GROUP INSURANCE

A Thesis submitted
to the Department of Political Economy
of McMaster University
in application for Degree of Bachelor of Arts

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1946

PREFACE

Group Insurance is a fairly recent innovation and as such has commanded relatively little public attention as yet. Nevertheless, its rapid growth has assured for it no minor role in industrial relations and in the welfare of the nation's wage-earning class. The benefits of ordinary insurance have long been recognized. Group protection, affording similar benefits to those who most need them, deserves any publicity which is has received or may receive in the future.

This thesis is intended to cast some light on this important element of our present industrial age. For much of the material here included, I am indebted to those insurance companies, too numerous to mention, from whom I sought information. In its preparation, I have found the pen of Professor Michell to be indeed mighty and his criticisms and suggestions most helpful.

J. C. S.

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Chapter 1

"What is Group Insurance?"

Group Insurance is a broad term which includes several types of insurance providing protection against certain emergencies confronting workers. Certain measures undertaken by the governing bodies of many countries are designed to protect wage-earners to a limited extent. In Canada, we have Unemployment Insurance and Workmen's Compensation, which provides relief for workers injured on the job. Old Age Pensions are designed to assist those who are no longer able to work and who have no other source of income. Along similar lines to these relief measures is the recently enacted Family Allowance scheme. This was designed to assist Canadian families to produce a generation strong in mind and in body.

In effect, however, these measures are pitifully inadequate. The initiative still rests on the shoulders of individuals and this is as it should be if humanity is to continue its ascent on the ladder of achievement. Individual initiative has created the institution of insurance which, in its various forms, provides protection to those eligible and able to afford it. Insurance protection produces a feeling of security and a peace of mind which is invaluable in modern society.

Large numbers of the wage-earning population have either no such insurance protection or an inadequate amount of it.[1] To supplement ordinary coverage, Group Insurance was conceived to protect large numbers of persons by means of a blanket policy, without medical examination and at low cost. One policy may provide a basic minimum amount of protection during an employee's wage-earning years against any or all of the emergencies which he must face.[2] Such emergencies are:

1. Death.
2. Loss of income due to sickness.
3. Loss of income due to accident.
4. Loss of sight or limb due to accident.
5. Hospitalization.
6. Medical expenses.

An idea of what Group Insurance is may be obtained by presenting a definition of one of its forms. The following is the legal definition which is followed in many states of the United States: (Canada has as yet no legal definition.)

> "Group Life Insurance is hereby declared to be that form of life insurance covering not less than fifty employees with or without medical examination written under a policy issued to

[1] From a paper on Group Insurance by W.C. White (1936).

[2] L. I. Dublin - "A Family of Thirty Million" (p.168).

"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 employees jointly and the benefits of the policy are offered to all eligible employees, not less than seventy-five per centum of such employees may be so insured."

Although the above definition was prepared to cover only Group Life Insurance, the general principles contained in it necessarily apply also to the various other froms of group coverage.

The underlying principles of such insurance are the same as those for ordinary insurance.[3] The main difference lies in the fact that the group is the unit of selection rather than the individual. The groups insured by an individual company are expected to present the same average experience as is presented by the entire body of individual policy-holders. Losses sustained by the insurance company on one group are counteracted by profits on another.

[3] J. B. Maclean - "Life Insurance" (p. 357).

The majority of group plans depend on the employer for their existence. A few exceptions exist wherein a group is held together by something other than being employed by the same entrepreneur. Such cases are seldom found because they often present unfair selection against the insurance company. Groups of employees who show evidence of insurability by the fact that they are able to work can be expected to have at least as low a claim rate as the general population insured. In the case of such groups as lodges, societies or fraternal organizations, however, this expectation has not the same foundation. If a group gathers specifically for the purpose of obtaining insurance, there will probably be a majority of substandard lives who could not obtain protection otherwise.

In all Group Insurance plans a master policy is issued to the employer for the benefit of the employees to be insured. In this way the cohesion of the group is assured, and pressure can be brought to bear on it, if this is necessary, to produce the smooth functioning of the policy. Employees of subsidiary companies may be included under the policy with the parent company.[4] In such cases there is still the central authority required by the insurance company. This employer-employee relationship, which is so vital to many Group

[4] From an address by C. D. Rutherford on "Group Insurance," Proceedings of the Insurance Institute of Toronto, 1930-31, (p.114).

Insurance schemes, is a major reason why the cost of the protection is so low. The employer is also the only one who is vested with sufficient authority and trust to make the payroll deductions which form the premiums on the policy. Certain regulations are also necessary to maintain the business on a sound basis. Benefits and contributions must be fairly uniform as regards the members of the group and the extent of participation must be regulated. These elements are essential to the presentation of a comprehensive view of the plan.

In addition to the protection offered the wage-earner during the time he is actively employed, numerous other benefits may be obtained. The provisions for certain benefits under a Group Insurance plan may extend to the employee's wife and children. This is often the case in regard to medical and surgical benefits. In this way, drains on the income of a worker occasioned by sickness or accident of his dependents with subsequent loss of wages, are prevented to a large extent, and the sense of security of the wage-earner increases proportionately.

Group pension plans act in a similar manner, since they give a worker that peace of mind created by the certainty of an income even after active employment can no longer provide money for the necessities of life. The benefits of a group pension plan are often the only ones which extend into the period after active employment. Except in a few cases, other forms of Group Insurance lapse upon cessation of employment. Salary savings plans, creditors' group insurance[5] and union group insurance are other schemes generally included under the heading of Group Insurance. Thus policies may be fitted to the needs and requirements of particular groups.

On closer examination of this type of protection, it may be seen that it is, in reality, no radical departure from ordinary insurance coverage. On the contrary, it is based on the same fundamental principles. In the case of life insurance, both ordinary and group coverage are concerned with the experience of mortality at different ages of people considered to be in good physical condition. A medical examination is required before most ordinary insurance policies can be secured. This is to prevent "selection" adverse to the company.[6] In Group Insurance, the inclusion of a minimum number of workers under a given policy makes a medical examination unnecessary. The insurability of such a group is considered to be as good as that of the general population.

Rates set on Group Insurance coverage are, in most cases, extremely low in comparison with the cost of individual insurance protection. Group protection lends itself to the economies of large-scale production, so to speak. By means of group policies, the insurance company is enabled to reach large numbers of potential customers for a low outlay in selling and administrative expenses.

[5] See page 39.

[6] J. B. Maclean - "Life Insurance" (p. 361).

In addition, mortality experience under group policies has often been found to be better than experience under individual policies.[7] This is probably due to the fact that only those people who are actively employed are covered by group policies while some members of the body of individual policy-holders are not occupied. It is commonly believed that activity serves to prolong life by ameliorating an individual's state of health. Higher claim rates in the hazardous industries are provided for by higher premium payments. The low cost to employees in these industries even after additions have been made to the rates still encourages participation in a group plan.

The low cost of group protection is not only possible, but also necessary to ensure the participation of employees and the co-operation of employers. Unless the members of a group are satisfied with the plan, they will not take part in it to the extent required by the terms of the contract. Dissatisfaction on the part of the employer may lead to ultimate cancellation of the policy. His co-operation is necessary to the initiation and continuance of a group scheme.

Employees' participation is assured by the low cost of group coverage and the convenient method of payment. The majority of Group Insurance policies are based on the yearly renewable term plan which, being the least costly

7 See Appendix C, "Comparison of Rates of Mortality Under Group Insurance with Mortality Under Standard Ordinary Insurance."

form of insurance contract, enables a relatively low rate to be charged. The cost to all workers in a group is uniform and so low that even the youngest member could not obtain similar protection at the same cost to himself anywhere else. The use of payroll deductions enables almost painless payment of these low group rates. Through constant use of this form of payment employees become conditioned to the regular deductions from their pay and the loss experienced by them is minimized.

To ensure the co-operation of the employer whose workers are covered by a group policy, his contribution to the premium payment must be kept at a minimum. The employer absorbs most of the selling and administrative expenses which ordinarily fall upon the insurance company. To maintain a reasonable cost to the entrepreneur, the insurance company follows a few common sense rules affecting group rates. In the first place, administrative expenses must be held below twenty-five per centum of the standard premium rate if the cost of the insurance is to be satisfactory.[8] Secondly, any adjustments in rates justified by a low claim rate must be made. A dividend may be made to the employer or reduced future rates may be made retroactive, refunds going to the employer. To a large extent, the employer "foots the bill" for Group Insurance. The expense which he undergoes must not be so large as to cause him to discontinue the protection.

8 From an address on "Group Insurance," by C. D. Rutherford, Proceedings of the Insurance Institute of Toronto, 1930-31, (p.122).

