MMC ENTERPRISE RISK

27th International Congress of Actuaries and Expo
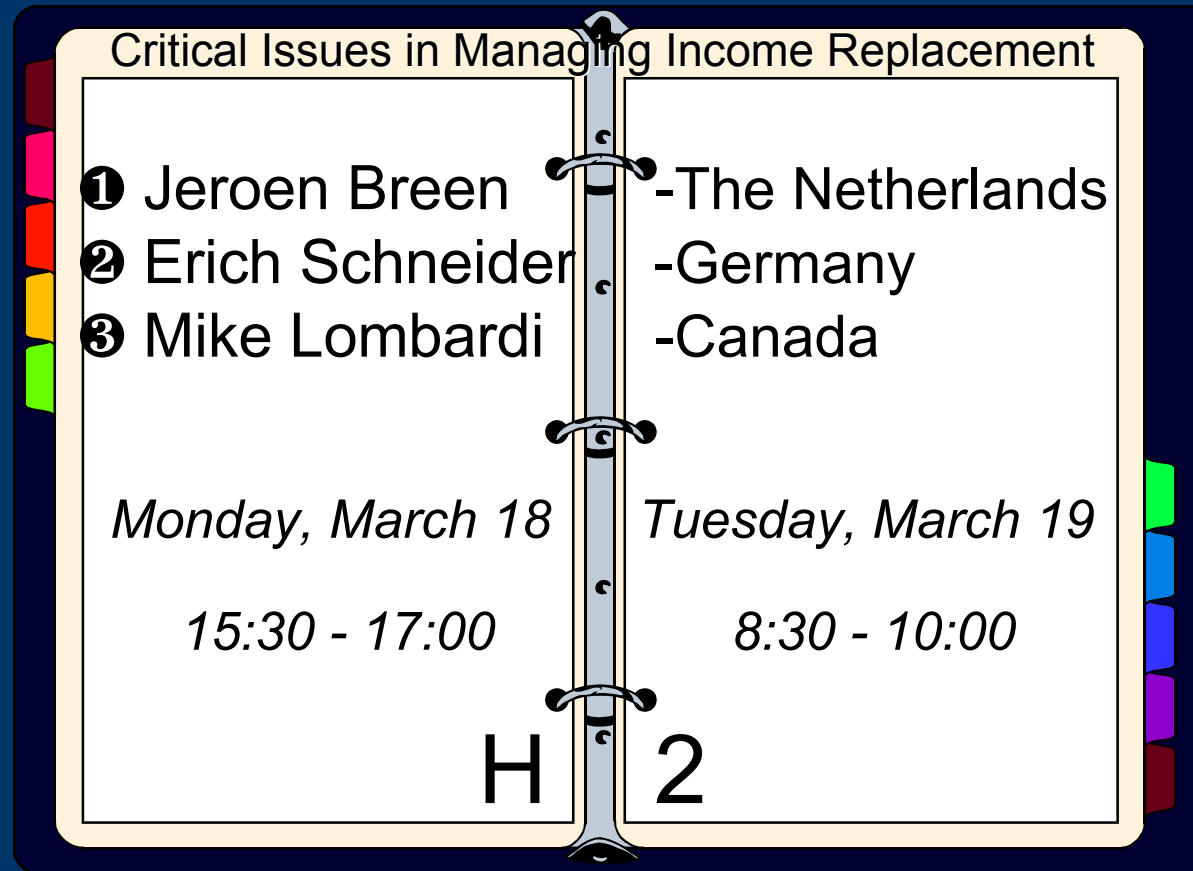
Cancún, México
March 17-22
2002

Health Insurance Practices Concurrent Sessions
Session H2: Critical Issues in Managing Income Replacement Insurance

MMC Marsh & McLennan Companies

ICA CANCUN 2002

Critical Issues in Managing Income Replacement

❶ Jeroen Breen   -The Netherlands
❷ Erich Schneider   -Germany
❸ Mike Lombardi   -Canada

Monday, March 18   *Tuesday, March 19*

15:30 - 17:00   *8:30 - 10:00*

H 2

MMC ENTERPRISE RISK

Income Replacement Insurances in The Netherlands

history - current - future

Jeroen Breen

The Netherlands

Agenda

- Introduction

- Some statistics

- Explanation of the Dutch Social Security System

- How insurers stepped into this market

- Current developments

- Questions

The World

Europe

The Netherlands

Comparison

- Surface area
  - ⇨ Mexico   1.958.201 km^2
  - ⇨ The Netherlands   40.844 km^2 (factor 48)

- Population
  - ⇨ Mexico   91.9 million
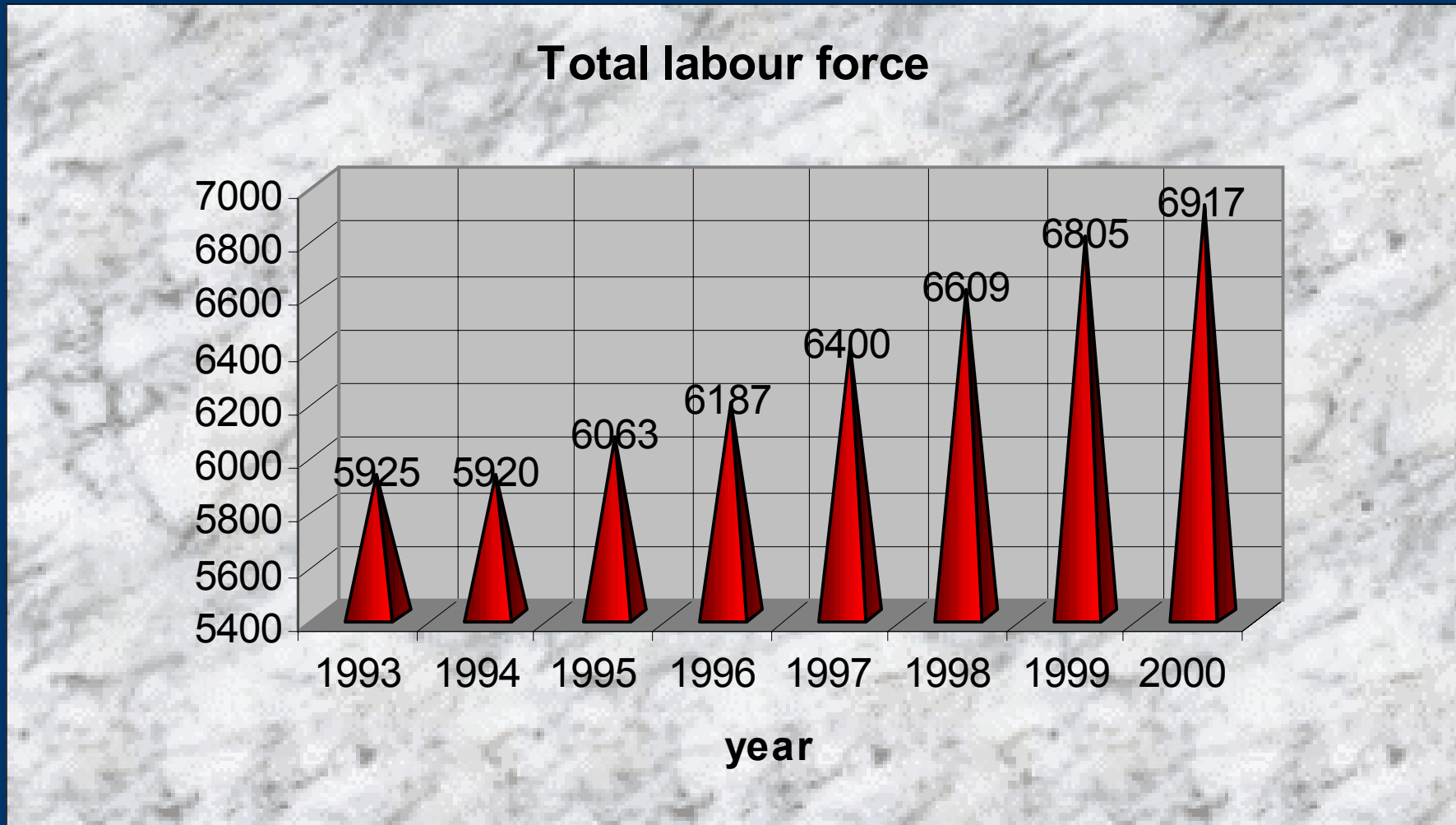 - ⇨ The Netherlands 16.0 million   (factor 5.75)

