TRANSACTIONS OF SOCIETY OF ACTUARIES
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DIGEST OF DISCUSSION OF SUBJECTS OF SPECIAL INTEREST

EMPLOYEE BENEFIT PLANS

Group Life Insurance

A. What has been the effect of the new law taxing employer contributions for group term life insurance in amounts in excess of $50,000 as income to employees? What changes in plans have been made as a result of the new law?

B. What special underwriting problems are encountered in underwriting small groups where amounts of group life insurance of as much as $40,000 are provided? What underwriting techniques are used? What has been the mortality experience in such cases?

MR. STANLEY W. GINGERY: We have not noticed any change in attitude of employers since the 1964 Revenue Act went into effect. We do not think that any of our policyholders have changed the pattern of contributions or that there has been any significant adverse reaction on the part of employees when they became aware that employer contributions for group term insurance for amounts in excess of $50,000 would be taxable as income to them.

We did have a few cases in which employees effected a beneficiary change so as to have the excess proceeds over $50,000 made payable to a charitable institution. These were situations in which individual employees took action without any change by the policyholders.

I believe that it is too early to predict the final effect of the 1964 law on plans of group term life insurance. The IRS published its proposed regulations for implementing the new law, which contained several objectionable features. A public hearing was held on September 10, 1964, on these proposed regulations. Until these regulations are final, employees cannot be sure of what they will be required to do to comply with the new law. The lack of plan changes to date may not be a true indication of what is in store for us in the future.

MR. ROBERT C. McQUEEN: Mutual Benefit Life will write as much as $40,000 without any evidence of insurability to groups of less than 25 lives if certain rather stringent conditions are met. For 20–24 lives, the maximum must not be higher than two and one-half times the average amount of insurance. For 15–19 lives, the maximum must not be higher than two times the average amount of insurance. The amounts of insurance must be reasonable in relation to earnings, the case must be essen-

tially noncontributory, and there must be a 50 per cent reduction in the scheduled amount of insurance for lives over age 65.

We place a great deal of responsibility on our group field force and depend upon it to be on the lookout for cases where one life is uninsurable.

For 10–14 lives, we will go to $40,000 occasionally under the same rules quoted above with the additional requirement that any life insured for more than $30,000 must present an enrolment card with health questions. We will also eliminate the 50 per cent cutback at age 65 if lives in that category will sign such enrolment cards.

In cases which do not meet our underwriting requirements for large amounts without evidence of insurability, we will issue some group life insurance subject to evidence of insurability, but only if the relationship between earnings and amounts of insurance is reasonable. The amount issued with evidence of insurability is rarely more than the basic amount issued without evidence of insurability.

We have made a special study of our experience for the period June 1, 1963, to June 1, 1964, for cases involving at least $40,000 on one life. During this period we had 122 cases covering 1,890 lives where the group size was 10–24. Over this period, we collected $408,313 in premiums and paid $214,680 in claims, which produces a raw claim ratio of 52.6 per cent. The comparable ratio for all our business during this period was 63.4 per cent. Our experience on the same basis for cases involving 25–49 lives produced a raw claim ratio of 33.1 per cent.

Premiums used in this study were the present New York minimum group term rates with but a few small cases discounted by as much as 5 per cent. In our over-all experience, a number of large cases are included in which the discount is much more substantial. Thus I do not pretend to reach the erronenous conclusion that our experience on small cases is actually better than that on large cases.

MR. HAROLD F. HARRIGAN: Metropolitan provides life and health insurance to groups of from 3 to 24 lives. For groups with less than 10 lives, up to $20,000 of life insurance is available, and all lives are underwritten on an individual basis. Since November, 1963, we have provided amounts of insurance up to $40,000 for groups of 10–24 lives at issue. There is no individual underwriting in this 10–24 life area with respect to amounts of insurance up to $15,000 for employees under age 50 or up to $10,000 if the employee is age 50 or over. Our decision to employ some individual underwriting in the 10–24 life area when the higher amounts were introduced was prompted by indications that mortality in this area was substantially in excess of that in the under-10 life groups.

In addition to individual underwriting, we employ the customary underwriting safeguards underlying the selection of schedules of insurance. In no event can an amount of insurance exceed two times pay or two times the average amount. Certain organizations are ineligible because of the nature of the industry, and we will not accept an organization with a disproportionate percentage of employees over age 60 or in which the employees are predominantly members of one family.

The latest experience that we have analyzed was that in 1963, not including amounts in excess of $20,000 on any one life. For lives subject to individual underwriting, actual mortality was 60 per cent of expected based on the 1960 CSG table, while the experience on lives not subject to individual underwriting was 90 per cent of expected on the same table. This experience indicated to us that caution is necessary with high amounts on small groups in the absence of individual underwriting.

MR. A. HENRY KUNKEMUELLER: American International Life Assurance Company of New York will write this coverage primarily in the overseas market. Individuals working abroad for American and foreign companies are generally well paid and need reasonably large amounts of group life insurance. This real need satisfies our basic group underwriting requirement, namely, that the group must be a genuine group insurance program, not a device for obtaining windfall benefits for one individual.

