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Underwriting and Morbidity Trends for Income Protection in the United States

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Underwriting and Morbidity Trends for Income Protection in the United States

1. 1990-1999 Individual Disability Experience
Committee Study
2. Multilife Disability Underwriting

Individual Disability Experience, 1990-1999

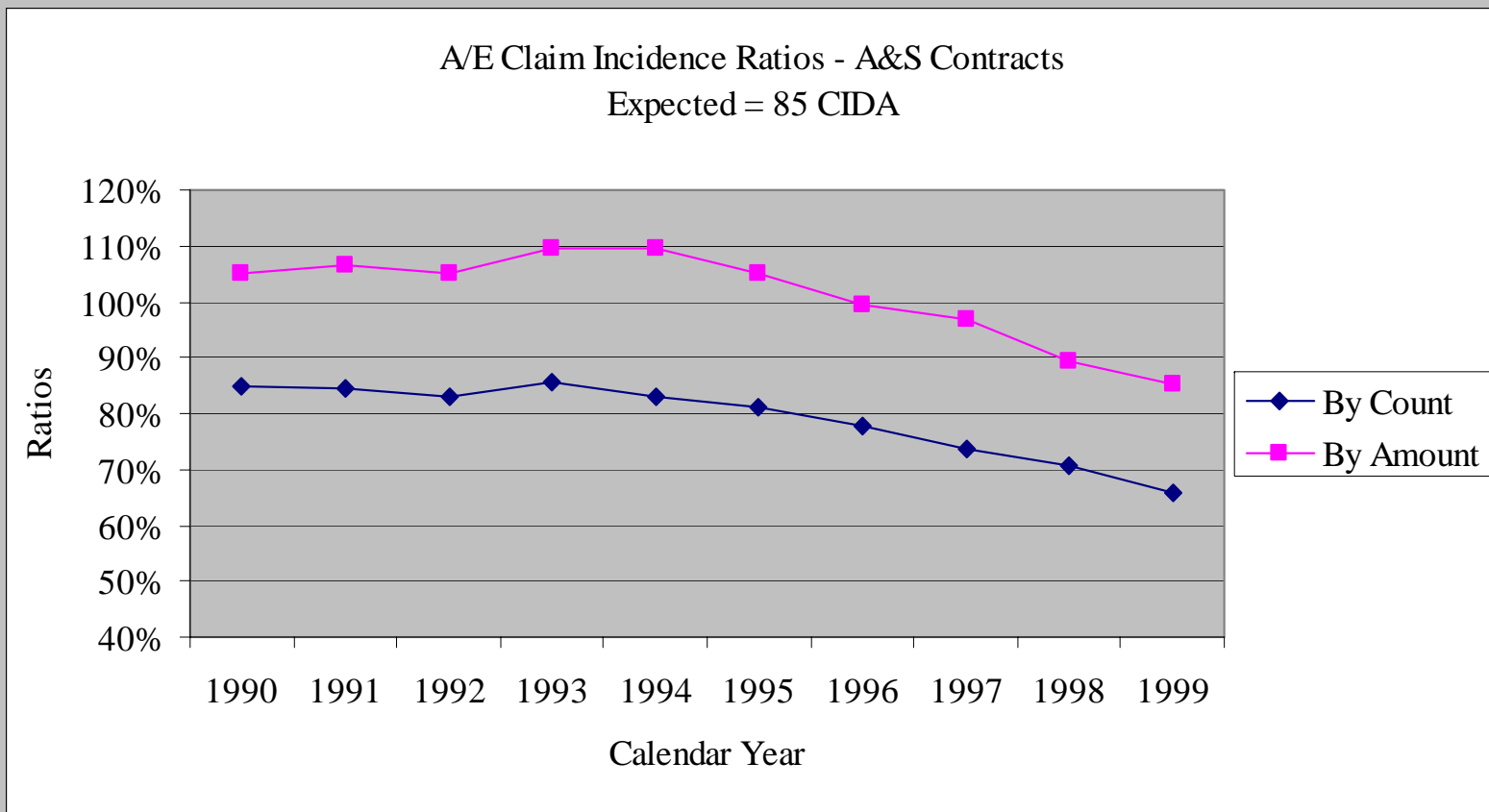
**Society of Actuaries
Individual Disability Experience Committee (IDEC)
1990-1999 Intercompany Study**

