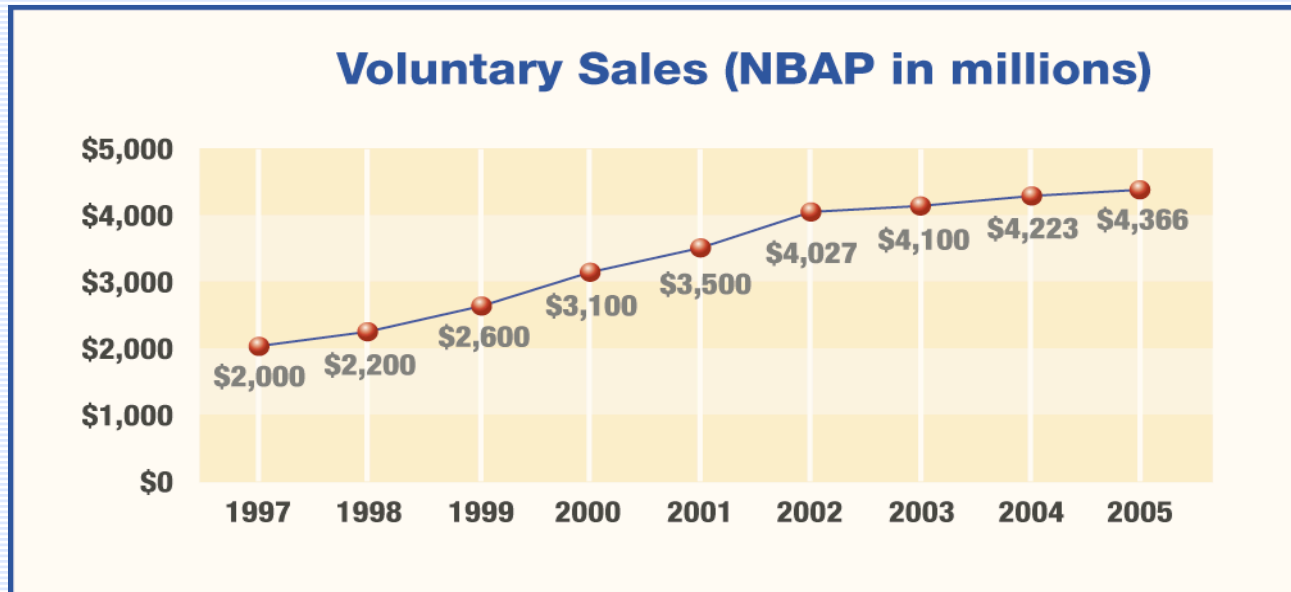

The Evolution of Voluntary Benefits
A look at the future of the industry

National Benefit Partners

March 2, 2007

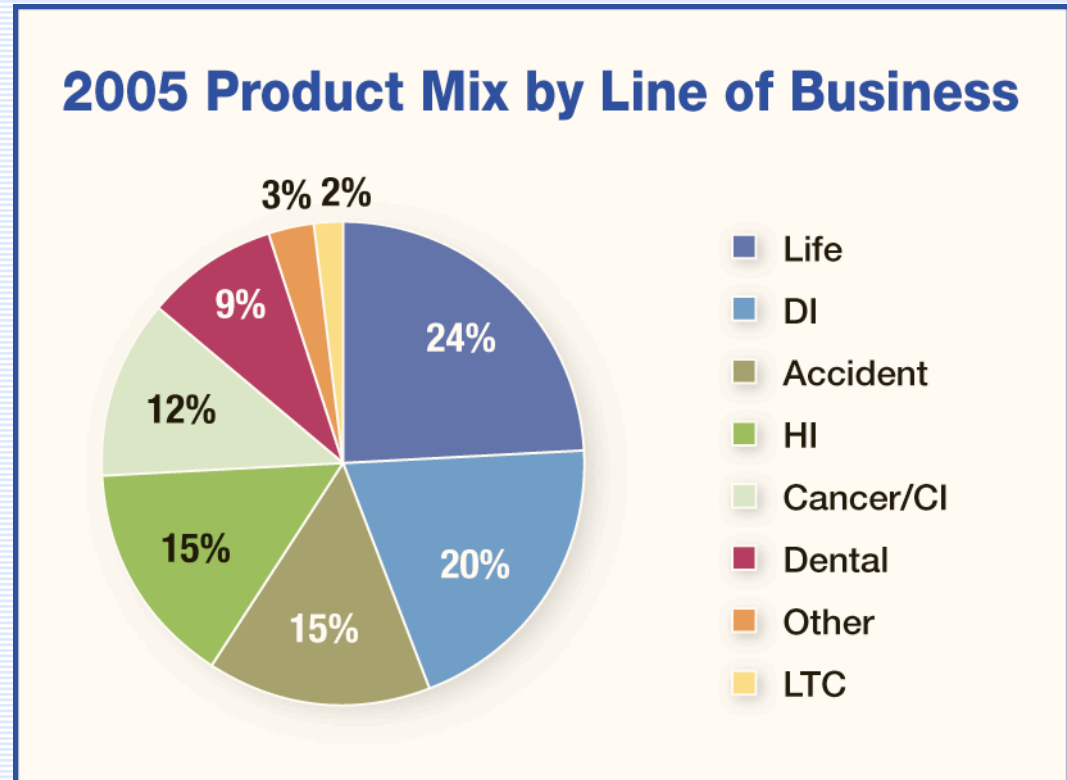
The Overall Market – Sales Growth



- Worksite and voluntary sales have grown significantly since 1997 from \$2 billion to \$4.366 billion in 2005.
- 2005 sales increased 3.4 percent over 2004.
- For the past three years we have seen slower growth in the market but we anticipate an up-tick in the 2006 data (to maybe 5 or 6%).

Products - Mix of Sales by Product Line

- By line of business, life insurance accounted for the largest share of sales (24 percent).
- Historically, life insurance and disability insurance have been very close in terms of the percentage of total sales.



