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VOLUNTARY BENEFITS:

A Critical Tool For Improving Employees' Financial Wellness

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Introduction

Families and individuals strive to achieve a level of "financial wellness" so that they are prepared to handle short and long-term financial needs. The challenges associated with certain aspects of financial wellness, such as coping with rising health care costs and saving adequately for retirement, receive significant attention in the press and the workplace.

However, the importance of helping to protect against the risk of premature death, disability, and prolonged illness receives less attention despite the devastating implications of such events for the typical household. Individuals may be protected against the financial implications of these events through life, disability, and long-term care insurance. However, many households are inadequately protected against these risks, resulting in a "coverage gap."

- **Life insurance.** Ownership of life insurance is at a 50-year low; only 59% of U.S. adults owned life insurance in 2010, down from 70% in 1960.[1] Inadequate life insurance coverage may pose a major risk to many households. For example, among households with children under the age of 18, 70% say that they would be financially challenged if the primary earner died. Even worse, 40% of households say that they would have trouble funding everyday living expenses immediately after the death of the primary earner.[2]

- **Disability insurance.** Approximately two-thirds of private sector workers lack long-term disability coverage.[3] Lack of coverage is a major risk for households, because studies show that a 20-year-old individual has a one-in-four chance of becoming disabled for some period of time before reaching retirement age.[4] In addition, 70% of individuals live paycheck to paycheck and cannot afford a disruption in their incomes.[5]

- **Long-term care insurance.** Only 15% of individuals own long-term care insurance.[6] Without this coverage, a household with an ill family member needing assistance to perform the daily functions of living may have to deplete its savings, as these expenses are typically not covered by health insurance. Seven in ten individuals over age 65 are expected to require some type of long-term care service during their lifetime.[7] These services are expensive—in 2010, the average daily cost of long-term care was $108 for home health care, $190 for an assisted living facility, and $247 for a private room in a nursing home.[8] Not surprisingly, 63% of individuals do not feel confident in their ability to pay for extended care if they were to need it today.[9]

Individuals typically obtain these insurance products from financial professionals and at the workplace. The workplace is becoming an increasingly important channel for individuals to obtain the coverage they need. For example, from 1960 to 2010, the percentage of U.S. adults owning individual insurance, typically purchased from a financial professional, dropped from 59% to 36%, while the percentage of adults covered by group life insurance increased from 24% to 35%.[10] Moreover, as shown in Exhibit 1, the workplace is already the dominant channel for providing disability and long-term care insurance to individuals.

1 LIMRA, "Person-Level Trends in U.S. Life Insurance Ownership," March 2011.

2 LIMRA, "Facts About Life 2010," September 2010.

3 Council for Disability Awareness website, referencing Social Security Administration Fact Sheet, March 18, 2011.

4 Council for Disability Awareness website, referencing Social Security Administration Fact Sheet, March 18, 2011.

5 American Payroll Association, "Getting Paid in America, Survey 2008."

6 LIMRA, "2011 Insurance Barometer Study," July 2011, page 17.

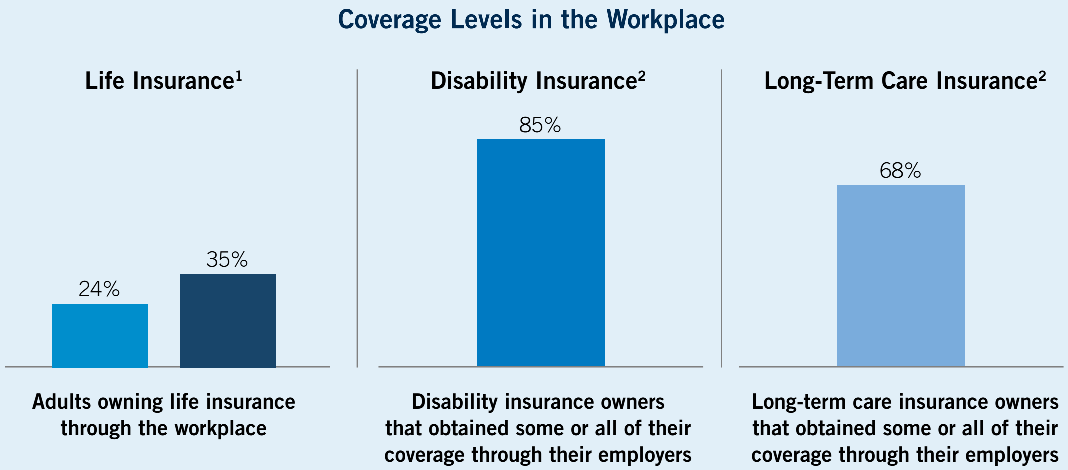
7 According to the U.S. Department of Health and Human Services. Prudential Financial, "Long-Term Care Insurance: A Piece of the Retirement & Estate Planning Puzzle," 2011, page 3.

