

RECORD OF SOCIETY OF ACTUARIES 1980 VOL. 6 NO. 4

COPING WITH COWPS

*Moderator: WILLIAM G. POORTVLIET. Panelists: VINCENT W. DONNELLY,
DAVID A. LEVENE, ROBERT H. HOSKINS*

1. How did we get where we are? Origins, history and current status of the price standard.
2. How are we coping? What are the practical impacts of the standards upon our day-to-day pricing mechanisms?
3. Medical and dental trend experience. How does the standard line up with what we know about the experience of the various companies?

MR. WILLIAM G. POORTVLIET: Our topic this morning is - coping with COWPS. COWPS - of course - is the acronym for Council on Wage and Price Stability.

My name is Bill Poortvliet. I am with Metropolitan and I was the Company's Group Actuary when COWPS came into existence in 1978.

Happily - I am able to open our meeting on a very pleasant note today. Bob Hoskins - I was honored when you agreed several months ago to participate with us at this session. Today we are - of course - doubly honored - and I am a bit relieved.

You had - at my request - kindly provided me with your biography - and quite frankly - the list of important committee assignments and positions you have held was so long - I was not sure I would be able to fit it in. But now the Society has relieved me of that concern and I can simply say - it gives me very great pleasure indeed to introduce the current President - elect of the Society of Actuaries, Mr. Robert Hoskins - Congratulations, Bob.

Bob has at least one thing in *common* with our other panelists - I believe each is very expert and knowledgeable on our subject matter and each is very articulate.

Vince Donnelly, I'm sure, is already well known to many of you. Vince is the ACLI's Associate Actuary. He handles all of the regulatory and legislative aspects of Group Life and Health Insurance for the ACLI. With about 20 years of group insurance experience - of which 15 years was company experience - Vince is very well equipped to do his job. I speak with first-hand knowledge when I say that Vince did a tremendous job of working directly with the industry representatives and the COWPS people as the current standard was developed. Vince - we are proud that you could be with us today.

Dave Levene is an Actuary at Metropolitan and is in charge of our Group Insurance Pricing - and that includes our coping with COWPS. Dave also brings about 20 years of group insurance experience to his job. He combines technical expertise with good judgement in a way that you will have some chance to observe this morning. Dave - we feel fortunate to have you on our panel.

This morning we will follow the outline you see on page 40 of the program.

Vince will tell us how we got where we are.

Dave will tell us how we are coping, and

Bob will tell us about the experiences the Companies are seeing.

It is our belief that each presentation will flow quite nicely into the next. We expect to leave ample time at the end of these brief presentations for your questions.

By way of leading into our program, I would like to say a few brief words in an attempt to set our subject in some perspective.

When the general price standards were first announced in 1978 we had a general standard which - so far as insurance products were concerned - covered everything and covered nothing. There were indications that specialists within COWPS would soon begin work on a special insurance standard. But we were not sure who they were or how experienced they were. It was in this framework that the ACLI and the HIAA joined together to form an industry task force - drawing primarily for its membership from the Group Insurance Committees of the ACLI and HIAA.

Victor Lutnicki of John Hancock and Brooks Chandler of the Provident were our Chairman and Vice-Chairman respectively. These men worked hard and worked well for the industry and they deserve our thanks. When they retired, Phil Briggs assumed the Chairman's role - which he holds at this time.

When we began - we had one very natural concern. We wanted any standard, whether voluntary, quasi-voluntary or mandatory, to be a reasonable standard. This concern prompted our first decision. We decided to assume an active not a re-active role.

And so - the next thing we decided to do was to open the lines of communications with COWPS. Vince Donnelly and his Associates at both the ACLI and HIAA accomplished this for us admirably.

A major objective emerged at once. We wanted COWPS to understand a simple but very important fact - that the insurance industry has a huge vested interest in fighting inflation and therefore we intended to support the voluntary program. In short, we wanted to establish our credibility.

