complexity as many agents do not have a spouse or child who is able to be licensed and certified and also interested in learning and working the business. One solution often suggested is to have a third party who would contract with the agency and handle the business. It is critical to have a solid agreement in place once a suitable party is found. Many times these arrangements fail when efforts to find a mutually beneficial compensation arrangement block the completion of an agreement. When using a



corporation as a method to provide income for loved ones in the event of disability or death of the agent, there needs to be a written agreement in place that addresses how much loved ones who are not licensed or active in the business will be paid.

**SELLING YOUR BOOK**

If you decide to sell your business you will need a valuation. Business valuations range from a free or low cost option providing a ballpark number to a professional valuation prepared by a certified valuation specialist. Once you have a value for your book, you can then assess who might be the best buyer. Knowing the possible terms a buyer may want in a transaction is also critical. Most buyers will require you

and/or your key employee(s) to stay for period of time to help transition the clients. The transition period usually extends to at least a year and most often your net payout is contingent on the success of commission retention.

**Valuation:** Selling your book is likely to be based on some multiple of annual gross. A recent agency valuation that we’re aware of came in at 1.5 times annual gross. Shelley Smith, a certified valuation analyst, says, “This multiple may be higher or lower depending on the size of the business and its specific characteristics, including the composition of your customer base and whether the business has been growing, is stable, or is declining over the past three years. A third party buyer will ideally want to see that you

Options	Do Nothing	Sell to an Insider	Sell to an Outsider	Commission Continuation
Net Income	Commissions tend to decline over time due to competitors and paying less attention to clients	Final price is paid over time, tied to revenue retention, and limited to 1.5 times gross or valuation number on average	Final price is paid over time, tied to revenue retention, and limited to 1.5 times gross or valuation number on average	Highest net income out of the options to sell or do nothing due to payout over longest time
Tax Friendly	Tax is based on personal income tax rate	Not ideal even when paid over two or more years due to retention conditions and requirement to stay on after sale	Highly variable terms and conditions, generally not ideal even when paid over time	Taxed at personal income tax rate as usual, payout period is longer and over time reducing tax impact
Max Value	Good income if you live long enough, or can be very low	Medium, depends on payout period, final sales price and actual payment received	Medium, depends on payout period, final sales price and actual payment received	Highest value of all options for all life events
Disability	Subject to carriers policy but most often commissions end without a licensed producer	Sales agreement must be detailed, written and signed Can be complex	Sales agreement must be detailed, written and signed Can be complex	Payment is based on “Retire” or Inactive Status and continues at this level until death
Death	Subject to carriers policy but most often commissions end without a licensed producer	Not ideal, must be in writing to protect seller during payout period	Not ideal, must be in writing to protect seller’s loved ones during payout period	Beneficiaries paid out over time

Demanding clients?  
Increasing competition?  
Narrowing networks?  
Really bad hair day?

# We can solve all (but one) of these problems!

If one of your client's employees is diagnosed with a serious illness, such as cancer or heart disease, they will have lots of questions about how their life is about to change. But there is one question they should never have to ask: do I have access to the best possible medical advice?

In a world of narrowing networks they'll have to worry about finding the right in-network specialist to get a second opinion before treatment and also deal with scheduling appointments, travel, and the resulting, potentially conflicting, diagnosis.

Instead, if their employer offers MORE Benefits, one of our expert physicians will collaborate directly with their treating doctor, using our secure, HIPAA-compliant technology. Working together they'll ensure an accurate diagnosis and the optimum treatment plan.

Allow your clients to offer their employees the peace of mind from having MORE Benefits.

- ✓ Integrates into any health plan
- ✓ Employer-paid or voluntary benefit
- ✓ Lets your clients attract and retain talent
- ✓ Great pricing for your clients
- ✓ Great commissions for you
- ✓ Differentiates your portfolio
- ✓ Complements Critical Illness Insurance
- ✓ Only available from MORE Health

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have a higher historical retention rate and your business maintains good records, among other characteristics.”

In most cases, the purchase price for your business will be paid over time. For example, you may get a check for one-third of the total value upfront when you sign the agreement, the next payment will be equivalent to one-third and paid over a defined transition period of several months as you work to retain clients, with the final payment made after a year (or more) and likely based on the commissions transition to the buyer and on whether client retention meets the buyer’s goal.

**Taxation:** Working hard to sell your business for an agreed upon value is difficult, keeping the most of what you receive for your book is critical. From the experience of a recent sale of a book of business, it was advised that a broker of record change may not be as tax friendly as a book of business transfer. The transfer process is the most effective method to move cases with carriers based on the time it takes to move revenue from several clients to a new agency as well as how the transfer is reported for tax purposes.

**Requirements of Buyer:** Do you want to sell your book and move on? Would you prefer to stay involved for a few years? The buyer’s goal is to retain as much value as possible and even look for immediate ways to add value and increase revenue. To accomplish retention buyers look to the seller to actively engage in this process and often make payments of the purchase price amounts based on specified retention goals and discounted if actual results are less. Some agents decide selling and then staying involved in the transfer for a year or more is not agreeable. Be prepared when selling to negotiate your role in the transfer process to the buyer as this is where you can maximize the value you receive.

Selling to an inside buyer may have a softer tone compared to an outside buyer, but payments are often made over a longer time period because the inside buyer may not have the independent financial resources. In this situation, the seller has extra incentives to make sure the buyer is successful. In a best-case scenario, revenues either remain consistent or grow which

enables the buyer to make payments to the seller in full and on time.

A written sales agreement prepared with legal input is necessary in all sales and transfer situations.

Moving your book to a partner or friend should be a business transaction but often ends up more informal. Often times the result is a strained relationship as people have trouble with the change from dealing with you as the employer to now the seller. This

### Three keys to selling include:

**1** How to place a value on your commissions and understand what buyers are looking for?

**2** The tax impact of any payment to you with a goal of keeping as much as possible!

**3** What is required of you in the transition process to the new buyer including staying on over a transition period.

change leaves employees and loved ones trying to adjust and may demand they move into new more difficult roles in the agency.

### ANOTHER OPTION: COMMISSION CONTINUATION

Instead of selling or just doing nothing, another option is a Commission Continuation Plan (CCP). With the CCP you do not need a valuation as you get paid as usual—you get paid when the commissions are paid out. The CCP, offered by Lambda Insurance Services, includes three key options: stay active, an option to move to inactive, and always a survivor payout. For each of these options the agent chooses how they want to handle their commissions. They can stay active as long they want to stay active, they can decide when they want to go inactive and hand off all the renewal and service work, and as a result choose to no longer stay licensed and certified. The survivor payout time period and the amount of commissions paid to a fam-

ily member or trust are also decided by the agent/broker. With the CCP you transfer the part of your book you want to protect to a specially designed insurance agency that only handles agents involved in the CCP. Each agent is a co-owner of the CCP insurance agency. David Ethington of Lambda Insurance Services, a CCP agency, states, “Bottom line, agents in any CCP get paid when their commissions come to the agency and even after they pass. The net value from the CCP to an agent exceeds other options in almost all cases. Agents can go to You Tube and type in Commission Continuation Lambda to learn more”.

“If the ideal situation for an agent is have a secure plan that allows them to stay active for as long as desired, that also helps to retain commissions at the point one decides to retire, and also pays out a survivor payment to loved ones for a few years, then the CCP is a fit. It is the only option I know of that meets all of the criteria of the ideal situation,” says Scott D. a CCP participant.

To learn more about your succession planning options consult friends and family first and discuss your retirement goals. Then find a trusted business success planning professional to help you evaluate your options. Discuss your ideas with your beneficiaries and get started on developing your plan to address your wishes for retirement, disability and death. Review all of your options from do nothing, to selling, to commission continuation (CCP). ★



*Phil Calhoun, MBA, is life and health licensed, owns and operates Calhoun & Associates Insurance Services, has sold and acquired insurance agencies and insurance cases, and is the Managing Member of Lambda Insurance Services, a CCP. Phil can be reached at phil@integrity-advisors.com.*



*Maggie Stedt is the current President of the Orange County Health Underwriters, is the owner of Stedt Insurance Services and specializes in Medicare plans. Maggie has served many roles with OCAHU and she is the originator of the Annual Medicare Summit held in southern California.*

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# Supplemental Insurance Benefits

***STRUGGLING WITH  
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MEDICAL COSTS,  
LESS THAN HALF  
OF EMPLOYEES  
ARE AWARE OF  
EMPLOYER-OFFERED  
SOLUTIONS***

By ELIAS VOGEN



**W**ith deductibles continuing to climb, many Americans who have health insurance through their employers, particularly younger workers, are struggling when it comes to out-of-pocket medical expenses.

According to a June 2017 survey conducted by KRC Research for Securian Financial Group, nearly four in 10 workers on employer-sponsored health plans are personally experiencing or know someone who is having financial difficulty due to medical bills.

Notably, more than half (52 percent) of millennials on a health plan through their employer are personally strug-

gling or know someone who is struggling to pay medical bills.

While solutions for combating unexpected medical expenses are increasingly available through employers, most workers do not know about them and are more likely to use various personal means to pay.

The survey found that fewer than half of Americans with health insurance through work (44 percent) are aware that many employers provide supplemental group insurance options to help employees pay for out-of-pocket expenses and other costs associated with an accidental injury, hospital stay or critical illness.

## **THE TOLL OF OUT-OF-POCKET MEDICAL EXPENSES**

According to the survey, 28 percent of employees with health insurance through work facing an out-of-pocket expense of \$5,000 or more would use their personal savings to pay rather than other means to pay, including a Health Savings Account (8 percent) or supplemental group insurance (7 percent).

However, a majority of respondents said they do not know how they would pay (21 percent), or that they would need to rely on credit cards (12 percent), a loan from their 401(k) (7 percent) or family/friends (4 percent),

their tax return (5 percent), or by selling/pawning a personal possession (2 percent). Four percent said they would not pay at all.

Other survey findings include:

- Over the past year, millennials (32 percent) on employer-sponsored health plans with deductibles are the most likely age group to have paid out-of-pocket expenses for an accidental injury like a broken bone or laceration when compared to generation X (18 percent) and baby boomers (16 percent).
- Among low-income Americans (household income of \$35,000 or less) with health insurance through work, 55 percent report knowing someone or personally having financial difficulty due to medical bills.

