The Sale of Life Insurance

by Mutual Savings Banks

General Assembly of the Commonwealth of Pennsylvania

JOINT STATE GOVERNMENT COMMISSION

Harrisburg, Pennsylvania

1957

The Joint State Government Commission was created by Act of 1937, July 1, P. L. 2460, as amended 1939, June 26, P. L. 1084; 1943, March 8, P. L. 13; 1956, May 15, P. L. (1955) 1605, as a continuing agency for the development of facts and recommendations on all phases of government for the use of the General Assembly.

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SALE OF LIFE INSURANCE BY MUTUAL SAVINGS BANKS

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Charles R. Weiner		George W. Cooper

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INTRODUCTION

During the Session of 1955, the General Assembly of Pennsylvania was called upon to consider two identical bills—House Bill No. 800 and Senate Bill No. 265—which would have permitted the sale of life insurance by mutual savings banks in the Commonwealth. Neither of the bills was passed.

Subsequently, the executive committee of the Joint State Government Commission directed that a study be made of the factors involved in the sale of life insurance by mutual savings banks, and a small task force, whose members were designated by the President Pro Tempore of the Senate and the Speaker of the House of Representatives, was appointed. The task force reviewed the history and growth of savings bank life insurance sales in the three states in which such sales are permitted, reviewed (from cost and other standpoints) the insurance policies offered by mutual savings banks and by life insurance companies, studied data from past surveys related to the matter, and weighed statements presented in a public hearing by witnesses supporting and opposing legislation to permit the sale of life insurance by mutual savings banks in Pennsylvania.

The Commission's executive committee directed that a printed report be issued setting forth the information gathered in the course of the study. Accordingly, this report presents a discussion of life insurance trends in the United States and Pennsylvania, the development of savings bank life insurance, and views and facts relative to the sale of life insurance by mutual savings banks.

The Commission gratefully acknowledges the cooperation of the following organizations whose representatives furnished statistical and other data in connection with the study: the Savings Banks Life Insurance Fund of Connecticut; the Massachusetts Savings Bank Life Insurance Council; the Savings Banks Life Insurance Fund of New York; the Institute of Life Insurance; and the Life Insurance Agency Management Association.

BAKER ROYER, *Chairman*

Joint State Government Commission
Capitol Building
Harrisburg, Pennsylvania
May, 1957

Section I

RECENT LIFE INSURANCE TRENDS IN THE UNITED STATES AND PENNSYLVANIA

As of December 1, 1955, about $418 billion of life insurance was in force in the United States, distributed as follows:

Issued by	*Amount (Millions)*	*Percent of Total*
Legal reserve companies	$372,332	89.2%
Veterans Administration	42,728	10.2
Assessment[1] and other associations	1,630	.4
Savings bank life insurance systems	860	.2
Total	$417,550	100.0%

In addition, $10.5 billion of fraternal life insurance was in force in 1955 in the United States and Canada. This type of insurance reached a peak of $10.6 billion in force in 1919, declined during the 1920's and 1930's, but has shown an upward trend in recent years. Separate data for the United States are not available.

Veterans' life insurance, issued by the U. S. Government, reached a peak of $123.8 billion during World War II (1944), declined during the balance of the 1940's, increased during the Korean action (1950), and declined thereafter.

Sufficient data are not available to determine the trend of insurance issued by such organizations as assessment associations, mutual aid associations, and burial societies. The growth of savings bank life insurance is discussed in Section II.

During the period 1900-1955, the amount of insurance in force issued by legal reserve life insurance companies increased from $7.6 billion to $372.3 billion—about 50 times. (See Table 1.) During the same period, the number of policies increased from 14,000,000 to 251,966,000—about 18 times. While all types of insurance[2] showed increases in both amount and number of policies in force, their relative importance changed (Charts I and II).

In terms of amount of insurance in force, ordinary insurance ranked first throughout the period 1900-1955; but as a percent of total it decreased from 81 percent to 58 percent between 1900 and 1955. Industrial insurance decreased from 19 percent to 11 percent of total during the same period. In 1955, group insurance in force represented 27 percent of total, and credit insurance, 4 percent.

In terms of number of policies in force, industrial insurance has ranked first; yet the number of industrial policies in force declined from 79 percent to 44 percent of total during the period. On the other hand, the number of ordinary policies in force increased from 21 percent to 32 percent of total. In 1955, group insurance certificates represented 13 percent, and credit insurance policies, 11 percent, of total.

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[1] The basic principle of the assessment plan of insurance is that current cost is determined as claims occur and this cost is divided among the members of the insured group on a prorata basis.

[2] Ordinary insurance is usually issued in amounts of $1,000 or more, with premiums remitted directly by the policyholder to a company office, usually on a monthly or less frequent basis. Industrial insurance is usually issued in amounts of less than $1,000, with premiums collected by an agent, frequently on a weekly basis. Group insurance is written to cover a group of persons (e.g., employes of a particular firm) under a single blanket or master policy; certificates are usually issued to individual members of the group. Credit insurance is issued to cover financial obligations of the insured which may be undischarged at the time of his death.

Table 1

LIFE INSURANCE IN FORCE IN THE UNITED STATES, BY TYPE: 1900-1955

[Issues of legal reserve life insurance companies only]

	Ordinary		Group		Industrial		Credit		Total	
Year	Amount (Millions)	Number of Policies (Thousands)	Amount (Millions)	Number of Certificates (Thousands)	Amount (Millions)	Number of Policies (Thousands)	Amount (Millions)	Number of Policies (Thousands)	Amount (Millions)	Number of Policies (Thousands)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1900	$6,124	3,000	....	....	$1,449	11,000	....	....	$7,573	14,000
1901	6,766	3,000	....	....	1,603	12,000	....	....	8,369	15,000
1902	7,594	4,000	....	....	1,775	13,000	....	....	9,369	17,000
1903	8,264	4,000	....	....	1,953	14,000	....	....	10,217	18,000
1904	9,059	5,000	....	....	2,106	15,000	....	....	11,165	20,000
1905	9,585	5,000	....	....	2,278	17,000	....	....	11,863	22,000
1906	9,871	5,000	....	....	2,414	18,000	....	....	12,285	23,000
1907	10,103	5,000	....	....	2,536	19,000	....	....	12,639	24,000
1908	10,450	6,000	....	....	2,635	19,000	....	....	13,085	25,000
1909	10,960	6,000	....	....	2,918	21,000	....	....	13,878	27,000
1910	11,783	6,000	....	....	3,125	23,000	....	....	14,908	29,000
1911	12,772	7,000	....	....	3,353	24,000	....	....	16,125	31,000
1912	13,709	8,000	$13	12	3,579	26,000	....	....	17,301	34,012
1913	14,827	8,000	31	34	3,825	29,000	....	....	18,683	37,034
1914	15,661	9,000	65	67	4,011	30,000	....	....	19,737	39,067
1915	16,650	9,000	100	120	4,279	32,000	....	....	21,029	41,120
1916	18,081	10,000	155	200	4,617	34,000	....	....	22,853	44,200
1917	19,868	11,000	349	450	5,026	37,000	*	1	25,243	48,451
1918	21,818	12,000	630	750	5,474	40,000	$2	17	27,924	52,767
1919	25,783	14,000	1,092	1,200	6,092	45,000	4	24	32,971	60,224
1920	32,018	16,000	1,570	1,600	6,948	48,000	4	22	40,540	65,622
1921	34,777	17,000	1,527	1,400	7,633	52,000	7	31	43,944	70,431
1922	38,053	18,000	1,795	1,600	8,486	56,000	8	35	48,342	75,635
1923	43,077	20,000	2,393	2,000	9,618	61,000	9	37	55,097	83,037
1924	47,283	22,000	3,127	2,400	10,905	65,000	12	50	61,327	89,450
1925	52,892	23,000	4,247	3,200	12,318	71,000	18	81	69,475	97,281
1926	58,453	25,000	5,362	3,800	13,803	75,000	24	117	77,642	103,917
1927	63,334	26,000	6,333	4,400	15,078	79,000	30	149	84,775	109,549

* Less than $500,000.

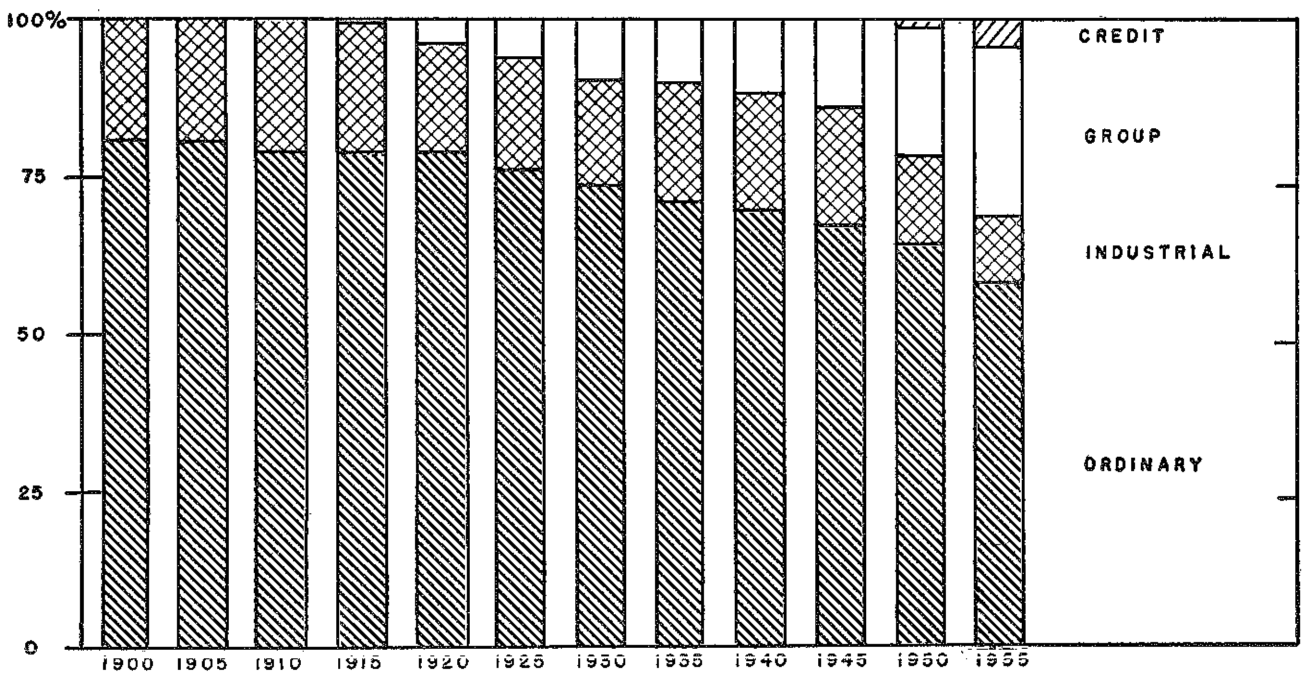
Year	Ordinary		Group		Industrial		Credit		Total	
	Amount (Millions)	Number of Policies (Thousands)	Amount (Millions)	Number of Certificates (Thousands)	Amount (Millions)	Number of Policies (Thousands)	Amount (Millions)	Number of Policies (Thousands)	Amount (Millions)	Number of Policies (Thousands)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1928	$68,430	28,000	$7,889	5,000	$16,231	82,000	$40	190	$92,590	115,190
1929	75,686	31,000	8,994	5,700	17,349	86,000	57	267	102,086	122,967
1930	78,576	32,000	9,801	5,800	17,963	86,000	73	363	106,413	124,163
1931	79,514	33,000	9,736	5,600	17,635	85,000	85	407	106,970	124,007
1932	75,898	32,000	8,923	4,800	16,669	79,000	69	355	101,559	116,155
1933	70,872	31,000	8,681	4,900	16,630	78,000	63	350	96,246	114,250
1934	70,094	32,000	9,472	5,500	17,036	79,000	75	419	96,677	116,919
1935	70,684	33,000	10,208	6,400	17,471	81,000	101	559	98,464	120,959
1936	72,361	33,000	11,291	6,800	18,863	83,000	138	781	102,653	123,581
1937	74,836	34,000	12,638	7,400	20,104	85,000	216	1,177	107,794	127,577
1938	75,772	35,000	12,503	6,600	20,396	85,000	256	1,552	108,927	128,152
1939	77,121	36,000	13,641	7,600	20,500	85,000	307	2,034	111,569	130,634
1940	79,346	37,000	14,938	8,800	20,866	85,000	380	2,563	115,530	133,363
1941	82,525	39,000	17,359	10,000	21,825	87,000	469	3,019	122,178	139,019
1942	85,139	41,000	19,316	11,000	22,911	90,000	355	2,464	127,721	144,464
1943	89,596	43,000	22,413	13,000	24,874	94,000	275	1,856	137,158	151,856
1944	95,085	46,000	23,922	13,000	26,474	98,000	290	1,752	145,771	158,752
1945	101,550	48,000	22,172	12,000	27,675	101,000	365	2,110	151,762	163,110
1946	112,818	53,000	27,206	13,000	29,313	104,000	729	3,390	170,066	173,390
1947	122,393	56,000	32,026	16,000	30,406	106,000	1,210	4,845	186,035	182,845
1948	131,158	58,000	37,068	16,000	31,253	106,000	1,729	6,141	201,208	186,141
1949	138,847	61,000	40,207	17,000	32,087	107,000	2,531	7,951	213,672	192,951
1950	149,071	64,000	47,793	19,000	33,415	108,000	3,889	10,834	234,168	201,834
1951	159,054	67,000	54,398	21,000	34,870	109,000	4,818	12,388	253,140	209,388
1952	170,795	70,000	62,913	24,000	36,448	111,000	6,435	14,447	276,591	219,447
1953	184,859	73,000	72,913	26,000	37,781	112,000	8,706	17,861	304,259	228,861
1954	198,419	76,000	86,395	29,000	38,664	111,000	10,241	20,998	333,719	236,998
1955	216,600	80,000	101,300	32,000	39,682	112,000	14,750	27,966	372,332	251,966

SOURCE: *Life Insurance Fact Book, 1956* (New York: Institute of Life Insurance, 1956).

Chart I

AMOUNT OF LIFE INSURANCE IN FORCE IN THE UNITED STATES – PERCENTAGE DISTRIBUTION, BY TYPE: 1900-1955

[Issues of legal reserve life insurance companies only.]



Note: Credit insurance less than .5 percent of total for years 1920-45.

Life insurance in force (issued by legal reserve companies) grew more rapidly than population, reflecting increased coverage of Americans by life insurance, an increase in the average number of policies per covered person, and an increase in the average size of policies held. Table 2 shows that over the period 1900-1955, U. S. population doubled, the number of policyholders increased tenfold, and the number of policies increased eighteen times.

Average policy size of each type of insurance in force increased over the years. In 1955, average policy sizes were: ordinary, $2,720; industrial, $350; group, $3,200; and credit, $530. (See Table 3.) Average policy sizes of 1955 *issues* (exclusive of revivals, increases, dividend additions, and reinsurance acquired) were substantially higher: ordinary, $4,071; group, $5,078; industrial, $442.

The amount of life insurance per family decreased from $2,800 in 1930 to $2,400 in 1933, 1934, and 1935, but increased to $6,900 in 1955 (Table 4). Disposable personal income per family[3] decreased from $1,900 in 1930 to $1,200 in 1932 and 1933, but increased to $5,000 in 1955. Column 4 (life insurance as a percent of disposable personal income) of Table 4 indicates that income decreased more rapidly than life insurance

[3] Disposable personal income is personal income after taxes. For a more detailed definition see *National Income* 1955 Edition (Washington: U. S. Department of Commerce, Bureau of Business Economics: 1955).

Table 2

POPULATION, NUMBERS OF LIFE INSURANCE POLICYHOLDERS AND POLICIES IN FORCE, AND AVERAGE NUMBER OF POLICIES PER POLICYHOLDER—UNITED STATES: SELECTED YEARS, 1900-1955

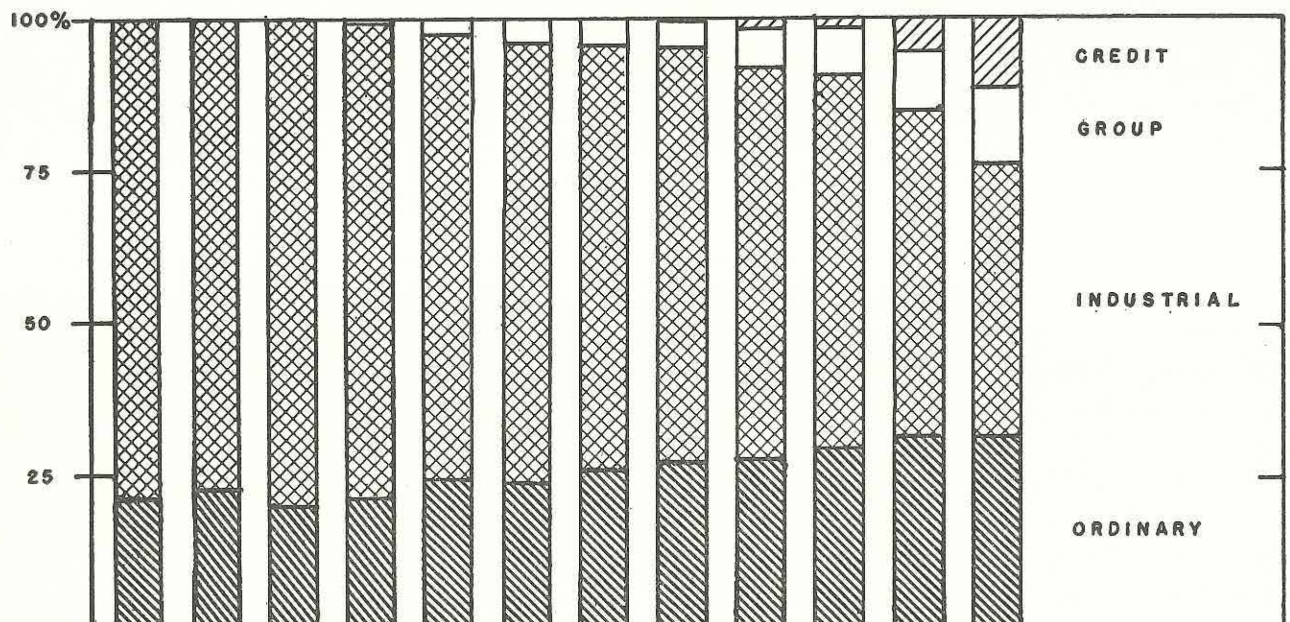
Year	*Population (Millions)*	*Policyholders (Millions)*	*Policies (Millions)*	*Average Number of Policies Per Policyholder*
(1)	(2)	(3)	(4)	(5)
1900	76.1	10	14	1.4
1915	100.5	24	41	1.7
1925	115.8	54	97	1.8
1935	127.3	63	120	1.9
1945	132.5	71	163	2.3
1955	164.3	106	252	2.4

SOURCE: Institute of Life Insurance, New York 22, N. Y.; population data U. S. Bureau of the Census.

Chart II

LIFE INSURANCE POLICIES AND CERTIFICATES IN FORCE IN THE UNITED STATES—PERCENTAGE DISTRIBUTION, BY TYPE: 1900-1955

[Issues of legal reserve life insurance companies only.]



Note: Credit insurance policies less than .5 percent of total for years 1920-45.

Table 3

AVERAGE SIZES OF LIFE INSURANCE POLICIES IN FORCE IN THE UNITED STATES, BY TYPE: 1920-55

Year	*Ordinary*	*Group*	*Industrial*	*Credit*	*All Types*
(1)	(2)	(3)	(4)	(5)	(6)
1920	$1,990	$960	$150	$200	$618
1925	2,270	1,330	170	220	714
1930	2,460	1,700	210	200	857
1935	2,160	1,590	220	180	814
1940	2,130	1,700	240	150	866
1945	2,100	1,930	270	170	930
1946	2,150	2,060	280	220	981
1947	2,200	2,050	290	250	1,017
1948	2,240	2,280	290	280	1,081
1949	2,260	2,330	300	320	1,107
1950	2,320	2,480	310	360	1,160
1951	2,380	2,540	320	390	1,209
1952	2,450	2,670	330	450	1,260
1953	2,530	2,760	340	490	1,329
1954	2,620	3,020	350	490	1,408
1955	2,720	3,200	350	530	1,478

SOURCE: *Life Insurance Fact Book, 1956* (New York: Institute of Life Insurance, 1956).

holdings during the early years of the depression, but increased more rapidly during the period 1933-44. Since 1944, life insurance holdings have tended to increase more rapidly than income.

