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INTERIM REPORT OF THE DISABILITY COMMITTEE
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Abstract: In 1995-98:

- *Claim costs continue to show further deterioration .*
- *Claim durations continue to increase.*
- *Changes in incidence rates were relatively minor.*
- *Claims costs have deteriorated between 5% to 10% per annum relative to IAD89-93.*

Key Words: Disability Insurance, Experience Investigation

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1. INTRODUCTION

The Committee's last report was an interim report issued in 1998, covering the period 1993-96.

This interim report provides the profession with updated information on individual disability income claims experience in 1995-1998.

This investigation involves in excess of 1.15 million years of exposure and 30,477 new claims.

The disability experience under investigation is based on data contributed by Australian life offices. The basis of comparisons is the Australian standard table IAD89-93. This interim report also makes comparisons with the previous interim report issued in 1998.

Due care and judgement are required in reaching conclusions based on this report or in applying the results. Factors to be considered include:

- changes in the market share of contributing offices,
- variations in experience between individual contributors,
- variations in experience between the years of the investigation, and
- economic conditions.

2. EXECUTIVE SUMMARY

The broad conclusions presented in this report are that:

- Claim costs have increased significantly from the 1998 Interim Report for both males and females and across all occupational classes as a result of the significant change in claim duration.
 - Incidence rate changes over time have been relatively minor.
 - Changes between investigation periods have not been uniform over time and between segments.
 - Claims costs have deterioration of between 5% to 10% per annum relative to IAD89-93.
 - There continues to be significant differences in claim costs between companies.
 - Females continue to experience higher claims incidence than males.
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3. CHANGE IN CLAIM COST

The following tables show the change in experience from 1993-96 to 1995-98, using changes in actual to expected ratios based on IAD89-93. Claim costs have been calculated ignoring interest.

To allow a greater focus on changes in claim duration, the table shows the change in claim duration and claim cost for the first 1, 2 and 3 years of the benefit period.

If an occupational class shows monotonic increases in all three periods, this suggests an increase in duration in each of the first three years of benefits. On the other hand, if the change in all three periods is similar, this suggests an increase mainly in the first year.

**Weighted Average Change in Experience From 1993-96 to 1995-98
2 Week Deferment Period**

	Incidence	Claim Duration			Claim Cost		
		1 st yr	1 st 2 yrs	1 st 3 yrs	1 st yr	1 st 2 yrs	1 st 3 yrs
Male A	-	+16%	+24%	+31%	+16%	+24%	+30%
Male B	+6%	+16%	+18%	+21%	+24%	+27%	+30%
Male C	+3%	+5%	+10%	+13%	+8%	+13%	+16%
Male D	-6%	+10%	+15%	+18%	+5%	+10%	+12%
Female A	-7%	+7%	+12%	+14%	+0%	+4%	+9%
Female B	+10%	+12%	+11%	+13%	+34%	+34%	+36%
Female C	-8%	+22%	+34%	+36%	+13%	+24%	+26%
Female D	-4%	+32%	+39%	+42%	+38%	+49%	+53%

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**Weighted Average Change in Experience From 1993-96 to 1995-98
1 Month Deferment Period**

	Incidence	Claim Duration			Claim Cost		
		1 st yr	1 st 2 yrs	1 st 3 yrs	1 st yr	1 st 2 yrs	1 st 3 yrs
Male A	+1%	+13%	+15%	+19%	+14%	+17%	+21%
Male B	+5%	+26%	+32%	+39%	+35%	+42%	+48%
Male C	+10%	+8%	+12%	+15%	+21%	+25%	+30%
Male D	+6%	-1%	+2%	+4%	+6%	+9%	+12%
Female A	+3%	+23%	+29%	+31%	+27%	+34%	+36%
Female B	+7%	+17%	+12%	+14%	+28%	+23%	+26%
Female C	-	+5%	+6%	+7%	+8%	+9%	+10%
Female D	+29%	+5%	-7%	-12%	+53%	+34%	+25%

There has been a significant increase in claim cost for all categories, mainly due to increases in claim durations.

Changes in incidence rates have been minor for both 2 week and 1 month deferment period business. There is some variation in incidence rates across occupation.

Incidence rates for Male Class A have remained stable since the last interim report. The incidence rates for other classes show no overall trend.

Note the percentages above represent the change over the 2 year period since the last interim report.

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4. VARIATION BY OCCUPATION CLASS AND SEX

The following table compares claim costs (for the first three years of benefit) with that expected on IAD89-93 by sex and occupation class. This approach focuses on the change in experience by occupation class since 1989-93.

