Article from
Product Matters!
October 2019
Issue 114

Universal Life and Indexed Universal Life Survey Results

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Milliman recently completed its 12th annual comprehensive survey addressing universal life (UL) and indexed UL (IUL) issues. These products continue to play a significant role in the individual life insurance market. According to LIMRA, for the past five years the market share of these products has been stable at 36 percent to 37 percent of total life sales measured by first-year premium. Survey results are based on responses from 29 carriers of UL and IUL products. The survey covers a range of specific product and actuarial issues such as sales, profit measures, target surplus, reserves, risk management, underwriting, product design, compensation, pricing and illustrations.

The following products (as defined here) are included in the scope of the survey:

- **UL/IUL with secondary guarantees (ULSG/IULSG).** 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 (AccumUL/AccumIUL).** 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 (CAUL/CAIUL).** 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.”

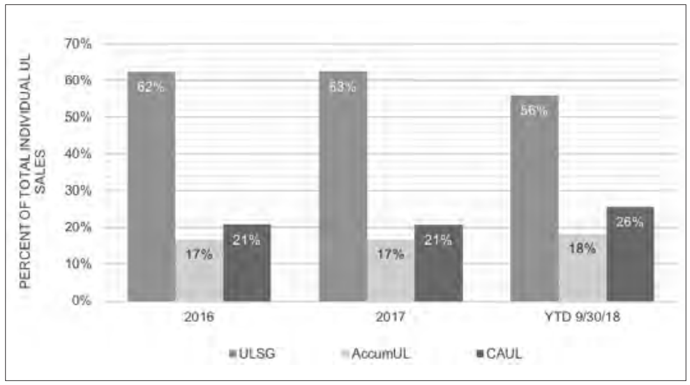
Throughout this article, the use of the term *UL* is assumed to exclude IUL.

This article highlights the key discoveries of the survey.

UL SALES

Figure 1 illustrates the product mix of UL sales reported by 26 of the 29 survey participants from calendar years 2016 and 2017, and for 2018 as of Sept. 30, 2018 (year to date [YTD] 9/30/18). Sales were defined as the sum of recurring premiums plus 10 percent of single premiums for purposes of the survey.

Figure 1
UL Product Mix by Year



Abbreviations: AccumUL, cash accumulation universal life; CAUL, current assumption universal life; ULSG, universal life with secondary guarantees; YTD, year to date.

There was a significant decrease in UL sales when comparing 2017 sales to annualized YTD 9/30/18 sales. Total individual UL sales decreased 16 percent, with 15 of the 26 participants reporting decreases in their UL sales. Twelve of the 15 reported decreases of 15 percent or more. The decline in sales was primarily driven by a 25 percent decrease in ULSG sales. In addition, six of the 15 participants appear to be focusing less on UL sales and more on IUL sales. These six reported significant increases in IUL sales from 2017 to YTD 9/30/18 (on an annualized basis).

UL sales were reported by underwriting approach for 2017 and YTD 9/30/18. For the purpose of the survey, underwriting approach was defined as follows:

- **Simplified issue (SI) underwriting.** Less than a complete set of medical history questions and no medical or paramedical exam.

- **Accelerated underwriting (AU).** The use of tools such as a predictive model 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 AU sales, participants were instructed to include total sales for products under which AU is offered. The distribution of 2017 UL sales by underwriting approach (on a premium basis) was 14.0 percent SI, 0.9 percent AU and 85.0 percent fully underwritten. For YTD 9/30/18 UL sales, the distribution by underwriting approach was 17.8 percent SI, 2.9 percent AU and 79.3 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 in the next section.

INDEXED UL SALES

IUL sales reported by 20 of the 29 survey participants accounted for 58 percent of total UL/IUL sales combined during YTD 9/30/18, increasing by 7 percentage points relative to the 51 percent of total sales it represented in 2016. The sales percentage increased for AccumIUL from 2016 to YTD 9/30/18, from 84 percent to 86 percent of total AccumUL/AccumIUL sales. IULSG sales also increased, from 7 percent to 14 percent of total combined ULSG/IULSG sales over the survey period. CAIUL sales, as a percentage of total combined CAUL/CAIUL sales, increased from 27 percent to 32 percent over this period. Overall survey statistics suggest that companies plan to focus more on IULSG and CAIUL products, with less focus on AccumIUL and ULSG products.

