



A MILLIMAN SUPPLEMENTAL & SPECIALTY RESEARCH SURVEY

U.S. Supplemental Insurance Market Overview

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Use of Work Product

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In preparing this report, we relied upon data and other information provided by survey participants in the marketplace. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our report may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of this report.

The authors of this report are Consultants for Milliman and include members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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Introduction



Milliman Supplemental and Specialty Research (MSSR) provides a comprehensive package of research reports on supplemental and specialty products offered on a group or individual basis. This research focuses on product development, regulatory compliance, and risk management. We perform research that provides valuable insights into the supplemental and specialty product markets. This information can assist carriers and other stakeholders to refine their corporate product strategy to increase sales and maintain inforce business.

In early 2021, MSSR conducted a survey on 15 products in the supplemental insurance market. These products included Accident Indemnity, Accident Medical Expense, Critical Illness, Hospital Indemnity, Basic Group Term Life, Voluntary Group Term Life, Supplemental Group Term Life, Worksite Life, Accident Death & Dismemberment, Short-Term Disability, Long-Term Disability, Dental, Vision, Short-Term Care, and Long-Term Care.

The purpose of this survey was to gain insight on the broader trends in the supplemental insurance market in 2020. Data was collected on sales and inforce totals, product development, industry themes, and risks in the market.

Moreover, in 2020 we also conducted a variety of research projects to provide insight into specific products of the supplemental insurance market. As a result of our research, we published reports focusing on four different supplemental insurance products: Accident, Critical Illness (CI), Hospital Indemnity (HI), and Worksite Life (WSL). Each of the four published reports, based on surveys of carriers, provides insights into their respective dynamic markets.



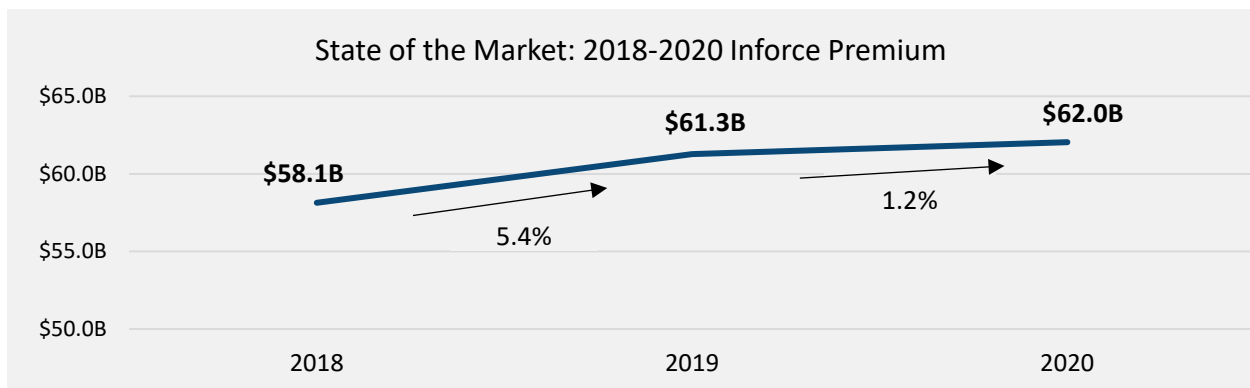
While the individual reports delve into the unique facets of their corresponding products, examining the results in aggregate offers a valuable perspective of how the products fit into the larger arena of the supplemental insurance market.

This report blends information of all these reports to give a brief overview of the U.S Supplemental Insurance Market. In addition, we have created a comprehensive overview report which features detailed analysis with commentary provided by our consulting team. These reports are available at milliman.com/worksiteresearch.

