Article from

Product Matters

October 2015
Issue 93

What's Trending in the Universal Life Market? More of the Same

By Susan J. Saip

Trends in the universal life (UL) market of the past few years continued in 2014 and into 2015. Sales in this market have been driven by indexed universal life (IUL) and living benefit riders on UL/IUL products. UL/IUL continues to garner the biggest market share (measured by annualized premium) of total individual life sales (37 percent[1] as of March 31, 2015). IUL sales accounted for 52 percent[1] of total UL/IUL sales in the first quarter of 2015. These facts demonstrate the ongoing importance of UL/IUL products in the U.S. individual life market. Milliman's eighth annual survey of leading UL insurers delves into the issues and challenges of these products, allowing companies to benchmark their practices against the competition. For purposes of the 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 as follows:

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 distribution 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.

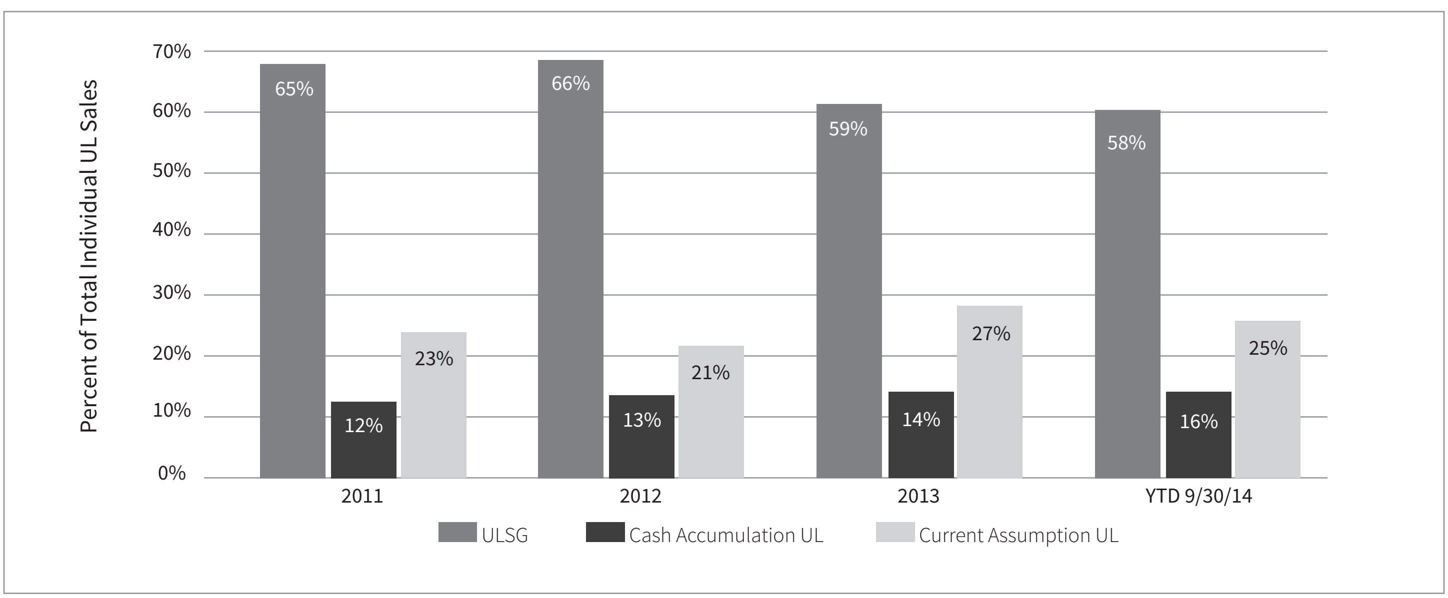
Current Assumption UL/IUL: A UL/IUL product designed to offer the lowest cost death benefit coverage without death benefit guarantees. Within this category are products sometimes referred to as "dollar-solve" or "term alternative."

