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A MESSAGE FROM OUR PRESIDENT

It is obvious that the long-term status of the actuarial profession and its significance in society, as well as the day-to-day functioning of the Society, depend crucially on the dedication of time and energy by the people who serve on Society committees.

I want to use this notice in *The Actuary* to express my appreciation and that of the Board of Governors and the members and students of the Society of Actuaries to those individuals whose volunteer work enables the Society to carry out its mission of service to the actuarial profession and the public.

I wish it were practical for me to write a letter of thanks to each individual listed in the committee roster section of the *Year Book*. However, with close to 850 people involved in committee work on behalf of the Society, this is impossible. The fact that there are so many people involved in this way is surely one of the great strengths of the Society.

Julius Vogel

PROF. POLLARD'S MORBIDITY-MORTALITY TABLE

by Louis Levinson

A "morbidity-mortality table," as conceived by Prof. A. H. Pollard, F.I.A. of Australia, is a multiple-decrement table akin to the familiar combined mortality and disability table. But, while the conventional double decrement table is the result of an investigation that takes account concurrently of the pair of decrements revealed by a single study, the decrements in the morbidity-mortality table come from independent, though doubtless properly comparable, sources.

The morbidity-mortality table has been set forth in Prof. Pollard's paper, *The Interaction Between Morbidity and Mortality*. It was submitted to the Institute of Actuaries this year, and is expected to appear in J.I.A. Vol. 107.

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THE SOCIAL SECURITY DISABILITY AMENDMENTS OF 1980

by Bruce Schobel

On June 9, 1980, President Carter signed into law the Social Security Disability Amendments of 1980. This article covers only the Disability Insurance program changes (there are many others), which fall into two major categories: (1) benefit amounts, and (2) program administration.

Benefits

Under previous law, the five years of lowest indexed earnings were excluded in caculating average indexed monthly earnings (AIME). Consequently, benefits to workers disabled at younger ages were based on a more favorable proportion of their earnings than those to older workers. The 1980 Amendments specify which years are to be excluded, starting

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"PROJECT UPDATE"

by Harvey Halpert

On March 19 the Actuaries Club of New York heard a report by Messrs. Dale R. Gustafson and James J. Murphy on the sweeping change in coverage on old policies that Northwestern Mutual Life, is offering its policyholders.

The Problem

The U.S. 1959 Income Tax Act fails to treat holders of participating policies within a single company evenhandedly in respect of the amounts that must be charged against their dividends to provide for the portion of the tax that is levied against the company's investment income. This is partly because the tax base is the excess of investment income over the policy reserve interest requirement, and partly because the "'Menge formula" (10-to-1) rule used for adjusting for differing interest rates within a portfolio of policies develops serious inaccuracies when the difference between earned and reserves interest rates is as large as it has recently become. This injustice among policyholder groups has been specially troublesome in the speakers' company because more than half their policy reserves are on a 2% or a 2¼% interest rate. New policies since January 1978 are valued at 4% interest.

The Solution

It was decided to offer policyholders a choice between (i) having their policy face amount increased, reserves and cash values henceforth to be at 4% interest, or (ii) keeping their present policy just as it has been. The premium would be the same in either event. This means equating the current policy reserve (and the cash value*) for the old face amount

*To keep before-and-after cash values as well as reserves the same, requires special treatment to keep what used to be called the "surrender charge" unchanged.

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"Project Update"

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on the old reserve basis with that for the new face amount and the 4% reserve. A natural consequence of this is that dividends in future years will increase less rapidly than they would have increased had the policy not been changed. Policy provisions, specially the policy loan interest rate, were to remain unchanged.

Since the increases in face amount that emerged from the arithmetic were sometimes large, even exceeding 20%, it was felt necessary to place limits thereon to protect against possible severe adverse selection in the event that the proportion of such policyholders acepting the offer proved disappointingly low. Policies subjected to these limits were granted dividend additions offsetting their decreases in basic reserves.

