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ECONOMIC ROLE OF LIFE INSURANCE

Moderator: ERNEST J. MOORHEAD.
Panelists: WILLIAM C. L. HSIAO, EDITH WEINER.*

This panel will present visually some facts and opinions about the economic impact of life insurance in meeting people's needs and desires for retirement security and security against death and disability, tracing the changes in those needs and desires that have occurred or are foreseen.

This will be designed as a prelude to audience discussion and debate of the record and the outlook.

MR. ERNEST J. MOORHEAD: The program is constructed on the theory that actuaries would like to devote 90 minutes more or less to thinking about the place that life insurance has had and may be expected to have in our capitalist economy and about such questions as: How significant are we? What are we accomplishing? What about the progress of the last 125 years? Are we gaining? Are we losing?

MR. WILLIAM C. L. HSIAO: It is said frequently that the function of insurance is to prevent economic destitution arising from certain risk factors. They include death, disability, accidents, fire, flood, etc. If each one of these events is surely to occur (i.e., probability of 1) within a given time period, it is unlikely that people would buy insurance, the reason being that the premium rate will be greater than expected financial loss because of administrative expenses. It will be cheaper for people to make their own individual provisions for the risks each one faces. The existence of insurance comes from the fact that those risk factors are uncertain. For each time period, they can only be expressed in probabilistic terms. People facing these risk factors want to reduce their uncertainty. They are willing to pay a premium rate which is greater than their expected financial loss in order to translate an uncertain financial loss to a certain one. Therefore, a major economic function of insurance is to reduce uncertainty. Table 1 illustrates this point. It shows a person who has two assets, an automobile worth $5,000 and cash of $100. In the next year he faces a probability of 0.01 that his automobile will be stolen. Meanwhile he can buy an insurance policy that insures the automobile against theft for a premium rate of $100. The premium rate exceeds the expected $50 financial loss. However, many people would buy insurance to change an uncertain loss to a certain loss. In this example the buyer will pay $50 to assure himself an outcome of $5,000 in total assets with certainty as compared to a varying amount of $100 to $5,100.

Table 1 brought out the point that the major economic role of insurance is to reduce uncertainty. Traditionally, insurance products are designed to insure demographic risk. Yet people also face economic and other uncertainties. Table 2 shows the relative size of the uncertainties confronting a man attaining age 50 in the year 1965. As you can see, the annual mortality rate is

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much smaller than some economic risk factors. It is not surprising, then, the public wants protection against economic risks. This is the challenge facing the insurance industry.

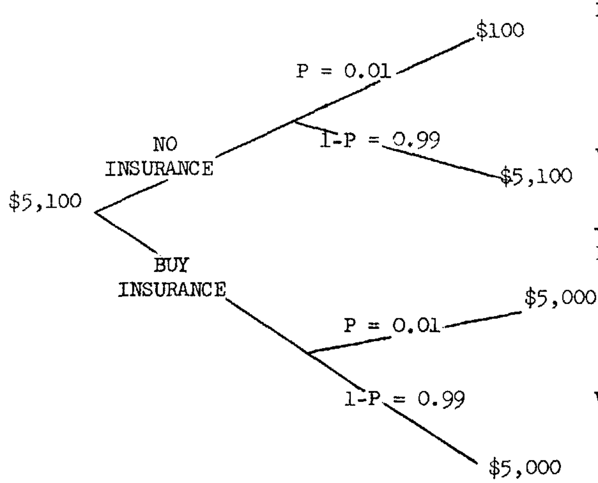
Another frequently cited economic role of insurance is capital formation. In order to understand what portion of savings is created by the availability of insurance, we need to examine briefly the reasons why people save. People save to cushion against financial risks, for rainy days, for retirement, for passing wealth on to their children, etc. Table 3 shows what portion of the personal disposable income people have put aside as savings. This portion has not fluctuated widely since World War II, other than in 1975. Most of the variance can be explained by the economic cycle. During the same period, the portion of savings channeled through life insurance and uninsured pension funds has shown a steady increase until the recent inflation - recession. The reason could be that life insurance has become more competitive, gaining a larger share of the personal savings. It is a better substitute for other types of savings. However, it has not materially increased the total personal savings in the U. S. A casual conclusion one might draw from this data is that insurance and pensions are good savings vehicles. But they do not necessarily induce people to save more.

