July 15, 1930

SUBJECT: INSURANCE

WITHDRAWN

To All Authorized Life Insurance Companies:

Re: Revision of Schedule Q Blank.

I am enclosing for your information two copies of the final draft of Schedule Q upon which form returns must be made for the calendar year 1930. I will be glad to receive any criticisms or suggestions regarding the draft or any of the items prior to the time when the form is finally printed, which will not be for another month.

Companies will be interested in the following rulings by this Department regarding the application of the first year expense limits of Section 97 to certain special policies.

In the case of a Decreasing Term to age 65 policy, it has been held that the $ 1 flat allowance per $ 1000 of insurance mentioned in Subdivision (d) of the first year expense limit should apply to the average face amount of insurance, determined by dividing the sum of the insurances for the various years by the term of the policy. It seems logical and reasonable to compute the insurance on the average rather than on the initial face amount.

In the case of the so-called Family Protection Policy under which insurance is furnished for life but with additional decreasing term protection during the first ten or twenty years, it has been held that the $ 1 flat allowance per $ 1000 of insurance should be applied against the average face of the policy obtained by treating the term of the contract as of a person's expectancy. Thus for a Twenty Payment Life policy, carrying the above form of benefits, issued at age 35 (where the expectation of life according to the American Experience Table is 32 years) the insurance should be averaged for the 32 years and such average multiplied by the $ 1 flat allowance.

The law allows, as an expense margin, 20% of the gross premium plus 35% of what such premiums would have been if said insurance had been issued on the Whole Life plan with level premiums payable during life consistent with the premiums to which the aforesaid 20% applies. It has been held that for a Twenty Payment Life, Family Protection policy, which is described above, that the policy on the "Whole Life Plan" should be equivalent in nature so that sub-division a (1) of the first year expense limit would permit the following:

1. 20% of the regular gross premium on the Twenty Payment, Family Protection policy plus

2. 35% of the equivalent Whole Life, Family Protection policy, carrying the same benefits but with level premiums payable throughout life.

In the case of the Decreasing Term to 65 policy, it has been held that the premium, which would have been charged had such policy been issued on the Whole Life Plan with level premiums payable during life, should be for the average face amount and not for the initial face amount.

In connection with the limitation in the law of a maximum 55% first year commission, this Department has construed the word "Commission" to cover all compensation for services other than supervision, for securing new business regardless of whether a company may designate part of it by some other name than "commissions".

Very truly yours,

(Signed)THOMAS F. BEHAN

First Deputy and Acting Superintendent

Enclosures