

Public Company Planning Opportunities



Presented By:
Fred Hill

2008 Corporate Environment

U.S. companies are refocusing on the future

- In late 2008, the financial crisis created a liquidity crunch at many companies
 - Banks increased lending standards and the spread between their cost of funds and loan rates
 - Companies were not be able to do the everyday, short-term borrowing they had become accustomed to
 - Significantly stressed payrolls and inventory purchases

2012 Corporate Environment

U.S. companies currently holding more cash than ever

- Firms built up cash reserves in reaction to liquidity crunch
- Now nonfinancial companies have more than \$1.84 trillion in cash and other liquid assets
 - Up 26% from 2009
 - Largest-ever increase in going back to 1952
 - Cash comprises 7% of all company assets, including factories and financial investments, the highest level since 1963
 - 29 companies have more cash than U.S. Treasury as of July
 - Short term rates are still near historic lows
- HR and finance executives are once again proactively looking at things instead of reacting

Insurance Opportunities for Benefit Funding

Public Company case study 1: existing client

- Provided administration and informal funding (COLI) for Client's deferred compensation plan
- Opportunity
 - Client had implemented a SERP in 2001 providing additional retirement benefits for 100 key employees equal to 1% of their final average compensation for each year in the plan
 - Unfunded liability of \$54,000,000 and growing
 - Nearly \$1 billion of cash on their balance sheet "earning next to nothing"

Insurance Opportunities for Benefit Funding

Public Company case study 1: Continued

- Action/Outcome
 - Finance agreed that it made sense to informally fund this liability based on their overall cash position
 - Significant number of COLI contracts analyzed and multiple runs at different funding levels
 - Client decided to contribute \$54 million to a rabbi trust and move the money into COLI over a five year period
 - Long term investment strategy of 60% equities / 40% fixed income

Insurance Opportunities for Benefit Funding

Public Company case study 2: take over deferral plan

- Prior consultant had done a poor job of managing the plan
- Opportunity
 - Plan liabilities continue to grow at a greater rate than plan assets
 - Plan has a funding shortfall of \$1.4 million
 - Participants continue to contribute at a greater rate than company
 - There is a significant asset / liability mismatch in the plan
 - Participant investments have earned \$100,000 more in 2012 due to investment mismatch
- Action / Outcome
 - New COLI policies will be written to allow additional contributions

Current Environment, Events, Legislation

Executive benefits outlook

- Corporations are coming out of the recession stronger and better capitalized
- Executive benefits and COLI supported by Congress and codified
- Creates great opportunities for NQDCP, COLI and supplemental disability plans
 - Earnings strength leads to:
 - Salary increases
 - Bonus increases
 - Executive benefit additions

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Executive Disability Benefits



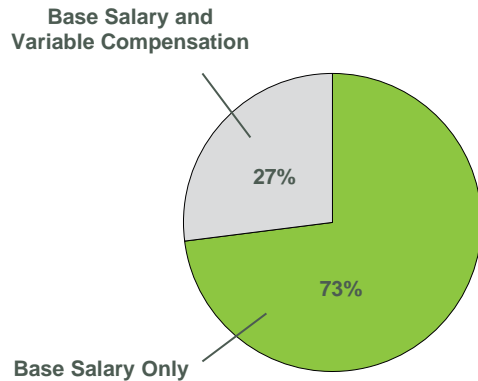
Presented By:
Mike Griffin

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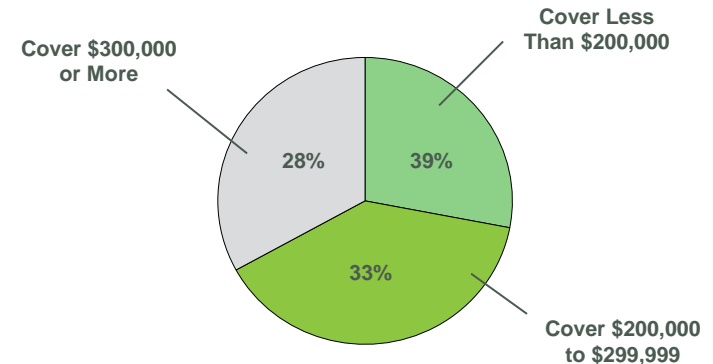
Executive Disability Benefit – Market Potential

The vast majority of employers have Group Long Term Disability benefits with some shortfalls for executives. For example, the plan benefits:

