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BOOK REVIEWS AND NOTICES\*

\*S. Schwarzschild, *Rights of Creditors in Life Insurance Policies*, pp. xviii, 381, Richard D. Irwin, Inc., Homewood, Illinois, 1963.

Dr. Schwarzschild's book certainly meets the criterion of the S. S. Huebner Foundation for Insurance Education to publish research theses and other studies "which constitute a distinct contribution directly or indirectly to insurance knowledge." His book is the product of prodigious research into the court decisions and statutes affecting the many facets of creditors' rights in insurance policies. A spot check<sup>1</sup> of the citations would indicate that they are generally accurate. Although Dr. Schwarzschild is not a lawyer, the quality of his legal scholarship is of a high order, and he has produced a work which will serve as a very good legal text.

Of course, one must recognize the inherent limitations of any book of this sort which deals with a changing and developing field of law.<sup>2</sup> Such a book cannot be safely utilized as a handy "do it yourself" reference in which to look up the answers to specific legal problems. The text and authorities furnished by Dr. Schwarzschild, however, should prove most helpful in supplying a fundamental knowledge of the subject, and a basis upon which further and more detailed legal research can be readily undertaken when needed to answer specific questions.

The book is divided into three main parts. Part I deals with the rights of creditors in the absence of insurance protection (or "exemption") statutes; Part II with the development, application, nature and effect of such statutes; and Part III with the contractual protection of the beneficiary's interest under settlement options containing spendthrift provisions. Within each of these parts, the reader is aided by the liberal use of headings and subheadings in classifying topics.

For example, in the first part of the book, the rights of general creditors and the rights of special classes of claimants are treated separately. The chapters on general creditors are divided into headings dealing with creditor's rights before maturity of the policy, and rights after maturity. The two chapters on the rights of special claimants are divided into headings dealing with

\* Books and other publications noted with an asterisk (\*) may be borrowed from the library of the Society of Actuaries under the rules stated in the *Year Book*.

<sup>1</sup> For which thanks are due to Joseph W. Bellacosa of the New York bar.

<sup>2</sup> An illustration of this is that, while the book describes the preferred beneficiary class under the Uniform Canadian Life Insurance Act, such class was abolished prospectively by new provisions which went into effect on July 1, 1962, in all provinces except Quebec. *Uniform Life Insurance Act*, Sections 156 and 157 (Ontario section numbers cited).

marital claimants, fraudulent conveyances, victims of embezzlement and the tax collector, creditor assignees, and the trustee in bankruptcy. Each of these headings is then further subdivided generally into topics dealing with creditor's rights where the policy is payable to the insured's estate, where it is payable to an irrevocable third party beneficiary, and where it is payable to a revocable third party beneficiary.

The same sort of meticulous classification of subjects is followed throughout the book, and the text is generously supplemented by footnotes, tables, appendices and an extensive bibliography. One of the appendices contains the insurance protection statutes of each of the fifty states and the District of Columbia.

Some criticisms of the book suggest themselves.

First, while Dr. Schwarzschild has presented the subject in a very readable and straightforward way, his colloquial approach has led him at times into some grammatical lapses. For example, the book refers to a victim of embezzlement as "the person embezzled." Of course, speaking precisely, what is embezzled is money and not the person to whom the money belongs. The fault of occasional grammatical lapses, however, does not detract substantially from the utility of the book, for the meaning of the text is generally clear.

Second, the book's treatment of the important subject of federal tax liens seems inadequate. While the text contains a cursory discussion of the opposing contentions of the Government and insurers concerning automatic premium loans in tax lien cases, the book would have been enhanced had it treated this subject in greater depth, and had it also dealt with related questions such as those involving other uses of policy values or dividends to maintain insurance in force. In this connection, the book might well have developed the concept that an insurance policy cannot be regarded simply as a static obligation to pay the cash surrender value, but embodies instead a variety of enforceable rights, some of which are inconsistent with each other, and that the insurer's duties are subject to the occurrence of the various conditions and elections specified in the insurance contract.

The book lacks any substantial discussion of the important subject of policy loans in tax lien cases. The closest it comes to this subject is the statement that "Although a lien arises when the deficiency is assessed against the taxpayer, the insurance company is liable only from the date they [*sic*] receive actual notice or knowledge of the federal tax lien." As authority for this statement, the book cites Revenue Ruling 56-48, and the District Court's opinion in *United States v. Kann*, 203 F. Supp. 1 (W.D. Pa. 1962). The Government, however, has not been following Revenue Ruling 56-48 for some time and, in the *Kann* case, has appealed to the Court of Appeals for the Third Circuit from the District Court's decision. On its appeal the Government contends that where an insurer makes a policy loan, albeit innocently and with no knowledge that the Government has previously recorded a notice of a tax lien against the insured, the insurer is not entitled to have the amount of the policy loan taken into consideration when the cash surrender value of the

policy is computed pursuant to a court decree foreclosing the tax lien. The utility of Dr. Schwarzschild's book would have been enhanced if he had explicitly warned the reader that the Government was no longer following Revenue Ruling 56-48.<sup>3</sup> He might well have also included some discussion of the authorities revealing the error of the Government's present position, and establishing that policy loans are essentially unlike secured loans of commercial lenders, and should not be treated in the same way for tax lien purposes.

Third, one may disagree with Dr. Schwarzschild's general thesis that statutes ought to contain limitations, both as to the classes of beneficiaries protected and as to the amount of insurance protected. He suggests the class of beneficiaries protected should be limited to members of the insured's family.

As to limitation of the amount protected, he does not state precisely how much he would allow the family to receive free of the claims of the insured's creditors. Instead, he states only that he favors laws which would place limits upon protection in terms of the face amount of the policy rather than in relation to amount of annual premium.

