



Australia & NZ

Disability Income Experience

*This paper was written by Edward Fabrizio
Deputy General Manager and Chief Actuary
General Reinsurance Life Australia Ltd for
ICA 2006 and updated by Brent Walker for
IAAHS Cape Town 2007*

Australian & NZ Market

- Benefit is a monthly annuity style benefit whilst person remains disabled
- Benefit based on income at time of underwriting (generally to max of 75% replacement) and is taxable
- Majority (90%) is annual renewal business (age rated based on age at renewal)
- Non-guaranteed rates
- Full offset if person earns income whilst disabled
- Agreed Value and Indemnity benefits are available

Australian & NZ Market


- Most common deferment periods are 30 and 90 day
- Benefit period is generally to Age 65, but 2 and 5 year periods also common for blue collar workers
- Many extras added :
 - Hospital benefit (pays benefit whilst in hospital during deferment period)
 - Rehabilitation benefits
 - Payment of minimum benefit period on certain accidents / illnesses

IAD 89-93 Standard Table

- Experience Reports for Australia and New Zealand are done on basis of comparing actual results to a standard table – IAD89-93
- IAD89-93 developed by the IAAust based on the Australian disability income experience for this period
- Incidence rates graduated by age/sex and 4 occupation classes
- Termination rates based on % of the US CIDA85 termination rate tables

IAD 89-93 Standard Table

- 4 Occupation classes
 - A : Professional and white collar
 - B : Other sedentary (light manual technical)
 - C : Light Manual (qualified trades persons)
 - D : Moderate to Heavy Manual



Australian Experience

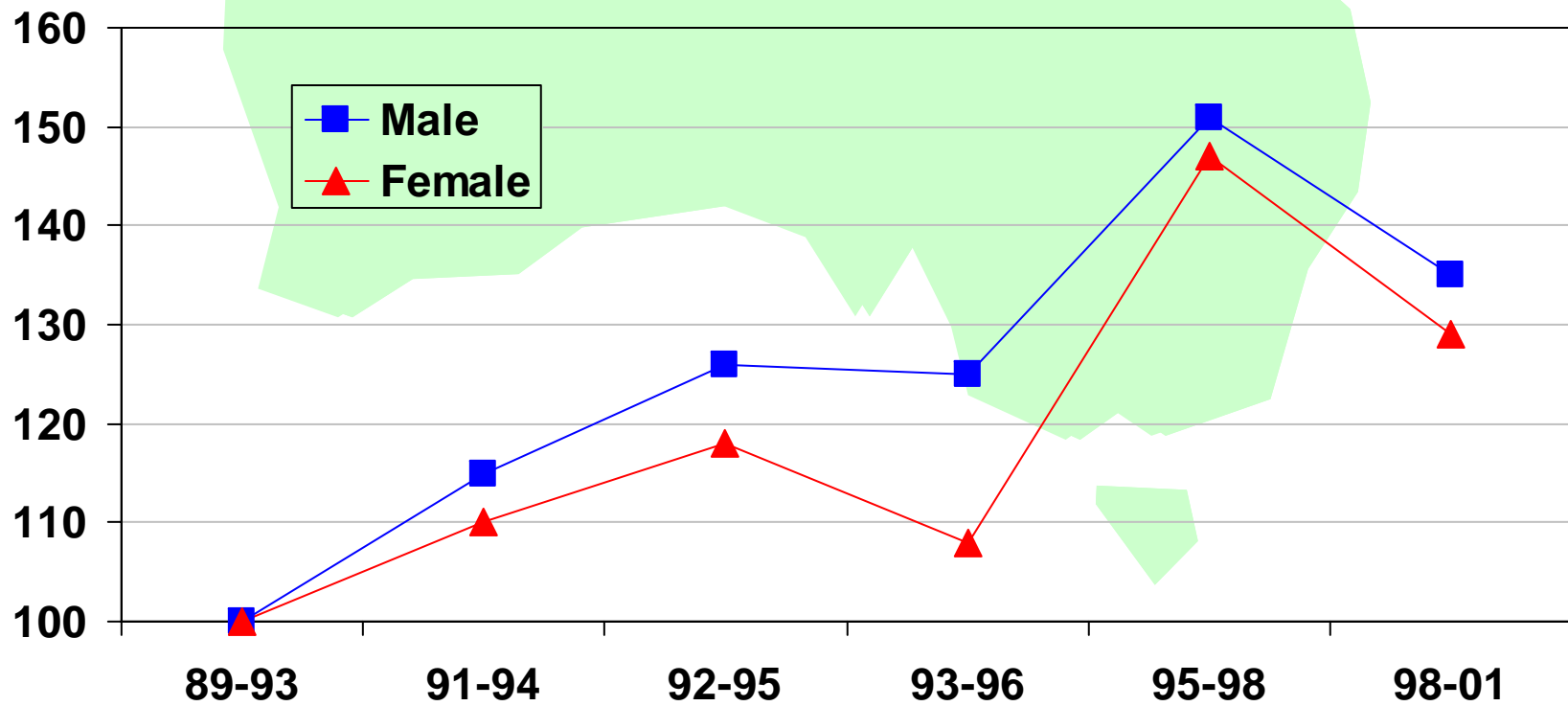
- **WARNING**

Experience results presented for Australia are preliminary. A final report has been written but is not yet published. Generally, the final report results show slightly more favourable trends than those indicated in this paper.