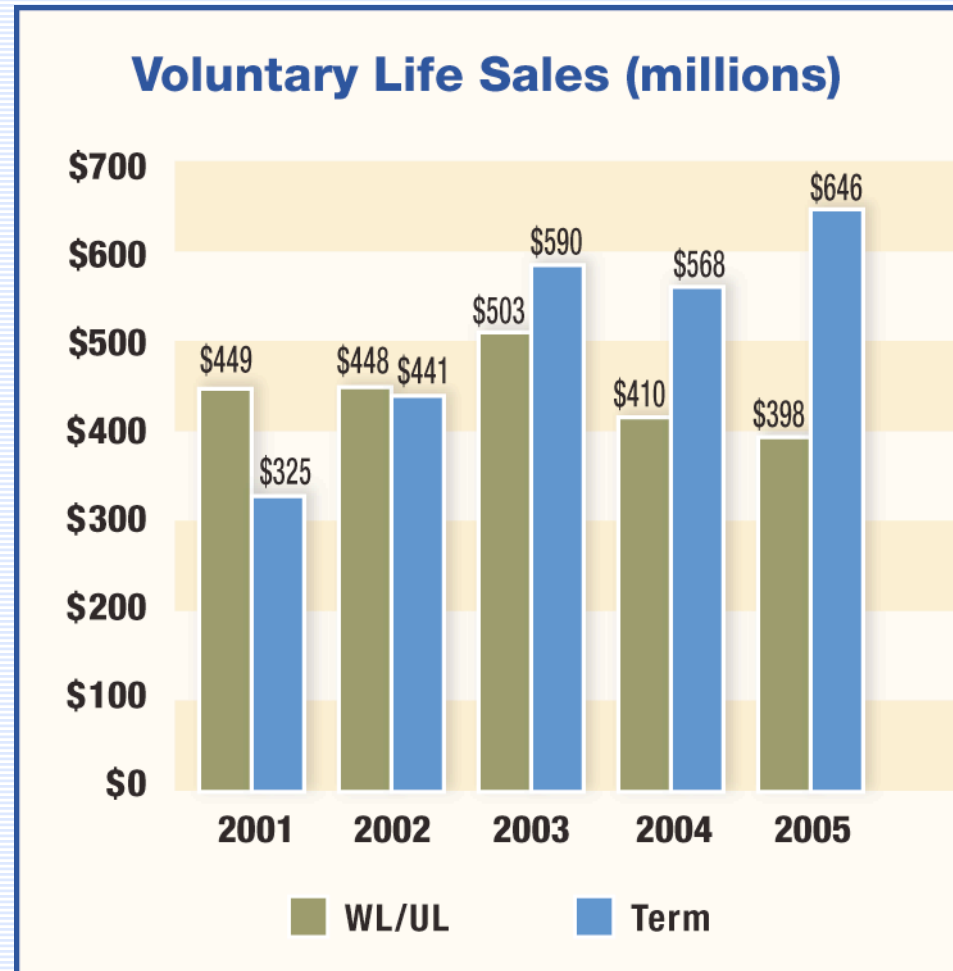
Products - Product Line Growth Rates

- The fastest growing product lines for 2005 were:
 - Hospital Indemnity
 - Limited Benefit Medical
 - Term Life
 - Critical Illness
- We experienced decreases in sales in:
 - Long-term disability
 - Dental
 - Supplemental "gap" plans
 - UL/WL

Line of Business	Percent of Sales	2005 Sales	Inc/Dec Over '04
Term Life	14.8%	\$646	13.6%
UL/Whole Life	9.1%	\$398	-3.0%
Short-term Disability	16.0%	\$697	5.2%
Long-term Disability	4.3%	\$187	-29.2%
Accident	15.3%	\$667	6.0%
Cancer	8.2%	\$360	4.2%
Critical Illness	3.8%	\$166	12.6%
