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WHERE HAVE ALL THE EARNINGS GONE?

by George L. Hogeman

The effect of changing from statutory to GAAP accounting is to reallocate from one year to another the earnings which a particular block of business generates. A change in accounting cannot affect the inherent earning power of such a block, other than to the extent that a portion of the earnings is consumed by the accounting process itself. An objective of a good accounting system is to report earnings correctly in total and to allocate them correctly among the years.

The AICPA guide for stock life insurance companies specifies that a company changing from statutory to GAAP accounting must restate its earnings of many prior years. This results in the reallocation to prior years of what would have been earnings in future years. These transferred earnings were not in fact reported to stockholders in these prior years, since the insurer was then using statutory accounting; neither will they be reported in future years, since all blocks have been changed over to the GAAP basis. Thus, the stockholders and the investing public have not had and will not have these transferred earnings reported to them. Therefore, the long-term earning power of the insurer is substantially under-reported.

A hypothetical example will illustrate the principle. A block of current issues is assumed to generate earnings over ten years. The value at issue of the earnings of this current block is 46, whether the accounting method be statutory or GAAP. The table shows each set of earnings year by year, the excess of statutory over GAAP year by year, and the remaining excess at the start of each policy year.

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FAT CATS MEOW!

A survey of 15,000 executives showed that fat executives received less pay . . . and are less likely to advance as quickly as lean persons.
New York Times

by Milton J. Goldberg

At the invitation of the Editor of *The Actuary*, I welcome the opportunity to discuss this New York Times report. The Editor evidently envisions this response as a natural sequel to my 1940 Discussion of the Paper, "Relations Between the Average Amount of Insurance per Policy and the Height and the Weight of the Insured" (RAIA XXIX).

At the very outset, one must challenge the premise itself, because: (1) the fat executive statistics are round figures, and (2) the fat executive obviously carries more weight than the lean executive and, therefore, is entitled to the greater pay because of the added dimension he gives to his work.

It is conceivable, of course, that in the case of the fat executive—as compared with the lean executive—the fat head allows relatively little room for the brain, causing him to be narrow-minded. On the other hand, there can be little doubt that the fat executive operates on a broader base, whereas the thin executive — being more incisive — immediately comes to the point. A fat judge, for example, by sitting too long on a particular case, is well-equipped to suppress the evidence contained in the big briefs enveloping him. Irrespective of the specific case involved, the end is always in sight.

It may be that the fat executive—not unlike Uncle Sam in this respect—is in poor fiscal shape due to lack of sufficient excise.

As a result of Women's Lib, more and more females are applying for executive

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MEDICARE COST ESTIMATES AND EXPERIENCE

by Robert J. Myers

Note: Mr. Myers recently appeared before a Congressional Committee Panel on Medical Care Costs and the Impact of Health Insurance thereon and discussed the Medicare Cost Estimates and the resulting experience. As Chief Actuary of the Social Security Administration until 1970, Mr. Myers had the responsibility for preparing the actuarial cost estimates for the various proposals for Medicare and for the Medicare program after it was established. We are glad to publish his comments to the Panel.

Medicare Cost Estimates and the Resulting Experience

In the many years during which the proposals that are now the Medicare program were under consideration, great controversy centered around the question of what the cost of the hospital benefits would be. Such costs, for purposes of simplicity, can be said to be constituted by only two elements: (1) the average daily cost of hospitalization (including room-and-board charges and all other hospital services, such as operating room, drugs, x-rays, and laboratory tests), and (2) the hospital utilization rate (days of hospitalization during a year, averaged out over all insured persons).

First, consider the average utilization rate. This element is, to some extent, an over-simplification, since proper actuarial analysis requires consideration by age and sex. The medical economists who, in the early 1950's, had primary responsibility for the development of the cost assumptions believed that the utilization rate would be only about 2 to 2½ days per capita per year. I studied the relatively sparse data then available for persons aged 65 and over and, after making

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EDITORIAL

IN the classic story about the difference between the sexes it was the Frenchman who commented "Vive la difference!". At the present time, there seems to be an effort by various authorities (aided and abetted by scribes and pharisees) to obliterate the difference in the fields of life insurance, health insurance, annuities and pensions. Their comment is apparently "À bas la difference!".

In the courts there are actions by female plaintiffs accusing the insurance companies directly or indirectly of sex discrimination. Further, at least one state is apparently proposing to outlaw insurance companies continuing to practice sex discrimination in their policy issues. In the court actions the case for the plaintiffs seem to be based on two Federal statutes, the Equal Pay Act and Title VII of the Civil Rights Act of 1964. The court cases seem to be concerned mainly with health insurance. Outside of the courts the rulings of some governmental bodies practically enjoin the use of a unisex table for both life insurance and annuities. We are not qualified to interpret the Acts referred to, but as a profession, we might properly claim to have some expert knowledge of the sexual differences in rates of mortality and morbidity and their impact upon the various forms of insurance being issued.

This is an important question and this is surely the time for the Society to raise its voice and to publish under its aegis the statistical information supporting the differences that the insurance companies and pension plans recognize. The Society might even consider entering some of the cases now in the courts with an *amicus curiae* brief. We have to do more than wait for the defense to possibly win some of the cases in the courts; we have to make known to the courts, to the law makers, and to the public the facts that we have at our disposal. The time to be heard is now, otherwise we will be ignored while demagogues claim the shelter of the law to require a spurious equality at the expense of policyholders and pensioners. This is not a matter of opinion but of fact and affects the consultants' field equally with that of the life insurance industry.

A.C.W.

MINORITY RECRUITMENT PROGRAM

For the past four years the Society of Actuaries, through its Subcommittee on Minority Recruitment Program, has sponsored programs for attracting students from minority and disadvantaged groups into the actuarial profession. The major programs have been a summer institute at Lincoln University which prepares students for Part 1 of the actuarial examinations, and scholarship awards for graduate study in actuarial science.

Thus far, 54 students have attended the institute and another 15 are expected to enroll this summer. To date, there have been no scholarship recipients, but this will change with efforts being accelerated in this area. Other programs are being studied and will eventually become operative.

To support these programs, funds have been solicited primarily from employers of Society members. The opportunity to make a personal contribution is also available to Society members and can be accomplished by making your check payable to the Society of Actuaries. Mark the check "Minority Recruitment Program," and forward to James C. Harrison, North Carolina Mutual Life Insurance Company, Mutual Plaza, Durham, N. C. 27701. A contribution of $5. or $10 is suggested. ☐

Fat Cats Meow!

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positions—some are not hired, because they are too big, in the first place, and in the second place, too.

Since, by generally accepted economic principles (GAEP), pay should bear a relationship to weight, the recent devaluation of the pound can be held responsible for the stepped-up inflation—of which the fat executive has more than does the lean executive. In this connection, one has only to recall the case of the well-reared professional football player—a natural fullback who, in deference to his tight end, became a wide receiver.

In view of these considerations, it is my recommendation that an employer be advised to hire both fat and lean executives. Only then can he be sure of his organization's continued progress—through both thick and thin. ☐