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NATIONAL CONFERENCE ON PRIVATE HEALTH INSURANCE

The purpose of this conference was to explore the potential of private health insurance to provide more comprehensive coverage to a still larger proportion of the population, perhaps with encouragement by model state laws, and to develop more alternatives to hospital care. As it turned out, the discussion centered principally on the refinement of goals and the problems in reaching them.

The conference, which met in Washington on September 28 and 29, was called by Secretary Gardner of the Department of Health, Education, and Welfare. It was a sequel to the National Conference on Medical Costs held in June, and reported in the September issue of *The Actuary*.

Of the 60 invited participants, 16 represented insurance companies, among whom were several members of the Society. Other participants represented the Blue plans, employers, organized labor, hospital administrators, State Insurance Commissioners, and the Medicare program. Seven background papers were prepared and distributed in advance of the meeting, including one on "State Laws and Health Insurance" by Allen Mayerson.

Need for Change

The participants recognized that private health insurance is facing new circumstances, including a need for some changes in the present system of providing health care. Among the influences toward a shift is the transition in emphasis from acute care to chronic and long-term care, the mental health problem, and the growing significance of preventive care. In the light of these developments, the view was expressed that research and experiment with various methods for the delivery of health care are

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LONGEVITY IN THE BIBLE

by Arthur Pedoe

Some time ago, presenting a paper on mortality trends, I quoted the well-known Psalm 90 verse 10, of man's life span: three score and ten. I quoted the version given in the Church of England Prayer Book and the scrutineer, a well-known authority on vital statistics, suggested I use the King James Authorized Version. The problem was solved by omitting the quotation from the paper as finally published. I did not know at that time, neither I am sure did the scrutineer, that the version quoted was from the Great Bible of 1539 and thus predated the King James Version of 1611 by over seventy years. The version of the Psalms as rendered in the Great Bible was so much preferred that, to this day, the King James Version does not appear in the Prayer Book of the Anglican Communion throughout the world.

The Prayer Book version of Psalm 90 verse 10 reads:

> The days of our age are threescore years and ten; and though men be so strong that they come to fourscore years: yet is their strength then but labour and sorrow; so soon passeth it away, and we are gone.

The King James version does not differ in meaning and the last 10 words are rendered: "for it is soon cut off and we fly away." If the meaning of "fly" is to move swiftly and silently, the change in wording is not material.

In the Revised Standard Version (1952) which has attained a wide circulation in the United States and Canada, Psalm 90 verse 10 is given as:

> The years of our life are three score and ten, or even by reason of strength fourscore; yet their span is but toil and trouble; they are soon gone, and we fly away.

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FEDERAL INCOME TAX DECISIONS IN TWO CASES

by George H. Davis

Of the long list of questions which have arisen under the Life Insurance Company Income Tax Act of 1959, only a few so far have advanced to the point where they have become the subject of court decisions. Over the next few years it is to be expected that many of the points will be the subject of court action.

The summer of 1967 has already seen District Court Decisions in two cases involving a number of questions, including several which have been of concern to a considerable number of companies.

The cases were those of the Franklin Life Insurance Co., decided June 15, 1967, by the District Court for the Southern District of Illinois, and the Jefferson Standard Life Insurance Co., decided Aug. 15, 1967, by the District Court for the Middle District of North Carolina. The tax returns of the Jefferson Standard which were the subject of the litigation were consolidated returns for itself and its subsidiary, Pilot Life Insurance Co.

Several questions in the two cases were the same, although the specific facts involved in some were different. But there was little consistency between the decisions of the two Courts.

In the Jefferson Standard case the Court stated it had dispensed with its customary practice of writing opinions in the interest of providing an early decision. In the Franklin Life case, the statements of conclusions of law do not provide a great deal of information on the reasoning by which the Court reached its decisions.

Here are digests of the Courts' comments on some items.

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TAX DECISIONS

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Deferred and Uncollected Premiums as Assets

Several questions involved the definition of assets under Phase I of the law. The formula for taxable investment income in Phase I causes the amount of tax to increase if assets are increased, and the definition of assets excludes those "used in carrying on an insurance trade or business."

