



AGAINST
the elements

Technical Seminar
April 2011

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Disability Income

What next?

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What is Disability Income?

For the avoidance of doubt

- **Any regular payment disability benefit replacing income**
- **Includes**
 - Short term temporary benefit
 - Long term PHI
 - Income protection
- **No distinction made between Group and Individual**

Disability Income – what next?

- **Fundamental Principles of DI**
- **The Problem with Long Term Claims**
- **Product Development**
 - Where are we going?
- **Encouraging Rehabilitation**
 - When & how?

Fundamental principles Disability Income insurance

- **To protect against the financial hardship associated with disability (inability to work)**

AND

- **To maintain an incentive and to assist claimants return to work where possible**

Disability Income - Principles

Of course it is right that we provide;

- A financial safety net for those that can't work in the short or long term**

BUT

- We should do everything we can to encourage/incentivise a return to work in any form possible**

The Extent of Long Term Claims

Duration Category	Average Duration	% of claims
0 to 3 years	1.39	35%
3 to 6 years	4.41	16%
6 to 9 years	7.47	16%
> 9 years	14.15	32%
Total	7.01	100%

Source: RGA Group Disability Income Terminations Study 2010

- 48% will be on claim for 6+ years

WHAT ARE WE DOING TO HELP REHABILITATE THESE CLAIMANTS?



Long Term Claimants

- **Some are totally disabled from all occupations and genuinely unable to work – even if they wanted to**
- **Most are disabled from following their own occupation**
- **A LOT ARE SCARED ABOUT GOING BACK TO ANY FORM OF WORK**
- **A SIGNIFICANT % SHOULD NOT BE ON THE SCRAP HEAP**

Disability Income

Work is good for your health.....

- **The characteristics of work – activity, social interaction, identity and status – are beneficial for our physical and mental health**
- **UK Research Paper - Is working good for your health and well being?**
 - **Burton & Waddell - 2006**

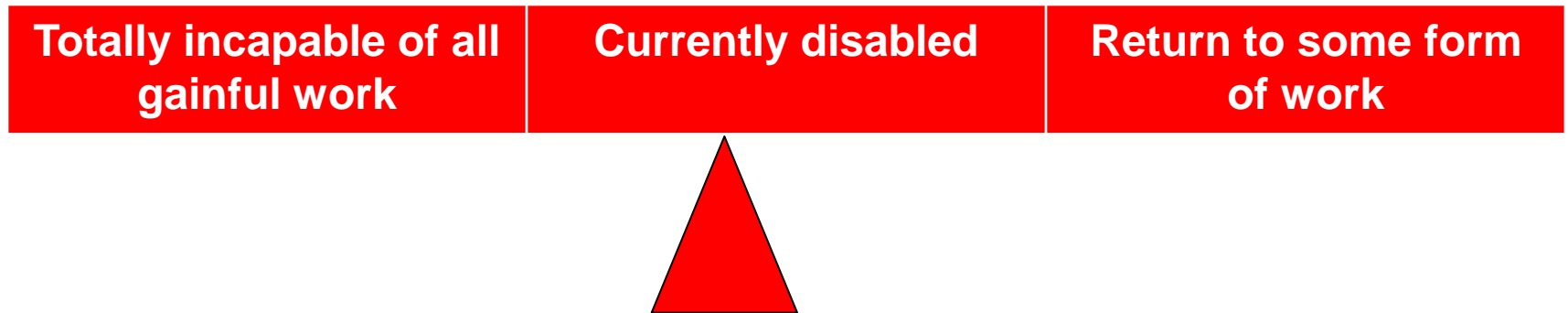
Disability Income

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Disability Income

CLAIMANTS – which way will they go?



Are we doing enough to encourage a return to work?