Dental	8.8%	\$386	-5.9%
Hospital Indemnity	6.0%	\$261	15.4%
Supplemental "Gap"	1.2%	\$52	-5.1%
Limited Benefit Medical	7.9%	\$345	15.3%
All Others	4.6%	\$202	NA

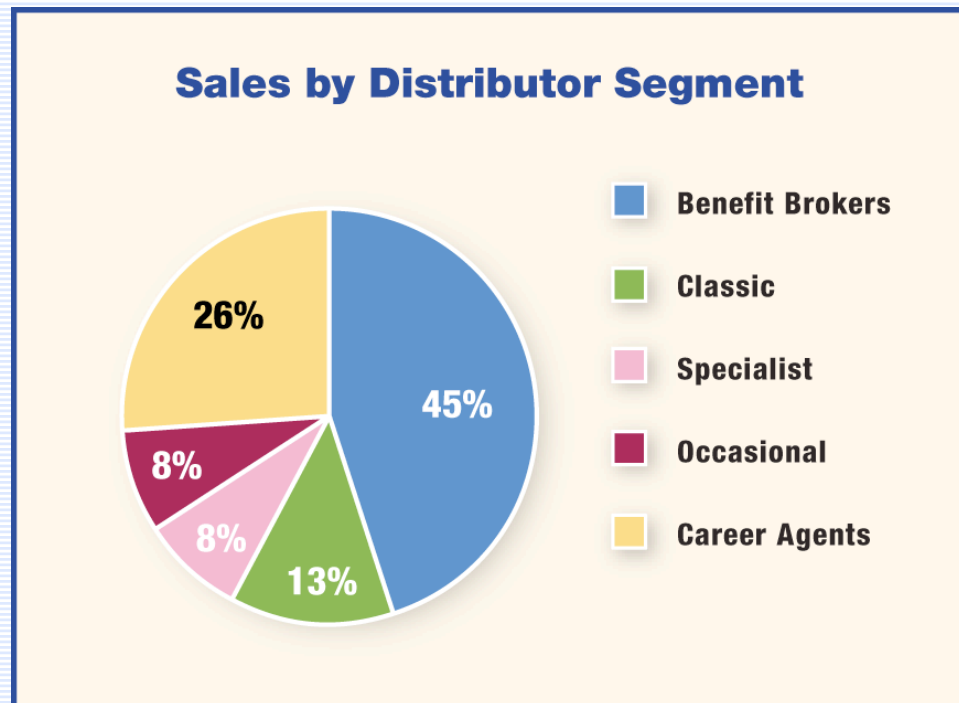
Products - Life Insurance Details

- The mix of life sales is 62 percent term life and 38 percent UL or whole life.
- The mix has changed a great deal since 2001 when UL/WL sales were 58 percent of the total reported sales.
- The increased focus of group carriers on the voluntary market has driven the increase in term sales.
- In 2005 term sales increased over 2004 but UL/WL sales decreased slightly.



