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GROUP INSURANCE

A. What has been the actuarial and administrative experience under industry-wide group policies covering employees of many employers?
B. What problems are encountered or anticipated in the writing of various forms of group insurance for groups of less than 25 lives?
C. What are considered to be the underlying factors in the present general trend of hospital and surgical expense insurance claim ratios?
D. What experiments are under way to provide group hospital, surgical and medical expense benefits for pensioners and their dependents?
E. What progress has been made in developing "catastrophe coverages" to cover the expense of long and serious illnesses?

MR. R. J. WALKER pointed out that the purpose of group insurance is to provide life and accident and health protection to the working population on a sound and economical basis. Pacific Mutual believes that multiple-employer group insurance can attain these objectives. Important group types classified by the choice exercised by representatives of employers are: (1) trade association groups where both coverage and carrier may be selected, (2) labor-negotiated programs where only the carrier may be selected, and (3) industry-wide bargained programs permitting no selection. One common combination provides compulsory coverage for union and voluntary coverage for non-union employees. All multiple-employer insurance can be sounder because of a broader claim base and more economical because of greater expense savings than single-employer insurance covering the same employees. Type 3 groups eliminate selection. In type 1 groups large employers may drive better bargains elsewhere and decisions of smaller employers may be swayed by the individual insurability of the heads of their firms, so underwriting rules as to participation by employers and employees must be established. Type 3 is the least and type 1 the most expensive to install and administer. Employers in type 1 plans are more likely to terminate. Initial "volume" discounts allowed on larger cases are difficult to justify for this type.

According to the Taft-Hartley law, a joint management-labor trusteeship will control type 3 groups. Employer-dominated plans may have high claims, whereas union-dominated group claims may be low if labor wants to prove that the union is a responsible body.

It is, in his opinion, extremely unfortunate that a segment of our business is opposed to the expansion of multiple-employer group insurance. That same segment has the most to lose by forcing a labor union approach

(which is legal in all states). The needs of employees are identical whether they belong to a union or not and whether their employer is large or small.

MR. H. G. PAFF expressed the opinion that the success of trade association group plans depends on the closeness of the association's relationship with individual employer members. National plans are more difficult in enrollment and administration, and in checking of claims. A variety of state laws, particularly cash sickness laws if A & S is included, adds complications.

Prudential has found that difficulty may be encountered, in dealing with union plans established by collective bargaining in which a master policy to insure more than one local has been issued, if individual locals are unable to agree on the disposition of funds arising from the insurance of their members.

Trust agreements also present problems and the company should cooperate with the union or association attorney so that the trust agreement is workable and flexible, the trustees are empowered to make minor changes in the group plan, no more than three trustees are required to sign for the trust and a practical means is provided for the replacement of a terminating trustee.

MR. C. H. TOOKEY discussed two general types of industry-wide group policies: (1) voluntary coverage by members of a trade association, and (2) union negotiated plans. In the latter the monthly contribution by the employer is fixed and the problem is how much insurance the premium will buy. Expenses are usually lower on the second type but management and claim supervision are important factors in both types. Trade association claim rates on casualty coverages as experienced by Occidental have been lower than those experienced on regular employee-pay-all plans even though the individual employer units were quite small. The chief difficulty has been one of administration.

As to section B, his company is enthusiastic about the future of the small group business because they feel it is socially desirable and should furnish their ordinary full-time agent with additional opportunity. In order to keep expense to a minimum they restrict benefits and use simplified administration. Costs are high compared with large groups, but are small compared with individual policies. They have noted little or no antiselection from their small groups.

They now issue package accident and health plans to employer groups of 10 to 25 lives and expect to add Group Life to the package when the California law permits.

MR. F. W. CLARK mentioned that the Lincoln National issues group casualty policies to employer groups of 10 to 25 lives at increased rates.

They believe the primary problem is successful merchandising and servicing for reasonable costs. Control of field expenses is difficult and their high lapse rates indicate poor service but loss ratios have been comparable with those for larger groups. The field man tailors his packages within benefit limitations such as: (1) weekly indemnity benefits cannot exceed $30, and (2) the maximum amount available for special hospital charges cannot exceed twenty times the hospital daily benefit. They understand that some companies are discouraged with package plan results.

A large amount of this type of business has been written by casualty companies on a franchise (individual policies, individually ridered if necessary, but with an agreement for employer cooperation) rather than a group plan. This fact might be worth considering.

MR. MARCUS GUNN related that California-Western States Life has found that group casualty cases of less than 25 lives have higher claim ratios and greater expense factors. They use "canned" plans and require substantial employer contributions. Lapse or shrinkage rates have been high. The lag in discovering the need for experience rate increases has caused a drain on surplus.

He feels that group hospital and surgical claim ratios for cases of 25 or more lives are trending upward so fast that experience rate increases have not kept pace. Reasons for the trend are increased hospital use, new expensive drugs and higher charges for hospital special services, as well as increased hospital-surgical-mindedness of employees. Doctors and hospitals may also be using group plans to increase their incomes without unduly burdening their patients. He believes that companies will meet the challenge, and time and experience will bring this form of insurance to a sound and profitable condition.

MR. C. A. NAYLOR commented that the two principal problems involved in underwriting groups of under 25 lives are selection of risks and expense. The London Life requires evidence of health from all employees in such groups so that favorable claim rates will provide a larger margin for expenses. But underwriting is more liberal than for individual policies. They have found in about one-third of their small groups it is necessary to exclude one or more individuals. Premiums are higher but over-all experience has been quite satisfactory. They have heard that some companies are underwriting groups of less than 25 without evidence of health, but do not feel that they can safely do it.

