TRANSACTIONS OF SOCIETY OF ACTUARIES
1959 VOL. 11 NO. 30AB

1958 CSO TABLE

What have been the recent developments in connection with the 1958 CSO Table? What are the anticipated effects of the adoption of the table on the life insurance business?

Atlanta Regional Meeting

MR. HENRY F. ROOD reported that 30 to 35 states might enact legislation in 1959 permitting use of the 1958 CSO Table. Reviewing the current status, he stated that the new legislation was moving along smoothly, considering the short time elapsed since it was approved by the NAIC. He said that it was too early to tell if any real difficulties would arise in any of the states.

MR. CHARLES D. WILLIAMS said that, generally speaking, the amendments to the standard laws proposed by the NAIC were being followed. He also stated that there is little opposition and chances are extremely good that the new table will be required or permissible in all states before January 1, 1966.

MR. DELOS H. CHRISTIAN stated that, speaking from a nonparticipating company's point of view, a company must first decide when it will adopt the new table. Considerations in this decision are:

1) the date when the new table is first permitted in all of the states in which the company operates;
2) the company's desire to discontinue setting up deficiency reserves, or to establish more competitive rates without the necessity of deficiency reserves;
3) the advantage of adopting the new table for a new rate book to avoid the expense of a second rate book later.

Mr. Christian said that most cash values on the new table would be less than those on the 1941 CSO Table if the other bases of calculation were unchanged. In the Life of Virginia, tests indicated that cash values generally are now higher than natural reserves, and he expected that most companies would adopt the lower cash values. However, periods of extended insurance should increase in spite of the lower cash values, particularly if a company adopts the 1958 CSO Table rather than the Commissioners 1958 Extended Term Insurance Table. He expected widespread adoption of the latter table for extended insurance calculations.

He stated that the reduced level of cash values could be reflected in lower premiums.

MR. RICHARD A. LEGGETT said that The Travelers is interested in adopting the new table for reserve purposes in order to minimize deficiency reserves. Such reserves would be trivial on the new table as opposed to about $4,000,000 which The Travelers will set up for 1959 new business under the present table.

He stated that since they had recently published a new manual and are reluctant to change nonforfeiture values soon, they would like to adopt the new table for reserves only. However, this is virtually impossible under the Standard Valuation Law.

Mr. Leggett said that he did not expect any important changes in the level of nonparticipating premiums charged by the large companies, except, perhaps, at the higher ages where the effect of deficiency reserves is greatest.

MR. WILLIAM L. FARMER said it appeared to him that the lower reserves under the 1958 CSO Table would increase, to some extent, a company's tax under both Phase 1 and Phase 2 of the new federal income tax for life insurance companies.

San Francisco Regional Meeting

MR. HAROLD E. CRANDALL reported that Occidental will switch to the new mortality table in 1961 for two reasons: premium deficiency reserves and the fact that a new rate book will be needed by that time anyway.

Mr. Crandall stated that right now Occidental has deficient premiums on 16 plans representing 10% of new business. This year deficiency reserves will exceed $1\frac{1}{2}$ million dollars—the bulk of it on their nonparticipating ordinary life policy. Next year the figure may hit 2 million. The size of this reserve is the prime reason why Occidental will make the switch as soon as possible. That will be 1961 because of the California effective date. He felt that the most *interesting* effect of the new table is what is going to happen to premium rates. Their agents think that premiums will go down. Their actuaries know that premiums will *not* go down; in fact, rates may have to go up. Last year 72% of Occidental's total new ordinary business was on term plans—38% was on their decreasing term policy and 13% on their five year term policy. Ten of the 15 leading plans were term policies and riders. Competition in the last 7 years has forced Occidental to reduce term rates to the point where existing margins are just about adequate. Ordinarily, the change to a new mortality table at this point would have no effect at all on term premiums. However, in this case, the new income tax on underwriting earnings forces the term premiums to cover their share of the tax load. In the past Occidental has always treated the tax as a deduction from interest, and term plans were not charged for any share of tax. On 5 year term, for example, it may take an average increase of

\$0.40 or \$0.50 per thousand to maintain existing margins. Occidental is concerned about the educational problem with the field force and the public when they try to explain increases in the cost of insurance and a new mortality table.

Mr. Crandall reported that on permanent plans the story will be a little different. There the decreases in cash values will allow premium decreases, but no actual change in net cost. On their nonparticipating ordinary life which now has 1941 CSO 3% values, the change to comparable 1958 CSO values at age 35 will lower the premium about \$0.55; but the 20th year cash value will be \$11.00 lower, which is \$0.55 per year on a 20 year net cost basis. However, the true net costs ought to go up enough to cover the extra tax burden unless the extra margin from higher interest yields will offset the tax.

According to Mr. Crandall, there are two areas where Occidental may be different from everyone else with the advent of the new table: female rates and extended term.

The three-year setback in age for females is not a function of the new table. It really has become associated with 1958 CSO because nearly all statutory changes have linked the two together. Right now Occidental uses separate premium scales for females that closely reflect the true age differential, but they make no change in values. Their rates represent as much as five years setback and as little as one year or two years. Because they use an electronic policy issue procedure with the IBM 650, it is actually simpler for them *not* to use the three-year setback and Occidental will not change to that method.

Occidental believes that nearly the whole industry will use the Commissioners 1958 Extended Term Insurance Table for extended term, but Occidental will not. They plan to use the 100% table for two reasons:

1. Occidental's functional cost studies show that the expense of maintaining extended term is substantially less than the \$0.75 loading in the 1958 CET Table.
2. Their total extended term insurance is less than $\frac{1}{3}$ of 1% of total in force. The effect of the extra mortality on extended term is extremely small compared to the total mortality experience. They will charge it off against all premium paying life and endowment policies that have the extended term privilege.

