Article from:

The Actuary

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Letters

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he suggests that regulatory bodies ought to look with favor on 30% to 40% loss ratios." I wasn't suggesting what regulatory bodies ought to do; I was stating what many of the more realistically minded ones in fact do. This includes some of the largest and most sophisticated state departments. It also includes the N.A.I.C., which in its guidelines recognizes loss ratios as low as 35% as presumptively reasonable for individual policies with average premiums below $100, and permits further deviation if actuarially justified under "special circumstances." And these guidelines list cancer insurance among the coverages "requiring special consideration" as to reasonableness of loss ratios.

E. Paul Barnhart

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Ethics Of Tax Avoidance

Sir:

I am amazed that Robert J. Myers (February issue) considers the tax avoidance scheme, "FICA-II," iniquitous manipulation. What is iniquitous about legal tax avoidance?

There was a loophole which permitted lesser Social Security taxes, and as a result lower benefits. Some companies didn't take advantage of this, concluding either that it was too much trouble or that the value of their employees' lost benefits exceeded tax savings; others decided it was in their financial interest to adopt the plan, with savings either passed on to or shared with employees.

It seems inappropriate for a consulting actuary to express to his client either approval or disapproval of the plan. The actuary should make its consequences thoroughly clear—not make value judgment about loopholes in our country's tax system. The company management should make its own decision. It isn't up to the actuary to disapprove financial self-interest implemented legally.

Will we next be told that it's immoral for an employer to exclude sick pay from Social Security taxation? This similarly results in lower tax collections and lower benefits to workers.

Allan B. Keith

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Linguistic

Sir:

Ernest R. Vogt (Jan. issue) will forgive a confirmed old Germanophile for differing about the German word for *actuary*. Although that nation's penchant for unbridled agglutination is well known, I should be surprised were a German actuary to refer to himself using anything more challenging to the Anglo-Saxon tongue than *Versicherungsmathematiker* (insurance mathematician). Prefixes, e.g. *Lebens-* (life), *Kranken-* (sickness), may be added to tell one's specialty, but few of us qualify for the suffix-*wissenschaftler* (scientist), at least in that word's classical sense.

Incidentally, I found life contingencies as difficult to master in German at the University of Munich in 1973 as it turned out to be later in English. Nevertheless, I did learn to manipulate *den Wert einer vorschussigen Leibrente,* long before I ever knew it meant the present value of a life annuity-due!

Paul E. Buell

This Month's Query For Actuaries

"Suppose I owe a hundred dollars on which I pay 12 percent interest, and the rate of inflation is 10 percent. In this case the true interest cost is 2 percent; the remaining 10 percent represents in fact repayment of part of my debt. At the end of the year, I still owe the same number of dollars, 100, but the real value of my debt is now 10 percent lower, because of inflation."

These words are in a letter from two Harvard economists, printed in the New York Times, March 6, 1981. Those writers, Jeffrey Sachs and Olivier Blanchard, use that reasoning to assert that "the constant-dollar value of the (U.S.) public debt is hardly rising," i.e., "the Government is not really living beyond its means." "The properly measured deficit of the Federal budget for fiscal 1980 is about $14.5 billion, or .005 of G.N.P., not the frightening $59.5 billion cited in public debate."

Query: What do actuaries think of this line of reasoning? What are the implications of its acceptance by the public and the Federal budgetmakers?

Please send answers to this newsletter's masthead address, for compilation with credit to each contributor.

A PAIR OF ATTRACTIVE SEMINARS

by Linden N. Cole

"The Actuary and Market Research." This will be a one-day event, a promising blend of theory and practice. Its faculty—an actuary experienced in marketing, and experts in statistical methods from University of Waterloo. Hartford, May 15; Washington, May 18; Kansas City, May 20; Ottawa, May 27.

"Modern Statistics, With Actuarial Applications." For actuaries who have the uneasy feeling that the statistical world has moved ahead of us, or who just seek to brush up. Faculty—actuaries from Universities of Michigan and Waterloo. St. Louis, June 4-5; Hartford, June 15-16.

Seminar Pre-Registration Rules

Pre-registrations accompanied by $25. guarantee a place up to two weeks before a seminar begins; check for full fee guarantees a place unconditionally. But in the latter case just as the former, we want that final registration form!

A Postponement

"Risk Theory Calculations, and Other Applications of Advanced Statistics" is postponed to September. We felt it should be held after the one listed above. □

BOOK REVIEW

A Nationwide Survey of Attitudes toward Social Security. Report prepared for The National Commission on Social Security by Peter D. Hart Research Associates, Inc., 300 pp. Available from the Commission at Washington, DC 20218, gratis.

Reviewed by Robert F. Link

More Americans than not have a working knowledge of our Social Security system. They believe benefits have increased "somewhat", while taxes have increased greatly. About two out of three know that its payroll tax receipts aren't set aside in individual accounts, but are used to pay benefits to those already retired. A low level of objection tends to be expressed to Social Security taxes in comparison with other taxes.

These are some of the findings of this report prepared for the Commission by the research firm from in-depth interviews with 1,549 persons selected so that every adult had an equal chance to be included. First appears a brief summary, followed by about 80 pages of findings, almost 200 pages of tabulated

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