

# RECORD OF SOCIETY OF ACTUARIES 1977 VOL. 3 NO. 3

## EFFECTIVE PRODUCT MANAGEMENT

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1. What does "Effective Product Management" mean?
2. How do we organize internally for effective product management?
3. How do we establish objectives for a product line and integrate these objectives with overall company goals? How are product line results measured and evaluated?
4. How do we coordinate company activities with respect to initial design and delivery of new products and the subsequent follow-up for modification and change?

MR. JOHN F. FRITZ: Our program will begin with a development of the theoretical basis for effective product management. This will be used as a basis for our discussion. What is "effective product management"? Webster defines "management" as "the judicious use of means to accomplish an end". As a consulting actuary associated with a management consulting firm, I can tell you unequivocally that Webster is absolutely correct. "The end" that an insurance product manager is trying to accomplish, whether that manager is one person or a committee, depends largely on the insurance company's goals. These goals may be any one or combination of the following:

- Company profitability
- Surplus growth
- Overall company growth (premiums, assets, etc.)
- Company competitiveness
- Company consistency

I am sure we could all add to this list. However, the point to be made here is that the product manager must develop an optimum strategy in product mix and make-up to help meet whatever goals the company has set. In fact, he undoubtedly has specific objectives that he must achieve in his particular area of responsibility. As input to developing this strategy, the product manager must be aware of:

- Needs and desires of the marketplace
- Needs of the distribution system
- Availability of technical and human resources
- Financial constraints
- Legal constraints

Effective product management implies that these input items are judiciously used in order to accomplish the company's and, more specifically, the product manager's goals.

MS. DAPHNE D. BARTLETT: I would consider that effective product management consists of the following items:

1. The design of new products to assist in fulfilling overall objectives.
2. Maintenance and adjustment of existing products where possible, to assist in fulfilling corporate objectives.
3. Development of timely statistical experience data to be used to determine whether objectives are in fact being met.

The above list consists of the routine items necessary for effective product management. There are probably two other, more subtle essential components that are needed in any organization for product management to be effective:

1. There must be an environment where creativity and departure from the norm is encouraged. That is, let's not be afraid to do something new, and let's not always "follow the pack."
2. There must also be an awareness and understanding of the fact that changes in direction can, and sometimes should, be made. In other words, do not be afraid to drop a product, or even a line of business, if the evidence indicates this should be done.

MS. ALICE M. NEENAN: The most important factor is communication of goals and priorities to everyone involved in the product management process. For example, the company objectives for sales growth in each line of business should be integrated into the strategies of areas such as marketing, agency, investments, and actuarial.

MR. ALLEN D. BOOTH: An effective product manager is one who appreciates his company's goals and objectives and acts to further the progress of his company along its charted course. I speak from a background of a small-to-medium size stock company and the problem with that definition is that there often is not a charted course. This is often an element lacking in smaller companies. We undertook to do that a couple of years ago and found that the efforts of our organization were much better placed as a result of defining our corporate goals in writing.

MR. FRITZ: Let us discuss what the internal organization for product management might involve. Is there a product manager designated, and if so who might that be? How do the actuarial and agency areas interact during product management?

MS. BARTLETT: We have just gone to a line of business organization, with a somewhat unusual wrinkle in that we also have an Agencies Line. I would consider that the product line managers are the heads of each individual line. The line heads all report to the President, and are considered to be solely responsible for the success or lack thereof of their lines.

MS. NEENAN: My company does not have designated product line managers. Our Financial division and Product Development and Marketing division are each headed by an actuary, and these people have joint responsibility for management of our ordinary life, annuity, and disability income lines. Market analysis, market strategies and the design, pricing and implementation of new products fall within the scope of the Product Development and Marketing division. The Financial division has primary responsibility for determining product line profit objectives, monitoring the profitability of

existing products and recommending dividend actions. Of course, the actuaries in these two divisions must reach a joint agreement on decisions such as the appropriate assumptions to be used in pricing a new product. This organizational structure has been in effect for about six months, and we feel it is working well. Coordination of product changes is easier when individual line managers are not competing with each other for EDP priorities. We actuaries are discovering what life is like out in the field and the marketing people are learning how to talk about asset shares and the incidence of profits.

