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INDIVIDUAL ACCIDENT AND SICKNESS INSURANCE

Changing Needs for A & S and Coverage on Older People

A. What changes in the scope of and market for individual accident and sickness insurance have taken place in recent years, and what revisions of policies and marketing procedures have been made or are indicated to meet changing needs?

B. Has the community enrollment procedure proved to be an effective means of extending insurance to persons age 65 and over? What has been the experience to date under such plans as regards volume of business, persistency and claim experience? What other measures have been taken to increase health insurance coverage on older people?

MR. CHARLES D. WILLIAMS presented a discussion concerning the Health Insurance Council's annual survey. In terms of number of people covered, the growth of individual Accident and Sickness insurance since 1948 has been dramatic. Hospital Expense coverage increased from 10 million people in 1948 to 20 million in 1953 to over 25 million at the end of 1958. Insured Group plans, and plans written by organizations such as Blue Cross, showed equally dramatic growth. Individual insurance represented a fairly constant share of the Hospital coverage market in the last ten years with the main shift being from Blue Cross to insurance company Group coverage.

For Surgical Expense coverage, individual insurance, Group Insurance and the Blues retained fairly steady proportions of the market over the last ten years, although Group did go down slightly while Blue Shield went up correspondingly.

In the newer and broader forms of coverage, individual coverage did not match the growth rates of Group Insurance. Major Medical did not appear until after 1948. In 1953, individual Major Medical coverage accounted for some 14 percent and Group 86 percent of the total number with this type of coverage. While individual coverage increased sixfold during the next five years, Group insurance went up even faster. By the end of 1958, individual share of the total had dropped to 7 percent with insurance company Group coverage accounting for the other 93 percent. In the loss-of-income field, Group Weekly Indemnity coverage has increased rapidly, more than doubling in the number covered over the last ten years; whereas individual coverage has remained fairly stationary, covering some 11 million people.

A final over-all measure of how individual insurance has met the needs of the public for health insurance is the total amount of benefit payments under individual Hospital-Surgical-Medical coverages. Benefits have quadrupled since 1948 reaching \$345 million in 1958. Similar Group coverage benefits have increased over tenfold over the 10-year period to about $1\frac{1}{2}$ billion dollars and benefits paid by the Blues and other insuring organizations are about six times their 1948 level. In terms of percentages of total Hospital-Surgical-Medical benefit payments, individual insurance declined from 16 percent in 1948 to 9 percent in 1958, while Group insurance increased from 22 percent to 38 percent and the Blues declined from 62 percent to 53 percent.

MR. JOHN S. THOMPSON, JR., pointed out the recent trends toward improved guarantees of renewability, lifetime coverage in the medical expense field, broader coverage in benefit provisions, and acceptance of medically substandard risks with full coverage at an extra premium rather than by exclusion riders. He said that four years ago New York Life had discontinued its series of commercial policies, introducing a new series of noncancelable and guaranteed renewable policies. Their loss-of-time plans are written with the traditional form of noncancelable provisions; the medical expense plans, however, contain the guaranteed renewable type of renewal provision under which the company retains the right to change the rates by class, chiefly because of the uncertain level of the cost of medical care in the future. They also simplified the benefit structure and introduced deductibles and other changes designed to increase the average benefit per claim.

Benefit structure was simplified by elimination of medical expense covages from policies designed primarily to cover loss of time. Package policies without optional benefits and without frills were substituted for the schedule type policies in the original commercial series. The present series consists of a set of loss-of-time plans and a completely separate set of Hospital Expense and Major Medical plans. Only a single face amount is necessary for each policy, since all other benefits depend upon this basic amount. He stated that the simplified package policy has the advantage of being more easily understood by the field force, and of tending to avoid certain complex policy change problems that arise under the schedule type policies where a nonlevel commission scale is in use. Actuarial records of package policies can be much simpler and more easily maintained.

Mr. Thompson stated that their experience with the original commercial series showed that the average benefit claim was relatively low, and that a large proportion of claims were settled for small amounts. In designing the 1956 program, New York Life eliminated the low-cost accident plan (average premium: \$29 per policy) which accounted for less than 5%

of their Accident and Sickness premium volume, wrote the Hospital expense policy with a \$25 deductible and without coverage for emergency out-patient care of accidental injuries, and the loss-of-time policies without the blanket expense benefit.

As a result of these changes the distribution of claims with respect to the amount of benefit has improved. Only 8% of 12,000 claims under the 1956 series were settled for amounts of \$25 or less, compared with 36% for the original series in its first three years. Also, claims for \$100 or less accounted for 50% of the claims closed on the new series, compared to 72% for the original series. Mr. Thompson pointed out that, as experience matures, claims for the longer periods of disability and claims involving extended periods of medical care should have the effect of increasing average benefits per claim; therefore, ultimate experience should be even better than the already favorable results. Studies showed that New York Life's objective to reduce the volume of small claims and to increase the average benefit per claim has been accomplished. The purpose was not to reduce premiums but to increase benefits. Maximum benefit periods were increased and coverage broadened, resulting in an average annualized premium on current issues of \$125 compared to \$70 per policy for the original series. This, of course, will reduce the per-policy expenses measured as a percentage of premium so that both the increase in average benefit per claim and increase in average premium per policy will have the effect of increasing the proportion of premiums available for policy benefits and dividends.

For underwriting risks under the new series, a conference type classification system with four occupation classes was substituted for the nine classes in the Bureau manual. This change, part of the over-all objective to simplify insurance operations, was indicated by the marked decreases in accident rates. Improving accident rates, especially among the higher occupation classes, reduces the need for great refinement in the classification of risks.

Mr. Thompson said that they have continued to introduce new features with broadened coverage and benefits whenever they have been able to underwrite new insurance needs soundly. In the past several years, they have introduced the following: lifetime Hospital Expense policies, offered up to age 75, to satisfy the demand for permanent protection at the advanced ages; a new loss-of-time program for women with increased benefit periods; a program for accepting medically substandard risks with an extra premium and much the same rating system that is used in their life insurance operations; further expansion of their basic portfolio of loss-of-time plans by offering full sickness benefits to age 65 and extending the waiting periods available to include six months and one year waiting periods.

The effect of the new program on volume of new business is especially interesting. The 1958 volume of new business is 250% of the rate of production when the program was introduced. With respect to morbidity, Mr. Thompson said that their experience to date has been quite satisfactory. A trend toward marked increases in the net cost of insurance has been observed only in the Major Medical plan. Preliminary studies indicate that these increases can be ascribed to coverage on men at the advanced ages.

Although considerably below corresponding rates under commercial policies, lapse rates have been somewhat high: the first year rate has been about 30% and the second year 18%. In each case the lapse rate under Major Medical is about 50% of the rate based on all plans combined.

New York Life feels the experience during the past three years indicates that the major objectives in redesigning the product in 1956 have been met. Mr. Thompson pointed out that continuing studies of their experience will be necessary so that the changing insurance needs are provided for in the best way possible and to provide the basis for future modifications in their accident and sickness product.

MR. HAROLD B. MOULTON said the Aetna recently concluded that they were not adequately covering the public's needs in the area of Accident and Sickness insurance. Feeling that insurance to protect the loss of income from sickness or injury, and insurance to help pay for large medical expenses, are natural products for their Life agents who are well-trained in estate control planning, the Aetna has provided level premium guaranteed renewable policies and, where practical, extended coverage for life. Loss-of-income policies are not renewable beyond 65 since the need does not normally exist in that area.

Because of the instability of medical care costs, they have reserved the right to change premiums on a class basis for their new guaranteed renewable policies. Their new plans are renewable for life. One is available to age 60, and has benefits that are cut somewhat at age 65. The other is for people over age 60. Dependents are covered, and have a conversion privilege which may be exercised at the contractual termination of their coverage. These policies may be written with deductibles of $25, $50 or $100.

Mr. Moulton said further that these plans were all written with level premiums dependent upon entry age, and using a graded commission scale.

A renewable premium discount clause was added to the contract to alleviate the costly problems of high early lapse rates and to give flexibility in the rate structure.

He said that their new policies are in booklet form with benefits listed on a schedule. Underwriting, issue, billing, collection have been made home office operations. Issue, billing and record-keeping are being mechanized. These should result in substantial savings.

The Aetna started to write new policies September 1, and the resulting volume has so far exceeded expectations. Production of commercial business has stood up, probably indicating that a large proportion of the new policies are being written by Life agents, many of whom do not sell very much commercial A&S, which is still popular with their casualty agents.

MR. HERBERT J. STARK pointed out that the major problem with this business is lapsation. With a satisfactory lapse rate, it would be possible to secure satisfactory results. He said that lapse rates are fairly good on noncancelable loss-of-time policies, particularly when written on the better grade occupational classes. He felt that this is where they should be written, on a noncancelable basis. On loss-of-time policies for the working man, the Metropolitan has held to the commercial form, feeling that there is enough shifting of occupation and enough risk of loss of occupation in this group so that it would be well to consider carefully any large issuance of noncancelable loss-of-time policies to people likely to shift jobs. The lapse rate on policies issued to this group is very high, possibly as a result of becoming covered by Group Insurance or other loss-of-income provision.

The lapse record is exceedingly bad in the Hospital and Surgical Insurance field. Mr. Stark indicated a suspicion that part of this record is due also to shift of occupations, whereby policyholders become covered by Group Insurance and no longer see the necessity of maintaining individual policies although noncancelable. Another bad effect is the overlapping of coverage on the part of some policyholders, and perhaps some of the worst experience is on people who have both Group and Individual Coverage. This would seem to call for some sort of protective proration provision.

MR. E. PAUL BARNHART felt that current developments in individual A&S should to some extent bring a halt to the very rapid shift in percentage of total coverage being provided by Group plans. He felt that there are inherent in individual insurance several advantages which Group plans have difficulty in matching. One of these is the use of age-grading, using underwritten policies so that the younger lives get the benefit of their younger age. Another is the guaranteed renewable-for-life feature which is more easily provided through the medium of individual insurance. Still another is the possibility of designing coverage so as to eliminate the small first-dollar benefits, such as emergency accident outpatient benefits, which are quite often present in Group coverages.

MR. PAUL SINGER, discussing Section B, described the Continental Casualty Company's approach to 65-plus as "mass merchandising" rather than "community enrollment." The communities involved are merely the market areas of the advertising media employed.

Mr. Singer stated that their procedure has proved economically feasible in that it enables them to put this business in force with a minimum loading for acquisition expenses allowing them to deliver insurance at a high permissible loss ratio. On the other hand, it is characteristic of such mass merchandising techniques that no very large percentage of the total population can be enrolled in any one solicitation or even in a series of repeated solicitations.

Mr. Singer went on to say lapse rate immediately following an enrollment campaign is rather variable depending upon whether the campaign required cash with the application or permitted the "bill me later" option. It stabilizes very quickly at a lapse rate slightly under one percent per month.

The claim experience is relatively immature; however, the maturing experience on older solicitations indicates that the ultimate loss ratio will be well within the permissible limit. Claim frequency is fairly high, about twice the values found in most published data, but this was anticipated in the original planning. Distribution of exposure by age agrees very well with the age distribution of the general population over 65 and there appears to be little or no antiselection on this score.

A disproportionate percentage of these policyholders appear to come from the upper strata of the population as regards socio-economic status and educational level, indicating apparently that these persons are most aware of their need for and the desirability of this type of coverage and so respond more readily to the campaign.