



SOCIETY OF ACTUARIES

Article from:

The Actuary

April 1978 – Volume 12, No. 4



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 12, No. 4

APRIL, 1978

BOOK REVIEW

Investing

Investment Activities of Life Insurance Companies. Huebner Foundation Lectures, edited by J. David Cummins, pp. 355, published for the S.S. Huebner Foundation for Insurance Education by Richard D. Irwin, Inc., Homewood, Illinois 60430, \$14.00.

by T. Athanassiades

It has been 25 years since "Investment of Life Insurance Funds"—a series of lectures on life insurance companies' investments—was published by the Huebner Foundation. In the meantime, the value of the dollar has been reduced by more than 55%. Assets of life insurance companies have increased by a quarter of a trillion dollars, cash flow from pensions has increased ten-fold, separate accounts have come into being, common stocks have become a significantly more important component of the investment portfolios. Annual acquisitions of investments by life companies have increased ten-fold (when including short-term paper).

All of these changes are reflected in this new book, a highly readable text of excellent educational and reference value. Similar to its predecessor, this book consists of a series of papers originally presented as lectures at the Wharton School. One third of the contributors are academic authorities, while the other two thirds are well-known insurance industry executives with acknowledged expertise in their particular topic.

The lead-off chapter on "Investment Strategy", enhanced by a battery of statistics on changes in life companies' portfolios, provides a good overview of investment activities and sets the stage for some of the later chapters. There are a couple of rather interesting sections in this chapter on the relationship between investment yield and portfolio mix and insurance product strategy.

(Continued on page 6)

COMMUNICATIONS MANAGER

Linda M. Delgadillo has joined the Society of Actuaries staff as the Communications Manager.

The responsibilities of this new position include improving communications on Society activities among the members and providing information on the actuary's work to employers and users of actuarial services.

Mrs. Delgadillo has a Bachelor's degree in Mass Communications from the University of Wisconsin—Milwaukee.

She was formerly a student communications consultant with AT&T in Lisle, Illinois. Her responsibilities included studying student needs and developing a recreational and cultural activities program at a technical training center for Bell System managers.

Before that Mrs. Delgadillo was for 8 years with the Southeastern Wisconsin Regional Planning Commission in the fields of public information, editing, and research analysis. She also provided volunteer public relations services at the Milwaukee Council on Alcoholism.

We welcome Mrs. Delgadillo to the official (Chicago) family and look forward to seeing her at Society meetings. □

Welcome For New and Recent Associates

We are glad to learn that at the Dearborn and Portland Spring Meetings there will be a Special Session for new and recent Associates to introduce them to the Society and to the important fact that the Society is much more than an examination-setting organization. The Associates will have an opportunity to become acquainted with each other and an incentive for attendance at future meetings of the Society. □

COPAFS

A new organization, the Committee of Professional Associations on Federal Statistics (COPAFS), is being formed with membership composed of associations with an interest in U.S. federal statistics. The Board of Governors of the Society has authorized the Society's participation in COPAFS on a trial basis for one year. COPAFS will (i) monitor developments in the federal statistical system of interest to the associations, (ii) call attention to significant developments, and (iii) facilitate communications from the member associations to the government. COPAFS will also have a longer term function of reviewing and appraising features of the federal statistical system of concern to the members of the constituent associations.

The formation of COPAFS is one of the recommendations in the final report (March 1978) of the Joint Ad Hoc Committee on Government Statistics (JAHCOGS).

Details about JAHCOGS were published in *The Actuary*: December 1976, *Statistical Reformation*, and April 1977, *Society Response on Reforms of U.S. Federal Statistics Urged*.

The Society has been represented in JAHCOGS since early Spring 1977 by Robert J. Johansen and he will be the Society's representative in COPAFS.

While one of the tasks of the Committee of Professional Associations on Federal Statistics will be to keep its constituent associations informed on changes and proposals affecting government statistics, its effectiveness will depend on feedback from members of those associations. For the Society to take an active role, its members must take active roles. Continuation of the Society's membership will depend on whether the Society members show interest in and benefit from COPAFS.

Any member of the Society who makes

(Continued on page 8)

Investing

(Continued from page 1)

Most actuaries, even those not involved with investment-related functions, deal with cash flow at one time or another, so Chapter 10 (which should, logically, be Chapter 2) on Cash Flow and Cash Flow Forecasting should prove to be of great professional interest—especially since this chapter is augmented with Equitable's Cash Flow Model.

