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GENERAL

A. What methods of measuring over-all mortality experience have been adopted with the advent of the CSO tables?

B. 1. Are single premium annuity rates varying by state to reflect different state tax situations practicable?
   2. To what situations in Ordinary and Group fields can the principle of assessing premium taxes directly be applied?

C. Are companies generally paying special settlement dividends on terminations? What are the important considerations in determining whether or not such dividends should be paid in a given year?

D. 1. What classes of agents have been included under Social Security?
   2. What basis have companies adopted for determining taxable income?

E. What conditions are affecting the advisability of additional companies entering these fields at present:
   1. Disability income in connection with life policies?
   2. Accident, health, hospitalization and medical insurance on an individual basis?

MR. W. VAN B. HART suggested the question under section A was aimed not at the traditional policy year mortality experience with its usual subdivisions but rather at the over-all mortality ratio of the type derived as a by-product of the gain and loss exhibit. Prior to the adoption of the CSO Table, this "annual statement" ratio was frequently useful to management in following the trend of company mortality, but it now has become a meaningless composite based on several different mortality tables.

In the Connecticut General, over-all ratios now are obtained monthly, measuring the mortality by Elston's 15 Year Select Table and also by a 5 year select table based on company experience. Both actual and expected mortality are based on the face value of the insurance and not on the amount at risk as was implicitly the case with the old gain and loss exhibit. Reinsurance ceded is not deducted. The figure merely shows whether the current trend is upward or downward and does not reveal the dollars of profit realized.

He explained that the method depends on first obtaining a distribution of the business by year of issue and age. Such data are readily available when a group valuation system is used. The "expected" is determined by computing an average factor once a year and applying it during the year to the mean amount of insurance in force. The average factor reflects the increase in "expected" in the case of substandard business. Death losses

are handled as in the gain and loss exhibit, omitting the deduction for reinsurance ceded and for reserve released by death.

Tabular mortality from the gain and loss exhibit enters into their quarterly statements for which the method is as described by Mr. C. O. Shepherd in *TASA* XXX.

The mortality measuring rods used in obtaining over-all ratios should be periodically reviewed for suitability. Also, careful interpretation by the actuary is still imperative.

MR. A. P. MORTON thought that no change in method is called for by the adoption of the CSO Table but that occasional changes are necessary in the tables used for measuring over-all mortality experience. Since mortality improvement has been of uneven incidence by age, any over-all ratios of actual to expected mortality run the risk of being misunderstood.

In the Prudential, continuity has been maintained by use of the American Men Select Table. Currently, the 1925–39 Basic Table is used for some purposes and has the advantage of producing ratios which are comparable with the Recent Issues mortality data. He suggested that the new 1946–49 Basic Table should prove useful in mortality investigations. When a company changes its mortality standard, it may be necessary to recalculate some of the previous ratios in order to create a comparable series.

In some of their studies of Weekly Premium and Monthly Debit mortality, they have used crude mortality rates in five year age groups. This method sometimes is better than working with mortality ratios, especially at the younger ages where mortality changes which are small in absolute amounts may substantially affect the ratios. Moreover, it fixes attention on the actual mortality figures which are more closely related to the financial effect.

MR. R. G. RINK said that an over-all death rate would show the mortality trend year by year where the composition of business is not changing rapidly. It avoids the difficulties involved in a ratio of actual to expected where the expected involves two or more mortality tables.

The Midland Mutual conducts an annual mortality investigation which yields exposures and death losses by attained age for business over three years old and by age at issue and duration for the first three policy years. Amounts at risk are used for exposures and deaths. The valuation in force method is followed along the lines discussed by Mr. Winter on pages 368–375 of *TASA* XLVI, using his formula 5′. Medical and non-medical are included together, as are standard and substandard. Exposures on substandard are adjusted in the ratio of their expected mortality.

A separate study of standard lives is planned. Each calendar year's experience is studied separately, but statistics are arranged so that the experience of any combination of years can be readily obtained.

