

Group Insurance—Miscellaneous

- A. How much group dental insurance is being written? What benefit provisions are currently being offered? What steps are being taken to minimize the patient's choice of dental procedures? Are benefit schedules practical? What has been the financial experience of the coverage written to date?
- B. What are the problems of professional association groups? Are such groups expensive to service; what special administrative problems arise? Are commission agreements modified for such groups?
- C. Is there much current interest in group paid-up or group permanent? Have new actuarial assumptions or tables been adopted in connection with premiums, values or reserves?

Philadelphia Regional Meeting

MR. NORTON W. CHELLGREN: The Aetna has only two group dental policies in force, but we are quoting more frequently, which shows a definite market.

The experimental nature of this new coverage demands a comprehensive rather than basic plan. Advantages of the comprehensive approach are:

1. It recognizes the variation in dental care costs in different geographical areas and does not attempt to "set fees."
2. A large volume of dental care is primarily maintenance care involving only a modest amount of expense. Thus, the deductible of comprehensive eliminates frequent payments for small expenses that are readily budgeted.
3. The deductible also lessens the impact on first year claim costs resulting from treatment of pre-existing conditions and dental neglect.
4. Benefits can be provided for more expensive dental needs at a more modest premium because of the deductible and coinsurance.

In order to make the comprehensive premium rate attractive, the deductible should be at least \$50.00. Our standard dental deductible is calendar year with a three-month carry-over provision and is entirely separate from any medical expense deductible. To offset the impact of accumulated dental neglect a higher deductible may be advisable for first year than for subsequent years. Coinsurance is 50%-50% or 60%-40% or higher.

Initially, we are adopting lifetime maximum of \$1,000 per individual with a calendar year maximum of \$500.00. No restoration or reinstatement provision is available.

Because orthodontia is as elective as ambulatory psychiatric care, we recommend its exclusion. Where necessary, \$300.00 of the \$1,000 lifetime maximum may be allowed for each individual, but an additional premium would be required.

The amount of covered expense for fixed bridgework is limited to the

customary charge which would have been made if replacement had been accomplished by a partial denture. This is necessary because fixed bridge-work is influenced by the wishes of the patient and also because partial dentures are often accomplished effectively and more economically.

We are excluding expenses for dentures or bridgework replacing teeth extracted prior to the effective date. A special dental chart completed by the dentist is required to indicate previously extracted teeth.

Although comprehensive dental plans are more suitable, we will offer basic plans. They have the following advantages:

1. The variation in claim experience caused by the wide range of choice and differences in charge levels in the dental field would be present to a far lesser extent than with comprehensive.
2. They are less sensitive to inflationary trends in dental care costs.

Benefits payable under schedules are subject to a limit of \$300 for the aggregate benefits payable for all procedures performed in any one calendar year. At the group policyholder's option, benefits for oral examinations, including scaling and cleaning of teeth, may be included, but an additional premium is required. No benefits are payable for orthodontia.

MR. ROBERT C. TOOKEY: Dental insurance might be classed as a service rather than actual insurance and can be used as a means of improving standards of dental care in an employer-employee group.

Any plan designed to provide better standards would have to produce practically 100% participation. This can be done by requiring employer contributions of at least 50%, covering all usual dental expenses.

A deductible and coinsurance are necessary; the deductible might be \$25 per person and \$50 per family each year, with coinsurance of 75% or 80% on most treatments. On orthodontics and false teeth, a coinsurance percentage closer to 50% is required, together with limitations on amounts for each of these procedures. One plan waives the deductible for two dental examinations in a year, to encourage improved standards.

The only maximum is on special items such as orthodontics and replacement dentures. Otherwise, there is a calendar year but no lifetime maximum. No schedules for crowns, inlays or amalgam are used.

The premium per family is \$100 and up, depending on geographical location.

Experience on plans in force has been good. There was an increase in the use of gold but no tremendous clean-up surgery.

