



SOCIETY OF
ACTUARIES®

2019 **ANNUAL
MEETING**
& EXHIBIT

October 27-30
Toronto, Canada

Session 045: Individual Life Waiver of Premium: Has Anything Changed Since 1952?

[SOA Antitrust Compliance Guidelines](#)

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Individual Life Waiver of Premium: Has Anything Changed Since 1952?

Jennifer Fleck

Consulting Actuary, Milliman

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Tony Phipps

Actuarial Director, State Farm Life



SOCIETY OF ACTUARIES

Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

Presentation Disclaimer

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Waiver of Premium – Disability: The benefit that gets no respect!



Background

- SOA Experience Studies Executive Committee (ESEC)
- Research Executive Committee (REC)
 - ESEC and REC now combined under one committee - REC
 - Collaborate with SOA staff, prioritize research and experience studies
 - Recommended 2 phase study of waiver benefits
 - Survey
 - Experience Study
- Individual Life Experience Committee
- Regulator Interest
 - Materiality considerations

Highlights from the SOA's Waiver Survey



The Survey

- Product Development Section, Financial Reporting Section, and Committee on Life Insurance Research
- Surveys were sent to the 50 largest US insurers and the sections distribution lists
- Questions about waiver of premium riders attached to universal life, whole life, and term life policies
- Focused on 2016 policies sold
- 14 companies responded, representing approximately 18% of the individual life market

Waiver of Premium – Pricing

- Time since last repricing

	Universal Life	Whole Life	Term Life
This past year	0	1	0
1-3 years ago	0	0	0
3-5 years ago	2	1	3
5-10 years ago	3	2	2
More than 10 years ago	9	5	7

Waiver of Premium – Reserving

- Incidence rates for active life reserves

	Statutory	GAAP
1952 SOA Disability Table	8	5
1964 CDT Table	0	0
1985 CIDA Table	2	2
2013 Individual Disability Table	0	0
Company experience	1	1
Other	1	1

- All tables used at 100%

Waiver of Premium – Reserving

- Termination rates for disabled life reserves

	Statutory	GAAP
1952 SOA Disability Table	10	7
1964 CDT Table	0	0
1985 CIDA Table	1	1
2013 Individual Disability Table	0	0
Company experience	1	1
Other	1	1

- All tables used at 100%
- No mortality improvement assumed

Comparison of Various Disability Morbidity Tables



Current Valuation Standard

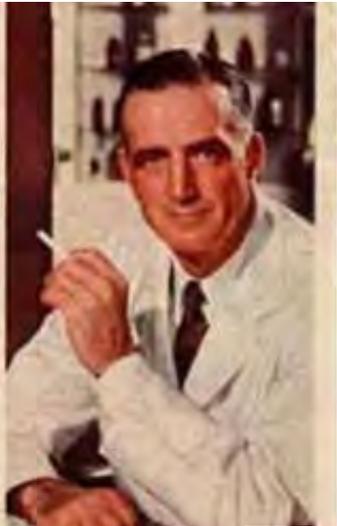
NAIC March 2019 Accounting Practices & Procedures Manual, Vol. 1, A820-3

- *For total and permanent disability benefits in or supplementary to ordinary policies or contracts, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the **1952 Disability Study of the Society of Actuaries**, with due regard to the type of benefit or any tables of disablement rates and termination rates adopted after 1980 by the NAIC, for use in determining the minimum standard of valuation for those policies.*
- The Period 2 disablement rates are those from the study with anniversary dates between 1935 and 1939.

1952!

According to repeated nationwide surveys,

More Doctors Smoke **CAMELS** than any other cigarette!



Doctors in every branch of medicine were asked, "What cigarette do you smoke?" The brand named most was Camel!

You'll know Camels for the same reason no other doctors smoke them. Camels have that cool nicotine pack after pack, and a flavor unmatched by any other cigarette. Make this weekly one. Smoke only Camels for 30 days and see how well Camels please your taste. How well they suit your throat to your steady smoke. You'll see how available a cigarette can be!

