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FEGLI

by Edwin C. Hustead

The Federal Employees Group Life Insurance (FEGLI) Act of 1954, Public Law 83-598, was signed on August 17, 1954. Since that date the Act has been amended several times.

Before the FEGLI program was established there had been a number of beneficial associations providing insurance to Federal employees and annuitants. The original FEGLI Act provided that all of the liabilities of these associations would be combined into one Beneficial Association policy with the deficit to be covered by FEGLI funds.

The basic amount of regular life insurance for an employee participating in the program is annual salary plus $2,000 rounded to the next higher $1,000. The basic amount cannot be less than $10,000 nor more than the basic amount calculated for employees in Level II of the Executive Schedule. The Level II salary is currently $57,500 so the maximum insurance is $60,000. An employee participating in the regular program can also elect an additional amount of optional insurance generally equal to $10,000. In addition there is an AD&D benefit which is not continued after retirement or other termination.

Employees under several retirement systems may, subject to certain service requirements, continue the life insurance into retirement. The full amount of insurance is continued until age 65, or retirement if later, and then reduced by 2% per month until a reduction of 75% is reached.

Over 97% of the covered retirees are in the Civil Service Retirement System. Ten other retirement systems are considered qualifying systems for continuation of full coverage. These include the Tennessee Valley Authority and Foreign Service Retirement Systems and the systems covering the District of Columbia policemen, firemen, and teachers.

The employee contribution rate is two-thirds of the biweekly cost of $1,000 of insurance, as determined by the Civil Service Commission,* rounded to the nearest half-cent. The agency contributes one-third of the level cost. Agency and employee contributions stop at retirement. The optional insurance program is paid for entirely by the enrollees with the cost determined by age group.

The law provides that the Commission contract with one or more companies to provide the insurance. The Commission contracts with the Metropolitan Life Insurance Company to

*As of January 1, 1979, the Civil Service Commission is now the Office of Personnel Management.

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SOCRATES INTRODUCES PLATO TO NETHER WORLD OF EDITING

by John W. Tomlinson

Recently Jack Moorhead, newly-appointed successor to Andy Webster as editor of **The Actuary,** *called on Mr. Webster in that newspaper's sumptuous New York offices. The dialogue between those two giants of our profession having, like the initial Socrates-Plato dialogue, been mislaid, posterity will have to be content with one FSA's dream of what was said:*

Jack. (restlessly, to Andy's secretary) How much longer do I have to wait here in the vestibule?

Secretary. This isn't the vestibule. It's Mr. Webster's office. (Secretary exits).

Andy. (Enters). Welcome to the humble home of *The Actuary.* I hope I haven't kept you waiting more than ten minutes. (They shake hands).

Jack. Thank you-all, Andy. Now, what's the first thing I should do as editor?

Andy. Work on your Scottish accent.

Jack. What's the second thing I should do?

Andy. Learn to quote famous people—like Descartes.

Jack. How do I know he's famous?

Andy. He will be after *you* have quoted him.

Jack. How can we arrange for an orderly transfer of power?

Andy. You pay your electricity bills and I'll pay mine.

Jack. On what day of the month do the members expect to receive *The Actuary?*

Andy. Between the first and the thirty-first of any nearby month.

Jack. But don't some months have fewer than 31 days?

Andy. Perhaps so, but I never heard it put quite so eloquently.

Jack. How is the budget?

Andy. Which budget? The Zero-Based Budget? Or the Absolute Zero Budget? You'll find that either is adequate once you've developed your Scottish "brrrr".

Jack. What is the inspiration for your editorials?

Andy. You know the old saying, "10% inspiration, 90% desperation."

Jack. Do the associate editors help with proofreading?

Andy. Yes, as long as it's 86 proof.

Jack. How do you ensure that all points of view are fairly represented?

Andy. I never write more than half of the articles myself.

Jack. You do some ghost writing then?

Andy. Only when the proof spirit moves me.

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FEGLI

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be the primary carrier with other companies participating as reinsurers. There are 225 companies participating as reinsurers.

Valuation and Rate Reduction

A valuation of the group was made as of September 30, 1977 and, as a result, changes were made in the premiums.

The regular premium rate for Federal Employees Group Life Insurance was reduced 28% and the optional rates were reduced an average of 25% effective September 1, 1978. These rates apply to 2,380,000 employees covered under the regular life insurance program for an average amount of insurance of over $20,000 and 660,000 people covered for optional in surance of $10,000 each. Including 1,000,000 annuitants who are covered by post-retirement insurance the total FEGLI insurance in force is now over $70 billion.