- Density
  - ⇨ Mexico   47 persons per km^2
  - ⇨ The Netherlands 392 persons per km^2

Some statistics in The Netherlands (2001)

- Total population 16.0 million
    - ⇨ 49.5% men
    - ⇨ 50.5% women

- Total labour force 6.9 million (= 43.1%)
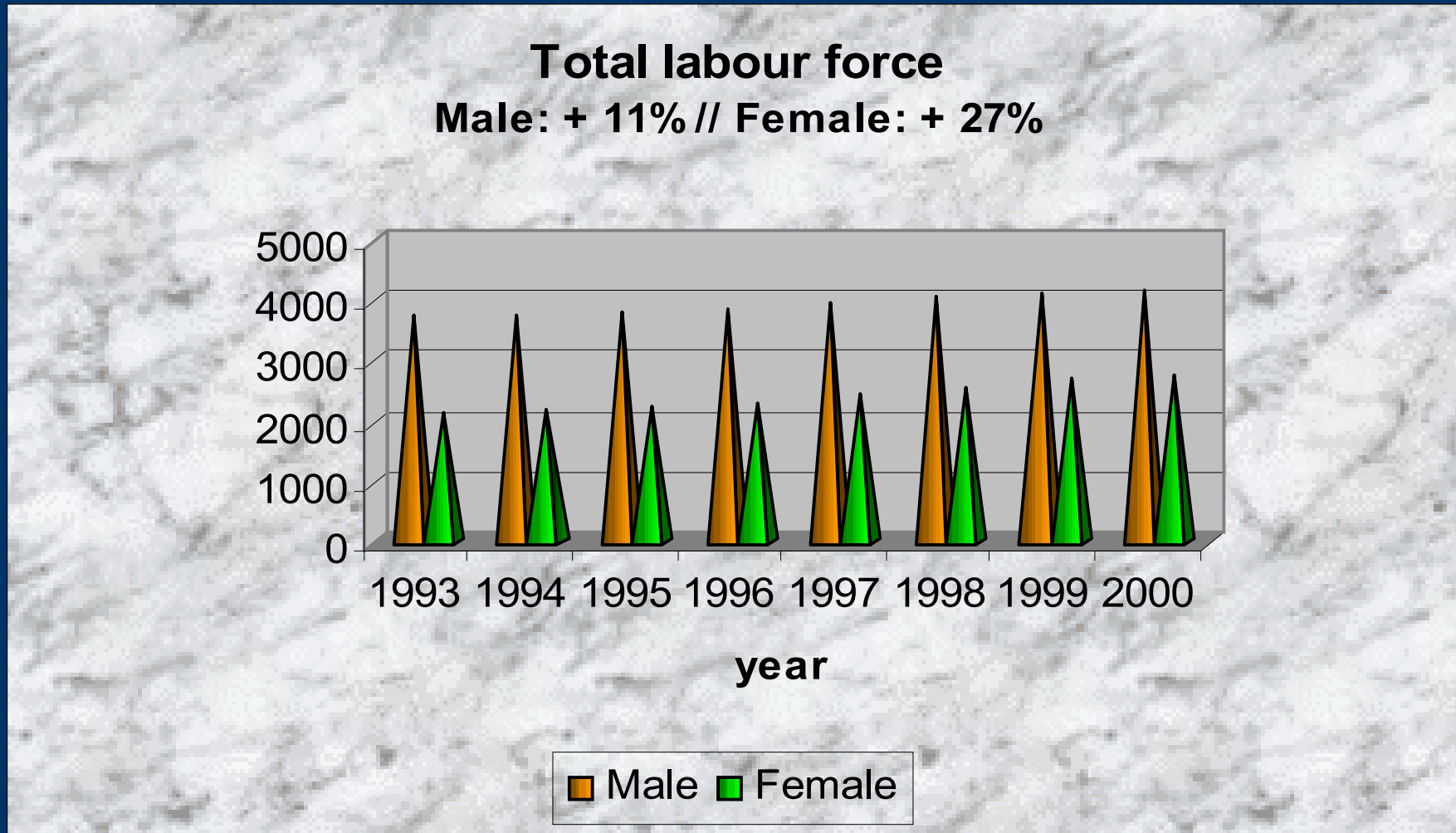   - ⇨ 59.7% men
    - ⇨ 40.3% women

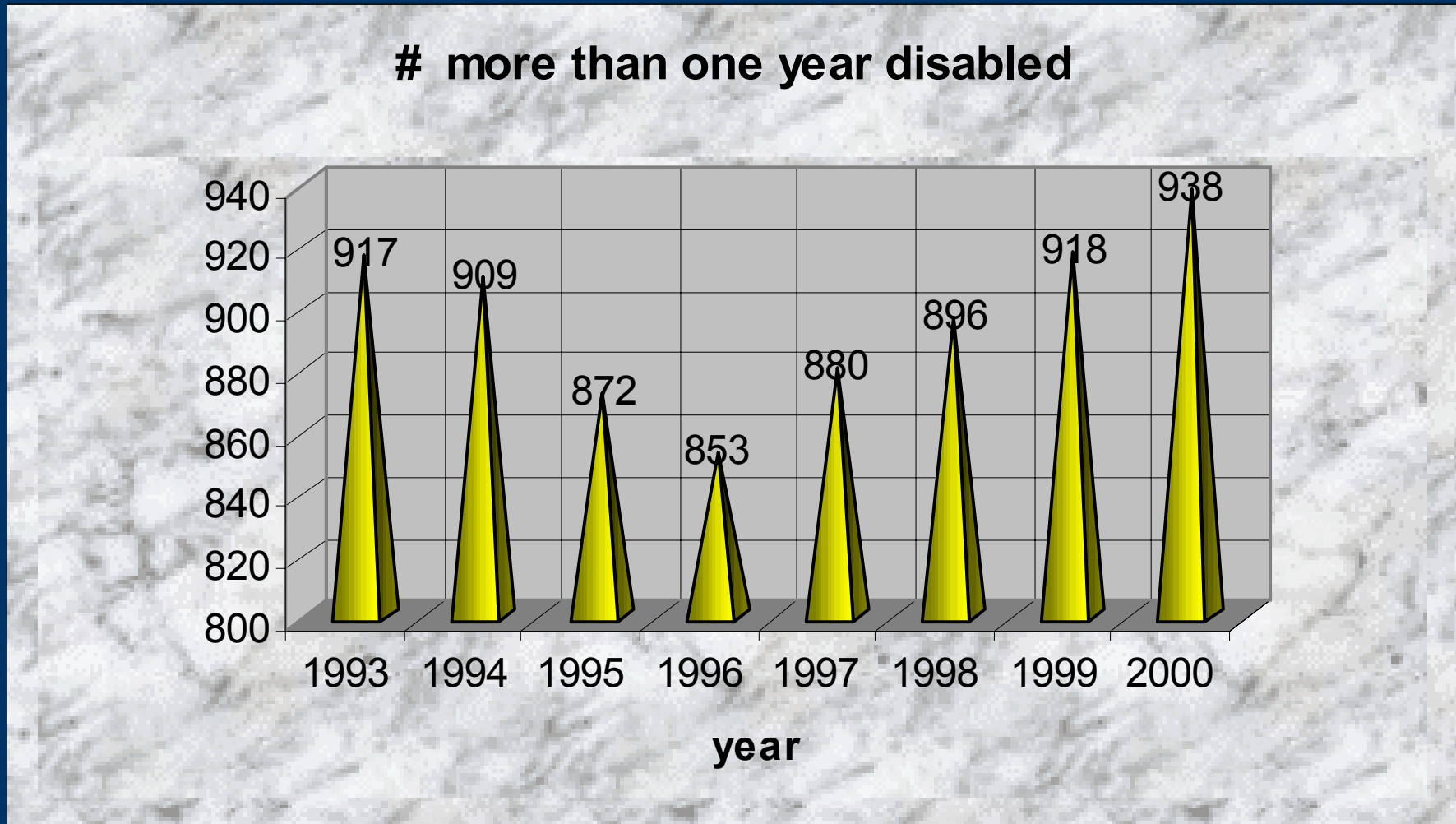# Total labour force in The Netherlands (*1000)
(source CBS)

