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DISABILITY INSURANCE PRODUCTS— THE EXPANDING ROLE OF THE PRIVATE INSURER

Moderator: DONALD M. PETERSON. Panelists: CHARLES C. BLACK, STANLEY F. MELTZER, JOHN E. PLOURDE**. Recorder: ROGER R. SOLOMON*

Current developments related to:

1. The U.S. Social Security and The Canadian governmental disability programs and their impact on today's disability insurance market.

2. Financial underwriting for group and individual disability income products.

3. New disability experience and valuation tables.

MR. DONALD M. PETERSON: We have a distinguished panel consisting of Charlie Black, who is Vice President of the Canadian Life and Health Insurance Association here in Toronto, and two very distinguished non-Society members, Stan Meltzer and John Plourde. In addition, we will be hearing from the Chairman of the Society's Health Section Council, George Berry, who will give us a quick rundown regarding current and future Health Section activities, and from Bill Taylor of Massachusetts Mutual, who will give us an update on the status of the Society's committee to recommend new disability tables for valuation.

MR. GEORGE L. BERRY: I just want to take a couple of minutes to update you on what the Health Section has been doing and what we would like to do. We have elected three new Council Members, Martin Dickler, Kurt von Shilling and Bob Dymowski, and I would like to extend to them my congratulations. Some of the Council Members, myself included, will be moving off the Council in the next couple of weeks, and a new slate of officers will be elected for the coming year.

Our goals in the Health Section continue to be the professional development of the health actuary and emphasis on better communications and on continuing education, and that is kind of the purpose for sessions like this. We have a newsletter, to which we certainly welcome contributions in the form of letters or articles, and Charlie Habeck is the editor. If any of you ever have an interest in or questions about what the Health Section does, please feel free to contact any Council Member or the Society office for information. I would really encourage you to do that, because our success is very heavily dependent on the involvement of all of our members, and I am really saying that as much to myself as to you, because I am going to be one of the people who is supposed to be contributing just like you over the next year. One of

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the activities that the Section does involves work done by committees on education, who are working to review what we learn and study and are tested on with respect to health care, so as to provide a more common thread through the examinations. They will be making some recommendations soon with respect to the examination syllabus on that subject. We also have committees on research and data, rate-making and valuation, health care economics, communications and elections. Next April, as many of you know, in San Francisco, we will be having a special meeting on health insurance. I am quite excited about it. We have put out a call for papers and are, in fact, having a contest on six subjects. Those papers will be published in advance of that meeting and discussed at the meeting, and I would encourage you to participate in that as well. Again, the Society office, Charlie Habeck, or Council Members can give you specific information about that if you have not gotten it already, or you can just look at an old health newsletter that has all that information in it. Please think about contributing by taking one of those subjects and writing a paper on it. Already, there are a number of people who are doing that, so I am enthusiastic about what the results are going to be. We will probably be having some debates at that meeting, so I am looking forward and hope you will too to a really interesting meeting.

There has been a question over the last few months of expanding the Council from nine to twelve Members. My own feeling is that this is something that needs to be discussed by the Council and needs to be thought about by the Health section members. My hope is that this can be decided before the next election, which means that you may be asked to agree or to disagree with that idea sometime over the course of the next year. If you have comments about that, I hope that you will get in touch with a Council Member and let those be known, because I am going to encourage the Council when we meet tomorrow to talk about that issue.

MR. WILLIAM J. TAYLOR: When we last reported at a Society Meeting (1982 Annual in Washington), we gave financial results on an incomplete and far from final experience table. Those results are published in the Record. Our termination rates, which had consumed most of our Committee's attention up to that time, were close to final. We have since replaced the monthly rates for the first three months of disablement with weekly rates and the quarterly rates for the third through the eighth quarter with monthly rates. This merely refines the calculation of the disabled life annuities. The data base for our incidence rates was quite thin for females and also for longer elimination periods. We limited our results to those areas where we had a reasonable amount of data. Our data base for incidence rates had been from five companies which had responded to our request of supplying occupational class by the four classes defined in the New York Study and ages summarized into quinquennial age groups for their contribution to the Society's 1978-1979 study. One company did not comply with the age grouping request giving rise to what we called the four company and five company studies. We have since developed what we refer to as generated incidence rates by using ratios developed in the New York Study to split the broad two-occ classification used in the Society's studies into the four occupational classes. As a base, we combined the two bi-annual studies covering the period 1976-1979. A table summarizing the exposures and claims from these various studies is attached.

In the meantime, the Ted Becker Committee of the NAIC had asked Paul Barnhart to develop a valuation version of the table he presented to the Society in 1984 and Paul complied with that request. (The NAIC Life, Health and Accident

		SOA Two Occ Data		New York Study		4 Company Decennial		5 Company Original	
		Exposure	Claims	Exposure	Claims	Exposure	Claims	Exposure	Claims
Total		5,900,687	178,953	9,680,117	338,370	2,078,155	74,053	2,571,156	98,295
M		5,368,945	159,640	8,980,395	305,469	1,908,657	67,411	2,355,179	88,967
F		531,742	19,313	699,722	32,901	169,498	6,642	215,977	9,328
A	0	649,944	27,256	1,910,138	88,400	245,722	9,598	260,433	10,196
A	7	356,651	13,340	671,203	24,663	118,808	5,154	239,169	9,310
A	14	537,139	15,499	606,915	12,813	219,684	7,065	274,612	8,314
A	30	1,123,422	11,677	1,289,442	9,134	370,642	4,228	413,060	4,780
A	90	361,694	445	470,800	643	84,815	116	98,218	136
S	0	19,264	2,542	0	0	571	78	10,489	1,543
S	7	739,019	55,740	1,785,266	138,959	345,589	26,977	469,964	38,521
S	14	568,988	27,849	662,317	30,353	225,708	11,448	281,375	14,578
S	30	1,178,324	22,907	1,786,555	30,529	381,088	8,885	424,743	10,287
S	90	366,242	1,698	497,481	2,876	85,528	504	99,093	630

Standing Technical Actuarial Task Force is referred to as the Becker Committee throughout this report.) This was distributed to the industry by the HIAA through its Committee membership. We have distributed to our full Committee financial results for males from our tentative experience table including comparisons with the Barnhart tables and are still awaiting a complete response. Copies have also been sent to some other interested parties including the Becker Committee and Paul Barnhart. Results for females were mailed just this past week. At the September meeting of the Becker Committee, action was deferred to December on the Barnhart table, and Paul was asked if he could modify his table to more closely fit our results.

