

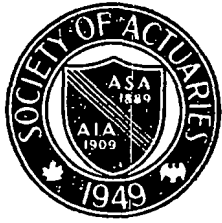


SOCIETY OF ACTUARIES

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INFLATION AND LIFE INSURANCE

by Fergus J. McDiarmid

Ed. Note: This is the first of a series of reflections by actuaries who made observations 20 years ago on portentous questions of those times.

Back in 1958 I presented a paper, "Inflation and Life Insurance," to the Society. In it I said that fundamental changes in our society, our economy and the world, made continuing inflation likely. The long but historically exceptional period of relatively stable money values, which had lasted from the end of the Napoleonic Wars to World War I, and which had a twilight zone up to World War II, seemed to have ended. Our 1958 dollar had less than half the 1940 dollar's purchasing power. Particularly disturbing, after World War II there had been no reversal of the upward price trend such as had followed prior major conflicts.

The Prospect 20 Years Ago

All this, it seemed, had broad and serious implications for such long-term fixed-currency media as life insurance, which had grown to maturity against a background of fairly stable money values and expectations that these would continue. This was particularly so for plans whose time span between collection of premiums and payment of benefits was long; term insurance of modest duration was, of course, the exception. I suggested that as a partial hedge against inflation, new insurance and annuity policies be devised in which a substantial part of the reserves would be invested in common stocks. That was at a time when inflation rates were 1% to 2% a year; recent rates, sometimes in double-digit figures, were not then envisaged.

That paper received substantial but very mixed reviews. People engaged in

(Continued on page 2)

To All Our Readers,
A Happy New Year!
The Editors

THE ACTUARIAL POLITICIAN

An Interview with W. Paul McCrossan
FSA, MP

Ed. Note: This is one of a series of articles about actuaries in public service.

Question: Paul, do you have the honor of being the first actuary ever elected as a Member of Parliament in Canada?

Answer: Yes—perhaps I may claim to be the second as well as the first. In the fall of 1978 I was elected M.P. for York-Scarborough in a by-election. Then in May 1979's general election I was re-elected in that same riding.

Q. Why twice in an eight-month period, for goodness sake?

A. Hardly had I managed to get elected to fill a vacancy than the Prime Minister exercised his option to call a more than usually postponed general election, sending me back onto the hustings without much of a breathing spell.

Q. What is the York-Scarborough riding?

A. A riding is the Canadian equivalent of a congressional district in the U.S.A. York-Scarborough, in southern Ontario, happens to have the largest voting population; and perhaps the largest resident population of any Canadian riding.

Q. And your secret in getting the nod from the voters in so substantial an area?

A. There were two hurdles—first to win the nomination of my party (the Progressive Conservative) against two others, then to win the election against

(Continued on page 3)

"SECTIONS AND DIVISIONS" IDEAS

More than 2,300 Fellows and Associates have given the Society's Task Force on Special Interests plenty to think about. Your answers to our mail enquiry last July were well spread across the range from "hate the idea" to "best thing you ever came up with." Many of you indicated that we hadn't given you enough information.

The Task Force was appointed by the Executive Committee, as part of its long-range planning function, to look into the professional and special needs of all our members, and the various ways in which the Society might better respond to those needs. We were also asked to determine how well-represented various groups of actuaries were, and whether or not the Society could be more responsive and flexible both in representing you currently and in meeting whatever needs might emerge in the future.

After considerable preliminary analysis, we began to consider a concept of "Sections" to meet the professional needs of those who were interested in more specific services than are currently provided. We also began considering the concept of "Divisions" as a possible approach for providing improved representation, by general specialty.

In July, we gave you a brief outline of the concepts of Sections and Divisions. We didn't ask whether you liked these ideas, mainly because they were not fully developed and, certainly, they were not adequately explained. What we wanted to find out was the degree of interest which might exist, if Sections or Divisions were to be set up.

We received comments from 546 of you. Those in favor of our concepts mentioned the Society's increased size, the growth of specialties, and weaknesses in services to some special interests.

(Continued on page 6)

The Actuarial Politician

(Continued from page 1)

an opponent who was probably the best known Liberal politician in Metropolitan Toronto and was extremely popular as Mayor of Scarborough. Only paid-up members of my party living in the riding are eligible to choose the candidate, so I began by spending about five months identifying those who weren't paid-up and selling them memberships. Since I was a "marketing actuary," I adopted a referred-lead prospecting system much like one used by our agents at the Canada Life. It brought in 800-900 new members!

