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Risk and Capital Management of Disability

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Summary: A panel of experts discuss risk management and capital management issues for disability insurers and the potential role of reinsurance.

Mr. Michael D. Lachance: I'm with Disability RMS, and my co-panelist is Steve Maher, from ITT Hartford Group Reinsurance Plus. This is an open forum, designed to be a broad discussion of topics, information, and idea sharing. There are three major areas we'll cover. First, we are going to look at risk management and second, capital management. Finally, we would like to discuss how reinsurance can help you solve your risk management and capital management needs. We will discuss the need for risk and capital management, review the sources of capital investment in disability income (DI) products, talk about new approaches and recent developments that we're seeing in the industry, and discuss any potential uses of reinsurance to solve these issues. We will try to compare group and individual wherever possible.

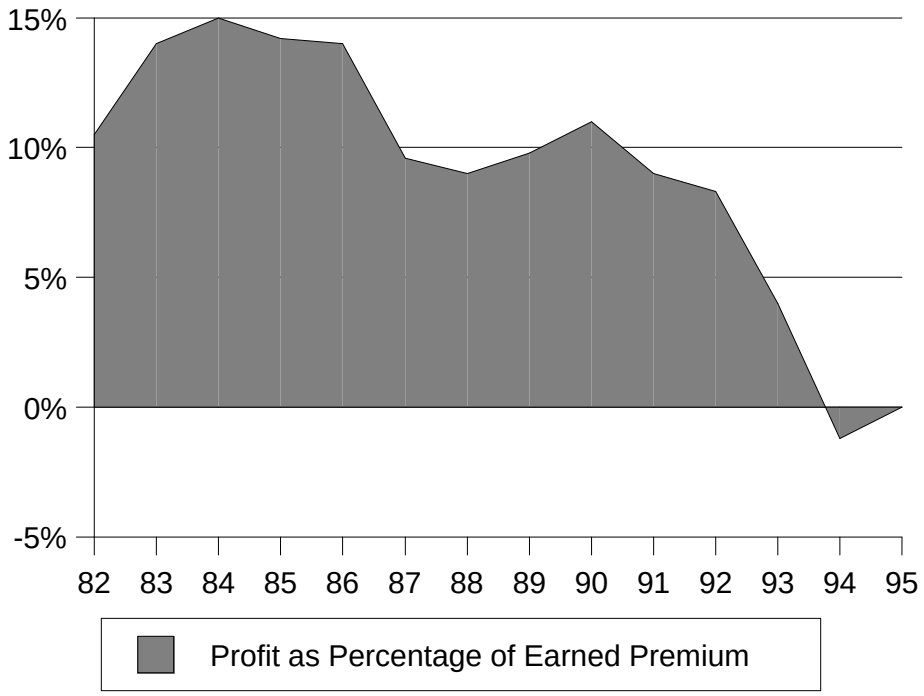
One way in which risk and capital are interrelated is through profits. Operating gain produces a return on invested capital and, conversely, operating losses create a need for additional capital. Let's look at the recent profit picture for both group long-term disability (LTD) and noncancellable disability products.

We'll discuss the results of the Group LTD profitability study that Disability RMS recently completed covering 1995 results. This study was started ten years ago by

John Antliff, and we agreed to continue the study so that John can more thoroughly enjoy his retirement. There were 23 companies that provided us with their financial results for 1995. All of the major group LTD insurers participated in the study, although not all of them gave us their financial results from operations.

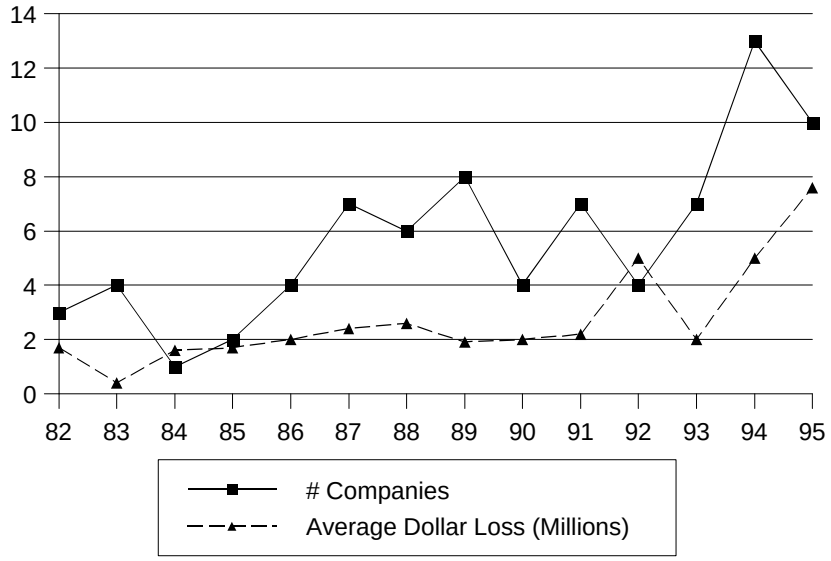
In Chart 1 it's clear that 1994–95 were particularly poor years for the LTD industry. A few years ago we were "in the Rockies" and now we are at "sea level," which is not where we want to be.

