Milliman

Disability Newsletter

A FORUM ON DISABILITY INSURANCE ISSUES

WINTER 2023 | ISSUE DN-142

Editor's Note

Daniel D. Skwire, FSA, MAAA

In this issue of the *Disability Newsletter* we present, somewhat belatedly, our annual study of the profitability of the noncancelable individual disability insurance market. After a downturn in 2020, IDI profits rebounded in 2021, and Doug Taylor provides all of the details in a very thorough analysis.

As the result of changes in the way IDI is reported in the statutory annual statement, and of the increasing prevalence of large and complex reinsurance arrangements affecting this business, we have made some changes in the study methodology. This has led us to restate results from prior years to provide a consistent historical trend.

This will be the final study authored by Doug Taylor, and we are very grateful for his hard work over the past few years. Max Berube at Milliman will be authoring the next study, and we hope the positive profit trends will continue (but we promise not to blame him for the results if that's not the case!).

Also featured in this issue is a summary of recent market research on the supplemental insurance market, including products such as critical illness, accident, and hospital indemnity insurance along with the simplified form of disability insurance sold at the worksite through payroll deduction methods. This is a market that has seen significant growth over the long term, albeit with some bumps as the result of the pandemic.

We hope you enjoy the content in this month's issue!

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Noncancelable Disability Income Study: 2021 financial results

Douglas W. Taylor, FSA, MAAA

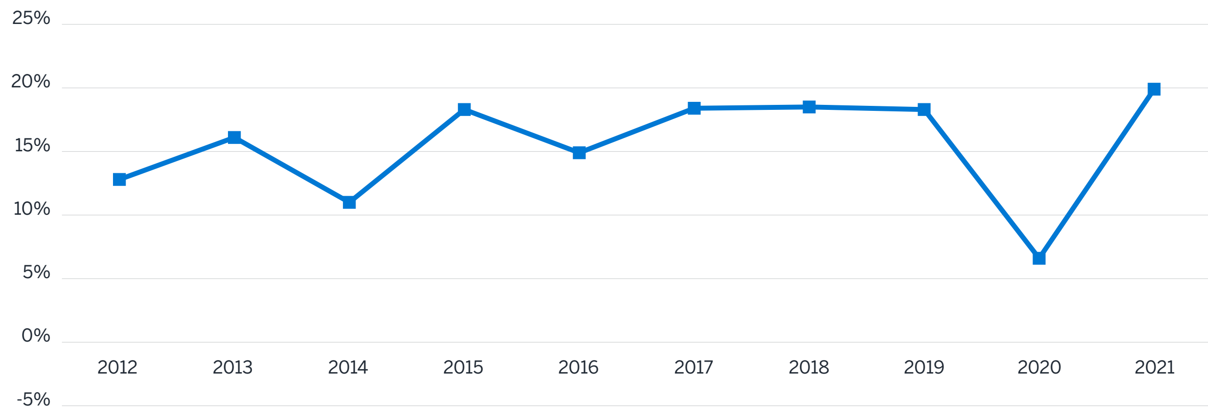
This article presents key results and trends on statutory financial results for individual noncancelable disability income (non-can IDI) over the past 10 years, from 2012 through 2021.

Executive Summary

The pretax profit margin has swung considerably in the past two years. Figure 1 shows the pretax profit margin for non-can IDI as a percentage of earned premium for 2012 through 2021. There was a drop from 18.3% to 6.6% in 2020, which may have been attributable to higher claim reserves on new claims due to the change in the statutory minimum reserve basis, new claims arising from the COVID-19 pandemic, and decreasing interest rates. There was a reversal in 2021, with the pretax profit margin increasing to 19.9%, which may be attributable to low new claims and/or termination of the high new claims that occurred in 2020.

There have been some methodology changes made in the last two studies. Prior year results were updated each time to reflect these changes and provide consistency across the observation period.

FIGURE 1: PRE-TAX PROFIT MARGIN RATIOS (PRE-TAX PROFIT MARGINS / EARNED PREMIUM)



Introduction

The purpose of the non-can IDI study is to give a high-level view of the health of the industry. The study looks at both income statements and balance sheets (reserves). Because of reporting limitations in the National Association of Insurance Commissioners (NAIC) Annual Statement Blank (aka the NAIC Blue Book), it is not possible to separate IDI business out from other types of business. Non-can business is usually IDI (particularly for companies in this study). Guaranteed renewable business reported in the Blue Books typically includes not only some IDI, but long-term care as well. Thus, guaranteed renewable business falls out of scope for this study.

Companies in the study

Figure 2 lists the individual companies whose data was used in this study. The study includes 19 companies comprised of 28 separate corporate entities that have written or are writing non-can IDI. Information was gathered from individual company Blue Books. Most companies make their Blue Books publicly available on their websites, and the California Department of Insurance also maintains a public database of statutory financials. While the data sources are publicly available, this study does not report individual company results.

FIGURE 2: COMPANIES INCLUDED IN THE 2021 NON-CAN PROFITABILITY STUDY

COMPANY GROUP	COMPANY
AMERITAS	Ameritas Life Insurance Corporation
AMERITAS	Ameritas Life Insurance Corporation of New York
CENTRE	Centre Life Insurance Company
EQUITABLE	Equitable Financial Life Insurance Company
GENRE	General Re Life Corporation
GUARDIAN	Berkshire Life Insurance Company of America
GUARDIAN	Guardian Life Insurance Company of America
ILLINOIS	Illinois Mutual Life Insurance Company
MASSMUTUAL	Massachusetts Mutual Life Insurance Company
METLIFE	Metropolitan Life Insurance Company
MONARCH	Monarch Life Insurance Company
MONY	MONY Life Insurance Company
MUNICH	Munich American Reassurance Company
NATIONAL LIFE	National Life Insurance Company
NORTHWESTERN	Northwestern Mutual Life Insurance Company
OHIO NATIONAL	Ohio National Life Assurance Company
OHIO NATIONAL	Ohio National Life Insurance Company
PRINCIPAL	Principal Life Insurance Company
RIVERSOURCE	Riversource Life Insurance Company
RIVERSOURCE	Riversource Life Insurance Company of New York
STANDARD	Standard Insurance Company
STANDARD	Standard Life Insurance Company of New York
THRIVENT	Thrivent Financial for Lutherans
UNUM	First Unum Life Insurance Company
UNUM	The Paul Revere Life Insurance Company
UNUM	Provident Life & Accident Insurance Company
UNUM	Provident Life & Casualty Insurance Company
UNUM	Unum Life Insurance Company of America

Five new companies were added to the 2020 study, to get a fuller view of the industry. Results of these companies were added starting in year 2017. The added companies only generated a 3.7% increase in 2017 earned premium, so results are not materially distorted by their inclusion. Prior to the 2020 study, studies split business between active and inactive writers. Because the inactive block is shrinking quickly, the active versus inactive split has been removed from this study.

