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# The Actuary

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## COMPARISON SHOPPING

Joseph M. Belth, *Life Insurance: A Consumer's Handbook*, Indiana University Press, Bloomington, Indiana, 1973, pp. 248, $6.95.

*by Gordon H. Leavitt*

Professor Belth has written a penetrating and well-balanced manual for the intelligent layman. Similar in scope to the Consumers' Union "Report on Life Insurance," this book is more positive on the virtues of permanent insurance, and describes the agent's point of view of some of the problems. Since Belth spent five years as an agent himself the point of view is unique: a leading consumerist advocate who understands from the inside the industry's position.

For example, instead of assuming that buying term insurance is the only way the average person can afford all the life insurance he should have, Belth gives a fairly thorough description of the differences between Straight Life and Five Year Term, and suggests that his reader estimate how much he wants to save in his policy cash values, as a way of determining how much permanent insurance he should buy. The "forced saving" argument, generally given short shrift by consumer advocates, is realistically developed. One advantage of permanent insurance is not mentioned, however: the low guaranteed interest rate on policy loans.

Policy costs of major companies are compared using Belth's rather sophisticated method of separating the present value (using mortality, lapse rates and interest) of the premiums into the cost of the death benefit, the surrender value, the dividends, and as a balancing item, the company retention. The author is adroit in hiding the technical difficulties in the appendices and only presenting the end results of his computer runs to his readers. Rankings of the companies on this method are about the same as on the interest-adjusted method.

A philosophical objection can be raised to the use of any lapse rates in projecting costs, however. Since keeping the policy in force is something that the policyholder has under his control, why should probabilities be used to complicate the picture, especially since the purpose is to make the cost understandable to the layman? Belth is on strong mathematical grounds, though, since his method does have the advantage of isolating the mortality and surrender costs and treating them consistently.

Mathematically, this method implies that the dividend is an element built into the premium. Taxwise, we all know that the concept of the dividend as a mere return of premiums is so advantageous that it cannot be taken lightly, but, in a larger sense, the intelligent layman should appreciate that once his policy has been in force a few years, adjustments to his policy dividends will depend on company earnings (and to that extent the word "dividend" is not a misnomer). Belth recommends buying from a participating company if one expects interest rates to continue high or improve, and buying from a non-participating company if one expects interest rates to go down. This is quite sound advice, but an even more explicit discussion of how and why dividend scales are adjusted after issue would have been in order. Presumably the author was put off by the difficulty of making any general statements helpful to the buyer.

Actuaries are briefly taken to task for not doing a better job of educating the public in the complexities of life insurance. Rather than referring to the actuaries' legendary inscrutability, the author somewhat weakly falls back on the fact that many actuaries "are not in a position to affect company policy." Evidently the professor is looking to the profession to pick up the gauntlet . . . Realistically though, much more emphasis is given to the apathy of the public in not wanting to know about life insurance.

In summary, this can be a valuable guide to the insurance buyer who wants to make his own decisions and has a little basic understanding of the economic facts of life. Actuaries who fall heir to the difficult job of "educating the public" can profit from Professor Belth's consumer-oriented but nicely measured approach. □

## NEW ORLEANS WORKSHOP TRANSCRIPTS

The sizable job of interpreting and editing the transcripts of various workshops conducted during last year's New Orleans Symposium on Retirement Plans has now been completed and copies may be obtained in Chicago from the Society's office.

The price per transcript is $1.50. and they are available for the following workshops:

| *TOPIC* | *Work-Shop Number* | *DISCUSSION LEADERS* Chairman | Co-Chairman |
|---|---|---|---|
| Measuring and Comparing Investment Performance | 1A | Ronald P. Giesinger | Philip J. Feuer |
| | 1B | Douglas C. Borton | Leonard Mactas |
| Setting Investment Policy, Selecting Investment Managers, and Setting Investment Performance Goals | 2A | Allan B. Roby, Jr. | Leroy B. Parks, Jr. |
| | 2B | Harvey M. Leister, Jr. | Kenneth K. Keene |
| Compulsory Vesting, Portability, Funding and Reinsurance | 6A | David A. Daniels | Daniel F. McGinn |
| | 6B | Thomas H. Jolls, Jr. | James A. Curtis |
| Communication of Benefits | 12A | Jerry L. Brockett | Neil R. Cronquist |

When placing your order, please be sure to identify by number and letter (e.g., 6B) the particular workshop for which you wish to receive a transcript.

### ERRATA

(February Issue)

Mr. Myers' address is
*Silver Spring* not *Silver Springs*
and Mr. Shur's Committee is to *Co-operate* not *Corporate* with Governmental Demographic and Statistical Agencies.