- Twelve contributing companies
- About 64% of total inforce premium
- Incidence Study: Claims incurred 1990-1999
- Claim Termination Study: Claims paid 1990-1999
- Results show Actual-to-Expected (A/E) Ratios relative to 1985 CIDA

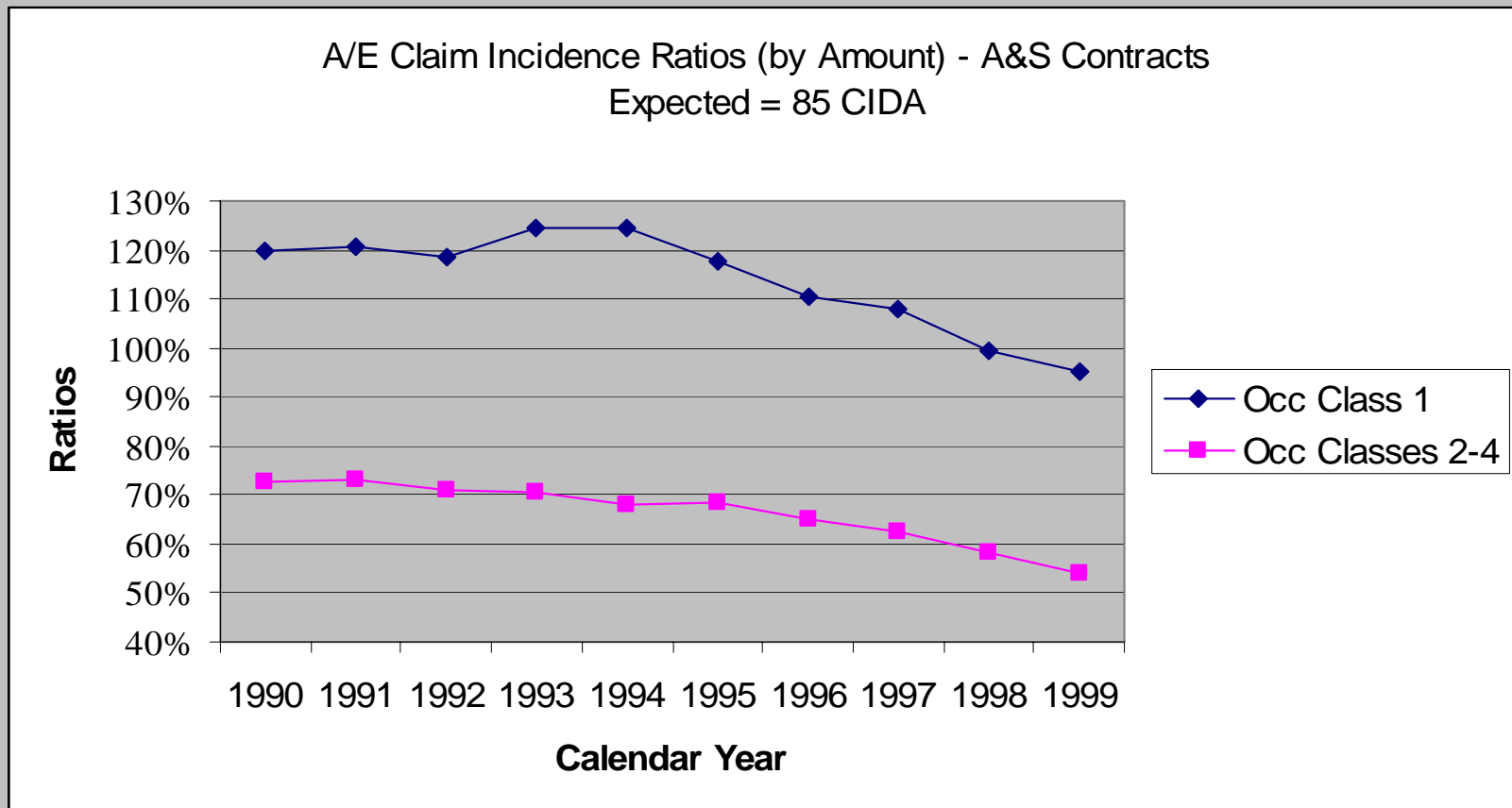
Characteristics of 1985 CIDA (Expected Basis for IDEC Study)

