

MILLIMAN RESEARCH REPORT

UNIVERSAL LIFE, INDEXED UNIVERSAL LIFE, AND VARIABLE UNIVERSAL LIFE ISSUES

2020/2021 Survey: Key discoveries

July 2021

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Background

Universal life (UL), indexed universal life (IUL), and variable universal life (VUL) have played a significant role in the life insurance market for many years. In the last 10 years, the market share of these UL-type products combined has consistently been in the range of 41% to 47%¹ of total life sales measured by first-year premium. (Throughout this report, IUL and VUL products are not included when using the term “UL.”) In 2020, Milliman conducted its 14th annual comprehensive survey aimed at addressing UL, IUL, and VUL issues, and to provide carriers with competitive benchmarking to evaluate where they stand relative to their peers. (Note: The scope of the survey was expanded in 2020 to include VUL products.) Survey topics and questions were determined based on input from Milliman consultants, as well as participants in the prior year’s survey. The survey is updated annually to include current topics of interest. The following sections were included in this year’s survey:

- Sales: UL, IUL, VUL, Sales with Chronic Illness Riders, Sales with LTC Riders
- Profit Measures
- Target Surplus
- Reserves
- Risk Management
- Investments
- Underwriting
- Product Design
- Compensation
- Pricing
- Illustrations

The survey was sent via email to UL/IUL/VUL insurance companies on October 30, 2020; 28 companies submitted responses. Input from survey participants relates to the UL/IUL/VUL environment in late 2020. Data does not reflect the current interest rate environment.

Nothing included in this document may be used in any filings with any public body, such as, but not limited to, the U.S. Securities and Exchange Commission (SEC) or state insurance departments, without prior consent from Milliman. Milliman relied upon the data provided by the survey participants and did not perform independent audits of the data, although we did review the data for general reasonableness and consistency. Any observations made may not necessarily be indicative or construed as representative of the entire UL/IUL/VUL market.

¹ According to LIMRA’s U.S. Retail Individual Life Insurance Sales reports.

Survey information

Survey participants reported total combined individual UL, individual IUL, and individual VUL sales of \$3.5 billion, \$3.6 billion, and \$2.4 billion respectively for calendar years 2018, 2019, and for 2020 as of September 30, 2020 (YTD 9/30/20). Note that, unless noted otherwise throughout this report, single-premium sales are included at 10% of actual premium on those policies. *UL sales during YTD 9/30/20 accounted for 28% of total UL/IUL/VUL sales combined (reported by survey participants) during YTD 9/30/20, decreasing from the 37% of total sales it represented in 2018. IUL sales during YTD 9/30/20 accounted for 61% of total UL/IUL/VUL sales combined, increasing from the 54% of total sales it represented in 2018. VUL sales during YTD 9/30/20 accounted for 11% of total UL/IUL/VUL sales combined, increasing from the 9% of total sales it represented in 2018.* Sales in 2020 were likely impacted by the low interest rate environment, as well as challenges triggered by the pandemic. This was especially true for UL sales and, to a lesser extent, for IUL sales.

Of the 28 survey participants, 13 reported UL, IUL, and VUL sales, five reported UL and IUL sales, four reported UL sales only, another four reported IUL sales only, and two reported UL and VUL sales.

The following three sections include further details about UL, IUL, and VUL sales separately.

UNIVERSAL LIFE SALES DETAILS

Survey participants reported total individual UL sales of \$1.3 billion, \$1.1 billion, and \$0.7 billion respectively for calendar years 2018, 2019, and for YTD 9/30/20. The graph in Figure 1 illustrates the UL product mix as reported by survey participants from 2018 through YTD 9/30/20. The term “total individual UL” includes UL with secondary guarantees (ULSG), cash accumulation UL (AccumUL), and current assumption UL (CAUL) throughout this report. Definitions are included in the Appendix. The ULSG market share remained stable from 2018 through YTD 9/30/20. The market share for AccumUL increased steadily from 2018 to YTD 9/30/20. The CAUL market share decreased steadily from 2018 to YTD 9/30/20.

