GROUP INSURANCE

A. What modifications of standard underwriting controls and administration practices are necessary in insuring groups of less than 25 lives in order to operate at a satisfactory cost?
B. What has been the claim experience in those groups? To what extent can experience rating apply? What practical lower limits in number of employees for group insurance are now deemed appropriate?
C. What has been the experience of companies writing hospital plans guaranteeing semiprivate accommodations and providing unlimited extra charges? What special provisions are felt necessary in underwriting these plans?
D. What success have companies had with the introduction of new forms of group accident and sickness benefits, *e.g.*, major medical and deductible?
E. What has been the experience of companies permitting the conversion of group accident and sickness benefits?

MR. P. F. FINNEGAN explained the practices of the Prudential for groups of from 4 to 25 employees. Individual policies are used and individual applications are secured from the employer as well as from each employee.

The program includes Life Insurance with Accidental Death and may also include Weekly Income Benefits for employees and Hospital and Surgical Benefits for employees and dependents. In most states the whole package has been issued in one policy. Life insurance up to $10,000 is available on either a flat plan or, with certain restrictions, on a plan with two different classifications based on position. Weekly Benefits are available up to $30.00 on the flat plan and $35.00 on the position type plan. Hospitalization on an indemnity basis is available up to $15.00 a day for room and board on a flat plan only. A maximum allowance for additional hospital expenses is provided up to fifteen times the daily room benefit. Polio and In-Hospital Medical Benefits are also included, provided Hospital and Surgical Benefits are part of the plan.

Premium rates for all the coverages are graded in five-year groups at ages 40 and above. Life and Accidental Death rates approximate Group rates of companies operating in New York State, while the rates on other coverages are slightly higher than standard Group rates.

The maximum employee contribution is the below age forty rate for Life and Accidental Death and 85% of the below age forty rate on the other coverages. At least 75% of the eligible employees must apply. Although individual underwriting is used, acceptance standards are rather liberal.

District Agents who write debit as well as ordinary insurance are the only agents permitted to sell to groups of less than ten employees.

In addition to a first year commission rate of 20%, the agent is paid $1.50 for each new application secured. Nonvested conservation commissions are also paid each year at the rate of 3½% for Ordinary agents and 6% for district agents. All servicing is done by the agent receiving the conservation commission.

Mr. Finnegan stated that this new program has been well received by the field force and the sales results so far have been very satisfactory.

MR. D. D. CODY explained the program of the New York Life for groups of from 10 to 24 lives. He emphasized that simplification and standardization to the utmost are necessary in all phases of sales, underwriting and administration.

New York Life issues Life, Weekly Indemnity and Medical Care plans with a minimum of choice as to benefits, eligibility, *etc.* These plans are underwritten, billed and administered by a centralized Home Office unit. Although promoted and taught by salaried group field men, they are sold and serviced by the Ordinary agent under the direction of his manager.

Mr. Cody stated that originally individual evidence of insurability was required for each life to determine an average mortality rating to be tested against a tolerance of 200%. To meet this tolerance, amounts may have been reduced or lives excluded. A year's experience convinced New York Life that individual evidence was needed only with respect to lives over age 65 and to amounts exceeding $5,000. If the average mortality rating for a group exceeds the tolerated mortality the amount of life insurance is halved. No individual evidence is used for Accident and Sickness coverages.

Certificates and policy forms consist of pages requiring a minimum of typing of the face page. The billing is prepared by IBM machines.

Commissions are paid on a high first year, low renewal basis and the renewal commission is composed partially of a payment to be made only if the agent sends back proper service reports to the Home Office. In addition, incentive compensations are paid to branch managers and group field men so that they will pay sufficient attention to their responsibilities to this product.

The claim experience has been very satisfactory so far and Mr. Cody noted that his company would like to run this business with a loss ratio of less than 70% in the long run. They are currently realizing this.

Because of the low credibility attached to the experience on any

one group and because of handling expenses it does not appear feasible to do any experience rating on individual cases.