Now back to our tables. We have a continuance table for each combination of sex, cause, elimination period and occupation class. Consequently, comparisons to the 1964 CDT for any company will depend upon the mix of business. However, very broadly, the new table for males produces higher disabled life reserves which are offset to some degree by lower active life reserves on the better occupational classes. For females, the change is more dramatic - much higher disabled life reserves offset by a huge reduction (frequently to zero) in active life reserves. In addition to any changes we may make to the experience tables in response to comments we may receive, we plan to make additional changes of two types, neither of which should make significant changes in the overall results. First, we are still making final refinements to eliminate anomalies among the family of tables. Second, we are pursuing the recasting of the tables into a mathematical form such that all continuous financial functions can be computed directly from the parameters. If this can be done successfully, we will have the luxury of reflecting all of the variables without the burden of any table, let alone a large family of tables. Finally, we will add margins to the experience tables to produce a proposed minimum valuation standard.

Now the timetable. We plan to:

1. Submit our Report to the Board at its January meeting requesting that it be exposed to our members.

2. Have a presentation and discussion of the Report at the San Francisco meeting (April 1-2, 1985).

3. Have a resolution introduced by the NAIC at its June meeting.

4. Make any modifications, based upon the comments received during this exposure.

5. Request approval of the Board at its October meeting, and

6. Recommend the adoption of the Tables by the NAIC at its December meeting, effective for new policies issued and new claims incurred on or after January 1, 1986.

In the meantime, the Becker Committee currently intends to recommend adoption of the revision of the Barnhart Tables they requested in September at their December meeting to be effective on an interim basis commencing January 1, 1985.

MR. PETERSON: Thank you very much Bill and George. I think we have a very timely topic in the new disability tables, and tentatively we plan to have

that subject on the agenda for the San Francisco Health Specialty Meeting, so we probably will have more to say about it at that time. By the way, immediately following the day and a half San Francisco Meeting in the Spring will be a day and a half session on health care - a health care symposium sponsored jointly by the Society and the American Council of Hospital Administrators. So, if you do plan to attend the Society Meeting the first week in April, please plan on being there for three days rather than just a day and a half. I think you will find it well worth your while. Now we will get into the meat of our subject, and our first speaker is Stan Meltzer, who has been an attorney for twenty-six years and is a member of the New York Bar Association and a partner in the New York law firm of Meltzer and Fishman. Starting off as an Assistant United States Attorney in the early 60's where he handled Social Security disability cases, he has now handled two thousand five hundred such cases, including taking about three hundred of them to litigation in Federal court. He is a member of the National Organization of Social Security Claimants Representatives and is President of the New York Social Security Bar Association. He has lectured on this topic to the New York State Trial Lawyers Association, the Social Security Bar of the Eastern District of New York Court, and to numerous insurance companies.

MR. STANLEY F. MELTZER: Thank you for inviting me. When I was in junior high, I listed my career goal as statistician or actuary but was never quite able to handle the matter. Therefore, I am delighted to be here among you, even though I am not one of you. I think we have a common cause and that common cause is how best to advance your insurance needs and my clients' rights. I am a partisan in this sense and ask you here to send the word back to your C.E.O.'s and Counsel that we can work together to advance our mutual interests. What that mutual interest is depends on your knowing what Social Security disability means. I will start by explaining that and will take questions after all the speakers have finished.

Social Security disability is a statutory program. It has its own funds collected from the working force, part of which is then allocated into a trust fund for disability. In order to qualify for Social Security disability, several things have to happen. First and foremost, the person must be in an insured status just as if he has paid premiums on an insurance policy. What that means is that if a person is past 30 years of age, he has to have worked and must have contributed 20 quarters of Social Security payments out of the 40 quarters immediately prior to the time he became disabled. Therefore, if the person has not been paying his dues, so to speak, he cannot qualify for Social Security. A classic example: if you have worked from 1975 through 1980 and you alledgedly became disabled on the tenth day of January, 1986, this would be too late, since you will not have worked within five years of the onset of disability. That is an important consideration. The second consideration is that one must apply for the benefits. The third thing is that he must have either a physical or mental condition or a combination of physical and mental conditions which has or will result in an inability to engage in any substantial gainful activity for a period of 12 consecutive months, indefinitely, permanently or that is expected to result in death. If he has such condition he qualifies for Social Security disability benefits.

The way he has to go about it - the way you instruct your insured to go about it - is that in order to obtain Social Security disability, the claimant must go down to the local office and apply for such benefits. That is what is

called an initial application. The initial application is then evaluated by a state agency which is funded by the Federal Government. It will notify the claimant whether he or she is granted the benefits. If denied, the individual then can ask for reconsideration. If he does not have any new evidence, the individual will be denied on reconsideration. After denial upon reconsideration, he may ask for a face-to-face hearing before an Administrative Law Judge, a federal employee. He is a civil servant who has life tenure, is reasonably, adequately compensated, and is only marginally responsive to the Secretary of the Social Security Administration at the present time. A lot of them want to be totally independent, but that is for the future. In any event, at that hearing the claimant has a right to counsel, and there are no adversaries. The Administrative Law Judge ostensibly wears three hats and he serves three functions. First, he is to help the claimant develop his claim. Second, he is to be protector of the trust fund and not grant weak cases, and third, he is to rule impartially. To the extent that a claimant has counsel, and this is happening more and more, you are seeing these judges fluctuate between the second and third functions only. After the hearing the judge renders a written decision. If it is favorable, it is implemented generally within three months. If the claimant loses the hearing, he has a right to ask for a paper reconsideration at the Appeal Council located in Washington. If he loses that, he then has a right to go to the United States District Court where the test that the Court will apply is 'was there substantial evidence for the result achieved?' If there was, that is the end of the factual inquiry. The second inquiry they will engage in is whether the procedures used to deny benefits were proper and if that is the case, then the claimant will be denied benefits. The court has the power and authority to do one of three things. It can grant benefits, which is called a reversal of the prior denial; it can affirm; or, it can remand back to the Administration for further proceedings, if it finds that the proceedings were deficient.

