The "Quality" Opportunity

Rarely have I been so excited about United American's future. Just when I thought that our market could not possibly get any better — it did! Companies that can't compete continue to withdraw Senior health care plans, jeopardizing thousands of Senior beneficiaries. For us, the names change, but the stories remain the same. Marketing groups simply cannot offer something for nothing for very long, especially in today's fast-moving environment. I sincerely sympathize with the families of these Senior citizens and their Agents who inexplicably chose price over quality. Fortunately for those Seniors and their Agents, we can help them get quality... as we have many others.

Andrew W. King
President,
Exclusive Agency Division

Sooner or later, the price is paid for the sacrifice of QUALITY. A misguided belief that price is more important than the quality of the health coverage has a very high cost. As Seniors age, their accumulated wealth and leisure time for retirement will mean nothing if their health is compromised. Inexplicably, a few Seniors sometimes lose proper perspective by entering relationships with insurance companies or restrictive HMOs who are merely trying to buy market share. Sometimes, Seniors need an Agent's help to remind them of the importance of UA's quality.

Medicare Supplement coverage is the most important insurance purchase Seniors will ever make. Most of our nation's Seniors know that there is a terrific difference between price and value. For those who do not, help them think things through and protect themselves from "cheap" decisions. UA's financial ratings and coverage flexibility are extremely important. It is critically important that seniors have the type of quality, comprehensive coverage provided by UA's Medicare Supplement plan in combination with Medicare.

When a Medicare Supplement rate increase is approved and implemented, it means the policy is working to provide necessary coverage. Federal law on Medicare Supplements will not allow increased rates until the company can demonstrate a claims ratio exceeding 65 percent. Simply put, the more the coverage costs, the more claims that are being paid to policyholders in affected states, making the coverage that much more valuable to policyholders. Furthermore, unlike competitors, we still pay our Exclusive Agents full commissions and renewals to promote UA's exceptional service.

Other companies are allowed to operate with higher claims-loss ratios that may result in reduced commissions. Fortunately, Torchmark's Chairman of the Board is an actuary. He and UA's other actuarially-minded leaders choose long-range profitability without interference. Claims ratios are constantly analyzed to reflect changing trends. By law, we may ask for rate increases only when we can demonstrate true claims costs. Our responsible actuaries do not consider the competition. We ARE the competition. The stability enjoyed by UA's customers and Agents is created from sound decisions — most important for the long term security of our customers and Agents.

UA Thrives Where Others Falter

Our strength allows UA to thrive while many competitors continue to disappear from the market. In fact, Standard & Poor's reported that the year 2000 was "one of the most problematic" for insurers since 1990. According to the S&P, the year 2000 saw significant problems for 56 companies in the insurance market (see page four). The S&P rates 220 health insurance companies, and 72 — about one-third (1/3) — received ratings below the financially secure range ("U.S. Insurer Financial Failures Continue to Rise." Standard & Poor's, 23 Feb 01). As you can see on the chart on the next page, the rate of insurance company problems in 2000 was over five (5) times what it was in 1996.

This trend of product instability is equally applicable to certain companies in the Med-Supp market. Of the companies that issued Med-Supps before 1997, 92 of these companies — roughly 33%— no longer issued individual Medicare Supplement policies from 1997-1999, according to reports from the National Association of Insurance Commissioners (NAIC). These 92 companies averaged a loss ratio of 75.1%. What is more alarming is that for all companies still issuing Med-Supps in 1997 or later, the market average loss ratio was 78.8%. If loss ratios of withdrawn companies are lower than the latest published average market loss ratio of the group, more company withdrawals are very likely over the next few years. Incidentally, in the same report, United American's loss ratio was 66.2%, *more than 12 points below the market average*. We intend to stay and succeed in the market by continuing to make sound pricing decisions, unlike others who haven't.

Every one of UA's decisions is based on three long-term objectives: the needs of our customers, our Agents, and our shareholders with none taking precedence over the others. The simple concept of having the courage to make responsible decisions for everyone means that UA will always be able to fulfill our mission to provide the very best future for Agents, customers, and shareholders alike who rely upon our "Triple A" financial ratings from Weiss, A.M. Best and Standard & Poor's.

UA is indeed a "quality" opportunity. We have never been in a better position to dominate the Medicare market. The Underage section is also poised for growth like in the senior market, and we are introducing a new annuity product (see pages 6-7) to further strengthen our portfolio of outstanding products. We will continue to grow our Med-Supp lead program as well as other lead sources too, which will further establish UA's Exclusive Agency Division in both the Senior and Underage markets! In fact, we are financially strong enough to excel in all supplementary markets!

The opportunities are growing market-wide, so get ready folks — the future is ours!