MR. BOOTH: Our organization is a functional one in which the responsibilities of the "product manager" fall squarely upon the shoulders of the head or heads of the actuarial department, albeit, with many inputs from without. In the smaller organization, it is extremely common for all or most of the management people to have at least a firm interest in such things as:

What are our current products and what are they designed to do?  
What new products are being considered?  
Which product is selling best?  
Which is "most" profitable?

This is one nice luxury of an organization where you have perhaps ten or twenty management-level people who frequently talk with each other. The activities in our organization are highly oriented to the personalities of the people involved and it is fundamentally important that the people in the organization have a certain mesh of personality so that things can move along as we would desire them to.

MS. BARTLETT: In order to facilitate communication between the actuarial and agency areas at a fairly low level, we have just assigned one of our actuarial students to the Agencies Line. We hope that this will result in some preliminary actuarial analysis of new ideas originating in that area prior to their presentation to the Actuarial areas. We have not had this position in effect long enough yet to know whether it will work as we have expected. I know it is becoming quite common in the industry.

MR. FRITZ: An important area in effective product management is to be able to set goals and then evaluate performance.

MS. BARTLETT: Our corporate level objectives are currently based on a desired return on equity (ROE), and certain dividend requirements of our parent company. At present, we are struggling with the question of the determination of minimum surplus requirements and its allocation into our new lines of business. Once this has been accomplished, we will have to tackle the difficult question of whether different rates of ROE are desirable for each line of business, and, if so, at what level should they be. It is currently our thinking that, even within the parent, different ROE objectives should be imposed on each subsidiary, reflecting the degree of risk involved. Occidental is a subsidiary of Trans-America Corporation which has a very diverse range of subsidiaries. We have a movie company, an airline and a life insurance company. Since the movie company faces a greater risk than the insurance company, it should probably have a higher ROE requirement. By analogy, within Occidental, we believe that each line of business should probably have a different objective, reflecting the line's risk. This leads to many more questions, such as "what return should be demanded of different types of risk?"

Once the desired ROE objectives are established for a line of business, it will probably be fairly easy for us to extend the ROE concept into our pricing of the various products, at least in the ordinary line. The difficult problem, I feel, is determining the original allocation, and the original ROE goals.

While I have concentrated on a discussion of ROE, mainly because this appears to be at the top of the minds of management in our company at the moment, there is a very definite recognition that an ROE goal, even if it is satisfied, is not a sufficient target. Therefore, as our work progresses, we intend to explore other criteria which should also be imposed on a line of business, in order to assure a consistent, adequate and reasonable stream of earnings.

MS. NEENAN: Our primary product management tool is a five-year financial plan. This plan is revised each year, so we are always in the first year of a five-year plan. We are a mutual company and place great emphasis on meeting or exceeding the dividend scales illustrated at time of issue. For this reason our five-year objectives are targeted to the need for a net worth position that will allow for dividend scale increases for both old and new business. The five-year plan also provides a basis for evaluating our product lines and determining how successful our management efforts have been.

MR. BOOTH: Loosely stated, our product line objectives are set from bottom line upwards, where the bottom line is the corporate profit figure. We use a five-year plan where our targets are primarily GAAP profits after tax. We spend much time assembling it once every five years.

MS. BARTLETT: Don't you update the plan every year?

MR. BOOTH: The five-year plan is released at least in part to the investment community and our management places a great deal of importance in maintaining our credibility with the investment community by not updating the plan in midstream. We discuss in our shareholder's report the progress in our five-year plan. This includes not only GAAP profits after tax but also expenses, growth of assets of the company and growth of individual premium income. We do adhere to the five-year plan through its entire existence. We are in our second five-year plan now. We met the first one close to target all the way down the line so I guess we have had good results.

MS. BARTLETT: Do you find in your planning process you are generally conservative or liberal when you go out the full five years?

