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ABSTRACT

This brochure was prepared because of increasing CASE member interest in the possibility of offering life, health, and automobile insurance programs to alumni as a source of additional income to alumni associations and schools. Ideas and approaches to consider before establishing such programs are offered, but neither specific programs nor legal advice is given. The programs discussed usually use a group insurance approach, and insured alumni have free choice of beneficiary. Specific topics addressed include: basic objectives; marketing; questions to ask; multischool trusts; how to obtain proposals; professional advice; how to avoid problems with alumni; financial considerations; and sample specifications. (LBH)

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CASE INSURANCE

COUNCIL FOR ADVANCEMENT AND SUPPORT OF EDUCATION

A BOOKLET FOR CASE MEMBERS WHO ARE CONSIDERING ADDING AN INSURANCE PROGRAM TO THEIR ALUMNI SERVICES. THE FIRST IN A SERIES OF ALUMNI SERVICE PUBLICATIONS

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INTRODUCTION

A few years ago, an American Alumni Council survey uncovered fewer than 10 U. S. college and university alumni associations offering insurance programs as a service to alumni. Today there are about 100 such term life insurance programs, perhaps an additional 40 health insurance programs, and at least one auto insurance program.

We have prepared this brochure because of increasing CASE member interest in the possibility of offering such programs as a service to alumni and as a source of additional income to alumni associations and schools. We offer some ideas and approaches to consider before establishing a program. However, we do not endorse any specific program or offer legal advice. We urge you to consult the legal counsel representing your individual association or institution. Delicate legal matters must be considered from your vantage point with reference to the particular insurance program you are considering.

This discussion does not include programs primarily established as deferred-giving vehicles, which use whole-life policies with schools named as beneficiaries and/or recipients of cash values. The programs discussed here usually use a group insurance approach, and insured alumni have free choice of beneficiary. Only programs marketed through direct mail are included. Although most general comments apply to several insurance products, the major product emphasis is on life insurance. If CASE members find this discussion valuable and express interest in having a supplement for other insurance products, we will consider preparing it.

Terry L. Fairfield
Director of Alumni Administration

INSURANCE PROGRAMS FOR ALUMNI

BASIC OBJECTIVES

The first two questions an alumni association should ask itself are:

1. Why should we offer an insurance program? If there is more than one reason,

2. How do we weight these multiple reasons?

Most alumni associations have two answers to the first question: ongoing service to members and ongoing (and perhaps increasing) potential for additional income through insurance dividends. Answers to the second question vary widely, from service alone to additional income entirely. There is no "right" answer, but we encourage you to consider your priorities carefully — at the outset. The process of selecting a program can be shortened considerably if objectives are firmly in mind throughout your explorations.

If you are interested entirely in a service to alumni, a program with these characteristics is most desirable:

- the lowest possible rates consistent with a sound continuing program;
- the easiest requirements for insuring alumni who apply;
- flexibility of plan characteristics to meet varying needs of participating alumni.

If you are interested primarily in additional income, these characteristics might be sought:

- the highest possible rates consistent with a marketable product;
- requirements which restrict insurance to those in top health.

♦

Neither of these extremes is practical or desirable for most alumni associations.

If rates are too low and insuring requirements too loose, the following risks emerge:

1. Rates may need to be increased in the future — and life insurance rate increases are very difficult to sell. Increases could have a detrimental effect on the program's future if healthy alumni discontinue their coverage, leaving only less healthy alumni insured, which in turn would require further increases.

2. Easy requirements for becoming insured open the program to "adverse selection." This is an insurance phrase meaning that too many people in poor health become insured, increasing the possibility of future rate increases because of high claim levels.

Some programs may offer a form of "guaranteed-issue" restricted to an alumnus under a specified age (such as age 40) who is applying for a relatively small amount (such as $10,000) and who can declare that he has been at work for the preceding 90 days. There are many variations of this idea and "guaranteed-issue" historically has produced varying financial results. Theoretically, it will always produce more claims, which affect dividends. In some instances, it also has helped to produce more insured lives, while in others the resulting claims have been so high that the programs have been dissolved. "Guaranteed-issue" must be used cautiously, keeping the association's service and financial objectives in mind. It should not be used each time alumni are solicited, as such an approach will materially increase possibilities of "adverse selection."

