



SOCIETY OF ACTUARIES

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# The Actuary

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## CA AN

Prof. Ernest R. Vogt of Winnipeg is founder and editor of *Canadian Actuarial Academic News*, officially symbolized as above. That journal's aim is to provide a forum for actuaries teaching at Canadian universities and other academics teaching or doing research in actuarial science—about 30 of these in all. The magazine started nine quarterly issues ago, but there's a cloud on its horizon; its sire to threatening to cast his infant loose by May 1982.

Thus we may be barely in time as we extend this cordial welcome to a sprightly publication that has already displayed some useful and stimulating news and reflections. We do wish it well.

For those who wonder why that magazine's initials are split into two pairs, and what that cedilla is doing up there, we pass along Editor Vogt's explanation. By that device the initials were made to do double duty. Split and cedilla'd they may be accepted as denoting "This Year" in French.

E.J.M.

## THE E. & E. CORNER

*Ques.: Has consideration been given to changing spring exam dates—at least for Parts 1-4—to avoid dates of university finals?*

*Ans.: No. University exam dates differ too widely, we think, to make such a change worthwhile.*

*Ques.: What attempts are made to see that the exam tests knowledge of all parts of the syllabus?*

*Ans.: Syllabus coverage is an important factor we use in our final check on each exam. The Part Committee, the consultants, and several E. & E. officers all ask ourselves whether we have arrived at a well rounded exam that reasonably covers the entire syllabus. Complete coverage, though, isn't practical every year; sometimes it conflicts with setting high quality, non-trivial questions that are sufficiently searching. We must be content with adequate testing over a span of years.*

We and our students have to remember that the system's purpose is to educate future actuaries in all syllabus sub-

jects. The exams themselves should assure that F.S.A.s have shown a reasonable degree of knowledge of the material, but this doesn't mean that every study note or every part of a subject needs to be tested each time. □

## MORE ON UNIVERSAL LIFE

Apart from Wilbur M. Bolton's historical observation in this issue's Letters, our September supplement on Universal Life has yielded three responses.

*Robert D. Shapiro* sent a copy of his firm's research report, "Whither Universal Life?". After expressing concern that "some companies may be evolving Universal Life packages without adequate consideration of long-term strategic implications", the report lists questions that deserve attention. Among these are: Whether the trends that have created interest in the product are merely temporary; How the product fits the company's own characteristics and objectives; What alternatives or variants ought to be thought about.

Universal Life, says this report, may be right for some companies and wrong for others.

*Dale R. Gustafson* asks why the really hard questions about the product aren't reflected in the articles we printed. His nominees for the hard questions are:

Are short-term new money investments appropriate for a product designed to meet life-long insurance needs?

Is it appropriate for buyers, or potential replacers, to compare "new money" with "portfolio" sales illustrations without explaining the profound differences between them?

How will the great continuing planning and service needs of Universal Life policyowners be provided for? Who will satisfy these needs and how will they be compensated? Does anyone believe that a policyowner can figure it out all by himself, or that an 800 number in the home office will suffice?

*Richard F. Fisher* sums up his viewpoint thus:

Universal Life is marketed as a tax-free money market fund, or other short-term investment vehicle, with term insurance available to be purchased from the fund. Current high short-term yields

are illustrated for very long periods of years.

Continuance of the term piece has all the problems of continuance of term insurance purchased in any other way.

The fund's attractiveness is directly related to its yield, which will fluctuate over wide ranges in short periods. Churning will be high as comparisons of recent performance and illustrations will "prove" the necessity for a switching. As with most investment plans, persistence of new deposits will be lower than persistency on level premium life insurance. Only lower commissions will be economically justifiable.

The result of low commissions is low service. Life insurance professionals cannot afford to work for peanuts.

The product will result in term coverages that lapse at high ages, disappointed beneficiaries, tax questions (Why should this investment be treated better than other investments?), high turnover as brokers shift their clients to whatever the current favorite is, fewer professionals working to insure human life values, and higher life company expenditures on advertising and policyowner service.

Will the consumer get more for his money? No. Is Universal Life a technological breakthrough that will result in real productivity and real savings for the consumer? No.

It is a symptom of an economy in convulsion. There is danger that it will result in breaking down the practice of insuring human life values with level premium life insurance that is affordable and pays benefits whenever death may occur.

E.J.M.

## This Month's Query For Actuaries

This question is directed to readers who are skeptical about the oft-heard remark, "When inflation rages, everybody loses!"

*Query:* Apart from the obvious case of those who have larger debts than savings and whose incomes are amply indexed, which groups in the country have profited most conspicuously from the U.S. or Canadian inflation of the past decade?

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