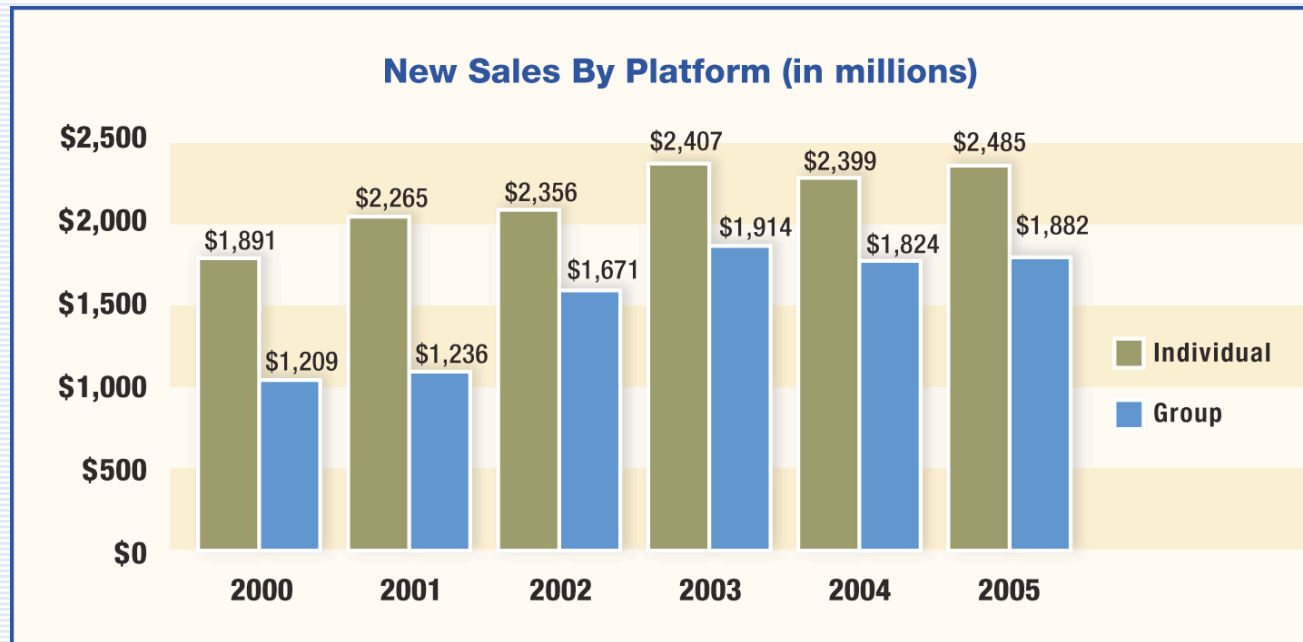
Distribution Trends - Market Share by Distribution Type

- Twenty years ago career agents dominated the worksite/voluntary market.
- Today career agents account for about 26% of the market's sales.
 - This has remained stable over the past 4-5 years.
- The largest single segment of producers is the Benefit Broker.
 - This includes the traditional group broker and the consultant market as well as the commercial lines brokers with benefits departments.
 - This is also the fastest growing segment of producers.
- Brokers specializing in voluntary or worksite sales have lost market share since 2000.



Note: Benefits Brokers include both commercial lines and true employee benefits brokers.

Sales Trends – Sales by Platform



- Up until 2005, sales of group platform products have been growing at a faster pace than individual platform products.
- In 2005, the two were very close.
- Group sales increased 3 percent and individual increased by just under 4 percent.
- Group products now account for 43 percent of overall sales while individual products account for almost 54 percent.

Change: Groupification

“Groupification: the the tendency of voluntary and worksite segments to merge into a single line of business, forcing each to change. The resulting business has an increased number of group insurance industry characteristics.”

Marketing

- Voluntary (group) carriers have moved down market to offer small case options.
- Voluntary carriers write more blue-collar types of businesses but individual carriers as a group probably have more “acceptable” industries.
- Worksite carriers have expanded beyond the small blue-collar markets and today write in all types of employer groups.
- Voluntary carriers have had to learn how to market to the employee and address employee needs.
- Worksite carriers also have had to deal with takeover business.
- Worksite carriers have had to learn how to compete on a price basis.
- Worksite carriers carriers have had to find ways to treat the employer as more of a customer.

Change: Groupification (continued)

Product

- Product design often doesn't follow platform.
- Platform has become irrelevant to most employers and employees.
 - It still matters to some brokers but it mostly matters to carriers because of legacy systems, internal knowledge base, speed to market, and pricing flexibility.
- Many group products now offer full portability.
- Smaller groups may use published rates instead of case-specific pricing.
- Worksite companies have to compete against lower priced group platform products.
- Commissions are becoming more variable (e.g. may have either level or heaped commissions, or the broker can choose).
 - There are group products with heaped commissions.
 - There are individual platform products that offer near-level commissions.

