

NOVEMBER 2023



What is Individual Disability Insurance?

ACHS Fall Meeting

Thursday November 2nd 2:30 - 3:30pm

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Disclaimer slide

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Agenda

- **Disability Insurance 101**
What is Individual Disability?
- **Why Individual Disability?**
- **Disability Market Comparisons**
- **Historical Sales and Profit**
- **IDI Morbidity Assumptions**
- **Emerging Issues**



Disability Insurance 101

Disability Insurance replaces a portion of the insured's income in the event they become disabled and are unable to work.

Types of Disability Insurance:

- **Short Term Disability (STD)**
 - Benefits normally only paid for 90 to 180 days
 - Most often offered through your employer, many times Employer Paid
 - Usually are salary continuance plans at 100% of salary
- **Long-Term Disability (LTD)**
 - Benefits normally start where STD leaves off through age 65 or 67
 - Typically offered through your employer, with Employee Contributions
 - Usually 50-65% replacement ratios with a maximum monthly benefit
 - Offsets for other disability benefits
- **Individual Disability Insurance (IDI)**
 - Used with LTD for higher earners who max out on the LTD coverage
 - Similar to LTD in many respects, but some key differences



Individual Disability Insurance Key Features

Feature	Long-Term Disability	Individual Disability
Offering	Group	Group or Individual
Policy Owner	Employer	Individual
Underwriting	Guaranteed Standard Issue (GSI)	GSI or Fully Underwritten
Gender Rating	Uni-sex	Uni-sex or Sex Distinct
Waiting Period	90-180 days	90-180 days
Benefit Period	To age 65 or 67	To age 65, 67, or 70
Def of Disability	Any Occ or Own Occ	Any Occ, Own Occ, Specialty Occ
Replacement Ratio	50-67%	50-70%
Max Monthly Benefit	\$5,000 - \$10,000	\$5,000 - \$30,000+
Taxability	Pre or Post Tax	Pre or Post Tax
Earnings Definition	100% of Base Salary	100% of Base Salary and Bonuses
Offsets	Other DI coverage	None
Renewability	Optionally Renewable	Non-Cancellable (or Guaranteed)
Premiums	Increasing with Age	Level
Riders	Group Level	Group or Individual



Why Individual Disability Income– Closing The Coverage Gap

High Level: Group LTD plans leave a coverage gap for executives and other highly paid employees. IDI fills in this gap with additional coverage and added features.

Why Isn't Group LTD Enough?

- Monthly benefit caps
- Definition of Income
- Taxation
- Non-portability

Coverage Gap: Group LTD Only						
Total Income	\$100,000	\$200,000	\$300,000	\$400,000	\$600,000	% Replaced
Manager	\$42K					42%
Manager	\$84K					42%
VP	\$84K					28%
Senior VP	\$84K					21%
CEO	\$84K					14%

Group LTD: Covering 60% income with \$10,000 monthly cap; Taxable

How IDI Fills This Gap

- Additional monthly benefit on top of GLTD
- Bonus included in covered income
- Non-taxable benefits
- Portability/Ownership

Coverage Gap: Group LTD + Individual DI						
Total Income	\$100,000	\$200,000	\$300,000	\$400,000	\$600,000	% Replaced
Manager	\$42K					65%
Manager	\$84K	\$46K				65%
VP	\$84K	\$105K				65%
Senior VP	\$84K	\$176K				65%
CEO	\$84K	\$240K				54%

Group LTD: Covering 60% income with \$10,000 monthly cap; Taxable

Individual DI: Covering 65% income with \$20,000 GSI; Non-Taxable

STD and LTD Carriers:

Top 10 *
69% Market

11-20 *
18% Market

21-42 *
13% Market

Transamerica	United Health Care	Manhattan Life	Trustmark	Symetra
Mutual of Omaha		Lincoln Financial		The Standard
Equitable	Met Life	Hartford	Carrier M	American Public
Assurity	Colonial Life		Unum	Carrier B
Chubb/Combined		AFLAC		Principal
Anthem	Prudential		American Fidelity	Boston Mutual
Horace Mann	Sun Life Financial	Guardian	Allstate	Amalgamated
Reliance Matrix		OneAmerica	Voya	Dearborn
Carrier W	Illinois Mutual	Companion Life	Washington National	Atlantic American
New York Life	Wellfleet	Carrier P	Trustmark	

