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SOA Mortality Experience Studies

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Editor's note: Faye is chair of the SOA's Life Practice Experience Committee.

How often should the SOA be performing standard ordinary individual life insurance mortality experience studies? How often should reports be published showing the results of individual life mortality experience studies? The annual ordinary study has not been annual for a while. Is the experience reported useful, or should the data and the reporting format be modified? The Mortality Studies Working Group (MSWG) was created to review these questions. The objective is to recommend future goals with regard to the individual life insurance studies and reports.

Regarding frequency of reports, MSWG agreed that annual frequency should be resumed and maintained in the future for individual ordinary life insurance. The schedules for other mortality studies (e.g. by cause of death, by amount, ADB, reinsurance experience, conversion experience) still need to be considered.

According to Tom Rhodes, chairman of the Individual Life Experience Committee (ILEC), the process involves:

1. Collection of data
2. Analysis of data, and
3. Writing reports

The ILEC is committed to instituting a rapid turnaround of data and producing reports showing current industry experience. With annual submissions of data by May, companies can expect a report on current industry experience by the SOA Annual Meeting. Additionally, the ILEC will analyze the data submitted in the new LIMRA/SOA format that includes additional underwriting information and lab test results. The results

of these analyses will be incorporated into future reports.

The SOA experienced a drop-off in contributors and is working to solicit more company contributors so the reports will be credible and fairly represent the industry. The SOA has partnered with LIMRA for the latest data request for experience years 2001 and 2002. Twenty-five companies made commitments to contribute data by September 30, 2003.

ILEC agreed with the following schedule for experience year 2003 and suggested the annual ordinary experience report be produced for each succeeding year according to a corresponding time frame.

1. Data for year 2003 submitted by May 31, 2004. (Almost all year 2003 claims would have been reported by then. Also, companies would be able to produce the data without interfering with preparation of the annual statement, which is completed by March.)
2. Analysis and report writing targeted for completion in September, 2004. The report can be released at the annual meeting in October each year.

The ILEC needs to work on catching up on past experience years and then institute the new schedule. Standard Ordinary Mortality data has been collected in the same format as was used for 1990-1995 for policy experience years 1996-2000. A report and tables on standard underwritten individual policy experience for policy years between 1995 and 1996 is on the SOA's Web site under *Research*. The report on experience for policy years between 1996 and 2000 is anticipated by December 31, 2003. These reports will use the same mortality experience categories as the 1995 experience report.

With the 25 companies contributing data by the end of September 2003, the report and

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experience for policy years between 2000 and 2002 is anticipated in the spring of 2004. Since the new LIMRA/SOA format includes persistency information, LIMRA will also be issuing a persistency study based on this data.

Perhaps the stickiest area is, "How can the reports be more useful?" Actuaries want mortality experience based on sophisticated risk classifications. Focusing on this will be more valuable than any other factor. In the past, concerns have been expressed that due to differences in risk classification practices among companies, industry level mortality experience by risk class would not be meaningful. There have always been differences among life insurance companies' underwriting practices and risk classification guidelines that impact each company's mortality, hence the standard risk composite reflected in the SOA's reports already is affected by individual company variations. Yet, current SOA mortality tables are considered valuable by users. The MSWG concluded that adding additional risk classes in the SOA tables will make them more valuable, in spite of the individual company differences with respect to risk classes.

After addressing the catch-up issue, MSWG specified two additional areas where resources are required for individual life mortality studies.

1. An approach using seriatim policy records with the raw underwriting data, including lab results, obtained at the time of policy issue is the long-term solution. This has been called the "FIRST" approach. The SOA should devote maximum resources and transition toward this process as quickly as possible. There is already a working group of volunteers under the leadership of Al Klein in place grappling with this expanded study.

The transition from the current data format to the new one should minimize inconvenience to contributors and the SOA should provide appropriate support to ensure this. A good communication/marketing plan to enlist maximum company support is essential.

The expanded data are an important part of SOA goals. The labs have agreed to provide companies with their own lab test results in the standardized LabOne format. Companies can simply request

this information from their labs and then use it for submission to the studies. The kinds of help that would most encourage companies to contribute needs to be identified and the SOA should work to provide that assistance.

Finally, the SOA needs to take the step of allocating resources in support of this important work.

Devising a new mortality report format with several underwriting classifications will require a separate effort. There will be a number of lab data factors and interrelationships among them that can be used in studying mortality. Other underwriting factors need to be integrated into the study as well. This new report will be prepared annually and replace the annual ordinary mortality experience study.

2. An interim solution is needed to capture mortality experience information in additional risk categories. These interim reports need to use data available that is currently collected; the current data includes preferred issue information. This is a job for a new working group, not the ILEC, who needs to define what such expanded reports can include and how to produce them.

One suggestion for this interim report would require the SOA to map the current individual ordinary contributions into three classifications—two non-smoker classes and one smoker class. The non-smoker classes would be distinguished by individual company criteria used in issuing the case as "preferred." Perhaps more than three classifications could be used.

As you can see, there is a lot of work to be done, and much of it has not yet begun. We would most appreciate your view as to what you would like to see that is missing from the above plan. And, if you would like to volunteer to help, that would be welcome as well. Please e-mail me at FayeAlbert@AlbertAssociates.org. □



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