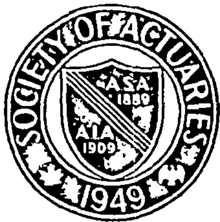
SOCIETY OF ACTUARIES

Article from:

The Actuary

November 1971 – volume 5 - Issue 9



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 5, No. 9 NOVEMBER, 1971

TO BE CONTINUED

Editor's Note: This is another in the series of articles from the Committee on Continuing Education. The rule is one article to one subject to give the non-specialist in that subject up-to-date general information and to encourage further research in the subject if the reader is so minded. Comments will be welcomed by the Committee and by the Editor.

The Efforts of the ALC-LIAA Joint Actuarial Committee

by John M. Bragg

Readers of *The Actuary* may be interested in current efforts of the Joint Actuarial Committee, ALC-LIAA, because those efforts may have an important influence on operations of life insurance companies in the United States, and because professional services of actuaries will be needed to implement certain changes which are proposed.

Representative of the membership of the two trade associations, the Joint Actuarial Committee was created in 1966. Nine actuaries are on the parent committee and an additional 11 on the subcommittees.

An objective of the committee is to bring about certain changes in the Standard Valuation Law and the Standard Non-forfeiture Law, where such changes *appear to be* called for and are in the public interest. The very high level of interest rates currently available and expected for many future years suggests a need for change. The committee now proposes that the maximum permitted rate for valuation and non-forfeiture be raised from the current 3½% to 6% single premium individual and for group annuities, and to 4¼% for annual premium annuities, all life insurance and benefits supplemental there-

(Continued on page 2)

SATURDAY'S CHILDREN

Table of Expected Working Life For Men, 1968, by Howard N. Fullerton, June 1971 issue of Monthly Labor Review.

by A. M. Niessen

This table (hereinafter referred to as the BLS table) purports to provide up-to date information on working life expectancies of men in the American population. It is based on labor force participation rates for 1967-69 and life table functions from the 1968 U.S. Life Tables for males. Among the areas of possible usefulness of the table the author includes estimates of lost earnings in court cases dealing with indemnity for loss of life or permanent injury.

In the opinion of this reviewer, the BLS table cannot provide a basis for a reasonable estimate of loss of earnings for court cases. First, in any case of that kind the employment status of the individual in question is definitely known, so that rates of belonging to the labor force are totally irrelevant here. Second, the BLS definitions of "being in the labor force" makes it impossible to distinguish clearly between the retired and the non-retired in the late middle and older age groups. Such a distinction is obviously of paramount importance for a sound estimate of future income from work. It is only a properly chosen service table that can provide a basis for such an estimate.

Ideally, the service table should reflect as closely as possible the experience of the group of which the deceased or injured individual was a member. Another advantage of a service table is that it permits an estimate of the value of employee benefits which would have become available to the individual in the ordinary course of events.

This reviewer is also skeptical about the usefulness of the BLS table in such areas as "establishing occupational replacement needs" and "establishing pro-

(Continued on page 8)

REALISTIC FINANCIAL REPORTS

by Kenneth R. MacGregor

Editor's Note: We are indebted to Mr. MacGregor and to the Life Office Management Association for permission to reprint the following address on a timely subject. This address was delivered at the 1971 Annual Conference of the LOMA.

Having regard for the theme of your Conference—*Effective Management in a Changing Society*—it seemed to me that I could most appropriately speak on "Realistic Financial Reports." It goes without saying that effective management is impossible without them and most of my experience has involved the realism or otherwise of financial reports. Furthermore, I doubt whether there is a livelier subject at present than "adjusted earnings"—the question of realism in life insurance financial reports. If you have been confused by the publicity and controversy on this subject, you are not alone, and you may well ask:

- Have actuaries and regulatory authorities been too conservative in preparing financial statements?
- Have the public and management been misled concerning the "real" earnings of life insurance companies?
- Are accountants trying to "take over from actuaries?"
- Do "generally accepted accounting principles" apply to life companies?
- What is the nature of the changes now being pushed by the advocates of "adjusted earnings"?
- Are the proposed changes desirable?

Before expressing my views on the subject, I should like to disclose any bias that may be inherent from my background.

