




# Compliance Corner: Employee Benefits Market: The Economy and Rates

## Group Life & Disability Trends

**Presented by Gerald Graceffo**

April 2016



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# Employee Benefits Market: The Economy and Rates

## Group Life & Disability Trends



# Today's Presenter

## Gerald Graceffo

Standard Insurance 1998-present

Unum Insurance 1992-1998

Boston College BS 1992

## Pam Mitroff

NAHU Sr. Director of Health  
Reform Compliance

Slides and recording are available  
[www.nahu.org](http://www.nahu.org)

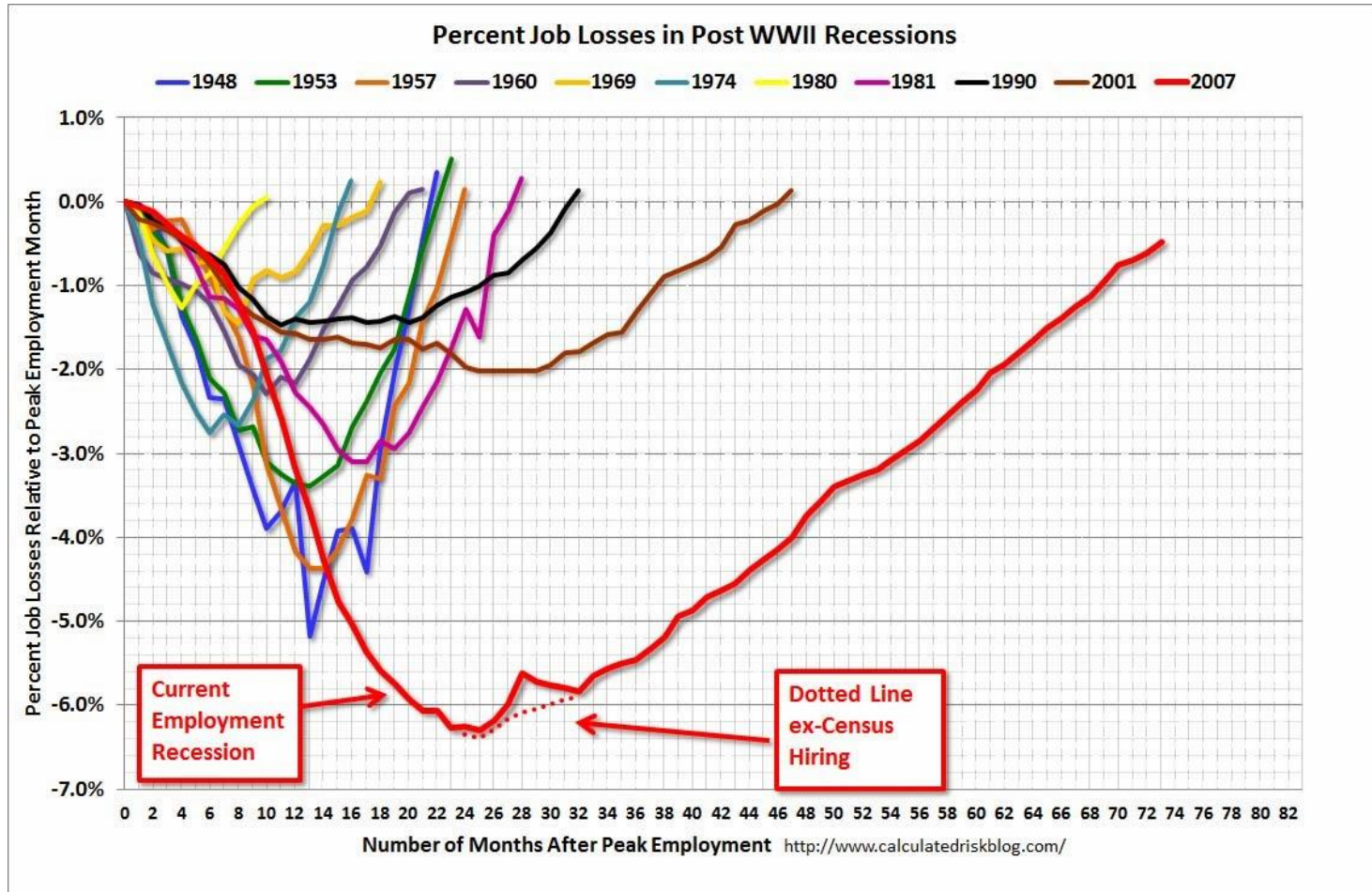
April 15, 2016

# **Employee Benefits Market and The Economy**



# Deep in the Hole

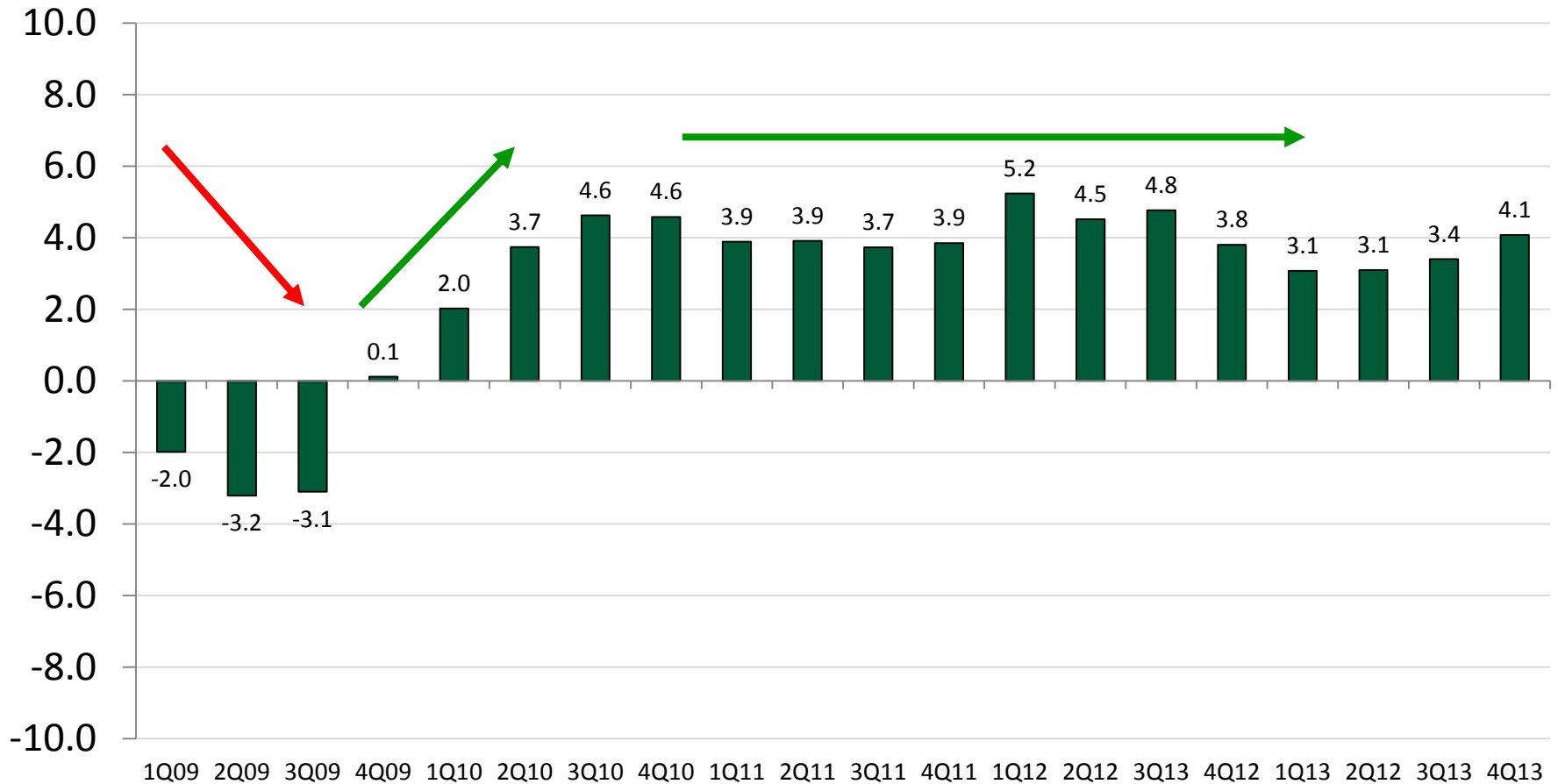
(% Change in Employment from business-cycle peak)



