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BOOK REVIEW

E. Johnson and D. S. Grubbs, Jr., *The Variable Annuity*, pp. xi, 152, The Research and Review Service of America, Inc., Indianapolis, 1967.

by Abraham Hazelcorn

This book may well become the primer for students and for interested readers approaching the field from a layman's point of view or from a general insurance background. For those who have grown up with the various changes in the life insurance industry, *The Variable Annuity* retraces the developments and highlights. The book can also be used for its references. The bibliography may well serve the readers who wish to look deeper into the subject.

The Variable Annuity portrays the almost complete change in attitude of the life insurance industry in recent years. The comfort and safety of the fixed dollar benefit are shown to be false and the authors attribute to the variable annuity a greater potential safety. In the former case, safety means the reliability of receiving an exact dollar amount. In the latter case, safety refers to the probability of receiving an amount which will more closely approximate constant buying power based on an index rather than on a fixed dollar.

Graph Compares

A graph indicating the changes in common stock prices, cost of living and wage levels is used to stress the fact that wage levels have risen more sharply than the cost of living and that the common stock prices have moved much more closely to the wage level pattern than to that of the cost of living. The authors use this relationship later in the paper in discussing the guarantees of a varying pension benefit. It is stated that pensions which are related to wages require a limitation of the amount of increase that will be credited to a greater extent than pensions which are related to consumer prices.

Varied Designs

The various designs to grant partial or total varying benefits are extremely interesting. The partial aspect, for example, refers to the participants' payments which may be split into a portion for purchase of a fixed annuity and a portion for a variable annuity. Payments during the accumulation period may be subject to varying interest earned, while pensions may be based on a fixed interest rate. Somehow, the design of the product has to be modified to conform to the regulatory requirements emanating from several sources.

In heralding the wave of the future, Messrs. Johnson and Grubbs recount the short but bumpy history in the design of the variable annuity. The regulation of variable annuities is traced and hopefully will serve those interested in this product. A long term rise in common stock prices is discussed as a virtual certainty. It echoes many statements currently being made. This includes that of the recent "Report of the Special Committee on Insurance Holding Companies" for the Superintendent of Insurance for the State of New York:

> "Further, it is now recognized that, over the long pull, common stocks, on the average, do considerably better than fixed income investments. . . .".

Position too Glib

One may want to take issue with several statements in the book. I, for one, feel that in the discussion of the effect of variable annuities upon common stock prices, the authors have stated their position too glibly. They do this, in part, by quoting a study. Their conclusion is that the common stock investments of variable annuity plans represent a substitute or replacement for common stock investments that would have been made in other investment institutions, which include mutual funds and trusteed pension plans.

Messrs. Johnson & Grubbs still think this to be so, despite the accelerated entry of life insurance companies into the mutual fund business. It is difficult to say that what the combined effect of the insurance industry's participation in variable annuities and mutual funds will be on common stock prices, but it is also difficult to accept a minimizing of such effect.

This reader found the authors' expositions clear and interesting. The questioning of the need for special contingency reserves to establish variable annuities was well stated. It was felt that in addition to favoring the larger companies, a special contingency reserve, such as the one in New York, is anomalous. Also, the repayment of surplus borrowed for establishing the contingency reserve was given as another practical limitation of the use of the separate account for variable annuity business.

The book is recommended, especially for those actuaries and insurance executives who have not lived through the variable annuity evolution first hand. Taken together with recent articles, such as Mr. Rolland's in *The Actuary* last month, *The Variable Annuity* can serve as a basic reference. □

Data Wanted!

PENDING WORKSHOP ON CLAIMS OFFERS QUESTIONS FOR STUDY

by Cecil J. Nesbitt

The Society's Committee on Research is organizing a workshop for the Annual Meeting in Washington to explore in a preliminary but detailed fashion the topic of fluctuations in claims.

The discussion will center on: the annual number of ordinary (i.e. excluding group and industrial) life insurance claims for a company; the distribution *by net amount at risk* of the ordinary life insurance claims occurring in a company in a year; the annual aggregate amount of ordinary life insurance claims *by net amount at risk* for a company.

To Validate Models

A major objective is to work toward the validation of risk theory models which should be based on the net amount at risk. These in turn can be used to determine the retention limits on individual policies.

To help direct the discussion of these matters, a set of questions has been prepared for the workshop. In order to achieve the workshop's objectives, it is expected that participants will gather data and prepare discussions in advance for some of these questions.

A written record of the workshop will not be published, but it is hoped that the Committee on Research will be furnished with data and ideas that will help to guide its further exploration of the topics. The set of questions and brief explanatory notes concerning them have been prepared and may be obtained by writing to my office. □