MR. J. A. BEVAN said, in regard to section B, that about four months ago the Connecticut General revised their single premium annuity rates, obtaining "basic rates" by eliminating all loading for premium tax. These are given to their agents together with a list of the tax rates in each state so that the actual premium tax, if any, in the applicant's home state can be added back in to obtain the gross single premium. In the annuity contract only this gross rate is shown and any death or surrender benefits are based on it. The small theoretical errors thereby introduced in the refund contracts are outweighed by the advantage of simplicity.

Expectations that a little more business would be sold in no-tax states and a little less in tax states have not been realized. New business both before and after the change has been running 79% in the no-tax states, 6% in states with a 1% tax and 15% in states with a 2% tax. Apparently most of the larger states recognize the injustice of a tax on annuity considerations.

MR. W. A. THOMPSON stated that although annuity rates varying by states seemed to be practicable since at least one company was following the practice, he questioned its desirability.

Frequently, life insurance companies have adopted geographical differentials to take account of variations in taxes, interest earnings and other factors. For example, some 70 years ago, the New York Life adjusted life insurance dividends to reflect taxes payable in various states.

However, many factors produce geographical variations in the cost of annuities and insurance. To adjust for them thoroughly would introduce almost endless complications. Some of the factors involving such variations are: interest earnings, mortality, branch office expenses, state laws, insurance department regulations and court decisions. If state differentials are to be applied with respect to taxes, why not also with respect to these other factors? In the absence of any really extraordinary situation Mr. Thompson preferred to rely on the law of averages to balance out the various differentials. Moreover, in so far as taxes are concerned, the practice might have the opposite effect to that desired.

MR. H. E. BLAGDEN remarked that some practical problems can be created by retaliatory taxes if you happen to be located in a state which has a tax on annuities.

He then discussed direct charge of premium taxes in relation to the group annuity field. Since a group annuity case may cover employees in many states, it is impractical to set rates reflecting premium taxes di-

rectly. However, dividends are supposed to reflect the employer's over-all experience as to mortality, interest and expenses, and the Prudential has followed the practice of charging against each case the taxes incurred as a result of having that case on the books. In some states, taxes for a large group may equal all other expenses. Use of an average tax rate under these circumstances seems inconsistent with careful allocation of other expenses, especially since much of the breakdown by states must be made in any event. Assessing taxes where they are incurred tends to gain the employer's support in combating possible increases in such taxes.

MR. F. A. WECK said concerning section C that the Metropolitan has been paying terminal dividends on Ordinary policies since 1915 although they were not paid on cash surrenders until 1928. At present, maturity and surrender dividends are paid after such policies have paid premiums for a minimum of nine up to eighteen years, depending on the plan of insurance and other factors.

His company's annual dividend formulas provide for building up funds to carry out the policy obligations, including allowance for any extra cost of settlement options. On surrender or maturity at the longer durations, the guaranteed value is generally less than the funds available, after taking account of gains and losses under settlement options, Disability Income and Double Indemnity. If such excess after further allowance for termination expenses is substantial, it is returned to the extent it is not needed for the protection of continuing policyholders. Mortality cost is treated in the annual dividend formula so that no surplus is released at death; hence, no mortuary dividend is paid.

Although terminal dividends reflect the excess funds available on termination, both annual and terminal dividends depend on the current amount of distributable surplus.

MR. M. R. CUETO pointed out that the New York Law allows, with the approval of the Superintendent of Insurance, the payment of a dividend on termination. Such dividends are paid out of accumulated surplus rather than from surplus earned during the prior year. In studying this problem, asset shares are useful in determining the contributions to accumulated surplus made by each group of policies over the years. Consideration must be given to the experience under any special benefits, such as income disability or settlement options.

In 1948, the New York Life began payment of termination dividends at death, maturity or surrender of certain policies in force for twenty years or more.

Insurance publications mention about eight companies which now allow such dividends upon maturity or surrender, including two large com-

panies added during the last two years. At least one company also pays them at death. The amounts of termination dividends paid range from $1 up to about $50 per thousand, varying by plan of insurance and durations and sometimes also by age at issue.

In his opinion, any program of termination dividends should be planned to continue for some years without change, subject to periodic checking.