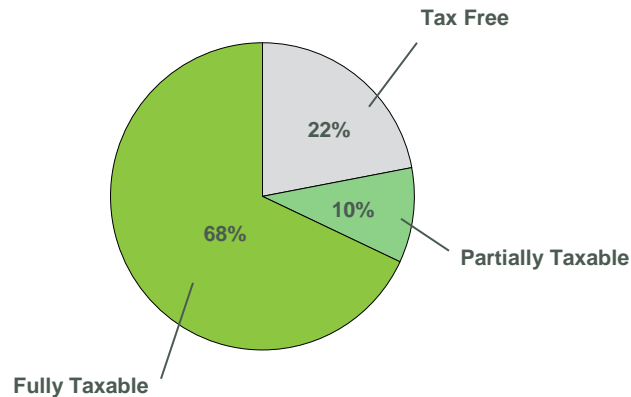
1. Cover only base salary



2. Cover less than \$300,000 of compensation



3. Are taxable to claimants



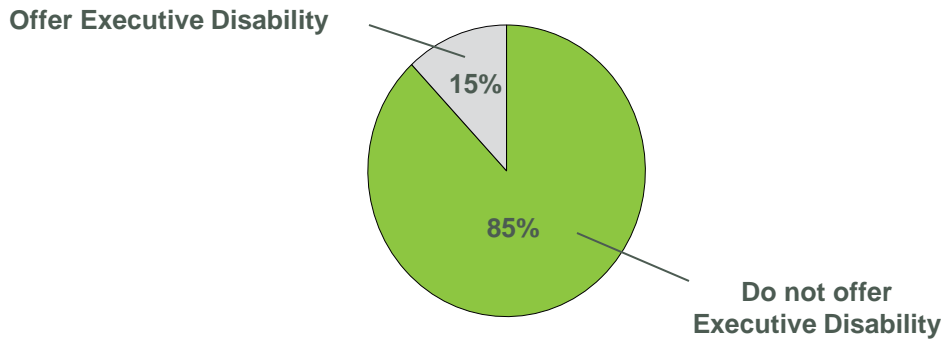
The above are results of a recent survey conducted by MassMutual and The American College.

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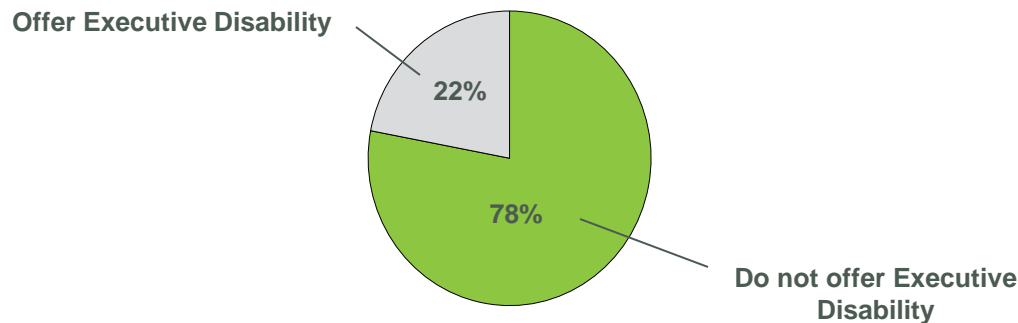
Executive Disability Benefit – Market Potential

The market for Executive Disability is underpenetrated.

In a survey of 3,000 employers of varying sizes, only 15% offer Executive Disability to their higher paid employees.



Among larger Fortune 1,000 companies, penetration is slightly higher but still quite low overall.



The above metrics are taken from a recent survey conducted by MassMutual and The American College and Aon's 2010 Benefits Study

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Executive Disability Benefit – Unlocking the Potential

Survey result: 94% of corporate benefits managers know about executive disability benefits with individual disability policies

Question: If there is a need and a known solution, why is the market so underpenetrated?

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Executive Disability Benefit – Unlocking the Potential

