

Trends in Worksite Marketing

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Worksite Marketing (WSM) Defined

Benefits sold on a voluntary basis to employees of a corporation. The premiums are collected at the workplace (via payroll deduction) and there is no employer contribution towards the premium.

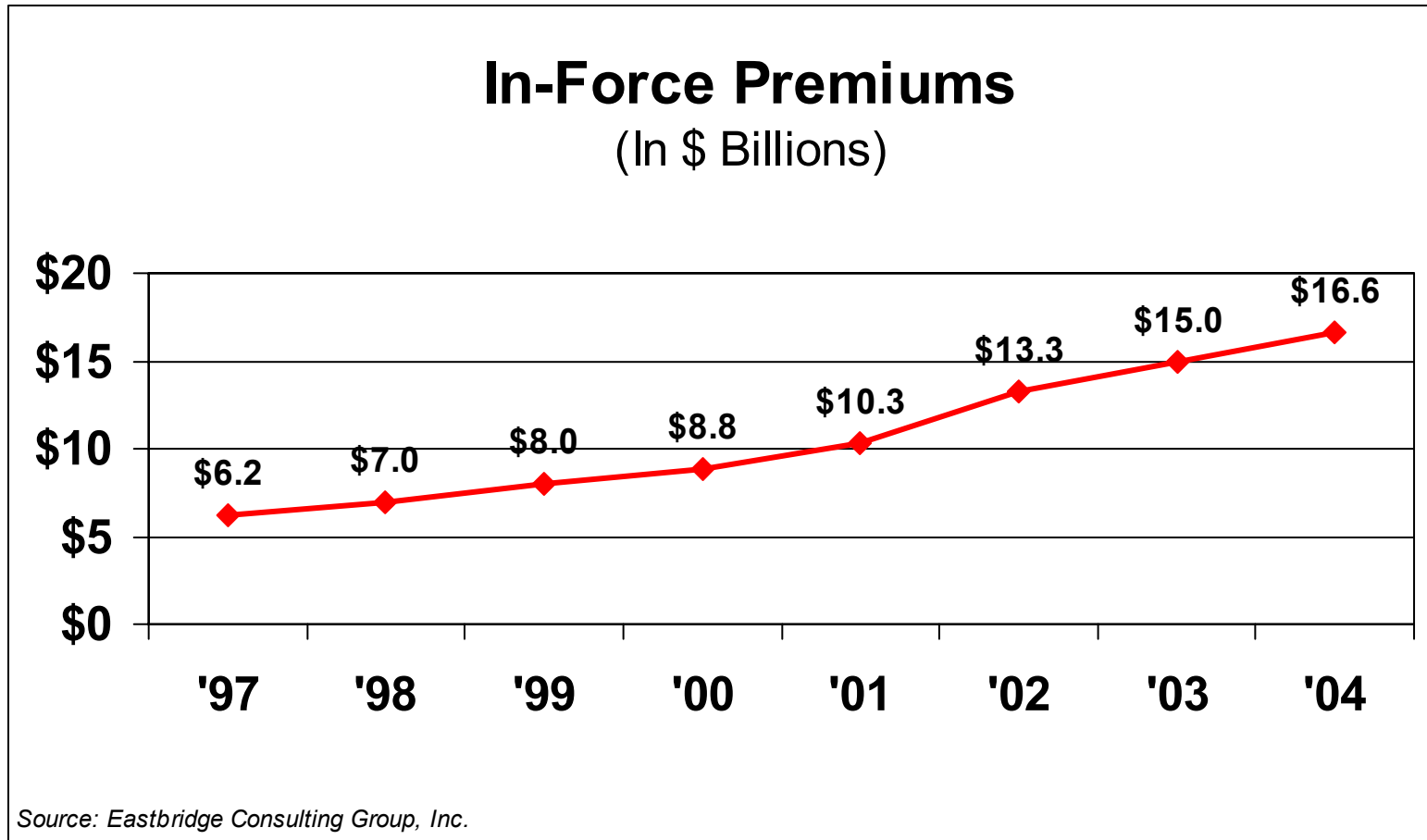
Reasons Employees Purchase WSM Benefits

Why Buy?

