State of New York to a consideration of the accident records over a three-year period. He further reduces this criteria to an examination of bodily injury claim frequency by classification, assuming 50% of such a figure as involving fault on the part of drivers. From this base, he then determines the percentage of drivers free of liability over the three-year period, and compares this with the percentage of business voluntarily written. The resultant ratio and its relation to unity indicates whether or not the number of assigned risks is greater or less than can be expected.

Mr. Harwayne's study shows, at least for the first half of 1959, that the size of the New York Assigned Risk Plan was about normal. Furthermore, it shows a disproportionate share Class 2 drivers in the Plan. Since the period measured is before the introduction of the new crediting procedure for writing Class 2 risks voluntarily, this is not surprising.

As Mr. Harwayne points out, the result is only a rough estimate and subject to criticism on various scores, particularly concerning some of his basic assumptions. However, there is only one point on which I would like to comment. This has to do with the relative lack of responsiveness of the final index. In this respect a relationship of the number of assigned risks to the number of accident-free drivers as derived from the number of claims might prove more responsive.

While the general introduction of safe-driver plans in the State of New York has all but reduced this particular approach to an academic exercise, the technique outlined is worthy of study particularly on the part of students and prospective actuaries and as such is a welcome addition to our *Proceedings.*

COSTS OF HOSPITAL BENEFITS FOR RETIRED EMPLOYEES

BY

MURRAY W. LATIMER

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DISCUSSION BY A. D. PINNEY

Mr. Latimer has presented to us his detailed analysis of a specific request from a large company to give them an estimate of the cost of providing retired hospital benefits for their employees, and more specifically, to provide for the advance funding of these benefits similar to the approach used for their pension program. This is neither a theoretical study being offered by the author as the best solution to a major current problem, nor is it merely a statement for the record of something commonly being done in the industry since, to my knowledge, no company has used this particular approach.

It is, instead, a case study from which a great deal can be gained, particularly since it has been so thoroughly and painstakingly prepared. For example, one cannot read this paper without being aware of one of the major problems in the Accident and Health field, that of not having enough refined statistics; especially on retired employees.

Mr. Latimer presents in great detail his study of inflation in hospital care costs and the increased utilization of hospitals for retired employees. This analysis was necessary because of the drastic effect these trends have on ultimate costs for the employer. The result of the 8% arithmetic annual increase for hospital costs and utilization used in his calculations increases the minimum cost per active employee nearly three times. But aside from this the basic trend information should be of real value to anyone interested in developing proper rates for retired employees irrespective of whether they use the prefunding approach as described in this paper or one of the more conventional aproaches. Many of us will find this data valuable to use as a comparison with the results of our own studies.

Actuaries not concerned with pensions will be impressed with the involved symbolism needed to handle the many variables such as interest, turnover, mortality, inflation in salaries, inflation in medical care costs, etc. Further complications arise from the funding method to be used. Mr. Latimer used the common "Entry Age Normal" approach in which a past service liability and a future service liability are recognized. Other funding approaches could have been used, but it suffices to say that they all aim at the same objective, namely, the availability of the funds when they are needed.

Mr. Latimer makes clear that determining future hospital costs is far more uncertain than determining future pension costs, and that, in all probability, revisions in the initial estimates will have to be made from time to time. This entire question of uncertainty as to future costs should be of much concern to a company trying to decide whether or not to provide hospital care for its retired employees, but once that decision is made, this uncertainty should have little influence in determining the approach to be used. This is because the size of future costs should be of just as much concern to a company whether they are using a funding method or the more common one year term coverage.

Now, it seems to me, one of the big advantages of the funding approach described by Mr. Latimer is that it does this automatically and the employer is made immediately aware of what the future costs of adding retired hospital coverage will be. This is not the case with one year term coverage since the employer only sees the costs year by year and, if he is to see what lies ahead for him, a separate study must be made. If this isn't done he could be greatly deceived, because even though a one year term plan for future retirees costs very little in the beginning, the costs mount steadily for years to come. And since a benefit of this type would be quite difficult to drop once it has been initiated, present management would, in effect, be saddling future management with the problem of meeting the costs of their decisions. Moreover, it is considered proper accounting to charge the costs of the retired benefits over the active working lifetime of the employee. A prefunding approach does this.

Mr. Latimer also points out the greater administrative and actuarial complexities involved in a pension plan approach, particularly if any part of the plan is on a contributory basis. This is certainly true, but that in itself should not discourage us from giving his method serious consideration. If we are to successfully prevent the Government from assuming full responsibility for the medical care of retirees, then one of the things we must be able to do is to provide these employers with satisfactory methods of meeting retired costs. I believe Mr. Latimer has given us an assist in that direction with this timely and important paper.

DISCUSSION BY R. J. MYERS

Mr. Latimer is to be congratulated on his presentation of a very interesting case study in the field of hospitalization-benefit cost estimating. This paper serves the unique function of permitting one to peer inside the actuary's mind as he develops cost assumptions from limited data—both as to the specific plan itself and as to other programs providing similar benefits—before he applies these assumptions to more or less standard actuarial formulas for computation purposes. It will, of course, be recognized that the title of the paper implies a far broader scope than is actually the case, since it deals with a single specific plan and not an analysis of the situation for various programs that would provide hospital benefits for retired persons. Nonetheless, certain of the analysis made in regard to the underlying assumptions is of significance in considering the broad general subject.

I am particularly interested in this paper because of its relationships with, and implications for, the cost estimates that I have prepared for the Administration's health-benefits proposal, which incorporates only hospitalization and related benefits. This proposal is set forth in legislative form in bills introduced by Congressman King of California and Senator Anderson (H.R. 4222 and S. 909, respectively). The provisions of this proposal and the underlying cost estimates are contained in *Actuarial Study No. 52* issued by my office, except for the fact that Secretary Ribicoff in his testimony before the House Ways and Means Committee recommended that the earnings base for OASDI purposes, which is involved in part of the financing of the health-benefits program, be raised from the present $4,800 to $5,200, rather than only to $5,000 as in the introduced bills. This change would be necessary to finance the program sufficiently according to my estimates. For further details on this matter, see my paper "1961 Amendments to the Social Security Act" in the 1961 volume of the *Transactions of the Society of Actuaries*.

My cost estimates for the Administration proposal can be summarized by the statement that the level-cost is estimated at about ⅔% of taxable