CHART 1
DI RISK & CAPITAL MANAGEMENT GROUP LTD PROFITS



Let's look at company losses (i.e., capital investment) over the last few years in Chart 2. In the late 1980s and early 1990s, the average number of companies losing money in any given year was six. In 1994–95, the number of companies losing money increased significantly to 13 and 10, respectively. Similarly, the average dollar loss in millions for the companies that lost money took a significant jump in 1994–95 as well. A couple of observations: (1) of the top 12 LTD writers in the industry, only one lost money in 1995, and (2) of the next tier of eleven companies, about 80% of those companies lost money in 1995.

CHART 2
DI RISK & CAPITAL MANAGEMENT GROUP LTD
COMPANY LOSSES



What do these results mean? One possible conclusion is that those companies who are trying to grow their market share are less active in taking the risk management actions that we have seen the major LTD writers taking to preserve profits.

For those companies losing money in 1994–95, the aggregate losses amounted to $65 million in 1994 and $75 million in 1995. (See Chart 3.) Therefore, over this very short two-year period, these companies invested about $140 million of capital into this line of business.

Switching over to individual disability (ID), we have an even bleaker picture. Looking at noncancellable profits from 1988–95, results come from an advance copy of the annual survey performed by Dwayne Kidwell, which will soon be published in the *Disability Newsletter*. This is a 22-company survey of noncancellable writers.

During the late 1980s and early 1990s, profits were hovering around –6 to –8% as seen in Chart 4. This is not too surprising because these are statutory results, and noncancellable products have a heavy first-year investment. However, in 1994–95 there were significant losses for these noncancellable companies. Even more important is the fact that the growth rate over the same time period fell from 23% in 1988 to 5% in 1995. Therefore, these poor results are not the result of surplus strain from business growth but, rather, evidence of an underlying risk problem relative to the ID line.

CHART 3
DI RISK & CAPITAL MANAGEMENT AGGREGATE LOSSES
GROUP LTD

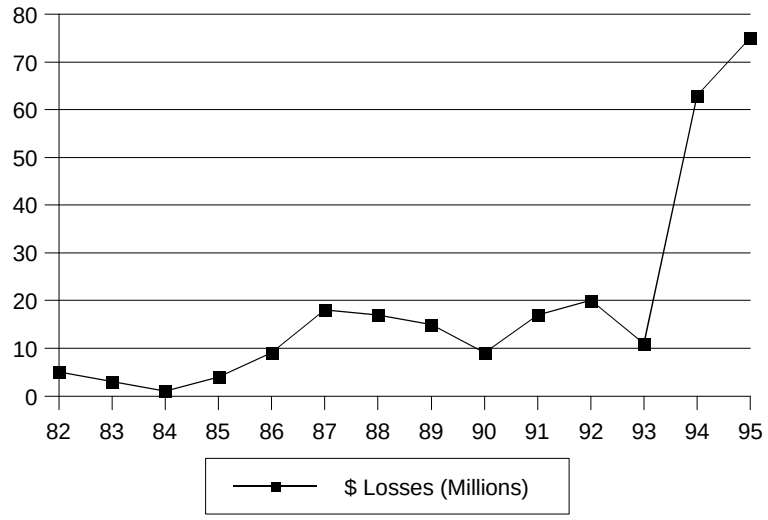
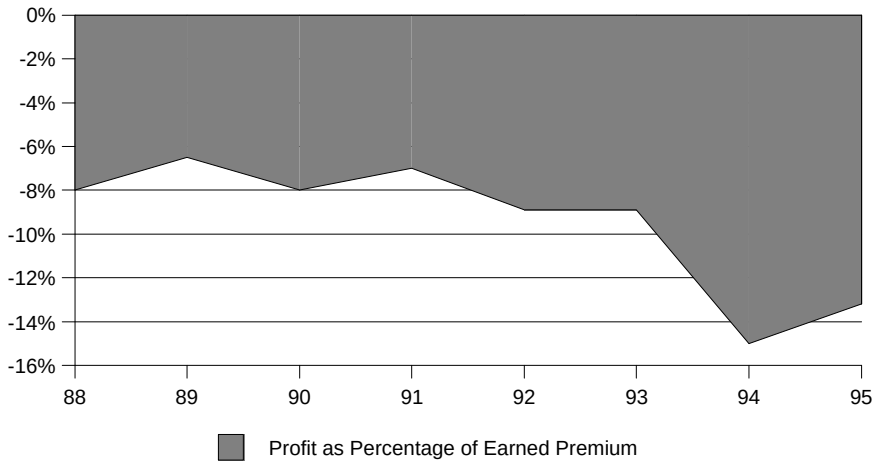


