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LINKAGE OF NONFORFEITURE VALUES WITH VALUATION RESERVES

by John R. Gardner

Editor's Note: This report was prepared for the use of the Committee on Nonforfeiture Values. Mr. Gardner is Vice Chairman of the Committee.

The following commentary, after highlighting the strong linkage that currently exists between valuation reserves and nonforfeiture value requirements, discusses the origins of this relationship. It is concluded that this linkage is undesirable and should be severed.

Standard valuation and nonforfeiture laws tie closely together minimum required nonforfeiture values and policy valuation reserves on both a policy by policy basis and on aggregate basis. The linkage is forceful in that the required relationships between mortality and interest assumptions and expense allowances cause the policy reserve generally to be not less than the minimum nonforfeiture value applicable to that contract. Typically, the minimum nonforfeiture value is the policy valuation reserve less the unamortized balance of an initial expense allowance. The valuation law also requires that aggregate reserves be not less than aggregate reserves calculated on the nonforfeiture mortality and interest basis.

The 1941 Report of the Committee to Study Nonforfeiture Benefits and Related Matters commissioned by the National Association of Insurance Commissioners stated clearly that this linkage should be broken. Among the conclusions in Chapter XI one finds:

"There is no necessity for the requirement that valuation of policy reserves and determination of nonforfeiture benefits be made on the basis of the same mortality table and rate of interest. Such a requirement is unnecessarily awkward and does

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SYMBIOSIS

This issue of *The Actuary* is being distributed to all members of the Casualty Actuarial Society. We are glad of this opportunity to exchange periodicals with our Casualty colleagues and we invite their comments and subscriptions. *The Actuary* is published monthly except for July and August. The annual subscription is $4.50.

EXPERT WITNESS

Joseph G. Van Matre and William N. Clark, *The Statistician as Expert Witness*: The American Statistician, Vol. 30, No. 1, February, 1976.

by Frank L. Griffin, Jr.

"The Statistician as Expert Witness," (an article that appeared in the Feb. 1976 issue of The American Statistician), has general application to anyone serving as an expert witness in a court of law, especially in its remarks about the ethical responsibilities of such a person and in its advice on preparing to give testimony.

For these points in particular the article is a worthy reference for actuaries, who are frequently called to testify on matters involving life contingencies — such as life estates and reversionary interests, and measures of lost earnings over work-life expectancies in personal injury cases. In fact, the entire article might well have been written by substituting the word "actuary" for the phrase "economist statistician."

The article points out: "Expert Witnesses may be men of science educated in the art or persons possessing special or peculiar knowledge acquired from practical experience. One need not have years of graduate work and several de-

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Reports of Consultants on Actuarial and Definitional Aspects of Social Security Disability Insurance, U.S. Government Printing Office, Washington, D.C., 1976, pp. 176.

by Robert B. Shapland

This publication presents the reports of three consultants to the Subcommittee On Social Security of the Committee On Ways and Means, U.S. House of Representatives along with a copy of a proposed draft of HEW regulations regarding the use of nonmedical factors in determining disability. All of this material is concerned with the disability portion of the Social Security Act and more specifically, with certain aspects of the definition of disability and the increases in benefit utilization that are taking place under this disability program.

The proposed regulations regarding the use of vocational factors in the disability determination process are a formalization of current operating instructions. They involve a detailed classification of age, education, and work experience, and define the level of each which, in conjunction with the various levels of medical impairment, produce a finding of disabled or not disabled. For example, an individual limited by medical impairment to sedentary work, age 55 or over, with limited education (7th through 11th grade), and skilled or semiskilled work experience that is not transferable to other occupations, is defined as disabled.

The report by Edwin Yourman, formerly the Assistant General Counsel, Social Security, is entitled *Feasibility Of A More Objective Test For Disability Under the Social Security Act.* Here, Mr. Yourman discusses the pros and cons attendant upon the current and proposed rules for disability determination. He recommends that consideration be

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given to the establishment of two or more levels of severity of impairment along with the vocational classification of individuals, and discusses making rules, such as those proposed, the sole criteria for establishing disability. This would avoid becoming involved in the subjective determination of whether or not the claimant can do some jobs. Such a step would create more consistent treatment of the claimants and reduce the current adjudication level.

