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GUARANTEED ISSUE

A. To what extent has this development been adopted (1) by those companies writing group business, (2) by others?
B. What restrictions or other rules have been deemed necessary in the development of guaranteed issue, for example, preunderwriting requirements related to eligibility, choice of this vehicle in lieu of group insurance, plans available, maximum and minimum amounts, minimum number of lives, *etc.*?
C. Have special rate bases, dividend classifications or commission schedules been adopted?
D. What is the expected experience of this business when compared with (1) group permanent, (2) regular individual policy issues?
E. Has there been any tendency to terminate policies on standard risks leaving in force those on impaired lives?

MR. H. L. DEPRENGER stated that Continental Assurance had been issuing ordinary policies on the basis of group underwriting since 1950 and had about $40,000,000 of such business in force. They require a minimum of 25 lives and 75% participation and set an upper age limit of 60. They use their standard nonparticipating plans and rates, writing this business on Ordinary Life or higher premium plans. First year commissions were reduced by 25%. He pointed out that their current nonparticipating rates were relatively high and that a rate reduction might require a change in their practices.

Most of their business has been issued to white-collared employee groups on a salary deduction plan with little or no contribution from the employer. The amount permitted usually depends upon the salary bracket of the individual. A minimum salary, such as $5,000 or $6,000, is required for eligibility.

Their mortality investigation on Guaranteed Issue business from date of issue to the policy anniversaries in 1955 included a total of almost 30,000 policy years of exposure with 153 deaths. The mortality experience was approximately 80% of the 1946–49 Basic Ultimate Table. There appeared to be no significant variation by age or duration. Their experience under their largest case was better than the aggregate for all cases and, since the employer paid part of the premium, could indicate the importance of a high participation requirement.

There was no apparent tendency to terminate policies on standard lives, leaving in force those on impaired lives. Their withdrawal rates were 7%, 3%, 2%, and 2% respectively for the first four policy years. These low rates may be attributed to the high minimum salary requirement, the use of standard plans and rates, and the salary deduction method of premium payment.

MR. P. C. COWAN said Ohio National plans to enter this field in order to accommodate the larger pension trust cases until their facilities for writing group permanent are established. The use of individual policies combined with the group basis of underwriting apparently has a sales appeal which leads to the success of this type of business. In their investigations they found that 33 companies offered Guaranteed Issue, 19 of which also wrote group permanent. Almost one-half of the companies writing group permanent also write Guaranteed Issue but a fair number of the companies writing Guaranteed Issue business were not in group at all.

Using the 1946–50 Group Mortality rates as indicative of the mortality on Guaranteed Issue basis, they found that, in addition to reducing first year commissions to 80% of those for regular plans and allowing for the inherent savings arising from group methods of underwriting and administration, a dividend reduction would also be required.

MR. H. F. PHILBRICK pointed out that group permanent and Guaranteed Issue do overlap but the additional charge under small group permanent cases results in final costs not materially different. Many agents prefer to use the individual policy pension trust methods for smaller cases.

For Massachusetts Mutual, a minimum of 25 lives with 90% participation and a volume of at least $125,000 is required. Home office authorization must be obtained before any commitment can be made to the employer. The maximum coverage, subject to any statutory nonmedical limit, varies up to $16,000 for combination plans and to $20,000 for Retirement Income plans. Waiver and accidental death benefits will be considered if included in the policies on all participants. Only two forms are used, the normal Retirement Income plan and a plan providing $2.50 monthly at maturity for each $1,000 of insurance.

Declinations in connection with proposals were due to the purchase of policies not being mandatory, there being insufficient lives or volume, or the eligibility requirements not being satisfactory. For nonpension plans, a frequent additional cause of declination was the nonavailability of the plan of insurance desired. Only two requests in connection with existing plans have been turned down, one because the purchase of policies was optional and the second because preliminary investigation indicated an excessive number of impaired lives.

Guaranteed Issue policies are assigned to a special dividend class. However, the future cost differential to the insured is not sufficient to warrant dropping the policy and replacing it with a new standard issue at the attained age.

MR. W. A. KELTIE stated that Great West has offered Guaranteed Issue since 1948 for pension and profit sharing trusts and employee and association groups. They modify dividends and commissions, the dividends being 50% of the regular scale during the first five policy years and commissions being two-thirds of the regular schedule. If their mortality experience follows group term mortality rates, either one of these adjustments alone would approximately cover the excess mortality.

MR. J. D. ROMMEL, JR., reported that State Mutual offers Guaranteed Issue for groups of 25 or more for pension and other plans and also offers Multiple Issue, a simplified nonmedical underwriting method using the Guaranteed Issue policies, for nonpension groups of 10 to 24 lives. Inquiries are handled by their Group Permanent and Pension Department, the case underwriter determining the proper type of coverage. For nonpension Guaranteed Issue cases and Multiple Issue cases, approval must be granted by a Review Committee consisting of an actuary, an Ordinary underwriter and a case underwriter.

