

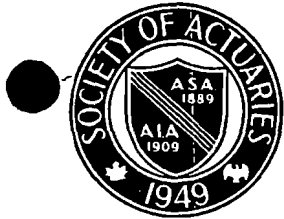


SOCIETY OF ACTUARIES

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)

## 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. □

R. L. Pawelko, Chief Actuary, Veterans Administration has submitted this mortality experience of Servicemen's Group Life Insurance. A further breakdown of Table 1 between Officers and Warrant Officers and Enlisted Personnel is available on request. Single copies of the Report are also available from the Veterans Administration Center, P. O. Box 8079, Philadelphia, Pennsylvania 19101.

**Table 1 — Non-Viet Nam Experience for Calendar Years 1971 to 1973  
Combined by Branch of Service and Age<sup>a</sup>**

Branch of service	Age, years								
	All ages	17-19	20-24	25-29	30-34	35-39	40-44	45-49	50 & Over
<b>Deaths, number</b>									
All branches .....	10,906	1,825	4,469	1,342	904	1,084	681	347	254
Army .....	4,627	859	2,003	512	351	332	305	142	123
Navy .....	2,309	369	920	321	244	240	110	62	43
Air Force .....	2,699	244	925	370	255	449	248	129	79
Marine Corps .....	1,126	332	545	120	46	54	12	12	5
Coast Guard .....	130	21	75	14	6	9	5	0	0
Public Health <sup>b</sup> .....	15	0	1	5	2	0	1	2	4
<b>Annual death rate per 1,000 total</b>									
All branches .....	1.51	1.76	1.44	1.23	1.21	1.50	1.92	3.01	3.92
Army .....	1.74	1.81	1.67	1.39	1.56	1.74	2.32	3.42	4.67
Navy .....	1.31	1.69	1.16	1.13	1.16	1.49	1.73	2.31	4.25
Air Force .....	1.25	1.27	1.13	1.03	1.97	1.39	1.77	3.23	3.4
Marine Corps .....	2.10	2.28	2.17	2.25	1.38	1.61	.91	3.04	2.67
Coast Guard .....	1.16	2.04	1.47	.84	.44	.77	.93	.00	.00
Public Health <sup>b</sup> .....	.83	.00	1.55	.72	.47	.00	.72	1.62	2.15
<b>Annual death rate per 1,000, accidental<sup>c</sup></b>									
All branches .....	1.15	1.56	1.30	1.07	.89	.71	.63	.61	.65
Army .....	1.32	1.60	1.48	1.17	1.11	.79	.70	.75	.83
Navy .....	1.04	1.49	1.06	1.03	.87	.85	.57	.41	.49
Air Force .....	.88	1.14	1.04	.89	.71	.56	.64	.65	.61
Marine Corps .....	1.83	2.00	1.97	2.08	1.23	1.19	.15	.25	.53
Coast Guard .....	1.04	1.94	1.35	.84	.44	.51	.37	.00	.00
Public Health <sup>b</sup> .....	.44	.00	1.55	.58	.23	.00	.72	.81	.00

<sup>a</sup> Excludes all Viet Nam and 4 months post-separation exposure and deaths.

<sup>b</sup> Includes National Oceanic and Atmospheric Administration.

<sup>c</sup> Includes all accidents, whether on or off duty.

**Table 2 — Four Months Post-Separation Experience for Calendar Years 1971 to 1973  
All Ages Combined<sup>a</sup>**

Branch of Service	Number of Deaths				Annual rate, per 1,000 <sup>b</sup>			
	Three Years	1971	1972	1973	Three Years	1971	1972	1973
All branches .....	2,395	884	840	671	3.09	2.68	3.39	3.41

<sup>a</sup> The SGLI policy provides for a continuation of the active duty coverage for 120 days after separation from service without premium payment.

<sup>b</sup> The 4 month post-separation experience for all ages combined, is more than double that of non-combat active duty because of the inclusion of many physically impaired lives, mostly service-disabled lives.