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No OASIs

Report of the Panel on Social Security Financing to the Committee on Finance U.S. Senate: Superintendent of Documents, Washington, D.C., 20402, pp. 31, 50¢.

by Robert J. Myers

Senate Resolution 350, June 26, 1974, provided for "an expert, independent analysis of the actuarial status of the social security system," to be made for the Senate Committee on Finance. A Panel was duly named to make this analysis, and it submitted its report on Jan. 31, 1975, and this is contained in a Committee Print. The Panel had as its Project Director, William C. L. Hsiao, and it included three other actuaries (Meyer Melnikoff, Ernest J. Moorhead, and Walter Shur) and two economists (Peter A. Diamond and Edmund S. Phelps). All four actuaries are Fellows of the Society of Actuaries and Members of the American Academy of Actuaries. The report, while covering only OASI, is indeed an excellent contribution to the studies being made by various interested groups of the serious long-range financing problem of the entire OASDI portion of the Social Security system.

The Panel concludes that the long-range average cost deficiency is about 6% of taxable payroll, as compared with the figure of 3% shown in the 1974 Trustees Report. The increase in the deficiency results from the Panel making different assumptions in several areas, as follows:

(1) *Economic Assumptions* — Long-range assumptions of 6% annual increases in wages and 4% in prices, instead of 5%/3%.

(2) *Fertility Assumptions*—Although assuming the fertility rate to be at the replacement level ultimately, a decline from the present level to a rate of 1.6 in 1980 (instead of a gradual increase

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CHANGES

Gary N. See has decided to seek fresh fields and pastures new and it is with regret that we witness the departure of our genial Executive Director. On behalf of the Society we tender our thanks for his counsel and help and also a special "Thank You" from the Committee Chairmen and members who had occasion to work closely with Gary. We wish him well in his new post and we expect to keep in touch with him as he attends Society meetings.

The new Executive Director, Peter W. Plumley, needs, or should need, little introduction to the members since he had been, until May 1, Chairman of the Education and Examination Committee. Many students and ex-students will be seeing him at Society meetings in the future and will probably be surprised to see that he does not have horns and a tail. His work on the Education and Examination Committee for several years deserves the grateful thanks of the Society and the Society is lucky in that the fruits of his experience on that Committee will continue to be available.

Harold G. Ingraham, the present Vice General Chairman of the Education and Examination Committee will succeed Mr. Plumley as General Chairman. □

Actuarial Meetings

- June 6, Seattle Actuarial Club
- June 12, Baltimore Actuaries Club
- June 12/13, Canadian Institute of Actuaries, Winnipeg
- June 12/13, Southeastern Actuaries Club
- June 12/13, Actuaries Club of the Southwest
- June 19/20, Middle Atlantic Actuarial Club

THE SIMPLE LIFE

The Nature of the Whole Life Contract, A Research Report by the Institute of Life Insurance.

by Arthur Pedoe

This report was prepared in response to a request by the Task Force on Life Insurance Cost Comparisons of the National Association of Insurance Commissioners. The Institute of Life Insurance was requested to deal with "The nature of the whole life contract, taking into consideration the assumption that it may be separated into protection and savings elements . . ."

The Foreword states that: "Although a reading of the whole life contract discloses no language to support divisibility, such misinterpretations have persisted. . . The state of confusion has also been a matter of continuing concern to The Institute of Life Insurance for many years." Hence the concern to readers of *The Actuary*.

The contract chosen for analysis is the simplest form of life policy where both death benefit and premium continue to the end of life however many years that may be. This policy is called "ordinary life" or "straight life" or, as in this report, "whole life."

The report first discusses the origins of the whole life contract and the development of cash values payable to the withdrawing policyholder. It then generally discusses the attempts of many critics of the life insurance industry as well as certain consumer news magazines to split the whole life contract into its insurance and investment elements.

To reinforce the concept that a whole life contract is indivisible, the report next contains six sections on "How They See the Whole Life Contract," utilizing the viewpoints of the Lawyer, Actuary, Educator, Agent, Accountant and Con-

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The Simple Life

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sumer. Some interesting points are made. One is that in the United States courts of law, it was decided that the cash value of a policy was not subject to distraint (seizure) in connection with unpaid federal income taxes as in the case of savings deposits.

