



ASSURANT
Employee
Benefits®

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Dear Valued Customer;

When is a cost increase warranted, and when does it make sense to look at other options? You may be asking this right now about the benefits you offer, including your current disability insurance. The purpose of this letter is to provide you with some insights into the current market situation, and help you make an informed decision.

In fact, given the unprecedented economic, demographic, and governmental changes that we are facing today, it is likely that many people in your position are considering that same question. At the heart of the recent changes are the prices charged to support disability risk.

For most carriers in the disability business, this will likely mean price increases on current, inforce coverages as well as new business. For brokers and employers, it means refocusing on the increasingly important benefits of employee income protection, and the carrier partners who offer the coverage.

To help you better understand the trends that have and will continue to occur, attached is a detailed explanation of the industry's results and factors contributing to those results.

We at Assurant Employee Benefits appreciate your continued business. Please feel free to ask your sales representative any questions that you may have. This is one way more for us to keep our promise of bringing "clarity to complexity."

Best regards,

Tim Knott

Senior Vice-President, Strategic Markets and Product Management

Assurant Employee Benefits is the brand name for insurance products underwritten by Union Security Insurance Company and for prepaid products provided by affiliated prepaid dental companies. In New York, insurance products are underwritten and prepaid products are provided by Union Security Life Insurance Company of New York, which is licensed solely in NY and has its principal place of business in Syracuse, NY. Plans contain limitations, exclusions and restrictions. Contact us for costs and complete details.

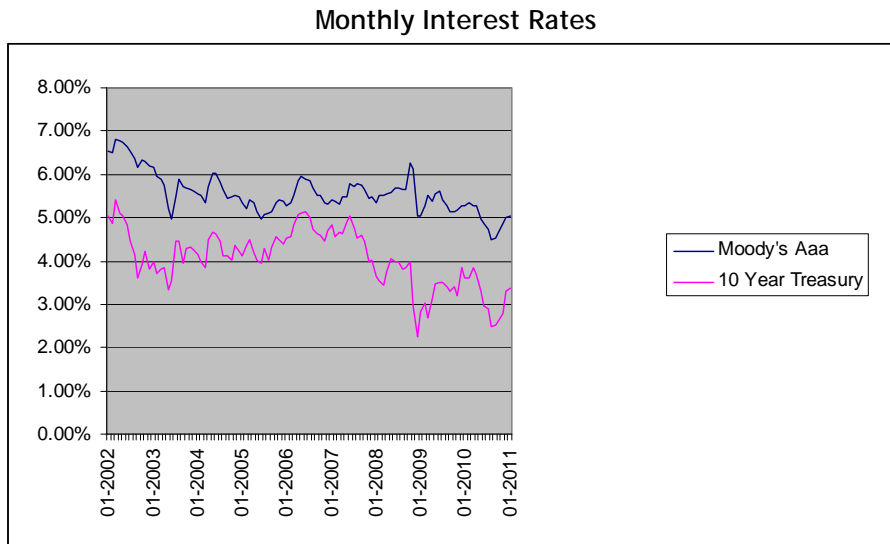
Managing disability in a tough environment

The economic environment and demographic trends are perhaps more challenging now than any time in recent history relative to the cost of both short-term and long-term disability insurance. Low interest rates, high unemployment, and continued aging of the work force are a few of the key factors that are contributing to increasing costs for disability insurance. A closer look at these factors and their impact follows below.

What is impacting and contributing to increased cost?

Interest Rates

Interest rates have been dropping and have maintained a low level for some time. Although rates have rebounded slightly in the last few months, they remain at historically low levels.



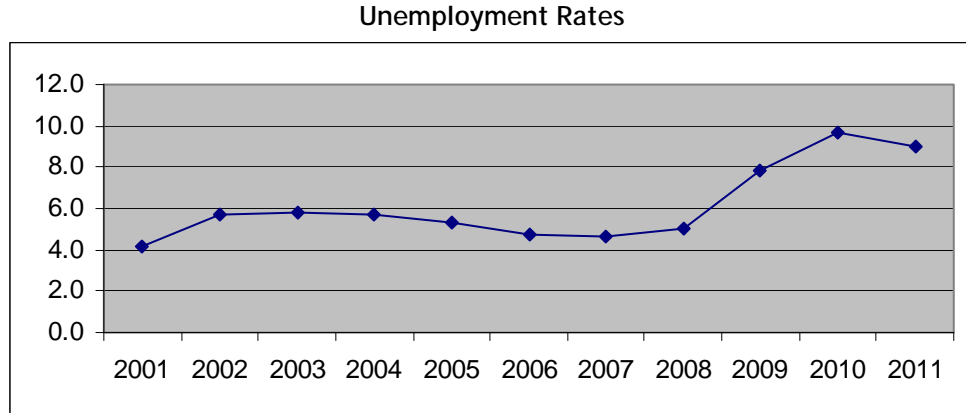
Interest rates play an important role in setting prices for Long-Term Disability plans. Premiums collected in each year are intended to fund claims that arise in that year.

