

## TRANSACTIONS

OCTOBER, 1962

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### ADDRESS OF THE PRESIDENT, WILMER A. JENKINS THE STATE OF THE SOCIETY

**W**HILE the remarks of the President may be on any subject, custom and propriety have always guided your Presidents to discuss important matters that are either purely actuarial or in fields of substantial interest to the actuary in pursuit of his profession. Adhering to this tradition, my remarks today I have labeled "The State of the Society," by which I mean to include, first, a brief report, drawn in broad strokes of the brush, on whether the Society is doing the things it is supposed to do, and whether it enjoys the recognition and respect it should in the insurance and pension fields and in the mind of the general public and, secondly, a discussion of certain long-term problems facing the Society. I hope that the time I devote to these problems will not magnify them unduly. They are, it is true, important and difficult of solution, but they should not be classified as critical or emergency; therefore, while we should devote our best efforts to their solution, now and in the future, we have enough time to take gradual steps toward final solutions to be reached not this month or this year, but by continuous investigation, thought, and planning over a period of time. Let me state at the outset, also, that I have no doubt that as long as we continue to recognize these problems clearly and to devote our best efforts to their solution, the eventual outcome will be beneficial to the Society, the profession, and the public.

#### FUNCTIONING AND RECOGNITION OF THE SOCIETY

Thus, my first question is this: In general terms, is the Society doing the things it should do, and is it accorded the recognition and respect that a professional society deserves? It is an immeasurable satisfaction to me to be able to give this double-barreled question the short answer, "Yes." I can say this in all modesty because, as you know and I know, the President of your Society is only one temporary cog in a large, permanent machine.

As to what we should be doing, the Constitution says that the Society should be advancing "the knowledge of actuarial science" and promoting

“the maintenance of high standards of competence and conduct within the profession.” Thus there are three distinct objectives, (1) improving our knowledge, (2) maintaining our competence, and (3) continuing good professional conduct. I do not contend that these objectives could not be met somewhat more effectively than they have been—that can always be said about any human effort—but I do say that, within the realm of reason, it is quite fair to say that the Society’s responsibilities in these directions are currently being fully discharged. Consider the following indications:

- (1) The *Transactions* bulge into larger covers each year, and into two volumes last year, to encompass further papers and discussions representing the knowledge and skills of the increasing numbers of members attending meetings.
- (2) The requirements of knowledge on the part of students—our members of the future—are upheld and enlarged by continuance of our examination standards, and by constant surveillance and revision of the syllabus.
- (3) The activities and publications of committees tax heavily the time of about 20% of our Fellows. This committee activity is at a very impressive level, compared with that of other professions.
- (4) Scrutiny of the journals of foreign actuarial societies discloses only occasional areas of knowledge unexplored by us, and when it does some of our members adopt and adapt such information.
- (5) Older members have doubtless observed, as I have, more and more new techniques with which they are progressively less familiar, developed mainly by younger members. The level of competence is unquestionably rising.
- (6) Complaints about the professional conduct of our members have always been very rare. Nevertheless, to set ground rules for such complaints and to establish procedures for handling them, substantial steps were taken in 1957.
- (7) The Society’s officers and committees have developed, and will continue to develop, new organizational arrangements and meeting programs, made necessary by our growing membership. Last spring another quinquennial special Committee on Organization and Procedure was appointed to re-examine these matters.
- (8) For several years the Board of Governors has perceived that certain broad, fundamental problems exist, and has taken appropriate steps aimed at their eventual solution. Later in these remarks I will discuss two of these problem areas.

To me it seems obvious, from these and many other indicators, that the Society is a wide-awake, energetic organization, doing a decidedly better

than satisfactory job in discharging its responsibilities under its Constitution.

This brings me to the second aspect of my question: the recognition and degree of respect accorded the Society, its prestige in the mind of the public in the United States and Canada, particularly the opinions of intelligent people in a position to know the facts. In other words, how does the Society rate? In answering this question, and also throughout my remarks this morning, the term "life actuary" will be used to mean those concerned with life and health insurance and pensions. The most pertinent statement I can make in attempting to gauge the Society's eminence is this: there is no doubt that Fellowship in the Society is the outstanding mark of a qualified life actuary in our countries. I know that you all agree with this statement, so I won't belabor it. You have heard it many times from impartial and informed observers. While it is true, of course, that there are fully qualified life actuaries who are not members of the Society, they are a small minority that will probably become smaller.