THE DOCTORS' CHOICE IS AMERICA'S CHOICE!




et tonight at Lounge of the p. Dean Guy on "Summer dices." John County repre- Legislature, is salary pro- mising

of a square bly will be held Women's Gym

ty Union will try tomorrow Refreshments the church.

ORE

S

Long &

zes

Wedge

WEATHER
Fair but cooler today with 73 high-glow. Yesterday's high, 80; low 55.

VOLUME LXI NUMBER 9

CHAPEL HILL, N. C., FRIDAY, OCTOBER 3, 1952

FOUR PAGES TODAY

Yankees Even World Series By Taking 7-1 Victory

See Story on Page 3

The Daily Tar Heel

EFFECT
Sports Editor Bill Roberts looks into polo and beyond. Results are on page 3.

POLIO FORCES CANCELLATION OF TWO GAMES

Douglas To Be Speaker Here

Eisenhower, McGrath Also May Give Talks



Justice William O. Douglas and Gov. G. Mennen Williams of Michigan have accepted Carolina Political Union invitations to speak here, Bob Pace, secretary of the group announced yesterday.

Pace said there is also a possibility that Richard Nixon, Republican running mate of Gen. Dwight D. Eisenhower, may also come to the campus. J. Howard McGrath has tentatively accepted an invitation to speak, Pace added.

Gov. Williams is not scheduled to speak until next spring, but Douglas will be here in November.

The CPU, a non-partisan discussion group organized by Prof. E. G. Woodhouse, will meet Sunday night in the Grill Room of Graham Memorial. A chairman

Coeds Note Rush Change

A revamped sorority Rush Week schedule goes into effect today because of the polio complications. The new schedule follows:

Today—Two 45 minute parties—7 to 8:45 p.m.
Saturday—Day of rest.

NEWS IN BRIEF

BULLETIN

The N. C. State College Athletic Council will meet at 7:30 a.m. today to decide whether or not the State football team will be permitted to play a double-header tomorrow — one game with Georgia University at 2, another with Davidson at 8.

The game with Georgia would be a measure of courtesy to UNC whose tilt in Athens was canceled by health authorities.

The first wish of State was to postpone its Davidson engagement until next week when both squads have open dates. However this arrangement was not agreed to by Davidson officials.

Status Of Cobb

CHEJU ISLAND, KOREA—American soldiers on Wednesday broke up a planned mass outbreak of Chinese Communist prisoners. Maj. Gen. Thomas H.

ONE GRID PLAYER, 3 OTHERS STRICKEN

Attempts Will Be Made To Re-Schedule Georgia And State Later This Season

By Bill Roberts

The University yesterday canceled its next two football games, with Georgia and N. C. State, as the result of illness of four students with polio.

After a meeting yesterday morning between officials, it was decided to cancel the games as a preventive measure against the spreading of the disease.

Only one of the four students is a member of the football team. He is Harold "Bull" Davidson of Murphy, whose condition has been described as acute. He has had no paralysis yet, however.

Two members of the cross country team also have the disease. They are John Robert (Bob) Barden Jr. of Newark, N. J., and Richard Lee Bostian of Raleigh. Barden was Coach Dale Ranson's




Newer Disability Tables

- Since 1952 several new disability tables have been developed.
- These were developed for individual disability, group disability, and group life waiver of premium.
 - These products have different underwriting, plan designs, and individual motivations for purchasing the products, which makes them not appropriate for individual life waiver riders.
- They are illustrative, though, to explain how disability incidence and terminations have changed over time.