This brief summary of the theory and practice of Group Insurance has been necessarily sketchy, but presents an idea of the subject which is developed in detail in the pages to follow. To gain a comprehensive knowledge of the subject it will be necessary to examine its finer points. In brief, we have found that we are dealing with insurance covering all, or certain, classes of the employees of a firm or corporation, with or without medical examination, and at the lowest possible cost. It provides that a specified benefit, determined by some plan that precludes individual selection of amounts, shall be paid the beneficiary.

Chapter 11

Development of Group Protection

Social Need

The need for protecting the flow and normal distribution of income is as basic as the need for the income itself. Provision must be made to alleviate the distress which so often follows the death, illness or injury of the "bread-winner" of a family. The lives of wage-earners and their families revolve around the pay-envelope, and upon its regular arrival depends their ability to carry on in their accustomed way of living. Deep in the heart of every employee lies the desire to protect his family against the sudden loss of the income so important to them.

Despite the need for protection, employees, as a class, possess an inadequate amount of it. As individuals, they may not be able to afford adequate protection offered under ordinary insurance policies. Many are ineligible for ordinary coverage because of the nature of their occupation or their physical condition. Still others are so old that premium rates are prohibitive. Facts and figures supplied by the Life Insurance Institute of Canada set forth in detail the part which Group Insurance can play in serving the social needs of a majority of the population.

(1) At least 40% of all wage-earners carry no life insurance.

(2) Those who do carry life insurance have an average of less than $500.

(3) Many employees cannot obtain life insurance at all, or only at extremely high rates, because of age or occupational hazard.

(4) About 20% of all employees cannot obtain standard insurance because of physical impairments.

(5) Most workers cannot carry the amount of insurance they need and want because of the cost.

(6) Without Group Insurance many employees who die leave nothing but last illness and funeral expenses behind them.

There can be no doubt as to the necessity of some kind of low cost protection which is obtainable by all members of the labouring class.

Protection against loss of income following illness or accident preserves employees from the necessity of obligating themselves far into the future. During the period of disablement the usual living expenses and the costs of medical care must be met. On the average, because of illness, each male worker loses from 7 to 9 days a year and each female worker loses from 8 to 12 days a year.[1] About 10% of the time lost is covered by Workmen's Compensation, but some plan must be provided for the balance. In this way, employees may be kept from going into debt, or from staying on the job when ill.

[1] Saturday Night, April 8, 1944 - G. Gilbert, "On Insurance."

Such protection as is offered by Group Insurance is necessary, for while it is true that those in the higher wage or salary brackets can probably take care of their own needs for insurance protection through individual policies, when we go below them to the vast army of workers who earn a bare living, the problem must be met by some mass or wholesale plan.[2] Such a plan should be one which helps workers to help themselves. In this way, any semblance of paternalism or charity, which attends donations from the employer or collections from fellow workers, is eliminated entirely. Because of this, clear-thinking employees appreciate such a scheme and employer-employee relations are improved.

The need for Group Insurance is especially important at a time of industrial change, as, for instance, the reconversion of industry from war to peace-time operations. Upon the speedy and successful change-over depends national and individual prosperity for the future. During this process, workers must be maintained at the height of efficiency so that there may be no more loss and waste. In order to ensure this, the worker must be protected from the hazards of industry and the ills to which flesh is heir. The worker's home must be maintained in self-respect and independence in case of the worker's death or disablement. Unless this is accomplished, the security

[2] Saturday Night, Sept. 6, 1941 - G. Gilbert, "On Insurance."

of the wage-earning class has been lost and a successful re-adjustment of industry cannot be attained.

One of the basically important factors that must be faced and met is the right of all workers to a greater degree of security in their jobs, earnings, and in meeting the hazards of everyday living. Unemployment Insurance affords some security to workers but additional methods are necessary. Thus the need for Private Group Insurance is basic to the continuance of our capitalistic system. If the employer cannot, or does not, provide protectionfor his employees, the government will be asked to furnish such protection. The free enterprise and profit system will be superseded by a method or system which promises to serve the needs of the majority of the population in a more adequate manner.

In summary, Group Insurance is needed to:

(1) Provide security to dependents in case of death.

(2) Provide for source of income during periods of emergency caused by sickness or accident.

(3) Provide income in case of loss of sight or limb.

(4) Provide means of income for reimbursement for hospital and doctors' bills.

(5) Eliminate the need for "hat-passing."

(6) Improve workers' morale.

If these ends are served by group schemes operated by private companies with the co-operation of the individual employer concerned, the government will have no excuse to intervene in the field of life or sickness insurance.

Some insight into the effectiveness of Group Insurance in satisfying these needs may be gained by observing the rapid growth of this form of coverage.[3] Unless this protection had been found equal to its task, such a rapid increase as is indicated would not have taken place. The same conclusion, as to the effectiveness of the protection offered, may be reached by following through the record of disbursements in Canada.[4] Additional evidence of the advantages of Group Insurance is provided by the fact that there are over 16,000,000 workers in North America protected by it. Benefits paid out in 1944 exceeded $175,000,000.

The necessity for some form of protection which will assure the security of wage-earners is apparent. This need must be filled, in one way or another, to preserve and increase the prosperity of the nation. Group Insurance, if properly administered, will undoubtedly serve the needs of employees as well as any other scheme possible.

[3] See Appendix A, "Net Amounts of Group Insurance in Force In Canada," 1919-1944).

[4] See Appendix B, "Net Disbursements in Respect of Group Claims in Canada in Thousands of Dollars," 1919-1944.

Development and History

Co-operation is now recognized as an important factor in economic relations although the competitive system is still maintained. Competitors work together in solving mutual problems through the medium of trade associations. Labour and capital have become friendly enemies and big business no longer maintains a "public be damned" attitude. The realization that one individual's prosperity and well-being depend on those of another has produced what might be called a system of "co-operative competition."

Businessmen have welded huge units of men into armies as effective in their way as the best military forces that Europe has ever produced. Each member of the unit is suited to the work and trained in the best methods of accomplishing his particular job. To maintain the unit at a high level of efficiency, the employer, in various ways, tries to develop in the employees an "esprit de corps." The physical well-being of the workers is encouraged; they become more useful citizens in the community; and they are taught the best use of their wages. This is accomplished to some extent by the use of payroll deductions by the employer to assist employees in the control of their finances. In this way, the foundation for contributory Group Insurance was laid.

Prior to this contributory form of coverage, in which employee and employer jointly share the cost, there was a slow evolution in form. The idea of group protection may be traced to the sense of responsibility felt by employees and employers toward their fellow workers who fall prey to sickness, death or other misfortune.[5] Employees first adopted "hat-passing" in order to help their fellow workers in times of emergency. Besides being uncertain as to yield, this form of charity had an undesirable effect upon the beneficiaries and the employees contributing. The possibility of having to accept charity disheartened the workers. In addition, employers also suffered before the adoption of a systematized form of protection. Condolences to the family of the deceased did little to relieve financial difficulties and gifts often drew heavily on the resources of the employer. A more dependable system of protection was necessary to provide security to wage-earners in the case of events leading to loss of income.

In order to provide greater security and to preserve the self-respect of workers, employee benefit schemes were initiated. These were sponsored by employees and employers, either singly or jointly. In spite of the fact that many of these plans were unsound, they were a step in the right direction. The mutual benefit association which was set up by the Baltimore and Ohio Railroad still operates after 65 years. This, however, is an exceptional case. Most of the schemes lacked

[5] L.I.Dublin - "A Family of Thirty Million," (p.167).

acturial guidance and were doomed to failure. Financial difficulties were encountered and the acturial guidance of the insurance companies was sought. It was up to them to find a means of protecting the wage-earning class from loss of income due to sickness, death or disability.

The first group life insurance policy ever written was sold in 1911 to the Pantasote Company of Chicago which employed less than a hundred employees.[6] Along with some other policies, this served as a testing ground. The results were encouraging and in 1912 the first group policy to attract widespread attention was issued.[7] This insured the lives of three thousand employees of Montgomery Ward of Chicago. It was written by the Equitable Life Assurance Society and totalled approximately six millions of dollars. From this beginning, group coverage has realized a rapid growth and many different forms of protection have evolved.

The inception of Group Insurance was retarded in Canada because the department at Ottawa considered a group rate an infraction of the law against discrimination. In spite of this, an American company wrote a group policy in Canada in 1919. The superintendent subsequently ruled that such business might be issued by any company, provided no other one-year term policies were issued by it at a different rate, and that it would,

[6] "Recent Developments in Industrial Group Insurance," National Industrial Conference Board, (p.18).

[7] M.E.Davis - "Industrial Life Insurance," (App. B).

when requested, issue individual policies at the same rate.[8] Thus in Canada, Group Insurance does not claim the same individuality that it does in the United States, where it is treated as a separate type of protection. Insurance companies transacting group insurance in Canada must offer individual protection at the rate applying to group protection, although, of course, a medical examination is required in the case of individual policies.

