

State of the Individual Disability Income Industry

Actuaries' Club of the Southwest
Fall Meeting 2009

Steve Miller
Vice President



www.disabilitymanagementservices.com

Agenda

- IDI Industry Today – A Macro View
- Profitability Trends
- Sales Trends
- Demographic Trends
- Legislative and Regulatory Issues
- Challenges for a Bright Future

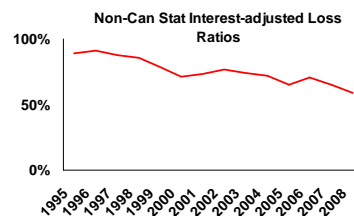
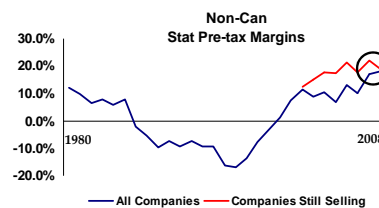
Individual DI Industry Today

1. Restored and sustained profitability
2. Modest sales growth
3. Underpenetrated consumer base
4. Demographics suggest an increasing need for coverage
5. Limited product development and innovation
6. Distribution expansion and diversification needed

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Restored and Sustained Profitability

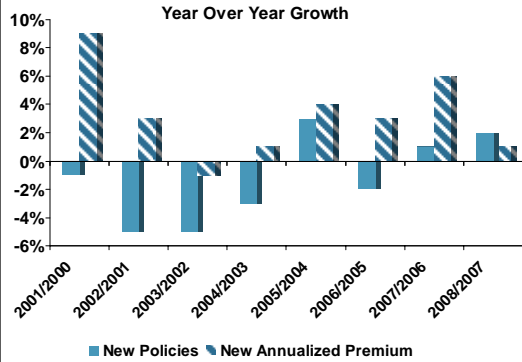
- The Return to Profitability: 1995 to Present
 - 1990's exit of insurers and consolidation
 - Increased premiums
 - Greater risk management discipline
 - Tighter underwriting
 - Investment in claims management
 - Restructure of product features and benefits to reduce risk
- Improved claim incidence in late 1990's. Continued favorable claim experience despite recession.
- Non-can profit margins have steadily increased since 1995 and are at historically high levels today for active insurers.
- NII yield on mean reserves has been generally dropping last 20 years despite increase in 2007.
- Guaranteed Renewable business has shown less volatility.



Source: Milliman Disability Newsletter, October 2009

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Individual DI Sales Trends



- Average annual growth of new premium from 2002-2008 is less than 2%
- Much of premium growth attributed to larger average benefit and premium per policy sold

	2002	2009 Q2
Non-Can	\$1,254	\$2,022
Guaranteed Renewable	\$569	\$586

Insurers	Market Share	
	2002	2008
Top 5	64%	70%
Top 10	87%	95%
Top 15	97%	99%

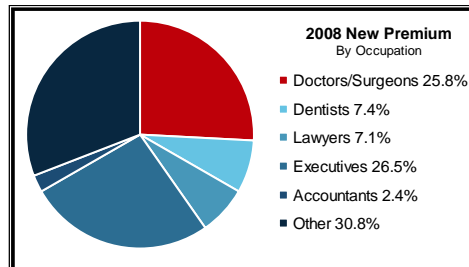
Measured by new annualized premium

Source: LIMRA U.S. Sales Survey

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Sales Trends

- Economic recession had a negative impact on sales activity in 2008 and 2009
 - Non-Cancelable premium down more than guaranteed renewable
- Share of premium sold to Doctors and Surgeons steadily increased from 2002 to 2008
- Employer Sponsored Multi-life sales 30 – 35% of new premium sold
 - 60% Employee Pay (44% GSI)
 - 40% Employer Pay



Source: Milliman Individual Disability Income Insurance 2009 Survey
LIMRA 2008 Sales Survey

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Sales Trends

- I & P limits have been increasing over the last several years

Median Issue Limit: \$15,000	Highest Issue Limit: \$20,000
Median Participation Limit: \$25,000	Highest Participation Limit: \$30,000

- Personal insurance the primary product sold

Product Type	
Personal	95%
Overhead Expense	3%
Buy/Sell	1%
Key Person	+
+ less than ½ of 1 percent	

