



Short Term Disability Insurance Products: Market and Pricing Overview

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Agenda

- Overview of short-term disability (STD) products
- Traditional STD
 - Common plan design attributes
 - 2015 Group Disability Market and Profit Surveys
 - Underwriting and pricing methods
- Worksite disability
 - Common plan design attributes
 - Market overview
 - Underwriting and pricing methods
- Questions

Overview of Short Term Disability Products

TRADITIONAL GROUP STD

- Employer or employee-paid premiums
- Optionally renewable
- Premium rates guaranteed 2 – 3 years
 - Employer-paid – composite rate
 - Employee-paid – age-banded rates
- No medical underwriting
 - Minimum participation requirements for voluntary products
- Plan designs can be customized to employer's satisfaction

WORKSITE DISABILITY

- Premiums are paid by employees
- Guaranteed renewable
- Issue age premium rates
 - Unisex
 - Typically vary by industry
- Guaranteed standard issue underwriting
 - Simplified medical underwriting if participation is low
- Simplified plan designs

Traditional STD – Common Plan Provisions

- Benefits Begin: Within 30 days of disability date
7 and 14-day elimination period provisions are most common
- Benefits End: 90 – 180 days after date of disability
Typically structured to align with LTD elimination period
- Benefits: Typically linked to salary
e.g. 60% of pre-disability earnings up to a predetermined maximum
- Benefits are integrated with benefits from other sources
e.g. Social Security Disability Income, Workers' Comp

2015 Premiums - Traditional STD

Milliman Group Disability Market Survey Premiums Reported in 2015 (\$ millions)					
Company	New Sales	Inforce	Company	New Sales	Inforce
A	\$119.7	\$628.9	N	\$14.2	\$151.3
B	\$115.6	\$445.3	O	\$9.9	\$53.9
C	\$79.0	\$382.9	P	\$9.6	\$37.8
D	\$69.5	\$385.3	Q	\$9.3	\$59.3
E	\$55.3	\$249.8	R	\$6.3	\$47.0
F	\$55.2	\$262.4	S	\$5.9	\$15.0
G	\$55.2	\$282.3	T	\$5.8	\$17.6
H	\$45.4	\$197.6	U	\$5.0	\$21.5
I	\$40.8	\$178.8	V	\$3.4	\$10.6
J	\$40.0	\$270.7	W	\$1.6	\$4.2
K	\$27.8	\$269.3	X	\$0.5	\$6.1
L	\$21.4	\$182.8	Y	\$0.3	\$4.0
M	\$18.6	\$78.9	Z	\$0.0	\$0.1
			Total	\$743.5	\$3,815.0

2015 Business Analysis – Traditional STD

Milliman Group Disability Market Survey STD Business Analysis					
Company	Average Annual Premium Per Life	Average Lives Per Case	Company	Average Annual Premium Per Life	Average Lives Per Case
J	\$208	822	P	\$272	68
W	\$276	92	N	\$292	234
O	\$155	104	I	n/a	n/a
M	\$280	46	E	\$224	45
B	\$214	301	K	\$197	118
Q	\$227	43	S	\$212	236
F	\$161	35	X	\$508	118
D	\$189	45	Y	\$176	850
V	\$314	25	T	\$181	37
L	\$229	1,178	A	\$243	94
C	\$257	89	R	\$221	n/a
G	\$200	118	U	\$297	501
H	\$226	92	Z	\$283	39
			Market Average	\$216	83

2015 Lapse Rates – Traditional STD

Milliman Group Disability Market Survey STD Lapse Rates					
Company	2015 Lapse Rates		Company	2015 Lapse Rates	
	Cases	Premium		Cases	Premium
A	12%	13%	P	12%	15%
B	11%	12%	Q	10%	8%
C	22%	25%	R	n/a	20%
E	3%	10%	S	13%	12%
F	n/a	2%	T	22%	28%
G	23%	7%	U	21%	15%
H	14%	16%	W	21%	39%
J	23%	9%	X	6%	5%
L	5%	8%	Y	4%	0%
N	24%	22%	Z	13%	27%
O	19%	14%	Market Average	14%	13%