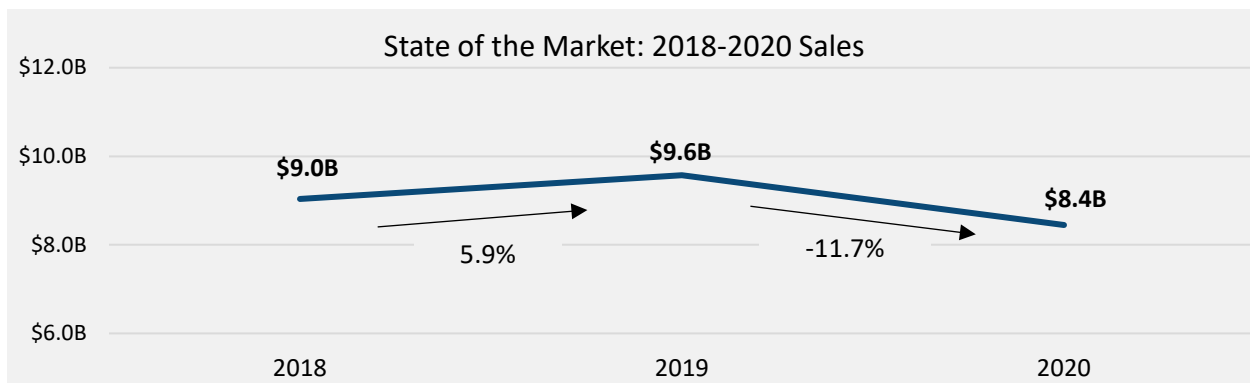
Overview

In 2021 MSSR conducted its inaugural State of the Market survey. With 2020 data for 15 products among 54 carriers, we aggregated sales and inforce results to assist with understanding the current status of the supplemental insurance market. The expectation is widely held in the industry that the effects of the COVID-19 pandemic has had an adverse impact on the sales of these products.

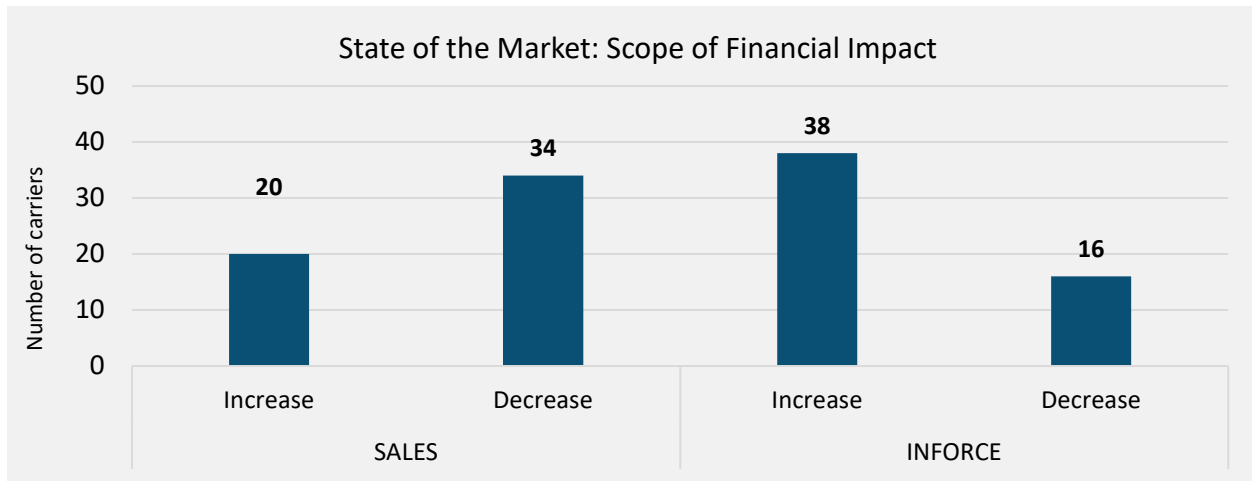
The figure below shows the inforce premium from 2018 to 2020 across the 15 supplemental products. According to the information we collected, respondents reported \$58.1 billion in 2018 inforce premium and that number climbed to \$62.0 billion in 2020 for a compound annual growth rate (CAGR) of 3.3%. While the market did grow over 5% from 2018 to 2019, there was only 1.2% increase from 2019 to 2020. While small, it is noteworthy that market growth continued in 2020, although at a slower pace than previous years.