As another major objective we wanted to avoid large unnecessary administrative burdens falling on our companies. Please keep in mind that at the outset the danger loomed that Personal Life Insurance, Individual and Group Disability Income Plans, Individual and Group Pension Products - and, in fact - virtually every type of insurance product would be subject to some sort of price guideline. And no one had yet defined what "price" meant in each case. The potential recordkeeping requirements would have been a nightmare. Moreover, the nightmare would have been an unnecessary nightmare.

As it turned out, COWPS also wanted to avoid unnecessary administrative burdens, for the companies and for COWPS. But at the same time they wanted to do their jobs - they wanted to reduce prices.

And so the government and the industry worked together. Both searched for agreement on exactly where the pay dirt was. But the process eventually led us to isolate the medical and dental sectors. The Carter Administration was then promoting its ill-fated cost containment legislation and COWPS asked us in effect to anticipate the success of that program. Precisely how this happened is something Vince will take us through.

In turn, this entire development made the exclusions a possibility. A great many meetings, a good deal of work, some persuasion and even a little luck made the exclusions a reality. The nightmare had been avoided. This could not have become the reality if we had not established our credibility. COWPS needed to be sure that there were no large widespread price increases planned in the excluded areas which would embarrass the program and the administration. When we told them we did not believe any such increases were being planned - they believed us, and they were right to do so.

The development of the safety valve mechanism in the second program year involved many of the same elements. We were searching for the impossible - an objective measure for a very subjective device - our trend factor projections. Again we sought to avoid an unnecessary administrative nightmare and again our credibility was essential. In the end we had the stuff of every compromise - a system completely satisfactory to no one, but less distasteful than all of its competing alternatives.

I hope this historical sketch will help today's meeting by providing the type of perspective that history sometimes does.

We will now ask our panel to light their microscopes and put the standard under them so that we may enlarge its details and better understand its nature.

Vince - will you begin for us by focusing in on precisely how we arrived at where we are today.

MR. VINCENT W. DONNELLY: President Carter announced his so-called "trick-or-treat" anti-inflation program on Halloween, 1978. It actually took effect on the following December 13 and during the intervening two years it has received the general, although at times wavering, support of American business, including the insurance business.

Today the voluntary wage and price program stands in jeopardy. Adequate funding, especially of its monitoring and enforcement facilities, will most likely never be realized and recently expressed disagreements between labor and business leaders have led President Carter, in this election year, to defer any final decision on the details of the third program year until after the election. Administration officials, when announcing the extension of the second year guidelines until December 31, took special care to comment that the extension should not be interpreted as a commitment to the need for a third program year.

Notwithstanding these signs, and picking up on Bill's final comments, I think our membership is well-served by spending these few minutes reviewing the origins of the current program, its limited successes, and its apparent failures. I say this because inflation, similar to the type facing us in 1978, is still very much present. And government programs, once begun, have a strange way of continuing even though they appear to lose their popularity with the public. We, the technicians of the insurance business, whose business is always dealt with harshly by inflation, must take the time to carefully evaluate the pluses and minuses of every government anti-inflation effort - those which succeed and especially those which fail.

My role on this panel this morning will be to describe in greater detail the actual process we went through in negotiating and developing the special insurance price standards - why a special standard was deemed necessary and how its various features were constructed.

As noted earlier, President Carter announced the details of the voluntary wage and price guidelines program in late October. We had not played any role in the design of the general price program and thus were faced immediately with two very sticky basic principles as we began our negotiations with COWPS staff. First, there was the requirement that the amount of the increase in prices to be charged during the first program year was to be controlled so that it was 1/2 of 1% less than the amount of increase during the selected base year 1976-1977. Second, this percentage standard was to be applied on a total company basis as opposed to a product line-by-product line approach. Early discussions of these principles with insurance leaders made it clear that they were inappropriate for life, health, and pension writing companies and it became apparent that special treatment of the complexities of insurance would be needed if our business was to be able to voluntarily comply. In the succeeding 3 1/2 months following announcement of the voluntary program, our negotiations with COWPS staff concentrated on three issues - first, and basic to the other two, was the need for a price standard which addressed insurance products rather than insurance providers; second, we had agreed to press COWPS for a special medical/dental insurance price standard which would be designed to indirectly control emerging prices by directly controlling the medical care inflation assumptions being incorporated by the actuaries into the pricing structure; and finally, presuming success in these earlier efforts, we would next seek the exemption from any price standard of selected lines of business, notably life insurance, disability insurance, and pensions. At first we were unsure as to whether or not specific exemptions ought to be sought, but we eventually proceeded when it was noted that the 1973 controls program had provided an exemption for life insurance.

