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GROUP PRODUCTS

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1. Survivor Income Group Life Insurance

- premium and valuation assumptions, including remarriage rates
- integration with Social Security benefits, or design of benefits around Social Security benefits
- interest in benefits which are adjusted in accordance with cost of living

2. Long Term Disability Insurance

- valuation bases for experience rating
- recent trends in experience, correlation with economic conditions, special considerations for blue collar risks, other variables
- integration with Social Security benefits, and Social Security "freeze" provisions
- interest in benefits which are adjusted in accordance with cost of living

3. Dental Insurance

- recent trends in experience
- underwriting considerations
- what is happening in the market
- who is buying

4. Health Insurance

- recent inflation and utilization trends
- Health Maintenance Organization activity

5. New Products and Development

- vision care
- group legal
- expansion of life companies into property and casualty
- other

MR. DENNIS J. WHIMPEY: I will discuss Survivor Income Benefit and Long Term Disability Insurance.

The intent of a group Survivor Income Benefit (SIB) program is to assist in providing continued economic security, or income maintenance, for families of deceased employees. Two design characteristics distinguish an SIB plan from a multiple earnings traditional group life plan; namely,

benefits are paid only in monthly instalments and only to a qualified beneficiary. The benefit formula is normally expressed as a percentage of the employee's earnings, less any amounts payable from other sources with which the SIB plan may be integrated.

In the United States, the universality of Social Security requires that it be taken into account in any reasonable SIB plan design. This can be done either explicitly by integrating the SIB with the Social Security benefit (e.g. 40% of earnings less Social Security payments) or implicitly by setting a lower benefit percentage (e.g., 20% of earnings not reduced by Social Security).

Of these two methods, the integration technique is the more complex. Also, employees may tend to distrust integration, viewing it as confiscating dollars of employment benefits to which they have a right. On the other hand, integration better fits the income maintenance needs of an individual, by recognizing actual, rather than assumed average, Social Security payments and also by recognizing that the proportion of income replaced by Social Security decreases as salary increases. Other sources of survivor benefits, such as pre-retirement death benefits from pension plans, can also be integrated, if desired, with an SIB plan.

As a practical matter, we think that a non-integrated plan is preferable when the benefit percentage is below the 20% level and that an integrated plan is advisable when the benefit formula is more than 25-30%, with the 20-30% range representing a gray area. One possible, middle-of-the-road approach is a benefit, with a monthly maximum of \$X, equal to the greater of 40% of earnings less Social Security and 20% of earnings.

Because of inflation, a replacement income benefit that is fixed to the level of earnings of the employee at the time of his death may well turn out to have a depreciating relationship to the future needs of his survivors. A cost of living adjustment, tied for example to the Consumer Price Index, is one way of coping with this inadequacy. However, this feature is costly. Including a modest 3% maximum cost of living feature in a plan providing lifetime benefits to the surviving spouse might add as much as 30% to the plan costs. Very little interest is seen in this approach.

Another approach to help maintain income in real dollars under integrated plans is a Social Security "freeze". This provides that increases in Social Security amounts brought about by changes in the law or changes due to programmed Social Security cost of living adjustments after the SIB payments begin are not considered part of the offset. The freeze is a standard provision in our integrated SIB plans.

With regard to the actuarial assumptions underlying SIB financing, both manual premium rates and present-value claim charges to policyholders involve the same realistic evaluations:

1. Interest - Taking into account investment income rates for current investments, average lifetimes of SIB claims and the favourable Federal Income Tax status of SIB reserves, a level of 7-7½% is an appropriate interest assumption.

2. Mortality - Recent United States population mortality tables, taken separately for male and female spouses, are satisfactory. No mortality assumption need be included for children.
3. Remarriage - This contingency can be treated in terms of the 1956 Old Age, Survivor and Disability Income (OASDI) Remarriage Table. Our own limited experience supports the use of 80% of the tabular rates for the first five years and 65% thereafter.
4. Provision for fluctuation and claim expenses - The major component, fluctuation margin, is particularly judgemental. It may be incorporated by inserting a margin into each of the previous three components, or it may be provided by an end loading of, say, 5%.

Annual Statement reserves must conform with statutory constraints and accordingly may produce temporary financial strains relative to the realistic claim charge basis just described. A representative and legally acceptable Statement reserve basis is 6% interest, the 1971 Group Annuity Table with a 5-7 year age setback and 50% of the 1956 OASDI Remarriage Table rates.

Just as an SIB program assists in providing income maintenance after an employee dies, so a Long Term Disability (LTD) program assists in providing income maintenance after an employee becomes disabled. Considerations of benefit plan design for integration with Social Security, cost of living adjustments and Social Security "freeze" provisions are quite analogous to those just discussed for SIB plans.

