

Disability Dilemma: Group or Individual Coverage, or Both? **By Allan Checkoway, RHU**

As recently as ten years ago, there were over 20 individual disability insurers competing with each other for expanding market share. All were offering the most liberal forms of long term disability protection. The most popular definitions of long term disability covered insureds in their own specific occupation to age 65. There were no policy restrictions for mental and nervous disorders and most professions were fully insurable without restrictions.

Then, in the early 1990's, there was an almost overnight increase in claims without precedent. Part of the increasing morbidity experience was a natural consequence of medical advances that transformed terminal illness into merely debilitating conditions. Other factors affecting the trend of increasing disability claims were:

Occupation [certain "white collar" occupational groups (attorneys, physicians, dentists, etc.) experienced adverse claims experience]; **Geographical** [certain states experience higher claims ratios due to social and economic factors (California, Florida, etc.)];

New causes of Disability [e.g., AIDS, Chronic Fatigue Syndrome, Carpel Tunnel Syndrome, Fibromyalgia]; Legislation [the Americans with Disabilities Act]

Modern Social Influences [e.g., drugs, alcohol, personality disorder (mental/nervous) claims].

A significant industry study produced another important trend. The data was developed "anonymously" as the leading disability insurers shared claims information with each other.

Mental, nervous and neurological disorders represented less than 10 percent of the number of new claims presented. However, in terms of costs, the combined psychological, neurological, mental and nervous disorder claims represented almost one third of the total dollars paid out for LTD claims! Again, almost **one third of the total dollars** paid out were for mental and nervous disorder claims which represented **less than 10 percent of the number of new claims** presented!!

Mental/Nervous Disorder Claims = 1/3 of Total LTD Claims Dollars!
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Insurers quickly learned that liberal definitions of total disability and high amounts of indemnity, with lifetime benefit periods, could no longer be offered at guaranteed level premium rates to age 65. As the financial statements of Disability insurers reported rapidly deteriorating loss ratios, the writing was on the wall in very large print.

Today, there are only a few insurers left that insure an individual in their own specific occupation to age 65. The new generation of disability contracts mostly insure income, not occupation. With some insurers, 'guaranteed renewable' coverage is a new standard as the insurer can't cancel coverage but can increase the premium rate on a class basis. Some companies have begun to offer a mental disorder restriction, limiting long-term mental/nervous disorder benefits. What impact does this have on Corporate America?

It's been estimated that less than ten percent of corporate executives today own a personal individual disability policy. While many executives are completely uninsured against the risk of long term disability, others are covered by group Long Term Disability contracts at their place of business. Unfortunately, there appears to be considerable misunderstanding, both by consumers and occasionally by their insurance advisors; of the contractual differences between group and individual 'non can' disability insurance.

GROUP/INDIVIDUAL COV'G. DIFFERENCES

'Non Can' policy forms typically offer long term own occupation protection. If an insured becomes disabled and is medically unable to return to his regular occupation; income from a new, less demanding job would not offset his total disability benefits. Group LTD typically offers own occupation benefits for two years on most employees, with management covered in their own occupation to age 65. The term long term own occupation income protection is commonly used. This implies that income from another occupation will be used to offset total disability benefits.

Group LTD coverage can be canceled at renewal time, but group insurers are less likely to cancel coverage as they can increase their premium rates. The term 'non can' implies a guaranteed level premium rate to age 65. Group LTD benefits are offset by Social Security; Workers Compensation, state cash sickness and other employer sponsored benefits. Individual 'non can' policies are usually not offset with other benefits.

The norm in group LTD programs is to provide mental and nervous disorder protection for the first two years of benefits. Then, to continue to receive benefits, the claimant must be institutionalized (confined to a hospital that specializes in the treatment of mental/nervous disorders). [Note: Some individual disability insurers have now begun to offer coverage with mental/nervous disorder restrictions, similar to group LTD].

'Non can' disability coverage is certainly much more expensive than group LTD and there are medical insurability requirements. The premium differential reflects the variance in benefits. Group LTD is a much less expensive way to insure a large group of people. The guaranteed issue feature is clearly advantageous when compared to the underwriting requirements of individual 'non can' coverage. Group LTD does an excellent job of insuring a large number of people. It focuses on the overall needs of the employer. 'Non can' focuses on the needs of the individual. Group LTD has the edge in cost and ease of issuance. 'Non can' clearly has the edge in contractual features. Each has its place and our purpose is to guide you in your decision making process.

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Allan Checkoway,**

RHU