Article From:

The Actuary

October 1983 – Volume No. 17, Issue No. 8

The Actuary
The Newsletter of the Society of Actuaries
Vol. 17, No. 8 October, 1983

MY LIFE AND OTHER CONTINGENCIES

by Catherine Roberts

Ed. Note: Mrs. & Mr. (F.I.A. 1980) James Roberts live in Southampton, England. This article comes from FIASCO, July 1983.

Pondering why I, the wife of an actuary, can count so many other actuaries' wives as friends, I suppose it is comforting for us to meet and not have to spend an inordinate amount of time explaining exactly what it is that our husbands do. I doubt that there is an actuary's wife alive who hasn't faced blank expressions as she tried to explain her husband's occupation. I long to find a simple definition of an actuary, something that rolls easily off the tongue without use of any technical jargon.

But what else have we wives in common? Well, many of us have suffered through the exams, the tensions, the passing, and, of course, for the majority of us, the failing. The studying naturally accustomed us to spending our evenings alone. Naively, we thought this would end when the exams were finally over—but no, it was mere training for the wife of a Qualified Actuary who, due to pressure of work, is rarely able to leave the office. Goethe once said, "Work makes the companion": if so, the actuary must never have cause to feel lonely.

One wife recently told me that if she'd known what it was going to be like, she'd never have married an actuary. Is this why we do it—ignorance?

I suspect many actuaries marry young. They catch their wives before they suspect what they are letting themselves in for. I myself was the victim of such tactics. I married in total innocence and ignorance, and became suspicious only when, one week after the honeymoon, studying for the first exam began.

Some actuaries don't find a wife in

(Continued on page 8)

BOARD MEMBERS' ACQUAINTANCESHIP

Now that our 161 welcome New Fellows from the May examinations have raised the Society's total Fellowship roster beyond the 5,000 mark, it's timely to see how many of our Fellows are personally known to a readily identifiable band of Fellows who can be said to have "been around"—the members of our Board of Governors.

To this end, we prepared a methodically selected random list of 61 names spread throughout our 1983 Yearbook, and, through the good offices of Ardian C. Gill, submitted it to the Board members with the request that each proceed thus:

> "Against those names you are familiar with, please mark F if you have *first-name* acquaintance; R if you know that person just *reasonably well*; S if only *slightly*."

In due course Mr. Gill came through with responses from 26 of the 29 Board members; it would be cavilling of us to point out that all the three he missed were among the Society's top officers. In summary, a total of 219 names were marked F, R or S, distributed thus:

	Total	*Per Board Member*
First-Name Acquaintance	129	5.0
Reasonably Well Acquainted	32	1.2
Slightly Acquainted	58	2.2
Total	219	8.4

Number of Acquaintances Per Board Member	
15 or more acquaintances	1 Bd. Member
10-14 acquaintances	8 Bd. Members
5-9 acquaintances	14 Bd. Members
2-4 acquaintances	3 Bd. Members
Total	26 Bd. Members

The mode of this distribution was 6, the median 7.5. We chose the names by a uniform rule from every yearbook page exactly divisible by three.

(Continued on page 8)

MUTUAL COMPANIES IN CHAINS

Ed. Note: Many actuaries, particularly those who teethed on Henry H. Jackson's 1932 paper, "The Wisdom of Mutual Life Insurance" (T.A.S.A. 33), may observe with dismay that what is called "Demutualization" is being seriously discussed. This is an abstract of notes from a June 1983 meeting of the New York Actuaries Club at which major participants were John J. Marcus, Douglas Thornsjo (General Counsel for Union Mutual), Alvin Alpert (until recently Chief of the Life Bureau, New York Insurance Department), and Gerald Goldsholle (Assistant General Counsel, Metropolitan Life). Notes on the session are courtesy of Robert Burr (Vice President, Research, at Prudential).

How Mutual Companies See Themselves Handicapped

Perceived disadvantages suffered by the mutual form of organization, perhaps always there but starker in today's increasingly competitive, economically windswept and foreseeably deregulated environment, fall into five categories. In addition to the federal tax problem which these panelists didn't dwell upon, these are:

1. Constraints upon engaging in non-insurance activities.
2. Limited capital for such activities.
3. Handicaps in competing for employees.
4. The burden of the traditional policy dividend system.

The essence of each of these four is:

1. The legal constraints imposed by many states on the types of businesses that a life company may engage in, pose no problem for a stock life company owned by a holding company which can raise the needed capital and invest it as it sees fit. But this route is denied to mutual companies.

(Continued on page 7)

Mutual Companies in Chains

(*Continued from page 1*)

2. State insurance laws sharply restrict the amount of a life company's general account assets that can be invested in subsidiaries, placing mutual companies at a competitive disadvantage with stock companies which can acquire new businesses through issuance or exchange of stock and other means. A mutual insurer must get its risk capital from its divisible surplus—likely to prove an insufficient source if policyholder dividend distribution is given adequate priority.

