



# The Bright Future of Voluntary Benefits

## INTRODUCTION

Voluntary benefits products continue to be among the fastest-growing and most profitable product lines of the group insurance companies that offer them. Employers can use voluntary benefits to provide a more comprehensive benefits package, compete with other employers for top talent, and improve employee satisfaction. The current inflationary environment may restrain the growth of these products in the short term, as employees prioritize spending in higher priority areas, but the long-term growth prospects remain attractive. Group insurance executives see technology-driven innovations determining the winners and losers in this market over the next five years, with policy administration modernization being high on the list.

## GROWTH FACTORS

With health insurance premiums for families rising 42% over the past ten years, employers have gradually reduced what health insurance can cover for employees.<sup>1</sup> Most consumers now express anxiety about their ability to pay for healthcare that their health insurance does not cover. Nearly half say that they could not survive more than one month without a paycheck.<sup>2</sup> The financial risk is highest for younger generations (Gen Z and Gen Y) who have faced a series of obstacles to build adequate savings to address unforeseen health emergencies and expenses.

These consumers entered the workforce soon before, during, or after the worst economic downturn since the Great Depression, endured the worst pandemic since the Spanish Flu in 1918, and now the worst bout of inflation since the early 1980s. They often want their employers to offer a series of supplemental health and other benefits, including physical and mental wellness benefits, to help them protect and improve their financial, physical, and mental well-being.

The tight labor market also has made it incumbent upon employers to offer benefit packages that differentiate them in the marketplace and attract and retain employees by meeting their specific needs. Meeting the needs of employees has become more complex as the workforce is more heterogeneous than ever before – now there are more Millennials and Gen Z than Boomers, near parity in numbers of men and women, significant racial and ethnic diversity, remote/hybrid workers now becoming common, and nearly 25% of workers having multiple gigs.

Employee satisfaction and loyalty overall are near their lowest points in the past twenty years. With employees wanting more help from their employers to achieve overall wellness (financial, physical, and mental), employers increasingly recognize that tailoring their benefit offerings to help meet these wellness

needs has become critical for their own well-being.<sup>3</sup> Voluntary benefits offerings that supplement health insurance coverages, protect against important risks like identity fraud, help with student debt counseling and repayment, and promote wellness through counseling and discounts will continue to grow in importance.

## THE EXECUTIVE PERSPECTIVE ON VOLUNTARY BENEFITS

Executives at group insurance companies recognize the long-term attractiveness of voluntary benefits products. 75% expect 5%+ growth for these product lines over the next five years. Two-thirds of executives who have lines of business in addition to voluntary benefits say that their profitability and returns for voluntary benefits are better than for other lines of business and expect this to continue for the next several years.<sup>4</sup> Both executives at group insurance companies and the brokers that sell voluntary benefits products expect inflation to restrain sales of these products in at least 2023, as employees potentially prioritize spending in higher priority areas, but remain very optimistic long term about the growth prospects for voluntary benefits.

The voluntary benefits market, like the overall group insurance market in North America, has become extremely technology-driven. Group insurance executives think that technology-enabled innovations will create the most important competitive advantages over the next five years.<sup>5</sup> Most executives expect the influence of benefit technology platforms ("benefit administration platforms") on carrier selection by employers and brokers to increase in the future. Benefit administration platforms can allow employers to provide a relatively seamless experience to employees for selecting and enrolling in the full range of benefits – from defined contribution pension plans to core medical insurance coverages to supplemental health coverages (dental, disability, life insurance, critical illness, others).

Post-enrollment servicing has also become a critical differentiator for group insurance companies. Almost all group insurance executives agree that employees now expect better administration solutions from carriers. Half also agree that brokers are now more willing to switch carriers so that their employer clients can receive better administration solutions from carriers. While product features and price are the two most important reasons why a broker would switch carriers, service quality is third. Half of the brokers say that claims integration is an important capability that carriers need to offer.<sup>6</sup>

Vitech has found that billing is an important area of modernization for group insurers in general, including for their voluntary benefits product lines. Service levels decline significantly if a group insurance company cannot efficiently onboard a new employer client and then quickly and accurately start the billing process. Legacy policy administration systems often cannot support the efficient activation of new cases (both installation and enrollment) and then fast, accurate billing across multiple billing types, including list bill, direct billing, and self-administration billing. Reconciliation options to auto reconcile, prorate payments, cover gaps in payments, include previous due amounts, and calculate expected premiums for self-administered groups are also important.

To address the weaknesses in their legacy policy administration systems, many group insurance executives expect to either replace or significantly upgrade these systems over the next five years. Beyond billing improvements, they want streamlined employer, broker, and employee service experiences, access to artificial intelligence capabilities that can help them in underwriting, customer service, and other potential areas in the future, and API enablement for efficient enrollment on any benefit administration platform.

## CONCLUSION

Voluntary benefits products are experiencing rapid growth and high profitability. While short-term growth may be impacted by inflation, long-term prospects remain promising. Rising healthcare costs and financial insecurities among younger generations have created a demand for supplemental health and wellness benefits. Employers recognize the need to cater to diverse employee needs in a tight labor market and are increasingly tailoring benefit offerings to improve overall wellness. With a positive outlook, executives expect continued growth and profitability for voluntary benefits, and they anticipate technology-driven innovations and better administration services to be key differentiators in the market. Upgrading legacy systems and embracing technology will be crucial for insurers to stay competitive in this rapidly evolving landscape. About Vitech

## ABOUT VITECH

Vitech is a global provider of cloud-native benefits and investment administration software. We help our Insurance, Retirement, and Investment clients expand their offerings and capabilities, streamline their operations, gain analytical insights, and transform their engagement models. Vitech employs over 1,400 professionals, serving the world's most successful insurance, retirement, and investment organizations. An innovator and visionary, Vitech's market leadership has been recognized by industry experts, such as Gartner, Celent, Aite-Novarica, and ISG. For more information, please visit [vitechinc.com](https://vitechinc.com).

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