Australia – Latest Experience

Experience – Trends

Claim cost in first 3 years of claim : 1 mth deferment



Australia – Latest Experience

Incidence Experience - Males

Incidence Rates - % of IAD89-93 Preliminary results for continuing companies only

Males

Occ Class	2 week deferment		1 month Deferment	
	95-98	98-01	95-98	98-01
A	100%	73%	105%	78%
B	94%	81%	101%	97%
C	96%	83%	109%	105%
D	94%	73%	113%	108%
All	96%	78%	108%	97%

Australia – Latest Experience

Incidence Experience - Females

Incidence Rates - % of IAD89-93 Preliminary results for continuing companies only

Females

Occ Class	2 week deferment		1 month Deferment	
	95-98	98-01	95-98	98-01
A	96%	72%	97%	73%
B	101%	96%	97%	79%
C	93%	83%	93%	78%
D	90%	73%	84%	53%
All	95%	74%	96%	74%

Australia – Latest Experience

Occupation Relativities

Preliminary results for continuing companies only

Weighted Average Incidence Rates as % Male Class A

	2 weeks	1 month
male B	150% (156%)	175% (156%)
male C	238% (243%)	379% (320%)
male D	237% (273%)	438% (379%)

Weighted Average Incidence Rates as % Female Class A

	2 weeks	1 month
female B	154% (138%)	136% (134%)
female C	141% (164%)	189% (157%)
female D	146% (176%)	142% (174%)

Australia – Latest Experience

Amount vs Number of Claims

Preliminary results for continuing companies only

Ratio of A/E amounts versus A/E number for Incidence of Claim

Occ Class	MALE	FEMALE
A	108%	108%
B	104%	104%
C	109%	112%
D	113%	117%

Australia – Latest Experience

Termination Rates

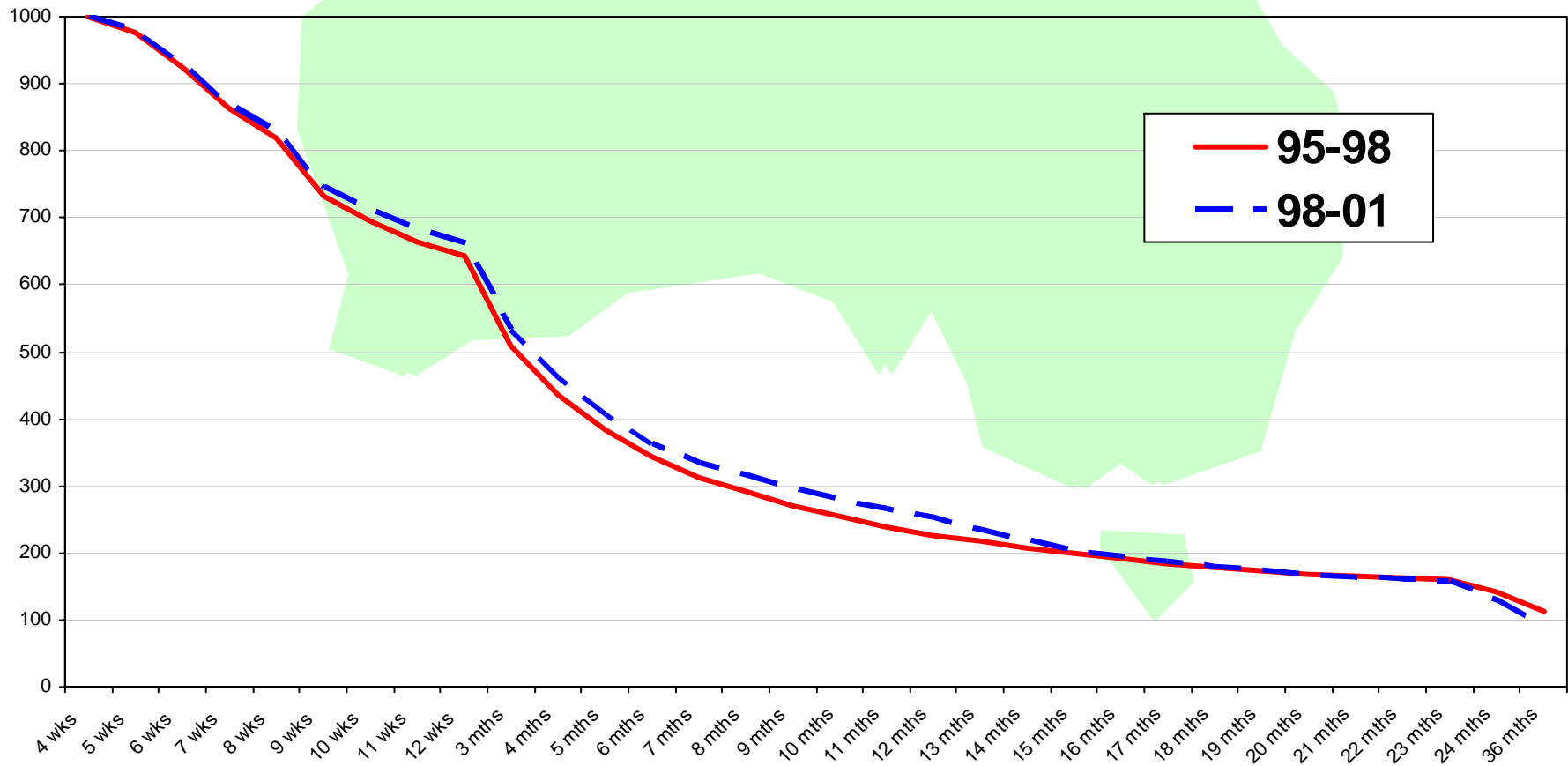
Preliminary results for continuing companies only

Ratio of A/E Number of Terminations

Occ Class	MALE		FEMALE	
	95-98	98-01	95-98	98-01
A	81%	81%	77%	80%
B	73%	77%	72%	74%
C	84%	88%	77%	77%
D	88%	84%	72%	64%