In spite of the many set-backs undergone, Group Insurance was eagerly taken and kept when its benefits were offered and understood. The reception accorded group protection in Canada is shown by the fact that in 1943 there were 3,696 firms with Group Life Insurance plans in force.[9] In 1944 the net amount of all types of Group Insurance in force in Canada was $1,054,719,161.[10] These figures show anamazing growth in the short space of twenty-six years.

The spectacular growth of Group Insurance has been parallelled by a continuous expansion in the type of protection offered under group policies. Not satisfied with the protection afforded by employer-employee Group Life Insurance alone, and undaunted by the difficulties attendant upon the first attempts, forward-looking insurance companies continued research in this novel field. This has enabled the development of Group Insurance on a much

[8] From a paper by W.C.White on "Group Insurance," 1936.

[9] Saturday Night, Nov. 11, 1944 - G.Gilbert, "On Insurance."

[10] Figures from the Abstracts issued by the Department of Insurance, Ottawa.

broader basis and promises even further improvements. Extensions within and beyond the field of life insurance are discussed in Chapter 111.

Chapter 111

Group Life Insurance

Group Life Insurance was one of the first types of collective protection offered by insurance companies. As a result, it has enjoyed the most widespread development since its inception. Other types of group coverage, such as health, hospital expense, etc., were begun later and benefited from the experience gained under contracts for the earlier form of protection. The life insurance field served as a testing ground for collective insurance and the success achieved in that field encouraged underwriters to expand the idea of Group Insurance into new channels, with the object of providing a greater degree of protection for the wage-earning class.

Before proceeding to a description of the more recent types of group coverage, it is imperative that the essential elements of the leading kind should be described and discussed. That Group Life Insurance is still the most important form of collective insurance may be gathered from the following figures which are estimates of insurance in force in the United States and Canada as at December 31, 1942:[1]

[1] Figures issued by the New York Study Panel on Group Insurance, 1944.

Kind of Coverage	Number of Companies	Group Contracts	Certificates	Insurance in Force
Group Life	130	35,400	13,890,000	$20,835,000,000
Group Accident and Health	33	15,700	5,400,000	$84,630,000 (Weekly Indemnity)
Group Hospitalization	28	10,500	3,230,000	$13,400,000 (Daily Benefit)
Group Accidental, Death and Dismemberment	33	9,850	2,865,000	$4,000,000,000

Essential Elements:

(1) Plan of Insurance - The One-Year Renewable Term Plan is that under which most Group Insurance policies are issued. It has been shown the most adaptable to most groups, although at the outset there were three plans considered. Because of inherent difficulties in operation, two of these have been subsequently abandoned in the majority of cases. Premiums are dependent on the plan employed and economic considerations thus play a large part in the determination of the most suitable plan.

It would appear at first sight as though there were room for the employment of the methods which have been found useful in the ordinary branch of life insurance. Three simple forms would seem possible:

(A) The payment of a premium determined by the age at which an employee is covered and remaining level thereafter, i.e., ordinary life.

(B) The payment of a premium determined by the age at which the employee first becomes covered and remaining level thereafter but ceasing after a given time or at a given age, i.e., limited payment life.

(C) A premium re-determined each year according to the then age of the employee, i.e., yearly renewable term.

The first and second forms can be considered economically as combinations of yearly renewable term insurance with savings accounts. In the event of cancellation for any other reason than death, the balance in the savings account must be disposed of in some manner. The cash surrender values of ordinary policies accomplish this purpose; but the problem is more difficult when dealing with Group Insurance.

Any industrial group will be composed of employees ranging in age from sixteen to seventy. The lower limit is set by the legal minimum age for entering employment; the upper, by the pressure of circumstances, in the vast majority of cases before age seventy. Rates calculated on either of the first two plans suggested would be determined by the ages of the employees at the time the scheme is put into force. Thereafter the average rate of premium will decrease annually because the age of employees leaving the service will generally be greater than that of employees coming into the service. This trend will continue until the rate paid corresponds with the average age at which new employees are hired. The arrangement has the obvious difficulty of throwing the heaviest expense in connection with the scheme right at the beginning. There would also be the question of the correct disposition of the surrender value which arises when employees leave the service. It may be granted to the individual or retained by the employer for his own benefit. The cost to the employer must fluctuate greatly from time to time or a benefit must be provided for employees which the employer does not desire.

The yearly renewable term calculation of rates is practically free of the difficulties which accompany the other methods. Under this calculation the cost of the insurance on each employee increases annually[2] and the premium for one year meets the cost of that year's benefits. Since the size of a group and the respective ages of its members tends to remain stable or to change but slowly, the fluctuation in cost is negligible. No undue expense is incurred at the inception of the plan and there is no question of distributing cash surrender values when an employee leaves employment for some reason other than death. The yearly renewable term plan meets the requirements of group policies more fully than any other plan.

(2) Groups and Employees Eligible - Most group policies are written to cover only the employees of one employer. The employees of a subsidiary or an allied company owned and controlled by the same employer may be included under one master policy. There are instances where other types of groups are eligible for coverage and these are described later in this chapter.

All employees or all of a certain class, determined by conditions pertaining to the employment, actually at work when the group is written, are eligible. Workers absent on account of sickness may be covered when they return to work on full time. Where a group is sufficiently large - 500 or over, employees who are sick may be

[2] See Appendix D, "Standard Group Rates per $1000 of Insurance."

included at the time of application.

At least 50 employees must be insured under a group policy. If the employer pays the whole premium, he must insure everyone, or everyone in a certain class. If the premium is paid jointly by employer and employees, at least 75 per cent of those eligible must be insured with a minimum of 50 lives. This limitation on those eligible for protection under group schemes has given rise to a special form of Group Insurance known as Wholesale Insurance, which is applicable to groups of less than 50 but not less than 10 persons. Thus benefits similar to those afforded under group policies are extended to employees of many small companies. The importance of this development in protection is apparent and it will be discussed more fully later in this chapter.

Before new employees are covered under a group policy, a waiting period of optional length, usually three months, is required. This requirement is desirable to eliminate employees of a temporary nature. The expense of enrolling "job-tasters" is, in this way, decreased, if not totally depleted.

(3) Medical Examination - A medical examination may, or may not, be required of members to be covered by a group policy. In practice, however, no such evidence of insurability is required. The extent of participation demanded by the insurance company prevents selection against the underwriter and by eliminating medical

examinations the initial expense of a group policy is decreased. Any employee not previously enrolled who makes application for the insurance so many days after becoming eligible, must undergo medical examination or offer other evidence of insurability before being included under a group scheme.

(4) Payment of Premiums - The whole of a premium may be paid by the employer - non-contributory; or part may be paid by the employer and part by the employee-contributory. Where a plan is non-contributory, it has the advantage of automatically covering all eligible employees. The details of the scheme are simplified and entire control remains with the employer. This plan of payment, however, often results in an undesirable attitude on the part of employees. The purpose for which the employer sponsored the scheme may be defeated and he may cancel the policy.

Under the contributory plan of premium payment, a fixed amount is usually deducted from the pay of all employees regardless of age. The employer pays the additional amount needed to complete the premium payment. The insurance contract often provides that the employer may charge his employees sixty cents a month per $1000 of insurance. In this way the cost to employees is so low that even the younger members could not obtain an individual Term Policy for less.

Thus participation in the plan is made attractive to all members and the required number will subscribe to the protection.

Not only are members induced to join a scheme at the outset because of the low cost, but new employees are also encouraged to subscribe. Therefore, because the age distribution of employees in a given plant does not change much from year to year, the same average rate of premium will persist. In recent years, however, there has been a definite upward trend in the average age of the population as a whole and a steady increase in the proportion alive at higher ages. This phenomenon naturally affects group rates. When average age advances, average cost also advances.[3]

(5) Limits and Schedule of Insurance - The schedule of insurance determines the amount of protection available to any employee.[4] Each employee must accept the amount which is applicable to his classification in order to prevent individual selection. One of several methods may be employed to determine the amount of insurance applicable to the different employees.

(A) A uniform amount may be available to all employees, such as $1000, $2000 or $3000. This method is simple but has several disadvantages. The uniform amount of insurance may be adequate for some employees and inadequate for others. A married man or an executive would ordinarily require more protection than an office boy. This plan takes no account of length of service. Because of this, it does not tend to reduce labour turn-over to such a degree as other plans. The employer, therefore, does not receive the same benefit.

[3] See Appendix D.

[4] See Appendix E.

(B) The amount may be graded according to position or occupational classification. For example:

Executives	$3000
Sup't'dts., Foremen, etc ..	$2000
Others	$1000

This method allows greater amounts of insurance to those employees who are more likely to draw larger wages and salaries. The protection given will more closely approximate the need.

