

**TRANSACTIONS OF SOCIETY OF ACTUARIES  
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**INDIVIDUAL SICKNESS AND ACCIDENT INSURANCE**

- A. What has been the experience under major medical expense contracts with reference to sales, underwriting, claims, and administration?
- B. In defining total disability a test frequently used during a stated initial period of disability is the inability of the insured to perform the duties of his own occupation, as contrasted with the inability to engage in any gainful occupation. What are the problems and considerations in determining upon such an initial period and a suitable duration thereof?
- C. To what extent is build an important factor in the experience under (a) loss of time coverage? (b) hospital and medical expense coverage? To what extent can substandard builds be underwritten with extra premiums?
- D. What safeguards are used for underwriting (a) hospital expense coverage beyond age 65? (b) loss of time coverage for women?
- E. What has been the demand for and the experience with individual hospital and surgical policies issued without evidence of insurability upon termination of Group coverage?

MR. J. H. SMITH summarized conclusions reached by the Equitable of New York concerning special problems in individual and family major medical expense policies. He stated that the protection which the co-insurance feature affords against increased utilization and uncontrolled charges is fundamental and should not be weakened. Enlisting the support of doctors and educating them as to the wisdom of avoiding excessive charges is another opportunity for achieving some degree of protection. While their policies were originally offered with a choice of three deductible amounts—\$100, \$300, and \$500—they now provide only the \$500 deductible plan. This has simplified sales procedures, and yet it is felt that they are still making available the type of protection most desired by those who can afford it, with only a limited degree of unsound duplication of benefits between this policy and other insurance the policyholder may have.

He said that they are now charging uniform rates for various classes without any attempt to provide different coverages geared to income levels and geographical cost patterns. They anticipate a continuing upward trend in the cost of health beyond that attributable to general inflation, as a result of improved medical techniques, enlarged facilities and increased health education. Therefore, margins have been introduced into the premiums and the company has retained the right to increase premium rates on outstanding policies. They have adopted a policy provision that they will not terminate the insurance because of deterioration of health and,

accordingly, level premium rates varying by age are used and reserves will be accumulated similar to those on noncancelable accident and sickness insurance.

The Equitable is selling no other form of accident and sickness insurance and is therefore experiencing some difficulty in interesting and orienting agents in writing this coverage. Claim experience and claim administration have been satisfactory, the highest loss ratios coming from the old \$100 deductible policy. In general they feel that the major medical form will have a significant place in the future of accident and health insurance.

MR. J. S. THOMPSON, JR. dealt with the experience of the New York Life on its two major medical expense policies. One plan has a \$500 deductible and \$7,500 maximum benefit; the other has a \$300 deductible and \$5,000 maximum benefit. Both have a 25% coinsurance factor. He said that only 12% of their new accident and sickness premium volume has been on these policies, despite intensive sales promotion and a higher first year commission rate. It has proven an effective "door-opener" to life insurance sales, however.

Only 18% of their applicants have been eligible for the \$300 deductible plan—that is, those with annual incomes of less than \$10,000 and with no basic hospital and surgical insurance. Of those eligible only about 10% have chosen that plan, and as a result about 98% of their issues have been with a \$500 deductible. All eligible family members must be included in the coverage. The company will not refuse renewal solely on the basis of a change in physical condition of a covered family member.

He reported that the average age at issue on major medical policies is 43, as compared to age 35 on their basic hospital expense policy, a fact which he attributed to the correlation between higher age and higher income as well as to a greater appreciation of the value of this coverage by older persons. A high proportion of applicants report recent "annual check-ups," and since they have often been associated with serious physical impairments, the company obtains a statement from the attending physician for all men 40 and over and all women 35 and over who report such medical check-ups within two years prior to application. Exclusion riders are necessary on only a small proportion of issues.

Since claims do not normally arise soon after issue on major medical expense policies his company has not developed sufficient experience on which to base claim reserves. They are therefore proceeding on a "judgment" basis.

MR. W. VAN B. HART, in discussing section B, pointed out that, paradoxically, it may be quite possible that a company is more protected

against unwarranted claims with a clause using the "his occupation" wording for the first *n* weeks, and "any occupation" thereafter, than by using the "any occupation" wording only. If the latter wording is used, it can be distorted by the courts into a "his occupation" interpretation. If the dual wording is used, it is evidential to the courts that the company has recognized that the short disabilities require a different interpretation from the long disabilities.