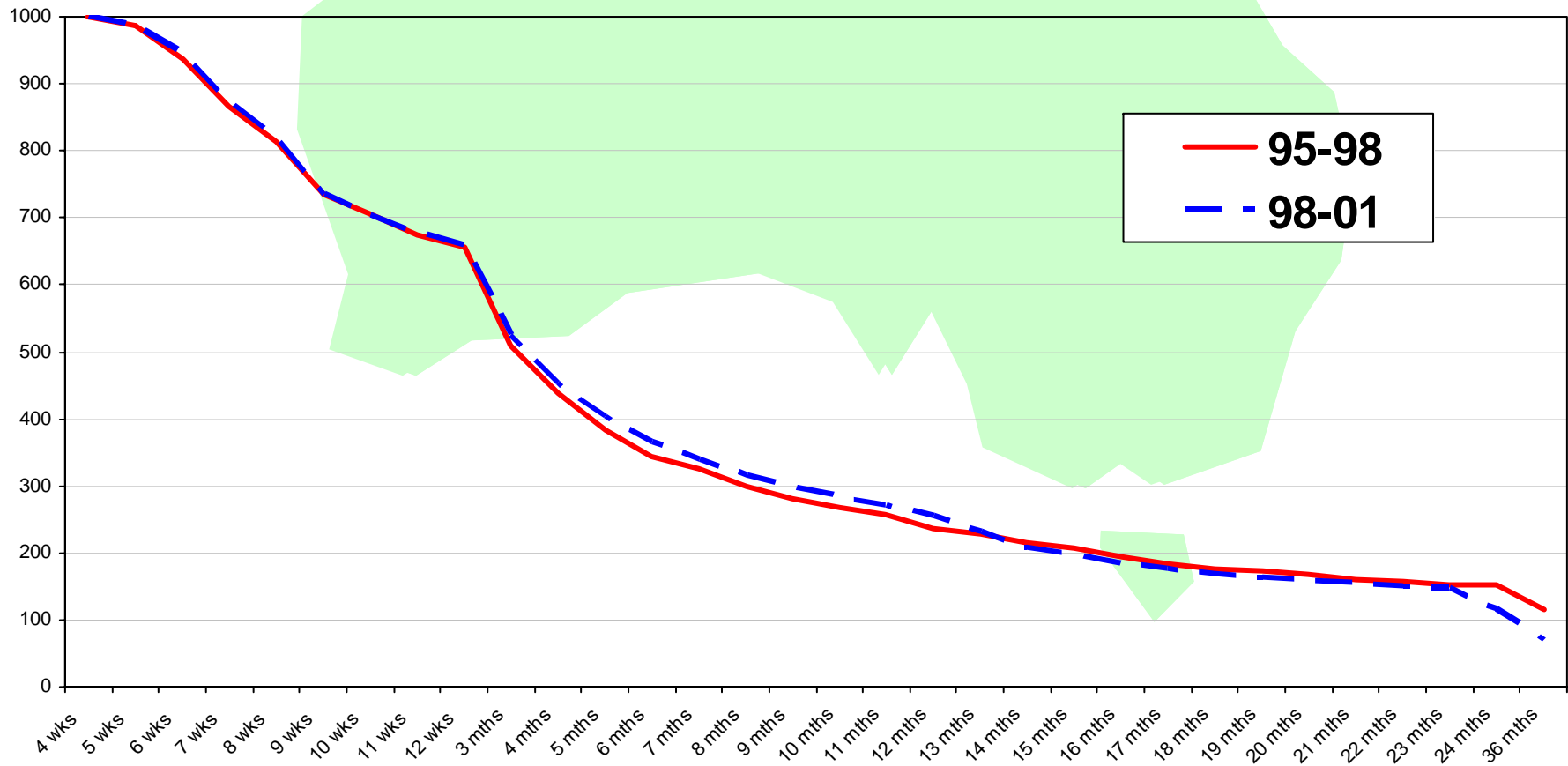
Australia – Latest Experience

Termination Rates – Male: Occ A: 1 mth deferment



Australia – Latest Experience

Termination Rates – Female: Occ A: 1 mth deferment



Australia – Latest Experience

Termination Rates

Preliminary results for continuing companies only

Actual Termination Rates of Claim by duration of claim

Termination Rate	95-98		98-01		Ratio	
	Male	Female	Male	Female	Male	Female
Mths 1 to 3	0.491	0.490	0.468	0.475	95%	97%
Mths 4 to 6	0.326	0.327	0.318	0.307	97%	94%
Mths 7 to 12	0.341	0.315	0.303	0.299	89%	95%
Mths 13 to 24	0.372	0.353	0.494	0.549	133%	155%
Mths 25 to 36	0.197	0.243	0.313	0.383	158%	157%

Australia – Latest Experience

Amount vs Number of Terminations

Preliminary results for continuing companies only

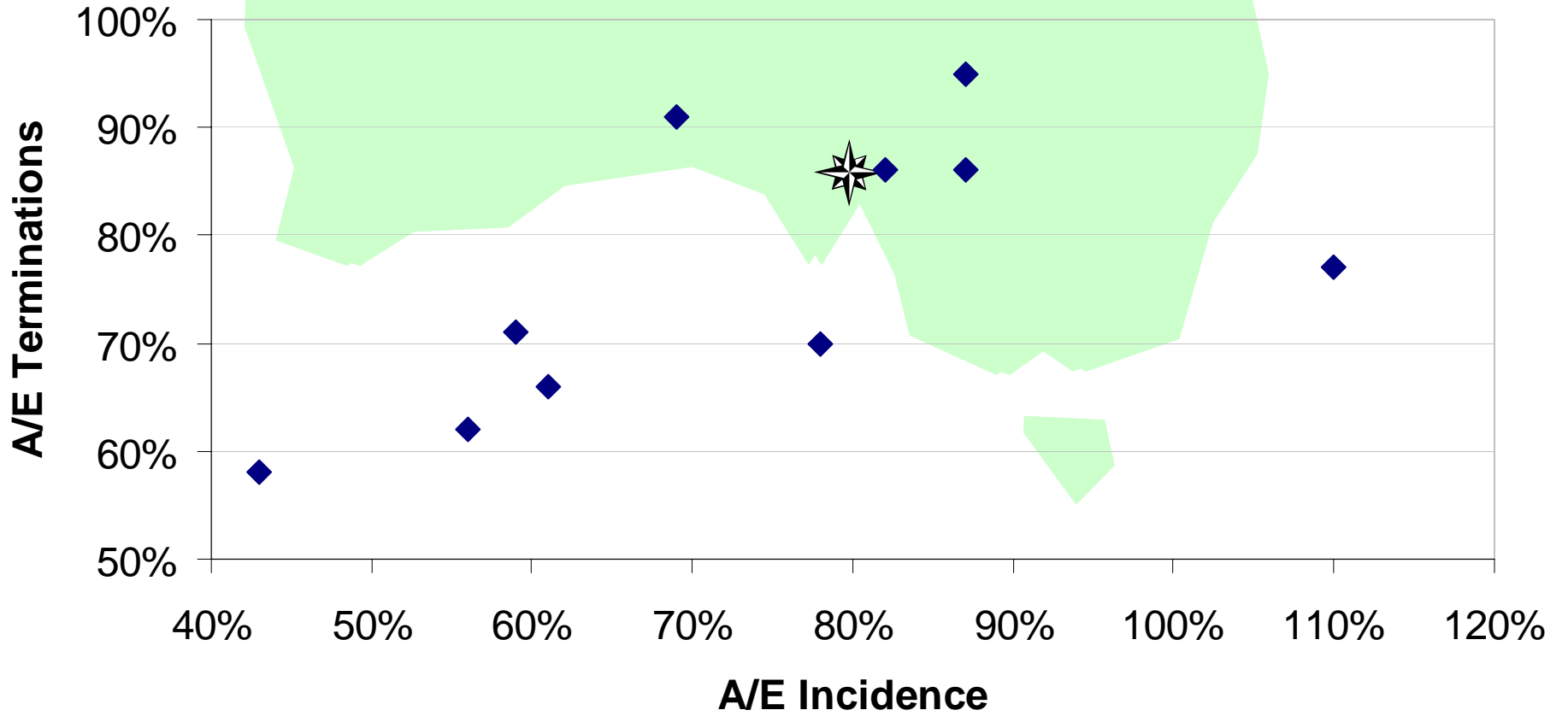
Ratio of A/E amounts versus A/E number for Termination Rates of Claim

