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Group universal life programs are gaining ground, but some employers are still confused by the wide array of products and vendors.

The Group Universal Life Rush

by Gretel Weatherly

For the past half a dozen years, corporations have been struggling to strike a balance between two related, if paradoxical, goals: dampening the cost while boosting the purchasing power and flexibility of benefits. As a result, benefits vendors — from hospitals to HMOs, from insurers to information processors — have had to scramble to roll out services that produce more bang for fewer bucks.

One of the benefit products undergoing the latest round of competitive pressures is life insurance. That once-stodgy market first burst into action in the late 1970s, when individual universal life insurance policies were created. Now, that same coverage, an amalgam of the best features of traditional term and whole life policies, has taken another giant step forward with the advent of the group universal life insurance program — GULP for short.

As the newest kid on the block, GULP is getting a wary reception from corporate buyers. Indeed, it's safe to say that, of the dozens of companies giving various group universal programs the look-over, less than one-tenth of those companies have bitten the bait. IBM was the first to embrace the idea in January 1985, and it was joined by ITT six months later. Since then, such companies as Firestone, Singer, Texas Instruments, Bell South, Chrysler, Mead and GenCorp have signed onto the GULP bandwagon. Others, such as General Motors and GTE, are said to be currently negotiating with carriers.

But the real demand for the product is yet to come, say experts. "Growing interest in group universal life programs," says a new product brochure published by TPF&C, "suggests that they may become one of the hottest concepts in employee benefits during the balance of the 1980s."

Insurers Slow to Enter Game

For that matter, the major carriers have been equally cautious in fielding the group universal life ball. Metropolitan, Prudential, Aetna, Travelers, Phoenix Mutual and Equitable are among the early and more aggressive hitters. The Hartford, John Hancock and CIGNA, on the other hand, are perceived as being late in coming to bat with group policies.

But just because the game is new and the players are all formidable in size, ticket prices can hardly be called too high. On the contrary, "it's a buyer's market right now," declares an employee benefits manager who is studying GULP proposals from several insurers. "You can go in and get the carriers to commit to a lot of things."

The climate is so competitive, in fact, that companies are routinely able to reduce the premiums by 20 to 30 percent off of traditional term life rates. And if the existing carrier is reluctant to go that low, enterprising benefits managers have no hesitation about switching to whatever insurer offers the best deal.

It's not price alone that makes GULP attractive, though. In the view of employers and employees alike, these new policies serve up several clear-cut advantages over their older brethren — regular term and regular whole — as well as over their individual-universal-life sibling.

In simplest terms, a group universal life policy is completely voluntary and entirely employee-paid. It does not, therefore, add to the employer's benefits costs — and in fact may reduce the corporation's tab, since a company would feel less obligated to provide additional life insurance when employees can purchase such coverage at competitive rates.

The incentives to the employee are twofold: not only is he getting many additional features not found in standard term insurance, but he's paying a rate considerably lower than what he would be charged on an individual universal life policy. Too, since he need not use an insurance agent, he saves in commission costs.

As with individual universal life, GULP has both an insurance-protection feature and an investment element. The employee has to take the former — it actually takes the form of a regular term policy — if he elects universal life. But he does not have to use the investment piece, which is actually a separate, so-called "side" fund into which he can pour post-tax savings. The side fund is sometimes called a cash accumulation fund. Interest credited to the side fund is not taxable to the employee.

Flexibility Key to GULP

Unlike the old-style term life, group universal life gives the buyer enormous flexibility. For instance, he can vary the timing and amounts of his premium payments. He can also vary the amount of the death benefit and choose to make it either level or increasing.

Too, the package is portable; thus, if the employee retires early or moves to another company, no conversion charges are leveled. And since premium payments are made through the company's payroll deduction system, the employee is spared the worry, time and cost of stamps involved in sending payments via mail. To boot, the worker also gets a periodic update report on the status of his accounts.

Still another GULP feature to workers' liking is the guaranteed issue. Employees need not take a medical exam in order to qualify for coverage up to a specified limit. And even though the rate as a result might be somewhat higher than if a healthy employee had taken out an individual universal life policy, "the guaranteed issue helps more people than it hurts, since not everyone is completely whole," points out one director of employee benefits.