There are, however, two important distinctions. Since a disabled employee's family still includes him, income replacement needs are greater. Thus benefits are typically one-half or two-thirds of earnings rather than the 20-40% level found in SIB plans. Conversely, because of the somewhat subjective nature of the disability risk, care must be taken that benefit levels are not too great relative to take-home pay.

LTD coverage is much more widespread than SIB. Integration with primary Social Security is appropriate and, in our experience, usual, whereas integration with one or more of other income benefits such as secondary Social Security, disability pension or Total and Permanent Disability benefits varies considerably among Plans. With the increased visibility of LTD benefits relative to SIB, some provision for recognizing the effects of inflation on income maintenance takes on a much increased consumer importance.

Again, a cost of living feature is expensive. Indexing of 3% may increase plan costs by 20%, and a currently more realistic indexing of 6% could boost costs in the range of 35-40%. Very little interest, however, has been shown in this approach.

On the other hand, the Social Security "freeze" is quite common, both as mandated by several states and as adopted voluntarily by a number of employers. Our current LTD premium rate structure reflects a 12% differential between "freeze" and "no-freeze" plans. In administering the freeze provision, we do take into account:

- any increased Social Security amount resulting from later acquired children,
- Social Security benefits subsequently received by virtue of the disabled employee's spouse attaining age 62, and
- Social Security benefit payments which commence after the employee's entitlement to LTD insurance.

One question which we constantly watch is whether there is any reliable correlation between LTD experience and economic conditions. Based on data published in the 1974 Reports of the Transactions of the Society of Actuaries, LTD experience worsened in correlation with increases in unemployment in 1970 and 1971, and experience returned toward the pre-1970 level as unemployment improved during 1972. Unpublished data show the 1973 LTD experience to be at about the intermediate 1972 level, again in correlation with an unemployment rate then, between that of the 1969 low and the 1971 high. Since 1973, however, based only on our own experience, LTD results have been rather stable in the face of unemployment rates which have risen again, suggesting an influence of significant factors other than just the overall economic conditions or unemployment rates.

Concerning rating by occupation, we consider as a select rating class "office-housed clerical, salaried, managerial and professional groups" and most other disability risk classifications as standard. The loading for standard relative to select is 50%, and this differential between the two classes is supported by our own experience.

For valuation of LTD claims, both experience rated and for the Annual Statement, we use rates from the 1952 Intercompany Disability Table (Benefits 2 and 3 combined), and view the 1964 Commissioners Disability Table as significantly insufficient at the point of claim. Interest assumptions for a life insurance company must reflect full Federal Income Tax as well as the long-term nature of the benefit, and accordingly may be in the range of 3-3½%.

MR. JOHN P. COOKSON: I will discuss recent experience in the group health area under three topic headings, dental, medical and new products.

In the area of Dental Insurance there has been much sales activity in the last two years, the stimulus for which has been the initiation of the United Auto Workers (UAW) and United Steel Workers dental plans in late 1974 and mid-1975, respectively. Another significant thrust, at least in certain regions, has come from Public Employees and Teachers groups.

Based upon recent observations, most of the major companies tend to be relatively competitive, but it is often difficult to obtain meaningful comparisons due to differences in benefit design, contractual provisions and claim administration.

A study entitled "Prepaid Dental Care" by Jerold M. Frankel, D.M.D., M.P.H., and Joseph Boffa, D.D.S., M.P.H., indicated that in 1974 40-45% of the population of the Pacific Coast States were covered by dental insurance. This contrasted with the countrywide average of about 10% and coverage in many eastern and industrial states of less than 5%. This would seem to

indicate the significant potential for growth in the dental insurance market, which is also demonstrated by significant sales activity during the last two years.

The nature of the risk involved in dental insurance is illustrated in Exhibits I and II, which follow. Exhibit I shows the monthly incurred pure premium per contract for the first 23 months of experience of a large branch (70,000 - 80,000 contracts) of a large group.

The peak utilization occurring in the fifth month is approximately 30% higher than the mean for the observed period. And the low point from the twelfth to the fourteenth month is about 15% below the mean. The timing and size of the peaks and valleys will be affected by the specific characteristics of a particular program. For example, the experience shown here was based on a contract with more than one year's advance knowledge of inception of the program. However, I believe that the general characteristics of this curve are typical of what would be observed in most comprehensive programs.

It should also be noted that the underlying trend from the low point (from the twelfth to the fourteenth month) to the end of the observation period is approximately 19% on an annualized basis.

Exhibit II illustrates the distribution of benefits among claimants. This example comprises two public employee groups with very liberal benefits. The graph indicates that approximately 50% of the total claim dollars were incurred by only 5% of the claimants and, in fact, in this illustration the 500 highest claimants averaged approximately \$2,000 in incurred charges during the year. Furthermore, although not shown on the graph, nearly 90% of eligible participants utilized services during the year. This illustrates the importance of good plan design to make the most effective use of the funds available.

