



Economic Implications on Group Life Pricing

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Agenda

- Overview
 - Market
 - Product/Risk Considerations
- Economic Considerations
 - Waiver of Premium Incidence
 - Case Study Scenarios

Group Life Marketplace

- \$21 Billion Annual Premium Market
- Top 10 carriers write \$17 Billion of annual premium (80% share)
- Top 30 carriers have 90% market share
- Inforce Premiums Relatively Flat in 2009 and 2010

Rank	Company	Premium (\$B)	Market Share
1	Met Life	\$5.2	25%
2	Prudential	\$2.9	14%
3	Minnesota Life	\$1.5	7%
4	The Hartford	\$1.4	7%
5	New York Life	\$1.3	6%

2010 LIMRA Market Results Survey

Group Life Overview

- Life insurance is an important part of an employee's benefit package
- Most common is Annual Renewable Term
- Covers actively at work employees as well as retirees if applicable
- Employers will usually pay for a Basic Life plan (limited benefits) and offer the employees the option to pay for a Supplemental Life plan (richer benefits)

Target Customers

- Brokers
 - Ease of doing business and value proposition
- Employers
 - Differentiate on product and service offering
 - Sell value proposition
- Employees
 - Educate on importance of life insurance

Group versus Individual

Group Life

Individual Life

Unknown	Exposure	Known
Unknown	Amount	Known
Known	Timing	Unknown
Guaranteed Issue	Underwriting	Medical

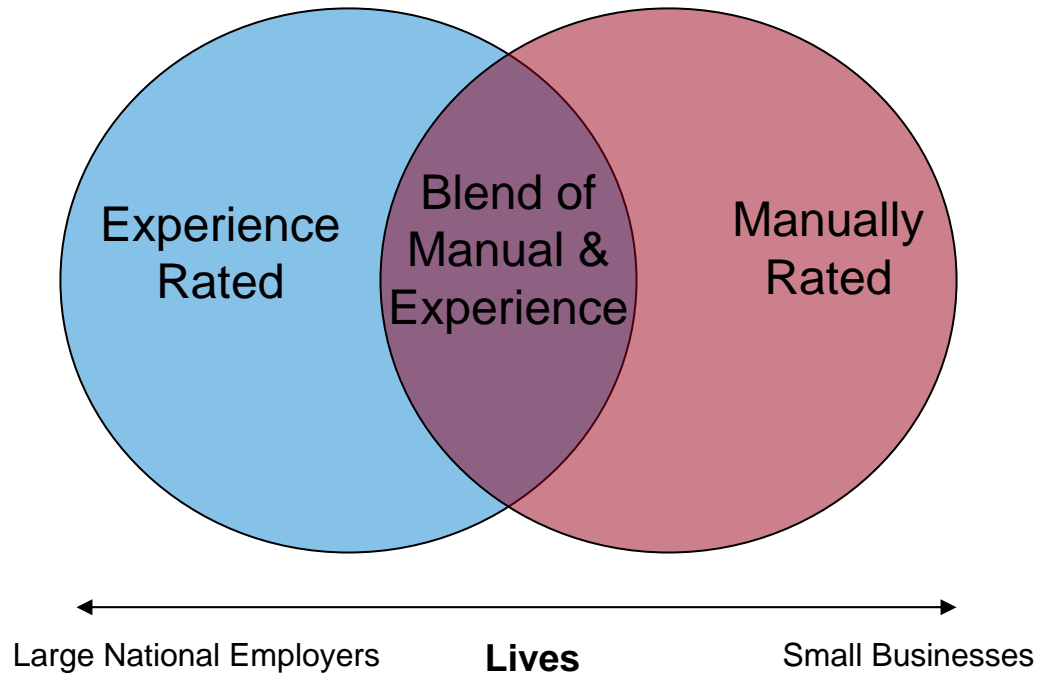
Product Features

- Waiver of Premium versus Death Benefit Only
- Conversion
- Portability
- Accidental Death & Dismemberment Rider
- Value Add Service Offerings
 - Funeral planning and estate guidance
 - Employee assistance programs

Select Risk Considerations

- Coverage is guaranteed up to a certain threshold (Guaranteed Issue)
- Medical underwriting above threshold
- Late entrants are subject to medical underwriting
- Extended rate guarantee periods
- Demographic changes
- Mortality Improvement

Pricing Overview



Experience Rating

- Evaluation of case specific premium, claims, and reserves
- Actuaries set pricing levels, Underwriters evaluate case specifics

Manual Rating

- Manual rates are based on book of business
- Rating variables include age, gender, area, industry, and plan design

Employer Paid Coverage (Basic)