Ratio of Claim Cost to IAD89-93 by Occupation Class - Males

	2 Week Deferment			1 Month Deferment		
	1995-98	1993-96	Change	1995-98	1993-96	Change
Class A	170%	130%	30%	151%	125%	21%
Class B	129%	99%	30%	205%	138%	48%
Class C	132%	114%	16%	140%	108%	30%
Class D	130%	116%	12%	152%	136%	12%

Ratio of Claim Cost to IAD89-93 by Occupation Class - Females

	2 Week Deferment			1 Month Deferment		
	1995-98	1993-96	Change	1995-98	1993-96	Change
Class A	147%	135%	9%	147%	108%	36%
Class B	155%	114%	36%	155%	123%	26%
Class C	151%	120%	26%	132%	120%	10%
Class D	188%	123%	53%	99%	79%	25%

These tables show that claim costs have not increased uniformly by occupation class and sex.

White collar males (Class A and B) show the highest overall deterioration.

Due to the smaller volume of female data for occupation classes B, C and D, care should be taken in drawing conclusions from this table.

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5. INCIDENCE RATES BY SEX

The following table compares the number of female claims with those expected if females experienced the same rates of incidence experienced by males.

Ratio of Female to Male Incidence Rates

	2 Weeks		No. of new Female Claims	1 Month		No. of new Female Claims
		()			()	
Class A	147%	(154%)	985	172%	(167%)	1520
Class B	120%	(114%)	168	146%	(143%)	224
Class C	100%	(109%)	296	90%	(97%)	296
Class D	94%	(91%)	107	84%	(69%)	77
Combined	128%	(132%)	1556	145%	(144%)	2117

(Figures in brackets relate to 1993-96)

There continues to be strong evidence that female incidence rates are significantly higher than those for males, particularly for occupation class A. As in previous reports, care is needed in interpreting the results for classes B, C and D as the volume of female claims is still small.

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The distribution of results by age should also be considered when drawing conclusions about female to male experience.

Central Quinquennial Age	Female Exposure	2 Weeks		1 Month	
22	3%	61%	(62%)	74%	(83%)
27	14%	95%	(108%)	121%	(125%)
32	19%	135%	(126%)	139%	(120%)
37	20%	133%	(143%)	149%	(157%)
42	19%	152%	(162%)	152%	(153%)
47	15%	143%	(149%)	169%	(167%)
52	8%	128%	(133%)	150%	(142%)
57	2%	76%	(87%)	141%	(152%)
62	0%	128%	(126%)	112%	(172%)
Combined	100%	128%	(132%)	146%	(144%)

(Figures in brackets relate to 1993-96)

This table shows the differential between males and female incidence rates is not uniform across age bands.

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6. VARIATION BY COMPANY

Claim experience was compared by company based on the following statistics:

- Ratio of actual claims to expected claims based on IAD 89-93
- Ratio of actual claim duration over the first three years of each claim to expected claim duration based on IAD 89-93
- Ratio of actual claim cost over three years to expected claim cost based on IAD 89-93

This approach differs from that used in previous years where the analysis was based on a comparison to the average company experience.

These ratios are shown in the table below in a random order (and in a different order than in previous reports). Please note that the average shown in this table is not weighted by company size and is thus not comparable to the industry total averages shown elsewhere.

Individual Company Experience Compared to IAD 89-93

Company	Claim Numbers	Claim Duration	Claim Cost
I	87%	120%	106%
II	99%	168%	160%
III	110%	110%	152%
IV	113%	228%	308%
V	97%	128%	139%
VI	100%	117%	120%
VII	78%	125%	95%
VIII	104%	146%	143%
IX	113%	132%	150%
X	114%	125%	134%
Average value	101%	140%	151%

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Standard deviation 12% 35% 59%

The variation by claim duration is clearly more significant than the variation by claim numbers. Such a significant level of variation was also apparent from the previous report.

Only one company had lower claims cost than IAD89-93. Four companies had lower incidence rates than IAD 89-93 incidence rates, all companies had longer average claim durations than IAD 89-93.

The table clearly shows that the variation from industry average can be very wide, with the heaviest claim cost being approximately 3.2 times the lightest.

Possible reasons for the differences in experience between companies include:

- underwriting controls,
- claims management,
- demographic mix,
- product design, and
- differences in occupation classifications.

It is important to note the necessity for consistency between pricing and experience. A high level of claims, properly allowed for in pricing, may be part of a wider business strategy.

This variation indicates that individual offices should not use the overall rate from the Australian experience without adjustment to reflect their own particular experience.

