

GROUP INSURANCE AND ANNUITIES

- A. To what extent has there been experimentation in the field of group disability income benefits subject to long indemnity limits and what has been the experience? Can insurance of this type be soundly underwritten on a group basis? If so, what controls are necessary?
- B. To what extent are group underwriting practices followed with groups of 5 to 25 lives? What practical and theoretical criteria determine the minimum size of a group?
- C. What changes have been made in the provisions of group annuity and other insured pension plans to coordinate or otherwise recognize the newly legislated monthly disability benefits under the OASI program? How have these changes been recognized in uninsured plans?
- D. Where group life insurance has been written for relatively large amounts and all or part of the amounts of insurance on individual lives are pooled for experience purposes, what level of claim experience is emerging? What underwriting controls are necessary to maintain a reasonable level of experience?

MR. J. K. DYER, JR. summarized the current activity in the long-term disability benefit field, based on the consultation work of Towers, Perrin, Forster & Crosby with various industrial employers, as follows:

1. Negotiated pension plans usually provide modest amounts of disability pensions for union employees, subject to restrictive age and service requirements.
2. Salaried employees rarely have guaranteed disability coverage, but many employers have liberal nonguaranteed salary continuance programs. The lack of guarantee is one gap in employer-sponsored benefit programs which higher salaried employees would particularly like to have filled.
3. The addition of disability benefits to the Social Security system will stimulate interest in private disability insurance plans.
4. Few insurance companies now offer long-term disability benefits on a group basis. However, the demand is met in part by the provision in some group life insurance plans for payment of the face amount of life insurance in monthly installments over 5 years in case of total and permanent disability.
5. A more constructive approach to this problem by life insurance companies would stimulate employer and employee interest and develop an important source of business. Employees would generally be willing to make substantial contributions to the cost of an insured plan, which would also offer the employer both a third-party determination of existence and continuation of disability and a stabilization of costs which self-insured plans do not have.
6. The feasibility of sound underwriting of this coverage is indicated by the disability income benefit experience in group life insurance and in a large group annuity contract which has included such a feature for over 25 years. Although it would not contain the same cushion against adverse experience

as group life insurance, a separately underwritten disability income benefit would not involve relatively greater risk if it provided moderate benefits terminating at age 65 and were coordinated with pension vesting, because the amount at risk would decrease with increasing age.

7. More statistical experience should be made available for actuaries to analyze and use in this field.

MR. A. M. THALER reported that the Prudential has had no experience in the long-term group disability income field, but that there has been a noticeable flurry of interest recently. There is an obligation to the public to meet the need for this coverage and experimentation will be attempted to work out a sound basis of meeting the expected general demand for it.

The rather disturbing pattern of interest recently is for coverage only on top executives of large firms for lifetime benefits of \$400 to \$500 per week. It is hoped that the basis for experimentation will lie between these extremes and the usual group disability pattern of benefit amounts not over \$100 per week for periods of 52 weeks or less.

Underwriting controls which are believed necessary are limitation of benefit periods to 5 or 10 years for smaller groups and to age 65 for larger groups. Amounts of weekly benefit should be limited to two-thirds of the first \$150 of weekly earnings and a smaller percentage of the excess, with a top limit in the neighborhood of \$200 weekly benefit. A table of graded limits on both duration and amount based on size of case would probably be used.

It is important to guard against possible duplication with benefits from Social Security, Workmen's Compensation, and disability retirement plans, although there would be practical difficulties in administering an antiduplication provision. One possible underwriting control against the prospect of long-term coverage for uninsurable or previously disabled employees is to limit the maximum duration of benefits according to the length of time the individual has been insured. The definition of total disability and the return to work requirement for recurrent disabilities for related causes should be somewhat tighter than that generally used for group coverage and more like individual A & H contractual provisions.

It will be important to use considerably higher risk charges and contingency reserves for this coverage than for other group coverages.

MR. H. C. UNRUH reported that the Provident Life & Accident has offered group long-term disability income benefits on an experimental basis for about four years. Although relatively few cases have been sold to date, there is a big market for this coverage. Experience has been satisfactory, but this principally reflects recent prosperity.

The principal demand for coverage is for key employees who usually have a serious interest in their jobs and in a prompt return to work in case of disability. This should contribute materially to good experience.

He feels that this coverage can be soundly underwritten for employee groups where the employer makes the substantial contribution to cost needed in order to have a high percentage participation. Necessary controls are limitation of benefits to 50% of salary graded down as the salary increases, limitation of benefit period to 15 years but not past age 65, and basing both maximum amount of benefit and maximum duration on the size of the group. Mr. Unruh does not feel that it is practical to use too strict a definition of disability.

