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Session 13OF
Voluntary Group Disability Products

Track: Health Disability Income

Moderator: JOHN D. LADLEY
Panelists: MICHAEL J. FISH
HOWARD L. ROSEN

Summary: As employers seek ways to expand the benefits they offer to their employees while managing their total benefits costs, voluntary products have grown in popularity. This session explores recent developments in the voluntary disability market.

MR. JOHN D. LADLEY: We're going to talk about voluntary group disability products. I'd define this as talking about products used in a voluntary market in a group setting.

This morning I will make an overview of comments on the voluntary disability market. This is a fairly diverse market, and we're going to have two panelists with companies expert in it, one coming from the individual side and one from a classic group approach. We're going to try to give you some positioning of these strategies.

Maybe we could take a minute at the outset, and I can ask if a couple of you might want to approach the microphone and briefly describe something that you might hope to get out of this session today. Let me first mention that, like good actuaries, we have basically a panel-discussion-type presentation here. I think we have a lot of information. A lot of questions are going to be addressed, in distribution, perhaps product design, variation, and strategies, and so forth, but if you have some particular areas that you'd like to hear about, would you care to approach the mike at this time?

Note: The chart(s) referred to in the text can be found at the end of the manuscript.

MR. DANIEL WINSLOW: My question would be on short-term disability (STD). As has been well noted around the industry, there are profitability problems with STD. We personally in our own quoting activity see rates and loss ratios from competitors that seem a little low. The loss ratios seem a little high. I guess comments on the sensibility of market there would be welcomed.

MR. LADLEY: We'll try to work that into some of our commentary, working around the fringes of the Society's requirements of us. My own experience in this marketplace is largely with STD and what I'd call intermediate-term disability. Typically, when I've been involved in longer-term contracts, I've been representing a direct company but working with an expert reinsurer on this side. Of the number of clients that I have been involved with, I frequently do merger/acquisition, due diligence work, product work, and reserving, but I have seen a number of strategies work or not work here. Probably the classic strategy, and the numbers are about right: about half or more of the companies that I've been involved with have taken a product approach. They have looked at some of the available information on products in the market, tended to copy that and thrown it out in the market in the hopes that some of their distributors who had or had not expressed interest would be successful salespeople. This seems to be a fairly common thought on this voluntary disability income (DI) marketplace.

I have a couple of clients that have actually attempted this and sold very little but are overhauling the portfolio. One is making voluntary DI a cornerstone of their worksite business, one client has nice revenues and growth in revenues with an accident-only entry level product, and more than one are focused on one market but find that market to be somewhat mature and difficult to grow—in particular that would be a teacher's market—but I've seen public sector and other markets as well.

My conclusion based on these experiences that I've had is that this is a fairly complex market. A product approach only does not work terribly well; without some worksite experience and commitment, it's very difficult to have a success with a line of business, but it is a line of business that can work if it's given enough thought and planning.

MR. HOWARD L. ROSEN: I'm the individual disability income (IDI) product manager at Union Central. In that capacity, I'm responsible for all of the functional areas, top line through bottom line, with respect to our DI product. I'm going to put a bit of a spin on the title. Instead of talking about group voluntary, I'm going to talk about voluntary DI in a group setting.

MR. MICHAEL J. FISH: I work at Colonial Life Insurance Company. I currently head up the actuarial department. I'm responsible for pricing, valuation and business analysis as well. To add to the comments here, we're selling both individual and group products at the worksite setting. Our short-term plans are offered to individuals. They're also offered on a group platform. We offer a group

long-term disability (LTD) product as well. In my presentation, I'm going to talk about some of the considerations that we think about when we're going to go into an account and whether we're going to sell an individual platform versus a group platform.

MR. LADLEY: The basic premise of voluntary DI is what insured, if given the opportunity, would bet against a 3 to 10 percent chance of financial trauma or ruin due to disability if given that information?

The basic LTD market is a $5 billion to $6 billion market. I'm going to supplement some of my comments with information from worksite surveys, from Life Insurance Marketing and Research Association (LIMRA) information, and from surveys of employers by Hay Associates based in Philadelphia. According to a Hay Associates survey of about 1,000 participating employers, mostly on the large side, 97 percent have an LTD plan in place, 72 percent of those happen to be employer paid, 12 percent are cost shared, and about 16 percent are employee paid. There's almost no variation by region or by industry. You would call that a mature, if not saturated, market, at least as far as LTD coverage.

I'd contrast that somewhat with the executive disability market and employers, of course. Of about 700 responding organizations—I think that's a subset of the same 1,000—only 33 percent offer some sort of executive supplement program. This is also a segment that is showing increased participation based on successive annual surveys. The most common plan design is an increment to benefits. But there's also cost of living adjustment (COLA) liberalizations, elimination period liberalizations and other benefit allowances. This is not such a mature market; it is one with some growth potential. STD is even more penetrated than LTD, perhaps not surprisingly, 99 percent prevalence among those 1,000 employers. However, only about 45 percent of those plans are actually insured, and about 27 percent do not cover all the employees that they could cover.

Further describing a somewhat complex market and one that also affects both the sales and the claim side, there are five states and a jurisdiction with state-based plans. Most of these are short term in nature, 26 weeks. They have, in theory, a 50–70 percent replacement ratio for income, but, in reality, the caps on the benefits range from just $170 a week to just under $500 a week. In most of these, the state itself runs a plan that is either important or dominant in the state you might try to sell in. Of course, Social Security Disability with 20–50 percent approval rates bearing on segment benefits can range much higher, up to $1,500–1,700 per month. Workers' Compensation is a state-based program that pays for occupational injury and illness. In most cases, the medical benefits vary quite a lot by state. The medical benefits can be unlimited. The indemnity benefits generally range from about $400 to $600 a week, with replacement ratios generally in the 60 percent to two-thirds of income range.

According to the Hay Associates survey, about 30 percent of pension plans provide—this is focused again on large employers—immediate disability coverage. Another 48 percent offer service credit-related disability benefits, and 22 percent offer no DI at all, perhaps an opportunity area. These days credit insurance on both loans and credit cards is frequently seen, and the individual market—I believe about $4 billion plus in size—is mostly long term, focused, of course, heavily on professionals. That tends to be very heavily a noncancelable ("noncan") market.

In this sector, wide variation can tend to exist in most voluntary plans. I have seen some companies that have focused on just a couple plans, even one plan, to simplify their product offerings, the theory being that most employers really do not need that much choice. I don't know if our panelists have any comments on that, but has anyone in the audience seen the simplified approach work well as opposed to trying to accommodate all the different combinations and permutations of these plan features?

MR. ROSEN: One of the problems that I've seen with companies that are in the white-collar market as we are is when they try to simplify a product and strip it down and then, for example, offer an accident-only type of contract, the premiums and the compensation become so low that it would be difficult to get any kind of a career or brokerage producer to take the time to sell the product. So, while the idea of getting to a lot of people with a product that they can afford is admirable, as a practical matter, if you distribute based on relationship-based sales, the ability to get somebody to spend the time to sell the product, if the compensation is very low, is challenging.

MR. LADLEY: Some typical strategies you might see in the market that I have seen include clients that look to go after known customers often using the same distributors that they got on the group health or group life line.

One thing that does put pressure, possibly profit pressure, on the STD line is that almost every group life carrier has an accommodation line set up for STD-type coverages, and they would really be looking for cross-sell opportunities there. So minimal to no profit may be a possibility for a lot of those types of carriers. I have also seen, to comment on the STD side, little success with supplementing the coverages, and little taste for supplementing the coverages on the part of carriers, of these five states and the jurisdiction that have the state-based plan. That has been difficult to sell, and profitability challenges have been there. Some other opportunities are underserved industries and geographies, and frequently we hear about small employers. I think our panelists may have some more to say about segmentation.

