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LIFE INSURANCE AND THE BUYER

by Anna Maria Rappaport

At the meeting of the Actuaries Club of New York on Oct. 5, there were two panel discussions; one on Consumerism and one on the Interest Adjusted Cost Method.

At those discussions, I heard a great deal about providing the consumer the means to make an intelligent choice. When intelligent choice is mentioned, it is often assumed to mean the ability to make meaningful price comparisons. Price comparisons are but a small part of the problem. Solving the price comparison problem does not make intelligent choice possible; substantial and difficult problems which are far more important must be solved first. If we assume that a better cost method is the solution to providing the consumer a way to make an intelligent choice, then we missed the major issues.

In this article, I will express some thoughts on the concept of intelligent choice and try to clarify the position of the buyer who wishes to make an intelligent choice with respect to various types of purchase decisions. The life insurance buyer has a very difficult time making an intelligent choice. The product is complex and confusing. The following factors must be considered in the rational selection of life insurance:

- (1) Amount of coverage needed.
- (2) Understanding of the basic workings of various products, and a rational evaluation of death benefit and savings priorities.
- (3) Choice between various types of products.
- (4) Choice between companies—based on different product features, cost and service.
- (5) Choice between agents.

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ACTUARIAL EDUCATION

by Paul J. Brennan

"Actuarial Education" was the subject of a recent meeting of the Young Member Activity Committee of the New York Actuaries Club.

Robert Johansen, Chairman of the Education and Examination Committee, and Walter Miller, Chairman of the Continuing Education Committee, began the program by discussing their Committees' roles in the education of the actuary.

Mr. Johansen discussed the role of each examination in the total process of education and qualification of new Fellows, stressing the educational aspects of the examinations and explaining how the various subjects fitted into the definition of the "complete" actuary. He was careful to point out that post-Fellowship education and further training were required for full professional stature.

Discussion from the floor focused on whether or not the basic goals of the examinations are being achieved. Many of the younger members expressed the belief that the exams emphasize memorizing lists of trivia instead of developing problem-solving abilities. Since this was not the first occasion on which such opinions have been expressed, the participants at the meeting agreed that a workshop on the exam system should be scheduled for the 1972 annual meeting along the same lines as the session at the Denver meeting in 1970.

In the area of study materials, the E & E Committee would prefer greater use of textbooks and published papers for study materials, but due to the rapid changes in all fields of actuarial work, extensive study notes are needed to keep the material current. The big problem with study notes is, of course, getting people to prepare them. Society members who are recognized experts in

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SECTION 213

by Daniel J. Lyons

Changes have been proposed in Section 213 of the insurance law of New York on behalf of the American Life Convention, Life Insurance Association of America, and Association of New York State Life Insurance Companies. Generally speaking, the changes are required because of long continued inflation. The New York Insurance Department is at present considering the proposed changes.

Section 213 was revised in the early fifties to update it for the inflation of the previous 15 years. At that time substantial changes were made in the formulae for total expenses and total field expenses. It was recognized that continued inflation would require updating, but there did not appear to be any practical way to provide for this in advance.

We have now experienced another 15 years of inflation and the margins existing in 1955 have been seriously eroded—more, of course, for some companies than for others. The changes in the statute now proposed would, on the average, restore the margins relative to the proposed limits to the levels of 1955, both for total field expenses and for total company expenses. Actually the changes to accomplish this are quite simple consisting of an increase from \$.50 to \$.65 in line 36 of Schedule Q and an increase from \$1.00 to \$1.30 in line 37 of Schedule Q.

Another casualty of the inflation has been the small company allowance. This is a special allowance provided in the statute in recognition of the fact that small companies are likely to have great difficulty holding unit expense rates down to the level of the large companies. Accordingly additional sums computed by formula are included in the total field

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Operations Research

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ificant impact on the national security of the United States and its allies.

Understandably, the debate was heavily influenced by scientific testimony. One of the most important points in this scientific testimony related to the estimated proportion of the Minuteman Missiles that would remain operational after a Soviet first strike in the last half of this decade. Conflicting estimates, both based on an application of operations research methods, were presented. As a result of the consternation over this conflict, the Council of ORSA ultimately appointed a special purpose committee of distinguished leaders in operations research to look into the fundamental issues raised by the divergent estimates. This report of the special committee was accepted by the Council of ORSA in May 1971, and later published in the Society's journal.