- Sex-distinct
- Not smoker-distinct
- Four occupation classes
 - Class 1: Executive and Professional
 - Class 2: Clerical and Office
 - Class 3: Light manual duties
 - Class 4: Heavy manual duties
- Accident, sickness, and combined causes
- Experience from 1970's and early 1980's

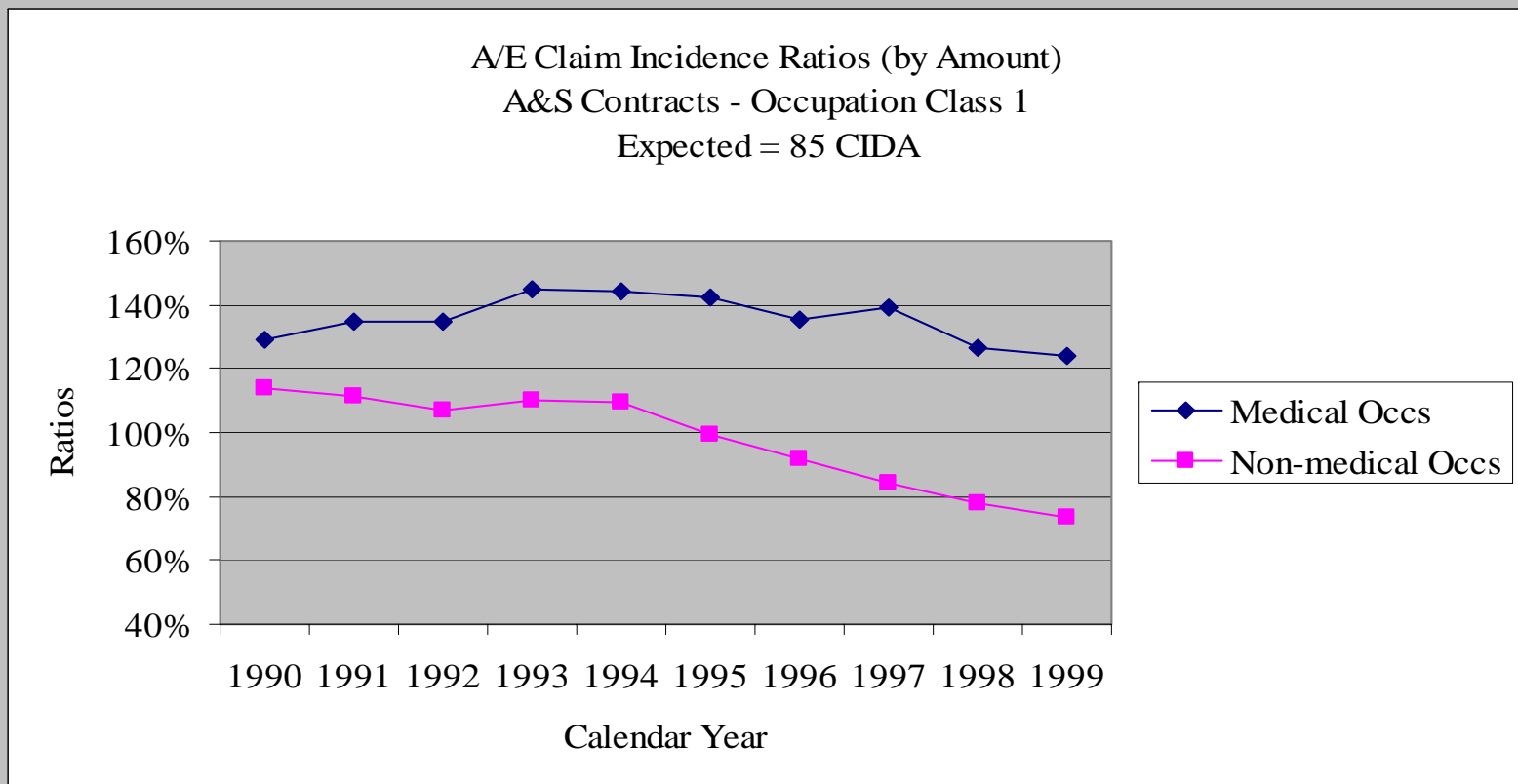
1990 – 1999 IDEC Study



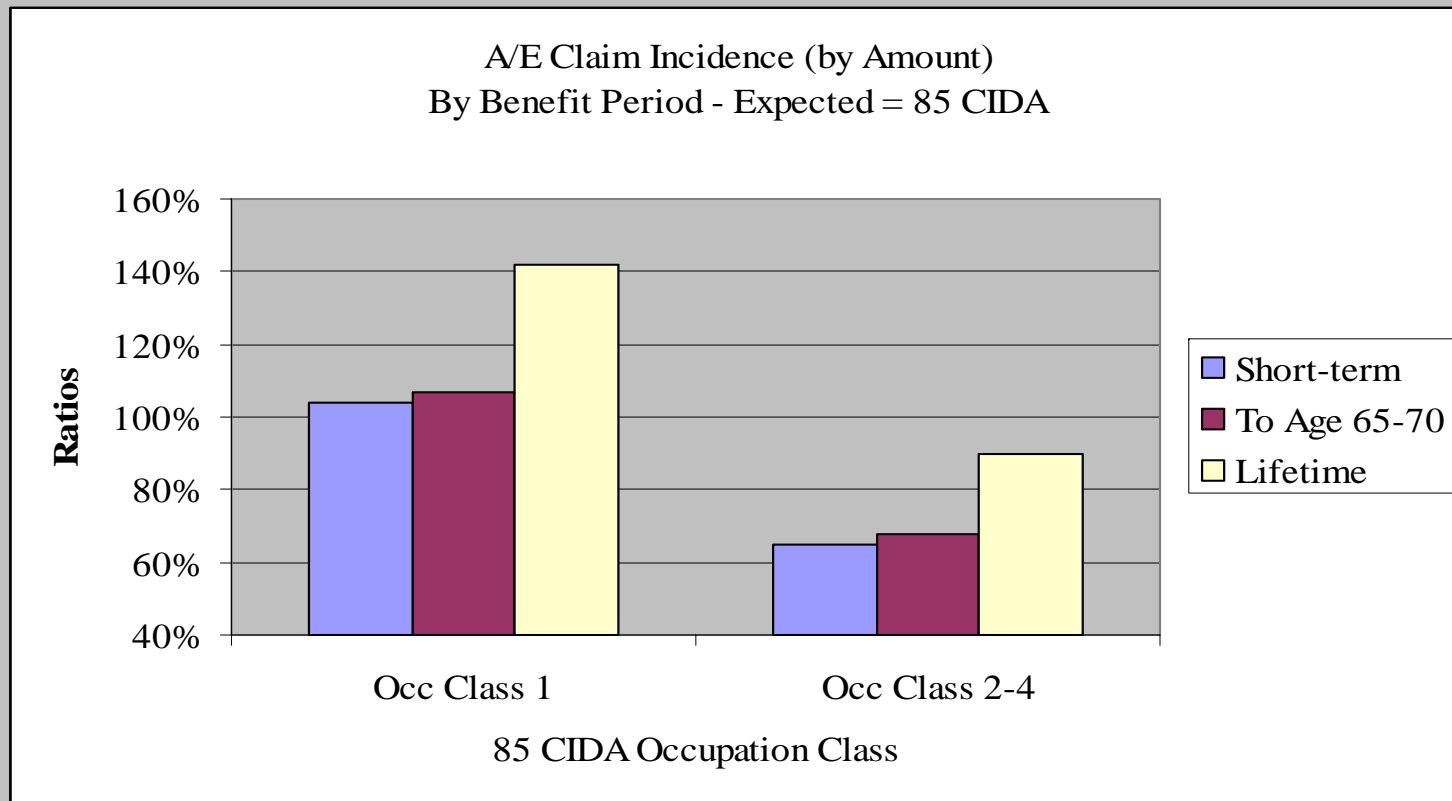
1990 – 1999 IDEC Study



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1990 – 1999 IDEC Study



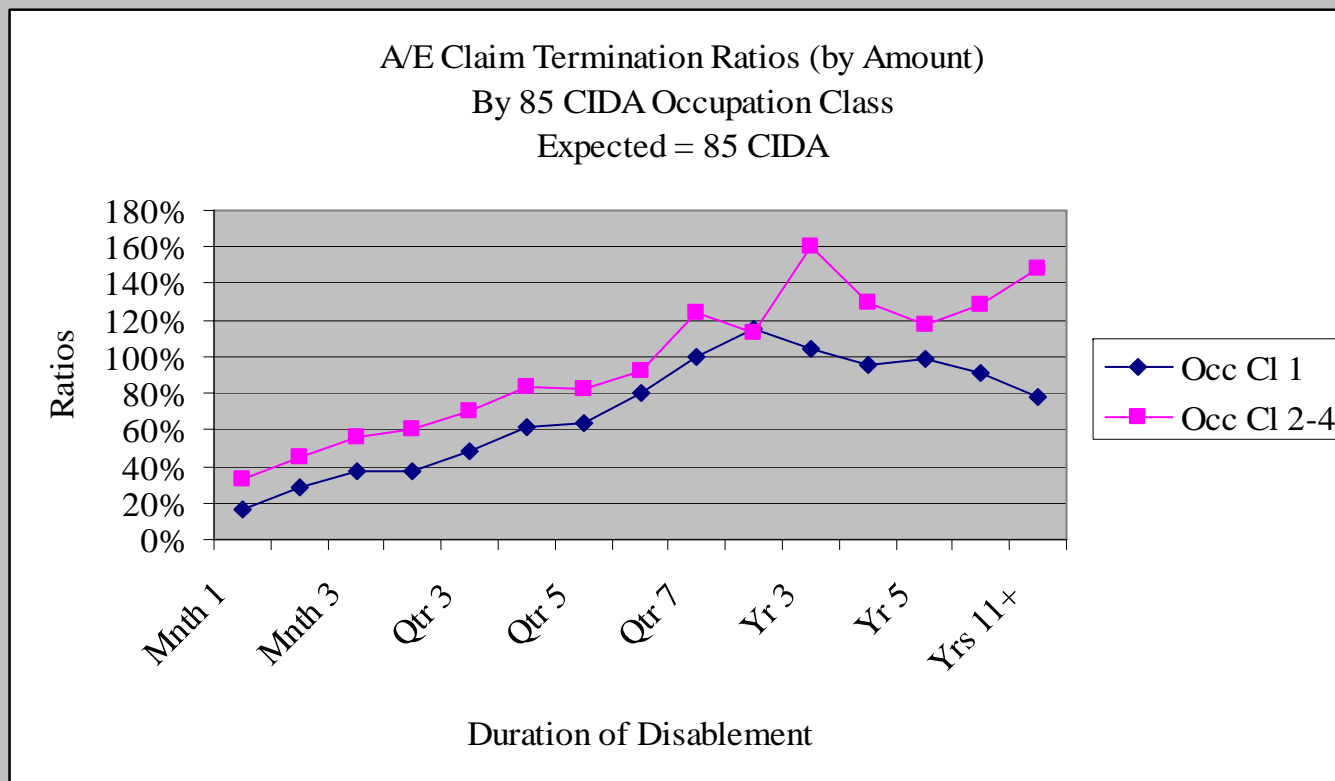
1990 – 1999 IDEC Study

Claim Incidence Rates

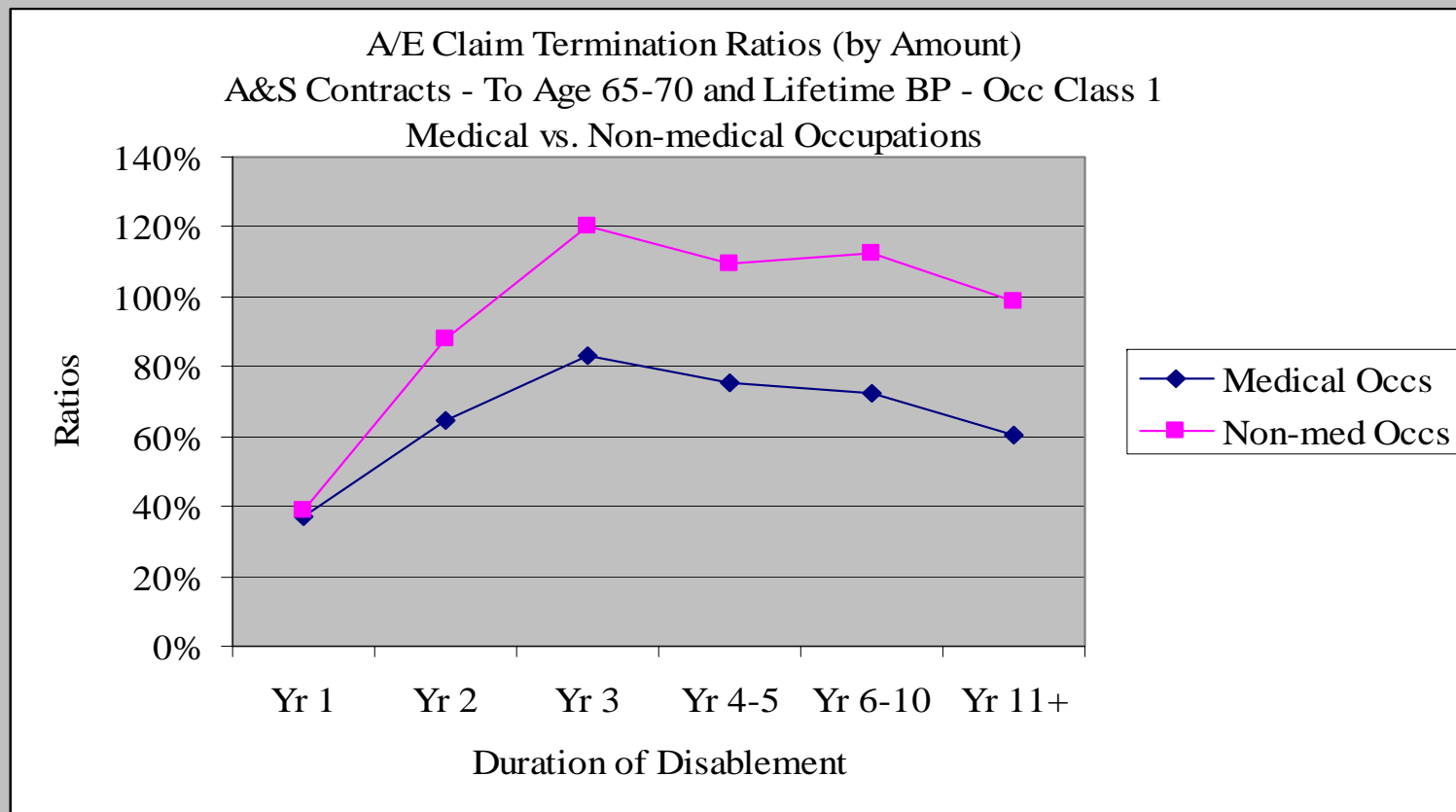
Non-Medical / Medical Occupations

<u>Occupation</u>	<u>A/E Ratio</u>
Psychologists	53%
Teachers	57%
Executives & Managers	61%
Accountants	62%
Lawyers	63%
Physicians & Surgeons	87%
Nurses	100%
Chiropractors	139%
Stockbrokers	142%
Total Non-Medical Occupations	64%
Total Medical Occupations	88%

