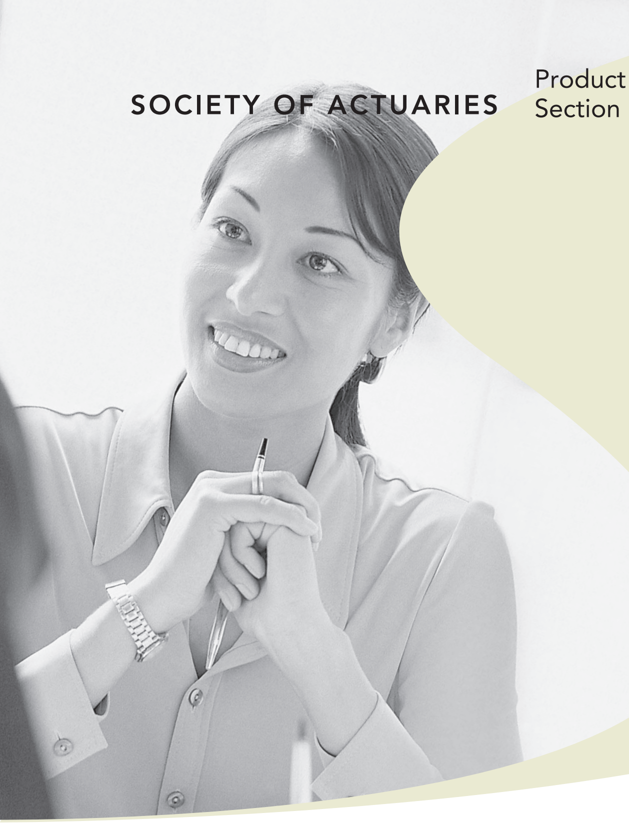
Article from:

Product Matters!

October 2012 – Issue 84

SOCIETY OF ACTUARIES

Product Development Section



Product Matters!

ISSUE 84 | OCTOBER 2012

Trends in the Universal Life **and Indexed UL Market**

By Susan J. Saip

Universal life (UL) and indexed universal life (IUL) continue to be key areas of interest in the life insurance market today as revealed in Milliman, Inc.'s fifth annual comprehensive survey covering these markets. Survey results provide UL/IUL carriers with a benchmark to evaluate their practices relative to those prevalent in the industry.

UL/IUL insurance accounted for 39 percent of U.S. individual life sales (based on annualized premium) for calendar year 2011 and the first quarter of 2012[1], continuing to play a significant role in the life insurance market. IUL sales represented more than 25 percent of overall UL sales in the first quarter of 2012.[1]

The scope of the Milliman survey included UL with secondary guarantees (ULSG), cash accumulation UL (AccumUL), current assumption UL (CAUL), indexed UL with secondary guarantees (IULSG), cash accumulation IUL (AccumIUL), and current assumption IUL (CAIUL) products. A record 31 carriers of UL/IUL products participated in this annual survey. Key findings of the survey are highlighted in this article.

UL Sales

The mix of UL sales (excluding IUL sales) reported by survey participants for calendar years 2008 through 2010 and for 2011 as of Sept. 30, 2011 (YTD 9/30/11) is shown in Figure 1 (See pg. 4). For purposes of the survey, sales were defined as the sum of recurring premiums plus 10 percent of single premiums. The product mix over the survey period changed significantly for many of the survey participants. However, many