During the years prior to 1942, premiums paid by policyholders ranged from 4.3 percent to 7.2 percent of disposable personal income, but in 1942 the percentage dropped to 3.5 percent and remained between 3.3 percent and 3.6 percent for the next eight years. Since 1951, the percentage has increased slightly each year, and in 1955 premiums paid by policyholders represented 3.8 percent of disposable personal income. (See Table 5.)

The following tabulations show the 1955 distribution of life insurance policyholders of legal reserve life insurance companies, by age, sex, occupation, and family income of insured, and by urban-rural category and region.[4] Also shown are the percents insured for each group.

Age:	*Percent Insured*	*Percent of All Insured Persons*
0-14	53%	25%
15-17	58	4
18-24	64	8
25-29	72	8
30-34	74	9
35-44	73	16
45-54	75	14
55-64	66	9
65 and over	49	7
All ages	63%	100%

[4] Data in the tabulations are from *Life Insurance Fact Book, 1956* (New York: Institute of Life Insurance, 1956).

The above tabulation shows that 63 percent of all persons were insured, that the proportion of persons insured increased with age to age 54, and that persons aged 35-54 constituted the largest group of insureds.

Sex and Marital Status:

	Percent Insured	Percent of All Insured Adults *
Males —		
Married	81%	43%
Unmarried	66	11
Females—		
Married	61	32
Unmarried	62	14
All adults	69%	100%

* Aged 18 and over.

A higher proportion of male adults than of female adults and of married than of unmarried males were insured.

Table 4

LIFE INSURANCE AND DISPOSABLE PERSONAL INCOME IN THE UNITED STATES: 1930-55

Year (1)	Life Insurance Per Family (2)	Disposable Personal Income Per Family (3)	Life Insurance as a Percent of Disposable Income (4)
1930	$2,800	$1,900	147.37%
1931	2,800	1,600	175.00
1932	2,600	1,200	216.67
1933	2,400	1,200	200.00
1934	2,400	1,300	184.62
1935	2,400	1,400	171.43
1936	2,500	1,600	156.25
1937	2,600	1,700	152.94
1938	2,600	1,600	162.50
1939	2,600	1,600	162.50
1940	2,700	1,700	158.82
1941	2,800	2,100	133.33
1942	2,800	2,600	107.69
1943	3,000	2,900	103.45
1944	3,100	3,200	96.88
1945	3,200	3,200	100.00
1946	3,600	3,400	105.88
1947	3,900	3,500	111.43
1948	4,100	3,800	107.89
1949	4,300	3,800	113.16
1950	4,600	4,100	112.20
1951	4,900	4,400	111.36
1952	5,300	4,600	115.22
1953	5,800	4,700	123.40
1954	6,300	4,800	131.25
1955	6,900	5,000	138.00

SOURCE: *Life Insurance Fact Book, 1956* (New York: Institute of Life Insurance, 1956).

Table 5

PREMIUMS OF LIFE INSURANCE COMPANIES (EXCLUDING PREMIUMS FROM ACCIDENT AND HEALTH DEPARTMENTS) AS PERCENT OF DISPOSABLE PERSONAL INCOME: 1930-55

Year	*Premiums as Percent of Disposable Personal Income*	*Year*	*Premiums as Percent of Disposable Personal Income*
1930	4.8%	1943	3.3%
1931	5.7	1944	3.3
1932	7.2	1945	3.4
1933	7.2	1946	3.5
1934	6.7	1947	3.6
1935	6.3	1948	3.5
1936	5.5	1949	3.6
1937	5.3	1950	3.5
1938	5.7	1951	3.4
1939	5.4	1952	3.5
1940	5.1	1953	3.6
1941	4.3	1954	3.7
1942	3.5	1955	3.8

SOURCE: Institute of Life Insurance, New York 22, N. Y.

Occupation:

	Percent Insured	*Percent of All Insured Adults **
Professional	82%	7%
Managerial, self-employed	79	9
Clerical	83	7
Sales	84	4
Craftsmen, foremen	84	23
Laborers, service	72	11
Farmers	52	3
Housewives	56	30
Other	55	6

* Aged 18 and over.

The proportion of persons insured was relatively high for professionals, clerical and sales personnel, and craftsmen and foremen, and relatively low for farmers and housewives.

Family Income:

	Percent Insured	*Percent of All Insured Persons*
Under $3,000	47%	19%
$3,000-$4,999	66	36
$5,000-$7,499	72	28
$7,500 and over	72	17

The proportion of persons insured ranged from 47 percent for persons with incomes of less than $3,000 to 72 percent for persons with incomes of $5,000 and over; persons with incomes of $3,000 to $4,999 constituted the largest group of all insured persons.

Residence:

	Percent Insured	Percent of All Insured Persons
Urban	71%	72%
Rural	50	28
Region—		
Northeast	73%	31%
North Central and West	61	42
South	57	27

Insurance coverage was higher in urban than in rural areas; by region, coverage was highest in the Northeast and lowest in the South.

Data on amount of life insurance in force by state are available only since 1940; data on number of policies, since 1949. During the period 1940-55, the amount of insurance (issued by legal reserve companies) in force in Pennsylvania increased from $11.1 billion to $29.4 billion. (See Table 6.) This was less rapid than growth in the United States as a whole, and insurance in force in Pennsylvania decreased over the period from 9.6 percent to 7.9 percent of insurance in force in the United States.

In terms of amount of insurance in force in Pennsylvania, ordinary insurance decreased from 63 percent of total in 1940 to 56 percent in 1955; industrial insurance decreased from 23 percent

Chart III

AMOUNT OF LIFE INSURANCE IN FORCE IN PENNSYLVANIA —PERCENTAGE DISTRIBUTION, BY TYPE: 1940-55

[Issues of legal reserve life insurance companies only.]

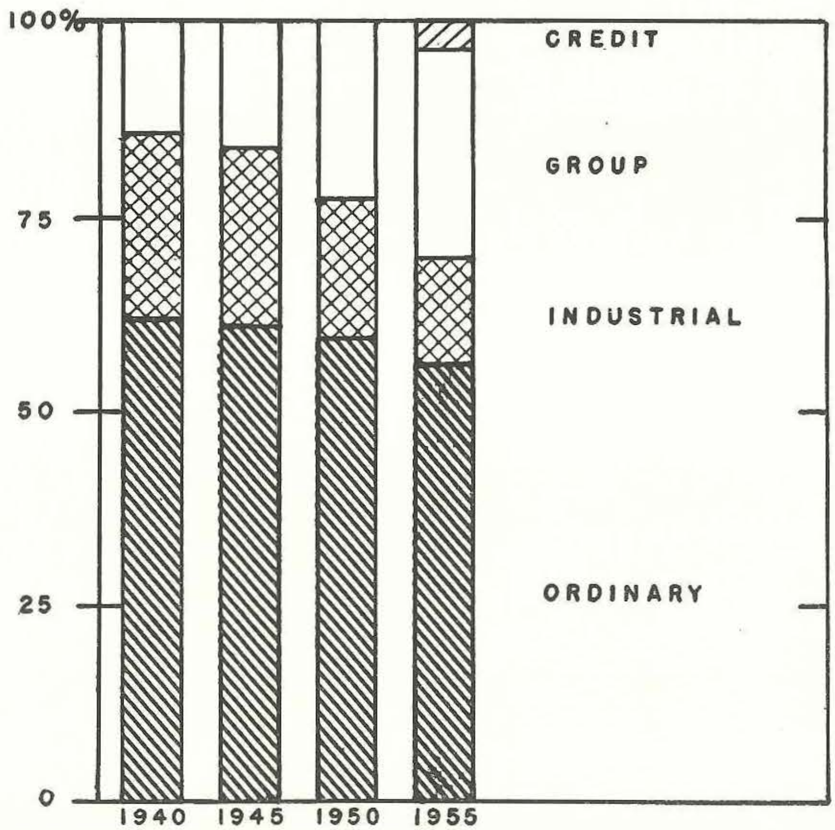


Table 6

Life Insurance in Force in Pennsylvania, by Type: 1940-55

[Issues of legal reserve life insurance companies only]

(000 Omitted)

	Ordinary		*Group*		*Industrial*		*Credit* †		*Total*			
Year	*Policies* *	*Amount*	*Certificates* *	*Amount*	*Policies* *	*Amount*	*Policies and Certificates* *	*Amount*	*Policies and Certificates* *	*Amount*	*Amount as Percent of U. S. Total*	*Amount Per Capita in Pa.*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1940	....	$7,007,000	....	$1,550,000	.....	$2,579,000	....	....	.....	$11,136,000	9.6%	$1,100
1941	....	7,278,000	....	1,845,000	.....	2,672,000	....	....	.....	11,795,000	9.7	1,200
1942	....	7,486,000	....	1,997,000	.....	2,783,000	....	....	.....	12,266,000	9.6	1,300
1943	....	7,825,000	....	2,226,000	.....	2,984,000	....	....	.....	13,035,000	9.5	1,400
1944	....	8,220,000	....	2,347,000	.....	3,101,000	....	....	.....	13,668,000	9.4	1,400
1945	....	8,679,000	....	2,203,000	.....	3,200,000	....	....	.....	14,082,000	9.3	1,500
1946	....	9,564,000	....	2,640,000	.....	3,317,000	....	....	.....	15,521,000	9.1	1,600
1947	....	10,277,000	....	3,097,000	.....	3,417,000	....	....	.....	16,791,000	9.0	1,600
1948	....	10,885,000	....	3,555,000	.....	3,439,000	....	....	.....	17,879,000	8.9	1,700
1949	6,034	11,567,000	1,958	3,720,000	11,271	3,497,000	....	....	19,263	18,784,000	8.8	1,800
1950	6,375	12,260,000	2,241	4,574,000	11,184	3,595,000	....	....	19,800	20,429,000	8.7	1,900
1951	6,709	12,990,000	2,388	5,029,000	11,153	3,693,000	....	....	20,250	21,712,000	8.6	2,100
1952	6,874	13,760,000	2,538	5,697,000	11,165	3,793,000	....	....	20,577	23,250,000	8.4	2,200
1953	6,492	14,541,000	2,023	6,059,000	11,152	3,910,000	1,511	$630,000	21,178	25,140,000	8.3	2,400
1954	6,643	15,319,000	2,299	6,867,000	10,926	3,944,000	1,694	679,000	21,562	26,809,000	8.0	2,500
1955	6,958	16,539,000	2,462	7,824,000	10,721	3,976,000	2,292	1,042,000	22,433	29,381,000	7.9	2,600

* Number of policies and certificates not available for 1940-48.

† Prior to 1953, credit life insurance was included in the ordinary and group categories.

SOURCE: Institute of Life Insurance, New York 22, N. Y.

to 14 percent. On the other hand, group insurance increased from 14 percent to 27 percent of total (Chart III). Ordinary insurance was relatively less important, and industrial insurance relatively more important, in Pennsylvania than in the United States as a whole.

Although the growth of life insurance has been less rapid in Pennsylvania than in the United States as a whole, Pennsylvania in 1955 ranked fifth among the states in amount of life insurance per family. The Pennsylvania average of $8,500 per family, which compared with a national average of $6,900, was exceeded only by those of Connecticut, Delaware, New Jersey, and New York. Life insurance premiums also represented a higher proportion of total personal income[5] in Pennsylvania than in the United States (Table 7).

[5] Since disposable personal income data were not available by states, personal income data were used in Table 7.

Table 7

LIFE INSURANCE PREMIUMS AS A PERCENT OF PERSONAL INCOME—PENNSYLVANIA AND UNITED STATES: 1940-54

Year	*Pennsylvania*	*United States*
(1)	(2)	(3)
1940	5.1%	4.3%
1941	4.4	3.6
1942	3.8	3.0
1943	3.4	2.6
1944	3.4	2.6
1945	3.5	2.7
1946	3.5	2.7
1947	3.4	2.7
1948	3.4	2.7
1949	3.5	2.8
1950	3.3	2.7
1951	3.1	2.6
1952	3.2	2.6
1953	3.2	2.6
1954	3.3	2.8

SOURCE: Institute of Life Insurance, New York 22, N. Y.

Section II

THE DEVELOPMENT OF SAVINGS BANK LIFE INSURANCE

Mutual savings banks were first authorized to sell life insurance in 1907 in Massachusetts. Similar powers were granted savings banks in New York in 1938 and in Connecticut in 1941. Savings banks in other states have not been permitted to sell life insurance, although numerous attempts have been made to pass the necessary enabling legislation.

The efforts of Mr. (later Justice) Louis D. Brandeis were primarily responsible for the establishment of savings bank life insurance in Massachusetts. Mr. Brandeis became interested in this form of insurance in 1905, when, as counsel for the New England Policyholders' Protective Committee, he became aware of what he regarded as the high cost of insurance—in particular, industrial insurance—and high lapse rates under the then existing methods of selling. He concluded that unless some method of providing low-cost insurance was developed through regulated private institutions, the government might enter the insurance business, which in Mr. Brandeis' judgment represented an undesirable extension of governmental activity.

Mr. Brandeis believed that mutual savings banks were ideally suited to undertake the insurance function for the following reasons: their fundamental purpose was to encourage thrift and self-help; they were operated by unpaid trustees and experienced officers solely for the benefit of depositors; they had a long record of safety, economy, and high interest earnings; they had earned the confidence of the people. Mr. Brandeis did not intend that savings bank life insurance should be restricted to wage earners. In his words:

> It is obvious that if this movement succeeds, the principle which underlies it will be extended to cover like needs of other classes in the community. Those who receive salaries as distinguished from wages, and who are now supplied mainly by the ordinary life insurance companies, will not long tolerate the lesser but still unnecessary burdens incident to the extravagant soliciting of insurance now practiced.[1]

Mr. Brandeis regarded the over-the-counter method of selling, with the resultant elimination of commissions, as a major factor in reducing the cost of insurance.

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[1] Quoted by Alpheus Thomas Mason in *The Brandeis Way—A Case Study in the Workings of Democracy* (Princeton: Princeton University Press: 1938), p. 292.

As of January 1, 1957, there were 267 issuing banks and agencies in Massachusetts, 75 in New York, and 40 in Connecticut. The functions of issuing banks are to issue contracts, maintain records, collect premiums, invest policyholders' funds, service outstanding policies, and pay surrender values and death claims. Agencies answer inquiries, assist in the completion of applications, arrange for medical examinations, collect premiums, and service existing policies, but do not issue contracts or invest funds. Currently, there are 229 agencies in Massachusetts, 36 in New York, and 28 in Connecticut. The New York and Connecticut agencies are all savings banks. Massachusetts agencies are distributed as follows:

Savings banks	134
Trust companies	15
National banks	5
Credit unions	70
Cooperative banks	5
	229

In addition, about 250 employer agencies have from time to time been authorized to act as agencies in Massachusetts; only a few of these have originated business in recent years.

Insurance per individual.—The maximum insurance permitted per individual is $35,000 in Massachusetts, $5,000 in New York, and $3,000 in Connecticut.

In Massachusetts, the maximum varies with age of applicant as follows:

Age of Applicant	*Maximum Insurance*
4 and under	$1,000
5-12	5,000
13	8,000
14	11,000
15-19	15,000
20-49	35,000
50-59	20,000
60-70	5,000

The maximum any bank can issue on one life is $5,000; arrangements for higher coverage are made through other banks in the system. Insurance without medical examination is issued for ages under 5 in amounts up to $1,000 and for ages 5-35 in amounts up to $2,000. An *additional* medical examination is required for persons purchasing more than $25,000 worth of insurance.

In New York the maximum insurance issued is $500 at birth, increasing to $2,000 at age 1 and $5,000 at age 5. These maxima are subject to the restrictions of New York law (applicable to all insurance) limiting the size of juvenile policies by reference to the amount of life insurance carried by the adult who applies on behalf of the child. Policies with face values up to $2,000 are issued on a nonmedical basis to applicants aged 14 or less.

In Connecticut there is no variation in maximum with age. Nonmedical insurance can be issued to persons aged 14 or less in amounts up to $1,000.

In each of the states the minimum policy issued is $250.

Administration.—The administrative characteristics of the SBLI [2] systems of Massachusetts, New York, and Connecticut are similar.[3] In each state a central organization has been set up to provide certain administrative, actuarial, and medical services; to pool mortality risks within the system; to underwrite initial risks and certain operating expenses of newly established savings bank insurance departments; and to act as an additional guarantor

[2] Throughout the report, for ease of reference, this abbreviation will frequently be substituted for the words "savings bank life insurance."

[3] For details of organization and administration, see The Commonwealth of Massachusetts *Laws Relating to Savings Bank Life Insurance* (Boston: Savings Bank Life Insurance: 1950); *Savings Bank Life Insurance Law of New York* (1955); and *Savings Bank Life Insurance Law of Connecticut* (Hartford: Savings Bank Life Insurance Fund: 1955).

Table 8

ADMINISTRATIVE CHARACTERISTICS OF THE SAVINGS BANK LIFE INSURANCE SYSTEMS OF MASSACHUSETTS, NEW YORK, AND CONNECTICUT

	Massachusetts	*New York*	*Connecticut*
State supervision	Commissioner of Savings Bank Life Insurance	Superintendent of Banks Superintendent of Insurance	Bank Commissioner Insurance Commissioner
Initial surplus to be provided by savings bank	Not less than \$5,000 to special expense guaranty fund; originally an additional \$20,000 guaranty fund was required but since 1921 the General Insurance Guaranty Fund has provided the necessary guaranty funds for new banks.	Not less than \$20,000	Not less than \$5,000
Secondary guarantor	General Insurance Guaranty Fund	Savings Banks Life Insurance Fund	Savings Banks Life Insurance Fund
Contributions to secondary guarantor by each savings bank	Monthly contributions of not more than 4 percent of premiums. In addition GIGF may assess up to 6 percent of premium income in one lump sum. Rate of contributions may be reduced if assets over liabilities in General Insurance Guaranty Fund exceed \$100,000 or 5 percent of aggregate outstanding insurance reserves of all savings banks. Contributions may be waived for a period of time in special cases. Present rate of contribution: .25 percent of premiums.	Initial investment of not less than \$20,000; investment may be waived when total assets of fund less liabilities equal or exceed \$500,000. Monthly contributions of 2-4 percent of premium income until initial investments have been retired; then not more than 1 percent. The Superintendent of Banks may allow different rates. Present rate of contribution: 1.0 percent of premiums.	Initial investment of not less than \$1,000 for each million dollars or fraction thereof of the book value of assets, not to exceed \$50,000; investment may be waived or deferred in whole or in part when assets of the fund less liabilities equal or exceed \$100,000. Monthly contributions of not more than 4 percent of premiums subject to temporary discontinuance whenever assets of the funds less liabilities exceed \$100,000. Present rate of contribution: 1.5 percent of premiums.
Actuarial and medical services	General Insurance Guaranty Fund, paid from policyholders' funds.	Savings Banks Life Insurance Fund, paid from policyholders' funds	Savings Banks Life Insurance Fund, paid from policyholders' funds
Promotion and advertising	Individual banks and Savings Bank Life Insurance Council	Individual banks and Savings Bank Life Insurance Council	Individual banks

of all policy liabilities, over and above the legal reserves and surplus funds held by the insurance departments of the individual banks. In Massachusetts, the Commonwealth appropriates funds for the operations of the General Insurance Guaranty Fund (the Division of Savings Bank Life Insurance) but the appropriations are reimbursed from contributions of the savings and insurance banks. In both New York and Connecticut, the monies of the Savings Banks Life Insurance Fund are contributed directly by the savings banks and are not considered public monies in any way.

The administrative characteristics of the three SBLI systems are outlined in Table 8.

— Growth —

As of December 31, 1955, the total amount of SBLI in force was $859,758,000. In Massachusetts, the $543,840,000 of SBLI in force represented 4.27 percent of all life insurance in force in that state; in New York, the $284,174,000 of SBLI in force represented .59 percent of all life insurance in force; and in Connecticut, the $31,744,000 of SBLI represented .45 percent of total.

The growth of SBLI in force in each of the three states is shown in Chart IV. In each state the rate of growth has tended to decrease over time.