So that all tax savings resulting from the program would be passed along to the policyholders who accept the offer, implementation costs for developing, publicizing and administering the program are being paid out of general surplus. The plan has been approved by all 50 states and the District of Columbia, and the company expects about a two-thirds acceptance rate.

Field Force Considerations

The change being a policy change, not in any sense a replacement, and there being no premium increase, no agent's commission accrues. Yet it was necessary to secure thorough and widespread agent cooperation if policyholders' questions were to be adequately answered and the considerations involved in making the choice sufficiently understood. Agents were given complete details of the program, and were placed in a position to explain the computer-prepared comparisons that were, over a period of a year, being mailed to eligible policyholders.

The company believes that the pains it has taken to acquaint its agents with the purpose and merits of the offer will minimize instances of replacement of policies within the company, and that the favorable terms of the program make any attempts by agents of other companies to raid the business unlikely to succeed.

A SALUTE TO OUR 25 OLD-TIMERS WHO ATTAINED THEIR PRESENT MEMBERSHIP STATUS BEFORE 1925

1913	Paul V. Montgomery, FSA	Dallas, Texas
1917	Charles W. Gamerdinger, FSA	West Hartford. Conn.
	Henry G. Sellman, ASA	Monmouth, Ill.
1919	Erston Marshall, FSA	Atlanta, Ga.
	W. Rulon Williamson, FSA	Windsor, Conn.
	John V. Hanna, ASA	Concord, N. H.
1920	William P. Barber, Jr., FSA	Redington Beach, Fla.
	F. Bruce Gerhard, FSA	Summit, N. J.
	Marcus Gunn, FSA	Sacramento, Calif.
	James E. Hoskins, FSA	West Hartford, Conn.
1921	Horace Holmes, FSA	Kitchener, Ont.
	Francis McAdam Smith, FSA	Long Bell Island, N. J.
1922	Alden T. Bunyan, FSA	West Hartford, Conn.
	Elder A. Porter, FSA	Athens, Ohio
1923	J. Gordon Beatty, FSA	Toronto, Ont.
	Henry S. Beers, FSA	Tucson, Ariz.
	Arthur W. Larsen, FSA	Omaha, Neb.
	Morris Pike, ASA	White Plains, N. Y.
	Norris E. Sheppard, ASA	Toronto, Ont.
1924	Albert E. Babbitt, FSA	New York, N. Y.
	Reinhard A. Hohaus, FSA	Greens Farms, Conn.
	George L. Holmes, FSA	Willowdale, Ont.
	James T. Phillips, FSA	Toronto, Ont.
	John D. Williamson, FSA	Toronto, Ont.
	Elizabeth W. Wilson, ASA	Lexington, Mass.

Acknowledgements to the Institute of Actuaries, which shows this information annually in its *Year Book,* and to Messrs. Oates and von Schilling who suggested (May issue) that we start doing likewise. □

What Will Other Companies Do?

This program naturally has created widespread interest, making it likely that this lead will in due course be extensively followed. Similar offers, however, are expected to make their appearance slowly because the systems required to accomplish the task are complicated, specially so in companies whose patterns of policy editions are less adaptable to making straightforward conversions than in this company.

Ed. Note: We learn of one other company, Pan-American Life, that is making a similar benefit increase on its old policies effective June 30, 1980. One difference is that no formal policyholder acceptance is being solicited, because in their version future cash values will always be at least as large as if the increases in death benefits had not been granted, and the current dividend scale is being continued. □

Deaths

Frederic P. Chapman, F.S.A. 1933

Juris Lielais, A.S.A. 1979

James S. Elston, F.S.A. 1918

Jim Elston was particularly active in the American Institute of Actuaries. He was Editor of *The Record* from 1929 to 1946 and was one of the Vice Presidents at the time of the merger with the Society.

He also edited the second edition of the Society's Actuarial Study No. 1, *Sources and Characteristics of the Principal Mortality Tables.* □

Contributions to the Actuarial Education & Research Fund, 208 *S. LaSalle St., Chicago,* 60604, *in memory of any deceased Society member are acknowledged to the donor and to the member's family.*