

# Guaranteed Standard Issue Individual DI: PROFITABILITY THROUGH PARTICIPATION

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Guaranteed standard issue programs are becoming increasingly common in the individual disability income insurance market. According to Milliman's 4th Annual Survey of the U.S. Individual Disability Income Insurance Market, 15% of individual disability insurance sales in 2009 were issued through a GSI program, up from 11% in 2004.

In a GSI program, the insurance carrier agrees to issue individual disability income policies, without substandard ratings or exclusions, to a group of employees as long as they have been actively at work full-time for a specified period of time. Traditional medical underwriting screens such as detailed medical questionnaires, blood and urine tests and attending physician statements are not utilized. Financial underwriting is based on an employer-provided census rather than on tax returns or other financial documentation.

Why would carriers be willing to offer coverage on a GSI basis? And what are the important drivers of profitability for these programs? The answer to both of these questions is related to the anti-selection that is inherent in individual insurance products and the practices that can be followed to minimize it.

No matter how many underwriting screens are required, an individual insurance applicant knows more about his or her own health status than the insuring company can ever determine. This knowledge can drive the insurance purchase decision, with those who may have a health issue being more likely to buy



insurance than those who have no issues. Offering coverage through a GSI program where the employer is involved in the insurance purchase decision, particularly as the premium payor but even simply as a sponsor of the coverage, helps to reduce the anti-selection that can occur when the potential insured is the primary decision maker.

Evidence of this reduced anti-selection can be demonstrated by comparing the types of claims that occur in multi-life blocks of business, where an employer is part of the purchase decision, with those in blocks of individually sold policies. Subjective claims such as disabilities due to unspecified pain or psychiatric causes occur with greater frequency in the individually sold block than with multi-life policies. Also, the claim costs in early policy durations are higher for individually sold policies, indicating that some anti-selection is occurring in the individual block.

There are two primary categories of GSI programs. The first includes cases where the premiums are fully paid by the employer and all employees in the defined eligible group are insured (i.e., 100% participation). Carriers find the morbidity results on this business to be at least as good as (for some carriers, measurably better than) their medically underwritten business. The better morbidity experience is due in large part to the purchase decision being made by the employer rather than the individual applicants, thereby reducing the impact of anti-selection. Having 100% participation of the eligible group also helps to offset the potential extra morbidity that can result from insuring unhealthy participants who would be declined or issued on a substandard basis if they were medically underwritten.

The second category of GSI is where the employees choose whether or not to participate in the program and pay the premiums themselves. (A third category where both the employer and the employees pay part of the premium is much less common.) Having an employer offer the opportunity to purchase individual disability income insurance dampens the anti-selection dynamic, although not to the same degree as in employer-paid situations. Most carriers find morbidity experience on voluntary GSI to be similar to

or somewhat better than their medically underwritten business, although one carrier's voluntary GSI block has had worse morbidity than the underwritten block.

Offering GSI on voluntary cases is certainly riskier than guaranteeing coverage in 100% participation employer-paid situations. For voluntary cases, attaining the target level of employee participation is crucial in order to spread the excess morbidity of the unhealthy people who are likely to purchase coverage over a large enough group of healthy lives to maintain profitability standards. Carriers' target participation levels typically vary based on the number of eligible employees. In today's market, the minimum level of participation targeted by carriers generally range from 10% to 30% for the cases with thousands of eligible employees, to 30% to 75% for cases with fewer than 100 eligible employees.

There are many factors that influence employee participation rates. Consider the following two scenarios:

Company A	Company B
Senior management is very supportive of implementing a voluntary GSI program. They are willing to actively endorse the program and allow the producer and/or carrier to contact each eligible employee.	The HR director wants to offer a voluntary GSI program, but cannot provide any resources to support it. The director will list the program on the company's intranet as one of many employee benefits. No direct communication is allowed with the eligible employees except for employee-initiated contact.
The group long-term disability benefits are taxable, with a relatively low maximum benefit amount covering only base salary.	The group long-term disability program has a high maximum benefit and offers two buy-up options that let employees cover a greater percentage of income than the base plan.
The producer or carrier provides enrollment materials that explain the program benefits and offers a simple enrollment process.	The producer has never enrolled a multi-life individual disability income insurance program.

