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*Underwriting*

A. What has been the mortality experience under "guaranteed issue"? How much extra mortality is offset by the expense saving under this plan? What underwriting rules are used in connection with "guaranteed issue"?

B. What are the current trends in salary allotment plans? To what extent are such plans being written on a guaranteed issue basis? What effect might such plans be expected to have on regular individual sales and on group sales?

C. Underwriting Costs
   1. What are the trends of underwriting costs with respect to:
      *a*) Medical examinations, special tests, and attending physician's reports, and
      *b*) Home office costs?
   2. What can be done to offset adverse trends?

D. What has been the mortality experience under recently expanded nonmedical limits? What maximum limits at issue are practical on a nonmedical basis:
   1. During a twelve month period?
   2. In total?

*Atlanta Regional Meeting*

MR. CHARLES A. YARDLEY, in discussing section A, pointed out that New England Life's mortality experience on automatic issue policies, based on $220 millions of paid-for business written in the past four years, was within the limits anticipated—namely, 90% of the 1946–1950 intercompany group nonhazardous experience at the young ages graded into 80% of CSO at age 75. The proportion of deaths due to cancer and heart disease in this experience was about the same as for standard medically examined lives in intercompany experience.

The extra mortality on this business is being offset partly by reductions in dividends and partly by reductions in commissions and underwriting costs. For the Life Paid-up at 85 plan issued on this basis the anticipated mortality up to age 65 exceeds New England Life's select mortality, discounted to the date of issue, by $5.25 at age 30 and by $27.60 at age 50. This extra mortality cost is 15¢ greater than the reductions in dividends and commissions at age 30, and $10.60 greater at age 50. Mr. Yardley said that these amounts must be absorbed by savings in underwriting expense or savings beyond age 65. He felt that, although not acceptable for individual insurance, this difference by issue age is entirely proper for employee groups, where the employer is paying the premium. The reduction in underwriting expenses comes from the elimination of the medical examination and retail credit report and a saving in the time required in the home office to review the usual underwriting information and to consult M.I.B. He said that this expense saving might be as much as $10 or more per policy.

Applications for automatic issue business at New England Life are subject to approval by the home office pension committee, which examines each group from the viewpoint of age distribution, credit rating of the employer, possibilities of poor persistency and opportunities for antiselection. The maximum amount for an individual is the smaller of $25,000 and 1½ times the average amount for groups of 25 or more lives, and the smaller of $10,000 and 1¼ times the average amount for 10 lives. 80% participation is required for groups of 50 or more lives, 90% participation for groups of 25 to 49 lives and 90% participation by amount for groups of less than 25 lives.

In reference to section B, Mr. Yardley said that New England Life has written very few regular policies on a salary allotment basis and that his company does not intend to use automatic issue policies with salary allotment plans.

MR. DATON GILBERT said that since January 1957 Connecticut Mutual has been using a "Simplified Acceptance" procedure in connection with pension and profit-sharing trust business. It is restricted to plans with at least ten lives. In the 10 to 24 life field an Income Retirement Policy, with benefits and rates following the regular Retirement Income pattern, and an Income Life Policy, used with combination plans and based on Life Paid-up at 85 rates and values with a guaranteed conversion privilege at retirement or terminal date, are available. For 25 lives or more the Income Life Policy is available. Reduced first year commissions and special dividends are paid on these Simplified Acceptance plans.

For pension trusts with 10 to 24 initially eligible lives either Simplified Acceptance or individual underwriting may be used. With 25 or more eligibles Simplified Acceptance is required, using the combination method. Such coverage is also available for use with profit-sharing trusts, provided the purchase of insurance is automatic and follows a formula precluding individual selection. Subject to individual considerations, new business on existing plans may use this procedure if normal rules are met.

The Home Office Employee Plans Committee, in considering approval of a Simplified Acceptance plan, reviews information concerning the employer, the details of the proposed plan and the individual lives involved. A short health statement is required from each participant if less than 25 lives are involved. Underwriting rules normally include a three-year eligibility requirement, exclusion of industrial grade cases, normal maximum age of sixty-five, an average policy of at least $4,000 and in contributory plans a high degree of participation. Each participant must be actively at work full-time on the application date and policy date. Connecticut Mutual must underwrite the entire coverage. There is a maximum individual limit of $1\frac{1}{4}$ to $1\frac{1}{2}$ times the average amount, subject to maximums ranging from $10,000 to $25,000.

In discussing section B, Mr. Gilbert pointed out that economies resulting from group billing and simplified accounting methods in his company permit a loading on salary allotment business of 3.2% of annual premiums compared with 5.6% on regular monthly business. The minimum monthly premium for salary allotment is $5. Connecticut Mutual has no plans for offering a simplified acceptance procedure on salary allotment business. Mr. Gilbert thought that it would be difficult to exercise satisfactory underwriting controls in this field.