CONTINUED ON PAGE 4

Figure 1: UL Product Mix by Year

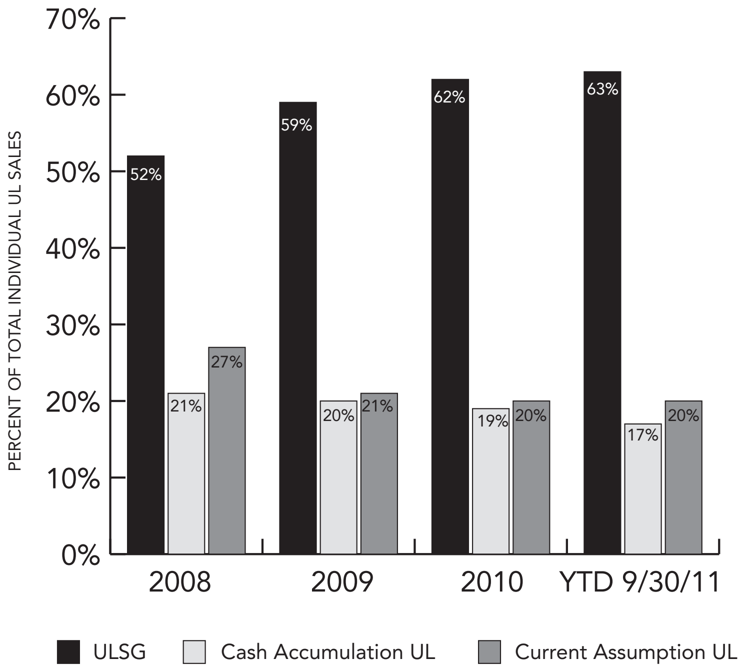


Figure 2: Average Ages, All Distribution Channels Combined

BASIS OF SALES	ULSG	CASH ACCUMULATION UL	CURRENT ASSUMPTION UL
BASED ON 2010 SALES			
PREMIUM	61	53	61
FACE AMOUNT	55	41	54
BASED ON YTD 9/30/11 SALES			
PREMIUM	60	51	62
FACE AMOUNT	55	40	55

of the changes were offset when looking at overall survey results. Ten participants reported movement away from ULSG products, with four of the 10 discontinuing sales of ULSG. Seven participants reported movement to ULSG products, with four of the seven discontinuing sales of other UL products.

Average amounts per policy reported by survey participants for ULSG and cash accumulation UL decreased from 2010 to YTD 9/30/11, and remained flat for current assumption UL on a premium basis. On a face amount basis, average amounts per policy decreased for ULSG and current assumption UL, but increased for cash accumulation UL. However, from 2010 to YTD 09/30/11, the total individual UL average premium per policy increased slightly from $9,126 to $9,527. The total individual UL average face amount per policy increased from $362,867 to $370,466. The highest average amount per policy among the UL product types (based on both premium and face amount) was reported for current assumption UL each period from 2008 through 9/30/11.

A weighted average issue age was determined for sales of survey participants by distribution channel. For all distribution channels combined, average ages dropped for all products except current assumption from 2010 to YTD 9/30/11. There was an increase in the average issue age for current assumption UL products. During 2010 the lowest average age was reported in the worksite channel. The highest average was reported in the stockbroker and financial institutions channels when measured by premium and in the financial institutions channel alone when measured by face amount. Similarly, during YTD 9/30/11, the lowest average was reported in the worksite channel on a premium basis and the worksite and MLEA channels on a face amount basis. The highest average was reported in the financial institutions channel. The table in Figure 2 summarizes the average ages calculated based on sales reported by issue age range for all distribution channels combined for 2010 and YTD 9/30/11.

With the exception of ULSG, the YTD 9/30/11 sales distribution by underwriting class shifted significantly relative to that for 2010. In general, there was movement to better underwriting classes for current assumption UL, and movement to worse underwriting classes for cash accumulation UL when comparing 2010 sales to YTD 9/30/11 sales.

IUL Sales

Survey participants reported total IUL sales, measured by the sum of recurring premiums plus 10 percent of single premiums, of $499.8 million and $503.5 million respectively for calendar year 2010 and YTD 9/30/11. This is notable because total IUL sales and total accumulation IUL sales were higher in the first three quarters of 2011 than in all of 2010. The level of sales reported for both periods was higher than sales reported for the two preceding calendar years by survey participants. Cash accumulation IUL products dominate the IUL market with a share of 88 percent reported during YTD 9/30/11. From 2010 to YTD 09/30/11, the average premium per policy reported by survey participants for AccumIUL increased from $12,538 to $14,307. The AccumIUL average face amount per policy decreased from $494,273 to $478,915.

For all distribution channels combined, average issue ages remained flat from 2010 to YTD 9/30/11 for IULSG. There was an increase in the average issue age for AccumIUL for all channels combined when measuring sales on both a premium and face amount basis. Average issue ages decreased for current assumption IUL products for all distribution channels combined. During 2010 the lowest average age was reported in the worksite channel on a premium basis and the stockbroker channel on a face amount basis. The highest average was reported in the brokerage channel. Similarly, during YTD 9/30/11, the lowest average was reported in the financial institutions channel on a premium basis and the stockbroker channel on a face amount basis. The highest average was again reported in the brokerage channel. The table in Figure 3 (above) summarizes the average ages calculated based on sales reported by issue age range for all distribution channels combined for 2010 and YTD 9/30/11.

Figure 3: Average Ages, All Distribution Channels Combined

BASIS OF SALES	IULSG	CASH ACCUMULATION IUL	CURRENT ASSUMPTION IUL
BASED ON 2010 SALES			
PREMIUM	58	54	48
FACE AMOUNT	51	46	37
BASED ON YTD 9/30/11 SALES			
PREMIUM	58	55	46
FACE AMOUNT	51	47	35

With the exception of cash accumulation IUL, the YTD 9/30/11 sales distribution by underwriting class shifted significantly relative to that for 2010. In general, there was movement to better underwriting classes for IULSG, and movement to worse underwriting classes for current assumption UL when comparing 2010 sales to YTD 9/30/11 sales. For both products, the movement seems to be driven by the results of a single company.

