

What's New in Product Development

New Product Trends, Term/UL Product Designs, LTC Combo Products

A presentation to SEAC Fall Meeting
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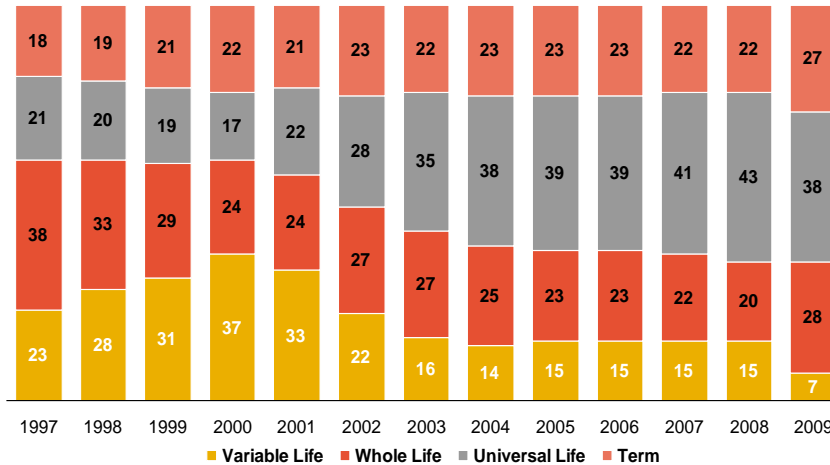
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Agenda

- Life Insurance Market Trends
- Term & UL Product Trends
- Introduction to Term UL
- LTC Combo Product Trends
- Other Pricing Considerations

In 2009, traditional life products increased in market share, at the expense of universal life and variable life

Market Share of Individual Life Insurance by Product Type
(Percent of Total FY Premium)



Source: LIMRA International. Based on first-year premium. Results based on policies issued would be significantly different.

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Overall life insurance sales were down significantly in 2009, but have started to increase in 2010

- Life sales in 2009 were down 15% from 2008, marking the largest decrease since 1942
 - Through Q2 2010, sales have increased 9% from Q2 2009
 - Overall total policy count increased only 1% for the first six months of the year
- Term life was the only product to do worse on a premium basis through Q2 2010 than in the comparable period in 2009 with a decrease in sales of 7%
 - This is likely due to Term UL sales being reported with UL (also impacts UL sales)
- Overall UL sales through Q2 2010 increased 13% from Q2 2009
 - Notably the number of UL policies sold through Q2 2010 was up 21% relative to Q2 2009
 - Consistent with 2009, overall smaller face amount sales to more people, reversing the trend observed over the last decade
- Whole life sales increased 19% through Q2 2010 compared to Q2 2009 based on premium, but only increased 4% based on policy count and face amount for the same time period
- Through Q2 2010, variable life sales have increased 6% over Q2 2009 based on premium, but have declined by 12% and 10% based on policy count and face amount respectively for the same time period

Source: LIMRA
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Recent market trends for term products

- Level premium term remains a very competitive market — focus on level of premium rates
- Most competitive companies employ following:
 - Assume redundant reserve financing mechanism in place (reserves move to economic reserve basis, reflect financing costs)
 - Very lean mortality assumption
 - Likely need to reflect some element of post level term profits and favorable taxes emanating from financing transactions to hit profit targets
- The XXX financing market has been challenged over past 18-24 months
- Led to some actions
 - Remove 30-year product
 - Raise premiums
 - A few companies have tightened underwriting criteria to improve mortality
 - Reinsurers have raised rates
 - Implemented alternate designs (Term UL — addressed in later slides)

Recent market trends for term products

- To date, we have seen some recent premium decreases for the large term writers
 - The Compulife database of term products shows that several companies increased premium through December 2009, but several have decreased since
- However, smaller writers, who have difficulty obtaining financing, increased premiums through December 2009 and have not decreased premiums since
- Lower interest rates, financial crisis and implementation of AG XLV (CCC), which became effective on January 1, 2010 for all new policies, have led to several changes to ROP products
 - ROP term premiums have increased 15-30% in 2010 relative to 2009 premiums
 - Some writers have exited the market
 - Sales are down

The term market remains very competitive as there have been some targeted price decreases

