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GROUP LIFE AND HEALTH INSURANCE

1. *Permanent-Type Insurance Used as a Substitute for Group Term Insurance*
   a) What methods are used to separate the term and permanent elements?
   b) What are the tax implications to the employer and employee (relative to Section 79)?
   c) What are the advantages and disadvantages to both the employer and employee?
   d) What success have companies had in marketing this form of coverage?

MR. RICHARD B. SIEBEN: These remarks relate to the group ordinary products that are available on the market today, not to those that were common as group permanent forms some years ago. The chief difference between the new products and the old is in the premium-paying provision. The modern products break the premiums down into an employer portion for the term insurance and an employee portion for the living value, while the older plans merely specified the entire whole life premium for each issue age. In theory, the employer pays for the reducing mortality risk plus a portion of the expenses applicable to this portion. The employee, on the other hand, pays for the living value of the insurance plus his portion of the expenses.

Although the theoretical charges are somewhat vague, the tax base for these charges is even more vague. Group ordinary products are regulated by Section 79 of the IRS Code. In this section it is stated that the employee may deduct that portion of the premium that is properly allocable to group term insurance, but it does not define the basis for determining what is properly allocable. Any employer contribution in excess of this amount is taxable income to the employee, even though it would still be tax deductible to the employer as a reasonable business expense.

There has, of course, been much concern about whether IRS will approve the types of plans that are out now. It was reported at the West Coast Society Meeting by Jo Beers of the Occidental that one of Occidental's policyholders had applied for and received written approval from the IRS for their particular plan. Even so, there is still a great deal of uncertainty about whether all IRS offices will accept all types of plans currently on the market.

There are currently three different methods of defining the split in these premiums.

The first method is the level premium approach—just a whole life policy, where there is a percentage split of some sort between the em-

ployer and the employee, and both the employer's portion and the employee's portion remain level. Occidental's plan is of this type, and there are others like it.

The second method is another approach that Crown Life has introduced. In this method the total premium remains level. The employer's portion starts out at the YRT rate at the beginning of the period and follows the YRT rates on up until ultimately it reaches 100 per cent of the entire premium. In this method there is a pattern of increasing employer premium with a stop point at some point in time and an employee premium which decreases ultimately to zero.

There is a third method on the market, which is like Continental's TOP product. It is a modified whole life plan, so there are a level employee cost throughout the period and an increasing employer cost until ultimately the employer's rate stops increasing and you have a level premium from that time forward.

These premium forms all reflect different sales strategies being used to market group ordinary products. The plans exhibit a varying amount of concern for the cost being charged to the employer for group ordinary as opposed to the cost of a yearly renewable term plan. As the premium form changes, so do the benefits gained by both employees and employer.

There is much concern about the level of premium charges on group ordinary life plans. Many companies seem to take their individual whole life rates out of their individual ratebook with the cash values and commission patterns that are established in that individual ratebook and then split this premium between the employer and the employee.

There is some doubt about whether a company's individual rates are adequate for the type of experience you get on a group basis. We must expect group mortality, not ordinary mortality. We expect group withdrawal experience, which, in addition to normal individual lapses, introduces the whole problem of case termination; and we have our own particular group expenses. If we simply assume that ordinary rates will apply, I think we have made an inadequate examination of the problem. The correct approach is to build special rates for group ordinary which are consistent with the mortality experience, withdrawal experience, interest, and expense assumptions that apply to group term insurance. If this is done there is no problem with respect to the adequacy of the premium, but there may be a problem with respect to the marketability of the plan. This is particularly true if the group product has higher premiums or lower cash values than those in the ordinary ratebook.

The coverages that are available under group ordinary are usually whole life, life paid up at 65, and sometimes retirement income at 65.

Some companies use life paid up at 85 or life paid up at 95 to help justify a different pricing strategy than that in the ordinary ratebook. Most of these plans are available in both a par and a nonpar form, although most of the recent activity is on a nonpar basis.

