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Group Life: Strategies For Survival

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Summary: Several trends are developing in the group life marketplace, including market saturation, decreasing returns, internal competition for capital, and threats from outside competition. Group life operations are increasingly being faced with grow or die scenarios.

The panelists address strategies for success in an increasingly competitive environment. Discussion topics include:

- *Market trends.*
- *External benchmarks.*
- *New markets and products.*
- *The role of mergers and acquisitions.*

Mr. Thomas R. Corcoran: The session will be in two segments. The first will define what you need to include in strategies for survival and the second will talk about specific strategies involving group universal life (UL) and group variable universal life (VUL). After that we will have an informal workshop.

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Note: The chart referenced in the text can be found at the end of the manuscript.

My presentation will be in four pieces: (1) an industry overview or market dynamics; (2) the requirements for success; (3) strategy definition or key components; and (4) action steps to get there.

The group life industry has been changing dramatically. This has been driven mostly by the change in medical markets, where managed medical care and HMOs have dramatically changed the landscape. As a result, group life has become unbundled from medical insurance and is now being sold on its own. Companies who are in the medical business, especially HMOs, are driven by market share concerns, and they're not going to do anything to distract them from that. Group life used to be linked to medical and that was the strategy for distributing it. Now that strategy is gone. The result is that life now has to compete on its own merit.

A lot of insurance companies have created separate profit centers for group life in order to recognize this change in the environment.

The result is a commodity market. Group life is generally a simple product. There is not much potential for expanding the total market for regular group term life because everybody has it already. Group life is a difficult product to differentiate. Most companies are struggling valiantly to differentiate their products, but they have not been able to do so successfully. As a result, competition is based on price. When that happens, the profits are squeezed. Most group life carriers are not, by nature, low-margin companies, so competition based on price is difficult for them to deal with.

One result of this environment has been market stratification. I describe that as a split between top-tier players and marginal players. I define top-tier players as companies that have superior size, reputation, expertise and distribution. In a very competitive marketplace, as we're seeing today, those companies can still generate a small profit on new business. Companies that don't have these attributes are in a marginal position. It's difficult for marginal companies to generate profits on new business in such a competitive environment.

Another force driving the marketplace is that companies are directing their capital to their core businesses. They are focusing on areas where they can grow profitably. This strategy translates into a "grow or else" strategy. If companies can't grow a line of business profitably or have a competitive advantage there, they are taking their capital out of that line and putting it someplace else. That place will be a core business they think can grow profitably. As a result, business as usual is not a viable strategy. What is needed is a sound growth strategy that's going to make money at the same time.

We see success as requiring a two-prong strategy. First, you're going to need that top-tier capability. That's rapidly becoming the minimum necessary to play, or the

floor of what customers expect. This will differentiate between companies that can make money in a price-differentiated environment and companies that will be losing money.

Another aspect of top-tier capabilities is that they will define the company and create the company's reputation. It is a company's reputation that will give it consistent high-volume access to the market share.

What we see in the marketplace, especially for large cases, is that when a case goes out to bid, a handful of companies are always on the bid list. There is no shortage of group life companies, so getting on that short list is difficult. To do that, you have to have a reputation as a top-tier group life provider. When brokers decide to put your name on the list, it's because they know they will get no surprises before or after the sale. They know your quotes will be consistently competitive, that you're going to provide excellent service, and that they won't get complaints from employees. That's becoming the minimum expectation in order to compete.

The second prong of the strategy is achieving profitable growth. The first aspect of profitable growth is having economies of scale. Size is a critical asset.

The second aspect of profitable growth is infrastructure investment. Size is also critical here, because infrastructure development is a large fixed cost. To compete on price, companies are looking for super-efficient administration costs, possibly by getting into things like Internet distribution. The ability to make large investments in infrastructure may define who has the potential to succeed in the future group life market.

The third aspect of profitable growth is that it requires identification of carefully developed strategies. Companies will have to segment their markets and analyze their risks carefully. They need to target their distribution to create profitability.

