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DECREASING TERM RIDERS

A. How great is the demand for 1½% and 2% Family Income benefits, Family Income to 65, and Family Income benefits provided wholly by term insurance?
B. To what extent has the sale of all types of decreasing term riders increased in volume in recent years?
C. Is an increasing volume of decreasing term insurance desirable from the point of view of policyholder, agent and company?

MR. J. E. HOSKINS stated that the issuance of decreasing term riders has increased sharply in The Travelers in the last few years, but that the level term riders more recently offered are by far the most popular, exceeding the decreasing term riders in the volume issued. The Family Income benefit serves economic needs in providing an income during the dependency of children, for mortgage repayment insurance and in programming—in fact, if combined with a basic policy of the Retirement Income type it sometimes provides a fairly complete program in a single policy. The Family Income to 65 rider serves a similar use in providing an income to a widow until the time when she will begin to receive Social Security benefits, though there will be a gap in the income if the beneficiary is younger.

The Family Income benefit usually has a minimum issue limit which makes it inapplicable to smaller mortgages. However, the minimum issue limit results in a lower expense rate per $1,000 of face amount and consequently does not defeat the common assumption that general administrative expenses need not be loaded into the Family Income rate.

The company should be able to fix its rates so that it will be unconcerned with the plans of insurance sold except from the standpoint of rendering adequate service. However, under any given rate scale the company may feel less confidence in the accuracy of the interest assumption than in the mortality assumption and it may feel that the investment of reserves is a troublesome problem which should be minimized if possible. In this case, it may have a leaning toward term insurance and especially decreasing term insurance.

The interests of the company and the agent ought to be the same as that of the policyholder, namely, to select the policy plan which will best fit the individual circumstances. From this viewpoint an increasing volume of decreasing term insurance is desirable only if inadequate use has been made of that plan in the past. From the agent's viewpoint the commission per $1,000 of decreasing term insurance is necessarily low. If this plan fits the prospect's immediate needs it may result in a sale which otherwise would not be made at all. If, however, the agent sells the plan when a Life or Endowment plan would be more appropriate he both renders incomplete service and cuts his own income.

MR. E. A. DOUGHERTY said that there were certain obvious disadvantages to the policyholder in connection with sale of decreasing term insurance. First, insurance needs may not decrease as the term insurance decreases; this factor can be minimized to a certain extent by making the contract convertible. Secondly, in times of financial difficulties there will be no cash value which the insured may draw on. Of course, in many cases the insured could not afford to buy a more expensive plan of insurance which would build up a cash value. Thirdly, the decreasing term coverage may have been purchased because it was the cheapest, even though the insured could have purchased a permanent plan of insurance.

From the agent's viewpoint, the advantages of decreasing term insurance are: (1) he can render the economic service for which the decreasing term plans are designed; (2) he is better able to meet competition; (3) the decreasing term plans may be used to create such an attractive package that the prospect may put more premium dollars into his purchase than he otherwise would have; (4) reducing term contracts for mortgage protection is a very fine door-opener; (5) decreasing term contracts that are convertible build a splendid reservoir of future prospects for permanent insurance.

The ideal sale involves an analysis of the prospect's insurance needs and the sale of whatever plans of insurance fit them. It certainly would be a mistake to overemphasize decreasing term plans. One way to de-emphasize them is to give volume credit for only a fraction of the original face amount.

From the company viewpoint decreasing term plans provide a large volume of new business as well as a potential volume of future business from conversions. In these days of decreasing mortality and low interest returns, many companies will consider the large amount at risk and the small amount to be invested as an advantage.

The disadvantages from a company viewpoint are much the same as for the agent, but again they can be satisfactorily dealt with. A decreasing term contract should be taken into the Policy Exhibit for possibly half of its original face amount. The advantages of other plans of insurance and of proper programming must be constantly stressed so that decreasing term insurance is kept in its proper place. The possibility of adverse selection is offset by the decreasing amount, by underwriting, by loading the premiums therefor and by the fact that a large volume of the insurance is sold. Allowance should also be made for the cost of conversion. It was emphasized that a proper estimate of the cost of the conversion option should take account of the extra mortality after conversion only to the extent that the amount at risk exceeds what would have been at risk if the conversion had not taken place.