Dr. Schwarzschild arrives at his conclusion that limitations should be placed upon insurance protection laws through a process of logical analysis of the rationale of the statutes, their economic and legal implications, and their "socio-moral" effects.

His analysis is that the social purpose of the laws is to protect the bereft family of an insured, and it follows logically, he argues, that no one outside the family should get the benefit of the protection statutes. One will, of course, differ with his conclusion if one believes that the social purpose of the laws is not limited to the protection of proceeds going to family members.

Concerning the amount of protection, Dr. Schwarzschild's logic creates the specter of an insured who dies leaving millions in insurance for his family—so that his widow wears a chinchilla wrap and his son drives a Cadillac convertible—while his creditors are left with nothing. This sort of thing, he argues, is detrimental to the moral fiber of society. He also deduces that, since protection statutes remove from a creditor's reach one of the major assets of most families, the economic implication is to enhance the desirability, from a lender's point of view, of corporate as opposed to individual loans and perhaps to increase the interest rate on loans to individuals and the price of goods sold to individuals on open credit.

Some of these deductions as to the possible harmful effects upon society of insurance protection laws seem unduly speculative.

One need not take issue with Dr. Schwarzschild's logical analysis, however, to suggest that he has not made a strong case for limiting the existing protection statutes. As Mr. Justice Holmes so aptly stated, the life of the law has not been logic but experience, and Dr. Schwarzschild musters no persuasive evidence of unsatisfactory experience under these laws. We are shown no

<sup>3</sup> Since the publication of Dr. Schwarzschild's book, the Government has issued a new ruling, Revenue Ruling 63-59, which expressly modifies its Revenue Ruling 56-48.

evidence that there have been widespread abuses under the protection afforded by existing insurance protection statutes. Dr. Schwarzschild's method has been confined to scholarly analysis, and his study has not included any attempt to study factually the extent to which the just claims of creditors have been defeated by estates large in insurance but lacking in other assets.

In the absence of any showing of a practical need for revising existing laws by limiting the amount subject to protection, it seems undesirable to urge legislation restricting this advantage of insurance. There seems to be more danger in these times that people will die with too little insurance rather than too much and, to the extent that they are now encouraged to buy more insurance by the statutory assurance that creditors may not take the death benefit away from the beneficiary, the result would seem to do more good than harm. Furthermore, if legislatures were now required to come to grips with the thorny question (which Dr. Schwarzschild has not answered) of how much insurance protection is enough, there might be a danger that an unduly low limit would be written into the law.

For example, of the five states which Dr. Schwarzschild cites as having insurance protection statutes with exemption limits in terms of face amount of insurance, the limits are \$5,000 in one state, \$10,000 in two states, \$15,000 in one state and \$25,000 in the remaining state. Certainly, the amounts protected in those states do not appear encouraging in this respect.

Despite these criticisms, however, *Rights of Creditors in Life Insurance Policies* is a must for any insurance library. All who are interested in its subject, whether they be actuaries, lawyers or others, will find its discussion and analysis stimulating and its authoritative legal text invaluable.

ROBERT A. KIRTLAND\*

JAMES R. McDONNELL

\*D. R. Johnson, *Savings Bank Life Insurance*, pp. xviii, 270, Richard D. Irwin, Inc., Homewood, Illinois, 1963.

Aside from the promotional literature put out by the banks themselves (naturally not of a wholly unbiased character), brief articles in various periodicals, chapters in text books on life insurance and the largely statistical official reports of the state insurance or banking departments of the three states which, thus far, have adopted the Savings Bank Life Insurance system, not much has been written about it. Among the few other sources of general information are U.S. Department of Labor Bulletin 688, a study of the S.B.L.I. system by Edward Berman, published in 1941, and Professor A. T. Mason's book *The Brandeis Way* (Princeton University Press, 1938) which is strongly pro-S.B.L.I.

There would seem, therefore, to be room for a study of this somewhat controversial subject that is comprehensive in nature and written from an objective point of view. Such a study this book, in this reviewer's opinion, supplies.

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It was prepared as a thesis for the doctoral degree at the Wharton School of the University of Pennsylvania and published under the auspices of the Huebner Foundation for Insurance Education. The book shows evidence of much careful research and covers the subject adequately and without any apparent prejudice or bias, *pro* or *con*. It will be a useful source of authentic information for all who are interested in the subject.

The book is divided into four parts. These deal, respectively, with (1) the origin and history of the system; (2) functions of the central administrative bodies and of the issuing banks, agency banks and other organizations which form part of the system in each of the three states; (3) a description of the scope of the plan and of the methods of operation; and (4) general summary and conclusions. The first three of these provide a complete description of the system in considerable detail.

The author has a good deal to say about the apathy which the majority of the banks have shown toward the S.B.L.I. system and which has been an important factor in limiting its growth within the three states and in preventing its establishment in other states. As to growth within the three states, only about one-fifth of all the savings banks in Massachusetts and Connecticut, and about two-fifths of those in New York, have entered the system as issuing banks. However, the largest bank in New England and the largest in New York are both issuing banks and are very active in promoting life insurance business. The total volume of insurance issued and in force (all three states), while relatively very small in comparison with company figures, is significant and is steadily increasing. The author says that the main reasons given by those banks which have not come into the system as banks of issue for not doing so are: (1) alleged lack of demand for this service; (2) in the smaller banks, lack of competent personnel; (3) the belief that life insurance is not a legitimate activity for a savings bank; (4) the possibility of an adverse effect on the bank's public relations in regard to its banking business; and (5) the fear of policyholder misunderstanding as to liability of the banking department, or of the state itself, for the insurance obligations.

