How Do Your Universal Life and Indexed UL Products Stack Up?

By Susan J. Saip

Given the recent decline in Universal Life (UL) sales, in particular those with secondary guarantees, it is important for carriers to keep an eye on what is happening in the UL/IUL market. Milliman's seventh annual survey of leading UL insurers is a useful tool for competitive benchmarking purposes and keeping up with the issues and challenges of the UL/IUL market. Over the last 10 years the UL/IUL market share (measured by annualized premium) has ranged from 37 percent to 42 percent[1] of total individual life sales, and was 38 percent[1] as of Dec. 31, 2013. The IUL market share has shown tremendous growth, from 8 percent in 2007 to 14 percent during the first quarter of 2014[1]. These facts demonstrate the importance of UL/IUL products in the U.S. individual life market. For purposes of the Milliman survey, sales were defined as the sum of recurring premiums plus 10 percent of single premiums. The scope of the Milliman survey included UL with secondary guarantees (ULSG), cash accumulation UL (AccumUL), current assumption UL (CAUL), and the indexed UL (IUL) counterparts of these products. The definition of these product types is shown below:

UL/IUL with Secondary Guarantees: A UL/IUL product designed specifically for the death benefit guarantee market that features long-term (guaranteed to last until at least age 90) no-lapse guarantees either through a rider or as a part of the base policy.

Cash Accumulation UL/IUL: A UL/IUL product designed specifically for the accumulation-oriented market where cash accumulation and efficient distributions are the primary concerns of the buyer. Within this category are products that allow for high-early-cash value accumulation, typically through the election of an accelerated cash value rider.

Current Assumption UL/IUL: A UL/IUL product designed to offer the lowest cost death benefit coverage without death benefit guarantees. Within this category are products sometimes referred to as "dollar-solve" or "term alternative."

Results of the survey are based on responses from 26 carriers of UL/IUL products. This article highlights the key findings of the survey.

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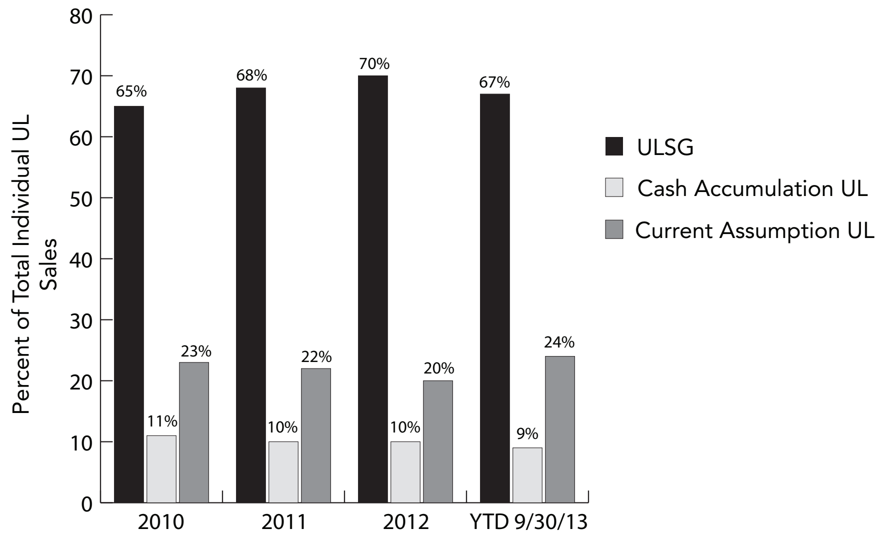
UL Sales

Figure 1 shows the mix of UL sales (excluding IUL sales) reported by survey participants for calendar years 2010 through 2012, and for 2013 as of Sept. 30, 2013 (YTD 9/30/13). Individual company results were varied, but 10 participants reported at least a 25 percent shift from or to any one UL product when looking at the YTD 9/30/13 product mix relative to that of 2012. Eight of the 26 participants reported movement to ULSG products, eight to AccumUL products, and eight to CAUL products. Sales of ULSG products were discontinued by five participants. Actuarial Guideline 38 reserve requirements have made some ULSG product noncompetitive, resulting in some companies withdrawing their products.

