THE HIGH COST OF UNISEX INSURANCE

A case recently argued before the Supreme Court focused attention on a longstanding practice of insurance companies and pension funds. A woman pensioner who received $34 less each month than her male counterparts argued that she was suffering from sexual discrimination. Her former employer, the State of Arizona, countered that it was merely taking account of the well-known fact that women tend to live longer than men, and that spreading pensions and retirement annuities over a longer time period for the average woman naturally resulted in lower monthly payments.

At the heart of the issue is the question of whether discrimination is synonymous with any difference in treatment. Congressman John Dingell (D-Mich.) and Senator Robert Packwood (R-Ore.) argue that it is. They have introduced bills (H.R. 100 and S. 372) to outlaw the use of sex as a factor in determining insurance rates and benefits. Either of these bills, or the proposed Economic Equity Act (H.R. 2090 and S. 888) containing similar provisions, would have sweeping effects throughout the insurance industry. But in the name of equality, they could cost some women thousands of dollars in extra premiums.

Advocates of "unisex" insurance and pension funds advance two principal arguments. First, whites as a group live longer than blacks. Yet insurance companies are no longer permitted to differentiate by race in calculating premiums. Why then, they argue, differentiate by sex?

Second, supporters of the bills claim that even though there are differences in insurance rates associated with men and women, insurance companies have exaggerated them. Advocates point out, for instance, that while the "average" woman may live longer than the "average" man, a specific woman may have a shorter life span. Furthermore, it is argued, the probable life span of a particular individual is determined by nongender factors--such as smoking habits, family health history, general health, and recreational or occupational activities.

What supporters of the legislation overlook is that the differences in treatment of men and women by the insurance industry are by no means one-sided. Example: Women present fewer claims than men on their automobile insurance policies, but more on their health insurance. This is reflected in the rates. Moreover, the differences between whites and blacks are insignificant when only insured blacks (generally middle class) are considered, rather than the whole black population.

Since life insurance annuities and pension funds, of course, lack prior knowledge about the life span of any particular individual, they determine the probable longevity of an individual according to statistically significant risk groups. From this, premiums and benefits are set. To make the system as fair as possible, many annuities and pensions attempt to assign individuals to the smallest identifiable group that has demonstrated an average life expectancy longer or shorter than the average. Sex is certainly a key determinant of these groups, but it is not the only one that insurance companies use. Depending on the type of insurance sought, other factors already are considered--just as advocates of unisex insurance have argued they should be.

If unisex insurance is applied to contracts currently in force, the transition costs will be enormous, especially in the case of pension funds. Companies will be forced to make extra payments to female beneficiaries, for which they have set aside no funds. These unfunded liabilities could drive smaller funds into bankruptcy, jeopardizing the pensions of many people--women included. In addition, all insurance premiums will have to be adjusted if the law is changed. The risk averages used would then have to be based on larger groups that included both men and women. Men would be forced to subsidize the health and disability insurance claims of women. Women would pay more for life insurance policies, while men would receive less in pensions. According to Mavis Walters of the Insurance Services Office, the net effect will be that the average woman can expect to pay several thousand dollars more over her lifetime for the typical range of insurance policies.

The practices of insurance companies and pension funds are not discriminatory in a prejudicial sense. If anything, they have had the opposite effect. By recognizing the differences in men and women as well as in smokers and nonsmokers and in accountants and firemen, insurance companies attempt to treat each customer individually, compensating for such differences as sex, personal habits, occupations.

Preventing insurance companies and pension funds from taking account of one of these factors, in this case sex, would actually lead to a more discriminatory practice. It would force safer women drivers to subsidize more reckless men drivers while requiring male pensioners and their families to underwrite female retirees.

A law requiring unisex insurance would introduce unfairness, not end it. It would probably increase the cost of insurance for women, not reduce it.

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For further information:
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William Raspberry, "It Doesn't Pay to Be a Statistic," Washington Post, April 4, 1983.
"Pensions and Probabilities," Washington Post editorial, February 19, 1983.
Lindley H. Clark, Jr., "Men of the World Unite! You Have a Great Deal to Lose," Wall Street Journal, May 10, 1983, p. 35.