TRANSACTIONS OF SOCIETY OF ACTUARIES
1962 VOL. 14 PT 2

HIGH EARLY CASH VALUE PLANS

A. How does the persistency on these plans compare with that on other plans:
   1. First year?
   2. Later years?

B. What is the proportion of financed sales on these plans? To what extent are financed sales discouraged?

C. Have companies had experience which caused them to discontinue plans with high early cash values?

MR. ROBERT C. TOOKEY: Persistency into the second year on high cash value plans will be better than on other plans if the insured's income is high and if the first year commission is less than the difference between the first year cash value and the premium. Lacking such underwriting and agency controls, the second year lapse rate will be roughly double that of other plans. Lapse rates in later years tend to be a little higher than on other plans. Tax law changes may remove the advantage to the policyholder to further maintain a loan and he may lapse the policy or have the plan rewritten to term insurance. Financed sales on high cash value plans include those financed through a bank and hence such sales are probably more than we think. Emphasis is being shifted away from such plans by some companies by increasing the first year surrender charge, by reducing first year commissions, by tightening underwriting requirements, or by taking the plan off the market.

MR. PAUL E. MARTIN: The Ohio National has had a policy with first year cash value of about 50% of the gross premium, on which the first year commission is low and renewal commissions are higher than usual. Sales have been negligible, confirming the point that sale of financed business can be controlled through the first year commission.