The Actuary

March 1978 – Volume 12, No. 3

The Actuary
The Newsletter of the Society of Actuaries

VOLUME 12, No. 3 MARCH, 1978

THE LIFE INSURANCE INDUSTRY AND INCREASING GOVERNMENT INTERVENTION

by Linda B. Emory

Editor's Note: We are indebted to Mrs. Linda B. Emory and the Southeastern Actuaries Club for permission to reproduce the following extracts from Mrs. Emory's Presidential Address to the Club at their November 1977 meeting.

When Jimmy Carter was campaigning for the presidency, Amy Carter took advantage of her personal popularity with the many reporters who were following Jimmy's campaign to go into business. She set up a lemonade stand on her front lawn in Plains. One hot day when a reporter approached the stand, he noticed two bowls of lemonade, one marked 25¢ a glass and the other 50¢. The reporter asked for a glass of the 25¢ lemonade and drank it quickly. "That was very good!" he said, and purchased another. After his second glass, he said, "Amy, since the 25¢ lemonade is so good, why do you have the 50¢ lemonade at all. No one will ever buy it!" "Well," said Amy, "the cat jumped in that 25¢ bowl, and I'm just trying to sell it fast before the word gets around!"

If there is anything we actuaries can be sure of these days, it's that we can expect a cat to jump in our lemonade too! These intrusions to our business come in the form of acquisitions, spiraling health costs, inflation, accounting board opinions, and many others. It seems to me, though, that the biggest and most dependable cat is increasing government intervention. There's ERISA, the Privacy Hearings, possible Federal Income Taxation of the cash value build-up in life insurance, probable Federal Trade Commission regulations beginning with cost disclosure, Federal Health

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Social Security Appointments

Morton D. Miller has been appointed to the new Advisory Council on Social Security. The Social Security Act requires the periodic appointment of an independent Advisory Council to review the status of the four Social Security Trust Funds, the scope of coverage, the adequacy of benefits, and all other aspects of the program including its impact on the public assistance programs. The last Advisory Council submitted its report in 1975. The law requires this Council to report prior to October 1, 1979.

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Robert J. Myers has been appointed to the nine-member National Commission on Social Security. The establishment of this Commission was provided for in the 1977 amendments to the Social Security Law. The Commission's responsibility is to keep a continual watch on all facets of the system including among other subjects the examination of alternatives to the current Federal programs. The National Commission will make regular reports to Congress during its two year existence.

Actuarial Meetings

April 13, Baltimore Actuaries Club

April 18, Chicago Actuarial Club

April 19, San Francisco Actuarial Club

April 19, Seattle Actuarial Club

April 20, Actuarial Club of Indianapolis

May 11, Baltimore Actuaries Club

May 17, Seattle Actuarial Club

May 17, Nebraska Actuaries Club

May 18, Twin Cities Actuarial Club

CHANGES IN THE CONSUMER PRICE INDEX

Editor's Note: Many wage agreements and some private plans are tied to the CPI for increased future payments. The matter is therefore of some interest to employers and actuaries. A new CPI was introduced in February 1978. We are indebted to William M. Mercer, Inc. for permission to use their February 1978 Bulletin as a basis for this article about the new index.

Publication of a new Consumer Price Index for All Urban Consumers was released this February, covering January 1978. This new CPI will cover about 80% of the nation's population and will provide data for many groups not currently covered. In addition to the new index, the current Consumer Price Index for Urban Wage Earners and Clerical Workers, representing roughly half of the urban population, will be updated and improved. This present index is based on prices of 400 goods and services, as observed in 56 localities. The new index will be based on several thousand items in 85 localities. Both indexes, new and revised, will use December 1977 as a base value of 100.

The first CPI in 1901 recognized food items only. A more extensive index was published in 1919. This index was called a cost-of-living index even though it used the "market basket" approach. In 1940, the first comprehensive revision of the index was completed. Adjustments to the index were made during World War II and the Korean War due to rationing and shortages. Since then revisions have been made about every 10 years.

The 1953 revision of the CPI added such new products as television and frozen foods, and the purchase of a

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Government Intervention

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Insurance, readability regulations, and the recent many mandatory coverages and unfair discrimination bills. Unlike Amy, it's not enough for us to be able to take quick action; we must anticipate these trends and take planned, *responsible* actions.

