

GROUP LIFE INSURANCE AND ITS POSSIBLE DEVELOPMENT.

BY

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Although this subject principally involves that of life insurance, it includes so many features analogous to the underwriting of casualty insurance that its discussion may especially interest the members of this Society.

While a great deal has been written regarding it in the public press as well as in the insurance publications during the last few years, the subject has been reviewed more particularly from an economic point of view. I have attempted herein to discuss the questions involved more particularly from the insurance company's point of view and from the standpoint of the underwriter.

There is no doubt but that group insurance first appealed as a philanthropic measure. The employer desired to render a service to the employee that might in a measure relieve the sufferings of his dependents in event of his death. There is no question but that group insurance involves this feature to a considerable degree. Employers who purchased group insurance from this motive, however, soon found that a closer relationship was established with the employee; the wife of the employee realizing that termination of employment meant the termination of the insurance, consequently used her influence towards his continued employment. If the insurance was arranged to provide an increase with years of service, an added inducement to remain was established. The result in brief was that the cost of the turnover of employees—the replacing of experienced workmen by inexperienced—was found to be considerably decreased and that in a great many cases the saving from this source alone considerably more than outweighed the cost of the insurance. In other words, group insurance produces a decided commercial advantage and it is upon this that its popularity in a large measure rests to-day.

The insuring of employees by or through the employer is not of recent origin. The files of most insurance companies will prove that

a great deal of time has been spent on problems that pertain to this subject—time very poorly spent if the premium return were considered. Such insurances originally involved the issuance of individual contracts with examination. The cost invariably proved to be more than the employer cared to stand and most of such propositions remained in the correspondence files of the companies.

It was not until the idea of group insurance as we now generally understand it on the One Year Renewable Term plan was crystallized through an inquiry of Montgomery Ward & Company of Chicago that the present development of the business began. Montgomery Ward & Company in 1910 had considered the insuring of their employees and had for this purpose employed an actuary but finally had come to the conclusion that the matter could best be handled by an insurance company. As historical evidence the following extract from a letter from the then manager of The Travelers Insurance Company's branch office at Chicago, dated October 14, 1910, in reference to the proposition requested by Montgomery Ward & Company is submitted:

“The form of policy asked for is yearly renewable term form, each employee's insurance to be canceled upon the termination of service. The premiums are to be paid by the firm annually in advance, and allowance for the unearned premium, on account of the termination of service, to be made by The Travelers in adjusting the next annual payment.

“In considering the elimination of a medical examination, these facts should be borne in mind—that the ages of the employes run from 15 to 60 years; — — — —. The average age is — years, and the average weekly salary is \$———.”

As far as I know, this is the first recorded request of an insurance company for group insurance as we now know it.

I was rather interested in recently reviewing the company's files in connection with this case to note that the case was then considered on the One Year Renewable Term plan, without medical examination, and the premium first quoted was based upon the American Table with a loading of 25 per cent. which involved a commission of 10 per cent. the first year with renewals at 5 per cent. It will be evident from a further perusal of this paper that the original basis of cost was a conservative one. The company's files show also that in the fall of 1910 a group contract on the One Year Renewable Term plan in blanket form was prepared involving practically all the principal features of the present day contract.

Montgomery Ward & Company finally, in July, 1912, purchased a group insurance contract from The Equitable Life Assurance Society. This contract is generally known as the first important contract of this kind actually issued. No insurance company can rightfully claim to be the originator of this form of insurance. Its development has been one of evolution, but had its origin in the inquiries of the above mentioned firm.

Most group contracts have been issued upon the One Year Renewable Term basis. Several companies have prepared group contracts on the Ordinary Life or higher premium forms but comparatively few such contracts have been issued. One company in particular has made a specialty of writing group business on the basis of individual contracts. The cost, however, of the One Year Renewable Term contract is so low and the return so great from the employer's point of view that the development of the business has been practically limited to this basis.

The Question of Selection.—The insurance of employees as a whole was found to be impracticable if a medical examination was required of each individual. Just what experience would develop on group risks insured without medical examination was unknown at the inception of the business. Many experiments were tried but it was found that the resultant mortality by insuring all or nearly all of the active employees of a concern, with the possible exception of those very recently employed and according to an automatic formula, was surprisingly low and that such groups of lives would produce an experience comparing favorably with that produced by medically examined lives applying for individual life insurance. I am referring here to the strictly "employer" cases, that is, to contracts on which the employer presumedly pays the entire premium and where the insurance is either for one year's wage with a minimum of perhaps \$500 and a maximum of \$3,000, or a flat insurance to all, or else initial insurance the same to all but increasing periodically with the years of service to a certain maximum—any one of these formulas being suitable for group insurance.

It must not be overlooked, however, that the groups thus written are usually for employers whose business is prosperous and active and where the average age of employees involved is reasonably low. Experience soon showed that when the formulas outlined were departed from, the results were not as satisfactory. For instance,

were a company to write a group case on a salary basis without a maximum limit certain officials might be included with salaries of perhaps \$10,000 or more, whereas the average wage of the employees probably is not more than \$900; unsatisfactory results in such a case would be obtained because of the weight of the larger insurances on the officers who presumably are at an older average age. Companies writing group insurance often are requested to include officials for increased amounts. In exceptional cases a limit of \$5,000 has been used by certain companies but only provided the total insurance in force justified such an amount.

A frequent form of request is that in addition to the group insurance the employee be allowed to purchase additional insurance at group rates for limited amounts. Such a concession is a dangerous one unless accompanied by the requirement of a medical examination for there is bound to creep in a certain amount of selection against the company, for poor risks who are unable to obtain insurance elsewhere are encouraged to avail themselves of such an opportunity.

