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DIGEST OF REPORTS ON TOPICS OF CURRENT INTEREST

FUTURE OUTLOOK STUDY

MR. WENDELL A. MILLIMAN: Mr. John H. Miller gave a report on this study at the regional meeting last April in Philadelphia. I would like to make a few comments on the text of the study.

This study, while it looks to the future, is content with a fairly short-range forecast of the next five to ten years. While it contains little that is new or startling, it is a thoughtful and readable survey of the forces and trends which are expected to influence the insurance business during the coming decade, together with probable consequences. These forces are identified as the following: (1) the new economics, namely, the concept that the federal government, with the aid of the Federal Reserve Board, can and should maintain economic stability through tax and monetary policies; (2) the affluent society—it is predicted that by 1975 over 40 per cent of United States families will have annual incomes of $10,000 or more; (3) demographic change, with particular reference to the population bulge generated by post–World War II births, to the increase in family formations and to the increase in the population over age sixty-five; (4) political change; (5) sociological change; and (6) the new technology.

Many of the conclusions drawn in this study are familiar. For instance, on regulation, the United States life insurance business has for some years operated under a system of dual regulation. The areas of federal involvement have spread dramatically, and there seems to be little likelihood of reversal. The history of the life insurance and other businesses clearly indicates that wherever a consumer-oriented service fails to serve the best interest of the public, government investigation may be expected to follow. Thus the best hope for averting the continued growth in depth and

breadth of government regulation lies in the timely adoption of positive programs to meet all insurance needs that can be privately underwritten or administered and in self-regulation in the public interest.

On social security the pressure to increase social security and other public benefits will continue but counter pressures will maintain a reasonable balance between the private and public sectors as long as the companies do not fail to extend their services wherever there are substantial coverage gaps or unmet needs that can be covered by private insurance.

On investments, the demonstrated skills of the investment organization will support completely and adequately the shift into those newer forms of income protection which rely to a great extent on equity-type obligations. With the reservoir of expertise and experience that the life companies hold in the investment field, the industry will prove particularly capable in the employment of equity-directed savings. The flexibility already demonstrated in recognizing changing fixed-income opportunities over the past century strongly supports the prediction that the life companies will be able to invest equity-type savings in more productive and imaginative vehicles than the narrow and crowded field of common stocks.

[Mr. Milliman illustrated the refreshing new approach taken in the study to the problems of the industry by quoting the comments on the "life cycle policy" and the conclusion of the report, captioned "A Final Word."]

MORTALITY INVESTIGATION ON INDIVIDUAL LIVES

MR. PAUL K. FRAZER: I will confine my remarks to an elaboration of a few points that Mr. William Schmidt made recently at the spring meeting in Philadelphia.

For the medically examined issues during the first fifteen years, the over-all ratio was 95.1 per cent, excluding war deaths. This continues the gradual improvement over the last five years interrupted only by the 101.0 per cent of 1963–64. Such a fluctuation can only be explained by saying that a substantial and random fluctuation can and does occur occasionally even in experiences of this size. The current exposure was about $112 billion, with $350 million of actual claims. Issue age group zero showed the highest mortality ratio (150.4 per cent). Although the exposure was small, it should be noted that this age has had high mortality ratios in past studies. In general, the ratios were higher at ages under twenty-five—102.4 per cent, excluding war deaths, and 108.3 per cent including war deaths. War deaths increased the ratio for the age group twenty to twenty-four by 6.4 percentage points, from 97.8 to 104.2 per cent. Mortality ratios by year of issue were all below 100 per cent, ranging from 89.8 per cent for 1962 to 99.2 per cent for 1954. As would be expected, there is considerable difference between years of issue. The inclusion of war deaths raised the ratio for 1964 issues from 95.3 to 96.5 per cent and that for 1965 issues from 97.6 to 99.7 per cent.

For nonmedical business during the first fifteen years, the over-all ratio was 107.8 per cent, excluding war deaths. This is a little less than the previous year's figure but there has not been any significant improvement since 1962, when the ratio was 105.8 per cent. Thus the spread between medical and nonmedical mortality has widened over the past five years. The mortality ratios excluding war deaths were greater than 106 per cent for all issue age groups five through forty-nine, except for the age group twenty to twenty-four, where mortality ratios by year of issue ranged from 97.8 per cent for 1955 to 114.6 per cent for 1965. Both of these figures are exclusive of war deaths. The inclusion of war deaths had a much greater effect on the nonmedical ratios than on the medical. It changed the aggregate nonmedical ratio from 107.8 per cent to 116.1 per cent. For age groups fifteen to nineteen and for age groups twenty to twenty-four, the ratio increased by 19.9 per cent and 13.9 per cent, respectively. Further, this spread differed greatly between individual

companies, depending upon their nonmedical and military underwriting practices. For one company the spread has been reported as 19 percentage points for the entire nonmedical group.

Reference has been made to the heterogeneity of the data analyzed in our annual reports. For several years the report has included tables showing number of companies and proportion of actual deaths for a range of mortality ratios above and below average for both medical and nonmedical issues. In the forthcoming report, the medical issue table will show that there was one company more than 20 percentage points below average. Its contribution was 1.6 per cent of the total actual deaths.

In the percentage point range between 10 and 20 below average, there were three companies with 10 per cent of the contribution; in the point range between five and ten below, there were five companies with 15 per cent; and in the zero to five group above there were no contributors. This illustrates that individual companies have different underwriting philosophies and that there is considerable difference in the results between companies. In looking over the annual reports, too often we think only of the aggregate results, and this does create some difficulties.