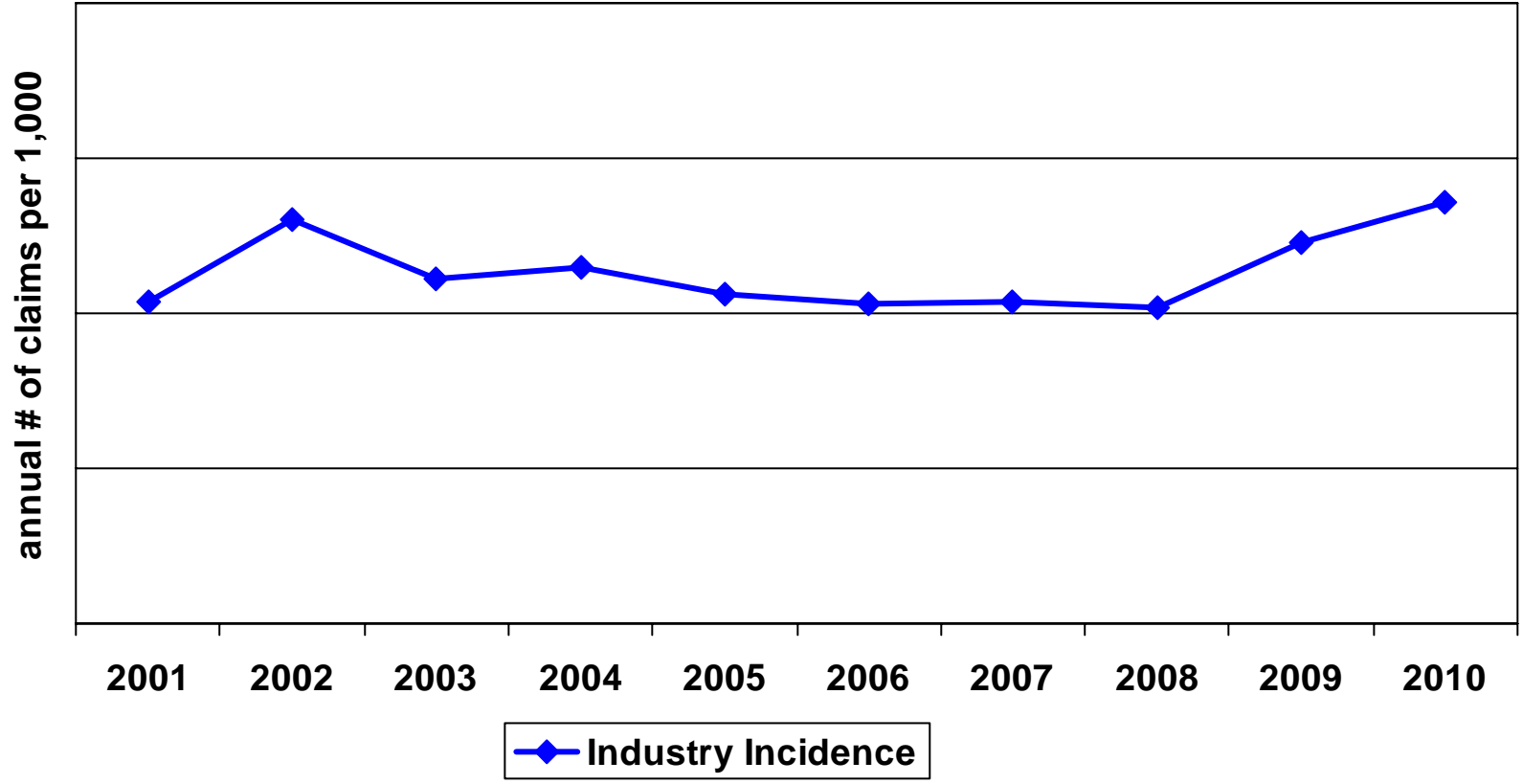
- Benefit is flat amount or multiple of salary
- Minimal anti-selection risk due to employer paid
- Composite rate
- Key risk considerations:
 - Demographic changes
 - Mortality risk
 - Severity risk

Employee Paid Coverage (Supplemental)

- Coverage for employee and dependents (spouse and children)
- Typically age banded rates
- Key risk considerations:
 - Demographic changes
 - Mortality risk
 - Severity risk
 - Anti-selection risk

