

EMPLOYEE BENEFITS MARKET WATCH SURVEY EXECUTIVE SUMMARY

October 2016

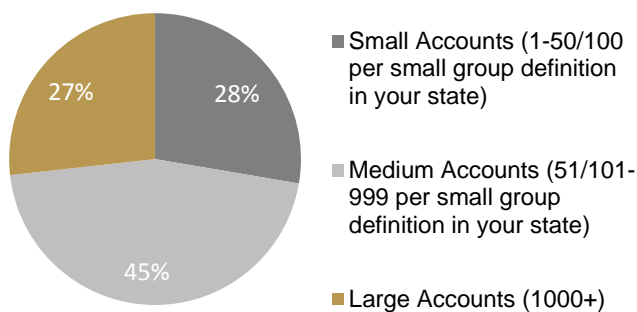
EXECUTIVE SUMMARY

The myriad of economic, regulatory and demographic shifts in the employer-sponsored benefits marketplace have influenced the way brokers approach the market and their go-forward strategy. To get a temperature reading of how brokers are responding to these shifts, The Council of Insurance Agents & Brokers surveyed a total of **106 members** from **74 firms nationwide**. Respondents included CEOs, Chief Growth Officers and Employee Benefits Practice Leaders.

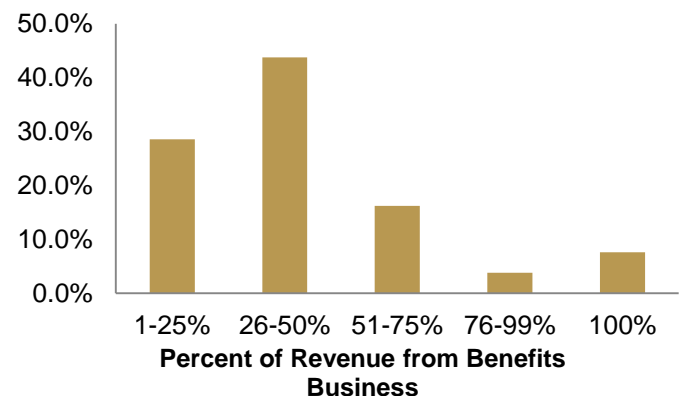
The results are intended to offer insight for members, giving them a view into their peer firms' focal points, regional movement and sentiments on pending issues. Results also help shape CIAB resources, particularly arming The Council's Government Affairs team with data that will assist its efforts on Capitol Hill.

Respondent Breakdown

Nearly half (45 percent) of respondents are concentrated in the mid-market space



Most respondents reported benefits revenue as 26-50 percent of their firm's overall revenue



Key Findings

- ✓ **30%** Responding firms generate an average of 30 percent of revenue from benefits business
- ✓ **70%** More than 70 percent of respondents increased producer-level revenue compared to the previous year
- ✓ **97%** Ninety-seven (97) percent of respondents find the Affordable Care Act to still be somewhat of a pain point for their clients
- ✓ **80%** Nearly 80 percent of respondents believe the new Administration will bring about change in the industry, but are optimistic regardless
- ✓ **54%** Fifty-four (54) percent believe carrier consolidation will have a negative impact on competition and pricing
- ✓ **75%** Seventy-five (75) percent of respondents' firms are examining M&A as an option or already consider it a significant part of their growth strategy
- ✓ **60%** Sixty (60) percent of respondents say hospitals are beginning to assume risk in their regions

Areas of Concern

To remain competitive, we asked brokers to identify their top concerns and how they are aligning their investments to answer those concerns.

Top three areas of concern:

1. **Staying in front of change and adapting business models**
2. **Organic growth**
3. **Attracting and retaining top talent**

Other concerns include (in this order) increased pressure from clients to offer more services at the same cost, the future of healthcare policy, not enough emphasis on creating solutions to reduce costs vs. managing them within the healthcare community, and drug pricing.

Investments

The top three focal areas where firms' are investing within their benefits practice are:

1. **Hiring producers**
2. **Leveraging data analytics and predictive modeling**
3. **Expanding offerings (building new practices or investing in services to enhance the client experience)**

These beat out talent development, talent attraction (excluding producers), internal technology (agency management, CRM, etc.) and acquisitions, in that order.

Consolidation

Seventy-five (75) percent of respondents are either **actively involved in the broker M&A space** or **beginning to examine** it to supplement organic growth and/or respond to market pressures.

- **Forty (40) percent** said they are examining M&A to **supplement organic growth** and/or respond to market pressures
- **Thirty-five (35) percent** said M&A has been a **significant component** of growth strategy
- **Twenty-five (25) percent** said not a part of growth strategy

Carrier consolidation continues to cause much debate as mergers between some of the nation's top health insurers are still pending. We asked brokers how they view the potential mergers.