Occ Class	MALE	FEMALE
A	96%	98%
B	95%	95%
C	95%	95%
D	93%	97%

Australia – Latest Experience

Variation in Experience by Company

Preliminary results

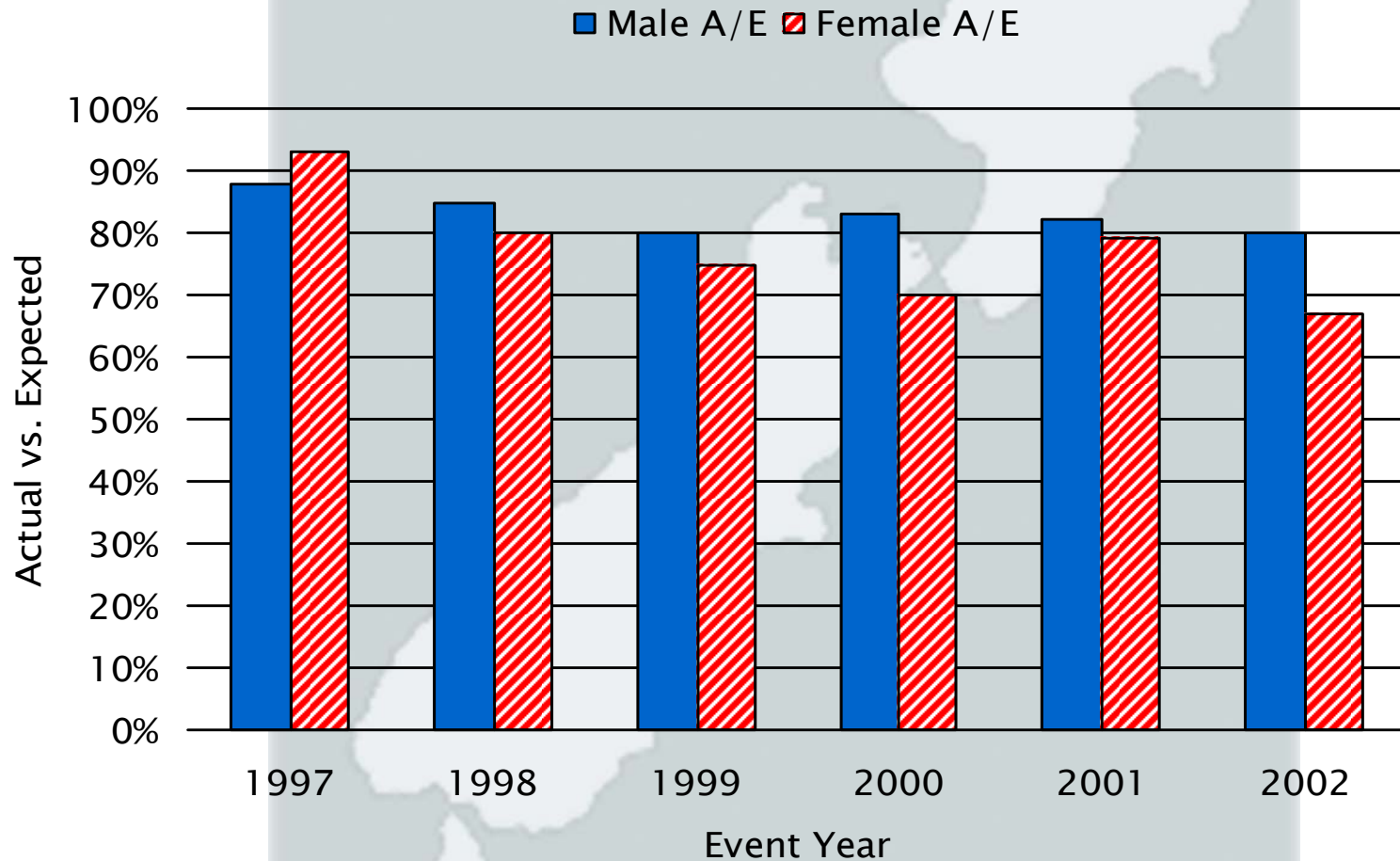


Summary for Australia

- Experience has improved significantly
 - Driven by lower incidence experience (although there are concerns about the quality of some of the data)
- Termination rates during first year of claim continue to deteriorate, however, this is being compensated by better termination rates at later durations
- Incidence and termination rates by amounts are worse than by number (total claims cost by amounts about 15% higher than by number), need to be careful in setting pricing and reserving assumptions – especially for reinsurers on a surplus basis