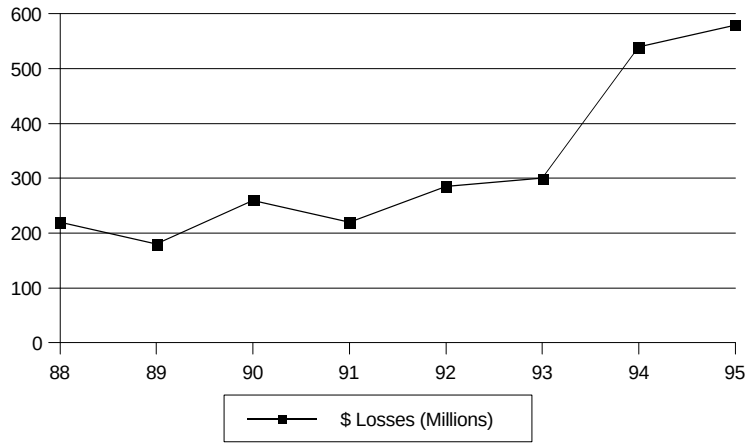
CHART 4
DI RISK & CAPITAL MANAGEMENT
NONCANCELLABLE PROFITS



Looking at noncancellable aggregate losses over the period of 1988–95 in Chart 5, companies have invested over $2 billion in the ID line. About one-half of this was

in 1994–95 because of the poor results in those years. Unlike group LTD, most of the noncancellable companies lost money in every year. Of the 22 companies in the survey, 17 of them lost money in 1994, and 18 of the 22 lost money in 1995. This is a different dynamic than we saw on the group LTD side. With this financial information as background, let's now take a look at some of the reasons that risk management actions have become so important in group LTD and ID.

CHART 5
DI RISK & CAPITAL MANAGEMENT NONCANCELLABLE
AGGREGATE LOSSES



First, unlike life insurance, for example, where you can usually check for a pulse, determining whether a person is capable of working is very subjective.

Additionally, the use of multiple definitions of disability (specialty own-occupation, own-occupation, any occupation) can sometimes turn it into a daunting task.

Second, there has been continuous competitive pressure on premiums, particularly with LTD. Some of this came about as medical carriers tried to expand their product portfolios. Given historical profit levels, LTD looked like a good place to grow their business and this has created downward pressure on premiums as the major writers tried to maintain their market-share positions.

Third, there is client pressure for the latest and greatest in claims-management techniques. Some of the industry buzzwords have caught on with brokers, and companies have to be able to promote and deliver their claims-management techniques in the sales process.

Fourth, the pace of change is lightning fast, not just with doctors and lawyers. Many industries are going through dramatic economic and structural changes causing increasing challenges in the underwriting of cases.

Finally, we need profit to generate a return on capital. For an individual noncancellable product, profits need to be 30–50% greater than for group LTD in order to generate the same level of return on invested capital.

