

DISCUSSIONS OF PAPERS PUBLISHED IN VOLUME XLVIII

RECENT TRENDS AND INNOVATIONS IN
INDIVIDUAL HOSPITAL INSURANCE

BY

M. EUGENE BLUMENFELD

Volume XLVIII, Page 83

DISCUSSION BY ALFRED V. FAIRBANKS

Mr. Blumenfeld's paper has presented an insight into the problems faced by a rapidly expanding health insurance industry and outlined methods for overcoming these problems. The substantial increase in medical costs coupled with the extremely rapid growth of health insurance coverage during the past few years, makes this paper very timely.

He has recommended a return to sounder insurance principles plus an extension of coverage to every person in our society. Methods for providing true insurance protection against the hazard of financial catastrophe caused by severe disability, a satisfactory program for pre-paid medical care for those who must exist on a restricted budget, and adequate protection for those persons who, because of age or health conditions, are, or will become, substandard health risks are outlined in a discussion of seven plans of insurance.

Probably the only exceptions to Mr. Blumenfeld's recommendation of an extension of coverage to every person in our society are members of our armed forces and the small segment of our society economically unable to avail themselves of the protection and provided with medical and hospital services through various government agencies. In addition, there are those who must be precluded because of health conditions.

As Mr. Blumenfeld has pointed out, the industry must be alert to the needs of the public for adequate protection, yet provide policies designed to restrain excessive use of facilities and help check abuses.

For example, the average daily hospital cost today is about \$30. It is estimated that by 1970 this cost will have risen to \$50. A policy providing a fixed daily hospital benefit may eventually leave the insured with inadequate coverage, therefore, a flexible program should be developed that will maintain adequate coverage for the insured on an equitable rate basis. In order to increase the limits under a guaranteed renewable type policy providing a level premium to a stipulated age such as 65, without impairing the policyholders' equity, it is necessary that the premium for benefits continued from the original policy remain unchanged. The premium for the increased portion of the benefits should be based on current attained age rates.

For those persons in the higher income tax brackets, a more flexible co-insurance ratio could be included in our major medical policies to take into consideration the tax deductions for medical expenses.

Providing reimbursement for diagnostic services in the hospital only, when such services could frequently be performed in a doctor's office or in the outpatient department of the hospital, will invite excessive hospital use. Pro-

viding only hospital benefits when adequate nursing homes are available at considerably lower cost is not medical economy.

The more frequent use of a deductible in hospital policies recommended by Mr. Blumenfeld will certainly help reduce unnecessary cost. The size of the deductible should depend on the type and amount of coverage provided under the policy and the economic status of the policyholder. Too small a deductible especially with a blanket type coverage may not produce the desired savings. For family policies, the use of a deductible of \$200 or \$300 will permit a single rate for all children covered under the policy, whereas a smaller deductible will necessitate a rate for each child.

The actual number of days of hospitalization eliminated under a hospital policy with a fixed deductible depends upon the amount of the daily room and board benefit as well as other benefits provided under the policy and the type and amount of expenses actually incurred. An elimination period for the hospital room and board benefit could be used to eliminate the first stipulated number of days of each hospital confinement. A deductible could be used for other benefits.

One of the seven plans of insurance discussed by Mr. Blumenfeld is the paid-up hospital policy. Definite scheduled benefits are recommended to overcome the uncertainty of future medical costs. However, the possibility of increasing frequency due to such factors as new medical techniques remains. Equities should be available to the policyholder who, after paying premiums for a number of years, decides to make no further payments. In the event of a rate increase for existing policyholders, the Company would receive little relief from those policyholders who have only a few more years to pay premiums and no relief from those no longer paying premiums. In addition, there would be the problem of adjusting policyholders' equities.

Many of the problems pointed out in this paper are of an economic and social nature, the solutions for which will be to a large measure the responsibility of the insurance industry. The increasing availability of health insurance for senior citizens, substandard insurance for those persons with health conditions, guaranteed renewable protection, and the substantial increase in the proportion of our population with protection testify to the fact that the industry is assuming this responsibility.

Close cooperation with medical and hospital associations will help to reduce excessive charges and over-utilization through a better understanding of mutual problems.

Fortunately, the hospitals and doctors are taking steps to control the rising costs of medical care. The development of relative value schedules as a guide to doctors fees, utilization committees of hospital staff members to help control over-utilization of hospital facilities, improved accounting procedures for hospitals, and progressive patient care are all steps toward more effective utilization of facilities. Although it is claimed that progressive patient care will not reduce hospital costs, it would appear that the need for private nurses for patients requiring intensive care might be reduced.

The need for adequate statistics has been stressed by Mr. Blumenfeld. Without such statistics it will not be possible to maintain premiums that are adequate and equitable. They may very well indicate areas where policy provisions should be modified to provide better coverage at a lower cost and eliminate possible areas of abuse.