3. If rates are increased primarily because unhealthy alumni are insured, the program may no longer represent a service to many alumni. Eventually, alumni in good health may be able to purchase coverage less expensively on their own, without the benefit of alumni association sponsorship.

4. Sometimes it is more difficult to "qualify" a group with lower rates than one with higher rates. For example, if you have 20,000 alumni, the insurance company may need $12,000 of first year premium in order to call the program satisfactory. That requirement would be met if 120 alumni become insured for an average annual premium of $100. But if rates are 20% lower, those 120 alumni would produce $9,600 of annual premium. Stated differently, if rates are 20% lower, 150 alumni must become insured to produce the required $12,000 of annual premium.

   (On the other hand, if alumni are comparison-price shoppers — which they do not appear to be — low rates might attract more applicants, produce more aggregate premium, and qualify the group as easily or more easily than higher rates.)

   It is desirable to meet the insurance company's requirements. Without fulfilling them, there may be no resolicitations in subsequent years, thereby destroying the two primary objectives: ongoing service and additional income.

If rates are too high and insuring requirements too tight, these risks emerge:

1. No one will buy the program because better arrangements are available independently.

2. If only those in top health can become insured, it is possible that 50% or more of those applying could be rejected. This could produce a significant alumni-relations backlash, offsetting much of the purpose of sponsoring the program in the first place.

♦

Therefore, you may wish to *balance the weighting of the program's objectives.* Specifically, you might seek reasonable assurance that:

- Cost will be less than similar, independently purchased coverage.
- There be requirements for becoming insured to protect the program against adverse selection (*e.g.*, people with known conditions likely to cause premature death), but that these requirements be set to reject a relatively small portion of those applying (less than 15%).

Unless you have virtually no interest in receipt of dividends and *know* that you will likely have no such interest in the future, you might seek *flexibility* in the use of dividends. For example, your primary objective now might be to provide alumni with service at low cost. Thus, initial dividends might be credited to the benefit of insured alumni. Later, if alumni office and association funds are needed, you might wish to receive dividends for use in your operating budget.

In summary, a middle-ground and relatively balanced position appears to be to (1) offer rates lower than those charged for similar insurance purchased individually (but not necessarily the lowest rates available anywhere); (2) use reasonable standards of insurability to protect the program's financial integrity; (3) adopt flexible plan characteristics to meet varying personal needs; (4) include the possibility for dividends to alumni association and insured alumni; and (5) maintain flexibility in the varying use of dividend monies depending on changing financial conditions in your own organization.

MARKETING

The success of insurance programs depends heavily on the marketing techniques and planning which go into them. By selecting a reliable insurance company, the insurance part of these programs should be in capable hands (but words of caution appear later). However, marketing may be another matter. Many existing programs are not managed by insurance companies, as many of them do not have sufficient in-house expertise for this specialized market.

You may wish to seek managers with credentials such as a portfolio of successful insurance marketing to associations in general. Those with alumni-group marketing success are rare, but not unavailable, and their experience may be more valuable.

Consider the following:

1. Many schools already have an extensive direct mail program for alumni. Too many mailings may have a deleterious effect, but adding a limited number of insurance mailings should not impede the success of other programs. Only you can determine what is "too many" for your organization. However, asking questions about this subject may produce some insight into your advisor's understanding of your business. We think such understanding can be helpful.

2. Make general plans a few years in advance. Will anything new be offered from year to year as justification for invading the privacy of alumni with resolicitation mailings? Will sales materials look new each year or two, or will they convey the feeling of "the same old thing" to alumni?

3. Question everything recommended by the programs you consider. Why is a one-page letter used; why is a four-page letter used? Why do amounts of insurance reduce at older ages? Why don't they reduce? Why are insurance amounts for spouses smaller than those for alumni? Why aren't they smaller? When are solicitation materials to be mailed each year and why then? What kinds of responses can be expected and on what are such expectations based? (Other questions should be asked about financial matters; they are discussed in a subsequent section.)

QUESTIONS TO ASK

1. Can the spouse of an alumnus become insured? Must the alumnus be insured in order that his or her spouse be insured? Under what circumstances can spouse coverage be terminated?

