

**Individual Disability Insurance
Market Watch
Session 53**

**Society of Actuaries
Spring Health Meeting**

June, 2007

Presenters

Bob Beal - Milliman

Woody Richen - Standard

Jay Barriss – Mass Mutual

IDI Market Survey Results - Overview

13 Individual DI Contributors:

Assurity	Ohio National
Berkshire	Principal Financial
Illinois Mutual	Standard Insurance
MassMutual	Thrivent
MetLife	Union Central
Mutual of Omaha	Unum
Northwestern Mutual	

Total combined new annual premium in 2007 = \$325 million

Focus of Survey: Traditional IDI Market

Excluded Worksite

IDI Market Survey Results - Overview

Survey Focus:

1. Annual New Sales for 2002-2006
 - Growth rates
 - NC and GR
 - DI, BOE and Buysell
 - Occupation classes and key occupations
 - Market: Individual, ER sponsored Multi-life, and Associations
 - Field distribution

IDI Market Survey Results - Overview

Survey Focus continued:

2. Underwriting

- Maximum issue limits
- Issue and participation by annual income
- Underwriting requirements – testing and financial documentation
- Guaranteed standard issue
- Recent UW changes

IDI Market Survey Results - Overview

Survey Focus continued:

3. Product Availability

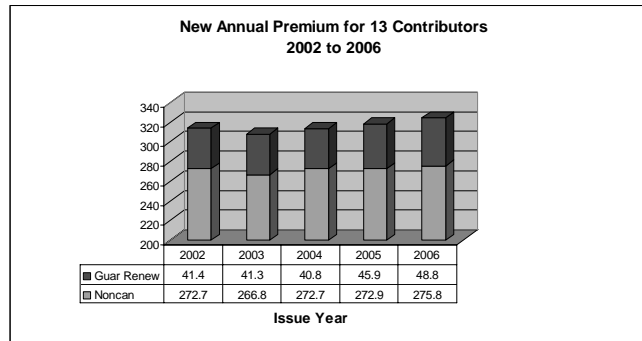
- Availability of certain products and/or provisions
- Recent product introductions and/or changes

4. General Areas of Interests

- Favorable and unfavorable trends
- Obstacles to long-term financial health
- Changes designed to simplify sales process
- Management rating overall profitability
- Management rating of sales success

IDI Market Survey Results – New Sales

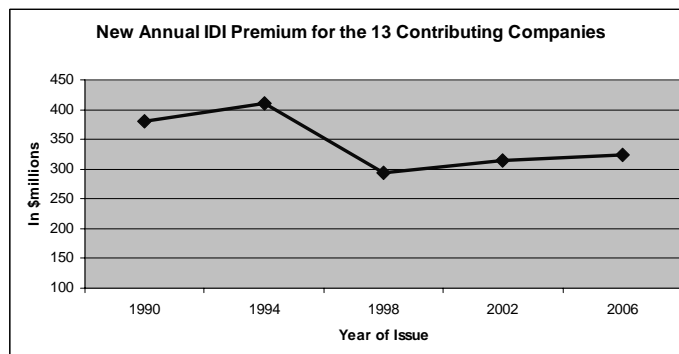
Combined New Premium and Growth Rates of the 13 contributors



- Total premium increased by 3% from 2002 to 2006
- Noncan premium increased by 1% and Guaranteed Renew increased by 18%
- DI represents 93%, BOE 5% and BuySell 2% (very stable from year to year)

IDI Market Survey Results – New Sales

Going back to 1990:



After occurring a 28% drop in new sales from 1994 to 1998, total new premium has grown at a steady 1% annual rate

IDI Market Survey Results – New Sales

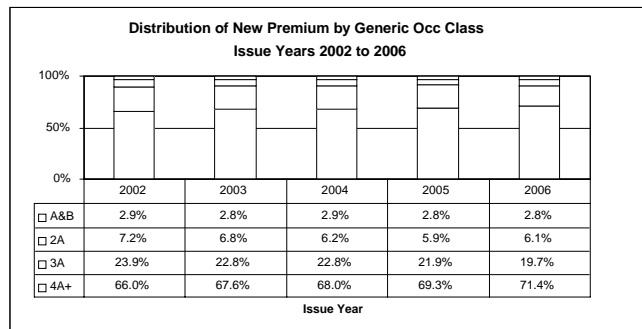
Distribution of new premium in 2006 by occupation class

Used generic occ classes:

4A+	All 4A and higher classes plus all medical classes
3A	Other white collar
2A	Grey collar
A&B	Blue collar