Mr. Cody pointed out that although at least ten lives are required at issue, there is no undue concern if participation later falls below this figure as long as the remainder exceeds 75% of the eligible. In his opinion, some group companies will permit this business to be extended satisfactorily to groups of less than ten lives as long as standardization and selection procedures are rigidly adhered to.

MR. C. H. WAIN confined his comments on sections A and B to the operation of the Prudential's plan that has been operating solely in California for about four years. He, too, emphasized that a maximum of standardization in all phases is necessary.

It is essential, Mr. Wain noted, that the servicing responsibility for a case be taken by the writing representative. Hence, the 5% commissions for renewal years are on a nonvested basis.

The choice of Hospital and Surgical Benefits is limited to three plans. Since there is little legitimate market in California for Accident and Sickness weekly income benefits these are not offered.

Separate rates are charged for male and female employees. The same rate is charged for male employees with dependents as for female employees with dependents. Mr. Wain stated that life insurance was written on a flat plan with a maximum of $4,000 without evidence of insurability. In additon, plans providing lower amounts for women than for men are offered. Where evidence of insurability is required a mortality rating of not over about 180% is considered acceptable.

The loss ratio on life insurance has been about 40%, the expected mortality being based essentially on CSO rates with a full constant loading. Casualty experience on an incurred basis was about 79% of Group Manual rates, or 71% of loaded rates, at the end of the third year of operation. There has been a slight upward trend from year to year.

Individual records of the experience on Casualty benefits for each policy year are kept. The claim ratios of each case are reviewed periodically and, as a practical matter, those which are around two or more standard deviations above average are further investigated. If the cause is a large number of small claims, the rates would probably be increased, especially if the adverse experience has persisted. If, however, the cause is a single large claim not due to significant antiselection, there would probably be no action taken.

He mentioned that, as far as life insurance is concerned, no experience rating for the individual case is possible.

Mr. Wain also spoke briefly on section E. He stated that the Prudential

has for some years had the conversion privilege to an individual Hospital and Surgical policy available by endorsement to the master contract. This privilege, however, has not been accepted too enthusiastically by either the employer or the employee. The group policy in many instances takes care of benefits during layoffs and retirements and, in the case of terminations, the employer often feels no continuing responsibility toward the cost of employees' medical care. The employee in good health feels he can get more favorable rates elsewhere, while the employee in bad health will, in many instances, be continued under the group policy.

He also mentioned the very high lapse ratio on conversions which the Prudential has experienced. In 1955 this ratio was about 37% in terms of average in force.

Rates were designed to be self-supporting, thus intending to avoid a conversion charge against the employer. Employers are warned, however, that such a charge may become necessary. Although the experience as yet is not reliable since under 100 employers have added the endorsement and under 500 converted policies are in force, there is no indication that the conversion charge will be necessary.

MR. W. V. HAUKE, in his discussion of section C, stated that the Continental Assurance Company has been issuing Group Hospital Plans with unlimited extras for about eight years and full service plans for about five years. He defined a full service plan as one guaranteeing semiprivate accommodations and providing unlimited extra charges. The Company has about 325 cases with unlimited extras, only 75 of which are full-service type plans.

Plans with unlimited extras are restricted to groups with 100 or more lives, while those of the full-service type require 200 lives and stipulate that the Hospital experience be packaged with other coverages, including Life Insurance.

In order to determine a proper semiprivate rate for an area, either reports from agents or servicemen in the area, the Company's files, or published surveys and reports are relied on to obtain the necessary data. He warned that averages contained in the annual report by the American Hospital Association should be used with caution and probably should be modified and projected.

While initial rates for unlimited extras are usually without variation by area, Continental's experience has shown that an increased rate may be necessary in areas where the extras are more extensively utilized or overpriced.

Mr. Hauke pointed out that certain contract limitations are necessary

in a plan providing unlimited extras, and cited limitation on the amount of reimbursement for a blood transfusion as an example. Conversions are restricted to clients having stipulated daily benefits and stipulated maximums for extras.