As evidence of the success of our negotiations with COWPS, the insurance price standards which they announced on February 12, 1979 contained each of these concepts.

By far the greatest amount of time and effort was put into the development of the special medical/dental insurance price standard. Key to this development process was early agreement with COWPS staff that the actual prices being charged for medical/dental insurance should not be directly controlled and that instead the program should concentrate on controlling that portion of the pricing mechanism which is dependent upon estimates of future increases in the cost of medical care. Once this major hurdle had been successfully jumped, the remaining negotiations concentrated on the methods to be employed by COWPS in addressing medical/dental inflation trend factors.

It is important, when discussing inflation trend factors, to recall the timing of these negotiations with COWPS. At that same moment, early 1979, the Carter Administration was strongly endorsing legislation which would place rigid cost containment procedures in place for many hospitals. The major insurance industry trade associations, ACLI and HIAA, had thrown their support behind such legislation. The Department of Health, Education and Welfare (HEW), in attempting to gain congressional support, estimated that with such legislation in place the rate of increase in hospital costs could be cut from 11.6% per year to 9.7% per year. COWPS staff, recognizing the existence of insurance industry support of the cost containment legislation, demanded that the medical/dental price standard "anticipate" the success of the legislation. In other words, inflation trend factors should be "decelerated" as compared to those factors currently in use.

The decision on "deceleration" led to the next major issue - should the medical/dental price standard contain a "benchmark" trend factor or should each company be permitted to "decelerate" its then existing trend factor? COWPS staff soon became convinced that no one trend factor could be established which would be appropriate for all insurance companies and all types of medical/dental benefit plans. In the end, they agreed to an approach under which insurers would be permitted to "decelerate" their existing trend factors, but the amount of "deceleration" increased as the amount of the trend factor increased. Overall, the medical/dental standard permitted maximum inflation trend factors which were equal to about 85% of those used by the company during 1978.

In November 1979, approaching the end of the first program year, we began informal negotiations with COWPS staff as to the design of the second program year insurance price standard. A number of factors entered into these negotiations - first, the whole concept of voluntary wage and price controls was under heavy attack from both its supporters and its detractors. While in the end the general price standard was loosened somewhat (as was our special medical/dental price standard), COWPS staff closely questioned each and every exemption and we had some anxious moments with respect to life insurance, disability insurance and pensions before their exemptions were eventually retained.

As these late-1979 negotiations continued, a couple of events directly tied to medical care costs entered the picture. First, the hospital cost containment legislation was defeated in Congress, thereby eliminating the most formal method available for keeping medical/dental charges under reasonable control in the future. It was also at about this time that the monthly CPI reports began to show that medical care costs were again indicating long-range tendencies to increase at fairly significant rates.

