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CURRENT GROUP LIFE TOPICS

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1. NAIC Model Group Life Insurance Law

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    a. Profitability

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MR. JAMES E. JOHNSON: Last year, Bill Schreiner surveyed 40 leading group companies prior to the concurrent session on group life insurance in Chicago. The results were interesting and prompted me to conduct a survey prior to this meeting. This survey was mailed to the 41 largest group life insurance companies in the United States and Canada based on 1978 insurance in force. Twenty-six surveys were returned. Copies of the survey results will be available at the conclusion of this session.

WAIVER OF PREMIUM/EXTENDED DEATH BENEFIT

I would like to talk first about the waiver of premium/extended death benefit topic and later about the financial aspects of group life insurance. My remarks on the waiver of premium/extended death benefit topic fall into four categories. First, I would like to talk about the changes occasioned by the 1978 amendment to the Age Discrimination in Employment Act. Next, I will cover deletion of the disability benefit in life insurance contracts. Then I will review methods of calculating disability claim reserves and reserve interest credits. Finally, I will comment briefly on recent disability experience.

ADEA Amendment

Certainly the most current topic in the waiver of premium/extended death benefit area is the impact on this coverage of the 1978 amendment to the Age Discrimination in Employment Act (ADEA). The 1978 amendment raised the mandatory retirement age from 65 to 70 effective January 1, 1979. However, the final interpretative bulletin relating to the 1978 amendment was not issued until May 25, 1979. The interpretative bulletin does not discuss disability benefits provided by life insurance policies. Some insurance companies seem to feel that a bulletin on disability benefits will be forthcoming. On the other hand, I think that the Department of Labor was well aware of this omission. If this is true, the obvious conclusion is that disability benefits are to be treated as an integral part of life insurance plans.

Separate discussion of the benefit would probably not be required if companies currently provided disability benefits and life insurance benefits on an identical basis. However, current life and disability benefits are not provided on an identical basis. Differences exist both in eligibility and benefit period. After the 1978 amendment, the differences may be even greater. These differences are permissible provided they can be justified from a cost standpoint.

With respect to eligibility, 20 of the 25 companies responding to this survey question indicate that their standard life insurance contract provides a disability benefit only for employees disabled prior to age 60. The remaining five companies are all Canadian, and all provide a disability benefit for employees disabled prior to age 65. A survey comment mentions that a 1976 change in the Canadian Human Rights regulation is comparable to the 1978 change in ADEA. It would be interesting to hear during the discussion period how the Canadian regulation affected disability provisions in Canadian group life insurance contracts.

Seventeen companies indicate that they are making no change in disability benefit eligibility as a result of the 1978 ADEA amendment. Four companies are raising the maximum eligibility age: two from 64 to 69, one from 59 to 64, and one from 59 to 69. Incidentally, three of the four companies raising the maximum eligibility age are Canadian companies. Thus, a majority of companies will continue to offer disability benefits only to employees under age 60. This approach can be justified if the cost of life insurance at ages 60 to 64 without a disability benefit is no less than the cost of life insurance with a disability benefit at ages 55 to 59.

Technically, an employer could provide reduced life insurance to employees at any age. At ages over 40, ADEA requires that such reductions produce a benefit cost that is no less than the benefit cost at younger ages. Traditionally, most employee life insurance plans have held benefits level until age 65. However, no law has required level benefits. Thus, an employer could provide reduced life insurance beginning at age 60. Under a plan with no disability benefit, life insurance could be reduced to 65% at ages 60 to 64 and the benefit cost would match the benefit cost at ages 55 to 59. A further reduction to 45% of the life insurance benefit available at ages 55 to 59 would be possible at ages 65 to 69.

When a waiver of premium benefit is provided prior to age 60, cost relationships between age groups are altered considerably. Life insurance can be reduced to approximately 85% at ages 60 to 64 and 55% at ages 65 to 69. These reductions can be considered a minimum for satisfying the ADEA regulation; most employers will choose to continue full life insurance benefits to employees at ages 60 to 64. Then the permissible reduction at ages 65 to 69 is determined by dividing 55% by 85%. The answer is 65%, the generally accepted level for reduced benefits at ages 65 to 69.

Many employers will probably choose to provide continuing life insurance coverage for employees disabled at ages 60 to 69. If most insurance companies offer a waiver of premium benefit only prior to age 60, continuing life insurance coverage for employees disabled at ages 60 to 69 will require continuing premium payments. This approach is certainly logical where the employer pays for the entire cost of life insurance; it may be more complicated where employee premium contributions are required.

In addition to the disability benefit eligibility question, insurers need to face the question of benefit periods. Prior to the 1978 amendment, 85% of the insurers responding to the survey provided disability benefits that followed the reduction/termination schedule for active employees. Does it seem logical to follow this approach in the future?

For long term disability plans, the ADEA regulations clearly allow benefit termination at age 65 for employees disabled prior to age 60. Thus, there may be some precedent for establishing an age 65 waiver of premium benefit termination for employees disabled prior to age 60. Similarly, it may not be necessary to require employers automatically to continue premium payments to age 70 for employees disabled at ages 60 to 69.

Disability Benefit Deletion

From an economic standpoint, the 1970's have been characterized by rapid inflation. Rapid inflation has in turn led to high interest rates. As interest rates have risen, employers have given greater and greater attention to cash flow considerations. This attention can lead to questions about disability reserves.

Nineteen of 25 survey responses indicate that life insurance policyholders are increasingly requesting deletion of waiver of premium type disability benefits. Four companies commented that these requests are increasing but are still not significant. So far, Minnesota Mutual's requests for deletion of this benefit have come only from extremely large employers.

The motivation for retroactive deletion of the waiver of premium type benefit results from the potential refund of the disability claim reserve. Out of 26 responses, 23 companies indicate that they will never retroactively delete the disability benefit for currently disabled employees. In fact, several respondents felt that such a request would have somewhat unethical overtones. A more pragmatic respondent answered, "We never say 'never' on large group cases." Two companies comment that retroactive deletion requires an agreement signed by each disabled employee. As a disabled employee, would you sign such an agreement? Will future legislation limit employers' rights in this area?

Claim Reserve Methods and Interest Credits

Rising interest rates may lead to more frequent requests for deletion of waiver benefits. At the same time, increasing recognition of interest credits on disability claim reserves and more reasonable claim reserve levels may help to increase employer understanding of the waiver benefit. Seven companies currently base disability claim reserves on a uniform percentage of the face amount of insurance. Companies use percentages ranging from 65% to 100%. Fifteen companies report that they currently use the 1970 Intercompany Group Life Disability Valuation Table for calculating disability claim reserves. Valuation interest rates vary from 3% to 4% for United States companies and from 3.5% to 6% for Canadian companies.

Historically, insurers did not recognize interest credits on the various elements of cash flow including disability claim reserves. Instead, interest credits were used as an indirect offset to expenses in developing a retention charge. Two companies indicate that they still follow this approach. Ten additional companies do not include an interest credit on waiver of premium claim reserves in their experience refund calculations. However, 14 of 26 respondents do credit interest directly on disability reserves. Interest crediting rates range from 4.5% to 11%. In general, the Canadian companies appear to use higher crediting rates. This may reflect more favorable tax treatment of disability reserves in Canada than in the United States. One Canadian company even uses an investment year method in developing interest credits for disability claim reserves.

