The Marketer

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In this Issue:

What Would You Do?

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Employers Facing the CLASS Act

Imagine you are the CEO of a 1,500-employee company in the United States. Along with the daily challenges of managing a successful business, you also now have myriad new health benefit obligations under health care reform. Some may not require any change on your part — e.g., you already offer sufficient health coverage. But what about the CLASS Act? While of vital importance to the long-term care (LTC) and disability community, it is one of the often-overlooked provisions of the massive Patient Protection and Affordable Care Act (PPACA).

About CLASS

The Community Living Assistance Services and Supports (CLASS) Act establishes a new federally sponsored long-term care insurance (LTCI) program by sometime after October 1, 2012 by which time many of the critical program details will have been specified by the Secretary of the Department of Health and Human Services. CLASS will be funded entirely with premiums paid by individuals who enroll, not with tax dollars. It will be offered, without underwriting, both directly to individuals who satisfy a minimal "at work" definition and through participating employers. When an employer agrees to offer CLASS, it is required to offer payroll deduction for the voluntary benefit; and, unlike other optional benefits, it must automatically enroll all employees in the program and provide a voluntary "opt-out" option.

Employer Response

How will employers respond? To date, with many new health care reform requirements impacting employers, CLASS has gotten little attention. The primary groups representing employers — the National Business Group on Health, American Benefits Council, Society for Human Resource Management (SHRM), and others — have neither articulated a "policy position" nor developed an "action plan" with regard to CLASS. Most employer-focused analyses of health care reform provide only a sentence or two on CLASS — in fact, one industry group's presentation to its members on "Health Care Reform: Employer Responsibilities" doesn't even mention CLASS.

The employer-sponsored LTCI market is a critical one for the industry. It has historically been the market segment with the most aggressive growth, even during some periods of flat or declining sales for the industry overall. Despite consistent growth, the market

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segment remains small — accounting for just under 30 percent of the roughly 7 million policies in force today. It is unknown if employers will embrace CLASS and establish payroll deduction to support it. However, given the vast array of new requirements employers face as part of health care reform, and a questionable economic recovery, they may be reluctant to take on this new obligation.

While large employers were the initial adopters of LTCI as a voluntary workplace benefit, the offer of LTCI at the workplace has grown more rapidly among small to midsize employers. While this opens up a broader employer base through which to offer CLASS, it comes with challenges. These companies may be less willing to take on voluntary benefits or if they do offer them, to take an active role in promoting them. By definition, these small to midsize employers do not offer as large an enrollment base as would be desired. This could exacerbate existing concerns about the potential for adverse selection within CLASS if the primary "take up" is a low penetration rate within mostly small/midsize firms.

Employers who offer the CLASS program also have to confront the logistics of establishing an additional entry for payroll deduction, automatically enrolling employees (as required), and then "disenrolling" them as they elect to opt out. Given the expected higher monthly premium for older employees, the lack of salience of LTCI for younger employees, and penetration rates for voluntary LTCI — historically in the single digits — it is likely that a significant number of employees will opt out. This means employers will have to enroll and then thereafter disenroll anyone who elects to opt out. Participation is expected to be small — estimates vary, but the CLASS program itself assumes roughly a 3 percent participation rate across all employees.

The World of Voluntary Benefits — and LTCI

For some hint of how CLASS might fare in the employer market, it is helpful to look at trends for voluntary benefits in general and of LTCI specifically. As of 2006, just over half (53 percent) of employers offered voluntary benefits — a scenario that is more compatible with the option for automatic payroll deduction for the CLASS program. This figure however represents a decline in the percent of employers offering voluntary benefits which was 64 percent in 2002. Data from December 2008/January 2009 show an overwhelming share of employers — 89 percent — saying they do not plan to add any voluntary benefits within the next year. Only 9 percent of those planning to add a benefit (less than 1 percent of all employers) say they are considering adding LTCI.

While health care reform may inspire employers to think twice before eliminating health benefits (cited by 22 percent of employers as the benefit they would eliminate in the coming year), those looking to slim down voluntary benefits may well forego LTCI. But the fact that it is most often employee-pay-all may help persuade some employers to maintain the benefit. Other "at risk" voluntary benefits (20 percent or more of employers say they plan to eliminate them) are life insurance, medical insurance, and short-term disability (STD) insurance. While employer awareness of LTCI as a voluntary benefit is high — 87 percent in 2006 — even today only 10,100 employers (15 percent of all employers) offer LTCI.

