



AMERICAN ACADEMY *of* ACTUARIES

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June 4, 2010

Governor Deval Patrick  
State House  
Office of the Governor  
Room 280  
Boston, MA 02133

Re: HB 889 – Product pricing at Savings Bank Life Insurance Company (SBLI).

Dear Governor Patrick:

On behalf of the American Academy of Actuaries<sup>1</sup> Life Products Committee, we would like to address risk classification issues as they relate to HB 889 and the product pricing of Savings Bank Life Insurance Company.

The Savings Bank Life Insurance Company (SBLI) was established for the purpose of providing safe, low cost life insurance. Unfortunately, a provision of the Massachusetts General Law contradicts this purpose. That provision states that the company shall not discriminate on the basis of gender. For life insurance policies, this means that females subsidize males, and for annuities, the males subsidize females' benefits. These subsidies increase insurance premium costs for those policyholders paying the subsidies. As a result, this law is at odds with actuarial principles and this law only applies to a single, state chartered institution — SBLI.

Fortunately, HB 889 will allow SBLI to set rates based on responsible insurance practices, and let those with lower costs pay lower premiums.

Actuarial statistics confirm that females on average live longer than males. At most ages before age 85, mortality rates for males are significantly higher than the mortality rates for females of the same age. This happens regardless of where you live or how much you earn.

Insurance companies guarantee annuity benefits for a lifetime, regardless of whether an individual lives a long life, or has an untimely death. Still, since males die, on average, sooner than females, this

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<sup>1</sup> The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

expectation of fewer benefit payments is taken into account when setting prices, and males pay less for annuities than females do. This happens in all states except for Massachusetts & Montana, where males subsidize females. The opposite trend happens in life insurance. Because males have a higher risk of death, most insurance companies charge more to insure males than females. Montana is the only state that requires unisex life insurance premiums, and females must subsidize males there. Currently, at SBLI, female policyholders must subsidize the males, regardless of which state they live in.

Eventually, these subsidies cause prices to increase for all policyholders, since consumers do have a choice and generally will choose to buy—at a lower cost—a policy where they do not subsidize someone else arbitrarily.

Females who do not wish to pay higher premiums for life insurance will buy from other companies, and only males will purchase life insurance policies from SBLI. In fact, it has been reported that while females purchased about 45 percent of all new life insurance policies sold in the life insurance market in 2009, only 12 percent of purchasers of new SBLI life insurance policies in 2009 were female.

If SBLI continues to become more polarized by gender, solvency will become more difficult to maintain. Not only will SBLI have trouble providing low cost insurance and annuities, but “safe” insurance also will be harder to provide.

Actuaries have helped maintain insurance company solvency by adhering to sound actuarial and insurance principles. Hopefully, Massachusetts will reverse its rejection of such principles and allow actuaries at SBLI to base provisions for uncertainty on the evidence that emerges from scientific observations. We encourage you to support this legislation to bring actuarial science back to SBLI pricing.

If you have any questions on this matter, please feel free to contact John Meetz, Life Policy Analyst, at [meetz@actuary.org](mailto:meetz@actuary.org) or 202-223-8196.

Sincerely,

Cande Olsen, Chairperson  
American Academy of Actuaries  
Life Products Committee

Linda Lankowski, Member  
American Academy of Actuaries  
Life Products Committee

cc. Senate President Therese Murray  
Senate Minority Leader Richard Tisei