



GUARDIAN®



BENEFITS & BEHAVIOR:

**Spotlight on Group Life
and Disability Insurance**

Introduction

Employee benefits can play a major role in attracting and retaining top talent and often underscore an organization's commitment to the well-being of its employees. But even the most robust benefits package may have no impact unless employees understand what is being offered to them in their company's plan. This finding, based on new research by The Guardian Life Insurance Company of America, indicates that there is confusion among working Americans about employee benefits, and in particular life and disability insurance. It clearly prompts the idea that everyone who plays a role with offering group benefits — employers, brokers, financial advisors, insurance carriers — can do more to unlock the value of group benefit plans for millions of U.S. workers through providing easy-to-understand educational materials and facilitating a simplified benefits selection process.

GROUP LIFE & DISABILITY INSURANCE: MORE AFFORDABLE AND EASIER TO ENROLL THAN AMERICANS THINK

Group life and disability insurance can help provide financial protection in a crisis and peace of mind during the good times. Contrary to what Americans perceive, these benefits when offered through their employer are generally affordable and easy to buy. Group life and disability insurance do not require medical exams to enroll and as a result of volume discounts negotiated by companies, they cost an employee just a few dollars a month in many cases.

More consumer education about how these benefits work is needed, however. Here are a few samples from the survey findings that illustrate the gap between perception and reality:

70% of adult consumers interviewed by Guardian said they understand the difference between group and individual life insurance coverage. Yet nearly half of the same people said they think a medical exam is required in order to buy group life insurance, and 23% of respondents said group life insurance is more expensive than an individual life insurance policy, when, in reality, both of these statements are not usually true.

Introduction (continued)

The confusion continues in consumer perceptions about disability insurance. Among survey respondents who have disability insurance through their employer, 58% stated they are aware of how much salary their policy would cover. However, one-third of respondents said they believe their disability insurance covers more than 70% of their income. As most group policies cover between 50 to 70% of income, many Americans may be confused about how much coverage they signed up for. Twenty-eight percent of respondents admitted they don't know how much their disability insurance plan covers.

Along the same lines with life insurance, 24% of respondents said they believe group disability insurance is more expensive than an individual policy, and 46% of respondents said that group disability insurance requires a medical check-up before purchase, both of which are also generally not the case.

Clearly, opportunities exist to inform employees that it's much easier to obtain and to afford these benefits than they may think.

DISABILITY BENEFITS & TAXES

Understanding how employer-paid disability benefits are taxed is critical for employees. But nearly half of U.S. employees do not realize that Uncle Sam may take away a portion of

their disability check. Only 52% of respondents were aware that disability benefits are taxable when received from an employer-paid policy. This can be a shock to an employee who is trying to recover and survive on a reduced income. It is likely that more employees would supplement their insurance with a voluntary group policy, an individual policy, or max out their group coverage if they had better understanding about how benefits are taxed.

CAN CONFUSION BE CONTRIBUTING TO EMPLOYEE UNDERINSURANCE?

When employees don't have a full understanding of their life or disability benefits, they naturally cannot ensure that the benefits they sign up for will adequately meet their needs. Confusion may also prevent Americans from taking steps to supplement their coverage or in a worse case scenario, hinder them altogether from even enrolling in these important benefits.

This inevitably contributes to putting people at risk for being underinsured. For example, according to LIMRA¹ 48 million households either do not own life insurance and believe they should or own life insurance and believe they need more. Eight in 10 people find it difficult to decide how much and what type to buy and worry about making the wrong decision.

¹ Facts about Life, 2006.

Introduction (continued)

For many employees, one of the most cost-effective ways to get extra life insurance coverage is through a group plan offered at work and paid on a voluntary (employee-funded) basis. Voluntary group policies can also offer additional features to supplement an employer-paid plan. Thirty-seven percent of survey respondents to the Guardian survey said they are able to boost their employer-offered life insurance higher than the coverage amount they now have. Yet only 23% of survey respondents reported doing so. Another 14% said they could do it, but choose not to. Workers in higher income brackets, not surprisingly, were more likely to report supplementing their life insurance at work. More than 30% of survey respondents earning at least \$50,000 said they purchase additional life insurance coverage at work.