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7. VARIATION ACROSS INVESTIGATION PERIODS

This section of the report looks at the trend in the claims cost over the last 5 investigations that spanned 10 years to December 1998.

The tables below shows the average claim cost per \$1 monthly benefit for the first three years of benefit expressed as a percentage of IAD89-93. The tables show results separately for male occupation classes A and C and female occupation class A. The first table shows the results for a 2 week deferment period and the second for a 1 month deferment period.

2 Week deferment Period

Investigation	Male A	Male C	Female A
1989-1993	100%	100%	100%
1991-1994	120%	105%	125%
1992-1995	123%	109%	130%
1993-1996	130%	114%	135%
1995-1998	170%	132%	147%
Av Increase pa	10%	5%	7%

1 Month deferment Period

Investigation	Male A	Male C	Female A
1989-1993	100%	100%	100%
1991-1994	115%	104%	110%
1992-1995	126%	108%	118%
1993-1996	125%	108%	108%
1995-1998	151%	140%	147%
Av Increase pa	8%	6%	7%

These results show a steady increase in claims cost from the 1989-93 investigation up to 1995-1998 period. The trend in experience across the various investigations is illustrated by the following graphs

Graph 1 shows the results across the investigation period for the Male Class A 2 Week Deferment period. We have added a trend line between the mid point of each

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investigation. Graph 2 shows the trend lines for Male Class A and C for both 2 week and 1 month deferment.

These graphs show Class A deterioration has been worse than Class C and 2 weeks has been worse than 1 month.

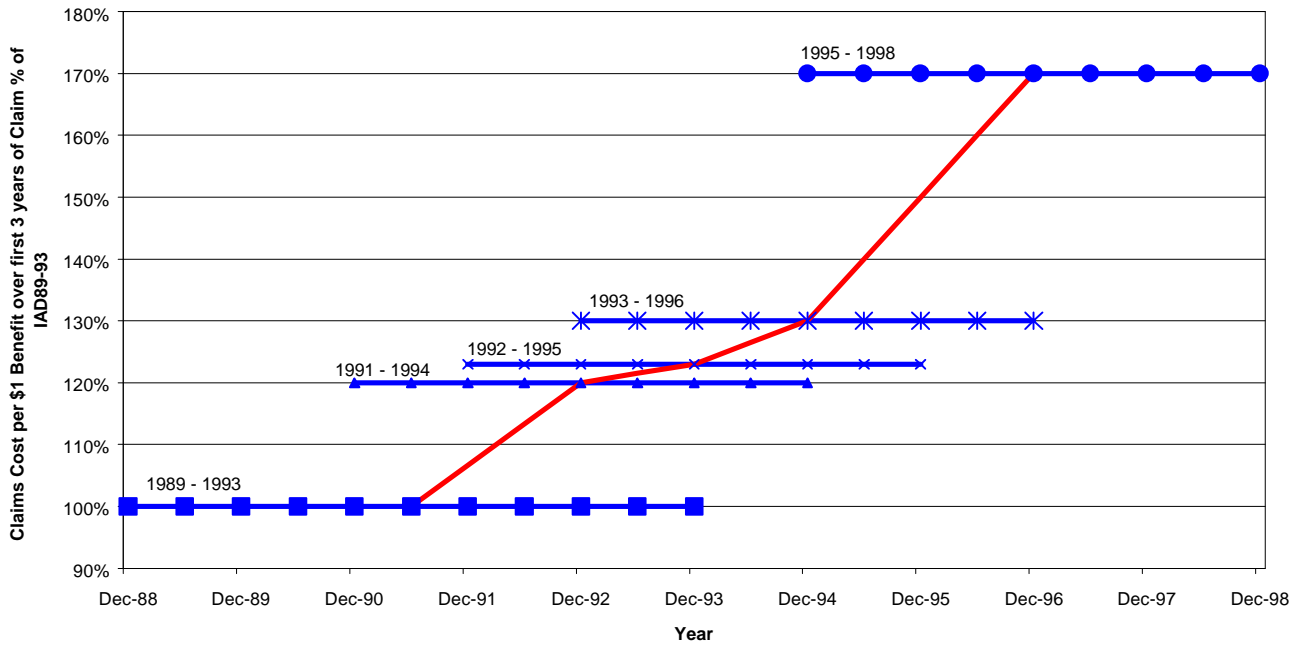
Graph 3 compares the Male Class A results with Female Class A. The experience for Male Class A has shown worse deterioration than Female Class A particularly for 2 week deferment periods.

Graph 4 compares the trend in Incidence Rates and Average Claim Duration for Male Class A 2 week deferment periods. The trend seen in this graph indicates that the main cause of the increase in claims cost relates to an increase in average claims duration.

