Major Medical Expense Insurance

A. What are the trends in the types of plans being sold?
B. What is the extent of the popularity of the comprehensive type of medical expense insurance plan?
C. Are any special problems developing and how are they being met?
D. Is any check made on the health of dependents of prospective employees when such dependents may be covered under a major medical expense insurance plan?

New York Regional Meeting

MR. ALAN M. THALER reported that 75% of the major medical cases sold by the Prudential in 1958 were of the comprehensive type. This ratio was not uniform geographically or by size of group. In general, comprehensive major medical seemed more popular in the West and Midwest than in the East. Also, the proportion of comprehensive sales was higher for small and medium size groups than for large ones. This is evidenced by the fact that only 45% of the employees insured had comprehensive coverage. This pattern is very similar to that for 1957.

Comprehensive major medical coverage continues to be popular. There is a little more interest in inside limits and controls. The 20% coinsurance factor is pretty standard for plans sold today.

The major problem is control of the claim experience. The very nature of major medical encourages better and more costly medical care and we can look forward only to a continued rise in the cost of this type of coverage. A recent sampling of Los Angeles claims showed that 45% of the surgical charges exceeded the California Relative Value Schedule with a $6 unit value. The level of fees, however, is only a part of the problem and perhaps the smaller part. Even more important is the high utilization rate of medical services which is encouraged by major medical plans which are being written today. Unless we can educate insureds and physicians to exercise reasonable restraint, the cost of major medical plans may ultimately get beyond the ability or willingness of the policyholders to pay.

MR. JOSEPH W. MORAN agreed with Mr. Thaler that comprehensive type plans continue to be popular in spite of the more realistic and less attractive rates being offered currently. There seems to be greater emphasis on sound plan design and on selling plans which the policyholder can afford both now and in the future. In connection with this, some existing plans are being revised along pure major medical lines by eliminating areas of 100% benefits. While the proportion of such charges is small, it appears to indicate a step in the right direction.

Another development, particularly in California, is the inclusion of some variation of the California Relative Value Schedule in the major medical policy. The policy usually provides coverage of surgical fees up to some multiple of the Schedule without coinsurance, and coverage of 80% of other types of charges.

In connection with section D, the New York Life's standard major medical policy includes a pre-existing limitation. On large cases the employer is given the option of having this restriction removed, but it is pointed out to him that retaining this limitation for future new employees and their dependents is in his interest as well as the insurance company's.

MR. BURTON E. BURTON said that the Aetna, in the spring of 1958, intensified its effort to sell comprehensive plans which apply the deductible and coinsurance features uniformly to all expenses. Results were encouraging. Sales of this type of comprehensive plan represented 44% of all comprehensive sales to cases with 50 or more employees in the last 6 months of 1958 as compared to 24% in the first 6 months of 1958. This type of comprehensive plan is required for cases with less than 50 employees.

MR. WILLIAM H. BURLING stated that The Travelers is writing more benefit period plans than calendar year plans. The most popular comprehensive plans are of the hospital in-full variety but there appears to be an interest developing in across-the-board deductibles.

While calendar year plans are popular with employees, The Travelers feels that they can prove to be a luxury that few employers can afford.

One problem is the matter of duplication of benefits. The Travelers uses a standard nonduplication clause but, in some cases, has run into employer resistance to the exercising of that provision. Another problem is the control of psychiatric expenses where The Travelers has introduced inside limits for certain risks.

With regard to section D, The Travelers has not investigated the health of dependents of prospective employees and doubts that it is worth the expense.

MR. WILLIAM S. THOMAS said that the Metropolitan, in 1958, sold more major medical plans of the comprehensive type than of the supplementary type. On the other hand, of the employees insured for major medical at present, only one-third have comprehensive coverage.

A variety of comprehensive plans are being sold. Some have a pay-in-full area under the hospital portion with a deductible applicable to other expenses. Others have a smaller deductible applicable either to hospital charges alone or to hospital and surgical charges combined, with

or without a pay-in-full area. The Metropolitan recommends that there be some deductible applicable to each of the component parts. In general, it appears that the comprehensive type of coverage is becoming more popular and has become widely accepted by both employers and employees.