Employers that have considered LTCI but do not offer it cite a variety of factors — lack of employee interest, concern over the administrative cost, complexity of making the offer, and others. A recent study found that 40 percent of employers believe that the administrative time and effort needed to support the benefit is similar to that of long-term disability (LTD) — putting it just below health insurance or a 401(k), but as more complex than group life insurance.

What Must Be Done if the CLASS Act Is to Be Effective?

In order to ensure that CLASS penetrates the employer-sponsored market, proponents must do their homework by determining:

- Which employer market segments have the greatest interest in offering CLASS. How well does the size and nature of this workforce fit with the objectives of CLASS with respect to broad and varied participation.
- What will motivate employers to offer CLASS.
- How will employers currently offering group and multi-life LTCI feel about modifying their existing plan to accommodate CLASS, and are those currently offering LTCI better prospects than those without a competing plan.
- What support and resources will help employers communicate to employees about CLASS. A survey conducted in Minnesota among employers not offering LTCI found that they would be significantly more willing to do so if the state provided educational and motivational materials so that their HR personnel did not have to take on that responsibility. This is similar to how many voluntary benefits are offered today — the employer selects an insurer and provides access to its employees, but the responsibility for information, education, and customer service rests with the insurer and not with the employer. Is this the model that employers will expect with CLASS?

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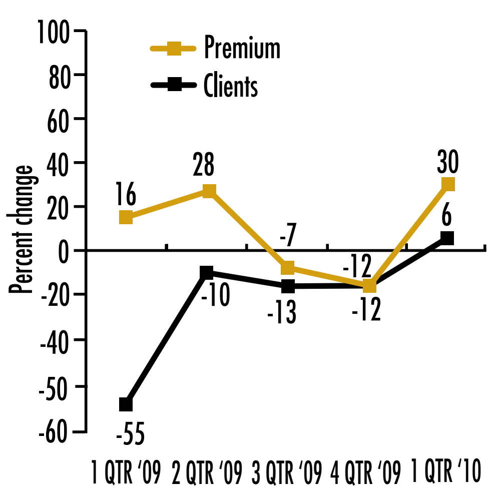
Positive Start for Canadian Group Sales

- Canadian group insurance carriers experienced a 6 percent increase in new client sales in the first quarter of 2010, a positive turnaround after posting declines throughout 2009 (Figure 1). In fact, half of the carriers reported double-digit increases.
- Furthermore, carriers reported $515 million in new annualized premiums for the quarter, a 30 percent increase and the largest quarterly year-over-year increase since third quarter 2007. Much of this increase is attributable to one carrier.
- While the overall increase in premiums can be attributed to activity in the large case market, some smaller market segments also saw growth.
- The top-5 carriers account for 87 percent of the new premium sold so far this year, up slightly from the share held by the top carriers in 2009. The three largest group carriers also saw an increase in their market share, up three percentage points from the prior 12-month period.

FIGURE 1

Quarterly Sales Growth*

Percent Change



*The numbers reflect the percent growth as compared to the same period of the previous year.

For more information, contact Anita Potter at (860) 285-7847 or apotter@limra.com.

Lackluster Results for the U.S. Group Life Market

- Thirty-two participating group life carriers issued $1.3 billion in new annualized premium during the first three months of 2010, barely a 1 percent increase compared with the same period last year (Table 1). New master contracts and certificates displayed moderate declines of 6 and 7 percent, respectively, while face amount increased 10 percent.
- The market share for the top-10 group life carriers, based on new premium sales, stood at 87 percent for the first quarter of 2010, a one-percentage-point increase from the share held in 2009. The market share for the top-5 group life carriers was 65 percent, relatively unchanged from the prior year.
- The cost per thousand dollars of total group life coverage (premium per thousand) declined 6 percent compared with the first quarter of 2009, while average premium-per-certificate increased 15 percent.
- Twenty-five companies issued approximately $138 million in new annualized accidental death and dismemberment (AD&D) premium for the year, a 10 percent increase over the same period last year.

