2017 Annual Survey of the
U.S. Individual Disability Income Insurance Market

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Section I: Introduction

This report presents the results of Milliman's 2017 Annual Survey of the U.S. Individual Disability Income (IDI) Insurance Market. Milliman first conducted this survey in 2007 and has annually conducted IDI surveys and published the results since then, except for 2015. Fourteen insurance companies that are active in the U.S. IDI market were surveyed about new business sold from 2002 through 2016, sales distributions, underwriting requirements, product offerings and pricing, favorable and unfavorable trends, and opportunities and obstacles affecting the IDI market. In addition, a new section has been added this year that discusses the progress IDI companies are making in implementing the 2013 IDI Valuation Table. This new valuation table was approved by the National Association of Insurance Commissioners (NAIC) in 2016 to replace the 1985 Commissioner's Individual Disability A and C tables (1985 CIDA and CIDC) as the basis for statutory minimum reserves for IDI policies and claims.

Prior Milliman IDI market surveys included 15 insurance companies. However, this year MetLife decided not to participate, citing its exit from the IDI individually sold market in 2016. As a result, all historical statistics presented in this report no longer include MetLife. The report focuses on trends pertaining to the remaining 14 survey participants.

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 multilife market, where guaranteed standard issue (GSI) 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 worksites 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 employers and made available to employees on a voluntary basis.

Contributors

The table below lists the 14 contributors to the survey.

Contributors to the 2017 IDI Market Survey	
Ameritas	Ohio National
Assurity	Principal
Guardian	RiverSource
Illinois Mutual	State Farm
MassMutual	The Standard
Mutual of Omaha	Thrivent
Northwestern Mutual	Unum

In total, these 14 contributing companies issued policies with $359 million of new annualized premium in 2016. We estimate that their total premium represents 90% of the IDI market in terms of new sales.

Reliance and limitations

In conducting the 2017 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

We, Robert Beal and Tasha Khan, are consulting actuaries with Milliman. This report provides an opinion regarding trends in the individual DI market. Mr. Beal and Ms. Khan are Fellows of the Society of Actuaries and meet its qualification standards for rendering this opinion.

About

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

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Section II: Survey highlights

This section summarizes highlights and observations from the report. This year's survey presents the results of 14 IDI carriers. (As noted above, while previous surveys included 15 IDI carriers, MetLife decided not to participate in this year's survey in light of its exit from the individually sold segment of the IDI market in 2016.)

Highlights

- Combined IDI new premium from the 14 IDI companies increased in 2016 by 1.3%, compared to 5.7% in 2015.
- The volume of new policies decreased in 2016, reversing an increasing trend since 2011.
- Combined IDI new premium year-to-date through June 30, 2017, increased by 9.0% over the prior year, which reflects in large part companies benefiting from the exit of MetLife from the individually sold side of the IDI market.
- Doctors and surgeons have stabilized around 30% of the IDI new premium over the last five years.
- For the 14 companies combined, new premium from the individually sold segment averaged 54% of total new IDI premium over the last five years, the employer-sponsored multilife segment averaged 42%, and associations averaged 4%.
- The employee pay segment has remained close to 60% of the employer-sponsored multilife new premium during the last five years.
- The percentage of total new premium that was guaranteed renewable averaged 18% over the last five years. Individual sales business had a higher percentage of guaranteed renewable (28%) than the employer-sponsored multilife (6%).
- Replacement ratios increased modestly in 2017. Most activity appears focused on the employee pay policies with group long-term disability present, which is essentially the voluntary GSI segment of the employer-sponsored multilife market.
- Underwriting decisions have stabilized over the last five years, with the average percentage of policies issued as applied at 50% and the average decline percentage at 17%. However, there is considerable variation among companies.
- Twelve of the 13 contributors that responded to the pricing section of the survey charge premium surcharges in at least one state to reflect higher claim costs. California and Florida are the most common states to have premium surcharges, but four companies have surcharges in more than two states.
- Companies' satisfaction with the profitability of their IDI business continues to increase as the result of stable claim experience.
- Companies continue to be concerned with the ongoing slow growth in the IDI market, the impact of an aging distribution knowledgeable in IDI, and a general lack of interest in selling IDI policies by younger producers.
- Looking at potential opportunities for future growth, more companies appear to be focusing on the nonmedical occupations, in comparison to the medical occupations and the employer-sponsored multilife market, which were more prominently mentioned in prior IDI market surveys.
- Most of the 14 contributors have begun the difficult process of implementing the new 2013 IDI Valuation Table, which was adopted by the NAIC in 2016 to be the new statutory minimum reserve basis for IDI policies and claims. A number of the contributors mentioned that the process is hampered by other priorities and the availability of information technology (IT) resources.

Concluding observations

The big news in 2016 was the decision by MetLife to exit the individually sold IDI market and focus only on the employer-sponsored guaranteed standard issue market. Other IDI companies appear to be benefiting in 2017 through higher sales that might otherwise have been issued by MetLife. However, this is a short-term impact. In the longer term, overall IDI market growth may be constrained by the loss of one of the larger writers of IDI business.

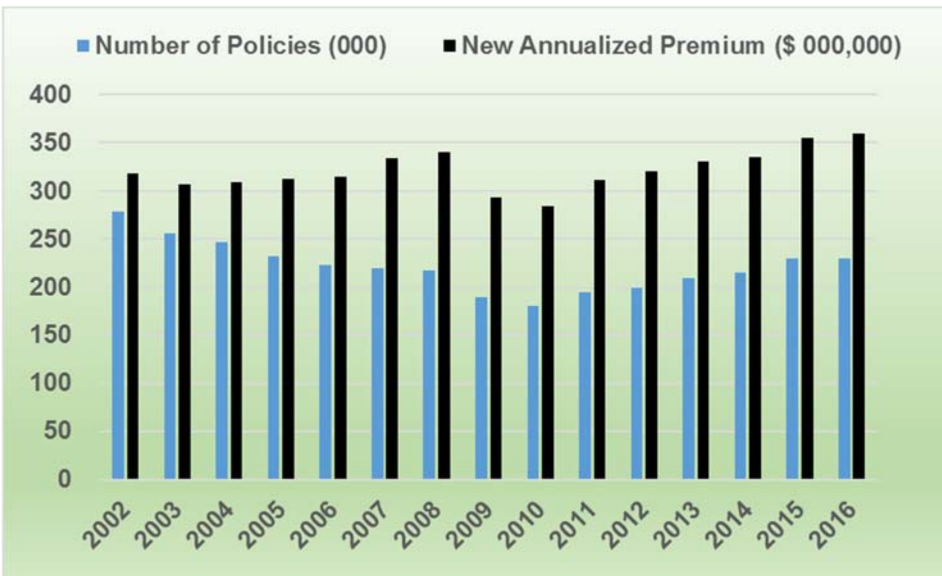
Section III: Sales results

This section analyzes trends in the new business sold by the 14 IDI contributors from 2002 through 2016.

Volume of annual sales from 2002 through 2016

The chart in Figure 1 shows total new policies and annualized premium sold by the 14 IDI contributors from 2002 through 2016. The combined new annualized premium for the 14 contributors has increased steadily since falling in 2009 and 2010, which were the years when the impact of the global financial crisis reversed seven years of steady growth from 2002 through 2008. Total annualized premium in 2016 was $359 million, which is 1.3% higher than new sales reported in 2015. This is the highest volume of sales reported since 2002. The volume of new policies decreased slightly in 2016.

Figure 1: New Policies and Annualized Premium Issue Year, 2002-2016



The graph in Figure 2 shows the cumulative new premium by company as a percentage of total new premium in 2016 after contributors are ranked by their new premium (i.e., Company A had the largest volume of new premium in 2016). The top five IDI contributors in 2016 produced 82% of the total new annualized premium among the 14 contributors, and the top 10 IDI contributors produced almost 97% of the total premium.

Figure 2: Cumulative New Premium by Company in 2016, Percentage of Total Annualized Premium

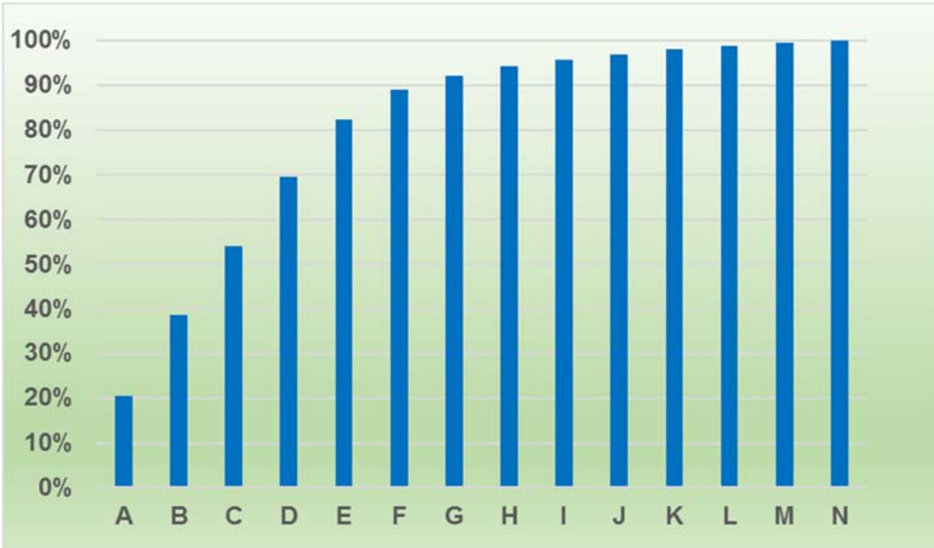


Figure 3 shows the annual growth rates (AGRs) in new policies and new premiums since 2003. The AGRs for new premium have been positive since 2011. From 2009 through 2015, companies were able to increase new premium by selling more policies; in contrast, during the 2004-2008 period new premium was primarily achieved by selling larger policies while the number of new policies decreased. The AGRs in new policies turned slightly negative in 2016.

