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Universal Life and Indexed UL Trends

By Susan J. Saip

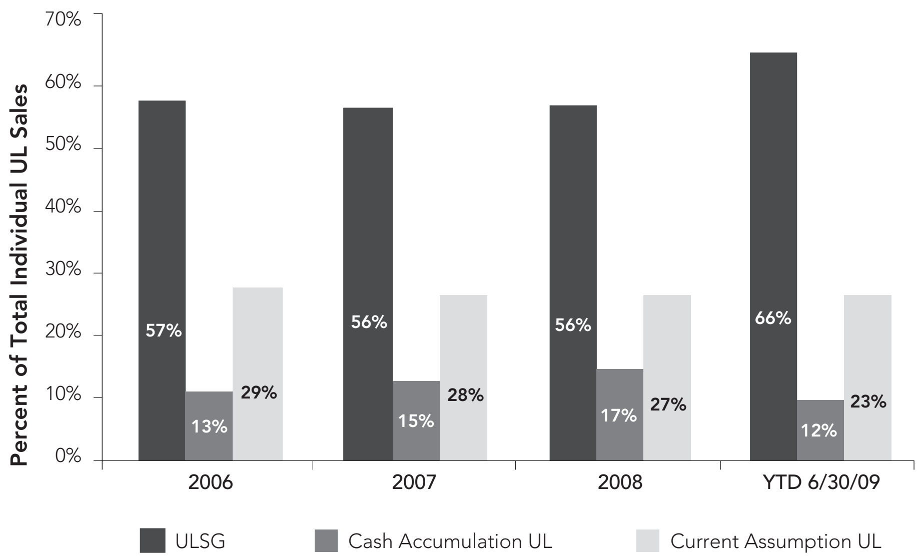
Milliman, Inc. recently conducted its third annual comprehensive survey of leading Universal Life (UL) insurers to discover current dynamics of the UL market. UL insurance plays a significant role in the life insurance market, accounting for about 41 percent of U.S. individual life insurance sales (based on annualized premium) for calendar year 2009.[1] The survey included the following UL product types: UL with secondary guarantees (ULSG), cash accumulation UL, current assumption UL, and indexed UL (IUL). Twenty-two carriers participated in the survey. Some of the highlights of the study are summarized in this article.

Sales

The chart on the right (top) shows the mix of sales (excluding IUL sales) reported by survey participants for calendar years 2006 through 2008 and for 2009 as of June 30 (YTD June 30, 2009). For purposes of the survey, sales were defined as the sum of recurring premiums plus 10 percent of single premiums. Overall, there was a shift from both cash accumulation UL sales and current assumption UL sales to ULSG sales.

Average amounts per policy reported by survey participants for all UL types fell from 2008 to YTD June 30, 2009, on both a premium and face amount basis. ULSG average amounts per policy (premium and face amount) and current assumption average premiums per policy had also dropped from 2007 to 2008. From 2008 to YTD June 30, 2009, the total UL average premium per policy dropped from $9,956 to $6,797 and the total average face amount per policy dropped from $339,300 to $299,000. The drop was even more significant for IUL plans. From 2008 to YTD June 30, 2009, IUL average premium per policy dropped from $20,915 to $7,812 and average face amount per policy dropped from $519,500 to $313,400. Perhaps some insurers have taken steps to limit their large face amount and old age business, which led to a drop in average premiums, average face amounts, and as noted below, average issue ages.

A weighted average issue age was determined for sales of survey participants based on the midpoint of specified issue age ranges. Average ages dropped significantly for cash accumulation UL and current assumption UL products from 2008 to YTD June 30, 2009. The table at the bottom of this page summarizes the average ages calculated based on sales reported by issue age range and gender for 2008 and YTD June 30, 2009.



The distribution of ULSG sales by underwriting class was similar between 2008 and YTD June 30, 2009.

