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Professional Association Plans

What has been the experience as to the persistency of individual members under professional association plans? Have lapse rates within the group been higher at premium due dates where the individual's current contribution or premium was increased?

MR. RICHARD J. LEARSON: Mutual of New York has issued professional association insurance, using both group contracts and certificates and individual policies, for about 6 years. Persistency experience has been encouraging in early policy years. For 8 groups of doctors, lawyers and engineers with 21,000 life-years of exposure and 41,000 premium billings, lapse rates have been 6.5%, 4.4%, and 3.8% in the first, second and third years of the cases, respectively. For the best-controlled group, first and second year lapse rates have been 4.1% and 3.5%, compared with 9.8% and 5.3% for the two least-controlled groups. The second and later year lapse rates include the effects of higher lapse rates on new insurance issued in those years.

Persistency depends on the cohesiveness of the association and the degree of control and effort that the administering broker applies to renewal collections. State or national associations will have somewhat higher lapse rates than city or county groups for this reason.

Premium rates for this yearly renewable term insurance increase at quinquennial ages, so on each billing date some members' rates change. There is no evidence yet that these increases are a major cause of termination.

MR. JOSEPH W. MORAN: New York Life has had over 100,000 life-years of exposure to lapse on its professional association life insurance plans, and lapse rates have been less than 1% of lives insured, with no lapses of cases yet. A significant portion of this good experience has been realized on a plan with eleemosynary objectives, under which the usual economic motivation for replacement by individual insurance or other available coverage may not be present.

New lives added to these plans have been more than enough to offset terminations. In addition, we have made some sales of new business, by increasing the schedule of insurance or by setting up a second supplementary plan. Enrollment and premium volume on these cases have tended to grow rapidly; we don't have any case on which premium has been decreasing.

MR. JOHN F. HOOK: In the past couple of years, the Standard Insurance Company has written three association plans on statewide groups of doctors, dentists and lawyers. The first year lapse rate on the 1,100 lives insured has been 6.2%, with little variation among groups. On the only group which has completed its second year, the lapse rate in the second year was slightly higher than in the first year.

Expectations of lapse rates on these plans may be derived from consideration of factors that affect lapses on individual policies, including the buyer, the plan of insurance, and the type of sale.

As far as the buyer is concerned, everything is in favor of good persistency. He is a professional man, he can easily afford low-cost term insurance, and he understands insurance better than some applicants for individual policies.

As to plan of insurance, the lapse rates on individual term insurance, which are not too good, could show up in association plans. However, the fact that the insurance is cheaper than these people can buy anywhere else should offset this unfavorable outlook. Most people who apply for these plans are young, and the first premium increase will be small, but later increases will be larger and more difficult to meet. The effect may be an ultimate increase in lapses.

The sale of these plans is usually low pressure and by mail. People buy this additional term insurance because they really want to have it, so they probably will want to continue. Many individual policies lapse immediately after sale because buyers haven't been sold. Others lapse after a few years as buyers decide they really don't want the insurance for which they applied.

Even after several years' experience, we won't have seen the real lapse problem of the good risks dropping out when large premium increases become necessary. We will need continual reselling of the plan to promote the continuance of insurance and promote the quality of cases by adding new lives. This requires continually working with the officers of the associations as they change every year or so.

One association has suggested that, when dividends are earned on its plan, they should be distributed to the older people to make it easier for them to pay their higher premiums. There is some problem of equity here, but we have already given up some individual equity by designing premium scales to give a subsidy of those at older ages. Paying dividends in this manner should promote good persistency and favorable mortality.

MR. GENE C. MOORE: The consulting actuarial firm of Bowles, Andrews & Towne has been engaged by the National Association of Life Underwriters to conduct a survey of association group insurance plans. I want to emphasize that names of individual companies responding to our letter will not be disclosed to our client or to anyone else. Also, we don't operate in the field of self-insured life insurance plans, so there is no basis for a theory that we are a "competitor" to whom a company should be reluctant to give information.

Several companies have indicated interest in receiving results of the study, but we can report only to our client and any dissemination of information will be up to the N.A.L.U.

Since we anticipate receiving replies from additional companies, no actual tabulation of results has as yet commenced.