We request the usual information about the group and supplement this information with "on location" reports on local conditions where necessary. We also require individual evidence of insurability from individuals receiving what we consider to be large amounts of coverage in relation to the group size.

MR. W. GILBERT COOK: When the groups are too small, I believe it is impossible to maintain control solely on a true group or mass underwriting approach. It is hard to say exactly where true group underwriting leaves off and individual consideration begins. For small groups the possibility of antiselection on large amounts increases as the group decreases in size. To offset this antiselection, more and more complete individual underwriting is required.

For some experience for Union Central Life on completed policy years preceding 1963 anniversaries, where we had a maximum of $40,000 or more with no individual consideration beyond the normal actively-at-work provisions, cases under $1,000,000 are considered as small cases. The claims were 96 per cent ($710,000 premium) on small cases and 69 per cent ($3,150,000 premium) on larger cases. Accumulative experience on the same groups was 75 per cent ($2,520,000 premium) on small groups

and 64 per cent ($15,750,000 premium) on the larger cases. The accumulative figures may be distorted because of the older experience on more moderate schedules of insurance.

For 1962, we studied our results for certificates of various size ranges. For all amounts over $35,000, we found an actual claim ratio of 140 per cent of the basic table derived from the 1960 CSG table (based upon 12.75 deaths and weighted disabilities). This contrasted with 105 per cent for all certificates.

Recently we strengthened our underwriting requirements so that a minimum volume of $1,020,000 is now required for a $40,000 nonmedical certificate. We also have more emphasis on age-distribution requirements.

MR. BERTRAM N. PIKE: It would seem that the underwriting of the smaller cases should automatically involve some attempt to measure persistency and should involve a contractual provision defining "actively at work" and "full-time" employment, a waiting period of two or three months, and some reductions in coverage for specified ages, even though retirement does not take place.

John Hancock Mutual Life issues two series of plans for cases under 25 lives with the basic differences in the life coverage being the limits and the degree of flexibility in the schedule. We believe the expected greater antiselection on the more flexible plan can be offset by a requirement of balanced schedules and, if the amount of insurance is large enough, the submission of a health statement when the normal amounts are exceeded.

For the 10–24 life case, it is logical to have a check made by an outside inspection company. It should be anticipiated that there would be some degree of antiselection by people in poor health even though large amounts were not requested. The check by the outside agency should weed out most of these, resulting in a better mortality experience than for the 25 life case.

A comparison of our mortality experience reveals that there is little difference between the 25–100 life case experience and the more flexible of our two 10–24 series experience. Perhaps the differences in underwriting techniques are too small to be significant.

MR. ARTHUR W. ERICSON: The special underwriting problems that have been encountered in providing amounts of group life insurance of as much as $40,000 for smaller groups can be narrowed down to that of minimizing antiselection and that of stabilizing the experience for this class of risk without affecting the remaining business. Adverse selection is not a new underwriting problem, but the degree of antiselection is magnified when providing amounts of insurance of as much as $40,000.

The major factors which contribute to an increase in antiselection are associated with (1) including in the eligible group persons who are not bona fide full-time employees who are to receive the higher amounts of insurance; (2) providing amounts on the principals that are not in balance with amounts for the other employees, and (3) supplementing amounts in force under an existing plan, or transferring a case from another carrier.

For the most part, the eligibility problems are confined to so-called family groups in which several members of a family are business principals or are purported to hold jobs calling for substantial insurance benefits. A review of the group to be enrolled should determine those individuals whose status as bona fide full-time employees is questionable. For example, an 80-year-old mother or father who controls the business may be a suspect for group insurance at any time, but, when the plan amount is $40,000, a complete verification is in order. Relatives who are performing menial tasks at home, and are perhaps even disabled, are sometimes included in the eligible group. It becomes very important to screen out those who are not working full time or who are not performing their duties at the employer's main location and those who are being introduced into the eligible group with questionable motives.

Another common occurrence for small employer groups is to include a consultant, such as an accountant, lawyer, etc., as part of the eligible group. The suggested review should also screen out these questionable employees. In fact, there is no technique that is a substitute for a careful underwriting review of the entire case when substantial amounts of insurance are involved. For the smaller case, emphasis must be placed on determining insurable interests for the principals and for those eligible for the higher amounts of insurance.

Plans of insurance in which maximum amounts on principals are not in balance with amounts for other employees occur more frequently under a case of 25 lives when only the individual owner or partners are insurance-minded. In these situations, group underwriting controls, which are inherent in requiring that the plan of insurance preclude individual selection of amount, are weakened considerably. This problem may be lessened by requiring that all amounts of insurance above some modest level be a uniform function of salary. In addition, where a well-balanced plan is to be provided using the normal actively-at-work approach, maximum amounts can be developed which depend upon the total amount of insurance exposed for the individual case. Then any extreme departure from these limitations would require evidence of insurability on the principals. Of course, for the smaller case, where the total amount of insurance does not justify a high maximum on the basis of an actively-at-work re-

quirement, evidence of insurability may be required even for amounts less than $20,000.

