

## Stable Condition

*Could disability insurance become the new go-to market for health agents?*

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Life and health producers all know how disability insurance can protect one's income against a life-changing illness or injury.

But lately, it seems that the ones who need this coverage the most are producers themselves to safeguard their own practices from catastrophe.

The imminent catastrophe is, of course, the effects the federal Patient Protection and Affordable Care Act of 2010 (PPACA) could have on health insurance agent and broker commissions.

No one knows whether PPACA will really take effect as written, or at all, or if whatever version of the law takes effect will cut health producer commissions as much as industry watchers say it could.

Health insurers have been trying to slash producer commissions since the mid-1990s. Today, the members of the National Association of Health Underwriters, Arlington, Va., are still far more of a force to be reckoned with than the web services that tried to replace them.

The new threat to producers comes from PPACA, which will require carriers to hold the percentage of revenue spent on health care and quality improvement efforts to 85% for large group coverage and to 80% for individual and small group coverage. In 2014, PPACA could further reduce producer commissions by encouraging individuals and small employer groups to buy coverage from a new system of online health insurance exchanges.

Carriers already are using the new minimum medical loss ratio (MLR) rules as an excuse to impose the 50% commission cuts they have been talking about for a decade.

Even now, despite the pain the carriers' commission cuts have caused for some producers, the overall size of the effect has been hard to gauge.

At the start of the first-quarter earnings release season, for example, Aetna Inc., Hartford, said it had cut sales expenses by 9.6% from the total recorded in the first quarter of 2010. WellPoint Inc., Indianapolis, cut its sales expenses just 1.2%, to \$397 million.

But, even if PPACA dies, free market forces and tough negotiations could also lead to sharp cuts in commission payments.



In 2009, individual and group health insurers collected a total of about \$248 billion in premium revenue, government analysts reported in a paper in *Health Affairs*. If the average commission rate was 5%, those insurers might have paid a total of about \$12 billion in commissions.

Analysts in the Portland, Maine, office of Gen Re estimate U.S. group short-term, group long-term and individual disability insurance programs took in about \$18 billion per year in premiums.

Two significant players in the market – Unum Group Corp., Chattanooga, Tenn., and Standard Insurance, a unit of StanCorp Financial Group Inc., Portland, Ore. – reported in their 2010 Form 10-K annual reports that they spent an average of about 8% of their insurance premium revenue on commissions. If that holds true for disability insurers, then disability insurers may be paying producers about \$1.4 billion in commissions per year.

If PPACA and other forces wipe out half of the health insurance commissioner revenue, what can producers do to make up for the lost \$6 billion?

One popular answer is for producers to work harder at selling non-major medical protection products, such as dental insurance, vision care insurance, long term care insurance, critical illness insurance – and disability insurance.

Most adults can quickly think of several examples of relatives, friends and acquaintances whose lives were changed by temporary or long-term disabilities: The co-worker who worked night and day for her employer and for her daughter's PTA – and then suffered a stroke. The uncle who fell off the roof while trying to repair it. The friend who had a pain in his leg that turned out to be more than a pain in his leg.

**“Without adequate disability insurance, the lives of those living paycheck-to-paycheck can dissolve in just a few weeks.”**

Despite this, disability remains a hard sell and few customers understand that they are at least three times more likely to become disabled than they are to die, said Matthew Tasse, a Portland, Maine, insurance broker and a past chairman of the Life and Health Insurance Foundation for Education (LIFE), Arlington, Va. LIFE is the group organizing the May 2011 Disability Insurance Awareness Month public education campaign.

It is an incredibly important public policy need for people to have their income insured, Tasse said. When facing a disabling condition without adequate disability insurance, the lives of those living paycheck-to-paycheck can dissolve in just a few weeks.

“People don't think about it unless they're forced to think about it,” Tasse said. “They spend more time planning their vacations than they do thinking about life insurance and other insurance.”

To make disability a more compelling product to sell, the Standard Insurance unit at StanCorp Financial Group Inc., Portland, Ore., came up with the idea for a related individual disability insurance feature – a compassionate care feature for an insured who is caring for a loved one who is suffering from a devastating illness or injury – after a company attorney discovered the need for the benefit while his own wife was dying of cancer.