The distribution of 2017 IUL sales (on a premium basis) by underwriting approach was 1.7 percent SI, 17.3 percent AU and 81.0 percent fully underwritten. For YTD 9/30/18 IUL sales, the distribution by underwriting approach was 1.6 percent SI, 24.6 percent AU and 73.7 percent fully underwritten. The 7.3 percentage point shift from fully underwritten business to AU from 2017 to YTD 9/30/18 was primarily driven by one participant, which shifted all of its fully underwritten business to AU. The percentage of IUL business subject to AU is much larger than that reported on UL business. The difference may be attributed to the greater level of new IUL product development in recent years, relative to new UL product development. IUL writers are likely including new underwriting approaches, such as AU, in the development process.

LIVING BENEFIT RIDER SALES

Seven of 13 participants that reported UL/IUL sales with chronic illness riders provide a discounted death benefit as an accelerated benefit. Three participants reported their chronic illness riders use a lien against the death benefit to provide the accelerated benefit. Another two use dollar-for-dollar discounted death benefit reduction approaches. The final participant uses both the discounted death benefit approach and the dollar-for-dollar death benefit reduction approach. Definitions of the various approaches are as follows:

- **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.

- **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 and charges for the coverage are unaffected, and the gross policy values continue to grow as if the lien didn't exist. In most cases, lien interest charges are assessed under this design.

- **Dollar-for-dollar approach.** There is a dollar-for-dollar reduction in the specified amount or face amount of the base plan 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 summarizes sales of chronic illness riders as a percentage of total sales by premium (separately for UL and IUL products). During YTD 9/30/18, sales of chronic illness riders as a percentage of total sales were 11.5 percent for UL products and 32.8 percent for IUL products. As with the use of AU with IUL products, the difference may be driven by the greater level of IUL product development in recent years relative to that for UL products.

Figure 3 shows sales of long-term care (LTC) riders as a percentage of total sales (measured by premiums and weighting single-premium sales at 10 percent) for UL and IUL products separately by product type. During YTD 9/30/18, sales of policies with LTC riders as a percentage of total sales by premium were 31.1 percent for UL products and 19.0 percent for IUL products.

Within 24 months, 86 percent of survey respondents may market either an LTC or chronic illness rider.