MR. FISH: I'll comment on that specific to Colonial and the payroll marketplace that we're in. We see our target market as really the blue-collar, lower-wage earners. That's what we feel is an under-penetrated marketplace from a disability perspective. Historically, a lot of traditional DI carriers have shied away from the

true blue-collar marketplace, and so we feel that there's quite a bit of opportunity there. We also try to go after the smaller employers. I define large as, say, over 2,000 lives. We find that to be a pretty competitive marketplace, very difficult for Colonial to compete in. Certainly on the UnumProvident side, they have more horsepower to play in that marketplace, but we're a much smaller case. We like to stay under 250 lives.

MR. ROSEN: Our DI strategy, like our corporate strategy, is to distribute in the white-collar market. The company is very focused on three specific target audiences: the wealthy, the upwardly mobile and the small business owner. When you sell to wealthy clients you pull out of the DI marketplace because once there are serious amounts of unearned income or liquid net assets, there's really no incentive to go back to work. If that person can provide his or her own stream of income, then it's not necessary to make that earned income. But my presentation today is going to focus on what we mean when we say voluntary multilife IDI, why we're in the marketplace and, further, how our product offering works.

We feel that with respect to multilife business our best target markets are in the smaller rather than larger cases. We really don't want to get involved in competing with the UnumProvidents or the Mass Mutuals of the world because when you get into executive complements in companies that are 1,000, 2,000, 3,000 or more lives, you wind up in a battle of "who can name that tune in fewer notes." You'll make a proposal, and the other side will make a proposal. They will undercut you or offer more, and we just don't want to get into that scenario. We feel that our best target clients would be among our group clients and also in special individual occupations like architects, bankers, lawyers and accountants. We stay away from the medical market, and we can talk about that later. But those are our target markets.

MR. LADLEY: Term insurance is the most popular worksite or voluntary product offered at about 80 percent. This is based on a LIMRA survey. But DI is the most popular health product. However, dental and now critical illness are rapidly catching up. It's often seen as an entry vehicle.

A little more than 50 percent of DI carriers in the voluntary marketplace had met expectations and feel comfortable with where they are. The enrollment percentages tend to hover around 40 percent, but there's wide variation by industry and segment. STD is slightly higher, LTD slightly lower. Manufacturing and communications are the sectors that are used. Guaranteed issue (GI) is most often in use and with more underwriting simplified or more involved underwriting for reenrollments.

The most popular distribution channels for this business are, in order: group reps who utilize brokers; secondly, brokers working through brokerage general agents; thirdly, TPAs; and, fourthly, group reps who work either direct or with brokers. I have seen other segmentations of the market in terms of the worksite and

voluntary specialists who access it. This is certainly not the only segmentation that can be used.

Generally, just a little more than 70 percent of those selling voluntary DI are optimistic about its prospects. They see it as a growth engine for their company. However, one has to wonder about the cost shifting currently afoot in the managed-care side and whether voluntary products generally, and maybe the leading health product, DI, may suffer some from that.

I have seen even a lot of variation not just by company but even within the same company among the agents or distribution systems. These are agents who receive the same training, have the same field management, receive the same promotional materials. You can't expect every agent to accept and sell successfully this product and enroll it. There's even going to be variation in that regard.

There are some standard or classic enrollment techniques that are used. I think you're going to hear more about some of those techniques from our panelists. It is a complicated market, not only on the claim side but also on the sales and enrollment side.

Finally, of roughly 30 insurance companies who are promoting their voluntary plans, about four promote DI as primary. There are a few very large players in this market, and then there's a smattering of smaller players who incorporate it as part of worksite. Four actually mentioned no product at all. They either might have a prepaid legal promotion as their lead product or they might tout their enrollment and claims expertise. However, a little over two-thirds do mention DI somewhere in their product offerings, and other primary products, again, critical illness and life, are quite frequent.

At this point I'm going to turn the podium over to Howard Rosen and let him tell you about Union Central's experience.

MR. ROSEN: You heard Jack offer some great comments on his perspective on what's going on in the voluntary marketplace. What he asked me to do is go a little bit deeper with respect to what Union Central is doing. What I'd like to go over with you today are really a few things. First of all, what do I mean when I say voluntary multilife Individual disability insurance? It may mean different things to different people. Why is Union Central in this marketplace? And, if you're in IDI or thinking about getting into IDI, why would you might want to be in this marketplace, too? Finally, how does Union Central's product offering work?

What is voluntary multilife DI? Simply stated, it's the selling of DI to three or more lives with some affinity, and typically that affinity is a common employer. Many companies who sell IDI, perhaps all companies who sell IDI, are in the multilife DI marketplace and may not know it. If you're in DI, and you have a list bill discount, you're in multilife DI, because there are typically premium discounts involved in

multilife DI, and a list bill discount is a premium discount. With larger groups, typically 20 lives or more, you're talking about having some form of underwriting concession. And whether it's bundled underwriting or some other specific concessions, once you, again, get into larger groups, you're talking about the potential of GI underwriting. I want to differentiate between what is called GI underwriting on the individual side and what may be called GI underwriting on the group side because our attorneys lately have been very clear in saying to us that our product offering, which is consistent with a lot of the product offerings on the individual side, is not really pure GI. The reason that it's not pure GI is we have four questions on a short form application that change the nature of the offer just a little bit. The first question is, "Are you a smoker?" That's not going to preclude coverage, but it does raise the rates by approximately 25 percent. The second question on the short form application is, "Have you been actively at work for the last 180 days?" If the answer is no, we want to know why. If it's something serious, that's going to go into the decision about whether or not an offer is made. The third question is, assuming that you're actively at work and have gotten by the second question, "Do you have a condition that may be described as presumptive?" using the presumptive definition that's in DI contracts, meaning do you have the loss of the use of your eyes or the loss of the use of both hands or both legs? The fourth question is, "Are you capable of performing all activities of daily living without standby assistance?" Once you get by those four questions and the group is approved, then we're talking about true "guaranteed issue." So it really is a streamlined issue program. When you go over to the group side, when you're talking about GI, typically you're talking about true GI. If the group is okay, you're okay. Our attorneys tell us very clearly that you need to define that on the individual side. So we do.

FROM THE FLOOR: (INAUDIBLE)

MR. ROSEN: The question from the floor was, "Is our product guaranteed to issue (or modified guaranteed issue—MGI) or truly a guaranteed standard issue product?" We are not in the MGI marketplace. This is a guaranteed standard issue product. If the group meets the group criteria, and I'll get into what those are, and if the individual has met the requirements of those four questions, then everybody in that group who has met the criteria gets a standard issue offer.

It is possible that as an individual you might not be able to get coverage, but everything is clearly spelled out in our offer letter. This issue is the focus of our attorneys' concern, but in the individual marketplace, when individual companies who write DI call their offer a GI offer, there are typically some qualifying questions on the application.

Why is Union Central in this business? First of all, it's a good match for our target markets. I mentioned what our three target markets are. This product hunts very well in the executive marketplace. It helps penetrate the white-collar market, other than medical. We do not make this product available in the medical market. We

target the executive element of corporations. By offering this product and getting wide distribution, what we're doing is not trying to take fewer people in the medical market but trying to reduce our penetration as a percentage of total business written.

The executive marketplace is where our product is the most competitive. There is a huge potential market. If you look at some numbers from a 1998 UnumProvident/Bear Stearns study, Table 1 shows what the white-collar executive marketplace looked like. You can see that in the top two categories, physicians and dentists, there's a reasonably large target market, but that market has been extremely well penetrated. Some of the companies that have penetrated that marketplace very well, which might have been the underwriters of choice at times, now might be asking themselves, quite frankly, why they wanted to do that to themselves.