**"...28 percent of employees with health insurance through work facing an out-of-pocket expense of \$5,000 or more would use their personal savings to pay rather than other means to pay"**

- Across all generations, 31 percent of workers with employer-sponsored health insurance report having paid or knowing a family member who has paid an unexpected out-of-pocket medical expense in the past five years due to a critical illness such as cancer, a heart attack or stroke.

#### **Supplemental insurance: a cost-effective solution for employers and employees**

The rising cost of health care has driven many employers to offer supplemental group insurance products, including accident insurance, critical illness insurance and hospital indemnity insurance, often in conjunction with a Health Savings Account. This combination can be cost-effective for both employer and employee, and our survey shows that when employees are

aware that these benefits are available to them through work, they opt in at a high rate.

An example of this in action is Securian's recent work with a large employer looking to ramp up its benefit offerings, with critical illness insurance playing a central role in employee participation.

Critical illness insurance was offered to two groups within the company: (1) employees participating in the company's Health Savings Account (HSA) plan, and (2) employees participating in the company's Health Reimbursement Account (HRA) plan.

Employees were made aware of the new benefit option through Securian's interactive benefits guide, Ellie™, and when ready to enroll, went directly to the employer's benefits website.

Employees who participated in the HSA plan were provided with employer-paid critical illness coverage, and were given the opportunity to purchase an additional level of coverage on an employee-paid basis. Employees participating in the HRA plan were only offered the option to purchase employee-paid coverage.

By making critical illness coverage available, this employer enhanced its benefits program, while also helping its employees plan for the unexpected. Participation in the company's HSA plan increased approximately 350 percent. Participation in the group critical illness buy-up option for HSA participation was 31 percent. The overall participation rate for the group critical illness plan is currently 15 percent, with plans to roll out critical illness coverage to the company's entire health insurance plan population this year.

#### **A UNIQUE KIND OF COVERAGE**

Benefit payouts for supplemental group insurance are provided in a lump sum to help cover a range of expenses, not just out-of-pocket medical bills.

This relieves a key concern for employees: While the survey revealed that paying for out-of-pocket medical expenses would be the top financial concern for a plurality (42 percent) of workers facing a debilitating injury, a critical illness diagnosis or a hospitalization, 58 percent say their top con-

cern would be lost wages from work, the ability to pay for regular monthly expenses such as groceries, or the need to take on additional expenses such as lawn care or cleaning.

If an employee breaks a leg, or their critically ill spouse needs specialized medical care out of state, these benefits can be used to help pay for ex-

***"The popularity of benefits like accident, critical illness and hospital indemnity insurance will continue to rise as more employers offer them and more employees become aware of them. These benefits are here to stay."***

penses like hiring out your household chores, paying for travel costs, extra child care and more. Employees do not have to turn in their receipts; they are able to use the funds as they wish. The flexible nature of these benefits can be instrumental in helping an employee ward off financial troubles from an unexpected health event.

#### **HERE TO STAY**

Health care costs continue to rise and that almost certainly will not change anytime soon. As a result, employers and employees will continue to look for options to help ease the cost crunch. The popularity of benefits like accident, critical illness and hospital indemnity insurance will continue to rise as more employers offer them and more employees become aware of them. These benefits are here to stay. ★



*Elias Vogen is director of group insurance client relationships for Securian Financial Group, a provider of group life, AD&D, accident, critical illness and hospital indemnity insurance. Contact him at [elias.vogen@securian.com](mailto:elias.vogen@securian.com).*

# Voluntary Benefits

## THREE TIPS TO IDENTIFY AND MAXIMIZE VOLUNTARY BENEFITS

By ROB CARNAROLI

In addition to the core medical benefits employers pay for or contribute towards, some employers elect to offer employee-paid voluntary benefits. This may include insurance for eye care, acupuncture and chiropractic services, critical illness, life, pets, autos and homes, identity theft, prepaid legal services and more.

employees are more interested in voluntary benefits that offer flexibility and portability, while older employees are more likely to show an interest in benefits that help them plan for the future, like life insurance or critical illness coverage. And dental and vision insurance plans are adopted by a high percentage of workers of all ages.

tailed information in a visually compelling and easy-to-understand way.

### TIP 3: USE EXAMPLES

You have no doubt found it important to use real-world examples to help your clients and their employees see the value of medical benefits. Voluntary benefit offerings can be just as



Many employers include voluntary benefits as part of their comprehensive benefit packages to attract and retain the best talent of all ages, from millennials to baby boomers. In fact, approximately 77 percent of workers say the benefits package is an important factor in their decision to accept or reject a job, according to a recent survey conducted by the Employee Benefit Research Institute.

What's in it for you as a broker? A broker who includes voluntary benefits in the portfolio of offerings can help a client enhance their benefit package and add something new and exciting for employees. Voluntary benefits should suit your client and the people they employ—you do not want to take a "one size fits all" approach.

Following are three tips to help you identify and communicate voluntary benefits that are beneficial to your clients.

### TIP 1: KNOW YOUR CUSTOMER

The key to presenting a voluntary benefits package to a client is knowing what appeals to them. Does the company employ a large percentage of millennials or baby boomers? Younger

### TIP 2: COMMUNICATE ACCORDINGLY

Today, there are a wide variety of communication channels you and your clients can use to get messages out about benefits. However, you should tailor techniques based on the demographics of your client. Older employees tend to like printed materials and in-person open enrollment meetings. Mid-career employees are more apt to use emails. Millennials prefer text messages and social media posts. Online chat functions on websites are now common place and continue to grow as a communications tool because they provide instantaneous answers.

Also consider language barriers and cultural differences in employee groups. Ask your client for a company breakdown so you can be prepared to present materials in different languages if necessary. If you are hosting a webinar or conference call for multiple client sites, remember the time differences between certain states and other countries. Use infographics if possible—they continue to be a valuable tool to communicate complex, de-

complicated and difficult to understand as any other benefit.

Your client's employees want to know how voluntary benefits will protect them and their loved ones and not be a burden on their monthly finances. Use real and tangible examples to demonstrate to your clients and their employees how voluntary benefits will benefit them.

If you're looking to stand out above the competition, why not consider adding voluntary benefit options to your portfolio of offerings? By using the strategies, tactics and tips mentioned here, you will place yourself in a good position to help your clients meet the needs of their business and attract and retain talented employees in a competitive marketplace.

*Rob Camaroli serves as vice president of sales for Sutter Health Plus. He has worked with a wide*



*range of employers, including Fortune 500 companies, school districts, municipalities, retirees and union groups. He also has extensive experience in building, negotiating and integrating private health care exchanges.*



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## CONSIDERING SELF-FUNDING? CONSIDER THIS...

By DAVID L. FEAR, Sr. RHU

**W**hile I've written earlier about the basics of self-funding, this article will address some sub-topics related to self-funding that need to be considered. Self-funding alone will not solve the challenge that employers face today regarding rising health care costs. But, having a self-funded plan in place will put the employer in a better position to do something about the cost of health care. This article deals with two critical

aspects of cost containment in a self-funded health benefit plan.

### #1 BENEFIT DESIGN

Because self-funded plans are not subject to the restrictions of state benefit mandates, they are pretty much free to custom design their benefits any way they chose. However, that feature can be like a two-edged sword: an

employer can make the mistake of designing their self-funded plans without considering cost-containment features and end up with higher utilization and claims cost than had been experienced under a fully insured arrangement.

The key point is that the self-funded benefit plan must incorporate key features that help to direct patients to use less-expensive health care services while not exposing them to high out-of-pocket costs. That is a tricky proposition.

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For this reason, a high percentage of self-funded plans have now incorporated “consumer directed” features that not only give patients choices of where and from whom they obtain services, but rewards them for making good choices. Without going into details, there are three types of consumer directed arrangements that can be implemented as part of or supplemental to a self-funded health plan: flexible spending accounts (FSA), health savings accounts (HSA) and/or health reimbursement arrangements (HRA). Of these, the HRA is the most flexible and least regulated under Federal law.

There are both long- and short-term considerations regarding plan designs in a self-funded plan. In the short-term the plan needs to direct usage in managed care or specific provider networks (see #2 below) while providing the employee with incentives to get second opinions, use generic drugs and focus on less expensive primary care. In the long-term a self-funded plan should promote employee (and dependent) wellness and healthy lifestyle. Prevention of disease through exercise, smoking cessation and weight loss are all features that will help bend the health care cost curve.

There is still a lot of argument about the use of “consumer directed” plan designs. But the fact is that when a person has “skin in the game” and incentives to make healthy choices, the benefits will accrue over time. This is not something that happens overnight. The NAHU Education Foundation is a great source of information about consumer directed plans, wellness and employee education. You can access them at [www.nahueducationfoundation.org](http://www.nahueducationfoundation.org).

## #2 PROVIDER PAYMENT METHOD

Self-Funded employers should not be paying “retail” price for health care. Thus, most insurers and administrators contract with provider networks to assure that they pay less than the billed cost of health care services. PPOs, HMOs and EPOs are nothing new – been around for decades. But

today we see that traditional PPO plans still pay substantially more than they need to. Why is this?

The largest purchaser of health care in the United States of America is the Federal government – specifically the Medicare program. It is a fact that since the passage of the Medicare Modernization Act in 2004, more providers are now participating in Medicare. This is because payments to providers are now more scientifically based. That means that providers now provide the government with their costs, and are paid back on a more equitable basis

***"If an agent/broker does not have a self-funded expert on hand they may find themselves losing clients who will seek out new ideas and strategies going forward."***

than the old fee-for-service system. It's complicated but it's working and the fact that nearly 90 percent of providers in the U.S. are participating in the Medicare program is an indication that things are changing.

For this reason, the self-funded employer should consider the implementation of a “reference based pricing” (RBP) strategy. This can be done as a whole or as part of their entire plan. For example, some employers now pay all of their health care providers based on a percentage of Medicare. Others just use RBP for hospital services only and pay doctors through a PPO arrangement. Others may only use RBP for non-network claims (so they still offer a PPO network benefit, but use RBP for out-of-network claims).

There is information available to show how much greater savings are generated when using an RBP program versus traditional PPO network. While the RBP strategy is beginning to sweep the country as employers seek a way to reduce their costs, it is important to remember that not all RBP programs are the same. A key component

of RBP is a provision that protects the patient from provider balance-billing. Without this protection, RBP can be disastrous!