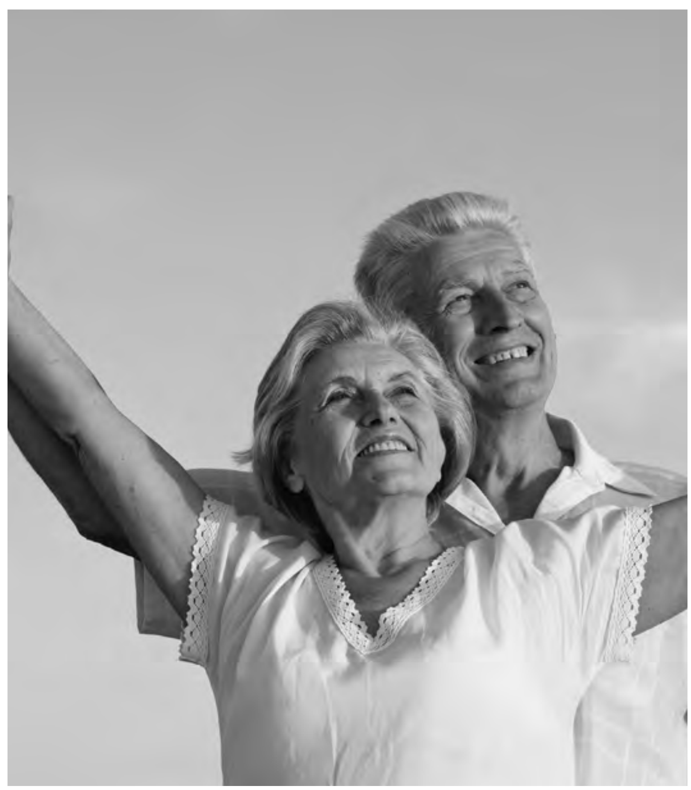


Figure 2
Chronic Illness Rider Sales as a Percentage of Total Sales

Calendar Year	Total Individual UL	ULSG	Cash Accumulation UL	Current Assumption UL
UL Sales With Chronic Illness Riders as a Percentage of Total UL Sales				
2016	14.3%	17.5%	14.4%	4.7%
2017	10.1%	10.6%	18.3%	4.7%
YTD 9/30/18	11.5%	10.6%	23.5%	4.7%

Calendar Year	Total Individual IUL	IULSG	Cash Accumulation IUL	Current Assumption IUL
IUL Sales With Chronic Illness Riders as a Percentage of Total IUL Sales				
2016	21.4%	15.4%	22.9%	7.5%
2017	28.7%	28.0%	31.1%	7.0%
YTD 9/30/18	32.8%	33.1%	35.2%	9.1%

Abbreviations: IUL, indexed universal life; IULSG, indexed universal life with secondary guarantees; UL, universal life; ULSG, universal life with secondary guarantees; YTD, year to date.

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

Calendar Year	Total Individual UL	ULSG	Cash Accumulation UL	Current Assumption UL
UL Sales With LTC Riders as a Percentage of Total UL Sales				
2016	23.4%	33.0%	0.9%	12.5%
2017	30.0%	42.2%	2.3%	15.7%
YTD 9/30/18	31.1%	46.6%	6.0%	15.1%

Calendar Year	Total Individual IUL	IULSG	Cash Accumulation IUL	Current Assumption IUL
IUL Sales With LTC Riders as a Percentage of Total IUL Sales				
2016	13.0%	9.1%	12.8%	16.9%
2017	20.2%	32.0%	19.5%	18.0%
YTD 9/30/18	19.0%	33.1%	17.4%	24.1%

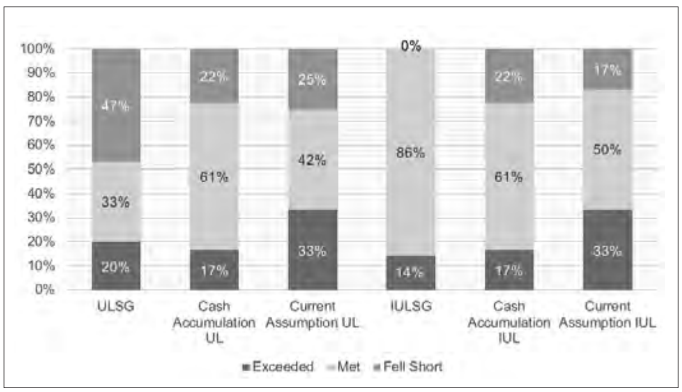
Abbreviations: IUL, indexed universal life; IULSG, indexed universal life with secondary guarantees; UL, universal life; ULSG, universal life with secondary guarantees; YTD, year to date.

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). The average ROI/IRR target reported by survey participants was 11.9 percent for CAIUL, 11.5 percent for AccumIUL, 10.9 percent for AccumUL, 10.8 percent for CAUL, 10.6 percent for ULSG and 9.8 percent for IULSG.

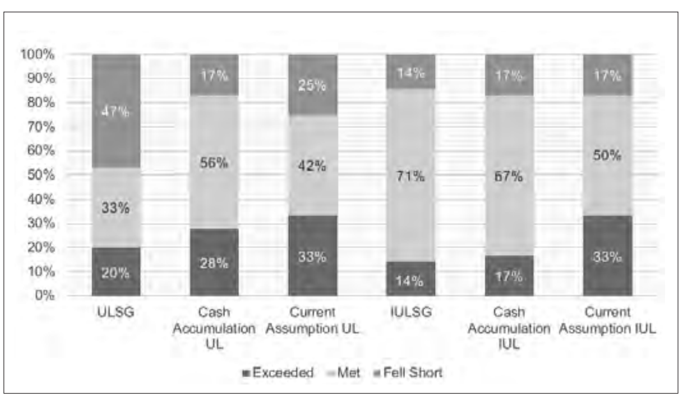
Figures 4 and 5 show the percentage of survey participants reporting that they fell short of, met or exceeded their profit goals by UL product type for calendar year 2017 and YTD 9/30/18, respectively. Of note is the percentage of participants that fell short of their profit goals for ULSG products: 47 percent in 2017 and during YTD 9/30/18. The primary reasons reported for not meeting profit goals were low interest earnings and higher mortality.

