

# THE MARKET FOR INTEGRATED HEALTH CARE AND DISABILITY MANAGEMENT



THE NEXT  
FRONTIER IN  
**EMPLOYEE  
BENEFITS**

January 2007

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The emergence of Integrated Health Care and Disability Management (IHCDM) is a significant change in the employee benefits market.

Just a decade ago, IHCDM was a little-known concept among plan sponsors, who historically allowed separate entities to handle employee health care, absence management, workers' compensation, and disability coverage. That they could share information across product and service channels and have a cohesive way to manage employee absences—and help employees manage their health—was something to address in the future.

Our recent **Study of Employee Benefits: 2006 & Beyond** revealed an increasing number of plan sponsors—the “Progressives”—expect to have IHCDM programs in place by 2010. With this strong interest in mind, we conducted this research study, **The Market for Integrated Health Care and Disability Management**, to focus on IHCDM—specifically, to gauge plan sponsors' knowledge and use of this concept, their goals and current results, and their plans for the future.

This study's findings clearly indicate that integration of health care and disability management is on its way to becoming an industry standard.

I hope you will find this study to be a valuable resource, regardless of where your company is on the IHCDM continuum.

Ed Baird

President, Prudential's Group Insurance

Businesses are searching for more effective ways to track and control the costs of health care and disability, and they are asking members of their benefits supply chain (e.g., health insurers, disability carriers, third-party administrators, data aggregators, disease management firms, and other vendors) to partner with them in this process.

While much has been written about employer activity in integrating health care and disability programs, the scope of activity has been inconsistently defined and measured. As a result, the evolving market for IHCDM has been difficult to calibrate and even more difficult for carriers and other vendors to anticipate and embrace beyond ad hoc, one-off accommodations.

### Research Objectives

In the summer of 2006, we commissioned a market study to better understand the current level of interest and activity in IHCDM. The study also attempted to forecast employer plans for integration of health care and disability programs over the next few years.

Research objectives included:

- Determining employer familiarity with the integration concept and how they define its scope
- Establishing current and projected levels of integration activity in the marketplace and identifying where employers are on the integration continuum
- Identifying specific integration activities employers adopted, the order in which they were implemented, and their impact on success
- Identifying corporate objectives and goals for employer integration efforts and how results are measured and tracked
- Gauging employers' integration results-to-date and their expectations for the next five years

## Methodology

We screened a random, representative sample of 4,466 firms spanning various industries and geographic regions to identify qualified respondents who met the following criteria:

- Worked for companies with at least 100 full-time, benefits-eligible employees
- Worked for companies offering, at a minimum, medical, dental, Long Term Disability (LTD), and Short Term Disability (STD) (or salary continuance) insurance
- Were in appropriate functional roles (e.g., employee benefits, human resources, finance)
- Had at least a moderate amount of influence in the selection of benefit offerings for their company
- Had been making employee benefits decisions for more than one year

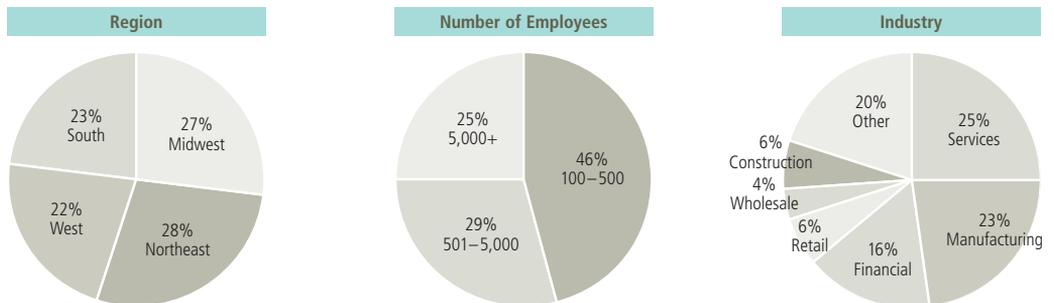
Approximately 800 firms met these criteria and their responses provide information on the current levels of IHCDM activity in the marketplace. Fifty-one percent of these 800 firms were actively involved in integration of their health care and/or disability programs. Our study's details regarding IHCDM usage, corporate objectives, and results-to-date were obtained from the roughly 400 firms in this second group.

All surveys were conducted via the Internet in June 2006. Beyond Inc., an independent market research firm specializing in employee benefits industry research, managed the data collection and tabulation.

The margin of error is  $\pm 5.0\%$  at the 95% confidence level. Data are weighted to represent the actual proportion of companies with at least 100 employees by geographic region.

### Profile of Plan Sponsor Participants

Below is a breakdown of survey respondents by geographic region, number of employees, and industry.



Prudential’s research shows that no standard definition of IHCDM or “integration” exists in today’s marketplace. However, a broad, commonly-used definition suggests that integration is **any activity in which the employer engages that pulls together information from multiple sources in order to better manage benefit costs and productivity of employees.**

The general definition often includes some measure of workflow or process integration or coordination as well, but this is not always the case. Our survey reinforces existing literature that indicates an uneven awareness and understanding of IHCDM, particularly among smaller companies. We also found more than one-third of employers who are currently involved in some level of integration activity are unsure of their company’s goals or their results-to-date—showing there is still considerable confusion over defining the scope of integration activity.