Methodology

This study is a complex undertaking. The sources of information are companies' NAIC Blue Books. The methodology involves estimation of key components in the profit statement, such as net investment income, which are not available in the Blue Books for non-can IDI. In addition, the study attempts to capture the experience of the full industry by unwinding many of the reinsurance agreements that companies have implemented over the years with other onshore and offshore companies that are outside the study. Key aspects of the methodology are described as follows:

1. Consistency with regard to both data and methodology was maintained throughout the study to avoid having too many company-specific adjustments. Any changes were made throughout the whole study, changing results in past years when compared to prior studies.

2. The NAIC amended Blue Books in 2019, adding more complexity in compiling this study.
   - The Analysis of Operations exhibit was changed. Prior to the changes, the non-can IDI business rolled through the Other A&H column, which covered all individual health business. The NAIC made changes that split out disability income results, but they were combined with group disability results.
   - Exhibit 6 (Accident and Health Reserves) was also changed to be consistent with the Analysis of Operations exhibit. Prior to the change, individual health business was split between non-can, guaranteed renewable, and other business. This study assumes that all non-can business is IDI. Now total disability income reserves are shown, combining both individual and group, and doing away with the non-can split.
   - Schedule H was not changed, making it the sole remaining schedule or exhibit with non-can IDI splits.
3. Schedule H provides reserves and most income statement items on a net-of-reinsurance basis.
4. Net investment income (NII) is not on Schedule H and needed to be estimated based on what was reported in the Analysis of Operations exhibit.
   - For pre-2019 results, non-can IDI NII was estimated based on its share of starting individual health reserves.
   - For post-2018 results, non-can IDI NII was estimated based on its share of starting total health reserves.
   - This method does not recognize asset and liability duration differences relative to other health products.
   - The resulting net investment income includes net investment income on surplus in addition to statutory reserves. No adjustment was made for this study to remove net investment income on surplus, mainly because companies use a variety of methods to allocate surplus by line of business (e.g., risk-based capital, accumulated lifetime surplus). Net investment income on surplus contributes greatly to non-can IDI profitability.
5. To achieve a more complete look at the industry, adjustments were made in several companies' statutory results to "notionally recapture" reinsurance that had been ceded to reinsurers not in the study, primarily business ceded to non-U.S. companies. This was done using ceded information in Schedule H as well as estimates of ceded reserves through Schedule S. It led to adjustments of premium, incurred claims, commissions, and reserves, plus aggregate write-ins for ceded reinsurance. For companies receiving these adjustments, net investment income was "grossed up" on the reserve adjustments, using the same earnings rate as calculated before adjustments. This methodology was further modified in 2021, leading to a restatement of prior year net investment income for some companies.
6. Different financial measures were analyzed:
   - Income statement items as a percentage of earned premium
   - Estimated net investment income rates earned by assets backing reserves
   - Net benefit to earned premium ratios—aka interest-adjusted loss ratio
   - Spending to earned premium ratios
   - Reserve to earned premium ratios
7. Claim reserve margin: Unlike other parts of this study, this measure could not be adjusted for reinsurance because information was not available, specifically the splitting of ceded incurred claims between prior year and current year claims. In addition, certain reinsurance transactions in 2020 made this measure meaningless, so 2020-21 results were dropped.
8. All changes were made to the entire 10-year observation period of the study, not just to the observation period since the last publication. Consequently, financial results will not tie out to past studies, but they are directionally close. Commentary on each component follows.

Income statement results

Figure 3 provides income statement information for all companies for the 2012-21 observation period. Ratios are of various income statement components to earned premium. Commentary on each component follows.

FIGURE 3: STATUTORY FINANCIAL RESULTS - ALL COMPANIES (RATIOS ARE PERCENTAGES OF EARNED PREMIUM, FIGURES ARE IN $ MILLIONS)

ITEM	2012	2013	2014	2015	2016
EARNED PREMIUM ($ MILLIONS)	$4,050	$4,106	$4,112	$4,158	$4,212
ANNUAL PREMIUM GROWTH RATE	1.1%	1.4%	0.2%	1.1%	1.3%
PRE-TAX PROFIT MARGIN	$518	$663	$451	$759	$629
Ratios as percentage of Earned Premium					
INVESTMENT INCOME	50.1%	48.6%	48.5%	46.2%	44.2%
INCURRED CLAIMS	101.1%	95.3%	101.3%	90.2%	89.9%
INCREASE IN POLICY RESERVES	-3.4%	-2.8%	-3.2%	-2.9%	-1.5%
INCURRED BENEFITS	97.7%	92.5%	98.0%	87.4%	88.4%
COMMISSIONS	13.8%	12.8%	12.1%	12.7%	12.6%
EXPENSES	16.8%	17.5%	17.5%	18.4%	18.2%
TAXES, LICENSES, FEES	2.7%	2.7%	2.4%	2.6%	2.8%
COMMISSIONS-EXPENSE-TAX	33.2%	33.0%	32.0%	33.7%	33.6%
AGGREGATE WRITE-INS	-0.2%	0.1%	0.3%	-0.7%	-0.5%
DIVIDENDS	6.6%	6.9%	7.3%	7.6%	7.8%
PRE-TAX PROFIT MARGIN	**12.8%**	**16.1%**	**11.0%**	**18.3%**	**14.9%**

ITEM	2017	2018	2019	2020	2021
EARNED PREMIUM ($ MILLIONS)	$4,396	$4,461	$4,496	$4,514	$4,529
ANNUAL PREMIUM GROWTH RATE	4.4%	1.5%	0.8%	0.4%	0.3%
PRE-TAX PROFIT MARGIN	$810	$824	$825	$300	$902
Ratios as percentage of Earned Premium					
INVESTMENT INCOME	42.1%	41.5%	39.7%	38.2%	37.8%
INCURRED CLAIMS	82.1%	82.9%	79.4%	88.2%	73.4%
INCREASE IN POLICY RESERVES	-0.7%	-2.6%	-1.9%	-0.8%	0.3%
INCURRED BENEFITS	81.3%	80.3%	77.5%	87.5%	73.8%
COMMISSIONS	12.8%	12.8%	12.9%	13.2%	12.3%
EXPENSES	19.0%	19.5%	19.3%	18.7%	19.6%
TAXES, LICENSES, FEES	2.7%	2.7%	2.6%	2.7%	2.6%
COMMISSIONS-EXPENSE-TAX	34.4%	35.0%	34.8%	34.6%	34.5%
AGGREGATE WRITE-INS	0.1%	-0.3%	0.0%	0.0%	-0.2%
DIVIDENDS	7.8%	8.0%	9.1%	9.5%	9.9%
PRE-TAX PROFIT MARGIN	**18.4%**	**18.5%**	**18.3%**	**6.6%**	**19.9%**

In total, earned premium has grown slowly and steadily over the last 10 years, as observed in Figure 4. This is due to steady sales and lapse experience. Premium growth in 2017 was further affected by the addition of new companies to the study (new companies increased 2017 premium by 3.7%). Figure 4 shows the increase in earned premium in years 2017+ attributable to the addition of the new companies.

