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THE SOCIETY SYLLABUS

by Robert W. Batten

Ed. Note: These are excerpts from the author's presidential address to the Southeastern Actuaries Club in November 1982. The full text is available from Prof. Batten at his Yearbook address.

The thrust of these remarks will center about the question of actuarial education—where it is heading, and the appropriateness of its present direction. I speak as a concerned Fellow who feels that all other Society members should be aware of recent developments in the formal educational processes which all prospective actuaries must follow. . . .

How Curriculum Changes Evolved

The Education Policy Committee recommended in 1981 that three task forces be chosen in order to present and reflect a broader range of opinion than that of those who had developed the proposals then under consideration. Of a total of 33 task force members, 15 were selected from the academic ranks, generally a very small population whose academic training and interests are largely centered in the broad area of mathematical statistics. The 2,631 Society members who were consulting actuaries were totally without representation; perhaps some consultants were asked to serve and declined. . . .

In August 1982, the Education Policy Committee approved every proposal which the Task Forces and the General Officers submitted, with indications of preliminary approval of more to come in 1983. Each of these proposals involved either introduction of additional materials in statistical theory or replacement of current materials by those incorporating heavy statistical content. Justification was simply stated—we, as a profession are being threatened by inability to ward off invasions by CPA's, MBA's, demographers, applied mathematicians

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FAILING?

"Resolved: The Society of Actuaries is Failing to Equip its Members to Fill the Role that their Clients and Employers Should Expect of Them".

Sounds provocative, doesn't it? Just such a debate is planned at our opening General Sessions in Chicago and Vancouver this spring. Richard Daskais and Daniel J. McCarthy will square off in Chicago—Thomas P. Bowles and Robin B. Leckie in Vancouver.

Each debate will be followed by commentary of an observer from outside our profession: in Chicago, Robert L. Posnak, famed Audit Guide authority; in Vancouver, the Hon. William Hamilton, life company chairman and a Cabinet member in Canada's Diefenbaker government.

This event was conceived by our Committee on Planning which is studying issues related to its topic, such as the actuary's role, the Society's role, and accreditation, the aim being to stimulate wider discussion of these matters. Our Board of Governors must make important decisions on these issues in the years ahead; such discussion will surely help them to reflect our members' informed opinions.

D.K.B., III

LIVING LIFE INSURANCE POLICY

by Douglas S. Magnusson

Ed. Note: This is excerpted from the author's address to the Winnipeg Actuaries Club in September 1982.

In May 1982, my company introduced a version of Universal Life quite different from such products offered previously in the United States and latterly in Canada. My remarks today are first about Universal Life in general, and then about

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RISING HEALTH CARE COSTS— A CHALLENGE TO ACTUARIES

by Daniel W. Pettengill

Health care costs that continue to rise at a faster pace than most other market basket items raise havoc with premiums and with claim reserves for health insurance, and challenge the actuarial profession to study the numerous causes and to devise practical means for modifying their effects.

Because hospital bills constitute nearly half the total health care expenditures, they are a logical first target for study. The high cost of good research and the limited funds available suggest a multi-step approach.

Step One, if not already accomplished in a given state, would be for actuaries to prod and assist the health insurance business and others to secure state legislation requiring hospitals to adopt standard cost accounting practices, uniform financial and statistical reports, and the use of state prospectively approved budgets and charges.

Step Two, for states with such legislation, would be a non-partisan review of annual reports to find out which hospitals deviate sufficiently from model costs to warrant closer study.

Step Three would be for actuaries to work with physicians and hospital administrators to develop a short list of diagnoses and conditions which, in combination, are reasonably representative of the case load of most hospitals in the state, and for which the incidence can be roughly measured. If there's a strong and cooperative State Hospital Association, it may be feasible to conduct Step Three independently of and concurrently with Steps One and Two. A good list will be one that permits the careful observer to identify a hospital that validly has a markedly skewed case mix, and to tolerate cost variations rationally related to

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Living Life Policy

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innovations we introduced.

Picture the flow of funds through any life insurance policy: As a premium is received, a premium tax is paid to the government, and the balance finds its way into a cash value account. From time to time, expense charges and the prices of coverages are removed. But in a traditional life contract, the premium is fixed; the customer doesn't know about the premium tax and doesn't see the internal accounting; all he sees is the table of guaranteed cash values. A spreading criticism has been that this traditional contract is incomprehensible and not adaptable to changing economic conditions.

