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# THE GLF MEMBER HEALTH-LIFE INSURANCE PROGRAM

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**Farmer Cooperative Service**  
**U. S. Department of Agriculture**

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**July 1963**

FARMER COOPERATIVE SERVICE  
U. S. DEPARTMENT OF AGRICULTURE  
WASHINGTON, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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## HIGHLIGHTS

About 6 years ago the Cooperative Grange League Federation Exchange, Ithaca, N.Y., (GLF) began studies of its members' needs and wants for health and life insurance. A number of the GLF members had inquired whether or not it would be possible for the association to provide this type of service.

After 2 years of study and preliminary work, the GLF Health-Life Insurance program was launched early in 1959. About 13,700 GLF members and their employees are now participating in it.

The program provides comprehensive medical expense benefits up to \$5,000 for each illness or accident to help GLF members and their employees meet the cost of hospital, surgical and medical care. In general, this insurance covers 80 percent of such costs after a \$50 deductible, which the member himself pays in full. Exceptions to this general statement are mentioned later in this report.

The program also provides group term life insurance for GLF members and their employees. The member is covered for \$4,000 to age 50, \$2,000 from age 50 to 55, \$1,000 from age 55 to 65, and \$500 after 65. Employees have \$1,000 insurance for 65 years of age and \$500 after 65.

The GLF Member Health-Life Insurance Program is voluntary with each member, or employee, deciding for himself whether or not he wishes to participate in it. To participate, a member or employee must sign an application and pay monthly premiums. The amount of this monthly premium depends on the age of the insured and the number of his dependents.

In New York, Pennsylvania, and New Jersey, this type of program is authorized under the "Trustee Group" provision in the insurance code. For this purpose commercial farmers are recognized as "employers" and GLF is recognized as an association of "employers." This qualifies GLF to serve as trustee for the program.

As trustee, GLF administers the program. It sells the insurance, collects the premiums, remits the money to the insurance company, investigates complaints, and otherwise operates the program. It does not contribute to the cost of insurance.

During the 4 years that this program has been in operation, claims have averaged about 66 percent of premium income. The other 34 percent has been sufficient to pay all operating costs, liquidate the initial cost of organizing the program, and create a reserve equal to about 25 percent of 1 year's annual premium income. With the program now well established, it is hoped that a patronage refund of 15 to 20 percent can be returned to policyholders in future years. A step in this direction was begun in 1962 when some \$365,000 in patronage refunds was returned to members.



The Travelers Insurance Company, Hartford, Conn., underwrites the GLF Health-Life Insurance Program. GLF has retained R.C. Rathbone & Son, Inc., and insurance consulting firm in New York City, to provide consulting, advisory, brokerage, and technical assistance. GLF officials report that it is doubtful whether the program could have gotten underway without this type of assistance.

## THE GLF MEMBER HEALTH-LIFE INSURANCE PROGRAM

By James A. Black  
Farm Services Branch  
Purchasing Division

Some cooperatives have become interested in group health and life insurance programs for their members, and are seeking information about such plans.

This publication describes the Member Health-Life Insurance Program operated by the Cooperative Grange League Federation Exchange, Inc., Ithaca, N.Y., (GLF). It mentions some of the problems encountered in getting the program underway, and indicates how these problems were handled. It lists benefits and costs, and provides information that will be helpful to managers and directors of other cooperatives in deciding whether or not such a plan would be feasible, practical, and useful for their own associations.

GLF, a major regional farm supply and marketing association, launched the GLF Member Health-Life Insurance Program early in 1959. The program is now in its fifth year.

### WHY THE INSURANCE PROGRAM WAS UNDERTAKEN

The idea of offering group insurance to the GLF membership cannot be attributed to any one particular person, time, or place. It is clear that a number of interrelated factors contributed to the concept and led to its realization.

Requests from members played a limited, but significant part. GLF had life and health insurance for its employees as early as 1934. That plan evolved into a group insurance program for employees and their dependents.

Its success prompted GLF to establish another program to include Agent Buyers and their employees. That latter plan went into effect in 1957. The success of those two programs created interest in others, and a few farmer-members began to inquire about the possibility of being included in a group insurance plan sponsored by GLF.

In addition to this interest within the association, there was an outside stimulant. Some other cooperatives had provided a nongroup type of associational insurance for their members, and as a result, had been able to attract some of GLF's patrons.