Disability Experience

Disability claim costs appear to have increased during the last 20 years. While no one appears to have spent much time studying this factor of group life insurance pricing, 20 of the 23 respondents indicate that disability claim costs have increased. Seven of 20 respondents indicate that costs have increased substantially. The group insurance experience reports compiled by the Society of Actuaries confirm this survey response. The reason for this increase may be increased awareness due to the increased popularity of long term disability coverage.

MR. JAMES M. MC CREADY: With the interest in continuing insurance on a premium paying basis for disabled lives, what effect do you think this will have on group life mortality, or has it already been reflected in our life mortality studies?

MR. JOHNSON: The disability rates have really gone up in the last 20 years, especially at the older ages.

MR. JOSEPH W. MORAN: As I recall, the last Intercompany Group Life Mortality study indicated a four dollar per year per thousand claim cost for disability waiver claims at ages 55 to 59, and that was reported claims. I think the question is oriented to the idea that there are costs above and beyond the costs that are being generated by reported claims. How many are there that are not being reported as waiver claims because the employer elects instead to try to provide the coverage on a premium paying continuance basis? We at New York Life have tried to get records from each employer that continues coverage on a premium paying basis, and the results vary widely. Some of them do have substantial amounts of insurance in force at ages 50 to 60 which have been continued without the filing of a waiver of premium claim. In many instances, those are people who may not really be disabled. They may be disabled for purposes of the employer's pension plan because of inability rather than because of disability. How you count those people for purposes of an experience study is questionable, but our observation has been that there are quite a few people who are being continued on some cases. However, some employers do not do it at all.

MR. ROBERT C. BENEDICT: Obviously, the reduction on the ADEA is dependent upon the mortality table that you use to determine that reduction. Would you share that information?

MR. JOHNSON: The table that we used was the 1970 to 1974 group experience.

MR. BENEDICT: I have heard numbers as low as 20% and as high as 40% and, therefore, I would be loathe to say that any specific figure is a minimum figure although you seem quite confident to say 35% is a minimum figure. Could you tell me from where you get this confidence?

MR. JOHNSON: I worked out the mathematics, and I am satisfied that 35% is a good number. Actually, it comes out a little bit more than 35%, and it varies by male and female. The male number is about 36%, I believe, and the female is closer to 40%. I have also seen releases from a number of companies that use the 35% and I assume that they worked out the figures to their own satisfaction.

MR. BENEDICT: Do you have any knowledge of a further release in this area? I know you mentioned the possibility of a release possibly specifying a table.

MR. JOHNSON: I just learned this morning that the E.E.O. is getting ready to publish questions and answers regarding the disability waiver benefit.

MR. MORAN: Last week's issue of Time magazine featured an article which lamented an apparent loss of inventiveness and innovation as a major feature of the American economy. That article cited a decrease in the amounts of money and effort which American business has devoted to basic research and development as a factor which may have hurt the American economy in its competitive position against those of other nations. The Time article also pointed out that government regulation has had a stultifying effect on innovation, as business has been required to devote potentially more productive resources toward compliance with regulatory requirements. After 30 years in the life insurance business, I am pleased to be able to say that ours is definitely not an industry which has neglected innovation. As a matter of fact, the rate of innovation seems to be accelerating, particularly in the group life insurance field. On the other hand, I must admit that group life insurance is definitely a field in which innovation has been hampered by over-regulation. In my remarks today, I will comment first on mass marketing of life insurance under group policies as an example of innovation and inventiveness in our business, and then follow up with comments on the proposed revisions of the NAIC Model Group Life Insurance Law as an example of the problems involved in operating in a regulated industry.

MASS MARKETING

Our industry's principal objective is the broad distribution of the life insurance product to the largest possible public. Traditionally, life insurance marketing efforts concentrated on face to face sales by individual agents to individual consumers. Our record in this area has been impressive with over 130 million individual life policies inforce providing about a trillion and a half dollars of life insurance protection. The individual agent is still the primary focus of life insurance marketing efforts. However, with a consumer public that numbers over 500 people per insurance agent, we cannot do the entire job through this mechanism. We are only selling about 14 million new individual life policies per year. In these days of inflation, we know that there are many millions of people whose insurance needs have greatly increased since the last time that they bought an individual life policy.

Employee group life insurance has been the most valuable supplement to this marketing effort over the past 30 years by enabling insurers to distribute their product to large segments of the public at a relatively low cost. Over 100 million people now have over a trillion dollars of life insurance protection under employment-based group life policies.

The group life policy mechanism has also been used successfully for over 25 years to provide high quality life insurance coverage to members of professional associations, unions, and other occupation-related groups. The volume of life insurance under these association group plans today is probably getting close to 100 billion dollars, although reliable specific figures are not readily available. I know from personal experience that these association group plans typically are characterized by extremely high persistency of individual insurance, favorable mortality experience, and very low net costs to insured members through the operation of experience rating practices which generally are available only within the group insurance mechanism. The area of greatest recent innovation in group life insurance is the further extension of these association group marketing methods to provide life insurance for other membership groups of people who share a common interest unrelated to insurance. Examples are members of college alumni associations, fraternal organizations, and groups whose members share a common interest in a hobby or other activity unrelated to their employment or occupation. The same techniques are being extended further to provide coverage for groups of people with a common interest who may not necessarily be members of a single organization. This category, for example, would include mass marketing of life insurance to groups of bank depositors, to the holders of Master Charge and VISA credit cards, shareholders of mutual funds, and subscribers to professional and other special interest publications.

In my comments, I will treat the term "mass marketing" as sweeping in all of these extensions of group life insurance beyond employee coverage (except credit insurance). The common denominator of mass marketed--against other--group life insurance is that the persons insured pay the entire premium for their coverage. Mass marketing of group life insurance to a membership group usually involves establishing a framework of working relationships and agreements among the sponsoring organization, a trustee that will act as group policyholder, the parties involved in soliciting the members' enrollments under the policy, and the parties involved in the continuing administration of coverage under the policy. (It is not as simple as being able to rely on an employer to act as the focal point of everything.) These arrangements take many forms. Some plans involve substantial activity by the staff of the sponsoring organization. On others, the insurer handles all continuing administrative dealings with each insured member in much the same fashion as for individual policyholders.

A number of insurance brokerage firms have become specialists in the sale and operation of membership group life insurance plans. These firms offer sponsor organizations a package of services which may include design of the plan, assistance in establishing a Trust, selecting an insurer, setting up an enrollment solicitation program, and handling all dealings with individual members. Some of these firms are staffed with specialists in contract drafting, sales promotion, underwriting, and claim administration and have computer data systems which enable them to perform all services which might otherwise be performed by the insurer. For some clients, these broker-administrators can achieve further substantial economies by integrating these insurance plan services with the association's other ongoing administrative activities, such as membership records and dues collection. Insurers customarily compensate these broker-administrators by a combination of commissions for sales and persistency of business plus an expense allowance for continuing performance of various administrative services. The allowance for administrative services essentially represents an approximation to the amount that the insurer would otherwise spend for performing the same services directly.

