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Critical Issues in German Income
Replacement Insurance

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Income Replacement in Germany

Employees in the first six weeks of a sickness:

Continued pay by the employer

EUR 25,142 million

grade of inability to work	Statutory Insurance	Private Insurance
temporary: daily allowance insurance	Health funds: EUR 5,982 million	Health insurance companies: EUR 685 million
constant: disability insurance	pension insurance fund: EUR 16,523 million	Life Insurance Companies: EUR 1,176 million

Insurance of temporary inability to work

Statutory Insurance (health fund)

After six weeks:

70 per cent of the wage

maximum: until the entry of
constant reduced earning
capacity, but not more than 78
weeks in a three year period

Private Insurance (health insurance)

After the agreed number of
weeks:

the insured daily allowance,
but not more than the net
income

maximum : until the entry of
occupational disability

Private Insurance of temporary inability to work (Health insurance)

Standard terms	Non standard terms
General tariff + extra premium for special professions	Tariff splitting according to groups of profession or according to full / supplementary private health cover

Problem: Underwriting for short elimination periods

Statutory insurance of constant inability to work

Class	Condition
Full reduced earning capacity: Full Pension	Unable to work 3 hours a day under the conditions usual on the general labour market
Partial reduced earning capacity: Half Pension	<ul style="list-style-type: none">• Unable to work 6 hours a day under the conditions usual on the general labour market or• Born before 1961 and unable to work 6 hours a day in the existing occupation or in other work that can reasonably be expected to be accepted (“occupational disability”)

Private insurance of constant inability to work (Life insurance)

Class	Condition
Invalidity: insured invalidity pension	Constantly and completely unable to do any work
occupational disability: insured disability pension	At least to 50 per cent unable to work in the usual occupation

Private occupational disability policies (Life insurance)

Standard terms	Non standard terms
<p data-bbox="95 606 637 664">Abstract relegation:</p> <p data-bbox="95 721 390 778">payment, if</p> <p data-bbox="95 835 932 1278">the insured is unable to work in his profession or in a profession in which he has training and experience and which is in accordance with his former walk of life</p>	<p data-bbox="999 606 1627 664">No abstract relegation:</p> <p data-bbox="999 721 1294 778">payment, if</p> <p data-bbox="999 835 1875 1206">the insured is unable to work in his profession and does not work in another profession, which is in accordance with his former walk of life</p>

Private occupational disability policies (Life insurance)

Standard terms	Non standard terms
<p>Premium adjustment:</p> <p>not possible</p>	<p>Premium adjustment:</p> <p>possible, if</p> <ul style="list-style-type: none"> •the bases of calculations change •a trustee approves it
<p>General tariff</p> <p>+ extra premium for special professions</p>	<p>Tariff splitting</p> <p>according to groups of profession</p>

Private occupational disability policies (Life insurance)

Standard terms	Non standard terms
<p>Disability to work</p> <p>=</p> <p>At least to 50 per cent unable to work in the usual occupation</p>	<p>Disability to work</p> <p>=</p> <p>Unable to work at least x hours a day under the conditions usual on the general labour market</p>
<p>Elimination period</p> <p>not possible</p>	<p>Elimination period</p> <p>can be stipulated</p>

Calculation of private insurance

Constant inability to work:
Life insurance

Biometrical bases of calculations:

- mortality
- probability i_{x+t} of getting invalid
- probability of reactivation

Present value of benefits:

$$\frac{\sum_{t=0}^n D_{x+t}^a * i_{x+t} * a_{x+t}^{i \ n-t}}{D_x^a}$$

Temporary inability to work:
Health insurance

Biometrical bases of calculations:

- mortality
- expected number K_{x+t} of days of inability per year

Present value of benefits:

$$\frac{\sum_{t=0}^n D_{x+t} * K_{x+t}}{D_x}$$

Calculation of private insurance

Constant inability to work: Life insurance	Temporary inability to work: Health insurance
In times of inability: <ul style="list-style-type: none">•no premium payment•increased reserve	In times of inability: <ul style="list-style-type: none">•continued premium payment•normal reserve
Premium adjustment: <ul style="list-style-type: none">•not possible or very restricted	Premium adjustment: <ul style="list-style-type: none">•regular test of premium sufficiency and premium adjustment for the whole portfolio