Again, no self-funded employer should be paying the retail price for health care services. A great article was written by Steven Brill for Time magazine in 2013: “The Bitter Pill: America's Health Care Crisis.” It is recommended reading for all employee benefit professionals. It addresses the cost of health care and possible solutions such as reference based pricing. You can easily find it online.

While these two issues are key in the success of a self-funded health plan, they are not exclusive. The selection of a capable administrative services firm is very important and one that must be carefully vetted. Additionally, the purchase of the right amount and right type of stop-loss insurance is extremely important.

Again, self-funding is not new and it's not going to go away. As I've reported in previous articles, the ACA did little to change the self-funded market in the U.S.A. However, some states will continue to attempt to try to regulate self-funding either directly (which leads to an ERISA pre-emption issue in the court) or indirectly (through regulation of stop-loss insurers). Organizations such as the Self-Insurance Institute of America (SIIA) fight hard to protect self-funded employers from overreaching attempts of State regulation.

Despite the attempts at regulation, the number of self-funded employers continue to grow each year as they seek ways to reduce costs without reducing benefits. If an agent/broker does not have a self-funded expert on hand they may find themselves losing clients who will seek out new ideas and strategies going forward. ★



*David L. Fear, Sr. RHU is the President/CEO of Shepler & Fear General Agency in Rosville, California. A 38-year veteran of the employee benefits business, David is a Past President of NAHU and CAHU and the 2015 recipient of the NAHU Harold R. Gordon Memorial Award for Health Insurance Person of the Year.*

# EVEN AS "REPEAL AND REPLACE" FALTERS SELF-FUNDING REMAINS STRONG

By BRADY BIZARRO



**E**mployer-sponsored health insurance remains the primary source of coverage for Americans under the age of 65. Notably, this market has remained largely insulated from the maelstrom on Capitol Hill. While Republicans continue debating controversial issues such as repealing the Medicaid expansion and limiting subsidies and other protections to those in the individual insurance market, most issues affecting the employer market have taken a backseat. That said, many employers have not been idle while Congress stumbles over health-

care reform; they have been busy innovating and looking for new ways to combat the rising cost of care. One such innovation is making the switch from a fully-insured health plan to a self-funded health plan.

According to the latest report from the Centers for Medicare and Medicaid Services ("CMS"), healthcare inflation outpaced overall inflation by more than 2 percent in 2015. Healthcare spending reached \$3.2 trillion, or \$9,990 a person. Private health insurance spending increased by 7 percent, with annual premiums for employer-spon-

sored family plans already exceeding \$18,000 this year (up 3 percent from last year). CMS identified the primary cost drivers as prescription drug spending, high-cost patients and an increased use of services. These trends should be troubling for any employer who wishes to offer its employees affordable health insurance coverage.

To the surprise of many health policy experts, many of whom had warned of a mass exodus from employer-sponsored plans to the Obamacare exchanges, the CMS data also shows that enrollment in employer-spon-

sored plans rose in 2015. As a result, an increasing number of small and mid-sized employers in particular will face the burden of soaring healthcare costs in 2017 and beyond. To help alleviate that burden, employers need to be proactive and innovative. They also need to convince their employees to care more about the cost of care.

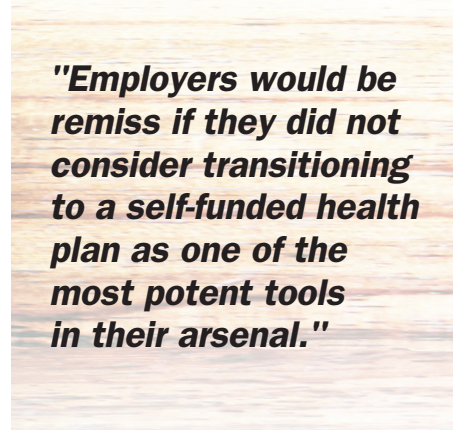
Self-funding an employee health plan remains one of the most effective cost-containment strategies for employers with a relatively healthy workforce and a willingness to customize their health plan. According to the Employee Benefit Research Institute, the number of mid-sized employers that self-insure jumped nearly 20 percent from 2013 to 2015. Among small employers, that number is now up 7 percent. As the cost of maintaining fully-funded plans continues to rise, in large part spurred by the Affordable Care Act's coverage mandates, we should expect these numbers to rise.

In a self-funded arrangement, the employer collects contributions from employees, or plan participants, and uses that money, along with the employer's own contributions, to pay for employees' healthcare expenses. The key advantages of self-funding include:

- Customization - The employer has control over the plan. In general, it can choose what it wants to cover and what it wants to exclude, being generous with benefits where it fits the needs and desires of the workforce;
- Interest and cash flow – Employee and employer contributions are kept by the employer until they are needed to pay medical bills, meaning the interest belongs to the employer;
- Preemption and lower taxes – Self-funded health plans are governed by the Employee Retirement Income Security Act of 1974 ("ERISA"), which states that a private, self-funded health plan is not subject to conflicting state insurance mandates;
- Control of data - Employers can examine the claims data, study trends, and allocate resources accordingly to address the needs of their employees; and
- Risk reduction – Whatever steps the employer takes to reduce cost and risk directly impact the employer and

its employees.

Perhaps most important, self-funding provides employers with flexibility and the opportunity for employee engagement when designing their health plans. Since employers can avoid many state-based coverage mandates and administrative costs because of federal preemption, they are free to consult with their workforce to meet its customized needs. Employers can also work with third-party vendors to analyze claims data and implement unique risk controls such as wellness programs, smoking cessation initiatives and tiered prescription drug ben-



efits. A typical self-funded plan that takes advantage of all of these benefits can expect to see real savings within three to five years.

A more recent development in the self-funded industry has been the increased use of employer incentive programs. These range from rewarding members who select providers that offer the best quality outcomes for the fairest prices and create savings for the plan to waiving copays for the use of generic drugs and urgent care facilities. For example, employers can direct employees to third-parties which provide objective analyses of medical billing by claim type and by facility, while others measure how many mistakes are made by providers. These resources provide quality metrics, a comparison of prices, and even letter grades based on factors such as quality outcomes and lack of provider error. For some procedures, the price discrepancy for the same procedure can be drastic. For example, the price of delivering a baby at similarly-rated hospitals in the Greater Boston area can differ by as much as \$10,000.

Despite the numerous benefits, though, there are risks associated with self-funding. They include the threat of catastrophic claims, the inability to properly fund claims, and creating fiduciary obligations for the plan sponsor. To help mitigate these risks, most self-funded health plans purchase stop-loss insurance, a type of reinsurance which reimburses self-funded plans for claims paid beyond a deductible. Importantly, stop-loss reimburses the plan, not the medical service providers. As such, the plan remains responsible for paying medical bills, whether or not stop-loss ultimately reimburses the plan. Finally, the employer acts as the plan administrator. The plan administrator has fiduciary obligations under ERISA, meaning it must act prudently, protect the plan, and apply its terms judiciously. Violating fiduciary duties could result in claims of fiduciary breach and serious penalties.

Given the political dysfunction in Washington, employers cannot count on Congress to fix our broken healthcare system. The primary fight over healthcare reform is about access to care; the issue of cost has not seriously been discussed. Therefore, employers must take matters into their own hands and explore innovative ways to contain costs. Employers would be remiss if they did not consider transitioning to a self-funded health plan as one of the most potent tools in their arsenal. Self-funding avoids regulations and permits employers to focus on customization, flexibility, control and risk reduction. Most importantly, it enables employers and employees to empower their plans. ★

*Brady Bizarro joined The Phia Group, LLC as an attorney in early 2016. As a member of The Phia*



*Group's in-house legal team, he focuses on contract review, ERISA, ACA, and HIPAA compliance, claim negotiation and providing general consultative advice on matters involving the health insurance industry and employee benefits law.*

*Bizarro earned his B.A. from Boston University, graduating magna cum laude, and his J.D. from Boston University School of Law.*



# SELF-FUNDING ESTABLISHES A “GROWTH GLIDE PATH” SINCE 1981

By STUART SLONIN

**S**ince group health self-funding began (through the use of a Single Employer Trust) in April, 1981, three different plan types became the early offerings. Those included:

1. Conventional funding with refund accounting.
2. Minimum premium plan (MPP), and
3. Administrative services only (ASO).

These were offered either through insurance carriers (more often the ASO type), as well as third party ad-

ministrators (TPAs) providing a variety of reinsurance contracts with varying terms and conditions. The choice of “systems” offered were: PPOs, HMOs, POSs and/or EPOs. The “basis” of expense reimbursement was: for in-network medical care (negotiated fees) and out-of-network medical care (Prevailing Negotiated Fees) with the exception of emergency care under managed care contracts.

Self-funded plans began their marketplace presence for groups of 50+

employees. Employers and professional practice groups were eager to explore the opportunity to control plan design, save money on premiums and related state compliance expenses, and for something other than a fully insured plan. Size matters in self-funding, so it is financially advisable to structure stop-loss insurance to ease the pain of unexpected claim costs by limiting an employer’s liability to a predetermined amount. There are two forms of stop-loss reinsurance where

this protection can be structured:

1. Specific Stop-Loss Insurance – This provides the group with coverage for any large claim submitted from a single employee. Claims that are in excess of a specific dollar amount are paid by the stop-loss carrier.
2. Aggregate Stop-Loss Insurance – This provides the group with a level of protection if the claims for the whole group are greater than expected.

It quickly became evident to the marketplace that a properly structured and funded self-funded arrangement is often cheaper with better results than a fully insured plan. The savings could range from no or very low rate increase to 3 percent to 12 percent. Employees have two ways to provide and pay for a group health insurance plan. First, transfer the entire risk to an insurance carrier and pay a premium (fully insured). The second option is to retain a portion of the risk and enter into an agreement with a carrier (ASO type) or TPA, to structure a self-funded plan together with administration services and risk management tools to manage the entire program.

The employer sponsored / employer provided marketplace covers more than 175 million employees and their dependents! Of that total, approximately 65 million workers are covered by self-funded plans. Interest continued to grow – pushing the lower limits of how small a company can be to take advantage of this concept. Insurers became alarmed by this trend. They pressed their state insurance departments to take action. In April 2012, the National Association of Insurance commissioners (NAIC) held a study commission to discuss this problem. They pressed the DOL, HHS and IRS/ Treasury to provide advisories required by the marketplace to stop this run away trend and abuse as they saw it.