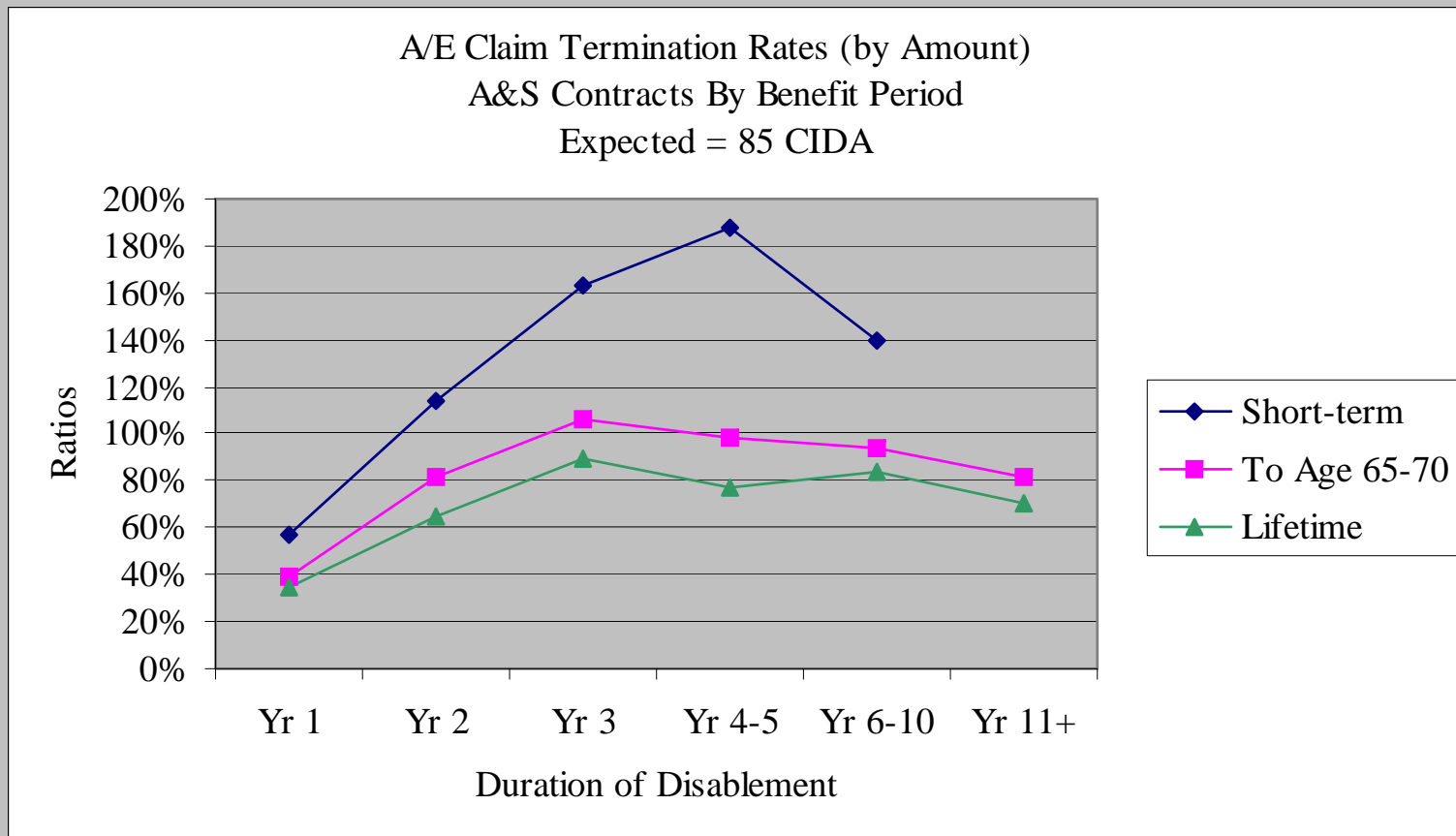
1990 – 1999 IDEC Study



1990 – 1999 IDEC Study



1990 – 1999 IDEC Study



1990-1999 IDEC Study

Key Conclusions

- Medical occupations have distinct experience from Class 1
- Lifetime benefit periods have poor experience
- Incidence trends are favorable in aggregate, with lots of variation
- Claim termination rates are generally lower (less favorable) than those in 1985 CIDA

Multilife Disability Underwriting

Multilife Disability Underwriting

Definition of Multilife Plans

Multilife plans involve the sale of individual disability policies to 3 or more employees of a common employer.

Multilife Disability Underwriting

“Multilife” does ***NOT*** mean:

- Group Insurance
- Professional Associations

Multilife Disability Underwriting

Objectives of Multilife Plans

- More flexible and generous coverage than group insurance
- Lower morbidity than traditional individual policies due to group risk selection
- Efficient administration through list-billing and simplified underwriting

Multilife Disability Underwriting

Key Features of Multilife Plans

- Stand-alone coverage or packaged with group disability
- Unisex premiums to avoid discrimination
- Discounts to reflect favorable experience
- “List-billing” sends one bill to employer
- Premiums paid by employer, employee, or both

Multilife Disability Underwriting

Underwriting Methods of Multilife Plans

- Traditional: Full medical and financial underwriting
- Guaranteed to Issue (GTI): Full underwriting, including substandard actions, but coverage may not be declined
- Guaranteed Standard Issue (GSI): No medical underwriting. All policies are issued on standard basis.