Enrollment

- Group companies are now offering face to face enrollment.
- Enrollment may be one-on-one, group meetings or a combination.
- Many group carriers have had to build enrollment capabilities.
- Traditional worksite players are using group meetings.
- Worksite companies also had to deal with how to do web-based and call center enrollments.

Change: Groupification (continued)

Underwriting and Administration

- Worksite companies offer guaranteed issue products.
- Voluntary companies have relaxed their participation requirements.
- Hybrids are becoming common: mixing the best of both group and individual - filed on a group contract but has characteristics of individual.
- Voluntary companies often use published or "shelf" rates - especially for smaller cases.
- Underwriting is typically "guaranteed issue" in the initial enrollment and simplified issue thereafter.
- The carrier maintains records on each employee and handles much of the administration.
- The carrier services both the employer and employee.

Conclusion

- The distinctions between "voluntary" and "worksite" have disappeared on an industry level. Companies can insist on staying with a certain model, but the marketplace competition ignores all distinctions.
- Competition is fierce and brokers must design and build a world class offering in order to succeed.

The Future: 2020

Based on *2020: A Clearer Vision*, a series of reports describing the benefit industry as it may appear in the year 2020

First published in 2002

Predictions are meant to stimulate discussion and help people think about the future

Based on our research and consulting work

Will discuss employee-benefit related changes to:

- Employers
- Employees
- Products
- Distribution
- Administrative platforms
- Carriers

The Future: Employers

The growth rate of the labor force is slowing significantly.

- Competition for workers is keen.
- Supply will fall behind demand over the next ten + years.
- The respective “power” of the parties will shift.

The middle declines as a percentage.

- The middle class
- Mid-size companies

More “non-traditional” employment including:

- Part-time and contractor
- At-home and leased employees
- Emphasis on benefit mobility

Employers no longer “design” benefit packages for employees.

- Employers provide funding for benefits.
- The 401k analogy
 - Products
 - Advice

The Future: Employers (continued)

Employers are pressured by changes:

- Pressure as a result of increased employee mobility
- Pressure due to increased employee bargaining power
- Competitive pressure to maximize funding of benefits
- Pressure to minimize costs

And they respond:

- By driving out costs (streamlining processes and systems)
- Retreating into the gatekeeper role
- Giving up “ownership” of the benefit program

The Future: Employers (continued)

The funding for benefits is considered part of compensation.

- Comparisons between jobs are easier to make.

The employer's role in benefit selection is now three-fold:

- Select an intermediary
- Arrange for advisory services
- Monitor and manage the services provided by the intermediary and administrator

The Future: Employees

Employees are driven by traditional forces:

- Life expectancies continue to increase, putting pressure on consumer's financial well-being.
- Priorities continue to migrate towards "quality of living" needs.
- The workplace is the primary source of benefits for most Americans.

They are looking for:

- Impartial advice
- From an independent advisor
- Who offers a portfolio of "best of breed" products

In Summary:

- Employment-based benefits are crucial.
- Portability and flexibility are mandatory.
- Employees, not employers, are the key decision makers.
- Product quality is one key; independent advice is the other.
- Employers are facilitators and provide some funding.

The Future: Products

The lesson from consumer-driven health care, HSAs and HRAs

- Capping costs
- Giving the insured cost control motivation
- Separation of savings and protection
- IRS and popular support
- Precedent: Universal Life

The future

- There are no longer separate lines for group, voluntary, and retirement plans.
- Products are unbundled into separate funding and insurance components.
- Other products follow the trend.
- Funding accounts are combined and regulated.
- Employees have three types of accounts: Retirement, Savings and Protection.

Summary

- Competition to manage and invest “savings” accounts is intense.
- Protection elements are commodity products with extremely thin margins.
- Brokers fight to control both elements, regardless of the institutions that win/lose the battle for product control.

The Future: Distribution

The Intermediary (Distributor):

- Sells all product lines
- Is an independent advisor paid primarily through fees and asset-based compensation
- Needs an independent "platform" to provide services, enrollment, evaluate products, etc.

The enrollment function serves as the financial planning and risk management advisor.

