

SICKNESS INSURANCE

- A. What recent extensions of scope of coverage for group and personal disability insurances have been made to meet the costs of "catastrophic" illness?
- B. How are the various state cash sickness laws functioning?
- C. What problems are raised as a result of the trend toward charging premiums for Group Accident and Sickness on a percentage of payroll basis? How are these problems being solved and what provision is being made for additional reserves to cover periods of payroll fluctuation?
- D. Should the principle of a special reserve for epidemics, etc., now applicable to Group Life Insurance be extended to the various forms of Group Accident and Health Insurance?
- E. What special reserve problems arise because of the assessment on insurance companies writing Disability Benefit Insurance under the New York Disability Benefits Law?

MR. H. E. DOW indicated that in the Prudential the only general extension in the scope of coverage for catastrophic illness was a recent trend toward increased allowances under Group Hospital Expense insurance for charges made by a hospital other than for room or board. He said that this trend was in response to popular demand, but that it still fails by a large margin to meet the full costs of catastrophic illness since medical and surgical bills are not covered on a corresponding basis.

He called attention to the substantial doctors' bills rolled up in cases where critical illness occurred and commented that the major reason why Group insurance has not yet covered such costs was the lack of a reasonable method of evaluation of the bills which might be submitted by the doctors. He felt that until standards of payment for medical and surgical care are well established, the Group industry would be unable to insure the costs of catastrophic illness.

He commented on the increased attention being given by the medical profession to problems of excessive charges and, in the expectation that these problems could be solved by the medical profession, he hoped that insurers would also lay plans for providing adequate insurance coverage.

With respect to the suggestions that insurance could be provided either on a deductible basis with the first \$200 or \$300 of expense being borne by the patient, or with the insurance being provided for a percentage of the total bills, he thought neither was the final answer and that either might be subject to abuse.

He urged that the medical profession and the insurance companies at-

tempt to solve the problem, expressing the fear that lack of suitable insurance for catastrophic illness is a vulnerable spot in the insurance companies' current programs.

MR. J. H. SMITH described the efforts of the Health Insurance Council, organized by several of the Insurance Trade Associations, to advise the Medical Societies on the problems in applying insurance toward the costs of medical care. He felt that the Council had been fairly successful in securing provisions under Surgical Care Plans sponsored by Medical Societies, under which specified payments for an operation would constitute the surgeon's entire fee for patients in the lower income groups and that the Council was making some progress in other related directions. He thought that as a result of a change in the thinking of many doctors, better cooperation was now being secured with the medical profession.

He stated that there was planned a meeting in Chicago with a council of the American Medical Association, to which representatives of organizations providing voluntary insurance in the medical field would be invited. At this meeting the proposed educational campaign of the American Medical Association would be explained and discussed, particularly with respect to the emphasis in this campaign upon the utilization of voluntary insurance methods of prepaying costs of medical care as against compulsory governmental methods. Similar regional meetings are also to be held, starting in those areas with less response to voluntary insurance. He expressed the view that the doctors earnestly sought the cooperation and support of the insurance companies in their campaign.

MR. MARCUS GUNN said as to section A that his company has issued little Group Poliomyelitis coverage because it is limited insurance. They have, however, issued Hospital, Surgical, Medical Care, Diagnostic X-ray and Laboratory Benefits and Blanket Accident Benefits up to limits that cover a good percentage of losses for both short and long illnesses. He expressed the opinion that averaging 75% reimbursement for such losses results in a high degree of satisfaction among claimants. He felt that adequate coverage for relatively small losses is necessary, as well as for major catastrophes, if the demands of the times are to be met. That field, he said, is one in which a risk may be taken with a reasonable chance of profit. He hoped that sufficiently broad coverage could be provided in California to forestall demands for State Compulsory Medical Care and Hospitalization. For this reason his company had been stimulated to make experiments in this field which would perhaps not otherwise have been made.

