SOCIETY OF ACTUARIES

Article from:

The Actuary

February 1996 – Volume 30, No. 2

Research Paper receives Fellowship credit

by Rich Lambert

The Education and Examination Research Paper Committee recently awarded 30 Fellowship credits to Dorothy L. Andrews for her paper entitled, "Simplified Cash Flow Testing of Traditional Participating Whole Life Insurance." This is the 11th paper approved for Fellowship credit under this FEM (Future Education Methods) program. The abstract for this paper follows:

> The process of cash flow testing is viewed as arduous and time-consuming by those responsible for ensuring asset adequacy for reserve liabilities. The process is compounded by complex and inflexible mainframe computing systems that were not designed to conduct cash flow testing on specialized lines of business. Most were designed to support accounting and asset segmentation functions that allow for a myriad of analyses at a business unit, subsidiary, or total company level. Cash flow testing, however, is done at the product level, requiring the expertise of pricing actuaries and accountants in product development areas. Reliance on investment officers is necessary for projecting cash flows from assets backing reserve liabilities, but not necessarily for projecting contractual cash flows (i.e., premiums, benefits, and expenses). Diverse product features and embedded options compound the process even more, requiring special skills on the part of the actuary to model and interpret projected and actual asset and liability cash flows. Such a wide range of activities must begin and end, for some, within a short window of time around fiscal year-end. Cash flow testing activities can consume a great deal of manpower and computing resources.
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> This paper develops a model for cash flow testing traditional participating insurance that utilizes pricing tools and assumptions to project reserve liabilities. The model makes use of finance and accounting tools to monitor the reasonableness of ending and intermediate surplus results that emerge under the various interest rate scenarios imposed. The model explicitly incorporates the interest rate scenarios defined in the NAIC's Standard Valuation Law and New York Regulation 126 (NY 126). By varying dividend levels and lapse rate assumptions in tandem with the regulatory interest rate scenarios, the model becomes a handy tool for anticipating how a policyholder might behave in a given economic climate, and therefore, in effect, the model recognizes some of the more option-like features of participating whole life insurance.

Copies of this paper are on file in the Society library, and interested members can contact Ellen Bull, the staff librarian.

Students interested in the Research Paper program should consult Appendix I of the Current Associateshi and Fellowship Catalog. Applications for Research Papers can be obtained from the Education Department at the Society of Actuaries office.

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New 847 area code for SOA

Effective January 20, 1996, the area code 847 replaces 708 for telephone numbers in the northwest suburbs of Chicago, which includes the office of the Society of Actuaries. All calls into the new 847 from any other area code will require dialing 1 + 847 + the seven-digit number. Calls from within the same area code will be completed by dialing only the seven-digits. A grace period will be in effect until April 20, 1996. Calls made after this date will require dialing the new 847 area code.

The Chicago area is one of many across the United States experiencing a growth in a wide variety of telephone services. Fax machines, cellular phones, additional phone lines, pagers, voice mail, and computer modems have all contributed to the need for more area codes.