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Group Life Insurance: From the 2009 JHA Group Life Market Survey

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In May, 2010, JHA¹ published the results of the 2009 Group Life Market Survey. This annual benchmark survey provides detailed analyses of sales and market growth, across Traditional/Basic and Voluntary products. The study is in its eighth year and covers new sales and in-force premium, volume, lives, and cases for Total Group Term Life (Basic and Voluntary), Voluntary Group Term Life (VGTL)², and Accidental Death and Dismemberment (AD&D).

Thirty-three companies participated in this study, representing over \$21.2 billion in Group Life and AD&D premium and thus the lion's share of the U.S. market.

MARKET IN-FORCE GROWTH

Participating companies reported \$19.5 billion in Total Group Term Life, which remained level from 2008 to 2009. VGTL in-force premium maintained positive growth year over year, although the pace slowed to a rate of 5 percent for 2009 (Exhibit A). Overall perfor-

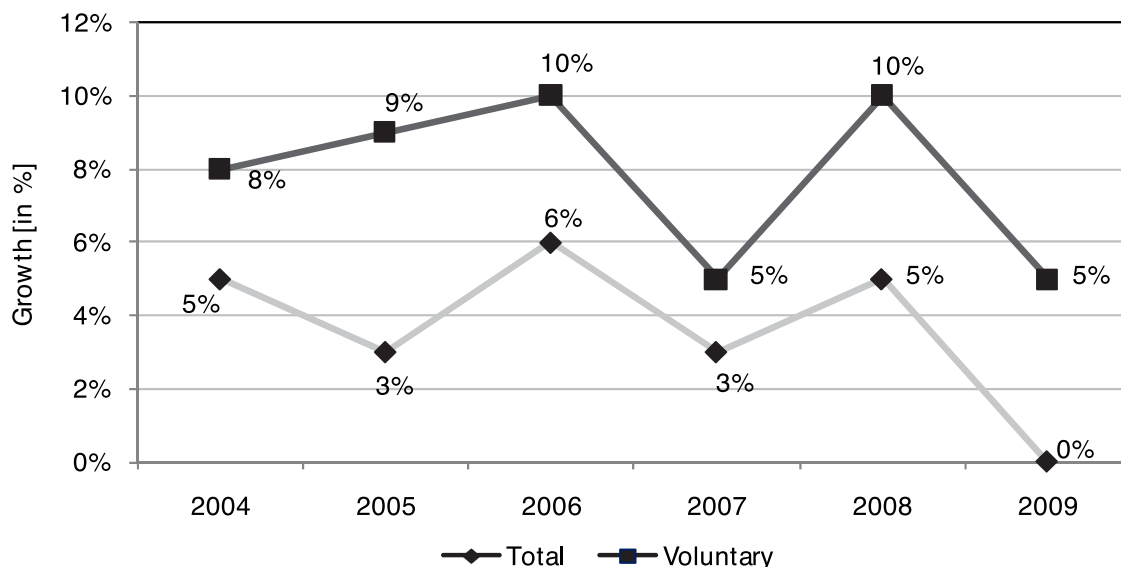
mance for Group Life carriers was clearly impacted by the economic environment, resulting in the lowest growth rate recorded since this study's inception. The combination of reduction in employment, business closings, and reduction in salaries did not allow the industry to achieve a more favorable result than a no-growth year.

MARKET SALES GROWTH

New Sales showed downturns as well with Total Group Life sales premium experiencing the largest decline (-5 percent) on record. VGTL sales continued to positively impact Total Life growth despite economic difficulties, as Voluntary sales premium increased 9 percent over 2008. (Exhibit B)

Given the strong increase in Voluntary new sales, VGTL premium represents a larger percentage of Total Life sales at 31 percent. Since 2004 this share has more than doubled.

Exhibit A. Total and Voluntary Group Term Life In-Force Premium Changes Over Time³