With proper design and restrictions, dental insurance may well be profitable. When viewed solely as a budgetary service a group dental plan with a retention of 10% of premiums for the insurance company will still

be a very good buy for the employee contributing not more than 50% of the premium. This is because he would pay an income tax of, say, 20% on the employer's 50% contribution should he receive such contribution as salary to enable him to pay his own dental bills. When this 20% of 50% is compared to the company's 10% retention, the economy to the consumer of a dental plan that is virtually risk-free from the company standpoint becomes apparent.

MR. ALDEN W. BROSSEAU: There are four areas in the problems of professional association groups: getting the business, running it, paying for it and keeping it.

Getting the Business

Commissions.—Because of the high degree of control of the professional association market by specialty brokers, the structure of commission scales is crucial. New York Life's scale may be summarized as follows:

First policy year

For personal solicitations: 50% of the first semiannual premium to the solicitor and 5% graded on initial sale premiums to the broker of record.

For mail solicitation by the broker of record: 15% of initial sale premiums.

For solicitation by the association: 20% graded on initial sale premiums to the broker of record.

2nd through 10th policy years

For renewal commissions when the association is the administrator: 5% graded on renewal premiums to broker of record.

For renewal commissions when the association is not the administrator: 1% of renewal premiums to broker of record.

For complete administration by a licensed broker: 5% of all premiums to the administrator.

For administration split between the administrator (a licensed broker) and the Company: 4% of all premiums to the administrator.

When individual policies are used under franchise arrangements, special consideration must be given to the limitation on expenses in Section 213 of the New York Law as it applies to renewal commissions and administrative fees.

Solicitations.—Personal solicitations are more effective than mail. The more highly concentrated a group geographically, the better the enrollment prospects, because personal solicitation becomes more feasible. When group insurance is otherwise available through employers, solicitation is more difficult.

Out-of-pocket premium cost is important. With the decreasing term-flat premium design, successful enrollment depends on keeping the flat premium under \$50 per year or \$25 per premium payment.

Running the Business

Premium Billing and Accounting.—We handle professional association groups on 3 bases: (1) complete administration by the association or an administrator, (2) complete administration by New York Life, (3) split administration, where the association or an administrator performs all administrative functions except preparation of individual contribution notices. Experience indicates the split administration system is the most popular and has worked out most satisfactorily. Insurance company preparation of individual contribution notices along with an elaborate but efficient premium billing system produces better service to the client than if administrator-handled. Premium payments more frequent than semi-annual are unwise since overdue notices on one billing begin to overlap advance notices on the next.

Paying for the Business

Expenses.—Expenses for professional association groups exceed those for regular employer-employee groups of comparable size because of (1) payment of higher commissions for more intensive solicitation, (2) payment of administrative fees, (3) additional expenses for more elaborate underwriting and administrative procedures, and (4) additional expense of enrollment and enrollment material. In recognition of these higher expenses, underwriting must be geared to produce greater premium margins and special charges must be provided for in dividend and retrospective rating formulas.

Claims Experience.—October 1961 review of cumulative claims experience on 7 professional associations that had been in force from 1 to 6 years showed aggregate incurred claims of approximately \$3 million or about 50% of net premiums on the 1941 CSO Table. While results varied from case to case, there were no bad cases. Claims ratios are completely dependent upon plan design and underwriting.

Keeping the Business

Professional association groups have been very persistent. All of the 12 cases written since 1955 are still in force, and drop-outs among insured members have been far less than turnover on employer-employee groups. We believe this result is due to the fact that lack of the controls normally available in employer-employee cases has been compensated for through careful and intelligent design, selection, and administration.

Kansas City Regional Meeting

MR. DAVID G. SCOTT: Continental Casualty is currently selling group dental insurance, but at a very slow rate. The plan provides a large de-

ductible the first year and one-half that amount in the second year. It is possible that the deductible limits will defeat the purpose of the program. Not enough business has been sold to date to develop statistically significant experience.

MR. DAVID R. KASS: Mutual of New York will consider adding dental insurance to an existing group provided it is of sufficient size and has had previous favorable experience. We have not yet written any dental coverage.