FIGURE 1: UL PRODUCT MIX BY YEAR

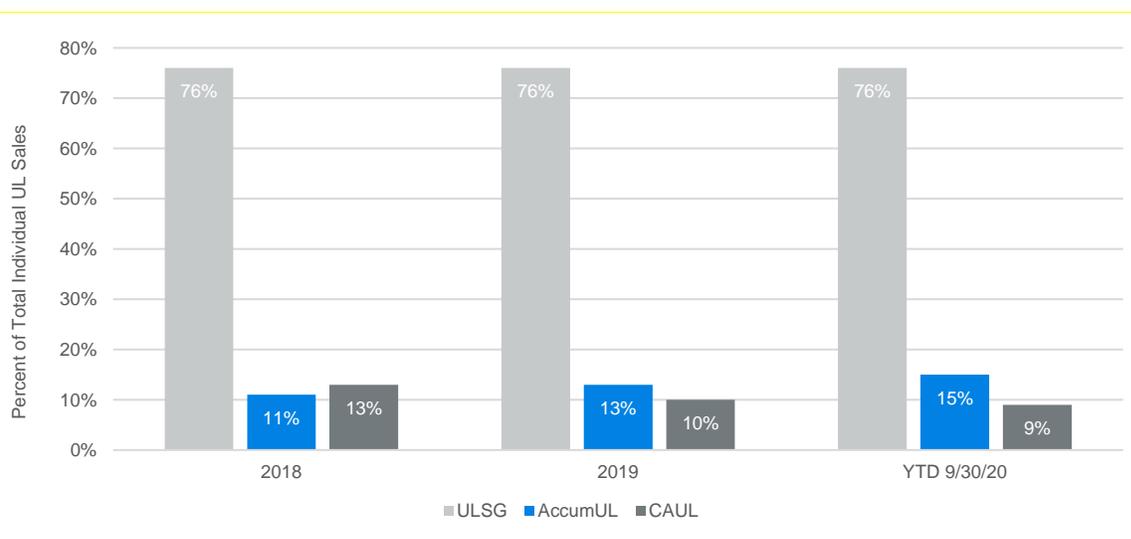
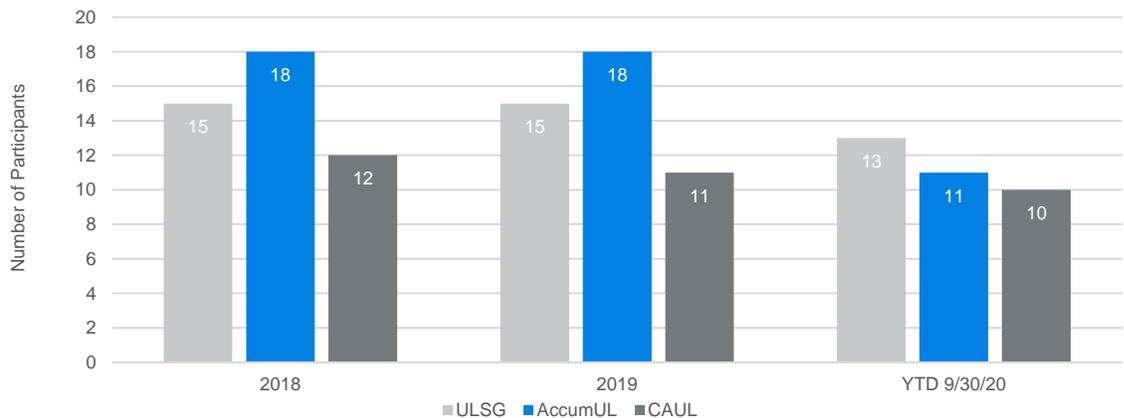


Figure 2 shows the number of participants issuing each UL product type during the survey period. AccumUL had the highest number of policies issued in 2018 and 2019, and ULSG had the highest in YTD 9/30/20.

FIGURE 2: NUMBER OF PARTICIPANTS ISSUING UL PRODUCTS



Annualized 2020 sales were calculated based on the YTD 9/30/20 sales and the distribution of 2019 sales (by quarter) that survey participants reported. Sales have declined year-over-year (YOY) over the survey period (based on annualized YTD 9/30/20 sales) for total individual UL, ULSG, and CAUL. For AccumUL, sales decreased from 2018 to 2019, but increased when comparing 2019 sales to annualized YTD 9/30/20 sales. The increase occurred despite seven participants exiting the AccumUL market. (Increases in AccumUL sales were reported from 2019 to YTD 9/30/20 by six of the remaining 11 participants.)

Total individual UL sales were reported by 20 participants based on the underwriting approach. Underwriting approaches were defined as follows:

- Simplified issue (SI) underwriting: Less than a complete set of medical history questions and no medical or paramedical exam.
- Accelerated underwriting (AU): The use of tools such as a predictive model to waive requirements such as fluids and a paramedical exam on a fully underwritten product for qualifying applicants, without charging a higher premium than if fully underwritten.
- Fully underwritten: Complete set of medical history questions and medical or paramedical exam, except where age and amount limits allow for nonmedical underwriting.

For AU sales, participants were instructed to include total sales for products under which AU is offered. *The distribution of 2019 UL sales (on a policy count basis) by underwriting approach was 24.3% SI, 14.2% AU, 61.3% fully underwritten, and 0.2% other underwriting approaches. For YTD 9/30/20 UL sales, the distribution by underwriting approach was 22.2% SI, 19.0% AU, 59.8% fully underwritten, and 0.1% other underwriting approaches.* The portion of AU business is greater than what was reported in the previous UL/IUL survey for calendar year 2018 and YTD 9/30/19 (likely due to the mix of participating companies). Also, we believe that SI and AU are more commonly used on term insurance plans than UL/IUL/VUL. Further details may be found in the report regarding the total individual UL sales within each of these underwriting approaches.

