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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

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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

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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.

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Mortality Investigation

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the annual studies and Basic Tables compiled from these data from time to time serve well enough as an overall standard against which to check trends, the underlying data are heterogeneous rather than homogeneous.

The Mortality Committee is currently discussing the feasibility and desirability of a comparative mortality study among the contributing companies. This study would undoubtedly not be printed in the *Reports*, but, if approved, would be made available outside of the printed *Reports*, on a coded basis, company by company, for those contributing companies who would permit the use of their material in this fashion.

At the meeting of the Committee on Research last fall in Chicago, John Woody proposed an investigation into risk theory, using as raw material the mortality ratios of the annual study, on a company-by-company basis. The contributing companies have agreed to make their data available to Messrs. Woody and Lew for this research purpose.

Finally, one recent development is the work now being done under the aegis of the Association of Life Insurance Medical Directors. They have received company support for a pilot study by Dr. Bakst of Boston University. Dr. Bakst, working with an Advisory Committee which includes Messrs. Moorhead, Ormsby, and Lew, is reviewing the clinical studies reported in current medical journals to cast light on the mortality of various medical impairments. This would supplement papers such as the one by Bart Pauley, presented to this meeting.

The Committee will be glad to receive any constructive suggestions or requests that may make its efforts of more value to the Society. □

Legislative Developments

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Second, the various Insurance Commissioners are beginning to concern themselves with the regulation of variable annuities and segregated accounts, both as individual Commissioners and collectively through the NAIC. For example, there is the issue of the assumed interest rate used in the process of de-

termining the first, or "going-in", annuity payment under a variable annuity. Should this rate be regulated? The matter is of great importance, as are some others of actuarial import.

We are fortunate that these regulatory issues of an actuarial nature are being carefully reviewed by an LIAA-ALC Actuarial Subcommittee headed by Harry Walker. This Subcommittee reports to a parent LIAA-ALC Actuarial Committee headed by C. L. Trowbridge. There are many actuarial regulatory questions which these committees will cover. While basic opinions by actuaries in matters of this sort have been and will be formed in meetings like this, nevertheless these trade association actuarial committees bear the brunt of promoting the actuarial point of view with the regulatory authorities and, for that matter, with much of the rest of the life insurance fraternity.

Federal Pension Regulation

Hearings are now in progress in Congress on legislative bills to amend the federal Welfare and Pension Plan Disclosure Act in various ways. The most important of these is to extend the purposes of the Act so as to include provision for imposing federal standards of fiduciary responsibility on trustees and administrators of employee welfare and pension plans. Certain exceptions are provided for in the proposals, including exceptions for most, if not all, insured employee welfare and pension plans, presumably on the grounds that they are already subject to state regulation.

These federal fiduciary responsibility proposals have engendered surprisingly little opposition so far. The matter of most interest to actuaries is that there is a perhaps better than even chance that the Johnson Administration will soon use the occasion of these Congressional hearings to officially propose federal standards for employee pension plan vesting and funding, and to propose some sort of pension guarantee system. Assistant Secretary of the Treasury Stanley Surrey sent up a trial balloon on such proposals a while back at a meeting of the American Pension Conference.

It is possible that these proposals may shortly be made more official. But then, again, they may not be. One thing certain is that the Administration has not

forgotten about pension vesting, funding and guarantees. If the unveiling of official position does not take place in the next few weeks, do not assume that the whole matter of federal standards will just dry up and blow away. Pensions are too great an economic and social force in this country to escape further federal government attention for long.

Pension Integration

Some time ago the Internal Revenue Service proposed that the basic 37½% allowance for integrating qualified pension plans with Social Security be substantially reduced, even for pension plans integrating at the old \$4,800 a year taxable wage base breaking point. What at first held up a decision was the likelihood in 1967 of Social Security benefit increases. Now that these are in effect, with a new \$7,800 Social Security taxable wage base, the new pension integration regulations can be expected at any time. There is a very good chance that the 37½% allowance will come down, both for new pension plans and old pension plans, and that the real issue is not whether it will come down but how far it will come down and on what rationale.

Issues in New York

Three issues under consideration in New York deserve comment.

1. The policy loan interest rate. Pending is an Insurance Department sponsored bill to substitute a variable policy loan interest rate for the present statutory maximum interest rate of 5% (4.8%, of course, if payable in advance), the variable rate to be applicable only to new policies but to be mandatory. The variable interest rate would range from 4% to the maximum interest rate for usury purposes, which is now 6% in New York but which may be raised to 8%.

The actual rate used within this range would be equal to the average new money investment earning rate of the particular insurer on other than policy loans and equity investments, to be changed from time to time not only for new policy loans but also for old policy loans, when made against policies issued after the operative date of the change

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Legislative Developments

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in the law.

