Article from
Product Matters
October 2018
Issue 111

Annual Survey Provides Insights into the Universal Life and Indexed UL Market

By Susan J. Saip

Since 2004, the market share of universal life (UL) products has been in the range of 35 percent to 40 percent[1] of total life sales measured by first-year premium, despite the recent challenges of low interest rates, reserving changes, and new illustration requirements. Industry insights relative to these challenges are included in the most recent UL and Indexed UL (IUL) survey conducted by Milliman. Survey results are based on responses from 29 carriers of UL/IUL products. The broad-based survey covers a range of product and actuarial issues such as sales, profit measures, target surplus, reserves, risk management, underwriting, product design, compensation, pricing, and illustrations.

Products included in the scope of the Milliman survey are: UL with secondary guarantees (ULSG), cash accumulation UL (AccumUL), current assumption UL (CAUL), and the indexed UL (IUL) counterparts of these products (i.e., IULSG, AccumIUL, and CAIUL). These product types are defined as follows:

- *UL/IUL with Secondary Guarantees:* A UL/IUL product designed specifically for the death benefit guarantee market that features long-term no-lapse guarantees (guaranteed to last until at least age 90) 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 efficient accumulation of cash values to be available for distribution is the primary concern 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."

The key findings of the survey are highlighted in this article.

UL SALES

The mix of UL sales (excluding IUL sales) reported by survey participants from calendar years 2014–2016, and for 2017 as of Sept. 30, 2017 (YTD 9/30/17) is shown in Figure 1. Sales were defined as the sum of recurring premiums plus ten percent of single premiums for purposes of the survey. In the past couple of years fewer participants reported significant shifts in their UL product mix relative to prior years, when comparing the mix at the end of the survey period to that of the beginning of the survey period.

New in this year's survey was the reporting of sales by underwriting approach. Underwriting approaches for the purpose of the survey were defined as follows:

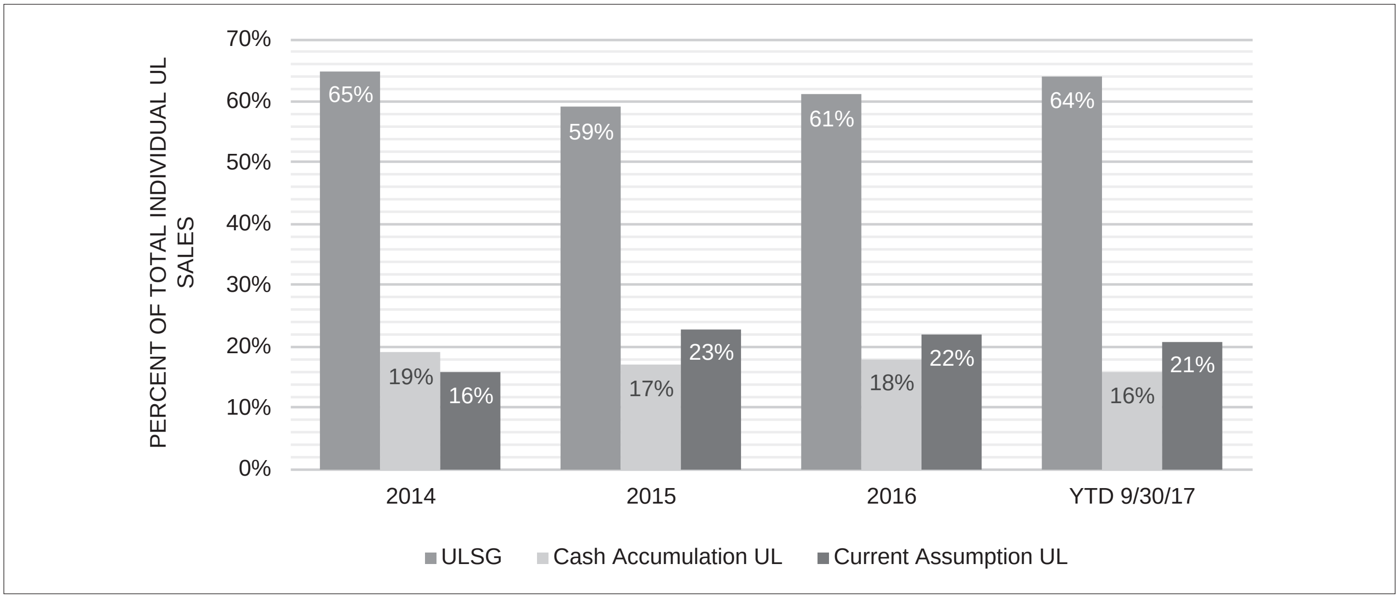
- *Simplified issue underwriting:* Less than a complete set of medical history questions and no medical or paramedical exam.
- *Accelerated underwriting:* The use of tools or predictive models to waive requirements such as fluids and a paramedical exam on a fully underwritten product for qualifying applicants without charging a higher premium than for fully underwritten business.
- *Fully underwritten:* Complete set of medical history questions and medical or paramedical exam, except where age and amount limits allow for nonmedical underwriting.

