



Continuing Trends in the Group Insurance Market

INTRODUCTION

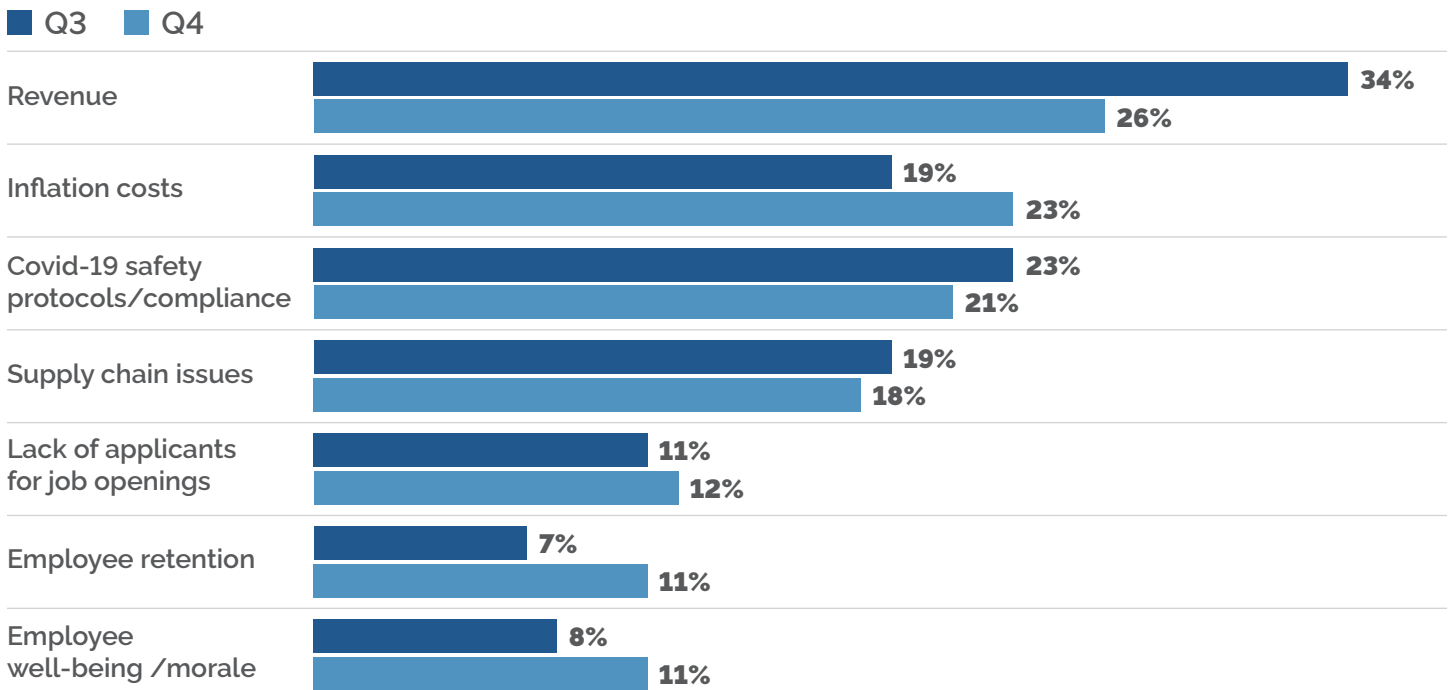
The world has passed the two-year mark since the start of the pandemic, but the group insurance market is still feeling the repercussions. Although one positive and overarching effect was the increased value proposition for group insurance products, the pandemic nevertheless proved how vulnerable the industry is to global disruption, negatively impacting product demand, claims volumes, and pricing. As a result, group insurers today are still facing a mixed bag of long-term trends that continue to reverberate throughout the insurance ecosystem.

THE CURRENT LANDSCAPE

One silver lining of the pandemic was how it improved the value proposition for group insurance products, in particular disability and life insurance, but also supplemental health products. Insurance products overall have experienced heightened demand as consumers are now more attuned to their health. Unfortunately, small businesses (with fewer than 500 employees) that employ half of all private sector employees and are the growth engine of the group insurance market have been hit hard by the pandemic, with about one-third either temporarily or permanently closing over the past two years. Most remain concerned about their ability to generate pre-pandemic levels of revenue, hire and retain qualified employees, and manage their way through the current inflation and supply chain-related challenges in the economy (see Figure 1, The Biggest Challenges Facing Small Business Owners Coming Out of the Covid-19 Pandemic). Group insurance companies themselves have been hit hard by increased mortality in their group life insurance businesses and increased morbidity for their group disability and other supplemental health businesses.