Total labour force

year	value
1993	5925
1994	5920
1995	6063
1996	6187
1997	6400
1998	6609
1999	6805
2000	6917

Total labour force in The Netherlands (*1000)
(source CBS)

Total labour force
Male: + 11% // Female: + 27%

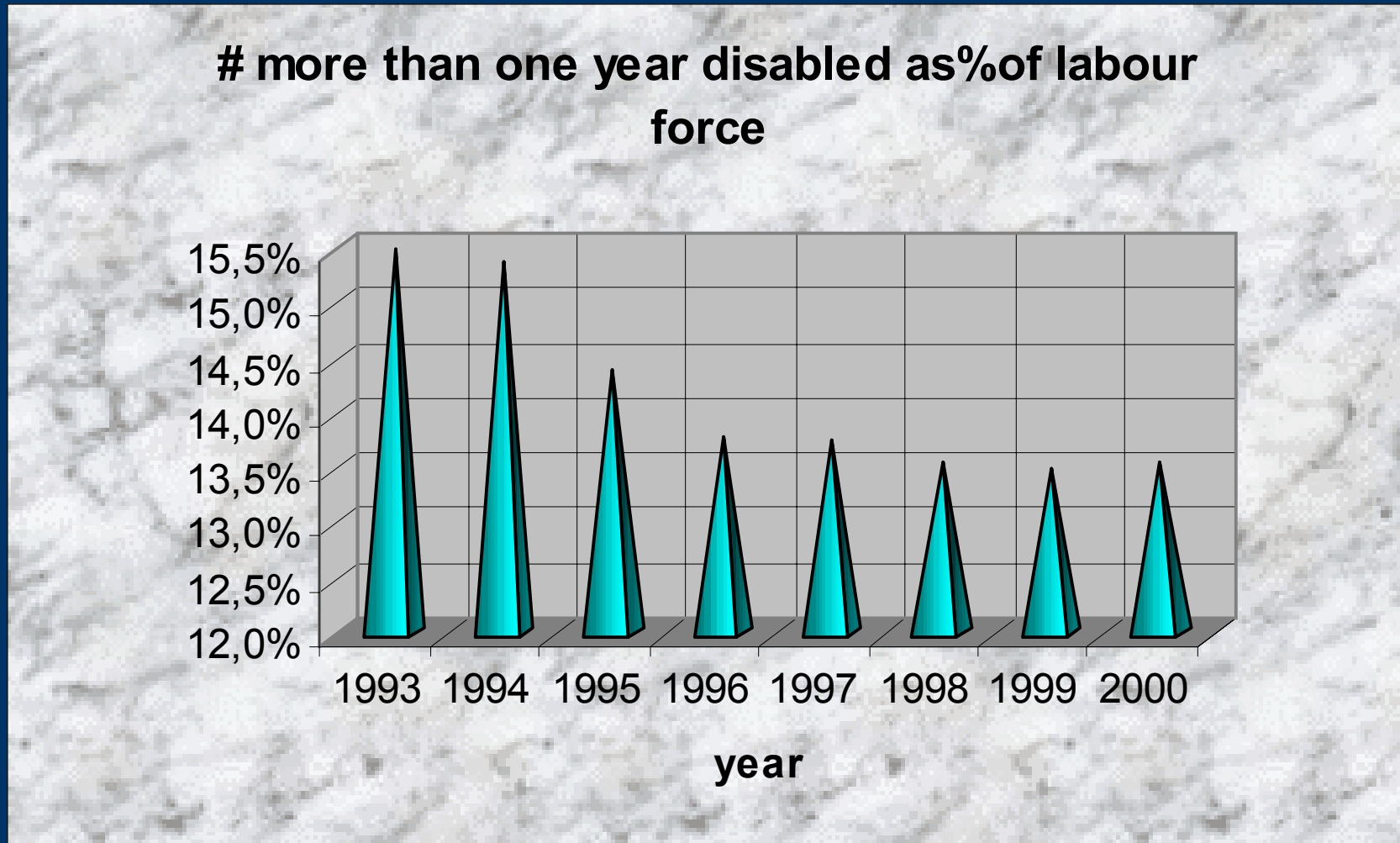# Number of people more than one year disabled (*1000)
(source CBS)

Causes

- Physical condition (33%): back trouble / Parkinson / shoulder injury / Whiplash / ME / RSI

- Mental condition (33%): burn out due to ie. conflict at work (1/3) or a divorce
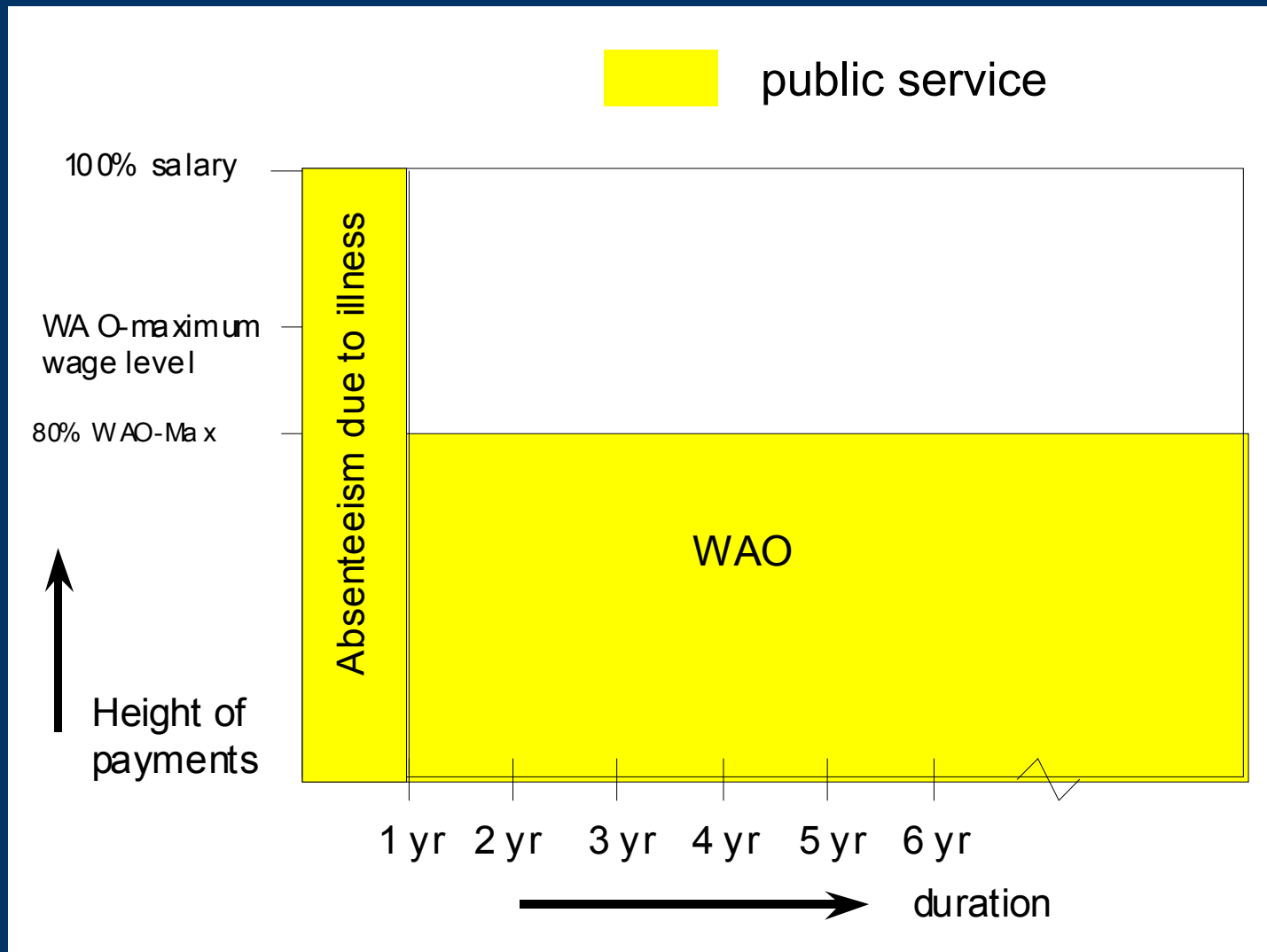