UL sales by application type (paper versus e-app) and issue age range were reported by 16 survey participants on a premium basis. For 2019 sales, 11 of the 16 participants reported sales from both paper applications and e-apps, four from paper applications only, and the remaining one from e-apps only. One participant that reported sales from paper applications only in 2019, reported sales from both paper and e-apps in YTD 9/30/20. Therefore, for YTD 9/30/20 sales, 12 of the 16 reported sales from both paper and e-apps, three from paper applications only, and the remaining one from e-apps only. Paper applications accounted for 82% of total applications (based on premiums) for both 2019 and YTD 9/30/20. On a face amount basis, paper applications accounted for 71% of total applications for 2019 and 46% in YTD 9/30/20.

Based on 2019 and YTD 9/30/20 sales by premium, the average issue age for paper application sales was 59 and for e-app sales was 55. Based on sales by face amount, for 2019 the average issue age for paper application sales was 54 and for e-app sales was 46. These averages are significantly lower than the averages determined based on premium. Based on YTD 9/30/20 sales by face amount, the average issue age for paper application sales was 54 and for e-app sales was 47. The average age is the same as that reported for paper applications sales in 2019. The average age for e-apps is one year older than the average reported in 2019 for e-apps.

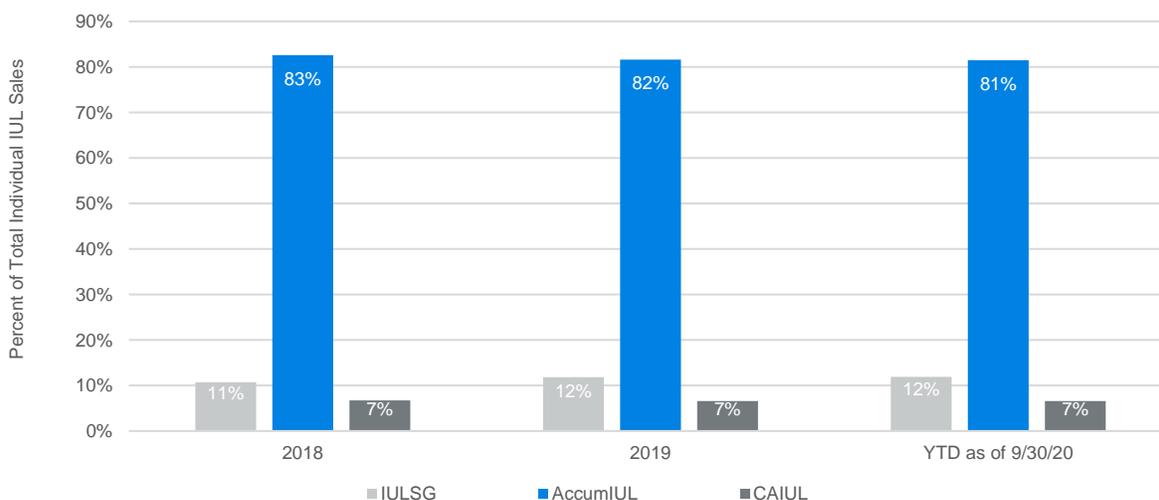
INDEXED UNIVERSAL LIFE SALES DETAILS

Of the 28 survey participants, 22 reported IUL sales. Survey participants reported total IUL sales of \$1.9 billion, \$2.2 billion, and \$1.5 billion, respectively, for calendar years 2018, 2019, and for YTD 9/30/20. The term “total individual IUL” includes IULSG, AccumIUL, and CAIUL. Definitions are included in the Appendix.

The AccumIUL sales percentage increased from 89% in 2018 to 91% of AccumUL/AccumIUL combined sales in YTD 9/30/20. IULSG sales also increased, from 13% to 21% of ULSG/IULSG combined sales, over the survey period. The CAIUL sales percentage increased from 35% in 2018 to 56% of CAUL/CAIUL combined sales in YTD 9/30/20.

Sales of AccumIUL products continued to dominate the IUL market throughout the survey period. Figure 3 shows the market share for AccumIUL decreased slightly from 2018 to 2019 and also from 2019 to YTD 9/30/20. The market share for IULSG increased from 2018 to 2019 and remained stable during YTD 9/30/20. For CAIUL, the market share was stable throughout the survey period.