In determining whether someone is or is not disabled under Social Security the proper inquiries are: first and foremost, is the claimant working? This presupposes that he has applied, and he is in an insured status. Is he engaged in substantial gainful activity, and the rule of thumb is whether he is making, I believe, in the neighborhood of $400 a month, which would be deemed substantial gainful activity. If the claimant is not working you go on to the second step in the inquiry. The Social Security Administration had, in the hope of getting consistency of determinations, promulgated regulations in 1978 or 1979 which call for sequential evaluation. The second step called for evaluation of whether the claimant is experiencing a severe impairment. If he was not, then the Administration reserved the right to deny benefits. They defined severe impairment as a condition which impaired some work-related functions. If he had no significant impairment of work-related functions, it was deemed not severe.

The problem that arose in the implementation of the second stage was that we started to see Administrative Law Judges succumbing to the pressure of the Administration which wanted, by and large, a 20% cut across the board because they were experiencing too high a loss rate. They started to interpret the concept of non-severe impairment to include people who were psychotic and to include people who were enormously physically impaired. It was rather a strange use of the concept of non-severe, which was originally promulgated to mean 'let's get rid of the frivolous claims, the ones that we don't have to spend much time with.' As interpreted though, and as applied, it became

much too draconian. The consequence of that is there have now been several court decisions which are voiding that second stage; my firm was the first one to knock it out. There have been others, including class actions. I believe for all intents and purposes, that standard is out the window, and you then proceed on to the third level in evaluating whether someone is disabled.

That third level is a medical one. Does the claimant - and this is important, take this back to your own people - does the claimant have a medically determinable impairment that meets or equals a condition listed in Appendix 1, which is a rider to the regulations. In other words, when there is a statute, the Administration reserves the right to implement that statute with regulations. This is not an unreasonable or unusual technique. The regulations are found in the Code of Federal Regulations, Title 20, at Section 404.1501 and thereafter. After the 1500 section, there is an Appendix 1 which lists all the medical conditions which are ipso facto conditions that entitle you to disability benefits. If you meet or equal one of those, you will receive benefits irrespective of age, education or work experience. If you do not, the inquiry then goes on to the next stage. Does the claimant have an impairment which prevents him from doing his former work in the national economy? If he can do his former work, then he is not disabled because he has the education and work experience and obviously the ability to go back to his former work. If he cannot do his former work, you then go on to the next stage of inquiry. Are there other jobs in the national economy the claimant can do, considering his residual functional capacity? Here you may have a person who previously did arduous work and is now reduced to sedentary capability. In this context, they will weigh age, education and work experience to determine whether the claimant can move from his former work to some other lighter, less demanding, less stressful work. Here, there is an enormous skew in favor of people over 55 years of age. The presumption is against the justibility or transferability of skills. Below 50, if you can read and write, there is presumption that if you can do the full range of sedentary work, you are capable of adjusting in the national economy to another job. Now, that in a nutshell, is the evaluative technique.

Where we cross paths and where we come to interplay with each other is that most insurance companies have long term disability policies for groups. If a person is unable to do his former work usually for two years, sometimes one, or sometimes longer, he will receive benefits during that two year period. If he is unable thereafter to do any other work in the national economy, he will continue to receive benefits. In every instance that I am aware of the carriers have built into their policies an obligation upon the claimant to pursue Social Security disability benefits. Where frankly your companies have been badly remiss, and you are really not to blame because what happened caught us all unawares, is in not compelling the individuals to pursue their rights more forcefully, more adamantly, and more supportively from you. Up to about 1978 or 1979, the program had been fairly liberal and was experiencing a rather large loss rate. Most people who had been conferred insurance benefits would apply for Social Security benefits and reasonably could expect, and the company could reasonably expect, that benefits would be granted. Starting around 1980 or 1981 - and this was not a political thing, but rather an internal bureaucratic reaction to a law structure, not attributable to Mr. Carter or Mr. Reagan - the Social Security Administration started to become more rigorous. They started to scrutinize more severely. They implemented a program called the Belman Review, named after former Senator Belman, who said that the Adminis-

tration would automatically review the determinations of those judges, the 15% or 20% who were most liberal, to see whether they were done according to law. You watch grant rates plummet in some judges instances from 60% to 25%, and you have got to know the reaction. The consequence of that was that people who were getting benefits from carriers suddenly were not getting Social Security benefits. The consequence to you was that carriers have built into their programs an offset provision that to the extent that the individual gets a Social Security award which is a sum equal to the amount that he would get if he retired at 65, you reduced your benefit awards to him by that much, and suddenly, in the early 80's, you were experiencing benefits being denied. Collectively, to the industry as a whole, it might be a desirable thing to see fewer people getting Social security disability benefits; however, the pendulum swings, and there has been rather a strong reaction, and that reaction is setting in, and I think you are going to find more people on the rolls. This is particularly true in the instances where people had been given benefits and were brought in for termination or review of whether they should be in benefit status. The Administration had said each time someone was brought in, it should be a de novo or fresh approach with the burden on the individual to demonstrate his impairment. The courts consistently took the position to the contrary that once a person was given benefits, the onus should be upon the Administration to show some substantial improvement. The Administration has finally capitulated, and a new statute has been reenacted and signed into law within the last week or so. The concept of medical improvement has been institutionalized; it has now been formally memoralized, and you may expect that individuals who have been given benefits, will probably stay on the benefit rolls much longer than previously.

Now, where my message to you is important is that if we are going to start having individuals restored to the rolls, if we are going to have first time people receiving benefits, you are going to get caught with lawsuits. Your May, 1984 Disability Newsletter indicated the extent to which the carriers see fit to have the insureds pursue their remedies. You encourage, you urge, you stress that there is a need to, and, in fact, if the people do not pursue it, then you have a right to diminish your payments by the amount they presumably would have been entitled to had they gotten it. I do not think it is enough. I think what you should be doing is communicating through organizations such as The National Organization of Social Security Claimants Representatives in order to encourage adequate counsel and in order to have funding for these individuals, because the ultimate benefit is to the insurance company. It does not really help you very much to find yourselves in a situation where you are paying out and someone is not getting Social Security disability. The contribution you might have to make in terms of testing, in terms of other data would be very worthwhile for you. For instance, if nothing else, why not have that Appendix 1 that I referred to which is the medical listings, and every time your own doctor evaluates, why not have that doctor tell us in his original report to you that this claimant meets Appendix 1 listings in the following way: 1.05C, in that he has a vertabragenic disorder accompanied by, and then enumerate the items. Your doctor should know what those listings are; your doctor should be reporting it. You should be willing to incur expenses for vocational testing, for thermography, for CAT scans, and for any other tests that will demonstrate disablement.