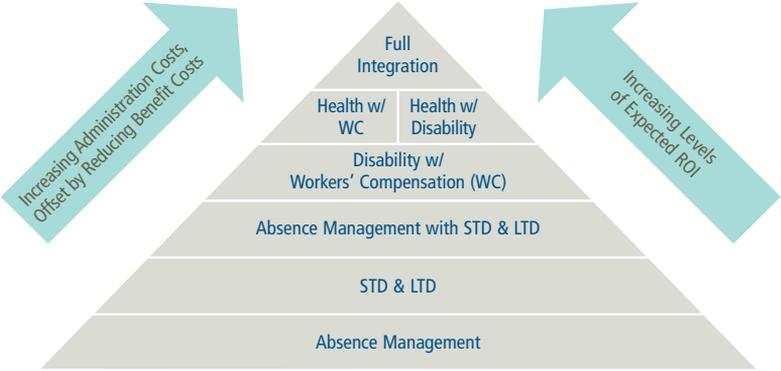
Because of the varying definitions in the marketplace, our research used a more stringent definition of integration when asking employers about their interest and activity in IHCDM:

**Integration involves, at a minimum, pulling data from multiple program areas into a combined database to allow analysis and management of outcomes. It can progress to fully integrating all intake, absence management, claim management, disease management, and return-to-work programs with one vendor or using an outside vendor to pull together all of the information from separate programs into an integrated database. Once data have been integrated, employers analyze trends and manage employee absences proactively to reduce unplanned absences, health care costs, disability costs, and workers’ compensation costs.**

This definition clearly set the parameters for activities considered, and described a model or a “continuum.” Nonetheless, we believe that respondents often defaulted to a more general definition, such as the one first mentioned.

For your easy reference, the survey definition is depicted in the pyramid diagram below. Please note the actual IHCDM model provided to the survey participants was the detailed text description of this concept.

**The IHCDM Pyramid: Levels of Integration**





## Key Findings

This study looks at the development of IHCDM—a new concept in employee benefits that is on its way to becoming an industry standard. In reading the study's key findings, you will see companies' past and present experience with IHCDM, as well as their future plans.

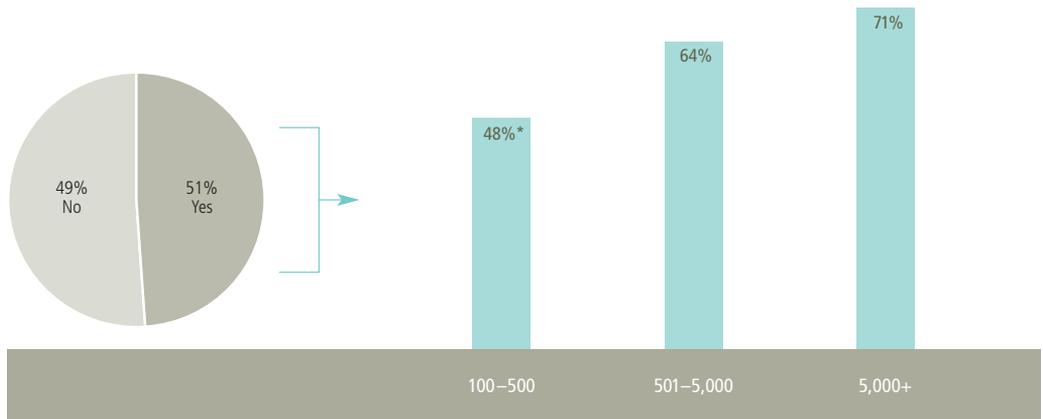


## Key Findings: Activity in IHCDM Is Growing

### Activity in IHCDM Is Growing

Approximately half of all 800 firms surveyed instituted some level of integration, with larger companies (5,000-plus employees) being more likely to be involved than small (100–500 employees) or mid-size (500–5,000 employees) companies. Though many of the companies that responded “yes” have taken only modest steps into benefit integration, this is still a remarkable finding. In the early 1990s, the concept was viewed as being on the far horizon. In 2006, it is an increasingly common idea of how benefits should be administered.

ANY INTEGRATION ACTIVITY—BY COMPANY SIZE  
Among all plan sponsors (n=800)

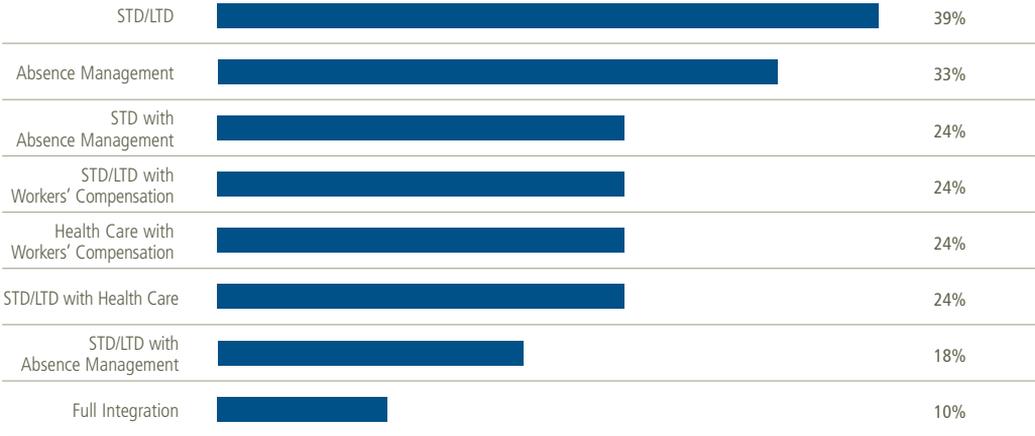


\*Significantly different than the 501–5,000 and 5,000+ employee segments.

Most IHCDM activity involves STD/LTD or absence management—both relatively common among employers and perceived as being relatively easy to implement. Firms that fully integrate IHCDM activities make up 10% of the 800 firms surveyed.