Figure 3: Annual Growth Rates, 2003-2016

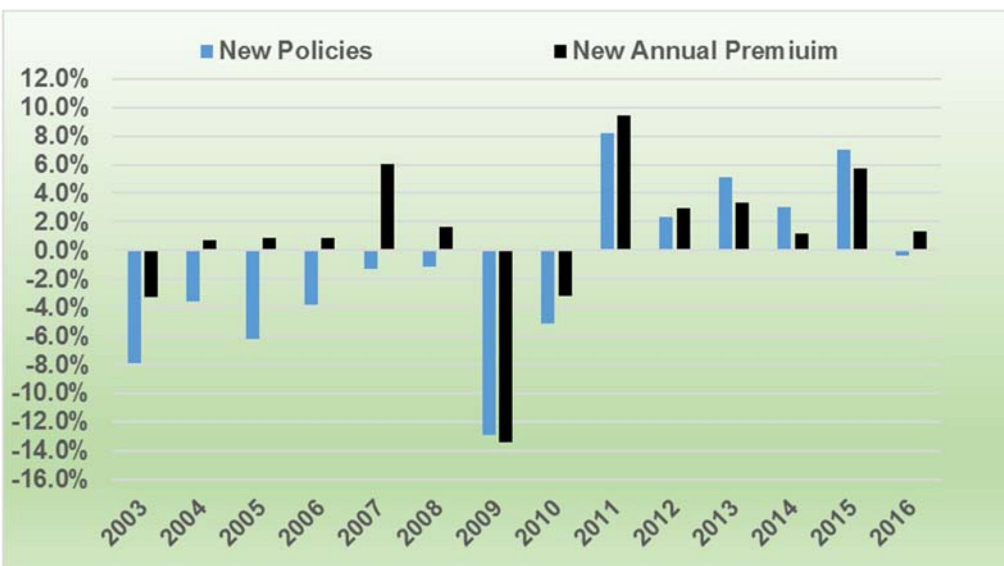
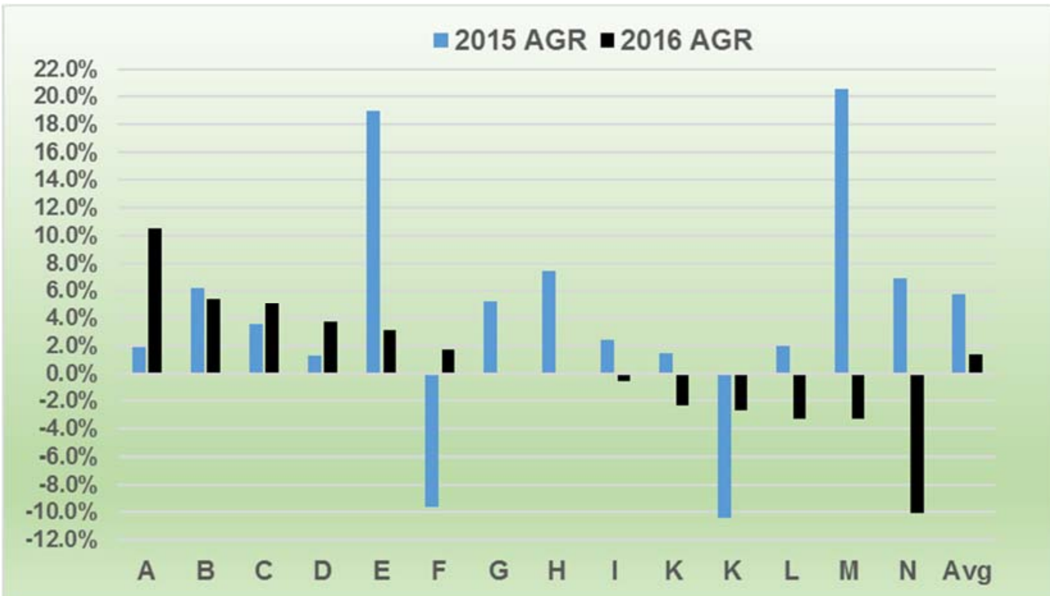


Figure 4 compares the AGRs of the 14 contributors in 2015 and 2016, ordered by highest to lowest 2016 AGR. Six of the 14 contributors had growth in new premium in 2016, compared to 12 contributors with growth from 2015. The highest AGR in 2016 for any of the contributors was 10.6% compared to 20.5% in 2015.

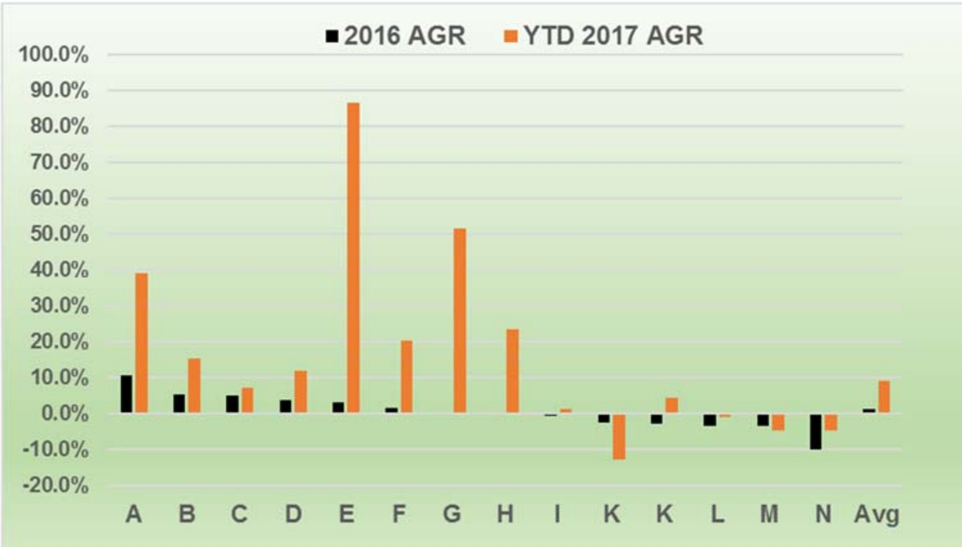
Figure 4: Average Annual Growth Rates by Company, 2015-2016



New sales in 2017 year-to-date through June 30

The 14 contributors submitted their total new premium year-to-date (YTD) through June 30 in 2016 and 2017. Total YTD new premium in 2017 was $182 million compared to a YTD of $167 million in 2016. We estimate that approximately $10 million of the increase in YTD new premium this year may have been business that producers would have placed with MetLife if MetLife had continued in the individually sold IDI market. The YTD AGR was 9.0% in 2017. Figure 5 compares the YTD 2017 AGR by company to the corresponding 2016 AGR (for the full year) in Figure 4 above. Ten companies have experienced positive YTD AGRs in 2017.

Figure 5: Average Annual Growth Rates by Company, 2016 and YTD 2017



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.

Ten of the 14 contributors sold OE policies in 2016. The OE premium in 2016 represented 4.2% of total premium of these contributors. Six of the 14 contributors sold DBO policies in 2016. The DBO premium in 2016represented 1.5% of total premium of these contributors.

Key occupations

The table in Figure 6 shows the distribution of total new premium from 2012 to 2016 among certain key professional and executive occupations. The results are based on information from 10 contributors that were able to report their new premium split among these occupations. The combined new premium from these 10 contributors represented 95% of the combined new premium for the 14 contributors in 2016.

Figure 6: Percentage of New IDI Annualized Premium by Occupation Category, 2012-2016					
Year	**Doctors and Surgeons**	**Dentists**	**Lawyers**	**Executives**	**Accountants**
2012	29.7%	8.2%	7.5%	21.5%	2.4%
2013	30.4%	8.1%	7.1%	22.6%	2.5%
2014	29.8%	7.9%	7.5%	23.6%	2.4%
2015	29.7%	8.0%	6.6%	24.6%	2.2%
2016	30.1%	8.9%	6.3%	19.5%	1.9%
Average 2012-2016	30.0%	8.2%	7.0%	22.3%	2.3%

Figure 6 shows that the percentage of new premium from doctors and surgeons has stabilized around 30% over the last five years and represent the largest key occupation in terms of new premium. From 2002 through 2009, executives had the largest share of new premium among these five key occupations, although the share of new premium from doctors and surgeons continued to grow during this period. By 2010, new premium from doctors and surgeons exceeded new premium from executives.