There are four essential ingredients to a soundly designed dental insurance program - rating, benefit design, underwriting and claims administration.

Rating should reflect the significant risk characteristics of a particular program and the prospective policyholder, including:

1. employee class - utilization expectations may range from about 40-45% for an unskilled group to 55-60% for a professional group and to over 70% for some public employees or teachers groups; also, certain benefit-conscious groups will exhibit higher than anticipated utilization.
2. advance notification - lengthy advance notice of inception of benefits will increase costs.
3. coinsurance/deductibles/annual maximums - various combinations of these characteristics will affect claims in different ways.
4. sex - females appear to have significantly higher usage characteristics.

DISCUSSION—CONCURRENT SESSIONS

EXHIBIT I

GROUP DENTAL INSURANCE

Monthly Pure Premium Experience
For a Group of Approximately 70,000 Contracts

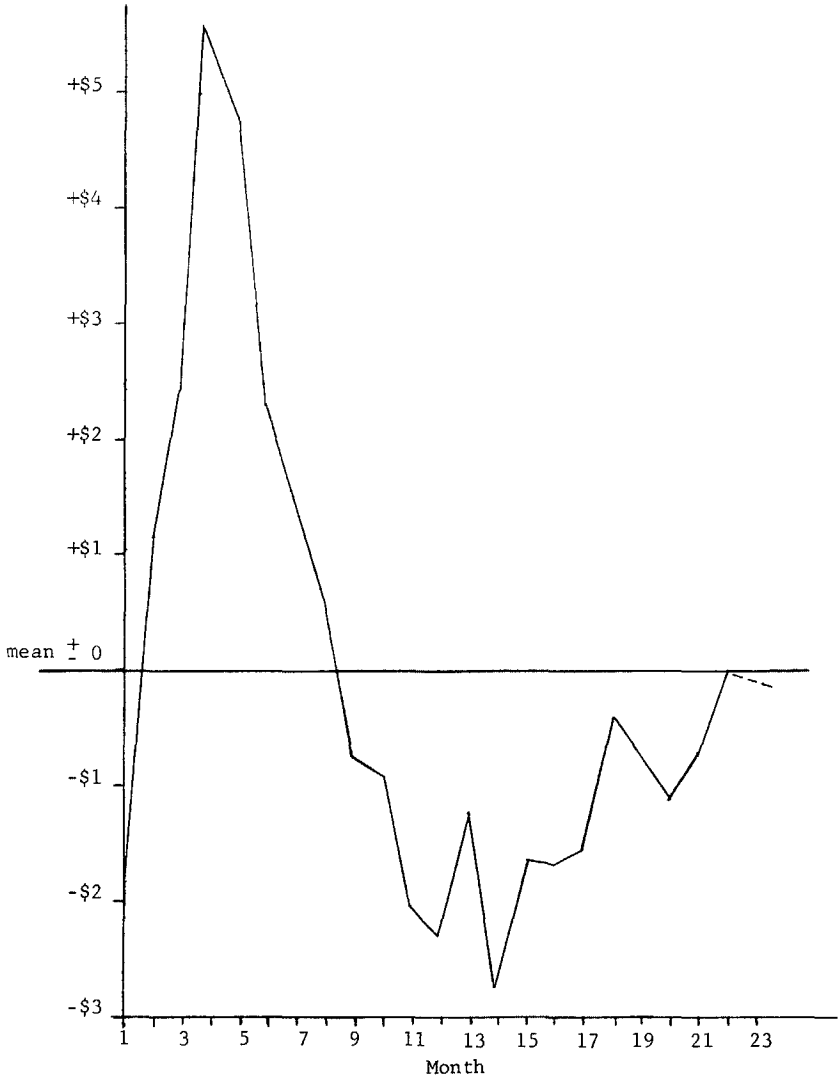
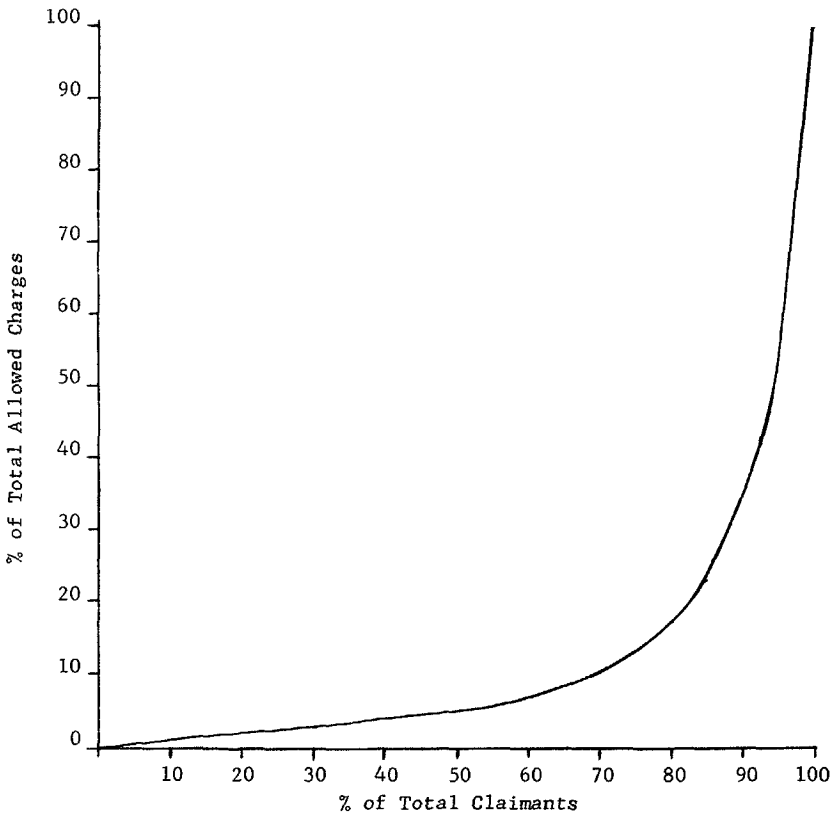