All companies writing group insurance experience a considerable demand for the insuring of associations—generally in the nature of reinsurance. Such associations usually follow assessment principles and ask for reinsurance only after their mortality has commenced to be embarrassing. While some of these, after careful investigation, may be insured, it does not seem feasible for various reasons to insure them on the One Year Renewable Term plan. The mortality, of course, might be taken care of by serious increases in premium but the main objection is on account of the increasing premium as to the individual on the One Year Term basis. Associations generally average their premiums but this involves a fallacy as apparent under a guaranteed One Year Renewable Term premium as under the assessment principle. The dropping out of the younger lives because they can obtain individual insurance cheaper necessarily tends to increase the rate on the remainder—a process which if continued is bound to bankrupt the association. The only feasible way of reinsuring associations is through level premium insurance generally on the Ordinary Life form but even in such event necessary extra premiums must frequently be charged for the heavy expected mortality. As a general rule, however, since those individuals who are able to pass medical examination can buy better and cheaper insurance individually this

plan has its weaknesses, unless the association is bound together by heavy ties or owns a considerable amount of assets, the result of past excess assessments.

Formulas of Group Insurance.—I have already mentioned the principal formulas of insurance suitable for group coverage. Any formula that is automatic and which does not over-insure nor under-insure any individual is, however, suitable.

The simplest case provides that the employer shall pay the entire premium. Group contracts are often paid for partly by the employer and partly by the employee, the entire premium however being paid to the insurance company by the employer, the employees' contributions being deducted periodically from the pay roll. The contract is made in the name of the employer.

Any plan which involves the payment entirely by the employee is to be discouraged. Where the employer pays a part and the employee a part on the Term plan the proposition is possible only provided practically all of the employees can be made to come into the plan. Such a plan generally demands compulsion through membership in an employees' association in which membership is practically necessary for employment.

In certain instances the employer provides insurance only upon married employees or those with dependents, a method which in itself constitutes a satisfactory formula.

Refinements of this kind, however, are generally to be discouraged for the reason of the complications involved. In view of the fact that group insurance can be sold generally at a cost of less than one per cent. of the total amount of insurance, the employer can afford to pay the entire premium rather than to run the risk of discriminating between different classes of employees.

Premium Rates.—When group insurance was first evolved the premiums were necessarily based on the only table available—the American Experience Table. In the beginning, these rates were rather heavily loaded because it was not known how the mortality of unexamined lives insured in groups would result but experience proved that the mortality on properly selected groups was surprisingly low.

In view of the fact that group insurance must be sold at an attractive rate, the companies involved in the business from the start have paid much lower commissions than would be paid to agents who were obliged to solicit each risk individually. It may be readily

seen that the agent is not entitled to the same consideration as to compensation as would have been the case had he been obliged to solicit each risk—furthermore, group insurance is usually sold through specially trained representatives (salaried men) from the home offices of the companies, as the selling of group insurance is usually too complicated for the average agent. The result has been that the commissions adopted by the various companies have hardly averaged as high as the remuneration which the agent would receive on the renewal of life policies, that is, perhaps 5 per cent. Furthermore, the dealings between the employer and the insurance company are generally direct, thus simplifying negotiations and avoiding a double and maybe a triple handling of many details—all of which has tended to minimize the expense item of group insurance.

Considering the mortality experienced on the non-hazardous lives and the low expense involved it soon became very evident that the gross premiums that were properly chargeable to the employer for group insurance, at least at the younger ages, were considerably less than the net premiums called for by the American experience. Therefore the companies which wrote group insurance immediately saw that the American table was not suitable as a basis for premiums. The only table in existence which seemed at all to meet the situation was the basic table adopted for comparative purposes by the Medico-Actuarial Committee of the Actuarial Society of America and the Medical Directors Association in their recent mortality investigations. While this table is not absolutely reliable at all ages for the purpose, in the aggregate it seems to run very closely to a proper one for the basis of group insurance where non-hazardous lives are considered. The reason for this, as I have stated, is that the experience on groups of lives properly selected does not vary greatly from insured lives medically examined. The M.-A. table was derived from the more recent experience of life insurance companies after eliminating the experience during the first few years of exposure.

The companies that have used the American Experience in the past as a basis of rates have known that the mortality involved was ordinarily considerably heavier than actually experienced and that to a considerable extent the net rates involved an allowance for expenses and for profit. In using the M.-A. table, however, as a basis for mortality rates it is necessary in building up the premium to provide for ample loading not only for expenses but also for profits or other contingencies.

On this general basis are found the rates for non-hazardous classes (we might call them the "select and preferred" classes). It is customary, however, for the non-participating companies to quote rates involving various schedules. These rates are generally differentiated by constants to provide for increased occupational hazards. A non-participating company might, for instance, use six or eight schedules depending upon the character of its business and its selection. For instance, one company might be willing to quote group rates on coal miners while another company might not care to write such a hazardous class.

The home office having obtained the necessary inspections of a concern contemplating group insurance, it is necessary that the underwriter weigh the evidence in hand and allot a rate that is suitable to the facts as known.

I have described to this point the process used in determining a non-participating rate, for the reason that the majority of the members of this Society are probably more familiar with non-participating or guaranteed rates than with the basis of participating premiums. Group insurance is offered in both ways. The rates of a participating company are made necessarily higher than those of a non-participating company in order that dividends or refunds may be granted and in order, theoretically, to provide for the safety of the rate. A participating company does not necessarily quote various schedules of rates in the way that I have described but may use only one rate schedule. Such a company might, however, combine similar risks into separate classes in order that a corresponding dividend might be paid on policies in each class. In this way the cost in several selected groups or classes might vary.