(Continued on page 3)

ALC-LIAA

(Continued from page 2)

portfolio earnings, included the deficiency reserve problem, the inequities to persisting policyholders resulting from too high early cash values, the desire to bring statutory earnings more in line with "adjusted earnings," and the desire, resulting from insolvency fund legislation, to prevent a company from becoming technically insolvent on a statutory basis while remaining solvent in fact.

Several arrangements were considered, including temporary changes in the law. Deliberations in the Joint Actuarial parent committee finally boiled down in the range of 4% to 4½%, with the compromise choice of 4¼% finally winning out. That rate was unanimously adopted by the committee and is now regarded as a fine solution to the problem. It is the belief of the author that it has nearly universal support in the business, a characteristic which is certainly necessary. The next order of business involves discussion with the National Association of Insurance Commissioners, and with the actuarial profession generally.

Readers will also be interested to know that several other changes in the standard laws were suggested to and considered by the committee, including the repeal of deficiency reserve requirements, the alteration of expense allowances, and the abandonment of the cash value floor for reserves. However, no changes along these lines are being proposed.

Readers will also be interested in a new and more recent project of the committee, for which a subcommittee has been appointed. This is the determination of new statutory minimum capital and surplus requirements. It appears likely that the committee will come up with such new requirements but, even more importantly, with a "game plan" approach for new companies (and possibly for some other companies), which will seek to prevent future insolvencies. This entire project, which is very fascinating, is entirely the outcome of certain recent proposals for insolvency legislation, which would require solvent companies to make up the deficits of insolvent ones. □

Financial Report

(Continued from page 1)

I was graduated from university as a mechanical engineer. However, the onset of the depression induced me to become an actuary. I spent 35 years in Federal supervision of insurance companies and several other kinds of financial organizations in Canada. I am not an accountant and have no professional training in that area. Nevertheless, I have analyzed many a financial statement, especially of life insurance companies, and have been a pallbearer or funeral director at several corporate funerals.

Although I am reluctant to strike a sombre note so soon, this would seem a good time to say a word or two about dealing with companies in their death throes. Unfortunately, not all insurance companies are blessed with eternal life—notwithstanding the optimism of the proponents of "adjusted earnings."

It is a very serious matter to decide when euthanasia is indicated. A company should carry on as long as possible as an independent organization but must not continue to the point where another company cannot take over the business without loss to the policyholders. Many supporters of "adjusted earnings" allege that regulatory authorities are primarily interested in the balance sheet in order to determine solvency, whereas accountants, management and investors are primarily interested in the earnings of the company as a going concern. I would say that regulatory authorities are, or ought to be, vitally interested in both the earnings and the balance sheet, because the trend is usually as important as the position at any point in time.

If the business of a company must be taken over, one can never find a purchaser (sometimes loosely called a reinsurer) that will accept assets at values other than their current market values—certainly not at amortized cost or any other "artificial" value. As for unamortized acquisition costs, any suggestion that some value should be placed upon items of this nature is invariably treated with utter scorn.

Consequently, in the evolution of the form of financial statement for life insurance companies on this continent, moneys spent for things or purposes not having a realizable value in an emergency (for example, a company's charter, commissions and advances to agents, medical and inspection fees, etc.,) have been charged off as expenses when incurred. Undoubtedly, these expenditures are made in the expectation that they will be recouped in subsequent operations. However, that will be so only if expectations are substantiated by events. What might be termed "fair-weather financial reporting" permits one to imagine that such expenditures are made gradually over the period of anticipated return. In my opinion, realistic financial reporting requires one to wait and take credit for such reimbursement only when it is realized.

This is the crux of the current debate. Accountants, notwithstanding their supposedly conservative attitude, take the optimistic view, affirming that in accordance with "generally accepted accounting principles," expenditures should be matched with revenue over the period of anticipated return. Regulatory authorities and most actuaries have taken the more cautious approach of charging off expenditures when incurred. To be fair, I must add that actuaries have evidenced a degree of division within their own ranks, but it seems to be mainly some of the younger actuaries who side with the accountants. I would suggest to these enthusiasts that if they experience adversity over extended periods they will see more merit in the conservative approach.