For accelerated underwriting sales, participants were instructed to include total sales for products under which accelerated underwriting is offered. The distribution of 2016 UL sales (on a premium basis) by underwriting approach was 27.6 percent simplified issue, 0.7 percent accelerated underwriting, and 71.7 percent fully underwritten. For YTD 9/30/17 UL sales, the distribution by underwriting approach was 29.8 percent simplified issue, 1.1 percent accelerated underwriting, and 69.2 percent fully underwritten. This demonstrates the gradual shifting from full underwriting to simplified issue and accelerated underwriting approaches for UL, in contrast to more significant shifting for IUL, as discussed below.

INDEXED UL SALES

IUL sales reported by survey participants during YTD 9/30/17 accounted for 48 percent of total UL/IUL sales combined during YTD 9/30/17, flat relative to sales in 2014. The IUL

Figure 1
UL Product Mix by Year



sales percent increased for AccumIUL sales from 2014 to YTD 9/30/17 from 81 percent to 84 percent of total cash accumulation UL/IUL sales. IULSG also increased from 8 percent to 9 percent of total combined ULSG/IULSG sales over the survey period. CAIUL sales, as a percent of total combined CAUL/CAIUL sales, decreased from 35 percent to 29 percent over this period. Overall survey statistics suggest that companies plan to focus more on IULSG and CAIUL products, rather than AccumIUL products, as reported in the past, with less focus on ULSG products.

The distribution of 2016 IUL sales (on a premium basis) by underwriting approach was 2.6 percent simplified issue, 0.5 percent accelerated underwriting, and 96.8 percent fully underwritten. For YTD 9/30/17 IUL sales, the distribution by underwriting approach was 2.6 percent simplified issue, 16.8 percent accelerated underwriting, and 80.6 percent fully underwritten.

LIVING BENEFIT RIDER SALES

Six of 12 participants that reported UL/IUL sales with chronic illness riders provide a discounted death benefit as an accelerated benefit. Fewer participants are using this approach than reported in the past. Perhaps this is because carriers are moving to other approaches that seem to be better solutions to chronic illness needs. Two participants reported their chronic illness rider uses a lien against the death benefit to provide the accelerated benefit. Another two use a dollar-for-dollar discounted death benefit reduction approach. One of the final two participants reported using both the lien approach and dollar-for-dollar death benefit reduction approach. The final participant uses both the discounted death benefit approach and the dollar-for-dollar death benefit reduction approach. The various approaches are defined as follows:

- 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 accelerated 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.

- 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. Future premiums/charges for the coverage are unaffected, and the gross policy values continue 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 specified amount or face amount and a pro rata reduction in the CV based on the percentage of the specified amount or face amount that was accelerated. This approach always requires an explicit charge.