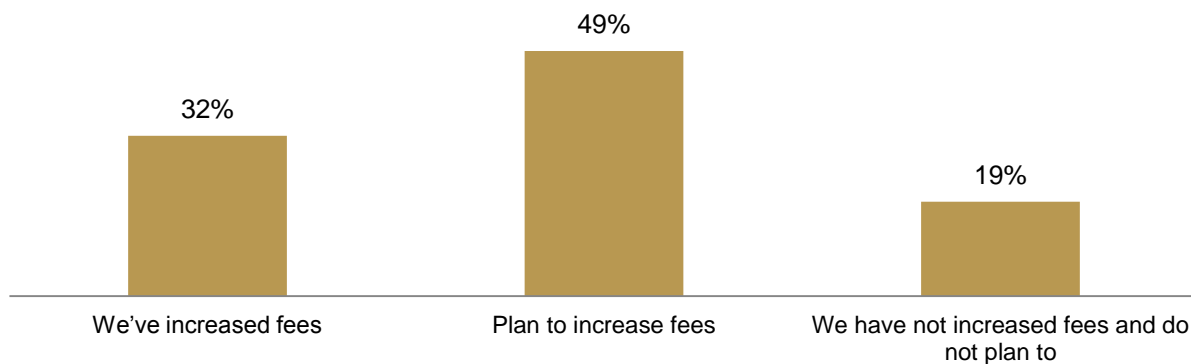
Fifty-four (54) percent said **carrier consolidation will have a negative impact** on competition and pricing regionally. Thirty-five (35) percent are uncertain and said time will tell; nine percent said carrier consolidation will not have an impact; and three percent said it will have a positive impact.

Client Priorities & Expectations

If firms were to poll their clients on the top three most important services brokers perform, respondents said **compliance; employee communication and engagement; and insurance placement would be the winners**. Benefits administration (enrollment, claims processing), human capital management (payroll, HRIS, talent strategy), wellness, cost transparency tools and “others” follow respectively. Examples of “others” include data analytics, thought leadership and project management.

As the marketplace continues to evolve and clients look to their broker to design consultative services and drive an array of resources, financially managing the increase in expectations is a common concern – **81 percent have or will adjust fees accordingly**.

As the expectations of clients increase



Private Exchanges

Private exchanges came bustling into the benefits scene a few years back bringing much discussion regarding their potential to innovate. Where do exchange solutions stand today?

- **Six (6) percent** offer private exchange options because they feel they are a **viable cost containment**
- **Twenty-two (22) percent** offer them because they provide an **efficient technology tool**
- **Forty-eight (48) percent** said they are a **sales/prospecting tool to keep pace with competitors**
- **Twenty-five (25) percent do not offer** an exchange solution

Despite the numbers above, 90 percent of respondents said their market is not seeing adoption and utilization of private exchanges.

Transfer of Risk

With health systems and providers playing a greater role in risk-shifting, **60 percent** of respondents say hospitals are beginning to assume risk in their regions. Twenty (20) percent said no and another 20 percent were uncertain.

Wellness & Disease Management

Eighty-eight (88) percent of respondents are somewhere on the spectrum of **agreeing** (strongly agree, agree, somewhat agree) that **disease management is a critical component of plan design** and therefore a significant part of their strategy. **Sixty-one (61) percent** said their **wellness/disease management strategy has grown over the past year**.

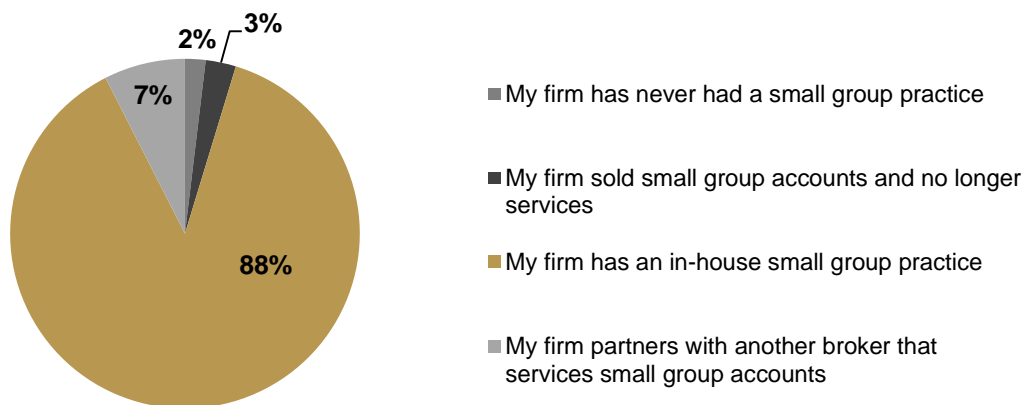
When asked whether wellness programs are effective:

- **Thirty-seven (37) percent** said **wellness is only effective when integrated with a clinical component** to proactively measure risk
- **Twenty-seven (27) percent** said wellness programs are an essential element of changing behavior and reducing costs
- **Twenty-four (24) percent** said wellness programs conceptually make sense but data proving ROI is lacking
- **Thirteen (13) percent** were skeptical regarding the overall effectiveness of wellness programs

Small Group

Strategy for small group accounts has been in flux with an abundance of technology and outsourcing partners entering the space. However, **87 percent of firms report having an in-house practice**. The breakdown for small group strategy is below.

