



SOCIETY OF ACTUARIES

Article from:

# The Actuary

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## GENERAL COMMENTS ON THE MANHART BRIEF

by Donald Grubbs

"Several Society members believe that the Manhart brief (described elsewhere in *The Actuary*) constitutes a public expression of professional opinion by the Society and was submitted contrary to Article X of the Society's Constitution. In a letter to the Supreme Court they state, 'We understand from the President of the Society that it was the view of the Board of Governors that the brief would not be an expression of an opinion. We believe the brief is largely an actuarial opinion.'

"It was certainly my intention as coordinator of the task force, and I believe the intention of the task force as a whole, to present information which would give the court more understanding of the subject under consideration, but not to provide opinions. I personally believe the brief generally met that objective, and do not agree that the brief is 'largely' an actuarial opinion.

"Upon review, however, I can see some instances of opinion in the brief. I personally apologize for these instances. I would say that the time pressure to produce the brief on extremely short notice did not give us the opportunity to review it as carefully as any of us would have preferred."

## Letters

(Continued from page 2)

(2) The Academy cannot internally promote the idea that all members are equal. If it tries and fails, the failure will be because the more qualified have left. If it succeeds, we will have substantially lowered the level of competence that we want the term "actuary" to stand for.

(3) The Academy should not promote to the public any specialty recognition. Few understand the "unique function" of an actuary in general much less any specialty. As in 3 above, the Academy must promote its ability to assist in defining the qualifications for actuaries in given situations.

### Revised Membership Proposal

Member — current Members of the Academy and all future FSA's and FCAS's who meet time qualifications of the Academy.

Affiliates — all ASA's and ACAS's and all government defined actuaries without time qualifications.

Only Members may vote.

Affiliates may hold offices but not more than 1/3 of any committee may be Affiliates.

All must abide by the Guides to Professional Conduct.

William C. Weller

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### Second To Die

Sir:

Under William Frasier's (March, 1978) Method II, cash values before the first death are greater than the difference be-

tween the present value of benefits and the present value of future adjusted premiums. After the first death, this relationship is reversed, and the cash values are "inadequate." If the first death can be anticipated (as is often the case), while the other life remains insurable, then Method II allows a substantial opportunity for selection against the insurance company: the original policy can be surrendered for its cash value and replaced with a single life policy on the healthy life. In the same circumstances (one dying and one healthy life), the Method I cash value is less than the "true" prospective value, but the cash value is automatically increased to the appropriate level when the death occurs, thus avoiding the anti-selection opportunity.

Aside from the possible financial effects of such anti-selection on the insurer, Method II raises a significant public policy issue: Should we design policies in a way which offers an unwarranted "bonus" to the sophisticated policy owner (or the sophisticated agent advising him), while doing our best to hide the availability of this "bonus" from the general public?

Bruce E. Nickerson

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Sir:

While Mr. Frasier (March 1978) makes a persuasive case for a single scale of cash values and reserves under second death joint life policies from an administrative point of view, his mathematical demonstration of aggregate equivalence is far less convincing. Aggregate reserves and cash values under the two methods will not be equivalent if withdrawals are taken into account, unless withdrawal rates are assumed to be identical by dur-

ation since issue amongst both of the "both alive" and "one alive" cohorts. Surely such an assumption is unreasonable, especially if the cash value scale encourages anti-selection, which the single scale surely does. "One alive" survivors would rarely terminate their policies since the cash value would seriously understate the true net worth. "Both alive" survivors would have substantial added incentive to terminate or re-write their policy because the cash value would seriously overstate the true net worth.

It might also be pointed out that advantage (3) — elimination of adverse earnings effect of first death — does not apply as a disadvantage to Method I unless the population of such policy types is small. If the population is small, then Method II results in less effect on the first death, but much more adverse effect on the second death.

J. E. Jeffery

### Deaths

J. Frederick Bitzer

Byron Cosby

Arthur H. Garvin

Carl E. Herfurth

John Ruse Larus

Alton P. Morton

Albert Pike, Jr.

John G. Thom

Sanford M. Thompson

### Actuarial Meetings

June 21, San Francisco Actuarial Club

July 13, Baltimore Actuaries Club