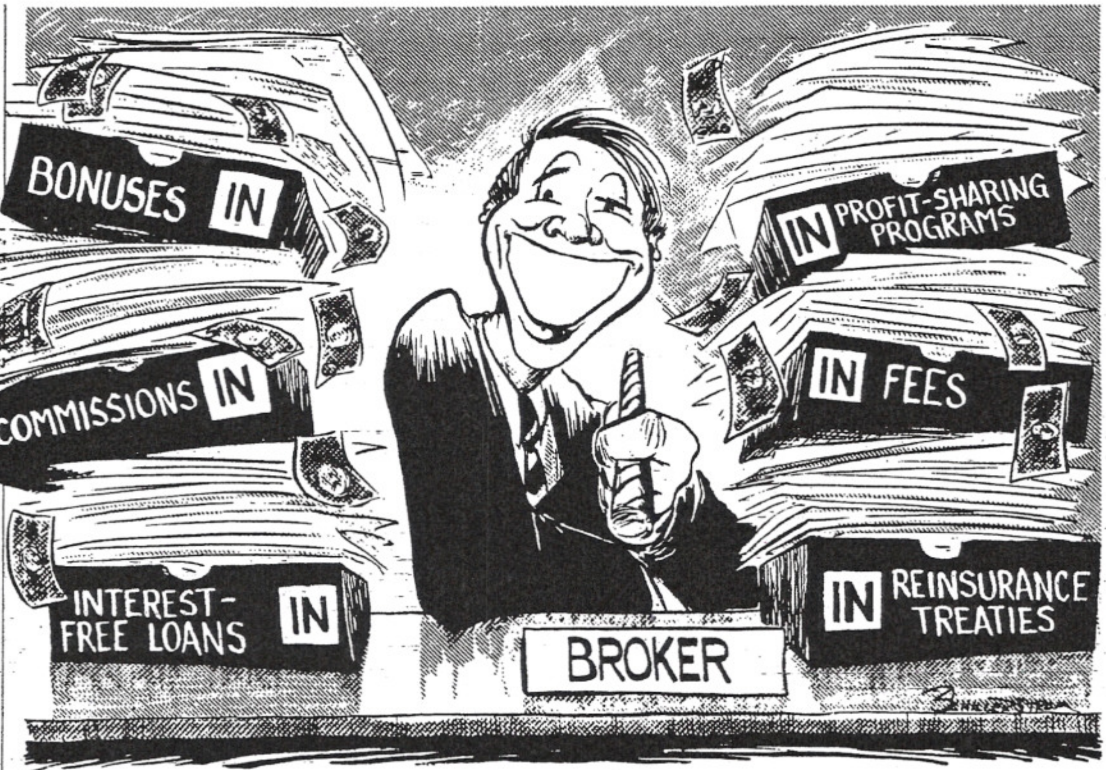
BIG BUCKS FOR LIFE INSURANCE

Employers can cut some upfront expenses in employee plans

By Terry Havens



"WHAT DO YOU MEAN, 'THERE'S A BETTER WAY'?"

THE TOPIC OF brokers' compensation usually focuses on the placement of property/casualty insurance. This is unfortunate because brokers placing optional life insurance for employee groups have an equal duty to disclose their total compensation.

In the mass marketing of permanent life insurance on a payroll deduction plan, brokers, including the alphabet houses, routinely collect standard commissions in excess of 80% on first year premiums.

In addition, the following remunerations are standard negotiating considerations:

- Interest-free loans, often with principal forgiveness.
- Persistency bonuses.
- Production bonuses.
- Marketing expense reimbursement programs.
- Profit-sharing programs.
- Fees.
- Reinsurance treaties.

Major corporations have consistently purchased or arranged for employees to purchase optional whole life and universal life insurance and optional term benefits for their employees with these forms of loadings.

These expensing factors are standard in the individual market, but when such levels of compensation are factored over an offering to 50,000 employees, one wonders who watches the shop.