In some situations an intermediate range of insurance amounts, such as between $10,000 and $30,000, may be offered, subject only to a more restrictive actively-at-work provision. Such a provision would rule out someone who (*a*) is not physically able to perform all the duties of his occupation at the location required by the employer, (*b*) is not regularly working a fixed number of hours per week, or (*c*) has been absent from work during the past month because of sickness or injury. This latter approach would have more applicability for the larger employee groups, whereas evidence of insurability would be the more common technique for the smaller case.

Where plans of insurance are supplementing amounts under existing schedules or are being transferred, caution must be exercised to make certain that the reason for either request is not to circumvent the previous carrier's refusal to underwrite the increased amounts of coverage on one or two of the principals. This may be highlighted by a substantial change in plan which primarily affects the principal.

The technique of treating all amounts of insurance in excess of predetermined case maximums as one experience class will minimize the claim fluctuations which otherwise would occur for each case. This type of separation is desirable even if all the small cases are themselves treated as an experience class, because the high amount risks may be expected to produce increased fluctuation and increased mortality.

During the last five years, Prudential's mortality experience has been 80 per cent of that expected by intercompany group mortality. In spite of these favorable results, there are several factors which suggest that the increased mortality associated with this class of risk is considerable, and the emerging claims reflect the inability to assess this mortality properly.

In the first place, the risks exposed for these higher amounts are generally represented by the occupational class referred to in vital statistics reports as "Managers, officials, and proprietors," which has a death rate of about 90 per cent of that for all occupations. Next, because of the underwriting requirements of evidence of insurability, a very rough estimate would indicate that the mortality should be about 70 per cent of intercompany levels.

Therefore, adjusting for occupation and individual underwriting, the mortality that has actually emerged is really about 125 per cent of what should be expected. The direction of this approximation certainly suggests that controls must be employed when providing substantial amounts under smaller group cases.

In addition to the previously mentioned techniques that limit retention of risk for individual lives, consideration should also be given to imposing certain age restrictions in designing the plan of insurance. For example, reductions in amount of 50 per cent should be enforced at age 65, with further reductions no later than at age 70 to be an amount near final expenses. Amounts for individuals above age 65 at the inception of the plan probably should be further limited for the smaller case, especially when the maximum amount of insurance is not a function of salary.

Where the average insurance rate is high, such as above $1.50 monthly per thousand, further built-in plan restrictions may be helpful in reducing the variation in mortality fluctuation that can occur because of insufficient knowledge of the risks and the inherent excess mortality on higher amount risks.

Group Health Insurance

A. What special considerations are involved where premium rates for group health insurance are guaranteed for more than one year? Are any additional reserves established where the guarantee extends for more than one year?

B. What are the current developments in group dental insurance? Have any experience studies been made, and what do they indicate? What is the potential market for this benefit from the insurance company viewpoint?

MR. JOHN E. CHAMPE: Connecticut General has recently announced three-year rate guarantees for most group health coverages on all cases less than 100 lives and producing less than $15,000 of annual premium. Such guarantees are an effort to re-emphasize the fundamental role of the insurance company to assume risks and absorb fluctuating costs. It is contemplated that case persistency will be improved by de-emphasizing experience rating and annual reviews of the competitive situation.

When rates are guaranteed for extended periods, the problem of securing acceptance by the client of new and probable higher rates will arise. Sales compensation should be geared to the extra effort that will be required in those renewal years when extended rate guarantees are made. This might be accomplished by lowering first-year commissions and increasing regular renewals, then repeating the cycle with the introduction of each new extended period.

The treatment of existing cases now on one-year renewable term with individual case experience poses some problems. Some scheme can be worked out whereby the new rate can be expressed as a deviation from the new scale, with reference made to individual case experience. When adding benefits to an existing case, the guarantee period applicable to the additional rate could be as long as or coterminous with the original guarantee period.

Considering claims alone, special reserves should probably be established in which provision has been made in the rates for increasing claim costs during the extended rate guarantee period; however, the need for special reserves may be obviated when one considers that increasing claim costs may be offset by lower expenses after the first year.

MR. PETER M. THEXTON: Mutual Benefit has been issuing supplemental major medical over Blue Cross–Blue Shield with a three-year rate guarantee since 1959. Very little of this insurance has reached the end of the guarantee period, but some conclusions can be drawn.

The average size is smaller than one-year guarantee business, and persistency appears more favorable. Preliminary loss ratios are slightly higher than our 15 per cent rate differential would indicate they should

be, but the difference is not yet statistically significant. The guarantee includes guaranteeing the census distribution by age, sex, and income, and the cost must include an estimate of the increase from these factors as well as from the secular trend for major medical (over and above the inflationary trend considered in the income factors). There should be some consideration for the insurance company's risk in offering the guarantee. Conservatism in the basic rate structure is particularly comforting when the rates are guaranteed. The total loading for a three-year guarantee is the average of 0, 1, and 2 years of increases, or 1 year on the average, ignoring interest and lapse, which are offsetting and very small. While dividends are theoretically available, the factors of the dividend formula make payments unlikely.

