



SOCIETY OF ACTUARIES

Article from:

The Actuary

April 1968 – volume 2 - Issue 4



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 2, No. 4

APRIL, 1968

Eastern Spring Meeting Topics of Current Interest

'THE FUTURE OUTLOOK' AND THE ACTUARY

by John H. Miller

(Editor's note: The distinguishing feature of the last annual meeting of the Institute of Life Insurance was a symposium on The Future Outlook sponsored by the Institute and directed by Mr. Miller. We are particularly glad to have his comments based on the symposium on the future outlook for actuaries.)

While the contemplation of the future is nothing new, its formalized study seems to be something of a current phenomenon. For example, The Commission on the Year 2000, headed by Dr. Daniel Bell of the Academy of Arts and Sciences, is but one of many groups formed for this purpose. New words have been coined such as "futurist" and the French "futuribles", meaning possible futures. This term describes the principal technique which is to enumerate the possibilities and assign to each, by estimation or judgment, a probability of occurrence and a value or statement of the consequence, should the particular event occur. From this calculation of probabilities and consequences, one may derive either a composite prediction or a most likely prediction or evaluation.

This method of linking the probabilities with the cost or yield of an event is essentially the basic actuarial technique used in measuring the cost of insuring

(Continued on page 3)

MORTALITY INVESTIGATION ON INDIVIDUAL LIVES

by William H. Schmidt

The Society's Committee on Mortality under Ordinary Insurances and Annuities, of which I am current Chairman, has been around for many decades. Since many Society members have not been exposed to the Committee and its operation, comment is in order on several aspects of its work: (1) how it functions, (2) what current special projects are under consideration, (3) the recently completed 1967 Occupation Study, and (4) a brief review of the most recent report on mortality between the 1965 and 1966 anniversaries. The 1967 *Reports Number* will also contain a summary of the "Canadian Assured Lives Tables, 1958-1964." (see *The Actuary*, October 1967.)

How the Committee Functions

The Committee operates as one of three committees on mortality and morbidity among lives individually insured. Their activities are coordinated by a General Chairman. Since the large annual bread-and-butter job is the continuing study of ordinary mortality, the members of the Committee are largely drawn from the companies which contribute to this Study.

For the last several years it has been customary for the Chairman of the Mortality Committee to appoint a Secretary from his own company. This "privilege" carries with it the dubious honor of running the Central Compiling Bureau for the annual study. The work of compiling other studies is passed around from company to company, and

(Continued on page 6)

LEGISLATIVE DEVELOPMENTS

by Albert Pike

Several of the major areas of activity of the LIAA, ALC and HIAA have already been fully dealt with in panel discussions, notably holding companies, variable annuities, segregated accounts, mutual funds, and federal income taxation of life insurance companies. Two exceptions are the beginnings of federal regulation of life insurance company equity-based products by the SEC, and the \$1 billion dollar urban investment program of the life companies. But these are more in the province of the lawyer and the investment man than of the actuary. I would like to add:

Holding Companies

It does not now appear that there will be New York legislation this year to give effect to the recommendations of the Report of the Special Committee on Insurance Holding Companies. An effort was made to legislate separately the proposals in the Report that life insurance company investment powers be expanded in New York. This, however, is not now in serious prospect for the current year.

Variable Annuities

First, there are reasonably good expectations that the New York law will be changed this year to authorize individual variable annuities, instead of just group variable annuities. So one more roadblock to individual variable annuities seems about to be removed, although mutual funds may create another roadblock of a practical nature.

(Continued on page 7)

Future Outlook

(Continued from page 1)

against a future event. Likewise, just as the actuary applies the series of probabilities to an ever changing future exposure to risk, the futurist recognizes that he cannot study a single variable in a static environment, but only as part of a complex stream of events or circumstances most of which are also variables.

In discussing the future — with particular reference to the interests and responsibilities of the actuary — it seems to me that I should raise some fundamental questions rather than to attempt any predictions.

