



Health Insurance & Protection

BOARDROOM BRIEFING

CASH PLANS

- THE COMPANY-PAID AND VOLUNTARY MARKETS
- EMPLOYER OR EMPLOYEE BENEFIT?
- EFFECTIVE PROMOTION
- THE NHS AND PMI



In association with



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BEST LAID PLANS

The future is looking bright for the cash plan market



As businesses struggle to balance the books during these difficult economic times, it would come as no surprise to find that some employee benefits providers are finding the going difficult.

After all, which business isn't analysing their spend in microscopic detail looking for any savings they might be able to make?


However, some parts of the cash plan market have in fact managed to thrive during the downturn. The company-paid sector of the cash plan market, for one, has seen impressive growth, perhaps as businesses come to realise just how well the product can help them to address issues such as absence and presenteeism, and help them to keep a lid on the cost of their private medical insurance schemes too.

Participants at this *Health Insurance* Boardroom Briefing – leading intermediaries and product providers alike – outlined other reasons why an increasing number of employers are opening their eyes to the many ways that cash plans can help the bottom line.

Some cash plans offer access to business support lines, so that line managers and others can get access to advice that helps them to navigate their way through issues such as health & safety and employment law. The bedrock benefits of dental and optical also contribute to a business's success, helping to prevent short and long-term absence in the case of the former and helping employers to meet duty of care and legal obligations in the case of the latter. Not to mention, of course, refunds for physiotherapy and private consultations and – in the case of some cash plans – access to some forms of private surgical care.

The fact that employers, unable or unwilling to give meaningful salary increases, are also able to offer cash plans to employees as a sweetener was also on the agenda at the briefing and is another key reason why businesses are putting schemes in place.

Yet cash plan providers are coming under pressures of their own. After all, not only are they businesses in their own right, but fewer cash-strapped employees are paying for cash plans out of their own pocket. The voluntary sector of the cash plan market remains a challenge as the household budget of individuals within businesses feels the pinch.

However, participants at this *Health Insurance* Boardroom Briefing suggested that on the whole, the future remains bright for cash plans. While regulatory issues such as the introduction of Solvency II might pose a challenge to finance directors at some cash plan providers, the environment remains fertile for continued growth, for company-paid cash plans at least. Reforms to the NHS will make cash plans more relevant than ever, while the challenges facing the private medical insurance market could in fact work in favour of the product too. 

A stylized, handwritten signature in black ink that reads "David Sawers". The signature is fluid and cursive, with a large initial 'D' and a long, sweeping underline.

DAVID SAWERS, EDITOR

If you would like to comment on this, or on any of the issues raised in the magazine, please email david.sawers@informa.com



Richard Holden
Chase Templeton



Howard Hughes
Simplyhealth

Where is the cash plan market faring well – and which areas could improve?

Recent years have seen continued strong demand for company-paid cash plans, but voluntary take-up remains a challenge.

ON THE AGENDA

- The size of the cash plan market
- Company-paid sector in good shape
- Voluntary market needs more work
- The importance of promotion

As other types of employee benefits continue to feel the pinch and as some employers look to scale back on their spend, participants in this *Health Insurance* Boardroom Briefing were all able to report that cash plans remain, on the whole, relevant and of real value to their existing clients.

A generally upbeat mood throughout the briefing saw intermediaries and providers alike emphasise the fact that employers who have long-established cash plan schemes in place are

not likely to scale them back in the near future.

Indeed, many reported that once a cash plan scheme is in place, it is very difficult – and most employers are very reluctant – to remove it.

This year's figures from market analyst Laing & Buisson appear to back that confidence up. While there was a fall in the overall number of contributors to cash plans, that was restricted to the individual/employee-paid – or voluntary – sector. Businesses, it seems, are increasingly aware of the fact that cash plans can be an employer benefit as opposed to simply an employee one.

Howard Hughes of Simplyhealth reflected the mood of other cash plan providers at the briefing when he reported strong growth for employee paid cash plans.

"We're seeing growth in the company-paid area, and that's year on year now," he said.

"Whether it's because intermediaries have more

involvement in that area than it was before, or it's just simply top rate demand from some companies is an interesting point of discussion for us. But it's definitely year on year growth."

