

MILLIMAN REPORT

2019 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 2019 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. Fifteen insurance companies that are active in the U.S. IDI market provided data and other information about new business sold from 2014 through 2018, sales distributions, underwriting requirements, product offerings and pricing, favorable and unfavorable trends, and opportunities and obstacles affecting the IDI market.

SCOPE OF THE 2019 IDI MARKET SURVEY

The scope of the IDI market discussed 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 multi-life (ESML) 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 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.

The focus of the 2019 IDI Market Survey is the last five years. In prior years, the reports contained sales data going back to 2002. These past IDI Market Survey reports are available to readers upon request.

CONTRIBUTORS

Figure 1 lists the 15 contributors to the survey. In total, these 15 companies issued IDI policies with \$401 million of new annualized premium in 2018. We estimate that their total premium represents over 90% of the IDI market in terms of new sales. For the 2019 IDI Market Survey, we welcome MetLife back as a contributor. MetLife is included in all historical results.

FIGURE 1: CONTRIBUTORS TO THE 2019 IDI MARKET SURVEY

- | | | |
|-------------------|-----------------------|----------------|
| ▪ Ameritas | ▪ MetLife | ▪ RiverSource |
| ▪ Assurity | ▪ Mutual of Omaha | ▪ State Farm |
| ▪ Guardian | ▪ Northwestern Mutual | ▪ The Standard |
| ▪ Illinois Mutual | ▪ Ohio National | ▪ Thrivent |
| ▪ MassMutual | ▪ Principal | ▪ Unum |

RELIANCE AND LIMITATIONS

In conducting the 2019 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 IDI market. We are members of the American Academy of Actuaries and meet its qualification standards for rendering this opinion.

ABOUT MILLIMAN

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 and casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

Section II: Survey highlights

This section summarizes highlights and observations from the report. This year's survey presents the results of 15 IDI companies that contributed to the 2019 IDI Market Survey. We are very pleased to have MetLife back as a contributor to the IDI Market Survey after a two-year absence. All past results discussed in this report going back to 2014 have been updated to include MetLife.

HIGHLIGHTS

The combined new IDI annualized premium issued in 2018 for all 15 companies increased by 1.5%, reaching \$401 million. Six of the 15 companies reported growth in new premium in 2018.

The percentage of new IDI annualized premium in 2018 issued to doctors and surgeons was 30%, which is consistent with the last four years. On the other hand, the percentage of new annualized premium issued to executives has been dropping since 2014, reaching 11% in 2018.

Four companies issued over 40% of their new IDI annualized premium in 2018 to doctors and surgeons, with one company's percentage jumping to 61% in 2018.

The employer-sponsored multi-life market continues to increase its share of new IDI annualized premium, from 42% in 2017 to 44% in 2018.

The distribution of new IDI annualized premium among agents and brokers has remained stable over the last five years with career agents averaging 42% and brokers 41%.

The percentage of new IDI annualized premium issued with noncancelable products has remained in the 80% to 82% range over the last five years. However, the noncancelable percentage varies considerably by occupation, market, and distribution channel.

The highest maximum issue limit among the 14 companies that responded to the underwriting portion of the survey has been \$20,000 for the top nonmedical and medical occupation classes for both 2018 and 2019.

For the top nonmedical occupation class, two companies offer the maximum participation limit of \$35,000 when there is no group long-term disability (LTD) present, and one company offers the maximum participation limit of \$40,000 when group LTD is present.

For the top medical occupation class, four companies now offer the maximum participation limit of \$30,000 when no group LTD is present, whereas only one company offered this last year. Four companies now offer to their top medical occupation class the maximum participation limit of \$35,000 when there is group LTD, compared to only one company last year.

There were modest increases in the highest participation limits (based on earned income) among the 14 companies reporting underwriting results when no group LTD is present. One company that had the highest participation limits in the last IDI Market Survey for employee-pay cases when group LTD is present has decreased these participation limits.

One company reported a target participation requirement of 15% among eligible employees for guaranteed standard issue cases with 200 and 1,000 lives. In the prior IDI Market Survey, 20% was the lowest target participation requirement.

Companies' overall satisfaction with the profitability and new sales results of their IDI businesses has not changed significantly since the last survey, although their satisfaction with profitability results has increased slightly while satisfaction with new sales results has decreased slightly.

Companies generally reported stable or improving IDI claims experience.

CONCLUDING OBSERVATIONS

With almost 20 years of solid financial results, the current writers of IDI products have demonstrated that they know how to be in this business on a profitable basis over the long term. Unfortunately, new IDI premium growth remaining only in the range of 1% to 2% per year over this period demonstrates that they have not yet cracked the code on how to produce sustainable long-term growth of 5% to 10% per year or higher. Difficulties associated with marketing and increasing new sales comprised the prevalent unfavorable trends and obstacles to long-term financial health reported by the companies this year.

Section III: Sales results

This section analyzes trends in the new business sold by the 15 IDI contributors from 2014 through 2018.

VOLUME OF ANNUAL SALES FROM 2014 THROUGH 2018

Figure 2 shows total volume of new policies and annualized premium sold by the contributing companies from 2014 through 2018. The combined number of new policies and the volume of new annualized premium has increased slowly over the last five years. Total annualized new sales premium in 2018 was \$401 million, which is 1.5% higher than new sales reported in 2017.

FIGURE 2: NEW POLICIES AND ANNUALIZED PREMIUM BY ISSUE YEAR FROM 2014 THROUGH 2018

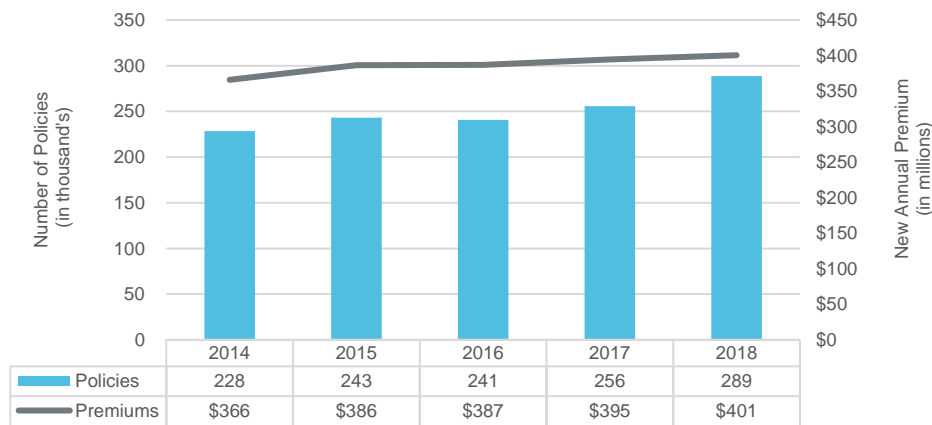


Figure 3 shows the cumulative new annualized premium by company as a percentage of total new premium in 2018, ranking companies by their new premium (i.e., Company 1 had the largest volume of new premium in 2018). The top five IDI contributors in 2018 produced 78% of the total new annualized premium among the 15 companies, and the top 10 IDI companies produced almost 96% of the total new annualized premium.

FIGURE 3: CUMULATIVE NEW ANNUALIZED PREMIUM BY COMPANY IN 2018 AS PERCENTAGE OF TOTAL ANNUALIZED PREMIUM

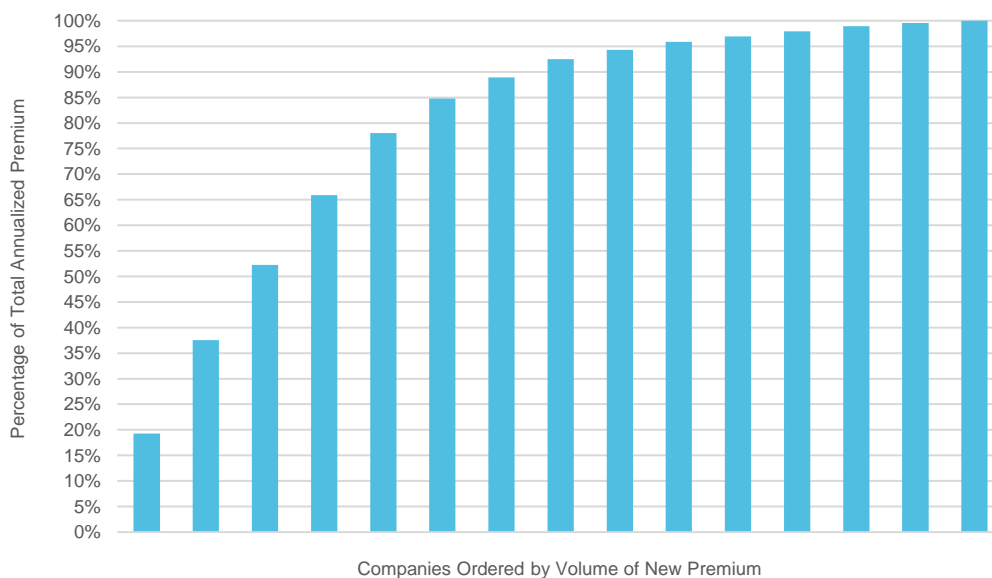


Figure 4 shows the annual growth rates (AGRs) in new policies and new premiums since 2014. The AGRs for new premiums have been positive every year. Except for 2016, when the AGR in new policies was slightly negative, the AGRs in new policies have been higher than the AGRs in new annualized premium. The 2018 AGR in new premium was 1.5% compared to 2.0% in 2017. The jump in the 2018 AGR for new policies is due in part to higher growth from a few companies that have traditionally sold smaller-size policies.