### IHCDM ACTIVITY—CURRENT MARKET

Among all plan sponsors (n=800)





## Key Findings: A Move to More Sophisticated Programs

This study allows us to segment the approximately 400 firms currently instituting IHCDM activities based on the extent of their adoption—that is, the number and type of IHCDM activities they instituted. The employer segments are classified by high, medium, or low levels of integration.

### SEGMENTING FIRMS BY LEVEL OF INTEGRATION

Among plan sponsors currently involved in IHCDM (n=400)

#### High Level of Integration (22% of firms)

- Fully integrates absence management, STD/LTD, health care, and workers' compensation

#### Medium Level of Integration (63% of firms)

- Integrates health care and workers' compensation, or
- Integrates health care and STD/LTD, or
- Integrates STD/LTD with absence management, or
- Integrates STD/LTD with workers' compensation

#### Low Level of Integration (15% of firms)

- Absence management only, or
- Integrates STD with LTD

## A Move to More Sophisticated Programs

The level of market activity tends toward the extremes. A majority of companies are either doing more than three IHCDM activities, or they are doing nothing. This unexpected “dumbbell” distribution may indicate that benefit integration is closely related to certain aspects of corporate culture and non-traditional, silo-crossing innovations may be more welcome in some cultures than in others. And as we will see later, it may also relate to the fact that results improve as additional forms of integration are added. Once a company tries IHCDM, they want more.

Firms involved in fewer IHCDM activities tend to concentrate on simpler tasks, such as STD/LTD and absence management. This is probably due to the obvious overlap of these benefit events. Roughly 65% of all Family Medical Leave Act (FMLA) events are also STD claims, so some form of STD/LTD/FMLA integration is within relatively easy reach of employers with any interest in the integration concept.

Large companies tend to be more involved in STD/LTD and absence management activities compared to smaller firms. On other integration activities, there is little difference between large and mid-size firms.

## INTEGRATION ACTIVITY BY NUMBER OF EMPLOYEES

Integration Activity	100–500	501–5,000	5,000+
STD/LTD	37%*	49%	61%**
Absence management	31%*	46%	54%**
STD with absence management	22%*	35%	44%
STD/LTD with workers' compensation	22%*	35%	37%
Health care with workers' compensation	21%*	39%	32%
STD/LTD with health care	23%*	33%	31%
STD/LTD with absence management	16%*	27%	31%
Full integration	8%*	18%	16%

\*Significantly different than the 501–5,000 and 5,000+ segments.

\*\*Significantly different than the 100–500 and 501–5,000 segments.



## Key Findings: A Move to More Sophisticated Programs

The percentage of firms that say they have engaged in no integration activity drops significantly (from 52% to 29%) as company size increases. Integration acceptance rates are somewhat discontinuous in that the mid-market employer segment looks much more like the large case market than the small. Two factors may play a role:

- As company size increases, Human Resources staff tends to become more sophisticated about IHCDM
- The magnitude of potential savings, such as the dollar value of a possible 1% savings in benefit costs or other transactional efficiencies, is more significant in larger companies

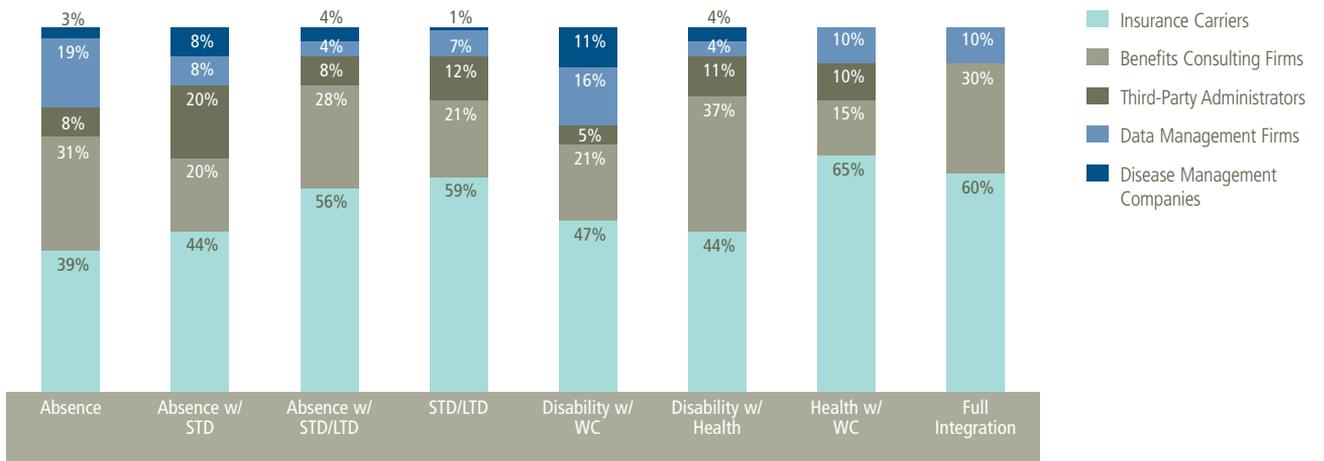
Most plan sponsors involved in IHCDM launched their integration efforts with variations on absence management (e.g., absence management integrated with STD, absence management integrated with STD/LTD, stand-alone absence management). As noted earlier, this is an obvious and fairly simple first step into integration that seems to be widely understood by employers.

NUMBER OF INTEGRATION ACTIVITIES BY COMPANY SIZE



Companies that integrate health care and disability management most commonly choose to partner with insurance carriers and benefits consultants. However, there is also a significant presence of disease management companies and data management firms—firms that did not exist or played very minor roles until recently.