The relationship between SBLI in force and total insurance in force is shown in Chart V. In Massachusetts, which has the oldest SBLI system and where policies with face values up to $35,000 may be issued, the amount of SBLI in force as a percent of total insurance in force has remained relatively constant during the past 15 years. The

Chart IV

AMOUNT OF SAVINGS BANK LIFE INSURANCE IN FORCE–MASSACHUSETTS, NEW YORK, AND CONNECTICUT: 1910-55

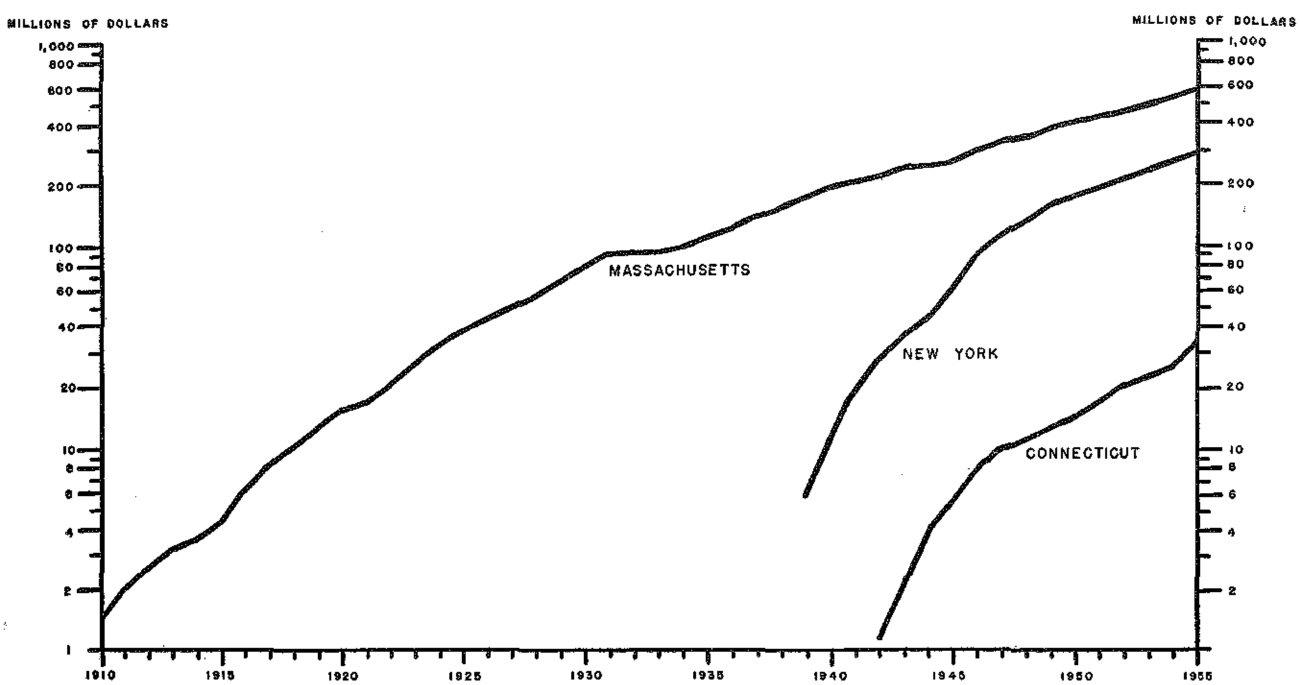
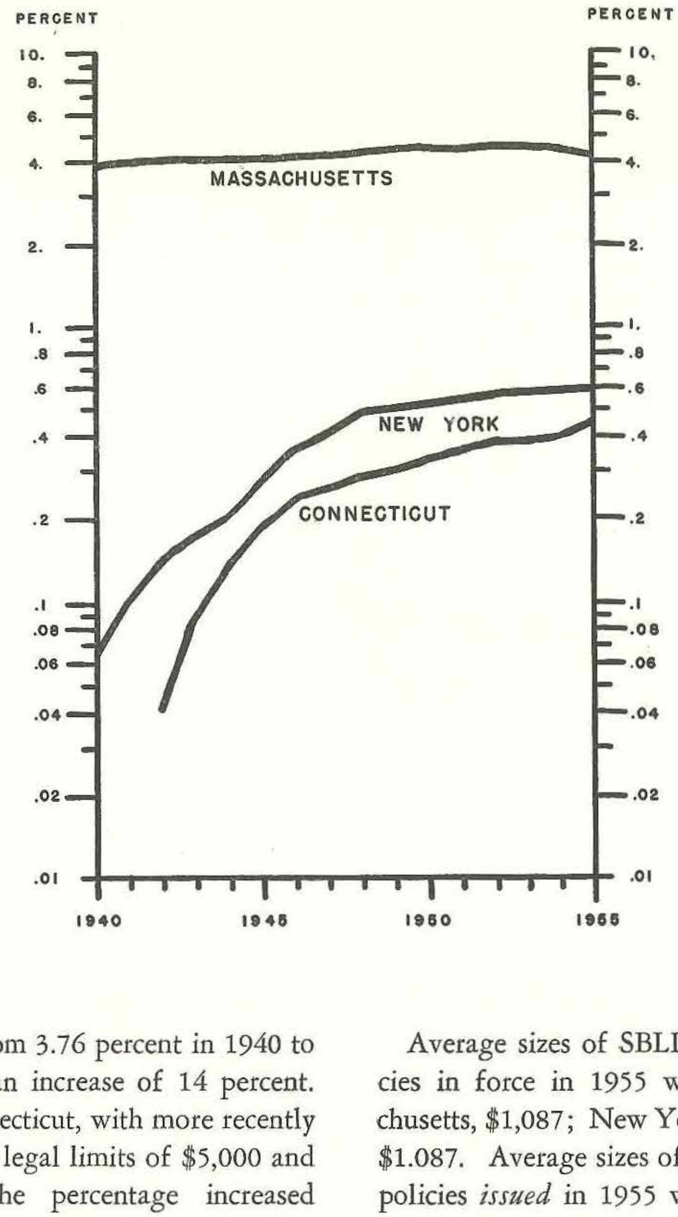


Chart V

AMOUNT OF SAVINGS BANK LIFE INSURANCE IN FORCE AS PERCENT OF TOTAL LIFE INSURANCE IN FORCE–MASSACHUSETTS, NEW YORK, AND CONNECTICUT: 1940-55

[Total in force is sum of issues of legal reserve life insurance companies and SBLI systems.]



percentage increased from 3.76 percent in 1940 to 4.27 percent in 1955, an increase of 14 percent. In New York and Connecticut, with more recently established systems and legal limits of $5,000 and $3,000 respectively, the percentage increased rapidly during the early years of operation but has shown a pronounced leveling off in recent years.

Average sizes of SBLI ordinary insurance policies in force in 1955 were as follows: Massachusetts, $1,087; New York, $1,383; Connecticut, $1.087. Average sizes of SBLI ordinary insurance policies *issued* in 1955 were $1,937, $1,665, and $1,397 for Massachusetts, New York, and Connecticut, respectively. (Massachusetts data are as of October 31; others, December 31.)

Recent issues of savings bank life insurance and life insurance company policies issued were distributed as follows: [4]

	Adults		
	Male	*Female*	*Juveniles*
Savings bank life insurance:			
Massachusetts	31%	22%	47%
Connecticut	32	25	43
New York	30	26	44
Life insurance companies	51	17	32

The proportion of policies issued to adult females and juveniles was higher and the proportion to males was lower for the SBLI systems than for legal reserve insurance companies. Other data on characteristics of adults purchasing savings bank and other life insurance in 1955 are shown in Table 9. A higher proportion of SBLI than of company policies was issued to persons aged 40 and over, and the proportion issued to persons aged 15-30 was smaller for SBLI than for the companies. A higher proportion of SBLI than of company purchasers were housewives; a smaller proportion were executives, proprietors, or managers. The proportion of policies under $1,000 was smaller for the New York and Connecticut SBLI systems than for the companies, but slightly larger for the Massachusetts system. About 45 percent of the SBLI purchasers bought policies with face values of $1,000, compared to 17 percent for the life insurance companies. Sixteen percent of the company policies issued were in amounts of $10,000 or more, while in Massachusetts (the only state in which SBLI policies of this size can be purchased), 9 percent of the policies were in this category.

[4] Data for the life insurance companies and the Massachusetts savings banks were obtained from a survey of policies issued in the third quarter of 1955, conducted by the Life Insurance Agency Management Association. Data for the Connecticut savings banks were obtained in part from a similar publication of the association based on a survey of policies issued in the first quarter of 1955, and in part from a study published in July, 1955, by the Savings Banks Life Insurance Fund of Connecticut. New York data were obtained from the Savings Banks Life Insurance Fund of New York and related to cases approved for insurance in March, April, and May, 1956.

Table 9

CHARACTERISTICS OF ADULTS PURCHASING SBLI AND INSURANCE COMPANY POLICIES

	Life Insurance Companies	*Massachusetts SBLI*	*New York SBLI*	*Connecticut SBLI*	
(1)	(2)	(3)	(4)	(5)	(6)
Age				*Age*	
55 and over	4%	7%	6%	51 and over	13%
45-54	9	15	19	41-50	25
40-44	10	9	15	31-40	29
35-39	12	12	13	15-30	33
30-34	17	17	14		
25-29	18	13	10		
20-24	17	10	13		
15-19	13	17	10		
Marital Status				*Marital Status*	
Single, widowed, divorced	29%	30%	34%	No data	
Married	71	70	66		
Occupation				*Occupation*	
Professional	11%	14%	8%	Professional	6%
Executive, prop., mgr.	19	11	7	White collar	29
Clerical and sales	18	16	26	Factory worker	19
Craftsmen and foremen	12	8	8	Student	10
Operatives	13	10	11	All others	17
Students	7	17	10	Housewives	19
All others	11	9	13		
Housewives	9	15	17		
Size of Policy				*Size of Policy*	
Over $10,000	16%	9%	..	$3,000	31%
$10,000	14	6	..	$2,000-$2,999	17
$5,001-$9,999	9	6	..	$1,000-$1,999	49
$5,000	16	10	19%	Under $1,000	3
$1,001-$4,999	20	15	30		
$1,000	17	44	47		
Under $1,000	8	10	4		
Previous Ownership				*Previous Ownership*	
In this company	30%	16%	13%		
In other company only	42	51	47	No data	
None	28	33	40		

Section III

VIEWS AND FACTS RELATING TO THE SALE OF LIFE INSURANCE BY MUTUAL SAVINGS BANKS

At the public hearing held in Harrisburg, October 1, 1956, testimony of the witnesses regarding the desirability of authorizing the sale of life insurance by mutual savings banks in Pennsylvania related to three major questions:

I. Is there a "need" for the distribution of life insurance by mutual savings banks in Pennsylvania?

II. Taking account of actuarial and other services, how does the cost of savings bank life insurance compare with the cost of insurance issued by life insurance companies?

III. What effects upon the insurance industry and the community at large might reasonably be anticipated to result from the sale of life insurance by the mutual savings banks?

In the following presentation, excerpts from the testimony at the hearing are grouped under three main headings bearing upon the questions—need, costs and cost-related factors, and effects. Whenever factual data bearing upon the points raised are available, these data are presented in conjunction with the views expressed by the witnesses.

— Need —

The proponents characterized savings bank life insurance as "a social welfare measure," in line with the concept of its founder, Louis D. Brandeis,[1] "designed especially for persons of low income and modest means . . . the very persons whom the mutual savings banks are now serving." They further contended:

> In the America of today, every adult should own some life insurance, and it follows that he or she should have the right to purchase it at the lowest possible cost, and on the best terms consistent with safety.

In support of their contention that savings bank life insurance was needed in Pennsylvania, the proponents called attention to the following:

1. A study made in 1951 by an independent research firm, National Analysts, Inc., which indicated that in Philadelphia at that time 178,000 people 20 years of age and over had no life insurance protection.

2. The August, 1956, issue of *The Tally*, a publication of the Institute of Life Insurance, which showed that industrial insurance premiums as a percentage of total premium income of United States life insurance companies declined from 17

[1] For a discussion of the influence of Mr. (later Justice) Brandeis in the development of savings bank life insurance, see page 13.

2

percent in 1947 to 12 percent in 1955. (It was argued that "these figures indicate not alone the improved economic status of the average American but also the tendency of commissioned life insurance agents to concentrate on the middle and upper income groups.")

3. A paper entitled, "A Preliminary Report on a National Survey 'Who Owns Life Insurance and What Do People Think About It?' " (presented to the 17th Annual Meeting of the Institute of Life Insurance, December 13, 1955), which indicated that 43 percent of the survey respondents who did not have life insurance gave as their reason for not having coverage, "can't afford."

4. An article in the August 29, 1953, issue of the *U.S. Investor,* by Roger Kenney, insurance editor, entitled, "Has the Life Insurance Industry Deserted Mr. Average Citizen?" which stated in part:

> . . . the agency system of the life insurance industry is not only defaulting on an alarmingly large portion of the middle and lower-middle class groups by failing to make the much-needed regular contacts, but in so doing is building up a first-class case for ever-broadening of the governmental social security program—and perhaps even providing the groundwork for government life insurance itself . . . 56 percent of all United States families have not been contacted by a life insurance agent within the preceding eighteen months . . . It just isn't feasible —with economic conditions being what they are—for the agent to write any large number of small or average sized policies with low average premium and high collection frequency under the traditional marketing method.

In addition, the proponents made the following statements:

> The mutual savings banks are the ideal vehicle to reach this unsold market, made up largely of low income groups, with offerings of dependable insurance at costs lower than are presently available in this Commonwealth. Policies with face values of $250, $300, and $500 . . . could be purchased under our savings bank life insurance plan.

> . . . small life insurance policies, with face values of $250, $350, and $500 are available in this state only in the form of industrial insurance and . . . industrial insurance costs substantially more than would savings bank life insurance . . .

> In an industrial state like this [Pennsylvania], the cash and loan values are important to wage earners in case of depression or recession when they are in need . . . These people buy insurance with the intent of protecting their families and if they have to surrender their policies or borrow on them to pay their bills in order to keep off the welfare rolls then they ought to get as much as they can for their policies . . . Regardless of the size of the [savings bank life insurance] policy, beginning with the first year, the cash and loan values are equal to the full reserve value.

> About 40 percent of the people, including women and children, had no other insurance when buying this savings bank life insurance [in Massachusetts]. We are reaching people who need insurance.

> . . . more than $900,000,000 of savings bank life insurance is now in force in Massachusetts, New York, and Connecticut. All of this life insurance was bought at the initiative of the purchaser, without solicitation of commissioned agents.

The opponents contended that "Justice Brandeis proposed this plan in 1907 [when] there was an insurance scandal [and] when the insurance business was being administered in an outrageous fashion. Insurance is the most regulated business in the world . . . and the reasons that existed in 1907 are no longer true." They questioned "the value of whatever the small saving might be if it has anything to do with removing the availability of the agent. The fact that there is an agent available when a claim is made or there is a change in beneficiary or the numerous other things going on is a great service to the policyholders."

In further support of their contention that savings bank life insurance was not needed in Pennsylvania, the opponents made the following statements:

There are at least 9,000 licensed life insurance men to sell insurance in Pennsylvania and that would seem to indicate that the residents of the smallest borough in the state nevertheless have access to good insurance advice when they need it.

. . . in recent years there has been this enormous increase of group insurance. The people Justice Brandeis was disturbed about now, in great numbers, have industrial insurance at term rates which is carried for them by their employers . . .

. . . the old age and survivors' social security system was designed to cover just those cases [people in the lower income levels] and . . . it either does or will within a reasonably short period in the future cover all those people.

The industial worker of today is far more interested in the broader coverages given by ordinary life policies, and he now earns enough money to include in his budget a regular premium for such ordinary policy.

. . . ordinary insurance today can be bought from a life insurance company in a $1,000 unit by a man of 35 at a cost less than 50 cents a week . . .

There are a number of Pennsylvania companies [which] . . . issue $500 policies of ordinary life insurance . . .

We do not challenge in any way the practice of buying insurance over-the-counter. . . . We have many companies that sell insurance over-the-counter which eliminates the agent's commission. The amazing thing is that insurance doesn't get distributed in that way in any substantial amounts.

We, representing the life insurance salesmen of Pennsylvania, have never seen anything which would resemble a request or demand for this sort of life insurance . . . For 15 years no states have felt it necessary to pass statutes to permit savings banks to sell savings bank life insurance.

The people who buy insurance from the savings banks . . . are not the little people mentioned by the proponents of this legislation.

The savings banks are proposing this legislation not because they want to give a service to the low income groups but because it will increase their banking business. . . .

Survey Results.—In the 1951 Philadelphia study by National Analysts, Inc., referred to in the testimony, savings bank life insurance was described as follows:

It is sold over-the-counter in mutual savings banks at rates lower than other kinds of insurance; no agents are used to sell it—you must either go to the bank or purchase it by mail; premium payments may be automatically deducted from a savings account but do not have to be; policies for small amounts, such as $250 or $500 may be obtained; children may be insured under the plan; most ordinary policies have cash values after six months. However, you can purchase only up to $5,000 worth of this kind of insurance and you must pass the standard physical examination.

Of the respondents to the survey, 24 percent of those who had no life insurance and 29 percent of those who had life insurance indicated that they would purchase savings bank life insurance if it were made available. Combining these, the survey agency estimated a potential market in Philadelphia of 383,000 persons. Reasons most frequently given by respondents for expressing an intention to purchase savings bank life insurance were: lower cost than other insurance (mentioned by 66 percent of the respondents); convenience (by 31 percent); and "not having to bother with an agent" (by 14 percent).

Agent Contact and Coverage of Low Income Persons.—According to a recent report of the Life Insurance Agency Management Association [2] based

[2] The Life Insurance Agency Management Association was founded by life insurance companies in the United States and Canada to study problems of agency management. Member companies have in force more than 95 percent of the life insurance in the U.S. and Canada.

upon a sample study of U.S. family units and covering the 18-month period prior to June, 1952, at least one member of about 44 percent of U.S. families was contacted by a life insurance agent during the period; policies were purchased by members of about 40 percent of the families contacted.[3]

The study revealed that agents have been selective in their choice of prospects. For example, the percent of families contacted was highest for families with incomes (of household head) of $3,000 to $4,999 (see Table 10). Percent contacted was lowest for families with incomes of less than $2,000; families in this group were less likely to be covered by insurance or to purchase insurance when contacted than were members of families with higher incomes.

Agent contact (measured in terms of relative numbers of persons in a given group contacted by agents in the specified period) also varied with age of household head and family structure. For example, the proportion of families contacted was highest for those with a household head aged 18-34. Reflecting the relationship between age and family structure, the proportion of families reporting agent contact was highest for those with children under 21, and within this group the families reporting highest contact (and highest proportion of resulting purchases) were composed of persons married less than ten years with at least one child aged less than five.

There was little difference in agent contact according to occupation of the household head, although the proportions of total contacts represented by contacts of clerical and sales workers,

[3] *Covering the Market* (Hartford, Conn.: Life Insurance Agency Management Assn., 1953). The data for this report were obtained for the association by the Survey Research Center, University of Michigan. Family units were defined to include all adults (age 18 and over) in a dwelling unit. Casual or social contacts with agents were not included. Since the sample used was small, the data are subject to substantial sampling variation and should be regarded as indicating only general characteristics.

Table 10

ESTIMATED PERCENTS INSURED, PERCENTS CONTACTED BY AGENTS, AND PERCENTS OF THOSE CONTACTED WHO PURCHASED LIFE INSURANCE—U. S. FAMILY UNITS, BY INCOME OF HOUSEHOLD HEAD: JUNE, 1952

Income of Household Head	*Estimated Percents of Family Units*		
	Insured *	*Contacted* †	*Contacted Who Purchased* ‡
(1)	(2)	(3)	(4)
Under $2,000	57%	33%	31%
$2,000-$2,999	77	45	43
3,000- 3,999	86	51	45
4,000- 4,999	91	51	44
$5,000 and over	95	44	39
All units	81%	44%	40%

* One or more family members having life insurance coverage.

† One or more family members contacted by agent within preceding 18 months.

‡ Contacted family units in which life insurance was purchased as percent of family units contacted.

SOURCE: *Covering the Market* (Hartford, Conn.: Life Insurance Agency Management Association, 1953).

unskilled laborers, and professionals and managers were higher than the proportions of these groups in the total population.

Another study by the Life Insurance Agency Management Association [4] reveals that, although the average amount of money spent for individual insurance (excluding group insurance) increased as income increased, the proportion of income spent for insurance by income groups below $7,500 was fairly constant, varying between 2.5 percent and 3 percent. But the study showed that there was considerable variation within income groups in expenditures for individual (excluding group) insurance, not accounted for by either intra-group income differences or regional patterns. Sufficient data were not available to determine the importance of other factors, such as differing insurance needs, education, economic pressures, or exposure to life insurance agents.