**Current Employment level has nearly recovered back to the pre-recession level**

# GDP Growth

Year over Year Change in GDP (%)



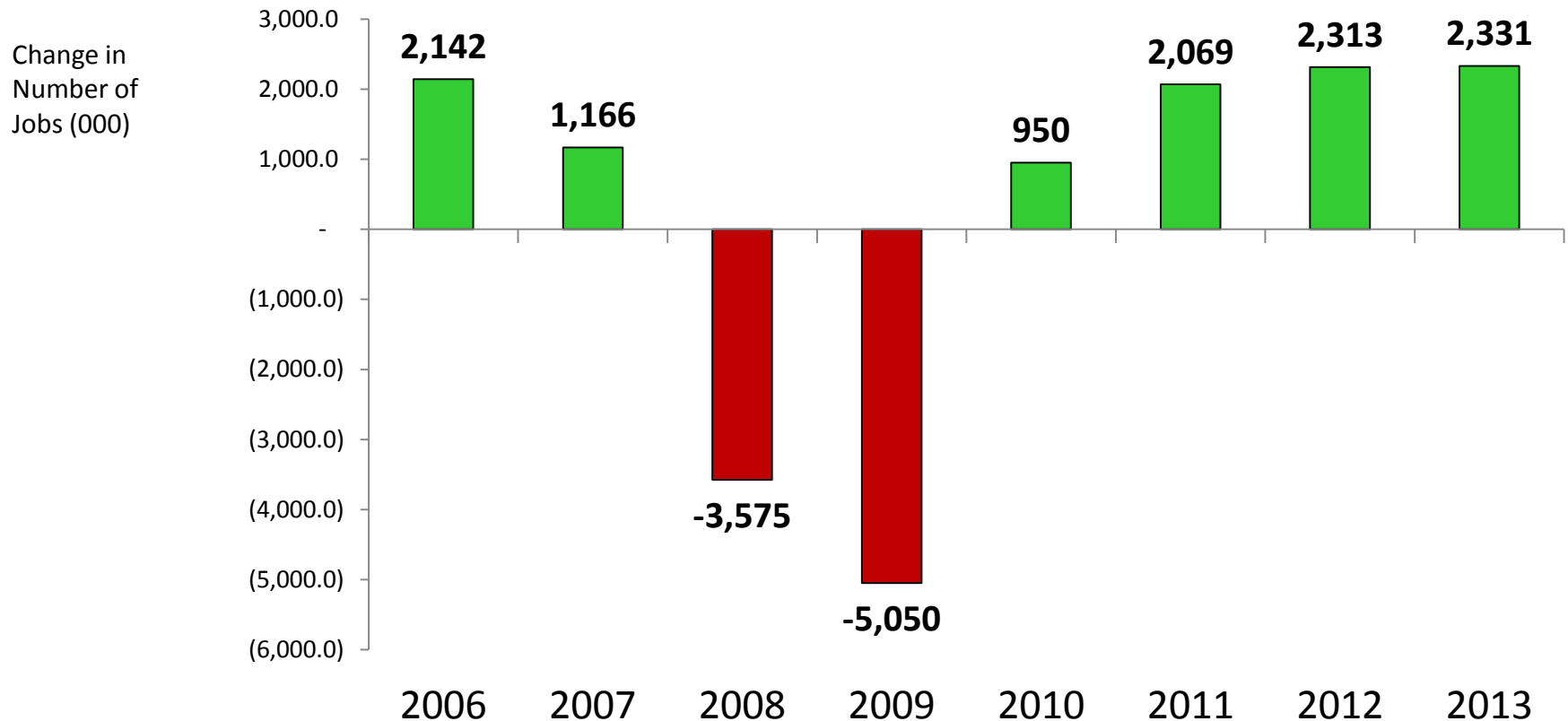
**The economy has shown steady growth the last four-teen quarters**

Source: Bureau of Economic Analysis (based on current dollars)

Slides and recording are available  
[www.nahu.org](http://www.nahu.org)



# Total Change in Number of Jobs



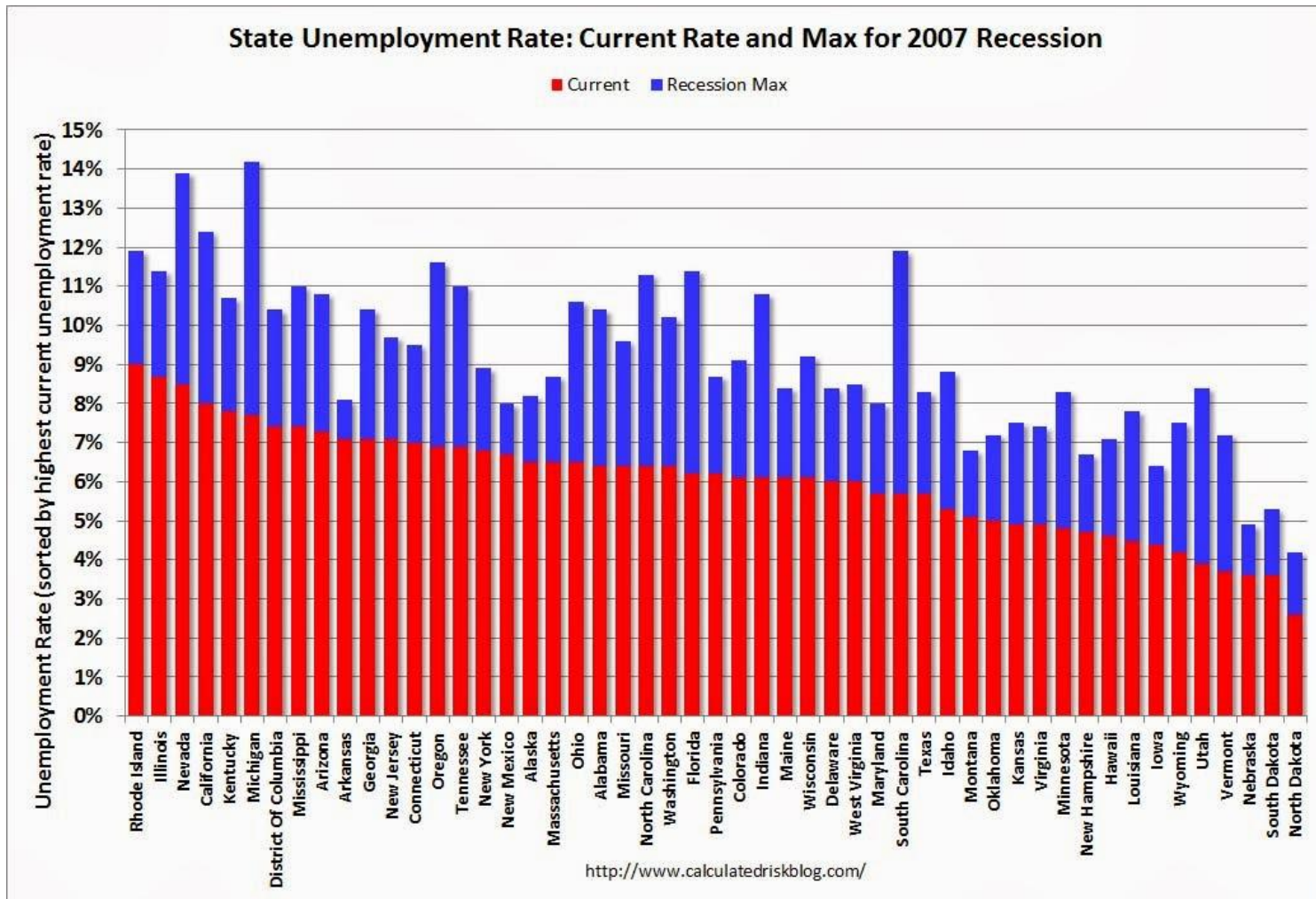
**Fourth straight year of positive change in the number of jobs**

