

I will offer a few comments later on the relation of fiscal to monetary policy, but it seems to me that I can be most helpful to the committee if I confine myself mostly to the response of the life insurance business to the exercise of monetary policy. Standards to guide the Federal Reserve Board, whether formulated by the Board or by Congress, must take into account the impact of credit policy on the operations of financial institutions.

Let me start with the development of net investment funds by life insurance companies and then move on to what the various statistics show about the response of the companies to changes in monetary conditions.

Like all savings institutions, life insurance companies compete for a share of the consumer's dollar, with the implicit intention of diverting income into the capital market. The principal asset producing contracts under which life insurance is sold are long-term and they tend to accumulate funds for investment in a very stable, rising trend. The essential instrument in this accumulation is the level premium which produces reserves in the early policy years to offset the higher mortality costs as the policies age.

I am sure the committee does not want me to go into detail on the arithmetic technicalities of level premiums, but you should know that an increase in the net sales of life insurance is necessary to maintain the upward thrust of fund accumulation and asset growth to cover reserves. One percent a year is not quite enough to do this on a year-in and year-out basis in an established company. Five percent, however, does quite nicely, and 10 percent produces really spectacular results.

These facts are illustrated in the first two charts at the end of this testimony. The first chart shows the annual increase (or decrease) in funds on a single year's net sale of \$100 million of whole life insurance (age 35), as well as the increase in funds for continued sales of \$100 million each year. The second chart shows the results when net sales rise at a 1 percent, a 5 percent, and a 10 percent annual rate.

As you can see from chart I, the annual fund growth on policies issued in a single year continues for about 30 years but on a declining scale after the first few years. The growth becomes negative after 30 years and continues so, virtually to the expiration of the last policy. Even if additional sales of \$100 million a year are made, the annual increase in funds starts to decline after about 30 years, as withdrawals are made to meet the rising mortality costs.