Figure 4
Actual Results Relative to Profit Goals for 2017



Abbreviations: IUL, indexed universal life; IULSG, indexed universal life with secondary guarantees; UL, universal life; ULSG, universal life with secondary guarantees; YTD, year to date.

Figure 5
Actual Results Relative to Profit Goals for YTD 9/30/18



Abbreviations: IUL, indexed universal life; IULSG, indexed universal life with secondary guarantees; UL, universal life; ULSG, universal life with secondary guarantees; YTD, year to date.

PRINCIPLE-BASED RESERVES AND THE 2017 CSO

Implementation of principle-based reserves (PBR), in accordance with the *Valuation Manual* chapter 20 (VM-20), was allowed as early as Jan. 1, 2017, subject to a three-year transition period. Twenty-six of the 29 survey participants reported their timing for the implementation of PBR, as shown in Figure 6. Results indicate that across most product types (not AccumIUL or CAIUL) 50 percent or more of respondents will implement PBR in 2020. Implementation of PBR on IUL products appears to be ahead of that for UL.

Figure 6
PBR Implementation

Implementation Timing	Number of Participants Implementing PBR		
	ULSG	Cash Accumulation UL	Current Assumption UL
Already implemented 2017	0	0	1
2018	1	0	1
2019	7	6	2
2020	8	9	8
Implementation Timing	IULSG	Cash Accumulation IUL	Current Assumption IUL
Already implemented 2017	0	1	1
2018	1	2	2
2019	2	9	4
2020	4	6	2

Abbreviations: IUL, indexed universal life; IULSG, indexed universal life with secondary guarantees; PBR, principle-based reserves; UL, universal life; ULSG, universal life with secondary guarantees.

Figure 7
2017 CSO Implementation

Implementation Timing	Number of Participants Implementing 2017 CSO		
	ULSG	Cash Accumulation UL	Current Assumption UL
Already implemented 2017	1	1	0
2018	4	2	1
2019	5	10	0
2020	4	3	4
Implementation Timing	**IULSG**	**Cash Accumulation IUL**	**Current Assumption IUL**
Already implemented 2017	0	2	0
2018	2	1	3
2019	5	12	4
2020	1	2	0

Abbreviations: CSO, Commissioner's Standard Ordinary (CSO) mortality table; IUL, indexed universal life; IULSG, indexed universal life with secondary guarantees; UL, universal life; ULSG, universal life with secondary guarantees.

The first allowable operative date of the 2017 Commissioner's Standard Ordinary (CSO) mortality table was also Jan. 1, 2017. A different group of 26 of the 29 survey participants reported the issue year they intend to implement the 2017 CSO. A summary of the responses is shown in Figure 7. The average issue year to implement the 2017 CSO mortality table is 2019 for all UL/IUL products. Ten participants reported the same year for implementation of both PBR and the 2017 CSO.

The *Valuation Manual* defines a mortality segment as "a subset of policies for which a separate mortality table representing the prudent estimate mortality assumption will be determined." The majority of participants expect to aggregate mortality segments across broad categories, such as all life products, all permanent products or all fully underwritten products.

The number of survey participants that have modeled PBR-type reserves on existing UL/IUL products increased 38 percent relative to the number reported in the prior Milliman UL/IUL survey. Eighteen participants have performed such modeling for at least one UL/IUL product. The two most common products on which PBR-type reserves have been modeled are ULSG and AccumIUL.