But what about the reputation of the Society itself, to the extent it can be judged independent of its members? Such disassociation is difficult, and perhaps unfair, but there are indications of the prestige of the Society itself that are in point. Here are a few:

- (1) During the Society's existence, no parallel or competing organization has been formed, and as far as I know none is now proposed. Even though there is no legal or professional barrier to the formation of another North American society of life actuaries, our Society is unique.
- (2) There are, of course, a number of other organizations of actuaries in our countries, but they all correlate with or supplement the Society—they do not parallel it. These various groups are becoming a more and more important part of the over-all actuarial organizational structure. I refer, of course, to the many local clubs and several regional organizations of life actuaries, the Conference of Actuaries in Public Practice, the Fraternal Actuarial Association, and in the casualty field the Casualty Actuarial Society.
- (3) While the numerical growth of the Society's membership is not necessarily a good indicator of its reputation or esteem, such growth carries a strong implication of characteristics that are valuable to actuaries and attract men of high caliber to become members and to participate in various Society activities, and the possession of such characteristics is an element of prestige. Hence, I can logically point to our increasing numbers—students, new Associates, new Fellows, membership, attendance at meetings, etc.

- (4) Committee memberships and activities are one of the mainstays of a society such as ours, and the willingness of members to work on committees is a good gauge of their respect for the Society and recognition of the importance of its work. I have mentioned that about 20% of Fellows serve on committees. In appointing committees a year ago, I was impressed by the willingness, if not the enthusiasm, of Fellows to serve on committees even though such service frequently involves much hard work, insufficient recognition, and sacrifice of time from busy days. The number of declinations I received could be counted on one hand, and in every case—without exception—other work or responsibilities clearly made committee service impossible.

These are the kinds of signs that convince me that the Society enjoys the degree of respect and esteem it should among people concerned with insurance or pensions and also among the general public in the United States and Canada.

#### TWO LONG-TERM PROBLEMS

Now let me turn to the second aspect of the State of the Society to which I have referred—certain long-term problems facing us. Lest I be misunderstood, I repeat that these are not critical or emergency matters which require hasty or even prompt solution. They are better described as normal happenings in the long life of a healthy, permanent, growing organization. They are literally, though colloquially, “growing pains” because they are closely related to the continuous and very substantial growth that we have seen, and that apparently will continue in the foreseeable future, in the size of the Society and the actuarial profession in our two countries.

For convenience, these long-term problems can be identified briefly as follows:

- (1) *Professional Status*. I have reported the existing high regard for the Society and its members, but this status is accorded practically no legal recognition in the United States and to only a limited extent in Canada.
- (2) *Service to the Public and the Society*. The shortage of qualified life actuaries in our countries is relatively severe, compared with other professions. This shortage has continued for many years in spite of substantial growth in the Society, and it seems to be getting worse. When members of the Society cannot be found to serve the public, other less qualified persons will be called upon. Another unfortunate possibility is the formation of a second life actuarial society.

A full discussion of these two issues would extend these remarks unduly, but a useful purpose is served by surveying them together, drawing a unified, less detailed, picture of the whole situation. I will therefore treat each area, in turn, noting that in both areas the Society now has very capable committees seeking solutions.

#### PROFESSIONAL STATUS

The aspect of professional status that I propose to discuss arises from the fact that professionally qualified actuaries in the United States, unlike those in Great Britain and to a much smaller extent those in Canada, are given practically no legal recognition, *i.e.*, recognition by law or governmental administration. In this respect, our members as a whole are more and more at a disadvantage in pursuit of their profession. In my opinion, this disability must be relieved or removed, sooner or later, and this opinion is growing among members of the Society. As a result, efforts toward solving this problem have already begun. This situation is one which we share with actuaries in the field of casualty insurance.

With some exceptions in Canada, anyone in our countries may claim he is a qualified actuary and offer his services, as such, to an employer or to the public; and, as you know, a number of nonmembers of the Society do so in the life field. In this respect, actuaries have considerably less status than members of the three classical, or so-called "learned," professions—doctors, lawyers, and ministers. This difference extends further, for in many jurisdictions in America other occupations are rightly recognized by law as professions, including accountants, engineers, architects, and certain others.

Legal recognition may take the form of accreditation, certification, or licensing. Each of these degrees of recognition grants certain privileges and imposes certain obligations, the details of which are not germane to this discussion. To those particularly interested, I suggest a rereading of the excellent report Reinhard A. Hohaus made on this subject to the Society two years ago. It appears in volume XII of the *Transactions*. Recently, a more general discussion of this problem—in fact, an outline of the whole question of actuarial guidance of pension plans—was published in Professor Dan McGill's new book, sponsored by the Pension Research Council.

Legal recognition is, of course, only one aspect of professional status. At the moment it seems to be the principal one requiring attention and, consequently, it is the only phase of the question that I will discuss.

