

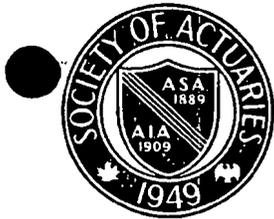


SOCIETY OF ACTUARIES

Article from:

The Actuary

February 1975 – Volume 9, No. 2



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 9, No. 2

FEBRUARY, 1975

BOOK REVIEW

Charles A. Will, *Life Company Underwriting*, pp. 271, Life Office Management Association, New York, 1974.

by Alton P. Morton

The title, *Life Company Underwriting*, does not adequately suggest the contents of this book, which is not limited to life underwriting theory and practice. It also covers office routines, including sometimes minute details of clerical steps more or less related to the underwriting process, gives job descriptions, and presents information about life reinsurance in great depth. A good service and clerical organization is an essential complement to a good underwriting department but a good organization by itself cannot atone for deficiencies in basic underwriting. The organization is the practical side of underwriting; the theoretical side is just as important and has not received the same extensive treatment in the book.

Part I is titled "Underwriting" and consists of eleven chapters. "Selecting the Risk" is a general discussion of the factors requiring evaluation. In the first chapter, Mr. Will is highly critical of the numerical rating system and points out its limitations and shortcomings. Then subsequently, somewhat inconsistently, he proceeds throughout the rest of the book to demonstrate that the system is the best, most concise and most accurate way of explaining most underwriting concepts, including the preparation of Medical Underwriting Manuals or other such guides. Most underwriters feel that it provides a steadying influence in the step-by-step systematic appraisal of the many factors involved in the evaluation of each risk the underwriter considers. As the author says, it can be misapplied or mis-used and it is not a substitute for judgment.

The author's explanation is somewhat inadequate to convey to the average reader some understanding of the relationships between underwriting ratings

(Continued on page 5)

ADVISORY COUNCIL

We are pleased to report that Preston C. Bassett has been appointed a member of the new Advisory Council on Employee Welfare and Pension Benefit Plans.

This Council is established by the new pension reform law — ERISA.

Mr. Bassett represents the actuarial counseling field and will serve for a period of two years.

Open Letter to All Members

What Do You Want to Talk About?

Have you often gone away from an actuarial meeting and said to yourself, "Why don't they talk about ————?"

Here's your opportunity to provide information to the Program Committee. They are looking for topics to be discussed at the Annual Meeting in Bal Harbour.

Please address your suggestions to:

Larry Robinson, FSA,
Vice President and Actuary,
State Life Insurance Company,
141 E. Washington Street,
Indianapolis, Indiana 46204

Robert E. Hunstad
Chairman, Program Committee

Academy's New Number

As of April 1, the American Academy of Actuaries in Chicago will have its own telephone number: 312-782-4204.

The Society of Actuaries number is unchanged: 312-236-3833.

TO BE CONTINUED

Editor's Note: Mr. Campbell, a Fellow of the Conference of Actuaries in Public Practice is a liaison member of the Committee on Retirement Plans and prepared the following review at the invitation of the Committee. Comments will be welcomed by the Committee and by the Editor.

Setting National Priorities The 1975 Budget

Barry M. Blechman, Edward M. Gramlich and Robert W. Hartman, *The Brookings Institution*, Washington, D. C., 1974, pp. 269; paper, \$2.95; cloth \$7.95.

by Donald F. Campbell, F.C.A.

Federal spending now accounts for at least one-fifth of the entire U.S. economy. It is the single most important expression of America's priorities.

Because of the magnitude of the Federal government operations, the rate and manner in which it spends money and raises taxes have a profound effect on the level and kinds of jobs, production and prices in our national life.

The importance of the 1975 proposed federal budget of 305 billion dollars for the period July 1974 to July 1975 is indicated by the top priority it is given in daily discussions, in all communication media, on its effect on the problem of inflation and recession.