Figure 2
Chronic Illness 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				
2014	10.8%	13.0%	7.3%	5.7%
2015	9.7%	12.0%	10.5%	3.1%
2016	10.8%	12.8%	13.7%	2.8%
YTD 9/30/17	8.7%	7.5%	18.8%	4.7%

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				
2014	32.4%	26.0%	33.6%	25.1%
2015	32.9%	29.6%	34.3%	22.2%
2016	33.8%	41.0%	35.6%	11.1%
YTD 9/30/17	38.5%	43.7%	40.1%	19.5%

Figure 3
LTC Rider Sales as a Percent of Total Sales by Premium

Calendar Year	Total Individual UL	ULSG	Cash Accumulation UL	Current Assumption UL
UL sales with LTC riders as a percent of total UL sales				
2014	19.8%	29.9%	1.3%	0.2%
2015	22.3%	33.2%	2.0%	9.7%
2016	27.0%	35.4%	1.2%	24.5%
YTD 9/30/17	33.2%	42.3%	3.0%	27.7%

Calendar Year	Total Individual IUL	IULSG	Cash Accumulation IUL	Current Assumption IUL
IUL sales with LTC riders as a percent of total IUL sales				
2014	11.0%	20.5%	10.4%	10.0%
2015	11.8%	13.5%	11.9%	9.7%
2016	11.8%	8.2%	10.8%	23.2%
YTD 9/30/17	10.9%	4.7%	9.8%	25.9%

The table in Figure 2 summarizes sales of chronic illness riders as a percent of total sales by premium (separately for UL and IUL products). During YTD 9/30/17, sales of chronic illness riders as a percent of total sales were 8.7 percent for UL products and 38.5 percent for IUL products.

A greater share of chronic illness riders is seen on an IUL chassis because more new IUL products have been developed recently. Sales of total individual IUL chronic illness riders increased year-over-year during the survey period.

Long-term care (LTC) riders attached to UL/IUL policies have been addressing LTC needs due to the high cost of long-term care, the aging population, and the exiting of some life insurers from the standalone LTC market. During YTD 9/30/17, sales of policies with LTC riders as a percent of total sales by premium were 33.2 percent for UL products and 10.9 percent for IUL products. Sales of LTC riders as a percent of total sales (measured by premiums, and weighting single-premium sales at 10 percent) for UL and IUL products separately by product type are shown in Figure 3. Sales of total individual