Improved employee education about benefit options, including voluntary benefits may be needed, as nearly 1 in 5 of survey respondents could not say whether they are able to supplement their life insurance coverage at work.

Among respondents who own a life insurance policy, either through their employer or some other source, most are aware of how much coverage they have. Those with life insurance outside the workplace were more likely to be aware of their policy's value (80% of respondents) than those who had coverage at work (72%). This finding may indicate that

people who shop for their own coverage — and thus actively engage in the decision-making process — are generally more familiar with their benefits and how much coverage they need.

EMPLOYEES' ROLE: MAKING EMPLOYEE BENEFITS A PRIORITY

Americans spend more time with other types of planning such as preparing for Thanksgiving dinner than they do reviewing their employee benefits, according to the survey. Employees spend just 1.4 hours, on average, reviewing their benefits plan each year. That's far less than the amount of time they spend filing their taxes (2.8) hours, shopping for the holidays (4.9 hours), or preparing for Thanksgiving (2.7). From an employee perspective, it suggests that it is important for workers to take more time reviewing and understanding their benefits in order to make thoughtful decisions about their benefit offerings.

Consumers should fully understand their workplace coverage to insure that it complements their overall financial portfolio and that it fits in appropriately with individual products that they purchase in the financial retail market. If consumers are under-insured then they are potentially exposing themselves to unnecessary hardship.

Introduction (continued)

INVESTING IN CONSUMER EDUCATION & FACILITATING A SIMPLIFIED BENEFITS SELECTION PROCESS

Employers, brokers and insurance carriers may be able to apply this finding to educational efforts that appeal to the consumer-oriented aspects of personal benefits planning. It is important for everyone involved in offering group benefits to invest time and efforts in helping employees better understand and appreciate the benefits available to them. Education can go a long way in helping Americans make the right benefit choices to get the protection they need.

The good news is that just 8% of respondents reported choosing their benefits without any kind of discussion or investigation. Employees are clearly willing to put some effort into selecting their benefits, and they want to feel confident in their grasp of insurance plans. A tremendous opportunity exists to help Americans take better advantage of the group insurance offerings available to them at work.

As the finding shows, employees rely on a broad range of sources for information to help them choose their benefits. They read literature and do research (62% of respondents), discuss with family (56%), talk with someone in the human resource department (52%), and talk with a benefits advisor (46%).

The best time to begin educational efforts is now and throughout the year, not just at the height of open-enrollment season. Employers and brokers can encourage employees to subscribe to personal finance publications, read articles, meet with advisors, talk with their families, and read the benefits brochures that are distributed in the workplace. Face-to-face group meetings are also an effective way to explain benefits and give workers a forum for questions that they have. Following-up and ensuring that employees can access tools to answer questions they have, such as toll-free hotlines and informational websites is equally important.

Insurance companies too can play a better role. A simplified enrollment process including easy-to-understand materials and onsite education helps to maximize employees' understanding about their benefits offerings. In addition, making educational materials available which brokers and employers can pass on to workers regarding the value of protecting their ability to earn an income and protecting their loved ones is equally important. Through concerted educational efforts, everyone can help unlock the value of group benefit plans for millions of U.S. workers.

Background and Methodology

METHODOLOGY

A nationally representative sample of 532 consumers age 18 and older who are employed full or part time were interviewed by telephone as part of an Omnibus study.