### IHCDM PARTNER FIRMS





## Key Findings: Dollars and Hours Both Count

### Dollars and Hours Both Count

While the top integration goals are lowering health care costs and reducing absences, the strong showing of improving workforce health and increasing employee responsibility for health is also noteworthy. A few years ago, both would have been afterthoughts.

Lowering health care costs and reducing absences are almost equally valued as top employer goals. Together, these responses make it clear that employers are thinking well beyond the next health care premium increase. Whether they have initiated new integrated benefit programs or not, respondents are thinking structurally about how the different pieces of their benefit plans interrelate.

#### EMPLOYER'S TOP INTEGRATION GOALS

Lower health care costs		66%
Reduce absences		64%
Increase productivity		51%
Reduce benefit administrative costs		49%
Lower workers' compensation costs		45%
Improve workforce health		40%
Increase employee responsibility for health		37%

IHCDM goals vary little by company size. The mid-size segment seems to focus more on reducing absences and less on reducing administration costs, and the small segment is less concerned about increasing productivity, but the striking aspect of these responses overall is how similar they are across the employer-size spectrum. While our earlier look at the types of integration employers have implemented shows a marked difference from small to large company sizes, the findings of this question strongly indicate that all benefit professionals interviewed see basically the same vital goals.

**IHCDM GOALS VARY LITTLE BY COMPANY SIZE**

<b>Integration Goal</b>	<b>100–500</b>	<b>501–5,000</b>	<b>5,000+</b>
Lower health care costs	65%	66%	67%
Reduce absences	61%*	71%	61%
Increase productivity	46%**	51%	57%
Reduce benefit administrative costs	51%	41%**	55%
Lower workers' compensation costs	46%	48%	42%
Improve workforce health	40%	38%	43%
Increase employee responsibility for health	32%	37%	42%

\*Significantly different than the 501–5,000 segment.

\*\*Significantly different than the 5,000+ segment.

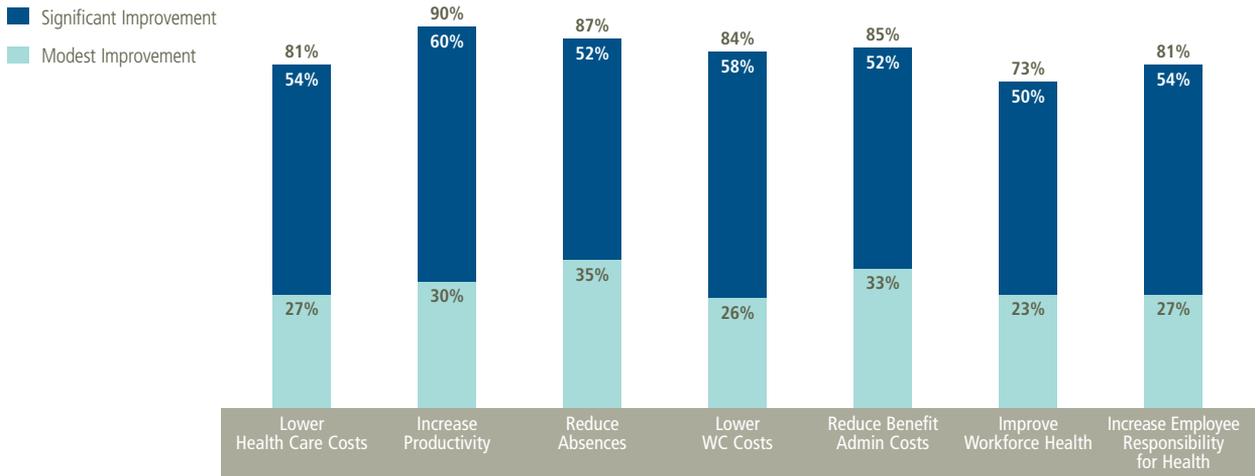


## Key Findings: Moving from Concept to Reality

### Moving from Concept to Reality

Most employers involved in integration have experienced at least modest improvements against their goals. The relative improvements in productivity and absence management are impressive and appear to indicate that integrating absence management with STD is paying off. The goal of improving workforce health has the lowest success rate, but it has only recently surfaced as an important employer goal. It is the one area least amenable to conventional ideas about employee benefit plan engineering.

#### EMPLOYER IMPROVEMENT GOALS



Mid-size firms tend to report the most significant improvement against integration goals, while large companies are most likely to experience significant progress in reducing health care costs via integration efforts. This is possibly due to a difference in focus. Larger employers appear to be more focused on direct benefit costs, and report the greatest progress in reducing workers' compensation and health care administration costs. Mid-size employers appear to focus on productivity measures in reducing absences and improving employee health.

The results suggest two emerging markets with related but different points of emphasis: mid-size employers want more holistic solutions that drive productivity measures, and large employers are more focused on immediate hard dollar benefit costs. If so, carriers and other service vendors may need to offer customized "solution toolkits" rather than more conventional products.

**INTEGRATION RESULTS (% SIGNIFICANT IMPROVEMENT)**

Integration Goal	100–500	501–5,000	5,000+
Lower health care costs	22%	21%	37%**
Increase productivity	24%	44%*	21%
Reduce absences	29%	42%*	33%
Lower workers' compensation costs	28%	22%	31%
Reduce benefit administrative costs	34%	25%	38%
Improve workforce health	16%	32%*	23%
Increase employee responsibility for health	24%	30%	26%

\*Significantly different than the 100–500 segment.  
 \*\*Significantly different than the 100–500 and 501-5,000 segments.