As to section B, he expressed the feeling that the California Unemployment Compensation Disability Fund was so far functioning satis-

factorily. In his view, the main need is for adjustment in the laws which would make fair allowance for the premium tax and field operating costs of the Voluntary Plan carriers, to which the State fund is not subject. He expected that if a satisfactory volume of Voluntary Plan coverage were reached, the legislature would make adjustments in the laws which would allow the Voluntary Plans to continue to prosper. He said the State fund has a large surplus and that private carriers likewise have had an opportunity to build some surplus funds to enable them to continue in this field.

Concerning section C, he pointed to the problems arising from possible decreased premiums resulting from decreased payrolls, because the plans provide benefits which do not decrease as pay decreases and do not immediately cease upon layoff. To meet such situations trustees may accumulate funds or insurance companies accumulate appropriate additional reserves. He felt it desirable that an insurance carrier should limit the amount of such business which it carries and should plan to take a profit, if all goes well, commensurate with the loss it could realize if payrolls decrease substantially.

Concerning section D it was his feeling that a special reserve for epidemics, etc., is needed for the various forms of Group Accident and Health insurance even more than for Group Life insurance, because the former seem to be subject to more fluctuation due not only to epidemics but also to the sudden changes in conditions affecting hospitalization, medical care and time taken from work on account of illness or accident.

MR. A. M. NIESEN dealt with section B, describing the Sickness Insurance program administered by the Railroad Retirement Board. He called attention to the recently published Annual Report of the Railroad Retirement Board and to other studies on the Railroad Sickness Insurance program published by the Board from time to time in its Monthly Review.

Stating that analyses of the Sickness Insurance program are currently made in the office of the Director of Research, rather than by the Actuarial Staff of the Board, he presented a statement prepared by Mr. Alden Bixby, Section Chief in the office of the Director of Research. After outlining the benefit provisions he indicated that the level of benefits would be around \$30,000,000 per year on the basis of experience since July 1, 1947. This, he said, together with costs of administration approximated 0.7% of taxable payroll.

He presented a table of statistical information on the operations of the Sickness Insurance program during the benefit year 1948-49 (Table 1).

He warned against considering the number of beneficiaries per 1,000 qualified as the equivalent of an incidence rate because it excludes a substantial group of employees who do not claim benefits to which they are

entitled or who are declared ineligible because of continuation of wages during illness or receipt of other benefits larger than the sickness benefits.

TABLE 1

AGE ON BIRTHDAY IN 1948	BENEFICIARIES		AVERAGE PER BENEFICIARY		BENEFIT EXHAUSTIONS PER 100 BENEFICIARIES†
	Number	Per 1,000 Qualified*	Days of Sickness	Amount of Benefits	
Total.....	151,245	72	68.9	\$188	11.0
Under 20.....	655	17	40.0	71	1.5
20-24.....	5,265	23	49.0	122	5.5
25-29.....	8,065	34	49.1	129	6.0
30-34.....	10,230	45	48.7	134	5.6
35-39.....	11,600	57	56.0	155	7.3
40-44.....	14,655	66	58.4	160	8.4
45-49.....	18,450	77	65.5	184	10.0
50-54.....	22,145	98	69.8	192	10.9
55-59.....	24,270	117	75.8	209	12.7
60-64.....	23,690	146	84.1	229	15.1
65-69.....	9,580	120	89.6	236	15.9
70 and over.....	2,635	121	108.5	266	26.4

NOTE: Based on a 20 percent sample. Excludes maternity benefits. Total includes data for beneficiaries whose age was not reported.

\* Qualified employees include all who earned at least \$150 during calendar year 1947.

† Benefit exhaustion occurs when a beneficiary collects the maximum amount (130 days) of sickness benefits during the benefit year.

MR. J. J. MARCUS discussed section C, limiting his remarks to California and New Jersey State Cash Sickness Plans where the premium charge would be based on the first \$3,000 of payroll.

He pointed out that a major problem arises from the fact that current wages may drop off sharply as a result of pay reductions, reduced working time or temporary layoffs, but that the provisions of the plans were such that benefits would be maintained for a period in excess of a year as a result of the insured's previous high earnings. He suggested that a special reserve either on an individual policy basis or on a pooled policy basis be established to provide for the temporary disturbance between the relationship of premiums and benefits arising from the so-called "shotgun" clause.

