

Obamacare will either change your group benefits brokerage world or make you irrelevant. Which will it be?

You do have a choice, but you must make that choice now before you are swallowed by events set to take place in 2014. Own it, or it will own you.

To say the past year has been chaotic in the employee

Old-school brokers are just treading water, while new-school brokers have seen the future and are fast-forwarding their business strategies to position themselves for success down the road.

The

PRODUCERS

Healthcare reform forces a paradigm shift on benefits brokers : from salesmen to consultants, from commissions to fees. BY ROB LIEBLEIN

benefits world is being polite. But with this chaos, a ray of hope shines down on many firms involved in the healthcare industry. From day one, I have been bullish about the future of the employee benefit business. But that doesn't mean all firms will survive what the future holds.

I have crisscrossed the country for two years talking about the future business model of the successful employee benefit agency. When I started this journey, I said a new business model was necessary regardless of any new regulation that might evolve from Washington. Nearly two years later, we have the Patient Protection and Affordable Care Act (PPACA), and while healthcare reform greatly affects all stakeholders, it is hitting one group of brokers particularly hard.

Here is where we stand today:

- Healthcare costs will remain a problem until employers and brokers change their approach to the solution.
- The industry has reached a crossroads between old-school brokers and new-school brokers.
- While old-school brokers stand to become irrelevant, new-school brokers understand their changing roles; brokers are evolving from providers of benefit design and selection to consumer healthcare advocates.
- The free-market system will lead the way to true healthcare reform, and the delivery and distribution systems will follow the money.
- The system must change from reactively providing care to proactively encouraging health and wellness.
- Benefits consultants can help

employers “bend the trend” on healthcare costs.

- A new model changes the focus from disease and costs to health and investment.
- Voluntary products will become a much more integral part of an employer/broker strategy as the market moves to a consumer-driven model from the old, employer-driven model.
- The focus of mandates is shifting to “keep sick people from getting worse” and “keep healthy people healthy.”

The fundamentals of providing benefits have not changed, but as we continue to navigate through healthcare reform, other strategies, tactics and trends have emerged. Here are some of the new concepts.

ACCEPT WHAT YOU CAN'T CONTROL

We are adding to the list of certainties and givens. Besides death and taxes, you need to add revenue compression and increased costs.

The trend toward revenue compression has been looming for years. Broker commissions, particularly in the individual and small-group market, will most likely bear the full impact of revenue compression.

Whether it is carriers moving from a commission basis to a per-employee per-month fee, reducing commission percentages by 20% or more, or eliminating commissions altogether, PPACA and the provision related to minimum medical loss ratios has clearly provided the vehicle to alter the commission compensation model for brokers. It will continue to lead to revenue compression for many firms.

In addition, we will see an increasing need to enhance service capabilities and resources, whether it is personnel-related-e.g., medical directors, pharmacy directors, actuaries-or vendor-related, such as technology costs. What's certain is that the operating costs for most employee benefit firms will increase. Clearly, this will cause short-term pain for many, but in the long run, it will help weed out those firms that cannot provide the value clients expect and will expedite the industry consolidation that is already underway. The trend will make those new-school brokers even stronger over time with increased revenue and profitability.

INCREASED CONSOLIDATION

In the future world of health care reform, only the strong will survive or stay relevant. This will trigger increased consolidation. This consolidation has already begun and is expected to quicken. The current trend is being led by new-school brokers who realize that competitive market pressures will make it difficult to compete down the road, so to protect the “asset” that they have built, they've decided to sell. All you need to do is look at some of the well known employee benefit firms that have sold to Marsh & McLennan Agency over the past year to understand this strategy.

Likewise, many smaller firms will not have the resources, capital and expertise to remain independent in this quickly transforming industry. They will be forced to merge with larger firms on a local or regional basis. Their alternative is to “milk the cow” and fade away over time. The pressure

to consolidate is also expected to come from carriers who are likely to work only with select brokers. This dynamic could dramatically alter the competitive landscape and drive consolidation at an even faster rate.

HEALTH AND WELLNESS AS AN ECONOMIC STRATEGY

For too long, employee benefit firms have treated healthcare costs in a very narrow window, simply attempting to mitigate cost increases. Cost certainly has been an important issue for many employers, but the bottom line is that a health and wellness strategy is an economic strategy that all firms should understand and support. Studies have shown that the total value of health includes medical, pharmaceutical, absenteeism, workers compensation, disability, recruitment and retention, and that there is a direct correlation between financial performance and a healthy workforce. To support this, Towers Watson's 2010 Health Care Cost Study showed that the way healthcare strategies were viewed became a competitive advantage for high-performing companies from a cost perspective and provided other significant business outcomes.