There is another consideration with respect to pricing that relates to the conversion problem. Most of this insurance has been sold on the basis that you can take it with you by utilizing the original age conversion option under the plan. There is no opportunity in group ordinary plans to make a direct conversion charge against the group policyholder at the time of conversion. Somehow the conversion cost has to be built into the rate. This is a problem that we are all trying to solve.

Since the arrival of the nonpar plans on the market and the activity in the last two years, there has been some question of the possibility of experience rating. There is a necessity for this type of approach for group ordinary if you are going to be able to reach the larger cases.

For the bulk of the group ordinary plans now in force there is no immediate need for experience rating, because most of these cases are relatively small. Theoretically, you can experience-rate the term portion of the premium charged to the employer, but I have not seen anyone doing it. Experience rating is tied into the marketing strategy used by the company, and only those companies which expect large group ordinary cases would attempt to solve this problem.

Continental has been offering a form of group ordinary for eight years now, under the name TOP. The activity of other large companies in this market in the last two years has had a favorable effect on our sales of TOP. It has generated a renewed enthusiasm in our agents for this form of group insurance. Much of the current interest in this product has been generated by Section 79 of the Internal Revenue Code. This provides a basis for splitting the cost between the employer and the employee, with tax advantages for both. It may be of some historical interest to re-examine the reason that we experienced success with TOP during an era when the tax status was even more vague than it is today.

This was primarily a small group market—ten to fifty lives and, more often, ten to twenty-five lives. In this type of market the employer looks at his group term insurance as a premium problem. He does not think of it in terms of claims plus a retention. His concern is with the pure premium cost of his plan. He is paying only for the risk. If he provides $25,000 of group insurance to a key man in his organization, he finds that as that man ages his costs go up. He may be willing to provide that amount of insurance today but may not want to commit himself to the extra cost in the future; so, when group ordinary comes along

and offers the opportunity to him to level his costs, he persuades the employee to help pay for it in order that the desired amount can be provided. This has been the appeal to the employer with a small group.

From the employee's point of view, the "you can take it with you" feature has been most important, especially if he is already contributing to the plan. He does not mind increasing his costs somewhat to get the permanent values that go with it, particularly since there is little chance that his employer will be providing postretirement group insurance benefits.

I think the most important reason for group ordinary's success has been the level of commissions that are paid. The commission levels have been very close to ordinary commissions, and this has made small group insurance cases profitable to the agent. When an agent can write permanent insurance on a fifteen- or twenty-life case and increase the commissions tenfold, he becomes interested. It gets him back into the case and doing a lot of the work instead of having the group field man doing all the work for him. We have had situations in which the agent will not let the group man close any more, because he does not want him to blow the ordinary commissions on this product.

To the extent that group ordinary becomes profitable for the agent, it also becomes profitable for the company. We have a higher closing ratio on TOP cases than we do on any other form of group insurance. We also have a much better persistency ratio, and this is one of the critical problems in making a profit on small groups. In this respect it has helped to make our group health insurance line more profitable.

Our TOP product has been a par product since it was initiated; we have, therefore, had a particular problem as nonpar competition entered the picture. The introduction of a nonpar product of our own would provide competition for our own product. We have given considerable thought to our basic philosophy in this area.

On larger cases (for example, cases of fifty lives or more), we must realize that the employer has been dealing on a net-cost basis. I think that all of our imagination is going to be taxed in delivering a group ordinary product in this area. The pricing is going to have to be lower in order to offer the employer a cost that is competitive with his current group term cost-plus arrangement. It may be necessary to reduce the commission payable.

MR. LYLE H. BARNHART: I have two questions. First, why can't you charge the normal conversion charge of $65 a thousand; second, do you normally pay full commission or is it a full commission minus about 10 per cent of the premium?

MR. SIEBEN: Most of the competition is not charging the regular conversion charge. I think the pattern has been established. After all, you have sold permanent insurance on the basis that the employee can take it with him, and the whole sale is based on a guaranteed cost to the employer for his portion and that is all he pays.

Most commissions appear to be on approximately the same level as the ordinary commissions of the particular company, although some of them are a few percentage points less. I do not think it has settled down. I have seen some 75 per cent first year and $7\frac{1}{2}$ per cent renewal, and so on.