There's more. Just as there is no front-load brokerage commission, so are there no loadings and no marketing or distribution expenses for any additional coverage purchased. Its charge-free nature allows an employee to "consolidate several personal life policies on his family members into one contract," points out Terry Havens, a Lexington, Kentucky, consultant widely considered the strongest and earliest advocate of GULPs.

Moreover, the side fund gives employees a means of accumulating cash, with tax-deferred interest paid at competitively high rates by the insurance companies. Those monies can escape taxes if they are paid out to survivors in death benefits.

Hard Bargaining Pays Off

Depending on the specific contract negotiated, employees have been able to earn up to 11 percent on their side funds in the past year. Also, some companies, by clever bargaining, have persuaded the carriers to lock in those high returns for up to one-and-a-half years. Beyond initial guaranteed rates, companies have either extracted the promise of an interest rate no lower than the Bankers Trust Prime or no lower than a prearranged floor.

Another attractive feature of the side fund is that an employee may borrow or withdraw against its cash value as long as a specific minimum balance remains. That's particularly valuable if emergency funds are needed and withdrawals from qualified defined contribution plans are limited or subject to excise taxes in the future. And contributions into this fund needn't be continued regularly. "If an employee runs into tough times," observes one corporate benefits officer, "he can simply suspend payment for a while and still maintain the term insurance in force."

Even better, the side fund may be used to prefund a policy. Upon retirement, the employee could stop paying term premiums and still get continued protection from the principal and tax-deferred interest in this fund. As one observer relates, "As I understand it, as long as he keeps within certain parameters, an employee can pay his insurance premiums from that tax-deferred account and actually may end up paying for his term rate on a tax-free basis."

But it isn't just the employee who benefits. Companies also stand to gain in several ways. First, there's the intangible benefit of employee good will created when the company applies its automatic payroll deduction plan to the life insurance, observes Havens, who runs a firm bearing his name.

Advantages Galore to GULP

Then there are the tangible gains — the elimination of company-paid conversion charges for retiring employees, for one. Also, since the employee is now able to prefund his premiums, the company need no longer feel pressured to provide post-retirement coverage. That is a big plus to those whose post-retirement liabilities have been soaring as a result of too-generous benefits having built up over the years.

Not to be forgotten is the burden the company bore whenever it subsidized the flat rates that have been built into most traditional optional life insurance plans. Since GULP plans have age-related rates — that is, rates that change in either five-year brackets or in single years — the company doesn't have to subsidize the older employees, who are more costly to insure.

Another important feature from the employer's point of view is that, since the program remains outside the scope of Section 79 or the Internal Revenue

Code, it cannot be funded with employer money. This allows the employer to remain "at arm's length," as one expert puts it. The only two areas the company gets involved in are communicating the message to employees and incorporating the premium payments in the payroll deduction system.

Furthermore, since a GULP is not a qualified plan, there are no imputed income charges assessed on an executive for coverage in excess of $50,000. That's indirectly helpful to the executive's company, since it can cut back its basic, employer-paid life insurance coverage to $50,000 and then ask the executive to supplement that coverage with an optional policy that would not be subject to taxes. "This has cost-containing effects on the employer-paid premiums," notes Havens.

401(k)s May Be Catchier

This isn't to say that all is peaches and cream with these policies. One disadvantage is that the interest currently being paid on the principal in the side fund is not as high as the returns employees are earning on their 401(k) plans.

Besides, by transferring their funds within several investment vehicles offered by most savings plans, participants may continue to obtain higher rates in these vehicles than in the insurance side funds. "We think our people would rather switch between our equity, fixed-income and money market funds than let their money sit in a fund with a single interest rate," contends one benefits manager.

Of course, that situation could reverse itself if interest rates fall and 401(k) investment vehicles become less attractive than the guaranteed rate available in the GULP fund. In that event, points out TPF&C's brochure, the opposite negative case could be made: "Employees may view GULP as a more attractive savings vehicle than an employer-sponsored 401(k) plan. If that occurs and precipitates a drop in 401(k) participation, the 401(k) plan could have trouble meeting the discrimination tests for participation by higher-paid employees."

Working against GULPs, too, is the fact that they cannot be incorporated directly into a flexible benefits program. But, even if they aren't a flex option, they can be considered part and parcel of what one benefits officer calls "our cafeteria-style philosophy." In other words, it helps give the employees the impression that they have options in their benefits choices, even when there is no flex program per se.