Survey results are based on responses from 29 carriers of UL/IUL products. This article provides a summary of the key findings of the survey.

UL SALES

The mix of UL sales (excluding IUL sales) reported by survey participants for calendar years 2011 through 2013, and for 2014 as of Sept. 30, 2014 (YTD 9/30/14) are shown in Figure 1. Individual company results were varied, but nine participants reported at least a 25 percent shift from or to any one UL product when looking at the YTD 9/30/14 product mix relative to that of 2013. Nine of the 29 participants reported movement to ULSG products, nine to AccumUL products, and eight to CAUL products. Sales of ULSG products were discontinued by five participants. One participant began selling ULSG products, and one began selling AccumUL products.

Figure 1
UL Product Mix by Year



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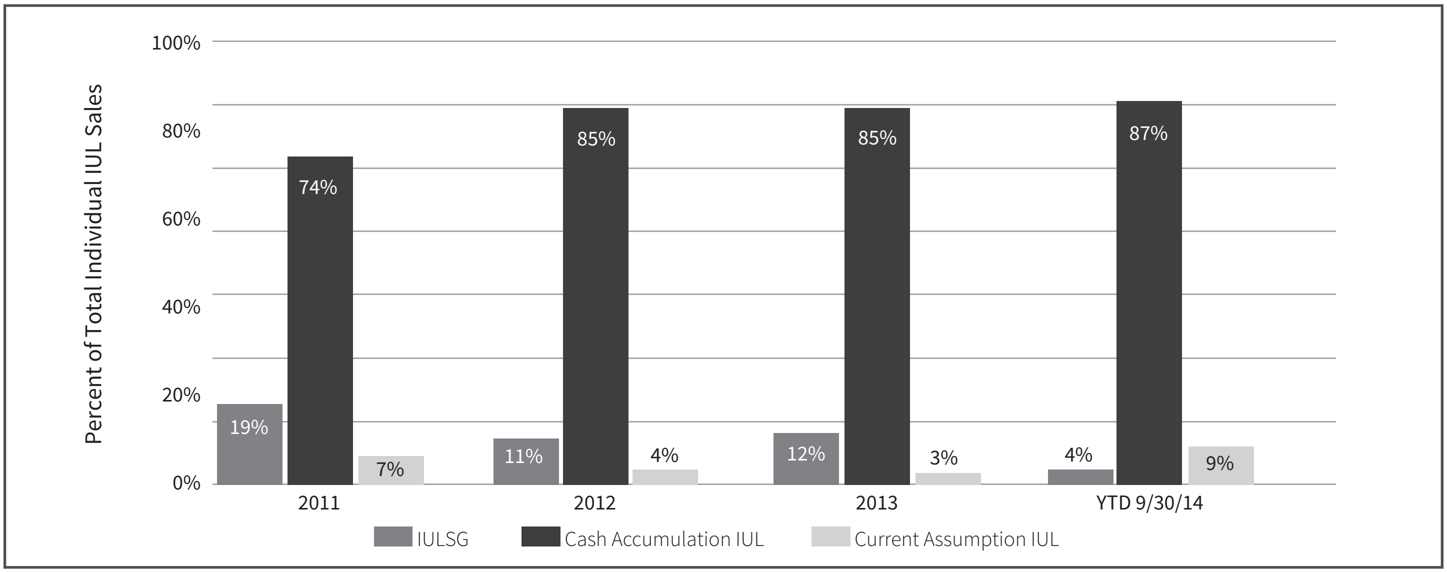
In 2013, the average percentage of ULSG sales (based on policy count) with the selection of no lapse guaranteed (NLG) premiums to age 90 or longer was 81.3 percent, with a median of 100.0 percent. The average reported for YTD 9/30/14 was 78.2 percent, with a median of 99.0 percent. Percentages ranged from 3.7 percent to 100 percent, and in general, were slightly higher than percentages reported in last year's survey.