There were three reasons for the reduction in premium rates. The FEGLI rate valuation used dynamic economic assumptions for the first time. Since FEGLI benefits do not increase after retirement, the use of dynamic rates lowered the premium cost. Dynamic assumptions of 7% for interest and 5% for general salary increases were used in the valuation. Secondly, the average investment rate of the FEGLI portfolio has increased substantially over the last few years. Current interest rates average almost 8%. The third and most significant factor is the use of sharply reduced mortality rates.

Civil Service mortality rates had mirrored those of the private sector from 1950 to 1974 with a very slight reduction per year over that quarter century. A sharp decline in the mortality rates began in 1975 and increased through 1977. The reduction was observed for both sexes, all ages, and retirees and employees. The last valuation of FEGLI (1973) had been performed using the mortality experience in the late 1960s. Actual to expected ratios to this table had dropped to 95% in 1974; 88% in 1975; and 83% in 1976. Preliminary results indicate that the 1977 ratio was below 80%. The continuing decline obviously means that we have entered a new pattern of lower mortality rates for Federal employees and annuitants. Because it was unclear how much further the mortality might decline and because use of recent experience already sharply reduced the premium rate, we decided to use mortality rates from 1974 to 1976 rather than to assume a further decline.

Comparison with other sources showed that the decline in mortality was not limited to FEGLI. The National Conference of Health Statistics age-specific mortality rates were stable until 1969 but have dropped steadily since then to 85% of the 1968 base rate by 1975. The annual studies of individual insurance mortality published by the Society of Actuaries have also shown a substantial drop since 1969. Average individual insurance mortality declined by two to three percent a year in 1975 and 1976 with 1976 deaths being 82% of those expected based on 1965 experience.

There are about 2.7 million federal employees eligible for the FEGLI insurance program. Of these, 25% elect optional coverage and 12% choose not to have any coverage. An employee has to purchase regular insurance in order to be eligible for optional insurance. The federal employee has to pay two-thirds of the cost of regular insurance. Since the regular insurance premium is level at all ages with a large amount of post retirement coverage many employees, particularly under age 45, can purchase insurance elsewhere at term rates which are cheaper than the regular program rates. Federal employees also are well aware that the conditions for reentering the program after waiver are very liberal. As a consequence waiver rates are particularly heavy among younger employees and among females.

The optional program began with no pre-conditions which resulted, as had been expected, in high premium rates, low participation and heavy anti-selection. Mortality experience under optional in the first year was 180% of the mortality experience under regular but it declined quickly to 120% of regular by 1972. Today, with much higher participation and tighter controls, the optional mortality is only about 105% of regular mortality.

Introduction of the new optional and regular insurance rates should continue the trend toward higher optional participation and reduce the percentage who waive insurance. The former and current monthly rates per $1,000 are as follows:

	August, 1978	*September,* 1978
Regular insurance		
Employee	$.77	$.55
Employer	.38	.28
Total	1.15	.83
Optional insurance		
Under age 35	$.17	$.13
35-39	.26	.22
40-44	.41	.37
45-49	.63	.52
50-54	.97	.76
55-59	2.27	1.63
Over age 59	3.03	1.95

The Civil Service Commission and the Metropolitan Life Insurance Company have jointly developed a legislative proposal, which will be considered by Congress in 1979, to make certain changes in FEGLI. Several design problems were noted and are being corrected with offsetting cost effects. One is the competitive aspect of term insurance versus the employee contribution among younger employees and the second is the lack of required contribution from employees who retire early. The employees who retire before age 65 carry full insurance to age 65 at no cost. The competitiveness has been partially resolved by the premium reduction but an additional step will be to seek an increase in insurance below age 45. The increase would be to pay twice the basic amount of insurance at no additional cost up to age 35 with the added amount declining 10% a year through age 45. To offset this added cost the other recommended change would be to make employees retiring at 55 or later continue to pay premiums until age 65 or accept an immediate benefit reduction.

The major new recommendation is to introduce an entirely new optional program permitting election of one to five times salary at the employee's discretion. This will probably be offered at lower per thousand rates than the optional rates shown above because the new optional insurance will not include an accidental death and dismemberment benefit or permanent insurance after retirement.

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FEGLI

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The following Table shows specimen mortality rates used in the valuation.

