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NEW BENEFITS

To what extent have the smaller companies found it necessary to develop new benefits such as those listed below? On what basis do smaller companies offer:

A. Guaranteed issue, or modified underwriting for groups of individuals issued individual policies?
B. Guaranteed insurability riders?
C. Multiple accidental death benefits?
D. Preauthorized check plan? Is the time and expense required to establish and administer this plan justified for smaller companies?

MR. HOWARD T. COHN of the Bankers National remarked that the need to develop new benefits in a company would seem to depend more on the type of agency force and the market in which that agency force operates than on the size of the company. His company feels it imperative to remain in a good competitive position in order to recruit general agents and develop a satisfactory volume of business. To that end a Product Development Committee has been established to consider all suggestions for new benefits from whatever source obtained. The submission of new ideas is encouraged by the Committee.

Guaranteed issue is offered on pension trust and profit sharing plans subject to the following rules:

(1) the group must exhibit an employee-employer relationship;
(2) eligibility and amounts of insurance must be determined in a way that precludes individual selection;
(3) the group must consist of at least ten lives;
(4) the maximum age at issue is 60;
(5) the maximum amount on any one life is $15,000;
(6) 80% participation is required;
(7) additional benefits, such as accidental death and waiver of premium, are not allowed;
(8) guaranteed issue will not be allowed after a group has been examined for a regularly underwritten plan in any company.

Guaranteed issue for pension plans is written only on the Terminal Benefit Plan, this policy being basically an ordinary life contract maturing for the amount of the cash value on the termination date, which is usually 65. It contains a special exchange option allowing payment to the company of the amount required to provide $10 of monthly life income at retirement age per $1,000 face amount in accordance with the optional modes of settlement.

Commissions and dividends have been adjusted to offset the anticipated excess mortality, calculated as the difference between select and ultimate mortality based on 90% of the 1946–1949 Basic Table, reduced by the expected savings in underwriting expense.

A second guaranteed issue plan has been designed especially for associations. The policy is a level premium, annually reducing term to age 65 plan. The policy is underwritten on the basis of information contained in a simplified nonmedical application, guaranteed issue prevailing only after a specified participation is achieved; the required participation in any case is determined by the number of eligible members.

Requests are frequently received for consideration of guaranteed issue on regular ordinary policy forms for various types of groups. Each is individually considered; most are rejected. When an offer has been made, it has been on the basis of a commission adjustment sufficient to offset the anticipated excess cost defined above.

MR. JAMES G. BRUCE of the Columbian National stated that with the exception of pension trust cases he did not believe guaranteed issue can be justified. He believed that the members of any association interested in guaranteed issue can be expected to exert considerable antiselection in connection with the acceptance of such coverage. He felt that the healthy lives can be expected to select as well as the unhealthy lives, since the former will be reluctant to pay the additional cost that can be presumed to exist under a guaranteed issue type plan. He cited a case which he recently met in competition under which competing bids were apparently based on extremely favorable mortality assumptions and under which very favorable rate guarantees running into the future were offered. The thought was expressed to him that perhaps his company was well off not to have got the case as obtaining it might have alienated the brokers and general insurance agents that his company wants to attract. He doubted that his company will again offer to issue this type of policy.

He felt it necessary to offer a guaranteed insurability benefit. If it is lacking, other companies offering it will bind to them young people who have taken out the rider who will feel that they ought to avail themselves of the privilege for which they have paid.

The preauthorized check plan always seems interesting and appealing but for some reason it is difficult to popularize. While some companies are successful in its use, others find that it is not too well used. He suspected that possibly such an advantage to the agent as annualizing of commissions will incline him to find a way to prove to the prospect that the preauthorized check plan is advantageous. Mr. Bruce expressed personal doubts about the real advantage to the insured of this plan since care in handling the individual checking account is necessary in entering these payments. While his own company has a rate for this plan 2% lower than the regular monthly rate, he was not certain that when a large volume of business is obtained it will be possible to prove that the savings in this kind of collection of premiums justify the lower rate.