UNDERWRITING

The life insurance industry continues to move toward accelerated underwriting approaches. Of the 29 survey responses, 28 participants use full underwriting, 15 participants use AU and 11 participants use SI underwriting. For the 14 survey participants that do not have an accelerated underwriting program, eight indicated they are planning to implement one. Six of these participants may implement the program in the next 12 months. One additional participant is currently researching AU programs and may implement one.

The percentage (based on policy count) of YTD 9/30/18 new UL/IUL business that was eligible to have underwriting requirements waived under an AU program ranged from less than 3 percent to 80 percent, with a mean of 23 percent and a median of 20 percent. Of the policies that met the requirements of the AU program during YTD 9/30/18, the percentage that ultimately qualified to have requirements waived under the program ranged from 15 percent to 58 percent. The mean was 37 percent and the median was 36 percent. The percentage of qualified cases that actually became sold ranged from 21 percent to 100 percent, with a mean of 81 percent and a median of 89 percent. The percentage of cases that did not qualify that became sold cases ranged from 51 percent to 77 percent, with a mean of 68 percent and a median of 70 percent.

Scoring models are an example of predictive modeling used relative to life underwriting. Scoring models are being used by 16 survey participants to underwrite their UL/IUL policies. Eight of the 16 use purely external scoring models, and five additional participants use purely internal scoring models. The remaining three participants reported they use both internal and external scoring models. Twelve participants reported using these models for fully underwritten policies, five for SI policies and three for AU policies. In total, five participants use lab scoring models, 11 use consumer credit–related scoring models, eight use scoring models relative to motor vehicle records and 13 use prescription history scoring models.

PRICING

Nine participants repriced their ULSG designs in the past 12 months, and four repriced in the past 13 to 24 months, with two participants repricing in both periods. Three of the nine that repriced ULSG designs in the past 12 months did so using PBR reserves. Six reported that premium rates increased on the new basis versus the old basis, two decreased premium rates, one reported no change in premium rates and two did not report the change. Few participants reported repricing other UL/IUL designs.

Fourteen participants reported they have repriced or redesigned at least one UL/IUL product under the 2017 CSO mortality tables. This is significantly more than the three participants that reported doing so in Milliman's previous UL/IUL survey.

The majority of participants reported mortality rates were close to or lower than those assumed in pricing for all UL/IUL products and for both calendar year 2017 and during YTD 9/30/18.

ILLUSTRATIONS

The credited rate used in IUL illustrations for participants' most popular strategies ranges from 4.25 percent to 7.75 percent. This is the same range that was reported for the current maximum illustrated rate allowed for the most popular strategies, but the mean is equal to 6.44 percent and the median is equal to 6.42 percent. Eight of the participants reported the rate decreased relative to the illustrated rate of one year ago. Three participants reported no change in the illustrated rate, and seven reported increases in the illustrated rate. The current median illustrated rate is 6.23 percent and the current mean is 6.36 percent.

Twelve participants reported that IUL illustrations allow for a negative spread on loan interest charged versus interest credited. Seven of the 12 reported that they allow for a spread greater than 1 percent where interest credited includes all index-based interest credits, whether due to input interest rates, participation rates, multipliers or persistency bonuses.

For policies in which Actuarial Guideline 49 (AG 49) applies, 12 of the 20 IUL participants are illustrating persistency bonuses on the indexed account(s), which allows the illustrated credited rate to exceed the benchmark index account (BIA) maximum illustrated rate. (Per Section 4A of AG 49, the maximum illustrated rate for indexed accounts cannot exceed a rate defined for the BIA. The BIA is based on the S&P 500 Index, an annual point-to-point crediting strategy with an annual cap, 0 percent floor and 100 percent participation rate.)

CONCLUSION

Implementation and pricing activity in the UL/IUL market have increased recently as the end of the transition period for PBR and the 2017 CSO nears. The continuing popularity of IUL products and increasing popularity of AU approaches have also been significant drivers in this market. Are you keeping up with your UL/IUL competitors relative to these trends?

A complimentary copy of the executive summary of the June 2019 Universal Life and Indexed Universal Life Issues report may be found at *www.milliman.com/insight/2019/Universal-life-and-indexed-universal-life-issues--2018/2019-survey/*. ■

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