

GROUP INSURANCE

*Persistency of Group Health Insurance*

- A. To what extent, and for what reasons, have the lapse rates experienced on group hospital and major medical expense coverages been found to vary by: (i) type of policyholder; (ii) size of group; (iii) industry; (iv) location; (v) type of coverage; (vi) degree of experience rating applied in setting renewal premium rates?
- B. How do lapse rates on group coverages transferred from (i) another insurer or (ii) a Blue Cross-Blue Shield plan compare with those on new groups which previously had no coverage?
- C. What efforts have been most successful in reducing lapse rates on smaller groups? Is any provision made for (i) increased renewal commissions to the agent or (ii) incentive compensation to the salaried group field man for extra conservation effort required at the time of a rate increase?

MR. HAROLD V. LYONS: We have found no significant variations in lapse rate by industry. However, large association cases are very stable after they have become firmly established. A significantly higher lapse rate has been observed by State Mutual on smaller group policies. We attribute this partly to the practice of setting renewal rates on a pooled basis, which tends to drive away policies with good experience to other companies with lower manual rates. We have also noticed that small policies written through a particular brokerage firm are likely to be transferred as a block to another company with better rates. Since larger policies are generally rated on their own experience, a general company rate increase has little effect on their renewal rates or persistency.

Our experience has shown worse persistency on the West Coast and in the South than in other areas.

Major medical plans produce poor persistency on renewal because of the greater likelihood of poor claim experience. This is accentuated by the large variation in manual rates among companies with virtually identical benefits, giving the policyholder with poor claim experience a greater opportunity to shop for rates than in the case of other coverages.

The greatest cause of high lapse rates is increase in renewal rates. We have also found that business sold by certain agents and brokers has better persistency than business sold by other agents and brokers. The ability of the representative to sell a rate increase is an important consideration in persistency.

Commenting on section B, we have found the lowest lapse rates produced on new groups with no previous coverage, the worst experience comes from cases with previous Blue Cross coverage. In fact, we suspect

that some cases periodically transfer to Blue Cross to hide their poor claim experience.

In regard to section C, we started the practice two years ago of providing an additional commission to the agent for selling a rate increase. Besides normal renewals on the entire premium, we allow a lump sum payment based on a graded scale applied to the yearly increase in premium because of a rate increase. This is payable after two months of increased premium have been paid. Our salaried group men also receive additional compensation on the rate increase just as if it had been new business. We feel that the successful sale of a rate increase is more valuable to us than a new case and agents and group men should be rewarded accordingly.

MR. SAMUEL E. SHAW, II: We have found the type of Hospital-Surgical coverage and geographical region to be of less significance than other factors in their effects on lapses. Fortunately the volume of lapses recently has been small enough to make statistical analysis difficult.

We recently analyzed John Hancock's persistency experience over a one-year period under health care coverages insuring less than 25 lives and found that about one coverage in four lapsed. The coverages analyzed were ones originally issued to groups of 25 or more lives, and as enrollment fell, rates were raised. Reasons for lapse were rate increases required by low participation or enrollment, employer going out of business, competition, or dropping group insurance, in that order of importance.

For cases of 25 or more lives we found the annual lapse rate for health care coverages to be about 7.3%, with a higher lapse rate for smaller cases. The lapse rate of hospital and surgical coverage appeared to be slightly greater than the lapse rate for major medical only. On major medical we have found a higher lapse rate for comprehensive plans, where our manual rates have been increased proportionately more than for supplemental plans.

Our practice has been to increase rates on our smaller business, which has pooled claim charges, up to current manual rates. The lapse rate has fluctuated according to manual rate changes in the previous year.

By regions, lapses were noticeably higher on the West Coast because of bad experience and in the Southwest because of the high proportion of small cases.

We have changed from our previous practice of reviewing rates before the policy anniversary, using partly projected experience, to reviewing rates early in the next policy year, using actual policy year experience. Since this new system went into effect this year, there may be a temporary artificial decrease in our calendar year lapse rate because of the deferral of renewal rate effective dates.

**MR. JOHN K. KITTREDGE:** We have made some studies of persistency experience under Prudential's Employee Security Program which covers groups of 3 to 24 lives. This coverage is marketed and serviced solely through our agency force.

The annual rate of case lapse has run about 10%. There is an additional loss of coverage of about 10% annually by shrinkage of size within persisting cases. This persistency rate would undoubtedly be higher if the business were not serviced on a debit basis with premiums collected monthly by the agent. The continual contact with the employer tends to improve persistency. Poor persistency has been noted in certain types of retail concerns which experience high employee turnover. Individual cases are not experience-rated individually, but higher rates are charged where experience in a geographical area has been substandard. The rate of lapse has been highest in those geographical areas where substandard premium rates are charged.

We recently increased medical care coverage premium rates over a one-year period. The lapse rate during the three-month period following rate increases was less than 10% and by the third month had returned nearly to normal. Our success in placing these rate increases was helped by payment of commissions to the agent equal to 20% of the increase in premium for one year.

We have recently examined our persistency on cases from 25 to 50 lives and found poor results on smaller retail establishments. As a result, we no longer write this type of concern unless we insure at least 35 employees at issue.

**MR. GEORGE N. WATSON:** Crown Life's groups of 10 to 24 lives are experience-rated every second year using claim ratios over the two-year period. We have found this successful because our competition writes the cases with high claim ratios and we welcome the business driven to us by manual rate increases of other companies.

Our compensation to salaried group men contains a penalty for poor persistency. If the group man fails to sell the first rate increase, the compensation previously allowed is withdrawn. This provides the group man an incentive for obtaining sound premium rates initially.

**MR. JOSEPH W. MORAN:** We have made special studies of New York Life's lapse experience and also have a continuing lapse study as part of our renewal underwriting operations, designed to indicate whether lapses are more than offsetting our expected gains through renewal underwriting efforts. These studies produce interesting results when we analyze differences in lapse rates on cases under 100 lives according to the level at

which renewal rates are set. We have observed in the last two years a lapse rate running roughly in the neighborhood of 10% on all of these small medical care cases. Where we have renewed at a rate below average a 6% lapse rate has been experienced. For coverage renewed at significantly above average rates, an 18% lapse rate has resulted. We experience-rate in this size range using actual case experience. Our lapse rates on comprehensive major medical cases have not been significantly higher than on basic medical care coverage, despite more severe renewal premium rate action on major medical.

Several years ago we studied persistency by industry and found our worst experience was on automobile dealers. Based on a fairly high volume of exposure the lapse rate was 37% annually.

MR. RUSSELL L. MILLMAN: Our consulting firm attempts to persuade our clients to accept rate increases if the increases are reasonable. If they are not, we try to negotiate reasonable increases with the insurance carrier. We like to think that we help improve persistency.