

Voluntary Worksite Products



A MILLIMAN GLOBAL FIRM



Milliman

Consultants and Actuaries

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This presentation was prepared for the specific purpose of providing a general overview of the voluntary worksite market to attendees of the Southeastern Actuaries Conference. It is not appropriate for any other purpose. Milliman does not intend to benefit any third party recipient of its work product.



Supplemental Health Market Segment Types

- Disability Income
- Accident
- Specified Disease / Cancer
- Critical Illness
- Limited Benefit Medical Plans (Mini-med)
- Hospital / Surgical
- Dental



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Supplemental Health Market Distribution Channels / Markets

- **Worksite**
- Association
- Agent/Broker – Health insurance specialists
- Direct-to-consumers sales
- Other agent/brokers – Incidental sales
- Financial institutional sales
- Internet/web-based sales

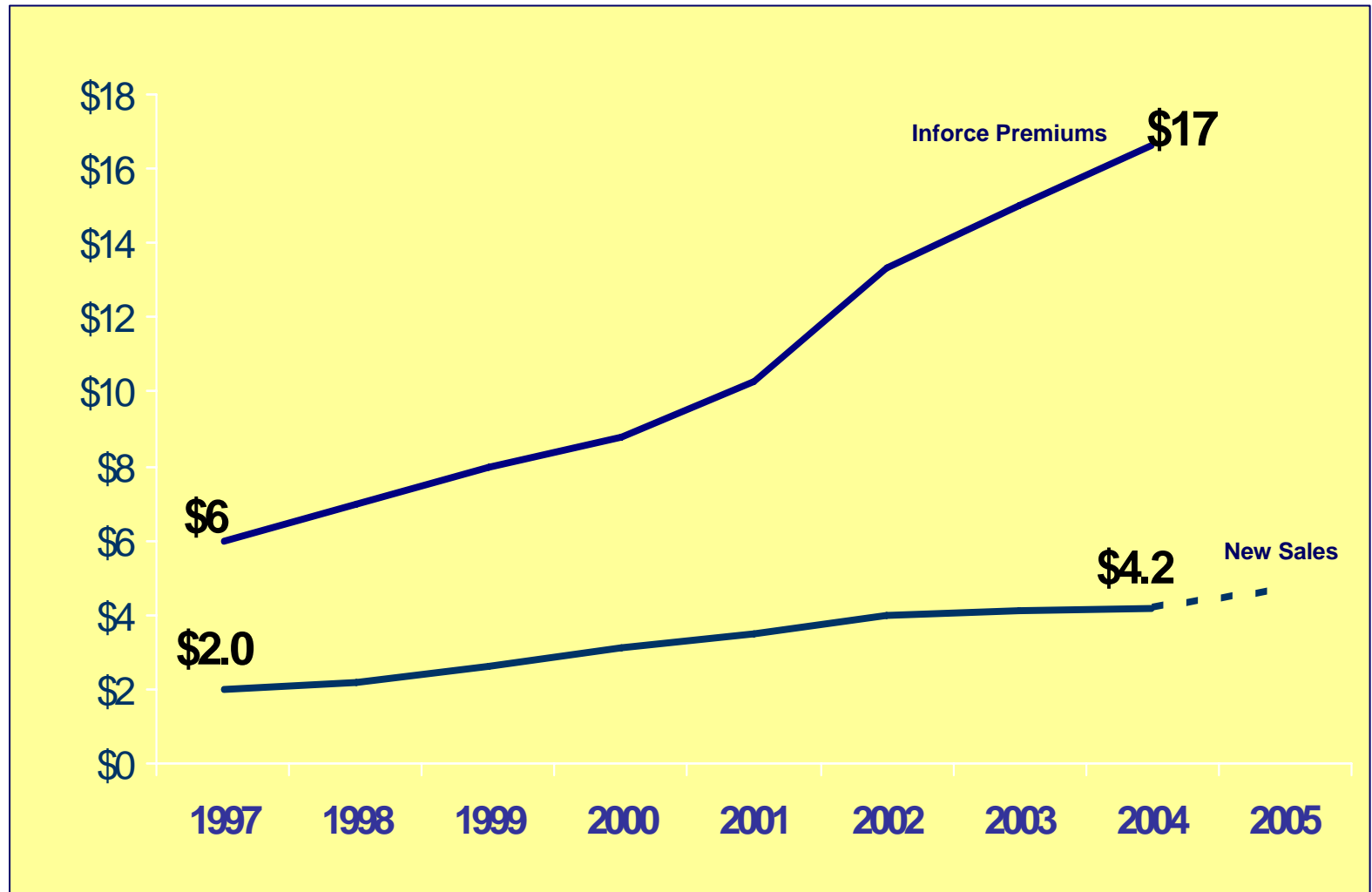


Supplemental Health Market Key Characteristics

- Guaranteed Issue is common
- Simplified Issue if not G.I.
- High lapse rates
- Products are often misunderstood (as to purpose)
- Looked upon unfavorably by regulators
- Looked upon unfavorably by many in the industry
- Market is helped by AFLAC duck!! (imo)