He then pointed out the problem which is not self-correcting. There might be a greater proportional reduction in premiums resulting from wage reductions than in benefits. This is accentuated in California where a hospital benefit is provided which remains constant regardless of earn-

ings. Should such a situation become aggravated, it would probably be necessary to resort to rerate action.

He dealt with the problem arising from the fact that the first \$3,000 of earnings may frequently have been reached prior to the end of a calendar year so that the reported quarterly payroll within the first \$3,000 of annual earnings would drop off sharply in the last two quarters. Several methods of estimation or projection are available to compute earned and due and unpaid premiums for statement purposes.

He indicated that for policies issued other than on January 1, it is necessary to withhold from the dividend an amount sufficient to cover the earned premium in the event of an off-renewal cancellation.

He discussed the elimination of probationary periods under Cash Sickness Plans. He also commented on the difficulty of securing the type of in-force figures which have been customarily obtained in the past.

MR. E. A. GREEN, dealing with section D, expressed the belief that an adequate contingency reserve is as important for Accident and Sickness insurance as it is for Group Life insurance. He pointed out that morbidity experience is subject to the same general types of fluctuation as is mortality experience, noting the effect of such factors as war, epidemics and the business cycle. He noted the relative slowness of adjustment through changes in rates based on experience rating where marked variations in morbidity rates are concerned.

He felt that Group Accident and Sickness policyholders have an obligation to contribute to the surplus of the insurance company since they are entitled to its benefits, just as is the case for Group Life insurance policyholders. Many cases, especially the smaller ones, result in a strain on surplus at time of issue until the initial cost is amortized. He emphasized that the earmarking of the necessary surplus contribution as a special contingency reserve is unimportant in itself unless it is necessary to secure an equitable contribution to surplus from this class of business.

He said that recent trends in Group Accident and Sickness insurance made an adequate contingency reserve even more important now than it had been in the past, referring in particular to the introduction of collective bargaining patterns, the adoption of compulsory cash sickness laws and the development of rate structures with less margin for contingencies. Based on a review of published statistics, the present Group Life insurance pattern of an annual contribution to contingency reserve of 2% of net premiums with an ultimate goal of 50% of annual premiums seemed to him a reasonable basis for Group Accident and Sickness insurance and had been adopted by his company.

He pointed out that compulsory cash sickness laws would require addi-

tional contingency elements of a different nature than exist elsewhere in Life Insurance practice. He noted three main sources of such additional contingency elements: first, the possibility of changes in the law at any time in the future by legislative action; second, the problems of declining premium income on policies written on percentage of payroll basis in periods of economic decline; and third, the assessment for paying benefits to the sick unemployed with the kinship of such provisions with unemployment insurance.

MR. S. W. GINGERY, commenting on section D, reviewed the reasons for setting up a special reserve under Group Life insurance. This was needed to cushion the effect of a marked increase in claim rate if that increase were so great that it could not readily be absorbed by a reduction in current dividends or rate credits. Noting that three factors which might give rise to such a fluctuation in the claim rate were epidemics, catastrophes and economic fluctuations, he pointed out that each of these factors constituted a deferred risk since their occurrence was unpredictable as compared with normal year to year claims.

He then proceeded to analyze the corresponding differing risks inherent in the various forms of such insurance. He said that Group Accidental Death and Dismemberment insurance primarily involves the catastrophe hazard. Based on the large amount at risk as compared with normal year to year claims, adequate provision for contingencies would require a considerably larger reserve in proportion to premiums than for Group Life insurance. For Group Accident and Sickness insurance which provides weekly indemnity benefits, epidemics, he felt, are apt to be the most important cause of unpredictable losses. He referred to evidence that economic conditions, either very favorable or very adverse, might also produce unusual losses, but there is a possibility that existence of Unemployment Compensation insurance may minimize effects of such adverse conditions in the future. Pointing also to the low amount at risk as compared with normal claims, he felt that an amount of contingency reserve relatively lower than the Group requirement would be satisfactory although the same annual rate of accumulation might be desirable.

