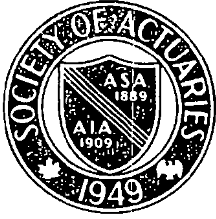

The Actuary

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 Actuary

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JOSEPH W. S. YAU
Competition Editor . . CHARLES G. GROESCHELL
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The Society is not responsible for statements made or opinions expressed herein. All contributions are subject to editing.

EDITORIAL

POUR ENCOURAGER LES ANCIENS

IN GENERAL, the Society's treatment of its retired members is enlightened and humane. If our dues waiver system had not been adopted long ago, many of our five hundred pensioners would have succumbed to procrastination about paying those ever-climbing annual dues. The loss would have been theirs and ours.

We applaud also the choice more recently given these oldtimers: either to pay nothing and receive only general announcements (including this newsletter); or to remit a modest sum to get also the *Transactions* and other volumes. This has been beneficial to them and to the rest of our members.

But a correspondent has raised a question that we've never heard discussed: What meeting registration fee should be assessed to a retired member? Presently we charge the full, rather formidable, fee that applies to those who come to gain professional and business advantage from sessions, workshops and the helpful corridor conversations.

Our correspondent doesn't urge that a reduced or waived registration fee system be introduced for all who have qualified for dues waiver. He just wonders whether those who would like to come just to meet old friends and sample what is going on might be granted the privilege of paying only for "goods received", i.e., the reception and any luncheons or dinners. (He didn't mention the complimentary breakfasts). Such an arrangement would be made upon the member's personal request to an appointed authority; its availability would be mentioned in the meeting notice.

We commend this idea for discussion and experiment. Surely such requests will be few; the advantage would be measured in the pleasure given to them and to the active members who have known them or heard of them.

One other point. Our correspondent sent this suggestion, not recently, to the Society and Academy Presidents, but neither of these letters was ever acknowledged. This problem, associated doubtless with organizational growth and complexity, deserves attention.

E.J.M.

FOR YOUR READING

The up-to-date edition of Robert J. Myers' famous *Summary of the Provisions of the OASDI, HI and SMI Systems* is ready for gratis distribution to those who request it by letter to Harry C. Ballantyne, Chief Actuary, Social Security Administration, Altmeyer Bldg. Ste. 700, Baltimore, MD 21235. Firms, Classes and Clubs: Please don't deplete the supply by ordering in bulk; request one copy and do your own duplicating!

"Omnibus Reconciliation Act of 1981: Legislative History and Summary of OASDI and Medicare Provisions", by Commissioner of Social Security John A. Svahn, is to be found in *Social Security Bulletin*, October 1981/Vol. 44, No. 10, pp. 3-24.

"Graduation by Piecewise Polynomials: A Historical Review", by Hilary L. Seal, appears (in English) in *Deutsche Gesellschaft Fur Versicherungsmathematik*, Band XV, April 1981, pp. 89-114. This is of major historical interest in its field, covering graduation pioneering back to John Finlaison in 1829, and listing references up to modern times.

Actuaries aiming to delve into legal views of the Manhart case and of such questions as the significance and durability of life expectancy differences will do well to consult "Sex Discrimination in Employer-Sponsored Insurance Plans: A Legal and Demographic Analysis" by Lea Brilmayer et al, and "Reprise on Manhart" by Spencer L. Kimball. The former is in *The University of Chicago Law Review*, 47:505, 1980; the latter is in the *American Bar Foundation Research Journal*, 1980:915.

WELCOME NEWS

We extend hearty congratulations and best wishes to Harry C. Ballantyne, A.S.A., M.A.A.A., as he assumes the key post of Chief Actuary of the Social Security Administration. Harry has been in SSA actuarial posts since 1958.