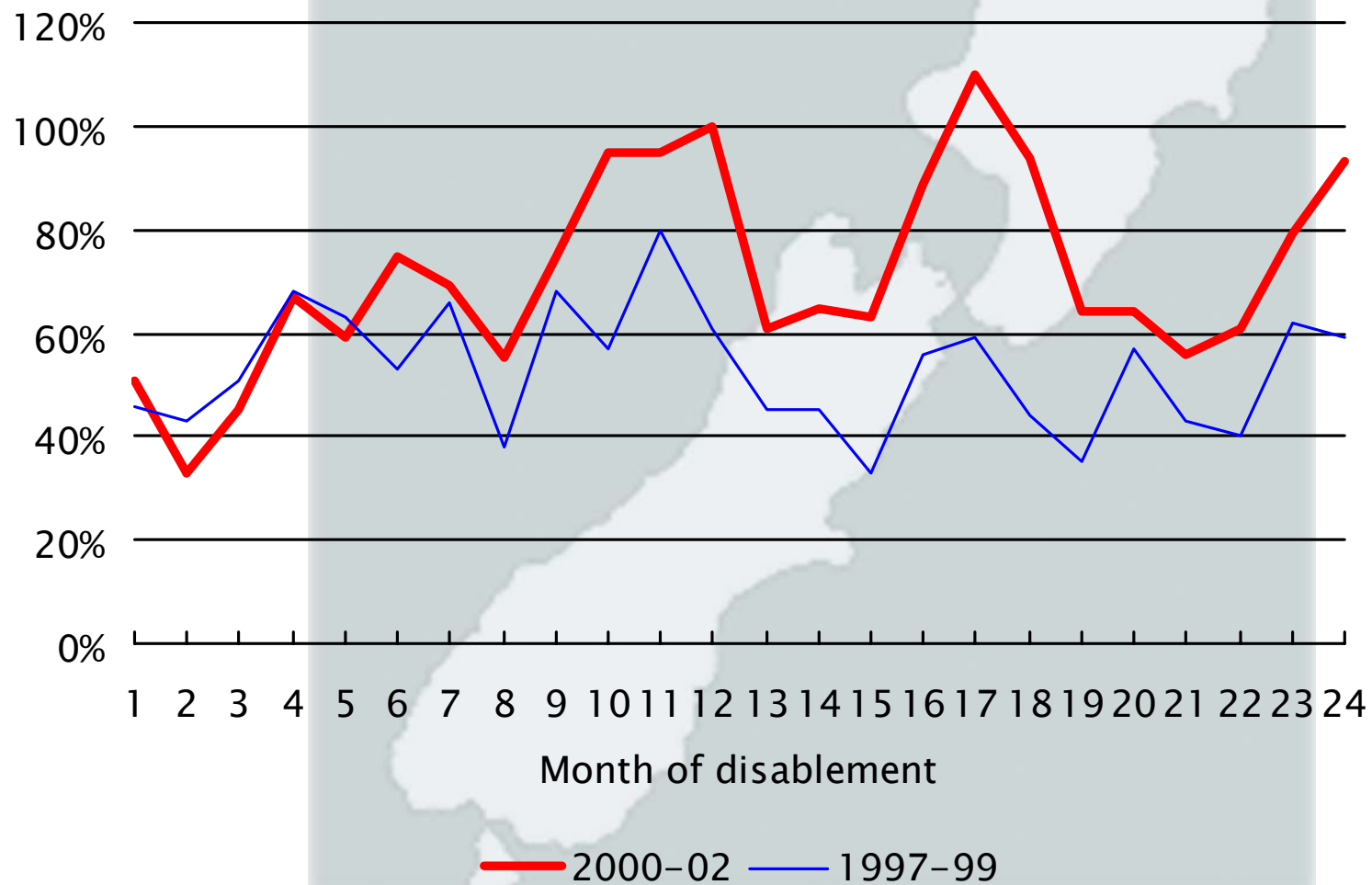
New Zealand – Latest Observed Experience

Incidence Rate Experience



New Zealand – Latest Observed Experience

Termination Rate Experience



New Zealand – Latest Observed Experience

Claim Duration Experience

Ratio (%) of actual to expected claim length by deferment period and investigation period

Deferment Period	1997–99	2000–02
30–days	169	146
90–days	146	132

Ratio (%) of actual to expected claim length by occupation class and investigation period

Occupation Class	1997–99	2000–02
White-collar	168	141
Blue-collar	154	140

New Zealand – Latest Observed Experience

- Important feature of NZ Experience is the interaction with the government accident compensation scheme (ACC)
- ACC provides benefit up to 80% of taxable salary (with maximum dollar cap) in event a person is injured and unable to work
- Covers most forms of accidental injury (work and outside work) and can sometimes overlap with what would normally be considered a sickness

