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Editor's Note

Daniel D. Skwire, FSA, MAAA

Thank you for your patience while we transitioned the *Disability Newsletter* from print publication to online. We hope that you'll find it worth the wait as we begin our new era with a lengthy issue that covers a variety of timely topics.

In our lead article, Doug Taylor updates our annual study on the profitability of the non-cancelable individual disability market. Doug has made a few enhancements to the study, including adding results from several companies and untangling financial data that has been rearranged in NAIC annual statements. The bottom line is that non-can profits declined significantly at an industry level in 2020, due primarily to higher incurred claims. Coupled with pressure from low interest rates and the COVID-19 pandemic, 2020 was certainly a challenging year for IDI writers.

Paul Correia has written an article on state-mandated Paid Family and Medical Leave (PFML) programs and their potential impact on both plan sponsors and insurers. This topic has been a primary area of focus in the group disability market. The new benefits in many states are valuable for employees, but they do pose plan design and pricing challenges for employer and insurers who work in that market.

Lastly, Christin Kuretich discusses a variety of strategic issues related to product development in supplemental insurance markets. Have you ever found that a product wasn't as successful as you hoped? Or that you have a communication gap with your sales force? Or customers don't seem to be buying what you're selling? Then Christin has some helpful guidance that can help you address those challenges.

We hope that our move to online access of the *Disability Newsletter* will broaden our audience and, thus, the range of topics we write about. We are always happy to hear from you with comments or suggested article subjects. Meanwhile, enjoy the information in our current issue!

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Non-Cancelable Individual Disability Income Study – 2020 Financial Results

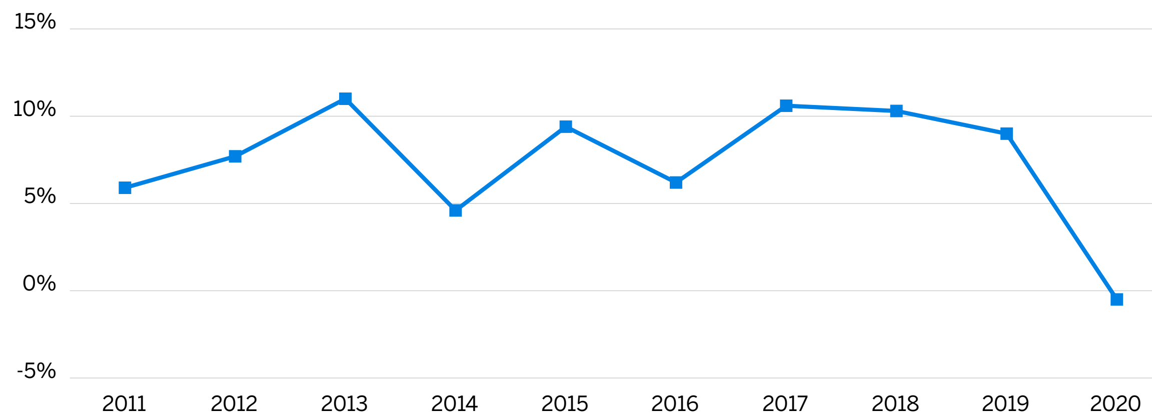
Douglas W. Taylor, FSA, MAAA

This article presents key results and trends on statutory financial results for individual non-cancelable individual disability income (non-can IDI) business from 2011 through 2020.

Executive summary

The pre-tax profit margin in 2020 took the most significant one-year drop since the 1990s, going from 9.0% in 2019 to a negative 0.5% in 2020. Figure 1 shows pre-tax profit margin for non-can IDI as a percentage of earned premium for 2011 through 2019. The sharp reduction in the pre-tax profit margin in 2020 may be attributable to higher claim reserves on new claims due to the change in the statutory minimum reserve basis, new claims arising from the COVID-19 pandemic, and decreasing interest rates.

FIGURE 1: PRE-TAX PROFIT MARGIN RATIOS PRE-TAX PROFIT MARGINS / EARNED PREMIUM



Introduction

Before getting into the study, please allow me to introduce myself. I am Doug Taylor, and I worked at Paul Revere/Provident/Unum and MassMutual, retiring from MassMutual last year. I have assumed the annual non-can IDI profitability study from Bob Beal. I have the honor of following the footsteps of my past mentor Duane Kidwell, who was the long-time chief actuary at Paul Revere. Duane performed this study for many years after taking it over from John Miller who was the originator of the *Disability Newsletter*. In the early 1980s, Duane chaired the actuarial team that created the 1985 Commissioners' Individual Disability A (CIDA) table, which has functioned as the IDI statutory minimum reserve basis since the late 1980s. Bob Beal and I co-chaired the actuarial team that created the 2013 IDI Valuation Tables (2013 IDIVT), which became the successor to the 1985 CIDA. Finally, many thanks to Mark Seliber, who performed this study for many years, first assisting Duane and then by himself after Duane retired. Mark has provided me with considerable historical documentation.

The purpose of the non-can IDI study is to give a high-level view of the health of the industry. The study looks at both income statements and balance sheets (reserves). Because of reporting limitations in the NAIC Annual Statement Blank (aka, "the NAIC Blue Book"), it is not possible to precisely separate IDI business from other types of business. Non-can business is usually IDI (particularly for most companies in this study), and over 85% of all IDI earned premium is written on a non-can basis. Guaranteed renewable business reported in the Blue Books typically includes not only some IDI, but long-term care as well. Thus, guaranteed renewable business falls out of the scope for this study.

Companies in the study

Figure 2 lists the individual companies whose data was used in this study. The study includes 18 companies comprised of 28 separate corporate entities that have written or are writing non-can IDI. Information was gathered from individual company Blue Books. Most companies make their Blue Books publicly available on their websites, and the California Department of Insurance also maintains a public database of statutory financials. While the data sources are publicly available, this study does not report individual company results.

