

Purpose and Effect of Group Insurance

Part of Address of Mr. W. J. Graham, Third Vice-President of Equitable Life, Before Life Underwriters' Association, Toronto, as Published in January Issue of the Underwriters' "News."

Group insurance came into practice as a medium for insuring employees of one employer. One contract, or group policy, is issued to the employer, which makes reference to necessary supporting detail of each life covered, contains schedules of rates for each age, and otherwise conforms to provisions for similar insurances on individual lives. Supplementary certificates of insurance are issued to each member of the group and state the fact of the insurance, the name of the individual insured, the amount of the insurance, the name of the beneficiary, and the conditions under which the insurance continues in force.

"Group life insurance is defined as that form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium on which is to be paid by the employer or by the employer and employees jointly, and insuring only all of his employees, or all of any class or classes thereof determined by conditions pertaining to the employment, for amounts of insurance based upon some plan which will preclude individual selection, for the benefit of persons other than the employer, provided, however, that when the premium is to be paid by the employer and employee jointly and the benefits of the policy are offered to all eligible employees not less than 75 per cent. of such employees may be so insured."

The call for Group Insurance came from employers who desired to provide life insurance for their employees without excluding any on account of individual non-insurability. The answer to this call was to discard individual selection by medical examination and to set up in substitution a method of group selection which passes on the group as a whole and judges it with reference to the insurability of the whole.

Group Insurance must carefully guard against adverse individual selection. Hence the necessity for insuring the group on a basis which does not leave with the individual the power to decide whether or not he or she shall enter the group. This militates against the acceptance of a group in which the insurance is paid for by the individual employee.

Any attempt to apply group insurance to less than the whole available class to whom it is offered involves the danger of adverse selection entering to the degree of making the whole uninsurable. An even more vital point of insurability would be involved if individuals were privileged to choose to continue in the group or not. Again, the group plan contemplates the elimination of individual solicitation. Where individual action is necessary to bring the whole to a point of insurability, a soliciting cost is introduced that militates against the practical application of the group idea. For these reasons group insurance is in a large degree restricted to the insurance of employees of one employer where the employer pays the entire premium. Under the departmental regulations recommended by the Joint Committee of Insurance Commissioners and Actuaries, groups in which the employee pays any part of the premium, are not acceptable unless seventy-five per cent. of all eligible for inclusion in the group are covered under the group.

Group insurance is issued almost exclusively on the yearly-renewable-term plan.

From the standpoint of the employer this plan has the advantage of covering these insurances at the lowest pos-

sible cost during the period in which the employer desires the coverage, namely, during continuance of employment. Term insurance has the further merit of not involving surrender values, or causing the employer to pay the extra sum required on the whole life level premium plan, when it is a foregone conclusion that in many cases the employment will be only temporary. While the individuals in any one group on the renewable term plan will of course be rated each year at a successively higher rate, it does not necessarily follow that the aggregate rate of the group will increase materially. Conditions of active employment in themselves require certain age distributions which practically assure an aggregate premium on the term basis which will vary within narrow limits from year to year.

Provision is made in the group or blanket policy, issued to the employer for covering all permanent employees during the period of employment; for the addition of new employees; for automatic changes in the amount of the insurance; as well as for the discontinuance of the protection on the lives of employees whose services have been terminated. Terminating employees may apply for insurance without medical examination within thirty-one days after termination of service.

The acceptance of employees in the first instance and the addition of new employees is usually made covering only those who have worked out a probationary period, commonly three to six months. Medical examination may be required on a new employee or may not. Whether it should be required or not depends upon how nearly the conditions under which the new employee would qualify for the employment and for the insurance may be trusted to prevent adverse selection and preserve the average of insurability.

The amount of insurance granted the individuals of the group must follow a general rule. A common unit for insurance of groups composed in whole or in greater part of salaried people, is one year's salary, with a minimum of \$500 and a maximum of \$3,000 to those receiving more than \$3,000 per annum. This maximum should be fixed with reference to the average amount of insurance and the size of the group.

Groups composed chiefly of time and piece workers are usually insured for a fixed sum, alike to all, or graded to increase with service.

Where the plan graded for service is adopted, it usually begins at \$500 and increases \$100 for each completed year of service to a maximum of \$1,000 or more, if desired. The insurance could begin at the same amount for all and increase annually thereafter, or credit be given at the start for past services. This plan works as an added incentive to the employee to continue in the service.

The maximum amount of insurance to any individual in any class shall not exceed two and one-half times the average of the Group (to the next \$500), determined by excluding such class, or \$1,500, whichever is the greater, but in no case shall the insurance on any individual exceed \$5,000.

No single life can be insured for less than \$500.

The limit of \$5,000, is for the exceptional salaried case, where salaries run high or where the group insurance would be taken on the basis of two or more years' salary for several hundred lives.

In practice group claims are paid in full amount regardless of mis-statement of age or of minor technicalities. Suicide claims are recognized at all times. This follows from the fact there is substantially no moral hazard and the non-payment of the claim in full amount would defeat the purposes of the insurance. Claims are payable either in one sum or in monthly installments, over a period not exceeding one year, to the beneficiary named in the certificate.