The Actuary

November 1986 – Volume No. 20, Issue No. 9

The Actuary
The Newsletter of the Society of Actuaries
VOL. 20, No. 9 November, 1986

THE SOCIETY'S LIBRARY

Members may not be aware that the Society of Actuaries has had, since its inception, a library; and that since February 1986 the library has had a professional librarian. This article is intended to make us all more aware of the library facilities we already have, and the plans for the future.

The librarian is Joan Chapa, hired early this year on a part-time basis, but to become full-time in 1987. Joan took her training in Library Science at Illinois State University and the University of Illinois, earning a Master's degree from the latter in 1981. She has also been a practicing librarian in the public library of Mount Prospect, Il.

The Society library was inherited from its predecessor organizations, the Actuarial Society of America and the American Institute of Actuaries, when these two organizations merged to form the Society of Actuaries in 1949. The very beginnings of the library were from a bequest to the old Society from the estate of William D. Whiting, who died in 1899. The library later grew, largely through the contributions of members. A notable gift of actuarial books came in 1936 from C.D. Higham of London.

With the formation of the Society of Actuaries the library moved to Chicago, to be administered by the Society secretary; but in 1964 the library moved back to New York. There it was housed and administered by the Insurance Society of New York and the College of Insurance. The collection came back to Chicago in 1980, and moved again when the Society office moved to Itasca. It is only since the appointment of a professional librarian, however, that the library is beginning to receive the attention it deserves.

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ELECTIONS 1986

The results announced at the Annual Meeting in Chicago are:

President-Elect
Gary Corbett
Vice-Presidents
Allan D. Affleck
Robert C. Dowsett
John O. Montgomery
Secretary
Richard V. Minck
Treasurer
Michael J. Cowell
Director of Publications
Anthony T. Spano
Board of Governors
A. Norman Crowder, III
Phyllis A. Doran
Curtis E. Huntington
Richard K. Kischuk
James J. Murphy
Michael R. Winn

2,743 valid ballots were cast, 48.9% of the eligible voters. The 1985 percentage was identical. Only 14 invalid ballots were received. □

1987 AERF GRANTS COMPETITION

The Actuarial Education and Research Fund (AERF) is sponsoring a 1987 grants competition. One or more grants, ranging from $5,000 to $10,000, will be available through AERF and its constituent organizations to support actuarial education or research projects. Funds may be used to compensate grant recipients or to cover expenses for services utilized in carrying out the project.

The goal of the competition is the production of publications which will advance actuarial science especially in regard to practical applications. For this purpose, proposals are invited from members of the actuarial organizations

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TAXATION OF INSURANCE COMPANIES — ACT OF 1986

By John H. Elken

The Tax Reform Act of 1986 has now become law, though its various effective dates are still in the future. The Act involves sweeping changes, generally lowering tax rates and broadening the taxable income base. While in total the rate reductions are offset by base broadening, individuals as a whole will pay less and corporations more.

The Act makes important changes in the taxation of insurance products and the rules governing employee benefit plans, both of interest to actuaries; but these are outside of the scope of this article. Here we concentrate on the corporate income tax, and how the Act affects the taxation of insurance companies.

In General

The top corporate tax rate is reduced from 46% to 34%, effective July 1, 1987. Calendar year taxpayers will pay the blended rate (40%) for 1987. Lower rates apply to corporate incomes under $75,000, but these savings are recaptured by a 5% surtax on income between $100,000 and $335,000. The effect is that all corporations with incomes in excess of $335,000 pay tax at the 34% rate after Jan. 1, 1988, subject of course to all other provisions of the new law.

Corporate capital gains rates move from 28% to 34% for gains realized in tax years beginning after Dec. 31, 1986. While the rate of tax soon becomes the same as for ordinary income, the separate identity of capital gains (and losses) will be retained, to allow for limits on deductibility of losses and to

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Published monthly (except July and August) by the SOCIETY OF ACTUARIES, 500 Park Boulevard, Itasca, IL 60143. Richard S. Robertson, President, Richard V. Minck, Secretary, Michael B. McGuinness, Treasurer, Anthony T. Spano, Director of Publications. Non-member subscriptions: students, $5.50; others, $6.50.