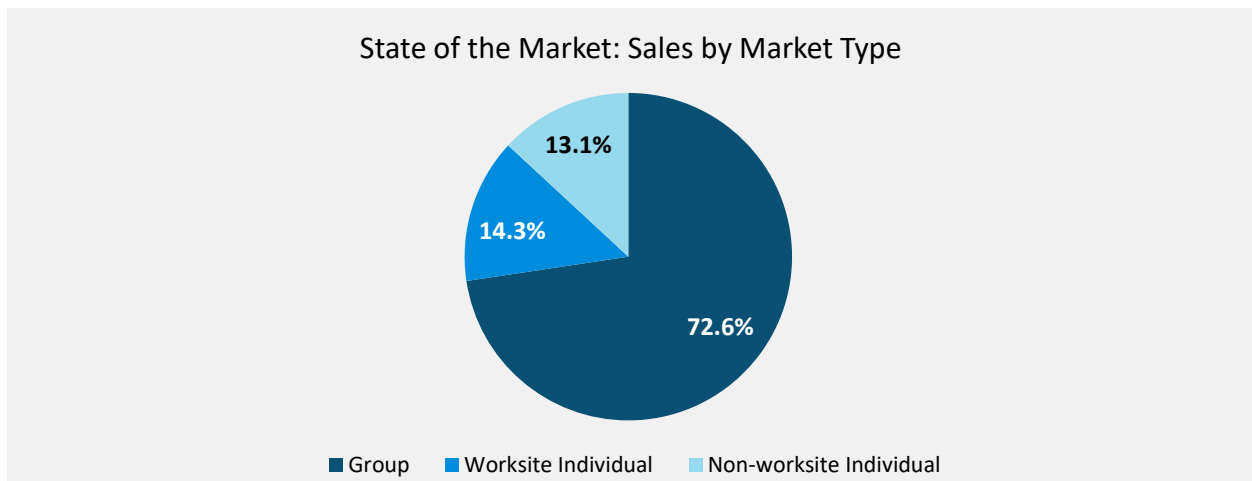
On the other hand, it appears that the effects of the pandemic were more significant on the total sales for products in the supplemental market. The figure below shows the sales from 2018 to 2020 across all supplemental products represented in our survey. According to the information we collected, respondents reported \$9.0 billion of sales in 2018 but that number fell to \$8.4 billion in 2020 for a compound annual growth rate (CAGR) of -3.3%. While the market grew almost 6% from 2018 to 2019, there was an 11.7% decrease in 2020.



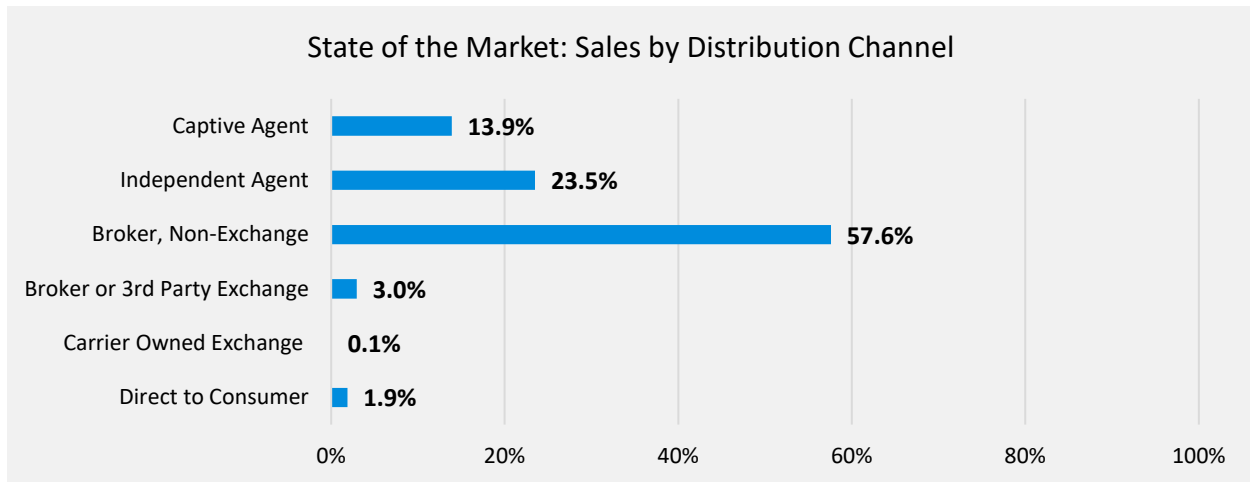
To provide further detail on the impact of COVID-19 in 2020, the figure below shows how many carriers experienced increases or decreases to their sales and inforce between 2019 and 2020. Many carriers, but not all, experienced decreases in their sales and increases in their inforce premium.