MR. B. A. WINTER stated that in 1951 for the first time, termination dividends are payable upon certain terminations of Prudential policies at least ten years in force.

Twenty years ago, in a period of high interest rates and favorable mortality, high dividends were possible, disbursing annually virtually all earnings after providing for $3\frac{1}{2}\%$ policy reserves and normal surplus. Under these circumstances, the contract cash values clearly represented a fair return of the retrospective accumulations of the various policy groups.

As interest rates started their long decline, dividend cuts were required by reduced earnings and by the need for reserve strengthening. On new business, higher premium rates and more conservative reserve standards were adopted.

Today, the interest decline has stopped and there has recently been a slight improvement in yields. Therefore, some return of the strengthening done is possible to current surrenders, to the extent that the reserve strengthening did not come out of earnings from other policy groups. Again, on later issues, at the longer durations, funds will be accumulated in excess of the residual surplus required. Finally, provision in guaranteed cash values for depressed security values is not needed for current surrenders.

Termination dividends are also payable at the termination of a fully in force Ordinary policy by death or maturity, provided that the settlement options then available do not currently have a greater value than a one sum settlement.

MR. A. THOMAS LEHMAN suggested that a company might logically grant settlement dividends if a reserve strengthening program is combined with adequate contingency reserve and surplus, or if surrender values are based on a higher interest rate than the reserve rate, or if surplus is more than adequate. However, he thought that companies generally are preserving equity through their regular annual distribution and are not paying settlement dividends, although many of them pay a fractional post-mortem dividend.

In determining the amount of a settlement dividend for any year, some of the elements to be considered are: the current annual dividend scale,

the relation of surrender values to asset shares, any reserve strengthening program not yet completed, normal growth in surplus, mortality contingency reserve, disability and accidental death experience, probable losses on settlement options, investment losses, reduced interest earnings, increased expenses and taxes. After all of these have been given consideration it remains to determine how much of the remaining surplus, if any, should be made available in the ensuing year for settlement dividends. Using a conservative termination rate, the individual dividends would depend on the expected terminations by amounts or by reserves according to the basis used.

In his opinion, settlement dividends seem to offer many problems. For example, does a reinstating policyholder return any settlement dividend previously received or perhaps the amount of settlement dividend being allowed in the reinstatement year? To him it seems better to distribute all or most of the surplus available each year through the regular annual dividend scale, varied from time to time as necessary.

MR. ARTHUR PEDOE thought that maturity dividends were taking companies back to the old deferred and tontine dividend idea. If a company pays maturity dividends it should make allowance for them from the outset, as is required under the Canadian law; otherwise its surplus should not be called "free surplus."

Originally, only one large American company granted maturity dividends. Now, four New York companies follow this practice and before long everyone may be doing it. It offers a temptation to small companies to improve their competitive position by a method often involving a relatively small current outlay. However, a large Canadian company provides an example of the degree to which a company's plans to pay such dividends may change in a short period of years. In 1929, this company was paying a maturity dividend of $150 per thousand on an endowment maturity of fifteen years or more. By 1933, the same company was paying no such dividends and it has never returned to paying them.

In his opinion the present trend toward these old tontine-like form of dividends is unfortunate and damaging to the business of life insurance and will end in restrictive measures by the government authorities.

MR. E. H. WELLS commented on the question from the point of view of a company which recently began payment of termination dividends. The Mutual Life feels that termination dividends can adjust cumulative disequilibrium and can recognize differences in potential earning power of different classes of policies. Premiums and surrender values are fixed at issue, and the trend of experience may not support this determination within the practical limitations of annual dividend scale

adjustments. Also, certain classes of policies, such as those with disability income benefits, have not contributed to earning power. Although such situations could not be foreseen at issue, it is only right that some recognition be given to them when settlements are made.

Moreover, if surrender values are set conservatively, at certain durations sufficient funds may arise over and above guarantees to justify termination dividends. Such excesses may not fit into an easy formula conforming to traditional comparative standards between plans. For example, in his company larger termination dividends seem indicated for ordinary life than for limited pay plans, although typically under annual dividends the reverse relationship exists.

