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IDOLS FALL

by Frank Zaret

It came as a shock. Time has a way of causing idols to fall, and the broken pieces of a great one lie strewn at my feet. Perhaps one gets accustomed to traumatic experiences—a speeding ticket, an IRS audit, middle-age mumps. But there it was. The work of a giant, a titan of the profession, reduced, in my mind, to the ordinary. Sad! Sad!

Many, no doubt, have believed in the inviolability of the Linton lapse tables —"facts" that have withstood the ravages of time, still widely used today, accepted by insurance departments, supposedly typifying industry experience. But, alas, they are not what they seem.

We on the NAIC Advisory Committee on Policy Lapsation had occasion to look at what industry lapse rates had been developed in the past. First on my list to review were Linton's tables. I was curious to know how one develops a pillar of the industry.

In his paper (*RAIA* XIII, 1924), Linton discusses general agency profits. A main factor is policy persistency. Because of the stature and acceptance accorded Linton's lapse tables, I had thought there would at least be a representative number of companies in his study. To my chagrin, this was not so.

Linton used the lapse experience of one—repeat, one—company for his "A" tables. The data were adjusted from a paper by Maclean (*TASA* XXI, 1920) that traced policies issued from 1903 to 1917 through their 1918 anniversaries. For his "B" tables, Linton simply doubled the "A" rates—which suited the particular purposes he had in mind, but added nothing to our general body of knowledge. Later there appeared some "C" rates, prescribed by the New York Insurance Department for use with term insurance. "C" rates are triple the "A" rates. More science!

Accordingly, what we have is a long revered industry standard which, in fact, covers a single company's experience, based on data now more than 60 years old that were subjectively modified by its developer. One of the discussers of Linton's paper noted that the Linton "A" tables have "unusually favorable" termination rates. That seems to be the case even today.

Well, if Linton didn't make a true industry lapse study, who has? Exploration unearths a 1925 study of policies issued 1909-1923, sponsored by the American Life Convention (*ALC Proceedings*, 1925) covering 77 companies. This had the makings of a useful industry study, but appears to have fallen quickly into obscurity.

While various individual company lapse studies have been published over the years, no studies of the industry as as a whole were made from the mid-twenties until 1960. At that time, Moorhead (*TSA* XII, 1960) constructed his "R," "S," and "T" tables, using two sources for his data, namely, a LIMRA study of 54 companies tracing policies issued in 1949 for nine years, and additional discrete data for longer durations secured separately from 40-plus companies.

At last, this could be a live one. But again, no. The "R," "S," and "T" tables were constructed to offer several lapse patterns from which to choose. As Moorhead admits, "No pretense whatever is made that these are standard tables that fit any single known experience, and certainly no inference that they represent industry averages or yardsticks of any kind is justified." Back to ground zero.

So, we have the Linton "A" and "B" (and "C") tables published in 1924 predicated on a single company's experience. And, we have the Moorhead "R," "S," and "T" tables published 36 years later in 1960 ". . . to provide a spectrum of choices." Who used the letters in between?* Any professional hunger for industry lapse rate studies comparable to industry mortality studies is not readily apparent.

The only intercompany lapse studies with a degree of authenticity have come recently from LIMRA. In 1974 LIMRA published its first long-term lapse study, covering the experience of nine companies, tracing from policy anniversaries in 1971 to 1972. LIMRA has continued these studies, and the number of contributing companies has increased to approximately two dozen—more are expected.

Actual-to-expected ratios of the LIMRA lapse rates to those of Linton and Moorhead show substantial differences. This implies that the older studies are obsolete and newer ones sorely needed. If the NAIC moves ahead with its proposal on lapse disclosure in its present direction, we may have industry norms thrust upon us rather than developing them ourselves.

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There! You have the reason for my distress. The discovery that I've been laboring under false impressions about our esteemed lapse studies has shaken me. Oh well, even if an idol or two have toppled from their pedestals, there are others to revere. My faith now is in McConney-Guest and their agents' termination table. When was it presented? Oh yes, 1942. There doesn't seem to have been another industry study of agent's terminations made since.** No need to, I suppose. Solid as a rock. For kicks, let me see what *TASA* XLIII says. McC-G's agents' survival rates are based on LIMRA's 1938-41 study of 12 companies' data—only about 40 years old. Hmm, tempus really fugits. Termination rates beyond the first five contract years cut arbitrarily by McC-G—graded into the American Men mortality table. What's this? All sorts of adjustments made to actual experience. Not really a reflection of industry results. Et tu, McC-G. □

Ed Note: "R," "S" and "T" were not to be read as letters of the alphabet They stood for Rather-good, So-so, and Terrible.

**Ed. Note: What about TSA XV 430?

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