FIGURE 4: EARNED PREMIUM - FIGURES IN $ MILLIONS

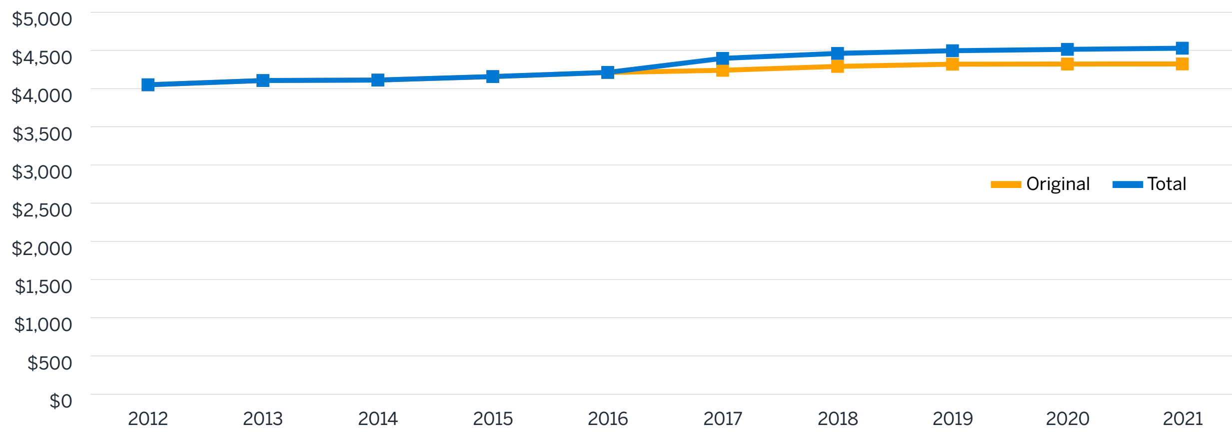


Figure 5 shows the trend of estimated portfolio interest rates, as the ratio of estimated NII divided by starting reserves. It should be noted that some of the investment income is earned on surplus allocated to the line of business, which inflates the estimated portfolio rates. As new money rates have decreased over time, so have portfolio rates. The 2019+ results may be further affected by the Blue Book changes noted in the methodology section.

Interest on surplus was not estimated or removed because a variety of allocation methodologies are used in the industry. If interest on surplus were allocated at 400% of the risk-based capital (RBC) formula and removed, it would lower the 2021 portfolio rates by about 1.4% (from 5.8% to 4.4%) and overall profit margin by 8.8% (from 19.9% to 11.1%).

FIGURE 5: ESTIMATED PORTFOLIO INTEREST RATES / ESTIMATED NET INVESTMENT INCOME / STARTING RESERVES

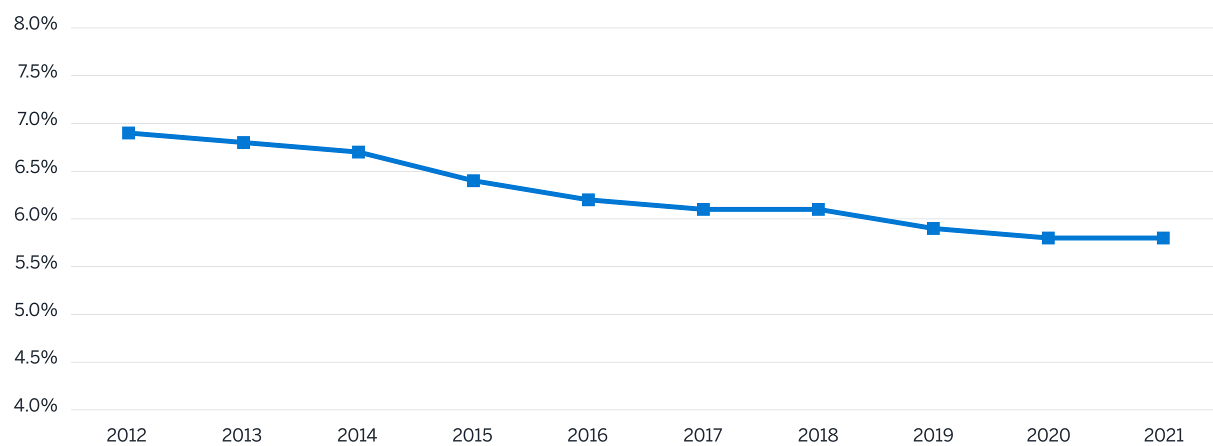


Figure 6 provides interest-adjusted net benefit ratios (incurred claims plus increase in policy reserves plus aggregate write-ins less interest on reserves at 4%, all divided by earned premium). The flat 4% interest rate is used in lieu of the actual statutory interest rates, which typically vary by issue year for active life reserves and incurral year for claim reserves. Increases in policy reserves have been low as a percentage of premium over time, due to slow growth and aging of the business.

Incurred claims (benefits plus changes in claim reserve) reflect current morbidity. Recent industry experience studies have shown that overall morbidity, particularly claim incidence, has been improving steadily since the mid-1990s, partially offset by lower termination rates. Incurred claims were higher than usual in 2020, and lower than usual in 2021. There are a couple of possible reasons for this:

- 2020 was the first year that the new industry IDI valuation tables were in effect for both new issues and claims. Most companies did not implement the new valuation basis until 2020. The claim reserves based on the new tables were higher than those based on the predecessor valuation basis, leading to higher reserves on new claims.
- 2020 was the first full year in the study affected by claims attributable to the COVID-19 pandemic. The non-can IDI business has heavily targeted the medical profession over time. It is possible that the indirect impact of the COVID-19 pandemic, such as higher workloads and stress levels, caused higher-than-usual morbidity in the medical profession.
- 2021 saw a reversal of experience, possibly as the medical profession settled into a "new normal."

Much of the aggregate write-ins, particularly involving companies not in this study, were notionally recaptured as part of the attempt to capture total industry experience.