Current trends

Product developments

- **Higher income replacement ratios**
- **No aggregation between policies**
- **To older ages**
- **Higher benefit escalation rates**
- **Higher sums assured**
- **Top up additional benefits**

Claims question

Scenario

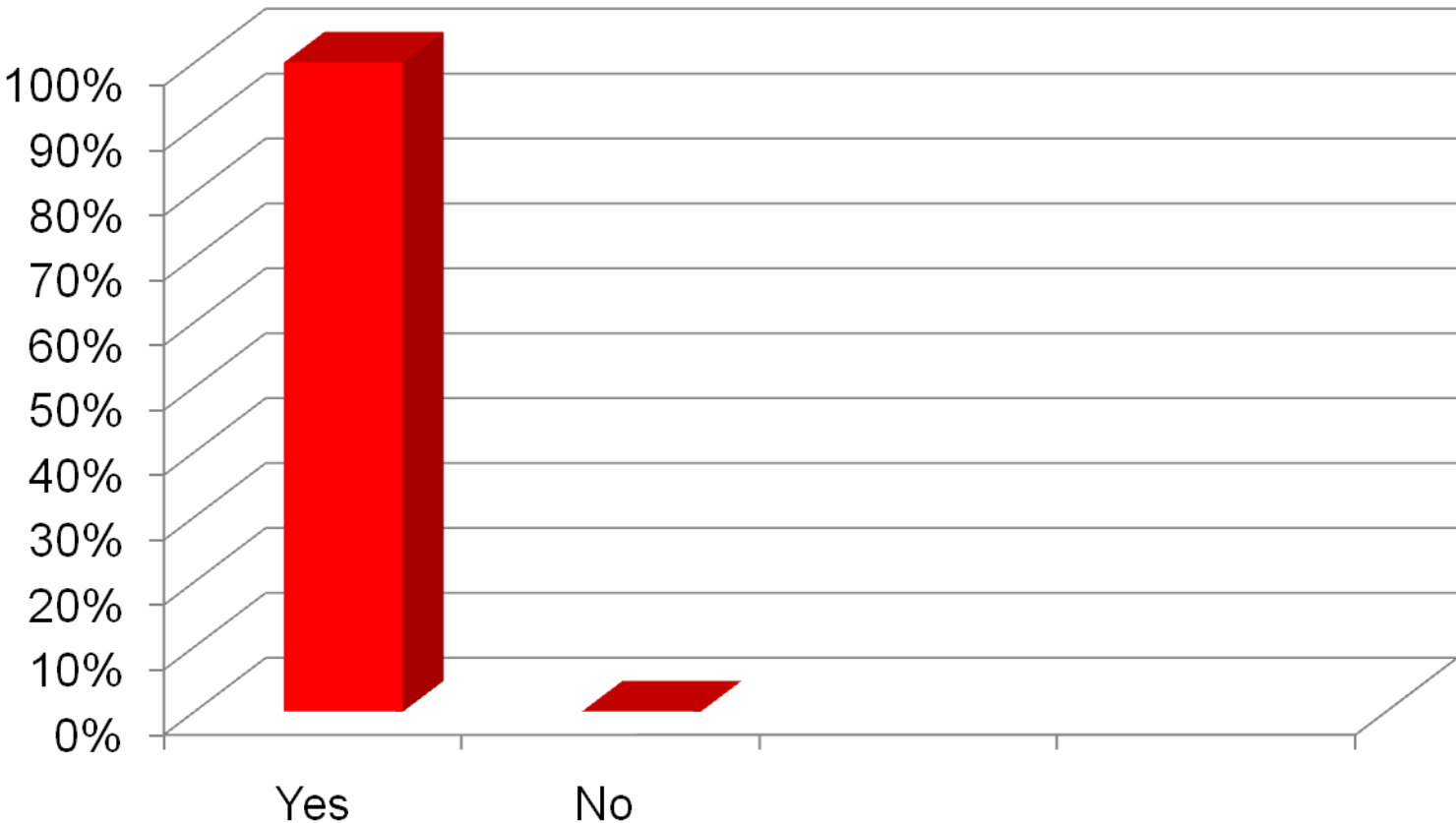
Imagine you are involved in a motor vehicle accident. You end up with very serious injuries as a quadraplegic in a wheelchair

Question

Would you want an Income Replacement Policy that had these new product features?

