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## ROYAL COMMISSION REPORT ON TAXATION

by H. E. Harland

The report of the Royal Commission on Taxation is much more than merely a detailed recommendation of the best way of raising tax revenues. It expresses a philosophy that would profoundly alter the fabric of Canadian society. It conceives the tax structure to be the proper tool of government in aggressive and far-reaching policies of income redistribution and management of the economy.

The Commission has attempted to provide a logical basis for its recommendations by postulating a number of underlying concepts, as follows:

(1) The tax base should include all increases in discretionary economic power, regardless of source or nature. This concept has led to the comprehensive tax base, with inclusion of such items as implied benefits, realized capital gains, gifts, inheritances, etc., in addition to the types of income reached by the present law.

(2) Horizontal equity should be achieved. That is, persons in similar circumstances should pay similar taxes. This concept is clearly valid. However, there is a rather rigid adherence even in instances of minor importance. As a result, a number of specific recommendations are made, which would give a much more complicated law than we now have.

(3) Vertical equity should be achieved. That is, persons in different circumstances should pay appropriately different taxes. This concept is easy to agree with but impossible to implement to anyone's satisfaction. The Commission concluded that vertical equity demands a steeply progressive personal tax schedule. Even with the top personal rate limited to 50% as recommended,

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To All Our Readers,  
A Happy New Year  
The Editors

## PHILADELPHIA CLUB DISCUSSES MUTUAL FUNDS, LIFE INSURANCE

Recently the Actuaries Club of Philadelphia had an informal discussion on mutual funds and life insurance companies.

John Hearst gave some figures to show that the interest of insurance companies in mutual funds and variable annuities seems to be catching up with the public's interest and the institutional investor's interest in common stocks. More and more retirement plans are providing variable annuities. The General Electric Company in its Saving and Security program has chartered a mutual fund as part of its employee benefit program.

The interest in equity investment reflects the higher yields which have been realized on these as compared to other types of investment. The College Retirement Equities Fund experience showed an average yield of about 10% over the last fifteen years.

### Influences Prompting Entry

Henry J. Heintzberger discussed the relationship of life insurance and mutual funds from the viewpoint of a company which recently acquired a mutual fund management company. Some of the considerations which prompted entrance into the mutual fund market were:

- the interest of pension funds in common stock investments;
- formation and acquisition of life insurance companies by mutual funds, causing older life companies to form mutual funds in self-defense;

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## HEALTH INSURANCE REPORT AT CHICAGO MEETING

by J. Henry Smith

At the moment we are enjoying a high degree of encouragement from government officials and welfare state advocates. There is a new spirit which seems to be based on the idea of partnership of government and private insurers; and we are being encouraged—even pressured—to make haste in shoring up our side of the partnership.

Three conferences have been convened by Secretary John W. Gardner of H. E. W. at the direction of President Johnson. The first, held in June, focused on medical costs. The second, in September, examined private health insurance, and the third, in October, discussed the group practice of medicine.

These have been summarized in *The Actuary*. All three conferences were highly significant to the health insurance business. Some of the main issues and challenges emerging are:

- The discussion apparently rested on the proposition, taken almost as an axiom, that it is now national policy that adequate medical care is a right owed to all.
- As presently conceived, government's role is to provide for those who cannot provide adequately for themselves—presumed to include all over 65; and also to encourage the private insurers to do the ideal job for the rest.
- There is a shift in emphasis from care for acute conditions to care for chronic and long-term conditions, mental health and preventive medicine. Insurance should accommodate itself to these new needs.
- Insurance benefits should be designed to encourage improvements in the pro-

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**PHILADELPHIA CLUB**

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- increased interest by the public, especially the younger generation, in equity purchases;
- increases of social insurance and employee benefit plans, which help to put individuals in a position for investing in equities.

The company considered the advantages and disadvantages of establishing its own fund or of making an alliance with existing mutual funds and decided that since it was desirable for one management to dictate the marketing of the joint product, it should avoid any "foreign entanglements." Within three months of this decision, approximately 10% of the agents qualified as registered mutual fund representatives.

Replying to a question whether the company made its decision to establish a mutual fund to gain profits from the management company or to increase the income of agents, Mr. Heintzberger stated that the primary purpose was to increase the sale of life insurance.

**Unit Investment Trust**

Donald Grubbs discussed the establishment of mutual funds to fund individual variable annuities in order to avoid dual regulation by both insurance commissioners and the S.E.C. It is virtually impossible for a major life company to serve two regulators. The insurance company, however, can establish a unit investment trust invested wholly in a single mutual fund to provide individual variable annuities; this way the life company may be subject only to insurance regulation, and the mutual fund subject only to securities regulations. At least one company has followed this route.

