TRANSACTIONS OF SOCIETY OF ACTUARIES
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EMPLOYEE BENEFIT PLANS (TORONTO REGIONAL MEETING)

General

A. How does the experience under groups covering less than 25 lives compare with that for the larger cases with respect to persistency? Has the availability of larger amounts of life insurance on individual lives led to improved persistency in the smaller cases? Are there occupational or industrial classifications within which groups consistently show unsatisfactory persistency? Has the experience with smaller groups been satisfactory in other respects?
B. What practices are being followed upon termination of the master policy with respect to the settlement of existing claims and the payment of terminal dividends? What types of policy reserves are released upon termination and under what conditions?
C. What interest is being shown in group insurance plans for dealers (and their employees) associated with various industries such as the oil and automobile industries? What coverages and what benefit schedules are being offered for such plans? Where plans have been written, has the mortality, morbidity and expense experience been satisfactory?

MR. J. BRUCE MACDONALD: The Crown Life crude aggregate termination ratio in 1960 for group life policies issued on less than 25 lives was 133% of that for larger cases and the ratio for group health policies was 185% of that for larger cases. The termination ratios for small cases were considerably higher in 1960 than in 1959. Termination ratios by premium volume rather than by number of policies were considerably lower, bearing out the fact that the larger cases are the more persistent.

The better group life persistency may in part be a result of larger amounts of group life insurance as is suggested; my company does provide larger amounts on small groups than do many companies. However, the real reason is probably that rate increases are not made as frequently on group life as on group health policies. Crown Life experience-rates policies of all sizes. Larger groups are less likely to transfer to a new carrier because of poor experience, since the new carrier will attach considerable significance to the experience. We have lost a number of smaller cases where the new carrier ignored consistently unfavorable experience.

The only significant common reason for termination of small cases was that 22% of all small group terminations were due to falling below minimum size, while only 11% of terminations on larger cases were for this reason.

For the years 1958 and 1959 combined, ratios of death claims to premiums on group life insurance were 63.7% for all group policies against 55.8% for cases under 25 lives. Under health insurance the ratios of claims to premiums for the years 1957 to 1960 were 80.7% for all policies and 73.5% for policies under 25 lives. The difference in claim ratios is probably not quite enough to cover the extra expenses under the smaller policies.

MR. RICHARD D. BALDWIN: The Sun Life persistency experience under groups covering less than 25 lives has been less favorable than under larger policies. For the years 1958 to 1960 the annual cancellation rate of policies of less than 25 lives was 20% as against 6% for larger policies. For recent issues of small policies it was found that by the end of the fourth year 45% had canceled, 30% had decreased in volume and only 25% had increased or shown no change in size. Our mortality experience has been satisfactory, but expenses have been higher than we would like to see and the heavy rate of termination makes it extremely difficult to recoup all acquisition expenses.

Under group life policies which terminate, we pay death claims if incurred prior to the date of termination and irrespective of the date of notice. We also honor waiver of premium disability claims if satisfactory proof is received within one year after the employee has left an employer's service; this proof need not be received before termination of the group policy. We pay the instalment form of disability claims only if proof has been submitted to us prior to the termination of the policy. However, if it is established that it was not reasonably possible for the employee to submit proof, then we would consider such a claim more favorably. Under group health insurance we continue the payment of claims which commenced or would have commenced prior to the date of cancellation of the master policy.

The problem here, of course, is to protect employees who are not actively at work at the time a group insurance policy cancels and is replaced by a policy issued by another insurer. This is a matter of considerable concern to all companies and it is important that a solution to this problem be reached before there is any threat of state, provincial or federal legislation of a restrictive nature.

We consider all reserves as held in the aggregate for the benefit of continuing policyholders. Hence we do not release any terminal reserves upon cancellation. Upon request under large policies we are willing to make an exception and, after a reasonable time, refund to the policyholder the excess of the reserve for unreported claims over the amount of any claims paid after termination. This payment is subject to an indemnity from the policyholder that he will reimburse us for any future claims which may arise.

