

A Workforce at Risk:

***How Employers Can Help Employees
Strengthen Their Financial Safety Nets***

Benefits at Work Series

A Colonial Life White Paper

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A Workforce at Risk:

How Employers Can Help Employees Strengthen Their Financial Safety Nets

Executive Summary

American households lost \$1.33 trillion of their wealth in the first three months of 2009, driving Americans' net worth to 2004 levels.¹ Research by the Federal Reserve indicates household debt is at a record high relative to disposable income.² Staggering statistics such as these characterize the unprecedented level of financial upheaval that is putting the fiscal health of American households at risk.

Employers, too, have been affected by the current financial landscape, from both a national and global perspective. Treading today's economic waters, companies continually look for ways to manage costs. Because benefits comprise a third of employer costs for employee compensation,³ it comes as no surprise that 60 percent of organizations recently surveyed by the Society for Human Resource Management say their benefits offerings have been affected by the current financial challenges.⁴

Because employees consistently rate benefits as one of the key factors in job selection and on-the-job satisfaction, it is important for organizations to build and maintain attractive benefits packages — yet do so in a cost-effective manner, especially in light of any potential economic hiccups.

This year's troubling economy has forced employers to make some tough decisions about their benefits plans. Employees are now justifiably concerned about the effects these changes will have on their paychecks and their financial stability. Left to deal with potential gaps in coverage, employees are feeling more vulnerable and exposed.

This whitepaper discusses how companies can use voluntary benefits to help employees strengthen their financial safety nets — from challenges associated with a struggling economy to unexpected career or lifestyle changes that affect family finances. Employers will learn how this benefits strategy positively affects the bottom line and serves as a key business differentiator in an increasingly demanding and competitive marketplace. The paper also highlights the role voluntary benefits will play in preparation for impending health care reform.

Today's Economy Challenges Employees on Many Fronts

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The recent economic downturn has been challenging for Americans, causing many to make major life changes as a result. Every day, families are faced with a tough choice between making payments on mortgages or credit cards, purchasing basic necessities, paying utilities or continuing to carry insurance, especially health coverage.

With many families living paycheck to paycheck, a visit to the emergency room, an accidental fall down the stairs or the loss of income from even one wage earner in a two-income household can quickly send families spiraling into the depths of unwanted debt that is difficult or impossible to pay off.

Recessions are adept at exposing consumers' financial sore spots, and the effects of today's current economic environment on employees' financial stability run broad and deep:

Job Loss/Reduction in Work Hours

Whether it is layoff, downsize, furlough or firing, job loss is a traumatic event. Among a variety of life-altering episodes, such as death in the family, divorce or serious illness, many people rank losing a job among the highest in stress-causing situations. And today there is plenty of stress to go around. As of June 2009, the number of unemployed people hit 14.7 million, and the unemployment rate swelled to 9.5 percent. Since the start of the recession in December 2007, the number of unemployed has increased by 7.2 million, and the unemployment rate has risen by 4.6 percentage points.⁵

As an alternative to layoffs, some companies are reducing employees' work hours, forcing many into part-time positions. The number of part-time workers as of June 2009 totaled 9 million, an increase of 4.4 million since the start of the recession.⁶ In addition to having a reduction in income, most part-time employees are often not eligible for benefits, forcing them to join the burgeoning ranks of uninsured Americans.

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Unemployment and Part-Timers Increasing

The number of unemployed Americans and part-time workers nearly doubled since the start of the recession in December of 2007.



Foreclosure

Each night, many Americans lie awake worrying about whether they will lose their homes to foreclosure. Unfortunately, they may not be the only insomniacs on their block. One in 33 homeowners is projected to be in foreclosure during the next two years, according to a report released by The Pew Charitable Trusts.⁷ In fact, about 1.5 million families lose their homes to foreclosure every year because of unaffordable medical costs.⁸

Homeowners foreclosed upon are not the only individuals affected, according to data cited in the report. An additional 40 million neighboring homeowners may see their property values and their municipalities' tax bases drop by as much as \$356 billion.⁹ These types of deficits mean homeowners have little safety-net equity to turn to in an emergency, and government-sponsored support programs are left underfunded or broke.