FIGURE 4: ANNUAL GROWTH RATES IN NEW POLICIES AND NEW PREMIUM FROM 2015 THROUGH 2018

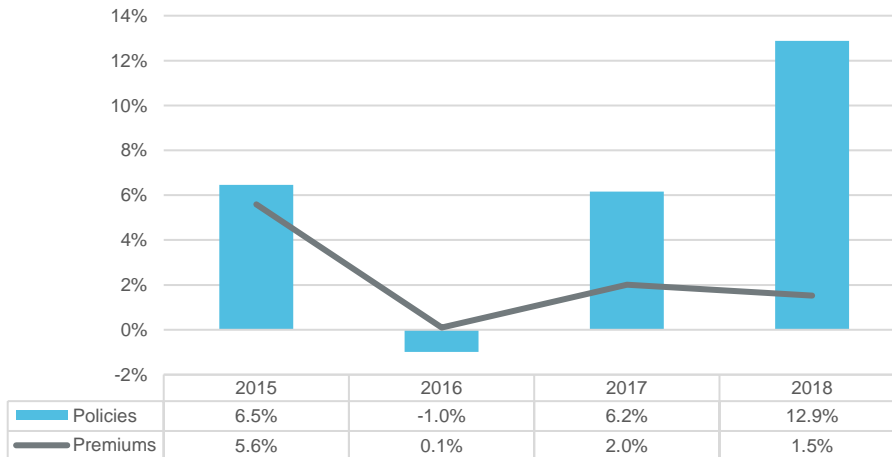
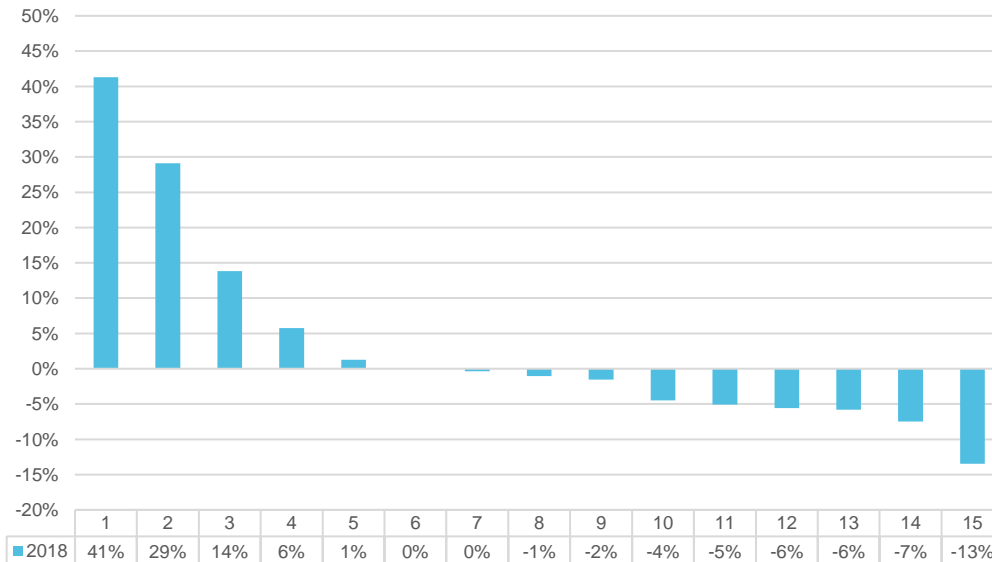


Figure 5 compares the new annualized premium 2018 AGRs of the 15 companies, ordered from the company with the highest AGR in 2018 (No. 1) to the one with the lowest (No. 15). Six companies reported a positive AGR in 2018, ranging from 0.1% to 41.3%, while eight companies reported negative growth.

FIGURE 5: COMPARISON OF COMPANIES' NEW ANNUALIZED PREMIUM AGR IN 2018, RANKED HIGHEST TO LOWEST



BUSINESS PRODUCTS

Two common IDI products offered by companies 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 15 companies sold OE policies in 2018. The OE premium in 2018 represented 3.8% of total premium for these 10 companies. Six of the 15 companies sold DBO policies in 2018. The DBO premium in 2018 represented 1.5% of total premium for these companies.

KEY OCCUPATIONS

Eleven of the 15 companies split their new annualized premium among key professional and executive occupations. The combined new premium from these 11 companies represented 92% of the combined new premium for the 15 contributors over the last five years. Figure 6 shows the combined distribution of new annualized premium by issue year from 2014 through 2018 for these 11 companies.

FIGURE 6: PERCENTAGE OF NEW IDI ANNUALIZED PREMIUM BY KEY OCCUPATION ISSUED FROM 2014 THROUGH 2018

YEAR	DOCTORS AND SURGEONS	DENTISTS	LAWYERS	EXECUTIVES	ACCOUNTANTS
2014	29.1%	7.9%	7.3%	16.2%	2.4%
2015	29.1%	8.0%	6.5%	15.6%	2.2%
2016	29.4%	8.9%	6.1%	14.3%	2.0%
2017	31.0%	8.6%	6.1%	11.9%	2.0%
2018	29.6%	8.2%	6.4%	11.4%	1.9%
Average	29.7%	8.3%	6.5%	13.7%	2.1%

Except for 2017, the percentage of new premium from doctors and surgeons has remained in the 29% to 30% range over the last five years. The percentage of new premium from executives has been declining over the last five years but dropped noticeably in 2017 and 2018 from the level experienced from 2014 through 2016. The percentage of new premium from lawyers has remained in the 6% to 7% range over the last five years. Percentage of new premium from dentists has remained in the 8% to 9% range over this five-year period.

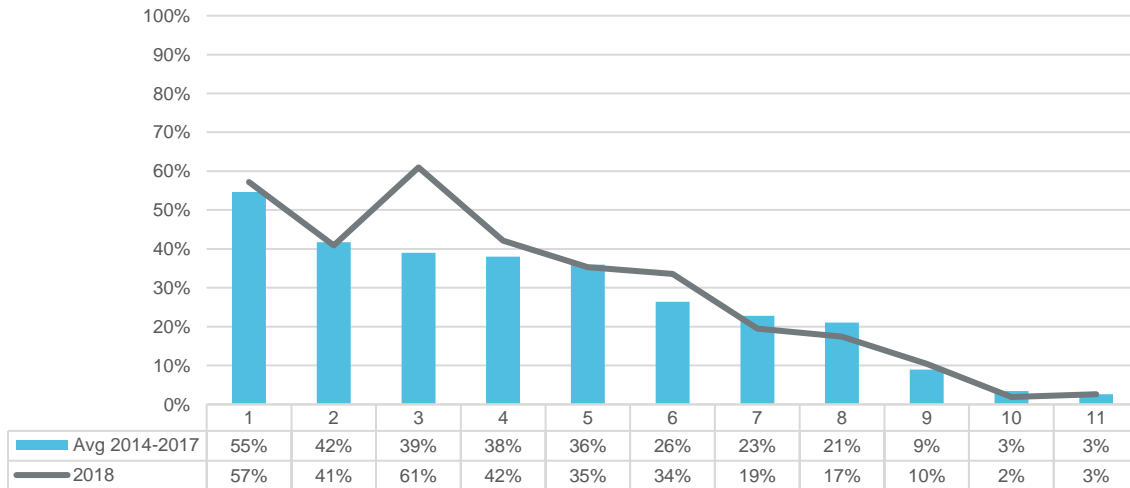
Figure 7 shows the AGR for new premium from 2015 through 2018 for these key occupations. The AGR of new annualized premium for doctors, surgeons, and dentists was negative in 2018, but averaged 5% over the last five years. The AGR for lawyers was 7% in 2017 and 2018, following two years of negative growth. The AGR for executives has been negative since 2016. The AGR for accountants has generally been negative except in 2017, which saw double-digit growth.

FIGURE 7: AGR IN NEW IDI ANNUALIZED PREMIUM BY KEY OCCUPATION FROM 2015 THROUGH 2018

YEAR	DOCTORS AND SURGEONS	DENTISTS	LAWYERS	EXECUTIVES	ACCOUNTANTS
2015	5.5%	6.7%	-6.0%	1.8%	-2.2%
2016	2.7%	12.8%	-4.6%	-7.1%	-9.3%
2017	14.3%	5.7%	7.0%	-9.6%	10.8%
2018	-3.2%	-4.0%	7.4%	-2.9%	-3.1%
Average	4.6%	5.1%	0.8%	-4.6%	-1.2%

Figure 8 compares the average percentage of new annualized premium issued to doctors and surgeons from 2014 through 2017, for the 11 companies, to the 2018 percentage. The companies are ordered by size of the 2014-2017 averages, with No. 1 having the largest percentage. Three companies had significant jumps in 2018 in their percentages of new annualized premium issued to doctors and surgeons compared to their average percentages over the last five years. In 2018, six of the 11 companies had percentages in excess of 30%, while the other five had percentages under 20%.

FIGURE 8: PERCENTAGE OF NEW IDI ANNUALIZED PREMIUM ISSUED TO DOCTORS AND SURGEONS, AVERAGE 2014-2017 VS. 2018, BY COMPANY



MARKETS

The IDI market is split into three segments:

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 multi-life business (ESML)

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, the association market utilizes traditional underwriting. 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%.

Companies generally have more favorable claim experience in the ESML market than in the individually sold or association business. Less anti-selection occurs in the ESML market than in the other markets because the decision to purchase—in the case of employer-pay business—or the available selection of policy options is at the plan level. Due to the 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 9 compares the annual percentages of new annualized premium by market from 2014 through 2018. The percentage of new annualized premium issued in the ESML market increased in 2017 and 2018, and decreased in the associations market from their levels in 2014 to 2016.

FIGURE 9: DISTRIBUTION OF NEW ANNUALIZED PREMIUM BY MARKET, 2014 THROUGH 2018

YEAR	INDIVIDUALLY SOLD	ESML	ASSOCIATIONS	TOTAL
2014	53.7%	40.6%	5.7%	100.0%
2015	52.8%	41.5%	5.7%	100.0%
2016	52.5%	41.5%	6.0%	100.0%
2017	53.2%	42.4%	4.4%	100.0%
2018	51.7%	43.8%	4.5%	100.0%
Average	52.8%	42.0%	5.2%	100.0%

The percentage of new premium sold through associations has remained between 4% and 6% over the last five years. The reader should be aware that certain companies specialize in serving the professional association market by offering conditionally renewable disability products on either individual or group platforms. These companies, which collectively represent the majority of the professional association market, are not included among the contributors to this survey.

Figure 10 provides the new annualized premium AGRs by market for years 2015 through 2018. There do not appear to be consistent patterns in the annual AGRs for new annualized premium in the three markets. The ESML market has grown the most consistently from year to year, except for a flat year in 2016. The associations market suffered a large drop in new annualized premium in 2017 as a result of MetLife's strategic decision to target only the employer-sponsored multi-life market.

FIGURE 10: AGR IN NEW ANNUALIZED PREMIUM BY MARKET

YEAR	INDIVIDUALLY SOLD	ESML	ASSOCIATIONS	TOTAL
2015	4.0%	7.8%	5.3%	5.6%
2016	-0.5%	0.2%	5.4%	0.1%
2017	3.3%	4.3%	-24.8%	2.0%
2018	-1.3%	4.9%	3.8%	1.5%
Average	1.3%	4.2%	-3.5%	2.3%

Figure 11 shows the percentage of new ESML annualized premium to total new annualized premium in 2018 by company. The companies in the chart are ordered so that No. 1 has the highest percentage and No. 15 has the lowest. Two of the companies issued all 2018 new premium in the ESML market, and three companies have percentages ranging from 48% to 63%. Three companies issued no business in the ESML market.

