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Insuring the Senior Citizen

A. What types and what amounts of benefits are being continued on retired employees and their dependents?
B. What is the cost of the continuance of pensioner benefits under the group plan? Should the experience among retired lives be separated from that among active lives and placed in a common pool?
C. What methods of financing these benefits during active employment are there? What effect has the attitude of the Internal Revenue Service had on the development of such prefunding?

MR. JOSEPH W. HAHN: At a meeting of our own Quarter Century Club in the Great Southern, I found that the members were almost as interested in hospitalization insurance after retirement as they were in their pensions. So the basic hospitalization group insurance was extended to retired employees. We charge an additional employee contribution of $1.50 per month per person covered for employees age 50 and more, and continue this for retired employees.

Last year the plan was changed to a comprehensive major medical plan with a deductible per illness of $50 or $100 depending on salary. There are internal limits of $22 room and board and a $600 surgical schedule. Active employees have a $10,000 over-all limit. Retired employees are brought into this plan with an over-all limit of $2,500 or the unused portion of their original $10,000 if that is less.

MR. THOMAS MITCHELL MOTT: In the Republic National, life insurance is reduced for us at retirement to one-third of the preretirement coverage with a minimum of $2,000 and a maximum of $5,000. The AD&D benefit is eliminated at retirement. The hospital and surgical plan is reduced to the base plan only with no major medical benefits after retirement. We still charge the same employee contribution for retired employees as for active ones. The employees may convert their life insurance at age 65 or at retirement.

MR. SAM HOUSTON HUFFMAN: With the current levels of retirement plans, we are putting relatively high amounts of money into the hands of retiring employees. Could we work out an arrangement with all of our Wyatt Co. clients so that an option at age 65 would reduce their annual pensions from the scheduled amounts and use an amount such as $5,000 as a single premium for hospital and surgical benefits? By instituting an additional optional profit-sharing plan, an employee could start contributing to this at age 55 to build up a substantial fund with no further tax charges to help pay for his medical care after retirement.

MR. DAVID G. SCOTT: As an associate through the Continental Assurance Company, I can report that the Continental Casualty Company has had good experience on both of its Sixty-five Plus plans. Therefore they are reopening a nationwide campaign in twenty-two metropolitan areas on the basis of allowing anyone to enter the plan within a certain period after the attainment of age 65. Thus there will be a continual flow of new entrants as contrasted to the previous scheme in which there was to be just a resolicitation about every year or so.

In answer to Mr. O'Boyle's question, there is a preexisting conditions clause providing that for six months after issuance of the policy no preexisting illness will be covered. The participation in the plan has been subject to pretty rapid depreciation and persistency has not been too good.

They have issued the single premium at retirement coverage only where such benefits were compulsory. Experience has been satisfactory so far, although I think there are but two or three cases on the books.

I see by the lack of any answers to my question that no one can tell what the attitude of Internal Revenue Service is to prefunding of such retirement benefits.

MR. HARRY L. SUTTON, JR.: In The Prudential we have several approaches to supplying retirement coverage for employees. One is by conversion to individual policies. This is regulated in New York even as to the rates which may be charged. This may require increases in active employee rates until an effect like prefunding is produced. So far we do not make a postconversion experience charge to the group policy but may be preparing to do so.

A second is a retired employee health program on a pooled basis, accepted so far by only a limited number of policyholders. Benefits are similar to those required by New York but not identical. The premium may come from the pension plan but will not financially affect the group case. We have not had enough experience to determine the adequacy of our rates.

A third method is continuation of the retired group for the active employees but at two to three times the active rate. There are some indications that claim experience may not be that bad.

We have several plans in which medical care benefits are subtracted from retired employee group life benefits. In one case we are trying to prefund group life and in addition attempting to tie group A&H benefits into the postretirement picture. The employer wants the employee to receive only money to pay for major claims.

A method of prefunding the group life is through collection of an addi-

tional premium each year. This could be based on a pension type calculation such as by an entry-age-normal method and the result expressed as, say, 50 cents per thousand in force in addition to the normal premiums. Then this fund is used to pay for the cost of retired life benefits. It is like a deposit administration fund until a mature status may be reached.

MR. HUFFMAN: When group insurance death benefits continue in full and there is also a big death benefit in the pension plan, the employer can see his insurance costs going way up in future years. So we persuade him to reduce the group death benefits at retirement on some sliding scale going down to $2,000 or 25% of the initial amount, whichever is greater. Because of this arrangement, it is often possible to continue hospitalization. So this makes an indirect prefunding of benefits with Internal Revenue approval.

MR. SUTTON: This could run into trouble if the annuity plan were fully funded but that is not likely.

MR. RICHARD W. ERDENBERGER: Instead of thinking of covering another pension program, you have a fund from which benefits are to be bought after retirement. This is similar to a pay-as-you-go plan in which money contributed for some employees provides benefits for others. If the number of retired people increases too much, there may be a need for further bargaining to increase the dollar amounts paid into the fund beyond those provided by the originally established number of cents-per-hour employer contribution.