As to the enactment of similar legislation in other states, the author considers it unlikely that that will happen. He thinks that that would require, as was the case in each of the three S.B.L.I. states, the simultaneous existence of a "fanatical apostle" (such as the late Judge Brandeis) to lead the campaign, an active and favorable press, and a vigorously favorable Governor. Even under these conditions, lack of interest on the part of the banks and such opposition as would be likely to develop from such groups as the life underwriters' associations, would make passage of the legislation difficult and improbable. The fact is that in spite of continuous efforts over a long period in other states having mutual savings banks (fourteen in number—notably Pennsylvania and Rhode Island) nothing has been accomplished.

A minor qualification of this reviewer's otherwise high opinion of this book is that the relatively lengthy discussion of premiums, reserves and dividends

(Chapters 12 and 13) is largely unnecessary and is not entirely free from the errors and misconceptions which sometimes appear when actuarial matters are discussed by a non-actuarial writer. However, this criticism is not of too much importance. This book may be welcomed as a competent and adequate discussion of a subject of substantial interest to many in the life insurance field.

JOSEPH B. MACLEAN

Advisory Commission on Intergovernmental Relations, *Transferability of Public Employee Retirement Credits among Units of Government*, pp. 92, Washington, March 1963.

Vesting or transferability of pension credits in private and public retirement plans has been the subject of increasing attention in Canada and the United States in recent years. Although it is generally deemed desirable to facilitate the transferability of pension rights earned by employees while working for different employers, the problem is to find a unit of measurement which will reconcile the different types of pension plans as to eligibility, financing, contributions, length of service, and other requirements.

Although the main purpose of this study by the Advisory Commission on Intergovernmental Relations is a description of the methods by which various State and local governments have attempted to solve this problem, the whole topic of vesting and transferability in the U.S. economy has been considered. A short historical summary of the development of private and public pension plans is given. Then, the major public retirement systems in each State are described briefly, with respect to funding, employee contributions, number of members, and provisions for transferability of pension rights. Such transferability exists usually only within the State, although some teachers' retirement systems enable their members to purchase prior service credits earned in other States.

The Teachers Insurance and Annuity Association is discussed as an example of a private plan which has solved the problem of transferability on a nationwide basis, but only in the field of higher education.

Finally, the extension of Old-Age, Survivors, and Disability Insurance to coordinate with public employee retirement systems is analyzed. At present, only 60 per cent of State and local government employees are covered by Old-Age, Survivors, and Disability Insurance. In this study it is recommended that this coverage be extended and that further arrangements between units of government to provide reciprocal transfer of contributions and pension credits between retirement funds may be feasible.

Further specific recommendations of the Commission include expansion of coverage to all public employees, the consolidation or merging of numerous small systems within a state, and early vesting of the employee's benefits (after five years of service). A nationwide "retirement pool" to provide transferability of retirement credits on an interstate basis, or between the Federal

Government and the various State governments is considered neither practical nor desirable under present circumstances.

ROBERT J. MYERS

A. R. N. Ratcliff, "State and Private Pension Schemes in the European Economic Community and the United Kingdom," *Journal of the Institute of Actuaries*, vol. 89, part III, December 1963.

Incidentally to its author's purposes, this paper reviews concisely yet penetratingly public and private pension arrangements in the area of the European Economic Community, popularly known as the Common Market. It gives, for each of the six countries involved, the sort of bird's-eye view of the pension situation which, perhaps because of language barriers, it has so far been difficult for American students to come by.

One purpose of the author is to explore the implications for pensions of membership in the Community. As these countries grow together economically, politically and socially, it will become increasingly desirable and necessary to "harmonize" their social security provisions, now widely differing in principle and accomplishment. But the primary concern of the author is naturally the impact Britain's joining the Community (a prospect now perhaps in eclipse rather than extinguished) would have on that country's "Beveridge" philosophy, already somewhat impaired by graduated pensions and deemed to be outmoded by spokesmen for Labour.

At first glance it might seem that the factual picture presented for each of the six countries, especially as it serves to clarify the relationships between a country's public and private retirement provisions, constitutes the paper's chief interest for the non-European reader. However, the subordination of these facts to the author's prime objective of discerning what harmonization might have in store for Britain, besides throwing light on Britain's problems, provides as it were a target on which to focus the various national arrangements. Not only so, but contemplation of the coming evolution of social security in Europe—seeing how and to what extent each national system preserves its identity or merges into an over-all plan as the Community develops—should be not only fascinating but instructive for social security students everywhere.

Between a brief introduction and a briefer conclusion, the author develops his theme under five headings—the present scope of national insurance, the burden of national insurance in the Community countries and the U.K., the implications of Community policies for national insurance schemes within the Community, occupational pensions (i.e., group annuities) in the Community, and the possible impact of Community policies on pension arrangements in the U.K. A relatively lengthy Appendix summarizes the provisions for national insurance and occupational pensions in each of the six countries of the Community. Acquaintance with at least the main outlines of the U.K. system is presumed. There is a valuable page of references for the student seeking further enlightenment on the topics covered.

With the Community's Executive Commission, the author recognizes "that

the pace and extent of harmonization of social systems must be limited in practice by social factors such as the impact of unemployment and the demographic situation in each particular country." He therefore undertakes to assess "the effect of these social factors in considering possible future developments of National Insurance and the implications in relation to private occupational retirement benefit arrangements."

As the basic laws of the Community explicitly recognize, harmonization is a process in which it is clearly desirable to make haste slowly. There are dangers and pitfalls to be avoided, as well as problems to be solved, if established values are not to be lost, or are to be at least traded for outweighing advantages. For as the Treaty of Rome (the instrument creating the Community) requires, and the paper more than once reminds us, "levelling-up" is to be a key concept in that equalizing or harmonizing of living conditions and social security which is a vital concern of the Community no less than its economic objectives.

