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EMPLOYER SPONSORED INDIVIDUAL LIFE INSURANCE

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- The Market
- Organization and Service
- Administration
- Experience

MR. ALLEN D. BOOTH: Welcome to the panel discussion on Employer Sponsored Individual Life Insurance.

We have a very good panel assembled today. The group includes experienced men from distinctly different backgrounds; including the chief financial officer of a major life insurance company writing payroll deduction ("PRD") business, the sponsored markets sales manager from another major company and the president of a regional company specializing in payroll deduction marketing.

Believing that payroll deduction is characterized by success criteria that are quite different from most ordinary sales methods, we have intentionally oriented our selection of panelists and our format in the direction of sales and distribution techniques.

MR. CLARK A. BYRUM: Our company writes about 80% of its policies through payroll deduction methods. About 50% of our premium comes from this area. We are very involved and interested in it.

I think the future of payroll deduction marketplace really hasn't been scratched. Most companies have had the tendency to treat salary deduction type products as stepchildren. I know I did for years, but I think it is rapidly becoming a very interesting and lucrative form of business. Particularly, the advent of Universal Life, and the other contracts that companies are using to carry policies through periods of layoff or unemployment are helping.

The main reason that payroll deduction is becoming interesting to employers is that most companies are having a difficult time providing employer benefit plans at a reasonable cost.

* Mr. Byrum, not a member of the Society, is President of Key Life Insurance Company.

** Mr. Rettenmayer, not a member of the Society, is Sponsored Markets Sales Manager with Northwestern National Life Insurance Company.

The Market

There are three market areas for payroll deduction life insurance:

1. The executive employee. One product and one approach won't satisfy everybody. The sale to the the executive employee is unique, more sophisticated. A quality product supported by a fairly elaborate proposal system will be needed for sales success.

2. The non-exempt employee. This sale is quite different. Although a quality product will help here also, the major emphasis must be on simplicity. The key ingredients would seem to be ease of purchase, a convenient and level premium payment, and the reinforcement of a belief that the life insurance policy is valuable. We find that the blue collar employee likes a pre-packaged type of program. He wants a fixed face amount, and he wants a pre-packaged premium that he feels he can handle. Computerized proposals serve, mostly, to add unnecessary confusion.

3. The dependent of the employee. This would also be a pre-packaged type of sale, but for significantly lesser face amounts, even down to the $1 and $2 a week level of premium. Many payroll deduction systems don't allow this.

As you look at the payroll deduction life insurance marketplace you might think about those three marketing approaches and remember their uniqueness.

MR. CARL RETTENMAYER: First of all let me tell you a little about my involvement in the payroll deduction business with Northwestern National Life. I have been with the company for 15 years and most of those years were spent, in one way or another, marketing payroll deduction type products. At one time our individual payroll deduction products and mass marketed group direct response type products were under one marketing area called special markets. Later, we separated the two functions: group and individual. I then started devoting 100% of my time to individual payroll deduction. Until this year most of our payroll deduction activity was directed toward finding markets for career agents. One objective was to bring new recruits into the life insurance business and teach them the payroll market early so that they could have daytime activity. We did that until 1983. At that time we were writing about $1 million in premium.

Since January 1, 1983 we have changed our distribution system and are now a PPGA company. We have expanded our field force from approximately 500 career agents to about 3000 PPGA's. Since January 1, 1983 our new premium (including part of this year) has been about $3 million from the payroll marketplace. At the same time we came out with our Universal Life product, so I think the two helped each other.

We feel quite excited about payroll marketing at Northwestern National, but we don't feel it will ever be the major part of our ordinary sales. Right now it is running somewhere between 5-10%. I think the percentage will increase over the years because there is a great future in it, and we think the mood is right. Government regulations are encouraging employees to take care of themselves. We feel that employees are in the mood to buy voluntary products to protect themselves, and, consequently, employers are also more interested in listening to ideas from agents.

Probably 5-10% of our payroll sales are to dependents. We haven't really promoted it, but we find that there is a lot of interest. We are making it easier, now, with the way we design our application. For example, we let the employee sign for the spouse. We used to require the spouse to sign, and the employee would have to take it home. By doing a few simple things like this we are going to greatly increase our dependent/spouse coverage with individual type policies.

MR. BYRUM: I would say approximately 60% of our company's business comes from dependents. We find that our sales persons are finding it a convenient sale.

MR. BOOTH: In the middle of 1983 my firm conducted a survey of the payroll marketplace. We drew the following conclusion from that survey:

(1) The number of companies who view payroll as a primary market focus has increased rapidly during the early 1980's. Today there are at least 60 identifiable companies who treat it as a special market supported by special product and special systems. I think Mr. Rettenmeyer's remarks, regarding the way they reorganized, is indicative of the way many companies are now approaching this special market.