FIGURE 11: PERCENTAGE OF ESML PREMIUM TO TOTAL PREMIUM BY COMPANY IN 2018

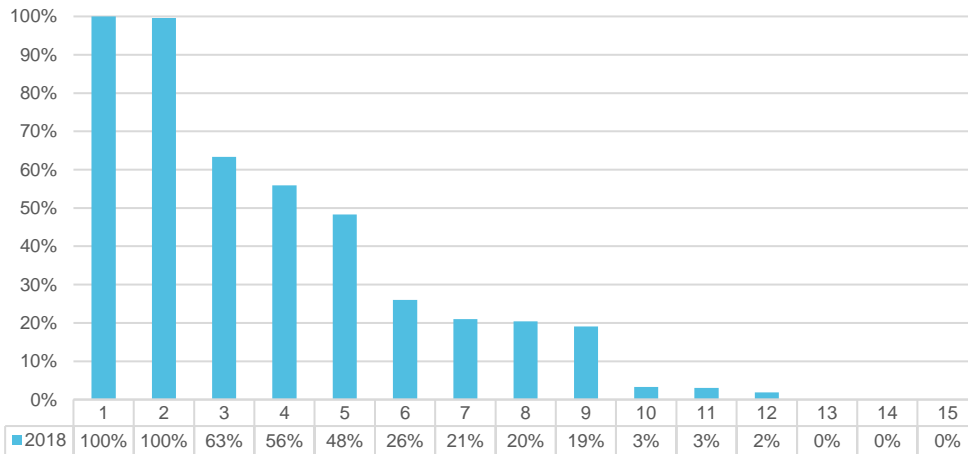
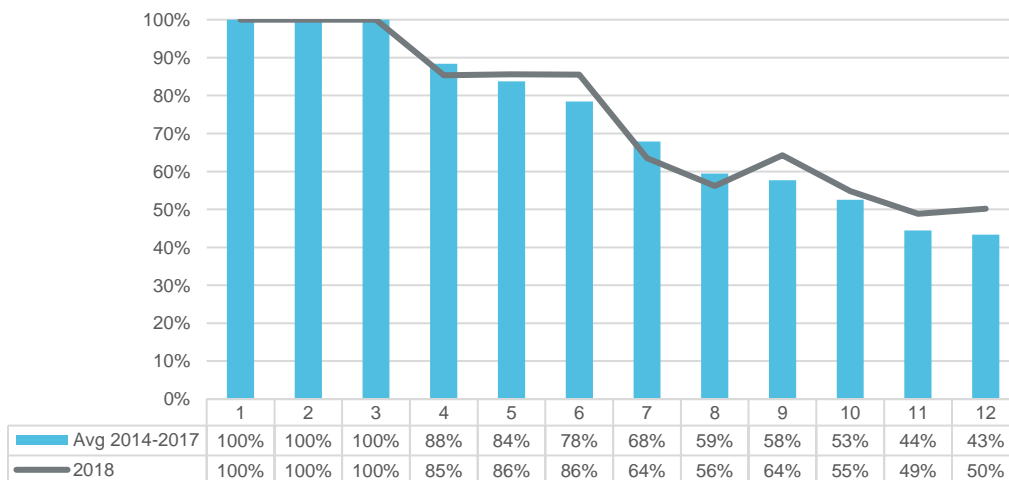


Figure 12 compares the percentage of new ESML annualized premium issued under employee-pay arrangements by company in 2018 to the average percentage over the prior four years. The companies in the chart are ordered so that No. 1 has the highest percentage four-year average and No. 12 has the lowest.

The three companies that do not sell in the ESML market are excluded from this chart. One minus these percentages represents the corresponding employer-pay percentages. The overall employee-pay percentage in 2018 was 62%, and averaged 60% over the prior four years, but there was considerable variability among the 12 companies. Three companies issued only employee-pay ESML plans. The employee-pay percentages in 2018 exceeded or were the same as the four-year averages for six of the other nine companies.

FIGURE 12: PERCENTAGE OF EMPLOYEE-PAY TO TOTAL ESML NEW ANNUALIZED PREMIUM: AVERAGE DURING 2014-2017 VS. 2018, BY COMPANY



DISTRIBUTION CHANNELS

Contributors split their new annualized premium by the following four distribution channels:

1. **Career agents**

These producers are career agents of the companies whose IDI products they are selling. Some companies refer to these producers other than as career agents. The companies employ the producers included in this distribution channel.

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 (PPGAs) and members of producer organizations.

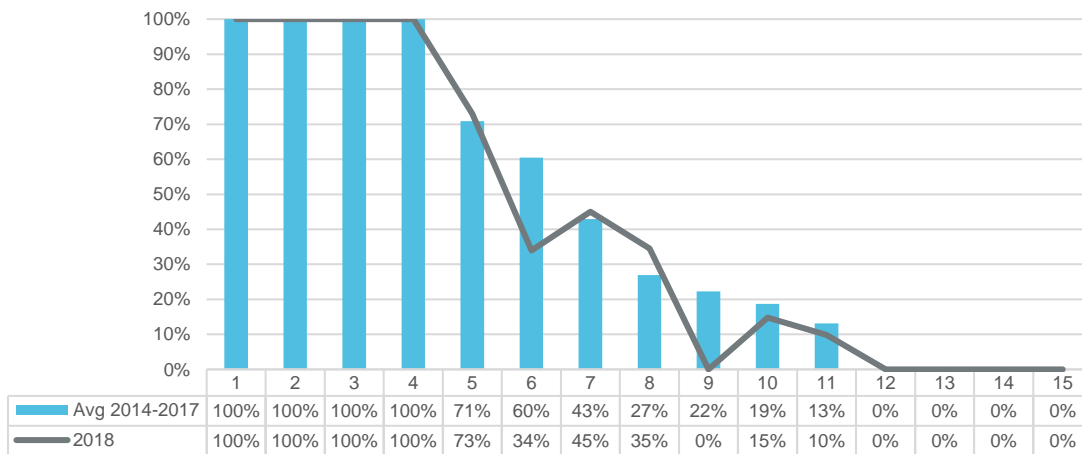
Figure 13 shows the mix of new premium by distribution channel for the 15 companies, combined, for the years 2014 through 2018. The mix of new annualized premium by distribution channel has not changed significantly over the last five years. Career agents issued the most new annualized premium for the 15 companies, followed closely by brokers.

FIGURE 13: MIX OF NEW ANNUALIZED PREMIUM BY DISTRIBUTION CHANNEL ISSUED IN YEARS 2014 THROUGH 2018

YEAR	CAREER AGENTS	BROKERS	NATIONAL ACCOUNTS	OTHER PRODUCERS	TOTAL
2014	43.3%	42.1%	4.7%	9.9%	100.0%
2015	42.4%	41.0%	4.1%	12.5%	100.0%
2016	42.2%	42.2%	4.3%	11.3%	100.0%
2017	42.1%	40.8%	4.5%	12.6%	100.0%
2018	42.0%	40.6%	4.3%	13.0%	100.0%
Average	42.4%	41.3%	4.4%	11.9%	100.0%

The percentage of new annualized premium sold through career agents for all companies combined was 42% in 2018 and over the 2014-2017 period. Figure 14 compares the average percentage of new annualized premium sold by career agents in 2018 to the average over the prior four years (2014-2017). The companies in the chart are ordered so that No. 1 has the highest average percentage during the 2014-2017 period and No. 15 has the lowest.

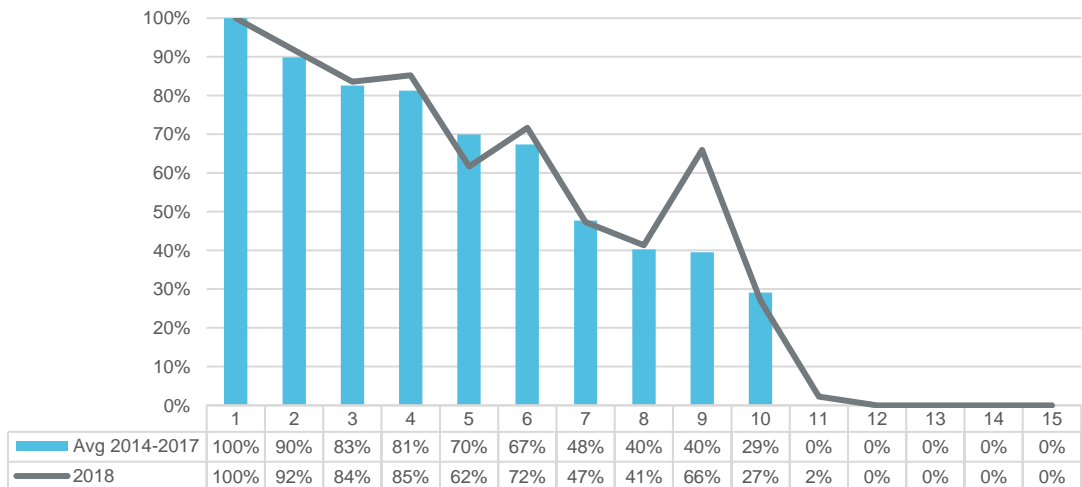
FIGURE 14: PERCENTAGE OF NEW ANNUALIZED PREMIUM SOLD THROUGH CAREER AGENTS: AVERAGE DURING 2014-2017 VS. 2018, BY COMPANY



Four of the 15 companies sell only through their career agents, and three issued no new IDI premium through career agents over the last five years. One company decided to sell only through brokers during the last five years.

The percentage of new annualized premium sold through brokers for all companies combined was 41% in 2018 and 42% over the 2014-2017 period. Figure 15 compares the percentage of new annualized premium sold by brokers in 2018 versus the average during 2014 to 2017. The companies in the chart are ordered so that No. 1 has the highest average percentage during the 2014-2017 period and No. 15 has the lowest.

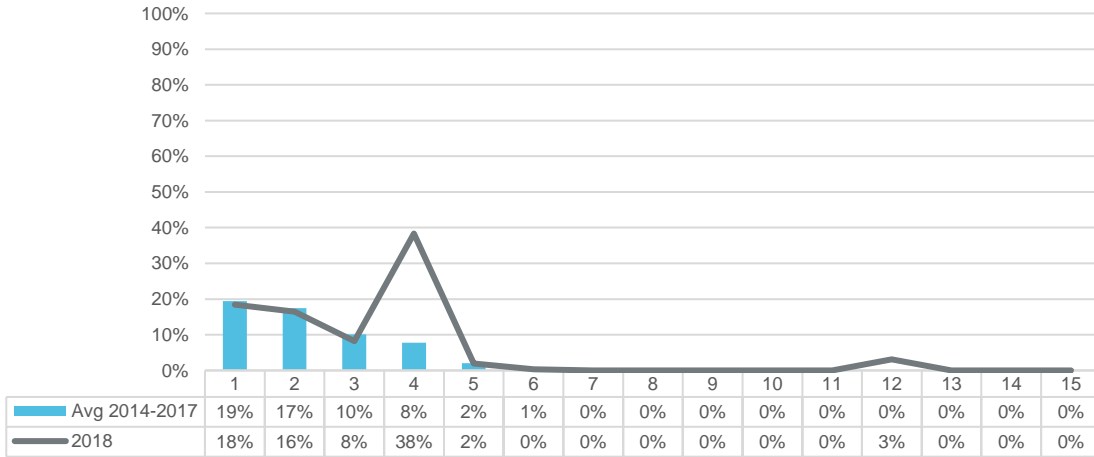
FIGURE 15: PERCENTAGE OF NEW ANNUALIZED PREMIUM SOLD THROUGH BROKERS: AVERAGE DURING 2014-2017 VS. 2018, BY COMPANY



Eleven of the 15 companies sell some portion of the new premium through brokers although one of these 11 companies has only started in 2018. One company experienced a significant jump in new premium sold by brokers, reaching 66% in 2018 compared to an average 40% over the prior four years.