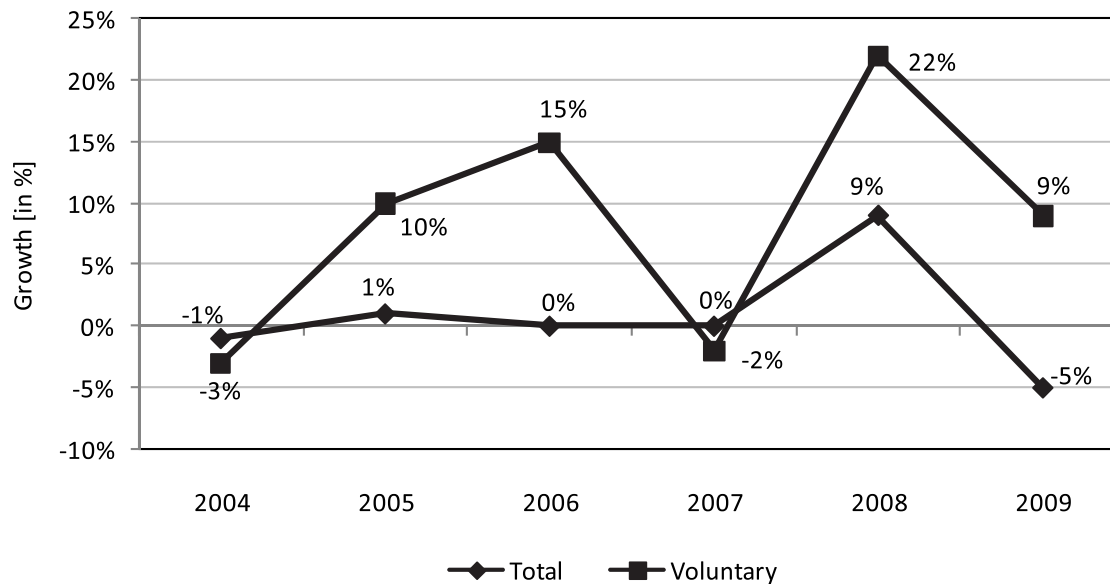


¹ JHA is the disability and group life reinsurance, risk management and research division of General Re Life Corporation (GRL). GRL's parent company, General Reinsurance is a member of the Berkshire Hathaway family of companies.

² VGTL is defined as 100 percent employee paid stand-alone coverage sold on a group platform; for more definitions on terms used in this article please refer to JHA's Market Survey Summary Report on www.jhaweb.com.

³ Growth rates are calculated including only those companies providing comparable data for 2008 and 2009.

⁴ 2009 growth rates include New Business on Existing Cases (NBOC). Growth rates are calculated including only those companies providing comparable data for 2008 and 2009.

Exhibit B. Total and Voluntary Group Term Life Sales Premium Growth Rates Over Time⁴

GROWTH COMPONENTS

GROUP TERM LIFE

The growth in in-force business in 2009 reflected the impact of current economic factors that have been resonating with employers over the last couple of years. The need to cut costs and streamline expenses seemingly outweighed the value of Group Life coverage for many employers and employees as in-force cases fell nearly 4 percent from the previous year, and insured lives were down close to 2 percent.

Faced with increased competition and rate pressure, carriers appear to be leveraging richer benefits to offset losses in new sales and in force. The average face amounts on new Total Life business increased in 2009 to an average of \$74,111. Average face amounts for new sales were again higher than in force, repeating the results seen in 2008. Although premium per life on new sales remained relatively static, the average premium per life on in-force policies continues to be higher than new sales being added. For Total in force, the average premium per life increased 2 percent to \$190, while new sales averaged \$156.

The increase in face amount of about 3 percent and the lower increase in average premium suggest a slight reduction in rates. Total Life in force monthly premium rates decreased in 2009 by about 1 percent to \$0.22 per \$1,000 of coverage. For new sales however, a strong

increase in face amount of 9 percent in combination with a reduction in average premium is a clear evidence of the increasingly competitive environment. New sales premium rates declined drastically by more than 9 percent and remained significantly below the average in-force premium rate at \$0.18.

It is striking that the cause of low or negative growth did not appear to be an evenly distributed reduction in workforce or a reduction in benefits. It was rather a reduction in employer groups as a result of dropped coverage due to budget limitations or even insolvency.

Voluntary Life has experienced healthy growth in both new sales and in force albeit at a lower rate than in 2008. Other than for Total Group Term Life the number of employer groups went up and rate level remained stable at a monthly rate of \$0.23 per \$1,000 for in-force business and \$0.22 for new business.⁵ Employer groups in the voluntary market tend to be smaller and insured amounts tend to be higher than in the employer-paid market segment.

“CHURNING” BUSINESS

The relationship between sales and change in in-force business is very different for Group Life insurance compared to Individual Life insurance. From the Group Insurance point of view, the result of this difference is that the in-force metric is more important than the sales metric.

CONTINUED ON **PAGE 16**



Since most employers who are willing to offer Group Life insurance already do so, a very high percentage of sales of a group insurance policy results in the lapse of an essentially identical group policy. That is, almost all group sales are replacement sales and there are very few lapses that are not associated with new sales. This is very unlike Individual Life insurance.

To quantify the impact of this marketing characteristic, the difference between new sales and the change in in-force business can be measured. Under the assumptions described above, the difference between sales and in-force growth becomes an indicator of the proportion of new sales that can be attributed to takeover business.

Market “churn” for 2009 experienced an upheaval as more cases lapsed this year than new sales were added to the industry. This again implies that more employers are dropping coverage entirely rather than simply

switching to other carriers. Looking at only those participants that were able to provide both the number of new cases sold and the number of cases lapsed, 56 percent of companies reported lapsing more cases than they sold in 2009, up from 38 percent last year.

ACCIDENTAL DEATH & DISMEMBERMENT (AD&D)

Total in-force premium was down 2 percent in 2009 with volume showing a slight increase of approximately 1 percent. Monthly premium rate decreased 2 percent to an average of \$0.026.⁶ Total AD&D new sales case counts and lives followed a similar downward trend as seen in Total Life sales. New sales premium held static year over year while the number of employers and employees purchasing coverage in 2009 fell substantially.