Among the more significant problems, as brought out by the author directly or by implication, that would confront Britain in relating her social security provisions to those of the Community, should she become a member, are:

1. Choosing between a policy of mere compliance with the letter of the law (the Treaty of Rome imposing no *obligation* to harmonize other than obligations already accepted in regard to migrant workers) and living up to the spirit of the Treaty, which clearly favors harmonization as a long-term objective and even requires the Executive Commission to promote close collaboration between member states in the social field, including social security.
2. Whether, following the Community trend, to link benefits automatically to an economic index, or to continue with the method of ad hoc adjustment of benefit levels so far favored.

This in the author's opinion would be the major harmonization problem for Britain, especially in view of the new element introduced by the addition of graduated pensions. He notes the 1958 rejection of automatic linkage by the Councils of the Institute and Faculty as fundamentally unsound, since "adjustment of state pensions is a matter of policy which should be determined with due regard to the general economic and financial position of the country from time to time and to the many other calls upon the national resources."

3. Should the automatic principle be accepted, the further question is posed of whether to adopt an index that merely reflects price or cost of living changes, or one that gives the pensioner a share in any general increase in living standards (as would no doubt be the trend).
4. Whether or not to raise materially the general level of pensions, now well below that of Community countries (other than France) even allowing for the higher benefits now being considered under the 1963 National Insurance Bill, to the detriment of voluntary occupational pensions now considerably more extensive in Britain than in any Community country.
5. Whether, in order to conform with the present Community viewpoint against a retirement test, to modify her current requirement that, for 5 years after normal retirement age, pension be conditional on retirement from work (though increased by reason of deferral).

It is hinted that appropriate increases in recognition of deferral might be the pref-

erable course for all countries, rather than an earnings test of substantial retirement. Aside from cost and other considerations, however, this (at least in this reviewer's opinion) would not square with what many hold to be the sound social insurance principle of "social adequacy" for the benefit. For if more than one benefit level can apply to the same individual and one is socially adequate, the other must be either excessive or deficient.

6. Whether or not, if linkage of benefits to an index has to be accepted, to use such index automatically to enlarge the upper limit of the band of earnings to which graduated contributions as well as benefits are geared (under the 1963 National Insurance Bill an ad hoc increase of this limit from £15 to £18 seems virtually assured).

Any escalation of such upper limit, automatic or otherwise, would of course be "a ready means of raising additional funds to meet an increasing outgo for current pensions in return for promises of increased future pensions" and "would provide some defense against pressure for indiscriminate extension." However, if past as well as future benefits are to be revalued, application of an index to ranking earnings may create difficulties for "contracting-out"—that option an employer has to replace "graduated" coverage for his employees (or class thereof) with voluntary pensions at least equivalent to the maximum available under the graduated scheme. The degree of difficulty will depend on (1) the extent of the increase in ranking earnings, (2) the extent of the margin of contracted out benefits over the legally required minimum (i.e. the graduated maximum), which would be available to absorb the cost of revaluation up to pension age.

An employer who finds his position too prejudiced by a shift in ranking earnings that increased the area of operation of National Insurance can always of course elect to "contract in" for future service. But this would not help the cause of voluntary coverage. In fact it is the author's belief that an increase in the limit of earnings combined with increases in graduated benefits up to levels envisaged for eventual harmonization would be fatal to contracting out. He reminds us that the general principles laid down by the Councils of the Institute and Faculty for the satisfactory long-range operation of contracting out rule out any retrospective change in benefits once earned, such as linking pensions to an index would involve.

G. W. K. GRANGE

\*P. R. Cox and R. H. Storr-Best, *Surplus in British Life Assurance*, pp. x, 132, Cambridge University Press, 1962.

This little book, *Surplus in British Life Assurance*, has as its subtitle *Actuarial Control over Its Emergence and Distribution during 200 Years*. It was thought fitting that this work be prepared to bring together the history of this fundamental aspect of scientific life insurance on the occasion of the bicentenary of the foundation of scientific life insurance, referring of course to the formation in 1762 of the "Society for Equitable Assurances on Lives and Survivorships."

On the whole, the book starts with the formation of the Equitable in 1762

and traces the general development of life insurance in Great Britain, with suitable collateral information in regard to the development of the actuarial profession. Special attention is given to the developing philosophy of valuation and surplus measurement, and to the equitable distribution of surplus. The book is well documented by extensive references to original sources which permit the reader with the inclination to pursue the subject in exhaustive detail.

The historical background of the development of scientific life insurance in Great Britain is of great interest to American readers, although practical applications in North America frequently have been modified because of differences in the philosophy of governmental regulation. It appears that British managements have much more freedom in preparing balance sheets which measure surplus and in the resulting distribution of surplus. North American companies, on the other hand, are much more closely regulated as to the reserve valuations, valuation of assets, and methods of surplus distribution. Although the practical differences are striking, it is very interesting to see the emergence of certain general principles in the thinking of the British actuaries which have become important fundamentals in life insurance in North America.

For example, on page 20 reference is made to the early reports of the London Life (England), about 1821, where it is stated that the London Life was distinctive in that it intended to distribute during the lifetime of the members the profits which they had earned. This is the fundamental philosophy of North American companies in respect to participating insurance.

On page 24 it is noted that De Morgan refers to the valuation of the assets and suggests that they be valued by finding the capital value at the valuation rate of interest of the income being earned. This seems to say one uses the valuation rate of interest from the reserve valuation against the stream of income from the investments to evaluate the capital value of the investments. This concept of using the same rate of interest for valuing both assets and liabilities, in essence, is a principle used in the U.S. Life Insurance Income Tax Act of 1959. Consider the calculation of the reserve interest deduction, involving the revaluation of reserves at the earned rate of interest on assets. Yet De Morgan was thinking along a very similar line in 1838, some one hundred and twenty years earlier.

