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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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**Section 213***(Continued from page 1)*

expense limit and in the total company expense limit for companies below a stated volume of insurance in force. Beyond such size the small company allowance is graded off to zero so that large companies derive no advantage from it whatsoever.

The revision now suggested continues the same theory; it increases the basic factors and increases both the volume at which the maximum allowance is reached and the volume at which it is graded off to zero. The adjustments have been computed with direct reference to the degree of inflation which has been experienced and has caused the distortion and shrinkage of the small company allowance.

It was also necessary to give attention to the training allowance section of the law since the inflation has had a direct effect on the amounts which companies have had to provide new men undertaking a sales career in life insurance. In 1955 a man could be started in the business at \$400 a month, while today the same man would require a substantially larger amount.

In view of this situation it was deemed necessary to propose a change which would permit larger sums to be disbursed to get new men started in the business under current conditions. It will be recalled that the training allowance provision of the statute does not increase in any way the total amount which a life insurance company may spend. It simply permits the company to charge to field expenses all or a part of the amounts expended for training allowances.

Subsection 1.3 currently provides that the maximum amount that may be charged to total field expenses rather than first year field expenses is the greater of two amounts, one of which is based on the first year field expense limit and the other on first year premiums paid during the current year on business written by new agents while receiving training allowances.

It is now proposed to base the first amount on the total field expense limit rather than the first year field expense limit. It is proposed to base the second amount on business written during their first four years of service by agents who, at the time the business was written, were receiving training allowances or

**RED FACE**

Our proofreaders are not always as eagle-eyed as they should be and we apologize to the Director of Insurance for the State of Ohio, Judge Kenneth E. DeShetler, for having (consistently) misspelled his name in the article *Consumerism in Cincinnati* which appeared in the January issue.

previously received them for a period of one year or longer. Here the factors in Schedule Q applicable to the premiums of the business of new agents have been increased to 40% and 20% from 30% and 15%. Both of these changes give a more rational and logical basis for the maximum training allowance which may be charged to field expenses than the current law.

Provision is also made for a change in the grading formula for first year commissions so that, for plans of insurance with premiums less than whole life premiums, the first year commission rate would grade from 45% to 55% rather than from 37½% to 55% as under the current statute. This change seems desirable because (a) during the last 20 years there have been substantial reductions in term premiums thereby reducing the agents compensation for making the sale, and (b) there may be a tendency to use whole life when the buyer would be better served with term insurance.

To the extent that Section 213—particularly its inside limits — induces the agent to ignore the real needs of his client, it does not serve the public interest. The proposed change will not solve the problem completely but it is a step in the direction of a solution.

Agents have complained that old policyholders have not been getting adequate service, that their renewal commissions do not take into account the inflation that has occurred since the business was sold, and that their security benefits are inadequate. In recognition of these complaints, it is proposed to increase to 2¼% the 1½% now provided in Subsection 8(aa) for additional renewal commissions. Any such change would of course require a change in the field expense limit and, therefore, it is proposed that the Schedule Q line 35 allowance be increased from 2½% to 3½%. □

**SOCIAL SECURITY NOTES**

*Social Security Programs in the United States*, HEW Publication (SSA), No. 72-11902, April 1971, 134 pages.

This report, prepared by the Office of Research and Statistics of the Social Security Administration, gives general descriptions of the major social welfare programs operating in the United States.

The emphasis is on OASDHI, unemployment insurance, workmen's compensation, and public assistance. However, some information is presented also on other public plans (for railroad workers, government employees, and veterans) and on private plans. The private plans are discussed in most general terms and the information is limited to indications of their scope and basic purpose.

The book contains a number of statistical and financial tables and some of these include historical data. Several other tables summarize benefit provisions as of January 1, 1971. The summaries deal with OASDI (Table 3), State unemployment insurance laws (Table 10), workmen's compensation laws (Table 12), and State sickness insurance laws (Table 14).

*The book is on sale by the Superintendent of Documents (Washington, D.C. 20402) at 60 cents per copy.* □

**Actuarial Meetings**

- Mar. 7, Twin Cities Actuarial Club
- Mar. 9, Baltimore Actuaries Club
- Mar. 15, Actuaries' Club of Des Moines; Seattle Actuarial Club
- Mar. 20, Chicago Actuarial Club
- Mar. 22, Nebraska Actuaries Club (Omaha)
- Mar. 28, Actuaries' Club of Hartford
- Apr. 13, Baltimore Actuaries Club
- Apr. 17, Chicago Actuarial Club
- Apr. 19, Portland Actuarial Club (Oregon); Actuaries' Club of Des Moines

**Recognition**

The following item is from *The New Yorker* of Sept. 11, 1971.

Underwriter concert is held in N.Y.U. pool. Page 61

—*The Times index*.  
Those swinging actuaries!