Three-year guarantees on large cases should be avoided, because there

TABLE 1

PERCENTAGE OF COVERED INDIVIDUALS WHO SUBMITTED BILLS FOR PAYMENT INCURRED FOR ONE OR MORE DENTAL SERVICES*

	Employees	Spouse	Children
1st year.....	41.5%	36.7%	47.1%
2d year.....	45.4	37.8	45.0
3d year.....	51.3	42.1	49.2

* Other groups have been somewhat higher.

will not be enough of them to compensate for the occasional large loss on a group which has poor morbidity not recognized in the premium factors.

MR. WILLIAM V. HAUKE: Since 1962, there has been a noticeable upswing in dental insurance activity. There are presently 26 private insurance carriers offering group dental insurance. It is known that 66 plans are presently in force, insuring 118,429 employees and 216,434 dependents, with total premiums in excess of $4,300,000.

Continental Casualty now has over 30 dental plans in force, covering approximately 15,000 employees (and, in most instances, their dependents), with premiums for 1964 approaching $1,000,000. In 1964, Continental Casualty Company published a statistical analysis of the first three years' experience of their first comprehensive plan. Although this study is limited to 7,300 man-years of exposure, the information uncovered showed reliable trends in utilization by age, sex, employee-spouse-children status, and turnover within the group. Some of the more pertinent data are shown in Tables 1 and 2.

Other variables, such as occupation, education, income, and geographi-

cal locations, are still lacking in significant experience data. Dental care expenses for the total United States population are estimated to be in excess of $2,000,000,000 annually. From the impetus given to this coverage by labor, employer, and association groups, the growth in the next 18–24 months is expected to be greater than that of the past five years.

MR. RICHARD W. HILL: At Prudential we have analyzed dental claims by month of incurral and produced incurred monthly loss ratios. One interesting result of our studies is the slope of incurred loss ratios during the first few months after issue. Our studies have not shown any evidence of antiselection, even in those instances where we suspected that negotiations on the dental plan were known in advance of the effective date of the plan.

TABLE 2

AVERAGE ANNUAL NUMBER OF DENTAL SERVICES INCURRED PER INDIVIDUAL COVERED AND AVERAGE AMOUNT CHARGED FOR THESE SERVICES, 8/1/59 TO 8/1/62*

	Dental Services Incurred	Average Charge per Service
Male employees	3.11	$13.37
Female employees	3.10	11.04
Male spouses	2.42	11.53
Female spouses	2.70	15.05
Male children	3.17	6.39
Female children	3.37	6.72

* This experience is in York, Pennsylvania, which has been one of the lower cost areas in the country.

Our studies show that the rate of utilization generally increases sharply during the first six months after issue. Loss ratios have tended to level off close to the expected level, and the average claim payments seem to decrease with duration.

MISS JOSEPHINE W. BEERS: Occidental's experience has been largely on negotiated groups, and all of it has been since 1962. We have made a detailed claim study, on one very large policy, which indicated that the charges were averaging 110 per cent of the scheduled allowances. We suspect that, if we did not schedule the allowances, the charges might be much higher. To date we have not observed any lessening of the loss ratios by duration.

From our over-all experience we now believe that the standard expected claim cost for 100 per cent of the California Dental Service Schedule B, with no deductible, would be $6.10 per month per male adult, $6.70 per female adult, and $3.35 for each child.

Group Annuities

A. What volume of business has been written on the separate accounts or segregated funds basis?

B. What problems have arisen in administering this type of plan with regard to (1) the annual statement, (2) investments, (3) maintaining funds and allocating investment income to such funds, and (4) determination of dividends?

MR. J. DARRISON SILLESKY: I polled the ten United States companies that I felt were most active in writing separate account business and that should have a high percentage of the total separate account business written in the United States. These companies reported 119 closed pieces of separate account business. The current market value of their separate accounts is approximately $65,000,000, and the estimated annualized rate of payments into separate accounts is nearly $70,000,000. In addition, Canadian companies have separate account business not included in these figures. Several companies indicated that there was considerable activity in separate accounts which was not fully indicated by current statistics, since extensive discussions usually precede a decision.

Each of the ten companies offers a pooled common stock fund. One company offers a pooled bond fund and has a pooled mortgage fund under consideration. A few individual funds have been set up to meet the requirements of specific policyholders.

Annual statement problems of separate accounts include

1. A separate account statement is now required with single asset and liability figures carried to the regular annual statement.
2. Companies doing business in New York are required to establish a special contingency reserve fund, with formal arrangements for repayments out of the separate account business.
3. Massachusetts companies must value separate account assets on the same basis as general account assets even though separate account contractual liabilities are in terms of market values.
4. It must be decided whether separate account gains will be accumulated as surplus in the separate annual statement as well as being included in the surplus of the regular annual statement.
5. Problems encountered in allocations of expenses between the general account and the separate account are particularly vexing.

