



2009 Joint Actuaries' Club of Hartford and
Springfield / Actuaries' Club of Boston Meeting

Current Issues in Group Disability

Tom Corcoran

November 12, 2009



© 2009 Towers Perrin

Discussion Topics

- Impact of recession on insured disability experience
- Society of Actuaries 2008 LTD Termination Study update
- Society of Actuaries 2008 Group LTD Offset Study
- Short-term disability issues
- Predictive modeling for group disability
- Audience-suggested topics

© 2009 Towers Perrin

2

Impact of Recession on Insured Disability Experience

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Impact of Recession on Insured Disability Experience

- Sources of data we reviewed:
 - Internal studies by LTD insurers
 - Workers' Compensation Experience
 - Impact on Disability Rates of 1930-1939 Depression
 - Update on 2009 experience
 - Other observations and conclusions

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Internal Studies by LTD Insurers

- A few long-term disability (LTD) insurance companies have performed correlation analyses on their own experience to map their historical disability experience against various economic data
 - No industry-wide studies
 - In general, there have not been consistent industry patterns – even when unemployment was at current levels
- Other historical evidence
 - Doctors (1985 – 1995)
 - Individual employers

© 2009 Towers Perrin 5

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Workers' Compensation Experience

- Workplace injury rates declined in each of prior four economic downturns; 1980, 1982, 1991, 2001

© 2009 Towers Perrin 6

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Workers' Compensation Experience – NCCI Paper (July 2009)

- 85% of frequency decline since 1972 due to improved safety, 15% was structural change in the economy
 - 2007 lost time (LT) frequency was 40% of 1972
- Job creation and destruction both contribute to changes in frequency
 - Job creation (or, lack thereof)
 - +1% Job creation => +0.37% change in LT frequency
 - Job destruction
 - +1% Job destruction => 0.27% change in LT frequency

Source: Workplace Injuries and Job Flows July 2009; NCCI – Frank Schmid

© 2009 Towers Perrin 7

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Impact of 1930-1939 Depression on Disability Rates

Morbidity Changes from 1920s through 1940s		
Morbidity	1930s / 1920s	1940s / 1920s
Claim incidence	+60%	N/A
Claim terminations	-16%	+8%

Source: Society of Actuaries Studies – 1926 and 1953 Reports.
Based on monthly income benefits under ordinary life policies, 90-day elimination period.

Asset Default Experience for Early 1930s to Early 1970s		
Asset Defaults	Investment Grade	Speculative Grade
1970 – 1975	0.07%	3.84%
1932 – 1935	0.77%	9.21%
Ratio	1100%	240%

Source: Moody's Investor Services

© 2009 Towers Perrin 8

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Update on 2009 Experience

- Discussions with major LTD writers
- Other anecdotal evidence
 - Employees are doing everything they can to keep their jobs
 - Employees who have lost jobs are working hard to find new ones
 - The job hunting track and the disability-seeking track are incompatible
- Investigations for increases in “recession-cause” disabilities
 - Anxiety, stress diagnoses

© 2009 Towers Perrin 9

IMPACT OF RECESSION ON INSURED DISABILITY EXPERIENCE

Other Observations and Conclusions

- A 1996 survey of disability issues indicated that approximately 3.3% of full-time workers reported they have a “work disability” (Source: Towers Perrin analysis of data from *Chartbook on Disability in the US, 1996*, U.S. Department of Education)
 - This can be compared to the average annual LTD claim incidence rate of approximately 3 claims per 1000 lives insured
- Conclusions
 - Individual decisions that insureds are better off being disabled drives trends
 - Marginal increases in disability incidence may be more from prior conditions than new conditions

© 2009 Towers Perrin 10

Society of Actuaries 2008 LTD Termination Study Update

LTD EXPERIENCE STUDY UPDATE

Participating Companies

unum THE HARTFORD StanCorp FINANCIAL GROUP Prudential Sun Life Financial

RELIANCE STANDARD Aetna Liberty Mutual ASSURANT GUARDIAN

Principal Financial Group Mutual Omaha Northwestern Mutual FORT DEARBORN LIFE Insurance Company WELLPOINT

ONEAMERICA SYMETRA FINANCIAL American Fidelity Assurance Company Disability RMS Nippon Life Insurance Company

Thank you for participating!