8 Prudential Financial, "Long-Term Care Cost Study, 2010," pages 7-8.

9 Prudential Financial, "Long-Term Care Insurance: A Piece of the Retirement & Estate Planning Puzzle," 2011, page 3. The recent dissolution of the Community Living Assistance Services and Supports program (CLASS Act), a national long-term care insurance program, reinforces the need for individuals to take personal responsibility for this liability.

10 LIMRA, "Person-Level Trends in U.S. Life Insurance Ownership," March 2011.

Exhibit 1: Role of the workplace in improving financial wellness



Coverage levels by product	• Life insurance coverage has decreased from 70% of adults in 1960 to 59% in 2010[1]	• 33% of employees in the private sector have long-term disability insurance[3]	• 15% of adults own long-term care insurance[2]

Sources:

1 LIMRA, "Person-Level Trends in U.S. Life Insurance Ownership," March 2011.

2 LIMRA, "2011 Insurance Barometer Study," July 2011.

3 Council for Disability Awareness website, referencing Social Security Administration Fact Sheet, 2011.

Individuals receive coverage through the workplace through benefits that are employer-paid, employee-paid, or a combination of employer-paid and employee-paid, known as contributory benefits. Employee-paid, or voluntary, benefits are characterized by three key features. First, employers decide what voluntary benefits to offer, select carriers, and work with those carriers to design and implement benefit plans. Second, voluntary benefits are offered to employees at the worksite. Finally, voluntary benefits are typically 100% paid for by employees, usually via payroll deductions.[11]

Challenging economic conditions and growing health care costs are limiting some employers' ability to offer a full menu of employer-paid benefits. In a recent survey, 51% of finance executives report that their companies plan to control benefit costs by shifting more responsibility for health care and other benefits to employees.[12] As a result, voluntary benefits are becoming an increasingly important tool for employers to help employees protect themselves against the key risks that they face, while also enabling employers to cost effectively offer a full menu of employee benefits.

11 In addition, some voluntary benefits programs offer a portability feature, allowing employees to continue their coverage after employment ends and eliminating the need for employees to evaluate and select products at that time.

12 Topline survey results for CFO Research and Prudential, "Benefits Planning in a Challenging Environment," 2011.

There are three key categories of voluntary benefits:

- **Financial protection products.** These products address key financial risks that nearly everyone is exposed to.
- **Medical protection products.** These products are generally designed to complement health insurance offerings with coverage for specific medical issues (e.g., cancer insurance) or needs (e.g., vision insurance).
- **Convenience products.** Employees typically purchase these products outside the workplace, but some employers may provide them at the workplace for convenience, and potentially with an employer-negotiated discount.

Examples of Voluntary Benefits

Financial Protection	Medical Protection	Convenience
• Life • Disability (short- and long-term) • Long-term care • Accidental Death and Dismemberment	• Dental • Critical illness • Cancer • Vision	• Automobile • Home • Pet

The three objectives of this paper are:

- Demonstrate how voluntary benefits can improve employees' financial wellness by helping to close the coverage gap for critical protection needs.
- Describe the benefits to employers in offering voluntary benefits.
- Outline best practices for the design and delivery of voluntary benefits.

How voluntary benefits improve financial wellness

The coverage gap for critical protection needs persists for three key reasons:

- Many individuals lack awareness and education about the need for protection.
- Access to personalized financial advice is declining, particularly for middle and lower income households.
- Individuals either assign a low priority to purchasing protection, or lack the urgency to do so.

