



Voluntary Benefits: What Drives Buying Behavior?

Voluntary employee benefits are increasingly viewed as a smart way to help employees improve their financial security—and drive gains in job satisfaction and productivity. But many workers do not take advantage of these benefits, and little research had been done to learn why some workers embrace them and others do not. A new study by Prudential reveals that, contrary to popular perception, demographics aren't the only factors that play a role in the decision-making process. Buying decisions also are driven by employees' life experiences, their emotional concerns and perceptions about their health and their finances, and the degree to which they are willing to accept uncertainty around the potential need for benefits.

Common voluntary benefits include accident, critical illness, and hospital indemnity insurance, all of which can complement traditional medical and disability insurance benefits. These voluntary products can provide employees with cash to help cover eligible medical and non-medical out-of-pocket expenses, or to offset a portion of lost wages.

Employees who take advantage of voluntary benefits appear to appreciate the value they deliver at a time when medical costs are continuing to rise and many employer-provided health insurance plans feature higher deductibles and co-pays. Against that backdrop, unexpected medical events such as an accident, critical illness, or a hospital stay, can add significant financial stress to individuals and their families.

These unexpected events occur more frequently than many individuals likely realize. Nearly 40% of Americans are expected to develop cancer during their lifetime.¹ U.S. emergency rooms log nearly 40 million injury-related visits per year, or about one visit for every eight Americans.² Not surprisingly, millions of Americans report problems paying medical bills, including about six in 10 who were covered by medical insurance at the time of treatment.³

Developments like these, which strain workers' financial health and elevate their financial stress, can have a broad range of follow-on consequences. Some employees forego preventive medical care in an effort to avoid the associated expenses—then suffer disproportionately when untreated medical conditions lead to more serious health issues, which can require more expensive care and generate even higher levels of financial stress. Their employers, in turn, may face increased medical insurance costs, lower workforce productivity, and longer employee absences and disability leaves.

Millions of Americans report problems paying medical bills, including about six in 10 who were covered by medical insurance at the time of treatment.

Inside the Research

To better understand what motivates buyers and non-buyers of voluntary employee benefits, Prudential surveyed more than 2,500 employees at companies that provide access to voluntary accident, critical illness, and hospital indemnity insurance. The goal was to identify any differences between buyers and non-buyers of these coverages, and to learn more about how they decide whether to purchase. Throughout this report, “buyers of voluntary benefits,” or just “buyers,” refers to surveyed individuals who currently have at least one of the three voluntary benefits listed above. “Non-buyers” refers to those who currently do not own any of the three voluntary benefits.

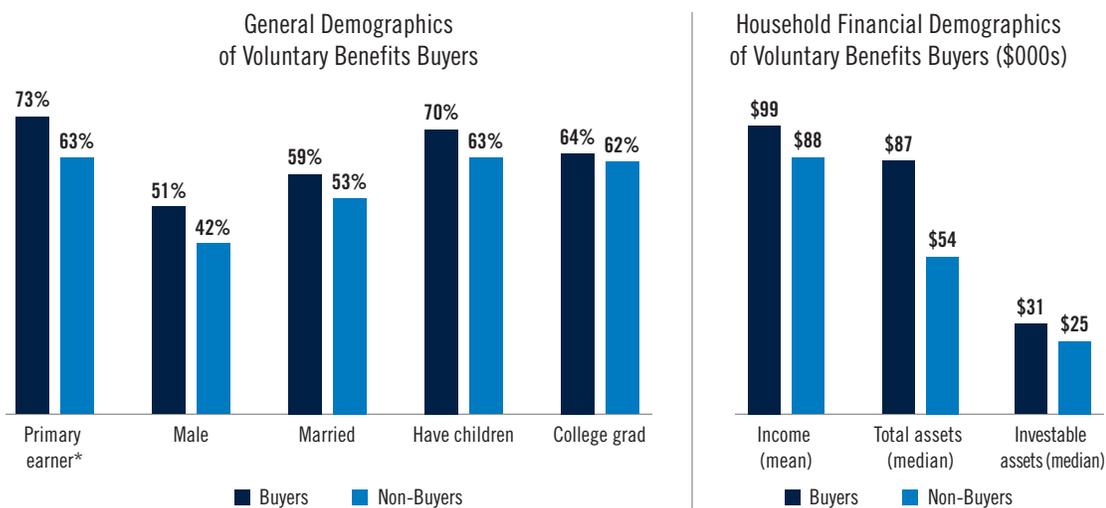
Armed with the findings from this research, employers can begin to more effectively identify opportunities to utilize voluntary benefits to help employees protect themselves against unexpected medical expenses.