In my view, there has been nothing wrong with the accounting—it has been quite realistic. Facts have been faced and the system has worked well. It has kept a rein on advocates of "growth at any price." I do not believe that anyone has been misled. However, I do believe that many will be misled as a result of the current proposals to "adjust" earnings so as to defer the burden of acquisition costs.

It is, of course, obvious that current practices will reduce earnings as long as a company is writing enough new business to keep it above a static state. The fact that in issuing a new policy more money usually has to be spent or put into reserve than is received by way of premium in the first year has always puzzled many people (including directors) unfamiliar with the technical aspects of the business. There has long been a feeling that there must be something phony about this situaton, or something wrong with the accounting which produces such a result or, if not, that something should be done to relieve the surplus strain of new business.

(Continued on page 4)

Financial Report

(*Continued from page* 3)

However, the only way in which the strain of new business on surplus can be reduced is through a reduction in *real* acquisition costs. An indirect way of cushioning the impact of these costs, which has been provided for many years, is through the use of modified preliminary term reserves. This method recognizes the heavy initial expenses and permits reductions in the first policy year reserves which must be made up subsequently. Regulatory authorities in the United States and Canada for half a century or more have obviously not been blind to the problems arising from the incidence of expenses.

One may ask why modified reserves have not been adopted widely—even universally—if they would produce a more "realistic" pattern of earnings. The answer is that choice is restricted by the nonforfeiture benefits guaranteed in the policies and the public looks for substantial nonforfeiture benefits to be available early. The reserves maintained—whatever basis is used—must always be sufficient to cover these guarantees. There is nothing to prevent any company from basing its nonforfeiture benefits on modified reserves, but it is mainly the newer companies which have done so.

One reason for the confusion surrounding the current proposals is a misunderstanding of the differing responsibilities of actuaries and accountants in the certification of the financial statements of life companies.

Since the policy reserves are usually the largest item by far in the liabilities, and since the actuary designed the premium structure and made the underlying assumptions about interest, mortality, expenses, etc., it is natural to expect him to accept primary responsibility for determining these reserves. Accordingly, Canadian law has for a very long time given the actuary considerable freedom in choosing valuation bases and has then required him to certify . . .

> "that the reserves shown in the valuation summary are not less than the reserves required by (the law) and in addition that in his opinion the reserves make a good and sufficient provision for all unmatured obligations of the company guaranteed under the terms of its policies."

In the United States, the actuary has had less freedom of choice, and the requirements for actuarial certificates have been less formal and less explicit. Personally, I consider the Canadian system preferable, in that it recognizes the competence of the actuary and places specific responsibility on him as a professional.

As respects auditors' reports and certificates, it has been the general practice of life companies in Canada to obtain them annually, but there was no statutory obligation to do so until 1970. The law now requires that . . .

> "the auditor shall report on the results of the company's operations during the year and the financial position of the company at the end of the year, and shall state whether it is his opinion, based on the books of the company, the explanations received and all other information available, that the respective statements present fairly the results of the company's operations during the year and its financial position at the end of the year or, if it is his opinion that they are not so fairly presented or that any relevant information bearing on the company's affairs has not been disclosed, he shall give an explanation of such deficiences."

In practice, in Canada, the auditor's certificate usually explains that the policy reserves have been determined and certified by the company's actuary. References to "generally accepted accounting principles" are uncommon and are not required by the law.

By contrast, in the United States, it is my understanding that auditors' reports are not required by statute; and that, where supplied, only about half of the certificates for stock life companies and two-thirds for mutual companies make any mention of actuaries. In practically every case, the auditor goes as far as possible to sanctify his report by inclusion of the magic phrase "generally accepted accounting principles."

It would appear that the movement toward "adjusted earnings" had its origin in the large number of new life insurance companies organized in the United States in the 1950's and early 1960's, together with the high degree of investor interest in life company stocks during that period. Not surprisingly, in view of the technical nature of the business, investors and analysts experienced difficulty appraising the merits of such stocks compared with other investments.