MR. CHESTER D. BEATTY: The situation in Canada is not yet clear. The problems are much the same as those you have in the States. There are four or five companies in Canada in this field now. We hope that we will get approval.

MR. WALTER S. RUGLAND: If you pay ordinary commissions, do you pay the commission on the employee's contribution or on the total premium?

MR. SIEBEN: The commissions are paid on the total premium in every case that I am aware of.

MR. RUGLAND: When you experience-rate this business, if you plan to, and you are experience rating just the term portion, will your experience rating be based upon death benefits of the face amount less the cash values or the entire death benefit—cash value plus net amount at risk?

MR. SIEBEN: I do not think the question at this point is how to experience-rate; I think it is how to reach the market that has traditionally been experience-rated.

An alternative to normal experience rating might be accomplished by delivering a lower guarantee of costs for the larger case; in other words, a lower premium. It is an experience discount in advance, if you like. I do not know whether anybody has attempted this approach as yet.

MR. JOSEPH W. MORAN: On the experience-rating question, I think the problem is that, if the premium rates being charged for the permanent insurance are participating rates, there has to be some expectation of dividends. If they are not participating rates, presumably there is no money available to be used for experience rating.

When you start to deal with the larger employer, who is used to receiving the benefits of mortality experience on his own policy in the form

of dividends or experience-rating refunds, the fact that these margins have either been anticipated in the setting of nonparticipating rates for whole life coverage or are going to be used to support dividends on the permanent basis means that the employer cannot determine the net cost differential by entering the permanent insurance program strictly on the basis of premium rates. He has to look to the experience refunds that he might otherwise have received.

MR. RUGLAND: Do you have any comments on the situation in which there is a multiple plan portfolio of group ordinary—for example, whole life, life paid up at 65, and retirement income at 65—where the employer's premium is identical under all plans?

MR. SIEBEN: Let us assume that the employer's premium is level at all durations under all plans. Theoretically, if you had the absolute maximum premium for ordinary life and if you got into a higher premium form, which in turn creates higher cash values and smaller amounts at risk, you could argue that the permissible employer premium under the tax code ought to be decreased for these plans.

This has not been the pattern. I think it is probably caused by the fact that in most cases the maximum contribution from the employer has not been charged.

MR. RUGLAND: I feel that when the employer cost is the same in the three plans you are letting the employee buy cash value that endows upon termination or retirement; the employer is therefore buying the total death benefit during active work years.

MR. SIEBEN: Isn't the total death benefit different under the three plans?

MR. RUGLAND: No, I think in that situation the death benefit would be constant under all the plans, cash value plus net amount at risk.

MR. SIEBEN: We have our first point of controversy. Would anyone else care to comment?

MR. HOWARD BOLNICK: The charge to the employer is not the entire death benefit, although under some premium forms it seems to be that way. What he is actually being charged for is the net amount at risk, that is, the face amount less the cash value. Therefore, the employer is paying for something different under the three plans.

We have been studying this problem ourselves, and I think that the way they probably justified using the same premiums for the employer under all three plans is to theoretically reallocate the expenses being charged to the employer and the employee.

MR. WILLIAM A. HALVORSON: In the Milwaukee office of Milliman & Robertson, we have been doing some experimenting with a type of group ordinary under which we would actually have two special franchise forms, one being the one-year term form and the other life paid up at 65. This would be written as it is on small groups, where you often get into employer agreements covering individual policies.

The argument we are presenting is that the employer can determine and deduct his premium on the term portion, because the employer agreement itself will state that the employer will contribute the term cost according to the term policy as if everybody is to be covered by the term plan. The average term premium determined for all employees electing the permanent is then deducted from the total individual premiums for the type of insurance that individual employees elect to determine the employee contributions.

The advantage of this approach, as we see it, is that we will have the employer taking a tax deduction for the total term insurance premium, which does not have anything to do with the build-up of the cash values. This employer contribution should not be taxable income to the employee, since the employer's contribution is determined in accordance with an employer agreement which spells out the term insurance cost.