The Brookings Institution in its book catalog states the purpose of 1975 Budget book, the fifth in a series, as follows:

"It describes the major decisions reflected in the proposed 1975 budget and projects their consequences for federal programs and for the size and composition of future budgets. It discusses some of the most important issues now confronting the nation: fiscal policy, unemployment, the government's role in ensuring adequate energy supplies, reform of the income maintenance system,

(Continued on page 3)

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the readiness of the nation's armed forces, nuclear strategy and force levels, and health insurance."

The book's table of contents gives an indication of the scope of the subject matter. The Chapter Headings are: Introducing The Budget; The 1975 Federal Budget; The Budget And The Economy; A New Look In Defense; Assessing U.S. Military Requirements; Federal Energy Policies; Federal Responsibilities For Income Support; National Health Insurance; Planning Future Federal Budgets.

Also included are: Appendices A. . A Note On Impoundment; B. Congressional Budget Reform and C. Should The Federal Government Be Saving More?

The chapter on National Health Insurance was written by Karen Davis. She urgently suggests needed public debate as the best means for arriving at sound solutions.

The author introduces the chapter as follows:

"In this chapter, we review the need for national health insurance and examine the basic issues yet to be resolved. Four major national health insurance bills are analyzed: (1) the new administration bill, which builds on the current mix of private and public programs; (2) the Long-Ribicoff bill, which would replace Medicaid with a uniform federal program for the poor as well as provide catastrophic expense protection for all persons; (3) the Kennedy-Griffiths bill, which would finance all medical care through a single federal system; and (4) the compromise Kennedy-Mills bill, introduced in April 1974, which would provide a benefit package similar to that of the administration, but with financing and administration by the federal government. We conclude with an examination of the budgetary implications of the administration and Kennedy-Mills plans."

Ms. Davis' concluding statement reads as follows:

"In view of the substantial need for major changes in the way medical care

COMPETITORS TO NOTE

Because of mailing delays, the deadline for Competition No. 2 is extended to March 31.

is financed, the administration and the Kennedy-Mills proposals come at a welcome time. Even if neither approach is approved in its entirety, both will stimulate needed debate — the outcome of which may satisfy various objectives even better. The one disconcerting feature is that budget implications are covered up. Excluding large expenditures for health care from the budget will not encourage careful choices between alternative uses of budgetary resources; the true cost and budgetary implications of the proposals should be faced and openly discussed and justified."

The material in this chapter is a fertile source for material for the needed debate.

For example, the summary of costs and sources of financing for the administration plan and the Kennedy-Mills' plan for 1975 are given in Table A (page 4).

In her discussion of costs the author expresses the opinion that "our limited knowledge and forecasting ability can impede informed debate on alternative national health insurance proposals."

Such an opinion indicates an imperative need for a greater public understanding of the accumulated knowledge gained over the years by the cooperative endeavors of the actuarial profession and the medical profession to understand from the known factual experience the nature of the factors that determine effective health care programs.

Such knowledge can contribute to a greater public understanding of such factors as (1) the future cost impact on health care of the increasing proportion of persons over age 65 to the total U.S. population; (2) the cost effects of new complex and costly medical services and techniques; (3) the cost effects on health of the changing environments (both natural and social) in which we live; and (4) the savings that result from the prevention of disease by both governmental control of the environment and by the individual's personal responsibility for his own healthful life style.

The record of established insurance institutions for the delivery of health care coverage indicates that a national health system can benefit greatly by maximizing the services of such insurance institutions.

The history of the Federal Budget over the recent past indicates how national priorities have changed over the years and the resulting federal government's impact on redistributing incomes.

The authors have prepared tables shown in Chapters one and seven which illustrate the history of key budget items.

Table 1-1 (page 4) shows Federal Budget outlays for three items which total for 1975 about 74.7% of the total budget.

Table 7-2 (page 4) shows the breakdown of items 2 and 3 in Table 1-1. The total for 1975 (estimated before the current recession) is \$131.4 billion, 43.1% of the budget.

