

2024  
**SUPPLEMENTAL  
HEALTH, DI & LTC  
CONFERENCE**

The Winning  
Trifecta

**Applying Lessons from  
International DI Product  
to the U.S. Market**





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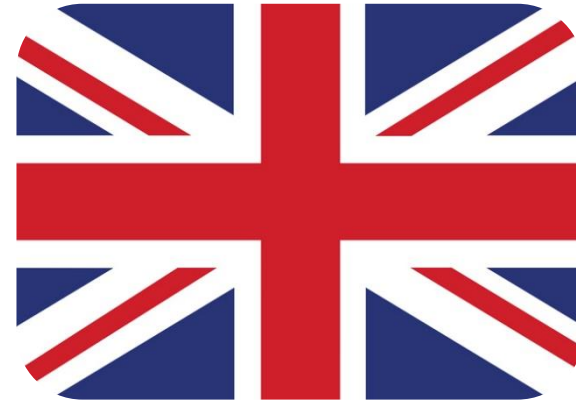
## Applying Lessons From International DI Products to the US

This session will speak to the international disability marketplace and lessons learned that can be applied to the U.S. market that we haven't already experienced

# International DI – Sample Countries' Markets



South Africa



United Kingdom



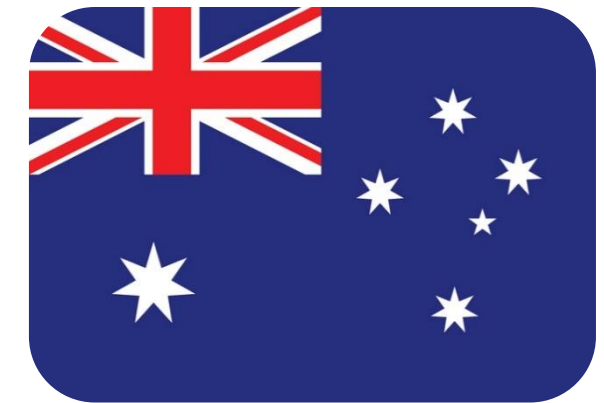
The Netherlands



Germany



Canada



Australia



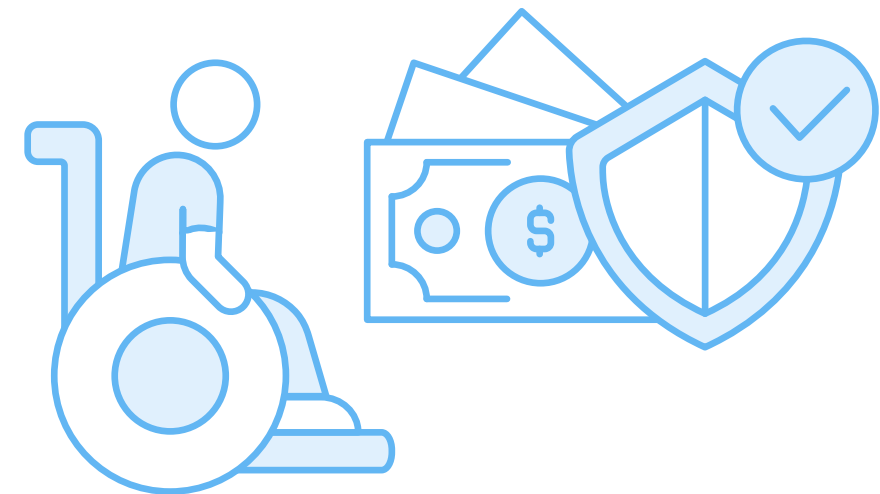
# South Africa



# South Africa – Disability Income Market

- **Market is mature and innovative but remains challenging**
- **Group & Individual Product options available**
  - Government provides limited coverage with very low benefits (<\$200/month) increasing need for private (group) plans
- **Stacking of coverages is rare – Group pays first, & with offsets, up to 100% replacement ratio**
  - Benefits from ID plan might not have to be paid out resulting in phantom coverage
  - Individual STD coverage occasionally sold to employees to cover Group DI “deferment period (EP)”, usually 6 months