There are also many investment problems of separate accounts:

1. Should there be a different investment policy for selecting corresponding types of securities for the separate account and general account?
2. Are separate finance committees necessary or advisable?

3. How much restraint or flexibility should there be in the investment policy for the separate account?
4. What are the risks of inadvertent discrimination in investment selection?
5. Under what conditions should an individual separate account be established?
6. To what extent, if any, should contract-holders participate in company investment decisions?
7. What classes of pooled separate accounts, other than common stock, are needed?
8. What educational programs are needed for insurance company officers?
9. What are the roles of various company personnel in discussions with separate account policyholders?
10. Should a company encourage prospects to invest in equities?
11. What investment counseling should be provided?
12. What arrangements are necessary for valuing common stocks when the market is closed and for establishing market values of bonds and mortgages if these are included in the separate account?
13. Can cash flow be predicted well enough to permit advance commitments and to provide funds at retirement?
14. Are private placements appropriate because of the size of commitments and problems in determining market values?

The development of systems for maintaining the funds and allocating investment income requires refined actuarial analysis and a fine touch for administrative problems. These problems arise:

1. How frequently should market values be determined?
2. Can the system provide cost bases both for the insurance company and for each contract-holder?
3. Can both unrealized and realized capital gains and losses be allocated to individual contract-holders equitably and realistically?
4. What book values (different from cost or market) should be produced for contract-holders?
5. What statistics are needed by company management?
6. What statistics should be given to contract-holders?
7. What projection techniques are needed for cash flow problems?
8. What controls are needed to prevent confusion and error between general and separate accounts?
9. What administrative problems are raised by insurance department regulations?

Since separate accounts are handled principally on a cost plus basis, there is little margin for dividends from this source. Dividend and retroactive rate adjustments applicable to general account liabilities will necessarily recognize the extent to which the separate account affects the risk

borne by the general account. This may affect the size of contemplated contingency reserves.

MR. ROBERT F. LINK: The Equitable has so far written ten separate account contracts (mainly conversions of existing cases) with annual contributions to the separate account of about $12 million. Our separate account at the end of 1963 was about $1.5 million. On the basis of these cases, we are projecting $8 million in the separate account at the end of this year and $20 million at the end of 1965.

The annual statement reserve for our separate account is equal to the market value of the assets in the account. We allocate investment expenses to the separate account and insurance expenses to the general account.

We are prepared to have a separate account for a group that is large enough and wants it. All our contracts so far, however, participate in one pooled account invested in equities. The fund records for particular contracts are maintained on a "dollar" basis, under which investment income and changes in market value are allocated each month by factors which, in effect, treat all such items as interest. We also maintain simultaneously a cost basis fund under which gains and losses are realized only at a withdrawal. Thus, for the actuarial valuation of the pension plan, the separate account asset can be based on cost, or market value, or any of the customary "write-up" arrangements used in trusteed plans.

We allocate net investment results fully to the various contract accounts, and this business therefore has not generated surplus. We usually attach the separate account to an IPG contract or to a modification of this contract under which annuities are purchased in the conventional way at retirement date. Insurance expenses are charged directly to the conventional fund under such contracts, and the dividend experience, if any, is unaffected by the presence of a separate account, except for increased expenses.

Miscellaneous

A. What has been the experience on high limit accidental death and dismemberment benefits? Does the experience differ significantly by amount, contributory versus noncontributory, scheduled versus unscheduled? What are the controls or safeguards used with regard to catastrophic losses? What special underwriting safeguards have been found necessary?

B. Under employer-employee pension plans, has there been any increase in requests for joint and survivorship options at early retirement ages? Is there any experience available?

C. Has there been any increase in demand for disability benefits under retirement plans? What has been the trend of the experience on such benefits? Are there any problems in obtaining IRS qualification for pension plans containing disability benefits? What is the form of such benefits under existing plans? Are any new forms of such benefit being offered?

D. To what extent is the new money concept being adopted in fields other than group annuities? What problems have been encountered?

E. What is the current outlook with regard to reducing or eliminating the difference in taxes imposed on insured employee benefit plans as contrasted with self-insured plans? What steps have companies taken with regard to these tax problems?

MR. GEORGE A. REYNOLDS: Insurance Company of North America writes the OK Accident Insurance Program that provides high limit accidental death and dismemberment benefits to an employer with twenty-five or more employees. Payroll deductions and 50 per cent participation are required. Under some plans, individuals select amounts in units of $5,000 up to the maximum; for groups under 300 lives, a maximum of up to $100,000 may be used. The benefit may either vary by income or be a flat benefit. Most groups are contributory. Experience has been as shown in the accompanying tabulation.

Year	Earned Premium	Incurred Losses	Loss Ratio
1962	$3,084,000	$1,691,000	54.8%
1963	5,626,000	3,279,000	58.3
1964 (first 9 months)	5,555,000	3,052,000	54.9

The loss ratio on full cover business and pleasure accident insurance issued on a group basis, which allows ample leeway for antiselection by amount, is currently running at approximately 75 per cent.