FIGURE 3: IUL PRODUCT MIX BY YEAR



IUL sales were reported by 17 participants based on the underwriting approach. Sales were split by SI, AU, full underwriting, and other underwriting approaches. *The distribution of 2019 IUL sales (on a policy count basis) by underwriting approach was 0.3% SI, 4.2% AU, 95.0% fully underwritten, and 0.5% other underwriting approaches. For YTD 9/30/20 IUL sales, the distribution by underwriting approach was 3.3% SI, 4.2% AU, 92.1% fully underwritten, and 0.4% other underwriting approaches. From 2019 to YTD 9/30/20, overall, there was a shift to SI from fully underwritten sales.* The portion of IUL sales subject to SI was significantly lower than those reported for UL sales. The portion of IUL sales subject to AU was also lower than that reported for UL sales. The portion of AU business may appear surprisingly low and is lower than what was reported in the previous UL/IUL survey for calendar year 2019 and YTD 9/30/20 (due to the significant reduction of AU sales reported by one participant). Also, we believe that SI and AU are more commonly used on term insurance plans than UL/IUL/VUL. Further details may be found in the report regarding IUL sales within each of these underwriting approaches.

IUL sales by application type (paper versus e-app) and issue age range were reported by 14 survey participants on both a premium and face amount basis for 2019 and YTD 9/30/20. Eleven of the 14 reported sales from both paper applications and e-apps and two from paper applications only in 2019 and YTD 9/30/20. One participant reported sales from paper applications only in 2019 and from both paper and e-apps in YTD 9/30/20. Paper applications accounted for 66% of total applications (based on premiums) and 54% of total applications (based on face amount) for 2019. For YTD 9/30/20, paper applications accounted for 56% of total applications (based on premiums) and 43% of total applications (based on face amount). The use of e-apps is more common for IUL business than for UL business.

Based on 2019 sales by premium, the average issue age for paper application sales was 52 and for e-app sales was 46. For YTD 9/30/20 sales by premium, the average age was 51 and for e-app sales was 45. Based on 2019 sales by face amount, the average issue age for paper applications was 46 and for e-app sales was 38. For YTD 9/30/20 sales by face amount, the average age is one year younger than that reported in 2019 for paper applications and one year older than that reported in 2019 for e-apps.

VARIABLE UNIVERSAL LIFE SALES DETAILS

Of the 28 survey participants, 15 reported total individual VUL sales in 2018 and 2019 and 14 reported sales in YTD 9/30/20. Total VUL sales reported by survey participants equaled \$299 million, \$338 million, and \$254 million, respectively, for calendar years 2018, 2019, and for YTD 9/30/20. (Note: the scope of the survey was expanded in 2020 to include VUL products.)

VUL sales were reported by 10 participants based on the underwriting approach. Sales were split by SI, AU, full underwriting, and other underwriting approaches. *The distribution of 2019 VUL sales (on a policy count basis) by underwriting approach was 0.4% SI, 4.1% AU, 95.4% fully underwritten, and less than 1.0% for other underwriting approaches. For YTD 9/30/20 VUL sales, the distribution by underwriting approach was 0.3% SI, 18.5% AU, 81.2% fully underwritten, and less than 1.0% other underwriting approaches. From 2019 to YTD 9/30/20, overall, there was a shift from fully underwritten to AU sales.* The portion of 2019 VUL sales subject to SI and AU was similar to that reported for IUL sales in 2019. In YTD 9/30/20, the portion of VUL sales subject to AU was similar to that reported for UL sales, but significantly higher than that for IUL sales. One of the top VUL participants (in terms of sales) reported 32% of its VUL policies were issued using AU, which may be driving this result. Further details may be found in the report regarding VUL sales within each of these underwriting approaches.

VUL sales by application type (paper versus e-app) and issue age range were reported by seven survey participants on both a premium and face amount basis for 2019 and YTD 9/30/20. In 2019, two of the seven reported sales from both paper applications and e-apps and five from paper applications only. In YTD 9/30/20, one of the five reported VUL sales from e-apps in addition to paper applications. Therefore, for YTD 9/30/20, three of the seven reported sales from both paper applications and e-apps, and four from paper applications only. Paper applications accounted for 89% to 90% of total applications (based on premiums) for 2019 and YTD 9/30/20. On a face amount basis, paper applications accounted for 85% of total applications for 2019 and 84% in YTD 9/30/20. The use of paper applications is more prevalent for VUL business than for UL and IUL business.

Based on 2019 sales by premium, the average issue age for paper application sales was 50 and for e-app sales was also 50. For YTD 9/30/20 sales by premium, the average age for e-app sales is the same as that reported in 2019, but the average age for paper application sales is two years younger than that reported in 2019. Based on 2019 sales by face amount, the average issue age for paper applications was 44 and for e-app sales was 41. For YTD 9/30/20 sales by face amount, the average age is the same as that reported for e-app sales in 2019 but is two years younger than the average reported for paper applications in 2019.