2. What coverage is available for children of alumni? Under what circumstances can this coverage be terminated?

3. Under what circumstances can alumni coverage be terminated?

4. Does the program require that a minimum number apply before anyone applying can become insured?

5. What financial obligation does the school or alumni association assume by sponsoring a program?

6. What specific ways have been established for an alumni association to help promote the program? Are they requirements or suggestions? Are they reasonable?

7. If dividends are possible, is each insured alumnus advised of the amount paid on his behalf? Might dividends or fees paid to an alumni association be considered income from a source unrelated to a non-profit organization's purpose and, therefore, create tax problems? Will assignments be required for dividends to be retained by the associations; why or why not?

8. Is the insurance company, as an employer, a matching-gift employer?

9. Because insurance laws vary from state to state, which states does the insurance company consider to be problems? Why? What are its solutions?

10. Since various state insurance departments can deal a severe blow to an alumni insurance program, especially if such a state is the residence of a large number of alumni, has the program been specifically approved in states important to your alumni association? Is such approval necessary? Why or why not?

11. As a result of these state variations, will the same program be offered to alumni residing in all states? Will solicitation procedures be the same everywhere? If not, how will they differ and how might this affect results?

12. How does the proposed program meet the needs of alumni in varying family and financial circumstances?

MULTI-SCHOOL TRUSTS vs. "GOING IT ALONE"

Multi-school trusts may be the only reasonable option for relatively small alumni groups. Such trusts also may be a desirable vehicle for very large groups, depending on the trust's operation (which varies) and the alumni association's requirements.

These trusts have advantages. Set-up expenses should be lower because standard plans and procedures have been established. Ongoing expenses per insured alumnus should be lower because of the trust's size (costs of printing, solicitation, and individual billings of insured members are spread among many groups). Further, some trusts can provide a large association with control and flexibility similar to that available through its own program. Flexibility costs money, but even an alumni association wishing a "unique" program probably can save money by "coat-tailing" on some existing features of some multi-school trusts willing to provide flexibility.

A large association that cannot find a multi-school trust willing to provide the features it requires has no choice but to establish its own program, or modify its requirements. For example, some trusts are not willing to decentralize their individual billing and administration. Thus, if an alumni association requires that billing originate from a location near campus, it may need to establish its own program.

In some states, establishing your own program may entail payment of trustee fees and have legal implications involving your own trust in a state other than the location of your school. You should seek legal counsel on this and other related matters.

HOW TO OBTAIN PROPOSALS

Insurance companies have not universally entered the alumni insurance market. But several now compete for this relatively limited market.

If you have about 15,000 alumni or more, you may wish to release specifications. Much can be learned through general specifications that are only specific enough to eliminate proposals for programs which will not come close to fulfilling your objectives. Asking questions should produce information not obtainable through dictating restrictive specification requirements on which many well-structured programs will not quote.

Appendix I contains sample specifications that you might rearrange for your own use. We are not providing specific guidelines on how to evaluate bids, nor are we in a position to provide such assistance upon request. However, you might find this sample helpful in establishing your own standards.

We have sent a questionnaire to life and health insurance companies known to have written such programs in the past. We plan to tabulate responses for your reference. Thus, please contact the CASE office if you wish to receive a copy of our tabulation when it is completed.

Approaches differ, and we have not attempted to determine those differences. The listing may not be exhaustive, but reflects the best information available to us at this time. There should be no inference that CASE is recommending any of these insurance companies by their inclusion herein, or that we are attesting to their capabilities or solvency.

PROFESSIONAL ADVICE

Those who manage insurance programs for a number of other alumni associations are probably in the best position to evaluate the performance of their programs and the programs of their competitors. A lot can be learned by requesting and studying such evaluations, but remember the source and verify the information before adopting or rejecting any program or manager.

Those managing other alumni insurance programs *and anyone else* who has a financial stake in your final choice of a program and in that program's results is probably a poor choice as an unbiased advisor. This latter category includes insurance company agents, brokers, and administrators, but does not include consultants who are compensated on a fee-only basis.