Catastrophe losses are avoided by limiting total retention on one life to $150,000. Also, there is an aggregate limit, intended to act as a deterrent, for an insured group for deaths occurring in one aircraft accident.

INA also has a Catastrophe Treaty to cover losses from any one accident in excess of $200,000.

Some general underwriting safeguards are (1) home office referral is required for groups with hourly paid employees, employer-owned aircraft, more than 20 per cent of employees in occupational Class II or higher, or a limit in excess of $100,000; (2) an attempt is made to select accounts with potential good participation; and (3) a maximum limit above $100,000 is provided for cases above 300 lives, which may be limited by other insurance.

The experience varies tremendously from risk-to-risk and from year-to-year. The following points are important to avoid the possibility of heavy losses: (1) a substantial volume of premium, (2) careful underwriting, (3) reinsurance facilities, and (4) an adequate rate structure.

MR. RICHARD W. HILL: The Prudential has been writing high limit group personal accident insurance with death, dismemberment, and, occasionally, disability benefits since 1962. It is not experience-rated. The claim experience has been improving steadily and is now quite favorable. The ratio of incurred claims to earned premium was 107 per cent in 1962, 56 per cent in 1963, and 32 per cent in 1964 (first six months).

MR. RICHARD G. SCHREITMUELLER: Aetna Life has been writing high limit group accident, death, and dismemberment for three years with 39 claims so far. The annual claim rate per $1,000 is between $0.52 and $0.58, depending on the outcome of some currently litigated claims. The average amount in force is $50,000 per employee, and the average principal sum involved in claims has been $45,000. Most business is under employee-pay-all plans that permit the employee to select his own amount.

Underwriting safeguards used are (1) payroll deduction of employee contributions required; (2) $20,000 minimum amount on employee-pay-all plans, with an upper limit of ten times the employee's annual salary; (3) higher premium rates for heavy travel exposure or other occupational hazards; and (4) a special set of exclusions included in the policy.

MR. WILLIAM A. HALVORSON: There has been an increase in requests for joint and survivorship options at early retirement ages that is reflected by, and encouraged by, recent changes in plan provisions. Some of these changes are (1) less stringent requirements for prior election of these options; (2) easier-to-get-out-of prior election before actual retirement if the employee's conditions change; (3) trend toward widows' benefits, which require joint and survivorship elections at early retirement

ages; (4) more adequate benefit levels before retirement, because of the growing use of the social security benefit option, and more liberal actuarial reduction factors; and (5) more adequate retirement benefits in general.

Better communication programs have made employees aware of these liberalizations, and better understanding has led to more frequent elections. Greater popularity of widows' benefits and joint and survivorship options at early retirement age should reduce the cost of antiselection, and experience results will show less mortality loss per election. Prior to achieving broad popularity, of course, it is recognized that plan administrators may help in selecting against the plan through use of these options.

MR. DONALD S. GRUBBS, JR.: We are consultants under a plan in which an automatic joint and one-third survivorship option was included so that the employee did not make the election but received the benefit automatically. Another approach that we have seen in a couple of plans recently is to use other than actuarial equivalent factors for the joint and survivor benefit, an approximate benefit which would be used in all cases in which the wife was not more than ten years younger than the retiring member. This, of course, involves some possible cost, but the desirability of encouraging more members to elect the option was considered worth the additional cost to the members involved.

MR. JOHN R. TAYLOR: The Chrysler settlement is likely to influence future elections of joint and survivor options at early retirement because of the substantial early retirement benefit and the further improvement of the survivor benefit. Under plans encouraging early retirement and joint and survivor elections, early retirement mortality experience should be more nearly equivalent to that experienced by employees retiring normally.

MR. HARVEY J. SAFFEIR: In recent years there has been a significant trend toward formal disability benefits under retirement plans. This trend has been encouraged by the negotiated settlements in steel and other industries and by the disability pensions of the social security system. Recent changes in early retirement and vesting provisions of pension plans have also improved disability benefits. There continue to be a large number of informal and flexible disability benefit programs.

The major portion of the recent activity for new plans of disability benefits has been in insured long term disability plans, especially for contributory plans. These insured plans have generally not been blue-collar plans.

On the whole, disability experience under retirement plans has been much better than anticipated in the original cost estimates, possibly because benefits were low and eligibility rules strict. Recent rate reductions in insured long term disability plans may indicate good experience. Recent good economic conditions may explain the good experience in part.

Formal rules for integrating disability benefit plans are contained in Revenue Ruling 62-152. There are no particular problems for nonintegrated plans so long as all eligible employees are treated alike. The formal requirements impose a burden on integrated plans that provide disability benefits at early ages and on existing plans which did not comply.

The disability benefit under pension plans is often the accrued pension benefit after a six-month wait. Certain important negotiated plans provide considerably more generous benefits, sometimes approaching twice the accrued benefit. Eligibility for disability benefits is commonly fifteen years of service and age 45. Disability is generally defined as permanent and total disability, and the benefit is usually paid for life.