SALES WITH CHRONIC ILLNESS RIDERS

There are three common approaches to chronic illness accelerated death benefit (ADB) riders: the discounted death benefit approach, the lien approach, and the dollar-for-dollar approach. The dollar-for-dollar approach includes an explicit premium, but the other approaches usually do not. Under the discounted death benefit approach a discounted percentage of the face amount reduction is paid, with the face amount reduction occurring at the same time as the accelerated benefit payment. There is no need for charges up front or other premium requirements because the insurer covers its costs of early payment of the death benefit via a discount factor. The second approach is the lien

approach, in which payment of the accelerated death benefit is considered a lien or offset against the death benefit. Access to the cash value is limited to the excess of the cash value over the sum of any other outstanding loans and the lien. Future premiums or charges for the coverage are not affected, and the gross cash value continues to grow as if the lien did not exist. The third common approach is the dollar-for-dollar death benefit reduction approach. Under this approach, when an accelerated death benefit (ADB) is paid, there is a dollar-for-dollar reduction in the specified amount or face amount and a pro rata reduction in the cash value based on the percentage of the specified amount or face amount that was accelerated.

Of the 24 participants reporting UL sales, 16 reported UL sales with chronic illness ADB riders. Survey participants reported sales of \$128.6 million in 2018, \$77.1 million for 2019, and \$52.7 million for YTD 9/30/20. The total face amount issued for UL policies with chronic illness riders was reported as \$8.0 billion for 2018, \$7.5 billion for 2019, and \$4.7 billion YTD 9/30/20.

Fifteen of the 22 IUL survey participants reported IUL sales with chronic illness ADB riders. Thirteen of the 15 also reported UL sales with chronic illness riders. Total IUL sales with chronic illness riders were reported equal to \$441.6 million in 2018, \$604.3 million in 2019, and \$679.9 million during YTD 9/30/20. The total face amount issued for IUL policies with chronic illness riders was \$20.5 billion, \$29.4 billion, and \$28.3 billion, respectively, for 2018, 2019, and during YTD 9/30/20.

The table in Figure 4 shows a summary of sales of chronic illness riders as a percentage of total sales by premium (separately for UL and IUL products). *During YTD 9/30/20, sales of chronic illness riders as a percentage of total sales were 7.7% for UL products and 46.3% for IUL products.* This difference may be a result of the greater level of new IUL product development in recent years, relative to new UL product development. IUL writers were likely including new chronic illness riders in the development process.

FIGURE 4: CHRONIC ILLNESS RIDER SALES AS A PERCENTAGE OF TOTAL SALES

CALENDAR YEAR	TOTAL INDIVIDUAL UL	ULSG	ACCUMUL	CAUL
UL SALES WITH CHRONIC ILLNESS RIDERS AS A PERCENTAGE OF TOTAL UL SALES				
2018	9.9%	7.6%	24.9%	11.4%
2019	7.2%	5.1%	16.3%	11.2%
YTD 9/30/20	7.7%	3.4%	17.1%	8.3%

CALENDAR YEAR	TOTAL INDIVIDUAL IUL	IULSG	ACCUMIUL	CAIUL
IUL SALES WITH CHRONIC ILLNESS RIDERS AS A PERCENTAGE OF TOTAL IUL SALES				
2018	23.5%	22.2%	34.7%	12.2%
2019	27.5%	18.5%	32.4%	14.6%
YTD 9/30/20	46.3%	25.5%	37.0%	17.0%

Eight of 18 participants that reported UL/IUL sales with chronic illness riders provide a discounted death benefit as an accelerated benefit. Five of these eight participants automatically include chronic illness riders with the base UL/IUL policy. Six participants reported their chronic illness riders use a lien against the death benefit to provide the accelerated benefit. Two of the six automatically include the chronic illness riders. Another three use a dollar-for-dollar discounted death benefit reduction approach. The final three participants use both the discounted death benefit approach and the dollar-for-dollar death benefit reduction approach.

SALES WITH LONG-TERM CARE (LTC) RIDERS

Of the 24 survey participants reporting UL sales, eight reported UL sales with long-term care (LTC) riders. Four participants reported sales with an LTC ADB rider only. Another four participants reported sales of an LTC ADB rider, an extension of benefits rider (EBR), and an inflation protection rider (IPR). One of these four did not report sales of LTC ADB riders only in YTD 9/30/20, but did report sales of ADB riders with an EBR and IPR. (Note that other participants that offer EBR and IPR riders did not report sales here.)

Similarly, of the 22 survey participants reporting IUL sales, 10 reported IUL sales with long-term care (LTC) riders. Of the 10 IUL survey participants that reported IUL sales with LTC riders, eight reported sales in calendar years 2018 and 2019 and YTD 9/30/20. Two additional participants reported IUL sales with LTC riders in calendar year 2019 and YTD 9/30/20. Nine of the 10 participants reported IUL sales with an LTC ADB rider only (none with EBR or IPR). In 2019 and YTD 9/30/20, the 10th participant reported sales with an LTC ADB rider and EBR rider.

Figure 5 includes a summary of total UL and total IUL sales with LTC riders.

