

## Group IP – Regulatory developments

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1

## Agenda

- Group Income Protection (GIP) background
- Welfare reform
- Age discrimination
  - Other regulatory updates
- Product design

2

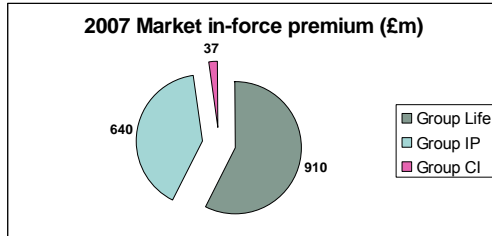
## GIP background

- Group income protection schemes provide more than 70% of all insured long-term income protection benefits
- 2006 – 2007 in-force market movements:
  - Premiums ↑ 4.7%
  - Benefits ↑ 6.5%
  - Lives ↓ 0.5%
  - Schemes ↓ 1.1%

Source: Swiss Re Group Watch 2008

3

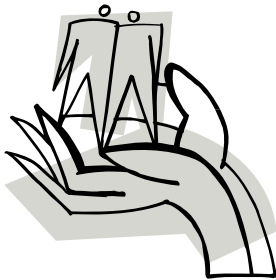
## GIP background



4

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## Welfare Reform



5

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## Welfare Reform

- Welfare Reform agenda
  - Aim to achieve 80% employment rate
  - Including reducing no. of Incapacity Benefit (IB) claimants by 1m
- Welfare Reform Act 2007
  - Employment and Support Allowance (ESA) replaces IB for new claimants from 27<sup>th</sup> October 2008
  - Benefits are likely to be smaller and harder to obtain
  - Structure of benefit changed
  - Criteria to assess entitlement (PCA/WCA) revised
  - Conditionality introduced

6

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## Employment and Support Allowance

- Paid to those whose capability for work is limited
- Assessment phase – same rate as JSA (£60.50)
- Main phase – once passed WCA
  - Basic allowance (same rate as JSA) plus
  - Work-related activity component (WRAC) (£24.00), or
  - Support component (£29.00)
- No increases for:
  - adult dependants
  - linked to age, or
  - length of claim

7

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## Comparison- 30 year old

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>▪ IB - now</li> <li>- £84.50 (claimant)</li> <li>- £50.55 (adult dependant)</li> <li>- £17.75 (age increase)</li> <li>- £152.80 (total)</li> <li>- Increases for children through tax credits</li> </ul> | <ul style="list-style-type: none"> <li>▪ ESA – the future</li> <li>- £84.50 (claimant)</li> <li>- £0 (adult dependant)</li> <li>- £0 (age increase)</li> <li>- £84.50 (total)<br/>= 45% reduction</li> <li>- Increases for children through tax credits</li> </ul> |
|---|--|

8

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## Work Capability Assessment

- New name (PCA to WCA). 15 points to qualify
- Not a tightening – just more accurate
  - Now - 15 points if cannot use pen/pencil
  - Future - 9 points if cannot use pen/pencil
- Work Focused Health Related Assessment
  - New element - identifies what the person can still do
  - Identifies what would assist a return to work
  - Used in work focused interviews

9

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## Work Capability Assessment

- Review of 212 IB claimants
- Current criteria 61% scored 15 points and qualified for IB
- Behind the scenes tested under new criteria (WCA) and 49% would qualify for ESA
- In other words only 80% of those who qualified for benefit under the current criteria would have qualified if the new criteria had been applied.

10

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## Conditionality

- WRAC reduced if the claimant does not take part in:
  - Work Focused Health Related Assessment
  - Work-focused interviews
- Reduction
  - 50% of WRAC for 1<sup>st</sup> four weeks
  - 100% thereafter
- Support component – not subject to sanctions
- More sanctions in future – e.g. if claimant does not take part in a work related activity such as training

11

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## Age discrimination



12

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## Age discrimination - background

- The Employment Equality (Age) Regulations 2006 came into force in October 2006
- Generally, employers cannot discriminate against a person due to age so must offer the same employment terms regardless of age
- Regulations treat 65 as the default retirement age, unless exceptions apply
- Affects Group Risk providers by meeting the needs of employers who are ensuring compliance with employment legislation
- So any Group Risk employee benefits may need to be provided by employer to all employees within category to at least normal retirement age (NRA) 65, or not at all

13

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## Age discrimination - impacts

- Many Group schemes were written to NRA 60, these may now have to run to NRA 65 at potentially extra cost or reduced benefits
- Extra cost smaller for Group Life and CI (zero if no current employees in the increased age group), much higher for GIP
- Pensions legislation allows retirement to commence at ages up to 75 in registered schemes, so some employers are now requesting NRA 75 for their Group Life schemes
- GIP schemes often quoted to NRA 70 to avoid future problems if default is increased or removed and to harmonise benefits
- GIP scheme rising costs could drive to more limited product offerings, scheme lapses or increased self-insurance

