

# State of the U.S. Supplemental Insurance Market



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# U.S. Supplemental Insurance Market



In 2019, Milliman conducted a variety of research projects to provide insight into the state of the U.S. supplemental insurance market. As a result of our research, we published reports focusing on five different supplemental insurance markets: Accident, Critical Illness, Hospital Indemnity, Worksite Life, and Dental. Each of the five published reports, based on surveys of carriers, provides insights into their respective dynamic markets. While the individual reports delve into the unique facets of their corresponding products, examining the results in aggregate offers a valuable perspective of how the products fit into the larger arena of the supplemental insurance market.

For Accident, Critical Illness, and Hospital Indemnity, data was gathered for 2015 to 2017. For Worksite Life and Dental, data was gathered for 2016 to 2018. The results of these reports were shared with participants and are available for review. For more information on how to obtain a copy of the reports please contact David Bahlinger in the Tampa, Florida office.

## Overview

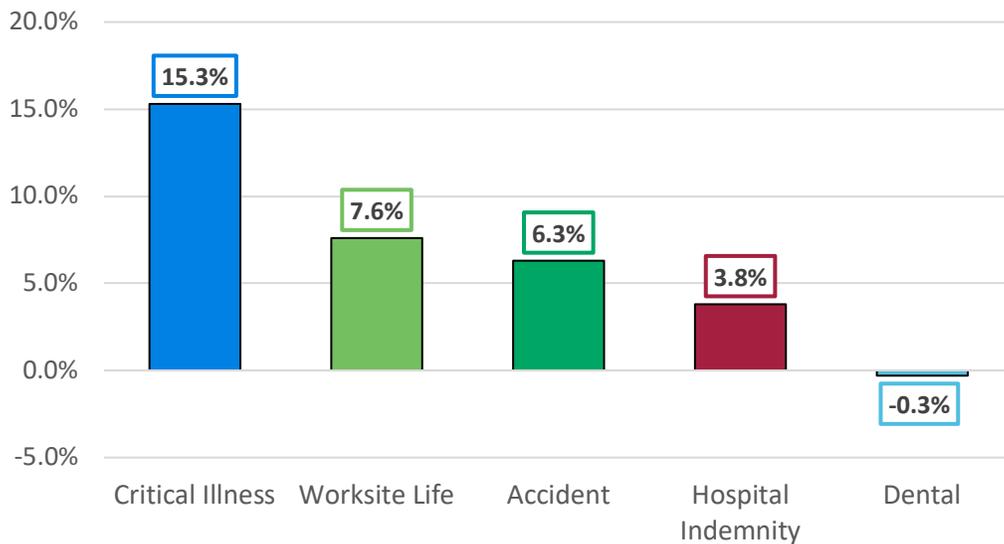
Survey research methodology included survey development, data collection, and reporting. Figure 1 shows the number of respondents for each of the five reports.

**Figure 1: Number of Respondents by Market**

Market	Number of Respondents
Accident	42
Critical Illness	38
Hospital Indemnity	32
Worksite Life	21
Dental	50

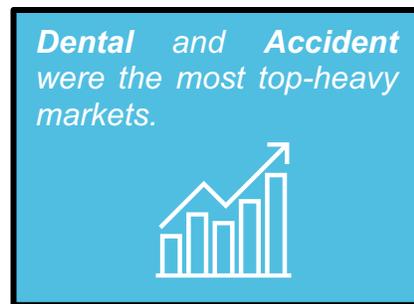
Nearly all products experienced sales growth over their respective data collection periods. Based on annualized premium sales, Critical Illness showed the greatest growth with an average annual increase of 15.3%. Next strongest was Worksite Life with an average 7.6% increase per year, then Accident with an average 6.3% increase per year, and Hospital Indemnity at an average 3.8% increase per year. Dental experienced a slight decrease in sales of 0.3% per year. Each product's average annual sales growth is shown in Figure 2 (next page).

**Figure 2: Average Annual Sales Growth**



All five product markets were shown to be top-heavy, with only a few responding carriers capturing a significant portion of each market. Therefore, sales trends tended to be driven by a handful of carriers.