Participants at the briefing agreed that brokers have played a fundamental role in the growth of company-paid cash plans. According to Richard Holden of specialist advisory firm Chase Templeton, many intermediaries have engaged with cash plans to bolster their portfolio of products, while others have done so to ward off efforts by competitors to use cash plans to target their existing client base.

"You can't underestimate the role the brokers play in that growth," Holden said.

In fact, the number of employer-paid contributors to cash plans grew strongly across the market in 2010, by 11.2%, to reach 0.45 million, according to estimates from market analyst Laing & Buisson. That helped to slow the

fall in the overall number of contributors to cash plans that has been occurring in recent years. In 2010, the total number of contributors fell by 2.9% in 2010 to reach 2.65 million at the start of 2011, compared to a fall of 5.4% seen in 2009.

However, there has, undeniably, been market contraction in the individual/employee-paid contributor space, which declined by 5.3% in 2010 to stand at 2.21 million contributors. Participants were under no illusion that this market remains challenging.

Peter McAndrew of cash plan provider Health Shield said the voluntary side of cash plans has been "taking a hit" for the past two or three years and there remain challenges to addressing that slowdown.

"I don't see much growth in the voluntary market in the next 18 months," he said.

Paul Shires of Westfield Health, another cash plan provider, agreed that the voluntary market for cash plans remains "difficult".

"You can still make it work if you're willing to throw the resource at it," he said. "But people in the current environment are looking for something that covers a catastrophe – that's what they're particularly concerned about."

Participants agreed that more effort across the market could help to bolster demand in the voluntary space and that a more collaborative approach between providers, intermediaries and flexible benefits providers could help.

"In the voluntary market it is about working with proactive providers who are specialists and know their stuff in that area, not the ones who just pay lip service and put it on a website and expect the money to start rolling in," Holden said.

Simplyhealth's Hughes added: "Just expecting cash plans to sell off a website or people to just snap it up without getting out

"Where we get flex providers who actually work with us and with the employers, the take-up is huge"

Peter McAndrew, Health Shield

there and actually doing something with them, it's been shown that doesn't happen."

Promotion of cash plans in the flexible benefits arena also remains critical if the product is to thrive and employers and employees are to benefit.

Sharon Harwood-Davis of ADVO Group, a specialist intermediary, said she has witnessed a fall in the take-up of cash plans in flexible benefits arrangements.

"But again, that's where I think benefit fairs and the correct level of promotion and everyone working together will mean we'll actually see that probably start to rise again," she said. "Once

it's promoted correctly, I think that's where we'll start to see it coming up again."

Health Shield's McAndrew suggested that some – but not all – flexible benefits providers could do more around the area of promotion.

"A lot of flex providers pay lip service to promotion and then they complain that there's been no take-up," he said. "Where we get flex providers who actually work with us and with the employers, the take-up is huge."

The good news story, however, remains in the company-paid sector and participants emphasised the product's strength lay in the fact that once a scheme has been implemented, it become very difficult to remove it.

"There's some very good news for us all there, because I do see this market growing year by year in the company-paid sector," said Simplyhealth's Hughes. "That's growth that stays there, because these are benefits that are used by people, that are valued by people. Once they're in there, they're in there." 

THE CASH PLAN MARKET – THE FACTS

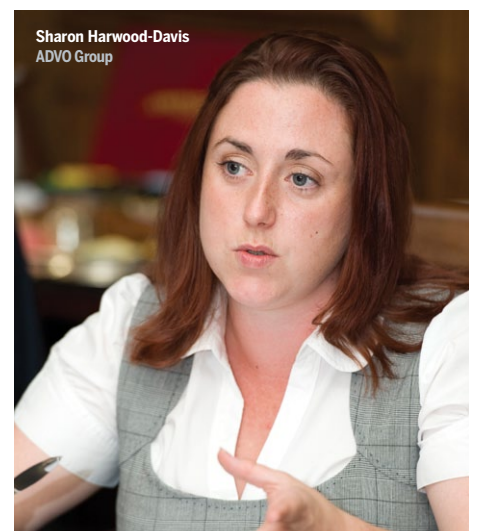
- The number of contributors to health cash plans in the UK fell by **2.9%** in 2010 to reach 2.65 million at the start of 2011