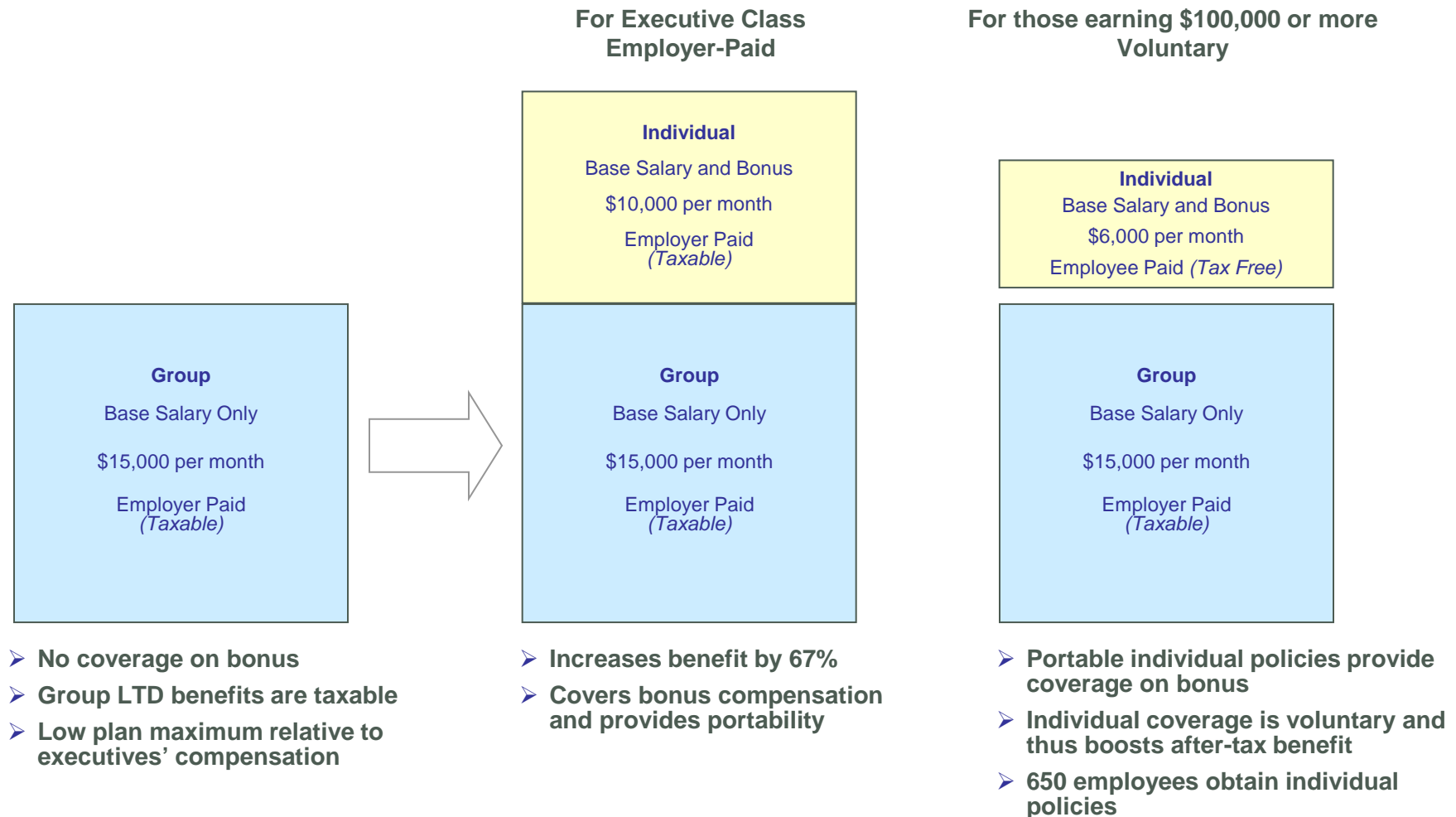
Major objections to implementing an executive disability benefit:

- Inertia
 - Support of Senior Executive
 - Senior most human resource executive
- Executives can get this coverage on their own
 - Guaranteed issue coverage
 - Discounts of 20% - 35%
- Concerns with enrollment and administration
 - Carriers not built for top shelf service
 - NFPEB – Nation's leader in enrollment and administration
 - Client roster and references

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Case Study – Data Management Company

Goal: Provide more protection to employees



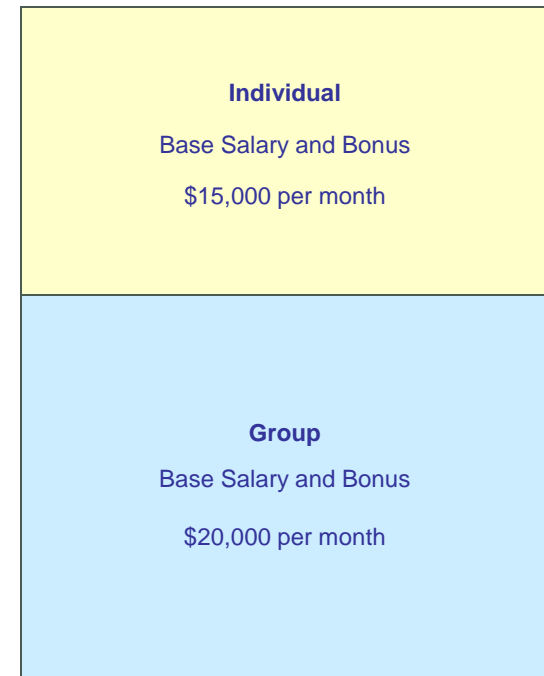
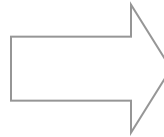
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Case Study – Large Financial Services Company

Goal: Save money and provide a better benefit



- High maximum benefit
- Rates for all reflect premium for shock claims



- All employees get reduced Group LTD rate
- Highly compensated employees get enhanced benefit – 3,000 policies
- Volatile risk moved out of Group LTD