

LIMITED BENEFIT PLANS

An Opportunity for Brokers, a Tool for Employers and a Solution for the Uninsured

Focus Report

March 2009



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Part I Employers and Employees Alike Find Costs Associated with Major Medical Coverage Prohibitive

The healthcare debacle in this country is well-documented and the topic of many policy debates. While, historically, healthcare was seen as an assurance if you were employed, today that is no longer the case. Employers find the costs associated with offering their employees healthcare prohibitive, while workers find the out-of-pocket costs associated with healthcare premiums daunting.

According to the Kaiser Foundation, the average cost of premiums for single coverage in 2008 was \$392 per month, or \$4,704 per year. The average cost of premiums for family coverage was \$1,057 per month, or \$12,680 per year. This is five percent higher than premium costs reported in 2007.¹

When compared to the typical median income of an American household (\$50,233 in 2007, according to the U.S. Census Bureau),² it is not difficult to understand why many families are opting out of major medical plans. Concurrently, the Employee Benefits Research Institute shows the percentage of employers with fewer than 200 employees that offer benefits dropped from 68 percent in 2000 to 59 percent in 2007 — a “remarkable downward decline.”³

As the National Coalition on Healthcare notes: “Most Americans have health insurance through their employers. But, employment is no longer a guarantee of health insurance coverage.”⁴ This fact is further evidenced by the statistical data:

- Nearly 46 million Americans, or 18 percent of the population under the age of 65, were without health insurance in 2007 (last year for which government data is available).
- The number of uninsured rose 2.2 million between 2005 and 2006, and has increased by almost eight million people since 2000.
- Over eight in 10 uninsured people come from working families — almost 70 percent from families with one or more full-time workers and 11 percent from families with part-time workers.⁴

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Part II Limited Benefit Plans: One Solution to Meeting the Needs of the Working Uninsured

A limited benefit plan is an insurance product designed to help pay for non-catastrophic medical expenses. Plans pay for a limited set of benefits with a fixed benefit amount. Typically, these plans offer the five basic components of any medical plan.

1. Benefits for doctor's office visits
2. Preventative care
3. Diagnosis tests and x-rays
4. Hospital confinement
5. Prescription drugs

The two main types of limited benefit plans are:

1. Indemnity-based — A predetermined flat dollar amount is paid for each benefit.
2. Expense-based — A percentage of the actual charge is paid for each benefit and a deductible might also be required.⁵

Distinct from major medical insurance, limited benefit plans may be underwritten, while others are guarantee issue with no pre-existing condition limitations.⁶ Benefit levels vary and covered features can be customized to keep premiums at affordable levels. Employers who can't afford to offer health coverage, or who have employees who don't qualify for the company's plan, are seen as natural prospects for this type of coverage.⁵

The product is particularly relevant in industries with part-time, seasonal, temporary, hourly and 1099 employees. These include industries such as retail, grocery/supermarkets, hotel/motels, seasonal and construction. However, as Eastbridge Consulting notes in its 2008 Spotlight report on these plans: "Any industry with uninsured workers is applicable."⁷

Employers who traditionally have not been able to offer their employees health coverage because of its prohibitive cost often find the flexible funding options of these plans appealing. The plans can be offered on a voluntary basis, where the employee pays 100 percent of the premium. The cost-savings aspect of these plans to employees and employers alike is seen as the main driver in the marketplace.⁷



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Part III Why Limited Benefit Plans Make Sense

In addition to the affordability factor of these plans, many experts in the employee benefits marketplace argue the plans make sense when claim experience is evaluated. For example, Samuel H. Fleet, President and CEO of AmWINS Group Benefits, offered statistical data to support the idea that 97 percent of the typical workforce's claims will never exceed \$25,000 in claims a year. "Our statistics show that 8 percent of covered members will have no claims at all in a year, 61 percent will have claims of less than \$1,000, and 85 percent will have claims less than \$5,000."

Part IV Brokers Increasingly Becoming Comfortable with Limited Benefit Plans

While some brokers have objections to limited benefit plans, many are adding the program to their list of offerings. "More and more brokers are reaching for a product to serve employers priced out of traditional group insurance," according to Brian Robertson, executive VP of Fringe Benefit Group. And potential matches for limited benefit plans are plentiful. Retail, health care, hospitality and construction should all be considered, as well as the under-100-life market.⁸

In increasingly difficult economic times, employee benefit advisers note that employers often believe they only have two options in regards to medical benefits: offering a major medical plan or no plan at all. "In today's market, companies are starting to drop their benefits," said Henry Silva of Strategic Benefits Marketing Group in a recent *Employee Benefit Adviser* article. "Not only do brokers underestimate the sales opportunities for limited benefit plans, but employers also misjudge employee appetite for the product."⁹

The more brokers become educated about the benefits of limited benefit plans, the more likely they are to sell them. In fact, some brokers have embraced the plans so wholeheartedly that they deal exclusively with them. One such broker, Robyn Piper, featured in a June 2008 *Benefits Selling* article, is so well-versed in the plans, she advises carriers on how to put the plans together.¹⁰

In elaborating on best practices in selling and administering the plans, Ms. Piper notes the importance of managing client expectations. "I'm a huge advocate for making communication clear and concise, for hitting clients all year with information about their benefits. What is a network? A lot of employees just don't know."¹⁰

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Part V Educate, Educate, Educate

Repeatedly mentioned throughout every best practice article and study/survey on limited benefit plans is the need to educate both the employer and employee about these plans and how they differ from major medical insurance.

