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GROUP INSURANCE

A. What considerations enter into the determination of desirable limits on the amount of group life insurance per life, apart from legislative restrictions?
B. What problems are presented in the extension of group hospital, surgical and medical expense insurance to retired lives?
C. What is the recent experience in group hospital, surgical and medical expense insurance?

MR. C. D. RUTHERFORD said that since adequate life insurance tends to reduce dependence on the State, social policy is not interested in setting a limit to the amount carried unless it could act as an incentive to a crime. But group life insurance is a special case since it is generally carried on the one year renewable term plan and as such is unlikely to be permanent. Even wealthy individuals are not always well acquainted with peculiarities of this type of business and it may be held that there is a social duty to protect them to some extent against the consequences of their ignorance. The point does not arise in connection with ordinary plans since an agent in these cases is advising the individual. Again, in a corporation an individual employee, no matter how important, should not benefit to an extent not appreciated by the shareholders. The amount permitted must therefore be measured by the usefulness of the employee, which in turn is measured by his salary. Since the salary is subject to income tax while the insurance is not, only the net salary should be taken into account. Under present social conditions a salary of over $100,000 is usually paid only to individuals who have widespread interests and may possibly be covered under more than one policy. In Canada such a salary would yield about $40,000 net after tax so that such a limit might be considered reasonable under any one policy.

MR. C. E. PROBST said in connection with section A that it is necessary that group life insurance have safeguards against antiselection. Underwriting should eliminate excessive insurance on lives who are not acceptable for ordinary insurance. Even with limitations there is the possibility of superimposing coverage with more than one carrier, or from more than one policy.

Relative to section B, it appeared to Mr. Probst that the continuation of hospital and allied coverages presents a parallel problem to the continuation of group life insurance on retired employees. Including pensioners with the active employees at a premium rate intended for active employees only is dangerous. A study of two very large policies indicates

that the cost for retired employees for hospital and surgical coverage is at least twice as great as that for the active employees. It appears that the hospitalization claim cost on retired employees is considerably more than 200% of that on active employees, while surgical costs are probably less than 200%.

On a small group a few bad pensioners' claims could increase the cost from 30% to 50%. There is a large lag on reporting claims on retired employees because of the fact that they are not in as close a contact with their employer. It is difficult to administer benefits other than hospitalization and surgical coverages for them since no evidence as to absence from work is available. There is a question as to whether coverage on the retired employee or his dependents should be limited to the equivalent of one maximum claim during his lifetime after retirement, or whether the same coverage provided for active employees should be continued. There is a tendency to limit benefits to retired employees. In such a case it has been suggested that the pensioner cease contributions for his own coverage when his remaining benefits are nearly exhausted but continue them for his dependents. Premiums and claims for retired employees should be kept separately so as to be able to advise the employer of the true cost of the extension of the coverage. Contributory plans may be unsatisfactory unless there is an administrative contact such as through a pension plan.

With respect to section C, Mr. Probst stated that recent experience in group hospital, surgical and medical expense insurance continues to be bad. The latest published report of the Committee on Group Mortality and Morbidity shows that weekly indemnity claims in 1950 were about 109% of the 1947 experience and that for hospital plans paying up to ten times the daily rate for hospital extras, the employee claims were about 123% and the dependents' claims 116% of the 1947 experience. Employees' and dependents' surgical expenses were up 12% and 10% respectively. In 1951 many companies formerly showing an underwriting gain experienced a loss, and 1952 appears to have a loss ratio in excess of 1951. Connecticut General's figures for the first four months of 1952 showed an increase of approximately 6% in claims for weekly indemnity over the same period in 1951. Hospital, surgical and medical claims showed an increase of about 5%.

Mr. Probst referred to Mr. Gingery's paper presented at Washington saying that it is an excellent compilation of intercompany statistics in this field, but it should be remembered that it is based on the 1947 to 1950 data and that account must be taken of continuing trends upward if used for calculating premiums.

MR. H. S. BEERS stated that one of the important causes of increasing claim rates in Group Hospital Insurance is that, by a long series of small changes and almost without realizing it, the companies have greatly increased the value of the insurance they sell. For example, at one time no hospital claim was paid for less than an 18-hour or 24-hour stay, while now payment is made for many short stays, such as those due to emergency accident treatment or out-patient surgery. The allowance for miscellaneous expenses used to cover only laboratory, operating room, and anesthetic fees, which would have excluded the expensive drugs, X-rays, and innumerable other items now paid for. Minor children used to be insured only from three months of age, now usually from the fourteenth day. At the same time that changes like this have been enriching the insurance policy, more hospitals have been built, inflation has led to increased fees and charges, and doctors and hospitals have tended to rearrange their charges so as to make the insurance companies pay a greater share than formerly. Other causes of present troubles mentioned by Mr. Beers included overinsurance due to duplication of coverage, as when the same employees carry both Group Hospital Insurance and Blue Cross; offers to write unsound benefit provisions, such as unlimited allowances for miscellaneous expenses; and the continued use of too low premium rates by reason of competition and the desire to extend the insurance as widely as possible.

MR. STEFAN HANSEN said that there are several problems peculiar to coverages for retired employees in addition to those common to active employees. Even for active employees there is at the present time doubt as to proper premium rates, and for retired employees the difficulty is greater. The incidence of hospital confinement must be greater among retired employees, especially for periods longer than thirty-one days. For medical expense the pattern would also be different. Claim handling would be difficult for retired employees living far from their former employer, possibly in foreign countries. Among retired employees the number of chronic illnesses is higher and financial circumstances less favorable. Exhaustion of benefits will occur more frequently and may be a source of poor public relations. The funding of benefits for retired employees during an employee's active working life is necessary to sound accounting. The full liability for an employee's benefits on retirement should be taken care of by the time the employee leaves the production process. This is not less true for hospital, surgical, medical and life insurance coverages than for pensions. These coverages, which the individual needs most after retirement when his means are the least, if not provided by us will be provided by the State.

MR. M. D. MILLER said that while the cost of hospitalization for retired employees may be greater than for active employees, there are offsetting factors since the retired employees do not require maternity benefits or coverage for children as dependents. The cost per retired employee may not be so much greater than the cost per active employee as to cause alarm. We are, however, handicapped by the lack of knowledge as to what the claim costs really are.

MR. R. L. JEX, in discussing section C, stated that the ratio of claims to premiums on group hospital, surgical and medical expense insurance in the Great-West Life had increased 14% over that of 1949. The increase was 14% for employee hospitalization, 22% for dependent hospitalization, 12% for dependent surgical and 3% for employee surgical, 34% for employee medical expense and 26% for dependent medical expense. The experience in the last two items is distorted since the claim ratio for 1949 was extremely low. This upward trend has been retarded during the last six months possibly because of efforts directed at better claims administration, elimination of abuses and an attempt to halt the continual liberalization of policy benefits.