- **Profitability challenges have taken its toll due to high unemployment & labor market instability leading to M&N claims that evolve into physical claims**
  - Most in labor force work multiple jobs with different occs and duties
    - ➔ Hard to price & underwrite when these differ from original underlying policy



# South Africa – Individual DI

**IDI Sold To  
Self-employed Only**

Employed individuals seldom take out individual except to cover “deferment period”

**Benefits Can Reach Up  
To 100% Replacement**

75% of gross income is more common to avoid over-insurance due to lack of a taxable benefit

**Medical Underwriting  
Is Performed**

different practices are used by each carrier

**Occupational  
Underwriting**

Is key

**Unique  
Benefits**

- Lifetime benefits are offered, but shift to more ADL def of dis after retirement age
- Specified injury coverage (e.g. fractures) are offered



# South Africa – IDI Occupational Underwriting

## Challenges

Individuals working multiple jobs & most likely with different (& higher risk) occupation than originally priced/underwritten

## Today's Application Question

“What is your share of administrative, physical, travel & supervision duties? Applies to ID only”

For example: someone with 95% administrative duties & 5% physical work cannot file claim for physical disability

Policyholder obliged to inform insurer of material changes in occupational duties, travel risk, hazardous pursuits –  
**Claim denied/coverage rescinded**