(C) The amount may be based upon salary classification. Under this method, the protection is usually about one year's salary or wages. If this method is employed the insurance company must be promptly advised as to changes in salary in order to adjust the amount of insurance and the premium to be collected. This plan best fulfils the differing needs of high-paid and low-paid employees. Some limit, however, must be placed on the protection available to high-salaried officials. This class usually contains a higher proportion of substandard lives.

(D) Under the fourth method the amount depends on length of service. This method encourages permanence of service but is not entirely satisfactory, since the rate of contribution increases as coverage increases.

Regardless of the method used in determining the amount of insurance applicable to any employee, there are usually maximum and minimum limits effective. A minimum limit prevents undue expense on very small amounts. A maximum limit determined by:

(A) The total amount of insurance in the group when actually issued, and

(B) The amounts of insurance on the lives of the fifty employees insured for the highest amounts.[5]

is a safeguard against selection adverse to the company.

5 See Appendix E, "Table for Determining Maximum Amounts of Group Life Insurance."

Unless some limit were imposed, many "substandard" lives would welcome the opportunity of obtaining any amount of insurance at low group rates. Those employees in good health would be less likely to take additional insurance to a similar extent. The underwriter would be faced with a few poor risks holding a large proportion of the insurance in the group.

(6) Beneficiary - The insurance is payable to some beneficiary other than the employer. The beneficiary named by the employee may be changed at any time and such changes are recorded on the certificate held by the employee. In some cases several names are given as beneficiary and payment is made to the first on the list who is available.

A "Facility of Payment" clause in the policy and certificates may provide for the payment of a certain amount of the benefit to the employer, or another, to take care of the employee's last illness and burial expenses, if no other provision has been made to pay them. This is particularly frequent where foreign-born employees with beneficiaries residing outside of the country are insured.

(7) Benefits - There are three benefits contained in most Group Life Insurance contracts:

(1) Death Benefit.
(2) Total Disability Benefit.
(3) Conversion Privilege.

The death benefit provides for payment of the amount of insurance in one sum, or in instalments, if desired, to the appointed beneficiary of the insured employee. Instalments must be a certain minimum amount, payable at times stipulated by the employee, with the approval of the insurance company.

The disability benefit provides that, if an insured employee becomes totally and permanently disabled before age sixty , the insurance on his life shall continue in force without cost during the continuance of total and permanent disability. Proof of such disability must be forwarded each year to the underwriter and, if total disability ceases, the conversion privilege is available for thirty-one days after its cessation.

The conversion privilege provides that during the thirty-one days immediately following termination of employment with the employer, an insured employee has the right to convert the amount of insurance on his life under the group contract to a regular policy as then issued by the insurance company, without evidence of insurability being required. The converted policy is issued at the employee's attained age and at the underwriter's regular rates in force at that time. Actually, a very small percentage of employees takes advantage of this privilege of conversion. It is quite evident, however, that among those who do take advantage of it are some of the worse lives.[6]

A fourth benefit may be provided in a group policy.

[6] See Appendix C - "Group Conversion Mortality," 1915-1939.

This is the provision for continuance of coverage on an employee during temporary lay-off or leave of absence. The protection is continued for a period usually not more than three months, provided the employer continues to pay the premium in respect of such employee. Similarly, pensioned employees may continue to be covered at the option of the employer, who must pay the premium on such continued coverage.

(8) Termination of Insurance - The insurance on any employee automatically ceases upon termination of employment. During the period of thirty-one days within which the conversion privilege may be exercised, however, the amount of insurance will be paid in event of death. If the employer does not give notice to discontinue the insurance, an employee remains covered during sickness, temporary lay-off, leave of absence or retirement.

(9) Contract - The contract consists of a master policy issued to the employer covering the terms of the insurance. Individual certificates are given to the insured employees. These set out the particulars of the insurance - name of the insured, and of the beneficiary, the amount of insurance and the more important benefits and provisions.

(10) Calculation of Premiums - The premiums are

based upon a special scale of yearly renewable term rates for "standard" industries.[7] The cost of the insurance for the total group is found by taking the aggregate of the premiums required for the individual employees. The premium for the next policy year is determined by taking the sum of the individual premiums at an age one year higher for the amount of insurance in respect of each employee. Thus the premium is recalculated each year upon renewal. Additional "loading," that is, an extra premium or addition to the existing premium, is imposed for fractional payment of the premium for the group. This "loading" usually amounts to:

1% for semi-annual premiums.

2% for quarterly premiums.

3% for monthly premiums.

Extra premiums are required on groups engaged in hazardous occupations. These are fairly uniform among underwriters and correspond with the scale shown in Appendix F. Extra premiums apply to all employees in the group regardless of whether they were engaged in hazardous work or not. Additional extras are charged if a large proportion of the insurance is upon racial groups having high mortality rates. Negro, Mexican, Chinese and Japanese lives are usually considered to warrant extra premiums if they form a large part of the group. The additional "loadings" required by one

[7] See Appendix D, "Standard Group Rates per $1000 of Insurance."

insurance company on non-caucasian lives are shown in Appendix G.

(11) Dividends and Re-Rating - Group policies may be written on a participating or a non-participating basis. Some insurance companies use the first, while others prefer the second. Regardless of the basis on which a policy is written, approximately the same results are effected. The cost to employees remains unchanged but the cost to the employer is reduced by either method.

Participating policies are written on a dividend plan whereby an annual dividend is payable to the employer in the event of a favourable "claim experience" (ratio of claims to premiums). Non-participating policies, while not offering dividends, usually provide for the "experience rating" of premiums, i.e., allowance for the fluctuating mortality rate of insured persons. Where the "claim rate" under a certain policy justifies it, a reduction is made in the rates charged for insurance. Such a reduction becomes effective on the renewal of the policy on the basis of experience during the preceding year and may be retroactive. That is, the insurance company allows the premium overcharge for the preceding year to be deducted from the premium payable for the year in which the reduced rates become operative.

Dividends and experience rating are merely methods of reducing the cost to the employer. In this way. his cooperation is maintained and he is less likely to allow the group policy to lapse.

Wholesale Insurance

Wholesale Insurance is an important subsidiary of Group Life Insurance. This form of insurance covers groups of from 10 to 49 employees which, because of their size, are not eligible for Group Insurance. The minimum amount of insurance on any group covered by Wholesale Insurance is $20,000. The policy of most underwriters is to accept only groups which give good promise of permanence with the likelihood that the number of employees will increase rather than decrease.

Evidence of insurability may be required in the case of Wholesale Insurance and wholesale group rates are necessarily higher than those applicable to standard Group Insurance.[8] Apart from these differences, Wholesale Insurance corresponds closely with Group Insurance. As a group increases in size beyond the minimum number required for Group Insurance, it becomes eligible for this cheaper form of protection.

Because of its applicability to smaller groups of employees, Wholesale Insurance extends protection, together with Group Insurance, to a large percentage of the wage earning population. In 1939, approximately 74% of the employees engaged in manufacturing were in groups acceptable under Group Insurance contracts; an

8 Yearly Rates Applicable to Standard Wholesale Groups are $1.75 per $1000 of Insurance Higher Than Standard Group Rates.

additional 10% to 15% were in groups acceptable under Wholesale Insurance contracts.[9] Wholesale Insurance thus extends the benefits of cheap protection to a greatly enlarged body of wage earners.

Another factor which favours the extension of Wholesale Insurance is the greater need which is apparent among smaller groups. In April 1, 1944, the lowest average earnings per employee were paid by firms employing from 15 to 49 persons.[10] The need for cheap insurance protection would evidently be greater in this group than in any other. Since Group Insurance is not applicable to groups of less than 50 employees, the extension of Wholesale Insurance protection must serve as the solution of this need.

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Group Life Insurance itself has been greatly developed and expanded to offer protection to an ever increasing portion of the wage earning population. The first life insurance policies written to cover groups of employees were non-contributory, that is, the employer paid the whole cost of the protection, and covered only groups where the employer-employee relationship existed. Since that time, the method of paying for the coverage has changed. The non-contributory method of

9 Canada Year Book for 1945 (p.426).

10 Annual Review of Employment and Payrolls in Canada, 1944, (p.49).

paying premiums often placed too heavy a burden on the finances of the employer. In addition, employees were prone to accept the insurance as their due right. Their appreciation of the security afforded them was dulled by the fact that it was free. To ease the burden on the employer and to create a better attitude on the part of the employees covered, a contributory system of paying for the protection replaced the old non-contributory method to a large extent. Premiums on group policies under the contributory system are composed mainly of contributions from employees collected by payroll deduction. The employer merely supplies any discrepancy between the total of the payroll deductions and the premium payment. A few non-contributory policies still exist but the majority are based on the contributory system of payment.

The employer-employee relationship under which the first group policies were written continues to be the most acceptable to underwriters. In spite of this preference, experiments conducted on other kinds of groups have shown that Group Life Insurance can safely be written for those held together by relationships other than employment by a common master. As long as any proposed plan serves a social need and will not interfere with services now being rendered, it should be given a trial. Life insurance covering members of trade unions, associations of teachers, preachers, lawyers and so on, and borrowers from a financial institution has been developed along group lines.