While the evidence indicates that income is not the sole determining factor in agent contact, the opinion has been expressed within the life insurance industry that income is overemphasized by agents in their selection of prospects. For example, Halsey D. Josephson, CLU, writing in the January, 1955, issue of *Life Insurance Courant,* stated:

> Every effort is made to boost the size of the average policy, to concentrate on "quality" (whatever that means) prospects, and yet officials pull their hair out because they can't understand why the number of new lives grows smaller, when the total volume increases . . .
>
> The immediate future is certainly predictable. Greater and still greater efforts will be made to reach fewer and fewer people. The average size policy will increase still further, thus creating economies that will be passed on to a more and more limited number. And the wailing of officials because agents aren't extending the virtues of life insurance to enough ordinary Americans will get louder and louder.

[4] *Life Insurance and Family Spending—A Preliminary Report* (Hartford, Conn.: Life Insurance Agency Management Assn., 1956). Data were obtained from a special study of material from the 1950 *Survey of Consumer Finances* of the Bureau of Labor Statistics, U.S. Department of Labor. A family was defined as a consumer unit consisting of either a family of two or more persons dependent on a common or pooled income, or a single consumer financially independent of any family group. The survey covered urban families only (families in cities or towns having a population of 2,500 or more).

POLICY COSTS

The proponents made the following statements:

. . . studies made by the Massachusetts Savings Bank Life Insurance Council tend to show that the favorable cost differential of savings bank life insurance policies of the Massachusetts system compared with similar policies offered by the established life insurance companies doing business in that state is greater in the early years and that the gap narrows at the end of 20 years in the case of ordinary insurance . . . Very few policies taken out ever last 20 years; a very small percent last 20 years but most of the policies are dropped before that time.

. . . industrial insurance . . . is not only more expensive when sold by the same company, but cash and loan values are much smaller even though the premium is larger than for ordinary life insurance.

. . . take the cost, what he [the policyholder] paid, less dividends, less what he gets back in cash or loans; you will find the cost is tremendously more in the case of industrial insurance than it has been for savings bank life insurance.

The opponents made the following statements:

. . . life insurance can be made more cheap if the policyholder goes directly to the home office to pay his premiums.

There is a 10 percent reduction in cost if the policyholders do that [pay direct] because in that way they do not require the services of a collector.

The agent's commission is a small factor of the cost of insurance.

. . . if an ordinary life contract stays in force 20 years, the maximum commission paid to the agent will be slightly less than five percent of the total cost over 20 years. In many cases the maximum commission will be less than three percent of the total cost . . . Obviously, there will be some cost in salaries paid to mutual savings bank employees . . . and . . . we come to the point where we think [savings under SBLI are] two or three percent of the cost as it is sold by established life insurance companies.

At least five established life insurance companies that sell life insurance to the people of Pennsylvania show lower net premium payment figures than do New York savings banks.

. . . the average savings bank life insurance net premium payment during the first ten policy years, based on latest available information as to dividend scales, for a $1,000 ordinary life insurance policy issued at age 35 would be—

Connecticut	$20.75
Massachusetts	19.17
New York	21.09

Here are the figures for the individual companies:

Company "A"	$21.07
"B"	20.95
"C"	20.78
"D"	20.70
"E"	20.44

The figures will show that most people don't lapse their policies in the early years. The fact that they [savings bank life insurance policyholders] might get a little greater value in the early years is an irrelevant factor.

In any cost comparison of generally similar policies issued by different insurers, variations in services furnished and in benefit provisions must be borne in mind, since these, while not always translatable into specific dollar cost amounts, may actually be reflected in the premium charged. In the cost comparisons of generally similar policies presented in this discussion, the variations in benefit provisions are noted, but no attempt is made to evaluate the services offered in connection with the policies.

To facilitate evaluation, the terms used in presenting the comparisons are defined below.

Gross premium: the stated periodical charge to the policyholder for the policy. This premium payment fixes the upper limit that can be charged for the policy; it is determined by the insurance company on the basis of its estimates (which are typically conservative) of the rate of mortality, the rate of interest, and the rate of expense. (A discussion of these factors is presented in the Appendix.)

Dividend: a payment credited to the policyholder by a mutual insurance company, reflecting the difference between actual experience and the company's estimates of mortality, interest, and expenses used in computing the premium.[5] A dividend may be taken in cash, allowed to stand at interest, or used to purchase additional insurance or to reduce premiums. Stock companies do not pay policyholder dividends, a circumstance reflected in the lower premium rates charged for their policies.

Net premium: gross premium minus dividends. For policies issued by stock companies, gross premium and net premium will be identical.

Net cost: the actual cost of a policy if it should be surrendered at the end of a specified period of time, computed by subtracting from net premium the cash value of the policy at the time of surrender.

In the following discussion, estimated net premium payments and net cost, averaged over various durations, for various types of policies and ages at issue, are used as bases for comparison.[6] In these comparisons, it was assumed that published 1956 dividend scales would remain in effect for the durations considered. Since these dividend scales are not guaranteed and may change over time, estimates for short durations are likely to be more accurate than those for longer durations.

SBLI combines features of both industrial and ordinary insurance in that policies may be purchased with face values ranging from $250 to the limit permitted in the particular state. (Generally speaking, industrial insurance is not issued in amounts exceeding $1,000 and ordinary insurance is not issued by insurance companies in amounts of less than $500.)

Savings Bank Life Insurance and Industrial Insurance

Industrial insurance differs from SBLI in the following ways: Premiums generally are paid weekly, rather than monthly or less frequently; premiums generally are collected at the home by agents rather than paid by the policyholder at the bank or deducted from his savings account; limits of standard rate classification are wider than for SBLI; and a medical examination is generally not required for industrial insurance. (The medical examination requirements of the SBLI systems are discussed on page 14.)

An SBLI policyholder could, in effect, pay premiums weekly by making weekly deposits to his savings account, from which his premium payment would be deducted, but no provision is made by savings banks for collection of premiums at the home of the insured.

Cost data for industrial insurance are not readily available. However, a net cost illustration for

---

[5] The fact that dividends of this type are more in the nature of refunds than returns on investment is recognized in the federal income tax laws, which provide that they need not be reported for income tax purposes unless they exceed aggregate premiums or other consideration paid for a policy.

[6] Data used in preparing these estimates were obtained from *Flitcraft Compend* 1956 (New York City: Flitcraft, Inc., 1956). Projected and actual average net premium payment and average net cost data for the first ten years of ordinary, 20-payment life, and 20-year endowment policies issued by selected companies are presented in Appendix Tables 2-4. The actual cost of ordinary policies issued by 9 of the 11 companies for which data were available was from 1 percent to 22 percent less than projected cost; for the other two companies actual cost was 2 percent and .5 percent higher. Because of these deviations of actual from expected costs, small differences in projected costs cannot, at least for long durations, be regarded as significant.

a 20-payment life industrial policy issued by a major insurance company and data for a comparable policy issued by the New York SBLI system are presented in Table 11. The table shows that premium payments were higher and dividends were lower for the industrial policy than for the SBLI policy, but that the industrial insurance policy had the higher cash value. The resulting average annual net cost of the industrial policy was substantially greater, for both 10 and 20 year durations, than that of the New York SBLI policy.

Ordinary, 20-Payment Life, and 20-Year Endowment Policies Issued by Savings Bank Life Insurance Systems and Life Insurance Companies

An ordinary life policy provides for premiums payable throughout the lifetime of the insured. (Some companies have replaced the ordinary life policy with a long-term limited-payment life policy, such as life paid up at 85; except when issued at very high ages such a policy is virtually equivalent to an ordinary life policy.) A 20-payment

Table 11

Comparison of 20-Payment Life Industrial Policy Issued by a Major Insurance Company and 20-Payment Life Policy Issued by New York SBLI System

[Policy size, $750; age at issue, 35; dividend scale, 1956]

	Industrial Policy	*SBLI Policy*
Weekly premium	$.76	......
Monthly premium	......	$2.53
At duration of 10 years:		
Total premiums	$395.20	$303.60
Total dividends	36.48	41.18
Total net payment	358.72	262.42
Average annual net payment	35.87	26.24
Cash value	225.00	221.63
Total net cost	133.72	40.79
Average annual net cost	13.37	4.08
At duration of 20 years:		
Total premiums	$790.40	$607.20
Total dividends	95.76	112.73
Total net payment	694.64	494.47
Average annual net payment	34.73	24.73
Cash value	522.38	496.27
Total net cost	172.26	......
Return over net cost	......	1.80
Average annual net cost	8.61	......
Average annual net return over cost	......	.09

Note: The industrial policy contains both disability and double indemnity provisions; the SBLI policy contains provision for disability only.

Source: *Little Gem Life Chart* (Cincinnati, Ohio: The National Underwriter Company, 1956).

life policy provides for payment of premiums over 20 years rather than over the lifetime of the policyholder. A 20-year endowment policy provides for payment of premiums over a period of 20 years, with the face value of the policy payable either during the 20-year period in the event of death or at the end of the period in the event of survival; this type of policy combines insurance protection and investment.

Table 12 presents comparative average net premium payment and average net cost data for $1,000 of ordinary life insurance issued at age 35. The data are shown for those insurance companies which had more than $200,000,000 of insurance in force in Pennsylvania as of December 31, 1954, for which data are available, and for the three savings bank life insurance systems.[7] Column 2 of the table shows annual gross premium; columns 3-6 show average annual net premium payments for various durations; and columns 7-10 show average annual net cost figures for the same durations.

[7] The policies compared in Table 12, though not identical, appear to be comparable. However, some are whole life policies and others are life paid up at 85. For the age of issue shown there is little practical difference. The additional benefits carried by certain of the policies are noted in the table. Appendix Tables 5 and 6 present similar comparisons for ages (at issue) 25 and 45.

Table 12

COMPARISON OF ORDINARY LIFE INSURANCE POLICIES ISSUED BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Policy size, $1,000; age at issue, 35; dividend scales, 1956; insurance companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A	$25.35	$21.66	$21.01	$19.80	$17.78	$17.16	$7.01	$2.40	$0.34 §
B	25.61	21.00	20.50	19.68	18.00	14.50	7.10	2.25	.13 §
C	27.52	23.41	23.87	22.49	20.43	21.41	11.47	6.09	1.62
D *	27.57	22.30	21.88	21.07	19.25	12.30	6.48	3.52	.50
E *	27.63	23.32	22.94	22.29	20.34	16.32	8.34	4.49	1.86
F	27.64	22.24	21.70	20.78	18.93	11.74	5.30	2.18	.11 §
G	27.67	23.84	22.92	21.77	20.47	19.34	9.72	5.27	1.87
H *†	27.69	26.50	25.40	24.40	22.48	21.00	11.80	7.40	2.38
I *	27.72	25.45	23.81	22.79	21.29	18.95	9.41	5.29	1.84
J	27.84	26.22	24.71	23.30	21.03	25.22	13.31	7.80	2.91
K	27.87	25.52	23.76	22.58	20.71	24.02	11.56	6.48	2.11
L	27.96	24.76	23.06	21.83	20.10	20.26	9.86	5.33	1.50
M	28.50	23.80	23.03	21.87	19.78	22.80	7.03	3.77	1.18
N *†	28.75	27.49	26.57	25.94	23.70	20.49	12.77	9.24	4.45
O *†‡	29.48	Not available				.....	.....	....	....
P	.....	$1,000 policies not issued				.....	.....	....	....
Q	.....	$1,000 policies not issued				.....	.....	....	....
Average—Companies A to N	27.52	24.11	23.23	22.18	20.31	18.96	9.37	5.11	1.55
Mass. SBLI	25.24	21.80	20.37	19.26	17.74	4.80	3.04	1.42	.80 §
N. Y. SBLI	25.89	22.13	21.69	20.94	19.31	5.13	4.29	3.14	.77
Conn. SBLI	26.36	22.01	21.50	20.75	#	5.01	4.17	2.90	#

* Life paid up at 85.

† Includes waiver of premium disability benefit.

‡ Includes disability and accidental death benefits.

§ Return over cost

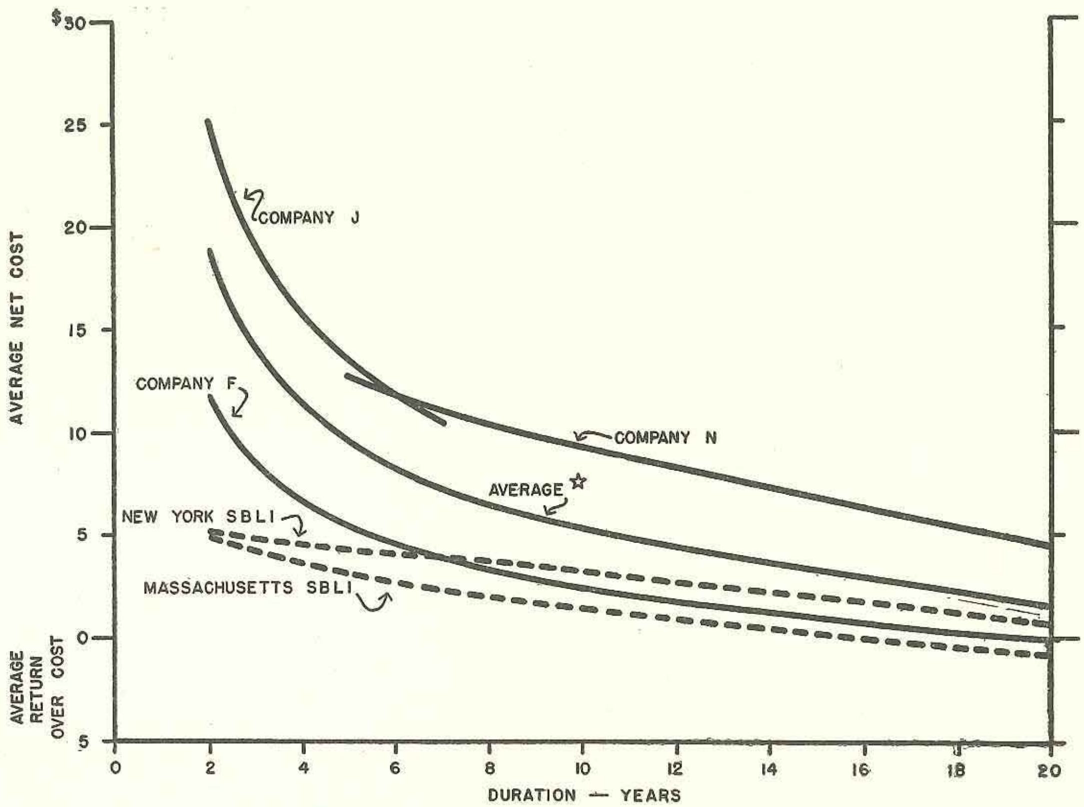
\# Dividend projections for more than ten years not available.

SOURCE: *Flitcraft Compend 1956* (New York: Flitcraft, Inc., 1956).

Chart VI

AVERAGE ANNUAL NET COSTS OF ORDINARY LIFE INSURANCE POLICIES ISSUED BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Supporting detail shown in Table 12.]



*Average for companies A to N as shown in Table 12.

Chart VI shows the highest and lowest average annual net cost for the company policies shown in Table 12, the average for the policies of companies A to N, and the average annual net cost of the Massachusetts and New York SBLI policies. The composite average for all SBLI policies is not shown because dividend projections for more than ten years were not available for Connecticut; since average annual net cost of each of the SBLI policies was lower at all durations than the average for the company policies, the SBLI average would, of course, also be lower. The Connecticut line is not shown because it closely parallels that of New York.

Comparable data for 20-payment life and 20-year endowment policies are presented in Tables 13 and 14 and Charts VII and VIII.[8]

The length of time a policy remains in force affects cost to the policyholder.[9] While there is considerable variation in the average net cost of similar policies issued by different companies, the variation becomes less pronounced as duration of

[8] Comparisons for ages (at issue) 25 and 45 appear in Appendix Tables 7-10.

[9] For a discussion of the relative persistency of policies issued by insurance companies and savings bank life insurance systems, see Appendix, page 60.

Table 13

COMPARISON OF 20-PAYMENT LIFE POLICIES ISSUED BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Policy size, $1,000; age at issue, 35; dividend scales, 1956; insurance companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years* †
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
D	$38.98	$33.64	$33.14	$32.13	$29.98	$13.14	$7.14	$3.03	$3.20
O	39.29	36.10	33.83	32.50	30.69	20.10	9.23	4.20	3.52
A	39.52	33.18	32.63	31.83	30.36	18.18	8.03	2.73	2.32
E	39.68	34.30	33.86	33.09	31.00	17.30	8.66	3.59	2.08
L	39.73	36.94	35.31	33.88	31.61	21.44	10.51	4.78	2.44
B	39.74	33.10	32.42	31.32	29.01	15.60	8.42	2.17	3.67
C	39.74	37.42	35.38	33.74	31.29	26.42	12.18	5.64	2.63
J	39.82	38.10	36.42	34.77	32.12	29.10	14.82	7.87	.56
I	39.88	37.14	35.16	33.95	32.26	20.64	10.36	4.85	1.59
K	40.23	37.74	35.75	34.27	31.87	27.24	12.75	5.87	2.18
H *	40.25	38.76	37.39	36.19	34.04	23.26	12.99	7.59	1.56
P	40.43	37.96	36.08	34.67	32.45	22.46	11.08	5.17	2.50
G	40.51	36.78	35.55	33.97	31.96	21.28	10.75	4.87	2.09
F	40.60	35.06	34.34	33.14	30.84	12.56	5.34	.94	4.56
Q	40.71	37.88	35.94	34.94	33.75	28.88	14.34	8.04	1.07 ‡
M	40.92	35.95	35.02	33.58	30.98	15.45	7.82	2.88	3.07
N *	41.04	39.02	37.60	36.70	34.16	22.52	13.40	8.50	.16 ‡
Average—All companies shown	40.06	36.42	35.05	33.80	31.67	20.92	10.46	4.87	2.16
Mass. SBLI	36.05	32.32	30.72	29.43	27.65	5.06	2.63	.12 †	5.44
N. Y. SBLI	36.31	32.43	31.85	30.82	28.80	5.18	3.76	1.27	4.29
Conn. SBLI	37.73	32.28	31.66	30.77	§	5.02	3.58	1.21	§

* Includes waiver of premium disability benefit.

† Return over cost, except as noted.

SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956).

‡ Average net cost.

§ Dividend projections for more than ten years not available.

Table 14

Comparison of 20-Year Endowment Policies Issued by Insurance Companies and SBLI Systems

[Policy size, $1,000; age at issue, 35; dividend scales, 1956; insurance companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	Gross Premium	Average Annual Net Premium Payment for Duration of				Average Annual Net Cost for Duration of			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years* †
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A	$51.51	$45.92	$45.27	$44.30	$42.50	$18.92	$7.87	$1.20	$7.50
D	51.64	46.22	45.63	44.40	41.81	13.72	6.83	1.30	8.69
O	51.75	48.65	46.33	44.83	42.67	21.15	9.73	3.03	8.46
L	51.93	49.16	47.38	45.67	42.80	22.16	10.58	3.57	7.20
E	51.94	46.85	46.35	45.46	43.20	19.35	8.75	2.36	6.80
C	52.05	49.64	47.46	45.67	42.97	28.64	11.86	4.06	8.03
F	52.16	46.52	45.64	44.19	41.50	13.02	5.44	.01 †	8.50
I	52.17	49.46	47.45	46.18	44.39	21.46	10.05	3.48	6.36
K	52.20	49.74	47.64	45.88	42.94	28.74	12.84	4.48	7.06
J	52.24	50.42	48.58	46.72	43.77	30.42	14.78	6.02	6.23
P	52.28	49.69	47.67	46.08	43.60	21.19	10.47	3.48	7.30
G	52.37	49.88	48.57	46.79	44.16	22.88	11.77	4.69	5.84
B	52.68	47.06	46.19	44.77	41.84	19.56	9.39	1.70	8.18
N *	53.11	51.04	49.51	48.49	46.02	24.54	12.91	6.49	5.73
M	53.24	47.97	46.87	45.15	42.04	16.97	7.87	1.45	7.96
Q	53.33	50.63	48.65	47.46	45.84	30.63	14.85	6.76	4.17
H *	53.35	51.78	50.31	49.02	46.90	24.28	13.51	6.82	5.60
Average—All companies shown	52.35	48.86	47.38	45.94	43.47	22.21	10.56	3.58	7.04
Mass. SBLI	48.64	44.58	42.77	41.27	39.18	5.38	2.17	1.90 †	10.82
N. Y. SBLI	48.42	44.40	43.64	42.38	39.82	5.40	3.04	.82 †	10.18
Conn. SBLI	50.01	44.20	43.48	42.42	‡	5.01	2.89	.75 †	‡

* Includes waiver of premium disability benefit.