Two new developments in the last five years illustrate the extent to which these broker-administrators have become a substantial industry themselves. One is that several states have recently enacted specific laws governing the activities of third-party administrators. These laws are designed to give the state insurance regulators some reasonable controls over the activities of administrators of group policies issued in other states which insure local residents. The other is that they now have their own trade association, known as PIMA, (which stands for Professional Independent Mass Marketing Administrators) to represent them in matters relating to proposed legislation and regulation.

Setting up a group life plan for a group with members in several states involves a number of specific regulatory problems. Most of these problems stem from the fact that group insurance statutes generally were written without any thought of mass marketing. My later comments on the Model Group Life Law will touch on these regulatory problems. For now, I will focus instead on the design of these plans and some specific features of concern to actuaries.

Most mass marketed group life insurance is level term coverage to age 60 or 65, after which reduced amounts continue in force until termination at age 70 or 75. Waiver of premium continuance is usually included for disabilities before age 60. Premium rates typically grade by attained age in five year brackets, with the insurer retaining the right to increase rates if claim experience requires. Most plans offer a choice of amounts of insurance, usually in a range from $10,000 to $50,000 or $100,000, but amounts as high as $200,000 to $300,000 are now available under some association plans. On plans which offer these larger amounts, enrollment is likely to be high only where net costs to members compare favorably with individual term policies. Most membership group policies provide for termination of insurance when a member drops out of the group, with a conversion privilege available at that time. Some other plans permit such dropouts to continue their insurance under the group policy, but this feature may conflict with the objectives of the sponsoring organization.

Enrollment participation among members of a group generally is not high enough to give a spread of risk broad enough to permit guaranteed issue without evidence of insurability. On most plans, enrollment requires submission of evidence, in the form of a short self-health statement, supplemented by attending physician statements or a medical exam only where the revealed medical history offers a cue to seek them. Some insurers issue coverage only for those members who could qualify for standard ordinary insurance, but most membership group plans also provide coverage for moderately substandard risks.

During the early years of a new plan, the ratio of death claims to premium is likely to be deceptively low because of this underwriting selection, even if the evidence has been underwritten liberally. As the plan matures and the effects of underwriting selection wear off, mortality experience tends to deteriorate toward a level comparable to ultimate ordinary mortality rates for coverage in force over 10 years. However, this deterioration may be masked for quite a few years on a plan which generates a continuing growth in enrollment. To date, actuaries have no published intercompany mortality studies relating to experience on membership group life insurance to rely on in projecting mortality or setting premium rates for these plans. The Society of Actuaries Committee on Group Life Insurance Mortality has gathered some initial experience data, however, and there is some hope that there may be some pertinent experience published in future years.

The actuary pricing a membership group life plan must develop a mortality projection which takes into account the prospective future mix of short and long duration exposures in each attained age group and the likely levels of mortality by duration. At best, he is dealing with much more uncertainty than in pricing individual insurance. However, the evaluation of initial and continuing expenses is an even more uncertain area to be faced in pricing. The continuing costs of maintaining existing insurance on the books are much higher than for employee group insurance, mainly because of the costs of either continuing dealings with individual insureds or compensation to an administrator for performing these services.

The most uncertain part of the pricing equation is the estimation of costs of acquisition of new coverage through continuing enrollment solicitations. Most mass marketed group life coverage is solicited through personal direct mail to the individual member on behalf of the organization to which he belongs. For a large group with many thousands of eligible members, these direct mail solicitations can involve very substantial expenditures for printing and postage, which usually are shared between the broker and the insurer. Careful budgeting can control the amount expended for enrollment of a membership group plan, but the translation of these costs into dollars per $1,000 of new insurance depends on the enrollment results achieved, which are often quite unpredictable. While there are infrequent occasions when as many as 5% of the members of an organization enroll for coverage in the initial year of a new plan, there probably are many more situations where the enrollments are less than 1% of the eligible members. (I have even heard of one professional association which drew only two enrollment applications from among its several thousand members solicited.) The combination of inflation and increased competition in mass marketing is making it increasingly difficult to achieve a fair return on enrollment solicitations costs, as measured in terms of the ratio of dollars of annual premium per dollar of expense. The successful operation of a membership group life plan requires that these enrollment solicitation efforts be repeated year after year, either among the entire membership or among segments selected on a demographic basis. Increasingly, sponsors of these plans are experimenting with alternatives to direct mail solicitation, such as through advertising in specialized publications or even in daily newspapers.

All of these efforts are examples of innovations which we hope will enable us to achieve our objectives for broader distribution of life insurance protection to the public. For the actuary, however, it adds uncertainty to our professional world.

MR. THOMAS G. KABELE: For standard life, how do you reserve these association policies, as individual or as group, and do you try to use group mean reserves?

MR. MORAN: We generally establish reserves on the basis of the fact that we have yearly renewable term insurance that does not have a guaranteed premium rate scale. As a practical matter, the reserve is basically the mortality cost from the valuation date to the next policy anniversary at which we have the right to change premium rates. Where there is a rate guarantee, valuation practice is present value of benefits on the mortality table to the end of the guarantee minus the present value of the guaranteed premiums.

MR. KABELE: Is a typical policy paid annually, monthly, or quarterly? And what is a typical reserve for a semiannual policy, 1/2 of net premium?

MR. MORAN: Most of our policies are paid semiannually. There are other plans that are paid quarterly or even monthly. For the typical reserve, we follow the patterns that apply to individual life insurance in setting up the deferred premium asset against a reserve that carries to the anniversary date.

MR. KABELE: Do you carry the reserves in column 7 or column 3 in the annual statement?

MR. MORAN: They are carried under group if it is a group policy. We actually have some plans that involve some individual policies because of regulatory circumstances, and on these we split the accounting records.

MR. MC CREADY: We have dealt with this business a little bit and one question that was brought up was some additional concern for conversions in this type of situation, so much so that we even talked about setting up special preconversion reserves. Do you see this as a need also?

MR. MORAN: There are two kinds of conversion situations to deal with. One is the right of conversion on dropping out of the group or at terminal age for the plan, the counterpart of the conversion that you would have under employee group life insurance. We do assume a potentially higher frequency of conversion and allow for that in determining the magnitude of required contingency reserves under our plans. The other situation is that there are some mass marketed plans under which the member acquires a wide open conversion right, usually after he has been insured for five years, which permits him to convert his group term coverage to individual permanent coverage with the same company even if he is still a member of the association. We have one plan that does include that feature. Our observations, both on our own business and on others, has been that that conversion option is very infrequently used, but we do recognize that it is a contingency that has to be provided for. Where you are dealing with a plan under which practically everybody has submitted evidence of insurability recently, you do not have a very great extra mortality cost to face when that conversion is exercised. On the other hand, if you have ever had any guaranteed acceptability in an enrollment campaign, you have a potential risk, and there may be a question of propriety if you have loose underwriting standards that permit moderately substandard risks to get enrolled under the association plan because it potentially gives them a way to get through the back door to acquiring a standard ordinary policy by exercising a conversion privilege.