Strongly Agree

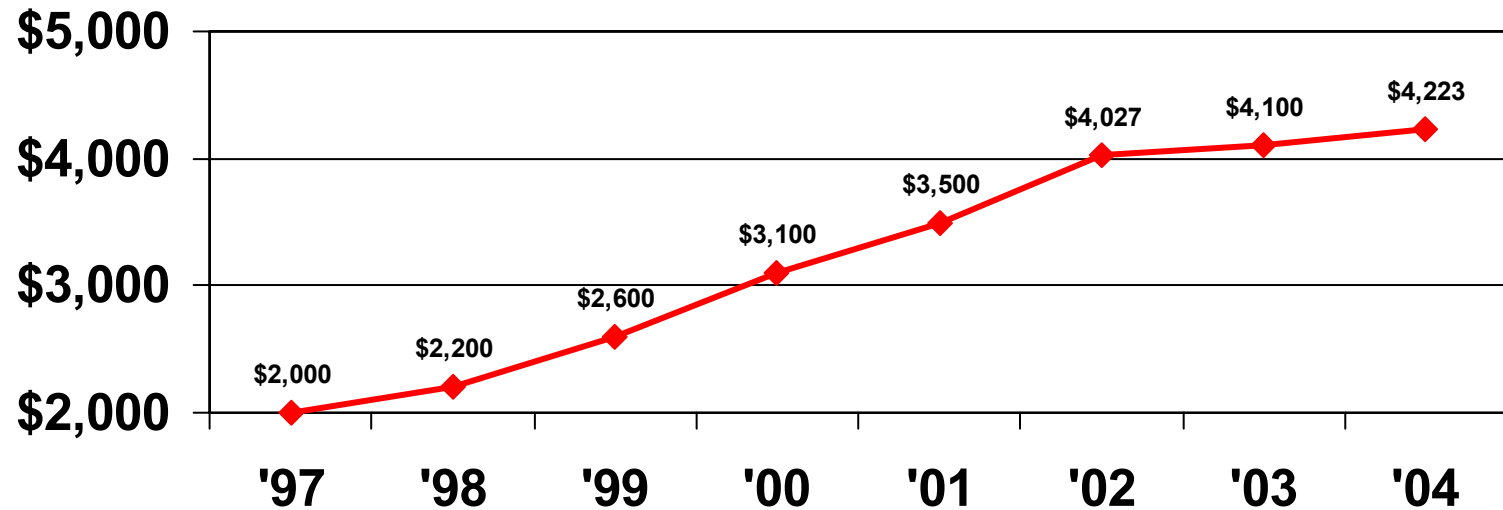
Payroll deduction is convenient	62%
Payroll deduction helps me to be more disciplined	51%
I can sign up for insurance without medical exams	50%
More convenient than shopping on my own	43%
Better rates/group rates	41%
I trust employer to screen carriers and find best products	32%
My employer will provide objective info about vol. benefits	32%
I will get better customer service from co.'s providing benefits	21%

Overview of the WSM Industry



Overview of the WSM Industry

New Business Premiums (In \$ Millions)



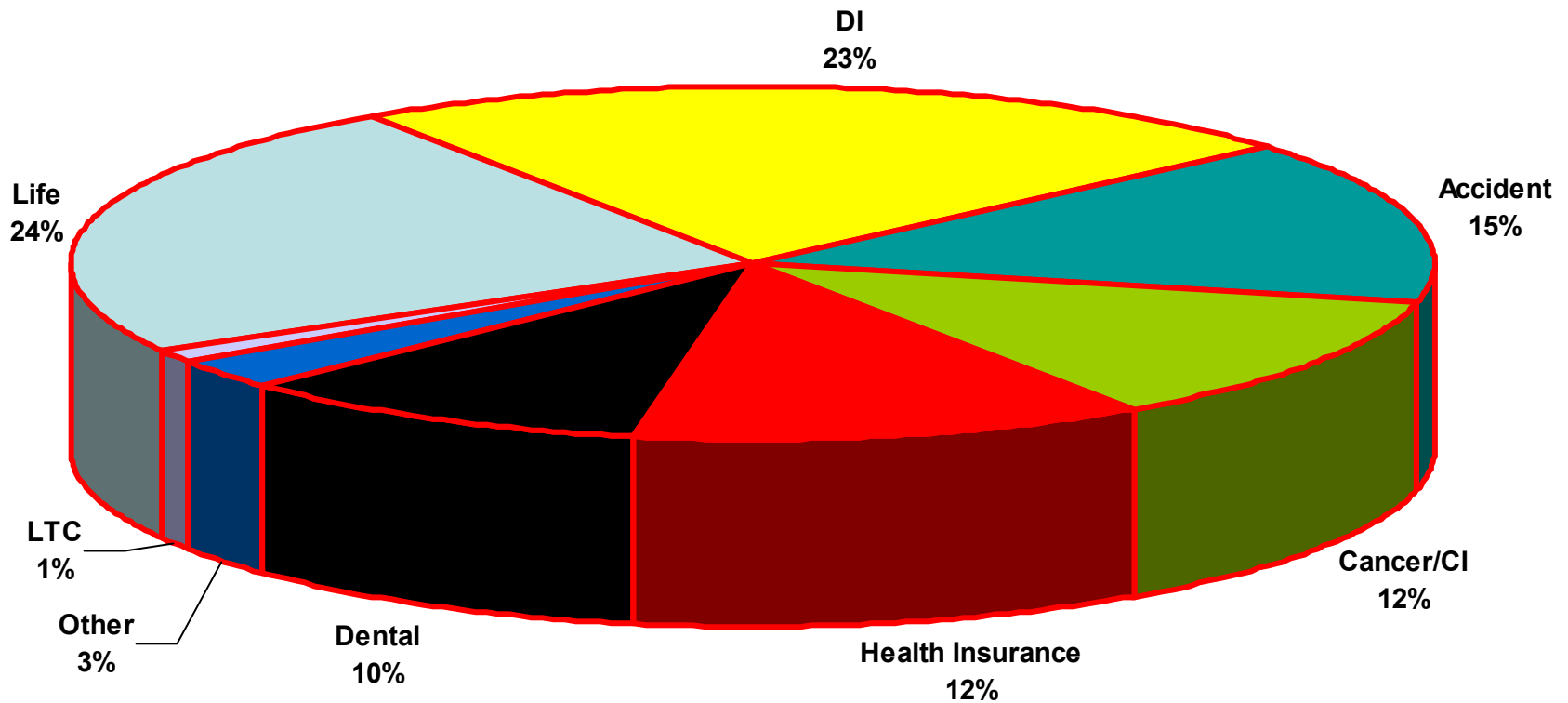
Source: Eastbridge Consulting Group, Inc.

