



SOCIETY OF ACTUARIES

Article from:

The Actuary

February 1977 – Volume 11, No. 2



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 11, No. 2

FEBRUARY, 1977

NAIC EXAMINER'S HANDBOOK

by Lewis P. Roth

At the June NAIC meeting, the Executive Committee adopted the Financial Condition Examination Handbook and the Market Conduct Examination Handbook, both of which became effective on January 1, 1977. The purpose of the book is to update and simplify the examination process for all insurance companies.

Such examinations were recommended in the McKinsey & Company Report to the NAIC on Strengthening the Surveillance System (see *The Actuary*, January 1975). The recommendation that these examinations be conducted separately was not adopted. The examinations will be handled as a single unit and both procedure reports have been combined in a single handbook.

The introduction to the Financial Condition Examination Handbook states the following: "The basic purposes of an examination system are (1) to detect, as early as possible, those insurers in financial trouble and/or engaging in unlawful and improper activities and (2) to develop the information needed for appropriate regulatory action." The Handbook is a guide to assist State Insurance Departments in accomplishing these basic purposes. There are three key elements which this handbook attempts to systematize and they are: an early warning system, a system for scheduling examinations, and a system for planning and conducting the examinations.

In stating the procedures for scheduling examinations, a high priority will be given to (1) companies that have undergone a change in management, (2) companies that identify as "priority company" by the Early Warning System (for a description of this existing System see *The Actuary*, February 1976);

(Continued on page 8)

ACLI

These initials recognize the change from the Institute of Life Insurance to the American Council of Life Insurance. Individual copies of the following recent publications may be obtained from the Council at 277 Park Avenue, New York, N.Y. 10017. □

Pension Facts 1976

This annual report is the information source for the public on pensions and other employee benefits. The booklet contains an excellent and up-to-date bibliography.

TAP Report 14

This latest report in The Trend Analysis Program is on Changing Residential Patterns and Housing covering all aspects from Regional shifts in Population to Home Architecture. There is a section on Questions and Implications for Life Insurance Company Management.

1976 Social Reporting Program of the Life and Health Insurance Business

This is an account of the corporate social responsibility activities of the life insurance section of the American business community.

Freedom and Control in a Democratic Society

This is a report of a conference of chief executive officers of life insurance companies and academic leaders in June 1976, sponsored by the Graduate School of Business, Columbia University and the American Council. (Only a limited number of this report is available). □

Actuarial Meetings

April 13, Actuaries Club of Des Moines

April 14, Baltimore Actuaries Club

May 12, Baltimore Actuaries Club

Is attendance at your meetings falling off? Maybe it's because you don't send us your meeting dates to publicize.

SEX AND THE SINGLE TABLE

by Thomas G. Walsh

An excellent article, *Sex and the Single Table: Equal Monthly Retirement Income For the Sexes?* by Barbara J. Lautzenheiser, F.S.A., appeared in the Fall 1976 issue of the *Employee Benefits Journal*. It explains to non-actuaries the basic tool used by all actuaries — classification of risks for the purpose of determining the cost of any insurance benefit.

The article details the reasons for the actuary's classification practices and defends them. It also provides a good description of the current controversy concerning the use of separate annuity mortality tables for men and women. As the article emphasizes: the reason it costs more to pay pension benefits to females than to males is because females live longer, not because risk classifications are followed.

As Actuary for Teachers Insurance and Annuity Association, which is currently engaged in litigation because of the use of separate mortality tables, I was pleased to read this informed presentation of questions involved in this fundamental issue.

The legal and social arguments being used against risk classification are shown by the author to break down on further analysis. The legal argument is that the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964 implicitly forbid classification by sex. If this legal line of reasoning is followed to its logical conclusion, risk classifications for any grouping would not be permitted.