The report by John Miller, past president of the Society of Actuaries, covers the reasons for the escalation in disability costs and related matters. Mr. Miller holds that the level of benefits provided in relation to earnings (replacement ratio) is considerably more important than disability definitions in determining the cost of any program. He presents statistical support of this position along with the July 1975 social security replacement ratios which show the high benefits provided, especially at the younger ages. Mr. Miller suggests the adoption of a more rational benefit formula along with making rehabilitation the primary objective of the program in order to control costs and maximize the value of the program in terms of quality of life and human dignity. Mr. Miller discussed the possibility of more direct administrative control by having local offices report directly to the national headquarters in place of to the current state intermediary in order to maximize fiscal control and equity in the treatment of all claimants. Finally, Mr. Miller suggests the expansion of the actuarial analysis of the disability experience as an aid to improving the program. Such an expansion would measure administrative quality, measure experience trends through an "early warning system", and analyze demographic experience characteristics to shed light on disability.

William Roemmich, M.D., Chief Medical Director of the Bureau of Disability Insurance, reports on the use of medical factors vs. vocational factors in the determination of disability. While judgment cannot be entirely avoided, he feels that appropriate application of medical standards alone can produce uniform nationwide disability decisions which adequately measure inability to work "by reason of medically determined impairment." He feels that the use of vocational factors in disability determination has shifted the definition of disability toward "inability to engage in usual work by reason of age, education and work experience provided any impairment is present." He quotes statistics that show that 36% of applicants meet the medical criteria while 55% are allowed benefits. The use of vocational factors in determining disability in the cases not meeting the medical criteria has increased the disparity in benefit award decisions and the number of cases being appealed and reversed. Dr. Roemmich also discusses the problems and shortcomings in the proposed rules regarding the use of vocational factors. □

ARCH

Please note that all letters, inquiries and subscriptions to ARCH should now be sent to:

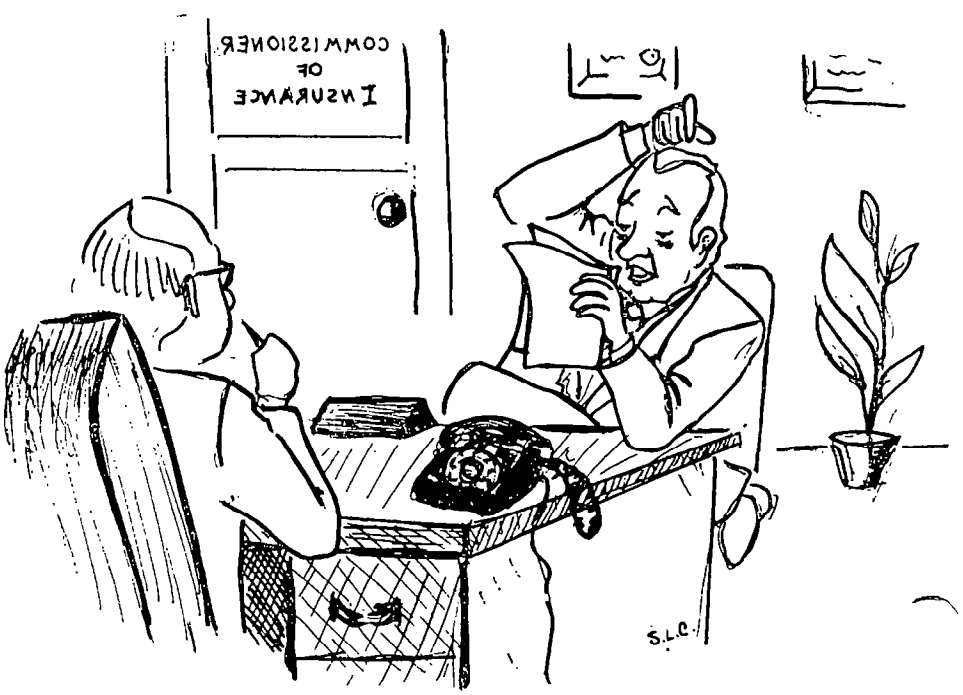
Donald A. Jones
Ann Arbor Actuaries, Inc.
321 South Main Street
Ann Arbor, Michigan 48104.

Item of Interest to Associates of the SOA and CAS

Some Associates of the Society of Actuaries and of the Casualty Actuarial Society who are not now members of the American Academy of Actuaries may be eligible for membership in 1976 — but not necessarily in 1977.

On January 1, 1977, the Academy's education requirement will become exclusively Fellowship by examination. Applicants prior to 1977, will be able to satisfy the education requirement by having passed the equivalent of the first 8 exams on the old SOA syllabus (1 through 5, 6A, 6C, 7A, 8A, 9A and 9B on the new) or the first eight exams of the CAS exam program. The experience requirement remains the same: 5 years.

Application forms and other information may be obtained from the Academy's Chicago Office: 208 S. LaSalle St., 60604; (312) 782-4204.



"Funny, my company never had these problems until we hired an actuary."

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