

Taft-Hartley Welfare Plans

- A. Under what conditions and limitations can a welfare plan, administered by a joint board of trustees and not placed with an insurance company, be considered actuarially sound with respect to:
- (1) Death benefits?
 - (2) Weekly sickness and accident benefits?
 - (3) Hospital, surgical, medical expenses?
- B. What, if any, special reserves are necessary for such programs?

MR. AUBREY WHITE discussed the problem as applied to the small Taft-Hartley plan, characterized by concentration in one industry or in one location. He felt that the term "actuarial soundness" was difficult even to define for this type, and that elaborate measurement techniques are inappropriate. Such problems as antiselection far outweigh the statistical aspects. Dealing with the three coverages listed, he stressed the catastrophe hazard in the death benefit area and antiselection in the case of sickness and accident benefits and hospital and surgical benefits. These, together with the adverse secular trend characterizing the latter coverages, make statistical measures of actuarial soundness academic. He mentioned the possibility of arranging major medical coverage as a form of stop-loss insurance. As to appropriate reserves, he felt that the practical way in the small Taft-Hartley case was to urge the buildup of a substantial fraction of a year's premium, larger in the case of small groups than for those of medium or large size. Practical considerations make it difficult to convince trustees that large reserves are appropriate.

MR. EDWARD H. FRIEND discussed the excess risk problem and its application to death benefits. The degree of actuarial soundness varies directly with the size of surplus reserves, but it is difficult to say when adequate soundness is reached. One measure of adequate soundness might be reserves sufficient to cover three standard deviations over the expectancy. This still leaves the group open to a catastrophe hazard. He listed four possible ways of disposing of claims over such a limit. If the group is widely dispersed, no hazards are likely to exist. Secondly, the funds might be protected by providing for instalment payoffs when funds are low. Third was excess risk stop-loss reinsurance, which is desirable but not currently obtainable, with the possible exception of the accident risk (on a limited basis). The fourth solution would be to create a master trust fund to hold excess reserves and pay excess benefits for several Taft-Hartley trusts. However, many legal, administrative and financial problems would have to be solved before this can be done.

MR. CHARLES D. WILLIAMS commented that some uninsured Taft-Hartley plans, though perhaps actuarially sound by some definitions of actuarial soundness, might be open to considerable question as to their legal soundness, that is their legal right to engage in the business of insurance without qualifying to do so under state insurance laws.