Dealing with Hospitalization insurance he noted the control arising from the limited flexibility of apparent supply of hospital beds. He felt that epidemics would be an important factor in claim rate fluctuation under Hospital and Medical Care insurance, but would probably have little effect on Surgical insurance, and felt that economic fluctuations would not have a very important effect on any of these types of coverage. Since the amount at risk is moderate as compared with normal claims (except in some of the recently developed experimental plans), his view

was that a somewhat lower reserve would be adequate for those coverages than for weekly indemnity coverage and that for surgical insurance would be the lowest.

Although agreeing that it is highly desirable to accumulate reserve funds against contingencies, Mr. Gingery felt that it does not necessarily follow that it would be desirable to earmark such accumulations in the special reserve. He pointed out that such earmarking gives individual companies less flexibility in carrying out their internal financial policies and that the variation in contingency reserve requirements among the different coverages would give rise to an over-all requirement that would vary materially from company to company. He thought that it would be undesirable to apply a uniform formula to the entire Group Accident and Health insurance business of all companies and suggested that further discussion of this subject would be of considerable value.

MR. L. S. WAGENSELLER in discussing section D expressed the opinion that there is at least as much need of a special reserve for epidemics for the various forms of Group Accident and Health as there is for Group Life. In this connection he referred to the Texas City disaster of 1947 in relation to Accidental Death and Dismemberment insurance and to the sudden and largely unforeseen upturn in the weekly benefits claim rate during World War II. He felt that it would be prudent to make provision to meet such blows when they come.

He also referred to two recent developments as making increasingly desirable the accumulation of special reserves. One was the enactment in three states and the probable future enactment in others, of state cash sickness legislation entrusted in part to private carriers. He doubted whether anyone could predict the effect that widespread adoption of such legislation might have on claim rates. The second development he had in mind was the recent trend toward reduction in the margin of premium rates currently charged, eliminating some of the cushion formerly available to meet temporary adverse fluctuation in experience.

He said that there were still further reasons for accumulating special reserves under Group Hospital, Surgical and Medical Care coverages. These, in his judgment, include the experimental nature of the coverages, restricted underwriting freedom of the carrier where specifications are arrived at through collective bargaining, and the trend toward coverages with substantial hazards of a catastrophic nature, such as coverage for poliomyelitis and other dread diseases and unlimited reimbursement for special hospital charges. His company's claim experience under Group Hospital and Surgical policies had shown a steady advance to increased claim levels in each of the past three years. The relative shortage of hos-

pital and medical facilities, which exercised an effective indirect control over the experience during the war years, is gradually being relieved so that the indirect control is presumably correspondingly reduced. He felt that as the shortage of facilities is relieved and as more numerous forms of Group Disability insurance become generally available to employees, the financial impact of an epidemic upon the surplus position of group-writing companies would become more serious.

MR. H. J. STARK dealing with section E indicated that of the two types of assessment provided for under the New York Disability Benefits Law, that which presents fewest reserve problems is the assessment for administrative expenses incurred by the Workmen's Compensation Board and its Chairman in administering the law. At each year-end after 1950 the liability of the company will be three-fourths of its anticipated assessment. For the first year the liability must be estimated from the expenses theretofore incurred since the law will not have been in effect throughout the fiscal year. He indicated that efforts would be made to secure and distribute to the insurance companies interested sufficient information concerning the amount of the anticipated assessment for inclusion in the companies' annual statements.