MR. BOOTH: We have an overriding desire internally for a 12% annual compound rate of growth in our GAAP profits and that basically sets the tempo for the whole five-year plan. Probably as a result of the good external experience that the life insurance industry has had in the past few years (better-than-expected mortality experience and investment yields), we have not had problems meeting our desired goal. In other words, our targets have probably been conservative relative to what we really can do.

We pay much attention to return on equity or return on invested surplus. We classify every product we write into a risk category and require from 8% to 25% return on investment, depending on the risk characteristics. We are primarily concerned with the persistency risk; in other words, the relationship between the asset share and the policy reserve. In these terms the

most risky product we could have is one in which it takes a long time to bring the asset share up to the reserve. The biggest challenge of the actuary is to relate profit goals back to something like a five-year plan where you are dealing not in index of profit per thousand but rather the total corporate profit.

MR. FRITZ: Once the goal is set, how are product results evaluated?

MS. BARTLETT: We have just come out with a new report for our Ordinary line which might be considered an attempt to evaluate the product line performance on an up-to-date and routine basis. This is our "Monthly Production, Profitability and Strain" Report. What this report shows, on a year-to-date basis, is the premium production by plan for our top sellers, the expected present value of future profits at issue for that amount of production, and the statutory strain inherent in that production. The totals (with approximate adjustment for the balance of plans) are compared with our production and profit goals for the year to date, and any deviations can quickly be identified as to their source. Again, this is in a preliminary stage, and could be significantly improved. However, it is creating a great deal of interest among our top management, and our parent company. We are planning to extend it to the other lines of business, as soon as the necessary back-up data can be compiled. Another routine study we perform is a quarterly analysis of persistency by major plan block and duration. This is done both for our Ordinary Life and Individual Health lines and enables us to identify any problem areas on a timely basis. This report, for example, was used to identify the fact that we had a very serious persistency problem with minimum deposit business. Certain corrective action was taken in the field and in our product design, which has now resulted in much improved experience.

MR. FRITZ: When you find a problem, how do you fix it?

MS. BARTLETT: Several courses of action might be taken when it is discovered that a product is in difficulty. One obvious way is to discontinue sales in that particular area. This is something we did quite recently for our Individual Health medical expense business when our projections indicated that it was highly unlikely that we could continue with our current portfolio or develop a competitive product which would comply with all state regulations and also provide an adequate return. Another, less drastic, alternative solution is to change the commission structure to divert sales from an unprofitable plan to one that is more profitable. A further alternative that proved very successful for Occidental in the last few years was the development of a product specifically designed to draw sales away from a popular but unprofitable plan.

MR. BOOTH: One of the problems that I face is finding the time and the personnel to adequately follow up and analyze the results of a product after it is initially released to the marketplace. In particular, I am concerned about whether the pricing assumptions are being realized. Somewhere in the not-too-distant future, I hope we will be able to develop a corporate model which will require that we project our results at the beginning of the year on a sort of a pro forma income statement, and at the end of the year identify deviations from our projection by source.

When we want to modify a product, we are concerned about the reaction of our field force. We worry about the credibility of the home office to the field force. A method we tend to use when we have an adverse change going to the field is to couple it with something positive to try and balance the thing out.

MR. FRITZ: Now that we have discussed what effective product management is and how to do some effective product management, let us discuss some practical considerations. We would like to split this up into three lines: ordinary life, individual annuity and individual A & H. With respect to the ordinary line, how are companies adjusting to the obvious trend toward term insurance?

MS. BARTLETT: Although I could take issue with the fact that the trend to term insurance is "obvious", I prefer to concede that point and address the question "why is there a trend?" I would suspect that there are two major reasons. One is, of course, the existence of inflation, which produces less long range value in death benefits and, with respect to permanent insurance, the erosion of cash values. The other reason is price: many purchasers of today apparently prefer higher coverage for a fixed initial outlay than they can get with permanent insurance, although they forget that their outlay will probably increase in the future, or that their coverage will expire.

