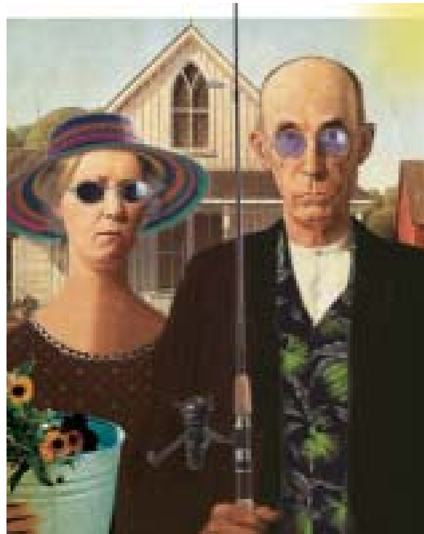

Focus on What Works

The review in the September/October issue of *Contingencies* by Bruce Schobel of the new book (attack?) on Social Security by John Attarian (*Social Security: False Consciousness and Crisis*) glossed over the insurance contract aspect of OASDI. In my view, Social Security is an insurance contract between willing parties (by representative majority) that is enforceable by law.

The parties are the working people of the United States (almost universally) and their federal government. The subject is the collection of contributions (in the form of taxes) from those workers in sufficient amount to pay defined benefits to certain defined beneficiaries. The workers must, by law, pay the contributions and the government must, by law, pay the benefits.

In our culture, and in most cultures, each worker is responsible for supporting the aged, retired, disabled, widowed, and orphaned (i.e., those who cannot work) beneficiary members of his or her own family, in concert with his or her own fellow family worker members, if any. Without Social Security, this would be a free ride for some and a crushing burden for others.

Social Security insures every insured worker against the risk of having more beneficiary members in his or her family than he or she can reasonably support at any particular time. The U.S. Social Security system works!

The future of the system is insecure in part because it's so successful. The financial support we provide to the beneficiaries enables them to live much longer as well as more comfortably. The result is, we need more workers per beneficiary.

The solution to this practical problem is a different subject from defining and accepting the system. Let's accept that what we have is good and has served us well. We can then proceed to the workers/beneficiary problem without getting sidetracked onto halfway and inappropriate measures.

PETER M. THEXTON
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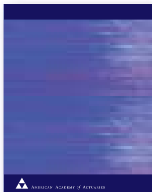
A Better Solution

This is a rather belated response to Julia Philips' *Contingencies* article,



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"Changing the Rules in Mid-Game" (November/December 2002).

Our current group health insurance pricing practices are topsy-turvy. Employees enjoy subsidized (or "free") health insurance when they have relatively high incomes and fewer health problems. But when they retire or become unemployed, they face high premiums at a time when they're more likely to have major health problems and low or no income. Retirees need paid-up coverage, and the unemployed need a suitable premium-free period.

Ms. Philips is dealing with only a small part of the problem of assessment spiral, which has been plaguing health insurance rating for several decades now and is only a small part of the problem. Her solution might benefit a microscopic minority of claimants, but would spread the cost over an ever-decreasing number of persisters and exacerbate the assessment spiral.

I had addressed this problem in my *Contingencies* article, "Affordable Health Insurance for Faithful Persisters" (May/June 1998), and in "Stabilizing Health Insurance Rates by Requiring Good Faith Estimates" (November/December 1999). I also published a pricing example in the winter 1998 issue of the Society of Actuaries' *Actuarial Research Clearing House (ARCH)* magazine. With minor changes proposed below, the needs of retirees and the unemployed can be met satisfactorily.

Instead of earning a paid-up period at the end of a specified premium term, the paid-up period would accrue continuously, with no fixed insurance term, depending on the number of annual premiums paid. Regulation would prescribe a formula for calculating the accrued paid-up period, based on the number of annual premiums paid in the past.

For example, on paying premiums for five years, the insured would accrue six months of paid-up coverage, increasing to three years after 15 years of premiums, and so on. This means the policy would be paid up for the remaining life of the insured when the unused accrued paid-up period equals the insured's life expectancy according to the mortality table. This would be prescribed by regulation (with gradual transition from the calendar paid-up period to that based on the insured's life expectancy).

The regulation would require the option of reinstatement without underwriting if the unused paid-up period exceeds a certain minimum, with the accrued paid-up period thereafter reduced by the paid-up period already used. The unused paid-up period would also be portable without underwriting for the same or similar benefits if it exceeds a certain regulatory minimum, or when the insured resumes premium payments upon re-employment.

Together with the good-faith estimates requirement I advocated in my November/December 1999 article, this would provide insureds with powerful shopping tools before they purchase insurance, powerful comparison tools during the premium-paying period, and the option of premium-free continuation of insurance during unemployment and on retirement.

Insurers would have to price health insurance adequately but competitively from inception and avoid predatory pricing. This system would reward prudent insureds and penalize the short-sighted. It would encourage and reward the long-term perspective among both insureds and insurers. The proposed methodology is applicable to both individual and group health insurance.

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There is an error in Figure 7 on Page 33 of the November/December 2003 issue, "The Evidence Is In." The X-axis should be labeled "Average Loss Per Physician" instead of "Year Closed." We regret the error.

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