SOCIETY OF ACTUARIES

Article from:

# The Actuary

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**Deaths**

Howard G. Eimers, F.S.A. 1958
Hugh E. Stephenson, F.S.A. 1957

## Part of the HMO Story

(*Continued from page 1*)

ed legislation, HEW subsequently supported HMOs modestly through redirected funds.

Perhaps the most interesting political process was the legislative struggle starting in early 1973 to enact the needed legislation. This culminated in Public Law 93-222, signed by President Nixon on Dec. 29, 1973. Says Dr. Falkson, "In toto, P.L. 93-222 was a monument to the best in democratic politics and the worst in health care planning." The author traces that law's implementation problems, including contests between HEW and the Labor Department on its application to collectively bargained benefits.

Development of the 1976 amendments proceeded rather smoothly and produced much more workable law; this is credited primarily to the influence of the HMO consensus group, a coalition of advocacy groups that drafted those amendments and shepherded them through Congress. The author concludes his saga by telling of Secretary Califano's role in revitalizing waning Federal involvement with the industry, and finally by summarizing the 1978 amendments.

The author's sources being primarily government people and their consultants, his book fails to document the activities of the private sector in all this, except as manifested through lobbying. Thus an opportunity to show the negative impact upon HMO development caused by the government is lost. Many private sector observers believe that the laws intended to stimulate HMOs may actually have had a net inhibiting effect.

It's unfortunate also that this history runs only through 1978. As a result, the only word of the steady increase in insolvencies among newer HMOs spawned by Federal incentives is in a single footnote (p. 194). These insolvencies and the sizeable percentage of Federal grants and loans for HMO development that have yielded no tangible results, raise large questions in retrospect about the wisdom of the policies embodied in HMO legislation and regulation. □

## NEBRASKA SURVEY (2nd instalment)

*Ed. Note: The first instalment (April issue) told what 61 Fellows said. Here is a summary of replies from 35 Associates and 38 Students. Anybody wanting the full report can obtain a copy from Prof. Warren Luckner, 312 Burnett Hall, UNL, Lincoln, NE 68588.*

*Ques.: Do you consider yourself a professional?*

*Ans.*: "Yes" by 89% of the Associates, 68% of the Students, a perhaps surprisingly high percentage. We don't know how many of those Associates are studying for Fellowship.

*Ques.: Rate the current employment market for new actuarial students.*

*Ans.*: It is noteworthy that Associates and Students were, if anything, more positive than Fellows about availability of opportunities.

*Ques.: Have you read the Society's Guides and Opinions?*

*Ans.*: Nearly 90% of Associates reported having read them in whole or in part. Very few Students had delved into them.

*Ques.: Have you ever encountered a situation which seemed to raise the possibility of doing something contrary to (i) your personal ethics, (ii) the Guides?*

*Ans.*: The proportion of Associates who had run into problems involving personal ethics was nearly as large as for Fellows. There was a scattering of "yes" responses by Students.

* * * *

This survey by the students at University of Nebraska's Actuarial Science Program will, we hope, encourage others to engage in parallel thinking and research. □

## NEWS FROM LONDON

Actuaries in the U.K. are giving penetrating thought and study to "maturity guarantees", i.e., the reserves necessary to support promises contained in investment-linked contracts. An editorial in the March *FIASCO* asks the pointed question, "how many of these offices (offering policies with such promises) have sufficient strength to be able to continue in this way, given (to borrow a phrase) the expanding funnel of doubt regarding the future?"

The Government Actuary and others were reported as saying that the terminology "probability of ruin," whilst understandable to actuaries, was perhaps not the best phrase to use when communicating beyond the profession. Papers by at least three North American actuaries—Samuel H. Turner, Frank P. Di Paolo and Richard W. Ziock—are in the bibliography offered for studying the maturity guarantees problem.

*FIASCO* printed an adapted version of our John W. Tomlinson's piece, in our January 1979 issue, marking their more recent change of editors.

The April *FIASCO* listed no fewer than 17 actuaries who had appeared on a BBC radio program, "Money Box," and asked, as we might ask for this continent, "How many other actuaries have broadcast on radio or television whether in a professional capacity or otherwise?"

*E.J.M.*

## ALLOCATING POLICY LOAN REPAYMENTS

*by Charles W. McMahon*

The manner in which policy loan repayments are split into principal and interest components is of significance to policyholders because the interest portion is tax-deductible if paid in cash.

A common EDP process applies partial loan payments entirely to principal, interest being worked out at the anniversary. This method eventually gives the correct interest credit, but the interest is belated, usually into the next tax year. And people are more familiar with amortization schedules wherein part of each repayment covers accrued interest.

To change the customary life insurance company system to one that splits each repayment into two parts is not difficult. The key is to carry a special loan balance on the record which can be used to obtain the interest credits up to each repayment date. The policyholder can readily be given a receipt showing the effect of this method upon his principal and interest. This procedure can be applied daily so that irregular as well as regular payments can be accommodated.

This system has been used in my company for several years, has worked smoothly and been well accepted. I have prepared a memorandum of the algebra of the system, which I will be happy to send to any reader who requests it to my address in the *Year Book.* □