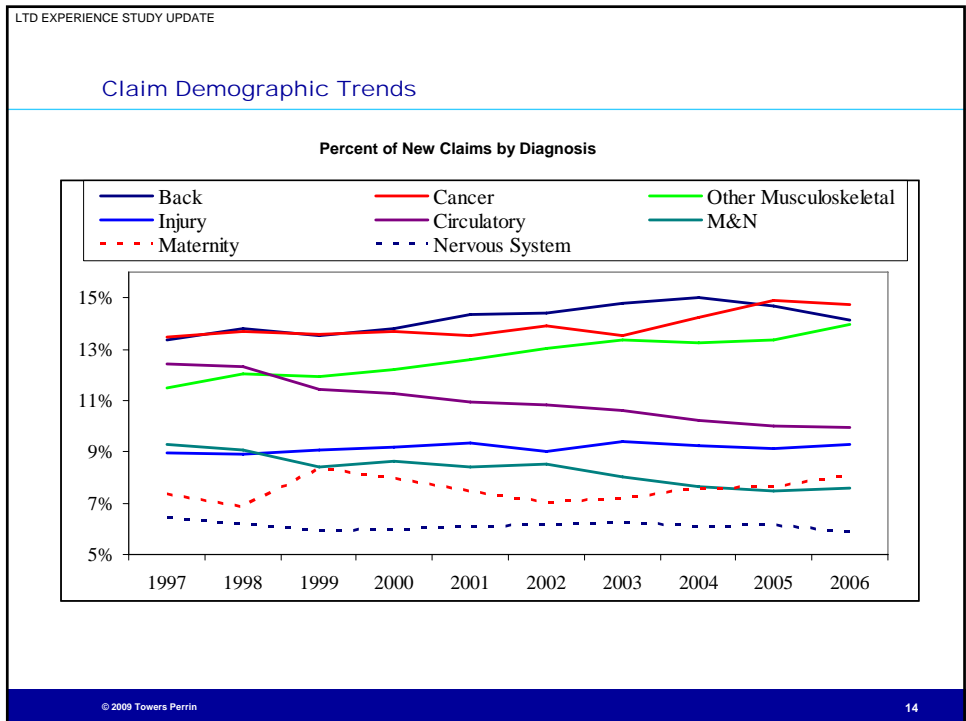
© 2009 Towers Perrin 12

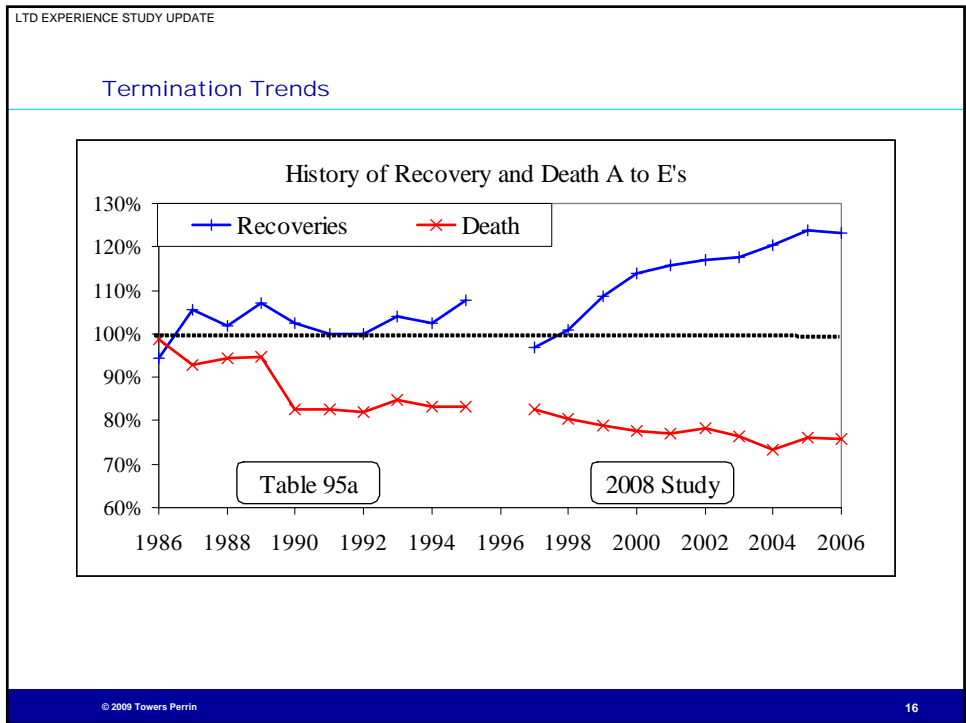
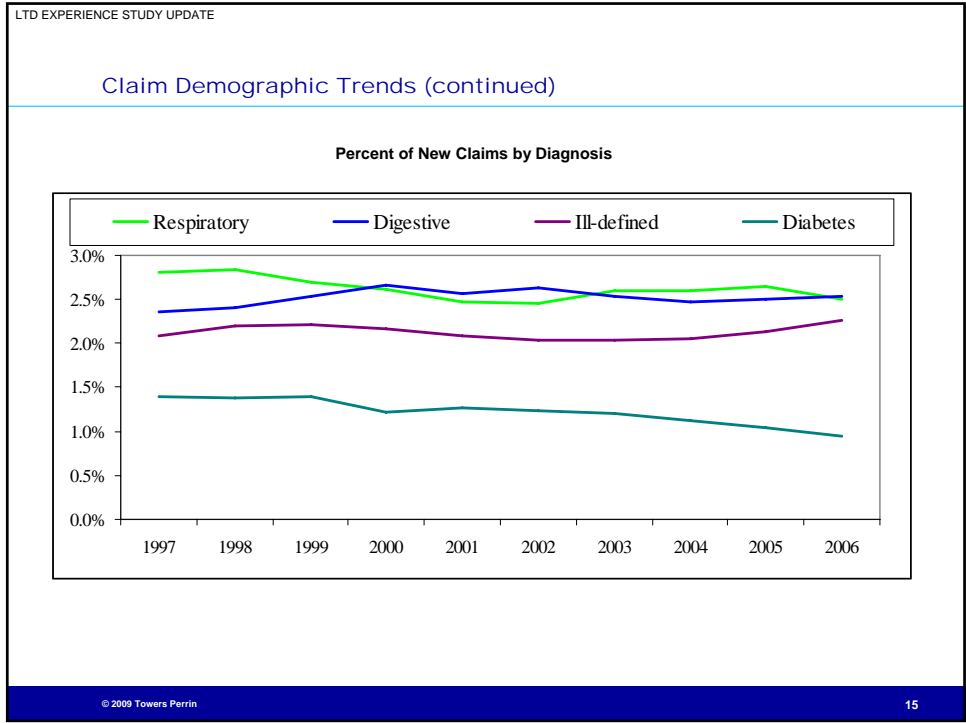
LTD EXPERIENCE STUDY UPDATE