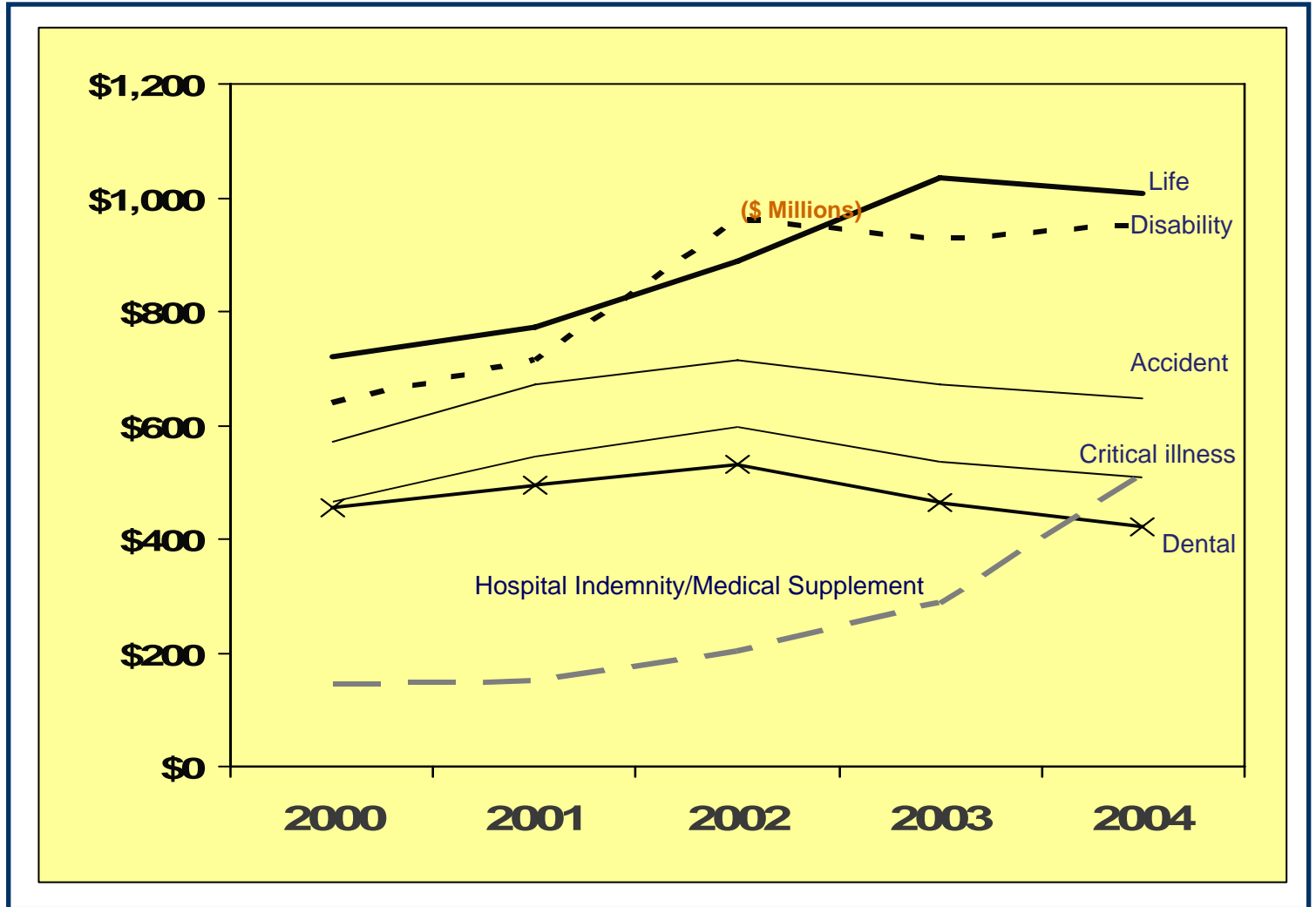
Premium Growth – Voluntary Market



Source: Eastbridge US Worksite Study



Recent Growth Trends – Voluntary Market



Source: Eastbridge US Worksite Study



Worksite Market Market Size

- 115 million US workers (U.S Census)
- 73 million in firms with > 100 ees
- Market Potential is growing
 - More self-employed businesses
 - Employers dropping group major medical plans
 - Employee premium and cost sharing increasing
 - Lower unemployment rate – competition for employees
- Future expectations are solid for supplemental products
 - Expected growth rate: 8% - 10% for supp products
 - Expected growth rate: 15%+ for mini-med