One reason I won in the fall by-election was that we had about 1,500 volunteers working for us. They visited each house in the riding at least twice. I visited 12,000 households, wearing out three pairs of shoes doing it. We spent only \$28,000. Fortunately, no candidate can spend lavish sums on television or radio commercials—our 1977 Elections Act imposes severe campaign expense limits. Running for an opposition party when the Government has experienced its second currency crisis in a year is a welcome piece of luck.

Q. What led you into politics in the first place?

A. For a long time I had observed no long-term economic planning in our federal government. Canada was burdened by explosive growth of spending on social security programs that struck me as weak in design and coordination. I believed that someone with long-term planning experience was needed. So strong was this conviction that I even resigned as Chairman of the Part 9 Examination Committee to free my time to seek the nomination.

Q. Since you entered Parliament, what issues that our readers can grapple with have engaged your attention?

A. It was here that I had another great stroke of luck. Shortly after becoming a member the old Government

WINNIPEG CLUB STARTS SECOND HALF-CENTURY

Hearty congratulations to The Actuaries' Club of Winnipeg. Thirteen charter members had their first meeting on Oct. 4, 1929. An original objective, faithfully kept, was to maintain friendly cooperation among actuaries.

promptly introduced bills on unemployment insurance and on pensions for public servants. Both these issues were political hot potatoes.

Q. Would you sketch for us what was wrong, and what was done about these?

A. Happy to. Most Canadians felt that our unemployment insurance system was being abused, so there was enormous public pressure to tighten it up. The major proposals for doing so reflected these public attitudes, but in my opinion did not offer a cure to the real problem which was one familiar to actuaries—over-insurance. I proposed that the bill be changed so as to restrict benefits to those who quit their jobs without just cause, and to eliminate the over-insurance. I was pleased that all ten provinces jointly endorsed my two-tiered benefit formula and that both the Minister and senior civil servants supported several of my amendments. The Cabinet (then of the other party) turned down these proposals, creating resentment against the measures they supported, a factor in the Government's election defeat.

Q. Knowing actuarial fundamentals is valuable if sometimes frustrating. What about the public service pensions?

A. This situation was extraordinary. In 1973 the Government introduced pensions for civil servants and M.P.'s that were fully indexed to the cost of living, in return for an additional 1/2% of salary pension contribution. Nobody had asked what the true cost might be. No actuaries had been asked to estimate them, and for six years no actuarial valuation had been made. Finally, an outside actuarial firm valued the plan and said that if normal private-sector funding rules were followed, the combined current service and past service pension costs might be about 34% of payroll! They also discovered that the past service liability created in 1973 was about \$6 billion—about 1/4 of Canada's total annual budget.

Q. Then your expertise must have been extremely valuable.

A. I may have been the only M.P. who could understand the Government's proposal and the shoddy work that underlay it. The problem had been treated as solely political. Even though the plan has a Chief Actuary, he had never been consulted or asked for any estimates. After I had pointed out that the figures were at best useless and at worst misleading, there was a priceless reply by a Member supporting the bill which I'd be happy to send to any of your readers interested in seeing how actuarial questions can get mixed up with politics. Here is a short excerpt:

"In the Government of Canada we do not decide what we will pay in pensions, in family allowances or what we will spend on national defence or anything else on the basis of actuarial manipulations. These things are decided as a matter of policy. . . . I think the stuff that Mr. McCrossan has put out here tonight is, and I will use the word, irrelevant, to the basic capacity of the Government of Canada to pay pensions."

Q. So—an actuary in the House is what no parliament should be without?

A. Convincing politicians to look at the long-term implications of their programs is a hard task, especially if one is seated in the Opposition. Now that this actuary is in the Government, the probability that his pleas for considering the economic as well as the political considerations will be heard is surely much greater.

Q. Every actuary who reads of your experiences will join me in congratulating you, in sympathising with your obstacles, and in wishing you fortitude, success and, on the whole, happiness. Paul. We'll watch your progress with keen interest. □

Actuarial Meetings

Dec. 11, Chicago Actuarial Club

Dec. 13, Baltimore Actuaries Club

Jan. 10, Baltimore Actuaries Club

Compound Interest Book

The fourth printing of *Mathematics of Compound Interest** by Society members Marjorie V. Butcher and Cecil J. Nesbitt is now available. You may order it, prepaid (\$12 plus \$1.50 for postage and handling), from Ulrich's Books, 549 East University, Ann Arbor, MI 48104.

*Reviewed in *TSA*, XXIII, 28-9.