† Return over cost.

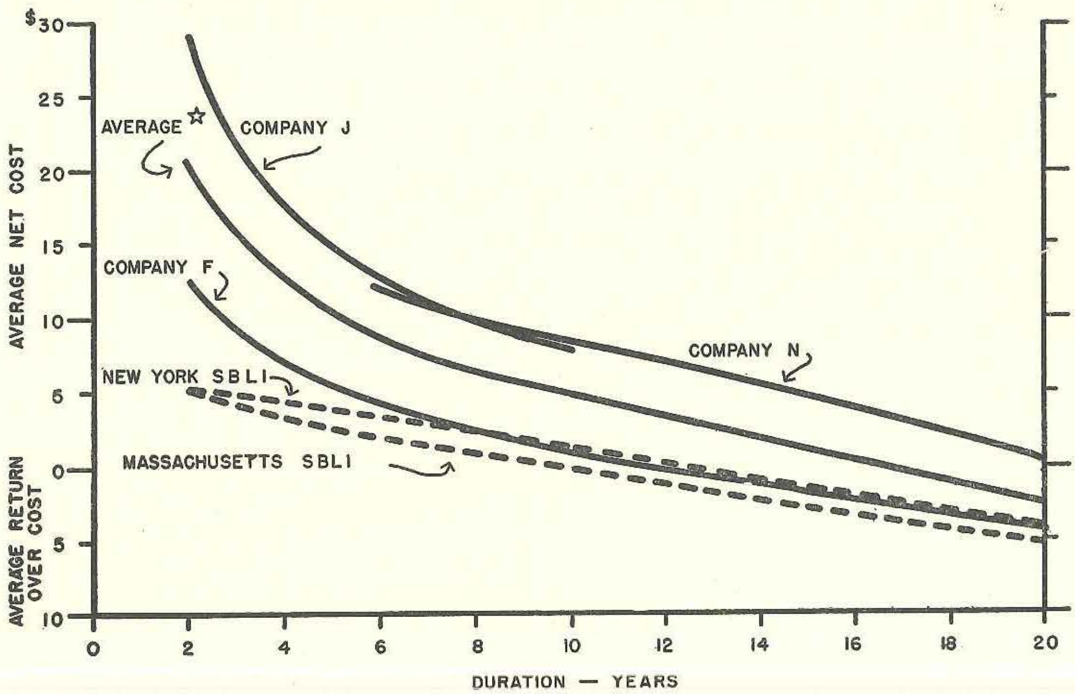
‡ Dividend projections for more than ten years not available.

Source: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956).

Chart VII

AVERAGE ANNUAL NET COSTS OF 20-PAYMENT LIFE POLICIES ISSUED BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Supporting detail shown in Table 13.]



*Average for all companies shown in Table 13.

the policies increases. The differential in average net cost between savings bank and insurance company policies also decreases as duration increases. The average for the companies shown is greater at all durations than the average annual net cost of any of the SBLI policies. For durations of seven or more years, the average annual net cost of the least expensive ordinary life insurance policy issued by an insurance company is less than that of comparable policies issued by the New York or Connecticut SBLI system.

The average annual net cost of the least expensive 20-payment life policy issued by an insurance company is less than that of comparable Connecticut or New York SBLI policies for durations of nine or more years. The average annual net cost of SBLI 20-year endowment policies is less than that of comparable company policies at all durations.

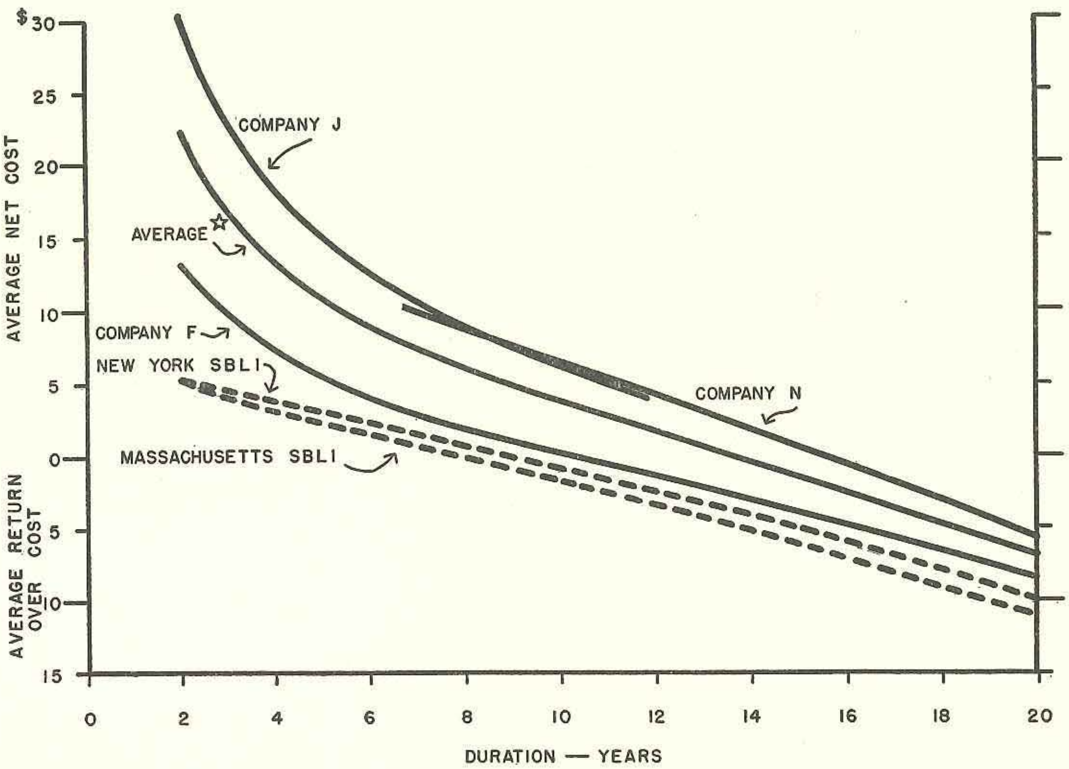
Savings Bank Life Insurance and Special Policies Issued by Insurance Companies

The issuance of special policies at reduced premium rates or under special dividend classes, where the minimum size of the policy is a factor in determining the rate or dividend class, is a practice of long standing. In recent years such policies have been advertised more extensively

Chart VIII

AVERAGE ANNUAL NET COSTS OF 20-YEAR ENDOWMENT POLICIES ISSUED BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Supporting detail shown in Table 14.]



*Average for all companies shown in Table 14.

with emphasis upon cost, and the public has become increasingly aware of the availability of this type of insurance.

Table 15 shows average annual net premium payment and average annual net cost data for special policies of companies issuing such policies in minimum amounts of $5,000 and $10,000, for a special policy (minimum $3,000) issued by the Massachusetts SBLI system, and for the ordinary insurance policies issued by the three SBLI systems. For two- and five-year durations, average annual net cost of each of the SBLI policies is less than that of the special policies issued by the companies. However, at durations of ten and twenty years, some of the special policies show lower net cost than the New York or Connecticut savings bank policies.[10]

[10] Comparisons for ages (at issue) 25 and 45 appear in Appendix Tables 11 and 12.

Table 15

COMPARISON OF SPECIAL POLICIES ISSUED IN MINIMUM AMOUNTS BY INSURANCE COMPANIES AND THE MASSACHUSETTS SBLI SYSTEM AND ORDINARY INSURANCE POLICIES ISSUED BY SBLI SYSTEMS

[Per $1,000 of insurance; age at issue, 35, dividend scales, 1956; insurance companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Minimum Policy Size	*Company*	*Gross Premium Per $1,000*	*Average Annual Net Premium Per $1,000 for Duration of*				*Average Annual Net Cost Per $1,000 for Duration of*			
			2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
$5,000	N *	$15.27 †	$14.04	$13.19	$18.87	$19.96	$14.04	$9.39	$6.77	$2.66
	O	15.27 †	12.82	11.14	17.60	19.40	12.82	7.34	5.50	1.47
	H *	22.92 ‡	22.92	21.99	21.62	20.63	17.92	8.99	5.12	1.53
	N *	23.13 §	23.13	21.82	21.74	20.82	19.63	9.82	5.94	2.02
	D	23.58	21.35	20.93	20.09	18.18	11.35	5.73	2.69	.44 ††
10,000	M	22.76 #	20.26	20.69	20.01	18.33	15.76	7.49	3.41	.28
	P	22.87 **	22.87	21.17	20.33	18.80	18.37	7.57	2.73	.25 ††
	C	23.41	22.58	21.62	20.55	18.63	14.08	6.62	2.85	.46 ††
	I	23.59	22.44	21.40	20.48	18.82	12.44	5.20	2.58	.49 ††
	E	23.87	21.92	21.53	20.94	19.02	12.56	5.63	3.29	.68
	N *	24.40	23.40	22.62	22.04	19.65	18.90	9.62	5.64	.55
	Q	24.72	23.31	22.34	21.40	20.43	15.31	8.14	4.70	1.51
	H *	25.00	24.05	23.12	22.23	20.60	Not available		4.63	.70
3,000	Mass. SBLI (Thrifty Special)	23.89	20.94	19.64	18.58	17.07	3.93	2.29	.72	1.49 ††
250	Mass. SBLI	25.24	21.80	20.37	19.26	17.74	4.80	3.04	1.42	.80 ††
	N. Y. SBLI	25.89	22.13	21.69	20.94	19.31	5.13	4.29	3.14	.77
	Conn. SBLI	26.36	22.01	21.50	20.75	‡‡	5.02	4.17	2.90	‡‡

* Includes waiver of premium disability benefit.
† After five years, $30.54
‡ After five years, $26.97.
§ After three years, $27.21.
SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956).

After two years, $26.99.
** After three years, $25.41.
†† Return over cost.
‡‡ Dividend projections for more than ten years not available.

ACTUARIAL CONSIDERATIONS

The opponents questioned the actuarial soundness of savings bank life insurance, stating:

> In the case of an epidemic or an atomic bombing, the risk is not leveled out . . . these savings banks are issuing localized insurance and if they have any quantity of insurance sold in that locality then certainly, in the case of a major catastrophe such as an atomic bombing or illness epidemic or something causing an exceptionally heavy death rate, they would not be able to stand the pressure and many of the people who invested in these savings banks would lose accordingly.

The opponents contended that this would not be the case with a life insurance company because "there is a spreading of the risk due to the fact that you are getting people insured from all over the country."

The proponents stated that savings bank life insurance, which has been in existence in Massachusetts for 48 years, in New York for 17 years, and in Connecticut for 14 years, "successfully has withstood the strain of wars, depressions, and fluctuations of the economic cycle."

They also presented, subsequent to the hearing, a statement by Robert D. Holran of New York, an independent actuary, which read in part:

> If an insurance company—savings bank or any other—has its risks largely concentrated in one city and if a superbomb is dropped on that city, then the resulting death claims probably could not be paid in full—at least not without impairing the capital and the legal reserves, and quite possibly not out of total assets. Many variables would affect the actual result, but obviously there is a potential bombing hazard in such a situation. Reinsurance of all policies in the proposed Savings Bank Life Insurance Company would not reduce this risk, except to the extent that such Company might develop a geographical distribution of its total insurance in force, i. e., reinsurance accepted from the Insurance Departments of issuing banks and any business written directly.
>
> Whatever weight may be given to this risk of atomic bombing, such risk is not limited to the proposed savings bank life insurance system, assuming for the present discussion that the policies of that system would be concentrated largely in the Philadelphia area, at least initially. Of the 26 legal reserve life insurance companies domiciled in Pennsylvania (as of mid-1955) a number of the smaller companies do in fact write most of their business in the Philadelphia area. In fact, most of the life insurance industry is, more or less, in the same boat. If Philadelphia is bombed so in all probability will be other large cities. The distribution of insurance by amounts at least approximates the distribution of population, so that there is a concentration of risks in the metropolitan and industrial areas which would be the prime bombing targets. In fact, this concentration of risks (by number of persons insured and presumably by amounts also) is substantially more than proportional to the population. A 1955 survey of the Institute of Life Insurance showed 71 percent of the "urban" population insured in legal reserve companies as compared to 50 percent of the "rural" population.

There are seven mutual savings banks in Pennsylvania—four in Philadelphia, one in West Chester (Chester County), one in Johnstown (Cambria County), and one in Pittsburgh (Allegheny County). In addition, the Philadelphia banks, as of August, 1956, had 30 branches in Philadelphia, 2 in Delaware County, and 3 in Montgomery County.

In New York and Connecitcut, the issuing banks, as well as the other savings banks designated as agencies (see page 14), are distributed throughout the state. The same is true of Massachusetts, which has, in addition, a number of credit unions, trust companies, and cooperative banks that act as agencies.

The legislation which has been proposed for Pennsylvania [11] provides for the establishment by issuing banks of agencies for receiving applica-

[11] Two identical bills, H.B. No. 800 and S.B. No. 265, were introduced in the 1955 Session of the General Assembly. Throughout the report, references to the proposed legislation may be considered as applying to either bill, and references to one bill as applying to the other. For convenience of reference, H.B. No. 800 has been reproduced in the Appendix, page 63.

tions for, and payments on, insurance and annuities. The agencies would be required to be licensed under the Insurance Laws of Pennsylvania (Section 603), and would be subject to regulation by the Insurance Commissioner. Extension of SBLI to areas of Pennsylvania other than those served by the mutual savings banks would have to be accomplished through such agencies or by mail.

UNDERWRITING SERVICES AND TRAINING OF SAVINGS BANK PERSONNEL

The opponents charged that bank personnel would not possess the necessary training or qualifications for the sale of life insurance and stated:

> When selling insurance you are selling your wisdom and knowledge . . . I have not heard anything about underwriting skill in the sale of insurance by mutual savings banks. They are not like life insurance companies which have this underwriting skill who advise them in the matter of whether this person can be insured at a particular rate in fairness to everybody else . . .

> Life insurance today is extremely complex and is becoming even more complex. A successful life insurance agent must know the policy provisions not only of his own company but those issued by all other companies . . . He must be able to help a family work out a budget. . . . He must be familiar with state insurance laws, with the provisions of Social Security, with Internal Revenue regulations, and the federal marital deduction provisions. He has to be able to advise a family the best policy for sending their children to college . . . to talk to people about old age income; as to how they can set up income if the father and husband dies.

> The passing of that examination [Pennsylvania examination for insurance agents] is not the end; to us it is just the beginning. We have to keep on working and studying in order to keep abreast of our progress in this business.

> We seriously doubt that many employees or even officers of the mutual savings banks would possibly spend the time or make the effort to educate themselves and inform themselves on these fundamental points in the insurance business, and yet, the depositors, we think, not only expect but deserve having this advice.

The proponents referred to Section 16 of House Bill No. 800, which describes the powers and duties of the savings bank life insurance company. They pointed out that "the technical handling of the life insurance business [of the mutual savings banks] would be supervised and conducted by the savings bank life insurance company which is a life insurance corporation like any other life insurance company." They contended that the bill provides "employes technically qualified to handle all aspects of the insurance department," and stated:

> In New York . . . underwriting is in the hands of people the same as the underwriting of the average life insurance company, and there is no reason in the world to suspect why men selected under these bills would be not equally qualified.

Reference was also made to Section 14 of House Bill No. 800, which requires that "an employe of an issuing bank who in the office of such bank as a part of his duties receives or negotiates for applications for insurance policies or annuity contracts shall have the qualifications and pass the examination prescribed for insurance agents under the laws of this Commonwealth." The proponents referred to this as a legal safeguard to insure that life insurance department employes of a savings bank could "command the skills to carry on the life insurance business within the limitations laid down by the act," and pointed out that "it would be within the purview of the Insurance Commissioner to issue a license or whatever, to show that the qualifications are met."

One witness stated that "agents are not all trained or professionals in their field," but added:

> The life insurance agency system is doing a fine job of selling life insurance, but we [Massachusetts savings banks] are selling to the people who don't need or want the services of an agent. . . . The people with incomes of $1,200 to $3,000 don't need the services of CLU agents; they buy small insurance policies and want a plain, simple life insurance policy to cover their needs.

SUBSIDIZATION

The opponents contended that savings bank life insurance was "competition on an unfair basis" because:

> All the operations of a small department called the mutual savings insurance department is a side issue of the mutual savings bank's operations and, in effect, is subsidized by the savings bank depositors. They may charge the insurance department a little cost for rent, but the directors' salaries and a proportion of the officers' salaries obviously must be charged to the banking department. . . . They pay a larger rate of interest on mutual savings insurance than they pay to ordinary depositors.

To show that the insurance department of a savings bank would *not* be subsidized, the proponents referred to Section 9 (2) of the proposed bill which provides:

> The savings department and the life insurance department shall be kept distinct also in matters of accounting and investment. All expenses pertaining to the conduct of both the savings department and the life insurance department shall be apportioned by the trustees equitably between the two departments.

One witness stated that "on the matter of expenses of this [life insurance] department being borne by the savings department [in New York state], I can testify that great care is exercised in making an equitable allocation of these common expenses."

The proposed Pennsylvania legislation and the SBLI laws of Massachusetts, New York, and Connecticut provide that the insurance department of a savings bank shall be kept separate from the savings department and that all joint expenses shall be apportioned equitably between the two departments. The problem of allocating joint costs has been discussed at length by experts in this area but no general agreement has been reached. Actuaries have stated that exact allocation and charge of overhead between multiple lines of business is not possible, and that methods used are approximate. In each of the three states which permit the sale of SBLI, the methods used for this allocation apparently have been accepted by the state insurance and banking departments.

The fact that mutual savings banks pay a higher rate of interest on mutual savings insurance than to depositors is not, in itself, an indication of subsidy. The causes of the variation in rates relate primarily to the different nature of the operations of the two departments. Savings departments must maintain a more liquid position, and so typically maintain a lower proportion of mortgages and a higher proportion of cash, than do insurance departments. And while both departments deduct investment expenses from their earnings, savings departments must also deduct operating expenses, which in the case of insurance departments are provided for in premiums.

THE AGENCY SYSTEM

The proponents contended that "despite the existence of savings bank life insurance, the rate of growth of the established life insurance companies doing buisness in those states [Massachusetts, New York, and Connecticut] has been about the same as for other areas of the country," and that "the number of commissioned life insurance agents . . . has grown in about the same proportion as in other areas of the country." They stated:

In all three states . . . there are now working arrangements between the representatives of the agents and the officials of the savings bank life insurance systems to solve their mutual problems.

The savings banks [in New York] aren't taking the position that the agent's services are unnecessary; at the same time neither side has any particular monopoly . . . instead of hurting the agency system . . . the prestige of the banks and educational work is creating a great demand for life insurance.

Proponents also contended:

The extension of savings bank life insurance into Pennsylvania will help rather than hurt the established life insurance companies and will not injure the agency system of life insurance distribution . . . The low cost of savings bank life insurance may well attract younger people to start their insurance programs, and as their family responsibilities multiply, they will turn, of necessity, to other sources for the additional insurance

Chart IX

AMOUNT OF LIFE INSURANCE IN FORCE—UNITED STATES, NEW YORK, PENNSYLVANIA, MASSACHUSETTS, AND CONNECTICUT: 1940-55

[Issues of legal reserve life insurance companies only.]