With this enormous caveat - ultimately the relationship between someone such as myself and the individual remains as such. To the extent that you participate in obtaining counsel or paying counsel, he does not become your agent,

and in any dispute between the insurance company and the individual, you must understand that the attorney will not be your representative. He will be the individual's representative, and I make it clear whenever an insurance company has suggested to an individual to retain me, that I will represent that person, and in any dispute I will either stay out of it or represent the individual, even though originally designated by an insurance company. I do not know how the law can otherwise work, but the message to you is that you are going to be experiencing a large loss ratio, and you ought to be doing much, much more than the May, 1984 Newsletter suggests, and you really ought to be reaching out to help these people get their benefits, because, although collectively it might be in your best interest to have a lower loss ratio, individually your company gains by getting these people Social Security disability.

MR. PETERSON: Our second speaker, again a non-Society member, is John Plourde, a 1962 graduate of Holy Cross who spent six years as a United States Naval officer. He joined Paul Revere in 1968 and has worked both in direct and reinsurance operations for Paul Revere. Currently, he is the Reinsurance Manager, Underwriting and Claims, and travels extensively both to client and non-client companies in the United States and Canada. He has participated in programs of this nature at the Institute of Home Office Life Underwriters, the HIAA, The Canadian Home Office Health Underwriters, and numerous local and regional underwriting and claims associations.

MR. JOHN E. PLOURDE: What I want to do today is quite simply share some observations with you, give you a laundry list of some views about individual disability income, cover the broad subject of disability income, and in particular, financial underwriting of the product. I think it is a timely subject. The product line is a dynamic one; it is a fast changing one, not quite as mature a product line as the life insurance line. There are any number of ways to direct the product; there are so many variables that impact on the product that often very subtle changes in a company's philosophy, its market or its product may well be enough to direct the product line in one direction or another. Some of these observations are going to be pretty basic, but they are underwriting observations and I think can help you as actuaries. Apart from bringing the pure pricing mechanics to your own individual disability products, you occupy for the most part a position of authority in your company. In visits to companies that I have made, the one thing I have noticed more than any other is that the various disciplines in our companies simply do not talk to one another, do not have enough discourse. The underwriters and the claims people do not talk to one another; the actuaries and the underwriters, the actuaries and the claims people simply have to have more communication between the different factions and amongst themselves. To the extent you can assist in the successful management of disability income, your own bottom lines will be all the more successful. It is no secret to you that disability income is a very variable product, a very volatile product. It is impacted very severely by socio-economic trends. Legislative benefits impact on the product - we just heard Stan give us a very fine discussion on the development and changes in the Social Security benefits. Competition is certainly extremely keen for those of you in certain segments of the market.

Ultimately, the underwriter is attempting to assess, very simply, very basically, the motivation and the stability of the proposed insured. That is really all it is. How can you help? Frankly, the underwriters need all the help they can get. There are ways I think you can help in group communication

within your disciplines, within the various functional areas of your companies. You can help with underwriting education. Very often the underwriter develops tunnel vision. The underwriter does not always understand how his or her own company has developed its income limits or its issue and participation limits. The underwriter may not be as keen or as sharp on what the competition is offering. The underwriter very often simply is reacting to the fields' indication that the competition is doing this, or the competition's language is that. You can help, if you have a better handle on that, by perhaps educating the underwriting personnel on exactly what the competition's product is, what the competition's approach is. I am sure you study it in your own areas in an attempt to bring some degree of pricing uniformity. As much as you can, work to eliminate the mystique or the mystery that exists about your own profession. There are very few underwriters that know what an actuary really is and does. The more you can share with us your own problems, your own styles, your own day to day work, and vice versa, the better the communications environment, which can only help. I think you can help with underwriting appreciation. What do I mean by that? Very seriously, when was the last time you hugged an underwriter? Probably never. By that I mean, try to understand your own underwriting problems. Try to get a better handle on what the underwriter's situation is - the dealings with the field, the competitive pressures, the case pressures, the variety of factors the underwriter must be assessing in approving and underwriting the issue of the policy. Simply try to get a better understanding of your own underwriting process. You can assist the underwriting process with tool design or arsenal design, as I might call it. Very often, the marketing people simply will not ask the actuarial function to price a certain combination of benefit period and elimination period because the marketing people do not see that combination as an appropriate one to be selling. If you do not develop and price as great a variety of benefit periods and elimination periods as you possibly can, the underwriter simply does not have that in the underwriting arsenal, and it is not possible for the underwriter perhaps to issue a two year or three year benefit with a 60 or 90 day elimination period. Because you never developed it, you never priced it, and you are tying the underwriter's hands a bit more. I am amazed to this day at how many companies have limited capacities to issue policies that are rated or that have exclusion waivers on them - the very limited number or very limited wording to their exclusion riders, the very limited number of ratings, the finesse that they bring to substandard underwriting. Take some time to look at your own, and to the extent it can be enhanced and improved, you are simply providing the underwriter with more tools and a larger arsenal with which to work.

Getting down to the specifics of day to day tools, in an attempt to reduce costs in recent years, many companies have developed personal history interviews for their applicants. That is fine, but what do you get when you ask a practicing professional questions that run along the lines of an inspection report? You are getting essentially the information you know to be there in the first place. I recognize the value of personal history interviews and telephone inspection reports in an attempt to save costs and expedite time service, but to my way of thinking, there are simply some underwriting situations where they are inappropriate, and, ironically enough, as companies have increased their limits for obtaining inspection information and developed personal history interview routines for that information, they have perhaps come away from that segment of the market where you need it the most - the lower occupation classes, the lower income classes, where the elements of