The most top-heavy market surveyed was Dental, where one carrier reported 60% of total revenue captured in the survey. For Dental, the top three responding carriers reported 82.5% of the captured revenue. Accident was a similarly top-heavy market, with the top three responding carriers reporting 81.5% of the captured inforce premium.



For Hospital Indemnity, Critical Illness, and Worksite Life, inforce premium was also concentrated in the top three responding carriers for each survey (76.5%, 64.6%, and 45.8%, respectively).

## Market Segmentations

To gain greater insight into market trends, the 2019 reports segmented each market's sales and inforce premium data in a number of ways. For the Accident, Critical Illness, and Hospital Indemnity markets, the primary market segmentation was by product type: group, worksite individual, and non-worksite individual. Based on inforce premium, the Accident and Hospital Indemnity markets' largest segments were worksite individual products. The Critical Illness market's largest segment was group products.

Based on sales, the Accident and Critical Illness markets experienced the greatest percent growth with group products, while the Hospital Indemnity market experienced the greatest percent growth with non-worksite individual products.

The Worksite Life market’s primary segmentation was line of business: whole life, universal life, and term. Based on inforce premium, the Worksite Life market’s largest segment was universal life products. Looking at sales, the Worksite Life market experienced the greatest percent growth in whole life products.

For the Dental market, there were two primary segmentations. The first was enrollment size segmentation: individual, small group, and large group. The second was by product type: PPO, HMO/POS, and indemnity. Based on revenue, the Dental market’s largest segment was large group PPO. Also based on revenue, the Dental market experienced the greatest percent growth in individual PPO products.

Figure 3 shows each markets’ largest segment and greatest area of percent growth.

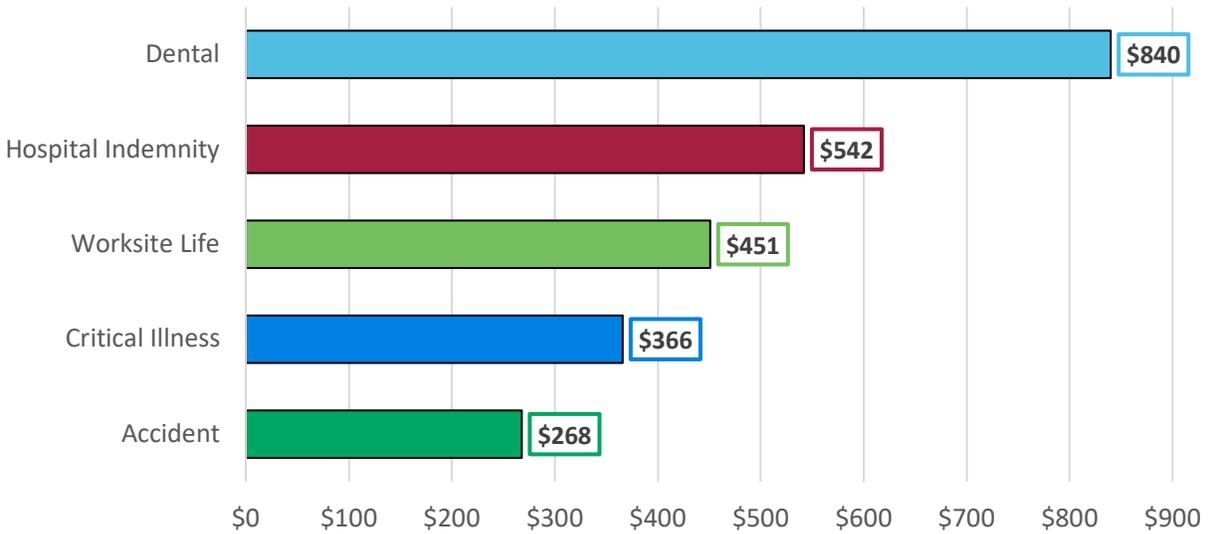
**Figure 3: Market Segmentations**

Market	Largest Segment	Segment of Greatest Percent Growth
Accident	Worksite Individual	Group
Critical Illness	Group	Group
Hospital Indemnity	Worksite Individual	Non-Worksite Individual
Worksite Life	Universal Life	Whole Life
Dental	Large Group PPO	Individual PPO

## Average Premiums

Our 2019 reports also examined numerous financial components of our surveyed products, including average annual premiums. Dental had the highest average annual premium at \$840, or an average of \$70 per subscriber per month. Next was Hospital Indemnity with an average annual premium of \$542, then Worksite Life at \$451, Critical Illness at \$366, and lastly Accident at \$268 per year. Average annual premiums are shown in Figure 4 (next page).