Voluntary benefit programs improve financial wellness by addressing each of the root causes of the coverage gap.

Lack of awareness and education about the need for protection

Many individuals view insurance products as complicated, are unsure about the role of insurance, and poorly prioritize key protection needs.

For example, about half of surveyed individuals say that life insurance is too complicated to purchase.[13] Moreover, many individuals have a limited view of the role of life insurance; 63% of surveyed individuals say that they purchased life insurance to cover funeral costs and final expenses, while only 53% cite the need to replace a lost income.[14]

Many individuals also poorly prioritize key risks. Surveyed individuals rank vision care coverage as more important than short- or long-term disability coverage, even though a period of disability for a primary earner will have a much more severe impact on a household's finances than a lack of vision care coverage.[15]

Finally, even individuals who understand their needs may mistakenly believe that they are already protected against key risks. For example, surveys show that families often mistakenly believe that Medicare pays for long-term care expenses.[16]

Voluntary benefit programs address the lack of education about key protection needs, because voluntary benefits are delivered through employers who understand the needs of their employees, and can therefore select appropriate products for their employees. The workplace is also an effective channel for delivering employee education given the wide range of communication channels through which employers can access employees. Finally, voluntary benefit programs also help address employees' lack of education by easing the burden on employees to evaluate and select product providers.[17]

Declining access to financial advice

Financial professionals can help address individuals' lack of awareness and education about key risks. Unfortunately, access to financial advice has been declining. The number of affiliated agents has decreased from about 245,000 to 184,000 over the past 25 years.[18] Almost eight in ten U.S. households currently do not have a relationship with a life insurance agent or broker.[19]

In addition, the lack of access to financial advice is more prevalent across less affluent households. For example, a recent consumer survey revealed that 61% of individuals with assets greater than $500,000 use a financial advisor, compared to only 43% of individuals with assets between $50,000 and $250,000.[20]

Voluntary benefit programs directly address the declining access to financial advice by delivering education and solutions to all employees, regardless of their income, occupation, or affluence level. In addition, voluntary benefit programs are a scalable way to provide employee

13 Prudential Financial, "2007 Life Insurance Thought Leadership Survey."

14 Prudential Financial, "2009 Life Insurance Thought Leadership Survey."

15 LIMRA, "What Is $1 Billion an Hour Worth?" 2011, page 17.

16 Paula Span, "A New Long-Term Care Insurance Program," New York Times, March 24, 2010.

17 In a recent survey, 80% of employees indicate that the workplace is an important source for personal insurance and savings products. Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 12.

18 According to LIMRA. Anthony Vossenberg, "The Changing Face of the Producer," Life Insurance Selling, April 11, 2011. (Affiliated agents hold full-time contracts and sell insurance products of one company primarily or exclusively.)

19 LIMRA, "Facts About Life 2010," September 2010.

20 Prudential Financial Research presentation, "2011 Thought Leadership Consumer Study: Sub-analysis of Age and Assets," May 2011.

education, due in large part to the support that many carriers can offer employers in customizing and delivering benefits information to employees.