FIGURE 6: INTEREST-ADJUSTED NET BENEFIT RATIOS (INCURRED CLAIMS + INCREASE IN POLICY RESERVES + AGGREGATE WRITE-INS - INTEREST ON RESERVES) DIVIDED BY EARNED PREMIUM

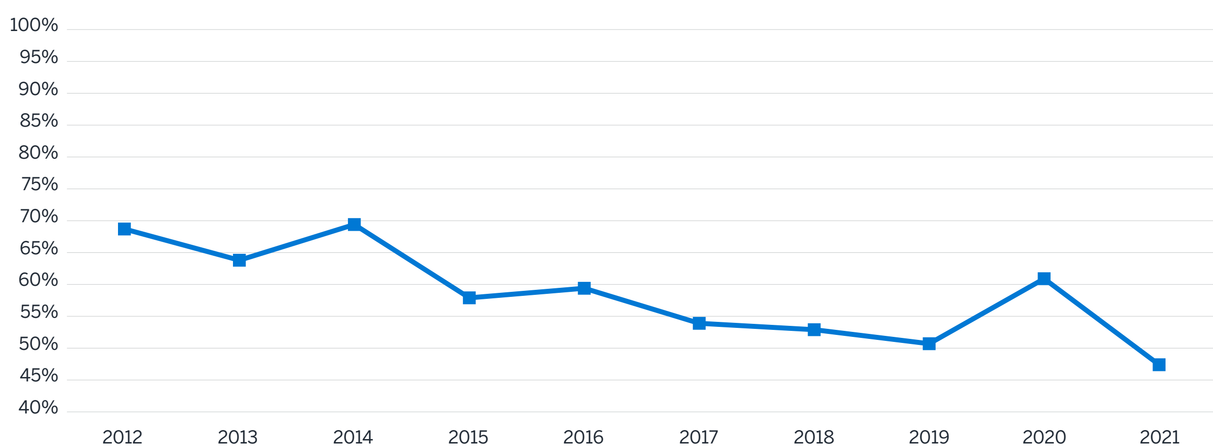


Figure 7 provides spending ratios, i.e., the sum of commissions, expenses, reinsurance allowances, and taxes, licenses, and fees. They have been combined because companies may classify elements of commissions and expenses differently. The ratio of spending to earned premium has remained steady throughout the study, reflective of the IDI industry's slow premium growth. Had sales increased at a faster rate, spending ratios probably would have increased due to higher acquisition costs.

FIGURE 7: SPENDING RATIOS (COMMISSIONS + EXPENSES + TAXES/LICENSES/FEES) / EARNED PREMIUM

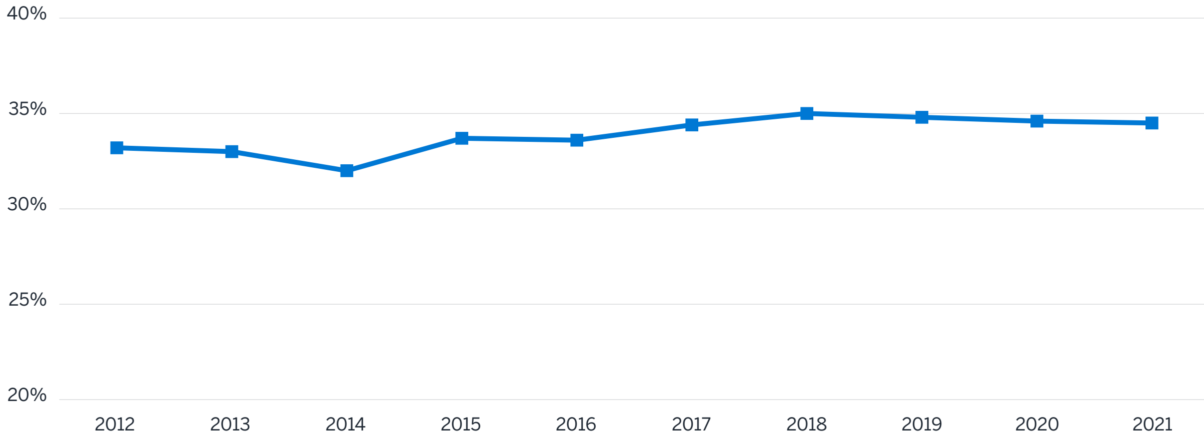
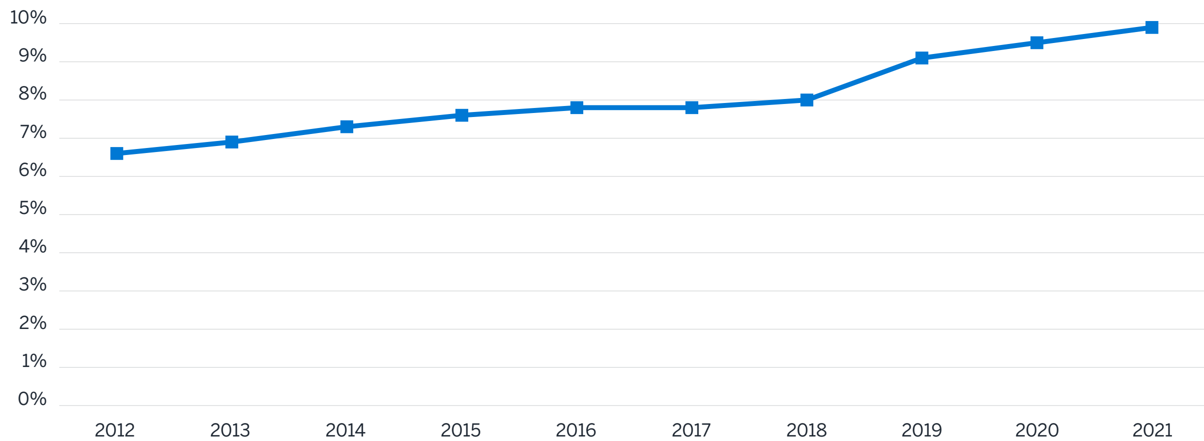


Figure 8 shows the ratio of policyholder dividends as a percentage of earned premium. Dividends are paid out by a few active companies in the study, reflecting a pass-through of experience. Presumably as morbidity experience has improved, dividends have increased as a percentage of premiums, possibly with partial offsets from decreasing interest rates.

FIGURE 8: DIVIDEND RATIOS (POLICYHOLDER DIVIDENDS / EARNED PREMIUM)



Balance sheet results

This section looks at balance sheet results, particularly reserve results.

Figure 9 shows claim and policy reserve balances for all companies. These tables also contain ratios of reserves to earned premium as a rough measure of reserve "strength."

FIGURE 9: STATUTORY RESERVE RESULTS - ALL COMPANIES - (FIGURES IN $ MILLIONS)

TOTAL	2012	2013	2014	2015	2016
EARNED PREMIUM ($ MILLIONS)	$4,050	$4,106	$4,112	$4,158	$4,212
POLICY & PREMIUM RESERVES	$5,146	$5,030	$4,900	$4,792	$4,837
RATIO TO EARNED PREMIUM	127%	123%	119%	115%	115%
CLAIM RESERVES	$24,419	$24,647	$25,060	$25,136	$25,479
RATIO TO EARNED PREMIUM	603%	600%	609%	605%	605%
TOTAL STATUTORY RESERVES	$29,565	$29,678	$29,960	$29,928	$30,316
RATIO TO EARNED PREMIUM	730%	723%	729%	720%	720%

TOTAL	2017	2018	2019	2020	2021
EARNED PREMIUM ($ MILLIONS)	$4,396	$4,461	$4,496	$4,514	$4,529
POLICY & PREMIUM RESERVES	$4,809	$4,711	$4,651	$4,623	$4,664
RATIO TO EARNED PREMIUM	109%	106%	103%	102%	103%
CLAIM RESERVES	$25,421	$25,414	$25,298	$25,052	$24,667
RATIO TO EARNED PREMIUM	578%	570%	563%	555%	545%
TOTAL STATUTORY RESERVES	$30,230	$30,124	$29,949	$29,675	$29,331
RATIO TO EARNED PREMIUM	688%	675%	666%	657%	648%

Figure 10 shows statutory reserve to premium ratios over time. This ratio has decreased slightly over time, possibly reflecting the aging of the business, and the shrinking of business with inactive writers. Companies were required to implement the 2013 IDIVT by 2020 on at least new issues and claims, with the option to implement retroactively on all business. The new table is expected to generate higher claim reserves than the straight-up 1985 CIDA table, but companies may have already taken action over time to strengthen reserves over and above the 1985 CIDA tables. In any case, we may expect to see reserve/premium ratios increase slightly over time as reserves shift from older to newer valuation tables.