The total rate on a group of employees if divided by the total amount of insurance necessarily results in a certain average rate per thousand of insurance. This rate corresponds to the schedule of rates at a certain age. This age, however, is not the rate that would correspond to the rate at the average age of all employees for the reason of the greater weight of the higher ages. For instance, if but two risks were involved, one aged 20 and the other aged 60, the average rate would not be the rate for age 40 but probably that at about 52 to 54 according to the schedule used—because the greater weight of the risk at age 60 from the premium point of view over that at age 20. This is a point which is not always appreciated by the layman and careful explanation is often required

or very erroneous assumptions may be made. As an illustration—a certain concern asked for the cost of insurance on their employees on the basis of \$1,000 insurance on each life. Later, and before purchasing the contract, they decided that the insurance should be on the basis of one year's salary and were very much surprised to find that the cost on the salary basis was considerably higher than was the cost on the flat per thousand basis, although the total insurance in the two plans was practically the same.

While the rate schedules for One Year Term insurance necessarily increase for each increase in age, experience teaches that there is very little fluctuation in the cost age for group insurance on the same plant from year to year. Of course, there is some variation on account of the change in the personnel but as the older men are more likely to die and their places filled by new employees at younger ages this difference tends to correct the increase in rate for those remaining in the employ; in other words, the change in age and consequently the change in rate per thousand in a manufacturing plant of say two or three thousand lives is very small from year to year. A concern growing very fast, taking on new employees at younger ages, may actually show a decrease in the average cost age from year to year.

A participating company in order to pay large dividends or refunds must charge a rate considerably in excess of that charged by non-participating companies. On account of the redundancy of premium the contract of such a company makes no provision as to a guarantee of rates or dividends further than to provide for the annual renewal of the contract under contract conditions. If my information is correct, a participating company under such conditions might pay dividends of from twenty to thirty per cent. dependent, of course, upon the loading in the premium. If the experience on a risk, or class of risks, is unsatisfactory it is simply a question of adjusting dividends. The non-participating company, on the other hand, offers its insurance according to a certain guaranteed schedule of rates. It is usual to guarantee this schedule of rates for a period of five, ten or perhaps twenty years according to the risk. Many employers purchasing group insurance desire that the cost of such insurance shall be known and shall be affected only by a redistribution of the lives involved. Once a contract is issued the insurance company on the non-participating plan has no alternative but to furnish the insurance for the period guaranteed, provided

the employer according to contract pays the premium therefor. There is no disadvantage involved to the employer for the reason that if the cost of such insurance is unsatisfactory it is possible for him to seek insurance elsewhere if he can find it at a lower cost, provided the original company is not in a position to voluntarily reduce its rates, although it can be said in this connection for the non-participating companies that where it has been found that the original schedule of premiums was excessive the premium schedules have usually been voluntarily reduced without regard to the guarantee in the contract to the same schedule on which new risks of the same class are assumed. This is nothing more than a proper business policy, for the insurance company which writes group insurance must adopt a policy of service to its assured.

The non-participating companies, while providing for a guarantee of rates for certain periods cannot, however, discontinue a contract at the end of such guaranteed period. They possess the power, generally, of re-adjusting the rates upward or downward as the case may be, in accordance with the experience of the class. It is necessary for the protection of the assured as well as the insurance company that some provision be made because otherwise the contracts might be perpetual in nature, which is necessarily against a proper business policy.

The guarantee of rates for various periods has been the cause of some rather peculiar arguments in the sale of group insurance—some employers insisting that the guarantee of rates for twenty years is more beneficial than a guarantee for, say, ten years. This is not necessarily the case, however, when one considers that the employer may at any time terminate his contract and purchase insurance elsewhere if he believes that such a change would produce a lower cost. The tendency of rates has been downward rather than upward in view of the favorable mortality experience resulting on such risks and as the result of better underwriting principles. A feature of more importance to the employer lies in the selection of the insurance company in the first place, that is, the importance of selecting a company which is amply able to assume its contracts and which has a favorable reputation as to service.

It is surprising what a relatively small number of group contracts have been canceled by the employer. Speaking for the company with which I am connected, out of some three hundred issued policies but two contracts have been discontinued and these for reasons which have no bearing on the desirability of the insurance.

GENERAL CONDITIONS OF THE BLANKET OR GROUP CONTRACT.

One Year Renewable Term Plan.—The one year term contract, as the name suggests, provides insurance for one year and is paid for by one annual premium (which may be paid, however, semi-annually, quarterly or monthly). When renewable the process is simply repeated—the premiums being calculated as of the age attained of each individual included at the date or anniversary of the contract. Where more than one life is included, as under a group contract, the coverage is extended to all by means of a schedule (or card system) listing the names of all individuals included with such items as the date of birth (or age), name of beneficiary, amount of insurance, a statement of formula of insurance, and, under certain conditions, period of service. The schedule automatically defines the insurance, subject generally to notification. The contract also includes a schedule of premiums at each age attained, generally stated per \$1,000 of insurance. The total initial premium of the contract is simply a valuation of the premium schedules as applied to the schedule of employees (or individuals), the total rate being simply the summation of the individual costs. The contract further provides for the inclusion of new entrants and the exclusion of employees whose service has been terminated. The cost of such is usually figured pro rata. Additions and cancelations are generally based upon notification although under any automatic coverage failure of notification would not generally avoid the contract. Dependent upon the amount of insurance involved, changes in personnel might be made in weekly, monthly or at longer intervals. Premium adjustments are usually made at monthly intervals although actual payments may be deferred to the anniversary of the contract, when a yearly settlement would be made.

