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# Current Dynamics of Universal Life and Indexed UL

By Susan J. Saip

It is practical for life insurance carriers to keep up with the current dynamics of the universal life (UL) market since its market share has hovered around 40 percent since 2005<sup>1</sup>. Also, UL products were the biggest driver of growth in life insurance sales during the first quarter of 2013<sup>1</sup>. Milliman Inc. recently conducted its sixth annual survey of leading UL carriers to discover the current dynamics of the market, and to provide carriers with competitive benchmarking to evaluate where they stand relative to their peers. The scope of the survey included UL with secondary guarantees (ULSG), cash accumulation UL (AccumUL), current assumption UL (CAUL), and the indexed UL (IUL) counterparts of these products. Results are based on responses from twenty-eight carriers of UL/IUL products. Here are highlights of the key findings of the survey.

## UL Sales

The mix of UL sales (excluding IUL sales) reported by survey participants for calendar years 2009 through 2011 and for 2012 as of September 30, 2012 (YTD 9/30/12) is shown in the graph in Figure 1. For purposes of the survey, sales were defined as the sum of recurring premiums plus ten percent of single premiums.

Eleven participants reported a shift of at least ten percent from or to any one UL product when looking at the YTD 9/30/12 product mix relative to that of 2009. Fourteen participants reported movement to ULSG products, at the expense of both AccumUL and CAUL products. Four participants discontinued sales of ULSG products and two discontinued CAUL products. For all survey responses combined, the product mix over the survey period looks relatively stable since many of the individual company changes offset each other.

## Indexed UL Sales

The IUL market has continued to draw considerable interest as evidenced by more companies entering the market. This product is attractive in today's environment due to its upside potential and downside protection to the policyowner.

Total IUL sales as a percentage of total UL and IUL sales combined have increased from eighteen percent in 2009 to forty percent through the first nine months of 2012. IUL sales alone showed a twenty-three percent growth during the first quarter of 2013 relative to the

prior year quarter<sup>2</sup>. The dominance of cash accumulation IUL (AccumIUL) sales within all IUL business and the decline of indexed UL with secondary guarantees (IULSG) are seen in the graph in Figure 2.

## Long-term Care and Chronic Illness Rider Sales

The popularity of UL/IUL products with chronic illness and long-term care (LTC) riders can be seen as more and more companies begin to offer and track such products. Nearly seventy-nine percent of survey participants



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Figure 1: UL Product Mix by Year

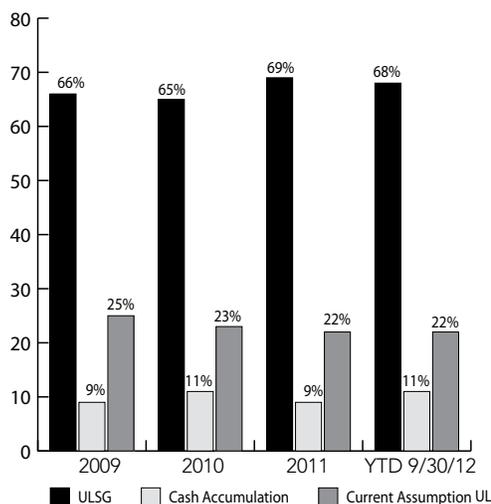
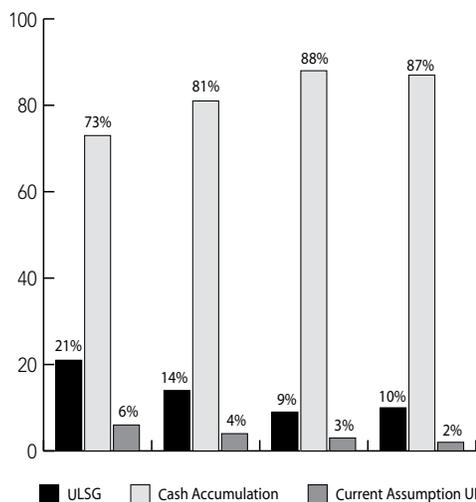


Figure 2: IUL Product Mix by Year



CONTINUED ON PAGE 8

expect to market either a chronic illness or LTC rider within twelve to twenty-four months. Sales of chronic illness riders and LTC riders as a percentage of total sales reported by survey participants are shown sepa-

rately for UL and IUL in Figure 3. There is little overlap between companies that offer chronic illness riders and those that offer LTC riders. In some cases, the chronic illness rider is automatically included on certain UL/IUL policies. These are no-cost riders that provide an accelerated death benefit using the discounted death benefit or lien approach.

