

DISABILITY BENEFITS—INSURING INSURANCE

(Heur Moir, Actuary Home Life Insurance Company, of N.Y.)

(Continued from last week.)

OPTIONS.

The options in event of disability offered in many policies indicate that the insured may select one of two benefits somewhat as follows:

1. The policy to become paid-up for its face amount, payable at death; or
2. The policy, without further premium payments, to be payable in 10 equal annual instalments. (Some pay 20 instalments instead of 10.)

Where two or more options are offered in this way, there should be some definite mode of calculating the values of the options to make sure that each is the equivalent of the other.

I have examined many of such policy forms and sometimes the contract is silent as to the status of the instalment benefit should the insured die after drawing only one or two instalments—quite a common occurrence. In such cases the policy would doubtless be construed against the company which had drawn it, and be held to mean that the balance of the sum insured would be immediately due in cash to the beneficiary. Under such construction and condition the first option is therefore valueless; there is really no option, because it is contained in the second which gives the same benefit and *something more*. But in the more carefully drawn policies, when an option is thus given it is made plain that the settlement in fixed instalments shall be in lieu of the death benefit and the instalments will continue to be paid after death to the beneficiary or to the estate of the insured for the remainder of the fixed period of years. When this condition is made clear, we find that the paid-up policy of \$1,000 on a disabled or invalid life is assumed to have a cash value on a $3\frac{1}{2}$ p.c. basis of \$861 when payable in ten annual instalments of \$100 each, or of \$735 when payable in twenty annual instalments of \$50 each. When we reduce the benefit to this simple basis of comparison we can see to what extent speculative figures have taken the place of scientific accuracy in offering such options. The American $3\frac{1}{2}$ p.c. reserve of the paid-up policy on an average life would be \$337 at age 30, and \$508 at age 50; and these are the reserves out of which surrender values can be paid. There is an extra reserve, small in amount, for the disability benefit, and if a disability claim is proved, the total reserve may be viewed as being increased from the disability premium fund and on the basis of the mortality amongst disabled lives in certain fraternal orders (T.A.S.A., Vol. XII, p. 83) the value of the sum insured on a life just disabled, interest $3\frac{1}{2}$ p.c., is apparently \$730 at age 30; \$750 at age 40; and \$772 at age 50. If these figures are reasonably correct scientifically, the value of the sum insured after waiver of premiums on account of invalidity is a little more than the equivalent of 20 annual instalments of \$50 each, payable for a fixed period. Those who give the option to take 10 annual instalments are by these figures offering too much, but as this point is debatable, we get back to the important thought, namely: the great divergence in practice on the part of companies all supposed to be advised on scientific lines.

In one policy now before me a third option is given on disability to take one-half the face amount of the policy in cash, releasing the company from all liability. This third option is much less valuable than either of the other two, because ten annual instalments without premium payments are worth \$861 as already shown; or if discounted at a very high rate of interest like 7 p.c. they are worth \$751, whereas one-half of the face of the policy is \$500 only.

PREMIUMS DISCORDANT.

There is much looseness of expression and lack of scientific accuracy in many of the policy forms dealing with this particular subject. In the matter of premiums for this benefit, there would appear to be also much difference of opinion. One of the early companies to grant waiver of premiums on disability was a large company which transacts accident as well as life insurance. The Disability Benefit was conferred on all new policy issues except in unusual instances where special risks or occupational hazards were incurred. When the disability feature could not be granted to such applicants it was the practice of the company to reduce the premium by 25 cents per \$1,000—a rough arrangement, but simple of application, and used only in a minority of cases and made desirable for many obvious reasons. The influence of this practice, however, can be traced through many of the smaller companies charging 25 cents per \$1,000 as a fixed extra premium for the waiver of premiums, although it is hardly necessary to point out the tremendous difference between allowing 25 cents as a deduction from the regular premium to avoid charging for a benefit which was not conferred, and the adding of 25 cents to the regular premium for a special benefit to be conferred in a large number of cases. The earliest writers on such extra premiums showed that at the younger ages the risk is small, while at the older ages it becomes relatively large; and this trend has been confirmed by every scientific investigation.

LOOSE STATEMENT.

Yet the statement is often made that "No extra premium is charged for this benefit;" indeed, of the companies in the United States already mentioned as offering this feature, no fewer than 110 out of 161 in all report that no extra premium is charged. The premiums in common use for participating life policies generally contain a sufficient margin to cover the cost of this disability feature; and it may be legitimate to treat the cost as a deduction from the dividends which may be earned; but it is clearly and grossly wrong to try to impose upon the public the idea that something is being given for nothing. The fundamental basis of all insurance is the bearing of one another's burdens, and any benefit bestowed upon a few unfortunates must of necessity be borne by the fortunate many who agree to share the total cost and the protection, but who do not become claimants.

Even if a company were issuing non-participating insurance only and had the provision in all its policies, what would we find? There are some occupations where a special disability hazard is incurred, as, for example, miners, sawyers, railroad employees, etc. There are four possible methods of treating this contingency—namely: (1) Exclude the benefit; (2) Charge a higher rating for occupation than the occupation strictly requires; (3) Decline the risk; or (4) Take chances and stand the consequent loss.