SOCIETY OF ACTUARIES

Article from:

The Actuary

May 1967 – volume 1 - Issue 3

BOOK REVIEW

J. M. Belth, *The Retail Price Structure in American Life Insurance*, pp. xix, 300, Indiana University, 1966.

The traditional method of comparing premiums, dividends, and cash values has the great advantage of simplicity and is readily understood by the public. On the other hand Professor Belth's methods while theoretically more correct are considerably more complicated and a series of rather tedious calculations are necessary to make the cost comparisons. In Professor Belth's determination of the level price per thousand dollars of protection, it is necessary to make assumptions as to the mortality, interest, and lapse rates. Obviously, competent experts here will not agree as to what are the most appropriate values to be used over a span of 20 years.

Professor Belth assumes that annually in each and every year the policyholder has complete freedom of choice as to whether to continue his insurance or to surrender it. In fact this is not so since part of the level premium can be considered as the cost of insuring insurability. Perhaps the insured has become a substandard risk and he no longer can purchase standard insurance.

The split of the Whole Life policy into its savings and risk components is from one point of view unwarranted and to some extent synthetic. The Whole Life plan should be looked upon as one of providing X dollars at the death of the insured, together with furnishing valuable ancillary benefits prior to death. The one and only way to obtain the same benefits provided under a Whole Life plan in one company is to purchase a similar plan of insurance in another company.

In Professor Belth's analysis relating to which company's insurance should be purchased, he considers only one factor, i.e., probable cost. Certainly there are many other facets that should be taken into account. This would include consideration of the policy's benefits, the service provided by the company when a policyholder asks for information, the standing of the company in the industry, and so forth. In regard to the probable cost of a participating policy, this cannot be judged solely by a consideration of either the illustrative or historical dividend results. Of equal import here would be an analysis of the financial statements of a particular company over a series of years, a knowledge as to the valuation methods, a knowledge as to the methods used in determining the value of the assets, etc. Finally, it would be necessary to assess the management of a particular company. It is very difficult to put a dollar value to this worth.

Neil W. Macintyre

Correction To April 1967 Issue

In item (1) on page 4 the maximum taxable and creditable earnings base for 1974 and later should have been $10,800, in place of the $10,000 cited.

Griffin . . .

(*Continued from page* 3)

ant who will apply the Opinion, it recognizes the actuary's responsibilities.

Prior to the official issuance of APB Opinion No. 8, the Society's Committee, acting in concert with representatives of a similar committee of the Conference of Actuaries in Public Practice, and with representatives of the Society's Committee to Study Pension Plan Problems, met with the APB Subcommittee on Pensions to make a number of suggestions for changes. Many of these were reflected in the final Opinion. The APB Subcommittee had to complete the project to make the Opinion effective for fiscal periods beginning after December 31, 1966. Perhaps there was not enough time to register effective objections in areas where inconsistencies or other difficulties were foreseen.

The Opinion leaves many questions unanswered, and there are still differences of opinion among accountants and among actuaries as to the interpretation of certain paragraphs. Nonetheless, it is to be expected that Opinion No. 8 will bring about greater uniformity and may even effect funding practices.

The areas of vagueness or disagreement as to proper interpretation will probably be clarified by practice. In a few years, especially if actuaries secure accreditation through the Academy, accountants may see fit to rewrite their Opinion in terms of accepting certifications from accredited actuaries.

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