Probably more important than the direct requests for insurance was management's dual concern for: (1) Providing needed service to members; and (2) improving membership relations.

The basic principle of GLF to provide needed service to members probably would have prompted such a program earlier if the means to do so had been apparent. Although group insurance had been a popular means to insure employee groups for a number of years, the vehicle to bring farmers into this type of program appeared to be lacking.

The laws of most States had been designed and developed around the idea of insuring employees in industry. No clear provisions had been made to include the self-employed farmer, or his employees, in group plans.

At first, there was considerable doubt that GLF members could be insured on a group basis under the law. Farmers ordinarily had not been called "employers", and farmer cooperatives had not been thought of as an association of "employers". This principle had to be established before the plan could be considered.

Through the efforts of R.C. Rathbone, Inc., and the Travelers Insurance Company, an interpretation was obtained from the New York State Insurance Commission ruling that commercial farmers could be termed, and were in fact, "employers" for the purpose of group insurance. The law already provided that the term "employees" could include the individual proprietor or partners. This was the key that opened the door to further consideration.

After it was determined that GLF could qualify to serve as a trustee for a group insurance plan covering its members and their employees, the GLF Board of Directors allocated \$7,000 for further investigation.

### Examining the Feasibility

GLF has had experience in the field of health and accident insurance covering hospital, surgical, and other medical expense benefits for many years. Its own employee group insurance plan has been in force for 20 years. Also, the Agent Buyer Plan was proving to be a successful venture. These earlier programs had been developed with the guidance of R.C. Rathbone & Son, Inc., and had been underwritten by Travelers Insurance Company. Both of these agencies now were of the opinion that a membership plan could be handled successfully.

Some divergence of opinion existed within GLF management. Some saw the proposal as an opportunity to provide a needed service to members and at the same time enhance membership relations. Others believed that it was beyond the scope of GLF. They thought it was too specialized and technically different from any plan yet put into effect.

Competitive features and inter-organizational relations also were an issue. While no program of comparable magnitude was being offered in the region, there were several organizations within the three-State area that had nongroup insurance plans of one kind or another for rural people. Some of these were cooperatives whose membership overlapped with that of GLF.



Some insurance also had been sold through various milk plants in New York for the past 20 years. These arrangements were generally individual policies sold at a discount to farmers delivering milk to the plant. Payment of premiums was facilitated by authorizing milk check deductions.

No comprehensive plan including health, accident, and life insurance was available on a true group basis, and the organizations sponsoring the associational group life insurance that was available did not have the field of membership of the GLF. These were all factors that needed to be weighed carefully.

GLF employed an independent research firm to conduct a survey of members to determine member interest in health and accident insurance and members' attitudes toward the proposed plan. The questionnaire was designed to provide information on type of insurance carried at the time and the degree of satisfaction with the coverage.

Included with the questionnaire was a summary of the GLF proposed plan for insurance for the respondents' review and commentary. This provided an estimate of probable enrollment in the program and general needs of the members.

Of the 4,000 members drawn in the sample, 1,200 replied by mail and 400 were contacted in person. From this response of 1,600 members, 833 commented favorably on the idea of GLF offering insurance and 385 members said they would join such a plan.

From these data it was concluded that interest among members was sufficient to warrant the program and that enrollment would be adequate to justify a self-sustaining insurance program.

After careful consideration, GLF decided to follow through with the insurance plan. In light of their experience with the employees' plan and the Agent Buyers Insurance together with the number of members and their financial stability, it was concluded that GLF had advantages that would enable it to prudently offer a significant service to the membership.

#### Working out the Program

A committee was appointed to work out the details of the membership insurance program. This committee was composed of officers of the GLF Insurance Company heads of the Personnel and Membership Relations Departments, and representatives from R.C. Rathbone & Son, Inc. Representatives of the Travelers Insurance Company also worked closely with this committee.

Members of the committee, of course, were familiar with GLF's employee and Agent Buyers programs and could use these programs as a starting point, but neither of these plans could be used without some fundamental changes because of differences in the groups to be covered.

A tentative insurance policy was prepared using the Agent Buyers policy as a base from which to work. In general, the new proposed program offered the same basic protection but with more emphasis on major medical expenses. Certain restrictive factors including a \$50 deductible and a 20 percent coinsurance feature, were maintained and other inflationary controls were introduced to discourage overuse and overcharges under the major medical expense part of the program.