An alumni group that can afford what appears to be the initial luxury of a consultant should be more comfortable with the final program selection. The most readily available are actuarial consultants, ideally those who have done similar evaluation work for other alumni associations. Actuarial consultants should be in a good position to evaluate the impact of rate levels, insuring requirements, the expense-charging procedures of insurance companies on the eventual success of the program – in terms of the need for rate increases or availability of rate decreases, dividend levels, need for reserves, net cost of insurance, and other financial matters. Although actuarial consultants are not usually marketing specialists, they can be valuable in preparing specifications to serve as the uniform basis for competitive proposals and in annually reviewing results.

If you elect not to obtain the services of a consultant, you may wish to do much of the initial exploring by yourselves, with or without agents, brokers, or administrators. It may be desirable that you ask each interested agent, broker, and administrator to compete by presenting his single best proposal, after which you may evaluate all proposals and select the person or firm whose plan you wish to sponsor.

In the end, your own group must make a selection. One purpose of this section, however, is to caution you that compensation levels vary substantially among programs and, as human beings, some of those having a financial interest in your decision might be inclined to lose objectivity as potential compensation increases. Obviously, this is not intended to be a universal statement – just a word of caution.

HOW TO AVOID PROBLEMS WITH ALUMNI

Some alumni who are in the insurance business may take exception to an insurance program sponsored by their alumni associations. From a practical view, these objections hinge on two considerations:

1. The complaining alumnus was not named as the agent. These are several ways to mitigate considerably this kind of reaction:

   a. Announce your interest in obtaining proposals in an alumni news publication, and invite each interested bidder to express his interest in obtaining specifications and to submit a resume of his relevant experience in the direct-mail, association insurance market. This should avoid the complaint that decisions were made in secrecy, without giving alumni the opportunity to bid.

   b. Prepare some rejoinders, *e.g.*, every graduate architect does not receive the school's business for every new campus building.

2. The complaining agent does not agree with mass marketed insurance programs as a principle.

   Many alumni already have multiple opportunities for purchasing low-cost insurance: through entertainment and oil-company credit cards, newspaper and magazine advertisements, banks and credit unions, other membership associations, etc. Would any alumnus prefer that a commercial endeavor realize additional income from your alumni when your school or alumni association has that potential?

Most service-to-members programs you undertake will alienate a few alumni. Alumni associations which have sponsored insurance programs for some time indicate that some con plaints are received initially, but they subside quickly and do not offset the program's value.

If your alumni association (not your school) is to sponsor the program, it may be desirable that an *ad hoc* insurance committee be appointed to help determine the priority of objectives, formulate policy with respect to the insurance program, receive and review proposals, interview insurance representatives (try to do this), and recommend a program to the alumni association. The following suggestions might be helpful:

1. Because an insurance committee sometimes meets frequently while it is fulfilling its mission, try to keep the committee small. Two people plus the alumni director may be ideal.

2. If you will have a larger committee, you may wish to make it representative of alumni who are likely to apply for coverage, that is,

   a. About 30% to 45% women.
   b. About 65% to 80% younger than age 40.
   c. Less than 5% age 60 or more.

3. Including a disproportionately large number of alumni in the insurance industry, based on the idea that they will better understand the proposals submitted, is not usually necessary. Since this kind of program is highly specialized, and because most deliberation concerns marketing and procedures, it is probably not desirable to unbalance the committee with a disproportionate number of insurance people.

FINANCIAL CONSIDERATIONS

Financial arrangements may vary considerably from one program to another. The following questions and answers offer some basic information for your use:

1. **If there is an excess of premium after the insurer's claims, reserves, and other expenses have been paid, what happens to that excess?**

   Some programs are "participating." This means that excess premium is paid as a dividend. Other programs are "non-participating" – excess premium is not paid as a divided (see #5 below). (Insurers organized as stock rather than mutual companies may use terms like "rate credit" or "experience refund" instead of "dividend." The financial considerations are identical regardless of the type of company or terminology used.)

2. **If dividends are payable, how will they be determined?**

   If you have about 15,000 alumni or more, you should request a projection of dividends. It should delineate the program's realistic, anticipated costs in at least the following areas:

   a. commissions;
   b. taxes;
   c. solicitations;
   d. underwriting and initial receipt of applications;
   e. individual insured-member billing;
   f. actual claim payments;
   g. claim and other reserves;
   h. all other expenses, including claim administration, risk charges, trustee fees (if any), and surplus and profit.