I think that Section 79, if you read it closely, gives you some defense for this approach, and I personally feel that it has a good deal of merit. For one thing, it simplifies the product and the understanding of what is being done, starting with a regular term product.

MR. MORAN: On the question of commissions, we have done considerable research on this subject. One thing that we found that differs from the comments made is that there are several companies that have severe cutbacks in the rates of commission payable at the higher issue ages. The most extreme that we found is a 40 per cent reduction in the rate of commission, beginning at the age of 55, and there are other smoother gradation patterns.

MR. SIEBEN: This pattern of reduced commissions at age 50 or 55 and the break in the commission pattern at that point were discussed fairly well at the West Coast meeting. It is due to the very obvious fact

that the differences between group and ordinary select mortality are minor and acceptable at the early ages but, when you start getting into the later ages, they cannot be overcome and something has to give. Either the rates are going to go up, or the commissions are going to have to come down.

At Continental, when we introduced our initial product eight years ago in this market, it had a commission pattern that is atypical of the current commission patterns. It was a constant plus a percentage, so that perhaps we were paying 100 per cent the first year at issue age 25 but only 38 per cent or 39 per cent at the higher ages. I was rather surprised that this approach was ignored in much of the recent development that has taken place.

MR. ROBERT N. STABLER: I think that my company was one of the first mutual companies to market group ordinary life. We have found that it has been highly successful from a participation standpoint when it is properly explained to employees.

2. *Long-Term Disability*

a) What has been the experience under this benefit? What differences in claim levels, if any, may be expected among various types of groups, that is, small employer, large employer, professional associations, employee-pay-all?

b) Have problems developed with claim payments or employee acceptance when integrated with social security, workmen's compensation, loss-of-time benefits, or when plan benefits are so limited that, together with other types of income, they may not exceed a specified percentage of salary? What problems are anticipated in this area?

c) What changes in underwriting rules are emerging?

MR. WILLIAM A. HALVORSON: Experience under long-term disability more than with other group coverages will be influenced by the desires and practices of the employer. Although this comment has been made many times from previous platforms, I think that we are beginning to see how important the employer is with respect to LTD experience, both during the early months of disability and at the time for rehabilitation.

In the earlier days of LTD, a large percentage of the employees covered were employees of large employers. Most of these plans were employee-pay-all with eligibility restricted to the longer-service, higher-paid employees. As the coverage is now being extended to smaller groups, a greater percentage of the coverage is probably being paid for, at least partially, by the employer.

With respect to the smaller employer, however, it is likely that the insurance company can expect less active participation by the employer in the control of disability experience. The primary reason for this is that smaller employers are not able to participate in the experience rating of their group LTD coverage to the same extent that their larger counterparts can. This fact, combined with their closer affiliation with their own employees, gives them less incentive to control the claim of the employee if he is disabled.

The problem of reading the companies' experience on smaller employers is illustrated by the extremely wide range of experience from group to group. Although the intercompany study of long-term disability experience is just getting under way, and data are in short supply, this fact can be demonstrated by many companies' own experience. The smaller insurance company therefore is not likely to have enough of the smaller groups to eliminate the chance of fluctuation between groups. This could easily lead them to misjudge the meaning of their own financial experience.

To get some idea of the range of such experience, we can probably learn something from looking at the supplementary major medical experience for the policy years 1964–66. There were 2,713 experience units in the 25–49 life size. Of these units, 1,024 or 38 per cent, had loss ratios of less than 20 per cent of actual to 1965 tabular. Four hundred and sixty experience units, or 17 per cent, had a ratio of actual to tabular of 200 per cent or more, and 139 of these were 500 per cent or more. Only 241 units, or less than 9 per cent, had a ratio of actual to tabular between 80 and 120 per cent.

With long-term disability frequencies being less than the frequency for supplementary major medical plans on the average, we can be sure that the frequency distribution curve will be even more highly skewed, and not bell-shaped at all on the smaller groups. This will make experience very difficult to analyze for any particular company, and it emphasizes the need for liberal contributions to the Society of Actuaries intercompany studies if we are to understand this coverage properly.

