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The Effects of Triple-X on Product Design

by Mary Bahna-Nolan

Now that we have been operating under Regulation Triple-X for a few months, it is time to see what impact, if any, it has had on product availability, design, and price.

Term Products

To date, most companies have introduced both full and partial level premium guarantees. The most common products are 10- and 15-year level premium term products with full level premium guarantees. Some companies have introduced the 10- and 15-year plans with partial guarantees such as three or five years, but very few. Companies have also introduced 20- and 30-year level premium products, both on a fully guaranteed and partially guaranteed basis. Initially, only a few companies offered a 30-year fully guaranteed plan. This is changing, however, and today at least 14 companies offer a fully guaranteed 30-year plan. The table below shows the most commonly offered guarantees for various level premium plans. Where more than one guarantee is listed, the one listed first is the most typical.

Level Premium	Most Common Premium Guarantee Periods
10 years	10 years
15 years	15 years
20 years	20 years, 10 years
30 years	10 years, 15 years, 30 years

The industry has seen a few unique product designs as a result of Triple-X. Most of these have been on the 20- and 30-year level premium designs. These include:

- **Refund of premium –** this design is offered by at least two companies, one on the fully guaranteed chassis, the other on the partially guaranteed chassis. The fully guaranteed design builds cash surrender value throughout the life of the policy. At the end of the level premium period, the cash surrender value is equal to 100% of the premiums paid into the contract. The partially guaranteed design is a little different. It is, what I call, a non-guaranteed guarantee. The provision repays the last three years of premium paid into the contract if the company ever increases the non-guaranteed level premiums illustrated at issue.
- **Premium increase tied to an external trigger or event –** this design offers level premium coverage where the level premiums are not guaranteed for the entire level premium period. The company may only increase the current premiums if some external event occurs. One product with this design ties the increase to treasury rates dropping below a very conservative interest rate. This design is currently under some scrutiny by the NAIC's LHATF Committee because the treasury rate has little relation to the premium rate for a level term insurance policy.
- **Affiliated Company Guarantee –** At least one life insurance company is currently selling level term insurance that has a limited premium guarantee but that provides a full 20-year guarantee through an endorsement from the company's affiliate, a P&C company. The endorsement extends the guarantee to 20 years at no additional cost since the P&C company is not subject to the Triple-X reserving. Again, this design is currently under some scrutiny by the NAIC's LHATF.
- **Decreasing death benefit –** this design is for products tied to a mortgage sale. The premium is level and guaranteed for the entire 30 years, but the death benefit is only level for the first 15 years. Beginning in the 16th policy year and until the 30th policy year, the death benefit decreases according to a set schedule to a residual amount. This design offers level premiums, which are guaranteed at premiums fairly close to pre-XXX levels and coverage that decreases with a specific need.
- **Shorter maturity ages –** this design is not specific to the 30-year plan, but at least one company offers products with a maturity age of 80 rather than 95.
- **Removal of annual renewable premiums (ART tail) after the level premium period –** this design is more common in New York, where the nonforfeiture testing is not as reliant on the ART premiums after the level premium period.
- **Return of the Annual Renewable Term Plan –** we have seen at least one company offer an annual renewable term plan with premium rates guaranteed for the full twenty years. The nature of the increasing premium keeps reserves low. Over the past several years, ART plans fell by the wayside as level premiums quickly became less expensive than the increasing premiums. Today, the cumulative total of the increasing premiums is often less than that for a fully guaranteed 20-year plan.

Premiums have been impacted as a result of Triple-X, but probably not to the extent industry experts initially predicted. Premiums for full guarantees did go up; premiums for the 10- and 15- year partial guarantees, however, mostly remained unchanged or decreased 10% - 15%. The decreases on the partially guaranteed 20- and 30-year level premium plans probably were somewhat limited due to the need to now illustrate these products and therefore, pass the illustration self-support test.

The following table illustrates the impact this regulation has had on premium rates. The high end of the range is skewed because the impact of Triple-X was much more severe for older issue ages such as 60 and above. The average indicated in the table is the impact for most issue ages, ignoring the high age anomaly.

