GROUP INSURANCE

A. To what extent are separate records and accounting of the varied types of Group Accident and Sickness coverage being maintained?
   1. What economies can be realized by combining?
   2. What special problems as to underwriting and dividends have arisen?

B. What are the practices of Group insurance policyholders with respect to the continuation of coverage on their retired employees:
   1. As to life insurance?
   2. As to other Group coverages?

C. With respect to life insurance, accident and sickness insurance and annuity coverage of small groups (under 50 lives):
   1. What combinations of benefits are being made available?
   2. What underwriting and administration problems have arisen?
   3. What special marketing problems are there?

MR. F. H. HOLSTEN estimated that, counting employee and dependent and State Cash Sickness coverages separately, there are approximately twenty different Group Accident and Sickness coverages for which separate records and accounting could be kept. Keeping separate records for minor coverages should be weighed against the possibility of expending the same budget dollars on keeping separate classifications as to the more important plan variants, such as the inclusion of maternity benefits in a dependent hospital coverage.

Since benefits payable must be separately determined anyway, the New York Life feels it is worth while to punch on the claim payment card records the amounts arising from each of the various benefits involved in the payment, and summaries are prepared each month, by group and for all groups combined, of these benefits under the individual coverages.

However, for each group separate premium accounting records are normally maintained only by those broad categories where, generally speaking, premiums have to be determined separately because of different premium rate bases. These categories are Accidental Death and Dismemberment, Weekly Indemnity, Employee Medical Care and Dependent Medical Care. If further subdivisions of these last two categories into the various coverages *were* made, they would be used primarily to develop month-by-month claim ratios by coverage; and, considering also that claim ratios lose some of their significance on individual medical care coverages because these coverages are usually rerated as a whole at renewal of a particular group, his company felt that the benefits of having such claim ratios by coverage (within the medical care category) were not

worth the added expense of developing month-by-month premium figures by coverage for each group.

As a by-product of the dividend process, policy year incurred claims and premiums on each group by coverage are available. While this information is, on the average, about six months less recent than if it were developed on a calendar-month basis, it has the advantage of not being clouded by seasonal effects. This policy year experience can usually be projected to get a reasonably close indication of up-to-the-minute trends on the more important coverages.

MR. L. S. WAGENSELLER stated that initially the Metropolitan maintained a complete separation of premium and claim records for each type of Accident and Sickness coverage included in a single Group policy, but that with the rapid growth in number of multiple-coverage cases this system became too expensive, and simplified premium accounting and dividend procedures were adopted. As to premium records, a combined Group Accident and Sickness account is kept for each group, provided, as is usually true, all types of such coverage which the policyholder has are contained in a package policy, or in two or more policies packaged by amendment. Subaccounts are kept by branches or units of the policyholder's organization, where necessary, and for each State Cash Sickness coverage included in the policy.

For those groups with combined Group Accident and Sickness premiums of $40,000 per year or less, a combined dividend calculation for all such coverages in the package is made. For the larger cases subsidiary records of just the billed premium for each separate coverage are kept and dividend calculation work is subdivided by type of coverage. However, regular medical expense benefits, polio benefits, diagnostic X-ray and laboratory coverages, etc., are billed and treated throughout as a supplement to a basic hospital or surgical coverage.

The Metropolitan has been experimenting with a composite premium rate per employee for billing purposes on some of their larger, more stable groups. The composite is obtained at the start of the policy year and the right is reserved to recompute the composite at any time there is a significant change in number of employees covered, benefit levels, or types of coverage provided. Any required breakdown of billed premiums by coverage is made at the end of the year in proportion to the original components of the composite.

The only combining with respect to the claim payments is under the truly fringe or supplementary benefits, such as polio, diagnostic X-ray and laboratory, and extra accident coverages. These latter are merged with benefits paid under a basic hospital or surgical coverage in the same policy.

Having separate data on claims permits analysis of the trend of claim rates by coverage, both for the business as a whole and under specific policies, since it is practical to subdivide aggregate Group Accident and Sickness premiums by coverage on an approximate basis for this purpose.

MR. D. M. IRWIN said that there was an increasing use of combined billing methods by larger policyholders. He also described a combined billing method used by the Aetna Life for most of their smaller policyholders under which an "exact" Accident and Sickness premium is computed for each individual as he is added to the plan. The Accident and Sickness premium for the group is not broken down by coverage and is carried forward each month, adjusted for any changes which may have occurred.