Table 1

Potential Market

IDI Penetration By Occupation

Occupation	Population	% IDI Penetration	Potential Market
Physicians	750,000	84%	120,000
Dentists	150,000	69%	46,500
Attorneys	750,000	19%	607,500
Corp. Execs.	1,700,000	11%	1,513,000
Professionals	14,000,000	3%	13,580,000
Managers	12,000,000	2%	11,760,000

Source: Unum Provident; Bear Stearns & Company 1998 Report.

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If you carve out the top two lines, you're talking about a target population of 28.5 million professionals with an estimated DI penetration of 3.5 percent, leaving about 27.5 million people. That is shown in Table 2. This was in 1998. If you look around, there are a lot of lawyers. We're still writing lawyers, although our group department does not like attorneys very much. We feel that attorneys are still good risks. If you look at the penetration of IDI in these occupations, there is a huge under-penetrated market.

Table 2

Potential Market

IDI Penetration By Occupation

Occupation	Population	% IDI Penetration	Potential Market
Physicians	750,000	84%	120,000
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Professionals	14,000,000	3%	13,580,000
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Target Population	28.5 million
% IDI penetration	3.5%
Potential Market	27.5 million

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If you are in the IDI marketplace, why should you be in the voluntary employer-sponsored market? Let me explain it this way. Why is DI so hard to sell? It's expensive. It's not a cheap coverage. Unlike life coverages, the price has been going up recently. It hasn't been going down. The underwriting process is extremely invasive. Especially when you're talking about executives, not only do they not want to be bothered being asked for financial documentation and medical documentation, but they don't want to give you the information. They feel they don't have time for it.

Another difficult aspect in selling DI is that there are too many choices for plan design. Plan design takes up a lot of time. This is not to say that it's not an important element, but if you're trying to approach multiple insureds or multiple applicants at the same time, you sometimes get caught with the complexity of your DI product. If you look at our product, for example, DInamic 2000, we have up to six definitions of disability. We have eight possible riders, not to mention the combinations of elimination periods and benefit period. Not only that, but some of our riders need not have the same elimination period and benefit period as our base contract. It is a flexible contract, but along with flexibility comes complexity sometimes. The multilife product offering takes the complexity out of it.

What's easier, selling one policy at a time and hoping that you get through the underwriting process, or selling multiple policies at a time and possibly receiving underwriting concessions? It's not rocket science. This is one of the key elements of voluntary DI sold in the executive multilife marketplace.

MR. LADLEY: I might like to ask at this point if you could profile the typical distributor that you use, how they relate to Union Central's existing DI distributors, how that works.

MR. ROSEN: We distribute our DI product essentially through three channels. Union Central, which is actually 135 years old, is one of the oldest companies in the country, and one of the oldest mutual companies. Union Central went through a strange metamorphosis. We started out as a mutual company. In the early part of the last century, we stocked, and then we mutualized again. So we've gone back and forth. We weren't quite sure what we were going to be. Now we know. We're going to be a mutual company. We sell primarily through a general agency system. This is how the company grew up, but in recent years, as our DI line grew, we added a wholly owned brokerage system. Our core distribution is through the general agency system. We still have a few remnants of a branch structure, but in general, agencies operate on a variable cost structure. Our DI centers, which are our wholly owned brokerage channel, are actually branches. So we own those offices. The third channel is something that's growing now, and that's a brokerage general agency system.

The typical producer who would write voluntary multilife DI probably is one of two types of producer. It might be a group rep who would get involved with an individual salesman who has the entrée into a group for which this product is appropriate, or some of our brokers who are DI specialists who have entrées into corporations.

Typically it's either someone associated with the group side or a DI specialist-type producer.

MR. LADLEY: What kind of infrastructure do you provide to these distributors, if any, to support sales and enrollment?

MR. ROSEN: With respect to the proposal process, we do the proposals in-house. What we do is we provide offer an agent's sales kit, which includes many things. It's on our Web site, but we also can provide it in hard copy. It includes a form that requests basic information, and it's got a preproposal letter. Then there is a customizable proposal. What we do when there is an offer is ask for a census of relevant information in media. We take that information, and we run it through our proposal system. That proposal system generates pitch kits in the voluntary market for every eligible employee in the group, and we send those pitch kits out to the producer. We also have the capability of providing a preprinted application using that census data. We haven't gotten into a situation where we have used outside enrollers yet, but that is a possibility. When you use an outside enroller, that means that the producer is going to have to give up compensation, and they don't like doing that.

With larger groups you have significant premium reductions. Again, we're talking about the GI market. No tax returns or other detailed financial documentation and no medical records are required. This is extremely important. We use a short form application, and plan design is at the group level. It works because every negative aspect of the sales process on fully underwritten DI is responded to in a GI program. You take away the complexity. You take away the invasiveness. You have rapid turnaround time of applications. Once those applications are in the home office, because all the underwriting is done when the application is filled out, you're not talking about a turnaround time of weeks or possibly months if it's a complicated case. You're talking about a turnaround time of days, two days, three days, from the time that the application comes in. Actually, it's somewhere between 24 and 48 hours, from the time that the application comes in to the time documents go out.

BENEFITS OF MULTILFE DI TO INSUREDS

Multilife DI is really a win-win-win-win proposition for all of the constituencies involved in the sale. You have four constituencies. You have the producer, of course; you have the insured; you have the sponsoring employer; and, of course, you have the company. In our case, it's Union Central.

With respect to insureds, what are the benefits of a voluntary program? It's GI. You're talking about no invasive underwriting process. The premiums are discounted. An insured cannot get this program walking in off of the street, going up to his friendly Union Central DI producer and asking for it. The affinity is the employer, and you have to be part of the executive element.

Rapid turnaround time of applications is also a benefit of offering multilife DI to insureds. You also cover a higher amount of income if the product is written along with an LTD program, rather than if you just wrote the LTD program all by itself. We all know that in the context of an LTD program, a 60 percent plan generally isn't really a 60 percent plan for everyone, especially for executives, because there's usually a cap. Also bonuses may not be covered. So if you write the executive carve-out or the executive voluntary plan along with LTD, you have more income coverage, and it can be employer paid. We're not talking about that type of program, but that is a real perk to an executive, a portable benefit like this, is presented to him or her from the employer.

BENEFITS OF MULTILIFE DI TO AGENTS

You're going to hear me mention a couple of things over and over again because these are not just benefits to one constituency, they can be benefits to multiple constituencies. As far as the agent, because there is no invasive underwriting process, he or she doesn't have to chase executives for their financials, go to their accountants for three years of financials or try to get attending physician's statements and inspection reports. You're approaching multiple insureds at the same time. This is a tremendous cross-selling opportunity. Another benefit is discounted premiums. Again, the producer can be a hero. "I can get you something

through your employer that you can't get if you came up to me outside of your employer." Also, one plan design is done at the group level that fits all, saving time for the producer. Finally, there are multiple sales, even though the rate of commission is lower than on fully underwritten business. If you're talking about 20 sales instead of one or two in the same timeframe, you're talking about significantly more commission dollars, and we know that that's what drives them.

BENEFITS OF MULTILIFE DI TO EMPLOYERS

Employers can create perks for executives. They can reduce their LTD costs, and they can stabilize their benefit costs. Let's consider a situation where an employer has a fairly generous LTD program, maybe a 75 percent plan that will go up to $10,000 or $12,000 a month. In the LTD marketplace, as in the individual marketplace, the higher the replacement ratio, the higher the cost. So the rates on LTD that are very generous are higher. If you cut back, if you get creative with that employer-customer and cut back on the generosity of the LTD plan, you do a couple of things. First of all, you provide the platform for the voluntary executive DI program, but you also reduce the LTD costs. In some cases, I've seen situations where the LTD costs have been reduced to such an extent that it finances virtually the entire executive DI program. So you reduce the LTD cost, but you also stabilize the overall cost of the plan because a smaller element, that is, the LTD element, is now subject to fluctuation. The cost of the noncan part of it is fixed and known.