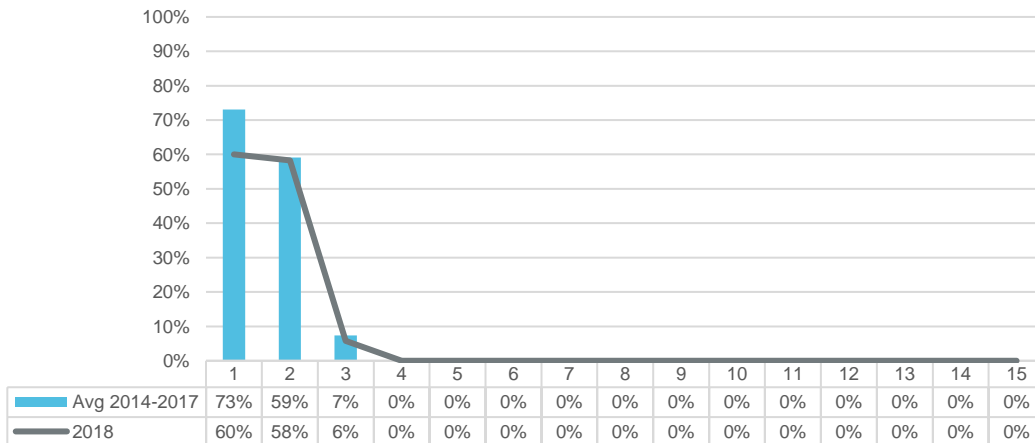
The percentage of new annualized premium sold through national accounts for all companies combined was 4% in 2018 and over the 2014-2017 period. Figure 16 compares the percentage of new annualized premium sold through national accounts in 2018 versus the average during 2014 to 2017. The companies in the chart are ordered so that No. 1 has the highest average percentage during the 2014-2017 period and No. 15 has the lowest. Six of the 15 companies sell IDI policies through national accounts. One company experienced a significant jump in new premium sold through national accounts, reaching 38% in 2018 compared to an average 8% over the prior four years.

FIGURE 16: PERCENTAGE OF NEW ANNUALIZED PREMIUM SOLD THROUGH NATIONAL ACCOUNTS: AVERAGE DURING 2014-2017 VS. 2018, BY COMPANY



The percentage of new annualized premium sold through other types of producers for all companies combined was 13% in 2018 and 12% over the 2014-2017 period. Figure 17 compares the average percentage of new annualized premium sold by other types of producers in 2018 versus the average during 2014 to 2017. The companies in the chart are ordered so that No. 1 has the highest average percentage during the 2014-2017 period and No. 15 has the lowest. Only three of the 15 companies sell IDI policies through other types of producers.

FIGURE 17: PERCENTAGE OF NEW ANNUALIZED PREMIUM SOLD THROUGH OTHER TYPES OF PRODUCERS: AVERAGE DURING 2014-2017 VS. 2018, BY COMPANY



NONCANCELABLE TRENDS

Figure 18 shows the shares of new IDI premium issued to noncancelable (noncan) policies over the last five years by market, key occupation, and distribution channel. Noncan policies guarantee renewability and premium rates for the life of the policy. As shown below, noncan policies are the predominant IDI policy form. Guaranteed renewable (GR) policies guarantee renewability during the life of the policy but premium rates may be changed on a class basis and require approval from state insurance departments. DBO policies (discussed in the subsection above on business products) guarantee renewability as long as the underlying business relationship between the insured and the business beneficiary continues. DBO policies are labeled conditionally renewable (CR) and not noncan or GR in the Annual Statement Blank of the National Association of Insurance Commissioners (NAIC).

For reporting in Milliman's IDI Market Survey, DBO policies that have guaranteed premiums are generally included with the noncan business, although there may be a few exceptions. In this year's Market Survey, the focus is on noncan trends, whereas in past surveys the focus has been on GR trends. By subtracting the noncan percentages shown below from one, the reader is able to derive the corresponding GR percentages.

FIGURE 18: PERCENTAGE OF NEW ANNUALIZED PREMIUM ISSUED ON NONCAN PRODUCTS

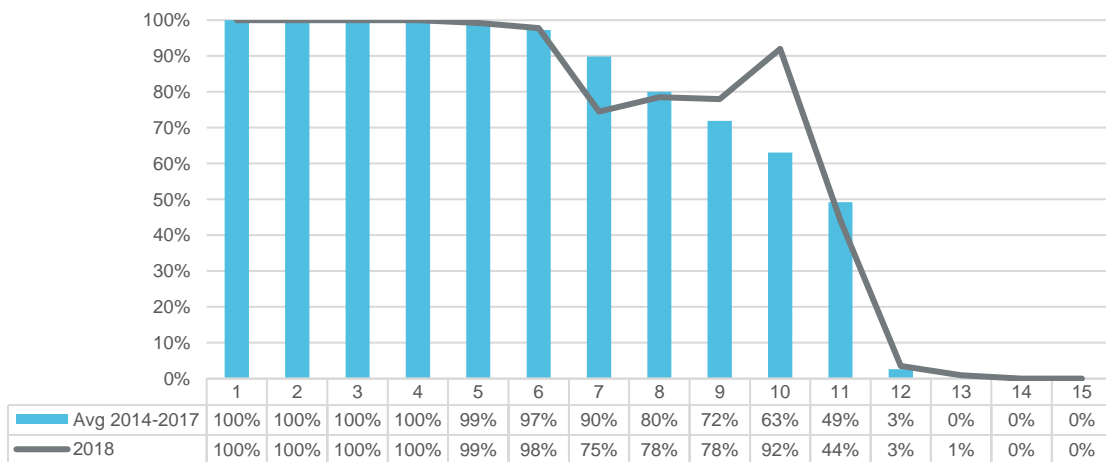
ISSUE YEAR	2014	2015	2016	2017	2018	AVERAGE
Total	81.0%	81.2%	82.3%	81.9%	80.3%	81.3%
BY MARKET						
Individually sold	70.7%	70.5%	71.7%	71.7%	67.5%	70.4%
Association	93.9%	96.2%	96.2%	93.8%	93.4%	94.8%
ESML	92.8%	86.0%	88.4%	86.7%	82.2%	87.0%
Employee-pay	91.2%	91.6%	92.8%	91.8%	92.8%	92.1%
Employer-pay	95.0%	77.5%	81.5%	78.9%	64.7%	79.3%
BY KEY OCCUPATION						
Doctors and surgeons	90.4%	90.5%	91.2%	92.6%	92.8%	91.6%
Dentists	89.9%	90.2%	91.6%	91.0%	92.2%	91.0%
Lawyers	86.3%	85.1%	86.4%	85.5%	88.8%	86.4%
Executives	76.1%	76.5%	76.5%	80.1%	80.0%	77.7%
Accountants	78.5%	75.8%	74.7%	74.0%	75.3%	75.7%
Other occupations	72.5%	73.1%	74.1%	73.1%	68.8%	72.2%
Business owners	76.2%	77.4%	79.4%	77.6%	79.7%	78.1%
BY DISTRIBUTION CHANNEL						
Career agents	68.5%	68.1%	70.0%	69.1%	64.6%	68.0%
Brokers	88.4%	88.4%	89.4%	88.8%	89.3%	88.8%
National accounts	92.2%	92.0%	92.6%	92.9%	93.7%	92.7%
Other producers	98.9%	98.7%	97.7%	98.1%	98.2%	98.3%

While the percentage of new annualized premium issued on noncan policies (averaging 81% over the last five years) changed little from year to year, differences occur among the various categories:

- Among the three markets, IDI premium issued in the individually sold market has a significantly lower noncan percentage than IDI premium issued in the ESML and association markets.
- Within the ESML market, employer-pay plans have lower noncan percentages than the employee-pay plans. The employer-pay percentage has been decreasing steadily over the last five years.
- Among the various key occupations listed above, doctors and surgeons and dentists categories have the highest noncan percentages (in excess of 90%), and “other occupations” has the lowest noncan percentage (averaging 72% over the last five years).
- Among the various distribution channels, “other producers” has the highest noncan percentage (averaging 98% over the last five years) and career agents has the lowest noncan percentage (averaging 68% over the last five years).

Figure 19 compares the percentage of new annualized premium issued on noncan policy forms in 2018 to the average over the prior four years. The companies in the chart are ordered so that No. 1 has the highest average percentage during 2014 to 2017 and No. 15 has the lowest.

FIGURE 19: PERCENTAGE OF NEW ANNUALIZED PREMIUM ISSUED ON NONCAN PRODUCTS: AVERAGE DURING 2014-2017 VS. 2018, BY COMPANY



Six of the 15 companies sell primarily noncan policies, and four sell primarily GR policies. This leaves five companies that offer a mix of noncan and GR products. One of these five companies has an average noncan percentage of 63% over the prior four years, but with the introduction of new IDI products in 2017, the company’s noncan percentage has jumped to 92% in 2018.

Section IV: Underwriting

This section discusses the current underwriting requirements of the 14 IDI companies that contributed to this part of the survey. One company does not contribute to the underwriting portion of this 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. Figure 20 compares the highest, median, and lowest issue limits among the 14 contributors for the top nonmedical occupation class and for the top medical occupation class in 2018 and 2019. Figure 20 also shows the number of contributors that are at the highest limit.

FIGURE 20: MAXIMUM ISSUE LIMITS, 2018 AND 2019

YEAR	TOP NONMEDICAL OCCUPATION CLASS		TOP MEDICAL OCCUPATION CLASS	
	2018	2019	2018	2019
Measure:				
Highest Limit	\$20,000	\$20,000	\$20,000	\$20,000
Median Limit	\$20,000	\$20,000	\$17,000	\$17,500
Lowest Limit	\$10,000	\$10,000	\$10,000	\$10,000
No. Companies at Highest Limit	11	11	3	6

The highest maximum issue limit among the 14 companies in both years has been \$20,000 for the top nonmedical and medical occupation classes. Three companies moved up to \$20,000 in the top medical occupation class in 2019. There was little movement in the maximum issue limits from 2018 to 2019 offered to the top nonmedical occupation class, with 11 of the 14 companies at the \$20,000 limit.