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Bankruptcy

Debt, regrettably, has become a way of life for many consumers. As unemployment, foreclosure rates and costs of living continue to rise, more consumers are quickly becoming overwhelmed and turning to bankruptcy as their only answer. U.S. consumer bankruptcy filings totaled 675,351 nationwide during the first six months of 2009, a 36.5 percent increase over the consumer filings during the same period a year ago, according to data from the National Bankruptcy Research Center. Projections indicate another 1.4 million new bankruptcy filings are expected by year's end.¹⁰

Of particular note is a recent study by the American Journal of Medicine that shows 62 percent of all bankruptcies filed in 2007 were linked to medical expenses — despite the fact that nearly 80 percent of those who filed for bankruptcy had health insurance.¹¹

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Catastrophic Illness

Medical advances have resulted in increased survival rates for many diseases. But with these advances come increased health care costs that major medical insurance does not fully cover. Lengthy, expensive recovery periods can mean the loss of personal wages and an employee's ability to pay for care and treatment, often leaving behind huge financial exposure.

Looking just at costs associated with cancer, one in four patients or their families say they used up all or most of their savings to pay for treatment, according to a 2006 survey by *USA TODAY*, the Kaiser Family Foundation and the Harvard School of Public Health.¹² More adults are struggling to pay their medical bills and are accumulating medical debt over time. Forty-one percent of working-age adults, or 72 million people, reported a problem paying their medical bills or had accrued medical debt in 2006, up from 34 percent, or 58 million, in 2005.¹³

One in four patients or their families say they used up all or most of their savings to pay for cancer treatment.

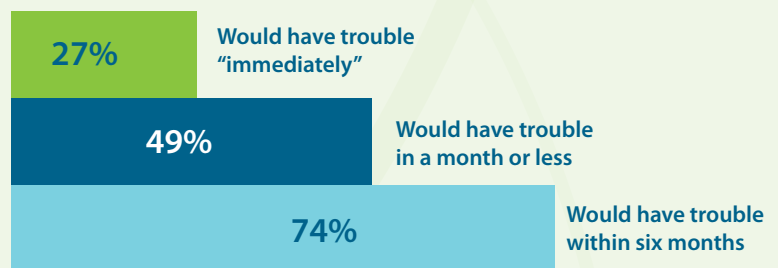
Disability

With less in savings and investments, many Americans are more vulnerable to serious financial hardship if they get sick or hurt and cannot work. According to the nonprofit Life and Health Insurance Foundation for Education, more than a quarter (27 percent) of working Americans say they would have trouble supporting themselves financially "immediately" following a disability that kept them out of work, while nearly half (49 percent) would reach that point in a month or less. Three out of four (74 percent) would face financial trouble within six months.¹⁴ Most people who do not have disability coverage would more than likely tap savings, borrow from credit cards or ask friends, family or a partner to help support them.¹⁵

These might prove to be short-lived solutions since the financial effect on workers who become disabled can be as high as 20 times their annual salary: nearly \$1 million for a 40-year-old, single male earning \$50,000 per year who suffers a long-term disability lasting until age 65. The costs associated with short-term disabilities can be quite significant as well, sometimes equaling one to nearly two times income for a disability lasting only two years.¹⁶

Disability and Its Financial Impact

Faced with a potential disability, most working Americans would struggle financially.



(Source: The Life and Health Foundation for Education, *The LIFE Survey*, May 1, 2009.)

Caring for Elderly Parents

More than 15 million adult children nationwide are providing care for their elderly parents, including paying part or all of their housing, medical supplies and incidental expenses.¹⁷ The costs associated with caring for elderly parents only compound an already fragile picture of family finances. AARP estimates approximately half of the U.S. workforce will be involved in caregiving within the next five years,¹⁸ meaning more workers will have to juggle costs along with their workplace responsibilities. In fact, research indicates a significant negative effect on the health, well-being and productivity of employees who try to balance caregiving and work.¹⁹

Rising Costs

The median weekly earnings for American workers have not grown in real terms during the last eight years,²⁰ and in today's current business environment of wage freezes and layoffs, there are no immediate signs of an upward tick. Gas prices remain substantially high, food prices are soaring, energy costs are up, home values continue to decline, the cost of a college education is mounting and growth in health care costs is surpassing income. Families are facing financial crises and are being forced to make difficult choices among life's necessities, often sacrificing health care and health insurance along the way. Health care costs weigh heavily on Americans' minds, with nearly half (46 percent) worried about paying for future care. Nearly one in four people fear losing coverage in the next year.²¹ And they have good reason: nearly 9 million people have lost their health insurance since 2000,²² and the average cost for health care is estimated to increase at least \$356 per person from 2008.²³

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Economic Realities Hit Employers, Too

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U.S. businesses, just like many consumers, are reeling from the effects of the economic downturn and the troubled financial markets. Employers are keenly aware of how the recession has affected their bottom lines and now face some of the same issues plaguing families today: managing finances, getting credit, reducing expenses, making cost adjustments, improving cash flow and doing more with less.

However, businesses cannot afford to lose market share nor dip into operating capital, lest they have no resources left when the economy does recover. Therefore, many businesses have gone into “survival mode,” looking for ways to reduce expenses while still generating revenue, without any negative effect on customer service, operations or existing capital.