It is interesting to note that the British companies had their troubles with gross premium valuation, just as American companies did before the time of Elizur Wright. Both countries have come to the thought that net premium valuation is the best as a supervisory standard of solvency, although gross premium valuations with suitable allowance for expenses may be suitable for other purposes. The authors note on page 42 that "by 1870 actuarial opinion in England had become firmly established in favour of the net premium method. . . ."

American companies fairly recently have been offering premium concessions to female lives. It is interesting to note on page 30 that as early as 1842 two British Offices, the "Eagle" and the "Yorkshire," were charging lower premiums for female lives.

An American reader is struck by the seeming rigidity of the form and amount of dividend distributions in British companies. Although there were variations in detail, generally speaking, each company seemed to have a fairly rigid system, anticipated in advance, of the form of its dividend distribution and the amounts of such dividends. To an American reader, the British methods of surplus distribution, where the premium is calculated in advance to provide precisely the benefits anticipated including the bonus distribution, seem much like the nonparticipating approach. This procedure seems to maintain just about the same degree of equity as one expects in a nonparticipating company where the premiums are competitive. The only difference from a nonparticipating arrangement seems to be that the company has the residual safety factor of not being contractually liable for these bonus additions if the developing experience turned out unfavorably. There does not seem to be any arrangement in general use, such as is customary in North America for reflecting the variations by plan, duration and age in the emergence of surplus under widely varying conditions.

The authors refer to Sheppard Homans on page 40 and to his paper "On the Distribution of Surplus" presented in 1863. They note that this development of the contribution method had far-reaching effects in the United States but occasioned little immediate interest in Great Britain. They comment further that the lack of interest in Great Britain was due at least in part to much smaller contributions there from mortality and from interest than had occurred in the United States, and perhaps more importantly, because the business had been long established in Great Britain and expectations of surplus distribution according to certain traditional methods had become strongly entrenched.

The British attitude on surplus distribution seems succinctly stated on page 60 in a view attributed to Manly in 1889: ". . . that it was much easier to find and charge the premium rates appropriate to a given amount and system of bonus than to tackle the problem in the reverse order."

From a discussion by Hardy in 1896 of a paper by Andras, the authors report on page 62: "The only attempt at exact solution was that made by the American actuaries in what they called the Contribution Method. That was a highly scientific plan but on the whole was not practicably workable—at all events in this country—the main objection being that the whole of the mortality fluctuations at individual ages reappeared in the shape of fluctuations in the bonus." This seems to reflect a misconception among the British actuaries of that period of how the American Contribution System was actually used in practice. They seemed to think that the chance mortality fluctuations in small groups carried directly into the surplus distribution. The practical applications during modern times, which seems to have been anticipated in Mr. Homans' original paper, have charged for mortality by means of an experience or dividend mortality table reflecting the general level of the mortality actually experienced but smoothed to remove chance fluctuations. Their argu-

ments based on traditional expectation of form and amount of bonus as a reason for not changing to the American Contribution System seem much more valid than the objection to fluctuations which would appear only in an extreme theoretical application not used in practice.

The pattern of surplus distribution for Industrial insurance in the United States may be somewhat more closely related to the traditional British system. Fewer variations and refinements have been feasible for the very small amounts involved for individual Industrial policies. Consequently, the form and probable scale of policyholder dividends often have been considered at the time the premiums were developed.

The authors remark on page 70 that there was a greater disposition in Great Britain between the two wars to discuss the merits of the Contribution Method. They refer on page 75 to Mr. Maclean's paper before the Institute in 1931, "Notes on the Practical Application of the Contribution Method of Distributing Surplus." Mr. Maclean brought out very clearly that the Contribution System had not changed in principle from that introduced by Sheppard Homans, and that in practice it was not nearly as cumbersome and laborious as had been generally assumed by the British actuaries. Mr. Maclean did agree, however, that the traditional expectations of the form and amount of bonus distributions were valid and important reasons against any radical changes by the British companies.

The authors present a general discussion on equity beginning on page 92, which reflects concisely a volume of the most fundamental philosophy of surplus distribution. They refer to a paper by Suttie in 1945 and to his two definitions of "equity," both of a very general nature. His first definition states: "... equity would be secured if each group of like policies were allotted the bonuses it would have received if it had formed a separate and distinct fund." Although this might seem a perfectly valid criterion, the term "like policies" is not defined and if the principle were applied literally it would seem to carry into the surplus distribution all of the chance fluctuations which occurred in small groups of "like policies." It would seem better to graduate chance fluctuations out of the bonus distribution. With this reservation, his first definition seems consistent with North American thinking. Suttie's second definition is: "... it would be fair if the profits were determined on the same principles at every valuation and were distributed as uniform bonuses, this fact being known to all new entrants to the fund, and the premiums charged to new entrants corresponded to their expectation of bonuses at the date of entry." These are really two extreme views, especially if the first is intended to reflect fully all chance fluctuations, regardless of how small the group of "like policies" might be. To a North American actuary the second definition of "equity" seems little better than the equity of a nonparticipating premium, except that the participating company should use somewhat more liberal assumptions because it has the benefit of the safety factor inherent in the bonuses not being guaranteed.

Suttie's analysis goes on to confirm earlier findings that mathematical equity cannot be obtained under the uniform reversionary bonus system when there have been extreme changes in conditions. It requires a fragmentation of existing business, and the further one pursues equity the greater is the fragmentation. For new business there is needed either a succession of new series or frequent variations in the scales of premiums. The conclusion is reached that only some form of contribution method can satisfy the first definition.

The authors go on to make the very fundamental statement: "Over and above all considerations of bonus stands the responsibility of a Life Office to provide complete security. For this a substantial free reserve is needed and this reserve is handed on from generation to generation and is added to or drawn on as circumstances dictate. It is the property of no individual or group and any contribution it may make to surplus cannot be allotted on a mathematical basis." The word "reserve" as used in the preceding context might better be read "surplus" in North America.