You have list billing. You're writing 20 or more lives. The employer is paying for that coverage through a single check. The presence of the program tends to foster persistency and loyalty among the executives because they're getting a special perk that many competing companies are not offering. And it allows an employer to add an additional benefit perhaps without incurring an additional cost because you're talking about a voluntary program.

BENEFITS OF MULTILIFE DI TO INSURANCE COMPANY

Union Central gets benefits, too. Any time we come out with a new program or a new project we have to do a cost/ benefit analysis, and if we don't find a positive benefit for the corporation, whether it's my company or your company, it makes no sense to do it. So there must be a benefit to the insurance company.

Better morbidity is the key benefit here. At first this seems somewhat counterintuitive, but it really isn't. If you look at the studies that have been done on multilife business in the GI marketplace for individuals, every company study that I've heard about from companies that have credible data indicates that the morbidity on GI business is better than the morbidity on individually underwritten business. Anecdotally the stories that I've heard are the improvements are somewhere in the 30–40 percent range. We can't prove that from our book yet, but if you talk to people in the companies that are writing a lot of this business, this is the story that you will hear. There are lower expenses. You've carved out virtually all of the underwriting expense: no inspection reports, no medical records, no attending physician statements, no financials. You've saved the company a lot of

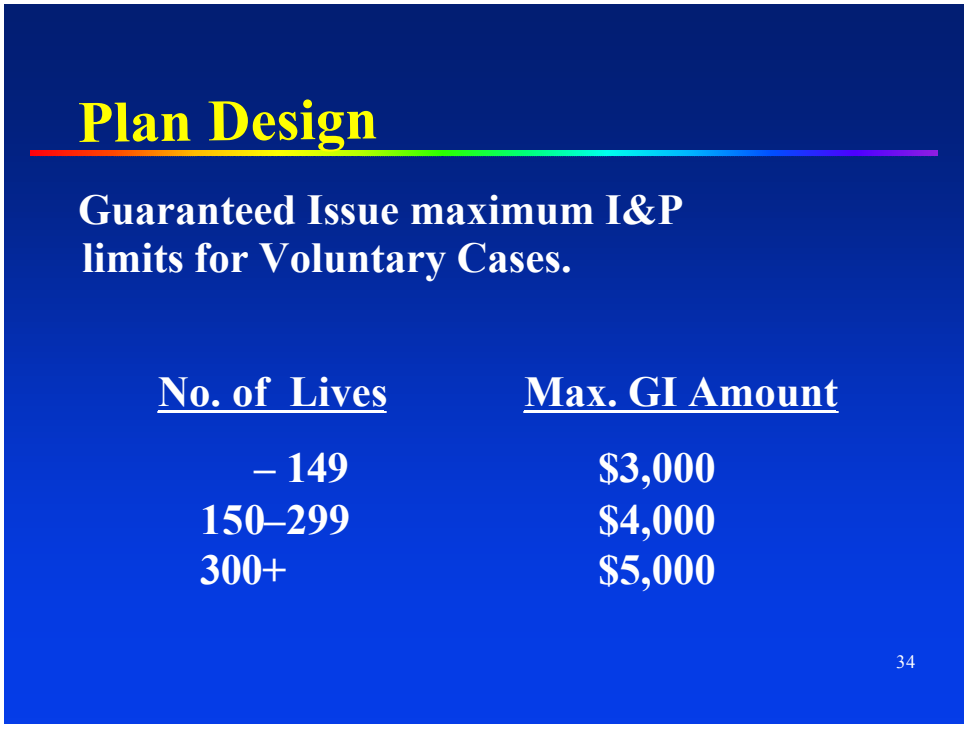
money. Increased volume is a benefit. You're writing multiple lives and spreading expenses over a wider base. Other benefits are that the company is writing multiple policies at the same time and collecting larger premiums. And you've got an improved relationship with the field. If you're trying to get your field back in DI, and they've been in DI in the past, they know about the aggravation involved in underwriting the product. If you're in the brokerage marketplace, you know that typically the broker who writes your product is somebody else's general agent. If you can respond to their concerns and the reasons that they've gone away from DI, you will forge a stronger relationship with those producers.

Let's get into how the Union Central product works. We talked about the fact that it is a GSI product for those meeting the eligibility requirements. It's targeted at the executive and professional occupational groups within a single employer. We need a minimum of 20 participating lives for a GSI offer. We'll talk more about participation in a minute. Again, plan design is at the group level. When we write the product we generally write it with LTD, but it certainly can be offered as a self-standing independent product. When we write it with existing LTD or offer it with LTD in a new opportunity, there are usually three structures in which the product can be sold. The one that's most common, perhaps, is wrapped around an existing group program where you're writing a supplemental product on top of an existing LTD plan. Maybe you've gotten a little creative with that employer and cut back on the LTD plan to stabilize costs, but you're writing the product over the top of an existing LTD program. The second is also very common, and that's a carve-out program where you're targeting a specific group such as the executive element of the employer, and you're carving them out of the LTD program, replacing their coverage with a noncan DI product on a GI basis. The third is what's known as reverse carve-out. This is a somewhat innovative structure where the IDI is the first layer of coverage, and the LTD is put on top of the IDI. With this type of structure, increases in compensation are borne by the LTD program. They're not borne by the DI program.

The definition that we use in our product is "own-occ-to-65" and not working, meaning that if the insured is otherwise gainfully employed, whether or not he or she is unable to perform the primary duties of his or her occupation, the contract will not pay. This is not the only definition that we use. This is the market definition, we believe, for this type of product offering, so we lead with it. We also don't make our entire product offering available. I should mention that what we offer in this marketplace is our shelf product because when we built our product in 1998 and 1999, we felt that we added sufficient flexibility that we could sell the same platform in multiple arenas. This particular one fit very well. We don't offer all of our riders. We only offer some of them, those riders being the residual, the social insurance supplement (and I should add here that when we write with LTD, the social insurance supplement rider is typically not written because the LTD program will integrate with Social Security), our COLA or inflation rider, and our activities-of-daily-living rider.

Now let's talk about participation for voluntary plans. We target 30 percent, but generally speaking have a minimum number of paying participants of 20. In Table 3 are our issue limits for voluntary cases. The first category is fewer than 149 lives, and the maximum GI amount is $3,000. The next category is 150 lives, and the amount is $4,000. The highest category is 300 eligible lives and above with a maximum issue size of $5,000 per month. The companies that typically write in this marketplace would not get into a voluntary proposal with an employer that did not have 70 or 75 eligibles or more. When we developed our specifications, this is what we had originally thought as well.

Table 3



I do have an advisory group that is made up of some home office folks, some of my key managers on my team, but also several key managers out in the field, our field associates. They were very clear in saying that they didn't want to limit our target audience to groups that were 70 or more eligibles because if you're talking about executives, and you're talking 70 or more, you're talking about a big company. They are in the 401(k) business and the group business, and they are typically getting involved with smaller companies.

We made a compromise and agreed that for smaller groups, groups of fewer than 70 lives, if they met the eligibility requirements, we would give a proposal. That proposal of GI was contingent upon a minimum of 20 paid lives. If there were not 20 paid lives from a group with fewer than 70 eligibles, then the only way they could get coverage would be on a fully underwritten basis. For all groups, we have

to underwrite the producer as well as the group, and, therefore, we have to underwrite the marketing plan of the producer. If that producer gets a proposal from us, and he or she does not deliver on a minimum target participation of 30 percent, for public relations reasons and because we don't want to ruin an existing relationship with a corporate client, we will issue those contracts on a GSI basis. But that producer may never get another opportunity to write with us. We underwrite the producer just as strictly as we underwrite the group.

