

State of the Individual Disability Income Industry

Southeastern Actuaries Conference
Spring Meeting 2007

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Agenda

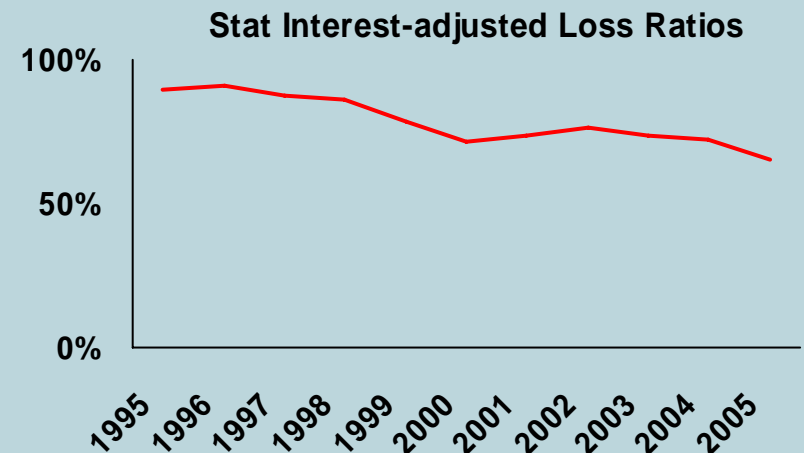
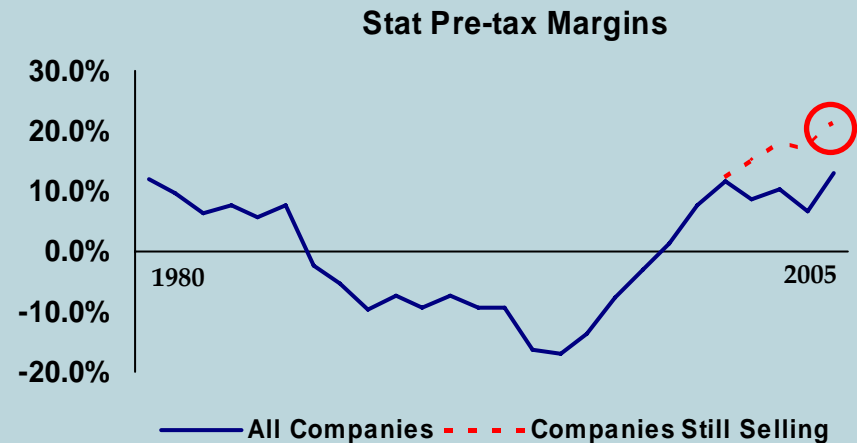
- State of the IDI Industry
- Profitability
- Experience Trends
- Sales Trends
- Demographic Trends
- Product Development
- Keys to the Future

Individual DI Industry Today

1. Restored and sustained profitability
2. Modest sales growth and an under-penetrated market
 - But favorable mix shifts
3. Limited number of insurers and reinsurers
4. Favorable demographics suggest increasing need for protection
5. In need of distribution expansion and diversification
 - Product and process simplification required
6. New markets helping
 - Multi-life
 - Worksite

Restored and Sustained Profitability

- Statutory margins the best they have been in 25 years
- Statutory pre-tax margins 21.4% in 2005 and 17.7% for 2002 - 2005
- Upside profit potential remains since NII yield on mean reserves is the lowest its been in 16 years
- Interest adjusted loss ratios 2000 – 2005 significantly better than 1990's
- Significant claim incidence improvement seen 1995 – 1999



SOA Individual Disability Experience Committee

Analysis of Experience 1990-1999

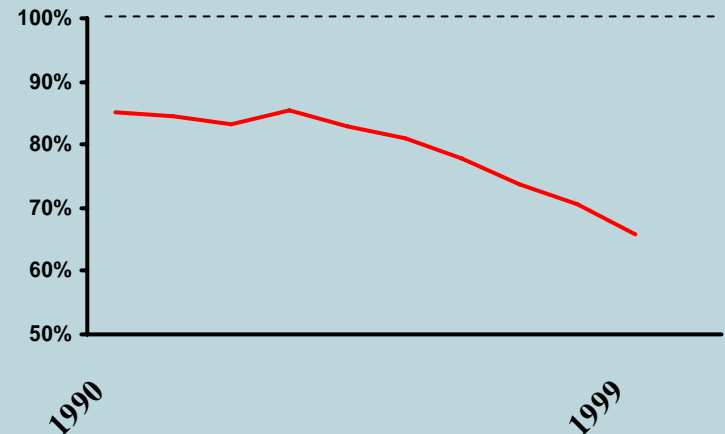
Background:

- Claim incidence and termination study
- New morbidity table to replace 1985 CIDA
- 12 IDI insurers contributed (64% of U.S. Market)

Claim Incidence Results

- Lower than 1985 CIDA
- Improved steadily after 1994
- Blue/Gray collar occupations significantly better than white collar relative to 1985 CIDA
- Lifetime benefit periods significantly higher
- Employer sponsored multi-life 80% of individually sold

A/E Incidence Ratios
Expected = 85 CIDA
(By Count)

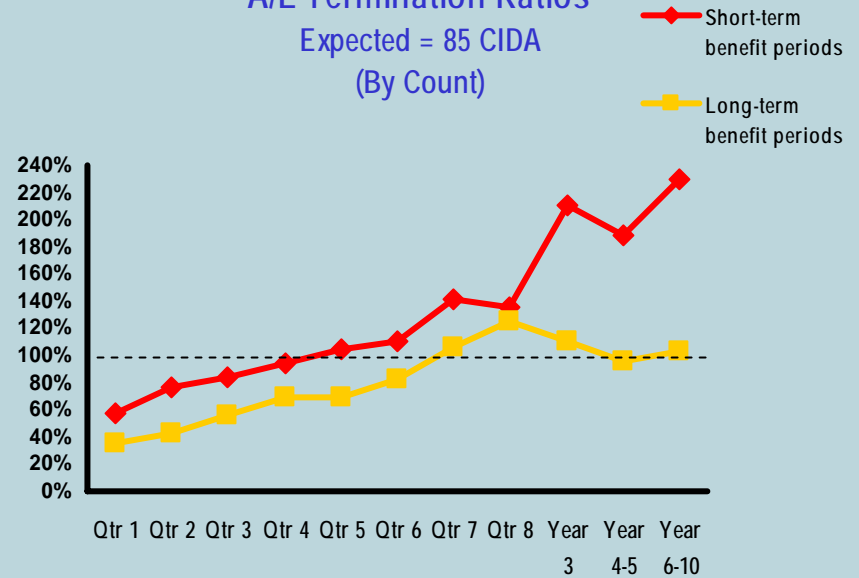


SOA Individual Disability Experience Committee

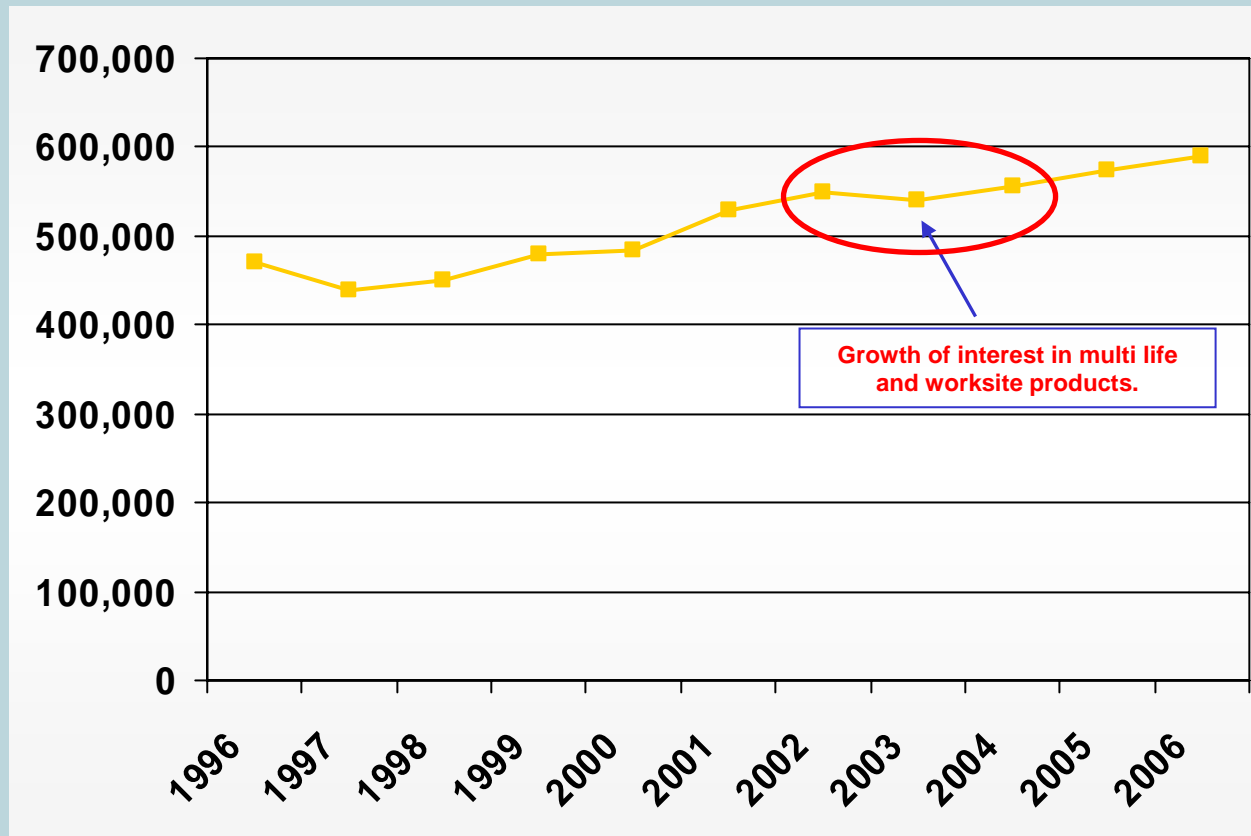
Claim Termination Results:

- Below 1985 CIDA for 1st 18 months
- Longer benefit periods significantly lower
- Medical occupations significantly lower
- Lower by amount vs. count

A/E Termination Ratios
Expected = 85 CIDA
(By Count)



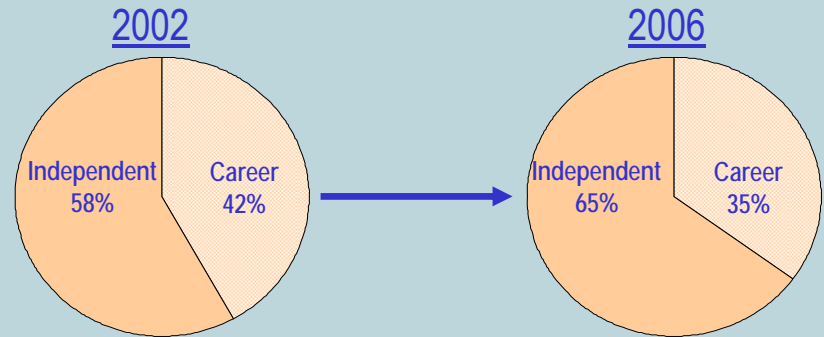
Individual DI Sales Total Industry



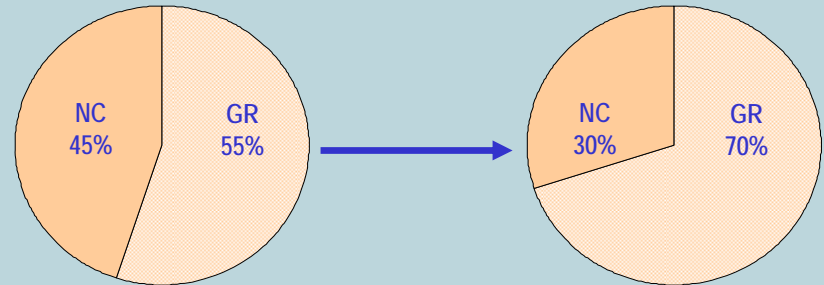
Source: LIMRA Individual Disability Income Sales and Inforce surveys, LIMRA estimates