Unfortunately, there has developed a widespread supposition that life company statements are unnecessarily conservative and that there must be ways to appraise their earnings more "realistically," which usually means showing them at a higher level. Accordingly, all sorts of adjustments to published results have been made by analysts. One popular adjustment, devoid of any scientific justification, is to increase published earnings by $20 for each thousand dollars of increase in permanent life insurance in force and by $7.50 per thousand for term insurance. The variety of estimates generated confusion and this, combined with the disappointing results of many new companies, led to investor disenchantment.

In 1965, in an effort to improve the situation, the Association of Insurance and Financial Analysts appointed a committee to study the problem but its report four years later was not widely accepted. It recommended an adjustment for acquisition expenses and a recalculation of policy reserves on a more "realistic" interest basis, using information available in the regular (Convention) statements.

In 1969, the insurance committee of the American Institute of Certified Public Accountants (AICPA) set out to find a method for adjusting life company earnings in accordance with "generally accepted accounting principles." It had taken a similar step in connection with fire and casualty companies and was undoubtedly prompted also by the fact that the New York Stock Exchange began to insist upon an unqualified accounting report. There are indications that the SEC will soon impose a similar requirement. The recent surge in the number of holding companies and the desire to consolidate earnings on a uniform basis apparently provided a further reason.

To the Committee's credit, it sought suggestions from the industry. Of the comments made before the Exposure Draft of the proposed Audit Guide was released in January 1971, I think the most important was the suggestion by the Joint Committee of the LIAA and ALC that as *one* solution to the problem of adopting generally accepted accounting principles, "natural reserves" might be used instead of the regular policy reserves. The Joint Committee did not consider this to be the *only* solution, but the AICPA committee adopted it as *the*

(*Continued on page* 6)

Financial Report

(Continued from page 4)

olution. "Natural reserves" are based upon the original assumptions implicit in determining the gross premiums, not only as respects interest and mortality, but also as respects expenses, lapses, surrenders, dividends, etc. In essence, they involve the deferral and amortization of acquisition expenses over the premium paying period or an arbitrarily shortened period.

The Draft Audit Guide, which comprises 152 pages, was open for comment until May and is undergoing revision now. The rules laid down are voluminous and explicit but too theoretical, with insufficient regard for practicalities. The Guide represents a doctrinaire determination to apply historic accounting principles to a special situation where they are inappropriate and therefore not "generally acceptable." I am certain that the proposals, if adopted, will lead to much additional expense, much confusion, unjustifiable optimism, weaker companies, and eventual disappointment for shareholders and policyholders.

It must come as a shock to members the actuarial profession that the Guide would substitute accountants' theories for actuaries' specialized knowledge and for the experience of regulatory authorities accumulated over nearly a century. Accounting procedures would become the paramount consideration and the accountant's role would be supreme. The Guide says that reference to the role of actuaries is unnecessary and "gratuitous;" hence "it is considered preferable not to refer to the use of actuarial expertise in the scope paragraph and in no event in the opinion paragraph of the auditor's report."

The resentment that actuaries may feel at such a downgrading of their role might be dismissed by some as parochial professionalism. There is, however, more involved than occupational pride. Bertrand Russell drew a useful distinction between knowledge by reference and knowledge by experience. As a brilliant mathematician himself, he recognized that knowledge by experience is usually more valid. Apparently many others today feel the same way. In the July 1971 *Bulletin* of the Financial Executives Institute, it is stated that "for the first time, we are publicly questioning the propriety of letting the standards of financial reporting be determined principally by parties who do not represent business management directly."

With all due respect, I feel that governments and other public bodies should require appropriate certificates from fully qualified actuaries for the protection of the public in the case of any business involving the extensive use of actuarial procedures, and these certificates should have prominence equal with those of the accountant. My own company includes both certificates in the report to policyholders and the public.

Although the original purpose of the "adjusted earnings" movement was to portray more "realistic" results for investors in stock companies, the proposals will apparently be applied to mutual companies as well. As I see it, this would be unnecessary and undesirable, but perhaps unavoidable—unnecessary because the problem really relates only to business in which shareholders have a financial interest; undesirable because of the additional expense; but perhaps unavoidable because of pressure to make comparisons on the new basis.

How realistic will reporting be if the proposals are accepted?