<u>Trade Union Group Insurance</u> - This type of Group Life Insurance was set up to cover the members of labour unions, without the employers' being a party to the contract. Insured members may pay the whole cost or part may be paid by the union. In any case, the whole cost is borne ultimately by the union members, since the union's contribution is paid out of dues collected from its members. Difficulty is experienced in maintaining the degree of participation required by the insurance company because of the resultant high cost to insured members. Participation is necessarily required to be as high as 75 per centum and is often compulsory. Provision may be included in the policy covering additional amounts of insurance selected by the individual, without the 75% participation requirement, but subject to medical examinations. No such provision is included in employer-employee group policies.[11]

Opinions as to the social need for this insurance differ considerably. In general, arguments for and against Trade Union Group Insurance hinge on the attitude to organized labour. Advocates of this form of protection point out that it enables a member to retain his insurance while changing at will from one employer to another, that the insured is not bound to any employer

[11] From notes on Group Insurance issued by the New York Study Panel on Group Insurance (1944).

by insurance ties, that the loyalty of the member's family is transferred from the employer to the union, and that the employee is in a stronger position in bargaining with the employer when there is no pretense of a gift in the form of insurance coverage on the part of the employer. Those who hold views favourable to such insurance are, of course, supporters of the importance of organizing labour. The validity and worth of their arguments from an individual viewpoint is purely subjective.

It appears that collective insurance (group insurance) covering the members of trade unions would interfere with employer-employee insurance to a certain extent. Since many workers are members of different trade unions, any extension of Trade Union Group Insurance would apparently duplicate protection on many employees already insured under employers' contracts. Unnecessary duplication effected would force workers to choose between the two alternatives because of increased cost. Where participation under trade union contracts is compulsory to membership in the union, enrollment under employers' contracts would probably suffer.

The experience of many insurance companies with this form of coverage has not been entirely satisfactory. It will be necessary, however, to experiment further under proper safeguards before any decision as to the desirability of continuing the protection of members of trade unions under group policies is reached.

Group Insurance Covering Associations - Occasionally associations of teachers, lawyers, preachers, employees and so on, are protected by a group policy. Such organizations differ widely as to the social need for the insurance, as to characteristics regulating the premium payments, and as to the stability of the proposed group. As a result, the success of these extensions of collective insurance is questionable. Certain associations tend to favour the success of a group scheme but, in general, conditions prevent the smooth working of any such scheme.

Creditors' Group Insurance - This form of Group Insurance, which has not been written very widely, is designed to cover borrowers from one financial institution or purchasers from one vendor who pay in installments over a period not longer than 10 years. The insurance policy is held by the lender or the vendor who is the beneficiary. The amount of insurance is limited to the balance of indebtedness and so protects the policy-holder from loss due to non-payment of the money owing him. Coverage is automatic and premiums are remitted by the policy-holder, although it is not required that he bear the cost of any portion of the insurance. It is highly probable that the cost of the protection is passed on to the borrower or purchaser in the form of higher interest rates.

Since its recognition under New York law in 1929, this type of coverage has been increasingly successful. Where the policy-holder has a sufficiently large number of debtors, the characteristics necessary for safe and economical insurance are present. Experience in this field has been long enough and of such a nature to demonstrate that this extension of Group Insurance coverage can be very successful.[12]

[12] Memorandum submitted by the Life Insurance Association of America to the Life Committee of the National Association of Insurance Commissioners, December 5, 1944 (p.2).

Chapter lV

Group Sickness and Accident Insurance

Many insurance companies have for years been active in maintaining and restoring health through their health insurance activities. Programs of life conservation have become a part of the business of many underwriters and have developed along several lines. Thus it is not the service afforded by their insurance policies alone, but also the many supplementary services supplied, which have done much in improving national well-being.

Among such services is included the distribution of health information. This is distributed through the media of periodicals, pamphlets, booklets, special advertisements and motion pictures. A nursing service is also maintained by some companies, with free visits to the homes of policy-holders. In addition, health problems have been met by means of educational programs. Admittedly, such services make health insurance more appealing to the public and more profitable to the underwriter, but the benefits cannot all be calculated in terms of monetary gain.

The health programs of insurance companies were intended primarily to benefit the lot of the wage-earner. An extension of this idea led to the first Group Accident and Health contract about 1914, designed to compensate the insured for loss of income due to sickness or accident. Another type of related group coverage, Accidental Death and Dismemberment, was introduced in its present form about 1922. Hospital Insurance and Surgical Fee Benefits for employees were issued first in 1935 and 1938 respectively. The stability of labour was further increased when Group Hospital Insurance was made available for dependents in 1939 and Group Surgical Fee Benefits, in 1940.

The four kinds of protection mentioned above may be written in different combinations.[1] Usually, however, Hospital Insurance and Surgical Fee Benefits are not written alone, but are supplementary to Weekly Indemnity Insurance,[2] the modern counterpart of the first accident and health contract. Accidental Death and Dismemberment Insurance is never written alone. It is issued in conjunction with any other type of group coverage, including life. It cannot, however, be written with Surgical Fee Benefits alone. Dependents' insurance is, of course, written only in conjunction with the corresponding employee insurance. The most complete group plans are combinations of the four divisions.

Certain regulations apply generally to the above plans unless otherwise provided. In addition, there are regulations which apply to each of the plans individually.

[1] See Appendix H, "Proposed Plan of Group Accident Protection for McMaster Students."

[2] See page 46.

General Regulations - Non-occupational accidents and all sickness not covered by Workmen's Compensation are subject to benefits. Most injuries, incurred while employees are at work, are covered by Workmen's Compensation; but these constitute a comparatively small proportion of the disabilities which employees sustain. There is, therefore, wide scope for non-occupational sickness and accident coverage. Occupational protection may be provided in cases beyond the scope of the compensation laws. Accidental Death and Dismemberment benefits may provide protection against both occupational and non-occupational accidents.

Most policies are written on groups where the employer-employee relationship exists. Other types of groups are usually excluded by insurance companies. In groups eligible for the coverage, all employees, or only those of certain definite classes, are eligible. The protection is restricted in most cases to employees under age 70 who are actually working on full time. Pensioners and part-time employees cannot be insured. Employees who begin work after a scheme is put into practice must serve a waiting period of a certain length, usually three months. This waiting period may be made longer if a high labour turnover is indicated. In this way, employees of a temporary nature are eliminated and the possibility of selection adverse to the underwriter is decreased.

Less than 50 employees may be insured as long as the number insured constitutes a certain percentage of the total of employees in the group. The following table is an indication of how the minimum required is ascertained:[3]

Number of Employees Eligible	Minimum Number Required
50 or more	75%
44 to 50	38 employees
30 to 43	85%
25 to 29	25 employees

No medical examination is required in the groups of 50 or more employees. Where the group consists of from 25 to 49 employees, the insurance company has the right to require evidence of insurability.

It has been found that participation generally exceeds the required minimum because of three main reasons. In the first place, the flexibility permitted in determining the scale of benefits allows a particular group to adopt a scale that fits in with the employees' needs, desires and ability to pay. Secondly, the energetic co-operation of the employer is gained. This may be done by having the employer contribute, thus giving him a financial stake in the plan. Finally, most plans are made as simple as possible, with only the few restrictions and exclusions necessary for sound underwriting.

Extra premiums are required on many policies because of the nature of the membership of the group or

[3] Table employed by the London Life Insurance, London, Ontario.

because of the hazardous nature of the particular industry concerned. When a group consists of a certain number of women or members of non-caucasian races, the extra premium charged depends on the percentage of these which are in the group. Extra premiums are usually charged where more than 11% of the group are women or "non-caucasians." The extra charge increases as the percentage increases. Age may also effect the premium to be charged for sickness and accident coverage. A distribution of ages above the normal, such as 10% of the group being over 60 years of age, may necessitate an extra premium charge. Naturally the nature and hazards of the occupation at which employees are working also must be considered. "Substandard" industries, in which a sickness rate higher than the normal is experienced, are classified into various groups on which extra premiums for different amounts are placed.

The employer is often required to contribute a good part of the premium payment. A minimum of 20% may be set by the insurance company for the employer's contribution. This serves to decrease the cost to the employees covered and it also ensures that the employer will not be lax in administration of the benfits of the plan. Since the cost of insurance depends largely on the claim rate, the employer will enforce safety rules and install safety devices in order that the claim rate be kept low. In this way, the insurance premium is reduced and the cost to the employer, minimized.

As in the case of Group Life Insurance, a master policy is issued to the employer and a certificate of insurance is issued to each employee covered, which sets forth the main provisions and benefits of the plan. Employees' contributions toward the cost of the insurance are deducted regularly from their pay. Insurance terminates upon cessation of active employment or upon the contract anniversary following the attainment of the age of 70 years.