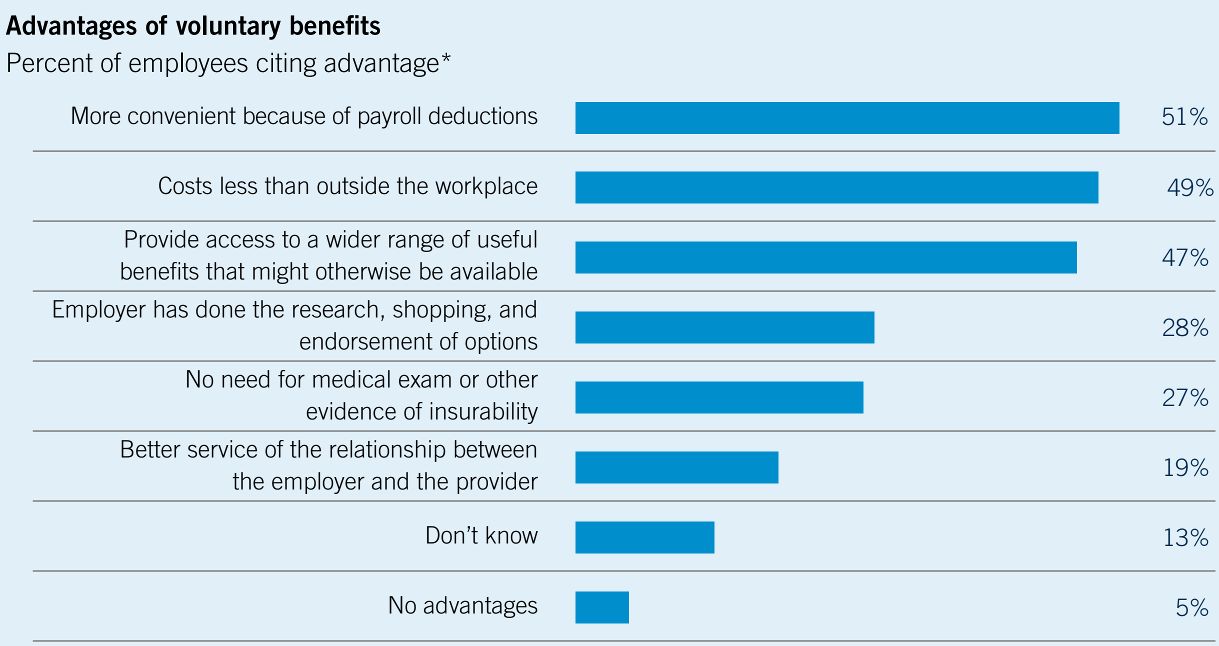
Low priority assigned to purchasing protection, or a lack of urgency to do so

Many individuals assign a low priority to protecting their families against key risks, often due to competing financial priorities and concerns about affordability. For example, 79% of individuals with inadequate life insurance say that they have other financial priorities, some of which are more immediate. In addition, nearly eight in ten underinsured individuals say that they cannot afford life insurance.[21]

Even individuals that recognize the need to purchase protection often lack the urgency to do so. For example, 63% of surveyed employees rate "having financial security if a wage earner can no longer work due to a disability or serious illness" as highly important, yet only 41% rate owning disability insurance as highly important.[22] Nearly a quarter of households say that they want to speak with an advisor about their life insurance needs, yet also say that they will probably not proactively contact an agent or life insurer.[23]

Voluntary benefit programs address this issue by creating a sense of urgency for employees to act through the specific timelines that are associated with the enrollment process. Voluntary benefit programs also help address the low priority that employees assign to purchasing protection by providing them with an attractive value proposition. As shown in Exhibit 2, employees perceive voluntary benefits as having a number of advantages, including the convenience of payroll deductions, the possibility of lower costs than products available outside the workplace, and access to some level of coverage without medical underwriting.

Exhibit 2: Employees' views on the advantages of voluntary benefits



*Base is respondents whose employer currently offers at least one voluntary benefit; respondents could select more than one advantage.
Source: Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 32

21 LIMRA, "Trillion Dollar Baby—Growing Up," 2011, pages 8-9.
22 Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, pages 19-20.
23 LIMRA, "Facts About Life 2010," September 2010.

The advantages to employers in offering voluntary benefits

Voluntary benefit programs help employees improve their financial wellness. However, voluntary benefit programs may also provide a number of substantial advantages to employers, including:

- **Cost effectively increasing the attractiveness of employers' benefit offerings.** More than half (52%) of employees say that voluntary benefit offerings increase the value of their employers' benefit packages.[24] About half (51%) of employers say that voluntary benefits help maintain the competitiveness of their benefit programs at little or no cost. Providing a competitive benefits package is important to employers, with 86% of finance executives saying that benefits are just as, or more, important for attracting and retaining employees than they were a year ago.[25]
- **Complementing the substantial investment employers make in retirement and health care benefits.** Employers invest significant amounts in retirement and health care benefits to improve their employees' financial security. Voluntary benefits complement these investments. For example, disability insurance can help ensure that employees do not deplete their retirement savings during a period of disability.
- **Reducing the costs associated with employee absences.** Voluntary disability insurance helps lower employers' absence related costs, such as replacement and retraining expenses, through carrier run "return-to-work" programs that facilitate employees' reentry into the workplace.
- **Increasing employee engagement and productivity at work.** Improving employees' financial wellness can help them focus on their jobs. In a recent survey, 61% of employees said that they find dealing with their financial situation to be stressful. In addition, 29% of employees said that personal financial issues have been a distraction at work.[26]

