

At the Westport Group, our goal is to be an innovative resource for executives and professionals who are concerned with carefully thought out solutions for life, disability and other benefits.

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What To Expect In Executive Benefits In The Year Ahead?

With the current economic environment and political climate in Washington, executive pay packages have come under fire. For anyone employed by a public company or a firm that has received TARP funds, you now have a new best friend keeping close tabs on you, the federal government's Pay Czar.

At the same time, everyone else should take note. The pay control virus will undoubtedly spread to companies in other parts of the private sector that want to avoid finding themselves in the news.

The implications of all this will be felt in the year ahead. Whether you work for a public corporation or a private com-

pany, one thing is absolutely certain, the pendulum in executive benefits is quickly swinging toward more security. This includes adequate disability income insurance and reengineering company-sponsored life insurance for more flexible solutions for executives.

To meet the security objective, there are new products now available in the disability arena, which finally have the potential for producing a level of coverage that highly paid executives need. Unfortunately, most current plans are restricted by a group limit or "cap," which oftentimes meets the needs of most rank-and-file employees; however, these plans fall short in providing the type of coverage required for high-income earners.

Most existing disability insurance plans only cover between 35%-45% of an executive's compensation. In an attempt to solve this problem, the insurance industry responded by developing guaranteed issue individual supplemental policies to try to fill the gap.

Unfortunately, these efforts still fall woefully short due to underwriting

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New initiatives

Portability and flexibility across the benefits spectrum

Employee benefit programs are continuing to evolve at a rapid pace as employees take more responsibility for their coverage. It wasn't long ago that the accepted scenario was for employers to provide just about everything—medical, disability and life insurance coverage. The employees accepted the program, perhaps paying a small percentage of the cost, and that was it.

Fast-forward to today and the benefit landscape has changed dramatically. Employees are paying more for employer-sponsored programs and, at the same time, are demanding better and more flexible benefits.

Life insurance and disability income

For example, employees now want life insurance coverage to be portable and flexible so if they leave or retire, they can take the benefit with them. The recent turmoil in the world financial markets and the reorganizations and downsizing of corporations and businesses has brought the need for this benefit to the fore.

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Welcome to The Westport Edge

This is the first edition of our newsletter, The Westport Edge. We selected this title carefully to reflect a basic principle of our firm: We only deserve your business if we give you an edge that is not otherwise available in the marketplace.

When it comes to executive benefits, there are far too many "me too" solutions that bring you little or no extra value. This isn't just about doing something differently; it's about innovation based on the needs of today's executives.

We hope you will find The Westport Edge helpful and informative.

The Westport Portfolio™

International and Domestic High Limit Life and Disability Insurance

Supplemental Disability Income Protection

Executive Group Benefits

Portfolio Key-Person Coverage

Insurance for Employee Contractual Obligations

Executive Life Insurance Analysis and Planning

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constraints. As a result, the insurance industry has now developed new products to bring the executives' benefits in line with their rank-and-file counterparts. These products require no medical underwriting and can replace 60% of total income, and have the ability to cover income up to \$4,000,000 per year.

That's not all. These programs can be designed to work almost seamlessly with the current group plan. At the same time, these particular plans can unwittingly eliminate the reverse discrimination situation common in so many firms, an issue that, unfortunately, escapes attention until an executive becomes disabled. Now, an executive caught in this situation faces financial disaster due to the disability. At the same time, the firm is embarrassed, while attempting to explain to the executive and his or her family that the plan only replaces a small fraction of the 60% of what he or she thought they would be receiving. This is a scenario that is played out every day.

Life insurance packages are also receiving much more attention, particularly with the elimination of "split dollar" life insurance plans by the federal government a few years ago, and have legislative deferral plans on life support.

Firms have responded by increasing their company group insurance plans, not realizing that even a group program could cost an executive an additional \$4,000 per year in individual income taxes for a product they can't take with



them when they retire or leave under any circumstance.

Once again, the life insurance industry responded by providing flexibility with term life insurance solutions at a fraction of the total cost of company-paid group insurance. These programs are portable so if you leave, you will not lose your coverage. They also provide a substantial tax break for most highly compensated executives. The tax break is decreased by the fact that the executives pay the actual cost for their term life insurance program.

If an executive currently has company-paid group insurance, it may in fact be inexpensive for the company to provide it. The coverage is taxable on the value of the insurance in excess of \$50,000 and is subject to a government table. This table is commonly referred to as Table I. For a middle level executive, the tax liability can be thousands of dollars.

