

*Group Accident and Health Insurance*

- A. How are the continually increasing claim costs under Hospital and Major Medical Expense insurance being provided for by individual companies in setting rates for new group cases? Is there an alternate solution to that of continually revising rates?
- B. In view of the different costs and utilization patterns which exist throughout the country in connection with Hospital Expense insurance, what are the advantages and disadvantages of rates which vary by area?
- C. On what size cases is the loss ratio with the previous insurance carrier sought in connection with underwriting Accident and Health insurance transferred from another company? From Blue Cross?

MR. WILLIAM S. THOMAS of Metropolitan commented that the so-called "continually increasing claim cost" is, at times, almost a "leap frog" progression in some communities. This is especially true of Hospital Expense Insurance. It is very important to take this into consideration with respect to Major Medical because approximately one-half of the medical expenses covered under these plans are hospital expenses. It is hoped that soundly designed comprehensive medical expense plans will result in a slow-down in the increase of cost of medical care insurance.

Commenting on section B, he doubted that, in the long run, there would be any real practical advantage in having rates varying by area.

MR. GENE P. ARCHER of American Hospital and Life stated that he believed the best way to control costs was in plan design: we should put forth more effort toward treatment out of the hospital instead of in it.

MR. HERBERT F. CERWINSKE of Prudential said that his Company considered using rates with built-in trend factors to take care of the continually increasing costs of medical expense care.

The advantages of having rates varying by area are (1) more equity, (2) rates are more in line with Major Medical rates, (3) rates may be more in line with companies that operate only in a local area. The disadvantages are (1) complications in rate calculations, (2) the great difficulty in obtaining reliable statistics upon which to base rates.

Commenting on section C, he stated that his Company required previous experience on all size groups. Blue Cross experience is also required in those states where it is available.

MR. ORLO L. KARSTEN, JR., of Great American Reserve, commenting on section C, stated that they pooled their groups of less than 25 lives and do not ask for previous history, but look for special benefits for a few individuals. For groups of 25 lives or more, they request the employer to obtain from the previous carrier a record of cash premiums and losses

for the past three years which are converted to an incurred basis. They have had no success in getting Blue Cross experience.

MR. JOSEPH W. MORAN of New York Life said that the best way to control claim costs was in policy design: we should convince our salesmen to encourage clients to purchase the best plan of insurance with proper balance between adequacy of benefits and control of costs, rather than the most liberal plan. New York Life has had favorable results on one very large case in modifying the plan to eliminate first-dollar 100% coverage of hospital extras.

Commenting on section C, he stated that New York Life automatically considers transfer cases as substandard and routinely requires loaded initial premium rates. They support this conclusion by a study of experience of cases lost to other companies by transfer. They have had spotty success in obtaining Blue Cross experience.

MR. IVAN R. TAYLOR of London Life stated that in Canada most problems had been shifted to the Government. He thought that rates by area were a "must." It is the general practice in Canada for companies to directly exchange information regarding experience on transfer business.

MR. JOHN R. WILLIAMS of The Lincoln National stated that their experience shows that Major Medical claim rates have increased about 30% over the last two years. As a result of this experience they have introduced a tightly controlled Major Medical plan with inside limits and have been very well satisfied with the claim experience to date. They require complete data on any case of 50 lives or more and stay away from companies that have changed carriers two or three times within the past five years.

MR. GEORGE M. SHERRITT of Southwestern Life stated that area problems may really be age and industry problems.

MR. PRESTON C. BASSETT, of Towers, Perrin, Forster & Crosby, Inc., reported that his firm is making detailed claim studies by areas for several clients. The purpose of these studies is not for determining premium rates by areas, but rather to determine if ways can be found to reduce costs in high cost areas. If one area's cost is larger than another area's, is there something that can be done in the former area to bring its cost down?