MR. CHARLES W. JACOBY indicated, in his remarks on section C, that there is pressure from physicians for insurance companies to increase fees paid for medical examinations. Doctors feel that this work costs them more to do than previously and that the increase in fees paid has not kept pace with the rise in the price level of the past five or ten years. Some doctors also feel, he said, that "third parties" should not attempt to fix their fees and that the increasing percentage of nonmedical business has resulted in fewer "clean" medically examined cases.

Mr. Jacoby pointed out that home office costs have leveled off in the past year or so but that Prudential's economists still expect the cost of living to resume its upward trend next year. He thought that the following areas might be explored in attempting to offset this trend:

1. Systems improvements in underwriting and issue operations. Any efforts in the direction of downgrading underwriters' work or applying pressure to increase their production should be made with a realistic attitude toward the probable effect on mortality results of any increase in the number of incorrect decisions.
2. Elimination of the costlier types of handling on smaller policies. Prudential has recently made available a stripped-down policy to their Ordinary agents for $1,000 or $1,500 which complements the regular policy series starting at $2,000. His company has also increased the minimum weekly premium on new issues from five to ten cents.
3. Steps to secure more new business on a binding receipt basis and to reduce not-taken and early lapse rates.
4. Selective checks by experienced underwriters to prevent overordering of inspection reports, physicians' statements and medical examinations.

Prudential's main answer to rising costs has been a reduction in underwriting requirements, as evidenced by higher nonmedical limits and changes in rules for ordering inspection reports. As a result, for underwriting purposes, more emphasis has been placed on information supplied by the agent. A recent change in rules for ordering inspection reports permits a C.O.D. medical case of under $20,000 to be ordered only after the medical examination has been made. This change reduces the cost of inspections on cases never reaching the home office because the examination was not made. Another recent change eliminates automatic inspection on $5,000 policies under age 31. For those cases the field now orders inspections by selective rules which take into account certain occupations, poor home surroundings, a poor or mark signature, irregular beneficiary and marital status.

Mr. Jacoby pointed out, in discussing section D, that last July Prudential raised the two-year and total nonmedical limits at ages 5 to 25 to $25,000 and the total limit at ages 26 to 30 also to $25,000. The present nonmedical limits are as follows:

| Age | Two Year Period | Any Period |
|---|---|---|
| 0–4 | $10,000 | $15,000 |
| 5–25 | 25,000 | 25,000 |
| 26–30 | 15,000 | 25,000 |
| 31–35 | 10,000 | 15,000 |
| 36–40 | 5,000 | 15,000 |

These liberalizations are too recent to have been reflected in Prudential's mortality experience. However, their most recent nonmedical mortality is satisfactory. Mr. Jacoby indicated that while comparisons are made only for the first 15 policy years some excess nonmedical mortality may continue after that period.

*San Francisco Regional Meeting*

MR. HERBERT L. DEPRENGER, introducing section A, stated that the underwriting expense savings under guaranteed issue do not offset the entire extra mortality. Consequently, Continental reduces the first year commission, rather than charging a higher premium to absorb the remainder of the extra mortality. They calculated the "break-even" mortality level for their nonparticipating ordinary life plan, which is the mortality required to give a financial experience equivalent to that obtainable from the same business had it been conventionally underwritten, taking into account the underwriting expense savings and a 25% reduction in first year commissions for guaranteed issues.

Mr. DePrenger's company has experienced a mortality fairly parallel to Ordinary ultimate mortality. For all ages combined, their last study showed ratios based on the 1946–49 Basic Ultimate Table of 88% for the first year, 83% for years two and three, and 86% for years four through seven. Consequently, they assumed that guaranteed issue mortality is a constant percentage of the 1946–49 Basic Ultimate mortality during the first ten years and have expressed the "break-even" mortality level in terms of such ratios. It was also assumed that it would grade into standard ultimate mortality at the end of the fifteenth year.

Select mortality based on the experience published in the last three Reports of the Society of Actuaries was used as the standard for calculating "break-even" mortality, with nonmedical experience applying below age 40. The effect of withdrawals was ignored, resulting in a negligible error, and underwriting expense savings were taken from a recent cost study, with the following results:

| Policy Size | Age 27 | | Age 37 | | Age 47 | |
|---|---|---|---|---|---|---|
| | Comms. and Exp. Savings per M | Break Even Mort. Ratio | Comms. and Exp. Savings per M | Break Even Mort. Ratio | Comms. and Exp. Savings per M | Break Even Mort. Ratio |
| \$ 2,500... | \$5.38 | 103% | \$8.42 | 108% | \$13.08 | 75% |
| 5,000... | 4.27 | 96 | 6.33 | 102 | 9.67 | 72 |
| 10,000... | 3.59 | 91 | 5.22 | 99 | 7.89 | 70 |

Mr. DePrenger made two concluding remarks: First, compared with underwritten policies of the same size, guaranteed issue is more profitable when applied to policies of small amounts. Second, it should not be offered to groups with a high average age.