The experience by size of group for long-term disability can probably be expected to take the same kind of form that has been true of supplementary major medical. This again shows that experience for 25–49 life groups of employees is 120 per cent of the average experience. This same phenomenon has been reported both for hospital and for comprehensive major medical, although to a lesser degree.

With respect to employee acceptance of nonduplication, the problem seems primarily to be one of basic understanding of the plan provisions. These plan provisions are complex, and they necessarily must be, because of the piecemeal basis upon which employees have been protected for long-term disability under current life insurance, loss of time, workmen's compensation, social security, and pension plans. We have found strong interest during recent months in establishing an over-all objective and limit for long-term disability benefits—such as 70 or 75 per cent of income—where the employer is paying a substantial portion of the total cost of the long-term disability plan. It would appear natural that the employer would want the long-term disability plan to operate as an excess-of-all-other-benefits plan, much as is the case in many major medical expense insurance plans. If handled on an excess basis, of course, there are more administrative difficulties than would be the case where the benefit is payable without reference to other plans. As in the case of the COB provisions, however, most employers are willing to pay some additional administrative cost in order to save on total claims and to assure a just administration of the benefits, consistent with their objectives.

As employers take over the major share of the LTD premium, it can be expected that they will also want to integrate the benefits with individual disability income plans. When and if this becomes more common, solutions must be found for providing interim coverage between jobs, such as is now currently provided by conversion rights under group life insurance.

In view of these various trends it would seem appropriate for companies to develop special franchise-type, step-rate disability income policies for the employees of smaller groups, especially those employees earning in excess of the social security wage base. Such amounts would be underwritten to various degrees, and age rates might be uniform among different groups within the same industry. Statutory provisions with respect to nonduplication in the disability income field, especially for individual or franchise policies, are very inadequate and therefore do not permit proper development of this market. Until solutions can be found to our nonduplication provisions which will enable the carriers to write truly excess long-term disability on the smaller group, long-term disability will probably continue to suffer from the standpoint of both adequate benefits and spread of coverage. This gap in coverage will not go unnoticed by our legislative bodies.

In summary, I think that companies expanding their LTD activity into the smaller employer market will find higher costs and claim experience and will need special products and/or more sensitive experience-rating provisions than are now being discussed. Also, it behooves the companies to try to find ways of writing truly excess long-term disability coverage for the smaller groups.

MR. THEODORE W. GARRISON: I would like to raise the following question: What is the experience going to be under this benefit? Specifically, I have reference to the business cycle. I think most of our companies are off and running with this product as though business cycles were a thing of the past.

Yet we have heard warnings. About a month ago William McChesney Martin made a famous speech about our country being in its worst financial crisis since 1931. Unless we get our financial affairs in order, we are faced with the prospect of uncontrolled inflation or uncontrolled recession. We have heard similar warnings by other noted economists.

Perhaps governmental control today is such that it will soften the sting of business cycles as they have been observed in the past, but it seems to me that our economy at this point is such that writing LTD is a much riskier venture than it has been in the past few years. I would be

interested in knowing whether anyone else is concerned about this and whether any company is taking action.

I might add that, although we have talked about it a little in our company, we have not as yet done anything toward backing away from this risk.

MR. M. RONALD RILEY: In response to Mr. T. W. Garrison's question, I believe there are several factors that might appropriately be considered.

1. The premium structure for this coverage should include a margin for a special contingency fund. During periods of high employment and low disability rates, surplus would accumulate. The ultimate magnitude of such surplus would be directly related to the expected "excess" disability claims during low employment periods over claims during a normal employment period. The fund would function as a rate stabilizer. Hence, the policyholder's cost would tend to be level over the entire business cycle. If reasonable levels of surplus are not accumulated during full employment periods, a company will face immediate economic problems when the business cycle begins a downward adjustment.

2. If the economic forecast for the near future is clouded, the practice of rate guarantees for new cases for periods longer than one year might be suspended.

3. It might be well to point out that during periods of low employment not only are disability rates likely to increase but recovery rates may decrease. This problem would put a strain on existing reserves held for open claims. In this situation, there is absolutely no substitute for a conservative reserve basis.