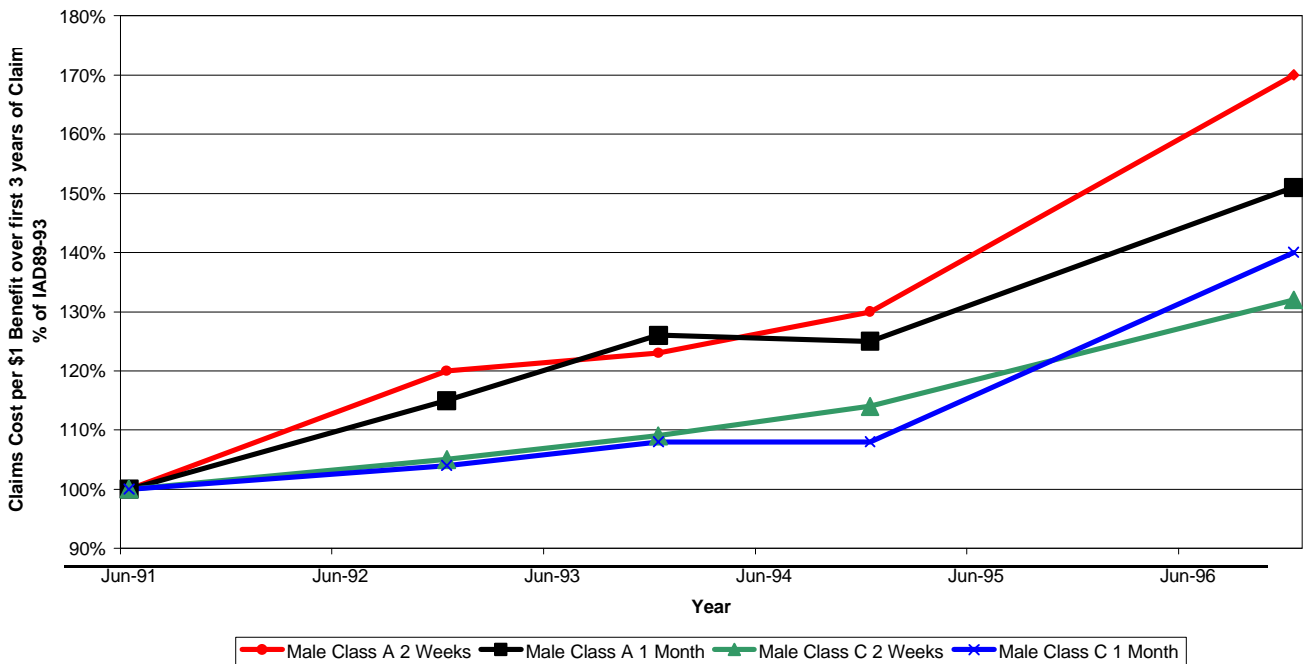
There is a similar trend across the investigation periods for the various occupation classes, deferment periods and across sex.

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**Graph 1
Claim Cost % of IAD89-93
Male 2 Week Class A**