The authors add: "When all this has been said, however, there remains the feeling that, elusive though equity may be, some attempt must be made to find it and some analysis, however defective, is required. It is not enough to say that policyholders as a whole are satisfied—they have no means of judging the issue aright. Thus it was felt in the debate that Suttie's second definition . . . did not go far enough in the pursuit of equity."

The authors move on to a discussion of matching investments against obligations, variable policies, variable annuities, pension plans and Industrial insurance. They then conclude with a brief chapter devoted principally to consideration of the question "Are we scientists?" and leading to the conclusion "If actuaries are not completely scientists, they may be said at least to be practical men who do not adhere blindly to a notion once its value is exhausted." And perhaps by way of explanation why actuaries sometimes are not completely scientists, "Research scientists do not, in general, have to do business with the public."

On the whole this is a scholarly little book, well documented with references to original sources, which any actuary could enjoy reading as a quick review of the many debts we owe to our predecessors who have made so many contributions to our business and profession over the past two hundred years. Although the details are British and frequently not directly applicable in North America, the principles are fundamental and must be considered fully by all who have responsibilities for these matters.

GEORGE C. CAMPBELL

H. H. Avnet, *Psychiatric Insurance—Financing Short-Term Ambulatory Treatment*, pp. xxi, 280, Group Health Insurance, Inc., New York, 1962.

This is the report of a 2½-year study conducted by Group Health Insurance, Inc., and co-sponsored by the American Psychiatric Association and the National Association for Mental Health, with support provided by the National Institute of Mental Health. The object of the study was to assess the feasibility of insuring short-term psychiatric treatment, and to develop data relevant to

this. The author, who is Director of Research for Group Health Insurance, does not mention the psychiatric coverage available under most older group major medical policies, subject only to the general limits of the contracts. A footnote, however, does refer to the high psychiatric claim rates experienced under major medical policies and to the current common practice, under such policies, of paying for ambulatory psychiatric care benefits equal to about half the usual charges and for visits up to about one per week.

The present study is a good source of data relevant to insurance of short-term psychiatric treatment. Psychiatric coverage was provided for a sample of 30,000 Group Health Insurance subscribers, their 19,000 spouses and 27,000 children. Benefits were payable for any condition treated by a psychiatrist. Agreements were entered into with over half the members of the American Psychiatric Association in the New York–New Jersey metropolitan area, representing a very large proportion of those treating private patients. Benefits paid by the project represented 75 per cent of the charges made for treatment. Under this schedule, for example, a patient would pay only \$5 for a 45-minute individual office session, including electro-shock if indicated, for a \$20 fee which was agreed to previously by the participating psychiatrist. Similar agreements were reached with most of the non-government hospitals in the area that were licensed to treat mental patients. The proportion of hospital charges reimbursed by the project was somewhat less than that provided for nonhospitalized treatment.

Coverage was provided on a "first-visit" basis, with no qualifying requirement other than the approximate 25 per cent sharing of costs by the patient. Coverage of long-term psychiatric treatment, however, was considered un-insurable either in or out of a hospital. Consequently, benefit payments to psychiatrists were limited to \$225, and benefits for hospitalization were limited to 30 days. These benefits were available once per eligible person during the entire term of the project.

Results of the experience are shown in terms of the number of new cases per 1,000 life-years exposed, the cost of treatment per case, and, combining these two, the claim cost per 1,000 life-years exposed. These rates are presented separately according to each of the following characteristics: age, sex, marital status, education, family income, and subscriber occupation. The average cost per case treated for all terminated claims was \$186 and ranged from \$134 for widowed patients and \$135 for children ages 12 and under to \$220 for patients between the ages of 20 and 25. By far the greater part of differences in cost is accounted for by variations in case rates. The case rates were higher for females than for males after age 20 and were at a peak for females at ages 20–39 and for males at ages 30–39.

Medical and surgical claims under normal GHI coverage of persons in this study were also analyzed for the 2½-year period of psychiatric coverage. Those who became psychiatric patients averaged \$52 for medical-surgical claims per year. Those who did not become such patients, but who were in families of psychiatric patients, averaged \$39 of medico-surgical claims per year. And

those who neither became psychiatric patients nor were in the family of a psychiatric patient averaged \$29 of medico-surgical claims per year.

One chapter is devoted to a discussion of patients and treatment patterns. Only 22 per cent of the patients with eight years or less of education consulted a psychiatrist on their own initiative, but a corresponding 43 per cent of those with some college education did consult a psychiatrist on their own initiative. Patients in families of lowest educational and income levels had the highest proportion of psychotic disorders, about a third, but of those in families earning over \$10,000 per year, or where the subscriber was a college graduate, only from 10 per cent to 15 per cent were psychotic. For 80 per cent of the patients, individual psychotherapy was the only form of psychiatric treatment for which benefits were paid. Hospitalized days for which benefits were paid averaged 23 per hospital case; 38 per cent received benefits for the maximum 30 days obtainable.

Factors relating to psychiatrists in the study are treated in a special chapter. In 73 cases where two or more psychiatrists were consulted, 31 showed a major difference in diagnosis between the first and second psychiatrist consulted.

The report concludes with a sharply qualified conclusion that psychiatric insurance of the type provided in the study is feasible "if spread over an average cross-section of the 1960 population." This severe limitation, and the data of the report, amply support the restrictions on psychiatric care benefits that have been placed in group major medical policies during recent years. The report emphasizes that risks in this field may be heavily concentrated in certain occupational and economic groups.