TABLE 1

First Quarter 2010 U.S. Group Life Sales*

	Master Contracts	Certificates	Face Amount ($000,000)	Annualized Premiums ($000,000)
Term	26,772	6,261,819	$250,317	$1,245
*Percent change***	*-6%*	*-8%*	*7%*	*1%*
Permanent	72	165,140	$21,756	$86
*Percent change***	*-31%*	*-13%*	*69%*	*-10%*
Total	26,852	6,646,023	$272,763	$1,337
*Percent change***	*-6%*	*-7%*	*10%*	*1%*

*Excludes specialty products and AD&D. Not every company can supply data for all product lines or all measures.

**Percent change is from same period prior year, and is based on companies with two years of comparable data.

For more information, contact Kimberly Landry at 860-285-7889 or klandry@limra.com

No Rebound Yet for the U.S. Disability Market

- The U.S. group disability industry has been on a rollercoaster ride for the past two years, and based on the results achieved so far this year, the ride has not come to an end.
- For the first quarter, carriers issued approximately $973 million in total new annualized premiums, a decline of 17 percent from first quarter 2009. Sales of total master contracts and certificates, on the other hand, were flat (Table 2).
- Overall, first-quarter premium sales were down across the board, and the only bright spots were statutory and voluntary product sales, which were up 2 percent and 38 percent, respectively.
- The substantial increase in new voluntary premium sales was driven by the STD line. Moreover, this increase was the direct result of two carriers' gains.

TABLE 2

2010 First Quarter Total Disability Sales*

	Master Contracts	Certificates	Annualized Premiums ($000,000)
STD	10,791	1,771,205	$418
*Percent change***	*6%*	*1%*	*-14%*
LTD	11,438	2,169,185	$554
*Percent change***	*-7%*	*+*	*-18%*
Total	22,229	3,940,390	$973
*Percent change***	*-1%*	*1%*	*-17%*

*Sales exclude Reserve Buy Outs
**Percent change from the same period in 2009
+Less than 1/2 of -1 percent

For more information, contact Anita Potter at 860-285-7847 or apotter@limra.com.

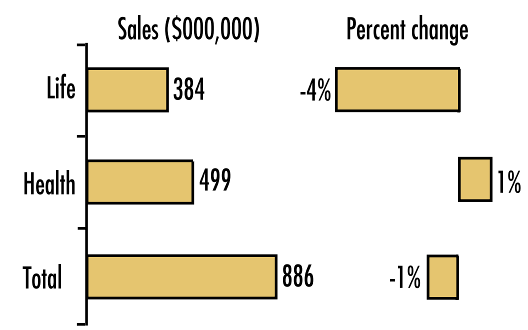
Worksite Life Sales Begin 2010 Relatively Flat

New premiums generated from voluntary products are down ever-so-slightly in the first quarter of 2010, according to results from LIMRA's Worksite Marketing Sales Survey. Coming off of two consecutive years of strong growth, voluntary life products are 4 percent lower in 2010. Slumping term and whole life sales are causing this decline, as UL and stand-alone AD&D products are ahead of their 2009 pace through March.

Though early-year voluntary health premiums closely mirror 2009 levels, a closer examination suggests great variation among the corresponding products lines. Medical, dental, and short-term disability offerings are off to impressive starts, while accident and long-term care insurance are also making notable strides. Meanwhile, vision and long-term disability sales are significantly lower for first quarter 2010. Results for 38 participating companies are summarized below.

FIGURE 2

2010 Sales — Annualized New Premium



LIMRA's Worksite Marketing Sales Survey measures new annualized premiums for life, health, and total voluntary product sales. A confidential report also provides product-specific results for many key worksite offerings.

Contact Ron Neyer at 860-285-7836 or Rneyer@limra.com for more information.

Do Employers and Producers Have Different Views?

In 2009, LIMRA asked both employers and producers what was important to them when reviewing bids for medical and nonmedical benefits. Notable differences resulted.

