2016 Annual Survey of the
U.S. Individual Disability Income Insurance Market

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Section I: Introduction

Milliman surveyed 15 insurance companies that are active in the U.S. individual disability income (IDI) market. The survey asked about new business sold from 2002 through 2015, sales distributions, underwriting requirements, product offerings, favorable and unfavorable trends, and opportunities and obstacles in the current IDI market. Milliman first conducted this survey in 2007 and has annually published the results of the survey since then except for 2015. This report presents the results of the 2016 IDI market survey.

The scope of the IDI market in this survey includes traditional noncancelable and guaranteed renewable IDI policies. Policies are generally individually underwritten, with the exception of policies sold in the employer-sponsored multi-life market, where guaranteed standard issue underwriting is common. Although the maximum benefit periods may be as short as 12 months, the most prevalent maximum benefit periods are to age 65 or longer.

The survey excludes the type of IDI plans sold at the worksite to employees where policies seldom have benefit periods longer than two years and often pay disability benefits that are due to accident only. In the worksite disability insurance (DI) market, the application typically involves a short health questionnaire and simplified underwriting, unlike the traditional IDI market, where the applications and medical underwriting are more extensive. Worksite disability policies are one of a number of insurance coverages sponsored by the employer and made available to employees on a voluntary basis.

Contributors

The table below lists the 15 contributors to the survey:

Contributors to the 2016 IDI Market Survey

Ameritas	Ohio National
Assurity	Principal
Guardian	RiverSource
Illinois Mutual	State Farm
MassMutual	The Standard
MetLife	Thrivent
Mutual of Omaha	Unum
Northwestern Mutual	

In total, these 15 contributing companies issued policies with $392 million of new annualized premium in 2015. We estimate that their total premium represents 90% to 95% of the IDI market in terms of new sales.

Reliance and limitations

In conducting the 2016 IDI market survey and preparing this report, we have relied upon the information provided by the contributors. To the extent that this data is incomplete or inaccurate, our results may be materially affected.

This report is being made available to the general public. This report cannot be published in any other form or publication without written permission from Milliman. Milliman does not intend to benefit any third-party recipient of its work product.

Qualifications

Robert Beal is a consulting actuary with Milliman. This report provides an opinion regarding trends in the individual DI market. Mr. Beal is a Fellow of the Society of Actuaries and meets its qualification standards for rendering this opinion.

Section II: Survey Highlights

This section summarizes highlights and observations from the report.

Highlights

- New IDI annualized premium for the 15 contributors combined was $392.2 million in 2015, which is the highest volume of new premium since the 1990s. It surpassed the last high point of $379.3 million sold in 2008, which was right before the recession hit and new IDI sales dropped by 13%.

- New IDI annualized premium for the 15 contributors grew at an annual rate of 5.8% from 2014 to 2015, which is very solid relative to the more typical 2% to 3% annual growth rates that have occurred since 2002. This higher growth rate is continuing in 2016 with a 7.2% growth in new annualized premium year-to-date through June 30.

- The growth rate in the volume of new policies is keeping pace with the volume of new annualized premium, which indicates that companies have been able to grow by selling more policies rather than issuing higher amounts of coverage per policy.

- The percentage of new annualized premium sold to doctors and surgeons has stabilized at around 31% since 2010, indicating companies may be able to focus their marketing attention on other occupations. The percentage of new annualized premium sold to executives has been growing steadily since 2009, reaching 25% in 2015.

- The percentage of new annualized premium sold in the employer-sponsored multi-life (ESML) market among the 15 contributors continues to grow steadily, exceeding 40% in 2014 and 2015.

- New ESML annualized premium has been roughly 60% employee pay and 40% employer pay since 2010.

- The percentage of new employee-pay ESML annualized premium issued using guaranteed standard issue underwriting (voluntary GSI) has been decreasing over the last three years, while the percentage of new employer-pay ESML annualized premium issued using guaranteed standard issue underwriting (mandatory GSI) has been increasing over this same period. This is a favorable development in light of the materially higher claim costs arising from voluntary GSI compared with mandatory GSI.

- The higher sales reflect companies upgrading their IDI products and supporting the sales, underwriting, and issue process with a greater utilization of technology, such as enhanced illustration systems and online tools, improved ESML enrollment capabilities, and tele-applications.

- There appears to be less liberalization of IDI underwriting in recent years, which in the past occurred through higher issue and participation limits and GSI offerings. Companies appear to be more focused on streamlining the underwriting process through methods such as simplified underwriting programs.

- Many contributors reported stable or improving claim experience. They continued to be satisfied with the profitability of their IDI business in 2015, although not quite as satisfied as reported in the 2013 and 2014 IDI market surveys.

- Contributors noted many of the same unfavorable trends and obstacles to long-term growth in the IDI market as reported in past IDI market surveys, including an aging IDI distribution force, competitive pressures, and an apathetic market. One company observed that the IDI market is aging and getting closer to retirement, with less interest in and need for protecting earned income.

- When asked about opportunities to grow the IDI market, contributors suggested a wide range of segments within the IDI market where opportunities exist. We see less reliance on achieving success just through the more typical segments like medical professionals and the ESML market and a greater willingness to explore other segments with potential growth, such as the middle income market and Millennials.

Concluding observations

The 2016 IDI market survey presents a much healthier picture of the IDI market than it has for many years. Stronger sales and continued solid profitability are evidence that the IDI market is not withering away. Competitive pressures continue to exist, as there are only a handful of companies vying for a relatively small market. However, companies are achieving more success through expanding their markets and making the products easier to sell and issue.

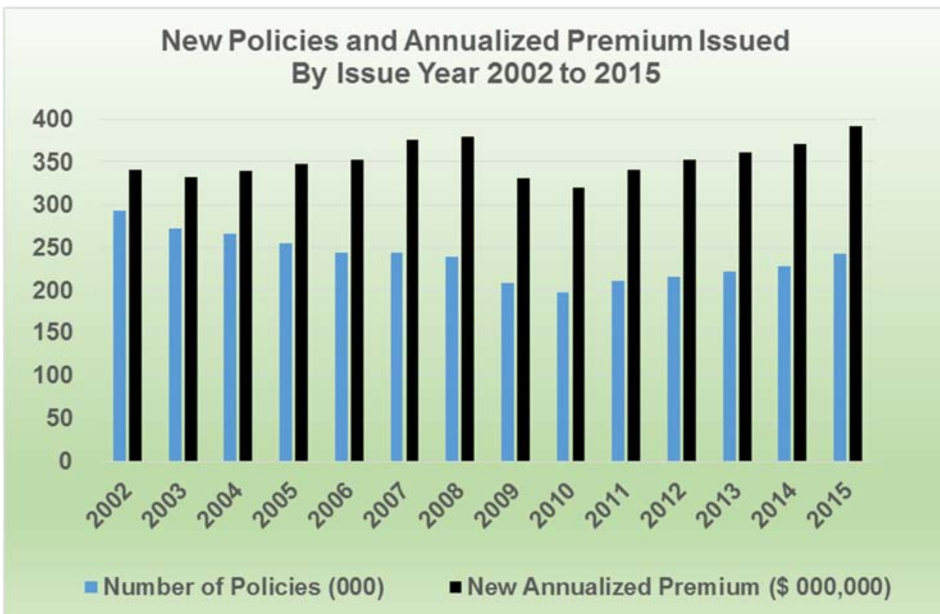
Section III: Sales Results

This section analyzes trends in the new business sold by the 15 IDI contributors from 2002 through 2015. A few contributors revised some of their pre-2015 sales statistics, which has caused small variances in the overall results from what was reported in Milliman's previous IDI market surveys.

Volume of annual sales from 2002 through 2015

The chart in Figure 1 shows total new policies and annualized premium sold by the 15 IDI contributors from 2002 through 2015. The combined new annualized premium for the 15 contributors has increased steadily since falling in 2009 and 2010, which were the years when the impact of the recession reversed seven years of steady growth from 2002 through 2008. Total annualized premium in 2015 was $392 million, which is 5.8% higher than new sales reported in 2014 This is the highest volume of sales reported since 2002 and exceeded the total new annualized premium of $379 million in the previous peak year, 2008. The volume of new policies has increased year over year since 2010.

FIGURE 1



The graph in Figure 2 shows the cumulative new premium by company as a percentage of total new premium in 2015 after contributors are ranked by their new premium (i.e., Company A had the largest volume of new premium in 2015). The top five IDI contributors in 2015 produced over 74% of the total new annualized premium among the 15 contributors, and the top 10 IDI contributors produced almost 96%. This trend shows that the share of the IDI market issued by the larger companies has been slowly increasing.

FIGURE 2

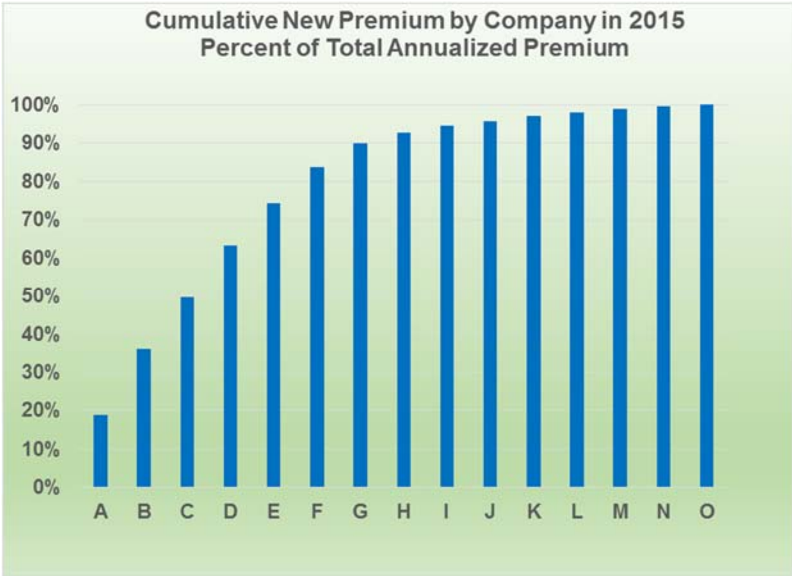


Figure 3 shows the annual growth rates in new policies and new premiums since 2003. The annual growth rates for new policies and new premium have been positive every year since 2011. Companies have been able to increase new premium by selling more policies in contrast to the 2004-2008 period, when new premium was achieved by selling larger policies while the number of new policies decreased. This is a favorable trend.