Question areas included:

- Extent of disability coverage
- Beliefs about disability and life insurance
- Employee benefit selection/review process

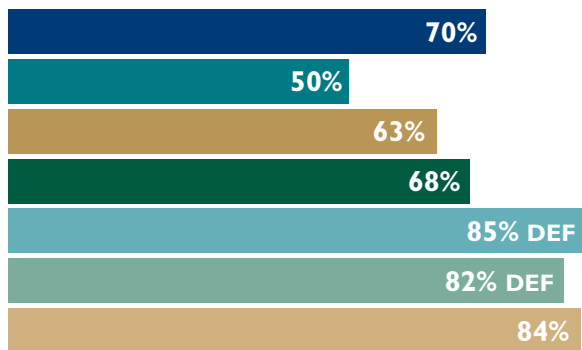
The interviews were conducted December 6–11, 2006.

Seven in ten employees believe they understand the difference between group and individual life insurance, but findings indicate confusion exists.

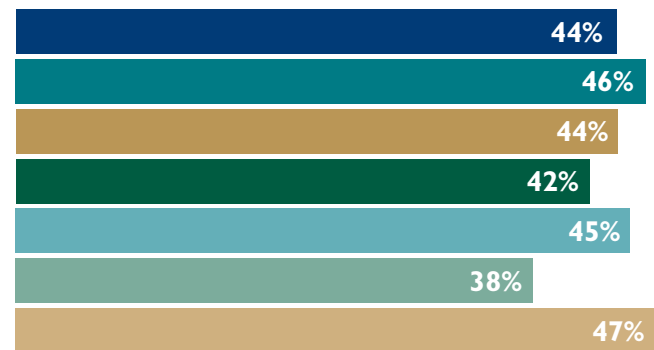
There are several misconceptions about Group Life and Disability Insurance coverage. There are also differences among ages in their impression of specific aspects of Life Insurance.

BELIEVE STATEMENT ABOUT LIFE INSURANCE IS TRUE

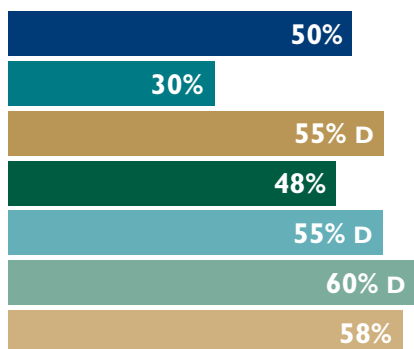
I understand the difference between an individual LI and group LI policy



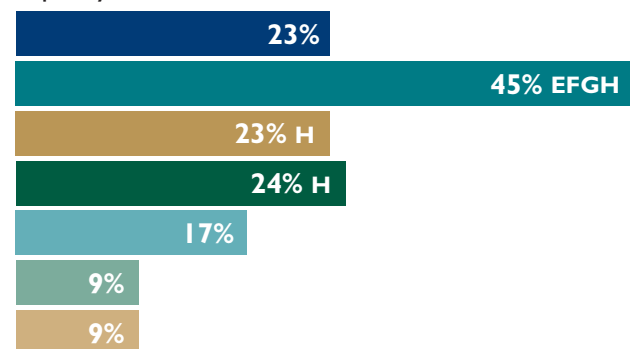
Group LI usually requires a medical check-up before you are able to purchase a policy



My company offers LI with very few, if any, health restrictions



Group LI is more expensive than an individual LI policy



■ Total ■ 18-24* (B) ■ 25-34 (C) ■ 35-44 (D) ■ 45-54 (E) ■ 55-64 (F) ■ 65+* (G)

Base: Have respective type of insurance

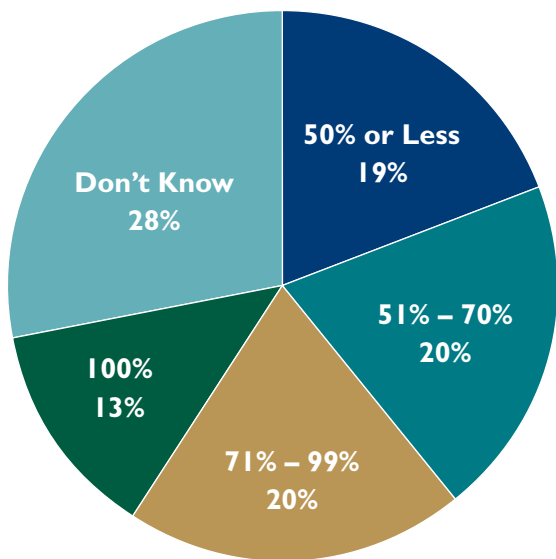
B/C/D/E/F/G = Significantly higher than indicated subgroup at the 95% confidence level

*View with caution; small base

Confusion continues with consumer perceptions about Disability Insurance. A large proportion of employees do not know how much Disability Insurance protection they have.