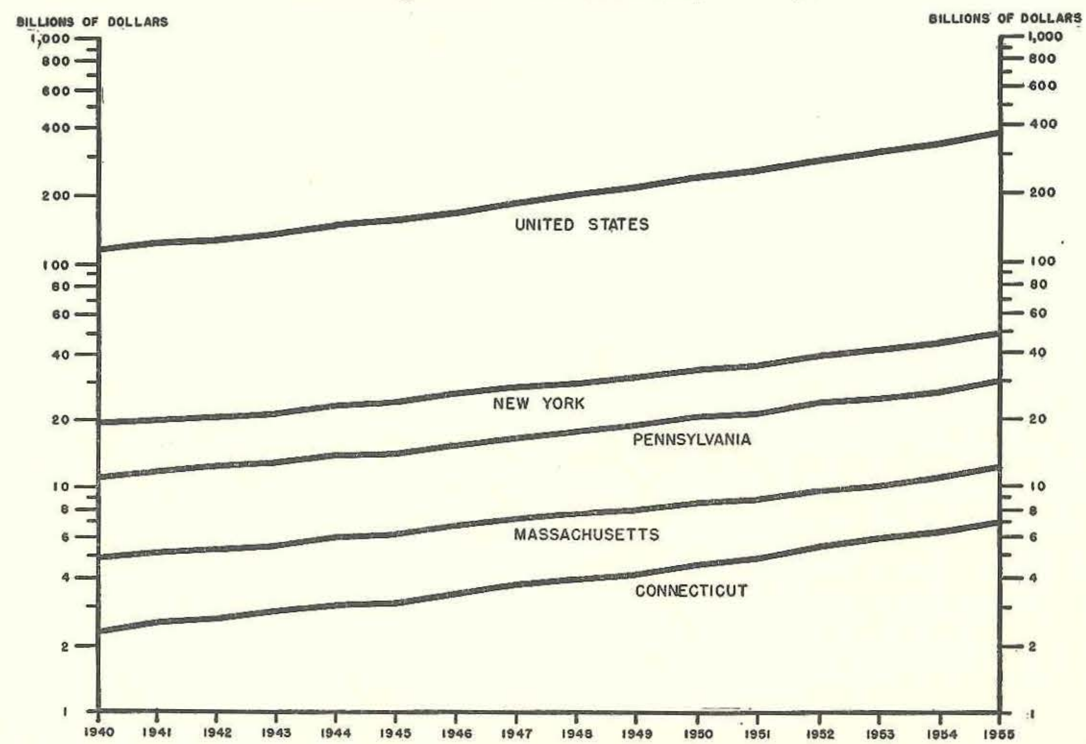


Table 16

AVERAGE ANNUAL RATE OF GROWTH OF AMOUNT OF INSURANCE AND NUMBER OF POLICIES IN FORCE—UNITED STATES, CONNECTICUT, MASSACHUSETTS, NEW YORK, AND PENNSYLVANIA: 1949-55

[Legal reserve life insurance companies only]

	Amount of Insurance in Force	*Number of Policies in Force*
United States	4.0%	1.9%
Connecticut	3.9	1.8
Massachusetts	3.1	.9
New York	3.1	.8
Pennsylvania	3.2	1.0

SOURCE: Calculated from data furnished by the Institute of Life Insurance, New York 22, N. Y.

protection they will need above the limit which they can buy from mutual savings banks.

Opponents suggested that, if savings bank life insurance were approved in Pennsylvania, similar steps might be taken in the other 16 states with mutual savings banks and that limits on such insurance would be increased—"a definite threat to the agency system of distributing insurance. . . . In the three states where the sale of insurance by mutual savings banks has been authorized . . . they are reaching out to get greater limits."

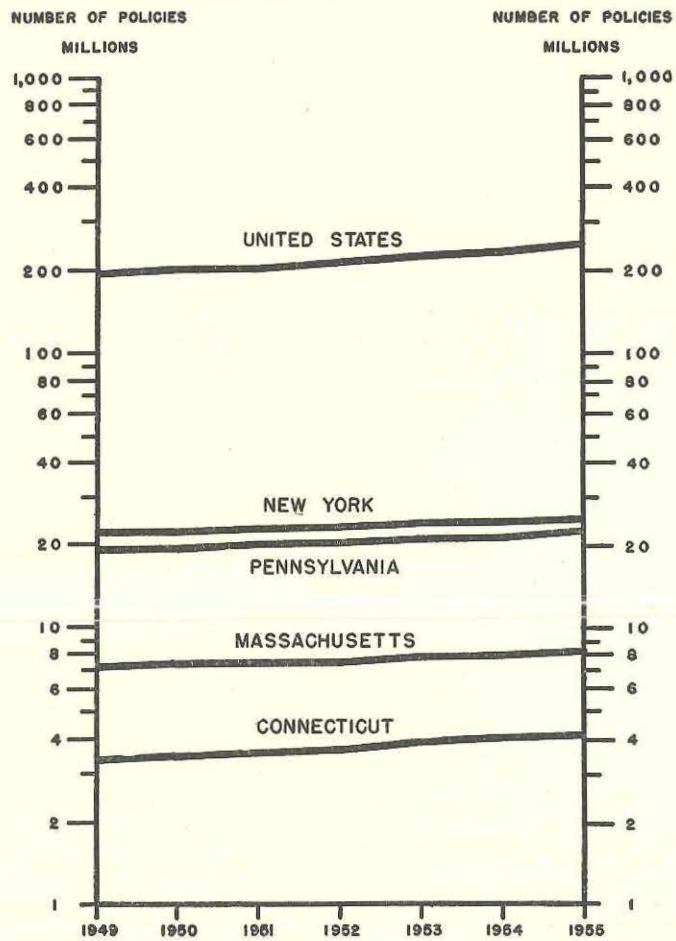
The opponents contended that authorization of savings bank life insurance would "undermine the confidence of the people in the agency system which has made America the great private social security system country of the world." They stated that "the chief inducement of savings bank life insurance is that the insurance will be cheaper because there is no agent's commission to pay . . . [and this] unfairly implies that there is no legitimate reason for an agent in the distribution of insurance."

The effect of SBLI upon the life insurance agency system cannot be precisely measured. The amount of life insurance in force (issued by legal reserve life companies) in each of the states which permit the sale of SBLI, although increasing less rapidly than in the United States as a whole, has, over the past six years, risen at an average annual rate exceeding 3 percent. The rate of growth in Pennsylvania was comparable with that in each of the three states. (See Charts IX and X and Table 16.) Since the Northeast developed earlier and is more highly urbanized than other sections of the country, and since life insurance was first introduced in this area, it is to be expected that coverage should be higher and current rates of growth lower than in the U. S. generally. As has been noted previously (Chart V), the volume of SBLI, although increasing over the years, has remained a small proportion of the total amount of insurance in force.

Chart X

LIFE INSURANCE POLICIES AND CERTIFICATES IN FORCE—UNITED STATES, NEW YORK, PENNSYLVANIA, MASSACHUSETTS, AND CONNECTICUT: 1949-55

[Issues of legal reserve life insurance companies only.]



In a recent survey of the Massachusetts adult population,[12] 41 percent of the respondents stated that one of the most important reasons that people did not buy SBLI was that they needed urging. In the same survey the reputation of the insurance company was mentioned by 73 percent of the respondents as being very important in making a selection of companies; lower cost was mentioned by 39 percent, and dividends, by 41 percent, of the respondents. "Good advice" was mentioned by 38 percent.

[12] *How 4½ Million Massachusetts People Look at Life Insurance* (Boston: Savings Bank Life Insurance Council, 1949). The survey was conducted by Facts and Figures, Inc., an independent market research agency.

Robert E. Dineen, who as New York State Insurance Superintendent had extensive experience with both the agency and savings bank systems of life insurance distribution, has observed:

> Operating as they do under a system where the initiative to buy lies with the purchaser, the success of savings banks in the sale of life insurance rests upon the desire of the public to acquire protection, and this desire has been developed, matured, and stimulated over the years by the sales efforts of the commercial companies . . . [but] we should also look at the other side of the picture. Every person who is introduced to life insurance by our savings banks becomes a potential prospect for increased protection beyond the maximum which the savings banks provide. A savings-bank life policy may often represent the first step in the building of a life insurance estate, and the man who has made such a beginning is, by that action, more likely to take successive steps to obtain more adequate protection through commercial channels.

EXTENSION OF BANK SERVICES

The proponents contended that "savings bank life insurance is a logical extension of the thrift services now being offered to low income groups by the mutual savings banks," and referred to a survey of the income distribution of depositors of the four Philadelphia mutual savings banks which indicated that "those having incomes of $5,000 a year or less constitute 68.1 percent of the 1,383,102 depositors of the four mutual savings banks, or a total of 941,902 persons." With respect to agencies for distribution of savings bank life insurance, they stated that "any agent so appointed would be an insurance agent within the meaning of the Insurance Department act and would have to comply with the qualification provision of that act."

The opponents stated:

> . . . there was a strange provision [in the proposed act] which enabled mutual savings banks to designate others—stores, food markets, garages, or anybody—to be their agents to write policies anywhere in the state. . . . If the savings bank life insurance people are permitted to set up agents in drug stores or what have you to sell insurance, you are going to find that it is directly contrary to state policy establishing limits to branch bank operation.

> We believe it is proper that a bank perform the normal functions of a bank. We believe it is proper that a life insurance company perform the normal functions of a life insurance company. But we just as sincerely believe that when a bank insures or when a life insurance company banks, then the normal functions become distorted, and that everybody, including the public, suffers at that point.

> . . . there are only seven mutual savings banks. . . . They could not possibly begin to serve the life insurance needs of the entire state. . . . They could not extend their services throughout the Commonwealth without violating sound principles of legitimate banking.

PUBLIC KNOWLEDGE OF LIABILITY

The opponents submitted:

> The public would not realize that for payment of the savings bank insurance obligations it could look only to the assets in the bank's life insurance department—as little as $20,000—and the assets of the reinsurance life company, which could be as little as $450,000.

INCREASED TAX REVENUE

The proponents stated:

> An important feature [of the proposed Pennsylvania legislation] is the provision for a central savings bank life insurance company. If this company is organized first in Pennsylvania, other states can participate in our system merely by passage of simple enabling acts by their legislatures. If this happens, it will mean additional tax revenue for Pennsylvania. . . .

Appendix Table 1

AMOUNT OF SAVINGS BANK LIFE INSURANCE IN FORCE—MASSACHUSETTS, NEW YORK, AND CONNECTICUT: 1908-55

[In thousands of dollars]

Year	*Massachusetts*	*New York*	*Connecticut*	*Total*
(1)	(2)	(3)	(4)	(5)
1908	$115	......	......	$115
1909	993	......	......	993
1910	1,367	......	......	1,367
1911	1,956	......	......	1,956
1912	2,529	......	......	2,529
1913	3,151	......	......	3,151
1914	3,567	......	......	3,567
1915	4,341	......	......	4,341
1916	6,042	......	......	6,042
1917	8,139	......	......	8,139
1918	9,783	......	......	9,783
1919	12,373	......	......	12,373
1920	15,050	......	......	15,050
1921	16,670	......	......	16,670
1922	19,873	......	......	19,873
1923	25,678	......	......	25,678
1924	31,759	......	......	31,759
1925	38,105	......	......	38,105
1926	43,293	......	......	43,293
1927	49,172	......	......	49,172
1928	57,837	......	......	57,837
1929	67,588	......	......	67,588
1930	77,325	......	......	77,325
1931	90,961	......	......	90,961
1932	90,606	......	......	90,606
1933	93,187	......	......	93,187
1934	99,961	......	......	99,961
1935	109,646	......	......	109,646
1936	122,375	......	......	122,375
1937	139,706	......	......	139,706
1938	154,788	......	......	154,788
1939	173,124	$5,836	......	178,960
1940	191,540	11,650	......	203,190
1941	209,080	19,466	......	228,546
1942	222,750	28,799	$1,171	252,720
1943	239,896	36,204	2,240	278,340
1944	247,998	45,590	4,149	297,737
1945	264,052	61,070	5,925	331,047
1946	293,588	88,967	7,724	390,279
1947	319,328	113,433	9,574	442,335
1948	342,588	136,609	11,270	490,467
1949	364,674	156,218	12,424	533,316
1950	392,548	172,870	14,392	579,810
1951	418,295	189,532	17,081	624,908
1952	448,719	215,265	20,660	684,644
1953	481,560	237,533	22,797	741,890
1954	512,524	260,107	25,760	798,391
1955	543,840	284,174	31,744	859,758

SOURCE: SBLI systems, respective states.

Appendix Table 2

COMPARISON OF PROJECTED AND ACTUAL AVERAGE ANNUAL NET PREMIUM PAYMENT AND AVERAGE ANNUAL NET COST FOR FIRST TEN YEARS OF ORDINARY LIFE POLICIES ISSUED BY SELECTED COMPANIES

[Policy size, $1,000; policies issued in 1946; age at issue, 35]

	Average Annual Net Premium Payment			*Average Annual Net Cost*		
Company	*Projected* *	*Actual*	*Percentage Difference* †	*Projected* *	*Actual*	*Percentage Difference* †
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A	$21.21	$21.14	— .3%	$6.61	$6.54	— 1.1%
B	20.76	19.60	—5.6	6.16	5.00	—18.8
C	22.86	22.53	—1.4	6.46	6.13	— 5.1
D	22.23	21.41	—3.7	7.63	6.81	—10.7
E	21.21	21.37	.8	6.61	6.77	2.4
F	18.99	19.01	.1	4.39	4.41	.5
G	23.04	22.37	—2.9	7.94	7.27	— 8.4
H	24.09	23.78	—1.3	7.19	5.88	—18.2
L	22.68	20.80	—8.3	8.58	6.70	—21.9
M	21.99	20.84	—5.2	6.29	5.14	—18.3
N	23.90	23.86	— .2	8.20	7.06	—13.9

* From 1946 dividend scale.
† Difference expressed as percentage of projected. Minus sign indicates actual less than projected.

SOURCE: *Flitcraft Compend* 1946 and 1956 (New York: Flitcraft, Inc.).

Appendix Table 3

COMPARISON OF PROJECTED AND ACTUAL AVERAGE ANNUAL NET PREMIUM PAYMENT AND AVERAGE ANNUAL NET COST FOR FIRST TEN YEARS OF 20-PAYMENT LIFE POLICIES ISSUED BY SELECTED COMPANIES

[Policy size, $1,000; policies issued in 1946; age at issue, 35]

	Average Annual Net Premium Payment			*Average Annual Net Cost*		
Company	*Projected* *	*Actual*	*Percentage Difference* †	*Projected* *	*Actual*	*Percentage Difference* †
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A	$30.81	$30.72	— .3%	$5.23	$5.14	— 1.7%
B	30.68	29.60	—3.5	5.10	4.03	—21.0
C	34.17	34.15	— .1	6.07	6.05	— .3
D	31.65	31.03	—2.0	6.07	5.45	—10.2
E	31.31	31.49	.6	5.74	5.91	3.0
F	28.74	29.04	1.0	3.16	3.46	9.5
G	34.67	33.66	—2.9	7.77	6.76	—13.0
H	34.67	35.58	2.6	6.47	5.58	—13.8
I	34.21	24.41	.6	5.91	6.11	3.4
L	33.57	32.43	—3.4	7.77	6.63	—14.7
M	33.17	32.21	—2.9	4.97	4.01	—19.3
N	34.48	34.57	.3	7.78	6.37	—18.1
O	31.41	31.20	— .7	5.81	5.60	— 3.6
P	33.17	31.68	—4.5	10.09	7.84	—22.3

* From 1946 dividend scale.

† Difference expressed as percentage of projected. Minus sign indicates actual less than projected.

SOURCE: *Flitcraft Compend* 1946 and 1956 (New York: Flitcraft, Inc.).

Appendix Table 4

COMPARISON OF PROJECTED AND ACTUAL AVERAGE ANNUAL NET PREMIUM PAYMENT AND AVERAGE ANNUAL NET COST FOR FIRST TEN YEARS OF 20-YEAR ENDOWMENT POLICIES ISSUED BY SELECTED COMPANIES

[Policy size, $1,000; policies issued in 1946; age at issue, 35]

	Average Annual Net Premium Payment			*Average Annual Net Cost*		
Company	*Projected* *	*Actual*	*Percentage Difference* †	*Projected* *	*Actual*	*Percentage Difference* †
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A	$44.07	$43.98	— .2%	$3.33	$3.23	— 3.0%
B	45.20	44.03	—2.6	4.46	3.29	—26.2
C	47.04	47.09	.1	4.94	4.99	1.0
D	44.56	44.20	— .8	3.82	3.46	— 9.4
E	44.59	45.19	1.3	3.84	4.44	15.6
F	42.22	42.81	1.4	1.47	2.07	40.8
G	46.49	46.84	.8	5.89	6.24	5.9
H	47.76	48.42	1.4	4.96	4.82	— 2.8
I	45.94	46.39	1.0	3.94	4.39	11.4
L	45.44	44.83	—1.3	5.94	5.33	—10.3
M	45.35	44.59	—1.7	3.45	2.69	—22.0
N	46.62	46.65	.1	6.02	4.75	—21.1
O	44.46	44.56	.2	3.76	3.86	2.7
P	45.85	44.64	—2.6	7.61	6.07	—20.2

* From 1946 dividend scale.

† Difference expressed as percentage of projected. Minus sign indicates actual less than projected.

SOURCE: *Flitcraft Compend* 1946 and 1956 (New York: Flitcraft, Inc.).

Appendix Table 5

COST COMPARISON OF ORDINARY LIFE INSURANCE POLICIES ISSUED AT AGE 25 BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Policy size, $1,000; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A	$18.70	$16.30	$15.87	$15.03	$13.42	$16.30	$6.27	$1.93	$ .73 §
B	18.99	15.91	15.53	14.88	13.43	13.91	6.53	1.74	.71 §
D *	20.59	17.06	16.74	16.06	14.41	11.56	5.74	2.88	.29 §
F	20.60	16.56	16.22	15.59	14.16	9.56	4.02	1.19	1.00 §
L	20.66	18.64	17.68	16.71	15.07	18.64	8.88	4.51	.42
E *	20.67	17.57	17.30	16.73	15.05	14.57	6.90	3.43	.68
C	20.68	18.02	18.25	17.08	15.11	18.02	9.65	4.88	.40
I *	20.80	19.34	18.19	17.36	15.97	16.84	8.19	4.36	.97
G	20.82	17.40	16.72	15.83	14.79	17.40	7.92	3.63	.14
J	20.84	19.75	18.68	17.59	15.74	19.75	10.88	6.19	1.60
K	20.87	19.30	18.13	17.35	16.10	19.30	9.73	5.25	1.45
H *†	20.99	20.03	19.14	18.32	16.76	17.03	9.74	5.82	1.16
M	21.44	18.32	17.66	16.67	14.79	18.32	5.86	2.87	.14
N *†	21.78	20.90	20.29	19.95	18.39	18.40	10.69	7.55	3.34
O *†‡	22.21	Not available				Not available			
P	$1,000 policies not issued		.....	.....	.....	.....	.....	.....	.....
Q	$1,000 policies not issued		.....	.....	.....	.....	.....	.....	.....
Average—Companies A to N	20.60	18.22	17.60	16.80	15.23	16.40	7.93	4.02	.54
Mass. SBLI	18.56	16.29	15.39	14.62	13.16	3.85	2.56	1.23	1.27 §
N. Y. SBLI	19.46	16.60	16.30	15.80	14.58	4.10	3.50	2.40	.15
Conn. SBLI	19.60	16.96	16.67	16.13	#	4.48	3.84	2.74	#

* Life paid up at 85.
† Includes waiver of premium disability benefit.
‡ Includes disability and accidental death benefits.
§ Return over cost.
\# Dividend projections for more than ten years not available.

SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 6

COST COMPARISON OF ORDINARY LIFE INSURANCE POLICIES ISSUED AT AGE 45 BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Policy size, $1,000; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	Gross Premium	Average Annual Net Premium Payment for Duration of				Average Annual Net Cost for Duration of			
		2 Years	5 Years	10 Years	20 Years	2 Years	5 Years	10 Years	20 Years
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A	$36.03	$31.01	$30.36	$29.05	$26.65	$20.51	$10.76	$6.25	$4.09
B	36.70	29.82	29.23	28.26	26.27	17.32	10.23	5.48	3.72
G	38.81	33.77	32.51	30.96	29.33	23.27	13.71	9.16	6.38
C	38.83	32.60	33.45	31.78	29.35	27.60	15.45	10.18	5.59
D *	38.83	31.63	31.25	15.20	28.56	15.63	10.25	7.36	5.16
F	38.84	30.90	30.21	29.08	26.97	15.40	8.41	5.18	3.66
E *	38.86	33.06	32.68	31.76	29.02	21.06	12.48	8.46	5.80
H *†	38.92	37.34	35.90	34.58	31.63	26.84	16.50	11.98	6.33
I *	38.95	35.76	33.56	32.33	30.46	23.76	13.36	9.13	5.91
J	39.06	36.66	34.55	32.74	29.84	33.16	18.55	12.34	7.29
K	39.07	35.66	33.08	31.25	28.40	31.16	16.28	10.25	5.45
L	39.37	34.64	32.45	31.06	29.35	24.14	13.65	9.26	6.40
M	39.82	33.08	32.21	30.85	28.60	30.08	11.01	7.45	5.65
N *†	39.84	38.37	37.05	36.05	32.13	26.37	17.65	13.95	8.13
O *†‡	41.34	Not available				Not available			
P	$1,000 policies not issued		.....	.....	.....	.....	.....	.....	.....
Q	$1,000 policies not issued		.....	.....	.....	.....	.....	.....	.....
Average—Companies A to N	38.71	33.88	32.75	30.35	29.04	24.02	13.45	9.03	5.68
Mass. SBLI	36.07	30.90	29.15	27.86	25.92	7.88	5.92	4.44	2.74
N. Y. SBLI	36.32	30.72	30.16	29.23	27.45	7.72	6.96	5.83	4.46
Conn. SBLI	37.30	30.40	29.99	29.22	§	7.38	6.77	5.80	§

* Life paid up at 85.