Let's look at the product trends that are currently taking place in the disability market. The general emphasis in today's market is to design products that enhance the ability to manage claims. This is a far cry from a few years ago when the general emphasis was product innovation resulting in today's dangerously liberal products. Specific changes include:

- a dramatic reduction in the number of companies that will offer a specialty own-occupation definition of disability.,
- Mental/nervous and drug limitations are very popular. Even a couple of years ago it was not uncommon to see unlimited mental and nervous provisions in contracts.
- Special conditions limitations. Some companies are looking at the types of disabilities that are prevalent in certain groups or industries and putting limitations on benefits for these types of disabilities. For example, carpel tunnel is very prevalent in some industries and some companies are putting a limit on benefits for these types of injuries. On the flip side, some companies will remove the special conditions limitations if the employer makes work-site modifications aimed at preventing these types of disabilities in the first place.
- Self-reported disabilities, i.e., disabilities where there is no objective medical or psychological criteria to substantiate the disability. In other words, the claimant is claiming that they are unable to work but their doctors are unable to find an objective cause for their symptoms. Backaches and environmental allergies are classic examples of the types of diagnoses these claims fall under. These present unique challenges in determining objective findings to substantiate the disability, yet these claimants really feel that they've got a problem. Making it even more difficult is that, in some cases, it has later been demonstrated that there were problems with the workplace that could have contributed to the claimants' symptoms.
- Requiring Social Security approval to continue disability payments beyond 24 months.
- Offsets. On the group LTD side, increasing the number and types of offsets. On the ID side, introducing offsets. The big question will be, who is going to have the primary offset, group, LTD or ID? This may cause problems for us down the road.

- Work-site modification benefit. The insurer will pay some amount up to $1,000 or $2,000 to reimburse the employer for modifications to a workstation that will allow a disabled person to return to work.
- Anti-fraud provisions. Until recently disability carriers seemed to feel that fraud was under control. However, in talking to some of the largest disability carriers, there are indications that incidence and cost of fraud is on the rise. A few years ago, estimates of the cost of fraud were between 5–10% of claims. Today, companies are estimating 15–25%.

Moving to pricing considerations, some of the trends that we are seeing are as follows:

- Reduced cross-subsidies between "vanilla" and "rich" plan designs. Historically, as companies played product "leap frog," there was a tendency to offer very liberal benefit options, particularly to professional occupations, with only minor premium increases. Historical experience in professional occupations indicated that people in these occupations would rarely become disabled and, if they did become disabled, they did not remain disabled for very long. However, as the economics of these occupations changed over time, the liberal products they had been able to purchase allowed them to "double dip," i.e., collect disability benefits while working in a closely related occupation. As a result, the prices being charged for these types of benefits have proven to be inadequate.
- Geographic pricing. I talked earlier about the pace of change in different industries. Geographic pricing is one way that disability writers are trying to price for the impact of these changes on specific regions of the country.
- Higher rates on contributory plans. Historically, these plans have been underpriced. Also, a number of carriers sold 70% plans on a contributory basis, which causes the after-tax replacement ratio to go over 100% at many income levels. Companies have or are tightening up on their costs of these plans.
- Discounts for provisions that enhance the ability to manage claims.
- Integrated pricing short-term disability (STD) and LTD. Some companies are taking this concept even further to include Workers Compensation.

From the Floor: Do you expect any lawsuits over the special conditions limitations you discussed earlier?

Mr. Lachance: That's an interesting question. I expect you'll probably find some litigation, yes. Whether or not they'll be successful is anybody's guess. From an underwriting perspective, trends are very similar to those we discussed with under pricing and product development, i.e., tightening up.

- Tightened underwriting for "rich" plan designs:
- Definitions of disability. Companies will still write own-occupation to age 65 and specialty own-occupation, however, on a much more selective basis than a few years ago.
- Benefit Maximums. These days it's pretty difficult to get a maximum greater than $10,000 a month. You can find them, but they're very few and far between.
- Benefit Percentage. Benefits greater than 60% are not nearly as prevalent as they were a few years ago.
- Evidence of Insurability. Companies have added evidence of insurability for maximums above $10,000 per month or maximums above certain levels. We have seen a two-tiered structure where the larger companies, with a bigger base of business over which to spread their risk, are looking at evidence of insurability somewhere around $12,500. For smaller companies the evidence of insurability threshold is in the $7,500–$8,500 per month range.
- Tighter underwriting for doctors and lawyers. We're seeing very heavy renewal rating actions on doctors and lawyers. If you haven't done anything on your book of business to tighten up on doctors and lawyers, you're probably getting selected against.
- Economic. Greater emphasis on financial health and outlook of an industry, region, or type of business.

