

Income Protection and the Search for Simplicity

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The Need for Simplicity



*"No one ever went broke underestimating the
intelligence of the American public."*

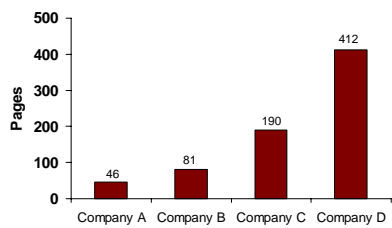
- H.L. Mencken

The Complexity of Income Protection

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The Complexity of Income Protection

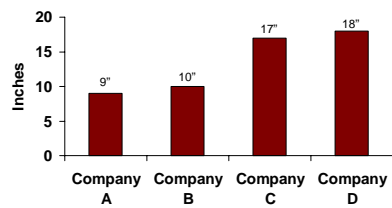
Size of Producer Underwriting Guide



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The Complexity of Income Protection

Height of IP Rate Filing



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The Complexity of Income Protection
Terminology for Definition of Disability

Total Disability	60% Gainful Occ
Partial Disability	40% Gainful Occ
Residual Disability	Education, Training, Experience
Proportionate Disability	Loss of Earnings
Own Occ	Loss of Time
Pure Own Occ	Loss of Duties
Specialty Own Occ	"And" Definition
Modified Own Occ	"Or" Definition
Regular Occ	Regular Care
Own Occ/Not Working	Appropriate Care
Own Job	Local Economy
Any Occ	National Economy
Any Gainful Occ	

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Simplifying Income Protection

Part 1: Multilife Underwriting

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Multilife Underwriting
Definition of Multilife Plans

Multilife plans involve the sale of individual income protection policies to three or more employees of a common employer.

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Multilife Underwriting

"Multilife" does **NOT** mean:

- Group Insurance
- Associations

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Multilife Underwriting

Objectives of Multilife Plans

- More flexible and generous coverage than group insurance
- Lower morbidity than traditionally-sold individual policies due to group risk selection
- Efficient administration through list-billing and simplified underwriting

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Multilife Underwriting

Key Features of Multilife Plans

- Stand-alone coverage or packaged with group disability
- Unisex premiums to avoid discrimination
- Discounts to reflect favorable experience
- "List-billing" sends one bill to employer
- Premiums paid by employer, employee, or both

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Multilife Underwriting

Underwriting Methods of Multilife Plans

- Traditional: Full medical and financial underwriting
- Guaranteed to Issue (GTI): Full underwriting, including substandard actions, but coverage may not be declined
- Guaranteed Standard Issue (GSI): No medical underwriting. All policies are issued on standard basis.

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Multilife Underwriting

Underwriting Methods of Multilife Plans

<u>Case Size</u>	<u>Take-Up Rate</u>	<u>Underwriting Method</u>
3-20 Lives	0-100%	Traditional
20+ Lives	<25%	Traditional
20+ Lives	25-75%	Traditional, GTI, GSI
20+ Lives	>75%	Usually GSI

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Multilife Underwriting

Success Factors for GSI Underwriting of Multilife Plans

- Favorable risk classes
- Uniform plan chosen by employer
- Pre-existing condition exclusion
- Actively-at-work requirement
- High take-up rate
- Low maximum amounts
- Limited time periods

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Multilife Underwriting

Administration of Multilife Plans

- Streamlined quote process using census data
- Pre-filled applications
- Documentation of underwriting offers
- List-billing sends one bill to employer
- Capture group-level data for experience analysis
- Monitor participation rates

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Multilife Underwriting

Problem Areas of Multilife Plans

- Associations: Lack of employer involvement means little morbidity savings
- Unisex rates may attract cases with high female content (female rates generally exceed male rates)
- Use of GSI underwriting on cases with low participation
- Poorly-designed GSI programs

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Multilife Underwriting

Recent Experience by Market Actual-to-Expected Claim Incidence

Class	Individual	Multilife	Associations
1	120%	96%	156%
2	72%	48%	101%
3	52%	46%	102%
4	76%	56%	92%
Total	105%	91%	151%

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Source: Society of Actuaries, 1990-1999 Experience v. 1985 CIDA

Multilife Underwriting

British and Irish Associations

- Worshipful Company of Actuaries
- Scottish Conjurers Association
- Irish Pipe Band Association
- British Dragonfly Society
- Hampshire Beekeepers Association



American Associations

- Female Boxers Association
- National Explosive Ordinance Disposal Association
- New England Dungeon Society
- American Knife Throwers Alliance
- Antique Poison Bottle Collectors Society



Simplifying Income Protection

Part 2: Worksite Products

Worksite Products



A Blend of Group and Individual

Worksite Products Distinguishing Features

- Payroll deduction
- Simple plan design
- Short benefit period
- Small amounts
- Simplified medical underwriting
- Low take-up rates
- Middle income markets

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Worksite Products Typical Plan Design

- Guaranteed renewable
- Total disability only
- No offsets
- Exclusion for psychiatric/substance abuse
- Benefit periods of 3 years or less
- May exclude on-job accidents
- Pre-existing condition exclusion

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Worksite Products Routine Underwriting Requirements

Group: Usually none

Individual: Blood/urine testing
Medical exams
Inspections
Detailed medical history

Worksite: Application with kickout questions

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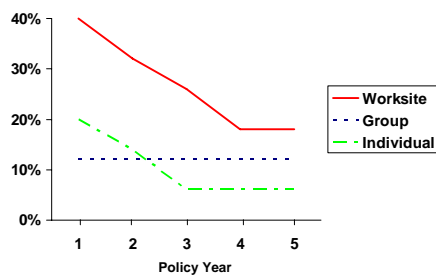
Worksite Products

Morbidity Experience

- Generally favorable
- Diffuse, short-term risks
- High maternity claims
- Some overinsurance issues
- Must be vigilant on rates and underwriting

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Worksite Products Sample Lapse Rates



Note: Lapse rates are illustrative values only

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Worksite Products

Expenses and Commissions

- Individual underwriting costs
- Enrollment costs
- Producers seek high/low commissions
- Low persistency creates expense strain

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Worksite Products Keys to Success

- Use financial model to understand returns
- Stay on top of morbidity results
- Focus on enrollments to improve take-up rates
- Avoid guaranteed issue unless take-up rate is very high
