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## UNRUH REPORT

*Report on Actuarial Principles and Practical Problems with Regard to Non-forfeiture Requirements, Society of Actuaries, January, 1976.*

by Linda B. Emory

This report which was mentioned in the December issue of *The Actuary* has now been distributed. It is an important report which should be read by all members of the Society irrespective of their professional affiliations. In its present form the report is primarily an exposure draft and the Committee will therefore, welcome comments as to its content and recommendations prior to the discussion of the report scheduled for the Houston and Chicago meetings.

This 85-page report reaffirms the principles and methods underlying the current law and suggests changes and improvements to solve certain technical problems uncovered in the operation of the present law. A primary concern of the Committee was that current non-forfeiture regulations impede new product development at a time when changing social and economic patterns require innovative products to meet the changing needs of the consumer. The present regulations have hampered the development of cost of living index policies, life cycle products, and similar plans. Consequently a sizable portion of the report is devoted to a discussion of these new and non-standard plans as the following examples will show.

To handle policies with future changes undetermined at issue, the Committee recommends the following treatments:

(1) For policies where there are optional future changes which are defined in advance (multitrack policies), there is typically a main track which defines the benefits if the policyholder does not elect alternate tracks. So long as a policy

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## ILI

We are glad to announce that the Institute of Life Insurance has kindly agreed to send us periodical lists of their publications that would be of interest to members of the Society. Individual copies of these publications may be obtained on request of the Institute at 277 Park Avenue, New York, N. Y. 10017. Publications of the Health Insurance Institute are included. Here is the first list:

### *Data Track No. 2 — Financial Behavior & Personal Security*

This is a publication of the Institute of Life Insurance and contains key statistics on the growth of personal security mechanisms — life insurance, health insurance, retirement programs — used by the public. It also describes trends in income, savings, borrowing, investments, and expenditures, and points out the implications of these trends for the life and health insurance business.

### *New Group Health Insurance*

This is an annual report and analysis published by the Health Insurance Institute surveying new group health insurance policies written in 1975. The analysis is based on a large sample from the issues of January — March 1975.

### *Source Book of Health Insurance Data 1975-1976*

This is an annual publication of the Health Insurance Institute providing a central source of information for the public on health insurance.

### *Pension Facts 1975*

Members of the Society will already have received this annual report of the Institute of Life Insurance. This is the information source for the public on pensions and other employee benefits. This booklet contains an excellent and up-to-date bibliography. □

## POLICIES IN PLAIN ENGLISH

by Robert E. DeGeeter

*Editor's Note: At the June 1975 meeting of the Actuaries' Club of the Southwest, Robert E. De Geeter gave a talk on Plain English Policies. This is very much a current subject and we are indebted to Mr. De Geeter and the club for permission to publish part of the talk.*

Plain English policy forms are the result of government and industry reactions to consumer pressures for more understandable policies. Each of the following sources has contributed to this trend: (a) the Federal government through Mrs. Virginia Knauer and the Office of Consumer Affairs; (b) consumer interest groups such as Mr. Nader's organization; (c) state insurance departments which are giving a more critical review than ever before of policy form "readability"; and (d) the insurance industry itself as younger, more reform-minded persons who have been educated in a different educational environment assume responsibility for developing company products.

The considerations involving the simplification of policy form language for life insurance are quite different from health insurance, and form the framework of discussion for this article.

### **Life Insurance**

Two major considerations govern the writing of any insurance contract. One is the relative nature of the risk. A typical life policy covers a much narrower range of events than does an auto insurance, medical insurance, or homeowner's insurance policy. The risk being insured is clear and the amount of insurance payable when the loss occurs is easily defined.

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## Plain English

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The second consideration is the relative use of the contract by the policyholder. The typical life policy is used only once by most policyholders—either at death or surrender. Only a small percentage of policyholders will ever change a beneficiary or the ownership rights, or take out a policy loan. For these reasons the life policy is most easily simplified in language.

Many companies have already simplified the language in their life policies and others will be doing so as they file new policy forms. Furthermore, there is substantial agreement among insurance departments as to what constitutes an acceptable life policy form. One year ago, a company licensed in 46 states, introduced a new life policy series. The basic Whole Life form was approved in 44 states, and only one state edition was needed for the other two states.