The participation limit is the largest total monthly benefit amount that an IDI company will permit an insured to have from all sources of IDI and group long-term disability (LTD), including coverage from other companies. Most companies are willing to participate at higher amounts when the insured has group LTD because the LTD benefits are typically taxable and offset for Social Security and workers' compensation disability benefits.

The tables in Figure 21 (when group LTD is not present) and Figure 22 (when group LTD is present) compare the highest, median, and lowest participation limits among the 14 contributors in 2018 and 2019 for the top nonmedical occupation class and the top medical occupation class.

FIGURE 21: MAXIMUM PARTICIPATION LIMITS WHEN GROUP LTD IS NOT PRESENT, 2018 AND 2019

YEAR	TOP NONMEDICAL OCCUPATION CLASS		TOP MEDICAL OCCUPATION CLASS	
	2018	2019	2018	2019
Measure:				
Highest Limit	\$35,000	\$35,000	\$30,000	\$30,000
Median Limit	\$27,500	\$27,500	\$22,500	\$22,500
Lowest Limit	\$12,000	\$12,000	\$12,000	\$12,000
No. Companies at Highest Limit	2	2	1	4

FIGURE 22: MAXIMUM PARTICIPATION LIMITS WHEN GROUP LTD IS PRESENT, 2018 AND 2019

YEAR	TOP NONMEDICAL OCCUPATION CLASS		TOP MEDICAL OCCUPATION CLASS	
	2018	2019	2018	2019
Measure:				
Highest Limit	\$40,000	\$40,000	\$35,000	\$35,000
Median Limit	\$30,000	\$30,000	\$27,500	\$30,000
Lowest Limit	\$12,000	\$12,000	\$12,000	\$12,000
No. Companies at Highest Limit	1	1	1	4

For the top nonmedical occupation class, two companies now offer the maximum participation limit of \$35,000 when there is no group LTD present. One company offers a \$40,000 maximum participation limit when group LTD is present for its top nonmedical occupation class.

For the top medical occupation class, four companies now offer a \$30,000 maximum participation limit when no group LTD is present compared to only one company in 2018. Four companies now offer a \$35,000 maximum participation limit when group LTD is present for their top medical occupation class.

REPLACEMENT LIMITS

A replacement limit is the highest monthly disability benefit that an insurer will issue on an applicant (including all sources of IDI and group LTD) based on an applicant's earned income. Because of the different tax treatments of disability benefits, replacement limits depend on the premium payer, i.e., the insured or the employer. Disability benefits are taxable to the insured when the employer pays the premium, but they are not taxable if the insured pays the premiums with after-tax income. Consequently, companies typically offer higher replacement ratios in employer-pay cases than when the insured pays the premium.

Many insurers offer higher replacement limits when applicants are also covered by group LTD due to the benefit offset provisions in group LTD coverage and the taxable nature of LTD benefits when the employer pays the premiums. Replacement limits have increased over the past few years as competition in the ESML market has increased. Replacement limits with LTD also tend to be flatter percentages of earned income in order to align better with LTD plan designs.

The tables in the next four figures compare the current median and maximum monthly replacement limits among the 14 survey contributors over a range of annual earned incomes, varying between premium payee and whether group LTD is present:

- Figure 23: Employee-pay policies when no group LTD is present.
- Figure 24: Employee-pay policies when group LTD is present.
- Figure 25: Employer-pay policies with no group LTD is present.
- Figure 26: Employer-pay policies with group LTD is present.

The ratios of maximum to median for the 2019 replacement limits measures the closeness of the median limits to the maximum limits. The ratios 2019/2018 compare the median and maximum replacement limits in 2019 to those in 2018 in order to observe where changes over the last year have occurred.

**FIGURE 23: MEDIAN AND MAXIMUM 2019 MONTHLY PARTICIPATION LIMITS BY ANNUAL EARNED INCOME,
FOR EMPLOYEE-PAY POLICIES WHEN NO GROUP LTD IS PRESENT**

ANNUAL EARNED INCOME	2019 MONTHLY REPLACEMENT LIMIT			2019 / 2018	
	MEDIAN	MAXIMUM	MAXIMUM TO MEDIAN	MEDIAN	MAXIMUM
\$20,000	\$1,290	\$1,370	1.06	101%	103%
\$40,000	\$2,415	\$2,525	1.05	101%	100%
\$60,000	\$3,405	\$3,610	1.06	100%	103%
\$80,000	\$4,250	\$4,610	1.08	101%	105%
\$100,000	\$5,045	\$5,500	1.09	100%	106%
\$125,000	\$6,045	\$6,600	1.09	100%	106%
\$150,000	\$7,150	\$7,700	1.08	100%	106%
\$175,000	\$8,150	\$8,810	1.08	100%	106%
\$200,000	\$9,250	\$9,860	1.07	101%	103%
\$250,000	\$11,413	\$11,910	1.04	100%	100%
\$300,000	\$13,000	\$13,750	1.06	100%	102%
\$350,000	\$14,795	\$15,540	1.05	100%	103%
\$400,000	\$16,000	\$16,500	1.03	100%	100%
\$450,000	\$16,535	\$18,225	1.10	100%	100%
\$500,000	\$17,490	\$19,890	1.14	100%	101%
\$550,000	\$18,400	\$20,000	1.09	100%	100%
\$600,000	\$19,550	\$20,000	1.02	101%	100%
\$650,000	\$20,000	\$20,750	1.04	100%	100%
\$700,000	\$20,000	\$21,900	1.10	100%	100%
\$750,000	\$20,215	\$22,900	1.13	100%	100%

**FIGURE 24: MEDIAN AND MAXIMUM 2019 MONTHLY PARTICIPATION LIMITS BY ANNUAL EARNED INCOME,
FOR EMPLOYEE-PAY POLICIES WHEN GROUP LTD IS PRESENT**

ANNUAL EARNED INCOME	2019 MONTHLY REPLACEMENT LIMIT			2019 / 2018	
	MEDIAN	MAXIMUM	MAXIMUM TO MEDIAN	MEDIAN	MAXIMUM
\$20,000	\$1,300	\$1,390	1.07	100%	89%
\$40,000	\$2,450	\$2,700	1.10	100%	92%
\$60,000	\$3,550	\$4,000	1.13	99%	97%
\$80,000	\$4,550	\$5,335	1.17	99%	96%
\$100,000	\$5,600	\$6,665	1.19	100%	95%
\$125,000	\$7,100	\$8,225	1.16	100%	93%
\$150,000	\$8,500	\$9,000	1.06	100%	84%
\$175,000	\$9,750	\$10,280	1.05	100%	84%
\$200,000	\$10,950	\$11,700	1.07	100%	86%
\$250,000	\$13,542	\$14,530	1.07	100%	86%
\$300,000	\$16,250	\$17,370	1.07	100%	87%
\$350,000	\$18,900	\$20,030	1.06	100%	89%
\$400,000	\$21,600	\$22,540	1.04	100%	89%
\$450,000	\$24,000	\$25,040	1.04	100%	90%
\$500,000	\$26,660	\$27,750	1.04	100%	91%
\$550,000	\$29,330	\$29,800	1.02	100%	93%
\$600,000	\$30,000	\$32,000	1.07	100%	95%
\$650,000	\$30,000	\$34,250	1.14	100%	98%
\$700,000	\$30,000	\$35,000	1.17	100%	100%
\$750,000	\$30,000	\$35,000	1.17	100%	100%

**FIGURE 25: MEDIAN AND MAXIMUM 2019 MONTHLY PARTICIPATION LIMITS BY ANNUAL EARNED INCOME,
FOR EMPLOYER-PAY POLICIES WHEN NO GROUP LTD IS PRESENT**

ANNUAL EARNED INCOME	2019 MONTHLY REPLACEMENT LIMIT			2019 / 2018	
	MEDIAN	MAXIMUM	MAXIMUM TO MEDIAN	MEDIAN	MAXIMUM
\$20,000	\$1,475	\$1,830	1.24	100%	100%
\$40,000	\$2,810	\$3,545	1.26	100%	101%
\$60,000	\$4,250	\$4,855	1.14	100%	100%
\$80,000	\$5,440	\$6,070	1.12	100%	106%
\$100,000	\$6,500	\$7,200	1.11	100%	101%
\$125,000	\$7,825	\$8,630	1.10	100%	102%
\$150,000	\$9,150	\$9,900	1.08	100%	101%
\$175,000	\$10,610	\$11,785	1.11	101%	103%
\$200,000	\$12,020	\$13,355	1.11	102%	102%
\$250,000	\$14,800	\$16,200	1.09	101%	101%
\$300,000	\$16,150	\$18,215	1.13	100%	100%
\$350,000	\$17,750	\$20,000	1.13	100%	100%
\$400,000	\$19,900	\$20,245	1.02	100%	100%
\$450,000	\$20,000	\$21,420	1.07	100%	100%
\$500,000	\$20,000	\$22,800	1.14	100%	100%
\$550,000	\$21,000	\$23,500	1.12	100%	100%
\$600,000	\$22,000	\$24,250	1.10	100%	100%
\$650,000	\$22,880	\$25,000	1.09	100%	100%
\$700,000	\$23,330	\$26,000	1.11	100%	100%
\$750,000	\$24,050	\$27,375	1.14	100%	100%

**FIGURE 26: MEDIAN AND MAXIMUM 2019 MONTHLY PARTICIPATION LIMITS BY ANNUAL EARNED INCOME,
FOR EMPLOYER-PAY POLICIES WHEN GROUP LTD IS PRESENT**

ANNUAL EARNED INCOME	2019 MONTHLY REPLACEMENT LIMIT			2019 / 2018	
	MEDIAN	MAXIMUM	MAXIMUM TO MEDIAN	MEDIAN	MAXIMUM
\$20,000	\$1,500	\$1,830	1.22	100%	100%
\$40,000	\$2,850	\$3,545	1.24	100%	101%
\$60,000	\$4,250	\$4,900	1.15	100%	100%
\$80,000	\$5,692	\$6,300	1.11	101%	100%
\$100,000	\$6,900	\$7,500	1.09	100%	100%
\$125,000	\$8,700	\$9,300	1.07	100%	100%
\$150,000	\$10,470	\$11,025	1.05	100%	100%
\$175,000	\$12,100	\$12,625	1.04	100%	100%
\$200,000	\$13,850	\$14,300	1.03	100%	100%
\$250,000	\$17,300	\$18,070	1.04	100%	100%
\$300,000	\$20,400	\$21,370	1.05	100%	100%
\$350,000	\$23,500	\$25,000	1.06	100%	100%
\$400,000	\$26,667	\$27,720	1.04	100%	100%
\$450,000	\$29,500	\$30,940	1.05	100%	100%
\$500,000	\$30,000	\$33,450	1.12	100%	97%
\$550,000	\$30,000	\$35,000	1.17	100%	100%
\$600,000	\$30,000	\$35,000	1.17	100%	100%
\$650,000	\$30,000	\$35,000	1.17	100%	100%
\$700,000	\$30,000	\$36,000	1.20	100%	100%
\$750,000	\$30,000	\$37,250	1.24	100%	100%

Three companies increased their participation limits for employee-pay business when no group LTD is present, which increased the maximum participation limits among the 14 companies for annual earned incomes ranging from \$80,000 through \$200,000. The median participation limits did not change.

