SOCIETY OF ACTUARIES

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Where Have All the Earnings Gone?

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EXAMPLE
Earnings of Current Issue Block

Policy Year	*Statutory*	*GAAP*	*Excess of Statutory Over GAAP*	*Remaining Excess*
1	—43	11	—54	17
2	17	9	8	71
3	16	8	8	63
4	15	7	8	55
5	14	6	8	47
6	13	5	8	39
7	12	4	8	31
8	11	3	8	23
9	10	2	8	15
10	9	2	7	7
	—	—	—	—
Total	74	57	17	
P. V. at Issue	46	46	0	

Next, it is assumed that business issued in prior years has been following the same earnings pattern except that each year's volume has been showing a compound growth rate of 8%. The reported earnings for the current year will then be:

Statutory Earnings 43
GAAP Earnings 46

However, in changing over to GAAP, all in-force blocks are changed over and, therefore, the amounts in the column "Remaining Excess" will not be reported as earned in future years. The stockholder who might have wanted to sell in prior years did not have these transferred earnings to make his stock more valuable, and the stockholder who may want to sell in the years ahead will not have them to rely on either. The amount of these never-to-be reported earnings in this particular hypothetical example is 271, which is six times a single year's earnings.

A different technique of handling the transition would have avoided this substantial under-reporting of long-term earning power. The different technique would have, at the point of transition, left old issues to run off on the statutory basis and applied GAAP accounting only to new issues.

Should a mutual company adopt GAAP accounting, it would under the AICPA method of handling the transition find itself paying dividends out of surplus, rather than out of earnings, for many years after the transition. ☐

SETTING GROWTH LIMIT

The Midwest Population Center in Chicago reports that more insurance programs are paying for vasectomies, with the amount ranging from $40 to $140. The clinic charge is on a sliding scale, based on income and the number of children already in the patient's family, with a top charge of $150.

—*Employee Benefit Plan Review*

A brazen example of the Law of Supply and Demand. The clinic charge is on a sliding scale, based on income and the number of children already in the patient's family. Obviously, the charge varies directly with the number of children in the absence of Universal National Health Insurance, but inversely under a Universal NHI plan.

(Courtesy of Ack-Ack)

Actuarial Meetings

Mar. 18, Chicago Actuarial Club

Mar. 20, Actuaries' Club of Des Moines

Mar. 20, Seattle Actuarial Club

April 11, Baltimore Actuaries Club

April 15, Chicago Actuarial Club

April 17, Seattle Actuarial Club

COST COMPARISON IN MARYLAND

by Ralph E. Edwards

A Bll recently introduced into the Maryland Legislature was sponsored, supposedly, by a sales representative of a certain life insurance company noted for its high average size policy and quite competitive products. The Bill would require the Insurance Comissioner to publish a price comparison for all life companies licensed in Maryland. The financing of the entire project was to be divided among the companies in proportion to premium income. It clearly seemed to be a move for the local agent to get rather valuable free advertising for himself and a few other companies. This was the topic discussed at the January meeting of the Baltimore Actuaries Club.

From a different source the proposal might seem consumer oriented. For all we know, other legislators sell insurance and the proposer never expected the Bill to get anywhere. If so, it is a poor joke at the taxpayer's expense.

In deciding what was involved in intercompany comparisons several notes were made. (1) It may or may not be fair to use the same method for par and nonpar companies. (2) the usual cost method fails to point out that non-participating insurance is almost invariably cheaper if you die soon and more expensive if your death is long deferred. In fact, these two aspects are necessarily interrelated if all other things are equal. (3) Keeping comparisons up-to-date is vital if each company is to be treated fairly. (4) More than one type of cost comparison seems desirable since not all policyholders surrender after 20 years. (5) The company (and not necessarily the actuary) determines the dividend scale. (6) Comparisons should be based on the company's current dividend scale and projected dividends should not be permitted. (7) Companies operate in varying markets. In some the persistency is high and mortality is low. In others the reverse is true. Most companies operate at least slightly in both markets. (8) These considerations are ignored by the consumerists. (9) Whether it is proper for a company to sell the same product in both high cost and low cost markets. (10) Whether demagoguery in this area is more evil than any result it professes to correct. ☐