May I suggest a broader definition of an actuary than was proposed by Frederick W. Kilbourne (June issue), one that would cover areas not necessarily involving direct financial implication, such as demography:

The work of an actuary involves analysis of a clearly defined status (one or more, such as life, disability, unemployment, habitat) for a group of individuals through a definite period of time.

This perhaps is even less “melodious to the man-on-the-street” than Mr. Kilbourne’s QAV, but of some help with that identity crisis. I first offered it in my December 1951 CLU Journal paper, “Developments in Actuarial Work.”

Manuel Gelles

Not Dividends

Sir:

Some are saying that the excess of the ceiling premium for a non-par indeterminate premium policy over the premium charged for any policy year is a dividend under the Life Insurance Company Federal Income Tax Act. But this is at odds with the definition in the Act’s para. 1.811-2, which reads thus:

“The term (dividend) includes amounts returned to policyholders where the amount is not fixed in the contract but depends on the experience of the company or the discretion of the management. In general, any payment not fixed in the contract which is made with respect to a participating contract (that is, a contract which during the taxable year contains a right to participate in the divisible surplus of the company) shall be treated as a dividend to policyholders. Similarly, any amount refunded or allowed as a rate credit with respect to either a participating or a nonparticipating contract shall be treated as a dividend to policyholders if such amount depends on the experience of the company.”

My assertion is that the premium charged on one of these policies is not surplus distribution related to the company’s experience. Such a premium is determined in advance of the policy year; it is guaranteed; if it proves too large, nothing is returned; if it turns out to have been too small, no assessment is made and there may be no recouping the loss from future premiums.

Furthermore, there are precedents for charging a rate lower than a maximum guarantee, in which the difference isn’t treated as a dividend. One is on life annuity settlement options—another is the so-called fifth dividend option (purchasing one-year term insurance with dividends on a participating policy).

Donald R. Sondergeld

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