The defeat of the hospital cost containment legislation and the discouraging CPI reports meant that severe financial repercussions were likely if COWPS continued to require insurers to "anticipate" favorable trends in rising medical care costs during the second program year. As noted earlier, COWPS subsequently agreed to "loosen" the formula establishing the maximum trend factor to be used by insurers during the second program year. But even beyond that, COWPS staff accepted the fact that individual insurers finding themselves in questionable financial predicaments should be offered a process for seeking additional trend factor relief from COWPS. This was a significant breakthrough because COWPS had previously adhered to the principle that price relief could only be sought via the profit standard - that is, if price relief was granted, profits could not be increased. While this general principle was also present in the special first year insurance standards, insurers had rather steadfastly avoided the profit standard. Because of the complexities of monitoring the profit standard when used, and because of the increasing potential that insurers would be forced to seek such relief, COWPS staff agreed to negotiate a special trend factor "safety valve" approach. In the end, the approach decided upon blended the dual concerns expressed - COWPS wanted a procedure which was simple to administer, which meant that they wanted any future trend factor relief to be directly tied to past loss ratios. Insurers argued that trend factors were a projection of future medical care cost increases and were thereby not directly related to past experience. Insurers seeking trend factor relief were ultimately required to first demonstrate a certain specified amount of deterioration in recent medical care loss ratios. Having demonstrated such loss ratio deterioration, the amount of trend factor relief was separately developed from the company's actual statistics relating to per capita claim costs. According to both COWPS and the insurers who have recently used this "safety valve", it is working satisfactorily. Dave and Bob will get into this in greater detail in their prepared remarks.

You may have noticed that I have not commented to any significant degree regarding the pay standard adopted by COWPS. While insurers were initially concerned that the stringent 7% standard originally adopted by COWPS could severely impair the adoption and expansion of fringe benefit programs by employers, it appears in retrospect that such fears were not realized. Employers have been able to maintain their compliance with the general pay standard and insurance sales reports seem to indicate that they have done this while maintaining and expanding their fringe benefit programs. Special fringe benefit rules adopted early in 1979 by COWPS greatly accommodated the needs of both employers and insurers. Recently COWPS announced some further accommodations for employers having pension programs. Assuming the pay standard is not materially changed in the third program year - assuming there is a third program year - insurers should have only minimal problems with it.

I hope these brief remarks have given you a good overview of the development of the insurance standards. Following Bob's and Dave's review of how successfully we have complied, I'll be available to answer any questions my comments may have created.

MR. POORTVLIET: Thank you very much Vince. You covered a lot of ground in a very short period of time there. David will you please tell us how we are coping? I am very interested to learn -

MR. DAVID A. LEVENE: I have been asked to discuss how the COWPS anti-inflation price standards have impacted on pricing group medical care at Metropolitan Life. Since one of my major responsibilities is pricing, I am, of course, concerned with charging one year term premiums that make adequate provision for claims and our retention charges. Group Medical pricing at Metropolitan involves, among other things, the prediction of the next year's claims for our many customers, and such predictions should incorporate our best estimate of what the inflation and utilization rate of medical care services will be in the year ahead. Metropolitan, like other insurance companies, has designed studies to project inflation and utilization changes (trend changes) which I will discuss shortly. Complying with the COWPS voluntary price standard has meant altering our ways. It has meant substituting the COWPS trend deceleration formula for the trend projections that came from our own studies. The result of this substitution has been lower premiums. Also, before the standards - whenever our trend studies indicated a change in our trend factors was necessary - we could make the change immediately - now in order to change our factors we must request and demonstrate to COWPS the need for an adjustment in trend factors. Compliance with the standards accordingly involves some risk. The risk is that the reduced premiums will understate the combined effects of inflation and utilization, creating inadequate premiums and undesirably high loss ratios.

With this brief synopsis of the constraints entailed by compliance with the standards, I will now discuss two Metropolitan trend projection studies. These studies, with some modifications, have been in use for several years. One of the studies utilizes the Bureau of Labor Statistics Consumer Price Index. Metropolitan cannot use the medical care component of the C.P.I. without some adjustment since the C.P.I. has certain shortcomings which I will now discuss:

- 1) Many segments of the C.P.I. involve items not usually part of an insured benefit program. Examples of this would be non-prescription drugs and health insurance costs.
- 2) Since the index is weighted by an individual's out of pocket expenses, the weights are not at all appropriate for an insured program. For example, while hospital benefits generally comprise about 50% to 60% of an insured medical care package, hospital expenses account for only 10% of the medical care C.P.I.