The initial reaction of an actuary to this 30-page pamphlet dated June 1974 and with fifth printing, January 1975, is one of surprise that all this attention is being given to what appears so obvious. The fact is, that if a level yearly premium is to cover a benefit of a fixed amount payable on death with mortality increasing year by year, a fund must be accumulated by the insurance company on which to draw when the cost of the death benefit in later years exceeds the premiums then being paid.

Much attention is given in the report to the "cash surrender value." This is the simple fact of giving the policyholder on surrender of the contract other than by death, a share of the fund which the company must accumulate to carry out its obligations, and which is the basis of the non-forfeiture and loan benefits which are undoubtedly stressed by those selling the plan. Considerable emphasis on this "cash surrender value" is probably apparent in the sales methods used by companies and agents.

I, personally, have often referred to the straight life plan as the Scotsman's Endowment. This was to emphasize the long term nature of the contract and the substantial cash surrender values granted on survival to ages 60, 65 or later, the retirement ages. It stressed the lower premium payable on the Scotsman's Endowment as compared with the corresponding endowment insurance where the sum payable at the retirement age is the same as that payable on prior death.

The splitting of the straight life plan into "pure" insurance (protection) and "savings" elements was particularly stressed by the Insurance Commissioners in their request for a research report. Instead of being regarded as a mathematical exercise, critics stress that this indicates that the amount of insurance protection reduces year by year while the savings element increases, the total just equals the face amount of the

THE ACTUARY'S VADE MECUMS

The Society has provided two *assists* for actuaries called upon to explain their profession, I for general presentation and II for encouragement of actuarial careers.

I

About three times as much material as could be included in the exhibit on actuarial history described in the December issue of *The Actuary* was collected. This factor together with the realization that the exhibit because of the problems of shipping, assembly, and frangibility would at best have limited use, led to the consideration of other ways of mining the gold lode of interesting documents collected.

A 35mm slide film accompanied by a taped narration seemed the perfect answer. The resultant slide presentation, which is independent of the 25th Anniversary Celebration and speaks to all phases of actuarial work, was designed to help answer many of the usual questions about the role of the actuary and the future of the profession. While this show is directed primarily at non-actuaries, it will still be of interest to actuaries, particularly to those whose knowledge of the history of the profession is not very extensive.

The presentation consists of 79—35mm slides along with a 30 minute tape narration in cassette form. The voice is that of a professional radio announcer. Herb Oscar Anderson. The complete set may be rented for a one time use for a cost of \$20.00. Arrangements may be made for purchasing the set at a price of \$100.00.

Interested actuarial clubs, other organizations, and individuals should get in touch with the Chicago Office.

policy. The continuing criticism is to compare the savings with other forms of investment with the cry "Buy term and invest the difference," as if the great majority of purchasers of ordinary life insurance would invest the difference of premiums between that plan and a term to 65 plan. The hope of the fault-finders is that such a procedure would reduce considerably the financial importance of the life insurance industry. Another effect would be to reduce considerably the savings by the population; a serious matter in this inflationary age.

The report does not mention that the existence of guaranteed cash values

II

The Careers Encouragement Committee has developed a Speaker's Kit to help actuaries speaking about their profession to students, vocational guidance counselors, and mathematics educators. Most actuaries in that position will probably rely, to a considerable extent, on their own experience and memory. The Kit provides not only an "assist" but a storehouse of information regarding the profession. The actuary who has an equal store of knowledge at his fingertips is probably not yet born. There is information about the history of the profession, about the varied duties the actuary may be called upon to undertake (including a host of definitions), and comments upon the opportunities for the actuary as well as helpful mathematical illustrations (with slides), simple and complex. There is a broad outline of suggested speech topics to be varied according to the audience. The Kit cannot fail to be helpful to any actuary called upon to address any group, even a group beyond the stage of entering upon an actuarial career.

A Speaker's Kit has been sent to the Chief Actuary of each firm employing a member of the Society of Actuaries, to the President of each actuarial club and to the members of the Society committees directly involved in disseminating information about the profession. Any other member of the Society can obtain a Kit by writing the Chicago office. □

serves as a restraint on the investment policy of life insurance companies requiring a greater degree of liquidity than would otherwise be necessary and that this affects the investment yield.

This research report contains much information which will interest actuaries and others but one wonders whether a simpler line of approach would not have been more desirable to avoid much of the repetition present in the report. The matter of cost comparisons is not touched upon.

Note: A copy of the report may be obtained on request from the Institute of Life Insurance. □