* Based on combined 2022 STD and LTD voluntary sales (\$1.6B), Eastbridge Consulting



Individual Disability Carriers:

Top 5 *
83% Market

6-10 *
16% Market

11-14 *
1% Market



* Based on 2022 Sales from the US IDI Participant Report (\$369M), LIMRA



Individual Disability Insurance Market:

Total IDI Market:

#	Carrier	2022 Sales (\$M)	% Market Share	2022/2021
1	Unum	\$88	24%	21%
2	Guardian	\$67	18%	5%
3	Principal	\$56	15%	5%
4	Northwestern	\$49	13%	23%
5	MassMutual	\$46	12%	11%
6	Standard	\$29	8%	15%
7	Ameritas	\$14	4%	1%
8	MetLife	\$10	3%	17%
9	Federated	\$4	1%	-4%
10	RiverSource	\$3	1%	-15%
11	Mutual of Omaha	\$1	0%	25%
12	Thrivent	\$1	0%	-20%
13	Illinois Mutual	\$0	0%	-11%
14	Assurity	\$0	0%	-11%
	Total Industry	\$369	100%	12%

* Based on 2022 Sales from the US IDI Participant Report (\$369M), LIMRA



IDI Underwriting and Marketing Types:

Fully Underwritten: Requires full medical underwriting often including bloodwork, Rx history, and APS reports

Individual: Marketed and sold directly to individuals. Relies on traditional 1x1 distribution channels

Small Business: Marketed and sold through employer groups; concentration in Medical/Resident groups

Guaranteed Standard Issue (GSI): Issued without medical underwriting

Employer Paid: Marketed and sold through employer groups with *employer* paying premium

Employee Paid: Marketed and sold through employer groups with *employee* paying premium

#	Fully U/W	2022 Sales (\$M)	% Share	2022/2021
1	Principal	\$50	23%	2%
2	Northwestern	\$49	23%	23%
3	Guardian	\$48	22%	6%
4	MassMutual	\$35	16%	8%
5	Standard	\$12	6%	5%
6	Ameritas	\$9	4%	-10%
7	Federated	\$4	2%	-4%
8	RiverSource	\$3	1%	-15%
9	Mutual of Omaha	\$1	0%	25%
10	MetLife	\$1	0%	-30%
11	Thrivent	\$1	0%	-20%
12	Illinois Mutual	\$0	0%	-11%
13	Assurity	\$0	0%	-11%
Total Full U/W		\$214	100%	7%

#	GSI (ER + EE)	2022 Sales (\$M)	% Share	2022/2021
1	Unum	\$91	57%	21%
2	Guardian	\$19	12%	4%
3	Standard	\$17	11%	23%
4	MassMutual	\$11	7%	19%
5	MetLife	\$9	6%	31%
6	Principal	\$6	4%	35%
7	Ameritas	\$5	3%	28%
8	Northwestern	\$1	1%	11%
Total GSI		\$159	100%	20%