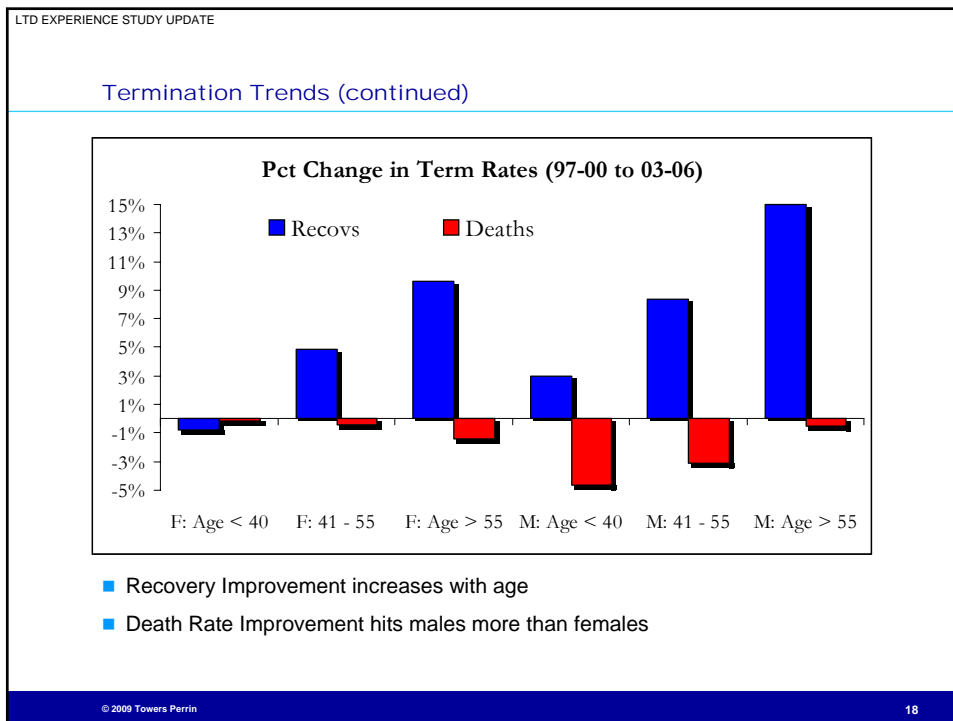
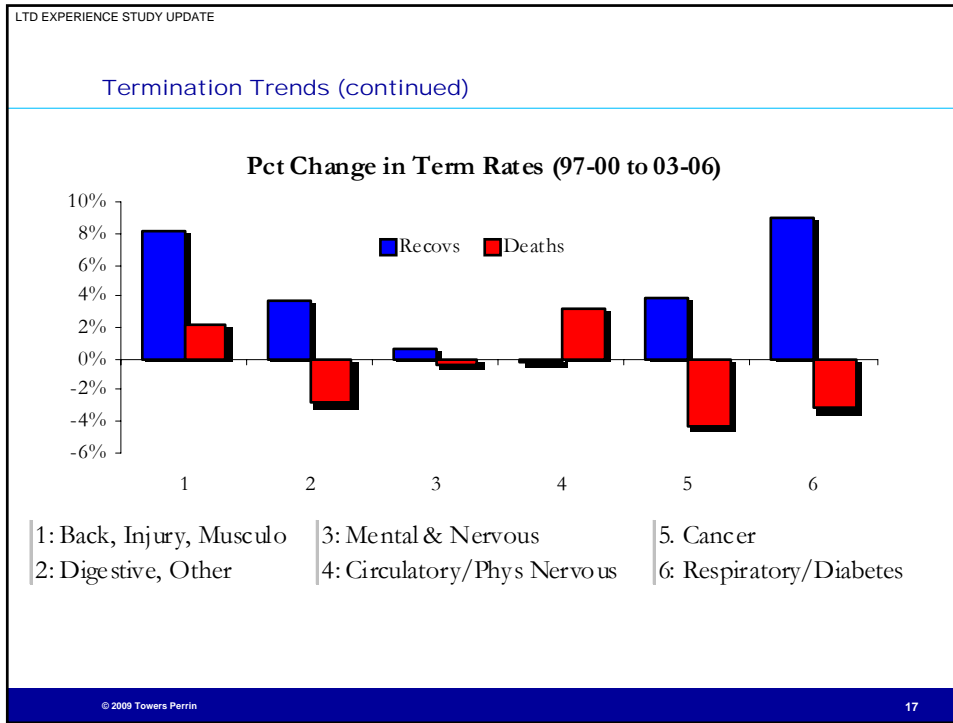
1997-2006 Period