**Figure 3:** Chronic Illness and LTC Rider Sales as a Percentage of Total Sales

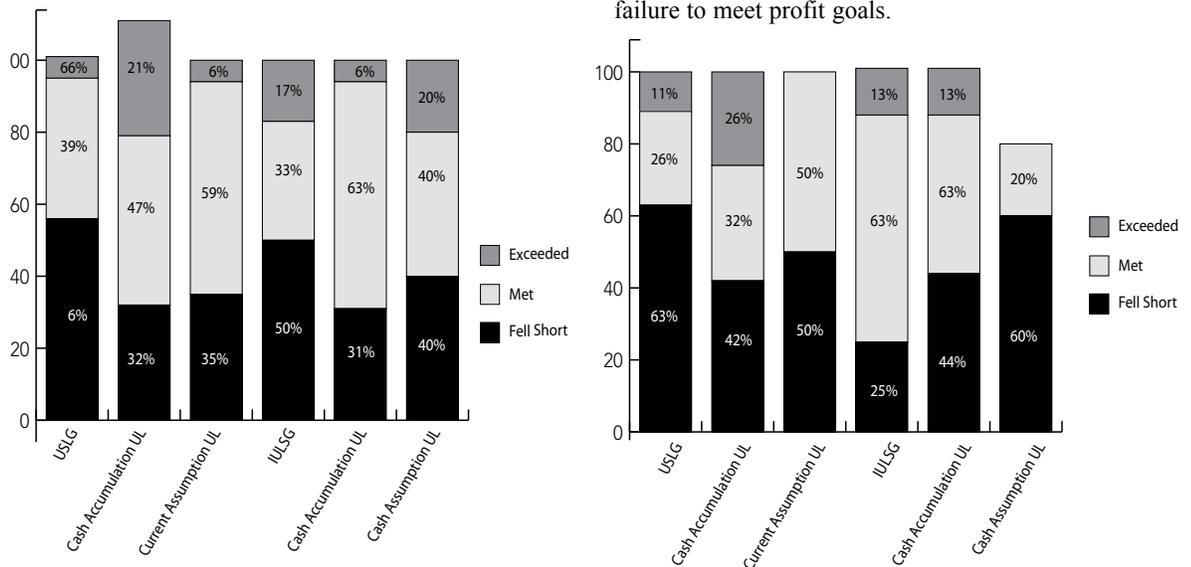
CALENDAR YEAR	UL SALES		IUL SALES	
	WITH CHRONIC ILLNESS RIDERS AS A PERCENT OF TOTAL UL SALES	WITH LTC RIDERS AS A PERCENT OF TOTAL UL SALES	WITH CHRONIC ILLNESS RIDERS AS A PERCENT OF TOTAL IUL SALES	WITH LTC RIDERS AS A PERCENT OF TOTAL IUL SALES
2011	11%	15%	18%	1%
YTD 9/30/12	14%	16%	13%	4%

### Profit Measures

The median return on investment or internal rate of return (ROI/IRR) reported by survey participants is twelve percent for all UL product types, consistent with prior survey results. With the exception of IULSG, the percentage of survey respondents that fell short of profit goals increased from 2011 through September 30, 2012. For IULSG, fifty percent met their profit goals in 2011 and this figure increased to seventy-six percent during the first three quarters of 2012.

The chart in Figure 4 shows the percentage of survey participants reporting they fell short of, met, or exceeded their profit goals by UL product type. Low interest earnings continue to be the primary reason cited for failure to meet profit goals.

**Figure 4:** Actual Results Relative to Profit Goals



## Reserves

Eleven of twenty-two participants expressed concern about the net premium reserve floor that is included in the valuation manual. The reasons for concern included the following

- the net premium reserve is too high
- there is a significant amount of work in implementing the new regulations with little reserve relief, and
- there are potential tax inefficiencies

## Product Design

Thirteen of the twenty-eight participants in the survey re-priced their ULSG design in the last twelve months. The majority of participants that re-priced also reported that premium rates increased on the new basis versus the old basis. Ten of these thirteen, plus three additional participants, intend to modify their secondary guarantee products in the next twelve months. The fact that seven of these thirteen survey respondents were short of their profit goals through the first nine months of 2012 may be driving such re-pricing and modification plans. In addition to interest earnings, recent regulatory changes to Actuarial Guideline 38 are also driving expected modifications to secondary guarantees.

## Conclusion

Keeping on top of the dynamic and ever-changing market is critical to the development of creative solutions for the issues and challenges that arise. Resources such as the UL survey provide UL insurers with competitive benchmarking to determine where they stand within the industry.

In addition to sales, profitability, reserves, and product design, the study also includes information on other product and actuarial issues, such as target surplus, risk management, underwriting, compensation, pricing, administration, and illustration testing. A complimentary copy of the executive summary of the April 2013 Universal Life and Indexed Universal Life Issues report may be found at <http://insight.milliman.com/article.php?cntid=8358>. □