Trends in Individual DI Sales

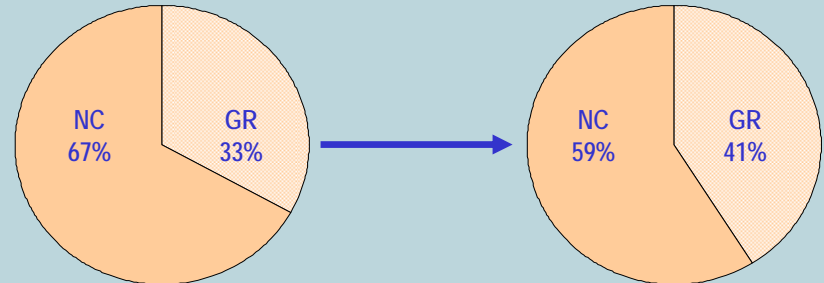
I. Distribution



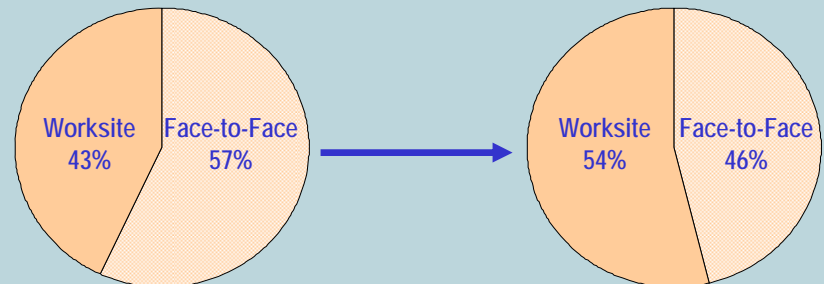
II. Non-Can vs. Guaranteed Renewable (by policies)



III. Non-Can vs. Guaranteed Renewable (by premium)



IV. Worksite/Multi-Life vs. Face-to-Face (by premium)



Trends in Individual DI Sales

<u>By Product Type</u>		
	<u>#</u>	<u>Premium</u>
Personal	98%	95%
Overhead	1%	3%
Buy/Sell	1%	1%
Key Person	+	+

+ Less than ½ of 1 percent

<u>Marketshare</u>		
	<u>2002</u>	<u>2006</u>
Top 5 Insurers	64%	65%
Top 10 Insurers	87%	90%
Top 15 Insurers	97%	98%

Measured by new annualized premium

<u>Average Premium</u>		
	<u>Per Policy</u>	
	<u>2002</u>	<u>2006</u>
Non-Can	\$1,254	\$1,804
Guaranteed-Renewable	\$569	\$585

Source: LIMRA Individual Disability Income Issues and In-Force Survey

A Greater Dependency on Income

Today's Workers

- Have longer life expectancies
- Are working longer to reach retirement goals
- Have greater debt and lower savings as % of disposable income
- Are unwilling to rely on Social Security and Medicare
- Are surviving severe accidents and illnesses

Annual Personal Savings as a Percentage of Disposable Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis, January 30, 2006

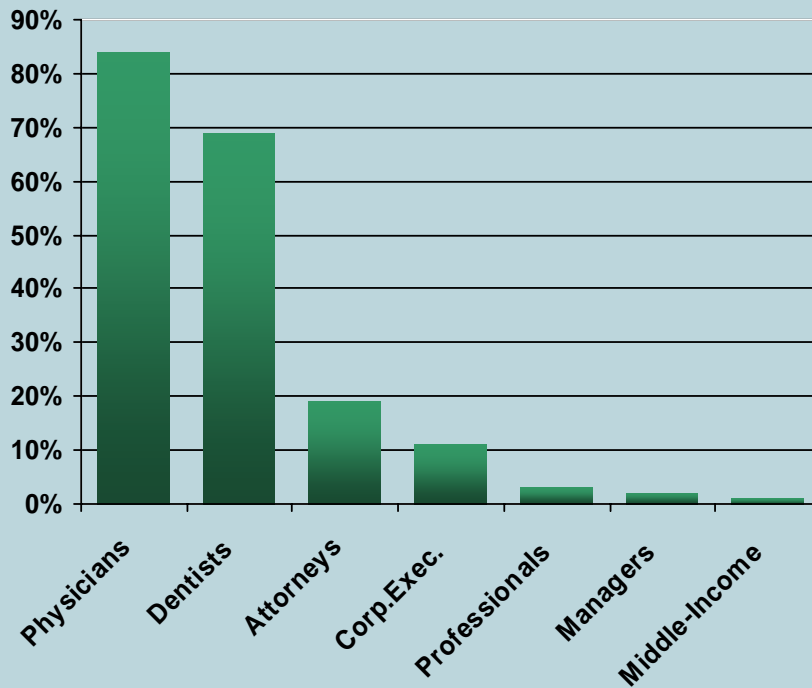
Ratio of Household Debt to Personal Disposable Income