Establishment of premium rates was complicated by the fact that no program of this type had been established with rural people before, and actuarial data was lacking. The idea that farmers have a high accident rate was generally accepted, but it was not known to what extent a healthier rural environment would compensate.

The average age of GLF members was known to be greater than industry employee groups, but, on the other hand, it was believed that medical expenses in rural communities were less than urban centers. In addition, it was believed that rural families had a greater capability for home care of minor ailments.

Faced with these various unknowns those in charge of the program thought it was important to set premiums that would be attractive to members, especially in view of required out-of-pocket payments as contrasted to the payroll deductions that were a part of most other group employee plans. It was also important to set premiums high enough to assure that no increases would be required in the formative stages.

The general objective was to set premiums that would preclude the necessity of increases for a period of 5 years. The committee reasoned that if there were savings, or overcharges, these could be returned to members as patronage refunds, or rates could be lowered.

#### DESCRIPTION OF THE INSURANCE PROGRAM

The program that GLF finally offered its members and employees follows.

##### Eligibility

The insurance package is available to all commercial farmers who are members of GLF and their dependents. Also eligible are employees of GLF members, and their dependents. A physical examination is not required if applicant enters the program during the period of open enrollment. The plan is noncancellable in respect to any one member or individual.

##### Benefits Provided

- I. Medical Care--Medical expense benefits cover each individual up to \$5,000 for each accident or illness (after a deductible). A patient qualifies for benefits when the covered medical charges per cause, exceed \$50 within any 30-day period. Specific expenses covered by the program are as follows:

A. Hospital Expenses:

Eighty percent of actual expense for board and room with a maximum payable of \$15 per day. Also, 80 percent of other hospital costs such as anesthetic, emergency ambulance, X-rays, and the like.

B. Surgical Expenses:

Eighty percent of surgeon's fee with maximum includable amounts as specified in a \$300 schedule.

C. Physician's Expenses:

1. Hospital visits--80 percent of cost, with a maximum includable charge of \$5 per visit.
2. Office visits--80 percent of cost, with a maximum includable charge of \$4 per visit (until age 65).
3. Home visits--80 percent of cost, with a maximum includable charge of \$5 per visit (until age 65).

D. Nursing Care:

Eighty percent of cost until age 65.

E. Prescribed Medicines:

Eighty percent of cost until age 65.

F. X-ray and Other Restorative Therapy:

Eighty percent of hospital, nursery, obstetrician, and physician expense--up to \$160 for normal delivery or \$320 for Caesarean (\$50 deductible not required in maternity cases).

II. Life Insurance--Group life insurance is included in the package for members, and their employees as follows:

<u>Age Groups</u>	<u>GLF Members</u>	<u>Employees of GLF Members</u>
Under 50	\$4,000	\$1,000
50 to 54	2,000	1,000
55 to 65	1,000	1,000
Over 65	500	500

III. Accidental Death and Dismemberment--Coverage provides payment equal to the life insurance in the case of accidental death or the loss of both arms, both legs, or both eyes. An additional amount equal to half the coverage of the group life plan is provided for the loss of one arm, one leg, or one eye.



## Monthly Premium Costs for all Benefits

Age groups	: For member and family		: For each employee and his family		
	: Member and : one : dependent	: Member and : two or more : dependents	: Employee : only	: Employee : and one : dependent	: Employee : and two : or more : dependents
Under 45	\$12.50	\$16.00	\$4.25	\$10.50	\$14.00
45 to 49	14.90	18.20	6.00	11.30	14.60
50 to 54	15.60	19.00	7.60	14.00	17.40
55 to 59	17.70	21.20	10.10	17.70	21.20
60 to 64	23.00	26.40	12.60	23.00	26.40
65 to 69	19.60	23.35	11.85	21.55	24.55

Rates for ages 70 and above are proportionately higher  
Those for single members are proportionately lower

### INAUGURATING THE PROGRAM

When the time came to start the program, it was deemed necessary to give the inauguration full priority. The planning committee set up a program for promotion and enrollment that would culminate on April 1, 1959, at which time the insurance would become effective.

Out of GLF's total membership of 117,000, it was estimated that 50,000 to 60,000 were commercial farmers employing hired help. This was the group to whom the insurance program was to be directed, and an effort would be made to contact each one. A minimum enrollment of 25 percent of this group was needed to meet requirements of the group insurance regulations.

