SOCIETY OF ACTUARIES

Article from:

The Actuary

June 1979 – Volume 13, No. 6

THE U.S. GOVERNMENT COST DISCLOSURE REPORT

by E. J. Moorhead

(This is the second of three instalments begun in our February issue on the Report of the House Subcommittee on Oversight and Investigations. The first article identified the report but failed to quote its price, $2.30).

The Report's Chapter II is entitled, Selecting An Insurer. Choosing one's company comes, it says, *after* deciding what type of life insurance fits one's needs. Prospective solvency, it agrees, is a consideration; service is another; but relative cost is (or should be) one also.

Principal Topics in this Chapter

Chapter II explores three matters, summarized in turn in this review:

(1) Are price differences, as a practical matter, large enough to justify serious buyer attention?

(2) How can people become effective life insurance "shoppers"? Four recommendations are offered.

(3) The NAIC and FTC versions of the Buyer's Guide are criticized and compared.

(1) *Are Existing Price Differences Large?*

The Subcommittee considers the price ranges, that had been presented in testimony, "plainly cost differentials that any sensible purchaser would want to consider." The text comments on the different ways being used to describe the range of the price spectrum, whether or not there is effective price competition among life companies, and causes of price differences, but contents itself with making the point that "consumers ought to be apprised of price differences, so that they can decide for themselves what influence price considerations should have on their purchase decisions."

(2) *How To Help Buyers*

This section begins by deploring today's typically low buyer understanding and "the stunning fact that 37 percent of full time life insurance agents, and 45 percent of their supervisors, believe that there is little difference in net costs for similar policies, (and that) a further 11 percent of both agents and supervisors had no opinion on the question. This presumably means that nearly half of all agents in the field would not think it important to advise their clients about the savings possible from purchasing low cost insurance." There is brief mention also of barriers, arising from provisions of agents' contracts, to giving advice to buyers. The four Subcommittee recommendations on helping buyers are these:

First, "the traditional net cost method should be banned. . . . for comparing costs."

Second, "consumers should be presented with . . . information . . . of two types: (a) a cost index number or numbers, and associated 'yardstick' data . . . on an interest-adjusted basis . . . ; and (b) a display revealing the pattern in which funds and benefits flow between the policyholder and the insurance company during the life of the policy." Information disclosed must meet three tests: relevancy, validity, and being conducive to use.

Relative merits attributed to the interest-adjusted method and the retention method (i.e., the Belth or the Canadian "Actuaries' Index") are examined. The Report considers manipulation to be "the most serious problem with the surrender cost index", and perceives a need to see "that policies (are) not manipulated by altering policy structure for years *after* the index calculation period." Some validity is found in doubts that have been expressed about "willingness and ability of state insurance departments to deal with policy discontinuities."

The Subcommittee favors giving buyers both surrender and payment indexes, but finds the Equivalent Level Annual Dividend in the NAIC Model Regulation "a profoundly inappropriate way of describing risk differences between par and non-par policies." "Providing this figure," they say, "will put a tool highly conducive to misleading use directly into the hands of agents who have a strong incentive to employ it deceptively."

The Report judges that "the six numbers . . . in the NAIC proposal are far too many." Giving a rate of return figure and either (1) company retention or (2) surrender cost and net payment cost, all for one duration (the 20th) each, is recommended, "provided that the indexes . . . provide an accurate ranking of policy costs projected . . . for later durations!"

Third, "insurers (should) prepare, and provide on request, comprehensive information about the policies they offer." This calls for displays of the kind urged by Prof. Belth, these to be provided to state regulators when policy approval is sought (as an aid to controlling manipulation), and also to agents so that agents will understand the policies they are selling and can meet the information demands of sophisticated clients.

Fourth, "a study (should) be commenced, by the NAIC, the FTC, or both, to identify and address the propriety of any existing market conditions or regulations that tend to restrain the availability of low price insurance products." Examples cited are restrictions on insurance sales by savings banks, and obstacles to the development of "no-load" policies.

(3) *Buyer's Guides*

The Report finds some features of both the NAIC and the FTC versions of a Buyer's Guide objectionable. Of the two, the nod is given to the FTC version.

(To Be Continued)

HEALTH INSURANCE

The Health Insurance Institute has just published the second annual report on public attitudes towards the health care system. The survey was carried out between May 19th and June 15, 1978.

One of the conclusions drawn from the survey is: "The public is by and large satisfied with the quality of care provided by the health care system and is satisfied with the health insurance mechanism through which most people finance their health care." Further: "The greatest problem the public sees (in the health care system) is the rising cost of health care."

Single copies of the report "Health and Health Insurance: The Public's View" are available free by writing to the Health Insurance Institute, 1850 K Street, N.W., Washington, D.C. 20006.□

Actuarial Meetings

July 12, Baltimore Actuaries Club

July 12, Kansas City Actuaries Club

Aug. 9, Baltimore Actuaries Club