The first two sections are entitled "Guidelines for Professional Practices" and "The Operations Analyst in an Adversary Process." The dominant impression of most actuaries upon reading the guidelines is that they seem almost identical with those of his own profession. Because the use of scientific experts in the adversary process of decision making is still somewhat novel, the second section is more tentative. Hopefully, actuarial readers will relate the soul-searching of operations analysts to similar problems within their own area.

Following these short sections come four appendices. The first is an essay on the nature of operations research. The essay tends to support the proposition that operations research is really actuarial science applied to a broader class of problems. (Of course, an operations analyst would prefer to say that actuarial science is operations research applied to insurance). Appendix II is a reprint of the government document that contains the conflicting analyses on the size of the threat to the U.S. retaliatory capacity posed by the Soviet missile buildup.

The third appendix is the longest and the most controversial part of the report. In it the committee explores in some detail the quality of the analysis and the level of professional conduct of some of the participants in the development of

the technical issues for Congress. Don't be frightened by this section. No specialized knowledge is required to read it. If the reader has any interest in national security questions or in the use of analytic methods in making public decisions, he will find the third appendix hard to lay aside.

The fourth appendix contains supporting documents, letters from some of the protagonists and a minority report on one aspect of the study.

The Operations Research Society of America should be commended for providing us with a case study on the opportunities and perils involved in using scientific methods in an adversary process for determining public policy. The guidelines to be used in applying science, not just to expand knowledge but to influence decisions, are provocative and merit careful attention from all who simultaneously seek scientific truth and also serve the institutions of society.

*Copies may be obtained from ORSA
c/o Charles P. Chadsey, 4600 Dorset
Ave., Chevy Chase, Md. 20015. □*

Actuarial Education

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particular areas and who are best qualified to prepare study notes often have the least available time. The E & E Committee hopes to make use of some of the materials developed by the Continuing Education Committee.

Mr. Miller began the discussion of Continuing Education by highlighting some of the objectives and activities of the Continuing Education Committee. He pointed out that many aspects of a continuing education program are covered by other Society Committees. For example, the Committee on Papers, the Committee on Review and the Committee on Research have all worked toward the continuing education of the actuary. Most obviously, we have all been exposed to continuing education in the sessions and workshops at the Society meetings. One idea of the Committee is to concentrate one regional Society meeting each year on in-depth coverage of one subject. The 1971 Spring meeting in Des Moines on Adjusted Earnings was considered successful and the 1972 spring meeting in New Orleans will be devoted to Pensions. Another step in continuing

education is allowing individuals to purchase individual study notes instead of an entire set.

Mr. Miller then discussed some of the findings of the questionnaire distributed last fall to all Society members by the Committee. Responses indicated that members felt that the most valuable activity for the Committee would be the preparation of papers on various subjects of interest. The second most useful activity would be the holding of discussion groups and work-shops, etc. The least useful function was assembling bibliographies and reading lists.

The results of this questionnaire point out the difficult job the Committee will have, because the most desirable activity—the preparation of papers on topics of interest—is also the most difficult job; the least desirable activity—the assembling of reading lists, etc.—would be the easiest activity.

The questionnaire also revealed certain areas of high interest and low knowledge for which the need for continuing education is obvious: Equity Products, Corporate Planning, Operations Research, Risk Theory, Statistical Techniques, etc.

After Mr. Miller's discussion, Anna Rappaport outlined the New York Actuaries Club's efforts in education. The student education program of the Club is well known and successful, and Anna pointed out that last year's successful course in Pension Mathematics will be repeated this year. Also, day-long programs in certain areas such as Agency Profitability and Adjusted Earnings are contemplated.

In conclusion, most members felt that, at least until now, the Society has been able to rely on its members to make a substantial contribution to the activities of the Society, particularly in the educational process. Indeed, members of the Society have probably contributed more to their profession on a voluntary basis than have most other professional groups. It seems likely, however, that in the future more reliance will have to be placed on paid professionals (e.g., the appointment of Barry Watson as Executive Director of the Society), although in certain areas, such as education, it will be impossible to dispense with the contributions of many members who are motivated by concern for the Society. □