



SOCIETY OF ACTUARIES

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# The Actuary

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 articles, criticisms, and discussions in this publication.

## EDITORIAL

IN the interesting and worthwhile discussion of *Company Regulation Resulting from Consumerism* reported in the first issue of the *Record*, one speaker suggested that the industry should stop using the word "discrimination". We have never been convinced that this form of bowdlerization contributes to progress or to understanding on the part of the listener. And we cannot assume the position of Humpty Dumpty to the effect that a word we use should mean just what we choose it to mean—neither more nor less.

Before the industry adopts this suggestion it might consider the other side the arguments for which are well set forth in the Editorial Comment of *The National Underwriter* of August 16. The author is not afraid of the word and he points out quite properly that "in order for the social system of insurance to work, insurers must discriminate." He also points out that the end result of these attacks on the insurance mechanism may lead to a classless form of insurance where all men (and women) are theoretically equal and pay the same premium for the same benefits. This it would seem, leads to the logical, if not the legal, conclusion that all insurance as now practiced is unconstitutional.

Apparently this is the first time that anyone (including spokesmen for the industry and actuaries) has had a good word to say for "discrimination." The final words of the Editorial Comment should not go unheeded. "The industry must make the consumer aware that insurers discriminate *for* them and not *against* them."

This August 16 issue of our contemporary has some other items worthy of our notice. Mr. Joseph F. Tudor, President of Hawaiian Life has an article on *The Real Issue in Replacement*. He mentions that most jurisdictions have adopted a version of the NAIC model replacement regulation requiring the preparation and acknowledgment of "disclosure statements" for the information of the customer. Mr. Tudor comments that, in his judgment, this case-by-case basis will not work "for the very obvious reason that people buy when they believe or want to believe the sales person." His article, we should add, has suggestions for another approach to the problem of replacement. We wonder if these comments on the case-by-case method hold good for all "disclosure statements," including cost comparisons and the like, intended to inform the customer (sometimes possibly against his wishes).

Finally we come to the actuaries. The following is based on the Bulletin of the William M. Mercer firm. "Employers are warned not to regard an actuary as omniscient or a folk hero who solves problems in some unknown way which has to be accepted because it is too complicated to understand." This is part of a plea for clarity in communication with the public and the plea might well be listened to by the industry and by the actuaries.

## TO BE CONTINUED

*Editor's Note: This review has been prepared by the Committee on Health Insurance, one of the component committees of the Committee on Continuing Education and Research. Comments will be welcomed by the Committee and by the Editor.*

## PHCCS.

Where can you obtain information about 900,000 charges for up to 1,600 different surgical procedures, summarized for 250 geographical areas?

This wealth of information is contained in the 1974 report of the HIAA Prevaling Health Care Charges System.

The HIAA developed the system on behalf of its members to provide detailed information on the level of physicians' fees and the trend in the level of these fees on a geographical basis. The system has already been implemented with respect to surgical charges and can be expanded to include charges for medical, lab, radiology, anesthesiology, dental and other services. A year's information is produced semi-annually and can be purchased by insurance companies and medical foundations with an indicated need for such information.

Confidentiality is assured because no information about the patient or the provider, other than geographical data, is collected. The information that is collected includes the first three digits of the provider's ZIP code, the amount of the charge, the month and year the procedure was performed and a procedure code. Any of three tables of procedure codes can be used, the 1964 CRVS, the 1969 CRVS or the AMA CPT. Data is not collected on charges made under government programs such as Medicare or Medicaid or on charges for multiple surgical procedures.

The output is available in two forms, printed or magnetic tape. The tape includes information on low frequency procedures, currently defined as fewer than five reported charges, which is excluded from the printed report. For each geographical area, the output shows the 1964 CRVS procedure number, the procedure name and unit value as well as the average conversion factor, the number of charges, the mean charge, the mode charge and the charge at several

## Letters

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CODE ANN. § 56-319, might be persuasive: "(The) annual report shall be made in such form and contain such information as the Commissioner may by regulation from time to time prescribe and require . . ."

When the statutes require compliance with the regulations, and the regulations require compliance with the instructions, you've got statutory authority right down the line. There you have it, John!

Claude Y. Paquin

## Adequacy

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cisely the proper relationship between incomes before and after retirement.