FIGURE 10: RESERVE TO PREMIUM RATIOS (POLICY PLUS CLAIM RESERVES) / EARNED PREMIUM

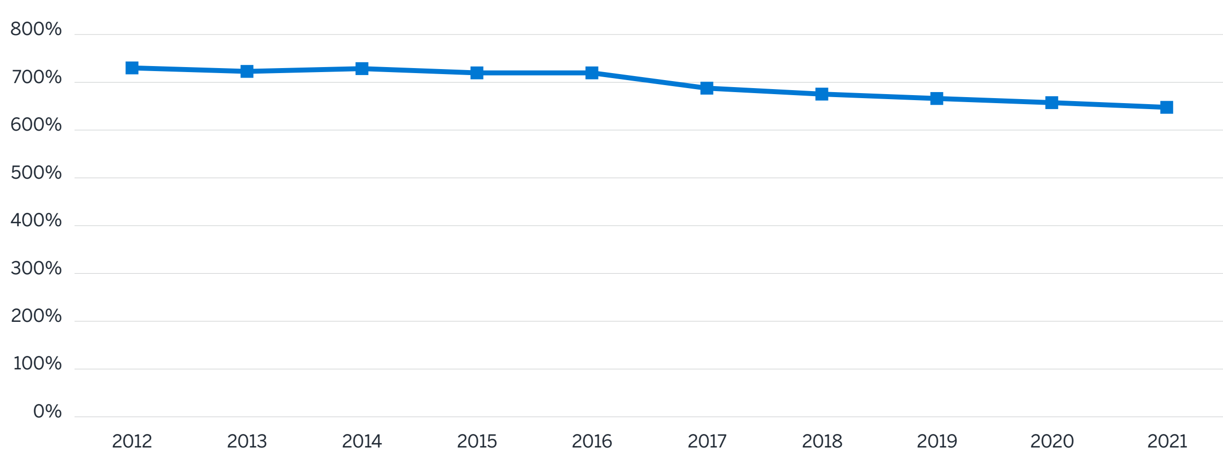
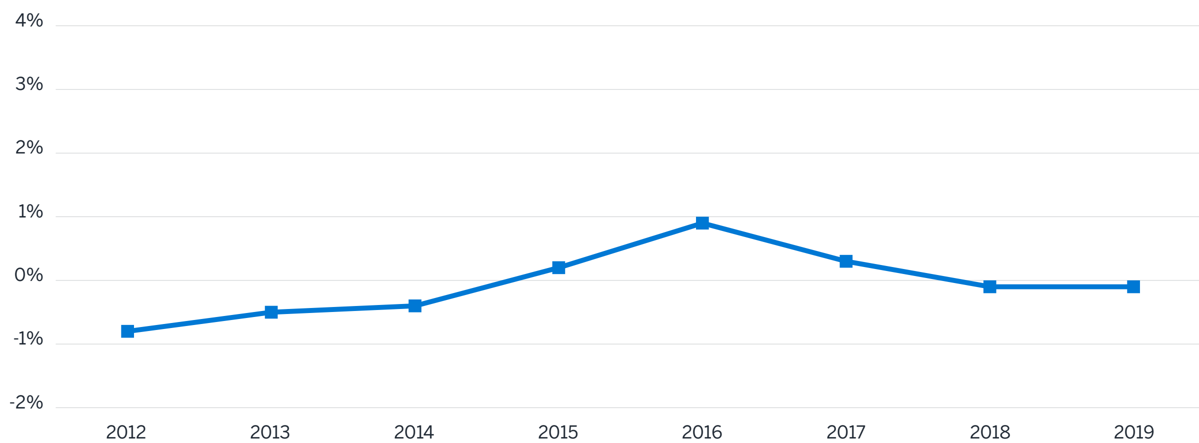


Figure 11 shows interest-adjusted claim reserve margin ratios, the amount of margin released during the year. The formula is the prior year's claim reserves and liabilities plus 4% interest, less claim costs on prior year claims in the current year, all divided by the prior year's claim reserves and liabilities. This margin is discounted to the beginning of the year. Note that, for this measure, reserves have no reinsurance adjustments, as that information was not available. This shows claim reserve margin net of reinsurance, as published in companies' financial statements. The results for 2020 and 2021 were removed because results were highly distorted by reinsurance transactions.

FIGURE 11: CLAIM RESERVE MARGINS (PRIOR YEAR CLAIMS RESERVES PLUS INTEREST ON RESERVES LESS CLAIM COSTS ON PRIOR YEAR CLAIMS IN THE CURRENT YEAR



During the years 2012 through 2019 the interest-adjusted claim reserve margins averaged around break-even, trending up until 2016 before coming back toward zero. Although this is not necessarily a demonstration of reserve adequacy, it shows that claim experience is running off about in line with assumed claim termination rates.

Conclusion

In summary, after years of favorable profitability, the industry had a downturn in financial results in 2020, due to increased morbidity and declining interest rates, followed by an upturn in 2021 due to improved morbidity.

- Morbidity experience seems to have been temporarily affected by increased claims, which reversed in 2021. Results have also been affected by reinsurance transaction dynamics in recent years, making it more difficult to evaluate the profitability of non-can IDI business.
- New money rates have generally continued to decrease over time, dragging down overall portfolio rates.
- Spending has remained stable throughout the observation period.

Your comments and questions are welcome.

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Trends in the supplemental benefits market

David Bahlinger | Christin Kuretich | Elizabeth D'Amico

Introduction

Milliman Supplemental and Specialty Research (MSSR) supports the supplemental worksite market through research on many topics: leading innovative design, product development, pricing, risk analysis, compliance and regulatory support, and launch and execution. Through in-depth surveys, we capture carrier feedback and study the most important topics from the perspectives of brokers, employers, employees, and carriers through the collection of both qualitative and quantitative data.