- Yes
- No
- Maybe

Do you want more generous benefit features?



Claim Scenario 1

Of course you would – it's good that financial hardship will be averted, BUT....

Product Development consequences

- You have to maintain the sick role
- No financial advantage to return to work
- Your only motivation is to stay sick – to protect income
- **Nothing further worthwhile with your life!**

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Claim Scenario 2

Claimant

- 42 year Teacher
- Depression
- Unable to deal with Children
- Multi-skilled
- High level of education
- Able to re-train
- What motivation has this claimant got to return to any form of remunerative work?
- Any attempt to return to work, puts benefits at risk AND produces minimal financial benefit

Product Development

Through trying to be supportive and generous we incentivise claimant's to;

- **Maintain the sick role – they have to!**
- **So, minimising the probability of effecting a return to work of any kind**



Long Term Claim - Characteristics

- **Higher salary band**
- **Older age**
- **Female**
- **Long waiting period**
- **Escalation of benefit**
- **Claims for neuro/psych benefit**

Source: RGA Group Disability Income Terminations Study 2010

Long Term Claim

Characteristics

- Higher salary band
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Product Developments

- Higher sums assured
- To older ages
- Higher income replacement ratios
- No aggregation between policies
- Higher benefit escalation rates
- Top up additional benefits

Encouraging Rehabilitation

- **For those claimants with no or very limited functional capacity**
 - Forget rehabilitation
 - Pay them full benefit
 - Annual existence checking
- **Should be the minority of cases**

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Encouraging Rehabilitation

When do you start?

- **As soon as you're notified of the claim**
- **Spell out all the features of the policy that are designed to help them return to some form of work**
 - Partial benefits
 - Linked claim clause

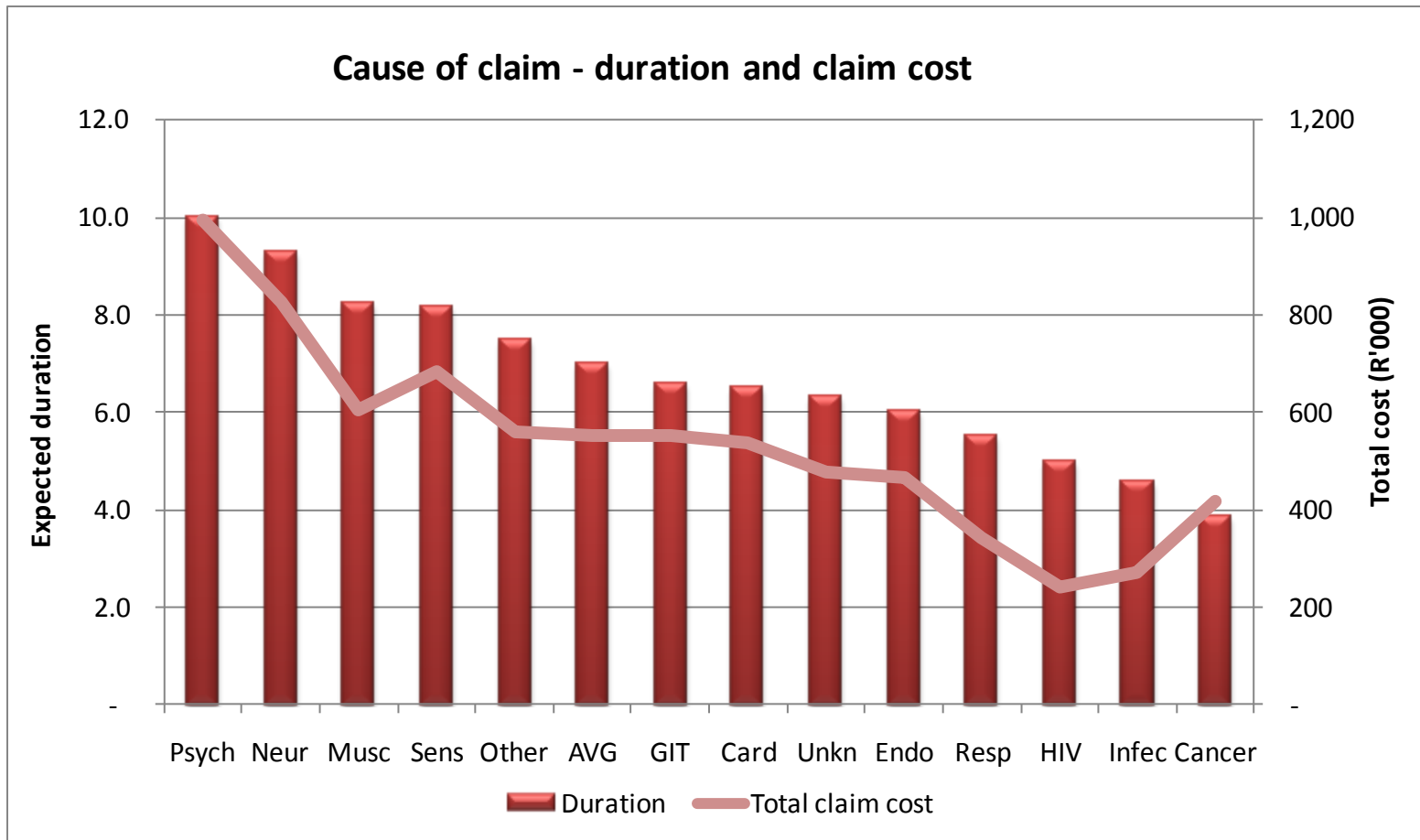
What is Rehabilitation?