Another drawback to certain underwriters' GULP contracts, according to John Wilson, who manages benefit services, healthcare and group insurance for Chrysler, is that "there's the possibility that if we are in a rising interest-rate environment, there could be a penalty imposed if the side fund is terminated — a market adjustment kind of thing."

Then there's the matter of general sensitivity to tax law changes. While at one point legislation was proposed that favored taxing the interest in the side fund, that issue is now on the back burner. "But it could crop up again," warns one corporate benefits chief.

Finally, companies might have reason to worry about employee dissatisfaction. If servicing problems arise, says TPF&C, the employer, though not technically involved in operating the GULP, could bear the brunt of employee complaints. And if the participation rate is too low, the employer's headache could be even worse: a company may be "saddled with administrative burdens and no offsetting advantages," to quote TPF&C.

Blessing Outweighs Burden

And yet, judging by comments from companies that have become GULP believers, the positives far outweigh any actual or potential problems. "This is definitely an aid toward our employees' retirement," says one benefits staffer. "It also protects survivors in the event of the employee's death."

The flexibility of universal life's plan design is also cited as a major advantage. "Our employees now have another choice in planning their own financial futures," is how one executive sees GULP. "Group universal meets an employee's immediate and long-range goals," agrees Jerome Buckley, vice president of Metropolitan. "It gives employees the freedom to select the amount of insurance they want, and to accumulate a level of savings, at competitive rates and on a tax-free basis, that adjusts to their changing financial goals."

Judging by Buckley's comments, universal life certainly seems to be a buyer's market, and not a seller's market at present. Because of this, carriers that offer or intend to offer group universal coverage are facing costs and issues that are critical from both a short-term and a long-term perspective.

Carriers' Capital Outlays Huge

In the short term, for instance, there's the matter of set-up expenses. The major carriers have been opening separate group universal life offices in large cities — a substantial capital expenditure. On top of that, they face the huge cost of programming their computers to do the administration of these plans.

Also cutting into their profits in the near term are the concessions — interest rates, term rates, guaranteed rates, minimum and maximum rates — that buyers have been able to extract from those carriers eager to become big wheels in the GULP market.

One smallish company in the Midwest that signed up with Metropolitan obtained, with Havens' help, an 11 percent investment return applicable from June 1 through December 31. After that, the rate is guaranteed to be no lower than Bankers Trust Prime. "Pru was only offering 10.5 percent," sniffs the benefits manager. In addition, he says, "the term rate we got was the lowest I've seen." He credits both rates with increasing participation in the optional one-times-salary life plan from 15 percent to 25 percent of the employee population. Enthusiasm may have been dimmed had the contract not been sealed last spring; since then, he notes, rates have fallen to the 7-8 percent level.

A 7,000-employee company that switched from Prudential to Metropolitan is also getting an 11 percent interest rate — and for a full year and a half. But after next July, the company has no guarantees other than that its rate won't fall below the 4 percent floor. In return for agreeing to that risk, the company got some additional perks from Metropolitan — again with the negotiating support of Havens.

First, it was allowed to set up a GULP with two options — the employee could select regular term or universal life and could transfer from one to the other. "The idea was that as employees got older they would want to switch from term to universal," says the benefits director. Second, they would be allowed to switch without having to take a medical exam.

Promised Savings Substantial

That company figures it's saving at least 15 percent on its term rate by going the GULP route and changing carriers. Chrysler promises an even more impressive 23 percent savings off the old term rate, having changed carriers from Prudential to Aetna for its employees' optional coverage. When Chrysler finally implements its group universal plan in December, Wilson is betting that its volume of coverage and total premium will increase beyond the current $1.4 billion and $5.6 million annual figures, respectively.

Still a third large corporation, after talking to several carriers, says that by the time it selects the winner it can count on a 30 percent savings, with a guarantee of no increase for the next two to three years. "Plus we can get a maximum increase of 6 percent for the following three years," the group insurance benefits manager insists. "So that means we'll know our rate for six years out."

Some insurance companies are also permitting dependents to sign up for universal life even if the employee is not insured under the same plan.

