TRANSACTIONS OF SOCIETY OF ACTUARIES
1954 VOL. 6 NO. 15

DISABILITY AND ACCIDENT AND SICKNESS

A. In order to cover more broadly and adequately the insurable population, are the smaller companies expanding their operations in the accident and sickness field? What are the problems and the expectations of satisfactory financial results? How can the Society, through its meetings and committee organization, assist its members in the constructive development of this business?

B. To what extent have disability benefits been offered, or rates revised, on the basis of the recently published disability experience data? What are the relationships between male and female risks with respect to both coverage and premiums?

C. What are the pros and cons of automatic inclusion of premium waiver disability coverage (1) in participating policies, (2) in nonparticipating policies? What has been the experience?

MR. P. C. MOORE stated that one of the principal reasons the Atlantic Life entered the accident and sickness field was to provide more adequate coverage for a greater proportion of the population, and he felt that the commercial basis offered a wider field for coverage. He said that to cover this field more broadly, his Company has extended the upper age limits of issue on all accident and sickness and hospital policies, has extended the upper age limit of coverage on its hospital policies and is considering a further extension, has reduced to an absolute minimum the number of declinations due to occupational classifications, and is considering a change in premium structure in order to provide a reduction for large families under the family group hospital plan. He thought the problems of the accident and sickness business are: (1) classification of risks and the necessity of retaining satisfactory underwriting, (2) training of agents, and (3) persistency, where the graded scale of commissions is used.

MR. C. M. BEARDSLEY pointed out that, although there are many advantages to the public, the company, and its agents from entering the accident and sickness business, the actuary should bring all the facts to light about other considerations and the many heavy costs involved. To illustrate the heavy cost, he used the example of the Paul Revere Life establishing a head office in Canada. The company, being well established in the accident and sickness field, had policy forms and extensive actuarial, underwriting, claim, legal and management services available. The main problem centered only around the establishment of agencies. Sales started at a reasonable level consistent with the size of their organization and the operation is proceeding successfully. After $3\frac{1}{2}$ years of operation, the total deficits stand at about $600,000. He anticipates that the cash income and outgo will reach a balance point in about 2 more years and that the total amount expended will be recovered in another 5 or 6 years. He believes that a small company should contemplate making a capital outlay of well over a million dollars to establish its accident and sickness business, the incidence of expense depending, of course, on the rapidity with which operations proceed.

He felt that one of the best ways to forecast future financial results is to follow through model company figures with realistic assumptions. The cost of specialized personnel for agency training, underwriting and claim handling and the cost of preparing sales material, policy forms and their filing should not be overlooked. After determining start-up costs, assumptions must be made with respect to sales, sales expenses, first year and renewal policy costs, claim costs and the lapse rate. From past experience, he expected that it would take at least 9 years to extinguish the deficit of a small company entering the accident and sickness business if conditions were favorable and a low lapse rate experienced, and as many as 20 years or more under adverse circumstances.

MR. J. H. MILLER pointed out that some 30 years ago the subject of personal accident and sickness insurance received some attention in the Society. There were a number of papers and discussions on it in the *Transactions*, and for years it was on the examination syllabus. Then for something like 20 years, the subject was virtually absent from the *Transactions*. The business has grown rapidly in the last 10 years and there has been a revival of interest on the part of individual actuaries. He stated that it is well that this has taken place and emphasized the importance of the business because of the need, the widespread coverage and the large number of claims that are paid. With the increasing volume of business and the growing public interest in it, attention has been more sharply focused on the occasional bad performance. He hoped that as a result there would be an acceleration of the process of self-improvement, with more actuaries turning their attention to problems on the basis of what is needed in the interest of the public and how it can be provided. He stated the Society had restored the subject to the examinations, was undertaking the development of some additional study material, and had set up a morbidity committee which is making exploratory studies to further the statistical analysis of the experience in this field.

