

**Southeastern Actuaries Conference Annual Meeting  
Loews Vanderbilt Hotel, Nashville, TN  
November 18-20, 2009**

***State of the Disability Income Market: Impact of  
the Economy***

*Andy Castillo, Vice President & Actuary*

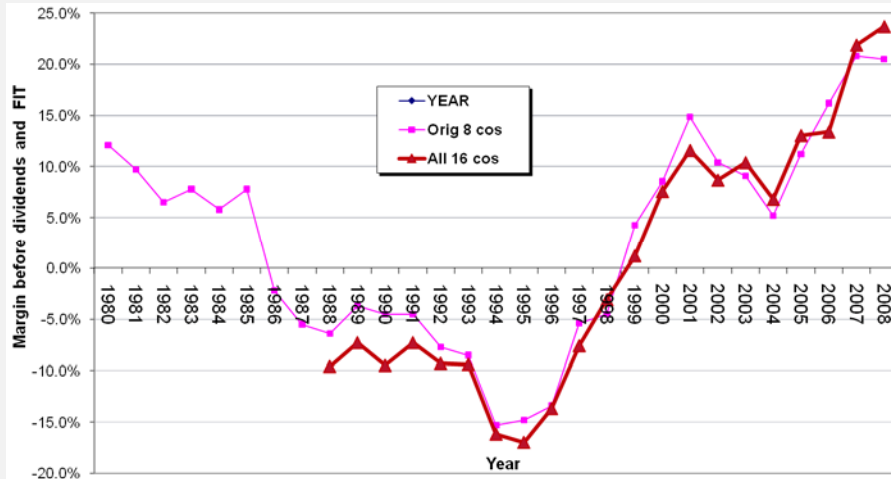


**Agenda**



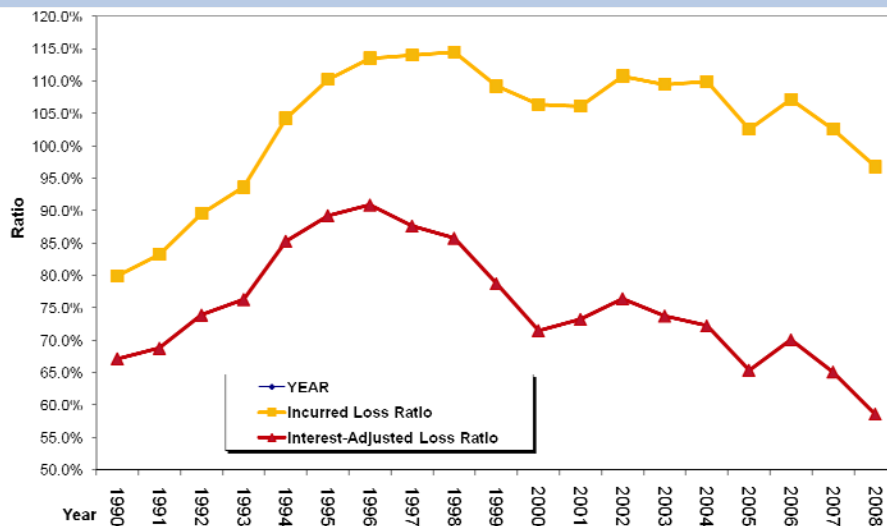
- *Current state of the individual disability income market*
- *Impact of recession on claims experience*
- *Challenges and Opportunities*

## Statutory Pre-tax and Pre-dividend Margin



Source: Disability Newsletter – October 2009  
Non-Can DI: 2008 Financial Results by Mark S. Seliber, FSA with W. Duane Kidwell, FSA

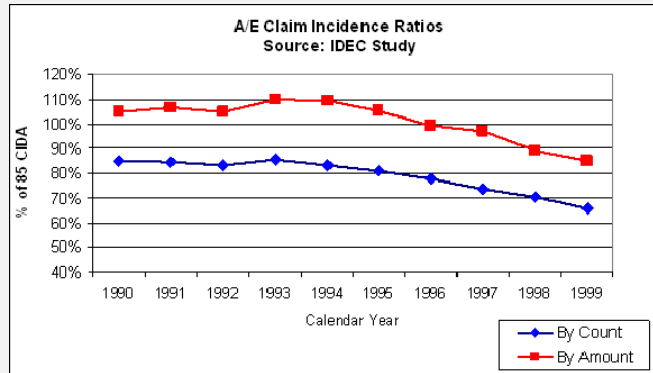
## Statutory Incurred Loss Ratios



Source: Disability Newsletter – October 2009  
Non-Can DI: 2008 Financial Results by Mark S. Seliber, FSA with W. Duane Kidwell, FSA