As an example, a disability claim could stay open and payments made for as long as 30 years (consider a 35-year old disabled worker). The reserves set up in the first year need to fully fund these payments. Higher interest rates mean lower initial reserves, because the high interest earned on the reserves will pay a greater proportion of the total claim. A lower interest rate means that there will be a need for a higher initial reserve to fund the liability.

Rule of thumb - a 1% drop in interest rates translates into 4-5% higher reserves, resulting in pressure to cover lost investment returns.

Unemployment Rates

As most everyone is painfully aware, unemployment rates dramatically increased in 2009 and 2010 and have stabilized at higher levels in 2011. Since 2001, unemployment rates remained relatively stable around 5-6%. Rates nearly doubled by 2010.

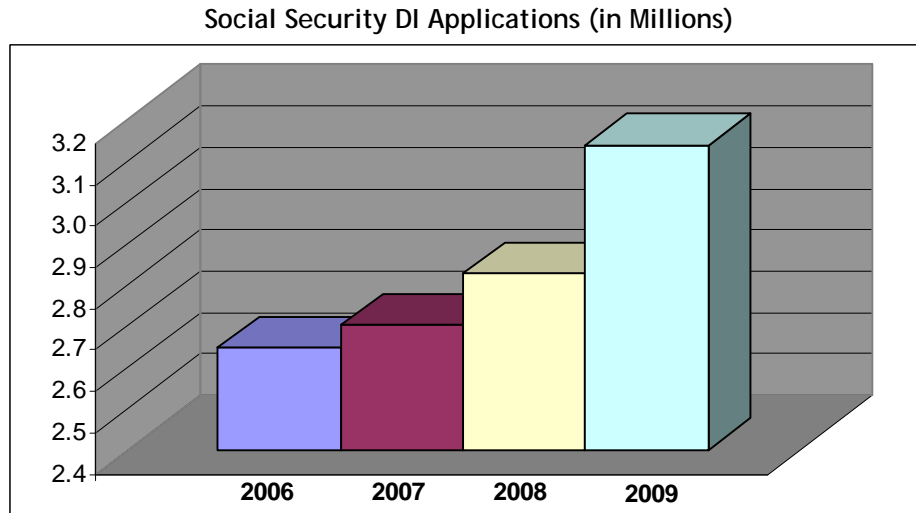


Data extracted from Bureau of Labor Statistics, 4/12/11.

As unemployment rates rise, it becomes increasingly difficult to return claimants to work. When unemployment increased in 2002 and 2003, the Social Security Administration (SSA) reported new disability claim rates increased by more than 10%. As depicted in the following graph, the present time period is no exception.

Disabilities are on the Rise

Disability insurers have noted that claim incidence has been on the rise. An objective source is the Social Security Administration's Disability Program. The program covers virtually all the working age population, as well as others. Although the Social Security Administration has a stricter definition of disability, it is clear that applications for benefits continue to increase.



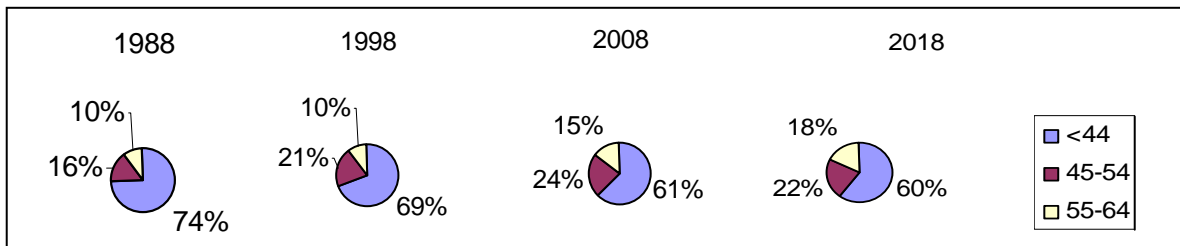
Source: SSDI Information

LTD claim incidence is roughly four disabled people each year for every 1,000 people insured. Even though the frequency of claims is very low, each new claim carries on average a \$50,000 reserve to pay the claim as long as it is open. We estimate a change from four claims per 1,000 people insured to five claims per 1,000 people insured would have a dramatic impact on the cost of the program.