Source: Arizona State University ([http://wpcarey.asu.edu/bluechip/jobgrowth/jgu\\_states.cfm](http://wpcarey.asu.edu/bluechip/jobgrowth/jgu_states.cfm))





# Unemployment Rate by State



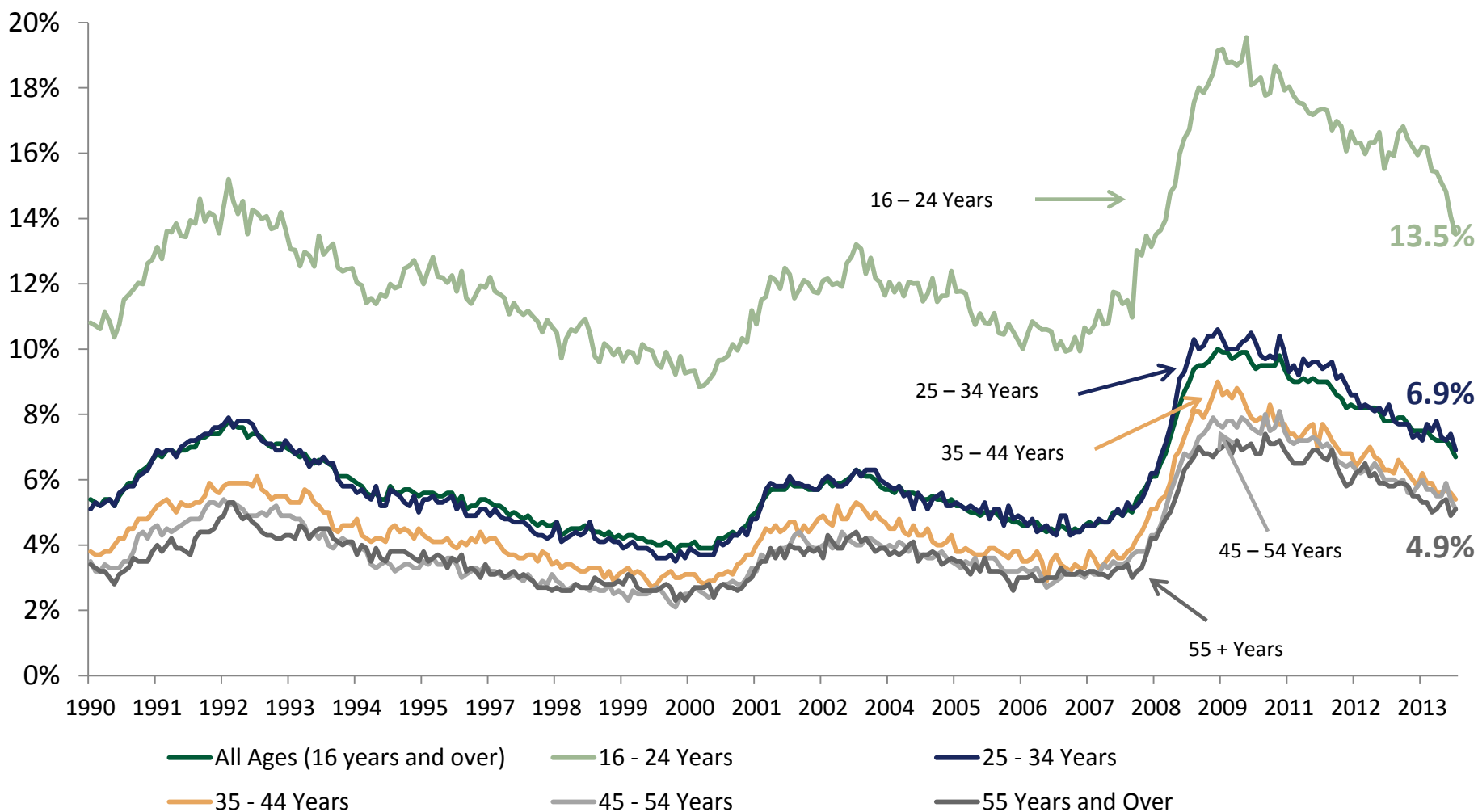
Unemployment Rates have improved for every state from the Recession Max

Data: Bureau of Labor Statistics

Slides and recording are available  
[www.nahu.org](http://www.nahu.org)