## Individual Disability Income - Claims

### Claim Incidence Trends During the 1990's

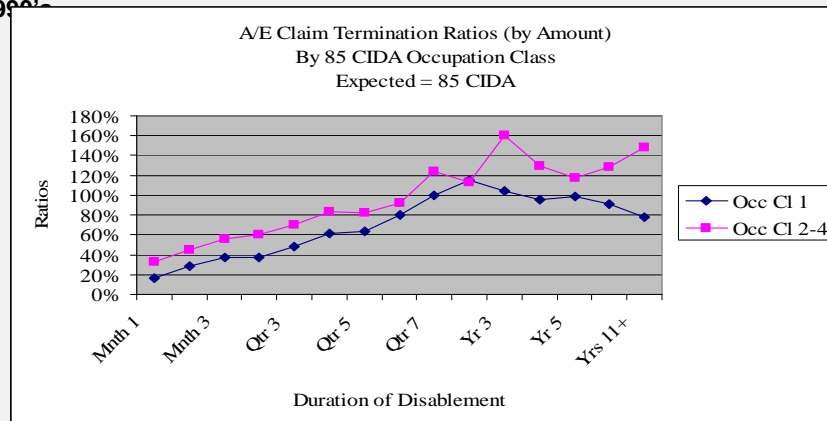


- Since mid-1990's improving claim incidence.
- Trend has continued after 1999.

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## Individual Disability Income - Claims

### Claim Termination Trends During the 1990's



- Claim termination rates in early claim durations lower than expected

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## Individual Disability Income – Market Activity



### In Force Results for 2007 and 2008 New Issue Sales

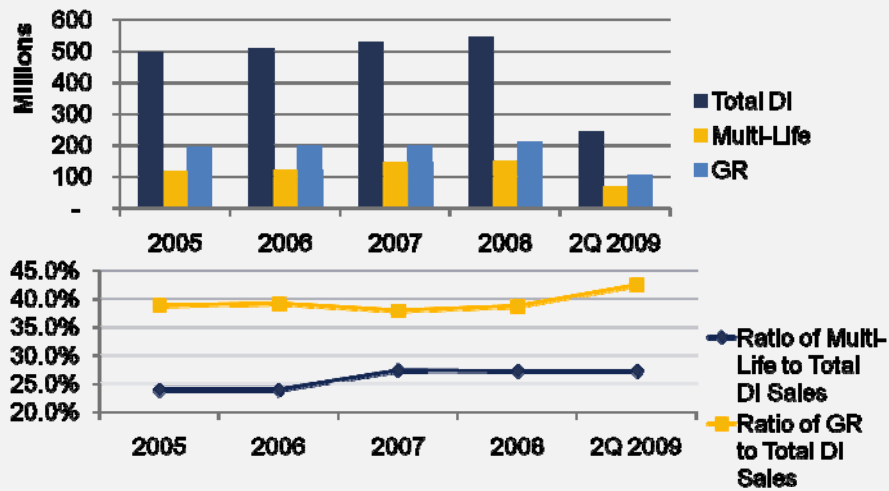
	# of Policies	Growth Rate 2007-2006	Annualized Premiums	Growth Rate 2007-2006
NC In Force	2,627,838	0%	\$3,802,933,134	3%
GR In Force	1,524,427	2	931,625,132	5
<b>Total</b>	<b>4,152,265</b>	<b>1%</b>	<b>\$4,734,558,266</b>	<b>4%</b>
	# of Policies	Percent Change 2008-2007	Annualized Premiums	Percent Change 2008-2007
NC Sales	174,151	-1%	\$334,386,362	2%
GR Sales	335,488	4	211,186,357	6
<b>Total</b>	<b>509,050</b>	<b>2%</b>	<b>\$545,388,077</b>	<b>3%</b>