The result was a series of stop-loss regulations passed in: California, Colorado, North Carolina, Rhode Island, Idaho, Oregon and Utah. There has been a trend for many years in the insurance industry that the newest product innovations and / or regulatory changes came from: California, Texas and Florida. The California stop-loss control legislation (S.B. 161) with a

small-group minimum specific attachment point of \$40,000 is the most severe in the marketplace at this time.

Another consideration with stop-loss policies are the run-in and run-out provisions that protect both the employer and employees if claims are made outside of the contract plan year, but were incurred within a plan year. Therefore when looking at potential plan terms (12/12, 12/15, 12/18, 12/24, paid contract), selection of an appropriate time period should be related to a specific group and what their prior history was in the submission and handling of claims. When facing a renewal, there may be employees with ongoing claims (into the renewal period) in which the group may be asked

***"Employers who consider a self-funded plan arrangement need to understand how to get in and how they get out if they want."***

to consider a LASER (a larger deductible on one or more employees) as a condition of the renewal. Careful consideration should be given to this request by weighing all available options.

Employers who consider a self-funded plan arrangement need to understand how to get in and how they get out if they want. Employers may want to know that there are safety nets contained in these plans. One allows the employer to extend the policy period at the end of a contract (usually up to three months) for the payment of late submitted claims (plus an additional administrative charge), so the employee remains "whole" financially. This is known as the terminal liability option (TLO). In addition, the selection of an acceptable contract period (12/15 for example) would allow a group to return to a fully insured plan if they desired without any financial penalties.

Stop-Loss policies are designed to be reimbursement policies. They require the plan to pay and an employer to advance fund claims before the stop-loss carrier pays. In the event of a

sudden large claim, the stop-loss carrier will advance that portion of an eligible claim that would be reimbursable under the stop-loss policy. Another feature is monthly aggregate accommodation. Stop-loss aggregate coverage operates on a plan year basis. If total claims at the end of the year exceed the aggregate deductible, the stop-loss carrier reimburses those excess claims.

Fully insured carriers are forced to compete harder for new group Insurance business in the post-ACA marketplace. The availability of these new plan options creates a dilemma for these carriers. Should they enter the self-funded marketplace (earning less profit than their fully insured block of business), or should they stay with the business they already have and fight harder to retain it? Do they have the necessary expertise to play in this self-funded marketplace or can they buy it with marketing arrangements or outright purchases of reinsurers or existing TPA operations? These are today's question marks.

The interest in self-funding was spurred by the provisions contained in the ACA. Looking beyond the individual market and the SHOP exchanges, self-funding presents the opportunity of bypassing state law on health insurance premiums, community rating, state premium taxes, essential benefit rules and much more! It allows an employer to "look under the wrapper" to see every aspect of insurance cost and administrative expenses. Employers, HR and CFOs know their employee population well. They know how employees have used fully insured plans in the past and the results those plans brought. Under these new plan arrangements, employers receive actionable data which they can use to make informed decisions during and at the end of a plan year. More employers like being kept "in the loop" this way. Given this new level of freedom and control, the self-funded market will un-

doubtedly continue to grow and prosper. ★



*Stuart Slonin, LUTC, RHU, CBC, IFA, is president of Boynton Beach, Florida-based S.I.G. Consulting Resources, LLC.*



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## Hazy Workplace Issue: What About Employees Who Use Medical Marijuana?



A recent ruling in Massachusetts should have employers everywhere taking notes. The case involves a woman who suffers from Crohn's disease and used medical marijuana (legally under Massachusetts law) to treat her condition. The woman accepted a job offer from a company that required her to take a pre-employment drug test. Before taking the test, she informed the company about her use of marijuana to treat Crohn's. After starting work, the woman was told she tested positive for marijuana and, under company policy, was terminated. The woman then brought suit against the company arguing disability discrimination. The woman's case was dismissed by a trial court. However, on appeal, the Massachusetts Supreme Judicial Court has now reversed. The appellate court ruled that, based on her allegations, the

woman should at least be allowed the opportunity to demonstrate that her use of marijuana could be potentially accommodated, and that at a minimum the company should have gone through an interactive process with her to consider accommodations before terminating her. Like Massachusetts, California also allows medical marijuana. And, like Massachusetts, there are no anti-retaliation laws in place. This means there is no job protection for users. However, Mark J. Neuberger, a Florida-based attorney specializing in labor and employment law, recommends that employers in all states take notice of the Massachusetts case. Even if a state's marijuana legislation has no anti-retaliation provision, consider the analysis under the federal Americans with Disabilities act, or the equivalent state or local law: Does the employee or applicant meet the legal definition of being disabled? Are they otherwise qualified for their employment? Can the disability be accommodated? Will making the accommodation create an undue hardship? Read an in-depth account of the Massachusetts case and get more tips from Neuberger on how employers might handle this evolving situation and at <https://www.laboremploymentperspectives.com/2017/07/31/mass-court-clouds-marijuana-in-the-workplace-issues/>

Coming next month: California Broker takes a brief look at life insurance and legal marijuana.

## LIMRA Announces Blockchain Advisory Council

LIMRA announced an advisory council to explore opportunities in the life insurance and retirement sectors to use blockchain technology. Blockchain is a distributed ledger technology that provides a secure, legal record of a transaction on a decentralized network (Bitcoin is the only blockchain protocol in widespread use as yet). Researchers predict blockchain technology will solve many of the challenges the financial services industry faces. From lowering administrative and claims processing costs, to expanding access to underserved markets and enabling immediate issue products, blockchain has the capacity to revolutionize the financial services industry. LIMRA's Blockchain Advisory Council will hold its inaugural meeting this month at the Massachusetts Institute of Technology (MIT) Endicott House. Initial members of the Blockchain Advisory Council include representatives from AXA, John Hancock, Lincoln Financial Group, MassMutual, Nationwide, Northwestern Mutual, Pacific Life Insurance Company, Penn Mutual and Principal Financial Group. The event will feature experts on blockchain, including Linda Pawczuk, principal, Global Technology, Deloitte Consulting, who will discuss opportunities to leverage blockchain technology to improve operations and efficiencies in the business. LIMRA will work with the Advisory Council to identify and prioritize concepts for practical collaborative industry solutions that could be developed and implemented within 18 months.

## Products

**Variable Annuity.** Great-West Financial and Aria Retirement Solutions announced that "Great-West Smart Track® Advisor Variable Annuity" is now available on Aria's RetireOne™ platform through the firm's extensive reach to fee-based advisors. This variable annuity seeks to provide investment advisors with a flexible and customizable solution for clients seeking investment growth and retirement income. Find out more at [greatwest.com](http://greatwest.com).

**Genetic testing benefit.** Anthem Blue Cross launched a Genetic Testing Solution aimed at driving appropriate, safe and affordable testing and counseling for patients. The program is designed and administered by national specialty benefits management leader, AIM Specialty Health. The Genetic Testing Solution promotes appropriate use and provides education that addresses the clinical and financial complexities of genetic testing. Find out more at [anthem.com](http://anthem.com).

## Life Insurance Awareness

LIMRA.com launched its 2017 Life Insurance Awareness Month (LIAM) resource page containing comprehensive data and research on the life insurance consumer market. The resource page offers research on consumer attitudes and trending data spanning several years. Visit the LIAM 2017 resource page at [http://www.limra.com/Posts/PR/LIAM/Life\\_Insurance\\_Awareness\\_Month.aspx](http://www.limra.com/Posts/PR/LIAM/Life_Insurance_Awareness_Month.aspx)

## Events

### "LOVE" Couture –

A Salute to Women in Business Annual Charity Luncheon & Fashion Show – September 8. Westlake Village Four Seasons



Westlake Village is the place for LAAHU's Salute to Women in Business Charity Luncheon and Fashion Show, Sept 8, 10a.m.– 2:00 pm. Warner Pacific, Dickerson, Anthem Blue Cross, Blue Shield, Health Net, BenefitMall, United HealthCare, Rodger Benefit Group and Word&Brown are among the event sponsors. For info, see the events page at LAHU.org.

**CAHU Health Care Retreat** – September 11-13, Pala Casino Resort & Spa. Join CAHU for three packed days of vital information, legislative updates and networking opportunities. Keynote speaker Nelson Griswold is among the dynamic speakers. More info at to CAHU.org.

**World Medical Tourism & Global Health Conference** – Oct 2-4 Los Angeles. The fast growing field of medical tourism is creating a need for trained and knowledgeable professionals. Visit the World Medical Tourism & Global Health Conference for workshops and classes to become a Certified Medical Tourism Professional (CMTP). More

info at [medicaltourismcongress.com](http://medicaltourismcongress.com).

**NAILBA 36** – Nov. 16-18, Hollywood, Florida. Registration is now open for the National Association of Independent Life Brokerage Agencies (NAILBA) 36th Annual Meeting, NAILBA 36. Scheduled November 16-18, 2017, at the Diplomat Beach Resort in Hollywood, Florida, the meeting will attract high level representatives from brokerage general agencies, life insurance carriers and insurance industry vendors. This year's agenda has been expanded to deliver four keynote experiences over three general sessions and more than 15 workshops. Go to [NAILBA.org](http://NAILBA.org) for a complete schedule of events.

## WELCOME TO A NEW INDUSTRY TREND

By BARNEY HELLENBRAND

# Small Brokers Affiliating with Larger Firms

I think we all can agree that conditions have changed in the broker/dealer world today. As a firm, if you are not already big, you are probably "small"; meaning that at a certain size, it is extremely difficult to develop enough scale to provide your registered reps with the services, technology and support they require in order to maximize their business potential. This challenge became obvious to us over the last few years, as the cost of doing business forced us to look around carefully and consider our options. The particular areas of real concern were in dealing with compliance and regulatory pressure.

As the cost of being in business increases for the firm – and rep and technology advances move out of reach price-wise for the smaller firms and their reps, as well as more and more reps moving to the advisory platform – the dilemma for many small firms is trying to create enough scale to even remain profitable. This is compounded by the difficulty of retaining reps constantly being wooed by big firms with all the bells and whistles that the small firms cannot afford. Add to that the not insignificant decline in variable annuity

sales and you have cash flow pressures and overhead that can seriously impact a firm.

