TRANSACTIONS OF SOCIETY OF ACTUARIES
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MISCELLANEOUS

A. What has been the experience of companies marketing accident and health policies through life agents? To what extent are insureds purchasing the accident and health policies the same as those buying the life policies?

B. What bases are companies using to measure the volume of ordinary, group, and accident and health sales for production clubs?

C. What special type of policy or modification of a regular policy has been developed to provide variable annual premiums for tax sheltered annuities or for benefits for the self-employed?

Jacksonville Regional Meeting

MR. CARLTON HARKER: At Coastal States Life we have experienced some difficulty in getting our agents to sell both life and health insurance. The reason most often given by life men for not selling both is a fear that the sale of health insurance will hurt their life business. Education and sales drives help temporarily, but largely our life agents do not push the other product.

Quality contracts with fewer inside limits and restrictions help to interest our life men in selling health insurance. The premium rate is of little consequence, and high commissions are a definite aid. Loss of income coverages are more attractive to them than hospital-medical coverages.

In the industrial field we allow our debit men to sell a single hospital policy to select white lives in certain geographical areas. The business is quite strictly underwritten and any exclusions or restrictions are very prominently displayed, both in the policy and through our industrial sales department. Handling this coverage very conservatively has not hurt any life debits; it has increased life production and the earnings of our debit men.

MR. JOHN M. LOFTIS: In the fall of 1960 we launched a multiple line program at Security Life and Trust to be marketed largely by a different group of agents than the life men we had always used previously. Our health insurance portfolio, initially brought out in conjunction with the multiple line program, was strongly promoted among the new men with good acceptance, but there was considerable resistance from the life men. The objections of the life men were the smaller average premium, the additional servicing required by this line, and a fear that health insurance claims problems would hurt their life business.

Current figures, based upon equal numbers of life agents and multiple line agents, indicate that seventy-two percent of our health insurance applied for is from multiple line men. Claims statistics are still too scanty to give a significant measure of the relative quality of business being produced, but there are indications that the business from life agents will be somewhat better than that from the multiple line agents. We expect this, since the multiple line men are working in a much broader market and cannot be as selective as our life men.

A study just completed, covering the most recent 500 health insurance policies issued, showed that in ten percent of the cases the applicant applied for life insurance at the same time. This does not give a complete picture of the number of double sales, since the study did not include those cases where either a life or a health application was taken, followed within a few weeks by an application of the other type.

MR. CLAYTON L. JACKSON: At United Life and Accident, we have been selling a loss-of-time accident policy in combination with life insurance for almost fifty years. For the past fifteen years we have sold a loss-of-time policy covering both accident and sickness in combination with life insurance.

About twenty-five percent of our life sales in the civilian market are sold with accident and health policies in combination. Close to ninety-five percent of all our accident and health policies are sold in combination with life insurance. These are noncancelable income replacement policies.

MR. WILLIAM L. FARMER: Concerning section B, at Protective Life we made a complete change last July in the manner by which we count production standards.

Under our old system insurance counted for the full face amount, with the exception of term which counted as one fourth the face amount. Annuities, both single and annual premium, counted at $500 for each $10 of monthly income. Group insurance counted on the basis of $1,000 for each $15 of first year commission. Group annuities counted for purposes of qualification for annual commissions, membership in our production club, and attendance at sales conventions.

It was necessary to make many adjustments for the proper allocation of general office expense, expenses of the general agents, etc. The entire procedure was rather cumbersome and required a great deal of record-keeping; in addition we felt that it did not truly reflect the value of each line of business to the company.

The new system is very simple. All business now counts on the basis of one point for each dollar of first year commission actually credited. We feel that this more properly reflects the value of permanent insurance versus term, and places the group and annuity lines on what we consider to be a proper basis.

So far our agents have accepted the new system quite well, and we find that it has changed the standings of certain agents rather materially.

MR. LOFTIS: Our production club at Security Life and Trust has two basic requirements which must be met in order to become a member of the club. These are net amount of life insurance paid for, and first year earned commission from all sources.

In calculating the net volume of life insurance paid for, we use 100% of the face amount on permanent insurance, 25% of the face amount on term insurance, and 12½% of the initial amount on decreasing term riders. All cases terminated with less than two full years' premiums paid are deducted.