2008 In Force not available

LIMRA Annual Review 2007 and Fourth Quarter Review 2008

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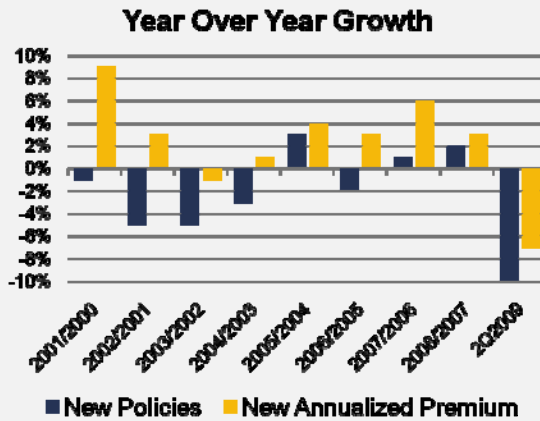
## Individual Disability Income – Market Activity Premium Sales



Source: LIMRA

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## Individual DI Sales Trends



	Average New Issue Premium Per Policy			
	2005	2006	2007	2008
Non-Can	\$1,684	\$1,805	\$1,862	\$1,920
Guaranteed Renewable	\$558	\$584	\$619	\$629

	Average New Issue Monthly Benefit Amount Per Policy			
	2005	2006	2007	2008
Non-Can	\$4,030	\$4,185	\$3,682	\$4,463
Guaranteed Renewable	\$1,376	\$1,452	\$1,532	\$1,588

	Top 5 Companies Share of New Issue Measured by New Annualized Premium			
	2005	2006	2007	2008
	64%	65%	67%	69%

Source: LIMRA

## Individual Disability Income



### Premium Growth Rates 2Q 2009

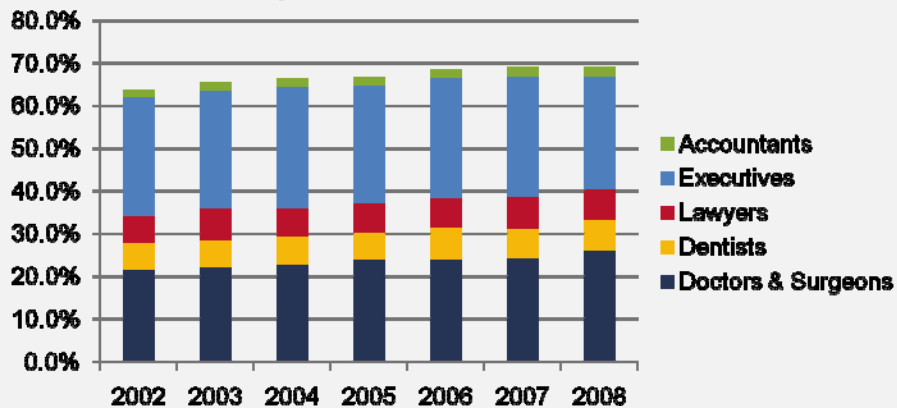
	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	YTD 2009
UL	0%	↓12%	↓23%	↓32%	↓27%	↓29%
Term Life	↓2%	0%	↓3%	↓4%	↓3%	↓3%
Variable Annuities	↓12%	↓18%	↓30%	↓27%	↓24%	↓26%
Fixed Annuities	↑46%	↑45%	↑79%	↑71%	↑9%	↑38%
Individual LTC	0%	↓6%	↓23%	↓34%	↓28%	↓31%
Individual DI	↑7%	↑6%	↓3%	↓4%	↓20%	↓11%

The numbers reflect the % growth as compared to the same quarter of the previous year

Source: LIMRA International

## IDI Sales Trends - Occupations

### Distribution of New Premium Among Key Occupations For Years 2002 to 2008



Milliman IDI 2009 Survey of the U.S. Market

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## Individual Disability Income

Few IDI carriers remaining after the 1990's

Number of IDI carriers during the 1990's	75
Number of IDI carriers exiting market	50
IDI carriers gone due to mergers	5
New entrant	1
Remaining IDI carriers	21

Partial source: Milliman, Mr. Robert Beal FSA presentation IDIS 2009

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## Product and other Market Trends



- I & P limits have been increasing over the last several years
  - Issue limits moving up from \$10-15k to \$15-20k
  - Participation limits moving from \$20-25k to \$25-30k
  
- Upgrades for certain medical occupations
  
- Multi-life sales – voluntary GSI
  
- New rider forms –
  - Catastrophic benefit riders
  - Retirement trusts
  - CI benefits

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## Current State of the Individual Disability Income Market - Summary



- Sustained Profitability
- Modest Growth
- Few Carriers
- Limited and Aging Distribution
- Lack of Diversification
  - –by occ, target market
- Limited product innovation
  - 1990's wave: ADL, LTC conversion/integration, Retirement trusts
  - Nothing significant in the 2000's
- Increasing Issue & Participation Limits

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### ...the curious incident of the dog in the night-time...