Table 1

INITIAL ASSETS:

$100 CASH

$5,000 AUTOMOBILE



EXPECTED VALUE= P($100) + (1-P) (5,100) = $5,050

VARIANCE { $100 or $5,100

EXPECTED VALUE= P(5,000)+ (1-P) (5,000) = $5,000

VARIANCE { $5,000 $5,000

Table 2

Risks Confronting a Man

Attaining Age 50 in Year 1965

	Demographic Risk	Economic Risks	
	Probability of Death	Probability of Being Unemployed	Inflation Rate (CPI)
1965	1.0%	3.2%	1.7%
1966	1.1	2.5	2.9
1967	1.2	2.3	2.9
1968	1.3	2.2	4.2
1969	1.4	2.1	5.4
1970	1.5	3.5	5.9
1971	1.6	4.4	4.3
1972	1.8	4.0	3.3
1973	1.9	3.2	6.2
1974	2.1	3.8	11.0
1975	2.3	6.7	9.1

Source: Data for the demographic risks are from Actuarial Study No. 72, Office of the Actuary, Social Security Administration. Data for the economic risks are from the 1976 Economic Report of the President, pp. 199 and 222.

Table 3

Personal Savings 1945 - 1975

	As a Percent of Disposable Income	Portion of Personal Savings through Insurance and Private Pension Reserves*
1945	19.7%	NA
1948	5.7	22.7%
1951	6.6	20.8
1954	6.1	28.0
1957	6.7	27.9
1960	4.9	35.9
1963	4.7	36.1
1966	6.5	29.8
1969	5.6	35.1
1972	6.2	31.0
1975	8.3	NA

Source: 1976 Economic Report of the President, pp. 187, 193

* Includes Non-Insured Private Pension Reserves

Undoubtedly, most of the American people believe that life insurance is serving a positive and significant role in our society. This belief is shown in our tax laws. By giving more favorable tax treatments to insurance premiums and pension contributions the government encourages people to buy insurance. Correspondingly, the government loses tax revenue from these tax provisions. These tax revenue losses from more favorable tax provisions are called tax expenditures. Table 4 shows how much our federal government has lost through reduction in tax revenues in fiscal year 1975 in encouraging the purchase of life, health and retirement insurance. With an expenditure of $11 billion, one would expect the government has to give some accountability for it. This could lead to more government regulations of the life insurance business.

Table 4

Tax Expenditures to Stimulate Private Insurance

	Fiscal Year (In Millions) 1975
Net Exclusion of Pension Contributions	
A. Employer Plans	$5,225
B. Self-employed and Others	390
Exclusion of Other Employee Benefits	
Premiums of Group Term Life	740
Employers' Contribution to Medical Insurance Premium	3,275
Exclusion of Interest on Life Insurance Savings	1,545
Total	$11,175

Source: Special Analysis, Budget of the U. S. Government, Fiscal Year 1977, pp. 125-127

MR. MOORHEAD: Table A shows a breakdown of the policies in force among those that involve (1) large cash values, essentially higher than whole life, (2) moderate cash values, mainly whole life continuous premiums and limited payment life, and (3) no cash value. This apparently shows a move by people who used to have large cash values to no cash values while all the moderate cash value people stay exactly in the same position as they were - a rather extraordinary result. But I think that some may possibly have moved from high to moderate, and others from moderate to no cash values. The matter is of significance in the role that life insurance will play in the future and perhaps also has special significance now that the National Association of Insurance Commissioners is introducing a Buyer's Guide that is going to give some advice on the circumstances under which they feel you should buy policies with cash values and the circumstances under which they feel you should not.