What do we mean by top-tier capabilities? First, it means achieving superior mortality results. Managing claims effectively requires measuring experience and identifying key risk factors. Experience measurement is probably the most overlooked piece of managing mortality. Everybody knows that, in life insurance, a claim is a claim; there isn't much discretion. What is critical is how well you measure your experience, identify key risk factors, and segment your business into profitable and unprofitable blocks. That is how companies improve their mortality. It's not through tighter claims management, but through tighter selection. This selection won't be underwriting risk selection, as commonly defined. It will be market risk selection. What markets do you want to be in? Which cases in those markets do you want to write? and What benefits do you want to sell them?

The second requirement for top-tier capabilities is superior service. Employers and employees have come to expect increasingly high levels of service. They're starting to translate service standards from one environment to another; what they get from L.L. Bean today, they'll expect from their insurance companies tomorrow. This could mean providing overnight service if your customer calls you today and wants the coverage tomorrow. Whatever the customer wants, there will be companies that will specialize in providing it. Once a few companies define a new group life service, that becomes the new minimum to play. Recent examples have been living death benefit riders and retained asset accounts. In the future, service capabilities will be the key drivers.

The third aspect of top-tier capabilities is superior expenses. In a price-driven environment, you have to be efficient. Customers will demand effective service and low cost. The ability to administer group life on an efficient basis may determine whether you're going to be profitable or not. We see expense efficiency as less likely to be a positive differentiator than a negative one.

A fourth aspect is superior distribution effectiveness. That means you can't overpay for your distribution. Historically, insurance was producer-driven; you provided the product, paid the producers, and that was enough. Now the group life market is price-driven. Price has become more important than distribution, so distribution effectiveness has become the issue.

In addition to price, client relationships are critical. You need to redefine your services. What is your company's relationship to your client and how do you strengthen it? The combination of distribution effectiveness and redefining client relationships will lead to a need to address alternate distribution channels, such as the Internet. Non-insurers, such as banks, will be moving into the group marketplace. Even if your company is not doing something with banks, you will need to react to them as competitors.

Next, I would like to discuss profitable growth in more detail. This really addresses two types of strategies. The first is organic growth, which is basically growth through selling one policy at a time. The second is growth through mergers, acquisitions, and joint ventures.

Mergers, acquisitions, and joint ventures will have a major impact on the group life industry in terms of creating large companies that will be very hard to compete with on a pure commodity basis. In addition, the commodity-based market will very likely continue to have the dominant share of the group life marketplace. However, larger companies often find it difficult to innovate because of commitments to existing distribution channels, etc.

I would like to digress for a moment to talk about two strategies that have represented the insurance industry's pet solutions for profitable growth. Almost every company has had a so-called "niche" development strategy. Also, companies often have had plans for differentiation. These have been intended to address industry competitive problems and the commodity environment. Unfortunately, these strategies have been used rather glibly, and a lack of rigor has characterized the insurance industry's approach to them.

My description of niche development requires a unique relationship to a specific market that creates an enduring competitive advantage. The key terms are "a unique relationship" and "an enduring competitive advantage." There are only a few organizations that have implemented this successfully. Many executives say in their business plans they are going to make a particular market their niche. That's great, but what they need to ask is "Why is our company unique?" In other words, what can their niche market get from their company that it can't get anywhere else? What will it be about your company's relationship that differs from all your competitors? And if you have done something different and it works, why can't everybody else copy it? Unless companies specifically address these issues, they haven't identified a true niche strategy and won't get the profitable growth they're looking for.

A few companies have been very effective in developing niche strategies. Teachers Insurance Annuity Association-College Retirement Equities Fund is a company that has established a truly unique relationship with its market. Another example is the American Association of Retired Persons.

The other type of strategy I would like to discuss is "the breakthrough strategy." This strategy requires doing something new that does not exist today. Successful breakthrough strategies are even more rare than niche strategies. Breakthrough strategies have a lot of upside potential, but few companies are willing to make a major investment in a strategy that is radically different from what everybody else is doing—something that can be described as a fundamental change in product, service, efficiency, or distribution. If your company can successfully implement a breakthrough strategy, it creates a marketplace that you will own for a long period of time. It will be extremely difficult for other companies to move into your market.

One company that has done this in the life insurance market is Forethought Life. It is an extremely successful group life carrier, selling pre-need insurance, which is also called burial insurance. The company distributes small face amount group life policies through funeral directors, a market it has built up in relatively few years. Right now Forethought Life has over \$400 million of very profitable group life premium in—force, making it one of the top 10 group life carriers. However, breakthrough strategies like this are very difficult to craft and implement.