MR. MC CREADY: Would you use the 1959 - 1967 Group study to measure the excess costs on the conversions?

MR. MORAN: We have not used that, and it would not be appropriate to do so because you are dealing with a previously selected pool of risks which has not had time to deteriorate all the way to a random group underwritten cross section.

MR. BENEDICT: With the wide variation of participation that you and probably a lot of other people have noticed, two per ten thousand ranging up to maybe 5% on a new prospect, the base of people over which you are going to spread all those acquisition expenses is obviously subject to a lot of variation. Would you care to comment on how you factor a participation or penetration parameter into your pricing for a new or inforce prospect?

MR. MORAN: In developing a quotation on a prospective new case, we usually have to work up a mathematical model for the first five years and sometimes longer and make assumptions as to the dollars that are going to be expended. We also make assumptions, usually a set of alternatives, high and low, as to what the return is going to be, both in terms of the number of enrollments and in terms of premiums per head on the enrollment. We then run a five year projection assuming repeated solicitations and repeated infusion of new enrollments and see where we are after five years in terms of the accumulative investment to get there and how much of it has been amortized in the first few years.

MR. BENEDICT: Do you look for some ultimate participation level?

MR. MORAN: Not really. We are usually half way into a case before we get a clue as to what the ultimate is going to be. We are usually concerned with, at the early stages, how much money we are going to have to invest to get the show on the road. That usually means we have to project solicitation activity and enrollment cost to the point at which the net investment in acquisition has hit the peak and started turning around. You are crossing lines with a question of whether you want to start paying dividends before you begin recovering the acquisition cost investment because payment of dividends is a great stimulus for enhancing enrollment and particularly for enhancing upgrades of amounts of insurance for the existing insureds. That gets to be strategy and tactics as much as actuarial science, but you are in trouble if you have not really written down a representation of what you are projecting.

MR. BENEDICT: Do you pay dividends at all in those very low participation instances?

MR. MORAN: If you can keep your solicitation costs low enough, and particularly if your continuing solicitations after the first round are on a demographically selected basis, you have the prospects of being able to pay dividends.

MR. BENEDICT: What would you call a good initial participation level?

MR. MORAN: If you can get 5%, that is sensational. If you can get 5% in any association with a couple of thousand members, you have 100 people. That is sort of a bare minimum. If the membership of the association is 5,000, you probably ought to be getting several hundred people in order to make the plan viable. One of the considerations is how big does the plan have to be before the association thinks it is worth the trouble of having it. If you got a very low number of people signing up for a plan, you sometimes find the association does not think it is a good idea to have it, because it is going to be more headache than help.

MS. PATRICIA L. SHAPIRO: What do you feel is the most critical variable in determining the response rate? Is it the affinity of the group, the quality of the sales materials, the number of mailings? What do you look for?

MR. MORAN: I am not the sales expert on the subject, and I get conflicting comments from people who assert that they are experts. One broker that I have talked with extensively feels it is the quality of the package of materials that is sent out in the solicitation. Another feels that it is selecting the group to which you send the solicitation material, in other words, to which people you send a second notice. Most associations are going to insist that everybody who is eligible for the plan get one round of solicitation. Beyond that point, you are allowed to try to target your effort so that you get people who are going to sign up or who are more likely to sign up. But the pattern is much different in professional organizations than in alumni associations for example. Within alumni associations, I have been told about variations in the characteristics that make one a better prospect than another.

MR. BENJAMIN R. WHITELEY: If the applicant identifies a medical problem on his questionnaire, and you have to follow it up in the underwriting process, who pays for the cost of the follow-up?

MR. MORAN: We have differing arrangements. I would say that for the majority of recently established plans, we would be paying it. That is not universally so. There are some plans where the association wants the individual to pay it. Obviously, the associations are concerned about low net costs for the choice risks that are enrolled in the plan, and anything that reduces expenses is attractive to them.

MR. RONALD L. WOBBEKING: There has been considerable criticism of these mass marketing techniques from the point of view that the acquisition costs get out of hand and the compensation of these third party administrators is above and beyond the traditional compensation levels of individual life insurance. Would you care to comment on the total acquisition costs of these programs versus traditional individual life insurance and also on the compensation levels?

MR. MORAN: I would say that there are some plans on which the initial cost to acquire a block of business in the first year of a new plan, including the case setup in the first round of solicitation, may very well have exceeded the cost of acquiring a comparable block of individual term coverage. When you include in the overall picture the solicitation costs after the first year for the continuing solicitation which is typically cheaper than the first one, because you do not have the counterpart of the case setup costs, and when you allow for the favorable results that are achieved when you go back and resolicit for upgrades the people who are already enrolled, I think at that point you begin to achieve some economies in acquisition costs. But still, if you do not get results, your costs are not going to be as low as they would have been for the marketing of true individual insurance. There has to be a breakpoint at which it is economically inadvisable to have gone to mass marketing, and it is going to vary from group to group.

MR. WOBBEKING: Overall, are the prices of these mass marketed term products cheaper than individual products?

MR. MORAN: Most price levels seem to be changing rapidly. The individual term premium rates seem to be changing as rapidly as group rates, but my observation is that they are in the same ball park. We are now obligated to prepare in some states the same kind of policy summary disclosure statements for enrollments under association group plans that are prepared for the sale of individual renewable term policies, and the numbers look good on some of them.

MR. WOBBEKING: Is there any move towards cash value life insurance in mass marketing?

MR. MORAN: I would not say it is a move toward it. There are some flurries of activity that involve it. We do not happen to have any on our plans, but that does not mean that we have not had discussions about the possibility on some cases. We know of some companies that do have some permanent life insurance features in their plans. Pacific Mutual, I believe, is one. On some cases, they seem to help enhance the enrollment results. On others, brokers claim that they are a complicating factor that does not help as much as it disrupts.

NAIC MODEL GROUP LIFE INSURANCE LAW

MR. MORAN: In most states, there is a group life insurance statute which consists of two parts:

- The first part is called a Group Life Insurance Definition.

- The second part is called Group Life Insurance Standard Provisions.

This second part describes some of the provisions which must be included in any group life policy, such as the conversion privilege; it also specifies that a group life policy need not include the standard provisions which must be included in an individual life policy. The Standard Provisions requirements generally have been considered by everyone to be reasonable and essentially noncontroversial. Thus, there is little variation among the states in this part of their laws.

On the other hand, there has always been controversy over the Group Life Definition, and there are substantial state to state variations in this part of the laws. The main reason for all this controversy is that the definition begins with the magic words: "No policy of group life insurance shall be delivered in this state unless..." In most states, this opening is followed by a description of several types of group insurance with which we were most familiar 30 years ago:

- policies issued to employers to insure their employees,

- policies issued to creditors to insure their debtors,

- policies issued to labor unions to insure their members, and

- policies issued to the Trustees of Taft-Hartley welfare funds or multiple-employer groups to insure the employees of several participating employers.

Each description of a type of group policy goes on for many paragraphs to include some rather detailed underwriting requirements, such as:

- who is allowed to be insured,

- minimum size of group and minimum participation,

- limitations on the amounts of insurance available to the persons insured,

- restrictions on including dependent coverage, and

- rules on who pays the premium.