The major conceptual difference with Universal Life is that in it the customer sees the internal accounting, and because he does, each element can be more flexible. The customer can change his premium when he wishes, the interest credit to the cash value account can be changed as conditions warrant, the amount of insurance, and thus the amount charged for insurance, can be changed, and expense charges can be designed and altered to reflect the company's cost.

The products developed in the United States have fallen short of full flexibility, partly because they are subject to nonforfeiture laws designed for rigid products, and partly because they must qualify for the tax shelter of a whole life policy. Premium flexibility is down-played, as is flexibility in insurance coverage. But the major fault, I think, is the levying of expense charges as percentages of the premium; this is a deterrent to prefunding future insurance costs unless there is a worthwhile offsetting tax advantage. In designing our product, we took a careful look at some life insurance traditions and found them to be cumbersome and unnecessary.

Innovations

Our product's basic flow chart doesn't differ much from that already described, but the keys to it are a daily interest credit competitive with banks, and the customer's option to lock funds into a guaranteed rate for up to ten years. There is full flexibility of both premium payments and insurance amounts, subject to minimums and to underwriting.

Our product's expense charge structure is designed to allow us to cover our costs no matter what mix of coverage and cash value the customer chooses. The only charge expressed as a percentage of premiums is the premium tax.

The Living Life Policy is designed to be efficient—not just to make it easy to handle but also to make it adaptable to future conditions. We plan to avoid the problem of keeping records for fifty years on a product that has become obsolete. One feature is that all our processing revolves around the first day of the calendar month; another is a built-in optional inflation adjuster that automatically increases coverage proportionately to the consumer price index increase, until coverage has tripled or the insured reaches age 65. Also, in assessing charges for insurance coverages we have abandoned the policy anniversary concept and simply use the insured's age last birthday on the date that the charge is made.

Additional coverages available are the accidental death benefit, a guaranteed purchase option, and a disability waiver benefit that waives the risk charges and administration fees rather than the front-end premium payment.

The Administration System

We have found that we can streamline our systems by requiring cash with the application—made palatable by offering a refund with full interest if the coverage isn't taken. We also have taken a more businesslike approach to requests for special handling, after finding that a rather small proportion of our customers is responsible for a major part of our expense in dealing with such matters as late premium payments and bouncing cheques. We have introduced a charge for returned cheques, and have placed responsibility on the agent and customer to make sure that the cash value is sufficient to carry the coverage for the coming year. If it isn't, the customer will be reminded and be allowed 30 days to make up the deficit, a charge being levied to cover this special service.

In Summary

We think we have a straightforward policy that allows the client to minimize his costs if he minimizes ours, and provides a return competitive with a bank or trust company, protects against inflation, offers enough flexibility to have a long shelf life, and puts the agent's interests in harmony with the company's and the customer's. The Living Life Insurance Policy grows and changes with the client's needs as they evolve over a lifetime. □

Rising Health Care Costs

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variations in the proportions of high and low cost diagnoses and conditions.

Step Four — the raison d'etre of the other three—would be to sit down with the Administrator, the Medical Director and the Board Chairman of a deviant hospital in a strong effort to persuade them to study why their hospital's costs are so much higher than those of others that are comparable with them in size and case mix, and then to take effective cost reduction action. Problems likely to warrant exploration include:

- High drug costs caused by stocking many brands of a single generic drug;
- Unnecessary repetition of diagnostic tests to in-patients within one or two hours of their having been made in the emergency room or out-patient department;
- Staff physicians who make excessive use of diagnostic tests;
- Failure to join with nearby hospitals and health care institutions to establish and use a consortium which will determine periodically for each commonly used commodity those reputable firms that will agree to sell it to the consortium members at a below-market price;
- Excess bed capacity for the area being served;
- High-cost equipment or services in the absence of a truly justifying demand; and
- Excessive lengths of hospital stay. □

IDEAS ON CONTINUING EDUCATION INVITED

Our new "Services to Members" Policy Committee is exploring, for a report to the Board, the continuing education that the Society should undertake to provide. The Committee membership is as shown on page 9 of the Yearbook with two additions (Thomas C. Sutton and Charles B. H. Watson).

Among the issues seen by this Committee are:

- The purpose of continuing education.
- The methods of providing it.
- Whether and how to make continuing education a requirement for practicing actuaries.
- The scope of the continuing education syllabus.
- The relationhip between continuing and basic education.

Members are cordially invited to give ideas on these matters to any Committee member or to send them to the chairman.

Robert D. Shapiro
Chairman