Figure 4
Actual Results Relative to Profit Goals For 2016

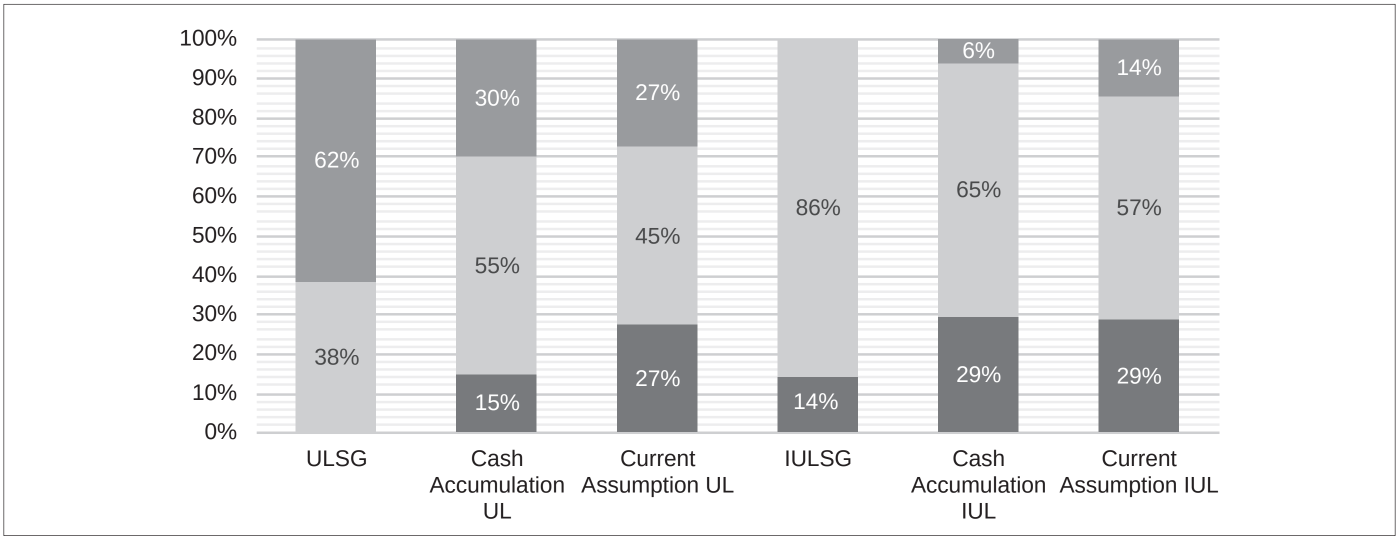
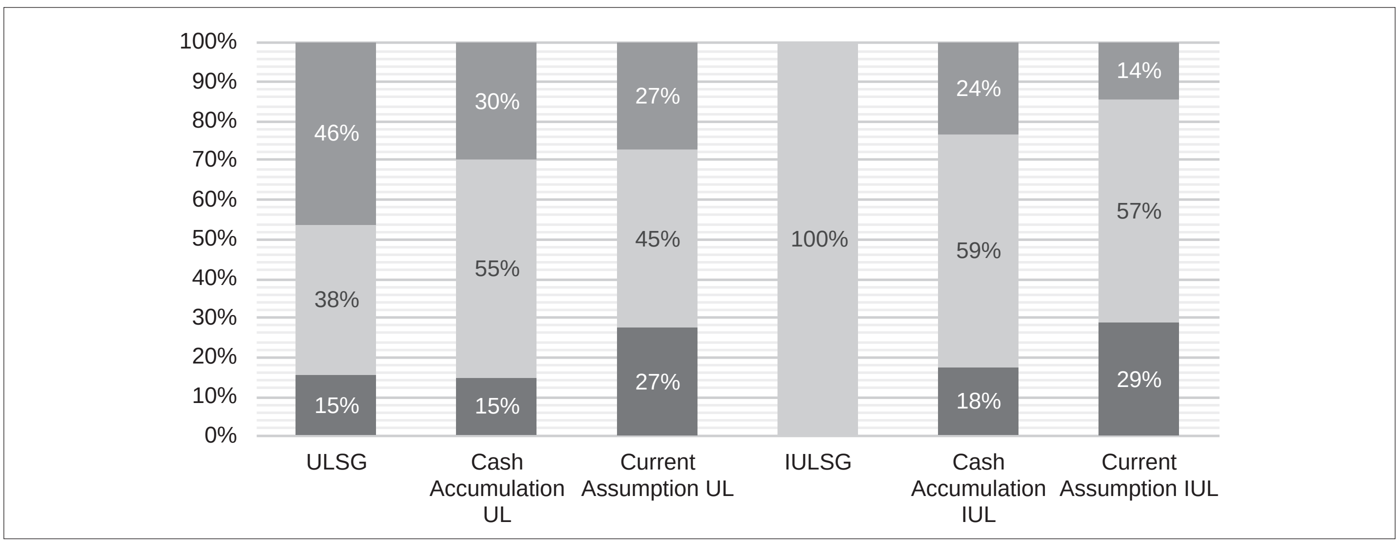


Figure 5
Actual Results Relative to Profit Goals For Ytd 9/30/17



UL LTC riders increased year-over-year during the survey period.

Within 24 months, 83 percent of survey respondents possibly will market either an LTC or chronic illness rider.

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 average ROI/IRR target reported by survey participants was 12.5 percent for AccumIUL and CAIUL, 12.3 percent for IULSG, 11.2 percent for AccumUL, 10.9 percent for CAUL, and 10.6 percent for ULSG.