IDI Market Survey Results – New Sales

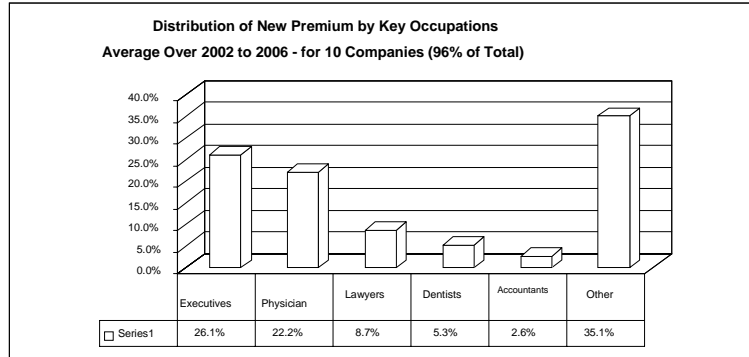
Distribution of New Premium in 2006 by Occupation Class



- The 4A+ class has increased by 5% of premium while 3A has decreased by 2% and 2A by 1%
- The market is still moving slowly to more executive, professional occupations

IDI Market Survey Results – New Sales

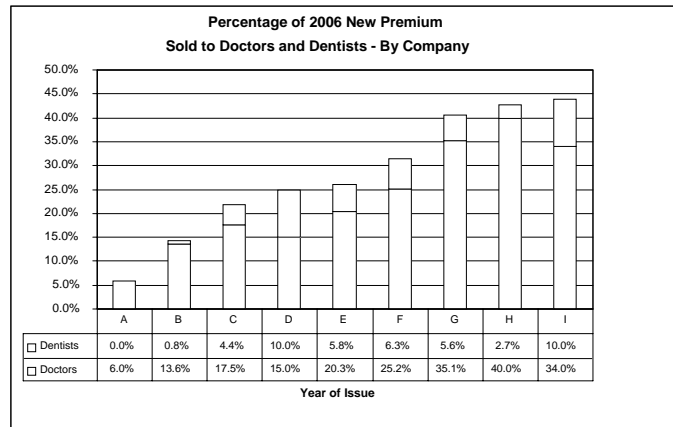
Distribution of New Premium by Key Occupations



- This distribution by occupation was remarkably stable over the 5-year period, but varies considerably from company to company

IDI Market Survey Results – New Sales

Percentage of New Premium in 2006 sold to Doctors and Dentists

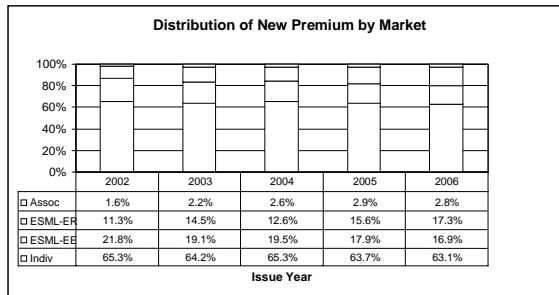


- 7 of the 10 companies had a total doctor/dentist percentage of at least 25%

IDI Market Survey Results – New Sales

Distribution by Market:

- To Individuals
- To Associations
- Employer Sponsored MultiLife
 - Employee Pay (ESML-EE)
 - Employer Pay (ESML – ER)



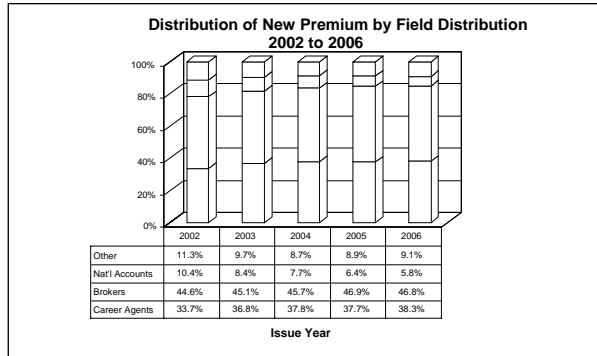
IDI Market Survey Results – New Sales

Distribution by Market – continued:

- Only a minor drop in Individual % - from 65% to 63%
- ESML in total had only a minor increase – 33% to 34%
- But ESML-EE % dropped from 22% to 17%, while ESML-ER% increased 11% to 17%
- 6 of the 13 companies have over 20% of 2006 new premium in the ESML market

IDI Market Survey Results – New Sales

Distribution of New Premium by Field Distribution



- National Accounts include sales from co-marketing and private label arrangements
- Other includes PPGA's, producer organizations, etc
- Career Agents have had the biggest gain jumping almost 5% from 2002 to 2006
- Brokers have had a smaller but steady increase over this period

