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Miscellaneous

A. 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?

B. What are the latest developments with respect to high cash value minimum deposit plans?

New York Regional Meeting

MR. GEORGE H. DAVIS reviewed the progress of the legislation in the various states to substitute the 1958 CSO Table as a minimum valuation and nonforfeiture benefit standard. Bills intended to substitute the 1958 CSO Table for the 1941 CSO Table as a minimum valuation and nonforfeiture benefit standard have passed and become laws in Indiana, Maryland, Minnesota, North Dakota, South Dakota, West Virginia, and Wyoming. In Connecticut the new standard has been adopted by promulgation of the Commissioner.

Progress in other states is as follows: passed, awaiting signature of Governor, 2 states; bills pending in legislature, 12 states; legislation under discussion, 10 states; legislation not necessary, 3 states; no legislative session this year, 4 states; legislation deferred till 1960, 11 states; legislation failed this year due to late introduction, 1 state.

Since the NAIC acted on the proposed amendment only in December of 1958, there has been little time for states to prepare legislation during the 1959 session. Nevertheless it appears that new laws will be enacted in about half of the states this year.

The chances of having the new table required or permissible in all of the jurisdictions well before the January 1, 1966 deadline are extremely good.

MR. JAMES T. PHILLIPS briefly summarized the changes that have taken place since his report on the new mortality table at the Cincinnati meeting. These changes were that the mortality table to be used for extended term insurance has been modified, and for reduced paid-up the 1958 CSO Table rather than the extended term insurance table is to be the standard.

The progress of the legislation as mentioned by Mr. Davis has been amazing. The very speed with which the states are acting raises a problem. Some companies will soon find that legislation has been passed in all states in which they operate and thus they can start using the new table right away. However, monetary values have not as yet been published. A reprint of part of the report of Mr. Phillips' Committee will be made available but that will only be for net premiums and reserves. The

Board of Governors has decided to look into the question of publishing monetary values as it has done with prior tables. Speed in this regard should be the order of the day so that the tables can be in the hands of the companies to be used as soon as they will need them.

MR. EDWARD A. LEW, in discussing the adequacy of the proposed 3 year age setback for female nonforfeiture values, described two sets of mortality tables which he had had constructed, one based on 1955–1957 experience, the other adjusted to approximate male and female components of the 1958 CSO Basic Table. At issue ages under 50 the whole life reserves on the 1958 CSO Table set back three years are in general considerably higher than those on the presumed female component of the 1958 CSO Basic Table and this difference is even greater in regard to the reserves on the 1955–57 experience table for female lives. At age 60, however, the tenth and twentieth year whole life reserves on the 1958 CSO Table set back three years are somewhat lower than those on the presumed female component of the 1958 CSO Basic Table but still somewhat higher than on the 1955–57 Table. These data lead to the conclusion that both in the aggregate and in the great majority of individual cases the 1958 CSO Table set back three years provides a conservative and reasonably equitable basis for reserves and nonforfeiture values for female lives. There is also no question but that the 1958 CSO Table provides a conservative basis for reserves and nonforfeiture values for male lives, as indicated by a comparison with such values calculated on the male component of the 1958 CSO Basic Table or on the male 1955–57 experience Table.

MR. WILLIAM J. NOVEMBER, chairman of a subcommittee of the Joint Legislative Committee of the American Life Convention and the Life Insurance Association of America, said that incident to the statutory changes now being sponsored to give recognition to the 1958 CSO Mortality Table, his subcommittee is considering recommendations for other changes in the Standard Valuation and Nonforfeiture Laws.

In respect to the Standard Valuation Law, consideration is being given to new minimum valuation standards for disability benefits and annuity contracts. A new double indemnity standard will have to await the acceptance of a new table.

The subcommittee will probably support changes in the Standard Nonforfeiture Law in regard to the statement of the method of calculation, the elimination of substandard extra premiums in the calculation of minimum values, the exemption of level term riders or supplemental provisions if exemption of a corresponding term policy is permitted, and the definition of an equivalent level amount for graded amount juvenile policies.

The subcommittee is also studying the requirements for values on level amount long term riders, guaranteed insurability riders, and family policies.

MR. MORTON A. LAIRD, in regard to section B, outlined the New York Insurance Department's proposed Regulation No. 39 designed to limit abuses due to minimum deposit business. Copies of this Regulation had just been sent out a day or two before and many members were still unacquainted with its provisions.

Omaha Regional Meeting

MR. JAMES F. MACLEAN pointed out that from a participating company standpoint it would not appear that the use of the new table will affect rate structures to any great extent. He stated that they have done some preliminary investigation on margins and, apart from certain specific and minor areas, the general level of gross premiums and dividends will not be changed much.

As a member of the committee which developed the new tables, he would like to go on record as strongly supporting the use of the new extended term table. He felt that the use of the table would result in a more proper and equitable assessment of costs to policyholders. He urged that we take a good look at the mortality and the maintenance expense on extended term insurance when developing a new rate structure.

Regarding section B, Mr. MacLean said that Bankers Life of Nebraska has five plans, all having a $25,000 minimum, with first year cash values ranging from 28 to 53 percent of the first year premium. The company uses a flat commission scale. In the underwriting of this program, they are very much concerned that only high bracket taxpayers will buy this policy.

These plans have been in effect from two to three years and their first year lapse rate is running a little less than one-third of their company rate. They are currently looking into the matter of using the fifth dividend option with this line and with two other plans having a $10,000 minimum size.

MR. RALPH H. GOEBEL described the two plans of the Northwestern National. One plan is an ordinary life and the other is an ordinary life with a return of cash value. The first year cash value is around 50 percent of the premium. Their first year lapse rate of about 10 percent is better than that on their other business.

MR. HAROLD F. PHILBRICK pointed out that, if adopted, Regulation No. 39 by the Insurance Department of the State of New York would materially affect developments with respect to high cash value minimum deposit plans. He stated that four of the five items of Regulation No. 39 may necessitate changes by the Massachusetts Mutual.

Mr. Philbrick stated that the only recent developments that he was aware of were the withdrawal of the plan by one company and severe limitations imposed on the availability of the plan by another company. One company, however, modified its high cash value plan at the beginning of 1959 by reducing the deduction to zero from the date of issue and also introduced a companion policy with full reserve from date of issue on a limited premium basis.

As far as the Massachusetts Mutual was concerned, they have made no major changes in their procedures. Their experience to date indicates that lapse rates on their Executive Protection plan, which provides higher early cash values than under other comparable permanent plans, are in general lower than the lapse rates experienced under other permanent insurance issued.

They have made the following minor changes in their company practices in recent months:

(1) Commissions to brokers on their Executive Protection plan have been modified to provide a lower first year commission and higher renewals.

(2) In connection with any application for this plan, a supplementary statement has to be completed by the agent. This statement indicates whether any loan is anticipated under the policy and, if so, whether any arrangements have been made for systematic repayment of such loan. It also repeats the question included in the agent's statement on the application as to whether the new application may replace any existing insurance on the life of the insured. This form was developed by their underwriting department in order to permit careful screening of applications for insurance on this plan.

(3) The fifth dividend option has been made more generally available on permanent plans of insurance.

(4) Use of the endorsement under which an Executive Protection policy was modified to permit a loan prior to the end of the first policy year has been discontinued, so that policy loans cannot be made prior to the end of the first policy year under policies currently issued on this plan.