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Mutual Life Conversion

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have now been established, and these add to actuarial knowledge, whether or not future conversions come about.

The Task Force started by recognizing that a conversion is a voluntary action (on the part of the converting mutual company) which must be approved explicitly or implicitly by the other parties to the action: participating policyholders and the new, non-policyholder shareholders. The Task Force sought to identify the relevant questions through an examination of the interests of the several parties to the conversion action. The primary interest of the *company* is its long-term growth and survival. *Current participating policyholders* have two types of interests or expectations. The first type has to do with their insurance coverages — that the conversion action will not materially affect contractual obligations or policy dividends. The second relates to membership rights, and the expectation that they will receive fair value for the cancellation thereof. *Shareholders* who purchase stock at the time of or after the conversion are seeking a good return on their investment in the converted company. The Task Force emphasizes that the reasonable expectations of all three of the interested parties must be met if the conversion is to be successful.

As to specific issues, the Task Force report focuses on three major topics. The first concerns the actuarial aspects involved in assuring that the reasonable dividend expectations of participating policyholders will be met by the converting company. Here the Task Force seems to recommend the establishment of a closed branch for some (but by no means all) of the converting company's participating business. The second concerns the establishment of the aggregate amount of consideration to be awarded to policyholders in exchange for the cancellation of their membership rights. The last topic relates to methods of allocating this aggregate amount among the eligible participating policyholders. To each of these three topics is a section of the report devoted.

These three sections are immediately preceded by a section entitled Mutual Company Capital Management. This section outlines the two principal models of mutual company financial operations: the entity capital model (in which classes of participating policyholders make "permanent" contributions to the company's capital), and the revolving fund model (in which classes of participating policyholders make only "temporary" contributions to capital). The Task Force chooses the entity model as the capital management model that best characterizes the financial operations of most mutual life companies. The implications of this choice are outlined within this section.

Six appendices are as follows:

- Appendix 1 - Model of Mutual Life Insurance Company Financial Operations
- Appendix 2 - Mutual Company Capital Management
- Appendix 3 - Policies Included in Closed Branch
- Appendix 4 - Establishment and Maintenance of a Closed Branch
- Appendix 5 - Policyholders' Contributions - Policies Included in Closed Branch
- Appendix 6 - Policyholders' Contributions - Policies Not Included in Closed Branch

The Actuary is not fully informed as to the plans, if any, that the Task Force has with respect to distribution of the complete report. We assume that inquiry along these lines should be directed to the Task Force Chairman. □

SOLUTION MANUALS

Solution Manuals By Dr. Ralph Garfield are now available.

Course 110 (Nov. '81 and May '82) \$18. (May '83 and May '85) \$20.

Courses 120, 130, and 135 (May '87) \$7 each.

EA 2 (Nov. '84 & Nov. '85) \$30, (Nov. '86) \$17.

For complete list of solution manuals to past Part 3 and 4 exams, and to order any of the above, write to: A.S.M., P.O. Box 522, Merrick, NY 11566.

Correction: Robert S. King corrects our April editorial report that the Society's only three-generation family is that of James Hoskins. Mr. King notes another such family is Jack Dandy, his son William and grandson Ronald. Our apologies to the Dandys. Are we overlooking others?

SOCIAL SECURITY'S HEALTH CONTINUES TO IMPROVE

By Robert J. Myers

In 1981-82, the Social Security system (Old-Age, Survivors, and Disability Insurance) faced a great financial crisis. Considering only the combined OASI and DI Trust Funds, insufficient monies would have been available to meet current benefit outgo beginning in December 1982 if it had not been for loans then from the Hospital Insurance Trust Fund totaling \$12.4 billion. At the end of March 1983, the trust-fund balance on a net basis (i.e., total assets minus the outstanding loan from HI) had fallen to a low of \$6.9 billion (here, only month-end figures will be used, because these are the only readily available ones). This was only about half as large as the amount of the benefit checks for that month that would go out to the beneficiaries to reach them on April 3.

The Social Security Amendments of 1983 represented the results of a political consensus that was intended to restc the financial condition of OASDI, botn in the short run and over the long range. Today, this legislative effort has been highly successful, even more so than was anticipated at the time of enactment (when the financing was based on rather pessimistic assumptions for the future experience).

Since the low point of \$6.8 billion, the balance of the OASDI Trust Funds has increased steadily. The interfund loans of \$5.1 billion made from DI to OASI in November and December 1982 were fully repaid in April 1986, while the aforementioned \$12.4 billion in loans from HI was liquidated in January 1986. Appropriate interest was paid by the OASI Trust Fund on each of these loans, on a monthly basis.

