TRANSACTIONS OF SOCIETY OF ACTUARIES
1961 VOL. 13 PT. 2

Long-Term Disability Benefits

A. What success are companies having in the sale of long-term disability benefits? What benefits are provided after termination of the plan or master contract? What experience is appropriate for the determination of premiums and reserves? How are reserve liabilities for continuing claims established? How are companies applying experience rating to these benefits?

MR. ROBERT F. PRESTON: At Northwestern National Life we usually provide income to age 65 for total and permanent disability with a six months waiting period as our long-term disability benefit. This is combined with either Group Permanent or Group Term life insurance on a pooled basis. The benefit limits are moderate and usually on a salary bracket basis. For example, a 300 life case with $50,000 of annual premium has a maximum monthly disability income of $200.

The experience has been good. The oldest case is 10 years old. One of the two cases with the largest experience is contributory and the other is employee-pay-all by means of a payroll deduction arrangement with the employer.

The premium basis was established before the 1954 disability study. It allows for the 165% modification of Class 3 experience at $3\frac{1}{2}\%$ covering disability on a level premium basis with a graded loading not exceeding 10% of the net. Claim reserves are based on Class 3 experience at 3% interest. Both large cases have had rate reductions after building up initial reserves for disability from the policyholders' premium payments. In one case the exact amount of a rather substantial reserve was stated to the policyholder before writing the coverage. Also, each case has received dividends although, for any year in which a large disability claim occurs, there is usually little or no dividend as the entire claim reserve is treated as a charge for that year. When a claim terminates, the experience is credited with the current claim reserve. This leaves a permanent charge to the experience of the income payments actually made.

If the contract is terminated, payment for incurred disability claims still continues.

MR. HARRY L. SUTTON, JR.: I am not in close touch with our business, but we have about 10 cases nationwide in the Prudential, with good experience. Initial underwriting has been very cautious. One case of 200 lives has a $200 a month maximum benefit.

All contracts written, I believe, provide for continuing payments on claims even after termination of the contract. We are considering a limitation of payments after termination to the maximum number of years insured under the group contract. This will be accompanied by more liberal benefit amounts. However, the limitation of payments in event of cancellation of the contract seems to make the benefit unattractive to prospects.

MR. RICHARD W. ERDENBERGER: In a recently attended HIAA Conference I heard much talk but little indication of much business. Very few companies represented were willing to continue claim payments after termination of the group without some limitation. One suggestion was to end payments after two years beyond the termination. Another was to allow payments for the number of years the insurance had been in force up to a limit of 5 years. A further limitation was to the number of years of service the individual had with his employer, regardless of the duration of the insurance.

Many of the companies there seemed to recompute premiums as if on a one year renewal term basis. With these comparatively low premiums, the limitation on benefits after termination of a group seems more desirable. Also, there was indication that most of any redundant premiums of the first three to five years would be placed in a contingency fund and there would be a long wait before there were any experience refunds. The contingency reserves were subject to return to the policyholders after a period depending on the disability waiting period and other special terms.

We, in the Mutual Benefit of Omaha, have one or two policies of short durations and there have been no adjustments to the premiums yet. These have been computed on a one year term basis.

MR. ROBERT V. YOUNG: We in the Massachusetts Mutual are just getting started in the long-term disability field. Although we have made several quotations, we have issued only two policies. Our underwriting rules require that we also write the weekly disability plan and the term life plan for the group. The waiting period of the long-term disability plan is integrated with the maximum duration of the weekly disability benefits. For example, a long-term disability plan with a three months waiting period is issued in conjunction with a thirteen-week weekly disability plan. Flexibility in benefits is introduced by allowing the following maximum benefit periods:

Accident and Disease		Accident	Disease
5 years		5 years..........	2 years
10 years	OR	10 years..........	5 years
To age 65		To age 65..........	10 years

In no event are benefits payable beyond age 65.

MR. MORTON D. MILLER: In the Equitable we will write a superimposed benefit on an integrated basis which is meant to avoid any duplication of payments or overinsurance. Besides the short-term weekly benefits, we watch out for Social Security benefits and even early retirement pension benefits.

In constructing a schedule of amounts to write, even the varying income tax bracket effects are considered to reduce the yardstick to a take-home pay basis. If we are willing to write 50% benefits on the first six thousand dollars of salary, we should drop to one-third or so at higher levels.

Over several years, we have acquired 15 to 20 cases, none of which is big. There is buyer interest until the cost is discussed. With the Social Security extension to below age 50, there is a benefit floor for most people. This may limit interest to the higher paid personnel only. I think the main interest is among top level people and not the rank and file employees.

In our plans, we follow many of the ideas noted by Mr. Erdenberger. We have found more activity in the shorter duration plans for benefits lasting from two to five years. In determining our rates we were guided in part by a modification of the Period 2 Benefit 2 rates from the 1952 study. For annuity values we used Benefits 2 and 3 for all periods.

MR. SAM HOUSTON HUFFMAN: A pension plan feature may be affecting the lack of activity in life or casualty company sales of this long-term disability. Many of our Wyatt Company plans include final pay retirement benefits with a disability income equal to the accrued retirement income as reduced for early retirement. With a $1\frac{1}{2}\%$ plan, a $20,000 a year man with thirty years of service (to put him in the ages where disability is more frequent) will have an income of $9,000 before an early retirement reduction. This may reduce the income to about $4,000 a year. In funding such an income on a one year term basis, the cost is small although I admit it will be an increasing item.

The existence of such benefits does fulfill an important need for many people who may be forced to stop work early because of disability.

MR. SUTTON: Some deductions from disability benefits which may or should be made include (1) any payments made under a life program and (2) amounts receivable from Workmen's Compensation. The latter will supplement a provision excluding payments made due to occupational disability.