



SOCIETY OF ACTUARIES

Article from:

The Actuary

April 1988 – Volume 22, No. 4

Board Strengthens Research cont'd.

providing the tools and data they need to perform their jobs effectively. Yet, as the actuarial profession changes, we must be prepared to adjust also. Knowing what issues face our members, both in the short and long run, provides us with a basis to stop reacting to problems and to start finding ways to prevent matters from getting out of hand.

Please write or phone Mark G. Doherty, SOA Director of Research, with your ideas and concerns. If you are interested in finding out more about the professional positions available, also contact Mr. Doherty for more information.

Irwin T. Vanderhoof is President of Irwin T. Vanderhoof Actuarial Investment Consulting, Inc. He is the SOA Vice President overseeing Research and Studies, the Chairperson of the Research Policy Committee, and an Associate Editor of *The Actuary*.

Academic Actuaries Sought

Academic actuaries are being sought to fill two tenure-track or visiting faculty positions in actuarial science, beginning August 1988. The positions require a commitment to excellence in teaching and creative research. Rank and salary will depend on qualifications. Applications from either life or casualty actuaries are welcome. A Ph.D. is required for a tenure-track appointment. The selection process will begin immediately and continue until the positions are filled. Interested candidates should send a current curriculum vitae and three letters of reference to Jim Broffitt, Actuarial Search, Department of Statistics and Actuarial Science, University of Iowa, Iowa City, IA 52242. The university is an Equal Opportunity & Affirmative Action Employer.

Junk Assets cont'd.

Several state insurance departments have recently been concerned with how much some insurance companies are investing in junk. Since the percentage of junk assets as a percentage of total assets is unprecedented, it is difficult to predict the risk which insurance companies may be taking. However, if a recession causes many junk assets to default, some insurance companies may become insolvent. Because of this risk, certain states now have laws or regulations regarding junk. New York, for example, passed Regulation 130 in 1987 to prohibit any domestic life insurer from investing more than 20% of its assets in junk without the Superintendent's prior approval. The Regulation further requires that the board of directors of insurance companies which invest in high yield, high risk obligations have a written plan with respect to quality and diversification standards for junk bond investments.

Companies should follow a "Prudent Man" rule with respect to investments. For example, when pricing or cash-flow modeling a portfolio with junk assets, the possible behavior of junk should be taken into account. Simple ways to do this (as suggested in New York Regulation 126 on Actuarial Opinions and Memoranda) are to subtract a certain holdback, such as 2.5%, from the principal of the junk bonds, or to assume the junk bonds will yield on the average, a rate equivalent to the rate of Moody's seasoned Corporate Bond Average. If an insurance company is more heavily into junk, more rigorous testing should probably be done to assure that the company would be able to withstand the effects of a recession which can cause junk bond defaults.

Using some junk assets presents an opportunity for companies to increase their overall investment yield. However, actuaries need to understand the risks inherent in these assets to price and value the effects of junk assets on products and on the future health of their insurance companies.

Donna R. Claire is an Actuary at the Equitable Life Assurance Society. She is the Secretary of the Individual Life Insurance and Annuity Product Development Section, the chairperson of the Part 10 Committee and has been a speaker at past Valuation Actuary Symposia.

Individual Disability Income Experience

The 1984 Reports, to be distributed later in 1988, will include experience for individual disability income policies for their first benefit year beginning during 1982 and 1983. The data presented are similar to those included in the 1981 study, with additional information covering claim continuance rates.

Analysis of trends of claim costs, based upon the weighting (by age grouping and elimination period) of ratios of the claim cost for each period of time compared to the claim cost for the period of 1976 to 1983, indicates that experience of 1982 to 1983 showed improvement over the combined experience of 1976 to 1983, as in Table 1.

Table 1

Ratio of Weighted Claim Costs to Weighted Claim Costs of 1976 to 1983

Years	Male Occupation Group I	Male Occupation Group II	Female Occupation Group I
1976-77	1.088	1.093	1.155
1978-79	0.955	1.044	1.049
1980-81	1.000	1.069	0.903
1982-83	0.988	0.843	0.972

In the 1982 to 1983 study, data were submitted on the basis of two occupation groupings: Group I, generally including professional and white collar workers, and Group II, generally including blue collar workers. The recently adopted 1985 CIDA table includes data for four occupation groupings. Over the next few years, contributing companies will be modifying the data that they submit so that experience can be analyzed in relation to that table.

An early copy of this study may now be obtained from Mark Doherty at the Society office for \$15. All readers of this study are invited to submit discussions or comments to Sam Gutterman, the Chairperson of the Committee on Individual Health Insurance Experience at his *Yearbook* address. If of general interest, they will be published in the *Reports*, along with an appropriate response from the Committee.