Regarding section C, he stated that based on the results in his own company for the last five years and allowing for rate changes they have found a moderate upward trend in the employee hospital and dependent hospital and surgical claim rates for groups of 25 or more lives. Re-

sponsible factors may be: (1) an increasing tendency on the part of the public to go to the hospital, particularly for diagnostic purposes, (2) substantially increased hospital charges, and (3) a higher birth rate in recent years which has increased the number of dependent children. The increase in their claim rates has led them to feel their premium rates have been reduced to the point where they barely contain a satisfactory margin.

MR. L. S. WAGENSELLER remarked that the Metropolitan relates group benefit disbursements for a particular period to premiums earned for a corresponding period beginning one month earlier. Some of these crude claim ratios are:

Calendar Year	1947	1950
Group Hospital and Surgical Coverages except Dependent Hospital	57%	72%
Group Dependent Hospital	67%	78%

These increases occurred in fairly regular annual increments and were, in part, due to reductions in premium rates.

Except for dependent hospital, which had a smaller increase, the first quarter of 1951 crude claim ratios for these coverages rose by about 9 or 10 points above the ratios for the corresponding period of 1950. This increase is largely due to the reductions in basic rates based on premium volume which they adopted in March 1950. Lack of uniform premium rates over the years makes comparison difficult but, nevertheless, they are firmly convinced that the underlying trends have been steadily upward and that one or more of the following may be contributory: (1) increased cost of services rendered by hospitals and physicians, (2) demands for a higher medical standard of living, (3) a hospital management policy of expansion coupled with greater utilization of existing facilities, and (4) a new Southern and Southwestern type of medical practice by physicians who encourage their patients from the surrounding countryside to take up hospital residence in the physicians' towns. He feels it is difficult to foresee a reversal of the present trend in group hospital and surgical claim ratios, unless such is brought about by another major war. Even then, the civilian conditions of World War II are not likely to be duplicated. Today's premium rates may have to be increased.

MR. J. P. DANDY believes Occidental's experience indicates that the increase in the average cost of special services is responsible for the increased hospital claim costs and that a continuation of the present trend will make surgical rates inadequate. A representative number of their groups showed maternity claim rates ranging from .10 to .16. This is in

line with population statistics but is not consistent with published experience. Further information on recent maternity rates and costs of hospital special services where the maximum is $200 or more are urgently needed.

MR. H. R. A. McCORKLE felt increased cost of special services was a result of higher fees and utilization of greater benefit amounts for additional services. Expensive diagnostic techniques and methods of treatment are resulting in payments not contemplated in premium calculations. This is a point on which reliable statistics are very difficult to obtain; but he did feel that it is a point on which more information is urgently needed.

MR. C. G. ARLINGHAUS, with reference to section D, observed that such scanty data as are available and general reasoning indicate that the incidence and duration of claims for hospital, surgical and medical expense insurance will increase sharply and continuously with increase in age, probably because of more chronic afflictions and longer confinements. To provide the same benefits after retirement as during active service would raise the plan cost substantially, and perhaps would jeopardize the entire plan.

When asked to provide such coverage, the Metropolitan has been recommending continuance of the same benefits (but no medical expense except in-hospital care), subject to a total limitation for each benefit, or an aggregate total for all benefits, for hospitalization and surgery occurring after retirement. After the maximum amount is paid, coverage is canceled. The premium rate charged is at least the same as for similar insurance of active employees. It is recommended that the employer bear the full cost to avoid, among other problems, antiselection. Dependents of the employees on the date of retirement are covered on the retired benefit basis while they remain dependents.

Study of one nation-wide "all benefits maximum" group for the past three years indicates an over-all claim cost per retired employee about the same as per active employee, but the pensioner group is heavily male whereas the active employee group is substantially female. Data from a self-insured plan of another of their policyholders shows a hospital claim rate for pensioners more than double that for active employees.

MR. M. D. MILLER said regarding section E that rapidly increasing cost levels have accentuated the demand to fill the gap in standard group hospital, surgical and medical expense plans caused by insufficient coverage for illnesses requiring extraordinary expenses. Since little experience is available such coverage must be regarded as experimental.

The Equitable catastrophe coverage plans provide reimbursement of 75% of the expenses over the greater of basic plan benefits or $300, up to an over-all maximum for any one illness or injury of $1,500 to $5,000.

Expenses incurred while in the hospital and during the three months period following the termination of hospital confinement only are covered. To control potential abuses they feel that the coinsurance feature is absolutely essential. Claim experience is combined with basic plan experience in the determination of dividends. When wage stabilization controls permit, they plan to recommend an extended illness coverage to all their substantial cases, at least for the higher income personnel to whom such coverage seems to have most appeal.

MR. M. L. GROVER reported the results of a query by Johnson & Higgins to 20 American companies and not one was interested in writing hospital, surgical, medical catastrophe coverage on a group plan similar to that offered by Lloyd's of London. Actuaries should help educate the public and use their influence to fill the need for insurance against catastrophic medical expense if we are to maintain our system of free enterprise.

MR. W. G. SCHNEIDER stated that Bankers Life Company was experimenting with catastrophe coverage, in conjunction with group hospital, surgical, medical expense plans, providing, for any one disability, reimbursement of 75% of incurred medical expenses over a stated deductible amount (usually H-S-M benefits plus $300 or $350) to maximums of $2,000 over a period of two years up to $5,000 over five years. A substantial deductible amount eliminates frequent claims for minor amounts. Since charges increase with wealth, theory justifies reflecting the employee's economic status in the deductible amount. They feel he must pay enough of the total to prevent extravagance, remembering that the purpose for the coverage is not to eliminate financial pain but only financial catastrophe.