New Zealand – Latest Observed Experience

Paid ratio (%) by cause of claim and investigation period

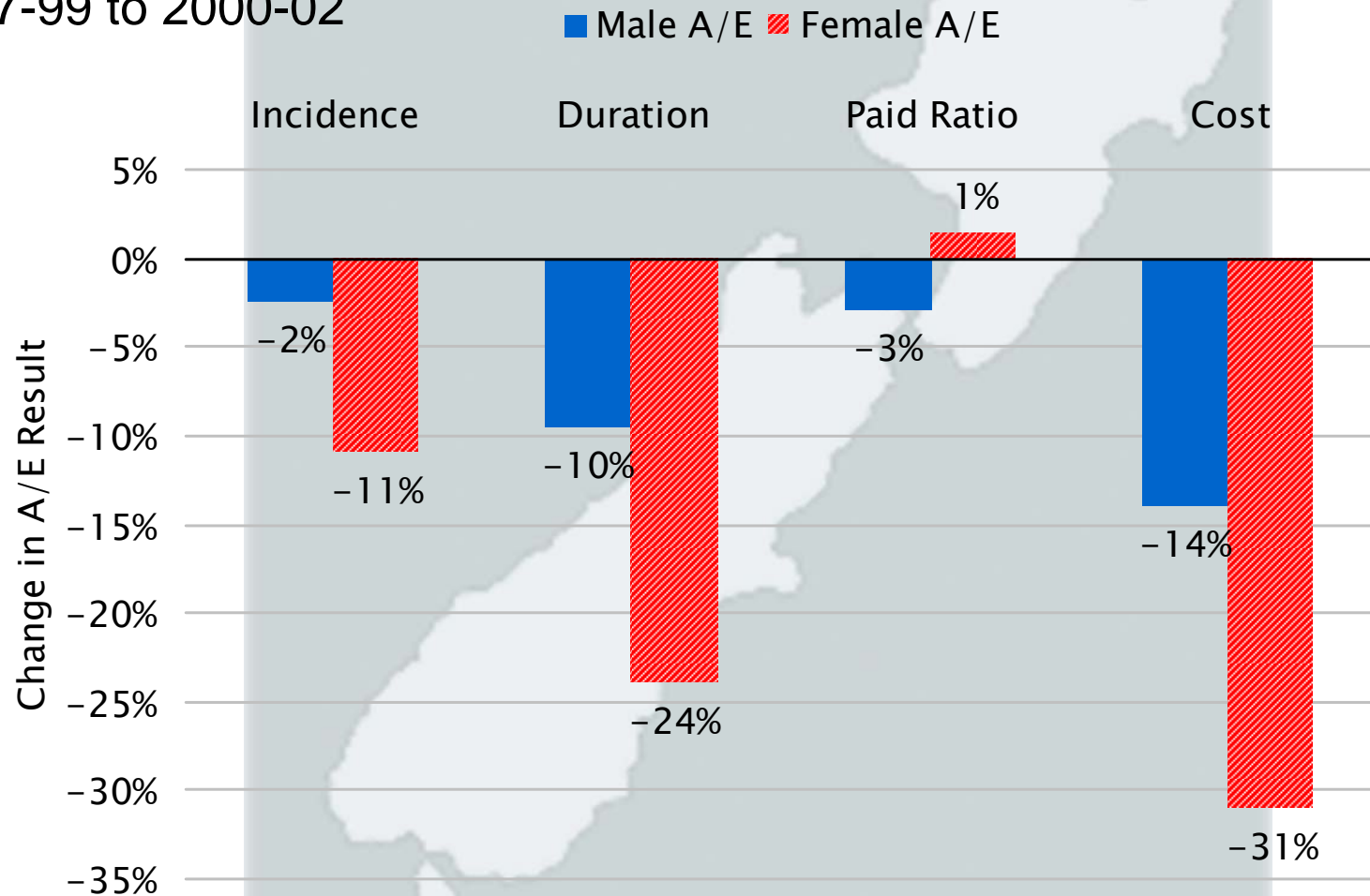
Cause of Claim	1997-99	2000-02
Accident	52	43
Sickness	79	81
All	72	70

Paid ratio by claim cause and occupation class in 2000-02

Occupation Class	Accident	Sickness	Total
A	41	83	76
B	43	82	74
C	57	76	71
D	43	80	63
E	44	77	60

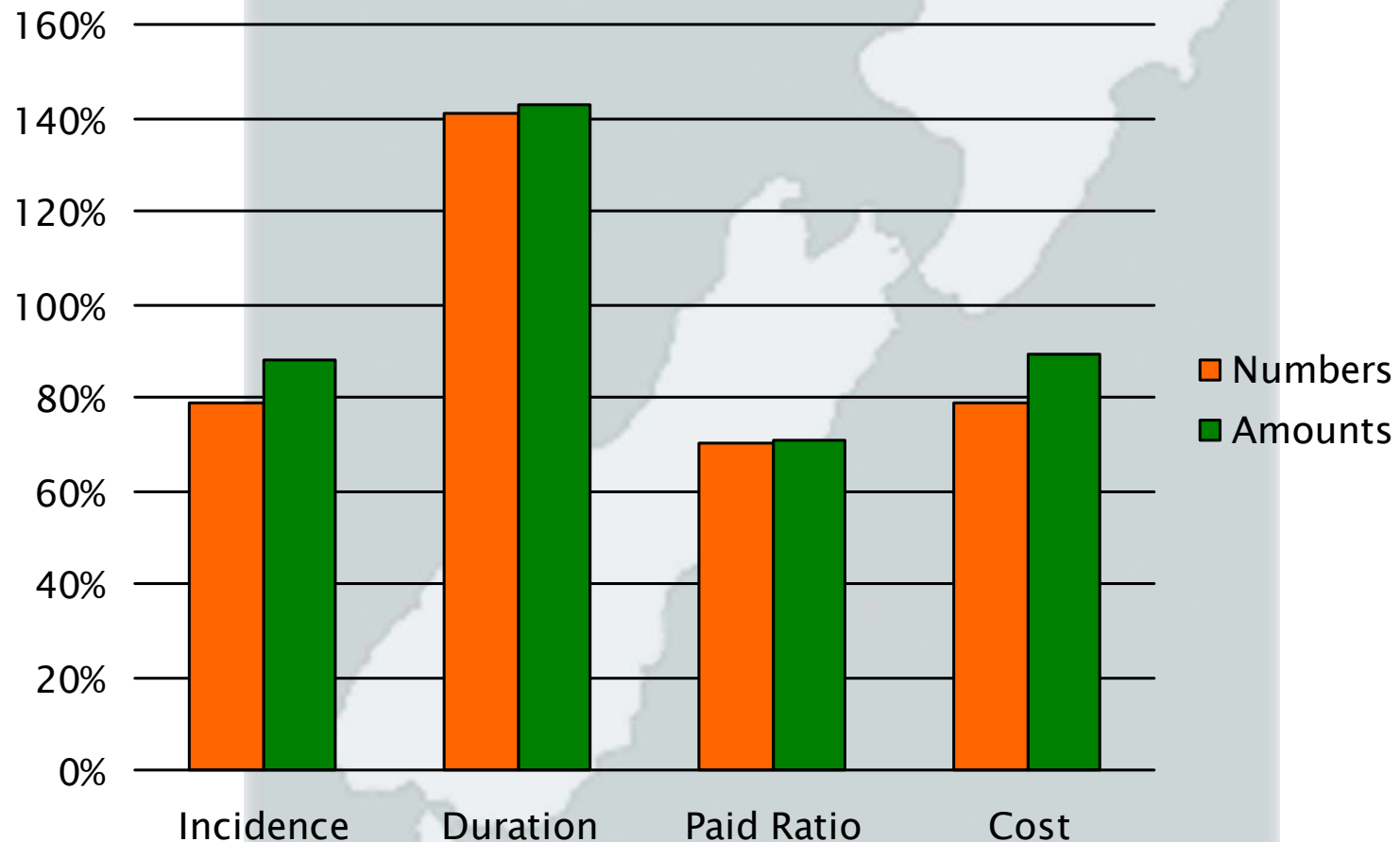
New Zealand – Latest Observed Experience

