



SOCIETY OF ACTUARIES

Article from:

The Actuary

February 1982 – Volume 16, No. 2



The Actuary

The Newsletter of the Society of Actuaries

VOLUME 16, No. 2

FEBRUARY, 1982

UNITED KINGDOM RESPONSE TO INFLATION

by William Vickers, B. Comm., Toronto

Ed. Note: Mr. Vickers, Senior Compliance Officer of Manufacturers Life Insurance Company, kindly contributed this at the invitation of our Economics & Finance (Continuing Education) Committee.

How to deflate overheated economies, and at the same time to stimulate productivity and maintain high employment, are difficult challenges facing many governments. The results of Prime Minister Margaret Thatcher's monetary and fiscal policies to achieve these goals are therefore of no little interest abroad.

Inflation's Perceived Roots

It is widely accepted that inflation is sparked by excessive growth in the money supply at a point (called the "inflationary gap") where there already is full employment, i.e., no excess productive capacity. Such growth, which may arise from government spending, new investment, or consumption, is deemed inflationary because it increases aggregate demand without increasing production. Labour cost-push and monopolist price-push theorists attribute inflation to excessive wage and price increases created by union and monopolistic power, respectively. Structural-rigidity theorists consider that prices can increase but never decrease, because prices in contracting sectors of the economy stay the same because of economic structural rigidities, and prices in expanding sectors rise. Many attribute inflation's persistency to expectations that it won't be stopped; hence wage and price contracts reflect inflation that has not yet happened.

(Continued on page 4)

NEWSLETTER NEWS

Among actuarial newsletters these days, we have one that's new; one that's using a computer; one that sports a new editor; and one that has both a new editor and an increased issue frequency.

FRESH AIR—AIR stands for Actuaries In Regulation—has been launched. Its Editor, R. Michael Lamb of Salem, Oregon, tells us that it's intended to appeal to casualty people, but an occasional item may merit attention of life and pension actuaries. He cheerfully permits us to relay such pieces.

The October 1981 issue of John H. Miller's **DISABILITY NEWSLETTER** was produced on their newly acquired equipment, consisting of a TRS-80 II computer, TRS-80 Daisy Wheel Printer II, and Scripsit Word Processing, Model II. As well as meriting our respect, this gives food for thought for this journal which is edited in North Carolina, produced in New York, and distributed from Chicago. Comments from readers on what you might do if you were in our shoes will be welcomed.

FIASCO in London, skillfully edited these past two years by Peter J. Turvey, advertised in its October 1981 issue for a successor, and promptly announced appointment of R. David Campbell of Epsom, Surrey. We count upon enjoying the same reciprocity with him as with his genial predecessor.

The **ACADEMY NEWSLETTER** now has Mary H. Adams at its editorial helm, and will have twelve issues in 1982. We expect this latter to result in rather less duplicating of articles and announcements between us than in the past.

E.J.M.

SCOPE OF SOCIETY RESEARCH

Ed. Note: This is little more than a teaser excerpted from a three-page statement of policy adopted by our Executive Committee in September 1981. Interested readers are invited to obtain the full text from James L. Cowen, Director of Research at the Society Office, and to direct comments and questions to him or to Dwight K. Bartlett, III, c/o National Health & Welfare Mutual Life Assn., 666 Fifth Avenue, NYC 10103.

Actuarial research efforts of Society members may be classified generally into three categories as follows:

Experience:

Collection, analysis and reporting of . . . data pertaining to actuarial science . . . including preparation and graduation of experience tables, and development of projection factors.

Theory:

Discovery and refinement of mathematical and statistical theories and techniques . . .

Practice:

Research and development relating to actuarial principles and business practices affecting . . . insurance companies, employee benefit plans and government programs.

.....

The Practice category includes much of the work of the various committees on dividend practices, valuation principles, and pensions, as well as much of the research of individual Society members. It is important to distinguish between two phases of Practice category projects as follows:

(Continued on page 5)

THE E. & E. CORNER

Ques.: Why not return to each student his or her graded essay papers?

Ans.: Among the reasons why we don't return essay papers are these:

1. Because no examiner's markings are made on them, they wouldn't give any idea of strong or weak points in the answer. The best way to see how good answers are constructed is from the illustrative solutions, usually available before the next exam.

2. Anyway, there would be delay because the Committee needs to keep the papers for several months in case challenges or even cheating charges have to be investigated.