- This was a lesser blow than the fall of **5.4%** seen in 2009 but it was the third consecutive annual fall (**2.8%** decline in 2008)

- Recent market contraction was solely in individual/employee-paid contributor demand, which declined by **5.3%** in 2010 to be 2.21 million

- Employer-paid contributors grew by **11.2%** to reach 0.45 million, confirming that demand for cash plans from employers retains strong scope for growth

Source: Laing & Buisson, Health Cover UK Market Report 2011



THE PANEL



SUBJECT: CASH PLANS
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Guy Jones

Director
Berwick Devoil Healthcare

"I like the idea of keeping it simple and working with a sense of defined benefits"



Brett Hill

Sales director
The Health Insurance Group

"Sometimes cash plans have been guilty of trying to have almost too many benefits in there and it becomes quite crowded"



Peter McAndrew

Sales director
Health Shield

"A lot of flex providers pay lip service to promotion and then they complain that there's been no take-up"

Sharon Harwood-Davis
Business development consultant
ADVO Group

"If you start adding these additional benefits on, surely we're going to start going down a route where the pricing isn't going to end up quite so simple"



Russell Upton

Broker manager
Medicash

"If we go down that route with cash plans, putting endless amounts of different conditions on there, it just muddies the waters"

Mike Izzard

Managing director
Premier Choice Group

“It’s an open goal for a cash plan provider, sometime soon, to develop a proper dental option in return for a fair weekly premium”



Donna Garrett

New business healthcare
consultant
Jelf Employee Benefits

“We introduce a cash plan in where they can claim back some of the physio without having to go down the referred route for consultants”



Richard Holden

Director
Chase Templeton

“You can’t underestimate the role the brokers play in the growth of the cash plan market”

Howard Hughes

Head of intermediary marketing
Simplyhealth

“There’s some very good news for us all there, because I do see this market growing year by year in the company-paid sector”



Paul Shires

Sales & marketing director
Westfield Health

“The cash plan market is an exciting place to be – it is progressive and moving forward”



James Henson

Sales director
Health Matters (UK)

“If they use it right, a cash plan will give employees probably a minimum of £100, maybe £200, worth of benefit they can use every year. In that way it adds a tangible benefit to the employee”





James Henson
Health Matters (UK)



Brett Hill
The Health Insurance
Group

An employer or an employee benefit?

Cash plans provide benefits to both employers and employees but is there too much focus on the latter?

ON THE AGENDA

- Cash plans and absence
- Too many benefits?
- Simplicity and value
- Innovation

Differing opinions about the reason for the popularity of cash plans among employers were aired by panellists during the briefing. While some highlighted the product's breadth of scope, others said there is a danger that employees and employers could be overwhelmed by the size of the benefit schedule of most cash plans on the market.

However, all participants agreed that cash plans can be viewed as a benefit for the employer as well as a simple perk for staff.

James Henson of specialist advisory firm Health Matters (UK) pointed out that many cash-strapped employers are not in a position to give meaningful pay rises at present and cash plans can be a useful bargaining tool to use when in pay discussions with their workforce.

That was a point that was borne out in research published after the briefing had taken place. A survey of 230 UK employers by Aon Hewitt, the employee benefits consultancy, suggests that average pay increase in 2011 was 3.1%, well below the rate of inflation at 4.4% and the 4.6% average pay rise witnessed in 2007. And with Aon

Hewitt predicting projected salary increases for 2012 at just 3.2%, Henson's analysis that offering a cash plan could give employers an option to keep workers happy, particularly in lower wage brackets, rings true.

Henson said: "If they use it right, a cash plan will give employees probably a minimum of £100, maybe £200, worth of benefit they can use every year. In that way it adds a tangible benefit to the employee."

Henson was also one of a number of panellists who singled out the ability to use cash plans as a tool to address absence as a vital part of their appeal to employers.

He said: "How much time is lost through going to the dentist? How much time is lost for things like people going to the consultant, or waiting to go to a consultant, or needing therapy because they've got an injury and they can't work properly?"