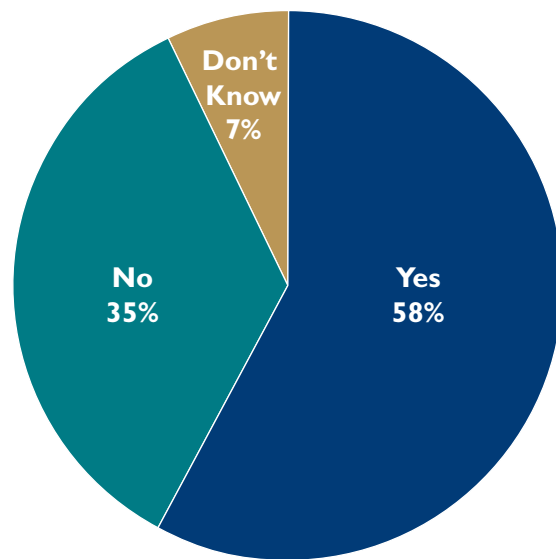
Whether through their employer or from all sources of Disability Insurance coverage, many employees do not know how much protection they have. About one-third believe that their Disability Insurance protects more than 70% of their income.

PERCENTAGE OF INCOME PROTECTED BY ALL DISABILITY INSURANCE HAVE



Base: Have any Disability Insurance

AWARENESS OF HOW MUCH OF SALARY EMPLOYER-OFFERED DISABILITY INSURANCE WOULD COVER



Base: Have Disability Insurance through employer

Although two-thirds of employees say they understand the difference between group and individual Disability Insurance, more consumer education about how these benefits work is needed.

Only half know that Disability Insurance benefits from employer policies are taxable and nearly half falsely believe that a medical check-up is required before purchasing group Disability Insurance.

BELIEVE STATEMENT ABOUT DISABILITY INSURANCE IS TRUE

I understand the difference between an individual DI and group DI policy

65%

When receiving disability benefits paid by your employer, the income you receive is taxable

52%

Group DI usually requires a medical check-up before you are able to purchase coverage

