SOCIETY OF ACTUARIES

Article From:

The Actuary

February 1985 – Volume No. 19, Issue No. 2

MEET ME IN ST. LOUIS

by Richard K. Kischuk

Plan now to be in St. Louis on May 23-24, 1985 for the Society's special topic meeting on Life Company Financial Reporting. This meeting is being co-sponsored by the Financial Reporting Section.

The meeting will open with the general session which will include a debate on the role of the valuation actuary in the U.S. Sessions throughout the meeting will examine the emerging role of the valuation actuary in areas such as defining investment policy, product development and signing required statements of actuarial opinion. Another session will compare the role of the valuation actuary in the United States, Canada and the United Kingdom.

A double session will examine the topic: "Has the NAIC Annual Statement Blank Outlived Its Usefulness?" In part, this session will be used to gather input for possible sweeping revisions in the NAIC annual statement blank. John Montgomery introduced some of the ideas that will be discussed in St. Louis during the "Current Topics" panel at the annual meeting in Toronto.

Actuaries who are interested in management reporting won't want to miss sessions devoted to topics such as management reporting for mutual companies, product line capital allocation, financial performance "yardsticks," earnings analysis by product and source, accounting for segmented portfolios, capital budgeting, investment income allocation, and expense allocation.

Many actuaries will want to take the opportunity to catch up on today's "hot topics" in financial reporting. These will include sessions on accounting for new products, demutualization, federal income tax, reinsurance, accounting for nontraditional distribution systems, and accounting for internal replacement programs.

Finally, plans are underway for one or more seminars to be held on May 22, the day before the Society meeting. Preliminary plans call for a seminar devoted to practical approaches to evaluating interest rate risks. Society members have indicated a lot of interest in a seminar covering practical tools that actuaries can use in evaluating these risks.

All in all, this will be an exciting three days. ☐

BROCHURE

The Preliminary Actuarial Exams brochure has had a recent update. More recent exams have replaced the older exams in the former edition. Copies of the 1984 version of this popular recruiting piece can be obtained from the Society's office.

Notes on Random Interest

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This implies

$$\pi = \sum_j A(r_j)_x \, p(r_j) \Big/ \sum_j \ddot{a}(r_j)_x \, p(r_j).$$

Variance — assuming independent distributions for K and R

$$Var(L(K,R)) = \sum_{j=1} \sum_{k=0} (v(r_j)^{k+1} - \pi \, \ddot{a}_{\overline{k+1}|} r_j)^2 \, {}_{k|}q_x \, p(r_j)$$

Variance for a Group — n policies all issued at age x

$$Var\left(\sum_{i}^{n} L(K_i,R)\right) = nVar(L(K,R)) + n(n-1) \sum_j (A(r_j)_x - \pi \, \ddot{a}(r_j)_x)^2 \, p(r_j).$$

LETTERS

Cost Comparisons

Sir:

Mr. Koppikar's letter (October issue) about yearly prices per $1,000 of protection (YPPs) prompts several comments.

First, he says the YPPs are interest sensitive, which they are. I hope he is not implying there is something wrong with them. They are interest sensitive because interest is a significant factor in a cash-value life insurance policy. Any price measure that is not interest sensitive is meaningless.

Second, he says the YPPs are high in the first year, which they typically are. I hope he is not implying there is something wrong with them. They are high in the first year because they reveal the front-end load in the typical cash-value life insurance policy. Any price measure that does not reveal the high first-year price does not provide rigorous disclosure to the consumer.

Third, he says the YPPs combine expenses with mortality costs, which they do. The comment is hardly a novel one. More than twenty years ago, E. J. Moorhead (a person well known to readers of this newsletter) suggested separating expenses from mortality costs. He made the suggestion in a comment published in the September 1962 issue of the *Journal of Insurance* (now the *Journal of Risk and Insurance*). The comment was concerning my first article on YPPs, which was published in the December 1961 issue of the same journal.

Fourth, Mr. Koppikar says that what we need is a method of separating expenses from mortality costs and showing their discounted values at issue. My first major article on that very subject was published in the March 1969 issue of the *Journal of Risk and Insurance.* The technique described in the article has come to be known as the "retention method."

We do not need discussion about disclosure methods, because the methods already exist or can be developed readily. What we need are courageous regulators willing to adopt rigorous disclosure requirements that are adamantly opposed by the life insurance industry. I know of no such

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