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REALIZED CAPITAL GAINS OF NON-QUALIFIED SEPARATE ACCOUNTS

by John C. Fraser

Realized capital gains of separate accounts funding variable annuities that are not tax qualified are subject to the 30% corporate capital gains tax if such gains are taxed as "long term" realized gains and are subject to substantially no tax if they are taxed as "short term" realized gains of the separate account, that is, if they are taxed on the same virtually tax free basis as the separate account's investment income. This peculiarity of the tax law has led some companies to consider "churning" their separate account portfolio every six months in order to generate short term rather than long term realized capital gains.

Before proceeding with such an investment policy, a company is advised to take a closer look at the situation; the mere "churning" of a separate account portfolio is not sufficient to achieve the desired tax free result. The capital gains tax is applied to the company as a whole, not to the separate account alone, and under current investment conditions where most companies have general account capital loss carryforwards and/or carrybacks to be used, this "churning" of the separate account will have no current tax effect, may very well have no future tax effect, may lead to bad investment timing because of forced selling and certainly to higher brokerage costs.

There are six capital gains tax situations that a company can be in (if we ignore the possibility of operations loss carryforwards and carrybacks, which would further complicate the problem).

1. If, in the current taxable year, there are both net short term gains and net long term gains, the former are taxed as investment income and the latter at 30%.

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WORK AND THE QUALITY OF LIFE

Work in America: Report of a Special Task Force to the Secretary of Health, Education, and Welfare. Foreword by Elliot L. Richardson, The MIT Press, Cambridge, Mass. 02142, pp. 252, \$2.95 (paper).

by Arthur Pedoe

An alternative title could be "Work, Health and Longevity" for life without health is a tragedy and longevity without health a disaster. President Nixon in his 1971 Labor Day address said: "The most important part of the quality of life is the quality of work and the new need for job satisfaction is the key to the quality of work."

In the article in *The Actuary*, April 1972 the writer referred to the 15-year study of aging by Professor Edman Palmore of the Center for the Study of Aging and Human Development of Duke University. His researches indicated that *work satisfaction* was the best overall predictor of longevity and the second was *overall happiness*, reflecting a person's general satisfaction with his or her situation.

This interest in the quality of working life led the Hon. Elliot L. Richardson, then Secretary of Health, Education and Welfare, in December 1971 to appoint a special task force whose report, "Work in America," was recently published. Seven of the ten members of the task force held doctorates and were assisted by a team of seven research associates. Fifty special papers were commissioned and the bibliography indicates the literature reviewed by the task force covers over 600 items.

One's prejudices may be aroused by these sociological studies which often merely confirm, after infinite labor, conclusions which could be arrived at by common sense. However, "Work in America" is an exception; the report

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SURVIVOR BENEFITS FOR THE UNIFORMED SERVICES

by Kriss Cloniger III

On Sept. 21, 1972, President Nixon signed Public Law 92-425 establishing a Survivor Benefit Plan (SBP) for the Uniformed Services. The SBP provides for survivor income of up to 55% of retired pay to the widows, widowers, and/or dependent children of retirees.

The most interesting features of this plan from an actuarial point of view are the premium formulas, the adjustment of premiums and benefits based on changes in the Consumer Price Index, the unique Social Security integration provisions, and a guaranteed annual income of \$2,100 for certain military widows.

Members of the Uniformed Services who retire on or after the date of signing will automatically be enrolled in the plan with maximum coverage if they have a spouse or dependent child on the date of retirement, unless they elect a lesser coverage or decline participation. Uniformed Service members already retired before the SBP's effective date are eligible to join the Plan voluntarily.

Premiums and Benefits

A premium which will cover a portion of the cost of the Plan is withheld from retired pay. The applicable premium depends on the beneficiary class, of which there are four: (1) spouse only, (2) spouse and dependent child or children, (3) dependent child or children only, and (4) other person with an insurable interest in the retiree.

The premium formula for Class 1, spouse only, is 2½% of the first \$300 of monthly retired pay plus 10% of the remainder of that pay. This premium is payable during the retiree's lifetime.

For Class 2, the premium equals the Class 1 premium plus an additional

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The Quality of Life

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contains just 187 pages and is exceptionally well written and very quotable. The 50 commissioned papers will be published later. It should be read by actuaries, because it deals with many matters which should concern them in their work.

A statement by the task force is: "Significant numbers of American workers are dissatisfied with the quality of their working lives. Dull, repetitive, seemingly meaningless tasks, offering little challenge or autonomy are causing discontent among workers at all occupational levels . . . having an interesting job is now as important as having a job that pays well . . . productivity of the worker is low." These discontents are stated to be related to the "decline in physical and mental health . . . while there is an increase in drug and alcohol addiction, aggression, and delinquency."

