SOCIETY OF ACTUARIES

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BOOK REVIEW

Employee Benefits by Burton T. Beam, Jr. and John J. McFadden, both of The American College, Bryn Mawr, Pa. Published in 1985 by Richard D. Irwin, Inc., 486 pages plus bibliography and index.

Reviewed by Willis B. Howard, Jr.

This book has one introductory chapter, then two chapters which cover the mechanics of OASDHI, Unemployment Insurance, Workers' Compensation and other government programs. The next eleven chapters describe the mechanics of group insurance. Then follow ten chapters on Qualified Retirement Plans, two chapters on all other employee benefits from executive compensation to free parking, and a final chapter on Employee Benefit Planning. The emphasis is on the means of providing employee benefits, rather than a philosophy of why employee beneifts are provided.

The treatment is thorough, with an orderly, logical, straightforward style. Each chapter gives an overview, then a broad outline, then the details of the outline. One senses that much of the information comes from secondary sources rather than from the authors' experience in the field. For example, on page 216 under the discussion of "Premium-Delay Arrangements", the authors state, "the insurance company still has a statutory obligation to maintain the claim reserve, and therefore, it must use assets other than the employer's premiums for this purpose. In most cases these assets come from the insurance company's surplus". One experienced in the language of life insurance accounting would state the concept some other way. What the authors mean is that since liabilities remain constant and assets decline, surplus is reduced.

The style is refreshingly free of insurance company jargon. One need not be steeped in insurance lingo to understand any of the book. However, one is startled to read the phrase "insurer's financial experts" used to describe what those of us in the business call "actuaries".

There are implicit philosophical assumptions behind some of the authors' conclusions. For example, in discussing the question, "Should the employer have a qualified plan?", the authors (probably unconsciously) introduce a socialist bias in referring to the effect on a company's income taxes. "In other words, a qualified plan represents a form of compensation, part of which is *paid by the federal government* rather than by the employer". (emphasis added) (page 265).

In discussing separate accounts, the authors state, "Separate accounts funding was developed to avoid co-mingling pension assets with all of the general assets of the insurance company, since an insurance company's general assets have traditionally been invested in long term, low return investment vehicles" (page 331). This sentence indicates less understanding of the investment process than the authors probably have; I know of no insurance company whose investment philosophy dictates low return investment vehicles.

In discussing pension plan funding, the authors make the usual layman's definition of an annuity, "The annuity purchase rate is based on the plan's retirement age, the life expectancy of the retiree, and the assumed investment return in the post-retirement period" (page 335). One would expect better things from professionals in the employee benefit field. Even if they are not actuaries themselves, they could have had sections such as this edited by an actuary. It is, as all actuaries have had drummed into their heads, not life expectancy that determines the annuity purchase rate, but mortality rates.

Relatively minor lapses such as this one prevent this book from being a more valuable source book for actuarial students. It may be, nevertheless, a useful reference book.

In commenting on Wellness Programs the authors state, "Recent studies have shown that the costs of establishing and maintaining many of these programs are more than offset by the lower amounts paid for medical expense, disability, and death benefits" (page 453). The authors do not cite the programs or the companies in which these programs have offset the costs of medical expenses. One is skeptical of such thinly supported broad general conclusions.

The final chapter, on employee benefit planning, offers sound advice: "Too often the proper design of an employee benefit plan is viewed as a one-time decision rather than as an evolving process. As times and organizations change, employers' answer to the questions raised in this chapter may also have to change. For this reason, these issues must be frequently restudied to determine whether a group benefit plan is continuing to meet its desired purpose" (page 461).

The authors review old and new ways to determine what types of benefits should be provided: "...the growing consensus seems to be that the traditional methods of determining the types and levels of benefits to offer have lost much of their effectiveness. These include basing benefits on the following factors: the employer's perception of the employees' needs; what competitors are doing; tax laws and regulations....

"In the last few years employers have increasingly taken a marketing research approach to employee benefit planning. The employees' preferences for benefits are determined similar to the way that consumers' demand for products are determined.