I believe that most actuaries think of themselves as being in a professional category very like those of accountants and civil engineers. By the

term "accountants" I mean those accountants that are professionally educated, trained, and otherwise qualified. There are many close analogies. Accountants and civil engineers must have substantial general and specialized education; so must actuaries. The responsibilities to the public of the three professions are similar in that a high degree of professional competence and a high level of professional conduct are assumed, and any lack of either can harm the public seriously. Another similarity is that most accountants and civil engineers, like most actuaries, are employed by corporations, and yet in each case there are a number who offer their services to the public. Why then are these other two professions widely recognized by law, whereas actuaries are not? Is it in the public interest that actuaries acquire legal recognition, or is it a mistake that accountants and civil engineers are recognized by law and subjected to corresponding obligations? These are legitimate questions in the broad context of public policy even though the analogies between the three professions are not perfect. Such imperfections may merely point to somewhat different forms of recognition for actuaries—perhaps only accreditation for reports and statements of various kinds for which the skill of the qualified actuary is required, as, for example, actuarial reports in connection with the Federal Disclosure Act.

A comparison of actuaries with the three classical professions—medicine, law, and divinity—is not so clear; the analogies are not as close as they are with accountants and civil engineers, but there are enough similarities to pose a question.

This issue of legal status was referred to in two of our excellent Presidential addresses—those of William M. Anderson in 1956 and Henry F. Rood in 1958. Mr. Rood, whose discussion of this topic is more comprehensive, concludes that the question of legal recognition of the actuary can no longer be ignored. This view, then and now, is doubtless taken by a considerable proportion of Society members, including your President. This conclusion Mr. Rood attributes to the tremendous growth that has occurred in recent years in life insurance companies and pension funds and the correspondingly tremendous increase in the importance, to the public, of the function of the actuary.

I should emphasize two points on this subject. One is to remind you that legal recognition of actuaries does not necessarily mean that, like doctors, all actuaries must be licensed, even those employed by insurance companies. In the accounting profession certification is required for only certain types of professional practice, and the process of accreditation is still more limited in its application. The applicability of both is confined to those areas of activity where freedom to practice must, in the public

interest, be abridged to protect the public in its reliance on the opinion and judgment of the professional man. I urge company-employed actuaries to recognize this over-all view and to realize that a fundamental problem does exist.

I would emphasize also that, in my opinion, there are two reasons why there is now a difference between actuaries and accountants in their legal recognition. One is this: the number of actuaries is far smaller than that of accountants, and in legislative and other public matters large numbers always count. Public officials invariably pay more attention to large groups. The second reason for this difference is that until recent years, which saw a tremendous expansion in the field of pension and other noninsured staff benefit plans, the proportion of actuaries serving in public practice was very small—much smaller than in the accounting profession. Thus, actuarial consultants were a smaller proportion of a smaller profession. In the parent organizations of the Society there were spasmodic discussions of legal status over a long period of years, but these discussions were largely academic as long as virtually all actuaries were employed by insurance and other corporations. In these circumstances the discussions naturally ended either because of lack of interest or with the conclusion that the disadvantages of legal recognition outweighed the advantages.

In his Presidential address Mr. Rood commented that since World War II this situation has changed, referring to the tremendous increase in private pension plans and the formation of many firms to advise clients with respect to these plans. Recognizing that this development might require action by the Society, the Board of Governors authorized a Committee to Investigate Possible Certification or Licensing of Actuaries in 1958, and to reflect the broader matters at issue authorized a Professional Status Committee in 1960. Both of these committees, under the capable chairmanship of Mr. Hohaus, have begun the difficult task of surveying and analyzing the complicated questions involved in their assignments.

Coordinating with these developments, there was adopted in 1957 a set of Guides to Professional Conduct, which appears in the *Year Book*, and the Constitution was amended and procedures formulated to recognize that the purposes of the Society, as of any profession, include the maintenance of high standards of professional conduct and dealing with questions of unprofessional conduct as they arise.

I can add to this discussion of professional status a brief report on the year now closing. During the year both of Mr. Hohaus' committees have continued to study their long-term assignments. Later in this program you will hear a report on the activities of these committees, including the interest in cooperative effort on the part of the Society, the Conference of

Actuaries in Public Practice, the Casualty Actuarial Society, and the Fraternal Actuarial Association.

Only one trivial accusation of unprofessional conduct was transmitted to your President and Board of Governors during the year. Appropriate action was taken.