FIGURE 2: COMPANIES INCLUDED IN THE 2020 NON-CAN PROFITABILITY STUDY

COMPANY GROUP	COMPANY	CATEGORY
CENTRE	CENTRE LIFE INSURANCE COMPANY	EXISTING
EQUITABLE	EQUITABLE FINANCIAL LIFE INSURANCE COMPANY	EXISTING
GUARDIAN	BERKSHIRE LIFE INSURANCE COMPANY OF AMERICA	EXISTING
GUARDIAN	GUARDIAN LIFE INSURANCE COMPANY OF AMERICA	EXISTING
MASSMUTUAL	MASSMUTUAL LIFE INSURANCE COMPANY	EXISTING
METLIFE	METROPOLITAN LIFE INSURANCE COMPANY	EXISTING
MONARCH	MONARCH LIFE INSURANCE COMPANY	EXISTING
MONY	MONY LIFE INSURANCE COMPANY	EXISTING
MUNICH	MUNICH AMERICAN REASSURANCE COMPANY	EXISTING
NATIONAL LIFE	NATIONAL LIFE OF VERMONT	EXISTING
NORTHWESTERN	NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY	EXISTING
PRINCIPAL	PRINCIPAL LIFE INSURANCE COMPANY	EXISTING
RIVERSOURCE	RIVERSOURCE LIFE INSURANCE COMPANY	EXISTING
RIVERSOURCE	RIVERSOURCE LIFE INSURANCE COMPANY OF NEW YORK	EXISTING
STANDARD	STANDARD INSURANCE COMPANY	EXISTING
UNUM	FIRST UNUM LIFE INSURANCE COMPANY	EXISTING
UNUM	PAUL REVERE LIFE INSURANCE COMPANY	EXISTING
UNUM	PROVIDENT LIFE & ACCIDENT INSURANCE COMPANY	EXISTING
UNUM	PROVIDENT LIFE & CASUALTY INSURANCE COMPANY	EXISTING
UNUM	UNUM LIFE INSURANCE COMPANY OF AMERICA	EXISTING
AMERITAS	AMERITAS LIFE INSURANCE CORPORATION	NEW
AMERITAS	AMERITAS LIFE INSURANCE CORPORATION OF NEW YORK	NEW
GENRE	GENERAL RE LIFE INSURANCE CORPORATION OF STAMFORD	NEW
ILLINOIS	ILLINOIS MUTUAL LIFE INSURANCE COMPANY	NEW
OHIO NATIONAL	OHIO NATIONAL LIFE ASSURANCE COMPANY	NEW
OHIO NATIONAL	OHIO NATIONAL LIFE INSURANCE COMPANY	NEW
STANDARD	STANDARD LIFE INSURANCE COMPANY OF NEW YORK	NEW
THRIVENT	THRIVENT FINANCIAL FOR LUTHERANS	NEW

Five new companies were added to this year's study in order to develop a fuller view of the IDI industry. Results of these companies were added starting in year 2017. The added companies only generated a 3% increase in earned premium, so results are not materially distorted by their inclusion. The past several studies split business between active and inactive writers. Because the inactive block is shrinking quickly, the active vs. inactive split has been removed from this study.

Methodology

This study is a complex undertaking. The sources of information are companies' NAIC Blue Books. The methodology involves estimation of key components in the profit statement such as net investment income, which are not available in the Blue Books for non-can IDI. In addition, the study attempts to unwind many of the reinsurance agreements that companies have implemented over the years with other on-shore and offshore companies. Key aspects of the methodology are described below:

1. Consistency with regards to both data and methodology was maintained throughout the study to avoid having too many company-specific adjustments.
2. The NAIC amended the Blue Books in 2019, adding more complexity in compiling this study.
   - The Analysis of Operations exhibit was changed. Prior to the changes, the non-can IDI business rolled through the "Other A&H" column, which covered all individual health business. The NAIC made changes that split out disability income results, but they were combined with group disability results.
   - Exhibit 6 (Accident and Health Reserves) was also changed to be consistent with the Analysis of Operations exhibit. Prior to the change, individual health business was split between non-can, guaranteed renewable, and other business. This study assumes that all non-can business is IDI. Now total disability income reserves are shown, both combining individual and group, and doing away with the non-can split.
   - Schedule H was not changed, making it the sole remaining schedule or exhibit with non-can IDI splits.
3. Schedule H provides reserves and most income statement items on a net-of-reinsurance basis.
4. Net investment income is included in Schedule H and was estimated for this study based on what was reported in the Analysis of Operations exhibit.
   - For pre-2019 results, non-can IDI NII was estimated based on its share of starting individual health reserves.
   - For post-2018 results, non-can IDI NII was estimated based on its share of starting total health reserves.
   - This method does not recognize asset and liability duration differences relative to other health products.
   - The resulting net investment income includes net investment income on surplus in addition to statutory reserves. No adjustment was made for this study to remove net investment income on surplus, mainly because companies use a variety of methods to allocate surplus by line of business (e.g., risk-based capital, accumulated lifetime surplus). Net investment income on surplus contributes greatly to non-can IDI profitability.
   - To achieve a more complete view of the industry, adjustments were made in a number of companies' statutory results to bring back reinsurance that had been ceded to reinsurers not in the study, primarily business ceded to non-US companies. This was done using ceded information in Schedule H as well as estimates of ceded reserves through Schedule S. For companies requiring this reserve adjustment, investment income was "grossed up" on the reserve adjustments, using the same earnings rate as calculated before adjustments.
   - Claim reserve margins could not be adjusted for reinsurance because information was not available, specifically splitting incurred claims between prior year and current year claims. In addition, certain reinsurance transactions in 2020 made this measure meaningless, so 2020 results were dropped.
5. Different financial measures were analyzed:
   - Income statement items as a percentage of earned premium
   - Estimated net investment income rates earned by assets backing reserves
   - Net benefit to earned premium ratios, aka, interest-adjusted loss ratios
   - Spending to earned premium ratios
   - Reserve to earned premium ratios
   - Claim reserve margins

6. All changes were made to the entire 10-year observation period of the study, not just to the observation period since the last publication. Consequently, financial results will not match exactly to those from past non-can profitability studies, but they are directionally close.