   When these expenses are subtracted from premium, the difference should be the dividend in a participating arrangement. Some multi-school trusts provide slight to substantial variations to this approach.

   Differences in claims will not necessarily affect dividends dollar for dollar because other charges such as reserves, taxes, and claim administration also may be affected. Likewise, if a projection is based on 1% participation, the dividend should more than double if a 2% participation is achieved because expenses such as solicitations and sometimes commissions do not double. Thus, it is important that all bidders base their projections on the same assumptions.

3. **If dividends are payable, to whom will they be paid?**

   Some programs credit dividends to insured alumni only. Other programs pay them to the sponsoring alumni association or school only, and some of these require that each insured alumnus execute an assignment of dividends when he applies. Yet others offer flexibility — crediting to insured alumni, or paying to alumni association or school, with previous assignment.

   A word of caution: once you adopt either of the first two arrangements, you may be required to continue only that approach.

4. **If an alumni association is eligible to receive the excess of premiums over expenses as dividends, is the alumni association liable for the difference if it is a deficit?**

   No, not when the program is underwritten by a legal-reserve insurance company.

5. **If the program is non-participating, what happens to the excess of premium over claims and expenses?**

   It is absorbed as profits by the insurer, or perhaps it is shared by the insurance company and the agent, broker, or administrator.

6. If the program is non-participating, does that mean that the alumni association receives no income from the program?

Not necessarily. Some programs may rent or buy your mailing list. Others may pay you a flat-dollar amount for each alumnus insured. There may be variations on the same theme, but all produce nominal payments. Such arrangements should be discussed with your legal counsel in advance, as payments may be considered taxable income resulting from a business unrelated to your 501(c) classification. (Several CASE member institutions have been audited by IRS, and at least one was found to have unrelated income, which was taxed.)

7. How much should commissions be?

They should reflect the ongoing work to be performed by the commission recipient. As indicated, commission levels vary substantially among programs. Since you are representing your alumni buyers, you should know commission costs in advance and what can be expected as a result of such compensation payment, much as you might inquire in advance about the price of other services you purchase. And you should evaluate and compare the proposed services of each possible commission recipient.

8. What is a useable definition of "claims"? How does it relate to your responsibility in evaluating proposals?

Insurers' claim accounting practices and terminology vary widely. *Cash claims* are the amounts actually paid to the beneficiaries in a given policy year.

Incurred claims are those claims actually incurred during the policy year, regardless of when they are paid. For example, if a policy year ends on April 30 and an insured dies on April 25, his claim is included in total incurred claims. However, because the claim is probably not reported by April 30, it is not included in cash claims that would eventually be paid if the program existed only during that policy year.

Because an insurance company may not know about all incurred, unpaid claims when it annually closes its books, it estimates these additional amounts and establishes an *incurred but unpaid claim reserve* for them. Thus, for the purpose of accounting, cash claims plus the claim reserve equal incurred claims. The amount of the claim reserve depends on the insurer's claim procedures and accounting methods, which may include considerations of the number of people insured, the insurer's experience pertaining to the length of time it usually takes beneficiaries to present claims through similar groups, etc.

The insurer may charge your program with the entire amount of incurred claims, or it may "pool" all or part of that amount with the claims of a larger group or an average group. When such pooling occurs, instead of charging your total incurred claims to your financial experience, the insurer will make a *pool claim charge*, which may be more or less than your group's actual incurred claims.

Claim administration charges are the costs of processing, paying, and sometimes investigating claims and should *not* be included in "incurred claims" or "total claim charges." Instead, they should be included in a separate category or included in a general item like, "All Other Expenses."

Insurers may also establish special reserves for the special risks of mass marketing business, which requires a substantial investment for an unknown result.

An important point is that you should include the following in uniform specifications:

- Each bidder's financial illustration should be based on the same cash claims.
- The insurer's reserve and pooling practices and contemplated amounts should be explained in detail, with layman's definitions of industry terms that might not be familiar to you.
- Any charges which are not payments to beneficiaries (or their equivalent, taking into account claim reserves and pool claim charges) should be shown as expenses and not included with claims.
- The insurer should explain what happens to claim reserves if there are excess reserves upon termination of the program. (From a practical view, the possibility of a return of unused reserves upon termination of the program usually applies only to large alumni groups.)