LTC/Chronic Illness Rider Sales

Sales data is becoming more available on UL/IUL products with chronic illness and long-term care (LTC) riders as more and more companies begin to offer and track such products. Sales of chronic illness riders and

“Sales data is becoming more available on UL/IUL products with chronic illness and long-term care riders. ...”

CONTINUED ON **PAGE 6**

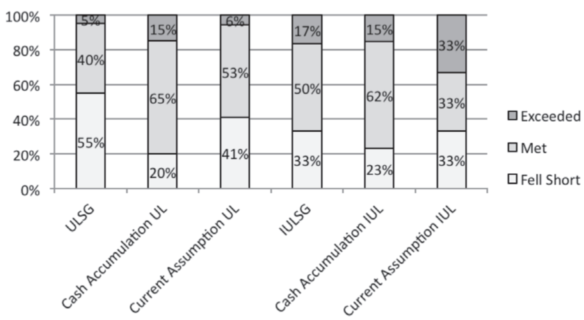
Figure 4: Chronic Illness and LTC Rider Sales as a Percent of Total Sales

CALENDAR YEAR	TOTAL INDIVIDUAL UL	ULSG	CASH ACCUMULATION UL	CURRENT ASSUMPTION UL
UL SALES WITH CHRONIC ILLNESS RIDERS AS A PERCENT OF TOTAL UL SALES				
2010	14%	15%	18%	7%
YTD 9/30/11	14%	16%	14%	7%
UL SALES WITH LTC RIDERS AS A PERCENT OF TOTAL UL SALES				
2010	7%	11%	3%	1%
YTD 9/30/11	12%	16%	4%	3%
CALENDAR YEAR	TOTAL INDIVIDUAL IUL	IULSG	CASH ACCUMULATION IUL	CURRENT ASSUMPTION IUL
IUL SALES WITH CHRONIC ILLNESS RIDERS AS A PERCENT OF TOTAL IUL SALES				
2010	22%	2%	23%	84%
YTD 9/30/11	20%	3%	20%	88%
IUL SALES WITH LTC RIDERS AS A PERCENT OF TOTAL UL SALES				
2010	<1%	1%	<1%	2%
YTD 9/30/11	1%	2%	<1%	2%

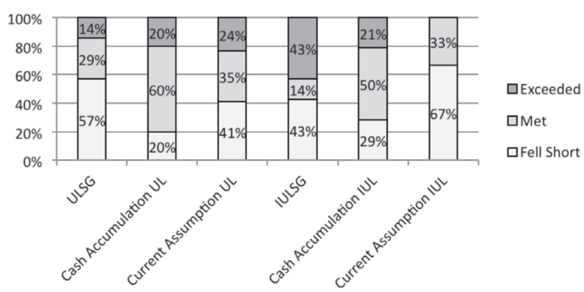
sales of LTC riders as a percent of total sales reported by survey participants are shown in Figure 4 (above). Note that there is some overlap between the participants that offer a chronic illness rider and those that offer an LTC rider.

Figure 5: Actual Results Relative to Profit Goals

Actual 2010 Results Relative to Profit Goals



Actual YTD 9/30/11 Results relative to Profit Goals



Profit Measures

Only 45 percent of survey respondents met their profit goals on UL with secondary guarantee products in 2010. This figure dropped to 43 percent during the first nine months of 2011. For current assumption IUL, 66 percent met their profit goals in 2010 and this figure dropped to 33 percent during YTD 9/30/11. The chart in Figure 5 (above) shows the percentage of survey participants reporting they fell short of, met, or exceeded their profit goals by UL product type.

Reserves

Most respondents to the survey expect that principle-based reserves (PBR) will be in place in 2015 at the earliest. Participants' comments regarding their outlook on the impact of PBR were primarily related to the expectation of a reduction in reserves or no material impact. The majority of participants have examined the underwriting criteria scoring system or another actuarially sound method for establishing a valuation mortality table. Of those responding, 61 percent reported the credibility of their UL business at 80 percent or greater. Also, few survey participants have modeled PBR-type reserves on existing UL products, but the number is growing. Sixteen survey participants participated in the National Associationa of Insurance Commissioners (NAIC) impact study of a VM-20 principle-based approach to valuations. Eight of the 16 impact study participants reported that results were consistent with expectations, seven reported that results were not as expected, and the final participant did not compare the outcome to its expectations.

"Only 45 percent of survey respondents met their profit goals on UL with secondary guarantee products in 2010."