Three of the 10 contributors combined—doctors, surgeons, and dentists—comprised over 50% of new premium in 2016. The percentage of executives increased from 21% in 2012 to 25% in 2015, but dropped to 20% in 2016.

Figure 7 shows the annual growth rates for new premium from 2012 through 2016. New premium issued to doctors, surgeons, and dentists increased in 2016, while new premium to lawyers, executives, and accountants decreased. Of particular note is the 13% AGR in new premium to dentists in 2016.

Figure 7: Annual Growth Rates in New IDI Annualized Premium by Occupational Category Over the Last Five Years					
Year	**Doctors and Surgeons**	**Dentists**	**Lawyers**	**Executives**	**Accountants**
2012	-0.4%	-0.5%	8.4%	-0.6%	12.7%
2013	6.1%	2.7%	-1.5%	9.1%	7.7%
2014	-0.5%	-0.7%	6.1%	5.7%	-4.2%
2015	5.5%	6.4%	-6.1%	10.5%	-2.5%
2016	2.7%	13.0%	-4.2%	-19.8%	-11.3%

Eight of the 14 contributors, comprising 70% of the total premium in 2016, were able to track new premium issued to small business owners since 2012. The percentage of new premium from small business owners ranged from 17.0% in 2012 to 13.7% in 2016, and averaged 14.8% over the last five years.

Markets

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

1. Individually sold business
   This segment consists 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 typically involved.

2. Employer-sponsored multilife business
   Employer-sponsored multilife (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 IDI" 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 above in the Introduction of this report, 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 ESML 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 discounted premiums. 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 (i.e., 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. This is 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 more aggressive marketing efforts in the IDI industry in recent years.

Figure 8 shows the distribution of new premium for all contributors among the three market segments in the years 2012 to 2016.

Figure 8: Distribution of New Premium by Market, 2012-2016				
Year	**Individually Sold**	**Employer-Sponsored Multilife**	**Associations**	**Total**
2012	55.7%	39.6%	4.7%	100.0%
2013	54.8%	40.7%	4.5%	100.0%
2014	53.7%	41.8%	4.5%	100.0%
2015	52.4%	43.5%	4.1%	100.0%
2016	52.5%	43.1%	4.4%	100.0%
Average 2012-2016	53.8%	41.8%	4.4%	100.0%

The mix of new premium by market in 2016 was very similar to that in 2015. The ESML share grew slowly over the last five years, exceeding 43% in 2015 and 2016.

Although the associations market represents a small percentage of total sales, the percentage of new premium sold through associations has remained between 4% and 5% over the last five years. The reader should be aware that the professional association market is primarily serviced by companies that specialize in this market by offering conditionally renewable disability products on either individual or group platforms. These companies are not included among the contributors to this survey.

Figure 9 compares the annual growth rates for the three markets.

Figure 9: Annual Growth Rates in New IDI Annualized Premium by Market Over the Last Five Years				
Year	**Individual Sales**	**Employer-Sponsored Multilife**	**Associations**	**Total**
2012	1.5%	5.1%	3.0%	3.0%
2013	1.6%	6.4%	-1.6%	3.3%
2014	-0.8%	3.9%	2.1%	1.2%
2015	3.3%	10.1%	-5.3%	5.7%
2016	1.4%	0.4%	9.1%	1.3%

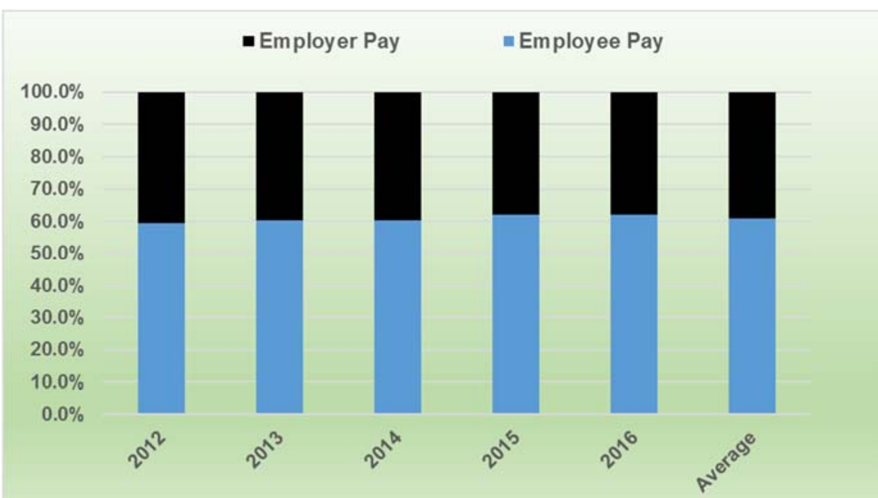
Annual growth rates in 2016 were positive for the three market segments, with the association market experiencing 9% growth and the ESML remaining largely flat. Because of the small size of the association market, the acquisition of a few associations by companies can produce large changes in growth rates.

Figure 10 groups contributors by their percentages of 2015 and 2016 new premium issued in the ESML market. Six of the 14 contributors sold at least 20% of their new premium in this market in 2016, of which six continued to sell at least 20% in 2016, with one dropping just below 20%. Three contributors consistently report no premium in the ESML market.

Figure 10: Number of Contributors Sorted by the Percentages in the ESML Market, 2015-2016

The chart in Figure 11 shows the split between employee-pay and employer-pay premium in the ESML market for the years 2012 through 2016.

Figure 11: ESML New Premium by Payer: Employee vs. Employer, by Issue Year 2012-2016



The employee-pay segment has continued to make up approximately 60% of the employer-sponsored multilife new premium during the last five years.

Distribution

Contributors were asked to split their 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 typically 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 14 contributors, combined, for the years 2012 through 2016.

Figure 12: Mix of New Premium by Type of Distribution, 2012-2016

Year	Career Agents	Brokers	National Accounts	Other Producers	Total
2012	43.0%	43.2%	5.3%	8.5%	100.0%
2013	44.5%	42.0%	4.8%	8.8%	100.0%
2014	44.9%	39.9%	4.5%	10.6%	100.0%
2015	43.7%	38.5%	4.1%	13.6%	100.0%
2016	44.1%	39.1%	4.7%	12.1%	100.0%
Average 2012-2016	44.1%	40.5%	4.7%	10.8%	100.0%

In prior IDI market surveys, which included MetLife, the shares of new premium issued by career agents and brokers were quite close. For the remaining 14 contributors combined, career agents sell more new premium than brokers do. Furthermore, the percentage of new premiums sold by brokers has dropped from 42% to 44% in the years 2012 to 2013 down to 38% to 40% in the years 2014 through 2016, with a corresponding increase in the proportion of business sold through other producers.

Guaranteed renewable trends

Figure 13 shows the share of new IDI premium issued to guaranteed renewable (GR) policies over the last five years by market, key occupation, and distribution channel.

Figure 13: Percentage of New Premium Issued on Guaranteed Renewable Products 2012-2016						
Issue Year	**2012**	**2013**	**2014**	**2015**	**2016**	**Average 2012-2016**
Total	16.6%	17.0%	18.5%	18.3%	18.3%	17.8%
By Market						
Individually sold	24.8%	26.0%	28.8%	29.4%	30.0%	27.8%
Association	12.0%	9.5%	8.9%	6.5%	5.5%	8.5%
ESML	5.5%	5.7%	6.3%	6.1%	5.3%	5.8%
Employee pay	7.0%	7.2%	8.5%	7.9%	7.0%	7.5%
Employer pay	3.2%	3.4%	3.0%	3.1%	2.5%	3.0%
By Key Occupation						
Doctors and surgeons	8.9%	8.9%	8.5%	8.6%	7.8%	8.5%
Dentists	10.0%	9.0%	7.7%	7.3%	6.0%	7.9%
Lawyers	11.2%	12.5%	11.8%	12.7%	11.4%	11.9%
Executives	13.8%	14.6%	15.6%	14.4%	15.3%	14.8%
Accountants	14.8%	14.8%	19.0%	22.0%	18.2%	17.7%
Business owners	18.8%	17.8%	18.5%	16.7%	15.1%	17.4%
By Distribution Channel						
Career agents	25.9%	27.3%	29.6%	30.4%	30.7%	28.9%
Brokers	11.5%	10.7%	12.0%	12.2%	10.7%	11.4%
National accounts	9.3%	8.1%	8.5%	8.6%	12.3%	9.4%
Other producers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Over the last five years, GR policies have averaged 17.8% of total IDI premium. The individual sales market has the greatest percentage of GR premium (27.8% on average), which has been growing steadily over the five years. The percentage of GR premium in the ESML market averaged 5.8%, with a higher percentage of new premium for the employee-pay segment (7.5%) than the employer-pay segment (3.0%).

Among the key occupations listed in Figure 13, doctors and dentists have the lowest percentage of GR premium while accountants and business owners have the highest.

