Article from:

The Actuary

March 1975 – Volume 9, No. 3

The Actuary

The Newsletter of the Society of Actuaries

VOLUME 9, NO. 3 MARCH, 1975

THE VETERANS INSURANCE ACT OF 1974

by R. L. Pawelko

The Veterans Insurance Act of 1974, made effective May 24, 1974, significantly affected the SGLI program. First: the maximum coverage provided under SGLI was increased from $15,000 to $20,000. Second: full time coverage was extended to Ready Reservists required each year to perform at least twelve periods of active duty training creditable for retirement purposes. Third: full time coverage was also extended to Retired Reservists who have completed twenty years of creditable service toward retirement provided they have not yet received their first increment of retirement pay and have not yet reached 61 years of age.

More significant than the above mentioned amendments, however, is that a new insurance program — Veterans Group Life Insurance coverage (VGLI) — was created. The VGLI program provides nonrenewable five year term coverage in the amount of $5,000, $10,000, $15,000, or $20,000 to all veterans separated on or after August 1, 1974. In other words, the VGLI program extends for five years the period of time in which servicemen can participate in government sponsored insurance programs. The conversion privilege in the SGLI program has been eliminated and has instead been incorporated in the VGLI program. The premiums for the VGLI program are the same as those in the SGLI program for individuals less than age 35 but are double (i.e. $.34 per month per thousand) for veterans age 35 or over at issue.

The VGLI program also contains a grandfather clause which allows veterans who have been separated from service up to four years prior to August 1, 1974 the opportunity to participate in the program for a period of five years minus

(*Continued on page 7*)

Social Security Administration

We welcome the appointment of A. Haeworth Robertson as Chief Actuary of the Social Security Administration.

COST COMPARISONS CONSIDERED

Analysis of Life Insurance Cost Comparison Index Methods. Prepared by the SOA Committee on Cost Comparison Methods and Related Issues, 1974, pp. 202.

by Robert D. Shapiro

In September, 1974, the Society of Actuaries Committee on Cost Comparison Methods and Related Issues (chaired by Bartley L. Munson) released its research report. This report was prepared at the request of the NAIC:

(1) to develop and analyze results that would be produced by different life insurance cost comparison methods, and

(2) to research the question of whether or not more than one interest rate should be used in cost comparison indices under certain circumstances, while also considering matters of mortality and persistency.

In responding to this request The Committee also developed a great deal of information valuable to the insurance industry. This is packaged with background material helpful to a reader who has not been close to the reasons for the cost comparison problem and the possible ramifications of some suggested solutions.

The report is divided into nine chapters and four appendices with many charts and graphs to help the reader interpret the analysis. The first four chapters define the current status of the cost comparison problem, describe (both verbally and algebraically) 13 specific cost comparison index methods that have

(*Continued on page 6*)

Society Establishes Board of Publications Which Proudly Announces the Birth of the RECORD

By John C. Angle,
Coordinator of Publications

The first issue of the *Record* of the Society of Actuaries will roll off the University of Chicago Press in May of this year. This issue will contain all presentations and discussions at Concurrent Sessions during the Los Angeles Meeting plus transcripts of some addresses, lectures, and teaching sessions. This new publication will devote itself to a prompt reporting of discussions of current interest. Three later issues of Volume 1 of the *Record* will report discussions at the New York, Cincinnati, and Miami Meetings of the Society.

Mr. Harold F. Philbrick will be the first Editor of the *Record.* He will select assistant editors and make arrangements with recorders to gather the discussions to be presented at the meetings.

The *Record* will appear in paperback only and will not be published a second time in a cloth-bound volume. The Society plans to distribute the *Record* on the same basis as the *Transactions* and *The Actuary.* The subscription price for nonmembers is $4 per issue or $15 for all four issues of one year.

Current intentions are that the *Transactions,* commencing with Volume XXVII (1975), appear once a year and only in cloth binding. In its new mode the *Transactions* will print papers, discussions of papers, reviews, and the chronicle of official business of the Society. The *Reports* number will continue to appear as a separate issue of the *Transactions.* As a part of the 1974

(*Continued on page 5*)

Cost Comparisons

(Continued from page 1)

been proposed, and set forth certain desirable attributes of a cost comparison method. Chapters five, six, and seven describe the contents of the large data bank assembled about one year ago under the joint sponsorship of the NAIC and U.S. Senate Antitrust and Monopoly Subcommittee, and set forth the findings of the analyses done on this store of data. Chapter eight describes the deficiencies of various types of cost comparison indices.