stability and motivation are most important. I think inspection reports from formal inspection services are more appropriate than telephone interviews for business insurance situations. If an underwriter is looking at a business insurance situation, a key-man or overhead expense, it is more important to get an impartial third party peek at the business than it is to get a telephone interview from the applicant to tell the underwriter what the story is on the business. In so far as your issue charts and income charts are concerned, try to take the mystique out as much as possible. Try to picture the sales process, with the agent sitting with the applicant in an office or at a kitchen table. It is much easier for the agent, and helps to reduce the mystique of the whole process, to work from a chart of incomes to calculate the benefit the income qualifies for, than it is to run through some complicated income replacement formula. To my way of thinking, it is better to keep it simple. The same could be said about the manner in which the sales process is presented to the applicant. It is much more appropriate for the salesman to propose a reduced amount of coverage given an income or financial situation or an applicant's personal situation, and then if certain factors do not exist, such as Workmens' Compensation or other things, to start adding on amounts of coverage that could be offered, rather than to propose the most coverage that could be issued and then to start trimming back and taking amounts away while sitting with the applicant. Human nature is more appreciative of the former method than the latter. Take a look at your applications. Many companies issue increased amounts of coverage if the employer is paying the premium, but do they really ask on the application whether the employer is paying the premium or do they simply ask where the bill is to be sent? Ask questions specifically in your applications - work with your underwriting and claims personnel, and bring to the design of your applications a technique, a method, that will give both parties the information that they need. Your underwriter should not be accepting in the course of the underwriting process glib statements from the agent or broker that the information demanded or requested on the application is contained in a memo, or is contained in a letter, or is to be forwarded by telephone. That does not get into the policy, and then your claims people have a problem contesting that issue at claim time. I do not know if all of you have product committees that work on developing disability income products, but it is certainly appropriate in this day and age to have a fairly formal product committee. There should be representation on this committee from each of the functional areas - actuarial, underwriting, claims, marketing and certainly legal. Much of our product design today is driven by systems constraints, by automation. You cannot bring a product up and hit the streets with it quickly, as you could eight or ten years ago, because you have to take care of all the systems pieces to that product. So, in designing your product, involve and include at the very beginning stages your systems personnel.

Commenting a little bit on the organization of an underwriting department, if I had to throw out a bench mark or a ball park figure, generally, if your disability income volume is less than 20% or 25% of your total underwritten volume, it might be better not to have a combination department, because you will not develop in a concentrated grouping of underwriting personnel the day to day exposure to disability and the day to day experience that they need to develop to underwrite the product efficiently. If you are introducing a new product, new language, or a totally new technique, it may be wise to concentrate your underwriting efforts in the persons of a select few underwriters to start with so as to build a base of experience, to build a base of

exposure to that product, to work the bugs out of it. Rather than introducing the product and trying to train everyone to underwrite it, maybe concentrate the underwriting in two or three or four of your sharpest people. Let them work with the field and iron out some of the problems; then gradually rely on them to train the others. Work with underwriting a little bit more than you may do right now to develop programs, routines, and methods, to track, monitor and control wastage. How much of your business is being wasted? How much of it is being filed incomplete? How much is being rejected or is not being placed, for whatever the reason? Know your own wastage rates; know your own persistency rates; know that your pricing includes a portion for persistency. But do we all really track our persistency, and do we all really attempt to correct the causes for poor persistency? Once you have the business, do all you can to keep it. Take a peek at what kind of effort is being brought to conservation. What have you got in the form of formal or informal programs to keep the business you bring? From a reinsurance perspective that I occupy, it is intriguing to see one day an application from one of my client companies to replace the policy I saw three weeks ago from another client to replace the one I saw six months before from another client. There is a fair degree of that going on in the disability income industry. In the last two to three years, I know the life reinsurers have started imposing some coinsurance penalties when they see some of that. Try as hard as you can to develop routines and methods of procedures to conserve the business you already have on the books; otherwise, you are just kissing your acquisition costs goodbye. Do you follow-up on intended replacements of other companies' coverages, or do you simply accept the applicant's statement at face value and hope it happens? It is too late to wait until the claim comes in to attempt to document replacement that was intended six months or six years before.

Financial underwriting has become all the more complex in recent years with increased varieties of impacting factors on disability income and ever increasing issue limits. I think it is quite fair to say that today the complexity of financial underwriting is at least as great as that of medical underwriting. So how do you train your underwriters to do financial underwriting? You almost have to be an accountant to try to understand the paper work that is coming through the underwriting process. In past years when the underwriter had a question on the sufficient financial information to be obtained from the applicant, he would quite simply ask the agent to obtain tax forms. If the agent was kind enough to send them in, the underwriter assumed they were correct and assumed the information bore out the facts, because he could not understand what he was looking at anyway. You can help with that; you are perhaps more familiar with financial statements than the day to day underwriter. Consider an educational program or tapping your accounting department's resources to train underwriting personnel in understanding financial statements. They do not have to learn sophisticated accounting techniques, just gain a basic understanding of tax statements and tax information so that they can appreciate and deal with that on a more satisfactory level with the field force. Some companies have put into their own shops in-house CPA's - we have one in ours. These people have been extremely valuable in working with the underwriting and claims personnel and even with the field. It is not unusual for someone of this caliber to pick up the phone and call the applicant's accountant or his tax attorney to discuss the intricacies of a financial situation. I would certainly encourage your increased discourse with underwriting and claims personnel. Your underwriting people can advise you of early trends, can keep you posted on problems with the field force,

can share information from the field on what the competition is doing, and can certainly help you to get a better handle on what field education needs exists. There has got to be an ongoing educational program with the field force. It is not enough to develop a product and hang it out there. It has got to be marketed, to be sold, and to be explained to the field. Your underwriters play an important part in this process, as they can help you to get a better handle on where are these educational needs - in marketing, general education to the field force, recruitment, or training. In looking at the pure financial underwriting of cases that demonstrate high amounts of net worth or high amounts of unearned income, there are really no set rules or pat answers. The underwriter is still looking at stability displayed and motivation of the risk.

I want to close by giving you a list of the types of cases of financial underwriting we are apt to see. They could range from a 47 year old orthopedic surgeon in the Midwest who has developed and perfected a new procedure for the reconstruction of feet - the only one in his field. His income is 1.3 million, and he wants as much coverage as the company is prepared to issue. Or an Oklahoma chiropractor, who has three practices spread out over a vast area of the West, is very successful and wants $24,000 a month in overhead expense coverage, a good portion of that to fund his airplane, which he uses to fly from practice to practice. Or a dairy farmer with a herd of 200 cows states that his income is $70,000 to $80,000 a year, but the tax information obtained by the underwriter indicates only $12,000 to $13,000. There is financial underwriting demanded in all your risks. Let us work together to improve that process. Thank you for your attention. I appreciate the time you have given me.

MR. PETERSON: Our final speaker is a Society member, Charlie Black, who is one of our host actuaries here in Toronto.