Income statement results

Figure 3 provides income statement information for all companies for the 2011-20 observation period. Ratios are of various income statement components to earned premium. Commentary on each component follows.

FIGURE 3: STATUTORY FINANCIAL RESULTS – ALL COMPANIES (RATIOS ARE PERCENTAGES OF EARNED PREMIUM. FIGURES ARE IN $ MILLIONS)

ITEM	2011	2012	2013	2014	2015
EARNED PREMIUM ($ MILLIONS)	$4,005	$4,050	$4,106	$4,112	$4,158
ANNUAL PREMIUM GROWTH RATE	0.7%	1.1%	1.4%	0.2%	1.1%
PRE-TAX PROFIT MARGIN	$238	$311	$451	$188	$393
RATIOS AS PERCENTAGES OF EARNED PREMIUM					
INVESTMENT INCOME	49.5%	50.5%	49.2%	49.0%	46.8%
INCURRED CLAIMS	101.2%	101.1%	95.3%	101.3%	90.2%
INCREASE IN POLICY RESERVES	-2.9%	-3.4%	-2.8%	-3.2%	-2.9%
INCURRED BENEFITS	98.2%	97.7%	92.5%	98.0%	87.4%
COMMISSIONS	13.8%	13.8%	12.8%	12.1%	12.7%
EXPENSES	17.0%	16.8%	17.5%	17.5%	18.4%
TAXES, LICENSES, FEES	2.7%	2.7%	2.7%	2.4%	2.6%
COMMISSIONS-EXPENSE-TAX	33.4%	33.2%	33.0%	32.0%	33.7%
AGGREGATE WRITE-INS	5.6%	5.3%	5.8%	7.2%	8.7%
DIVIDENDS	6.3%	6.6%	6.9%	7.3%	7.6%
PRE-TAX PROFIT MARGIN	**5.9%**	**7.7%**	**11.0%**	**4.6%**	**9.4%**

ITEM	2016	2017	2018	2019	2020
EARNED PREMIUM ($ MILLIONS)	$4,212	$4,385	$4,448	$4,482	$4,499
ANNUAL PREMIUM GROWTH RATE	1.3%	4.1%	1.4%	0.8%	0.4%
PRE-TAX PROFIT MARGIN	$260	$467	$456	$402	-$23
RATIOS AS PERCENTAGES OF EARNED PREMIUM					
INVESTMENT INCOME	44.8%	42.7%	42.0%	40.3%	38.9%
INCURRED CLAIMS	89.9%	82.1%	82.8%	79.2%	88.3%
INCREASE IN POLICY RESERVES	-1.5%	-1.1%	-2.6%	-1.5%	-0.8%
INCURRED BENEFITS	88.4%	81.0%	80.2%	77.7%	87.5%
COMMISSIONS	12.6%	12.7%	12.7%	12.8%	13.1%
EXPENSES	18.2%	19.0%	19.6%	19.4%	18.8%
TAXES, LICENSES, FEES	2.8%	2.7%	2.7%	2.6%	2.7%
COMMISSIONS-EXPENSE-TAX	33.6%	34.4%	35.0%	34.8%	34.6%
AGGREGATE WRITE-INS	8.9%	8.8%	8.5%	9.7%	7.8%
DIVIDENDS	7.8%	7.8%	8.0%	9.1%	9.5%
PRE-TAX PROFIT MARGIN	**6.2%**	**10.6%**	**10.3%**	**9.0%**	**-0.5%**

In total, earned premium has grown slowly and steadily over the last 10 years, as observed in Figure 4. This is due to steady sales and lapse experience. Premium growth in 2017 was further affected by the addition of five active new companies to the study (new companies increased premium by about 3%). Figure 4 shows the increase in earned premium in years 2017-2020 attributable to the addition of the new companies.

Figure 5 below shows the trend of estimated portfolio interest rates, as the ratio of estimated NII divided by starting reserves. It should be noted that some of the investment income is earned on surplus allocated to the line of business, which inflates the estimated portfolio rates. As new money rates have decreased over time, so have portfolio rates. The 2019-2020 results may be further affected by the Blue Book changes noted in the methodology section.