46%

Group DI is more expensive than an individual DI policy

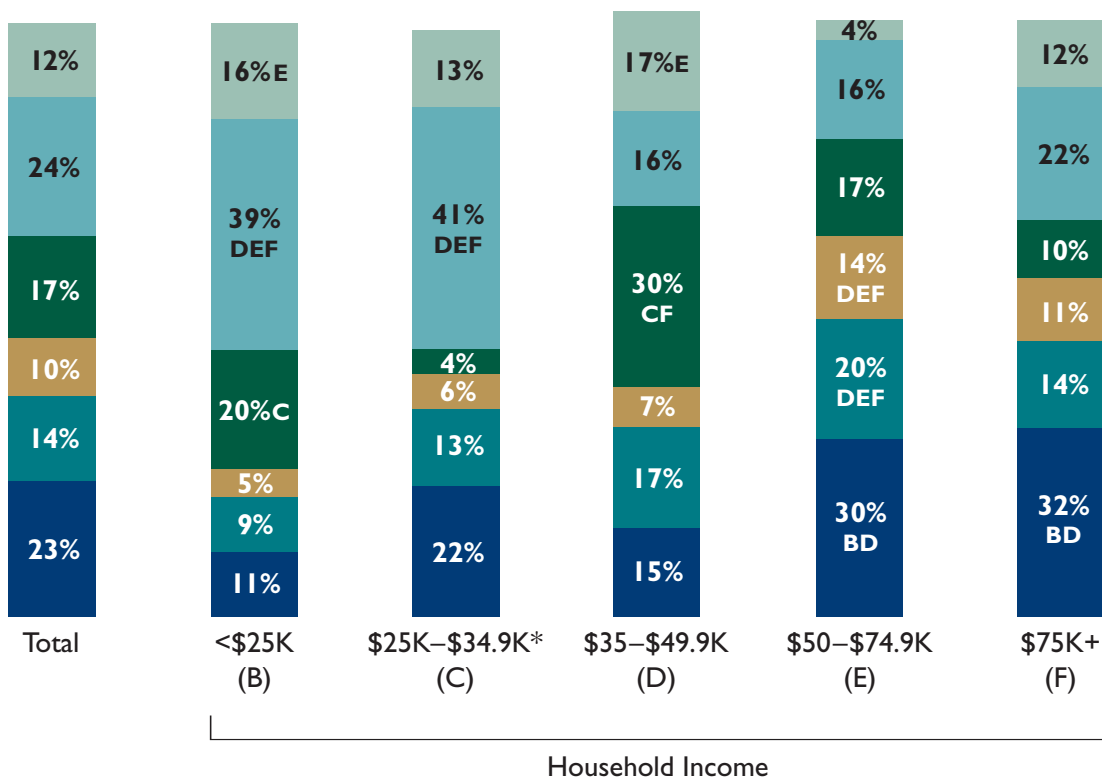
24%

Base: Total Respondents

37% of employees say that they can pay to increase their employer-offered Life Insurance through a voluntary policy, but only 23% do so.

As might be expected, those with higher incomes, \$50,000+, are the most likely to pay to supplement their Life Insurance.

OPTION TO PAY MORE TO SUPPLEMENT EMPLOYER-OFFERED LIFE INSURANCE



■ Can and DO Increase Amount of LI
 ■ Can and Do NOT Increase LI
 ■ Cannot Increase Amount of LI
 ■ Don't Know If I Can Supplement
 ■ Employer Does Not Offer LI
 ■ Don't Know/ No Answer

Base: Total Respondents

B/C/D/E/F = Significantly higher than indicated subgroup at the 95% confidence level

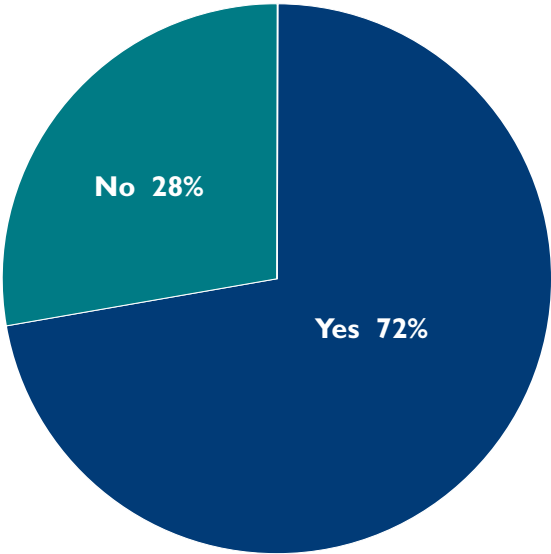
*View with caution; small base

Those with Life Insurance outside the workplace were more likely to be aware of their policy's value than those who had coverage at work.

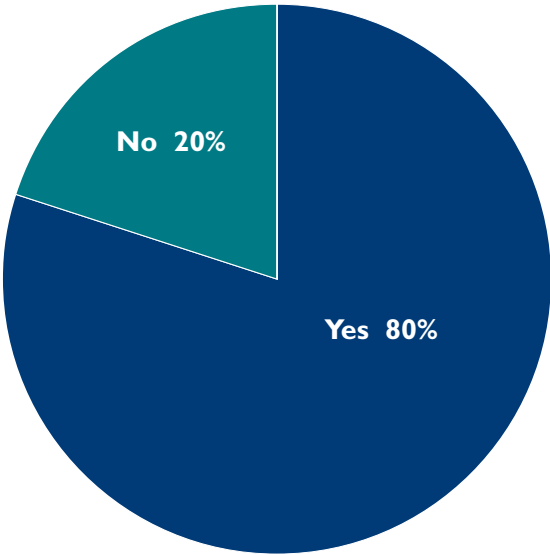
This indicates people who shop for and are actively engaged in the decision-making process are more familiar with their benefits.