14

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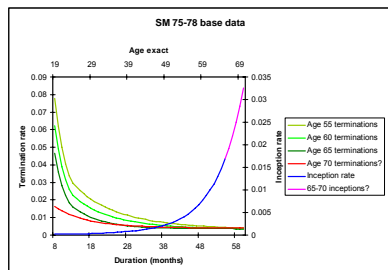
## Age discrimination – GIP assumptions

- For mortality, there is of course considerable data on older-age risks from annuity business. CI data is also available for key conditions at older ages.
- Very limited relevant experience available for old-age disability to form basis for inception and termination rates post-65
- Inceptions: continued rise from age 65 expected but may vary heavily by occupation classes and other factors
- Terminations: dwindling recoveries offsetting increasing mortality rates.
- Effects of differing motivations to remain at work eg, alternate income sources?

15

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# Age discrimination – GIP assumptions

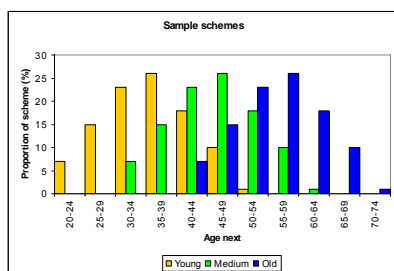


- Inceptions: Exponentially extrapolated
- Terminations: Assume mortality only at NRA 70

16

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# Age discrimination – sample schemes for example impacts on price



17

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# Age discrimination – example impacts on price

- Minor price impact even for very young schemes
- Significant +60% for average age schemes moving from NRA 60 to NRA 70

Sample scheme	Morbidity cost increase from NRA 60		Morbidity cost increase from NRA 65
	NRA 65	NRA 70	
Young	7.5%	12.5%	5%
Medium	35%	60%	17.5%
Old*	80%	Over 100%	30%
Old	Over 100%	Over 300%	85%

\*No membership increase

18

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## Age discrimination – still to come

- Default retirement age to be reviewed in 2011 and may lead to further product requirements
- Scheme NRAs will tend to increase over this time leading to increased insurance costs, potentially increased lapses and self-insurance
- GIP with limited term benefit payments may sidestep this issue
- Flex – is discrimination on input or output?
- Considerations of age discrimination on goods & services (and therefore individual insurance business) will soon be proceeding
- How will the industry be able to justify only providing cover to arbitrary ages?

19

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## Other regulatory updates - Gender

- EU Gender Directive is designed to eliminate unfair discrimination on the basis of gender
- Most Group benefits explicitly excluded due to the employment relationship but flexible (and spouse / partner) benefits may lack this direct link
- Final HM Treasury guidance has been issued and the Directive has been implemented in the UK
- CMI are producing data tables that can be referred to as a process of ensuring actuarial justification for price differentials

20

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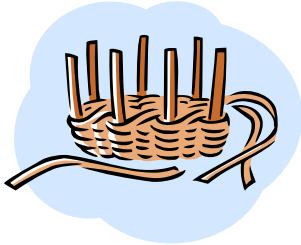
## Other regulatory updates - Insurable interest

- Concept dates back to 18<sup>th</sup> century to avoid gambling on stranger's lives and hence reduce the moral hazard murder risks.
- The policyholder must gain a benefit from the preservation of the subject matter of the insurance policy or suffer a disadvantage from its loss
- Law Commission has put forward tentative proposals for change
- Group Risk products continue to develop innovative variations that assume flexible interpretation of insurable interest to meet policyholder needs - the desire is to maintain this balance

21

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## Product Design



22

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## Product Design

- “If you have a health condition, being in work can help you get better. Remaining in or returning quickly to work is beneficial for people with both physical and mental health problems.”

Source: *Health, Work and Well-being: Caring for our Future 2006*

23

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## Product Design – Welfare reform

- Focus on capability and individual assessment is a welcome move but insurers will do this at a much earlier stage
- Managing absence solutions
- State benefits less relevant – not offset
- Fully integrated more expensive but could be increased need

24

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## Product Design – Age discrimination

- Employers may seek cost saving designs
  - Reducing the benefit basis (eg, 75% to 60% of salary)
  - Stricter disability definitions to narrow coverage
  - Limit the maximum payment term (LPT) to 5 or less years
- Ultimately this may help avoid lapses or self-insurance
- LPT also helps limit liability for future NRA changes
- Lump-sum payments can be added to LPT to meet continuing needs

25

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## Key take-aways

- Group IP inexorably linked to employment legislation and welfare state provision
- All challenges that are opportunities for industry to tackle with product design and forward thinking

26

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## Questions?



27

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