Are any of you seeing any underwriting trends that I haven't specifically mentioned?

From the Floor: Our company's experience on lawyers has not been bad and, in fact, has been pretty good. Has their really been a worsening of experience on lawyers?

Mr. Lachance: Yes, from the people that I've talked to in most of the major companies there has been an increase in lawyer's claims. Wouldn't you say so, Steve?

Mr. Stephen M. Maher: I agree that experience on lawyers has deteriorated at many companies. In addition, the increased costs of issuing contracts to lawyers are often overlooked. These arise from their desire to rewrite the contracts and from increased claim litigation.

Mr. Lachance: Moving on to claims management, the general trends are:

- Heavy investment in managed disability, early intervention, and rehabilitation. I don't think these are just "buzzwords." As I've talked to different companies, many people are spending a lot of time looking at their

claims organization and trying to improve their claims adjudication and rehabilitation processes.

- Tighter contract language. Again, to help support the claims management process. To the extent that your contract language is loose, it makes it very difficult to administer the claim on the back end. Companies are really tightening up the language so that their claims people have the tools they need to encourage return to work.
- Fraud investigation reporting and prosecution. We mentioned this earlier. As an example, UNUM, the market leader in group LTD, has established a separate fraud unit, which looks at fraudulent claims and investigates them. They are really spending a lot of time researching and investigating fraud. They are filming claimants on a regular basis, and trying to prosecute them when they can. They're trying to send a message that you can't get away with it anymore. And to the extent that more companies do that, hopefully, it will be a positive force in the industry.

Steve will take a look at some of the capital issues associated with disability income products.

Mr. Maher: I am here to share a few ideas about capital management and why it's important to you. First is the cost of capital. Capital has a substantial cost, whether it be internal or external. The external cost is the sum of the cost of issuing stock or debt, plus the return expected by the shareholders or the interest paid on the debt. Typical return on capital objectives are in the range of 15% after tax. Capital is a limited resource and every use of capital has to compete with other possible uses of capital. External investors choose where to place their capital based on their perception of return and safety.

Internally, there are also other possible uses for available capital, e.g., expansion of a line of business, investment in systems, acquisitions, etc.

Regulators are becoming increasingly focused on risk-based capital (RBC) as a measure of the capital needs of a company. Also, the amount of available capital is one of the more significant factors in determining a company's rating.

In 1994, a task force report proposed new RBC formulas, which were complicated and difficult to apply. Overall, the proposal was well received by the industry, but as a result of the complexity, a simplification task force was created with the objective of creating formulas that would be simpler, easier to audit, and which utilized data that's more readily available. The number of additional data elements used to calculate RBC would be fewer than proposed in the 1994 report. The simplification task force has presented its proposal to the National Association of

Insurance Commissioners (NAIC), and testing is underway to see how the new formulas compare to the current formulas. They expect to complete testing by the end of this year.

Let's compare the proposed LTD formula RBC to the current formulas in Table 1. The major difference between LTD and individual DI is that for the first $50 million, the current formula is 35%. Note that a company can take a credit against the required RBC amount for any rate stabilization reserve it holds. The proposal produces lower levels of RBC for earned premium levels greater than $12.5 million. The factor for claim reserves is higher for the first $35 million and lower once the reserve exceeds $35 million, producing lower reserve factors overall for reserves greater than $210 million.

TABLE 1
LTD RISK BASED CAPITAL

	Current	Proposed
Earned Premium		
First $12.5 Million	25%	25
$12.5–50 Million	25	10
over $50 Million	15	10
Claim Reserves		
First $35 Million	5	10
over $35 Million	5%	4%

We can look at the impact of the proposed RBC formulas at various levels of LTD premium in Table 2. For example, I assumed reserves are three times earned premiums. Under this assumption, for a company with $20–25 million of LTD premiums, there is not a substantial impact, but for the smaller writers, particularly companies with under $12 million of premiums, the impact is quite substantial. In addition, there is a minimum formula that may raise the RBC further, depending upon the maximum benefit amount and benefit duration. I'll comment more on these shortly.