† Includes waiver of premium disability benefit.

‡ Includes disability and accidental death benefit.

§ Dividend projections for more than ten years not available.

SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 7

Cost Comparison of 20-Payment Life Policies Issued at Age 25 by Insurance Companies and SBLI Systems

[Policy size, $1,000; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	Gross Premium	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years †*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
D	$32.02	$28.24	$27.84	$26.93	$24.94	$12.74	$6.44	$2.53	$3.12
O	32.43	29.92	28.06	26.88	25.24	17.42	8.06	3.28	3.75
E	32.55	28.36	28.03	27.30	25.33	15.86	7.43	2.60	2.58
L	32.60	30.86	29.91	28.68	26.41	19.86	9.51	4.08	2.74
A	32.66	27.59	27.12	26.32	24.73	17.09	7.12	1.92	2.84
C	32.67	31.05	29.50	28.03	25.60	23.05	10.90	4.53	3.05
B	32.80	27.62	27.04	26.06	23.92	16.12	7.64	1.63	3.65
J	32.80	31.59	30.30	28.89	26.47	25.09	12.70	6.39	1.10
H *	33.09	31.91	30.79	29.76	27.84	20.41	10.79	5.96	2.21
I	33.12	31.09	29.53	28.47	26.74	19.09	9.33	4.17	1.71
K	33.19	31.46	30.05	28.93	26.99	23.46	10.85	4.73	2.16
Q	33.50	31.19	29.61	28.78	27.78	24.69	12.01	6.28	.21 ‡
G	33.60	30.01	28.99	27.64	25.91	19.01	8.59	3.14	3.24
P	33.74	31.73	30.27	29.20	27.35	20.73	9.67	4.20	2.60
F	33.79	29.59	29.03	28.04	25.94	10.59	4.03	.14	4.88
M	33.84	30.41	29.59	28.27	25.76	13.41	6.59	2.17	3.39
N *	34.26	32.62	31.50	30.88	28.82	21.12	11.90	7.38	.02 ‡
Average—All companies shown	33.10	30.31	29.24	28.18	26.22	18.81	9.03	3.83	2.52
Mass. SBLI	29.21	26.64	25.54	24.53	22.67	4.08	2.19	.22 †	5.24
N. Y. SBLI	29.71	26.72	26.26	25.46	23.70	4.15	2.91	.71	4.22
Conn. SBLI	30.81	27.05	26.64	25.90	§	4.48	3.28	1.15	§

* Includes waiver of premium disability benefit.

† Return over cost, except as noted.

‡ Average net cost.

§ Dividend projections for more than ten years not available.

Source: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 8

Cost Comparison of 20-Payment Life Policies Issued at Age 45 by Insurance Companies and SBLI Systems

[Policy size, $1,000; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	Gross Premium	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
D	$48.77	$41.52	$41.09	$40.09	$38.02	$16.52	$10.49	$6.39	$ .16 †
O	49.05	45.18	42.41	40.76	38.67	23.68	13.21	7.86	.67 †
A	49.23	41.46	40.99	40.25	38.77	21.46	11.59	6.55	1.09
B	49.38	41.18	40.44	39.25	36.83	19.68	11.64	5.54	.85 †
I	49.50	45.94	43.50	42.18	40.38	25.44	13.90	8.38	1.18
E	49.52	42.78	42.38	41.44	38.95	21.78	12.58	7.34	.80
J	49.65	47.19	44.98	43.05	40.17	35.69	19.58	11.85	2.49
L	49.77	45.52	43.42	41.88	39.71	24.52	14.22	8.58	.96
C	49.80	46.48	43.83	41.96	39.35	33.48	16.03	9.46	.10 †
P	49.82	46.58	44.07	42.23	39.72	26.58	14.67	8.43	.02
K	50.03	46.51	43.76	41.73	38.83	33.51	16.96	9.33	.08
F	50.11	42.08	41.27	40.00	37.84	16.08	8.47	4.90	1.93 †
H *	50.13	48.28	46.65	45.22	42.56	28.78	17.65	12.02	1.86
G	50.20	45.57	44.08	42.20	39.90	25.57	14.88	8.90	1.15
N *	50.47	48.48	46.73	45.44	41.42	26.98	18.13	12.74	2.27
M	50.78	43.79	42.81	41.28	38.71	19.29	11.41	6.38	.04 †
Q	51.17	47.82	45.54	44.36	42.99	36.32	20.14	13.16	5.31
Average—All companies shown	49.85	45.08	43.41	41.96	39.58	25.61	14.44	8.69	.79
Mass. SBLI	45.73	40.33	38.44	37.05	35.17	8.11	5.49	2.79	2.98 †
N. Y. SBLI	45.62	39.93	39.26	38.18	36.22	7.71	6.32	3.92	1.94 †
Conn. SBLI	47.51	39.60	39.13	38.27	‡	7.38	6.18	4.02	‡

* Includes waiver of premium disability benefit.

† Return over cost.

‡ Dividend projections for more than ten years not available.

Source: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 9

COST COMPARISON OF 20-YEAR ENDOWMENT POLICIES ISSUED AT AGE 25 BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Policy size, $1,000; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years †*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A	$49.27	$45.10	$44.46	$43.37	$41.23	$18.10	$6.86	$ .07	$8.77
D	49.45	45.68	45.12	43.90	41.30	13.18	6.32	.60	9.20
L	49.52	47.77	46.57	44.87	41.67	20.77	9.57	2.57	8.33
O	49.71	47.30	45.35	43.89	41.60	18.80	8.55	1.89	9.47
K	49.79	48.18	46.62	45.08	42.19	26.68	11.42	3.38	7.81
E	49.90	45.80	45.33	44.36	41.91	18.30	7.73	1.06	8.09
F	49.94	45.46	44.64	43.21	40.29	11.46	4.24	1.29 †	9.71
J	50.03	48.66	47.11	45.32	42.24	28.16	12.91	4.32	7.76
C	50.11	48.17	46.28	44.48	41.53	26.67	10.68	2.68	9.47
I	50.15	48.15	46.52	45.30	43.27	19.65	8.92	2.40	7.23
P	50.32	48.14	46.44	45.06	42.66	19.64	9.24	2.26	8.14
G	50.38	48.52	47.24	45.49	42.87	21.52	10.24	3.19	7.13
B	50.74	46.30	45.43	43.95	40.76	18.30	8.43	.66	9.24
Q	50.81	48.64	46.98	45.90	44.32	28.14	12.78	4.90	5.68
M	51.02	47.16	46.06	44.29	40.90	16.16	7.06	.39	9.10
H *	51.28	49.91	48.58	47.33	45.15	21.91	11.38	4.93	6.95
N *	51.70	49.68	48.24	47.31	45.01	23.18	11.64	5.01	6.74
Average—All companies shown	50.24	47.57	46.29	44.89	42.29	20.62	9.29	2.30	8.17
Mass. SBLI	46.65	43.60	42.16	40.74	38.26	4.52	1.57	2.59 †	11.74
N. Y. SBLI	46.51	43.32	42.59	41.35	38.64	4.32	1.99	1.95 †	11.36
Conn. SBLI	48.00	43.56	42.95	41.87	‡	4.48	2.35	1.46 †	‡

* Includes waiver of premium disability benefit.

† Return over cost.

‡ Dividend projections for more than ten years not available.

SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 10

COST COMPARISON OF 20-YEAR ENDOWMENT POLICIES ISSUED AT AGE 45 BY INSURANCE COMPANIES AND SBLI SYSTEMS

[Policy size, $1,000; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Company	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
		2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years †*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A	$56.54	$49.29	$48.76	$47.94	$46.37	$22.29	$11.36	$5.34	$3.63
D	56.54	49.26	48.78	47.68	45.40	16.76	10.18	5.08	5.11
O	56.61	52.80	50.02	48.30	46.16	26.30	13.42	6.90	5.01
C	56.69	53.59	51.03	49.16	46.56	33.59	15.43	8.16	4.69
E	56.82	50.38	49.95	49.00	46.72	22.38	12.55	6.30	3.28
P	56.94	53.65	51.07	49.16	46.59	24.15	14.07	7.06	4.36
I	56.96	53.44	51.00	49.67	48.01	25.44	13.80	7.37	2.99
G	57.07	53.15	51.78	49.93	47.30	25.65	14.98	8.33	2.70
F	57.11	49.16	48.29	46.92	44.73	16.66	8.49	3.22	5.27
L	57.20	52.98	50.80	49.11	46.59	25.48	14.00	7.51	3.41
J	57.22	54.72	52.43	50.43	47.64	35.72	19.03	10.33	2.36
B	57.27	50.04	49.20	47.85	45.14	22.54	12.40	5.25	4.86
K	57.34	53.72	50.84	48.68	45.76	33.72	16.64	7.98	4.24
N *	57.77	55.51	53.76	52.53	49.92	28.51	17.36	11.03	1.84
H *	58.12	56.26	54.61	53.22	50.97	29.26	18.01	11.42	1.54
M	58.22	51.08	50.00	48.34	45.54	20.58	11.40	5.14	4.46
Q	58.93	55.72	53.44	52.15	50.48	36.72	20.04	12.05	.48 ‡
Average—All companies shown	57.26	52.63	50.93	49.42	47.05	26.22	14.30	7.56	3.49
Mass. SBLI	53.36	47.77	45.78	44.31	42.48	8.27	5.13	1.47	7.52
N. Y. SBLI	52.97	47.20	46.46	45.23	43.14	7.70	5.86	2.43	6.86
Conn. SBLI	54.79	46.86	46.34	45.43	§	7.36	5.69	2.59	§

* Includes waiver of premium disability benefit.

† Return over cost, except as noted.

‡ Average net cost.

§ Dividend projections for more than ten years not available.

SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 11

Cost Comparison of Special Policies Issued in Minimum Amounts by Insurance Companies and the Massachusetts SBLI System and Ordinary Insurance Policies Issued by SBLI Systems

[Per $1,000 of insurance; age at issue 25; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Minimum Policy Size	*Company*	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
			2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years* ††
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
$5,000	O	$11.28 †	$ 9.36	$ 8.01	$12.66	$14.04	$9.36	$5.81	$3.76	$ .08
	N *	11.32 †	10.32	9.66	14.23	14.86	10.32	7.26	5.23	1.26 ‡‡
	H *	17.08 ‡	17.08	16.37	15.97	15.10	14.08	7.57	3.77	.25 ‡‡
	N *	17.28 §	17.24	16.21	16.24	15.72	16.74	8.01	4.44	.92 ‡‡
	D	17.60	16.20	15.98	15.30	13.70	10.70	5.18	2.20	.94
	Average—five companies above	14.91	14.04	13.25	14.88	14.68	12.24	6.77	3.88	.28 ‡‡
$10,000	M	16.59 #	14.82	15.36	14.81	13.34	14.82	6.56	2.61	.66
	P	16.82 **	16.82	15.77	15.24	14.00	16.32	6.17	1.84	1.05
	C	17.46	17.03	16.40	15.45	13.60	12.03	5.60	2.15	1.32
	I	17.59	16.84	16.06	15.28	13.69	10.84	4.26	1.88	1.26
	E	17.72	16.31	16.05	15.55	13.87	10.46	4.41	2.25	.44
	Q	17.88	17.06	16.47	15.62	14.75	11.56	6.07	3.02	.16 ‡‡
	N *	18.30	17.36	16.71	16.33	14.80	16.86	7.91	4.13	.20
	H *	18.42	17.86	17.22	16.52	15.21	Not available		3.42	.29
	Average—eight companies above	17.60	16.76	16.26	15.60	14.16	13.27	5.85	2.66	.63
$3,000	Mass. SBLI (Thrifty Special)	17.28	15.45	14.67	13.93	12.49	2.96	1.83	.53	1.95
$250	Mass. SBLI	18.56	16.29	15.39	14.62	13.16	3.85	2.56	1.23	1.27
	N. Y. SBLI	19.46	16.60	16.30	15.80	14.58	4.10	3.50	2.40	.15 ‡‡
	Conn. SBLI	19.60	16.96	16.67	16.13	§§	4.48	3.84	2.74	§§

* Includes waiver of premium disability benefit.
† Premium doubles after five years.
‡ After five years, $20.09.
§ After three years, $20.28.
# After two years, $20.06.
** After three years, $18.69.
†† Return over cost, except as noted.
‡‡ Average net cost.
§§ Dividend projections for more than ten years not available.

Source: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

Appendix Table 12

COST COMPARISON OF SPECIAL POLICIES ISSUED IN MINIMUM AMOUNTS BY INSURANCE COMPANIES AND THE MASSACHUSETTS SBLI SYSTEM AND ORDINARY INSURANCE POLICIES ISSUED BY SBLI SYSTEMS

[Per $1,000 of insurance; age at issue 45; dividend scales, 1956; companies with more than $200,000,000 of life insurance in force in Pennsylvania on December 31, 1954, for which data are available; SBLI systems of Massachusetts, New York, Connecticut]

Minimum Policy Size	Company	*Gross Premium*	*Average Annual Net Premium Payment for Duration of*				*Average Annual Net Cost for Duration of*			
			2 Years	*5 Years*	*10 Years*	*20 Years*	*2 Years*	*5 Years*	*10 Years*	*20 Years*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
$5,000	O	$21.98 †	$18.98	$16.88	$26.06	$28.84	$18.98	$11.88	$10.26	$6.68
	N *	22.27 †	20.50	19.01	26.43	27.44	20.50	14.21	10.83	6.09
	H *	32.74 ‡	32.74	31.46	31.15	29.49	24.74	13.66	9.45	5.64
	N *	33.28 §	33.28	31.39	31.18	28.27	25.78	14.59	10.38	5.02
	D	33.47	30.17	29.79	28.92	26.96	14.17	8.99	6.12	3.90
	Average—five companies above	28.75	27.13	25.71	28.75	28.20	20.83	12.67	9.41	5.47
$10,000	P	32.60 #	32.60	29.95	28.75	26.91	23.10	11.15	6.05	3.51
	M	32.64 **	29.14	29.67	28.87	27.06	19.64	10.87	6.87	4.61
	C	33.28	31.96	30.69	29.42	27.21	19.46	10.49	6.32	3.22
	I	33.64	31.90	30.48	29.36	27.04	15.90	8.48	5.86	2.84
	E	33.76	31.34	30.96	30.13	27.41	17.34	9.58	7.07	4.57
	N *	34.79	33.52	32.26	31.28	27.29	23.52	3.66	9.58	3.64
	H *	35.07	33.90	32.74	31.58	29.21	Not available		8.28	4.36
	Q	35.87	33.98	32.67	31.53	30.34	22.98	13.87	9.73	6.29
	Average—eight companies above	33.96	32.29	31.18	30.12	27.81	20.28	9.73	7.47	4.13
$3,000	Mass. SBLI (Thrifty Special)	34.63	30.05	28.44	27.20	25.29	7.00	5.18	3.74	2.04
$250	Mass. SBLI	36.07	30.90	29.15	27.86	25.92	7.88	5.92	4.44	2.74
	N. Y. SBLI	36.32	30.72	30.16	29.23	27.45	7.72	6.96	5.83	4.26
	Conn. SBLI	37.30	30.40	29.99	29.22	††	7.38	6.77	5.80	††

* Includes waiver of premium disability benefit.
† Premium doubles after five years.
‡ After five years, $38.52.
§ After three years, $39.15.
# After three years, $36.22.
** After two years, $38.13.
†† Dividend projections for more than ten years not available.

SOURCE: *Flitcraft Compend* 1956 (New York: Flitcraft, Inc., 1956), and SBLI systems, respective states.

In analyzing the reasons for cost differences between SBLI and insurance company policies, the elements of cost—mortality, interest, and expenses—should be considered. Each of these elements is discussed separately below.

Mortality.—While comparable statistics on mortality experience for each of the savings bank life insurance systems and for insurance companies are not available, some data are available which permit comparison of the experience of the New York SBLI system and selected life insurance companies. The American Society of Actuaries has computed ratios of actual to expected mortality for various durations of standard medically examined issues of sixteen large insurance companies, using the 1946-49 Select Basic Table.[1] These data are published in *Transactions,* an annual publication of the American Society of Actuaries.

Appendix Table 13 shows, for the sixteen insurance companies and for the New York SBLI system, comparable ratios of actual to expected mortality for policy durations of one to thirteen years.

The combined experience for the one-to-thirteen-year durations produces ratios of 88 percent for the banks and 96 percent for the companies.

Comparable data are not available for the Connecticut and Massachusets SBLI systems, but according to *Best's Life Insurance Reports* the mortality experience of the savings bank life insurance systems in these states has been favorable.

Investment Income.—Appendix Table 14 shows, for selected insurance companies and the three savings bank life insurance systems, 1955 earnings rates on investments, as computed by Alfred M. Best Company, Inc., and published in *Best's Life Insurance Reports.* Rates shown are net after deduction of investment expenses.

[1] A table of expected mortality prepared by a committee of the American Society of Actuaries from a study of the mortality experience of a large segment of the life insurance industry.

Appendix Table 13

RATIO OF ACTUAL TO EXPECTED DEATHS FOR DURATIONS OF 1 TO 13 YEARS, FOR YEARS OF ISSUE RANGING FROM 1939 TO 1951—NEW YORK SBLI SYSTEM AND SELECTED INSURANCE COMPANIES

Duration (Years)	*Years of Issue*	*New York SBLI System*	*Selected Companies*
(1)	(2)	(3)	(4)
1	1946-51	94%	102%
2	1945-50	107	97
3	1944-49	104	96
4	1943-48	75	97
5	1942-47	76	94
6	1941-46	79	94
7	1940-45	107	99
8	1939-44	77	98
9	1939-43	77	97
10	1939-42	101	96
11	1939-41	68	92
12	1939-40	89	94
13	1939	112	95
Total	......	88%	96%

SOURCES: New York Savings Banks Life Insurance Fund and *Transactions* (American Society of Actuaries, 1952).

Appendix Table 14

NET INTEREST EARNED BEFORE FEDERAL INCOME TAXES, AND EXPENSE RATIOS EXCLUDING FEDERAL INCOME TAXES—SELECTED INSURANCE COMPANIES AND MASSACHUSETTS, NEW YORK, AND CONNECTICUT SBLI SYSTEMS: 1955

Company	*Net Interest Earned* *	*Expense Ratio, All Business* † *(Per $1,000)*
(1)	(2)	(3)
A	3.6%	$3.75
B	3.8	4.08
C	3.6	5.07
D	3.6	3.82
E	3.5	3.72
F	3.6	3.26
G	3.5	3.18
H	3.5	3.86
I	3.5	4.22
J	3.7	3.15
K	3.7	4.06
L	3.2	2.70
M	3.5	4.17
N	3.6	3.98
O	3.4	3.85
P	3.6	4.12
Q	3.5	4.71
Mass. SBLI	3.3	3.18
N. Y. SBLI	3.9	3.83
Conn. SBLI	4.3	3.88

* Computed as the rate of return on all assets plus accrued investment minus investment expenses.

† Computed as a renewal expense ratio with expense of new ordinary business assumed to be five times, and of group business, three times, the expense of old business.

SOURCE: *Best's Life Insurance Reports* (New York: Alfred M. Best Company, Inc., 1956).

In general, compared to earnings of the major insurance companies operating in Pennsylvania, earnings of the Connecticut system have been higher, those of the New York system have been comparable or slightly higher, and those of the Massachusetts system have been lower.

The distribution of invested assets of the New York and Connecticut SBLI systems differed substantially from that of the insurance companies, in that savings bank life insurance departments invested more heavily in mortgages and less heavily in bonds than did insurance companies. This difference was less pronounced in Massachusetts where the asset distribution of the SBLI system more closely resembled that of the insurance companies. Appendix Table 15 shows the distribution of assets held in 1953 by selected life insurance companies and the SBLI systems.

The earnings rates shown in Appendix Table 14, coupled with the fact that the correlation between 20-year net cost of insurance policies and interest earnings was low (.44),[2] would suggest that the cost differences shown in Section III, Tables 12 to 15, cannot be primarily attributed to interest earnings.