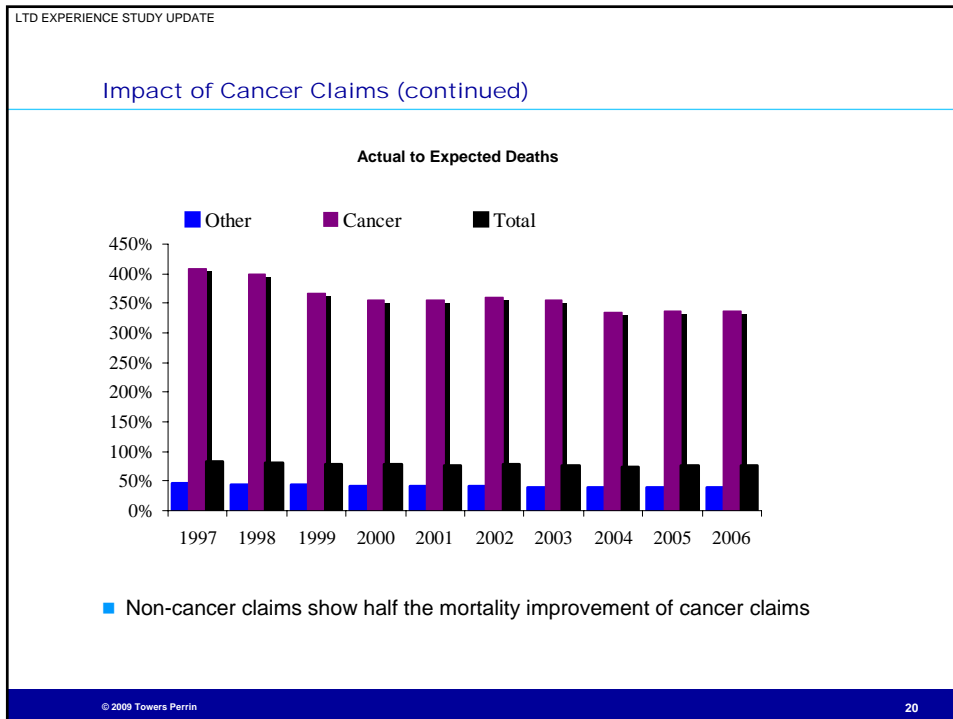
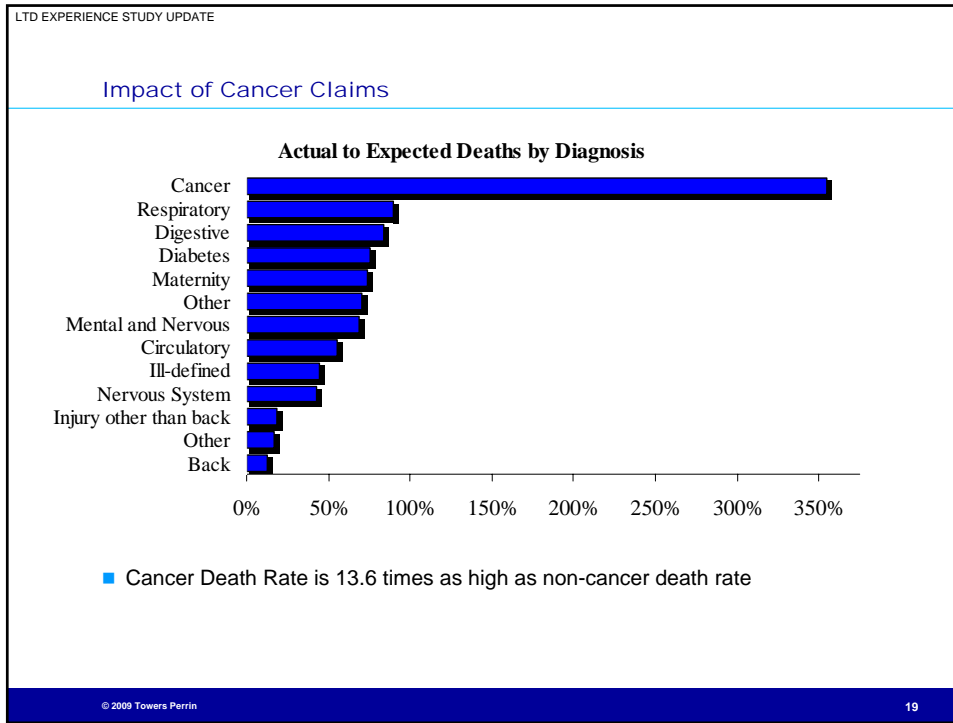
- 21 participants: 72% of 2007 market share
- Top 15 carriers...except #3, #5 and #8
- 1997 – 2006 claim termination experience
- Over 1 million LTD claims
- From fairly homogeneous products
- 120,000 deaths
- 560,000 recoveries

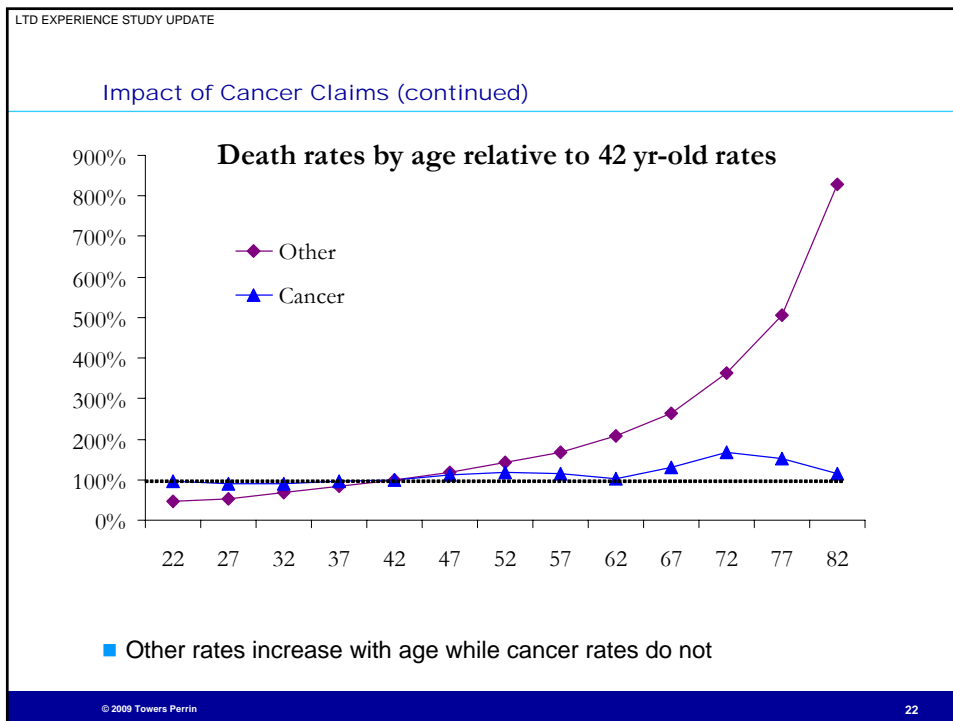
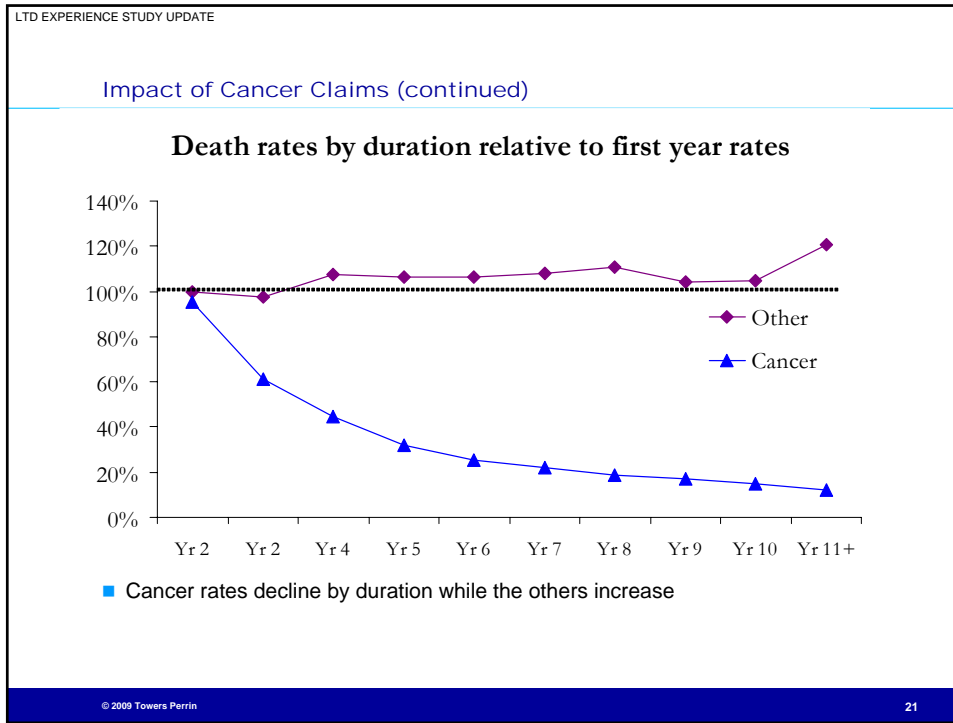
© 2009 Towers Perrin 13