The widespread credit crunch and economic slowdown have already taken a toll on corporate America. In the 12-month period ending March 31, 2009, there were approximately 1.2 million corporate bankruptcy petitions filed — nearly double the number of petitions filed in 2006.²⁴ And the small-business engine once believed to be driving the economy and providing jobs for a majority of the nation’s private workforce has been hit hard. According to the Small Business Administration, nearly 12 percent of its loans defaulted last year, a sharp increase over previous years.²⁵

Today’s economic realities and an unrelenting competitive environment have forced companies of all sizes to rethink the way they handle their operations. And human resources departments often bear the brunt of the pressure to meet the following goals:

- **Reduce operating costs:** In a sluggish economy, running leaner is essential, but not every money-saving measure is a good one. The real challenge is ensuring budget cuts do not damage the prospect for a quick recovery on the economic upswing. According to Hewitt Associates, hiring freezes and reductions are the most prevalent cost-reduction actions taking place, followed closely by travel restrictions, then layoffs, salary or wage freezes, and organizational restructuring.²⁶
- **Attract and retain good employees:** This age-old problem remains relevant regardless of the economic environment. Human capital is an employer’s most valuable asset. Because hiring is expensive and time consuming, companies cannot afford — especially during a recession — to replace poorly chosen employees. More importantly, employers must also do everything they can to retain the top employees they already have.
- **Create and maintain a productive workforce:** Employers need a happy and productive workforce today more than ever. That is easier said than done when employees are uneasy about their jobs and seriously distressed about their finances. This current state of employee psyche often creates both increased *absenteeism* (when employees are frequently absent from work or other job duties) and *presenteeism* (when employees are on the job but not fully functioning). That, in turn, costs employers big money. Research shows 30 to 80 percent of financially distressed workers spend time at work worrying about personal finances and dealing with financial issues instead of working. A large proportion of those — 40 to 50 percent — report health problems directly related to their financial worries and problems.²⁷
- **Streamline human resources administration:** HR executives are inheriting much of the burden resulting from unprecedented changes occurring in organizations across America, from managing workforce reductions to overseeing adjustments to benefits and retirement plans. At the same time, HR executives may be experiencing a reduction of staff within their own departments. They constantly seek ways to optimize efficiency and streamline administration as they — like so many other workers — are expected “to do more with less.”

Top 5 Ways Employers Reduce Costs

1. Hiring freezes and reductions
2. Travel restrictions
3. Layoffs
4. Salary or wage freezes
5. Organizational restructuring

(Source: Hewitt Associates, “Cost Reduction & Engagement Survey,” 2009.)

The Winds of Change Blow Long and Hard on the Benefits Front

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At a time when companies are deep in survival mode, it is surprising that 98 percent of employers have not dropped a group insurance, health care or retirement benefit within the last 12 months.²⁸ Employees have come to depend exclusively on their company-sponsored benefits to provide for their health, insurance and retirement needs. As an example, 71 percent of employees said it would have a significant negative effect on their lives if their employers eliminated health care benefits.²⁹

Employers certainly understand the value of benefits and are committed to sustaining them. However, they need to do so in the most practical and cost-effective manner.

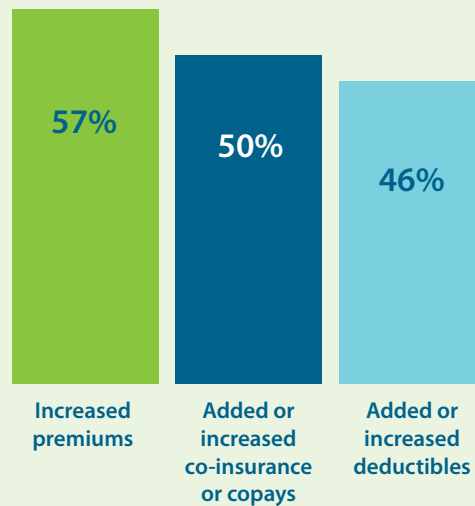
The most significant trend is increased cost-sharing through raising health care premiums, deductibles and copayments. This, however, leaves more financial exposure for employees as coverage gaps widen even further. According to a recent Colonial Life employee benefit survey, 82 percent of human resources executives say they have already made changes to their employees' insurance coverage:

- **57 percent** increased premiums.
- **50 percent** added or increased co-insurance or copay amounts.
- **46 percent** added or increased a deductible amount.³⁰

Eight out of 10 employees say they are concerned about changes their employers have made to their insurance coverage in the past year and how they will pay for the changes.