With respect to other term product design features:

- **Compensation**
  Compensation remained unchanged or was slightly reduced.

- **Waiving of Policy Fee for Second Insured**
  This was a fairly common practice in the pre-XXX environment. However, now that most companies need the policy fee to help keep deficiency reserves to a minimum, many companies, but not all, have done away with this feature.
- **Conversion**
  In order to keep premium rate increases to a minimum, many companies have shortened the conversion feature to only the first five or ten years, regardless of the level premium period. Pre-XXX, it was most common for companies to offer conversion for the entire level premium period.

So far, we continue to see the traditional "term carriers" leading the industry with respect to premium level. However, we are starting to see a few new competitors enter the competitive marketplace. Companies such as John Hancock, United of Omaha, Western-Southern, Penn Mutual, and Ohio National now offer level premium term rates which are among the lowest in the industry. With New York recently adopting the NAIC version of Triple-X, we will continue to see some of the New York companies (which have not been able to be competitive on a nationwide basis since New York adopted Regulation 147 in 1994) now try to compete. We are already starting to see this with some of the large mutual companies such as New York Life and The Guardian.

To date, the guaranteed products have outsold the partially guaranteed products, even for the longer level premium guarantees. Based on an informal producer survey performed at my company, approximately 80% to 90% of the sales have been in the fully guaranteed products. While these numbers are a fairly good indicator of what has happened so far, it may still be a little too early to say for certain that this is the course for the future.

One challenge many carriers are facing today is competing on a non-level playing field. Some companies that are domiciled in states which have not adopted Triple-X are taking an aggressive approach with the reserving and ignoring the impact of Triple-X in their pricing. Either they have enough reserves in aggregate to cover the higher Triple-X reserves in states that have adopted Triple-X or they have enough surplus to cover the additional strain. This pricing differential may cause carriers to accept more strain than they were initially willing in order to maintain a competitive presence, and thus a downward spiral to the rates.

Universal Life

Through the first half of 2000, we have seen very few product changes to universal life plans. Most companies that offered secondary or no-lapse guarantees in 1999 have continued to offer them at 1999 levels. Some companies have increased the premiums for the lifetime or long-term guarantees or eliminated these from the product offerings, but they have been the minority.

Several companies are currently working on modifications to their universal life portfolios and we can expect to see a lot of activity over the next few months. We will probably see the most innovation or unique or creative designs on the universal life plans.

Whole Life

Whole Life may actually make a post-XXX comeback. Unlike universal life secondary guarantees, which become much more expensive under Triple-X, whole life actually becomes a little less expensive. Unfortunately, since this lowers reserves from their current levels, companies will not be able to offer this product on a nationwide basis until all states adopt the new regulation. If companies price universal life with lifetime secondary guarantees rationally, whole life may supplant universal life for lifetime coverage due to its simplicity. At least one company has introduced a new whole life design which takes advantage of the lower deficiency reserves under Triple-X. This product offers very attractive premiums compared to whole life products of the past.

Variable Life

Variable life products are currently exempt from the Triple-X regulation except in New York. This loophole will probably be very short-lived as the NAIC's Life and Health Actuarial Task Force (LHATF) is currently reviewing the need to include triple-x reserving in the variable regulations. At a LHATF meeting earlier this year, there was quite a bit of discussion around this topic. To date, we have not seen any companies try to use this as a loophole, but the regulators are looking out for potential abuses.

Over the next few months, we should continue to see term carriers try to jockey for position. Additionally, we will continue to see new competitors enter the market, especially from New York. We will begin to see revised universal life products with and without the secondary guarantees as well as some fairly creative or unique designs. We have already seen rounds two and three of the term pricing, and will begin to see round one of the universal life pricing probably by year-end. It is unlikely that the market will settle down any time soon.

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Level Premium Guarantee	Range of Change in Premiums	Average Change in Premiums*
10 years	- 10% to + 60%	- 5% to 0%
15 years	- 4% to + 40%	+ 8% to + 15%
20 years	0% to + 70%	+ 30% to + 40%
30 years	+ 35% to + 100%	+ 75% to + 100%

* ignoring higher issue age anomaly