If earned premium is greater than $12.5 million, the premium factor is lower. Also, if claim reserves are greater than $210 million, the claim factor is lower. One interesting aspect is the 25% reduction in the earned premium factor for benefit periods under 24 months, as would be the case for STD. This reduction also applies if your exposure over 24 months is reinsured. This creates an opportunity for direct writers to reduce their RBC by reinsuring the exposure greater than 24 months. In

fact, you could get a double benefit, because you don't have to set up RBC on the portion reinsured; plus on the risk you retain; you hold 25% less RBC.

TABLE 2
IMPACT OF PROPOSED RBC
$ MILLION

PREMIUM	CURRENT	PROPOSED	CHANGE
10	4.0	5.5	+38%
25	10.0	9.5	-5%
50	20.0	15.0	-25%
70	26.0	19.4	-25%
150	50.0	37.0	-26%
250	80.0	59.0	-26%

As I mentioned, there's a minimum RBC formula for the premium component. Basically you take three times the highest maximum benefit on any life you have insured, multiplied by the longest duration in months, on any contract you have in-force (not to exceed 100 months).

To give you an example, if you had two disability products in-force, the first policy with $15,000 of monthly benefit and a maximum of two years, and the second policy with $2,000 of monthly benefit for life, the minimum RBC is $15,000 x 3 x 100, or $4.5 million, even though the individual premium components for these two contracts is $1.1 million and $600 thousand, respectively. If you issue $15,000 of maximum benefit regardless of total premium volume, the minimum RBC for the premium component alone could be as high as the RBC premium component for a $6 million book of business.

The next example illustrates the required return on a product for a given level of target surplus or RBC. For the purpose of this example, I assumed an expected 15% after-tax return on capital. Some companies are not actually using RBC formulas when they price; they use a target-surplus concept. This may be more or less than the RBC for any given product. Another method is to develop target surplus as a multiple of RBC. This example assumes the highest band in the RBC formula as the target-surplus amount. The 25% of premium target-surplus factor requires a profit of about 4% of premium.

If the target surplus is 10% of reserves, 160-basis-point interest margin would generate a level, 15% after-tax return. This 160-basis-point margin equates to about 9% of reserves or 6.5% of premium. In order to get high-quality ratings, most rating

agencies are looking for total capital to be something in the range of two times the RBC. Required profits for target surplus equal to two times RBC are well above the profit margins that most companies are currently generating.

Also, most companies don't recognize that they also have a surplus drain due to conservatism in their reserves. For example, if you assume a 5% margin in the reserves, the required profit is about 3% of premium.

In addition, if the tax interest rate is greater than the statutory rate, a portion of your statutory reserves may not be deductible. This requires a greater after-tax capital investment. A 100-basis-point differential on those interest rates equates profits of 3% of premium.

I'm going to move on to how reinsurance can help you with your risk and capital needs. The major reasons for utilizing reinsurance are to:

1. reduce capital requirements (from RBC, rating agency, and management perspectives)
2. reduce claim liabilities
3. reduce statutory and tax strain
4. reduce claim volatility from changes in incidence rates and/or recovery rates.

Traditional risk-transfer products of a reinsurer would include excess reinsurance. By far the most popular form of excess is by monthly indemnity amount, for example, any claim in excess of $5,000 of monthly indemnity is reinsured.

There's also excess of a total-dollar-amount or stop-loss-type coverage. In this case, any claims over, say $30,000 of total liability, would be reinsured. The new RBC formulas provide a new opportunity for an excess-duration-type product, where any claim liability beyond 12 months duration is reinsured. As mentioned previously, a company can get a substantial reduction in RBC capital by utilizing this type of reinsurance.

I mentioned stop-loss. Stop-loss is being done today both on an individual claim basis and on an aggregate book of business basis, but not to a wide extent.

Another type of reinsurance product that is probably not widely used is carve-out or target reinsurance. This type of reinsurance involves reinsuring specific segments of the business. I will go into more detail on this product later.

Reserve buyout is another type of reinsurance that is increasing in popularity. If you have substantial margins in your reserves, and the reinsurer is willing to take on the risk of the open claims for a value less than what you're holding in reserves, you

can get substantial reserve release. This will free up capital and result in net income to the company during the reporting period in which the buyout takes place.

Finally, from a capital management point of view, if you have a block of business you don't want, sell it. Reinsurers are getting more and more involved in helping you acquire business that you are interested in, or divesting any unwanted business.