MR. VALENTINE HOWELL stated that term insurance is a very unsatisfactory form of coverage. Long years after the insurance is purchased, the policyholder wakes up to the fact that he either has an inadequate amount of insurance or must pay a very high premium to continue the insurance in force. The tendency of the dollar to deflate over long periods of time was also emphasized and it was suggested that this item be given greater consideration in the preparation of insurance programs.

MR. H. C. UNRUH said that to a great extent the agent uncovers or creates the demand for decreasing term insurance simply by telling the prospect that these benefits are available and by showing him how they fit his needs and his purse.

He also stated that a policy with a level amount benefit seldom provides sufficient income to a family in the event of a claim in early policy years; and if it does, it provides too much income in the event of a claim in the later policy years. The income form of protection provided by decreasing term riders appears to be the most suitable for the long term coverage of this type. The average prospective policyholder knows from daily experience what $100 a month can do whereas he does not know what $10,000 can do. An agent has a much better chance of making a sale (and a larger one at that) by stressing income rather than face amount.

The problem of negative reserves can be minimized in the usual manner, namely by shortening the premium paying period or by adding a level term benefit (or both) and can be eliminated entirely by combining the reducing term benefits with the basic policy to form a package plan. The cumulative effect of the normal decreases in benefits on the company's insurance in force is a disadvantage from the company viewpoint, but it should not deter a company from offering these benefits.

MR. J. C. MAYNARD said that nowadays the breadwinner achieves security for his family through a multitude of forms among which are state and private retirement plans, group insurance against death, disability, medical and surgical treatment, and state plans against unemployment and sickness. The result is often that there is less income available in the family budget to buy ordinary life insurance as well as the need for a smaller element of savings in the insurance program.

He further stated that the "programme" sales presentation frequently hides the fact that a family's annual requirements do not remain constant but increase as the members grow older. Decreasing insurance in the face of continuing inflation is unwise. The recent popularity of investment trusts has also produced a new generation of advocates of "decreasing term insurance plus personal investment."

The agent's return per dollar of premium is lower on term and decreasing term plans, and if the trend toward term insurance is permanent the life companies may wish to consider methods of preventing part of the burden of the change from falling on their agency forces. It is also likely that companies will have a burden of their own in the matter of expense margins. An expense allowance in the decreasing term premiums for only the additional expense of issuing the rider would then be inadequate, and instead, provision should be made for a full share of all expenses. The need for revision in commission rates and expenses may well presage a fundamental change in the level of decreasing term premiums.

MR. F. D. KINEKE indicated that in the Prudential the greatest percentage of applications were for the rider providing for a $20 monthly benefit and coverage for a period of twenty years.

It was pointed out that the decreased value of the dollar created a need for more insurance for family protection; however, for the same reason there is also need for more income in old age. Accordingly, where funds for life insurance premiums are limited it seems that a very careful weighing of the advantages and disadvantages of term and cash value insurance is needed and the final decision should not be left to the judgment of the agent alone. Where the applicant has a definite part in the final decision there is a strong possibility that he will be easier to reason with after the term insurance has disappeared and he no longer has its protection.

There are those who see in Family Income benefits a return to the evils of yearly renewable term insurance; they point out you are avoiding the distasteful annual increase in cost only by quietly reducing the insurance each year. We can expect many of those who have kept their insurance in force and outlived the coverage to bitterly reproach us for having offered insurance on so unsatisfactory a plan. Even though a most careful explanation is made at issue, many applicants disregard everything but the deceptively low term insurance premium. After the term insurance has expired, however, they complain that they have paid premiums all through the years and received no benefits. Past experience very clearly indicates that it is not possible to be too careful in seeing that this type of protection is properly sold.

MR. W. J. NOVEMBER presented some statistics relating to the growth in the volume of term insurance among a representative group of 16 companies operating in New York State. The proportion of the total volume of these companies that was on a decreasing term plan was 1.8% in 1939, 4.7% in 1944 and 13.2% in 1949. One company had a lower proportion of its volume on the decreasing term basis in 1949 than in 1939, five experienced an increase between 1939 and 1949 of less than 100% in the decreasing term proportion, five of between 100% and 400% and five of over 400% (included in this last group were two who had no decreasing term volume in 1939). A varying degree of emphasis among companies on the growth of decreasing term insurance was evident from the figures.

