SOCIETY OF ACTUARIES

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Letters

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our certifications that reserves are adequate and that the company is solvent. And accomplishing that should lead to less regulation.

But we have a long way to go to establish that credibility. Said a high official of the New York Department in response to my suggestion that he place more reliance on actuaries, "Your profession has only drummed two people out of the corps in its entire history, and you didn't do that until they were in jail."

It is doubtful that dismissing members is evidence of anything, nor do I share Mr. Kingston's lament that "Too few actuaries have resigned in public protest against top management's short range attitude." Top management isn't the culprit any more than Hitler was the sole Nazi abomination. We actuaries must take our responsibilities seriously and personally.

Several years ago in *The Actuary* (Oct. 1976—Ed.) I called for an Actuarial Standards Board. Since then there has been much development of Guides to Professional Conduct; perhaps we don't need any more than those or any better discipline procedures, but I doubt it. What we do need is perfect adherence to the requirements we already have.

Ardian C. Gill

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Taxation Ethics

Sir:

Charles M. Larson's objection (April issue) to Stuart J. Kingston's assertion that high taxes are unethical should be framed by defense lawyers for use when they represent clients accused of diverting funds.

Mr. Larson considers arbitrary redistribution ethical provided the income it transfers comes from taxpayers making, say, $20,000 per year to those making $15,000. This is just a microcosm of our present tax structure; our government restricts incentives by transferring from those who produce to those who consume.

One must concur with Mr. Kingston's view unless one supports transferring income, from each according to his ability to pay, to each according to his needs.

Richard H. Solomon

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Society Finances

Sir:

As an F.I.A. who is an A.S.A. by virtue thereof, I found most interesting (in your April issue) the summary of W. W. Truckle's paper on actuarial education and Leslie J. Lohmann's letter on subsidizing examination costs out of membership dues.

The Institute of Actuaries requires everyone who takes its exams to be a member—it has a student level of membership—and thus to pay dues. The Society might consider a similar provision, thus offsetting the subsidy.

A side issue is the extent of tax-deductibility. For example, although Society accounts show meetings and seminars costing just about what those who attend them pay, there is a subsidy of a different sort to those attenders who can take a tax deduction.

On Mr. Lohmann's other point, it seems to me that we owe our committee members decent accommodations when they travel on our behalf; surely the extra cost of this in the Society's budget would be relatively trivial.

Ian R. Harrington

MERGERS AND ACQUISITIONS ON HARTFORD PROGRAM

by David M. Lipkin

A recent Hartford Actuaries Club workshop examined Life Company Mergers and Acquisitions. The audience was addressed by two Fellows: Howard L. Rosen (acquisitions) and Charles C. DeWeese (mergers).

Mr. Rosen explained that many concerns, including non-insurance and foreign companies, are making life companies their takeover targets. Typical prices have been rising to two-to-three times GAAP book value. Three reasons for this popularity are (1) their stable earnings, (2) tax advantages, especially upon liquidation, and (3) favorable cash flow. The actuary's role is to set a value on the acquired company's present value of future profits so that a fair purchase price can be set.

If the company doesn't know that it is, or doesn't want to be, the subject of such study, the actuary must rely solely upon published data, hence is forced to make many educated guesses.

The most important assumption the actuary must make is the rate at which future projected profits are to be discounted. This rate is supposed to reflect the underlying risks; typical rates that Rosen has seen are 12-18%. The discount rate is usually increased in valuing profits from health business (riskier than life), or business not yet written (obviously risky).

The actuary is often called upon to justify a purchase price that has already been set. (There are probably analogies here to other actuarial functions.) To ensure that his assumptions are unbiassed, Rosen prefers not to know the target value.

Mr. DeWeese then gave some background on the merger between Connecticut General and INA Corporation.

Connecticut General is a multi-line insurance company, the bulk of whose business is life and health insurance with emphasis on employee benefits. Its relatively small property and casualty business is written through a subsidiary. INA's business complements Connecticut General's, as INA specializes in property and casualty insurance, with smaller life and health operations.

Connecticut General began looking to acquire a property/casualty company in 1979, for several reasons, including (1) favorable prospects for long-term profitability and growth in that industry, (2) opportunity to diversify in business risk, and (3) desire to be as large a factor in property and casualty as it is in its other lines.

As Connecticut General narrowed its list of candidates, INA emerged as an attractive company, but too large for CG to buy. At the same time, INA was going through a similar exercise, with an interest in increasing its employee benefits business. CG emerged as their most attractive candidate, but too large for them to purchase.

Goldman Sachs & Co., acting as investment banker to both companies and aware of these interests, first suggested merger and brought the companies together to discuss that possibility. Describing the result as "a merger of equals", DeWeese noted that one major advantage of this merger over an acquisition was that neither company paid a premium to acquire the other. The two units will continue to operate under their own names. □