FIGURE 5: TOTAL LTC RIDER SALES

CALENDAR YEAR	UL SALES WITH LTC RIDERS (\$ MILLIONS)			IUL SALES WITH LTC RIDERS (\$ MILLIONS)		
	NUMBER OF RESPONSES	SALES (PREMIUM)	SALES (FACE AMOUNT)	NUMBER OF RESPONSES	SALES (PREMIUM)	SALES (FACE AMOUNT)
2018	8	\$722.4	\$4,526.6	8	\$228.0	\$13,837.3
2019	8	\$627.0	\$4,443.3	10	\$221.5	\$12,259.0
YTD 9/30/20	8	\$449.9	\$2,283.0	10	\$151.1	\$10,491.8
YTD 9/30/20 ANNUALIZED	8	\$652.8	\$3,491.8	10	\$204.9	\$14,175.6

Sales of policies with LTC riders as a percentage of total sales (measured by premiums and weighting single premium sales at 10%) are shown in Figure 6. *During YTD 9/30/20, sales of LTC riders as a percentage of total sales by premium were 66.1% for UL products and 10.3% for IUL products. It is notable that over half of UL sales by premium include a LTC rider. Also, most of those sales include EBRs and IPRs.*

FIGURE 6: LTC RIDER SALES AS A PERCENTAGE OF TOTAL SALES BY PREMIUM

CALENDAR YEAR	TOTAL INDIVIDUAL UL	ULSG	ACCUMUL	CAUL
UL SALES WITH LTC RIDERS AS A PERCENTAGE OF TOTAL UL SALES				
2018	55.4%	65.0%	7.4%	20.1%
2019	58.2%	70.4%	12.5%	18.8%
YTD 9/30/20	66.1%	81.3%	16.5%	18.6%
CALENDAR YEAR	TOTAL INDIVIDUAL IUL	IULSG	ACCUMIUL	CAIUL
IUL SALES WITH LTC RIDERS AS A PERCENTAGE OF TOTAL IUL SALES				
2018	12.2%	16.6%	14.6%	15.6%
2019	10.1%	11.9%	9.9%	29.7%
YTD 9/30/20	10.3%	21.6%	11.4%	17.9%

DRIVERS OF UL/IUL/VUL PRICING

Survey responses included information about the following key drivers of UL/IUL/VUL pricing:

1. Profit targets
2. Target surplus
3. Reserves
4. Reinsurance
5. Investment yields
6. Expenses

Profit measures

The predominant profit measure reported by survey participants continues to be an after-tax, after-capital statutory return on investment/internal rate of return (ROI/IRR). The median targeted ROI/IRR reported is 10.0% for each of AccumUL, CAUL, IULSG, AccumIUL, and VUL, 9.0% for ULSG, and 11.3% for CAIUL. Eight participants reported changes to profit measures or goals in the last two years and five of the eight reported a reduction in profit targets.

Survey participants reported their actual results relative to profit goals for 2019. *The percentage of participants reporting that actual results were short of profit goals was 53% (ULSG), followed by 38% (IULSG), 21% (AccumUL), 20% (AccumIUL), 18% (CAUL), 7% (VUL), and 0% (CAIUL). For YTD 9/30/20, 80% were short of their profit goals for ULSG, 62% for IULSG, 36% for CAUL, 21% for AccumUL, 20% for AccumIUL, 14% for VUL, and 13% for CAIUL. The primary reason reported for not meeting profit goals in 2019 and YTD 9/30/20 was low interest earnings.*

Target surplus

The majority of survey participants continue to set target surplus pricing assumptions for UL/IUL/VUL products as a percentage of the National Association of Insurance Commissioners (NAIC) company action level. The overall NAIC risk-based capital (RBC) percentage of company action level ranged from 250% to 510%. The report includes details about the overall NAIC RBC percentage broken down by component and details by UL/IUL product type.

Reserves

The majority of survey participants are not using the stochastic exclusion test (SET). The SET is a means of determining if the added effort of calculating stochastic reserves under principle-based reserves (PBR) is required. Of 28 responses, 19 are not using the test, have not analyzed the test, or principle-based reserves (PBR) do not apply to them. Eight participants are using the ratio test for this aspect of Valuation Manual Chapter 20 (VM-20) relative to UL/IUL/VUL products. One participant is using the certification option. Six of the eight participants using the SET indicated that the SET results are consistent both pre-reinsurance and post-reinsurance. One participant noted that the results are not consistent, and the final participant did not respond.

Eleven survey participants reported they are explicitly modeling the deterministic reserve (DR) and stochastic reserve (SR) in pricing projections (i.e., projecting these reserve components). An additional eight participants are explicitly modeling the DR, but not the SR. Six reported they are not explicitly modeling either the DR or SR in pricing projections. It is possible they passed both the deterministic exclusion test (DET) and SET. The remaining three participants either did not respond or indicated that the question is not applicable.