Figure 4: Average Annual Premiums



## Commissions

As broker relations are instrumental in the distribution of supplemental insurance products, commissions are an integral part of the supplemental market. We examined commission structures and the associated commission percentages for each market. Both commission structures, level vs. heaped (higher first-year and reduced renewal-years), and the average commission percentages varied by product.

The Dental market almost exclusively used level commission structures and reported the lowest average level commission as a percentage of premium of all five products. On the other hand, the Worksite Life market predominantly used heaped commission structures and reported the highest average first-year commission, and lowest average renewal-year commission. The Accident, Critical Illness, and Hospital Indemnity markets all used a mixture of level and heaped commission structures, with heaped being more popular than level for all three products. These markets also showed similar average commission percentages when compared to one another for both level and heaped commission structures.

*Respondents for four of the five products surveyed favor a heaped commission structure over a level commission structure.*



# Risks and Competition

**Competition** was one of the top-ranked risks among carriers in all five product surveys.



Average premiums and commissions are both influenced by a carrier’s need to stay competitively viable, particularly in top-heavy markets. Competition, however, is not the only risk that carriers must manage. All products and carriers experience a variety of risks in their respective markets. The first step is to identify these risks, after which a plan can be formulated to manage them. We asked carriers to indicate the top risks to their product’s success. The top three risks for each product are shown in Figure 5.

**Figure 5: Top Three Risks**

Accident	Critical Illness	Hospital Indemnity	Worksite Life	Dental
Competition	Competition	Adverse Lapse Experience	Competition	Competition (dental carriers)
Adverse Lapse Experience	Elevated Expense Margins	Competition	Elevated Expense Margins	Competition (medical carriers)
Elevated Expense Margins	Adverse Lapse Experience	Regulatory Climate	Group Persistency/ Takeovers	Elevated Expense Margins

The competitive nature of the supplemental product market was a clear thread through all of our 2019 reports. In each survey, respondents were asked which carriers they consider to be their top competitors. Figure 6 shows the top three competitors from each report.

**Figure 6: Top Three Competitors**

Accident	Critical Illness	Hospital Indemnity	Worksite Life	Dental
Aflac	Aflac	Aflac	Unum/Colonial	Delta Dental
Allstate	Allstate	Unum/Colonial	Transamerica	MetLife
Unum/Colonial	Unum/Colonial	Allstate	Trustmark	Guardian

## Future Research

We are currently underway with our 2020 research projects. If you have ideas for future surveys or would like to provide feedback about our past surveys, we would love to hear from you.

# Contact Us

Milliman's research projects provide insight into the state of the supplemental insurance market. Each market report explores both sales and actuarial components of their respective markets, presenting data on sales & inforce, buyer profile, product features, underwriting, pricing & profitability, risks, and administrative systems & technology. We examine this data, where appropriate, via segmentations (e.g. group, worksite individual, and non-worksite individual). Additionally, we synthesize this data to provide a high-level analysis of key market trends coupled with commentary from experienced Milliman consultants.

If you are interested in learning more detailed information about the supplemental product market, please contact us about our flexible engagement options.

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

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The data in this report has been summarized for distribution. Some of the data presented in this report has been aggregated at the total market level. In addition, not all data points collected from the surveys may be shown in this summary report. It is possible that different reviewers of the data could produce different conclusions, particularly for certain market segments, than those that may be drawn from this summary report. As such, readers of this report should be cautious when interpreting the data and making decisions regarding specific market segments.

In preparing this report, we relied upon data and other information provided by survey participants in the marketplace. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our report may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of this report.

The authors of this report are Consultants for Milliman and include members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.