Employers Make Changes to Insurance Plans

82 percent of human resource executives say they have already made changes to their employees' insurance coverage.



(Source: Colonial Life & Accident Insurance Company, Survey of HR Executives, May 2009.)

These cost-sharing changes add more anxiety to an already financially distressed American workforce. Eight out of 10 employees say they are concerned about changes their employers have made to their insurance coverage in the past year and how they will pay for the changes:

- **86 percent** say they are at least somewhat concerned about unexpected medical expenses such as emergency room visits and major surgery.
- **83 percent** say they are at least somewhat concerned about both increased premiums and expenses no longer covered by their plans.
- **81 percent** say they are at least somewhat concerned about the addition of or an increase in deductibles.
- **79 percent** say they are at least somewhat concerned about the addition of or an increase in their copayments.³¹

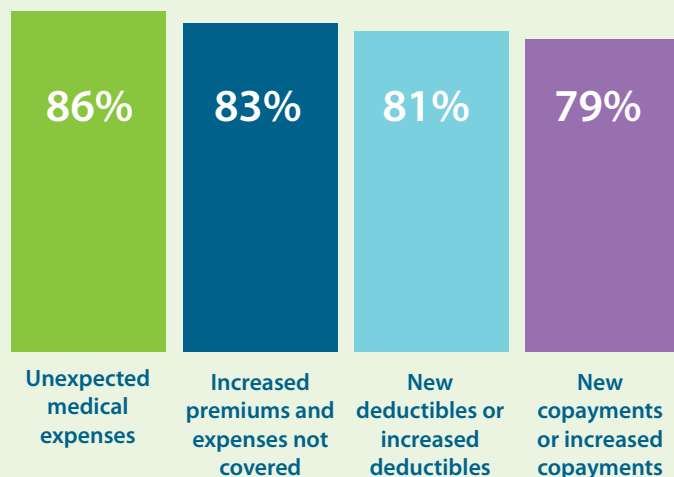
Copayments may rise but should generally increase at manageable levels. Employees who frequently use medical services that fall under the copayment category expect to pay low-dollar copayments. Because employees do not like losing coverage for more frequent routine health care, such as doctor's office visits and prescriptions, employers instead choose to increase deductibles and out-of-pocket maximums for less frequent medical services, such as hospitalizations.

When deductibles and out-of-pocket expenses increase, so does the employee's share of first-dollar expenses. Although employees are admitted into the hospital less frequently than they have routine medical care, medical treatment is increasingly trending toward more costly outpatient services, such as diagnostic testing and minor surgeries. These expenses are usually high-dollar claims with a greater potential to cause financial hardship if employees do not have secondary coverage.

Not too many years ago, an employee could have a diagnostic test, such as an MRI, and after meeting a \$250 deductible, the test was covered by his health insurance plan. Today, it is a different story: an employee has an MRI and foots the entire \$1,200 bill because his insurance coverage will not kick in until he meets the \$1,500 deductible.

Employees Concerned About Coverage Changes

Eight out of 10 employees say they are concerned about changes their employers have made to their insurance coverage in the past year.



(Source: Colonial Life & Accident Insurance Company/Harris Interactive Survey, April 23-27, 2009.)

Lack of Coverage Creates Crisis for America

Approximately
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Lack of Coverage Creates Crisis for America

As companies continue to steadily increase cost-sharing, shed jobs and move more workers to part time, a crisis is growing in America as the classes of uninsured and underinsured individuals swell.

People without insurance coverage are not necessarily workers who have lost their jobs or are employed by a company that does not offer benefits. Even in firms that offer coverage, not all workers are eligible to enroll as a result of waiting periods or minimum work-hour rules. Some employees simply choose not to enroll because they do not feel they can afford their share of premiums. With an estimated 50 million uninsured³² in this country, a 2008 Kaiser Commission report says approximately eight in 10 uninsureds live in families with at least one worker.³³

But the faces of the uninsured are very familiar: middle-income Americans who are neighbors, family and friends. A 2005 U.S. Census Bureau report showed uninsured Americans are heavily concentrated in the 18 to 34 age group, when workers are most likely to have young families.³⁴ Of the millions of Americans living without health care coverage, an outsized majority (60 percent) work for small businesses where premiums may not be as affordable as those offered in large corporations, according to the nonprofit Employee Benefit Research Institute.³⁵

On the other hand, the underinsured resemble the uninsured in that they are one paycheck away from financial collapse. The number of underinsureds — insured adults who spend more than 5 to 10 percent of income on health care and insurance — rose across all income groups between 2001 and 2007. The number of underinsured adults climbed to 25 million people in 2007, up from 16 million in 2003.³⁶

Underinsurance is perhaps one the greatest hidden risks for employees who lack sufficient coverage to shield them from financial hardship if they end up in the emergency room or are seriously hurt or injured. A 2009 survey by Colonial Life indicates a majority of insured adults who are employed full time are concerned their insurance providers may not provide adequate coverage.³⁷

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Employees Are Concerned About Inadequate Coverage

35 percent | feel their plans may not adequately cover their inability to earn an income for an extended time because of illness or injury.