Table A

Distribution of Amounts of Individual Life Insurance In Force

	1950	1962	1970	1974
"Large Cash Values"	21%	10%	7%	6%
"Moderate Cash Values"	67	66	64	63
"No Cash Values"	12	24	29	31

Source: Institute of Life Insurance

Table B is an excerpt from the Monitoring Attitudes of the Public program of the Institute of Life Insurance. It shows the state of the public's attitudes toward life insurance companies. First, are life insurance companies too concerned with profits at the expense of the people they serve? The favorable attitude toward life insurance was 32% in 1968 and then suddenly dropped in the next two years to 18% and has fluctuated somewhere within that range ever since. Similar results were obtained with the other two. "Life insurance companies in general, have a very ethical code" dropped suddenly in those two years and remained the same ever since. "Life insurance companies are more concerned about public welfare than most give them credit for" showed the same drop but then somewhat of a recovery since.

Table B

Stated Public Attitudes toward Life Insurance Companies

	1968	1970	1973	1975
"Life insurance companies are too concerned with profits at expense of people they serve."				
FAVORABLE TO LIFE COMPANIES	32%	18%	21%	19%
"Life insurance companies, in general, have a very high ethical code."				
FAVORABLE TO LIFE COMPANIES	50	33	35	34
"Life insurance companies are more concerned about public welfare than most give them credit for."				
FAVORABLE TO LIFE COMPANIES	40	23	28	26

Source: Institute of Life Insurance

Table C comes from the census bureau, via the Institute of Life Insurance DataTrack Report. This shows the income shares of each one-fifth of the families in the country from 1950 to 1974. In a word, the results are changeless - the same in 1974 as in 1950. This table directs attention to the large question of the ability of life insurance to serve all segments of the people despite rising prices and requirements for cost disclosure. What one reads from this table depends entirely on how one looks at it. The headlines in the DataTrack Report of the Institute of Life Insurance say that all segments of society have shared in the growth of the economy, which I think is quite accurate. Others with equal accuracy say that increasing affluence is not solving income maldistribution.

Table C

Income Share of Families

	1950	1960	1970	1974
Lowest Fifth	4.5%	4.8%	5.4%	5.4%
Second Fifth	11.9	12.2	12.2	12.0
Third Fifth	17.4	17.8	17.6	17.6
Fourth Fifth	23.6	24.0	23.8	24.1
Highest Fifth	42.7	41.3	40.9	41.0

Source: Institute of Life Insurance from Census Bureau

Table D

Median Annual Incomes of Year-Round Full-Time Workers Aged 35-44

	1955	1960	1965	1970	1974
In Dollars					
Men	$4,522	$5,907	$7,196	$10,258	$13,586
Percent of 1955	100%	131%	159%	227%	300%
Women	2,858	3,404	4,073	5,531	7,418
Percent of 1955	100	119	143	194	260
In Dollars Indexed by CPI (1974 equals 1.000)					
Men	8,330	9,835	11,247	13,028	13,586
Percent of 1955	100	118	135	156	163
Women	5,264	5,668	6,366	7,024	7,418
Percent of 1955	100	108	121	133	141

Source: Census Bureau

Table D comes directly from some census bureau figures and is intended to take a look at the man in the middle - the allegedly median individual amongst all full-time workers age 35 to 44 -- from 1955 to 1974. It gives the dollar incomes of those median people (which is almost all wage and salary income rather than investment income). It shows income for a man tripling in the 19 year period. Women, however, start at some 60% of men and do not triple. So we see both a much lower income for the median woman and a somewhat slower growth also. The rest of the table shows what happens if you index those figures by the Consumer Price Index, showing naturally a lower increase in percentages and a much higher starting income over the period.

Table E is related in a way to one of the previous ones - it has to do with voluntary termination rates of individual life insurance as shown in the Fact Book of the Institute of Life Insurance for policies in force less than two years. The early lapse rate has gone up rather steadily although it has been stable between 1970 and 1974 essentially. But it is now double what it was when the Institute started that series in 1951. On the other hand, the termination rate of policies in force more than two years apparently is still going up - and also is now double what it was when they started the series in 1951. How will the ability of individual life insurance to increase its impact be hampered by the trend shown here?

