EMPLOYEE BENEFIT Adviser
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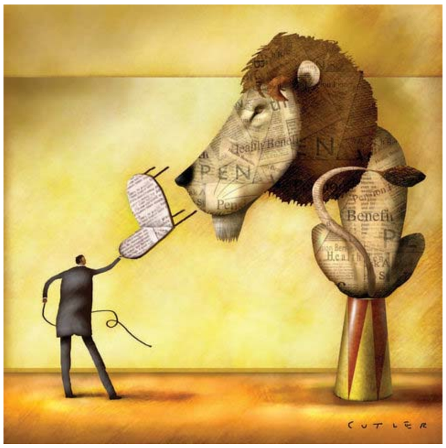
Taming the monster of change

How carrier dynamics and emerging technologies will redefine the way you make a living

By Mike Sullivan



If we could peek inside the medicine cabinets of the nation's employee benefits advisers focused on small-and mid-sized businesses I suspect we'd discover a disproportionate quantity of sleep aids. Those who haven't experienced a few restless nights must be oblivious to the powerful forces at play in our industry.

There is no imaginary being lurking under the bed; this monster is real, and it will force you to redefine how you make a living. What fuels this beast? Frankly, its source of sustenance continues to evolve.

It turns out that health care reform is a meal with multiple courses. Medical loss ratios are the current entree and have forever altered carrier-broker dynamics.

When insurance executives woke up to the reality that they would have to reduce costs, many instituted change where it hurts advisers the most: commission structures. Next on the menu: employers looking to reduce costs will demand new and more robust capabilities from their advisers, whose resources already are stretched thin.

The time has arrived for an objective "rethink" of the employee benefits distribution marketplace.

While few readily embrace change, this experience doesn't have to be a nightmare. My evenings of tossing and turning with concern are over, replaced with excitement about reinventing our future.

What shifted my perspective? I am absolutely convinced there will be a role for advisers. And, I am less concerned about past commission revenue models heavily weighted toward carriers and health insurance.

I am more concerned about building a solution employers, individuals and families will want to leverage.

Know thine enemy

MLR is a provision of the Patient Protection and Affordable Care Act that became effective Jan. 1, 2011. It mandates the portion of premiums insurance carriers must spend on health care. For large group plans covering 101 or more employees, the magic number is 85%; for groups of 100 or fewer employees, it is 80%. The remaining 15%-20% encompasses profits and administrative costs — including broker commissions.

If there is one thing that agents should take away from this facet of the legislation it is the status quo in our industry will not cut it going forward.

What we do, how we get paid and by whom are now in flux. In response, you can do one of two things: embrace the possibilities or get ready to manage a declining asset.

Know thyself

I share perspectives with Rob Lieblein, managing partner of Hales & Company, one of the country's most respected advisory firms that focuses exclusively on the insurance industry. He and I believe MLR simply fanned the flames of a burning ember.

Long before health care reform, carriers had concerns about commission structures and variability in agent effectiveness, but they weren't ready to make the first move. Reform legislation provided the "political" cover to make changes.

This leads to a somewhat introspective revelation. How brokers in the SMB market get paid is one of the challenging components in our health care system.

As premiums spiraled during the last decade, we may have empathized mightily with our clients, but our industry prospered. We still got our percentage — and had no particular capability to bend the cost curve. We could pass along premium increases, then head home and celebrate our fatter wallets.

Ouch.

It's a painful realization, but if they are realistic, most advisers understandthis viewpoint. I do not mean to implythat agents don't provide value.

We do, and we deserve to be wellcompensated, particularly because weprovide more consultation, advice andservices today than ever before in ourhistory.

However, once you accept we are part of the problem, you are in a betterposition to devise truly effective remediesthat extend beyond our own balance sheets.

The battle begins

Regardless of intent, MLR is the current poster child for change in our industry. According to a survey released in April by the National Association of Insurance and Financial Advisors, MLR has had "devastating consequences for health insurance agents and the individuals and small businesses they serve."