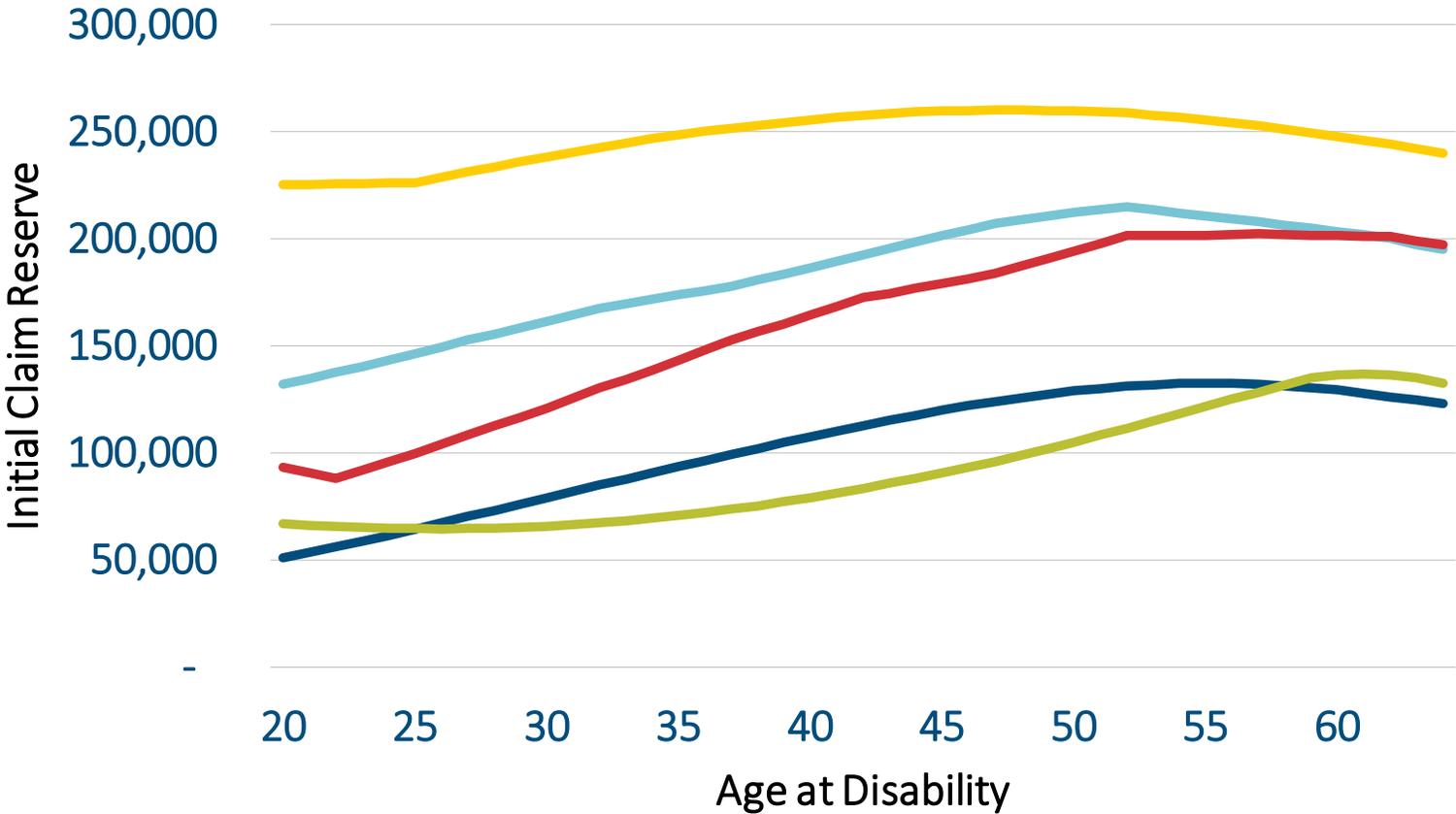
Newer Disability Tables

- 1985 Commissioner's **Individual Disability** Table A (1985 CIDA)
 - An update to the 1964 Commissioner's Disability Table (1964 CDT)
 - Designed to be used for individual disability income policies
 - Expands on the 1964 table by providing separate results by gender and occupation class
- 2005 **Group Term Life Waiver** Reserve Table (2005 GTLW)
 - The first update for group waiver since the 1970 Krieger table
 - The first group waiver table to include claim termination rates that vary by gender
 - Current valuation standard for Group Term Life Waiver
 - Study currently underway to create a new valuation standard