Table E

Voluntary Termination Rates of Individual Life Insurance

	1951	1960	1965	1970	1974
Policies in Force Less than 2 Years					
	9.4%	14.5%	15.4%	19.3%	19.5%
Policies in Force 2 Years or More					
	2.2	3.7	3.5	3.9	4.5
All Policy Durations					
	3.2	5.2	5.1	5.9	6.5

Source: Institute of Life Insurance

MS. EDITH WEINER: I will talk about the general trends in the economic role of life insurance.

SCIENCE AND TECHNOLOGY:

1) Let us consider the word "personal" to mean emotional involvement. There was a time when life insurance was highly personal -- the agent and company were intimately involved. The close personal involvement in the transaction of business relating to life insurance may even have been one of the reasons for tremendous resistance to it in earlier years. But computer technology intervening in the billing and collection process removed some of the "personal" involvement of the consumer with the product, and advances in "cashless" transactions via credit cards, checking accounts, automated employee payroll deductions, etc.,have made life insurance, like all other financial transactions, much less personal. Communications technology will be the next major influence in this trend. With marketing costs rising to the extent that they are, new kinds of communications will undoubtedly be harnessed to lower person-to-person marketing costs. In combination with this, electronic fund transfers will move us further

down the road toward the "cashless" society and will completely and effectively erase much of the basis for emotional involvement between the consumer and the business. So the economic role of life insurance will be recast in an important way: no longer a highly personal, emotional issue, but a part of many automated and accepted financial transactions in the realm of family finance.

2) Life-extending technologies may have a dual-edge impact on the economic role of life insurance. On the one hand, reliance on some types of advanced technology, especially where the drawing out of a terminal illness is involved, heaps massive expenses on a family. Life insurance may come to play a supplementary role to health insurance in paying for the expense of the dying, not just of the death and after-death considerations. On the other hand, improved medical technology could lead to a point when people are almost assured of living to a ripe old age. Accidents and not disease would then be the major cause of death, causing life insurance to revert back to a "gambling" proposition. It would then play a different economic role in people's lives than that of a fairly well-calculated certainty, as our actuarial sciences had developed it these past many years.

SOCIAL SCIENCES:

1) There are very interesting changes taking place in the life cycle of many individuals in this country. The once uniform pattern of work, education,and family formation is breaking down in interesting ways. Life insurance had an economic role intertwined with stability and permanence, once very important values in most people's lives. But permanence in marriage, in work, in family formation (especially with the tremendous incidence of divorce and serial family formation) is not as highly valued today. Therefore, the role of life insurance in assuring a sense of family economic stability may be reassessed. This is true whether or not you agree that the traditional family will continue into the future. The value of permanence has weakened, and, therefore, the economic role of life insurance in assuring that permanence could also be weakened.

2) Life insurance was successfully sold to the American public as an idea, despite old-fashioned resistances to "gambling on death" and "profiting from it." It was sold so successfully that it has come to be seen by the public as a necessity, and, as such, as a need rather than a luxury. Therefore, where it once had an economic role akin to savings, it now is seen in the same light as food, clothing, and shelter. This is good and bad for the business. Good because it means the business has successfully sold its service to the public. But bad because, like health insurance and minimum incomes, it is seen as a right, and this leaves it susceptible to much more regulation and eventual government competition in the form of higher Social Security death benefits. The current economic environment will successfully ward off the Social Security increases with regard to death benefits but will not take away the prospect of greater government intervention and regulation. In addition, the psychology of entitlement as it applies to life insurance has hastened the growth of employer-group coverage and has diminished the role that individual life insurance will play over the long haul.

POLITICS AND GOVERNMENT:

1) I have just spoken about one aspect of government intervention in the life insurance business. There are many others we could mention, but for

the sake of sticking to the idea of the economic role of life insurance, let us isolate one: equity versus equality. There is a good analogy to use: higher education. Higher education was once seen as a privilege for those who earned it via their grades or who could afford it despite their grades. But the social pressures became such that, as part of the psychology of entitlement and the equal rights issue, colleges were forced to change their enrollment procedures. With life insurance,the same thing is happening. Life insurance has generally been available to those who earned it by being employed or who could afford it. But now, as a result of its heightened economic role, rates and underwriting practices are being challenged because they are seen as discriminatory. So the vital economic role insurance and pensions play in the lives of individuals, just like the one education has come to play, is subjecting the business to the equity-versus-equality debate,among other public pressures. The outcome of most of these pressures will ultimately be decided by the legislature or the judiciary.