THE NEW MODEL VALUATION AND NONFORFEITURE LAWS

by John O. Montgomery

(Concluded from November and December issues)

More on Statutory Maximum Valuation Interest Rates

The second of these three articles outlined the new approach to statutory maximum interest rates, and gave a few figures for traditional life insurance forms. The following is a more complete table:

Maximum Valuation Interest Rates for 1981

Policy Form	*Longest Period That Policy Can Remain In Force*	*Maximum Rate or Range of Rates (see Note 1)*
Life Insurance	More than 20 Yrs.	5.00%
	11 - 20 Years	5.75
	10 Yrs. or Less	6.00
	Guarantee Duration (Yrs.)	
Immediate Annuities	All	11.50
Deferred Annuities & Guaranteed Interest Contracts Valued By Issue Year	More than 20 Yrs.	5.50 - 7.75
	11 - 20 Years	6.25 - 10.00
	6 - 10 Years	8.25 - 11.50
	5 Yrs. or Less	8.25 - 12.00
Deferred Annuities & Guaranteed Interest Contracts Valued on Change-in-Fund Basis (see Note 2)	More than 20 Yrs.	7.25 - 10.00
	11 - 20 Years	8.25 - 12.00
	6 - 10 Years	9.00 - 13.25
	5 Yrs. or Less	9.00 - 13.75

Note 1: Precise values within the rate ranges shown depend upon the extent of the interest guarantee and the conditions under which funds are withdrawable.

Note 2: The change-in-fund basis values the original amount deposited at the interest rate in effect when it was deposited; all changes to the fund thereafter, including interest on the original deposit, are valued at the rates in effect when they occurred.

Maximum Valuation Interest Rates for 1982

Life Insurance	More than 20 Yrs.	5.50%
	11 - 20 Years	6.25
	10 Yrs. or Less	6.75

Because they depend upon averages of market interest rates that extend to June 1981, interest rates for 1982 that apply to annuities and guaranteed interest contracts are not yet known. They will be promulgated by NAIC about August 1982, and published either in NAIC's "Journal of Insurance Regulation" or the next NAIC Proceedings.

Formula for Minimum Nonforfeiture Benefits

The formula for the adjusted premium has been changed in several ways:

- Removing the old formula's circularity; its definition of the adjusted premium included some percentages of the adjusted premium itself. The new percentage-of-premium factor is a straightforward 125% of the net level premium.
- Reducing the amount-of-insurance factor from 2% to 1%.
- Redefining the equivalent uniform amount on nonlevel coverages as the amount averaged over the first ten policy years only.
- Limiting the nonforfeiture net level premium (rather than the adjusted premium) to 4% of the amount of insurance.
- Exempting from requirement for nonforfeiture values (i) any plan whose calculated minimum cash value never exceeds 2½% of the amount of insurance, and (ii) level term for 20 years or less, expiring before age 71, provided there is no accompanying guaranteed endowment or nonforfeiture benefit.

For descriptions of this new formula's development, see Charles F. B. Richardson's paper (*TSA XXIX*, 209) and the Unruh Committee report (*TSA XXVII*, 549).

High Cash Value Plans

The matter of setting up adequate reserves for high cash value policies demands more attention than it has been given in the past, particularly now that direct linkage between valuation and nonforfeiture interest rates has been removed and deficiency reserve requirements have been lightened. The premiums for these policies are highly competitive, their gross premiums frequently being less than the valuation net premiums; if not adequately reserved for, serious solvency problems threaten at later policy durations when these policies may generate net cash outflow and drain on surplus.

The statute setting forth the Commissioners' Reserve Valuation Method requires that the reserve be the excess, if any, of the present value of future guaranteed benefits over the present value of future modified net premiums. Cash values, of course, are guaranteed benefits, so reserves must be established for cash values that exceed regular reserves, a condition that occurs not infrequently.

The NAIC Technical Staff is drafting a guideline on this subject to be brought up for discussion at the June 1982 NAIC meeting, and for adoption at the December 1982 meeting.

A related question is whether traditional insurance plans should be allowed to provide nonguaranteed cash values on top of guaranteed values, a practice that is developing in some universal life plans. This is being studied by the Technical Staff and its advisory committee.

Fitting Policy Values To The New Law

For several years companies will be writing business in states with varying degrees of enactment of the new legislation. Those who choose not to wait until the new law has been adopted throughout their territory will be faced with

(Continued on page 4)

New Model Valuation

(Continued from page 3)

some minimum paid-up values and extended term periods higher than those now required. To keep the resulting filing of new forms to a minimum, companies may resort to policy forms under which only the rate and value pages need to be revised as the requirements change.