All compensation factors can be eliminated from the design of permanent life insurance products. By requesting participation with the insurer in future underwriting profits and discarding commissions, fees, bonuses and the like, a new generation of life policies can be offered.

Such a payroll-deduction life insurance program is beneficial to employees because:

- They can consolidate personal policies on their family members and themselves into one expense-free contract.
- The contract is portable and permanent. There are no conversion charges.
- When additional coverage is purchased, no loadings or expenses will be factored into the additional coverage on all family members.
- At retirement, your employees will not face the dilemma of reduced coverage. They will have the ability to prefund their policy for continued protection at retirement with no future premiums due. They will be using tax-deferred earnings on premiums paid to pay future mortality charges.
- They will be purchasing a policy not available "on the street." No individual contracts marketed today or in the foreseeable future by the general agency forces will be able to eliminate marketing and distribution expenses completely.

Beyond the obvious good will created by the development of payroll-deduction life insurance, the employer stands to gain in several ways:

- The elimination of conversion charges for retiring employees.
- The elimination of providing post-retirement coverage for eligible participants. With the pending threat of imputed income being assessed on post-retirement coverage in excess of $50,000, this becomes even more crucial.
- The imputed income charges assessed on executives for coverage in excess of $50,000 could be removed and a superior optimal benefit along the lines described could be supplemented. This would have cost-containing effects on the employer-paid premiums.

Why would a marketer of these plans wish to be compensated on a profit-sharing basis? Because it is, on a long-term basis, a much more viable form of compensation. Generally, however, the group must include at least 10,000 eligible employees to attract the attention of insurers.

During the past two years, our company has requested this policy format from most of the major group insurers. Initially only E.F. Hutton Life Insurance Co. and Life Insurance Co. of Virginia were willing to quote in this format. The major underwriters have, in varying degrees, three major concerns in approaching this market.

Those concerns are:

- The current relationship with captive agents and independent brokers would be strained if the insurer were perceived as underpricing its own sales force. In reply, the insurer can maintain that this is a specialized marketplace and the insurance company is responding to market pressures, not creating them.
- Group departments of these insurers would have little interest in seeing their existing marketplace replaced by potentially superior individual contracts.

Even if a true group universal life contract were offered by the group department, it would still involve disturbing business already in place. Few major insurers have expertise for this form of development in their group departments.

- Existing relationships with larger brokers, particularly the alphabet houses, would possibly become strained. Our company experienced this on more than one occasion. Using traditional methods of compensation, brokers have derived huge profits from the delivery of traditional life insurance products.

Brokers can apply pressure in many forms.

One method is to suggest that cases up for renewal may not be renewed with an insurer that offers this no-commission product. This tactic, we would hope, is self-defeating. Insurers cannot risk the possibility of other underwriters accepting such business. Neither would one expect the client's benefits department to remain oblivious indefinitely.

Another positive aspect of this product is its availability to the so-called blue-collar work force with truly competitive products. One industry association reports that two-thirds of 1982 universal life sales were to white-collar professionals and executives.

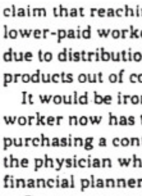
Many insurers have targeted the higher income purchasers, leaving their traditional client base behind. Some would claim that reaching the middle-and lower-paid workers is not cost-effective due to distribution costs pricing the products out of competition.

It would be ironic indeed if the Ford worker now has the opportunity of purchasing a contract superior to that of the physician who uses a sophisticated financial planner.

Group auto and homeowners payroll deduction plans also are available on this same pricing basis.

We see even further developments to our compensation philosophy in insurance products. The banking community can and should offer more demonstrably superior programs than the expense-laden insurance companies. Additionally, the credit unions have a unique opportunity to offer policies devoid of traditional compensation.

As commissions and profit margins drop to zero, as these new products become readily available and as marketing organizations accept underwriting profits as the sole form of compensation, insurance brokers will have to respond or lose their clients' optional payroll-deduction life insurance benefit business. •



Terry Havens is president of The Havens Co., a Lexington, Ky., consultant on executive and employee benefit plans, including universal life products.