



SOCIETY OF ACTUARIES

Article from:

The Actuary

June 1967 – volume 1 - Issue 4

The Actuary

Published monthly (except July and August) by the SOCIETY OF ACTUARIES

Editor . . . ANDREW C. WEBSTER

Associate Editors - JOHN B. CUMMING
MORTIMER SPIEGELMAN

Editorial Asst. - - ELIZABETH J. FISHER

Correspondence should be addressed:

The Actuary,
c/o Mr. Mortimer Spiegelman,
14th Floor, 1740 Broadway
New York, N. Y. 10019

The Society is not responsible for statements made or opinions expressed in the articles, criticisms, and discussions in this publication.

EDITORIAL

The workshops, introduced as an experiment at the spring meetings, are a welcome attempt to restore the spontaneity of earlier meetings. With rare unanimity the younger members have enthusiastically welcomed these workshops. We hope that the experiment will be continued and extended.

In its early years our predecessor Society was a smaller community of actuaries who met to discuss problems informally. This open atmosphere gave the younger actuaries an opportunity to develop their thinking and test their ideas in discussion with senior members.

Since the Society has grown larger it has become increasingly difficult for the younger actuaries to derive the same benefit from informal discussion. Much of the value of unrehearsed comment and constructive reaction is lost when "informal" discussions consist largely of the reading of carefully prepared statements.

Some of those who participated in the workshops suggested that senior members be present to temper the debate and lend depth to the discussion. This is a good idea. Although leadership and initiative in the workshops should remain with the more recent members, a few seniors, chosen for their experience in the field of discussion, will enhance the sessions.

Since a greater variety of subjects will make it easier for participants to select an area in which they are particularly interested, we would suggest that simultaneous workshops on the same topic be avoided. As a minimum there should be at least one workshop for each of the areas of major professional endeavor — individual insurance, group insurance and pensions.

The effective leadership of the spring meetings did much to contribute to their success. The choice of leaders of the same quality should continue. Also, we hope that the agenda will continue to include topics of controversy, lest the discussions degenerate into a mere recital of business methods.

Perhaps participation in each workshop should be limited to no more than one man from a company. This will promote unfettered discussion of controversial topics. Similarly, the policy of reporting the discussion without attributing statements to individuals will help to foster the free atmosphere of the sessions.

The workshops are a welcome innovation. They promise to contribute much to the profession in the future, and have already been a service to those who participated at the spring meetings.

— J. B. C.

CANADIAN TAX PROPOSAL, Part III

By J. Ross Gray

The Canadian report on taxation by the Carter Commission notes that life insurance companies have been free from federal taxation except with respect to the profits paid to shareholders. Mutual and foreign companies have been completely free. The Commission feels that this is too good a source of taxation to miss.

Accordingly, in addition to the taxes to be levied directly on policyholders as mentioned in the previous issue of *The Actuary*, it is proposed that there be tax levied upon the profits of the Companies. It is recognized that this will be passed to the policyholders either in the form of lower dividends on all policies or higher non-participating premiums on future policies. The recommendation is that the companies be taxed at the usual 50% corporation tax rate on the excess of surplus earnings over policy dividends disbursed.

In determining surplus earnings, reserves will be set up on the net level premium basis on at least 4% interest, and no contingency reserves or special reserves will be permitted. No attention is to be paid to the reserves which are needed to cover the cash values.

The Commission dismisses any worry on this point; solvency is a matter for the supervising authorities, it has nothing to do with taxation. It is apparently of no moment that, because of being forced to pay taxes based on 4% (or higher) reserves, a company's asset position could be reduced below the reserves needed to cover the cash values.

Taxation of the Canadian companies is to be based on their worldwide business, with suitable adjustment of the interest rate for reserves on foreign business. Reference is also made to an allowance for taxes paid to foreign governments on foreign business. Thus, it is hoped that Canadian taxes will not affect foreign business operations.

Canadian operations of foreign companies are now to be subject to Canadian federal taxation, probably based on a proportion of their total company operations rather than on their Canadian operations alone. In addition, to the extent that assets are held in Canada in excess of actuarial reserves, the income

on such excess is to be taxed at the usual withholding rates applicable to non-residents. There will also be a special tax which is applicable to the branch operations of all foreign businesses.

The hope is expressed that all foreign companies will be able to obtain credit for these Canadian taxes in their home territories. The taxes will, therefore, not fall on the foreign companies but on the treasuries of the foreign countries.