There has not been any apparently heavy demand for group insurance for dealers associated with various industries. We have a few such policies and find that the industry itself wishes only to be sponsor to the plan without taking any responsibility for the accounting processes or paying any part of the premiums. However, they do assist in recruiting and in explaining the benefits. These policies generally provide life insurance, accidental death and dismemberment insurance and major medical insurance. We have had some difficulty with the last form because of the problem of explaining the benefits to widely scattered dealers. So far our mortality and morbidity experience has been satisfactory but the expense has been heavy because of the necessity of billing each dealer separately and corresponding with him. We have recently investigated the cost of this additional handling to see how closely it fits with the estimates made when these policies were originally issued. For the small number of policies presently in force our actual expenses have exceeded estimates, but this will be corrected with increased volume.

MR. ROBERT M. JOHNSTONE, JR.: On termination of a master policy the Equitable's practice differs according to whether the company processes the claims or whether the policyholder uses an Equitable draft book. Generally only loss-of-time and medical care benefits are involved in the latter case.

In the first case we follow normal claim settlement procedures after termination, making sure that the claims were truly incurred while the contract was in force or during the extended benefit period. Under most group life policies the policy terms call for submission of disability claims within one year after the termination date and claims submitted later may be denied.

In the second case a salaried field man calls within two weeks of the date notice of termination is received and reviews the group's claim payment practices and the volume of outstanding and possible claims. He will then set a date for withdrawal of the draft book, after which all remaining claims are settled by the insurer.

Terminal dividends are payable only if a policy terminates on its anniversary. However, on occasion a policy included in a set of policies combined for experience may terminate before the common anniversary date. In this case a dividend calculation is made on the whole package, including the experience of the terminated policy, setting up terminal reserves consistent with those for on-anniversary terminations.

There are four types of reserves which may or may not be released on termination. The first consists of the individual reserves under group permanent life insurance. These are not released in the terminal dividend calculation but rather continue into subsequent policy years to support the amounts of reduced paid-up insurance that may remain in force. To the extent that individual life equities are taken by cash surrender, however, full reserves are released.

The second type is the reserve for due and unpaid claims under loss-of-time and medical coverages only, representing amounts of checks or drafts which have not yet cleared the bank. We include in the claims charged for the terminal year all claims actually paid during the four or six months after termination. This picks up virtually all claims due and unpaid as of the termination date. As a result the full amount of this reserve is released into the dividend calculation. For group life and accidental death and dismemberment insurance, specific due and unpaid reserves are unnecessary since we charge these claims as soon as reported.

The third type is the reserve for incomplete and unreported claims. Under group life insurance, reserves for approved but incomplete disability claims are not released. Under group life and accidental death and dismemberment insurance, the claims accumulation period is extended to include claims reported during the four months subsequent to the termination date. Hence no terminal reserves for unreported death claims are set up. However, since this period is not long enough to pick up all possible disability claims, a reserve is held for incurred but unreported disability claims. For loss-of-time coverage the four-month period will generally be sufficient to pick up all open claims, but claim records are checked as a precaution at the end of the accumulation period. If necessary a terminal reserve is set up or the accumulation period is extended to six months. Under medical care coverages, the claims accumulation period is normally six months, depending on the coverage. However, terminal claim reserves for nonmaternity claims reflecting the degree of claims run-out may be held. A pro-rata reserve is also held for maternity claims, depending on the number of months' extra claims included in the terminal calculation. If claims payments during the six months accumulation period so warrant, this period may be extended to 10 or 12 months.

The final reserve is that which has been held at the request of a policyholder to protect against claim fluctuations. Generally speaking, these arise from previous policy year premium margins which would otherwise have been available for dividends. On termination these reserves with interest are released after reduction by any deficit of the terminal policy year. If the policy terminates on other than the anniversary, the special reserve is similarly released.

MR. ALAN M. BAYLY: The London Life has just started a persistency study and, while this is not yet completed, there is a definite impression that smaller groups have a higher termination rate due mainly to their larger number of business failures, reorganizations,and amalgamations. The availability of large individual amounts will probably lead to an increased termination rate on small groups as long as maximum amounts available vary by company. Individuals in control of the group will tend to shop for the highest available amounts, particularly if they are impaired. Industrial classifications showing unsatisfactory persistency have included restaurants, hotels, building construction, and television and appliance dealers.