The next question is whether we should fight the tide toward term insurance. I believe the life insurance industry should take a long, hard look at itself. Any actuary who is asked to develop a level premium permanent policy should consider whether there is truly a need for that type of policy, or whether it might be better designed as, for example, an increasing premium, increasing benefit permanent policy. In an inflationary environment, consumers are accustomed to paying a little more each year for everything, and their income is usually increasing each year. So, perhaps there would not be much consumer objection to a life insurance policy with traditional-type permanent benefits, but with increasing benefits and premiums. We have not yet been able to completely design a plan along these lines, mainly because of difficulties with our computer systems. However, it is constantly at the forefront of our thinking. We have developed an increasing premium whole life policy with level benefits, and sales on this plan, while not outstanding, are satisfactory. I suspect part of the difficulty in encouraging the field force to use a product of this type (besides the commission considerations which I will get to later) is the fact that it is different from the established mold. However, it has been our experience that, with adequate home office direction and emphasis, a quite complex plan can be readily understood by most of the field force in a very short time.

MS. NEENAN: I would like to just make one comment on term. There have been attacks on the insurance industry by consumers saying that agents sell whole life and often minimum deposit because the compensation is higher. In partial reaction to that and because we do not have any Schedule Q problems with New York, last year when we introduced our new policy series we had first year commissions on all our term products equivalent with our whole life product. Admittedly, for the same face amount sale there is still a significantly smaller commission, but we see an increasing number of sales being made on a premium amount. In this case the agent does not have the vested interest to sell permanent instead of term to get the higher commission.

MS. BARTLETT: Is anything afoot to change Section 213 to make it possible to have a more equitable commission scale?

MR. DANIEL F. CASE: There is a sub-committee within ACLI that studies the New York expense limitation laws and that sub-committee met just a month or two ago. Among the questions which we are going to study (with a view to possibly submitting some proposals to the New York Insurance Department for their support in seeking amendments to Section 213) is the question of the formula that provides an allowance for first year commissions on various plans and that presently provides a smaller allowance for first year commissions on term insurance.

MS. BARTLETT: Does that mean then that the ACLI has recognized that the trend to term is obvious?

MR. CASE: There was actually a proposal that was submitted to the New York Insurance Department in 1971 by the then ALC-LIAA. Several proposals were submitted at that time, one of which was to increase the term commission allowance to about 45% instead of the 37% or whatever it is now. This is not a limit of course, but rather an allowance that works into the first year field expense limit. The New York Insurance Department accepted some of the proposals but not that one, which we are considering resubmitting.

MR. PHILLIP A. SCHORR: I sympathize with the problems of inflation mentioned, and I agree that experimentation with new products is desirable. However, I am concerned that by accepting the inevitability of inflation and changing ourselves to live with it, we will be setting up a self-fulfilling prophecy. I hope we do not give up on the traditional level premium, level benefit products and that we will instead attempt to resolve these problems in other ways.

MS. BARTLETT: I really suggested this to raise a little discussion from the floor. I think that is interesting.

MR. FRITZ: If there is a trend towards term insurance, what is the effect on the insurance company of this trend?

MS. BARTLETT: Because term insurance has more risk associated with it, it probably should be priced to be more profitable than permanent plans. Such pricing could be on a return on investment basis, or as a percent of premium, for example. Occidental's term plans are priced to be slightly more profitable than permanent plans. I did some reflecting on what would happen to our earnings if we became fully a term insurance company (which, of course, we don't currently intend to do). I confess I have not performed a thorough analysis of this, but, assuming the product were priced to properly reflect all the greater risks associated with term (which would involve persistency and renewal mortality, as well as the increased net amount of risk) it seems to me that our earnings would be, on the average, about the same as with a mixed portfolio. Of course our assets would be lower because we do not have as many reserves and cash values to support, but, since the after-tax excess interest on those assets is, in effect, used to lower the price of permanent insurance, my conclusion is that the net effect, other than a slower growth in assets, is minimal.

MR. JOHN K. BOOTH: We hear a lot about the trend toward term insurance and the fact that a smaller share of the savings dollar is going into the life insurance industry. If there is a shift away from whole life insurance toward term, there is also another need of the public in addition to insurance needs. These are retirement needs. Companies might consider a package of term insurance and annuity products, thereby trying to bring back more of the assets that otherwise might go elsewhere.