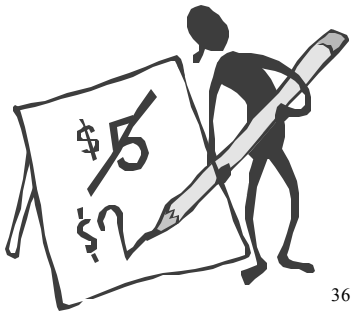
Regarding plan design, we get into the typical group underwriting criteria in evaluating whether or not we want to make an offer to a group. Those criteria are industry, occupations, financials, local economy, turnover rate, LTD experience, and age distribution. Every case is different. I talked about what we do in smaller cases. So I won't go over that again.

Let's talk about the discount structure. In Table 4 you can see that our discount structure matches up very well with the same structure of eligible lives that we have for maximum issue amounts. These products can be discounted up to 30 percent off of unisex rates.

Table 4

Discount Structure

Voluntary GI Eligible Employees	Discount
–149	20%
150–299	25%
300+	30%



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We feel that the market is absolutely huge. The opportunity is great, and we firmly believe that voluntary employer-sponsored plans in the IDI marketplace are going to be a larger and larger portion of our business.

MR. ARTHUR J. VERNEY: Do your additional premium discounts come with additional commission reductions, or are they independent of your commissions?

MR. ROSEN: No. When we filed our product we filed it with a discount and a compensation structure, and, very briefly, the premium discount and the first-year commission add up to 60 percent. When you're starting with a 20 percent premium discount, the first-year compensation will be 40 percent. If you go up to 30 percent, the first-year compensation will be 30 percent.

MR. DANIEL SKWIRE: You mentioned that there was evidence of improved morbidity on GSI cases and sometimes some pretty significant amounts. Was that applying only to GSI cases with 100 percent participation, or to voluntary GSI cases only or to both of those?

MR. ROSEN: The information that I've gotten is really anecdotal, and we've gotten it from our consultants who would not release the data, but the stories that we hear are that when you get into larger voluntary groups you start getting the same type of improvements as in employer-pay-all cases. However, they didn't specify.

MR. FISH: In my past UnumProvident days, we did see that there was some improvements on morbidity even in the GSI business, but the one that you've got to be careful about is what base you're comparing that improvement to. Of course, as we all know, the experience back in the late 1980s and early 1990s was a pretty terrible experience. So, on the surface there certainly is some improvement, but we've just all got to be careful about how much real improvement is in these numbers versus just seeing some poor experience from the older business.

MR. ROSEN: When we priced it out and did our profit studies on the product, we did not use the information that the consultants gave us in absolute amount. We tempered that information and assumed a morbidity improvement somewhat less than what they told us. It's anecdotal. I've not seen any published information. I don't know if anybody has. The companies that have it usually feel that it's proprietary, and it's easy to understand why.

MR. FISH: For those of you who aren't familiar with Colonial Supplemental, we are an agency distribution force. We have about 5,000 licensed agents out in the streets. We're selling in all 50 states. Of course, we are a subsidiary of UnumProvident Corporation. We were purchased by Unum back in 1993, and we remained with the parent companies after the merger of Unum and Provident in 1999.

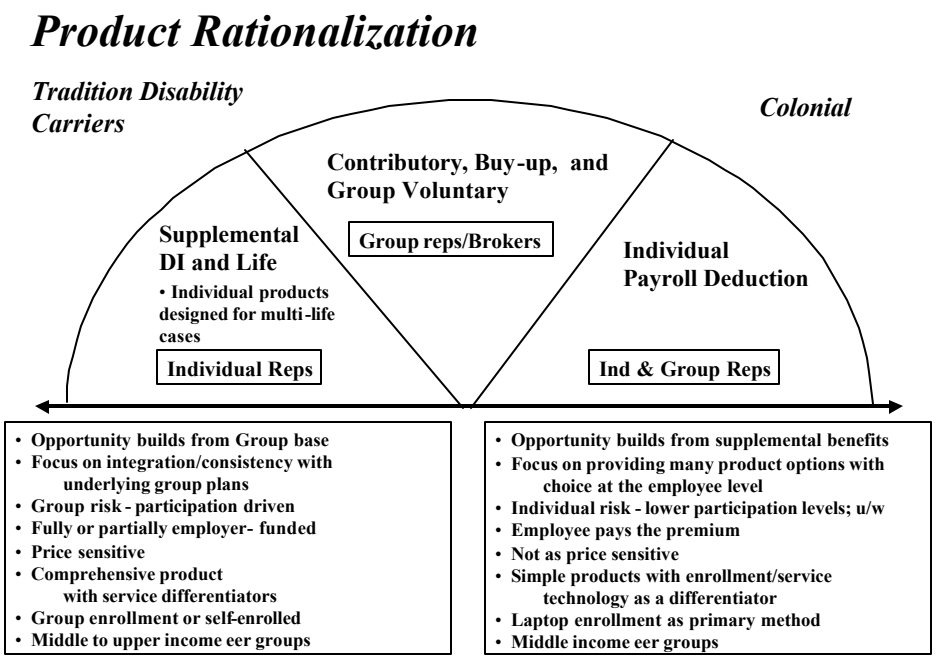
PRODUCT RATIONALIZATION

From Colonial's perspective in the last six months to a year, we've been struggling with which products we should be selling in the voluntary benefits marketplace. By "which product," I mean an individual product or a group product because we do sell both individual and group products for our STD program. Our LTD is

exclusively a group product. We don't sell individual LTD, but we do sell individual STD and LTD, and when we say individual with STD, we're really not talking about a traditional individual product that's sold one-on-one outside of the workplace. All of our products are sold at the workplace. They are sold one-on-one to the employee, but it's always at the employer's setting.

From a product perspective, where are the companies coming from in the marketplace? In Table 5 the answer is broken down into three major segments. On the right-hand side, you have where Colonial's coming at, and that's from the individual payroll deduction marketplace, and we're really coming at that with our supplemental benefits kind of value proposition, as we call it, which means we want to sell multiple supplemental products within an account. We don't want to just be a disability carrier within any given account and have that be our only product. We are in there with individual agents, licensed agents, and you can see that the middle wedge of the table is what I think of as the UnumProvident model, which is using group reps and brokers, and they're starting from years ago with the 100 percent employer-paid business and then moving over the spectrum into a flex business, contributory business, and finally into the pure voluntary, 100 percent, employee-pay-all marketplace.

Table 5



On the left-hand side of this table, Howard talked about his company's approach, and they're really coming at it from there, which is a supplemental DI marketplace. They were traditionally in the past an IDI carrier selling individual products and

then moving into the group voluntary market, using an individual approach with individual reps. And you can see between each side of the business, when you think about an individual versus a group—the individual being on the right-hand side in some of those bullets at the bottom of the table, and the group being on the left-hand side—there was some contrast there, and I'll just hit on a couple of the points.

When you talk about the risk, on the individual side there's more of an individual risk perspective. We do some simplified issue underwriting with our individual products. Our group product is all GI with participation guidelines. So you can see there's going to be a difference there. The enrollment is slightly different as well. Our individual product traditionally is enrolled one-on-one. Our group product can be enrolled one-on-one, or it can be enrolled in group setting or on the Internet or self-enrolled. We do a very, very small amount of Internet enrollments, but we do have that capability. And then, finally, you can see in terms of the income standpoint, we're going after the middle- to lower-income employee, and I think from where Howard's coming at it is more the middle to upper income segment, coming at those executives.

MARKETING AND ENROLLMENT METHODS

Colonial's target market has been in the small-case marketplace, and I've defined that as fewer than 500 eligible lives. We feel that's a very good niche for us. It's a profitable place to be. It's not as broker driven. That's a good thing for us with our agents. We feel that UnumProvident is really more in that larger-case marketplace. They can do a better job than we can in enrolling those very large accounts. Our target industry is government, and that'll probably be the one deviation when I talk about case size. The public sector or the government sectors, there are some pretty large accounts there, but, other than that, we're selling mostly in health care and in retail trade and service as well. Those are some of our target markets.