Newer Disability Tables

- **2012 Group Long Term Disability** Valuation Table (2012 GLTD)
 - Based on group disability experience from 1997 through 2006
 - Replaced the 1987 Commissioner's Group Disability Table (1987 CGDT) as the statutory claim termination basis
 - Adds distinctions for gender, diagnosis, monthly benefit amount, and definition of disability
- **2013 Individual Disability** Income Valuation Table (2013 IDI)
 - Based on individual disability income experience from 1990 through 2007
 - Will become the new statutory valuation standard for IDI policies starting in 2020
 - Contains distinctions for categories such as benefit period, market type, product type, diagnosis, and tobacco use

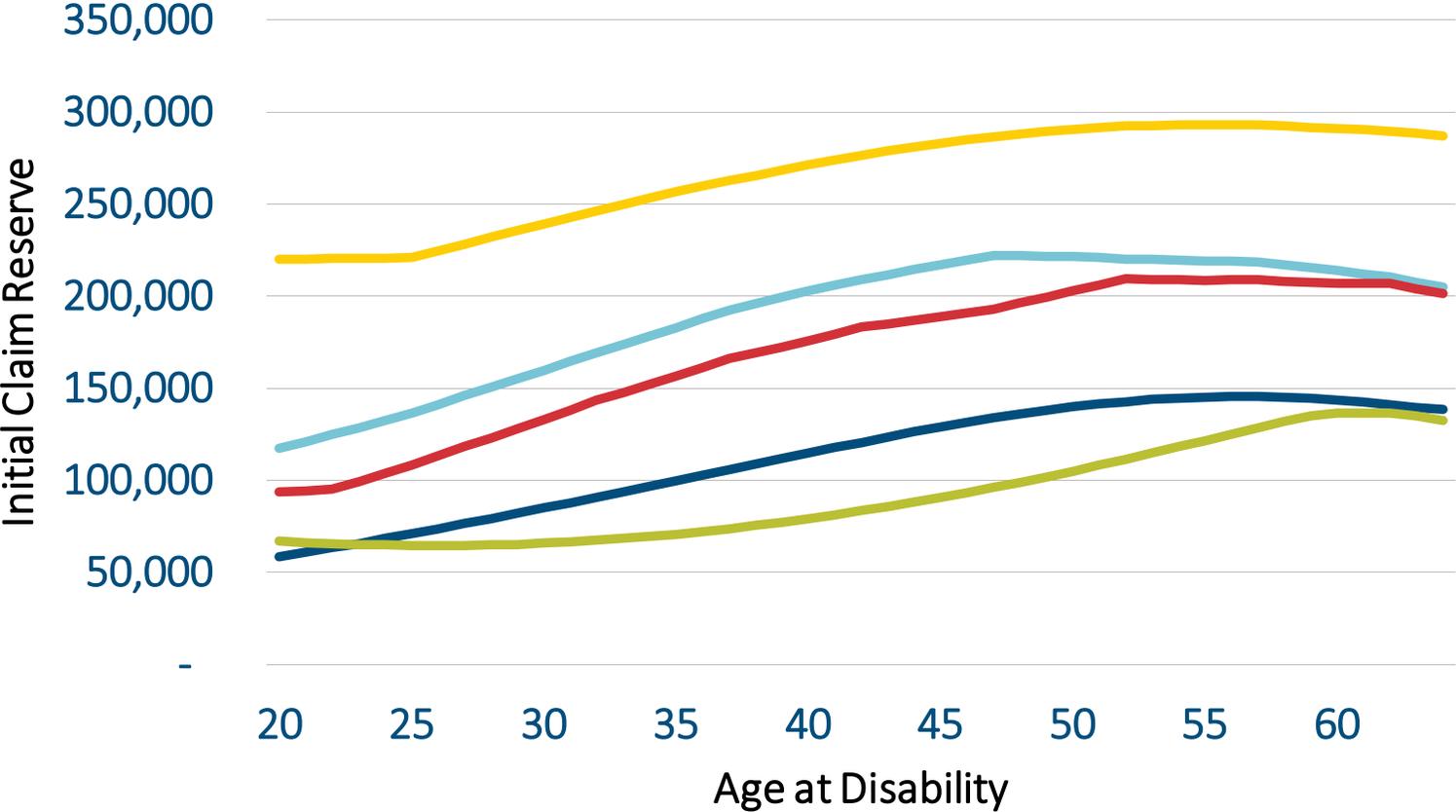
Sample Claim Reserves: Male



- 1952 table produces lower initial claim reserves at almost all ages
- Assumes Occupation Class 1 (white-collar and professional occupations), 180-day elimination period, gross monthly benefit = indexed gross monthly benefit = \$2,000, benefit period ends at age 99, 24-month own occupation period, 3.5% interest, no diagnosis category, no cost-of-living adjustment (COLA).