# Unemployment Rates by age, 1990-2013

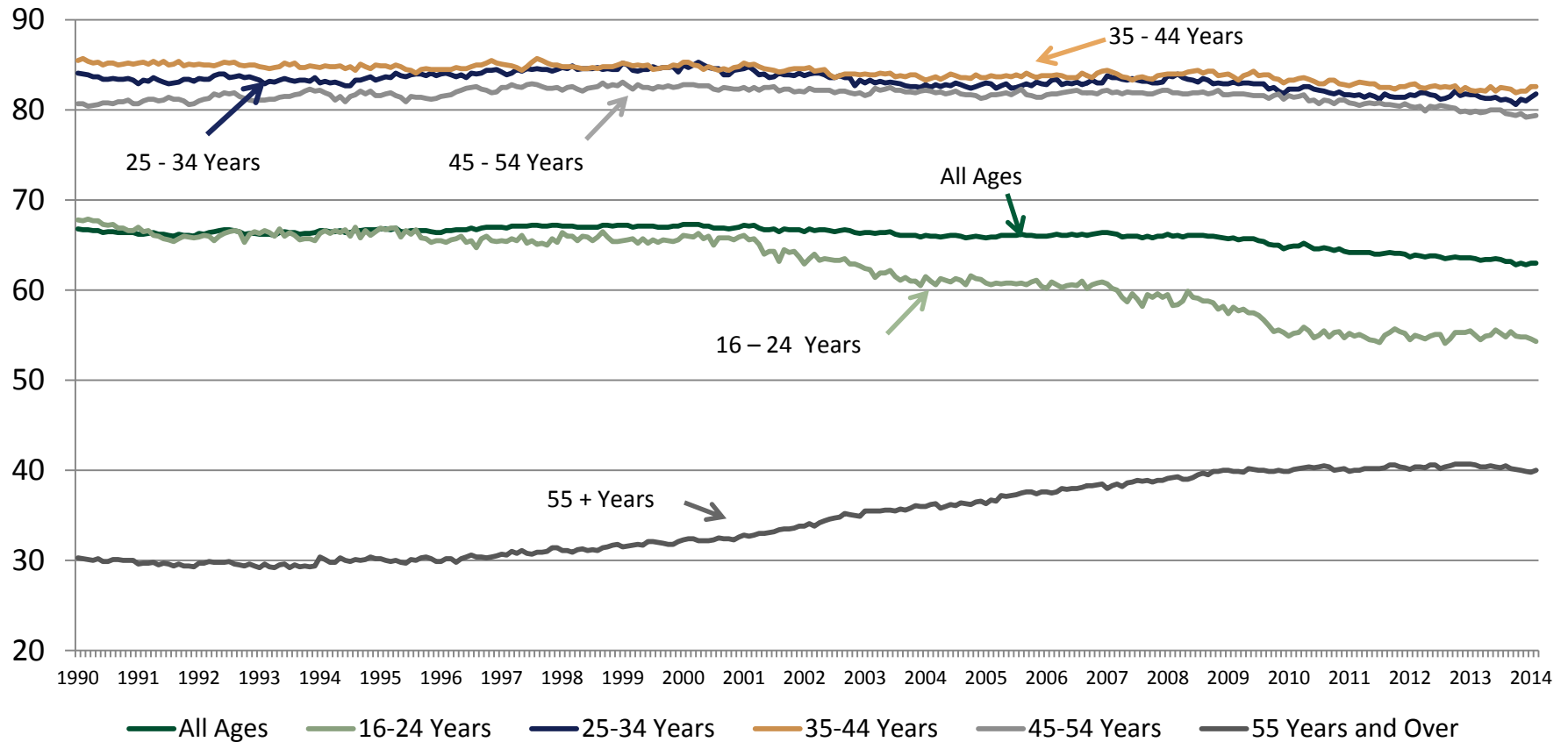


**Significantly higher unemployment in the younger ages**



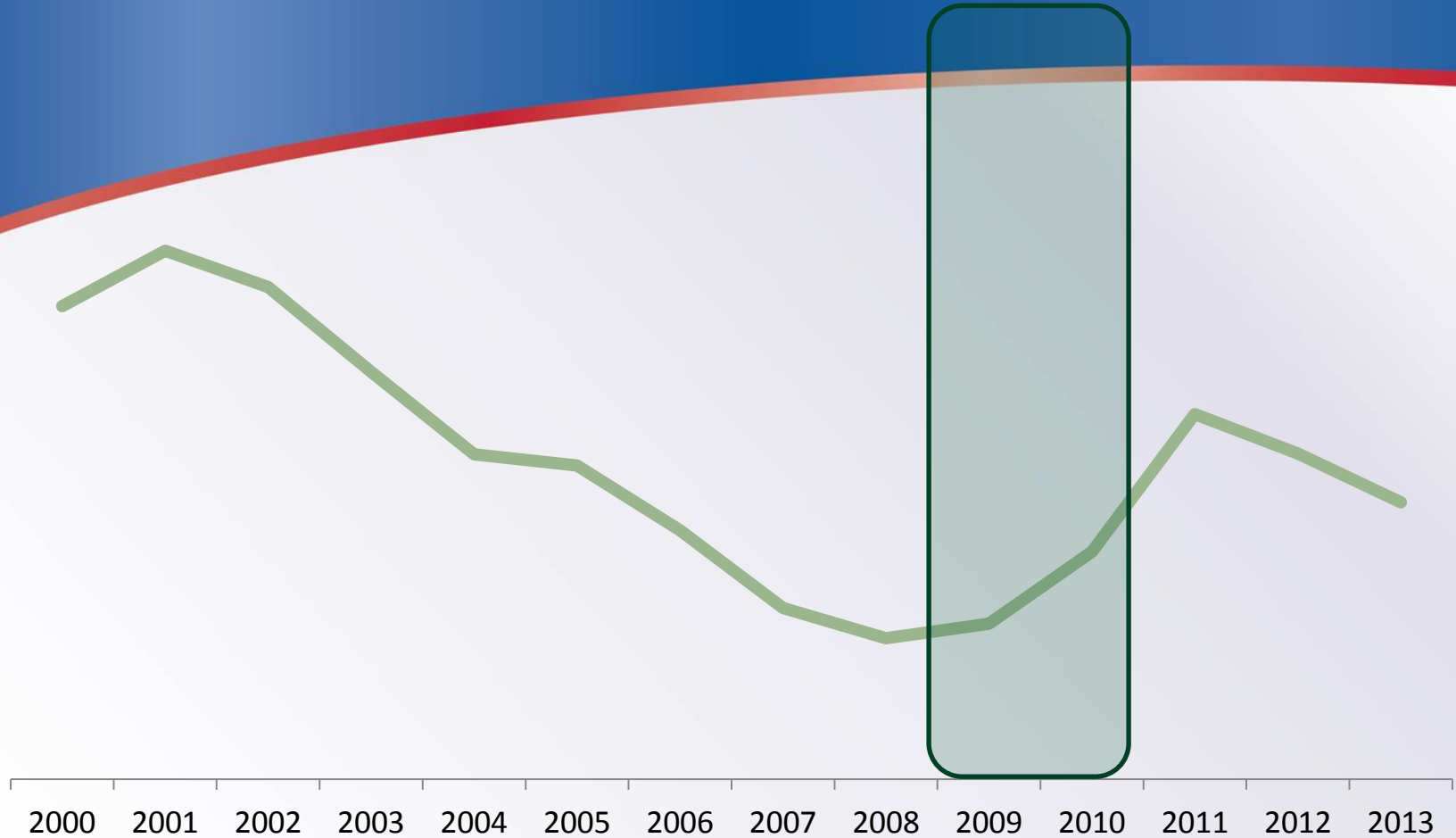
# Baby Boomers Staying at Work Longer

Civilian Labor Force Participation Rates, Seasonally Adjusted, 1990-2014



**A greater percent of the 55-and-older population  
are at work longer**

# LTD Claim Incidence and the Recession



# Future Market Disrupters?

- ACA
- New Fed Chief (Yellen)
- China/Russia
- Energy Policy
- Global Warming



# Trends in Group Life and Disability Pricing

# Drivers of Rate Increases

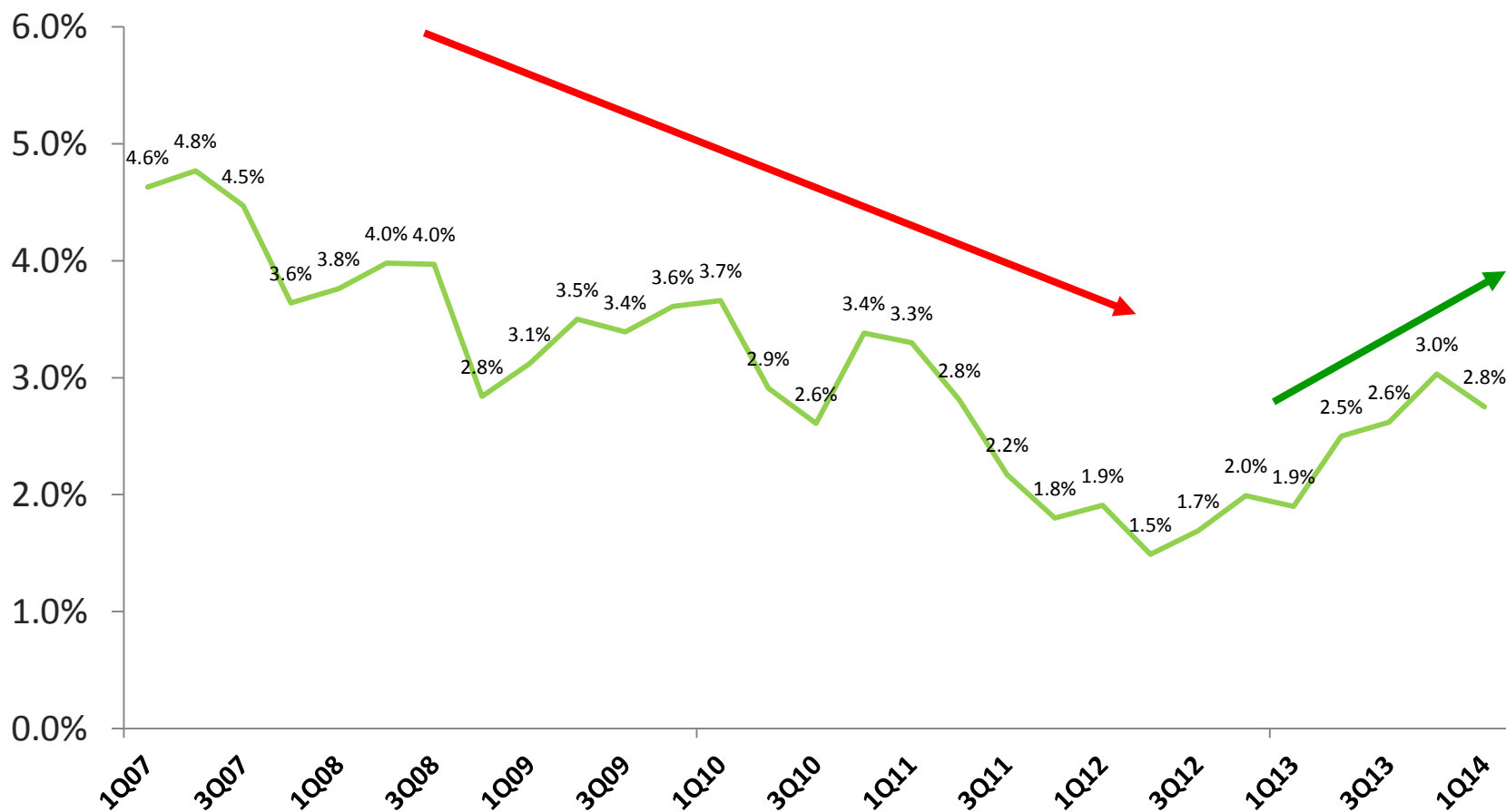