Among the different distribution channels, career agents have the largest percentage of GR premium, which has been increasing each year. The percentage of GR premium from national accounts is lower than that from career agents or brokers. The business issued by the "Other producers" distribution is virtually all noncancelable.

Section IV: Underwriting

This section discusses the current underwriting requirements of the 13 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 13 contributors for the top nonmedical occupation class and for the top medical occupation class in 2015, 2016, and 2017. Figure 14 also shows the number of contributors that are at the highest limit.

Figure 14: Maximum Issue Limits 2015-2017

	Top Nonmedical Occupation Class			Top Medical Occupation Class		
Year	2015	2016	2017	2015	2016	2017
Measure:						
Highest Limit	$20,000	$20,000	$20,000	$17,000	$18,000	$20,000
Median Limit	$20,000	$20,000	$20,000	$15,000	$16,000	$17,000
Lowest Limit	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
# Companies at Highest Limit	8	8	8	4	1	1

The highest maximum issue limit among the 13 contributors over the last three years has remained at $20,000 for the top nonmedical occupation class, and jumped to $20,000 in 2017 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 eight of the 13 contributors are at this limit. The median maximum issue limit for the top medical occupation class is lower than for the highest limit, but increased in both 2016 and 2017.

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 group LTD is not present) and Figure 16 (when group LTD is present) compare the highest, median, and lowest participation limits among the 13 contributors in 2015, 2016, and 2017 for the top nonmedical occupation class and the top medical occupation class.

Figure 15: Maximum Participation Limits 2015- 2017, Group LTD Not Present						
	Top Nonmedical Occupation Class			**Top Medical Occupation Class**		
Year	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Measure:						
Highest Limit	$30,000	$35,000	$35,000	$25,000	$25,000	$25,000
Median Limit	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Lowest Limit	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000
# Companies at Highest Limit	5	1	1	7	7	7

Figure 16: Maximum Participation Limits 2015- 2017, Group LTD Present						
	Top Nonmedical Occupation Class			**Top Medical Occupation Class**		
Year	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Measure:						
Highest Limit	$35,000	$35,000	$35,000	$30,000	$35,000	$35,000
Median Limit	$30,000	$30,000	$30,000	$25,000	$25,000	$30,000
Lowest Limit	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000
# Companies at Highest Limit	1	2	3	1	2	1

When there is no group LTD present, only one company has offered the maximum participation limit of $35,000 to the top nonmedical occupation class in 2016 and 2017. Five companies currently offer a maximum participation limit of $30,000 to their top nonmedical occupation classes. When group LTD is present, three companies currently offer the maximum participation limit of $35,000 to their top nonmedical occupation classes. Six companies currently offer $30,000 to their top nonmedical occupation classes.

When there is no group LTD present, seven companies have offered the maximum participation limit of $25,000 to their top medical occupation classes over the last three years. When there is group LTD present, only one company offers the maximum participation limit of $35,000 to the top medical occupation class, while six companies are currently at $30,000. One company reduced its maximum participation limit offered to its top medical occupation class when group LTD is present from $35,000 in 2016 to $30,000 in 2017.

Replacement ratios

Replacement ratios are the maximum percentages of monthly income that insurers will allow to be insured on an individual life (including all sources of IDI and group LTD). 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 because of the benefit offset provisions that are usually contained in the group LTD coverage and the taxable nature of LTD benefits when the employer pays the premiums. These replacement ratios have increased the past few years as competition in the ESML 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 13 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 13 contributors. The figure on the right shows the relationship of the highest and median 2017 replacement ratios among the survey contributors to the corresponding replacement ratios in 2016. Points in these graphs that are over 100% indicate where 2017 replacement ratios have increased and points under 100% show where they have decreased.