A study of the Continental's unlimited extra claims was made for the calendar year 1955. Maternity claims were excluded. The survey covered about 8,000 employee claims and 13,000 dependent claims.

Mr. Hauke compared the average claim costs for various assumed maximums with the comparable costs from Gingery's 1950 study. For example, with a maximum of $10.00 Continental's average claim is 97.2% of Gingery's; for an unlimited plan Continental's average claim is 124.9% of his. For maximums in between, the percentages increase in regular fashion. The experience on dependents is quite similar to that on employees.

Mr. Hauke gave as the reason for Continental's lower averages at the low maximums the fact that while the frequency of hospital confinements has increased over 1950 the confinements have been of shorter duration. The effect of this increase is to reduce the averages for all maximums. However, at the higher maximums, Continental's averages are appreciably greater than Gingery's due, Mr. Hauke believes, to a greater utilization and a greater cost of extras on the longer term confinements.

While Continental's over-all experience with this type of plan has been good, Mr. Hauke cautioned that it is a type of plan requiring careful scrutiny at its inception and periodically thereafter in order to keep it profitable.

Mr. Hauke then turned to section E, stating that the Continental has had a conversion privilege in their Group Hospital policies since 1945. At the present time about 6,400 of these policies are in force, of which, according to a study made in the early part of 1955, 37% were issued to individuals age sixty and over. This indicates that the conversion privilege is well used as a means of continuing coverage on retirees.

He noted that the lapse rate on this type of business is quite high, being over 20%. He suspects it is higher at the younger ages than at the older, since much of the coverage is used as interim coverage between group plans.

In the individual policy which the Continental issues the right is reserved to refuse renewal on any anniversary date. There is no initial underwriting and very little "post claim" underwriting. There is no provision in the group contract for charging back adverse experience on conversions to the group, nor is there a conversion fee to the policyholder for each of the convertees.

Since the clause allows the insured to convert to the same plan as was in effect under the group there are a multitude of plans in force. Allowance is not made for conversion to service type plans. The individual policies cover only Hospital and Surgical benefits. Maternity is included where it existed under the group contract. The convertee has no choice in selecting benefits, although he can elect not to cover his dependents, even if they were covered under the group. Conversions on supplementary Major Medical are not allowed, but conversions to a regular plan as stipulated in the contract are allowed on comprehensive plans.

Originally the rates were between 15% and 75% higher than current group rates, averaging 30% higher.

Mr. Hauke then demonstrated that the experience on this class of business has been increasingly poor, the incurred loss ratio as a percentage of individual gross premiums increasing almost in arithmetic progression from 88% in 1952 to 119% in 1955. Expressed as a percentage of current Group Manual gross premiums, the corresponding ratios are 114% and 155%.

Their experience, according to Mr. Hauke, convinced them that anti-selection was due to two classes of business, namely, older ages and women in the productive ages. Hence, when a rate revision was introduced in 1955, the new scale incorporated higher premiums for ages at issue sixty and older. The new rate scale is about 175% of group rates below age sixty and 300% above sixty, and applies to both new and renewal business. Since the rate increase, the lapse rate for those individuals faced with a renewal increase has been 40%, or over twice their normal lapse rate.

Mr. Hauke concluded that the conversion clause is a valuable and necessary sales tool and is well appreciated by the Continental's agents. He feels that it is an answer, temporary and inadequate as it may be, to the ever growing problem of continuing Health coverage on retired employees.

MR. J. K. KITTREDGE's discussion pertained to sections C and D. He stated that while the Prudential has certain clients for whom hospital plans guaranteeing semiprivate accommodations and providing unlimited extra charges must be written, insurance companies should concentrate on the sale of basic hospital plans which provide coverage on a reimbursement basis within fixed dollar limits. They attempt to persuade the policyholder to have coinsurance apply to extra charges which are in excess of twenty times the daily room and board limit.