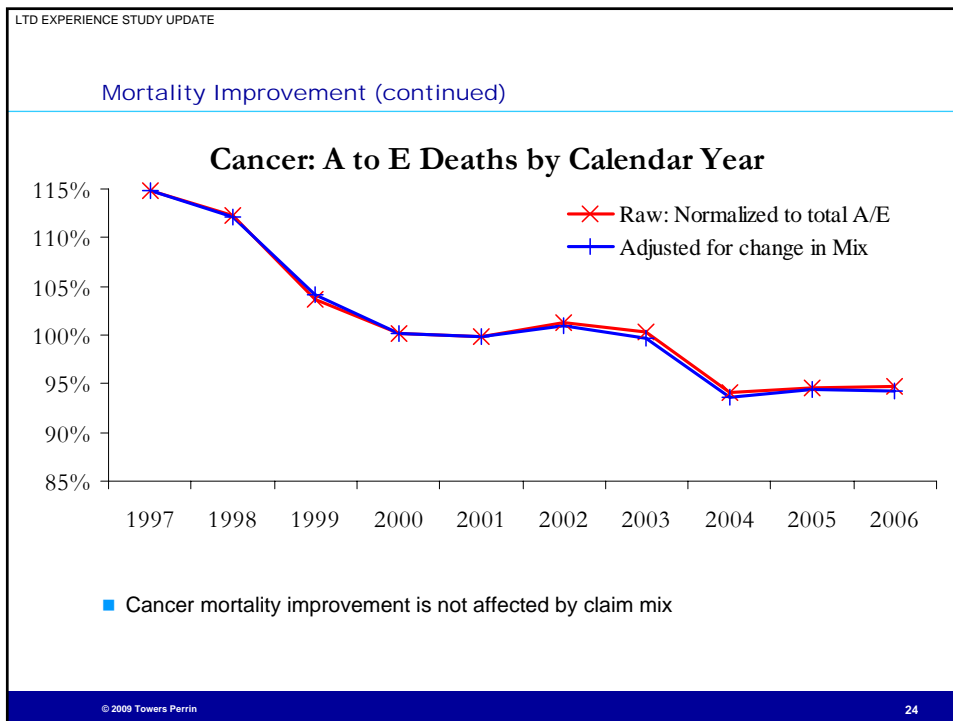
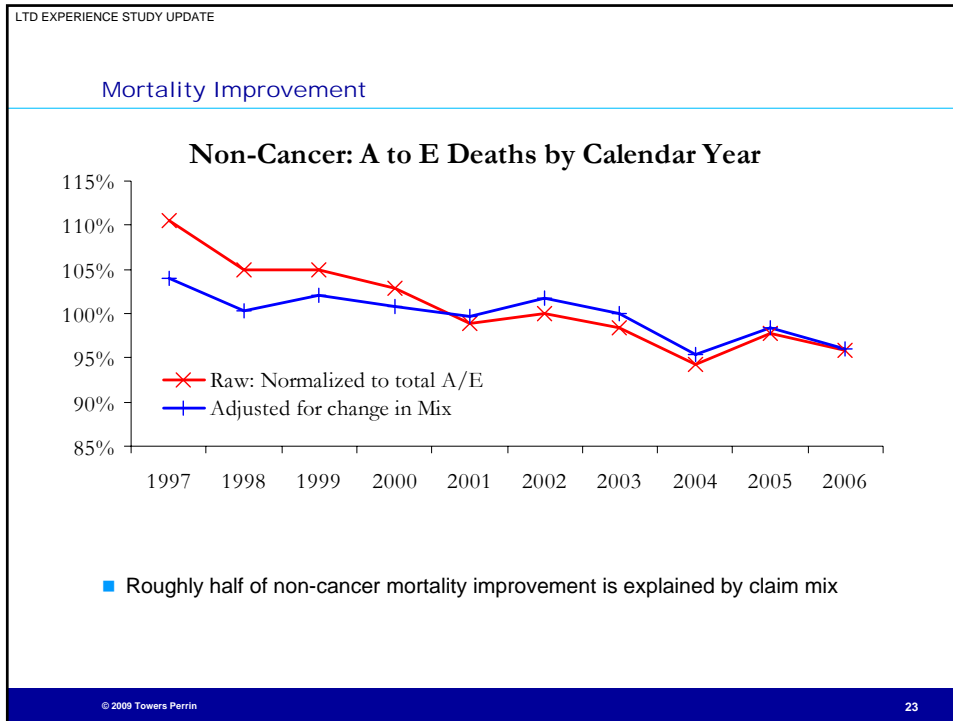