Regular Program Ultimate Mortality Rates Per Thousand

Age	Employee Male	Employee Female	Age Retired Male	Age Retired Female	Disability Retired Male	Disability Retired Female
40	1.8	1.2	3.0	2.1	16 0	10.0
50	4.5	2.3	6.8	4.3	23.2	11.7
60	9.8	4.0	15.7	7.8	34.8	19.0
70	21.5	8.1	37.0	17.3	60.0	31.6
80	51.0	25.9	88.0	55.0	116.4	67.5

Details are given in the 1977 FEGLI valuation report a copy of which may be obtained by writing:

EDWIN C. HUSTEAD
Office of the Actuary
Room 4303
Office of Personnel Management
1900 E. St. NW
Washington D. C. 20415 □

Socrates and Plato

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Jack. How do you see that women get a fair shake?
Andy. I take them riding in my 1937 Maxwell.
Jack. Do we have to print any more about Manhart?
Andy. Oh, have a heart, man.
Jack. Where do you get your better material?
Andy. I'm flattered that you ask. My wife buys the tweeds directly from MacGregor's-in-the-Highlands.
Jack. How do you decide what goes on the front page of *The Actuary?*
Andy. I don't. I plan pages 2 through 8, and see what's left over.
Jack. How do you fill up space?
Andy. There is no space—there are only quasars and black holes.
Jack. How do you decide whether a manuscript is libelous?
Andy. I publish it and wait for the phone to ring.
Jack. And how do you check for factual accuracy?
Andy. It's called *The Actuary*, not *The Factuary*.
Jack. Has anything happened recently that I should know about?
Andy. Two letters of complaint just arrived.
Jack. What does that mean?
Andy. That our readership has doubled.
Jack. And what about hate mail?
Andy. I haven't written any in over a year now.
Jack. Where do you think ERISA is headed?
Andy. She's trying to catch up with STOCHASTA.
Jack. How do you deal with the highly mathematical articles that new Fellows submit?
Andy. My practice is always to substitute Lidstone's Theorem. No reader has yet noticed.
Jack. Why are you giving me such funny answers?
Andy. Aren't you the casting director for "Comedians Unlimited"?
Jack. No, I'm the new editor of *The Actuary.*
Andy. What's the difference?
Jack. Andy, do you mean you're stepping down as editor to start being a comedian?
Andy. There are some who'd say I never was anything else.
Jack. Oh, go on, Andy, you're a top-notch actuary, a fine Society past-President, and a great, great editor!
Andy. My compliments to you also, Jack. I wish you all success as successor!
Jack. Thank you indeed!

(Here 18 minutes of the tape are lost)

(Again they shake hands. Once more a sense of serene Socratic accomplishment enlightens *The Actuary's* humble abode).

CURTAIN

WHAT IT'S LIKE TO RUN FOR CONGRESS

Ed. note: To have one of our members run for the U.S. Congress is possibly unique in the history of the Society of Actuaries and its predecessor organizations. Thomas P. Bowles, Jr. did this last fall. What follows is an interview of Mr. Bowles by a member of the editorial board of The Actuary.

Q. Tom, did you run for experience, for fun or in the belief that victory was possible?

A. I must have run for experience, because I got plenty of it. But it was an experience that taught me much and that I wouldn't have wanted to miss. Some of my actuarial peers suggested that I had more guts than brains to get involved in the political arena. From time to time, however, one is persuaded to take a stand. In his book, "A Time for Truth," William E. Simon reminds us that in the golden age of Pericles, the youth of Athens recognized public service as the noblest of the professions. Not so today, for either youth or elderly, but a duty nevertheless.

There were many difficulties. We could not afford television. We could not afford a full time campaign manager. I began as an unknown; after the primary, my opponent, the incumbent, had an identity quotient of about 98%, mine then being 3%.

But the result was not entirely disappointing to the party regulars in view of lack of funds and lack of identity, no full-time manager, and limited time for campaigning. Victory on a first attempt was outside the bounds of possibility, yet a first attempt is a necessary prelude to victory.

Q. Which, among your opponent's characteristics, gave him the largest advantage?

A. Far and away, it was the fact of being the incumbent. The odds, measured in economic terms, against the challenger are formidable. It is said that an incumbent has an initial economic advantage equivalent to about $500,000.

Q. How important, relatively, did you find (1) money, (2) hard work, (3) the popularity of your stands on particular issues?

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