28 percent | feel their plans may not adequately cover a serious illness such as cancer, stroke or heart attack.

19 percent | feel their plans may not adequately cover an unexpected emergency room visit.

19 percent | feel their plans may not adequately cover the death of a primary wage earner.

13 percent | feel their plans may not adequately cover basic medical care, including preventive care.

(Source: Colonial Life & Accident Insurance Company/Harris Interactive Survey, April 23-27, 2009.)

Integrate Voluntary Benefits to Fill the Financial Gap

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Employees want protection, but they also want to be able to meet their financial obligations comfortably. Underinsured consumers need alternative benefits solutions that reduce their risk and give them the security and peace of mind they need, especially when the economy sours.

By integrating voluntary benefits with core group offerings, employers can help employees protect themselves against increased financial exposure and help alleviate the economic pressures so many are now under.

Voluntary insurance plans allow employers to offer a cost-effective, expanded benefits package at little to no direct cost to them. Employees choose the benefits that best meet their individual and family needs and typically pay for these products themselves, usually through convenient payroll deduction. Individual voluntary benefits are owned by employees, so they can keep their coverage if they leave their jobs. Voluntary benefits offered as group coverage can usually be converted to individual policies by employees if they leave, allowing them to maintain coverage.

Additionally, voluntary benefits pay insureds a lump-sum benefit they can use as they see fit. Employees can choose to apply the money to their medical expenses, such as deductibles, treatment bills, rehabilitation or home health care expenses. Or they can use the money for nonmedical expenses such as mortgages, groceries, electric bills, child care, or travel to and from a treatment center.

Voluntary benefits are widely available to the U.S. workforce. LIMRA estimates nearly 650,000 firms (with at least 10 employees) now sponsor at least one employee-pay-all option. This equates to 82 million workers who have the opportunity to purchase a voluntary product. The research organization also notes that 56 percent of these employers are considering introducing a new voluntary benefit in the near future.³⁸

However, these statistics still leave room for growth. Oddly enough, many companies are not familiar with voluntary benefits and do not realize additional insurance options are available to them. Additionally, common misconceptions in the marketplace keep some employers from exploring their options. Employers think adding more benefits will only contribute to the administrative burden for HR departments when, in fact, administration can be handled seamlessly and effortlessly with a good voluntary benefits partner. Other mid- to small-sized employers believe voluntary benefits are only suitable for larger corporations. The truth is these types of plans can be customized to suit any size business. This may explain why only 27 percent of small businesses currently offer voluntary benefits.³⁹

Instances in which it makes sense for employers to use voluntary benefits to help employees close their financial gaps include:

- Introduction of high-deductible medical plans.
- Reduction in benefits for executives or carve-outs for hourly/part-time workers.
- Corporate mandates to cut operational costs.
- Changes in management.
- Compliance with regulations (i.e. the Massachusetts mandate that requires residents to maintain health insurance).
- Launch of new entrepreneurial businesses.
- Large numbers of financial or family changes (such as marriages or new babies) occurring within the workforce.

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Voluntary Benefits Provide a Broad Range of Insurance Options

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Employees are more interested than ever in finding a solution to their increasing concerns about insurance coverage and the gaps left by their benefits plans. Workers have expressed considerable interest in purchasing supplemental coverage to help pay for some of the expenses not currently covered by their major medical plans. Seventy-eight percent of full-time employed adults surveyed were at least somewhat interested in this type of coverage.⁴⁰

The economy isn't expected to dampen their interest either. A recent McKinsey & Company study of buyer behavior trends in past recessions showed spending on personal insurance actually increased 43 percent. Obviously, consumers prioritize spending when dollars are tight, but they still value their benefits.⁴¹

Typical voluntary benefit plans include the following types of coverage:

- **Disability insurance.** Helps protect employees' most valuable asset: their income. This insurance replaces a portion of an employee's income to help offset the financial losses that may result when an employee is disabled.
- **Life insurance.** A valuable component to company-provided life insurance. Products may include term, whole or universal life.
- **Hospital confinement indemnity insurance.** Provides additional income to help pay expenses associated with hospital stays, doctor's office visits and diagnostic tests not covered by major medical insurance.
- **Cancer and critical illness insurance.** Helps pay the significant costs related to cancer or critical illness treatments, beyond what is covered by major medical insurance.
- **Accident insurance.** Helps protect against significant out-of-pocket expenses or accidental injuries not covered by most major medical insurance.
- **Limited benefit medical plan.** Provides limited benefits to help cover services such as doctor visits, preventive care, prescriptions, hospitalization and surgery when major medical plans are not available. This plan gives employees the security of knowing they have a basic level of coverage to obtain the care they need from the providers they choose.