Figure 1: UL Product Mix by Year



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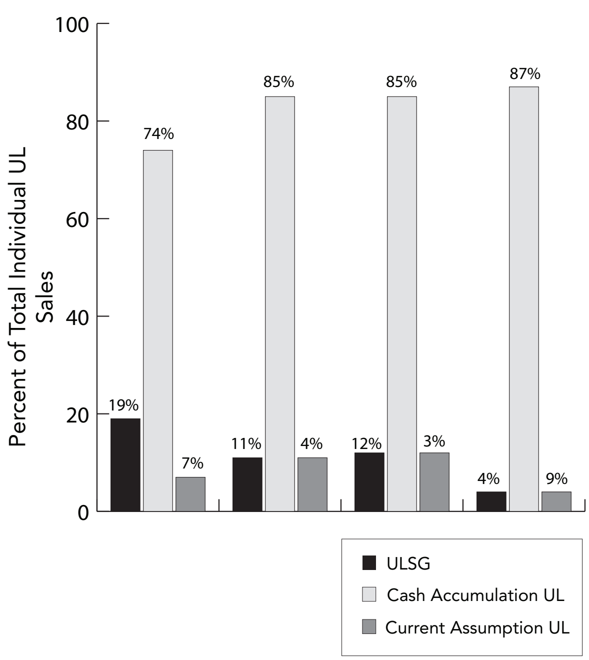
For the first time, the survey results include the reporting of the percentage of ULSG sales (based on policy count) with the selection of no lapse guaranteed (NLG) premiums to age 90 or longer. The average reported for both 2012 and YTD 9/30/13 was 77 percent, with a median of 88 percent in 2012 and 94 percent during YTD 9/30/13. Survey participants reported percentages that ranged from 14 percent to 100 percent.

Indexed UL Sales

The IUL market has garnered considerable attention recently for a number of reasons. There have been a number of new entrants in the IUL market in recent years, policyholders are interested in the upside potential and downside protection offered by IUL products, and IUL illustrations are attractive. Total IUL sales as a percent of total UL/IUL sales combined for survey participants increased from 14 percent in 2010 to 31 percent during YTD 9/30/13. From 2010 to YTD 9/30/13, AccumIUL sales increased significantly from 52 percent to 82 percent of total cash accumulation UL/IUL sales. Expectations of survey participants suggest that companies will focus more on cash accumulation IUL and current assumption IUL products and less on universal life with secondary guarantees. The graph in Figure 2 shows the significance of AccumIUL products within the IUL market.

Figure 2: IUL Product Mix by Year



Living Benefit Rider Sales

Life insurance products with living benefit riders have been available for a number of years, but recently the popularity of chronic illness and long-term care riders has increased as more and more carriers have added these riders to their UL/IUL products.

Accelerated death benefits provided under chronic illness riders are similar to those provided under long-term care insurance riders. Under chronic illness riders, payment of the death benefit may be accelerated if the insured has a chronic illness condition. Benefit triggers are included that typically utilize a combination of activities of daily living (ADLs) and cognitive impairment, or permanent nursing home confinement. These riders are typically filed under the Accelerated Benefits Model Regulation 620. Under long-term care accelerated benefit riders, payment of the death benefit is accelerated if the insured has a chronic illness condition triggering long-term care (i.e., ADLs, cognitive impairment). These riders are typically filed under Long-Term Care regulations. There are a number of other legal and design differences between chronic illness and long-term care accelerated benefit riders, as well.

Fourteen of the survey participants currently offer a chronic illness accelerated benefit rider on either a UL or IUL chassis. During the first nine months of 2013 sales of policies with chronic illness riders as a percent of total sales were 11 percent for UL products and 33 percent for IUL products. The greater share of chronic illness riders on an IUL chassis rather than a UL chassis is due to the recent development of more new IUL products. New companies entering the IUL market have filed their new IUL products including these relatively new chronic illness riders. The table in Figure 3 shows YTD 9/30/13 chronic illness rider sales as a percent of total sales for UL and IUL products separately by product type.