Contribution of each component to total change in claim cost from 1997-99 to 2000-02



New Zealand – Latest Observed Experience

Comparison of ratios (%) of actual to expected results in 2000-02 weighted by numbers and amounts



New Zealand – Latest Observed Experience

Warning: smoking hazardous to your health

Ratio (%) of actual to expected incidence for smokers over non-smokers in 2000-02

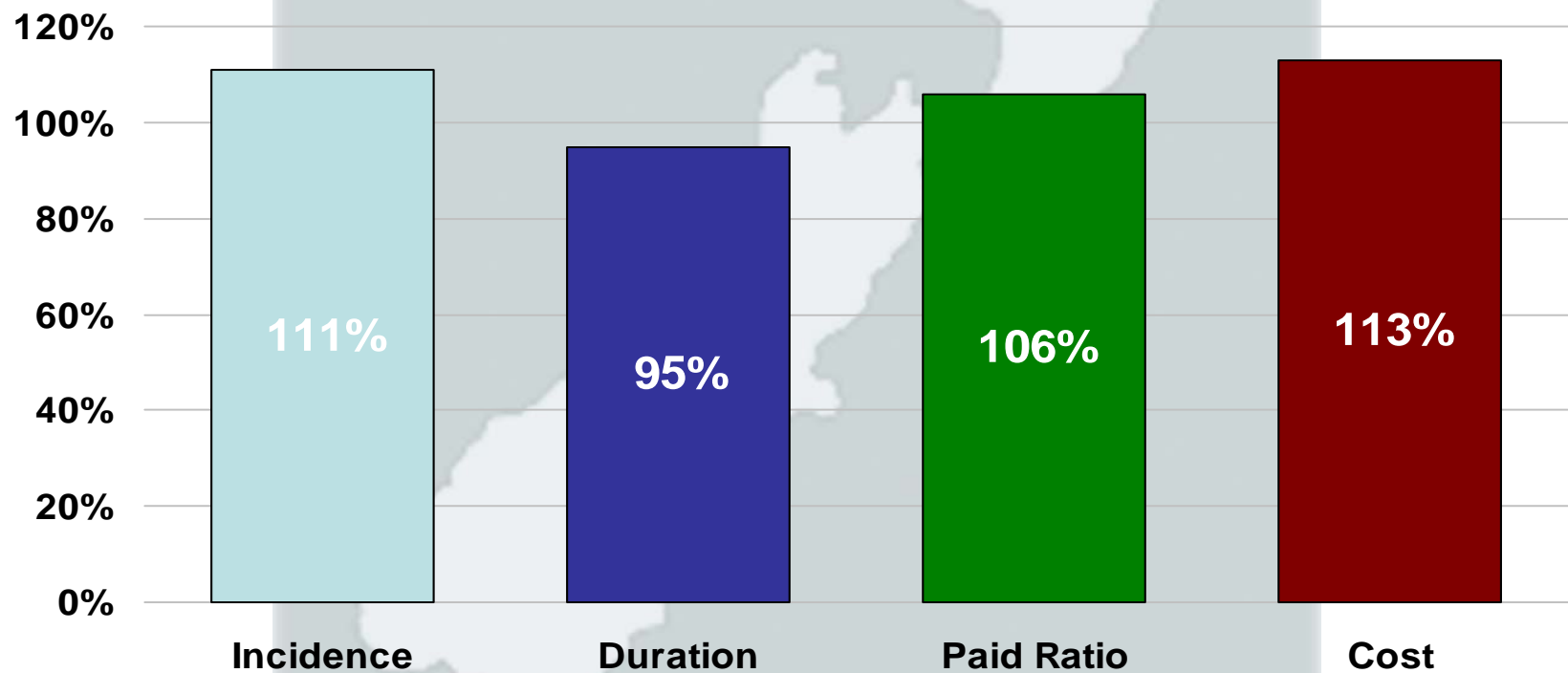
Occupation Class	Male	Female	All
White-collar	142 (13)	135 (16)	138 (10)
Blue-collar	123 (10)	117 (31)	122 (10)
All Occupation Classes	122 (7)	129 (14)	124 (6)

Ratio (%) of actual to expected claim cost for smokers over non-smokers in 2000-02

Occupation Class	Male	Female	All
White-collar	143	123	134
Blue-collar	132	123	131
All Occupation Classes	124	121	123

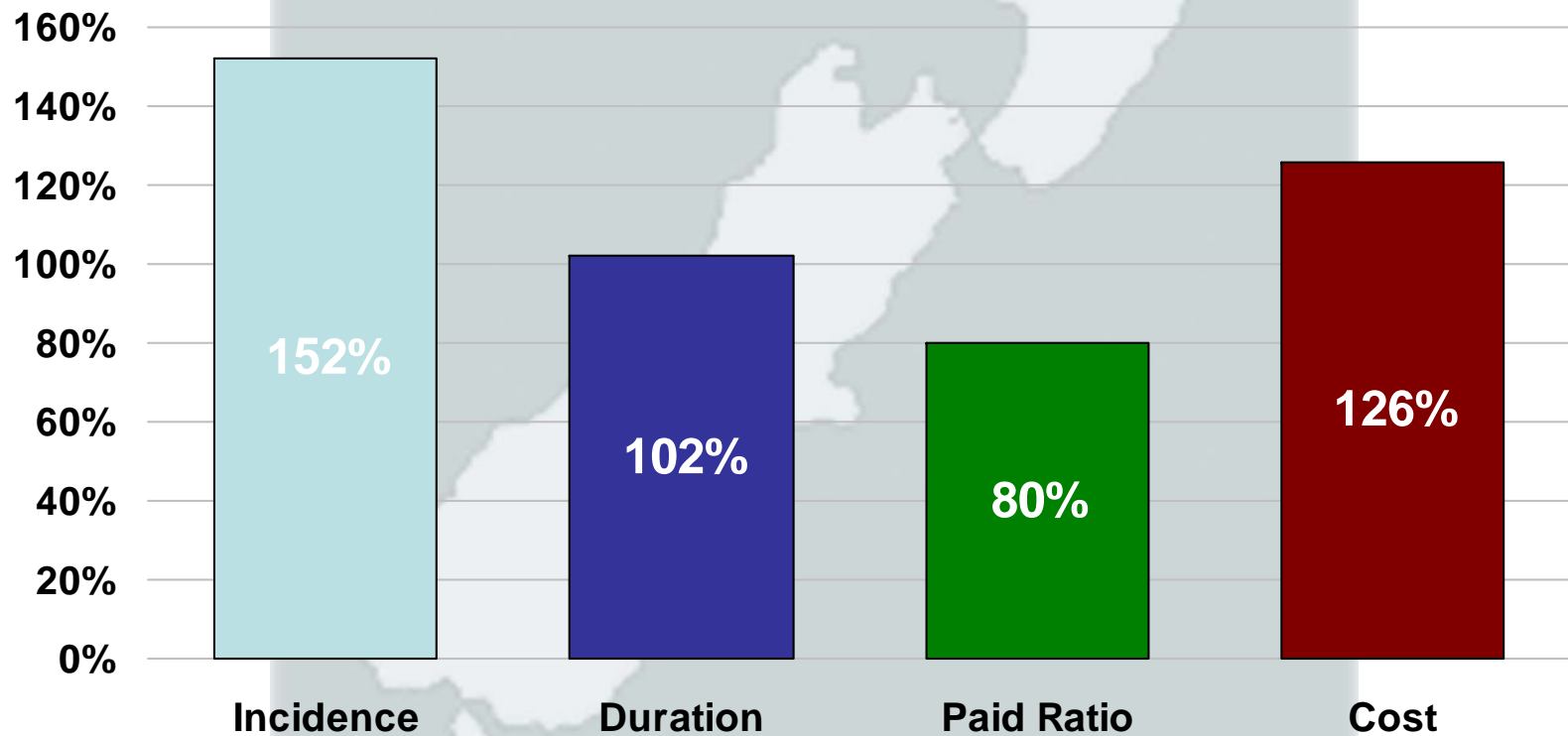
New Zealand – Latest Observed Experience