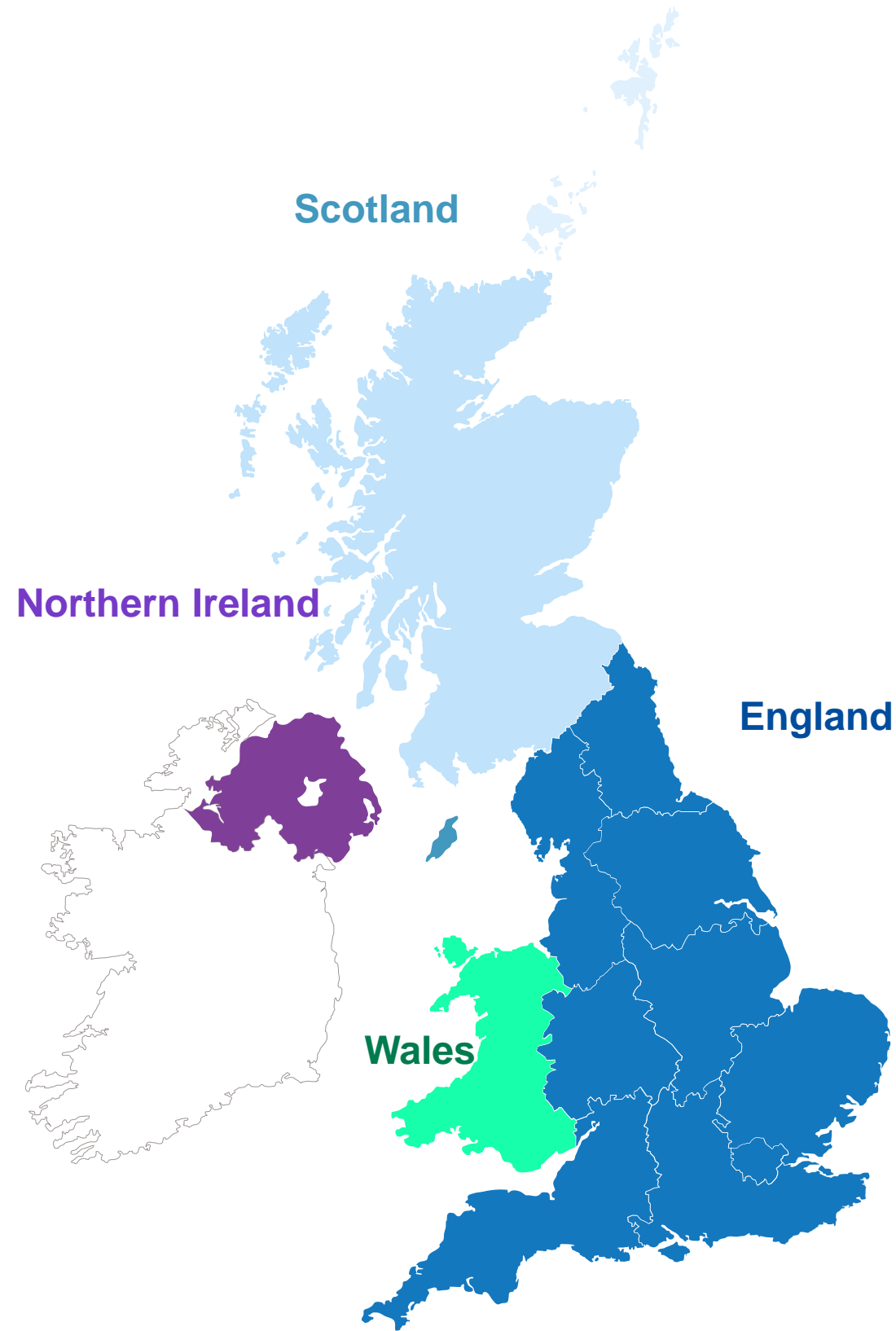
## Past Issues

“Director”/“Business Owner” Occ descriptions very vague, actual job specified at claims stage different from application

Measure taken - Introduction of a business owner questionnaire



# United Kingdom



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# United Kingdom – Disability Income Market

**Group DI market**

share is significantly larger than IDI

**Nearly 75% of the DI market premium is with 5 carriers**

Due to the specialized nature of the risk management expertise needed

**Growth & profitability in the market**

has fluctuated over the years with consolidation, competition, product complexity, and plan changes

**Replacement ratio after tax an issue even though policies are limited to 60-65% pre-dis earnings**

Policyholder can end up with close to 100% on a net basis: different taxes for different income groups, replacement ratio on net income too complicated  
Def of Pre-dis earnings the most liberal of those in this review (includes car allowances, lost pension contributions, company dividends, etc.)

**Unique Benefits**

Specified injury coverage (e.g., fractures) are offered

# United Kingdom – Individual DI

**Individual Market is  
challenging but changing**

**Traditional IDI for higher wage-  
earning, white-collar workers sold  
as life insurance riders**

**ID products offered for manual  
workers/homemakers**

- Product was not a high priority (Life & CI) until after pandemic – Perceived need for coverage is now expanding
- Distribution targeting individuals with high-risk hobbies – Exclusions introduced recently
- Pre-Brexit challenges with Medical Underwriting (No general practitioner (GP), no med records)
- Marketshare for IDI Long-term & Short-term plans are split 50/50
  
- Modules (riders) such as fracture coverage offered
- Level premiums (issue age rates) / Non-can (Guaranteed)
  
- No differentiation by occupation but benefit eligibility depend on certain expanded ADL list

# United Kingdom - Challenges

## Market Challenges

### General Practitioner (GP) Registration

Before Brexit, foreigners moving to the UK with no GP registration and no medical history in the UK  
*(Distribution channel focused on Eastern-Europeans – Romania, Bulgaria, etc.)*

- No ability to check misrepresentation or non-disclosure in application
- Measure taken: two-year doctor's registration history required

### Hazardous Pursuits

Distributors focused on blue collar workers doing amateur (hobby) sports (rugby, low league football) or hazardous sports (motocross, downhill mountain biking, etc.)

- Injured more frequently
- Measure taken - More exclusions added to policy and application questions expanded

## Replacement Ratio An Issue After Tax

Policyholder can end up with close to 100% on a net basis: different taxes for different income groups, replacement ratio on net income too complicated to admin



# The Netherlands



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# The Netherlands – State vs. Group vs. DI

## The Netherlands have provided various forms of state DI coverage since the 1960's and has continued to evolve since the 1980's <sup>(1)</sup>

- State offerings continue to change due to strain from old very liberal coverages
  - Multiple state plan options depending on severity of disability (sickness, working capacity, income loss, etc.)
- Mandated Employer coverage for the first two years with required retention, rehab & accommodation services for disabled employees (Gatekeeper Protocol) <sup>(1)</sup>
  - Partially disabled employees must participate in the ER services or risk losing benefits.
  - Cost is covered by the ER plus pays an experience rated contribution up to 10 years of benefits to the state for their partially or temporary disabled EEs (PLUS a uniform tax for the permanently disabled state plan)