Common characteristics of the high-performing companies included:

- Understanding, supporting and demonstrating the business value of workforce health
- Establishing business-focus goals to ensure that health investments deliver a health dividend, and measuring the program's success
- Engaging employees and promoting a culture of health
- Creating a sense of shared

responsibility and employee accountability for health

- Designing and creating meaningful incentives for health behaviors and choices
- Investing in current and emerging health management approaches and technologies. Employee benefit brokers need to transition to true consultants to help their clients achieve financial success by treating health care costs as an economic strategy.

SMALL-GROUP STRATEGY

Like it or not, the long-term viability of the small group is up in the air. I define small group as companies with fewer than 50 lives, although in reality it can be extended to groups with fewer than 100 lives per the definition in PPACA. The questions that cannot be answered are what role a broker will play in the small group market beginning Jan. 1, 2014, and, more importantly, what the compensation model will be.

Secondarily, will small-group employers even continue to sponsor employee benefit plans, or will they just pay the penalty? With such unknowns, it is very difficult to build a sustainable business model around the small-group market that will increase shareholder value. While many small-group brokers think selling is the answer, the reality is the small-group book of business may not be saleable or will be only at a substantial discount. Therefore, employee benefit firms need to be proactive and develop a small-group strategy, which could include such options as:

- A sale or joint venture with a firm like Digital Insurance that specializes in the small-group market

- Revisit producer compensation in the small group
- Redefine the service model to make it more efficient and profitable.

FEE TRANSPARENCY

As the number of new-school brokers grows and the market continues to shift to a fee-based compensation model from the current model of carrier-paid commissions, fee transparency will become a competitive advantage for many firms. Accepting this and building a strategy around fee transparency will result in a point of differentiation: "I want to be the consultant, asking my prospect, 'How much do you think the services are worth from your current broker?'"

Educating prospects and clients around the value you bring to them and having them finally understand value and compensation will totally change your conversation and relationships with them. It will be the easiest, surefire way to increase your closing ratio.

CAPTIVES AND CONSORTIUMS

The ability to manage claim data to effectively control healthcare costs, manage cash flow and develop unique, custom employee benefit plans is leading many employer groups, carriers and brokers to develop group captives and/or consortiums related to employee benefit plans. Historically, these captives in the employee benefit universe have primarily been in such market segments as group term life, AD&D, group disability and retiree medical. However, the trend developing now is to use the captive model for group medical plans for active employees.

While this is relatively new, the use of a group captive (versus a single-parent captive) is going to be critical to effectively use claim data and control costs for smaller groups (those with 100 to 500 lives that historically were too small for self-funded plans and were locked into the fully insured market).

CONVERGENCE

The lines between employee benefits, benefit administration, human resources and payroll are becoming blurred. The convergence among these areas has already begun and is led by companies such as ADP and Paychex. Wrapped around this four-legged stool is technology.

Employee benefit firms must recognize this convergence and build an integrated business strategy to incorporate a one-source and/or unbundled service delivery model around this concept.

NETWORKS AND ASSOCIATIONS

For those firms choosing independence, the cost to build out a strategy that competes with national brokerages is generally cost-prohibitive. Therefore, firms committed to independence should consider joining networks or associations focused on employee benefits and consulting.

Just like in the property-casualty world, a number of employee benefit networks and associations have been formed to provide a forum for best practices, shared resources, market leverage with vendors and carriers and other resources, services, and products that firms could not individually build or buy. The leading associations in this group include Benefit Advisors Network,

the HRBA Group and United Benefit Advisors.

EMPLOYEE ASSISTANCE PROGRAMS AND WELLNESS CONVERGENCE

Historically, employee assistance programs (EAPs) have been segregated from traditional wellness plans and other health-related plans. However, as employer groups begin to integrate wellness programs into their healthcare strategies, they are beginning to recognize EAPs as a core component because these programs can help improve the overall health behaviors of employees.

The convergence of EAPs and wellness creates additional opportunities for employee benefit professionals to redefine their roles as consultants and trusted advisors to clients.

TRUSTED ADVISOR

“Trusted advisor” is one of the most overused terms in the insurance industry. It’s also a term that most people cannot define. But given the transformation that the industry is going through and the need for a broker to be a “consultant” who provides financial and economic strategy to the C-level suite, it is critical to adopt a set of procedures and principles that truly makes you a trusted advisor.

To me, the definition of a trusted advisor has two components:

- You are strategically important in helping your clients achieve their business goals and objectives
- You are hard to replace.

If you can become a trusted advisor under this definition, you become a confidant and an invaluable resource in decision

making, and your advice will be sought prior to strategic decisions being made.

That is why you need to make decisions today. Address questions of market strategies, compensation, consolidation and the value of your services. Evaluate whether or not your services can be made more relevant and your team is flexible enough to evolve with the changing laws and marketplace. Now is not the time to sit back and worry about the future. Now is the time to act.