— 85 CIDA — 2005 GTLW — 2012 GLTD
— 2013 IDI Valuation — 1952 Table

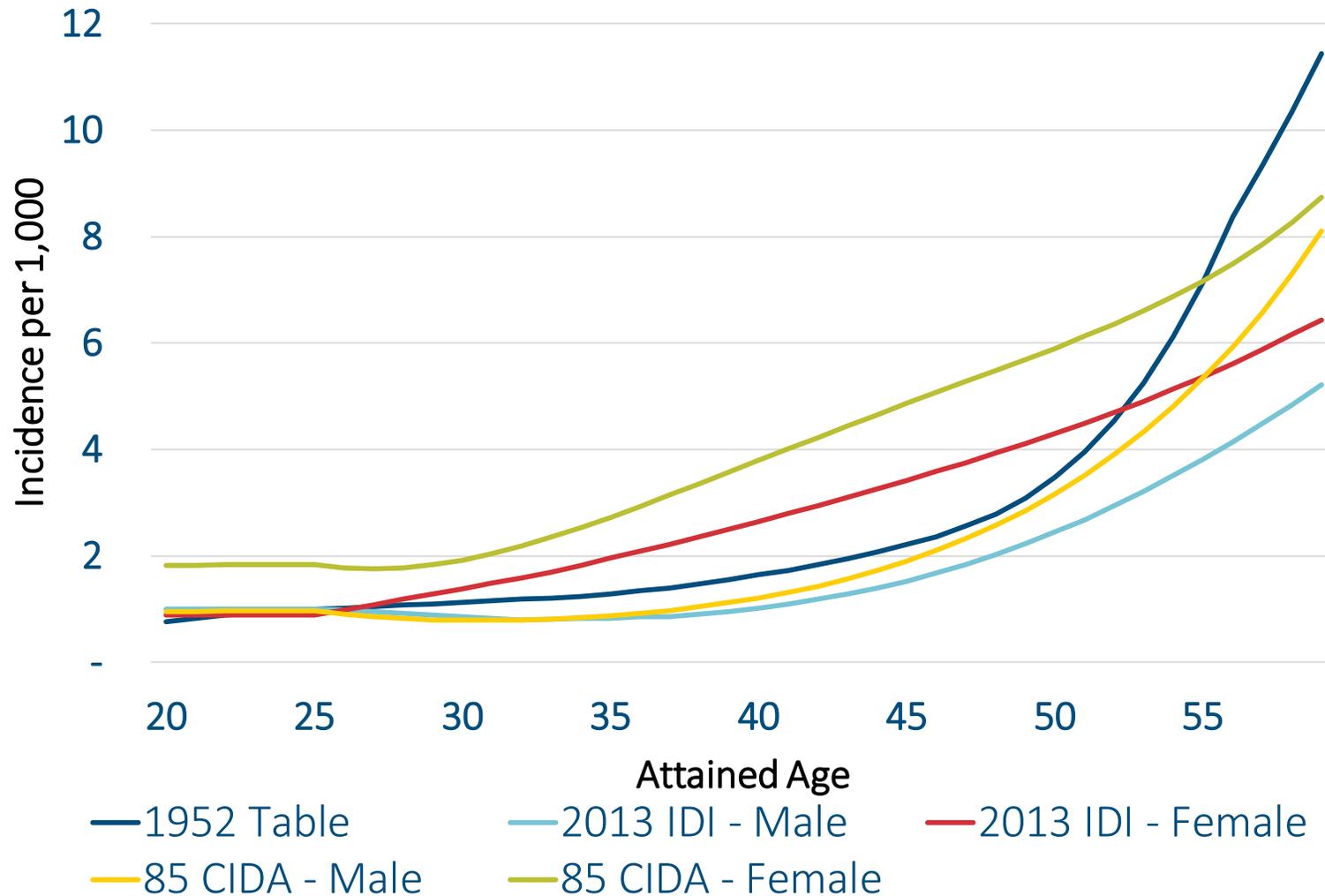
Sample Claim Reserves: Female



- 1952 table produces lower initial claim reserves at almost all ages
- Assumes Occupation Class 1 (white-collar and professional occupations), 180-day elimination period, gross