The same three companies changed their participation limits for employee-pay business when group LTD is present. Two of the companies increased their participation limits while one decreased its participation limit, which decreased the maximum participation limits among the 14 companies. The median participation limits did not change.

Two companies increased their participation limits for employer-pay business when no group LTD is present, which increased the maximum participation limits among the 14 companies for annual earned incomes ranging from \$80,000 through \$250,000.

Two companies increased their participation limits for employer-pay business when group LTD is present, but there were no material changes in median and maximum participation limits among the 14 companies.

UNDERWRITING REQUIREMENTS: INDIVIDUALLY SOLD MARKET

The tables in Figures 27, 28, and 29 show the blood testing, financial documentation, and paramedical examination requirements for 13 contributors' normal underwriting rules in 2019. One company did not submit any underwriting requirements because it no longer sells IDI products in the individually sold market. A number between parentheses in any response indicates how many companies have this requirement.

FIGURE 27: BLOOD TESTING LIMITS IN 2019

\$1,500 and above, depending on age and BP. Some ages we get blood on all
\$2,001
\$2,500
For ages 41-64: \$2,500; for ages 18-40: \$5,001
\$3,000 (3)
\$3,001
\$3,100
\$4,000
Under age 45: \$1,000 to \$5,000 oral fluids: \$5,000+ blood & urine. Over age 45: \$1,000+ blood & urine
For ages 18-50: blood & urine required for amounts >= \$5,001; for ages 51-60 for amounts >= \$3,001
Under age 50 and <= \$6,000: no labs; over age 50 and >\$6,000 or over \$6,000: require labs

Based on the survey responses, no company has changed its blood testing limits since last year.

FIGURE 28: FINANCIAL DOCUMENTATION LIMITS IN 2019

Require documentation for all cases (3)
All cases except for medical students, residents, and new professionals, and under simplified underwriting
\$3,000 (2)
For employees: none for coverage up to \$3,000; W2 required for higher coverage or for PR. Varies for business owners
\$5,001 (2)
\$5,100
Not required for employees up to \$5,000; require documentation for amounts over \$5,000 and all self-employed individuals
Benefits applied and inforce (excluding LTD) exceeds \$10,000

Based on the survey responses, no company has changed its financial documentation limits since last year.

FIGURE 29: PARAMEDICAL EXAMINATION LIMITS IN 2019

\$2,001
\$2,501
\$3,000 to age 50; \$2,000 ages 51 and over
\$3,000 for 40-45 BP of 5 years; \$2,000 for 40-45 BP > 5 years; \$2,500 for 46-49 BP of 5 years; \$1,500 for 46-49 BP > 5 years
\$3,000
\$3,001
Under age 45: \$5,000 to \$7,500 physical measurements, \$7,500+ paramedical; over age 45: \$1,000 to \$7,500 physical measurements, \$7,500+ paramedical
\$5,001
\$5,100
Required only when traditional paper Part B completed on benefit amounts \$7,501 and greater
\$11,000

Based on the survey responses, no company has changed its paramedical examination limits since last year.

Companies were asked if they are using or considering using tele-applications, pharmaceutical databases, motor vehicle records, and electronic underwriting engines in their underwriting. One company did not respond because it no longer sells IDI products in the individually sold market. Figure 30 summarizes the responses of the other 13 companies.

FIGURE 30: 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	8	1	3	1
Pharmaceutical databases	13	0	0	0
Motor vehicle records	11	0	0	2
Electronic underwriting engines	4	4	4	1

All 13 of the IDI companies utilize pharmaceutical databases in their underwriting. Eleven companies utilize motor vehicle records, and two are not considering using this tool. One of the 11 companies pointed out that use of motor vehicle records was subject to the discretion of the underwriter. Eight utilize tele-applications. Four companies utilize electronic underwriting engines, and four companies have plans to utilize electronic underwriting engines in the near 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. Normal underwriting**
Normal underwriting involves traditional medical and financial underwriting. We include simplified medical underwriting in this category.
- 2. Guaranteed standard issue (GSI)**
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. Guaranteed to issue (GTI)**
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.

The tables in Figures 31 and 32 show the GSI underwriting requirements for ESML cases reported by nine companies currently active in the ESML market. Figure 31 shows the voluntary GSI requirements typical of employee-pay cases, and Figure 32 shows the GSI requirements typical of employer-pay cases, which include 100% of eligible employees.

FIGURE 31: EMPLOYEE-PAY (VOLUNTARY) GSI REQUIREMENTS, 2019

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	\$4,000	\$5,000	\$7,000	\$8,000	>25% or 10 lives	25%	25%	25%
10	\$3,000	\$5,000	\$5,000	\$5,000	100%	30%	30%	30%
15	\$5,000	\$5,000	\$5,000	\$5,000	50%	20%	20%	20%
15 or 30% of total group	NA	\$5,000	Case by case	Case by case	30%	30%	30%	30%
30	NA	\$3,000	\$5,000	\$5,000	NA	30%	30%	30%
Minimum 50 eligible lives, 15 must apply	NA	\$5,000	\$15,000	\$15,000	NA	30%	15%	15%
75	NA	NA	\$10,000	\$10,000	NA	NA	30%	25%
Approximately 75	NA	NA	NA	NA	NA	NA	NA	NA
75 with incomes \$100,000 and above	NA	NA	NA	NA	NA	NA	NA	NA

Notes: "NA" means that the company did not provide its requirements. The participation requirement 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., \$3,000 to \$5,000 for cases of 10 and 50 lives, \$5,000 to \$15,000 for cases of 200 and 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 31 shows, minimum participation requirements now range from 15% to 30% for all but the smallest cases.

FIGURE 32: EMPLOYER-PAY (MANDATORY) GSI REQUIREMENTS, 2019

MINIMUM NUMBER OF LIVES	MAXIMUM ISSUE LIMITS BY CASE SIZE			
	10 LIVES	50 LIVES	200 LIVES	1,000 LIVES
5	\$5,000	\$8,500	\$10,000	\$10,000
5	\$10,000	\$12,500	\$15,000	\$15,000
5	\$20,000	\$20,000	\$20,000	\$20,000
5	NA	NA	NA	NA
10	\$2,500	\$10,000	\$10,000	\$10,000
10	\$3,000	\$8,000	\$8,000	\$8,000
10	\$4,000	\$7,500	\$10,000	\$15,000
10	\$10,000	\$17,500	Case by case	Case by case
10	NA	NA	NA	NA
15	\$5,000	\$5,000	\$5,000	\$5,000

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 reports that it offers a maximum GSI limit of \$20,000 on cases that have at least five lives.

Figure 33 shows the distribution of ESML new premium for issue years 2014 through 2018 by type of underwriting split between employee-pay and employer-pay plans. These results are from all companies that are active in the ESML market today and that contributed to the new sales results in Section III above.

FIGURE 33: DISTRIBUTION OF ESML NEW ANNUALIZED PREMIUM BY TYPE OF UNDERWRITING, ISSUE YEARS 2014 THROUGH 2018

ISSUE YEAR	EMPLOYEE-PAY			EMPLOYER-PAY		
	GSI	GTI	NORMAL AND SIMPLIFIED ISSUE	GSI	GTI	NORMAL AND SIMPLIFIED ISSUE
2014	52.6%	1.3%	46.1%	88.7%	1.3%	10.0%
2015	55.4%	1.1%	43.5%	88.8%	0.9%	10.2%
2016	53.2%	1.2%	45.6%	91.1%	0.9%	7.9%
2017	53.4%	1.2%	45.4%	92.5%	0.7%	6.7%
2018	59.1%	1.1%	39.8%	89.4%	1.0%	9.6%
Average	54.9%	1.2%	44.0%	90.1%	1.0%	8.9%

From 2014 through 2018, GSI business averaged 55% of the employee-pay ESML new premium and 90% of the employer-pay ESML new premium. In 2018 GSI business jumped to 59% of the employee-pay ESML new premium, while the percentage of normal and simplified underwritten business dropped to 40%.

The companies were asked to rate their satisfaction with the morbidity results of their employee-pay (voluntary) GSI cases. The table in Figure 34 compares the responses from the IDI market surveys in 2018 and 2019 of seven companies that are active in the ESML 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 the company's expectations, and a rating of 5 means the company is very pleased.

FIGURE 34: COMPANY RATINGS OF THEIR VOLUNTARY GSI MORBIDITY

RATING	2018	2019
1 (least satisfied)	1	1
2	2	2
3	3	4
4	1	0
5 (most satisfied)	0	0
Average	2.6	2.4
Median	3.0	3.0

Three companies expressed dissatisfaction by giving ratings of 1 or 2 in both years, but the four other companies indicated that their experience met their expectations with ratings of 3. One company reduced its rating from 4 in 2018 to 3 in 2019.

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 companies 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) were abbreviated or waived to speed up and simplify the IDI underwriting process.

Eight companies described the simplified underwriting programs that they used during the last year. Figure 35 provides their responses.

FIGURE 35: SIMPLIFIED UNDERWRITING PROGRAMS IN 2019

We piloted a program with instant issue if the applicant answered correctly to a number of knockout questions. We did not get enough participation to justify an expansion of this program, but we are continuing to explore alternate simplified issue programs.

We use express IDI Underwriting, up to age 45 and MIB \leq \$5,000 with no blood/urine or financials.

Our priority IDI product uses knockout application.

Select groups based on paid premium, placement ratios, and claims experience receive simplified underwriting.

Labs and financials are not required if issue age \leq 50 (\leq 64 for multi-life), MIB \leq \$6,000 issue, and participation amount \leq \$10,000 (excluding LTD).

Personal DI and business-overheard expense applications that meet certain criteria will automatically trigger simplified underwriting. We issue up to \$6,000 of coverage up to age 45 (or up to \$7,500 for physicians completing residency or fellowship), \$3,000 of coverage up to age 50.

We use a screening application on short term DI, with RX profile accompanied with rules.

Individuals are eligible for a simplified DI contract (\$500 to \$2,000 monthly benefit, 90-day elimination period, 60-month maximum benefit 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

Companies were asked to describe any changes in their underwriting programs since the last IDI market survey. Only one company reported a change, stating that it has discontinued personal history phone interviews except for tele-underwritten applications and now requires prescription database reports for all applicants.