Figure 17: Ratios for Employee Pay Policies with No Group LTD

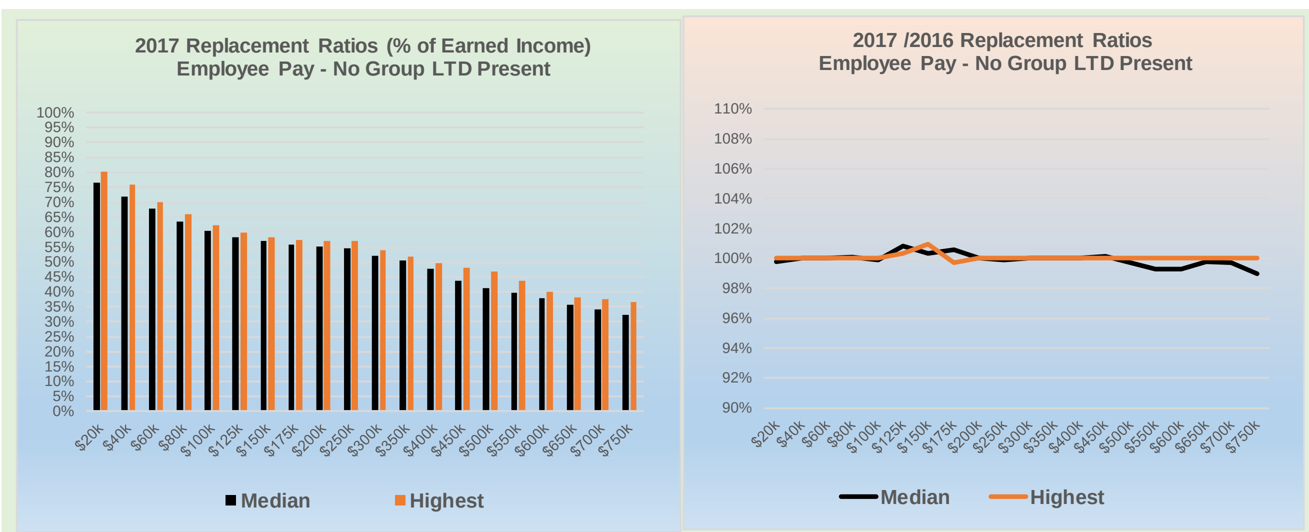


Figure 18: Ratios for Employee Pay Policies with Group LTD

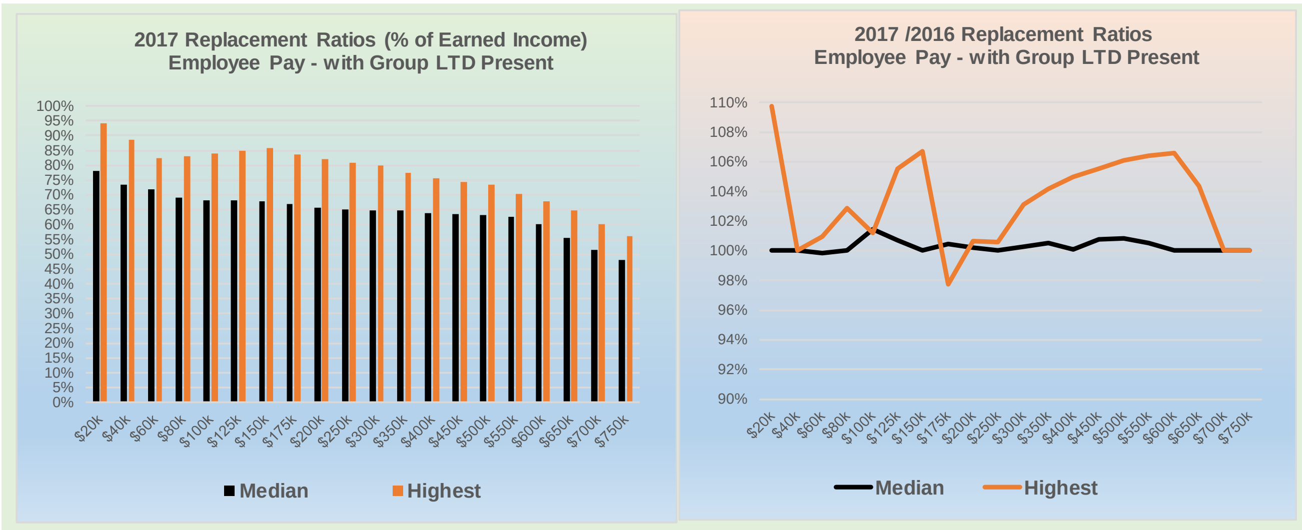


Figure 19: Ratios for Employer Pay Policies with No Group LTD

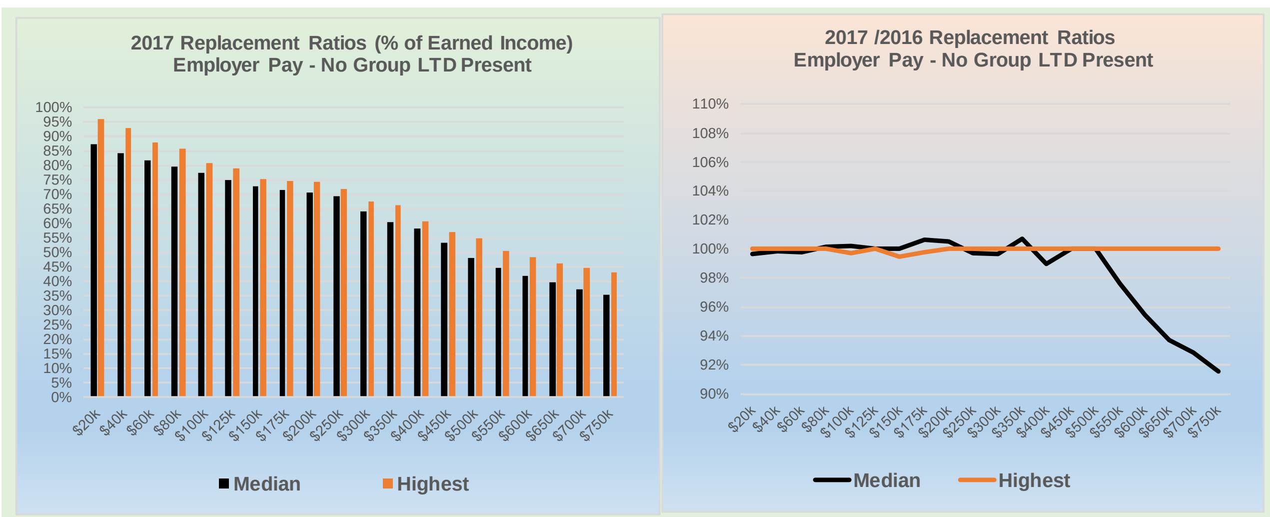
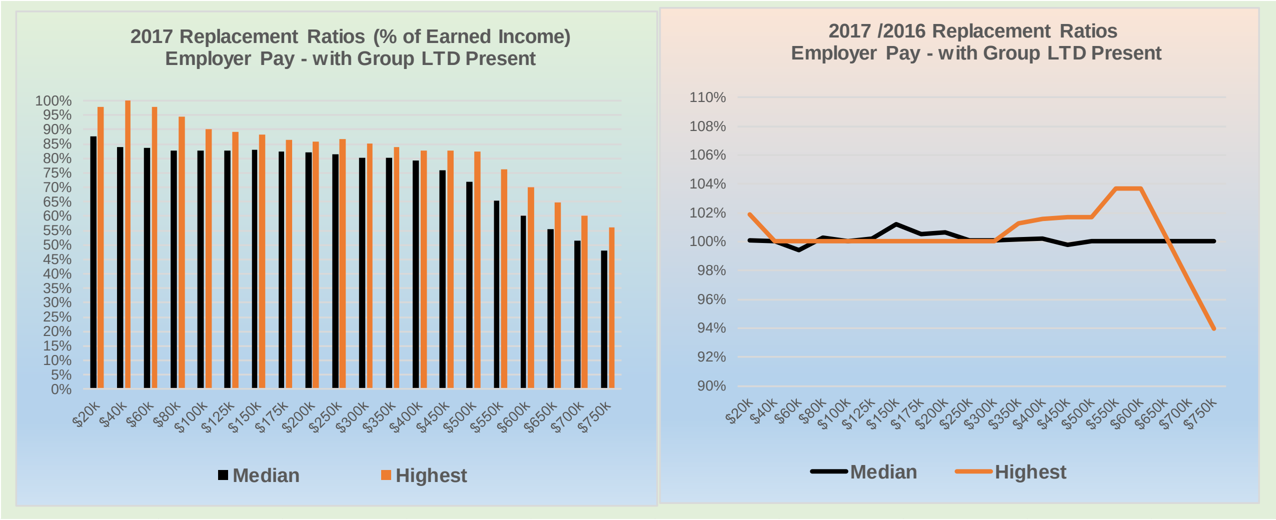


Figure 20: Ratios for Employer Pay Policies with Group LTD



There was very little change in replacement limits for employee-pay with no group LTD from 2016 to 2017 (see Figure 17). The highest replacement limits for employee-pay with group LTD jumped significantly at most earned income levels in 2017 (see Figure 18), although the median remained stable between 2016 and 2017.

There was very little change in replacement limits for employer-pay, with no group LTD from 2016 to 2017 for annual earned incomes up to $500,000 (see Figure 19). For incomes over $500,000, the median replacement limits have decreased. For employer-pay with group LTD, the median replacement limits did not change materially between 2016 and 2017 (see Figure 20), while the highest replacement limits increased for annual earned incomes between $300,000 and $600,000.

Underwriting requirements: Individually sold 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. As a result, 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 2017

Blood Testing	Financial Documentation	EKG	Paramedical Exams (specifically for ages 40-49)
$2000	All cases (3)	Not used	$2001
$2500	Required except for Students, Residents, & New Professionals, and under simplified underwriting	For cause only	$2500
$3000 (3)	$3000 (2)	$5000	$2501
$3001 (2)	None required for w-2 employees up to $3,000 all else $1	$8100 & >age 45	$3000 (2)
$4000	Employees up to $5000 - not required; employees > $5000 and all self-employed individuals require documentation	For ages 51+, $10,001+	$3000 to age 50; $2000 ages 51 and over
$1000 and above depending on age and BP. Some ages we get blood on all.	$5001 (2)		$3001
<=age 50 and <=$6000 = no labs; >age 50 or >$6000 require labs	$5100		$5,001
For ages 41-64 $2500, for ages 18-40 $5001	Earned annual incomes > $150,000		$5001 to $7500 is physical measurements & paramedical > $7500 age 18 to 45
For ages 18-50, blood & urine required for amounts >= $5001; for ages 51-60 for amounts >= $3001			$5100
			Required only when Part B is completed on benefit amounts $7501 and greater
			$11000

There were relatively few changes in the underwriting limits between the 2016 and 2017 survey. One company increased its blood testing limit from $2,501 to $3,001 and its paramedical limit from $1,501 to $3,001.

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 13 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	9	0	2	2
Pharmaceutical databases	13	0	0	0
Motor vehicle records	10	0	0	3
Electronic underwriting engines	4	0	8	1

All 13 of the IDI contributors are now utilizing pharmaceutical databases in their underwriting. Ten contributors are utilizing motor vehicle records, although one of the 10 indicated that it is based on the underwriters' discretion. Nine are using tele-applications, and two have plans to use tele-applications in the near future. Four contributors are using electronic underwriting engines, and eight are beginning to think about using electronic underwriting engines in the 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 currently active in the ESML market. Figure 23 has the voluntary GSI requirements typical of employee-pay cases, and Figure 24 has the GSI requirements typical of employer-pay cases, which include 100% of eligible employees.

Figure 23: Employee Pay (voluntary) GSI 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	\$5,000	\$5,000	\$5,000	\$5,000	100%	30%	30%	NA
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	50%	20%	20%	20%
30		\$3,000	\$5,000	\$5,000	NA	30%	30%	30%
15 or 30% of total group		\$5,000	Case by case	Case by case	NA	NA	NA	NA
75			\$10,000	\$10,000			30%	30%
75 with incomes \$75,000 and above			NA	NA			NA	NA
Approximately 75			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., $4,000 to $5,000 for cases of 10 lives, $5,000 to $10,000 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, a participation target of 30% was typical. As Figure 23 shows, minimum participation requirements now range from 20% to 30% for all but the smallest cases.

Figure 24: Employer Pay (mandatory) Requirements				
Minimum Number of Lives	**Maximum Issue Limits by Case Size**			
	10 Lives	**50 Lives**	**200 Lives**	**1,000 Lives**
5	$5,000	$7,000	$10,000	$10,000
5	$5,000	$8,500	$10,000	$10,000
5	NA	NA	NA	NA
10	NA	NA	NA	NA
10	$3,000	$8,000	$8,000	$8,000
10	$2,500	$10,000	$10,000	$10,000
10	$4,000	$7,500	$10,000	$15,000
15	$5,000	$5,000	$5,000	$5,000
10, or 5 with Group LTD	$8,000	$15,000	Case by case	Case by case

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 a lower risk of anti-selection, the maximum GSI limits on employer-pay cases tend to be higher than for employee-pay cases at the same sizes. One company currently offers a maximum GSI limit of $15,000 for cases of 1,000 lives.

Minimum case sizes for GSI underwriting for both employer-pay and employee-pay cases have generally decreased 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 GSI underwriting is used.

Figures 25 shows the distribution of ESML new premium for issue years 2012 through 2016 by type of underwriting split between employee pay and employer pay.

Figure 25: Distribution of ESML Premium by Type of Underwriting, Issue Years 2012-2016						
Issue Year	**Employee Pay**			**Employer Pay**		
	GSI	**GTI**	**Normal and Simplified Issue**	**GSI**	**GTI**	**Normal and Simplified Issue**
2012	35.5%	0.3%	64.2%	74.1%	2.3%	23.6%
2013	37.3%	1.6%	61.2%	73.3%	3.4%	23.3%
2014	34.1%	1.9%	64.1%	76.8%	2.5%	20.7%
2015	32.5%	1.7%	65.8%	79.9%	1.7%	18.4%
2016	33.7%	1.6%	64.7%	82.5%	2.0%	15.5%
Average 2012-2016	**34.6%**	**1.4%**	**64.0%**	**77.3%**	**2.4%**	**20.3%**

From 2012 through 2016, GSI business averaged 35% of the employee pay ESML new premium and 77% of the employer-pay ESML new premium. The share of employee-pay ESML new premium that was issued using GSI underwriting has generally decreased over the last five years, whereas the GSI business share of employer-pay ESML new premium has increased, exceeding 82% in 2016.