FIGURE 3

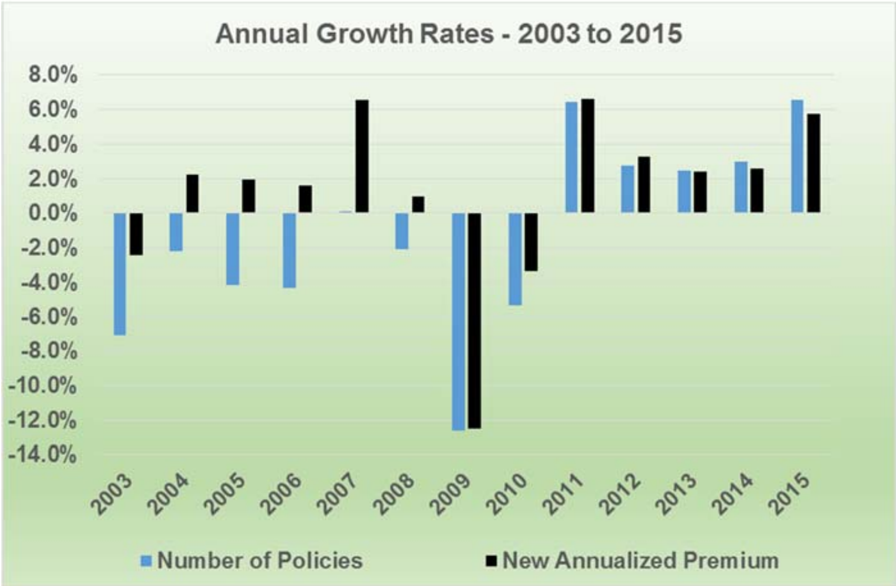
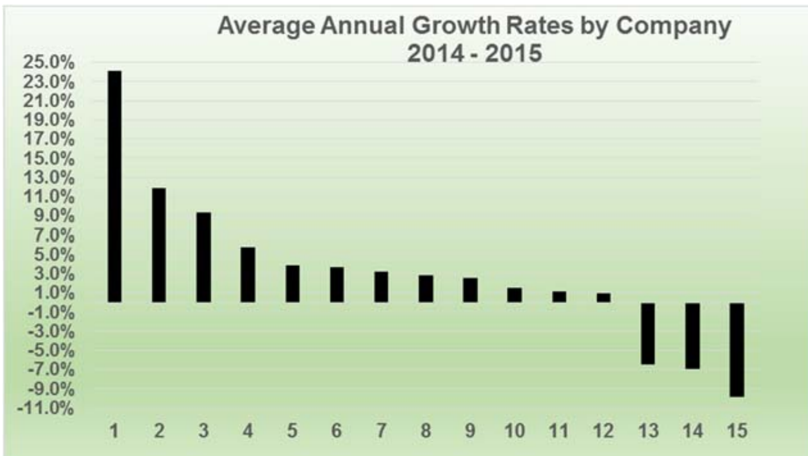


Figure 4 shows the average annual growth rates of the 15 contributors from 2014 to 2015, ordered highest to lowest. Twelve of the 15 contributors had positive growth in new premium. The highest annual growth rate for any of the contributors was 24.1%, which was from one of the lower-volume companies that is giving its IDI line of business renewed corporate focus. Unlike prior years, positive sales growth is much more prevalent among the 15 contributors.

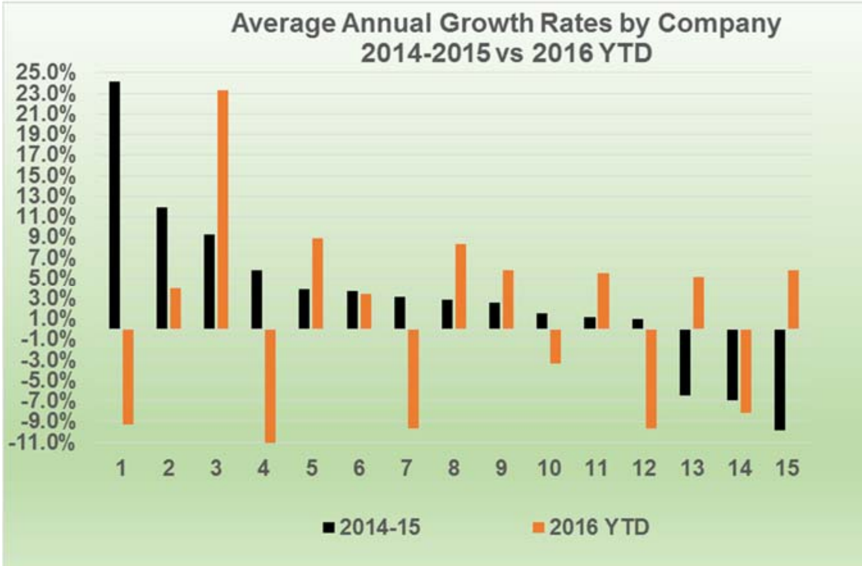
FIGURE 4



New sales in 2016 through June 30

The 15 contributors submitted their total new premium in 2015 and 2016 through June 30. In the aggregate, total new premium in 2016 through June 30 was 7.2% higher than total new premium for the same period in 2015. Figure 5 compares the year-to-date (YTD) 2016 annual growth rates (AGRs) by company with the 2014-2015 AGRs in Figure 4. Nine companies have positive YTD AGRs in 2016.

FIGURE 5



Business products

Two common IDI products offered by carriers for the business market are overhead expense (OE) policies, which reimburse insureds for business expenses incurred while they are disabled, and disability buyout (DBO) policies, which provide funds for buying out a disabled partner's share of the business. Twelve of the 15 contributors currently offer OE policies, while only seven of the contributors offer DBO policies.

Twelve of the 15 contributors sold OE policies in 2015. The OE premium in 2015 represented 4.1% of total premium of these contributors. Seven of the 15 contributors sold DBO policies in 2015. The DBO premium in 2015 represented 1.4% of total premium of these contributors.

Key occupations

The table in Figure 6 shows the distribution of total new premium in 2002 to 2015 among certain key professional and executive occupations. The results are based on information from the 10 contributors who were able to report their new premium split among these occupations. The combined new premium from these 10 contributors represented 95% of the total new premium for the 15 contributors in 2015.

FIGURE 6

`Percentage of New IDI Annualized Premium by Occupation Category					
Year	**Doctors and Surgeons**	**Dentists**	**Lawyers**	**Executives**	**Accountants**
2002	21.6%	6.2%	6.2%	28.1%	1.7%
2003	22.0%	6.3%	7.6%	27.7%	1.9%
2004	22.8%	6.5%	6.5%	28.4%	2.1%
2005	23.8%	6.3%	6.8%	27.6%	2.0%
2006	24.0%	7.3%	6.9%	28.2%	2.2%
2007	22.8%	6.4%	8.1%	28.2%	2.3%
2008	24.9%	7.0%	7.4%	26.6%	2.5%
2009	28.8%	8.0%	7.3%	24.9%	3.1%
2010	31.9%	8.8%	6.3%	23.1%	2.2%
2011	30.8%	8.5%	6.8%	23.5%	2.1%
2012	30.9%	8.1%	7.1%	21.9%	2.2%
2013	30.8%	8.1%	6.8%	23.7%	2.4%
2014	31.3%	7.7%	7.1%	24.0%	2.2%
2015	30.9%	7.7%	6.4%	25.0%	2.1%

Averages					
2002-05	22.6%	6.3%	6.8%	28.0%	1.9%
2006-09	25.0%	7.1%	7.4%	27.0%	2.5%
2010-12	31.2%	8.5%	6.7%	22.8%	2.2%
2013-15	31.0%	7.8%	6.8%	24.3%	2.2%

Figure 6 shows that the percentage of new premium from doctors and surgeons has stabilized around 31% over the last six years. Executives had the highest share of new annualized premium in 2002 among the occupational categories, at 28.1%, but dropped to 23.1% by 2010. This share has been slowly increasing since 2010, reaching 25% in 2015. For three of the 10 contributors, doctors and surgeons comprised over 40% of new premium in 2015, with one of the three exceeding 50%.

Figure 7 show the growth rates for new premium annually over the 14-year period. New premium issued to doctors and surgeons has grown steadily over this period. New premium issued to executives has been growing at the highest rates in the most recent three years.