Interest Rates

Claim  
Incidence

**Aging**

Obesity

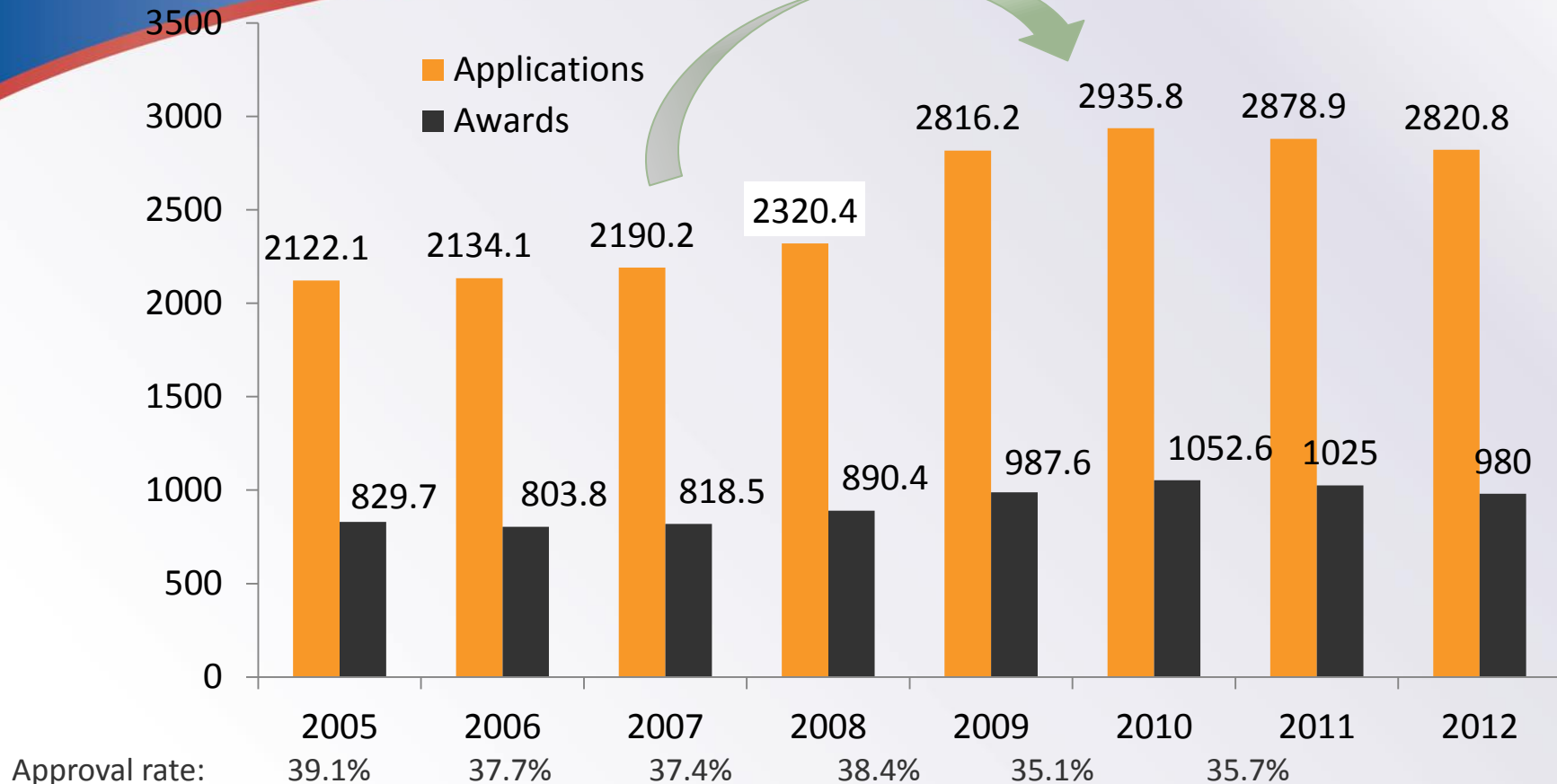
# 10 Year Treasury



**Significant decrease in interest rate.**  
**Every 1% decrease in interest rate is 4% impact on LTD rates.**

# Social Security Disability Application and Awards

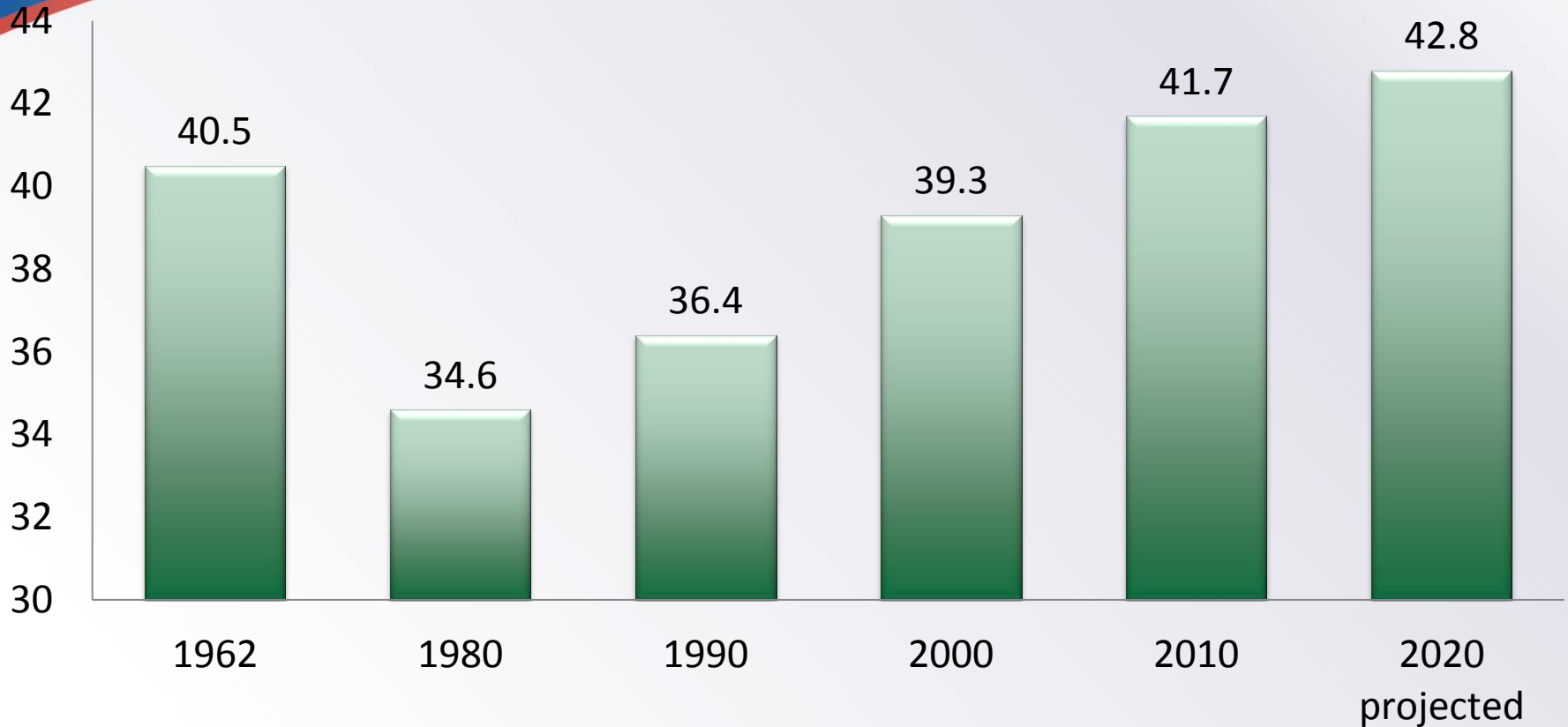
SSDI Application and award (in thousands)



SSDI applications have increased by 38%  
and awards have increased by 26% from 2005-2010.

# Median Age of the U. S. Work Force

Median Age

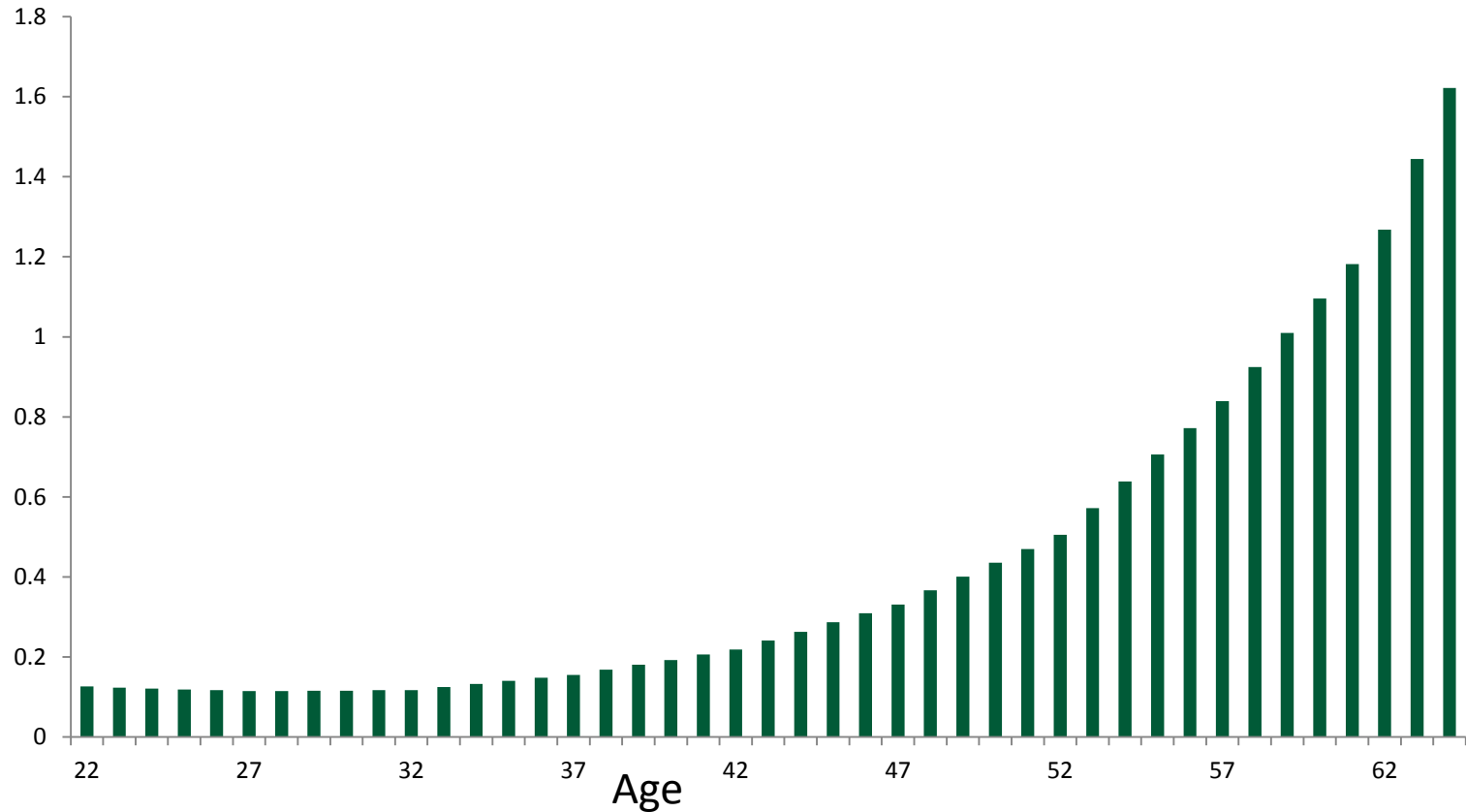