In a post DOL environment, the B/D relationship takes on an entirely new level of importance for the rep, a level many if not most small firms will have great problems handling. Since the interactions with the investor have changed (in many cases) to a fiduciary relationship, the risk to the advisor has elevated well beyond anything that has existed in the past. You do not know what all exists in 1,000 pages of new DOL regulations, as well as the myriad of SEC regulations, insurance regulations (more coming) and FINRA regulations. All these regulations are seeing major revisions and many will continue to undergo entire re-writes for years to come.

Recently, Simi Valley-based HBW, where I've been chief executive, announced it will become a regional director-led firm of Cetera Advisor Networks. While I don't think any B/D can promise to save you from every risk, the best B/Ds, like Cetera, should understand most risks and help you deal with them for your protection and for the best outcomes

for your clients – something smaller firms may not be able to deal with fully, if at all. And, most important, a rep gets the total package, which includes:

- A. Service, scale and technology of a huge firm.
- B. The caring, professional, high-touch family relationship of HBW Partners and companies like HBW,
- C. Competitive compensation and
- D. Real value.

I see a trend of small firms affiliating with larger firms and I believe it will likely not just continue, but it will accelerate given the present and ongoing regulatory and business environment. While deciding to merge a smaller firm into a larger one may be frustrating for the owners and their reps, as a business decision it's often obvious and clear that it is the right and smart thing to do. This was the case at least for us! ★

*Barney Hellenbrand is a registered principal and investment advisor representative offering securities and advisory services offered through Cetera Advisor Networks LLC (doing business in CA as CFGAN Insurance Agency), member FINRA/SIPC.*

# Individual Health Insurance News

## ***COVERED CALIFORNIA ANNOUNCES RATES, ANTHEM PULLS OUT OF MANY MARKETS***

By VICTORIA ALEXANDER

**W**ith Affordable Care Act repeal (skinny or otherwise) on ice for now, Covered California unveiled proposed rates for the 2018 individual market. It felt like fairly good news when Covered California Executive Director Peter V. Lee announced on August 1 that all 11 of the participating health insurance companies would return to the state.

Right on the heels of Covered California's announcement, however, Anthem grabbed headlines by saying it would pull out of most of the state's individual markets after all. The insurer cited increased uncertainty around the Affordable Care Act. Among the primary concerns for all insurers: President Trump has continually threatened to discontinue cost sharing reductions.

The decision by Anthem, the country's second-largest health insurer, means about 153,000 Californians who buy individual insurance on the Covered California exchange will need new plans for 2018. That translates to more than 10 percent of Covered California's total enrollment of 1.4 million. Fewer than half of Anthem policyholders on the exchange — about 108,000 customers in the California marketplace, according to reports in Kaiser Health News — will be able to renew their Anthem policies. Anthem has been making similar moves in other states, citing changing federal rules, a shrinking market for individual insurance and an overall lack of marketplace predictability.

California, however, is the nation's biggest individual market and Covered California is the largest state exchange. Covered California maintains that in the face of unprecedented uncertainty at the federal level, our state exchange remains a stable model. The

latest data from the Centers for Disease Control and Prevention shows that since Covered California began offering health care coverage in 2014, the uninsured rate in the state has been cut from 17 percent at the end of 2013 to 7.1 percent by the end of 2016. As a result, the uninsured rate is dropping faster in California compared to the nation and is currently at the lowest level on record.

Covered California's Lee acknowledged that the average statewide rate change for 2018 would be a 12.5 percent increase, but noted that consumers can reduce that amount to less than a 3.3 percent increase if they

shop for the best value and switch to the lowest-priced plan in the same metal tier. Rate changes for 2018 vary substantially by health plan and region, with some plans having decreases in their premiums and others having increases. "Covered California's competitive market means consumers have the power to shop and find the best value," Lee said. "We know our consumers look for the best deal and often end up paying less than the initial rates suggest." For more insight, see the Covered California 2018 Rate Booklet at [http://www.coveredca.com/news/PDFs/CoveredCA\\_2018\\_Plans\\_and\\_Rates\\_8-1-2017.pdf](http://www.coveredca.com/news/PDFs/CoveredCA_2018_Plans_and_Rates_8-1-2017.pdf)



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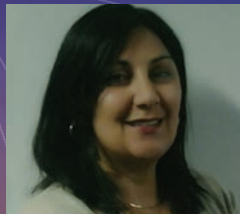
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# Does Taxing Employee Benefits Make "Cents"?

By ERIC HELMAN



**W**ith tax reform and ACA repeal and replace at the top of the agenda, it is not surprising that many are considering the taxation of employer provided benefits and the possible effects of proposed changes to the current structure. Unfortunately, when the stakes are high, the issue complex, and the arguments partisan, you can be sure that much of what is being discussed is misinformed and may lead to erroneous projections.

Let's start with some facts. The exclusion of employer provided health benefits is the largest single tax expenditure (forecasted to be \$238 billion in 2018) and is twice as costly as the second highest expenditure. In its current form, it is a regressive tax. Higher paid individuals receive a greater benefit than lower paid workers. Notwithstanding the now delayed Cadillac Tax, this expenditure is open ended and grows with the price of health insurance and health benefits consumed by the over 150 million peo-

ple covered at the workplace.

Much of the discussion surrounding tax reform has involved the closing of loopholes in exchange for lowering tax rates. It stands to reason that if large modifications to the marginal rates are desired, the largest tax expenditures are in play. Lowering the marginal rates will benefit the wealthiest Americans. Trading that for a change in the health benefits exclusion seems like a reasonable place to look because it disproportionately benefits the wealthiest Americans.

But now the complexity comes in. While the wealthiest Americans benefit the most, so does much of middle America, and there is little energy around increasing the burden on the middle class. Additionally, the employer delivered health insurance system seems to be the only segment that is running smoothly. ACA repeal and replace (and its difficulties) have focused on the individual market and Medicaid. Not many people want to discuss upsetting the status quo in the employer market. On the other hand, rising benefit costs put a squeeze on cash compensation increases and may be artificially depressing wage inflation. Much has been written about how the most recent economic recovery has not resulted in making workers better off, and this roadblock for compensation increases does not positively contribute to this narrative.

So, what will be the outcome? A complete elimination of the employer health exclusion seems unlikely. Several proposals have included a phase

out of tax deductibility at certain levels of household income. Others have suggested converting the exclusion into a fixed refundable tax credit that could be used to offset the cost of health insurance regardless of where it was purchased. The advantage of both approaches is they will likely not upset the status quo favoring the employer based system. Of course, the second approach is made more problematic if the return of medical underwriting to the individual market creates an advantage for younger, healthier workers applying their refundable tax credit to individually purchased insurance.

Given the current political environment, it may be that the most likely outcome is no change. This will perpetuate the current mix of confusion and complexity that characterizes employee benefits. And with the costs continuing to grow and the tradeoffs undesirable, we will continue to be plagued by misinformed commentary that just adds noise to an otherwise difficult job. Professionals in the benefit industry must "keep calm and carry on" until a more reasonable environment returns. ★



*Eric Helman is chief strategy officer for Hodges-Mace, where he is responsible for creating, communicating, executing and sustaining strategic initiatives. Eric brings a vast background in innovative employee benefits administration and enrollment processes to the Atlanta-based employee benefits firm. Contact Eric: [erichelman@hodgesmace.com](mailto:erichelman@hodgesmace.com).*

# Talking to Your Clients About Offering Value-Added Services

By WENDY HERNDON

In today's evolving health care landscape, keeping up with the latest developments could make any business owner's head spin. The complex nature of the insurance industry positions brokers to serve as much-needed resources when it comes to helping companies manage and offer the right health and voluntary insurance benefits to employees.

It's no secret that benefits serve as incentives for new employees, but research also finds that good benefits improve productivity among current employees and even increase employee retention. In fact, according to a recent survey by Aflac, 65 percent of employees say a benefits package offering is extremely or very important to their job satisfaction, and 58 percent say it's extremely or very important to their employer loyalty.

To keep a client's benefits portfolio up to date and appealing to employees, advisors can educate employers about programs and services that go beyond major medical, dental and life insurance. Value-added services – some of which can be built into an employer's benefit strategy at no additional cost – go hand-in-hand with voluntary insurance to provide comprehensive solutions that do more than just help pay bills.

## VALUE-ADDED SERVICES GO BEYOND THE TYPICAL OFFERINGS

Value-added services help employees solve more of their everyday challenges and offer solutions for employees' health, wealth and well-being concerns. The types of services offered vary and can include solutions such as:

- **Telemedicine:** This service allows employees to consult with a physician and get clinical treatment through an internet connection, giv-



ing employees the flexibility to see a doctor around their busy schedule. Employees can choose the location where they receive treatment, meaning they and their family can receive clinical care without leaving the house. Brokers can explain to employers that when employees are able to quickly and easily schedule a doctor's appointment, they can receive proper treatment quickly and return to work in less time.

- **Health advocacy:** This can include assistance with finding medical specialists, clarifying coverage, or even addressing claim denials. Health advocacy means that employees have access to a personal health advocate around the clock who can help answer health care and insurance-related questions.
- **Bill negotiation:** These services are intended to help employees negotiate medical bills and reduce financial burdens. Since the health care billing system can be complicated and confusing for many, brokers have an opportunity to highlight how this service can give employees peace of mind. Employers can rest assured that it will help their employees remain less stressed about finances

- and avoid being distracted on the job.
- **Financial and legal fitness:** This service gives employees access to financial and legal advisors who can help them plan for the long term by educating them on what steps to take to prepare for whatever the future may hold. This can include estate planning, how to make a will or how to save for college. Employees can have greater comfort knowing they and their loved ones are better prepared for the future.

## NONTRADITIONAL SERVICES GIVE EMPLOYERS THE COMPETITIVE EDGE

Employees want to see a robust offering of health benefits that fits their lifestyle and protects their health and finances. Brokers can emphasize the importance of providing nontraditional services that other businesses don't so they have a leg up on employers competing for top talent. When a business offers well-rounded solutions that can improve an employee's physical and financial wellness and allow them to focus on their day-to-day lives and jobs, they are going to be happier in the workplace and more satisfied with their employer.