Let us draw an analogy by assuming that, back when the first bus was built, someone passed a law called "The Definition of a Bus." Next, let us imagine that this bus law spells out such things as who is allowed to buy a bus (or charter one), who is allowed to ride on a bus and who is not, when and where a person may (or must) get on or off the bus, how much baggage a person may carry on a bus, where a bus may travel, and who is allowed to pay what part of the bus fare. Of course, all of these restrictions were included in the bus law "to protect the public from unsafe buses", but such a law does not exactly encourage the development of mass transportation to achieve its maximum potential value to the public, does it? A suspicious person who did not know all the facts might even think this bus law was drafted by a group of taxi drivers. I will leave this parable to get back to group insurance.

In 1956, the National Association of Insurance Commissioners was concerned enough about the diversity of the group life laws that it developed a Model Bill for reference use by the states in drafting their group laws. That 1956 Model Bill follows the general pattern I have outlined above with two noteworthy features:

- it omitted reference to some types of group life plans that were then being marketed and underwritten on a sound basis, and

- it contained no provision for expanding the Group Life Definition to encompass any innovations in group marketing.

A number of states have enacted or amended group life statutes since 1956. Some of these laws have followed the Model Bill but usually with some variations on the theme. There is no more uniformity from state to state now than in 1956. Several other states have taken a different tack in recent years by defining group insurance as "a policy covering a group of persons and issued to a policyholder acting on behalf of the group for the benefit of group members who are selected on a basis defined in the policy."

In 1977, the American Council of Life Insurance recognized that the 1956 Model Bill was no longer really being used as a model and drafted a proposed modernization of the Model Bill. Its purpose was to recognize some (but unfortunately not all) of the many innovations in group insurance over the past 25 years. In particular, the ACLI Model Bill would have removed or modified many of the underwriting requirements contained in the 1956 Model Bill. For employee group life policies, for example, the ACLI Model Bill would have permitted employee-pay-all coverage, groups of five lives, groups with less than 75% participation, coverage of corporate directors, evidence of insurability requirements, and employee options to select among alternative plans. The ACLI Model Bill also included a provision for professional association groups in the Definition, subject to some underwriting requirements more severe than those usually used in the group market today. The ACLI Model Bill also provided for discretionary issue of policies covering types of groups not spelled out elsewhere in the Definition. This feature was designed to recognize that there are sound plans being marketed on a group basis for many other types of groups, but that regulators should be able to disapprove the issue of actuarially unsound plans. Other features in the ACLI Model Bill were liberalization of the amounts of dependent life insurance permitted and an increase in the amount of individual insurance available under the conversion privilege upon termination of the group policy.

The NAIC referred the ACLI Model Bill to a Task Force for review. In June 1978, the NAIC Task Force presented its own version of a model bill which included several of the old underwriting requirements which the ACLI Model Bill had deleted. These differences were minor, however, compared to two fundamental differences between the ACLI and NAIC drafts in the mass marketing area. In the NAIC Model Bill, the provision for discretionary issue of groups not described elsewhere in the definition essentially removed discretion by mandating disapproval unless the insurer could prove that certain features were not present, such as the option for insureds to select their amounts of insurance. Even more serious was the inclusion in the NAIC draft of a provision for extra-territorial jurisdiction over group policies issued in other states. This provision reflected the reasonable concern of some states' regulators that they should be able to regulate the solicitation of local residents for insurance under mass marketed group policies issued elsewhere. However, the proposed provision would have required the insurer of a nationwide organization's group plan to obtain filing approval in every state for that plan. This concept of multiple state regulation of national groups was perceived by many as totally impractical.

The NAIC Task Force held a hearing in September 1978 at which almost all of the speakers opposed the NAIC draft of a Model Bill. It was also apparent at that hearing and subsequently that several key people in the NAIC opposed some of the features of that draft. The opposition was led by PIMA members as spokesmen for the mass marketing field which would have been the most severely disrupted by adoption of the NAIC draft in even a single state. Nothing more has been heard from the NAIC Task Force for over a year now. It has been reported that a reorganized Task Force will resume consideration of the Model Bill problem soon, but prospects are uncertain as to both timing and substance.

Where does this situation leave us in the meantime? As I see it, the marketing of employee group life insurance is not very seriously affected by the continued existence of local group life statutes which contain obsolete statutory underwriting requirements. Most employee group life coverage which would be sold if the ACLI Model Bill had been enacted as law in every state can already be sold under existing law and regulation. Association membership groups and other mass marketing are the areas most affected by the present pattern of varied and obsolete laws defining group insurance. Recent innovations in mass marketing and consumerism have given both insurers and regulators a case of future shock. Some regulators express concern that statutory definitions of group life insurance may not only be anti-competitive and anti-consumerist but also unconscionable or even unconstitutional. On the other hand, state regulators' responsibilities to regulate the marketing of insurance to local residents appear to conflict with both the traditional "hands off" rule for out-of-state group policies and the real need to market uniform coverage in all states to achieve the economies in mass marketing which produce the lowest net costs of insurance to consumers. One prominent insurance department lawyer has suggested that the best way to protect the consumer in the mass marketing area is to regulate the activities of the administrators who operate mass marketed plans, rather than by retaining group life statutes which impose artificial restrictions against sound plans that offer quality coverage at low cost.

Some critics of modernizing the Model Bill have objected to expanding the statutory Group Life Definition because there are so many laws and regulations governing life insurance generally from which group insurance is exempted (such as the solicitation and replacement regulations in some states). If this observation is valid, it may call for modifying those exemptions, rather than for keeping an unduly narrow group life definition. Some opponents of mass marketing questioned the soundness of some association group and other mass marketed group life plans and the possibility of involuntary termination of insurance under a plan which proves to be unsound. This might call for specific statutory requirements as to policy provisions for some plans, but not for banning them. My own experience has been that persistency of membership group life plans is much better than for employee group life plans (which are subject to the going-out-of-business contingency), and that persistency of individual insurance under such plans is much higher than for ordinary insurance, but I cannot say whether that situation prevails in all mass marketing.

I have some doubts about the actuarial soundness of some mass marketed plans, on which premium rates are at a level that apparently assumes perpetual select mortality rates, but that actuarial temptation can be dealt with through such devices as required actuarial opinions or even minimum reserve requirements, if necessary, better than through statutory prohibitions. We must also deal with the question of possible impacts of expanded mass marketing on individual life insurance agents. This is extremely important, because our agents remain the backbone of our industry's efforts to deliver our products to the public. Mass marketing through group insurance policies is only a supplement -- not a substitute -- to these mainstream marketing efforts. The problem is that there are not enough professional life insurance agents for the insurance industry to rely entirely on them to do the marketing job. Without group insurance, the public would be even more seriously underinsured than it is now -- and galloping inflation makes it even more urgent to find more ways to supplement their efforts. I do not feel personally that our agents need an anti-competitive statute as a crutch to enable them to demonstrate the value of their professional services to the public and to continue doing what they have been doing well for so long. Instead, I see the growth of mass marketing and other innovations as enhancing their prospects for effectiveness by enlarging their markets.