He agreed with the previous speakers that it was not desirable to attempt to combine claim records or accounts at too great expense.

MR. P. H. JACKSON of the Aetna, discussing Section B, mentioned that the New York Insurance Department is conducting a survey of the practices of group policyholders with respect to the continuation of life insurance coverage on their retired employees.

He went on to say that in recent years the device of gradual reduction after retirement (or declining continuation) has gained some popularity as being preferable to the old-fashioned abrupt reduction at retirement (or level continuation). The adoption of gradual reduction programs by the federal employees group life plan and by General Motors has, perhaps, given impetus to this trend. While there are some situations where gradual reduction solves a special problem, there are undoubtedly many instances where this program of piecemeal deterioration with its eroding death benefit has been adopted merely because the word *formula* is considered to be synonymous with equity and because conversions cost $65.00 a thousand. The declining continuation plan does prevent a large variation in death benefit between the case where death occurs within a month after termination and the case where death occurs just beyond the one month extension period. For the same reason, those companies that still use the old-fashioned level paid-up nonforfeiture benefit as the automatic option in individual policies of life insurance might well consider the use of this new gradual type of reduction in the benefit amount, say at the rate of 1% biweekly—to a somewhat lower final paid-up amount, of course.

Basically, there are few underwriting problems connected with the declining continuation plan so long as the details of administration are all handled by the employer. The chief objection to the plan is that it is a perfect example of the negative approach to benefit plans. The plan is

called a reduction program, which suggests taking something away rather than providing something additional, and the formulas, in almost all cases, spell out the amount to be taken away rather than the amount to be continued. Mr. Jackson felt it is next to impossible to tell a retiring employee verbally and in simple terms how much insurance his employer is going to give him under a gradual reduction program.

If an employer is not providing any insurance for his retired employees and decides to look into the problem of continuing some coverage for them, he will find that this step can cost a lot of money even if small amounts are continued on an unfunded basis. Thus it is that the amounts continued are generally modest where actuarial advice has been sought and accepted. It is unfortunate that this positive step of providing some coverage for people who never had it before is occasionally viewed negatively as an abrupt cutting off of the coverage that is not continued.

Mr. Jackson expressed the hope that gradual reduction would find a place in the field of pensions before he retires.

MR. R. D. BALDWIN said that the Sun Life's group life application form has, for several years, contained a recommendation that postretirement insurance be not more than 50% of the preretirement amount or that it be set at a nominal figure such as $500 or $1,000. The form also contains a question regarding the prospect's intentions with respect to insurance on retired employees. His company's "baby" group rules require that insurance be reduced to not more than $1,000 at age 65 in order to avoid adverse selection on the part of owners and executives. More of these policyholders, as compared to larger groups, are continuing insurance on pensioners. An analysis of 1,000 applications, including "baby" groups, received over the past five years showed that 51% of these policyholders continue no insurance after retirement, 25% continue the full amount, 7% a substantial proportion, and 17% a nominal amount. An estimate of the percentage of older policyholders who are discontinuing insurance after retirement is 40%, which might indicate a greater awareness on the part of new policyholders of the cost.

Factors causing employers to continue coverage on pensioners include insufficient explanation regarding the trend of costs, indifference due to the deferred nature of costs, and practices of other local employers.

Mr. Baldwin listed the following methods of financing the cost of coverage after retirement: yearly renewable term which has a large deferred cost element; single premium paid-up insurance purchased at retirement, which has the disadvantage in the United States of increasing the employee's taxable income by the amount of the premium in the year of purchase; level premium Paid-up at 65 plans which are somewhat in-

flexible in operation; paid-up plans as described in Mr. Espie's paper; and a newly developed deposit administration plan, under which premiums for pensioner's coverage are determined on an actuarial basis discounted for mortality and withdrawal and set aside in a deposit fund—after employees retire, their yearly renewable term premiums are met out of this fund, thus keeping these older ages out of the calculation of the average term rate for the group.

MR. PHILIP FREEDMAN said that a convenient way of continuing life insurance coverage on retired employees was to handle the benefit as an incidental feature under an approved pension plan. This method has been used under pension agreements between the UAW and a large number of employers. The funding of the postretirement death benefit proceeds on the same basis as the funding of the pension benefits, which are usually financed through a self-insured trust fund or a deposit administration group annuity contract.

