RECORD, Volume 26, No. 1*

Las Vegas Spring Meeting
May 22-24, 2000

Session 11PD
Payroll Deduction Supplemental Health Products

Track: Health

Moderator: DARRELL D. SPELL
Panelists: HAL DENTON†
DARRELL D. SPELL
Recorder: DARRELL D. SPELL

Summary: Panelists discuss the worksite market. What delivery systems are used to provide these supplemental health products? What is the value of these products to the employee/employer? How do carriers interact with the employers and employees? What types of products are available? What are the major pricing issues in this market? What are the cost implications of this marketing approach?

Mr. Darrell D. Spell: I will be talking about the actuarial issues. Hal Denton will be talking about the marketing issues. Hal is a marketer's marketer. I call him a super broker. I think he calls himself a managing general underwriter. He is going to be the featured speaker, giving some of his perspectives on the payroll deduction marketplace. You are going to, I think, thoroughly enjoy what Hal has to say. In fact, I'm so convinced that I'm going first because I don't want to have to follow his act

First, let me give you a quick summary of what I plan to talk about next. I want to give you just a quick background on worksite marketing. There are some varying definitions. I have a fairly broad definition. I want to make sure that we're all clear as to what we're talking about. Next, I'm going to talk at a fairly high level about some of the actuarial issues related to the worksite market. Then I want to take a fairly quick look at some of the products that are available. I'm fascinated at what you can buy through the worksite marketplace. We'll wrap up the actuarial portion of this presentation by talking about some of the pricing and expense issues.

How does Darrell define worksite market? As I said before, it is defined fairly broadly. I would start by saying it's the marketing of voluntary insurance. The key word there is "voluntary." This voluntary insurance (and related products) has three underlying criteria. First, there is some specific or implied endorsement of an employer, a union, or some employment-related influence group. That could be, for example, a credit union. It might be, in some instances, some kind of professional association. But there is some employment-related influential group that's driving this.

†Mr. Denton, not a member of the sponsoring organizations, is Vice President at Abacus, Inc. in Knoxville, TN.

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A second key point is that the enrollment is occurring on the job site, or at least there is a substantial marketing occurring on the job site. I have seen cases where the employer for some reason would not be comfortable with the enrollment taking place on site. Rather, you had to actually go to people's homes. They tried to make up for that by doing significant marketing on the job site.

The final point is that there is some group or list billing process. The premiums might be taken out of payroll through direct payroll deductions that are remitted to the company, or they may be taken out through the union dues, where the union remits the premiums to the insurer, or through some kind of credit union transfers or other similar means. There are a lot of ways to do it, but that's my definition. It is fairly broad.

I have a little more background on worksite marketing. It's probably one of the few growth markets in insurance right now. The Life Insurance Marketing and Research Association (LIMRA) reports that over a four-year period, the number of employees insured through worksite products is up over 50%. More significantly, the number of employers participating in offering worksite products is more than 60%. I think there are a lot of reasons behind that, which we're not going to talk about, but one that I think is significant is that individuals are more comfortable in the employment environment. They assume that their employer has done some due diligence. They assume it's a fair product or they wouldn't be buying it. It's clear that individuals prefer purchasing their insurance in the work environment by a margin of two to one over having an agent sell it to them at their home. I think that's pretty significant.

That's talking about the individual side. I think it's also a real positive for employers. It allows them to offer employee benefits to their workers at a minimal cost because often they don't participate in the cost of the actual insurance product.

I love the payroll market. I think it is phenomenal. But as with any market, there are pluses and minuses. I wanted to quickly run through some of the advantages. The first huge advantage is you have access to a really large number of customers for every "sale" that's made. I put "sale" in quotation marks because it depends on what you define as a sale.

I started out in this profession as an actuarial student working for a payroll deduction company. For reasons that I'm not quite clear on, I ended up heading up the marketing department, and then later I became a regional sales director for North/South Carolina, Kentucky, Tennessee, and Virginia. It has been 15 years since I first went on an enrollment, but I will never forget it.

I was the new marketing guy talking to agents and recruiting agents. I'm supposed to know this stuff. Somebody finally said, "Could you help me with an enrollment?" I said "Sure," but I thought, "Oh my goodness. What do I do now?"

We went into a plant in central Tennessee. We were down in the bowels of the plant in a little break room where we were doing our presentation. There were six

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We went into a plant in central Tennessee. We were down in the bowels of the plant in a little break room where we were doing our presentation. There were six people there. There were two agents, the ones who actually control the group. There were also two senior managers from that state. These were brokers. They were very polished and very sophisticated. You could just look at them and see that these guys knew what they were doing. There was one of the senior marketing officers from our home office. And then there was this 28-year-old mathematician who was trying to convince everybody he was a marketing guy. I was scared silly.

When the first person came in, the others said, "Darrell is the home office guy. Let's let him do the first one." I sat at the table and the person came in. I wish I had a picture of this. The guy sat down in this chair, slumped back and just scowled at me. That look on his face said, "I dare you to sell me some insurance." Of course, everybody else was standing around the back of the room. They were all watching Darrell thinking, "Let's see him do it. He's the marketing guy. He's probably good at this."

I was sitting there with this little sheet that we had worked up that had all the discussion points. I went through the presentation, and the employee wouldn't even look at the sheet. He was leaning back in his chair. I went through the presentation and got no response. I thought, "All right, I've always heard you should never give them a chance to say no," and I used the "assume close" technique. I said, "How much coverage (it was disability coverage) would you like?" He replied, "I don't know." I was actually encouraged by that because it wasn't a "no." I figured I was still alive. Of course the others are all still thinking, "What's Darrell going do?"

I took a blank sheet of white paper that was laying there and I said, "Sir, how much is your house payment?" He told me, and I wrote it down. "How much is your car payment?" He told me, and I wrote it down. I said, "How much do you spend a month on groceries?" I said, "You have $600 a month in house and car payments. You have another $250 a month in these other expenses. Would you prefer $600 of coverage or $850?" He said, "$600 ought to be enough." I said "Great." I turned the application around, and said "You need to sign right here." He signed. I said, "Thank you," and he left. My heart was pounding and I thought "Man, I'm good! I showed these guys, didn't I?"

The next customer came in. I had an empty chair so they directed him to me. All that day, if my chair was empty, they directed employees to me because they didn't want to have to do anything. I want you know, I was signing them up right and left. I came out of there feeling like I was really a good agent.

I'm actually going to get to the point. What I learned from that was, not that I was a good agent. I wasn't sitting there making sales. The sale actually occurred about two months earlier when those very polished marketing guys sat down with the head of the credit union and convinced this lady that it was good for them to offer these products through the credit union. They sat down with the head of the human resources (HR) organization and convinced the HR organization that this was a good product to offer through the company to their employees. The credit union manager and the head of the HR joined together. They did a phenomenal job people there. There were two agents, the ones who actually control the group. There were also two senior managers from that state. These were brokers. They were very polished and very sophisticated. You could just look at them and see that these guys knew what they were doing. There was one of the senior marketing officers from our home office. And then there was this 28-year-old mathematician who was trying to convince everybody he was a marketing guy. I was scared silly.