Figure 3: Chronic Illness Rider Sales as a Percent of Total Sales

YTD 9/30/13 Sales With Chronic Illness Riders As A Percent Of Total Sales (Weighted By Premium)			
Total Individual UL	ULSG	Cash Accumluation UL	Current Assumption UL
11%	12%	24%	4%
Total Individual IUL	IULSG	Cash Accumluation IUL	Current Assumption IUL
33%	10%	36%	21%

Long-term care (LTC) insurance has been a focus in the media recently due to the aging of the population, and the high cost of medical care for retirees. LTC riders to life insurance policies are another form of living benefit, and are available to provide a solution for LTC needs. LTC riders attached to UL/IUL policies (linked benefits) are an alternative to standalone LTC policies. During YTD 9/30/13, sales of policies with LTC riders as a percent of total sales were 17 percent for UL products and 9 percent for IUL products. Sales of LTC riders as a percent of total sales reported by survey participants are shown for UL and IUL products separately by product type in Figure 4. Few companies in the UL/IUL market offer both chronic illness riders and LTC riders. Nearly 85 percent of survey respondents expect to market either an LTC or a chronic illness rider within 12 to 24 months.

Figure 4: Long-Term Care Rider Sales as a Percent of Total Sales

YTD 9/30/13 Sales with long-term care riders as a percent of total sales (weighted by premium)			
Total Individual UL	ULSG	Cash Accumluation UL	Current Assumption UL
17%	22%	9%	6%
Total Individual IUL	IULSG	Cash Accumluation IUL	Current Assumption IUL
9%	31%	9%	1%

Profit Measures

Consistent with prior surveys, the predominant profit measure reported by survey participants is an after-tax, after capital statutory return on investment/internal rate of return (ROI/IRR). The median ROI/IRR is 12 percent for all UL product types, with the exception of current assumption UL and IULSG where the medians are 11.5 percent and 13 percent, respectively. More changes to profit metrics in the past two years were reported by survey participants than in past surveys. Some participants lowered their profit goals and some increased them. Others did not change targets, but are more willing to consider a statutory IRR below their targets, which is due to the sustained low interest rate environment. New profit measures were added by a few participants (e.g., 5-year GAAP ROE rather than lifetime GAAP ROE, risk neutral pricing).

The percentage of survey respondents reporting they fell short of profit goals decreased from 2012 to YTD 9/30/13 for all UL/IUL product types, except for cash accumulation UL and current assumption IUL where the percentage remained the same. These percentages dropped significantly for ULSG (75 percent to 56 percent) and for IULSG (33 percent to 0 percent). The chart in Figure 5 shows the percentage of survey participants reporting they fell short of, met, or exceeded their profit goals by UL product type. The top two reasons given for failure to meet profit goals were low interest earnings and expenses.