EDITORIAL

There is an interesting sidelight to the election results announced on page 1. Gary Corbett, who will become the Society President a year from now, is only the fifth resident of Canada to be elected to the Society's highest office since its formation in 1949, and only the second Canadian to be elected in the 15 elections conducted since the first mail ballot in 1972. Robin Leckie, elected seven years ago, was the first. Prior to elections by mail, there was some expectation that a Canadian might be elected in those years when the annual meeting was held in Canada. Since Canadians constitute nearly 20% of the total membership, one Canadian president out of every five appeals somehow to our sense of what is just.

Perhaps equally interesting is that for this next year there will be two of the six vice-presidents from north of the border. One Canadian vice-president was elected in each of the years 1984, 1985, and 1986, whereas the only other Canadian vice-presidents elected by mail were the three chosen in 1974, 1977, and 1979. Six Canadian VPs out of 32 is perhaps representative of the Canadian proportion of total membership, but three out of 24 (the results for the 12 years 1972-1983 incl.) was not. During those same 12 years four VPs were chosen from the ranks of a smaller minority, the less-than-10% of our members who are female.

In the late 1970's, noting that there had been no Canadian President since 1967, the Society election committees became concerned. Not only had there been no recent Canadian presidents, but the number of Canadians who had served as vice-president, then as now a necessary-though-not-sufficient step toward the presidency, was far too low. Although election committees have continually suggested the advisability of proportional representation, it seemed that the desired results were not forthcoming.

The tendency for a predominantly American electorate to elect predominantly American VPs continued through 1983; but the last three elections, for whatever reason, have been different. The Executive Committee for this coming year numbers three Canadians among its 11 members, and the 31-member Board has five. Canadians seem to be taking their rightful place as leaders of a truly two-nation organization.

Those of us who live in the U.S. will do well to recognize that in proportion to its population Canada has *twice* as many actuaries. Canadian actuaries have achieved more recognition in their own country than American actuaries have ever been able to gain in the U.S. Despite its much smaller population, Canada has kept up with its southern neighbor in university-based actuarial education. And finally we must recognize that Canada has bred and trained many who have emigrated to make their actuarial marks south of the border. At least four, and there may well be more, SOA past-presidents, counted in the statistics as Americans, got their start in Canada.

When the history of actuarial endeavor in North America is compiled, as it will be in connection with the celebration in 1989, it will surely be found that the Canadian contribution looms large. It seems entirely fitting that in that year of celebration the immediate past-president of the Society will be a Canadian.

C.L.T.

WORKDAY PROBLEMS

An actuary for a mutual life insurance company wants to fund an extraordinary charge of $1,000,000 out of surplus five years hence. He intends to accumulate this amount by investing today $X of assets in an instrument that earns 7.5% (pre-tax) annually.

The earnings are subject to gain from operations (GFO) tax at a 36.8% rate, and surplus is subject to the equity tax. The differential earnings rate (DER) is 7.8%, so surplus is effectively taxed at $.368 * .078 = 2.87\%$. Assuming no change in the tax law, and that the GFO and DER rates remain at their current levels, determine X.

If interest is paid at year end, and equity tax is paid at year end on the average of the beginning (F_O) and end of year (F_1) funds (where end of year is after payment of the equity tax), the discount factor for each year is 0.9819. This is the result of solving $F_1 = F_O * (1 + .632*.075) - \text{Equity Tax}$, and $\text{Equity Tax} = .5(F_O + F_1) * .0287$ for F_O / F_1.

This implies that a pre-tax rate of 7.5% becomes only 1.8% after GFO and equity tax. Therefore $X = 1{,}000{,}000\,(.9819)^5 = \$912717$.

Does anyone disagree with this surprisingly low after-tax rate? Is the result much different under the new tax law?

CENSUS BUREAU'S THIRD ANNUAL RESEARCH CONFERENCE

The program for the Census Bureau's Third Annual Research Conference has been set. Response to the Bureau's first "Call for Papers" was overwhelming. More than 115 abstracts were received from which only 30 could be selected. The choices were very difficult; many fine papers and ideas had to be turned away.

ARC III is scheduled to begin Sunday evening, March 29, 1987, and run through 2 p.m. on Wednesday, April 1, 1987, at the Omni International Hotel in Baltimore, Maryland.

The overall theme is "Improving the Quality of Survey Results." The program will devote one session to each of 14 topics.

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