A variety of responses were received from 21 survey participants relative to how the company is reflecting reinsurance in the DR/SR for yearly renewable term (YRT) deals, and separately, for coinsurance deals. Few details were reported for coinsurance deals. Approaches for YRT reinsurance included not reflecting reinsurance, taking the $\frac{1}{2} C_x$ reserve credit for YRT deals, using prudent estimates for reinsurer actions, adjusting YRT rates consistent with projected mortality, modeling expected experience with a margin on the YRT premium, and treating reinsurance as a cash flow item in the cash flows in pricing. Also, one participant reported that it has the ceded reserve for the DR/SR equal to the ceded reserve for the net premium reserve (NPR) and no reinsurance cash flows were modeled for 2020.

Many survey participants are struggling with challenges presented by forecasting the deterministic and stochastic reserves. Difficulties were reported with runtimes, scenarios, modeling, and assumptions.

Survey participants provided responses relative to the aggregation of mortality segments for determining credibility for UL/IUL/VUL products. The Valuation Manual defines a mortality segment as “a subset of policies for which a separate mortality table representing the prudent estimate mortality assumption will be determined.” Most participants expect to aggregate mortality segments across broad categories, such as all life products, all permanent products, or all fully underwritten products.

Reinsurance

Retention limits ranged from \$500,000 up to \$30 million, with a median limit of \$5 million and an average of about \$7.4 million.

Nineteen participants reported the level of reinsurance used for AU UL/IUL/VUL business. Eleven of the 19 participants reported that AU UL/IUL/VUL business is being reinsured consistent with other UL/IUL/VUL business. AU business is being fully retained by three other participants. The final five participants reported other reinsurance approaches used with AU UL/IUL/VUL business, with two of the five reporting approaches that suggest the expanded use of reinsurance with these cases.

The percentage of new UL/IUL/VUL business ceded in 2019 and YTD 9/30/20 is shown in Figure 7. The percentages for VUL business are generally higher than those reported for UL and IUL business.

FIGURE 7: PERCENTAGE OF NEW UL/IUL BUSINESS CEDED

STATISTIC	PERCENTAGE OF NEW UL BUSINESS CEDED IN:		PERCENTAGE OF NEW IUL BUSINESS CEDED IN:		PERCENTAGE OF NEW VUL BUSINESS CEDED IN:	
	2019	YTD 9/30/20	2019	YTD 9/30/20	2019	YTD 9/30/20
NUMBER OF RESPONSES	23	22	21	20	10	11
AVERAGE	26.3%	26.9%	25.2%	27.9%	33.9%	32.5%
MEDIAN	15.0%	20.7%	15.0%	17.5%	26.7%	20.8%
MINIMUM	0.6%	0.3%	0.8%	0.2%	5.0%	5.0%
MAXIMUM	90.0%	90.0%	77.6%	80.0%	88.7%	88.5%

Investment yields

Figure 8 shows the split between respondents assuming a new-money crediting strategy versus a portfolio crediting strategy in pricing UL/IUL products. The report includes details about earned rates assumed in pricing UL/IUL products, in total and by crediting strategy. It also includes the investment strategy (benchmark) reported by survey participants for UL and IUL new business as of 12/31/2019 and 9/30/2020.

FIGURE 8: UL/IUL NEW-MONEY VERSUS PORTFOLIO CREDITING STRATEGY

UL/IUL PRODUCT	CREDITING STRATEGY	
	NEW-MONEY	PORTFOLIO
ULSG	57%	43%
ACCUMUL	38%	62%
CAUL	40%	60%
IULSG	42%	58%

UL/IUL PRODUCT	CREDITING STRATEGY	
	NEW-MONEY	PORTFOLIO
ACCUMIUL	22%	78%
CAIUL	43%	57%

Expenses

Actual expense levels, marginal expense levels, and those assumed in pricing UL/IUL/VUL products vary widely among survey participants, with details provided in the report. For comparison purposes, we converted acquisition, maintenance, and field expenses (separately for career agent and brokerage channels) to a dollar amount for a representative sample policy for each participant. (Commissions were not included.) The calculation was done for pricing, marginal, and actual (fully allocated) expenses. We assumed an average face amount of \$500,000 issued at age 55, and premiums of \$12 (“low premium”) and \$18 (“high premium”) per \$1,000 of face amount. We also assumed an average face amount of \$500,000 issued at age 35, and premiums of \$8 (“low premium”) and \$12 (“high”) per \$1,000 of face amount. The calculations were done including and excluding premium taxes.

The tables in Figure 9 show statistics relative to dollars of pricing, marginal and actual expenses for the representative sample policy for issue age 55, low premium level, both including and excluding premium taxes.