We have six sources of first year commission earnings. They are: (1) Life, (2) Health, (3) Group, (4) Mutual Fund Shares, (5) Fire, and (6) Casualty. No volume credit is given on any of these but life, all others being measured only as to the amount of first year commission.

The production club is divided into three classes, with requirements as follows:

	First Year Commission from All Sources	Minimum Net Life Volume
Single Membership	$2,500	$100,000
Double Membership	$5,000	$200,000
President's Club	$7,500	$300,000

For the President's Club, in addition to the $300,000 net life volume we require a two-year persistency of at least 80% on life insurance.

Thus it is possible for our agents to belong to the production club by writing only life insurance, but it is not possible by writing other lines unless a required amount of life insurance is also written.

MR. HUBERT M. STILES: I have a related comment, although not exactly on production clubs. As qualification for attendance at company conventions, we at Southern Life and Health use the total earnings of an agent, less renewal commissions and less his debit servicing salary. In order to be on an accrual basis we measure the agent's "reserve," as it is called in the combination business, at the beginning and at the end of the period, and give him credit for the net change. This procedure gives us a measure of first year commission earnings, from which a qualification figure is set.

MR. ISAAC ROSENBERG: With regard to section C, at Great-West Life we have developed a new group annuity plan that makes it possible for school district employees to take advantage of recent legislation permitting special tax treatment on income that is applied towards the accumulation of retirement benefits. Previous to this legislation, Section 403(b) of the Internal Revenue Code permitted employees of 501(c) (3) organizations to exclude from gross income premiums paid on their behalf for nonforfeitable annuities. As a result of the recent legislation, this tax advantage has been extended to employees of public school districts.

The new plan combines the advantages of an individual policy with the flexibility and low cost of a group annuity. High cash benefits are provided on death and on termination of service. Pensions at retirement are guaranteed and are participating both during the deferred period and after commencement of payment. Premiums may be varied within certain limits, and arrangements may be made to make accumulated benefits portable.

The plan is designed to be administered by the school district. A master policy is issued to the school district and certificates given to participating employees. The basis of contributions to be made for each employee remains in effect during the entire year. This basis is established by the inclusion of a simple provision in the employment contract permitting annuity premiums to be paid on his behalf instead of salary. The school district pays the required premiums each month.

Premiums for a participating employee may be varied each year, subject to a minimum of $10 per month and the maximum specified by the Internal Revenue Code. This maximum is 20% of the employee's current annual compensation multiplied by the number of his years of service minus the aggregate exempt pension contributions which the school district has paid for him in previous years.

If a participant leaves his school system he would be able to continue as a participant provided his new school district is willing to enter into the group annuity contract with Great-West Life.

The dividend formula for the new plan involves the accumulation of premiums at two interest rates. The first is guaranteed for five years. The second is our new money rate adjusted for federal income tax. During the deferred period, annuities purchased will be increased in the ratio that the second accumulation is to the first. After annuity payment begins, the annuities will be increased further by surplus, if any, arising from experience more favorable than assumed in the annuity rates.

The participating feature has been extended to benefits payable on termination of service and on death before retirement. If an employee terminates his service with the school district he may take payment in cash or in installments, or he may take a paid-up deferred annuity. If he has been covered for at least five years and elects a cash or installment benefit, the benefit will be based on the accumulation at the participating rate. If he dies before retirement, his beneficiary will receive the accumulation at the participating rate.

The new group annuity plan would also serve as a funding medium for employees of other nonprofit organizations able to take advantage of Section 403(b). Because of its advantages over individual policy plans, it has created considerable interest.

MR. WILLIAM C. McCARTER: The large majority of tax sheltered annuities are being written on the lives of public school teachers. Because of past service, their exclusion allowance is usually 30% or more of net salary, their incomes are moderate, and the amount being applied is obtained by salary reduction rather than in lieu of an increase in salary.

Under these conditions, it is essential that the policyholder have the right to vary the amount paid in from year to year. We at Northwestern Mutual have provided this flexibility by adding a rider to our regular retirement annuity contract, where the amount of annual premium is at least $250. The rider provides that additional deposits can be made at time of issue or on any anniversary, while the policy is in full force. The minimum amount of additional deposit is $100, and the maximum is 200% of the retirement annuity annual premium.

