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GENERAL

A. Can income disability be safely issued?
   1. Does the termination of coverage at age 55, together with a reduction in benefits or maturity of the policy at age 65, offer adequate protection against malingering at older ages?
   2. In view of the unemployment and sickness benefits now available under government or group plans, will the six months' waiting period serve as a satisfactory safeguard in periods of economic depression?

B. What problems will arise because of the inclusion of "full time agents" under the Social Security law?

MR. B. S. PAULEY in discussing section A pointed out that income disability confronts the underwriter with problems peculiar to that form of coverage such as culling out neurotics and malingerers and guarding against overinsurance. He felt that adverse changes in economic conditions might undo some of the underwriter's efforts by changing good risks to speculative ones and would call for a reversal of the current liberality in claim settlement.

He believed that the provision mentioned in subsection 1 is adequate protection against malingering at the older ages. With regard to subsection 2, he doubted that a waiting period longer than six months was practical but thought that benefits payable beyond the end of a six months period should be considered by the underwriter in determining the ratio of all income then received to earned "take home" pay.

He reported a survey of applicants for Prudential Ordinary insurance which indicated that less than 20% would have met proper underwriting standards for income disability. Pointing out that not all who could qualify would have accepted such coverage if it were offered, he doubted that income disability would be truly salable unless underwriting rules were relaxed so as to include industrial workers, and that would be dangerous because of their occupational instability.

MR. LOUIS LEVINSON said that the income benefit offered by most companies before the depression was extremely popular and he thought that a demand for it still existed. If it could be underwritten safely and without loss he considered it a proper function of a life insurance company.

He noted that the Massachusetts Mutual had recently resumed the issuance of income disability of $10 per month per $1,000 of life insurance, after having offered a $5 monthly benefit for many years. This step was taken because it was felt that with proper safeguards the adverse experi-

ence in disability income encountered during the depression could have been avoided. He mentioned among such safeguards adequate rates of disability, careful underwriting, and termination of coverage at age 55. He considered the cessation of the income benefit at age 65 and the payment of the face amount as an endowment at that time a most valuable safety feature.

MR. IRVING ROSENTHAL said that the Guardian did not discontinue the use of disability income coverage during the depression and that it was currently offering a monthly income benefit to age 65 of one percent of the face amount with maturity of the face amount at age 65. A six months waiting period is used and the income and maturity benefits are canceled at age 55 but waiver coverage is continued to age 60.

He felt that income disability can be safely issued in conjunction with life insurance if the combined life and disability coverage is on a conservative participating basis and if benefits and underwriting are reasonable. He estimated that during a serious economic depression claim rates might be double or triple predepression levels but that such experience would be bearable if a company had accumulated special reserves for disability losses and if its normal dividend level yielded a margin which it could apply against the higher claim losses.

He thought that the form of coverage being offered by the Guardian could be underwritten in such a way as to encourage the company's field force to sell it vigorously and thus minimize adverse selection.

Commenting on the effect on malingering at the older ages of maturing a policy, Mr. Rosenthal referred to the principle of disability insurance that a sharp reduction or termination of benefits produces an increase in the rate of recovery shortly before the reduction in benefit takes place. However, maturity at age 65 may appear to claimants rather to be a big cash prize paid for remaining disabled and he was therefore inclined to believe that recovery rates after age 60 will not be much more favorable than they are under a life income benefit. In any case, the maturity benefit afforded protection against the financial effect of an improvement in mortality of disabled lives after age 65, and in a period of bad disability experience it would help keep disability losses in a reasonable relation to net gains in other components of the life business.

MR. T. E. GILL said that the London Life had been issuing the income disability benefit since 1918 and that it had a sizable volume of such business in force. He said that his company's experience on the six months clause introduced in the early 1930's had been satisfactory, as had been reported in *TSA* I. A disability fund maintained by the London Life to which disability premiums and interest were credited and from which ex-

penses and disability benefits were deducted showed a substantial excess over reserves despite the stringency of the reserve basis. Disability income rates on the six months clause based, since January 1, 1949, on 100% (graded after age 45) of the Class 3 experience represented the second liberalization of the 150% graded rating originally used. He felt that present rates would be adequate even if present favorable economic conditions gave way to a recession.

Mr. Gill distinguished between temporary accident or group benefits on one hand and temporary sickness benefits on the other. While he thought the first would not overlap to any extent with disability income benefits, he thought there was some danger of sickness extending beyond a six months waiting period if a temporary sickness benefit were received in the meanwhile. However, he expressed the view that the right to disallow a claim at the end of the waiting period afforded protection.

While he also believed that the arrangement referred to in subsection 1 offered adequate protection against malingering at older ages, he believed that conservative underwriting was the chief solution to the problem of malingering. He credited the London Life's favorable disability experience to strict underwriting of occupations and impairments and to careful limitation of the aggregate amount of benefit in all companies to a reasonable relationship with earned income.

MR. B. T. HOLMES reported that the Confederation Life's disability revenue account currently registered a substantial surplus after crossing from the red to the black in the mid-1940's. In 1949 the three months clause, discontinued in 1931, showed for medically examined business a ratio of actual to expected claims of 68.5% of Class 3 experience and for nonmedical business, 64.7%. Ratios through 1949 for the experience since 1922 were 102.7% on medical and 104.6% on nonmedical business. Disability terminations for the whole period were 118.4% of the expected on medical and 118.8% on nonmedical. Claims to the end of 1949 under the six months clause presently issued were 59.1% of Class 3 expected (three months basis) in the medical section and 35.1% in the nonmedical section.