This is intended to help you understand the impact of claims on a program. It is not a complete treatment of the subject, and we hope it is not confusing. Without uniform specifications, a financial examination of bids will be most difficult.

CONCLUSION

This brochure is not an attempt to provide a comprehensive guide to the purchase of alumni insurance programs, nor is it designed to intimidate by its words of caution.

Alumni insurance programs differ from virtually any other alumni program in one major respect. If you offer sets of encyclopaedia, plates, and other merchandise, it is often a one-time arrangement for the alumni association and for the purchaser. If you offer a travel program, your relationship with a travel agent can be a one-time arrangement; at least, it is relatively easy to change agents.

However, an alumni insurance program will usually develop longer term commitments and relationships. Alumni automatically may continue coverage for many years by premium payments. The total number of participating alumni should increase after each resolicitation is conducted. Changing from one program to another can be difficult and time consuming, although sometimes there may be little choice. And, mass marketed insurance can be confusing to the layman.

But, the long-term impact can be substantial, in terms of both a penetration higher than any other program you sponsor and a substantial financial contribution.

APPENDIX I

SAMPLE SPECIFICATIONS

Dear ______________________________:

[Name of School or Alumni Association] is considering sponsoring a quality, low-cost term-life insurance program for its *[number]* alumni to provide an alumni service and to obtain additional income from pre-assigned dividends. The purpose of this letter is to invite you to submit materials to assist us in making this decision.

If you are interested in quoting on this program, please send your proposal to *[Name and Address]*, with the answers to the questions in the Appendix to this letter, not later than *[Date]*. Subsequent interviews with those submitting viable programs probably will be requested.

We are interested in the following arrangements:

1. Initially we are interested in providing a program of alumnus and dependent term-life insurance, with a choice of amount up to about $40,000 or $50,000.

2. Insured alumni would be billed individually on a semi-annual or other periodic basis. Neither *[Name of School]* nor its alumni association would become involved in this function.

3. All solicitations and administration would be conducted by mail, directly with each insured alumnus.

4. Dividends should be based on a formula relating to the claims and other expenses of our program.

We would appreciate your providing us with any other comments you consider helpful in our explorations. It is possible that you are not able to provide all the proposed arrangements currently being considered. However, you may still wish to submit a proposal, since these proposed arrangements are considerations and not conclusions.

Sincerely yours,

APPENDIX

QUESTIONS TO BE ANSWERED

When answering the following questions, please restate the question (except 15A) to assist us in reviewing your responses. If answers to one or more questions are contained in other materials you submit, you may make specific reference to such other materials in your answer, rather than repeating the information contained elsewhere.

1. Would you use individual policies or a group policy?

2. Do you foresee any problems in offering this coverage to all alumni residing in the United States?

3. Please describe the details of how alumni would apply, including the kinds of mailing pieces you would use, the number of mailings contemplated each year, who would send the mailings, from where would they be sent, and how much *[Name of School or Alumni Association]* would be involved in these mechanical functions.

4. What periodic information about insured alumni would you provide?

5. It is likely that we would publish alumni news publication articles about an insurance program for alumni. Would you provide appropriate news articles that have been legally approved?

6. a. What commission scale would be used for selling and servicing this account?
   b. To whom would commissions be payable?
   c. What specific services will the commission recipient provide?
   d. Is it possible to pay no commissions? If so, how whould this savings be reflected?

7. *[Name of School or Alumni Association]* would require that its alumni mailing list be kept confidential. How would this be accomplished?

8. Would you require a minimum number of alumni to apply before insuring all who apply and are otherwise acceptable? If so, what is the number?

9. Would your underwriting requirements ensure minimal anti-selection against the plan's financial experience and at the same time preclude the rejection of a large portion of our alumni? If so, please illustrate.

10. If you were awarded the underwriting of this program, how long from the date of your approval would it take you to make the first mailing to our alumni?