One unsettled underwriting question is the possible graded reduction in amount of benefit as the employee approaches normal retirement age to offset possible abuse of coverage when the employee may also be entitled to early retirement benefits in the employer's pension plan. Other unsettled questions are recognition of established sick leave plans for underwriting and premium rate purposes, and possible variation in coverage, as well as rates for female employees.

Relative to section C, Mr. Unruh noted that any difference in definition of disability between an insured plan and Social Security may cause arguments between the insurer and employee or employer. Another complication from introduction of Social Security benefits is the awkwardness of determining benefits for an insured plan, together with the possibility that the present minimum age 50 for Social Security benefits may be lowered.

MR. R. M. PETERSON observed that OASDI disability benefits have an impact on group annuity contracts in two ways: (1) the operation of the temporary annuity option for early retirements, and (2) the operation of a guaranteed disability benefit under a very limited number of contracts.

The temporary annuity option is designed to permit a level total income (including group annuity and OASDI old age benefits). Where disability benefits are available on early retirement, this option appears inapplicable. However, the insurance company does not necessarily know that an employee is disabled and there is uncertainty as to actual qualification. Instead of attempting to deny the option, it may be more practicable to allow it and to agree to a subsequent reduction or cancellation if and when an employee does qualify where advance agreement is secured from employer and employee.

Under guaranteed group annuity disability income provisions or under any private pension plan with disability retirement benefits, the following points warrant consideration in integrating with OASDI disability benefits.

- a) In adjusting private pension plan benefits, total disability income should be greater than original private pension benefit to provide an incentive to qualify for OASDI benefits;
- b) Private pension plan disability income (up to \$100 a week) is tax exempt up to normal retirement age (see Rev-R 57-76);
- c) The interrelationship of Workmen's Compensation and Veterans' Disability benefits with private plan and OASDI benefits must be carefully checked;
- d) There is need for effective means of knowing when an employee qualifies for OASDI benefit and when it discontinues—perhaps some arrangement with the Social Security Administration could be made.
- e) Should the adjustment apply in all disability cases under the private plan or only in cases where OASDI qualification is established?
- f) What should be done to allow for future changes in the OASDI law including removal of the age 50 limitation and liberalization of disability test?

MR. J. B. CRIMMINS described the disability benefit provisions in several of the group annuity contracts which the Metropolitan has had in force for over 25 years. In general these contracts originally provided for payment equal to the accrued annuity to commence after disability had continued for six months or one year.

Changes in the annuity accrual formulas to integrate with Social Security retirement benefits introduced in 1939 required corresponding changes in the disability formulas. In some contracts the original accrual formula has been continued for determination of disability benefits after the accruals were reduced for retirement benefits. In others, the reduced accruals apply also to disability benefits, but provision was made for payment of supplemental disability benefits until commencement of Social Security benefits at age 65.

For contracts with the first type of disability benefit, the Metropolitan now recommends that the higher formula benefits be payable only until age 50 and that benefits be reduced to the accrued annuity level at that age. For contracts with provision for supplementary benefits prior to age 65, it is recommended that the supplementary benefit be discontinued at age 50 when Social Security disability benefits become available.

It appears desirable to reconsider the provisions for minimum disability benefits included generally in these contracts. There is some logic in changing the minimum disability benefit after age 50 to coincide with the minimum benefit after retirement. However, the greater family obligations which disabled employees are likely to have may make it reasonable to provide more liberal minimum benefits for disability even after age 50.

MR. G. A. REYNOLDS discussed section B, describing the underwriting practices followed by the Travelers for groups of 10 to 24 employees. Basically, the practices are the same as for larger groups with few

variations, but with the important difference that the deviations from regular rules and the tailoring to meet competition which are frequent on larger cases are not allowed for small groups.

The special practices for small groups include several designed to minimize antiselection:

1. 85% of eligible employees must be insured.
2. All classes of employees must be included; the program is not intended to be used as key man insurance.
3. Dependent coverage on noncontributory plans is provided only for the employees who actually enroll their dependents when they are first eligible.
4. Amounts and schedules of benefit are limited to prevent encouragement of malingering. Amounts of life insurance may vary from \$2,000 to \$10,000, with the maximum not more than $2\frac{1}{2}$ times the average amount for employees in lower classes.

Other special practices, including the offering of only standard package plans, are designed to simplify and economize administration. It is expected that the use of electronic calculators for group accounting will reduce the usual high rate of expense to premium for small groups by enough to allow all regular group practices to be used, including individual case experience rating. At that time distinctions between large and small groups will disappear except where they are necessary to offset antiselection.