## Key Findings: Barriers Remain

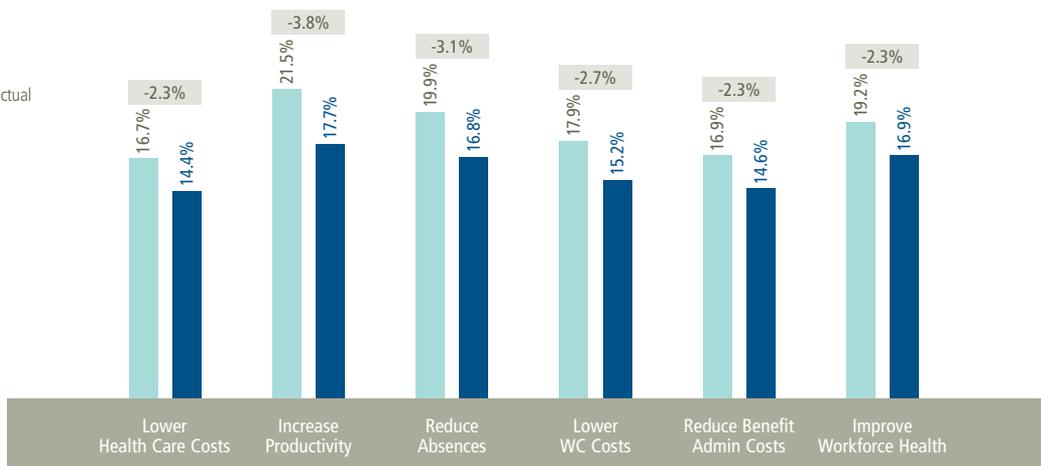
Despite considerable progress, most integration efforts have not yet met company expectations overall. In particular, mid-size firms have met with significant rates of success, but report their expectations have been missed by a wider margin and feel greater gains are possible. This is consistent with our earlier finding that mid-size employers appear to have ambitious goals for controlling absence and productivity factors. In viewing these expectation gaps as probable demand drivers for additional plan design and service innovations, the mid-market again presents a very different profile from either the large or the small case markets.

Smaller companies report progress on improving workforce health. The relatively modest percentage of small companies that have programs have been the most successful thus far in reducing costs and improving workforce health, based on their self-indicated gaps between goals and results.

### GAP BETWEEN EXPECTED AND ACTUAL INTEGRATION RESULTS

- Expected Improvement
- Actual Improvement

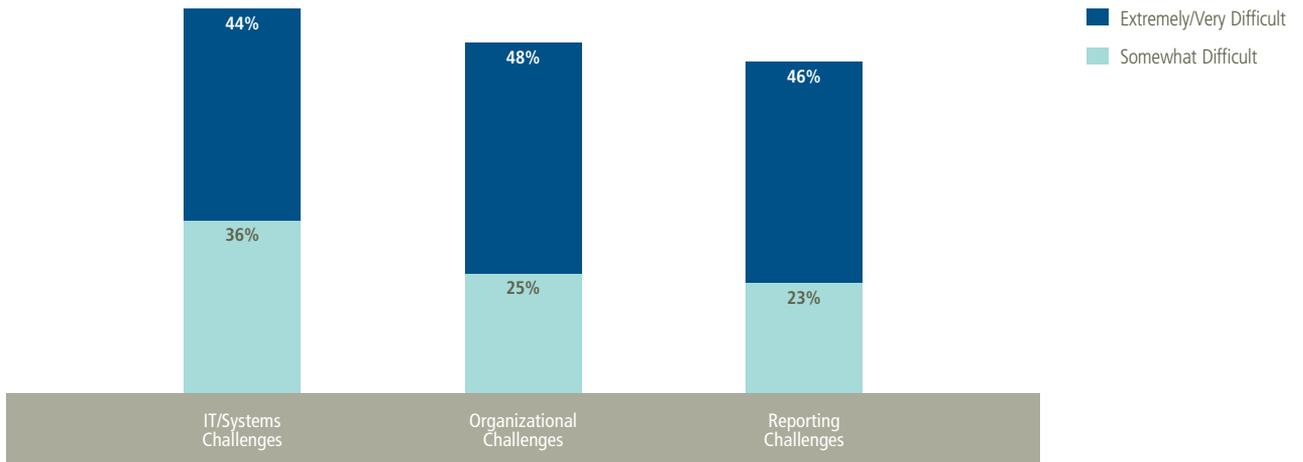
Using average expectation and actual estimates for each goal.



## Barriers Remain

IT/systems challenges are seen as the biggest barrier among all employers, followed by organizational and reporting challenges. On the whole, this is good news: carriers and other service vendors are generally best positioned to offer solutions to IT problems. Many IT problems can be overcome or circumvented through the adroit application of vendor systems and interfaces. Organizational challenges are often embedded in a company's culture.

### BARRIERS TO INTEGRATION





## Key Findings: Success Begets Success

Integration barriers are consistent across size segments, but larger firms report slightly higher degrees of difficulty with each. This is especially true for IT challenges, where larger employers are more likely to have multiple systems to coordinate and more cumbersome internal processes.

### BARRIERS TO INTEGRATION

Integration Barrier	100–500	501–5,000	5,000+
<b>Systems Challenges</b>			
Net	76%	79%	84%
Extremely/Very Difficult	33%	36%	39%
Somewhat Difficult	43%	43%	45%
<b>Organizational Challenges</b>			
Net	72%	73%	74%
Extremely/Very Difficult	25%	19%	31%
Somewhat Difficult	47%	54%	43%
<b>Reporting Challenges</b>			
Net	67%	65%	76%
Extremely/Very Difficult	24%	21%	23%
Somewhat Difficult	43%	44%	53%

### Success Begets Success

IHCDM success based on activity level is most apparent in mid-size firms, which tend to be involved in higher levels of integration activities as compared to other firms. This is consistent with the greater emphasis mid-size firms have on absence management, productivity, and employee health, as seen throughout the survey results.