[2] This correlation was computed on the basis of data for all companies having more than $100,000,000 of life insurance in force in Pennsylvania as of December 31, 1954, for which data are available.

Appendix Table 15

PERCENTAGE DISTRIBUTION OF ASSETS OF LIFE INSURANCE COMPANIES OPERATING IN MASSACHUSETTS, NEW YORK, AND CONNECTICUT AND OF THE THREE SAVINGS BANK LIFE INSURANCE SYSTEMS: 1953

Asset	*Massachusetts*			*New York*			*Connecticut*		
	Mass. Life Companies	*Other States Life Companies*	*Mass. SBLI*	*N. Y. Life Companies*	*Other States Life Companies*	*N. Y. SBLI*	*Conn. Life Companies*	*Other States Life Companies*	*Conn. SBLI*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Bonds	63.6%	58.4%	53.9%	64.2%	56.0%	23.8%	53.0%	59.4%	18.8%
Stocks	5.2	2.8	.8	2.3	3.6	....	4.4	3.4	3.8
Mortgage loans	22.4	28.2	34.8	23.1	31.3	63.9	29.0	27.3	60.7
Real estate	2.1	2.5	....	3.1	2.0	....	1.4	2.5	....
Policy loans and premium notes	2.9	3.6	5.9	3.7	3.3	5.6	2.7	3.7	4.8
Cash	1.2	1.2	1.8	1.1	1.3	2.6	1.1	1.1	5.8
All other assets	2.6	3.3	2.8	2.5	2.5	4.1	8.4	2.6	6.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCE: Annual reports of Massachusetts Department of Banking and Insurance, New York Insurance Department, and Connecticut Insurance Department, covering the year 1953.

Expenses.—Appendix Table 14 also shows expense ratios, as published in *Best's Life Insurance Reports,* for the three savings bank life insurance systems and for selected insurance companies. It will be noted that Massachusetts is the only system with ratios substantially lower than those of the insurance companies.

However, the nature of these ratios is such as to limit their applicability in comparisons between companies and between the companies and the SBLI systems. The Best organization computed the ratios to reflect renewal expenses only, weighting them to eliminate the high first-year costs associated with the sale of life insurance. (The assumption used was that first-year costs for ordinary business are five times, and for group business are three times, renewal costs.) To the extent that this weighting does not reflect the experience of a particular company or system, the ratios are not comparable. Then, too, the ratios are calculated to reflect over-all cost, which depends upon a number of factors that vary from company to company, such as total amount of insurance in force, proportions of ordinary, term, and group insurance and new business, and average policy size.

While commissions paid to agents by insurance companies are partly offset by salaries paid savings bank personnel engaged in activities related to the sale of insurance, the absence of commissions in the sale of SBLI policies is largely responsible for the cost differences between these policies and those of insurance companies for short durations. Because of the way in which commissions are typically paid, their net cost effect becomes less as duration increases. (The usual commission formula is 50 percent of first-year premium and 5 percent of premium for each of the ensuing nine years.) Over two years, this commission represents about 28 percent of total premiums; over five years, 14 percent; over ten years, 10 percent; and over twenty years, 5 percent.

The major factor in cost differences between SBLI policies and those issued by insurance companies would appear to be expenses—particularly commissions, the effect of which diminishes as duration increases. In Massachusetts, which has the oldest SBLI system and an individual limit on SBLI of $35,000, average net costs of SBLI policies are lower at all durations than net costs of generally similar policies issued by the large insurance companies operating in Pennsylvania (see Section III, Tables 12 to 15). But in New York and Connecticut, where the SBLI systems are newer and the individual limits much lower ($5,000 and $3,000, respectively), net costs of ordinary insurance for durations of more than seven years were higher than the net costs of generally similiar policies issued by a number of companies.

PERSISTENCY

As demonstrated by the cost comparisons presented in Section III, the length of time a policy remains in force has a substantial effect on cost to the policyholder. The longer the duration considered, the less pronounced are the cost differentials among generally similar policies issued by different organizations.

According to a recent study by the Life Insurance Agency Management Association,[3] of the ordinary insurance policies sold by ordinary agents and issued during May, 1949, 74 percent of those sold to men and 76 percent of those sold to women were still in force two years later. Of the ordinary insurance policies sold by combination agents[4] during the same period, the percentages of policies sold to men and women still in force two years later were 74 percent and 80 percent, respectively.

Appendix Table 16 shows, for sales of ordinary insurance by ordinary and combination agents, the percentages of policies issued during May, 1949, which were still in force two years later, by sex and income of the insured. The table shows that the two-year persistency rate for policies sold to men by ordinary agents

[3] *Persistency, 1949-51* (Hartford, Conn.: Life Insurance Agency Management Association, 1953).

[4] A combination agent sells industrial insurance and may also sell ordinary insurance. Actually, the distinction between ordinary and industrial insurance varies among companies, but in the LIAMA study the data supplied by the participating companies were not adjusted to reflect different definitions.

Appendix Table 16

PERCENT OF ORDINARY INSURANCE POLICIES SOLD BY ORDINARY AND BY COMBINATION AGENTS TO MALE AND FEMALE ADULTS AND ISSUED DURING MAY, 1949, IN FORCE IN MAY, 1951, BY INCOME OF INSURED

Income of Insured	*Sales by Ordinary Agents to*		*Sales by Combination Agents to*	
	Male Adults	*Female Adults*	*Male Adults*	*Female Adults*
(1)	(2)	(3)	(4)	(5)
Under $1,500	53%	58%	67%	73%
$1,500-$1,999	55	69	59	74
2,000- 2,499	60	72	61	76
2,500- 2,999	66	81	69	86
3,000- 3,999	69		72	
4,000- 4,999	78	76	78	87
5,000- 7,499	84		84	
$7,500 and over	90		91	
Unknown	77	..	79	86
Not gainfully employed	79	81	84	79
Total	74%	76%	74%	80%

SOURCE: *Persistency 1949-1951* (Hartford, Conn.: Life Insurance Agency Management Association, 1953).

ranged from 53 percent for persons with incomes of less than $1,500 to 90 percent for persons with incomes of $7,500 or more. The persistency rates for policies issued to women were generally higher than those for policies issued to men. Policies sold by combination agents seemed to be more persistent, particularly for the lower income levels, than those sold by ordinary agents. In general, persistency decreased as income decreased.

Persistency also tended to decrease as frequency of premium payment increased and as amount of cash with application decreased. Such other factors as previous ownership of insurance, age and occupation of insured, medical basis, and geographic region also appeared to affect persistency.

Available data for the savings bank life insurance systems are not strictly comparable to those for companies represented by the Life Insurance Agency Management Association study; however, persistency rates of SBLI policies appear to be higher. For example, 85 percent of the policies issued in 1944, and 96 percent of the policies issued in 1952, by a large Connecticut savings bank were still in force as of December 31, 1954. Cumulative persistency figures for the issues of the New York SBLI system for the period 1946-49 show that about 89 percent of the business was in force five years later; the two-year persistency figure was about 94 percent.

HOUSE BILL NO. 800

1955 SESSION

AN ACT

Relating to and regulating savings bank life insurance providing for the establishment and operation of life insurance departments by saving banks authorizing certain savings banks to issue certain policies of life insurance and annuity contracts requiring the reinsurance thereof with savings bank life insurance companies authorizing savings banks to act as agents for other savings banks having life insurance departments and for savings bank life insurance companies prohibiting the employment of solicitors of such life insurance and annuity contracts providing for the investment and deposit of funds of life insurance departments of savings banks making legal investment for savings banks certificates evidencing advances to surplus of life insurance departments of savings banks and the capital stock obligations or other securities of savings bank life insurance companies and imposing powers and duties on the Secretary of Banking and the Insurance Commissioner

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows

Section 1 Short Title This act shall be known and may be cited as the "Savings Bank Life Insurance Law"

Section 2 Declaration of Public Policy The Purpose of this act is to encourage habits of thrift among citizens of modest means by providing for the issuance by the savings banks of this Commonwealth at low cost commensurate with safety of policies of life insurance annuity contracts and other incidental insurance benefits and to this end to authorize and empower such banks to establish and maintain life insurance departments and either by themselves or in cooperation with other savings banks to engage in the issuance and sale of such policies and contracts In addition to its other purposes it is the purpose of this act to set forth the intention that savings bank life insurance so far as reasonably practicable and possible shall be governed and administered in the same manner and to the same extent as domestic mutual life insurance companies are governed and administered

Section 3 Definitions The following words as used in this act shall unless the context otherwise requires have the following meanings

"Savings bank" a mutual savings bank incorporated under the laws of this Commonwealth

"Issuing bank" a savings bank in this Commonwealth which has established a life insurance department pursuant to the provisions of this act

"Savings department" the department of an issuing bank in which the business done by the bank other than that provided for by this act is conducted

"Life insurance department" the department of an issuing bank in which the business of issuing life insurance and granting annuities is conducted

"Savings bank life insurance company" a life insurance company which conducts the business of life insurance in this Commonwealth in the manner prescribed by this act

"Trustees" the board of managers or directors of a savings bank or an issuing bank

Section 4 Establishment of a Life Insurance Department A savings bank may upon complying with the provisions hereinafter set forth establish a life insurance department if its trustees have voted so to do by a majority vote of all of its trustees The Secretary of Banking and Insurance Commissioner of this Commonwealth shall issue a joint certificate declaring such life insurance department established upon their finding that

(1) Certified copies of the vote of the trustees authorizing the establishment of such life insurance department have been filed with the Secretary of Banking and the Insurance Commissioner within thirty days after adoption thereof

(2) The savings bank has made an advance to surplus of such life insurance department as provided in section 5 of this act

(3) The savings bank has entered into an agreement for reinsurance with a savings bank life insurance company as provided in section 17 of this act

(4) The financial condition of the savings bank has been found by the Secretary of Banking to present no objection to the establishment of a life insurance department

Section 5 Advances to Surplus of a Life Insurance Department (a) A life insurance department shall have an initial surplus of not less than twenty thousand dollars ($20,000) in cash advanced to and placed at the risk of such department by the savings bank to be applied in payment of the operating expenses thereof if and so far as other amounts applicable to such operating expenses are insufficient

(b) The amount of the initial surplus shall be fixed by the trustees with the approval of the Secretary of Banking Additional advances may be made at any time thereafter with like approval

(c) Certificates evidencing advances to surplus shall be legal investments for a savings bank and shall bear interest at a rate to be fixed from time to time by the trustees but not exceeding four per centum per annum

(d) Advances to surplus may be repaid when the repayment will not reduce the surplus below the amount of the initial advance

(e) Advances to surplus shall not be deemed a liability of the life insurance department in determining the solvency thereof but shall be deemed a liability for taxation purposes

Section 6 Investment in a Savings Bank Life Insurance Company A savings bank may invest not in excess of one per centum of its surplus or fifty thousand dollars ($50,000) whichever is greater in stock obligations or other securities of a savings bank life insurance company Such investments may include certificates evidencing advances to the surplus of a savings bank life insurance company

Section 7 Powers of Issuing and Savings Banks (a) An issuing bank may conduct the business of insuring the lives of persons and every insurance appertaining thereto and granting and disposing of annuities and shall have all the rights powers and privileges and be subject to all the requirements relating to domestic mutual life insurance companies conferred or imposed by the laws of this Commonwealth so far as the same are applicable and except as otherwise provided herein

(b) An issuing bank may decline particular classes of risks or reject any particular application

(c) An issuing bank may act as agent for a savings bank life insurance company or another issuing bank in receiving applications for selling receiving premium payments due on and otherwise dealing with policies of life insurance and annuity contracts issued by the savings bank life insurance company or the other issuing bank

(d) An issuing bank may establish such agencies and means for the receipt of applications for any payments on insurance and annuities and for the performance of other services at such convenient places and times and upon such terms as the trustees may approve Any savings bank shall have the power to act as such agent or as agent of a savings bank life insurance company

Section 8 Taxation For the purpose of taxation by this Commonwealth or any political subdivision thereof the life insurance department of an issuing bank shall be deemed to be a domestic mutual life insurance company

Section 9 Savings Department Distinct from Life Insurance Department The insurance business of an issuing bank shall be conducted by its life insurance department subject to the following conditions

(1) The assets of the savings department shall be liable for and applicable to the payment and satisfaction of the liabilities obligations and expenses of the savings department only and the assets of the life insurance department shall be liable for and applicable to the payments and satisfaction of the liabilities obligations and expenses of the life insurance department only

(2) The savings department and the life insurance department shall be kept distinct also in matters of accounting and investment All expenses pertaining to the conduct of both the savings department and the life insurance department shall be apportioned by the trustees equitably between the two departments

(3) Except as hereinbefore provided the savings department and the life insurance department shall continue to be a single corporation and all investments shall be made and other business carried on in the name of the issuing bank

(4) The life insurance department of an issuing bank shall in all respects except as otherwise provided herein be managed as savings banks are managed under the general laws of this Commonwealth relating to savings banks

Section 10 Investment of Funds of a Life Insurance Department (a) The funds of a life insurance department may be loaned upon policies of insurance or annuity contracts issued by the department

(b) Uninvested funds of a life insurance department may be deposited with any savings bank bank bank and trust company trust company or national banking association in this Commonwealth which has been designated as a depository by the trustee

(c) Except as otherwise provided in this section the funds of the life insurance department shall be invested only as the funds of domestic mutual life insurance companies in this Commonwealth may be invested

Section 11 Limit of Amount of Insurance (a) No issuing bank shall become obligated to pay more than five thousand dollars ($5,000) exclusive of dividends profits or paid up insurance purchased with such dividends or profits in the event of the death of any one person except as otherwise provided in subsection (d) of this section

(b) No issuing bank shall become obligated to make payments during the lifetime of any one person at the rate of more than one hundred dollars ($100) per month exclusive of dividends or profits

(c) No issuing bank shall become obligated to make any payments in the event of the death of any one person or during the lifetime of any one person if the obligation so incurred together with the obligations of other issuing banks or savings bank life insurance companies with respect to the same person would in the aggregate exceed the maximum obligation allowed any one issuing bank under this section

(d) The foregoing limitations shall not apply to amounts payable under

(1) A group policy

(2) A policy issued pursuant to conversion privileges of a group policy

(3) An annuity contract embodying an agreement to pay upon the death of the annuitant to his estate or to a specified payee a sum not exceeding the premiums paid thereon with compound interest

(4) An agreement to pay benefits of not more than twice the face amount of the policy in the event of death by accident or accidental means

(5) An agreement to pay an amount equal to the cash surrender value in excess of the face amount of the policy

(6) An agreement for decreasing term insurance under which the original amount does not exceed twice the amount of insurance otherwise permitted by this section and decreases in amount at regular intervals so that no part thereof remains in force beyond twenty-five years from the issuance of the policy

Section 12 Geographical Limitation No application for insurance shall be accepted by an issuing bank except from a resident of this Commonwealth or a person working regularly therein or from a person residing or working regularly outside of this Commonwealth but within twenty-five miles of any boundary thereof

Section 13 Solicitors of Insurance Not to be Employed Issuing banks shall not employ solicitors of insurance and shall not employ persons to make house to house collection of premiums provided that this section shall not be deemed to apply to the services of its officers and employes in the discharge of their regular duties or to the compensation paid to them therefor

Section 14 Qualifications of Certain Employes Any employe of an issuing bank who in the office of such bank as part of his duties receives or negotiates for applications for insurance policies or annuity contracts shall have the qualifications and pass the examination prescribed for insurance agents under the laws of this Commonwealth

Section 15 Net Profits and Surplus (a) A life insurance department may add to its surplus each year such portion of its net profits as the trustees may approve within the limitations applicable to domestic mutual life insurance companies

(b) The surplus of a life insurance department whether resulting from net profits or advances shall be maintained and held or used so far as necessary to meet losses occasioned by depreciation of securities or other causes Such surplus may also be used for the maintenance of a stable dividend scale and for payment of settlement or maturity dividends or both in such manner and in such amount as the trustees may approve

(c) The portion of net profits not added to surplus in any year shall be distributed equitably among the holders of the life insurance policies and annuity contracts of the issuing bank The manner of distribution shall be at the option of the policyholder or annuitant in accordance with the law governing the distribution of annual net profits of domestic mutual life insurance companies

Section 16 Savings Bank Life Insurance Company To qualify as a savings bank life insurance company a life insurance company must satisfy the following requirements

(1) It shall be authorized to do a life insurance business in this Commonwealth with all general corporate powers incident to the conduct of such business

(2) The shares of its capital stock shall be owned only by savings banks located in the United States

(3) No director of the company shall be a director of another life insurance company authorized to do business in this State

(4) It shall enter into an agreement with each savings bank proposing to establish a life insurance department whereby it reinsures the mortality and morbidity risk of all life insurance and annuity contracts of the department

(5) It shall not become obligated to make any payments in the event of the death or during the lifetime of any one person in excess of the limits provided in section 11 of this act

Section 17 Reinsurance Agreement The reinsurance agreement required to be entered into by a savings bank proposing to establish a life insurance department shall be subject to the approval of the Insurance Commissioner and shall contain but shall not be limited to provisions that the savings bank life insurance company shall

(1) Reinsure the mortality and morbidity risk of all life insurance and annuity contracts to be issued by the savings bank

(2) Prepare such forms of life insurance policies and annuity contracts as may from time to time be desirable

(3) Prepare and furnish to the issuing bank forms of blanks for applications for life insurance policies and annuity contracts and for proofs of loss and all forms of books of record and of account all schedules and reports not otherwise provided for and all other forms necessary for the efficient prosecution of the business of the issuing bank which blanks books schedules and reports shall be used exclusively in the life insurance department of all issuing banks

(4) Consistently with the law governing life insurance companies authorized to do business in this State determine prepare or procure and furnish issuing banks tables of

(i) Premium rates for all life insurance policies to be issued by the issuing bank

(ii) Purchase rates for annuities

(iii) Amounts of surrender charges

(iv) Amounts of collection fees

(v) Amounts which may be loaned on insurance policies

(vi) Reinsurance premiums to be charged

(vii) The reserves to be held under insurance and annuity contracts

The rates fees charges and reserves so fixed shall apply with respect to the policies of all issuing banks

(5) Prescribe the standards of health or acceptability of applicants for insurance and annuity contracts and have the right to decline particular classes of risks or reject any particular application

(6) Have the right to pass on any or all claims and that any claim disallowed by it in whole or in part shall not to the extent disallowed be the basis for any claim under the reinsurance contract unless such claim is paid pursuant to the judgment or decree of a court of competent jurisdiction

(7) Defend any legal action or proceeding involving or arising out of any insurance policy of annuity contract and pay the expense of such defense.

(8) Furnish to all issuing banks the services of an actuary a medical director and medical examiners

Section 18 Discontinuance of a Life Insurance Department An issuing bank may at any time discontinue its life insurance department by a majority vote of its trustees Certified copies of the vote shall be filed with the Secretary of Banking and the Insurance Commissioner of this Commonwealth and with the savings bank life insurance company which has reinsured its mortality and morbidity risks Immediately thereafter the issuing bank shall make provisions satisfactory to the Insurance Commissioner for the carrying out with reasonable convenience to its policyholders and annuitants the provisions of its existing insurance and annuity contracts

Section 19 Examination of a Life Insurance Department The life insurance department of an issuing bank shall be subject to the provisions of the insurance laws of this Commonwealth governing examinations The Secretary of Banking may also make such examination of a life insurance department as he deems necessary

Section 20 Reports of Issuing Banks Every issuing bank shall annually on or before the first day of March file with the Secretary of Banking and the Insurance Commissioner a statement showing the financial condition of its life insurance department as of the preceding December 31 and file with the Insurance Commissioner whatever data he may require to verify its reserves for life insurance and annuity contracts For cause the Secretary of Banking and the Insurance Commissioner may extend the time for filing such statements or data The annual statement shall be in the form required by the Insurance Commissioner and assets and liabilities shall be computed and allowed in the statement in accordance with the rules governing life insurance companies except as herein otherwise provided

Section 21 Report of Insurance Commissioner The Insurance Commissioner shall prepare annually from reports filed by issuing banks and submit to the General Assembly of this Commonwealth in the annual report of the Insurance Department a statement of the condition of the life insurance department of each issuing bank and shall make such suggestions as he shall consider expedient relative to the general conduct and condition of any department or departments

Section 22 Powers of Insurance Commissioner Insolvency The Insurance Commissioner shall have the same powers and take the same action with respect to the conduct of the business of the life insurance department of an issuing bank as in the case of domestic life insurance companies including without limitation the right to take action in case of insolvency

Section 23 Effective Date This act shall take effect immediately