



***A Perspective on
Group Life Insurance:
September 11, 2001
and Forward***

The September 11th acts against this country, specifically the World Trade Center and the Pentagon tragedies, have clearly called into view long held assumptions and perspectives on a broad range of topics, including Group Life Insurance. As a result, the marketplace is re-evaluating the features, exclusions, costs and risks associated with various life insurance products, including Basic and Supplemental Life coverages. Importantly, the major findings of research conducted within the life insurance market have been validated by the experience that MetLife and other carriers have had in the aftermath of the September 11th tragedy.

Summary of Research Findings

The most disturbing research finding is the simple fact that **the U.S. Population is underinsured**. Sadly, only 53% of individuals own any type of life insurance¹. And, of those households that own life insurance, half own coverage that's only equal to or less than three years of household income² — which for most, is not nearly enough.

Furthermore, when asked, more than half of the U.S. households polled *acknowledged* they most likely are underinsured for life insurance².

Given this acknowledgement, why is it that so many individuals and households in the U.S. are underinsured?

First, let's look at the trend of overall life insurance ownership and purchases made at the workplace. Since the 1970's, overall ownership of life insurance has been on the decline. It's no coincidence that this downward trend was fueled by the emergence of tax advantaged accumulation vehicles, such as 401(k) plans and an interest in accumulating retirement savings, buoyed by strong stock market performance.

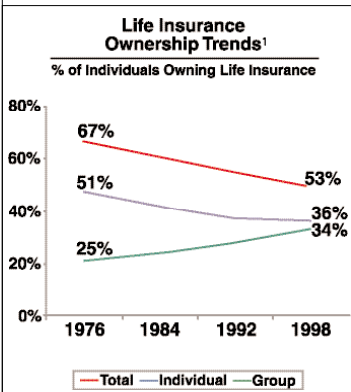
It's important to note that although the overall life insurance ownership has been trending downward, purchases made at the workplace have been steadily increasing.

To gain a deeper understanding of dynamics around these trends, MetLife conducted proprietary research, which has shown that among employees in the U.S., there is a fundamental lack of understanding and appreciation for the importance of life insurance to one's overall financial plan³.

¹LIMRA, Life Insurance Ownership Study, 1999

²SRI Macro Monitor, 2001

³MetLife Study – Voluntary and Life Products, 2000



EMPLOYEES WANT INTERACTIVE TOOLS TO HELP DETERMINE THE AMOUNT OF LIFE INSURANCE COVERAGE NEEDED

Specifically, this research indicates:

- Consumers don't think they have enough life insurance coverage.
- They further admit they really don't know how much is enough.
- They want tools to help them decide how much life insurance is right for them and want to be able to interact anytime — when it's convenient for them.

When making benefits decisions during the traditional annual enrollment period, employees spend relatively little time considering their life insurance elections. Many keep their level of coverage the same, year after year — and forgo re-evaluating their need for insurance, although their personal and financial situation may have changed.

Employees are typically confused by life insurance choices and need help determining just how much coverage is appropriate given their personal financial situation and planning goals.



Validation of Research: Learnings from September 11th

As a leading provider of life insurance, MetLife had a number of customers who were victims of the events of 9/11.

A closer examination of one group customer in particular — with many lives lost — yielded saddening truths, where several key themes emerged.

Many employees — including high net worth — were, in fact, underinsured

The profile of this company's employees was mainly young, up and coming males with wives and children at home. They would be considered high net worth individuals, leading comfortable lifestyles, while carrying a fair amount of debt.

Sadly, nearly all of these families were shocked to learn that they had only a nominal amount of insurance coverage.

Benefit provisions were often misunderstood

The employees of this company earned incomes where bonuses and commissions were a significant part of

FOUR KEY THEMES EMERGED:

MANY EMPLOYEES WERE INDEED UNDERINSURED

BENEFITS WERE OFTEN MISUNDERSTOOD

SURVIVORS WERE CONFUSED BY THE PLAN DESIGNS

EMPLOYEES' RECORDS WERE LOST



their total compensation. Nearly all of the families were covered only by the employer-provided Basic plan. Unfortunately, the survivors discovered that the Basic Life Insurance coverage amount was only one times base annual salary, which did not include the total compensation, inclusive of bonuses and commissions.

Survivors were confused by various life insurance plan designs and disappointed by the coverage elections that were made (or in some cases, not made at all)

Generally, employees of this firm were earning upwards of \$300,000 to \$800,000 annually, inclusive of bonuses. Yet, their average life insurance coverage amount was only \$50,000 — clearly leaving a gap between life insurance coverage and current earnings. The firm made available to its employees a supplemental life plan, however, only about 10% of these employees elected additional coverage.

One can speculate on the reasons why these employees were underinsured. Perhaps they felt they didn't need additional life insurance, as they were young, thought to be in their prime. Perhaps they opted to invest in the stock market, in lieu of purchasing life insurance. Or they may have been unaware of the minimal amount of life insurance coverage they really had.

Employees' records were lost

Many survivors did not know with which carriers their loved ones had coverage. Survivors made inquiries to multiple carriers, searching for additional life insurance policies, in the hopes of discovering additional coverage. Many families did not have any records of life insurance coverage, as employees kept copies of their benefits at their workplace. Additionally, in most cases, employers' records were lost altogether.