The adoption of voluntary benefit programs by employers is increasing. In 2011, 85% of employers with 50 or more employees offered at least one voluntary benefit, up from 60% in 2008.[27] The primary reasons cited are to provide a wider range of employee benefits and to fulfill employee needs. In a recent survey, 69% of employers said they are very likely or somewhat likely to expand the range of voluntary benefits offered to employees in the next two years.[28]

24 Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 31.

25 CFO Research and Prudential, "Benefits Planning in a Challenging Environment," 2011, page 2.

26 PriceWaterhouseCoopers, "PwC Financial Wellness Survey: 2011 Results," page 4.

27 Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 26.

28 CFO Research and Prudential research findings, 2012.

Best practices for the design and delivery of voluntary benefit programs

More than 75% of employers who offer voluntary benefits measure the success of their voluntary benefit programs. The top three measures of success are increased employee satisfaction, achieving a certain participation level, and reducing employers' benefit costs.[29] Employers can achieve their voluntary benefit objectives by focusing on four critical areas:

- Strategically designing voluntary benefit programs to offer and emphasize the right products.
- Maximizing the effectiveness of benefits education by focusing on why individuals and families need protection and personalizing employee communications.
- Providing a streamlined online enrollment process that helps employees easily make the right benefits decisions.
- Partnering effectively with carriers.

Strategically designing voluntary benefit programs

At a minimum, employers should offer employees access to voluntary life, disability, and long-term care insurance, because nearly all individuals need the protection that these products offer. Although many employers offer some level of employer-paid life and disability coverage, this level of coverage needs to be supplemented for the typical employee. Beyond these products, there are other voluntary benefits that may be appropriate to offer to address other priorities:

- **Increasing employee satisfaction.** Employers that do not offer dental or vision benefits on an employer-paid basis can address employees' needs and increase employee satisfaction by offering these products on a voluntary basis. In fact, dental insurance is the second most popular benefit with employees, with 51% of employees saying that dental benefits are very important.[30] Offering group universal life may be attractive to employees seeking tax advantaged savings vehicles.
- **Addressing unmet financial needs.** For example, critical illness coverage can help employees address the out-of-pocket costs associated with a serious illness.

The presentation of voluntary benefits products is also important. Financial protection products that are critical to financial wellness, such as life, disability, and long-term care insurance, should be featured prominently in benefit communications. However, convenience products, such as pet insurance, should be presented separately. Employers can also choose one or two voluntary benefits every year to feature more prominently in benefit communications to drive participation.

The enrollment process should be carefully designed to encourage the adoption of financial protection products. For example, during annual enrollment processes, many employees focus most of their attention on health care benefits. One strategy to address this is to conduct "off-cycle" enrollments for financial protection products separately from health care benefits, so that employees can fully focus on these protection needs. Another solution is to provide employees with the flexibility to enroll anytime throughout the year, so that employees can make benefit election decisions after a key life event, such as a birthday or marriage.

Maximizing the effectiveness of benefits education

Voluntary benefit communications and education should include true stories and case studies that establish the need for protection against key risks and connect these needs to specific solutions. Focusing on the need for protection is critical, because many individuals do not fully appreciate the risks to which they are exposed. For example, communications and education may help employees overcome the notion that life insurance is more relevant for covering funeral costs and final expenses than for replacing a lost income.[31]

29 Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," page 29.

30 LIMRA, "What is $1 billion an hour worth? Navigating the Employee Benefits Marketplace," page 17.

31 Prudential Financial, "2009 Life Insurance Thought Leadership Survey."

Benefit communications should also be tailored for different segments of employees. For example, new parents can be educated about the need for greater levels of life and disability insurance. Tailoring communications also enables more focus on underinsured segments, such as women.[32] Communications should also vary in terms of the level of detail and information provided, particularly given different multicultural preferences. For example, African-American employees prefer more information when making benefit selections than other employees.[33]

Benefit communications can also be personalized for each employee. For example, coverage levels can be recommended based on an employee's age, income, gender, family status, and current coverage levels.