As in determination of all dividend formulas, the principle of approximate equities is preferable to pseudo-exact determination of surplus shares. Some of the specific decisions to be made in setting up a plan of termination dividends are:

1. Select the earliest duration at which they will be paid, which logically depends on the point at which funds emerge in excess of the guaranteed values.

2. Agree on any restrictions as to plan. Thus, in his company, such dividends are not paid on term insurance or on cases involving disability income, due to their low earning power.

3. Choose the types of terminations on which such dividends will be paid. As to payment on death, under one point of view which favors such payment they can be considered as magnifying the whole policy, including the claim value as well as the surrender value. The other point of view considers that the basic guaranteed death benefit is fixed, so that termination dividends are applicable primarily to surrenders. If they are paid on death claims, probably reserves should cover the current rate of such dividends as well as the basic amounts of insurance. In his company, payment is not made on death. Payment is made on maturities as well as surrenders, in order to avoid anomalies toward the end of the endowment period.

4. Decide whether such dividends shall be allowed on policies going onto extended insurance or reduced paid-up as well as on those surrendering for cash. In his company extended insurance is nonparticipating while reduced paid-up participates. Furthermore, on American Experience policies extended insurance is much shorter and reduced paid-up amounts are generally somewhat greater than under the CSO basis. These facts influenced their decision to make a credit on extended term cases under American Experience issues, so that the duration of the coverage is increased. No such credit is granted on reduced paid-ups.

A number of miscellaneous administrative questions are involved. What do you do when a policy loan equals the cash value? What should be done when the death benefit is less than the cash value plus the termination dividend? Are you protected against a policyholder gaining a larger termination value by changing his plan of insurance?

New York companies must obtain approval from the New York Insurance Department of any proposed termination dividend system. One requirement seems to be that such dividends shall not be disproportionately large compared with the regular annual dividends paid.

MR. H. F. ROOD stated that the Lincoln National does not pay termination dividends. In his opinion, the manner in which reserves may have been strengthened bears directly on the problem. If general surplus funds not belonging to any particular class of business have been used for such strengthening, there would seem to be little reason for paying termination dividends. On the other hand, if a mutual company has reduced annual dividends under certain classes of policies in order to strengthen reserves on those policies, it may feel obligated to pay termination dividends to the policyholder classes involved.

MR. A. L. JOYCE, in reference to section D, listed the following classes of agents covered by Social Security:

1. Any agent regarded as an employee under the rules of the common law, which is mainly tested by the employer's right to control the details and methods involved in the agent's job.
2. Any full time life insurance salesman (*i.e.*, one meeting all of following tests: principal business activity the solicitation of insurance and annuity contracts primarily for one life insurance company, substantially all of his services personally performed by him, no substantial investment in facilities used in performing his services, and a continuing relationship with the company or general agent).
3. Others engaged in own insurance business and qualifying as self-employed individuals.

In a general agency company, an agent may be an employee of either the company or the general agent depending on the fact situation.

If an agent is a "covered employee" all payments made to him are taxable, except for any portion clearly identified as reimbursement for expenses incurred on behalf of his employer. In his company, renewals paid after contract termination are not considered to be taxable. After an agent retires under the company's pension plan, they continue to treat all commissions paid to him as taxable wages so long as his contract remains

in force. As soon as the contract is canceled, commissions are not considered taxable because he is no longer a full-time agent of the company.

MR. H. B. WICKES said that, as of January 1, 1947, the full time agents in his company signed new contracts which specifically defined the agent's duties and created an employer-employee relationship between him and the company. So far as the Treasury Department was concerned this made it possible to consider all full time agents eligible for Social Security benefits. The company collects the agent's share and remits the entire tax in the usual manner.