Next, I will address action steps, or how do you get there? There are three action steps. First, you assess the current situation, because the strategy that you develop should be consistent with your culture, capabilities, and objectives. The issue here is, what can you build on? What do you need to fix? One size does not fit all companies.

The second action step is to develop the top-tier capabilities as we have talked about. And the third step is to develop profitable growth strategies. You should get external validation to make sure that your strategies have a good chance of succeeding.

How do you achieve top-tier competitiveness? First, start with external benchmarks about competitive pricing assumptions. This includes not only competitors' rate levels, but also their rate structures. What flexibility do they include and what parameters do they differentiate their rating by? The more sensitive your rating methods are, the more accurately you can rate a case. An extra degree of sophistication can be the difference between making small margins on some cases and not losing small amounts of money on other cases. It is not enough to be right on average anymore.

Competitive plan design is next. What do other companies have available? What does the marketplace demand? You also need to analyze your operational effectiveness. How do your claim, underwriting, and administrative operations stack up against industry best practices?

Finally, quantitative measurement criteria and effective management reports are critical to successful implementation of any strategy. You need a clear, quantifiable goal, and you must measure your progress toward that goal. I have found that most companies don't want to spend much time or effort on the measurement process. Their goals are set in terms of results, without defining the drivers and measuring how successfully those drivers are being implemented.

Finally, I want to address the action steps needed to implement a profitable growth strategy. First you must conduct a customer needs analysis. This requires connecting directly with your customers rather than working through intermediaries. In other words, find out directly from your customers—both employers and employees—what they want. Do not rely on your distribution force or other intermediaries because you will get different answers if you ask directly.

Companies also need to address distribution effectiveness. Distribution is the largest single cost element in the small-to-medium group marketplace. Very little cost/benefit analysis has been done on distribution; it has been accepted as a fixed cost rather than a service your company is paying for. Companies need to take a fresh look at what they want their distribution force to do and how much they are

paying for it. What are the values that distribution adds to the process? Are there other ways to produce those values at a reduced cost?

Now companies are talking about distributing group life through the Internet. The question is, how do you deliver the value added traditionally provided by the producer? What are those values? You can't just make group life available; it doesn't sell. There's a major component to Internet sales or direct marketing that companies have yet to address; the value added by their distribution force. That value needs to be identified and quantified. A dollar value has to be placed on it.

Mergers, acquisitions, and partnerships also need to be key considerations in your strategies. In a competitive environment, growing one policy at a time is the most expensive way to grow. We have already mentioned niche and breakthrough possibilities. Companies need to study these and to be objective about what is going to make their strategies work. Even if companies do not engage in these strategies themselves, they compete in a marketplace where they will become major issues.

I hope this has provided you with an overview of strategic theory with respect to group life. Now I'm going to invite Ralph Folz from Seabrook Benefits to talk about implementing a specific strategy.

Mr. Ralph Folz: I was with MetLife for 32 wonderful years, until two years ago, when I left to take an early retirement and start my own life insurance consulting firm. The last three years at MetLife, I ran the group UL operation, which was and still is very successful. I was also the person to convince management at MetLife to develop a group VUL product and be the first major carrier to introduce that product to the marketplace.

I want to describe some of the features of group UL and group VUL and why they are attractive products for corporations and employees. I'll do that by simply listing what causes employees to like this product. Following that we'll talk about some features that appeal to corporations that might choose to offer it to their employees. Finally, I want to talk about the size of the market, how big it is, and which companies have market share. Maybe you can update me on which carriers offer those two products or might have one or the other product under development. We'll also discuss what an attractive case might look like if your company should decide it wants to sell one or both of these products. In closing, I will discuss why it makes sense for insurance carriers to develop and offer these products, as well as how to position them in the marketplace.

What are some of the advantages of these products to employees? First and foremost, both of these products are life insurance products; they shouldn't be

offered as retirement products. Historically, life insurance companies have had difficulty selling life insurance products as investment or retirement products.

