

First Consolidated Review
in More Than 10 Years

Individual disability claims picture improves: Milliman

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A new study by Milliman USA of individual disability morbidity experience during the 1990s indicates that claim incidence (the probability of becoming disabled) has shown consistent improvement since 1995, while claim terminations (the probability of going off-claim once disabled), which displayed an observable drop around 1996, have steadily improved since then.

The study, conducted by the Individual Disability Experience Committee (IDEC) for the Society of Actuaries, is the first consolidated review of industry disability insurance (DI) morbidity experience in over 10 years.

"The importance of the IDEC study is that we are beginning to get solid quantification as well as confirmation of industry experience over the past 10 years," notes Bob Beal, consulting actuary for Milliman USA, chair of the IDEC and author of the study.

"In addition, the IDEC is able to study morbidity differences in ways that have not previously been done in the industry. For example, we will be able to quantify DI differences by smokers and nonsmokers, individual and multi-life business, the impact of benefit periods, cost-of-living riders and residual benefits."

Beginning in the mid-1980s and extending through the late 1990s, the disability industry has incurred considerable financial losses due to liberal products and underwriting. Only about 30% of the DI carriers active in the early 1990s still sell DI insurance.

Beal said these DI insurance companies will now have updated industry data that not only documents the experience of the last 10 years but gives DI carriers greater insight into the nature of this business.

The IDEC study results will be the basis of a new table that will most likely replace the 85 CIDA (Commissioners Individual Disability A table) prescribed by the NAIC for statutory minimum active life reserves. The 85 CIDA was based on industry experience from the late 1970s to the early 1980s. The IDEC study will be used to develop new industry valuation tables for calculating statutory minimum DI reserves.

The IDEC results show that claim incidence as measured against the 85 CIDA table increased 10% from 1993 and 1994, reflecting the deterioration in physician claims that many companies experienced at that time.

However, beginning in 1995, claim incidence began to show consistent improvement, dropping below 75% of 85 CIDA by 1999. The industry had tightened its products, pricing and underwriting since the mid-1990s. In California and Florida, claim incidence were 123% of 85 CIDA incidence, compared with 87% for all other states combined.

This is the first industry validation of the higher claim experience in these states that individual companies have observed for a number of years.

Claim termination experience was much more stable during the 1990s, measuring about 60-65% of 85 CIDA termination rates overall. However, this experience varied considerably depending upon how long claimants remained disabled. In the first year of disablement, claim termination rates were 40-60% of 85 CIDA.

Ten DI carriers contributed data for this study, representing over 80% of the industry. The database consists of 4.6 million policies and 330,000 claims. □