He suggested that certain inside limits and exclusions be made a part of plans providing for unlimited extra charges. Examples of these are limiting payments for tuberculosis and nervous and mental disorders

and limiting the duration during which the charges will be covered to the period for which room and board benefits are payable.

The claim frequencies on several large cases in the rubber industry which provide for full semiprivate accommodations and unlimited extra charges run considerably in excess of those on the balance of their cases. Furthermore, Mr. Kittredge noted that the average daily room and board rate for both employees and dependents increased about fifty cents from 1954 to 1955, pointing to the impossibility of providing for any control over the rising costs and hence over the increasing policyholder's net cost due to inflation.

The Prudential believes the answer to this problem is Basic Major Medical coverage which contains both deductibles and coinsurance and which is not superimposed on other basic coverages. During the first four months of 1956 over 62% of the new Major Medical coverages sold by the Prudential have been Basic Major Medical plans, the most popular form of which contains no deductible applying to hospital charges but does contain a $50.00 deductible applying to all other expenses. By removing the deductible on hospital charges an easy transition is provided from the old style basic plans.

MR. R. H. HOFFMAN, in answer to the question regarding the success of companies with Major Medical Expense Insurance, pointed out that the number of policies in force in the Equitable has increased steadily from fifteen in December 1952 to five hundred twenty in May 1956. Correspondingly, during the same period, the number of employees and dependents covered has increased from 41,000 to 430,000.

In 1951 the Equitable sold this business only on the in-hospital plan and usually limited eligibility to higher salaried or supervisory personnel. In some cases dependent coverage was excluded and the plan was almost always supplemental to an Equitable base plan. The standard maximum was $2,500 or $5,000, and coinsurance was 75%–25%.

Mr. Hoffman then noted the liberalization of coverage during the succeeding years in many phases of the plan, including eligibility, maximums and extension to out-of-hospital patients. He stressed the latest trend resulting from the increased demand for plans with a low deductible which replace rather than supplement base plan coverage. The Equitable terms these Health Care plans, and during 1955 and the early part of 1956 3% of the 350 cases sold were of this type.

Mr. Hoffman feels that the Health Care plan provides the most real insurance protection for the premium dollar and, since it is simply designed, can be easily understood by insured employees.

The Equitable uses a calendar year benefit formula with either a

flat deductible of $25.00, $50.00, or $100.00, or a variable deductible such as 10% of monthly earnings with limits of $25.00 and $250.00. Often coverage includes a flat normal maternity benefit which contains no deductible or coinsurance and which is usually desired when the Health Care Insurance replaces a conventional base plan that provided maternity coverage.

Another type of health care plan being recommended, but not as yet sold, by the Equitable is the Family Budget plan. Under this plan the total covered charges incurred by an employee and his dependents for all illnesses are combined each month and benefits are paid on a co-insured basis for those expenses which exceed the monthly family deductible. The deductible is applied each month and may be either the flat or the variable type, similar to those mentioned above.

Although not very many Major Medical plans cover pensioners, the Equitable recommends a maximum benefit of not more than $2,500 in a lifetime and a careful definition of hospital so that rest homes and nursing homes are excluded. Because of the lack of an adequate statistical base for cost estimates, Mr. Hoffman urges caution in moving ahead too rapidly in this area.

Although slow to develop and far from mature, the Equitable's claim experience for the Major Medical business as a whole has been satisfactory.

Many problems are still be to worked out, but the Equitable expects tremendous further growth in the future with increasing interest in the Health Care plan.

MR. H. F. HARRIGAN concurred with Mr. Hoffman as to the growth of Major Medical, stating that today over 400,000 employees and their dependents are covered by the Metropolitan. This is over 20% of the total number of employees covered by this company for Hospitalization Insurance.

In contrast with the reluctance which employers formerly had about contributing a large share of the cost, today Major Medical coverage is frequently a matter of collective bargaining with employers contributing a substantial portion of the cost. Furthermore, whereas originally the primary appeal was to the higher paid personnel, it is now enthusiastically accepted at all wage levels.