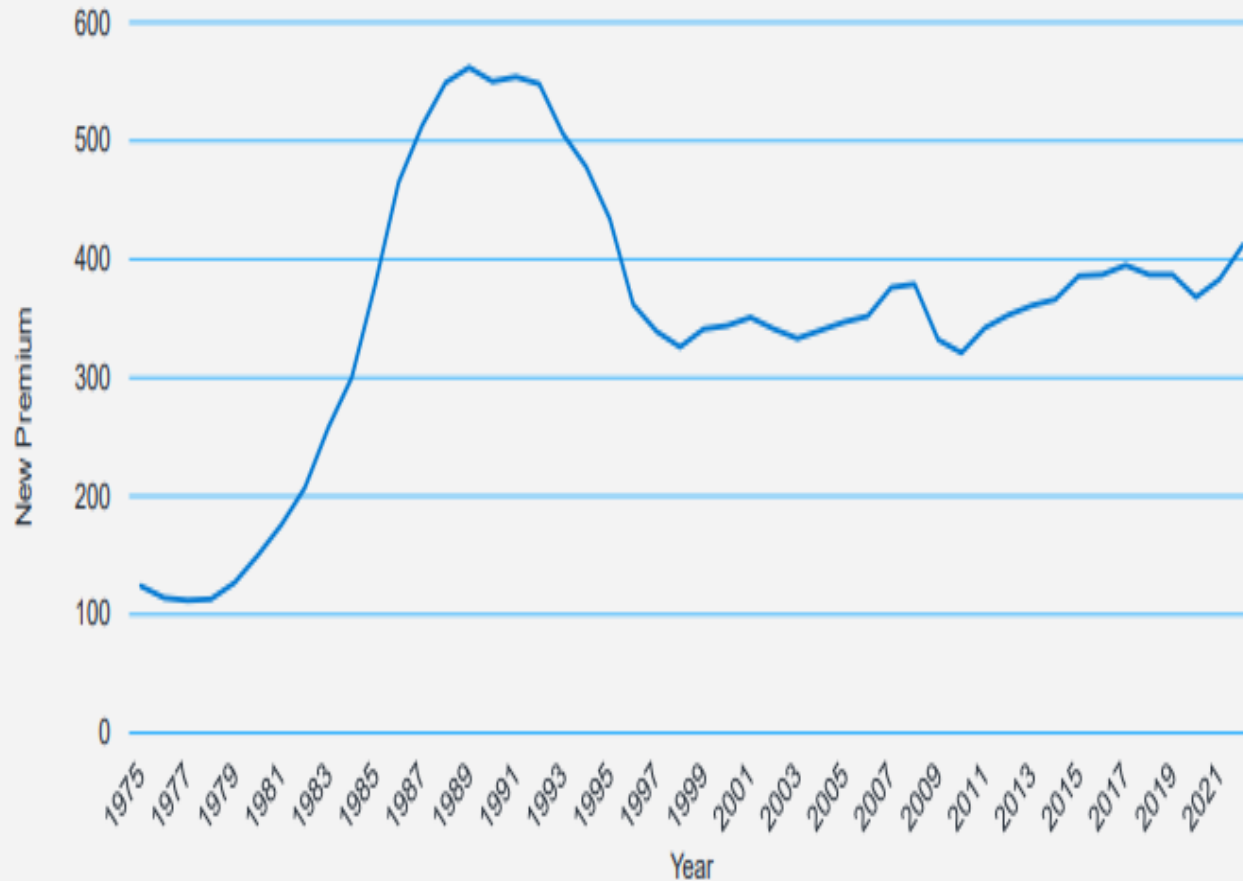
- Employer Paid Sales are about 67% of Total GSI and grew by 28% last year, vs only 7% for EE Paid.
- Best Risk (no individual anti-selection) and easier enrollment process.

* Based on 2022 Sales from the US IDI Participant Report (\$369M), LIMRA



Industry Sales – Historical View

Historical IDI Sales Premium (\$millions)