Normally the policy is written to provide for half of the initial annual outlay to be applied as retirement annuity premium, and the other half as additional deposit. The outlay in subsequent years can then be varied up or down by 50% of this starting amount.

The dividend option on these contracts is paid-up retirement annuity additions, so we have a ready-made receptacle for deposits: they are applied to purchase additions, and are combined on the policy record with those purchased by dividends.

A substantial part of the proceeds from these policies will undoubtedly be settled under the life options. We also expect that the amounts deposited in the years just prior to maturity will be well above those made in earlier policy years. We are not concerned about antiselection in this latter area, however, because of our graded life option rates.

Since most employers take the amounts out of the employee's salary monthly, premiums may be paid monthly. We also have a monthly payment plan that is handled on our EDP equipment, under which premiums and additional deposits can be paid in 9, 10, or 12 monthly installments.

MR. WILMER A. JENKINS: In our college field, at Teachers Insurance and Annuity Association we use the standard form of policies which we have used for more than forty years. It is an accumulative type of deferred annuity. We have monthly premiums, which are adjustable upward or downward at any time within very wide limits. We have provided intermission so that gaps in premium payment can be handled. The contract has no cash surrender values, is fully portable, and the only nonforfeiture benefit is a paid-up annuity.

This type of contract can be quite troublesome from the administrative standpoint unless a company is designed to handle its peculiarities.

Chicago Regional Meeting

MR. JOHN S. THOMPSON, JR.: The position of the North American may be unique in connection with the general question of marketing life and health insurance. Unlike most life insurance companies writing health insurance, we had been in the health insurance field for about 60 years when we entered the life insurance business 17 years ago. Almost all other companies selling both life and health insurance entered the personal health insurance field only after many years in the life insurance business.

Our home office administration of the two lines has been quite separate, except for a brief experiment with the so-called "combined application" under which an applicant may apply for both life insurance and noncancelable disability on a single application. This experiment was discontinued after about one year, and results were inconclusive.

As a result of the separate administration of life and health insurance, it has not been feasible to use home office records to determine the extent to which health insurance can successfully be combined with life insurance in marketing. Accordingly, we sought the views of a number of our leading agents and found two divergent opinions on this general question. On the one hand, some agents feel that the sale of ordinary life insurance is a specialty that requires an agent's full time if he is to do a really good job for his client. This view is due largely to the increasing complexity in the various uses of ordinary insurance. Another reason for this view is the possible policyholder dissatisfaction when the Company takes adverse action on health insurance claims or renewal of health insurance policies.

The predominant view among our agents is that life and health insurance are very closely related, and a client for one is very likely a client for the other. Life insurance protects against the hazards of dying too soon or living too long, while health insurance protects against the economic death that may occur when sickness or injury causes disability. As a result of the close relationship between the needs served by these two lines, many of our agents have found that the two forms of coverage can profitably be combined in selling personal insurance. As to the principal arguments against the sale of health insurance by a life insurance agent, this can be solved largely by concentrating on noncancelable and guaranteed renewable forms. In doing so, the agent should have due regard for proper field selection so that adverse underwriting action on a health insurance application does not jeopardize the sale of the life insurance. With respect to possible unfavorable action on claims, this can be minimized by full understanding on the part of agents as to the coverages and benefits that they are selling. Good communication between the home office claim department and the field will also avoid poor policyowner relations arising as a result of claim administration.

We sometimes find a life insurance agent claiming that he is unable to sell health insurance because he knows little about it. It is quite likely, however, that this same agent is applying for the waiver of premium benefit on a very substantial proportion of his policies, perhaps more than 50%. In selling the waiver of premium benefit, he is, of course, selling essentially the same coverage as health insurance. The waiver benefit, in effect, insures the life insurance program against sickness and injury, and the arguments used in selling the waiver benefit could be translated to the sale of disability insurance, so that income lost as a result of sickness or injury might likewise be covered.