He mentioned that an independent organization is currently training the life company agents to pass the securities examinations required to become registered representatives.

One actuary stated that he is opposed to mutual funds, separate accounts and variable annuities. Rather than promoting them, the life insurance industry should be doing more to discourage inflation. If more people are encouraged to buy investment programs based on equities as a means of offsetting inflation, he suggested there will be an increase in the number of people who have a desire for inflation which will, in turn, increase the probability that inflation

will occur. He raised the question whether in the long run this would be in the best interest of the country.

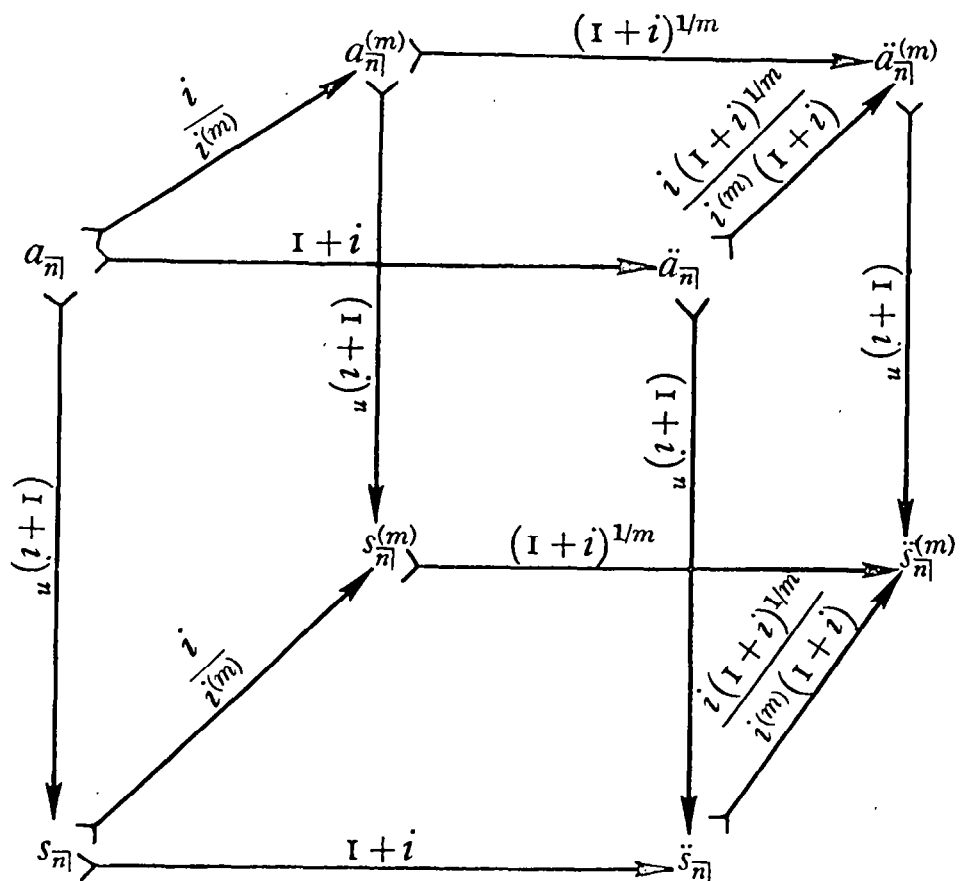
Kenneth H. Ross pointed out that one difference between mutual funds, separate accounts, and pooled funds of banks is that the latter two do not have any expense loading, whereas most mutual funds have a loading of about 8%. He discussed the variety of pooled funds of banks now available, indicating that some trustees now provide separate pools for stock investments, bond investments and mortgage investments. □

**ROLL, JORDAN, ROLL**

The Second Edition of *Life Contingencies* by C. W. Jordan, F.S.A., is available at \$9. Orders should be sent to The Society. The new edition adds a chapter on pension plans and disability benefits. The chapter on population problems has been rewritten and expanded. Changes were made to clarify the exposition and improve the form of the mathematical demonstrations. The exercise sets have been revised. □

**Letter To Editor**

**FOLLOW THE ARROWS**



Sir:

If you have as much trouble as I do trying to remember the relationships between the various annuity certain functions, you will welcome the attached diagram. For me, at least, it straightens out the relationship once and for all.

All you have to do to operate the diagram is follow the little arrows. If you multiply the function at the foot of the arrow by the factor on the arrow, you get the function at the head of the arrow.

If you want to go in the opposite direction, that is against the arrow, you divide by the factor on the arrow. And, of course, you can turn corners and go every which way, just so you follow the rules. In fact, by going all the way around and back again to the starting point you can easily prove that each function equals itself!

E. A. Dougherty