



SOCIETY OF ACTUARIES

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RESEARCH CORNER

Recently completed reports

Bruce Jones' final report, examining the characteristics of Continuing Care Retirement Community data and methods of analysis, has been approved. Copies of the report are currently available through the SOA Books Department. The paper will be published in *ARCH 1996.1* and has been submitted to the *North American Actuarial Journal* (NAAJ).

The papers presented at the December 7-8, 1995, conference, "Fair Value of Insurance Liabilities," are available through New York University's Salomon Center, and audio tapes of the conference are available through Teach'em. Work is progressing on production of the hardbound proceeding based on the conference.

"A Comparative Analysis of Methods of Health Risk Assessment," prepared by a research team led by Dan Dunn, Ph.D., Harvard University School of Public Health, and Alice Rosenblatt, FSA, Coopers & Lybrand LLP, is currently available from the SOA Books Department. Study objectives were:

- To compare the predictive accuracy of different risk assessment methods
- To compare the different risk assessment methods based on other criteria, including administrative practicality, ability to resist manipulation and "gaming" by insurers, and incentives for efficiency
- To explore the potential for risk adjustment using a list of high-cost conditions

This report will be published as part of the SOA monograph series that includes the Public Employee Retirement Systems and the Public Financial Guarantee Programs research reports.

The Committee on Life Insurance Research approved David Babbel and Craig Merrill's manuscript, "Valuation of Interest-Sensitive Financial Instruments." Frank Fabozzi, a well-known author, editor, and publisher in the finance and investment community, will publish this manuscript.

Calls for papers and RFPs

Look for announcements for calls for papers relating to Actuarial Aspects of Currency Risk and Implications of Long Term Interest Rate Guarantees in Pensions and Insurance.

RFPs are being developed for projects relating to the Safest Annuity Rule, Asset Valuation Methods, the Application of the Value at Risk Measurement to Life Insurers, Liquidity Risk and Expense Allocation and Projection Methodologies.

Knowledge Extension Research projects

The Society of Actuaries Committee on Knowledge Extension Research has created a grant program to support the development of new research in actuarial science. Grants will be announced about May 31, 1996.

Lijia Guo has submitted a preliminary paper to the project oversight group (POG) on her research project, "A Stochastic Model — Asset Liability Management."

Financial, Investment Management and Emerging Practice Areas

Four groups within the Society of Actuaries have agreed to provide funding for research to investigate the use of derivatives by the insurance industry, determining the extent and nature of these activities, and studying the effect of derivatives transactions on financial performance. The groups contributing funds are the Committee on Knowledge Extension Research, the Financial, Investment Management and Emerging Practice Areas Research Committee, the Investment Section, and the Financial Reporting Section. The research is being conducted at Georgia State University by Richard D. Phillips, J. David Cummins, and Stephen D. Smith. It should be completed this fall.

Health Benefit Systems news

A March 6-7, 1996, Health Care Symposium examined the different perspectives of the actuary, the economist, and the researcher on the performance of risk adjustment methods. The symposium addressed the application of state-of-the-art risk adjustment technology to current policy issues.

The Health Care Data Base Task Force is considering participating in an effort by the National Association of Health Data Organizations (NAHDO) to create the National Health Information Resource Center (NHIRC). The NHIRC would be a single source of "information about health data information" on the Internet.

The Non-Insurance/Non-Institutional Long-Term Care Survey will review the 1989 National Nursing Home Survey from an actuarial perspective.

Life Insurance projects

Work is proceeding on the creation of a standard expense table for sales illustrations to support the work of the NAIC and ASB.

LIMRA has mailed a data request to companies for the Interest Sensitive Cash Flow and Analysis — Annuity Products research project. This project, jointly sponsored by LIMRA and the SOA, is a follow-up to, and expansion of, the one published in the 1991-92 *TSA Reports*.

Retirement Systems activity

Several quality proposals were received in response to the RFP for phase two of the Turnover and Retirement Rates Project - Table Construction. A letter of agreement is being negotiated.

