DOUBLE-DIGIT GROWTH IN A DOWN ECONOMY

"Integrative" business model boosts benefits revenues to 45% of agency total

By Len Strazewski

With the March 2009 unemployment rate hitting 12% and the auto industry struggling, Michigan employers have much more than employee benefits plan design on their mind, says Stephen Peck, president of Kapnick Benefits Services, the employee benefits division of Kapnick Insurance Group in Adrian, Michigan." In many cases, they are just trying to survive," Peck says. "The economy has created challenges for everyone, and all employers are looking closely at their business, their costs and their future." Layoffs are common, cutbacks in salary and benefits are always on the table and rising costs are a perpetual challenge in the Rust Belt Midwest. In March, the chief executive officer of General Motors Corp. one of the largest employers in the state, was ordered to resign in an unprecedented intervention by the Obama Administration. However, the economic stresses have also provided some opportunity for the family-owned Kapnick Agency, which has reported double-digit growth in its employee benefits operations for the past three years "The economy has really brought value to the forefront and made our clients very sensitive to service and strategy. They are looking for return on investment for all of their programs and their business relationships," says Peck. Value has always been a hallmark of the agency, Kapnick executives say. Founded in 1946 with a personal lines and small commercial customer base, the agency expanded with the post-World War II industrial economy to become one of the largest agencies in the state with a diverse book of business that includes property/casualty insurance, risk management and employee benefits services. In 2001, Kapnick doubled the size of its employee benefits business with the acquisition of Harbor Benefits Services in Ann Arbor, a life and health insurance agency and a third-party administrator. Today, the agency has 120 employees, including 35 in its employee benefits division, and three offices: Adrian, Ann Arbor and Southfield.

In 2005, Peck and Vice President Angela Dean joined the agency from the employee benefits division of Aon and began an era of rapid growth in employee benefits. Peck says the agency established a five-year strategic growth plan designed to yield a balance between property/casualty insurance and benefits. The targets: 45% property/casualty, 45% employee benefits and 10% personal lines. The agency achieved its goals two years ahead of schedule in 2008. Peck describes the Kapnick Benefits business model as "very integrative," built on a strategic understanding of client needs. "We begin by learning about our clients' business," he explains. "We understand where their pain is and address their challenges within the limits of their resources." That means service that transcends the annual health plan renewal and open enrollment service, he says. "In most of our client companies, administrative services have been the first to be cut and human resource departments are already stretched to their limits. We try to function as an extension of the human resources department and accept year-round responsibilities for their employee benefits services." Unlike agencies that divide benefits operations into sales and customer service with separate points of contact for clients, Kapnick leads its client relationships with representatives who can respond to a broad range of responsibilities. The "client advocates," as the agency dubs them, can represent employers from the initial strategic discussions, through employee open enrollment and throughout the year, directing service from the agency's resources as needed. "Client advocates will do whatever is needed to manage the employee

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benefits services, and that includes meeting and talking directly to employees about their questions and their claims," he says.

In addition to health plans, the agency markets dental, short- and long-term disability, long-term care insurance, group life insurance, accidental death and dismemberment coverage and Employee Assistance Programs.

The agency also provides corporate communications services that can assist with open enrollment benefits communications and other programs, health management services that can develop wellness and fitness programs, group marketing of voluntary benefits and third-party administration of account-based consumer-directed health plans, flexible spending accounts and COBRA benefits continuations.

The agency also provides financial strategies services, including retirement plan design of defined contribution and defined benefits plans, profit-sharing plans and key executive benefits.

Peck says the agency has chosen not to provide direct human resources management consulting but can refer clients to appropriate consulting companies and can work with the consultants if necessary.

Small to middle market employers with 50 to 600 employees benefit most from the agency's diverse employee benefits resources, executives say, but the company also serves some employers with 1,000 or more employees.

Regardless of size, however, most of the key issues are the same for all

client companies, says Dean. "It's always about the health care costs," she says. "Employers have been watching their costs increase steadily over the past several years and have been struggling to contain the costs with various programs and plan designs."