MR. ROBERT H. JORDAN of the Life Insurance Company of North America indicated that his company offers all the benefits listed and that this fact makes it clear that his company finds it necessary to keep abreast of new products and procedures.

His company offers guaranteed issue, or "simplified underwriting," for pension trust cases, using group-type underwriting rules similar to those described by Mr. Cohn. His company will consider use of this type of underwriting for groups other than pension trust cases. One of the important underwriting considerations is the minimization of the renewal antiselection as well as the problem of initial antiselection. The policy usually offered is the pension trust contract used for split funding which has been designed especially for guaranteed issue, having a spread commission scale and being based on mortality assumptions reflecting the 1950–1954 group mortality experience.

His company offers a triple ADB benefit providing an additional indemnity in the event of death while traveling as a fare paying passenger on a common carrier. This type of benefit creates certain administrative problems in the area of setting retention limits, in underwriting the business and in occasionally requiring the issuance of multiple policies because of the $50,000 limit they have on the triple benefit. He believed that the preauthorized check plan is a desirable mode of premium payment resulting in generally good quality business and that his company will continue to encourage its use.

MR. JAMES W. HUTTON of the Northern Life Assurance Company of Canada also found it necessary to provide new benefits, for the reasons previously mentioned. In particular his company offers the guaranteed insurability rider and the preauthorized check plan. His company's guaranteed insurability rider may be attached to any basic policy, other than term, for an amount of at least $5,000 with premiums payable to at least age 40; the option amount may not exceed the base policy amount; may not be less than $5,000 nor greater than $10,000; the option dates are at three year intervals from age 25 to 40; an option amount of $5,000 may be applied for nonmedically subject to regular nonmedical rules on the basic amount. Features of this rider differ from the usual in that a credit is allowed of $1.00 per $1,000 of the sum insured on the first premium on the opted policy regardless of premium frequency, and it contains a provision that the life insured or the spouse of the life insured shall have the right to apply for the new policy on the option date. This rider is not intended for business insurance cases, as is reflected in the fact that the spouse (with the consent of the life insured) is the only third party that may apply for an opted policy.

A basic decision that had to be made in offering this rider was the question of reinsurance facilities, to be sure that the use of the options did not result in insurance beyond the company's retention limits. The single premium approach and the pro-rata or coinsurance approaches were considered. He felt that the single premium approach is the more appropriate for the following reasons:

1. Reinsurance will be obtained only when actually needed and then only to the extent of the need.
2. Many small amounts of reinsurance are avoided and predictions as to future retention limits are not necessary.
3. The reinsurer need not be notified until reinsurance is actually required, minimizing record keeping and payment of many small premiums.

Careful attention was given to the question of producing a gain or loss on the single premiums for reinsurance. This would depend on a variety of factors, among them the proportion of those opting who will require reinsurance and the proportion of those who would be substandard but would not require reinsurance. One consideration in favor of the single premium approach is that the simpler administrative handling will result in a savings in expense which can be considered as an offset to any possible loss that may arise in connection with the reinsurance single premiums involved.

MR. JAMES MACLEAN of the Bankers Life of Nebraska asked the following questions.

1. Do companies issue guaranteed insurability riders nonmedically?

Representatives of the Colonial Life, Security Mutual of N.Y. and the Berkshire Life indicated that $5,000 is offered nonmedically, while it was stated that the Columbian National will permit issue of this benefit nonmedically up to $10,000.

2. How are nonmedical amount limits affected?

A representative of the Berkshire Life stated that issuance of a $5,000 policy with the rider takes up the entire nonmedical limit. Several persons in the audience indicated that they will issue a policy under an option for any amount not less than the usual minimum amount and not more than the option amount under the rider. Initially some companies required that the option policy be for the exact option amount but this practice did not last long.