

AUTHOR'S REVIEW OF DISCUSSION

It is indeed a pleasure to have a man with Mr. Kormes' experience review my paper.

Mr. Kormes indicates that I created the impression that the problem is a simple one. I don't see how anyone who read the "Foreword" of my paper could obtain this impression. The rating problems are quite complex. In order to keep my paper to a reasonable length, I selected one rating problem.

Mr. Kormes' comments about the statutory additions to surplus in some states is most instructive.

Mr. Kormes' table showing the "Percent of Incurred Losses Represented by Payments to End of Month" is quite different than mine, which is a good demonstration that such a Development Table must be determined for each plan since conditions will vary from one plan to another.

Some of the additional data Mr. Kormes uses is interesting. The rate-making process is subject to so many variables, certainly all pertinent data should be considered.

Mr. Kormes indicates that his process has produced extremely satisfactory results. I am happy to report that my methods have had equally satisfactory results.

I fully agree with Mr. Kormes' comments in regard to merit or single risk rating.

I must disagree with Mr. Kormes that "It is not sound to charge premium rates by the age or the sex distribution of the employees in a group." After a contract is in force it is true that inherent differences are taken care of by merit rating for larger groups. The initial rates, however, are also important from a competitive standpoint. Every body of experience I have seen, clearly shows that losses depend on age and sex. Uniform rates for smaller groups may be more desirable from a public relations viewpoint but such uniform rates are not a more sound rating basis than rates that vary by age and sex. Certainly a group with a high average age can be expected to produce more losses than one with a low average age.

Mr. Kormes states that "a true comparison of costs with those of insurance companies could only be made if the coverages were identical and then the comparison should be made on the basis of the incidence of in-patient days per contract." I presume that he is referring to the Section VI of my paper entitled "Blue Cross Rating System versus Group Hospital Expense Insurance Rating System." I would like to carefully point out that I am not comparing costs. I am comparing rating systems. Insurance companies use an "Employee" rate and an "Employee and Dependent" rate while Blue Cross plans use an "Individual" rate and a "Family" rate. All four (4) of these rates, in my paper, were developed from the same Blue Cross data so that their comparison is quite valid. Those concerned with selling Blue Cross plans in competition with Insurance Company plans should carefully study the results of this comparison.

I appreciate Mr. Kormes reporting of results of a study of a large volume of data. Admittedly my sample was quite small.