Gender	ULSG	Cash Accumulation UL	Current Assumption UL	IUL
Based on 2008 Sales – Premium				
Male	62	63	60	51
Female	65	63	57	52
Based on 2008 Sales – Face Amount				
Male	56	51	49	42
Female	57	50	45	42
Based on 6/30/09 Sales – Premium				
Male	62	55	53	51
Female	64	53	49	52
Based on 6/30/09 Sales – Face Amount				
Male	55	45	42	42
Female	55	42	39	41

[1] LIMRA International, Inc

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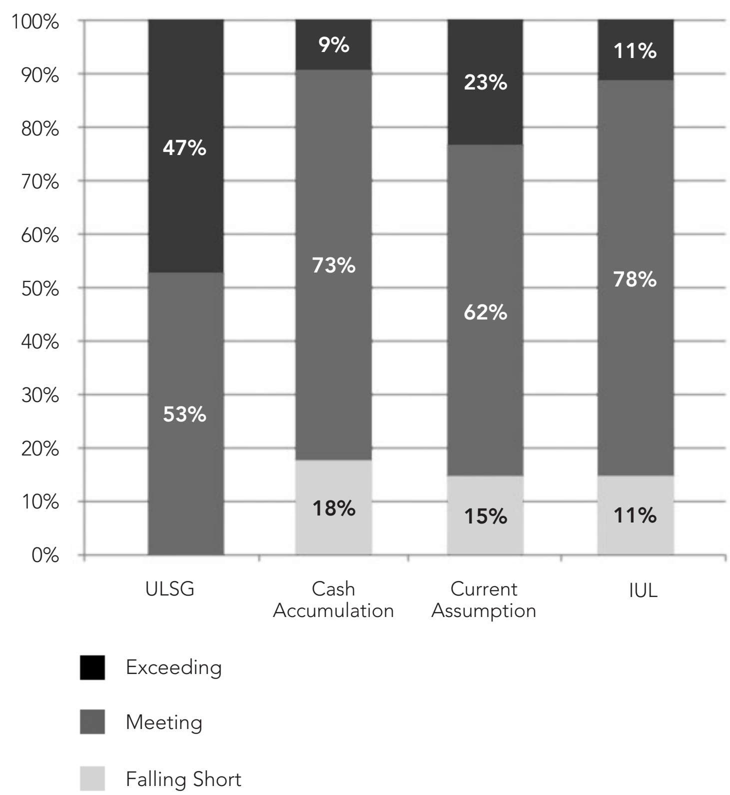
However, there was a shift in sales to the top non-smoker/non-tobacco (NS/NT) classes from 2008 to YTD June 30, 2009 for cash accumulation UL, current assumption UL, and IUL sales. A reduction in the number of underwriting classes was also reported by some survey participants, consistent with a move to simplified issue plans.

Actual YTD June 30, 2009 Results Relative To Profit Goals



“ Most respondents to the survey expect that principle-based reserves (PBR) will be in place in 2012 at the earliest. ”

Profit Measures

The predominant profit measure reported by survey participants continues to be an after-tax, after-capital statutory return on investment/internal rate of return (ROI/IRR). Few participants changed their profit goals or measures due to the recent financial crisis. The median ROI/IRR profit target reported was 12 percent for all products. Seventy-three percent of survey participants also use secondary measures in pricing UL products.

Actual profit results for YTD June 30, 2009 relative to profit goals were not as favorable for survey participants as in the past. The chart on the left shows the percentage of survey participants reporting they are falling short of, meeting, or exceeding their profit goals.

Target Surplus

The majority of survey participants reported target surplus relevant to pricing new UL sales issued today on an NAIC basis. The overall NAIC risk-based capital percent of company action level ranged from 200 percent to 350 percent for ULSG and cash accumulation markets, and from 250 percent to 350 percent for current assumption markets and IUL markets. Few participants indicate they are well prepared for the changes to the C-3 component of risk-based capital.