Acquisition costs would be deferred even though all or part of the unamortized costs treated as an asset are worthless if the business should have to be reinsured or if termination rates of policies are worse than anticipated, which may well be the case where a company is growing "under forced draft." The standard upon which earnings and policy reserves would be measured would be the factors originally assumed in setting the gross premiums—ranging back many years. In many cases, original bases are no longer known. Notwithstanding the Guide's voluminous instructions, there is a great deal of room for judgment, approximation and assumption.

The Guide further provides that nonadmitted assets should be treated as admitted; that common and preferred stocks (the market values of which are now generally above book values) should be valued at market, and that realized and unrealized capital gains be reported in the income statement, preferably by amortizing such gains by some rational and systematic averaging process (easier said than done). Rather oddly, in this headlong rush toward "realism," bonds and debentures (the market values of which are now generally much below book values) would apparently continue to be carried at amortized cost, subject only to the earmarking of the mandatory securities valuation reserve as a part of surplus.

I regard the whole procedure as more artificial than realistic. Life company statements are susceptible to improvement, but I do not believe that any single formula is likely to be found that will result in a dramatic improvement in the quality of reported earnings for all companies. As far as management is concerned, I suggest that the results of appropriate gross premium valuations would be more useful than the information produced by the procedures now proposed. This, of course, is purely an actuarial matter and not a question of the application of generally accepted accounting principles.

When mutualization is proposed, the most realistic picture of a life company's earnings and the value of its stock is essential. Then, if ever, fairness to both the shareholders and policyholders is required. In the late 'Fifties, several Canadian companies, large and small and in widely varying positions, mutualized. I was intimately involved in those cases and can say with confidence that no single approach could be relied upon to cover all situations.

Although I am not impressed by the purported "realism" of the proposals for "adjusted earnings," my fundamental concern relates to the probable long-term effects of their adoption rather than to their technical aspects. Confusion, misunderstanding, undue optimism, and ultimately disappointment are inevitable. In most cases, the procedure will immediately show larger earnings and more surplus. Even if the regular and adjusted statements are published side by side, and even if one is reconciled to the other, two statements rather than one are bound to be confusing.

Since the adjusted statement would likely be put forward as more realistic, little attention would probably be paid to the regular statement. If the company does not fare as well as anticipated, remedial steps will be difficult with earnings and surplus apparently still at reasonable levels. If the company has to be reinsured or liquidated, the shock to shareholders and policyholders may be great. I know from experience the reaction of shareholders when a company fails. With adjusted earnings and surplus at inflated levels, the possibility of satisfactory explanations to shareholders is remote.

(Continued on page 7)

Financial Report

(Continued from page 6)

If anyone doubts the dangers of deferring costs in financial statements, let him read the reports on the collapse of Rolls-Royce—one of the most sensational corporate bankruptcies of all time. One report contains the following excerpts:

> "How could a major company like Rolls-Royce allow itself to get into such a position? . . .
>
> "The company's problems can be traced (most) readily back to its system of accounting and its own growth.
>
> "Rolls-Royce suddenly was pinched by rising costs and declining business. To avoid showing what would be the company's first loss (the Chairman) switched accounting methods. Development costs of the new engines such as the Spey were to be deferred and amortized as the engines were delivered and paid for.
>
> "Such accounting is fine if all goes according to plan, but when costs for the latest engine, the RB 211, began escalating the deferred costs became increasingly painful.
>
> "In a somewhat ambiguous note in the 1969 annual report, the directors told shareholders that they believed the RB 211 project would recover its costs. But at the same time they considered it prudent to make a special provision of $49 million against non-recovery of total development costs and added the significant sentence: 'Your directors are conscious that the final outcome of the RB 211 project may significantly affect the financial position of the company.'
>
> "Just how worried or knowledgeable the board was about mounting costs is hard to tell. That year the directors paid a dividend of $9.7 million out of the year's profit of $10.3 million.
>
> "By November (1970) the RB 211's costs were mounting even more rapidly and were put at $324 million, more than twice the level of only five months earlier.
>
> "The financial treadmill already was too much. Late in January (1971) the directors realized their only solution . . . was to ask that a receiver be appointed."