This was a tremendous undertaking--too great for the GLF regular staff. GLF stores, agent buyers, and farmer members were asked to assist in the campaign.

The coordination and leadership of the enrollment program was under the direction of three GLF area personnel supervisors. One district manager for each of 13 GLF districts was selected to organize local community teams. These teams were made up of managers of local GLF stores, petroleum bulk plant and egg station managers, agent buyers' employees, and farmer members. Over 1,000 persons were involved during the final 3 months of enrollment with GLF paying for time spent on the project.

The underwriter provided about 40 professional insurance representatives to assist. Few of them were used for direct sales, but they, along with GLF executives, conducted a series of meetings to explain the proposed insurance plan. One meeting was held in each of the three administrative areas to brief all district managers in the program and details of the



CHAPTER 1. THE HISTORY OF THE

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enrollment procedures. Field personnel received training in enrollment procedures in 18 district meetings conducted by their respective managers and aided by professional representatives.

The field personnel then proceeded to arrange contacts with members. Much of this was done "over the counter" at the service store or agency, using display and promotional materials as visual aids. In addition, meetings were scheduled and efforts were made to get members to come for group discussions of the insurance plan. Many of these meetings took place in members' homes and were called "kitchen meetings". These were particularly valuable if some member in the group, ideally the host, had previously enrolled, and endorsed the plan.

Arrangements rested with key men among the field personnel with assistance of insurance personnel available as needed. They could use the group approach to the extent they saw fit. Group meetings were followed up by on-the-farm visits where necessary.

At the end of the 3-month intensive enrollment period, approximately 20,000 GLF members had applied for the insurance and the program was put into effect.

Considering the intensity of the enrollment campaign and the ease of enrollment (no physical examination was required and no premium was collected at the time of enrollment), cancellations were expected to be high; and they were. About 25 percent of the 20,000 members that signed enrollment cards never paid the first premium. There were some further dropouts during the third and fourth quarters, and the program ended its first year of operations with about 14,000 participants. Dropouts in subsequent years have largely been offset by new members. Thus, participation in the program has ranged between 13,000 and 14,000 during its 4 years of operations. Currently the trend in membership is upward.

#### Administering and Operating the Program

A trust agreement between GLF and the underwriting insurance company provides the basis for administering the GLF Member Health-Life Insurance Plan. Under this agreement GLF acts as trustee for its participating members. As trustee, GLF promotes the program, sells the insurance, collects quarterly premiums, keeps a complete set of records, and otherwise administers the program.

Within GLF these management functions have been delegated to the Member Relations Department. This seems to be a logical place for it, since one purpose of the program at least from GLF's point of view, was to improve and strengthen its member relations.

A manager of the GLF Member Health-Life Plan was appointed at the beginning of the enrollment period. He now has an office force of about 10 persons and a field force of 8 full-time salaried licensed agents. Steps are being taken to supplement the sales force by the use of general insurance agents operating on a commission.

From the premium money collected, the trustee is allowed to retain an administrative allowance, or advance discount of 15 percent, to cover its own operating costs. The balance is remitted to the insurance company. Out of this money the insurance company pays all claims and retains a modest agreed amount to cover State taxes and its overhead and expenses. The residual is returned to the trustee as a retroactive rate credit at the end of each year.

During the first 4 years of operation, these retroactive rate credits, plus the 15 percent advance discount, have given the trustee about 25 percent of the premium money as operating income. From this income the trustee has met all its operating costs, which are averaging about 7 percent, and returned \$365,000 as patronage refunds to members.

Now that original organizational expenses have been paid and the contingency reserve is reasonably adequate, it is believed that a favorable claims ratio and expense saving will permit additional refunds.

#### Current Indications of Premium Allocation 1/

<u>Item</u>	<u>Percent</u>
Claims paid by insurance company	70
Insurance company claims expense, overhead and consulting fees	5
Administrative cost incurred by trustee	7
Available for reserves and return to participants	18

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1/ Premium utilization for direct participant benefit achieved to date is 88 percent. Additional growth, which is being strived for, could increase the return to 90 percent.

#### Some of the Problems

A new program such as this was bound to have some problems. Information regarding mortality rates and medical expenditures for the group to be covered was barely adequate. An entirely new program had to be developed and premium rates established. Then the program had to be presented and explained to all potential participants. It was no mean undertaking.