(2) In 1982 it appears that between 150 and 175 million dollars of new premium was placed through payroll forms of life insurance marketing. For 1983, we estimated that about $225-250 million of new premium was placed. That is a 67% growth rate, and it seems to be continuing.

(3) The companies that started marketing earlier were mainly stock companies, and primarily those companies that did not use career agent field forces. However, within the last six to twelve months, several of the large mutual, career agent companies have started making major efforts to establish their presence.

(4) Many companies are quite pleased with the results of their efforts. Some are sorely disappointed. The most instructive comments seem to come from those who have revised their programs and have since become successful. The easiest mistakes to make are those related to treating this market as if it were any other ordinary piece of business.

There are three critical areas where you must differentiate in your design and in your thought process.

One is in product design and price, neither of which appear to be critical in their own right in the payroll deduction market. However, the advent of flexible premium products has clearly helped this market to prosper. Mr. Byrum alluded previously to the value of the Universal Life stop-and-go premium in the event of strike or layoff.

A second critical area, and one cited by many respondents to our survey as being the best way to err, is administration. Rarely do we perceive administration as being the success factor of prime importance. We more often think in terms of marketing and product. Yet, in this instance, administration is crucial; particularly, billing and premium collection, out-processing terminating employees, and underwriting and policy issue efficiency.

A third area where lessons were learned is the sales process. Great attention must be paid to organizing the distribution network and to the fact that this is a two-tier sale.

Organization and Service

MR. RETTENMAYER: As of January, 1983 we broke our agency department into several areas, three of which are called "product pods". Another major area is what we call the "sales company". The function of the product pods is to develop and market products on a wholesale basis. The function of the sales company is to recruit and contract regional managers who recruit and contract general agents or PPGA's to sell the wholesaled products.

Our sponsored marketing effort, which includes PRD, is part of the business insurance product pod. We distribute PRD products in two ways.

First, we have to service our sales company and its general agents and PPGA's. This involves developing complete sales material oriented to an agent who is new to the PRD marketplace. It includes developing manuals, brochures, audio-visual shows, and conducting agency meetings oriented toward motivation and training. We also provide continuing support as agents grow in the business.

Second, we seek out marketing firms that specialize in PRD. Such specialty firms are becoming quite numerous and many do a fine job. When we work with these "agencies" we generally discard our traditional precepts related to marketing through general agents. We will tailor to their needs based on their experience and capabilities. Usually, they develop their own brochures, audio-visual shows, and so on. Sometimes, they will do their own billing and, essentially, act as a third party administrator. Our approach to the specialists is far different from our approach to our sales company PPGA's.

In either situation we find, as Mr. Booth mentioned, that service is a key. We have organized a "jet" unit for handling PRD business. We have a chief underwriter and two issue clerks that do nothing but process PRD business. The issue clerks process 95% of the business. They are authorized to approve on a simplified underwriting basis up to certain amounts. The idea is to get the business in and out very quickly and accurately. Our one underwriter will underwrite only questionable applications and higher amounts.

Our policy issue department has two issue clerks that specialize in issuing sponsored marketing business. They work very closely with the underwriting department to effect a smooth flow from underwriting to issue to policy service.

We have three billing clerks and a supervisor that handle PRD billing, and they also work very closely with the issue and underwriting people so that we have constant communication.

Service and administration is clearly a key. You can develop and market the best product in the world, but unless you can administer efficiently, chances for long term success are diminished.

MR. THOMAS SKIFF: We market PRD through independent brokerage agents. They have had to go through a fairly extensive training program in order to "be qualified to sell the product". The program makes heavy use of seminars and audio-visuals and is very structured.

The first step in our sales process is a presentation to the employer, using audio-visuals. The next step is an employee "seminar", using a detailed script. Employees will complete applications during or at the end of the seminar.

Our PRD operation has its own separate policy series as well as its own administrative area. Not only is the new business (underwriting/issue) function separate, but the post-issue service is provided by a distinct unit.

We use a simplified application with two medical questions, but one of them is broad enough to cover most ailments. If everyone actually answered this question fully, we would have nearly as much information as from a full long-form application.

We also use guaranteed issue but our limits tend to be conservative relative to the industry. Our rules are very simple. Eligible employees numbering 250 or more qualify for guaranteed issue. (Less than 250 employees qualify for simplified underwriting.) Many companies start guaranteed issue at a much lower level, probably somewhere between 25 and 50 employees, but impose participation limits for smaller numbers of employees. Because of our seminar methods there is no easy way to handle participation rule requirements, so we established a simple guideline that is easily understood.

Administration

MR. SKIFF: Two regulatory happenings have concerned us: ERISA and Unisex.