In early 2022, MSSR collected data on sales and in-force totals, product development, industry themes, and risks for 15 products in the supplemental insurance market. These products included:

Accident Indemnity
Accident Medical Expense
Worksite Life (WSL)*
Critical Illness (CI)
Hospital Indemnity (HI)
Dental
Vision
Basic Group Term Life (BGTL)
Voluntary Group Term Life (VGTL)
Supplemental Group Term Life (SGTL)
Accidental Death and Dismemberment (AD&D)
Short-Term Disability (STD)
Long-Term Disability (LTD)
Short-Term Care (STC)
Long-Term Care (LTC)

* WSL includes whole life, universal life, permanent term, and 10-/20-year term products.

In addition to our sales and in-force survey, we conduct detailed, product-specific research for Accident, CI, HI, WSL, and Dental products to provide specialized insight into these markets.

Sales and in-force

MSSR collected sales and in-force data from carriers throughout 2022. A total of 88 carriers provided 2021 sales and in-force data for 15 products to aid in understanding the current status of the supplemental insurance market. There was a rebound in sales in 2021 after the effects of the COVID-19 pandemic adversely impacted 2020 sales of these products.

Figure 1 shows the sales from 2019 to 2021 across all supplemental products represented in our surveys. Survey respondents reported $10.1 billion of sales in 2019 but only $9.5 billion in 2021, for a compound annual growth rate (CAGR) of -3.3%. While the market grew over 5% from 2020 to 2021, this rebound was not sufficient to result in a net gain relative to 2019 sales, likely due to the continued impact of COVID-19 in early 2021.

FIGURE 1: STATE OF THE MARKET: 2019-2021 SALES

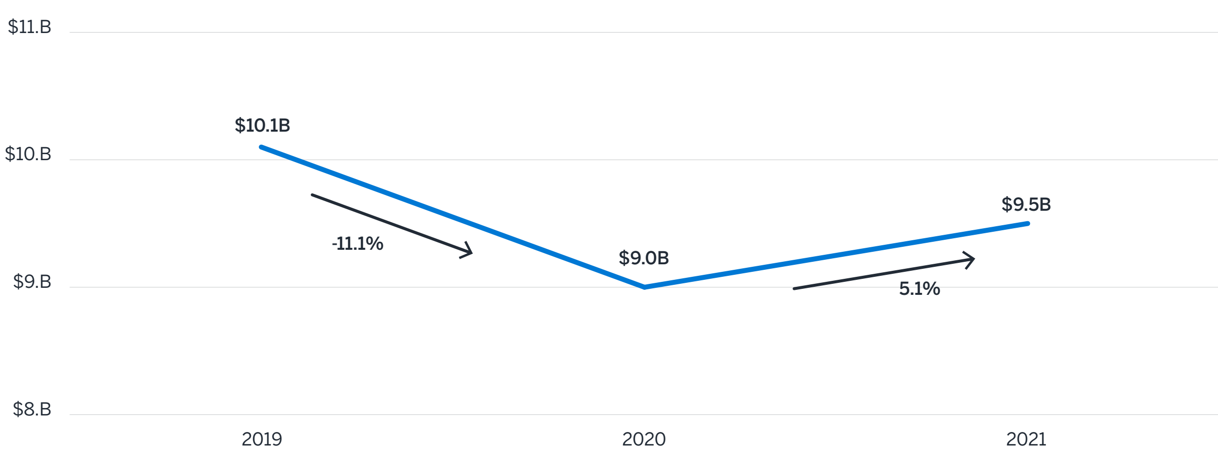
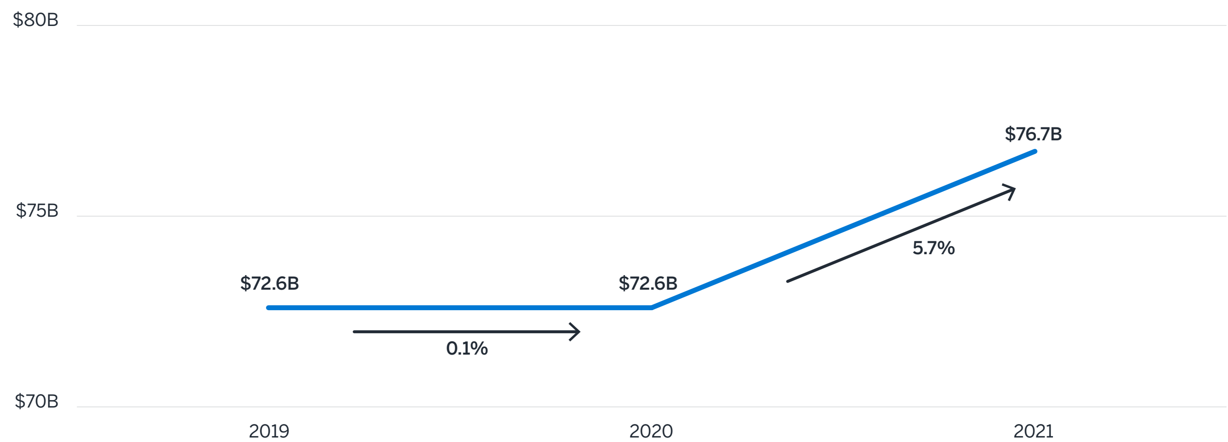


Figure 2 shows the in-force premium from 2019 to 2021 across the 15 supplemental products. Respondents reported $72.6 billion in 2019 in-force premium, which climbed to $76.7 billion in 2021, for a CAGR of 2.8%. There was only a 0.1% increase from 2019 to 2020, but the market did recover and grow 5.7% from 2020 to 2021.

