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TSA papers cont'd

determined so as to be achievable by trading a given collection of assets. Applications are developed in detail and are exemplified by an analysis of the example introduced in an earlier paper.

"Durational-Based Policy Reserves" by William F. Bluhm
This paper proposes a hypothesis that durational rating strategies, now used in the individual and small group markets, fail to maintain an important part of insurers' original promise.

The proposed solution is a required reserve basis that deviates in two major ways from current standards: (1) It pre-funds expected durational increases in claim costs, as well as the excess of expected claim cost increases over premium increases, and (2) it provides a dynamic methodology to adjust for excessive lapses and corresponding cumulative antiselection.

It is asserted that the proposed method is consistent with reasonable public policy goals in the individual and small group markets and corrects certain inadequacies in current methodologies and regulatory standards.

"Level of OASDI Trust Fund Assets Needed to Compensate for Adverse Contingencies" by Richard S. Foster
Many actuaries are active participants in the debate on the long-range financial outlook for the Social Security program and how that program should be funded. The OASDI program generally has operated on a "pay-as-you-go" basis, with annual tax collections approximately equal to program expenditures and trust fund assets at a level sufficient to cover only temporary adverse contingencies.

Although the financing of the program is now on a "partial advance funded" basis, there has been considerable interest in a return to pay-as-you-go financing. In particular, the new chairman of the Senate Finance Committee, Senator Daniel Patrick Moynihan, has been an active supporter of this view, as has Robert J. Myers, former Social Security chief actuary. The appropriate minimum level of assets needed to serve as a contingency reserve under pay-as-you-go financing has been a subject of extensive discussion. This study helps answer that question analytically by estimating the reduction in OASDI trust fund assets that would occur if various past periods of adverse economic conditions were to repeat themselves.

The analysis indicates that an asset level of from 50 to 105% of annual OASDI expenditures generally would be sufficient to cover the effects of a period of adverse economic conditions for about 5 to 10 years. The paper suggests adding another 10 to 25% for the possibility of simultaneous, noneconomic adverse experience, resulting in a fund ratio of from 60 to 130%. A level of 100%, roughly midpoint of this range, is recommended as a reasonable "target" ratio for contingency purposes.

SECTION CORNER

This column reports on activities and newsletters of all special interest Sections on a rotating basis. This issue covers Nontraditional Marketing and Product Development Sections.

Nontraditional Marketing
Nancy Manning is the editor of Nontraditional Marketing Section's newsletter, "NewsDirect," and Kiran Desai is the Section Council's chairperson. Desai has dubbed 1993 the "Year of Research," with the Section sponsoring two major research projects: a credit life mortality study and a direct-response persistency and mortality study.

Section members also are planning spring meeting sessions, including a panel discussion at the Boston SOA meeting in May with an actuary (Jay Jaffe), a marketing executive from an insurance company, and a senior executive from a leading agency. The panel will discuss new dimensions of development and risk selection for direct-response insurance products.

The council plans to meet quarterly by teleconference, with the only "face-to-face" meetings at annual meetings.

Product Development
Product Development News, the newsletter of the Individual Life Insurance and Annuity Product Development Section, is edited by Timothy Pfeifer. Front-page articles in the December 1992 issue include "Term Universal Life — the Best of Both Worlds" by Barry Jacobson and "Unit Expense Factors for Risk Based Capital Requirements" by Klaus Shigley. John Palmer brings readers up to date on tax rulings in "Tax Notes." Thomas Marra, chairperson of the Section, tells of plans for panels on the implications of a low-interest-rate environment for product development actuaries at the SOA meetings in Boston in May and in Quebec City in June. Economist Arthur Laffer, who was a member of President Reagan's economic policy advisory board, will speak at a Section breakfast May 4 in Boston. A seminar on annuities will follow the Boston meeting.

Research plans include contributing to a joint SOA/LIMRA research project on universal life interest sensitive cash flows (which follows a similar SPDA study last year) and sponsoring research on the NAIC's proposed changes to the Standard Nonforfeiture Law.

Exam seminars

Waterloo Actuarial Seminars has scheduled the following seminars:

- April 17-25, 1993
  St. Louis
  150, 200, 340, 443, 520, 525, 540, 550, 564
- April 16-May 2, 1993
  Waterloo
  150, 151, 161, 162, 165, 200, 420, 421, 422, 442, 480, 580

Contact Professor F. G. Reynolds, P.O. Box 773, Waterloo, Ontario N2J 4C2, phone: 519-886-5232, for more information.