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Life Insurers Halt Sales As Hopes for Profit Dim

May 11, 2020 2:14AM ET

By Leslie Scism

(Wall Street Journal) --

U.S. insurers are doing the once unthinkable, turning away business from some Americans who want a life-insurance policy.

The driving force behind the action: a collapse in interest rates tied to the spread of the coronavirus and an expectation from insurers that rates won't rebound significantly soon.

Life insurers earn much of their profit by investing customers' premiums in bonds until claims come due. In simplest terms, when they price policies, they make assumptions about how much interest income they will earn investing these premiums. The less they earn, the more they may need to collect in premium or fees to turn a profit.

A wave of stopgap measures is hitting potential buyers even as some companies say more consumers are seeking out life insurance during the pandemic. In addition to suspending sales of some popular products and raising prices, insurers are scaling back policy sizes and reducing benefits.

"In 33 years, I have never seen more changes come more quickly to the life-insurance products we sell," said Lawrence Rybka, chairman of ValMark Financial Group, an insurance brokerage in Akron, Ohio. "It is unprecedented how fast and widespread -- it is across lots of carriers."

Some insurers are reacting directly to the coronavirus.

Penn Mutual Life Insurance Co., among others, has temporarily halted life-insurance sales to people 70 and older and who are in poor health. Industry executives say that analysis shows older people with underlying medical problems are dying at much higher rates from Covid-19 than younger people.

In a memo to brokers, Penn Mutual said it expects "to revisit these and other changes as we gain better insight into the impact of the Covid-19 pandemic."

Among those prompted to move quickly amid the changes was David Hungerford, 72 years old, who bought a $1 million policy from Prudential Financial Inc. last month. Mr. Hungerford, an owner of a package-design company in Southern California, said his broker advised him to act fast because of looming premium increases. Calling life-insurance buyers "collateral damage" of ultralow interest rates, he said he hustled to wrap up a medical exam. "I was concerned about my overall bucket of assets in the stock market, and I wanted another bucket to depend on" for his wife's financial protection, he said.

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Prudential, the nation's biggest life insurer by assets, told brokers in a March missive that its late-April rate increases of 8% to 12% on the type of policy bought by Mr. Hungerford, and other actions, "put us in a much better position to withstand the low interest-rate environment."

The insurer also temporarily suspended sales of 30-year "term-life" policies, an offering popular with young families, a spokeswoman confirmed. Such policies provide a basic death benefit during the years in which they rear their children. Prudential reduced the amount of interest it is crediting to certain combination savings-and-death-benefit "universal life" policies.

Typically, life insurers hold about 70% of their general investment account in long-term bonds. In general, the yields on these holdings, many of them corporate securities, follow the 10-year U.S. Treasury. Its annual yield has been mostly declining since the 1980s, when it peaked at nearly 16%. The yield dove after the 2008-09 financial crisis and was as low as 1.366% in 2016 before rebounding to about 3% in 2018. In March, it plummeted as coronavirus sparked a rush to safer assets and investors feared rate cuts from the Federal Reserve. The yield on Friday: 0.679%.

Some insurers now are turning away business they consider the riskiest. American International Group Inc., Nationwide Mutual Insurance Co., Pacific Life Insurance Co. and Principal Financial Group Inc. are among the big insurers that have limited the size of so-called guaranteed universal-life policies, which are highly sensitive to low interest rates.

The guarantee is a promise that the annual premium bill won't ever increase during the owner's lifetime. That means the insurer is on the hook for any shortage of interest income over the years. Consumers bear the risk of premium increases in other types of universal life to make up for such shortfalls.

A Nationwide spokesman said the insurer's pricing and product adjustments were motivated by "the extremely low interest rates and market volatility that drives up the cost of our hedging instruments, and [the] evolving landscape related to Covid-19."

Mark Chandik, president of FDP Wealth Management in Irvine, Calif., said many carriers held off raising prices and retooling offerings immediately after 2008-09 on a belief rates would soon edge up. They gradually made changes when low rates persisted for years. In this crisis, "they see no end in sight and they are all rushing to react to that," he said.

Over the past decade, life insurers offset some earnings pressure by deploying money intohigher-yielding, triple-B debt, but potential downgrades in the worsened economy may make some insurers pause, said Tracy Dolin-Benguigui, a senior director for North American Insurance Ratings at S&P Global Ratings.

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