TRANSACTIONS OF SOCIETY OF ACTUARIES
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GRADED PREMIUM POLICIES

A. Are there any unusual problems involved in policy changes and reinstatement of insurance issued on a graded premium basis?
B. Has introduction of graded premiums on an across-the-board basis produced a perceptible trend toward higher priced plans? Toward larger policies?
C. What dividend techniques are being used to assure equity between old non-graded business and the new graded business?
D. Are increasing expense rates likely within the different size brackets? If so, how are they being taken into account?

Atlanta Regional Meeting

MR. ROBERT C. DOWSETT stated that the Crown Life introduced a policy fee system in November 1958. Up to this time no problems have arisen with respect to changes, reinstatements or requests for combining older policies for a premium advantage.

There has been no trend toward higher premium plans. At the time the policy fee system was adopted, the minimum amount issued was increased from $1,000 to $2,000. During the first four months of 1959 the average size of new policies increased 22%; the increase is attributed equally to the two changes. He felt that the policy amount is at a more natural level with the policy fee system.

No special dividend scale graded by size was developed for old business since much of the existing business is on variations of the ordinary life plan with different amounts and separate dividend scales. The rest of the ungraded business has a fairly narrow amount range and grading dividends would have little effect.

MR. WILLIAM L. FARMER said that on December 1, 1958, Protective Life superimposed the quantity discount system on the prior plan structure of minimum amounts for various plans. From available statistics, the average size policy has increased about $1,000, which is important to the agent in terms of increased income per sale. There has been a slight shift away from term.

MR. THOMAS E. GILL stated that the London Life has not found a trend to different plans since the introduction of the band system in 1955. A concentration of policies at the lower limit of each band has caused the only increase in average size. The transition was smooth with no problems regarding changes or combinations of policies.

San Francisco Regional Meeting

MR. JOHN F. HOOK, referring to section B, stated that a study of the Standard Insurance Company's business issued during a 2½ year period before the introduction of grading of premiums as compared with a similar study of the issues of a $2\frac{1}{2}$ year period after grading of premiums demonstrated a modest shift from term insurance to higher premium plans and a substantial shift from a "special" ordinary life plan, with high early cash values, to other long-term life plans. The study also revealed an increase in the average size policy from $7,446 to $8,997. A breakdown of this study by amount class implies that some buyers in each amount class were enticed to the next higher class by the prospect of lower premium rates.

Although it has been just over a year since the Pacific Mutual adopted a policy fee method of grading premiums, MR. CLEMENT B. PENROSE, JR., stated that the company has not encountered any unusual problems involving policy changes or reinstatements. With regard to section B, the Pacific Mutual has been experiencing a significant trend away from high premium policy types for several years. This trend does not seem to have been perceptibly affected by the introduction of graded premiums. While a substantial increase in average size policy has been experienced, it is probably largely due to other influences, such as an increase in the minimum policy size, from $1,000 to $2,000, and the introduction of several new policies, some of which are aimed at the larger policy market. In its dividend techniques, the Pacific Mutual is aiming at equitable treatment between blocks of business, but does not vary dividend rates by size of policy for nongraded premium business.