He felt that the transition from one definition to the other should be related to the time when an average disabled individual might begin to realize that he may never be able to resume his original work, a period influenced greatly by the nature of the accident or sickness in question, but generally ranging between six months and two years.

MR. K. B. PIPER felt that the use of a different definition of total disability for an initial period makes the contract more salable and more reasonable sounding. It also provides a stimulus to rehabilitation by confronting the claimant with a date at which his status will be judged by more rigorous standards.

In his company, the Provident Life & Accident, the majority of policies have an initial period of one or two years, applying mainly to the results of accidental injuries, during which total disability is defined as inability to engage in the claimant's own occupation. For certain noncancelable and guaranteed renewable policies, issued only to carefully selected risks, total disability is defined as inability to perform each and every duty of the claimant's occupation during the first five years and thereafter as complete inability to engage in every gainful occupation for which the claimant is reasonably qualified by training and experience. He said this latter clause would probably not be extended more generally until it has been tested under depression conditions.

MR. R. H. MORSE stated that over the years, through company practice and court decisions, the general interpretation of the "any occupation" definition has come to mean "any gainful occupation for which the insured is reasonably fitted." Hence a number of companies use this expression in their definition of total disability. He observed that the "his occupation" clause has, in some cases, invited claims for disability where there was no actual loss of earning power. He illustrated this point by citing *Warren vs. Commercial Travelers*, wherein the policyholder had been released from the armed services because of an ankle injury. Although the policyholder became employed in a full-time civilian occupation of his own choosing, he claimed total disability since military service was his occupation within the terms of the policy.

Mr. Morse further cautioned that the use of the "his occupation"

clause in noncancelable disability policies might work a hardship on the policyholder if the clause is used both in the definition of total disability and in the recurrent disability provision. In a situation where the insured at the onset of disability is engaged in a certain occupation and upon termination of disability does not return to his original occupation but to a new one, a subsequent disability due to the same cause could technically be considered as a continuation of the previous disability even though many years might have elapsed between the two disability periods.

MR. S. F. CONROD agreed with Mr. Morse's comments concerning the disadvantages and dangers of a definition of total disability of the "his occupation" type, particularly in noncancelable disability policies. For the past fifteen years the Loyal Protective has been defining total disability as "complete loss of business time due to the inability of the insured to engage in his regular occupation or any gainful occupation for which he is reasonably fitted." He felt that this definition gives added protection to the company during the initial period as compared with the usual "his occupation" type, and at the same time is not subject to the negative interpretation of the "any gainful occupation" type of definition that usually applies after the expiration of the initial period.

MR. B. J. HELPHAND believed that an initial one-year period for a "his occupation" clause, as used by the Pacific Mutual, was practical. He said that the more liberal definition during the early period of disability gives the claim representative more latitude in adjusting claims. By the same token, however, the more restricted definition at the end of one year gives the adjustor a chance to re-evaluate the degree of disability on the relatively few claims still open then.

He felt that competition has induced companies to liberalize the duration of indemnity under the "his occupation" clause. Yet he could not establish that it was a major issue from the agent's viewpoint. He thought the important point is the training of agents in the significance of the policy terms and their application in claim administration. Furthermore, he pointed out that one of the largest writers of individual accident and sickness policies does not provide for any period of "his occupation" indemnity in its policies and is apparently not finding it a competitive disadvantage.

MR. T. H. KIRKPATRICK, discussing section C, stated that the Paul Revere Life loss-of-time experience on underweights has been favorable and so, after age 35, this factor is practically disregarded in underwriting. On younger lives other unfavorable factors are looked for, but applicants otherwise clear are accepted at standard rates up to 25% underweight.

He said that their underwriting rules on overweight cases are liberal. Premiums for applicants 35% to 55% overweight are rated up about 25%. Claim experience on overweights with ratings has been about the same as the company average for standard risks in the Paul Revere. However, for the Massachusetts Protective Association the corresponding group has had claim rates 45% higher than for standard risks. Since the average policy duration in the M.P.A. is considerably longer and the underwriting more liberal than in the Paul Revere, he felt that this indicated that early claim rates for overweights are favorable but that impairments developed which increase the claim rates with duration.