The bill may fail this year but, if so, it will likely be back next year, so that those associated with life insurance companies doing business in New York should still be familiar with it. It may eventually revolutionize policy loan administrative procedures.

2. Binding premium receipts for life and health insurance policies. The Insurance Department is now reviewing what will and what will not be acceptable to it in the terms and conditions set forth in these binding receipts. The details are too complicated to give here, but they are generally thought to be reasonably acceptable by insurers, and better than what were first proposed.

3. Compulsory health insurance. Governor Rockefeller has proposed a system of compulsory hospitalization insurance, now euphemistically called universal health insurance. Costs would be shared by employers and employees after the manner of the New York Disability Benefits Law, but with the state coming in with a subsidy on high-cost employee groups.

While the bill appears to have only a slight chance of enactment this year, it should be studied if only because a great deal of competent technical work went into its formulation. Maybe it will be back next year.

Outside New York

As for states other than New York, the principal regulatory issues of interest to life actuaries are those concerned with credit life and credit health insurance. These issues are important to all life actuaries for two reasons:

First, credit life and credit health insurance premium rates are regulated in many states, and certainly the regulation of premium rates for any form of life or health insurance concerns all life actuaries.

Second, this state regulation of premium rates is not working well, for reasons which will seem strange to an actuary. The trouble basically is that some Insurance Commissioners have not brought themselves to the point of conceding that if a particular premium rate is to produce a 50% loss ratio —

the NAIC "benchmark" standard—then the insurance company must eventually pay out at least 50¢ in claims on the premium dollar. Many state Insurance Commissioners give lip service to the 50% loss ratio principle, but then give their blessing to credit insurance premium rate structures which cannot possibly produce this high a loss ratio.

Even the federal government has entered the act through recent Congressional hearings. Senator Hart of Michigan is expected to propose a very stiff federal regulatory bill shortly to take most if not all of the money out of credit insurance for the lender or creditor. The Hart proposals may not make any progress, but this is a foreboding of what may be expected to come at the federal level if the states do not measure up to the job of insurance regulation. □

Letters

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while in a state of shock, she goes off with another emancipated woman and together, they start a consulting actuarial firm.

Shaw isn't quite that explicit. He merely says that they will do "actuarial calculations". Presumably someone will pay them for these calculations.

Mr. Shaw, the old Fabian Socialist, scrupulously avoids value judgements as to the relative merits of mother's and daughter's professions.

Peter F. Chapman

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Sir:

I was quite fascinated by Edward Lew's article "The Actuary in Fiction". Mr. Lew overlooked a recent book by Pierre Daninos, the English title of which I have forgotten, but the French title is *Un certain Monsieur Blot*. There was also a poem published a year or so ago by Peter Desbarrats entitled "The Actuary Who Laughed in Elevators".

However, all the actuaries I have ever read about in fiction do not seem to fit the pattern of the actuaries I know, although they probably do fit the public's conception of the actuary.

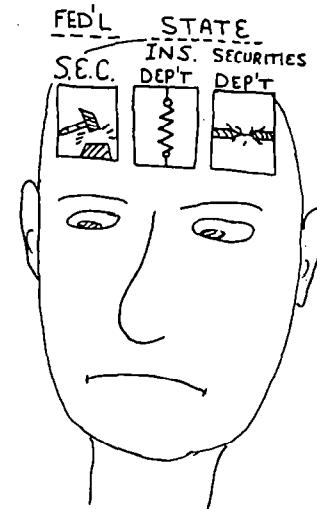
J. B. MacDonald

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1 Picture = 1,000 Words

Sir:

For those readers who were unable to read Ian Rolland's lengthy and illuminating review of the regulation of variable annuities in the March issue, I have prepared a graphic summary.



REGULATION OF VARIABLE ANNUITIES

Thomas Mitchell

ACTUARIAL CLUB MEETINGS

May 9, Baltimore Actuaries Club

May 19-22, Casualty Actuarial Society, Monticello, N. Y.*

May 20, Chicago Actuarial Club

May 23-24, Actuaries' Club of the Southwest, Velde Rose Hotel, Hot Springs, Arkansas

May 24, Middle Atlantic Actuarial Club, Durham, North Carolina

June 4, Los Angeles Actuarial Club, Thistle Inn

June 20, Chicago Actuarial Club, Annual Golf Outing, Nordic Hills Country Club, Itasca, Illinois

June 20-21, Southeastern Actuaries Club, Mountainview Hotel, Gatlinburg, Tenn.

Nov. 17-19, Casualty Actuarial Society (annual), Washington, D.C.*

* For further information write to Mr. Albert Z. Skelding, Casualty Actuarial Society, 200 E. 42nd Street, New York, N. Y. 10017.