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Group Health Insurance

A. What problems have been encountered and what has been the claims experience with respect to major medical plans in the case of (*a*) groups of ten to twenty-four lives and (*b*) trade association groups?
B. Is there an increasing demand for long-term disability income benefits under group insurance policies? What has the experience been on cases written to date? When a disability occurs, the liability for future claim payments may be very large. How is the liability handled in the event of policy termination?
C. In the case of groups which offer the employee a choice between two plans, either a service plan or an insured plan, is it practical to offer the insured plan at regular group insurance rates? What requirements are made with respect to minimum percentage enrollment? What has been the experience under such plans and how can they be safely underwritten?

MR. JOHN MAHDER: Speaking on subsection (*b*) of Topic A, insurance which is collectively bargained for trade association groups is considered by the Aetna to be on a par with regular employer-employee groups, and we quote freely on risks of this type. However, the so-called open-end voluntary trade association risks present difficult underwriting problems due to the absence of compulsory insurance and the presence of anti-selection possible by both employers and employees.

Problems encountered in open-end voluntary trade association groups include the following:

1. *Adverse selection, especially on cases with small size employer groups.*—An attempt to solve this problem can be made by requiring a certain minimum participation of employer groups and employees. However, drawing the line of minimum participation is a difficult task and should allow for some flexibility, such as by average size of employer. Once the line is drawn, a further problem encountered is that of getting the required participation. Solicitation by mail is relatively inexpensive but often ineffective. Individual solicitation is quite effective but very expensive.

2. *The premium rates to be used, particularly for major medical coverages.*—Because of the sharp variations in major medical rates by age and salary, it is important that a distribution of ages and wages be obtained which is representative of the distribution which will develop from the insured group. A questionnaire can be distributed to the employer members of the association to determine interest in the plan and to obtain employee data necessary to construct premium rates.

3. *The type of industry involved.*—We have found that certain types of associations, such as small retail outlets, are extremely difficult to underwrite successfully because of the character of the risk, the small average employer size, the absence of retirement programs, and for other reasons.

4. *Transferred business.*—In many instances the transferred business does not meet our underwriting requirements, particularly with respect to minimum participation and noncontributory employee insurance, which may account for any difficulties under the prior plan. An expensive and time consuming selling job must then be undertaken to put the insurance program on what we consider to be a sound basis.

The Aetna experience on open-end voluntary trade association Supplementary Major Medical and Comprehensive Medical Benefits has been generally good. The latest experience for policy years commencing in 1960 and 1961 has been slightly better on a manual premium basis than our single employer experience on groups with fifty or more insured employees. The experience must, of course, be interpreted in conjunction with our stricter underwriting requirements for this type of risk. We feel that, with proper plan design and administrative controls, satisfactory experience can be obtained under risks in this category.

MR. ALEXANDER C. M. ROBERTSON: We studied a sampling of about seventy-five comprehensive and supplementary major medical cases covering under twenty-five lives issued by the Sun Life Assurance Company during 1960 and 1961. Using a 25 per cent incurred but unreported claim reserve, the loss ratio ran about 55 per cent, being about 53 per cent for supplementary and 57 per cent for comprehensive. Most of the premiums included a 15 per cent size loading, so the claim ratio was about 70 per cent of manual gross, which was our goal. The main problems have involved participation and understanding of benefits, the latter particularly in trade association cases.

MR. WILLIAM W. KEFFER: Mention of the underwriting requirement of a minimum of ten lives brings to mind our recent activities in the Connecticut General in this regard. Our original rules, applicable to cases that fell below the minimum but which maintained the participation requirement, placed a severe loading in the subsequent premiums. Out of some two hundred cases a year that have fallen into this category, we lost about 80 per cent through cancelation during the second or third months after the strict loading was imposed.

Subsequent analyses have indicated we could assume the claim experience on such groups that maintain a high participation ratio would not differ greatly from that on our normal business of ten to twenty-four lives and that the business would be profitable without the additional loading in the premiums. We have not yet had any experience under these assumptions.

MR. THEODORE J. KOWALCHUK: The United States Life has been writing unscheduled comprehensive major medical plans, including hos-

pital area in-full plans, for about three years on groups with ten to twenty-four lives. We have experienced considerable anti-selection, and our experience has been unsatisfactory, running about 85 per cent; we currently have approximately 358 such groups in force.

We have gone through two rate increases in the last two years and are about ready for another one. Except for a handful of cases, all groups have been completely pooled for experience and have received the same percentage rate increase. In lieu of a rate increase, policyholders have been encouraged to accept a plan with lesser benefits. We have also substituted somewhat more restrictive plans for our old liberal plans, which have been withdrawn from the market. Area in-full plans are also no longer being offered.

MR. FRED H. HOLSTEN: Speaking on Topic B, the claim liability under long-term disability income benefits can have a significant effect in the dividend determination. When the coverage terminates, special dividend formula provisions for the determination of this liability are desirable, if practical and equitable. The situation is similar to cancelation of group life coverage involving potential future death claims under the waiver of premium disability benefit. I feel that these special provisions should be consistently applied in situations where commensurate financial considerations could be involved. A difference in treatment would be hard to explain where open claims of both types exist on the same life.