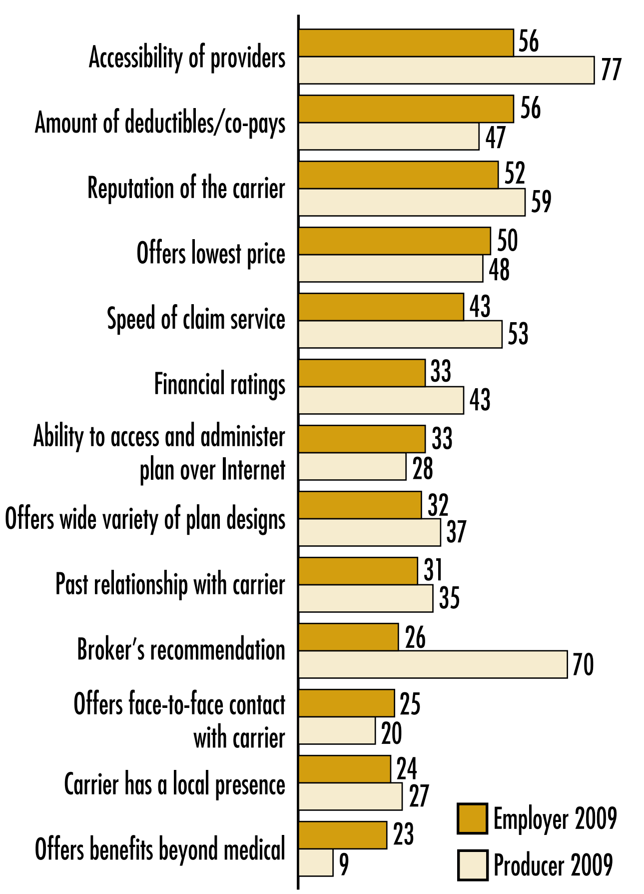
The most important factor for producers in reviewing bids for medical benefits is the accessibility of providers. Accessibility is also the number one factor for employers. However employers consider the amount of deductibles/co-pays to be equally important while it is only sixth in importance for producers. Employers and producers agree on the importance of carrier reputation (ranked third by both groups). The greatest difference in perception between employers and producers is broker recommendations. Producers are much more likely to believe that a broker recommendation is important. Broker recommendation ranks second for producers and tenth for employers.

FIGURE 3

Factors That Influence Reviews of Bids for Medical Insurance

Rank Ordered on Employer Importance*

Percent of Employers with 10+ Employees and Percent of Producers



*Employers and producers answering 9 or 10 on a scale of 1 to 10 where 10 is extremely important

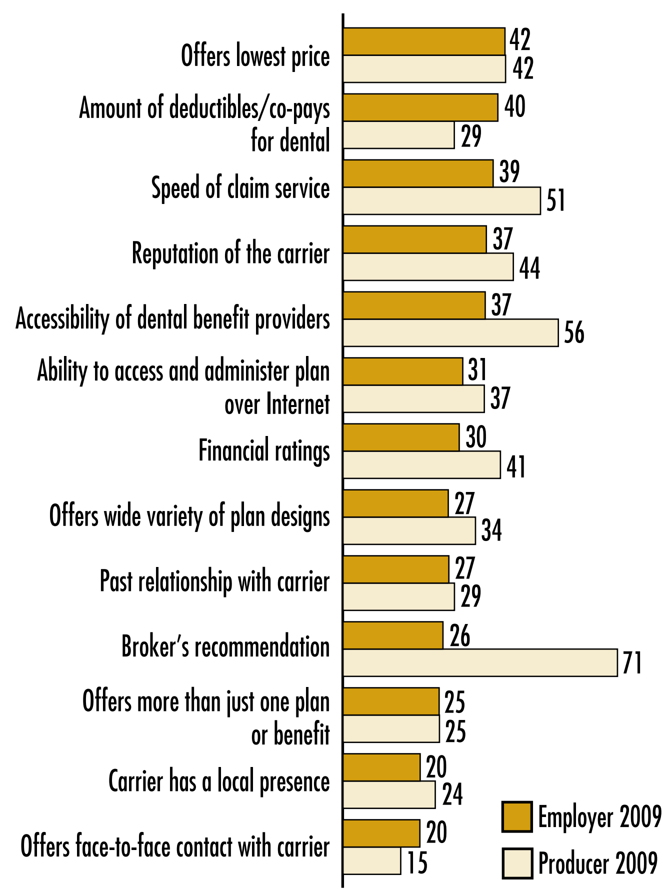
When reviewing bids for nonmedical benefits, both employers and producers include speed of claim service and accessibility of dental benefit providers in their top-3 factors. Producers are much more likely than employers to believe that a broker recommendation is an important factor. Broker recommendation ranks first for producers and tenth for employers. In contrast, low price is the most important factor for employers but only fifth for producers. While the second-most important factor for employers is the amount of deductibles and co-pays for dental plans, it ranks ninth in importance for producers.