FIGURE 7

Growth Rates by Occupational Category					
Period	**Doctors and Surgeons**	**Dentists**	**Lawyers**	**Executives**	**Accountants**
2002 to 2003	-1.1%	-0.9%	18.9%	-4.2%	6.5%
2003 to 2004	6.4%	6.1%	-12.4%	5.3%	13.0%
2004 to 2005	6.5%	-0.3%	7.6%	-1.1%	-0.5%
2005 to 2006	2.9%	17.1%	3.4%	4.7%	8.8%
2006 to 2007	2.4%	-5.3%	26.1%	7.4%	12.9%
2007 to 2008	11.8%	12.0%	-6.8%	-3.5%	10.3%
2008 to 2009	3.4%	2.0%	-11.1%	-16.2%	11.5%
2009 to 2010	8.1%	7.9%	-15.9%	-9.6%	-29.6%
2010 to 2011	3.6%	3.6%	15.8%	9.3%	0.8%
2011 to 2012	3.8%	-1.3%	7.1%	-3.6%	11.7%
2012 to 2013	2.0%	2.5%	-1.2%	11.1%	8.4%
2013 to 2014	4.7%	-3.1%	7.4%	4.0%	-4.5%
2014 to 2015	4.2%	6.3%	-4.9%	10.2%	-1.4%
2002 to 2005	12.0%	4.8%	12.1%	-0.3%	19.6%
2005 to 2009	21.9%	26.7%	8.0%	-9.0%	51.1%
2009 to 2012	16.2%	10.4%	4.3%	-4.8%	-20.7%
2012 to 2015	11.4%	5.7%	0.8%	27.3%	2.1%

Six contributors were able to track new premium issued to small business owners since 2012. The six contributors' combined share of the total premium among the survey contributors was 61% in 2015. The percentage of new premium from small business owners ranged from 17.4% in 2012 to 13.7% in 2015.

Markets

The following are definitions of the three key segments within the IDI market:

1. Individually sold business
   This segment is comprised of policies sold to individuals, typically one-on-one through agents or brokers. The individuals' employers are not involved in the endorsement of the IDI product or the payment of the premiums. Normal individual medical and financial underwriting is involved.

2. Employer-sponsored multi-life business
   Employer-sponsored multi-life (ESML) business is composed of two primary subsets. In the first, referred to as "employer pay DI," employers purchase IDI products for groups of employees in lieu of or as a supplement to group long-term disability (LTD) insurance. In the "voluntary" or "employee pay DI" subset, employers allow insurers to offer IDI coverage to employees on-site and to collect

premiums through payroll deductions or list billing. The latter situation differs from the worksite disability market described in the Introduction of this report above, because traditional IDI products, rather than short-term and simplified ones, are sold in the ESML market.

In both employer pay and employee pay cases, underwriting can vary from traditional medical underwriting to guaranteed standard issue, depending upon the size of the case and the level of participation among eligible employees. Premiums for employer-sponsored multi-life groups are typically discounted 15% to 35%, depending upon the size of the case, the premium payer, or other demographic factors.

3. Associations

In this segment, carriers seek endorsements from professional associations to provide IDI coverage to association members at a discounted premium. In general, traditional underwriting is used in the association market. However, as an incentive for purchasing coverage, IDI carriers will sometimes offer some form of guaranteed underwriting (for example, guaranteed standard amounts up to a $1,500 monthly benefit after the first 100 members sign up) in addition to a premium discount, typically 10%.

Many contributors have incurred more favorable claim experience in the ESML market when compared with the experience of either individually sold or association business. A major reason for this better claim experience is that there is less anti-selection in the ESML market than in the other markets because the decision to purchase, in the case of employer pay business, or to select available product options, in the case of employee pay business, is made by the employer and not the insured. Because of its favorable claim experience and opportunities for additional sales, the ESML market has been the focus of aggressive marketing efforts in the IDI industry in recent years, as more companies enter this market.

Figure 8 shows the distribution of new premium for all contributors among the three market segments in the years 2002 to 2015.

FIGURE 8

Distribution of New Premium by Market				
Year	**Individual Sales**	**Employer-Sponsored Multi-life**	**Associations**	**Total**
2002	66.8%	31.7%	1.6%	100.0%
2003	67.4%	30.4%	2.1%	100.0%
2004	68.4%	29.1%	2.5%	100.0%
2005	67.0%	30.3%	2.7%	100.0%
2006	66.7%	30.6%	2.7%	100.0%
2007	62.2%	34.8%	3.0%	100.0%
2008	60.9%	35.7%	3.5%	100.0%
2009	60.8%	34.8%	4.4%	100.0%
2010	57.1%	38.4%	4.4%	100.0%
2011	56.9%	38.6%	4.5%	100.0%
2012	55.5%	39.4%	5.1%	100.0%
2013	54.8%	39.9%	5.3%	100.0%
2014	53.7%	40.4%	5.9%	100.0%
2015	52.9%	41.2%	6.0%	100.0%
2002-05	67.4%	30.4%	2.2%	100.0%
2006-09	62.6%	34.0%	3.4%	100.0%
2010-12	56.5%	38.8%	4.7%	100.0%
2013-15	53.8%	40.5%	5.7%	100.0%

The percentage of new premium from the Individual Sales market segment has continued to decrease, while the percentage from the ESML market and Associations increased. Since 2014, the percentage of new premium from the ESML market has exceeded 40%. This percentage was near 30% from 2002 to 2006.

Although the Associations market represents a small percentage of total sales, the percentage of new premium sold through associations has been generally increasing over the 2002-2015 period. The reader should be aware that the Associations disability market is primarily serviced by companies that specialize in the Associations market and offer conditionally renewable disability products. Companies specializing in Associations are not included among the contributors to this survey.

Figure 9 compares the annual growth rates for the three markets. Growth rates for the ESML market are split between employee pay and employer pay.

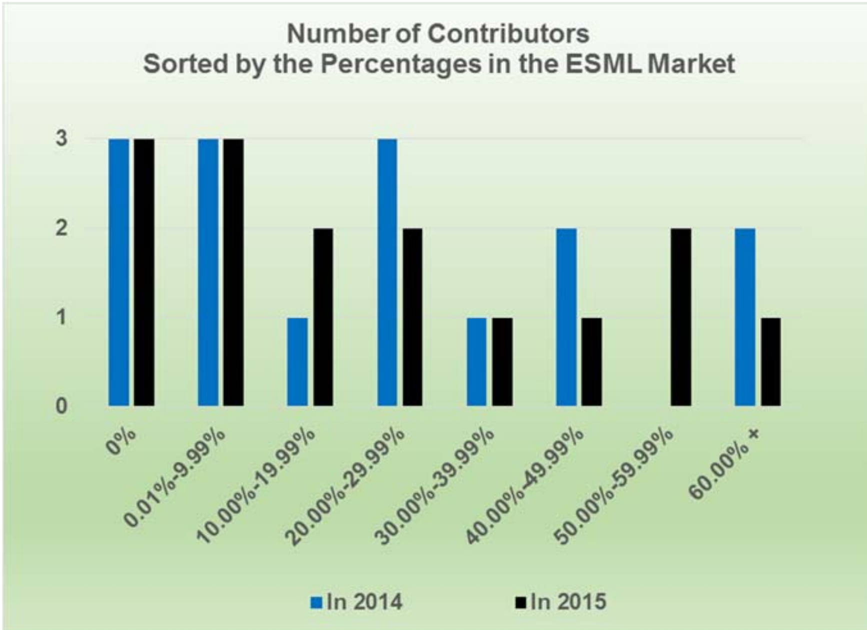
FIGURE 9

Growth Rates for New Premium by Market (2002 to 2015)					
Period	Individual Sales	Association	Employer-Sponsored Multi-life		
			Total	Employee Pay	Employer Pay
2002 to 2003	-1.3%	32.9%	-6.1%	-18.4%	18.8%
2003 to 2004	4.2%	21.9%	-2.0%	5.7%	-12.7%
2004 to 2005	-0.2%	10.2%	6.5%	-5.8%	27.4%
2005 to 2006	1.6%	0.5%	2.8%	-4.8%	12.3%
2006 to 2007	-0.7%	20.3%	21.1%	25.4%	16.7%
2007 to 2008	-1.2%	16.3%	3.6%	11.4%	-5.3%
2008 to 2009	-12.7%	11.0%	-14.6%	-23.1%	-3.2%
2009 to 2010	-9.2%	-2.8%	6.7%	27.8%	-15.7%
2010 to 2011	6.2%	8.0%	7.1%	8.5%	4.8%
2011 to 2012	0.7%	18.2%	5.3%	1.3%	12.0%
2012 to 2013	1.2%	6.8%	3.8%	3.2%	4.8%
2013 to 2014	0.6%	13.2%	3.9%	5.2%	2.0%
2014 to 2015	4.1%	6.8%	7.9%	8.5%	6.8%
2002 to 2005	2.6%	78.6%	-1.9%	-18.7%	32.1%
2005 to 2009	-12.9%	56.1%	10.2%	2.3%	20.0%
2009 to 2012	-2.8%	24.0%	20.3%	40.4%	-1.0%
2012 to 2015	5.9%	29.1%	16.4%	17.8%	14.1%

Annual growth rates for the last three years have been positive for all three market segments and for both employee pay and employer pay subsegments within the ESML market segment.

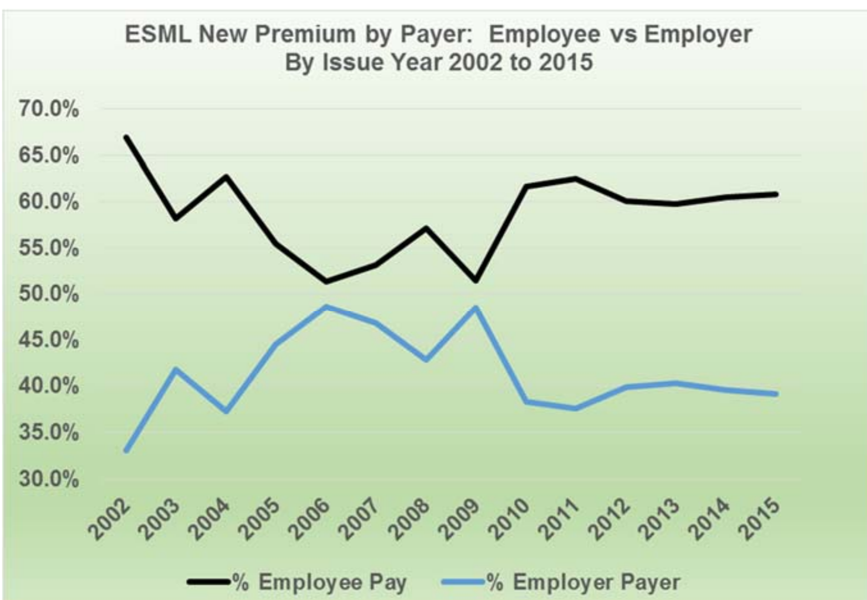
Figure 10 groups contributors by the amount of 2014 and 2015 new premium issued in the ESML market. Eight of the 15 contributors sold at least 20% of their new premium in this market in 2014, of which seven continued to sell at least 20% in 2015 with one dropping just below 20%. Three contributors have consistently reported no premium in the ESML market.