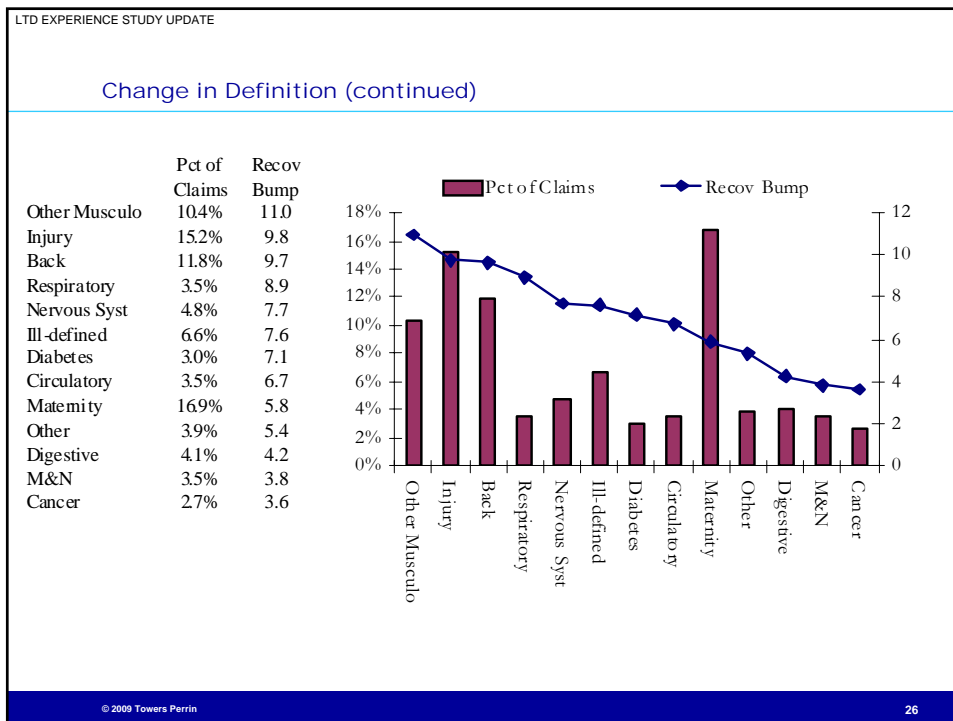
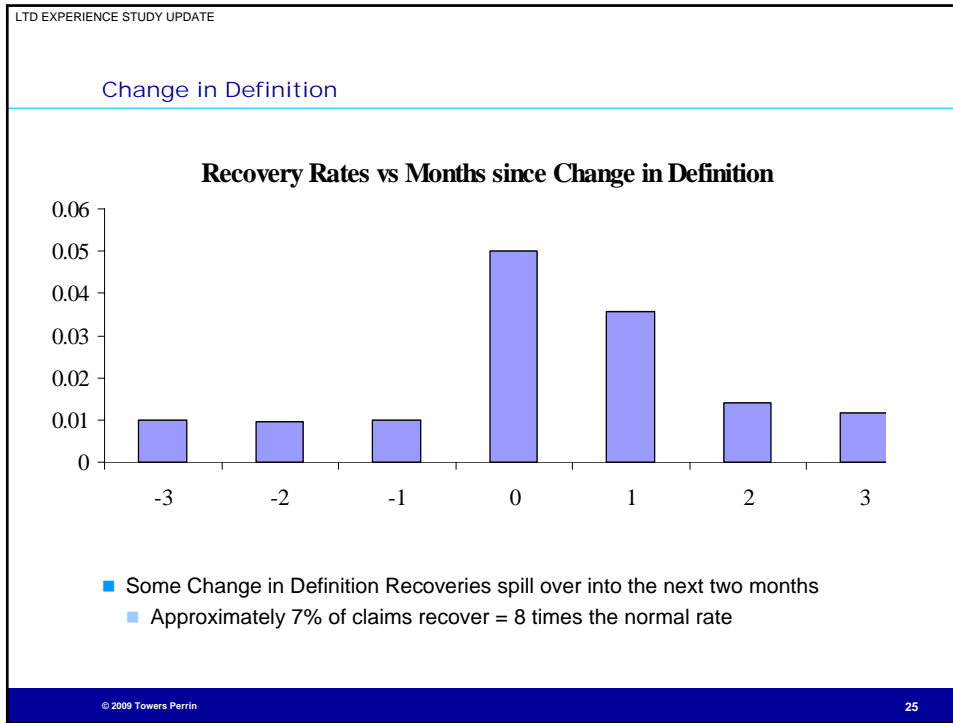