FIGURE 4: EARNED PREMIUM - FIGURES IN $MILLIONS

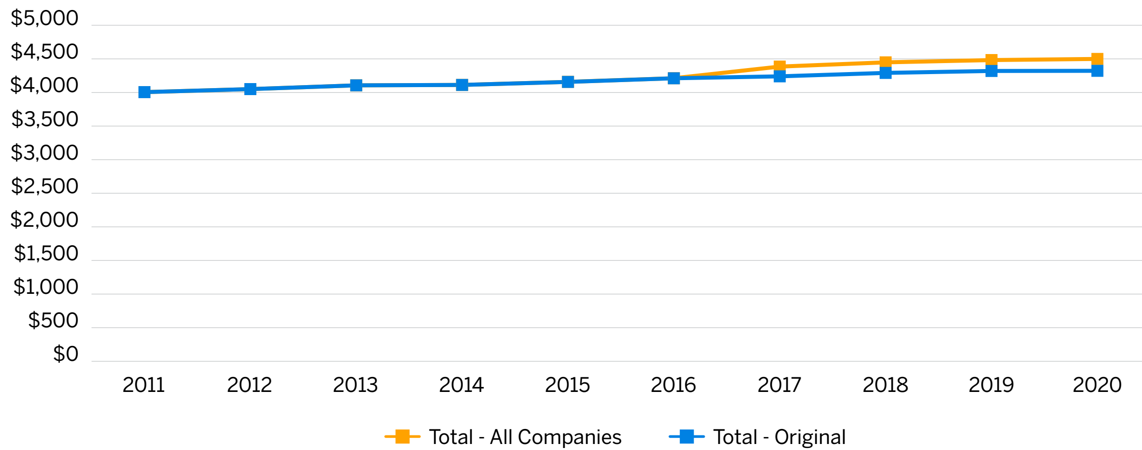


FIGURE 5: ESTIMATED PORTFOLIO INTEREST RATES ESTIMATED NII / STARTING RESERVES

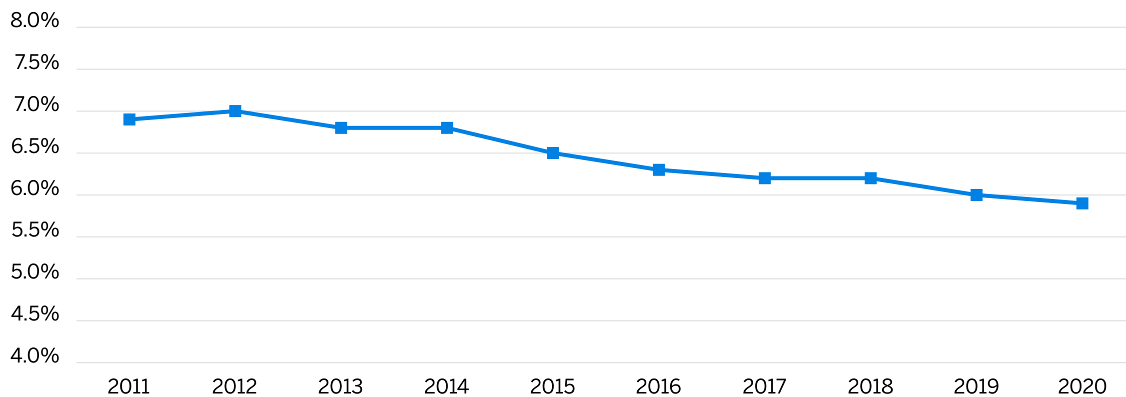


Figure 6 provides interest-adjusted net benefit ratios (incurred claims plus increase in policy reserves plus aggregate write-ins less interest on reserves at 4%, all divided by earned premium. The flat 4% interest rate is used in lieu of the actual statutory interest rates, which typically vary by issue year for active life reserves and onset year for claim reserves. Increases in policy reserves have been low as a percentage of premium over time, due to slow growth and aging of the business.

Incurred claims (benefits plus changes in claim reserve) reflect current morbidity. Recent industry experience studies have shown that IDI morbidity, particularly claim incidence, has been improving steadily since the mid-1990s. In contrast, incurred claim costs in 2020 were higher than usual. There are a couple of possible reasons for this:

i. 2020 was the first year that the new industry IDI valuation tables were in effect for both new issues and claims. The claim reserves based on the new table are higher than those based on the predecessor valuation basis, leading to higher reserves on new claims.

ii. 2020 was the first full year in our study affected by claims attributable to the COVID-19 pandemic. The non-can IDI business has heavily targeted the medical profession over time. It is possible that the indirect impact of the COVID-19 pandemic, such as higher workloads and stress levels, has caused higher-than-usual morbidity in the medical profession.

FIGURE 6: INTEREST-ADJUSTED NET BENEFIT RATIOS (INCURRED CLAIMS + INCREASE IN POLICY RESERVES + AGGREGATE WRITE-INS - INTEREST ON RESERVES) DIVIDED BY EARNED PREMIUM

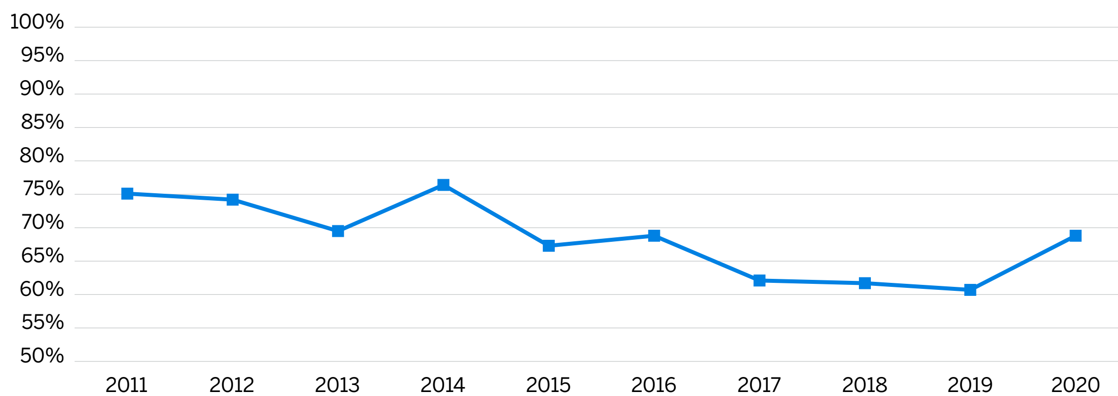


Figure 7 provides spending ratios, i.e., the sum of commissions, expenses, reinsurance allowances, and taxes/licenses/fees. They have been combined because companies may classify commissions and expenses differently. The ratio of spending to earned premium has remained steady throughout the study, reflective of the IDI industry's slow premium growth. Had sales increased at a faster rate, spending ratios probably would have increased due to higher acquisition costs.

