TRANSACTIONS OF SOCIETY OF ACTUARIES
1961 VOL. 13 PT. 2

Group Life Insurance

A. What will be the effect of the Commissioners 1961 Standard Group Life Insurance Premium Rates on (i) the maximum amounts of insurance permitted on individual lives without evidence of insurability; (ii) the extent of experience rating and the level of risk charges in dividend or retrospective premium rating formulas?

B. Have premium rate reductions to the new scale generally led to (i) reductions in employee contribution rates charged by employers, or (ii) increases in existing schedules of insurance?

MR. ROBERT C. McQUEEN: The adoption of the new table will not substantially affect those companies that are not writing business in New York. The Mutual Benefit, as well as other companies also doing business in New York, has been operating for some time with a more than adequate schedule of first year premium rates. The appropriate action for a company to take under this situation is to determine what it thinks are the proper rates and to operate within its own framework after the first year. Under these circumstances very few changes are required when the new rates are adopted. However, those companies which have reduced the rates of larger cases to prevent competition, using margins developed by the smaller cases, might have quite a few changes to make.

If a company is reasonably large so that it does not reinsure, the maximum amounts of insurance should be a matter of underwriting judgment. If the underwriting controls are proper, there shouldn't be any connection with either its gross premiums or its dividend concepts. If the maximum amount of insurance which you can accept, after proper underwriting principles have been consulted, exceeds the amount which your dividend or premium rate formula tells you that you can accept, statistically or otherwise, then there is something wrong with your dividend formula, not with the underwriting controls.

We, like many other companies, have a factor in the dividend formula which might be described generally as an "expected mortality charge" and certainly this will be affected by the new premium rates, and has been in our company. We have decided to change our "expected mortality charge" over a two-year period to try to decrease as much as possible the effect on the dividends to present policyholders. Like the formulas of many other companies, our formula provides for the historical increase in dividends, assuming good experience. We have made the change in our dividend formula to cover a period of time, so that the natural increase in dividends somewhat offsets the effect of the increase in the expected mortality charge. However, we have not been called upon to explain the effect of the new premium rates to many policyholders.

As far as section B is concerned, I think that all group insurance should be noncontributory. We write mainly noncontributory cases and have not been asked to increase schedules because of the reduction in rates. We have very few contributory cases, but I would imagine that there would not be many cases where employee contributions are reduced.

MR. JOHN S. MOYSE: The Commonwealth Life has a premium scale below that of the New York limit since we do not do business in New York. When the statutory limits changed we adjusted our premium basis from a percentage of the 1941 CSO Table to a percentage of the new table, while maintaining the same level of premiums in the aggregate. We changed the expected claims basis in our refund formula over to the new table. We welcomed this change, for the new table reflects group mortality much more closely than the 1941 CSO Table did.

With respect to section B, since we did not reduce our premium rates over-all, we would not expect a change in employee contributions or schedules of insurance. However, a few years ago when we did reduce our premium rates we were successful in selling increases in schedules of insurance on a number of our groups. We found that companies were not reducing their employee contributions.

MR. A. DOUGLAS MURCH: Maximum nonmedical amounts are set at a level so as to minimize the effect of selection by the organization purchasing the insurance. This is sometimes accomplished by defining the nonmedical maximum as some function of average amount of insurance per life and total group life volume of the case. Such a definition results in lower nonmedical maximum amounts for the smaller groups in recognition of the greater possibility for such groups of encountering individual life selection.

We at the Prudential feel that present nonmedical limits need not be changed materially because of the 1961 Standard group life rates. Generally speaking, the larger insurance amounts apply to the older lives in the group, where the 1961 Standard group rates lead to the least reduction. It seems unlikely that the degree of first year premium change will materially affect the extent of mortality selection. Furthermore, there are strong competitive pressures for maintaining, rather than decreasing, nonmedical limits.

The over-all effect of the new group life rates should be viewed most importantly as to its effect on renewal rates. For some time prior to the introduction of the 1961 Standard group rates it was our practice to allow renewal rate reductions, below the old CSO rates, for cases with satisfactory experience. In fact, the level of our renewal rates for such cases approximated the level of the new first year 1961 Standard group rates. Our experience-rating practices, level of dividend formula risk charges and pooling practices for high amounts of group life therefore all assume a renewal premium rate level not far from the 1961 Standard group rate level. For this reason, we do not anticipate any major changes in practice as a result of the 1961 Standard group rates. While the lower first year rates now applicable may create some additional pressure on renewal rate margins, we feel that the extent of this should not be of major proportions.

On the other hand, for a company that has set renewal rates at or near the old CSO level, there would be undoubtedly a significant decrease in renewal premium margins available with the new first year rates. Such companies might find either an increase in the level of risk charges, or a broadened approach to pooling or the use of credibility factors as a necessary relief from the squeeze on margins.

Turning to section B, it is probably too early to tell for certain what the effect is going to be, but, as I previously mentioned, because of our previous renewal rate practices, the introduction of the new rates has not led to wholesale substantial rate reductions and, therefore, we do not anticipate any significant reductions in the level of employee contributions or liberalizations in the schedules of insurance which can be traced directly to the introduction of the 1961 Standard group rates.

MR. HAROLD F. HARRIGAN: We do not anticipate that the Commissioners 1961 Standard group life premium rates will have any substantial effect on our practices in Metropolitan regarding maximum amounts of insurance on individual lives, the extent of experience rating, or the level of risk charges in our dividend formula.

Very likely, the trend toward higher amounts of insurance with or without medical examination will continue, particularly on smaller size groups. Because these larger amounts of insurance will be provided on these smaller size groups, there will probably be more pooling of experience, at least on the excess amounts of insurance, so that one substantial claim will not have an undue effect on the group's experience. However, these trends are independent, in large measure, of the level of premium rates and would happen regardless of the adoption of the new group life premium rates. Undoubtedly, the reduction in new business premium rates under the 1961 scale will require a closer look at the adequacy of premiums for the pool risks to be sure they cover what is probably a higher than average mortality among such risks.

With reference to section B, we have not noticed any significant trend toward reduction in employee contributions or increases in existing schedules of insurance. It should be noted that the 1961 rates are minimum premium rates for new business and most existing business has already been experience-rated at least once. In our own case we started using the new rate basis about a year ago as our guide for rating purposes at renewal. Our renewal studies indicated that much of our business was already at or below the level of 1961 premium rates so that any changes in employee contributions or increased schedules would have already been made with reference to those policies. We will, of course, continue to review these cases in the future and, wherever warranted by experience and other underwriting factors, bring the premium rates to or below the level of the 1961 rate scale.

MR. DWIGHT K. BARTLETT, III: Monumental Life doesn't do business in New York, so we have had a life rate which is below the old minimum premium rate and the new rate. This has been a problem for us in competing for large groups where retention illustrations are the bases for awarding business. We have found that we have been noncompetitive because our rate has had smaller margins than the rates of some of the leading New York companies. We have had to hold back more of the profit on profitable cases to offset the fact that we have more cases losing more money. We hope that with a new lower group life rate in New York we won't be so noncompetitive. In using the new rates we hope the New York companies will find that they also will have to give less credibility to good experience to offset the fact that they may have more cases losing money.