MR. FRITZ: What are some of the other problems that might be involved in the ordinary life line at this time?

MR. ALLEN D. BOOTH: One of our problems, viewed from the perspective of the individual company, is competition. In an era of high interest rates and expected medical breakthroughs leading to increased longevity, it is not difficult for the life actuary to liberalize his assumptions just a bit more so as to attain that extra notch of competitiveness. Further, consumerism has fostered more of a shopper's attitude among buyers of our product than this industry has ever known before.

From the aspect of competition, our industry is very competitive. One problem that competition brings to the fore is the replacement problem. Persistence has eroded in the past few years. Why? Competition and the attendant replacement of in force policies is one reason, but there are others:

- a. ERISA has had a deleterious effect. Many, having a choice between using their available dollars in a tax shelter as opposed to a non-sheltered life insurance program, use the shelter.
- b. Inflation is an answer. It is psychologically devastating to the consumer to see a product for which money was scraped together some few years ago, now worth relatively less in the overall financial picture.
- c. Finally, changing societal values are hurting us. One observer states that life insurance is becoming a part of the throwaway society. Isn't it purely natural for one spouse to surrender a life insurance policy when the other now-divorced spouse is no longer deemed a worthy recipient of its benefits?
- d. If a policy is sold for business or estate tax reasons, but the law is changed (as in Section 79), what is the incentive to continue the policy?

How should these problems be met? Each has its own answers, but there are at least two common threads - (1) we must make our organizations aware of demographic trends, and (2) we must respond more quickly to changing societal mores.

With regard to Policy Loans, let us remember they are the contractual right of the policyowner. This is not the significant problem area that it was two or three years ago, but an element of concern does still exist. There are some items which are helping and will help.

- The 8% variable loan interest rate.
- Increased knowledge of the impact and results of minimum deposit business by Marketing people.
- Possible agent compensation based on net flow of dollars to the company, i.e. net of loans.



We can always talk about expenses as being a problem. In this regard there is one comment that I would like to make. With all the tax-based sales that have been made lately, are we building ourselves an expense trap with the necessary administration of some of these tax-sheltered programs? Specifically I am concerned about Section 79 where so many of us have trusts set up which are going to have to be administered for years and years. It was easy to make that initial sale but what have we done to our expense ratios down the road?

MR. FRITZ: When I was at Gulf Life we had a minimum deposit policy with commissions based on net cash flow to the company. We had problems with commissions. We raised them and then we lowered them and finally decided to pay in terms of net cash flow to the company within the first two years, so we actually had a commission chargeback if a policy loan occurred during the first year and a half. It is difficult to administer. It seemed to be an acceptable alternative at least to the home office marketing people because they were aware of what was happening to the profit level of that plan. However, if the company has high agency turnover, the value of these chargebacks may not be as great as one might at first think.

What is the product of the future?

MS. NEENAN: James Anderson's paper on "The Universal Life Insurance Policy" stressed the need for new products with greater flexibility and lower costs. He proposed a flexible premium annuity with no cash or loan values, together with a monthly renewable term rider. Since much of the recent growth in life insurance sales has been attributable to term and annuities, the Universal Life Insurance policy certainly should have marketing appeal. Mr. Anderson presented a scenario in which Cannibal Life withdraws all its existing insurance plans, and markets only the Universal Life Insurance Policy. In this scenario, the other life insurance companies either follow Cannibal Life's lead or stop writing new business.

I can not believe the Cannibals are really coming. The American buying public has a deeply ingrained belief in the tradition of borrowing on your life insurance policy when in financial difficulty. Permanent, cash value life insurance is nowhere near being obsolete, in my opinion. Products such as variable life or the Universal Life Insurance Policy can be a valuable part of an insurance company's portfolio, adding the kind of product line diversity which can help promote sales growth. However, the product of the future must be based on the traditional life insurance concept of assumption of risk. Pinning our hopes for future growth on accumulation vehicles with very limited guarantees, or on products whose marketability is based almost entirely on the current tax laws, could be a serious mistake. I predict that adjustable life will be the product of the future. It can duplicate the coverage provided by all the traditional life, term, and endowment forms, but the policyholder has the flexibility to increase or decrease his premium or face amount at any time, subject to stated requirements for evidence of insurability. A change in the form of coverage can be accomplished by requesting the appropriate premium and face amount changes, allowing the policyholder to adjust the relative savings and protection elements.