Two special policy forms are used under which cash surrender values and reduced paid-up values are lower for the first five policy years, the extended term benefit is on a reduced basis and no change of plan provision appears in the policy. Regular premiums are charged but a different dividend scale is used to maintain equity. They developed from published group mortality experience a table designated by them as the 125% Group Basic Table and used this as a measure of the expected mortality under Guaranteed Issue. A normal age distribution was assumed in determining the adjustments in commissions, cash values and dividends. The small net margins at the end of fifteen policy years for ages below 45 were offset by the small net deficits for ages over 45. Cases having more lives over 45 than normal may be declined.

Reduced values in the early years appeared in order since they felt Guaranteed Issue was vulnerable to heavy early terminations especially in the nonpension area. First year commissions are approximately 85% of the regular first year rate for the Retirement Income plan and 80% for the Life Paid-up at 85 plan. Renewal commissions are one percentage point lower, equally divided between the agent and general agent.

They require 80% participation and do not issue over age 60 for pension plans or over 55 for nonpension groups. The maximum amount on any one life varies up to $20,000, being approximately two times the average amount for Retirement Income plans and one and one-half times the average amount for Life Paid-up at 85 plans.

Multiple Issue policies will be issued up to a maximum of $10,000 at ages 16 to 35, $5,000 at ages 36 to 45, and $3,000 at ages 46 to 55. The company reserves the right to request an examination on any one or more of the lives in a Multiple Issue group.

MR. H. S. GARDNER stated that New England Life now issues 30% of their new pension trust business and 40% of the additional insurance on existing trusts on the Guaranteed Issue basis. Practically all of the trusts which would qualify for Guaranteed Issue make use of this method of underwriting. Acceptance and underwriting are based on an inspection report of the company and a census sheet showing name, age, occupation and amount of insurance for each participant. Their underwriting rules were similar to those previously described for other companies.

Currently, they use two forms—Retirement Income and Life Paid-up at 85 with automatic termination on retirement date. They use their regular premiums, cash and paid-up values and settlement options but base extended term insurance on 130% CSO mortality. Changes can only be made to another plan in the same series. Commissions are about 80% of the regular commissions, and dividends are slightly lower. The adjustments were determined after a rather extensive study of their mortality experience on existing pension trust business.

Based on their Guaranteed Issue experience in the first year, they have extended their rules to consider trusts with as few as 10 lives but with reduced maximum individual limits and they also extended their maximum limit to $25,000 for individuals in qualifying trusts of 25 or more lives.

MR. C. H. TOOKEY said that Occidental had been issuing special pension trust policies with group underwriting since 1943. They felt that by using special policy forms, together with group type of underwriting and policy issue, they could give broader coverage for the premium dollar than by using regular "rate book" policies. Their Pension Department approves the original underwriting, issues the policies, and does all other administration except payment of death claims, and as a result the per unit costs are about one-sixth of those for regular policies.

This procedure is allowed only in connection with pension trust plans approved by the Bureau of Internal Revenue and hence participation is 100% in most cases. All lives must be included as they qualify under the plan or group underwriting will be terminated. Evidence of insurability is required in connection with amounts in excess of the guaranteed limit and uninsurables are issued only a deferred annuity. These excess amounts are issued on the same forms as used for Guaranteed Issue amounts and are included in their mortality experience for pension trust policies. This experience has been somewhat better than for non-hazardous group insurance.

Requests for Guaranteed Issue in connection with professional or other groups which usually would not qualify for regular group insurance under state law are declined since it is felt that the termination rate would be higher on standard lives than on substandard lives, resulting in antiselection. Under the few employer-employee cases accepted, the right of selection is retained by the company and maximum amounts are kept very low.

There will be a greater degree of pooling of experience on Guaranteed Issue policies than on group permanent insurance, the amount of difference depending on the size of the group. Large group permanent policies are usually experience rated whereas all individual policies in the special pension trust class are pooled for dividend purposes. The question was raised as to whether a company could pool a substantial number of small cases produced by one broker in order to justify higher limits than any one small case would permit. Recently there has been a tendency to pool individual cases on firms belonging to a certain trade association or cases covered by a common trust in which many employers participate.

Mr. Tookey felt that companies had been overly conservative in handling Guaranteed Issue in connection with approved pension plans. The primary incentive for coverage is not insurance and for small cases there are not sufficient advantages to cause a firm to take the plan only because the owner is uninsurable. In larger firms, the penalty for dropping or reducing the pension plan is such that antiselection is minimized.