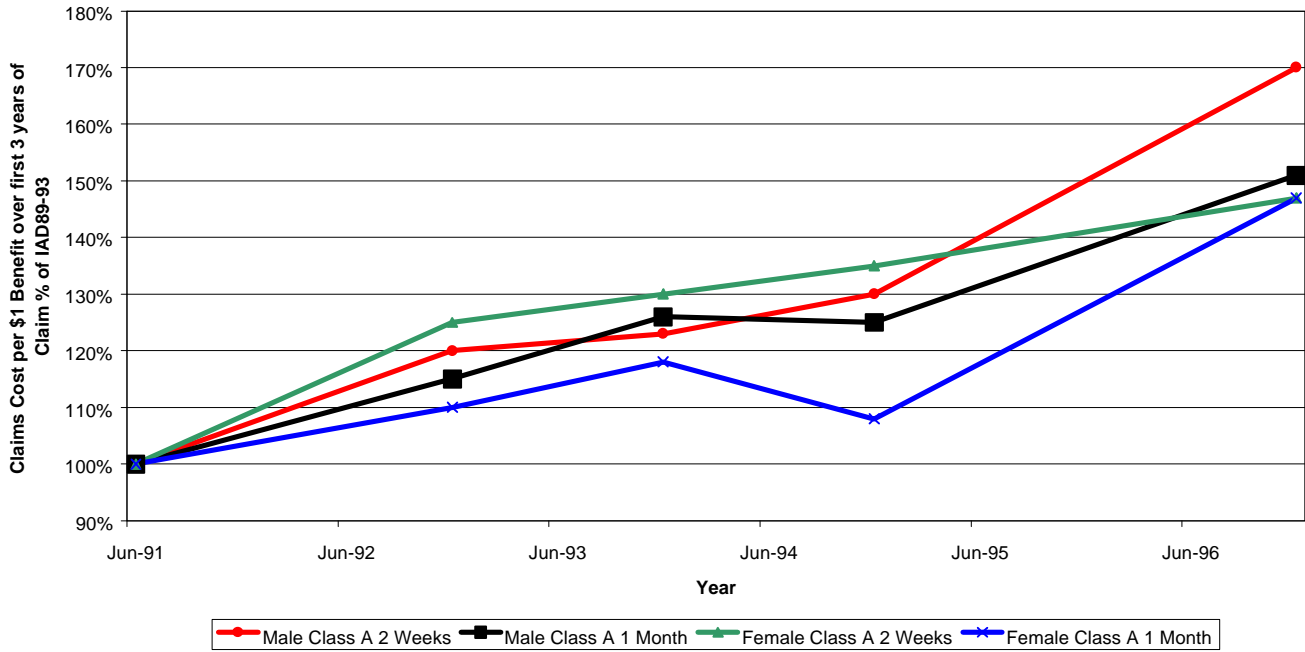


**Graph 2
Trend Line
Claim Cost % of IAD89-93
Male Class A and C**

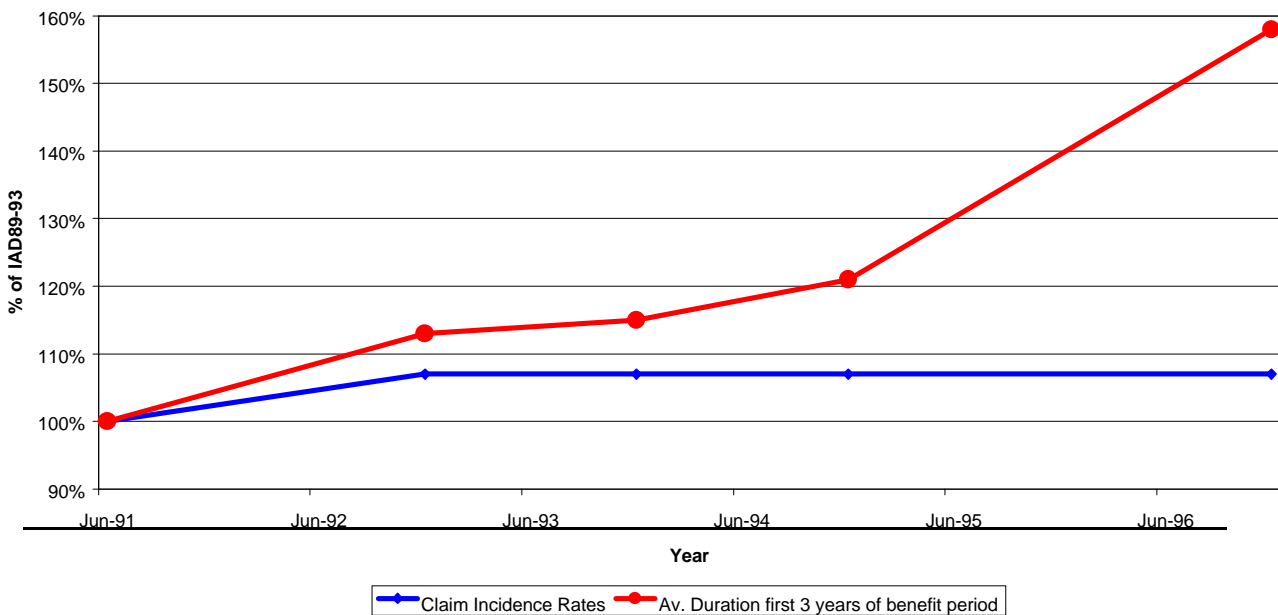


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**Graph 3
Trend Line
Claim Cost % of IAD89-93
Male & Female Class A**



**Graph 4
Trend Line
Incidence Rates and Duration
% of IAD89-93
Male 2 Week Class A**



8. TABLES

- B Lives Exposed
 - C Number of New Claims
 - D Incidence Rates by Occupation Class
 - E Comparison of Male and Female Incidence Rates
 - F Comparison of Incidence Rates with IAD89-93
 - G Comparison of Incidence Rates, Duration and Claim Cost with IAD89-93
 - H Claim Continuance Table and Comparison with IAD89-93
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