MR. CHARLES C. BLACK: What I would like to do this morning is give a brief overview of the government disability benefits in Canada. I am starting from the assumption that you are not intimately familiar with the details of the Canadian government programs, and then I would like to extend a little bit into what may be emerging in the way of government disability benefits and the impact this can have on our industry. First of all I would like to indicate that if I were writing the topic for the program, I would not change a word. I would just put a question mark at the end of it, so it would read "Disability Insurance Products, the Expanding Role of the Private Insurer?" I think that is very relevant to the Canadian scene at the moment. There is general agreement that there is an expanding role for disability protection, a much greater emphasis on income security. I have never seen as many articles in the popular press and in consumer magazines on the need for disability insurance and on some of the factors that go into disability insurance. At our information center at the Insurance Association, we are getting more and more questions and more requests for information about disability insurance. I do not think there is any question that there is an expanding market. I think the question is whether there is an expanding role for private insurers.

Very briefly, we have two or three major programs in the government sector that provide benefits for disability. The first one is a provincial program in each province of workers' compensation. This provides benefits often on a fairly generous basis for job related conditions. Traditionally, this has been for accidents but more recently is getting into the area of job related

illnesses as well. Typically, those benefits are 75% of gross pay, but the emerging concept is to look at net pay and base the benefit on 90% of net pay, often covering a fairly hefty portion of earnings, perhaps up to $40,000, which covers a very wide segment of the population for work related conditions. We also have a short term disability coverage under our Unemployment Insurance Act. That Act, which is intended to cover lay-offs and similar periods of inability to find employment, was amended in 1971 to change the unemployment benefits but also to add two other phases - benefits in the event of sickness or accident and benefits in the event of maternity. The sickness or accident benefits are payable for 15 weeks following a two week waiting period, so they essentially cover the first four months of any disability. The level of benefit originally was two-thirds of the earnings base but was changed several years ago to 60%. The earnings base is tied to our average industrial wage and changes each year. For 1984, it is $425 per week, so the maximum benefit, 60% of that, is $255 per week or about $1,100 a month. Roughly 95% of employees are covered in Canada. Most types of employment are covered under the Unemployment Insurance legislation, including teachers, general clerical work, even government employees, so it is a very wide ranging base of coverage. I think the factor that is of most interest here, particularly as we try to see what the future may hold, is the way in which these benefits are coordinated with private disability benefits, particularly under group insurance plans. The Unemployment Insurance sickness benefits take a second payor position; that is, if there are any earnings during that period in which a person is not able to do his regular job, or if he is receiving disability insurance from an employment related plan, which would be your typical weekly indemnity plan, then these earnings or disability insurance payments reduce dollar for dollar any benefit that would otherwise have been payable under the Unemployment Insurance scheme. So, if an employer sets up a private weekly indemnity program or a salary continuance program or whatever, the Unemployment Insurance benefit would typically not be payable. To recognize that, the Unemployment Insurance staff implemented a program of premium reduction, so that if an employer has a private disability plan that meets certain criteria, then that employer will pay a reduced rate for Unemployment Insurance coverage. This has encouraged many employers to continue or to implement a private weekly indemnity program. The private plan can be flexible - it can cover more than 60%, it can cover higher amounts of earnings, and so on, and as long as it meets certain criteria, it can qualify for an Unemployment Insurance premium reduction.

The major long term disability benefit is provided under the Canada Pension Plan or in the Province of Quebec, the Quebec Pension Plan. These plans were introduced in 1965 and are very comparable in many ways to the OASDI program in the United States. They are primarily designed to provide retirement pension but also include survivor and disability benefit features. The definition of disability used there, much like that in Social Security, is intended to cover the very severe disabilities. Also, as in Social Security, the Canada Pension Plan requires a medically determinable impairment, and that impairment must be one in which the physical or mental disability is so severe and prolonged that the person is unable to secure regular substantially gainful employment. One change recently in January, 1984, in Quebec, provides that for people over age 60, it is not required that they be unable to secure employment anywhere; it is only required for them to prove that they are unable to carry on their current employment. Essentially, this is an own occupation definition for someone over age 60. That was a liberalization that was attempting to indicate concern for the person approaching retirement age and

was tied in with some of the amendments concerning retirement ages. The Canada Pension Plan monthly benefit is a relatively modest one. The maximum earnings covered under the Canada Pension Plan are very comparable to those covered under the Unemployment Insurance program, in the order of $400 a week, $1,700 a month or $20,800 per year in 1984. For an employee with no children, the maximum monthly disability benefit in 1984 is $374.50, about 22% of the maximum earnings figure. There is a benefit for children of a disabled contributor, and it is calculated on a per child basis, so that the monthly benefit increases depending on the number of children. It is $83.87 per child, so if someone has three children, the total benefit maximum would be in the order of $626.00. When the Canada Pension Plan was introduced in the mid-60's, Quebec decided for various reasons to do some things differently and to have a completely separate but parallel Quebec Pension Plan. The contribution rates are very similar, as is much of the structure of the Plan in the retirement sector. Incidentally, the maximum employee contribution in 1984 to either the Canada or the Quebec Pension Plan was $338 - that compares rather favorably with the Social Security contribution. It is 1.8% of earnings to a maximum of $338 per year. In any event, Quebec placed a heavier emphasis on disability some years ago and for the employee with no children, the Quebec Plan will pay a monthly benefit of up to $505 compared to the $374 under the Canadian Plan. However, Quebec does not give as great an emphasis to the number of children, so that if someone has the statistical average of 2.3 children, the benefits under the two plans are equal. With two children or less, the Quebec Plan pays slightly more, while with three children or more, the Canada Plan pays slightly more. That is the basic structure as it stands now, a relatively good base of short term disability benefits under the Unemployment Insurance plan which encourages employers to provide private plans to take the place of the government benefit, and a very modest level of long term benefits under the Canada or Quebec Pension Plan in the event of severe long term disability. The long term benefits are on a first payor basis.