Weekly Indemnity Insurance - This type of Sickness and Accident coverage provides a definite income, partially to replace the employee's loss of income during disability. The best plans relate the weekly benefits to the average weekly earnings of the worker, since these are the best indication of need resulting from the loss of those earnings. The percentage of earnings to be paid in benefits depends on the policy of the underwriter and the terms of the contract. Maximum weekly benefits range from one-half to two-thirds of average weekly earnings in different insurance companies. Higher benefit rates naturally mean increased premiums.

Cost of this form of insurance is also influenced by the determination of when indemnity payments are to start. Disability due to accidents and sickness are usually differentiated as to the day of disability on which payments begin. The best type of coverage provides for accident disabilities to begin on the first day and sickness disabilities to begin on the fourth day. In this way excessive absenteeism on the pretense of sickness is guarded against. Any scheme, however, should be modelled to fit the particular needs of the group involved.

The duration of benefits may be set at a maximum of 13, 26 or 52 weeks. The thirteen-week maximum is probably the most common, however, since a longer period causes undue cost when the average duration of disability from any cause is about 6 weeks. Other factors also influence the premium rates. Most important among these is the percentage of women employees in the group. Experience has shown that women lose more time due to disability and this fact must be recognized when rates are being set.

Hospital Insurance - This provides reimbursement within specified limits for charges made by the hospital for expenses actually incurred. Limits are placed on the amount and duration of benefits, although payments for special hospital services, excluding surgery, are made up to a certain limit. Additional rates are charged in the case of a group with eleven or more women per hundred employees. In contrast to various hospital plans available to individuals, payments under group hospital insurance are made direct to the individual benefiting rather than to the hospital and are made only after discharge from the hospital.

Hospital Insurance is also available for the dependents of an insured employee. Dependents are classified as the employee's wife and unmarried children over three months and under eighteen years of age. The inclusion of dependent coverage necessitates restriction of the rate of benefit or a contribution by the employer to the cost. Otherwise the employee-contribution becomes so high that proper participation is difficult to obtain. Underwriters must also exercise caution in liberalizing benefits on the basis of early favourable experience. The claim rate tends to increase as benefits are liberalized. This is the case in all group accident and sickness plans, and it has been deduced that too liberal benefits may be an element contributing to absenteeism and malingering.

Surgical Fee Benefits - These reimburse the employee for the actual fees charged for designated operations subject to specified maximum amounts as set forth in a schedule in the policy. An over-all maximum of usually $150 is set on any one operation or on operations performed during one disability.

This form of coverage is not issued alone, but normally in conjunction with Hospital Insurance. Surgical Fee Benefits are avilable for dependents as defined under Hospital Insurance. The benefits payable to both employees and their dependents cover the exact surgical fee incurred, but not in excess of the maximum contained in the schedule.

Accidental Death and Dismemberment Insurance - This type of coverage is written only with some other form of Group Insurance. An accident that causes loss of limbs or sight usually means a prolonged period of disability, and afterwards, the necessity of finding a new type of work. This insurance takes care of this emergency and also provides insurance in the event of accidental death. Such a policy in conjunction with Group Life Insurance provides a benefit similar to that provided for by the double indemnity clause in individual policies.

Benefits are paid in a lump sum or in instalments totalling a specified aggregate amount. The principal sum is paid in the event of accidental death or major disabilities, while one-half is paid in the event of a less serious disability. Most contracts provide for payment of benefits in the ~~case~~ of death or disability resulting from either occupational or non-occupational accidents.

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Group Annuities

The Group Annuity is that type of coverage under which an employer makes provision for retirement incomes for his employees through an insurance contract.[4] Many employers maintain a company plan of pensions for those workers who have given faithful service. Group annuities, however, are undoubtedly a much more satisfactory basis for old age provision.[5] This is because of the substantial costs involved in retirement plans, which are met

[4] L.I.Dublin - "A Family of Thirty Million," (p.184).

[5] J.B.Maclean - "Life Insurance," (p.380).

best by "funding" during the active working years of the employees. Unless the costs are "funded" through the medium of insurance companies, the payments necessary may be so great as to result in curtailment or even discontinuance of the plan.

The first group plan, other than that of the Carnegie Corporation for university teachers, was written in 1921,[6] and since that time group annuities have become increasingly important. Most plans are contributory, but may also be paid for entirely by the employer. The annuity usually becomes payable at age 65 for men and 60 for women, although any age below 70 may be selected. Unlike other types of protection offered under group contracts, group annuities have cash surrender values. At an employee's death, the total amount he has contributed (with or without interest, depending on the terms of the plan) is paid to his beneficiary, less any retirement income already paid to him. On withdrawal from a scheme for any reason, the employee may receive his total contributions, or take a Paid-up Annuity based on these contributions. Frequently a policy may provide for the Paid-up Annuity to be based on the employer's contributions also, if certain conditions are met.

As a general rule, not less than 50 employees nor

[6] J.B.Maclean - "Life Insurance," (p.380).

less than 75% of a group must be included under a group plan. This requirement is to ensure economical administration. Many other regulations which apply to group annuities have already been described under other forms of group coverage. One feature of a group retirement plan which is of interest, however, is that which deals with benefit payments. Many plans take into consideration any pensions from other sources when deciding on the benefit to be payable under the group policy. Usually a total annual income at retirement of the employee of from 40% to 60% of his average yearly earnings is considered best.

It is unlikely that government annuities will ever replace group plans. Payments under the former are often very small in comparison with the individual's average earnings. Group plans provide for reasonably substantial benefits. The reduction of activity by insurance companies in the field of group annuities in recent years has not been due to lack of demand on the part of the public. The reason has been the greatly increased difficulty experienced by underwriters in satisfactorily investing the substantial reserve funds which were being rapidly built up.[7] When future opportunities for investment of such reserves appear, activity in the field of Group Annuity plans will automatically increase.

[7] L.I.Dublin - "A Family of Thirty Million," (p.186).

Chapter V

Economic Aspects of Group Insurance

Group Insurance presents an important problem for consideration when studying our present industrial set-up. It may be found wherever a number of people are grouped together under the employ of one man. In addition to ameliorating employer-employee relations, it has led to greater security for the worker. Nothing is perfect, however, and so Group Insurance is liable to criticism, some of which is valid and some not.

In the first place, Group Insurance has gone far in improving labour-management relations. As industry has become more and more concentrated, there has been a gulf formed between the "boss" and his workers. An impersonal relationship has become evident in most of the large manufacturing establishments. There is a lack of acquaintanceship and of understanding. The workmen feel that they are simply cogs in a great machine which takes no particular interest in them. Management is sometimes prone to overlook the feelings of the workmen and fails to take advantage of gaining the employees' good-will. Any requests or grievances by the men are disregarded or are not given fair consideration. Lack of acquaintanceship also leads to a mutual lack of confidence.

The extent to which this gulf in industrial relations may go was shown when factories began safety campaigns. In order to prevent accidents it was necessary to secure the co-operation of the men, sigce most accidents cannot be prevented by mechanical guards alone. Co-operation was secured by direct contact between management and the workmen and resulted in improved relations and better understanding.

The institution of Group Insurance plans in many establishments has also led to improved employer-employee relations. The employer is enabled to offer his workers something in addition to their regular wages. He feels that he is contributing materially to their welfare as well as to that of their families. At the same time the employee is led to believe that the management is genuinely attempting to help him. No personal contact may be made but, nevertheless, a better understanding between labour and management is fostered. Appreciation of the efforts of management in their behalf extends not only to the worker himself but also to his family. In this way, the loyalty of the workers is gained and an "esprit de corps" develops.

Labour turnover is reduced by the adoption of a group scheme for protection of the employees. Not only is the turnover of labour reduced but it becomes easier to secure additional labour when it is needed. The presence of group protection makes a job more desirable. Before an employee considers leaving a job in an establishment which provides a group scheme for the protection of its workers, he must remember that the insurance under this scheme ceases upon termination of his employment. Because of this, an employee is reluctant to leave even if the employer he is going to, also provides Group Insurance. Some benefits are based on length of service and, as a result, any labour turnover is unprofitable for the employees concerned.

Reduction of labour turnover directly benefits the employer. New workers need not be constantly trained in particular jobs. A certain stability of method is achieved in production. Each man knows exactly what he is supposed to do and each learns to co-operate with his fellow-worker. The increased production which results, usually more than repays the employer for his contribution to the cost of Group Insurance.