Key Findings: Drivers of Buying Behaviors

Conventional wisdom holds that decisions about whether to buy voluntary benefits are determined largely by demographic characteristics such as an employees’ age, level of education, and even the type of medical insurance they carry. But our research suggests that other than financial status, many demographic factors actually have little impact on buying patterns. More important are life experiences, their emotional concerns and perceptions regarding their health and finances, and the degree to which they are willing to accept uncertainty around the potential need for benefits.

Demographics

Other than income levels, the demographic characteristics of buyers and non-buyers of voluntary employee benefits are not strikingly different. For both groups, the average age is 42. Neither education nor race appear to play a role in purchasing behaviors. There are, however, a few minor distinctions worth noting. As shown below, buyers of at least one voluntary benefit are slightly more likely to be the primary earner in their household, male, married, and have children. Buyers also tend to have a higher level of total household assets, and slightly higher levels of household income and investable assets.



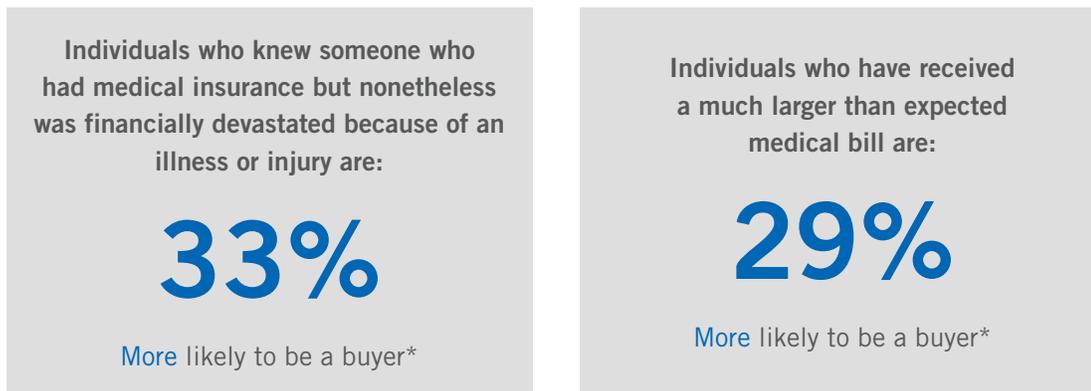
*Contributes 60% or more of household income

One might expect that buyers of voluntary benefits use them to help protect against the high out-of-pocket expenses they can incur with high-deductible health plans. However, deductible levels don't appear to be a significant driver of buying behavior, with non-buyers actually having a slightly higher average deductible than buyers.

Life Experience

For many employees, life experiences—and stories about others' experiences—play a role when deciding whether to purchase voluntary benefits. For example, 67% of critical illness insurance buyers know someone who experienced a financial shock as a result of a medical issue, versus 53% of non-buyers. Those who have experienced financial shocks, or know someone who did, are more likely to be a buyer of one or more of the benefits covered in this study.

Compared to Non-Buyers:



*Buyer of one or more of the following voluntary benefits: accident, critical illness, or hospital indemnity insurance

Emotional Concerns and Perceptions

Buyers of voluntary benefits are more likely than non-buyers to be concerned about the outcomes of sickness and injury. Not surprisingly, the higher their concern, the more likely an individual is to be a buyer. Specifically, buyers worry about how getting sick or injured could impact their work and paycheck if they were not able to work for an extended period.

Individuals who have put off medical care for fear of the costs are 28% less likely than others to buy voluntary benefits. A possible explanation is that individuals who can't afford necessary medical care may not be able to afford to pay for voluntary benefits offered at the workplace, either. The irony of that explanation is that voluntary benefits are specifically intended to help individuals obtain medical care by mitigating the financial burden associated with that care. Another possible explanation is that voluntary benefit buyers may not feel the need to put off medical care because they know they have coverage.



Despite these various differences, buyers and non-buyers tend to have similar perceptions of their own financial well-being. About one in three in both groups say they are just getting by financially, and only one in five say they could handle a major unexpected expense.

When asked about perceptions of their health, buyers are more likely than non-buyers to say they are more attuned to possible health issues than they were five years ago.

Perceived Value of Risk Protection

Buyers and non-buyers alike exhibit a low level of understanding about voluntary benefits. This is not surprising given that employees, on average, only spend 18 minutes enrolling in benefits during open enrollment each year.⁴

Buyers and non-buyers differ, however, in the degree to which they engage with their employee benefits programs, and in how they think about the tradeoff between cost and value. Buyers are more likely to carefully review their benefits each year – 52% of buyers say that they carefully review compared to 40% of non-buyers. Buyers also are more likely to enroll in a broader array of employer benefits, indicating they may understand the need for protection even if they don't fully understand what their benefits cover.