2) One of the economic roles assigned to life insurance aside from pure protection has been its dual attraction as a tax shelter and as a means for less costly estate transferral. There is little doubt that, in the government's search for (a) more funds and (b) social equity in the form of wealth redistribution, the traditional role of life insurance in this tax/estate area may undergo stress and strain if the tax laws are altered (and they might be) or if financial transactions in estate transferral are revamped (and they might be).

BUSINESS AND ECONOMICS:

1) But perhaps a greater problem than the political pressures on personal taxes and estates is the threat of political involvement in corporate investment decisions. There is a very intriguing controversy going on about the potential for a severe capital shortage in this country in about 15 years. I said controversy because the protests against the possibility are growing louder and more numerous every day. But noise and number do not make a possibility disappear. New York City's fiscal problems happened despite the number of people who said they could not happen. And the same is possible for the country. Without going into all the reasons for the possibility, I will simply say this: One major economic role of life insurance accrued to it when it led to the building of a tremendous pool of investment capital in this country. When New York was in trouble, it looked to two institutions to help bail it out: the pension fund investment assets of the city employees and the investment monies of the banks. One next logical source is, of course, the life insurance industry. The mandating of private sector investments by the government to pay past debts and meet politically-prescribed social goals has implications beyond my current comprehension for the ultimate survival of the investment community and the businesses whose growth is based on investment return.

2) Last of all, I would like to mention the overall economic role now being ascribed to all businesses, all products, and all services which compete in our society. That is the role of economic citizen, not just economic entity. Many of the things I have talked about relate to this new role: personnel policy, investment policy, and so forth. Life insurance as a product will, along with every other facet of our economic system, be increasingly scrutinized for its role as an economic "citizen".....questioned as to whether it is designed and marketed with all of the best interests of all the publics in mind. This may seem like a simple cliché. But when you stop to think

about how often the public has changed its definition of "best interests" and how many new "publics" have emerged over the past few years, you might have a better sense of the challenge to the traditional economic role of life insurance.

MR. LOUIS WEINSTEIN: I think Mr. Hsiao's table 4 is misleading. Over the years, tax laws have stimulated the development of the private pension system and group life and health insurance. As a result of this stimulation, we have the $11 billion "tax subsidy." Were there no stimulation, the development would not have occurred to the degree it did, and the subsidy would be drastically reduced. It is as elusive as a soap bubble, and the determination of its magnitude is of no relevance whatsoever.

MR. HSIAO: You have a good point. The data shown in Table 4 assumes that the employers' contributions for pensions are "wages in kind." If there are no pension contributions, the employees will receive higher cash wages which are taxable. Each one of us can make our own assessment as whether this assumption is a reasonable one.

MR. THOMAS C. SUTTON: Unless the 10-for-1 rule has changed on the federal income tax, the federal government may more than make up what they have lost according to the $11 billion. Sooner or later the tax rates will be extremely high, a good deal higher perhaps than was originally anticipated.

MR. CHARLES LAMBERT TROWBRIDGE: One of the things that bothers me about part of the presentations and about the remark we just heard is that too much of life insurance marketing these days is based on tax shelters. Any of you who have been around a sophisticated agency force knows that the appeal is mainly to the business man to solve some of his business problems with life insurance. These problems are likely to be estate tax problems, income tax problems, and buy and sell agreements - lots of relatively sophisticated things that life insurance did not really do in the first place but is expected to do now. If we really had a tax simplification of our income tax laws, many of our life insurance sales approaches would simply disappear. We are in a pretty fragile position where we are selling. I certainly wish that it were otherwise.

MR. MOORHEAD: Do you have any data on how new business is divided between the types that you just described and the family protection type?

MR. TROWBRIDGE: I do not have any figures specifically, but just from watching things that go on in my own field force I know that in some companies the emphasis on business uses of life insurance is very, very heavy. I do not mean that this is true in all companies, nor certainly in those companies that are selling in the small policy market.