- Others (33%)

Percentage of labour force people disabled more than one year (source CBS)

 # more than one year disabled as%of labour force

Social security in The Netherlands between 1967 and 2002

➢ From a Social *secure* System

to a

➢ Social *not-so-secure-anymore* System
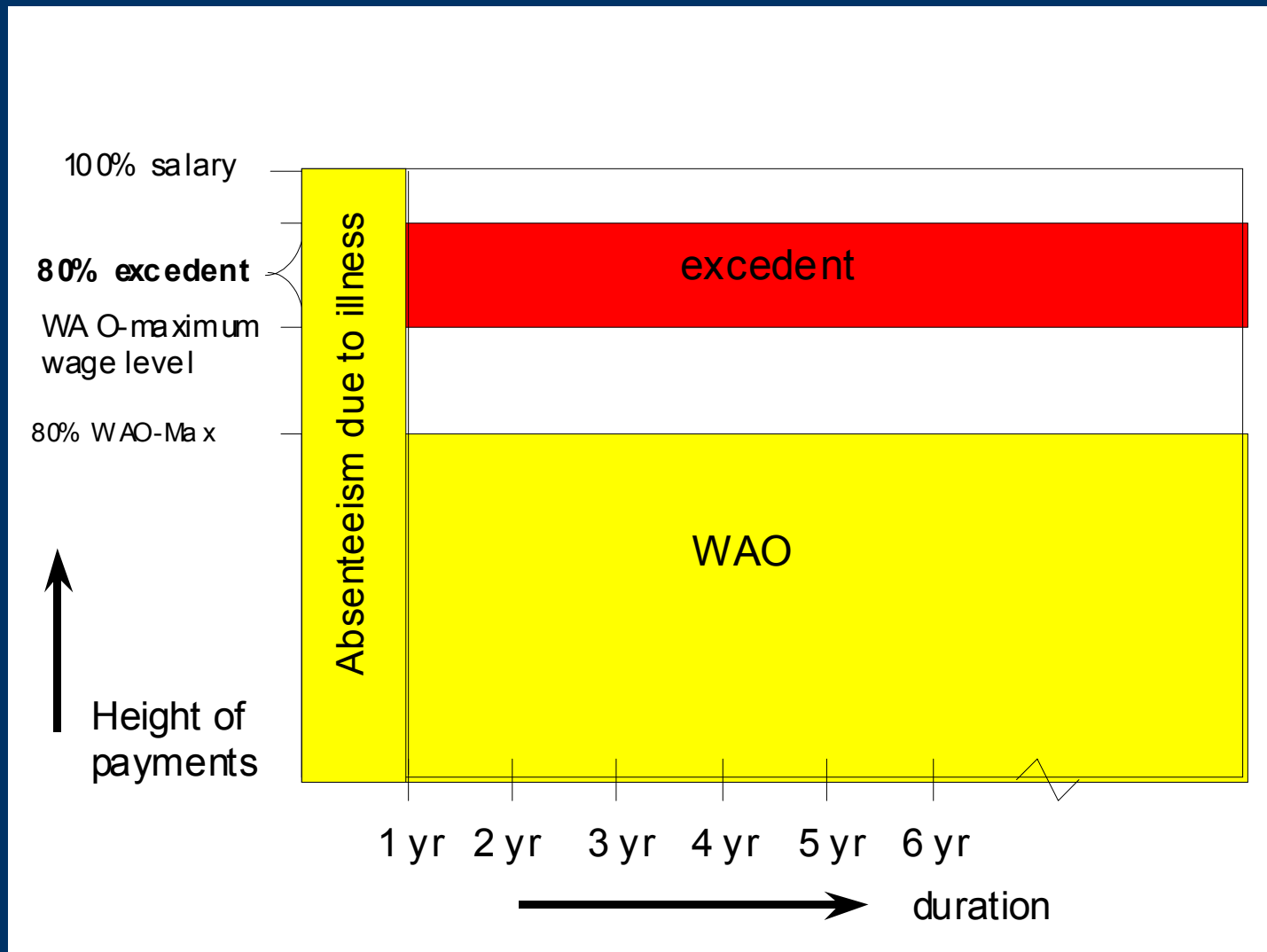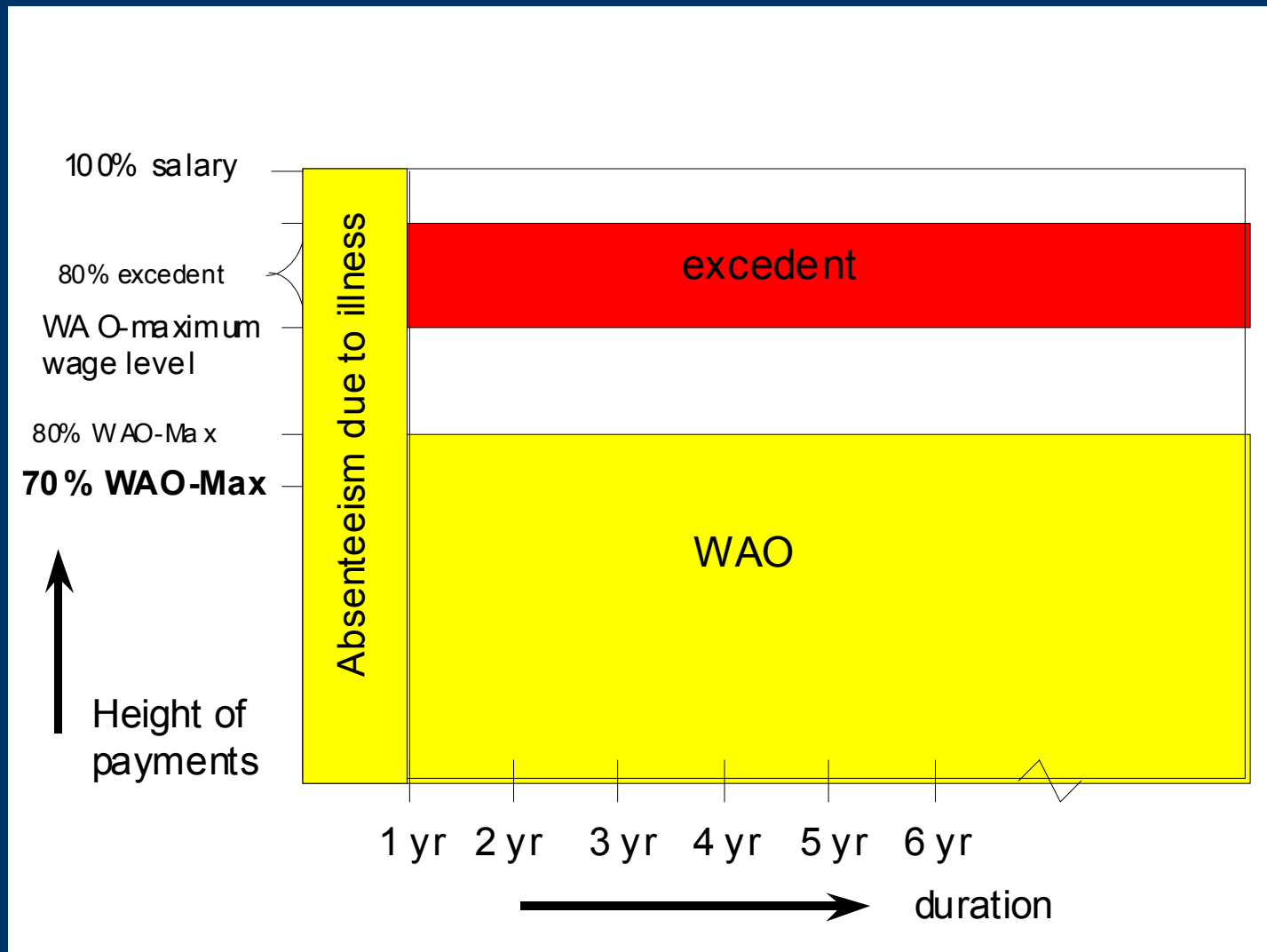
Situation in 1967