Chapter nine develops the algebraic relationship of the various cost comparison method formulas to a widely recognized general form of gross premium formula. The four appendices contain (in order) (A) list of companies contributing to the data bank and the extent of their contribution, (B) assumed mortality and persistency and YRT rates, (C) descriptions of statistical tools used in the report, and (D) a mathematical proof (for the purist) of the equivalence of two of the formulas used.

There is so much information presented that it is difficult to pick out some specific examples to round out this review. Seven of the conclusions summarized on pages 158-161 of the report and supported by data presented earlier in the analysis are quoted below:

"2. The introduction of a non-zero interest rate makes a significant difference in the rankings of policies. Varying the interest rate by as much as 2% had a noticeable but not appreciable impact on the rankings. As many as 95%-98% of all possible pairs of policies ranked the same way with a 2% change in the interest rate assumed."

"3. Introducing an assumed rate of mortality does not significantly affect the policy rankings."

"6. Vastly different patterns of lapse rates produce very similar policy rankings."

"7. There is a substantial difference in the rankings between the results produced by methods which totally ignore cash values and those which either reflect the cash value at the end of the period analyzed or reflect all cash values over that period."

(Continued on page 7)

Committee on Ways and Means

(Continued from page 5)

The report speaks of the "irony" of the fact that although this new program purports to federalize these three State assistance programs the preponderance of the work load will fall on State employees since the same general arrangement as for the regular disability insurance will be followed. These determinations will be reviewed on a seven-percent sample basis. The result will be that the regular (Title II) disability determinations will be checked in the central office in Baltimore, along with cases where applications are made under both programs, while the ten regional offices will be checking the SSI determinations. The report observes, "The present disability determination system is undoubtedly one of the most complex governmental arrangements in existence. To now make this a central office, regional, and State arrangement is a fairly major step and somewhat anomalous in the so-called Federal social security system."

The new SSI program seems to offer increased hope for rehabilitation of the persons served. Under the State welfare plan, agencies were not required to refer the blind or disabled recipients for vocational rehabilitation although they frequently did so. The report concludes that, "it seems reasonable to state that Supplemental Security Income disabled applicants, whether allowed or denied, will have a greater likelihood of being served and rehabilitated than did their counterparts under the old program."

The magnitude of the SSI program may be judged from the following. "In the fall of 1973 it was estimated that during fiscal 1974 there would be 1.6 million determinations of disability for the social security program and 800,000 SSI determinations." At the end of May there had already been 1,000,000 and 450,000 respectively, under the two programs. Whereas in 1973 the total number of disabled workers receiving Title II benefits under the social security plan was just over 2,000,000, the number of recipients of SSI payments for the blind and disabled in January 1974 totaled 1,350,000. Mr. Robert J. Myers has observed that "SSI may well be a sleeping giant, just as Medicaid was in the legislation in 1965 that established Medicare." (*TSA* XXV, page 667.)

The Black Lung Program

The Federal Coal Mine Health and Safety Act, as amended, provided that "all black lung (coal workers' pneumoconiosis) program and case-related costs are chargeable to Federal general tax revenues not Social Security Trust Funds." From a fiscal standpoint the black lung program therefore has little or no impact on the disability program. However in other respects it has been a matter of great concern to SSA. The initial filings under the original law amounted to 100,000 claims in the first month, and 247,000 by the end of calendar year 1970. Through May 19, 1972, when amendments were enacted, over 340,000 cases had been filed. This necessitated the reassignment of large numbers of claims personnel previously engaged in Title II administration. Following the enactment of the 1972 amendments over 183,000 new claims were filed and 194,000 others required reexamination and redevelopment. (These numbers contrast rather sharply with the 1968 estimate "that 125,000 coal miners had black lung and that 50,000 were totally disabled by it." This estimate is cited in a paper by Professors J. David Cummins and Douglas G. Olson—*An Analysis of the Black Lung Compensation Program*, Journal of Risk and Insurance, December 1974).

The effects on adjudication were quite pronounced. Social Security Administrative Law Judges were used to assist the relatively few Black Lung Administrative Law Judges in dealing with a case load which "now numbers 35,000 for black lung alone. *** early in 1972 it totaled almost 40,000 *** but *** was virtually eliminated when 30,000 cases were remanded from the hearing stage for redetermination by the Bureau of Disability Insurance. After the massive redetermination of these cases ***, over 40,000 requests for hearings had been received by the Bureau of

(Continued on page 7)

Committee on Ways and Means

(Continued from page 6)

Hearings and Appeals in 1974." The result is that the ALJ's fall further behind in dealing with the regular Social Security cases and may "be in a real crisis when the full impact of the SSI appeals is felt. *** Finally, the number of cases pending in Federal courts has reached record highs, and the ability to effectively litigate these cases appears to be getting increasingly marginal."