Agreed Value benefits versus Indemnity



New Zealand – Latest Observed Experience

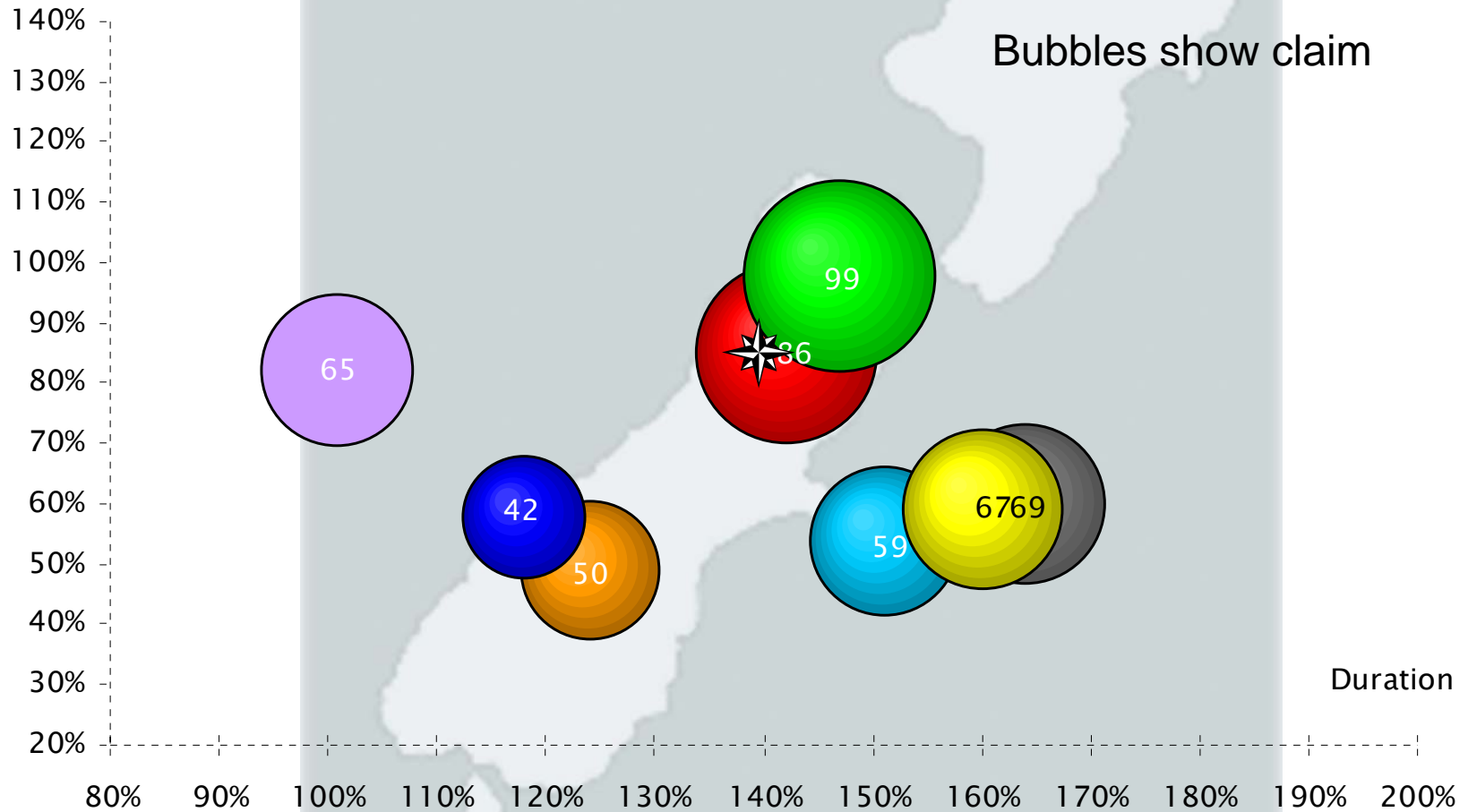
Self-employed versus Employed



New Zealand – Latest Observed Experience

Variation in experience by company

Incidence



Summary for New Zealand

- Experience has improved
 - Driven by increased termination rates
- Difference between self-employed and employee can be an important rating variable – is just as important as smoker status
- Incidence and termination rates by amounts are worse than by number, need to be careful in setting pricing and reserving assumptions – especially for reinsurers on a surplus basis
- Experience varies greatly by company