Example: How a voluntary plan can help employees strengthen their financial safety nets.

An employer offers a hospital confinement indemnity plan that pays benefits when an employee goes into the hospital. These benefits are paid directly to the employee, regardless of other insurance the employee has and do not depend on the cost of medical treatments. The employee uses the money as needed: to help cover the health plan deductible, pay for child care or travel expenses, or even pay the electric bill and rent while out of work. In addition, the plan could include options allowing the employee to buy extra protection for high-cost areas, such as outpatient surgeries and services, diagnostic testing and emergency room visits.

With Voluntary Benefits, It Is Hard to Ignore the “Win-Win” Cliché

With Voluntary Benefits, It Is Hard to Ignore the “Win-Win” Cliché

Voluntary benefits allow employees to choose and pay for reasonably priced plans that meet their individual needs and complement the coverage provided by their employers. And employers — regardless of the economic cycle — can continue to use employee benefits as effective strategic tools to drive loyalty, productivity, recruiting and retention.

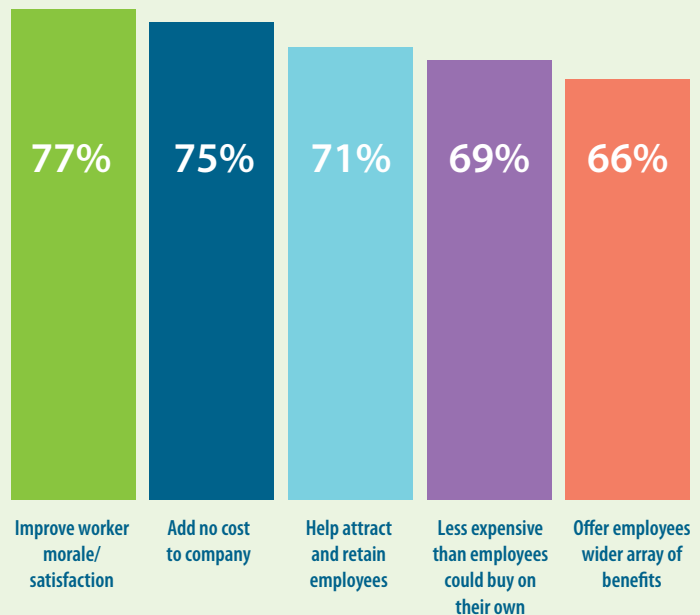
With voluntary benefits, everybody wins.

Recent research by LIMRA reinforces the advantages employers can expect to realize from their voluntary insurance plans. Companies are seeing value in the following areas:⁴²

- Improving worker morale/satisfaction – 77 percent
- Adding no direct cost to company – 75 percent
- Attracting and retaining employees – 71 percent
- Giving employees options to purchase less expensive insurance than they could get on their own – 69 percent
- Being able to offer employees a wider array of benefits – 66 percent

Employers See Value In Voluntary Benefits

Employers believe voluntary benefits offer many advantages.



(Source: Neyer, Ron, “The Voluntary Benefits Report Card,” LIMRA International, 2007.)

Employees have a greater appreciation of their workplace benefits as a result of today's difficult economy.

A growing number of workers — now nearly seven in 10 — say voluntary benefits, in particular, play a strong role in workplace loyalty.⁴³ And employees have other reasons they appreciate voluntary benefits:

- **Flexibility in using claims payments.** There are no restrictions on how claims payments are used: helping an employee's family pay for transportation to the hospital, providing lodging and child care during a family member's treatment, or paying for deductibles, copayments, co-insurance and other noncovered costs associated with hospitalization or outpatient surgery.
- **Portability.** Most voluntary insurance policies are individual rather than group. Since the employees own their policies, they can keep their coverage if they leave the company or retire, as long as they keep paying the premiums. Group voluntary policies can often be converted to individual coverage if an employee leaves the workplace. (An exception might be a disability policy, which is designed to provide income protection during normal working years, such as ages 18 to 65.)
- **Intact coverage.** The terms and conditions of a voluntary policy usually don't change when an employee leaves a job.
- **Stable premiums.** Premiums for voluntary insurance won't go up simply because an employee no longer works at the company where the policy was first purchased. In fact, a voluntary insurance provider cannot raise premiums on individual policies unless it raises them on all policies of the same kind in that state.
- **Continued convenience.** The convenience of paying premiums for voluntary insurance through payroll deduction is a big plus. There are no checks to write and no premium payment deadlines to remember. If employees leave the job, in most cases they can continue that convenience simply by changing the payment method to automatic bank draft.