EXHIBIT II

DISTRIBUTION OF CALENDAR YEAR DENTAL SERVICE CHARGES

For 2 Select Groups Of Approximately 12,000 Insureds

With No Annual Maximum



5. age - age differences seem to flatten out in comprehensive programs; however, caution is urged in rating retiree groups.
6. location - fee levels and availability of care generally vary by area.
7. guarantee - avoid long rate guarantees, especially for large groups.

Sound benefit design is another essential ingredient for a successful dental program. Items to avoid are:

1. high coinsurance levels, especially on prosthodontics (including crowns and inlays), periodontics, endodontics and orthodontics
2. high or unlimited annual maximums
3. large deductibles, which tend to discourage the use of preventative services
4. incentive plans, under which the use of major services is postponed until maximum coverage is available
5. addition of benefits in stages, under which adverse experience occurs when additional riders are added.

Underwriting is a third essential aspect for a sound dental program. Areas of concern include:

1. strikes and layoffs - because of the postponable nature of most dental service, premium income is reduced, but claims remain relatively unaffected
2. turnover - high turnover will tend constantly to add new patients with a backlog of unmet needs
3. employee contributions - with contributory plans those who do not enroll will probably be those who would not have used the benefits; thus, the same amount of claims is likely to be seen, regardless of the percentage participation.

Claims administration is the fourth major area of concern in a sound dental program. Predetermination and "alternate courses of treatment" can have a significant impact on claims costs, and are probably essential for the insurer to remain competitive. These relatively novel aspects of dental claim review provide for a second opinion and inform the patient and dentist in advance of the amount of coverage available. "Alternate courses of treatment" refers to recognizing charges only for the most cost effective treatment for any given condition.

Insurers should also be wary of a tendency for fees to increase as the volume of third party payments in a particular area increases. In addition, in some areas the presence of third party reimbursements has led to fees for services for which charges are not normally made, such as oral examinations.

In the area of Medical Care, Argus Charts reported that the health insurance industry (including Commercial Insurers and Blue Cross and Blue Shield Plans) experienced underwriting losses in excess of \$2.0 billion in 1974 and 1975, of which \$1.6 billion occurred in 1975 alone.

Based upon recent observations, 1976 results appear to be improving and we expect that late 1976 and early 1977 results will probably be substantially improved, due to strong renewal actions and reduced trends.

However, there are signs that there is the potential for significant trend increases beginning in the latter half of 1977, and we hope the industry does not overreact to lower current trends and underestimate future renewals.

Our firm performs consulting work for local Hospital and Medical-Surgical Organizations and we have observed significant differences in trends by state and even by metropolitan areas within states. Hospital cost trends (inflation plus intensity of ancillary services) in some areas may be as low as 10-13% and as high as 20-25% in other locations. We have also observed recent out-patient hospital utilization trends of 10-20%. In-patient days per 1000 contracts continue to show a decline but in many cases this is distorted because of a definite shift from family to individual contracts, which over-exaggerates the decreasing utilization of in-patient days.

In the medical-surgical areas, wide differences in utilization (including mix and intensity of services) are observed by area. We have seen trends of 3% in areas in which indemnity business predominates to over 8% in areas with high concentrations or significant shifts to business based on a "usual, customary and reasonable" definition of claim charge. Physicians' fees, as measured by the Consumer Price Index (CPI), seem to have moderated temporarily with increases within the range of 10-12%.

