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A New Senior Benefit: Accidental Death

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Accidental death benefit (ADB) life insurance has been offered by insurance companies for 100+ years. The benefit has been offered as a rider to, or automatically incorporated in, life insurance, as the main or one of several benefits provided by accident & health policies, etc. It can also be issued by life insurance, accident & health, or P&C insurance companies. There is also the option to use individual or group policy forms. Sometimes ADB includes dismemberment benefits or multiple times benefits for specific causes of death such as automobile or common carrier losses. In other words, ADB is a very popular and adaptable benefit.

There have been two notable ADB mortality tables developed by actuaries in the United States based on ADB insured life experience: The 1926–33 Intercompany Double Indemnity Table and the 1959 Accidental Death Benefits Table. These tables have been used as the basis for ADB reserves and pricing ADB insurance. The 1959 ADB Mortality Table is probably the table used for reserving ADB issued by U.S. companies even though it is based on 1951–1956 experience (which either makes the table absolutely or optically a dinosaur.)

ADB coverages are usually subject to a termination age of around 70, may not be issued above a certain age such as 60, and/or use reductions in ADB benefits past an attained age to offset what is perceived to be almost escalating claim rates at the older ages. Another reason ADB amounts often decline by attained age is that it can also be problematic to adjudicate ADB claims at older ages because accidents often result in deaths where the insured first has an accident and then dies of complications that follow. For example, an older person may break a hip, then become ill with pneumonia and die. Was it the broken hip or the pneumonia that caused the death?

Actuaries utilize non-actuarial produced experience to price ADB products. There are many public sources of accidental death experience in the U.S. One of the best is the National Safety Council (NSC). Each year this organization publishes a summary of accident related data titled Injury Facts. Several of the tables in this publication cover data relating to deaths from unintentional injuries. Broadly speaking, the causes of death included in



unintentional injury related deaths are those that would be covered under ADB's. Another valuable source is the National Vital Statistics Report (Deaths) that is also published annually.

NSC data reports experience as far back as the early 1900s, but it is the death rates post-World War II that are probably of greatest interest for today's actuaries. Unintentional injury related death rates over the past 70 years among the adult population (ages 25+) have declined at all ages, but noticeably have been the reductions starting at age 45+. In particular, the precipitous drop in population death rates for ages 65+ is the reason that ADB can become a more important benefit for seniors. Compared to death rates during 1950–1954, recent unintentional injury death rates for 65+ year olds are now just 40 percent of the rates from 60 years ago.

Another observation from the NSC data is that death rates from unintentional injuries for age groups 45–64 and 65–75 are now about the same whereas a generation or two ago, the 65+ year crowd had much higher death rates than the next younger group.

The dramatic reduction in senior unintentional death rates and the similarity of these rates throughout ages 45–75 presents a significant opportunity for insurance companies to rethink the design and marketing of ADB insurance. Why should ADB only be offered up to age 60 or benefit reductions occur at age 70? Could ADB be issued through age 75 and now terminate at age 80? Not only might ADB sales be expanded, but

there is a massive opportunity to automatically amend current ADB programs to incorporate the more recent reported NSC experience. For examples, ADB riders on existing individual life policies could be continued (keeping the same premium) to a later termination date. Voluntarily extending coverage would also be an opportunity to market additional coverage to insureds under favorable conditions.

The decision to revise ADB products must include analyzing any changes in terms of the exact product involved, the composition of the insureds (by age and sex) and any other pertinent risk factors.

Expanding ADB to more seniors would require some internal administrative changes to accommodate new coverage periods, notices to insureds and agents describing what is being done, and some actuarial considerations. The last mentioned item, actuarial concerns, might necessitate recalculating reserves for ADB using an out-of-date table (1959 ADB). But the good will generated by continuing and expanding ADB coverages should more than offset any cost concerns.

Because of the new patterns of unintentional deaths and the potential for an expanding ADB product line, it would be helpful for the SOA do an analysis of insured life ADB that reflects current mortality and related benefit experience. Valuation and pricing actuaries would greatly appreciate having more current data on which to base premiums and reserves. The 1959 ADB table reflects

experience from more than a half century ago and was restricted to only a specific type of ADB exposures. If possible, the analysis should separately cover both group and individual ADB insurance, A&H policy claims, claims for benefits often included with ADB (e.g., dismemberment or multiple times claims for auto or common carrier accidents), catastrophes involving multiple deaths, and any other ADB areas of interest to actuaries.

Insured ADB experience is different than population data and needs to be studied by itself. Insured ADB products exclude deaths from many causes that are otherwise included in unintentional deaths (e.g., participation in a speed contest).

Even though ADB is a limited benefit life insurance product, for many seniors who cannot qualify for life insurance or for whom the premiums at the higher issue ages become burdensome, ADB may offer some life insurance coverage.

The change over the past several years in unintentional death rates at the older ages provides an interesting opportunity to revisit and expand ADB coverage for the senior market. ■



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