Picking the Right Voluntary Benefits Partner Eases HR Administration

Picking the Right Voluntary Benefits Partner Eases HR Administration

A voluntary benefits program provides employers with a cost-effective way to deliver a more comprehensive package to meet the individual needs of their workers. However, as HR executives streamline their departments through reduced staffs and cost-cutting measures, they know from experience that changes to benefits plans sometimes appear easier said than done. That makes it all the more important to select a strong voluntary benefits partner with a broad portfolio of insurance products and the ability to remove administrative burdens.

When looking for a voluntary benefits partner, companies should evaluate providers based on the following criteria:

- 1. Business understanding.** Employers should look for partners with a versatile product portfolio, a proven history and a foundation of best practices across a number of industries. This type of benefits partner brings a wide and deep base of knowledge learned through the course of thousands of customer engagements. They are best positioned to understand industry nuances, then tailor programs to specifically address individual company needs.
- 2. Product design.** Voluntary products such as critical illness, cancer, disability and life insurance can help employees secure additional, affordable protection for their families. A single-source carrier for both voluntary products and a limited benefit medical plan (if the employer does not offer major medical coverage) helps increase employee understanding of their plans and simplifies enrollment and administration for employers. This leads to greater satisfaction for both the company and its workers.
- 3. Benefits communication and enrollment.** A well-designed plan should be simple to understand and use, but many carriers rely on self-enrollment for these plans. Self-educated delivery gets very low participation and sometimes leads to dissatisfaction from workers who do not understand what their plan does and does not cover. A top voluntary benefits partner can meet one-to-one with each employee to explain the plans and help employees select the best coverage for their family's needs. That way, employees understand, appreciate and take advantage of the benefits available to them. A partner who can enroll all employees, including other core benefits, also removes a major hassle for the employer.
- 4. Group size.** Many voluntary plans require 50 or more employees, but some cover groups as small as three. Be sure to engage a partner that gives you the flexibility to address positive and negative changes in your workforce numbers.

Employers Meet with Success, See Rise in Employee Participation:

Case Studies

Employers Meet with Success, See Rise in Employee Participation

Voluntary benefits are being used by companies of all sizes across geographic regions. Industries such as health care, manufacturing and education have shown the most growth in voluntary benefits.⁴⁴

In some parts of the country, there is a trend of employers moving away from traditional health plans because of rising costs, yet these companies still want to offer their employees some kind of protection. And as noted earlier, many employers are now subsidizing only the employee's coverage, while other businesses have significant numbers of regular workers who are not eligible for the company's health insurance coverage. Industries such as hospitality, auto dealerships and construction show the most interest in limited benefit medical plans to meet these needs.

The following case studies highlight the success employers are having with the addition of voluntary coverage to their benefits packages.

Case Study A

Company:

Leading Automotive Aftermarket Retail and Service Chain

Number of Employees:

17,000 in more than 560 locations in 35 states and Puerto Rico

Goal:

Streamline the benefits offering, eliminate administrative challenges, make sure employees have coverage to fill any gaps and help employees gain a greater understanding of their benefits

Situation:

The company decided to offer a limited benefit medical plan to part-time employees. However, with employees spread across the country, it faced a significant communications challenge to explain this new benefit along with its current legal plan. Additionally, the company had multiple voluntary products carriers, which created service and administrative issues.

Solution:

- The company streamlined its voluntary product offering by moving to one voluntary benefits carrier to provide accident, critical illness, universal life and term life insurance to fill gaps in its existing benefits package.
- A comprehensive communication strategy was implemented, which included posters, tent cards and benefit booklets that discussed the offerings and explained what employees could expect from the enrollment process.
- The voluntary benefits carrier used its national team of benefits counselors to conduct group meetings, where possible, to introduce all the benefits. The team followed up with mandatory one-to-one counseling sessions with each employee. In those sessions, employees had the opportunity to ask trained benefits counselors about benefits offerings, identify any coverage gaps and select plans to fill the gaps.

Results:

Sixty-five percent of the company's locations experienced more than 50 percent participation in voluntary products. The company was very pleased with the simplified administration created by consolidating voluntary benefits carriers. Not only did it save administrative time, but the company also had fewer errors with payroll and billing reconciliation.