What Are Consumers Asking For?

- “Medical-Related” products
- Dental
- Vision
- Prescription Drug
- Long Term Care (LTC)
- Long Term Disability (LTD)

Overview of the WSM Industry

Product Mix of 2004 Sales



Most Profitable Products in 2004

#1 Accident

#2 Hospital Indemnity

#3 UL / Whole Life

#4 Term Life

Life Products vs. Health Products

2004 Sales Growth

- Health products greater than Life products
- Hospital Indemnity / Supp Medical = +80%
- Disability = +3%
- Life = -3%

Individual Products vs. Group Products

- 2004 New Sales

Group = 40%

Individual = 60%

- 2004 Sales Growth

Group = +4%

Individual = +1%

Individual Products vs. Group Products

Individual

- Can be customized to fit individual needs
- Low or no participating requirements
- Will not lose coverage if employer stops deductions

Group

- Employer determines eligible classes and benefits
- Minimum participation required
- Employer can cancel coverage leaving a gap for employees

Why Some Carriers Use Group Filings

- Ease of filing
- Ease of implementing rate increases
- More simplified pricing approach

Distributors of WSM Sales

Broker Segments

Employee Benefit Brokers =	36%
Classic Worksite Brokers =	13%
Worksite Specialist Brokers =	8%
Occasional Worksite Vendor =	8%
Multi-Line Agencies =	3%

Career Agents = 28%

* Percents do not total to 100%

Winning WSM Sales Tactics

- Earn employer buy-in at all levels
- Set expectations up-front
- Employ effective, multi-faceted communications approaches
- Spend more time educating and less time selling
- Close the loop; get all employees to consider and reply

Challenges to WSM Sales

- Discretionary money to spend (not much left due to increasing healthcare cost burden shifted to employees)
- New regulations (e.g. CA mini-med only available if covered under full medical)

Metrics used by WSM Carriers

Question: What gets tracked often?

Answer: Sales (80%-90% track quarterly)

Question: What gets tracked less often?

Answer: Profit (\approx 25% do not track on-going)

and Persistency (20% do not track on-going)

Largest Challenges Facing WSM Carriers

Profit

Persistency

Challenges to WSM Profit

- Irrational pricing
- Reduced margins to increase sales
- Employer/Broker push to reduce risk tools:
 - Increase GI limits
 - Increase enrollment period limits
 - Reduce medical underwriting
- Initial participation
- Persistency
- High up-front acquisition costs

Guarantee Issue

- True group usually has GI
- WSM usually ties GI to participation
- Brokers want GI to get more paying customers...needed to support high acquisition costs
- GI risk can be mitigated by pre-ex

Participation

- Increasing participation from 25% to 30% will have an expected improvement in risk results of approximately 7% to 9%
- Even at 50% participation, the improvement in risk results for a 5% improvement in participation can be expected to be \approx 4% to 5%

Persistency

- 40% to 60% first year lapse rates
- Efforts to maintain customer if they leave their employer

Compensation

- True Group

All Years = Level 15% to 30%

- Worksite Marketing

First Year = 60% to 80%

Renewal years = 15% to 20%

Summary

- Continued shift to employee paid benefits
- Strong sales of medical-related products
- Carriers filing WSM products on group chassis
- Carrier focus on tracking/correcting profitability and persistency issues

The End