11. Who would pay for mailings and other materials required to launch the program?

12. a. Please delineate fully all expenses to be incurred by *[Name of School or Alumni Association]* in making the plan available to our alumni.

    b. Please delineate fully any other involvement expected of *[Name of School or Alumni Association]*.

13. a. Is the proposed insurer a company subscribing to the program of matching its employees' gifts to higher education? If so,

    b. Would it match the amount of dividends produced by the coverage of its employees who are insured *[Name of School]* alumni?

14. Please illustrate your personal experience [if specifications are sent to individual agents or brokers] and that of the proposed insurer in the association-type insurance mark t, particularly with other college and university alumni groups.

15. Part A.

    Please complete the attached financial projection. The numbers already appearing on the projection form assume the following:

    (1) Participation of 1% of total alumni in the first year, an 8% annual termination rate, and an annual participation increase in the 2nd through 5th years equal to ½% of total alumni *plus* the 8% of insureds who terminated in the previous year.

    (2) An average annual premium of $100 per insured alumnus.

    (3) Cash claims loss ratio of 25% based on insurance amounts in their first year plus 40% in other than their first year.

    Part B.

    In a supplementary illustration or statement,

    (1) Indicate how dividends would vary if claims were (i) zero or (ii) 135% of those shown on the financial illustration form.

    (2) Define your use of "claims," "cash claims," "incurred claims," or any other related term you use.

    (3) Explain your pooling practices, if any, in detail.

    (4) Explain methods used to determine all reserves.

    (5) Explain the disposition of reserves if our insured group is transferred to another program.

16. Are dividends assigned to *[Name of School or Alumni Association]* income tax deductions as charitable contributions for each insured alumnus? How will such amounts be made known to insured alumni?

17. Please outline the plans of term life insurance you propose offering, including premiums.

18. What waiver-of-premium provisions does your program provide?

19. How long may insurance be continued for an alumnus? For a spouse? For children?

20. What is the maximum entry age for becoming insured?

21. How would you arrange for dividends developed from the coverage of our alumni and families to be paid to *[Name of School or Alumni Association]*? Please include specific wording of an assignment, if any.

22. Under what circumstances may insurance be terminated for alumni? For spouses? For children?

23. Please explain characteristics of your program which you consider worthy of note because they are not usually found in similar programs.

Instructions to Alumni Associations
for Preparing Financial Illustration Form
for Release with Specifications to Bidders

If you use the attached form with your specifications, the following should be filled in when you retype the form for your own use: (The letters "A" through "D" in the left hand margin are for reference to these instructions and should not be typed on your form.)

Line A, Eligible Lives. Insert for each year the total number of alumni for whom you currently have accurate addresses (which should be the same as the number in the first line of your letter).

Line B, Insured Lives. Multiply the number on Line A (for the corresponding year) by the following:

Year 1 – .010
2 – .015
3 – .020
4 – .025
5 – .030

Line C, Cash Claims. Multiply the number on Line B (for the corresponding year) by the following:

Year 1 – 25.00
2 – 34.20
3 – 35.35
4 – 36.04
5 – 36.50

Lines D (both), Total Earned Premium. Multiply the number on Line B (for the corresponding year) by $100.

FINANCIAL ILLUSTRATION FOR [Name of School or Alumni Association]

		Assumptions	Year 1	Year 2	Year 3	Year 4	Year 5
A		Eligible Lives					
B		Insured Lives					
C		Cash Claims					
D	1.	Total Earned Premium					
		Expense Projection					
	2.	Individual Underwriting and Issue					
	3.	Billing and Individual Administration					
	4.	Solicitations – 2 mailings per year					
	5.	Premium Taxes					
	6.	Selling/Servicing Commissions					
	7.	All Other Expenses*					
	8.	Total					
		Dividend Projection					
D	9.	Premium (same as Line 1)					
	10.	*minus* Expenses (same as Line 8)					
	11.	*minus* Claim Charges					
	12.	*minus* All Reserves					
	13.	*equals* Dividend					

*All Other Expenses include (a) trustee fee, if any, (b) claim administration charges, (c) risk or contingency charges, (d) surplus and profit, and (e) all remaining costs to be charged, except claims and reserves.

Date:

Submitted by: