

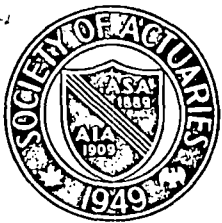


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ROYAL COMMISSION REPORT ON TAXATION

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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Health Insurance Report

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vision of care, such as more ambulatory and home care. Ways should be found for insurers to link arms with medical practice groups.

- Insurers must help in community planning of health facilities and in the establishment and functioning of medical review and utilization committees.
- We must overcome the deficiencies of health insurance — its inadequate benefits, gaps in coverage and sometimes overly high expense.

Question of Target

As the second conference came to a close, Undersecretary Wilbur Cohen stated that his response to the question "Will Medicare be extended?" is "... if private insurance is able to provide adequate protection for high quality care at the prices they can afford, then little public pressure will develop to extend Medicare to those under 65 who are employed." His version of "adequate protection" seems to require that insurance cover at least 90% of all consumer expenditures for health care.

Charles Siegfried, President of the Health Insurance Association of America, challenged Mr. Cohen's parameters, saying: "I, for one, question the limit set by the Undersecretary as a target measure of coverage at which to shoot. For many persons health insurance coverage which covers much less than 90% of total medical bills will be highly satisfactory coverage. I don't think success or failure should be measured by this target point."

Community and area-wide planning of health facilities has become of considerable importance to health insurance. It is a part of a general problem. How should insurance relate to the organization of health care facilities, to quality of care, duplication, over-utilization, and other factors affecting the efficiency and cost? Such matters used to be left to the doctors, hospitals and others concerned, but the insurance industry cannot remain uninvolved.

"Landmark" Legislation

Area-wide planning received great emphasis late last fall when Congress passed (with remarkably little fanfare) a piece of legislation that probably deserves the label "landmark." This act — the Comprehensive Health Planning Act of 1966 — abolished some 16 direct federal grant programs and replaced them by a "block" grant for the states to use as they saw fit.

It tied a big string to the package — a string in the form of a requirement that, in order to get federal funds, each state must embark on a system of planning for health. The Congress insisted that every state take responsibility for looking objectively at its health needs and resources, and that it set priorities and make decisions.

To help get the job underway, the Congress is providing funds for state and community planning. In the planning there is a requirement for active participation not only of the providers of care — the physicians, hospitals, environmental health specialists, etc., — but of the consumers as well.

"Partnership for Health"

This did not catch the health insurance business wholly unawares, in that the HIAA had previously been considering and experimenting with active involvement in such planning. With the stimulus of the new law, it proceeded early this year to effect a well-considered, integrated action program aimed to put private insurers into what is now called the "partnership for health."

A top-level policy group was established in the HIAA, with an operating committee in the Health Insurance Council. About 40 key company Presidents were asked to get to each state Governor the message that our industry felt the idea of comprehensive health planning was sound and that as an industry, as companies, and as individuals, we were prepared to be of assistance.

The Presidents were also asked to see that an experienced and effective person was assigned to each state to keep watch on health planning developments for the industry. The program is well underway and is being received very favorably indeed. At present there is, in all states but two, a "HiCHAP" Co-

ordinator; most were on the job within 30 days of our industry decision to proceed.

HiCHAP

"HiCHAP" is shorthand for "Health Insurance Council, Community Health Action-Planning Project." The story is in the name:

Community Health — involving all of us where we live.

Action-Planning — not merely action for the sake of action, nor sterile planning, but planning *for* action *for* results.

These HiCHAP Coordinators have been busy talking with all of the people involved in community health planning — the physicians and hospital people, the voluntary planning groups, the public health officers, and the Governors. Our message is coming through: we are ready, willing and able to participate in the "partnership for health." And we are being asked in, usually as "representative of consumers," to use the language of the law.

Already insurance personnel — as individuals, of course, not as spokesmen for the industry — are being asked by Governors to sit on the new State Health Planning Councils.

Thus far, insurance people will be playing key roles in comprehensive health planning in perhaps 20 states. In at least four states, the Governor has named or is naming an insurance individual as Chairman of his Advisory Council. And insurance people are on perhaps half or more of the present 70 area-wide planning groups now in operation.

These are but a few of the more significant developments in health insurance lately. These are but a prelude to the future, where there will undoubtedly be more challenging developments. □

THE KLEM REPORT

The Report of the Committee on the Future Course of the Society, of which Walter Klem is Chairman, was discussed at a special meeting of the Board of Governors on Dec. 14.

The background of recommended changes in the operation of the Society and the Board's action thereon will be reported in detail shortly in a special letter to the members of the Society. □