AmWINS Group Benefits

CLIENT ADVISORY
Important Trends in the 2012 Benefits Segment

This is a tough time for agents and brokers who want to run their businesses and serve their customers the same way as they have in the past. The continued escalation of medical care costs is translating into ever-higher insurance premiums, and the Patient Protection and Affordable Care Act (PPACA) seems unlikely to change that anytime soon. In fact, Federal and state mandates appear to be adding to upward pressure on costs and downward pressure on broker commissions.

We're quickly approaching the second anniversary of PPACA being signed into law. Over the past two years, agents and brokers have worked to counter the ramifications of health care reform to salvage their practices while employers have searched for ways to provide sufficient yet affordable health benefits for their workforces.

Amid all the changes that the health insurance industry is undergoing right now, there are two major trends defining both the economic environment and the business opportunities that brokers and agents will see in 2012.

Self-Funding Moving Down Market

The first of these trends is that self-funding health benefits is starting to move down market. This strategy that used to be exclusively the domain of big companies with a solid cushion of assets and dependable cash flow is becoming much more attractive to small and mid-size employers. Self-funding gives them the flexibility they need to design plans that fit their employee populations at an affordable cost.

Defined Contribution Gaining Momentum

Defined contribution strategies have recently started to gain momentum. Employers want to offer benefits that attract and retain employees – but they want to do so at a fixed cost that won't impact their balance sheet. Defined contribution plans allow them to demonstrate their commitment to employees without requiring them to struggle with health benefit costs and administration headaches.

Both of these trends provide significant opportunities for brokers who are able to evolve into consultative partners for their customers. Rather than simply helping their customers find the best value in a fully insured policy, brokers will now be using a much wider range of tools to build benefit packages that fit the needs of each employer.

Here are four strategies that brokers should have in their toolkit for 2012 and beyond:

Stop-loss expertise. The key to making self-funding work for smaller companies is having the right stop-loss protection that takes the volatility out of risk. Helping employers sort out the different options (specific vs. aggregate vs. carve outs for certain health conditions) and features (lasering, attachment points, etc.) is a valuable service brokers can provide.

Coalition purchasing. Coalition purchasing moves beyond the cooperative concept, which simply had employers band together to leverage lower costs for coverage. Coalition purchasing is a 360-degree health care circle, with employers, employees and health care providers joining together to solve the problem of rising costs. One key feature changing the way reimbursement is driven: Rather than a fee-for-service approach that drives multiple procedures that care providers can bill for, reimbursement is tied to treatment of a condition, encouraging care providers to deliver only the service that results in a healthy outcome. Brokers who understand this approach can actually build their own coalitions to make coalition purchasing a winning formula for their own clients.

Private exchanges. Under defined contribution plans, when employers provide an annual stipend to their employees and dump them in the public market, the result can

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AmWINS Group, Inc.

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be confusion for employees – and the complete loss of business for the broker. A private exchange connects the employees with plan options that the employer stands behind, supporting employees while still protecting the bottom line. Brokers can guide the selection of options in the private exchange and retain business by building their own private exchanges; ringing together the right partners to make the exchange a valuable offering to employees.

Voluntary benefits. The market for voluntary benefits is expected to grow as Federal mandates for standardized policies solidify and employers look for ways to attract and retain employees with additional coverage. Brokers who can bring options to the table will be valued, but they should not rely on this tactic alone to save their practices.

The old model of providing group health insurance from large carriers with no interest in cost control and data transparency will still be with us in 2012. But it is a dying model, with declining revenues for brokers and agents. Those who can adapt to changing conditions, innovate with new partnerships and strategies, and offer consulting expertise will have a much better chance of success this year.