Beyond the matter of concessions, though, there's the longer-term impact that GULPs will have on the carriers. One concern is that their relations with their captive agents and brokers will become increasingly strained if they are perceived as underpricing their own sales force.

Another potential pitfall is that the traditional group departments could begin losing market share to the new group universal department — thus creating internal havoc. Indeed, there are reports that revenues and profits from the older policies are being squeezed by the newcomers.

Some experts assert that these newly fashioned group departments have little expertise in administering GULPs. But Havens points out that, while slow on the draw, the big insurers have "finally gotten their systems in place to administer this, and they're out there promoting the hell out of the benefit."

Pressure from the insurance brokerage houses is another consideration. Not only could the rise of GULPs administered by carriers impede their relationships with these big brokers, but the brokers could, it is said, exert pressure by not renewing contracts with the offending carriers.

Big Push by J&H

The latter issue strikes at the heart of the carriers' efforts to administer their GULPs, since one of the brokers, Johnson & Higgins, has been promoting its joint venture with third-party administrator Kirke-Van Orsdel, Inc. (KVI) of Des Moines, Iowa. They have named their separate company J&H/KVI. Claiming that the carriers are not known for being savvy in the administration of insurance plans, J&H has convinced several major companies to use it as a TPA. Companies that have agreed enough to sign on include Texas Instruments, Firestone, Whittaker and Bell South.

Reportedly, several carriers are opposed to the intrusion of J&H in the administration end of things. Havens says he has heard several insurers grumble over J&H's success at landing several big accounts — although obviously those who have underwritten the GULP business J&H has brought them do their moaning under wraps.

J&H bristles over the charge that it is an interloper in the administration services business. John Brophy, a J&H senior vice president, insists that when his firm sought to interest the major carriers in administering universal life insurance back in 1983 and 1984, they were unresponsive. "We had this wonderful idea of developing a cash value accumulation paid-up insurance program along with group insurance coverage," he says. "But there was no interest on their part in spending the $1 million-plus that was required to develop a system to efficiently handle universal life on a group insurance basis."

Because J&H had "a number of major accounts who wanted to pursue this marketplace," says Brophy, the firm decided to put its own administration system in place. That was when the arrangement with KVI was made.

Now that some of the major carriers have gotten into the act of administering their own GULPs, they are faced with having to compete head-on with the very brokerage firm that brings them business. Yet neither J&H nor the carriers say they have anything less than "excellent relationships" with one another.

CIGNA, for instance, says that even after it opens its own administration facility in Waterbury, Connecticut, on September 1, it will still continue, as John Adee puts it, "to quote for them if that's appropriate from our standpoint, and we would underwrite it like any other business that J&H has brought in."

But one underwriter, Prudential, has nonetheless refused to let J&H do the administration on any group contract

A partial list of major employers with group universal life programs.

Company	Incumbent Carrier	New Carrier	Broker/Consultant
Bell South	Aetna	Travelers	Johnson & Higgins
Chrysler	Prudential	Aetna	Terry Havens
Cox Enterprises	Aetna	Prudential	In-House
Firestone	Prudential	CIGNA	Johnson & Higgins
GenCorp	Equitable	Equitable	Terry Havens
IBM	Prudential	Metropolitan	Johnson & Higgins
Mead	None	Metropolitan	Terry Havens
Texas Instruments	Aetna	Aetna	Johnson & Higgins
U.S. Shoe	Prudential	Metropolitan	Terry Havens
Whittaker	Aetna	Aetna	Johnson & Higgins

that the brokerage firm brings to it. While Prudential says it is happy to continue its marketing arrangements with J&H on other products, "when it comes to universal life we have not been willing to do that," according to vice president of group underwriting John Wickens.

The reason, says Wickens, is that since Prudential already has to do all its accounting for reserve requirements internally, it would be "inefficient" for J&H to take the data and produce the reserves as well. "They would have to duplicate all the programming," he contends. In order to avoid that dual effort and its costs, Prudential has turned down several large accounts that J&H has brought its way.

Wickens concedes that his company is "concerned" about the fact that some of its major group clients could take away parts of their life coverage and move that business to a competitor. However, he foresees no change in position by the Pru in the future.

Brophy, for his part, also insists that the relationship between J&H and the Pru has not been marred. "Every time a client has asked us to, we have given a bid to the Prudential," he says. "In no way, matter or form have we tried to compete with the Pru. We are in the business of providing administrative services because we had to be in that business in order for group universal life to exist today."