FIGURE 7: SPENDING RATIOS (COMMISSIONS + EXPENSES + TAXES/LICENSES/FEES) / EARNED PREMIUM

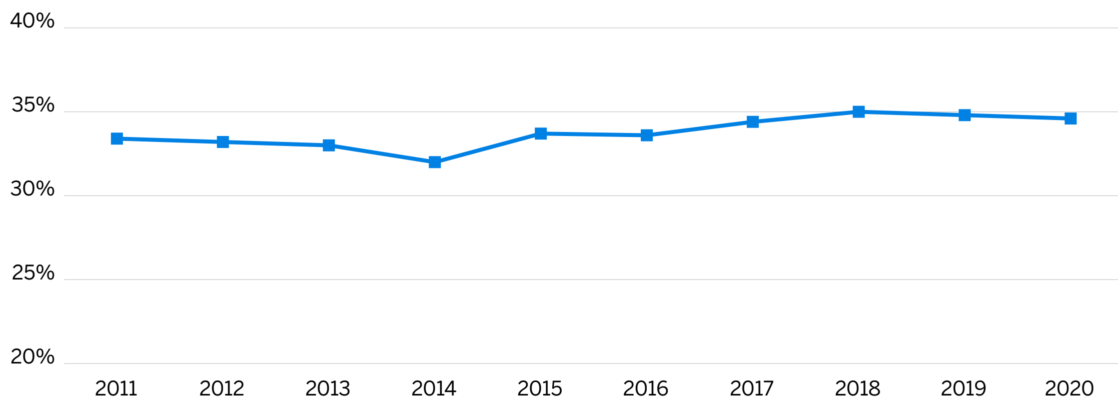
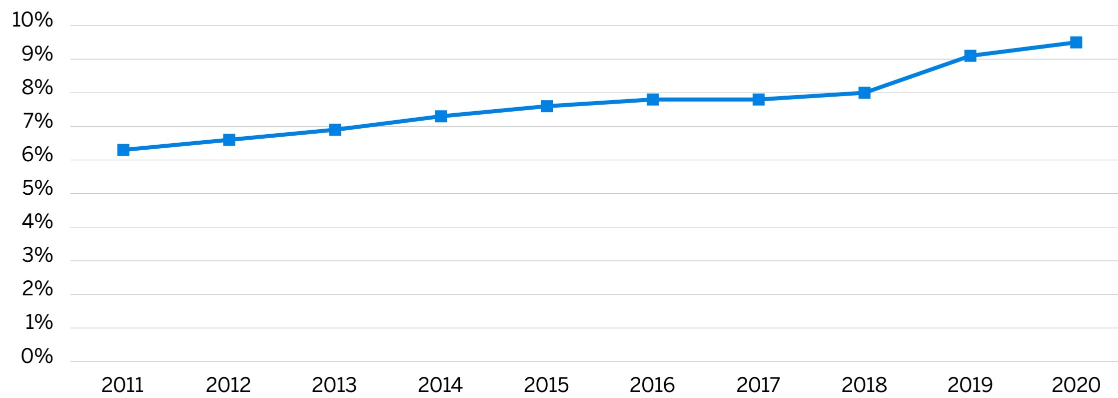


Figure 8 shows the ratio of policyholder dividends as a percentage of earned premium. Dividends are paid out by a few active mutual companies in the study, reflecting a pass-through of experience. Presumably as morbidity experience has improved, so have dividends as a percentage of premiums, possibly with a partial offset from decreasing interest rates.

FIGURE 8: DIVIDEND RATIOS (POLICYHOLDER DIVIDENDS / EARNED PREMIUM)



Balance sheet results

This section looks at balance sheet results, particularly reserve results.

Figure 9 shows claim and policy reserve balances for all companies. These tables also contain ratios of reserves to earned premium as a rough measure of reserve strength.

FIGURE 9: STATUTORY RESERVE RESULTS - ALL COMPANIES (FIGURES IN $ MILLIONS)

TOTAL	2011	2012	2013	2014	2015
EARNED PREMIUM	$ 4,005	$ 4,050	$ 4,106	$ 4,112	$ 4,158
POLICY RESERVES	$ 4,926	$ 4,789	$ 4,675	$ 4,542	$ 4,423
RATIO TO EARNED PREMIUM	123%	118%	114%	110%	106%
CLAIM RESERVES	$ 23,921	$ 24,419	$ 24,647	$ 25,060	$ 25,136
RATIO TO EARNED PREMIUM	597%	603%	600%	609%	605%
TOTAL STATUTORY RESERVES	$ 28,848	$ 29,208	$ 29,322	$ 29,602	$ 29,559
RATIO TO EARNED PREMIUM	720%	721%	714%	720%	711%

TOTAL	2016	2017	2018	2019	2020
EARNED PREMIUM	$ 4,212	$ 4,385	$ 4,448	$ 4,482	$ 4,499
POLICY RESERVES	$ 4,490	$ 4,441	$ 4,325	$ 4,261	$ 4,227
RATIO TO EARNED PREMIUM	107%	101%	97%	95%	94%
CLAIM RESERVES	$ 25,479	$ 25,325	$ 25,318	$ 25,181	$ 24,942
RATIO TO EARNED PREMIUM	605%	578%	569%	562%	554%
TOTAL STATUTORY RESERVES	$ 29,969	$ 29,766	$ 29,642	$ 29,442	$ 29,170
RATIO TO EARNED PREMIUM	711%	679%	666%	657%	648%

Figure 10 shows statutory reserve to premium ratios over time. This ratio has decreased slightly over time, possibly reflecting the aging of the business. Companies were required to implement the 2013 IDIVT by 2020 on at least new issues and claims, with the option to implement retroactively on all business. The new table is expected to generate higher claim reserves than the straight-up 1985 CIDA table, but companies may have already taken action to strengthen claim reserves over and above the 1985 CIDA tables over time. In any case, we may expect to see reserve/premium ratios increase slightly as reserves shift from older to newer valuation tables.