#### LEVEL OF INTEGRATION BASED ON COMPANY SIZE

Company Size	Low	Medium	High
100–500	17%	65%	18%
501–5,000	28%	59%	13%
5,000+	22%	64%	14%

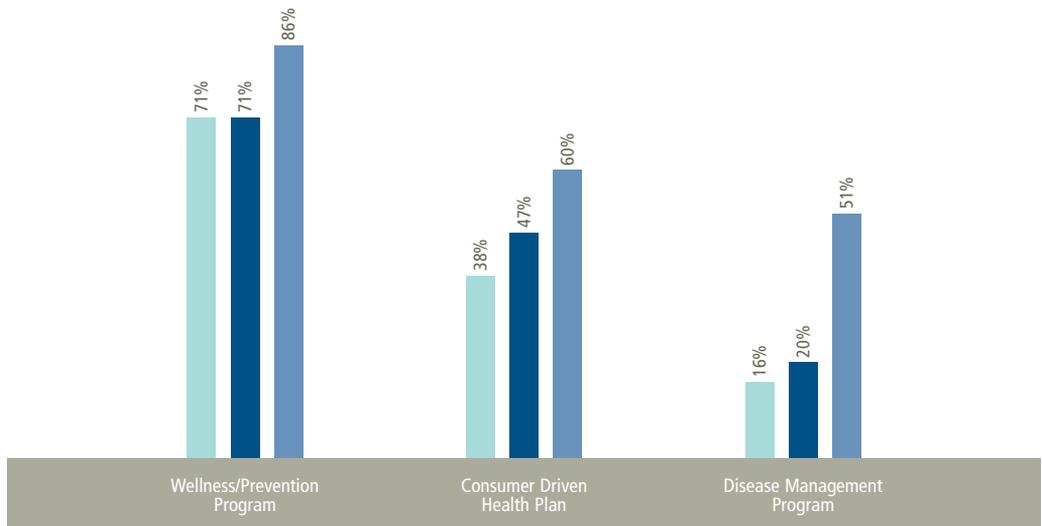


## Key Findings: Success Begets Success

Though disease management programs are still fairly uncommon, they are a strong predictor of “high level” integration activity and program success—even more so than wellness programs. This suggests that IHCDM may be more likely to occur through the mediation of disease management programs than directly between group health plans and the disability carrier.

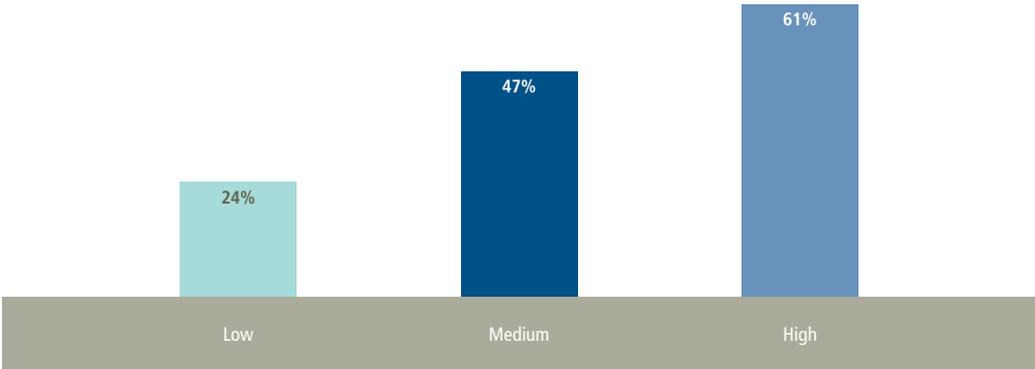
PRESENCE OF ADVANCED HEALTH PROGRAMS BY LEVEL OF INTEGRATION ACTIVITY

- Low
- Medium
- High



Companies that are more actively involved in IHCDM activities are experiencing greater overall success with their integration efforts, fueling a trend noted earlier: once a company tries IHCDM and realizes how it benefits both themselves and their employees, they tend to want more of it.

**INTEGRATION RATED AS HIGHLY SUCCESSFUL/SUCCESSFUL BY LEVEL OF INTEGRATION ACTIVITY**



Firms with higher levels of integration are achieving more significant improvement on most goals compared to other firms. Results are particularly striking for the goal of improving workforce health: firms with a low level of integration activity report an improvement of only 5%, but firms with a high level of integration activity say they have improved in this particular goal by 48%.

**INTEGRATION RESULTS (% SIGNIFICANT IMPROVEMENT)**

Integration Goal	Low	Medium	High
Lower health care costs	16%	27%	32%
Increase productivity	17%	29%	38%
Reduce absences	20%	36%	41%
Lower workers' compensation costs	12%	29%	25%
Reduce benefit administrative costs	25%	35%	33%
Improve workforce health	5%	18%	48%
Increase employee responsibility for health	16%	24%	40%