With regard to New Products, Health Maintenance Organizations (HMO's) will continue to grow and are here to stay, but for the foreseeable future they are not expected to dominate the health insurance industry.

Recent amendments to the HMO Law including Open Enrollment and Community Rating requirements should provide some impetus to those plans which are just commencing. Furthermore, the eventual qualification of the Kaiser-Permanente Plans should increase the prestige of becoming qualified.

There are some indications that, where a choice exists, there has been significant selection in favour of the HMO. Some experiences have shown a 25-100% claim cost increase on the remaining indemnity insured, even after adjusting for age-sex differences.

The UAW is currently negotiating for a vision care benefit of relatively conservative plan design. This should stimulate further demand over the next few years, as occurred in the case of dental programs.

The change in the tax reform act, which allows group legal as a deductible business expense to an employer and non-taxable benefit to the employee should provide some stimulus to the sale of this product. Until now there has been very little sales activity and most of the available programs are either State Bar Association Plans (similar to the Blue Shield Plans) or Closed Panel Plans.

So far, efforts to write auto, homeowners and liability insurance on a true group basis have been largely unsuccessful.

Even Mass Marketing and Wholesale programs have had limited success, due to the degree of underwriting entailed and the employee resistance in the absence of significant employer contributions.

MR. RONALD L. W. TILL: In discussing these topics from a Canadian point of view, John Woolsey and I have organized our presentations to avoid overlap. Thus neither of us will speak to every topic, but together we hope to provide a reasonable overview of the current Canadian position of the topics under discussion.

Regardless of whether or not you can accept that it is morally appropriate for an employer to establish a Survivor Income Plan where the beneficiary's income ceases upon remarriage, a significant proportion of plans are written in this fashion and it is necessary to reflect this in premiums, claims charges and reserves. In our own case we use a set of remarriage rates derived from those published by Niessen in the 1965 Railroad Retirement Board Remarriage Table. We have applied fairly conservative percentages to these rates ranging from 60% at the younger ages to 75% at the older ages. While more recent statistics would be helpful, I am not aware of them; however, minor variations in this assumption would appear to have a relatively small impact on the aggregate reserve and thus, by extension, on the ingoing premiums.

Of course, in particular instances application of the remarriage rates can result in a substantial reduction in the value of a given amount of annuity, ranging from a 40% reduction in the value of an annuity for a woman widowed under the age of 30 to a 1% reduction for a widow in the mid 50's. However, a very low percentage of survivor income payments is being made to young widows. Consequently the influence of the remarriage tables on the annuity reserve is relatively small; in our own case, it amounts to a reduction in reserve of less than 5%, on those contracts which contain a remarriage feature. We also find that, whereas contracts may contain the remarriage feature, a considerable portion of the reserve is on the lives of the children and payments on such annuities are not subject to termination on remarriage of the mother. Thus, it would appear that a degree of latitude is available in choosing the remarriage assumptions for premiums and reserves. Where it does assume considerable importance, however, is in the incidence of claims charges in specific cases. Here the nature of the experience rating treatment becomes very important. Our experience has been that only relatively large groups have shown an interest in installing Group Life Survivor Plans and for such groups we would normally experience rate the survivor annuities. A conservative initial claim charge is more acceptable to an employer if he is satisfied that he will eventually receive credit for favourable remarriage experience. However, the whole question of the inclusion of remarriage clauses and the appropriate assumptions may soon become quite academic in Canada, as the various provinces move to outlaw various forms of discrimination through their Human Rights legislation. In fact the Federal Government may now also be about to act in this area.

With regard to the integration of benefits with Social Security payments, this is an excellent concept in theory, which can run into severe problems in practice, unless a method is used which specifically defines

the benefit, independent of the Canada Pension Plan (CPP) award. An example of such a method would be a benefit defined as 15% of salary up to the Maximum Pensionable Earnings under the CPP and 25% of salary in excess of that amount.

Where the benefit is written to offset directly the actual CPP award, major administrative and communication problems inevitably seem to arise. There is invariably a delay of six to nine months before the government makes its CPP award and until this happens the amount of the survivor's benefit is not known. While it would seem reasonable to make an estimate of the government award and commence paying benefits on that basis, to be adjusted later when the award is known, this opportunity is blocked by the necessity of obtaining succession duty releases before the insurance company can make any payment. The exact amount of the payment must be known before the succession duty release can be obtained. Since one is dealing with a beneficiary rather than the insured, these administrative delays are magnified in importance by confusion and misunderstanding.

Interest in cost of living adjustments to Survivor Benefits appears to be extremely low in Canada. In our own situation, only one case includes a cost of living adjustment (and this is limited to 2%) and we are seldom asked to quote on this basis. Perhaps the move from a regular group life schedule to a Survivor Benefit represents an increase in costs, which in itself is sufficiently large that a further increase to a cost of living plan would be considered virtually out of the question, or at least a very low priority in utilizing total dollars available for employee benefit plans.