One criticism of the report could be that the dissatisfied worker receives too much sympathy, while the worker who does the job expected of him receives very faint praise. Not sufficient credit is given to the tremendous improvement in many times, although the report does state: "In comparison with the dreary lot of most workers during the industrial revolution and, indeed, until quite recently, the workplace today is an Elysian field."

Commiseration is not reserved for the assembly-line worker in an automobile plant. The report refers to the "blue-collar blues" of the industrial worker, the "white-collar woes" of the office worker today, and even the "managerial discontent" of the middle managers in American industrial and commercial life. A new word (to the writer) is applied to the work-dedicated middle manager; it is "workaholism."

The report accepts a statement that there is a marked increase in the death rate between the ages of 35 and 40 for employed men "apparently as a result of this so-called mid-life crisis." In modern times, the rate of mortality has flattened out under age 30 and this seems general in all western countries. I have noted references elsewhere to the "male menopause" but it has been applied to executives over age 50. The point made in the report of a "second career" is important. Due to longer life, a 40-year working life is a great amount of time to devote to one career.

The task force does not consider that early retirement is a panacea for all social problems, as many do. In fact it is definitely against it. The report refers to the large increases in social security and medicare benefits and favorable tax breaks for the retired and states: "But none substitutes for the basic nutrient of work."

The American dream of being one's own boss is rapidly becoming a myth. It is pointed out that with the trend towards ever larger corporations and bureaucracies, the proportion of workers in the lower ranks increases; out of 3,534,000 industrial units in the U.S. employing 70% of the civilian labor force, 2% of the units accounted for 50.6% of the employees.

The report suggests that all workers should be given the opportunity for a 6-month sabbatical every seven years or a one year sabbatical every 14 years. Students would then be inclined to start work at a younger age, using the sabbatical for further education or a change of career. This is called a worker self-renewal program.

Among the many aspects of work discussed, the report deals with the relationship between inflation and unemployment. It states that several of the policies suggested for improving job satisfaction would also have a major impact on the problem of inflation. It recommends profit-sharing schemes to increase productivity and fuller portability and vesting of pensions would permit greater worker mobility.

The task force is confident that much of the capital needed to redesign jobs, increase worker mobility and create new jobs could be obtained as a trade-off with existing expenditures due to a lower rate of unemployment and increased productivity.

The statement is made in the report that the lower down the scale of employability one descends, the greater the necessity to provide something akin to a "sheltered workshop." Some workers are incapable or too accustomed to failure to learn a new skill. This class should be removed from the unemployed. Another class which makes unemployment statistics confusing is fatherless families with dependent children.

The report begins and ends with a quotation from Albert Camus: "Without work all life goes rotten. But when work is soulless, life stifles and dies." As life and health are most desirable to the hu-

man race and work satisfaction is the best predictor of longevity and health, business, labor, and government should get together to improve the quality of working life.

Can we learn anything from countries where longevity is unusually high? The report refers to an article by the anthropologist Sula Benet (*N. Y. Times Magazine*, December 1972) who spent some months with the Abkhasian people in the Caucasus in the Soviet Union. According to Benet the percentage of population 90 years and over is much higher (25 times) in Abkhasia than in the Soviet Union as a whole. Benet states that life-long work is the distinguishing characteristic of these people and that one cannot judge the ages of the older people; those aged 70 and 107 look the same.

Another report, "Search for the Oldest People," is given in the *National Geographic Magazine* of January 1973 by Dr. Alexander Leaf, Chief of Medical Services at Harvard Medical School, a scientist with a life-long interest in gerontology. During the past two years he travelled to three areas of the world where people are known to live to extreme old ages: Abkhasia as mentioned, Vilcabamba in Ecuador and Hanza in Kashmir. Dr. Leaf has no answer to the query why people in these areas live so long. All three areas are relatively remote and mountainous and, superimposed on the usual labor involved in farming, traversing the hills in course of work sustains a high degree of cardiovascular fitness. In Hanza no slope appeared less than 30°. Dr. Leaf comments that wherever he went the physical activity among people age 100 and over was high.

These articles by Sula Benet and Dr. Leaf make no reference to children, their birth and infancy. The child is father of the man and that is surely an area worth studying. □

Actuarial Meetings

- May 10, Baltimore Actuaries Club
- May 16, Seattle Actuarial Club
- May 16, St. Louis Actuaries Club
- May 21, Chicago Actuarial Club
- May 30, Nebraska Actuaries Club
- June 4-5, Middle Atlantic Actuarial Club (Spring Meeting)
- June 14, Baltimore Actuaries Club
- June 21-22, Actuaries Club of Southwest (Spring Meeting)
- July 12, Baltimore Actuaries Club