

Where's the Motive?

As an active proponent of consumer protection and education, we feel it necessary to clarify the inaccuracies presented in the article "Viatical and Life Settlement Transactions: The Frightening Secondary Market for Life Insurance Policies," by Joseph M. Belth (March/April 2002).

It is important to distinguish between those viatical transactions that are financed by individual investors and those that are institutionally financed. In the former transactions, senior citizens (among others) are paying to invest in the purchase of someone else's life insurance policy. In the latter transactions (generally referred to as "life settlements"), senior citizens who want to sell their own policies are being paid for their policies with funds that come from licensed and regulated banking, insurance, or reinsurance institutions. Such life settlements are neither schemes nor devices aimed at defrauding seniors. In fact, they are a sophisticated financial or estate planning tool.

There is absolutely no evidence over the 12-year history of the viatical and life settlement industry to support Mr. Belth's supposition that the sale of an in-force life insurance policy to a person without an insurable interest will result in the policy insured being killed. Mr. Belth has for many years raised this specter to a point where even he must be wondering (if not by now hoping) when his dire forecasts will come true.

In fact, crime annals are replete with cases where a policy insured's demise was "hurried along" by a "loved one" with all the insurable interest in the world. No one has, as a result, felt compelled to rethink the value of life insurance. Belth's is an absurd and unsubstantiated premise that serves only to distract attention from the reality of a life settlement as a viable financial alternative to letting a policy lapse and receiving nothing in return or, at best, the cash surrender value.

Further, the pricing models used by institutionally financed life settlement companies are not "shrouded in secrecy," and such companies do not use "strange



calculations and deny that actuaries are needed." Such companies use life insurance-based underwriting procedures, life insurance mortality ratings, and actuarially developed probabilistic pricing models to determine eligibility and pricing of life settlements. To the extent that Mr. Belth has been unable to become privy to such models, it may well be that privately held companies such as ours, hoping to keep such trade secrets just that for competitive reasons, do not think this information is any of Mr. Belth's business.

The author stated that "effective regulation of the secondary market for life insurance policies isn't likely to occur." In fact, regulation is occurring (37 states currently regulate viatical settlements, 13 regulate life settlements), and we are working closely with other like-minded and like-funded companies in our industry actively to promote the expansion of legislation and regulation that will ensure the highest ethical standards in furtherance of the growth of the life settlement industry.

The recently approved NAIC Viatical Settlement Model Act and the legislation/regulation requirements of many states give the life settlement industry a very strict set of standards and practices to follow. Institutional funders require strict adherence to these standards and practices as a precondition to the provision of capital.

The author suggested that the viatical and life settlement market is shrinking. In fact, we have evidence to the contrary. Over the past six months, our company

alone has seen well in excess of \$1 billion in life settlement applications from responsible financial advisers representing their senior clients. These are individuals who only want to work with life settlement companies that have been approved for financing by blue-chip banks, insurers, and re-insurers.

While the author criticized brokers who bring in policies to a life settlement firm as being paid well for an "easy selling job," we do not feel brokers should be criticized for being aware of and presenting their clients with a new financial option to achieve possibly more suitable current financial goals. States are increasingly requiring the disclosure of all broker compensation, and companies such as Living Benefits make such disclosures as a standard practice.

Many of life's circumstances change as we age, including the need for insurance coverage. For many senior citizens, it is becoming increasingly common to no longer need or want the same level of life insurance coverage as was appropriate earlier in life. The conversion of an expendable life insurance policy into ready cash can facilitate for seniors the purchase of more suitable financial planning products (such as long-term care insurance or life annuities) so they may pursue their continued independence and quality of life.

We are confident that the life settlement business will reach its potential and, over the next few years, be accepted as an innovative and entirely appropriate financial planning option. In order to succeed, we must do all that we can to help legislators and regulators clean up whatever inappropriate acts and actors remain in our business. It is equally important that the inaccuracies surrounding the viatical and life settlement industry are refuted by facts. It is only by so doing that we will be able both to continue to attract worldwide capital markets institutions to participate with us and to deserve the confidence of our marketplace.

KENNETH KLEIN
PRESIDENT AND CHIEF LEGAL OFFICER
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Loan Arranger

I read the two conflicting articles on viatical and life settlements in your March/April, issue with great interest. However, I was rather surprised that Prof. Belth made no reference to the desirability of the regulators or legislators insisting (or at least encouraging) viatical companies to adopt a loan approach instead of the current settlement approach.

