SOCIETY OF ACTUARIES

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Leviathan?

(*Continued from page 4*)

danger of assuming financing gains over many decades as to the result of inflation continuing.

(3) The principal cost estimate for developing the financing should be based on the "single best" set of assumptions, rather than using an intermediate estimate that is an average of a low-cost and a high-cost estimate. This reviewer believes that it is not really possible to make a "single best" assumption for any of the cost factors involved. Nobody is that well informed, and one is merely deceiving oneself by this procedure.

(4) The HI cost estimates should be based on a 10-year valuation period (instead of 25 years). I disagree strongly with this recommendation, since it tends to hide the true costs of the program. It should be emphasized that the use of a 25-year valuation period, as compared with a 10-year period, has *no* effect on the contribution schedule developed for the next 10 years if pay-as-you-go financing is used. Exactly the same schedule will be derived for the next decade in either case, but the 25-year basis has the advantage of indicating cost trends after 10 years.

(5) The financing of all programs should be on a current-cost basis, with the trust funds being maintained at a level of about one year's outgo. It is very disappointing that no dollar figures on a projection basis are shown. Thus, the reader cannot judge for himself the validity of the contribution rates recommended, the size of the trust fund under the criteria developed, etc. Even under the optimistic actuarial techniques used by the Council, the ultimate combined employer-employee tax rate for cash benefits and HI benefits together will be about 15% (or more)—and would be 17% (or more) if there were no government subsidy.

In the opinion of this reviewer, the contribution schedules developed by the Council show rates which are too low, because they appear to be based only on the outgo as a percentage of effective taxable payroll each year and thus do not allow for the necessary increase in the trust-fund balance so that it maintains a size of one year's outgo.

(6) The combined HI-SMI program should be financed with a government contribution equal to one-third the total cost. In the first few years (under the "camel's head in the tent" approach), this proportion should be lower, beginning at one-fifth.

Minority and Individual Views

Unlike the case in previous Councils, this one resulted in many separate individual views. The labor members, joined by the late Whitney M. Young, Jr., recommended even greater expansion of the cash benefits program (15% benefit increase with a $100 monthly minimum, more liberal definition of disability, and liberalized benefit computation methods), to be financed by the introduction of a government subsidy of one-third of the total cost; interestingly, they opposed the introduction of automatic-adjustment provisions *before* the benefit level is increased substantially. The business members, joined by Dwight L. Wilbur (past president of the American Medical Association), opposed the automatic-adjustment provisions. Two of the business members, again joined by Dr. Wilbur, also opposed the significant general expansion of the program recommended by the Council. It is noteworthy that the press release on the Council's report, prepared by the Department of Health, Education, and Welfare, did not contain any detail at all on the dissenting views.

Panel of Actuaries, Economists

This panel consisted of two economists and two actuaries (Murray W. Latimer and Wendell Milliman), with its secretary being an economist. Its recommendations as to financing and actuarial methodology were the same as those the Council finally made, except that it believed (as does this reviewer) that a 25-year period should be retained for the HI cost estimates.

The panel suggests that the SMI Trust Fund should have a balance equal to the amount of incurred but unpaid liabilities, plus 5-10% of annual benefit outgo (to meet unforeseen contingencies). At present, this would mean a fund-balance of about $900 million to $1 billion—as against the actual balance of $188 million at the end of 1970.

Where would the money come from to increase the fund to this level? Any substantial increase in the premium rate would be inequitable to current enrollees. This reviewer believes that the best that can be done is to have a fund-balance of about 20-25% of the annual outgo, or about half of what the panel recommended. □

HANDS ACROSS THE SEA—PACIFIC INSURANCE CONFERENCE

by Wendell Milliman

The Pacific Insurance Conference is an organization formed to promote the interchange of ideas concerning life and health insurance company management and marketing between representatives of countries on the Pacific Rim. At the 1969 spring meetings of the Society, Jack Moorhead reported on the Fourth Biennial Meeting of that Conference held in Sydney, Australia in April of that year. The Fifth Pacific Insurance Conference will be held at the Sheraton Maui Hotel on the island of Maui, Hawaii during the week of Sept. 19-24, 1971.

Members of the actuarial profession, and particularly of the Society of Actuaries, are heavily involved in the Conference. Papers for the Conference have been prepared by Ardian Gill, Meno Lake, John Miller, Robert Myers, Robert Tookey and George Watson—all members of the Society—while Jack Moorhead and Walter Steffen will be moderators at two of the five general sessions.

Half Day Each Session

A half day has been allocated to each general session. The opening session will provide a background on the characteristics, history and current stage of development of life and health insurance protection in the various Pacific Rim countries in private insurance companies and pension programs, and under social insurance programs. Subsequent sessions will examine in somewhat closer detail the current patterns and trends with respect to insurance products and services, their marketing, and life insurance company investments. The concluding session will look to the expected future development of the insurance business in countries participating in the Conference.

Attendance at the Conference will be limited to 125. Of this number over one half are expected from outside the United States and Canada. Anyone wishing more information concerning the Fifth Pacific Insurance Conference should write to J. B. McClintock, Chairman, Executive Committee, or Wendell Milliman, Chairman, Organizing Committee, P. O. Box 12530, Seattle, Wash. 98111. □