Session 69PD, Voluntary Disability and Group Life Coverages

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SOA Antitrust Disclaimer
SOA Presentation Disclaimer
Voluntary Group Life & Disability Coverage

One Company’s Experience and Open Questions
Agenda

- Book of business background
- Data challenges
- Drivers of deviations from expected margins
- Portability considerations
- Open Enrollments
- Recent product design developments
Background

• Focus on VSTD, VLTD, and stand-alone Voluntary Life
  – Size of block: premium and policies
  – Average case size

• Not addressing Supp Life, Contributory LTD, and Core/Buy-Up LTD
Data Challenges

• Limited Exposure Data
  – Self Admin Billing dominates larger cases
  – Poor List Bill Data Collection
  – Do not track individual level data
  – No routine collection of covered lives

• Do not track potential participants
  – No ongoing participation metrics

• Concentration of Risk for Disability
  – Industry & Sales Office
The Initial Participation Mystery

- Have not seen linkage with profitability
- Often counterintuitive results
- Multiple views
  - Billed loss ratios
  - Actual vs. expected (Manual) claim costs
  - Actual vs. assumed participation
  - Current/Initial lives: extreme ratios may matter
Participation: Open Questions

• Is quality of enrollment more important?

• What factors may be masking participation impact
  – Other case characteristics?
  – Demographics?
  – Takeover vs. Virgin
Pricing for Participation

• Still real evidence of anti-selection
  – Voluntary incidence > Employer paid incidence

• Have reduced slope of participation factors

• More work to be done!
Factors Driving Profitability

• Virgin more profitable than Takeover
  – More evident for Disability
    – Value of pre-ex greater for Virgin business?
    – Underwriting discounts on takeover business
  – No difference for Life: past pricing adjustments
  – Despite materially lower participation!

• Incremental plans more profitable than % of salary for VLTD
  – Lower replacement ratios?
Factors Driving Profitability

• Integrated VLTD not as profitable as Non-Integrated
  – Gap not as wide as Employer paid LTD
  – Not 100% overlap of coverage with VSTD

• Absence of Pre-Ex on VSTD drove losses
  – More impactful than on Employer paid business

• Modestly lower margins at higher GI amounts
  – Manual rating factor
What Has Not Driven Profitability

• Demographic characteristics
  – Age/gender mix, average salary

• Self Admin vs. List Billing

• Case Size: Less impact than employer paid

• Industry: Inconclusive
Portability Considerations

• Continuation vs. Portability
  – Treatment at termination of master contract

• Risk management philosophy
  – Encourage vs. discourage
  – Restrictions: age, duration, amount
  – Reinsurance
Portability Considerations

• Rating
  – Loads to active rates
  – Relationship of ported rates to active rates
  – Experience charged to group or separate pool

• Experience tracking
  – Election rates
  – Durational excess mortality/morbidity
  – Individual persistency by duration
Open Enrollments

• When to Allow
  – Takeover
  – Current participation
  – Years since last enrollment
  – Case profitability
Open Enrollments

• Risk Controls
  – Pre-Ex on Disability
  – GI limit on Life
  – Limits on incremental amounts

• Experience tracking challenges
Product Design Developments

• Issue age rating
  – Increased importance of individual persistency

• Heaped commissions
  – Individual persistency a consideration for this also

• Composite rating

• No census rating
Product Design Developments

• Increasing GI and higher maximums
  – Reinsurance implications

• Waiver of participation requirements
  – Recognize practical limits on enforcement
Worksite Disability Product Discussion

2018 SOA Health Meeting Session 69

Jacob Efron FSA, MAAA
Disability Products are About 20% of Worksite Sales

Annualized Premium Sales, 2013-2016

Disability sales were up about 8% in 2016

Source: Eastbridge Consulting
Trends in Worksite Disability

- Traditional group insurance companies have focused on the worksite market
- Companies want to offer an entire package of products (e.g. DI, Critical Illness, Hospital Indemnity)
- While many companies offer products on an individual platform, some companies prefer a group policy form:
  - facilitates experience rating
  - for a multi-state employer, company can potentially avoid having to satisfy regulations for each state
# Disability Market Overview