Following bad experience around 1970, the profitability of our Long Term Disability business, as measured in terms of cash claims plus change in reserve over the year against premiums earned, has improved significantly and in fact has been very satisfactory over the last three or four years. Although there has been a drop in claims incidence from the level of the very bad years, the primary feature of this good experience appears to be continued favourable claim termination rates.

Thus, at least a portion of the recent good experience by this measure, particularly in the turn-around years of 1973 and 1974, was in fact an adjustment to the high initial claims reserves set up in the earlier years. This experience is most certainly highly coloured by the occupational mix of our business and it may therefore be quite atypical of the historical experience of other companies. While there is no doubt that our worst experience coincided with a difficult economic period, the influence of different industry and occupational classes is overwhelming. In our own case consistent occupational experience, related to our normal manual rate, varies from 75% on a group of professional engineers to 500% on groups of brewery workers. In many, but certainly not all, instances there is a high degree of correlation between consistent, higher than normal incidence rates and subsequent, higher than normal claim termination rates. This, in theory, would suggest the possibility of different valuation bases for disability annuities for different industry groupings; however, I doubt whether many companies would find this particularly practical, with the possible exception of the occasional very large group, for experience rating purposes. It does, however, point out the severe difficulty, not only in interpreting your own company's experience, but even more in combining data to produce meaningful inter-company statistics.

Though most Canadian LTD benefits which are integrated with the CPP benefit are frozen at the time of initial determination of claim, the choice of doing otherwise is rapidly being withdrawn. At the recent meeting of the Provincial Superintendents of Insurance, amendments to the group rules were discussed, which would make such a freeze mandatory.

I might mention a minor technical point relating to the cost of living benefit applied to LTD with CPP integration and a freeze provision. Care should be taken that the clause is written in such a way that the cost of living increment applies only to the net insurance benefit being paid, rather than the total formula benefit, which would include the CPP benefit. Otherwise, the beneficiary will receive an extra increment from the insurance company equal to the CPP cost of living increase.

I would like to comment briefly on two topical aspects of the LTD business which are not included in the program.

- The concept of rehabilitation as a positive service provided by the insurer to the claimant, as opposed to its identification as a protective clause, allowing the insurer to cut back on the benefit as the claimant is taking his first tentative steps back into useful employment, would seem to be gaining considerable favour. Here is an opportunity for a company to provide a real service beyond a straight cash payment. From our experience, it is essential to use specially trained workers in the field, not claims clerks or group salesmen, neither of whose training or prime motivation is appropriate to rehabilitation work. It is also essential to have the involvement and direct support of the employer and, wherever possible, the Union. Not only does this create a very satisfactory relationship and improved image for the company, it makes sense economically.

There is no doubt that the higher claim termination rates referred to earlier have partially resulted from our very active rehabilitation efforts.

- As inflation and other economic ills affect our Group clients, they are, of course, ever seeking ways of cutting down their costs. One such method is to attempt to self-insure Long Term Disability benefits by entering into an "Administrative Services Only" (ASO) contract, where the insurer will arbitrate claims but not provide any real insurance. In this way, the employer seeks to escape premium tax and avoid building up large reserves with the insurer, which he would feel he could put to much better use in his own business. While this might be appropriate for an extremely large and financially sound organization, it is often the less financially secure employer who will press for this arrangement. There are a number of problems with this approach including the inability to provide a tax-free benefit and the opportunity for misunderstanding with the claimant and harm to the reputation of the company where the insurer and employer differ, as to whether a claim should be payable. However, potentially the most explosive problem with this arrangement lies in the lack of protection of the rights and expectations of the employees, who almost certainly are not aware that their benefits are not insured. At the very least, it is incumbent upon the insurer who is approached to write such an

arrangement to impress upon the financial management of the client company, the need to reflect a liability on their balance sheet approximately equal to the disabled life reserve an insurer would have to hold and to discuss the matter in depth with their auditors. This, in itself, has been sufficient to change the minds of some employers who had approached us about a possible ASO. However, since we are in no position to force an employer to be financially responsible in this regard, if this form of self-insurance becomes much more prevalent, legislation may eventually become necessary to require actuarial certification of such liabilities.

While we have seen a moderate increasing trend in Dental Insurance costs in Canada over the past year or two, this would not appear to be due to an increasing trend of utilization, so much as higher prices for the same level of service, as dentists move toward the maximum charge available under their current fee schedules. The greatest implication on pricing would appear to be the basic coverage, where the cost increase has been considerably more significant than in the area of "major restorative" benefits. However, while there does not appear to be an increasing trend in rate of utilization, there is a very marked difference in these rates by occupation, with high utilization having a close correlation with higher education, social class and extent of exposure to the public.

