



SOCIETY OF ACTUARIES

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Letter From The President

SOA PRESIDENT BRADLEY M. SMITH'S SPEECH AT ANNUAL MEETING

BY BRADLEY M. SMITH



Bradley M. Smith delivering his SOA 2011 Annual Meeting speech.



From left to right: Bradley M. Smith, Donald J. Segal and Tonya B. Manning—the SOA's 2011–2012 president, past-president and president-elect.

We need to recognize that, as actuaries, we are not always right, that there are elements to any solution that we may not appreciate, that we are not always the “smartest person in the room.” Having said that, we must also recognize that if this happens too often, clients will eventually stop asking our opinions—we will become irrelevant.

The following is an excerpt of SOA President Bradley M. Smith's address to members at the 2011 SOA Annual Meeting & Exhibit, held in October. The entire speech can be found at www.soa.org/smith-2011-speech.

TODAY I WANT TO TALK ABOUT the actuarial profession, the opportunities we have, the challenges we face and the structure we operate under.

Have you ever been accused of being “too actuarial”? I certainly have. I used to wear it as a badge of honor. Until someone pointed out to me that they were not criticizing the complicated, technical nature of the work that actuaries do, but rather, my inability to

communicate the issues in a non-technical fashion to non-actuaries.

If you cannot articulate the problem you are trying to solve and the solution you are proposing, you will fail as a professional—or at least fall short of your potential.

I have been a consultant for more than 25 years. Have I had clients ignore my advice? Absolutely.

This is important now because depending upon your point of view, we are either “blessed” or “burdened” with enormous societal problems that have substantial actuarial components: the funding and potential reform of Social Security, Medicare and Medicaid, health care reform, and the underfunding of public pension plans.

UNDERFUNDING OF PUBLIC PENSION PLANS

Many of our largest public pension plans are severely underfunded, which is a substantial financial burden on future generations. We



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know the causes of the problem, but we have failed to communicate them effectively to the general public.

1. Sponsors have failed to fund their plans at the level recommended by their actuaries.
2. The investment returns of the past decade have been calamitous.
3. Politicians appealed to public employees by promising increases in their benefits, knowing that such increases would be substantially funded in the future, after they had left office.
4. Plan administrators of final average pay defined benefit pension plans allowed the “spiking” of benefit levels by permitting employees near retirement to work additional overtime in the years immediately prior to retirement.
5. Early retirements of older, higher-paid employees who were replaced by younger, lesser-paid employees was seen as a way to reduce current payroll, without recognizing the impact that these early retirements would have on the funded status of the pension plan.
6. Post-retirement health costs were either not funded at all or were funded at a level well below their expected cost.

Earlier in the year I was interviewed by a reporter from the New York Times concerning the funding of public pension plans. While I am not a pension actuary by training, my commercial responsibilities

require me to be aware of the issues. At the end of the interview she told me that she had been working on this story for a number of months and that I was only one of two actuaries willing to discuss the causes of the problem. No one else would discuss it on the record!

If you cannot articulate the problem ... you will fail as a professional—or at least fall short of your potential.

She said, “You must recognize that once the level of underfunding is understood by the public, people will be pointing fingers at the actuarial profession.”

I certainly do and so do you.

All the more reason for the actuarial profession to be a part of the solution, rather than be viewed as part of the problem.

HEALTH CARE REFORM

The Patient Protection and Affordable Care Act (PPACA) is a very complicated piece of legislation. One of its elements that will affect actuaries and our work are the four primary subsidies the law creates among different constituencies.

The four subsidies created by the legislation are:

1. Affluent to poor,
2. Healthy to unhealthy (via the elimination of underwriting),
3. Young male to young female (via the elimination of gender-based pricing), and
4. Young to old (via the 3-to-1 limitation on pricing).

While any one of us may disagree with the social benefits of such subsidies, it is pretty clear what the underlying thinking was on the first three. However, I did not understand why the

fourth subsidy was enacted. After all, many of the uninsured are young adults who feel invulnerable and do not see the need to purchase health insurance.

The new law requires them to purchase insurance or pay a penalty. If we were going to subsidize any age group, shouldn't we be subsidizing them? Instead, not only are we not subsidizing them, we are forcing them to pay artificially high premiums that subsidize an older, generally more affluent cohort.

This didn't make sense to me.

I discussed this with someone who works on Capitol Hill. I told him I understood the criteria for the first three, but was struggling to understand the reason for the young to old age subsidy. Were Congress and the President trying to emulate the group insurance market? Were they making a statement about the appropriateness of age-based pricing?

He just looked at me and smiled. He said, “Brad, you are such an actuary. You try to impute logic where there is none. There is one

reason and one reason alone for the 3-to-1 limit that subsidizes the old at the expense of the young.” I said, “OK, what is the reason?” He said, “It is the price that AARP (American Association of Retired Persons) extracted for their support of the bill.” Totally non-actuarial and totally political. Old people vote, young people don’t.

If you are under age 35 this should make you really angry. I’m 56 and it makes me angry. One final point on this topic: there are

Actuaries have the skills necessary to participate in research that will help society make some of these tough choices.