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 the incidence rate for employee-pay (voluntary) GSI business 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. Interestingly, the incidence for employee-pay GSI was still 8% lower than that for individually sold business, including associations.

The contributing companies were asked to rate their satisfaction with the morbidity results of their employee-pay (voluntary) GSI cases. Figure 26 compares the responses from the IDI market surveys in 2016 and 2017 of six contributors that have been active in this market. Ratings are from 1 to 5 in their responses, where 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.

Figure 26: Company Ratings of Voluntary GSI Morbidity		
Rating	**2016**	**2017**
1 (least satisfied)	1	1
2	2	2
3	3	3
4	0	0
5 (most satisfied)	0	0
Average	**2.3**	**2.3**

The ratings for 2016 and 2017 remained the same. Three companies reported that their voluntary GSI morbidity experience meets their expectations, while the three other companies expressed dissatisfaction by giving ratings of 1 or 2 in both years.

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 for 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 that they used during the last year. Figure 27 describes the simplified underwriting programs of eight contributors.

Figure 27: Simplified Underwriting Programs
We have a simplified DI product that use two occupation classes and limits the benefit to $2500 per month for a max benefit period of 2 years with a 90 day elimination period.
We use tele-medical underwriting
Occ Classes 3A and above, up to age 45 and up to $5,000 a month of IDI coverage will forgo oral fluids and financials. Will obtain RX check and order requirements for cause. BOE has same criteria but amount is $10,000.
Now offer an express/knockout underwriting short term disability product.
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.
Require no labs, or financial doc, up through age 50 up through $6,000.
No lab tests or income documentation for Issue ages 18-50 up through $6,000 with tele-applications. Not available to occupation classes A and B (our two lowest classes). Response guaranteed in 48 hours.
Individuals are eligible for a simplified DI contract ($1,000/$2000 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. (If they have group DI the monthly benefit reduces to $500) -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. The volume of responses was light compared to prior years. Figure 28 shows the four responses.

Figure 28: Changes in Underwriting Requirements Over the Last Year
For ages 46 -64 and amounts $5,001 to $7,500, changed from paramedical exams to physical measurements.
Higher amounts available.
Lab limit raised for monthly benefits over $6,000 for simplified underwriting. Previous limit was $4,000. Prescription check is now required on all clients. Previously only on M.D. physicians or for cause.
Higher employer-pay limits for GSI.

Underwriting decisions

Survey contributors were asked to provide the distribution of their underwriting decisions for years 2013 through 2016 in the following categories:

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

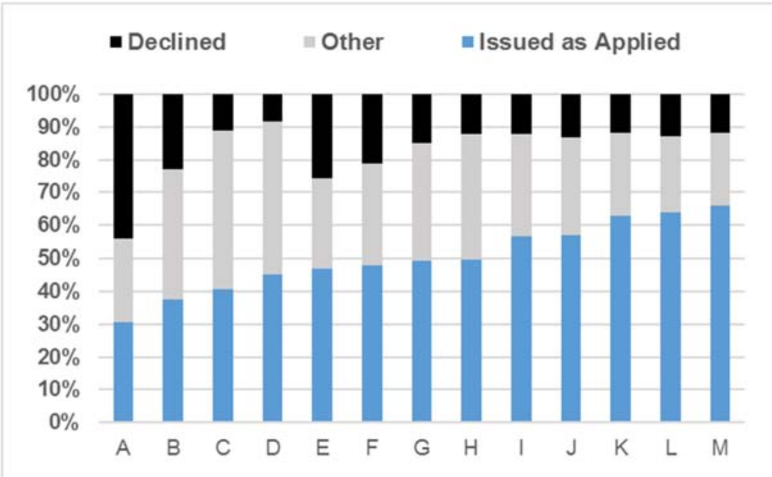
Figure 29 compares the average underwriting decisions among the 13 contributors for all policies for which an underwriting decision was made from 2013 through 2016, i.e., this analysis is intended to exclude applications with missing information or that were withdrawn by the applicants. The “Other” category combines rated, waived, and modified underwriting decisions because some contributors were not able to distinguish between these types of decisions in their data.

Figure 29: Average Underwriting Decisions, From 2013 Through 2016

Issue Year	Issued As Applied	Declined	Other
2013	50.3%	16.4%	33.2%
2014	51.2%	16.3%	32.5%
2015	50.9%	17.2%	32.0%
2016	49.0%	18.5%	32.5%
Average	**50.4%**	**17.1%**	**32.5%**

Other than the average percentage of declines that had increased slowly over the four years, there has not been a significant shift in the distribution of underwriting decisions. However, the distributions vary considerably from company to company, as illustrated in Figure 30, which shows the distribution of the average underwriting decisions from 2013 through 2016 for each of the 13 contributors, arranged from the lowest to the highest with respect to their average issued-as-applied percentages.

Figure 30: Distribution of Average Underwriting Decisions by Company, 2013-2016



The average issued as applied percentages ranged from 30.7% to 66.0%, the average declined percentages ranged from 8.5% to 44.2%, and the average rated, waived, or modified percentages (combined) ranged from 22.0% to 48.4%.

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. Thirteen of the 14 survey contributors responded to the product-related section of the survey.

New product and premium rate changes since the last survey

Contributors were asked to describe product and premium rate changes they have introduced since the last survey. Eight of the 13 contributors reported either product or rate changes implemented since the last survey.

Figure 31: Product Changes Since the Last IDI Market Survey
Increased issue limit to $6,000 for medical residents; increased maximum participation limit to $30,000 (w/IDI) and $35,000 (w/Group LTD) for top nonmedical classes.
Released IDI in New York in early 2017.
Released new IDI fully underwritten policy form with additional features: Student Loan Rider, to age 70 benefit period option, new Benefit Increase Rider.
Introduced a simplified DI product.
Released a new product series reflecting updates to pricing, new definitions of disability, and total disability only policies (no partial benefits) for some new markets.
Introduced the new IDI product in September of 2016. This product includes a pure own occupation rider available to all classes. It also includes a rider that removes the MN limitation. This product also includes a rider that provides coverage using an YRT premium scale.
Released a new flagship IDI product in January 2017 and will release a new GSI product in April or May. We introduced a student loan rider, which provides additional benefits to pay off any student loan obligation. We also introduced a managerial duties endorsement, which specifies that only the individual's managerial duties are covered; manual duties are not covered. Finally, we introduced a zero-cost benefit increase option, which can be exercised once every three years and terminates if unused. Otherwise, the new product's benefits are similar to its predecessors, although we are now offering many of the benefits as optional riders rather than putting them into the base contract.
In January 2017, introduced issue limits for homemakers and stay-at-home spouses, applications based on mortgage payments, and simplified issue applications.

Premium rate changes since the last IDI market survey

Seven 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
Changed veterinarians from a medical occ class to a nonmedical occ class.
Decreased graded benefit IDI rates in Florida in 2016.
Introduced more refined occupation classes with additional price points in our new IDI policy. Some occupations have been reclassified over the last year with some priced lower and others higher.
Reduced gross premiums to reflect favorable morbidity experience. Reduced the premium discount available to multilife business from 15% to 10% reflecting less favorable experience in this market.
Reduced rates (generally) for our new IDI product below rates for the previous product. Multi-life discounts of 15%, 25% and 35% are available on multi-life (including GSI) sales. A 10% life + DI combination discount is available, and a 10% affinity group discount is available.
Updated a few occupation classifications, which would affect rate levels for those occupations. The resident program discount has been changed to 10% with sex-distinct rates.
Introduced wholesale rate changes for the new IDI product. In general, rate decreases for medical occupations and increases for non-medical occupations, but there are lots of variation. We introduced a discount for when three or more applications are received from members of a common medical residency program.

Geographical pricing

Contributors were asked to list all states for which they charge premium surcharges on issued policies due to higher claim costs. Figure 33 shows the results after companies were ordered by the number of states with premium surcharges.