MR. RAY D. ALBRIGHT: So far, we have seen little interest in dental care insurance. We have made only one quotation, which was made to a union-negotiated welfare fund. This plan provided a deductible per insured individual of \$25 the first calendar year and \$10 in each calendar year thereafter. The benefits were on a scheduled basis and included such services as oral examinations, dental prophylaxis, X-rays, limited oral surgery, fillings, crowns, and dentures. Very scanty data were available for estimating claim costs, but premiums were quoted which averaged about \$70 per year per family.

Despite our general feeling that the insurance mechanism simply adds to the cost of routine services for which charges are small, there seems to be a considerable amount of interest at this time in dental care coverage.

MR. GEORGE V. STENNES: I question whether a dental plan which has a deductible, a coinsurance factor and a lifetime maximum is an insurable area. I think that true insurance would be in an area where the claims are higher than people can afford to pay.

MR. ROBERT V. YOUNG: The Massachusetts Mutual is not yet writing any dental insurance but has been considering entering the field. I question the necessity and desirability of this type of insurance. I don't think it is proper to provide first-dollar benefits in this area because most of the claims should be within the person's ability to pay through budgetary means. A large number of small claims will incur a high ratio of claim expenses and other expenses to total claim payments. This leads, therefore, to the possibility of offering the coverage on some sort of excess basis involving a deductible and coinsurance. This approach would parallel a comprehensive type of major medical plan. Dental plans will involve pre-existing problems because there will be a number of untreated teeth, both for cavities and replacements, at the inception of any such program.

MR. HENRY K. KNOWLTON: In underwriting professional association groups, Occidental has run into many of the same problems encountered in writing other associations. A great deal of preliminary work

is required and it appears that an insurance company should not go far into developing a plan without the assurance that it will underwrite any plan which is established. In developing a plan for a national association, a great deal of work will be required and probably many problems will be encountered in obtaining Insurance Department approval. Broker control is usually very strong in this field, so that quotations through a broker without this control are usually a waste of time and money. Professional associations are expensive and time-consuming to administer and solicit, and Occidental will not underwrite a professional association unless the broker handles all solicitation and administration other than claims payment. The broker's commission agreement, usually a flat schedule, must be modified to take into account the extra services he performs. The need for insurance must be real or solicitation will be nearly impossible and adverse selection will result. In attempting to underwrite group coverage for some local professional associations, we have found that adequate benefits were already offered by the state and national associations, thus making it very difficult to secure participation in the local association's plan.

MR. RONALD E. GALLOWAY: I believe there is an increasing interest in group paid-up and group permanent. This interest stems, I think, from a growing awareness of the desirability of paying during an employee's active working life for the group life insurance which he will have after retirement. Unfortunately, the natural development of this coverage is being somewhat impeded because of income tax implications where the benefit is being purchased partly or entirely by employer money. Notwithstanding this, there has been a definite increase in the number of inquiries which Great-West receives about group paid-up and group permanent, as well as an increase in the variety of schemes which have been suggested as the possible answer to the problems of providing permanent insurance for retired employees. The actuarial basis for our current paid-up plans was changed to the 1958 CSO Table with interest at $2\frac{3}{4}$ % for both premiums and reserves soon after that table was published. We have subsequently increased the interest assumption to 3%.

MR. CHARLES E. FARR: There continues to be interest in group permanent for pension purposes. There are a number of plans which were originally written as individual policies and are now changing to a substantially similar coverage on a group basis. We at Bankers Life of Iowa have seen very little current interest in either group paid-up or group permanent for other than pension purposes. The level premium group permanent form suffers, as it has since 1950, from an unsatisfactory in-

come tax situation. The group paid-up form has satisfactory tax characteristics only if the paid-up portion of the plan is employee-pay-all. When this is true, satisfactory amounts of paid-up insurance for retired lives will come about only after the plan has been in effect for some years. Within the last couple of years, rates for both group paid-up and the whole life form of group permanent have been reduced somewhat to reflect improving mortality. Group paid-up values are now quite generally on the 1958 CSO Table.