monthly benefit = indexed gross monthly benefit = \$2,000, benefit period ends at age 99, 24-month own occupation period, 3.5% interest, no diagnosis category, no cost-of-living adjustment (COLA).

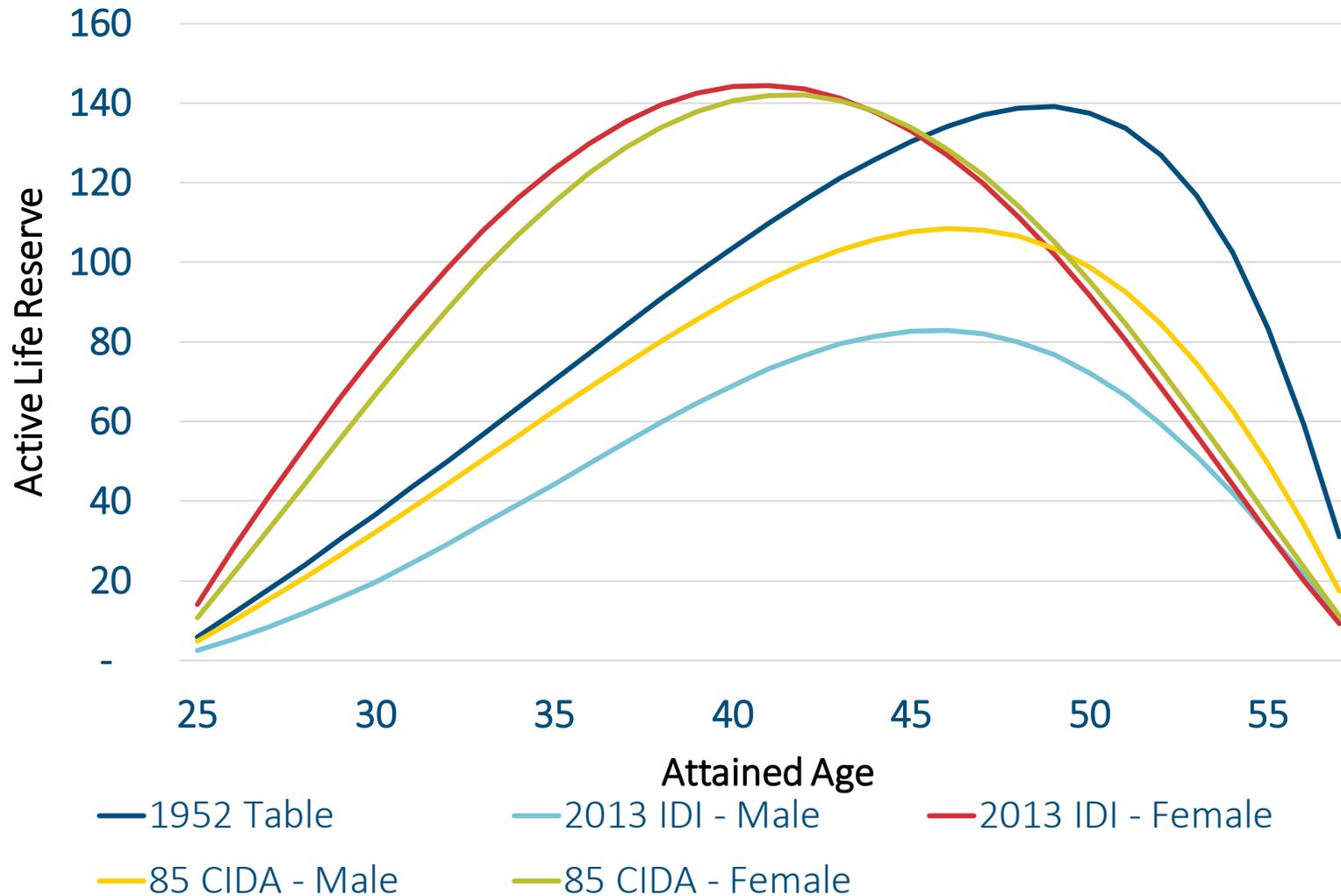
— 85 CIDA — 2005 GTLW — 2012 GLTD
— 2013 IDI Valuation — 1952 Table