4. Points 1 and 2 will be of value during a temporary downward trend. Point 3 will provide a solution when the adjustment period appears to be of longer duration.

5. It may be difficult to accomplish these utopian goals due to the competitive pressures in the market.

MR. HALVORSON: The history of disability insurance has indicated that men have never set the right rates for disability coverage. We are not that much smarter today. We are either much too high, or we are much too low, and I do not think we can find any consolation for our ignorance in building reserves unless we are just plain lucky.

MR. RICHARD B. SIEBEN: The basic question is how you can accrue all that surplus in the prevailing rate climate.

MR. HALVORSON: I think the remarks and experience presented by Robert Hall in Philadelphia would be extremely valuable to those actuaries who are working in this field. I especially want to call your attention to the fact that he found within his own company that it was giving too much credit for the social security offset. I think we are all slightly guilty of this.

MR. ROBERT N. STABLER: I believe the insurance industry is misleading the public when integration with other benefits is such that the individual cannot receive a benefit because of an overriding restrictive percentage amount.

It is difficult for me to predict what form of penalties will be imposed by state and federal governments if this practice is continued, but, in my opinion, they will be forthcoming and applied to the industry generally.

3. *Medical Care Expense Insurance*
   - *a*) What has been the recent claim experience under the various basic coverages? Under supplementary major medical? Under comprehensive?
   - *b*) What are the underlying causes of recent trends in these coverages? What changes in these trends are likely in the next year or two?
   - *c*) What effect has Medicare had on plan design for those under 65? At the time Medicare was introduced, many approaches to the plan design of insured plans for those over 65 were developed. What has been the success of these various approaches—both from a claim-administration standpoint and also from a public-acceptance standpoint?
   - *d*) What effect does COB have on the claim experience? On the lag between paid and incurred claims?

MR. ROBERT N. STABLER: With respect to subtopic *a*, it has been our experience that even with reserve strengthening our experience has been less than we anticipated in 1966.

In our renewal rerating, we currently use an inflationary trend factor as follows: on base plan programs, 3–5 per cent; on comprehensive major medical, 10 per cent; on base plan and superimposed major medical combined programs, 9 per cent; and on superimposed major medical programs alone, 35 per cent. Of course, with base plan coverage the unscheduled items are the only ones subject to inflationary trends, and only the hospital special charges are of any great significance.

With respect to the factors behind the inflationary trend, the most frequently used figures on a national basis are those of the consumer price index.

The most common figure quoted is hospital room and board, showing an annual trend of 15–22 per cent, depending upon the period examined. A partial breakdown of trends published for the period ending January 1, 1967, was the following: hospital room and board, 21.9 per cent; operating room, 14.2 per cent; X-ray diagnostic services and so forth, 7.1 per cent; and physicians' fees, 7.3 per cent.

From these statistics, it is obvious that room and board charges are rising at a very fast rate, far more than special services. While the costs are on the increase, I would nevertheless like to remind you that the American public continues to have available the finest medical facilities and treatment in the world.

What changes in these cost trends are likely within the next year or two? With respect to the base plan, the trend really only applies to the unscheduled coverage. In our own case, we have seen special hospital services make up between 29 and 55 per cent of the claims, and our over-

all experience has been consistent with the 3–5 per cent trend that I mentioned earlier.

With respect to a base plan plus superimposed major medical, if the base plan is strong, so strong that it is unlikely that a claimant can receive major medical benefits after operation of the deductible, we will really have a comprehensive major medical at the zero dollar deductible. On the other hand, if the base plan is so weak that it is essentially nonexistent, we have a standard comprehensive major medical plan. Also, in my opinion, the annual trend on cost from inflation for the whole unit is not too much influenced by where the deductible is from one extreme to the other.

Now taking the base plan and superimposing major medical, we are getting an annual trend of slightly less than 10 per cent in our experience on the package. When we consider superimposed major medical by itself, those cases with the strongest underlying base plan receive the most effect from inflation as percentage of increase, because they have a smaller premium on which inflation operates. On the whole block of superimposed major medical, we are getting an annual trend of about 40 per cent.