IDI Market Survey Results - Underwriting

Maximum Issue Limits

Maximum Issue Limit	Generic Occupation Classes				
	4A+	3A	2A	A	B
\$20,000	2				
\$16,000	1	1			
\$15,000	7	3	1	1	1
\$12,000	2	2			
\$11,000					
\$10,000		5	2	1	
Under \$10k	2	2	10	11	12

- Maximum issue limits are creeping up

IDI Market Survey Results - Underwriting

Maximum Issue Limit	Physicians	Surgeons
\$20,000		
\$16,000	1	
\$15,000	3	1
\$12,000		
\$11,000	1	1
\$10,000	6	7
Under \$10k	2	3

- In 1999, no company offered physicians more than \$10,000

IDI Market Survey Results - Underwriting

Issue & Participation by Income – Employee Pay

Annual Earned Income	Employee Pay - No LTD			
	Min	Avg	Median	Max
40,000	1,667	2,224	2,300	2,440
60,000	2,500	3,214	3,300	3,400
80,000	3,333	4,009	4,025	4,350
100,000	4,167	4,767	4,835	5,000
200,000	7,500	8,038	8,000	9,150
300,000	8,000	10,348	10,520	12,500

Based on 12 contributors

IDI Market Survey Results - Underwriting

Issue & Participation by Income – Employee Pay

Annual Earned Income	Employee Pay - With LTD			
	Min	Avg	Median	Max
40,000	2,140	2,400	2,350	2,667
60,000	3,140	3,512	3,400	4,000
80,000	4,000	4,484	4,200	5,333
100,000	5,000	5,462	5,175	6,667
200,000	8,000	9,380	10,000	12,850
300,000	8,000	14,443	15,000	17,672

IDI Market Survey Results - Underwriting

Issue & Participation by Income – Employer Pay

Annual Earned Income	Employer Pay - No LTD			
	Min	Avg	Median	Max
40,000	2,650	2,759	2,750	2,850
60,000	3,900	4,045	4,000	4,250
80,000	4,600	5,095	5,000	5,650
100,000	5,660	6,069	6,000	6,667
200,000	8,000	10,024	10,000	11,650
300,000	8,000	12,796	13,310	15,000

Based on 12 contributors

IDI Market Survey Results - Underwriting

Issue & Participation by Income – Employer Pay

Annual Earned Income	Employer Pay - With LTD			
	Min	Avg	Median	Max
40,000	2,667	2,758	2,750	2,853
60,000	4,000	4,068	4,000	4,250
80,000	4,940	5,294	5,350	5,650
100,000	6,000	6,464	6,600	6,747
200,000	8,000	12,438	12,917	13,400
300,000	8,000	17,529	18,750	20,000

Based on 12 contributors

IDI Market Survey Results - Underwriting

Blood Testing Limits

Blood Testing Age 40	Min	Avg	Median	Max
High Risk States	\$0	\$2,615	\$2,500	\$5,000
Medium Risk States	\$2,000	\$2,923	\$2,500	\$5,000
Low Risk States	\$2,000	\$3,000	\$3,000	\$5,000

- Few companies differentiate testing limits among high, medium and low risk states
- Blood testing limits are increasing

IDI Market Survey Results - Underwriting

Financial Documentation	Limit
Minimum	\$0
Average	\$2,042
Median	\$0
Maximum	\$7,500
# Cos. >= \$3000	5 out of 13

Some companies appear to be relaxing financial documentation requirements

IDI Market Survey Results - Underwriting

Guaranteed Standard Underwriting

GSI Requirements	Min	Median	Max
Minimum No. of Lives			
Employee Pay	6	10	75
Employer Pay	5	10	10
Minimum Participation			
Employee Pay*	25%	30%	100%
Employer Pay	100%	100%	100%
Maximum Guaranteed Benefit			
Employee Pay	\$5,000	\$5,000	\$7,500
Employer Pay	\$1,000	\$6,250	\$10,000
* Often requires a minimum number of lives.			