In their approach to voluntary benefits, non-buyers exhibit concerns about the cost-reward tradeoff. Nearly half are hesitant to sign up for something without being certain they will need it, and more than four in 10 say they would feel more comfortable buying a voluntary benefit if they knew they could drop it any time. Nearly one in four non-buyers owned a voluntary benefit in the past. Top reasons for dropping that coverage included needing extra money, being unable to afford to keep it, never having used the benefit, or simply not seeing value in the benefit.

Financial Situation

Income levels, and whether an employee is the primary breadwinner in their household, also are drivers of buying behavior around voluntary benefits. The higher their income and the greater their contribution to household earnings, the more likely an employee is to be a buyer. For example, for every \$10,000 increase in household income, individuals are 2% more likely to be a buyer.

Takeaways

Voluntary benefits can fill important gaps in employees' financial wellness by allowing them to customize a menu of financial protection products to their personal needs. This can also deliver benefits for employers in the form of a healthier and more productive workforce.

Employers can better understand their employees' needs and behaviors by analyzing the characteristics of their workforce using data they may already have. With the results of this analysis, they can determine which voluntary benefits may be best suited for various segments of their employee population, and develop engagement strategies that reach each segment as efficiently and effectively as possible.

Identifying Personas and Understanding Their Buying Behaviors

To illustrate how data analysis may be used, Prudential applied a statistical factor analysis to the findings from this research to define unique clusters or “personas” of employees based on six key factors: their medical and insurance experiences, their understanding of insurance, their concerns about medical issues and insurance, their approach to using employee benefits, their control of their finances and health, and their financial challenges.

Several distinct personas were identified that have similar buying behaviors when it comes to voluntary benefits. For example, the “male, family-oriented, concerned, and engaged” persona is more likely to buy voluntary benefits, while the “female, financially challenged, feeling uninformed” persona has a lower likelihood of buying.

Employers can use the insights provided by this research to engage those employee segments that need the most help. Employers may want to consider:

- Designing voluntary benefit offerings with flexible options to meet the needs of a broad audience. For example, consider adding lower-cost options that have lower levels of coverage to make the benefits more affordable for individuals that otherwise could not afford coverage.
- Deploying an employee assessment questionnaire as part of the data analysis effort to better understand employees’ needs and behaviors. This survey may uncover insights that are more relevant than whether or not an employee has a high-deductible health plan.
- Providing education on how each voluntary benefit that’s offered works, highlighting the risks voluntary benefits can help protect against, and how that coverage can complement medical insurance and keep families on track financially. Consider holistic, on-site advisory and education programs that cover a range of financial topics. Because benefit decisions can be overwhelming, these sessions should provide a forum for employees to ask questions about their personal circumstances on a one-on-one basis. Virtual off-site coaching also may be helpful, delivered remotely by phone, video, or digital chat.
- Sharing case studies that make unexpected medical events relatable, using real stories and real costs. Making employees aware of the financial impact of an accident, critical illness, or hospital stay can help them project how their own families might be impacted by an unexpected medical event. Sharing case studies and other illustrations on a regular basis will help reinforce the value of voluntary benefits.
- Communicating the importance of maintaining the coverages provided by voluntary benefits, reinforcing the message that having coverage in place every year is important because no one can predict when a crisis may strike. Reinforce the fact that the chances of an unexpected event happening in the coming year do not decrease just because a claim was not made this year.

About the Research

Research was conducted by 8 Acre Perspective via an online survey of 2,511 employees using national online panels between August 12 and September 4, 2019. All respondents were ages 18 to 64 and employed at a firm with 100+ employees that offered voluntary employee benefits.

Endnotes

- ¹ American Cancer Society, “Lifetime Risk of Developing or Dying from Cancer,” 2020.
<https://www.cancer.org/cancer/cancer-basics/lifetime-probability-of-developing-or-dying-from-cancer.html>
- ² CDC, “National Hospital Ambulatory Medical Care Survey: 2017 Emergency Department Summary Tables,” Table 15, 2019.
https://www.cdc.gov/nchs/data/nhamcs/web_tables/2017_ed_web_tables-508.pdf
- ³ Kaiser Family Foundation, “The Burden of Medical Debt: Results from the Kaiser Family Foundation/New York Times Medical Bills Survey,” 2016, p. 1.
- ⁴ PlanSource, “2019 Benefits Benchmark,” 2019.

For more information or to discuss how the research findings could help your workforce, please contact:

Kristin Tugman, PhD, CRC, LPC

Vice President, Health and Productivity Practice

207-482-4347

kristin.tugman@prudential.com

Group Insurance coverage is issued by The Prudential Insurance Company of America, a Prudential Financial company, Newark, NJ.

©2020 Prudential Financial, Inc. and its related entities. Prudential, the Prudential logo, and the Rock symbol are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.

1032545-00001-00