UNDERWRITING DECISIONS

Companies were asked to provide the distribution of their underwriting decisions for years 2014 through 2018 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

The table in Figure 36 compares the average underwriting decisions among 12 companies for all policies for which an underwriting decision was made from 2014 through 2018. Of the 14 companies contributing to the surveys, one does not provide any underwriting-related data and one did not submit underwriting decision data that was computed consistently with the other 12 companies. This analysis is intended to exclude applications with missing information or that were withdrawn. The “issued other” category combines rated, waived, and modified underwriting decisions.

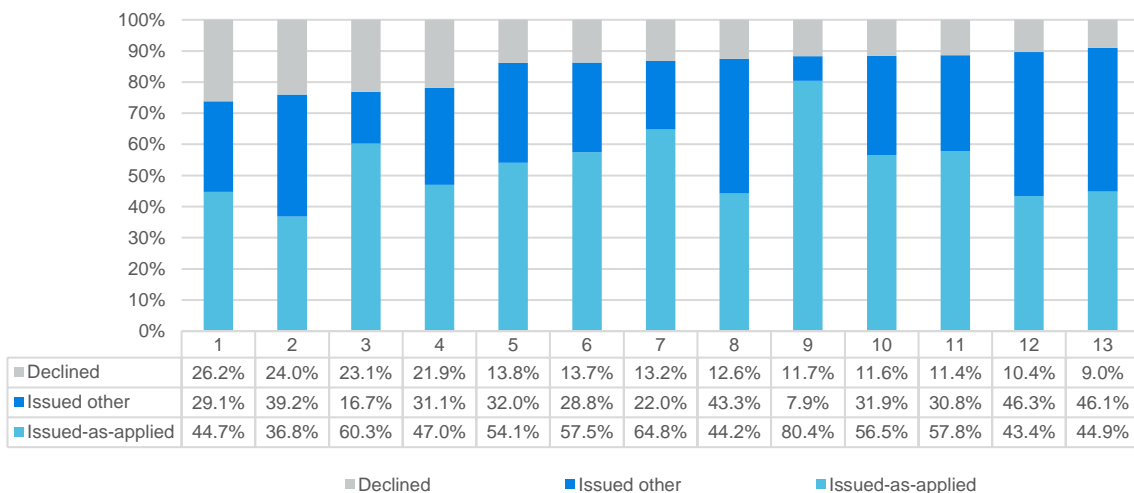
FIGURE 36: AVERAGE UNDERWRITING DECISIONS, 2014 THROUGH 2018

ISSUE YEAR	ISSUED AS APPLIED	ISSUED OTHER	TOTAL ISSUED	DECLINED
2014	54.8%	30.9%	85.6%	14.4%
2015	54.5%	30.8%	85.4%	14.6%
2016	52.4%	31.6%	84.0%	16.0%
2017	51.6%	32.3%	83.9%	16.1%
2018	53.0%	30.2%	83.2%	16.8%
Average	53.3%	31.2%	84.4%	15.6%

The average percentage of applications that were issued as applied decreased in the years 2016 to 2018 compared with 2014 to 2015. The average percentage of declined applications increased in the years 2016 to 2018 compared with 2014 to 2015.

The chart in Figure 37 shows the average distribution of underwriting decisions over the last five years for the 13 companies that sell in the individually sold market. Companies have been labeled 1 through 13 and sorted so that No. 1 has the lowest total issued percentage and No. 13 has the highest.

FIGURE 37: AVERAGE DISTRIBUTION OF UNDERWRITING DECISIONS BY COMPANY, 2014 THROUGH 2018



The average issued as applied percentages over the last five years range from 36.8% to 80.4% for the 13 companies, the average issued other percentages range from 7.9% to 46.3%, and the average declined percentages range from 9.0% to 26.2%.

These results indicate a wide range of underwriting practices among the 13 companies. For example, company M, which has the lowest average declined percentage over the five years (9.0%), has the highest average issued other percentage (46.1%), while its average issued-as-applied percentage (44.9%) is one of the lower ones. This suggests that company M may be less willing to issue policies as applied but more willing than most other companies to modify the policy benefits or apply waivers in order to issue the policy.

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. Fourteen of the 15 surveyed companies responded to the product-related section of the survey.

NEW PRODUCT AND PREMIUM RATE CHANGES SINCE THE LAST SURVEY

Companies described product and premium rate changes implemented since the 2018 IDI Market Survey, which are summarized in Figure 38. Six companies reported product changes, although three of the changes were related to underwriting limits.

FIGURE 38: PRODUCT CHANGES SINCE THE 2018 IDI MARKET SURVEY

Introduced new accident only rider, critical illness rider and CAT rider.

Launched our flagship IDI product in California making the product available in all jurisdictions.

Increased issue & participation limits in November 2018.

Increased the issue & participation limits for issue ages 18-54 in the top three medical occupation classes to be the same those for the non-medical classes.

Offered choice in some markets for the mental & nervous limitation rider.

Changed underwriting limits for medical business.

Five companies reported making premium rate changes since the 2018 IDI Market Survey.

Figure 39 shows premium rate changes since the 2018 IDI Market Survey reported by two companies.

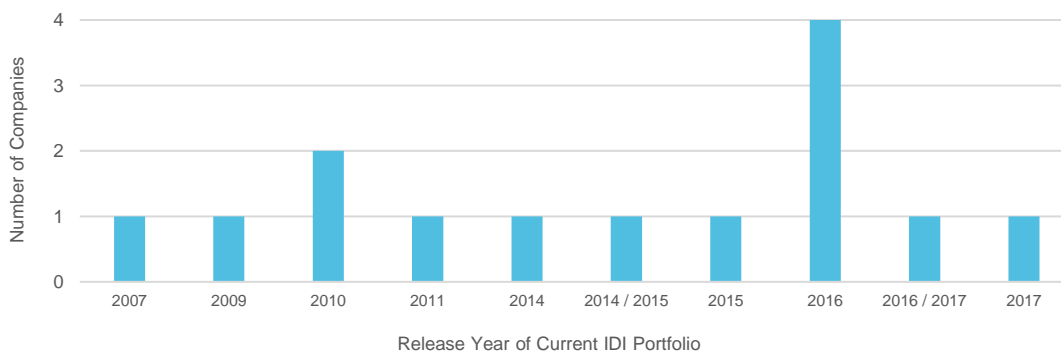
FIGURE 39: PREMIUM RATE CHANGES SINCE THE 2018 IDI MARKET SURVEY

Moved dermatologists, neonatologists, ophthalmologists, pathologists, engineers up an occupation class.

Updated occupation classifications, which affected rate levels for some occupations.

Figure 40 shows the years in which the 14 companies released their current IDI portfolios. Six of the 14 companies released their current IDI products in 2016 and later.

FIGURE 40: RELEASE YEARS OF CURRENT IDI PORTFOLIOS



CURRENT PRODUCT FEATURES

Figure 41 shows how many of the 14 companies offer various product features in their current IDI product portfolios. Companies offer these features in the base policy or add them via riders.

FIGURE 41: CURRENT IDI PRODUCT FEATURES

PRODUCT FEATURE	NUMBER OF COMPANIES
ADL (Catastrophic)	9
Return of premium	3
Lifetime sickness	1
Pension completion	3
Critical / serious illness	6
Pure own occupation	10
Pure own occupation for doctors	8

MENTAL/NERVOUS LIMITATIONS

Figure 42 shows how many companies include a mental/nervous (MN) limitation in their base IDI policies. The prevalent MN limitation applies to the first two years during a claim. Each line indicates whether a company has a two-year MN limitation and, if so, whether full MN coverage (i.e., over the full benefit period) is available. The numbers in parentheses indicate how many companies had the same response.

FIGURE 42: TWO-YEAR MN LIMITATION PROVISIONS

DOES YOUR BASE POLICY HAVE A 24-MONTH MN LIMITATION?	IS FULL MN COVERAGE AVAILABLE?
Yes (7)	Yes (7)
Yes/No (3)	Yes / No
No (2)	No (4)
No for Individual DI; yes for ESML	Yes for ESML
Higher non-medical occupation classes have a 5-year limitation; all others have a 2-year limitation	Yes for employer-pay GSI with at least 10 lives

Seven companies include a 24-month MN limitation in all of their base IDI policies and allow full MN coverage in some situations. Three companies indicated that they include a 24-month MN limitation in some of their IDI policies but not all. Another company includes a five-year limitation in policies issued to higher nonmedical occupation classes and a 24-month limitation in all other policies. Another company does not include the 24-month MN limitation on individual billed policies but does require it on ESML policies.

A number of companies make full MN coverage available through a rider even if the base policy has a 24-month MN limitation. However, this option may not be available to everyone. The table in Figure 43 lists the segments that do not offer full MN coverage.

FIGURE 43: SEGMENTS FOR WHICH FULL MN IS NOT AVAILABLE

Not available on fully underwritten IDI or voluntary GSI.

For IDI, in CA and certain occupations; for ML, underwriting approves on case level basis.

Individual, voluntary multi-life and employer-pay with less than 20 lives.

Medical occupations.

Only available for GSI of 20+ lives.

Not available to anesthesiologists and emergency room physicians.

Some state specific restrictions.

A 24-month limitation is required for blue and gray collar occupations, and lower medical classes.

GEOGRAPHICAL PRICING

Companies were asked to list all states in which they charge premium surcharges on issued policies due to higher claim costs. Figure 44 lists the 18 states (including Puerto Rico) for which at least one company has a premium surcharge, the number of such companies for each state, and the median, minimum, and maximum surcharges. For most companies, the premium surcharge for a state was a single percentage applied to all policies. For some companies, the premium surcharges for a state vary by a number of factors, and in these cases, the premium surcharges represent averages.

FIGURE 44: PREMIUM SURCHARGES BY STATE

STATE	NO. COMPANIES	MEDIAN	MINIMUM	MAXIMUM
California	11	27.5%	20.0%	90.0%
Florida	8	10.0%	7.5%	20.0%
Arizona	3	10.0%	10.0%	20.0%
Nevada	3	20.0%	10.0%	20.0%
Louisiana	2	10.0%	10.0%	10.0%
New Mexico	2	10.0%	10.0%	10.0%
Arkansas	1	10.0%	10.0%	10.0%
Delaware	1	10.0%	10.0%	10.0%
Hawaii	1	10.0%	10.0%	10.0%
New Hampshire	1	10.0%	10.0%	10.0%
New Jersey	1	10.0%	10.0%	10.0%
New York	1	30.0%	30.0%	30.0%
Puerto Rico	2	25.0%	25.0%	25.0%
Rhode Island	1	10.0%	10.0%	10.0%
Texas	1	10.0%	10.0%	10.0%
Utah	1	10.0%	10.0%	10.0%
Vermont	1	10.0%	10.0%	10.0%
West Virginia	1	10.0%	10.0%	10.0%

Thirteen of the 14 companies have a premium surcharge in at least one state. Eleven companies have a premium surcharge in California, and eight in Florida. One company sells a different product in California than in other states because California has not approved its newer product. The 10% premium surcharge in Vermont by one company is due to Vermont not approving the company’s MN limitation. One company has a higher premium surcharge for policies sold in the ESML market than in the individually sold market.