While the above briefly outlines the basis of the contract, the following items are generally included as a part thereof:

Insuring Clause (see above).—The laws of the several states so differ amongst themselves as to render impossible the use of the same insuring clause. Certain states, for instance, permit the payment of claims through the assured (the employer) for the benefit of named beneficiaries (perhaps named only on the certificates issued to employees), so that a claim check by the insurance company to the assured is a proper discharge of the insurance company's liability. In certain states this is impossible and the insurance benefits must be paid by check direct to the employee's named beneficiary

although the check in this event would generally be sent through the employer.

In all cases, however, payment must be made for the ultimate benefit of the employee's beneficiary or dependents. It would be questionable policy, if not actually illegal, for an employer to insure himself against the loss by death of an employee, or indeed to reinsure himself through a group life contract against losses which he might sustain through compensation benefits. At least it is doubtful whether the insurance companies would be willing to write such a contract. The benefits must eventually go to the employee's benefit.

Provision for the Payment of Premiums (How and When and Where Payable).

Provision for the Renewal of Contract.—Most of the companies provide under this clause for the guarantee of rates for a definite period, at the end of which time the premium schedule may be adjusted although the contract may be renewed. As far as I have been able to ascertain, no company actually provides for cancelation inside of fifty years. Some of the companies do not even limit the contract in this respect.

Date Effective.—This clause defines the date on which the insurance becomes effective. In view of the fact that a group contract cannot be written until all data regarding employees—name, date of birth, name of beneficiary (if necessary) is collected, it is often customary to put the insurance in force by obtaining from the employer a signed application which definitely outlines the formula of insurance and the coverage proposed, and the payment of a nominal binding premium. A notification by the proper executive of the insurance company then automatically puts the plan into operation. The obtaining of all the data necessary for the actual issuance of the contract may be a matter of weeks and perhaps months; consequently, the actual contract may not be delivered for months after the insurance has been effective and after perhaps many claims may have been paid.

Incontestability.—This clause is necessary in view of statutory requirements. It is rather meaningless in the case of a company whose contract makes no provision for suicide. As there is no more selection through suicide by employees in the first than in any other policy year, there is not the same need of including the suicide clause as in the individual insurance contract (as most contracts

provide that an employee shall have been in the employer's service for a definite length of time before reaching the insurance coverage, three, six or twelve months as the case may be). If the contract in addition provides that it shall be free from conditions as to residence, occupation, travel or place of death, and further requires no permit or extra premium for military or naval service in time of war or in time of peace (see further discussion), there is little ground on which a company could contest. The provision under these conditions is largely perfunctory.

A Provision that the Insurance shall not be Effective upon Employees under a Certain Minimum Age or perhaps over a Certain Maximum Age (the latter provision is often omitted, having little value from an underwriting standpoint in the usual employer group) and until the name of the employee shall have been added to the schedule by the company. This last provision while necessary to the contract generally would be waived if it could be satisfactorily proved that a name or names were excluded by error or oversight on the employer's part, provided the formula for insurance which is the fundamental basis of the coverage was automatic.

Provision for the Addition and Cancellation of Individuals from Coverage.—This has already been outlined briefly but there is one further point worthy of notice. Originally termination of employment meant the cancellation of insurance. This clause obviously was too severe—if accepted literally it would mean that an employee would have practically to die with his "boots on," i. e., as the result of an accident, in order that the insurance would be payable. It left too much to the insurance company's option. The clause should properly provide for insurance benefits on those employees whose services are terminated by illness which finally results in death, maybe months after cessation of active employment and after participation in the payroll. The up-to-date clause, therefore, specially provides that the insurance as to any employee shall cease with the termination of employment except in the event that such termination shall be caused by the disability of the employee. The practice of most companies is even more liberal than this—covering employees, or ex-employees maybe, provided the employer will continue payment of premiums. As the employer will hardly continue payments voluntarily on a former employee unless there is good reason therefor, such as a temporary shutdown in work, such an interpretation on the part of the insurance companies is usually safe.

The present war has raised some interesting points in this regard, for the military situation has not been generally provided for. For instance, in this crisis it is probable that quite a few male employees, of whom many are already in the militia and many more may enter military or naval service, will cease active employment and many employers will under the circumstances desire to continue their insurance under the group plan. As the situation is a real one, each company must in the absence of definite provision determine its own position. Those companies whose policies provide for insurance until notice of cancelation is received from the employer must necessarily continue the insurance if the employer elects to continue premiums. Unquestionably the companies must treat the situation in a broad way. The question on existing contracts might be met by continuing the insurance provided the employer would continue premiums and in addition would continue such an employee on his payroll for a substantial proportion of his former remuneration, or else would equivalently provide for his dependents. New contracts will probably provide for definite provision in the event of military service.

The hazard may not actually be so severe as it may at the outset appear; first, because the average insurance coverage under group contracts is not large, probably between \$600 and \$700, and second, because the military hazard will apply more generally to younger rather than to older employees (the insurance coverage of such being necessarily smaller) and third, a considerable proportion of the lives insured for group insurance are industrial, mechanics who probably will not be drafted into active military service. Nevertheless, of the hundreds of thousands of employees insured under group contracts in this country many will serve under the colors. It is doubtful, however, whether the question under group policies is as imperative to the insurance companies as that involved in the billions of unrestricted insurance held under individual policies.

