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DIGEST OF DISCUSSION OF SUBJECTS OF SPECIAL INTEREST

ORDINARY LIFE INSURANCE

1958 CSO Mortality Table

A. What problems are being encountered in planning for the adoption of the 1958 CSO Mortality Table?
B. What problems are involved in the consideration of interest rates, nonforfeiture values, and reserves, in relation to the new table?
C. What are the advantages and disadvantages of using the 1958 CET Table for extended insurance, rather than the 1958 CSO Table?

MRS. JULIA S. OLDENKAMP noted that a company will be concerned with whether the 1958 CSO Mortality Table may be used in all of the jurisdictions in which it operates, and consequently legislative action in this regard will have an effect on the time of adoption of the new table. The general provision in the new legislation for a three year age setback for females will raise the problem of the advisability of differentials by sex, and will be of special concern to companies which have already provided for such differentials by other than the age setback method.

Current economic conditions indicate that companies might use a higher interest rate for reserves and nonforfeiture values. The higher interest rate used in conjunction with the new table would produce very much lower cash values, which might result in competitive pressures and agency dissatisfaction. A partial offset to reductions in cash values could be achieved by the use of continuous functions and smaller expense allowances. The effect of a higher interest rate on a company's taxes is also an important point, and each company should carefully consider the tax implications in the light of its own operations before adopting any changes.

Mrs. Oldenkamp cited some of the advantages and disadvantages of the 1958 CET Table for extended insurance. In its favor is the provision for higher mortality, as well as the possibility of allowing extended term insurance on lower substandard ratings. Opposed to these advantages, however, are the competitive difficulties which might arise, the inconsistencies with paid-up insurance, complication of policy forms and administrative and valuation problems. In a company where the automatic premium loan provision is in frequent use, the problem of the use of the CET Table becomes somewhat theoretical.

MR. HARRY WALKER mentioned the public relations and advertising advantages to be gained by early adoption of the new table. However, he pointed out that many companies have only recently recast their entire portfolios to give effect to graded premiums, and for such companies, another major change involving a tremendous expenditure of time, effort and money might better be deferred. Another argument for delaying adoption of the new table rests on the lower cash values generally produced under it. The first companies to adopt the new table may suffer some competitive disadvantage as a result of lower cash values.

The adoption of a higher interest rate for reserves will under certain conditions produce some tax savings, but there are certain problems inherent in the use of a higher interest rate. Among these are the combined effect of the resulting lower interest margins and the lower mortality margins provided by the new table, the further reduction in cash values, and the possible inadequacy of the 1958 CSO Table for extended term insurance, if a company is unwilling to use the 1958 CET Table.

The obvious disadvantage of the 1958 CET Table for extended term insurance is the discontinuity it produces between paid-up insurance and extended term insurance values. Some companies will undoubtedly use the 1958 CSO Table rather than the CET Table for extended term insurance, relying on excess interest earnings to absorb the cost of handling and excess mortality costs. A company considering this action should examine its own experience under extended term insurance.

MR. JOHN H. MILLER stated that Springfield Life of Vermont is already using the 1958 CSO Table. For extended term insurance, they are using the CET Table, or the basic q_x plus .004, whichever is less. By so doing, they achieved the benefit of the CET Table at short durations and early ages where most of the exposures fall, while minimizing the discontinuities which would arise from use of the CET Table alone.

MR. ALDEN T. BUNYAN said that the Phoenix Mutual was one of the few companies that decided to use the 130% CSO Table for extended insurance when the 1941 CSO Table was adopted. No agents reported any competitive handicap resulting from this decision; consequently, Mr. Bunyan would recommend the use of the 1958 CET Table, since the competitive aspect is negligible.

MR. RALPH P. WALKER stated that the Wisconsin National Life has completely changed over to the 1958 CSO Table. They are using the 1958 CET Table for extended insurance since they, too, felt that competition was not a factor, but that from the mortality and expense standpoint the extra margin was needed. Because minimum cash values were considerably lower under the new table, the company retained 2½% interest and changed its cash value formula to produce values generally close to what they were before the adoption of the new table, except for limited payment life plans which had lower cash values.

MR. EDWARD J. MULLEN said that the Allstate Insurance Company will use the new table with 3% interest in all states, starting January 1961. The 1958 CET Table will be used for extended term insurance, since no competitive disadvantages are anticipated. Since not all states will have enacted legislation for the 1958 Table at the time of the changeover, the company will probably use the 1941 values where they have to, and carry an extra reserve for the excess of cash values over reserve.

MR. N. DOUGLAS CAMPBELL thought that for policies issued on the 1958 CSO Table the Crown Life will use the CET Table for extended insurance because it will enable them to give extended insurance to a greater range of risks without involving substandard extended insurance calculations. They had not thought of this argument for 130% CSO extended insurance when they adopted the 1941 CSO Table in the United States, but they are using the 130% basis in Canada, and also in the West Indies where there is higher mortality.