



Article from

Product Matters!

April 2019

Issue 112

Research on Waiver of Premium Riders

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The Product Development Section has recently sponsored research on waiver of premium and waiver of charges riders. Waiver riders are commonly offered as optional benefits or included automatically on individual life insurance policies as integrated benefits. In the event of disability, a waiver rider may waive future life insurance premium due or contribute an amount to a flexible account, such as the average premium paid over the past year or the cost of insurance charges. Despite the prevalence of these riders, the current valuation standard is still the 1952 Society of Actuaries (SOA) Disability Table.

Research is being carried out in two phases. Phase 1, which is now complete, was a survey of the current practices and assumptions used for waiver riders. This phase was completed in March 2018, and the report is available on the SOA website. This article will summarize the results found in that report.

Phase 2 is an industry experience study with the intention of requesting a new valuation standard table if the results are significantly different from the 1952 SOA Disability Table.



SURVEY OF CURRENT PRACTICES

Fourteen companies responded to a survey of practices regarding waiver of premium benefits on life insurance products. The survey was sent to approximately 50 carriers doing business in the United States. The survey covered products sold in 2016 and was conducted in late 2017.

The survey covered waiver of premium riders attached to universal life, whole life and term life policies. It asked insurance carriers about plan design features, claim management procedures, pricing and reserving methodologies, and company willingness to participate in an updated experience study.

The survey participants collectively sold 1.1 million individual life policies for approximately \$2.5 billion of annualized premium in 2016. Of those policies sold, 37 percent included disability waiver benefits. Broken down by underlying policy type, 26 percent of universal life, 50 percent of whole life and 33 percent of term life policies were sold with disability waiver riders among survey participants in 2016.

According to LIMRA retail industry estimates, the total individual life insurance sales in 2016 generated \$13.7 billion of annualized premium. Therefore, this survey represents approximately 18 percent of the U.S. individual life market as a whole as measured by premium.

Broadly speaking, the waiver of premium rider designs that were reviewed in the survey were similar among respondents. All policies defined disability as the inability to perform the insured's own occupation for some period of time, followed by the inability to perform any occupation thereafter. The benefit periods were mostly lifetime benefits, with some benefits paid until retirement, and a few that varied based on the age at disablement. Elimination periods (the time that the insured must remain disabled to receive benefits) were primarily six months, with a few that are shorter than that. Most term policies convert (either automatically or optionally) to permanent policies while the insured is disabled.

The survey asked respondents when their waiver riders were last repriced. The majority of the responses were in the "more than 10 years ago" category. Based on the responses, we do not believe that this rider gets much attention when repricing a life insurance policy.

The survey also asked about US Statutory and GAAP reserving practices. Most of the responding companies calculate active life reserves for waiver riders as the present value of the expected waiver benefits less the present value of the waiver benefit net premiums. The waiver benefits are either payment of future base policy premiums or, in the case of a flexible premium



product, charges being applied to the underlying life insurance policy. Disability incidence rates used in the active life reserve calculations are primarily determined by using 100 percent of the 1952 Disability Table. Claim reserves on disabled lives are typically based on a seriatim calculation of the present value of expected future benefits, with termination rates set at 100 percent of the 1952 Disability Table. No respondents indicated that they were assuming any mortality improvements. Some responding companies address reserve adequacy by including the rider in the company's cash flow testing analysis. For other companies, the active and disabled reserves fall below their materiality thresholds and are not included in the cash flow testing analysis.

COMPARISON OF CURRENT DISABILITY TABLES

Phase 1 of this research also included a comparison of the 1952 Disability Table with other tables that have since been created for disability-driven products. The 1952 Disability Table incidence rates are based on experience from 1935 to 1939, and termination rates are based on 1930 to 1950 experience; therefore, a comparison of the 1952 Disability Table with more recent industry sources provided context to the issue of using an outdated table for pricing and reserving. For example, the 1952 Disability Table does not vary by gender, which has been

consistently shown to be a major variable in disability incidence and termination rates.