Connecticut Mutual is currently evaluating the feasibility of developing a number of non-traditional products including variable life and adjustable life but we think that adjustable life is particularly valuable in all our markets. In the individual market, indications from Minnesota Mutual sales results indicate that persistency on adjustable life is much better than on traditional products. We see it as a service-oriented product. It could be a chance to do something new and creative in the area of agents' compensation, getting away from the high first, low renewal commissions and emphasizing service by compensating the agent appropriately. We are particularly interested in adjustable life in the area of individual policy pensions because we have no group pension business. Furthermore, because the multiplicity of policies in the normal pension cases becomes a serious expense problem, we think that adjustable life might be the ideal solution to this multiple policy problem.

MR. J. ROSS HANSON: Many people think adjustable life is very complicated and costly to administer. In fact it is just the opposite. If a company has an adjustable policy, it could conceivably be the only policy of the company. The cost of administering this policy is much less than maintaining a portfolio of 40 or 50 different plans of insurance with different cash values and dividend scales and all the related expense of management.

MR. FRITZ: Moving along to the annuity line, how do consumers view an annuity?

MR. BOOTH: How do consumers view an Annuity? What a change since ERISA! Ten years ago, an annuity was \$X per month for life to the American public, and indeed, the American public had any idea at all what an annuity was. Not so today! An annuity, in the mind of the American Consumer, is clearly a savings account with a guaranteed interest yield. Surely, I exaggerate. But maybe only momentarily. It should be obvious that ERISA brought us, for the first time, into head-to-head competition with Banks and Savings and Loan Associations. At first, many of us felt that we would benefit from the advertising that other financial institutions were doing. After all, they could spend money to advertise, but we had the marketing force, our agencies, in place and ready to move. Unfortunately, somewhere along the way the worm turned. What with Federal disclosure forms pointing out sales charges, and Bank/Savings and Loan publicity, we have been bitten as an industry.

MR. FRITZ: Are annuities profitable to the company?

MS. BARTLETT: This is not my area, and I had to do a little research in order to get any information to give you. The head of our Pension Line indicated that, in his opinion, annuities are profitable, although he informed me that we have had some serious problems with regular monthly mode on our IRA business. Apparently we have had extremely bad persistency experienced on this block and as a result have totally cancelled that particular mode and are only offering the pre-authorized check mode.

MR. FRITZ: I agree with Daphne's comment on the IRA market. I did a survey of 60 life insurance companies almost a year ago. The average issue size of IRA policies in my survey was approximately \$1,000 in annual premium. With that large of a premium base I do not believe you need a large front-end load. It is not difficult to project the ultimate commission amount to the agent and if sold to the field force on that basis, the agents would, I believe, understand and accept the necessary lower commission percentages on IRA products.

As part of my survey, I also reviewed a March, 1976 Federal Reserve study. At that time the banking and savings and loan industries had captured about 75% of the IRA market. The life insurance industry had 21% and I think we can do better than that.

MS. NEENAN: Annuities are sometimes viewed by the field as an easy sale, and we find that some of our agents are specializing in annuity products. This means that any reduction in annuity commission rates can have a very dramatic impact on these agents' incomes. However, for flexible premium annuity products the competitiveness of the load and the dividend interest rate have a substantial effect on sales and persistency. For this reason our field force has generally supported a proposal to decrease commission rates to help achieve a lower load. Because of the higher average premium on flexible premium annuities, we find that the average total commission per annuity sale would be quite comparable to that of our average whole life sale.