- Some Simplified Issue Programs introduced

Source: Milliman Individual Disability Income Insurance 2009 Survey

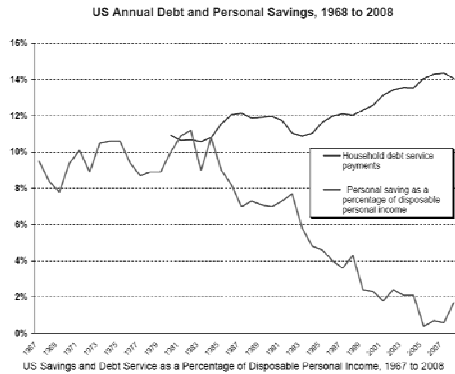
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Product Development Trends

- Limited new product introductions and innovation
- Unbundling of features
- Unemployment Waiver of Premium riders increasing in popularity
- Increased Benefit Limits
 - I & P limits for base product
 - Catastrophic Benefit Rider
 - Retirement Trusts
- Upgrades in occupation class for medical professionals
- Living benefits on Life insurance products
 - Disability
 - Critical Illness
 - LTC
 - Unemployment

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Personal Long Term Financial Security is Uncertain and at “Risk“



Source: Minnesota Private College Research Foundation analysis of US Department of Commerce, Bureau of Economic Analysis Data.

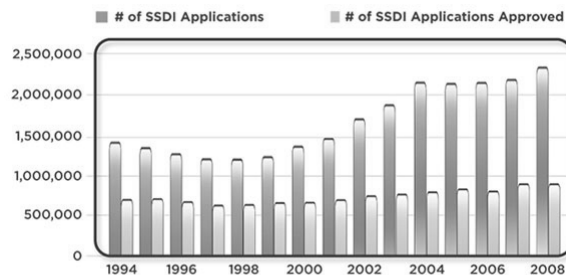
- Ability to earn a living is most consumers' most valuable asset
- Risk for personal financial security shifting to the individual – creating greater dependence on income
 - » Longer Life expectancy
 - » Longer working careers
 - » Greater responsibility for retirement planning
 - » Greater debt
 - » Lower savings
 - » Uncertainty of Social Security

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Rate of Worker Disability Continues to Rise at an Increasing Rate

Social Security DI Trends 1998 - 2008

- 154,000,000 Covered workers +15%
- 7,430,000 Total disabled workers +58%
- 890,000 New disabled workers in 2008 +46%
- 2,320,000 Applications +98%
- Average Backlog 17 mths.
- 37% Increase in rate of disability



Source: U.S. Social Security Administration

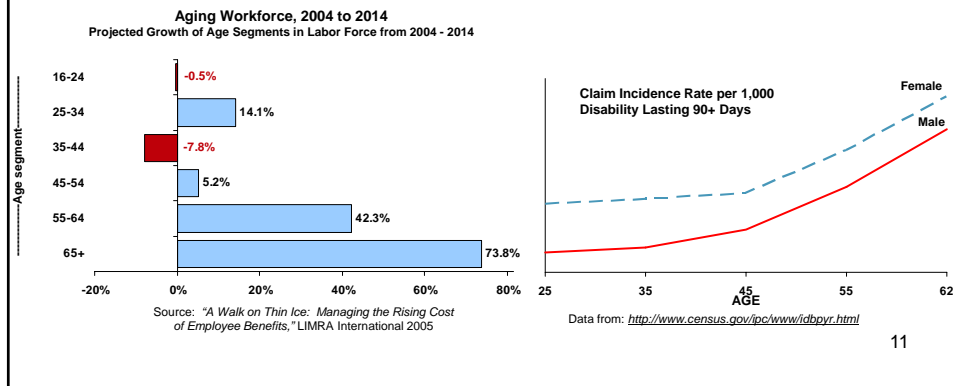
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Employers Starting to Focus on Employee Health and Wellness to Drive Productivity and Bottom Line

Cost to U.S. Employers

Medical Costs	\$268,539/100 workers
Direct Disability Lost-Time Costs	\$91,360/100 workers
Direct & Indirect Disability Lost-Time Costs	\$458,150/100 Workers