## State Claims Adjusters make final claim eligibility decision

ER's & carriers must follow, leading to delays in reporting, decisions, etc. which creates reserving and pricing challenges

1) *Disability Insurance in the Netherlands: A Blueprint for U.S. Reform?* | Center on Budget and Policy Priorities (cbpp.org)

2) *Disability insurance for self-employed professionals* | Business.gov.nl

# The Netherlands – State vs. Group vs. DI

## Employers can opt out of the state plan if they purchase self-funded private insurance

- ER's can offer Group Supplemental DI option offered on top of State plans



## Hypothetical consequence – Unemployment of disabled employees has risen since these state mandated plans have been implemented<sup>(1)</sup>

- Employers become reluctant to hire disabled individuals due to the high cost of retention and rehab services.



## Individual DI only sold to self-employed – No state coverage

- IDI will become mandatory for self-employed in 2027



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# Germany





# Germany – Individual DI Market

## Stable IDI Market

**Excellent IDI policy ownership  
penetration on full-time workers  
(25%+)**

**No Group LTD offered through  
employer**

- Reasonable replacement ratios
- Stable experience.
- No “own occ”,but considering it.
- High product awareness
  - Gov’t provided disability pulled back from “own and suited” disability definition in 2011 to “any occ”
  - Consumer groups raise awareness of the product need
  - Sales focuses on all full-time workers and not just on high earners
  - Blue collar workers likely to purchase a less expensive “basic capabilities” policy
- No Group LTD through employer increases the need for private IDI

# Germany – Lessons for the United States

- **Awareness Of The Need For DI Coverage**
  - Can the U.S. use consumer advocacy groups to help broaden awareness?
  - Can the U.S. replicate Germany in selling smaller policies when enter workforce?
  - Social insurance pullback increases the need for private DI insurance
- **Reasonable Replacement Ratios**
  - Stable insurance market (similar to U.S. currently)
- **Unique Product Features**
  - EU Gender Discrimination Laws Prohibit use of gender in premiums (43% of policies now owned by females). Ownership rate by females increased due to unisex premium requirement

# Canada



## Structure of DI Market

- Similar to United States
- IDI to supplement GLTD
- GSI similar to U.S. with minimum participation %
- Social insurance similar to U.S. (low benefit; difficult to qualify)

## Morbidity Trend Pattern

- Morbidity increasing over past 10+ years
  - Musculoskeletal was #1 cause of claim, but not surpassed by MNDA claims
  - Mental Nervous claim incidence influenced by social factors (Quebec)

## Economic Cycles

- Local economic environment matters (oil company workers, fisheries, etc.)



# Canada – Lessons for the United States

## Mental Nervous Claims

- 1996 lawsuit ruled in favor of insured and against GLTD contract language limiting benefit period to 2 years for mental nervous claims
- All policies (IDI and GLTD) now have full benefit period for mental nervous claims