I might add with respect to comprehensive major medical that it seems that higher deductibles cause higher trends. We are currently estimating 10 per cent for $50 deductibles and 12 per cent for $150 deductibles, with a gradation in between. Our results are consistent with our application of the different trends to the component charges covered by major medical policies.

In my opinion, inflationary trends should be expected to continue. This is consistent with the opinions of hospital administrators; the same inflationary pressures for wage increases, higher building costs, and so forth, that we have seen in the past still exist.

With respect to physicians' fees, the average figure of 7 per cent that I mentioned is made up by about one-third of the doctors increasing their fees approximately 20 per cent. The others are going to catch up.

I also believe that Medicare influences in medical costs cannot be ignored. Medicare accounting has shifted the emphasis to raising room and board rates rather than special services, and the prevailing fee concept has a built-in inflationary effect.

There are other factors that should be given consideration when one projects the likely future of medical costs. We have all heard President Johnson's remarks that something has to be done about the spiraling trend of medical costs. The conclusion of his commission to study the problem pointed out the inefficiencies of hospital planning and hospital

management across the nation. While these may be the keys to halting the spiraling costs in the long run, I doubt if it is possible for them to have any effect in the next year or two.

We have also heard about the decline in hospital utilization because beds are so full of Medicare people that there is no room for others, that hospital construction has lagged behind the needs, that review committees and other controls can reduce utilization. It is difficult to say whether this is a trend or a temporary situation, but in my opinion it is temporary.

I believe many companies financially benefited from the removal of Medicare eligibles from their group coverages. But this is certainly not a trend, and renewal underwriting should make allowances for this one-shot deal. Many companies also were hesitant and delayed in introducing age factors for medical expense insurance, so today they are faced with statistics that appear to indicate that the block of business has improved. Actually they purified the business with age rating. This certainly is not the trend, and I suggest that we all scrutinize exactly what is happening to our experience.

Finally, I suggest that the inflationary trend that is actually occurring in Medicare costs is disguised by our continued efforts to increase the level of the room and board charges, which is not subject to inflationary trends, but the trends still exist with respect to unscheduled, superimposed major medical and comprehensive major medical coverages.

With respect to subtopic *c*, although Medicare has raised the general level of benefits for those under 65 because we can talk about it through our marketing mechanisms, we have experienced little pressure to design a package just like Medicare. This may be because we offer nineteen different standard comprehensive major medical variations and a base plan plus superimposed major medical, which can be tailored to almost anything for a small group; so there is little need for another design.

We have experienced difficulty in plans where we have Medicare carve-outs, because the insured individual does not fully understand what they are covered for and the total plan frequently does not make sense, so that we end up paying coinsurance on Medicare coinsurance. Even if we even out a Medicare plan with a $40 hospital deductible and a $50 Part B deductible from a base plan with superimposed major medical and $100 deductible, it leads to constant calculation and recalculation in the claim department.

I might make one last comment with respect to superimposing over Medicare. To provide coverage for the Part B deductible, I believe the estimated cost would be $47. I am sure most of you will agree that it is not worth the coverage for the extra $3.

With respect to experience for COB, in our company during 1967 the provision was applied to approximately 2,000 claims, involving a potential liability of $440,000. About half of these claimants volunteered the other carrier's payments, from which information we could pay our portion of the claim without further inquiry. Our statistics indicate that the claims savings that we realized when the provision was applied to the appropriate charges was almost 14 times the amount that we ultimately paid on those claims.

It is surprising, but for some reason our experience has been that the savings seems to be greatest in the period from April to November. I guess they want to go on vacation or something. The time lag on COB claims, from the time the claim is first worked on by a claim representative until it is finally paid after the existence of other insurance and its payments have been verified, is approximately three weeks. As you can appreciate, this three-week delay does cause grumbling from policyholders and claimants. Over all, General American's COB savings in reference to total group benefits paid was about 1.3 per cent. I want to point out that that percentage includes all our group payments as a base. Some of those cases did not have and still do not have COB in the contract.