As you can see, my discussion of the Model Group Life Law has led me back to the topic of mass marketing. I think this is inevitable because the question of modernizing the Model Bill -- and the rest of the statutory framework of group insurance -- is a logical focal point for considering the broader question of how the life insurance industry can best enlarge its capacity for delivering our great product to the public. As stated in the Time magazine article I referred to earlier, "Government is inevitably involved in the innovative process". It would be nice if that involvement could be a help, rather than a hindrance, in the case of group life insurance.

MR. LAWRENCE P. MOEWS: Do you have a couple of states in particular, such as Rhode Island or Missouri, that usually set up your trusts for your association business?

MR. MORAN: We have usually used Rhode Island and Missouri. There are some companies that have found it advantageous historically to use Alabama and some that have used North Dakota, but I do not know whether those are still being used for new trusts that are being established currently.

MR. MOEWS: Because acquisition costs might be higher than normal group insurance, are your loss ratios much lower than normal employee group life insurance?

MR. MORAN: In the early durations, I would say that our loss ratios are typically low, comparable to what you get on blocks of new ordinary term issues, as distinct from group term, because you do not have the automatic acceptability of the substandard lives that you get in a group plan.

FINANCIAL ASPECTS

Profitability

MR. JOHNSON: All 26 survey respondents indicate that their companies typically make a profit on group life insurance. However, there is a general feeling that the increasing level of competition in the group life insurance marketplace is eroding profit levels, particularly on experience-rated plans.

Nine companies have profit goals of more than 5% of premium, while six companies have a profit goal of between 1% and 2% of premium. On the average, companies appear to expect a profit in the 3% to 4% range. One company commented that its profits are due primarily to "pooled" type coverages and that it is very difficult to make a profit on fully experience-rated plans. This comment ties in with two other comments that profit goals vary tremendously by size of case.

Recently, inflation has distorted the profit picture for most companies. Perhaps, continuing inflation will require that life insurers reevaluate group life insurance profit goals.

Reserves

Answers to the questions dealing with reserves were extremely diverse. Earlier in this session, I commented on waiver of premium claim reserves. Now I would like to mention incurred but not reported (IBNR) claim reserves. Nineteen of 26 companies include an IBNR claim reserve in experience refund calculations. The alternative appears to be delaying the experience refund calculation approximately 60 days. Most companies refund the IBNR claim reserve on contract termination, but four companies do not. Several companies commented that the final refund calculation is delayed a year or more to permit the use of actual claims.

Persistency/Mortality

Most companies report that persistency is about the same as that assumed for pricing purposes. Persistency varies inversely with the size of the plan. Two companies report overall lapse rates of 5% or less, seven companies have lapse rates between 5% and 10%, and seven companies have lapse rates between 10% and 15%. Ten companies report aggregate lapse rates running between 15% and 20%. On the average, lapse rates are between 10% and 15%.

Twenty-one out of the 22 companies indicate that mortality rates for the 1975 through 1978 calendar years are lower than the Society of Actuaries group experience statistics for 1970 to 1974. One United States company commented that their 1975 through 1978 mortality is 90% of the 1970 to 1974 Society results. Seventeen of 26 companies find that actual recent mortality rates are lower than their pricing assumptions. Two companies, however, report that actual recent mortality rates are higher than their pricing assumptions. One of these companies has recently increased its premium rate basis.

Six companies find that premium rates below age 30 generally appear to be lower than dictated by experience, while 18 companies say that they are not. One company comments that its quoted rates below age 30 are adequate, while those of its competitors are not!

The 1970 to 1974 Society group experience shows that male mortality rates at ages 15 to 19 exceed those at ages 40 to 44. Male mortality rates at ages 20 to 24 are about the same as those at ages 35 to 39. Yet, premium rates at ages 40 to 44 are normally more than 200% of those at ages 15 to 19, and premium rates at ages 35 to 39 are approximately 50% higher than those at ages 20 to 24. Should group life insurance premium rates recognize the decline in mortality rates that starts in the early twenties and extends into the late thirties? The proposed new mortality tables for ordinary insurance do recognize this mortality pattern. Perhaps group insurers should adopt this same practice. Incidentally, the reason given for recognizing actual mortality patterns in the new ordinary mortality tables is that the differences are simply too large to ignore.

MR. TED L. DUNN: One of the possibilities on the claim cost between the very young and those 40 to 44 is that the Society figures are based on a lives only study and not an amount study. That might have some effect on the actual claim cost. I also had a comment on reserves. On a number of our large group cases, we have been asked to do claims runoff studies and base the claim reserves on their actual claim lag experience. What has generally turned up for a case that has group life disability claims up to age 60 is that our normal reserves have been quite insufficient to meet the actual runoff of group life disability claims, whereas the death claims seem to be very much in line, and our medical claim reserves on a formula basis tended to be a little overreserved. Therefore, in the aggregate for the case, we held adequate reserves. However, we were requested several times to use the medical runoff with the formula for the group life, and there just does not seem to be any way to continue to do that and maintain a profitable position.

MR. MORAN: Ted, on the cases with the slow runout on the reporting of the disability waiver claims, do you have a policy provision on this case that sets a time deadline for reporting a waiver claim, measured in terms of duration from date last worked?

MR. DUNN: Most of these policies did not have a time limit. We have since put in a requirement that the disability be filed within 12 months of the date of disability. We were getting runoff amounts for group life that were running as high as 40% of group life premium. These were very much larger than what we had thought they were.

MR. JOHNSON: We have the 12 month requirement for reporting also, but it seems to me that in a contested claim situation, you almost always get to the point where the court decides that the claimant did not have time to report, even though the contract requires that. Is that also a problem for you in a case that becomes a law suit?

MR. DUNN: My general impression is our claim department just pays them. We have very few contested. Earlier Jim McCready asked whether mortality experience will be affected by employers who pay life insurance premiums for disabled employees, instead of filing waiver claims. That kind of claim is not going to be charged, but the disabled person will continue to be covered by means of premium payment and ultimately, when this disabled person dies, it will be considered as a death claim. As we move toward that kind of arrangement, and certainly there has already been a tremendous move that way on large group cases, this situation is going to affect the mortality rates at the older ages because these will be counted as death claims at the date of death, whereas heretofore they have been counted as 3/4 of a death claim at the date of commencement of disability.

MR. MC CREADY: What I was thinking of is, if we are going to price a "no waiver" policy, do we just take the death rate out of the Society's study and leave out the disability? Is there not some increased cost there?

MR. JOHNSON: I think there is an increased cost.

MR. DUNN: Yes, I would agree that there is an increased cost. We have some large policyholders that eliminated the waiver provision 8 to 10 years ago. At that time, we estimated that they would have a dropoff in their claim costs on group life, and then the claim costs would gradually begin building back up. That has, in fact, actually happened.

MR. ROBERT H. HOSKINS: Going back to mass marketing, how much activity is there of cases going from carrier to carrier?