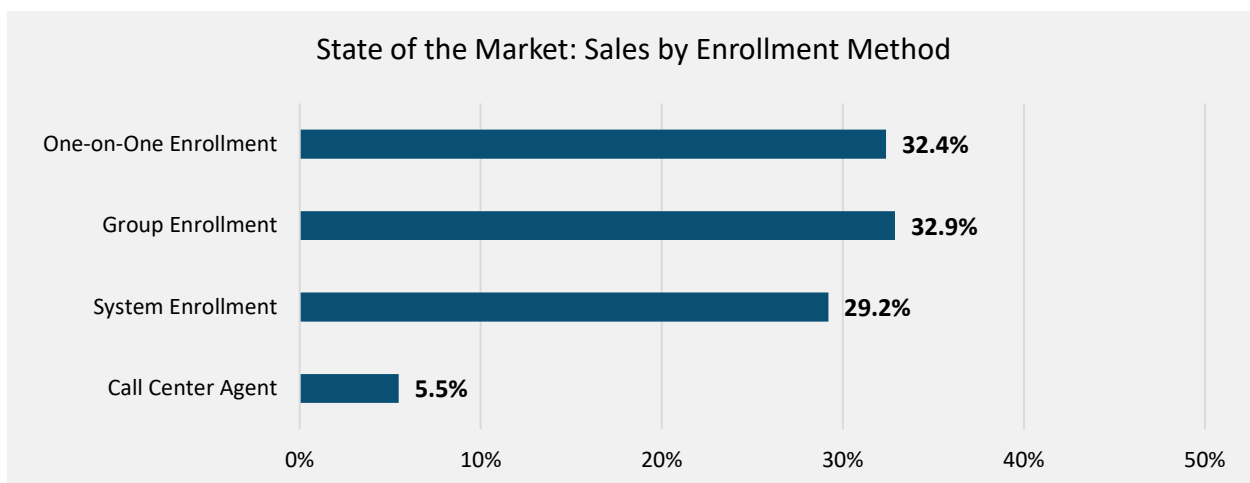
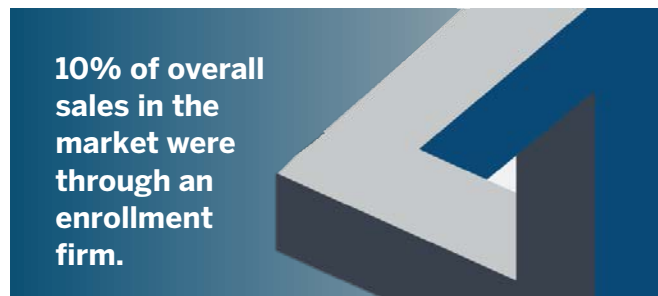
Across all 15 supplemental products in our survey, carriers were asked to indicate what percentage of their sales were made in group and individual markets. Almost three-quarters of sales were made in the group market.