Claims experience under small groups for both life and health benefits has been more favorable than under larger groups in the last two years. However, taking increased expenses into account the over-all small group experience appears not significantly different from that for the larger groups.

Eight dealer groups covering group life and accidental death and dismemberment benefits were issued during 1959, generally for amounts of $5,000 for dealers and $2,000 for employees. The companies did not generally wish to contribute to the plan, but dealers were encouraged to contribute to the cost of their employees' insurance and premiums are collected from the dealers using the automatic bank check plan.

Originally a flat premium was charged irrespective of age, based on age distribution of a necessarily incomplete nature. A higher age distribution than expected developed during the first policy year, resulting in rate revisions at the end of that year. Insurance was required to cease at age 65 or 70 and some of the groups were placed on a basis of contributions varying by age group. Experience in the second year has been more favorable, but participation is a constant problem, with periodic recanvasses indicated to sustain the number of employees covered and to prevent the average age from increasing. The groups which still have level premiums and no company contribution could develop into the classic association-group spiral of increasing rates, but the other groups are safeguarded to a considerable degree through their graded premium rates or company contribution.

MR. WILLIAM A. ALLISON: The Confederation Life traced their group life and health contracts issued in 1950 and 1955 through to 1960. In the quinquennium 1950–1955 groups with under 25 lives at issue and larger groups experienced about the same lapse rate. In the succeeding quinquennium, however, larger groups had slightly higher lapse rates while the lapse rates for groups under 25 lives more than doubled.

Groups with under 25 lives at issue experienced a rate of growth three to four times greater than larger groups, especially in terms of volume, with the result that the growth of the persistent small groups is more than sufficient to offset lapses. There was no evidence that the availability of larger amounts of life insurance on individual lives had any effect on persistency.

Covered expenses incurred prior to termination are paid promptly. Weekly income benefits are continued provided the onset of disability took place prior to termination and the employee remains continuously disabled. For other benefits we follow the same practice as if termination of insurance had been caused by termination of employment, *i.e.*, employees have a three months extension of hospital and surgical benefits and both employees and dependents a twelve months extension of comprehensive benefits provided total disability existed at termination. Under major medical plans employees and dependents have only a six months extension of benefits. There is a nine months maternity extension for all maternity benefits.

On termination of a policy any profit available cannot be properly determined until all liabilities have been entirely discharged. Under group health policies, especially if there is maternity, this may not come about until a year or so after termination. At this time it is somewhat impractical to pay out dividends.

Only a few dealer quotations have been made, generally providing level premiums and decreasing term insurance, dropping every year or every five years. Alternatively, term insurance level to age 65 and dropping after that age has been offered with an appropriate increasing contribution scale. Dealers usually receive larger amounts than employees. We do not anticipate other than standard group mortality and, provided satisfactory participation can be maintained, we would expect expenses to be lower than normal since we are making use of our pay-o-matic administration facilities.

MR. WILLIAM CUNNINGHAM: First, in regard to maternity benefits, most companies charge a higher premium in the first year for immediate maternity. Another prevalent condition on the West Coast is in regard to the extended disability benefits. One such case issued by the Pacific Mutual provided for picking up the claims of employees disabled at the date of issue. On subsequent transfer the new insurer did not pick up this liability and an employee died six weeks after transfer. This created a most awkward situation.

When a group insurance policy is transferred from one carrier to another there are instances where an employee, through no action of his own, has actually lost benefits. While there are valid reasons as to why our contracts are written as they are, and thus neither the prior carrier nor the new carrier has a legal liability with regard to these lost benefits, there should be a moral liability on the part of the carriers, as well as the policyholders, to prevent this loss of benefit. In one case which we assumed, we discovered that the insurance of four employees had terminated coincidental with the termination of the contract with the prior carrier. As a result, neither carrier had any liability for continuation of benefits but the employer had a union contract which provided conversion of the individual's medical benefits at the time of termination of employment.

I believe that the loss of benefits is not as isolated as we in the insurance industry may think and that we should be concerned about it and preventive action on our part could eliminate some of our legislature problems.