Mr. Harrigan also noted the increasing interest in the type of plan which replaces rather than supplements base plan coverage. The Metropolitan calls these Comprehensive Medical Plans.

In discussing these plans, he stated that more employers are recognizing that for the same amount of premium required for combined basic

and Major Medical, the deductible and coinsurance amounts can both be liberalized.

Mr. Harrigan reported that the Metropolitan has had satisfactory claim experience under its Major Medical plans up to the present time, but warned that it is still too early to predict that this favorable experience will continue.

Referring to deductible hospital plans, Mr. Harrigan pointed out that the Metropolitan has used this approach only in cases where the local pattern of medical care resulted in a high frequency of hospitalization, particularly for minor ailments. So far the introduction of a deductible in the hospital portion of the plan has had a salutary effect on the experience.

MR. J. B. WALKER's remarks concerned the progress of Major Medical in Canada. Perhaps due in part to the difference in income tax laws between the United States and Canada as they relate to medical expenses, Major Medical has proceeded at a slow pace. In Canada employee contributions are not deductible. However, all qualifying medical expenses in excess of 3% of net income are deductible whether insured or not. This results in a tax rebate that increases with increasing income and, taken in conjunction with insurance benefits, tends to lend a greater degree of adequacy to regular basic plans, especially for the higher salaried employee.

This particular feature of the Canadian Income Tax Laws presents a formidable problem in designing a Major Medical or Comprehensive Medical Plan for use in Canada that is adequate without being redundant. Mr. Walker demonstrated that if the United States form of plan is adopted a higher paid employee with a substantial claim would derive a profit. This profit can rise to as high as 15% of expenses incurred where such expenses come close to the maximum amount for which income tax relief is applicable and the incomes are over $20,000 per year.

Mr. Walker then questioned whether any company or consultant can conscientiously advise a client to adopt a plan of this type for use in Canada unless the client is amply warned of the highly speculative nature of the risk, due to the lack of effective coinsurance, and of the resultant possibility of a substantial future increase in the cost of the plan. Moreover, he continued, how does one justify the redundant benefits gained by the few who are most able to bear medical costs at the expense of the many who can least afford them?

He mentioned the possible effects which this income tax rebate will have on the ultimate costs to Canadian firms and employees. The majority hold that since the tax rebate is often deferred a year or more

and, at best, is realized only as a monthly reduction in the income tax deducted from payroll, the effect will be negligible. However, from another point of view, the individual is well aware of the tax rebate and will take it into consideration in deciding upon the quality of service he can afford, particularly if he is in a high tax bracket. In any event, Mr. Walker feels that until actual experience can supply the answer the most prudent course to follow is one of caution.

MR. H. A. LACHNER stated that the Metropolitan began offering a conversion privilege to Group Hospital and Surgical Insurance policyholders in September of 1954. All conversions are issued nonmedically and on direct application of the certificate holder; hence, there is no provision for any commissions, underwriting or district office expense.

Individual policies offered to lives aged 60 and over restricted the maximum duration of Hospital Daily Room & Board Benefit to 31 days, and reimbursement for Special Services to five times the Daily Benefit. Otherwise, customary coverage of ten times for Special Services was provided on 31-day, 70-day and 120-day plans. Inclusion of Dependents' Coverage is permitted only where previously in force. If only Hospital Expense was previously provided, Surgical Expense cannot be included in the converted policy, and vice versa.

Mr. Lachner noted that the policyholder is advised that a special charge for worse-than-expected morbidity experience may be required. In the event this charge becomes necessary, it will be made only during the first policy year of the converted policy. This provision has tended to deter widespread adoption of the conversion privilege, but the volume of business has been showing a continuous increase. The number of policies and annual premiums in force as of April 30, 1956 were 3,027 and $249,779, respectively.

The small experience available showed a high degree of persistency at age 60 and over (90% of policies remained in force for 12 months), but a high lapse rate at the younger ages (at ages at issue 31 to 59, only 63% of policies remained in force for 12 months). For all ages combined, claims were 55% of the premiums.