

# Universal Life Secondary Guarantees

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Actuaries Club of Boston Spring Meeting

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Universal Life Secondary Guarantees

John Hancock Mutual Life Insurance  
Co.

Boston, MA 02117



# UL Life Sales

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by premium

	2004	2003	Growth Rate
Total UL Sales	\$3.7 T	\$3.3 T	14%
Total UL Sales	\$1.7 T	\$1.3 T	29%
SNLG % of Total	45%	38%	

In Q1 2005, UL sales as a % of all life sales grew to 40% from 37% in Q1 2004.



# Wall Street Journal

## 5/31/2005

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**“We now believe that regulators are within weeks of passing a law that would step up significantly reserve liabilities ... for UL insurance policies with so-called no-lapse guarantees.”**

**Eric Berg, Lehman Brothers stock analyst**



# Investment Strategy

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- ◆ Low Cash Surrender Values
- ◆ High Persistency
- ◆ Lapse Support
  
- ◆ Invest Long Term
- ◆ Offset asset loss on surrender with liability gain

# Stochastic Testing

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- ◆ Premiums to maintain the guarantee
- ◆ Liabilities not dependent on interest scenario
- ◆ Measure the cost of the guarantee
  - Cover 75% of the scenarios with charge
  - Cover 95% with risk capital
  - Cover 99.999% with free surplus

# Customer Focus

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- ◆ **Increased Disclosure**
  - ◆ Illustrations
  - ◆ Inforce Updates
  - ◆ Contractual Options
- ◆ **Customer Service Representatives**
  - ◆ Clear catch up options
  - ◆ Explain the black box

# Development of UL Secondary Guarantees

**Flat \$ per \$1,000 of DB**

**level premium guarantee**

**Flat \$ discounted at flat interest rate**

**for lump sum premiums**

**Flat \$ requirements accumulated at flat interest**

**for make up premiums**

**YRT scale of increasing premium requirement**

**for other than lifetime guarantees**

**Discount and accumulate varied factors**

**Reflects investment and late payment risk**

**Shadow Account**

**Reflects all policy activity and risk**



# Follow Up

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- ◆ Interested in defining the Stochastic Approach to reserving

Contact Steve English at the AAA office.

- ◆ SOA Spring Meeting Handouts  
(includes several SNLG topics)

<http://handouts.soa.org>