<i>Expected Number of Claims</i>	<i>Cost Assumption</i>
4 Claims	\$200,000
5 Claims	\$250,000 Cost increase +25%

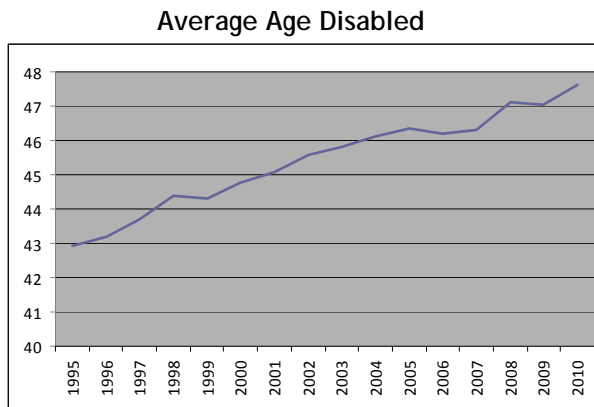
Aging of the Population

As the Baby Boomers move through the job market, the working population’s average age increases each year. The pie charts below show the population trends and indicate that the percentage of workers over age 44 moves from 26% in 1988 to 40% in 2018.



Source: Employment Outlook:2008-18, Mitra Toossi. November, 2009.

The aging of the population is also evident in an increasing average age of our long-term disability claimants over the last several years:



Source: Union Security Insurance Company and Union Security Life Insurance Company of NY LTD Claims Data

Other than maternity disabilities, the incidences of all other disabilities increase significantly with older ages. The table below shows how incident rates are expected to increase 30% from the 40-44 age bracket to the 45-49 bracket.

Expected Claim Incidence

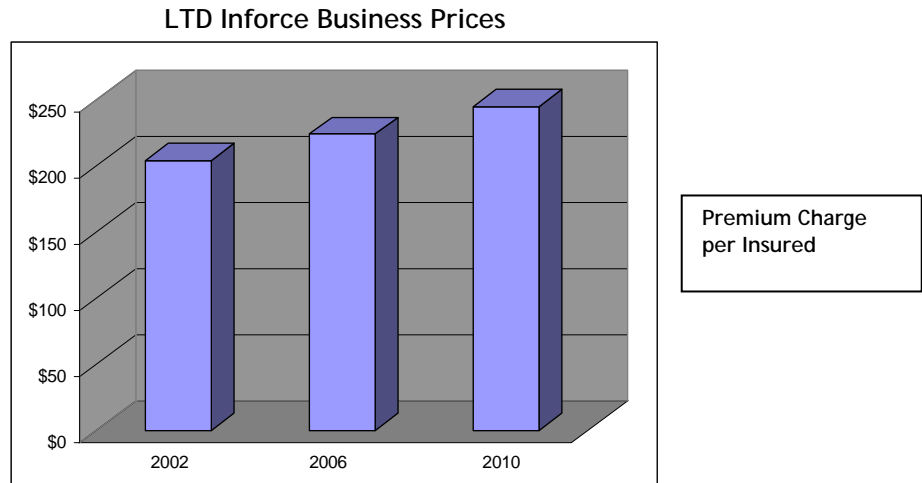
<i>Age</i>	<i>Incidence Period</i>
40-44	4.2
45-49	5.5
50-54	8.6
55-59	14.1
60-64	16.4

Source: Social Security Administration, Actuarial Study 118. June, 2005.

In fact, if the present age trend continues, we estimate prices would need to move up about 3-5% every 2 years to keep pace with increases in disability as the workforce ages.

Industry Response

The insurance industry seems to be tackling these issues in a number of ways. First, prices need to keep pace with current and emerging risk changes in the marketplace. JHA, an independent research and reinsurance group, tracks prices charged in the market each year. Their report shows that companies have been moving prices up in recent years.



JHA Market Survey; 2002, 2006, 2010.

Insurers are also responding by offering to help clients change plan designs to hold premium costs down and/or shifting more costs to the employees in the form of contributory or voluntary type coverages.

Summary

There are several factors impacting disability businesses in the United States - all seem to have created the need for high prices in the marketplace. Medical and dental coverages have experienced similar trends over time. Disability insurers, hoping that the trends might be temporary or would reverse, may not have adequately addressed them, but will likely need to increase premium in order to account for these persistent pressures on cost.

At the same time, having adequate income protection is more important than ever. Having a partner that is positioned to serve your needs over the long term is crucial to continuing strong employee programs.

Assurant Employee Benefits appreciates your business. We know that maintaining our disciplined business approach, along with helping you make informed decisions is the best way to keep our relationships strong.