1981 was the international year of the disabled and the handicapped, and the international year received a great deal of attention in Canada and was used very effectively by our government and by groups of the disabled to emphasize the plight in many ways of handicapped people. One of the major activities was the establishment of a special committee of our House of Commons. This was a tripartisan committee involving members of Parliament from all political parties. The committee held hearings across Canada and published a Parliamentary committee report which was marketed and presented in a much superior fashion to any other Parliamentary committee report that had ever been previously presented. It was designed to get a lot of attention and was very effective in doing that. This report told the story of the disabled and handicapped people and the problems they face, and it recommended solutions. There were about 130 recommendations in the report covering all sorts of things from housing and transportation to including braille identification on paper money, so that the blind could use our currency. Other recommendations concerned recreation, home life and work life. One of the briefest recommendations, but also one of the most far reaching, was to urge a study of a more comprehensive disability income plan. This was not the first recommendation for a more comprehensive plan in Canada. The Province of Saskatchewan has a proud history of being the originator of our provincial hospital plans and our provincial medical care plans, and back in the 70's there was a great deal of dicussion in Saskatchewan about a government provincial disability plan. In fact, I am 99.9% certain that we would have such a plan in the Province of Saskatchewan today, except that the New Democratic Party, which

was governing the province, had so annoyed the voters in other ways, that voters intervened and voted them out of office, before they had a chance to install their disability plan. The national recommendation for a study led to the appointment of a Federal Provincial Task Force involving civil servants from the Federal Department of Health and Welfare and from all provinces. This group has not received a lot of publicity, but it has been active in studying this area. Its initial task was to evaluate the need for such coverage and to determine possible approaches. The conclusions of the Task Force were that there definitely are gaps in our coverage and in our income security system for the disabled. They concluded that too few people have disability income protection through the private sector to supplement the Canada Pension Plan benefits and the Quebec Pension Plan benefits to the level needed to carry on reasonable existence. Even for those who have such coverage, it was felt that the level of coverage was often inadquate, and even for those who have adequate coverage, the conclusion was that inflationary forces very quickly make the benefit inadequate once the person is disabled. This task force reported back to the Ministers last fall and recommended that they be given an extension of their mandate and that they should evaluate various possible solutions to the problem. This recommendation was endorsed and the task force is currently doing that. They are basically considering three different types of approaches. One is to expand the Canada Pension Plan and make the basic benefits more generous - provide a higher floor of protection through a government plan. The second approach is to expand the workers' compensation system, where the benefits are now viewed as very adequate but only cover job related disabilities. One possibility, and this is essentially the Saskatchewan model, is to expand the worker's compensation system to cover all disabilities. Again, this is a government based program. The third option, and one in the current economic and political state that seems to be receiving a fair bit of attention, is to encourage largely employer based private disability insurance. It is possible that this task force will end up with the recommendation that such employer plans be mandated for employers of a certain size with benefits to meet certain criteria. These recommendations are still being formulated, and what those criteria would be still is very much open to discussion, but if that approach is taken, it would be along the lines of the unemployment insurance scheme that I mentioned. In fact, it would rely more heavily on the private sector, you as insurers, to provide the benefits. We view this as setting an important base to build on to provide more adequate benefits even over and above this base, and I think this is one of the major impacts on our industry that could emerge in Canada, and depending on our experience here, could lead to a lot of discussion in the United States as well. There seems to be general acceptance that there are many people in our population who do not have adequate disability benefits and who are not being reached by disability insurance now. There is a major challenge to the private insurance industry. If our role is to expand, we have to meet the expanding needs of the market. Thank you.

MR. ROBERT J. MEYERS: I am sorry that I cannot agree with Mr. Meltzer with regard to the desirable procedures in determining disability under the United States Social Security program, or with his views as to the practices that insurance companies should follow in this area. Perhaps this is because of my bias in being concerned about the financial integrity of the Social Security trust funds. I hasten to point out, however, that I am not unconcerned about people, although I have an interest in not only the beneficiaries but also the contributing taxpayers.

I have always been concerned about the role of the Administrative Law Judges. I believe that too often they have tended to follow their own views as to what the program should be rather than the law itself and the underlying congressional intent.

I have also been concerned about the role of counsels for disability claimants in certain instances, because they serve in an adversarial capacity, and there is no opposite force. Both the Administrative Law Judges and the Social Security Administration should - and, in general do - function in a neutral manner, seeking to give benefits to those who are truly disabled and denying benefits for all others. As a result, there is no adversary operating on behalf of the taxpayers to deny as many claims as possible.

Another concern that I have had is with the manner in which the federal courts have functioned in cases involving Social Security disability benefits. Just as in the case of suits against insurance companies, there has sometimes been the attitude taken by judges that this poor claimant should be awarded benefits because the Government and the trust fund have so much money. The 1979-81 National Commission on Social Security recommended that there should be a Special Disability Court - just like the separate Tax Court - to hear disability appeals. Such a special court would remove the vast number of disability cases from the regular judiciary system and help to unclog its huge backlogs, while at the same time having judges with the necessary specialized knowledge.

It is true that eligibility for disability benefits for persons age 31 or over seems to be rather strict in requiring 20 quarters of coverage in the last 10 years preceding disablement. This, however, is not nearly as strict as it seems, because such coverage can be obtained by as little as one month of work in each of 5 different years. Similarly, and even more undesirable, persons disabled at age 24 or under can become eligible with only two months of work if carefully arranged or manipulated. This is particularly troublesome in the case of congenital mental illness, when the individual can somehow or other acquire a small amount of coverage and is no more disabled than he or she ever was.

Finally, I believe that insurance companies should not do all within their means to have persons become qualified for Social Security disability benefits so as to have an offset against the benefits under their own policies. Instead, insurance companies should follow more closely the Social Security definition and determinations, except during the initial 2-year period where an occupational definition is included in the policy, or, in connection with group policies, where the employer wishes to have a more liberal definition so as to "house-clean," and is willing to pay for it.

MR. MELTZER: In the metropolitan area, the Administrative Law Judges have had a peculiar response to the adjudication process. Statistics in 1983, I believe, showed that out of 120 judges, approximately, the rate of grants of benefits - now keep in mind all these regulations were enacted for the purpose of getting uniformity - ranged from a low of 17% of grants to a high of 88%. Now, two judges looking at the same regulations reached devastatingly different results. That is not what was intended. It obviously means that the fellow granting 88% is being overly liberal; it equally means that the fellow granting 17% is being unduly onerous. How to resolve it? Sure, the Administration tries to ride herd on the people doing 88%, but how about the people who go in before the judges who grant 17% or 20% or 24%? They have to

have advocates; I must respectfully disagree with you wholeheartedly. I would be perfectly content if the Administration chose to create a truly adversial setting. Until they do, I do not think that a claimant should be penalized because the Administration chooses not to have such a setting. I know when I go in representing a claimant at a hearing that certain judges are going to be impartial, and that their ruling should not be appealed if I lose, because they are respected in the courts. I know that for certain Administrative Law Judges the hearing is simply a stepping stone to the ultimate day when we are going to get justice, because I know that they are not going to apply the law. They have been coerced by the Belman Review, and their grant ratio has fallen from 60% to 24%. They do not have an idea of what medical evidence is, and they make conclusory statements not supported by the record.