As the baby boomers age, the median workforce ages goes up



# Life rates by Age

Life rates



**Rates increase by 8% for every year of aging**

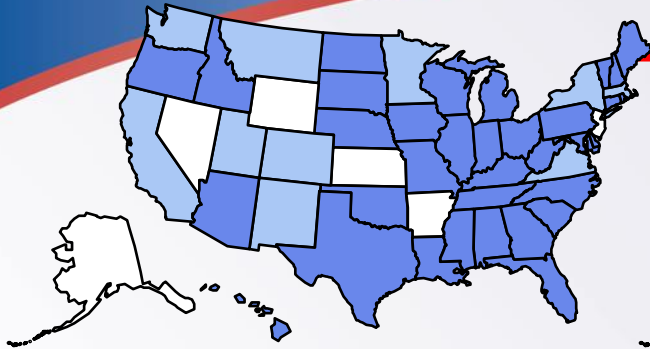
# Small-Group Life/LTD Aging

Small groups tend to stay static – i.e. they tend “age” more than larger groups

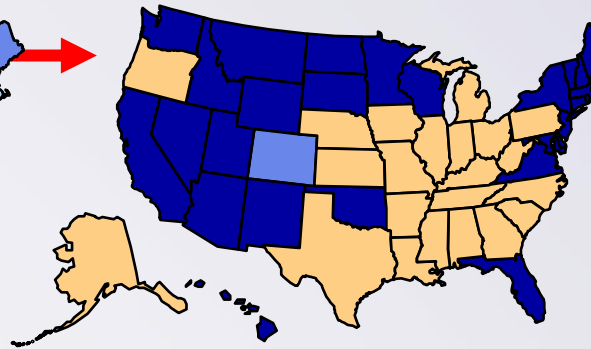
- Rate Implication of Aging:
  - Ex. 15 life group is written with a .18 life rate, with a 3 year rate guarantee.
  - Same employees remain at group 3 years later. No new hires, no terminations.
  - Due to aging within the group the renewal increase should be approximately **20-30%!**