MS. WEINER: This not only leaves us susceptible in the area of tax-related selling but also in the area of selling life insurance as savings. Bill was alluding to the tremendous role that life insurance has played in savings. Yet we have difficulty when asked to examine the nature of the whole life contract by dividing the savings element from the protection element. Both of these types of selling leave us open to attack.

MR. GEORGE A. BISHOP*: Looking at Mr. Moorhead's first table, I realize

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that there are many factors that have gone into the shift between large cash value policies and policies with no cash value. I know that there are many things that have shifted over the decades between the 1950's and the 1970's, but it strikes me that one of the major shifts occurred in the 1950's which I assume had to do with the new types of policies which were then brought to market. Many people, of course, look at these figures and say that inflation surely must be one of the factors that is causing the shift toward term. Mr. Moorhead, how do you think these figures might look in another five or ten years?

MR. MOORHEAD: In this table, the movement is bound to be rather slow because we are dealing with life insurance in force rather than new business. Perhaps a more graphic illustration would be in terms of new business. Also, the system used in life insurance of measuring by face amount introduces another rather dubious element to this comparison. One aspect is the question that Edie was talking about - the question of the divisibility of the life insurance contract into its saving and protection elements. At an annual meeting of the Institute of Life Insurance less than three years ago, I was struck by a statement of the then chairman of the Institute to the effect that the concept of a life insurance policy as a package of savings and protection strikes a fundamental blow at the operations of the business. I asked the gentleman afterward what this fundamental blow was that would result from this quite rational divisibility concept. He said it would be a tendency for people to buy term insurance instead of whole life. Subsequently,Senator Hart's Subcommittee produced figures which showed that whole life insurance when compared with term insurance does generate a quite satisfactory return on the savings element to the buyer, provided the policy is kept in force for a reasonably long time. I do not think that my forecast is any better than anybody else's, but I really do not see ahead of us a vast move from whole life to term,even though I admit that continued rapid depreciation in the value of the dollar makes term somewhat more logical than whole life coverage. I think that the degree of logic exercised by the buyer is somewhat suspect. Mr. Hsiao's first table interested me greatly because I could see the rationality of the analysis that he was making. But it did make me wonder how many people in insurance buying decisions - whether life insurance, automobile insurance, or any other kind - are really following the line of analysis to which he referred. My answer to the question just asked is that I think the trend toward term insurance will be rather slow if it continues at all.

MRS. ANNA MARIA RAPPAPORT: There was a comment made by someone from a Canadian company recently. The gentleman pointed to a tremendous shift to term and annuities as well as very large growth in the annuity business in Canada with the registered retirement savings plans (RRSP's). I think that we are seeing the same thing with the individual retirement annuities (IRA's) here. Maybe what is taking place is a splitting by people buying both separate savings products and separate protection products. Besides the IRA, we have had controversy in this country over the last few years with split life. I have seen variable annuity and term combination packages. Everybody has been talking a lot about a paper by James Anderson on the so-called universal life insurance policy which was an annuity-term combination. So you have to bring the annuity into this.

MR. MOORHEAD: Do you, therefore, predict a more rapid movement than I?

MRS. RAPPAPORT: There is a more rapid movement, but the movement is not away from savings. It is towards a different method of handling the savings.

MR. MOORHEAD: Bill, do you want to comment on that first table of yours?

MR. HSIAO: On the surface, a buyer of insurance would answer the question that he never has gone through this kind of analysis and is just buying protection. Yet if you phrase that question in a slightly different manner, you would get an answer similar to my analysis. Let us ask a buyer this question: If you know you are going to die with certainty in the next year, would you still buy insurance? I think that person would say no because the premium rate would be likely to exceed the face amount. In many personal and business decisions, we think about the probability that this or that outcome will occur. For example, if I market a new product, what is the probability that it will be more successful than something else. Although we do not speak in these probabilistic terms, we use them in an intuitive manner.