The balance of the OASDI Trust Funds at the end of 1986 significantly exceeded what was estimated for that time when the 1983 Amendments were enacted. This is so not only for the pessimistic-cost estimate, on which the short-range financing of the system was based, but also for the intermediate-cc estimate. In fact, the excess of the actu. balance at that time over that shown in the intermediate-cost estimate was about \$20 billion (and \$29 billion for the

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BOOK REVIEW

A Ramble Through The Actuarial Countryside: The Collected Papers, Essays & Speeches of Frank Mitchell Redington, F.I.A. Edited with Commentary by Gary Chamberlin. 549 pp. Make checks ($35 US or $45 CAN) payable to STAPLE INN ACTUARIAL SOCIETY. Send to R.C. Wilkinson, Reliance Mutual Insurance, Mount Ephraim, Tunbridge Wells, Kent TN4 8BL, England.

Reviewed by E.J. Moorhead

Frank Redington (1906-1984) was indeed an inspired and inspiring actuary. To have his thoughts neatly classified into book format with editorial explanations of topic, time and circumstances is a favor of which actuaries interested in our profession's philosophy do well to take advantage. This volume is unreservedly recommended.

Mr. Redington was a mental wrestler with actuarial problems, whether of principle or technique, studied often over years or decades. He had the rare gift of clarity as well as good humor in conveying the essence of each problem, the matters that puzzled him and the conclusions he reached. He was Chief Actuary of the mighty Prudential Assurance Company of London from 1951 to 1968; he was President of the Institute of Actuaries in 1958 to 1960; and he was awarded the Institute's Gold Medal in 1968 "for work of pre-eminent importance in the actuarial field".

Here is a list of the volume's nine sections. We have not in all cases stated the section headings but have undertaken to express them in terms designed to convey the theme of each section to an actuary who does not have the book before him.

Section 1. Ideas and statistical enquiries in FMR's early actuarial years.

Section 2. Balance sheet principles, including pioneer thoughts on immunization.

Section 3. Speeches as President of the Institute.

Section 4. Policy dividend scales on the British bonus system.

Section 5. Patterns in life table mortality rates.

Section 6. Probability, economics and mortality.

Section 7. A general appraisal late in FMR's long career.

Section 8. Last reflections. Reminiscenses.

Section 9. FMR's poem, "Mathematics", written in his fiftieth year.

The book closes with a bibliography, a chronology, and selected quotations among which this reviewer's favorite is, "The briefest glance at the past tells us one fundamental actuarial lesson, that our strength lies in no way at all in the infallibility of our forecasts; it lies in our power to measure and deal with our own fallibility, to face and to assess our own uncertainty". □

Social Security

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pessimistic estimate).

A historical landmark in the financial operations of the OASI Trust Funds was reached in January 1987. The month-end balance of the OASDI Trust Funds was $49,880 million, which is the highest level yet attained for that measure of assets. The previous maximum was $48,576 million at the end of May 1975, after which a steady decrease occurred until a low of $6,752 million was reached at the end of March 1983.

Another interesting point in this connection is that the current balance of the OASDI Trust Funds is slightly higher than the $46,943 million estimated for 1980 in the actuarial estimates made for the original Social Security Act of 1935. Quite obviously, this close correspondence results from a number of counterbalancing factors. (For more details on this matter, see "Hitting the Bull's-Eye" in *The Actuary* for November 1975).

One final point of interest in connection with the financing of the OASDI and Medicare programs is that the balance in the four trust funds at the end of January 1987 reached almost $100 billion (actually, $99,579 million). Such balance considerably exceeded $100 billion the next day, when the February advance tax transfers to the OASDI Trust Funds were credited by the Treasury Department. □

DEATHS

Russell O. Hooker	FSA 1933
James Barrett Walker	FSA 1949
Charles E. West	FSA 1927

PROBLEM WORKSHOP EA2

An intensive three-day problem workshop for the EA2 exam will be given by Actuarial Study Materials in October in New York City. For details, write to A.S.M., P.O. Box 522, Merrick, NY 11566.

ADDRESS CHANGES FOR *THE ACTUARY*

This is the final issue before *The Actuary's* July-August break. When it resumes publication in September its editorial staff will have changed, and its editorial office will be in Atlanta. In anticipation of this change, the masthead for this June issue shows the new editorial address. Letters to the Editor, as well as any other correspondence of an editorial nature, should be so addressed.

Correspondence about a reader's change of address, or about other circulation matters, should be sent to the office of the Society of Actuaries, 500 Park Boulevard, Itasca, IL 60143. If sent to Atlanta, these will be delayed.

The address of the Competition Editor continues to be 414 South Charter Street, Madison WI 53715. Send your Actucrossword solutions there.

Book reviews, though often published in *The Actuary,* are the responsibility of the Society's Committee on the Review of Literature. Review copies of books should be sent to the Chairman, Charles A. Peirce, John Hancock Mutual Life Insurance, John Hancock Place, P.O. Box 111, Boston, MA 02117. □

Mail Alert

Second Ballots for the Society's 1987 elections will be mailed to all Fellows on July 14. The date by which ballots must be returned to the Society office is Aug. 14.