Underwriting

Table-shaving programs are offered by 11 of the 31 participants, and all except two of those 11 reported their programs will be continued. Seventeen of the 31 participants use a credit program or other type of program that improves ratings for favorable risk factors. Modifications have been made to such programs in the last two years by six participants.

The most popular of five specific newer underwriting tools used by survey participants for fully underwritten business are cognitive impairment testing (24), prescription drug database searches (24), tele-underwriting/telephonic screening (22), activities of daily living (ADL) measures (21), and additional questions on applications (17).

Ten survey participants reported offering simplified issue (SI) underwritten UL/IUL products. The individual middle-/upper-income and corporate-owned life insurance (COLI)/bank-owned life insurance (BOLI) markets were the top two markets among survey participants where such products are offered. The most popular channel where SI UL products are offered is the brokerage channel with nine of the 10 offering products in this channel. The most common underwriting tools

CONTINUED ON **PAGE 8**

used in this market are MIB reports (10), prescription drug database searches (8), and a motor vehicle report (6). Four participants add "actively at work" questions to their simplified issue UL/IUL application that are not found in their fully underwritten UL/IUL application.

Product Design

Fourteen of the 31 participants re-priced their ULSG design in the last 12 months, and nearly all reported that premium rates on the new basis versus the old basis increased. Fifteen participants intend to modify their secondary guarantee products in the next 12 months.

Eight survey participants currently offer a long-term care (LTC) accelerated benefit rider on either a UL or IUL product. Four of the eight expect to develop an enhanced LTC combination product in the next 12 to 24 months and five additional companies expect to develop an LTC combination product in the next 12 to 24 months. This implies that nearly 42 percent of survey respondents expect to market LTC combination plans within two years.

The popularity of chronic illness benefits has been growing recently and 11 of the 31 participants reported they currently offer a chronic illness accelerated benefit rider on either a UL or IUL chassis. Six additional companies expect to develop such a rider in the next 12 to 24 months. This implies that nearly 68 percent of survey respondents expect to market either an LTC or chronic illness rider.

Compensation

Compensation structures are quite varied among survey participants. Ten of 26 participants reporting compensation do not vary commissions and marketing allowables by product type. Median commissions were similar between all UL products and cash accumulation IUL. Indexed UL with secondary guarantees and current assumption IUL had slightly higher first-year commissions.

Few survey participants offer asset-based compensation on UL/IUL products, but its use is highest for cash accumulation UL/IUL. The same is true for levelized compensation on cash value enhancement (CVE) riders.

Rolling target premiums are the most common in cash accumulation IUL compensation programs, with 83 percent of AccumIUL respondents rolling target premiums. A rolling target means that if premium less than the commissionable target premium is paid in the first year, future premiums on the difference will attract first year compensation if those premiums are paid within a specified time. Target premiums are commonly rolled for a period of two years.

Pricing

The use of stochastic modeling to evaluate ULSG investment risk is used by 17 of 23 participants. This level of use is a significant increase over what has been reported for the past several years and may be attributed to the industry's greater awareness of the risks involved in ULSG products and the movement from a formula-based valuation framework to a principle-based approach.

Fourteen survey participants reported that the slopes of their mortality assumptions are more similar to the 2001 Valuation Basic Table (VBT) than the 1975–1980 Select & Ultimate Table or the 2008 VBT, and another

10 reported they are more similar to the 2008 VBT than the 2001 VBT or the 1975–1980 Select & Ultimate Table. Most participants vary their preferred-to-standard ratios by issue age and/or by duration. More than 71 percent of the companies assume that preferred-to-standard ratios eventually converge. Seventeen of the 31 participants assume mortality improvement in pricing UL/IUL products.

Illustration Testing

Twenty of the 31 survey participants reported they find that illustration actuary requirements create constraints in UL/IUL pricing. The majority of those participants also believe the constraints are more severe for certain product types, especially ULSG. Various solutions were reported to overcome illustration actuary challenges. Also, a variety of practices are employed regarding illustrating in-force policies if the lapse support test fails. About half of the responses indicated a negative impact of the low interest rate environment on the ability to support illustration testing of in-force business and illustration testing of new business.

Conclusion

How does your UL/IUL product portfolio compare to the competition? This is a market that requires constant attention to the latest trends and issues to remain competitive. The information in this article provides a benchmark for UL/IUL carriers to answer this question.

A complimentary copy of the executive summary of the May 2012 Universal Life and Indexed Universal Life Issues report may be found at *http://insight.milliman.com/*

END NOTES

[1] LIMRA International, Inc.

Susan J. Saip, FSA, MAAA, is a consulting actuary in the Chicago office of Milliman, Inc. She can be reached at sue.saip@milliman.com.