Article from:

The Actuary

February 1971 – volume 5 - Issue 2

The Actuary
The Newsletter of the Society of Actuaries
VOLUME 5, No. 2 FEBRUARY, 1971

ACTUARIES CLUB OF TORONTO

by J. Ross Gray

It is interesting to see matters come full-cycle, and this time it is the oldest (I believe) Actuaries Club becoming the youngest. Perhaps there is a lesson to be learned, that when things become too large and formalized, they no longer fulfill all the needs of their members.

Seventy-four years ago steps were taken to provide opportunity for informal meetings and discussions among Toronto actuaries. The inaugural meeting of The Actuaries Club was held on 12 February 1907. The original membership seems to all have been from Toronto, but members were added from London and Waterloo, and a few from Winnipeg, Montreal, and Halifax, and probably elsewhere.

Expansion in numbers occurred, and it was felt that we should take ourselves more seriously, so in October 1946 the Canadian Association of Actuaries replaced The Actuaries Club. Members of the Actuaries Club of Winnipeg were automatically included also. There was no suggestion that the membership be limited to Toronto, or even to Canada, the only requirement being that one be a Fellow or Associate of one of the established actuarial bodies.

As part of the effort to obtain accreditation, the Association was replaced in March 1965 by the Canadian Institute of Actuaries, which covers all of Canada and permits membership from abroad. It has now grown to a total Membership of 684, plus 153 Students and 53 Correspondents, as at 8 October 1970.

To this writer, the Canadian Institute is now showing the problems that also beset the Society of Actuaries. It is too big, one does not get to know new members, one is losing touch with old members, its meetings are tending toward

(*Continued on page* 8)

CERTUM EX INCERTIS

Institute of Actuaries Students' Society, *Actuaries and Financial Planning*, Butterworth, London, 149pp., £ 1.50.

by Ardian Gill

"The actuary is an enigmatic figure. It is believed that he is highly paid . . ." A book that begins this well has a large promise to keep. And it succeeds. *Actuaries and Financial Planning* is not devoted to the best use of that fat pay check. Rather, "this book aims to give an account of what the modern actuary does, and the way in which his work has developed from restricted beginnings to an essential part of the world of financial planning." The work of a group of young British actuaries, this pleasant little book is directed primarily to non-actuaries in the financial world.

It begins with the origins and development of the profession, explains the essential nature of the actuary's work, describes how insurance institutions evolved and relates the role of actuaries in life insurance, consulting, government, investments and other fields. Although seven authors contributed to the book, the writing is even and generally entertaining. We learn that the first known form of life insurance appeared in Lanuvium in 136 A. D. For an initial premium of 100 sesterces and a flagon of wine and five asses annually, one could assure himself a decent burial. (Do "cover" and "coverage" derive from the act of burial?) We are told that the reason an "actuary is an enigmatic figure" is that the tools of his trade (probability and compound interest) are unfamiliar to the world at large, whereas an architect, say, does not have to detail the use of bricks and mortar when talking to a layman about his profession.

Nathan Detroit's "permanent floating crap game" is used to help explain mathematical expectation; Hamlet and

(*Continued on page* 7)

NEW YORK EXPENSE LIMITS

by John K. Booth

On September 24, 1970, the New York Actuaries Club sponsored a panel discussion on the need for revision of the New York Expense Limitation Law, Section 213, in the light of its history and purpose. Abraham Hazelcorn acted as moderator of the panel composed of Milton J. Goldberg, Jacob S. Landis, Daniel J. Lyons, and Anna M. Rappaport. The views expressed by the panelists are their own and do not necessarily reflect the views of the organizations with which they are associated.

Daniel J. Lyons

Mr. Lyons opened the discussion by summarizing the history and purpose of the New York Expense Limitation Law. The original version of Section 213 was enacted in 1906 following the Armstrong Investigation and was designed to curb the expenditure of unreasonable sums for new business. The law limits first-year commissions, other field expenses, and total company expenses and in addition includes specific limitations on renewal commission rates and collection fees. Companies are prohibited from paying either bonuses or additional commissions or compensation based on volume of new business. There is a further prohibition against making loans or advances except against first year compensation. The law makes special provision for the payment of limited training allowances to new agents and subsidies to new general agents. Subject to the approval of the Superintendent of Insurance, a company is permitted to adopt a plan of compensation other than commissions, provided appropriate charges are made against the first-year and field expense limits as required by Section 213. Some companies have used this section to develop salary plans for agents.