"Marketing research techniques must be used with caution. They can have a negative effect on employee morale unless the employer is committed to using their results in benefit decision making. Therefore this approach should not be undertaken unless the employer intends to base expenditures for benefits on satisfying what employees perceive as their needs. In addition, employees must be made aware that changes in an overall benefit program will be subject

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The Problem with Options (Continued from page 4)

Company. It discusses many topics of interest to insurance companies, in particular the marketing of financial products and services. The life industry has traditionally been distributor-driven rather than consumer-driven, but the new players in the game will not be bound by the old rules. They will attract customers simply by knowing them better than the old players and by being more responsive to their needs. The winners will be those who understand their markets and consumers best, and who deliver good value on the basis of that understanding. □

EXAM SEMINARS

Georgia State University — October
Parts 2, 3, 4, 5, 7I(U.S.), and 7P(EA-2)
For more information, write or call Robert W. Batten at his *Yearbook* address.

University of Waterloo — Oct. 19-Nov. 2
Parts 4, 5, 7(except EA2), 8, and 9
For more information, write or call Frank Reynolds at his *Yearbook* address.

E & E IN THE INSTITUTE OF ACTUARIES

The Institute of Actuaries, which is to the United Kingdom (Scotland excepted) what the Society of Actuaries and the Casualty Actuarial Society are to North America, has just announced a major change in its examination arrangements. Society members may be interested in a general outline of the new Institute syllabus.

Subject	1	Probability and Statistics
	2	Mathematics of Finance
	3	Life and Other Contingencies
	4	Economics and Accounts
	5	Applied Statistics
	6	Mortality and Other Actuarial Statistics
	7	Institutional Investment
	8	Life Assurance
	9	General Insurance
	10	Pension Funds

Each of the subjects 7 through 10 is tested at an ordinary level and at a specialist level. Candidates have to pass one subject at the specialist level and three at the ordinary level. ☐

Book Review

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to financial constraints and possibly tradeoffs among benefits."

The book gives thorough treatment of the mechanics of group insurance, qualified retirement plans, social security benefits, and other employee benefits including executive benefits, vacation, holidays, etc., but the final chapter on planning may give the most valuable insight. The book would not, however, adequately replace *Employee Benefit Planning* by Rosenbloom and Holliman and the current Part 6 syllabus. ☐

LETTERS

Membership Growth

Sir:

Your analysis of Membership Growth (April issue) may be instructively supplemented by comparing the present totals of Fellows and Associates with those forecast for 1985 by Walter Klem's 1967 Committee On The Future Course Of The Society. That distinguished group, some of whose members will doubtless read this letter, offered its high and low estimates, as follows:

Number of Society Members In 1985

		Fellows	*Associates*	*Total*
1967 Estimate:	High	6,343	3,547	9,890
	Low	4,229	2,918	7,147
Actual		5,467	4,568	10,035

To conform with the Committee's definition, these figures for Actual take the Nov. 1985 exam results into account.

The Klem Committee's estimates of Fellows bracket the result with remarkable accuracy, but the number of Associates is much larger than they foresaw.

You point out that the proportion of Fellows declined last year. When the present Society came into being in 1949 that proportion was 60%, in 1966 it was 52%. So the present 55% is within historic limits.

Mr. Klem's Committee also estimated Annual Meeting Attendance up to 1985. Their High Estimate for last fall was 3,495, and their Low, 1,876. The number of Fellows and Associates at New Orleans last October was only 1,382, though at coffee break times it seemed more like 3,495.

E.J. Moorhead

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Part 1 Exam Statistics

Sir:

Readers may be interested to know that the number of students beginning the actuarial examinations continues to set records. The number of students taking Part 1 for the past five years are as follows:

Year	*Number Taking Part 1*	*Number Passing Part 1*	*Number Receiving GRE Credit*
1981	3138	1225	55
1982	3451	1336	71
1983	3921	1512	60
1984	4166	1616	47
1985	5448	2122	84

Over 3,800 students signed up for the May 1986 exam, a 19% increase over the 3,204 students who did so for the May 1985 exam.

We have looked at data by exam center, to see if the increase is concentrated in any one region, but it is not. The increase in students appears in all areas of Canada and the U.S.

Of the students who pass Part 1, some will choose the C.A.S. route and others will choose another career. Still, it would seem that the SOA is about to see an increase in our rate of increase.

The previous record for Part 1 students was 1976, when 4,120 took the exam, 1,654 passed, and 344 received GRE credit.

Linden N. Cole

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