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TRANSACTIONS

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REPORTS ON TOPICS OF CURRENT INTEREST

RECENT LEGISLATIVE DEVELOPMENTS

VARIABLE LIFE INSURANCE

New York has passed its own variable contracts law, which is essentially similar to the NAIC Model Bill. Tennessee has passed a bill close to the model, and such laws are under active consideration in a few other states. A few states need no legislation. The big question now is what stance the SEC is going to take. Some are hopeful that the SEC may exempt certain carefully defined contracts from some or all of its jurisdiction. Detailed discussions have taken place at other sessions at this meeting.

INSOLVENCY FUNDS

The NAIC Insolvency Fund Model Bill does not apply to life insurance companies, but the NAIC has activated a Subcommittee to Study Life and Disability Insurance Insolvencies and Prepare Necessary Legislation. Hearings on this matter will be held at the Cleveland NAIC meeting, but the industry has been notified that no time is allocated for discussion of whether or not such legislation is needed. Arguments will be given only on the substance of the proposed legislation.

Wisconsin and New York presently have insolvency fund legislation that is applicable to life insurance, but these two laws are incompatible in that Wisconsin's covers all policyholders resident in Wisconsin and New York's covers all policyholders of New York–domiciled companies. Several other states are considering such legislation.

At the federal level a bill covering only property and casualty insurance is presently in committee. Its features are not fully known at this time, but it would probably create serious conflicts with the NAIC Model Bill.

It should be noted that both life insurance and casualty companies

write accident and health insurance; this will require some direct coordination between any insolvency laws that pertain to the two classes of companies.

HEALTH CARE

There is a very high level of activity in this area—in the industry, among the states, and in Washington. Medicare and Medicaid are being reviewed by a committee of Congress. The administration has proposed an addition that would accommodate a prepaid group practice plan for the providing of benefits under Medicare and Medicaid.

Both New York and Hawaii considered compulsory health insurance bills during their 1970 sessions but did not pass them.

Pennsylvania is considering the creation of a state health agency that would have broad powers, including regulating hospital charges and health insurance premium rates.

At a recent special meeting the membership of the Health Insurance Association of America approved a comprehensive report that deals with quantity, quality, and structure of health care in America and makes many broad recommendations with the objective of developing health care delivery systems which will "more adequately meet the needs and expectations of all the American people in the decade ahead."

PENSIONS

It seems likely that the Dent Subcommittee of the House Education and Labor Committee may report out a bill dealing with disclosure and fiduciary matters, and there is a good chance that the House may pass such a bill. The Senate, however, seems fully occupied with other matters this year, and, while not impossible, it seems most unlikely that this bill or any similar bill will pass both houses.

There are bills in the hopper concerning vesting, funding, and reinsurance, but interest in them seems to be very light for this year.

MISCELLANEOUS

A number of states have passed the NAIC Model Holding Company Act or bills reasonably similar during 1970.

Again, an attempt to increase the policy loan interest rate of 6 per cent in New York failed.

DALE R. GUSTAFSON

REPORT ON JOINT ACTUARIAL COMMITTEE MEETING

The Joint Actuarial Committee of the American Life Convention–Life Insurance Association of America met April 21 in New York City. The topic of discussion was current interest rates and whether changes are needed in maximum statutory nonforfeiture, valuation, and policy loan rates in view of the level of current interest earnings.

This topic is a carry-over from considerations in previous years. In 1966, in fact, the committee recommended to the NAIC that the statutory valuation rate for annuities be increased from 3½ to 4 per cent in view of the increase in net investment earnings at that time. The effort to change the maximum rate was postponed when the NAIC suggested the need of consideration of a new mortality table at the same time. This problem is still with us.

I am sure that we all agree that things have certainly changed since the time the 3½ per cent rate was established in the Standard Nonforfeiture Law and the Standard Valuation Law. Many economists are predicting a new higher plateau of interest-rate earnings for future years, so there is a general desirability for the profession to examine the situation. In fact, a few states recently have allowed a higher valuation rate, at least for some types of new annuities. Among these are California, Kentucky, Idaho, Nebraska, and Oregon. California and Kentucky allow a 4 per cent valuation and nonforfeiture rate for new life insurance issues. A new insurance code proposed in New Jersey also contains a 4 per cent interest rate for annuities.

The Joint Actuarial Committee decided to appoint two subcommittees to study the interest rate situation. One subcommittee is to be chaired by William K. Nicol and will study the individual life insurance aspects. The other subcommittee, chaired by Charles M. Sternhell, will study the individual and group annuity aspects. It is hoped that these subcommittees will be in a position to make at least a preliminary report in the fall of 1970. It is also expected that the subject will be discussed at a concurrent session at the fall, 1970, meeting of the Society. Broad-based industry support is very desirable for any proposed changes. The Joint Committee will eventually recommend appropriate action be taken by the NAIC. June, 1971, may be the earliest time at which such a recommendation may be feasible.

The individual life insurance subcommittee will examine a range of possible interest rates and determine the effects of changes in interest rates

on premiums, deficiency reserves, and other related values. There is some reason to believe that insurance costs are being held artificially high due to the level of early cash values required by current laws. There is a possible desirability of using higher interest rates for reserves and nonforfeiture benefits for variable and index-based life insurance. The policy-loan interest ceiling (generally 6 per cent but 5 per cent in New York) is a problem for many companies.

The annuity subcommittee will consider both interest and mortality rates. Consideration will be given to the surplus strains currently experienced due to the relationship between single-premium annuity considerations and the minimum reserve currently required.

Both subcommittees, no doubt, will consider tax consequences, possibility of split-interest rates, and distinctions among single-premium immediate, single-premium deferred, and annuity premium contracts in regard to the turnover of investments backing them.

JOHN M. BRAGG

POSITION STATEMENT BY ROBERT J. MYERS

On April 14 I regretfully submitted my resignation as Chief Actuary of the Social Security Administration to Secretary Finch, to be effective when the pending social security legislation would be enacted by the Congress or at such earlier date as he so desired. On May 25 Acting Secretary Veneman accepted my resignation, effective immediately.

I am glad to have this opportunity to present the facts as to why I had to take this action. First, I want to make it clear that I did not resign because of any political pressures to influence or modify the actuarial cost estimates. No significant attempt to do so has ever been made in my thirty-five years of actuarial service with the social security program.

Also, I wish to state that my action is not based on any opposition to the administration's recent proposals for social security legislation. In fact, I strongly support these proposals, believing them to be neither too little nor too much.

I was constrained to resign for reasons of principle, since I thought that a serious injustice was being perpetrated. I have always believed that social security should be a floor of protection, and I think that it has well served this purpose and is now doing so. The Nixon Administration, as I interpret its views, also has this philosophy. Yet, strangely enough, the two top policy-making positions of the Social Security Administration, which are political appointments, are still filled by holdovers from the Johnson Administration. The incumbents hold the expansionist philosophy—namely, that complete economic security for virtually the entire nonworking population should be provided through governmental means. In my opinion, they have not and will not faithfully and vigorously serve the Nixon Administration.

Over a year ago I presented my views and certain supporting facts to Secretary Finch. I have also made my point of view public through a number of speeches and articles, such as in *Reader's Digest* for April, *Nation's Business* for March, and *Pension & Welfare News* for January. Since, despite this, I was unable to convince Secretary Finch, there was no other course but to resign.

Finally, I might mention that, in the future, I shall continue in the social security field, on an independent consulting basis, doing such as I can that we may have both a sound and a desirable social security program.