By attaching a monetary amount to those levels of absence, intermediaries can make a far stronger business case to finance directors to put a cash plan in place, he suggested.

Sharon Harwood-Davis of advisory firm ADVO Group said that a lot of her clients are looking

more closely at absence and cash plans can be an ideal way to address problems in that space.

"We look at trying to step in way before we get to long-term absence," she said. "Looking at things right from that first instant, that first niggles, letting the HR get in there straight away and provide the solution before we get further down the line and it becomes a private medical insurance claim, becomes a long-term absence issue. That's where I think cash plans can actually fit in."

However, Brett Hill of The Health Insurance Group, another advisory firm, suggested that cash plan providers could do more to help smaller employers to tackle absence.

At present, many smaller employers are "terrified of getting it wrong" when it comes to absence and so back off from the issue or alternatively "go at it like a bull in a china shop," he said.

"If company-paid cash plans are going to develop, they could develop in some way into the absence management space," Hill said. "Now, whether that's getting more involved in the occupational health sort of thing with initial referrals for absence periods, or whether that's

dipping a toe into private medical insurance but only covering hospital treatment where that illness is actually keeping the employee off work, it could be very tightly focused on an employer benefit as opposed to an employee benefit.”

Nevertheless, one of the main selling points of cash plans, according to many product providers, is the breadth of benefits that they offer to employees. From the mainstay benefits such as dental and optical refunds to cashback for complementary therapies such as reiki and hypnotherapy, cash plans offer a diverse range of benefits designed to appeal to as many people as possible.

But The Health Insurance Group’s Hill said: “Sometimes cash plans have been guilty of trying to have almost too many benefits in there and it becomes quite crowded. When you read down the list of what the product covers and you have all these little bits and pieces that are covered – £20 here and £40 here – sometimes that actually can dilute the product in the customer’s mind in terms of understanding what it is designed to do.”

Russell Upton of cash plan provider Medicash agreed that there is a risk that adding additional benefits simply to gain a competitive edge was not necessarily in clients’ interests. Medicash, he said, would continue to offer the bedrock benefits offered by competitor providers and would only offer additional employer and employee benefits that are meaningful, such as access to Best Doctors, the second medical opinion service. Upton pointed to the example of the so-called “conditions race” in the critical illness market, where product providers were accused of adding rare conditions that will not attract many claims to their contracts in a bid to appear more competitive than other insurers.

“If we go down that route with cash plans, putting endless amounts of different conditions on there, it just muddies the waters,” Upton said.

Mike Izzard of Premier Choice Group, the intermediary, pointed out that a broad range



“If we go down that route with cash plans, putting endless amounts of different conditions on there, it just muddies the waters”

Russell Upton, Medicash

of benefits does help to sell the product in the first place, but he too cautioned against adding frivolous benefits to current offerings.

“If you make it too complicated, then people just won’t bother,” he said. “You’d be surprised when people look at a whole list of things and think, ‘there’s loads of stuff on here, is any of that relevant to me?’ They get lost in it and decide ‘no, forget it.’”

Sharon Harwood-Davis of ADVO Group, the specialist adviser, said: “If you start adding these additional benefits on, surely we’re going to start going down a route where the pricing isn’t going to end up quite so simple.”

Paul Shires of cash plan provider Westfield Health, meanwhile, warned that in the voluntary market, if benefits were just stripped down to optical and dental, by far the most popular of all the benefits provided by cash plans, “the premiums would be the same as the benefits”.

“You wouldn’t get the value,” he said. “There is a balancing act between putting benefits in that are valued.”



Howard Hughes of Simplyhealth, the provider, said one of the greatest selling points about cash plans is the product’s simplicity.

“It’s got to be simple to use, simple to sell, and this is where ‘innovation’ almost gets in the way,” he said. “I’m not going to argue and say that we shouldn’t have innovation, because we certainly should. But the primary thing in the cash plan market is it is about simplicity.”

Guy Jones of intermediary Berwick Devoil Healthcare echoed those thoughts.

“I like the idea of keeping it simple and working with a sense of defined benefits,” he said.

According to Peter McAndrew of Health Shield, the provider, the biggest challenge facing cash plan providers is ‘how do you innovate a product that’s been around for so long and is working so well?’