* * * *

To sum up the three articles on this subject: I believe that these new laws will be found to serve the public effectively in their flexibility and in their safeguarding of company solvency, and likewise in the reasonableness of the withdrawal benefits whose minimums they prescribe. ☐

A Chance To Acquaint Yourself With Modern Risk Theory

Any member who wants a two-day course built upon the recently announced text material on Risk Theory — see "New Risk Theory Study Note Signals Change," front page of our December 1981 issue—is invited to enroll, while space is available, in one of several seminars to be held in March.

Response by Part 5A students has been so strong that sessions are scheduled for numerous cities, probably in one convenient to you. If this may interest you, ask Linden N. Cole at the Society office for particulars.

Response to Inflation

(Continued from page 1)

Current persistent inflation in the U.K. is peculiar to this era in British history. During John Maynard Keynes' heyday (1919-46) Britain had experienced remarkably stable prices amidst generally high unemployment; hence controlling unemployment was his primary concern. He thought employment would respond to government taxation and expenditure policies; probably he was unaware that inflationary gaps might simultaneously cause unemployment, productive stagnancy and price increases.

Inflation's most damaging effect is that it redistributes income haphazardly, taking it from those who can't protect themselves from price increases and giving it to those who can.

Many economists have expected persistently low unemployment to go along with high inflation and rapid growth in the money supply. But today's experience having shown the reverse to be usually true, the conclusion often reached is that the money supply must be reduced to cure inflation; slowing its growth results in higher unemployment unless the private sector reacts by promptly moderating wage demands and price increases.

British price levels increased explosively in 1972 following one of the highest fiscal deficits in its history occurring at an "inflationary gap" point. Blaming this on high wage settlements, the government imposed strict wage and price controls. Unions reacted with demands aimed at restoring wages to their previous level in real terms; the results were crippling strikes in key industries, power cuts, social unrest, the calling of a general election and the government's fall. The incoming Labour government surrender to the strikers' demands; the income policy collapsed; lost output and social stress were enormous, yet inflation was not controlled.

The Prime Minister's View

Mrs. Thatcher, coming to power in 1979, adopted a different economic strategy. She may have assumed that because wage and price controls had failed before, they would be expected not to work, hence inflation would resume as soon as they were lifted. Her approach was to reduce aggregate demand by contracting the money supply and by other monetary and fiscal measures.

She said she was committed—to reducing the rate of growth of the money supply—to creating conditions for a sustainable economic growth—to strengthening incentives by allowing people to keep more of what they earn—to enlarging individual freedom of choice by reducing the role of the State—to reducing the burden of financing the public sector so as to leave room for commerce and industry to prosper—and to promoting a proper sense of responsibility in those who take part in collective bargaining.

Her primary initial monetary measure was to keep high the interest rate at which the (Central) Bank of England makes advances to the chartered banks, with the twin objectives of discouraging borrowing by businesses and individuals and reducing profits so that management would surrender less easily to unreasonable wage demands. Her fiscal measure was to reduce income taxes, making up the resulting loss in tax revenue by increasing the rate for the national sales tax (VAT) and employers' social security contributions; her hope here was to confront taxpayers with the choice between contributing via VAT in spending their tax savings or else increasing their own savings. And she undertook to reduce public expenditures wherever possible.

The Story So Far

Up to her announcement of the 1981-82 budget in March 1981 the effects of Mrs. Thatcher's policies were:

- unemployment at an unusually high level and still growing;
- increases in business bankruptcies and near bankruptcies, which she has alleviated in a small way by reducing the minimum lending rate from 14% to 12% and granting enormous subsidies to several essential industries;
- moderation in wage settlements as labour and management both realized that profit margins were too slim to risk unreasonable increases;
- inflation rate moving from 12% when she took office to 23% in April 1980, then down to 13% in March 1981;
- 20% 1980-81 growth in the money supply, much higher than the 13% when she took office and than her 7% to 11% goal (which has caused her to impose tax increases whose burden will be mainly on the consumer rather than on the generally financially weak industry);
- and a strong pound sterling, attributable partly to self-sufficiency in oil.