- 8 of 13 contributing companies do GSI underwriting, either EE or ER pay cases
- 7 do GSI underwriting on Employee Pay cases

IDI Market Survey Results - Underwriting

Guaranteed Standard Underwriting

Survey Question:

Please rate (1 to 5) your company's profitability in the voluntary GSI market: 5 = very pleased; 3 = meets expectations; 1 = very dissatisfied

Rating	Number of Companies
1	2
2	1
3	2
5	2

Companies giving a rating of 5 are relatively new entrants into the GSI employee pay market

IDI Market Survey Results - Underwriting

Underwriting changes over the last 2 years

Underwriting Change:	Number of Companies
Increased I& P limits	5
Increased financial documentation limit	3
Increased medical UW limits	2
Lowered limits for blood, urine, and paramedical	1
Simplified UW program	1
Abbreviated paramedical exam.	1
Updated GSI requirements	1
Increased net worth and unearned income limits	1

Higher issue and participation limits represent the most frequent change, followed by increase financial documentation limits

IDI Market Survey Results - Products

Specific coverages offered by contribution companies

<i>Does your company offer the following coverages?</i>	<i>Number of Yes Out of 13 Companies</i>
Separate policy for the ER Sponsored multi-life market	4
ADL (Catastrophic) Rider	9
Lifetime Sickness Rider	2
Pension Completion Coverage	5*
Pure Own Occ Rider	8
Pure Own Occ Rider for Doctors	5
* 3 companies have pension completion riders, and 2 engineer their base product.	

IDI Market Survey Results - Products

Mental Nervous Limitations

<i>Mental/Nervous Limitation</i>	<i>Number of Yes Out of 13 Companies</i>
Does your base policy have a 24 month limitation?	8
Is full MN coverage available?	10

IDI Market Survey Results - Products

Examples of Product Changes over last 2 years:

- Liberalized definition of disability in Florida
- Introduced To Age 67 benefit period
- Introduced new CAT rider (2)
- Added 6th ADL to CAT rider
- Allow exercise of entire FIO amount in first 3 years
- Revised product series
- Introduced new 3% COL rider
- Introduced Transitional Occupation rider (2)

IDI Market Survey Results - Products

Examples of Product Changes over last 2 years... continued:

- Simplified application for GSI business
- Introduced Retroactive Injury Benefit
- Revised GIO rider
- Introduced Pension Completion rider
- Updated BOE policy
- Will introduce a Spousal rider soon
- Will introduce a Voluntary Short-term DI plan

IDI Market Survey Results - Products

Examples of Premium Rate Actions over last 2 years:

- Increased multi-life rates
- Raised rates due to lower investment returns
- Bumped surgeons and dentists up in occ class
- Introduced new premium rates for new product series
- Repriced own occ rider for the physician occ classes
- Reduced rates in top occ classes and issue ages over 45

IDI Market Survey Results - Products

Examples of Premium Rate Actions over last 2 years... continued:

- Readjusted voluntary and ER pay discounts to reflect profitability differences
- Introduced 5% list bill discount
- Lowered discount for employee pay GSI business
- Increased premiums for Lifetime BP
- Introduced discounts for several occ in top occ class

IDI Market Survey Results – Management Issues

Rating Your Company's Performance

Rating Your Company's IDI Business During the Last 2 Years 1 = Very Dissatisfied; 3 = Meets Expectations; 5 = Very Satisfied		
Rating	Number of Companies	
	Overall Profitability	Overall Sales Performance
1	1	0
2	0	1
3	4	9
4	4	1
5	4	2
Average	3.8	3.3
Median	4.0	3.0

Companies are generally satisfied with both profitability and sales – more so with profitability than sales

IDI Market Survey Results – Management Issues

Describe favorable trends affecting your company's IDI business

- Profitability (2)
- Stable or improving morbidity (3)
- Healthy stable economy (3)
- Technology improving the sales/other processes (3)
- Greater awareness of need for IDI in public and agents (3)
- Better diversification among occupations (3)
- High job satisfaction in medical/dental market

IDI Market Survey Results – Management Issues

Describe favorable trends affecting your company's IDI business... continued

- Stable healthcare delivery system (2)
- Expertise of staff
- Healthy stable economy (3)
- Breadth and depth of experience information
- Strong sales growth (2)
- Increase in GSI business
- Expansion in new distribution channels

IDI Market Survey Results – Management Issues

Describe favorable trends affecting your company's IDI business... continued

- Stable distribution system
- Growing company reputation for customer service
- More disciplined DI management
- Interest rate recovering
- No new competitors
- Reinsurer has stayed in business
- Favorable runoff of older blocks of business
- Gradual privatization of government income security programs

IDI Market Survey Results – Management Issues

Describe unfavorable trends affecting your company's IDI business

- Too much attention to the physician market (3)
- Aggressive competition in executive market
- Lack of agent interest
- Increasing regulatory issues, e.g. CA (3)
- Competitive pressures (2)
- Increases in I&P limits (2)
- Competing solely on risk and price
- Favorable industry profitability motivating competitive moves for short-term gains

IDI Market Survey Results – Management Issues

Describe unfavorable trends affecting your company's IDI business... continued

- Return to richer benefits
- Increase in incidence of musculo-skeletal claims
- Aging brokers – loss of experienced IDI brokers (2)
- Increased competition for broker share of IDI business
- Lack of agent training in IDI
- Lack of consumer awareness
- Mortality improvement and impact on later claim duration terminations (2)