INDEXED UL SALES

The continued trend of increasing IUL sales is evidenced by the percentage increase in the IUL market share from 2011 to YTD 9/30/14. Total IUL sales as a percent of total UL and IUL sales combined for survey participants increased from 25 percent in 2011 to 45 percent during YTD 9/30/14. AccumIUL sales increased from 70 percent to 82 percent of total cash accumulation UL/IUL sales and CAIUL sales increased from 5 percent to 17 percent of total current assumption UL/IUL sales. The recent increase in IUL sales is attributed to the increasing number of new entrants in the IUL market in recent years, policyholders' interest in the upside potential and downside protection offered by IUL products, and the attractiveness of IUL illustrations. Overall survey statistics suggest that companies plan to focus more on cash accumulation IUL and current assumption IUL products and less on universal life with secondary guarantees. The significance of AccumIUL products within the IUL market is illustrated in the graph in Figure 2.

Figure 2
IUL Product Mix by Year



LIVING BENEFIT RIDER SALES

Accelerated death benefit riders on individual life insurance policies have been popular for many years. More recently, the triggers for these benefits have expanded from terminal illness, to chronic illness and long-term care. Under chronic illness riders, payment of the death benefit may be accelerated if the insured has a chronic illness condition. Requirements to trigger the benefit typically utilize a combination of activities of daily living (ADLs) and cognitive impairment, or permanent nursing home confinement.

Chronic illness riders are typically filed under the Accelerated Benefits Model Regulation 620. For long-term care (LTC) 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). LTC accelerated benefit riders are typically filed under Long-Term Care regulations. Other legal and design differences exist between chronic illness and long-term care accelerated benefit riders as well.

Fifteen 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 2014 sales of policies with chronic illness riders as a percent of total sales were 17 percent for UL products. Since more new IUL products have been developed recently, and many of these include a chronic illness rider, a greater share of chronic illness riders on an IUL chassis was seen (45 percent). YTD 9/30/14 sales with chronic illness riders as a percent of total sales for UL and IUL products separately by product type are shown in the table in Figure 3.

Figure 3

Chronic Illness Rider Sales as a Percent of Total Sales

YTD 9/30/14 UL Sales With Chronic Illness Riders as a Percent of Total UL Sales (Weighted By Premium)			
Total Individual UL	ULSG	Cash Accumluation UL	Current Assumption UL
17%	17%	37%	5%
YTD 9/30/14 IUL Sales With Chronic Illness Riders as a Percent of Total IUL Sales (Weighted By Premium)			
Total Individual IUL	IULSG	Cash Accumluation IUL	Current Assumption IUL
45%	31%	44%	58%

Three different approaches can be used for the payment of chronic illness accelerated death benefits. Under the discounted death benefit approach, the insurer pays the owner a discounted percentage of the face amount reduction, with the face amount reduction occurring at the same time as the benefit payment. This approach avoids the need for charges up front or other premium requirements for the rider, because the insurer covers its costs of early payment of the death benefit via a discount factor. Eight of the 15 participants that reported UL/IUL sales with chronic illness riders provide a discounted death benefit as an accelerated benefit.

Six additional participants reported their chronic illness rider uses a lien against the death benefit to provide the accelerated benefit, and one survey participant uses a dollar-for-dollar death benefit reduction approach. Under the lien approach, the payment of accelerated death benefits is considered a lien or offset against the death benefit. Access to the cash value (CV) is restricted to any excess of the CV over the sum of the lien and any other outstanding policy loans. The gross policy values continue as if the lien did not occur. That is, future premiums/charges are unaffected, and the gross CV continues to grow as if the lien didn't exist. In most cases there are lien interest charges that are assessed under this design.

Under the dollar-for-dollar approach, there is a dollar-for-dollar reduction in the death benefit and a pro rata reduction in the CV based on the percentage of the death benefit accelerated. This approach always requires an explicit charge. Note that a recent SOA study reported a higher mix of plans using the dollar-for-dollar reduction approach.