The problem of withholding income taxes creates serious difficulties in administration. In theory, the income tax for life insurance agents should be withheld by using the Daily or Miscellaneous withholding tax table with a special computation at the time of each commission payment depending on the number of days elapsed since the last payment. Because of this difficulty, his company has been operating by obtaining estimated income figures from the agents and withholding taxes accordingly. Deductions from income of estimated business expenses in reasonable amount are permitted. They use 15% of income for agents and 25% for general agents as a rule of thumb as to reasonableness. Some risk is involved that all of an agent's business expenses will be disallowed when his final return is reviewed. Actual and estimated income and expenses are compared each quarter and any excess tax withheld is returned while any deficit is collected from the individual agent. Their practice of allowing agents and general agents to remit first year premiums on a net basis has added to the complexities, and a new system is now being tested which is intended to minimize this problem.

His company depends on their branch offices to handle the collection of both Social Security and withholding taxes

He mentioned that the decision is still pending as to the withholding of taxes on income from agents who are not employees and who came under Social Security at the beginning of the year. He urged that every effort be made to persuade the Bureau of Internal Revenue not to require the companies to withhold income tax on such agents.

MR. J. M. MILLER stated that the New York Life has no general agents. In the absence of clarifying regulations from the Bureau of Internal Revenue, social security taxes are withheld and matched by the company as to first year and renewal commissions and Nylic monthly payments if the agent has not yet qualified for Nylic life income. Payments of Nylic life income are considered made under a plan which makes provision for the agent "on account of retirement" and are therefore not considered by them to be subject to Social Security tax. Similarly, bene-

fits paid under Nylic upon disability or death are not considered subject to tax. Soliciting agents temporarily receiving salaries have been covered under Social Security from the beginning.

MR. R. G. RINK said that in his company a preliminary classification as to full time or part time was requested from the general agents. Working from this and using further facts available at the Home Office, the Agency Committee classified each man under contract.

Classification was determined by whether or not an individual was "substantially" a full time life insurance agent, judging by total hours worked, total income and proportions of each directly associated with the company. Any receiving substantial advances of level amount were classified as employees. Questionable cases, as well as supervisors and general agents, were classified as self-employed. Requests for reclassification have been considered on their merits.

Concerning section E, MR. LOUIS LEVINSON thought that there was much to be said in favor of writing disability income in connection with life policies, pointing out that from the standpoint of the public a *potential* market for disability income coverage seemed to exist as evidenced by the development of Accident and Health business and of hospitalization plans. He noted that high taxes, increased living costs and low investment yields hindered the accumulation of individual savings which could, even temporarily, replace earnings, while Social Security benefits and employee retirement plans weakened one of the strongest incentives for individual savings.

He said that, from the company point of view, the risks involved appeared to be manageable if proper safeguards were used, judging from the experience of companies continuing in this field after 1932. Furthermore, he stated that most companies were familiar with disability coverage due to the substantial volumes of the old income benefit still in force and to current underwriting of the waiver of premium provision. Offering income coverage, accordingly, would not entail learning a new business or require making an excessive investment in personnel or equipment.

Agents who had disability income in their kits during the past 20 years did not encourage its purchase because of (1) the low ratio the income bore to the amount of insurance, resulting in a benefit possibly out of balance with the economic status of the insured, (2) the conservative limits as to amount established by companies continuing to offer the benefit, (3) the high premiums charged for the coverage, and (4) the severe underwriting treatment accorded applicants for the benefit.

Enthusiastic acceptance of income coverage by agents might depend on some relaxing of the inhibitory features mentioned. In weighing possible

entry into this field, accordingly, a problem is the decision as to what compromises with safety can be made to encourage sales without risking extraordinary losses. The ratio of income to insurance can probably safely be increased to $10 per $1,000, especially if disability income is terminated at 65 and the policy is then matured as an endowment. The limit of benefit to applicants may also perhaps be increased without hazard provided an appropriate relationship between disability income and earned income is maintained. Greater liberality in underwriting may be one of the most dangerous avenues to explore, although conservative treatment with regard to amount of income and termination of coverage at a relatively young age may help to control this risk.

In one company adopting a $10 benefit about a year ago after issuing the $5 benefit since 1933, a significantly larger market has not yet materialized.