In the past, social attitudes in America were based on the concept of equality of opportunity, that is, equality of opportunity to participate in the economic system and to be compensated in proportion to that contribution. Today's social attitudes *demand* equality of economic result. This trend is also embodied in the so-called "psychology of entitlement." "Psychology of entitlement" means that those things once perceived as luxuries are now viewed not only as necessities but rights — the *right* to health care, the *right* to minimum incomes, the *right* to secure retirement.

The activists of the sixties are now working within our political system to bring about what they feel to be desirable social results. Their appeals are emotional and much more often easier to join than fight. For instance, Jane Fonda in a recent radio interview stated that she and her husband are working within the system to give the working people some control over their economic destinies—to prevent big corporations from dictating this.

There are also pressures brought about by changing lifestyles and population shifts. These have produced groups unable to provide for their own insurance and who are likely, therefore, to seek financial support through government programs. Included here are the growing numbers of young adults who are not steadily employed, the growing number of single-parent households headed by females, the growing number of senior citizens, and the various groups which do not conform to the traditional marriage concept.

There is a new tendency for legislation to require the employers to foot the bill for social programs. Examples of this are the Mandatory Maternity Coverage recently passed by the U.S. Senate and the proposed increased employer contribution to the Social Security System. We can also expect increased regulation because the 1976 MAP Survey indicated public support for *protective* legislative and regulatory actions even considering the cost and inefficiency of government.

It is important for us to realize, that this attitude of equality of economic result is on a collision course with the fundamentals of risk-sharing. The insurance concept presumes freedom of economic choice and recognizes certain risks are attached to such free choice. If equality of economic result were guaranteed, risk sharing would be no longer needed, and neither would insurance!

All forms of risk classification in insurance are necessarily discriminatory against one group or another. Yet, if the purchase of insurance is voluntary, the selection of risks *is essential.* If *all* risks are to be accepted regardless of so-called underwriting considerations, then everyone must be covered, and only government can require participation!

According to Joann Shur, there are basically two arguments against fair and equitable risk classification. First, although data may be valid and there is a demonstrable difference in risk, it is no longer socially acceptable to recognize the difference and charge for it. Second, guaranteeing individual rights does not allow classification for any purpose, including insurance. These arguments are being tested in the courts in the employment and employee benefit discrimination suits.

There must be some limit to this push for equality of economic result. No system can grow nor long exist where more is taken out than is contributed. In some cases the legislation has become so onerous that companies choose to withdraw from a market rather than comply. In rare cases are there finally protests from that great silent majority, and adjustments in the legislation that makes it more workable.

What should we be doing in anticipation of this trend? We can review our practices and make *responsible,* desirable changes. We can see that our risk classification system does not "unfairly" discriminate and that we can not only satisfactorily justify our practices but that they serve the desirable objectives. We can anticipate changing markets and try to find a way to equitably cover all segments of the population. For instance, are our underwriters rejecting or improperly rating cases because we don't have enough up-to-date data? How often do we design a benefit a certain way just because its always been done that way? Are we providing and encouraging our agents to sell the coverages the customer really needs? Our industry can work with government in such areas as health care and ways to make ERISA more efficient. Our participation would be most important should national economic planning become a reality.

We can help educate the public which does not understand some of our principles like the difference between group and individual underwriting and which loses sight of the fact that we all are affected by government legislation. We must pay the price for these programs both in the form of increased taxes and increased product prices.

Luckily, legislation is relatively slow. Our industry will have its opportunity to supply cost information and explain the principles of our system. There seems to have been a switch in our psychology from fighting legislation to proposing alternatives we can live with.

The actuarial profession must learn how to deal with the realities of politics. It was obvious in the case of ERISA that ASPA practitioners were able to accomplish their objectives while the Academy, with all that intellectual ability, accomplished very little!

Perhaps we can make the biggest difference by letting our thoughts be known in two ways. First of all, we need to provide input to industry committees and advisory groups. It is important for all views to be aired before model legislation is proposed—we actuaries in the Southeast may have very different points of reference than those from large Eastern companies. Secondly, we can write or talk to our legislators. I am amazed at how few letters are actually received regarding a particular bill. Our voice is more important than we realize!

Franklin Roosevelt once said, ". . . the only sure bulwark of continuing liberty is a government strong enough to protect the interests of the people, and a people strong enough and well enough informed to maintain its sovereign control over its government." To help maintain reasonable control over government in these times of increasing government intervention, the actuary will need to apply his business skills to complex social problems. We must learn to work effectively within an everchanging political environment if our industry is to survive and prosper. □