However, the experience and executive ability that was brought to bear



in planning the program, setting premium rates, and promoting the program held errors down; and no unsurmountable difficulties have been encountered.

A close look at the program and its operation reveal some of the significant problems that have been faced during the first 4 years of operations. These will be of interest, especially to other farmer cooperatives contemplating this kind of program.

1. The first big problem had to do with formulating a program of benefits that would meet the needs of members and have economic permanence. Earlier experience with employee group insurance programs and preorganization surveys of membership opinions and attitudes were useful in working out the program that finally was presented to members. This program, including both life insurance and medical care coverages with a \$50 deductible and a 20 percent coinsurance feature to help reduce its cost, has been reasonably well accepted.

2. One of the biggest problems had to do with the initial enrollment of members. The group insurance regulations, and GLF appraisal of farm members necessary to satisfy the program set 12,000 to 15,000 as the number of applicants required before the plan could be made effective. This meant contacting 50,000 to 60,000 people--many of them on their own farms. It was a tremendous undertaking. It involved the use and assistance of 1,000 or more people, and cost upwards of half a million dollars before the job was done. This money, originally advanced by GLF, has now been repaid out of income from the insurance program.

3. Another problem had to do with a heavy dropout during the first and second years. This was not entirely unexpected. When the intensive enrollment campaign ended, 20,000 persons had signed application cards, but none of these had paid even the first quarterly premium. About 5,000 never did. A peak enrollment of some 15,000 was reached in the second quarter. From that time on, there were some further dropouts during the first 2 years, and membership declined to about 13,000. Since then there has been some increase.

4. Another problem--not entirely unexpected--was a high claims ratio during the early years of the program. Since applicants were being accepted without a physical examination, or even a statement concerning past illnesses or present state of health, it is not surprising that the program attracted a number of people who had been postponing surgery and other medical attention for economic reasons. During the first year of the program, the payment of claims absorbed 75 percent of premium income. During the second year, this figure dropped to 67 percent, and during the third year, to 62 percent.

5. Still another problem, not fully anticipated, has been the need for strong continuing promotion and selling activities to maintain participation at the 13,000 to 14,000 level. This has been accomplished, primarily by enrolling 400 to 500 new members each quarter to offset dropouts. Since 1961, new members have exceeded dropouts thus giving a slight upward trend in membership. This is expected to continue.

Currently the GLF insurance office has a sales force of eight full-time licensed agents, and steps are now being taken to supplement this selling effort by the use of 15 general insurance agents operating on a modest first-year commission basis. This, together with the payment of larger patronage refunds, is expected to increase the upward trend in membership.

### Future Adjustments

Now that the initial problems of getting the program organized and underway have been taken care of, more attention can be given to adjustments that may be needed from time-to-time to keep the program operating smoothly and in tune with members' needs.

To date, adjustments have been made to make the plan more equitable and useful. Persons over 65, for example, have had life-time benefits increased from \$2,500 maximum to \$5,000 and in addition received a 10 percent reduction in premiums.

Changes now under consideration range from increasing benefits to minor operational changes. The advisability of raising the limits for hospital room allowance is under consideration, as well as making monthly premium payments possible.

The objective is to make the plan as equitable as possible. If any segment of the insured group is paying proportionately more for the benefits received than others, the aim will be to make appropriate adjustments in costs or benefits. A constant surveillance of claims is made for detection of inequities and inadequacy.

### GLF Satisfied with Program to Date

To date, GLF and its membership have been generally satisfied with the program and its benefits to those who have participated in it. The program has helped many GLF members in need of financial assistance because of a serious illness, accident, or death in the family. Approval of the program was expressed recently by the General Manager of GLF, in the following terms:

"...GLF is an organization that is dedicated to serving the needs of farm people in a cooperative way. I know of no other GLF service that is more cooperative in its nature or in its objectives than GLF Members Insurance. It is truly a voluntary self-help program. It is designed to be economically self-supporting. It meets the human needs of farm families."

"The true value of this insurance plan is not to be measured in refunds, but in terms of the protection afforded to individual farm families. There are families in every one of our communities

that have been paid substantial benefits because of major illness, accident or death. In some Instances, claims have been paid totaling \$5,000 for medical bills, plus the \$4,000 life insurance, or \$9,000 in total. Without the protection provided by GLF Members Insurance, these families would have suffered a financial setback of major proportions."