Group Insurance may also reduce absenteeism and the cost of accidents. When the benefits of medical care and hospitalization are avilable, workers seldom lack proper care when it is needed. They are invariably in better physical condition and so do not have unduly long illnesses. Accidents are also less common among physically fit workers. Reduction in accidents may not be entirely due to the good physical condition of employees, however, because safety campaigns may be carried on by the employer. The cost of the protection is based to some extent on the claim rate in an individual group, and so a reduction in the number of accidents automatically reduces the expense. Absenteeism is not always reduced by group protection. It is often found that if benefits are too liberal, the claim rate will be very high. Thus absenteeism and malingering are increased in such a case. Insurance companies often find it more effective to lower the rates of benefit than to increase the premium.

The protection afforded under group schemes increases greatly the security of the employee and his family. Provision is made to pay for hospital and doctors' bills, as is also, provision for dependents in case of the employee's death. A source of much worry is removed and the worker can devote all his energy to his job. He does a better job and takes more interest in his work. An additional consideration is the low cost of the coverage to the employee. Under a group plan, a worker can secure coverage which he would not be able to pay for otherwise.

The age of employees covered by a group contract greatly affects the collective attitude toward this coverage. As a general rule, older workers are appreciative of Group Insurance, while younger employees are not interested in anything that takes money out of their pay-envelopes. These attitudes are due to the relative distance of any prospective benefits from the insurance. Older employees are appreciative because they anticipate benefits which more often accrue to them. For younger workers the prospect of benefits is more remote. The solution to this problem lies in "continuous Selling", full understanding on the part of all employees as to objectives, the serving of common interests, and of the tangible benefits which accrue.

The same solution applies to the cases when the insurance protection provided by the employer is "taken for granted", accepted as a "right" and is little appreciated. Such an attitude is most common in non-contributory schemes where the situation might be relieved by the introduction of contributory Group Insurance. Many firms have found it profitable, also, to let employees share in administration of the scheme. This is accomplished by a joint labour-management effort in administering the protection.

Labour unions at first objected to the idea of Group Insurance. Group schemes were originally set up only upon the employer's initiative. As a result, only some employers offered their workers this protection. Some workers, therefore, were contented in their jobs and were less prepared to quit their work when the union called a strike. Group Insurance was contrary to the best interests of the union although it was in the best interests of the workers. The unions also objected to the coverage on the grounds that the cost came out of the wages of the workers and that the employer could discontinue the policy whenever he wished. These criticisms deserve further discussion.

That workers are less prepared to leave employers who offer them group protection is a natural criticism for labour unions to put forward. The success of labour organizations depends upon the degree to which they control labour. If some workers refuse to follow the orders of the union, the union suffers a loss of prestige and is open to further rebuffs. Workers who go on strike lose the protection of their group scheme. Thus the existence of Group Insurance in some establishments constitutes a constant threat to the effectiveness of the union. This does not mean, however, that Group Insurance is to be condemned. It is highly desirable from the individual viewpoint and it is easily seen why workers who are subject to its benefits would not wish to leave their jobs. The strength of organized labour is thus reduced but, as we shall see later, the unions are now adopting a new approach to this problem.

The unions also claim that the cost of group coverage comes out of wages. Even if this claim were entirely correct, would it constitute a valid criticism? The benefits go to the wage earners; employers receive only indirect benefits. Under such plans employees may obtain protection at less cost than anywhere else and so the institution of a group scheme is a real service to the worker. In addition, the employer pays all the administrative costs of the plan and handles the payment of premiums. In spite of these facts, however, the employer usually makes some contribution to the material cost of the coverage.

It is also charged that when the employer does pay a part of the premium, any dividends allowed by the insurance company to the group are given to the employer. In this way his net contribution is reduced considerably. Premiums paid by the employer are recognized as part of regular labour cost by tax authorites in U.S.A. Because of this, they may be deducted as a labour expense before taxes are calculated. Accordingly, the actual net cost to the employer is considerably reduced and may even be as low as one-fifth of the actual gross premium.

Labour unions initially opposed Group Insurance schemes because of the threat they presented to the effectiveness of labour organizations; to-day, they advocate group coverage for exactly the opposite reason. The unions have realized that this type of insurance is beneficial and desired by the bulk of wage-earners. Labour organization has not advanced to that stage where unions can overlook the demands of their members. In fact, it may be said that the opposite is true.

Unions are constantly encroaching upon new fields in order to maintain interest in their organization. Interest of the worker is vital to the existence of the union because the individual is prone to forget the hand which fed him before he could make his own way. For this reason, the unions are continually raising new questions which are not within the scope of collective bargaining.

Regardless of whether Group Insurance does or does not fall under the scope of collective bargaining, many labour organizations[1] now include it in their bargaining agreements with employers. Thus workers who belong to these organizations are protected by Group Insurance apparently as a direct result of the union's efforts on behalf of its members. Furthermore, efforts are made to provide for payment of the whole cost by the employer. To justify this change in the ordinary system of group coverage, emphasis is placed on the dividends and tax exemptions which employers receive on the basis of premium payments, on the elimination of the cost incurred in collecting payroll deductions, and on the full participation which such a change would guarantee.

There is no panacea for the solution of any problem. Obvious imperfections exist in group policies available through private insurance companies. Remedies for some of these gaps are available and frequently are employed. In the first place, to obtain minimum cost so large a group is required that the smaller employer is not able to avail himself of the system. This is one defect which cannot be remedied to any extent unless

1 United Furniture Workers of America - C.I.O., and United Electrical, Radio and Machine Workers of America - C.I.O., are two such organizations.

insurance companies find some means of decreasing their rates. The trend toward establishments employing greater numbers of workers is effecting a natural remedy of this problem. The average number of employees per establishment has increased greatly in recent years. The following figures relate to manufacturing establishments:

Year	Average Number of Employees Per Establishment[2]
1929	29.4
1939	26.5
1941	36.6
1942	41.4

As the size of groups increases the cost of group coverage decreases proportionately.

Secondly, the insurance protection may be forfeited when the employment ceases. Where this does take place, it must be admitted that it constitutes a weakness of the individual policy in question. Generally, the need for insurance is even greater after the termination of employment. The employee no longer receives a regular income, unless from a pension, and must rely upon savings to pay for future insurance. This weakness in Group Insurance may be remedied by provision in the group policy for coverage extending beyond the period of employment up until the death of the insured employee. Such

[2] Canada Year Book, 1945 (p.426).

extension of coverage may be provided for in the payments made during employment or by payments after retirement. Such a provision avoids the high cost of conversion to an individual policy.

The high cost of conversion is the third weakness of group policies. Unless otherwise provided, an employee leaving employment must apply for an individual policy if he wishes to secure the protection afforded by insurance. This procedure involves an absolute increase in cost which is often too great for the retiring employee, as proven by the small percentage of policies which are converted.

Another criticism, which applies to the sickness and accident coverage in particular, is that inadequate provision is made for the cost of unusual or prolonged disability. Adequate provision is made for disabilities lasting only a few weeks but many persist for periods greater than those provided for in the policy. Such lengthy illnesses may prove disastrous to the individual employee concerned. Although no solution of this problem has yet been agreed upon, it is not inconceivable that one may be worked out within a short time.

Despite defects in the present system of underwriting Group Insurance contracts, it is an undeniable fact that this form of coverage has gone far in easing the situation of the wage-earning class. Insofar as these defects may be remedied, further improved conditions may be expected. That Group Insurance has improved employer-employee relations is a recognized fact. Employees welcome group protection because of the added security which it affords to them. The motives which actuate employers to instal group contracts, however, are more varied. In an attempt to discover these motives, the National Industrial Conference Board of New York made a survey to which about 450 employers subscribed. Some employers mentioned more than one reason for providing group protection for their employees. The various reasons and the number of companies mentioning them are as follows:

Number of Companies	Reason
129	To reduce labour turnover.
101	To help employees and their dependents.
89	To secure better co-operation and loyalty.
64	To express appreciation of the services and loyalty of the employees.
29	As, or instead of a gift.
25	To give insurance to employees who did not have it.
20	To provide insurance for employees physically or otherwise unfit for acceptance under ordinary insurance policies.
20	For general humanitarian reasons.
15	To obtain increased efficiency by removing one of the sources of worry to an employee.
13	To attract applicants for positions.
11	To avoid collections among employees or contributions from the firm.

Number of Companies	Reasons
Cont'd.	Cont'd.
8	To serve instead of a bonus or pension.
7	To offer benefits provided by labour unions or competitive firms.
7	To encourage thrift and additional insurance.
3	To increase the benefits provided by their mutual benefit societies.

One reason for the installation of Group Insurance contracts by employers which promises to increase in importance is not included in the above survey. This is its inclusion in collective bargaining agreements because of union pressure. Several unions have already adopted this method of maintaining the interest of their members. If it proves to be successful, other unions will undoubtedly employ it for the same purpose.

Chapter VI

Group Insurance or Social Insurance

Social security is one of the foremost problems facing the people of any country. The means of attaining this end are the subject of much controversy. In Canada controversy revolves around the expansion of group coverage as opposed to compulsory social insurance. In the final analysis, it is a question of the relative efficiency of public and private enterprise in a field in which private enterprise has proven itself.