FIGURE 4

Factors That Influence Reviews of Bids for Nonmedical Insurance

Rank Ordered on Employer Importance*

Percent of Employers with 10+ Employees and Percent of Producers



*Employers and producers answering 9 or 10 on a scale of 1 to 10 where 10 is extremely important

For more information, contact Mary Boyce at 860-285-3926 or mboyce@limra.com.

Group Dental Sales Plummet

According to the first quarter 2010 LIMRA and NADP U.S. Group Dental Plans Sales Study, new sales started the year with a dramatic decline in new subscribers. All product lines including DPPO plans experienced double-digit declines (Table 3).

- Group voluntary sales were the only product that showed positive growth compared with the similar period in 2009. This growth was due to a strong performance of voluntary DPPO products, with new DPPO subscribers increasing 15 percent and new premiums growing 40 percent.
- While the top-5 carriers showed mixed individual performance results; overall, this group posted negative growth in all product lines and flat new subscriber growth in voluntary products.

TABLE 3

First Quarter YTD 2010 New Annualized Premiums and Subscribers

	New Annualized Premiums ($000s)		Subscribers	
	Year-to Date 2010	Percent Change	Year-to Date 2010	Percent Change
Dental Indemnity	52,478	-44.0%	91,046	-67.2%
No. of companies	*18*	*13*	*19*	*15*
Dental PPO	936,684	-16.2%	1,665,445	-25.6%
No. of companies	*20*	*19*	*21*	*20*
Dental HMO	34,659	-42.3%	143,720	-43.3%
No. of companies	*11*	*9*	*12*	*11*
All Plans*	1,023,875	-18.1%	1,900,820	-31.4%
No. of companies	*21*	*19*	*22*	*20*

*Totals include discount dental sales.

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MarketTrends LIMRA's Factbook: 2010 Trends in the United States Is Now Available

For almost 100 years, LIMRA has been providing its member companies with a wealth of research information on distribution, products, markets, retirement, and technology. MarketTrends *LIMRA's Factbook* presents key statistics in each of these areas.

MarketTrends is updated periodically to coincide with member companies' strategic planning processes. It provides the most frequently requested trend statistics in a single source — but does not replace the in-depth reports and studies from which they are extracted. For more information on the tables published therein, visit www.limra.com, (call 1-800-235-4672 to register) or contact the appropriate project director. For more general information, call LIMRA's InfoCenter. A telephone and email directory appears on page 62.

2010 Meeting Dates

Conferences and Meetings

GROUP & WORKSITE BENEFITS LEADERSHIP CONFERENCE
September 13-15
Baltimore Maryland

DI & LTC INSURERS' FORUM
(Jointly sponsored by LIMRA/LOMA/SOA)
September 22-24
Lake Buena Vista, Florida

LIMRA ANNUAL CONFERENCE
October 24-26
Washington DC

For information about prices, hotels, convention sites, travel bureaus, vendors, continuing education credits, or registration, contact Customer Service at 800-235-4672 (860-285-7789 outside the U.S. and Canada) or email customer.service@limra.com.

Getting Creative

What will raise employer interest in offering CLASS? First and foremost, it is education with a focused campaign to raise employer awareness of the value of LTCI in general, and CLASS specifically. Such a campaign should emphasize recruitment and retention, productivity, and the emotional and financial impact on working caregivers.

Employers should be offered some options with CLASS. Those that do not want to offer it as a voluntary benefit could still play an educational role. Implementing CLASS needs to be as simple as possible for the employer — under either scenario. This means establishing a turn-key approach, providing an implementation kit that includes everything the employer needs to communicate, install, and maintain the benefit. This kit should include detailed educational documents, motivational pieces for consumers, a "how to" guide for getting the most participation out of the offer, and all the forms and materials the employer needs to implement and maintain CLASS. The program should have a dedicated toll-free line specifically for employer support. A recent employer survey found that 57 percent of employers consider "ease of implementation" one of the most important issues they would have if they were to add LTCI to their existing benefits.