Provision for Deduction of Unpaid Premium Instalments in the Year of Death.—The analogy with regular insurance will be noted.

Conversion to Higher Premium Forms.—This allows the employee upon termination of service to continue an equal amount of insurance under an individual policy by personally paying the company's manual rates, granted without examination if application is made within a certain period—usually thirty-one days. This provision is compulsory in certain states in order that the ex-employee

may not be deprived of insurance through termination of service, on the ground that he may have lapsed other personal insurance when covered under the employer's group plan. Certain employers, however, have advanced the opinion that by this provision one of the arguments that induced them to purchase group insurance might be nullified and, consequently, prefer that the matter be optional with them—that they may grant the provision to deserving employees who leave their employ under certain conditions.

While this privilege offers a certain selection against the insurance company, in practice the provision is of very little importance, probably because it is the poorer class of employees whose services are terminated and these are not the ones most interested in insurance benefits.

Disability Benefits.—This provision for total permanent disability when offered is generally that offered under regular individual contracts. Some of the companies are more liberal towards women and will include them for disability benefits under group contracts when they will not do so under individual contracts, for obvious reasons.

Usual Provisions for Grace Period, Modifications in Contract, Misstatement of Age, Non-payment of Premiums, Entire Contract Clause.—These usually follow the wording prescribed under the statutes and require no special consideration here except—

Under the grace provision the employer shall pay a pro rata premium on the last grace period if notice of cancelation is not provided the insurance company.

The misstatement of age clause usually provides for premium adjustment rather than insurance adjustment where statute permits.

The entire contract clause, however, differs considerably from that in the individual contract as statements by employees are not necessarily a part of the contract. In most states employees do not actually sign application or census blanks. The question of age is covered elsewhere. Consequently, the entire contract clause may cover simply the schedule of employees as provided by the employer. This is not true of all the states, however.

Group Ordinary Life Contract.—As very few such contracts have been written an extended review is hardly necessary. Its complications and features deal more especially with the question of surrender values and the possible division of ownership.

Analogy with Compensation Insurance.—While accident insurance has for many years in the past (health insurance more recently)

been written under group contracts, group insurance as known to-day involves mainly the insurance of lives, that is, provides for the payment of benefits in event of death from any cause. An individual applying for regular life insurance must sign an application for such insurance. When group insurance is considered the signing of the application is absolutely necessary in only one of the important states—Massachusetts, although the signing of a census blank by each employee is usually expedient in order that the proper data relative to the risk may be obtained. The group term policy as written provides for insurance according to a certain formula on the lives listed in the schedule of employees or in the card file attached to the policy, as the case may be. Each life is therefore named and such important information as the date of birth given as a part of the contract. In determining the rate for a group policy the rates on the individual lives according to the schedule of premiums which is also attached to the policy are simply added to get an aggregate premium. This may seem to men versed in casualty principles a roundabout method of obtaining a rate for insurance but nevertheless it is required on account of the laws of various states, even though the contract provide for the payment of one year's wage in event of death so that the premium (once determined) is a function of the wage. Considerable thought has been expended as to whether it would not be possible on insurance based on the payroll to likewise determine the premium as a function of the payroll. It is doubtful whether this would be feasible in the long run even though it was legally possible. Group contracts provide for periodic adjustments in coverage, that is, as the employment ceases the employees automatically drop out of the insurance coverage and as new employees come within the service coverage their insurance is automatically adjusted. This means the periodic adjustment of the risk. In large cases it means considerable detail but, on the other hand, it should not be overlooked that by this method the auditing of payrolls and the expense connected therewith are entirely eliminated in the group contracts as now drawn so that the methods used may involve a possible saving in the end.

The proper method of underwriting group insurance involves certain features analogous to casualty insurance, at least to compensation insurance, which should be remarked upon. Medical examination of the individual life is omitted where the number of em-

ployees involved is in excess of a certain minimum, usually one hundred lives, and where the formula for insurance is automatic. This, however, does not necessarily fix the rate, for the employees of one plant may differ considerably as to occupational hazard from another although engaged in the same line of work. The employees of one plant, for instance, may be very much better protected against accident than those in another plant. The health conditions of one concern may be much better than in a neighboring shop through the attitude of the employer towards his employees and the insistence upon the carrying out of certain health rules, the avoidance of excessive overtime work, etc. It is essential, therefore, that every risk be very carefully inspected for physical and health hazards. This requires expert attention. An agent who ordinarily sells life insurance is not generally one who is able to make a proper inspection of this kind. Proper inspection can only be made by men specially trained in this kind of work and in this regard group insurance approaches very closely to casualty insurance involving the employees of a common employer and for this reason companies which write casualty lines in connection with life lines are much better equipped to handle the business. In the inspection of the physical risks of a factory considerable attention should be given to the health conditions of the plant. As I have already suggested, this involves the general attitude of the employer towards the employee in provision for welfare work, rest rooms, lunch rooms, proper analysis of drinking water, observation of the home conditions of employees and numerous other features of vital importance beyond the usual "Safety First" ideas of accident prevention. In this way group insurance is opening up a heretofore somewhat undeveloped field. All of these points have their effect upon the proper cost that can be quoted for group insurance.