Jefferson Standard had excluded deferred and uncollected premiums on the ground they were assets used in carrying on an insurance trade or business. But the Court held that the entire gross amount must be included in assets.

In the Franklin case, however, the company had included in assets in its tax return the *net* amount of deferred and uncollected premiums, the same amount as shown as an asset in its annual statement. The Court held this was correct, denying the government's claim that the *gross* amount should be included.

The Jefferson Standard decision also covered the question of due and unpaid accident and health premiums and held that the *gross* amount should be included in assets.

Mortgage Escrow Funds

This question is also one as to whether or not the item is to be included in assets. In both cases the Courts decided that funds collected from mortgage borrowers and held for the payment of insurance and taxes on the property did not constitute assets of the insurance company.

The facts of the two cases, however, were different. In the Franklin case the amounts arose from mortgages which the company itself serviced and were kept in the company's general bank accounts, rather than in special accounts. In the Jefferson Standard case the company (actually the Pilot Life on this question) had included in its assets the escrow funds on mortages which it serviced itself and these funds were not at issue. The question in the case involved only funds held in special accounts by mortgage correspondents servicing mortgages owned by the company.

Agents' Debit Balances

In the Jefferson Standard case the Court decided that agents' debit balances must be included as assets.

Bank Accounts

In the Franklin case the Court decided that the bank accounts of a company constitute money, which is specifically defined by the law to be part of assets.

Prepaid Unearned Investment Income

This question involves the year in which investment income accrues under Phase II of the law. In the Jefferson Standard case the Court held the total amount of interest collected in advance — including rents, interest on bonds and interest on policy loans — is to be regarded as having been received and accrued during the year without any deduction for the portion unearned at the end of the year.

This question was also involved in the Franklin case, but here only interest on policy loans was involved; and the Court reached the opposite decision — that only the earned portion of interest received in advance is to be regarded as interest accrued during the year. In the Franklin case the decision also applies to the amount of policy loan asset under Phase I, but the decision in the Jefferson Standard case is silent as to any effect on the amount of assets.

Increase in Loading on Deferred and Uncollected Premiums

The question here is whether or not the increase in loading on deferred and uncollected premiums, as reported in line 25 of the Summary of Operations in the annual statement, is deductible in determining gain from operations in Phase II of the tax calculation.

In the Jefferson Standard case the Court held it is not deductible. But in the Franklin case the Court decided it is, holding that it is not deduction for anticipated future expenses but merely an offset to avoid overstatement of premium income.

* * *

The foregoing questions seem to comprise those of the greatest interest in these two cases. The remaining questions in these cases involve situations peculiar to the companies concerned or seem to be of minor importance.

However, the Franklin case covered one general question separately from the specific issues of the case, and this is of some interest. It held the company's tax returns "were made under an accrual method of accounting in a manner consistent with the manner required for purposes of the annual statement approved by the National Association of Insurance Commissioners" and this method of accounting was in compliance with the law.

Although among the first under the 1959 law to involve a significant number of questions of interest to a great number of companies (an April 1967 Tax Court Decision in a case involving the Pacific Mutual Life Insurance Co. raised several different issues), it seems doubtful that companies' understanding of what the tax law means has been much advanced by them or that there will be much immediate effect on tax return reporting or on tax planning.

The facts that there are conflicts between the two decisions, that the reasoning of the Courts is given only in part, and that the decisions are only of District Courts serve to keep the decisions from lifting much of the veil of confusion which at present hangs over the meaning of the law. Both decisions will undoubtedly be appealed, and we will have to wait for the running of the appellate procedure for additional illumination. □

POPULATION GROWTH

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therefore, has the right to be concerned with the number of children any family, any group, or any nation has.

The problem, he declared, is how society can implement its concern and still adhere to processes that are not totalitarian. According to Mr. Immerwahr, the suggestion not to grant tax exemptions for children in large families is dubious. Moreover, it would not have any effect on low income families.

Still, he believes, some means of implementing society's concern must be found and this might possibly take the form of providing financial inducements to effectively discourage large families. □