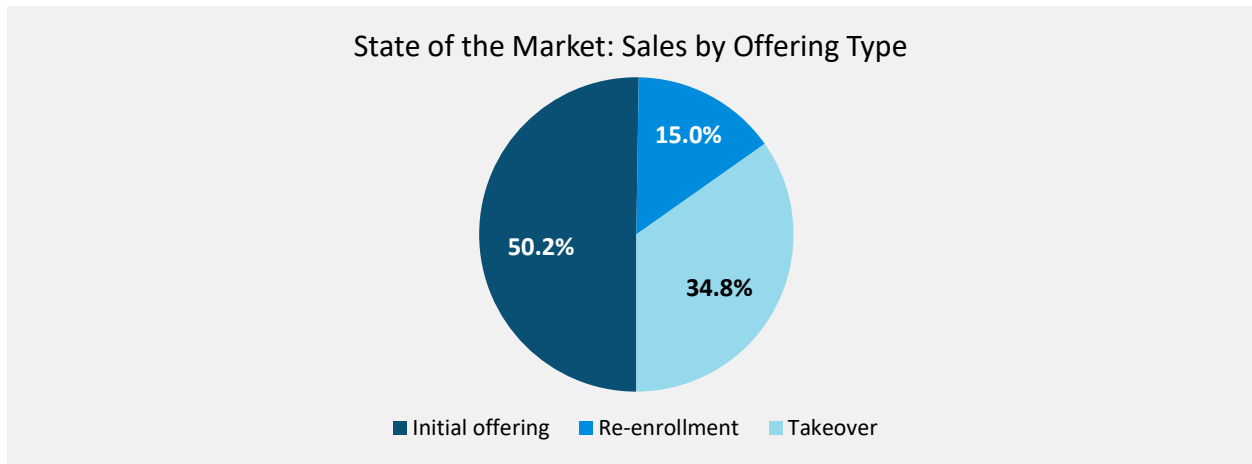
In general, over half of sales reported in the survey were made through non-exchange broker channels. Additionally, independent agents made up an additional 23.5% of sales.



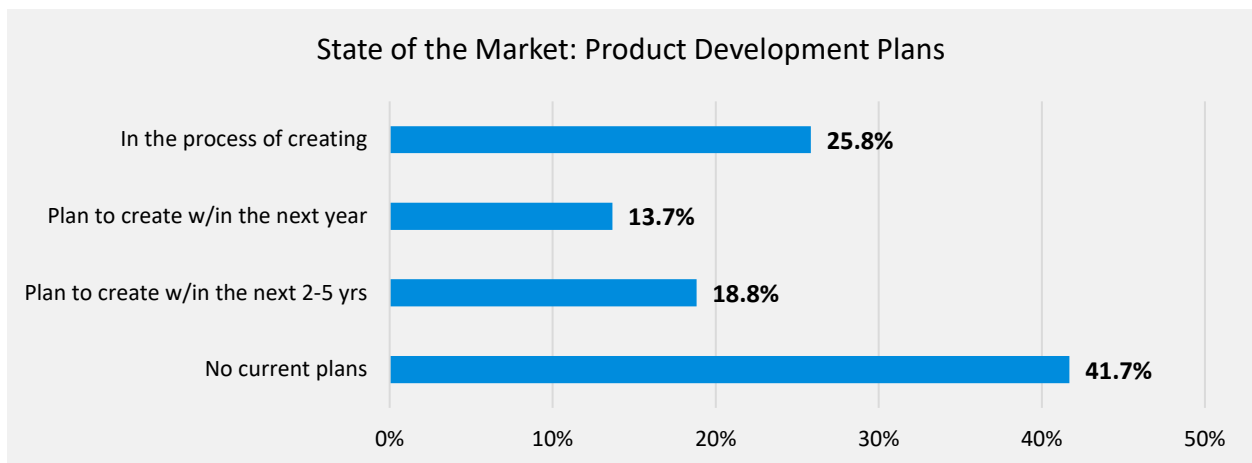
Carriers were also asked about sales and enrollments. In general, only 10% of sales overall were made through an enrollment firm. Across the products in the survey, sales were almost equally made through one-on-one enrollment methods and group enrollment methods. System enrollments were also very popular.



Approximately one half of the sales reported were made through the initial offering. Takeover also accounted for an additional 35% of sales.



Lastly, product development plans were aggregated across all 15 products. Just over 40% of carriers noted that they had no current plans to create a new or revised product. However, a quarter of the carriers mentioned that they are in the process of creating a new or revised product.



Carriers were asked what they viewed as the three most important topics in the supplemental market for 2021. Many carriers noted topics such as the COVID-19 pandemic and its effect on the supplemental market. Other top mentions included how carriers would create innovative products in an altered environment, how to adapt to a changing regulatory climate, and how to enhance the customer experience.

The figure below illustrates some of the most mentioned themes in the industry. The larger font size represents a more frequent mention of the theme by respondents.



The remainder of this report will explore the results from the Accident, Critical Illness, Hospital Indemnity, and Worksite Life product-specific surveys. These surveys collected data from 2017 to 2019. Where applicable, 2020 data from our State of the Supplemental Market survey was included for those products to assess potential impacts from the pandemic.