With respect to one of your other thoughts as to whether there ought to be a separate court, I am vehemently against it. I have spoken with Chief Justice Jack Weinstein in the Eastern District about this problem and also with other judges, and they do not want a separate court. Obviously, they do not want their jurisdiction reduced. By and large, the reversal rate in the district courts has been staggering over the last two or three years. It used to be a rare occurrence where the courts would come along and find there is substantial evidence for reversal, meaning a grant of benefits on the case. Our office will win a fair percentage of the cases at the hearing level. We will then win a certain smaller number at the appeals council, the last administrative stage. But our office is now winning 80% to 85% of the cases we take to court. That is a devastating commentary, not on the liberalism of the judges, but on the unwillingness of the Administration and many of their judges to be reasonable and fair.

Now, in the Disability Newsletter of May, 1984 by John Haynes Miller, there was a compilation of inquiries to the carriers as to whether they encouraged their people to get lawyers to go to court, and the answer was by and large they do not. They pretty much think: "Well, give up that period; you are still in an insurance status. Go back and file a new application." I disagree with this, gentlemen, with all due respect. Good counsel can achieve enormous results for you. Our fees are contingent. We go to the claimant and say we will agree to accept the statutory scheme, 25% of past due benefits. We may take a small retainer to cover our cost, $500 or $1,000. We may take money to bring in doctors to testify at the hearing or for other diagnostic studies, but the best dollar for dollar you can possibly get is paying an attorney the filing fees, the expert fees, whatever is necessary to go to court, and not simply telling the claimants to not pursue it. Your vested interest is to pursue it. The Social Security Administration should tighten up its standards. You want to know the real answer? Not anything you suggested, but get a quorum of about 500 field investigators to go out and find who the people are who are working off the books, who are not disabled, who are playing golf. What you would rather do, it seems to me, is keep your hands clean - I do not mean you personally - not go out and see what is really going on there, not create an adversary system, but take reasonable standards and misinterpret them in the denial of benefits. That is wrong.

MR. FRANCISCO BAYO: I am Frank Bayo of Social Security. I also had a few different points of view with Mr. Meltzer. The change in disability experience in the early 1980's, I think, in a large part is due to the 1980 Amendment, not to the administrative changes. There was legislation enacted in

1980, and this legislation has a relatively long history. Congress went beyond what the Carter administration wanted and made the program more restrictive, particularly because it was too expensive. The new Administration came and tried to administer the laws as amended. There was a significant adverse reaction by the public, and the Administration has been under pressure from the public, from the courts, and from the Administrative Law Judges too, but the changes that really could satisfy the public I do not believe could be made by regulations. They require legislation. The Congress itself looked at it and enacted the 1984 amendment, but the Amendment I do not believe is going to do exactly what you indicated. It is not going to result in many more cases being awarded by the Social Security Administration or many fewer cases being terminated. The Congress enacted a law that will not have that significant a change in the course of the program, because the country cannot afford it, and this is an issue that if not resolved is going to continue in the future. The years with big expansion in the benefits and everything to the advantage of the beneficiaries in the late 60's and 70's, I believe, are over. Now, it is more of a balancing act between the needs of the beneficiary and the needs of the taxpayer, which is the proper activity of the Congress and the Social Security program.

MR. MELTZER: I think there was too much giveaway in the 60's and 70's. I think people were given benefits and then allowed to stay in benefit status interminably - not brought in for review. I had one guy come to me who had gotten benefits at the age of 25 and had not been reviewed, literally, for 19 years, and he was probably not any more disabled than I was. That is wrong. I think that the reaction in the late 70's and 80's was a proper response, but I think it went too far, and the pendulum is coming back. We may very well balance it out now. But I do believe you, as I, have a vested interest in reducing your cost by arranging for counsel to come in and represent your claimants. Obviously, I am an advocate; I think counsel does serve an important role. I know we win cases because we are attorneys, because we specialize in this area. Ideally, Social Security should be fair and attorneys should never be necessary, but the world does not work that way. So, I think your best interests are served by utilizing whatever resources, including the best counsel, you can to win the cases. I do think there will be a proper balancing now. I think it was too liberal and I think it became too conservative. I think we will probably strike a middle ground at this point.

MR. ROBERT PLUM:* Social Security, sir, I find in the United States is terribly legalistic, but, at the same time, I recognize that we all have the dilemma of social security spending, not only in the English Commonwealth countries, but here as well, liable to run out of control. Demographic pressures are substantial, so in disability income products, we are walking a tightrope. Underwriting is as much a tightrope as anything else. All I can say to you, sir, is that we are fortunate with socialized medicine, though we have medical notes from the cradle to the grave. May I suggest that if you have an opportunity at Paul Revere, send a few of your underwriters to the United Kingdom to deal with the more straightforward cases; for instance, the homosexual ballet dancer who was psychotic, and the current condition was he damaged his chest muscles through his breathing exercises which had gone wrong - the most typical English straightforward case.

* Mr. Robert Plum, not a member of the Society, is an actuary with National Employers Life in the United Kingdom.

I would sincerely say when we are underwriting, I think we all have to learn what are we trying to insure and how we are insuring it. What are we trying to do? I will return to the last speaker on social security in general. The United Kingdom system is tax free at the present time and is a flat rate plus an additional component system which is index linked. Now the Republic of Ireland system is slightly different and more generous. Consequently, the Republic of Ireland disability experience is very much higher - it is about twice that of the United Kingdom. But I would say to you, sir, in extending your Canadian plans, please do not try and do it through the state. Try to do it through private insurance, because you will get what we are getting, that the additional component element social security spending is running out of control, and it means that disability income provisions we give are going to have to be cut back. The Netherlands are already doing so. Finally, sir, I cannot recommend the United Kingdom system where we have civil servant tribunals and our civil servants are not political appointees, nor can I recommend home visits. We have a set system for that.