Individual Disability:
Non-Cancelable vs. Guaranteed Renewable

White Paper by Scott Bunker, January 2012.

Disclosure: I have written this paper due to a void of readily available, quality information on this topic. It is not a guarantee, nor a prediction, of any future pricing or product behavior by disability carriers.

"Non-Cancelable & Guaranteed Renewable" Individual Disability Insurance defined:

- Non-Cancelable ("Non-Can") policies provide the right to continue a policy (normally through age 65) by paying the premiums on time. The insurance company cannot change the benefits/features or premiums shown in the policy.

"Guaranteed Renewable" Individual Disability Insurance defined:

- Herein referred to as "GR".
- Guaranteed Renewable policies provide the right to continue a policy (normally through age 65) by paying the premiums on time. The insurance company cannot change the benefits/features shown in the policy.
- The premium may be increased if it is changed for everyone in an entire class of policy owners, and then only after the carrier files new rates with the state and receives the state's approval. It CANNOT be adjusted for reasons related to a client's individual circumstances.

For a company to be justified in requesting new rates with the state, they at minimum would need to:

- Have had the same exact policy for sale to the public for at least 4-5 years in order to have credible historical claims/pricing experience.
- Actuarially be able to prove that they are not meeting product pricing expectations.
- Prepare price adjustment filings for each state insurance department in which the product is sold (this is similar to a new product filing, but just for the rates).

The State Insurance Departments then will decide to either:

- Approve the rate increase as applied.
- Decline to allow any rate increase.
- Approve a lesser rate increase than what was requested.

Generally speaking, over the years, disability insurance premium rates have remained steady and predictable, with some challenges in the medical occupation markets. Carriers that have had a GR product for years, in many cases decades, have either had no rate increases, or have had perhaps 1 increase over the life of the policy.

In my opinion, while GR rates are not guaranteed, the logical conclusion is that rate increases generally speaking are not likely for non-medical occupations. The financial & human resource outlay for the carrier to compile the data, prepare the state product filings, and manage the process with the insurance departments is considerable. Therefore it would be fairly safe to assume that unless a carrier is experiencing significantly higher loss-ratios than expected, they would not even attempt to apply for an increase as it would not be a sensible use of their time, effort and money.

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