

**DIGEST OF DISCUSSION OF SUBJECTS
OF SPECIAL INTEREST**

EMPLOYEE BENEFIT PLANS

General

- A. What problems have arisen in complying with the provisions of the Federal Welfare and Pension Plans Disclosure Act? Have any of the provisions of this law proven to be unworkable or impractical?
- B. What special problems have arisen in connection with the underwriting and administration of small groups? To what extent have individual lives been underwritten? Is consideration given to individual case experience in connection with annual rerate actions? Is the expense rate on small groups so high that standard group rates are not applicable?

MR. J. DARRISON SILLESKY, commenting on section A, reported that the John Hancock had encountered very few problems in complying with the Act. He felt that the law was too broad and that there should be no need for filing of plans which are provided under an insurance contract issued directly to an employer. The expense to employers and insurance companies is the only major problem which has been seen. Most correspondence with employers has been concerned with the use of calendar, fiscal, policy and contract years and questions concerning proper procedures to follow when a plan is modified. They have been successful in persuading group insurance policyholders to use the data for the policy year which coincides with or ends in the period which the employer chooses to use as a plan year. For Group Annuities they have persuaded contract holders to use data prepared on a calendar year basis. Most of the data is obtained mechanically as a part of data they produce for other purposes.

MR. RAY D. ALBRIGHT of Provident Life and Accident also reported that very few problems had been encountered aside from the work and expense involved. He estimated that the first year cost of complying with the Act was over \$100,000 for the 1,400 plans in his Company. Whether the law has served its purpose is a matter of speculation at this time. So far no competitive problems have arisen as a result of the annual report data on file in the Capital.

MR. HERBERT F. CERWINSKE of Prudential reported that some policyholders feel that it is the insurance company's responsibility to report. There have been some instances where the policyholder has re-

quested that the data be split between salaried and union employees so that two reports can be filed. This can cause a problem if the data are not accumulated on this basis. So far no serious problems have arisen.

MR. GEORGE M. SHERRITT of Southwestern Life thought that there were some sections of the law which were difficult to interpret. The solution to some problems can be secured only through the courts. There seems to be general disagreement among companies in regard to (1) the practice to be followed if the number of employees drops below twenty-five and (2) the practice followed in connection with salary savings franchise plans. He felt that it would be much better if Congress would write a more specific law that would be uniformly interpreted by those who work with it. He questioned the need to reveal to the policyholder the amount of commissions paid to an agent when the policyholder has accepted the plan based on the rates proposed. He also feared that the Act might give an unscrupulous person an unprecedented opportunity to twist insurance programs.

MR. DANIEL W. PETTENGILL of the Aetna stated that if the number of lives dropped below 25 it would probably be best to file the A-1 report if the D-1 report had previously been filed. At least in this event the policyholder could not be accused of willful noncompliance.

Speaking on section B, MR. JOHN M. BRAGG of Life Insurance Company of Georgia reported that groups from 3 lives up to 24 lives have successfully been written on the following basis:

- (1) By the use of package type plans sold and serviced by the Agent;
- (2) Custom tailoring only if lives exceed 10 and the monthly premium exceeds \$150;
- (3) Use of premiums of 15% to 20% above standard group rates;
- (4) Evidence of insurability on the very small groups;
- (5) A considerable amount of pooling of the experience in connection with the annual rerate action.

MR. SILLESKY reported that for groups of 10-24 lives the John Hancock originally started with six rigid plans. Experience has indicated, however, that these plans did not cover the needs of their agents and their clients. The John Hancock has since expanded the number of plans available so that clients now have a wide variety of plans available. He reported that there is a feeling among their underwriters that, in this area of small groups, there is greater frequency of effort to superimpose life insurance coverage with one insurance company on that of another.

They do not reject individual lives in the group; the entire group is either accepted or rejected. Nonmedical questionnaires are required on all

older ages and the right to require medical examinations is reserved. Occasionally the amount of coverage is limited for a particular class of employees.

Flat general rate increases have been put through on two occasions and very little difficulty arose in obtaining policyholder agreement. The path is eased if modest automatic plan improvements are included with the rate increase. Some consideration is given to the individual case experience in setting renewal conditions.

MR. PHILIP F. FINNEGAN of Prudential reported that his company goes down to three lives. No individual underwriting is used for groups of 10 lives or more but below 10 lives individual underwriting is employed. Packaged plans are used but the amount of life insurance may be reduced on individual lives if expected mortality for the group exceeds 160%.

MR. J. BRUCE MACDONALD of Crown Life reported that his company reviews all available evidence on individual lives if a graded plan or a liberal flat plan of life insurance is applied for. They may insure the group at an extra premium, suggest a different schedule of amounts or decline the group. Some credibility is given to the individual case experience. Rates loaded to cover additional expenses are used for small groups, with the loading based on volume of insurance for group life and the annual premium for casualty.

MR. PETTENGILL reported that the Aetna writes down to 10 lives and their experience has been good when benefits are modest. They feel that a minimum premium of \$150 monthly is needed in order to have a chance to succeed. In case of major medical it is essential to have a pre-existing conditions clause.