The aging population and high cost of medical care have drawn attention to long-term care (LTC) needs. One solution for LTC needs is the use of LTC riders attached to UL/IUL policies (linked benefits) as an alternative to standalone LTC policies. During YTD 9/30/14, sales of policies with LTC riders as a percent of total sales were 18 percent for UL products and 9 percent for IUL products, both at peak levels. Figure 4 shows sales of LTC riders as a percent of total sales reported by survey participants for UL and IUL products separately by product type.

Figure 4

Long-Term Care Rider Sales as a Percent of Total Sales

YTD 9/30/14 UL Sales With Long-Term Care Riders as a Percent of Total UL Sales (Weighted By Premium)			
Total Individual UL	ULSG	Cash Accumluation UL	Current Assumption UL
18%	26%	10%	4%
YTD 9/30/14 IUL Sales With Long-Term Care Riders as a Percent of Total IUL Sales (Weighted By Premium)			
Total Individual IUL	IULSG	Cash Accumluation IUL	Current Assumption IUL
9%	22%	9%	3%

Few companies in the UL/IUL market offer both chronic illness riders and LTC riders; only three of the survey participants offer both chronic illness and LTC accelerated benefit riders. Nearly 86 percent of survey respondents expect to market either an LTC or a chronic illness rider within the next 24 months.

PROFIT MEASURES

As has been reported in the past, an after-tax, after capital statutory return on investment/internal rate of return (ROI/IRR) is the predominant profit measure reported by survey participants. The median ROI/IRR is 12 percent for all UL product types, except it is 10 percent for AccumUL, and 12.5 percent for IULSG.

Survey respondents reported their actual results relative to profit goals for 2013 and YTD 9/30/14. In 2013, 53 percent of ULSG participants reported they fell short of profit goals. For the remaining UL/IUL products, the majority of participants were at least meeting their profit goals. The percentage of survey respondents reporting they fell short of profit goals during YTD 9/30/14 for ULSG was 59 percent. Again, for all other UL/IUL product types, the majority of participants were at least meeting their profit goals. 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. Low interest earnings and expenses continue to be the top two reasons given for failure to meet profit goals.