Group UL and group VUL are poor substitutes for 401(k) plans and mutual funds. You shouldn't buy them unless you need life insurance. One of the attractive features of both products is that you can contribute beyond the cost of your term insurance. You can make contributions to a side fund and use the money at your will. However, most people plan to use the money that they have built up to purchase paid-up life insurance to fund retirement. So, group VUL is marketed on the basis that you're going to build up a fund during your working years. The theory is that you'll use that fund to purchase as much paid-up life insurance as you can. The product is not the usual term product that goes away at some point; it becomes a permanent life insurance product.

Group UL and VUL have guaranteed issue features, similar to those you're already familiar with. They also have attractive group rates; we can tell employers that they can provide this product to employees at lower rates than employees could purchase it for themselves in the individual marketplace.

The tax deferred cash accumulation fund feature is critical. Earnings are not taxed until you remove the money from the fund.

Another important feature and attraction of these products is the portability feature. If employees leave their employer, they can take this life insurance product with them and be billed directly by the life insurance carrier. Portability also applies if a corporation terminates one of these plans. The employees would have the right to continue their coverage by making payments directly to the carrier or their third-party administrator.

Another advantage to employees is that they have a number of options that they can choose at retirement, including buying paid-up life insurance, converting to an annuity, or even putting the money into a certificate of deposit. At any time, they can surrender the contract and remove accumulated funds for any reason.

Access to money is easy under group UL and VUL. You can take loans, surrender the contract, or make withdrawals. If you have money put aside in the accumulation fund, premium payments could be deducted. Finally, you have the convenience of payroll deduction.

From the employers' point of view, installing either one of these plans requires virtually no cost. In fact, an employer can benefit in the sense that many employers self-administer their basic and optional life insurance products. When you buy a group UL or VUL product, the insurance carrier takes over the recordkeeping functions.

There are no promises under these voluntary products that the corporation is going to provide life insurance past retirement. Also, it's a good supplement to a 401(k) plan for high-wage earners.

Employers have the usual grandfathering issues—that is, if you replace an optional life program with group UL or VUL, you usually grandfather the amounts of coverage that employees previously had. No one has to re-qualify from a medical point of view for the coverage he or she had under the prior plan. The plans are very flexible, which appeals to employers, and they're easy to administer. Finally, it's good for employee goodwill. Voluntary benefits are becoming popular, whether it's group property and liability insurance, vision care coverage, or group UL. Employees are grateful for attractive coverage and rates that they can secure through payroll deductions.

Chart 1 shows how much group UL and VUL premium is in-force industry wide currently, as well as some projections for the future.

Most of the premium in force now is group UL, a product that has been sold by a number of carriers for the last 15 years. Group VUL is just now beginning to be sold by MetLife, CIGNA, Prudential, and other companies. At the end of 1997 there was \$1 billion of group UL premium in force, and it is expected to grow by 10–15% a year. This is opposed to traditional basic and optional term insurance, which may be growing by 2–3% a year. This is an opportunity to achieve faster growth by introducing products that are gaining in popularity. By the end of this year, I predict that there will be \$1.15 billion of premium in force; I actually think it will be closer to \$1.2 billion.

In 1997, based on the best information I have, CIGNA sold about \$15 million of premium, Prudential \$25 million, and MetLife about \$40 million. So far in 1998, I think MetLife's sales are in excess of \$40 million, and I'm a little less certain about Prudential and CIGNA.

With respect to market share, MetLife, which was helped by its purchase of Travelers nonmedical operations a few years ago, is the industry leader with about \$460 million of group UL and VUL premium in force. CIGNA, which was tied with MetLife before the Travelers deal, is second with about \$340 million. Prudential, which recently redesigned its group UL product with some help from my firm and recently introduced a group VUL product, is increasing its market share rapidly. It now has about \$100 million of premium. Aetna has about \$50 million, and I've lumped all the other carriers together and estimated they have about \$50 million.

Next I want to talk about which carriers are offering either or both of these products, based upon the best information that I have. MetLife, Prudential, CIGNA, Paragon, and Minnesota Mutual offer both products. The latter two companies actually

offered the group VUL product before any of the three major companies. And John Hancock is developing both products now. Aetna, UNUM, and Allianz have a group UL product, but not a group VUL product. Finally, Guardian, AIG, and Provident have recently introduced, or are about to introduce, a group UL product; I'm not sure what their plans are with respect with group VUL.

Most companies first develop a group UL to see just how painful and expensive it is. Only when that process is at least half way or further along do they make the decision to commit the funds and human resources to develop a group VUL.

What would represent a good target case for either or both of these products? I have put together a profile. You want to look for a company of a fair size. Group VUL, in particular, is complicated and expensive enough to be suitable for corporations with 1,000 or more employees. Group UL is less complicated and less expensive to administer and can easily be sold to companies with as few as 200 employees, as several carriers are now doing.

You want to look for a company where the basic plan that is paid for by the employer is not overly rich. This is true when you're selling traditional optional term insurance as well. You don't want a prospect where the basic life insurance paid for by the employer is two or three times salary, because, for many employees, that's enough insurance. You also want to offer group UL or group VUL in place of, rather than in addition to, an optional plan.

Some companies say, "Our employees love life insurance." Kodak said this when I was at MetLife. Kodak had two times basic and up to six times optional. But we had to come in and put a group UL plan in on top of those six or eight times earnings, and we learned our lesson. Employees don't need and generally don't want 8, 10, or 12 times their salary unless they're sick and dying.

I would look for a company that either doesn't have an optional life plan, or if it has one, is willing to have it replaced by one or both of these plans. I would not be talked into offering group UL on top of optional, unless those offerings were very modest in scope.

For group VUL, in particular, you want an average salary of about \$35,000. Low-paid employees don't have the disposable income needed for either one of these products. They probably have limited knowledge when it comes to selecting investment options and mutual funds for group VUL. You are probably headed for trouble by offering these products to companies with low-income employees.

Ideally you'd love to have a company that doesn't have a 401(k) plan. I was surprised to read recently that quite a large percentage of companies still do not offer them. If they do, I hope that they have a large number of high earners that are

exceeding the \$10,000 401(k) maximum. Those employees will be clamoring for other vehicles to invest in and enjoy tax-deferred growth.

In addition, you want a group with low turnover. It's very difficult to have a successful voluntary plan of any type when you have 30% or 40% employee turnover. You cannot get enough new employees to sign up to replace employees that signed up during the initial excitement generated by the introduction of the program. You can get into what is called on the medical side "a death spiral." When you have fewer people in a program, the rates start to go up, which drives more people out. Pretty soon the plan dies on the vine.

You also want employer support. This means recommending to the employees that they buy the insurance. It means allowing enrollment meetings to take place at the work site during working hours, putting posters up, and inserting materials in pay statements. You need that type of employer support; if you don't have it, it's an uphill battle.

Finally, in some industries where you have a lot of high earners, these products seem to be subscribed to in greater numbers, resulting in an overall more successful program. I've identified pharmaceutical, computer, investment, accounting, and consulting firms as being very attractive prospects.

Why should a carrier develop either or both of these products? The main reason is the rapid growth of these products. There's a window of opportunity because only 2,000 of the approximately 12,000 corporations that have more than 1,000 employees have group UL or group VUL. Second, fewer than 10% of group life carriers offer these products. If you have these products or get them fairly soon, you will be one of a few providers to the large number of companies that haven't purchased them yet. I predict that, within five years, most large companies will have one or both of these products.

I tell carriers as part of my sales pitch, "If you don't have these products and other carriers do, what happens to your existing book of optional business?" Met, PRU, CIGNA, and others will be approaching your large, important optional life clients to offer a product that you don't have. How will you respond when your clients say they want this product? In addition, my company and others are telling corporations throughout America to ask their carriers about this product.

Once a group UL program, and particularly a group VUL program, is put in place it's very rare that participation drops to the point that the program is terminated. It's a difficult program to move from one carrier to another. Group VUL, in particular, where employees have a variety of mutual funds, is hard to move. The competitor may offer some very good funds, but not the same ones you have now.

Another reason to develop these products is to increase market share and profits, which everybody in this room wants to do. Strong equity markets are another reason. More individuals are oriented toward equities than ever before. People have come to realize that, in the long term, you are better off investing in equities.