MR. C. M. BEARDSLEY, discussing section D, described the non-cancelable Business Woman's policy issued by the Paul Revere Life. He indicated the following underwriting safeguards in the policy: it is guaranteed continuable just to age 60, whereas their loss-of-time policies issued to men run to age 65; there is a seven-day waiting period for sickness; it has either a fourteen-month or two-year aggregate benefit period; it does not cover death or disability resulting in any way from pregnancy; and monthly indemnities are reduced by fifty percent if the insured is a housewife or is not gainfully employed away from her residence, unless she is in the hospital or under the care of a registered nurse employed to attend her exclusively. Other underwriting rules are as follows: the applicant must be gainfully employed at a place of business away from her residence, coverage is limited to \$200 per month under any or all of her policies, and an inspection report is required if the monthly indemnity exceeds \$100.

He said that about 3% of their new issues are on this policy form. The largest occupational groups included are office clerical employees 37%, nurses 7%, teachers 5%, and beauticians 4%. Claim experience has been uniformly good in the highest occupational classification, particularly among office clerical employees, teachers and female physicians. In the third occupational classification the claim experience has been consistently poor, however, especially among beauticians and restaurant hostesses.

The Business Women's policy of the Metropolitan was outlined by MR. H. A. LACHNER. It has a maximum benefit period of one year for sickness and five years for accident; there is a one-week elimination period; it does not cover disability resulting from pregnancy or its complications; the policy is terminated when a married woman leaves her employment to take up household duties; and it is renewable only at the option of the company. These policies are sold only to women engaged in occupations in stores, offices or similar establishments which require daily attendance during regular business hours. Applications are not accepted from women canvassers, solicitors, singers, those with irregular or seasonal

employment, those living on the business premises, or married women engaged in business with their husbands.

He reported that, because of unsatisfactory experience, his company no longer accepts nurses in hospitals or waitresses for disability coverage. On the other hand, claim rates on school teachers and office workers have been favorable.

MR. J. F. COLEMAN, commenting on section E, stated that about 35% of the eligible subscribers to Blue Cross and Blue Shield in New York convert to direct payment after being transferred out of group status. To indicate the demand for policies including a conversion privilege, he stated that about 15% of the Blue Cross enrollment and 10% of the Blue

TABLE 1  
PERCENTAGE RATIO—1953 INCURRED CLAIMS  
GROUP CONVERSION COMPARED WITH GROUP REMITTANCE

	BLUE CROSS	BLUE SHIELD	
		Surgical Only	Surgical and In-Hospital Medical
Individual			
Male	103	100	123
Female	207	147	146
Husband and Wife		107	103
Family (excluding obstetrical)	113*	120	134

\* Includes husband and wife only.

Shield enrollment are so covered. Experience on the converted contracts has shown a heavy antiselection by female risks, as high on Blue Cross individual female contracts as 207% for the ratio of incurred claims per contract on group conversion to that on regular group remittance. Other percentage ratios of incurred claims on group conversion to those on group remittance are in Table 1.

He also stated that Blue Shield eliminated continuous maternity benefits in the current conversion privilege clause because studies indicated that at least 50% of the premiums charged on family contract group conversions in Blue Shield was going for maternity cases.

MR. J. J. MARCUS said that the Prudential has made available, since April 1953, an endorsement on group hospital and surgical policies which allows terminating employees to obtain an individual policy without medical examination. One such policy is available to terminating employees up to age 66 and is renewable to age 71. It provides room and board benefits

up to 31 days at the same level as in the group policy, but not exceeding \$10 per day, hospital services benefits up to ten times the daily room and board benefit, and a \$200 surgical schedule. The second individual policy available is for employees terminating after age 66 and is renewable to age 81. It provides room and board benefits up to 21 days at the same level as in the group policy, but not exceeding \$10 per day, hospital services benefits up to five times the daily room and board benefit, and the \$200 surgical schedule. There are no maternity benefits in either of these policies.

He stated that the premium rates for these conversion policies are in broad attained age groupings and that allowance was made for 150% of group morbidity.

MR. D. G. SCOTT, speaking on section E, said that there is a need for a conversion privilege in group hospitalization and surgical policies just as there is for group life insurance. The Continental Assurance has already issued about 13,000 such converted policies. However, the demand has not grown in proportion to the amount of group hospitalization and surgical coverage in force. He believed this may be because employees terminating from insured groups are now more likely to be employed in a company which also has group benefits. A greater degree of self-selection may thus be expected if conversions are confined to those who have not become re-employed or who wish to double up on their coverage.

Even with premium rates on converted policies one-third to two-thirds greater than group rates, the claim ratio was 96% during the period from 1951 to 1953 inclusive. Expenses were greater also, because of the individual collection and accounting procedures involved and the variety of policy forms required.