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DIGEST OF SMALLER COMPANY FORUM—NEW YORK REGIONAL MEETING

INTERIM STATEMENTS

A. How frequently should such statements be prepared and how complete should they be? What methods are being used for estimating or computing reserve liabilities? Dividend liabilities? Other items?

B. Are such statements used to forecast year-end results? If so, how are the forecasts made? What other purposes may be served by such statements?

MR. GRAHAM C. THOMPSON: Our management desires a major line breakdown, and we make up quite a complete statement each quarter. The greatest problems seem to arise in the reserve and the dividend liability.

As part of our year-end work, we make a valuation based on January 1 in-force, using reserve factors for the following December 31. Using this and the preceding December 31 valuation, we can obtain for the major part of our business an annual increase in reserve, ignoring terminations and new issues.

This increase is prorated over the year, quarter by quarter. Certain adjustments for surrenders, maturities, new issues, and so forth, are generally readily available. Miscellaneous reserve increases, such as for disability or accidental death benefits, are estimated.

Reserve increases for supplementary contracts, annuities, and dividend accumulations are adjusted by considering the accrued interest.

The net result of these items produces a reasonably accurate picture of the reserve increase during the year and may be tested by using the method to obtain the full year's reserve increase.

MR. GEORGE IMMERWAHR: In the Monumental Life we get out quarterly interim statements for our Board meetings, including one in January before our actual reserve computations are completed. The method we use has usually produced pretty good results. We don't try to allocate by line of business. We use the cash items from the ledger and use what accrual items are available. The big problem is determining reserves at the end of each quarter, and for that we reconstruct the reserves by using the method indicated on page 6 of the Annual Statement, figuring down from top to bottom and coming out with the total reserves. To do this, we project from prior years the ratios of the various lines on page 6 to some other items that we know. For example, we will have worked out for 1960, 1959, and 1958, say, the ratio of net to gross premiums and project that into 1961.

MR. ALEXANDER MUTCH: As I work for a New York company, the United States Life, we have to file quarterly statements with the Department. Actually, for our internal purposes we make a very complete statement, breaking earnings down by line of business, which is more than the New York Department requires. We feel that, as a stock company, we are interested in preparing a fairly complete statement, even though we do have some approximations.

For the main liability item, however, our reserves, we get a quarterly figure that is just about as accurate as our year-end figure. We have our reserves computed by an IBM 650, and at the end of the current year we have the current year reserves and the following year reserves. We get those reserves distributed by quarterly anniversary, so that we obtain a reserve figure at the end of March which is the 1961 reserves on policies for the January through March anniversary and the 1960 reserves through the rest of the year.

Deficiency reserves, which are getting to be a fairly sizable item, are accurate except that we don't attempt to allow for the decrease in the deficiency reserves from one year-end to the next. That is a small cushion that we reserve for the fourth quarter.

The various benefit reserves, such as disability, and so forth, we determine at the beginning of the year by determining a year's additions. We usually like to be fairly conservative in those additions, so that again in the fourth quarter we have this cushion.

The dividend liability we approximate in much the same way, so that normally we would be overreserving a little bit during the year.

As to federal income tax, we will attempt to estimate what our company's ratio is for the following year, based on what has happened in the past; then we apply that, and I think we get a reasonably accurate federal income tax liability.

As to section B, here we don't actually attempt to make too exact a forecast. We will look at what has happened during the quarter; and before we have the actual results of the quarter, we will attempt to see what earnings we should have, and then see if our quarterly earnings actually work out to that, so that by the end of the year, with the first three quarters to go on and having knowledge of how our mortality has gone in October, November, and December, we have usually a pretty good idea of what our Ordinary earnings are. Group is a bit of a problem in that you can't always tell from your current figures how you are going to go because of rate credits coming into the picture, but individual A&H is somewhat easier from just the claim payments to see how we are going, so that in estimating what our earnings are going to be on A&H, we are usually not too far wrong.

MR. MELVIN L. GOLD: I have a number of companies in New York which haven't been calculating their reserves by IBM machine, and so if we have the problem of estimating their reserves for the quarterly statements we have been trying a number of different methods.

One method that has worked pretty well is to divide the plans into broad plan groups and try to get an average reserve per thousand for each of the plan groups or, in other words, have the policies in force by quarter year of issue and then get an average reserve per thousand for the quarter year of issue, and then when the March 31st time comes around, all the business with anniversary in the first quarter will be advanced.

Of course, these are all small young companies, and it has worked pretty well. Some may be five or six years old. We do everything on IBM machines, but this method would also work for special plans which perhaps aren't on IBM yet.

When I was with another company, we estimated reserves by using the method described by Mr. Immerwahr. At the time, it didn't work too well, but I understand that it is working much better now.

MR. PETER F. CHAPMAN: I was Mr. Gold's successor, and I took over the method. We had difficulties because the volume of business was expanding considerably, and at the same time we were emphasizing the temporary extra premium approach in our underwriting. We found that we weren't as accurate as we wanted to be. We have gone over to a method of controlling it which involves very much the interpolation techniques that Mr. Thompson mentioned earlier, and we use that as a check on our tabular cost method. It gives pretty fair results.

Statement projections very frequently are complicated by temporary fluctuations in the premium. Incurred premiums by quarter are not uniform, and there are further difficulties in unearned premiums where there are changes in loading ratios, for example, on a new plan which has a net-to-gross ratio which differs appreciably from the rest of your business. Frequently we found in effect that it is wise to look for two quarterly reserves, one to be used as a basis for projecting into the annual statement and the other to be used as a basis for estimating the true quarterly liability. We found that using the two methods, we could come out with a satisfactory quarterly figure.

MR. THOMPSON: We use our quarterly results to forecast the year-end. We made tests involving a lot of the different items, using results of the last three or four years' quarterly statements compared with the annual statements, and found that, while the incidence of the earnings quarter to quarter was certainly not uniform during the year, the results for the same quarter, year by year, were remarkably stable.

For example, this year our first quarterly statement, because of premium volume coming in not uniformly, shows very low earnings as compared with the year as a whole, and yet, using ratios derived from the past three years' experience throughout three quarters of the year, I projected earnings within a few thousand dollars of each other and remarkably close to the end of the year earnings. I think they do have a use, but there has to be a certain amount of judgment also.