SOCIAL SECURITY

Social Security was designed as a pay-as-you-go system. The 1983 reform resulted in increased taxes and decreased benefits to assure the 75-year “solvency” of Social Security. The resultant tax revenue in excess of benefit payments “accumulated” in the

Let’s not leave this earth knowing we could have done better.

ramifications to moving from our current environment to one that is subsidized in a different way, and as professionals we should not be shy about pointing out these ramifications.

MEDICARE

Health care costs are growing at an unsustainable level. Waste, fraud and overutilization have resulted in health care costs in excess of 16- to 17-percent of GDP.

The current health care delivery system incents health care professionals to provide more, not necessarily more effective, medicine.

The financial crisis taught us that we have finite resources. Choices have to be made. The issue is not whether the individual is free to pursue whatever protocol of treatment he or she wishes. The issue is what level of coverage is provided by the publicly provided plan, and what additional coverage is the individual responsible for purchasing.

Social Security Trust Fund. The federal government “borrowed” this excess revenue to pay current expenses. It also contributed to a reduction in the government’s current deficit and external debt.

Nonetheless, the federal government owes this money to the Social Security Trust Fund which now sits at approximately \$2.6 trillion.

Reform is necessary, not to help address the deficit issue, but rather to distribute the pain of some combination of increased taxes and reduced benefits more equitably to all taxpaying generations.

Absent such reform, the generations paying taxes through the mid 2030s and receiving reduced benefits from the dissipation of the trust fund will bear the economic brunt caused by this demographic shift.

The actuarial profession needs to support their efforts to better educate the tax-paying public and lawmakers so that we can create a system that is fair to all.

CONCLUSION

These societal issues represent a significant and growing opportunity for the actuarial profession.

So what am I asking you to do?

I am asking every actuary to speak out about these issues: at cocktail parties, at neighborhood barbeques, at family gatherings, and at your place of work. I’m asking you to give presentations to your local community clubs, to write your congressman and to write letters to the editor of your local newspaper. To tap the power of social media to deliver this message.

One of the impediments to the actuarial profession becoming more substantial contributors to solving these issues is the structure of our professional organizations in the United States.

We must restructure our organizations in a way that concentrates and focuses our resources on ensuring the profession, our professional associations and our credentials remain strong and grow stronger in the future.

Many of the profession’s leaders and its employers, in private conversations and public statements, have expressed the view that a more efficient and rational structure for the U.S. profession makes sense. Several of them have tried in various ways over the years to achieve change.

Our current structure is not positioned to compete in the global marketplace. It is expensive, inefficient and less effective than it could be. Almost everyone that works and has worked within the system recognizes this. It seems clear that 10 years from now, this structure will no longer be in place.

It has been my experience in the commercial world that if you know you are destined to go a certain direction eventually, you are better off getting there sooner rather than later.

We have a great responsibility. In order to meet that responsibility we need to simplify our profession's organizational structure. There is absolutely no need for three separate professional organizations—the SOA, the CAS and the AAA—to exist. We need to consolidate into one efficient, effective organization.

There are historical differences among our organizations, and there were good reasons why all were created. However, I believe – and I think the vast majority of you agree with me – that the time has passed when

we should let our history dictate the future structure of our profession.

The challenges we face, as a profession and as a nation, are simply too great for us not to respond with a new approach.

Despite the obvious difficulty, I intend to address this issue. I am prepared to focus energy and time during my term as president seeking this change, even as we continue serving members and candidates in our current structure.

Let's assure the relevancy of the actuarial profession into the foreseeable future. Let's commit to do more to contribute to the solutions of society's problems.

Inertia is our biggest obstacle. Those who do not want this change will certainly be the most vocal. Let your voices be heard! I welcome your suggestions.

Let's not leave this earth knowing we could have done better. **A**

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Developments Following SOA President Bradley M. Smith's Call For Unity

THE SOA BOARD OF DIRECTORS has authorized the formation of a Task Force to explore whether other U.S.-based actuarial organizations are willing to discuss a possible consolidation of the actuarial professional organizations in the United States, consider various options for such a consolidation, and make a recommendation to the Board for possible action.

The Board also strongly reaffirmed its commitment to continue its ongoing and expanding initiatives to serve the needs of all SOA members and the constituents they serve in the United States, Canada and globally.

The SOA will keep members apprised of developments as they occur. In addition, the SOA will create forums in which members can share their thoughts about the idea.

Comments may be sent to membercomms@soa.org. In addition, blog posts on this topic are posted at the SOA Blog, and members may also use the SOA's LinkedIn site to discuss the idea.

The CAS Board of Directors met on Nov. 6, 2011 and issued the following statement:

"The CAS is the only non-nation specific actuarial organization exclusively focused on property-casualty risks, and our members find this of value. Our members have made it clear, and the CAS Board agrees, that they do not see benefits in consolidation with other actuarial organizations. The CAS has been, and continues to be, strongly in favor of cooperative efforts with other organizations, including efforts to address the concerns raised in the SOA President's speech."