# Obesity Trend (BMI > 30%)

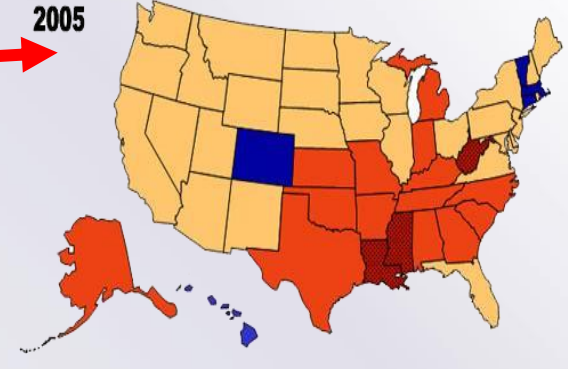
1990



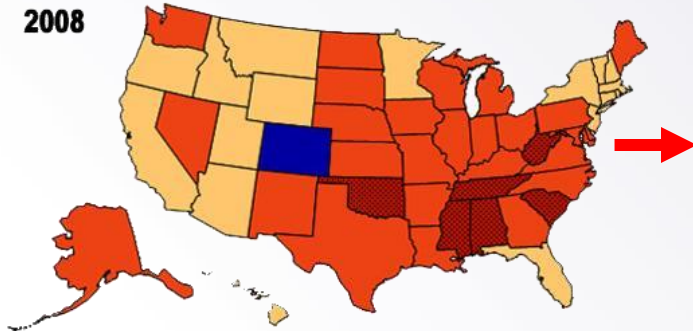
2000



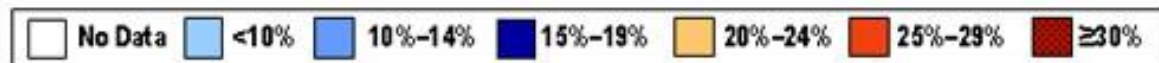
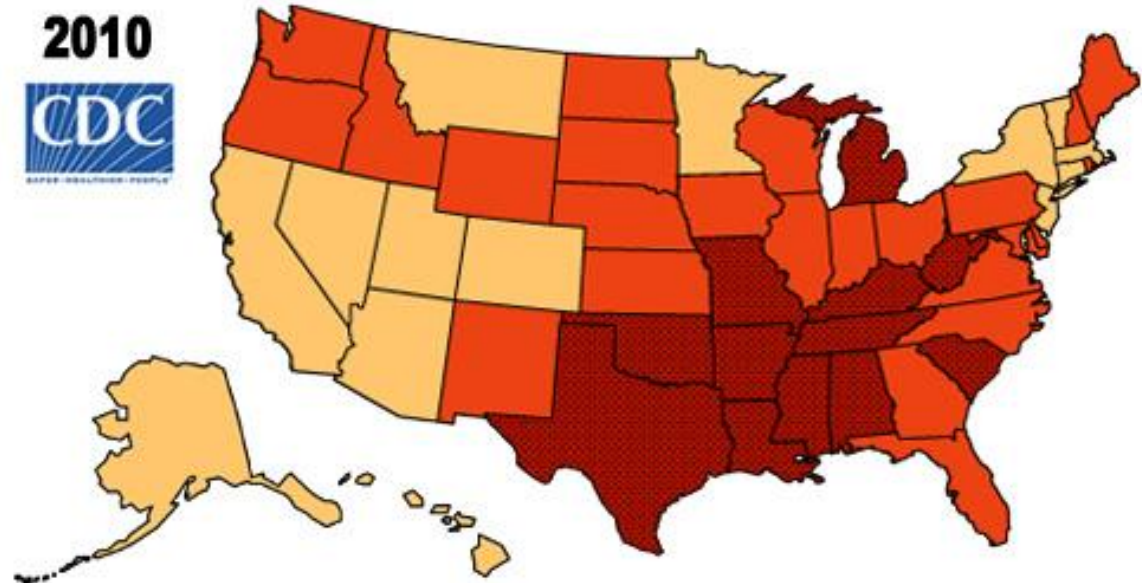
2005



2008



2010



Source: Centers for Disease Control and Prevention

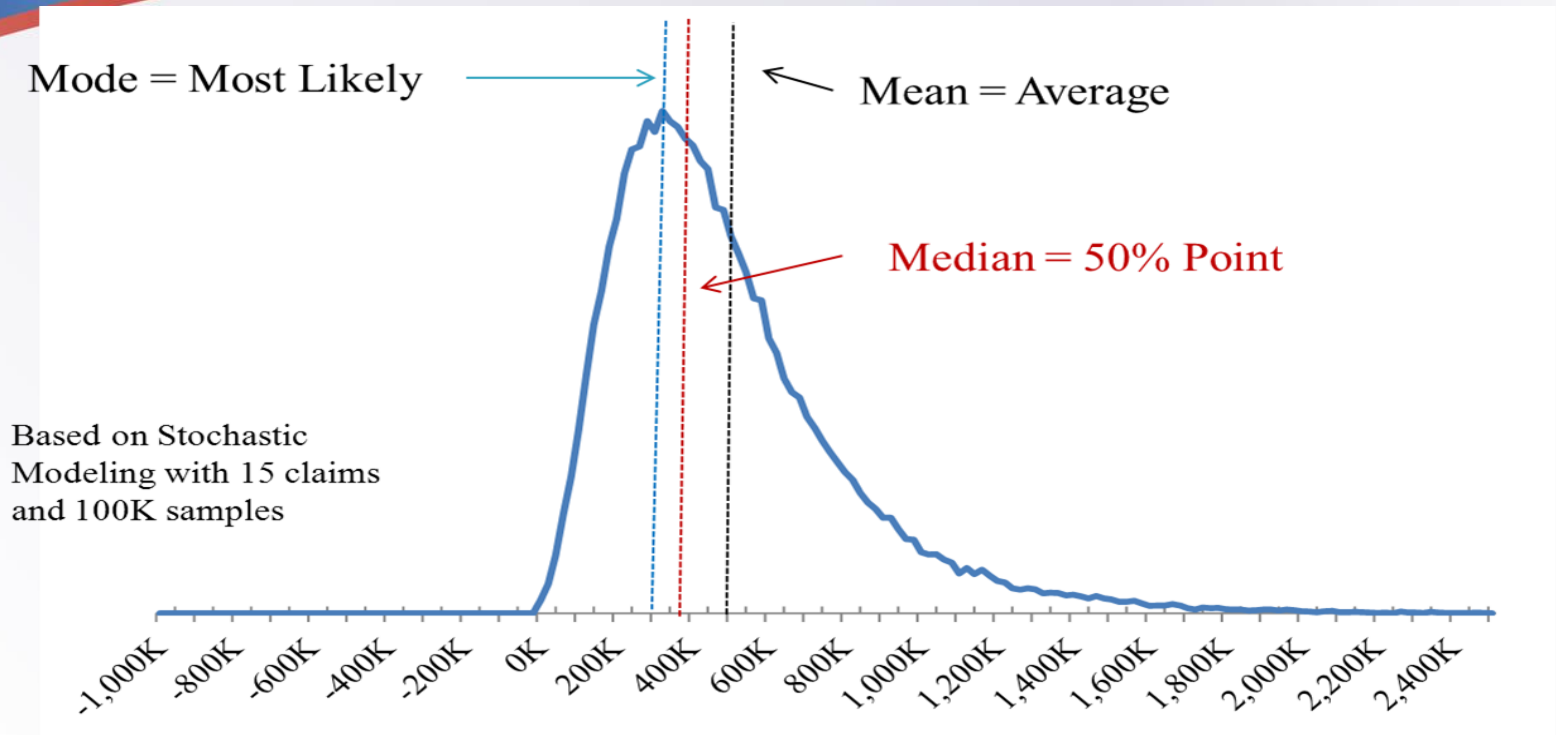
# Group LTD Rate Trends

- STD with LTD
- Increased value assigned to gross-ups (100% Contrib)
- Replacement ratios
- Greater spread between low and high salaried employees
- Simplified or eliminated Occupational coding
- Use of Predictive Analytics