FIGURE 10: RESERVE TO PREMIUM RATIOS (POLICY PLUS CLAIM RESERVES) / EARNED PREMIUM

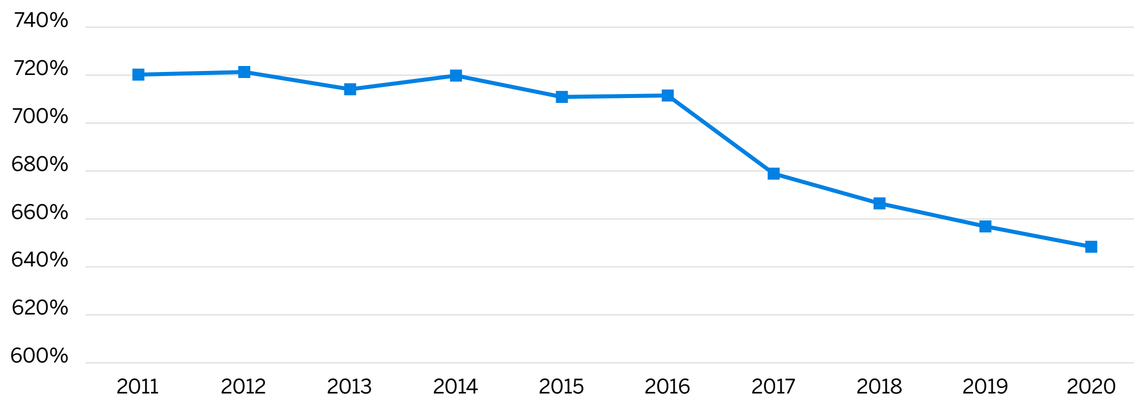
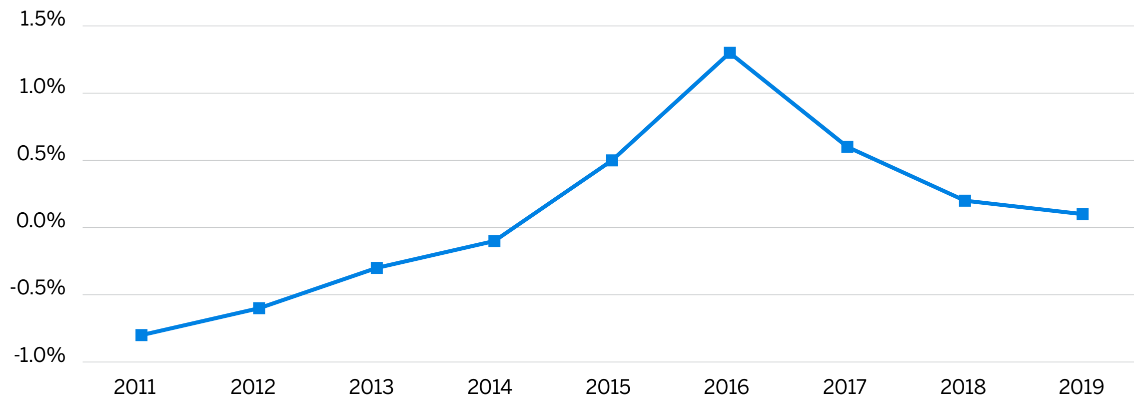


Figure 11 shows interest-adjusted claim reserve margin ratios. The formula is the prior year's claim reserves and liabilities plus 4% interest, less claim costs on prior year claims in the current year, all divided by the prior year's claim reserves and liabilities. Note that for this measure, reserves have no reinsurance adjustments, as that information was not available. This shows claim reserve margin net of reinsurance, as published in companies' financial statements. The 2020 results were not shown in Figure 11 because results were highly distorted by reinsurance transactions.

FIGURE 11: CLAIM RESERVE MARGINS PRIOR YEAR CLAIMS RESERVES PLUS INTEREST ON RESERVES LESS CLAIM COSTS ON PRIOR YEAR CLAIMS IN THE CURRENT YEAR



During years 2015 through 2019, the claim reserve margins were positive. Although this is not necessarily a demonstration of reserve adequacy, positive claim reserve margins over time indicate that claim experience is running off favorably in total relative to the assumed claim termination rates.

Conclusion

In summary, after years of favorable profitability, the industry had a downturn in financial results in 2020, due to higher incurred claims and declining interest rates.

- Morbidity experience could be caused by increased claims (indirect pandemic/economic effect) and/or use of new valuation standards.
- New money rates have generally decreased over time, dragging down overall portfolio rates.
- Spending has remained stable throughout the observation period.

Your comments and questions are welcome. I am particularly interested in hearing if your company's experience is in line with these results.

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PFML Considerations for Employers and Insurers

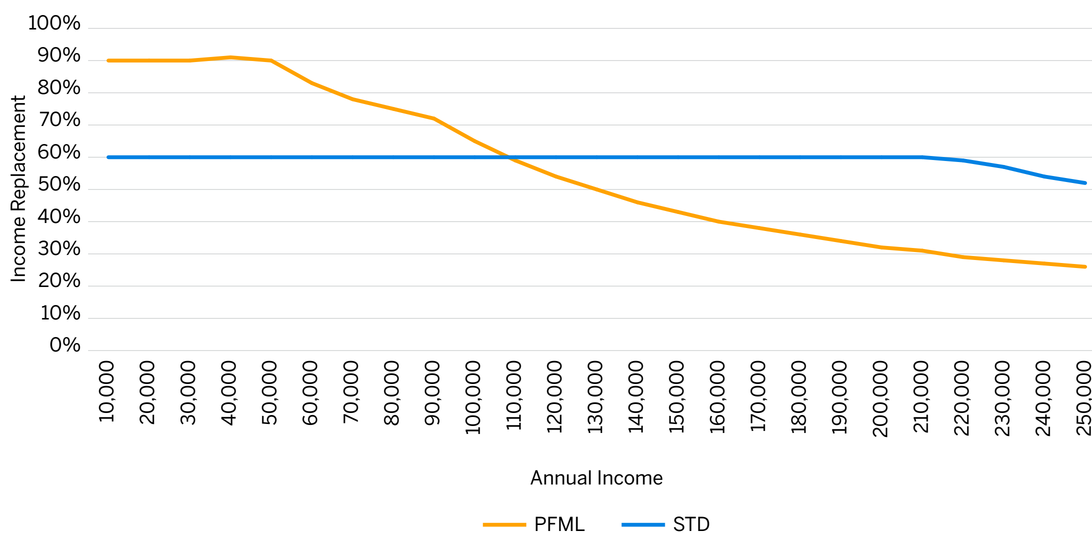
Paul Correia, FSA, MAAA

Paid family and medical leave (PFML) benefits are currently mandated in nine U.S. states plus the District of Columbia. Many other states have taken steps towards adopting their own PFML programs. Although the programs are different in every state, they all provide benefits to employees who take time off from work for personal health reasons. In this way, PFML benefits are similar to traditional group short-term disability (STD) benefits, and for this reason employers and insurers face many challenges in administering PFML and STD benefits concurrently. This article discusses some of the key considerations for employers and insurers.

