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Attained Age Versus Issue Age – A mundane question with lasting consequences

In voluntary benefits, some of the most mundane decisions have harsh consequences. One such decision unfolds in the Critical Illness product. Carriers generally offer Critical illness in five year age bands. However, some carriers offer the option of “Issue Age” rates or “Attained Age” rates. If an employee purchases an “issue age” policy, they continue to pay the same rate for that coverage for the duration of their policy. For example, if a 38 year old buys a policy, they continue to pay the age 38 rate even when they age into the next brackets at ages 40, 45, 50... For an “attained age” policy, the same 38 year old will experience rate increases when he reaches ages 40, 45, 50 and so on. From this perspective, you would surely want to offer only issue age products, right? After all, who wants to have their rates increase as they age?

But the answer is not that simple because there is no free lunch when pricing insurance policies. While it varies by carrier and age band, the general consensus is that moving from attained age to issue age rates is about a 20% rate load. So the cost of avoiding the rate increase every five years is an immediate 20% rate increase up front. Look at some critical illness rates sometime, and you’ll notice that most often the jump from one age band to the next is less than 20%. We also know that the typical policy only lasts 7 years. So on average, policy holders may only see 2 or 3 age brackets. Yet, everybody pays an extra 20% to subsidize the cost of the few policies that remain in force long enough for the issue age rates to really matter. This may or may not be a sound financial decision, and talented insurance consultants can argue either side effectively.

Unfortunately, this cost benefit analysis misses some of the most critical elements that will make or break a voluntary benefits plan. The first question should be if the benefits administration platform can handle the desired rate structure. Most can handle attained age rates, as that is how supplemental term life is priced. This functionality allows the rate tables and product to be built directly onto the ben-admin platform to be seamlessly incorporated into the enrollment experience. Surprisingly, many ben-admin platforms cannot maintain an issue age. As a result, during the enrollment, the employee has to leave the employer system and link into the carrier system, and then, hopefully, make it back into the employer system to complete their enrollment. This link is fraught with trouble and can turn a positive enrollment experience into a frustrating one for employees.

But the impact of the rate structure does not end with the enrollment. If the ben-admin system cannot maintain the issue age, then the employer must rely on the carrier to maintain eligibility and to list bill the policies. I won’t rehash my previous article “Post VB Enrollment Depression Syndrome,” but list billing with even the very best carrier can be a difficult experience for HR. At its very best and easiest, that process is messy and inefficient.

The final “cost” of issue age rates not reflected in the spreadsheet is a loss of future flexibility. Let’s suppose that the ben-admin platform can handle the issue age rates, the enrollment is flawless, and a good cross section of the employee population purchases a much needed CI policy. What if the employer changes platforms? What if a next generation CI policy hits the market? What if the carrier’s service slips or rates increase? What if something changes that necessitates a change in carrier 3 years after the first enrollment? The people who initially enrolled will have all gotten three years older. The new carrier, however, only sees their current age at that new enrollment, so the 41 year old person who originally enrolled at age 38, will have to pay 40-44 year old rates with the new carrier. 60% of that group will be forced to either move to the next age bracket (which they paid 20% more not to do) or port their coverage to direct bill, losing the benefit of payroll deduction and destroying the new plan’s participation. According to LIMRA, 40% of the voluntary benefits business written last year was replacement business, which means a lot of employees and employers faced this situation. Imagine what the group term life market would look like today if we robbed employers of future flexibility and only used issue age rates!

Our mission at Mile 5 Benefits is to help brokers and employers make better voluntary benefits decisions. We go beyond the spreadsheet to understand the consequences of all the “mundane decisions” like issue age versus attained age. Give us a call! We can help you design an effective, and sustainable voluntary benefits program for your customers and avoid pitfalls like these.