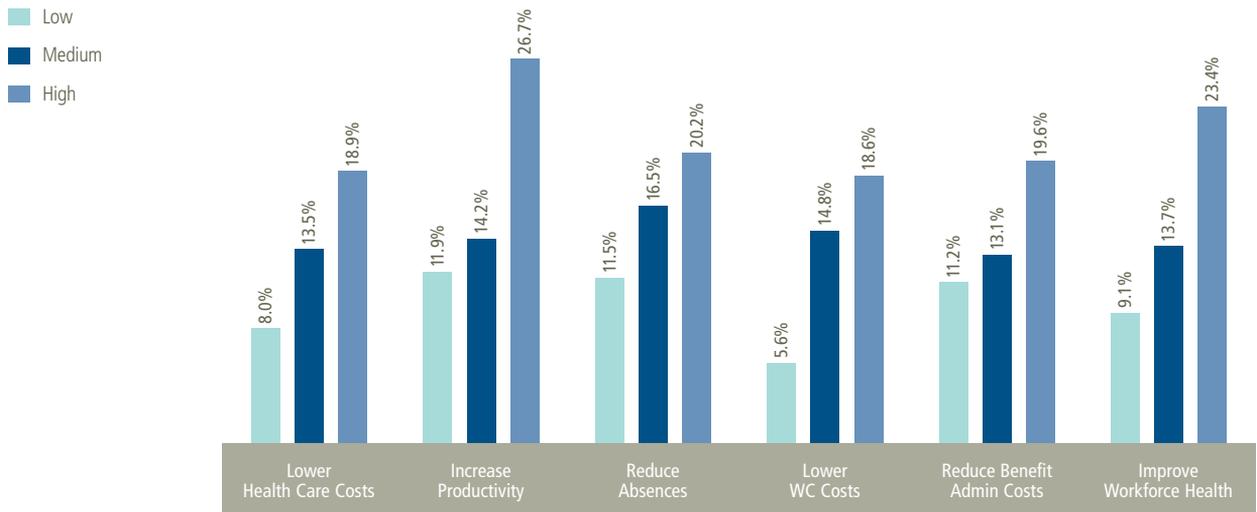


## Key Findings: Success Begets Success

Taken together, these responses strongly suggest the positive impact of benefit integration is cumulative rather than based on any one or two particular innovations. The sum may be greater than the constituent components.

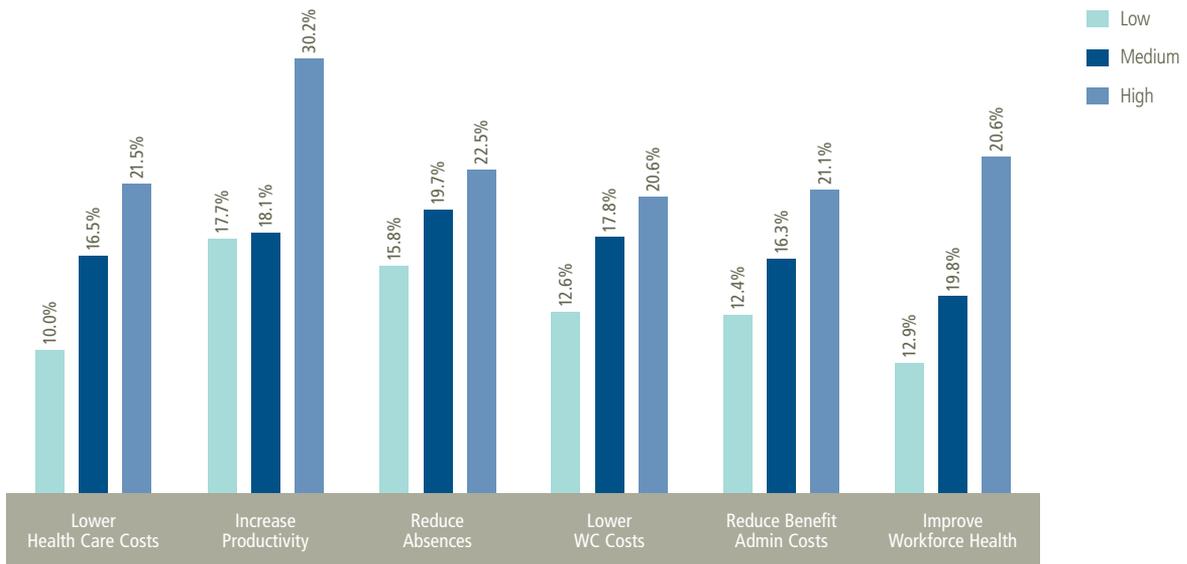
The higher the level of integration activity, the more likely it is companies reported positive return on investment (ROI) results. This applies in all categories, but most notably in increased productivity.

PLAN SPONSOR REPORTED RESULTS BY LEVEL OF INTEGRATION ACTIVITY



As the level of integration activity increases, so do a company's expectations regarding results and the impact on ROI. This strongly suggests benefit integration projects have not yet "topped out" in terms of employer expectations. Even the 22% of companies rated "highly integrated" may continue to enhance their programs and capture additional improvements in cost reduction and productivity.

#### EXPECTED RESULTS BY LEVEL OF INTEGRATION ACTIVITY



## Summary of Key Findings

This study provides valuable insight into the market of IHCDM. It can help plan sponsors, brokers/consultants, third-party administrators, and other key stakeholders in developing their future strategic benefits plans.

### **Activity in IHCDM Is Growing**

Employer awareness and understanding of IHCDM is still limited, but roughly half of the market is engaged in some IHCDM activity and a significant portion of that half has moved beyond the first steps of benefit integration. Beyond the early days of the first Integrated Disability Management plans, integration—however limited in scope—has become the dominant conceptual model for health, absence, and disability benefits.

### **A Move to More Sophisticated Programs**

The relative simplicity of managing STD/LTD and absences makes them the most prevalent IHCDM activities, but almost a quarter of employers working with IHCDM have already moved into sophisticated, multifunctional programs that integrate six or more benefit programs into one structure. While IHCDM has its greatest appeal among large employers, it is also firmly established among mid-size employers and it has some penetration with small employers.