Background

There are significant variations in PFML benefits by state. Generally speaking, however, PFML benefits are geared towards lower wage workers and often feature tiered benefits that provide higher income replacement for lower wage workers. They also feature relatively low maximum benefit amounts compared to STD. In the graph below, the red curve shows PFML income replacement ratios based on the PFML benefit structure in Washington State (similar patterns exist in other state programs that feature tiered benefits), and the green curve shows STD income replacement ratios based on STD benefits that replace 60% of income up to $2,500 per week (relatively standard STD benefit design).

FIGURE 1: PFML AND STD INCOME REPLACEMENT RATIOS BY ANNUAL INCOME



Because of these dynamics, employers with existing STD programs must decide whether or not to continue the STD coverage. This decision depends, in part, on the extent of overlapping coverage and the gaps left by PFML for higher wage employees. Employers who choose to provide STD and PFML concurrently must also decide how to best administer and coordinate the benefits.

Considerations for Employers

The process of coordinating STD and PFML can be challenging because PFML benefits are different in every state and they overlap with STD benefits in different ways. The employer's options are:

1. **Replacing the STD program with the state-mandated program.** This option may be simplest in terms of administration because it eliminates having to administer multiple plans. However, the employer has no control over the benefit design, and the mandated benefits may not provide

adequate coverage for some employees. Also, some states have faced challenges in managing PFML applications and benefit payments in timely fashion, which can negatively impact the employee experience.

2. **Redesigning the STD program to meet all of the requirements for PFML.** This option allows the employer to maintain control over the STD benefit structure. However, compliance can be complex, and the benefit design could change frequently because PFML benefits change on a regular basis.
3. **Coordinating the STD program with PFML benefits using benefit offsets.** This option provides the greatest control and flexibility in terms of benefit design. STD benefits can be designed according to the employer's own philosophy, and can be coordinated with PFML so that STD benefits are offset by PFML. This option may be the simplest in terms of communications and maintenance. However, coordinating STD and PFML benefits can be difficult in some situations, for example, when the STD plan features core and buy-up benefits.

In addition to coordinating STD and PFML benefits, there are other important considerations for employers. Workers are increasingly dispersed across different states, which may be accelerated by the remote work habits that have emerged during the COVID-19 pandemic. An employer in multiple states must ensure that each employee receives the benefit mandated in the state where they work. This can be an administrative burden for employers with a large national footprint. Disability insurers and benefit administrators have developed administrative platforms to assist employers who wish to outsource. The employer's decision to outsource is often motivated by the desire to simplify administration through a centralized and methodical framework. Other important considerations include compliance, case management, and risk. For example, it can be very challenging for employers that operate in several locations within the U.S. to keep up with the various compliance requirements emerging at the federal, state, and local levels.

Many smaller employers located in states with mandated PFML do not have the necessary resources to administer the benefits. These employers can either invest in the necessary resources—for example by adding staff and developing infrastructure—or seek outsource solutions from an external party.

Other key considerations for employers include:

- Overlapping STD and PFML benefits with requirements under federal laws such as the Family and Medical Leave Act (FMLA) and the Americans with Disabilities Act (ADA)
- Acquiring software that supports compliance, the application process, and data exchange
- Developing communications for employees and unions, including state variations
- Designing a program that is relatively simple and flexible, with the understanding that there will most likely be program changes to adapt to the changing PFML landscape

Considerations for Insurers

The emergence of mandated PFML has created opportunities for insurers to assist employers by assuming some or all of the administrative duties such as compliance, tracking, communications, intake, determination, case management, and return-to-work services. These services are often supported by an interactive platform equipped with file feeds between the insurer and the employer so that tracking, calendaring, and other information can be shared in real time. Some insurers may need to develop the necessary infrastructure and invest in additional resources to provide these services.

According to Milliman's 2021 Group Disability Market Survey, the STD industry represents approximately $5 billion in inforce premium. The introduction of PFML will impact STD revenues. In states with mandated benefits, some employers will lapse STD coverage in favor of PFML. Employers who continue STD coverage will likely see a reduction in premium rates due to PFML offsets. For these reasons, insurers risk losing STD revenue from employers in states with mandated benefits.

On the other hand, states that allow insurers to participate in PFML, and because PFML benefits tend to be more generous than STD benefits, it is possible that the combined STD/PFML market will provide a greater stream of revenue than the standalone STD market.

In terms of risk, it's reasonable to assume that PFML may impact STD and long-term disability (LTD) incidence rates. For example, PFML benefit eligibility requirements tend to be less stringent than those for STD claims. On cases where STD and PFML are provided concurrently, STD incidence rates could rise, as it may be difficult for the insurer to deny the STD claim if the PFML claim is approved. Adjusting the STD definition of disability to be more consistent with PFML could help mitigate this risk. LTD incidence rates could also be impacted by the introduction of PFML benefits, as there is evidence that LTD incidence rates are higher when the benefits are packaged with STD. For LTD plans not currently packaged with STD, the presence of PFML could have a similar impact on LTD incidence rates.

Conclusion

Employers in states with mandated PFML face many challenges in designing and administering their leave programs. Key considerations for these employers include compliance, IT support, communications, claim management, and coordination with other leave programs such as STD, FMLA, and ADA. Disability insurers have developed outsource solutions to assist employers with these challenges. Although the emergence of PFML has created opportunities for disability insurers, these come with new risks that may impact revenues and claim experience.

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Three strategies when your supplemental product tanks

Christin Kuretich

Maybe this has happened to you: You've worked for months, maybe years, on a new insurance product or benefit, only to have it completely tank after launch.

You question everything, and look back to see what hindsight could bring you—where did we go wrong? How did we miss something (and what is *that something*)? Is my sales team just complaining? Do we need to give it more time? How do we know when to pivot, double down, or call it quits?