A fairly large number of life insurance companies have entered the health insurance field within the past 10 or 15 years. Many have not, however, so that it appears there is still a wide difference of opinion as to whether health insurance and life insurance should and can be combined in marketing.

MR. HAROLD CHERRY: The New York Life entered the health insurance field about 11 years ago. At that time, we gave considerable thought to the effect of this step on our agency force. It was felt that since health insurance can be more readily sold than life insurance, our entry into this field would be especially helpful to the young agent, and enable him to get on a self-supporting basis earlier. However, there was some concern that the new agent might become, in effect, a health insurance salesman if his initial sales stemmed from this line. There was some doubt as to whether the well-established agents and big producers would sell health insurance because of the smaller premiums and the necessity for learning the details of the business.

Our actual experience has been even better than we expected. We find some tendency for the newer agents to sell health insurance to a greater extent than our older agents, but they are by no means becoming strictly health insurance salesmen. Life insurance sales are still the most important part of their production. Also, a gratifying number of our older agents have been selling health insurance. Over-all, of our active full-time agents with at least one year of service, about 87% write at least one health policy in a year. At one extreme, of agents with one to two years of service, about 94% sell at least one health policy, while at the other end, of our agents with more than 30 years of experience, about 70% sell at least one health policy. The results for agents between these extremes are roughly linear.

A relatively small number of our agents sell most of our health insurance policies. For example, 10% of our agents sell about 35% of our health policies; 35% of our agents sell about three quarters of the health policies. This indicates that for many agents, through choice or otherwise, health insurance is largely an untapped field.

We can make the generalization that, up to a point, the greater the ordinary life volume of an agent, the greater the number of health policies he sells. Our ordinary life producers in the $500,000 to $1,000,000 range sell on the average twice the number of health policies as our very smallest producers, those with less than $100,000 annual volume. There is a slight decline in the average number sold by the very largest producers, those with over $1.5 million volume. However, the *proportion* of health policies tends to decrease as ordinary production increases—*i.e.*, the larger producers concentrate more on life policies. For example, our smallest ordinary life producers write 3 or 4 life policies for every health policy, while the ratio for the largest ordinary life producers is ten or more life policies to one health policy.

We have found that, on the average, our most successful agents, in terms of their annual earnings, sell all lines of business—ordinary life, health, small and regular group—while those agents with the lowest earnings sell only one or two lines.

We have not yet developed statistics as to the extent our health policyholders are the same as those buying our life policies. One item of information we have looked at is the number of *simultaneous* applications for life and health policies. Over a 12-month period ending with May 1962, we found that only 2½% of health insurance applicants were simultaneously applying for life coverage.

Insurance agents, as part of the general public, are interested in health insurance protection for themselves. We made a study of the occupations of insureds who purchased loss-of-time policies in 1961, and found that about 16% of the policies were sold to insurance agents, brokers, etc. Some of these sales represent self-purchase of policies by our own agents, and some are sales to agents and brokers representing other companies. At any rate, it is encouraging to find such confidence by this select group in our health insurance product.

MR. BURNESS R. EILER: The North American Life and Casualty has been in the accident and health field probably as long as any company, although I do not have the exact dates. From our earliest history and through our present-day training, our business is about as integrated as it can be.

My impression is that the new agents are the ones who are mainly selling both the life and accident and health policies. The larger producers sell fewer accident and health policies and sell more and larger life policies.

We use a combined application, a very imposing three-page affair. An underwriter, field or home office, is trained to do underwriting of both life and accident and sickness.

The processing department, which is our policy issue department, also is a combination and we find that they get these things out very quickly. If both products are not competitive then we find some of our agents being the leading sales producers of health insurance for another company.

MR. JOHN D. ROMMEL, JR.: With regard to section B, State Mutual of America maintains various production clubs in which each full-time agent is eligible for membership when he meets the stipulated sales production criteria of the particular club. An agent may be a member of more than one production club if he qualifies for each such club.

Our Company currently sponsors four principal sales production clubs: the President's Club, the Millionaires Club, the Top Market Builders Club, and the Group Workers Club.