*Wendy Herndon is second vice president of product development and implementation at Aflac. With more than 20 years of experience in this field, she is responsible for managing and guiding product portfolios through their entire life cycles, including strategy, development and implementation.*

Want to know more about the 2017 Aflac WorkForces Report? The study's surveys, conducted by Lightspeed GMI, captured responses from 1,800 employers and 5,000 employees across the United States in various industries. To learn more, visit [AflacWorkForcesReport.com](http://AflacWorkForcesReport.com).



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# WHAT'S GOING ON IN TODAY'S LIFE INDUSTRY?

# View From the Top

Compiled by  
VICTORIA ALEXANDER

**W**hat's going on in today's life insurance market? That's what we wanted to know. *California Broker* invited a handful of life insurance pros to answer our questions. Get their perspectives on how product mixes have changed, the current hot niche markets, how health care turmoil is impacting life insurance and much more.

A very special thank you to the following participants:

**T. J. Gustafson**, managing director,  
San Francisco/Hawaii, UNUM.

**Thomas H. Harris**, executive vice president,  
distribution, Penn Mutual.

**Ben Nevejans**, president,  
LifePro Financial Services, Inc.

**Terence Ryan**, director of market development,  
San Francisco/Hawaii, UNUM.

**Chris Della Sala**, territory sales manager,  
Southern California, Colonial Life.

**Stephanie Shields**, vice president of  
product development and  
management, Aflac.

**Chad Tope**, President, annuities  
and individual life distribution,  
Voya Financial.

Now, without further ado, read on for the 2017 View From The Top...

## Has there been a significant change in product mix over the past 12 months in terms of guarantees, variable or term?

**T. J. Gustafson, managing director, San Francisco/Hawaii, UNUM:** The product mix has changed to include more voluntary group term and whole life. Due in part to the growth of enrollment technology and benefit administration platforms, we're now able to reach employees and customers on the smaller end of the market.

**Thomas H. Harris, executive vice president, distribution, Penn Mutual:** We've seen a continued shift toward accumulation products like whole life and indexed universal life that also provide guarantees. Term has remained steady, with less emphasis on guaranteed universal life.

**Ben Nevejans, president, LifePro Financial Services, Inc.:** Our product mix continues to be dominated by cash accumulation indexed universal life insurance. With the prevailing uncertainty in the economy, political environ-

ment, regulation and the future of our nations taxes, solid alternatives to traditional retirement vehicles are being sought out like never before. Once the true benefits of an IUL are taught and understood by the consumer an IUL transaction becomes less of a sale and more of a natural next step in planning for a healthy, secure and dignified retirement.



**Terence Ryan, director of market development, San Francisco/Hawaii, UNUM:** We've seen consistent growth in pairing permanent and term life insurance. Because

of the increase in life insurance sales, evidence of insurability continues to be a challenge, as does servicing and administration to meet market demand. Unum is prioritizing technology investments so we can provide real-time underwriting decisions for both term and permanent offerings.

**Chris Della Sala, territory sales manager, Southern California, Colonial Life:**

There's a continuing need for affordable life protection for today's financially fragile workers, and term life is one of the best ways to provide that coverage. With the workforce becoming more diverse every day, it's important to meet a range of employer and employee needs with a variety of product options and underwriting guidelines.

**Stephanie Shields, vice president of product development and management, Aflac:** As the needs of policyholders evolve, we have added and improved the depth and breadth of our marketing portfolio as it relates to supplemental health, life and disability

insurance. In just the past several months, we announced new group accident and hospital insurance plans, and we are continuing to expand our life and disability insurance portfolio, with enhanced permanent life insurance options and disability insurance plans.

**Chad Tope, president, annuities and individual life distribution, Voya Financial:** Over the past few years, we've shifted our focus to the sale of indexed universal life (IUL) products, and we've been pleased to see the industry moving in the same direction as our business.

At Voya, we see indexed universal life insurance as a big opportunity. For example: IUL has been the fastest growing product in the industry, growing at 7 percent annually since 2013 (LIMRA data). IUL sales in 2016 reached a record \$1.86 billion (Wink's Sales & Market Report).

Along with this positive sales trend, we also think indexed universal life products can offer customers strong value. In addition to death benefit protection, IUL products provide a cash-value component that Americans can use to help cover unexpected expenses, education costs or supplement their retirement savings. Customers see the value in these products and it's showing in our sales. Voya's IUL sales were up 24 percent in the first quarter of 2017 compared to Q1 last year. In August, we'll introduce a new cash-value flex rider to our top-selling indexed universal life product called Global Choice — which will allow customers to beef up their cash value in the early years of their contract without any additional costs to them. We find that more and more Americans are interested in the living benefits that life insurance products can provide.

### Do you see growth in particular niche markets?

**Gustafson, UNUM:** In Northern California, more Silicon Valley employers are offering voluntary life insurance. Historically, tech employers have paid for all or most employee benefits. That dynamic is shifting, and employees need benefits tailored to their lifestyle with increasing coverage amounts as they move through different stages of life.

**Harris, Penn Mutual:** Later this year we'll be rolling out a new way of going from application, to issue, to customer service for face amounts up to \$2.5M and issue ages up to 65. It will result in much faster and less intrusive underwriting. This will impact more than half of our application volume. We believe this will have a tremendously positive impact on the adviser and client experience in obtaining their life insurance.



**Nevejans, LifePro:** More and more financial professionals from different sectors of the planning and protection trade are starting to see true value in the products that

we as an industry manufacture and distribute. Investment advisors are becoming increasingly aware of the tax benefits that insurance products deliver and subsequently become more willing to open their eyes to the amazing power of efficient wealth transfer and family protection. That explosive 1-2 punch not only gives the true holistic advisor an amazing advantage over their competition but it provides their clients with true fiduciary oversight and valuable guidance.



# View From the Top

**Ryan, UNUM:** More and more employers with under 150 employees are adding employee-paid benefits to their portfolios. Smaller group platforms and technology mean distribution has changed. In the past, success was mostly in the mid-market, now we're seeing growth in the smaller segments. New systems combined with strategic communication have yielded excellent participation.

**Della Sala, Colonial Life:** While life insurance is needed across all markets, we're seeing a great deal of growth in the under 50 employees and public sector market segments. For us, growth also exists in the broker channel, which I attribute to our enhancements around broker resources and tools and the consolidation occurring in the marketplace today.

***"There continues to be broad adoption of voluntary benefits strategies across all industries and size segments as consumer awareness continues to increase."***

**Shields, Aflac:** There continues to be broad adoption of voluntary benefits strategies across all industries and size segments as consumer awareness continues to increase. Specifically, we're moving into the public sector market with a more concentrated approach in terms of our marketing effort and product portfolio.

**Tope, Voya Financial:** Voya has implemented tailored marketing and sales strategies to adapt to our country's changing demographic,

including robust efforts to reach the Hispanic American and Asian American markets. As a result, we've almost doubled our sales to multi-cultural consumers since 2013, and we believe there is additional opportunity for growth in this market. In particular, we feel there is great potential in the Asian American market and have proactively taken a number of steps to make it easier for this group to do business with Voya. For example, we enhanced our dedicated policy support service — called Voya IMPACT — to accommodate Mandarin Chinese speakers and created "in language, in culture" marketing materials. Voya is focused on selling indexed universal life products, and from our experience, Asian Americans tend to find value in these solutions. They see more value in a policy that provides death benefit protection, along with the ability to grow supplemental income for retirement through the cash-value component. Therefore, we've shifted our focus away from products that are solely protection-oriented, to solutions that offer the potential for cash accumulation — for example, our Indexed Universal Life Global Choice product. It's our top-selling life insurance product, and for good reason: It offers choice to the policyholder and gives them access to three global indices: The S&P 500® in the U.S., Euro Stoxx50® in Europe and Hang Seng Index in Asia. Our patented hindsight strategy then provides customers with greater potential for asset accumulation. It's such a popular product that it was responsible for more than half of our individual life sales in 2016. And we have plans to make it even better. In August, we added a new cash-value flex rider so customers can beef up their cash value in the early years of their contract without any additional costs to them.

**What is happening with your distribution systems? If you have an agency force, is it growing, are you hiring and is there more attrition than usual?**

**Gustafson, UNUM:** Unum's distribution system has become more and more dependent on our client managers. Once a client is on board, these employees work to better understand a customer's needs. They can then consult with the broker and client using benchmarking and market knowledge to provide a package of benefits that best fits the client's employee population and benefits philosophy.



**Harris, Penn Mutual:** We are experiencing growth in both our career and independent distribution systems this year. We've had strong results with producer groups

in our independent channel and we continue to add new agency locations and grow our number of advisers in our career channel.

**Nevejans, LifePro:** While attending any industry gathering you can almost assuredly expect to hear side-bar conversations, if not main platform presentations, discussing the diminishing sales force in the life insurance industry. When asked the reasons behind this alarming phenomenon, the decline of career distribution is often cited. It is no secret that life insurance sales have been steadily declining - LIMRA reports that 30 percent of households remain uninsured, equal to the record low set in 2010 - which is no doubt a direct result of a declining number of professionals whose job it is to educate the populace and guide them to the correct amount of

coverage. The fact remains, insurance is still a “sold not bought” product and will continue to be so in the future. What is changing are those whom are selling the product. It’s true that carriers are spending less resources training and employing their own sales force. As a result consumers will need to look to other professionals to fill that void. Those other professionals are the future of insurance distribution and it’s now our job, and our opportunity, to train financial advisors, CPAs, retirement income specialists, college planners etc... to be able to provide the services which career agents once did.

**Ryan, UNUM:** As a company, we continue to grow our distribution channel specifically with our client managers who have a year-round consultative relationship with our larger clients. They have been an excellent resource for employers in how to best roll out systems and employee paid benefits. Technology has changed distribution, too. In the past, face-to-face meetings created high participation. Now, we’re finding a blend of face-to-face and tech enrollment drives results.

**Della Sala, Colonial Life:** Our agency distribution model is growing very rapidly and will continue to do so. We aren’t seeing an increase in attrition, which is important to us, as it’s a measure of overall growth and that’s one of our key areas of focus: changing people’s lives with the opportunity to join our sales family.

