IMMEDIATE ATTENTION

EB/CAP/85/5

December 17, 1985

To: Members of the Committee on Administrative Policies

From: The Committee Secretary

Subject: Changes in Amount of Insurance Provided by the Group Life Insurance Plan for Active (employed) Enrollees Aged 65 and Over

There is attached for consideration by the Committee a paper dealing with changes in the amount of insurance provided by the Group Life Insurance Plan.

In the absence of a request to the Committee Secretary that this matter be taken up by noon on Monday, December 23, 1985, the recommendations will be deemed approved by the Committee for transmittal to the Executive Board on a lapse of time basis.

Att: (1)

Other Distribution:
Members of the Executive Board

Change in Amount of Insurance Provided by the Group Life
Insurance Plan for Active (employed) Enrollees Age 65 and Over

Prepared by the Administration Department

December 17, 1985

Background

1. In 1953, the Fund introduced a voluntary group life insurance plan to provide staff members with additional financial protection in the event of death or permanent incapacitation of a staff member. The Plan, which has been amended several times during the last 32 years, now provides staff members, Executive Directors, Alternates, Advisors, Assistants, and Experts who enroll in the plan with three life insurance options (one, two or three times annual salary without any dollar limit); provides enrollees with accidental death and dismemberment coverage equal to one and a half times annual salary without dollar limit; and allows spouses of enrollees to be insured for a flat amount of $5,000.

2. Enrollees make a monthly contribution to the Plan based on the amount of insurance and age. 1/ The Fund makes a contribution equal to 50 percent of the total contributions of enrollees. Any surplus at the end of the year, after paying claims and the administrative overhead, is returned to enrollees and the Fund in proportion to the amount that has been contributed.

3. In 1964, the coverage of the Plan was extended to enrollees who retire. 2/ The following benefits are currently provided for enrollees retiring after May 1, 1980:

(i) Early retirees (aged 55-64) have the option of continuing insurance coverage equal to one or two times final net salary, 3/ with no dollar maximum;

1/ The monthly rate per thousand dollars of coverage is as follows:

Under age 35	-	$0.12
Age 35-44	-	0.22
45-54	-	0.36
55-64	-	0.54
65 & above	-	0.62

2/ Provided that they had been members of the Plan for a minimum of 10 years.

3/ The reference to final net salary means that the amount of insurance available to the retired enrollee is frozen until he or she reaches the next age bracket--there is no revision on account of subsequent general salary adjustments for active staff members.

(ii) Retirees aged 65-69 can continue to have insurance coverage equal to one times final net salary, with a maximum of $50,000;

(iii) Retirees aged 70-74 can continue to have insurance coverage equal to 50 percent of final net salary, with a maximum of $25,000; and

(iv) Retirees aged 75 and over can continue to have insurance coverage equal to a flat amount of $3,000.

The provision of lower coverage for retirees than for active enrollees is a generally accepted practice for insurance plans of this kind, mainly because age brings a steep increase in the actuarial risk and hence in the potential costs of contributions required to finance a plan. Such reductions are further justified on the grounds that it is reasonable to assume that an older person would typically have accumulated additional assets (e.g., more savings, fully-owned housing, etc.) while at the same time having fewer financial responsibilities (e.g., dependent children, etc.).

4. Virtually all the active enrollees in the Plan are under the age of 65, because this is the mandatory retirement age for Fund staff. However, there is one small group of active enrollees who, at present, are accorded the same amount of insurance coverage as others even though they may be over the age of 65: this group comprises members of the Executive Board and consultants or experts, who are not subject to a mandatory retirement age. The coverage the members of this group who are over 65 can receive under the Plan--up to three times annual salary--is very much greater than that available to retired enrollees of a similar age, as outlined above. Furthermore, unlike staff, Executive Directors are not required to undergo a full medical examination as a condition of their appointment.

5. A review of the history of the Plan suggests that the continuation of full coverage for enrollees over the age of 65 came about more by inadvertence than by design: the general assumption underlying the arrangements incorporated in the Plan seems to have been that active enrollment would cease at 65, i.e., the mandatory retirement age for staff members. The fact that an occasional exception might arise in the case of members of the Executive Board was not given explicit attention. The issue has become of more concern in recent years due to an increase both in the number of active enrollees in the over-65 category--which rose to as many as seven at one point--and in the average amount of insurance for each such enrollee. That there is reason for concern was illustrated not long ago when following the death of an active enrollee at age 76, payments to beneficiaries were made of three times annual salary ($207,000), which was about one-third of all claims paid in that year.

6. It seems appropriate to take action to reduce the substantial financial risk to the Fund and enrollees resulting from the situation outlined above. The steep rise in actuarial risks associated with permitting active enrollees over the age of 65 to have the same full coverage as those under 65 is particularly difficult to justify, given that the great majority of the enrollees who must contribute to the costs of this coverage are excluded from the benefit of such coverage. This seems an opportune time to introduce a change, since at the momemt only two persons are entitled to the exceptional coverage, and one of the two is about to retire. Accordingly, it is recommended that the amount of coverage available to active enrollees aged 65 and over be reduced to the same levels as are available for retired enrollees of a similar age. 1/ To protect the position of present active enrollees who would otherwise be required to accept a substantial reduction in their current coverage, it is further recommended that the reduction apply only to active enrollees who reach 65 after the date this change is approved.

Proposed Decision

7. To give effect to these recommendations, the following decision is proposed for adoption by the Executive Board:

> Effective immediately, the amount of insurance coverage available to active enrollees aged 65 and over will be the same as for retired enrollees aged 65 and over, i.e., 100 percent of annual salary with a maximum of $50,000 up to age 69, 50 percent of annual salary with a maximum of $25,000 between age 70 and 74, and a flat $3,000 thereafter. However, the amount of insurance available for present enrollees over age 65, i.e., 1 times salary, 2 times salary or 3 times salary, will not be reduced until such time as the enrollee retires.

1/ This group of enrollees, like other enrollees, would have the right on the date when their insurance is reduced to obtain an equivalent amount of individual insurance from the John Hancock Insurance Company with premiums based on actuarial assumptions.