Highlights from the poll of 520 NAIFA members include:

• 75% have experienced commission decreases since January 1

• An additional 13% have received notice of future commission reductions

• Some 53% report commissions have been lowered by 25% or more, in cluding 17% reporting reductions of 50% or greater

• 23% of agents experiencing re duced commissions have cut back client services • 11% have stopped selling and servicing policies for individuals

• 4% have abandoned the health insurance market

Service reduction? Eliminating sales of individual policies? Getting out of health insurance altogether? This is dramatic news. The monster has indeed reared its ugly head. Shying away from battle is certainly a valid option. But there are other choices.

Things that go bump in the night

Don’t delude yourself into thinking MLR is our greatest problem. It is the proverbial tip of the iceberg.

Behind closed doors, carrier executives are eyeing property and casualty distribution models, including captive agent arrangements. It glistens with efficiencies and “control” the employee benefits industry lacks. It drives business to brokers who produce volume. Only the elite have broad access to markets and premium products.

Lieblein says he has spoken with enough carriers to know they are past the “if” component of the equation; they are focusing on how and when to roll out such strategies. Insurers no longer feel compelled to work with or offer commensurate compensation to second-, third- and fourthtier brokers.

The truth is the system can no longer afford to provide equal access to the playing field. These segmentation strategies will create winners and losers.

The magic formula

The solution for success is a complex formula that involves much more than the ability to deliver volume. Superior technology will be a prized asset in our new world.

We’re not talking about online enrollment, Web-enabled content applications or traditional CRM software. Innovators with operational scale will leverage sophisticated analytic and communication platforms to extend value-creating services through the employer down to the individual and family level. I know we are investing toward this goal.

Those who devise methods to bend the cost curve by creating healthier employees and transform them into better health care consumers will have a leg up on the competition.

It is one thing to do this for companies like IBM, but who is going to innovate for small- and mid-sized employers, those struggling most with spiraling costs?

“Now, more than ever, brokers need to deliver long-term strategies to get the employee population healthier,” says Jeff Berardo, regional vice president for Cigna’s East region select segment for the 50-250 market. “Going forward, health and wellness will be a much more important component of the broker dynamic.”

But that’s not all.

There are other factors that will become essential components of successful agencies.

The combination of resources required can be mind-bending. It will involve data management and data analytics. Extending education and communication capabilities beyond the employer to policy holders. Helping each end user understand the role they play in controlling costs while obtaining quality health care. Building new decision support tools.

If you find this news shocking or think it doesn't apply to your business, you are in for even bigger surprises when your clients forsake the relationships you've carefully fostered to partner with competitors who offer these services.

Every strategist in our industry agrees that advisers will become active participants in creating employee engagement and delivering well-ness and consumer-centric solutions.

This is a fundamental change in the way we do business. Three years from now, this will be the component that differentiates the advisers at the top of the food chain from the ones struggling to hang on to their business.

The clock is ticking.

Taming the monster

It is not realistic to believe that small and independent brokers will be able to adapt to these changes on their own.

Time is already limited; the capital needed to acquire the right technology is significant; and the human capital and operational scale required to impact employee engagement is as well.

So what options are available to tame the monster of change?

As the NAIFA survey indicates, some will get out of the employee benefits business. Even if you retire or move to a new line of work, there are a variety of entities that might consider acquiring your business — or a block of it.

You want to identify a buyer who is experienced at properly valuing your business *andhas* the combination of expertise and resources to best serve your clients.

Your considerations may be different if you want to continue working but are no longer interested in operational responsibilities. This route requires even greater scrutiny.

Seek an environment in which you — and your employees — can continue to contribute and thrive.

Partnerships, alliances and outsourcing also are approaches that enable firms to gain more robust capabilities without huge expenditures.

Cigna's Berardo says tapping into carriers' wellness initiatives is another idea. His company already works with brokers to institute employee wellness programs.

Online health risk assessments combined with onsite biometric screenings provide data that enable Cigna to work closely with diabetic employees, for example, to help them better manage their health and use of resources.

“I don’t see our broker partnerships being diminished in the future — they will become even more important,” says Berardo. “The difference between today and tomorrow is that we need to partner together to deliver the best solutions for our clients.”

Whatever torments you on sleepless nights, you should realize you are not alone. We are all seeking answers.

By turning on the lights and engaging in dialogue and accepting that change is OK, we can coax the beast into submission.

The worries that troubled me yesterday have turned into growth opportunities for my business. Here’s wishing you a similar happy ending.