The tragic outcome of adjusting earnings in this case surely provides a classic example of the risks involved. The most striking features were the misleading picture portrayed of the earnings while the company was steadily sinking, and the payment of dividends from those specious earnings.

Many of the advocates of adjusted earnings argue that there is no cause for concern because the regulatory authorities will continue to adhere to their solvency standards and, in any event, adjusted earnings change only the incidence of reported earnings without any change in the company's basic position. The fallacy is that reporting larger earnings on the "adjusted" basis is bound to exert pressure for earlier and larger payout of *cash* in the form of dividends to shareholders and policyholders, higher salaries and commissions, and to spawn a more liberal view about expense control and the future.

The calculation of natural reserves each year, in addition to the present enormous volume of calculations for regular annual statement and tax purposes, would by itself involve very considerable expense. If the use of adjusted earnings should lead to earlier and larger dividends to shareholders, it would probably not be long before regulatory authorities would impose new restrictions on the payment of such dividends.

I should like to say a few words on a problem I regard as more fundamental than dressing up earnings: it involves the apparent sanctity of "generally accepted accounting principles."

Perhaps the most important problem facing life insurance companies today is the steady increase in expenses and the consequent pressure on earnings. This squeeze has been masked in large measure up to date by increased investment earnings. Interest rates may level out or decline, but there is little prospect that expenses will do likewise. It looks as though inflation in some degree will be with us for a long time, and I think both management and accountants should be taking this prospect into consideration.

Are "generally accepted accounting principles" being adapted to inflationary trends, or are they firmly tied to historic accounting (as, for example, to "natural reserves" in the present instance)?

It is my impression that for some years now business men have had reservations about the degree of realism of financial reports of many kinds — not merely those of life insurance companies —and the reliability of these reports as a guide to business decisions. A recent policy statement of the Financial Executives Institute emphasized that the Institute was concerned "with the apparent inability of the existing process to cope with the growing credibility gap involving both public confidence and judicial acceptance of generally accepted accounting principles." Among other things, these reservations stem from the consequences of changing money values in periods of inflation. I often wonder to what extent accountants have considered the validity of their long-standing conventions in the light of the changing value of the dollar.

A study published in *Fortune* last year showed that U.S. corporate profits since 1945, adjusted for the effects of inflation on depreciation and inventories, have been overstated by $130 billion. It is more than a coincidence that the net amount of new corporate debt placed between 1964 and 1969 totalled $63 billion,, a sum approximately equal to the extra amount of corporation taxes on these illusory profits paid in dutiful compliance with "generally accepted accounting principles."

A British critic writing in the *Financial Times* about this same phenomenon in England, following publication of the Tucker Report some years ago, commented:

> "True profits my foot. The life blood of British industry can be drained away so long as the conventions of The Institute of Chartered Accountants remain inviolate. You start off trading with a dozen coconuts and you finish with twelve peanuts, but you will get your Auditor's certificate all right!"

The accountant's concept of income has always varied from that of the economist. When referring to costs, the economist normally means current costs and he considers historical costs irrelevant. Profit, to him, is that part of income which may be spent without depleting the real capital of the business. One would have to ask some searching questions to reconcile the historical accounting view of income with the economic view.

As early as 1951, the American Accounting Association made a ruling which seemed both cautious and prudent. While

(Continued on page 8)

Financial Report

(Continued from page 7)

The ruling noted that the "primary financial statements should continue to reflect historical costs," it recommended that constant dollar statements be given a thorough test. The bulletin said that such statements should be supplementary to the financial reports based on historical cost, and that the two types should be fully reconciled in published accounts. What became of this recommendation, I do not know. Notwithstanding continuing inflation the old "generally accepted accounting principles," based on historical data, seem to be firmly entrenched.

The present prestige of the accounting profession has arisen from a high level of ethical practice. Accountants' opinions carry considerable weight in business and governmental circles. But for 25 years or more they do not seem to have been able to cope with the most important accounting problem of our generation—that of the instability of the monetary unit—and the shibboleth of "generally accepted accounting principles" appears to have been the main obstacle to progress. While the debate within this profession has continued, the real financial resources of many industries have apparently deteriorated. Yet we are now being told that the life insurance industry must get in step with other industries in the use of "generally accepted accounting principles."

