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Dividend Scales and Graded Premiums

A. What approach are companies taking in developing dividend scales for participating accident and health policies? What type of formula is used in developing the dividends?

B. What are the arguments for and against grading accident and sickness premiums by size of policy, similar to life insurance?

MR. IRVING ROSENTHAL stated that simplicity was highly desirable in the Guardian's dividend scale because of the major role which dividend projections play in their sales approach. In their original premium computation, they provide for a dividend which is a percentage of the premium, starting off at about 10% in the first year and increasing with policy duration. He indicated that the dividends actually paid should vary from those assumed in the premium computation to the extent that fund accounts based on actual experience deviate from those based on original assumptions. Although their dividend scale used up to this time has not been based on such refined considerations, they are now arranging to set up fund accounts for their main policies as a basis for dividend action in the future.

MR. ALBERT A. BINGHAM described how the Mutual of New York before entering the A&S field made fund studies which were based on expected morbidity, expenses and lapse rates, and which incorporated a scale of dividends expressed as a percentage of premium, starting at the end of the second year. For plans of insurance which were introduced later, the assumed dividend scale started at the end of the third policy year. The assumed dividend scales increased with policy duration except in the case of their Hospitalization and Surgical policies for which level dividends were used. Their actual experience has produced morbidity savings which have helped to offset the effect of expenses and lapse rates which were higher than expected. Consequently, later recalculations of the funds using actual experience produced results sufficiently close to those based on expected experience to permit continuance of the original dividend scale with only minor changes.

MR. JACK A. SINGER discussed the Prudential's attitude toward grading Accident and Sickness premiums by size of policy. Their Hospital Expense policies are offered in five different sized packages and the grading principle was used in setting the premiums for these packages. This was considered advisable because the cost per unit of the miscellaneous hospital expense benefit decreases as the size of the policy increases and because the per policy expense is independent of the size of the policy. For Loss of Time coverage, the grading principle was not used directly because of (*a*) higher underwriting expense on policies for large amounts, (*b*) the tendency towards higher morbidity cost by amount than by number and (*c*) the narrow range of amounts available (as compared with life insurance). Indirectly, however, the grading principle does come into play, since the average size for various categories was used in determining the premium rates. For example, the average size for a long elimination period is greater than that for a short one, and the per policy expense per unit of monthly income benefit will therefore be smaller for the long elimination period. To this extent, the premium rates for the longer elimination periods (where the policies are larger) will be less than that for the shorter elimination periods.