IDI Market Survey Results – Management Issues

Describe unfavorable trends affecting your company's IDI business... continued

- Low participation rates in employee pay cases
- California experience spilling over its borders
- Poor multi-life profitability
- Pressure to offer higher GSI benefit amounts
- Challenge of maintaining service levels and systems to service
- Increased litigation
- Flat industry sales
- Shrinking middle class

IDI Market Survey Results – Management Issues

Describe the biggest obstacles to long-term financial health of the IDI business

- Strong competitive pressures (2)
- Aggressive sales goals (2)
- Trying to grow the marketable universe
- Strong profitability making us forget the lessons of the past (2)
- Shift from profitable growth to just growth
- Lack of consumer awareness (2)
- Expense management
- Continued movement to less or simplified medical UW

IDI Market Survey Results – Management Issues

Describe the biggest obstacles to long-term financial health of the IDI business...continued

- Insufficient competition (number of IDI carriers)
- Competitors taking leave of senses from a risk management perspective, i.e., irrational behavior (2)
- Inability to attract new producers (2)
- Shrinking number of IDI experts in distribution
- Tendency of companies to play “leap frog” to gain market share (2)
- Lack of diversification in market and/or distribution (3)
- Inability to achieve significant growth
- Possible economical downturn and lower interest rates

IDI Market Survey Results – Management Issues

Describe the biggest obstacles to long-term financial health of the IDI business...continued

- Industry impact of multi-state market conduct examination
- Need for quality claims examiners
- State regulatory environment, especially CA
- Inability to anticipate society and economic changes that could have large scale effect on claims behavior
- Limited number of active reinsurers

IDI Market Survey Results – Management Issues

Describe favorable administrative, product or UW changes in the last two years designed to make the IDI sale easier...continued

- Increased medical and/or financial UW limits (7)
- Gave field direct access to underwriter by telephone
- Simplified application
- Simplified underwriting programs (5)
- Teleunderwriting and/or teleapplication (4)
- Special guaranteed medical insurability purchase options for young medical professionals (students, interns, residents)

IDI Market Survey Results – Management Issues

Describe favorable administrative, product or UW changes in the last two years designed to make the IDI sale easier...continued

- Emphasize employer sponsored GSI product
- Investigated alternative methods to gathering UW information
- Express (48 hour) underwriting
- Reduced dependence on APS's
- Improved enrollment capabilities
- Less stringent net worth and unearned premium UW requirements

IDI Market Survey Results Observations & Conclusions

1. The IDI industry has stabilized in many ways:

- Slow but steady growth in premium
- Target markets
- Distributions by occ class, key occupations, distribution channel, market
- Generally acceptable profitability
- Relatively few IDI carriers still – top 5 carriers have almost 75% of the share of new premium

DI Underwriting issues Market Watch Session 53

Society of Actuaries

Jay Barriss

Spring Health Meeting

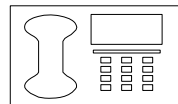
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U/W staffing issues

- Need for tomorrow's U/W
 - Hire other's experienced DI U/W
 - Hire other's experienced LTD U/W
 - Grow your own through training programs
- Are technical skills enough?
 - Mentoring U/W and field
 - “selling” the product to the sellers

U/W staffing issues (cont)

- Changing work environment
 - Embrace work-at-home
 - Satellite offices
 - Technical infrastructure needs
- Confidentiality issues



Complete applications

- Speed up U/W process...but at what cost?
 - Education process of field
 - Turning off key constituents
 - Philosophy for other company product lines
- Can application be made less rigorous?
- Any other savings beyond expense?

Multi-Life concerns

- About 1/3 of all DI sales
- Survey shows signs of rate changes (increases)
- Experience studies
 - Lapses (worse than fully U/W)
 - Terminations (worse than fully U/W)
 - Incidence (worse than fully U/W)
 - Expenses (does on-going admin costs offset sales saving?)
 - Converting policies claims results

Multi-Life changes

- Increasing presence of pre-ex in offers
- M/N limits have helped
- More willing to walk-away
- Role of actuary as educator

Market observations

- Concerns over lack of growth
- Sales up .9% CAGR, wages up 17%
- Selling more to proven markets (despite concentration concerns)



How to control concentration risks

- Compensation changes
- Rate changes
- U/W aggressiveness



Encouraging signs from survey

- Consumer awareness increasing
- Strong/stable economy
- Lack of changes in healthcare system
- Continued profitability
- Technology helping sales, U/W and admin process