Situation in 1967

1967: WAO

employees received 80% of their last salary till a maximum salary

(max sal in 1-1-2002: about € 41.000,-)

$\Rightarrow$ Excedent, offered by insurers or covered within pensionfunds

1967 - WAO

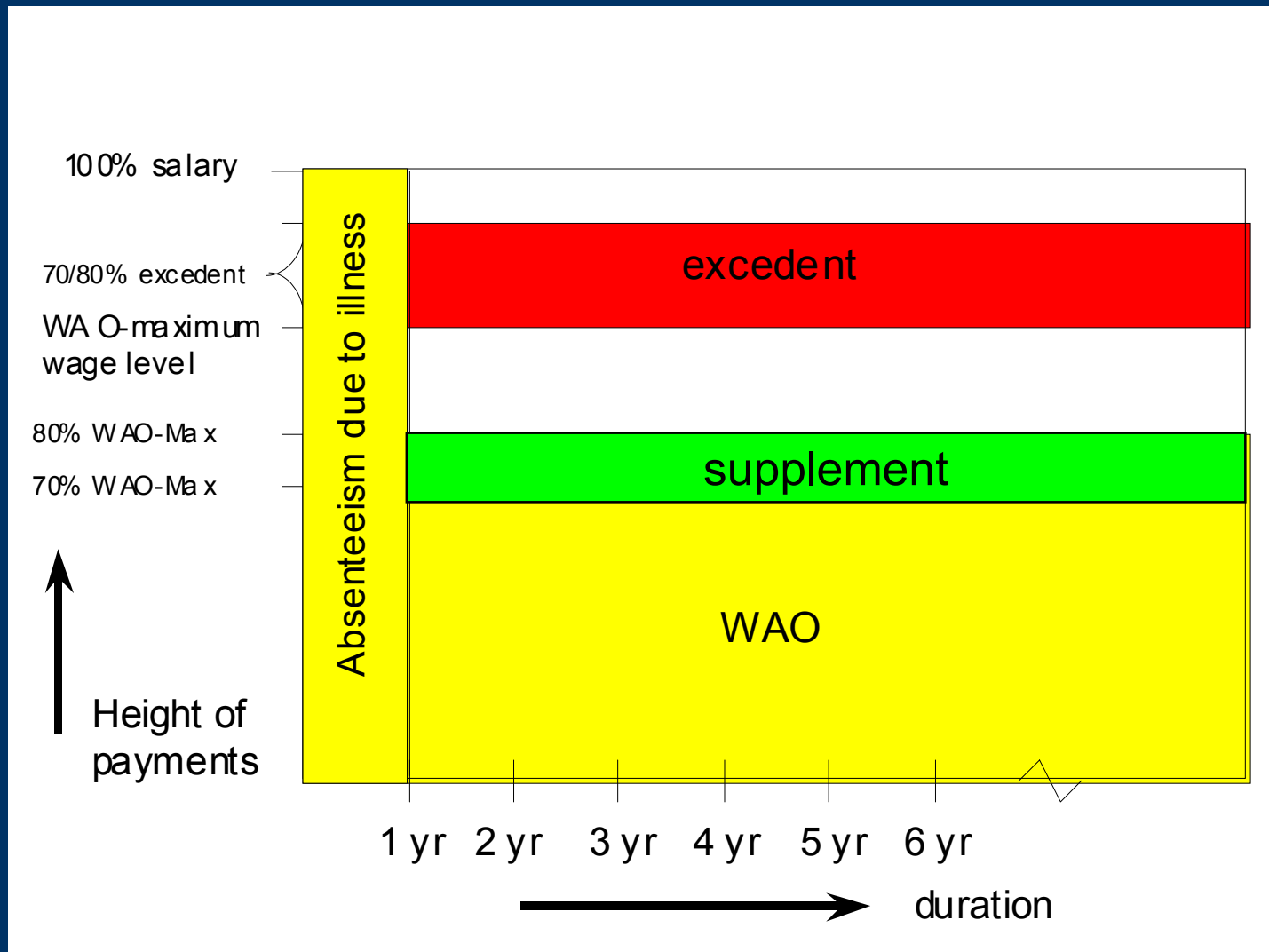# 1987 - reduce payments form 80% to 70%

1987 - WAO

1987: WAO

employees got only **70%** of their last salary till a maximum salary

$\Rightarrow$ Supplement, offered by insurers or covered within pensionfunds

1987 - reduce payments form 80% to 70%

1993 : TBA-law ⇨ WAO-gap
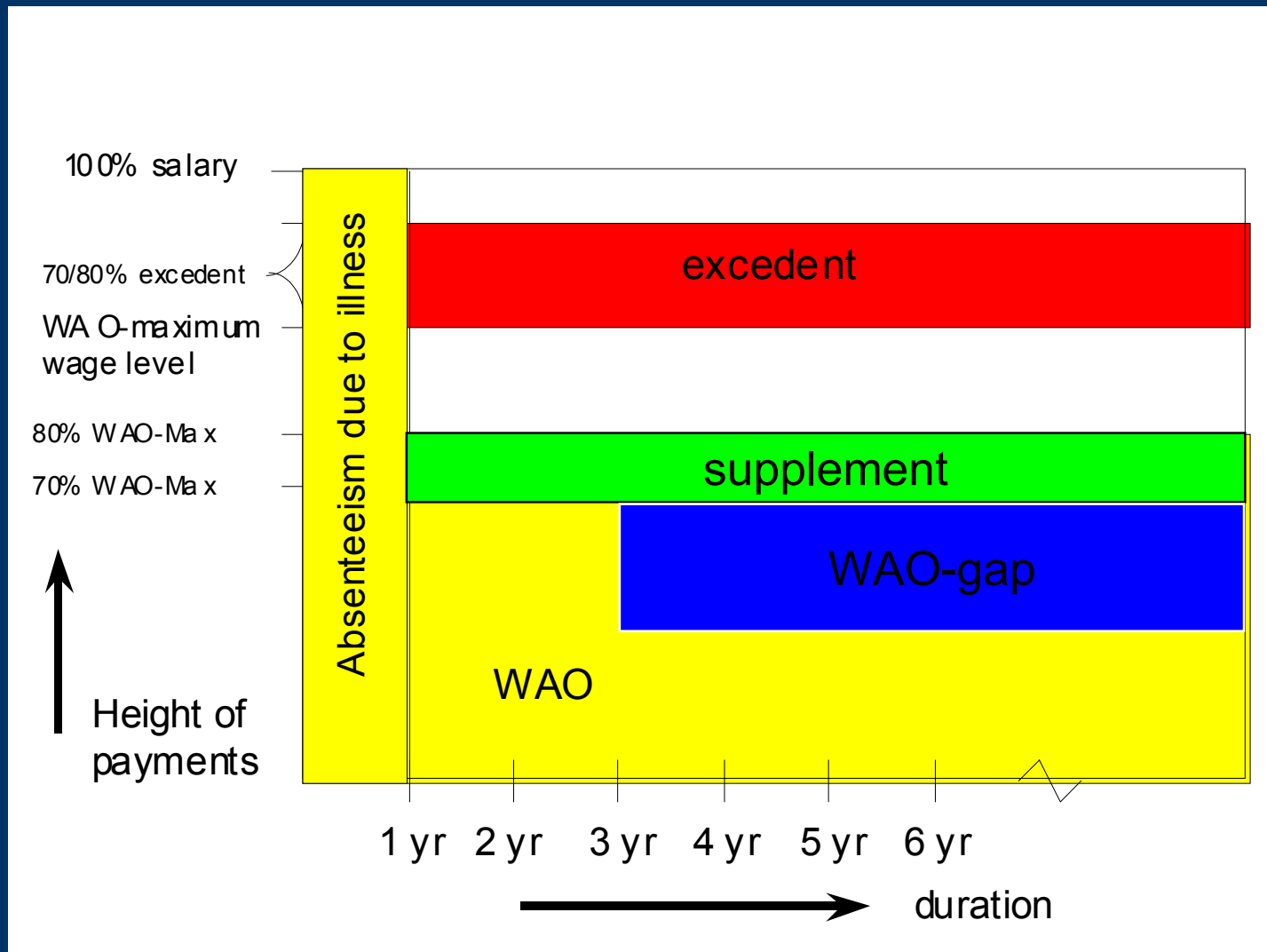
Law TBA (Force back appeal to disability)

