



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 $3\frac{1}{2}\%$ to 6% single premium individual and for group annuities, and to $4\frac{1}{4}\%$ 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)

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 groups. The Institute's research committee cites as an example of circumstances where consolidation may not be useful a subsidiary in a regulated industry

Deaths

Edward M. Neumann
Robert N. Stabler

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. □

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.* □