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Insurers Raise the Premiums on Term Life

Higher Rates Change Calculus of Buying Popular Coverage; Racing to Beat the Increase

By M.P.McQueen

If you've been in the habit of shopping around for a new term-life insurance policy every few years, you may want to reconsider that strategy: After years of falling premiums, many insurers are raising prices on term policies.

Premium increases averaging about 5% to 15% started in January and are sweeping through the industry. One reason is that higher capital and reinsurance costs for insurance companies linked to tighter credit markets are making it more expensive for insurers to maintain needed cash reserves. Another is that insurers are receiving lower returns on their investments, putting additional pressure on them to raise money.

For consumers, that means the era of counting on lower rates five or 10 years down the line could be over for a while. It also means locking in premiums before they go up.

Coming to Terms

The death knell may be sounding for ever-cheaper term-life insurance.

- Since January, many insurers have been raising premiums on conventional term policies by as much as 15%.
 - Insurers put the blame on higher costs for capital and reinsurance.
- Buyers may want to consider rushing in their application -- and locking in a longer term -- to avoid price increases.

Steve Johnson, a 51-year-old business consultant in Lilburn, Ga., was trying to beat an impending price increase when he rushed in his application to online insurance broker AccuQuote.com for a new \$500,000, 10-year term life policy from ING Groep NV's ReliaStar Life Insurance Co. in April.

But a series of canceled appointments delayed the necessary medical exam by several weeks, Mr. Johnson says. In the end, his application arrived a day late, and his annual premium rose to \$864 from the \$744 he had been quoted.

Unlike many other forms of life insurance, including "permanent" whole and universal life, traditional term life -- the least-expensive type of individual life insurance -- doesn't include a savings or investment component and pays a death benefit only if the policyholder dies within a specific time period.

"I think we have pretty much bottomed out on how low life-insurance [prices] can go," says Donald W. Britton, chief executive officer of ING's U.S. insurance division. ReliaStar and other ING subsidiaries are raising term-life insurance rates an average of 5% this

year, Mr. Britton says, "primarily driven by our cost of capital, which is much, much more difficult to get and more expensive than it was a year ago and prior."

Other companies that have announced recent or impending price increases for new term-life policies include Prudential Financial Inc. -- which raised premiums an average of 4% for term-life insurance policies on May 1 -- and Lincoln National Corp.'s life-insurance-issuing units. American International Group Inc.'s American General Life Insurance Co. and United States Life Insurance Co. subsidiaries are raising rates by as much as 35% for customized "return of premium" term insurance, a spokeswoman says, but not for ordinary term.

Return-of-premium policies promise to return all or most of the premiums paid at the end of the term if the owner is still living and the policy is still in force. A relatively new product, return of premium has been gaining in popularity in recent years despite costing about 50% more than a regular term policy. Some insurers have said they plan to discontinue sales of the product. Return-of-premium policies now account for 5% to 10% of sales at AccuQuote, the company says.

Before the financial crisis erupted last year, term-life rates had been falling for two decades largely as a result of improved mortality rates and Internet sales. Premiums for costlier permanent insurance are also rising.

The Start of a New Era?

Economists and industry experts aren't certain whether the price increases mark the start of a new era of rising rates or are merely a temporary blip. Prices also rose shortly after Jan. 1, 2000, when most states imposed new regulations requiring insurers to keep larger cash reserves for longer-term level-premium policies. Many insurers raised premiums and some stopped selling 30-year-term policies after the new rules took effect. But prices for many new term policies rolled back again within a couple of years.

Robert Bland, CEO of Insure.com, a national online insurance brokerage, says more than three-quarters of the 30 companies whose policies his brokerage sells have already either imposed or announced impending premium increases for term life, and that he expects most others to follow suit by the end of the year. Premiums for some age and risk groups and policy amounts also are increasing sharply, he says.

Life Isn't Cheap

After years of falling, term-life insurance premiums are heading up. Here's what some insurers are doing:

Company	Comment
Prudential Financial Inc.	Raised term-life insurance rates an average of 4%.
ING Groep NV unit: ReliaStar Life Insurance Cos.	Raising term-life insurance rates an average of 5%.
Lincoln National Corp.	Raising term-life insurance rates 1% to 2%
American International Group Inc. units: American General Life Insurance Co. and United States Life Insurance Co.	Raising rates 25% to 35% for customized return-of-premium term-life insurance policies.

Source: WSJ research; the companies

One company, for example, raised premiums 57% for a \$250,000 15-year-term policy for 35-year-old males in the best health class, but it raised premiums only 36% for a \$1 million policy. The premium for the same male buying a \$250,000 30-year-term policy from the same company increased 10%, but only 1% for a \$1 million policy.

Not all companies have raised prices or have raised them uniformly, so it pays to comparison-shop. Northwestern Mutual Life Insurance Co., for example, hasn't raised rates, a spokeswoman says. Some other mutual companies -- those owned by the policyholders -- and publicly traded insurers also say they haven't raised rates.

In recent years, insurers also have been tightening underwriting requirements and taking a harder line on risk factors such as obesity and high blood pressure, industry sources say, prodded by tougher requirements from reinsurers.

Until several years ago, applicants might have been forgiven, say, a little extra weight and given a lower rate. That's no longer the case, says Dave Evans, senior vice president of the Independent Insurance Agents & Brokers of America. He says only 6% to 7% of applicants qualify for the very lowest rates.

Changing Buying Habits

Mr. Bland says consumers, conditioned by years of falling prices, may have to change their life-insurance buying habits. "A lot of people would think they could shop around every five years. That game is going to come to an end," he says.

Rising premiums mean there's less incentive to change policies often. Not only will you be older, but premiums may be higher overall because of market changes, and insurers may take a harder stance on your cholesterol or blood pressure than the last time you applied for a policy. If you think you need coverage for 20 years, you'd probably be better off now buying a 20-year level-term policy than buying a 10-year policy and thinking you will buy another one 10 years from now, Mr. Bland says.

Insurers generally won't raise premiums on a policy once they have received a completed application, so agents are urging shoppers to get new applications in quickly. The application process generally takes at least 30 days.

Write to M.P. McQueen at mp.mcqueen@wsj.com

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