Post September 11th, life insurance has been initially more top of mind

Several sources indicate that more Americans are thinking about life insurance.

Applications for life insurance in the fourth quarter of 2001 reached their highest levels since the beginning of 2000, according to the Medical Insurance Bureau (MIB) Life Index.

Sales figures for life insurance for the fourth quarter of 2001, based on a survey by LIMRA International of the largest insurers, are up about 9% to 10%.

Purchases in the workplace setting also showed focused interest in life insurance. MetLife's Group Life Insurance customers, for which we conducted the enrollment, experienced a 10% to 20% increase in new enrollments and increases in coverage amounts.



Indicated Actions

Will life insurance remain top of mind? Is an increase of 9% to 10% in life insurance purchases enough to close the gap in inadequate coverage levels? Going forward, there is clearly a need for life insurance carriers to continue to assist employers in helping their employees see the value of life insurance in their overall financial plan.

There is an opportunity to simplify plan designs to ensure that the employer-paid Basic and Supplemental life insurance programs provide appropriate coverage levels *and* minimize employee confusion. For example, common plan designs are based on a multiple of salary. Yet, proprietary research concludes that 1x or 2x salary doesn't mean much to the employee in terms of directly expressing an amount of protection needed. Rather, providing an accompanying example in dollar amount terms would resonate better with employees and help them develop a more personal understanding of coverage levels.

Improve and simplify communication messages to help better educate employees of the value of life insurance as an essential component of their total financial portfolio. Messages should clearly communicate the need for life insurance, rather than simply the elections available. The materials should further reinforce that their need for insurance is not static. As their lives change — with the purchase of a home, birth of a child, even planning for parents' eldercare — so does the need for increased protection.

Provide decision support tools and educational information to help employees determine the right amount of life insurance to fit their personal situations. Interactive tools that are simple, easy to access, and illustrate the types of current and future financial planning categories are most effective in demonstrating the specific need for life insurance protection.

Employers should encourage employees to pursue the purchase of supplemental coverage if their assessment indicates they need more than the employer-provided Basic Life benefit.



Use of non-traditional communication channels and timing will further reinforce the value of life insurance and improve employees' awareness of its importance. This includes:

- Providing Web-based communication and other interactive enrollment capabilities
- Performing on-site group meetings and seminars
- Increasing employer endorsement, inclusive of management participation in group presentations
- Prompting employees to re-evaluate their life insurance coverage when notified of a change in status, such as marriage, birth, etc.
- Conducting life insurance enrollments outside the traditional general benefit enrollment period

Introduce benefit enhancements to transform life insurance from a “death benefit” to a “living benefit”

Employer-based life insurance programs must evolve from merely providing a benefit to beneficiaries at the point of claim to a program that is an important, value-added component to an individual's ongoing life. Benefit enhancements, such as assistance with preparing a will, travel assistance services, portability provisions, and cash value options, are examples that help to provide this value.

Employers can benefit from assistance with the ongoing management of their life insurance programs

Even in a downturn market, attracting and retaining employees remains the most important employee benefits objective for employers. As employers must do more with fewer resources, benefits outsourcing is rapidly becoming a common trend. This trend validates that employers appreciate assistance with the ongoing program management for their benefit offerings. Common services for life insurance programs, including full record management, enrollment processing, beneficiary designation processing, automatic claim preparation, and payroll and billing solutions, can help employers manage their life insurance programs more efficiently.

The combination of a state-of-the-art back-end administrative system with online access to benefits for employees creates a win-win situation: self-service, useful tools and information for employees, and a more efficiently managed benefit plan for employers.

Needless to say, a carrier with the ability and resources to focus on their life insurance offering in this way — enhancing the value of the benefit, improving communication and education, providing Web access and strong administration — will be well positioned to best meet the needs of employers and their employees.



Some Final Thoughts

Life insurance programs are an important part of an individual's financial plan. The traditional view of life insurance as a commodity — simply underwriting coverage, differentiated by price and little else — is evolving as communication, education, and benefit enhancements are added. Research and trends support the evolution of employer-based life insurance programs from merely providing a benefit to beneficiaries at the point of claim to a program that is an important — even critical — component to an individual's overall financial plan.

However, life insurance carriers should not assume that solely as a result of the September 11th events, Americans will immediately move to secure their own measure of initial or increased life insurance protection, or that there will be an automatic and sustained surge in life insurance purchase activity. Knowing that consumers are currently more receptive to life insurance, carriers, brokers, benefit consultants, and employers should work together to reinforce the social importance of life insurance and take actions to increase the value of their life insurance programs.

MetLife: Quality, Experience and a Trusted Partner

MetLife is the leading provider of Group Life Insurance in the United States⁴, with over \$1.4 trillion in-force premiums and a full portfolio of innovative solutions, administrative services and ready-to-use employee communications. MetLife's expertise can provide a life insurance program that best meets the evolving needs of companies and their employees, today and in the future.

⁴A.M. Best Life/Health CD #7, 2001



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