Incidence Rates per 1,000



- Incidence rate curves have been “flattening” over time
- 1952 incidence rates do not extend past age 59
- 2005 GLTW and 2012 GLTD tables do not contain incidence rates
- 2013 IDI and 85 CIDA tables include 5% margin
- Assumes Occupation Class 1 (white-collar and professional occupations), accident and sickness causes combined, 180-day elimination period

Active Life Reserves per \$100 of Monthly Benefit



- Starting with age 46, ALR from 1952 table is higher than from newer tables.
- Gap between the male and female ALRs has widened from 1985 CIDA to 2013 IDI.
- Assumes Occupation Class 1 (white-collar and professional occupations), accident and sickness causes combined, aggregate smoker status, 180-day elimination period, 3.5% interest, coverage to age 59, benefits to age 65, 2017 CSO mortality and lapse rates.
- The 2013 IDI Valuation Table includes a 5% incidence margin, a 5% termination margin in year 1 and a 15% termination margin in years 2+.
- The 85 CIDA Table includes a 5% incidence margin. It also includes a 5% decrease in claim termination rates in the first claim year, and a 5% decrease grading to 0% in months 13–18 thereafter.

Product Design

- Type of base plan
 - Traditional
 - Term
 - WL
 - Interest Sensitive/UL
- Term Conversion – Interaction with Waiver Benefit
 - Premiums continue to be waived on permanent policy, regardless of when conversion is elected
 - Premiums waived on permanent policy, when conversion is elected at end of term period
 - Waiver benefit stops upon conversion
- Interest Sensitive/UL
 - Waive monthly deductions
 - Waive specified amount

Underwriting Considerations

- Correlation between mortality and morbidity risk
- Materiality of waiver benefit relative to base coverage
- Limited Pay Plans
 - Special attention required
 - Underwriting guidelines based on face amount vs premium level
- How benefit is elected on application
 - Positive election
 - Negative election (benefit is added unless opted out)

Product Taxation

- IRC Section 7702
- Qualified Additional Benefits (QAB's)
 - The term “qualified additional benefits” means any -
 - Guaranteed insurability
 - Accidental death or disability benefit
 - Family term coverage
 - Disability waiver benefit 
 - Other benefit prescribed under regulations
- QAB treatment allows pre-funding, within prescribed limits
 - Current vs Guaranteed Charges

Product Taxation (cont'd)

- Cost Basis
 - Premiums Paid for Waiver Benefits
 - Waived Premiums
- 7702A MEC special considerations
 - If Waiver Benefit expires, treat as decrease in coverage?
 - Expiration within 7 year test period

Experience Studies

- Not your typical individual life experience study
 - Incidence rates
 - Claim termination rates
 - Recovery
 - Death
 - Expiration of benefit
- Basis used for experience rates
 - Per 1,000 of base insurance face amount
 - Per \$X Premium
 - Per Policy
- Product Type
 - Universal Life type products
 - Level Term w/ Post Level Term
- Data Sources
 - Not as robust for waiver
 - May have to use simplifying assumptions and methods

Questions?

JENNIFER FLECK

Consulting Actuary, Milliman
Jennifer.Fleck@Milliman.com
207-771-1202