Group Insurance, in the comparatively short period of its existence, has rapidly expanded in scope and coverage. In its present form it offers at least a partial, if not complete, solution to insurance problems of the working man and at low cost to all concerned. It necessitates no burden of additional taxation on the general public since the cost is met by those who benefit, either directly or indirectly. Thus national benefits similar to those expected under a social insurance scheme are forthcoming without an increased expenditure of national income. It is possible that in the further development of group coverage may be found a better solution of the problem of insurance protection for workers than that afforded by compulsory state insurance.

If the majority of the people decide that they want a government scheme as a means of protection against certain social hazards, such a scheme will undoubtedly be inaugurated. Before a decision is reached, the public should be made aware of the essential facts which come under consideration in discussions of the expediency of compulsory insurance. Several basic problems present themselves in a venture of this kind which, because of their nature, will probably influence public opinion to some extent. The primary problem is to decide whether the introduction of such a scheme is necessary or whether some other plan exists, or could be developed in its place, to the advantage of the public. Supplementary problems, such as administration and cost, play an important part in the determination of a satisfactory solution to the primary problem.

There appear to be two possible methods of attaining social security in Canada. The expansion of group cover in combination with the now-existing government measures such as Unemployment Insurance, Family Allowances, Workmen's Compensation and old age pensions is one possible solution; a comprehensive government scheme of compulsory social insurance is the second. The method to be employed depends upon the direction in which the balance of public opinion swings. Regardless of whether the government approves, or disapproves, of any suggested scheme of social insurance, the ultimate decision will rest with the mass of the people.

Any government scheme of social insurance will not meet with general opposition if the public considers the plan a sound one and one that will afford them protection at reduced cost. The public, in general, are satisfied that the insurance business, as it now operates, is soundly managed. Any change represented as ensuring a much more economical administration and a consequent reduction in cost will, however, be looked upon with favour. The question arises whether the government actually could reduce the cost of protection in those lines of insurance now offered by private enterprise. Here enters the constant argument of the relative efficiency of public and private enterprise.

The common belief is that private control is generally more economical than public. The validity of this belief depends upon the individual case. It has been found that the operation of certain services by public officials is more efficient than operation by an individual businessman. Whether this would be the case in the insurance field is a matter of pure speculation. As a matter of fact, the expectation of such a result seems to have little foundation. Competition now operative in the insurance business tends to bring rates down and to broaden the coverage granted under insurance contracts. In addition, public safeguards are placed about its operations which serve to further protect the people. If the government took over the insurance business , or any part of it, competition would cease entirely in the publicly controlled lines of insurance. The people would have to be satisfied with the rates and coverage as fixed by the government.

There is a curious anomoly in the opinion of some business men on the subject of social insurance. They believe that while the government could conduct the insurance business more efficiently than private enterprise is doing at present, it could not carry on their particular business as efficiently or as economically as they can. This view is similar to that of the bureaucrats who wish to get control of the accumulated billions of insurance assets. Such views are refuted by the fact that companies have made insurance one of the soundest and biggest institutions now furnishing an indispensable service to the public.

"Social insurance is a step, though seemingly a mild and innocuous one, towards a bureaucratic or totalitarian form of government, under which the state, while undertaking to provide for the welfare and security of the people from the cradle to the grave, also assumes the control and regulation of all activities of the people from the said cradle to the said grave."[1] The doctrine of individual freedom, initiative and responsibility which we uphold as democracy is, therefore, in opposition to any such step. The well-intentioned theorists and social reformers, who advocate government

[1] Saturday Night, Aug. 11, 1945, G. Gilbert, "On Insurance."

schemes of insurance, ignore this fact; while central governments favour anything which promotes the extension of their control.

The cost of insurance protection afforded under a government scheme would probably be higher than that offered by private enterprise as Group Insurance. The administration of group coverage is simple in comparison with the cumbersome and expensive machinery necessitated by compulsory insurance. As it is proposed for Canada, social insurance would be administered by the federal government through the medium of the provincial governments. The complicated central administration would have to be duplicated in each province. The expenditure to maintain this army of government officials would constitute no small amount. The administration of group coverage is already set up and functioning in a much simpler and more economical way. The private insurance business benefits from many years' experience.

Premiums for group protection are collected through payroll deduction or some other relatively inexpensive method. Contributions for compulsory insurance would necessitate a much more complicated and expensive method of collection. These could be collected easily through employers but there are many people who could not be reached in this way. The incomes of household workers, farmers, lawyers. physicians, dentists, independent salesmen, etc., are not subject to payroll accounting.

Expenditures involved in collecting contributions from such people would reach a high figure.

An additional consideration is concerned with the incidence of the cost of compulsory insurance protection. Most of the cost would be thrown on the productive members of society, since they are better able to pay. The incentive to work would be less because of this and the problem would be accentuated if benefits were considerably higher than public relief payments. More people would be satisfied to accept the benefits from their insurance rather than work and malingering would be encouraged. On the other hand, the cost of group protection falls on those who receive the benefit and is graded according to the amount of benefit. The incentive to work is, if affected in any way, increased, and careful scrutiny of benefit provisions keeps malingering and absenteeism at as low a figure as possible.

It is quite believable that people who cannot afford to purchase individual protection against those things which are covered by social insurance would likewise be unable to make the required contribution. Any benefits which accrue to these people are nothing more than relief payments. The care of such people under the guise of insurance does not alter the true nature of the government expenditure so incurred.

Proposals for social insurance in Canada are based on the attainment of "full employment" and agricultural prosperity.[2] Of course, what is meant by full employment is not made clear, although it is admitted that unemployment amounting to 25 or 30 per centum of the working force accompanied by widespread rural depression would place any scheme for social security in a bankrupt position. Moreover, full employment and agricultural prosperity are necessary from another standpoint. Because of the substantial amount of national income which would necessarily be needed for the proper functioning of a social insurance scheme, there will be a greater handicap in competing for a share of world trade.[3] In addition, the tax on business and payrolls makes the necessary attainment of full employment much more difficult.

Any scheme of national social insurance to be instituted in Canada and administered through provincial departments faces dangers similar to those which attended the old panel system in Great Britain. An excellent

2 H.M.Cassidy - "Social security and Reconstruction in Canada," (p.135).

3 This fact is proven by German experience. After a compulsory insurance scheme was first instituted in Germany, that country experienced difficulty in competing for its share of world trade. The cost of production of goods for export rose so high that no buyers could be found. To counteract this, Germany, by means of propaganda, prevailed upon other countries to institute national insurance schemes so that their costs would also rise and Germany would be able to compete, once more, in international trade. Some people attribute Great Britain's social insurance scheme to this propaganda.

critical analysis of this system was made by Frederick L. Hoffman.[4] Unless extremely well supervised, any national insurance scheme would deteriorate into a number of loosely related provincial schemes. Standards of medical treatment, benefits and rates would vary from one province to another. It is conceivable that worse medical care might be offered the people than if no national insurance scheme were in effect. The purpose of social security would thus be defeated.

From the foregoing discussion there are many points which may be chosen to dictate against any system of social insurance. Disregard of evidence is, however, typical of the modern propagandist who aims at a different, instead of a better, state of things. Nothing is more alarming in the history of government than the menace of hasty and superficially considered drastic legislation; unless it be the mania of blindly following the precedent set by one country regardless of fundamental differences in the national life and character of another.

To form a rational decision on the merits of a government scheme of insurance, the public should be supplied with the history of private insurance and of public insurance in Canada and elsewhere. In coming to a decision of how much social insurance the public wants, it should keep in mind that it may not be a question of having social insurance in addition, but of having it

[4] National Civic Federation - "Compulsory Sickness Insurance," Addresses Annual Meeting, 1920, (pp.49-117).

instead of other things.[5] Besides the heavy taxes or contributions which individuals must pay, prices rise because the cost of any social insurance system undoubtedly falls upon wages and becomes therefore an element of production.

By means of the various forms of group coverage, which have been greatly developed in a relatively short time, and promise to be further developed, a fairly complete system of protection for workers can be provided on a voluntary private enterprise basis and at no expense to the general taxpayers. In conjunction with the various government measures already in force and with public relief for the destitute - social insurance provides little more for the poorest class of the community, Group Insurance can provide social security for a large part of the population. That part which cannot benefit from group protection would likewise be almost inaccessible by social insurance. In any case, the cost of extending social insurance to these people - household workers, farmers, etc., would be almost prohibitive.

Thus we see that Group Insurance can give security to the masses of the working population who would benefit most from a government scheme of social insurance. Moreover, private enterprise can provide this security more efficiently and more economically than can the government.

5 Saturday Night, April 28, 1945, G. Gilbert, "On Insurance"

There is no valid reason why the government should impose additional taxation upon the people in order to establish social insurance schemes for the same purpose.