- **Anything that helps the claimant back to work**
- **Full time / Part time / Own occupation / Alternative occupation / re-training**
- **It isn't just medical rehabilitation**
- **To be effective we need to understand claimant's motivation**

Motivation to undertake rehabilitation

- **Will it improve my situation?**
 - Financially – will I be better off?
 - Lifestyle
 - Health
- **To be effective we need to meet all these requirements**
- **With as little risk of loss to the claimant as possible**

Rehabilitation – why bother?



Source: RGA Group Disability Income Terminations Study 2010

What is good for the claimant – is also good for us!

Rehabilitation

Instead of paying people more to remain sick – let's incentivise them to return to work (of any kind)



Incentivising Rehabilitation

How can we do this?

- **Return to work bonus**
- **Partial return to work – Income booster**
- **Re-training grant**
- **Small business grant**
- **Access to vocational rehabilitation**

Return to work bonus

For claimants in receipt of benefit > 1 year who return full time to their own occupation

- **lump sum = 3 months benefit on return**
- **Further 3 months benefit if still working 6 months later**
- **Further 3 months benefit if still working 1 year later**
- **Subject to T&C's**

Partial return to work Income Booster

- **Not a proportionate deduction from earnings when you return to work, BUT..**
- **If you return to some alternative work – earnings in first year not deducted from benefit**
- **After 1 year only deduct 50% of new earnings**
- **Subject to T&C's**

Rehabilitation Grants

Re-training

- A prepayment of X years benefit to cover an approved study course
- Application of Income Booster terms once you start work after re-training
- Cost offset by reducing benefit termination age by X years
- Subject to T&C's

Small business grant

- A prepayment of X years benefit to cover setting up a small business
- Application of Income Booster terms once you start earning
- Cost offset by reducing benefit termination age by X years
- Subject to T&C's

Vocational Rehabilitation

- **Access to a vocational expert**
- **Someone that can help you with re-training, getting grants, brushing up your employment skills**
- **X number of consultations**
- **Your own personal guide/helper to getting back to work**

Disability Income what next?

Let's make it incentivising rehabilitation

- It's good for us**
- It's good for claimants**
- While still providing the safety net**

Thank You.

Questions?

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