## Morbidity Trend Pattern Different Than U.S.

Increasing morbidity trend over past 20 years

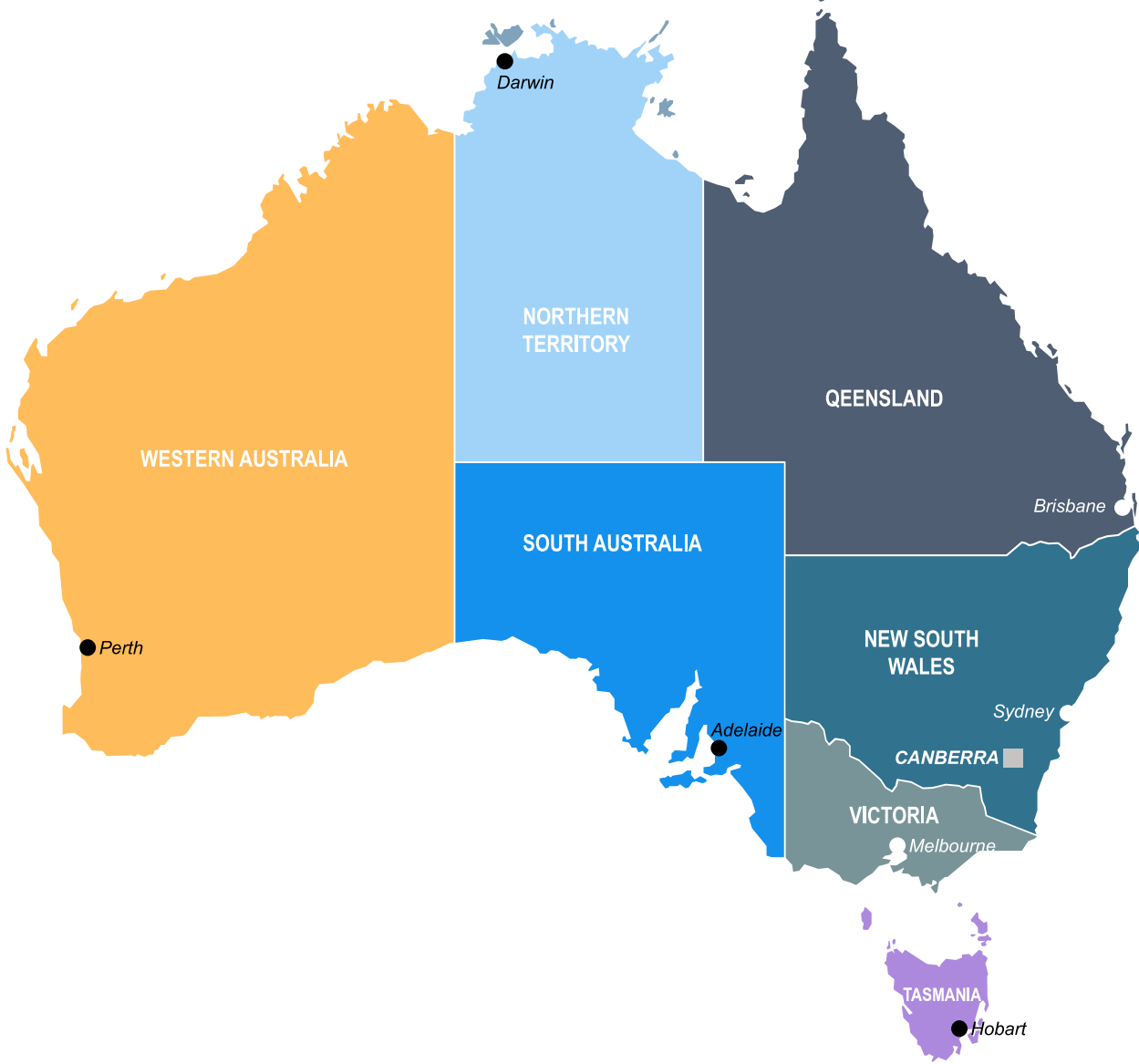
Now, #1 cause of claim is mental nervous conditions

(**30%** countrywide; **41%** in Quebec per 2019 CIA study as compared to **14%** in 1998 CIA termination study)

## Local Economic Cycles Impact Morbidity

- Oil workers in Alberta
- Fish workers in Eastern Canada

# Australia



## Structure of DI Market

- DI included as benefit to mandatory pension plan
- Very pro-consumer environment
- Both lump-sum and IDI policies offered

## Morbidity Trend Pattern

- High morbidity compared to premiums (significant losses to insurers)

## Other Factors

- Third party rating agencies and consumer organizations rank policies with the most liberal terms as the best
- “Product Arms Race” led to rich benefits and high replacement ratios
- Pressure to not deny DI claims due to concern over losing pension assets

# Australia – Lessons learned for the United States

## What Could Go Wrong Did Go Wrong

1. One chance at claim adjudication if a lump sum DI benefit
2. High market pressure to pay claims (even questionable ones)
3. Not enough claims staff overall combined with tighter expense management
4. Fewer financial advisors led to more price competition (impacts all products)
5. Attorneys focused on filing lawsuits over claim denials
6. Negative company press on a DI claim could adversely impact pension business
7. Regulator had been mandating certain product features (stopped in 2020)
8. Market slow to correct DI due to concerns about sales loss of other products



