

The State of Delaware

Group Universal Life – Marketplace Review

SEBC Health Policy & Planning Subcommittee Meeting

April 15, 2024

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Group Universal Life marketplace overview

- **Refresher:** Group Universal Life (GUL) is a type of permanent life insurance with the option for a tax-deferred cash value account for savings accumulation
- The prevalence of GUL plans has been declining among employers over the last 10-15 years, due to added administrative complexity of the cash account and typically low savings participation
- Within Willis Towers Watson's Benefits Data Source benchmarking database, no other government/public sector organizations currently offer GUL, and only 4.0% of all employers (n=734) offer this benefit
- Going back to at least 2019, only three group life insurance carriers still offer GUL: MetLife, Prudential and Securian (a.k.a., Minnesota Life)
- Most employers that have discontinued their GUL plan have switched to offering term life insurance, which is the predominant type of life coverage offered to active employees

Impact of changing from GUL to Term Life for GUL enrollees

- Upon termination of a GUL contract by the policyholder (i.e., the employer), enrollees would have the option to port their GUL coverage into the insurance carrier's portability pool and retain their cash value accounts
- Portability rates are generally higher than active employee premiums
- Those who do not port GUL would have to discharge their cash value account balance either by receiving a check or purchasing paid-up life insurance¹
 - Interest earnings would be taxable upon receipt of a check
 - For those with high cash value account balances, there is a potential for the need to discharge some of the balance in a cash distribution in order to avoid the contract becoming a modified endowment contract (MEC), which is not considered to be life insurance
 - The insurance carrier would typically complete MEC tax testing to determine whether any enrollees would have any negative tax consequences
- The GUL insurance carrier may agree to allowing all active GUL coverage amounts to be transitioned to term life without evidence of insurability; the carrier may also agree to administering the required mailings to support the transition to term life coverage

¹ Paid-up life insurance is available as a rider on some whole life insurance policies and would increase the policy's death benefit and life insurance cash value.

Considerations for GUL procurement vs. renewal negotiations

- **Refresher:** The last GUL RFP occurred in 2014 for an effective date of July 1, 2015
 - In that procurement, only two GUL carriers were willing to quote, as Prudential would not accept the State's required indemnification language
 - At that time, Securian's quoted rates were about 5% below the in-force rates and about 10% lower than MetLife's quote
- Outside of Securian, MetLife and Prudential, there are no other major life insurance carriers that currently offer GUL
- Due to the limited GUL marketplace, a GUL-only procurement would not be expected to generate significant savings versus a renewal negotiation with Securian
- A competitive procurement would necessitate inclusion of Term Life proposals, in order to obtain quotes from a larger pool of bidders, but this would be disruptive for GUL enrollees

For discussion: Subcommittee member feedback on next steps

- **Question for Subcommittee members:** Do you have feedback for the SEBC's consideration about the following options for the State's GUL coverage?
 - Issue an RFP to capture vendor interest and to review alternative life insurance plan options
 - Request a plan renewal from Securian
- Details on the current GUL plan enrollment and cash value account balances are provided below

State of Delaware GUL Plan Statistics	Current State
Total number of current enrollees	19,415
Number of current enrollees who have ever contributed to a cash value account	2,616
Number of cash value accounts with balances in excess of:	
\$1,000	1,444
\$10,000	161
\$100,000	1