Multilife Disability Underwriting

Underwriting Methods of Multilife Plans

<u>Case Size</u>	<u>Participation Rate</u>	<u>Underwriting Method</u>
3-20 Lives	0-100%	Traditional
20+ Lives	<25%	Traditional
20+ Lives	25-75%	Traditional, GTI, GSI
20+ Lives	>75%	Usually GSI

Multilife Disability Underwriting

Success Factors for GSI Underwriting of Multilife Plans

- Favorable risk classes
- Uniform plan chosen by employer
- Pre-existing condition exclusion
- Actively-at-work requirement
- High participation rate
- Low maximum amounts
- Limited time periods

Multilife Disability Underwriting

Administration of Multilife Plans

- Streamlined quote process using census data
- Pre-filled applications
- Documentation of underwriting offers
- List-billing sends one bill to employer
- Capture group-level data for experience analysis
- Monitor participation rates

Multilife Disability Underwriting

Recent Experience by Market
Actual-to-Expected Claim Incidence

<u>Class</u>	<u>Traditional</u>	<u>Multilife</u>	<u>Association</u>
1	120%	96%	156%
2	72%	48%	101%
3	52%	46%	102%
4	76%	56%	92%
Total	105%	91%	151%

Multilife Disability Experience

Recent Experience by Underwriting Method
Actual-to-Expected Claim Incidence

<u>Occupations</u>	<u>Traditional</u>	<u>GSI</u>	<u>GTI</u>
Medical	133%	101%	123%
Non-Medical	64%	61%	65%
Total	92%	77%	87%

Multilife Disability Underwriting

Problem Areas of Multilife Plans

- Professional Associations: Lack of employer involvement means little morbidity savings
- Unisex rates may attract cases with high female content (female rates generally exceed male rates)
- Use of GSI underwriting on cases with low participation
- Poorly–designed GSI programs