- 3) Changes in utilization rates and patterns are not reflected in the C.P.I. and this is, of course, a major drawback. Here are some of the items the C.P.I. does not pick up:
 - a) increasing trends toward more expensive procedures.
 - b) increasing practice of defensive medicine resulting in increasing numbers of tests, X-rays, consultations.
 - c) possible increasing incidence of elective procedures during layoff periods.
 - d) nor - would decreases in average stay or shifts to outpatient treatment be reflected.

Metropolitan sorts out from the C.P.I. the elements of the C.P.I. that most closely reflect the group insurance medical business that we underwrite. For example, we exclude health insurance premiums as well as non-prescription drugs. We then weigh the items that we feel are relevant in proportion to the types of covered expenses that we underwrite. For example, for a comprehensive medical plan covering hospital, surgical and supplementary major medical - we would use the following weights: 60% for hospital services, 30% for physician's fees, and 10% for other services including lab work, prescription drugs, etc. The result of this weighting produces what we call an Adjusted Price Index or A.P.I. We then aggregate this data in 3 month periods. For example, January through March, then February through April, and so forth. To these quarters we then apply seasonal adjustment factors. These seasonal adjustment factors take out the seasonal bulges in our figures that are caused by such items as the typical practice of hospital room and board charge increases in January and July of the calendar year. After seasonally adjusting our quarterly figures, we then annualize them. This annual figure represents one projection of the next year's inflation rate. We then adjust for increases in utilization. Our utilization adjustments presently come from various inhouse studies and government publications. Lastly, we attempt to adjust our figures to recognize the leveraging effect that the deductible has. This leveraging effect arises for two reasons: First, since the employee's deductible is generally a fixed amount, the entire effect of inflation is compressed into the portion of the claim in excess of the deductible. Second, rising costs lead to an increase in frequency of claims above the deductible since additional claims previously below the deductible break through the deductible boundary. The A.P.I. that we develop is based on the nationwide medical care C.P.I. We do not use regional C.P.I. data although the regional data is available, since we feel that the sample, when broken down on a regional basis, may be too small. It is my understanding that for the nationwide medical C.P.I. about 325 hospitals and 750 physicians report prices so breakdowns into small geographic units might not be appropriate. Even if the regional sample was appropriate, we would still be wary of using this data for predicting purposes since we have seen major swings in trend from year to year by region.

For example, one locality might have a low trend increase in one year, and then catch up by having much larger increases in the next year. Also, state legislation that has controlled hospital costs could be repealed, producing subsequent higher inflationary trends.

Metropolitan does not give primary reliance to published indices. Rather, with the broad block of business that we have, we make substantial use of studying the experience of our group customers. The selection of groups to be used in our studies is important. We choose groups that have been established for several years, are stable in size and have had no major changes in plan benefits. We choose plans that provide reasonable and customary benefits (as opposed to scheduled benefits) so that the full impact of trend can be felt. The cases studied represent a broad United States geographic area. Claim costs - that is claims paid divided by employee lives - are computed each month. In order to remove the effects of seasonal variation, we compare the claim costs for comparable calendar months. We do not attempt to isolate the inflation and utilization components but rather study the combined effect of these influences. From this study and our A.P.I. study, we develop what we call preliminary trend factors by coverage. The remainder of our work to obtain the final factors involves judgement and will take into account a whole range of subjective considerations, including economic, political, and competitive forces.

I will now discuss the impact of the price standards on our price structure and margins in 1979 and 1980. In accordance with COWPS' voluntary program, Metropolitan decelerated its trend factors in 1979. The impact on our premium rates was that premiums were reduced from levels that would have been in the absence of the COWPS standard. Most of our large group premium structures provide margins for claim fluctuations. To the extent that actual case trend exceeds our decelerated factors, our margins are reduced, or eliminated, - and individual case losses can arise. In smaller size cases that are fully pooled, claim fluctuation margins do not exist to cushion variations of trend from expected. In such situations, higher trend factors than predicted reduce profits or create losses.

Fortunately, the trend factor deceleration assumed in our pricing structure was realized in 1979. Both our A.P.I. study and individual case studies confirmed a trend slowdown in the early part of 1979. These same studies, however, indicated an acceleration in trend in the latter part of 1979. On balance, however, we coped satisfactorily in the first program year, 1979, in that the decelerated trend factors assumed in our pricing were realized in reality.