Although we have concluded that ERISA reporting is not necessary, such a conclusion relies on the facts that employee participation is voluntary, there is no payment by or to the employer, and there is no employer endorsement. There might be some question regarding the absence of endorsement since the employer does usually provide work time for enrollment and sometimes provides endorsement letters.

We do suspect that we will be affected by the Supreme Court decision on Unisex rating. Our new product, a Universal Life form will be on a Unisex basis. Many companies have already moved to a Unisex rating basis.

Billing is one potentially major problem area. It is certainly our obligation to accommodate the employer through modification of normal billing standards. We have a system providing for collection of premiums once every four weeks or once a month. If an employer pays on either a weekly or a bi-weekly basis, we send him a bill every four weeks. If an employer pays semi-monthly or monthly we send him a bill once a month. It is important to set model premiums so as to accommodate either basis.

If an employer has multiple locations, we will provide separate bills to each of those locations. An employer has three choices on the order of the bill. It can be alphabetical, by social security number, or by employee number. For very large employers, where hard copy bills would be difficult to handle, we'll provide the billing on magnetic tape. Basically, we will try to accommodate the employer, but this leads to much work for the policyholder service department.

After the sale most of the contact is directly with the employee. Policies are mailed directly to the employee. Neither the agent nor the employer is involved. An "800" number is provided for customer service calls. When that number is called, the person who answers the phone has an on-line system on which they can dial up the status of a specific policy to answer about 90% of the questions. If the policyholder request is for something that requires a written authorization, we will even fill out the appropriate form and mail it to the employee. They only have to sign and return the form to us. It is a very service oriented business, and we are getting a lot more service requests than we had initially anticipated.

MR. BOOTH: Some companies using fixed premium products have strongly indicated that the key to their success has been their billing system. The best way to adversely impact persistency is confuse or frustrate the employer's bookkeeper and lose a whole case.

MR. RETTENMAYER: We try, even during the underwriting process, to think of the employer's payroll person. When we underwrite, we handle rated cases by issuing the premium applied for but for a reduced face amount. Our basic billing process is monthly; however, we do get requests for other modes and will adjust our billing procedures to accommodate. We can also use magnetic tape. A major problem is that agents sometimes fail to let us know in advance. Sometimes, we have to backtrack to accomplish these things. You do have to be very flexible.

We automatically date policies the first day of the second month after the application date. One problem is that the agent often does not understand that he is supposed to start deductions prior to that time. Sometimes, the employer will wait until he gets the bill to start the deduction.

MR. BYRUM: Actually, I will bill them by the hour! If you are going to be in this business, quite frankly, you have to have the ability to bill the way the employer wants. You can't go to him and tell him what you expect to be done. The sales piece is really a relatively small part of the business. Administration counts. We have some wonderful service representatives that visit the employers every two or three months to find out if there are any problems. We also solicit any new employees that may be eligible for the program at that time.

Experience

MR. BOOTH: Which panelists can offer insights, by way of actual fact or by perceptions, as regards lapse experience, mortality experience, and expense levels? Certainly, PRD is unique as compared with other individual products.

Mr. SKIFF: One place where we made fairly conservative pricing assumptions was mortality. We started with the assumption that most of the business would be on a guaranteed issue basis. The mortality assumption was, therefore, 100% of the 1965-70 ultimate mortality table. As it has turned out, a very small portion of our business is guaranteed issue. Our new product will use a more realistic mortality assumption, on the order of 80% of '65-70 ultimate graded to 100% in 10 years.

We know our mortality assumption for the first few durations was conservative because we do a budget based on mortality assumptions and experience. However, we don't have a solid feel for the long term rate.

Lapse rates have been very high. Seminar selling places peer pressure on employees, and a certain amount of buyer remorse sets in. There is a lot of variation in lapse rate depending on the quality of the person doing the enrollment. We have found that, if the case was solicited by a highly qualified person who has done a number of enrollments in the past and could present the plan in its best light, then the employees understood what they were buying and kept it. When the enroller wasn't so good, worse persistency resulted, especially in the two months immediately following the enrollment. As a result, there is an argument in favor of backing away from the occasional brokerage case to a system using paid enrollers working with large accounts.

Expense assumptions are fairly obvious. Underwriting and issue costs, if simplified, should be 50-60% of those for regular business.

Maintenance costs have been similar to normal policy maintenance costs.

Agent commissions might be reduced if more than one sale is made at a time. This should be an efficient method of marketing.

Profit margins can run about 6% of premium, measured as the present value of profits divided by the present value of premiums on the statutory basis. Profit, measured as a return on investment, can be fairly high because of the reduced issue/underwriting expense and possible reduced first year sales compensation.