FIGURE 10



The chart in Figure 11 shows the split between employee pay and employer pay premium in the ESML market for the years 2002 to 2015.

Figure 11



Since 2010, the employee pay segment has comprised approximately 60% of the employer-sponsored multi-life new premium, up from its lowest level of about 50% in 2006. The increasing trend in the employee pay segment since 2006 reflects in large part the move by employers to offer more voluntary employee benefit products.

Distribution

Contributors were asked to show the distribution of new premium by the following four distribution channels:

1. Career agents
   These producers are career agents of the companies whose IDI products they are selling.
2. Brokers
   Brokers are either independent producers or career agents for companies that are different from the companies whose IDI products they are selling.
3. National accounts
   National accounts are insurance companies that enter into marketing arrangements with IDI carriers whereby their agents sell either the products of the IDI carriers, and the companies receive compensation in the form of marketing allowances from the IDI carriers, or the agents sell private-label IDI products, which are administered by the IDI carriers under turnkey arrangements.
4. Other producers
   Examples of other producers include personal producing general agents and members of producer organizations.

The table in Figure 12 shows the mix of new premium by distribution channel for the 15 contributors, combined, for the years 2002 to 2015.

FIGURE 12

Mix of New Premium by Type of Distribution (2002 to 2015)					
Year	**Career Agents**	**Brokers**	**National Accounts**	**Other**	**Total**
2002	39.9%	39.9%	9.0%	11.2%	100.0%
2003	43.2%	39.7%	8.6%	8.5%	100.0%
2004	43.9%	40.1%	8.3%	7.7%	100.0%
2005	43.5%	41.3%	7.2%	8.0%	100.0%
2006	44.0%	41.6%	6.8%	7.6%	100.0%
2007	42.7%	42.4%	6.2%	8.7%	100.0%
2008	42.8%	43.7%	5.6%	8.0%	100.0%
2009	42.1%	45.0%	5.1%	7.8%	100.0%
2010	42.9%	45.7%	5.9%	5.5%	100.0%
2011	42.0%	43.7%	5.6%	8.7%	100.0%
2012	42.1%	44.1%	6.0%	7.7%	100.0%
2013	43.4%	43.5%	5.0%	8.0%	100.0%
2014	43.1%	42.6%	4.8%	9.6%	100.0%
2015	42.1%	41.4%	4.1%	12.3%	100.0%

Averages					
2002-05	42.6%	40.3%	8.3%	8.8%	100.0%
2006-09	42.9%	43.1%	5.9%	8.0%	100.0%
2010-12	42.3%	44.5%	5.8%	7.4%	100.0%
2013-15	42.9%	42.5%	4.6%	10.0%	100.0%

The two primary distribution channels are career agents and brokers, comprising over 85% of the new premium in 2015, split quite evenly between the two channels. Over the last five years, the share of new premium generated by national accounts has been slowly declining and shifting to brokers. The jump in the share of new premium in 2015 sold by “Other” producers primarily reflects one large ESML case and is not expected to be recurring. The share of new premium from career agents has been quite stable over the last 12 years.

Guaranteed renewable trends

Figure 13 shows the slowly increasing share of new premium issued to guaranteed renewable (GR) policies over the three-year period 2013 to 2015 by key segments of the business.

FIGURE 13

Percentage of New Premium Issued on Guaranteed Renewable Products For 2013, 2014 and 2015				
Issue Year	**2013**	**2014**	**2015**	**Average 2013-2015**
Total	16.2%	17.3%	17.0%	16.9%
By Market				
Individual Sales	24.8%	26.8%	27.1%	26.3%
Association	7.5%	6.3%	4.2%	5.9%
ESML	5.7%	6.1%	6.0%	5.9%
Employee Pay	7.1%	8.1%	7.8%	7.7%
Employer Pay	3.6%	3.0%	3.1%	3.3%
By Occupation Category				
Doctors and Surgeons	8.2%	7.5%	7.5%	7.7%
Dentists	8.2%	7.1%	7.0%	7.4%
Lawyers	12.3%	11.4%	12.4%	12.1%
Executives	13.5%	14.2%	13.2%	13.6%
Accountants	15.1%	18.9%	21.4%	18.4%
Business Owners	16.8%	17.3%	15.7%	16.6%
By Distribution Channel				
Career Agents	26.3%	28.5%	29.0%	28.0%
Brokers	10.0%	10.6%	10.6%	10.4%
National Accounts	7.2%	7.6%	7.9%	7.6%
Other	0.1%	0.0%	0.1%	0.1%

Over this three-year period, GR policies have averaged 17% of total IDI premium.

The Individual Sales market has the greatest percentage of GR premium (26% on average), which has been growing slowly over the three years. For both the Associations and ESML markets, GR represents approximately 6% of the total premium. The Associations and ESML markets have a higher percentage of professionals and executives, who generally prefer noncancelable (noncan) IDI products, while the Individual Sales market has a larger range of occupations. Within the ESML market, GR represents a higher percentage of new premium for the employee pay segment than the employer pay segment.

Among the key occupations, doctors and dentists have the lowest percentage of GR premium. GR represents 12% to 13% of new premium for lawyers and executives, 18% for accountants, and 17% for business owners.

Among the different distribution channels, career agents have the largest percentage of GR premium (28% on average), which has been increasing each year. The percentage of GR premium from brokers (10% on average) has been stable over the three years. The percentage of GR premium from national accounts is lower than from career agents or brokers. The business issued by the “Other” distribution is virtually all noncan.

Section IV: Underwriting

This section discusses the current underwriting requirements of the 14 IDI carriers who contributed to this part of the survey.

Issue and participation limits

The issue limit is the largest amount of monthly benefit that an IDI carrier will issue to an individual insured. The table in Figure 14 compares the highest, median, and lowest issue limits among the 14 contributors for the top nonmedical occupation class and for the top medical occupation class, from the 2014, 2015, and 2016 surveys. Figure 14 also shows the number of contributors who are at the highest limit.

FIGURE 14

Maximum Issue Limits 2014- 2016						
	Top Nonmedical Occupation Class			**Top Medical Occupation Class**		
Year	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Measure:						
Highest Limit	$20,000	$20,000	$20,000	$17,000	$17,000	$18,000
Median Limit	$20,000	$20,000	$20,000	$15,500	$15,500	$16,500
Lowest Limit	$12,000	$12,000	$12,000	$10,000	$10,000	$10,000
# Companies at Highest Limit	10	10	10	5	5	1

The highest maximum issue limit over these last three years has remained at $20,000 for the top nonmedical occupation class, but jumped to $18,000 for the top medical occupation class. It is worthwhile to note that the median maximum issue limit for the top nonmedical occupation class is the same as the highest, because 10 of the 14 contributors are at this limit. The median maximum issue limit for the top medical occupation class is a little lower than the highest limit, but the difference is shrinking.

The participation limit is the largest total monthly benefit amount that an IDI carrier will permit an insured to have from all sources of IDI and group long-term disability (LTD). Most carriers are willing to participate at higher amounts when the insured has group LTD because the LTD benefits are often taxable and typically offset for Social Security and workers' compensation disability benefits.

Figures 15 (when no group LTD exists) and 16 (when group LTD is present) compare the highest, median, and lowest participation limits among the 14 contributors from the 2014, 2015, and 2016 surveys for, again, the top nonmedical occupation class and the top medical occupation class.

FIGURE 15

Maximum Participation Limits 2014 – 2016 No Group LTD Present						
	Top Nonmedical Occupation Class			Top Medical Occupation Class		
Year	2014	2015	2016	2014	2015	2016
Measure:						
Highest Limit	$35,000	$35,000	$35,000	$30,000	$30,000	$30,000
Median Limit	$22,500	$25,000	$25,000	$22,500	$25,000	$25,000
Lowest Limit	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000
# Companies at Highest Limit	1	1	2	1	1	1

FIGURE 15

Maximum Participation Limits 2014 – 2016 Group LTD Present						
	Top Non-Medical Occupation Class			Top Medical Occupation Class		
Year	2014	2015	2016	2014	2015	2016
Measure:						
Highest Limit	$40,000	$40,000	$40,000	$35,000	$35,000	$35,000
Median Limit	$30,000	$30,000	$30,000	$25,000	$25,000	$25,000
Lowest Limit	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000
# Companies at Highest Limit	1	1	1	1	1	3

There has been relatively little movement in the maximum participation limits from 2014 to 2016 among the 14 contributors, except two contributors now share the maximum participation limit of $35,000 for the top nonmedical occupation class when no group LTD is present, and three contributors now share the maximum participation limit of $35,000 for the top medical occupation class when group LTD is present.

Replacement ratios

Replacement ratios are the maximum percentages of monthly income that insurers will allow to be insured (including all sources of IDI and group LTD) on an individual life. Because of the different tax treatments of disability benefits, replacement ratios vary based on whether the premiums are paid by the insured or by the employer. Disability benefits are taxable to the insured when the premiums are paid by the employer, but they are not taxable if the insured pays the premiums with after-tax income. Consequently, carriers offer higher replacement ratios in employer pay cases than when the insured pays the premium.

Many insurers offer higher replacement ratios when the individual is also covered by group LTD, once again because of the benefit offset provisions that are usually contained in the group LTD coverage and because of the taxable nature of LTD benefits when the employer pays the premiums. These replacement ratios have been raised in the past few years as competition in the employer-sponsored multi-life market has increased. Replacement ratios with LTD also tend to be flatter percentages of income levels in order to align better with LTD plan designs.

The next four sets of charts illustrate the current replacement ratios among the 14 survey contributors for a range of annual earned incomes:

- Figure 17 shows ratios for employee pay policies with no group LTD
- Figure 18 shows ratios for employee pay policies with group LTD
- Figure 19 shows ratios for employer pay policies with no group LTD
- Figure 20 shows ratios for employer pay policies with group LTD

The figure on the left of each set of charts compares the median and highest replacement ratios among the 14 contributors. The figure on the right shows the relationship of the highest and median 2016 replacement ratios among the survey contributors to the corresponding replacement ratios from the 2014 survey. Points in these graphs that are over 100% indicate where 2016 replacement ratios have increased and points under 100% show where they have decreased.

FIGURE 17

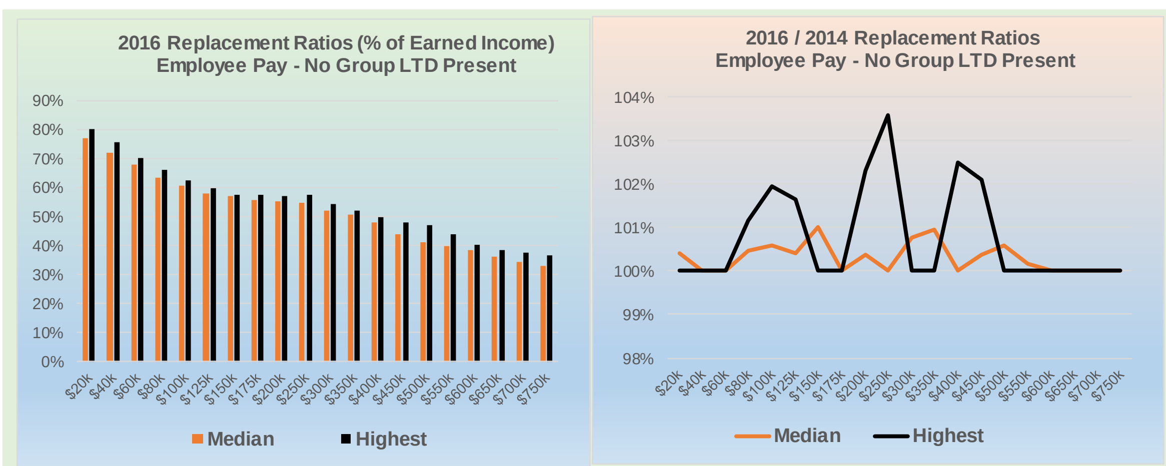
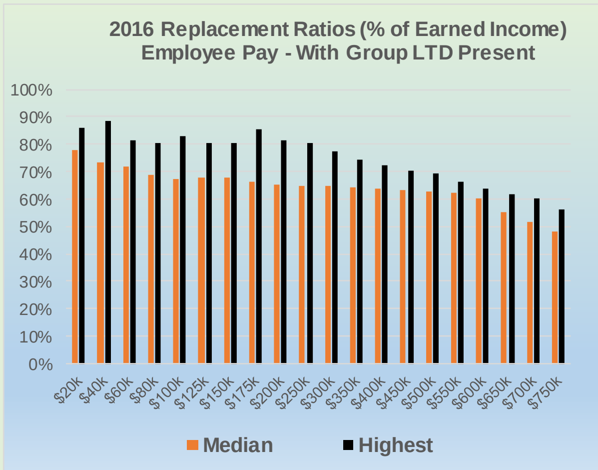


Figure 18



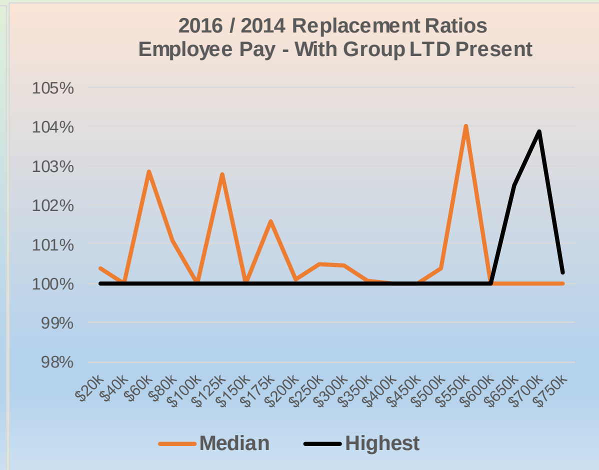
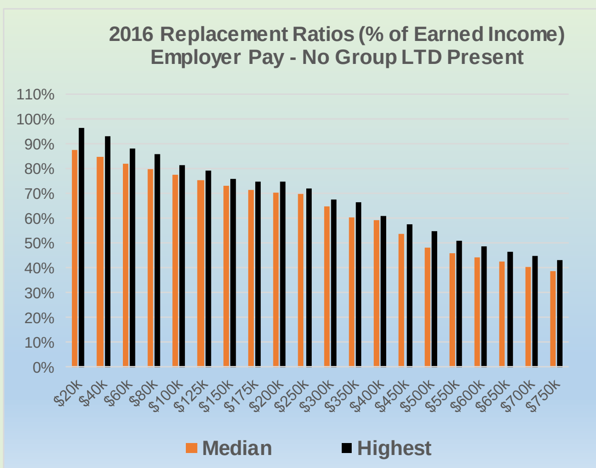


Figure 19



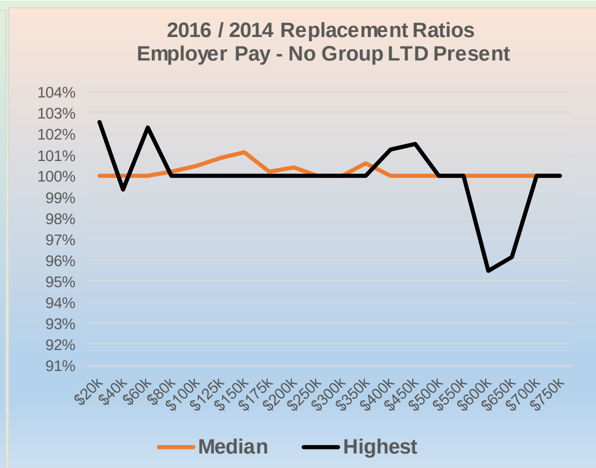
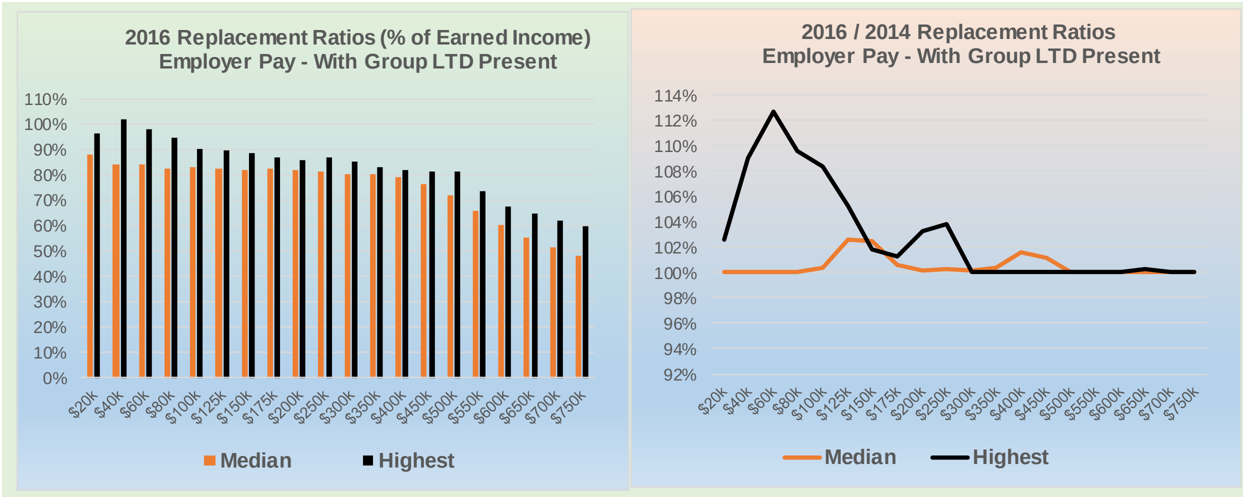


FIGURE 20



The movement from 2014 to 2016 in Figures 17 to 20 is primarily the result of two companies revising their replacement ratios.

Underwriting requirements: Individual sales market

Figure 21 shows the blood testing, financial documentation, paramedical examination, and electrocardiogram (EKG) requirements for the 14 contributors' normal underwriting rules in 2017. The requirements displayed in each column of Figure 21 have been sorted so that no row represents the combined responses of any one contributor. The numbers in parentheses indicate how many contributors had the same response.,

FIGURE 21

Blood Testing, Financial Documentation, Paramedical Exams and EKG Limits in 2016			
Blood Testing	**Financial Documentation**	**EKG**	**Paramedical Exams (ages 40-49)**
$2,000	All cases (4)	No limit	None required for W-2 employees up to $3,000; required on all other cases
$2,500 (2)	All cases except for students, residents, and new professionals	For cause only	Amounts > $1,500
$3,000 (5)	All cases except for W-2 employees up to $3,000	$5,000	Abbreviated exam for amounts > = $1,500, full exam for amounts >= $5,000
Blood $4,000; oral $1,500	Amounts >= $3,000 (3)	$6,000 for ages 51 and over	Amounts > $2,000
For ages 18-45: Oral fluids $1,001 to $5,000 and blood $5,000+; for ages 45+, blood $1,000	Amounts >= $5,000	$8,100 for ages > 45	Amounts > $2,500 (2)
No labs for ages <= 50 and amounts <= $4,000; labs required for ages > 50 or amounts > $4,000	Amounts >= $5,100	$10,001+ for ages > 50	Amounts >- $3,000 (2)
For ages 18-50, blood and urine required for amounts >= $5,001; for ages 51-60, blood and urine required for amounts >= $3,001	Varies by amount—at least one year's 1040 or similar for amounts $7,500+		Amounts >= $5,000 (2)
For ages 41-64 and amounts > $2,500; for ages 18-40 and amounts > $5,000	Required only if annual income > $150,000		Amounts >= $5,100
$1,000 and above depending on age and benefit period; some ages we get blood on all			Required only when traditional paper Part B completed on benefit amounts > $7,500
			Amounts >= $11,000

There were few changes in the underwriting limits between the 2014 and 2016 survey. Twelve contributors reported no changes to their limits.

Contributors were asked whether they are using or considering using tele-applications, pharmaceutical databases, motor vehicle records, and electronic underwriting engines in their underwriting. Figure 22 summarizes the responses of the 14 contributors.

FIGURE 22

Utilization of Tele-applications, Pharmaceutical Databases, Motor Vehicle Records and Electronic Underwriting Engines				
Underwriting Tools	**Using now**	**Have plans in near future**	**Just beginning to think about it**	**Not considering**
Tele-applications	8	1	1	4
Pharmaceutical databases	14	0	0	0
Motor vehicle records	11	0	1	2
Electronic underwriting engines	3	0	7	4

All 14 of the IDI contributors are now utilizing pharmaceutical databases in their underwriting, and 11 contributors are utilizing motor vehicle records. Eight are using tele-applications with one having plans to use tele-applications in the near future.

Underwriting requirements: ESML market

The ESML market has three categories of underwriting, depending upon case size, participation of eligible employees, and other demographic and risk factors:

1. <u>Normal underwriting</u>
   Normal underwriting involves traditional medical and financial underwriting. We include simplified underwriting in this category.
2. <u>Guaranteed standard issue (GSI)</u>
   GSI underwriting involves issuing policies to employer-sponsored cases on a standard basis for all actively-at-work applicants, up to a specified monthly amount limit, with no medical underwriting.
3. <u>Guaranteed to issue (GTI)</u>
   GTI underwriting involves traditional medical and financial underwriting of policies in employer-sponsored cases, with a guarantee that policies will be issued to eligible employees, albeit possibly rated and/or with waived impairments.

Figures 23 and 24 show the GSI underwriting requirements for ESML cases reported by nine contributors active in the ESML market. Figure 25 has the voluntary GSI requirements typical of employee pay cases, and Figure 26 has the GSI requirements typical of employer pay cases where 100% of eligible employees participate. The information in these tables is a simplification of the actual GSI practices of contributors, which can also vary by a number of other considerations, such as the distribution of income, age, and occupation within the eligible group.

Figure 23

Employee Pay (Voluntary) GSI Requirements Minimum Number of Lives, Maximum Issue Limits and Participation Requirements								
Minimum Number of Lives	**Maximum Issue Limits by Case Size**				**Participation Requirements by Case Size**			
	10 Lives	**50 Lives**	**200 Lives**	**1,000 Lives**	**10 Lives**	**50 Lives**	**200 Lives**	**1,000 Lives**
10	$3,000	$5,000	$5,000	$5,000	100%	30%	30%	30%
10	$2,500	$7,500-$10,000	$7,500-$10,000	$7,500-$10,000	100%	100%	100%	100%
10	$4,000	$5,000	$7,000	$8,000	>25% or 10 lives	25%	25%	25%
15	$5,000	$5,000	$5,000	$5,000	5 lives	10 lives	40 lives	200 lives
Minimum 50 eligible lives, 15 must apply		$2,500	$7,500	$15,000		15 lives	30 lives	150 lives
30		$3,000	$5,000	$5,000		30%	30%	30%
15 lives or 30% of total group		$5,000	Case by case	Case by case		NA	NA	NA
75			$20,000	$20,000			NA	NA
75	NA	NA	NA	NA	NA	NA	NA	NA

Notes
NA means that contributor did not provide the information.
Participation percentages apply to the number of eligible lives.

The minimum number of lives required on employee pay (voluntary) GSI ranges from 10 to 75. The maximum GSI issue limits on employee pay cases vary by case size, e.g., $2,500 to $5,000 for cases of 10 lives, $5,000 to $20,000 for cases of 1,000 lives. Participation requirements on voluntary cases also vary by case size—in general, the larger the case the lower the participation requirement. In the past, 30% was often given as a participation target. As Figure 23 shows, minimum participation requirements now range from 15% to 30% for all but the smallest cases.

Figure 24

Employer Pay Requirements Minimum Number of Lives and Maximum Issue Limits				
Minimum Number of Lives	Maximum Issue Limits by Case Size			
	10 Lives	50 Lives	200 Lives	1,000 Lives
5	$5,000	$8,500	$10,000	$10,000
5	$5,000	$15,000	Case by case	Case by case
5	NA	NA	NA	NA
5	$10,000	$20,000	$20,000	$20,000
10	$20,000	$20,000	$20,000	$20,000
10	$3,000	$8,000	$8,000	$8,000
10	$2,500	$7,500-$10,001	$7,500-$10,001	$7,500-$10,001
10	$4,000	$7,500	$10,000	$15,000
15	$5,000	$5,000	$5,000	$5,000

Note: NA means that contributor did not provide the information.

The minimum number of lives required on employer pay cases, where participation of eligible lives is 100%, ranges from five to 15 lives. Because of less risk of anti-selection, the maximum GSI limits on employer pay cases tend to be higher than for employee pay for the same case sizes.

Minimum case sizes for GSI underwriting for both employer pay and employee pay cases have generally been decreasing over the years. Many contributors require a minimum number of participating lives in voluntary cases to ensure a high participation level in the smaller cases. For example, a company may require the larger of 10 eligible lives participating or 30% participation in a voluntary case before they permit GSI underwriting.

Figures 25 shows the distribution of ESML new premium for issue years 2013 through 2015 by type of underwriting split between employee pay and employer pay.

FIGURE 25

Distribution of ESML Premium by Type of Underwriting (2013 - 2015)						
	Employee Pay			Employer Pay		
Issue Year	GSI	GTI	Normal and Simplified Issue	GSI	GTI	Normal and Simplified Issue
2013	40.1%	1.4%	58.4%	77.6%	2.8%	19.6%
2014	39.4%	1.7%	58.9%	79.9%	2.2%	18.0%
2015	34.5%	1.6%	63.9%	83.2%	1.4%	15.3%
2013-2015	38.0%	1.6%	60.4%	80.2%	2.1%	17.6%

From 2013 through 2015, GSI business represented 38% of the employee pay ESML new premium and 80% of the employer pay ESML new premium. Interestingly, GSI business has had a decreasing share of employee ESML new premium and an increasing share of the employer ESML new premium.

Many contributors have expressed concern with the aggressive nature of some voluntary GSI offers, i.e., higher guaranteed benefit amounts and lower participation requirements. The Individual Disability Tables Working Group (IDTWG) of the Academy of Actuaries and Society of Actuaries, which developed the 2013 IDI Valuation Table, showed that claim incidence for ESML business has been 76% of individually sold business. However, the IDTWG observed significant differences in claim incidence of ESML business by underwriting type. The lowest incidence has been on employer pay GSI business, while employee pay (voluntary) GSI has been on average 68% higher than employer pay GSI, and individually billed medical ESML business has been 41% higher than the incidence for employer pay GSI.

The contributing companies were asked to rate their profitability in the employee pay (voluntary) GSI market. Figure 26 compares the responses of seven contributors that have been active in this market from the IDI market surveys in years 2014 and 2016. Among the ratings from 1 to 5 in their responses, a rating of 1 means the company is very dissatisfied with the morbidity results, a rating of 3 means morbidity is meeting expectations, and a rating of 5 means the company is very pleased. Although most report that the morbidity experience meets their expectations, three companies expressed dissatisfaction with ratings of 1 or 2 in both years.

FIGURE 26

Company Ratings of Voluntary GSI Morbidity From IDI Market Surveys in 2014 and 2016		
Rating	**2014**	**2016**
1 (Least Satisfied)	1	1
2	2	2
3	4	3
4	0	0
5 (Most Satisfied)	0	0
Average	2.4	2.3

Simplified underwriting programs

One of the traditional impediments to IDI sales has been the extensive and time-consuming underwriting requirements, particularly when compared with individual life insurance underwriting. To overcome this obstacle, a number of IDI contributors have introduced simplified underwriting programs in the less risky segments. Under these programs, many of their routine underwriting requirements (e.g., medical tests and financial documentation) have been abbreviated or waived to speed up and simplify the IDI underwriting process.

Contributors were asked to describe any simplified underwriting programs used during the last year. Figure 27 describes the simplified underwriting programs of eight contributors.

Figure 27

Eight Simplified Underwriting Programs
Our tele-underwriting program has a simplified underwriting component. For amounts up to $5,000 per month through age 45, our paramedical & blood limit is raised to $5,000 per month (vs. $2,500 with non-tele-underwriting). Also, no financial documentation is required up to $5,000 per month for applicants that do not own their own business.
Simplified underwriting limits have been increased: Ages 18-45, $7500 DI and $10,000 BOE; Ages 46-50, $3000 DI and $10,000 BOE.
We introduced a new IDI policy that utilizes a knock-out application for the underwriting. We also perform random phone interviews along with pharmacy checks.
We offer simplified underwriting if a DI application is submitted in conjunction with a qualifying life insurance policy. Life policy has certain minimum face amount standards and the issue age has to be within a certain age group.
No labs, APS or financials required for amounts up to $4,000 per mo., ages 50 and under and annual incomes up to $150,000.

For applicants under age 46, a maximum of $6,000 of overall coverage will allow us to waive most income doc and lab test requirements. If ages 46-50, the ceiling is $3,000.
We will waive most financial documentation and lab test requirements for applicants under age 46 up to a maximum of $6,000 of overall coverage. The ceiling is $3,000 for ages 46-50.
Individuals are eligible for a simplified DI contract ($1,000/$1500 monthly benefit, 90-day deductible period, 60-month maximum period, no additional riders) if they meet the following criteria: -Are applying for, or have been approved in the last 45 days for, $100,000 or more of underwritten life insurance. -Receive a standard or better rating on their life insurance. -Have no individual DI coverage in force or pending. -Are employed 10 hours or more per week. -Answer No to eight simplified underwriting questions.

Changes in underwriting program since the last survey

Survey contributors were asked to briefly describe any changes in their underwriting programs since the last IDI market survey. Figure 28 groups the reported changes in terms of financial underwriting, medical underwriting, and occupational classification.

Figure 28

Changes to Financial and Medical Underwriting Requirements and Occupation Classes
Financial Underwriting
Financial documentation for self-employed and business owners is now triggered at $3000 per mon. instead of $2500.
Increased starting practice limits.
Increased amounts for students & beginning professionals and high net worth consideration
Launched a new simplified underwriting program.
We now disregard unearned income up to $15,000 per year (was $5,000) and revised our income replacement ratio calculation (round benefit to nearest $100 vs $10).
Medical Underwriting
Non-medical requirements for ages 18-60 up to $3000 per month.
Changed guidelines for hepatitis, insomnia, musculoskeletal with sedentary occupations, Barrett's esophagus.
Guidelines haven't changed except for launch of latest Simplified program
Developed routine age/amount guidelines for ordering medical records and RX check.

Occupation Classification
We re-classified several occupations to better classes, and we also implemented an occupation class upgrade program for other specific occupations.
Made numerous occupation class Improvements.
Revised Business Owner Program (years owned, income, number of employees).
We added a 6A occupation class and changed the way many occupations are mapped to occupation classes.
Reclassified some medical occupations.
Introduced additional occupation classes available.

Underwriting decisions

Survey contributors were asked to provide the distribution of their underwriting decisions for years 2013, 2014, and 2015. The underwriting decisions were categorized as follows:

- Issued as applied
- Rated and/or waived
- Modified (e.g., issued with a shorter benefit period than originally applied for)
- Declined

Figure 29 compares the average underwriting decisions among the 14 contributors for all policies for which an underwriting decision was made over the three-year period, i.e., this analysis is intended to exclude applications with missing information or that were withdrawn by the applicants. Modified means that the underwriter changed some requested policy provision, e.g., elimination period, benefit period, rider, but otherwise issued the policy as applied. Only eight contributors were able to separate out modified offers. Thus, the rated or waivered results in Figure 29 were estimated by combining the average rated, waivered, and modified applications for all 14 contributors, and then subtracting the modified applications based on the eight contributors who were able to measure these decisions separately.

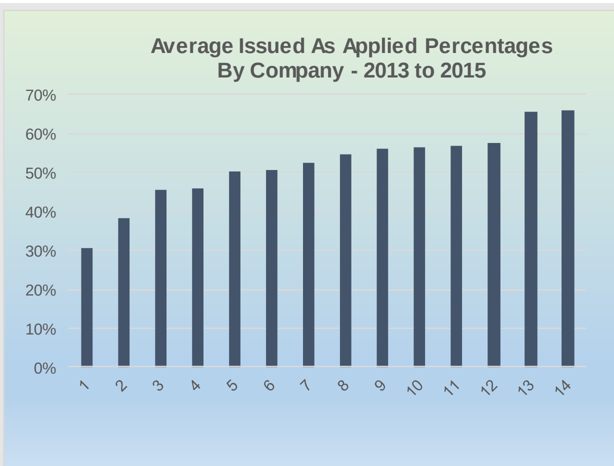
Figure 29

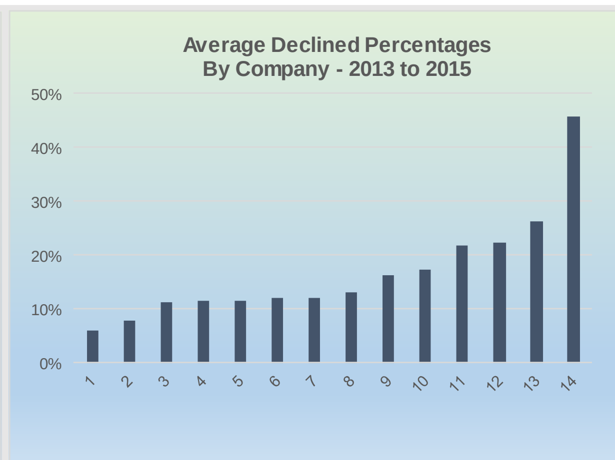
Average Underwriting Decisions for the 14 Contributors From 2013 through 2015				
Underwriting Decision	**2013**	**2014**	**2015**	**Average 2013-2015**
Issued as Applied	51.3%	52.1%	52.3%	51.9%
Rated or Waivered (2)	15.7%	14.3%	14.7%	14.9%
Modified (1)	16.7%	16.5%	16.0%	16.4%
Declined	16.4%	17.1%	17.0%	16.8%
Total	100.0%	100.0%	100.0%	100.0%

Notes
(1) Modified is based on eight contributors who could separate out modified decisions.
(2) Rated & Waivered is based on the sum of rated, waivered, and modified combined for all contributors, less the modified shown above based on the eight contributors.

There has not been a significant shift in the distribution of underwriting decisions over the 2013 to 2015 period. However, the distributions vary considerably from company to company. Figure 30 shows the average issued as applied and declined percentages from 2013 through 2015 for each of the 14 contributors, arranged from the lowest to the highest.

FIGURE 30





The average issued as applied percentages ranged from 30.6% to 66.0%, and the average declined percentages ranged from 6.1% to 45.7%.

Section V: Product and Pricing

This section of the survey explores the range of product development and pricing activity in recent years and the availability of certain types of coverages. Fourteen of the 15 survey contributors responded to the product-related section of the survey.

New product and premium rate changes since the last survey

Respondents were asked to describe any product and premium rate changes they have introduced over the last two years since the last survey. Nine contributors reported either product or rate changes implemented since the last survey or planned in 2016 compared with six who reported product or rate changes in the prior survey. Figure 31 summarizes the responses of nine contributors.

Figure 31

Product Changes Since the Last IDI Market Survey
New product series coming out late 2016.
We will be releasing a new product in 2016.
A new IDI policy was released in March, utilizing a simplified benefit structure along with simplified underwriting through a knock-out application.
We have entered the multi-life market both on a fully underwritten and a GSI basis. We will introduce a new product later in 2016.
A new Disability Buyout (DBO) was rolled out in 2016.
In 2015, we added new top non-medical occ class; expanded product offerings to offer pure own occ to two top medical occ classes; now offering pure own occ and any occ with residual to issue ages 51-60, added 3-year BP for top occ classes.
New product introduced in 2015. New issues of this product are non-cancellable only. Non-cancellable coverage ends at age 67 now, and added conditional renewability period to age 75. Added 3 new occ classes (one non-medical and two medical occ classes). Changed Partial Disability benefits to 6 month max, and moved Residual Disability benefits out of the base contract to an optional rider. Change Own Occ definition to be included in the base contract instead of a rider.
In 2016, revised our Guaranteed Insurability Rider (increased issue age from 45 to 55 and renewability from 55 to 60). The Residual Benefit Rider now includes Benefit Period option for the rider that is the same as the Base BP for 10 Year, To Age 65 and To Age 67. The prior maximum BP for the rider was 5 years.

Premium rate changes since the last IDI market survey

Six contributors reported making premium rate changes since the last IDI market survey. Figure 32 summarizes their responses.

Figure 32

Premium Rates Changes Since the Last IDI Market Survey
Upgraded some medical and non-medical occupations; lowered some female rates; lowered some top class rates.
Multiple occupation class changes that resulted in both increase and decrease in rates; depending on occupation
We introduced multi-life discounts and a life plus DI combination discount in 2015. We will introduce additional discounts and new rates later in 2016.
The new Disability Buyout (DBO) product has new pricing. We updated a few occupation classifications across DI products, which would impact rate levels for those occupations. We promoted the use of our affiliation discount as defined in our contract.
Introduced a new top occupation class with lower premium rates than the previous top occupation class; made premium changes for all occupation classes such that premium for med classes than those for nonmed classes; eliminated 10% discount for policies $5,001+.
New rates introduced in 2015. Approximately 10% lower on average, but varies significantly by rate cell (approximately ranges from 25% lower to 15% higher by cell). No discounts available.

Section VI: General Trends

This section explores more general trends that are indicative of the health of the IDI business. Fourteen companies contributed to this section of the survey.

How satisfied are contributors with their results?

Contributors were asked to rate their overall satisfaction with their IDI profitability and sales performances, ranking it from 1 to 5, with 5 representing the highest level of satisfaction. Figure 33 compares this year's responses from the 14 contributors with their responses from earlier surveys.

FIGURE 33

How Satisfied Are Contributors With Their IDI Results?

Ranking	Overall Profitability			Overall Sales Results		
	2013 Survey	2014 Survey	2016 Survey	2013 Survey	2014 Survey	2016 Survey
1	0	0	0	2	1	2
2	0	0	2	4	7	4
3	6	5	5	4	4	8
4	6	6	5	3	1	0
5	2	3	2	1	1	0
Average	3.7	3.9	3.5	2.8	2.6	2.4
Median	4.0	4.0	3.5	3.0	2.0	3.0

Note: 1 = very dissatisfied, 3 = meets expectations, and 5 = very pleased.

Contributors are generally satisfied with the overall profitability of their IDI business, although two expressed dissatisfaction. More contributors indicated in this survey that sales are meeting (rather than exceeding) expectations, but no company indicated that it has been pleased or very pleased.

Making the IDI sale easier

IDI coverage is difficult to sell when compared with individual life or annuity products. In light of low growth rates in the IDI market, many contributors are looking to simplify the process with the hope of improving sales. Survey contributors were asked to list the steps they have taken over the past year to make the IDI sale easier. Figure 34 groups responses into underwriting changes, product changes, and sales and issue support. Note that a number in parentheses after a response indicates the number of companies included in that response.

FIGURE 34

Steps Taken by Contributors to Facilitate the Sales Process
Product Changes
Enhanced residual and GIO rider.
Received approval of IDI contract in California.
Introduced new occupation class 6A and re-align classification of occupation to occ class to align with industry.
Differentiated premiums between nonmedical and medical occupation classes to reduce subsidy of medical occupation classes by non-medical occupation classes.
Changed the multi-life discount rules to allow 3 lives to qualify.
Introduced DI coverage for part-time employees.
Upgraded surgeons and some surgical subspecialties.
Sales and Issue Support
Enhanced our proposal software.
Introduced electronic applications. (4)
Promoting tele-applications by necessitating it as a basis for certain discounts
Simplified issue when DI application is in conjunction with a life application.
Enhanced enrollment capabilities for employer-sponsored multi-life
Introduced an online tool which estimates the rating and premium real-time for a producer
Dedicated DI resources within the new business/issue area of the company.
Enhanced illustration tool in 2015.
Underwriting Changes
Streamlined underwriting requirements by eliminating and/or simplifying age and size requirements
Increased issue & participation limits (3).
Introduced new programs in GSI market and beginning professional market.
Changed the simplified underwriting rules.
Increased simplified issue DI limits in 2015.
Simplified our age and amount requirements.
Introduced a self-reported medical questionnaire
Extended when simplified underwriting is applicable.
Introduced new knockout DI underwriting policy.
Entered the multi-life, GSI market.
Ordering fewer APS's
Loosened requirements for paramedical, blood & urine at most ages while adding DMV & Rx checks for all.

Companies submitted a wide range of actions designed to facilitate the sales, issue, and underwriting processes, including product enhancements.

Favorable trends in the IDI market

Contributors were asked to list the favorable trends that they see in the IDI market today. Figure 35 lists the various responses, grouped into general categories. Note that a number in parentheses after a response indicates the number of companies included in that response.

FIGURE 35

Observed Favorable Trends in the IDI Market
Claim Experience
Low incidence rates (3)
Morbidity improvement
Claims experience continues to be very favorable on the current product.
Claims continue to be very favorable
Low rate of contestable claims
Experience on return of premium riders
Strong claims management
Claim termination rates have been higher
Continued favorable experience on employer pay GSI cases
Industry claim experience appears to be improving as well.
Less volatile incidence experience
Favorable loss ratios over recent couple quarters
Improving claims handling and reviews
Stable physician morbidity
Sales
A large IDI carrier exiting IDI business
Stronger sales from newer agents
Launching a new product has generated renewed interest in IDI
Success with multi-life sales model in isolated situations
Increased engagement of producers in product line
Focus on training / education of producers on IDI, three in-house DI specialists to focus on DI vs. other internal life wholesalers
Strong GSI quote activity
Strong enrollment system for multi-life
Life stage planning approach
Continued sales growth
Slight increase in nonmed sales offset by slight decrease in med sales

Other
Improving economic conditions
Good persistency
Increased use of technology-based solutions, like tele-applications
Technology improvements

Favorable claim experience was noted most frequently, followed by favorable sales trends. One company has observed stronger IDI sales among its newer agents, and another has seen favorable sales resulting from more training and sales support for producers.

Unfavorable trends in the IDI market

Contributors were also asked to list the unfavorable trends that they see in the IDI market today. Figure 36 lists the various responses, grouped into general categories. Note that a number in parentheses after a response indicates the number of companies included in that response.

Figure 36

Observed Unfavorable Trends in the IDI Market
Distribution
Lack of distribution focusing on middle income DI clients
Advisor belief that IDI not necessary or too complicated, or lack of knowledge of how to sell IDI
Continued focus on life and annuity sales (pre-retired & retired ages)
Lack of distribution asking consumers about income protection
Hard to attract new younger agents to sell IDI
Producer recruiting and retention
Less agent awareness
Threat of alternative distribution
Competitive Pressures
Medical market is both highly competitive and highly penetrated
Aggressive competition (2)
Aggressive GSI offers
Continued liberalizations by multiple carriers; especially in the area of underwriting requirements and limits. Anticipate this will place downward pressure on future profit
Leapfrogging

Markets
High percentage of medical sales
Cutbacks in employers funding individual disability plans
Client belief that IDI not necessary (e.g. "I have group coverage, don't need more")
Commodity mindset with consumers
Industry's continued focus on growing physician sales ; concerning given the uncertainty in health insurance system and potential negative impact on physician incomes
Aging client base - average age of new client is 58 with focus on retirement not protecting current earnings
Economy
Low interest rates continue (5)
Low interest rates and fact that Industry is not responding to sustained low interest rate environment with offsetting profit improvement decisions
Other
Worsening lapse rates in blue collar market
Uncertainly in insurance regulation
Retirement of key IDI company experts
Average to below average claim terminations over the last few years
Increasing non-disclosure
Lower policy placement rates
Sales not meeting expectations

Distribution concerns, particularly around DI awareness, and competitive pressures topped the list of unfavorable trends observed by the 14 survey contributors. Continued low interest rates were also mentioned frequently.

Obstacles to the long-term financial health of the IDI market

Contributors were also asked to list obstacles in the IDI market that could impede future growth and profitability. Figure 37 lists the various responses, grouped into general categories. Note that a number in parentheses after a response indicates the number of companies included in that response.

Figure 37

Obstacles to the Long-term Financial Health of the IDI Market
Distribution
Lack of agent training for DI
Lack of agent and consumer understanding
Producer apathy
Advisors not engaged
Stagnant distribution sources contributing to the medical concentration of risk
Young producers focusing on asset management
Aging DI distribution (3)
The current producer compensation structure of high first year and early year commissions is not sustainable long-term
Market
Not well diversified relative to occupational class (i.e. too many physicians)
Lack of sales diversification from occupation perspective
Inability to reach new and under-served markets
Consumers recognizing the need for IDI
The need to expand individual disability to the middle market and to millennials
Consumer apathy
No new carriers in the market and thus no real long-term industry growth
Stagnant wages and product affordability
Competitive Pressures
It seems as though the industry is once again pushing the edges with regard to issue limits, benefit offerings and underwriting concessions. Time will tell whether this affects claims experience.
Continued aggressive competitive environment makes it difficult to take prudent corrective action on interest rates
Competition chasing short-term sales while using unreasonable risk management
Lack of growth leading to intense competition
Economy
Continued low interest rates (7)
Potential future economic downswings
Regulatory
Changing regulatory environment
Regulatory climate
Other
Potential impact of government-sponsored plans under health care reform
Large carriers exiting the market
Rating agencies tend to view IDI less favorably than other product lines
Lack of product innovation and development

Many view the aging of producers who now focus on disability and the inability to reach untapped markets as major obstacles. The impact of competitive pressures on undermining sound risk management continues to be mentioned, although not as frequently this year as in prior surveys. Many companies also foresee the continuation of low interest rates as a significant obstacle. Lower interest rates should ultimately force premium rates and reserves to increase, affecting the affordability of the products and reducing the profitability of the IDI business.

Opportunities for growth

Contributors were asked to list opportunities for long-term growth in the IDI market. Figure 38 lists the various responses, grouped into general categories. Note that a number in parentheses after a response indicates the number of companies included in that response.

Figure 38

Opportunities for Growth
Markets
Business market
Employer pay (mandatory) GSI (2)
Employee pay (voluntary) GSI
Employer-sponsored multi-life.
The multi-life GSI market.
Fully-underwritten while collar
Medical market
Medical residency programs
Middle income market (3)
Millennials (4)
Multi-cultural market
Non-physician professionals
Professional occupations
Self-employed
Skilled trades
Small and medium sized businesses
Workplace marketing
Distribution
Agency distribution vs brokers
Alternative distribution sources
Call center and online sales
Dedicated wholesalers specializing in DI to simplify process & educate advisors
Younger producers
Products
Combination sales with life products
Return of premium rider

Although different aspects of the employer-sponsored multi-life market continued to be cited frequently as opportunities for growth, companies appear to be looking into more specific segments of the total market for opportunities for future growth, such as Millennials, self-employed, and nonmedical professionals.

Changes in IDI claim patterns

While the overall financial results may indicate continued profitability for many contributors, attention to changes in claim patterns can identify early indicators of future unfavorable morbidity results and enable contributors to address potential claim issues before they become unmanageable. Contributors were asked to describe any changes to their historical claim patterns. Figure 39 lists the various responses, grouped into observed favorable and unfavorable patterns. Note that a number in parentheses after a response indicates the number of companies included in that response.

Figure 39

Changes in IDI Claim Patterns
Favorable
Lower loss ratios over most recent 6 months
No change in claim patterns over the last 12 months
Claim patterns have been stable (2)
Fewer new claims
Stable, favorable incidence
Higher terminations over recent 6 months
Favorable change in claim reserves
Unfavorable
Results have become more volatile driven by high indemnity policies. May be seeing the cost of I & P limit liberalizations
Higher contestable claim rates
Fully underwritten small business discounted businesses experiencing increased morbidity costs
Lower claim termination rates
Increasing claim complexity

Generally, claim experience has been stable for most companies, with stable or improving claim incidence. Terminations have been somewhat higher or lower depending on the company, but no common direction is being reported.