Last spring we had good reason to hope that the Secretary of Labor would appoint one of our Fellows to the newly authorized Advisory Council in respect of the Federal Disclosure Act, as a representative of the profession as an interested group. Jointly with the Presidents of the Casualty Actuarial Society and the Conference of Actuaries in Public Practice, I filed a memorandum of recommendations with the Secretary of Labor. However, the pressure of the many other interested groups was great, and our recommendation was not approved. Further efforts in this direction are indicated. It is a source of satisfaction that one of our Fellows, Charles A. Siegfried, was appointed to the Advisory Council as the representative of insurance companies.

Neither Mr. Hohaus nor I anticipate any sudden solution, or even major change, in respect of the question of professional status in the next few years, even though a great deal of study and planning will doubtless be done, and preliminary steps may be taken. The important facts are that the Society is aware of the questions involved and that the issues are under study by very capable committees. Therefore, I see no cause for concluding that reasonable progress has not been made in the right direction; I think it has, and I am quite confident that, in time, the question will be fully resolved, and resolved in the best way—*i.e.*, obtaining for qualified actuaries an appropriate form of legal recognition.

#### SERVICE TO THE PUBLIC AND THE SOCIETY

Turning now to the area of difficulty I have called "Service to the Public and the Society," I do not think many of you disagree with the statement I have made, that there is now a relatively severe shortage of life actuaries, comparing our profession with others. Certainly this statement strikes a responsive chord in those of you who have had the responsibility of recruiting promising, personable near-Fellows or Fellows, aged 30 to 35. I hope I may assume that your and my many isolated observations of this situation constitute a demonstration, and not an impression, even without statistics. To me this means that, to fulfill its obligations of service to the public and to the Society, our organization should seek reasonable ways and means of reducing or remedying the imbalance between the supply of and demand for the services of qualified actuaries. It is, therefore, a satisfaction to report that steps are being taken in this direction.



In discussing this topic, I am limiting my remarks to our field of life and health insurance and pensions, *i.e.*, the area of the life actuary. This simplifies analysis of the situation because developments in the casualty field have been along somewhat different lines.

This shortage of life actuaries exists today in spite of the fact that there has been a rather long period during which the number of our Fellows has steadily and substantially increased. From 1920 to 1945 the annual increase in the total number of Fellows was relatively constant and averaged one dozen per year. But since the close of World War II in 1945, the annual increase has been growing steadily. In the years 1945 to 1950, the average increase in our total number of Fellows was about two dozen each year—29, to be exact. In the next quinquennium, the average annual increase was 35—almost three dozen. And this rate of growth continued through the next and latest 5-year period (1955–60) at an average of 46, approximately four dozen, per year. In 1960 the increase in number of Fellows was 59, and in 1961 it was 56, close to the five dozen annual increase indicated by the postwar progression. Thus the total number of Fellows has been growing for seventeen years, quite steadily, at close to a geometric progression, the rate of increase being between  $4\frac{1}{2}\%$  and  $5\%$  yearly. This rate of growth results in a doubling of our Fellow membership in approximately 15 years.

There is no doubt about this fact of substantial growth in recent years. However, there is likely to be some difference of opinion as to how long the current shortage of life actuaries has existed, and as to whether it has been getting worse in recent years. Personally, I am convinced that this deficit has been a fact for more than 15 or 20 years, and that it is now somewhat worse than it has been. However, I do not press this view because the practical implications to which I am leading are the same if we assume a statement to which I think most of you agree, *i.e.*, that in the last ten years the shortage has not eased. On this assumption, we must conclude that the various demands for the services of Fellows have been growing at least as rapidly as our Fellow membership. We need only enumerate a few developments to be ready to accept this as a reasonable conclusion. These developments include a large increase in the field of pensions; a large increase in the size and number of life insurance companies; and the entrance of life insurance companies into the health insurance field.

Thus far I have spoken of only a past and present dearth of life actuaries; what about the future? Will the various forces determining the supply of and demand for actuaries tend to balance the two, without any new effort to relieve the situation? Or will the present imbalance become worse? In gauging such questions, I can naturally produce no demonstra-

tion; perhaps I cannot even marshal impressions. However, some logic may be attributed to a method of analysis which suggests that, unless some new factor emerges, either the present deficit will get worse over the next decade or so, or it will continue about as it now is.

This method of analysis is to project, as best we can, the forces that create demand for the services of life actuaries—will the present rates of growth of these forces continue, or slow down, or accelerate?—and to assume that, unless these forces will diminish or will grow more slowly than they have in recent years, the shortage will continue or get worse. The implicit assumption in this analysis is that supply and demand are now moving in directions which will not ease the situation, and that, as in Newton's second law, they will continue to move in the present parallel or divergent directions unless a new force is applied to one of them.