The matter of inspection does not cease with the initial inspection of the risk. The insurance company is primarily interested in the mortality of the group of lives insured and is willing, therefore, to do what it can within reasonable limits to improve the health and working conditions of a concern on which it carries group insurance and is in a position to offer to the employer the privilege of a periodic inspection of the working conditions and the health conditions of the plant. These inspections should be made even more thorough than the original inspection, and should be properly followed by a report which not only remarks upon the conditions as

found but also upon possible improvements. This service is necessarily optional with the employer. It cannot be forced upon the employer by the insurance company at the present time but the plan is so reasonable that the employer in the majority of cases will readily acquiesce in such an inspection and will take advantage of the recommendations made, especially if he feels that the recommendations if followed will result in the improvement of the health of his employees and the consequent reduction in the death rate, which in turn involves finally a reduction in the cost of insurance.

By-Products of Group Insurance.—As I have already stated, group insurance is sold to a considerable degree by special representatives from the home office of the company—for the reason that the selling of group insurance requires special training which comparatively few insurance agents possess. For reasons already mentioned, the remuneration to the agent from a percentage point of view is small as compared with the usual ratio of commissions offered for the solicitation of individuals. The argument has arisen, therefore, from certain sources that group insurance is unfavorable to the agent in possibly robbing him of the chance to write individual employees of a concern. This argument, to say the least, cannot be backed up by facts for the reason that once a group contract has been written on the employees of a concern the agent or agents of the company writing such insurance as well as the agents of other companies possess an entrée for the writing of additional insurance which they did not previously possess. Statistics have shown that altogether too low a percentage of employees carry adequate insurance, or any insurance at all. The fact that group insurance is carried on the lives of the employees of a certain plant results in their education towards insurance; the payment of claims on deceased employees is naturally generally known, and the attitude of the employees towards insurance is consequently very much changed. The agent receives the opportunity to interest such employees in further insurance on individual contracts. Group insurance as sold to the employer very seldom involves an insurance of more than one year's wage which necessarily involves an amount in the ordinary case very much under the adequate protection, so that the agent should have very little difficulty in supplementing such insurance through personal solicitation.

For example, a systematic following up of employees insured under a certain comparatively large group contract by a single agent

resulted in one year in the issuance of regular business amounting to some \$800,000.

Discussion of Certain Legal Features.—The insurance laws of the various states have been based mainly on the issuance of policies to individuals and, consequently, in many respects are not adapted to blanket or group policies. At the present time only a few states have passed special legislation applicable to group life insurance. The insurance departments of the various states, however, as far as compatible with existing laws have been liberal in decisions affecting group insurance. In certain states where the laws specially provided that no insurance be issued without medical examination, it has been necessary that special legislation be passed in order to permit the writing of group insurance without examination. In such legislation it has been necessary to define group insurance. The general definition adopted has been the insuring of the lives of more than one hundred employees of a common employer. New York has exempted group insurance along these general lines from the limits of new insurance which may be issued. While smaller groups under certain circumstances can be written, usually individual medical examination is required and the business must be included in the regular business limits.

While it is still possible to write groups of lives other than employees of a common employer such business is usually not exempt. The business of most of the companies writing group insurance at the present time, however, involve groups under a common employer wherein the employer is interested to the extent of contributing all or a major part of the cost of such insurance. None of the companies are reinsuring fraternal orders at the present time nor are they likely to in the future.

A very interesting point has arisen on account of the inadequacy of existing laws as affecting group insurance. The laws of a number of the states provide for valuation based upon the American Table. With these laws the insurance companies have strictly complied irrespective of the basis of premium. The laws of at least two states, however, provide that if the premium charged for insurance shall be less than the net premium according to the standard adopted by the state for valuation purposes, the insurance company shall be obliged to set aside a special deficiency reserve equivalent to the deficiency in premium multiplied by the present value of an annuity for the period over which such premiums are pay-

able. As I have heretofore pointed out, group insurance if the occupation hazard is slight may be offered at gross rates at the younger ages under the net premium according to the American Table. Those states which have passed legislation as above described have naturally demanded a special deficiency reserve of the insurance company. Commissioners of certain other states have ruled to the same effect, so that a peculiar situation has come about whereby the insurance companies have been obliged to put up deficiency reserves although complying strictly with the valuation laws of the state. While these deficiency reserves affect generally the younger ages only, it is possible to cite a case where an insurance company which receives a gross premium of perhaps \$7.00 per thousand is obliged to put up not only one half the net premium according to the American Table in accordance with the valuation laws, but in addition deficiency reserves on such a risk of maybe \$30, so that as far as the particular risk is concerned, for a gross premium of \$7.00 the insurance company puts up total initial reserves of perhaps \$35 besides paying expenses incidental to the business. It will be readily seen by such a ruling that a recently organized company or an insurance company with a relatively small surplus would not be in a position to write group insurance under existing conditions. The situation is somewhat peculiar when one considers that the rates charged by the insurance companies are properly loaded for profit as well as for expenses and, in fact, may be producing yearly profits.

This point emphasizes one need of a proper mortality table as a legal basis for reserve valuation. The insurance commissioners recently requested the Actuarial Society of America to prepare a table which will represent the proper mortality on American insured lives. Certain companies have already furnished data for this purpose and a report will undoubtedly be made in the comparatively near future. The adoption of such a table as a legal basis for valuation is necessarily a slow process if finally recommended by the insurance commissioners. As group insurance, however, has already emphasized its value in the cutting down of turnover costs of employees and in stabilizing employment, as evidenced by the approval of probably the majority of employers who are carrying such insurance, it is undoubtedly a permanent institution. While the insurance companies are not wont to charge the employer a premium greater than is necessary to meet mortality costs and nec-

essary expenses and contingencies, disregarding entirely the question of valuation which has no direct bearing on the actual mortality cost to the companies, it is hoped that the necessary steps can be taken to insure proper and adequate legislation.