MR. E. L. BARTLESON, in discussing the pros and cons of offering disability income in conjunction with life policies, mentioned two points quite similar to those expressed by Mr. Levinson from the standpoints of the public and of the company. Also, he suggested that if we do not meet the need for this insurance, there is a real risk that the government will do so.

In spite of these favorable points, his company after a recent committee study has decided not to re-enter the field at this time, because of the following deterrents:

1. There appears to be no widespread demand for such benefits. Although a sample of recent ordinary issues (pre-Korean) indicates that about one-third could have been written with disability income, the experience of companies offering the benefit suggests that only perhaps 3% would be issued on this basis. Under such conditions there would be disproportionate expenses at and after issue as well as a considerable element of self-selection to guard against.

2. There is a reluctance on the part of agents to suggest these benefits to the applicant for life insurance. Not only may the entire sale be jeopardized if the applicant is declined for disability coverage, but also it usually means no greater commissions, the disability premium being offset by a lesser purchase of life insurance.

3. It does not appear likely that the life companies can sell enough disability income to lessen appreciably the chances of the Federal Government instituting a plan of total and permanent disability benefits.

In his opinion, the best solution is the sale of accident and health insurance, providing reasonably adequate hospital, surgical and medical ex-

pense benefits with a substantial temporary income for, say, five years but not beyond 65. Temporary disability income tends to encourage rehabilitation, whereas claim experience has shown that life income often blocks it.

MR. J. H. MILLER pointed out that the widespread provision for retirement incomes has made it unnecessary, in the case of a large proportion of prospects and policyholders, to think of disability protection as requiring income for life. Since the difficulty of distinguishing at the older ages between disability and superannuation has been one of the major problems of the administration of disability income benefits, the granting of these benefits may be simplified and safeguarded by considering that income after 65 is a retirement problem. From this point of view an income terminating at 65 or on prior recovery is sufficient, but some companies include a maturity benefit at 65. However, when the maturity benefit is included, the attraction of a large cash payment may discourage normal recoveries as 65 is approached.

If benefit payments terminate at 65, there would appear to be no reason, other than legislative restrictions, why the protection could not also continue to 65, subject to a minimum benefit period of perhaps one year. This would tend to reduce the incentive, where income for a period of years is involved, to make claim in the last year of coverage.

Under present day conditions, within a period of one or two years, most disabled persons will achieve either recovery or vocational rehabilitation provided the alternative of living on a disability pension is not available to them. This suggests the need for benefits which will provide adequate funds for modern medical treatment plus a fairly large disability income for a short period. The health and accident policy offers more flexibility in meeting these specifications than does the more limited disability income rider.

However, companies considering entrance into the health and accident field on an individual basis should realize that this market has its limitations. Considerably more than half of the labor force now enjoys some form of both disability and hospital expense protection. Because of the hazards of overinsurance, it is not possible to add to existing coverage to the degree that life insurance protection can be pyramided. Unless a company entering this field has some distinctive advantage in service or benefits to offer, it may be disappointed with the results obtained.

MR. J. T. PHILLIPS reviewed some of the reasons behind the recent decision of the New York Life to write individual accident and sickness protection of the so-called "commercial" type.

In the first place, it was a companion step to their decision to enter the group field and offer all types of group coverage.

Secondly, they felt that here was a social need which insurance companies should fulfill. In round figures, there are about one and a half million deaths a year, including approximately one hundred thousand accidental deaths. However, there are some ten million nonfatal accidents per year. In the sickness field, it has been estimated that some seventy million people lose a billion days of work each year on account of sickness. Personal and group accident and sickness insurance probably has been increasing more rapidly than any other line of insurance. In 1939, the total premium income from all types of accident and sickness insurance, including Blue Cross, was about $240,000,000. By 1949, it had grown to $1,645,000,000, made up of $480 million from group, $500 million from Blue Cross and $665 million from personal accident and sickness. Only $44 million out of the $665 million was for noncancelable.

In their opinion, income disability as sold in life policies does not meet the social needs as well as "commercial" accident and sickness coverage. Companies issuing disability income generally find it is included in only a small percentage of their new business. Likewise, noncancelable accident and sickness insurance probably would be available only to a small proportion of the public. The company's right not to renew a "commercial" type of policy represents an important protective feature even though infrequently invoked.