LTD Economic Trends

LTD Incidence



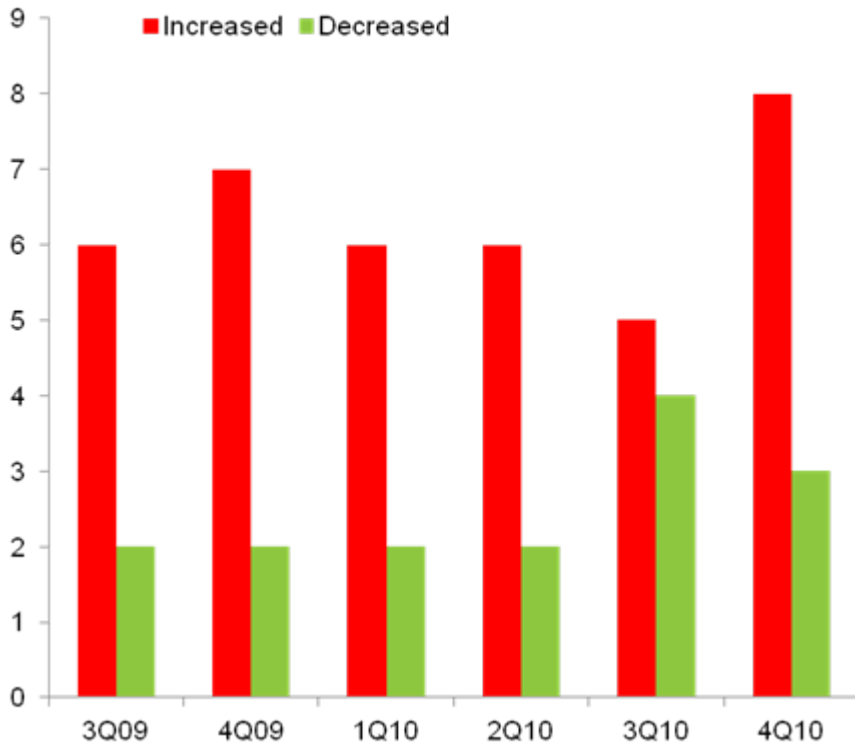
Source: 2010 Gen Re/JHA LTD Profit Study

What About Group Life

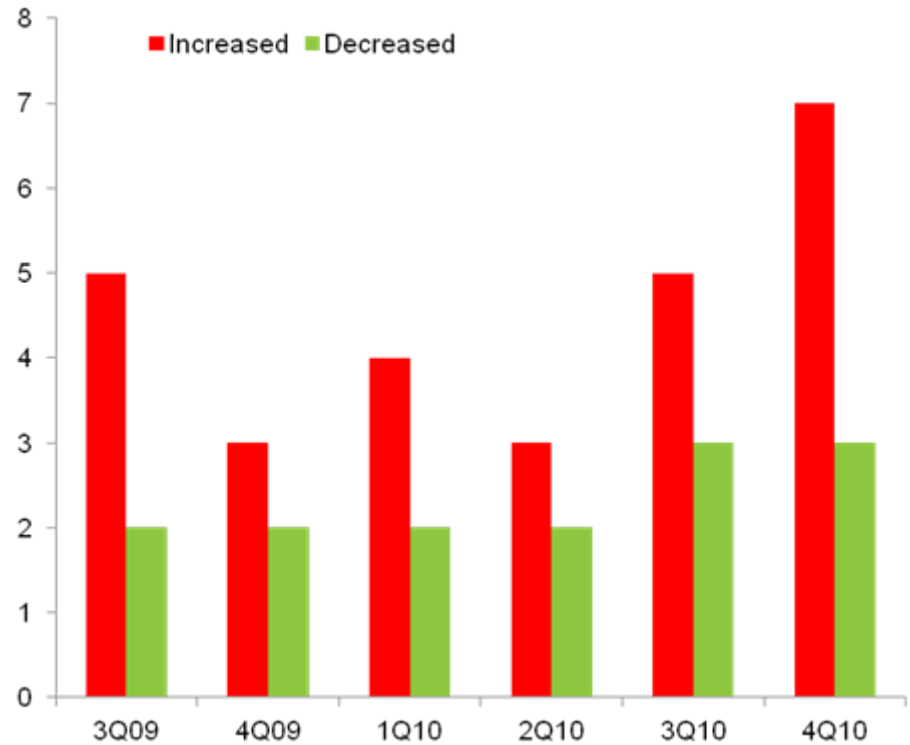
- Mortality Rates not driven by economic cycles
- Waiver of Premium
- Demographic Changes
 - Downsizing
 - Aging
 - Subsidization

Waiver Incidence Trends

Group Life Premium Waiver Incidence
(Quarter to Quarter)



Group Life Premium Waiver Incidence
(Rolling 4Q)



Source: Munich Re/Smith Group – 2010 Group Insurance Metrics Survey

Potential Drivers in Incidence Changes

- Seamless Waiver Process with LTD
- Product Changes
 - Shortening of elimination period from 9 to 6 months
 - Increase in use of LTD definition of disability instead of any occ
- Economic conditions not a major factor