### **Dollars and Hours Both Count**

Lowering health care costs, increasing employee productivity, and reducing absences are all top IHCDM goals. Employers are looking beyond the next health plan renewal towards structural changes in how benefits are used and accounted for. This requires a more complex exploration of how health care interacts with disability, absence management, disease management, and related benefits.

### **Moving from Concept to Reality**

Many companies involved in IHCDM activity have already experienced some level of success. Employers are quantifying and tracking benefit integration results against specific performance goals. Benefit integration is moving from an interesting new concept to proven best practices.

### **Barriers Remain**

The greatest obstacles to benefit integration success involve IT/systems, organizational structure, and data reporting capabilities. Employers tell us they have not integrated more intensively due to technical and cost issues. Improving technology will continue to erode IT and reporting barriers. Employers must handle organizational structure issues, but the positive results generated by IHCDM programs may be the catalyst needed to overcome internal silos.



## Summary of Key Findings

### **Success Begets Success**

This may be the most important finding of the survey: higher levels of integration appear to yield more positive results and may show the benefits of integration are more than merely additive. It is a powerful outcome, especially for employers who are still in the early stages of integration. Clearly, for the 22% of our responders who are highly integrated and who appear to be enjoying very positive outcomes, IHCDM has become a part of their corporate benefits culture.

### **The Next Frontier in Employee Benefits Has Arrived**

Some entry-level form of integration is now a dominant feature in program design and more intense forms of IHCDM are now being used by an impressive percentage of large and mid-size employers. But we clearly have a great deal of room to continue to develop IHCDM. Even employers with the most extensive IHCDM programs are looking for further impact on benefit costs and employee productivity. And a large population of employers that are taking their first steps into benefit integration will probably be seeking to enhance these limited initial programs over time.

### **Looking Forward**

Health care and disability-related benefit programs and services work more effectively when they work together. This was an intuitive assertion ten years ago. Now, it is an established fact. The real questions going forward revolve around specific program and workflow designs. Which configurations work best in which situations? Where are the best leverage points? What metrics are most meaningful? How can IHCDM be adapted to deal with the problems of an aging workforce? Can IHCDM have a significant impact in managing the health of the American workforce?

Despite the additional questions raised, one thing is clear—business as usual is no longer a viable model for disability carriers or for the other programs and services with which they interact, and the stand-alone service model is already obsolete. There is a clear need for a carrier that can not only educate firms as to the effectiveness of IHCDM, but can also provide them with products and services that can help them navigate a complex concept, find a model that works for their firm, and ultimately increase their ROI.

## About Prudential Financial

Prudential Financial companies, with approximately \$616 billion in total assets under management as of December 31, 2006, serve individual and institutional customers worldwide and include The Prudential Insurance Company of America, one of the largest life insurance companies in the United States. These companies offer a variety of products and services, including life insurance, mutual funds, annuities, pension and retirement-related services and administration, asset management, real estate brokerage franchises, relocation services, and, through a joint venture, retail brokerage services.

Prudential Financial's distinctive Rock logo and the Prudential name are among the most enduring brands in U.S. corporate history. The company's long history is a testament to the quality of service it has provided its customers. In addition to the level of service, Prudential Financial is today recognized for the breadth of products and services it provides and continues to be a recognized company of quality financial services at home and abroad.

### About Prudential's Group Insurance Business Unit

Our Group Insurance business segment manufactures and distributes a full range of group life, long-term and short-term group disability, long-term care, and corporate and trust-owned life insurance in the U.S. to institutional clients primarily for use in connection with employee and membership benefits plans. Prudential's Group Insurance also sells accidental death and dismemberment and other ancillary coverages and provides plan administrative services in connection with its insurance coverages.

### Currently Prudential's Group Insurance statistics include:

- More than \$1 trillion in group life insurance coverage<sup>1</sup>
- Over \$3.5 billion of group insurance reported premiums, policy charges, and fee income<sup>2</sup>
- Over \$131 million in long-term care insurance premiums<sup>3</sup>
- Solid financial strength ratings:<sup>4</sup>
  - A.M. Best A+
  - Standard & Poor's AA-
  - Moody's Aa3
  - Fitch AA
- 2nd largest carrier of group life insurance and a leading disability and long-term care insurance carrier<sup>5</sup>
- Over 12,000 group life clients insuring more than 15 million lives<sup>1</sup>
- Over 4,000 long-term disability clients covering more than 2 million lives<sup>6</sup>
- Over 2,800 short-term disability clients covering almost 1 million lives<sup>6</sup>
- 98% overall client satisfaction rate<sup>7</sup>
- 90 years group life, 55 years disability, and 20 years long-term care insurance experience

For the latest statistics, please visit [www.investor.prudential.com](http://www.investor.prudential.com).

1 2005 Statutory Annual Statement of Prudential (Blue Book).

2 Prudential Financial, Inc., Quarterly Financial Supplement, Fourth Quarter 2005.

3 LIMRA, 2005 Annual Group LTC & Individual LTC Sales and Inforce Studies.

4 As of March 2006. A.M. Best ratings range from A++ (Superior) to F (In Liquidation); Standard & Poor's ratings range from AAA (Extremely Strong) to CC (Extremely Weak); Moody's ratings range from Aaa (Exceptional) to C (Lowest Rated); Fitch ratings range from AAA (Exceptionally Strong) to D (Distressed).

5 LIMRA, 2005 Annual Surveys of U.S. Group Life, Group Disability, and Group Long-Term Care Insurance.

6 JHA, Inc., The 2005 JHA U.S. Group Disability Market Survey.

7 The Prudential Insurance Company of America, 2006 Group Insurance Client Satisfaction Study.

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