Exhibit C: Percentage of New Sales Premium by Product Type

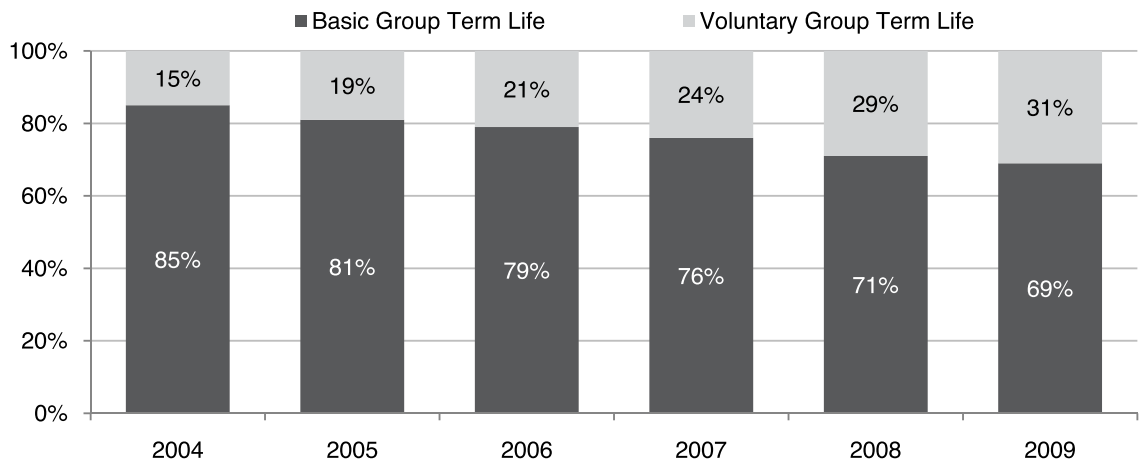


Exhibit D: Growth Components for Total Group Term Life: Changes 2009 vs. 2008

	Sales	In Force
Average Lives per case	162 (+13%)	174 (+2%)
Average Face Amount	\$74,111 (+9%)	\$71,003 (+3%)
Average Premium Per Life	\$156 (-1%)	\$190 (+2%)

Voluntary AD&D showed the greatest volatility and strongest growth for 2009. This is most readily apparent in volume and cases. The monthly rate of \$0.0336 per \$1,000 for in-force business remained well above the rate level for Total Group Term AD&D.

IN SUMMARY

With flat to negative growth in sales and in-force premium across both lines of business, Group Life carriers are being challenged by pricing pressures, declines in the number of covered employees, and employers striving to reduce costs.

Both the overall growth rate for in-force premium in 2009 and new sales premium reflected the impact of current economic factors with the steepest decline seen since the inception of this survey. Voluntary Life business continues to be an affirming factor on the industry in general with both in force and new sales premium growing at a respectable rate given the impact of the Great Recession.

It appears, however, that the impact to new sales premium was supplemented by a continued increase in aver-

Exhibit E: Growth Components for Voluntary Group Term Life: Changes 2009 vs. 2008

	Sales	In Force
Average Lives per case	130 (+2%)	128 (-7%)
Average Face Amount	\$84,125 (+7%)	\$79,021 (+7%)
Average Premium Per Life	\$221 (+7%)	\$246 (+8%)

age face amounts, as opposed to growth in the number of employers or employees purchasing coverage.

Although Basic Term Life still accounts for a majority of the Total Group Term Life business, Voluntary sales continue to positively impact Total Life growth. Despite economic difficulties, Voluntary Life sales grew at a respectable rate, which corroborates results from another JHA survey indicating that a majority of carriers, who were currently active in the Voluntary market, were planning to place more emphasis on selling Voluntary products.⁷

Anecdotally, carriers reported that pricing pressures remain a challenge, and it is becoming increasingly evident that employers will continue to look for ways to reduce their costs. It will be interesting to see if the Group Life Market will manage to recapture the insured cases and lives that exited the market in 2009. The more favorable economic environment in 2010 with rising employment and salaries should positively contribute to meeting this challenge. ■



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Exhibit F: Growth Components for Total Group Term AD&D: Changes 2009 vs. 2008

	Sales	In Force
Average Lives per case	137 (+9%)	129 (-2%)
Average Face Amount	\$65,449 (-9%)	\$69,630 (+5%)
Average Premium Per Life	\$28 (+9%)	\$26 (+4%)

Exhibit G: Growth Components for Voluntary Group Term AD&D: Changes 2009 vs. 2008

	Sales	In Force
Average Lives per case	158 (-10%)	343 (-9%)
Average Face Amount	\$110,999 (+13%)	\$96,409 (+19%)
Average Premium Per Life	\$40 (+5%)	\$57 (+2%)

⁵ Some companies provided premium per life but not face amount. Therefore the monthly rate cannot be precisely derived from the market average premium per life and face amount as shown in Exhibit E.

⁶ Some companies provided premium per life but not face amount. Therefore the monthly rate cannot be precisely derived from the market average premium per life and face amount as shown in Exhibit F and G.

⁷ Reference is made to JHA's annual Rate and Risk Management Survey, which covers topics on rating, underwriting, pricing, claims and catastrophe management, market and products, and recent trends in the Group Life Insurance Industry