Nearly half (45%) of employers are willing to use personalized information about their employees to customize benefit communications. Employees are receptive to this practice, with 88% of employees saying they have an interest in receiving benefits communications that are tailored to their personal situations.[34]

Finally, employers should leverage a multi-channel approach for benefit communications that includes email, direct mail, intranet sites, and seminars, because employees vary in their channel preferences (Exhibit 3).[35] Surprisingly, only 2% of participants prefer to communicate through their mobile devices, and only 1% of participants prefer social media (not shown in exhibit). For now, traditional communication channels remain critical.

Exhibit 3: Employees' benefit communications preferences

Preferred communication channels

Percent of employees citing channel*

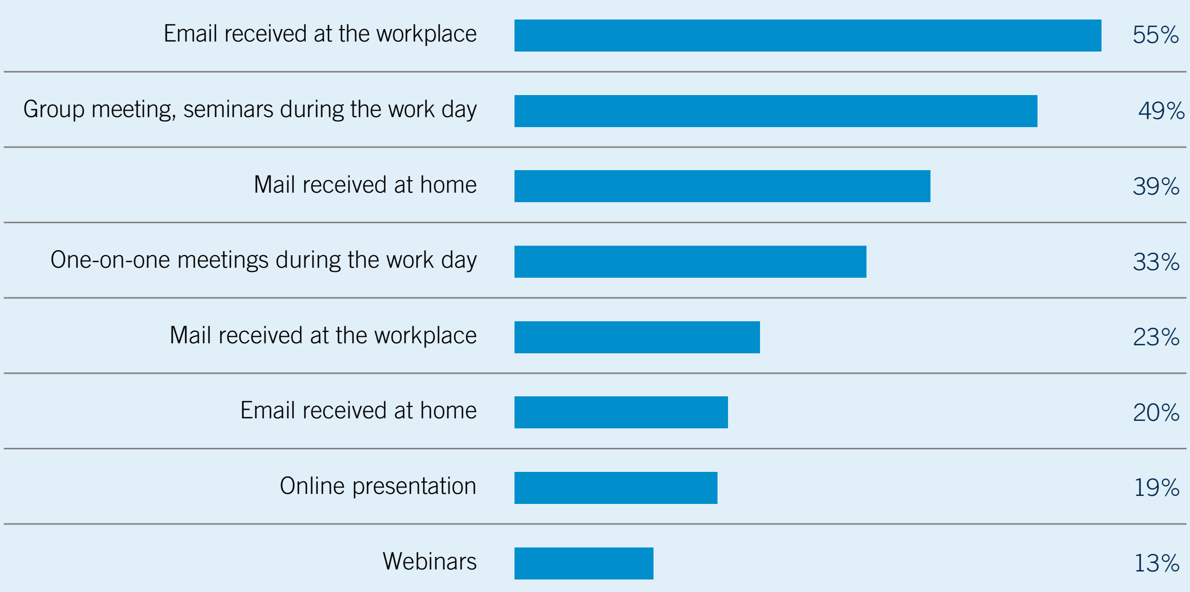


*Chart only includes channels preferred by more than 10% of respondents; respondents could select more than one channel.

Source: Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 22

32 Prudential Financial, "The Rise of the Employee Driven Benefits Model," October 2010, page 8.

33 Prudential Financial, "Fifth Annual Study of Benefits: Today and Beyond," October 2010, page 45.

34 Topline survey results for Prudential Financial's "Fifth Annual Study of Benefits: Today and Beyond," October 2010.

35 Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 22.

Carriers can help employers implement a multi-channel benefit communications strategy by providing employees access to benefits education and enrollment support via the phone or online chat. In addition, some carriers provide access to licensed representatives to answer product questions, conduct needs analyses, and provide coverage recommendations.