The answers to these questions are nuanced, but there are several strategies that can start you on your journey to success. In the supplemental benefits market, which has evolved considerably over the last decade or more, there's an important balance between what we know has worked in the past and what changes may be necessary to meet people where they are today and in the future. You can claim, "but that's the way it's always been done," just as easily as you can caution someone on boldly stepping out with something no one has seen before. So how do you use both metrics to assess what went wrong and what went right? These three areas are a good place to start your analysis:

1. **Take your sales team seriously**
2. **Investigate what's already working that you're neglecting to highlight**
3. **Take a broader look at the current landscape**

Take your sales team seriously

This issue is number one because it's often swept aside while leadership teams look at every other solution. Sometimes the simplest place to start is to listen—truly listen—to your sales team. Your sales force is the most critical communication point you have in the field and with your customers. They're the guinea pigs, the first ones tasked with the test run of your hard work. After the product is built, your first job as a product leader in whatever capacity that includes—design, pricing, regulatory compliance, marketing—is to sell your sales team.

Sometimes the disconnect is a lack of training, or perhaps a lack of *effective* training. Individuals who choose the sales profession tend to do so because it connects with their personality, as well as the way they think, learn, and work. By the same token, product designers and actuaries (those generally responsible for building insurance products) choose their vocations for similar reasons.

So—can you use the same methods that work for you to teach the sales team? Have you walked a day (or more) in their shoes? Have you ever stood at the front of a conference room conducting a training session and watched helplessly as, one by one, members of your audience got up to pace at the back of the room, take a call, or simply chat with their neighbor about something completely off-topic?

Instead of taking offense, realize it's part of the process, and *triple* the effort to build an effective, impactful, and *interesting* training/bootcamp. Strategize with one or two sales folks ahead of the training to help you shape a deck and agenda that will be meaningful. Find the things that will matter to the individuals in the room, and accept that you'll need multiple follow-ups. A great plan is to conduct a half- or full-day training overview and then plan regular follow-ups over the next several weeks to dig into specific features.

But what happens after the training? What if you hit all the high notes and your sales team leaves your training pumped—and it still falls flat? That's where the open-mindedness sometimes ends. It's easy to feel that maybe they're not trying hard enough, or they aren't focused on the right things. Maybe some of that is true, but before getting defensive, listen to what your sales team is telling you.

- Did the elevator pitch you proposed actually work in real life?
- What objections are members of your team hearing? What can you learn from that, and how can you adjust your response?
- Are your marketing materials doing an effective job of highlighting the features?
- Is your product something people want to buy? Or is it just a great idea that isn't invoking action?

The answers to these questions could be tough to hear! But it's the key to making progress, and ensuring that six to nine months from now, you aren't standing in front of your steering committee defending the lack of sales.

View your sales team as partners. Do ride-alongs, present to their brokers, be open-minded to listen to the feedback you need to hear in order to pivot. Test out different pitches. You'll discover both constructive and complimentary things during this process, and both are vital in helping you find a way to succeed.

Investigate what you've already got that you're neglecting to highlight

Through the process outlined above, you may uncover some things that didn't jump out at you in the planning of your launch. Maybe there's a feature that's become crucial in your market, or a new concern from employers that brokers are trying to provide solutions for. Dig into your product to look through those lenses; you might already have what they're looking for!

Suppose, for example, that during the launch of a new hospital indemnity product, you discover that the exclusion (or inclusion) of mental health and/or substance abuse-related hospitalizations

or treatment is not mentioned in your contracts, but is currently an important talking point among employers. You may decide that certain features of your coverage should be emphasized and begin making those a key point in your product pitches; or, write articles and deliver presentations in the field about this critical piece of hospital coverage. Perhaps this was an early design decision that your team thought was important but not the central point of coverage. Whatever the case, listening for feedback and being able to highlight must-have features already built into the coverage can help you gain traction in a crowded market.

As another example, consider a critical illness product that boasts 110 covered conditions. Trying to highlight all of them is impossible and not very valuable. But focusing on the ones you hear come up in sales conversations, or the conditions that are becoming the main topic of discussions for brokers within the health plan, could help change the conversation from being not just about which carrier or product to choose, but also the rationale for choosing you and your product.

This sounds simplistic on the surface, but it means digging into the details. An insurance contract may not be a page turner, but getting familiar with provision, definition, and exclusion language can help you uncover a variety of opportunities to promote features in your product that others may not have. A brochure can only tell you so much.

Take a broader look at the current landscape

Above, we discussed the example of finding a condition to highlight within a critical illness or other type of supplemental plan by identifying what conditions are top of mind for brokers. You won't learn this through osmosis; it involves stepping back from the silos we often find ourselves in and looking at how these products interact with the broader health benefits provided to employees. Professionals who focus on the supplemental A&H and disability product market don't always get a front-row seat for discussions on health plans, total compensation packages, or stop loss. This is why your brokers get up every day; even though you're there to talk to them about supplemental benefits, ask questions about what's on their minds with today's medical plans.

Maybe you designed a new accident product feature to solve a problem that existed when you built it. But now that problem isn't a big deal; maybe legislation changed or healthcare providers found a way around it. Ensuring that the problems you solve are still the right problems is vital to your success. Through this process, perhaps you'll uncover a new set of issues. That's when you can go back to step two and see if you're already more prepared to respond than you think!

You can take an even bigger step back and look, not only at what impacts healthcare coverage today, but what influences the way certain illnesses are treated, or how certain injury treatment protocols have shifted. While you aren't always required to match product provisions with medical coverage, you can help keep products future-proofed and market-leading by learning about and connecting with the clinical side of your customer's experience. Sitting down with a physician or shadowing at a hospital is a creative way to learn about this area. Another way is to go back to the principles of product design and talk to your customers—not about your product, but about their experiences in areas that your product intersects with. You could learn some valuable things about the issues that families face, and that could lead to a whole other level of insights that can help take your launch from a sputter to a brilliant and beautiful takeoff (sorry, I'll always be a pilot's daughter).

So often the market gets focused on the race to zero. Yes, cost matters; you can't be the most expensive, but being the cheapest isn't the silver bullet either. The sales team needs to sell and the product team needs to develop and manage effective products. Bringing these two goals together through raw, unfiltered communication and open-mindedness to listen and hear what's really going on is the only way to ensure both teams win.

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