The Actuary

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ANOTHER ACTUARY'S VIEW OF THE WISCONSIN LAWSUIT

by Richard C. Murphy

Ed. Note: Views of several actuarial participants in this lawsuit were printed in our May issue. Mr. Murphy spoke for the plaintiffs.

In our company's view, fairness requires that buyers be given separate measures of the guaranteed and non-guaranteed costs of a life insurance policy. Hence, our strongest objection to the disputed Wisconsin Regulation was its omission of the Equivalent Level Annual Dividend from the preliminary policy summary.

We believe that the interests of buyers would best be served if the indexes were presented separately on guaranteed and illustrated bases. But, having pursued this idea during the development of the initial NAIC Model, we know that we cannot develop a coalition of mutual and stock companies willing to support cost displays of that kind. Several large mutual companies had, however, conceded that clients should at least be given the facts needed to calculate the guaranteed costs for a participating policy. ELAD was, therefore, a political expedient in the direction of informing buyers about guaranteed and non-guaranteed policy costs.

Certainly it is an imperfect expedient, and just as clearly, few will do the necessary arithmetic, but the opportunity is provided. Just as importantly, presenting an additional index number serves to distinguish clearly a participating policy from one that is non-participating.

It must be recognized that a typical dividend component is large compared to the surrender cost index that contains it; in many cases the guaranteed index is more than twice as large as the value taking illustrated dividends into account. Furthermore, life company portfolio interest rates, on which illustrated dividends are calculated, are now in the 7% to 9% range, compared to a 4% to 6% range twenty years ago. Naturally, dividends now being paid are larger than those illustrated on old policies, but will interest rates continue to rise? Or, will the high present rates encourage so much policy loan activity that dividends will have to be cut? Shouldn't we alert the public to the magnitude of the dividend's effect on costs?

Displays for the increasingly popular non-participating policies with non-guaranteed costs present a somewhat parallel problem. We consider it totally inappropriate to present buyers with only the cost indexes that apply if the initial premiums on these contracts continue unchanged. Just as cost indexes for participating policies should make clear what is guaranteed and what is not, likewise those of us who sell these new contracts should tell buyers what is guaranteed and what depends on future company experience and decisions. □

FIFTIETH ANNIVERSARY OF THE ITALIAN INSTITUTE OF ACTUARIES

It is a pleasure to extend to the "Istituto Italiano degli Attuari" heartiest congratulations and best wishes as it celebrates its 50th birthday this October.

Senora C. Angela Mormino, that Institute's Secretary General, kindly sent us material for this historical note:

Italy's original actuarial body, the National Association for the Development of Actuarial Science, was formed in 1897 but suspended during World War I. This hiatus ended in 1929 when the present Institute was incorporated to carry on that former body's tradition.

Headquartered in Rome, the Institute sponsors actuarial and other insurance studies, and conducts seminars, refresher courses and national congresses. It maintains a library, and publishes an annual Journal to which both Italian and outside specialists contribute.

The Institute coordinates participation of its country's actuaries in the International Congresses. Italy was the Congress host in 1934. □

Actuarial Perry

Ralph E. Edwards reports seeing the following in the *Baltimore Sun* of August 24.

Pitching luminary Gaylord Perry,
Always calm as an Actuary,
Adversary very wary,
Never ready for the antiquary,
Hears a querry almost merry,
Are his pitches salivary?

Author
Julian Peyser

A WORTHY SKETCH OF AN ACTUARY

The Baltimore Sun, last March 10th, printed an article about one of our members that surely qualifies for inclusion in kits used to tell the public what actuaries are like, and what we do. Entitled "Women Actuaries Rare But She Is A 'Fellow'," its subject is Cheryl E. Tillman, FSA 1978*; some of what reporter Carl Schoettler wrote was:

> A lot of us think of actuaries more or less as dim guys in dark suits crouched in the back room of an insurance company, endlessly figuring the odds on when we're going to die.
>
> So much for stereotypes: Ms. Tillman is bright, open, informative and pretty much in command of this conversation. . . . As she talks about her work, she seems quiet, gentle, calm, quite firm; a person, perhaps, whose numbers usually add up. . . .
>
> She thinks she spends more time planning how to keep people alive and healthy than calculating how long they have to live. She designs employment (sic) benefit plans: pensions, health insurance, dental insurance, disability, and, yes, life insurance programs. . . .
>
> She finds putting together a health, pension and disability package gives her considerable creative fulfillment. And she likes working out the arithmetics of funding the programs she's designed, or even programs someone else has designed. . . .
>
> The pension plans of most large private corporations, she says, are funded on a sound basis. "Sound", she says, "means employers are putting enough money into the plan to provide the benefits promised." Sound doesn't mean quite the same thing as adequate, she concedes, but that's another problem . . .
>
> Then what do actuaries do after hours? "Oh," Ms. Tillman says, "I don't know. I guess they do what all other people do." □

* Listed in 1980 Year Book as Cheryl E. Van Wiggeren.