Since this is a panel to discuss Group Products, I construe the reference to New Products to refer to the mass merchandising on a Group basis of property and casualty insurance. Provincial laws in Canada act as a significant deterrant to large scale group involvement in this business. A company is required to pay the same commission for a given combination of policy benefits regardless of whether this relates to a large group or a single individual. Furthermore, it is prohibited from discriminating by offering a particular type of policy only to a closed block of the public, but in fact must make the same coverage available at the same price to anyone who applies for it and is reasonably likely to fall within the same experience classification. With this type of legislation the opportunity to reflect significant savings through group merchandising techniques is distinctly limited. Perhaps, when enough consumer pressure is brought to bear on this point, we will see a change in legislation to permit valid savings from group marketing methods to be passed on to the consumer.

MR. E. JOHN WOOLSEY: The design of group insurance plans in Canada has been significantly affected by the introduction of Human Rights legislation. Ontario amended its Employment Standards Act in the spring of 1975 to prohibit discrimination in benefit plans on the basis of age, sex or marital status. The Act now has a blanket prohibition against all such discrimination, unless a specific exception is granted by the regulations. The regulations set out the allowable exceptions in considerable detail. The amendment of the Act and the regulations thereunder came into effect in Ontario on November 1, 1975.

Both Quebec and Manitoba are actively considering similar legislation. I expect that they will enact this legislation within the next year. I have commented in the following on some of the effects of this legislation on group insurance benefit plans.

In respect of Survivor Income Group Life Insurance the first sub-item under discussion refers to remarriage provisions; the most common reason for including a discontinuation of benefits on remarriage provision is to reduce the cost of the plan. I have heard some very strong objections from employees to such a provision. In essence, these employees believe that their financial obligation to their spouse continues even though their spouse may remarry following their death. This problem with remarriage provisions is exacerbated by the fact that an employee cannot buy individual insurance coverage to fill this gap - one cannot buy individual insurance which pays a benefit only if the policyholder's spouse remarries following the policyholder's death.

The province of Quebec has indicated that its Human Rights legislation will prohibit remarriage provisions on the grounds that they discriminate on the basis of marital status. It is likely that this prohibition will be adopted by other provinces with similar legislation.

I made a brief survey of the clients of my firm to determine how many have Survivor Income plans. Very few do. The preference is clearly for lump sum insured death benefits, frequently following the format of a basic amount of coverage, with additional amounts of coverage available at the option of the employee. Of those clients with Survivor Income plans, I could not find any with an automatic cost of living adjustment. The reason for this is probably cost.

The outline of items for this session should have included "common-law spouses" under the Survivor Income heading. This was omitted in error when the program was printed. The Ontario Employment Standards Act requires that benefit plans provide the same benefits to common-law spouses as to legally married spouses, although the plan may limit its liability to only one spouse. Each benefit plan must have its own definition of common-law spouse. Ontario has indicated that it probably would not accept a common-law spouse definition which required a period of co-habitation of more than 7 years. Manitoba's position paper on Human Rights proposes a legislated maximum co-habitation period of 3 years.

A common-law spouse definition must in some manner address the problem of establishing an order of priority of claimants when there is a legally married spouse and/or one or more common-law spouses. The order of priority could be established in the plan definition. With this approach the employer runs the risk of becoming involved as the judge, in what can be rather unpleasant domestic situations. Another approach is to have the employee designate the spouse. A problem with this approach is that such designations can become out of date. It is usually desirable to have a catch-all provision to cover the case where an employee fails to make a valid designation.

One of my clients is planning to introduce a spouse definition which specifically does not establish any order of precedence when there is more than one spouse, although it does limit the employer's liability to paying benefits to only one spouse. This client was advised by its legal counsel that multiple spouse situations usually end up in the courts eventually and, therefore, it is better for the matter to be determined in the first place by the courts.

The first sub-item under Long Term Disability insurance is valuation bases. I reviewed the quotations which we recently received for this coverage for one of our clients. The eight insurers submitting quotations were among the larger group underwriters in Canada. Six of the eight used the 1964 Commissioners Disability Table for disabled life reserves, all with some modification to provide for lower recovery rates during the first two years of benefit payments. Two of the insurers used the 1952 Disability Table. Interest assumptions varied from 3½% to 6½%.

There are three commonly used methods of integrating LTD benefits with Canada/Quebec Pension Plan (C/QPP) disability benefits.

1. The insured LTD benefit may be paid without regard to any C/QPP benefits. This method is usually used only when the LTD benefit is a fixed dollar per month amount of relatively low level.
2. The LTD benefit may be fully offset by any C/QPP benefit payable.
3. The LTD benefit may be subject to an "all source" limit. LTD benefits are reduced if the total of LTD, C/QPP and any other disability benefits toward which the employer makes a contribution exceed a given limit.