**Shields, Aflac:** We’ve never been a cookie-cutter company – at Aflac, we constantly look to different distribution channels, and we revise and develop our products based on policyholders’ evolving needs to ensure we can offer our products to the greatest number of people in the most ef-

ficient way possible. Our continued success in reaching new accounts and customers in the U.S. can be attributed to our ability to provide relevant products sold through new and existing distribution channels, including our agents and broker partners. Today, there are more than 70,000 licensed agents in all 50 United States and in Guam, Puerto Rico and the Virgin Islands. Our sales force continues to thrive and grow. Yes, we are hiring men and women who are looking for an opportunity with endless potential to join the Aflac team.

**Tope, Voya Financial:** Last fall, we decided to combine our annuities and individual life businesses. A big reason for this strategic move was to unify the strengths of our distribution capabilities, and, so far, we’re seeing some positive results. Our products are sold by a select group of external distribution partners who share our commitment to helping Americans achieve their financial goals. They are sold through institutions — like banks, independent broker-dealers and independent marketing partners. This approach has been largely successful and has differentiated us from our competition, particularly among multicultural agents who are more open to brand loyalty than other groups.

Last year we heard a lot about millennials. Are these customers still of primary focus and interest? Are there other niches on your radar now?



**Gustafson, UNUM:** Yes, millennials remain a focus for Unum. And it’s important for benefits providers to think innovatively about products and delivery to match their buying behaviors. That means recognizing the need for dependable

technology platforms, decision support tools, and smartphone apps. It also means offering more choice in products and provisions so employees can select benefits that work best for them.

**Harris, Penn Mutual:** Millennials continue to be a very important area of focus for us, both as a source of new advisers and customers. About half of our new hires the last two years have been millennials, so our message about the value of a career in our business is getting through. Another area of focus is growing the number of women advisers. We’ve improved slightly over the past few years in growing our female adviser base, but we’re looking for bigger gains there over the next few years.

**Nevejans, LifePro:** Millennials, according to population estimates released last year by the U.S. Census Bureau, are the largest living generation and cannot be ignored by our industry or any other industry for that matter. They will in fact need our products more than any other generation that has come before them. With astonishing medical and technological advancements, this single generation has the opportunity to live longer and enjoy retirement earlier than any previous generation. On the flip side, they will also find themselves in an economy struggling to cope with an astronomical national debt and arduous entitlements. Who will need our products more than millennials? Products that at their very core provide guaranteed income for longevity, protection against potentially devastating disability or long term care needs as well as the potential for tax deferral and tax free withdrawals. That being said, we cannot forget about the baby boomer generation nor Gen X. Their need is just as great and their need is now. As David Walker, former comptroller general and head of the Gov-



# View From the Top

ernment Accountability Office (GAO), pointed out at a recent industry event, in a future where we're forced to cut government spending by 60 percent or double federal revenues, i.e. taxes, the American people are going to need to seek out alternative retirement vehicles. Traditional IRAs, 401(k)s etc., aren't going to provide the retirement our clients are looking for.

**Ryan, UNUM:** Millennials are and will continue to be a focus for benefits providers. They represent the largest generation in the workforce, and have helped improve our capabilities, be they for mobile applications, enrollment or modernizing marketing and communication materials. But the workforce is diverse, so employers should develop a well-rounded benefits strategy that caters to all segments of the population. It's been great to work with brokers and clients to develop multi-year strategies with the right product blend and enrollment approach.

***"Millennials are now the largest generation in the workforce and are changing the ways we communicate and enroll benefits — in fact, the entire way we position benefits as part of overall wellbeing."***

**Della Sala, Colonial Life:** Millennials are now the largest generation in the workforce and are changing the ways we communicate and enroll benefits — in fact, the entire way we position benefits as part of overall wellbeing. And the advent of millennials has an impact beyond the customer side: it's also affecting distribution models. I'm a millennial who entered the benefits

industry right out of college, and I don't see what I consider a strong enough representation of this generation. It's about communication and visibility, and a personal focus of mine and our company's is to continually offer the opportunity to new, young professionals. As our client pool grows, it's important to ensure we have a succession plan and legacy in place.



**Shields, Aflac:**

Yes. millennials are the largest segment of the workforce and will have a place of prominence and influence for years to come. By 2025, they will account for 75 percent of the workforce. While products are being shaped to meet the market demands they have, at Aflac we're looking at more than just the age of customers. We're interested in their lifestyles and life stages and in building products to help them live life to the fullest — no matter the age.

**Tope, Voya Financial:** Voya is committed to helping all individuals at various ages and life stages with different financial needs. Voya offers several life insurance and annuity products that can help Americans to and through retirement so they can grow, protect and enjoy their hard-earned savings.

**What kind of growth do you see in life insurance sales as an employee-paid or employer-paid benefit?**

**Gustafson, UNUM:** Sales of employer-sponsored voluntary life insurance are growing rapidly. The delivery method continues to improve and many employers recognize that their employees benefit from group plans.

Further, for those employees electing over the guarantee issue amount, the evidence of insurability process is becoming more streamlined, with technology enabling faster decisions.

**Harris, Penn Mutual:** While this is not a big area of focus for us, I think you'll continue to see many employees obtaining a level of coverage that they pay for through their employer's benefit plan.

**Nevejans, LifePro:** As the awareness of life insurance increases as a legitimate financial tool for family and retirement protection more and more corporations will look to those benefits to attract, retain and engage employees. For social proof, look no further than the sports headlines. Just last year Jim Harbaugh, head coach of the University of Michigan, signed a contract whereby the university paid \$4,000,000 on a life insurance policy and will pay another \$2,000,000 for the next 5 years. A small portion of the overall death benefit will return the universities principal investment while the lion share (estimated to be around \$20,000,000) will go to Coach Harbaugh's beneficiaries. As importantly, the cash accumulation inside the policy will grow tax deferred and if structured correctly will allow the coach a tax-free income throughout his retirement. As other teams and corporations learn of these types of benefits, life insurance could see a resurgence of sales in the corporate markets.

**Ryan, UNUM:** We continue to see growth in a lifecycle solution, meaning pairing permanent with term life. Employers and brokers understand employees won't get these benefits outside their workplace. Also, with a shrinking long term care (LTC) market, we've recently seen more inquiries about pairing whole life with an LTC rider. This pairing has been a great

conversation starter with brokers and employers alike.



**Della Sala, Colonial Life:** We see both growing – and expect that to continue. Employers are seeing an increased value in contributing to voluntary benefits

for talent attraction and retention, and offering life insurance as a voluntary benefit is also very common.

**Shields, Aflac:** Life insurance is one of the most desired benefits on the market, and we don't expect that need to wane. All options are on the table as it relates to employer-paid, supplemental buy-up and voluntary options to meet employer benefits package needs at competitive price points. Employers will seek out ways to maximize their benefit spend while providing employees with comprehensive coverage. Most Americans don't have enough life insurance, and many don't have any at all. Some reasons include competing financial priorities and the misperception that they can't afford it. However, we know that most people cannot afford to NOT have life insurance or be underinsured. According to LIMRA, 62 percent of families that have no life insurance coverage say they would be in immediate financial trouble if a primary wage-earner died. Another 3 in 10 would have trouble keeping up with basic living expenses after several months. Life insurance is really about income replacement. If something happens to a loved one, his or her financial responsibilities do not disappear. Life insurance is important because it softens the financial burden left behind, and no one wants their loved ones to be left with financial stress after the loss of a family member.

### What, if any, state or federal legislative issues are you concerned about?

**Gustafson, UNUM:** I'm excited about the potential of auto-enroll or "opt out" products as an opportunity for voluntary lines of coverage. Like a 401(k), this approach helps ensure employees are spending money on products that will provide them and their loved ones a long-term financial safety net. Maine has taken steps to allow auto-enroll for ancillary lines of coverage and we hope historically progressive states like California will do the same.

**Harris, Penn Mutual:** In general, new regulations add to the cost and complexity of doing business. For example, this year our advisers have taken mandatory training to get ready for the DOL Fiduciary Rule that began implementation earlier this year. Any time there is a new regulation it takes time to absorb the required changes, communicate them to the appropriate people, and set up the right procedures for compliance and supervision.

**Nevejans, LifePro:** The Department of Labor's Fiduciary Rule continues to hover over our industry like a dark cloud. With full implementation scheduled for January 1, 2018, there have recently been indications from Secretary of Labor Alexander Acosta which suggest there may be some leniency and/or further postponement until the ability of the professionals trying to provide product and service to the consumer can be aligned with the intent behind the regulation. This is not the first time our industry has been faced with excessive regulation nor will it be the last. At the end of the day our products provide true value to the American people, the economy and our entire culture. They are fundamental in providing for the

protection of families and retirements. Without them the very foundations of our society could crumble. For that reason, we cannot afford to regulate good, hard working professionals out of the industry.

**Ryan, UNUM:** Health care reform continues to distract the end consumer. In California, where the debate over single-payer health care continues, I'm concerned consumers may lose sight of the value of their employer's investment in a range of benefits. With fast-paced changes, the need for a strong communication campaign becomes more of a necessity due to the way people process information and how quickly they can access it.

**Della Sala, Colonial Life:** The Affordable Care Act continues to create some confusion and concern in the marketplace at all levels — employee, employer, broker, and carrier — and that uncertainty creates a great deal of frustration and anxiety for everyone. However, it has created an opportunity in the voluntary benefits space. It gives employees access to the additional coverage they need at affordable rates. Fortunately, employers continue to see the value in offering life insurance for employees.

**Shields, Aflac:** Because our policies are not major medical insurance, the changes resulting from health care legislation do not have a direct impact on our business or the need and demand for our products. But we do expect uncertainty about the health care industry to continue for the foreseeable future. And we anticipate that consumer awareness about health care as well as high-deductible health plans offered by employers will continue to increase. On top of that, health care costs will continue to rise, leaving many to wonder how they will make ends meet. As household out-



# View From the Top

of-pocket health care expenses – not to mention any other costs associated with an accident or illness, like taking time off work, child care, travel costs, etc. – continue to burden the average American worker, Aflac’s cash benefits can help provide additional safety and stability for workers and their families so they can continue to live the life they love.



**Tope, Voya Financial:** The financial services industry has seen tremendous economic and regulatory change over the last decade. Our vision remains the

same: to be America’s retirement company, and we’re committed to helping Americans plan, invest and protect their savings so they can retire better. More than two years have passed since the Department of Labor proposed its rule to expand the definition of “fiduciary” under ERISA. One constant throughout this lengthy process has been Voya’s unwavering commitment to helping clients and partners navigate the change. As an organization, we continue to move forward toward the January 1, 2018, full compliance date. As a result of these changes, financial advisors are shifting their focus to holistic planning — life insurance is a major component for protection and tax-free income.