This raises some questions, and discussions are now going on with regard to wider availability of our data. Should the information by companies be made available on a coded basis to those who have a legitimate use for it? If it is decided that there is merit in this suggestion, no company's information can be released without its permission. Would such a practice result in withdrawal of some contributors or would it not? The contributors have already agreed to make their data available for an investigation into risk theory. Each year the committee's report compares medical and nonmedical mortality, at the same time pointing out the pitfalls of such comparisons. The nonmedical experience should be compared with a group of medical issues having the same issue characteristics as the nonmedical issues, so that any difference in the levels of mortality can be attributed solely to better classification because of additional information revealed by the medical examination. Unfortunately, such a comparison is not possible and intercompany data are the best we have.

In interpreting the difference between nonmedical and medical mortality, we have shown in our reports a number of factors that have to be considered. Among them are different nonmedical underwriting rules among companies, which give rise to the question of different proportions of medical and nonmedical business. Another is the different age distribution for each type of business. A third is the underwriting standards and markets of the companies, this likewise being different. In some companies a larger proportion of the medical business at nonmedical ages consists of

borderline risks than is true in others, where the large amount applied for accounts for a higher proportion of the medical issues at these ages. A further complicating factor is the marked increase in recent years of amounts being issued nonmedical. How much effect is this having on the level of nonmedical mortality? We are currently planning to get some kind of answer to that question by analyzing nonmedical mortality by size of policy. With existing nonmedical limits it is possible for an individual to obtain a substantial total amount of insurance without medical examination by going to several different companies.

LEGISLATIVE MATTERS OF INTEREST TO ACTUARIES

MR. GEORGE H. DAVIS: Life insurance companies continue to be affected in increasing degree by developments in Washington and by congressional legislation and by the activities of the different federal departments that touch on the activities of life insurance companies. However, there has been no issue in Congress this year of supreme or critical importance, such as an income tax revision or Medicare. Perhaps the most recent important development of interest to actuaries and life insurance companies is a bill to regulate employer pension plans. The bill would require vesting of benefits after ten years of service. It would require that vested benefits be fully funded after the plan had been in existence for twenty-five years, and it would set up a pension benefit insurance corporation to insure payment of vested benefits and would require premiums to be paid to this corporation by pension plans.

Turning to state legislation affecting pension plans, the laws of a number of states have been amended to enlarge the operations of separate account business, particularly in many cases, to permit individual variable annuities. There also have been regulations in a number of states on individual variable annuities, and others are under consideration.

In the state legislature, there have been bills affecting credit insurance. However, the NAIC model credit insurance bill has not passed anywhere this year.

There have been only a few bills to increase taxes, and no important change in taxes affecting life insurance has been passed anywhere except in New York.

The subject of cash sickness insurance or compulsory loss of income on hospitalization benefits to be provided by employers has become somewhat active after a lull over a number of years, since the 1950 New York law was passed. There is a bill in Puerto Rico to set up a state-fund plan which would be almost completely unworkable as to provisions for contracting out with insurance companies. The Puerto Rico Legislature is due to adjourn at the end of this week and has not as yet passed the bill.

The state of Wisconsin is in the process of revising its insurance code. It is doing this a chapter at a time. One chapter has already been passed. This concerns reorganization of companies and some other details not of great interest to life insurance. The section now being developed deals with corporate organization—such things as the election of directors—and has some rather novel proposals. The objective of this code revision is

somewhat different from that which has been followed in a number of states that have revised their codes recently. The objective here is to have a complete revision, not simply to reorganize the existing law. This will presumably result in some substantial changes or at least in some substantial proposed changes which are likely to provoke a good deal of interest and probably controversy.

The New York Legislature adjourned last Saturday and had before it a number of proposals of interest to life insurance companies. There was a compulsory health insurance bill developed by the administration in New York which would require hospital coverage for all employees and their dependents. This was merely introduced. Hearings were not held on it, but presumably it will be advanced as a serious proposal next year. The Convention and Association did not oppose this bill. It provides for coverage by private insurers, and the coverage written by insurance companies would not be subject to premium tax. Another administration bill was introduced in the last part of the session—to require welfare authorities to purchase insurance for the citizens of New York who are eligible for state Medicaid. As introduced, this required the insurance to be purchased from Blue Cross, but it was amended to permit it to be written by insurance companies. However, this encountered a good deal of opposition and was never reported out of committee.

The bill to increase the premium tax in New York has finally passed. It raises the tax by one-quarter of 1 per cent on domestic companies effective on January 1, 1968, and the same increase is effective on foreign companies July 1, 1969. The reason for the different effective dates was that this was the only way that could be agreed upon as a method of avoiding retaliation on the domestic companies. The intention is to try to find or to develop some method to avoid retaliation on domestic companies before the increase for foreign companies goes into effect in 1969, since, if it goes into effect as now provided, retaliation on the domestic companies will cost the domestic companies quite a bit more than the bill now requires them to pay directly.

A bill making fairly minor liberalizations in Section 213 has passed.

The limit on policy loan interest rate is 5 per cent in New York and Massachusetts; in other states it is 6 per cent. A bill was introduced in New York this year which would have eliminated the 5 per cent limit and would have provided for a flexible rate, a rate to be set by each individual company. The rate which would have applied in the case of each individual company would have depended upon its earnings rate on its new investments. The bill was an Insurance Department bill and had Convention and Association support, but it failed to pass. It is expected to be proposed again next year.