MR. ROBERT J. MYERS: In regard to the point that Bill Hsiao just made, it seems to me that, unfortunately, when people buy health insurance, they really do not consider the probabilistic results. As you well know, many people want first-dollar health insurance coverage because they feel that when they incur medical expenses or particularly hospital expenses, they want them all paid for. Yet by this theory of certainty of small costs, they should not be buying first-dollar coverage.

MR. GENE ECKSTUT: Jack Moorhead's first table showed that people moved out of the large cash value market. This could be attributable to the rise of social security and pension plans because the main reason people save, especially with large cash value plans, is for retirement. Social security and private pension plans have taken up this need to a large extent. Also there is a difference in funding between large cash value insurance, a private pension plan, and social security. A large cash value plan uses level funding, whereas a private pension plan generally has some unfunded liability. Social security is even further away from this because it is almost on a pay-as-you-go basis. The trend toward less funding through pension funds and social security is having an effect on the capital supply. The insurance industry has provided a very valuable source for capital supply. Since capital supply fuels future growth, I was wondering if Mr. Hsiao would comment on this negative effect of switching from large cash value plans to pension plans to social security on the economy of the future.

MR. HSIAO: My third table showed that the total percentage of disposable income which was put aside as savings in the United States has not fluctuated very much for the past 30 years. It happens that a greater portion is going to the life insurance business and uninsured pension plans. It leaves a question: Does life insurance really materially induce people to save more, or is it just one form of savings vehicle which people prefer? If life insurance did not exist, I am sure people would save less but how much less is uncertain. Perhaps it would not be a great deal less than what they would otherwise save. Instead they might put their money into a savings account, mutual funds, stocks, or the bond market. Secondly, you asked whether there are more savings being channeled from large cash value policies to pensions. Probably that is true. The final question you raised is the impact of social security. The evidence thus far is that social security does have a negative effect on the total amount which people save, but the magnitude is not clear. Some studies show a large negative impact, and some show a small impact.

MRS. RAPPAPORT: I am not persuaded that the majority of the people really do any retirement planning until they get very close to retirement. Some samples of new life insurance buyers over the last couple of years have shown that there is not too much buying of life insurance for retirement purposes, but where it shows up is most heavily at the lower incomes. Those are the people that are most heavily covered by social security, and it is a phenomenon I do not understand.

MISS BARBARA J. LAUTZENHEISER: Given the trends that we have seen, I do not think there is any doubt that the role of life insurance does have to change. I would guess over the next few years we will be looking at various and many alternatives. Do we have the alternative of changing these trends, and do you have any suggestions for doing so? I am concerned that much of what I see is a very socialistic tendency. I question whether or not the United States actually is heading in that direction, and, if so, is that the direction we want it to go? Do we, individually or collectively, have any opportunity to change that? The equity-versus-equality area is one we were working on very hard. Should we be doing preventive medicine instead of curative medicine?

MS. WEINER: Yes, but let me just throw in a few qualifications. On the one hand, the reason I raised the instance of the college enrollment officers was to show that even in the face of their extreme defensiveness and carefully documented statistics regarding who would ultimately succeed in college, and who would not, their arguments were thrown out because of the force of the overall social movement. I do not have all that much faith that actuaries by themselves can really make a strong enough dent in the equity-versus-equality area as it affects this business. They will be seen as a party whose interest is at stake, just as the college enrollment officers were viewed when they opposed quotas, and just as personnel officers were viewed when they resisted changing their hiring and promotion practices. The answer does not come from the actuaries themselves being able to make tremendous inroads. Of course, they will be very vocal presenters of the argument on the side of equity, as opposed to the side of equality, but I am not sure that they are going to be able to buck the tide of the social force. However, other things will be happening. Certainly, the economic factor is one of them. It will be more and more costly to abandon the idea of equity in favor of equality, and I do not know how long society will be willing or able to bear the costs. I have another point to make, and this is a very highly personal one. If you talk about bucking the tide, I think that the Society of Actuaries really gave up an important role it could have played in the case of New York City, when the pensions were negotiated a while back. At the time, there were actuaries who told the city that it would go bankrupt if it negotiated plans like those it has, but I do not think that they were as vocal as they could have been. I do not think that they made the responsible people -- the leadership segments of the public -- as aware as they could have been of the eventual fiscal dangers. This could have been done at a time when there was no self-interest to be attributed to the Society in making these views known. The role of people like those of you in this room could be vital in affecting some of these trends. You should not only be looking at insurance per se and using your talents and your expertise there, but looking at some of these other things that are going on around you and using your capabilities to help in other ways. The Society of Actuaries can play a much more important role where many key trends are concerned before they become problems for the insurance business.