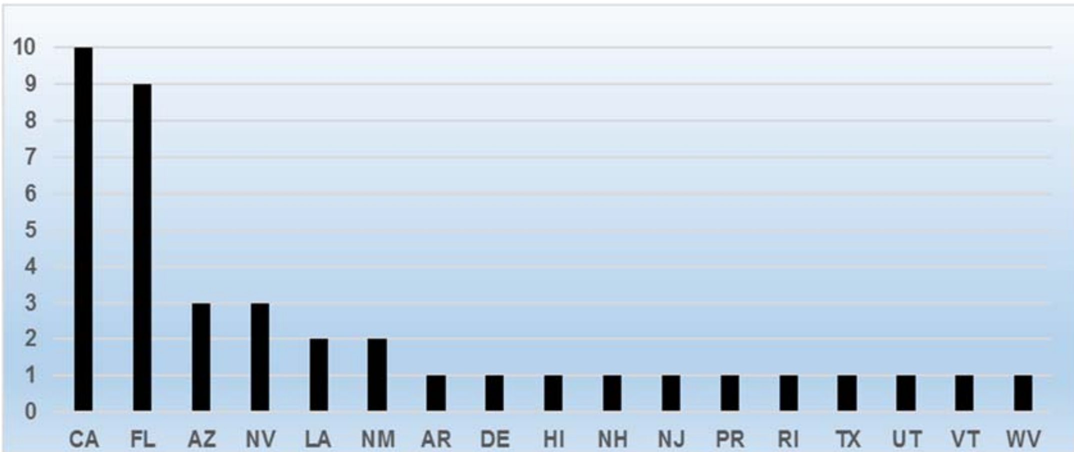
Figure 33: Number of Companies with State Premium Surcharges

Number of States With Surcharge	Number of Companies
0	1
1	3
2	5
3	1
4	1
8	1
12	1
Total	13

Five of the 13 companies have two states with premium surcharges, while one company has no premium surcharge in any state and one company has premium surcharges in 12 states.

Figure 34 shows how many of the 13 companies have premium surcharges in the designated states. Puerto Rico (PR) has been included among the list of states.

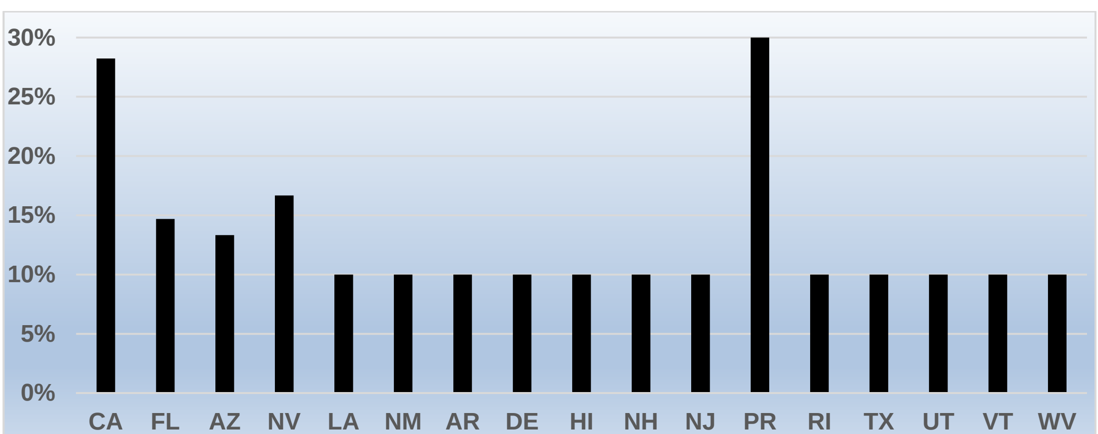
Figure 34: Number of Companies with Premium Surcharges by State of Issue



California and Florida are the most common states to have premium surcharges, with 10 and nine companies, respectively. However, it appears that many companies are expanding their lists of states with premium surcharges. Companies generally base their surcharges upon observed differences in morbidity experience, but that may not be the only reason. One company noted that it had to introduce a premium surcharge in Vermont after the state would not approve its two-year mental/nervous limitation.

Figure 35 shows the average premium surcharges for each state (among all companies with surcharges) as percentages of the base premiums charged by companies.

Figure 35: Average Premium Surcharges by State of Issue



The premium surcharges ranged from 20.0% to 39.0% for California, from 7.5% to 25% for Florida, and from 10.0% to 20.0% for Arizona and Nevada. Only one company has a premium surcharge, which is 30%, in Puerto Rico.

Premium surcharge for tobacco use

All 13 companies have a premium surcharge for tobacco use. Eight companies charge additional premium for any tobacco use. The following are descriptions of when the surcharge applies for the other five companies:

- Nicotine use
- Tobacco or nicotine use
- Cigarette, electronic cigarette, nicotine cessation products, chewing tobacco, cigars, and marijuana
- Tobacco or other nicotine-based products
- All forms of nicotine, tobacco, and marijuana use

Interestingly, one company includes marijuana along with tobacco.

The table in Figure 36 shows the range of premium surcharges for tobacco use among the 13 companies.

Figure 36: Tobacco Use Premium Surcharges Among 13 Companies

Average	25.6%
Median	25.0%
Low	20.0%
High	35.0%

Section VI: General trends

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

How satisfied are contributors with their results?

Contributors were asked to rate their overall satisfaction with the profitability and sales performances of their IDI businesses, ranking from 1 to 5, where a rank of 1 indicates that the contributor is very dissatisfied and a rank of 5 indicates that the contributor is very satisfied. Figure 37 compares this year's responses from the 13 contributors with their responses from last year's survey.

Figure 37: Satisfaction Results

Ranking	Overall Profitability		Overall Sales Results	
	2016 Survey	2017 Survey	2016 Survey	2017 Survey
1 (very dissatisfied)	0	0	2	1
2	2	1	4	3
3	5	4	7	5
4	4	5	0	4
5 (very pleased)	2	3	0	0
Average	3.5	3.8	2.4	2.9
Median	3.0	4.0	3.0	3.0

Contributors in general are quite pleased with the overall profitability of their IDI business, and this sentiment appears to have improved since last year. Contributors appear less satisfied with the sales performances of their IDI businesses than with the profitability. Four companies indicated that their sales were better than expected, which probably reflects results in YTD sales in 2017 rather than in 2016.

Making the IDI sale easier

IDI coverage is difficult to sell when compared with individual life or annuity products. 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 last year to make the IDI sale easier. Figure 38 lists the responses. Companies mentioned a wide range of actions designed to facilitate the sales, issue, and underwriting processes.

Figure 38: Steps Taken by Contributors to Facilitate the Sales Process
Higher Issue Limits
Increased issue limits for homemakers / stay-at-home spouses
Increased issue limits on simplified program
Increased issue limits when applying based on mortgage payments
Increased maximum issue limits
Increased Simplified Issue DI issue limits (requires purchase of Thrivent life insurance)
Revisions to Underwriting Process or Requirements
Introduced a streamlined underwriting process
Offered nonmedical underwriting in California
Prequalified individual life sales for IDI
Simplified underwriting program for eligible applicants
Streamlined medical underwriting requirements
Increased GSI offer amounts
Revised multi-life offering
Electronic Applications
Continued enhancements to electronic application
Enhanced our electronic application.
Revisions to Occupation Class Assignment
Improved occ classes for some occupations
Upgraded several physician specialties
Product Revisions
Introduced a new product designed for simplified UW
Introduced a new product with flexible features
Introduced a residency discount

Favorable trends in the IDI market

Contributors were asked to list favorable trends that they are seeing in the IDI market. Figure 39 lists the responses.

Figure 39: Observed Favorable Trends in the IDI Market
Improving Sales and Distribution
More submitted business and more sales over most recent 4-5 months
Higher sales volume in the fully underwritten block
New distribution opportunities more willing to expand product portfolio
Strong sales growth
Increased focus on recurring premium risk products
Growing penetration with distribution
New relationships are also contributing to increasing sales
Continued sales growth
Focus on training and education of producers on IDI, three in-house DI specialists to focus on DI vs. other internal life wholesalers
Increase in nonmedical occ sales offset by slight decrease in medical occupation sales
Growth from national accounts
New product is generating an increase in sales
Using financial planning approach to sell IDI policies
Growing interest in return of premium riders
More interest in business overhead expense
Experience
Termination rates continue to be higher
Incidence rates continue to be lower
Incidence continues to remain low
Good loss ratios past 15 months
Good persistency
Claims continue to be very favorable
Strong claims department
Interest rates trending up
Other Trends
Additional management support and focus
Met Life exiting IDI business
The time to process applications is decreasing thanks to technology
Strong enrollment system for multi-life
Improved technology, e.g., online quoting

Unlike prior years, observations regarding favorable sales and distribution trends were more common. Observations regarding favorable claim experience trends were also frequently mentioned. One company noted the exiting of MetLife as a favorable trend, which presumably is in reference to the individual sales opportunities that MetLife’s departure from the individually sold market presented to other IDI companies.

Unfavorable trends in the IDI market

Contributors were asked to list the unfavorable trends that they are seeing in the IDI market. Figure 40 lists the various responses.