He outlined the basis on which the assessment to replenish the special fund for Disability benefits will be levied. This assessment depends primarily on the amounts paid by the special fund for benefits for the sick unemployed, but the terms of the law are such that the amount of the assessment would fluctuate more widely from year to year than would the amount of benefits paid to the sick unemployed. He felt that the problem was not merely one of securing sufficiently up-to-date records of payments from the special fund to enable the insurance companies to estimate the liability accrued for the assessment next due, but also whether it is desirable that the insurance companies should build additional reserves for use in later periods when the rate of unemployment and hence the rate of assessments may be expected to be materially higher. If such reserves are not held the insurance companies either must charge a rate of premium sufficiently high to provide for the highest rate of assessment anticipated in any year or must rely upon increasing their rates as unemployment rises to a level which would provide for the maximum rate of unemployment that would be reached. Either of these alternatives he felt would raise difficulties since experience has shown that the proportion of unemployed persons can become quite substantial.

It was Mr. Stark's feeling that the most practical solution to provide for these assessments is to build a reserve by setting aside each year an amount expected to be sufficient to provide for the fluctuations of such



assessments over a complete economic cycle. The Metropolitan's figures indicated that approximately 15% of the gross premiums would be required over such a cycle. The figures, he said, were based on the hypothesis that the average proportion unemployed would be 15% of the number then employed, and included allowance for a somewhat higher rate of disability among the unemployed. Pointing out that over the twenty-one year period from 1929 through 1949 the ratio of unemployed to those then employed in the United States varied from less than 2% to about 33% and that the unweighted average was 13%, he expressed the opinion that the foregoing assumptions were not unduly conservative. He thought that this portion of the insurance company's liabilities is a proper subject for regulation by the New York Insurance Department to require the companies to hold the reserve in question on at least some minimum acceptable basis and indicated that such action is presently contemplated.

MR. R. D. MURPHY expressed doubt as to the desirability of the present method of setting aside a special reserve for epidemics, etc., on Group Life insurance by merely accumulating in this item 2% of net premiums. He indicated that there did not seem to be general agreement as to whether such item was a liability or merely a tagged portion of the company's surplus, stating that some companies, he believed, adopted one and some the other of these approaches.

He felt that to treat this item as tagged surplus can lead to much misunderstanding and noted that such misunderstanding had arisen in his own office because the portion of the surplus so tagged was a very small part of his company's existing Group Life Insurance surplus as indicated by their internal accounts. This had presented difficulties in explanations to policyholders. He, therefore, felt that no advantage was obtained by taking a portion of the surplus and so earmarking it.

He did not wish his statements to be construed as an argument against providing adequately for liabilities, but felt that this item had never been studied from the viewpoint of permitting the companies to describe it as a liability. If the item could be treated as a liability based on a definite actuarial principle it would remove some of his objections. He also wished to emphasize that he felt it highly desirable that adequate surplus be built up for the risks involved. He pointed out that the usual test of the ratio of the company's surplus to its reserve liability has no meaning when applied to such branches as Group Life insurance and Group Accident and Health insurance. He felt that such adequate surplus should be built up but should be measured for adequacy by the type of contingency for which it is designed.

He, therefore, pleaded for the adoption of a more scientific basis. If it is felt that the tagged amount is properly a liability, it should be computed on that basis and so described, but if not, he felt that there was no distinction between the tagged surplus and the unassigned surplus that could be explained to the policyholder. He asked for clarity in this regard.

MR. W. W. FELLERS in connection with section D noted that a flat premium independent of age is charged for Group Accident and Health insurance whereas the premium for Group Life insurance is based on the ages of those insured. He pointed out that Accident and Health claims do vary by age and, to the extent that flat premiums are charged, possibly reserves should be set up to take account of the likelihood of increased ages among the group of employees covered. He felt, therefore, that the use of flat premiums made it even more necessary that adequate reserves be maintained for Group Accident and Health insurance than under Group Life term insurance.

MR. W. R. WILLIAMSON remarked that in the discussion of costs of Accident and Health production it was very usual, particularly among government and unions, to disregard claim and contingency reserves and to assume that any difference between premium income and claim payments represented solely profits and overhead. He mentioned instances in which this had been done. He expressed the feeling that this approach was so common that actuaries should emphasize the need for better recognition of the likelihood of contingencies and the necessity for accumulation of appropriate reserves.