The social arguments include statements that any difference in mortality rates between males and females are cultural and hence will disappear over time. Another social argument states that many

(Continued on page 2)

The Actuary

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Published monthly (except July and August) by the SOCIETY OF ACTUARIES.
 208 S. LaSalle St., Chicago, Illinois, 60604, Robert T. Jackson, President, Jean-Jacques
 Deschènes, Secretary, and Ms. Anna M. Rappaport, Treasurer.

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 articles, criticisms, and discussions in this publication.

Deaths

Edwin L. Bartelson
 David L. S. Douglas
 David G. Halmstad
 A. Douglas Ilitchcox

Sex and the Single Table

(Continued from page 1)

older women are living in poverty and that they need as many benefits as possible — thus, higher pension benefits should be paid to them.

Miss Lautzenheiser also discusses the Overlap Theory, which has been brought out in some court cases. The Overlap Theory states that since a high percentage (e.g., 80%) of persons in one risk classification (e.g., 1000 males age 65) will die at the same ages — overlap — as persons in another classification (e.g., 1000 females age 65), there is no justification for the use of separate tables. Because all the early deaths (not overlapping) are in the male grouping and all the later deaths are in the female grouping, the overlappers would offset the losses due to later female deaths with gains from early male deaths, spreading any remaining gain or loss over the males and females whose deaths do overlap.

That insurance costs must be determined on a prospective basis and not a retrospective basis (i.e., after the fact) appears to be an extraneous consideration to the overlappers. Since the same overlap effect occurs among two groups of males of different ages (e.g., 1000 at age 60 and 1000 at age 65), the logic followed by the overlappers would require “age-blind” mortality tables.

Miss Lautzenheiser also details the confusion that currently exists among the four federal agencies responsible for unfair sex discrimination in pension plans and thus points out the dilemma in which employers currently find themselves. She shows the fallacy of the so-called “Unisex” or “No-Sex” mortality table as a solution to the appearance of sex discrimination.

Reprints of the article may be had on request from Miss Lautzenheiser at Bankers Life Nebraska, Lincoln, Neb. 68501. □

EDITORIAL

WE had a surprise visitor the other day in the shape of a Martian Actuary. After the usual exchange of actuarial pleasantries (using the Halo notation) we learned that our visitor was anxious to find out what the earthbound United States Actuaries were concerned about at this time. Since no one Actuary could possibly be worrying about all the existing problems and no one reader, even from Mars, could read, mark, learn, and inwardly digest the constant stream of actuarial publications, we thought it best to provide our Martian friend with a very recent issue of our contemporary *The National Underwriter*. We invited him to choose any subject reported on in this publication and we would try to explain the current situation in that subject.

His first choice was the heavily headed article on page 1:

HEW Eyes New Physician Fee Schedule

This led to an explanation of the Medicare program and the problems that had arisen in payment of physicians fees. The Secretary of HEW was proposing to set a fixed schedule of fees. The Martian said that this had been tried on Mars without success and asked how the U.S. proposed to control the fees. His attention was drawn to a quote from the HEW working paper: “. . . jawboning by the President would encourage physicians to accept the fees as full payment . . .” Our visitor interrupted to say how sorry he was to hear of the President’s trouble with his jaw and that he hoped the physicians would take good care of him. The explanation that the President’s mandible was in good order evoked a muffled reference to the Philistines. So we proceeded to the next topic,

Sex Bias: The Villain is Subtlety

The Martian explained that he had no bias about sex but he would like to know the American viewpoint. He was greatly disappointed when apprised of the contents of the article and he further confessed that his interest was encouraged by the amount of “eyeing” that was being reported; the HEW already mentioned and the other heading

VLI, Property Ins., Brooke Bill Eyed

He was sure that there would be at least some reference to “ogling” in the Sex Bias article.

The Martian was slowly losing interest and, when we started to explain that

ACLI Media Program

was not a television serial, a glance at his watch reminded him of a lunch date for which he could not afford to be late.

I wonder what’s concerning the Martian Actuaries?

A.C.W.