MR. RICHARD J. MELLMAN: From our first offering of long-term disability in 1958 through 1961, Prudential closed only twenty-four cases. We feel these poor sales results were partly due to noncompetitiveness and partly—as with major medical, for example—caused by the market not being ready for the coverage. Production has shown an increase recently. Experience has been excellent, but the small exposure limits its credibility.

Although individual long-term disability claims involve tremendous liabilities, our contracts provide full extension of benefits upon contract termination. Any experience rating of disabled life experience ceases at contract termination, with the disabled life reserve taking any future gain or loss. We do not believe that the rights of a disabled employee should be dependent upon the policyholder's decision to continue or not to continue the contract.

MR. ROBERT E. SHALEN: In the five years the Equitable has offered long-term disability we have written a couple of dozen cases. We, too, feel it proper to continue full benefits after termination of the master contract. Employees expect it, and it is hard to conceive of the plan being presented to them in any other way at the time they first enroll.

Our recent substantial reduction of rates because of good experience

was accompanied by considerable concern. We fear that these rates may be inadequate in the event of a recession of any magnitude and that we may find ourselves with substantial terminal liabilities when cases cancel in the face of rising rates.

MR. HAROLD F. HARRIGAN: In the past year we have noticed an increase in the number of requests for quotations for group long-term disability benefits. While this increased interest has not been reflected in any large number of long-term disability plans being written, policyholders seem to be closer to adopting such plans.

The experience thus far on the cases we have underwritten has been very satisfactory at the premium rates we have been using. This is a coverage which is subject to wide fluctuations from case to case and also fluctuates considerably with economic conditions. With careful underwriting, the favorable experience should continue, provided there is no general recession or other unfavorable economic development.

We have felt that in the case of long-term disability benefits, as in the case of other benefits, termination of the policy should not adversely affect a claim incurred prior to termination. Therefore benefits for such disabled employees are provided on the same basis as if the group policy had been continued.

MR. GILBERT W. HART: Although not versed in group long-term disability coverages, I would like to mention a federal income-tax aspect. When fixing rates on this coverage which accumulates substantial reserves, the interest rate is a factor to be considered more than on group health insurance.

A problem arises for a phase-one company because the law does not consider these as reserves requiring an interest credit before computing the phase-one tax. Without a solution to this problem, the net interest rate after taxes is in the 2½ per cent range, which is low for illustrative purposes. Of course, the problem can be avoided by the group health line by appropriate methods of allocating income tax, but the company itself does not avoid the burden.

MR. LAURENCE E. COWARD: There is a substantial tax advantage in relation to long-term disability written in Canada, since the proceeds of group life insurance are not taxable to employees and since the employer can write off what the policy costs. The advantage is realized if the employer passes the money through an insurance company rather than paying it out of revenue to a disabled employee. This should make long-term disability a very salable product.

MR. ROBERT A. HALL: It is my general impression that recently in the Aetna we have been preparing more proposals describing our plan on

long-term disability income benefits. Possibly this reflects an increasing demand for long-term disability income insurance. In a large number of cases it appears that these proposals are being requested and used as illustrations of the type of group insurance plan we can underwrite. Most of our prospects seem to be interested in the idea but are unwilling at this time to commit themselves to additional premiums for this coverage.

A review of our accumulated incurred claims through December 31, 1961, indicated that we had developed a loss ratio of 73 per cent on our current premium scale. This loss ratio includes paid claims and the reserve covering the liability for future claim payments.

MISS JOSEPHINE W. BEERS: Occidental feels that it is not fair to other policyholders or to our stockholders to extend for many years a claim which was known to the buyer at time of purchase if he terminates the policy shortly after the claim is recognized by the insurer. Consequently, we have a graded scale under which benefits are extended for a number of years which increases faster than does the policy duration. This arrangement is clearly set out in the sales proposal and employee booklet.

MR. HARRIGAN: Speaking on Topic C, our experience has been that in the case of groups which offer the employee a choice between two plans, either a service plan or an insured plan, it is practical to offer the insured plan at regular group insurance rates. The indemnity benefit plan offered to federal government employees under the Federal Employees Health Benefit Act of 1959 is a typical example of how this arrangement could work out.

Section 211 of the New York Insurance Law specifically permits the insurance of more than one policy or contract to be offered as alternatives to the eligible employees or members, and the enrollment results from all the plans can be used to satisfy the participation requirements under Section 211. Metropolitan has issued a policy covering New York State employees and employees of local subdivisions of New York State under which alternative arrangements are available. The state-wide plan, which includes major medical insurance underwritten by Metropolitan, covers approximately 78 per cent of the total number of employees insured, and our experience has been satisfactory.

In order to attract a substantial number of eligibles to the insured plan, that plan should provide benefits comparable to the benefits provided under the alternative arrangements. The alternative plans approach is practical only where the number of eligible employees is very substantial so that each plan in the arrangement will be able to obtain enough lives to provide a satisfactory cross-section of risk.