Capital Research Associates has submitted a sample draft report on one existing model for the Macrodemographic Model Feasibility Study. The POG reviewed the report and made suggestions to the researcher. Work is proceeding on the final report for phase 1.

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Research Corner (continued from page 12)

The Committee on Retirement Systems Research selected Kathleen Elder and Laxman Hedge of Frostburg State University as researchers for the Pension Plan Mortality Study. As of mid-March, 18 contributors had submitted data for approximately 75 plans. Additional data is expected.

Ph.D. grants

The Society of Actuaries and Casualty Actuarial Society sponsored the 6th annual Ph.D. Grants Competition. The purpose of the grants is to encourage graduate students to complete research on topics related to actuarial science and to pursue an academic career in North America. Application materials are being evaluated, and recipients will be notified by June 14, 1996.

Experience studies analysis

The Research Department is pleased to announce that Brother Donald Kelly, Ph.D., is working in the SOA office on a contract project assignment from February 1 through June 28, 1996. Brother Kelly is on sabbatical from his position as assistant professor of mathematics at Marist College in Poughkeepsie, New York. He will be working with Jack Luff, SOA experience studies actuary, to identify and

analyze technical issues involved in conducting studies of experience data. His recommendations may also identify alternate methods for conducting the studies.

Modeling

An ad hoc group has been formed to investigate and stimulate research on modeling. The members are Allan Brender, Shane Chalke, Curtis Huntington, Roger Smith, and Irwin Vanderhoof. The group wants to first collect a list of modeling issues or questions that actuaries would like to have investigated. Input regarding modeling issues or questions to be investigated should be directed to the Research Department.

Actuarial Principles

The SOA Committee on Actuarial Principles is working with the CAS in an effort to develop a joint statement of general principles.

Keep in touch with research

Remember to check Actuaries Online, the SOA's electronic bulletin board, for requests for proposals, research reports, project status reports, and other research information or contact the Research Department at the Society's office.

Pension Research Council Conference in May

Several actuaries will be participating in panels at the "Living with Defined Contribution Plans" conference sponsored by the Pension Research Council, the U.S. Department of Labor's Pension and Welfare Benefits Administration, and the University of Pennsylvania's Center for Research on Aging. The conference is May 2-3, 1996, at The Wharton School, University of Pennsylvania. For more information, call Kirk Hitesman, 215/898-7620 or e-mail hitesmak@wharton.upenn.edu. Two 1996 titles now available from the University of Pennsylvania Press (1-800-445-9880) are *Securing Employer-based Pensions: An International Perspective* and *Positioning Pensions for the 21st Century*.

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to interest rates, investors may seek some independently established real rate of return. If past nominal returns were influenced by that goal, plus some expectation based on reported inflation rates and risk factors, lower reported inflation may induce lower nominal interest rates.

In any event, for OASDI, the most significant projections are the annual cost rates (expenditures/taxable payroll). Those are inversely related to the assumed real wage increases. If, as economists suggest, reducing reported inflation will not change nominal wage rates, then real wage increases will be higher, and future cost rates will be

lower than previously assumed in the Budget estimates and OASDI Trustees' Reports. The Advisory Council has used that approach in developing estimates for comparing various proposals.

A final comment

The distinction between improving the CPI versus basing the COLA on some arbitrary formula adjustment to the CPI (e.g., CPI-x) is important. The latter could only coincidentally produce the correct adjustment to preserve purchasing power. Also, an improved, and presumably lower, CPI would yield more realistic, and presumably higher, real wage data and a better measure of the affordability of Social Security.

Howard Young is adjunct professor at the University of Michigan, Ann Arbor, and was chair of the Advisory Council's Assumptions and Methods Panel. He can be reached by e-mail at hyoung@umich.edu

IN MEMORIAM

Neil Thomas P.W. Malley
ASA 1974, FIA 1971, FIAA 1971

Jack L. Rowland
ASA 1953, MAAA 1966

Robert C. Steiner
FSA 1968, MAAA 1968, FCA 1975