Respondents

Each survey was well represented by the number and size of participants, capturing a significant portion of the market. Figure 1 shows the number of respondents for each of the four reports.

Market	Number of Respondents
Accident	39
Critical Illness	38
Hospital Indemnity	32
Worksite Life	20

Market Share

In all four market surveys, each product was reported to be top heavy based on inforce premium – only one to three carriers typically represented a significant portion of the market. Therefore, inforce trends are driven by only a handful of carriers.

Accident and Hospital Indemnity were shown to be the most top-heavy markets surveyed as the top three carriers reported nearly two-thirds of the captured inforce premium. For Worksite Life and Critical Illness, more than half of reported inforce premium was also concentrated in the top three responding carriers for each survey.

Market Segmentations

To gain greater insight into market trends, the product-specific reports segmented each market’s sales and inforce premium data in a number of ways.

For the Accident, Critical Illness, and Hospital Indemnity markets, the primary market segmentation was by product type: group, worksite individual, and non-worksite individual. The Worksite Life market’s primary segmentation was line of business: whole life, universal life, permanent term, and other term.

Based on inforce premium, the Accident, Critical Illness, and Hospital Indemnity market’s largest segment were group products and the Worksite Life market’s largest segment was universal life products.

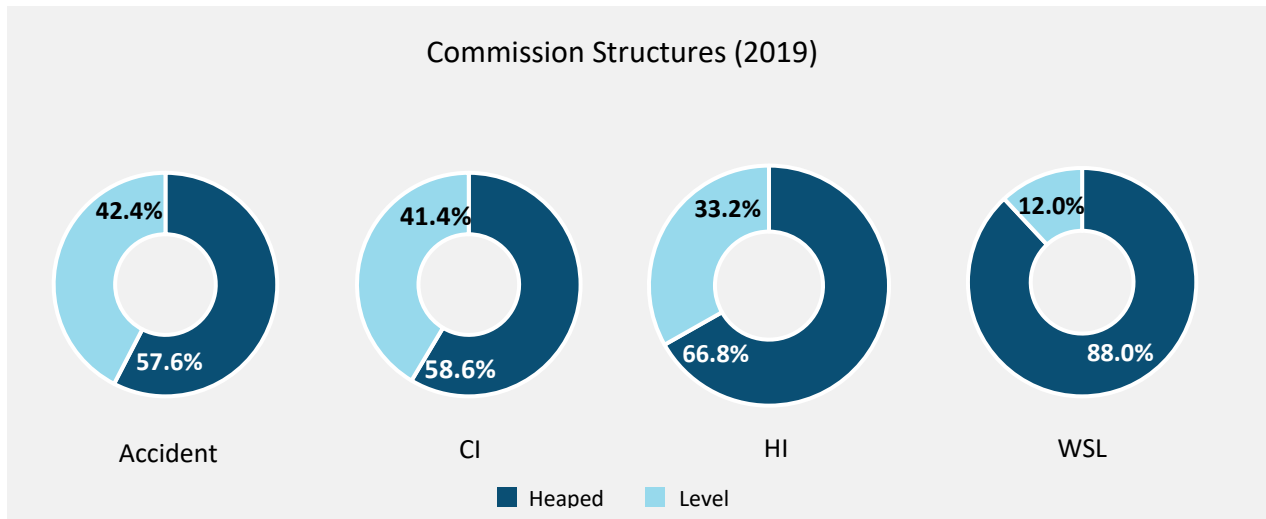
Based on sales, the Critical Illness and Hospital Indemnity markets experienced the greatest percent growth with group products, while the Accident market experienced the greatest percent growth with non-worksite individual products. The Worksite Life market experienced the greatest percent growth in whole life products.