Intermediary Segments:

- Human
 - > Representatives (Agents)
 - > Benefit Advisors
 - > Benefit Consultants
- Electronic (Internet)
- Direct

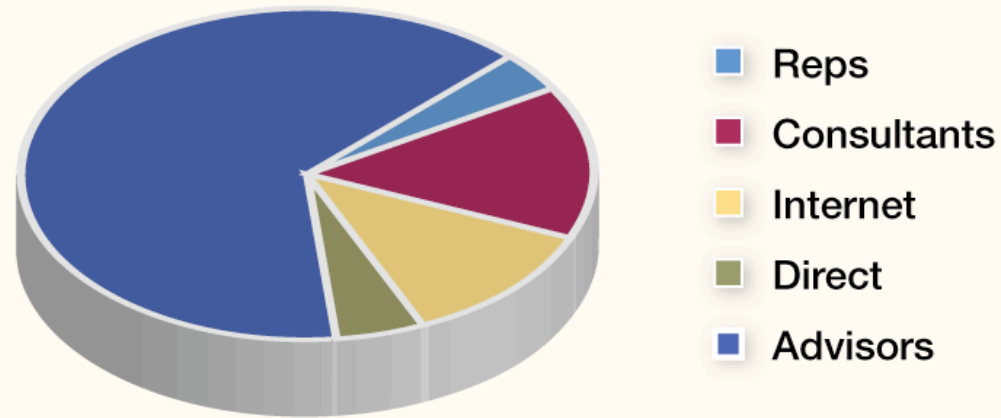
The Future: Distribution (Continued)

Benefit Advisor Characteristics

- Independent of manufacturers and platforms
- Typically align themselves with one particular Benefit Administrator
- Compensation takes three forms
 - Consulting fees
 - Asset-based compensation
 - Commissions

The Future: Distribution (Continued)

Intermediaries by Segment



Agents (Reps)	4%
Benefit Consultants	15%
Internet	12%
Direct	5%
Benefit Advisors	64%

The Future: The Platform

The Benefit Administrator

- Is an independent platform
- Handles all benefit-related products
- Uses the Internet extensively as a servicing tool
- Combines three different functional packages that are offered separately today:
 - The full-service TPA services
 - Human Resources Information Systems (HRIS) services
 - Broker/Dealer services

The Future: The Platform (continued)

The Benefit Administrator

Combines the functions previously performed by three different entities:

- Full-service third-party administrator
 - Enrollment
 - Underwriting
 - Customer service
 - Issue and Claims
 - Combined Billing
 - Reconciliation
 - Cash management
- Human resource information system/payroll companies
 - Electronic, Internet-based interfaces and web functionality
 - Payroll management and processing
 - HR record-keeping
 - Eligibility data record-keeping
 - Tax reporting, filing, etc.
- Broker/dealers
 - Full portfolio management
 - Marketing and sales support
 - Compliance management
 - Integrated Account data
 - On-line access to information

The Future: The Carrier

Carriers have been pressured, too:

- Benefit Administrators have been whittling away at their ancillary functions.
- Product designs have become even more commoditized (accelerated by the Benefit Administrator).
- The value of full portfolio approaches has diminished (as Benefit Administrators assemble and integrate cross-manufacturer portfolios).
- While the demand for “best of breed” product values has skyrocketed.

And their responses:

- Focus on fewer product classes, but offer complete solutions within those classes (in today’s world: offering the HSA administration, HSA fund options, debit card and the HDHP)
- Jettison non-core functions
- Concentrate on strategies that enhance product values

The Future: The Carrier (continued)