It will be interesting to see whether, until election day in 1984, the Iron Lady can continue to convince a growingly rebellious cabinet and hundreds of leading British economists that her austerity program will achieve her goals, and what further pragmatic strategy changes, if any, she will make. ☐

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 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. □

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.

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. □

SEEKING EXPRESSIONS OF INTEREST IN FORMING SECTIONS ON INDIVIDUAL PRODUCT DEVELOPMENT AND FINANCIAL REPORTING

Two more new Sections are up for consideration under the Society's provision for such units. To obtain permission to proceed, the respective organizers must show sufficently widespread member interest. Any Society member may join.

To express your support, complete the enclosed card (DO IT NOW!), and mail it to the Society office in Chicago.

INDIVIDUAL PRODUCT DEVELOPMENT

This Section would be concerned with all aspects of developing individual life and annuity products, including actuarial techniques and considerations of design and pricing and related legal, regulatory and tax questions. Special attention would be given to helping actuaries become promptly informed about new developments comparable to, say, universal life.

Any of the following petitioners will welcome your questions at our Yearbook phone numbers or addresses.

Stephen D. Bickel
Gregory J. Carney
Warren A. Carter
Jay M. Jaffe
Howard H. Kayton
Richard W. Kling
D. Alan Little
Lynn C. Miller
Walter N. Miller
John O. Montgomery
Carl R. Ohman
Walter S. Rugland
Richard A. Swift

FINANCIAL REPORTING

The scope of this Section's activities would include reporting for both U.S. and Canadian companies and both regulatory and stockholder reporting. The Section may also coordinate some or all of the liaison work with regulatory and other professional organizations active in the financial field.

Any of the following petitioners will welcome your questions at our Yearbook phone numbers or addresses.

Allan D. Affleck
Peter F. Chapman
Kenneth T. Clark
Glen M. Gammill
John T. Glass
Norman E. Hill
Burton D. Jay
Frank W. Klinzman
Charles J. Paydos
Henry B. Ramsey, Jr.
Richard S. Robertson
William J. Schreiner
Robert D. Shapiro
Neal N. Stanley
Robert W. Stein
Virgil D. Wagner

LETTERS

Champions Of Universal Life

Sir:

Dale R. Gustafson's hard questions on Universal Life (November issue) seem to me answerable in terms such as these:

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

Ans.: Yes, as long as we're in as volatile an economy as now besets us. But it's not as challenging to management as investing long-term and thereafter trying to get cash for the inevitable policy loans and surrenders. Security for policyholders may be attainable through the "magic" of compounding short-term rates that march with CPI increases.

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

Ans.: No. It's to be hoped that those using the "new money" approach will act responsibly by at least following the example set by the sellers of participating policies during the 1970s in their explanations of the profound differences between dividend illustrations and pricing of guaranteed cost policies. Probably those companies whose approaches turn out to be blessed by the economic and political actions of the future will be rewarded by perceptive customers.

Ques.: 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?

Ans.: A Universal Life policy is capable of paying renewal compensation comparable to traditional designs; hence there is no greater problem than now with providing for continuing service. There is a problem in complex client situations, but the days of pricing products to carry that burden are numbered. A prospect for, say, $500,000 of whole life doesn't wish to pay a premium loaded to cover justified compensation for, say, 30 hours of estate analysis. This is not a Universal Life problem, but one of competing in the financial services marketplace. Wherever possible, smart agents will charge a fee in addition to regular commission for such advanced services.

Companies in the Universal Life field don't believe they can do without agents. Agent compensation is a complex topic, but strategically it is valid to assume that by substantially improving a product's attractiveness the outcome will be increased number of sales per agent and increased dollars of compensation per sale.

David R. Carpenter

* * * *

Sir:

I do not believe, as Richard F. Fisher does (November issue), that most companies are marketing Universal Life "as a tax-free money market fund or other short-term investment vehicle." We have nothing to gain, and much to lose, by comparing that product to short-term investments. It is life insurance with flex-

(Continued on page 7)

Letters

(Continued from page 6)

ible premiums and with cash values that accumulate at interest rates reflecting economic conditions.

As for the fund's attractiveness being "directly related to its yield, which will fluctuate over wide ranges in short periods," is this necessarily a disadvantage? If a company's yield is closely tracking current economic conditions there may be little reason for policyowners to switch policies.