The authors conclude the study of the trend in federal outlays and receipts with the comment that "the growing regressivity of the federal tax system may be offsetting the growing expenditures for these programs that benefit low income people."

The problem facing the security institutions which the actuary serves is how to adapt to these changing governmental priorities indicated by the history of past governmental budgets, built-in increasing future budgets and possible future programs. What should be the proper roles for these institutions in their services to the public?

The information given in the Life Insurance Fact Book for 1974 and preceding publications together with the information given in the Brookings Institution 1975 Budget study and prior budget studies can help us to understand the most beneficial roles within our national economic life that governmental programs in cooperation with private programs may play in helping to attain goals desired by society.

What is the proper proportioning or harmonious relationship among the many components of the composition of the total security picture?

Mathematics can help to elucidate these relationships.

For example: The figures in Table 1-1 (page 4) hereinbefore set forth, indicate

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for the year 1970 a budget of 196.6 billion dollars, which is 20.6% of the gross national product, and for the year a proposed budget of 304.4 billion, which is 20.9% of the gross national product. Which relationship should be given the greater weight in future planning? The 1970 to 1975 dollar increase in budget of 107.8 billion dollars or the .3% increase in gross national product?

The answer given these questions can determine the future direction for our national life.

Appendix B in this 1975 Budget book discusses briefly the Congressional Budgetary Reform Bill which was enacted into law in the latter part of June, 1974, which Bill at the time the 1975 Budget book was published in May of 1974 was in Conference Committee having passed both houses.

Newspaper accounts state that the Reform Bill will require Congress to adopt its own budget each year with subsequent procedures designed to see that Congress lives within the limits of its budget.

This reform legislation would provide the Senators and Representatives much more information on spending programs and revenue sources through creation of new budget committees in each branch and a professionally staffed Congressional Office of the Budget that would serve both branches.

There would be a detailed timetable for action on all spending matters with mandated final passage Oct. 1, which would be a new date for the start of the fiscal year.

The new system would take effect for the fiscal year 1977 beginning Oct. 1, 1976.

Deaths

Stanley W. Dale
Thomas B. Fleming
Jacob Landis
Adolph A. Rydgren

Cost item	Administration plan		Kennedy-Mills plan
	Premiums paid to insurance companies	\$31.8	—
Premiums paid to government	6.3		\$1.7
Additional payroll tax and tax on unearned income	—		31.5
Public expenditures under current programs			
Federal	20.5		
State	7.3	27.8	27.8
Incremental costs from general revenues	4.9		8.5
*Total Cost	\$70.8		\$69.5

**Excludes out-of-pocket payments by patients and supplementary medical insurance (about \$13.3 billion and \$4.3 billion, respectively, in the administration plan.)*

	1960		1970		1975	
	Percent		Percent		Percent	
1. Defense, Space Foreign Affairs	\$49.5	53.7	\$87.7	44.6	\$96.1	31.6
2. Cash Income Maintenance	20.6	22.3	46.6	23.7	98.2	32.2
3. Helping People Buy Essentials	1.1	1.2	14.2	7.2	33.2	10.9
4. Other Items	21.0	22.8	48.1	24.5	76.9	25.3
Total Outlays	\$92.2	100.	\$196.6	100.	\$304.4	100.
Total as a percent of gross national product...	18.6		20.6		20.9	

	1960	1970	1975
	Cash Income Maintenance:		
Social Security	\$11,018	\$29,685	\$64,351
Federal Civilian Retirement	1,821	4,192	10,229
Unemployment Compensation	2,375	3,369	7,065
Other	5,373	9,681	16,544
Total	\$20,587	\$46,927	\$98,189
Helping People Buy Essentials:			
Medicare	\$	\$ 7,149	\$14,191
Medicaid		2,727	6,508
Food Stamps		577	3,926
Higher Education			
Student Aid	498	1,625	4,536
Other	603	2,112	4,056
Total	\$ 1,101	\$14,190	\$33,217