# Experience Rating

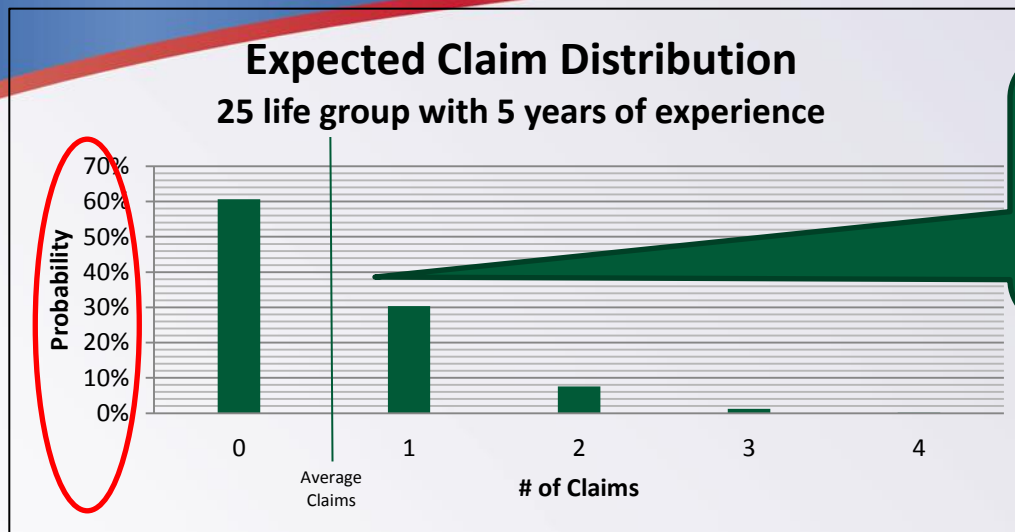


# Experience Rating Bias

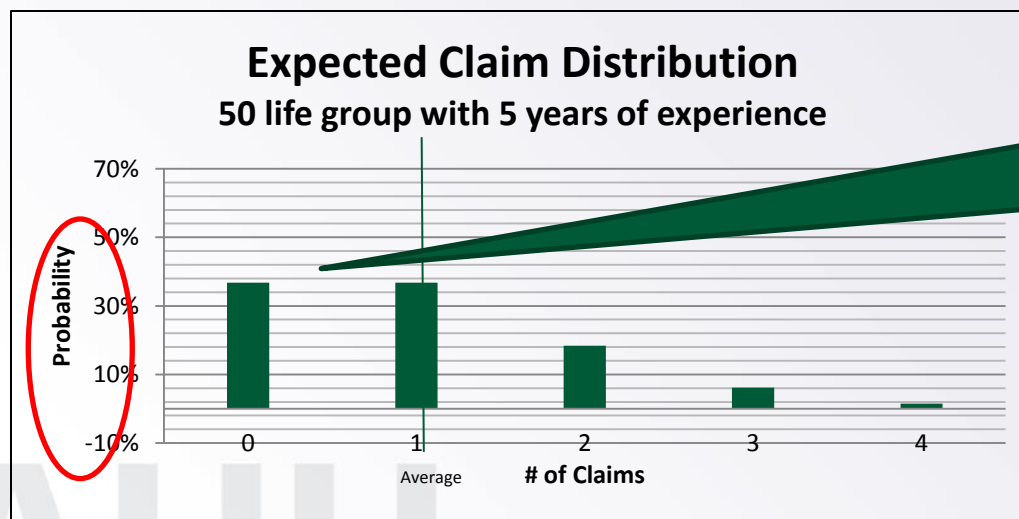


- Most likely outcome is 15% below the average outcome
- “Good” experience gets a discount even though most likely
- Market tendency to give more credibility to good experience and discredit poor experience with less credibility – the opposite is what the market should be doing

# Small groups are unlikely to have claims – that doesn't mean the risk is any less



60% of 25 life groups will not see an LTD claim over a 5-year period



More than one-third of 50 life groups will not see an LTD claim over a 5-year period

For groups with 100 lives its 1 in 7

# **Adding Value, Controlling Costs, and Increasing Productivity**

# Adding Value – Making the Employer Look Good when Costs are Rising

- Ancillary lines are inexpensive – add one
- Make HR's job easier – Absence Management, switch from ASO to fully insured
- Enhance existing programs by adding high value low cost benefits.
  - Assisted Living Benefit, Lifetime Security Benefit provide enhanced benefits for the severely disabled.
- Use plan design to control costs and improve productivity

# Controlling costs and Increasing Productivity through plan design selection

	<u>Incidence Per 1,000 Lives*</u>	
Contributory	5.6	
Non-contributory		3.8
60% Plan	4.0	
66 2/3% Plan	4.4	
LTD w/STD	6.3	
LTD Standalone	4.6	

\*Based on Standard Insurance Company claims,  
2000-2009; 18 million life years



# Disability Insurance

- Income Replacement not Lifestyle Insurance
- Avoiding the Moral Hazard
- Target 60-80% After-Tax Income Replacement

# Income Replacement (IR), Taxability, and IDI

Salary	LTD Plan	Taxability	IDI	IDI Offset	IR%
\$300k	60% to 10k	Yes	No	N/A	41%
\$300k	60% to 10k	No	No	N/A	58%
\$300k	60% to 15k	Yes	No	N/A	60%
\$300k	60% to 15k	No	No	N/A	87%
\$300k	50% to 15k	No	No	N/A	72%
\$300k	60% to 10k	Yes	5k	None	71%
\$300k	60% to 10k	Yes	5k	60%BD	71%
\$300k	60% to 15k	No	5k	80%BD	117%
\$300k	60% to 15k	No	5k	60%BD	90%

IDI offsets control costs and protect against over insurance while still providing adequate levels of income protection.

# Determining Full-Time Employee Status

- Full-time employee status means “an hour for which an employee is paid, or entitled to payment...”
- Includes time during which no duties are performed due to
  - Vacation
  - Military duty
  - Leave of absence
  - Layoff
  - Jury duty
- For purposes of 4980H to determine ALE status and employee’s status as full-time

# Full-Time Status and Disability Insurance

- Employee not performing services and retaining status as an employee; e.g. not terminated
- Receiving payments due to short-term disability or long term disability
- Results in hours of service unless “payments are made from an arrangement to which the employer did not contribute directly or indirectly”
  - After-tax premium contributions treated as employer did not contribute
  - Does not give rise to hours of service

Source: Notice 2015-87 Question 14

# QUESTIONS?

- You can submit written questions in the questions pane.
- Any questions that we do not answer we will review and post responses to on the webcasts page of the Compliance Corner.

# Questions?


# Other Questions?

## Other Compliance Questions

### NAHU Compliance Corner

Current NAHU Members can submit their benefits compliance questions to NAHU's Legislative Council's team of Compliance Corner experts online.

Slides and recording are  
available  
[www.nahu.org](http://www.nahu.org)

The background of the slide features a blue header with a red curved line separating it from a white body. A large, faint, light-blue watermark of the NAHU logo is visible in the background, spanning across the middle and bottom left. The logo consists of the letters 'NAHU' in a bold, sans-serif font, with a stylized arch or bridge-like shape underneath the letters.

# **Thank You for Attending!**