MR. MORAN: I would say not as much as in the employer market, but that may be a reflection of the groups that we have been insuring. We have, for example, taken over a transfer case this year which had previously changed carriers once before. On the other hand, I would say that over 25 years we have only had about two terminations of professional association cases. There is a point that they get to where they are not very likely to terminate at all, but it usually depends on how good a job you are doing in terms of delivering a coverage at low net costs to the members. I saw one interesting case recently where we were invited to bid on taking over an association case. I would say that is more the exception than the rule. There is a lot of momentum to these cases. Usually the question of a new insurer arises only when there is a new broker named. If the broker has been functioning effectively, there is little thought to changing insurers. However, there have been some variations from that pattern for groups that had their life insurance and health insurance plans for a membership organization with the same insurance company. Just as in the employee group market, when the occasion arises for shopping for a new carrier for a disability income plan or a major medical plan, the broker usually offers the companies that are invited to quote the prospect of taking over the group life plan as an inducement to make a liberal offer on health insurance.

MR. MOEWS: On mass marketing, have your response rates been lower during the recessionary environment we are in right now?

MR. MORAN: If I made an observation that response rates recently have been lower, I am not really pinpointing it as our observation as much as the collective observation of some people we have talked with. We happen to have had a couple of cases on which we had better response rates this year, but I think those are for reasons extraneous to the gist of your question.

MR. MOEWS: Would you care to comment on the type of financial arrangements you have with your third party groups or your associations?

MR. MORAN: In general terms, yes. Typically, commissions are payable to a broker that has continuing responsibility for continuing solicitation with a higher first year commission rate applicable to the first 12 months' premium for new coverage. It is not the group pattern where you only pay the higher rate for the first year of the case. You pay at a higher rate for the first year of all premium for new coverage, than you pay for renewal premiums. Separate from the commissions is a separately identified compensation for services pursuant to the service agreement, usually on a per head per year basis as distinct from a percentage arrangement. We are mavericks on that point. The most prevalent pattern is that the total compensation of the broker is consolidated into a high commission rate.

MR. MOEWS: Do you ever have any experience-rated cases?

MR. MORAN: Our cases are all experience-rated, and most of them are currently generating dividends.

MR. DUNN: Back to an ADEA question. The comment was made that it is permissible to eliminate a group life waiver of premium benefit at age 60 if it could be cost-justified. However, part of the interpretative bulletin said that you cannot completely eliminate a type of coverage if it is provided for younger employees unless you replace it with something else. Does that have any effect on a complete elimination of a waiver of premium benefit at age 60, since this is a complete elimination of a type of coverage?

MR. JOHNSON: I am sure it does, if you treat it as a totally separate benefit. If you can look at it as a benefit package, then it has a different answer. I would prefer to look at it as a benefit package. I think that is permissible.

MR. VINCENT W. DONNELLY: Within the group life standard provisions, there is a requirement that a conversion privilege be made available. In there, there is a phrase that says that the companies do not have to make available, when they offer a conversion privilege, their term insurance products. First of all, are companies typically not making term insurance policies available when they offer conversion, and secondly, if they are not making term insurance available, why not?

MR. MORAN: My observation is that companies typically are not making term insurance available at conversion, the only exception being the one year preliminary term that is required in most states. As to the reason for not making term insurance available, I would suspect it is more tradition than anything else. As a practical matter, it is hard to argue that the philosophical objective of delivering our product to the consumer and assuring him of continuing coverage after he has ceased to be a member of the group, is satisfied by an arrangement under which the insured has to switch from term insurance to permanent insurance. On the other hand, even in the marketing of individual insurance, there comes a time down the road when the person who buys term insurance now eventually has to either convert or terminate the coverage. We do not sell term insurance at age 92 that I know of, and at least in the association group field, a high percentage of conversions are at high ages. At some point down the line, you have to get off the term insurance track. I am inclined to feel that mandating a conversion to permanent insurance is getting even harder to do as insurers have expanded their ordinary product lines to include an increasing variety of mongrels that are part term, part whole life. That might well be an area in which consumerism would argue for some further exploration of modification to the existing standard text.

MR. DANIEL J. MC CARTHY, JR.: Do you feel, particularly in the field you were talking about, that you are actually able to get an adequate conversion charge as a matter of competition, and if the answer is no, do you think that has something to do with not wanting to make term available?

MR. MORAN: It is easier to realize an adequate conversion charge on mass marketed group insurance than it is on large employer-employee cases, because in the large case employer-employee field the competitive pressures to use artificially low conversion charges are much more intense. The problem of pressures to hold down a conversion charge is undoubtedly a factor. Actually, as I recall from the studies that have been made, the present value of excess mortality during the lifetime of a conversion policy is not that much different when you take into account the declining amount of risk on a whole life policy than it would be if you were dealing with the level amount at risk on a term policy. The problem is that you do not have offsetting savings in issue costs of the same magnitude. Conversions to whole life generate savings typically on the order of 55% of the first year premium that would otherwise be expended on commissions. Conversions to term would not generate the same savings so that your required conversion charges would be somewhat higher. Unfortunately, it would be hard to point to that in the light of F.T.C. discussions as a reason for not offering conversions to term.

MR. W. GILBERT COOK: I wonder if one of the factors in this abstention from allowing term conversions is not the fact that the extra mortality on the converted policies is so extremely high in the first duration, and therefore, companies want to get as high a premium as possible to offset that. Many of the conversions do not necessarily last very long.

SURVEY

1979 Annual Meeting - Society of Actuaries

Concurrent Session U - Current Group Life Topics

Your response to this survey will be treated confidentially. No company name or other company identification will be used in any way.

The survey was mailed to the 41 largest group life insurance companies in the United States and Canada based on 1978 insurance in force. Twenty-six surveys were returned.

Please indicate your company's 1978 group life insurance premium income:

		Number of Companies
a.	Under $5,000,000	(0)
b.	$5,000,000 - $15,000,000	(0)
c.	$15,000,000 - $50,000,000	(9)
d.	$50,000,000 - $100,000,000	(8)
e.	Over $100,000,000	(9)

In answering the following questions, assume that you are dealing with standard employer-employee group life insurance plans. Circle the letter of the response that best represents your company's operating policy. A space is provided for additional comments, and they will be most welcome.

I. Waiver of Premium/Extended Death Benefit

A. Coverage Provided

1. Our standard life insurance contract (prior to 1978 change in Age Discrimination in Employment Act...ADEA) provides the following disability benefit: 25 responses

   a. Waiver of premium if disabled under age 60. (20)

   b. Waiver of premium if disabled under age 65. (5)

   c. Extended insurance if disabled under age 60. (0)

   d. Extended insurance if disabled under age 65. (0)

   e. No disability benefit in standard life contract. (0)

   f. Other (please specify) Two companies provide waiver prior to age 60 and a one year extended benefit at ages 60 to 64. A 1976 change in the Canadian Human Rights regulation is comparable to the 1978 ADEA change.

2. Our standard life insurance contract (prior to 1978 ADEA change) provides for the following reduction/termination in benefits to disabled lives: 26 responses

   a. All disability benefits terminate at age 65. (3)

   b. Disability benefits follow the insurance reduction/termination schedule for active employees. (22)

   c. Disability benefits are frozen for an employee's lifetime at the amount of insurance at disablement. (1)

   d. Other (please specify) ______

3. An increasing number of our life insurance policyholders are requesting deletion of the waiver of premium type of disability benefit. 25 responses

   a. Yes (19) Four companies commented that requests are increasing but are still not significant.

   b. No (6)

4. On request, we will retroactively delete the waiver of premium type of disability benefit for currently disabled employees. 26 responses

   a. Never (23) b. Sometimes (3) c. Always (0)

   Comments: Two companies comment that this requires signed individual waivers by each disabled employee.