GORDON D. SHELLARD

#### SELECT CURRENT BIBLIOGRAPHY

In compiling this list, the Committee on Review has digested only those papers which appear to be of direct interest to members of the Society of Actuaries; in doing so, the Committee offers no opinion on the views which the various articles express. The digested articles will be listed under the following subject matter classifications: 1—Actuarial and other mathematics, statistics, graduation; 2—Life insurance and annuities; 3—Health insurance; 4—Social security; 5—Other topics. The review section of the *Journal of the Institute of Actuaries* contains digests in English of articles appearing in foreign actuarial journals.

#### HEALTH INSURANCE

P. M. Densen, S. Shapiro, E. W. Jones, and I. Baldinger, "Prepaid Medical Care and Hospital Utilization," *Journal of the American Hospital Association*, vol. 36, p. 62, November 16, 1962.

The authors examine hospitalization rates for two groups of union members with hospital insurance coverage under a union-administered plan, but with medical insurance coverage from two different sources—a group practice program and a union-administered fee-for-service plan. Two significant facts emerge from the study, the authors state: (1) There was no difference in hospital utilization rates for the group practice en-

rollees and for the fee-for-service enrollees; (2) for both populations studied, the admission rates were considerably lower than admission rates in previous studies involving members of nongroup practice plans.

C. Ellis, *Hospital Insurance Coverage of Aged Beneficiaries*, pp. 26, 1957 National Survey of Old-Age and Survivors Insurance Beneficiaries, Highlight Report No. 8, U.S. Department of Health, Education, and Welfare, Washington, December 1962.

This report is based upon a sample of old-age and survivors insurance beneficiaries consisting of 2,630 male and 870 female retired-worker beneficiaries, 1,806 wives and 81 husbands of retired-worker beneficiaries, and 629 aged-widow beneficiaries.

Tables show the distribution of persons by beneficiary and family status and type of health coverage (hospital, surgical, other, and none), and by type of insuring organization (Blue Cross-Blue Shield, insurance company, prepaid clinic, and other). Other tables show for beneficiaries who were hospitalized during the year the proportion who had hospital coverage, and for those who underwent surgery during the year, the proportion who had hospital and surgical coverage and the proportion who had hospital coverage only. The distribution of the proportion of hospital costs covered by insurance also is shown for these hospitalized beneficiaries. Other tables show the distribution of beneficiaries by amount of annual health insurance premium paid, by income and type of coverage, by liquid assets and type of coverage, and by employment status and type of coverage. Two tables also relate the beneficiary's own estimate of his state of health to the extent of his health coverage and to his age.

B. L. Gordon (ed.), *Current Medical Terminology, 1963*, pp. v, 346, American Medical Association, Chicago, Illinois, 1962.

This handbook was designed as a medical dictionary with an alphabetized listing of the preferred terms, cross references and a numerical index.

It provides brief stylized definitions showing, where applicable and always in the same order: additional terms; etiology; symptoms; signs, i.e., findings of a physical examination; complications (sequelae); special procedure findings such as EKG; X-ray findings; and pathologic findings. An example of a definition is shown below:

PLEURISY, FIBRINOUS SN 370-190 IC 519.0 4153

AT	Dry Pleurisy.
ET	Infection from subpleural focus secondary to underlying pulmonary disease; Pneumonia; Infarction; Tuberculosis; Abscess; Tumor; Fungus SN 370-2**; Trauma SN 370-4X0.
SM	Dull to intense sharp, stabbing pain in affected side of chest, aggravated by cough or deep respiration; Pain referred to neck, abdomen; fever, malaise.
SG	Sudden onset; Diminished breath sounds; Pleural friction rub.
CM	Adhesions SN 270-1X4; Pleurisy with effusion SN 370-190.8.
XR	Decreased illumination of affected lung.

Three systems of numerical codes are included: Standard Nomenclature of Diseases and Operations (SN), International Classification of Diseases (IC), and the numerical code of the book. The only numerical index provided is in terms of the numerical code of the book.

The book was produced by means of a computer recording and retrieval system.

The pages of the book were reproduced from the printed output of a computer. On this method, the Foreword states, "The advantages gained from computer recording and printing of a current handbook probably outweigh the virtues of 'hot type' printing. With CMT 'currency' is vitally important and fortunately it can be attained more easily than in the production of a textbook."

National Center for Health Statistics, Public Health Service, *International Classification of Diseases, Adapted for Indexing Hospital Records by Diseases and Operations*, vol. 1, Tabular List, pp. vi, 375; vol. 2, Alphabetical Index, pp. 417, Washington, December 1962.

"The basis for the adaptation of the International Classification of Diseases for hospital indexing purposes is the Seventh Revision of the International Statistical Classification of Diseases, Injuries, and Causes of Death. In the main, the changes consist of the addition of fourth-digit codes to provide greater specificity. . . . The major area of noncomparability appears in the section on Mental, Psychoneurotic, and Personality Disorders. Since the mental institutions in the United States employ the diagnostic code of the American Psychiatric Association, it seemed desirable to substitute that code for this section. Among other changes is the elimination of many residual categories. . . . With the patient at hand for diagnosis, such vague terms are unacceptable in hospitals."

"Until certain where a given disease is coded in the International Classification, one should refer first to the Alphabetical Index, Volume 2."

Volume 1 contains a classification of diseases and injuries, supplementary classifications for special admissions, livebirths and stillbirths, a supplementary classification of external cause of injury, and a classification of operations and treatments.

U.S. National Health Survey, *Comparison of Hospitalization Reporting in the Three Survey Procedures*, pp. 48, Public Health Service, Washington, January 1963.