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That was a long story which makes a clear point that if you ever get tempted to think we're paying these agents way too much money because this is far too easy, realize that's not the case. You're not paying them for that enrollment. Your paying them for the expertise they used to get the sale in the first place. It allowed you access to two, four, 600, or 6,000 employees.

The second advantage of the payroll market is that you have the employer promoting this for you. If you give them the right tools to help them, they can definitely lower your overall marketing cost and help you get greater penetration.

The third real advantage with payroll marketing is that you have the efficiencies of list billing. You're doing one bill every month and collecting premium for 200 people. Obviously, that's a nice deal.

The last advantage is you know these people are at least in good enough health to be showing up for work. I am not aware of anybody who woke up in the morning and said, "You know, I really don't want to go to work today, but darn it, that insurance guy's going be there. I want to go see him." Typically, if they're sick, they're not going to go to work, regardless of whether the insurance guy is showing up.

Interestingly enough, there are a lot of advantages and corresponding disadvantages. While you may have a large number of customers per sale, you do have some concentration risk. You need to see your local reinsurer. In the particular story that I told you, if there had been an explosion in that plant, we would have been in trouble. It would have been very expensive for us. If there had been a strike at that plant, I suspect we would have found an increase in our disability claims. There is some concentration of risk that needs to be mitigated.

The second point, which I think is really tough, especially for the actuary, is that the employer has a lot of negotiating power. They're going to want something. They feel like they're giving you access to a lot of people. They're going to want something in return. One of the areas in which they are going to want concessions is underwriting.

A third disadvantage that you have is that there's some significant financial risk associated with that employer's ability to pay. You send them a bill for 200 employees. They've already taken the money out of the paycheck. If they can't pay you, or they refuse to pay you, you'll be in trouble.

Those are just some of the high-level advantages and disadvantages. The next thing I wanted to take a quick look at is some of the products that are available in of marketing the products using the tools that we gave them. They marketed that product throughout the organization, so that whenever they came down to sit in front of me, I wasn't selling anything. I was just answering some questions and helping them make a decision. The ones who scowled and tried to be macho and didn't know what to say just needed me to make it easy for them to make a choice, and then they signed up.

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Those are just some of the high-level advantages and disadvantages. The next thing I wanted to take a quick look at is some of the products that are available in the worksite market. I think you can buy just about any coverage through the worksite now.

There are a bunch of life products available, but this is a health meeting so I won't be talking about them. There are a lot of specialty products available, such as heart attack, stroke, cancer, and critical illness products. The thing you want to watch out for is if you're selling products in a plant where they manufacture something such as PVC. You might want to have a broader array of products than just cancer coverage. There are certain risks associated with certain industries, so you want to make sure that you are offering a broad range of products.

Another group of products that has become really popular in the worksite market are club products. I'm referring to discount packages rather than insurance products. For instance, you might pay $6 a month and get a card for 30% off eye care at specific locations or something like that.

These products have always fascinated me, but it wasn't until last year that I realized how important they are. I was assisting with a worksite company that was buying another worksite company. I remember sitting in a meeting where the president of the company doing the buying was listing the reasons that the company wanted to acquire the second company. He said, "Hey, they have some really great club products. We would rather buy them, because they've done such a good job at it, rather than building our own." That was fairly high on his list of reasons for buying the company. These products are popular. They help you get in the door. They help give you a sense of providing greater value. Finally, there are some administrative services that can be offered. For example, some companies help with Section 125 administration, or they might offer consolidated billings.

The last area that I want to address relates to the risks and pricing and expense issues for the actuary. I will start with risk selection. We talked about the fact that you might have some underwriting concessions. You might be making underwriting concessions; underwriting is very simple in this market in the first place. I have seen applications with as few as one question, "Has anyone to be insured by this coverage had this medical condition in the last five years?" It is very simple and very straightforward. This can create some issues for you. You're not going to have the cheapest rate if you're doing that kind of underwriting. You need to make sure that you understand the industry that you're marketing in. You need to make sure that you understand what these people are doing and whether or not they are in fact actively at work.

Guaranteed issue is very common. If you have guaranteed issue, it lowers your underwriting costs because there's no underwriting. However, you need to have adequate penetration. What I see in guaranteed issue plans is that a company will provide one level of benefits based on a 75% penetration and a lower level of benefits for lower penetration. I have also seen carriers take more of a case-by-case attitude. My observation has been that the ones that have been successful vary their guaranteed issue limits based on the agent. I believe that is the key. If you can somehow establish a partnership with your agent, and ask him or her to the worksite market. I think you can buy just about any coverage through the worksite now.

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Another key pricing consideration in this marketplace is your lapse rate. Obviously, you're going to have normal voluntary lapse. People are going to drop coverage because they don't want to pay for it. You're also going to have deaths. In addition, you will always have employee turnover. While these are voluntary individual products, some people will take the coverage with them, and a lot of other people will not. When I look at work that other people have done in terms of products that they've priced, I think one of the places where they're very likely to have missed the mark is on lapse rates. You are going to see fairly high lapse rates, especially in the early years. I would also comment that they would vary by industry.

Administrative expenses should be very attractive because of the list billing. The down side is getting into the marketplace. You have some additional start-up expense because you must be able to accommodate a lot of different billing cycles. You might have a school system where teachers are paid nine months out of the year. Or worse yet, you may have a school system where some teachers are paid for nine, 10, or 12 months, and you have to be able to accommodate all of those various billing cycles. That makes for some fairly complicated and complex systems that you are going to have to have in place.

The final thing is company reputation. I'll tell one final story. A friend of mine, Bill, was marketing in Florida told me a story about a particular organization where he sold products. It had seven offices in Orlando. He would have one of the customers, we'll call him Dennis, who would file a claim. Bill would help him with the claim, submit it, and in about eight to ten days, he would get the check back. Dennis worked at Plant Three in Orlando. Bill, being a good marketer, went to Plant Seven. He went in the front office and everybody knew when Bill was there. He had a good reputation. He could walk through. He made a lot of noise to let people know he was visiting. He would say "Hi, I've got this check for Dennis. You know, he filed a claim and we processed it in eight days. I just need to drop this check off. Where's Dennis?" He'd go all around the building asking where Dennis was and they would say, "Oh, he's over at Plant Three," and Bill would thank them for the assistance.

Then Bill would leave Plant Seven, and he would go to Plant Six and do the same thing. Finally he would go to Plant Three. Obviously, he wanted people to know this company paid in eight days. That worked really well, except for the case where Dennis filed a claim and it took the company six weeks to process it. In that case, Bill would quietly go one evening around dinner time to Dennis's house and apologize. He hoped that he could keep that as quiet as possible.

The point is, when you're in worksite marketing, your reputation is at stake. If you make a mistake, you're not just affecting up one person; you're affecting the entire group because word will spread. Company reputation is critical.

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That's all that I have to say about some of the actuarial issues. Next, we're going to have Hal come up and talk about some of his perspectives from a marketing side.

[Hal Denton enters room pretending to hand out insurance applications. He hurriedly attempts to get everyone to sign up.]

Mr. Hal Denton: Hey, everybody sign up right here right now. I'd really appreciate it.

Unfortunately, that is the way most people think of payroll deduction worksite marketers. The reality is that the agents today have to go out to the group and explain the Section 125 cafeteria plan and the retirement plan. They're out here helping the company. Worksite marketing has come a long way since the old payroll deduction days of the early 1970s.

But let me first tell you a little bit about Abacus. Abacus is a payroll deduction marketing firm. That is all we do. We've been in business now for more than 20 years. We currently have more than $40 million of in-force premium. When we talk about $40 million in the health arena, that's not a lot if you're talking about major medical; however, our average premium is $283 per year. But at $283 per year, we currently have 125,000 policyholders. This is our only area. We are currently working in 14 different states, and all we do is worksite marketing.

I was asked to speak about worksite marketing and they said, "Why worksite?" It is the only growth arena left out in the market today. Currently, more than 75% of the respondents to the 1999 survey of the International Society of Certified Employee Benefit Specialists are seeing an increasing trend in offering voluntary products. In addition, 2.4 million employees are added annually to those who can purchase products through the worksite, according to Conning & Company. As Darrell said, when you go out and make your sale to an employer, you would suddenly have access to 25, 50, 100, 1,000 or more employees. We just did a 10,000-man group. Once that employer says, "Yes," you've got access to those employees. You can rapidly bring out a new product. It's a largely untapped market.

Darrell was talking about the big increase in what's offered, but currently only 44% of employers offer some type of employee voluntary benefit, according to LIMRA. When those companies that offer it were asked why, the number one reason was the employees are asking for it.

Worksite marketing reduces the effective costs. When we're talking about the middle-income people out here, the American people, the workers, you cannot afford to have an agent go into their houses talking to them about buying a disability claim for $600 a month. That was what Darrell was talking about. The cost is too high to get an agent to go out there. You can sit down in front of 500 or 1,000 people and talk to them about $400-500 monthly disability claims.

That's all that I have to say about some of the actuarial issues. Next, we're going to have Hal come up and talk about some of his perspectives from a marketing side.

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Currently, the middle-income market, those people who make $25,000-100,000, now consists of 78 million workers. That's a large number of people out there to serve. When I talk about the worksite marketing, there are five different areas of people who have access to the worksite marketing. Which one of these five markets you want to go after depends on the type of distribution you'll want to have.

The first one is the payroll deduction specialist. That's the one that all companies bring to mind when they say I want to get into the worksite market. However, you must remember that these people are in there, they already have a carrier, a product, and there are already relationships built.

Just building a product that is similar to what's out there is not going to win these people over. You have to have something head and shoulders above what the rest of the people have. While there is a large portion of agents who are able to market, it is also one of the hardest ones to break into, if you're not currently in this market.

Group agents are the ones that are typically already selling the employer-paid major medical, such as the employer-paid products. These agents are ideal. The reason I say that is there is very little loyalty out there today with the agent and the group, when it comes to major medical or employer-paid life. It goes out for bid every six months or a year and they're bringing in new clients.

These agents want some reason to submit this group tool. They would like to have this group come back to them every year, rather than looking for a new carrier. By offering voluntary products through them, they feel they can get into these groups and maintain these groups, rather than lose them every year. There is no loyalty back and forth, so these agents aren't afraid of being embarrassed in front of the group. They lose groups every day, so when you bring out a product, if they carry it in, and it doesn't work, to them it's not as important.

Property/casualty agents are one of the best that we have found to work with. They've got great access to the group. They have relationships. They're already doing the workers' compensation for them; and they already have a good feeling for what the employer has. They know the people, and there is very low turnover in the property/casualty business. The agents aren't getting replaced every year. The companies are not putting the products out for bid, so there's a very comfortable relationship.

The big issue with the property/casualty agents is that you don't want to embarrass them with your product. The number one concern that this property/casualty agent has is, "Hey, I've already got the workers' compensation, I've already got the liability insurance, I've already got the building insured." I do not want to take the chance of losing this group by bringing in some disability policy and the policy not paying off. Or I don't want to find out that the policy is not doing what it was supposed to and then be embarrassed by losing all the coverages I have.

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I mention municipality specialist because that is part of the worksite marketing. It is a very unique breed because normally you start to lose the mandatory meeting. You start to lose the group meetings, and you normally lose the ability to request the declination cards. The products are built for the municipalities and the teachers.

You have to understand the market when you get into it, that you're not frequently able to see all of the employees. We did an enrollment for the North Carolina Department of Corrections. I saw many, many employees. They would put me and the agents that I was working with in a cell and then lock it. If the jailers wanted policies, they would come by and talk to us. You have no idea how hard it is to explain the policy reaching through the bars. They wouldn't want to enter because then they felt they'd have to buy. They claim they locked us up for our security in case a jailer was out. You talk about the worst enrollment conditions. We probably ended up with 3-5% participation.

The fourth category is the agents that sell the large individual policies. These are the agents out there that are already selling to the business owner, CEO, and CFO. They already know the people. They have the contacts to get you in there. They are playing golf with these people. What they don't have is the ability to sell the employer on the voluntary product or on how to do a proper enrollment. These agents have got the favorable access to the group, but they're the ones that you need to have the strongest support backside, to be able to go back to them and say, "We have somebody who will go with you to the group. We have somebody that will assist you with the enrollment. We have somebody to go out and work with you." In the market I work in, these agents were frequently able to bring us three to four groups a year, but we have to have people out there holding their hand through the entire process.

I saw this quote the other day. "Nothing happens until the agent gets the application." I read it and realized that this is one of the things that is so true. I frequently see policies that are billed and come out to the marketplace, but there either no commissions are in there to afford a managed enrollment or the employer benefits aren't there. It never is able to make it down to the employee level because, in worksites, there are actually three separate sales that must be done.

The first is the agent. You must convince the agents that this policy is something good for them to carry out here. This is another product to stick in their briefcase when they go call on the group. The second sale that Darrell was talking about is the employer. You must go out here and show and tell the employer what's in it for him or her. Then, finally, you get down to the employee level.

Why does an agent sell a policy? The number one reason is commissions. The driving factor for an agent to sell a policy is commissions. One thing to remember in worksite marketing is if that agent talks to an employer today or January 1 of the year, and that employer agrees this is a good idea, the enrollment will probably take place late January or early February. The deduction will come out of that employee's check in March and be remitted to the company on the first of April. That agent typically will not get paid on this policy until probably May. It will

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Remember, there is a huge lag here, which is one of the reasons why in the market of worksite marketing, you have to be able to do a managed enrollment. The commissions have to be there in the first year to get it done.

Second is the loss leader. This is the policy Darrell was talking about. It is the vision, the dental, and the prescription drug card. These policies are really designed for the agent. It is not a commission-driven product, and we don't know whether or not this will open up the door. However, the number one asked-for benefit right now in the voluntary market is dental. You would go broke if all you sold was dental insurance. The idea is you can now go to the groups, bring the dental plan out there, and offer that to the employee. You say, "By the way, let me show you these other plans."

Protect their group. Agents don't like other agents coming in to sell their groups, because when they do, there's always a chance they're going to start bidding out all the other product lines, and they want to protect their group.

The requested policy is the major medical. That's the voluntary life. These are the policies that the groups are claiming to want, and you have to have it in your briefcase so you can go out there and sell it. That's why they sell it.

Why would an employer say I want this? One reason is protection. There is a study, and I apologize for not being able to find the statistics on it. It talks about the incidence of workers' compensation claims and the offering of a disability plan that covers an employee off the job. The incidence of workers' compensation drastically goes down if the employees have coverage off the job.

We did an enrollment for a large highway construction firm in North Carolina. We went to the managers' meeting beforehand where we tell the managers what we're bringing out, and why we're doing it. The owner of that company stood up and looked at all of his managers and said, "I'm here to tell you that I believe that this will help lower our workers' compensation claims," or, as he called it, "the ghost claims." The guys who are hurt off the job file it as an on-the–job injury. He said, "I want you all to remember that for every 1% we save in workers' compensation premiums, $100,000 is going into our profit sharing." Talk about a strong incentive for the managers to stand behind their products.

Competitive benefits. Companies right now are running near full employment. They have to offer benefits to cover all the different things. All these companies are trying to attract employees, so they want to bring out competitive benefits. Even if it is just employer-sponsored, and it is not paid for by the employer, it creates a perception that this is an employer benefit.

Let's discuss employee choice of needed benefits. Today I'm seeing more and more situations where the employer is going out and saying, "I'm going give you $5,000 probably be May before the first payback of his sale to the employer of his enrollment, his marketing expense, and his hotel rooms to go out and sell the different sites.

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Let's discuss employee choice of needed benefits. Today I'm seeing more and more situations where the employer is going out and saying, "I'm going give you $5,000 to spend on whatever benefits you want over the calendar year. You can't take it as cash." Here's $5,000 credit. When we sit down with the employees, we find out they want family coverage on the major medical, or they might want individual coverage, they might want some voluntary life, or they want disability. We're finding that what the employer thinks that employee wants to have does not always coincide with what that employee feels is their number one benefit. By doing it as a cash amount, that employee can choose from which benefit they are more satisfied with—the employment plan or the voluntary benefit plan. The employees make the choice.

Shift costs and contain costs. As you all know, we're back into double-digit major medical inflation. You see the health claims rising. I know in the Southeast, which is where we work, everybody's getting 10–12% rate increases on the major medical. The employer cannot afford to pass those costs on to the employee because the employees are dropping out of the plan. Participation falls. They lose the major medical coverage.

What we are seeing is an employer that has a 90-day wait on an employer-paid long-term disability (LTD) move to a six–month wait. It drastically cuts the cost of the employer-paid LTD. They're using that money to help fund the major medical. The employee could not have gone two weeks without a paycheck. He could never have gone 90 days without a paycheck. He can't go six months. But we can come in and offer a plan to fill that gap. What we've really just done is shifted the cost to the employee on the major medical. We're giving them the option to fill that gap on the disability, but that employee could not have afforded a 90-day wait either.

Reduce employment taxes. As all of you know, the Section 125 Plan allows an employer to save 7.65% of every dollar that goes through a cafeteria plan. That employer has every incentive to introduce this plan and to put as many plans as he can through there. One thing I'll caution is since we're talking a lot about disability, we do not recommend putting disability insurance inside a cafeteria plan. The effective cost to the employee doesn't change because if you put disability inside of 125, benefits become taxable, the employer is liable for matching Social Security if the premium goes through. We recommend leaving that outside because the employee doesn't save any money by pre-taxing disability, and the employer can save money if we charge more in premium than we pay in claims. Frequently we have groups that get flopped around the other way. Then the employer is actually paying more money for it. Put it into 125 for all the other benefits to qualify. I always recommend leaving disability out.

Enhance the company image. The number one request when we go out to an enrollment is when an employer says, "Hal, when you go out here, what I want you most to do is be sure I look good. Sit down with people. Tell them what we're doing for them. Let them know about what some people call the hidden paycheck. Show them how much individual major medical costs me each month for that employee. Even though I'm paying 100% of it, most employees don't realize how much is being spent. Most employees don't realize there's a 7.65% tax, which is the matching Social Security, matching FICA on payroll."

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They want us to come out here and communicate to their employee how much it costs, in addition to their paycheck. They also want to know how much the benefits cost. The companies want the employees to know they are valuable and that the companies are spending money on them.

Now that you've sold the agent, and you have sold the group, you move down to the employee. Simplify and force the process. Seventy-one percent cited the convenience of payroll deduction as an advantage, according to LIMRA. Employees have often said, "You know, I want this insurance. I know I need more life insurance. I know I need more disability insurance. I know I need this insurance."

Employees are afraid that if they walk into an agent's office, they're going have to sign an application before they leave. They talked about this before. When you go out and do an enrollment, you've scheduled a day to see them. They're going to come to a group meeting. You're going to explain the benefits to them, and they have a choice of signing up.

Another benefit is it is a payroll deduction. Seventy-four percent of employees viewed cost savings as an advantage of worksite products. They want you to take the money out of the paychecks. They prefer it because it matches how their pay comes in. If they're paid weekly, the deductions come out weekly. If they're paid semi-monthly, monthly, annually, ten months out of 12, nine months out of 12, or whatever their payroll cycle is, you match it. It's much easier for them to budget.

Pre-tax premiums are another advantage. The employees' cost, as you put the other voluntary plan in there, qualifies. Things like up to $50,000 of life insurance, dental, vision, unreimbursed medical expense, and childcare can go into a cafeteria plan and that employee saves Social Security and Medicare taxes for every dollar that goes in. It reduces the effective cost to the employee by having the pre-tax premium.

Two-thirds of the respondents in the LIMRA study said that employers would be objective about the programs, products, and services offered. When you sit down with an employee, you do not have to tell him or her that this company is financially sound. It will be able to pay their claims. Here's why you should buy it. That has already been done in the employee's mind because that employer has done its due diligence. If you don't make it through the employer, you never see the employee anyway. When you sit down with the employee, it is less about the company and more about the benefits.

Insurance education is another benefit to employees. We use disability insurance. Most workers have no idea of the definition of disability. They think they can't ever return to work. They don't understand that pregnancy is often considered a disability. They don't understand that a disability can be as short as two or three days. What we're having to do is go out and educate them and use laymen's terms: "This is really a paycheck protection. Let me show you how this goes about protecting your paycheck, and your ability to earn a living." We have to teach them about the policies. Frequently, while we use these terms like disability insurance and all, those are really internal terms. They are not the mainstream of America.

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Insurance education is another benefit to employees. We use disability insurance. Most workers have no idea of the definition of disability. They think they can't ever return to work. They don't understand that pregnancy is often considered a disability. They don't understand that a disability can be as short as two or three days. What we're having to do is go out and educate them and use laymen's terms: "This is really a paycheck protection. Let me show you how this goes about protecting your paycheck, and your ability to earn a living." We have to teach them about the policies. Frequently, while we use these terms like disability insurance and all, those are really internal terms. They are not the mainstream of America.

Overcoming anxiety is another benefit. When you sit down with a person to fill out an application on an individual basis, you have to go through the health questions. It is always a tough sell. Employees do not like to divulge health history. You have to ask them their height and weight. These are always anxiety-producing things. In the payroll deduction market, frequently you can get by without any of these questions. You avoid those issues. They see you on company time and at the company worksite, There is less anxiety when compared with them walking into an agent's office saying, "Here's what I want." It is easier than setting up a meeting for them to come to your house and sit down at your kitchen table to tell you about your life insurance options. It's much easier to sell them at the worksite.

Let's discuss strategies. When you decide on which one of the five distribution channels you want to build the product for, I'd say you have to build mutual trust. It was what Darrell was talking about earlier. You have to know that the agent out there does have your best interest in mind, and that agent has to know how you're going to pay the policy. What is the company going to do? Frequently, we go out and see these companies that tell us, "Here's what we have. Here's what we're going offer." The agent goes out, does the enrollment, finds out he doesn't hit the right participation numbers or something and they pull it. That agent is embarrassed. That agent is left hanging. That agent will not come back to that group. You've got to find ways to build the trust. Make sure everybody understands how this policy is filed, how it's going to pay, and when it is going to pay.

Another strategy is to offer something to every group. I can't tell you how many companies have come into the market and said, "We've got this plan for groups from 500-5,000 employees. I want you to take it out there." We're working with agents. We currently have 1,200-1,500 agents that we're working with now. These agents are out here. They want the company that they feel comfortable with. They know how the claims are going to be paid. They know how the bills are going to be handled. They know what happens to match the payroll cycle. They know what the brochures look like. They know how to fill out an application and how to fill out a claim form. By offering something to every group, you're going to be out here with that agent.

These 500-man groups don't come along every day to an agent. That agent is going to give first priority to the company that has been working with him all along. We frequently find that when we run two proposals for this agent, and it's from two different companies and they're slightly different, the agent chooses the one he or she feels comfortable with, not the one that has the best price or even the best commission. The agent tells you, "I've done a lot of work with this company and personally, I feel a little bit better with it." The employer will likely say, "Yes, let's go with the one that you like. You're my agent. That's what I want you to do." Is there any way you can offer something, even if the policy is not the same?. Maybe benefit periods or the elimination period is different. Whatever it is, offer something to build that relationship and build that mutual trust.

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Another strategy is to underwrite the agent. This is one of the things I keep going back to time and time again. If you go to an agent with a participation requirement, that agent is afraid that he will not get that participation. He will not be able to meet it. He will go in, spend all his time and money, and then be embarrassed. You come in and you say, "Okay, I need a 25% penetration in order to offer this." That group will look at it and say, "I don't know. These guys don't make a whole lot of money. They're hourly workers. I don't think you're going to get 25%. I'd rather not get involved because if I go out here and offer this, then you can't deliver I'll have egg on my face."

What we find is that if you're able to build a relationship and mutual trust with that agent, you can build the policy. You know what that agent's going to do. There are things you can do to make sure that that agent gets the maximum penetration he can, but if you can underwrite that agent, do it so that you know. I'll tell you right now; we have agents out there that can call us up with groups that normally we would have to say no to, but we now have enough business with them and know their block of business is profitable. Their penetration in the group is 70–80%. We can guarantee issue cases for them that we would never consider for an agent we didn't already have a relationship with.

Take advantage of the learning curve. If you have an agent, and he is selling your policies, he will understand how it flows. When you go out there and bring an agent and tell him, "Hey, this is a 500-man group. This is the first time we want you to sell this one," that's the time you're going to have the nightmare. Applications aren't filled out correctly. The claim forms aren't filled out. You don't match the payroll. You have to take advantage of the learning curve. And what we find is that we have to do three enrollments with an agent before that agent can ever go out there and handle the enrollment successfully by himself and turn incases that are acceptable. We need the agent to write the fourth and fifth and sixth cases with us, so that we're not having to pay people to go out and spend the time holding that agent's hand to educate him on how the policy works. How do you answer it? Can you cover grandchildren? There are questions that come up at every enrollment.

That all pertains to reducing the cost of obtaining the case. The agent might feel successful with it. We frequently have cases in which the agents will go out and market and enroll and do everything, and never call us for any assistance. They know how the policy works. They don't need all the special things that come up for a 25-man or a 50-man group. The agent says, "This is no problem. I know what I'm doing. I've got the rates already. I can walk in here and do it." If you can get the agents to operate independently without the marketing people having to go out there, make the employer presentations, assist in the enrollment, and ensure that it's done correctly, you can reduce your costs.

Let's discuss defraying the risk. One of the big misconceptions I always hear is that only the insurance company is concerned about participation and the agents and groups don't care. Remember the agent doesn't get paid unless that application is submitted. That agent cannot afford to go out and do a proper enrollment and walk out with 10% penetration. If he does that, and he has spent the money to make the sale, print the brochures, get the hotel rooms, and the travel, he's going to lose money on it.

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Let's say the employer has a plan in which only 5% or 10% of his employees are participating in. He has to do a payroll deduction and reconcile the bills. Remember, the average employer has 8.1 different payroll-sensitive policies in there, at eight different bills from eight different insurance companies and eight different formats that they must go through every month. If the company is doing this for a very small percentage of its employees, it is not going to be happy with it.

A policy written for protection to defray costs is another way to defray risk. I mean protection for the insurance company. If you can write in a preexisting condition clause that is a 12/12, do it. Don't modify the policy with amendments and waivers that have to be signed. Write the policy for the pieces that you need. We often see this in disability insurance. You'll put in a 12/12, pre-existing condition, if that's what is needed. We have also seen a 12/24. You can specify in that policy, how it is written, but it makes it simpler than having the agent go out and take health questions where people are not always going to be completely honest with them.

To defray costs, prepare a fallback offering. A fallback is probably different than what we really do. There's one company we work with and on LTD, they have an age 65 plan on the disability. If they don't take that, then the policy falls back down to a two-year accident, five-year sickness. Instead of potentially paying out disability benefits to age 65, it has a 5-year sickness maximum and a 2-year accident maximum duration of disability, depending on the cause of disability. We go out and sell the five and two; then, if participation is met, we tell them that we will issue the age 65 policy, and we'll notify them afterwards. We sell the five and two. If participation is met, we jump up. In one five and two plan, one plan requires no participation, one plan requires 15%, and one requires 25%. The rates are just cheaper. That's the only difference. What we can do is go out and sell the highest ring. If we hit participation, then the policy is cheaper for everybody and they're happy because they've already bought it and now they're spending less than they planned. If there is a way to build in a step plan, do it.

The number one thing that I am always amazed that companies don't do is require a managed enrollment. In a managed enrollment you have the employee, the company, and the agent all working together to be sure that the employee is shown the policy, to be sure that it is shown in the most favorable light.

Managed enrollment, as Darrell said, must be on company time and done on company property. It is not worthwhile if they say they will give you a list of employees home phone numbers so you can call them up and set up meetings after work at their house. It is not worth doing if you can't see them at work. It needs to be on company time, on company property.

In managed enrollment, you need support from management. Before we do an enrollment, we have to have a manager's meeting to explain the benefits to the manager. The employees are going to look at the managers and ask, "Is this a deal for me? Why should I buy it?" If the managers have the same feeling about the plan as that employer, and feel that this is worthwhile to implement, you will have their support. It greatly increases your penetration in the group. We do a lot

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Managed enrollment needs mandatory group meetings. If I'm given my choice, we do group meetings, in whatever size they want. We hand out the sales brochures. We tell them about the plan but we will not take an application that day. We treat it as an educational process. It allows everybody to get the information and take it home and think about it.

Then we require declination signatures. Every employee will come in and see me and they will either say, "No, I choose not to participate now," and they just sign a little card or they say "Yes" and they go through the questions.

We do the individual enrollment the following day. Every employee must come through and sit down with us. There are a couple of nice things in a group meeting like this, nobody wants to raise their hand and say, "I have this health condition. What do you do about it?" Nobody wants to bring up these things in a group. People often shake their heads in these group meetings. But then when we come back the next day, the employees understand what we're bringing out, they understand the plan, and they've had a chance to talk to their spouse about it. They've had a chance to look at what other plans they currently have. Then, they can ask informed questions without the fear of being in front of a large group of people and embarrassing themselves.

Simplify or personalize the enrollment. I am amazed at how many times, especially on the marketing department's side, when the marketing brochures come out. The pieces contain all the different elimination periods that are available, even though the employer can only choose one of them. How often does the application contain every policy that's available? We're only selling disability, but there will be a piece about cancer insurance. He looks down and sees the cancer insurance. "Tell me about that." We'll have to say, "Oh, your employer decided he did not want to offer that today. You can't have that."

Remember you want to show the employer in the best light. Build what I like to call a chassis approach to the application, where the essential information is on the top and then you can add the different pieces, depending on what policies are being included below it. You can have an application that has the policies if you're selling all of them. Or you can only have those pieces that are needed. Keep it simple. I'm amazed when I look at the pieces that come out there.

There are books that show disability for $10 a week of income and here it is and calculated. Those don't ever work. You've got to just give them a simple sheet of paper that shows the benefits very plainly, and have a simple application that will do it.

Let's discuss personalized enrollment. Custom sales brochures are one of things we print for every group we have. We put the company name and the company logo of plans for blue-collar, hourly workers, and those guys are looking to their managers saying, "Should I do it? What should I do?" If they understand the advantages of the plan and understand why it's being implemented and they're behind you, you end up with much better participation.

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Only essential information is needed. I went through this drill with this one carrier and they had an application. It asked all these questions. I said, "If we do group enrollment, we're talking about a payroll deduction worksite. Which pieces here must be filled out in order to issue the policy and which ones must you have?" It was less than 25% of the material. They had questions in there so that the application could be used if it was an individual policy, or if it was sold at the worksite. They had all the other questions in there. Most of them weren't needed. I always say if we don't need this information, let's get rid of it. For example, one of the companies that we used to work with always asked which state you were born in. When you're talking about a guaranteed-issue disability policy, why do you care what state the people are born in?

Work with the employer's pay cycle. Darrell brought this up earlier. On the personalized enrollment, if the people are paid weekly, show the benefits weekly. Show the premium weekly. If they're paid semi-monthly or monthly, show the premiums and all that match it. Frequently, I see these enrollments being done and the agents have a monthly premium. The employees are paid weekly, and they're trying to figure out how much comes out of the paycheck. It's actually not one quarter, because there are four and one-third weeks in a month. If they get paid every Friday, it won't match up with their payroll.

Preprinted applications can be used for both short-term and long-term disability. It's a guaranteed issue plan. The LTD has 12-24 on the pre-existing conditions. Short-term disability is 12-12. It can also double as the declination card. If they don't want it, they check no in both boxes and sign it. If the employer will give us the information on their employees in an electronic format, either by e-mail or on disk, we can preprint these things.

We go out to the group. Everybody has its own enrollment package. We have one of these in there. All we need is a signature. It greatly simplifies the enrollment. It greatly increases the participation in the group. The declination signatures enable me to go back to the employer when I leave, and say. "Here's all the employees I saw that said 'yes.' Here are all the ones that said 'no'. Anyone not on one of these two lists did not show up." You would be amazed at how fast the employer will shuffle these other employees through the process.

I'm always amazed at the participation we get. It might not be that they didn't want to talk to an insurance agent. It could be they didn't realize it or they didn't know about it. Maybe they were off on break. Frequently that employer will have us sit in the personnel office as they call these people in.

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One aspect of personalized enrollment is the customized brochure. We did one with three age bands on it. We matched it up with the weekly premium. They're paid weekly. It has a weekly benefit because that's the way that the benefits are paid. The employer only wanted to show up to $400 a week and they wanted a 15-15-26 (a policy with a 15-day elimination period for disability caused by either accident or sickness with a maximum duration of 26 weeks). We print the brochure that matches what they have. We'll put it together however they want it.

What is needed for participation at the group level? The employer wants to know why he should encourage participation. If you're talking about a cancer plan or voluntary life less than $50,000, it can go in the cafeteria plan. You're going to save money.

We're going to enhance the company image. We're going to help lower your worker's compensation fraudulent claims ratio. What is in it for me? For most of the companies, I'm going to be out here talking about all the good things you do. I'm going to be using the company name. I'll be showing them what you're paying for on other policies. I'm going to match your payroll cycle, and I'll bring it up again at the group level because the most common pay frequency in the U.S. is weekly.

Most of these plans always seem to be billed monthly, which means that an employer who is making these withdrawals out of an employee's check on a weekly basis, doesn't have enough money to pay that bill when it comes in. This happens because the employer has only four weeklies and it needs four and a third. When that fifth payment comes in the employer has a little bit of a slush fund building up in this account. If they have to do this, that account only balances four times out of 12 months a year. Every month you're asking that employer to build these little slush funds. Then, as employees are terminated, the slush fund never balances, and that employer is always looking at this, trying to figure out why. If you're working with an accountant who wants the numbers to work every month, it doesn't work. You need to be able to match the payroll cycle, and you need to be able to bill at the payroll cycle.

Simplify the bills. It needs to be easy for the employer to mark people off. When you implement a payroll deduction plan, and you send out that list bill, that bill is never correct again after that first enrollment. The employer might line out somebody that is terminated, and if he's lining off one guy who made $20 a month, it goes down to the bottom. He might scratches off that $20, as he actually deducts off $18.50. I don't know why the employers' math is different than mine. When the bill doesn't match, they're crossing people off and changing the bills down at the bottom. New people come in and are being written in on the top. When the insurance company gets that bill, they've already got the next bill ready to go. Normally they have to scratch an employee two months in a row. If it is a good insurance company, you have to mark the person off the bill two months in a row before they ever drop off. It is hard to keep up with a large company that has many changes.

Simplify the administration. Let's make it easy for them to do business with us. Let's make it easy for them to make changes and additions. What do I mean by that? Make sure that when a policy is issued, that people bump in an age bracket weekly. It has a weekly benefit because that's the way that the benefits are paid. The employer only wanted to show up to $400 a week and they wanted a 15-15-26 (a policy with a 15-day elimination period for disability caused by either accident or sickness with a maximum duration of 26 weeks). We print the brochure that matches what they have. We'll put it together however they want it.

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Simplify the administration. Let's make it easy for them to do business with us. Let's make it easy for them to make changes and additions. What do I mean by that? Make sure that when a policy is issued, that people bump in an age bracket only once a year at the annual reenrollment. Or even better, issue a policy for whatever age they are when they buy it. It will be the price that they will pay for the policy forever, as long as they stay there. By doing that, that means that every year, you don't have to sit down with each of the employees and say "Oh, you've crossed the next five-year age band. Let me show you your new premium."

Instead of coming back as an agent and saying, "Everybody is going to keep paying the same amount they have been," I just need to see them if they want to increase or decrease their coverage or if they have questions.

We use a system that is online. The average company has 8.2 payroll sensitive products coming from 8.2 different companies and 8.2 different formats. When employees are terminated, they've got to go through each one of these and line them up. Many companies are going to different types of electronic bills. Allow that employer to make their employee changes on either a program that prints out a paper bill, whether it is online, and get the information back to them. Allow them to make one termination. Terminate one employee and have them drop it off of every line of coverage. If an employee leaves, you only have to make one change.

Autocalculate the rates with these programs. One of the things that we see all the time is there's an employer-paid life and there are reduction tables for people as they hit different age marks. Most employers, if they're paying $10,000 for all their employees, look at the total number of employees and say, "Here's the number for 10,000 times the rate per 1,000." They're actually more for employees than they should be.

By using these programs, you can also be sure that they meet the eligibility requirement. If they have to be there 90 days before they're covered, these programs, when you put in the date of hire, will automatically add them to the bill after they've been there 90 days. If you have an employer-paid plan in there, it keeps up with it. If you have a voluntary plan, it will notify you of the employees that are now eligible to buy these voluntary products. If we use some of the technologies, you will increase the participation in this group because now there are new employees that are added. The employer will get something that says, "These people are now eligible."

At the employee level, what can you do to increase your penetration and increase your market? Require attendance. If the employer will not require attendance, we don't go out there to do the enrollment. That means the employer is not behind it. That means that we're going to end up with low participation and it means they'll probably be an unhealthy group for us.

Let's discuss giveaways. I'm amazed at what an eight-cent pen will do at enrollment meetings. The people come up and they want the pens. You can roll them across table. They pick it up and they're ready to sign. Use any of these giveaways you can. Employees like it. It opens it up and makes them feel a little better about it.

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Simplify the enrollment. Use preprinted applications instead of the electronic laptop enrollment. Our participation is higher when we do. It is much less cumbersome, and the employees feel more comfortable. If all they have to do is sign it instead of go through some worksheet of asking questions, it makes it easier.

Be nonconfrontational. When we do an enrollment, we emphasize that we are not pushing the sales of the products. It is a voluntary plan. We're here for educational purposes.

Fallback offerings have a lower guaranteed issue amount. Again, we offer 25,000 on the life instead of 100. We offer up to $1,000 a month, instead of up to $3,000 a month from the disability insurance. We lower some of those. Fallback offerings also have shorter-term benefits. Instead of being an age 65, it becomes a five and two. There are also longer elimination periods in fallback offerings. We can't do the zero and seven. We must go to a 15-15 on the disability.

Are there things we can offer? What would be new in this market that could actually get people excited that would also save us some money? There are graded commissions based on participation. The worst thing you can do to an agent is to send him to a group and say, "We need 25% participation," and if he does not get the 25% then he can not issue the policy. Then the agent is embarrassed in front of the employer and the employer is embarrassed in front of his employees.

I would rather personally come out and say, "Look, if you come out with less than 15% penetration, you only get renewal commissions. You're not going to get a heaped first year. Or, if we get to 25%, which is what we want, we're going to pay at this level, and if we can get this group up in the 60% level, it's going to be a very profitable group for us."

Let's pump up the commissions. Let's move them up to the highest bracket, but change the commissions and make it on participation. There are bonuses based on the number of lines of coverage. If an agent has one line of coverage in there, he doesn't really have a client. He has a prospect, but he doesn't really have a client, because that could easily move. If you get two or three lines of coverage into a group, when you get up to three lines, that agent can't move you even if he wants to. That company is comfortable with the way you're handling the bills, and the way you're handling the product. They feel comfortable about the plan. They look at the cost of trying to make a change. If you can get three lines of coverage in a group, that guy is going to stick around unless you mess up on the backside administration.

Another thing I'd like to introduce is profit sharing on an agent's book. Currently, there is no incentive for that agent to sell healthy groups, other than to be able to continue to offer the product. I keep saying, show the agent what we want to make on this book. Here's what we need in claims. We can offer profit sharing if you get a bigger book with us. Let's offer some things to the agent.

Mr. Norman E. Hill: Do you have any thoughts on the pluses or minuses of individual policies versus group policies in the worksite market?

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Mr. Norman E. Hill: Do you have any thoughts on the pluses or minuses of individual policies versus group policies in the worksite market?

Mr. Denton: Personally, I think the trend is going to be going towards the group policy. The group policy allows you greater flexibility as far as employers that have employees in different states. Once again, it only matters in the state in which the main policy is issued. Typically, the group policy will also offer the company greater flexibility if it's necessary to change rates as opposed to a guaranteed renewable policy where you'd have a lot harder time. I see greater movement towards the group policy. It seems as though the regulatory side is not nearly as strict as it is on the individual guaranteed renewable type policy.

Mr. Spell: Hal, that is probably one of the few times we have ever disagreed. I prefer the individual policy because I think the issue in the voluntary marketplace is for the individual to be able to take that product with him or her and for it to be guaranteed renewable. If one's health deteriorates, he or she doesn't have to worry about any coverage he or she might want to get from the next employer. I have a preference for the individual portability products.

Mr. David W. Dixon: This is kind of a two-part question. One of you said that if you're only selling dental, you're going to be in the toilet as far as your profits go. What is the best combination of the different products? If you're a company, what's the best thing to offer as far as payroll deduction products? There is legislation pending in Washington D.C. that could allow health insurance participants to sue their employers. I think that might drive some employers to say, "Forget the group. We'll just do a Section 125 and let them buy their own insurance policies." What do you think the issues might be in the future? I think it might be a little more complicated process than what you described so far.

Mr. Spell: It probably varies with regard to the ideal product mix. In general, when I was on the marketing side, I used to tell folks life insurance is very important. If you die, that means your spouse and your children are going to have to live with your mother-in-law. Disability is important because if you become disabled and you don't have disability insurance, you, your spouse, and your children are going to go have to live with your mother-in-law. I do believe life insurance is extremely important and I believe disability insurance is extremely important. Dental would probably be third. Then you start getting into specified disease or accident policies. Those are more on a case-by-case basis, depending on what the person's needs are.

Mr. Denton: I'd say that policy mix is based on what the employer wants us to put in today. There are not enough commissions and dollars available to an agent to go out and make a true living off of just selling dental insurance. You must put in other products. I look at having either the life or the disability as something that is able to bring up the average premium per employee and bring up the commissions on the total case for that agent so that they can afford to do a true managed enrollment. I would say dental, vision, and prescription drugs tend to be more loss leaders to get the agent in there to sell the other products.

Mr. Spell: When you talk about loss leaders, are you talking about a loss leader for the carrier or are you talking about a loss leader for the agent?

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Mr. Spell: When you talk about loss leaders, are you talking about a loss leader for the carrier or are you talking about a loss leader for the agent?

Mr. Denton: For the agent. As for Section 125, I see more and more employers liking the idea of allowing the employees to buy the plans that they want. I'm really not well versed right now in this lawsuit on suing the employers.

Mr. Johan L. Lotter: Hal, can you put some numbers on what you mean with heaped commissions?

Mr. Denton: Heaped commissions are, in my terminology, a higher first year, lower renewal year commission. There's a disability plan that I have seen that we played with. If you want the level commissions, they pay a 30-point level at the top level. But when they come in heaped, they do a 65 and 20. An agent at the 65% level on the first year can really afford to sit down with the people and do a one-on-one. Print out the application and do everything that's required in a managed enrollment. When you look at the level commissions at a 30-point level, and if you have a marketer out there, then I find that it is a little tougher for that agent to do a proper managed enrollment. I personally prefer the heaped commissions on the agent's side. I find that that allows the proper enrollment to take place.

Life insurance is typically the same with a heaped commission. If you remember the costs that go in at the agent level to make the sale, it is very hard to justify level commissions, unless the insurance carrier has a marketing department that pays for somebody to travel the state, make the employer presentation, and assist on the enrollment. If so, then you can do the level commissions, but if you're asking an independent marketing firm to take your product to a street and hire other independent agents to do it, the commissions get to be too low to be meaningful at any of the levels.

Mr. Rodney Laverne Brunk: How would you suggest that companies who mainly work with the group agents make inroads with the payroll deduction specialist? You said those were the toughest groups to get in with. Besides offering exorbitant commissions, could you offer other alternatives?

Mr. Denton: Yes, there is the payroll deduction specialist. You've probably heard of the Jim Hunts of the world. These are people who do nothing but the payroll deduction. They work with extremely large groups. The problem is they have very good relationships already built. You have to come in with something. It might not be just commission. You might have higher guaranteed issue amounts. You might have different portability features. You might be able to offer profit sharing.

You must find something that is significantly different than what they're already doing because they feel very comfortable. It's hard to get them to move. The group agent will frequently move over to become a payroll deduction specialist. We've helped a lot of agents who have made their livings in the past selling major medical insurance and getting frustrated with the lack of group persistency. They back out every year. They are buying the voluntary products or selling the voluntary products and saying, "Look, I don't even offer those employer-paid products anymore." It's much easier to move the agent out of the group into a

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Mr. Randall S. Edwards: What is your target annual premium per employee?

Mr. Denton: It depends on the product line. We do a lot in the disability area. When selling voluntary products, we typically want to get about one hour a week. Whatever they earn in an hour, we try to get that. We are typically building the product more by how much these people are making than trying to build it from the benefit side. If we're going into a higher-paid group, we will typically bundle life insurance, AD&D, and disability together, and offer it as a package, which would equal about one hour. If we're in a very low-pay place, we'll offer only one of those.

Mr. Edwards: How important is the portability provisions?

Mr. Denton: Fifteen years ago, all I sold was guaranteed renewable portable policies. Less than 4% of our policies that were portable ever ported and the claims loss on the ported policy was well over 300%. I've always looked at the portability as not that big of a sale.

I do have a sales brochure that I use frequently when I talk about policies that shows noncancellable at the top, and then guaranteed renewable, franchise, voluntary groups, and true group. Each one of them has a definition showing the differences between them. I normally walk the employers through it. There are questions that you can ask that will identify which one the employer wants. If the employer is worried about rate increases, then guaranteed renewable is the way to go. Maybe the employee is paying for this policy, so it needs to be portable. If they're worried about cost, I bring them down to the employer-paid true group. If they're worried about costs that they don't want to pay for, then I bring them to the voluntary group.

Mr. Douglas M. Price: Hal, you were talking about the group plans. For people buying a group cancer coverage or group hospital indemnity, what if their health plan has a coordination of benefits provision in it? They're not going to get paid under both plans, so why would you sell group insurance under several of these plans?

Mr. Denton: You're right. It does depend on the policy that is already in force and what's out there. Hospital indemnity plans, which are normally sold on an individual basis, do not coordinate. With the group plans it depends a lot on what's already in force in deciding what other plans you can introduce..

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