Even if swords haven't been drawn, Brophy acknowledges that, in a strict business sense, "we are in competition with every underwriter who is going to have an administrative service for group universal life insurance."

Beyond the rhetoric between the carriers and *J&H/KVI* is a matter that is of much more immediate concern to corporate clients — namely, the question of the cost involved in each kind of administrative service. Naturally, those employers who have favored the direct route, preferring not to involve a third-party administrator like J&H/KVI, insist their overall bill, reflected in the employees' premiums, is lower. They claim that the front loadings J&H/KVI is said to incorporate into its administrative packages are too hefty to consider.

A letter written last year to a carrier by the brokerage house stated that the "specifications for a Voluntary Life Insurance Plan" included a 20 percent commission on the first-year premium for term insurance, plus a 5 percent charge every year thereafter. Their commission on the cash value premium, meanwhile, was listed as "one-half of 1 percent of the accumulated cash value in each policy year."

Objections to High TPA Commissions

In addition, several employers who say they heard about the 20 percent commission express displeasure over such a high front loading. "By going direct to the underwriter for our administration services, we don't have any commission," observes one employee benefits officer. "Why should we make the employees pay something to an agent they don't even know? Especially when it's on top of a $1.00 per month administration charge for each certificate covered."

But Brophy maintains that the rate J&H charges for its full-service package, which includes recordkeeping, communications, enrollment, payroll deduction, and brokerage service, is "substantially less than others, based on what I've heard from the underwriters I've talked to and the quotes I've seen charged for the same service. What some are charging for administration is more than we charge for the whole package." Moreover, he points out, since the date of that letter, "our pricing has been made more flexible."

Employees in a large plan today, he says, would pay $2.50 per month per record kept for "soup-to-nuts" service. "It includes everything except paying for the printing of the communications material," Brophy notes.

The fee, he adds, can be structured in one of two ways. It can be paid as a flat $30.00 ($2.50 times twelve months) paid out in each year of a three-year contract. Alternatively, says Brophy, "we are prepared to take more in the first year and less in the succeeding years." He mentions figures of $38 in year one and $21 in the two successive years.

And yet interviews with two carriers — Prudential and CIGNA — would seem to indicate that they charge less than J&H. According to Wickens, Prudential charges $1.00 per deposit, plus 1 percent of all deposits employees make to their side funds. It pays commissions on the term premium at a rate that he says isn't much different than what the employer had already been paying on the conventional optional life coverage. The 20 percent arrangement that he saw J&H trying to make in one instance where he was involved "made J&H considerably less competitive," he vouches.

As for CIGNA, Adee says it levels a $2 a month administrative charge per certificate, with the commissions built into that rate. That fee covers not just recordkeeping, but also, according to Adee, "an 800-number telephone service center for employees to use when they have questions, enrollment assistance, as well as interactive videodisc kiosks in locations where there are a lot of employees."

> *"We can't do what we do for the price the consultants charge, because we do ten times as much," says John Brophy, Johnson & Higgins*

Still, Brophy contends J&H's charges are not excessive in relation to the carriers' administrative rates. Moreover, he insists, the bill is reasonable in terms of the actual cost of servicing each account. And the percentage that comes from commissions is relatively small, he says. "The bulk of our income in this particular market comes from administration." That charge is entirely justified, says Brophy, when one considers that it covers all services.

Apples to Oranges

Indeed, what irks him is that J&H's critics seem to be comparing apples to oranges: "People equate us with what Terry Havens charges, but Havens is a consultant who does consulting work then walks away from the business once that consulting is finished. There's nothing wrong with that. That's what TPF&C does, and Mercer, and every other consulting firm. So, you should be comparing our prices with others who provide full-service administration. We can't do what we do for the price the consultants charge, because we do ten times as much."

Havens, who usually takes no commissions but rather negotiates either a fee with the employer or a percentage of profits made by the carrier, points out that even where apples can be compared with apples, J&H's prices are still high. "I take 25 basis points of the cash value, and J&H charges 50 basis points," he notes.

Besides, he asserts, the dispute doesn't rest so much on his charges versus J&H's as it does on the fact that the carriers, plain and simple, don't like to see their turf invaded, even by an upstart firm that staked out its claim to the territory first.