Mr. Freedman went on to describe the method (used by the UAW in most of its bargaining agreements) of determining the retired employee's contribution for medical care coverages. In most instances, the retired workers remain covered for the same benefits as the active group by paying premiums equal to the sum of employer and employee contributions for an active worker. Since much of the UAW membership is covered by Blue Cross under community rated plans, the method results in spreading the extra cost over the entire community so that groups with large proportions of elderly workers are not heavily penalized.

It was suggested that cutting back benefits for retired employees or imposing lifetime limits were attempts to avoid rather than meet the problem. The question was also raised as to whether deductible and coinsurance requirements should not be lowered for the retired group, since they bear some relationship to ability to pay. Other problems discussed by Mr. Freedman included the difficulty of providing for advance funding of "service" benefits and overutilization of medical facilities.

The possibility of providing these benefits through the OASI system was also mentioned.

MR. G. W. FITZHUGH disagreed with Mr. Jackson's opinions. He also said that a large majority of the employees insured under a Metropolitan group life plan have some provision for continuing life insurance after retirement, and that this was true of policies originally purchased by the employer directly as well as policies purchased as a result of collective bargaining. He pointed out that life insurance needs are different after retirement and that reduction programs, including gradual reduction programs, are proper.

Discussing postretirement medical care benefits, he expressed the opinion that solution to the problems involved would be forthcoming because of the varied experimentation being carried on. Metropolitan experience has been that full hospitalization insurance for retired employees costs about three times as much as for active employees, surgical coverage about twice as much, major medical coverage for retired employees about six times as much, and major medical coverage for dependents of retired employees about twice as much. Reduction of medical care coverages at retirement is not justified by a reducing need to the same extent as reduction of life insurance benefit, but is a compromise necessary because of costs. Arrangements whereby full insurance is kept in force give rise to extra costs to the employer or the employees, or to the community under Blue Cross plans. Regarding the conversion privilege, an individual policy standing on its own feet, and without controls, would have a prohibitive cost if issued to retired people.

Mr. Fitzhugh mentioned several alternatives to the costly continuation of full benefits. The duration of hospital benefits might be limited to much shorter periods to avoid use of them as a nursing home benefit. Coinsurance and deductible provisions, if used, might take into account the lower income of retired employees. A new method, which other companies have also used, makes part of the value of the life insurance continued for retired employees available to pay hospital and surgical benefits.

MR. D. W. PETTENGILL said that most of the employers who are providing postretirement medical care benefits are doing so as the result of a union demand and that at least one prominent union has demanded full continuation of active employee benefits on a pensioner-pay-all basis. Many employers have acceded to this innocent-sounding demand without realizing that what labor intends is that the pensioner merely make a contribution equal to the billing rate for the active employee benefits, leaving the employer paying the entire extra cost of the pensioner benefits. An approach was recommended which provides retired employees with a modest plan of hospital and surgical benefits that can be liberalized if future experience so warrants.

The Aetna Life has over 400 major medical plans in force, most of which do not provide benefits for pensioners. In two cases, both the basic hospitalization benefits and the major medical benefits are continued at retirement. In five other cases, the basic hospitalization benefits are discontinued and just the major medical continued.

Several reasons for favoring this latter approach were given. First, pensioners need the broad protection this plan affords. They have even more catastrophic illnesses than do active employees. Second, major

medical has built-in cost control factors that most basic plans lack, namely, deductibles and coinsurance. Finally, a straight major medical plan should cost less than full continuation of a complete plan of basic hospitalization benefits.

MR. J. W. MORAN said that, of the specifications received by the New York Life from brokers and employers for preparation of quotations, about 50% of the hospital-surgical type and about 25% of the major medical type include questions about coverage for retired employees. The percentage of employers buying such coverage for their retired employees is smaller than these figures, cost being the principal deterrent.

The New York Life provides hospital-surgical benefits for certain of its own inactive agents over age 65 and hospital, surgical, diagnostic, and major medical benefits for its retired employees.

Their general policy is to make some form of retired coverage available for virtually all employers (excepting the smallest), subject to certain underwriting requirements. The employer must be aware of and able to assume the cost, employee contributions are kept at a modest level, retired employee coverage is maintained on a self-supporting basis to the extent possible, and certain requirements with respect to eligibility, participation, and administration are imposed.

