Group Health Insurance

A. What effect has the introduction of provincial hospital plans in Canada had on the trend of loss ratios on associated major medical expense plans? What problems arise in integrating provincial plan benefits with major medical expense benefits? To what extent have (i) insurance companies succeeded in maintaining their premium income levels and (ii) other plans maintained their operations following the taking over of the hospital benefit area by the provincial plans?

B. What deductible amounts and coinsurance provisions are being used under major medical expense plans? To what extent do these vary by the income of the insured persons? Are family deductibles being applied? If so, how frequently and in what form?

C. What maximum limit amounts are common in major medical expense policies? What considerations are involved in allowing the reinstatement of lifetime maximums? How do maximum limits vary by salary classes?

MR. JAMES M. GILL: It is difficult to determine the effect of the introduction of provincial hospital plans in Canada because of a small volume of major medical expense plans prior to that time. Such coverage, having removed the expense burden, has resulted in overutilization of hospital facilities which suggests a trend for the surgical and medical expense portions of the plan.*

The main problem arising in integrating provincial plan benefits with major medical expense benefits appears to be the inability of the employers to decide how their plans should be modified.

Confederation Life has been reasonably successful in maintaining its premium volume since the introduction of the provincial hospital plans. The Ontario government announced early in 1958 that a government approved plan would be introduced on January 1, 1959. This permitted time to actively solicit improvements in other benefits. As a result, the health insurance premium in 1959 was approximately equal to the 1958 premium income.

The Quebec hospital plan was announced late in 1960. The effective date of January 1, 1961 permitted little time for any concerted sales activity; however, improvement in sales in other areas made up this loss during the first four months of 1961.

There has been a tendency for employees to improve their group life coverage which has diverted some of the lost Health Insurance premium into the Group Life operations.

* MR. J. WILFRID CHAMBERS and MR. ALEXANDER C. M. ROBERTSON concurred.

Both 75% and 80% coinsurance factors are used in Canada, the latter becoming more common. The higher factor is not too satisfactory in Canada because it provides too liberal a benefit, especially for higher salaried employees. This is also true for the 75% factor. For example, a married man earning $10,000 per annum with a wife and two children pays a top tax percentage of 26% of taxable income. If this individual incurs $1,000 of major medical expenses in a calendar year under a 75% coinsurance plan, he receives approximately $750 in insurance benefits and a further $180 in tax relief. For additional expenses of $100, the plan provides $75 of coverage and tax relief of $26, and results in a profit of $1.

MR. J. WILFRID CHAMBERS: Figures prepared by the Canadian Health Insurance Association show a rapid increase in the number of persons (including dependents) insured under major medical expense benefits. The growth has been particularly significant following the introduction of the provincial hospital plans, with the result that there has been little opportunity to determine the effect of such coverage in the loss ratio.

For some years, the hospital benefit has shown the highest claims ratio for basic benefits. I would therefore expect an improvement in the claims ratio for major medical benefits, following the introduction of provincial hospital benefits; however, this may be somewhat offset by additional hospital coverage up to the private level under the major medical expense plan.

The main problem of integrating the provincial plan and major medical benefits arises in the area of out-patient benefits including diagnostic services. Such services vary by province and are nonexistent in British Columbia, Alberta and Quebec. Difficulties also arise outside Canada where the provincial plans will pay an amount corresponding to that charged in a comparable hospital in Canada. Many centers in the United States charge higher rates and show special services separately, with the result that substantial amounts are not covered. There is also a question whether such amounts are eligible expenses.

MR. ALEXANDER C. M. ROBERTSON: The Quebec provincial plan was introduced only five months ago, so it is impossible to gauge the impact on loss ratios. The volume of major medical plans was too small prior to the introduction of provincial plans to establish loss ratio trends. The Sun Life of Canada allows a 45% integration credit on $100 deductible nonmaternity comprehensive rates. Claims experience supports this allowance, but this may not be as good as it sounds since a higher retention is required with a smaller premium volume.

The most common deductible is $50; 90% of new sales in Canada and 70% of new sales in the United States used the $50 deductible plan. Coinsurance is generally 20%, although in Canada with tax relief this factor ought to be increased with higher earnings.

The Sun Life has an automatic family maximum of 4 individual deductibles. A family maximum of three individual deductibles is allowed at an extra cost of 7% for dependents. A family maximum of 2 or 3 times the individual deductible is dangerous, especially in Quebec with its large families. This latter type of maximum defeats the purpose of the deductible, particularly with deductibles of $50 or $25.

Our company uses a calendar year maximum of $5,000 coupled with a lifetime maximum of $5,000, $7,500 or $10,000. Maximum amounts being requested are getting higher, but this seems particularly unreasonable since the introduction of the provincial hospital plans.

MR. J. BRUCE MACDONALD: The major medical loss ratios of Crown Life in provincial plan areas in 1959 and 1960 were 59.9 and 51.2 percent respectively. Corresponding loss ratios in nonprovincial plan areas in 1958, 1959 and 1960 were 76.8, 64.4 and 67.8 percent respectively. There is little difference in the ratios of 1959 but the difference in 1960 ratios is quite significant. Our major medical rates have been considerably higher than those of other Canadian companies in the past two years, but have recently been reduced as a result of the current loss ratio.

We have had no particular problems in integrating provincial plan benefits with major medical plans.

We have been able to replace 50 to 75 percent of premiums lost because of the introduction of provincial plans by selling new benefits, increasing existing benefits and improving life coverage.

In 1959 Crown Life withdrew major medical plans with deductibles under $50. Claims experience has shown this to be a wise move. Coinsurance is generally 20% or 25%. We have written policies varying the deductible with income, but not the coinsurance.

There has been an increasing number of requests for a family maximum of a multiple of the deductible; however, this can lead to claims abuse. Another type of family deductible, a maximum of several individual deductibles, is less subject to abuse. We do not encourage either type and have noticed opposition from employees with small families to pay for this type of coverage which is of limited value to them.

MR. FRANK W. BIESE: The most common deductible in the United States for supplementary plans in the Metropolitan Life is $100. For salaried or key personnel groups it is common to have higher deductibles

graded by earnings. In Canada, where provincial plans cover ward care, the deductible for supplementary plans generally is $25 or $50. A $50 deductible is preferred where there is a basic surgical schedule in addition to the provincial plan.

For comprehensive plans, the $50 deductible is most common. Occasionally this deductible is not applicable to all hospital expenses or some portion thereof, such as room and board. Some plans have a $25 deductible for hospital and surgical expenses and $50 for all other expenses, the combined deductible being $50 per year. Such deductibles may be satisfied during a calendar year. We do not use the accumulation period approach.

Coinsurance is generally 75% or 80%. It may be waived for some hospital expenses or there may be a full pay area such as $250 for hospital and surgical after satisfying a specific deductible. In the interests of administrative simplicity, most comprehensive plans have a flat deductible; however, supplementary plans may have the deductible vary with income.

Family deductibles appear to be a natural basis to measure needs; however, they have not been popular. A much higher deductible of, say, $200 or $250 is required to keep the price comparable to an individual deductible of $100.

Two modifications of the family deductible have been used, the first referred to as a "common accident" plan. Only one deductible is applied to medical expenses resulting from an accident involving one or more members of a single family. The second modification is the use of a maximum of several individual deductibles for a family. This works better when claims are grouped on a calendar year basis. One variation is to pick up expenses incurred from the beginning of the period after having satisfied the last individual deductible. Another approach is the use of a maximum of 2 or 3 times the individual deductible. For a large family it is possible with this latter approach for benefits to be payable without any one individual having satisfied the individual deductible amount.