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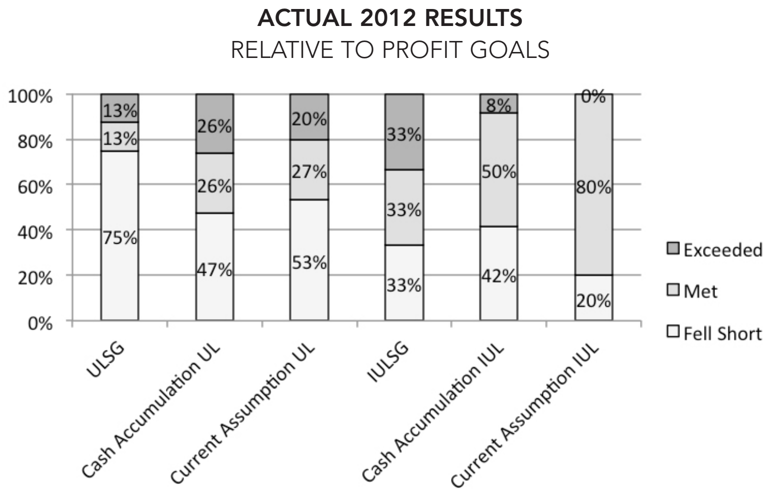
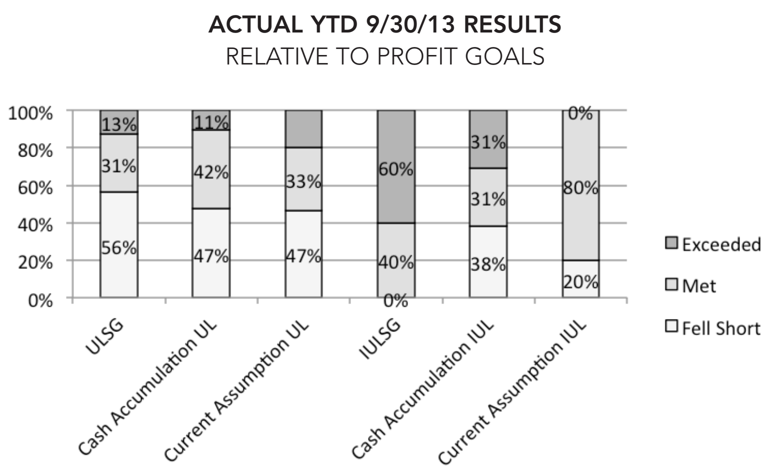
Figure 5: Actual Results Relative to Profit Goals





Reserves

When asked about the impact of Actuarial Guideline 38 (AG 38) Section 8D on 12/31/12 reserves, the majority (12) of the 21 participants responding indicated there was no impact. Six additional participants reported that reserves increased, and the final three participants reported they have no business that is subject to AG 38 Section 8D. The methodology used for policies subject to AG 38 Section 8D was reported as the primary methodology by 14 of 15 participants.

Product Design

Ten participants in the survey repriced their ULSG designs in the last 12 months. Seven of these 10, plus three additional participants, intend to modify their secondary guarantee products in the next 12 months. Another three participants reported that it is possible they may modify their secondary guarantees products in the next 12 months. It is interesting that the majority of those intending to modify their secondary guarantee products reported they were at least meeting their profit goals through the first nine months of 2013, which may indicate that other factors are driving these modification plans.

Survey participants reported the strategies used in light of the low interest rate environment. Following are the strategies reported, with the number of responses shown in parenthesis:

- Intentionally reducing or limiting UL sales by increasing premium rates (13), or discontinuing sales of certain products (9)
- Instituting premium limitations (7)
- Riding it out (6)
- Launching new designs with reduced guarantees (6)

Illustrations

New questions were added to the survey relative to certification for illustration actuary testing and disciplined current scale breakpoint sensitivity testing. Survey participants were asked if they are currently testing in-force business or using ASOP 24 Section 3.7 to not test when certifying for illustration actuary testing on in-force business. ASOP 24 Section 3.7 applies to illustrations on policies in-force one year or more. Ten of 21 participants reported they are currently testing in-force business, and nine are currently using ASOP 24 Section 3.7 to not test when certifying for illustration actuary testing. Of the remaining two participants, one reported that it is using both approaches, and the final participant reported it is using neither approach.

Fifteen participants reported they sensitivity test to see where the disciplined current scale (DCS) breakpoints are (i.e., when the DCS might fail).

Conclusion

The UL/IUL market will continue to present challenges and opportunities to insurers. Is your company in the position to develop creative solutions to meet the challenges or take advantage of the opportunities? Insurers can evaluate their UL/IUL products and practices relative to those prevalent in the industry by using resources such as the UL/IUL survey. A copy of the executive summary of the May 2014 Universal Life and Indexed Universal Life Issues report may be found at http://www.milliman.com/insight/2014/Universal-life-and-indexed-universal-life-issues--2013-survey/.

ENDNOTES

[1] As measured by recurring premium. LIMRA International, Inc.