Benefit communication is very important to us. It depends on the account size, but we kind of run the spectrum. The very small employers often don't have an HR department, so our agents are in there, and they're not only enrolling our particular product, but they're also enrolling the health product and what other products that the employer is offering that employee. Our agent will actually load up other insurance products onto the laptop and enroll those products, and then after that's complete, he or she will walk you through the supplemental products that we may be offering. That's usually one or two products, and often we're offering the disability product in that situation.

PRODUCT AND PLAN DESIGN

Here I'm going to talk about product and plan design differences. In Table 6 we show the individual versus group product, the platform, which one to use. Obviously the first contract form, that's a self-explanatory one. You've got a guaranteed renewable (GR) on the individual side versus conditionally renewable on your group side. Some of the key features here: You can see individual products. We're aiming for a 25–40 percent income replacement ratio. That's, of course,

because you're not integrating against any other disability coverage in place. On the group side, you're going to shoot for a 50–60 percent ratio. Generally you're integrating in that situation. And then from a definition of disability standpoint, our individual product is actually slightly more restrictive than the group product. We offer a one-year own-occ definition. That's a total definition of disability. There is no partial. That contrasts with our group, where we've got a two-year own-occ definition with partial disability.

Table 6

Product and Plan Design

	Individual STD	Group STD & LTD
Contract Form	**Guaranteed Renewable to 70.** **Portable.**	**Standard 2 yr rate guarantee.** **Not portable.**
Key Features	**No continuity of coverage.** **25%-40% income replacement.** **Flat monthly benefit - $5k max.** **One year own occ definition.** **No partial.**	**Continuity of coverage.** **50%-60% income replacement.** **% income benefit - $4k max.** **Two year own occ definition.** **Partial.**

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Continuing in Table 7, from a rating perspective, you can see there is a difference with rates. On the individual side, we're using published street-ready rates, level premium, with multiple-occ classes. On the group side, you've got census or experience rates that come into play. From that perspective, whether you need to be competitive or not is something to think about in terms of which product to use. You can get more competitive with a group product. There is more flexibility. But, with that, you've got to be very careful about your rates and how competitive you want to be. We're finding that the voluntary marketplace is getting more and more competitive each year. As an actuary, I prefer to be on the left-hand side of this table with the individual rates because I know they can't deviate from that basis, but sometimes we do have to go in there and offer the group rate to be competitive.

Table 7

Product and Plan Design cont.

	Individual STD	Group STD & LTD
Rating	**Published rates.** **Level Premium.** **Multiple occ classes.**	**Census/Experience rate.** **Step rated (5 yr bands).** **One rate per class/division.**
Underwriting	**Simplified issue.** **(GI available).**	**Guaranteed issue with participation requirements.**

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Those of you in the audience offering products in the voluntary marketplace, are you seeing the market being more competitive, especially in contrast to the traditional side? It depends on the distributor? From an underwriting perspective, our individual product is simplified issue underwriting, which generally is two or three nonmedical questions. There may be a 12-month hospitalization question in there. I also mentioned GI is available. It's in parentheses in Table 7, but actually a lot of our individual products are sold on the GI basis, and by GI here it's a little bit of a different twist even from what Howard said. What we're doing is actually asking questions up front, and then if their participation guideline is hit, all of those applications are released jet issue. As an example, our participation guideline in that situation is 25 percent. If an account hits 25 percent, then all applications that have already been taken, as well as those that are going to come in the future, are going to be released jet issue. Then on the group side our GI is a true GI, so you just basically have to be actively at work, and once again it's a 25 percent participation requirement. So the difference there is going to be actually what happens if you don't meet your participation guidelines. On the individual side, we still have a product to offer those employees who pass the underwriting questions, whereas on the group side the underwriter has to make the decision of whether or not the account is going to be taken. That can be a tricky issue when your requirement's 25 percent, and in that case it's 20 or 22 percent, what do you do in that situation? Especially for us, we may have other products in that particular account. So going back to the employer and telling the employer that you can't offer the group STD or LTD because participation guidelines aren't met becomes a sticky situation because the employer may turn around and say, "Well, you guys

didn't do a very good job on enrollment." In that situation, if we don't think we're going to hit participation guidelines, we prefer to be in there with the individual product.

MR. LADLEY: I wonder if you'd care to comment on difficulty or ease that you might have in obtaining generic or useful competitive information as opposed to single-case competitive data. How hard is that to do? And what are some of your means, perhaps?

MR. FISH: On the individual side it's pretty easy. Of course, you can go to where the filings are done in each of the states and pull some of the competitor information, pull down their rates, pull down their contracts, and so forth, and you can judge how competitive your individual product is going to be because, on the street, they're not deviating from those individual rates. When you move over onto the group side it's a lot trickier because there's a huge fluctuation at the street in terms of the rates that are being quoted. We find it's very difficult to get a feel from our agents especially since we've got quite a few agents out in the street, but it's very difficult to get a feel for how competitive our group products are. Agents are always saying our product isn't priced competitively. That's never going to change, but the issue is how much. How much are we in the marketplace? How close are we? Traditionally our agents like to be within 15 percent. If they're within 10 or 15 percent, they can usually explain away any differences, but you get outside of 15 percent, then it becomes a very tough issue to try to sell that account.

FROM THE FLOOR: How would you compare the exclusions on the individual or group, specifically the pre-ex?

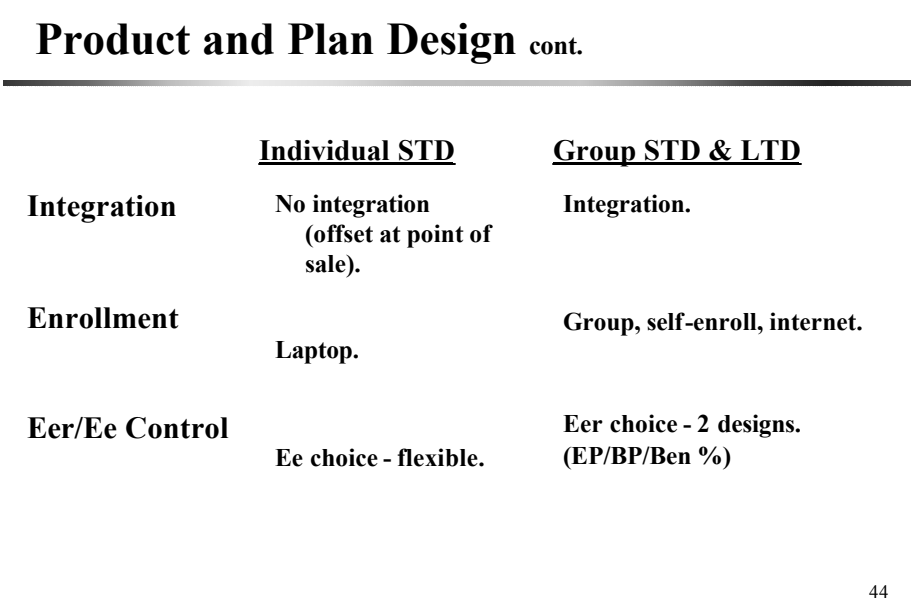
MR. FISH: On the individual side our pre-ex is a 12/12 pre-ex, and on the group side it's a 3/12 pre-ex. So there is a difference there on the pre-ex.

FROM THE FLOOR: Would you comment on using step rates for STD and your success in the market with using step rates, versus composite rates?