FIGURE 2: STATE OF THE MARKET: 2019-2021 IN-FORCE PREMIUM

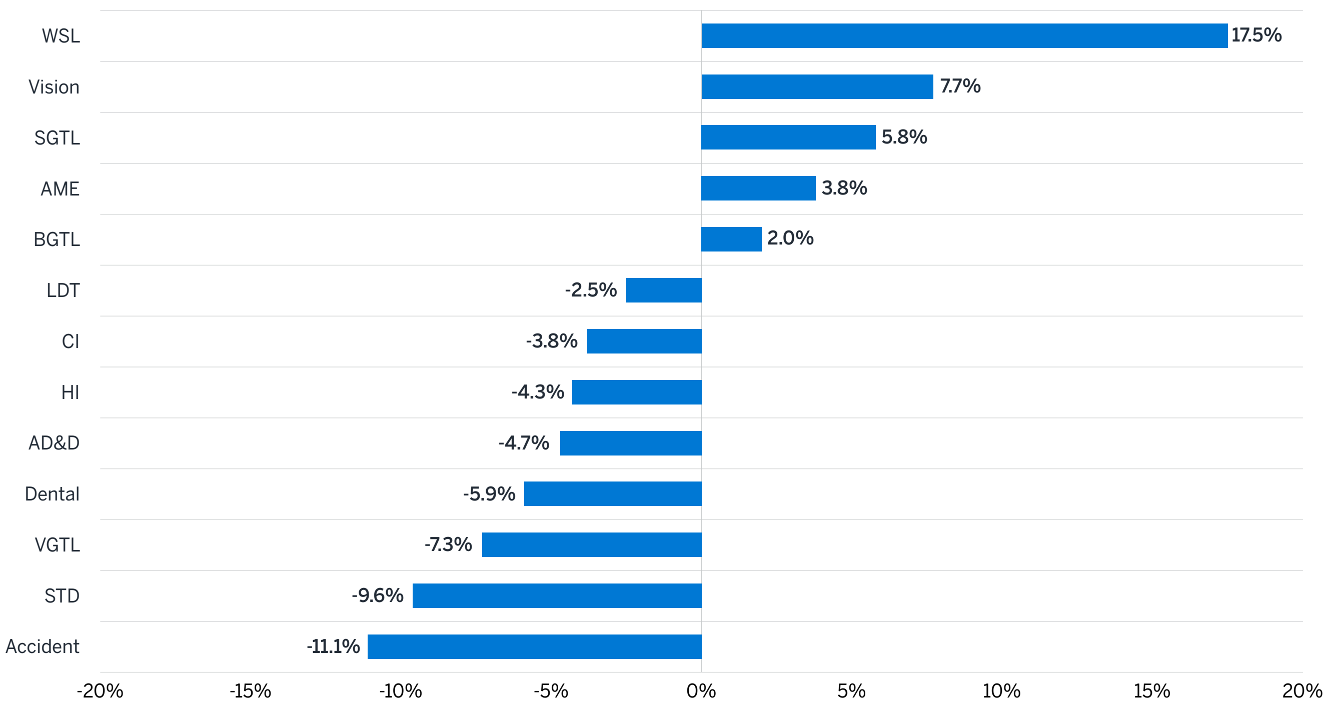


To further detail the impact of COVID-19 over the past two years, Figure 3 shows what percentage of carriers experienced increases in their sales and in-force between 2020 and 2021. Most carriers, but not all, experienced increases in their sales and in-force premium. The percentage of carriers with sales increases grew significantly in 2021.

FIGURE 3: PORTION OF CARRIERS WHOSE SALES OR IN-FORCE INCREASED FROM 2020 TO 2021

Just as not all carriers experienced the same financial impacts due to the COVID-19 pandemic, there were wide variations by product as well. Figure 4 shows the sales CAGRs for each product between 2019 and 2021. Five products saw increases in sales, with WSL attaining the highest CAGR at 17.5%. Conversely, other products in this survey experienced negative sales trends, with Accident insurance seeing the greatest decline at -11.1% CAGR from 2019 to 2021.

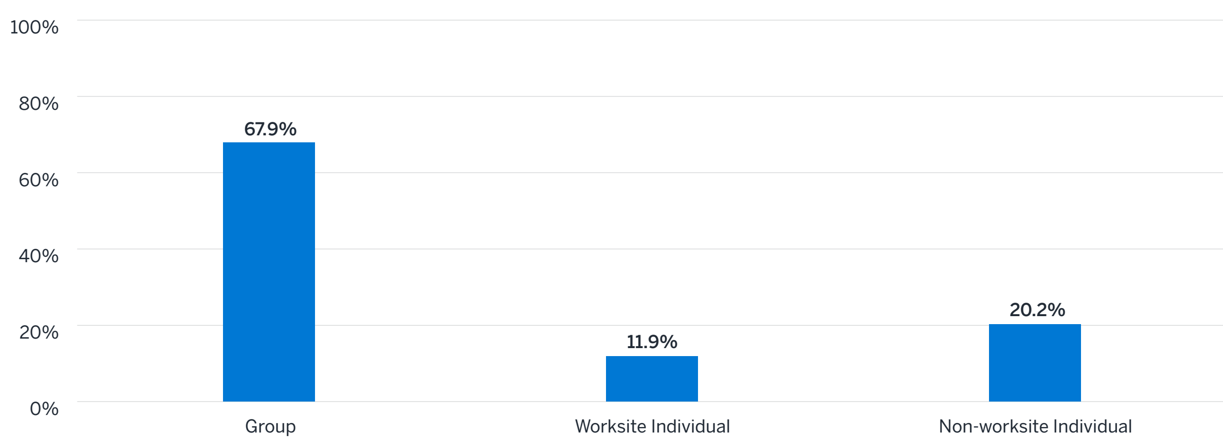
FIGURE 4: SALES COMPOUND ANNUAL GROWTH RATE, 2019-2021



Market sales segmentation

Data from 2021 shows that approximately 70% of sales were in the group market; however, survey results from previous years indicate a slight upward trend in business in the non-worksite individual market (these studies do not include traditional individual disability products). This increased proportion of sales for this market likely reflects that it experienced the least disruption during the COVID-19 pandemic, as its sales process is not dependent upon workplace access.

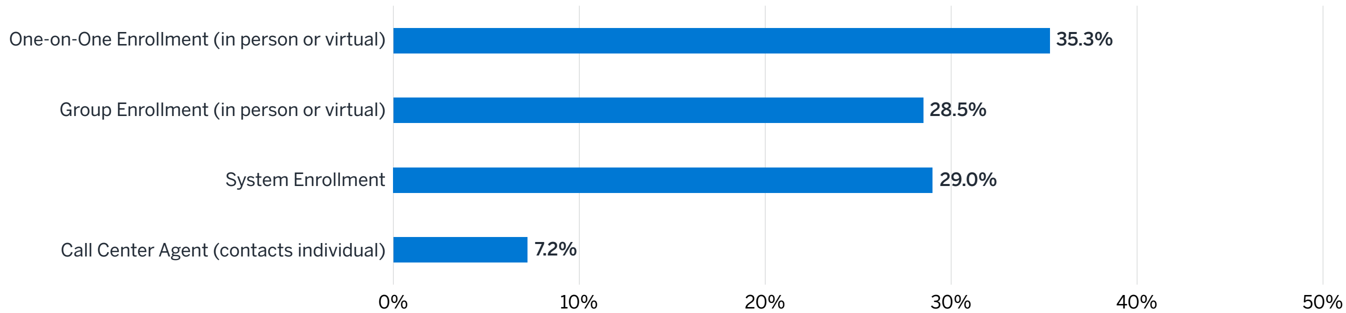
FIGURE 5: SALES BY MARKET TYPE



Across the products in Milliman's State of the Market survey, sales were made more often through one-on-one enrollment methods in 2021 than other methods, such as call centers or system-driven enrollment, where there is typically no agent or benefit counselor. One-on-one enrollment was also higher in 2021 when compared to 2020, potentially resulting from the shift to remote work for many employees. To recover from the impacts of COVID-19, carriers must continue to access employees by adapting and repositioning via virtual enrollment capabilities.