Market	Largest segment	Segment with Greatest Percent Growth
Accident	Group	Non-worksite Individual
Critical Illness	Group	Group
Hospital Indemnity	Group	Group
Worksite Life	Universal life	Whole life

Commission Structures

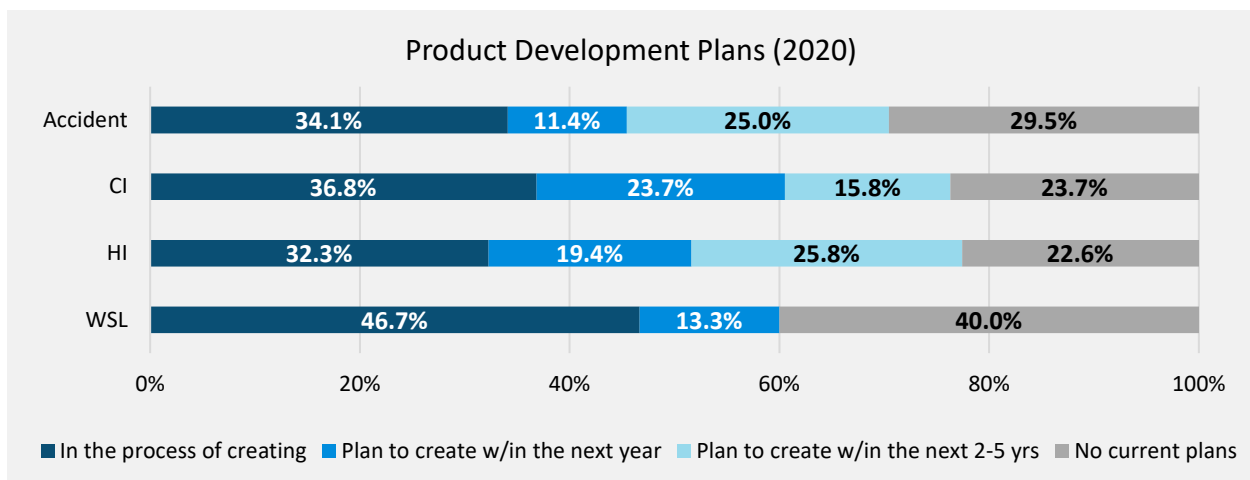
As broker relations are instrumental in the distribution of supplemental insurance products, commissions play an important role in pricing and distribution. Commission structures, level vs. heaped (higher first-year and reduced renewal-years), varied by product.

In general, across all lines of business, heaped commission structures are more popular, especially for worksite life products (88.0% reported having heaped structures).



Product Development Plans

In our State of the Supplemental Market survey, product development plans were asked for each individual product. The figure below shows data for Accident, CI, HI, and WSL only. For these products between 30% to 50% of survey respondents are in the process of creating a new or revised product, which is higher than the average of the other products included in our survey.















Risks

Product development and commissions are both influenced by a carrier's need to stay competitively viable, particularly in top-heavy markets. Competition, however, is not the only risk that carriers must manage. All carriers experience a variety of risks in their products and in their respective markets. The first step is to identify these risks, after which a plan can be formulated to manage them. We asked carriers to indicate the top risks to their product's success. The top three risks identified for each product are shown below.

Accident	Critical Illness	Hospital Indemnity	Worksite Life
Elevated Expense Margins	Maintaining Product Competitiveness	Elevated Expense Margins	Interest Rate Environment
Maintaining Product Competitiveness	Adverse Lapse Experience	Adverse Lapse Experience	Competition
Adverse Lapse Experience	Elevated Expense Margins	Premium Rate Pressure	Expense

Competition

The competitive nature of the supplemental product market was a clear thread through all of our reports. In each survey, respondents were asked which carriers they consider to be their top competitors. The table below shows the top three competitors from each report. Aflac, Unum/Colonial Life and MetLife were carriers that appeared across different products.

Accident	Critical Illness	Hospital Indemnity	Worksite Life
			
			
			



Milliman's research projects provide insight into the state of the supplemental insurance market. Each market report explores both the sales and actuarial facets of their respective markets, presenting data on sales & inforce, buyer profile, product features, underwriting, pricing & profitability, risks, and administrative systems & technology. We examine segmentations of this data (e.g. group, worksite individual, and non-worksite individual) and we synthesize it to provide a high-level analysis of key market trends coupled with commentary from experienced Milliman consultants.

If you are interested in learning more detailed information about the supplemental product market, please contact us about our flexible engagement options.

We are currently conducting our 2021 research projects. If you have ideas for future surveys or feedback about past surveys, we would love to hear from you.

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