Our persistency has been disappointing. Annuities with a return-of-premium feature are particularly vulnerable to early lapses. We feel that the IRA products are most susceptible to replacement by a competitor who has a lower load or is quoting a higher dividend rate. It seems more appropriate to assess a withdrawal charge on early surrenders, since a "money-back" guarantee hurts long-term performance results. The primary purpose of this product is to provide a retirement income, and the buying public seems to be placing increasing emphasis on guarantees. When setting dividend interest rates in this particularly competitive environment, we should avoid the temptation of repeating our mistake in the individual disability income area of constantly trying to outdo the competition.

MR. BOOTH: We have marketed what we call a no-load annuity for about three years. It is in fact no-load if it survives until retirement when it is converted to a monthly income form. There is, however, a 15% commission paid in the first year except at older ages where it is less. We have the chargeback to the agent and we also have a 10% surrender charge at the beginning of the contract. If the annuitant keeps that annuity to do what it was designed to do, it is truly no-load, but if it is an early surrender cash out then it does what we intended it to do.

MR. DENNIS L. CARLSON: We have had a flexible premium annuity for ten years, primarily in the HR-10 market. In pricing our annuity we recognize two elements of persistency. One is the policy persistency which is basically persistency by policy count. This persistency rate must be recognized because there are certain continuing renewal expenses regardless of how much premium is sent in. A second element is the difference between that and premium income persistency. Policy persistency in our company has been 90% after five years, but within a matter of two or three years premium income persistency is 50%. In our pricing, we have assumed persistency at very high rates in the traditional sense of persistency. We assume the annuity is a decreasing premium annuity to reflect the difference between policy count persistency and premium income persistency. This produces a more realistic pattern of premium income.

MR. FRITZ: In my survey, several companies used a similar approach and I wholeheartedly agree with that. Let us move on to the individual health line. Can this line be profitable?

MS. BARTLETT: We have recently gone out of the individual medical expense business. We still believe that, eventually, with timely rate increases where possible, our loss of time new business may be profitable. Like a lot of other companies, we have been very slow in reacting to changes in public benefits in the disability income area. We now intend to perform an annual review of our issue limits to properly reflect increases in public benefits such as Worker's Compensation and Social Security.

We have recently created a Health Coordinating Committee. This consists of representatives from the sales, actuarial, underwriting and claims areas. We get together monthly to discuss various aspects of the line, to see whether any changes can be initiated which will improve its profitability. This Committee was set up because, as a minor line, projects related to it always seemed to end up in the bottom of everybody's in-box. The existence of the Committee forces the individuals involved to give a little more attention to the block than might be possible otherwise.

Much of our inforce block is on individuals who are over-insured. The prognosis for ultimately getting out of the red on the inforce block is rather poor. We do hope that for new business (with an annual review of issue limits to react to external factors), we will keep our new business more profitable than it has been in the past and keep over-insurance down. We also try to initiate timely rate increases on the guaranteed renewable block.

MR. BOOTH: On or about March 31, 1976, Jefferson National Life sold its last individual health policy. For some 15 or 20 years we had sold Hospital, Major Medical and Disability Income Products. We never made any meaningful profit from it; in the early years it was a "new line"; in the middle years it was marginally profitable --- always "about ready to turn around"; in later years, it was "adversely affected by the economy." Even so, its continued existence could be justified by the hope of an improved tomorrow, by the argument of spreading overhead, and by the knowledge that our field force needed and desired a full portfolio of life and health products. As the economy worsened through 1974 and 1975, the hope of an improved tomorrow became less strong. Furthermore, our health line manager had retired the prior year, no replacement was forthcoming and regulations regarding policy forms and format were extremely expensive to comply with. Finally, our last argument - "our agents need a full portfolio" came under fire when statistics replaced impressions. Of 1,000 writing agents under contract with our company it was discovered that:

500 should be terminated for lack of production  
 199 wrote life insurance and annuities  
 299 wrote health insurance  
 2 wrote from a full portfolio

What possible justification, other than love of mother, country, and apple pie, was left for the updating and continuation of the health line? The bottom line simply said to us that, "our scarce human resources and talents can be better utilized elsewhere."