Such an approach would automatically eradicate many of the moral hazards Prof. Belth enunciated. This omission is especially perplexing as I wrote a letter on this topic to the *NAAJ*, which was published in April 2001 in response to Prof. Belth's article in the *NAAJ*, July 2000.

While the concept of a "health-related cash value" is similar, it would impose on every life insurer, both large and small, a new statutory obligation with significant reserve implications and considerable implementation issues. In that letter I alluded to a letter of support I received back in 1995 from James Hunt (a former Ver-

mont insurance commissioner). In it Mr. Hunt concluded "the availability of terminal illness loans to life insurance policyholders who have no, or insufficient, policy loans available will provide healthy competition for viatical companies, assuring that their discounts remain fair."

In a presentation last June to the SOA Product Development Meeting in Toronto, I handed out copies of a feasibility study done for the Ontario Ministry of Health on establishing a nonprofit viatical entity in Ontario. This is also an option well worth exploring even in the United States.

The actuarial profession should take the lead in protecting and assisting vulnerable but needy low-income policyholders. Then a self-regulated secondary market for sophisticated investors and affluent policyholders owning COLI or large joint last-to-die term policies could flourish without the unwarranted intervention of regulators or consumer groups.

DANIEL KAHAN

PRESIDENT, CANADIAN LIFE LINE
TORONTO

So Much for the Title

The title "So Much for Global Warming" (March/April 2002) is, unfortunately, not related to Douglas Collins' well-researched and carefully circumscribed article. The author states that "this particular study was not undertaken to contribute to the debate on global warming."

Mr. Collins concludes that hurricanes have not become stronger and more destructive. "Nor has the impact of global changes in climate on hurricane frequency been resolved." Period.

SIM GUREWITZ
OAKLAND, CALIF.

Climate Shift

I enjoyed Bridget Flynn's article on the collapse of the defined benefit plan in light of the Enron debacle that appeared in the May/June issue of *Contingencies*. I do think that the legislative climate shifted, albeit to raise revenues, but also as a result of perceived abuses by many small employers who created employer (business owner)-rich plans that provided minimal real benefits for the rank and file.

New comparability or cross-tested defined contribution plans, with their owner-rich structures, may also eventually trigger similar draconian results.

Thanks again for putting these issues out there for debate.

JAMES E. FARLEY
JERSEY CITY, N.J.

Best Interests

Mr. Parker's commentary in the January/February 2002 issue of *Contingencies* was a useful alert/reminder of the stock market risks associated with the baby boom generation reaching retirement age. He makes a jump of illogic, however, when he contends that future stock market difficulties will cause corporations to change their focus from the bottom line to more humanitarian concerns.

While he may consider this desirable, he presents no convincing argument why investors will stop pursuing the best financial return available to them.

PETER G. HENDEE
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September Forum

If Les Lohmann intended to infuriate the vast majority who approve of the way the war on terrorism is being conducted, he has, at least in my case, succeeded.

To trivialize the loss of life at the World Trade Center on Sept. 11 with comments such as "It wasn't the Statue of Liberty. I am amazed we lost so little," and "... the terrorists used their best people and they barely scratched us," is inexcusable. It is a gross insult to the 3,000+ victims and their loved ones. I hope and pray that they never have occasion to read Lohmann's insensitive remarks.

Equating the government handling of security with "McCarthyism" is ridiculous. I note that Lohmann obtained his Society fellowship in 1978. That suggests to me that in the McCarthy era (from 1950 to his censure in December 1954), Lohmann was not old enough to comprehend what "McCarthyism" was all

about. Perhaps he wasn't even born yet. I can assure Mr. Lohmann that McCarthy's behavior was far more egregious than any infringement on civil liberties that he may think he perceives today.

Lohmann apparently resides in Tokyo. Perhaps there they are more tolerant of carrying box cutters and scissors onto airplanes. I hope he stays there and enjoys the "civil liberties" that he so fervently desires.

ROBERT B. KOCH
ALBUQUERQUE, N.M.

Thank you for publishing "Actuarial Input" by Les Lohmann in the March/April 2002 issue of *Contingencies*. Please let Mr. Lohmann know that there might be thousands of us who have not written to *Contingencies* but have tried to influence the thinking of our representatives in Washington and others, along the lines he has expressed so well.

We must not permit terrorist attacks in our country, such as attacks by our "pa-

triotic American" on citizens who are Muslims or originally from a country that is not friendly to our country. Surely we can learn from the Israel-Palestinian conflict for 50 years that killing innocent people does not solve problems but perpetuates them. This is a time for cool heads, not knee-jerk reactions.