One problem which exists in this type of coverage, and which we are all aware of, is the absence of any specific schedule of benefits. Mr. Thomas believed this presents a real challenge to the insurance industry and requires the full cooperation of the insurance industry, employees, employers, and the providers of medical service. To illustrate the type of cooperation required, he referred to the provision which requires that, in determining the benefits under a major medical plan, any expenses which are covered by another insurance plan will be excluded. At first this provision seems to be unnecessarily restrictive, not only to employees but also to employers. After it is explained in detail, not only is it accepted as a sound principle but both employers and employees would be quite disturbed if this nonduplication provision were removed.

Proper initial explanation and continued education are necessary conditions for the successful operation of major medical plans.

In connection with section D, a standard Metropolitan major medical policy provides that if a dependent has been confined in a hospital or any institution or has been under the care of a physician or surgeon because of a disabling mental or physical illness or injury within 31 days preceding the effective date of the employee's Dependent coverage, the insurance for that dependent will become effective on the date evidence of his insurability is accepted. This provision has worked out quite well.

MR. W. WALTER MINCKS reported that the Equitable had, during 1958, an increase in force of just over 500 major medical cases of which approximately 50% were of the comprehensive type, about the same as 1957. He agreed with the previous speakers that a more conservative trend was being followed at present in underwriting major medical. Nearly always 80%–20% coinsurance is used and calendar year deductibles are the most popular. Supplementary plans usually have a $100 corridor deductible or are on an integrated basis with a $300 or $500 deductible.

Claim experience has been spotty. In an effort to control claims, the Equitable has introduced a pre-existing exclusion clause and a nervous and mental disease restriction for all of the smaller cases. The pre-existing exclusion covers injury or sickness which existed within three months before the effective date of the employee's insurance except that the exclusion will not apply to any charges if the employee has been free of

treatment for a period of three months or if he has had 12 months of continuous coverage. The nervous and mental disease clause restricts the amount of benefit for psychiatric treatment while not hospital confined to 50% of the covered charges to a maximum of $10 per visit and a total reimbursement in any 12 consecutive months of $500.

It appears to be more and more difficult to evaluate some of the unusual losses in the smaller group area. The claim trend is different from anything observed in other coverages. There have also been excessive loss ratios on a few medium sized cases. As a result, the Equitable is compiling data on cases that seem to present unusually high claims, in the expectation that new occupational groupings may be determined as an aid to underwriting group major medical plans.

Omaha Regional Meeting

MR. ALEXANDER B. MARSHALL said he has found that trends depend to some extent on the particular area of the country. He believed that the Midwest is a little behind the West Coast in accepting major medical. He has found some trend away from the very liberal type coverage where deductibles are waived and coinsurance is waived. There has been little market for comprehensive in the negotiated labor-management cases. A few cases which had previously changed from basic coverage to comprehensive are now switching back to basic coverage because of adverse experience or dissatisfaction with particular claims handling.

Application of the "fair and reasonable" clause has presented problems and, so far, has not been too effective. However, it appears some gain is developing in the enforcement of the clause. The clause which limits coverage on pre-existing conditions has led to misunderstanding, particularly on cases previously insured with another carrier. The scope of coverage is misunderstood by some insureds. Many feel that all medication is covered whether or not the drug required a physician's prescription. Others expect any type of nurse to be covered, whether registered or not. If exceptions are made in these situations, an undesirable precedent has been established for the future.

Although he believed the principle embodied in the "double coverage" exclusion is desirable, in practice it is very difficult to operate. A better means of obtaining and exchanging information on other coverage as well as greater standardization of administration of this provision within the industry will be needed.

Mr. Marshall also pointed out that the Occidental is not using on major medical the hospital admissions form prepared by the Health Insurance

Council. This has led to some dissatisfaction among policyholders but, with limitations on pre-existing conditions, with deductibles and coinsurance, and with higher limits than on basic, they think there is too much risk involved in its use.

The clerical expense of processing major medical claims is much greater than on basic plans. This is an item that should be reflected in premiums and retentions.

MR. ALDEN W. BROSSEAU reported the distribution by type of plan of the comprehensive and major medical sales in New York Life during the first three months of the year. These showed, on comprehensive, that the great majority of plans involved a waiver of the deductible on hospital charges and a waiver of coinsurance on the first $500 of hospital charges and that nearly all plans defined the maximum on a "per cause" basis; 94% of the plans used a 12 month accumulation period for the deductible. Among the supplementary type major medical sales, 75% based the deductibles on "each cause" and the balance used the calendar year approach; 60% used the corridor type deductible while 40% defined the deductible as the greater of basic plan benefits or a flat dollar amount.

In new proposal activity, which is the best reflection of trends, the results vary by geography. In the south and southwestern United States the interest is still high in plans which waive the deductible on hospital charges and waive coinsurance on the first $500 of hospital expense. On major medical plans in these areas the corridor type deductible is not popular. In the balance of the United States, a greater acceptance is found of uniform deductibles and coinsurance. In the Midwest and West benefit limitations are more acceptable. These include limitations on pre-existing conditions and, on the West Coast, some acceptance of a surgical schedule. In Canada the interest centers around a major medical plan supplementing the Canadian Hospital Services plan with a $50 corridor deductible.

He observed an evolutionary cycle emerging in the marketing pattern of major medical and comprehensive. In the first phase, major medical in any form gains slow acceptance. When it is accepted, the supplementary type coverage or comprehensive with uniform deductibles and coinsurance will be the most popular. In the second phase, emphasis is put on first dollar coverage and deductibles are waived on hospital charges. In the third phase, coverage design reaches its peak in liberality and the deductible is also removed from surgical charges. The fourth phase results when the true cost of such wide-open plans emerges. In

this phase, plans are usually redesigned, returning to uniform deductibles and coinsurance, internal limits and greater limitations.

MR. WILLIAM G. SCHNEIDER confirmed the previous speakers' statements that the trend appeared to be away from the overly liberal plan designs on comprehensive. In the Bankers Life Company there is also a definite shift in interest toward the basic coverage plus major medical plan design rather than comprehensive. He pointed out that claim costs on both comprehensive and major medical had increased about 10% in the last year. This is definitely steeper than the trend on basic coverage.

He discussed the greater use of internal limits in the form of surgical schedules and hospital room limits which are not restricted to private room accommodations. Unfavorable experience has forced greater restrictions on psychiatric care.

Although the majority of major medical plans in his company have been written on a period of disability basis for the deductible and maximum, the calendar year deductible is also used widely and, on comprehensive, almost universally.

The most critical problem with this coverage in his opinion is the rapidly rising claim costs which have required frequent rate revisions. Under the pressure of rate increase, policyholders have been more willing to accept plan revisions which provide somewhat greater cost stability. Mr. Schneider warned, however, that no medical coverage can be immune to rising costs, and these plans, even with greater internal limits, will likely be more vulnerable than basic coverage.

He emphasized the importance of developing a better method of statistical analysis of experience. If the various features of this coverage are to be evaluated properly, if rate levels are to be realistic and if adequate claim cost controls are to be established, adequate statistical analysis is essential.

MR. WILLIAM A. HALVORSON commented on three types of special problems of major medical and comprehensive insurance. The first of these is hospital confinement for relatively minor illnesses. Some insurers are applying a separate deductible of, say, $25 against each hospital confinement. Such an arrangement helps the doctor in his efforts to treat patients outside the hospital.

Another problem described by him is the tendency for physicians' fees to increase when comprehensive or major medical is in force. This is particularly true if the patient is in the lower income group, since the doctors have traditionally tended to charge less than normal for this

group and insurance provides a means to bring their charges up to their normal levels. To meet this problem, some have adopted surgical schedules which allow 60% to 80% of the physicians' normal charges. Charges above the scheduled amount may then be waived by the doctor if he has usually accepted lower than normal fees for this class of patient. Mr. Halvorson described experiments in certain California counties where, under certain conditions, the physicians have voluntarily provided a guide as to their charges for lower income groups, thus allowing 100% coverage under the major medical plan for these groups.

He also stressed the importance of greater statistical analysis of this coverage, expressing views quite similar to those stated by Mr. Schneider.

MR. HARRY L. SUTTON, JR. presented statistics which showed, by type of plan, the new issues of the North Central home office of the Prudential during 1958. These showed the vast majority were issued on the comprehensive plan, with the deductible waived on either hospital or hospital and surgical charges, with coinsurance waived on the first $300 or $500 of hospital charges and often with a surgical schedule included.

As was evident from his presentation, most requests from his company are for a generous comprehensive plan. It is difficult to include policy provisions which will restrain increasing costs; in some cases the employer himself insists on liberal plans and in other cases his bargaining position is such that he cannot impose greater restrictions on a benefit than existing service plans in force in his company. Mr. Sutton felt that efforts should be made to keep the employer aware of the cost differentials and claim protections of the different types of plan.