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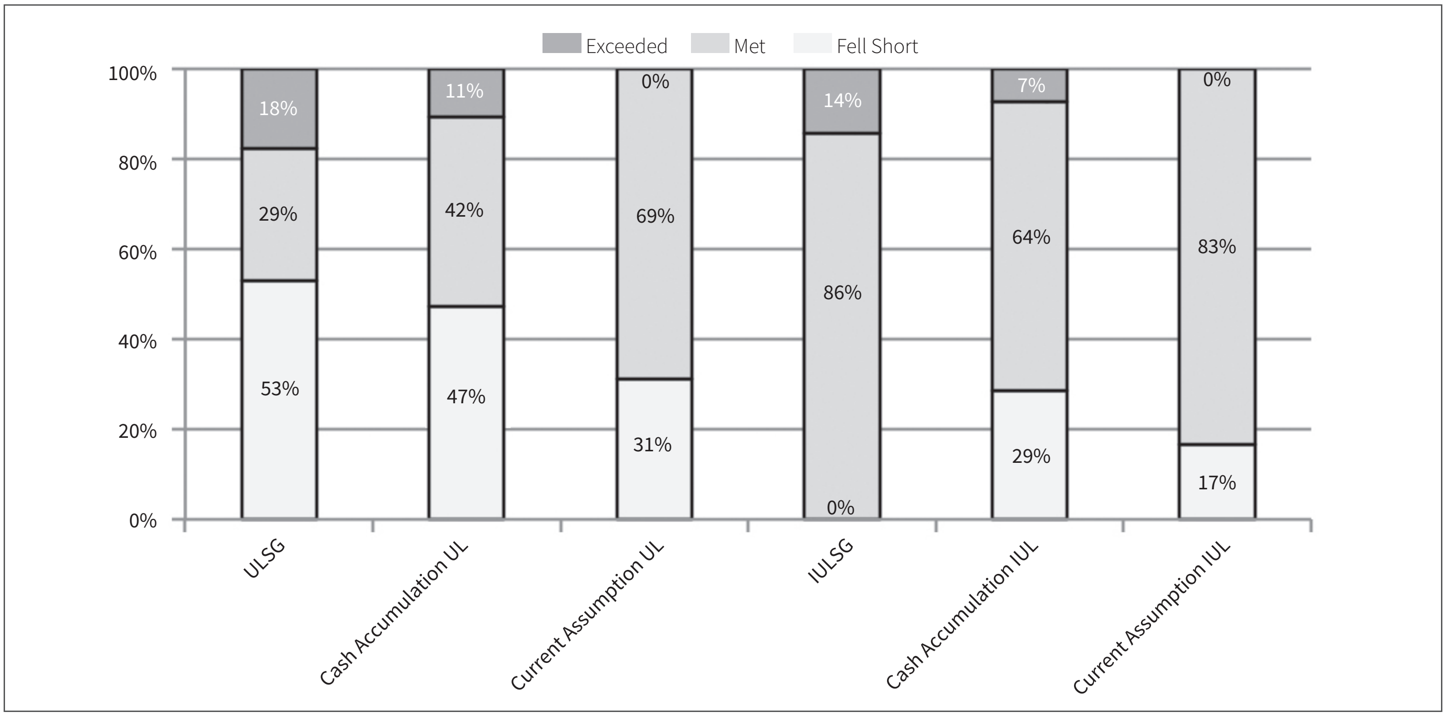
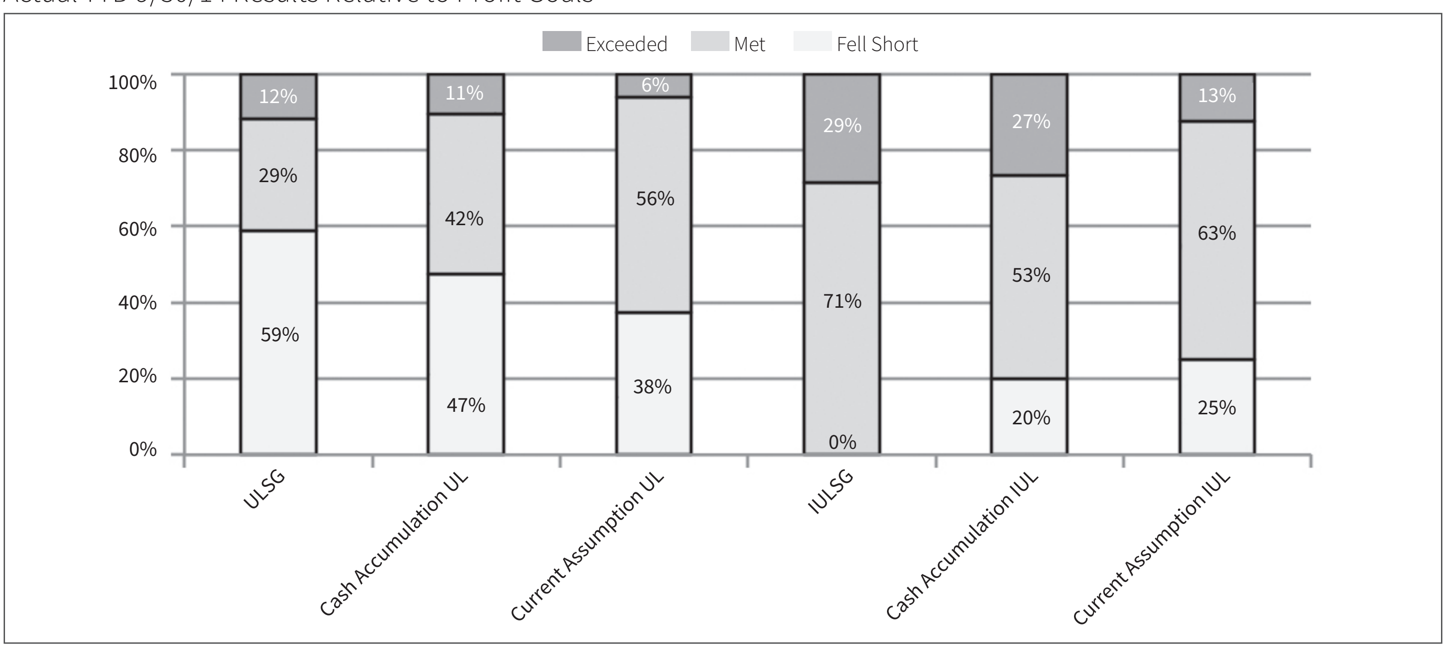
Figure 5