Mr. Crandall added, however, that in case they do change their minds and charge the extra mortality against the extended term benefit, they might use a special table. This table would lie between the 1958 CSO and CET tables. The rationale would be that mortality experience is actually very good at young attained ages but poor at the older attained ages. Therefore, the special table would have little or no margin over the 1958 CSO at younger ages, grading up to the 130% at older ages.

MR. GEORGE H. DAVIS reviewed the progress of 1958 CSO Table legislation in the various states. Bills changing minimum valuation and nonforfeiture benefits have passed and become law in 17 states: Florida, Indiana, Kansas, Maine, Maryland, Minnesota, Missouri, New York, North Carolina, North Dakota, Rhode Island, South Dakota, Vermont, Virginia, Washington, West Virginia and Wyoming. In 5 more jurisdictions, California, Delaware, Hawaii, Texas and Wisconsin, bills have been passed by the legislature and are before the Governors for signature. There appears no reason to doubt that all will be signed. In one more state, Connecticut, the new minimum standard has been adopted by promulgation of the Commissioner, in accordance with an authorizing statute.

In 6 states, Illinois, Nebraska, New Hampshire, Ohio, Oklahoma and Pennsylvania, bills are now pending in the legislature, having passed one House in some of these states. In addition to Connecticut, there are 4 states in which legislation is not necessary to make possible use of the new tables. These are Alabama, Georgia, Iowa and Nevada. Three states do not have sessions of their legislatures in 1959 but will have in 1960.

This leaves 15 jurisdictions which had legislative sessions in 1959 and which have not passed the necessary legislation to make possible use of the new table. In one of these, Utah, the bill was introduced but failed to pass, having been introduced too late in the session to receive serious consideration. In two more states, Alaska and South Carolina, bills were introduced and are still pending since the legislatures have second sessions in 1960. In the remaining 12 for one reason or another it was decided not to seek introduction of bills in 1959. A few of these legislatures meet again in 1960 but most do not meet until 1961.

It appeared to Mr. Davis that new laws will be enacted in probably more than half of the states in 1959; and that good progress is being made. The NAIC acted on the proposed amendments to the standard laws only in December 1958, and this gave little time to prepare the legislation for all the states in session in 1959. There has been very little opposition to the legislation, and what opposition has been expressed has been mainly on the ground that consideration should be delayed until the next session rather than on the ground that the 1941 table should be retained. This feeling is, in part, responsible for failure to have the legislation introduced in some of the states where introduction has not been obtained. It appears now that the chances of having the new table required or permissible in virtually all of the states well before the deadline of January 1, 1966, are extremely good.

Mr. Davis reported only one significant departure from the standard amendments. The bill passed in Washington permits a company to shift part but not all of its business to the new minimum requirements, but the company must be entirely on the new standard by January 1, 1966. California has the variation of a delayed effective date, January 1, 1961, whereas the laws passed by the other states all become effective January 1, 1960, or earlier.

MR. ALFRED N. GUERTIN reported that from time to time there have been criticisms of some of the provisions of the standard legislation in that they did not take into account some of the later developments and new forms of policies. There has been built up a schedule of items which the Joint Legislative Committee of the American Life Convention and the Life Insurance Association of America have thought might be desirable amendments. They have not yet been presented to the Commissioners for amendment to the standard legislation. Some of them are currently in use in legislative activities in the various states as the occasion presents itself.

Mr. Guertin also pointed out that new tables are coming into effect for accidental death and disability benefits, for which provision was not made in the standard legislation.

A joint committee under the chairmanship of Mr. November of Equitable Life Assurance Society in New York was organized in the early spring to study the standard nonforfeiture and valuation laws from the point of view of necessary or desirable amendments. Various proposals had been made from time to time. There was a thought of presenting to the Commissioners, probably next year, a schedule of such appropriate changes. This program was delayed until next year, not only to give adequate time for its study, but also so that it would not interfere with the legislative program which embodied the promulgation of the new mortality table. To combine these two programs into one might result in controversy in some areas.

Mr. Guertin asked for any suggestions that might be very helpful to Mr. November's committee. Such suggestions may be offered directly to Mr. November or through the offices of the American Life Convention or the Life Insurance Association of America.

MR. RICHARD C. GUEST reported that the Society has appointed a committee to expedite the publication of functions and reserves and minimum values in connection with the new legislation. He sensed from the meeting of the Actuarial Club of the Pacific States that there is a feeling of urgency about the publication of tables, which is understandable. Enough legislation has been consummated so that it will be possible for many companies operating in a limited number of states to take advantage of the new table even beginning in 1960. The committee, of which Mr. Guest is Chairman, is having their first meeting on Wednesday, June 24th, in Chicago at the headquarters of the American Life Convention. This is a large committee and it will be responsible for the planning of procedure. The preparation of the publications will be carried out by subcommittees. There might be some publication as early as possible, even though first releases would be limited and incomplete. Mr. Guest believed that the first thing that might be published is the same material as was published in connection with the previous tables. Then possibly the remaining requirements, which will be revealed by suggestion from outside, could be fulfilled in additional volumes. It appears that this publication will ultimately involve a larger number of volumes than was the case for the 1941 CSO Table.

MR. HAROLD THOMPSON reported that a different situation exists in Canada as compared to the United States. In September 1959, Monarch of Canada will have a new rate book based on the 1958 CSO Table. They are calculating Canadian modified 3% reserves for their own particular use. Their functions are available to other companies that may be interested.