<u>1980</u>	<u>1990</u>	<u>2000</u>
12.5%	13.4%	14.3%

Source: Best's Review, Feb. 2003

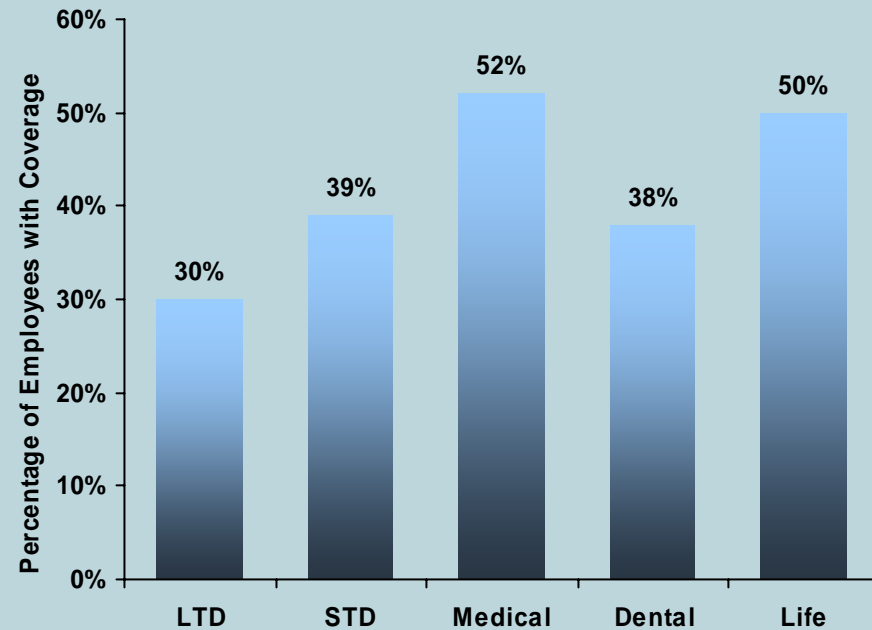
Limited Market Penetration

Individual Disability Income



Source: UnumProvident; January 2001

Employee Benefits



Source: National Compensation Survey: *Employee Benefits in Private Industry in the United States, March 2006*. U.S. Department of Labor, Bureau of Labor Statistics (full-time employees only)

Keys to Disability Income Market Growth

- Increasing consumer awareness of the risk of long term disability and its financial impact
- Product simplification
- Product affordability
- Distribution expansion
- Distribution diversification
- Increased number of insurers with product offerings

Product Development Trends

- ❑ Limited new product introductions and innovation
- ❑ Unbundling of features
- ❑ Increased Benefit Limits
 - I&P limits for base product
 - Catastrophic Benefit Rider
 - Retirement Trusts
- ❑ Upgrades in occupation class for medical professionals
- ❑ Simplified issue underwriting
- ❑ Living benefits on life insurance products
 - Disability
 - Critical Illness
 - LTC
 - Unemployment

Convergence of IDI & LTD



- More flexibility and choice of features and coverage
 - Voluntary enrollments
 - Modified short-form evidence
 - Portability
 - Heaped first year compensation
 - ERISA protections eroding
- Prevalence of multi-life sales
 - Group Underwriting Techniques
 - Participation requirements
 - Who pays and how enrolled
 - Group industry classifications and demographics vs. specific occupation
 - Lower premiums & deep discounts
 - Internet enrollment
 - Simplified underwriting, guaranteed issue, modified guaranteed issue
 - Reduced first year or levelized compensation

Keys to a Successful Future

- ❑ Maintain a rigorous risk management discipline
 - Diversified risk
 - Intelligent product designs that align motivations
 - Balanced underwriting decisions
 - Prompt, fair and thorough claims management

- ❑ Manage down expenses
 - Technology driven service automation and improved access to data
 - More efficient underwriting requirements and selection techniques to reduce cycle time and acquisition costs
 - Greater scale

- ❑ Broaden market penetration
 - Increased and varied distribution
 - Simplification of product and greater affordability
 - Clear, understandable policy language
 - Streamlined underwriting

Keys to a Successful Future cont . . .

- ❑ Development of new markets and continued expansion of emerging markets
 - Worksite
 - Multi-life
 - Integration with Group LTD
 - Retirement income protection
 - Synergies with CI or LTC?

- ❑ Continued industry activism, consumer education and expansion of insurers
 - International DI Society
 - Council of Disability Insurers
 - Inaugural Disability Insurance Awareness Month, May 2007