5. As a result of the 1978 ADEA amendment, we are making the following change in disability benefits:

26 responses

   a. Extension from 60 to 65. (1)

   b. Extension from 60 to 70. (1)

   c. Extension from 65 to 70. (2)

   d. No change. (17)

   e. Other (please specify) One company suggests that employers continue coverage for employees disabled after age 60 by payment of premium.

6. On contract termination and in the absence of statutory limitations, do you: 26 responses

   a. Terminate currently disabled employees? (2)

   b. Continue currently disabled employees under the regular insurance reduction/termination schedule? (20)

   c. Freeze benefits for the employee's lifetime at the amount of insurance at contract termination? (4)

   d. Other (please specify) ______________________

7. When you assume a plan from another carrier who did not have a waiver of premium provision, do you: 26 responses

   a. Cover insureds disabled prior to the assumption date for as long as the employer continues premium payments? (11)

   b. Cover insureds disabled prior to the assumption date only if the employer makes a lump sum payment to cover your disability claim reserve? (6)

   c. Refuse to cover insureds disabled prior to the assumption date? (3)

   d. Other (please specify) A number of companies will consider all three of these approaches depending on the financial safeguards in the plan.

B. Financial Considerations

1. Disability claim reserves are established: 26 responses

   a. As a uniform percentage of the face amount of insurance. (7)
   (please fill in percent here See "C" below)

   b. On the 1970 Intercompany Group Life Disability Valuation Table. (15)
   (Please fill in valuation interest rate here See "C" below)

   c. Other (4)
   (please describe below)

   Comments: One company comments that the 1970 Table may require a small loading for future expenses and contingencies. Two companies use Hunter's Table for the Convention Blank.

2. Do you include an interest credit on waiver of premium claim reserves in your experience refund calculations? 26 responses

   a. Yes (14)

   b. No (12)

3. If your answer to the previous question is "yes", please state current interest crediting rate here See "C" below .

   Comments: Two companies comment that they use an indirect credit in the expense formula.

4. On policy termination, the disability claim reserve is:
   26 responses

   a. Refunded to the policyholder as part of the final experience calculation. (2)

   b. Refunded to the policyholder independent of the final experience refund calculation. (0)

   c. Permanently retained because the company retains liability. (23)

   d. Temporarily retained because the company retains liability, but with accounting to ex-client at periodic intervals. (2)

   e. Other (please specify) Several companies base their procedure on case size.

5. During the last 20 years, the claim costs due to the disability benefit in group life insurance contracts have: 23 responses

   a. Decreased substantially. (1)

   b. Decreased somewhat. (0)

   c. Remained about the same. (2)

   d. Increased somewhat. (13)

   e. Increased substantially. (7)

   Comments: One company comments that the increase relates to increased awareness.

C. Indicate here other waiver of premium/extended death benefit topics that you would like to discuss at this concurrent session:

B(1)(a)	Not Stated:	1	(3) Not stated:	3
	65%:	1	Investment Year Method:	1
	75%:	4	4.5%:	1
	100%:	1	5.5%:	1
			5.6%:	1
(b)	Not stated:	2	6.25%:	1
	3%:	2	6.5%:	1
	$3\frac{1}{2}$%:	6	7.5%:	2
	4%:	1	10.0%:	1
	$4\frac{1}{2}$%:	2	10.5%:	1
	5%:	1	11.0%:	1
	6%:	1		

II. Financial Aspects

A. Profitability

1. We typically make a profit on group life insurance: 26 responses

   a. Yes (26)

   b. No (0)

   Comments: One company commented that profits are due primarily to "pooled" type coverages and that it is very difficult to make a profit on fully experience-rated coverages due to the small margins allowed by the marketplace.

2. As a percent of premium, our profit goal for group life insurance is normally: 25 responses

   a. Less than 1% of premium. (0)

   b. 1-2% of premium. (6)

   c. 2-3% of premium. (5)

   d. 3-4% of premium. (3)

   e. 4-5% of premium. (2)

   f. Over 5% of premium. (9)

   Two companies commented that profit goals vary greatly by case size.

3. Our pricing formula includes the following contingency margins (circle as many as apply): 25 responses

   a. Mortality loading. (14)

   b. Profit Margins. (20)

   c. Risk Reserve. (12)

   d. Other (please specify) Several responses mentioned "dividend" margins and contingency margins.

B. Reserves

1. We normally include the following reserves in experience refund calculations (circle as many as apply): 26 responses

   a. IBNR Claim Reserve. (19)

   b. Stabilization Reserve. (8)

   c. Reserve for reported claims not paid. (21)

d. Contingency Reserve. (8)

e. Other (please specify) Two companies commented that a delay in the experience refund calculation can replace the IBNR claim reserve.

2. The following reserves are refundable on contract termination (circle as many as apply): 26 responses

a. IBNR Claim Reserve (15)

b. Stabilization Reserve. (16)

c. Reserve for claims not paid. (12)

d. Contingency Reserve. (4)

e. Other (please specify) Several companies commented that the final refund calculation is delayed a year or more permitting use of actual claims.

C. Persistency/Mortality

1. Relative to 1970-1974 Society group experience statistics, morality rates for 1975-1978 appear to be: 22 responses

a. Substantially lower. (3)

b. Somewhat lower. (18)

c. About the same. (1)

d. Somewhat higher. (0)

e. Substantially higher. (0)

Comments: One company comented that 1975-1978 mortality is 90% of 1970-1974 Society group experience.

2. Relative to our pricing assumptions, actual recent mortality rates are: 26 responses

a. Substantially lower. (4)

b. Somewhat lower. (13)

c. About the same. (7)

d. Somewhat higher. (2)

e. Substantially higher. (0)

Comments: Interestingly enough, one company answering "about the same" has recently increased assumed mortality for pricing purposes.

3. Occupation is an important factor in group life insurance rating: 25 responses

a. Yes (21)

b. No (4)

Comments: One company points to the impact of sex on industry statistics and the danger of "double discounts". Several companies comment that most industries are accepted as standard with discounts or loadings in relatively few industries.

4. Premium rates below age 30 generally appear to be lower than dictated by experience: 24 responses

a. Yes (6) b. No (18)

Comments: One company comments that its quoted rates are adequate, while those of its competitors are not.

5. Our annual lapse rate is: 26 responses

a. 0-15% of in force plans. (2)

b. 5-10% of in force plans. (7)

c. 10-15% of in force plans (7)

d. 15-20% of in force plans (10)

e. Over 20% of in force plans. (0)

Comments: Three companies commented that persistency varies inversely with plan size.

6. Relative to our pricing assumptions, persistency is: 20 responses

a. Better. (1) b. About the same. (16) c. Worse. (3)

Comments: Three companies mentioned that persistency is not considered in their pricing assumptions.