“The biggest challenge for all of us as suppliers is the question of product development and innovation, not the ‘do we put a GP helpline in here or take it out, do we have car parking charges or do we take them out?’ It’s ‘what product do we want?’”

Premier Choice’s Izzard suggested that cash plan providers should consider how they approach dental cover if they are to look for ways to innovate.

“One of the perceived top benefits is dental,” he said. “It’s very good coverage you give in return for the premium you pay. But why not decide to offer a decent dental benefit option at, say, £5 a week? You could blow dental providers out of the water because we have dozens, probably hundreds, of employers who have got a PMI plan, a cash plan, and because the dental isn’t quite what they want, we have to have a dental plan as well. It’s an open goal for a cash plan provider, sometime soon, to develop a proper dental option in return for a fair weekly premium.”

That was a concern shared by Donna Garrett of Jelf Employee Benefits.

“I can understand the argument about duplication of benefits,” she said. “If somebody wants dental and somebody wants a cash plan, you end up with the employee thinking, ‘well, I’ve got two brochures here and I’m not quite sure who I should actually be claiming from.”

PAY FREEZES AND SALARY INCREASE SLOWDOWNS – AN OPPORTUNITY FOR CASH PLANS?

- Salaries rose **2.5%** in 2010 and **3.1%** in 2011 (in 2007 the figure was **4.6%**) while price inflation stood at **4.4%** in July 2011
- Projected salary increases for 2012 are **3.2%**
- In 2011, organisations have awarded the highest increases at the middle management and professional levels (**3.1%**) rather than the top executives (**2.8%**) who usually received the highest increases prior to the recession

Source: Aon Hewitt: European Salary Increase Survey 2011 (responses from over 230 UK companies across a number of industry sectors)



Donna Garrett
Jelf Employee Benefits



Mike Izzard
Premier Choice Group

Cash plans, PMI and the NHS

Cash plans constantly need to adapt to changes in the NHS and in private medical insurance. Participants were confident that the product is well-placed to continue to do so, although challenges remain.

ON THE AGENDA

- NHS reform
- Cash plans and PMI excesses
- Cash plan sustainability
- Surgical benefits

Reforms to the NHS and the state of the private medical insurance (PMI) market are both major issues which affect the cash plan market, participants agreed, and providers will have to stay on their toes if they are to ensure the product remains affordable and relevant in the years to come.

Howard Hughes of Simplyhealth, the provider, said that the reforms, which will see GPs take charge of budgets for health spending in their local area, will provide both threats and opportunities for the cash plan sector. GPs, he pointed out, will have a financial incentive to encourage patients to use other mechanisms to fund their care outside the NHS. In other words, if GPs can ease pressure on their own budgets by funnelling patients to the private sector, an increasing number will choose to do so.

"I do see some greater pressure on people actually using their PMI or using their cash plan, simply because they've actually now got a gatekeeper whose interest is in pointing them

into using it," Hughes said. Cash plan providers predate the formation of the NHS and since its creation have looked to fill in gaps in health service provision, he added.

"We're a not-for-profit organisation, we exist to actually pay claims and help look after people and to complement the NHS," he said. "If you boil it down to why we exist as organisations, that's absolutely why we exist. It potentially provides us with huge opportunities to do what we've done very well for many, many decades now. So, in some ways it's a huge opportunity but I don't see it as all upside and we will have to make sure it's sustainable and manage that extra demand, whatever that extra demand is.

Westfield Health's Paul Shires agreed that the political reluctance of many GPs to direct patients to the private sector was fading.

"The time when you went to see a GP surgery and probably said you had PMI, you probably were

a bit embarrassed to say, but now they'll actively encourage it," he said.

Mike Izzard of Premier Choice Healthcare, the intermediary, said that NHS reforms would "definitely" increase demand for cash plans.

"It will probably take a bit longer and a bit more shoving and pushing for PMI to benefit from the difficulties of the NHS, but I definitely think it will improve cash plans," he said.

Participants were in no doubt, however, that cash plans are increasingly being used by employers to subsidise excesses on PMI schemes.