3. Reassembling the papers would be necessary; they will have been sorted by question number and dispersed to the graders.

Ques.: Why doesn't the Committee publish the numerical distribution of exam grades so candidates can evaluate their position? Without this, grades aren't much more helpful than Pass or Fail.

Ans.: Surely candidates find it useful to know how close they were to a passing grade. Knowing how many others happened to receive the same grade seems of no real extra benefit.

Ques.: Has a student's request for regrading ever resulted in a change from Failed to Passed? How should such request be made, and how soon?

Ans.: For essay questions, as explained in our January 1982 Corner, the grading procedure makes regrading changes from Failed to Passed practically impossible. For multiple choice questions the same is true; answers stored in the computer are checked carefully, and the computer scoring itself is checked by hand-grading several papers to compare with computer results — also any statistically peculiar result actuates a recheck to make sure that the prepared answer is correct and that there is no other correct answer. In rare cases of mistakes, the gradings are rectified without any student initiative.

Students' requests for regrading are thus refused. But we do recheck on request the clerical work of adding the score, even though errors are rare. Also, for an exam that covers several distinguishable subjects, the Part Chairman will tell inquiring students their relative

Spring Exam Preparation Seminars

University of Waterloo will offer four one-week seminars:

Part 4	May 3-8
Part 5	Apr. 19-24
Part 6	Apr. 26-May 1
Part 8	Apr. 19-24

Obtain particulars from Prof. M. A. Bennett at his Yearbook address.

Georgia State University will conduct seminars during April for each of the following:

Part 2	Part 5B
Part 3	Part 6, SOA
Part 4	Part 6, CAS
Part 5A	

Information from Prof. Robert W. Batten at his Yearbook address.

performances on the different subjects so that they can make special efforts to master areas of weakness the next time. Such requests should be made in writing to the Society office promptly after exam results have been released. □

A SEER'S CHRONOLOGY OF UNIVERSAL LIFE

Ed. Note: This is the gist of a November 1981 actuarial club presentation by Robert D. Shapiro.

1981. Universal Life proliferates in an atmosphere of high interest rates (short-term higher than long-term), efforts to minimize company federal income tax, and worrying about policy loans and lapse rates. Progressive companies remove Elizur Wright's portrait from their walls, replacing it with a likeness of James C. H. Anderson, the herald of Cannibal Life Insurance Company.

1982. Amid declining interest rates, short- and long-term rates begin to return to their historic relationship. A tax law change is clearly in the wind; nearly every state is expected to approve variable loan interest rates. As interest rates on Universal Life decline, consumers press for some kind of excess interest spreading to limit premium variability. Uncannibal Life introduces a product that spreads investment and mortality gains over two years. Two-Year Life is ridiculed in several full-page *Wall Street Journal* spreads by a Universal Life writer.

1983. Interest rates have dropped well below 10%. Long-term rates now clearly exceed short-term. The tax law is obviously about to be changed to produce parity between stock and mutual companies and between traditional and new products. Variable and pass-through policy loan rate provisions have rescued the industry from its trauma of volatility. Lower and lower excess interest credited to Universal Life causes Uncannibal Life to lead a parade into Ten-Year Life wherein gains are spread so as to keep premiums level for ten years. The bulk of the industry now follows the current piper only where their well-defined long-term strategies dictate.

1984. Economic, tax and persistency conditions have stabilized. Companies that have introduced Ten-Year Life are giving Universal Life companies fits by replacing their policies, but have, under intense consumer pressure, adopted spreads to age 100 in place of 10-year spreading. True to its creative reputation, Uncannibal Life dubs this plan "Whole Life". Elizur Wright's picture reappears alongside of Mr. Anderson's.

1990. As the second year of the new liberal federal administration begins, interest rates start a dramatic rise. James C. H. Anderson demonstrates at a Pacific Insurance Conference meeting that Whole Life won't work in the evolving economic environment. Surviving life companies, banks, stockbrokers and other financial institutions join in a chorus of "Here We Go Again." □

Scope of Society Research

(Continued from page 1)

Study phase:

Formulation, calculation and analysis needed for developing actuarial principles and business practices.

Conclusion phase:

Actual development of business practices and principles and recommendations leading to their adoption.

.....
Having undertaken the Study phase, the Board of Governors (may be faced with whether or not to) carry through the Conclusion phase. (Decision not to do so) is particularly appropriate (when) a recommendation involves a choice among several reasonable alternatives. □