PREMIUM SURCHARGE FOR TOBACCO USE

All 14 companies have a premium surcharge for tobacco use. Eight companies charge additional premium for any tobacco use.

Figure 45 shows the range of premium surcharges for tobacco use among the 14 companies.

FIGURE 45: RANGE OF PREMIUM SURCHARGES FOR TOBACCO USE

Median	25.0%
Minimum	20.0%
Maximum	35.0%

Figure 46 lists the different definitions of tobacco used by the companies.

FIGURE 46: VARIATIONS IN THE DEFINITIONS OF TOBACCO USE

Tobacco use (6)
Tobacco or nicotine use
Nicotine use
All forms of nicotine, tobacco, and marijuana use
Cigarette, electronic cigarette, nicotine cessation products, chewing tobacco, cigars, and marijuana

Six companies continue to refer to “tobacco use,” while others have expanded it to “nicotine use.” Two companies include marijuana, and one has expanded the definition to include electronic cigarettes.

Section VI: General trends

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

COMPANIES' SATISFACTION WITH PROFITABILITY AND SALES RESULTS

Companies rated their overall satisfaction with the profitability and sales performances of their IDI businesses, ranking from 1 to 5, where 1 indicates that the contributor is very dissatisfied and 5 that the contributor is very satisfied. Figure 47 compares this year's responses from the 14 companies with their responses from last year's survey.

FIGURE 47: COMPANIES' SATISFACTION WITH THEIR PROFITABILITY AND SALES RESULTS

RANKING	OVERALL PROFITABILITY		OVERALL SALES RESULTS	
	2018 SURVEY	2019 SURVEY	2018 SURVEY	2019 SURVEY
1 (very dissatisfied)	0	0	1	0
2	1	1	5	5
3	5	4	3	5
4	6	7	2	3
5 (very pleased)	2	2	3	1
Average	3.6	3.7	3.1	3.0
Median	4	4	3	3

The average overall profitability ranking increased as one company increased its rating from 3 to 4. The average overall sales results ranking decreased slightly as two companies increased their overall sales rankings by one level, and two companies decreased their rankings one or two levels.

MAKING THE IDI SALE EASIER

IDI coverage is difficult to sell compared with individual life or annuity products. Many companies look to simplify the process with the hope of improving sales. Surveyed companies listed the actions they have taken over the last year to make the IDI sale easier. Figure 48 lists the responses. Companies mentioned a wide range of actions designed to facilitate the sales, issue, and underwriting processes. The focus of many companies over the last year has been on implementing or improving administrative processes and on increasing underwriting limits.

FIGURE 48: STEPS TAKEN BY COMPANIES TO FACILITATE THE SALES PROCESS

ADMINISTRATIVE CHANGES

Gathering more information electronically

Enhanced enrollment platform

Updated administrative capabilities

Introduced a new administrative system

UNDERWRITING RULES

Increased mini-examination limits when using tele-application process

Increased underwriting limits for medical business

Increased participation limits with other IDI coverage for simplified underwriting

Increased maximum issue & participation limits for some occupations

Worked toward accelerated underwriting

No longer require inspection reports

MARKETING AND SALES

Enhanced agent portals

Marketing and Sales are working together on a program to educate agents

Enhanced marketing materials - message, tone and voice

PRODUCT CHANGES

Expanded availability of student loan rider

FAVORABLE TRENDS IN THE IDI MARKET

Companies listed favorable trends that they are seeing in the IDI market. Figure 49 shows their responses. The numbers in parentheses beside some observations indicate the number of companies that had the same or similar observations. Ten of the 14 companies have been observing stable or improving claim experience, which was similar to the last survey. Eight companies mentioned favorable sales growth either in total or in specific markets. Related to favorable sales, some companies observed that their producers were more engaged with the IDI products.

FIGURE 49: OBSERVED FAVORABLE TRENDS IN THE IDI MARKET**CLAIM EXPERIENCE**

Stable claim incidence

Stable claim terminations

Stable claim experience and stable claim reserves

Low claim incidence rates

Lower claim incidence rates

Consistent or increasing claim termination rates

Claims continue to be very favorable

Favorable claim incidence in 2018

Strong claims management

Claims experience on current product still within pricing

MARKETING AND SALES

Higher sales volume in the fully underwritten block

Increased limits not requiring financial documentation

Generally strong markets

Shift from medical occupation classes to non-medical occupation classes after introduced premium loads on medical classes in 2015

Continued increase in ESML activity

Good overall sales growth

Developing new market and consistent product for release in 2019

Consumer optimism

DISTRIBUTION

Better agent engagement

Focus on training and education of advisors on IDI, three in-house DI specialists to focus on DI vs. other internal life wholesalers

Increased traction through brokerage channel

OTHER FAVORABLE TRENDS

Stable policy lapsation

Increased corporate focus on recurring premium risk products

Advances in technology improving processing

Low unemployment

Tax reform

UNFAVORABLE TRENDS IN THE IDI MARKET

Companies listed the unfavorable trends that they are seeing in the IDI market. Figure 50 shows the various responses. The numbers in parentheses beside some observations indicate the number of companies that had the same or similar observations. Most of the observed unfavorable trends in this year's survey relate to the market (e.g., lack of diversity, aging client base, flat sales). Several companies mentioned low interest rates.

FIGURE 50: OBSERVED UNFAVORABLE TRENDS IN THE IDI MARKET

MARKETING AND SALES

Insufficient diversity by occupation

Flat sales of non-medical/non-dental business

A higher concentration in the medical market than preferred

Unfavorable gender mix in new sales

Aging client base with focus on retirement not protecting current earnings

High decline and incomplete application rate

High rate of retired and withdrawn applications prior to an underwriting decision

GSI offers going up but placement is going down

Lack of participation on voluntary GSI

Challenged to increase sales

Sales down from relatively high levels in prior year

Limited number of carriers creates challenges

Competing priorities with larger markets

Competitive landscape

Client belief among customers that IDI not necessary (e.g. "I have group coverage, don't need more")

Lack of consumer DI knowledge

Loss of IDI and GSI market and marketplace knowledge across home office staff and producers

CLAIMS EXPERIENCE

Poor claim experience for dentists

Decreasing profitability on some dental occupations

Unfavorable terminations in 2018

DISTRIBUTION

Lack of distribution focusing on middle income DI clients

Lack of distribution asking consumers about income protection

Advisor belief that IDI not necessary or too complicated, or lack of knowledge of how to sell IDI

PRODUCTS

Outdated products

Potential regulatory issues regarding pre-existing conditions provisions, requirement of unisex rates, etc.

OTHER UNFAVORABLE TRENDS

Low interest rates (2)

Conversion to a new administrative system is straining resources

Increasing regulatory activity

OBSTACLES TO THE LONG-TERM FINANCIAL HEALTH OF THE IDI MARKET

Companies listed obstacles in the IDI market that could impede future growth and profitability. Figure 51 shows their various responses. The numbers in parentheses beside some observations indicate the number of companies that had the same or similar observations. Like the last IDI Market Survey, the two largest obstacles to the long-term financial health expressed by the companies pertain to market limitations (i.e., diversification and awareness of the need for IDI products) and distribution limitations (aging or disengaged IDI producers).

FIGURE 51: OBSTACLES TO THE LONG-TERM FINANCIAL HEALTH OF THE IDI MARKET

MARKET

Flat market with little growth

Limited number of carriers creates challenges

Market penetration

Reaching and selling to new and underserved markets

End consumer not aware of the need (4)

Consumer apathy

Aging client base

Profitability challenges (e.g., low participation) in the voluntary GSI business (2)

Impact of gender shift to females on current unisex rates

DISTRIBUTION

Aging producers, young producers focusing on asset management

Aging distribution with inadequate succession planning

Aging sales force in traditional channels

Distribution that won't sell outside medical market

Lack of agent IDI training

Advisors not engaged

UNDERWRITING

Possible excessive liberalization of underwriting with automation and other streamlining efforts

More aggressive underwriting practices due to competitive pressures (2)

PRODUCT

Increasing liberalizations of benefits with declining premiums

Lack of innovation

ECONOMICS

Potential future economic downswings

Low interest rates (2)

OTHER OBSTACLES

Regulatory environment outdated and increasingly complex (2)

Increasing costs to implement new technology.

OPPORTUNITIES FOR GROWTH IN THE IDI MARKET

Companies were asked to list opportunities for long-term growth in the IDI market. Figure 52 lists the various responses. The wide range of listed growth opportunities in Figure 52 indicate that companies are trying to branch out from the more traditional market segments that have defined the IDI market over the years.

FIGURE 52: OPPORTUNITIES FOR GROWTH IN THE IDI MARKET

DISTRIBUTION

Dedicated wholesalers specializing in DI to simplify process and educate advisors

Financial planning tie-ins

Advisors currently not selling DI

Non-traditional distribution channels

Younger advisors

ESML MARKET

Worksite market

Multi-life GSI sales - especially in non-medical markets

Employer sponsored markets

GSI business

Employer-paid GSI

NON-MEDICAL OCCUPATIONS

Non-medical occupations (2)

White-collar occupations and professionals (3)

Skilled trades

Graduating students in professional programs

MEDICAL OCCUPATIONS

Medical occupations (2)

Dental occupations

Medical residents

OTHER OPPORTUNITIES

Millennials

Millennial professionals

Independent workers, especially in technology fields

Expansion into New York

Shorter benefit periods

Self-employed

Higher incomes within middle-income market

Middle incomes

OBSERVED CHANGES IN IDI CLAIM PATTERNS

While the overall financial results may indicate continued profitability for many companies, attention to changes in claim patterns can identify early indicators of future unfavorable morbidity results and enable companies to address potential claim issues before they become unmanageable. Companies were asked to describe any changes to their historical claim patterns observed since the last IDI Market Survey. Figure 53 lists the various responses. This year the number of unfavorable changes are more than the number of favorable changes, which may suggest that companies are spending more time studying their claim experience.

FIGURE 53: CHANGING CLAIM PATTERNS IN THE IDI MARKET OBSERVED SINCE THE 2017 IDI MARKET SURVEY

FAVORABLE CHANGES

Low incidence in 2018, not isolated to any particular cohort

Claim patterns have been fairly stable

Decrease in claims from fully underwritten policies within the first two policy years

UNFAVORABLE CHANGES

Higher than average percentage of mental/nervous claims reporting (2)

Increase in doctors and dentists selling practices before or at the time of claim

Increase in face amount on new claims

Increase in claims within two years of issuing an increase option exercise



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