Entering the second program year, 1980, COWPS permitted a small increase in trend factors over 1979 factors. Metropolitan's A.P.I. study and customer experience study, however, showed the trend to be increasing at a faster rate than the trend factors we were permitted to use. Accordingly, we prepared a filing for trend factor relief permitted under the COWPS standard. One of the relief tests that we had to meet was to show that our medical care loss ratio - the ratio of claims to premiums - based on at least 3 months of claim experience in 1980, exceeded the loss ratio of the same period during 1979 by 3 percentage points or more. We met that test. We then turned to our claim studies to see

whether we met the A/B ratio test. These claim cost studies indicated a ratio in excess of 1. A ratio in excess of 1 indicates that present trend is increasing faster than trend increases in the pre-COWPS period - 1978. Our selection criteria for groups in the A/B test was chosen to include mature groups covering a broad geographic area that were not subject to major plan changes.

Since we felt the need for increased trend factors was apparent, and we had met the tests prescribed by COWPS, we filed for trend factor relief. It is now more than 30 days since we filed, and the new factors may now be used. It is fortunate that with the sharp trend acceleration in the early part of 1980, that COWPS had a satisfactory trend relief mechanism that allowed us to file and obtain increased trend factors. There was, naturally, a small time lag between the increased trend, and our filing with COWPS and our use of the increased factors. This time lag has resulted in lower premiums during that period than we would have charged in the absence of the standard, and accordingly somewhat higher loss ratios have resulted.

In closing - the voluntary program has now been in effect almost two years. On balance, I feel that the COWPS standard has been reasonable, that the trend factors relief mechanism was there for our protection, and worked, and that we have coped.

MR. POORTVLIET: Thank you very much Dave. It will be interesting, if, following the formal part of our program, we can hear from other companies and see whether their experience tracks what you've outlined. Now, once again, it's a pleasure to introduce our President-elect who will tell us a little bit about the actual experience that Companies are having - Robert Hoskins.

MR. ROBERT H. HOSKINS: About four weeks ago, I sent a questionnaire to forty of the largest writers of Group Accident and Health Insurance, measured by premiums earned less dividends in 1979 as published in the National Underwriter.

Twenty-nine companies responded. The distribution by amount of 1979 Group Accident and Health Insurance premium income was as follows:

Under \$100,000,000	(3)
\$100,000,000 - \$200,000,000	(9)
\$200,000,000 - \$300,000,000	(4)
\$300,000,000 - \$500,000,000	(7)
Over \$500,000,000	(6)

The first subject in the questionnaire was Compliance.

1. In 1979, the first year of the voluntary price standards for Medical and Dental Insurance:
 - a. we were able to comply easily (22)
 - b. we were able to comply with difficulty (6)
2. In 1980, up to now:
 - a. we have been able to comply easily (6)
 - b. we have been able to comply with difficulty (10)
 - c. we have requested an adjustment to allowable trend factors (13)

Fourteen companies wrote in comments.

The second subject in the questionnaire was Experience.

1. For medical and dental insurance in 1979 and 1980, up to now:
 - a. our experience has deteriorated (25)
 - b. our experience has not changed significantly (4)
2. In 1980, up to now:
 - a. our experience has improved, or deteriorated by less than 3% (7)
 - b. our experience has deteriorated by more than 3% and we have requested an adjustment to allowable trend factors. (13)
 - c. our experience has deteriorated by more than 3%, and we have not requested an adjustment to allowable trend factors (9)

Ten companies wrote in comments.

The third subject in the questionnaire was Determination of Trend Factors.

1. Before application of COWPS guidelines, we weigh the following information in determining appropriate trend factors (circle as many as are applicable).
 - a. CPI information (26)
 - b. AHA (American Hospital Association) information (15)
 - c. other external information (18)
 - d. our own experience (21)
 - e. our judgment in translating information from past to future. (25)

Eleven companies wrote in comments.

