State of the Individual Disability Income Industry

Southeastern Actuaries Conference
Spring Meeting 2007

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Disability Management Services, Inc.
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

Source: Milliman Disability Newsletter, August 2006
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
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)

Source: LIMRA Individual Disability Income Issues and In-Force Survey with estimated adjustments
### Trends in Individual DI Sales

<table>
<thead>
<tr>
<th>By Product Type</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal</td>
<td>95%</td>
</tr>
<tr>
<td>Overhead</td>
<td>3%</td>
</tr>
<tr>
<td>Buy/Sell</td>
<td>1%</td>
</tr>
<tr>
<td>Key Person</td>
<td>+</td>
</tr>
</tbody>
</table>

+ Less than ½ of 1 percent

<table>
<thead>
<tr>
<th>Marketshare</th>
<th>2002</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 5 Insurers</td>
<td>64%</td>
<td>65%</td>
</tr>
<tr>
<td>Top 10 Insurers</td>
<td>87%</td>
<td>90%</td>
</tr>
<tr>
<td>Top 15 Insurers</td>
<td>97%</td>
<td>98%</td>
</tr>
</tbody>
</table>

Measured by new annualized premium

<table>
<thead>
<tr>
<th>Average Premium</th>
<th>Per Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>Non-Can</td>
<td>$1,254</td>
</tr>
<tr>
<td>Guaranteed-Renewable</td>
<td>$569</td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>Year</th>
<th>1990</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>7.0%</td>
<td>2.3%</td>
<td>2.4%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>-0.5%</td>
<td></td>
</tr>
</tbody>
</table>


**Ratio of Household Debt to Personal Disposable Income**

<table>
<thead>
<tr>
<th>1980</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.5%</td>
<td>13.4%</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

Source: Best’s Review, Feb. 2003
Limited Market Penetration

**Individual Disability Income**

- Physicians: 90%
- Dentists: 80%
- Attorneys: 10%
- Corp Exec: 52%
- Professionals: 30%
- Managers: 38%
- Middle Income: 30%

**Employee Benefits**

- LTD: 30%
- STD: 39%
- Medical: 52%
- Dental: 38%
- Life: 50%

Source: UnumProvident; January 2001

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