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STATISTICAL ANALYSIS, GROUP INSURANCE

A. To what extent do the smaller companies use the Reports of Mortality and Morbidity issued by the Society of Actuaries? Is there need for any additional statistical information?

B. What practices are followed to obtain a satisfactory experience with group accident and sickness and group hospital, surgical and medical coverages? To what extent is age recognized in the premium? Is it necessary for a smaller company to write these coverages to be successful in the group field?

C. What problems have been encountered in insuring small groups with as few as 10 lives? How do the rates of mortality and morbidity for such groups compare with such rates for larger groups?

MR. A. T. LEHMAN reported that in the Union Mutual the statistical reports on mortality and morbidity have been used to some extent, particularly in the group department, in the development of some rates. They have also used them in the development of dividends in the ordinary department. Their Actuarial and Underwriting Departments have made good use of the statistical reports in setting age and amount limits for nonmedical insurance. They also find the aviation and other statistics valuable in supporting their position with agents. He believes that the committee does a good job in getting out the various types of statistics, but commented that perhaps some of the interpretations could be put a little more in laymen's language. He also wondered whether it might be possible to get more information as to expenses, which are quite a problem in the computation of dividend schedules and in developing gross premiums for nonparticipating companies.

MR. G. R. BINGHAM commented that the Northern Life Insurance Company used the Society's published reports for ratemaking purposes and as a result has altered its ratings in the lumber and logging industry which constitutes a minority but still a substantial portion of its group business. As to section B, he felt that the best source of group business for the smaller companies is the smaller risks, particularly those located close enough to the home office so that a personal relationship can exist. Such employers are interested in complete lines of coverage but, unlike the large employers, are not insistent on retention agreements. He emphasized that in order to have satisfactory experience, it is necessary to review all cases periodically to see that all eligible employees are covered, particularly noncontributory cases.

Northern Life has issued individual accident and health coverage for almost 50 years and during all that time premiums have been graded by age at issue. He believes that similar considerations enter into the adequacy of premiums in the group field. They have developed an age-credit factor for group casualty coverage based upon the extent to which the group life monthly premium for the same group would be less than $1.50 per $1,000, which is used whether or not group life is actually part of the package. He commented it is important to guard against overinsurance on weekly indemnity, taking into account any compulsory disability compensation in effect in the particular state and any union sick leave benefit.

MR. R. J. MARTIN stated it was important to try to write benefits which are inherently sound and to avoid writing those, particularly group hospital and surgical, which tend to produce abuse or overuse. The Founders Insurance Company is trying to concentrate on very small groups because they believe that there they can get a profit margin which they could not get on larger groups.

MR. G. C. THOMPSON said that with the help of the Committee Reports on Morbidity, his company has been able to reduce the rates somewhat for new coverage. However, there are areas in the statistical reports on morbidity which they find deficient, particularly with regard to hospital coverages and miscellaneous benefits. There are many combinations of exclusion and percents of coinsurance above the amount excluded, and he finds the statistics somewhat deficient in that regard.

They have a combined dividend and experience rating rider which enables them to review the case for rerating annually, so they are not in the awkward position of paying a dividend and offering a substantial rate increase at the same time. On the subject of the extent to which age is recognized in the premium, they have an age factor at the extreme ages. It is done by taking age groups 60–64, 65–69, 70 and over, giving weighting factors of 1, 2, and 3, multiplying by the exposure in those groups and dividing the sum by the total exposure in the particular case. If the result lies within certain ratios, they rate an extra 5, 10, 15 or 20%.

DR. A. C. OLSHEN said that in the West Coast Life they adhere closely to the principle that there is no tenable premium for a benefit structure which exceeds the loss sustained. No reimbursement should be provided if the insured is not actually out of pocket. In underwriting so-called comprehensive medical plans, he said we should guard against the use of a full reimbursement "corridor" without schedule after a small deductible—such as reimbursement in full for up to $500 of all expenses after the first $25 and payment of 75% of any excess up to a fixed limit. Similarly, the issuance of major medical with a deductible but permitting the base coverage to satisfy the deductible without an intervening corridor invites abuses—it nullifies the deterring effect of the deductible.

Speaking of age ratings, he said they have none as such. However, they do apply percentage factors if the average age is unusually high. As to expenses, he said that in certain phases of group operations a smaller company can actually have a cost advantage over a large company. A smaller company can handle and service contiguous territory very efficiently directly out of the home office.

MR. A. L. BUCKMAN agreed that the field for the smaller companies is the smaller employers. He recommended that the maximum coverage should not be more than 2½ times the minimum amount and also that there must be at least three persons having the maximum, otherwise the maximum should be made smaller. On section C he reported one company having a Group Life experience of 57% of "T" on small groups compared to 47% on larger groups. The reverse appeared to be true in the case of group morbidity, with such experience being as much as 20% lower in small groups than in larger ones, indicating perhaps that the employer of small groups is able to control the attendance of his employees somewhat better than the employer of large groups.

MR. J. M. SUTHERLAND, JR. finds three general problems in the small group field—namely, control of antiselection, expenses, and lapses. The first two he felt could be controlled, but the lapse problem is a vexatious one because the economic casualty rates among small businesses are inherently higher.

MR. R. J. WALKER (Pacific Mutual) recommended that companies pay more attention to claims—investigating to see whether anything is wrong instead of just drawing a draft. He cited several illustrations which resulted in reduction of claim payments; for example, hospitals in a certain area were cooperating with patients by charging them for board and room when they were not bed patients. In determining age loadings, his company follows the same principles as Security Mutual except that they "forget" the first 5% and then load in 5% brackets. He also recommended narrower brackets in loading for females, on the ground that it is not consistent to have such broad brackets for loading for females and such narrow ones when discounting for size.