In 1993 the law TBA came effected

Important changes:

  - the disability criterium changed from suitable work to accepted work

  - adjustment of the height of the WAO payment

  (Follow-up Payment) ⇒ WAO-"gap"

A lot of insurance companies started to develop products to fill this gap

1993 - TBA-law ⇨ WAO-gap

WAO-Gap

Law TBA (Force back appeal to disability)

The period of habituation

AGE	< 33	0.0
33<= AGE	< 38	0.5
38<= AGE	< 43	1.0
43<= AGE	< 48	1.5
48<= AGE	< 53	2.0
53<= AGE	< 58	3.0
58 = AGE		6.0

AGE = the age on the start of the WAO.

WAO-Gap

Follow-up Payment

$FuPx = 70\% * [\ WMLx + 0{,}02 * (AGE - 15) * (SALx - WMLx)]$

$SALx = MAX\ (SALx, MaxSal)$

$WML\ x =$ legal minimum wage

$AGE =$ the age on the start of the WAO

WAO - gap   = $70\% * SALx - FuPx$

    = $70\% * [SALx - (WMLx + 0{,}02 * (AGE-15) *(SALx-WMLx))]$

    = $1{,}4\% * (65 - AGE) * (SALx - WMLx)$

The higher the age the lower the WAO-gap

1996: Wulbz (first year of illness)

➢ On 1st March 1996 the law WULBZ

("Wet Uitbreiding Loondoorbetalingverplichting") came affected

➢ Each employer became legally bound to pay at least 70% of the salary to ill employee during the first year

➢ Employers could insure this risk by

- Conventional insurance products

- Stop - loss insurance products - new in the insurance market

1994 - 2/6 weeks at employer's risk
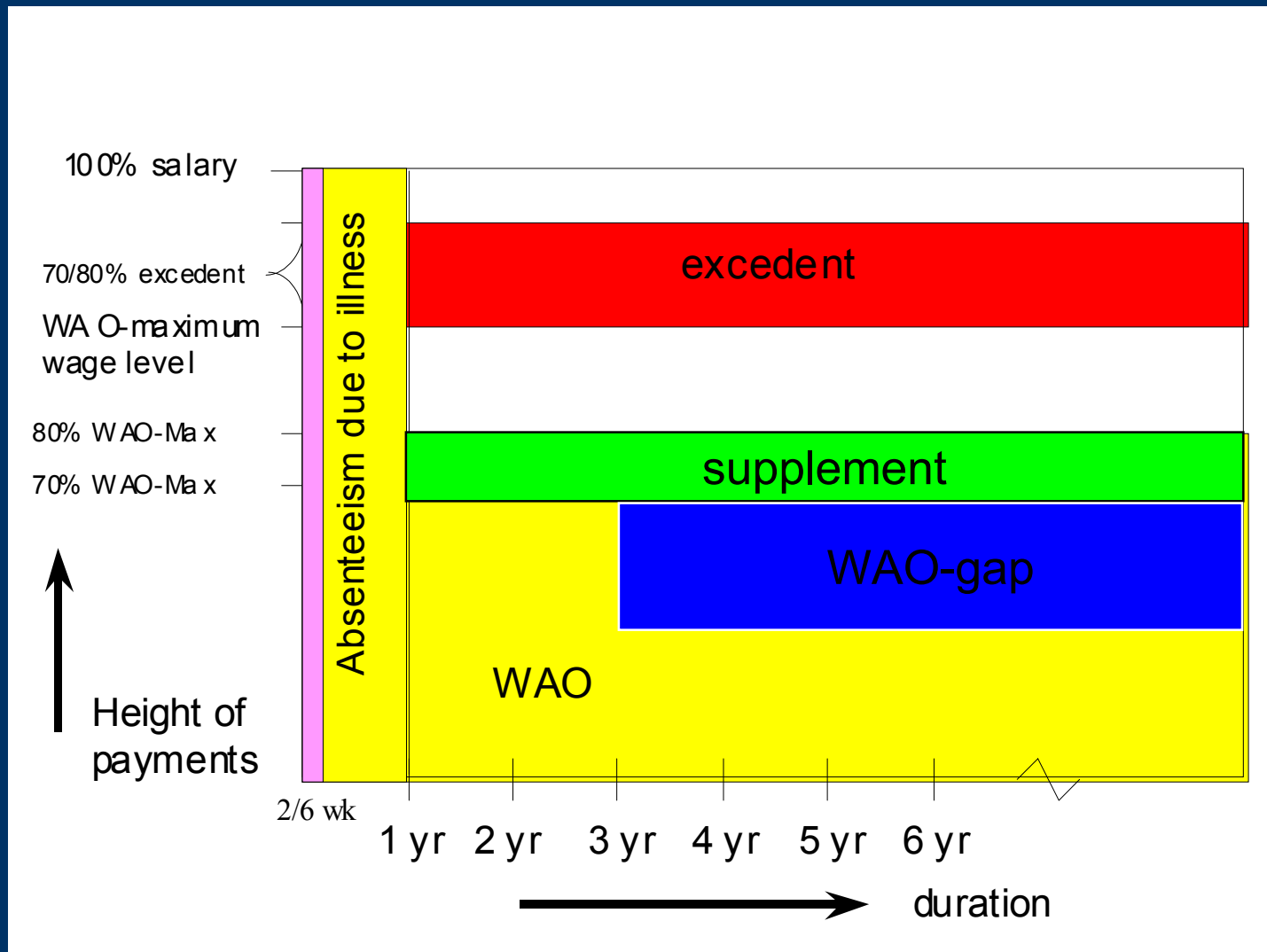
1996 - WULBZ-law: first year at employer's risk
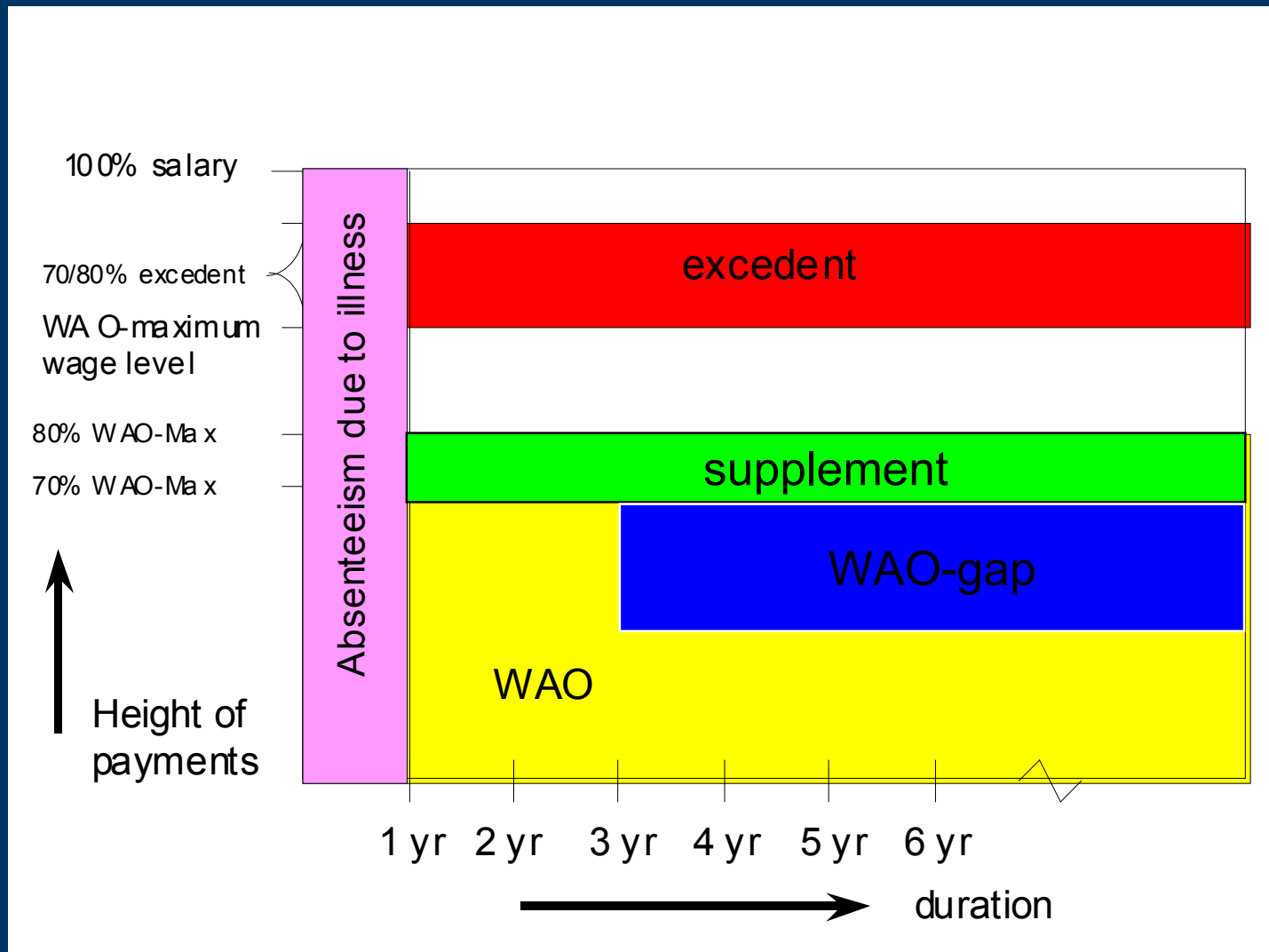
1998 - PEMBA-law