“Over-Communicate and educate” is one of the key recommendations Eastbridge Consulting offers to brokers exploring limited benefit plans as an option. “This is a complex product, and the target population may have limited access to traditional sources of benefit information and advice. Carriers need to plan for a comprehensive education and communication program prior to enrollment, during the process and afterwards.”⁷

Mini-med carriers offer similar advice. **“Underpromise and overdeliver,”** said Derek Peterman, CEO and founder Century Healthcare. “No matter which carrier a broker works with, he has to further define the difference between a major medical plan and a mini-med.”¹¹

Part VI Enrollment Is a Key Part of Success

“Enrollment and access are the keys to success” in the limited benefit market, notes Eastbridge Consulting.⁷ An effective enrollment strategy, coupled with proper support, cannot be over-emphasized when discussing limited benefit plans. “In companies with low-wage workers, many employees may have had little health insurance experience before, and others may be used to a different level of benefits. In both cases, it is important to make sure employees understand what is covered and what is not,” intone industry experts.¹²

While a host of carriers operate in the limited benefit space, many of their products are self-enrolled, leading to low participation and sometimes dissatisfaction from workers. In distinguishing one carrier from the next, Bob Bisceglia of Colonial Life notes, “A top provider can meet one-on-one with each employee to explain the plan and help employees select the best coverage plan for their family’s needs.”⁵

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Part VII

Limited Benefit Plans Align with Employers Primary Voluntary Benefits Objectives

In the context of overall trends in employee benefits, limited benefit plans appear to be aligned with the two primary voluntary benefit objectives employers identified in Prudential's Study of Employee Benefits: 2008 and Beyond.

1. To attract and retain talent.
2. To maintain a competitive benefits package.

According to the study, "Roughly two in five companies offering voluntary benefits 'strongly agree' that these programs have had a positive impact on employee satisfaction with their benefits program overall. Companies wanted to expand the products and services offered to their employees, but at minimal cost, and maintain the competitiveness of their overall benefits package."

While cost-cutting was not cited as the primary driver for choosing a voluntary benefits plan, nearly half (46 percent) of all study respondents agree that offering voluntary benefits has helped to lower overall benefits costs to some extent, while 22 percent "strongly agree" that any cost savings have resulted.¹³

Industry experts have observed that three main target markets have evolved within the limited benefit plan market. The first and most obvious is employers who do not have a major medical plan in place. Additionally, employers who do have major medical insurance, but fail to offer dependent coverage or offer high-deductible plans, are also a viable market. Finally, smaller groups with 50-100 lives seem to have the best closing ratios. Smaller groups lend themselves to a simplified decision-making process. These groups usually have employees in one location, making enrollment easier with group meetings or face-to-face consultations.

If you are not actively learning more about the opportunities within the limited benefit market, you may be missing out on one of the future drivers of the employee benefits marketplace. Employers need innovative solutions to their healthcare coverage problems, and limited benefit plans are emerging as an increasingly palpable solution. Now is the perfect time to begin discussing these solution-oriented products with your clients and prospects.

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- ¹ "Employer Health Benefits: 2008 Annual Survey," The Kaiser Family Foundation, September 2008.
 - ² "Income, Poverty, and Health Insurance Coverage in the United States: 2007," U.S. Census Bureau, August 2008.
 - ³ "The Future of Employment-Based Health Benefits: Have Employers Reached a Tipping Point?," EBRI, February 2008, Vol. 29, No. 2.
 - ⁴ "Facts About Health Insurance," National Coalition on Health Insurance, January 2009.
 - ⁵ "Unlimited Potential of Limited Benefit Medical Plans," Life and Health Advisor, February 2008.
 - ⁶ "Health Insurance: Mini-Med Plans Are Invading," Insurance and Financial Advisor, September 2007.
 - ⁷ "Limited Medical Plans," Eastbridge Spotlight Report, May 2008.
 - ⁸ "Mini-Med Interest Forces Brokers To Abandon Traditional Objections," Employee Benefit Adviser, June 2008.
 - ⁹ "Mini-Meds Highlight Disconnect Between Brokers, Clients, and Workers," Employee Benefit Adviser, January 2009.
 - ¹⁰ "Carriers Call Her," Benefits Selling, June 2008.
 - ¹¹ "Mini-Med Reality Check," Employee Benefit Adviser, March 1, 2007.
 - ¹² "Follow The Money To Choose The Best Plan," Business Insurance, March 17, 2008.
 - ¹³ "Prudential Study of Employee Benefits: 2008 and Beyond," Prudential Insurance, 2008.

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