3. Stock life companies enjoy greater scope than do their mutual brethren in offering their employees profit sharing, stock options and other incentive plans. In the dynamic, less regulated, environment of tomorrow, the winners may be those who, through such rewards, can attract and retain top-flight management and other key employees.

4. Whether the traditional annual dividend system has outlived its usefulness now that indeterminate premium policies, universal life and variable life approaches are available, warrants consideration. And, how different groups of policyholders perceive themselves should be given a fresh look: Are they owners, voting members, or just contractholders? In any event, don't the policyholders and insurance company managements have the right and the duty to decide whether the company might better be of the mutual or the stock type?

Ways to Remove These Handicaps

Happily, changing from mutual to stock is not the only possibility for alleviating these difficulties. One way, already in limited use, is for the mutual company to acquire a subsidiary ("downstream") holding company, and to give its policyholders at least a choice between traditional annual dividends and stock in that subsidiary. Another alternative—difficult to undertake because of the hurdles of insurance department and policyholder approval—would be by means of an external management contract using the pattern successfully introduced in the mutual fund industry.

Yet another (remotely possible) route would be through a bulk reinsurance contract.

A New York Insurance Department Viewpoint

A regulator's duty is to put the policyholders' interests first—bringing up questions such as these:

For whose advantage is this change? Does it benefit the policyholder, or is it born of desire for sheer bigness?

Will it result in a more competitive product? Or will the policyholder gain nothing but, for example, minuscule termination dividends from distribution of the existing surplus?

Will the policyholder remain a participating policyholder?

If the existing surplus is distributed in the course of the change-over, what safety margins will the new operation have?

The New York Department nevertheless recognizes that a problem exists, that without a change of some sort the mutual companies are likely to become noncompetitive. □

IOWA WE FLUNKED ON

In our article on Prizewinners (April issue), we credited Iowa State and Iowa with perfect records; 2 for 2 in the former, 1 for 1 in the latter.

One of those winners, Thurston P. Farmer, Jr., has set us straight by pointing out that all three winners graduated from the same school. Said he:

"It is the State University of Iowa, located in Iowa City, and is often called 'Iowa'. The other major state school, located in Ames, is often called 'Iowa State'."

Mr. Farmer went on to answer a query we put to several prizewinners, by saying that, as he suspects is true with many others who attended schools that offer specialized actuarial courses, the prize award played no part in his decision, already made, to pursue an actuarial career.

E.J.M.

FOR YOUR READING

Journal of the Institute of Actuaries, Vol. 109, Part III, Dec. 1982.

Contains texts and discussions of several papers already noted in this newsletter, including Bernard Benjamin's "The Span of Life", and R. B. Colbran's "Valuation of Final-Salary Pension Schemes", also comments on G. B. Saksena's linear notation.

Invite any nearby Institute member to lend you a copy.

Adjusting Pensions for Inflation: Is the "Excess Interest" Method the Answer?, by Geoffrey N. Calvert. Published by Housser & Co., Toronto. 18 pp.

Mr. Calvert speaks to a question "that has caused much confusion of thought among employee benefit people, including some good actuaries, especially in Canada recently".

Copies obtainable free from Housser & Co., 60 Yonge St., Toronto M5E 1S1.

A Fortran Program for Computing Primary Insurance Amounts, Actuarial Note No. 116, by Stephen F. McKay. Social Security Administration, 33 pp., Dec. 1982.

Available free from SSA Office of the Actuary, Altmeyer Bldg., Ste. 700, Baltimore, MD 21235.

Disability Newsletter, DN 35, Nov. 1982 & DN 36, Jan. 1983, John H. Miller, Ed.

Continuation, inter alia, of the examination of, history, and outlook for disability insurance on this continent, noted in our Dec. 1982 issue.

Enquire to John H. Miller, 451 Russell Ave., Suffield, CT 06078.

ARCH 1982.2, Journal of our Society's Committee on Research, 82 pp.

Nine articles on as many actuarial mathematical topics by William S. Jewell, James Broffitt & Stuart Klugman, F. Y. Chan & E. S. W. Shiu, Richard L. London, Beda Chan, Thomas O'Brien, Ralph Garfield, Brian Fortier, Warren Luckner.

See subscription information in our May issue.

Spanish Mortality Tables P.E.M.-70 and P.E.F.-70, Institute of Actuaries of Spain.

First mortality tables for Spain's population. In several volumes, giving functions at 4, 5 and 6%. Includes descriptions of calculations, biometric functions, premiums for single and joint lives.

Send cheque for equivalent of 7,000 pesatas to the Instituto De Actuarios Espanoles, Calle del Barquillo, 29 Madrid-4, Spain.