The final subject in the questionnaire dealt with Trend Factors. First we asked about the company's composite trend factor for medical and dental insurance, in the base period, in 1979 and in 1980, up to now.

In the base period, the composite trend factor for ten companies was between 12.5% and 15.5%; seven were less than 12.5% and ten were 15.5% and over.

In 1979, the composite trend factor for thirteen companies was between 10.5% and 13.5%; four were less than 10.5% and nine were 13.5% and over.

In 1980, up to now, the composite trend factor for eleven companies was between 11.5% and 14.5%; three were less than 11.5% and twelve were 14.5% and over.

Finally, we asked about the trend factor for Comprehensive Major Medical insurance, again in the base period, in 1979 and in 1980, up to now.

In the base period, the trend factor for eighteen companies was between 13.5% and 16.5%; two were between 10.5% and 13.5%, and six were 16.5% and over.

In 1979, the trend factor for seventeen companies was between 11.5% and 14.5%; one was between 8.5% and 11.5%; and eight were 14.5% and over.

In 1980, up to now, the trend factor for twelve companies was between 12.5% and 15.5%, eleven between 15.5% and 18.5%, two were 18.5% and over and one was between 9.5% and 12.5%.

I have the results of another survey, made by telephone by another company. Ten companies were willing to contribute information as to the inflation trend factors actually in use as of October 1, 1980 for Hospital Room and Board and for Comprehensive Major Medical Insurance.

For Hospital Room and Board, the inflation trend factors as of October 1, 1980 in ascending order, were:

12.0%
 12.0
 13.5
 13.5
 13.7
 14.9
 16.0
 17.0
 18.0
 16 - 18 (range)

For Comprehensive Major Medical, the inflation trend factors, for the companies in the same order, were:

12.0%
 18.0
 13.5
 14.5
 13.5
 16.9
 16.0
 17.0
 18.0
 16 - 18 (range)

You will notice that 6 companies used the same trend factors for both coverages, 3 companies a higher factor for Comprehensive Major Medical, and 1 company used a slightly higher factor for Hospital Room and Board.

MR. POORTVLIET: Thank you, Bob, for an excellent presentation. Thanks also to Dave and Vince for their very lucid presentations.

We have heard of the history of the standard - of its impact on our work and of the actual trend experience the standard was designed to track.

I believe that one of the real values of today's session is that it gives us a chance to think ahead and to decide whether the experience we have gained in this area can help us down the road. I believe it may very well do just that.

There is - for example - a great deal of doubt as to whether the voluntary wage price program itself will survive for long. If it does not survive, we can only speculate as to whether or not we will see some form of mandatory program in the next administration. But surely there is a chance we will. And if we do - I believe we will arrive at that point with some valuable precedents and some valuable experience behind us. And we will know that we did - once upon a time - cope with COWPS. And now - we would be pleased to try to answer any questions.

MR. FRANK RUBINO: I have a question for David. In the calculation of A over B, at least 3 months of 1980 experience had to be used. Therefore, when was the earliest you were able to determine A over B? In other words, did you take your paid experience at the end of 3-month period and estimate the liability, or did you wait for the liability to develop into a paid basis? Given the answer to that question, do you feel that when you determined the A over B, it was early enough to enable you to make timely rate changes?

MR. LEVENE: We were looking at the A over B tests very nervously from January/February 1980 on . It wasn't until we had six months of experience that we decided that we definitely had a pattern going in such a manner that we could file. We had 2 tests that were based on six months of paid claims.

First of all we had loss ratio tests which were based on 6-months experience. That is six months of experience in 1980 was compared with six months of experience in 1979. That was the 3 percent loss ratio test. In the A over B test we also waited for six months and we used paid claims.

The other part of your question was did we feel it was timely enough. If COWPS didn't exist, we probably would have put in the trend factor relief a few months earlier. There was probably a 2-3 month delay and for that period of time, of course, you operate with premiums that maybe somewhat inadequate.