Employee Paid Business – Traditional STD

Milliman Group Disability Market Survey Employee Paid STD					
Company	2015 New Sales	2015 Inforce	Company	2015 New Sales	2015 Inforce
A	32%	34%	Q	43%	35%
C	46%	41%	R	46%	27%
D	33%	35%	S	28%	37%
F	31%	27%	T	29%	29%
G	29%	40%	U	42%	48%
H	45%	42%	V	60%	27%
K	45%	34%	W	94%	94%
M	52%	42%	X	100%	98%
N	26%	16%	Y	0%	0%
O	36%	41%	Z	0%	0%
P	49%	46%	Market Average	37%	35%

Retention and Target Loss Ratios – Traditional STD

Most companies develop retention loads as a percentage of premium, and then develop gross premiums by using target loss ratios based on the retention ratios:

Milliman Group Disability Profit Survey Retention Ratios as a Percent of Premium	
Retention Component	Percent of Premium
General Expenses	21%
Commissions	8%
Premium Tax	2%
Total	31%

Target Loss Ratio = 100% - Retention Ratio
= Maximum percentage of premium available to pay benefits and meet profit objectives

e.g. TLR = 100% - 31% = 69%

Notes:

- General expenses and commissions often vary by case size
 - partly due to impact of spreading fixed expenses over a greater premium base for larger sized cases...
 - partly to the fact that commission rates generally decrease as premiums increase
- Sample graded commission schedule:

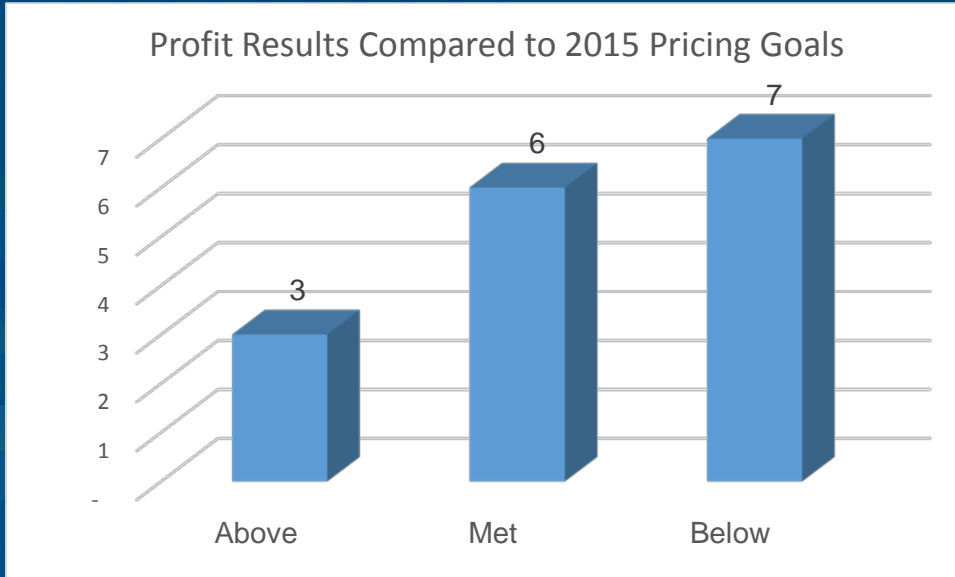
Sample STD Commission Schedule	
Annualized Premium	Commission %
< \$15,000	15.0%
\$15,000 - \$24,999	10.0%
\$25,000 - \$49,999	5.0%
\$50,000+	0.5%

Pricing Methods – Traditional STD

Experience rating methods are commonly used for pricing traditional STD products:

- Quote rate = $(1 - Z) \times M + Z \times E$
 - M = manual rate, based on expected claim costs corresponding to industry, geographic area, plan design features, and demographic factors.
 - E = experience rate, based on the historical performance of the case being rated
 - Z = Credibility weight assigned to historical experience
- Most insurers consider STD experience fully credible at 400 – 750 life years of exposure.
- Credibility formulas often vary by elimination period. Full credibility thresholds are lower for cases with shorter elimination periods, with all else being equal