MR. R. L. CRAPO reported that the Massachusetts Mutual entered the small group field to meet a social need, to increase opportunities for agents in the group field and to insure some groups that would tend to grow; and that these objectives have had an effect on their underwriting practices.

The program originally introduced in 1953 included eight standard packages, streamlined administrative procedures, a special commission scale, and certain underwriting restrictions. Premium rates were 15% to 20% above the larger group level with the objective of making this class of group cases self-supporting. However, the program of standard packages failed to offer sufficient flexibility to meet the requirements of many employers. Life agents were not attracted to the program and called on group representatives to devote too much time to small groups.

The present more liberal approach is to offer all regular group coverages except major medical, except that only certain combinations of coverage are permitted. A level schedule of amounts of casualty coverage is required, but life schedules may have two classes. Certain groups are ineligible, and others are eligible only on a noncontributory basis. A 25% minimum employer contribution and 85% minimum enrollment are required for contributory cases.

Life insurance underwriting provisions include uniform use of the extended death benefit disability provision, elimination of optional settlements, exclusion of retired employees, and reduction of insurance to \$2,000 at age 65. Amounts of insurance are between \$2,000 and \$10,000. Each employee must submit limited evidence of insurability by answering two questions as to health and past history. This information may result in reduction in the amount of the individual's insurance or in rejection of the entire case.

Underwriting restrictions for casualty coverages include the requirement that employees with dependents enroll for dependent coverage. The hospital benefit may be as high as \$18 per day for 70 days, with 20 times plus 75% of the next \$1,000 for extras. The amount of weekly indemnity benefit cannot exceed $\frac{2}{3}$ of the earnings of the lowest paid employee and the benefit period is 13 weeks. The maximum amount of AD&D is \$5,000.

On section D, MR. A. G. WEAVER reported the experience of the John Hancock in underwriting amounts of group life insurance up to twice the normal maximum amounts shown in their group manual. Since October 1954, amounts up to \$40,000 within statutory limits have been considered where the amounts of insurance for all classes are related to earnings, and where the gradation of amounts and distribution of employees from class to class are reasonable. Names and dates of birth must be submitted where less than 25 employees are eligible for excess amounts, but medical examinations are not normally required. The highest classes must not be top-heavy with badly impaired lives, but there is no rejection of individual lives.

About 15% of all group life policies include such excess coverage and the average group includes about 9 individuals with an average of \$6,259 of excess coverage. The employees insured for excess amounts average about 5 years older than in other groups, with an average insuring age of 52. Over half the volume is concentrated at ages 40 to 55. The average size of claim is about the same as the average amount in force, indicating no selection by amounts.

The experience on 600 cases exposed for an average of one year indicates an over-all mortality ratio only modestly higher than over-all group life experience. Where the excess amounts represented less than 10% of the total volume, claims experience was entirely satisfactory, but the actual to expected mortality ratio for other groups was more than twice as high.

This indicates that adverse claim experience can be expected on excess amounts when they are a significant part of the total volume. The requirement of a graduated schedule effectively excludes the case where excess amounts are to be provided only for a few key executives.

Only 4% of exposure is on lives over age 65, but even this small exposure indicates higher than expected mortality at high ages. Care must be taken to require that the older life is actively employed and that his insurance is reduced at retirement.

MR. R. C. McQUEEN reported on the experience of the Union Central in underwriting additional insurance for employees in top classifications of firms which already have basic group life plans. Most of these cases include 25 to 50 employees with amounts of \$10,000 to \$20,000 for the top class. The dividend formula used provides a great extent of pooling of experience for these groups.

Experience for policy years ending 1954 through 1956 does not indicate significantly higher mortality for groups of less than 50 lives than for all groups. The 1956 experience for 193 policies covering only executive groups shows a favorable claim ratio of 42.3% with 48 death claims. Claims exceeded premiums in 29 of the cases.

Excluded from this analysis were additional amounts of insurance above the group limit which are underwritten according to full Ordinary evidence of insurability standards and reinsured by the Ordinary Department. Experience for this classification, which is pooled completely, is not yet significant.

All cases must satisfy group underwriting principles, including the requirement that amounts of insurance be related reasonably to compensation even where full examination is obtained because of the amount. No other study of individual insurability is made.

Mr. McQueen feels that modified evidence of individual insurability cannot be used to qualify a case that is unsatisfactory from a group underwriting standpoint. Conversely, individual underwriting is unnecessarily expensive when a group meets the test of sound group underwriting.