Most important, CLASS needs to include best practices from private LTCI for consumer protection, program viability, customer service, and rate stability. If the CLASS insurance doesn't offer the consumer protections currently required of private LTCI, employers will be reluctant to champion what they see as a second-best option despite its advantage of no underwriting. For CLASS to become established with employers, it must be clear how it coordinates with existing or future private LTCI offerings of the employer. The CLASS benefit is meant to take the edge off and is not a complete solution for LTC needs, given the relatively low anticipated daily benefit. We don't know yet if this amount will be $50/day, $75/day, or more. But with the average cost of facility care at close to $200/day, CLASS cannot offer a complete solution for LTC protection. CLASS benefits also need to resonate with employers that have, in some cases, decades of experience and satisfaction with a LTCI plan. So an important part of marketing and education to employers will focus on helping them to understand how CLASS can complement an existing LTCI benefit, and how employees with coverage can maximize the best of both options.

Engaging opinion leaders will be important for establishing CLASS. Employers watch trends in benefit offerings, and if leading-edge employers embrace CLASS and are successful with its offering, other employers may follow. Promoting CLASS, therefore, will mean having strategies for engaging these leading employers, perhaps beginning with the federal and state governments. That approach, however, underscores the importance of integrating CLASS with existing LTCI programs, since both the federal government and more than 25 state governments already offer private LTCI to their eligible populations.

In conclusion, it is difficult to predict the effect of a program that still has more questions than answers. Rules are yet to be written, the implementation strategy is just beginning to be considered, and the interest in CLASS, while likely a given for the disability community, needs to reach a significantly broader employee audience in order to succeed. That said, one significant benefit that will likely come out of CLASS, regardless of the success of the program and regardless of its adoption by employers, is the visibility that will be created by the federal government, a visibility that is sorely needed to shine a bright light on the LTC dilemma. The private LTC industry has been trying to figure out how to get this message out to the masses for years with no credible strategy, no consensus, and no meaningful success. So with CLASS we can welcome the help that the government can bring to bear on this critical task of educating and motivating consumers and employers to embrace long-term care coverage.

Goldstein is Executive Vice President of Business Development and Tell is Senior Vice President for Product Development for Univita (formerly LTCG), the nation's largest administrator of long term care products, administering 1.1 million covered lives. Its clients include major multi-line insurance companies and all leading LTCI carriers. Univita is creating an integrated care model that promotes independent living through home-based care and support.

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Don't miss LIMRA's Group and Worksite Benefits Leadership Conference

September 13–15 Baltimore, MD

Please join us at this year's inaugural Group and Worksite Benefits Leadership Conference to gain market insights from a broader range of industry executives and industry experts. These leaders will

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- Identify emerging opportunities
- Provide strategies and information to drive growth and profitability

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Sally Hogshead, Innovation Consultant — Learn her seven principles for becoming indispensible to your customers and your company

Kurt E. Karl, Chief Economist, Americas, Swiss Re — Highly regarded by Bloomberg and the *Wall Street Journal,* he will provide crucial insights on economic risks

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Did You Know?

Findings from a study in a recent edition of the journal *Nature Genetics* indicate a genetic link between low birth weight and diabetes and suggest why small babies have higher rates of diabetes when they grow up. The research team, which included scientists from Britain, the Netherlands, Finland, and the United States, found that two genetic variants were strongly linked with birth weight. One of the variants in a gene called "ADCY5" had also been linked with susceptibility to Type 2 diabetes. People who inherit two "risk copies" of this gene variant are at a 25 percent higher risk of diabetes in adulthood than are those who inherit two "non-risk copies," the scientists explained, and they also weigh less at birth. The research analyzed more than 38,000 Europeans from 19 previous studies of pregnancy and birth and remarked that the lower birth weight attributed to these variants is equivalent to the reduced birth weight caused by a mother smoking four to five cigarettes a day in pregnancy.

Source: *Health Care Info Matters July 2010*, page 6, LIMRA

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