"The objective of this research was to compare the effectiveness of two experimental procedures with the standard Health Interview Survey of the U.S. National Health Survey procedure in obtaining information about hospital stays. Procedure A, the control, used the standard Health Interview Survey (HIS) questionnaire and procedures. Procedure B was a revised interview schedule which was followed by a mail form in which any information about hospital stays that had been overlooked in the interview was to be recorded by the respondent. Procedure C eliminated the questions about hospitalizations from the interview; the requested information was to be entered on a self-administered form which was given to the respondent by the interviewer at the close of the interview. The follow-up forms in Procedures B and C were to be mailed to the Regional Office of the Bureau of the Census."

"For several reasons the study does not produce a representative measure of underreporting. . . ."

"A stratified sample was selected from Detroit hospitals of residents of the Detroit-area who had had one or more hospital stays during the year preceding the interviewing. Those whose only hospital stays were for normal deliveries were excluded from the sample.

"The following are some of the significant findings of this study:

"The proportions of the known sample of hospital episodes which were not reported were 17 percent for Procedure A, 9 percent for Procedure B, and 16 percent for Procedure C. The difference in the reporting in experimental Procedure B and the control Procedure A is significant at the 0.05 level of confidence.

"When apparent overreports were included, the rate of underreporting was decreased by two or three percentage points for each procedure.

"There was an increase in the underreporting rate for all three procedures as the length of time between the hospital discharge and the interview increased."

"One-day stays were reported very poorly, with the underreporting rates being almost the same for all three procedures."

“Episodes which involved surgical treatment were reported significantly better in all three procedures than those which did not.”

U.S. National Health Survey, *Disability Days Due to Injury*, pp. 45; *Persons Injured in the Home and Associated Disability*, pp. 45; *Persons Injured While at Work*, pp. 47; and *Persons Injured in Motor Vehicle Accidents and Associated Disability*, pp. 61; *United States, July 1959-June 1961*, Public Health Service, Washington, January and February 1963.

These reports present detail on some aspects of injury contained in summary form in an earlier report.<sup>1</sup> Home accidents are classified as having occurred in or out of the house, and work injuries as having occurred in an industrial or other place. Persons injured in motor vehicle accidents are classified by usual activity status. In general, data are classified according to the customary demographic, social, and economic characteristics of the population. The following data are excerpted from these reports.

INCOME; TYPE OF INJURY	AVERAGE ANNUAL NUMBER OF WORK-LOSS DAYS DUE TO INJURY PER 100 CURRENTLY EMPLOYED PERSONS PER YEAR							
	Males				Females			
	Ages 17-24	Ages 25-44	Ages 45-64	Ages 65 and Over	Ages 17-24	Ages 25-44	Ages 45-64	Ages 65 and Over
All injuries.....	108.8	143.7	151.5	201.1	19.9	70.8	120.7	249.3
Income class								
Under \$2,000.....	158.2	255.1	293.2	171.8	.....	.....	112.1	302.8
\$2,000-\$3,999.....	97.1	178.1	164.9	333.4	.....	85.9	84.1	.....
\$4,000-\$6,999.....	78.3	127.1	155.5	106.6	.....	97.1	145.5	334.6
\$7,000 and over.....	82.3	107.3	113.8	113.1	.....	34.4	138.3	.....
Injuries at work.....	52.6	85.3	89.3	89.4	.....	21.1	49.3	64.8
Motor vehicle accidents*..	16.4	39.6	34.3	40.8	.....	20.8	32.2	97.7
Injuries in the home.....	17.4	23.1		74.7	5.1		27.7	102.7

\* Some of these motor vehicle accidents occurred while at work or in the home.

SOCIAL SECURITY

*Disability Applicants under the Old-Age, Survivors, and Disability Insurance Program, 1961, Selected Data*, pp. 53, Division of the Actuary, Social Security Administration, Baltimore, March 1963.

In 1961, there were 241,060 worker disability allowances and 23,233 childhood disability allowances. In the case of worker disability allowances, 80 percent were males, 65 percent were at ages 50-65 years at the onset of their disability, 10 percent were confined to an institution, and 18 percent had arteriosclerotic heart disease, including coronary disease, as the primary diagnosis. Details are presented by age, sex, state of residence, diagnoses, and visual or auditory impairments.

<sup>1</sup> See *TSA XIV*, 566.

R. L. Traeger, "Life Insurance in Force as Survivor Benefits under the Railroad Retirement Act, January 1, 1962," *RRB Actuarial Study No. 6*, pp. 23, Railroad Retirement Board, Chicago, January 1963.

This study, second in a series, shows a total "life insurance in force" under the Railroad Retirement system of \$13.9 billion, an increase of 39% since January 1, 1956. The pertinent provisions of the Railroad Retirement Act are summarized, and the methodology and actuarial assumptions are outlined in some detail. Per capita amounts are shown by type of survivor benefit and age of employee. Of particular interest are the illustrative examples and the tracing of an individual case throughout the entire lifetime. The study concludes with a comparison with other programs providing survivor benefits and with private life insurance.

*Family Characteristics of the Long-Term Unemployed*, pp. xii, 196, TEUC Report Series No. 4, Bureau of Unemployment Security, Washington, January 1963.

A study is made of claimants under the Temporary Extended Unemployment Compensation Program, 1961-1962, by means of surveys conducted May and September 1961 and January and April 1962. Men accounted for 61 percent of the TEUC claimants, although they made up two-thirds of the civilian labor force. About 60 percent of the male claimants and 70 percent of the female claimants were at the prime working ages from 25 to 54 years. Among all TEUC claimants, 48 percent were primary earners living in multiple-person households and 14 percent were living alone in independent households. Altogether, 52 percent of the TEUC claimants "had been employed in 24 or more of the 36 months preceding the filing of TEUC claims." Also, "four-fifths of the TEUC claimants had exhausted unemployment insurance rights only once during the prior 36 months." . . . "Only 4 percent received a pension which resulted in a reduction in their weekly TEUC benefit, as required under the law."