The fundamental assumption upon which a deficiency reserve is required involves the question of sufficiency of rate. As applied, however, to the present statutes and rulings, this assumption may be questioned for the following reasons:

1. Upon the supposition that the American Table is the proper one for the basis of group insurance rates. I think I have stated enough to show that on non-hazardous risks at least, gross premiums at the younger ages can be safely quoted at lower rates than those demanded by the net American Table. To insist, therefore, upon the use of the American Table as a basis of group rates would act as a preventative towards the sale of group insurance.

2. The assumption involves an unjust discrimination between classes of risks. For example, let us compare the results between a policy for office employees only which involves no occupational hazard, and a group composed entirely of locomotive engineers which does involve occupational hazard. We will assume that the rate on the latter class is such as to call for a gross rate in every instance above the net American premium, and yet on such a class no deficiency reserve would be required, whereas a considerable deficiency reserve would be required for the non-hazardous class, yet from an underwriting point of view the locomotive engineer class might involve the insurance company much more seriously than would the group of office employees. I make this illustration in order to call attention to the fact that the deficiency reserve idea as now applied to group insurance is a hindrance rather than an aid to proper underwriting. Someone may advance the argument that I have specialized too greatly in the illustration which I have made and that while the deficiency reserve may not affect all risks it provides as a whole a certain margin of safety. This argument I judge not to be a sound one, for the reason that a company might assume none except hazardous risks which would involve no deficiency reserve and, consequently, no further protection than that contained in the rate itself.

3. The requirement involves an unjust and unnecessary distinction between participating and non-participating business. A participating company, for instance, might quote a gross rate equal

to or greater than that required by the American Table yet on non-hazardous classes might easily declare dividends which would reduce the net cost of the insurance to, let us say, 90 per cent. of the American Table. A non-participating company, on the other hand, quotes a schedule which guarantees a rate of, let us say, 90 per cent. of the American Table. The costs to the employer in the illustration I have made are identical, yet the non-participating company is required to set aside a considerable deficiency reserve which is not required of the participating company through the technical construction of the law or ruling. Of course, it may be argued that a participating company need not set aside a deficiency reserve in view of the redundancy of their rate and the option they possess of decreasing dividends. That argument must be set aside as theoretical only when the *facts* of the situation are carefully reviewed, for when it comes to the question of safety the non-participating company is safeguarded by capital and excess surplus accumulations which are not permitted to the mutual company.

I have not intended in this explanation to advance an argument for or against the various classes of insurance companies but have used the illustration simply in relation to the deficiency reserve idea.

Some peculiar agency difficulties have arisen through the sale of group insurance which illustrate certain legal phases which had not been foreseen. The business of an employer may involve the employment of men and women in many states, especially where a sales organization may spread out into perhaps nearly every state in the Union. Many states have special resident agency laws and problems on this account have arisen. Special care should be taken, therefore, in handling this rather complex problem. As an illustration, let us assume an employer incorporated in the State of New York with branch offices in Ohio, in Massachusetts and in Canada. The branch office in Massachusetts we will say has eighty employees. The difficulty involved is this: Ohio not only has a very strict resident agent's law but especially provides for statement of beneficial interest. The laws of Massachusetts exempt without examination group insurance upon employees of a common employer only provided more than 100 risks are involved. The laws of Canada at the present time do not provide for the writing of group insurance under any circumstances. And yet, the employer at the head office in New York is willing to pay for the entire

premium in New York and asks that the contract be written in New York. The problem is somewhat further complicated by the fact that in Massachusetts it is impossible to extend the coverage to new employees under an existing contract. It is necessary in order to cover new employees to cover same by the issuance of additional contracts—the decision in Massachusetts being peculiar in this regard. I shall not here attempt to solve this problem but have recorded it only to point out an example of possible problems which may present themselves due to the fact that we have no general insurance laws.

The Limit of Risk.—The question has been asked why it would not be possible for a good sized concern to carry its own insurance on its employees rather than insuring them in an insurance company. As this question deals with some of the fundamentals of the business I will attempt to discuss it. There is no question that a concern whose employees number perhaps ten to twenty thousand could from a financial point of view run no particular risk in carrying its own insurance but the reasons against such a procedure are as follows:

The concern in question is not in the insurance business and to properly carry its own risk would need the advice at least of experts as well as to assume the expense of keeping necessary records. As I have noted above, no company should assume a liability of this kind before putting aside the proper reserves in order that the cost may be actually determined from year to year.

Unless the concern is a very large one, the expense connected with the carrying of such business added to the actual cost of the business will ordinarily show a very small saving over the cost of purchasing the insurance from an insurance company. Nor can the calamity hazard be entirely neglected. The possibility of the loss of lives through a conflagration, through explosions, etc., should not be overlooked. The loss of the "Eastland" in Chicago a few years since also illustrates the point at issue. Here a steamer carrying a field day party of the employees of a certain concern was sunk and many lives lost. Necessarily no concern should hazard in any way its surplus through the assumption of a considerable insurance risk. Perhaps the most important feature, however, is the moral effect of insurance through an insurance company—the entering of a third party. If a concern is carrying the insurance itself it necessarily must make its own claim adjustments, especially if accident and

health insurance are involved. This involves a possibility of dissatisfaction oftentimes and the benefits derived from an insurance feature may be to a considerable extent nullified by the resulting criticism. If the insurance is placed in an insurance company the responsibility for adjustments necessarily rests with the claim adjusters of the insurance company and any criticism is naturally directed against the insurance company rather than against the employer. Then again, better and more satisfactory results will be obtained through the insurance company whose representatives are specially trained in their various duties.