Source: *Defining the Impact of Disability, Lost Time and Medical Costs, Unum 2003*



Regulatory and Legislative Issues

- Health Care Reform
 - CLASS Act
 - Employee Benefits
 - Agents/Brokers



- State Regulatory Issues
 - Benefit Offsets
 - Discretionary Clauses
 - Pre-existing Conditions
 - Interstate Compact
 - Independent appeal review

Challenges for a Bright IDI Future

- Increasing consumer awareness of long term disability risk and its financial impact
- Diversification and expansion of DI distribution
- Product & process simplification
- Leveraging technology to reduce expenses and streamline operations
- Responsible risk management of Voluntary GSI
- Balance of top and bottom line performance

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DISABILITY PERCEPTIONS VS. REALITY

According to Council for Disability Awareness . . .

90% of workers grossly underestimate the chances of becoming disabled and the potential length of disability

Perception

- Most disabilities are caused by accidents
- Most disabilities are work related
- 58% of adults say they are covered by disability insurance

Reality

- ➡ 90% of disabilities are not accident related
- ➡ Only 10% of disabilities are work related
- ➡ Only around 30% have long term protection

The Bottom Line: Three out of 10 workers between 25 and 65 will experience a Long Term Disability.

Source: U.S. Safety Council; Cornell University 2005 Disability Status Report, CDA 2008 Disability Claim Study, AHIP Survey 2004

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Producer Perspectives on Individual Disability Insurance Voices From the Field LIMRA, 2009

Why Producers Don't Sell DI

"Underwriting is still the major issue here, and until that is improved, we will still see relatively few advisors working in this arena. Too bad"

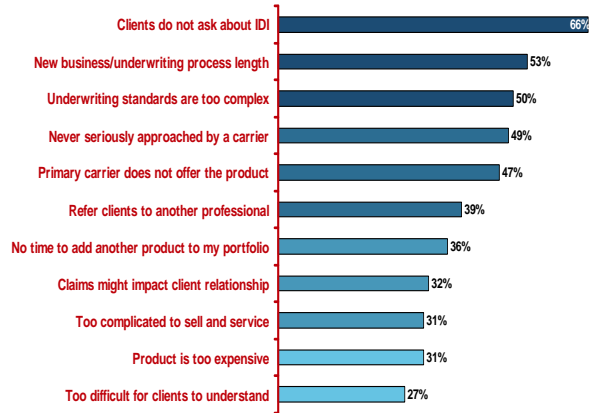
- IDI, Seller

"Disability is greatly needed in the industry, but it is often too complex, not well understood, and underwriting is too strict often frustrating potential buyers."

- IDI Non-Seller

"Wow, I get weekly solicitations to change firms, but not once in 12 years has any carrier bothered to attract my interest in their DI product."

- IDI Non-Seller



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The Bells & Whistles of a "Cadillac" DI Product

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Cost of Living Adjustment ▪ Future Insurance Option ▪ Social Insurance Supplement ▪ Residual Disability ▪ Catastrophic Benefit ▪ Own Occupation Rider ▪ Automatic Benefit Increase ▪ Recovery Benefit ▪ Group Supplement Rider ▪ LTC Conversion Options | <ul style="list-style-type: none"> ▪ Retirement Income ▪ Return of Premium ▪ Transitional Own Occupation ▪ Unemployment Waiver of Premium ▪ Critical Illness ▪ Extended Total Disability Benefit ▪ Hospital Indemnity ▪ Retroactive Injury ▪ Presumptive Disability ▪ HIV Benefit |
|--|---|

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Product & Process Simplification as a Driver to Distribution Expansion

Need to deliver

- Simplicity
- Affordability
- Ease of New Business Process
- Integration with other products



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Middle Income Market Attributes

- Product
 - Guaranteed Renewable
 - Fewer occupation classes
 - Age banding
 - Lower benefit amounts
 - Simplified policy language
 - Limited Riders available
 - » Return of Premium
 - » Catastrophic Disability
 - » Critical Illness
- Sales Process
 - Simplified issue underwriting
 - Flexibility to be packaged with other products
 - Short form supplemental application or stand-alone application

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