The carriers, he says, "don't like the J&H format for the simple reason that the administration is being taken away from them. For instance," he relates, "Aetna was the incumbent on Bell South's optional life plan. Bell South went out to bids, and Travelers was awarded the business. Johnson & Higgins was the broker. Now Travelers would dearly love to have administered the plan themselves. Its name is on the certificate, but they've got nothing to do with the administration. Believe me, they don't like that. The Prudential won't even quote on that basis."

According to Havens, the reasons carriers object so much is that "they think J&H's commissions are exorbitant and they think it's literally bordering on exploitative what they're making on that. The second thing is that they feel they are being pressured to offer lower rates."

Furthermore, says Havens, some of these carriers "don't think much of J&H's administrative capabilities. So the only ones who've really gotten along with J&H on this point are those who have been without an administrative system of their own in place — like CIGNA and Equitable."

Both Sides Take Their Knocks

But J&H isn't the only one to incur

wrath. One benefits manager at a large corporation thinks J&H's administration is just fine; he reserves his grousing for Havens' financial formula. "Terry wants a piece of the action on the investment yield," says this critic. "When I talked to him, I said, 'Let me tell you what that does for you: it means that your income right now is going to be very low in the first year. But you are set up for life because as that fund gets bigger, which it will, you're going to get a piece on every sale, even twenty years from now, when nobody has even heard of you.'"

The detractor explains that if Havens gets even an eighth of a percent of a 10 percent investment return, that eighth increases from, say, $100 the first year to $200 the next year and so on, into the thousands of dollars on one policy over the years. "I told him I'd rather pay a 20 percent commission, at the time he's earned it, then get rid of him, than to pay someone else forever."

This same executive says that he finds an advantage in an arrangement with J&H: "I can move the insurance to another carrier any time," he says. "If the charges get too high or the return too low, I can move it and the employee doesn't even know the difference."

Prices Rarefied?

By the same token, he admits, there's a disadvantage: "How do you know J&H isn't going to rip you off? They told us they'd experience-rate the expenses and lower them after finding out how much it costs to operate the plan, but you can't really tell if the figure they arrive at is accurate." He also concedes that the J&H pricing structure is a bit rarefied. "That's why I'd rather unbundle the service and say, alright, forget about the brochure, we'll do that ourselves. All we want you to do, J&H, is to charge us a pure cost of administering the plan."

Two other corporate benefits executives who have worked with Havens prefer his arrangement to the J&H service, unbundled or bundled. One, in Havens' defense, says that the consultant incurs the risk of having very low participation in any plan he helps set up. Another points out that his profit does not come out of the employees' or employers' pocketbooks, but rather from the carriers that he has negotiated contracts with for those companies.

Whatever subjective side anyone chooses to take, a few objective facts about the group universal life marketplace are emerging. The first is that, while there's a lot being said on the subject these days, in practice only a relatively small number of companies have signed up for the program. As Prudential's Wickens puts it, "Our experience has been that while a number of large employers seem to be interested in hearing about group universal life, when it gets right down to it, they generally back out." He senses a prime reason for their hesitation to date has been that "most of these employers already have thrift plans and 401(k) plans, and their need for another tax shelter, as universal life is, is quite modest."

Still, the facts also indicate that an increasing number of companies will take the plunge into GULP in the next few years. "The level of interest among employers would indicate that the market for the product looks promising long-term," says CIGNA's Adee. "Their reasons center around whether they can continue to afford to pay for post-retirement life insurance or whether it's more appropriate for employees to be creating their own post-retirement coverage."

Such coverage by the employer is especially questionable, he says, "when you see the demographics of the employee groups. You have to wonder whether it's really an appropriate use of employer funds when you have such variability from one participant to another."

Another point in GULP's favor longer-term, Adee believes, is that the vendors of the product are preventing employees from bearing the cost on their own shoulders. "If you've got a truly voluntary product," he says, "the employer doesn't have the economic incentive to get involved with the administration of it, as it would, say, with a pension plan or something whose performance the company has a financial stake in."

Because of employers' hands-off approach, the outside administration of GULPs can only grow more important in coming years. As Adee notes, "Administration is the critical element in employers' decision as to which carrier to select." □