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Effects in Canada of Provincial Government Hospital Plans

A. What has been the effect on insurance company plans providing hospital benefits?
B. What new types of insurance have been developed and with what success?
C. Have there been any marked changes in premium income under insured plans since Janauary 1, 1959?

New York Regional Meeting

MR. PHILIP A. ALEXANDER opened the discussion by remarking on the contrast between the demand for supplementary hospital coverage in Ontario and that in Saskatchewan and British Columbia. In the latter two provinces, there has been little demand for any form of hospital insurance since provincial plans went into effect during the forties. In Ontario, on the other hand, there has been great demand for supplementation of the ward level governmental coverage. Effective April 1, 1958 Alberta introduced a universal scheme in substitution for a series of municipally operated plans, but subject to a long residence qualification which was removed when the Federal cost sharing took effect in July. A reasonable amount of coverage can still be written in Alberta, since the Alberta Plan calls for a $2 charge to the patient per day in hospital which can therefore be insured along with the semiprivate or private room charge differential.

The Manitoba Plan (introduced July 1, 1958) and the Ontario Plan (introduced January 1, 1959) are practically identical and have one important feature in common, namely, the prohibition by law of payment by any insurer of benefits which are "insured benefits" under the provincial plan, whether or not the person insured is covered under the provincial plan. However, particularly in Ontario, there is a substantial demand for supplementary room and board coverage to provide private or semiprivate accommodation.

Similar situations exist with regard to the Nova Scotia Plan (effective January 1, 1959) and the Newfoundland Plan (effective July 1, 1958) but, of course, the problem is not yet over. Quebec (involving a problem as large as the Ontario change) has not yet announced a plan, though rumors are rife; New Brunswick is expected to introduce a plan July 1, 1959; and Prince Edward Island is to introduce a plan at an unspecified date.

While there are some differences between provinces, the provincial hospital plans can broadly be described as providing room and board accommodation at ward level, plus all special services while hospitalized,

plus emergency out-patient services within a limited period, such as 24 hours, following an accident. If it is borne in mind that in British Columbia a charge of $1 per patient per day is made, and in Alberta a charge up to $2, a reasonably accurate picture is given.

From this it can be seen that the actual choice of supplementary benefits is quite limited. There is a fundamental choice between a basic type plan (possibly including supplementary major medical) and a comprehensive plan without basic first dollar coverage. If the basic type plan is chosen the benefits replacing the hospitalization benefit will take one of two forms: either a supplementary daily hospital benefit to provide for semiprivate or private differential room charges, plus an anesthetists' fee benefit, plus an X-ray, diagnostic benefit, the latter two to cover benefits formerly in the special hospital services definition but not included in the government coverage; or a traditional type hospital plan including special services at a daily hospital benefit rate of, say, $3 to $6, thus achieving a similar end.

The London Life considered that a simple form of comprehensive insurance, with deductible and coinsurance applying to all eligible expenses, these including hospital costs over and above the provincial plan as well as all the nonhospital expenses usually included, was a very suitable plan to supplement the provincial hospital plan.

Success with this approach is indicated by the fact that, for instance, 80% of Ontario groups who had hospital benefits took some form of supplementary hospital coverage, 67% of a basic type and 13% of a comprehensive type. This result is satisfying in the face of the favored position held by Ontario Blue Cross which is continuing to provide a semiprivate room and board differential in close cooperation with the Ontario Hospital Services Commission.

With variation of plans between provinces, and some provinces without hospital plans as yet, there has been a tendency for groups to subdivide into provincial accounts. Two variants of the comprehensive form tending to simplify this complication for the insurance company and for the employer of a widespread group may be of interest. If the deterrent fees in Alberta and British Columbia are excluded from coverage under the plan, then for all practical purposes the same premium rate can be used in all provinces with a provincial plan; indeed, if a countrywide employer is to maintain equity in a simple fashion between his employees in different provinces in the face of all the different financing methods involved, this approach almost becomes essential. Secondly, if in a province without a provincial hospital plan a traditional basic hospital

benefit is written which has an average value equal to the average value of an unlimited ward care plan, the same supplementary comprehensive rate can be used in all provinces (subject to the Alberta and British Columbia complication), and this approach has the collateral advantage of requiring merely the cancellation of the hospital benefit when the province introduces its plan.

In spite of a continuing attrition of hospital premium income during 1958, it was possible to maintain an increasing premium income by new issue of other benefits and, of course, of hospital insurance in the Eastern provinces. Nevertheless, Ontario is such a large proportion of Canadian business that a substantial drop in premium income in force could not be avoided as of January 1, 1959. The net loss will be approximately 10% of the peak prior in-force.

MR. FRANK W. BIESE indicated that the Metropolitan experience had been very similar to that described by Mr. Alexander. He mentioned that if ward care is excluded from a typical without-maternity-benefits hospital plan which covers semiprivate charges, the premium for the reduced risk is 15% of the premium for the semiprivate plan.

For employers who want to keep first dollar coverage, the Metropolitan is prepared to offer a room and board supplement for as long as 120 days to supplement the ward care, an anesthesia benefit and a special local ambulance benefit. However, it does not seem wise to maintain coverage distinctions for such minor benefits when the employee is already getting full ward care for an unlimited number of days. Consequently, a comprehensive major medical plan is being offered which will pick up the benefits not covered by the provincial plan on a 75% or 80% coinsurance basis after a deductible of $25 or $50.

The basic surgical schedule may be kept in force and surgeons' fees in excess of the scheduled amount covered under this supplementary major medical plan. Alternatively, the basic surgical schedule can be canceled and all surgeons' fees covered under the major medical plan. Desirable features of the latter approach are simplicity of design, few inside limits, as well as the well-known advantages of deductible and coinsurance.

The expansion of provincial plan coverage into the Eastern provinces has been of too recent a date to determine the success of these new plans from an underwriting point of view. From a sales point of view, many of the employers seem very much interested in the all-inclusive major medical approach and the Metropolitan has been successful in installing it on several groups. Other employers have tended more toward keeping their first dollar coverage.

There has been a sharp drop in premium income since January 1, 1959 in groups located in Ontario. An offset to this drop has been the installation of either room and board supplements, basic surgical schedules or the comprehensive plan described above.

MR. RONALD E. GALLOWAY agreed with the previous speakers that the adoption of government hospital plans in Canada has been the cause of considerable turmoil and of a large volume of extra work. He indicated that a considerable amount of comprehensive coverage has been sold but not as much as had been hoped for. There was a marked increase in the sale of superimposed major medical coverage, generally with a fairly low corridor deductible. There has been a considerable increase in the sale of fringe benefits such as diagnostic, anesthesia, ambulance, etc., and many companies have improved their schedules for other benefits such as group life, weekly indemnity, surgical and medical. Another development, about which the Great-West Life is anything but enthusiastic, is the sale of supplementary hospital coverage. Because the benefits under such coverage are low, the propriety of attempting to insure them, except under a comprehensive plan, is questionable. In recognition of this, the Great-West intended to stay out of the basic hospital expense field in those provinces where provincial plans are in force. However, union agreements, competition and other reasons have forced them into underwriting these plans.

Loss of premium has been considerable and it is estimated by various Canadian companies at 15% to 20% of their total group health insurance premium income in Canada. While this loss is substantial, it is believed that, because hospital insurance has had less favorable experience than other coverages, a more profitable operation can be obtained in spite of increased expense ratios.

Omaha Regional Meeting

MR. A. ROSS MACDONALD stated that government hospital plans are now or soon will be in effect in all provinces except Quebec. They provide basic ward care including special services, without limit as to period of confinement, to all residents of the province. Some provinces charge a premium (in Ontario this is $2.10 per month single, $4.20 married), others have imposed special sales taxes. The balance is paid from tax revenues, with the province and the federal government sharing.

Enrollment in Ontario is presently about 94%. Insurers are precluded from insuring ward care benefits but may insure additional charges for semiprivate or private room. Outpatient services are not covered except for emergency services following an accident. The effect of the provincial

plan was to make necessary a complete revision of insured hospital benefits.

The Imperial Life offered policyholders supplementary hospital benefits without special services up to $3 or $5 per day for periods of 31 days to 365 days. It also suggested major medical on a 25% coinsurance basis integrated with the provincial plan. The income tax situation in Canada reduces the effective coinsurance. About 60% of their policyholders took the supplementary hospital benefit, and 10% the major medical. A considerable amount of other business was written, in the surgical field particularly, and in diagnostic and X-ray benefits.

The cancellation of the basic hospital benefits reduced group accident and sickness premium income by about 35% in the hospital plan provinces, but more than half of this was recovered through revisions in coverage. There has been an increase in new premiums during 1959 over 1958.

The over-all effect has not been unfavorable, since the benefits lost were those showing the highest claim rates. There is danger, however, that the provincial plans may be expanded. Insurance companies must expand their coverage to give more benefits to broader classes.

MR. RONALD E. GALLOWAY repeated the discussion he had given at the New York regional meeting.