Colonel Ross still wore an expression which showed the poor opinion which he had formed of my companion's ability, but I saw by the inspector's face that his attention had been keenly aroused.

"You consider that to be important?" he [Inspector Gregory] asked.

"Exceedingly so."

"Is there any point to which you would wish to draw my attention?"

"To the curious incident of the dog in the night-time."

"The dog did nothing in the night-time."

"That was the curious incident," remarked Sherlock Holmes.

*The Memoirs of Sherlock Holmes (1893)*

Inspector Gregory and Sherlock Holmes in "Silver Blaze" (Doubleday p. 346-7)

### CDA Survey Findings: Summary of Key Findings from Proprietary CDA Member Company Data

- **\$7.9 billion** in long-term disability insurance claim payments were made to disabled individuals by CDA member companies in 2008; disability claim payments by CDA member companies have increased by an average of **4%** annually since 2004.
- **Impact of the economic downturn on disability claims:** Almost without exception, CDA member companies report the 2008-2009 economic downturn has not impacted disability claims as of the reporting date. The companies were rather consistent in predicting a moderate impact on claims in future months.
- **Impact of the economic downturn on worker psyche:** The economic downturn has raised awareness of economic vulnerability and the resulting importance of taking responsibility for planning for personal financial security. Eroded savings, a negative economic outlook and less secure employment have raised the American workers' awareness of financial risk and made planning for an income-limiting disability more important than ever.

Source: "The 2008 CDA Long-Term Disability Claims Review"  
Council for Disability Awareness: [www.disabilitycanhappen.org](http://www.disabilitycanhappen.org)

## “Great Recession”

- Last two recessions recorded in history are:
  - July 1990 to March 1991
  - March 2001 to November 2001
  
- The current recession is said to have started in December 2007
  - Housing Bubble, Subprime Loan Losses
  - Rise in oil and food prices
  - MBS, CDO, CDS
  - Inadequate regulation and oversight
  - Unemployment, Consumer Confidence

## Great Recession and Life/Health Insurance

### Impact on Ratings

- The global economic crisis took a toll on ratings and outlooks.
- In 2008, rating actions for the life/health industry were overwhelmingly negative, with 43 rating downgrades vs. only 14 upgrades.
- Positive rating actions were primarily driven by changes in ownership or the recognition of a company's more prominent role within an insurance group, as determined by A.M. Best Co.
- While investment impairments were not a primary cause of rating downgrades of health insurers, most companies were impacted by lower investment income.

## Capital

- Capital levels do seem to have fallen, mostly as a result of the financial crisis.

## Reinsurers

- Reinsurers saw some lost of capital as well but January renewals have shown that the reinsurance industry has emerged substantially unscathed by the turmoil in the global capital markets.

## Primary Insurers

- Traditional buyers of reinsurance are looking to buy a *lot* ~~little bit~~ more if that means they can liberate some capital off their balance sheets to use for other things.
- Primary insurance companies are beginning to consider increasing their demand for reinsurance as they explore buy-downs and other reinsurance mechanisms to protect and enhance their capital positions.