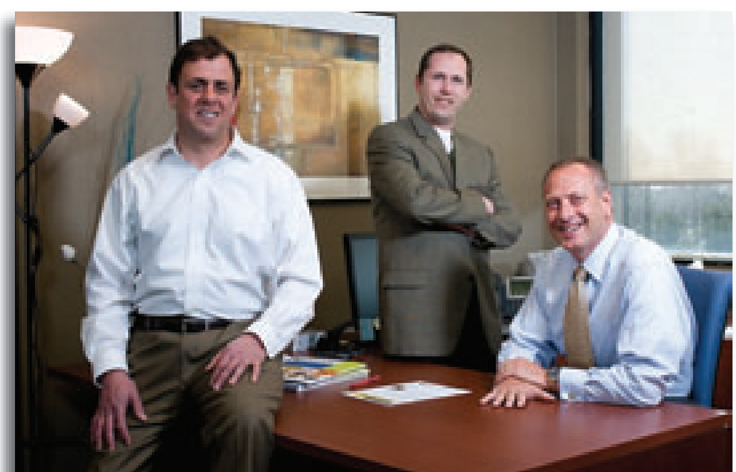
Competition isn't the key, Dean notes. Progressively fewer health plans are competing in most markets, and underwriters return progressively similar quotes. In the Kapnick market, the agency represents five large health plans, including Blue Cross/Blue Shield of Michigan, Health Alliance Plan of Michigan, CIGNA, Aetna and Priority Health.

Some of the health plans have been increasing deductibles as a cost control measure, but most employers say that increasing deductibles and co-insurance levels are at their limit. "Rate-shopping is over," agrees Peck. "Employers need broader, more sophisticated strategies from their agency."

Top: The Implementation Team. From Left: René Carpenter, Corporate Communications Manager; Sarah Szul, M.S., CNWC, Health Management Coordinator; Lisa Kinney, Implementation Manager; and Stephen Peck.

At right: The Services Team. Angela Kosa, Executive Sales Assistant; Audrey E. Brosowski, Client Advocate; Robert V. Weiland, CIC, Executive Vice President; Patrick Pennefather, CLU, ChFC, CEBS, LUTCF, Client Manager/Research & Technical Services.

Below: The Account Renewal Team. From left: David Gangi, CBC, Account Executive; John Watson, Group Marketing Manager; and Stephen Peck.



Dean notes increased interest in health savings accounts (HSAs), though many of her client groups are larger and self-funded and less appropriate for the account-based plans. However, she notes that most employers offer some form of consumer-directed health plans as an alternative to a more traditional group health plan design.

Participation, she admits, is still small; only about 5% to 7% of an employee group tends to participate. However, she says interest continues to grow, and participation is likely to grow as employers recognize results and communicate the programs more effectively.

Health management services, wellness and health incentive programs, however, have become ubiquitous, Dean says. “Employers have become very aware that helping their employees stay healthy is the best bet in keeping their health care costs down and that there are long-term benefits to be realized in reduced employee absenteeism and improved productivity.”

Dean says that about 87% of client employers provide some sort of wellness or health education program and that the local health plans are providing an increasing array of online health risk assessment, education and incentive tools for all sizes of employers.

Kapnick also provides custom health management and wellness programs. Sarah Szul, an exercise physiologist, leads the agency’s health management services and is an advocate for employer wellness programs. Szul helps employers design both simple and elaborate wellness and health management programs, ranging from inexpensive health education communications and “lunch and learn” seminars to companywide activity and incentive systems.

Most employer engagements begin with an employee needs and interest survey that helps the agency and the employer focus on programs that will be popular and well attended.

“Most employers are very open to the idea of supporting employee health and realize the long-term values of health programs. But they are often surprised by how many employees are so very interested and excited about participating in health and fitness programs.” she says.

Among the most popular programs are on-site wellness education and nutrition programs, cancer and heart disease prevention programs and health club membership discounts.

Szul also assists employers in coordinating their plan programs and independent programs for a unified approach to wellness and health management. For example, Blue Cross/Blue Shield of Michigan offers an online health risk assessment program, Health Blue Incentives, which offers premium reductions for participation in the assessment, and wellness activities.

Szul helps employers build a culture that supports wellness and healthful behavior and activities that can help employees meet the goals identified by their health risk assessment—from activities to healthful foods available in company vending machines.

This year, employers also have a new hot topic of concern that is affecting their costs and their plan administration—health care reform and the administrative provisions of the Obama Administration stimulus legislation, Kapnick executives say.

So far, the most immediate concern is the COBRA benefits continuation subsidies that have been mandated by that stimulus legislation.

Employers are responsible for up to 65% of the cost of COBRA benefits for involuntarily terminated employees, pending government reimbursement by way of a tax credit. Employers are also responsible for contacting terminated employees and making the COBRA benefits available to them.

“It’s still not clear how many terminated employees will participate in COBRA benefits. Thirty-five percent of the costs may still be too expensive for many of those eligible,” she says.

Health care reform is still pending as the Obama Administration, both political parties, the health insurance industry and state legislatures present their approaches to providing access to coverage for uninsured and under-insured citizens.

Peck says the agency—like everyone else—has to wait and see what the future and government changes will bring. ■