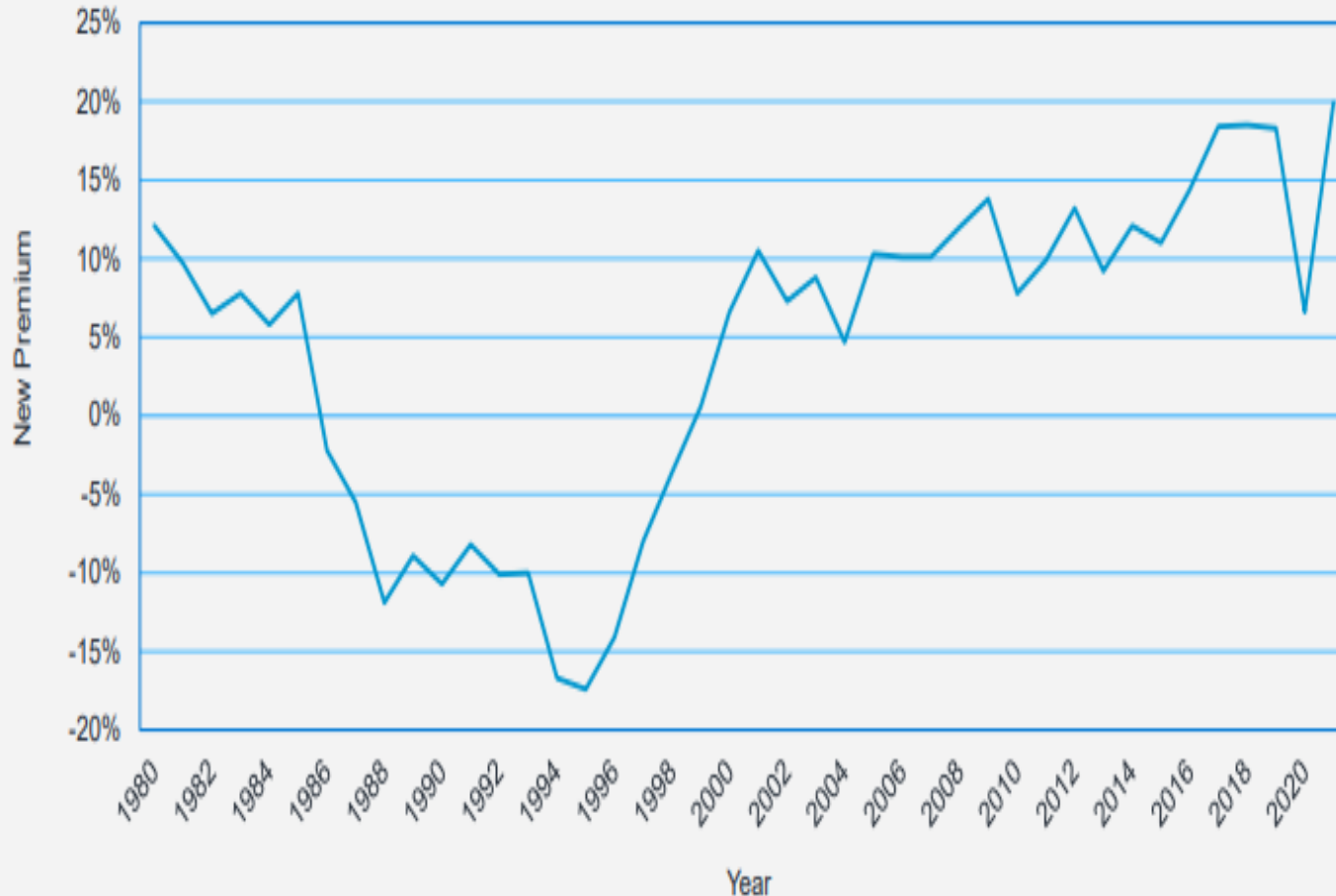
Source: SOA IDI Study Note, Milliman IDI Market Study

Comments:

- IDI sales grew rapidly in the 80's through early 90's
- Well over 100 companies were selling IDI product
- Industry rapidly consolidated due to poor experience(details next slide)
- Since the mid-90's sales have remained relatively stable
- Recent trends indicate new growth in the Multi-Life markets

Industry Profitability – Historical View

Historical Noncancelable IDI Statutory Profit Margin



Source: Milliman Disability Newsletter

Comments:

- **Claims activity quickly caught up to sales activity**
- **Became clear industry was broadly mispriced**
- **Most companies exited the line**
- **Factors that lead to poor experience:**
 - Inadequate pricing assumptions
 - Occupational concentration in Physicians
 - Liberalization of UW requirements
 - Increasing rich plan designs (Lifetime benefits, 10% COLA's)
 - Poor contract design
- **Profitability rebounded as quickly as sales fell off**
 - Focus on establishing and following UW and Claims rules
 - Industry wide decrease in incidence rates since around 2000
 - More robust UW, experience data, and risk monitoring tools in place



Premiums and Riders

Premiums

- Majority of IDI is 'noncan' so premium rates cannot change and coverage is guaranteed
- Premiums can vary based on Issue Age, Gender(Non-Worksite), Occupation Class, Elimination Period, Benefit Period, Smoker Status, State, etc.
- A typical IDI plan will cost roughly 2-3% of income when replacing 60-70% of income
- Industry average premium per policy has increased 24% from 2015 to 2022

IDI Industry Sales Figures	2015	2022
Annualized Premium	\$ 317,734,421	\$369,223,685
Number of Policy	160,007	150,287
Monthly Benefit	\$ 626,105,463	\$715,928,515
Premium Per Policy	\$ 1,986	\$ 2,457
Monthly Benefit Per Policy	\$ 3,913	\$ 4,764
Rate Per \$100 Monthly Benefit	51	52