STD Profit Results Compared to Goals

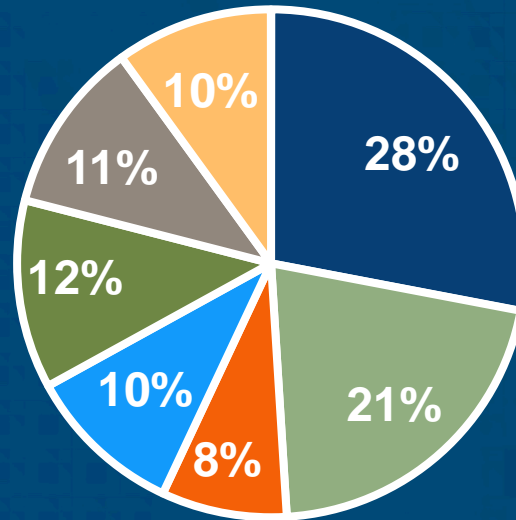


- 3 companies indicated that their STD profits in 2015 exceeded their pricing goals
- 6 companies said that their STD profits in 2015 matched their pricing goals
- 7 companies indicated that their STD profits in 2015 were below pricing their target margins

Worksite Products - Market Overview

Worksite Disability Products Were
21% of Worksite Sales in 2013

Worksite 2013 Mix of
Sales by Product



- Life
- Disability
- HI/Supp Med
- Cancer/CI
- Accident
- Dental
- Other

Source: Eastbridge Consulting

Worksite Disability Markets

Case Size	Industry	Employee Benefits	Successful Product
Fewer than 750 EE's	Blue/Gray collar	No other disability program	Worksite
Fewer than 750 EE's	White collar	No other disability program	Traditional STD
Fewer than 750 EE's	Blue/Gray collar	LTD program	Worksite or Trad. STD
Fewer than 750 EE's	White collar	LTD program	Traditional STD
750 EE's or more	Blue/Gray collar	No other disability program	Worksite or Trad. STD
750 EE's or more	White collar	No other disability program	Traditional STD
750 EE's or more	Blue/Gray collar	LTD program	Traditional STD
750 EE's or more	White collar	LTD program	Traditional STD

- Traditional STD products are successful in large case market segment because of the flexibility in pricing these products using experience rating methods
- Because the predominant markets for Worksite and Traditional STD products vary depending on many different factors, some companies have developed both Traditional STD and Worksite product offerings.

Worksite Disability – Common Plan Provisions

Benefits Begin:	From 7 to 180 days after the disability date 7 and 14-day elimination period provisions are most common
Benefits End:	From 3 to 24 months after benefits are paid Short benefit periods help minimize risk
Basic Benefits:	Typically flat monthly benefit amount Benefits are usually not integrated with benefits from other sources Often exclude coverage for mental disorders
Optional Benefits:	Very few riders or optional benefits

Worksite Disability – Pricing and Underwriting Methods

Pricing

- Unisex premiums
- Issue age premiums
- No tobacco rating
- Published rate tables rather than group rating formula
- No experience rating

Underwriting

- Participation rate $\geq 20\%$
 - Guaranteed Standard Issue
 - No medical underwriting
 - 12 month pre-existing condition exclusion
- Participation Rate $< 20\%$
 - Simplified medical underwriting
 - Short health questionnaire on application
 - Accept or reject decision – no modified offers
 - Minimal use of medical records or exams

Worksite Disability Risk Factors

- Low participation rates from ineffective enrollments
- Skewed sales distribution by age, gender, or industry
- Excessive lapse rates and expense pressure
- Focus on large cases (500+ participating lives), which are best sold with group policies and experience rating
- Use of guaranteed standard issue underwriting with low participation rates

Illustrative Lapse Rates



Worksite Disability – Pricing Considerations

- Generally favorable morbidity experience
 - Diffuse, short-term risks
 - High maternity claims
 - Potential over-insurance issues
 - Takeover groups and on-job coverage pose challenges
- Many worksite disability products earn a return on capital of 12-18%

Illustrative Margin

Component	% of Premium
Loss Ratio	55%
Commissions	20%
Expenses	15%
Pre-Tax Profit	10%

Worksite Disability – Contracts and Compliance

- Most worksite carriers use an individual policy form
- Forms and rates must be filed in all states
- Minimum loss ratio requirements of 50-55% in most states
- State variations often required for rates and forms