MR. R. H. NILES, referring to section B, outlined the changes the Standard Insurance Company had made in its income disability benefit and the revision of its premium rates for both the waiver benefit and the income benefit. The income benefit was increased from $5 monthly income per $1,000 of insurance to $10 with provision for maturity of the contract at age 65 if the insured is still disabled at that age. The terminal age for coverage under the income benefit was increased from 55 to 60. Net premiums for the waiver benefit are based on the rates of disablement for Benefit 5 and on the select rates of termination for Benefit 5 supplemented by the ultimate rates on Benefits 2 and 3 as given in the 1952 Reports of Mortality and Morbidity Experience. The rates of disablement were combined with the CSO mortality rates and all calculations based on $2\frac{1}{2}\%$ interest. The loading used was a percentage plus a constant sufficient to cover expenses and provide a margin for contingencies.

For the monthly income benefit, net rates were calculated from the same basic values used for the waiver benefit, but the assumption was made that the claim cost per $1 of benefit would be roughly double the waiver cost and the factors in the loading formula were increased to allow for this. The resulting gross premiums are substantially lower for the waiver benefit, but only moderately lower than the old rates for corresponding income benefits. Women are charged the same premiums as men. The waiver benefit is issued to all women, married or single. The income benefit issued to women is available only to the career type individual, leaving home daily to work full time at an acceptable occupation, profession or business for financial return upon which she is dependent for support.

MR. W. J. SULLIVAN, referring to section C, believed the most important advantage of automatic inclusion of premium waiver results from economies in operation. Such economies arise in computation of premiums, preparation of policy forms, issuing of policies, valuation and in the elimination of premium reduction at age 60. Other advantages given were the elimination of antiselection on the part of the applicant, the facility of adjustment in dividends for favorable or unfavorable disability experience, the appeal and need to the agency force and public. Among the disadvantages named were: (1) the difficulty in assessing the risk where the applicant is a good life risk but a poor disability risk, (2) the difficulty in establishing a valid premium rate since the morbidity experience probably will differ from any published tables, (3) the difficulty of competing on a net cost basis with companies who quote the rates separately, and (4) the elimination of disability benefits on amounts of insurance in excess of the company's limits on disability.

MR. H. C. DUNKLEY, in referring to nonparticipating policies, stated that the North American Life and Casualty Company began to include a disability waiver of premium provision in all standard policies in April 1951. Experience under the benefit to date has been satisfactory. Since their accident and sickness policies had been revised shortly before to provide for waiver of premium during the pendency of a claim, he felt that it was illogical to ask a totally and permanently disabled insured to pay a premium under a life policy while at the same time the company was paying benefits and waiving premiums under an accident and sickness policy. Since one of the main purposes of life insurance and of accident and sickness insurance is to replace loss of income in event of incapacity or death of the insured, the reduced income of a totally disabled person should not be further drained by the necessity of paying premiums to continue his life insurance at a time when he needs it most and possibly could not reinstate in event of lapse. Another advantage of including the premium waiver automatically is that the cost of the benefit is considerably less than the cost on a nonautomatic basis. Among the disadvantages, he listed: (1) the necessity of approximations for convention blank purposes, and (2) the poor competitive position with respect to business insurance cases where the disability benefit is not desired. The latter is true particularly on term policies where a sufficient amount should be included in the premium to waive the ordinary life premium at the attained age of the insured at the time of disability.

MR. C. M. BEARDSLEY stated that by encouraging agents to sell the waiver of premium benefit whenever possible, by quoting only the combined life and disability premium, the Paul Revere had sold over 97% of their new business at ages 15 to 55 with the waiver benefit. Prior to 1949, the life benefit and the waiver benefit were underwritten separately, which meant that in some cases the waiver benefit was rated up or declined. This resulted in some business being not taken and was naturally upsetting to the agents. It was felt that this situation was bad because the company had encouraged the sale of the benefit. Presently the waiver benefit is included at standard rates on all policies issued standard for life insurance except for occupational rate-ups. He believed that the loss involved in issuing the waiver benefit at standard rates to the few risks for which the underwriters would like to rate the waiver benefit would not be great and that the advantages of the automatic practice outweigh such loss. Because of the wide distribution of the benefit and relatively small selection against the company, the premiums for the waiver benefit have been profitable even though smaller than those of most other companies. He said that the rates were approximately on a level with rates which several companies recently adopted on the basis of the 1952 Reports of Mortality and Morbidity Experience. It was assumed that all policies issued between ages 15 and 55 included the waiver benefit so that no special analysis of policies was required to obtain the reserve for the waiver benefit. The same assumption was used in distributing premium by lines of business.