Strategy for Small Group Business (Graph from M&C)



Cross Selling

The vast majority of respondents are **bringing together employee benefits and P/C practices to collaborate and cross-sell**. **An impressive 93 percent** have an established cross-selling initiative.

Continuing to Grow

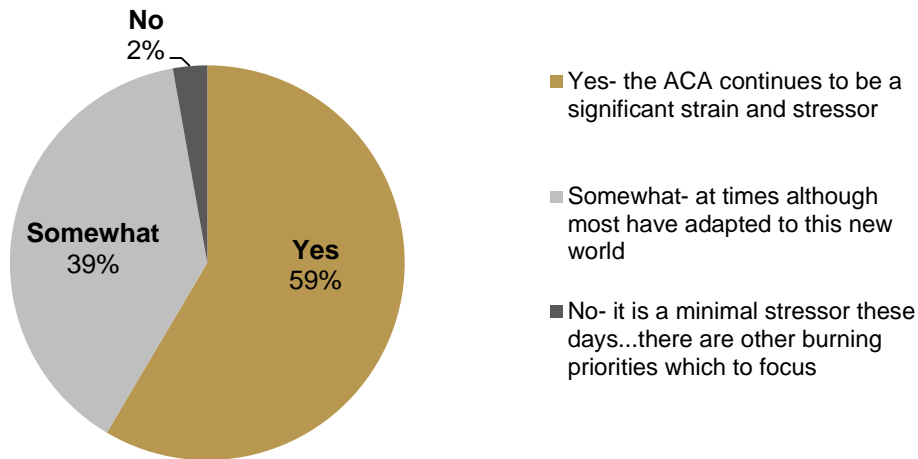
In an environment that has seen a plethora of changes since the passage of the Affordable Care Act, Council members have turned challenge into opportunity with **70 percent of respondents reporting an increase in producer-level revenue from the previous year**.

Legislation

It's not just the ACA anymore. With the Presidential election around the corner, tax reform on the horizon and the threat of a single-payer system in Colorado, there's no shortage of activity on the political and legislative front.

Affordable Care Act

Is the Affordable Care Act still a pain point for your clients?



Tax Exclusion

If the Tax Exclusion on employee benefits is altered....

- **Thirteen (13) percent** predict it will be the catalyst for employers leaving the employer-sponsored marketplace regardless of size
- **Forty-eight (48) percent** predict initially employers will **feel obligated** to continue offering benefits but **as time goes on there will be a significant reduction**
- **Thirty-nine (39) percent** predict employers will **stay in the game to compete for talent**, particularly the larger ones

ColoradoCare

I am concerned Amendment 69 (which if passed would implement a single-payer system in CO) will begin a national trend that threatens the market for employer-sponsored insurance and...

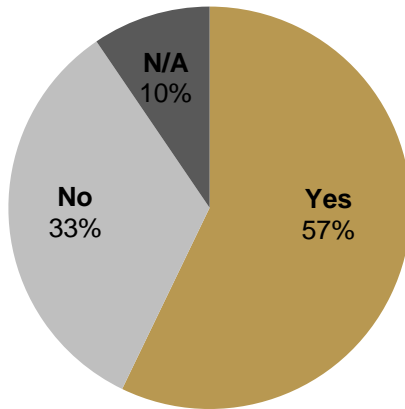
- **Thirty-six (36) percent** plan to educate colleagues and/or clients
- **Thirty (30) percent** would like to educate colleagues and/or clients but need more information
- **Twenty-nine (29) percent** are not directly impacted by Amendment 69 but remain concerned
- **Six (6) percent** said is not a concern to them

Information on Amendment 69 can be found at www.ciab.com or by contacting Joel Wood at joel.wood@ciab.com or Joel Kopperud at joel.kopperud@ciab.com.

The Cadillac Tax

While the Cadillac tax was delayed until 2020, the majority of respondents feel their clients are prepared.

For those clients that will be impacted by the Cadillac Tax, are they adequately prepared?



The New Administration...

With all the unknowns the election brings, members show optimism for the future with

- **Seventy-eight (78) percent** saying it **will bring change either way**, but uncertainty has become the new norm and I am confident **we can thrive regardless**
- **Fifteen (15) percent** saying it will have a **significant impact** on our business and **I am greatly concerned**
- **Seven (7) percent** saying it's highly **unlikely we will endure changes greater** than the ACA and **I am not concerned**

Conclusion

It's always useful to pause and gather intel from our members who are on the front lines of the industry. It helps us to stay connected to market activity and hopefully provides members with helpful data to aid their decision-making. Thank you to all respondents for contributing your time and insights to support The Council's resources. We will survey members on an annual basis to identify trends, fluctuations and priorities at hand. The next Employee Benefits Market Watch will be released in 2017.

We welcome your feedback. Was this report helpful? Wondering how your peers view a particular issue? Submit a request for the 2017 survey by contacting The Council's Vice President of Strategic Resources, Jennifer Urso at jennifer.urso@ciab.com.