<table>
<thead>
<tr>
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<th>Traditional Individual Disability</th>
<th>Worksite Disability</th>
<th>Voluntary Group Disability</th>
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<tbody>
<tr>
<td>Policy Form</td>
<td>Individual</td>
<td>Individual or Group</td>
<td>Group</td>
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<tr>
<td>Guaranteed Renewability?</td>
<td>Yes</td>
<td>Maybe</td>
<td>No</td>
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<tr>
<td>Guaranteed Premiums?</td>
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<td>No</td>
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<tr>
<td>Benefit Duration</td>
<td>Long</td>
<td>Short</td>
<td>Long or Short</td>
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<td>Benefit Richness</td>
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<td>Restrictive</td>
<td>Moderate</td>
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<tr>
<td>Medical Underwriting?</td>
<td>Yes</td>
<td>Maybe</td>
<td>No</td>
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<tr>
<td>Rate Structure</td>
<td>Issue Age</td>
<td>Issue Age (mostly)</td>
<td>Attained Age</td>
</tr>
</tbody>
</table>
Traditional Individual Disability Products

- Target Market: White collar executives and professionals
- Typically noncancelable with guaranteed premiums
- Benefits to age 65 with generous provisions
- Full coverage for mental disorders
- Own occupation coverage with unlimited partial disability
Traditional Group Voluntary Products

- Target Market: Broad cross-section of employees
- Employees pay 100% of the premium
- Age-banded or composite group rates, non-guaranteed
- Short-term or long-term benefits
- Two years of benefits for mental disorders
- Two year own-occupation coverage with unlimited partial disability
Worksite Disability Products

- Target Market: Blue collar and middle-income employees
- Issue-age rates, non-guaranteed
- Maximum benefit period of 2-5 years
- No coverage for mental disorders
- Own occupation coverage with limited partial disability (e.g. 6 months)
Worksite Disability – Sample Provisions

- 7, 14 or 30 day Elimination Period
- 3, 6, 12 or 24 month Benefit Period
- Own occupation definition of disability
- Fixed monthly indemnity up to $2,500 per week (maximum 60% income replacement)
- Waiver of premium after later of 90 days, end of EP
- 12/12 pre-existing conditions limitation
Worksite vs. Voluntary Group
What are the advantages for employers?

**Worksite**
- Simple for employees to enroll
- Carriers can offer administrative platforms at no extra cost to employer
- Appeals to employers that don’t offer LTD

**Voluntary Group**
- Coordinates with LTD more easily
- More choice in benefit design

Milliman
If You Learn Only One Thing Today…
Worksite Disability Offerings
Emphasize Simplicity

- Product Design
- Pricing
- Underwriting
Worksite Disability
Simplicity is the Key to Success

- Keep application short
- Contract should be easy to understand

This leads to increased enrollment and better experience
Worksite Disability
Simplicity in Product Design

- Short benefit periods help minimize risk
- Partial disability benefit of 50% for 6 months
- No benefit offsets
- No change in definition of disability from own occupation to any occupation
- Exclusion for disabilities due to mental disorders
- Very few riders or optional benefits
Worksite Disability
Simplicity in Pricing

- Unisex premiums
- Issue age premiums
- No tobacco rating
- Published rate tables rather than group rating formula
- Experience rating is not common (filed rates used instead)
Worksite Disability
Simplicity in Underwriting

Participation rate ≥ 20%
- Guaranteed Standard Issue
- No medical underwriting
- 12 month pre-existing condition exclusion

Participation Rate < 20%
- Simplified medical underwriting
- Short health questionnaire on application
- Minimal use of medical records or exams
- Accept or reject decision – no modified offers
But simplicity for the customer doesn’t mean simplicity for the insurer!
Worksite Disability
Potential Benefit Overlap

Group LTD
Social Security
Group STD
State Sickness
Workers Comp
Sick Pay

Last Day Worked
6 months
12 months

Sweet Spot: After sick pay and before LTD...
Worksite Products
Risk Factors

- Low participation rates from ineffective enrollments
- Skewed sales distribution by age, gender or industry
- Excessive lapse rates and expense pressure
- High maternity claims
- Potential over-insurance issues
- Potential inability to experience-rate large cases
- Repeated open enrollment should be rare
Worksite Products
Expenses and Commissions

- Market expects high first-year commissions
- Enrollment process also creates high first-year costs
- High lapse rates complicate recovery of expenses and commissions
- But high lapse rates also reduce morbidity costs
Individual policy forms cannot be rerated for a specific case

- Relatively conservative benefits
- Require minimum participation rate (e.g. 20-25%)

Premiums must seem reasonable to employees to encourage participation

- Low participation can lead to anti-selection