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THE (DOLLAR) STATE OF THE SOCIETY, 1982-83

by Robert J. Johansen, 1980-83 Treasurer

FINANCIAL SUMMARY (Amounts in thousands)

	Income				Expense		
	1981-82	1982-83	Budget 1983-84		1981-82	1982-83	Budget 1983-84
Educ. & Exam.	$ 951	$1,112	$1,092	Educ. & Exam.	$ 955	$1,036	$1,127
Seminars	369	328	393	Seminars	328	385	406
Meetings	323	364	427	Meetings	321	351	433
Dues	906	1,050	1,171	Member Svcs.	998	1,085	1,149
Interest	171	112	90	Public Info.	79	90	91
Other*	469	531	464	Research	89	80	99
				Gen'l & Admin.	339	421	304
Total	$3,189	$3,497	$3,637		$3,110	$3,448	$3,609

*Includes income from sales of books, Academy and Conference reimbursements for office services, and assessments for costs of compiling mortality and morbidity reports.

	1982	1983
Total Assets	$2,184	$2,441
Membership Equity	576	625
Equity per Member (Dollars)	67	70

The Society's 1982-83 income exceeded its expenses by less than 1½%. Net investment income, hit by lower market yields, was $59 thousand below its 1981-82 peak, but dues income went over the million mark reflecting both membership growth and small dues increases. Income from our education and examination system also passed the million dollar mark, reflecting a sharp increase in Part 1 and 2 candidates; it exceeded expenses by $76 thousand. The E & E budget, apart from a 10% subsidy of costs of Parts 1-4, is set to be self-supporting.

Seminars and meetings are intended to be self-supporting, but last year's income from seminars fell by $41 thousand while expenses were rising by $57 thousand, yielding a $57 thousand loss. Income from meetings exceeded expenses by $13 thousand.

Expense of membership services, including our publications, increased by $87 thousand. General and administrative expense rose by $82 thousand, a large part being the cost of moving our office to Itasca. Future costs at Itasca will be lower than if we had stayed in downtown Chicago.

The coming year's budget reflects a small 1984 dues increase ($10 for Fellows and long-term Associates, $5 for others), and higher meeting fees. Investment income is expected to continue its decline, although $500,000 has been invested in Treasuries maturing over the next 5 years to lock in current rates thereon. A drop in E & E income is expected, while expenses will rise; the difference will be made up by the Parts 1-4 subsidy already mentioned.

The Society is in strong financial condition as we provide additional and improved services to our members. Our staff is studying ways to reduce expenses, such as the costs of producing the Transactions and the Record. The Society recognizes our debt to the tremendous efforts of our hundreds of committee volunteers carrying on their essential and ofttimes burdensome activities.

DEATHS

Robert C. Bailey, F.S.A. 1950
Lyle F. Drake, A.S.A. 1950
William L. Kronholm, F.S.A. 1945
J. Edwin Matz, F.S.A. 1950
Odon Niox, F.S.A. 1953
Felicitas Reich, F.S.A. 1949
Henry G. Sellman, A.S.A. 1917
Murray Silver, A.S.A. 1980

ACTEX STUDY MANUALS

Study manuals are available for all May 1984 exams except Part 10. Those for Parts 3, 4BC & 6 are new, rest are our 1983 editions. There is also a manual for Part EA-1. Particulars, if not in your company, from: ACTEX, Box 2392, Framingham, MA 01701.

Richard L. London

SAVINGS BANKS RETREAT FROM MUTUALITY

by John C. Angle

As we ponder the future of mutual life insurance, we should be aware of the winds of change sweeping through the mutual savings bank industry. Consider, for instance, an editorial "The Mutual Bank Fiction" in The New York Times last fall. That editorial writer found that mutual ownership of savings banks now conveys no benefits at all on depositors. He saw ample reason to favor an amendment to the New York State Constitution (which the voters proceeded to approve handily on November 8th) allowing mutual savings banks to become "profit-motivated stock corporations". He was positive that such conversion would give depositors higher interest rates on their savings and a prospect of lower rates on loans.

He could find no continued advantage to mutual savings banks. Their safety, he wrote, comes from government insurance and adequate regulation, and he viewed them as less accountable to the public than are private savings banks. That editorial concluded that mutual ownership limits the services that can be offered, and that it is competition not structure that's important.

It is worth recalling that the mutual savings bank movement began in Scotland in 1810, when the Rev. Henry Duncan convinced his parishioners and townspeople to begin a "savings and friendly society" to be operated not-for-profit by officers donating their time as a philanthropic service. That bank had ordinary members who made regular deposits, and extraordinary members who contributed to a surplus fund whose earnings were paid to ordinary members to encourage their thrift.