Providing a streamlined online enrollment process that helps employees make the right benefits decisions

The online enrollment process should be simple, streamlined, and allow for enrollment during one session, thereby ensuring that employees do not drop out of the enrollment process. Key enrollment activities, such as providing evidence of insurability, should be completed online.

The online channel is also very well-suited to providing personalized guidance through needs estimation tools, which can be pre-populated with known information about employees, such as their salaries. There is opportunity to make these types of tools more widely available to employees, because only 15% of surveyed employers say their employees "greatly use" online tools for life and disability insurance.

Partnering effectively with carriers

Carriers can be a valuable partner for employers in designing and delivering voluntary benefit programs. Specifically, carriers can help an employer:

- **Develop and execute a multi-year strategy for voluntary benefit programs.** Some carriers can analyze an employer's workforce to identify underinsured segments and to develop customized enrollment and education campaigns for these segments. Campaign results can be analyzed by carriers to prioritize and refine future campaigns.
- **Offer a robust online enrollment experience.** Some carriers provide an online platform for enrollment and employee servicing that employers can easily leverage. In addition, carriers may offer modular online capabilities, such as needs estimation tools and evidence of insurability applications, which an employer can integrate into its own online enrollment site or that of its third-party administrator.
- **Increase the bandwidth of its benefits administration staff.** Carriers can provide project management and execution capacity to provide voluntary benefit education and enrollment campaigns on a "turnkey" basis, thereby ensuring that the administration of new voluntary benefits does not strain an employer's resources. Carriers' phone and online-based enrollment support for employees also helps reduce the benefits administration burden on employers. Finally, some carriers can perform key administrative tasks, such as managing beneficiary information, for employers.

In addition, carriers with a strong consumer brand can help increase the perceived attractiveness of an employer's benefits package. Slightly more than half of employees say that a voluntary carrier's brand is at least somewhat important.[36]

Carriers can be most helpful to employers who engage with carriers on an ongoing basis, not just during the installation of a new benefit. In addition, carriers need benefits eligibility and participation data to identify coverage gaps, optimize enrollment campaigns, tailor employee communications, and perform administrative tasks.

Exhibit 4 summarizes the best practices for the delivery of voluntary benefits.

36 Prudential Financial, "Sixth Annual Study of Benefits: Today and Beyond," 2011, page 33.

Exhibit 4 Best practices for employers to help employees achieve financial wellness

Strategically design voluntary benefit programs	Maximize effectiveness of benefits education	Provide streamlined enrollment process	Partner effectively with carriers
• Emphasize financial protection benefits • Select products based on the demographics of the workforce and its needs • Schedule off-cycle enrollments for voluntary benefits • Offer flexibility to enroll throughout the year	• Emphasize the need for protection in benefit communications • Personalize benefit communications and education for employees (e.g., identify underinsured segments of the workforce, and tailor enrollment and educational campaigns for these segments) • Leverage a wide range of communication channels	• Simplify and streamline the enrollment process (e.g., online ability to provide evidence of insurability) • Integrate tools and needs estimators into online enrollment process	• Leverage carrier's resources to increase the bandwidth of benefits administration staff • Engage with carriers on an ongoing basis, and provide participant data for voluntary program analytics

Conclusion

The financial wellness of employees can be improved by addressing the coverage gap for key protection needs, including life, disability, and long-term care insurance. Closing the coverage gap requires that employers carefully design and execute voluntary benefit programs. However, the payoff for doing so is significant. Employees will be better protected against the risks they face, and employers will strengthen the attractiveness of their benefits offerings with little to no added expense.

Key takeaways

1. Many households are inadequately protected against the risks of premature death, disability, and prolonged illness, resulting in a "coverage gap."
2. Voluntary benefit programs address the key root causes of the coverage gap: limited awareness and education about key protection needs, declining access to financial advice, and individuals' lack of urgency to purchase protection.
3. Voluntary benefit programs provide significant advantages to employers, including cost effectively increasing the attractiveness of employers' benefit offerings.
4. There are a number of best practices that employers can utilize to improve the effectiveness of their voluntary benefit programs.
5. Carriers can be a valuable partner for employers in designing and delivering voluntary benefit programs.

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