The benefit under insured plans generally provides X per cent of pay less primary social security and is usually paid to age 65 after a six-month waiting period. The disability clause is generally of the "his occupation for the first two years, any occupation thereafter" type.

As recent developments in the retirement plan area, I see (1) a trend toward considering the disabled employee as active for retirement plan purposes and (2) a slight trend toward benefits related to pay rather than to pension. In the insured long term disability area, I see (1) a trend to plans with lifetime benefits, (2) heavy rate competition, (3) three-year (and five-year) rate guarantees, and (4) a trend toward experience rating, at least on large groups.

These recent trends make the insured-plan approach quite attractive at the present time. The retirement-plan approach permits the employer to more easily control who is to receive disability benefits, while the insured plan substitutes a third-party determination.

MR. ROBERT A. HALL: Disability benefits under retirement plans generally do not provide the comprehensive disability income protection available through plans not based on the pension fund. The somewhat restrictive eligibility provisions and modest benefit amounts tied to the underlying retirement plan, together with IRS qualifictaion problems, limit the usefulness of these disability provisions.

There is a trend toward providing retirement benefits under disability plans. Some disability plans provide a disability benefit of pension benefits otherwise accruing under the retirement plan except for disability,

payable for life after normal retirement age without proof of continuing disability. This disability benefit originated as a competitive answer to the lifetime accident benefit, which is often an illogical addition to most employee benefit programs in that it rarely fits in with the existing pension formula and may be excessive for disabilities incurred within a few years of retirement. A lifetime disability benefit for lost pension accruals does not go beyond the bounds of insurable loss.

Sound underwriting of disability income insurance requires the design of benefit plans that do not provide coverage in excess of actual loss. With more reliable claim statistics, a reliable price may be placed on plans with excessive formulas; however, without such information emphasis should be on a sound benefit design.

MR. PAUL H. JACKSON: New money interest rates were adopted by group annuity carriers because of severe competition with self-administered bank-trusteed plans. Since large funds are developed under pension plans, even minor variations in interest loom quite large in relation to premiums, retention, or other competitive factors. Under the aggregate method, funds are attracted away from an insurance company when the current rate available for new investments is greater than the company's aggregate rate. The aggregate method may involve some investment antiselection in periods of depressed interest rates. The new money interest method is in accordance with the general principle that the most accurate possible allocation of those items affecting the cost of a group plan will provide the greatest possible equity among policyholders.

Outside of group annuities, new money interest can be considered for funds built up for continuation of group life and health insurance for pensioners; for group paid-up, and other forms of permanent life insurance; for long term disability insurance; and for survivors' income benefits.

The pensioner continuation funds for group life and health insurance present the same competitive problems as pensions, since the employer can pre-fund in a trust, by leaving funds in his own business or in some cases through a trusteed pension plan. These funds grow steadily to a fairly large size, and minor variations in interest are relatively significant. Furthermore, since these funds may be subject to withdrawal or transfer, there is a potential investment antiselection problem. Clearly, this is a field in which the new money concept seems competitively valuable, and I believe that most insurance companies will credit new money interest to these funds and possibly even move them into their pension departments for accounting purposes to take advantage of separate accounts and stock investments.

In the past, competitive forces have been insignificant in group paid-up life insurance, since net cost comparisons are difficult to make. Thus, there is not too great a need for new money interest, and it is likely to be of competitive significance only in the largest cases. Group paid-up reserves increase steadily, but even for a mature plan they are small in comparison to pension reserves. Still, since aggregate reserves can become large in relation to current premiums, minor variations in interest can be significant. Investment antiselection is generally not a problem. Many companies will continue to use aggregate interest because group paid-up is a relatively minor line, their cases are chiefly small ones, or the administrative work involved in crediting new money interest is unreasonably large. I understand that one large eastern company, which has more than 3,000 group paid-up cases with four billion of insurance in force, does credit new money interest to paid-up reserve funds. In that company group paid-up insurance constitutes a separate line of business for annual statement purposes.

For long-term disability insurance competition is severe, but many plans are written on an employee-pay-all basis. The full competitive effect of new money interest would require experience rating if higher interest is to result in lower net cost. The employer will be more concerned about low initial cost than about experience rating and lower long-run net cost if employees pay the full cost. Long-term disability plans can be expected to develop large actuarial reserves in relation to current premiums but be subject to sharp fluctuations. Minor variations in interest can be relatively important, but complications caused by reserve decreases make new money interest application difficult. One large eastern company does credit new money interest on reserve funds under long-term disability plans, and I understand its use has been quite helpful competitively.

The funds developed for future payment of approved claims under survivors' income insurance and the transition and bridge benefits adopted in recent UAW settlements will be relatively small and are likely to go up and down erratically. Because of fairly crude initial premiums, however, experience rating is important, and, since amounts at risk are modest, higher than usual credibility is permitted. Thus, interest credits would be more directly reflected in net cost, and even minor variations would be relatively significant. In the long run, I believe that new money interest will be credited to the experience of these survivors' income plans.