# 2008 Mega-deals

Ceding Company	Type	Eff Date	Company Name	Type Reins Ceded	Amt Inforce End of Year
Security Life Of Denver Ins Co	Sale	31-Dec-04	SCOTTISH RE (U.S.) INC	YRT/I	310,487,862,784
Hartford Life & Accident Ins Co	GL Fin	1-Dec-08	Canada Life Assurance Company (US Branch	YRT/G	289,566,814,359
RGA Reins Co	XXX fin	31-Dec-03	UNION HAMILTON REINSURANCE LIMITED	COFWI	248,291,125,813
Lincoln Natl Life Ins Co	IL Fin	31-Dec-08	SWISS REINSURANCE COMPANY LTD	COFWI	224,188,786,663
Aetna Life Ins Co	GL Fin	1-Oct-08	Hannover Life Reassurance Company of Am	COFWG	218,423,905,000
Lincoln Natl Life Ins Co	Sale	1-Dec-01	SWISS RE LIFE & HEALTH AMERICA, INC.	COI	147,555,831,369
American United Life Ins Co	Sale	1-Jul-02	EMPLOYERS REASUR CORP	COI	130,573,756,414
RGA Reins Co	XXX fin	30-Jun-07	ALSECUREUS LIFE INSURANCE PCC LIMITED	COFWI	120,085,104,987
Employers Reassur Corp	???	31-Dec-02	MANULIFE REINSURANCE LTD	YRT/I	109,086,448,042
Metropolitan Life Ins Co	Sale	1-Oct-08	RGA REINSURANCE COMPANY	COI	106,543,542,361
Unum Life Ins Co Of Amer	GL Fin	1-Oct-00	HANNOVER REINSURANCE (IRELAND) LIMITED	COFWG	103,921,748,100
Unum Life Ins Co Of Amer	GL Fin	1-Oct-00	SCOR GLOBAL LIFE	COFWG	103,921,748,100
Employers Reassur Corp	???	31-Dec-07	RGA REINSURANCE CO (BARBADOS) LTD	YRT/I	99,763,073,524

Source: 2008 Schedule S Ceded – non-affiliated \$100 B of face ceded

### ➤ LIMRA Nov 2008

- poll of insurance executives of impact of economy on individual products:
  - Impact on sales
    - UL ↓      VUL ↓↓
    - Fixed annuities ↑↑↑ Variable annuities ↓↓↓
    - LTC ↓↓      DI ↑
  - Poll of independent producers
    - optimistic but confidence shaken (AIG, executive compensation, etc)
  - Consumers are worried, uneasy and shaken → return to basic fixed protection products??

- Why is it not easy to determine the impact of an economic downturn on US private disability insurance business?
  - US insurers are not required to publish any incidence or recovery data
    - Loss ratio analysis is complicated by the setting of reserves
  - Economic impact is not uniform across geographical regions, industries, or occupations
    - Insurers have different business mix
      - Individual Disability – typically marketed to doctors, lawyers, small business owners and high end professionals
      - Group LTD – depends on where the business is concentrated
  - Difficult to determine if income loss is due from economic causes or from medical causes

“Why are we concerned about impact of economic downturn on disability experience?”

**“There is, very simply, a direct interrelationship between how much of a person’s income is insured, how often he or she will be disabled, and how long that disability will last.”** – Charles Soule , “Disability Income: The Unique Risk, Fifth Edition, Bryn Mawr, PA: The American College. 2002”

- Disability a personal decision?
  - Job stress; job security ; job satisfaction; work ethic/social attitudes
- Social Insurance disability programs
- Company practices
  - Underwriting important!!
  - Claims adjudication practices

- Expectations vs. Reality
  - Increase in Incidence
    - Expectation: Economic downturn will invite more claims submissions
  - Lengthening of claim durations
    - Expectation: Existing claims will stay on claim longer
- Reality
  - What our clients are saying
  - What our experience is indicating
  - Empirical Evidence

## Impact of the “Great Recession” on Individual Disability Income - Summary



- So far, negligible impact on claim incidence and terminations
  - still expect increased claims incidence and lower claim terminations
- Higher Lapses
- Vigilance on underwriting and claims practices
  - specific UW actions on certain occupations (real estate and related industries and financial services)
- Flat to negative sales growth
  - more competitive pressures

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## Individual Disability Income – Challenges and Opportunities



- Great Recession
- Sustainable Profit Growth
  - Responsible, prudent risk management
- Too few IDI carriers
  - Reputation of the product
  - High capital requirements and front –end costs
  - Requires investment in expertise and infrastructure development
- Limited/Aging Distribution
- Narrow Market
  - Targeting a narrow range of occupations (example: medical)
- Complicated Product
  - Balance of cost, product sophistication, underwriting
  - Simplify product and process

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**Questions...**

**...and thank you for your attention.**



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