

RECOMMENDATION NO. 39

The Commission recommends that NSLI participating plan policyholders (those receiving dividends) be permitted to exchange the dividend for permanent, paid-up insurance, on an annual basis, so as to assure some insurance coverage at death should the policyholder be forced to drop his term policy in later years because of prohibitive premiums.

Background to Recommendation:

Over 2 million WW II NSLI policyholders continue to carry their insurance on a term basis --- renewable every five years, at a premium based on their attained age.

Unlike permanent plan insurance, which is underwritten at a premium rate which never changes, term insurance is underwritten on the basis of meeting all death claims which are expected to occur within the five-year age grouping of each renewed term period. During the early term periods, the insured enjoys extremely low premium rates which pay only for the insurance protection at the time and contribute nothing toward the later years. Older age groups, on the other hand, will experience more deaths, and the premium must be high during this period of time in order to cover the death claims of each higher age. The following shows the annual premium for a \$10,000 term policy, not considering any dividend payment:

\$10,000 Term Policy	
Age of Insured	Annual Premium
45	\$ 117.20
55	209.50
65	470.00
75	1,118.80

The rapid rise from age 65 dramatically portrays the mounting problem which will confront the term policyholder, and the premium rate which is required because (1) a greater number of deaths will occur at the older ages, (2) there are continually fewer policyholders paying premiums which must be available to meet the death claims costs --- thus the burden falls on the few remaining.

In 1965, a Modified Life Plan was introduced as a low-priced solution to this inevitable problem. The plan, at a