AWARENESS OF AMOUNT OF LIFE INSURANCE COVERAGE

Policy Obtained Through Employer



Policy Not Obtained Through Employer



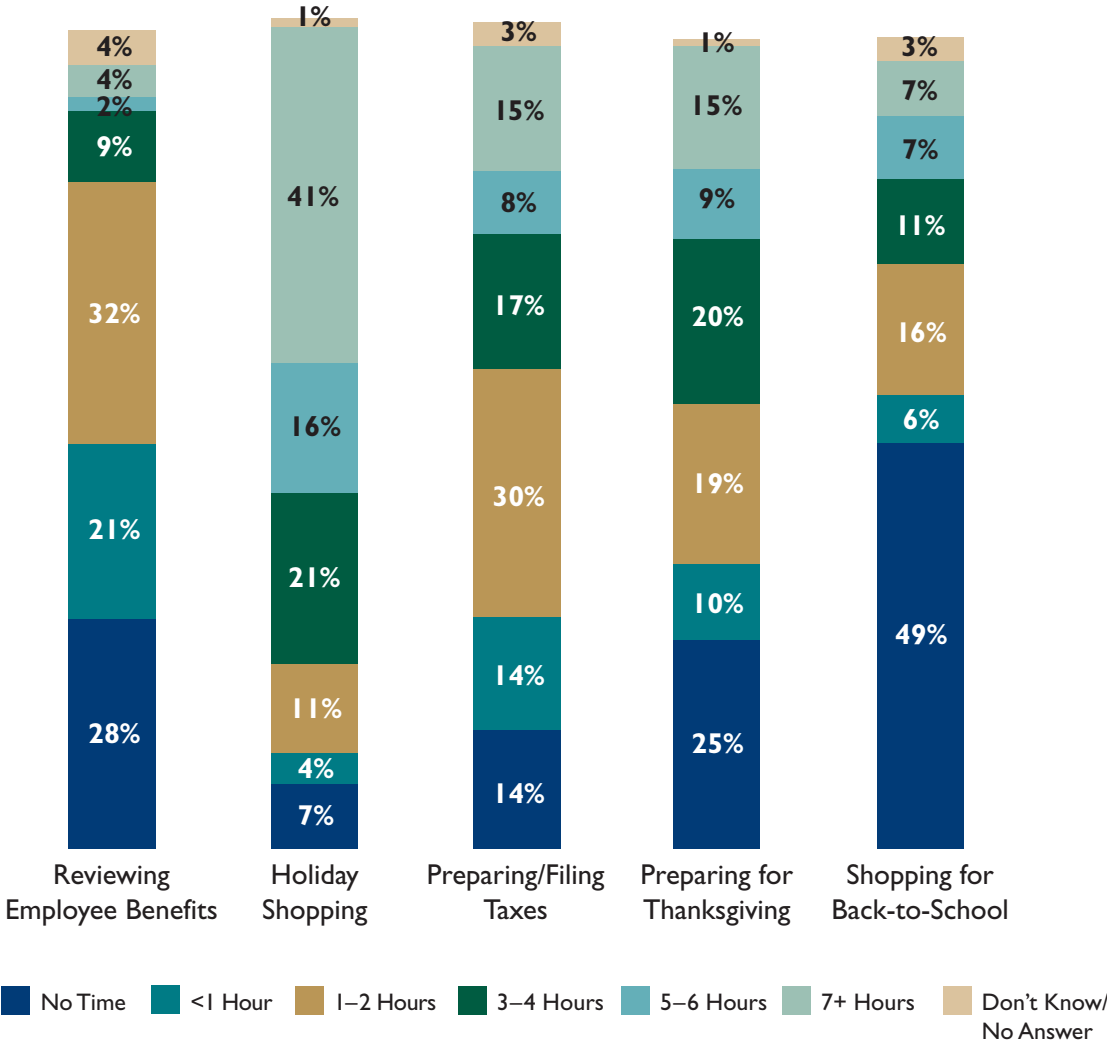
Base: Have life insurance policy obtained through employer