In the third place, in their opinion, entry into this field will prove helpful to their agents. It should improve their income, as accident and sickness protection is more easily sold than life insurance. For this reason, it aids in financing new agents. The established agent will use it as a door opener and as a means of adding to his clients' programs. In their opinion, these points outweigh the adverse factors sometimes suggested, which include both the burdening of agency managers with new complications in a business which already is complex and the possible neglect by agents of their life business so as to write accident and sickness.

MR. H. R. LAWSON said that his company would welcome the entrance of additional companies into the individual accident and health insurance field. However, in his opinion any Ordinary life insurance company should hesitate a long time before taking the step.

Morbidity is not like mortality, it is not almost completely beyond the control of the insured; it does not follow a steady rate from year to year and show a gradual predictable improvement, for it is influenced by many unpredictable factors such as economic conditions, unemployment, insureds' self-interest, etc.

In recent years, accident and health insurance has prospered, for we have been in a period of unusually high employment and high incomes. In the thirties, loss ratios were much higher, giving an average of 62% in his company and reaching a peak in one year of 70%. Last year their loss ratio was 52%. Not only may higher losses be expected in the future, but also competition and other forces are at work to reduce premiums, both directly and by liberalizing benefits and underwriting standards.

At the same time inflation is pushing expenses up. Recently the expense ratio of the principal companies in this field has averaged about 45%. With a loss ratio of, say, 55% and an expense rate of, say, 50% there will be no margin left, unless it comes from interest earnings and these are normally small.

These operating ratios are frequently misunderstood and are therefore subject to criticism even though they can be justified. Accident and health companies have the misfortune to live in glass houses where the markup on their product is much more apparent than in the case of life insurance companies or noninsurance industries. Consideration should be given to whether or not a company wants to expose its operations to possible misunderstanding by getting into this type of business.

Allowing for the instability of loss ratios, by charging heavier rates and providing for participation, poses serious practical problems since no really satisfactory system for distribution of profits has ever been devised for this type of business. Most of the business now in force is nonparticipating.

From an agency viewpoint, it is sometimes argued that this coverage gives an agent a more complete package to sell and a quick-selling product which enables him to get on an adequate income basis sooner than with life insurance alone. However, according to his observation the life insurance salesman and the accident and health salesman are two different types. The good life insurance agent will not bother with the small claims and other bothersome details of accident and health. The good A & H salesman will not take the trouble to go through the several interviews and program planning that life insurance selling demands. In his company there is remarkably little overlap between leading life producers and leading accident and health producers. The advantage sought in financing agents will not be realized.

Moreover, many life agents will not write accident and health because of the possibility that claim adjustments or cancellation of the policy will incur the policyholder's ill-will and cause him to drop his life insurance. Cancellations can be avoided by charging higher rates and making the policies noncancelable, but this creates many problems of its own.

In his opinion, an Ordinary life company entering this field will find that instead of the accident and health department contributing to the welfare of the life department, the life department must substantially subsidize A & H. Also, there is some indication that the average size life policy tends to be lower in a company selling accident and health in addition to life. In industrial companies, the two kinds of insurance might blend better but there would be frequent conflict with group coverage.

Mr. Lawson also referred briefly to hospital and medical coverage. Although the sale of hospital policies is still tremendous, the market seems almost completely saturated with nearly seventy million covered in the United States. There is evidence of definite antiselection in this field. Moreover, charges against such policies by hospitals and doctors frequently run far beyond what was anticipated. This type of insurance works better on a group basis than on an individual basis.

It has been suggested that life companies should go into accident and health to prevent government intrusion. However, there is nothing to indicate that either the federal or the state governments, if they decide to insure the people by compulsion, will be deterred by the number of companies in the field.

In general, individual accident and health insurance is a business for specialists, and companies organized for the specific purpose of writing it can do the best job. For the Ordinary life insurance company this would be a subsidiary activity with complications which would monopolize the efforts of officers and would retard company progress.