➢ It concerns the payments to more than one year disabled people over the first five years, starting 1998

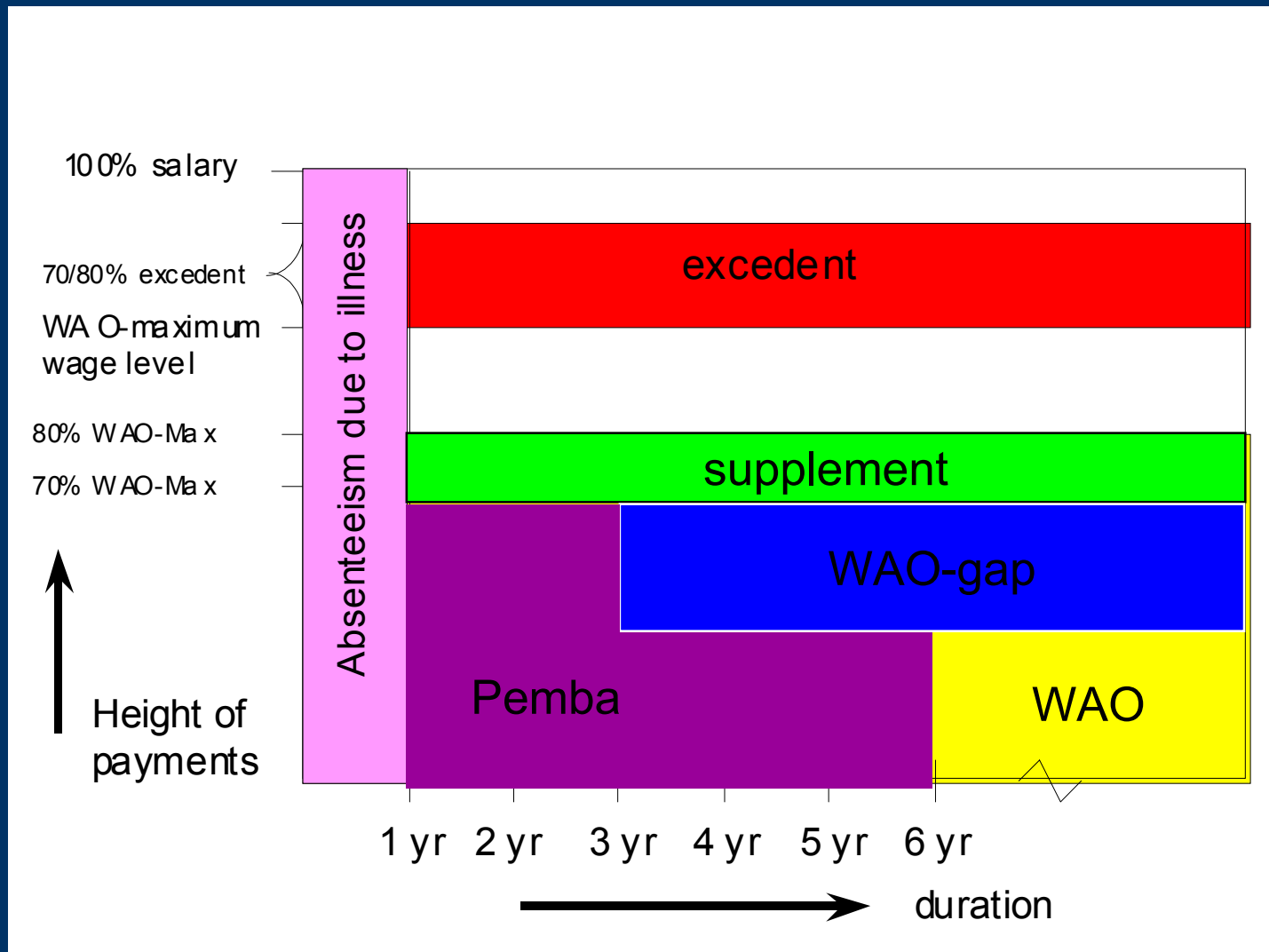➢ Base premium to finance the 896.000 till 1998

Differentiated premium (PEMBA)