New money interest must be allocated by line of business if it is to be credited within any line of business. Companies which carry long-term disability insurance as part of the group health insurance line may not be

permitted to credit new money interest on long-term disability funds without crediting such interest to all group health policyholders. Using different new money rates by line of business may result in markedly different interest rates for various funds under package plans. The major problem in using new money interest is the clerical complexity and added expense and delays. The added work may increase the company's expenses by a factor several times greater than the economic value of the gain in equity. Also delays in renewal accountings may produce policyholder dissatisfaction more specific and more vociferously communicated than the vague sense of enchantment roused in one and all by the ringing phrase "new money interest."

MR. STANLEY W. GINGERY: At Prudential, outside of group annuities we use the new money concept only for insurance continuance funds, because we believe these are the only group insurance interest-generating funds with all the characteristics that make this approach suitable. These funds are permanent funds, and the employer makes the decisions to set up the fund and how fast to build it. The new money concept is not used on term and paid-up because interest is netted against expenses, rather than shown as a separate item, and also because the employer may think of interest as affecting only the employees' money.

Three problems that are not always encountered in group annuities have arisen in the application of the new money approach to insurance continuance funds:

1. The agreement must be amended to permit the new money approach since the fund and the interest-crediting procedure are defined. This includes a provision for an appropriate charge for fund reduction when the new money rate is higher than the corresponding rates applicable to the fund. Sudden reductions are more likely in insurance continuance funds than under group annuities.
2. Our crediting of interest in group insurance is on a policy year basis, while the calendar year basis is the usual industry basis for group annuities. Thus, calendar year investment rates must be adjusted and projected to a policy year basis. Insurance continuance fund agreements could be amended to a calendar year basis, but we intend to retain the policy year basis.
3. Federal income tax is a more significant factor for group insurance than for group annuities, and we reflect the tax in the crediting rates.

MR. HENRY S. BEERS: Several years ago, when new money interest rates were at least a full 1 per cent below average rates, insurance companies did a great many things—illogical, hard to explain, and antisales —to prevent new funds coming in too fast or at the wrong time. If the

new money concept had been in effect then, we could have operated very much better.

MR. ALBERT PIKE, JR.: The insurance commissioners have approached the problem of putting uninsured employee welfare and pension benefit plans on an equal footing with insured plans by proposing both state regulation and state taxation of uninsured plans. State regulation of uninsured plans would not only be very hard to come by, but it would be of little value for equalizing competition with insured plans. What is needed is equality of state premium taxation.

Equality of state premium taxation can be achieved in one of two ways: (1) state premium taxes can be imposed on uninsured employee welfare and pension benefit plans or (2) state taxes can be taken off insured plans.

Taxing uninsured employee benefit plans is equivalent to taxing a do-it-yourself operation and is therefore virtually impossible to achieve. Securing tax relief for insured plans is only a shade less difficult to achieve, but this shade may make the difference. That tax relief for insured plans is possible at all is attested to by the fact that it has already been achieved in the pension field in fourteen states.

If tax relief is now to be sought for insured plans other than pensions, particularly group health insurance plans, there are only two choices of any practicality. These are:

1. Sharing present state premium taxes on insured plans with Blue Cross–Blue Shield, to cut the disparity between the taxation of insured plans and the lack of taxation of uninsured plans almost in half. However, this can work only in states which now tax domestic as well as out-of-state insurance companies.
2. Asking for outright tax relief for insured plans. This may be possible even at this time of greatly depleted state treasuries by adopting such devices as
   (*a*) phasing the tax relief over a period of, say, three or five years; and
   (*b*) timing the tax relief to coincide with any state plan already in existence to put state premium taxes on an accelerated pay-as-you-go basis.

If tax relief is sought, attention must be given to retaliatory tax statutes. In the past, these statutes have operated to inhibit premium tax increases through the process of creating an identity of political interest between domestic and out-of-state insurance companies. However, in the initial stages at least, retaliatory taxes may inhibit tax relief for insured employee benefit plans by confining relief largely to domestic insurance companies and thereby inviting opposition from out-of-state insurance companies.

MR. A. HENRY KUNKEMUELLER: The tax position of insured employee benefit plans written overseas can differ substantially in certain aspects from the tax position in the United States. Tax laws vary substantially from country to country and in many countries insured plans have a definite tax advantage.

The applicable tax provisions of each country must be determined so that local plan variations may be made to permit maximum tax benefits consistent with policyholder objectives.

Examples of the variation in foreign tax provisions follow:

1. Tax treatment in the Philippines is substantially similar to that in the United States but somewhat simpler and less restrictive.
2. Germany's laws are complex and substantially different from American tax laws; for example, employees may incur tax liabilities if the employer's pension-plan contributions exceed a specific limit and tax deductions can be obtained for a book reserve plan.
3. In Mexico, employer contributions are deductible without limitation, and disbursements are tax-free to recipients.
4. In Columbia, both insured and noninsured plans receive favorable tax treatment, provided they are qualified plans. In practice, however, it has been difficult to qualify.