POSSIBILITIES OF THE FUTURE.—At the present time it is doubtful whether over 1,000 group contracts have been written in the United States out of hundreds of thousands of employers who might be interested. Practically all of the group insurance which has been issued has been on the basis of the One Year Renewable Term plan which, as I have already stated, is the simplest form possible. A very, very few blanket contracts have been written upon higher premium forms such as Ordinary Life although such contracts have been issued. From the employer's point of view there is no doubt but that as a preliminary step group insurance on the One Year Renewable Term plan is the most desirable but in my opinion group insurance will not cease with the sale of the One Year Renewable Term policy but is opening up a field which is scarcely appreciated at the present time. While I am not going very far into this subject at the present time, for it is a vast subject in itself, the following statements are offered as indications of the possible development of this business. Usually the One Year Renewable Term policy is paid for entirely by the employer. This is not always the case, however, and a great many contracts have been sold in which the employee shared with the employer in contribution. While this phase opens up certain difficulties, the part payment plan by the employee is possible and practicable provided provision is made whereby a large percentage of the employees are involved.

There are various phases of treatment of the part contribution plan. The employer, for instance, may agree to pay 50 per cent. of the premium charge as to any individual at the end of say, one year of service; 75 per cent. at the end of three years of service and 100 per cent. at the end of five years of service—the argument, of course, being to attract the employee to remain in service.

Under certain conditions the employer may agree to pay half the premium and the employee the other half, pointing out to the employee in this connection that he is enabled to offer to him insurance at a cost far below that which he can obtain individually.

The part contribution plan is much better fitted to the sale of higher premium policies generally by the issuance of individual policies. Numerous plans have been devised to meet this situation. By this means it is possible to provide for a pension feature to employees. For instance, let us assume the issuance of an individual contract providing insurance to a retirement age and at such age convertible into an income for life.

The contribution by the employer may be arranged in various ways, of which the following are suggested:

1. On a "fifty-fifty" basis.
2. On a basis where the employer's contributions increase with years of service—the contributions of the employee decreasing to correspond.
3. Or the employer might take out a group contract on the one year renewable term plan which as to any individual could be converted without medical examination into such a pension plan as described above. As to any individual the contribution by the employer naturally increases from year to year with the advance in age of the employee until a point is reached where the employer's contribution is sufficient to pay the entire premium on the pension policy—of course, beyond this point the employer's contribution will not increase. The employee, on the other hand, will pay a decreasing premium from year to year, finally nothing, yet when the retiring age is reached the employee will receive an annuity payable as long as he lives with certain provision in event of his death beyond the retirement age to his beneficiary should she survive. In event of the death of the employee during service the entire insurance value of the contract is turned over to the employee's beneficiary or dependents.

Under these conditions it will be noted that while the employer is paying the cost of the insurance the employee is carrying the investment part of the contract of which we may assume he will receive full control in event of termination of service provided he then assumes the entire premium charge. While in service, however, it is recommended for obvious reasons that a loan on the policy be granted to him only with the joint consent of the employer.

Back of all these plans which I have mentioned is the underlying thought of stability of labor. As has been stated, group insurance on the One Year Term plan has already been proven a stabilizer of labor, but under the plans which are described above the desire on the part of the employee for continuation in service will be enhanced for the reason that he obtains a very favorable investment through the employer's cooperation which he would lose as to the future were he to terminate such employment, and all this at a cost to the employer which perhaps may be less than one per cent. of the yearly pay-roll.

There is one complication which should be mentioned in this connection, the question of ownership of the policy. Individual contracts have been issued on groups of employees wherein the employer has paid the entire premium, that is, on higher premium forms than Term insurance, the employee assigning to the employer the surrender value of the contract to be effective in event of cessation of service, the employer guaranteeing, on the other hand, that in event of death in service the entire insurance proceeds of the contract shall be paid to the employee's beneficiaries and that upon the attainment of a certain age the entire proceeds of the contract shall be surrendered to the employee.

Under the joint contribution plan the question of ownership is not as simple and special assignments are necessary. For instance, as under plan number one, if the employee and the employer contribute equally an assignment might be worded whereby upon termination of employment the employer would release his ownership in the contract to the employee provided the employee would reimburse the employer for one-half the surrender value of the contract. Incidentally, a proposition which has met with some favor and argument along these lines involves the gradual giving up by the employer of his interest in the contract, that is, increase in years of service means an increase in the ownership of the policy on the employee's part provided, of course, service is continuous.

I need not call to your attention the investment possibilities of these general plans for the employee as a result of the employer's contribution. Along the lines which I have mentioned, it is possible to work out an interest return to the employee, were he to cash in his policy for its full value at the retirement age (65), which would represent an investment at a guaranteed rate of interest very

much in excess of anything that he could personally obtain. Of course, this rate is dependent upon the age at issue and upon the amount of contribution by the employer, but returns in excess of 5 and even 6 per cent. compound interest can be guaranteed. Remembering that the entire insurance value of the contract will go to the employee's dependents in event of death during service the advantage to the employer as well as the employee is easily seen.

In event of termination of employment if the employee will reimburse the employer for his contribution, he may continue his insurance provided he will assume the full payment of premiums.

I have not attempted to do more than mention in a general way this proposition but I think you will agree with me that it possesses enormous possibilities.