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## DEVELOPMENTS IN VARIABLE ANNUITIES

Variable Annuities was the subject of an address by John Antliff before the Chicago Actuarial Club April 24. We are indebted to Prudential's house organ "Ack Ack" for the material in this report. Mr. Antliff outlined the regulatory background, commencing with the 1952 formation of the College Retirement Equities Fund. This was followed by the 1959 enabling legislation in New Jersey; the SEC's claim, affirmed by the U. S. Supreme Court, of jurisdiction over variable annuity contracts; the Insurance Company Tax Act of 1959, which gave insurance companies treatment equal to that of uninsured pension funds in several respects, but exposed segregated accounts to capital gains tax; the 1962 relief from that tax and, in the same year, the SEC's no-action letter (in effect, a green light) on segregated accounts; the SEC's ruling in 1963 giving all insurance companies permission to issue, without registration under normal SEC rules, equity funding contracts to qualified pension plan groups of 25 or more lives; clearance in 1964 for a variable payout of the pension, provided no employee contributions are applied to the variable portion; and 1965 enabling legislation in New York. There are now 42 states where group variable annuities can be sold.

Variable annuities may be even more important for individuals than for groups because individuals do not have any chance of being given higher benefits to offset inflation. However, the Investment Company Act of 1940 introduces obstacles to the issue of individual variable annuities.

A few companies have arranged to have the investment fund under their contracts administered by a board of

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## CANADA (A Continuation)

By J. Ross Gray

This final article on the proposals of the Carter Commission will point out some relieving provisions suggested in the report.

There is one correction to be made in the previous article in the April issue. The last sentence of the third paragraph should read:

"When a family unit terminates by the last death, all unrealized capital gains are to be determined and income tax paid on them out of the estate. In addition, an heir outside the family unit will pay income tax on the net inheritance that passes to him."

Since the Commission's proposals will include more items as income, the rates of income tax should be lower than they now are, with the proposed maximum rate being fixed at 50%, the same as for the corporation tax. This assumes a disposition to reduce taxes, a trait not usually found in Governments.

Gift Tax and Federal Estate Tax are to be discontinued and income tax will be paid only by a recipient outside the family unit; thus money can be given or left to a spouse without federal tax effects. There is no assurance that Provincial succession duties on money passing to a widow will be discontinued.

Exceptions to the foregoing are to be the proceeds of group life insurance and the mortality gains on ordinary policies which are to be taxable income to the tax unit which paid the premiums. This is because tax credit is proposed with respect to the group life premiums and the mortality cost on ordinary policies. The entire proceeds are also to be taxable as income if left to a person outside the original tax unit.

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## NATIONAL CONFERENCE ON MEDICAL COSTS

Most actuaries are aware of the problem of spiralling medical costs which are necessarily reflected in insurance cost estimates. As a follow-up to an earlier report to President Johnson, a National Conference on Medical Costs, called by Secretary Gardner of the Department of Health, Education, and Welfare, was held in Washington on June 28 and 29. Among those invited were several actuaries and other individuals prominent in Accident and Health insurance.

The Conference set up five panels to discuss the following subjects:

- *Hospital Costs* — panel came out strongly for development of cost reimbursement programs that would create incentives for increased hospital efficiency;
- *Community Systems* — panel stressed that community planning process should be comprehensive, recognizing that no one way is best;
- *Physician's Costs* — panel recognized shortage of medical manpower and gave attention to the lack of health care — not confined to the poor, but a growing problem with the middle class;
- *Cost of Drugs and Pharmaceutical Services*—the only agreement reached was that these services should be delivered at the lowest possible cost without compromising quality;
- *Third Party Payment - Cost and Impact* — the discussion was far ranging.

While the panel reports did not reach any definite conclusions, a number of suggestions were advanced for immediate study. Secretary Gardner said in the closing speech:

"Everyone seems to agree that the existing system—or lack of system—

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**BOOK REVIEW**

by Robert L. Whitney

National Center for Health Statistics, *Cigarette Smoking and Health Characteristics*, United States, July 1964 — June 1965, pp. 64, Series 10, No. 34, Washington, May 1967.

This report, derived from household interview data, emphasizes that the findings do not establish a causal relationship between cigarette smoking and health. The most it does is demonstrate the existence of a relationship, or its lack, between cigarette smoking and various health characteristics. It may be recalled that the Smoking and Health report of the Advisory Committee to the Surgeon General of the Public Health Service (reviewed in *TSA* XVI, 113) did claim a causal relationship between smoking and mortality in certain instances, such as cancer of the lung among men.

The proportion of persons for whom chronic or acute conditions were reported in this survey was usually higher among former smokers than among present smokers. This suggests that many of the former smokers stopped because of such a condition. In general, persons who had ever smoked cigarettes reported higher rates of heart conditions, bronchitis and/or emphysema, sinusitis and peptic ulcers, more acute conditions and more days of disability than persons who had never smoked cigarettes. Where a relationship was found between a condition and cigarette smoking, its incidence or prevalence tended to rise as cigarette consumption

**ACTUARIAL CLUB MEETINGS**

Sept. 19 and Nov. 21, Actuaries Club of Philadelphia

Oct. 18 and Nov. 15, Seattle Actuarial Club, Washington Athletic Club

Oct. 26-27, Actuarial Club of The Pacific States, Pebble Beach, California

Nov. 16-17, Southeastern Actuarial Club, Charlotte, North Carolina

Nov. 16-17, Actuaries Club of the Southwest, Dallas, Texas

increased. However, for most of the acute conditions reported, this pattern was not statistically significant.

Among those who had ever smoked, the loss of normal working days was about 30% to 40% higher than among those who had never smoked. According to the Surgeon General's report, the death rate of cigarette smokers was 70% higher than for non-smokers.

In addition to sampling errors (which are generally of relatively low magnitude), there are other factors to keep in mind when interpreting this report. For example, respondents are more likely to report *themselves* as former smokers than to report other family members as former smokers. On the whole, it appears unlikely that this and other reporting biases affect the general conclusions of this study.

It is possible to give some weight to

**NATIONAL CONFERENCE**

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has rather marked shortcomings. But there is not yet any agreement as to what a more perfect system would look like. It seems likely that we will go through a period of experimentation and in true American fashion may end up with several variations in different parts of the country, suiting local preferences and conditions."

The insurance participants in the meeting agreed that:

"... it is evident that in the immediate future private health insurers will be looked upon to fulfill an important social and public obligation. They will be called upon to adjust their sights, re-evaluate their goals, and give consideration to the development of fresh approaches and techniques, in addition to refining present processes; . . ."

The first of two additional national conferences is scheduled at Washington, September 28 and 29, to study the benefits and coverage of private health insurance. The second meeting, October 19 and 20, will examine the possibilities inherent in group medical practice.

smoking hazards in the selection of risks in health insurance just as it is possible to do so in life insurance. However, there are obviously practical difficulties in introducing effective selection procedures for such purposes.

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