MR. FISH: We've been pretty successful. We do sell composite rates in the education sector. When we're in that education marketplace, that usually demands a composite rate. Other than that, our agents have grown up selling the individual product. Now the trick there is that it's different than five-year age bands. On our individual product there are only three age bands—a less than 50, a 50–59 and a 60 plus. That's pretty easy to stomach from the field's perspective. You move over on the group side with the five-year bands, we still are successful in selling that approach, but I think we certainly do get some pushback on there. In some industries, we just go strictly composite. In the education industry, you could argue that there's limited risk there because it is a pretty homogeneous group from a salary perspective and age perspective.

In Table 8 you can see from integration the individual product is not integrating against any other disability that may be in place, and traditionally on the group side you are having an integrated contract. You can sell nonintegrated, and we do offer some nonintegrated STD and LTD, but we prefer to sell the integrated, and if they want to go the nonintegrated approach, we'd prefer them to sell the individual product. You can see enrollment. All of our individual is done over the laptop in a one-on-one situation, and the group can kind of be a mix. It can be a group enrollment. The employees can actually self-enroll if there's a kiosk available, or they can enroll over the Internet, although a very limited amount is done over the Internet. I could probably count on one hand the number of cases that we have that's Internet enrolled.

Table 8



And then from an employer/employee choice perspective, our individual contract has the most flexibility at the employee level because the agent is in there, and mindful of what other disability coverages may be in place, they still have quite a bit of range that they can offer the employee. Say, on the elimination period, you know, we've got a 0/7 (elimination period in days for accident/sickness), 7/7, working your way all the way up to 30/30. Same thing with benefit periods. You can kind of offer the employee a choice of which one they want to choose. That contrasts with the group side where really you're trying to fit that product into whatever other existing coverage may be in place, and in that situation the employer usually chooses two plan designs. They may offer a 12-month benefit period, 50 percent replacement ratio, and two elimination periods to choose from, say, a 7/7 or a 14/14.

MR. ROSEN: On the individual side where you're offering the employee some measure of choice, is there any concern about antiselection? Are there any aspects of product structure that could cause employees selecting at their own level to select against the company?

MR. FISH: Definitely, there are those selection concerns, and, we struggled with that. Once again, coming back to how our distribution works with that many agents out in the field, we have a difficult time trying to police exactly what they're going to sell in all these accounts. So we do try to educate them from a disability perspective and make sure they're not over-insuring, make sure they're not selling this plan on top of other disability in place and he or she is just not aware of that. But we still allow them to select at the employee level, and we've been pretty successful. The profitability of our individual product is better than that of our group product. But there's always that concern. Whether you're going to go individual versus group, at least from Colonial's perspective, comes down to the account level. What are the requirements at the account level? What is the employer looking for in the plan? As an example, if the employer wants to be involved in that situation, if it feels more the fiduciary role in that particular situation, then it will be the policyholder and be comfortable with a group format. If the employer wants to have a completely hands-off approach and doesn't really want to be involved whatsoever, then, of course, the individual product fits very nicely.

Price I talked a little bit about before. If it's a competitive price situation, then you've got more flexibility on the group side, both up front when you're quoting the business and also a year or two down the road in terms of rate revisions if needed. Finally, sometimes it just comes down to what the agents are comfortable with. We've traditionally been an individual company in terms of product standpoint. Now, all of our products are sold in a group setting, but we've traditionally had individual GR products. When we started into the stand-alone disability marketplace back in the mid-1990s, we happened to just have a individual policy form that we filed it on, and we've been very successful with that, and a lot of our agents are comfortable with that individual policy. We have some newer agents who come on, and they may be brokers in their past lives and comfortable working in the group world, and so they like the group product. Sometimes the account is going to dictate it. Sometimes just what the agent's comfortable with will dictate which product.

FROM THE FLOOR: Can you tell us what the differences in costs are between individual and group?

MR. FISH: Difference in cost is going to vary quite a bit at the particular account level. From an overall average our individual product runs about $400 a year per covered life. Our group STD product probably runs more in the $250–300 range. So that's about the difference there.

INDIVIDUAL STD EXPERIENCE

Charts 1, 2 and 3 concern our individual product. That product, of our total disability portfolio, makes up about 85 or 90 percent of the portfolio. In Chart 1 I have done the cut on the individual side, although when we looked at group, very similar patterns emerged. We call this individual, but really it's sold in a group setting. You could almost infer that if you're selling a group STD product, other than some differences in the product, you're probably going to see some similar patterns here. Behind the scene in these numbers there's a mix of simplified issue and GI business. On a premium-weighted basis, it's probably two-thirds to 70 percent GI. The remainder is simplified issue with three or four questions. You can see it is very important to get your participation at a level that's tolerable. We like to get it to, say, 30 plus percent. Thirty to 50 percent is a good place to be. Most of our business is going to fall below 50 percent. It's probably split evenly between a less than 25 percent bucket and the 25–49 percent bucket. You can see we've got a little bit of business that's out there at 50–74 percent, and we've got a very, very small amount that's 75 plus percent. That's mostly the smaller accounts, the 10 and 15 life accounts that we've gone in and written most of the employees in that situation. And the last bullet in Chart 1, it is difficult to achieve high penetration to large accounts, which is another reason why we like to stay in the smaller case arena. We generally hit our participation targets, so the selection risk is reduced there.

MR. LADLEY: Mike, could I just ask a couple things about that? Have you studied or analyzed the flattening effect that seems to be there above the 25 percent?

MR. FISH: When we first took a cut at this experience we were a bit surprised that, once you get above 25 percent, it's flatter than I would have thought. There are a couple of reasons for that. One, and this one's more of a premise, is there's more downside risk to not hitting your participation than there is upside, to getting up above 50 percent. There's just a natural flattening in terms of the selection for what you'd see. When you get down below 15 or 10 percent, the risk is absolutely terrible in this business. That's one explanation. The other is a credibility issue. Most of our business is less than 50 percent. So, when you start going and cutting that beyond, I'm not sure if five years down the road whether it would look the same, as flat, or it might be slightly different. But it was a little bit flatter than what we would have expected to see.

FROM THE FLOOR: (INAUDIBLE)

MR. FISH: The question was on gender splits by participation, and I'm not sure we've done that double cut, but our business is split about 55 or 60 percent female and about 40 percent male. The health industry and the education segment, those are very high female content, and from a penetration perspective that health is pretty good. It probably runs in the 25–30 percent penetrated range for us when we go in there and write that business. Education is very high. Most of our education business is probably up at around 40–60 percent from a participation

standpoint. There is a strongly perceived need in the education marketplace from the employee's perspective on the value of the disability product.

MR. ROSEN: Mike, the rate structure's a unisex structure, is it not?

MR. FISH: That's correct.

MR. ROSEN: Would that not possibly affect your participation, especially if the producer is marketing that difference?

MR. FISH: I don't think so. From the producer's perspective, they'd have to be pretty savvy. Most of our producers aren't that savvy from a disability perspective to know how much the difference would be and when they're in there with a unisex rate versus a gender-specific. I would say that I don't think there's that much of a concern from that perspective.

FROM THE FLOOR: Your chart is an actual to expected? Is your expected level of morbidity discounted from a fully underwritten individual morbidity assumption?

MR. FISH: This expected in the charts is a level expected. We don't have any discounted in there for that basis.

FROM THE FLOOR: (INAUDIBLE)

MR. FISH: The question was, "Does it assume gender and the expectation?" Yes, it does. Our business runs about 55–60 percent female. So that would be the assumption behind these numbers.