In comparison, a flexible and portable product could have a tax liability of just a few hundred dollars with the policy fully portable at current rates if the executive separates from service for any reason.

When it comes to executive benefits in the coming year, it seems clear, given the economic and political landscape, that a top issue will be security—and that means avoiding loss. We can expect to see highly compensated executives showing far more interest in understanding the details of their benefits. In light of this situation, expect the trend to be back to basics.

FAQ

FREQUENTLY ASKED QUESTIONS ABOUT EXECUTIVE BENEFITS

Q. "Why use the Westport Group for executive life and disability insurance instead of going direct to an insurance carrier?"

A. By going directly to an insurance company, you are essentially asking it to negotiate with itself on your behalf. In effect, you are asking the insurance company to represent your best interests

as well as their own at the same time, which is extremely difficult. The Westport Group only represents clients, so all pricing and benefit negotiations are in the their best interest.

Also, having a variety of insurance carriers to compete for your business generally produces the best results. In addition, many of our unique product solutions have been developed to accommodate the specific coverage needs of each of our clients. When you go direct, insurance companies typically provide their "off the shelf products" as a solution without bringing creative customization to the client.

Q. "Can these insurance products be offered to our international people?"

A. Yes, we can provide the same or a similar amount of supplemental life and disability coverage for all your international associates, regardless of location. The amount of their benefits can be provided in US dollars, Euros or pounds and can be payable in the individual's local currency at the time of a claim.

Q. "At what levels in our organization should we offer these programs?"

A. Although each company or organization has its own philosophy regarding benefits, it is the higher income earners who have a unique problem, especially with disability benefits. This situation is known as "reverse discrimination." For instance, in terms of disability insurance cover-

age, higher income earners in a company tend to have a higher percentage of their total compensation derived from sources other than salary. Typically, this income is seldom covered by traditional group disability insurance. When designing a disability program, this is usually a good place to start. In addition, many higher income earners will be inadequately covered, should they incur a disability, due to the maximum monthly benefit of the group plan, sometimes referred to as a cap.

Where life insurance is concerned, the same holds true. Organizations typically react by providing a higher group benefit, which is very expensive for the organization to provide and sometimes has disastrous income consequences

With traditional group life insurance, coverage terminates when employment ends. Although there are some plans that provide a portability feature, the rates are so high, only those who are uninsurable would even consider retaining the policy on their own.

This has been a wakeup call to employees and they are now pressuring employers to take a serious look at group carve-out alternatives to build portability into their programs to enrich their benefits. This scenario is the same for disability income benefits.

Group long-term disability income coverage

Group long-term disability insurance (GLTD) coverage has its own unique set of problems. First, GLTD typically only covers 60% of base salary with a benefit cap of \$10,000 to \$20,000 per month. We refer to this as the “60% Illusion,” due to the cap that is placed on the actual coverage.

With improved mortality and increasing morbidity, focus has shifted to managing the risk of one’s income loss due to a prolonged inability to work.

Most disability programs do not provide coverage for bonus income. Some employers will charge employees for the cost of the plan, so the benefit, at the time of a claim, would be tax-free. The group plan is never portable. In fact, the policy language is very specific in stating that when employment ends, so does the coverage.

Companies are now beginning to search aggressively for products that provide

individual supplemental disability policies to cover both base salary and all of the bonus income. These policies are portable and the rates are guaranteed to age 65.

The combined cap between group and supplemental disability insurance is typically \$25,000 to \$30,000. Yet, even with this supplemental DI coverage, there are many highly-compensated employees who face a substantial loss of income and need access to additional DI coverage to maintain their current lifestyle. The Westport Group has developed The Executive Income Assurance™ Plan to address this problem. The plan can secure guaranteed issue coverage up to \$200,000 per month, thus covering the needs of the majority of these highly-compensated individuals.

Disability issues

There is considerable confusion when it comes to what constitutes a disability. It is commonly assumed that disabilities are primarily caused by accidents and injuries. That is far from accurate since 85% of all disabilities are illness related.

Years ago, the four major killers were hypertension, heart disease, cerebrovascular disease (stroke) and diabetes. However, with the many advances in medical care, these are now the four major disablers. With improved mortality and increasing morbidity, focus has shifted to managing the risk of one’s income loss due to a prolonged inability to work. This is no minor issue, since one of a person’s most important assets is the ability to earn an income. Lifestyle, material possessions and financial security are all a function of income. If this resource stops because of a disabling injury or sickness, the net result can be more financially catastrophic than death.