Are "adjusted earnings" desirable? From the point of view of management, this information could be useful, but too much reliance on it could be very dangerous. From the point of view of shareholders, policyholders and the public, my conclusion must be in the negative, mainly because of misunderstanding and additional costs. Even where holding companies are involved, the value of the procedure appears doubtful as a means of facilitating consolidation. The Canadian Institute of Chartered Accountants is currently examining proposals for the reporting of investment holdings by conglomerates and other corporate groupings. The Institute's research committee cites as an example of circumstances where consolidation may not be useful a subsidiary in a regulated industry where there is little or no interchangeability of assets, or where accounting practices of the parent and subsidiary are incompatible.

"Adjusted earnings" are a cosmetic treatment. Whether this is desirable depends, I suppose, on whom one wishes to ensnare. The possible advantages of such a treatment were brought home to me recently when I read a stockbroker's tipsheet about a hot investment. No, it was not a uranium mine— it was a small life holding company. By the time the analyst had finished his adjustments and puffed up the corporate figure, it was difficult to tell what the real company was like. But the image displayed was pretty hot stuff! This sort of manipulation may be fine for quick action, but it is quite inappropriate for a lifetime relationship.

I have serious doubts that "generally accepted accounting principles" are adequate to face the challenge of the situation which exists for business as a whole; and I think that the current movement to adjust the earnings of life insurance companies in accordance with such principles is inappropriate and undesirable. As I see it, the conclusion is inescapable that such a course would have a serious adverse impact on our industry in the years ahead. □

Deaths

Edward M. Neumann
Robert N. Stabler

Memo to Actuarial Clubs

Several Clubs have sent announcements about their newly elected officers, sometimes with the request that *The Actuary* publish this information. For reasons of space, as well as the fact that the Clubs are listed in the Year Book, we are unable to comply.

Notices of Club Meetings will be published, but the dates of such meetings should be in the Editor's hands at least *two months* before the meeting.

The Actuary is anxious to receive copies of any papers submitted at Club meetings as well as a report of any discussions which would be of general interest.

Actuarial Meetings

Dec. 2, Nebraska Actuaries Club, Lincoln
Dec. 3, Atlanta Actuarial Club
Dec. 9, Actuaries Club of Hartford
Dec. 15, Seattle Actuarial Club

PLEASE NOTE — Secretaries are reminded that notices of actuarial meetings should be in the hands of the editor at least two months prior to the date of the meeting.

American Academy of Actuaries

At the annual meeting in October in New Orleans the following were elected to the Board of Directors for a three-year term: Edwin F. Boynton, M. Stanley Hughey, Kenneth H. Ross, Henry F. Scheig, Charles L. Trowbridge, Robert C. Winters.

The Board consists of 18 elected members, one third of whom retire each year, plus the officers and two past presidents.

Robert J. Myers took office as *President* at the close of the meeting succeeding H. Raymond Strong. The Board elected the following officers: *President-Elect,* Morton D. Miller; *Vice-Presidents* two-year term, Robert E. Bruce, Julius Vogel; one-year term, Ernest J. Moorhead; *Secretary,* William A. Halvorson; *Treasurer* Dale Gustafson. □

Medical Matters

In the September 1971 issue Dr. Larson reviewed the *Proceedings of the 10th International Conference of Life Assurance Medicine.* Copies of the volume can be obtained from Dr. H. B. Calwell, Honorary Treasurer, Assurance Medical Society, 3 Lombard Street, London EC3. The cost is £1.15 per volume.

Saturday's Children

(Continued from page 1)

grams for the dependent aged." It should be said, however, that the table has considerable merit as an interesting piece of research. It may also prove useful to convince a jury that the proper basis for estimating lost earnings is working life expectancy, not ordinary life expectancy. Having accomplished this, the actuary involved in the case will have an easier time to get across his ideas as to how working life expectancy should be arrived at under the given circumstances.

Copies of this table can be obtained from Division of Labor Force Studies, Bureau of Labor Statistics, Department of Labor, Washington, D. C. 20212. □