Experimentation with retired coverage under major medical plans is restricted to those employers with several hundred or more active employees. Where benefits are limited for retired employees the recommendation is that the coverage of certain types of expense, such as private nursing, be reduced rather than that the deductible or coinsurance levels be adjusted.

Separate scales of premiums rates and separate records of premiums and claims are maintained. Mr. Moran estimated the ratio of incurred claims per retired employee to incurred claims per active employee to be 350% for hospitalization coverage, 150% for scheduled surgical coverage, 200% for unscheduled surgical coverage, 300% to 600% for other medical expense coverage, and 500% for major medical coverage supplementing basic coverages. He cited an analysis of experience which tends to verify the reasonableness of these percentages.

Commenting on Mr. Freedman's discussion, Mr. Moran said that the principal reason that full retired coverage is not usually sold is that the employer is unwilling to face the cost picture.

MR. D. D. CODY, speaking on section C, outlined the New York Life program for groups of less than 25 lives. The sales and service functions are performed, for the most part, by the company's regular agents, the salaried group field men being restricted to branch office education and

promotion activities. The major features of their program include availability of medical care, loss of time, and life insurance, a requirement that life insurance be included in each package, restricted choice as to classes and benefit levels, incentive plans for agents, managers, and salaried group field men, and streamlined installation and administration. The latter incorporates the use of standardized printed material, a machine billing procedure which lists employees by name and bills on a per employee rather than average premium basis, an annual service report for the agents' use, branch office claims payment, and a centralized home office division operated exclusively for these groups.

Mr. Cody estimated that his company was writing new cases in this class at the rate of 100 to 150 monthly and that 35% of their production club agents have sold this plan. His company also found it was possible, by appropriate selection of individual and group policy forms, to issue this program in all 52 jurisdictions in accordance with a single set of premium rates, underwriting rules, administration, service, and sales procedure. This product is also extended to groups of 25 to 50 lives, although more flexible coverage is also available, in the hope of reducing expenses in this area.

When this program was initiated in 1953 a nonmedical application was required for each life. If the average rating for the group as a whole was less than a specified tolerance limit the group was accepted as applied for; otherwise, amounts were reduced or lives excluded until the tolerance limit was met. Underwriting action hinged on acceptability for life insurance. The procedure is now liberalized so that, generally, information is obtained only for individuals over 65 and for those with $5,000 or more of insurance. Nobody is excluded for underwriting reasons but amounts are reduced to half the scheduled amount. This means that no underwriting is used for the Accident and Sickness coverages.

MR. R. A. MILLER said that the Aetna Life, for groups in the 25 to 49 lives class, is offering to write a large number of the standard plans, including Paid-up Group Life and major medical expense benefits. Most of the underwriting restrictions are aimed at limiting the maximum amount payable for limit claims. The maximum duration of weekly benefits is limited to 26 weeks, the maximum amount of weekly benefit to $50, the maximum duration of daily benefit to 70 days, and the maximum amount of miscellaneous fees to 20 times the rate of daily benefit plus 75% of the next $1,000 of such charges.

For groups of from 10 to 24 lives, the rules are somewhat more restrictive. For these groups, the plan of insurance must always include life insurance and an equal amount of accidental death and dismemberment

insurance on a full coverage basis, using only a few extremely simple schedules.

Disability benefits may be included in the package, but only for groups outside the "cash sickness" states. Only a limited number of plans, all of which must include the standard maternity benefit, are offered and all employees must be insured for the same amount of weekly benefit. When benefits of the hospital-surgical-medical type are included in the plan, they must include both employees and dependents. Most of the packages include diagnostic X-ray and laboratory, supplementary accident, and polio benefits. Maternity benefits must be provided for both employees and dependents. Benefit schedules are predetermined for each package.

MR. A. M. THALER described the Prudential's "Employees Security Program" which is aimed at the employer with 4 to 24 employees. Individual policies are used in the United States and a group form is used in Canada. One important objective is to use the company's agents rather than group specialists and, to the extent possible, the program design incorporates individual policy techniques which are familiar to the agent. In most states, a combination Life and A & S policy is used which permits the use of one record card and the collection of one premium.

Ordinary agents are restricted to a 10 lives minimum. Only debit agents are permitted to write down to 4 lives. Each case is assigned to an agent on whose debit it is located and this agent collects the premium and services the policy. It is hoped that this procedure will improve the persistency of these policies. The compensation system is made up of a selling commission, no renewal commission, a servicing commission, and an enrollment fee for each new employee added.