In addition to the direct results, "black lung filings resulted in greater knowledge of eligibility for social security disability insurance benefits and contributed to an increase in claims for social security DI benefits."

To be Continued in Next Issue

Editor's Note: The report gives the claim experience since 1967 and an analysis of this experience will appear in our next issue.

Cost Comparisons

(Continued from page 6)

"8. Policy rankings vary significantly when the comparisons are made at different policy durations. No one duration is a very accurate representation of the rankings found at another."

"13. Participating policies, as a group, rank quite consistently better than guaranteed cost policies, as a group, under any one of several different cost comparison methods. The rankings are similar or may favor guaranteed cost policies ignoring the cash values and when measured over shorter durations."

"14. Dividends could be reduced a significant degree from those currently illustrated and the cost comparison indices of participating policies, as a group, would still be similar to those of guaranteed cost policies, as a group, for durations 20 and longer."

The Committee report deals well with the questions referred to at the beginning of this review. It would seem desirable to have more research by the insurance industry on the following:

(1) The different requirements of different categories of buyers — such as needs of corporate executives who are informed (or who can and will seek out appropriate decision information) as compared to the needs of less sophisticated insurance prospects.

(2) The possibility of organizing the cost information on different levels—for example, every prospect could be presented with a simple understandable disclosure statement and more sophisticated individual-oriented analyses could be requested if and when desired by a particular buyer.

The committee report findings seem to indicate that the interest adjusted cost method, which is relatively simple, produces company rankings that do not change substantially by the addition of assumed mortality or lapse rates.

(3) The impact of a more price-conscious marketplace on future life company marketing methods and products, on the character and methods of tomorrow's life insurance agent, and on future life company expenses and persistency.

(4) The different buyer disclosure needs of a direct marketing type of sale (e.g. direct mail) as compared to those of an agent-generated sale. There has been an increasing interest in direct marketing procedures, especially in approaching the lower and middle income markets.

The Committee report is well organized, quite easy to read and, most importantly, it is "must reading" to any actuary concerned about the form of inevitable future required communication between the company and its agents, its policyholders, and its prospective buyers. The Committee's research has been conducted in a thorough and objective manner.

Note: The Report is available from the Chicago office at a cost of $7.00. □

Actuarial Meetings

April 10, Baltimore Actuaries Club

April 10, Actuaries Club of Winnepeg

April 11, San Francisco Actuarial Club

April 15, Central Illinois Actuarial Club

May 1, Actuarial Club of Indianapolis

May 8, Baltimore Actuaries Club

May 29, Boston and Hartford Actuaries Clubs

ARCH

Issue 1975.1

A New Proof of $Mx = Dx - dNx$, Ralph Garfield.

Notes on Individual Risk Theory and Released From Risk Reserves, James C. Hickman.

Applications of the Cauchy-Schwarz Inequality to N-year Temporary and Life Annuities, Allan J. Kroopnick and Steven F. McKay.

A Solution of Ziock's Autocorrelation Problem, G. C. Taylor.

Symmetry Between Components of an Analysis of Surplus, G. C. Taylor

The Interest Rate Delta, Richard W. Ziock.

Subscriptions can still be sent to David G. Halmstad, M & R Services Inc., P. O. Box 124, Ridgefield, Conn. 06877.

No back numbers prior to 1974 are available.

Veterans Insurance Act

(Continued from page 1)

the time elapsed between the termination of his or her SGLI coverage and August 1, 1974. These retroactive VGLI participants, however, must submit evidence of insurability with their application for VGLI coverage prior to August 1, 1975. There is no provision for substandard VGLI coverage although individuals with service-connected disabilities are offered standard rate coverage in the VGLI program. Sometime during the 120 day period immediately prior to termination of their VGLI coverage, all veterans will receive a mailing advising them of their conversion rights as well as a listing of all companies participating in the SGLI/VGLI conversion pool.

As of January 31, 1975, approximately 3.3 million individuals were covered under the SGLI program for approximately $65.7 billion of insurance coverage, making this the largest single group life contract in existence (to our knowledge). Additionally, approximately 46,000 individuals were enrolled in the VGLI program for $850 million of insurance coverage. □