Worksite Market by Group Size

# Employees	# Firms	# Establishments	# Employees	Annual Payroll (\$1,000s)
All	5,885,784	7,387,724	115,074,924	4,253,995,732
0	802,034	803,355	0	40,043,549
1-4	2,777,680	2,782,252	5,844,637	165,904,564
5-9	1,043,448	1,055,937	6,852,769	195,519,100
10-19	632,682	666,574	8,499,681	257,802,789
20-99	526,355	692,677	20,642,614	670,418,442
100-499	86,538	330,447	16,757,751	587,676,161
500+	17,047	1,056,482	56,477,472	2,336,631,127
500-749	5,695	66,305	3,449,491	130,408,281
750-999	2,709	41,835	2,331,851	87,180,964
1000-1499	2,828	57,479	3,444,427	132,832,629
1500-2499	2,281	76,491	4,396,430	179,582,908
2500+	3,534	814,372	42,855,273	1,806,626,345
2500-4999	1,739	106,893	6,038,196	262,111,452
5000-9999	905	120,311	6,378,292	278,396,903
10000+	890	587,168	30,438,785	1,266,117,990



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Limited Benefit Medical Market Primary Distribution

- Primary Outlet - Worksite
 - Large market segment
 - Employers dropping group major medical plans
 - Employee premium and cost sharing increasing
 - Lower unemployment rate – competition for employees
 - Lower premium (relative to major medical)
 - Primarily attractive for lower income earners
 - “Group Think” implications
 - Potential for misunderstanding



Limited Benefit Medical Typical Coverage

Benefit Design

- **Scheduled Benefits**
 - Most common approach
 - More complicated administratively (tracking of internal limits)
 - Greater risk sharing for small claims
 - “Feels” more like hospital indemnity coverage
 - Typically exempt from HIPAA
- **Expense Reimbursement**
 - More recent approach
 - Similar to major medical administration
 - Less risk sharing for small claims
 - “Feels” more like major medical
 - Subject to HIPAA requirements



Limited Benefit Medical Product Typical Coverage

Example 1

- Scheduled Benefits

Inpatient Hospital: \$2000/day

ICU: \$2000/day

Surgical: \$4000 annual max, per schedule

Office Dr Visit: \$50/visit, up to 6/year

Emergency: \$100/visit, up to 3/year

X-ray & Lab: \$50/visit, up to 6/year

Wellness: \$75/visit, up to 2/year



Limited Benefit Medical Product Typical Coverage

- **Scheduled Benefits – Other Benefits**
 - Hospital Admission Lump Sum
 - Outpatient Benefits
 - Scheduled Surgical Benefits
 - Anesthesia Benefit
 - Skilled Nursing
 - Transportation
 - Prescription Drugs



Limited Benefit Medical Product Typical Coverage

Example 2

● Expense Reimbursement

- Inpatient Hospital: up to \$2000/day, to \$7,500/confinement and \$30,000/yr
- ICU: no additional
- Surgical: 100% up to \$5000
- Office Dr Visit: up to \$50/visit, up to 6/year
- Emergency: up to \$100/visit, up to 3/year
- X-ray & Lab: 100%, up to \$200/year
- Wellness: Annual Checkup qualifies for Dr. Visit



Limited Benefit Medical Product Typical Coverage

Other Key Possibilities

- May have PPO available
- Benefits may be on a “per cause” basis
- Varied Limits
 - Calendar Year
 - Benefit Year
 - Internal Limits
 - Combination



Limited Benefit Medical Product Alternative Product Design

- Example 3

- Hospital Confinement: up to \$2000/day
- ICU: up to \$2000/day
- Addit'l Hospital Charges: up to \$5,000/yr
- Office Dr Visit: 100% after \$20 copay
- Outpatient: 100% up to \$4,000
- Cal Yr Deductible: \$500
- Copay: 20%
- Coverage Year Max: \$30,000



Limited Benefit Medical Key Product Trend

- Competition for market between mini-med and major med
- Major med carriers becoming more aware when mini-med products are sold in a group.