On the other hand the volume of level term insurance was rather static, the proportion written by the sixteen companies having been 15.4% in 1939, 8.9% in 1944 and 14.5% in 1949.

In commenting on the desirability of the growth of decreasing term volume, Mr. November referred to what he regarded as a basic matter in the fulfillment of insurance needs, the conflict between the short view and the long view. Decreasing term insurance associated with basic permanent coverage has been found to be an effective way of accommodating immediate and long term needs. However, he saw danger of insurance programs leading to dissatisfaction in the long run if overemphasis of immediate protection resulted in inadequate coverage in future years. The companies have a responsibility for encouraging policyholders to maintain a balanced program.

MR. E. M. MACRAE indicated that the need for providing old age security through life insurance will be lessened by the growth of pension plans, whether controlled by the state or by private industry. The growth of the "pension idea" might make people more conscious of the need for providing supplemental income, but in his opinion it will have the opposite effect. The trend of continued inflation may be a potent factor in discouraging the purchase of "high premium" insurance. Also, the heavy burden of taxation which makes it difficult if not impossible for the average man to provide adequate protection for his beneficiary and also make adequate provisions for a retirement income for himself will usually result in providing complete protection for the beneficiary even though that would necessitate deferring provision for a retirement program.

He also stated that the wisdom of purchasing decreasing term insurance rather than permanent plans depends on how well the purchaser understands what he is buying. The nature of this type of insurance is easily understood by policyholders, and if there is an increasing demand for it we must concede that it is a desirable form of coverage. If we are satisfied that our policyholders thoroughly understand what kind of life insurance they purchase, we have done our part. Of course, the concept of life insurance as an investment is so firmly fixed in the minds of many that dissatisfaction may arise when the insurance expires and the policyholder wishes he had bought an endowment policy. However, we need not be concerned about this reacting unfavorably against the institution of life insurance since it seems likely that the policyholder of the future will own several varied types of life insurance coverage.

The company should consider the possibility of less favorable mortality on term business. The mortality experience of the Occidental on term insurance has been quite favorable. This, they think, is due to the fact that they have for years encouraged the sale of term insurance by offering a number of different plans and by allowing the agent approximately the same rate of commission as on higher premium plans. Higher mortality of other companies on term insurance may be due to the fact that the demand for low cost insurance is not created by the agent but by the applicant.

MR. J. G. PARKER emphasized that the institution of life insurance has built up tremendous good will, largely created through the cash surrender type of insurance. He further indicated that in his many years in the insurance business practically all of the dissatisfied policyholders he had met were holders of term insurance policies. It is good for this business of life insurance that we should remember that we have created this great demand for our product, and great good will for the sale of the ordinary types of insurance which carry cash values for the later years of life.

MR. P. L. HUMPHREY indicated that the volume of family income insurance had increased three-fold since the introduction this year of riders providing monthly income of more than $10 per $1,000.

MR. E. G. ARMSTRONG, after referring to the increase in the production of the Family Income benefits in recent years, stated that from the company's point of view there is a basic objection to issuing decreasing term insurance on a level premium basis. The usual pattern of level net premium and level loading does not properly recognize the true incidence of expense, but because the investment feature is present to adjust for unrealistic expense loading the net result is a sound system of level premium permanent plans. With decreasing term coverage the investment feature is missing and we face the possibility of an inadequate loading without any investment feature to draw upon, as well as a level net premium which itself may be inadequate at first.

MR. T. E. GILL stated that the major portion of the term insurance in the London Life is sold on a special participating plan which includes a conversion privilege in the fifth year. This plan is usually sold on a program basis and about 55% of the original issue is converted by the fifth year.

MR. E. F. ESTES stated that decreasing term insurance has the same effect on insurance in force as an increased lapse rate, and this throws an additional burden on the Agency Department to maintain a normal increase in insurance in force. He also stated that the Bankers Life of Nebraska attempts to control its use, to some extent at least, by a reduced scale of commissions and volume credit to the agent, together with an intensive educational program designed to teach the agent how to properly coordinate this type of additional family protection in his normal sales activities.