Private Placements, Income Property Mortgages and Equity Real Estate are three areas of life companies' investments that have been particularly popular in the '70's. Chapters 2, 3 and 6 analyze the characteristics that led to the popularity of these investments and provide a series of statistics showing growth in life companies' portfolios.

Common stock holdings of life insurance companies have increased by a multiple of 15 over the last 25 years, and have tripled (to around 10-11%) as a percentage of total life company holdings. Their rise in stature is evidenced by two chapters. One discusses the Modern Portfolio Theory with a description of how it is applied in the investment process of the College Retirement Equities Fund (CREF) and the other deals with the Geometric Mean Strategy and requires a bit of polishing up of your statistics as a prerequisite.

Of course, the advent of Separate Accounts contributed to a great degree to the rise in popularity of common stocks and the brief and rather complete chapter on Separate Accounts provides a significant amount of historical and factual background.

The limited involvement of the life insurance industry in the erstwhile popular Real Estate Investment Trusts is outlined in Chapter 7. The title of the chapter on Measurement of Investment Performance raises expectations of actuaries who always wanted to do some second-guessing of their investment department but, unfortunately, delivers less than it promises even though it makes for some rather interesting reading.

Chapter 11 briefly touches on the impact of inflation with special emphasis on its impact on investment policies while Chapter 12 gives some insight into the investment operations of small and

BOOK REVIEW

Munnell, Alicia H., *The Future of Social Security*, pp. 190, The Brookings Institution, Washington, 1977, \$9.95, \$3.95 paperback.

by Robert J. Myers

The financial problems of the Old-Age, Survivors, and Disability Insurance program have drawn considerable public attention during the past few years. This has produced quite a number of books and papers on the subject with various recommendations as to what should be done about the future of the program. One of the best of these books has been written by Alicia H. Munnell, formerly on the staff of the Brookings Institution and now an Assistant Vice President of the Federal Reserve Bank of Boston.

Dr. Munnell's book discusses all the items that constitute the problems confronting the Social Security program from the philosophic question of individual equity versus social adequacy to the always interesting question of the effect of OASDI on savings and capital accumulation. The book has excellent summaries of each chapter.

To those interested in OASDI (and all actuaries should be!), this reviewer can heartily recommend that they read the book even though Dr. Munnell's views may frequently differ from those of the reader (and this reviewer too). Dr. Munnell has attempted with considerable success to present fairly views that differ from her own, which is none too common in a volume dealing with a controversial subject.

Note: A detailed review of the book will appear in the *Transactions*. □

medium-size life companies. The recent emphasis on the social responsibilities of investors is recognized with a separate chapter on the subject with life companies assigned the role of investor. Finally the impact of investment regulation is the subject of the last chapter.

A book of great educational value—parts of it should find their way into the exam syllabus, and a definite must for any continuing education reading list—a really invaluable reference work for life insurance executives and a well written highly readable book—this summarizes this recent Huebner Foundation effort. □

Distinguished Service Award

We extend our congratulations to A. Haeworth Robertson, former Chief Actuary of the Social Security Administration, on his receiving the Arthur J. Altmeyer award of the Department of Health, Education and Welfare for his "distinguished service to the nation."

Social Security Note

Orlo R. Nichols and Richard G. Schreitmüller, *Some Comparisons Of The Value Of A Worker's Social Security Taxes And Benefits*, Actuarial Note No. 95, Social Security Administration, Baltimore, Md., April 1978, pp. 17.

This note contains calculations of the relationship of present values of future benefits and the worker's share of future taxes under the OASDI portion of the social security program, the "money's worth" question. The authors present selected examples of individual workers by age, sex, earnings level, years of past coverage and family status. The authors conclude that while a majority of workers can expect to receive their "money's worth", they caution that the analysis is limited and depends on the assumptions used.

Copies of this Note may be obtained free of charge from the Office of the Actuary, Social Security Administration, Baltimore, Md. 21235. □

Actuarial Cost Estimates for the Old-Age, Survivors, Disability, Hospital, and Supplementary Medical Insurance Systems, as Modified by Public Law 95-216, Committee on Ways and Means, U.S. House of Representatives, March 3, 1978, pp. 28.

This document prepared by the Social Security Actuaries for the use of the House Committee on Ways and Means presents the cost projections that were provided to the Congress with respect to the 1977 Social Security Amendments. Short-range, medium-range, and long-range estimates are presented for the Social Security system as it was before and after the Amendments. Separate estimates, both in dollar amounts and a percent of taxable payroll, are presented for the major changes in the law.

A limited number of free copies are available from the Office of the Actuary, Social Security Administration, Baltimore, Maryland. 21235. □