Reserves

Most respondents to the survey expect that principle-based reserves (PBR) will be in place in 2012 at the earliest. Participants' comments regarding their outlook on the impact of PBR were nearly evenly split between those that do not expect a material impact and those that expect a reduction in reserves. The majority of participants have not examined the underwriting criteria scoring system for establishing a valuation mortality table. Also, few survey participants have modeled PBR-type reserves on existing UL products. Thirteen of the 22 participants are using or moving toward preferred mortality splits and/or lapses in reserves.

Risk Management

The cost of financing assumed in pricing ULSG products currently ranges from 100 to 300 bps. Three survey participants assume the same costs that were assumed a year ago, three assume a lower cost and two assume a higher cost than that assumed one year ago.

Nearly half of survey participants are reacting to the current marketplace by riding it out and eight of the 22 participants are repricing. The implications of the recent financial crisis on capital solutions are varied among survey participants. Nearly one-third of survey participants reported very little or no implications. Other participants reported implications that relate to limited external funding solution availability and/or costs.

Underwriting

Table-shaving programs are offered by seven of the 22 participants, and all reported their programs will be continued.

The most popular emerging underwriting tools being used by survey participants, especially at the older ages, are prescription drug databases (16), cognitive impairment testing (11), tele-underwriting/telephonic screening (11), and activities of daily living (ADL) measures (11).

A few participants (five) have special simplified underwriting products and each described a different special market where the product is used.

The majority of survey participants have created unique preferred risk parameters for the older ages. The use of such parameters has increased year-by-year based on the use reported in Milliman's previous two annual surveys.

Product Design

Twelve participants repriced their ULSG design in the last 12 months. The general level of premium rates on the new basis versus the old basis increased for six participants and decreased for four participants. Ten participants intend to modify their secondary guarantee products in the next 12 months.

Five survey participants currently offer a long-term care (LTC) accelerated benefit rider, however some address the need via chronic care benefits. Eight companies expect to develop an LTC combination product in the next 12 to 24 months, which when coupled with the five companies already offering LTC riders, implies that nearly 60 percent of survey respondents expect to market LTC combination plans within two years and an even higher percentage expect to offer some type of LTC solution.

Eighteen survey participants currently offer a living benefit or expect to offer a living benefit in the next 12 months. In nearly all cases, participants are providing an accelerated death benefit, primarily for terminal illness.

Compensation

Compensation structures are quite varied among survey participants. About half of the companies do not vary commissions and marketing allowables by product type. Median commissions, as well as the range of commissions, were similar between ULSG and cash accumulation UL. IUL products had slightly higher first-year and renewal commissions. Current assumption UL products had the highest first-year and renewal commissions.

Rolling target premiums are becoming more common in ULSG compensation programs. Target premiums are commonly rolled for two years.

Pricing

The use of stochastic modeling to evaluate ULSG investment risk is used by nine out of 18 participants. This level of use has been constant for the past several years, but is surprisingly low given the industry's greater awareness of the risks involved in ULSG products and the movement from a formula-based framework to a principle-based approach.

Seven participants reported their mortality assumptions are strictly based on company experience. All other participants use various combinations of company experience, guidance from reinsurers, and consultants' recommendations in developing mortality assumptions. The majority of survey participants reported that the slope of their mortality assumption is more similar to the 2001 Valuation Basic Table (VBT) than the 1975-1980 Select & Ultimate Table or the 2008 VBT. Most participants vary their preferred to standard ratio by issue age and/or by duration. Nearly two-thirds of the companies assume that preferred to standard rates eventually converge and one-third assume they do not

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converge. Thirteen of the 22 participants do not assume mortality improvement in pricing UL/IUL products.

Conclusion

Universal Life is a competitive market in a constantly changing environment which requires insurers to stay current with the latest happenings. Benchmarking against other carriers enables insurers to evaluate their processes and practices relative to those prevalent in the industry. The UL/IUL survey provides carriers with a benchmark for this purpose and enables them to see how they stack up relative to the competition.

The executive summary of the March 2010 Universal Life and Indexed Universal Life Issues report may be found at http://www.milliman.com/expertise/life-financial/publications/rr.