(*Continued on page* 4)

CANADIAN REPLAY

Arthur Pedoe, *Life Insurance, Annuities & Pensions—Second Edition*, University of Toronto Press, 1970, 473pp., $12.50.

by E. H. Wells

"There is no subtler, no surer means of overturning the existing basis of Society than to debauch the currency." Arthur Pedoe introduces his new edition chapter on *Inflation and Life Insurance* with this interesting quotation from John Maynard Keynes who, within two decades after he wrote it, established himself as the apostle of economic salvation by controlled inflation. The chapter could not have been written for the First Edition (1964) because of recent rapid developments in equity-linked life insurance contracts in Canada, brought about by eroding purchasing power of policy proceeds.

The text describes various plans involving term insurance plus equity units, policy dividends invested in equities, and attempts to include minimum guarantees so that regardless of stock trends the death benefit, for instance, will never be less than total premiums paid. The chapter reads like a novel, and like the rest of the book it bristles with documentation. Yet in another decade it may be out-of-date because linkage to the cost of living, as in certain European and South American countries, may well displace the use of fluctuating equity values as a yard-stick for policy proceeds.

Informative for U. S.

The book, like the First Edition, is intended to be a Canadian Text. It will well serve this objective, but it is no less informative to readers with knowledge of insurance practices primarily in the United States. The differences between the countries are a matter of degree, with Canada often in the lead. The author is to be commended for the readability of his text and the use of 22 charts, called "figures," which supplement numerous tables, enhancing the clarity of the presentation. In fact, this reviewer found it difficult to lay the book down after beginning.

Much of the text is factual, always interestingly presented, but no one knowing the author will be surprised by his occasional lapses into wistful defense of the *status quo ante*. Such defenses crop up most frequently in the new chapters on *Taxation* and on *Social Insurance and Social Welfare*. The preferential tax position in Canada of the life insurance industry appears to be eroding to something akin to that in the United States.

On Social Insurance, the Old Age Security uniform benefit dating from 1927 has not only been liberalized, but is now supplemented by the Canada Pension Plan, starting in 1966, with benefits geared to earnings up to $5,000 per year, and escalating with future inflation. Ultimately the total benefit, OAS plus CPP, is to reach 61% of $5,000 with a retirement age down to 65 from the earlier age 70. Indeed it is estimated that, adding in the wide-spread private pension benefits which, in Canada, have been made "portable" by legislative requirement, i.e. vesting after age 45 with 10 years of service, the average old age income will exceed average per capita income. This puts Canada quite far ahead of the United States, even though Social Insurance income is subject to income tax in Canada.

The Social Welfare federal plans in Canada include Family Allowances, from $6 to $10 per month for each child under age 16, or age 18 when in school, and short-term unemployment insurance. Besides these benefits there are a variety of plans shared with the provinces, such as long-term unemployment assistance, universal hospital insurance, as well as assistance for the old, the disabled, the blind, mothers' and veterans' allowances, and medicare. There are also Workmen's Compensation and Crop Insurance. The entire package is far beyond federal and state coverages in the United States, and is expanding as a political balloon.

The chapters on *Pension Plans* and *Funding Methods* have been extensively rewritten because of recent developments. Among the most important may be mentioned the emergence of insured plans involving segregated funds, at least in the accumulation period, and sometimes variable annuity benefits. The segregated funds may be held in a single pooled equity account, or may be based on (i) common stocks, (ii) bonds, and (iii) mortgages, in varying elective proportions, with allocated deposit administration, subject to usual guarantees, applicable to each employee's contributions. There is no mention of that United States peculiarity "generation interest," possibly due to the earlier legislative authorization in Canada for segregated funds. Canada unquestionably has an advantage in instituting certain innovations, because they can be started on a federal level, rather than requiring approval in numerous states.

This is not a review of Arthur Pedoe's complete book, but rather of selected sections that have been most changed since the First Edition. Throughout the book, tables and charts have been brought up to 1968, the revision being dated February, 1970. It is a truly monumental work without being excessively long. The revisions are well integrated and do not appear as patch-work. □

STATE OF THE SOCIETY TODAY

by Charles Connolly

The President asks and what do you say?
The state of the Society? Now? Today?
Hirsute adornment is now the rule,
3% with hair so long that in many cities they would be thrown out of school.
Another group, in the style of General Burnside,
Have sideburns one and two-thirds inches wide.
A few have grown mustaches
Which must be washed with Prell after eating chocolate pie or smoking hashish.
And now and then you see a fully bearded man
Sometimes Van Dyke and sometimes catch-as-catch-can.

Actuaries Club of Toronto

(*Continued from page 1*)

formalization, there is little chance for an informal discussion on non-business matter or to obtain informally some business information. Others apparently have thought so, too. Accordingly, in December 1970 there was constituted the new Actuaries Club of Toronto. We hope to keep our meetings informal and social, and to keep our membership somewhat under control by limiting it to Members of the Canadian Institute of Actuaries who live within daily commuting distance of Toronto.

The President is Donald J. Leapman, the Secretary is Horace W. McCubbin, and Treasurer is Ronald M. Walker. □