Waiver riders provide a form of disability benefit. In order to understand how disability experience has changed over time, it is helpful to consider valuation tables used for other disability benefits, including individual disability income, group disability income and group term life waiver of premium.

It is important to remember that even though the tables used in the comparisons below are based on disability experience, the underlying products are different. They vary in underwriting styles and in terms of the reasons the insured is buying the policy, both of which can produce different experience results. Care should be taken when using any industry experience table, particularly one that was created for a different product. Nevertheless, we believe that these comparisons give a meaningful view of how disability incidence and termination rates have changed over time.

A summary follows of the different valuation tables used since 1964 for computing statutory minimum reserves for group life waiver of premium benefits and for group and individual disability income benefits:

- The 1985 Commissioner's Individual Disability Table A (1985 CIDA Table) is an update to the 1964 Commissioner's Disability Table (1964 CDT Table), which was designed to be used for individual disability income policies. In addition to using updated experience, this table expands on the 1964 CIDA Table by providing separate results by gender and occupation class.
- The 2005 Group Term Life Waiver Reserve Table (2005 GTLW Table) was the first update for group waiver since the 1970 Krieger Table. This was the first group waiver table to include claim termination rates that vary by gender.
- The 2012 Group Long-Term Disability Valuation Table (2012 GLTD Table) is based on group disability experience from 1997 through 2006. It replaced the 1987 Commissioner's Group Disability Table as the claim termination basis for computing statutory reserves and added distinctions for gender, diagnosis, monthly benefit amount and definition of disability.
- The 2013 Individual Disability Income Valuation Table (2013 IDI Table) is based on individual disability income experience from 1990 through 2007. The 2013 IDI Table will become the new statutory valuation standard for IDI policies starting in 2020. This table contains distinctions for categories such as benefit period, market type, product type, diagnosis and tobacco use.

The report from Phase 1 compares initial claim reserves based on the termination rates included in each of these tables. Because the 1952 Disability Table has higher termination rates, it produces lower claim reserves at almost all ages when compared with the various tables that have been developed since then.

Disability claim incidence has also shifted over time. We compared the 1952 Disability Table incidence rates with the 1985 CIDA Table and 2013 IDI Table incidence rates. Note that the 2005 GTLW and 2012 GLTD tables did not include incidence rates. The shape of the 1952 SOA Table is steeper than the more recent tables after approximately age 50. More recent studies show that disability incidence rates have been flattening. Steeper

curves produce higher active life reserves than flatter curves, so the 1952 Disability Table may be overstating reserves for older attained ages. It should also be noted that the 1952 Disability Table incidence rates end at attained age 59. This is problematic because benefits today are generally sold to retirement age.

Combining incidence and termination gives us a look at comparative active life reserves for waiver riders. When we calculated sample reserves using the different tables, the active life reserve produced by the 1952 Disability Table is between the male and female reserves produced by the 1985 CIDA and 2013 IDI tables until attained age 46. After that, the active life reserves produced by the 1952 Disability Table are higher than the reserves produced by either of the newer tables. In addition, the difference between male and female active life reserves has widened from the 1985 CIDA Table to the 2013 IDI Table, which points out the need for gender-specific rates.

All of these reserve comparisons are included in the March 2018 report, which can be found here: <https://www.soa.org/resources/research-reports/2018/survey-waiver-premium-monthly-deduction-rider/>.

UPDATED EXPERIENCE STUDY

Based on the results seen in Phase 1 of this research, the Product Development Section and the SOA have decided to move ahead with Phase 2. As of this writing, we are preparing to issue a data request to compare current experience from waiver riders on individual life insurance policies with the 1952 Disability Table. The due date for data submission is April 30, 2019. Be sure to look for the data call if your company sells these riders. The stronger the participation in the study, the better the end result. While we understand that company reporting systems may have some limitations, we are hoping to evaluate the experience with new variables, such as gender, that have shown significant variability in other disability studies. ■



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