The policyholder's ability to vary premium payments according to his own economic situation on a product responsive to the environment may keep persistency high.

Agents' compensation needs to be examined in broad context. The shift toward term insurance in buyer preference has put the squeeze on agent commissions; by attracting premiums well in excess of term premiums, agents will earn more in total compensation per sale, and the product's popularity will enable them to serve a larger clientele, thereby increasing their productivity.

Ira L. Boyle

* * * *

Society Election Proposals

Sir:

In the December 1981 issue, C. L. Trowbridge comments on the large number of Board repeaters, and Peter L. Hutchings calls for publishing candidates' views.

The basic problem is that most Fellows vote for those whose names they recognize, and repeaters are among the most easily recognized. Mr. Hutchings' approach may offer the best way to correct this.

Whether the Committee on Elections likes it or not, several in recent years have owed their election in part at least to having expressed themselves on key Society issues (i.e., three who had taken public positions against the FAA merger).

It will never be possible to prevent candidates and potential candidates from taking public positions which later either help or hurt them; this is as it should be. But wouldn't it be better if all candidates had the opportunity to take a public position as part of the election process? The U.S.A. in its political arena seems to have survived this concept for over 200 years.

I strongly oppose excluding renominations for 10 years (Recommendation III). We have a constitutional limit of one year; any change in it must be through constitutional amendment, not through Committee on Elections fiat or by the Board.

Peter W. Plumley

Ed. Note: Peter L. Hutchings has contributed the following on how candidates views might be made known:

Candidates' views need not necessarily be gathered by posing a series of specific questions. Under one possible free form approach, the only rule would be maximum length. If one candidate chose to give a plan for reforming the syllabus while another focused on relationships with the American Pension Conference, this would still be better disclosure than the present system even if the next hot issue turned out to be certification of long-term disability claim reserves. Or the Committee on Elections might offer one or two general areas for candidates to address. No doubt we would learn from such an unstructured initial approach.

* * * *

Salary Scales

Sir:

In setting contribution levels for private pension plans, much attention, properly, is given to salary (as well as interest) assumptions. Salary increase rates are reviewed, particularly in relation to the interest assumption, since it's the difference between them that exerts leverage on contribution levels. In examining salary levels, attention is paid to indices of inflation, wage settlements, and type of employee (union, administrative, professional or managerial).

Yet another important factor seems often overlooked: the employee's progress via promotions during his career. An entrant at age 25 is likely to be in a beginner's salary classification; by age 65 he will usually have advanced to a high one. Thus his final salary will reflect a combination of inflation and career growth. If career growth measures 3% per year, this 3% must be added to the assumption made about annual increases in the general salary level.

If the salary increase assumption has been derived by projecting salary histories of individuals, then the career growth element has been properly recognized. But if it takes into account only general inflationary increases, then the career growth element must be added explicitly. In this latter case, the customary 1 - 2% excess of the interest over the salary assumption may well disappear, and a more realistic excess emerge.

George L. Hogeman

Ed. Note: We hope that actuaries concerned with pensions will be moved to comment on Mr. Hogeman's point, and also on Mr. Brzezinski's observations ("One Life, 10 Jobs. . .") in our September 1981 issue. Surely this topic deserves discussion.

* * * *

Telling People About Social Security

Sir:

Charles A. Siegfried (October issue) believes that although actuaries could perform a useful public service by spreading information about Social Security, experience indicates no widespread burning desire for such information.

There is, I think, no shortage of people who want to know more about Social Security; there is only a shortage of those willing to take the time and effort to explain it to the public in an interesting way.

Actuaries, being better equipped than most others to understand the implications of Social Security, have a unique opportunity, even a responsibility, to play an active role in explaining our present system and helping to shape its future. Either my book or the new edition of Robert J. Myers' classic text, *Social Security*, is among authoritative explanations suited to help actuaries discuss the subject with friends and colleagues, clubs and other organizations, members of Congress, and anyone else who will listen.

A. Haeworth Robertson

* * * *

Deaths

William R. Cochrane, A.S.A. 1960
W. Walter Mincks, F.S.A. 1936

COMMITTEE CHAIRMEN—1982

Committee	Chairman
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