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Experience in Disability Income Insurance

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by

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The experience in disability income insurance is remindful of the farmer man who was complaining about his wife being so extravagant. Someone asked him why he married her. "Gosh," he said "I guess I didn't know when I was well off. But she did look real nice to me, and I chased her and I chased her till finally she caught me." So also the life companies chased the disability delusion until finally it got them.

Life insurance companies in the United States received approximately 81 million dollars for disability protection in 1931, 80 million in 1932, 72 million in 1933. The pay-out for indemnities was 62 million in 1931, 80 million in 1932, and 90 million in 1933. The figures suggest the magnitude of the business rather than the losses. The companies took 56 million dollars out of surplus in 1931 in preparation for future losses, 70 million in 1932, 68 million in 1933.

That, briefly, is the experience. Expensive. If an individual is unable to afford any certain activity, he quits it, if he is wise. So also a company. Most companies have declined to continue writing at a loss. Two very natural questions arise: why the loss? and what of the future?

Why?

Apparently we offered too much coverage for too little money. Apparently what we sold as disability protection was bought by some policyholders for pensions and unemployment insurance and prevention of disability. Apparently we overstressed the statistical phase of past experience and understressed the human element. A minute or two of perspective may not be amiss.

It was recognition of the disability protection principle that prompted our ancestors to give individual and personal aid to the sick and injured of the tribe until they became productive units again. It was a later development when groups within the tribe agreed to take care of their associates by contributions, or by assessments. The thiases of Greece, the collegii of Rome, were the same in principle as the guilds of the middle centuries, and the friendly societies and lodges of today. Just so long as the help a disabled brother received was from his neighbor, someone he knew, someone who had a friendly interest in him that was not material, he was willing, he was eager, to get along on the least amount possible. In time of disaster he was grateful in acceptance of help to supply his basic needs until he regained ability to take care of himself. As a member of a guild or friendly society he received on that basis and he gave on that basis. As long as the guild or lodge was small this principle governed it. But the larger the organization grew, the more impersonal it became, the greedier the claimants, and the higher the losses. When A. W. Watson made his masterly study of Manchester Unity lodges during the five year period of 1893-97 he found that the cost of sickness was small in small lodges, large in large lodges, with a surprisingly regular progression of loss ratios as membership increased. Classifying 3581 lodges according as memberships were under 80, under 150, under 250, under 350, under 500, and over 500, the claim cost advanced from 41 to 82% in steps of 41-51-57-66-74-82% respectively.

The disability loss ratios of life insurance companies appear to be similarly affected by size as drew my comment in 1929 when it was observed that 15 billion-in-force companies in the United States were paying out 68% of their disability premium intake as indemnities whereas the smallest 15 companies who had 100 million dollars in force were disbursing 29%. The comparisons have limited value because age of business, provisions of coverage and standards of selection have not been uniform. Nevertheless, the conservatism of the smaller companies in being slow to adopt liberal provisions and slow to add disability volume, must be considered a major factor for lesser losses. Small companies receive less brokerage business, which is the acme of impersonalness, and maintain a closer personal contact with the agent who writes the business.

The losses of the last few years are indubitably related to the times in which we live. Claim curves rise when business curves drop. In days of depression, if they have come to us yet, it is inevitable that many of our millions of policyholders should be in financial distress, and some are desperate enough to seek help anywhere, even from their disability contracts. The disability business has a full time job in taking care of its legitimate cripples without adding financial cripples and fakers to its load. Yet that is what is happening. The loss of earnings from unemployment is just as great as from disability and if loss of work can be made to classify as loss of ability to work, then a disability contract becomes endowed with functions that were neither intended nor paid for. The older the policyholder, the greater this hazard becomes. He approaches the time of life that should be protected by old age unemployment insurance, what is ordinarily called pension. Once he gets on the indemnity payroll he stoutly resists the idea of returning to work when there is no work to return to. He knows all the symptoms and he recites them devoutly and earnestly with comparatively few errors. If he has any objective evidence whatsoever it becomes an excellent peg on which to hang his subjective insistences.

Another perversion of disability coverage is the use of it for prophylaxis when the individual fears he may become ill. If he has over-worked, he needs a vacation. If he is over-tired, he needs a rest. If he is overly apprehensive, he needs relaxation. But none of these words -- vacation, rest, relaxation -- is a synonym for disability. Just because he might become sick if -- is no reason to expect indemnity. Coronary disease is an outstanding illustration. The individual becomes terrified when he has an attack. In most instances he can continue vocationally on a lower energy plane. And should. And does -- unless he has a disability contract. Then he seeks indemnity in hope he can head off the next attack, depriving himself of the pride and satisfaction of maintaining economic independence on a 75% energy basis if not 100%.

These abuses are in the minority. Most of our clients are commendably fair-minded. But the minority group have made the fair-minded pay higher and higher rates for more and more restricted coverage until finally the applicant of today, whether fair-minded or not, is denied opportunity to buy. Nor are the companies entirely without fault. Too much reliance has been put on statistics and too little study on the human element. Despite the many experiences that have been recorded, disability discussions have never reached the literature with anything like the clarity and comprehensiveness of life insurance experience. The basic principles of disability have attracted less time and thought by students of the subject than isolated phases of life insurance. Why this should be so is not easy to say. The probable reason is that life insurance problems permit solutions that approach precision, whereas disability problems are less tangible. But regardless of reason, the fact remains that past experience has not been interpreted to present day advantage. The mathematical factors were better analyzed than the psychological.

The future.