I mentioned carve-out or target reinsurance. This type of reinsurance is becoming far more common. The target can be based on a number of different factors.

Geographic Target
A company reinsures only its California, Texas, or Florida business.

Occupation Target
Physicians are the most common occupation companies want to carve out. Reinsurers may take a higher percentage of this business, a large portion, or all of it. Whichever way you work it, this type of reinsurance goes a long way toward capital management because these groups have high benefit levels and are very volatile. Additionally, as Mike mentioned previously, claim trends have generally not been positive.

Product Target
This type of reinsurance can be used to get into a new product with a reinsurance partner who will share the risk and/or provide substantial guidance in the development and ongoing management of the product. A variation on this is to reinsure certain target markets, such as associations, mortgage insurance, etc. A reinsurer knowledgeable in these areas can help manage the investment costs to enter into new areas.

Diagnosis Target
This was mentioned earlier. Target reinsurance for mental and nervous, and other very subjective diagnoses, such as back injuries, are becoming more common.

Reinsurers offer a vast array of consultative and administrative services that can help you manage both risk and capital. From an actuarial perspective, consultation on appropriate reserve levels can lessen some of your capital needs. Reinsurers can provide underwriting guidance as well as perform underwriting for you, if necessary. Facultative underwriting support on unusual cases is also available.

Mike has touched on many of the things that are going on in product development right now to help manage disability products from a risk perspective. Reinsurers are living in that business day in and day out. Smaller players as well as larger

companies who are getting into new markets may not have the experience to appropriately manage the risk elements of a product. Mike also touched on some of the key factors affecting pricing and risk selection.

One aspect of risk selection that is probably still underappreciated by a number of disability writers is recognition of incidence of each diagnosis by occupation. If you use actual reserve levels to develop pricing levels, you're probably not recognizing the risk. My favorite example is truckers. If you assume that the average claim for a trucker has the same duration as the average claim for any other group, you're going to be underpricing that business. Truckers have a much higher incidence of back injury and, therefore, have much longer duration claims. At ITT Hartford, we are using diagnosis-based reserving, which makes a big difference in the risk selection of an individual occupation and the expected load on those businesses.

Marketing support can really help in risk management. This will help you target your business more effectively to specific market niches. I'll touch more on claims in a moment, but there's a lot of claims management support and consulting being done now. One of the things that is underrecognized from a risk management perspective is information management. You really need to get good data as to what's going on. If you're a smaller player, having good data on your own book alone is not sufficient. A reinsurer can help you get not only information regarding your own book, but also what's happening in the industry. If you're a small player, you probably don't have a credible book to slice and dice the data in a way that will allow you to really see what is happening.

If you have a small number of claims, any observations could be due to statistical aberration. A reinsurer can help you determine the validity of the data and help you obtain appropriate data for pricing your business. These refinements are very important trends in the industry, whether they are being developed internally, through an outside vendor, or through a reinsurer.

The level of claim management for LTD today is light years ahead of where it was just a few, short years ago, whether it be vocational rehabilitation, Social Security, or fraud investigations. Mike touched on fraud investigation earlier and, I'll tell you, if you're not actively managing fraud right now, you're missing a tremendous opportunity. Talk to your reinsurer about it. If your company is managing it, have your claims staff pass some of the files by you. They are tremendously enlightening.

Clinical management is probably more prevalent now in STD than LTD, but it has relevance in both, particularly in conjunction with medical protocols. Get involved in making sure your claimant is getting the appropriate level of care. Recognize that this is likely to put you in dispute with the medical carrier, if you are not yourself

the medical carrier. The appropriate care from a medical perspective is often quite different from appropriate care from a disability perspective. Prescribed rest can help minimize medical costs, but sometimes a minor procedure would allow the claimant to be back at work almost immediately. Bed rest may not cost the medical plan anything, but there is a real cost to the employer, which is just now beginning to be recognized. Active medical management is very effective, particularly in STD.

Many companies have established specialty units to deal with mental and nervous conditions that are nonphysical in nature. Additionally, many companies are now using duration guidelines for both short-term and LTD.

From the Floor: I have a question on one of the topics Mike discussed. Can you explain how the special conditions limitation works?

Mr. Lachance: Generally, they operate like a mental and nervous limitation, although the duration is not always 24 months. They were first used by insurers to dampen rate increases and/or create an incentive for an employer to make work-site modifications that could prevent certain types of high-incidence claims, such as carpal tunnel or back injuries.