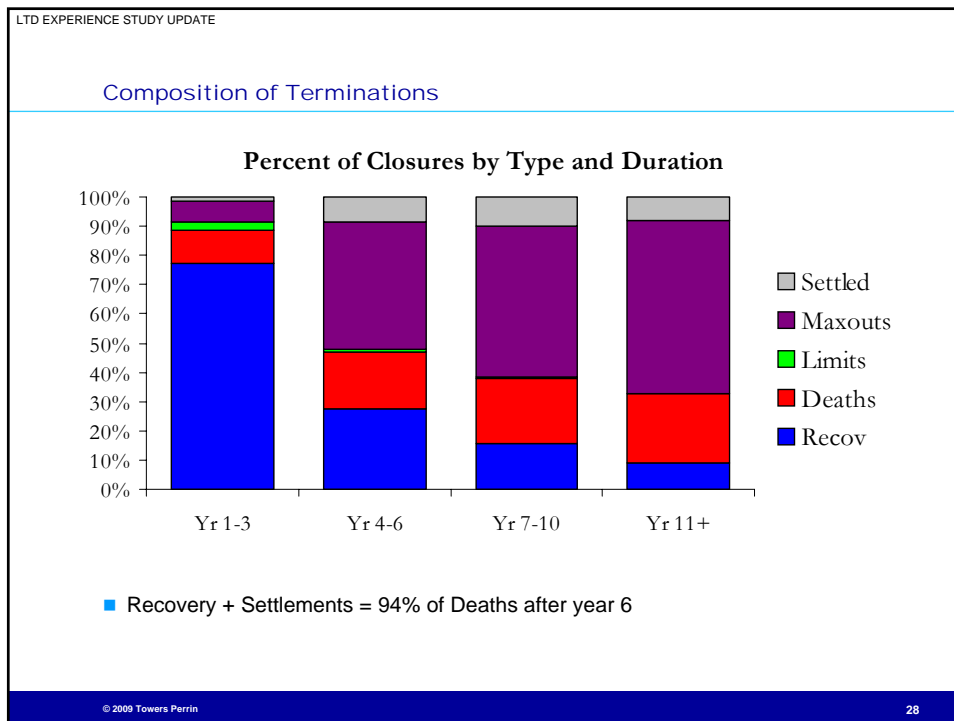
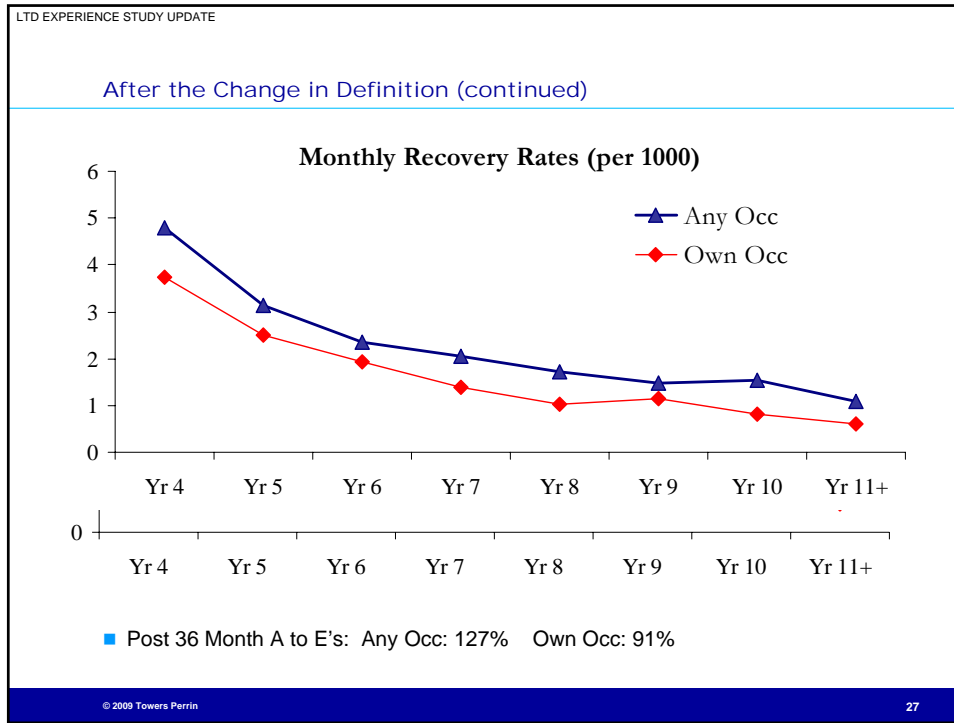