MR. BYRUM: I used to think I was an expert in persistency until we moved from the fixed premium to the flexible premium product. I no longer know much, because the meaning of lapse ratios has changed significantly. Our lapse experience was very good when we used fixed premium products. I think we will have a higher persistency rate with the new. Also, our average size premium has doubled since going to a flexible product.

MR BOOTH: Among the several companies with whom we've worked, only one has documented statistically credible, unfavorable mortality experience. Abuse of underwriting standards appeared to be the principal cause. Many companies express pleasant surprise.

As with any form of insurance business, persistency will be a function of the quality of the sales process. However, with PRD, two other factors will have an impact: (1) billing and service quality and (2) the economy. It is well documented that PRD lapse rates escalate in times of economic distress. Not only are people laid off and/or otherwise short of cash, but also business failures occur causing the loss of entire cases.

Some of the expense assumptions that have been used in pricing PRD products appear optimistic, often being borrowed from those used for deferred annuities.

A year or two ago there was an opportunity, in the PRD market, to secure a quite favorable expected profit margin even with fairly adverse experience assumptions. The market has become a bit more competitive, and margins may be contracting somewhat.

Some companies have attempted to replace the agent as the primary service provider after the sale. In many established agencies you will not be working with payroll deduction professionals who make their primary living from that source. Often these people, while selling individual insurance to businesses, discover the opportunity to install a PRD plan. In many cases those people would rather not be burdened with the post-sale service. As an alternative, the home office can employ service specialists. Why not use an "800" number with a person's name associated with it? That person could have direct responsibility to an employer as if it were a "customer account". The person could be looked to for long term service rather than the agent. This would tend to cement the employer/company relationship. The agent is still important and can't be eliminated, but if you can establish a link between the company and the employer, you have gone a long way toward protecting against the consequences of the loss of an agent. Particularly, this ought to be of concern to those companies that are selling through brokers or PPGA's.

MR. DOUG POAPST, Great-West Life: We are just in the process of introducing PRD in Canada. We will concentrate on small cases (under 250 lives), simplified issue, and a career agent field force. We developed a very structured sales approach without "pressure", trying to impress upon agents that they will get the best results by not using pressure.

Our next emphasis will be on large cases. We have some disagreement on how this should be done. I understand that one of the benefits to an employer is that it will be "no cost" to him and, perhaps, it might be best to specify that he cannot pay anything.

MR. SKIFF: At least in the states, if there were an employer contribution, employer reporting requirements would change significantly.

Many larger employee groups are unionized. We have had a great deal of difficulty getting to the union through management on any type of voluntary plan.

If PRD comes through the union, there is less of a problem. Management will often agree to a union originated proposal, but a better penetration will result if you come in through the union and solicit at the union hall or after work.

In some of the stronger unions the feeling is that all employee benefits should be 100% employer paid, so there is that objection also.

MR. MIKE HARRINGTON, Kansas City Life: We currently offer a traditional whole life plan in the PRD market and are contemplating offering Universal Life as well. Our marketing people, using the traditional plan, emphasized the fixed weekly premium. They are thinking of doing the same thing with Universal Life, not really stressing the flexibilities or the cash value buildup. They feel that "Universal Life" is useful in selling the employer but not the employee.

MR BOOTH: It is clear that the PRD sale should be a simple one. Many people think the use of ledger statements only confuses the prospect. They say, "if you go beyond premium, face amount, and cash value at retirement age, you have probably given too much information". I have always thought of Universal Life not so much as a product as a family of products. While it can take a great many forms, it need take only one or a few forms for a given market. What occurs is "packaging". You might use a high death benefit to premium ratio in one market (e.g., lower income) but a more heavy cash value orientation in a more upscale class (e.g., a "white-collar" engineering firm). While you can make these kinds of adjustments with your Universal Life policies, that need not come through at point of sale.

MR. RETTENMAYER: We have a ledger book with face amounts fixed, but with various weekly premium amounts listed. The agent can show that, if you put in $3 a week this is how much cash value you will have at 65, and if you put in $5 a week this is how much you will have. We show the "vanishing point" of the premium.

Barriers To Employer Sponsorship

MR. BOOTH: In our PRD survey we asked what barriers might exist to obtaining the employer's authorization to install a PRD plan. We received four answers. One was fear of high pressure tactics, another was loss of time and employee productivity, another was fear of the insurer not giving universal coverage (in other words, rejecting some applicants), and the fourth was a fear, which has been well discussed here, that ultimately the employees would "force" the employer to contribute to the plan.

Another possible approach is suggested here. An insurance company could sell to a large employer without an agent involved. Someone, the payroll clerk or employee benefits manager, might become insurance licensed and then act as an order taker from inside the company. A true no-load product might be feasible.