From the Floor: Have companies had difficulty getting state approvals for special conditions limitations?

Mr. Lachance: Not that I am aware of. A few years ago you might have had a hard time getting it approved by the states. However, the concept was successfully tried on single-case filings of large groups and a couple of companies are now doing them on a more standard basis.

Mr. Maher: Given the profit dynamics with disability products, things that couldn't get through a few years ago are getting through much more easily. Another example is allowing offsets on individual products. A few years ago, insurance departments would never allow offsets on individual products, but now insurance departments have a better appreciation of the over-insurance issue and are approving these types of individual policies.

From the Floor: Steve, earlier you mentioned diagnosis-based reserving. Can you talk more about this trend?

Mr. Maher: At ITT Hartford we have different termination rates by diagnosis grouping. For those who attended Nick Smith's presentation the other day, you should have noticed that he is planning on having different termination rates by diagnosis grouping for the 95 Tables. Obviously any grouping short of every single

diagnosis is less than ideal, but is a much better grouping. We happen to use eight. Back injuries, for example, have a much longer duration than cancer. Cancer is a short-duration claim overall, whether it be from death or recovery. Obviously many companies have already recognized that acquired immune deficiency syndrome (AIDS), maternity, and mental and nervous have different termination patterns, but cancers have a different termination pattern as well. If you have a minor break in your arm or your leg, you're not going to be out an average of six years.

It takes a lot of data to develop termination rates by diagnosis because you have to be able to slice your book in quite a number of ways. As far as statutory reserving standards go, you can use your own data for two to five years (depending on the state). Nothing prevents you from doing it by diagnosis during this period. After this initial period you have to use the table as promulgated. It does require a large amount of data. From a pricing perspective, you can't have any reserve limitations.

Mr. Lachance: As Steve mentioned earlier, the 95 Table will have four diagnosis groupings: mental and nervous, AIDS, pregnancy, and all other. This is three more categories than we had in the GLTD tables. If the 95 Table is adopted as a standard industry table, then any company should be able to use it for statutory reserves. To the extent that any company has enough credible information to create more diagnosis groupings, these could be used for the first two to five years of a claim.

Mr. Maher: Just one more comment on this topic. The greatest advantage is not in aggregate reserve levels. Social Security offsets tend to have a bigger impact because the longer duration claims tend to be the ones that are going to be approved. The biggest impact is from a pricing perspective because it recognizes the risk associated with a given claim.

From the Floor: Can you give us an idea of the appropriate rate differential for two-year own-occupation versus lifetime own-occupation?

Mr. Maher: It really depends on the occupation. I don't know what we are using right now. However, I'll share with you an anecdote, which will give you absolutely no information, so it's not an antitrust violation. In a discussion of own-occ versus any-occ on physicians, (we happen to be a big writer of physician groups), one claim examiner was saying that there really isn't a difference because physicians make so much money, that to give them an any-occ definition, you have to use a reasonable occupation, and they're not likely to make the money they were making before. Ten seconds later, the same claims examiner said, "You know, we do have these couple of very large claims, but we could get them off if it were an any-occ definition." There is a pricing difference. I think a big part of the difference is the mentality you have with the claimant. They're going to start

thinking that in two years they may have to get back to work. If you get an individual who starts getting himself on a disabled mindset or an annuity mindset, one of the two, the ability to get them off the plan is much more difficult.

Mr. Lachance: I guess without violating any antitrust, I think you can probably give a range of numbers. While it depends on the occupation, a difference of 5–15% is not uncommon for the companies that I've looked at. However, it varies by company, and much of the differential may depend on how they're actually underwriting it, i.e., the types of groups that they are giving the benefit to, so it's difficult to come up with a standard differential.

From the Floor: UNUM has introduced a benefit on the individual side which, after the own-occ period, only pays benefits if the claimant is severely disabled as evidenced by an inability to perform two or more activities of daily living. Do you see this at all on the group side? Are there any other companies doing this?

Mr. Lachance: UNUM is utilizing this concept on the group side as well. There has been a lot of talk about it from other companies during the conference this week. Other companies are at least thinking about it, and considering it for their own portfolios.

Mr. Maher: Other companies are sometimes using presumptive disability for certain types of causes, which is a similar concept.