On the other hand, the description of the development of social security in the four countries covered is interesting, informative, and relevant. However, even here, there are troublesome aspects. In the first place, one is left wondering whether the countries were selected by chance or with an eye to proving that U.S. Social Security is "behind the parade," since it happens that three of them (Sweden, Germany and Belgium) have chosen to adopt social security programs far ahead of the "floor of protection" which is the approach followed so far in the United States. Secondly, the treatment of private plans in these countries is very cursory: in the German section they are not mentioned at all, while for Belgium it is stated (quite incorrectly) that "almost nothing is known about the private pension schemes in operation" (p. 149).

The analysis of the foreign benefit programs and their comparison with the United States is performed by a sophisticated simulation system. This is marred by the use of some curious earnings histories assumed for hypothetical employees. For example, the work history given the most prominence (p. 197) provides for a salary of about 82% of national average at age 25, increasing to about 110% of national average in the middle years from age 35 to age 50, then declining to 82% of national average earnings when the employee reaches age 64. Not many actual workers have this career pattern, and it gives rise to some anomalous results in the analysis.

The final section of the book, which proposes a program of reform for the United States, is political rather than rigorously intellectual. Perhaps this is necessary, since the development of a social security program is, quite clearly, a political process. Moreover, it is only too easy to take sides in the controversy, and the authors are no exception. For example, on page 231 it is stated, without any real evidence, that "we feel that the minimum guarantee through social security should be about 55%" (emphasis added). Again, on page 270, it is stated that the social security system "has already proved its superiority and popularity" over private pension plans, and that there is "general agreement that current (social security) benefits are too low." These are subjective judgments, and their reiteration without demonstration makes the book a polemic instead of a theoretical treatise. This view is reinforced by the relative lack of consideration of costs. The impression given is that the only need is to design a satisfactory benefit formula and if the resulting contribution rates are high, then general revenue financing can pick up any balance (p. 271).

At this juncture, the American public has not agreed, as the authors suggest, to a "substantial transfer of income from the working to the retired population" (p. 275, authors' emphasis). Perhaps they should, but the case as presented in this book is, (as the verdict on ambiguous evidence is given in Scotland) "not proven".

## Graduate Student Scholarship

(Continued from page 1)

tributions from friends and associates of Mr. Smith.

As part of the responsibility for the administration of the fund, the Society of Actuaries will receive all contributions for the scholarship program. These are tax deductible. Any individual or organization wishing to contribute may do so by drawing a check to the order of the "Society of Actuaries J. Henry Smith Scholarship Fund" and sending it to the Office of the Society, 208 South La Salle Street, Chicago, Ill. 60604.

## A Record Birth

(Continued from page 1)

following Recorders for their assistance in getting out the Los Angeles and New York issues:

Syed A. Ali, Philip F. Ancona, Gerald A. Anderson, James J. Carey, Charles Carroll, Peter F. Chapman, Thomas R. Corcoran, Charles E. Dean, Jr., Nathan H. Epstein, Edward I. Farb, Judy A. Faucett, Alan H. Fougner, Thomas J. Garabedian, Bernard E. Hartt, Paul W. Janus, William C. Koenig, George Y. Longyear, Marshall H. Lykins, Donald B. Maier, Ronald H. Meredith-Jones, Robert Ronda, Beverly S. Rose, Dennis E. Ryals, Dale R. Schuh, Michael E. Sproule, and Martin Stempel.

I am sure that the quality of the *Record* will improve with time and experience. Its value will be increased when an appropriate indexing system is established. However, its contents will always be dependent on the membership taking time to develop and present worthy, and sometimes weighty, ideas on the topics being discussed.

In the final analysis, the quality of the material in the *Record* will be primarily dependent on the panelists and other program participants furnishing the recorders with good copy not later than seven days after the meeting. Each speaker should review his presentation, not from the standpoint of a talk and an open forum, but from the standpoint of what portion of his remarks should be included in the permanent records of the meeting. In editing for the *Record*, he should ask the question, "Will the inclusion of this material be of significant value to the membership of the Society?"

## To be Continued

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percentiles. A "bodily system" summary is also produced by area. This shows the number of charges and the average conversion factor for each of 15 bodily systems, e.g.,-the digestive system.

Additional information regarding the Prevailing Health Care Charges System can be obtained from Donald Jones of the HIAA.

The use of this system is not restricted to members of the HIAA.