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The Actuarial Ethicist: Mortality Study Conundrum

by Frank Grossman

This article is the first of a series which will describe a hypothetical workplace dilemma, and then invite SOA members to submit their comments and suggested solutions, which will then be published in the following issue of The Stepping Stone*. All member submissions will be received in confidence, and any identifying details will be removed (unless specifically requested by the member to do otherwise) prior to their inclusion in the discussion of the case.*

Jack the FSA has been asked by his manager, George the FSA, to perform a mortality study—the first detailed examination of their company's individual life insurance mortality experience. Jack tabulated actual deaths and exposures over the past five years, and estimated deaths according to a published industry table and his company's current pricing table. The resulting actual-to-expected [A/E] ratios, both by claim amount and number of deaths, were calculated for various cross-sectional data groupings: product, issue age group, duration, gender, tobacco use, rating classification and sum insured band. Though some study cells had less experience data than others, the overall study results were credible. Jack was satisfied with his data analysis and summarized his findings in a written report for George.

George was pleased with the report and returned it to Jack, asking that two modifications be made. First, that the report be spiral-bound for wider distribution, including a card stock cover and a title page with both their names as authors of the report. Second, that the A/E ratios by amount be adjusted to exclude amounts exceeding the company's retention limit. Based on his analysis, Jack knew that the A/E ratios by amount for a couple of products were significantly lower when calculated net of cessions. Jack consequently suggested that the ratios for those products be presented on both a gross and net basis in an appendix to the report—or, at least, that the report's introduction disclose that claims exceeding their company's retention were ignored. George disagreed, stating that, "everyone who reads the report will know that it's net of reinsurance."

What should Jack do?

Send your suggestions before January 22, 2010, to Frank Grossman at Craigmore54@aol.com. The discussion of Jack's dilemma will be published in the April 2010 issue of The Stepping Stone*.*

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