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EDITORIAL

The consumerists are having a fine time these days with the life insurance industry about which it seems there is nothing favorable to be said.

A distinguished member of the Senate is agitating for a "truth in life insurance" law and this provoked the following comment from one newspaper:

"Probably what most insurance policies could use is a terse and lucid summary of precise coverage and options, enabling the purchaser to understand the benefits and recognize the limitations. . . .

(Senator) Hart speaks of a possible 'truth in life insurance' law. Our hunch is that the problem isn't so much truth as clarity."

Another doughty champion of the consumer is reported to have said:

". . . . it should surprise no one that the standard family auto policy is substantially less readable than Einstein's basic work on relativity."

The speaker is a lawyer and an insurance commissioner and he should be well aware that it is the lawyers and the insurance commissioners who have made the insurance policies what they are today (see Chapter XX of that unpublished work "The Baleful and Baneful Influence of Elizur Wright on American Life Insurance".)

The life insurance industry cannot afford to turn up its nose at the automobile policy. In the eyes of the lawyers and the actuaries the life policy may be a model contract, but what is the man in the street supposed to make of the paragraphs describing the methods of determining the Cash Value or the Basic Value. Sometimes he is told in various ways that the values are calculated in accordance with the Standard Non-Forfeiture Value Method. In other instances he is referred to the Non-Forfeiture Factor printed along with the Table of Cash and other Values and generally he learns that a detailed statement of the method of determining cash values has been filed with the insurance supervisory officials of the state of delivery. He can of course check this last the next time he happens to visit the capital city of his State. Meantime the policy contains all these many words presumably to make clear to the insured what the coverage is. We concede that all this verbiage is now "required" by law or regulation but is it essential?

Perhaps the new Committee on the Valuation and Non-Forfeiture Laws may find it desirable to say something about the relatively unintelligible verbosity of the policy contracts. Surely some of the criticism about the complexity of the policy should be heeded by the industry.

If, as a critic, we are asked to suggest a solution we would remind our readers of the Bellman who, on board ship,

"—had bought a large map representing the sea,
Without the least vestige of land:
And the crew were much pleased when they found it to be
A map they could all understand."

A.C.W.

TO BE CONTINUED

Editor's Note: This is another in the series of articles from the Committee on Continuing Education. The rule is one article to one subject to give the non-specialist in that subject up-to-date general information and to encourage further research in the subject if the reader is so minded. Comments will be welcomed by the Committee and by the Editor.

We are indebted to Towers, Perrin, Forster & Crosby, Inc. for permission to reprint this summary from their Canadian letter.

Canada and Quebec Pension Plans

On July 8, 1972, Bill 24, *An Act to Amend the Quebec Pension Plan* was given Royal Assent.

The table (page 3) summarizes the recent changes in the Quebec Pension Plan, alongside the old provisions of that Plan, and proposals for the Canada Pension Plan contained in the 1970 government White Paper "Income Security for Canadians." The White Paper proposals almost certainly will be modified. The Quebec changes are effective as of Jan. 1, 1973.

There are significant differences between the revised Quebec plan and the federal proposals. For example, the maximum employee contributions in 1973 would be $93.60 in Quebec while federal proposals call for a maximum of $102.60 elsewhere. The maximum monthly benefit payable in 1977 and later would be $162 under the Canada Pension Plan, but only $131 under the Quebec Plan.

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Actuarial Meetings

Mar. 8, Baltimore Actuaries Club
Mar. 19, Chicago Actuarial Club
Mar. 21, Actuaries Club of Des Moines
Mar. 21, Seattle Actuarial Club
Mar. 22, Nebraska Actuaries Club
Mar. 27, Actuaries Club of Hartford
April 5, Central Illinois Actuarial Club
April 9, Chicago Actuarial Club
April 12, Baltimore Actuaries Club
April 18, Seattle Actuarial Club
April 18, Actuaries Club of Des Moines
May 16, St. Louis Actuaries Club

Canada Pension Plans

(Continued from page 2)

Under the federal proposals, significantly greater benefits would also be payable on death or disability.