ROY E. DAY
DECATUR, GA.

Interesting lead letters to the editor the last two issues. My gut feelings lie with the editorial column to "9/11/01" rather than our esteemed Canadian reader (January/February 2002) and our Tokyo expatriate reader (March/April 2002)—who seems more concerned with the fact that people will be pushed to driving in cars rather than traveling by aircraft, because flying in planes is a "statistically safer" form of travel.

God help us if these two letters display the sentiment of our field with regard to this grotesque act of war. Maybe I was waiting for some sort of reaction to the Canadian letter rather than this diatribe posted as the lead letter in the current issue. Maybe it's because too many (I hope) of our fellow actuaries are overwhelmed by the tragedy to post some sort of response to the initial tripe written in the January/February and March/April letters. Well, here goes:

Dear fellow actuaries: Pardon if I haven't come up with the same analysis that both of you have to the events of 9/11. Perhaps I was shaken by the fact that a former client was on one of the planes, that I drive by the house on my way home from work every day of a family of four (now three) that won't have their father around due to the fact that he was on the wrong plane. Pardon the fact that one of our friends (a casualty actuary) had to post the following in their Christmas letter this year:

The year 2001 has been a year of grieving for many. Therefore, this is not your typical holiday letter. January began with Tommy asking, "Mommy, why did God decide that it was time for your dad to die?" Although my father passed away when I was 12, Tommy often asks about him. Little did

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I know that his question was the foreshadowing of the events of 2001 for our family, our friends, our nation and even our world. Personally, this year we lost one friend and three family members, including Chris' uncle, Ken Waldie. He was on board American Flight #11 on the fateful day of September 11. Yesterday, I overheard Tommy telling Fiona, "My big cousin's daddy died because a bad man made his plane crash."

Perhaps our Canadian reader can recall that Bin Laden's group was thwarted in December 2000 from blowing up all of the subway stations in Montreal. Our actuarial profession is great at forecasting risk; not so great (along with our economist brethren) in forecasting non-stochastic variables. How do you factor the Oil Shock of 1973 into your equations? How do you factor in acts of war?

For the sake of our profession, please don't let these two past letters express how the large majority of us feel about 9/11.

MICHAEL WYATT
NORWELL, MASS.

Hard to Get

In "A Radical New Approach to Mortality Table Development" (May/June 2002) Charles Ritzke raises an issue that was also important in the development of the RP-2000 mortality table. The Retirement Plans Experience Committee (RPEC) of the Society of Actuaries analyzed the variations in mortality by three criteria in addition to the traditional age, gender, and plan status (active, retired, disabled or survivor). These three were industry category (e.g., electrical), retirement income level, and blue or white collar. The RPEC found significant differences by retirement income level and blue or white collar. However, neither the RPEC nor an academic research team could develop a model for practical use that would accurately reflect these two differences.

Ritzke proposes that actuaries use our modern computing resources to develop and apply complex mortality tables that reflect many of the differences that are observed in each set of mortality data. That

As long as actuaries view the provision of mortality data as a secondary responsibility, the large, valid, timely data base needed to measure subtle differences in mortality will remain elusive

approach would have helped the development and use of RP-2000 as well as the life insurance valuation tables.

As Ritzke notes, "Obviously, there are details to work out." Unfortunately, two of these "details" may present overwhelming obstacles to moving forward with his proposal. The first problem is obtaining the data needed for a mortality table. It's always difficult to obtain complete, timely, and valid data from any insurance company, consulting firm, or employer even when the contributors have grown accustomed to annual submissions.

Second, actuaries find it difficult to move to new computation systems. For example, one of the improvements recommended for the RP-2000 was to use generational mortality projections rather than a rough estimate of mortality improvement. While most pension actuaries agree that generational mortality is technically more correct than the approximation methods most actuaries use, few have made the changes in their computer systems necessary to adopt generational mortality.

The second problem can perhaps be overcome in time. If a valid method and tables necessary to apply a complex array of mortality assumptions can be developed, then actuaries might eventually work these into their valuation systems.

However, the first problem will remain the main stumbling block. As long as actuaries view the provision of mortality data as a secondary responsibility, the large, valid, timely data base needed to measure subtle differences in mortality will remain elusive. Committees charged with developing new mortality tables will continue to spend most of their time begging for the data needed for their work. ●

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