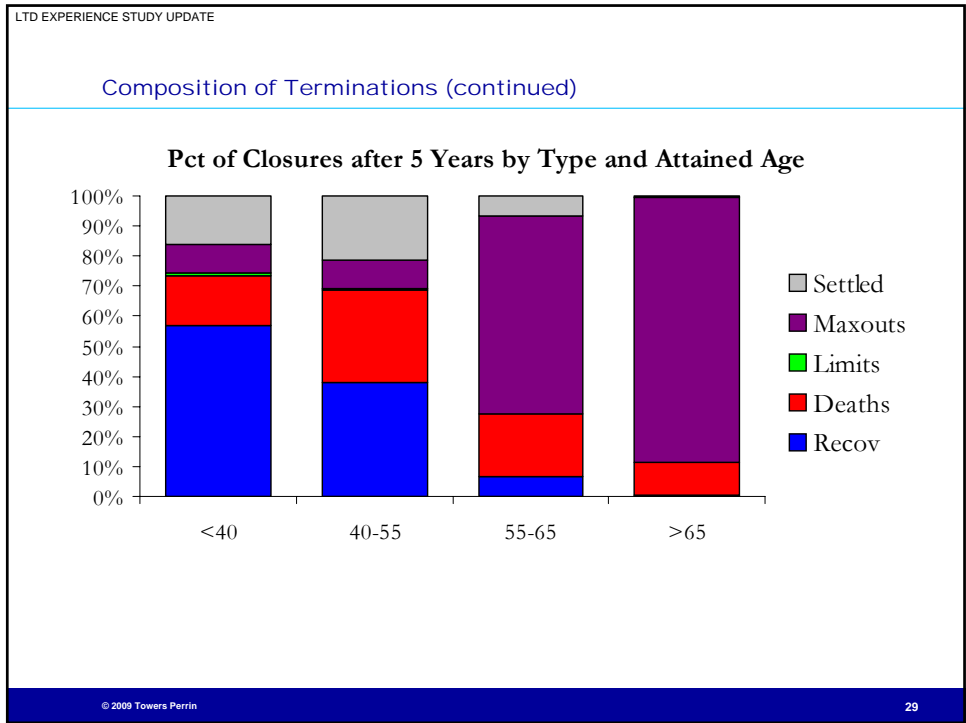




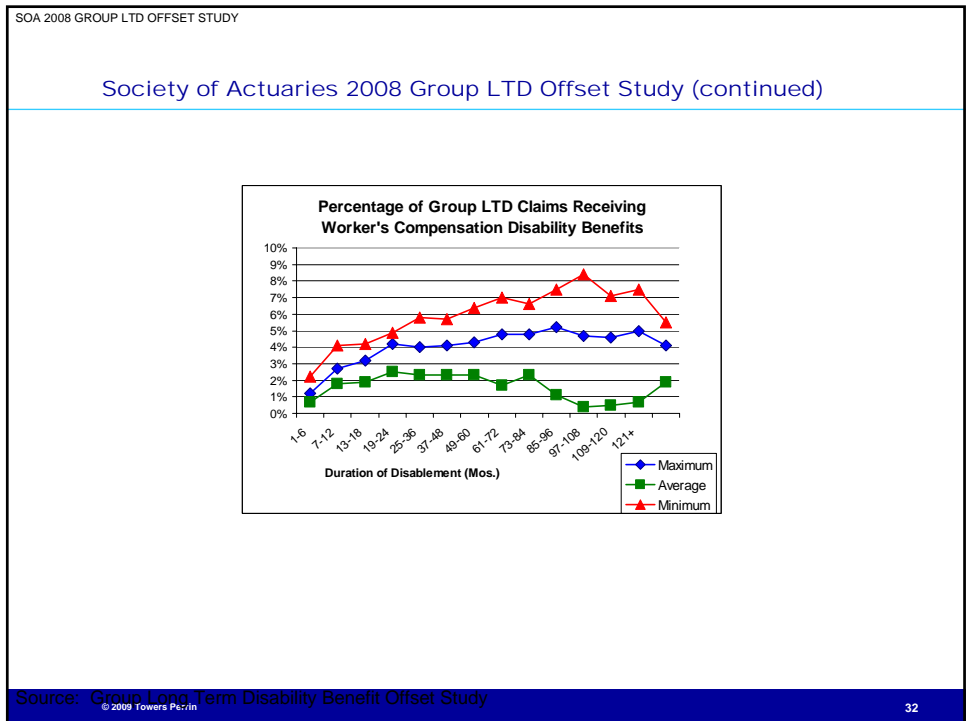
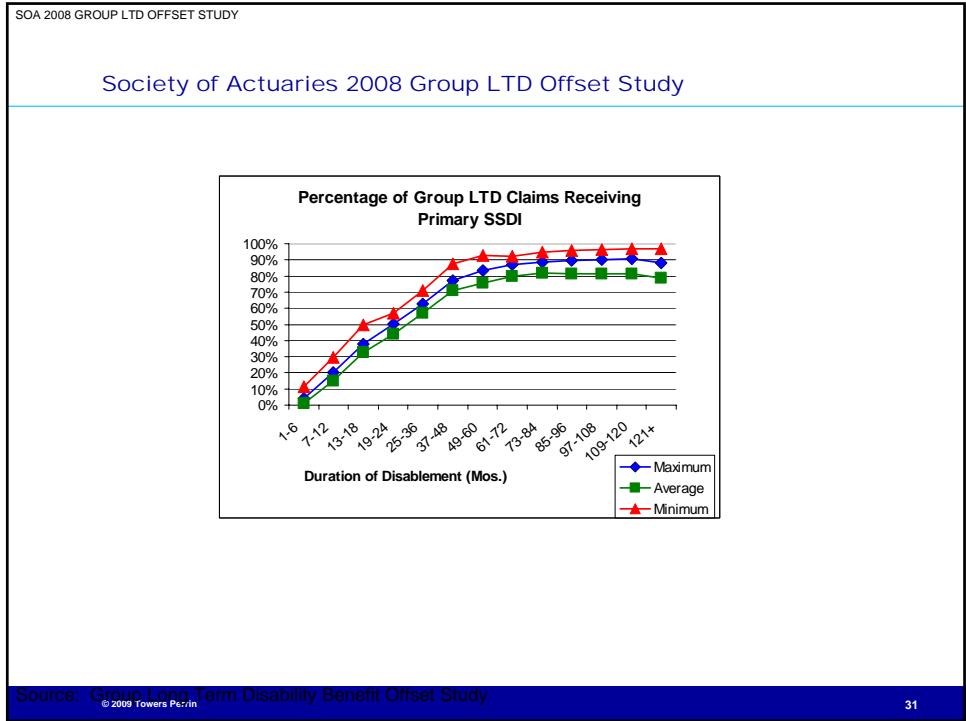


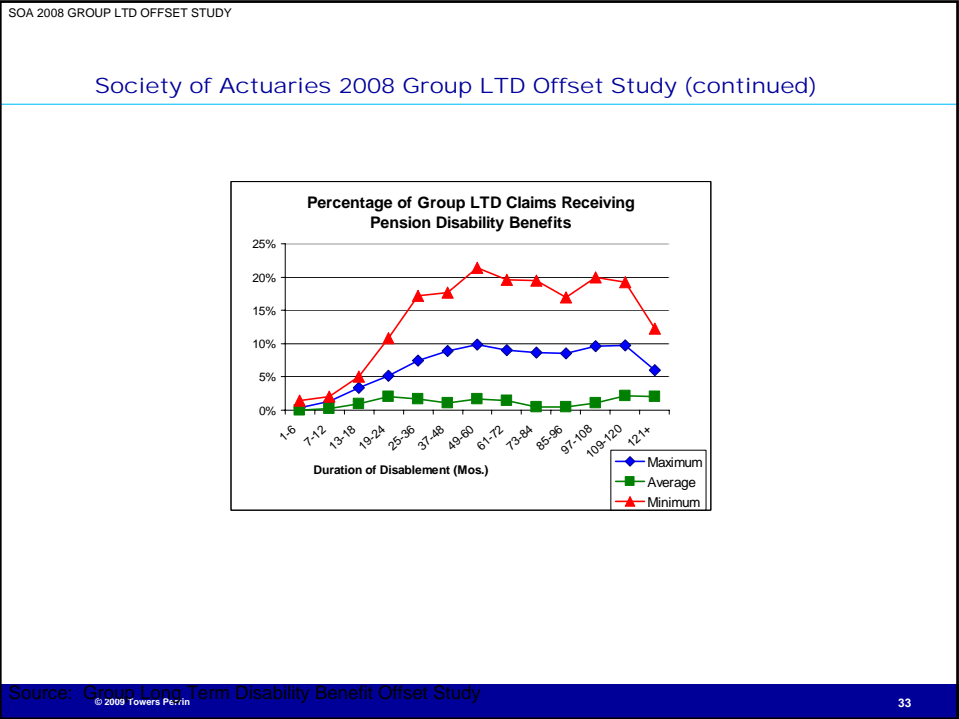






Society of Actuaries
2008 Group LTD Offset Study





Short-Term Disability Issues

SHORT-TERM DISABILITY ISSUES

Short-Term Disability Issues

- 2009 Exposures
- Potential impact of national health insurance

© 2009 Towers Perrin 35

Predictive Modeling for Group Disability

Audience-Suggested Topics
