

## Voluntary Group Term Life Insurance

### The Market.

Group voluntary life insurance is one of the most popular insurance products offered to employees as an employee paid insurance product.

From 1995 through 2001, voluntary life insurance sales have continued to increase approximately 15% a year. Since 2001 the market has been maturing, especially in the large case market. According to LIMRA's "Marketing Facts", 86% of groups over 5000 lives and 80% of groups between 1,000 lives and 5,000 lives now offer voluntary life insurance to their employees.

A major factor contributing to this growth is rising medical insurance premiums that are forcing employers to re-evaluate how their benefit dollars should be spent. We have seen many revisions of basic group life plan designs over the past two years. The result of this has been a reduction of employer paid basic life insurance benefits, which are being replaced with employee paid voluntary life. While this gives employees more options for selecting the amount of life insurance they may require, the anti-selection aspect of this business can increase loss ratios. Despite this, market pressure is requiring that carriers offer full replacement of the basic life to voluntary life insurance on a guarantee issue basis. As medical insurance premiums continue to increase, employers are actively seeking other types of voluntary products, such as AD&D, dental, vision, or enriched LTD plans which will compete with the voluntary group life premium dollar.

### Underwriting Considerations

- The employer group must be financially stable and demonstrate that it can administer the business.
- Evaluation of the basic life plan will play a part in the voluntary life plan design.
  - Does it have a "normal" guarantee issue maximum?
  - Plans that are too rich tend to get less participation.
  - Have there been many changes in the plan design?
- Are more than 10% of the employees over age 60?
- Have there been any extraordinary events, such as layoffs or a reduction of hours that would impact enrollment?
- How is benefit information currently being communicated to employees? Are the meetings mandatory or optional? If optional, what motivates employees to attend?

- What roles do supervisors and managers play in communicating the benefits?

## Changes and Trends

### Participation:

One of the key factors to a successful Voluntary program is maximum participation. Employees must believe that they are getting “one of the best deals available” or they tend not to enroll. The underwriting process typically is not completed until after the underwriter has reviewed the application and medical results. Some employees find this process too slow and will lose interest before the application is approved.

Many carriers have begun to require a minimum of 25% or 30% participation where five years ago, 15% to 20% was acceptable. These higher levels create more premium volume to reduce the impact of anti-selection and to reduce overall administration costs.

Plan designs: The most popular plan in today’s employer market is the offering of insurance on an incremental basis, (such as increments of \$10,000 to a pre-set maximum), rather than life insurance benefits based on a salary related plan, (such as 1 times, 2 times or 3 times annual earnings). This is especially true for smaller sized employer groups because incremental benefit plans are easier to administer and require less record keeping. To help control anti-selection, incremental plan designs are usually offered with smaller guarantee issue maximums than salary related plans. In the underwriting process of voluntary group life insurance, carriers have found that employees who have an impaired risk will opt for the highest guarantee issue life benefit available. Since salary plans offer fewer available options than incremental plans, they tend to limit a carrier’s anti-selection risk. There has also been a trend to limit increments without evidence of insurability to a maximum of three times the employee’s earnings.

Higher benefit maximums on small groups: As employers continue to face financial pressure on their employee benefit expenses, they want to offer higher voluntary life maximums to improve their benefit packages and increase employee moral. This is especially true on smaller cases. For example, cases with less than 100 lives may request voluntary life insurance maximums up to \$1,000,000. At this level, most carriers will require evidence of insurability over a modest guarantee issue amount. Two years after the insured has been underwritten, the evidence of insurability will “wear off”. If this case goes out to bid, some carriers may require new evidence of insurability to offset this. Smaller employer groups may have personal knowledge of insured employees who have become medically impaired since these employees were first underwritten. Unless a carrier is willing to grandfather the higher life benefit maximums that are in force, these employer groups will not change carriers until the impaired risks are no longer under the plan. In turn, this could send an insurance carrier’s block of business in the small case market into a downward spiral.

Portability: Virtually all insurance carriers offer portability on their voluntary or optional group life insurance. A growing number of carriers will not terminate an insured's ported life benefits when the employer's voluntary group policy is canceled. As a result, loss ratios on this business tend to run over 100%.

Underwriting restrictions for portability vary by company. For example, some carriers may require that an insured have 12 months of continuous voluntary life insurance inforce. Some carriers also have minimum case size requirements or a maximum ported benefit limitation.

### Conclusion

The majority of employer groups will continue to offer voluntary insurance products. Market pressure will continue to reduce prices and cause more liberal underwriting practices. This is especially true in the large case market consisting of groups over 1,000 lives. In the future, underwriters will need to carefully review their cases upon renewal and monitor trends as the market changes.

Group term life insurance remains the most popular choice for voluntary insurance products, but competition in the future from other voluntary products (e.g. worksite individual term life, critical illness, dental, and vision) could reduce participation. This may result in reduced premiums on voluntary life programs and a more restrictive stance on underwriting requirements.

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