At the 90th Annual Meeting of ALIMDA in 1981, I was a participant on a panel discussing disability insurance and related this story.

A few weeks after leaving private practice in 1976 to join the ranks of insurance company medical directors, I was told by my boss, half seriously and half facetiously, that if before I left practice I had climbed on top of my office desk or a waiting room table shouting "I just can't take this anymore," I would have been well on my way to being declared totally disabled from my occupation as a primary care internist. My non-cancelable "own occ to 65" disability policy would pay $2,000 monthly while I collected my salary as the medical director. If I had been really astute, I could have "loaded up" with other coverage including association and franchise policies. By then, work would have been given up because the benefits, tax free, would have surpassed my income.

How did all of this evolve? How did disability income insurance begin?

The first policies were probably sold after the Civil War, but as Charles Soule describes in his excellent book, *Disability Income Insurance - The Unique Risk*, they were for accident coverage only or were attached to life policies. Gradually, over the latter 1800's and early 1900's, companies offered separate contracts for small amounts of indemnity and for short periods of payments. The policies were cancelable and premiums could be increased. During the period of 1916-1925 companies such as the predecessors of the Paul Revere Life Insurance Company and the Monarch Life Insurance Company offered a non-cancelable, non-aggregate disability income policy. Weekly benefits were small and were paid up to two years with house confinement generally required. Other companies entered the market with larger dollar benefits unrelated to income and more liberal definitions of disability.

When the "great depression" of the 1930's hit, the careful conservative companies survived, but the others either failed or withdrew from the market. If a company regarded its disability business as a major portion of its plan with close management of risk selection, policy language, claims and pricing, survival chances were much better than if a company sold the product as an ancillary part of an agent's life or multiline portfolio.

As a result, of those companies that continued to offer disability income protection, most did so on a cancelable basis. However, the handful of companies continuing to offer the more desirable "non can" coverage grew and prospered. By the end of World War II, with their competitive edge, these companies increased their volume of business and had field organizations which were well trained and eager to sell.

Competition in the late 1940's and 1950's was almost non existent. Business for the "non can" companies was orderly and profitable. Inferior contracts were systematically replaced and despite 1930's memories, more and more companies entered the field to compete for the promising profits.

The late 1950's and 1960's were described by Benjamin F. Jones (my old boss) as the "leap frog years." Companies got caught up in getting the competitive edge by offering more favorable rates and liberalizing policy language. Issue and participation limits were increased; the two year "your occupation" provision jumped to five, then to ten, to age 65 and ultimately, to "lifetime." Emphasis moved away from risk selection, training and realistic pricing to one of having the most competitive contracts "on the street."

Brokerage business from independent and life company agents was actively pursued, and sales increased dramatically. Product lines were designed for sales impact without sufficient regard to the risks being assumed. Many were justified on incomplete, misinterpreted or nonexistent data.

In addition to offering benefits in "your occ" for longer time periods, monthly benefit amounts grew exponentially. The $200 and $300 dollar a month amounts grew to $1,000 and $3,000 by 1970. It became apparent that a claimant receiving $3,500 a month was an "instant mil-
lionaire" if the principal required for the payment was computed.

At the same time all of this was happening, government programs crept in with Social Security disability, state cash sickness and disability and Workers' Compensation enhancements. Companies found that with all the benefits available, overinsurance had to be dealt with as well.

Then, the U.S. was struck by the mid 1970's recession and losses began to mount to the point where from 1974-1980 they were on a scale greater than anytime since World War II. Companies that regarded their disability business as a minor part of their total operation saw their losses mount, and many either stopped selling it or became "client" companies of the major disability companies with the latter "manufacturing" the disability products for them, using their expertise. The disability companies themselves re-trenched, re-examining policy language, occupation classes, pricing and claims management as new products were developed. There were some attempts to discontinue "your occ to age 65" benefits, but competitive influences prevailed in most cases.

As the 1980's passed, companies still in the disability business became optimistic again. They felt the need to expand sales and increase annual premium to survive. They acquired other companies' blocks of business or recruited other organizations to become "client" companies. Underwriting was liberalized, monthly indemnity went to five figures and all kinds of amendments and riders (mentioned earlier) were devised to get that edge on the competition.

However, it is not surprising that for many companies, business done in the mid to late 1980's shows signs of deterioration. Claims are increasing as well as lasting longer, and the 30- and 60-day waiting period policy claims experience is worsening.

Claimants with back problems, heart problems, cancer and neuroses are now disabled longer than they were ten years ago. AIDS claimants, generally unpriced for, are living longer and disabled. Pregnancy complication claims are increasing in frequency but not duration.

A major factor in this trend is a change in societal attitudes combined with economic conditions. Soule talks about a society's "stability" and "motivation" in assessing optimal return-to-work issues, and these two qualities have taken a turn for the worse. For many, the old "Puritan work ethic" is passé.

With this becoming apparent, disability companies are once again trying to "hunker down" and adjust. Underwriting rules are tightening, especially financial underwriting, to prevent overinsurance. Claims procedures are being refined to get fast contact with the large indemnity claimants. Case management techniques along with rehabilitation are being applied to the individual non-can situations to optimize return to work. Mental health professionals are being hired to follow claimants with nervous or mental disorders. Changes in pricing new products are reflecting claims experience more accurately with higher premiums being charged in the high claims states. Occupational classes are being more closely analyzed as to claims experience with benefit and pricing changes made accordingly. The practice of extending "guarantee issue" of individual policies to groups is being reconsidered as well.

Needless to say, the outlook for the future is challenging. In this time of keen competition with shrinking profit margins and increasing claims payouts, companies are looking for ways to issue policies at lower unit costs, with electronic data transfer and artificial intelligence. The companies that will prosper will listen to their unified teams of marketers, underwriters, actuaries, claims reps, medical directors and field force in developing products that will fit needs for the 21st century rather than merely react after the damage is done.

Succinctly put, Soule observes that¹ "the student of the disability business must remember the fundamental fact that the business is cyclical. Claims experience is directly related to the economy - in good times claims are low and profits are at good levels, but in poor economic times claims will increase and profits decrease. Complicating this statement is the natural phenomenon of the disability business that causes a liberalization in products, rates and underwriting as a long period of sustained growth and profits develops. The longer the length of the good economic period, the greater pressure to relax and liberalize, and consequently the greater the magnitude of loss when the recession finally emerges."

Reference