In discussing section C, MR. ROBERT C. TOOKEY stated that organized groups of doctors had made demands for higher fees for life insurance medical examinations during recent years. When the insurance industry increased the fee allowance for medical examinations from \$5.00 to \$7.50 in the early part of this decade, it was interpreted in some medical circles to be a simple yielding to pressure. Now we are faced with further pressure from still more groups for still higher fees. Yielding to these pressure groups which seem to originate among the different specialists encourages similar pressure even from the general practitioners who provide the larger source of medical service. It is difficult to convince the general practitioner that he shouldn't get just as much as anyone else for an examination, and consequently the practice of paying a higher fee to certain specialists than to a practitioner tends to push the asking price up.

The trend of increasing costs of attending physician's statements reflects the doctor's aversion for paper work. Many physicians are attempting to determine the cost of completing these forms, and some physicians with a particularly hard-hearted businesslike outlook are basing their charge not on the cost of the time involved, but rather on their estimate of the value to the insurance company of the medical information furnished.

The $2.00 fee offered by some companies appears to be inadequate in many cases, resulting in a tendency for doctors to overcompensate and charge excessive fees for this work. Over ten years ago insurance companies began paying fees as high as $5.00 for reports from such large medical-teaching institutions as Mayo, and this undoubtedly gave impetus to the increase in number of $5.00 fees charged.

Today more than ever before, doctors are having detailed clinical studies made for diagnostic purposes. Also more special tests are ordered by the insurance company to augment the underwriting process. Although at the present time there is little demand for large increase in fees in this area, it is likely that any request for increase in fees allowed for special tests will be consistent with such requests made with respect to charges for other services.

To keep costs at a reasonable level, and provide the best protection to the buying public at the minimum price, the insurance industry should not acquiesce to the demands for unreasonable fees. To stabilize the various fees allowed the medical profession, Mr. Tookey thought the following remedies should be considered:

1. Promote better mutual understanding between the insurance industry and the medical profession through educational programs and the development of good public relations.
2. Reduce the number of fill-ins and information requested on forms to an absolute minimum, in deference to the doctor's distaste for paper work.
3. Minimize the need for medical examinations and thus help stabilize the cost through operation of the law of supply and demand. Extension of nonmedical privileges to as many agents as possible with thorough training on the proper use of nonmedical questionnaire would eliminate many of the reports.
4. Accept medical examinations from other practitioners of the healing arts, such as certain selected Doctors of Osteopathy.

Mr. Tookey pointed out that the underwriting cost per policy in the Lincoln National had increased some 30% over the last five years, which is attributable to an increase in average salary and an increase in average size of policy, calling for more careful attention and thorough underwriting. It is interesting to note that the underwriting cost per thousand dollars issued has just about remained constant over the five year period despite the increase in overhead. With a continuing increase in average size policy, it is hoped that the underwriting cost will remain fairly constant.

MR. CHRISTOPHER H. WAIN commented on the rising costs for underwriting and observed that there was a great deal of pressure for higher medical examination fees in the Western areas, although no action had been taken. He suggested that underwriting requirements which could not be expected to repay the additional costs in mortality savings should be eliminated.

MR. HILLARY J. FISHER discussed section D, pointing out that the prevailing nonmedical limit prior to 1951 was $5,000. By 1956 it had reached $10,000 through age 30, while today most companies will issue $15,000 in this age bracket. Consequently, the comparative mortality experience under recently expanded limits would be confined to the first four or five policy years. Since the published intercompany experience is not broken down by size of policy, the relative intercompany mortality under policies issued for these larger amounts under the new limits cannot be gauged. While Occidental does study the mortality by size class, the accumulated nonmedical experience for the larger size class is not yet sufficient to be meaningful.

Mr. Fisher quoted W. J. November who stated that it would be better to use for the expected deaths the experience on medically examined policies of a size comparable with nonmedical policies and advocated dividing the experience according to sex and policy size. While mortality on policies for larger amounts is better controlled today than it was in the past, there is still a tendency for mortality ratios to increase with the amount of insurance.

Formerly when nonmedical limits were low there was a concentration of policies in the nonmedical class, written on people in a different social and economic class from the people who bought the larger policies and were medically examined, resulting in a different mortality experience. Today with high nonmedical limits there should be less distinction mortalitywise between classes, although one would expect better mortality experience on the medium sized policies than on the small nonmedical policies, whether issued in 1959 or 1949. There should not be too much antiselection in these size classes because it is quite common for policies to be issued for these larger amounts today.

In concluding, Mr. Fisher stated that we should have three standard underwriting classes—straight medical, straight nonmedical, and "medically examined nonmedical." This latter class is necessary because the medically examined cases for amounts within nonmedical limits are issued on applicants with known histories of impairments and the underwriter orders a medical examination to clear up his doubts. Although this class, in large part, is taken standard, it should experience a mortality several points higher than the average; and this may have been the reason for the lower nonmedical mortality, as compared to medical, in the intercompany experience on males, issue ages 20–29. Because of the constant change in nonmedical limits, the third underwriting class is essential to provide a meaningful standard against which to compare nonmedical experience.