But only about 40% of U.S. workers have any kind of group or individual income protection. Insurers and trade groups have found that understanding of the concept is so weak that many Americans who clearly have no private disability coverage believe that they do.

A few states have disability insurance programs, but the state programs and the main federal disability program, the Social Security Disability Insurance (SSDI) program, can confuse matters by leading consumers to believe that they have more protection than they really have, Tasse said.

Applying for SSDI benefits is important, because getting SSDI can help an individual qualify for Medicare early and lock in Social Security retirement benefits based on peak, pre-disability income, Tasse said. But the average SSDI benefit is only about \$1,100 per month, and the bureaucracy that faces applicants can be daunting.

Companies such as Allsup Inc., Belleville, Mo., have made a specialty of helping people with disabilities get through the SSDI application process – and SSDI fired back by having Congress investigate the SSDI application process assistance firms for daring to help applicants with their claims.

Disability Insurance Services Inc., San Diego, is introducing a "What Will You Say?" campaign to go along with the LIFE disability month. "When a client becomes disabled, the conversation can go two ways," Disability Insurance Services President Dan Steenerson said. "You'll either feel great that you prepared the client for the unthinkable, or you'll awkwardly explain there's no coverage."

For insurers and producers, the big gap between "should have disability insurance" and "have disability insurance" represents an enormous opportunity. If producers could increase the \$18 billion in disability insurance premium revenue 50%, and continue to take about 8% of the new revenue in the form of commissions, they could replace more than \$1 billion of the lost health insurance commissions.

One obstacle is tight employer and employee budgets, and another is some employers' lingering memories of the early 1990s, when a change in the business climate for doctors and lawyers and the effects of sloppy disability insurance contracts led to financial problems and well-publicized claim payment problems at some troubled disability insurers.

Another obstacle is that, especially outside the world of employer-paid group disability plans, insurers fear adverse selection.

Milliman Inc., Seattle, recently devoted an article in its disability newsletter to the topic of applying sound medical underwriting principles to the voluntary, employee-paid group disability insurance market.

■ SNAPSHOT		
The Group Disability Insurance Industry		
Product	In-Force Revenue 2010	Change From 2009
LTD	\$9.6 billion	0%
STD	\$3.6 billion	4%
<b>TOTAL</b>	<b>\$13.2 billion</b>	<b>1%</b>

Source: Gen Re, Portland, Maine

"We have worked with a number of companies who utilize sound underwriting practices designed specifically for this market, but we have seen many group medical underwriting departments whose practices are placing profitability of this business severely at risk," Steve Case and Rowland Ricketts, executives at an outside consulting firm, warn in the Milliman newsletter article.

Meanwhile, many producers who are accustomed to the relatively simple straightforward process of selling health insurance – set several options before prospects, then for them to complain awhile but eventually say "yes" – are uncomfortable with the client education, new terminology and complicated contracts required in disability insurance market.

PPACA itself may have slowed disability insurance sales in 2010.

"Employers were somewhat uncertain about the immediate effects of PPACA," said Rich Henry, a vice president at Unum.

The Gen Re disability insurance market analysts recently reported that revenue from in-force U.S. group long-term disability and short-term disability insurance cases increased only 1% between 2009 and 2010, to about \$13 billion, and that revenue from new sales of group disability products fell 13%, to about \$2 billion.

Disability insurers have been trying to overcome the obstacles by funding 5 LIFE disability month campaigns.

Gradual improvement in the economy has revived some employers' interest in keeping employees.

"We're starting to see employers looking at adding benefits," not just employers looking for new ways to shift costs onto employees' shoulders, Petruzzi said.

And now PPACA has come along.

"It's certainly built a lot of awareness around the non-medical benefits," Petruzzi said.

Producers "are starting to look at how it might affect their business," Petruzzi said. "Not that everyone is totally understanding all of the changes."

Henry said Unum is hoping it can persuade benefits brokers who have occasionally been selling disability insurance plans to sell them regularly.

Digital Insurance Inc., Atlanta – a company famous for buying local health insurance agencies by the gross – recently highlighted the growing importance of non-medical benefits by introducing its first high-profile non-medical benefits program. One component is a critical illness insurance policy, a second is an accidental injury policy – and the third is an integrated short-term and long-term disability insurance policy.

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