Actual 2013 Results Relative to Profit Goals



Actual YTD 9/30/14 Results Relative to Profit Goals



PRODUCT DESIGN

Four of the 17 participants reporting ULSG sales repriced their ULSG designs in the last 12 months, and three of those four also reported repricing their ULSG designs in the last 13 to 24 months. Six additional participants repriced in the last 13 to 24 months for a total of nine participants. Four reported that premium rates on the new basis versus the old basis increased, and one discontinued its ULSG product.

Strategies used in light of the low interest rate environment include:

- Intentionally reducing or limiting UL sales by increasing premium rates (11 participants), or discontinuing sales of certain products (11)
- Instituting premium limitations (seven)
- Riding it out (10)
- Launching new designs with reduced guarantees (nine)

ILLUSTRATIONS

Fourteen of the 29 survey participants are no longer illustrating non-guaranteed elements on ULSG products, up slightly from last year.

> Participants reported the median illustrated rate used in IUL illustrations is 7.50 percent, with an average of 7.10 percent.

Participants reported the median illustrated rate used in IUL illustrations is 7.50 percent, with an average of 7.10 percent. Similarly, the median rate one year ago was 7.29 percent, with an average of 7.06 percent. Nineteen of 20 participants reported that the illustrated rate is based on a look-back period, with 11 using a 25-year period, and seven using a 30-year period. Eight participants reported that the illustrated rate applies to both non-loaned and loaned values, and 11 reported that it does not apply to both values.

Survey participants reported 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. Twelve of 25 participants reported they are currently using ASOP 24 Section 3.7 to not test when certifying for illustration actuary testing, and nine are testing in-force business. The remaining four participants are using both approaches.

Twenty-one of 28 participants are doing sensitivity testing to see where the disciplined current scale (DCS) breakpoints are (i.e., when the DCS might fail).

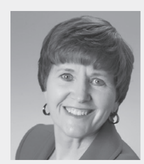
Three participants reported they are illustrating utilization scenarios/examples for accelerated death benefit (ADB) riders with a discounted death benefit approach. Four participants are doing so for other ADB riders. The majority of participants that are illustrating ADB utilization reported that the illustrations are in a supplemental illustration, rather than in the basic illustration.

CONCLUSION

While many trends from the past continue within the UL/IUL market, it isn't always easy to keep up to date on an industry that constantly presents new challenges and opportunities. Staying abreast of practices that are prevalent in the industry is critical for those insurers striving to compete in this market. Industry data, such as that included in the UL/IUL survey, can help insurers stay ahead of the curve and react as changes occur. A complimentary copy of the executive summary of the June 2015 Universal Life and Indexed Universal Life Issues report may be found at: *http://us.milliman.com/insight/2015/Universal-life-and-indexed-universal-life-issues--2014-survey/.* ■

ENDNOTE

1 LIMRA International, Inc.



Susan J. Saip, FSA, MAAA, is a consulting actuary with Milliman Inc in Buffalo Grove, Ill. She can be contacted at *sue.saip@milliman.com.*