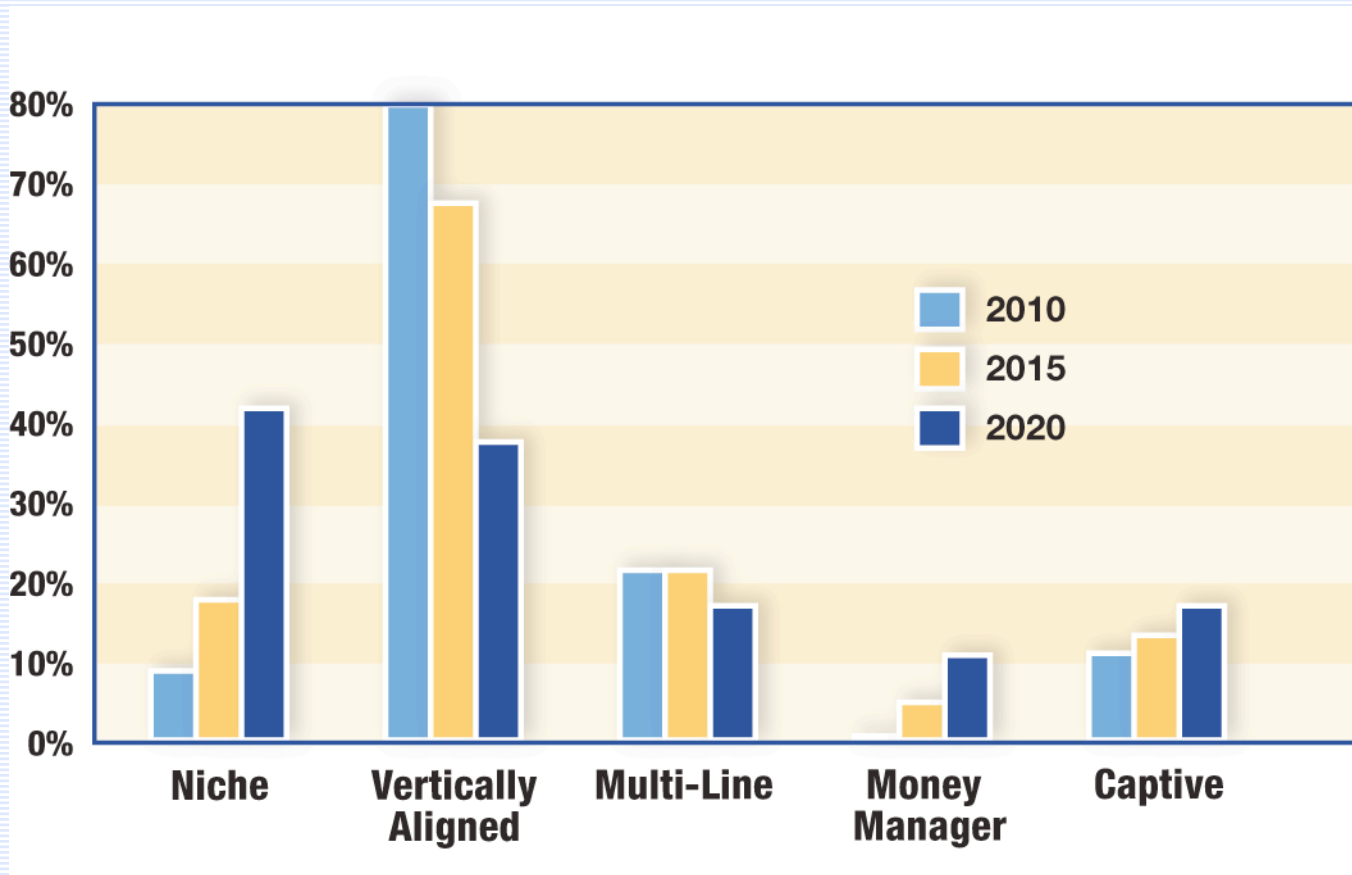
By 2020, a few classes of carriers remain:

- The “Niche” Manufacturer (vs. the Multi-Line Manufacturer)
 - A manufacturer of one or two product lines
 - Best of breed in the chosen class
 - Few ancillary services
 - High product values

- Vertically-Aligned Manufacturer
 - Today’s model
 - Difficulties being good at everything and competing with specialists in each arena

- Changes in ownership categories
 - Money managers
 - Captives

The Future: The Carrier (continued)



The Future - Short Term Changes

- Almost all Employee Benefit Brokers will all sell both voluntary and core products.
- Voluntary brokers will sell both product types or partner with traditional group brokers.
- Employers resist another round of “fixes” and accelerate their move towards defined contribution benefit programs.
- Enrollment systems will make strides in offering “advice” to help employees sift through the choices.
- The Internet will play an increasingly important role in educating employees on benefit options and choices.
- The blurring of the lines between group and individual products will continue with more products having characteristics of both and with GI (or something similar) and true portability (for group) being standard.
- The blending of voluntary and group manufacturing strategies will accelerate.
- Distinctions between group and worksite carriers will disappear completely.

Thanks!

Questions?

Gil Lowerre

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