Case Study

- 1,000 life manufacturing company
- 5 Year Rate Guarantee
- Basic Coverage
 - \$50k flat benefit
- Supplemental Coverage
 - 1-8 times salary up to \$1M
 - 50% participation

Basic Coverage

Age Band	Number of Lives	Volume	Monthly Rate per 1,000	Annual Premium
< 30	50	2,500,000	0.030	900
30 - 34	50	2,500,000	0.040	1,200
35 - 39	100	5,000,000	0.060	3,600
40 - 44	150	7,500,000	0.080	7,200
45 - 49	250	12,500,000	0.110	16,500
50 - 54	150	7,500,000	0.170	15,300
55 - 59	100	5,000,000	0.260	15,600
60 - 64	100	5,000,000	0.410	24,600
65 +	50	2,500,000	0.680	20,400
Total	1,000	50,000,000	0.176	105,300

- Composite rate of 0.176 guaranteed for 3 years
- \$50k flat benefit

Supplemental Coverage

Age Band	Number of Lives	Volume	Monthly Rate per 1,000	Annual Premium
< 30	5	250,000	0.040	120
30 - 34	10	600,000	0.050	360
35 - 39	30	3,900,000	0.070	3,276
40 - 44	60	9,000,000	0.100	10,800
45 - 49	200	64,000,000	0.140	107,520
50 - 54	105	37,800,000	0.210	95,256
55 - 59	50	15,000,000	0.320	57,600
60 - 64	30	6,600,000	0.510	40,392
65 +	10	1,000,000	0.850	10,200
Total	500	138,150,000		325,524

- Aged banded rates
- Benefit is 1 to 8 times salary up to \$1M

Scenario 1 – Downsizing (Basic Only)

Event

- Downsizing of workforce by 10%
- Primarily impacts younger workers

Before Event

Volume: \$50M	Rate: 0.176	Premium: \$105,300
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After Event

Volume: \$45M	Rate: 0.185	Premium: \$99,720
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Implications

- Underlying rate increased by 5%
- Results in unfavorable experience due to rate guarantee

Scenario 1 – Downsizing (Basic Only)

Risk Concerns

- Composite rates increase risk of demographic changes
- Extended rate guarantees increase risk of demographic changes

Potential Solutions

- Implement age banded rates instead of a composite rate
- Shorten the rate guarantee period
- Ensure that the contract has the ability to re-price the risk if greater than X% change in exposure
- Important to forecast economic conditions in underwriting process

Scenario 2 – Aging of Workforce (Basic Only)

Event

- Company ceases to hire new employees
- Older employees decide to delay retirement and keep working

Before Event

Volume: \$50M	Rate: 0.176	Premium: \$105,300
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After Event

Volume: \$50M	Rate: 0.215	Premium: \$128,850
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Implications

- Underlying rate increased by 22%
- Results in unfavorable experience due to rate guarantee

Scenario 2 – Aging of Workforce (Basic Only)

Risk Concerns

- Composite rates increase risk of demographic changes
- Extended rate guarantees increase risk of demographic changes

Potential Solutions

- Implement age banded rates instead of a composite rate
- Shorten the rate guarantee period
- Important to forecast economic conditions in underwriting process
- Understanding hiring trends is important

Scenario 3 – Downsizing (Basic & Supplemental)

Event

- Supplemental rates are subsidizing basic rates by 10%
- Participation drops to 30% as other employees drop coverage

Before Event

Basic Rate: 0.158	Supp Rate: 0.203	Combined Rate: 0.191
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After Event

Basic Rate: 0.166	Supp Rate: 0.233	Combined Rate: 0.211
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Implications

- Underlying combined rate increased by 11%
- Results in unfavorable experience due to subsidization

Scenario 3 – Downsizing (Basic & Supplemental)

Risk Concerns

- Composite rates increase risk of demographic changes
- Extended rate guarantees increase risk of demographic changes
- Subsidization increases risk

Potential Solutions

- Implement age banded rates instead of a composite rate
- Shorten the rate guarantee period
- Ensure that the contract has the ability to re-price the risk if greater than X% change in exposure
- Limit subsidization of coverages

Subsidization Concerns

- Other risks with subsidization exist besides the risk of demographic changes
- Concern is using employee dollars to pay for employer costs
- Industry needs to work to remove subsidization between basic and supplemental coverages

Other Items to Consider

- Interaction between active and retiree classes
- Healthy population lapsing or reducing coverage
- Mortality improvement

Summary

- Economic cycles will have an impact on group life exposure
- Actuaries need to provide tools and guidance to Underwriting to better capture economic trends at both a case and macro level
- Subsidization of employer costs with employee dollars carries significant risk
- Exercise caution when using composite rates and quoting extended rate guarantees

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