Limited Benefit Medical Profitability/Experience Trends

- Policyholder Behavior Issues
 - High turnover helps experience if plan has a pre-ex clause
 - Utilization is materially reduced for lower benefit plans
 - Materially different age distribution than other worksite products



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Specified Disease / Cancer Typical Coverage

Benefit Design

- Lump Sum Scheduled, or Expense Reimbursement
 - Lump Sum
 - Scheduled
 - Vast majority of plans have scheduled benefits
 - Internal limits exist on each category of benefit
 - Usually no overall policy limit, if scheduled bens.
 - May pay actual cost up to some internal limit
 - Expense Reimbursement
 - Uncommon



Specified Disease / Cancer Product Typical Coverage

Example 1

- Lump Sum
 - Single Trigger Critical Illness Contract
 - Lump sum of cash paid on diagnosis of cancer
 - May include carcinoma in situ at reduced benefit
 - May include skin cancer at reduced benefit



Specified Disease / Cancer Product Typical Coverage

Example 2

- Scheduled Benefits
 - Hospital Confinement
 - 1st 70 days \$400/day
 - 71st – 180th \$800/day
 - Inpatient Surgery \$70/unit – max \$5,000/proc.
 - Outpatient Surgery \$400/day - \$1200 cal yr max
 - Radiation / Chemo \$500/day - \$1200 mthly max
 - Reconstructive surgery \$2,400
 - Skilled Nursing \$100/day
 - Hospice \$70/day
 - Transportation \$0.50/mile to \$1,500
 - Stem Cell Transplant actual charge up to \$5,000
 - Cancer Screening Varies
 - Other Assorted Benefits....



Specified Disease / Cancer Product Typical Coverage

Example 3

- Pays 100% of charges for:
 - Hospital room and miscellaneous services
 - Drugs and meds prescribed by a physician, including chemo
 - X-ray, cobalt and other radiation treatment
 - Laboratory services
 - Medical or surgical services and anesthesia
 - Blood transfusions
 - Professional Nurse
 - Ground ambulance to/from hospital
 - Emergency transportation for treatment (ground and air)
 - Braces, crutches, wheelchairs
 - Prosthetic devices
- Max benefit: \$10,000 to \$50,000 as selected at purchase



Specified Disease / Cancer Underwriting

- Guaranteed Issue Common
 - Some risk screens
 - Actively at work xx hours/week (xx=25 or 30)
 - Actively at work on day coverage effective
 - No more than 3 sick days in past month
 - Minimum participation required
 - Larger groups 10%-15% (500+ or 1000+)
 - Smaller groups 20%-25% (100-499, or 100-999)
 - Minimum number of enrolled lives (50+/-)



Specified Disease / Cancer Market

Major Challenges

- Adequate risk selection (genetic testing)
- Expense management
- Compensation
- Unanticipated issues with old blocks
- Regulatory pressures
- Maintaining loss ratios
- High lapsation
- Subject to anti-selective lapsation
- Effective and timely remedial action



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Worksite Critical Illness - A Brief Overview

A “Typical” Worksite Critical Illness Policy

\$

if

Cancer (optional)

Heart Attack

Stroke

Kidney Failure

Major Organ Transplant

Lump
Sum



Worksite Critical Illness - A Brief Overview

Lump Sum Benefits are “Free” Cash

\$

Lump
Sum

Can Be
Used
for...

Medical Expenses

Experimental
Treatment

Travel

Debt Restructure

Specific Expenses

Other



Sample Benefit Design

Cash payable on first
occurrence of...
(\$5,000 to \$100,000)

Cancer
Heart Attack
Stroke
Kidney Failure
Major Organ Transplant

Waiting Period (Elimination Period): Full
benefits payable after an initial waiting
period of 30 days.



Possible Benefit Options

\$\$

Double benefits if claim occurs before age 70 (or 65)
(e.g., benefits reduce at 65 or 70)

\$

Full benefits payable for additional illnesses

- Paralysis
- Major Burns

\$

Partial benefits for less severe conditions

- Angioplasty - 10%
- By-pass surgery - 25%



Possible Benefit Options (Cont.)

\$ Health Screening Benefit (or
Wellness Benefit) - \$50

\$ Hospital Indemnity Benefit
\$200 per day

\$ Others:
Transportation
Ambulance
Other Diseases
Reoccurrence
Additional Occurrence



Environment for Growth in U.S.?

- Some Observations
 - Slowing growth in HI sales
 - Increased interest by HR leaders
 - Growing awareness by distributors
 - Lessons learned from previous market entry failures
 - Improved product design consideration

