

MIB Group CEO: US Life Insurance Application Activity Drops in 2013; Health Reform a Factor to Watch

OLDWICK, N.J. - Applications for individually underwritten life insurance in the United States declined in 2013, and the chief executive officer of MIB Group says health care reform may be an interesting factor to watch when it comes to where some consumers spend their insurance dollars.

After a 1.4% year-to-date increase at year-end 2012, the MIB Life Index closed down 3.4% year-to-date for 2013 year-over-year, all ages combined. The index showed the sharpest decline in last year's fourth quarter, down 6.4% from the fourth quarter of 2012.

For 2013, Lee Oliphant, CEO of MIB Group, sums up the 3.4% decrease in applications, in part, to a less than robust economic recovery, a continued lack of consumer confidence in the economy, competing financial products and an apparent lack of need for life insurance in the minds of younger consumers.

But, he pointed to bad weather too. "At a minimum, inclement weather is a distraction for both buyer and seller and not only for life insurance sales, but for commerce in general," Oliphant said, noting the United States experienced "some of the coldest and stormiest winter weather" in memory in December 2013, which coincided with a 7.5% decline in life insurance activity.

He told Best's News Service last year that although the 1.4% increase in applications for individually underwritten life insurance in 2012 wasn't robust growth, it represented a second year of stability (Best's News Service, March 22, 2013).

Although less an impact than the others, heading into the implementation of a major provision of the health reform law last year may also now be a factor that comes into play, Oliphant said.

Under the individual mandate of the Affordable Care Act, adult individuals who fail to buy health insurance starting this year will be required to pay either \$95 or 1% of their income, whichever is greater. The tax penalty for adult individuals increases to \$325 or 2% of their income in 2015.

There likely are some people realizing that they need to understand what's happening with health reform so that's where their dollars may go, Oliphant said. Many of the people buying health insurance for the first time wouldn't necessarily be buyers of life insurance, he said. However, there's something to be said about people thinking about health reform and saying "that's a higher priority for us -- it even has a financial penalty associated with it."

"If they are thinking about insurance, health or life, and they didn't have either, and now they know they have to get health... it just pushes the life insurance even further on the backburner," Oliphant said.

MIB Group says its life index is the life insurance industry's timeliest measure of application activity in the United States, and is based on the number of searches that underwriters at its life member companies perform on its database.

Oliphant (2): Life Insurance Applications Drop in 2013

By all three age groups, life insurance applications fell across all three in 2013: ages 44 and younger, down 3.6% year-to-date; ages 45-59, down 4.1% year-to-date; and ages 60 and older, down 1.2% year-to-date compared to 2012, according to MIB Group.

In the 60 and older group, consistent annual growth in applications retreated due to the increase in the federal estate-tax exemption to \$5 million for non-farm estates, the firm said. Life insurance applications were flat to negative in 2013, closing the year down 1.2% -- levels not seen since mid-2007.

Last year, the industry received some "firm direction" and certainty on estate planning and certain people can now establish what their insurance needs might be for estate planning, Oliphant said. Life insurance often is used as part of an estate tax plan for the wealthy.

However, fewer people are subject to the tax, Oliphant said, who noted that 60 and older is the smallest demographic of the index.

Meanwhile, the younger-than-45 group is the index's largest demographic. In 2012, MIB saw an uptick in this group, which "caused us to have some degree of optimism" but now "we've turned back to negative," he said.

Total U.S. sales of individual life insurance, measured by new annualized premium, grew 6% in 2012, resulting in the third straight year of growth, according to Limra. But it will take "a few more years" to return to the annualized premium sales peak set in 2007 because the sales drops in 2008 and 2009 "were some of the largest ever recorded," a senior analyst of product research at Limra, told Best's News Service last year.

Oliphant also said that many agents continue to be focused on selling the high-dollar face amount policies because that is where the commissions are. They're not spending their time with face amounts that are mid-six figures and lower. For years, the challenge has been to sell lower face amount policies to middle-income Americans but agents generally are servicing the higher income, he said.

Since most individually underwritten life premium dollars in North America include an MIB search as a routine underwriting requirement, the index provides a reasonable way to estimate new business activity.

This year wasn't off to a positive start -- as January "wasn't a good month" as it was down almost 8% from January 2013, Oliphant said.

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