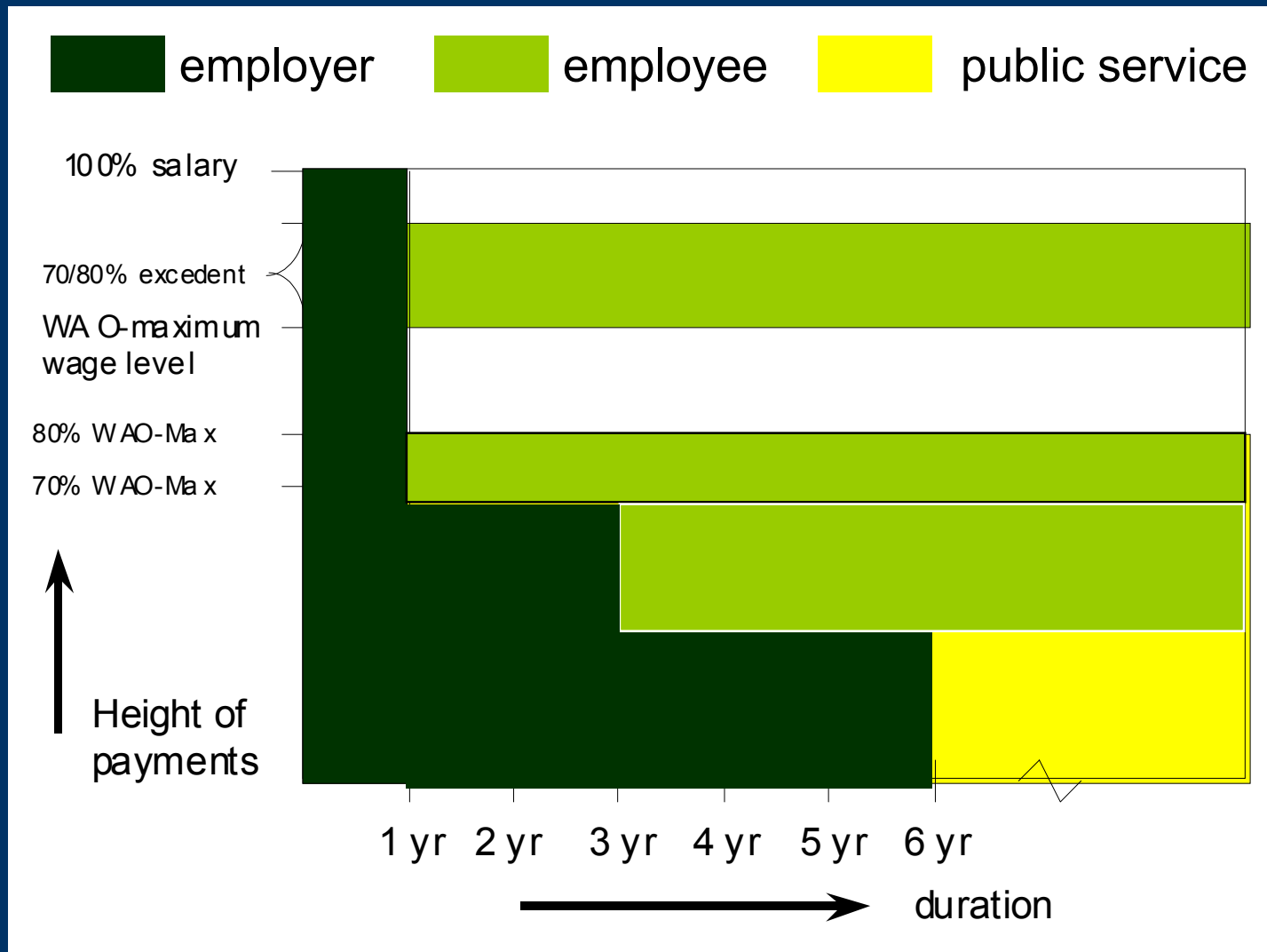- The height of the differentiated premium is related to year - 2

Possibility to resign out of the social system (PEMBA)

-The insurance premium

- Self-insured

1998 - PEMBA-law

1998 - Difference between employer's and employee's risk

Current and future developments

➢ The number of people more than one year disabled is un-acceptable ……..

➢ Efforts (regulated by laws) to stimulate prevention and reintegration

➢ Growth in the economy has stopped

➢ Elections in May 2002

  – opposition: Government, what did you do the last 4 years?

➢ Discussion on the disability criterium, because at this moment the cause of the disease does not matter at al

  – risk professional

  – risk social

Borderlines *between risk professional* and *risk social*

- ➢ Occupational illness that is clear to understand for everybody, like occupational injury or asbestos in some kind of industry

- ➢ Typically private causes, like sports injuries or inherited disorders with an onset at a higher age (Huntington's Chorea)

- ➢ A grey field without transparent causes, for instance a heart attack while you know the employee had an overloaded job with a lot of difficulties related to some successive mergers and in the same time a divorce from his partner
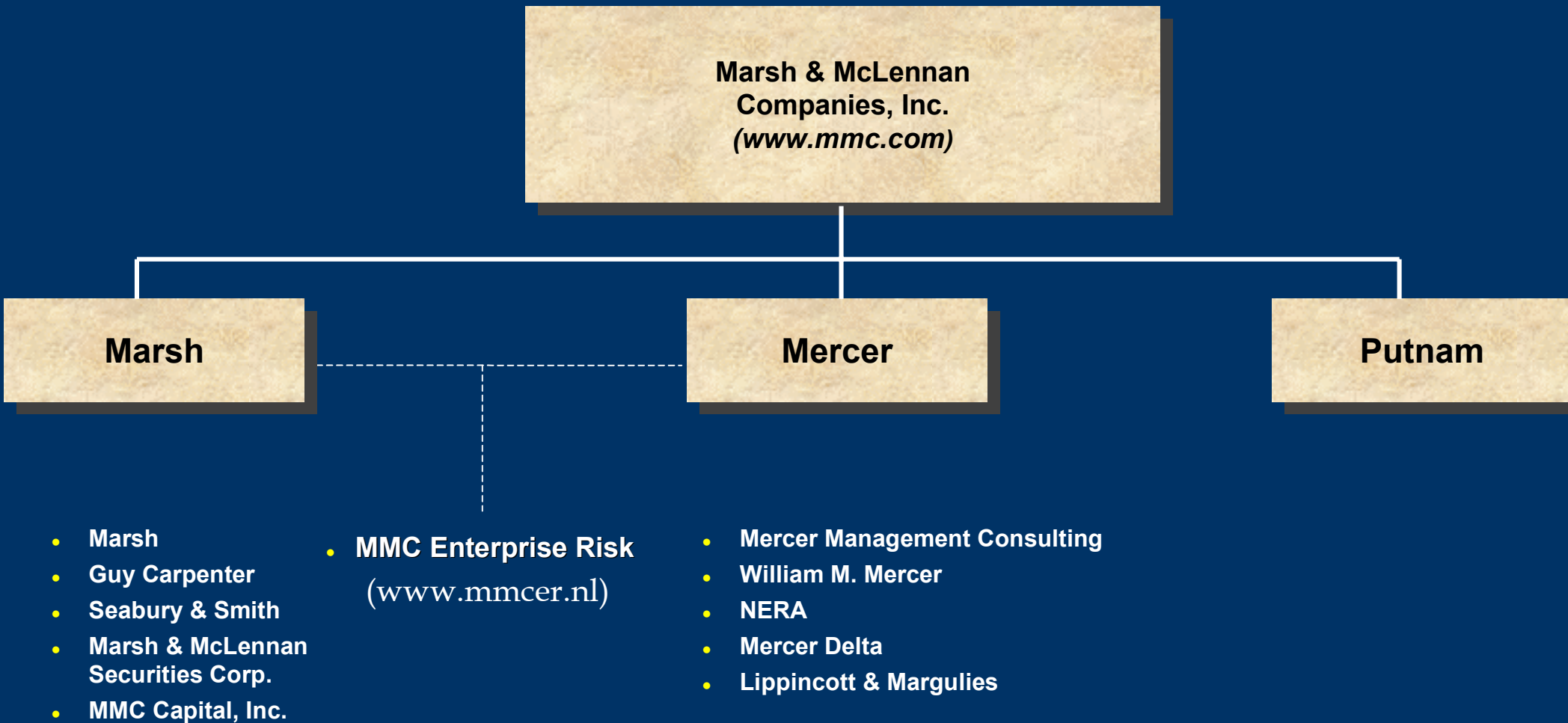
Questions

Marsh & McLennan Companies

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- **Marsh**
- **Guy Carpenter**
- **Seabury & Smith**
- **Marsh & McLennan Securities Corp.**
- **MMC Capital, Inc.**

- **MMC Enterprise Risk**
  (www.mmcer.nl)

- **Mercer Management Consulting**
- **William M. Mercer**
- **NERA**
- **Mercer Delta**
- **Lippincott & Margulies**

MMC Enterprise Risk

- ## Global structure

    - Canada   headoffice Toronto
    - Continental Europe   headoffice Amstelveen
    - United Kingdom   headoffice London
    - United States   headoffice New York

- ## Global 600 emplyoees anf fast growing

- ## In The Netherlands 40 employees

- ## Services
    - Actuarial Consulting
    - Enterprise Risk Consulting
    - Financial solutions