These are just a couple of examples of the changes that are taking place across the benefit spectrum. Employees are being forced to take more responsibility for their insurance coverage due to the economic changes that are affecting coverage. They are pressuring employers to provide access to the new era of available coverage options.

for these individuals. Our solutions offer portability, more flexible coverage and can serve as an estate planning tool for the executives, at a cost that is less expensive for both the firm and the executive.

Q. “How do these programs impact existing benefits, such as group life insurance?”

A. In most cases, our products enhance the benefits your current group program provides in a more effective and well-coordinated life and disability program. Many clients benefit from substantial savings, while dramatically improving their overall benefits program.

Q. “How much coverage can The Westport Group obtain for our domestic and international executives?”

A. We use both domestic and specialty underwriters to secure as much coverage as a particular plan requires. We can place millions of dollars of life insurance coverage for both US and international executives. In addition, we can implement up to \$200,000 per month of supplemental disability income protection on a guaranteed issue basis. This special Westport disability insurance program is known as “The Executive Income Assurance Plan.”

Q. “Why can’t we access these plans through our current US insurance brokers or advisors?”

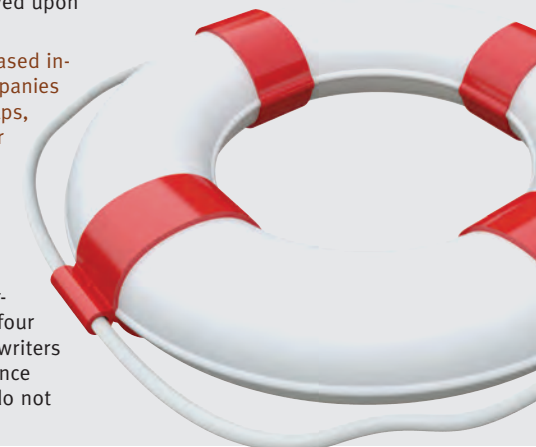
A. Generally, these programs have been developed to meet the unique needs of highly compensated domestic and international

executives. Most insurance brokers or advisors do not generally understand the essential matrix for these programs. In addition, most of these programs have been developed or improved upon by The Westport Group.

Q. “How do the London-based international insurance companies allow such high benefit caps, while US companies either can’t or won’t?”

A. The London insurance market engages several syndicates (underwriting companies) to take on a risk. There is a lead underwriter and then, typically four to seven additional underwriters that apportion the risk. Since US insurance companies do not

spread or share the risk in this manner, they are only able to underwrite individual policies with much smaller face amounts.



The Westport | edge

New product overview

The Executive Income Assurance Plan™

The Westport Group has developed a new supplemental disability income insurance product for highly compensated professionals and corporate executives.

This product, The Executive Income Assurance Plan, provides very high levels of monthly disability income protection, and is specifically designed to sit on top of existing group and supplemental disability insurance coverage. We have worked with the London insurance markets to secure this coverage in amounts never available before.

Here is an actual example of The Executive Income Assurance Plan in action: We have just completed a program for an investment firm that provides up to \$150,000 per month of guaranteed issue/own occupation protection.

We began with the in-force GLTD of \$20,000, added \$10,000 per month of traditional supplemental coverage and finally added \$120,000 per month of protection from The Executive Income Assurance Plan.

It has been many years since the disability insurance industry has had a major product developed to meet the unique and ever-changing income replacement needs emerging in the executive benefits insurance markets.

The Westport Group is pleased to be the key developer and designer of the Executive Income Assurance Plan.

Future trends in employee benefits: positive consent

Challenged by the current economic situation, employers continue to work diligently to provide the best, most comprehensive benefit plans possible. This is occurring at a time when employers have to do more, with fewer resources. They are now turning to voluntary benefits that provide employees access to very attractive benefit improvements.

Unfortunately, voluntary benefits have long had a negative reputation because of the enrollment requirements traditionally put on the employees and the human resource department. Now companies are taking the bull by the horns with a new approach, which we call positive consent.

For example, a large mutual fund company wanted to improve its group disability insurance coverage. They decided to increase the benefits significantly, but established the plan on a voluntary basis (benefits will be tax free). They went about it differently, however. They made the assumption that everyone would elect to participate in the plan, unless they signed a form declining coverage.

The results were spectacular. The employees have dramatically improved coverage and only a few elected not to participate. The firm effectively helped its employees help themselves by forcing them to make a decision to decline coverage, which is psychologically much tougher to do.

You can expect far more companies to adopt this proactive approach as they look to improve employee benefits by having employees participate actively in the process.