All interested parties, including both the Quebec and federal governments, agree that uniformity between the two plans is desirable from many points of view. Whether achievement of uniformity is feasible is another question. Some experts believe there is still a good chance Ottawa will either follow Quebec's lead or succeed in convincing the provincial government to modify its changes to some middle ground. Nevertheless, some differences may be inevitable—Quebec's priorities in the income security field are clearly not the same as those of the federal government.

If the two plans do diverge, what will be the effect on employer-sponsored benefit programs covering employees in Quebec and in other provinces? The problems need not be thought of as overwhelming. Most employers, for example, have adjusted to the inequities and administrative irritants created by dissimilarities in the way provincial health programs are financed from province to province.

In the pension area, the effect of differing government pension levels would be minimal for employers with pension plan formulas that take into account government benefits. One potential problem, however, would be in rationalizing benefit treatment for employees moving from one jurisdiction to another. If an employee has been contributing during most of his career to a pension plan in one jurisdiction, on what basis should his benefits be determined if he moves to another jurisdiction a few years prior to retirement?

The resolution of these and other problems will depend partly on agreements worked out between the federal and provincial government. Whatever the outcome, a good starting point for employers would be to review the criteria under which their programs are designed to function. One approach, for example, would be to meet total pension income needs whatever the source of that income. This goal could conflict with the more traditional approach—ignored by the Canada and Quebec Pension Plans—of maintaining a fixed relationship between benefits and contributions.

If we are indeed facing major divergences in the two government schemes, the differences may provide employers with an opportunity to redefine benefit plan objectives in terms of the true employee *needs* their programs are designed to meet.

	Canada Pension Plan and Prior Quebec Pension Plan	Quebec Pension Plan (as amended July 1972)	Federal White Paper on Income Security Proposals re the Canada Pension Plan
Earnings Index	Ratio of average earnings of all employees for the 8-year period ending with the second calendar year preceding, to such average for the 8-year period ending 1973.		
Pensions Index (1)	Changes with the average Consumer Price Index; maximum 2% per annum	Maximum of 3% per annum	No change mentioned
MPE (2)	1973 $5,600 1974 5,700 1975 5,800	1973 $5,900 1974 6,100 1975 6,300	1973 $6,300 1974 7,100 1975 7,800
Basic Exemption (3)	12% of MPE (adjusted to lower $100)	No change	Frozen at $600
Flat Rate Benefit (4)	$27.62 in 1972 increasing with the Pension Index	$80 in 1973 increasing with the Pension Index	$80 in 1973 increasing with the Pension Index
Maximum Retirement Pension	25% of Average MPE (5)	No change	No change
Disability Pension	Flat Rate Benefit plus 75% of the Retirement Pension	New Flat Rate Benefit plus 75% of the Retirement Pension	New Flat Rate Benefit plus 100% of the Retirement Pension
Widows' Pension	Flat Rate Benefit plus 37.5% of the Retirement Pension	New Flat Rate Benefit plus 37.5% of the Retirement Pension	New Flat Rate Benefit plus 75% of the Retirement Pension
Old Age Security Offset	None	None	Disability and widows' pensions payable for life but reduced by amount of Old Age Security when it becomes payable

(1) Pension index is the index according to which benefits are adjusted after they become payable in order to reflect changes in the Consumer Price Index. (2) MPE—Year's Maximum Pensionable Earnings. Increases with Earnings Index after 1975. (3) Basic Exemption—That part of a calendar year's earnings on which no contributions are made. (4) Flat Rate Benefit forms part of widows' and disability benefits. Under White Paper proposal it is also payable to wives of disabled pensioners. (5) Average MPE on any date means the average of the MPE's for the calendar year in which such date falls and the two preceding calendar years.