# Key Takeaways

Each countries DI market has evolved significantly from deeper & more liberal social plans than the US

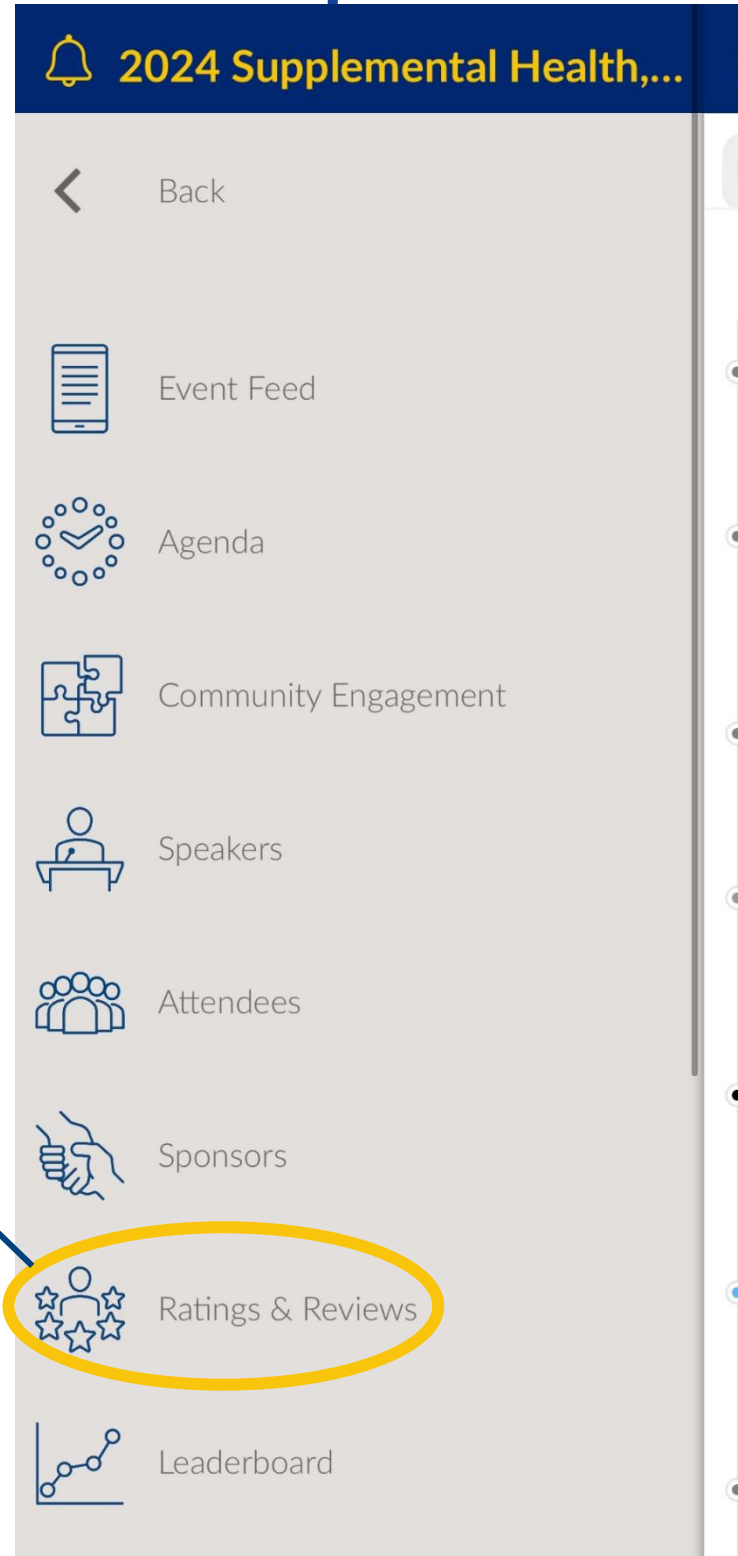
Mental Health experience has been a challenge with countries proactively implementing additional resources (public & private) to address