How would you position these products in the marketplace? Let's say you had group UL, group VUL and a portable optional term life product. One strategy, for example, is to offer that group UL or VUL product to your employees in place of a current optional life plan. The advantage is that it's simple and clean; you're probably dealing with a single administrative system. If you offer both products side-by-side, it's also fairly simple for employees to understand. That is a positioning strategy I recommend for companies with high average earnings and low turnover. If they meet those criteria, it's just a matter of time before an employer wants to offer mutual funds.

One way the program could be set up is for employers to pay for the cost of the life insurance and allow employees to contribute to the side fund. This is referred to as "cost plus."

A variation of cost plus is "cost plus a specified amount," where the employer essentially decides that everybody has to pay the cost of insurance, plus \$X a month. Employees can give more than \$X if they like, but everybody has to invest a minimum amount. This approach is designed to fund the purchase of paid-up life insurance at retirement.

Carriers also offer a "target-level premium" option, where you fund the desired amount of paid-up life insurance you'd like to have at age 60. We can estimate how much you should put in the side fund every month to accomplish that objective. "Multi-option" provides employees with a choice of several boxes to check. Carriers ask them, "Would you like to contribute \$10, \$20, \$50, or \$100 a month to the side fund?"

An entirely different approach is to offer both products and let employees choose between them. The problem with this is that group VUL has the fixed income option that group UL has, plus all the other options.

Some companies will say, "We want to offer group VUL to our top executives who are sophisticated, knowledgeable, equity-oriented high earners. We're going to offer group UL to everybody else." This way, they're only describing one or the other of those products to each segment of the employee population. That is a very legitimate strategy.

Other companies say, "We're going to skip group UL and go right to group VUL, because it has everything that group UL has." In that case, we'll offer portable

optional term life side-by-side with group VUL. If employees don't want to contribute to a side fund, they buy the traditional optional life; if they want a side fund, they buy group VUL.

There are several administrative functions that have to be performed when offering these products. For the most part, they're functions you're familiar with when offering an optional term insurance product: communications, enrollment, certificate issuance, and underwriting. Suitability comes into place with group VUL because the National Association of Securities Dealers says the carrier has an obligation to prevent individuals from investing in mutual funds that are not appropriate for them. It's like buying stock from your broker; your broker has a responsibility to make sure that you're not buying a hedge fund when you're about to retire and have limited savings.

Other administrative functions are billing, premium processing, and claims. Specific to group UL and group VUL products are loans, surrenders, transfers, lump sum contributions, and purchasing paid-up insurance.

Customer service is not much different from that of other products. Statements of account and tax reporting are a little more complicated, though. Some carriers have decided not to invest money to develop the infrastructure required to administer these products. They outsource the administration to a third-party administrator, such as Kirke-Van Orsdale Inc., which specializes in group UL administration.

Some companies that have bought, or are in the process of buying one or both of these products include CBS, Lucent Technologies, AT&T, the American Institute of Certified Public Accountants, J. P. Morgan, Emory University, Ernst and Young, PriceWaterhouseCoopers, United Airlines, and Amoco. Unions especially like the product because it demonstrates to their members that the union is bringing innovative ideas to their attention.

The last thing that I'll mention is that these are asset-building products. If I were to put a chart together, there would probably be about \$1 billion dollars in side fund assets among those major carriers that we discussed before. Under a simple group UL program, carriers credit a lower rate of interest than they earn. Not only is it a significant source of income to carriers, but it is also very predictable and reliable.

Mr. Thomas X. Lonergan: I was wondering how your clients are dealing with the complexity of compliance with Section 7702 rules?

Mr. Folz: There are limits to the amount of money that individuals can contribute, either to group UL or group VUL, and the limits are fairly liberal. They are designed to keep this product looking like a life insurance product and not a mutual fund, which is taxed differently. Individuals' contributions are limited by the face amount

of insurance that they have. The more insurance they purchase, the more they can contribute to the side fund.

There are two limits; if you exceed the first limit, which is fairly generous, your contract becomes a modified endowment contract. Carriers, by the way, have software and systems in place to detect when a contribution to a group UL program exceeds this limit. Then the insurance carrier asks if you want your contract to become a modified endowment contract. Under a modified endowment contract, when you take out a loan, make a withdrawal, or surrender your contract, it is assumed that the earnings are withdrawn first, on a taxable basis. Under a traditional group UL contract, when you make a partial withdrawal or a loan, the earnings are assumed to come out last on a tax-deferred basis.

