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DIGEST OF INFORMAL DISCUSSION

POLICY PLANS AND RATES

A. What revisions have been made in mortality, interest, and expense assumptions in recent changes in participating and nonparticipating premiums for life insurance and supplemental benefits? To what extent have interest and mortality assumptions been varied by plan of insurance?

B. What are the advantages and disadvantages of issuing to women a special life insurance policy, or class of policies, involving different basic assumptions from those used for other policies?

C. What safeguards are placed on the conversion of family income and decreasing term insurance riders to permanent insurance? What has the experience been on such conversions?

MR. J. T. PHILLIPS described the recent change of the New York Life's rate structure from its historic high level of gross premiums to a more median position with further reductions on certain plans because of higher average size assumptions. It was decided not to have any variation by plan in either the interest or mortality assumptions, nor was a preferred risk type of policy found desirable. The new waiver of premium and Double Indemnity rates were set at levels such as to be near a nonparticipating basis.

MR. GEORGE W. YOUNG spoke from the viewpoint of nonparticipating premium rates. He noted that recent changes in such rates appeared to be based on more liberal assumptions for both mortality and interest. While the indication was that the mortality rate will continue favorable over the long term, he questioned whether the same was true of the interest rate. Since the yield on long term U.S. governments and on A rated utility bonds had dropped about $\frac{1}{2}$ of 1 percent in the last eight months, it seemed to him that a rate of interest proper for nonparticipating premium calculations should not currently exceed $2\frac{3}{4}\%$.

MR. J. E. MORRISON, in discussing section B, listed the advantages and disadvantages of issuing special policies for women as follows:

Advantages

1. Effect can be given to variations in mortality as between males and females in the same way that differences are now assumed for annuities and settlement options.

2. Recognition can be given to differences in average size policy and resulting differences in unit costs as between male and female risks.

3. A special low rate policy with a high minimum amount and reflecting lower mortality for females may increase the volume of female business written.

Disadvantages

1. Administrative complications with respect to rates, dividends and valuation are increased.

2. Even with a special policy applicable to a select group with a high minimum size, advantage gained from a sales standpoint may be a temporary one and lost when other companies move into this field.

He then outlined the experience of the Great-West Life which first issued a special policy for women about four years ago. About 10% of its adult female business was written on this plan; the average sale was very large; persistency was above average; and no claims have yet been incurred—though it is still too soon for significant mortality results.

MR. E. A. RODE then described a study made in the Prudential comparing experience premiums which reflected variations by sex in the factors of mortality, expense, persistency and disability. While the rate of mortality was more favorable for women, expense and disability factors operated as an offset. The calculations showed, on 20 year endowments issued at ages in the low 20's, that the male experience premium was about $2.00 lower than the female premium; on whole life issued near age 50 the male experience premium was a little more than $3.00 higher. For other ages and plans the results fell between these extremes.

When the added administrative cost of making distinctions as small as those indicated above was considered, it seemed that separate premium rates for women were not justified. However, approximate solutions might be more easily reached in certain areas. For example, it was possible to establish a $5,000 minimum for women compared to a $10,000 minimum for men on the company's preferred whole life policy. Also, on income endowment policies different mortality and expense assumptions were practical in its dividend studies for the period prior to policy maturity.

MR. J. T. PHILLIPS, while agreeing with much of the previous discussion, felt that a move toward separate rates was wrong. Many former distinctions such as for habitat and certain impairments have been ended in more recent years. It seemed to him better to keep to broader groups in determining equity.

MR. IRVING ROSENTHAL, in discussing section C, described a study of conversions of term riders made in the Guardian. He noted that the rate of conversion was only about 0.3% per year; that most of the conversions occurred at the younger ages and earlier durations; and that the conversions did not seem due to mortality incentives.

As a result of the study, they had liberalized their rules for such conversions. About the only problem—and that seemed minor so far—was the continuance of waiver of premium benefit on the converted policy. Usually they found it unnecessary to require a medical examination but, within usual nonmedical limits, relied on a short type of nonmedical form.

MR. W. A. THOMPSON outlined the safeguards used by the New York Life in connection with conversion of term riders. These he felt were more or less similar to the safeguards applied by other companies, either by contract or practice. He cited the small amount of such conversions in his company during 1953.

MR. M. J. WOOD outlined the safeguards used by The Travelers to control antiselection at the time of conversion of term riders. Assuming that antiselection is controlled and that the converting lives represent a cross-section of the term policyholders, one would expect ultimate rather than select mortality after conversion. As an offset to such extra mortality, the usual expense of underwriting new insurance is eliminated.

His company's study of regular term conversions showed mortality averaging 40% higher than the ultimate rate experienced on standard medical issues in the case of conversions made at the end of the conversion period. However, for conversions made prior to the end of the conversion period, where there was no incentive for antiselection, the extra mortality was only 5% higher than that for standard medical issues, based on a select period measured from the original issue date. He felt that the latter result was indicative of the extra mortality to be expected on conversions from decreasing term riders which include adequate safeguards against antiselection on conversion.

MR. PHILIP FREEDMAN mentioned the slightly different approach used by the Sun Life of America in limiting the amount of insurance which might be converted from term riders. It was based on the commuted value of the term rider on the third anniversary beyond the actual date of conversion.