Countries with more social programs having hard time pulling back and helping private marketplace takeover/supplement

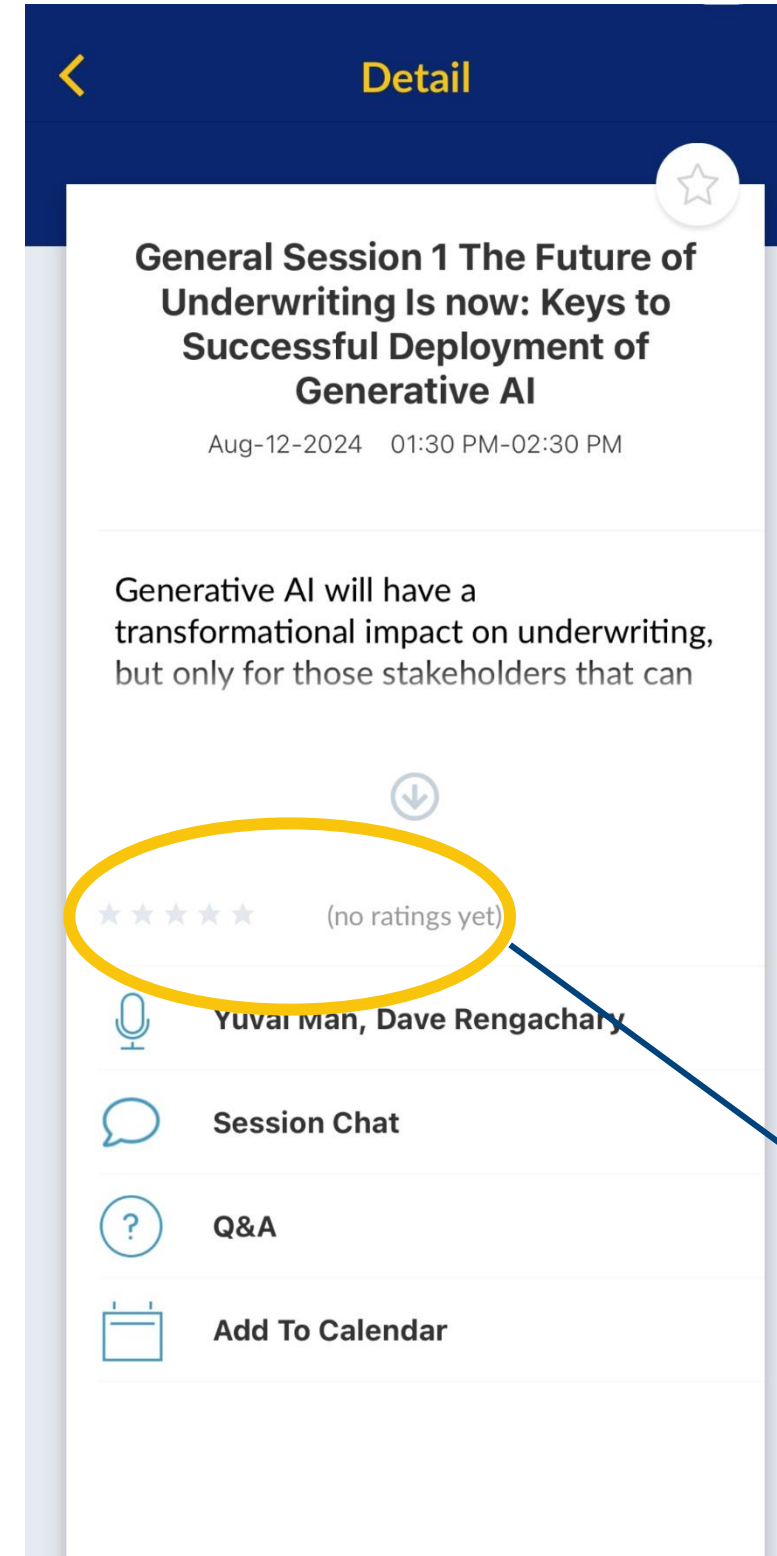
Other

# We Want to Hear From You. Leave a Rating & Review.

## Module Option



## Agenda Option



# Thank You