Base: Have life insurance policy not obtained through employer

Employees spend more time shopping for the holidays, preparing their taxes, or preparing for Thanksgiving, than they do reviewing their benefits.

Half (49%) of employees spend no time or less than one hour reviewing their benefits.

AMOUNT OF TIME SPENT



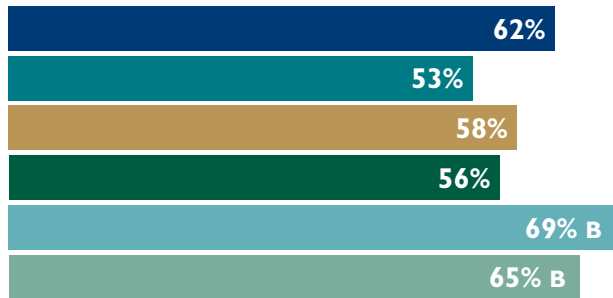
Base: Total Respondents

The good news is that most employees who receive benefits do consider their options prior to renewal each year. Reading literature/doing research predominates.

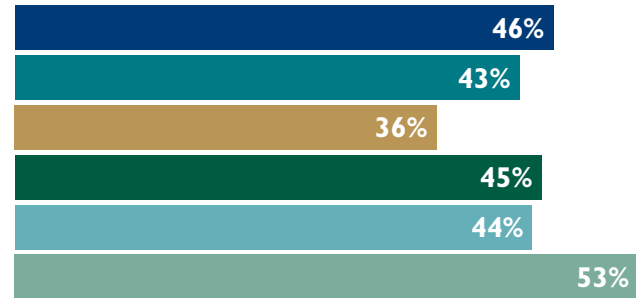
Educational opportunities exist to help Americans make the right benefit choices to get the protection they need.

INPUTS TO BENEFIT CHOICE

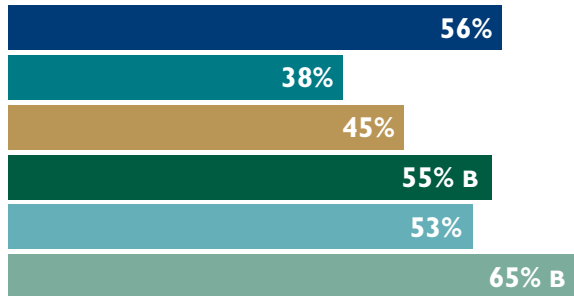
Read literature, do research



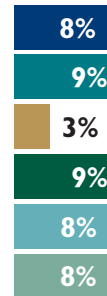
Talk to benefits advisor



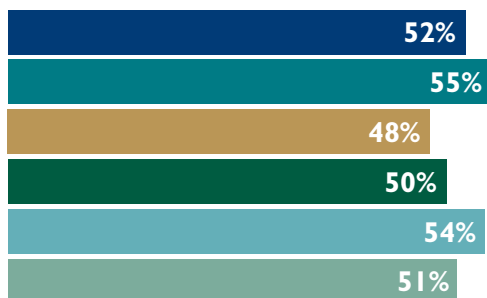
Discuss with family



Renew without discussion or investigation



Talk to HR



■ Total
 ■ <\$25K (B)
 ■ \$25K-\$34.9K* (C)
 ■ \$35K-\$49.9K (D)
 ■ \$50K-\$74.9K (E)
 ■ \$75K+ (F)

Base: Total Respondents

B/C/D/E/F = Significantly higher than indicated subgroup at the 95% confidence level

*View with caution; small base

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