Among the clients of my firm the direct offset is the most common method of integration with C/QPP benefits. Usually the offset is limited to the benefit payable with respect to the employee, as first determined following disability. C/QPP benefits for dependents of the disabled employee and cost of living increases in the employee's C/QPP benefits are both usually ignored. I have found very little interest in cost of living adjustments for LTD benefits. The reason for this is primarily cost.

In Ontario the Employment Standards Act provides that LTD benefits for pregnancy-related benefits must be provided in the same manner as for any other disability. The standard LTD pregnancy exclusion is no longer permissible. A disability plan may provide for a discontinuation of benefits during the period when a disabled employee is entitled to statutory pregnancy leave of absence. In Ontario the period of statutory leave of absence begins 11 weeks before the expected day of delivery and ends 6 weeks after the actual day of delivery.

In Canada most Dental Insurance plans follow the format of first providing basic dental coverage for preventative care and minor dental procedures. To this may be added coverage for major dental procedures such as fixed bridge work and crowns, et cetera. Orthodontic coverage is then, infrequently, added. The reimbursement percentages are usually highest for the basic coverage, less for the major coverage and less again for orthodontic coverage. For example, the reimbursement percentages may be 100%, 80% and 50% respectively. There are usually inside limits on the major dental and orthodontic coverages. Deductibles are in the range of Nil to \$25 per individual.

With the heavy emphasis on basic dental coverage the typical dental plan covers corrective expenses, but does not provide protection against severe financial strain which can be caused by major dental work. The dental fee schedules used are almost always the fee schedule published by the dental association of the province of residence. Very few dental contracts have

their own "reasonable and customary" form of schedule. The provincial dental fee schedule reference in the insurance contract, however, is not always the current schedule. For example, reimbursement of expenses may be based on a dental association fee schedule that is one or two years out of date.

I will pass over Health Insurance and comment on New Products and Developments.

Vision Care insurance exists as one of the benefits under some Major Medical insurance plans. I have not seen much demand from employees for an extension of this coverage.

Group Legal insurance, as far as I have been able to determine, is non-existent in Canada. My comments of two years ago (Transactions, Volume XXVI, Part 1, Meetings No. 75A and 75B, Pages D243-247) still appear to be valid. Essentially, there is a need for better legal services for middle income employees. The top 10% of income earners have always had good access to legal services. The bottom 20% are now eligible under the provincial legal aid schemes. It is the middle 70% where the need lies.

The number of law graduates has risen rapidly in recent years. At the present rate the number of lawyers in Canada will double within the next 10 years. Many of them will be looking at the middle income market. The challenge to the legal profession, and the insurance industry, if it is to be involved, is to develop a financially sound and professionally acceptable legal service delivery system.

MR. SIMONE MATTEODO JR.: Ron Till said he has an effective rehabilitation program. Does he give a rate credit for the rehabilitation program on LTD?

MR. RONALD L. W. TILL: We do not have a discreet rate credit nor do we have a discreet extra charge for this service.

MR. DAVID S. WILLIAMS: There are special characteristics, either in the size of the risk or the potential for anti-selection, which may limit the lower size of the group that you are prepared to underwrite. What are the views of the panel on this lower limit?

MR. DENNIS J. WHIMPEY: Of the products under discussion (SIB, LTD, dental and health) we will make available plans for all but groups of 50 lives or less. In particular, SIB plans are not popular for small groups. Also, the underwriting of LTD plans becomes particularly difficult in the case of smaller groups.

MR. KURT K. von SCHILLING: Population trends indicate that in a decade we will have employee shortages, not unemployment, and this will cause women to enter the labour force at a greater rate than they have done to date. If the survivor income benefit provides coverage of 40%, and the widow goes out to work, her total income may be quite high.

MR. E. JOHN WOOLSEY: This is true, but the standard of living of the family is dependent upon two incomes. If one member of the family dies, the standard of living of the rest of the family will drop unless part of that income is replaced. I would prefer to see lump sum life insurance; a basic amount of coverage for most employees, with employees having the option of

obtaining additional coverage, either entirely at their own cost or on a shared cost basis with the employer.

MR. WILLIAM C. CUTLIP: We recently developed a new plan using a 70% benefit formula for both the retirement benefit and the SIB benefit, which is totally integrated with Social Security benefits, such that a lifetime benefit is provided. The amount that the company pays fluctuates depending upon whether Social Security benefits are or are not available. There is a basic amount of non-contributory life insurance plus this benefit which is contributory for those employees who choose it. It is applicable for any employee, male or female, so we have recognized the fact that the two incomes of a family are important.