Another positive influence in producing a more understandable life policy has resulted from computer issue of policy forms. Cash values are shown in the policy for the issue age and face amount purchased, rather than per \$1,000 face amount and for several issue ages.

### Accident and Health Insurance

The considerations affecting Individual A & H Policies are much more involved.

(1) The nature of the risk is far more extensive — particularly in Hospital/Surgical/Medical Insurance. The expenses to be covered must be spelled out in detail if the risk insured is to be properly described.

There may be more than one person insured by the policy and individual lives can be added and deleted after issue of the contract.

(3) The inflationary value of claims requires the company to retain the right to raise premiums. The circumstances describing how this will affect the policy must be spelled out in the contract.

(4) There are standard policy provisions prescribed by law or regulations in many states which must be included verbatim in each policy. These are the Uniform Policy Provisions first adopted by the NAIC in 1950. These provisions

were drafted by legal people, I must assume, and they could hardly be described as "plain english". Take the required Reinstatement Provision — the first sentence contains 106 words, separated by 8 commas and 1 semi-colon. While most insurance people may know what this provision means, most laymen get confused by such a long sentence.

For these reasons, to improve the Individual Accident and Health policy language will require more than just industry or company action. It will take joint industry and regulatory action.

There have been some regulatory developments relating to this problem. The NAIC has adopted a model regulation to implement the NAIC Minimum Standards Act. The stated purpose of the regulation is to provide reasonable standardization and simplification of terms and coverage in order to: (a) facilitate public understanding and comparison; (b) eliminate provisions that may be misleading or confusing; and (c) provide full disclosure in the sale of such coverages. The regulations go on to specify Policy Definitions for certain terms, Prohibited Policy Provisions, Minimum Standards of Benefits, and Required Disclosure Provisions.

In 1975 Florida, West Virginia, and Arkansas adopted comparable regulations. While similar, all three vary significantly one from another and from the NAIC model regulation. This variation obviously partially defeats the stated purpose of standardization. No one policy form for Hospital/Surgical/Medical will comply with all aspects of the regulations in these three states.

Unfortunately, the language in the NAIC Model Regulation is very loose in certain areas of describing benefits. The language leaves itself open to many interpretations, both for insurance departments in approving policy forms and for the companies in trying to determine how the language applies to specific claim situations.

The Regulation requires that no policy shall be delivered or issued for delivery unless an appropriate Disclosure Statement is completed and delivered to the applicant at the time application is made and acknowledgement of receipt or certification of delivery of such disclosure statement is provided to the insurer.

If the policy is issued other than as applied for, a second Disclosure Statement must be prepared for delivery with the policy — with a 12-point type notice stating it is not identical to the original Disclosure Statement.

The Disclosure Statement contains a disclaimer that "it is not the entire contract" and that the insured should read his policy. Company lawyers are very concerned, however, that the Disclosure Statement and not the policy may be used to litigate the claim. Thus they must measure the need for more complete disclosure vs. the desirability of a brief outline of coverage which facilitates policyholder understanding. Lawyers are well aware of the tendency in many court decisions in an ambiguous situation, to take the interpretation most favorable to the insured.

This legal concern goes beyond the Disclosure Statements. Current policy language was evolved over 50 years of usage and has stood the test of many court decisions. New language must be developed to comply with the new regulations and there is no legal precedent as to how the courts will interpret this new language. This concern must be considered in light of the pronounced tendency of our society to be more litigation conscious in recent years, as current headlines regarding mal-practice insurance dramatically demonstrate. The company may lose not only the claim, but in some states also suffer punitive damages for resisting the claim.

Companies must develop Disclosure Statements and the administrative controls on their use to protect both the company and the agent. This, together with the multiplicity of state editions, means a considerably expanded number of forms which must be developed and administered, thereby increasing company expenses. This is not a desirable result of plain English policy forms for either the company or the consumer.

In summary, we must always keep in mind that the insurance policy is a legal contract. The contract language must spell out in sufficient detail the rights and obligations of all parties to the contract. Thus provision by provision each company must weigh the desirability of language simplification against possible loss of accuracy in meaning in drafting a particular policy. □