In Chart 2 is some of the experience we looked at by policy duration. Once again on our individual product form you can see in the first couple of years pretty apparent antiselection, and this business behind the scenes here is both GI and simplified issue. So taking this chart and looking at just a simplified issue, you still see a slope here, not quite as dramatic in the first and second policy years in terms of higher A to E ratios, but we still see selection, and part of that comes back to the nature of the simplified issue underwriting. It is just that, very simplified. We're asking two or three questions. We're asking: Have you been hospitalized in the last year? Have you missed 10 or more consecutive days of work? It's not a medical underwriting type of an application. There are some things that you're just not going to catch from people selecting against you, say, someone who hasn't been to a physician yet but knows something is coming down the road where they may need knee surgery or something, or they feel that something just isn't quite right, and they may be missing some days of work. Those are things you're not going to pick up on an application. That's part of what we're seeing here. The other aspect that we're seeing here is that a lot of our business is first-time-buyer business. From a utilization perspective, you see a little bit of spike when a new STD plan is introduced at the account level, and then that settles out after a couple of years.

The other thing to note in Chart 2 is maternity claims. In our individual policy form, maternity experience is driving a lot of that early duration A to E experience, and that comes back to the ease with which people can find out whether they're pregnant or not with home pregnancy tests. You have people who are signing up for this coverage before they've even talked to their physician. So we've struggled on the individual side with whether we should or should not have a maternity exclusion out there. On the group side, you can't have that. You don't have that flexibility. But on the individual side, you can have a product that excludes normal pregnancy, and we've kind of kicked around that idea to help offset that because we know at the street level some of our agents are actually selling that point. They're going in there and talking to the females and asking questions like "Are you expecting children or will you be in the future?" It's a great selling point from an agent's perspective, but not so much from an actuary's perspective.

And then, finally, Chart 3 deals with on- versus off-job coverage. There are a couple of things I want to talk about in here. We're looking at A and E morbidity, and you can see, though, the pink bar represents our 24-hour coverage. The yellow bar represents our nonoccupation coverage. You can see our 24-hour plans performing much worse than expected, and this is both in the United States, excluding California, and also specific to the state of California experience. There are a couple of things behind the scenes driving this. We sell a lot of this business in hospitals and nursing homes. In the public sector accounts, we're selling to policemen, firemen, corrections officers. When you're in there with a 24-hour plan, that's not exactly what you'd like to be selling. We've been doing a lot of education and training to our agents to say you really shouldn't be offering a 24-hour plan. You run the risk of taking down the Workers' Compensation experience as well and having the employer potentially kick you out of the account if that's going to happen.

I think we've done a better job on that accord, and in some situations we've prohibited in certain parts of the country, certain industries, the sale of 24-hour plans. From Colonial's perspective, we've got so many agents out in the street, that when we put a product out there we hope that it is priced sufficiently, and we've done our training, but it's hard to police every single one of those agents. It's something that we always struggle with. The other thing I would note is our California experience: up until this year we have used the same rates in California as in the rest of the country, and that just recently changed. We're using higher rates in California on our individual STD business. Our group business would reflect the difference by region already. We've already got California-specific factors on our group business, but this year was the first time on the individual side that we're selling different rates in California. And I don't know if anyone in the audience here has any comments on their more recent California experience in their disability lines?

MR. ROSEN: At least as far as the individual goes, we know that our experience in California has not been stellar, but we thought originally that it was across the

board. We sliced and diced our experience and found that at least on business written since we modified our product, which is about 10 years ago, and for experience in the last six years, our bad experience in California is focused almost entirely in the medical market. If you looked at everything else that we sell in California and exclude the medical market and occupations associated with the medical market, our experience in California has been reasonably good.

MR. FISH: Unfortunately, from our perspective we sell to a lot of hospitals in California. That's a part of what's driving this. From our individual contract, as it stands today, we don't have the ability to have standard industrial classification–driven rates. We would be applying the same sort of occupational rating structure to hospitals where we've got really three rates: a white-collar A rate, a gray-collar, and then a pure blue-collar rate—so three different rates, and that's what we have to work with right now. In our next policy iteration that we're working on, which probably will be in the next year or so, that's one of the things we'd be looking at.

Finally, Table 9 shows some other issues I wanted to talk about from an experience perspective. I don't need to go into that first bullet in too much detail, but from a voluntary perspective, we're seeing some of these trends just recently showing up, whereas on the traditional—both group and IDI side—these trends have probably been around for 10 years or so. For example, carpal tunnel or chronic fatigue, that sort of thing, that was really emerging back in the early 1990s on the traditional side. Going up through mid- to late 1990s, we hadn't seen any of that experience. It's just been in the past couple of years where we've seen from the claims perspective more and more people filing those more subjective claims.

Table 9

Voluntary Disability - Experience cont.

Other Issues

- **Need to monitor emerging claims experience.**
  - **Increase in occupational sickness (carpal tunnel).**
  - **Maternity claims.**
  - **Multiple disabling conditions.**
  - **Insureds understand limitations of policies.**
- **Occupation information often erroneous.**
- **Voluntary LTD experience**
- **Group voluntary market becoming very competitive.**

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A couple other things to hit on. Of course, occupation information, we've always got to struggle with that one, getting the right information. Our voluntary LTD experience has been not up to par. Several reasons are driving that. Participation guidelines have not been met. So we're clamping down on issuing policies in situations where less than 25 percent of participation has been met. Also from a rating perspective, we're really tightening the authority that our underwriters are given at the individual account level as to how much they can deviate from our manual rates.

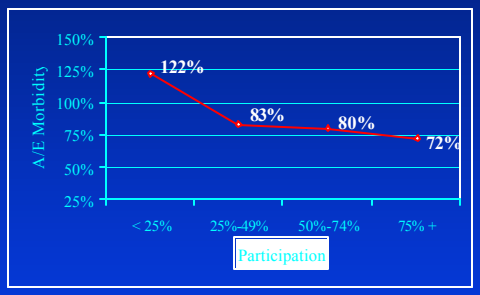
KEYS TO SUCCESS

We've talked about participation goals, the need to hit those participation goals, to watch the overall income replacement ratios. I still get a little bit worried, and even in the multilife IDI world, I always worry about selling 15 or 20 percent plans on top of group coverage. Even depending on whether tax issues are involved or not, from our marketplace, a lot of times the base stuff may be pretax, so they're going to get a pretax benefit, and then they're adding our coverage which, if that's post-tax, then you're going to get quite a high replacement ratio when you compare to your after-tax income predisability. Also, keep the plan design simple, and for us, we've got to watch out for large case takeover because we've had some issues there on the LTD side.

Chart 1

Individual STD Experience

Participation



- **Participation is key driver of claim experience.**
- **Supports need for quality, well-trained enrollment staff.**
- **Difficult to achieve high penetration in large accounts.**

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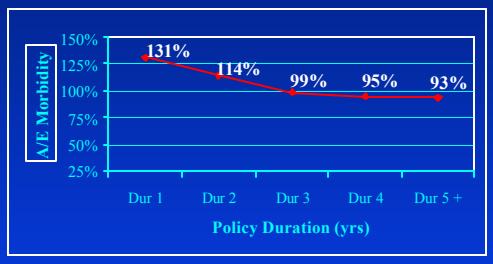
Chart 2

Individual STD Experience cont.

Policy Duration



- **Significant anti-selection occurs in first two years of policy.**
- **Selection apparent even when simplified-issue underwriting used.**
- **Maternity claims drive much of early duration experience.**

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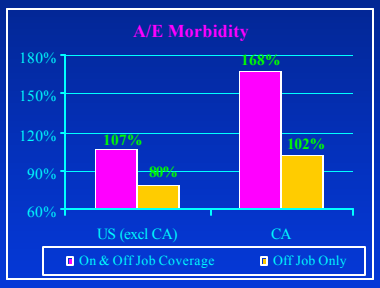
Chart 3

Individual STD Experience cont.

On versus Off Job Coverage



- **24 hour plans represent approximately 1/3 of Colonial's block.**
- **California block performing significantly worse than US.**
- **Individual plans do not offset for WC, state DI and other benefits.**

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