20 Year Level Term - Top 20 premiums
Male Best Nonsmoker 45, \$500,000 Face Amount

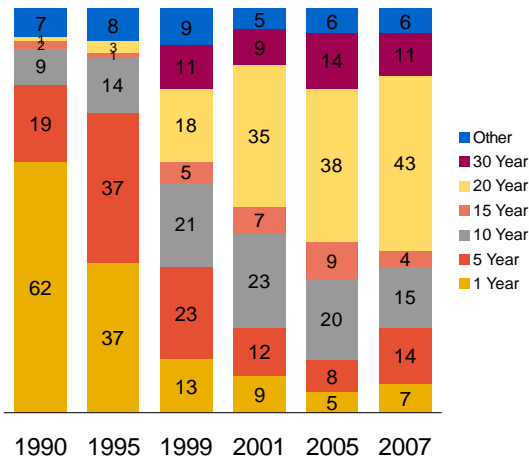
Statistic	May-09	Aug-09	Oct-09	Dec-09	Mar-10	May-10	Aug-10
25th Percentile	625	628	631	635	620	620	620
Median	635	640	643	645	645	640	636
75th Percentile	640	645	655	665	655	655	655
Mean	634	636	640	647	641	640	639
% change							
25th Percentile		0.4	0.6	0.6	-2.4	0.0	0.0
Median		0.8	0.4	0.4	0.0	-0.8	-0.6
75th Percentile		0.8	1.6	1.5	-1.5	0.0	0.0
Mean		0.3	0.5	1.1	-0.8	-0.1	-0.2

Source: CompuLife, Towers Perrin analysis
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Term insurance sales have continued to migrate toward longer level premium periods, with 20-year level premium term being the most popular in today's market

Distribution of Term Insurance Sales by Level Premium Period



- Term annualized premium sales have remained relatively flat over the last few years
 - 2009 term sales totaled \$3.1 billion
- 20-Year level premium term sales have experienced growth
 - 2008: +5% growth over 2007
 - 2009: +7% growth over 2008
- 2009 20-Year level premium term
 - Face amount: +3% growth over 2008
 - Policies: +6% growth over 2008
 - Average policy size: \$500,000

Source: LIMRA
towerswatson.com

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At a time when affordability and strong guarantees are key to new sales, profitability on protection products is being hit hard by the economic crisis

- Many of the term and UL with secondary guarantee (ULSG) products sold over the last several years reflected the impact of excess statutory reserve financing transactions in their pricing
- Financing of life redundant reserves has returned to some extent
 - However, costs have increased - now generally tied to companies' CDS spreads
 - Also, available tenors are not as long as insurers want, particularly on AXXX
- Several companies are in process of implementing internal deals, backed by surplus notes or parental guarantees
- Many of the top UL writers increased their pricing late in 2009 in response to the lack of financing available, but have somewhat decreased pricing in the first half of 2010
- The continued low interest rate environment has also placed downward pressure on profitability

Top ULSG writers increased premiums in late 2009, but these were partially offset with decreases in early 2010

Top 20 premiums
Male Best Nonsmoker 65, \$1 Million Face Amount

Statistic	Jan-07	Jan-08	Jan-09	Jul-09	Jan-10	Jul-10
25th Percentile	19,227	19,042	18,693	18,728	18,796	18,867
Median	19,428	19,189	18,892	18,895	19,184	19,180
75th Percentile	19,803	19,496	19,024	19,088	19,725	19,620
Mean	19,515	19,219	18,730	18,848	19,307	19,247
% change						
25th Percentile		(1.0)	(1.8)	0.2	0.4	0.4
Median		(1.2)	(1.5)	0.0	1.5	(0.0)
75th Percentile		(1.6)	(2.4)	0.3	3.3	(0.5)
Mean		(1.5)	(2.5)	0.6	2.4	(0.3)

Source: Blease Research's Full Disclosure Reports, Towers Perrin analysis
towerswatson.com

Several companies developed Term UL products designed to compete with level term life insurance

Male Best No Nicotine Use, Issue Age 45, \$500,000 Face Amount
Level Pay 20-year Guarantee Premium

Rank	Company Name	Product Name	Annual Premium
1	American General	Select-a-Term-20 Year	614.00
2	Savings Bank Life	T-20/20 – 20 Year Term Guar	615.00
3	Banner Life	OPTerm 20 – 20 Year	620.00
3	Ohio National Life	Term 20	620.00
5	ReliaStar	TermSmart 20 – 20 Year	623.00
6	Genworth	Colony Term UL 20	635.88
7	Transamerica Life	Trendsetter Super 20	640.00
8	Principal	20 Year Term	645.00
8	Cincinnati Life	20 Year Term	645.00
8	Ohio National Life	Term 20 Plus	645.00

Source: Term4Sale.com as of 11/12/2010

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Several companies developed a Term UL product that is meant to compete with level term products

- Flexible premium, adjustable life insurance policy replaces their traditional level term policy
 - Only level death benefit option offered
 - Extended issue age range
 - Death benefit guarantee provided through multi-fund shadow fund design; allocation between funds depends on timing of premium payment and current level of total fund value
- The policy will not lapse due to insufficient funds if the multi-fund shadow fund less policy debt is equal to or greater than zero.
- The multi-fund shadow fund is determined in the same way as the UL policy value, but using shadow fund charges, interest rates and order of operations
 - All rates and charges used in determining the shadow are fixed at issue and guaranteed for the life of the policy
- The shadow uses a multiple fund design that when combined with AG38 regulations allows a significant reduction in required statutory reserves

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Sales, service and customer experience similar to traditional term; however there are significant additional administrative requirements for Term UL

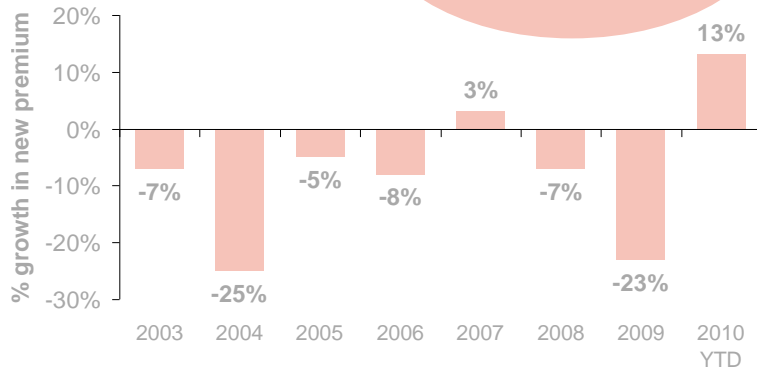
- Planned premiums for death benefit guarantees for 10, 15, 20 and 30 years comparable to traditional term insurance for same periods
- Term UL is shown alongside traditional term products in writers internal quote system and third party quoting engines like Compulife and VitalTerm
- Similar application processing to traditional term products
- Underwriting remains consistent
- Commissions paid on entire initial premium (no policy fee)
- No illustration is required
- While no illustration is required at the point of sale, a ledger of guaranteed values is available upon policyholder's request
- Unlike term, policyholder receives an annual report
- Provides access to cash surrender value
 - Full surrender
 - Partial withdrawal
 - Policy loans
- Longer grace period versus traditional term (62 days)

LTC Combo products, with both life and long term care benefits, are offered by a handful of companies, but interest is growing

- Integrated Plan
 - Place UL and Whole Life base products
 - Mostly single premium sales
 - Affluent customers
 - Marketed as a LTC saving vehicle
- Optional Rider Plan
 - Mostly UL and VUL base products
 - Typical benefit allows early access to life insurance death benefit for LTC needs
 - Single and lifetime pay sales
 - Middle to upper middle income customers
 - Marketed as a LTC funding source

Individual LTCI Sales Trends Annualized New Premium

- Rate increases
- Product complexity
- Price
- Use it or lose it



Source: LIMRA International, *Individual Long-Term Care Insurance Reviews*

Considerations due to the current low interest rate environment should be made in product development

- Consider offering lower minimum interest rate guarantees, i.e. below 3%
- Sustainability of current portfolio rates in extended low interest rate environment
- Implications of sharp increase in interest rates

Several tax law changes could impact product development

- Permanent removal of estate tax could lower life insurance sales
- Removal or lessening of tax advantages (i.e. taxation of either life insurance death benefits or inside build up) would have a significant detrimental impact on life insurance product sales
- Increase in income taxes could make life insurance a more attractive savings option

Contact

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