Both the President's Club and the Millionaires Club use volume credit as the basis of their sales production criteria. In the case of the President's Club, a full-time agent is a member of this club as long as his paid production of combined individual life insurance, individual annuities, individual health insurance and group insurance is at the rate of $500,000 or more volume credit per calendar year. If such rate is $1,000,000 or more volume credit per calendar year, he is also a member of the Millionaires Club.

In the case of the Top Market Builders Club, a full-time agent is a member of this club as long as his paid production of combined individual life and individual health policies is at the rate of 72 lives insured per calendar year. In order for a full-time agent to be a member of the Group Workers Club for any given month, he must produce at least one paid group case in such month.

The bases which we use to measure the volume credit of individual life, individual health and group sales for our President's Club and Millionaires Club are as follows:

a) Individual life production volume credit in most instances is based upon the face amount of new insurance. In the case of a reducing term policy, its volume credit is equal to one-half of the initial amount of insurance. The volume credit for a family income rider is based on an equivalent level amount, as determined by the Company, depending on the period of the rider. Also, the volume credit for our increasing term rider is equal to seven times the initial amount of the rider.
b) Individual health volume credit is computed at the rate of $1,000 of volume credit for each $25 of individual health annual premium.
c) Individual annual premium retirement annuity volume credit is computed at the rate of $1,000 of volume credit for each $40 of retirement annuity annual premium.
d) Individual single premium annuity volume credit is equal to $1,000 of volume credit for each $1,000 of purchase price.
e) Group insurance volume credit is determined by allowing $1,000 of volume credit for each $15 of group insurance first year annual commission.

MR. CHARLES A. SMITH: The Connecticut General has a number of clubs which are designed to satisfy the requirements of the agency force at various levels of growth and development. There are clubs for new men as well as established producers. The objectives of the clubs are to encourage volume, persistency and diversification.

The career agent has available for sale all lines of Life, A & H, and Group coverages. The yardsticks set forth for membership in the various clubs are summarized below. Level of performance in each varies by club, but generally each of these five yardsticks must be satisfied.

a) Volume. Accident and Health and Group receive no credit.
b) Different lives. Credit is given only for Life.
c) Persistency. The persistency measurement is for life insurance only and is taken by number of policies, excluding riders. It is contemplated that the Company will change in the near future and use dollars of commission as the measure for lapses. Obviously, the lapse of an ordinary life policy will be more crucial and have a greater effect in the persistency ratio than the lapse of a low premium term insurance plan.
d) Paid first commissions. Equal credit is given for paid first commissions arising from Life, Accident and Health, and Group.
e) Total cases. The definition of a case varies by line of business: Life—each

individual counts once. If two policies of life insurance are sold on an individual within 60 days, the case credit is one. If, however, 60 days elapse between the policy dates, then the case count will be two. A & H—the definition of case is the same as for Life. However, under A & H each coverage sold counts as a case. For example, if on one day an agent places a monthly income policy and a hospital reimbursement policy, the case count is two. Group—each policy or coverage sold counts as one case. For example, if group term insurance and group hospitalization with catastrophe coverage are sold, the case count will be three. The group policy case count is weighted at four when combined with the case count for Life and A & H.

MR. WILLIAM J. NOVEMBER: The implication of question B is that it must be quite a job to bring together the different kinds of business to determine when an agent qualifies for a production club. From the prior discussions we can see how complicated that problem can get.

Quite a long time ago the Equitable of New York went to the first year commission basis as a measure of the production efforts of its agents. I believe it is twenty years now that we have been using first year commissions from all lines of business as the criterion for determining production club standing, as well as for other purposes, such as fixing the amount of group insurance or pension credits the agent is entitled to. We found this has worked extremely well.

There were other reasons for using first year commissions besides the need for combining different lines of business. For instance, we wanted to emphasize the kind of business we desire to write. It was indicated yesterday that commissions tend to put emphasis on permanent insurance as compared with term. They also give greater credit to persisting policies as compared with those which lapse in the first year. A monthly premium policy which lapses after one or two payments gets very little credit for production when you use the first year commission basis.

We recognize that in talking about production clubs it is desirable to use the traditional face amount designations rather than first year commission levels. Our clubs therefore bear labels such as $200,000, $300,000, Million Dollar, etc. To arrive at an agent's club standing we have used $1,200 of first year commissions as being the equivalent of $100,000 of insurance. Nevertheless, it is what the agent actually receives in first year commissions that determines his production club standing.