MISS LAUTZENHEISER: You have just said some of the things that are concerning me. We are not taking an active enough role. We are using tunnel vision and are looking only in our small area instead of broadening out. In the higher education example you gave, it was just the admissions people working by themselves. We have to get other economic leaders and business leaders to join with us, for we will not be able to do it alone.

MR. CHARLIE T. WHITLEY: I found Edie's presentation very intriguing. I would like merely to request some elaboration on the final area, economic entity vs. economic citizen.

MS. WEINER: We are supposedly functioning in a free market economy. Our companies and the products and services we deliver are economic entities, since they exist for the purpose of making a profit by serving a particular economic need of the public. However, society is increasingly looking at business in terms of its social purpose and the social needs of the public. This perspective leads to things like consumerism, corporate social responsibility, and so forth. We were once entitled to sell a particular product and rate it a particular way which we could justify through statistics, to a particular market that we ourselves defined as the one most profitable for us. We are now facing increasing pressures to evaluate all of these practices because we are seen not just as an economic entity but as an economic citizen -- a social being. We may have to redefine our markets so that we serve the best interests of people other than only those from whom we may derive the largest profit. We may have to restructure our hiring and promotion practices in a way that could preclude free economic choice on our part. Given this kind of climate, we are not able to act independently as an economic entity; we have to act as a social entity as well and, therefore, as a kind of citizen in the marketplace.

MR. HSIAO: I agree with Edie that we are not independent economic entities, and I want to bring out one point. Edie used the example of admissions to institutions of higher learning to illustrate the problem between equity and equality. We need to understand that government intervention in these institutions is derived from the fact that governments provide a large part of the financing for them. In other words, the taxpayers are paying for them. Moreover, these institutions also enjoy a tax advantage since nonprofit organizations are not subject to tax. Either through direct public financing or through more favorable tax treatments, colleges enjoy a very favorable position in our society. Therefore, they are called upon to serve an important social role. That does not necessarily apply to the life insurance business. The government, in my view, does give more favorable tax treatments to the life insurance business. As a result, the life insurance industry is not a total separate, independent economic entity. It is tied to the total economy and it is enjoying some of the favorable tax treatments. The government might turn to it to ask what it is doing to serve the social and economic needs of more Americans.

MS. WEINER: Bill, I would just make another point, stronger than that of the government role in the tax picture, and that is the economic role of the institutions which are being called into question. As soon as higher education began to play the very key economic role in people's lives that it does play, its policies were assessed by public interest groups even before the government stepped into the picture. The same happened with personnel practices and certainly with the issue of sex discrimination in insurance products. It was not the government that really began opening up these explorations, but it was, in fact, women's groups and other groups in the society. So I think that your point may be very valid on one level, but I think the much greater and more pervasive level is that of the general social movement. As soon as a particular thing is seen as being economically vital to an individual or to a group, then it is the leadership segments that lobby for the reforms. The government's activities follow.

MR. SUTTON: Bill, pursuing a comment that you made earlier concerning the level of total savings, you thought that the total level would not change a great deal if life insurance were not present. I am wondering what other people think of that. I am also wondering whether you think that there is an anomoly in our agent compensation scheme if that is the case, since the normal compensation schemes do weigh heavily the savings element of a policy. If that weight is not appropriately necessary because of encouraging savings, it would seem that there is an anomoly.

MR. HSIAO: I think that most of the people here will agree that the life insurance industry is serving a major and significant role in increasing savings. My purpose of presenting the table is to show that, statistically, there is support for the belief. If the data are incorrect, we should correct them. But if they are correct, then we should substitute facts for impressions.