Figure 40: Observed Unfavorable Trends in the IDI Market
Sales Growth and Mix
High percentage of sales to medical occupations
Medical market is both highly competitive and highly penetrated
Increasing proportion of sales in medical occupations
Competing priorities with larger markets
Competitive changes
Sales have not met our expectations
Client belief that IDI not necessary (e.g. "I have group coverage, don't need more")
Stagnant industry growth
Commodity mindset with consumers
Low placement rates
Distribution
Lack of distribution asking consumers about income protection
Producer belief that IDI not necessary or too complicated, or lack of knowledge of how to sell IDI
Lack of distribution focusing on middle income DI clients
Agent force is aging and younger agents are harder to attract to DI
Aging client base with focus on retirement not protecting current earnings
Aging agent force with less emphasis by new agents
Distribution growth
Claims and Persistency
Higher claim costs in the fully underwritten block
Our systems limitations make it difficult to get good claims data for experience studies
High lapse rates
Strong persistency of older block
Interest Rates
Declining portfolio yields and low interest rates (mentioned four times)
Underwriting
Aggressive underwriting guidelines
Aggressive GSI offers
Increase in rate of underwriting declines
Other
Exit of large IDI carrier from individual segment of the market

Many of these observations pointed out the slow growth in the IDI market or the disproportion of sales to the medical occupations. Compared to prior years, there were fewer comments regarding excessive competitive activity in the IDI market. One company noted the exiting of MetLife as an unfavorable trend, which may be referencing the long-term impact of having one less competitor in the IDI market.

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

Contributors were asked to list obstacles in the IDI market that could impede future growth and profitability. Figure 41 lists the various responses.

Figure 41: Obstacles to the Long-term Financial Health of the IDI Market
Distribution
Lack of agent training for IDI
Difficulty attracting younger agents and consumers makes growth challenging
Aging IDI producers (mentioned four times)
Lack of succession planning among IDI producers
Young producers focusing on asset management products and not IDI
Producers not engaged
Market
Market size and achieving scale within a company
Inability to expand markets outside traditional occupations
Reaching and selling to new and underserved markets
Concentration of sales in traditional DI markets
Stagnant industry growth
Lack of consumer awareness
Consumers recognizing the need for IDI
Regulators
Changing regulatory environment
Regulatory climate
Product Development
Lack of innovation
Lack of product innovation
Risk Management
Possible excessive liberalization of underwriting with automation and other streamlining efforts
Profitability challenges in the voluntary GSI business
Intense competition leading to relaxed risk controls
Economy
Low interest rates (mentioned five times)
Potential future economic downswings
Other
Met Life exiting IDI business
Short-term view
Potential impact of government-sponsored plans under health care reform

Some of the more common obstacles mentioned among the contributors were aging IDI producers, lack of interest in IDI among younger producers, and the difficulties of expanding the IDI market beyond the traditional occupations. Low interest rates were mentioned multiple times.

Opportunities for growth

Contributors were asked to list opportunities for long-term growth in the IDI market. Figure 42 lists the various responses.

Figure 42: Opportunities for Growth in the IDI Market
Nonmedical Market
Middle market
Mid income, white collar
Upper middle market
Self-employed
Skilled trades
Non-physician professionals
Professional occupations
Sales linked to a financial plan
Small and medium sized businesses
Business market
Employer-Sponsored Market
Employer sponsored multilife (mentioned twice)
Workplace marketing
GSI market
Mandatory GSI
Medical Market
Medical associations
Doctors
Non-surgical physicians
Medical residency programs
Distribution
Dedicated wholesalers specializing in IDI to simplify process & educate agents
Younger producers
Other
Millennials (mentioned three times)
New York
Life insurance owners
Multi-cultural
Direct to consumer
Increased focus on recurring premium risk products

Although several contributors mentioned the ESML market, there appears to be more interest in expanding the nonmedical occupation market than observed in prior surveys.

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 43 lists the various responses.

Figure 43: Changing Claim Patterns in the IDI Market
We had experienced a slight up-tick in our loss ratios in 2014 and 2015. This reversed in 2016 and so far in 2017
Claim patterns have been stable
Higher claim costs in the fully underwritten block
More volatility in claim incidence
Increasing claim incidence - not tied to any particular occupation / market segment
Unfavorable claim termination experience
Fewer litigated claims

This year, there were relatively few observations regarding changes in IDI claim patterns, indicating that overall companies' claim experience may be running fairly close to their expectations.

Section VII: Implementation of the 2013 IDI Valuation Table

In August 2016, the National Association of Insurance Commissioners (NAIC) adopted the 2013 IDI Valuation Table as the new statutory minimum reserve basis for IDI policies and claims, replacing the 1985 Commissioner Individual Disability A and C tables. Companies may implement the table as early as 2017, but no later than 2020. The 2013 IDI Valuation Table is more complex than the older tables, with the introduction of a separate class for medical occupations and claim incidence and termination rate modifiers. We asked the survey contributors a range of questions this year regarding their implementations of the new valuation table. All 14 contributors responded.

Describe your company's IDI active life and claim reserve systems.

Some companies have built their own active life and claim reserve systems, while others have purchased their reserve systems from software vendors or third-party administrators (TPAs). Companies acquiring software for reserve systems may be responsible for maintaining the systems themselves, or maintenance may fall totally on TPAs. Where a TPA maintains the systems, companies will still need to pass the appropriate policy and claim data to the TPA, including assignments to the new occupation class structure.

Figure 44 describes the origin and maintenance of the active life and claim reserve systems among the survey contributors. For a majority of companies, TPAs or vendors developed their reserve systems, including three companies that currently maintain the purchased systems.

Figure 44: Active Life and Claim Reserves

Description of Reserve Systems	Active Life Reserves	Claim Reserves
Our system was developed by our company and is maintained by our company	4	5
Our system was developed by a TPA and is maintained by the TPA	7	6
Our system was developed by a TPA (or vendor) but is maintained by our company	3	3
Total	14	14

Describe your company's IDI claim termination rate study system.

The actuarial guidelines accompanying the 2013 IDI Valuation Table require that companies measure their claim termination rate experiences relative to the new table at least annually and apply credibility adjustments to the new table's claim termination rates to reflect company experience. As a result, companies must modify their claim termination rate study systems to use the 2013 IDI Valuation Table as the expected basis. Thirteen of the 14 contributors have developed their own claim termination rate study systems, and one is working to complete the system. Figure 45 shows how many companies have already studied their own experience of claim termination rates relative to the 2013 IDI Valuation Table.

Figure 45: Claim Termination Rates Experience and the 2013 IDI Valuation Table

Have studied own experience relative to 2013 IDI Valuation Table	# of Companies
Yes	6
No	4
Currently working on it	4
Total	14

When does your company plan to implement the 2013 IDI Valuation Table?

Figure 46 shows the years that the 14 companies are planning to implement the 2013 IDI Valuation Table.

Figure 46: Planned Implementation Years

Year of Implementation	# of Companies
2018	3
2019	3
2020	4
Do not know	4
Total	14

Does your company plan to implement the retroactive provision of the new regulation that allows companies to apply the new table to all policies and claims?

When there is a new statutory minimum reserve basis adopted by the NAIC, companies apply the new basis to all IDI policies issued on or after their selected effective dates and all IDI claims incurred on or after the effective dates (regardless of the policy issue date). The new NAIC regulations allow companies to either implement the new table based on their selected effective dates (between 2017 and 2020) or use a retroactive provision that allows companies to apply the new table to all IDI policies and claims. Figure 47 shows whether the 14 companies are planning to invoke or are considering the retroactive provision.

Figure 47: Consideration of Retroactive Provision

Planning to Use the Retroactive Provision	# of Companies
No	4
Yes	1
Have not discussed it	5
Currently discussing it	3
No response	1
Total	14

Describe the current status of the 2013 IDI Valuation Table implementation process at your company

Figure 48 summarizes the status of the 2013 IDI Valuation Table implementation process among the 14 companies around May or June of this year. One company noted that its TPA has completed making the necessary changes to its valuation systems; one noted that its TPA had not begun making the changes, and two companies that maintain their own systems noted they had not begun the implementation process. The other companies or their TPAs are currently working on implementation.

Figure 48: Current Status of Implementation Process

Current Status of Implementation Process	# of Companies
Our TPA has completed making changes to its valuation systems to comply with 2013 IDI Valuation Table.	1
Our TPA is currently working on changing its valuation systems to comply with 2013 IDI Valuation Table.	4
Our TPA currently has not begun updating its valuation systems to comply with 2013 IDI Valuation Table.	1
My company has completed making changes to our valuation systems to comply with 2013 Valuation Table.	0
My company is currently working on changing our valuation systems to comply with 2013 IDI Valuation Table.	6
My company currently has not begun updating its valuation systems to comply with 2013 IDI Valuation Table.	2
Total	14

Describe issues your company is having regarding the implementation of the 2013 IDI Valuation Table.

Figure 49 lists 17 issues that are complicating or delaying the implementation process among the 14 companies. Four of the issues pertain to the difficulties of prioritization and obtaining the necessary IT support.

Figure 49: Implementation Issues
With the expanding of classifications, researching if we have the information on our current extracts
Need to complete baseline study first
Need a new valuation system
Not far enough along with implementation to have identified issues
Developing experience studies
Updating valuation extracts
Waiting for TPA to implement
Waiting for our software vendor to add the table to the valuation system
Need claim termination rate study system
Timing
Fitting the new table structure into existing systems
Our system does not capture the necessary claims details well, making termination rate studies challenging
Complexity of the new table
Having resources to work on it
Limited IT support
Limited actuarial staff and other projects have been assigned higher priority
Other priorities