In commenting on the first question he presented figures obtained in an examination of all claims (medical and nonmedical) under the three months clause among claimants in the older age groups. These figures showed that of 253 policies approved for benefit in the age group 50–54, 215 terminated before age 65 by death, recovery, surrender or expiry, and one after age 65, and that of the 37 policies in effect, 27 are still under age 65. Of 232 policies in the age group 55–59, 202 terminated prior to age 70 and 28 of the 30 still in effect are under age 70. He observed that the cases in which the impairment was not objectively verifiable were a small minority

and he thought that the limitations suggested in subsection 1 were adequate for the purpose.

MR. W. F. WARD stated that the Mutual Benefit since 1929 had issued disability income coverage of $10 monthly per $1,000 of insurance with the income benefit payable during continuance of disability after a four months waiting period. Coverage continues to age 60 for males and to age 55 for females.

He reported that a review of their disability claims experienced in the years 1945-1949 indicated no significant increase in either the number or amount of claims in the age groups 50-54 or 55-59 which might call for a rate increase. There were only a few claims of doubtful validity involving claimants over age 50. Even though the experience of his company was satisfactory he felt that unemployment and sickness benefits being made available through government and other plans may increase the rate of claim for disability particularly at the highest ages. However, he believed that so long as the insured must bear some part of the loss occasioned by becoming eligible for disability benefits the company's experience should not become unsatisfactory.

MR. P. C. BASSETT suggested that in underwriting disability income attention should be given to the substantial addition to the disability income of working people which may be brought about by two movements: (1) the possible inclusion in social security of disability benefits, and (2) the tendency to include disability benefits in pension programs.

MR. J. M. MILLER in discussing section B called attention to the need for determining "taxable wages" as that term is applicable to agents' compensation under the 1950 amendment to the Social Security Act. He hoped that answers to this and other problems concerning agents under the amended law would be given in the regulations to be issued by the Bureau of Internal Revenue. While he thought that first year commissions would be considered wages for tax purposes under the Act, he pointed out that renewal commissions payable with respect to policies issued prior to January 1, 1951, but received after that date, might be considered deferred compensation and accordingly not subject to the law.

He then described the New York Life plan of agents' compensation under which qualified agents receive monthly payments based on the volume and quality of business produced. Payments become vested, he said, after continuous qualification for a specified number of years and are payable as a life annuity. He thought that monthly payments made to the agent prior to the commencement of the life annuity will likely be considered as taxable wages except possibly for any portion which might be allocated to business written prior to January 1, 1951.

Mr. Miller expressed the opinion that the life annuity income would be exempt from taxation. He thought that if the life annuity were considered primarily a retirement benefit, the amount of the current cost would not be subject to tax. However, if the current cost were to be taxable its determination would present a difficult practical problem in the relatively few individual cases where the agent's "taxable wages" are less than $3,600.

He observed that the new Act provided that the Social Security Administrator may withhold benefits in any month in which "the individual is under the age of seventy-five and in which he rendered services for wages . . . of more than $50." Accordingly, it appeared reasonable, he said, to leave out of account life annuity income payments under the New York Life plan in determining whether retired agents are entitled to benefits. This view, he thought, was supported by a ruling under the law as it formerly stood indicating that life income payments were looked upon as retirement annuity for which no services were currently rendered.

MR. V. E. HENNINGSEN agreed with the previous speaker that there were many questions which could not be answered until the regulations were issued. Quoted excerpts from the Finance Committee Report which might well be paralleled in the regulations seemed to indicate, he thought, that general agents of the Northwestern Mutual might be classified as self-employed. Due to diversified methods of operation and to varied degrees of supervision among lower ranks of Northwestern Mutual agents he believed that the classification of his company's full-time agents into the defined employee and self-employed groups presented problems to which there was then no clear answer in each case.

He explained that the general agents of his company pay the commissions on business written through their agencies. An agent writing business through several general agencies, then, would be receiving commissions from more than one general agent. Commissions under terminated general agencies, he added, are paid from the Home Office. Thus it became necessary for the Home Office to make the tax reports in order to avoid duplication of taxes on commissions received by individual agents in any year in excess of $3,600.

He raised the question of whether an agent would be obliged to terminate his contract at age 65 in order to receive Social Security benefits, and if the contract had to be terminated, as he thought might be the case, whether the agent could be given a self-employed status with his company which would permit him to write an occasional case.

In closing, he suggested that consideration should be given to the advantages of integrating reports and accounting procedures for Social Security purposes with company retirement plans.

MR. H. F. ROOD expressed concern about some of the administrative difficulties. He mentioned the matter of deducting Social Security taxes and asked whether companies would withhold taxes monthly, quarterly or each time a premium was collected. He thought that agents' retirement plans would have to be revised and wondered whether the definition of employee might not be extended so as to make the employers liable for workmen's compensation and other things. He pointed out that there may be an inconsistency in considering commissions payable on business written before January 1, 1951 as something other than deferred compensation for Social Security tax purposes and then regarding such income as deferred compensation after retirement so that benefits can be paid.

MR. E. J. MOORHEAD said that it was hoping for too much to expect that answers to all the questions would be contained in the regulations. In fact, he understood that the committee working on these problems in cooperation with authorities in Washington did not intend to ask for standard answers to some questions. They felt that some problems could be worked out better in actual experience, especially since methods suitable for some companies might not apply to others. He believed that a great deal could be done, however, to encourage the exchange of ideas between companies so that to the extent that the companies have similar problems they can have the benefit of pooled thinking.