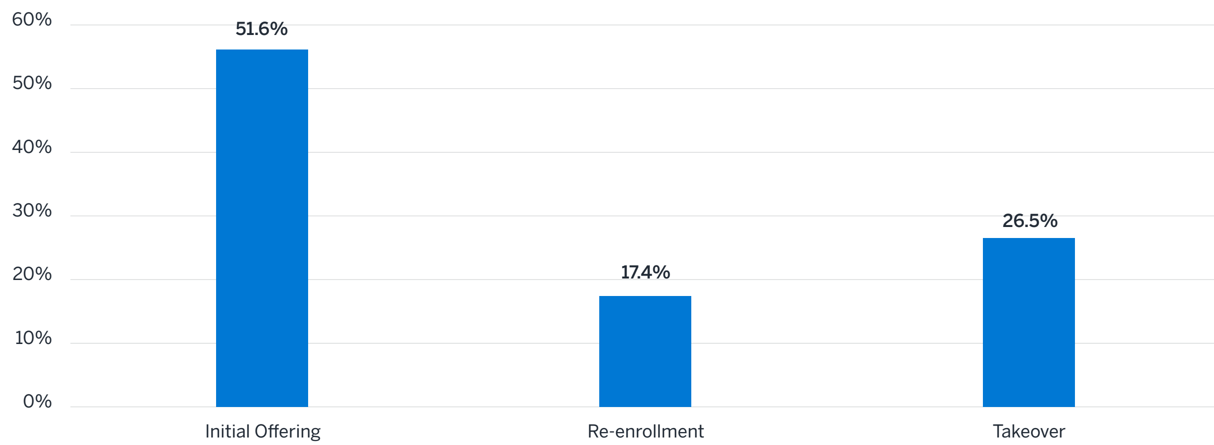
Success for each channel will ultimately depend on effective engagement with potential customers in our changing work environment.

FIGURE 6: SALES BY ENROLLMENT METHOD



Moreover, approximately one-half of the sales reported were made through the initial offering in 2020, which increased even more to 56.1% in 2021. In contrast, takeover accounted for only 26.5% in 2021, which is lower than the reported value in 2020. These numbers suggest that there is still a large number of carriers in the market that have not previously offered voluntary benefits. The employer market is not fully saturated and there are significant opportunities for carriers who are able to successfully design and offer products that resonate with customer needs.

FIGURE 7: SALES BY OFFERING TYPE

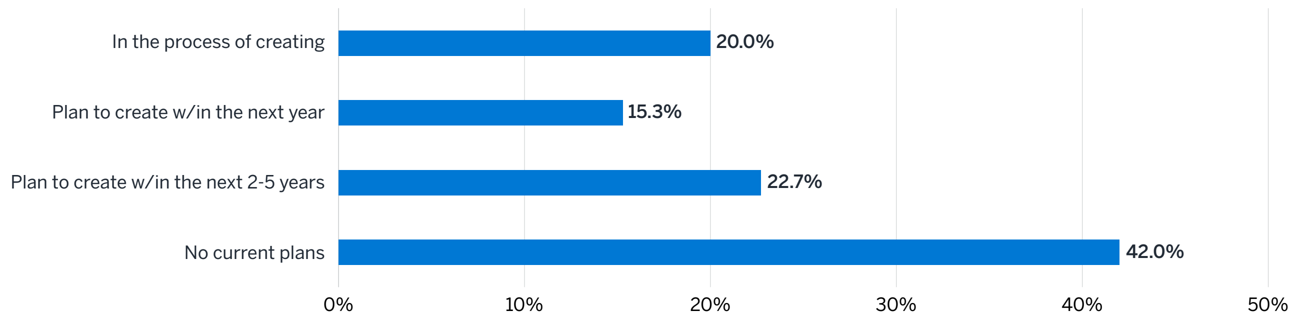


Product development plans

We aggregated carrier data regarding product development plans across all products in our State of the Market survey. Similar to last year, nearly 60% of carriers noted that they have plans to create new or revised products now or in the near future

The refresh cadence in this market for new or revised products is typically between two and five years, given the complexity of the filing and approval process within each state. Thus, we may expect to see carriers developing new and revised products within the next few years. However, this year there was a decline in the percentage of carriers reporting that they are in the process of creating new or revised products.

FIGURE 8: PRODUCT DEVELOPMENT PLANS IN THE MARKET



Market topics

Carriers shared what they viewed as the three most important topics in the supplemental market for 2022. 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 a new environment, how to adapt to a changing regulatory climate, and how to enhance the customer experience. Figure 9 uses a word cloud to illustrate some of the most often mentioned themes in the industry. Larger font sizes represent more frequent mentions of themes by respondents.

FIGURE 9: STATE OF THE MARKET SURVEY WORD CLOUD

Top complaints from sales and brokers

It is important to address common complaints from stakeholders and look for ways to improve the customer experience. In 2022, the top frustrations from sales teams and brokers related primarily to issues with benefits, rates, and pricing, specifically "price/cost pressure," "rates too high," and "the rating is still higher than competitors." Regarding benefits, there were a variety of complaints, such as "limited benefit options."

Brokers in our 2022 focus group expressed fatigue hearing that every carrier "pays the highest commissions, has the best products, and the easiest administration." They said they would rather hear specific differentiators from carriers. We look forward to talking to more brokers this year and continuing to deliver insights on what matters to them and how carriers can strengthen these partnerships.

Product features misunderstood or undervalued

Brokers contend that today's customer understands these products "even less than they used to." Carriers agreed and suggest that benefits coverage is the product feature most misunderstood by customers and distribution because the specifics and "fine print" are not easy to understand. Additionally, some carriers attribute these misunderstandings to the customizable and flexible nature of their products. To address these concerns, the industry is currently focused on employee product education.

Policyholder retention

Though potential customers may not understand or value these products fully, most of our carrier respondents noticed an increase or no change in policyholder retention throughout the COVID-19 pandemic. This may be one reason why the growth in in-force premium outpaced the growth in sales during this period. The pandemic brought greater awareness of insurance needs and less opportunity for group takeover churning; however, the current inflationary environment may threaten policyholder retention due to consumers' changing finances.

Competition

The competitive nature of the supplemental product market was a clear thread through all of our reports. In each product survey, respondents were asked which carriers they considered to be their primary competitors. The tables in Figure 10 show the top three competitors from each report. Aflac, Voya, and MetLife were carriers that appeared across multiple products.

FIGURE 10: JUDGING THE COMPETITION

Accident	Critical Illness	Hospital Indemnity	Worksite Life	Dental
Aflac	Aflac	MetLife	Unum Colonial Life	MetLife
MetLife	MetLife	Aflac	Trustmark	Delta Dental
Voya Financial	Voya Financial	Aetna	Transamerica	Guardian

Future research

MSSR is now developing and conducting our 2023 research projects. If you have ideas for future surveys or feedback about past surveys, we would love to hear from you!

Further information on Milliman Supplemental and Specialty Research is available at milliman.com/research.

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