MR. GLENN E. BIER: The Mutual Life of Canada operates only in Canada. Since the group representatives servicing group contracts are salaried personnel, all commissions derived from group business are paid to the agents, so that each agent has the opportunity of deriving compensation and credit from both ordinary and group sales. Our accident and health sales are limited to the group field.

Our basis of measuring volume of sales for production clubs has changed considerably over the past years. Prior to 1956, membership in the M.L.C. Production Club, which is our principal production club, was based on paid-for insurance of $150,000 with a minimum first year premium requirement of $3,900.

At the present time, membership in the M.L.C. Production Club is restricted to full-time representatives of the agency force who have, during the club year, personally secured insurance for at least 36 cases and have received a minimum first year commission of $3,000. This commission may be derived from both ordinary and group sales. The amount of first year commission required to attain standing in various levels of this club is indicated in the following schedule:

Section of Club	Minimum First Year Commission Requirements
Quarter Million	$ 3,000
Half Million	5,000
Three-Quarter Million	7,500
Million Dollar	10,000

To determine the number of cases credited to each agent, we have certain plan restrictions such as considering a joint life policy or a family policy as only one case. Credit for one case is also given for each group life, group accident and health and group pension policy which insures 250 employees or fewer. An additional credit of one case will be given for each additional 250 employees originally insured.

In addition to the M.L.C. Production Club, the Mutual Life of Canada has a Key Club which requires 10 paid cases per month for 9 months out of any 12-month period or at least 120 paid cases in any 12-month period.

We also have clubs, contests and quotas which depend only upon production credit. For example, a full-time representative becomes a member of the Master Builders Club when the total business in force from applications secured by him reaches one million dollars. For these purposes, credit for group life insurance is based on a scale which grades from 25% credit on the first $250,000 of initial volume to 2½% of the excess over $2,000,000 of initial volume. For group accident and health and group pension policies, $1,000 production credit is given for each $10 of first year commission.

MR. J. STANLEY HILL: Our Leaders Club or President's Dozen, together with the twenty-five runner-ups or candidates for the President's Dozen, was for many years based on first year commission. We found some sensitivity in that area and therefore went to a production point basis.

Production points are calculated as follows: 100 points for each policy, 10 points for each $1,000 of paid business and 30 points for each $10 of annualized first year commission. The points for each agent are added up and multiplied by his persistency ratio.

Although this method of figuring points has proven very popular and satisfactory for this Leaders Club, we have been very slow in adopting it for other types of clubs, which are still based purely on volume.

MR. DARREL J. CROOT: The one thing that Connecticut General has that several people did not mention is something in our formula for persistency. Earlier today and yesterday a lot of us have been talking about and have become a lot more concerned about persistency.

After all, these clubs are for motivation of sales and effort. Therefore, I wonder if more effort could not be put in or more ways could not be found and put into these qualifications for persistency.

MR. RALPH P. WALKER: We use annualized premiums issued and paid for, less annualized premiums lapsed with less than two full years' premiums paid, for all of our production clubs. We do not write group insurance and, therefore, that does not cause us any problem. Both life and accident and health are handled in the same manner.

MR. VICTOR E. HENNINGSEN reviewed the discussion on section C, presented by Mr. William C. McCarter at the Jacksonville regional meeting.

MR. ROBERT BLANE: I think that the question of variable premiums is an area where something could be learned from group pension operations. In the pension field we are concerned largely with variable annual premiums in respect of individual employees under group annuity and deposit administration contracts.

Group annuity contracts provide pensions accumulated by single premium deferred annuities purchased from time to time by a variable annual premium. Deposit administration contracts provide pensions purchased at retirement from funds built up from variable annual contributions in respect of the individual employees.

If I were responsible for the development of a variable annual premium individual contract I would make a choice between one which provided for purchases of single premium deferred annuities as under group annuity and one which allowed for purchase of pension at retirement from an accumulation of the varying annual premiums as in deposit administration.

Some strengthening of guarantees would have to be made and there might be some cash value problems. I think that the deposit administration approach would offer the best results.