Perhaps, this account should finish with the thought which was expressed at the beginning; it is not certain that these recommendations will become law, they are just too far-reaching. In one respect, the Commission has decreased the chance of the ideas being accepted; they have said that it is necessary for their entire package to be accepted, otherwise that harm will be done.

ACCREDITATION . . .

(Continued from page 1)

ence. Definitions may vary, but not too much. They should be broad, bearing in mind that the Academy membership includes actuaries in other than life fields, and also that enumeration implies exclusion.

These two items, the rights of the state, and the definition of the public practice of actuarial science seem to have given rise to most of the misunderstanding. There have been other questions, mostly of administrative procedure within the state, and these will have to be answered individually.

Two recent items are encouraging from the view point of actuarial recognition. One of these is the requirement under Senator Javits' pension bill, now before the Senate, calling for actuarial valuation of pension funds and giving a proposed pension commission the right to accredit actuaries. We have already asked to be allowed to file a statement about the American Academy of Actuaries at the hearings on the Javits' bill.

The other lies in the tentative draft of the Civil Service Commission, *Classification Standard for Actuaries*. The draft was submitted to the Society, and the Public Relations Committee and the E & E Committee have suggested recognition of the Society and of the other actuarial bodies in setting up standards for employment and for promotion.

MANAGEMENT . . .

(Continued from page 1)

the field force is making the maximum possible contribution towards the corporate goals. Are we providing our agency officers with sufficient data to enable them to reasonably assess whether a certain area of development is likely to make a profit or a loss for the company?

In many instances the agency officer may have little more guide to corporate goals than the relative level of commissions which the company is prepared to pay for different types of policies, and I would seriously question whether the level of commissions for various policies really reflects the profitability of the particular policies to the company.

The apparent concentration on volume rather than on profit would appear to have had its effect on the planning activities of companies. The long range plans of many companies would appear to consist of very little more than the projection of future sales.

In an attempt to show that there are other ways of motivating a field force than by constant emphasis on increased sales, Professor Hekimian proposes a formula which, he submits, can be used to develop the potential profit from any policy which is placed on the books. In essence, the formula develops the present value of the difference between the cost of the benefits and fixed expenses, such as commissions, and the premiums, using projected mortality and interest rates. By deducting the appropriate amount for the cost of the head office and branch offices, and expense not directly related to new policies, we are left with what Professor Hekimian labels the "expected contribution to profit."

Professor Hekimian submits that if this information is developed for each branch and made available to the branch manager, the manager is then in a position to make reasonable decisions regarding the amount of business which must be produced in return for additional expenditures. It is not my purpose to question the formula because I believe that it is the idea behind it which is important. If we are dealing with a reasonable caliber of branch manager, we should be able to place him in a position to make decisions regarding the financial development of his operation. Maybe, as a first step, we

should ensure that such information is available to our agency officers.

Communication—In his closing chapter Professor Hekimian states "On the basis of my experience with companies in other industries, communication in an insurance company is relatively poor.

"This is truly unfortunate because each of these departments (the reference is to the sales and actuarial departments) can contribute towards solving the problems of the other, and it seems that proper communication among the departments should enhance the overall management job within a company." A prime example of this might be the necessity for an actuary to communicate effectively with the investment officers of his company to ensure that investments are consistent with liabilities. Much more has been written on this subject in British actuarial journals than on this side of the Atlantic and I sometimes wonder if North American actuaries pay sufficient attention to this side of our business.

It is perhaps equally or even more important that an actuary should communicate effectively with the agency officials of his company. I cannot help wonder whether we might find it easier to communicate with our lay colleagues if we were more ready to translate our net premium valuations into terms of realistic mortality, interest and expenses.

I have questioned the communication between actuaries and their non-actuarial colleagues, but might we not also question the communication between actuaries and the public. When we create new plans and products do we always pause and listen to what the public wants, or do we tend to offer what we feel they need?

Conclusions — I do not for one moment want to suggest that we should lightly discard any of the tradition which has been built up within our industry over the past couple of centuries or so. I do feel, however, that we are now living in a completely different world than that in which much of our tradition was developed.

The sole purpose of the original paper was to provide the basis for a worthwhile discussion amongst actuaries, many of whom are looking toward the future with the determination to play their part in the building of better and more effective life insurance companies.