Donna Garrett of national intermediary Jelf Employee Benefits said that she is witnessing a lot of interest in cash plans from employers who are seeing high claims for things like consultations and physiotherapy.

"So we introduce a cash plan in where they can claim back some of the physio without having to go down the referred route for consultants," she

said. "It keeps the claims down on the PMI and as the premiums aren't going up as much next year. It allows the cash plan to be put in place and pay for itself."

Brett Hill of The Health Insurance Group, the advisory firm, added: "A lot of our growth is not companies taking healthcare out for the first time for their employees. It's displacement of premium spend, where people are reducing their premium spend on their PMI by capping their outpatient, increasing the excesses, or both, and trying to spread some of that spend across their company-paid cash plan scheme."

However, participants cautioned that increased use of cash plans in light of NHS reforms and PMI price inflation needs to be managed carefully if the product is to remain sustainable.

Richard Holden of Chase Templeton, the national intermediary, said: "As advisers talk to clients about using the cash plan in that way, our concern could be sustainability of the pricing from cash plan providers, because it's perceived to be a cheap product with great benefits. If you're subsidising £250 excesses frequently on PMI schemes, you don't need to be a genius to realise that the prices will increase all the time."

Guy Jones of intermediary Berwick Devoil Healthcare highlighted the extra administrative burden that is created when cash plan reimbursements for hospital consultations are involved.

"The concept of being able to have the same consultation paid for twice is very alien to a lot of people," he said. "So it takes a lot of work from our point of view to explain that."

Premier Choice's Izzard, though, said cash plan providers "shouldn't worry too much" about the product being used as a funding vehicle for an excess, "because it's finding growth".

"Cash plan providers shouldn't worry too much about the product being used as a funding vehicle for an excess, because it's finding growth. Growth means that you're all doing more business"

Mike Izzard, Premier Choice Group

"Growth means that you're all doing more business, I hope, and your exposure is limited to £150, £250," he said.

Recent statistics from market analyst Laing & Buisson suggest that the cash plan market is in rude health, in spite of concerns from some commentators that some cash plan providers are burning through their reserves in an effort to grab market share in the short-term.

While overall spending on health cash plans fell sharply by 7.1% in real terms during 2010, benefits paid fell by 8.2%, which likely reflected weak everyday healthcare spending. That means that margins for cash plan providers edged to a new high, Laing & Buisson said.

Howard Hughes of Simplyhealth, the not-for-profit provider, said: "We have to be financially secure because you have to be to survive. We've got very healthy reserves which we can use, we can choose to invest where there is the opportunity to do so. We're very healthy financially, which leaves us in a very good position where we can actually say, 'right, what can we do to actually invest in building a new Simplyhealth that fits the space that's been left by the NHS?'"

Simplyhealth, which recently announced its


intention to acquire the UK healthcare business of Groupama, provides both PMI and cash plans and so is well-placed to thrive in the new healthcare landscape, Hughes added.

The potential for other cash plan provider to get closer to PMI was also on the agenda at the briefing. Westfield Health's Surgical Choices plan has been on the market since 2007 and the provider has now also acquired PatientChoice, the hospital treatment plan provider which underwrote the product.

Westfield's Shires said the cash plan market is "an exciting place to be" at the moment since it is "progressive and moving forward". Surgical Choices, which offers cover for 16 non-urgent surgical procedures that are often the subject of long NHS waits and the reason for employee absence, has gone down well with intermediaries and employers alike, he said.

"We'll never be a PMI provider and it's just about how far do you go on that journey," he said. "But we're really pleased with the sales of our surgery option."

Health Shield, meanwhile, has floated similar hybrid surgical/cash plan concepts with intermediaries at a pre-product development stage, but the provider's sales director Peter McAndrew said the constantly shifting sands of the NHS make a product launch complex for now, at least.

"We've got to take time to see what is going to happen with the NHS over the next 12 months," he said. "When you're looking at product development, now is not the time to totally rush into everything, because you could rush into something and in 12 months' time it will be actually useless because maybe the changes won't have happened. It is a time really to reflect on what's going on, but it is a big opportunity for us if we get it right." 



Richard Holden
Chase Templeton



Paul Shires
Westfield Health



Guy Jones
Berwick Devoil Healthcare



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