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CLAIM EXPERIENCE ON LONG TERM DISABILITY

by R. A. Hall

(Editor's note: This is a summary of comments presented at an informal discussion at the Regional Meeting, Philadelphia, April 8-9, 1968).

The claim experience on LTD coverage depends on both the rate of incidence of disability and the disabled life annuity claim value. This value depends on the disability termination rate. Together, these two determine the level of claim experience.

A recent Aetna Study of 175,000 life-years' exposure through July 1, 1965 indicated the following variation by age in the annual incidence rates of disability continuing for at least 6 months:

Ages	Rate per 1000
Under 40	1.0
40 — 44	2.2
45 — 49	2.3
50 — 54	5.2
55 — 59	7.2
60 — 64	13.1
All ages	2.7

Termination rate experience was studied for the same claims, but benefits had continued for as long as 2 years for only 15% of the claims and beyond 2 years for only a few claims. For the limited exposure available, actual reserves released by termination were 135% of expected releases computed at the Benefit 2 termination rates from the 1952 Disability Study with interest at 3½%. The study showed no meaningful variation by age.

Social Security Offsets

The effects of Social Security offsets on amounts of benefit payable have a greater impact on LTD experience. During the period of the exposures studied, when the taxable wage base varied little by salary level, Social Security formula benefit amounts have been close to the level assumed. As the taxable wage base rises, these assumptions must be re-evaluated.

The percentage of claimants with dependent children, which affects the average amount of Social Security benefit offset, has been lower than assumed and shows the following variation by age:

Ages	Assumed	Experience
Under 40	87%	60%
40 — 44	80	78
45 — 49	57	70
50 — 54	36	45
55 — 59	14	5
60 — 64	3	—

A review of 317 LTD claims, on which disability commencing after Oct. 1, 1966 had lasted at least one year, showed that the number approved for Social Security benefits was 27% lower than expected, with the following variation in the approval percentage by age:

Ages	Assumed	Experience
Under 40	63%	36%
40 — 44	72	74
45 — 49	80	65
50 — 54	87	78
55 — 59	93	63
60 — 64	98	81
All ages	86%	67%

Substituting this experience for the previous assumptions could produce an average reduction of 35% to 40% in amount of benefit offsets and an increase of 20% to 50% in net amount of LTD benefits for the expected disabilities.

The unexpected results on Social Security offsets may be due in part to the concentration of the exposures among white collar personnel, whose disabilities may not qualify for Social Security approval because they can still perform some gainful employment.

The typical lag in approval of Social Security benefits means that initial overpayment of group benefits is followed by heavy offsets to recover the overpayment. This need not cause an employee reaction problem if explained carefully at the origin of the claim. For claims involving lump-sum Workmen's Compensation awards, the amount of LTD benefit offset depends on the allocation of the award between medical expense compensation and loss-of-income compensation.

In recent years benefit formulas have become more complex with only primary Social Security benefits offset at the basic benefit level—50 or 60% of earnings—and additional Social Security and other disability benefits offset at a higher non-duplication level—70, 75, or 80% of earnings. These formulas are more difficult to make effective and more difficult to explain to the employee.

First year claim levels on new LTD plans averaged 8% above second year claim levels. Much of this difference may reflect claims for long-standing borderline disabilities not really incurred after the effective date.

A review of first-year claims on 135 plans each covering over 200 persons without a pre-existing condition exclusion indicated that 45% to 65% would have been affected by a pre-existing condition exclusion. Benefits for *bona fide* disability claims on pre-existing conditions may reasonably be provided at relatively slight extra cost. It may also be reasonable to cover all disabilities of a pre-existing nature, including some employees performing at subnormal work load, provided the employer is aware of and prepared to pay the additional cost. Coverage of all pre-existing condition claims, however, is inadvisable for small groups, where anti-selection can be most effective and the policyholder net cost cannot reflect claims directly.

A Source of Claim Problems

Emphasis on using announcement literature as a sales tool at solicitation often leads to claim problems if the effects on benefits of non-duplication or offset provisions are not described clearly. The claim department should assume that each claimant is uninformed and explain the calculation of his LTD benefit to reduce follow-up questions.

The extension of LTD from white collar employees to hourly employees appears to be gaining momentum, and recent United Auto Workers bargaining agreements will continue this trend.

In case underwriting, analysis of the group's past experience on short-term disability benefits and on permanent and total disability income benefits under group life can be indicative of future LTD experience. □

Letters

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Sir:

Some folks believe that the wizard in L. Frank Baum's "The Wonderful Wizard of Oz" is an actuary. This theory is based on the belief that the intended title of the book is "The Wonderful Wizard of Odds."

Stuart J. Kingston