Case Study B

Company

Nonprofit Drug and Alcohol Counseling Organization

Number of Employees

225 in eight locations in central Florida

Goal

Offer affordable coverage and more benefits options to employees struggling to pay for major medical insurance

Situation

The vast majority of employees told their employer in a survey that they could no longer afford the cost of their major medical insurance premiums and that they wanted more benefit options.

Solution

- The employer carved out 40 management employees for continued major medical coverage and canceled coverage for the remaining 185. For both groups, the employer allocated money to a benefits bank and offered a menu of core and voluntary coverage including dental, life, disability, accident, cancer, hospital confinement, critical illness and a limited benefit medical plan. The nonmanagement employees also had the option of putting their benefits bank dollars into a health reimbursement account so they could pay premiums for health insurance they obtained on their own.
- The employer and broker implemented a thorough communications plan before the enrollment so employees would understand the changes ahead of time.
- The voluntary coverage provider conducted one-to-one meetings with employees over a three-week period, often meeting with employees repeatedly to help them understand their options and make the best choices for their needs.
- The voluntary provider used a special benefits bank feature in its online enrollment system to capture every employee's election and report results back to the employer.

Result

Benefits counselors met with 202 of the 225 employees, completing 1,123 core benefit transactions. Of the 202 employees seen, approximately 70 percent purchased a voluntary policy to meet individual coverage or financial gaps, on average purchasing two policies each. The most popular voluntary coverages selected were:

- Short-term disability – 86 percent
- Accident – 57 percent
- Cancer – 28 percent
- Hospital confinement – 26 percent

The employer felt the combination of benefits counselors available to meet individually (and repeatedly) with employees and the enrollment technology to capture the benefits bank elections created a win-win process that went very smoothly.

After Economy, Health Care Reform Will Drive Change in Benefits

Companies will need to establish a strong education and communication strategy to help employees navigate the new benefits landscape, so they can make careful, informed decisions about their insurance.

After Economy, Health Care Reform Will Drive Change in Benefits

According to the National Bureau of Economic Research, the latest U.S. recession began in December 2007.⁴⁵ The repercussions from a struggling economy are forcing many companies to respond with immediate and unprecedented tactical changes.

However, another challenge for corporate America has appeared on the horizon, one that stands to change the face of workplace benefits for the future: health care reform.

Policymakers and government officials agree health care costs must be contained. But they disagree on the best ways to address the world's most expensive health care system, with its escalating spending and insurance premiums spiraling out of control. As of early August, there is no agreement on a single solution to health care reform's high price tag. However, that may change relatively quickly. The Obama administration has set a goal of signing legislation into law by the end of this year that would overhaul the U.S. health care system, seeking to cut costs and ensure that millions of people now without health insurance get coverage.

The intricacies of health care reform proposals continue to evolve almost daily, but employers should be aware of a number of different "givens" that will most assuredly materialize throughout the process:

- **Health costs will continue to be a concern.** In 2008, health care spending in the United States reached \$2.4 trillion and was projected to reach \$3.1 trillion in 2012 and \$4.3 trillion by 2016.⁴⁶ The fact that more and more Americans are burdened with chronic illnesses, such as diabetes and high-blood pressure, will only fuel increases in out-of-pocket medical expenses.
- **Employees will need to fund more benefits.** Employers understand that continuing to provide benefits to their employees is very important, but they will need to ask workers to share more of the burden to stay fiscally sound. Among employers that offer benefits, a large percentage of firms report they are very or somewhat likely to increase the amount workers contribute to premiums (40 percent), increase deductible amounts (41 percent), and increase cost sharing (45 percent) in the next year.⁴⁷
- **As the government focuses on health benefits reform, employers will need to turn more attention to the importance of non-health benefits.** LIMRA research shows that employees do not understand the holistic relationship between health care, retirement savings and insurance needs.⁴⁸ Employers will need to concentrate on group and voluntary products that work in tandem to fill gaps in coverage and avoid an overlap in benefits.
- **Changes resulting from health care reform will have to be communicated to employees.** According to a new survey commissioned by the National Association of Insurance Commissioners, a vast majority of Americans are not as astute as they think when it comes to insurance. Companies will need to establish a strong education and communication strategy to help employees navigate the new benefits landscape, so they can make careful, informed decisions about their insurance.⁴⁹

Whether dealing with economic issues or health care reform, employers will need to address these challenges when building and adjusting benefits plans. Voluntary insurance products — such as disability coverage and life insurance, hospital confinement and critical illness offerings, as well as accident policies and limited benefit medical plans — can serve a valuable role by strengthening the financial safety net for consumers and positively affecting employers' bottom lines.

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Colonial Life & Accident Insurance Company is a market leader in providing insurance benefits for employees and their families through their workplace, along with individual benefits education, advanced yet simple-to-use enrollment technology and quality personal service.

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