The percentage of survey participants reporting that they fell short of, met, or exceeded their profit goals by UL product type for calendar year 2016 and YTD 9/30/17, is shown in the charts in Figures 4 and 5, respectively. Of note is the percentage of participants that fell short of their profit goals for ULSG products:

62 percent in 2016, and 46 percent during YTD 9/30/17. The primary reasons reported for not meeting profit goals were low interest earnings and expenses, consistent with prior survey responses.

PRINCIPLE-BASED RESERVES AND THE 2017 CSO

The earliest effective date for implementation of principle-based reserves (PBR), as well as for the use of the 2017 Commissioner's Standard Ordinary (CSO) mortality table was Jan. 1, 2017. The 2017 CSO is the new valuation mortality table to be used in the determination of CRVM (Commissioners Reserve Valuation Method) reserves, net premium reserves, tax reserves, minimum nonforfeiture requirements, etc. Twenty-three of the 29 survey participants reported they expect to implement PBR for all their UL/IUL products spread over the three-year phase-in period allowed. The average issue year reported by survey participants to implement the 2017 CSO mortality table is 2019 for all UL/IUL products, except CAIUL. For CAIUL, the average issue year is 2018 for the implementation of the 2017 CSO.

UNDERWRITING

The life insurance industry has been moving away from full underwriting of life products to simplified approaches with fewer or different requirements, and more timely responses while still considering the implications of mortality cost. Nineteen of the 29 respondents reported using more than one underwriting approach. Simplified issue underwriting is used by nine participants, accelerated underwriting by 12 participants, and full underwriting by 28 participants. For those survey participants that do not have an accelerated underwriting program, nine indicated they plan to implement one. Two additional participants are currently researching accelerated underwriting programs and may implement one. Nine of these participants may implement the program in the next 12 months. Eight survey participants use predictive analytics in their accelerated underwriting algorithm for UL/IUL products. Only two participants reported using predictive analytics in underwriting of UL/IUL products under other underwriting approaches (i.e., other than accelerated underwriting). Predictive modeling utilizes statistical models that relate outcomes/events to various risk factors/predictors.

Scoring models are an example of predictive modeling used relative to life underwriting. Scoring models are used by 12 survey participants to underwrite their UL/IUL policies. Six of the 12 use purely external scoring models and four participants use purely internal scoring models. The remaining two participants reported the use of both internal and external scoring models. Eleven of the 12 participants reported the use of scoring models by underwriting approach. Ten participants reported using these models for fully underwritten policies, with one of the 10 also using them for accelerated underwritten policies, and another four of the 10 using them for simplified issue policies. One company uses scoring models exclusively for simplified issue underwriting. It is common for these companies to use more than one type of scoring model. In total, four participants use lab scoring models, six use consumer credit-related scoring models, six use scoring models relative to motor vehicle records, and seven use prescription drug scoring models.

ILLUSTRATIONS

Sixteen of the 20 IUL participants reported the credited rate used in IUL illustrations for participants' most popular strategies. Ten of the 16 reported the rate decreased relative to the illustrated rate of one year ago. One participant reported no change in the illustrated rate, and five reported increases in the illustrated rate. The median illustrated rate reported was 6.64 percent and the average was 6.49 percent.

CONCLUSION

The UL/IUL market has experienced many changes in recent years. Indexed UL has continued to be popular, low interest rates have persisted, and regulatory actions and new underwriting approaches have presented new opportunities and challenges. It is imperative for UL/IUL carriers to evaluate where they stand in relation to their peers in order to remain competitive in this market.

A complimentary copy of the executive summary of the June 2018 Universal Life and Indexed Universal Life Issues report may be found at: *http://www.milliman.com/insight/2018/Universal-life-and-indexed-universal-life-issues--2017/2018-survey/*. ■

Susan J. Saip, FSA, MAAA, is a consulting actuary at Milliman. She can be reached at *sue.saip@milliman.com*.

ENDNOTE

1 According to LIMRA's U.S. Retail Individual Life Insurance Sales reports