TRANSACTIONS OF SOCIETY OF ACTUARIES
1950 VOL. 2 NO. 2

PENSION TRUSTS

A. What has been the mortality experience under insurance policies issued for Pension Trusts (a) on medically examined lives; (b) on nonmedically examined lives?

B. Is there a need for low-premium plans such as Ordinary Life under Pension Trusts? How may Ordinary Life policies be successfully employed?

MR. J. L. STEARNS reported the mortality experience of the New England Mutual on pension trust insurance for the four calendar years 1946 through 1949. On an exposure of $728,710,000 medically examined standard insurance, the ratio of actual to expected on Elston's Select Table was 71%. Actual death claims amounted to $2,029,000 on 465 policies. This was about 87% of the company mortality for a similar block of regular business. The mortality on nonmedical pension trust business was not higher than on the medically examined business. However, the exposure on this business was not large enough to give reliable results.

Mr. Stearns reported that of new pension trust business paid for in 1949, 5% was issued on the Life at 85 plan. He pointed out that such a plan results in a lower gross premium commitment by the purchaser and permits a simpler method of providing a lower vested interest to the employee on termination of service than a Retirement Income policy. Mr. Brodie and Mr. Ward also referred to these advantages in their discussions.

MR. NORMAN BRODIE gave the experience of The Equitable of New York on standard pension trust insurance under plans established in 1942 and later, observed to 1947 policy anniversaries. About 5% of the exposure by amounts arose from lives not medically examined. There were 47 death claims and the ratio of actual to expected was 104% by policies and 111% by amounts with the expected based on the contemporaneous experience of all standard medically examined issues. For policies issued at ages 50 and over, the ratios were 124% by policies and 161% by amounts. Of the 15 claims in this age group, 13 were due to circulatory diseases or cancer, as against an expected number of about 8.5. Mr. Brodie stated that this suggested some anti-selection at the higher issue ages.

The Equitable does not issue Ordinary Life policies to pension trust units with a guarantee that these policies may be changed to Retirement Income policies by payment of the net difference in the reserves or a loaded difference in reserves. The Company has not guaranteed the privilege of changing to higher premium plans by payment of the difference in reserves with respect to any of its policies since about 1935. In the light of recent mortality and interest trends, obvious advantages have accrued to the company because of the absence of such a guarantee. Mr. Brodie referred to the possibility of anti-selection where the owner of the Ordinary Life policy at the time of retirement may elect to continue the policy on an insurance basis or to submit additional funds and convert the policy to an income contract.

The Equitable limits its guarantee to an assurance that the company will have a single premium ten year certain life annuity available in the future for purchase at regular gross rates, in accordance with the scale of rates and the regular limit of risk rules effective at the time of purchase.

MR. W. F. WARD reported that all but a very small amount of the Mutual Benefit's pension trust insurance has been issued on a medically examined basis in accordance with regular underwriting procedure. Mortality on this business has not been significantly different from the company's over-all mortality experience. Very little of the pension trust business was over five years old, and the average duration was only about two and one-quarter years.

The Mutual Benefit issued pension trust insurance on a nonmedical basis for a short period but found that the applications were not being given the individual attention by the agent required for proper underwriting of nonmedical business. The privilege was withdrawn but has recently been again extended to pension trust business on a restricted basis (approval must be secured beforehand on each pension trust case).

The Mutual Benefit accepts pension trust business on the Ordinary Life form but very few cases have, so far, been written on this basis. Mr. Ward pointed out that to prevent adverse individual selection, the privilege of conversion at retirement age on the basis of a guaranteed maximum charge should not be extended unless it is automatically applied to all employees as they reach retirement. The company also permits the use of other than Ordinary Life policies. Limited Payment Life contracts paid-up at 65 can be used to develop a particularly attractive plan.