

DISABILITY INSURANCE

- UGLY AND GETTING UGLIER -

by R.J. Kelly

THE DISABILITY INSURANCE ship is foundering. For medical, legal and business professionals, the lifeboats will soon be gone, leaving only life vests to survive the heavy financial seas of disability.

The disability insurance industry, taking bold steps and making fundamental changes, is abandoning its higher-end policies.

"The individual disability insurance market is ugly and getting uglier," *Barron's* summarized in September, 1994. And that was before recent announcements of more wrenching changes by major insurers.

Noncancellable own-occupation policies - the lifeboat of choice for professionals historically - are quickly disappearing because of mounting carrier losses. (An own-occupation contract pays a benefit even if the insured were able to work in another occupation.)

Part of the problem, say analysts, is that doctors in California and Florida found disability checks more attractive than work. Some discovered that they could collect \$20,000 or \$30,000 a month and walk, or limp, away from stressful careers. For many, the retirement ethic replaced the work ethic.

Another part of the problem was, in hindsight, inadequate pricing by carriers. In 1993, the nine major writers of noncancellable disability income posted their seventh consecutive year of statutory losses.

And part of the problem is shrinking professional incomes due to economic shifts and increased taxes for higher-income earners. This

makes the often tax-free disability income a more attractive alternative.

Responding, prime carriers like UNUM have announced that they will cease offering the noncancellable, guaranteed-level premium contracts. UNUM calls this product a "mismatch" with "dramatic economic, societal and medical changes we are seeing today and expect in the future."

The largest writer of disability contracts, Paul Revere Insurance, promises sweeping "long-term structural changes in the DI (disability income) product." Another top DI company, Provident Life and Accident, will be implementing a "loss of earnings" contract early in 1995 to replace its line of "own-occ" policies.

What all this means: DI premiums will be lower; your money will buy a more flexible product; and it will look very little like contracts of today. This will be the disability life vest of the future.

Doctors, lawyers and business executives will be most affected and should be concerned that they are no longer the fair-haired darlings of the disability insurance industry. The industry will tighten underwriting on them, and at the same time widen and diversify its market solidly in the direction of middle-class wage earners.

Professionals, along with the indignity of losing some of their customer clout, will see these changes:

- Sharply limited benefits in noncancellable insurance where renewability of coverage and rates were once guaranteed;
- Shorter benefit periods, less liberal definitions of disability, and limitations for stress and

substance abuse claims;

- Cutbacks or elimination of lifetime payments;
- A relation-to-earnings clause that limits overinsurance - and the incentive for unjustified early retirement.

It helps to set these modifications in perspective. Many carriers entered the DI market during the boom of the '80s, and many have left it during the red-ink hard times of the '90s. As the competitive playing field changes, some insurers withdraw, some form strategic alliances, and others reposition in an attempt to restore profitability.

New generations of value-driven policies will share investment and claims risk with the insured and provide incentives for a healthy lifestyle.

Physicians particularly should feel a sense of urgency to get the most complete coverage they can before the window of opportunity closes. The window shuts for them (depending on the carrier) between December, 1994 and February, 1995. Others, such as attorneys and executives, will be affected by the end of 1995 - if not sooner - given industry trends.

My advice is: be open, be realistic, and take action - even if that action is only to review the coverage. The own-occupation policy is virtually gone, although current contracts will be grandfathered. The newly disabled neurosurgeon or attorney will be rehabilitated, where possible, and motivated to retool talents as necessary - rather than being put out handsomely to pasture.

The disability insurance industry is charting new waters. Don't get washed overboard.