## What are some of the common characteristics of your most successful life insurance producers?

**Gustafson, UNUM:** The best sales people I know are always solving problems; they strive to understand the client, uncover root issues, and then provide a solution that fits the client’s needs. High performing sales

people consistently use deep market insight, data, and benchmarking to provide the best possible solution for their customers.

**Harris, Penn Mutual:** Most successful advisers are those that listen well and are great at building trusting relationships with their clients. They are also great communicators that can help their clients understand risk, how to manage risk, and are able to get their clients to act once a plan has been established.

**Nevejans, LifePro:** Today’s successful life insurance producer is not just a life insurance salesman/saleswoman. Rather they are true business people, well diversified in product, knowledge and services. They have a brick and mortar office with support staff and use of the most current technology. However, these are in actuality just the table stakes. The producers that set themselves apart have three very key things in common. They invest in themselves and their practice, they surround themselves with a community and they utilize a proven and predictable system. It’s not uncommon for a successful producer to spend up to \$100K a year on coaching, training and professional development for themselves and their staff. They understand that being an independent business owner and insurance producer does not mean that they have to be, or should be, alone. Instead they find or build a community of likeminded professionals that they use to share ideas with, gain insights from and often outsource tasks to. Finally, no consistently successful producer is out there just “winging it.” On the contrary, they have a process that they and everyone in their office understand and buy into. Whether it’s a seminar, direct mail, social media or referral system, they and their staff know what needs to happen through-

out the whole process. What’s more, when they engage in the process they can accurately predict the amount of revenue that will occur over a certain amount of time.

**Ryan, UNUM:** Producers who are willing to listen, engage and strategize are most successful. Many times, they are concerned about participation, but what’s amazing is that with a strong communication campaign and employer commitment, participation follows.

**Della Sala, Colonial Life:** In my experience, it’s not what’s on a resume that matters most. It’s what drives and motivates them. Ultimately, someone with ambition who believes passionately about protecting America’s workers and all they’ve worked so hard to build has what it takes to make it in this business. When you’ve seen someone struggle with the financial burden of an unforeseen accident or cancer treatment – you want to do everything you can to help them be informed and prepared.

**Shields, Aflac:** We believe that voluntary insurance increasingly will be viewed in the workplace as it should be: a “must have.” One of the driving factors behind this trend is the fact that workers who have major medical insurance are feeling the brunt of higher health care costs and need options to cover those costs. Our successful life insurance producers help clients and employees understand the importance of life insurance and effectively position its place as a fundamental component of the overall financial health and wellness package offered by an employer. They also know how to provide coverage options and plan design recommendations (variations of employer-paid, supplemental buy-up and voluntary) to help create the most attractive life

offering for a benefits package. Insurance needs are heavily dependent on the individual's stage in life, in terms of career, family and personal values. Therefore, it is vital for producers to help policyholders understand how any changes in their lives should play a part in how they evaluate their specific needs to make sure they have adequate protection. The better the offering through the workplace, the less likely individuals are to purchase individual coverage through other vendors.

**Tope, Voya Financial:** In my opinion, the most successful producers are the ones who have changed their approach in response to economic realities. Successful agents understand the benefits universal life can offer in the holistic financial planning process, not just the death benefit. In the past, many Americans had a pension, Social Security payments and their savings to last them through retirement. Agents and advisors who understand the life-long value of life insurance are able to show to their clients how products like indexed universal life can address these concerns and help them grow, protect and enjoy their retirement savings.

**With the health insurance turmoil, are you seeing more health insurance brokers getting into life insurance sales? If so, do you have any advice for them?**

**Gustafson, UNUM:** Yes, there's more demand than ever for brokers to bring a broad spectrum of solutions to the table, including executive and voluntary life insurance. Broker jobs have, therefore, become increasingly difficult and the competition has only intensified. As someone who works for a carrier, I hope to help and support our broker partners so they stay ahead of the pace of change in the market.

**Harris, Penn Mutual:** I haven't seen a pronounced shift in health insurance brokers switching their practice to life insurance. If I were to offer advice to them it would be to find a strong, life focused agency, that could help them make the conversion and team them with an experienced life adviser.

***"A team and a mentor will help provide you the knowledge and platform to experience the greatest likelihood for success in the quickest amount of time."***

**Nevejans, LifePro:** Don't go it alone. The life insurance industry is unique and often times counter intuitive. To get to the levels where you can truly help consumers with the products you have the ability to offer would take years and years of trial and error, often times at the expense of your clients. It is a far better course of action to find a support system and partner with an already successful life insurance practitioner. A team and a mentor will help provide you the knowledge and platform to experience the greatest likelihood for success in the quickest amount of time. You may be required to split cases while doing joint work, but this is not an expense. Rather it's a way to finance your education and an investment into your future.

**Ryan, UNUM:** Yes, and I would say medical plays a big part in the growth. The role of a broker has become more complex than ever before, as they are expected to bring an entire suite of products to their clients, including medical, dental, vision, disability, life, accident, critical illness, etc. Don't wait for decisions around medical, but

proactively look for ways voluntary and other ancillary products can help your clients retain and attract top talent and ensure employees have the important financial protection they need.

**Della Sala, Colonial Life:** This is an opportunity to spread the risk and create an additional revenue stream. With health commissions being degraded, the marketplace overrun with "broker of record," changes and confusion and concern at the employer level, it's important for brokers to strengthen their ties to existing business to mitigate the risk of losing an account to another broker. Offering voluntary benefits does exactly that: It adds another portfolio offering that increases their value to the employer and creates an additional revenue stream for their organization. If it's not currently part of their business model, it absolutely should be.

**Shields, Aflac:** We continue to see brokers diversify their sales strategies not just with life insurance, but voluntary products overall. According to a 2015 Eastbridge study, 92 percent of benefit brokers are selling voluntary benefits. Out of the remaining 8 percent, half plan to sell voluntary in the future. The ongoing conversation about health care laws affects how we think about health insurance, and now it's time to reshape how voluntary benefits are positioned to help people see the total value of health and wellness plans. Brokers with the foresight to elevate voluntary benefits into the overall benefits or total rewards strategy are more likely to increase their client base and more likely to grow their sales. As with anyone seeking to enter a market or gain market share, establishing partnerships with trusted carriers who will provide accessibility, accuracy and accountability to build out their portfolio of products and capabilities will make the transition easier. ★

# 401(k) Trends:

## THE TOP 10 THINGS EVERYONE NEEDS TO KNOW

By ROBERT C. LAWTON

**C**ompetition for qualified employees has become intense. As a result, firms have been buffing up their benefits packages in 2017. Listed below are the changes that leading-edge employers are making to their 401(k) plans as a result of the most important 401(k) trends. Although these 401(k) trends are numbered, they are not shown in order of importance – all of these items are equally important.



### 1 Only R6 or similar share classes.

Many mutual fund companies offer or are originating R6 or similar share classes of the investment funds they offer for retirement plans (hence the R). These share classes normally provide no revenue sharing and are cheaper than any other share classes offered. They also typically have no minimum plan investment requirements. If a 401(k) plan doesn't use all R6 or similar share classes now (i.e.; share classes paying no 12b-1 or sub-TA fees), they'll want to convert.

### 2 Lower cost for target date fund series.

Most experts feel that roughly 75 percent of all participants probably belong in target date funds. The vast majority of 401(k) plans use target date funds as their QDIA option. As a result, the mutual fund companies feel that their most important product is their target date series. The market for target date funds is incredibly competitive, and fund companies will continue to lower their fees (expense ratios) in an effort to remain competitive.

### 3 Online investment advice.

One of the most significant 401(k) trends, offering participants online investment advice, will continue to rise in importance. Most larger plan sponsors are now providing some type of online investment advice option. Online investment advice can be sourced from a number of providers at costs ranging from free to 75 basis points.

# THE TOP 10 TRENDS

## 4 Answer all fiduciary questions.

Final fiduciary rules went into effect in April of 2017, progressive plan sponsors will endeavor to ensure that they understand the fiduciary roles tied to their 401(k) plans, especially with regard to their investment advisers. As of April, every 401(k) plan should be now working with an investment adviser who is signed on as a fiduciary.

## 5 Hire 401(k) plan-only investment advisers.

As 401(k) plans continue to become more complex, it is vital to have investment advisers who spend the majority of their time working with them. These advisers do a much better job of making things simple for clients and have fewer conflicts of interest.

## 6 Integrate financial wellness and employee 401(k) education.

Many employers are finding that employees who don't know how to create a budget can't begin to understand how to diversify their 401(k) plan accounts. Without basic financial knowledge, employees have a hard time understanding more advanced concepts like risk and volatility. In response, leading-edge employers are now marrying financial wellness education with employee 401(k) education.

## 7 Provide socially conscious investment options.

Each year there are trends that are rising or falling in importance. This is one of the 2017 401(k) trends that continues to rise. The data indicate that millennial employees are much more interested in socially responsible investing (SRI) than prior generations. Companies are increasing the value of their 401(k) plans to this important group by incorporating SRI.

### For Executive Groups

## 8 Add a Roth in-plan 401(k) conversion option.

Offering a Roth in-plan conversion option in a 401(k) plan costs virtually nothing. This feature can provide tax planning options for all participants, but is especially valued by executives. A Roth in-plan conversion option allows participants to convert their pre-tax balances to Roth after-tax balances at any time.

## 9 Allow after-tax contributions.

Interest in after-tax contributions has returned! I am not referring to Roth 401(k) contributions, but traditional, old, boring after-tax contributions. The advantage? Maximum total employee contributions to a 401(k) plan can rise from \$18,000 to \$54,000 in 2017 when participants have the ability to make after-tax contributions.

## 10 Incorporate HSA accounts into retirement planning.

The role of Health Savings Accounts (HSAs) in retirement planning is just beginning to be appreciated. Many plan sponsors now realize that maxing out HSA accounts can be a significant retirement as well as health care benefit for executives.

As you help clients create their performance plans, consider how these important 401(k) trends impact initiatives. They could help them better compete for talented employees. ★

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