The idea reached the United States before 1820 and ultimately led to mutual savings banks in seventeen of our northeastern states. An early one, the Philadelphia Savings Fund Society, has just completed a successful conversion and an offering of common shares in an underwriting managed by leading Wall Street firms. The prospectus evidences the toll taken by our recent high interest environment and also the assistance that the Federal Deposit Insurance Corporation had provided during a recent merger. Clearly, both state and federal regulators are

(Continued on page 5)

Savings Banks

(Continued from page 4)

highly interested in seeing fresh capital brought to the savings bank industry; they regard conversion as a way to accomplish this.

Deregulation also has brought a quantum increase in competition from other financial institutions and from money market and mutual funds. All these developments have plunged parts of the savings industry into difficulties for which conversion is seen as a palliative.

Contrast With Life Insurance

I do not see a direct similarity between the problems just recited and the vexations now giving rise to arguments (see "Mutual Companies in Chains", October issue—Ed.) for conversion of mutual life insurance companies. In briefly reviewing our historical background I shall use the word "conversion" which strikes me, and others, as a better term than "demutualization". Mutualization implies transformation from a stock to a mutual form of organization; demutualization the reverse. But some of our leading companies started as mutuals—the oldest in London where the old Equitable was founded in 1762 to employ the principles espoused by James Dodson and Richard Price.

Eight decades later, mutual life insurance arose in America. J. Owen Stalson, author of our best history of life insurance marketing, speaks of "The Revolution of 1843". "This year," he writes, "saw the mutual idea take America. From 1843 to 1847 seven notable life insurance companies (were formed)... Each devoted itself exclusively to life underwriting and each made mutuality the prime element of its corporate character"... "Marketing efforts of a vital and positive character became a reality when the mutual idea seized America". In New York State it was not until passage of the laws resulting from the Armstrong Committee investigation of 1905 that mutualization of stock life insurance companies became possible. ☐

MAIL ALERT

Transactions, Vol. 34 (1982) should have reached you. Note that it doesn't contain Book Reviews that you have received in preprint pamphlets.

VALUE OF POLICY UPDATE PROGRAMS

by Thomas E. Dyer

Three times in the last seven years, Northwestern Mutual Life has offered its policyowners UPDATE programs that incorporated into their contracts pricing characteristics available to new buyers. One of these, UPDATE '80, raised the reserve interest rate to 4%; death benefits were increased by about 15%, and future guaranteed cash values were adjusted. Approximately 1.3 million policies, 67% of those eligible, issued before 1978 accepted this offer.

The following table summarizes comparative lapse experience, between 1981 and 1982 anniversaries, for the policies that accepted the amendment and those that didn't.

Comparison of Voluntary Lapse Rates
(by volume)

Standard Issues—All Life Plans
All Age Groups Combined

Issue Years	UPDATE '80 Accepted	UPDATE '80 Rejected
1977	.035	.074
1976	.036	.076
1975	.025	.064
1974	.028	.056
1973	.034	.056
1972	.029	.062
1967-71	.022	.050
1962-66	.014	.038
1957-61	.012	.032
1956 & Prior	.013	.025

We do not know to what extent the much lower lapse rates experienced by those who accepted result from satisfaction at having been offered that privilege, or reflect ingrained characteristics of the group itself. We have compared the distributions of the two blocks by policy size, age, sex and plan, and have found them strikingly similar in these important respects.

I believe these results confirm the value of UPDATE programs. Certainly there are increased values generated for the policyowner. The lower lapse rates show that the business has increased value for the company. And the agent has benefited by having more business still in force and clearly more satisfied clients. ☐

PRIZE AWARDS

The Committee on Papers announces that the winners of the Society's Annual Prize (Yearbook, p. 66) are Michael F. Davlin and Shane A. Chalke for their paper distributed in March 1983, "Universal Life Valuation and Nonforfeiture: A Generalized Model".

Announced at our Annual Meeting in October was award of the L. Ronald Hill Memorial Prize (Yearbook, p. 68) to Barnet N. Berin and Anthony B. Richter for "Constant Replacement Ratios in Retirement: A Theoretical Approach", to appear in TASA XXXIV.

Our hearty congratulations to all these four authors.

MR. AND MRS. MYERS WERE THERE

Both The Washington Post of October 27 and The New York Times two days later told their readers that Robert J. and Rudy Myers were in Grenada for eleven days ending just before the U.S. invasion. They arrived there October 13th, planned to leave on the 19th but could not because of the curfew, and did leave on the 24th when the curfew was lifted one day before the U.S. invasion.

Mr. Myers gave no indication that they were much worried during their enforced stay. Quizzed on why he was there, he informed this reporter that six months ago Grenada had adopted a social security plan—essentially OASDI with cash sickness benefits—and he had been invited to look into its installation and its suitability for the country's needs. *E.J.M.*