What then of the future? Disability insurance will be written again. A 72 million dollar premium account by life insurance companies in 1933 indicates the demand for it. A 90 million dollar disbursement for disability indicates the need for it. Abuses though there are, most of the claim money that is paid is bona fide. A great good has been done and remains to be done. Loss of earning power is a tragedy whether caused by disablement or death. The need is undoubted and need encourages supply.

But are the companies ready to assume a liability in return for any premium that can now be computed? The answer is no. The majority of life companies have retired from the disability field, and most of the non-cancellable accident and health companies have done likewise. What then are the conditions that would make companies willing to assume this liability again? We wish we knew. We have a thought or two, and perhaps another two.

One. - Interpret past experience in broader perspective. Qualify the applicant physically - morally - financially, as always, and dig deeper into the psychological. It cannot be done? Then it cannot be written. But perhaps it can be written if we make the applicant a partner with us so he loses if we lose, and we gain if he gains.

Physical selection factors are reasonably well known. Tuberculosis in the younger ages. Degenerative ailments in the older. Nervous troubles in the thin. Gall bladder disease in the fat. We must weigh these predispositions with awareness that health standards are changing. We approach a vocational time unit of five hours a day, twenty days a month, ten months a year. In leisure and well-being we demand more for ourselves and lesser variation from the health norm leads us to accept the disability idea.

Moral qualification resolves itself to the Golden Rule. Does he respect the rights of others? Does he have a lower ethical standard for corporations than for individuals? Many persons do. Commercial reporting companies are doing a surprisingly dependable job in ascertaining how the individual conducts himself at home, at work, and at play.

Financial personal history must differentiate definitely between earned income and invested income. An independent investment income makes earnings relatively unimportant. Disability coverage is for earned income only, and for earned income only if the individual is truly dependent upon it. The individual's economic picture of the future must be judged with thought like this in mind. If he is low in what is called the will to work, he is dangerous as a disability risk. If he does not enjoy working, he is a ready acceptor of the disability idea. The kind of work he does may be a clue. Consultants and executives in established lines have an upward curve of earnings: ambition is strong with them. Routine workers have a level plane: ambition becomes slowly throttled. Manual workers face a downward pitch after middle age with inevitable disappointments: the will to work becomes very slim if even a dole can be collected: ask England. Speculators in oil and grain and stocks and theaters tread the heights and clog the depths: coverage must be granted on the basis of long time averages rather than sporadic peaks. Occupation means considerable in determining the type of an individual and his will to work.

Psychological appraisal may seem to be impracticable in insurance. Determining the attitudes and inclinations of an individual is always inconclusive. Constantly he is changing. He does not stay put. One very practical question to ask and answer is how he regards his job. The basic urge to work is a matter of self-preservation. We prefer not to work, but having a healthy desire to eat and be clothed and sheltered, we inhibit our natural laziness. Once our material needs are satisfied it becomes our choice to stop working and accept the Oriental philosophy of enjoying things as are, or continue working and get the fun of accomplishment and competition. Sickness takes the joy from the job. We lose incentive. We lose our competitive spirit and the pride we have in keeping up with the procession. We have an excuse. We call it a reason. If it is only an alibi, we may need help from outside of us to put us back in the fray so we can resume our vocation with zest. The will to work is so vital a factor in the economic progress of the individual, the family, and the nation, that it should be encouraged at all proper costs. In disability insurance the answer appears to be coinsurance.

Two. - Co-insure with the applicant. Make him a 50-50 partner with the company so it is to mutual advantage that he clings to the will to work. If he is a $5000 a year earner, he should be asked to accept $2500 of the hazard, the companies, individually or severally, accepting the other $2500. In which event the co-insurance principle should be formulated into a contractual provision that prepares for pro-ration if the 50-50 ratio is exceeded. It may be desirable to exempt the first six months from co-insurance because medical and hospital expenses of injury and illness are heaviest in that period. If so the contract should be clear on that point. The co-insurance principle is akin to the earliest disability protection of fraternalism in supplying relief for the necessities of life without robbing the individual of his rightful ambition and will to work.

Three. - Restrict indemnities in amount as well as in ratio so as to avoid luxury lines. Immediate objection may be made that a necessity amount is relative, that a $25,000 a year man cannot adjust himself to a mere $1000 a month, and any lower figure is inadequate. Inadequate for his luxuries it may be, but no starving is done on $250. a month, and that is the amount suggested as a top indemnity quota beyond which a company will not participate: $200 may be a preferable figure; perhaps $300 is better. Whatever the amount let the contract so specify. Loss ratios increase in direct ratio to indemnities. It seems hardly necessary to cite experience. One will suffice, the 1921 data of 16 accident and health companies with almost 6 million dollars of earned premium. The losses mounted from 40 to 53 to 57 to 78 to 94% according as weekly indemnities were under $15, were $15-25, were $25-50, were $50-100, and were $100 and over.

Four. - Impose a stop-loss. Pay out the face of the policy at the rate of 1% a month. In cases of undoubted invalidity, 5% might be made permissive. Limited liability is an accepted principle in other lines of insurance. A $10,000 disability policy is just as logical as a $10,000 life policy. If the former is inadequate because the individual lives too long, so may the latter be inadequate if the widow lives too long. Meanwhile each has done a great good, a much greater good than none at all, and today we are selling no disability at all, or almost none.

Conclusion.

It may be observed that scant mention is made of premium rates. The omission is not unintentional. In 110 years since the first large disability experience was published, many and many are the sets of rates that have been computed. Yet each successive experience has proved their inadequacy. Obviously the answer is not in rates. We may do better if we seek the solution to the disability problem in co-insurance of conservative amounts with a stop-loss.