Riders

- Residual: Provides monthly benefit if insured experiences partial loss of income
- Cost of Living Adjustment(COLA): Increase monthly benefit amount while on claim
- Future Increase Option(FIO): Allow insured to purchase more coverage after issue w/o UW
- Catastrophic Benefits: Provides additional Monthly Benefit when catastrophically disabled
- Other: Mental Nervous Limitations, Student Loan, Lump Sum Benefit

* Based on 2015 & 2022 Sales from the LIMRA US IDI Participant Report



Morbidity Assumptions

Claim Incidence Rates

- High impact assumption
- Rates increase with age
- Vary by occupation class which each company assigns differently
- Disabilities due to Sickness account for vast majority of claims
- Industry trend observed to be decreasing claim incidence rates from the early 2000's to the mid 2010's.
- Vary significantly by UW/Marketing method

Claim Termination Rates

- High impact assumption, especially mature blocks of IDI where a large Disabled Life Reserve(DLR) is held
- Rates high in early claim durations then decrease before increasing again at older ages
- Not as much fluctuation by UW/Marketing method
- Rates vary based on age of disablement and claim duration in the first 10 claims year(Select Period) and then change to attained age basis in claim durations 11+(Ultimate Period)

Claim Incidence	2013 IDI Base Table	85CIDA
Elimination Periods (Days)	0, 7, 14, 30, 60, 90, 180, 360, 720	0, 7, 14, 30, 90 (Incidence rates for other EPs were derived from incidence and termination rates for the 0-, 30-, and 90-day EPs.)
Occupation Classes	M, 1, 2, 3, and 4	1, 2, 3, and 4
Gender	Female, Male	Female, Male
Attained Ages	20 to 69	20 to 65
Age Basis	Age Nearest Birthday	Age Nearest Birthday
Cause	Accident and Sickness	Accident and Sickness
Claim Terminations—Select Durations	2013 IDI Base Table	85CIDA and 85CIDC
Select Claim Durations	Months 1-60, Years 6-10	Weeks 1-13, Months 4-24, Years 3-10
Elimination Periods (Days)	0, 7, 14, 30, 60, 90, 180, 360, 720	0, 7, 14, 30, 90 (Termination rates for other EPs were derived from the termination rates for 0-, 30-, and 90-day EPs.)
Occupation Classes	M, 1, 2, 3, and 4	1, 2, 3, and 4
Gender	Female, Male	Female, Male
Attained Ages	20 to 69	20 to 65
Age Basis	Age Nearest Birthday	Age Nearest Birthday
Cause	Accident CTRs obtained by applying termination rate modifiers by diagnosis (Other Injury)	Accident and Sickness
Claim Terminations—Ultimate Durations	2013 IDI Base Table	85CIDA and 85CIDC
Ultimate Claim Durations	Years 11+	Years 11+
Occupation Classes	Medical and Non-Medical	No distinction
Gender	Female, Male	Female, Male
Attained Ages	30 to 119	30 to 99
Age Basis	Age Nearest Birthday	Age Nearest Birthday
Cause	No distinction	No distinction

Future of Industry

- **Aging of Traditional Distribution Channel**

- Historically IDI sales centered around career agents sitting down 1-on-1 with prospective insured
- These types of Producers are getting older and not being replaced at a high enough rate with younger producers

- **Growth of Multi-Life Market**

- Multi-life market, in particular GSI, experience strong year-over-year growth
- More of a broker driven market allowing carrier's to expand distribution channels
- Can the 'blue collar' market finally be reached?

- **Impact of Changes in Underwriting**

- Fluid-less Underwriting
- Automatic and/or Algorithmic Underwriting
- GSI market continuing to decrease lives requirement
- Larger maximum Issue Amounts

- **Morbidity Trends**

- When will general trend of decreasing incidence rates stop?
- What is the future of voluntary GSI market?



Questions?



Key Takeaway

Would you rather

100% of income while working to a 40+% pay cut while disabled
or

98% of income while working to minimal impact while disabled

All of us in this room should have IDI!!
(Our Opinion)