FIGURE 9: PRICING, MARGINAL, AND ACTUAL EXPENSES FOR A REPRESENTATIVE SAMPLE POLICY

PRICING EXPENSES	NUMBER OF RESPONSES	MEAN	MEDIAN	MINIMUM	MAXIMUM
ISSUE AGE 55 - LOW PREMIUM					
ACQUISITION	28	\$2,156	\$2,073	\$335	\$4,831
MAINTENANCE (WITH PREMIUM TAXES)	28	\$233	\$230	\$24	\$513
MAINTENANCE (WITHOUT PREMIUM TAXES)	28	\$146	\$136	\$14	\$393
FIELD (CAREER AGENTS)	6	\$5,652	\$6,585	\$2,520	\$8,358
FIELD (BROKERAGE)	9	\$2,349	\$585	\$151	\$7,200

MARGINAL EXPENSES	NUMBER OF RESPONSES	MEAN	MEDIAN	MINIMUM	MAXIMUM
ISSUE AGE 55 - LOW PREMIUM					
ACQUISITION	11	\$952	\$470	\$335	\$2,600
MAINTENANCE (WITH PREMIUM TAXES)	10	\$92	\$125	\$17	\$158
MAINTENANCE (WITHOUT PREMIUM TAXES)	10	\$34	\$22	\$9	\$115
FIELD (CAREER AGENTS)	3	\$3,551	\$1,680	\$690	\$8,283
FIELD (BROKERAGE)	2	\$2,708	\$2,708	\$585	\$4,830

ACTUAL (FULLY ALLOCATED) EXPENSES	NUMBER OF RESPONSES	MEAN	MEDIAN	MINIMUM	MAXIMUM
ISSUE AGE 55 - LOW PREMIUM					
ACQUISITION	23	\$2,682	\$2,376	\$335	\$9,631
MAINTENANCE (WITH PREMIUM TAXES)	23	\$265	\$261	\$50	\$5,133
MAINTENANCE (WITHOUT PREMIUM TAXES)	23	\$178	\$170	\$14	\$393
FIELD (CAREER AGENTS)	4	\$6,012	\$6,585	\$2,520	\$8,358
FIELD (BROKERAGE)	7	\$3,021	\$1,350	\$457	\$7,200

IUL ILLUSTRATIONS

Actuarial Guideline 49-A (AG 49-A) applies to IUL illustrations on applicable policies sold on or after December 14, 2020. This guideline was put in place in an attempt to again level the playing field when illustrating IUL products, by addressing issues caused by new IUL product designs that were not contemplated in AG 49 (e.g., multipliers, cap buy-ups, negative loan spreads). Changes in illustrated rates for IUL products under AG 49-A relative to AG 49 were reported by 17 of the 22 participants that write IUL business. The change in rates ranged from -120 bps to +32 bps, with a mean of -38 bps and a median of -23 bps.

Twenty-one participants replied to questions about the continuation of bonuses, multipliers, and cap buyouts on IUL products under AG 49-A. As a result of AG 49-A, 19 participants believe that bonuses will continue to be offered on IUL products, and two participants believe they will not continue to be offered. Sixteen participants believe that multipliers will continue to be offered and five believe they will not. For cap buyups, 18 participants believe they will continue to be offered and three do not believe they will continue to be offered. Eight participants reported that they believe other index enhancement features will continue to be offered on IUL products under AG 49-A.

Appendix: Definitions

Throughout the survey various terms are used to describe UL product types and markets. Following are the definitions of these terms:

Universal life (UL)

A flexible premium permanent contract that credits cash value with current interest rates and deducts mortality and expense charges from the cash values. A UL policy can fall into any of the three product types listed below. Single premium sales and juvenile sales should be reported in the appropriate category listed below.

UL with secondary guarantees (ULSG): A UL product designed specifically for the death benefit guarantee market that features long-term (guaranteed to last until at least age 90) no-lapse guarantees either through a rider or as part of the base policy.

Cash accumulation UL (AccumUL): A UL product designed specifically for the accumulation-oriented market where efficient accumulation of cash values to be available for distribution is the primary concern of the buyer. Within this category are products that allow for high early cash value accumulation, typically through the election of an accelerated cash value rider.

Current assumption UL (CAUL): A UL product designed to offer the lowest-cost death benefit coverage without death benefit guarantees. Within this category are products sometimes referred to as “dollar-solve” or “term-alternative” products.

Total individual UL: Individual UL products that include ULSG, AccumUL, and CAUL, but do not include any indexed UL products.

Indexed universal life (IUL)

A UL product with the cash value linked to an equity index, such as the S&P 500 or Dow Jones. An IUL product can fall into any of the three product types listed above under universal life. Single premium sales and juvenile sales should be reported in the appropriate category listed below.

IUL with secondary guarantees (IULSG)

Cash accumulation IUL (AccumIUL)

Current assumption IUL (CAIUL)

Total indexed UL: Indexed UL products that include IUL with secondary guarantees, cash accumulation IUL, and current assumption IUL.

Variable universal life (VUL)

A UL product that is registered with the Securities and Exchange Commission (SEC) with cash values that fluctuate depending on investment performance.

Long-term care (LTC)

Long-term care refers to plans that qualify under long-term care model laws and regulations.

Chronic illness (CI)

Chronic illness refers to plans, other than terminal illness or critical illness plans, that qualify under Model Regulation 620 governing accelerated death benefit designs.



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