Is Coverage Adequate?

One of these fundamentals concerns the adequacy of the voluntary life and health protection now enjoyed by the American people. How much total protection is enough and to what extent should it be provided by voluntary organizations? The issue of adequacy, or overinsurance, its opposite number, has over the years received the attention of such scholars as John Laird, Dr. Louis Dublin and Mortimer Spiegelman and yet, today, do we have an authoritative formula for adequacy? Will not the "man on the street" who asks "How much insurance should I own?" receive a different answer from each person interrogated? Here is an interesting and important area of study for the actuary, elementary as the question may sound. I hope many of you will be encouraged to pursue it.

The related question, "How should the responsibility for adequate protection be shared by the private and public sectors?" is also of fundamental concern to us. Historically, people from opposing camps have sought the answer on the basis of criteria which were essentially political or ideological. But the public and private systems have different inherent characteristics and capabilities.

The private system of insurance produces an extremely important by-product, capital formation for the financing of homes and productive plant and equipment. On the other hand, public systems of protection result in income redistribution among people at various economic levels — a function not compatible with private programs. A study of the different characteristics of the

public and private systems can, I believe, lead to a rational rather than political, answer to the question, "How far should social security benefits be permitted to increase?"

What Form of Coverage?

After the question "How much private insurance" has been answered, we must ask what form it should take. Do we need equity-related life insurance along with variable annuities? Can we introduce new methods of accumulating funds for retirement and other purposes through equity investment, without losing the proven virtues of guaranteed benefit level premium life insurance.

I have been impressed with the innovations and experiments going on in Canada with programs that employ equity funds within the framework of traditional level premium life insurance plans. If our Canadian colleagues have indeed surpassed us in such innovative development, it is easy to ascribe this to the difference in the legal systems on the two sides of our common border. Yet, it would be most regrettable if our imagination and inventive urge are inhibited by existing inflexible laws. Should we not devise the programs best suited to the needs of the public we serve and then seek the legislative authority for their sale?

I do not mean to speak either for or against the growing interest, on the part of life companies, in mutual funds. What I am suggesting is that life insurance as we have known it has served the public well and that there are elements in the traditional programs which should not be lost as we embrace new concepts. The best program embodying the unique functions of life insurance with capital accumulation through equity investments has probably not yet been conceived. The ideal solution will, in all probability, require changes in legislation, as well as in some of our administrative and marketing practices. What is needed is a lot of thinking and experimentation in an atmosphere where the only restraints are the best interests of the public.

One can hardly speak of the future without a few words about the computer, spelled with a capital C. Here again we need to let our imaginations operate freely with the only considerations limit-

ing us being the relevance of the ideas to the ultimate objectives. We will miss the full potential of planning for the future if we restrict our thinking to the capabilities of existing equipment. We should, rather, include in our plans some of the facilities and methods which are theoretically possible but not yet commercially available. If we do not permit ourselves this kind of leap-frogging progress, our new developments are destined to be obsolete before they are unveiled.

Other questions which I can mention are:

- Can we develop programs of family protection under which the insurance benefits will continually adapt to the changing needs of the family, while the financing of the program follows the varying cash flow of the family budget?
- Can we extend the use of the guarantee of insurability so that the young person who makes a total commitment to a program of adequate insurance can be assured that protection will be available as new or additional needs arise?
- Can we bring more research to bear on such perennial questions as how persistency can be improved, why agents fail, how can the life companies and the industry contribute to the public's knowledge and motivation in the areas of physical fitness and accident prevention?
- How can life insurance contribute increasingly to the health of the economy and the quality of life?

Our business is one of deep human involvement. I believe the actuary of the future will recognize this even more than we do today, and that his effectiveness will be largely determined by his awareness of this involvement and his response. □

HEALTH CARE

An informative talk, "Health Care — Expectations and Realities" by President Morton D. Miller before the Association of the Bar of the City of New York on March 26, 1968 will be published in the May issue of the Association's Journal, *The Record*. □