POSITIVE INDICATORS

There are some bright spots that indicate an industry upturn, such as the number of new businesses being started (there were applications for 5.4 million new businesses in 2021), the increased value that employees now place on group insurance products, and the increasing number of employees returning to the workplace.¹ Over half of employees who quit their jobs or retired during the Great Resignation of 2020-2021 now regret doing so and plan to return to work. Group insurance companies also expect mortality trends to improve in the future with less overall fatalities from COVID-19, which should help their group life insurance businesses.

Figure 1. The Biggest Challenges Facing Small Business Owners Coming Out of the Covid-19 Pandemic

Source: U.S. Chamber of Commerce/Metlife Small Business Index. Survey conducted by Ipsos poll between Oct. 13-27, 2021 among 750 small business owners.

MAJOR TRENDS

Below are seven major product, pricing, claims, and servicing trends that the pandemic and its aftermath have influenced. These should continue to accelerate until industry pressures stabilize.

- 1. High and rising health insurance costs.** In 2021, annual premiums for health coverage for a family of four cost \$22,221, with the average employer assuming 72% of that cost.² This impedes wage growth and prevents many small businesses from offering health insurance to their employees, with potential negative impacts on employee morale and productivity. To help keep costs down, health insurance companies have raised deductibles and co-pays and excluded certain coverage types, expected to continue in the wake of the pandemic. This practice creates opportunities for other group/voluntary insurance products to fill these gaps.
- 2. The employer's shifting role in employee benefits.** The role of the employer continues to shift from payer to sponsor for employee benefits, with consumerism and voluntary health insurance products helping to fill employees' health insurance gaps. Today, 31% of U.S. employees now have employer-sponsored, employee-funded health savings accounts (HSAs) as a replacement for group health insurance, with 54% of these accounts added in the past three years despite a temporary lull during 2020 due to the pandemic.³ Employer and employee education remains an important opportunity area for greater HSA adoption.

- 3. Rapid growth of voluntary benefits sponsored by employers and paid for by employees.** These products help offset health insurance deductibles, copays, and coverage gaps and now generate high single-digit annual growth rates,⁴ with broad and growing coverage across both large and small businesses and high satisfaction rates for the employees that use these products. With 27% of employees currently enrolling, this market is poised for long-term growth with improved employee education, continuing product innovation, and lower product costs.⁵ The pandemic provided a wake-up call for employees, with about half of employees having purchased at least one additional benefits product during the pandemic.
- 4. Long-term COVID impact on product offerings and pricing.** According to the U.S. Government Accountability Office, between 7.7 million and 23 million U.S. citizens suffer from long COVID, which causes brain fog, muscle pain, fatigue, and other debilitating symptoms that can last for months.⁶ This will continue to negatively affect the group disability, critical illness, and other health-oriented product offerings of group insurance companies and require significant pricing adjustments for these products.
- 5. A need for better mental health options and flexible, paid time off options for employees.** Employee mental health has trended downward the past few years and has further deteriorated due to the pandemic. In response, 31 percent of employers now offer virtual mental health coaching, up 13 percent from 2019, with time off for mental health and flexible scheduling also becoming popular offerings.⁷ Beyond the mental health issues, employers now must deal with evolving state and federal laws related to paid family medical, parental, and child-bonding leaves. This provides long-term opportunities for group insurance companies to support employers with their absence management offerings.
- 6. The rise of virtual health and wellness offerings for employees.** Wellness offerings have become an important part of overall employee benefits packages. Most employers now offer wellness incentive programs to their employees and a near-majority provide telemedicine alternatives. Employers report that the uptake of telemedicine by their employees has positively affected their health insurance costs.⁸
- 7. The cost of providing group insurance products needs to fall while service options and quality increase.** The largest barrier to increased employee adoption of voluntary benefits products remains the price.⁹ With morbidity trends remaining negative, this will place further upward pressure on pricing for both group disability and supplemental health products, which need to be offset by lower servicing costs enabled by modern technology. Group insurance companies need modern technology platforms to enable critical capabilities including: 1) efficient new case installations; 2) the support of multiple enrollment methods, including call center, paper, face to face, and omni-channel technology, on-line tools that have become increasingly popular during the pandemic's duration; 3) multi-tier commission and bonus plans for brokers; 4) accurate, timely, and flexible billing options; 5) open connectivity to employer HRIS systems for automated change/delete/add functions for coverage and other changes; and 6) advanced claim intake and payment capabilities.

CONCLUSION

Although the pandemic raised the profile and value proposition of most group insurance products, concurrent pressures such as rising costs and greater expectations from employees and employers persist. The trends discussed today will continue to burden group insurance companies to re-price their products and invest in modern technology platforms to remain competitive over the long term. By offering better pricing options and product offerings to encourage new business and a more stable and competitive business environment, Insurers can build a foundation for more prosperous and successful years to come.

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