Clearly, the level of employee participation will be higher at Company A than at Company B. The two examples touch on some of the most important factors that influence participation levels:

- Strong employer commitment – The employer's support is a key requirement for the success of any voluntary GSI program. An announcement of the program showing senior management's endorsement will help to get the attention of eligible employees. Participation levels will be higher if the employer allows the enroller to communicate directly with eligible employees. This means e-mails, telephone calls and/or face-to-face meetings at multiple points during the enrollment process.
- Group long-term disability benefit plan design - A group LTD plan with a low maximum benefit relative to income levels, taxable benefits, uncovered bonus or incentive compensation and no buy-up options will lead to higher participation in a voluntary GSI program.
- Enrollment process - An enrollment process that is easy and convenient for employees to follow will improve participation levels. Enrollment materials should explain the need for disability insurance and

outline the benefits of the GSI program. Internet-based and paper enrollment packages that include short-form applications and clear enrollment instructions are key components of a successful program.

The structure of the voluntary GSI program can also greatly influence participation levels. For example, the definition of the eligible group is important. An eligible group made up of employees with incomes high enough to need additional disability insurance and who are able to afford the coverage will have much higher participation than a group of lower-income employees. Product features offered in the program impact the cost to employees and also influence participation levels. Limiting the enrollment period to a matter of weeks rather than months encourages employees to enroll quickly.

As history has shown, GSI individual disability income insurance can be profitable as long as steps are taken to ensure that target participation levels are met. **HIU**

## Where in the World is HIU?



Texas AHU members Laura Firestone, Luann Yarberry, Krista Zimpel and Misty Baker at the Hotter N Hell Bike Ride in Wichita Falls.

### INDUSTRY INNOVATIONS



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ers that are loaded on the system. All elections are tied to the central data base. Finally, the carrier receives an electronic enrollment file for policy issue.

HighLowOrNo.com, combined with AutoApp, gives benefit brokers and consultants total control of the enrollment process and removes the need for enrollment firms or carrier agents. It is a safe and turnkey enrollment platform, which eliminates the risk of introducing a third party. Meanwhile, the system doesn't require manual enrollment labor and therefore reduces the expense or high commission split brokers often find with traditional enrollment models. Finally, HighLowOrNo.com can overcome the logistical challenges of an onsite enrollment and again provides a solution when a one-on-one isn't possible.

"With the High, Low or No enrollment platform, everybody gets what they want—the broker gets more revenue and control, the employee gets a simple enrollment process, the employer gets no disruption at the worksite and the carrier gets an electronic enrollment file," said Jerry Roberts, area president with Gallagher Benefit Services.

According to Smith, HighLowOrNo.com was created as a complement to the original AutoApp system, but it can also serve as the lead enrollment tool for businesses preferring to present employees with an online tool first. Both systems walk employees through a simple process where they are instructed to select one of three enrollment options: High, Low or No (accept or decline coverage).

"The name of our new online system, HighLowOrNo.com, reflects how simple we believe voluntary benefits enrollment should be," continued Smith. "These are good insurance products that employee's desire, and our enrollment platforms provide easy ways to enroll and a hassle-free enrollment process for the employer. Plus, participation percentages rival, and often surpass, one-on-one enrollments"

Additionally, HighLowOrNo.com is a bolt on solution that can be hyperlinked to any core benefit online enrollment system. VBA's systems are not tied to any ancillary service, like core benefit enrollment or dependent audits.

To learn more, review case studies or to schedule a webinar, visit [www.voluntarybenefits.com](http://www.voluntarybenefits.com). **HIU**