If you exceed a second limit, then your contract is not life insurance at all, and it is not allowed. Insurance carriers monitor contributions to make sure that the definition of life insurance is not violated by excess side fund contributions.

Mr. Mark D. Biglow: You talked about one company having a rollover to a CD at retirement. That would not qualify as a 1035 exchange, so it's taxable. Is that correct?

Mr. Folz: I believe it would be correct, and I don't know that anybody has elected to do it for that reason. I mentioned it because it's offered by Prudential, which is the only carrier I know that allows that. I think you're correct. I am not a tax expert, so I'm not suggesting that would be the smartest thing to do from a tax management point of view.

Mr. Thomas A. McInteer: As far as your knowledge goes, do companies allow spouses to have separate group UL policies with separate cash accumulation funds, or just cover them as a term rider basis?

Mr. Folz: All carriers that I'm familiar with allow spouses to build a cash accumulation fund separately from the employee. It's a totally separate certificate and fund.

Mr. Daniel L. Wolak: Are interest rates on group UL generally just point interest rates, or are some companies into "hot rate" type of interest rate setting?

Mr. Folz: Different carriers handle that different ways; however, most companies offer a single rate to all corporations, which is good for a calendar year.

Some years back, MetLife would assign different interest rates to different corporate employers. Mobile might get 6.5% and Chevron might get 5.75%. I believe that changed before I left because we found it exceedingly difficult to explain to the corporation that somehow found out about this. Nothing is ever a secret in this

business, and most companies now have gravitated to one rate for all companies. I think CIGNA changes its rate quarterly and Met changes it annually. Carriers have gotten away from saying, "Let's get fancy and have different cells and different rates for different companies." It is something I recommend against; there's really no advantage from the carrier's point of view, and I can think of a number of disadvantages.

I just wanted to expand on one thing I said earlier. Most companies are moving toward paying the same interest rate to all corporations. Having said that, they also have what are called "new money" and "old money" rates. They will pay a slightly higher rate on money that is sent in during the current year than on money that was sent in during prior years and has been accumulating. The purpose is to get people to continue to contribute.

Mr. Michael L. Barsky: This question is addressed to Tom. I agree with what you said earlier about group life becoming more of a commodity market now. What sort of borrowing from the individual market do you see group life products taking in order to compete with an increasingly competitive individual marketplace?

Mr. Corcoran: There's going to be a blurring of marketplaces. People have talked about that in the past and I think we'll see it in the future. One issue is that, in the group term marketplace, there is not much competition from the individual term market, except in the high face amounts. This is because it is an expensive proposition to sell policies one at a time. This leaves a major gap in the individual life insurance marketplace. There is a large and growing number of lower and middle-income employees who formerly were served by the individual marketplace, but now are not served at all.

This gap is a tremendous opportunity that companies are attempting to address in several different ways. One is work site marketing, which nobody has really solved yet. I think that work site marketing is a good example of an infrastructure issue; if a company made the right investment in infrastructure, it might be able to solve both the administration and distribution issues associated with that marketplace.

One of the key issues for insurance is that it is sold, not bought. That applies to the voluntary group marketplace as well as the individual marketplace. It's logical to see the employer as a more efficient delivery system. What companies have not figured out is how to replace the face-to-face contact with the agent and the value-added by the agent. Few companies have tried to dissect that value. Traditionally, in the individual marketplace, it was bundled and the value added by the agent was carefully defined as "free." That discouraged people from identifying exactly what those values are and trying to find alternative ways to deliver them. In general, the value is in delivering various types of information. Possibilities for alternative

delivery include using the Internet to deliver value-added information. Banks may also try to find ways to deliver added value through group insurance vehicles.

As the insurance products become less bundled, you'll find individual distribution forces trying to sell term insurance on a work site marketed basis and group distribution forces trying to sell optional group to traditionally individual customers. You may also see banks and direct marketers trying to pick specific spots. These distribution forces will be trying to figure out how to identify the pieces of information that agents traditionally delivered and deliver that information through the Internet or another direct source.

CHART 1
GUL/GVUL PREMIUM IN FORCE