Now, the forces of demand are clearly related to the number and size of the life and health insurance companies, to the aggregate of trustee pensions and, to a lesser degree, to other demands such as teaching and government service. Behind all these forces is the all-pervading one of the size and growth of our whole national economies.

You are, of course, familiar with the many public estimates and projections that indicate what we should expect these various forces to do over coming years. They all point, as far as I have observed, to a continuation of present trends—to a larger insurance business, to larger and more pension plans, to more teachers and government officials. So, to the extent that we accept these estimates, we should conclude that there is no indication in sight that the present relatively severe insufficiency in the supply of actuarial talent will diminish or disappear—on the contrary, the indications are that the shortage will continue or get worse over the next decade or so unless the increasing trend of the supply is accelerated.

Another much simpler method of "sizing up" the future need for life actuaries comes from the 1958 report of the Committee to Review Membership Requirements. That committee, on the basis of a questionnaire sent to a large number of life insurance companies, consulting firms, and others, concluded that over the 1958-68 decade new Fellows would be needed at an average rate of 100 per year. Needless to say, this conclusion was based on judgment, not blind acceptance of the questionnaire answers. So, the question is simply this: Will the number of new Fellows between now and 1968 be sufficient to raise the 10-year average to 100 per year? It is true that, under present methods, this number is increasing; it averaged 54 over the five years 1955-59, and 63 in the two years 1960-61. But obviously the objective of 100 will not be reached at this rate. So, again, the indicated conclusion is that, unless some new effort is made or

conditions change, the present imbalance is likely to continue or become worse in coming years.

This thumbnail description of the situation as I see it leads to the basic question facing the Society, which can be stated in these terms: Is a professional society serving the public and itself adequately if there is a perennial and relatively severe shortage of its members? Another way of pointing up this question is more down to earth. It's this: The public will always be served, and if members of the Society are not available for work in our field, one or both of two unfortunate things will happen. One is that the public will utilize the services of others, who presumably are less qualified. The other is that another parallel life actuarial society will be formed in North America, as happened in 1909 when, largely as a result of an insufficient number of members of The Actuarial Society of America, the American Institute of Actuaries was formed. This unfortunate dichotomy continued for forty years until the two parallel organizations were merged in 1949. I think it self-evident that neither of these developments would best serve the public and our profession in the long run. Such service clearly must be our basic objective.

These various considerations and questions can lead to almost endless discussion, mixing philosophy, economics, and the personal finances of actuaries—a discussion which you may find, if you have not already done so, fascinating in its ramifications, but which I do not propose to develop now. Instead, I submit the dictum that a professional society harms the public and itself if, for any extended period, it encourages, intentionally or unintentionally, or even passively accepts, a substantial insufficiency in its number of members. Mild or temporary inadequacies are a different matter.

Various of our members and committees have considered this issue and have taken certain steps. In his 1960 Presidential address James E. Hoskins referred to the problem. Since 1957 the Society has sponsored a mathematics test jointly with the Mathematical Association of America to stimulate interest in our profession. The Committee to Review Membership Requirements regarded this problem as serious when it was considered in connection with our examination system in 1958 and 1959. But the most extensive and intensive attention to the question of what, if anything, the Society should do about the matter was begun in 1960 by the Public Relations Committee, then under John H. Miller's chairmanship, and continues today.

Early in its studies this committee came to the conclusion stated in Mr. Hoskins' Presidential address, that "while the recruiting of actuaries is perhaps more properly a function of individual companies and firms and

of industry organizations than of a professional society, yet it has seemed appropriate for the Society to assist in certain ways." Presumably he was referring to recruiting into the profession, and not recruiting for any particular employers. This conclusion is the heart of the matter and, in my opinion, is correct. It must, of course, be interpreted in the present context. If the companies and other employers were in a situation in which they could and would attract a larger number of students by actively and aggressively stimulating interest in the actuarial profession, the problem would be solved without any action by the Society. However, that apparently is not the case, and there seems to be no likelihood that it will be under present conditions. Hence, if anything is to be accomplished, the only alternative seems to be that the Society, for the good of the public and for its own good, must either take the necessary steps itself or stimulate and assist others to do so. If the Society were to conclude that it had to do the whole job itself, meeting the cost from its normal resources would be difficult or impossible so that financial support from insurance companies, other employers, or trade associations might become a practical necessity. For this and other reasons, the present hope is that it will be sufficient for the Society to encourage and assist colleges, insurance companies, and other employers, perhaps through their trade associations, to do the job, the Society's function being to stimulate, to encourage, to coordinate.

Following these ideas, the Public Relations Committee proceeded to analyze the situation, to explore various possible ways of developing larger numbers of students and of encouraging others to do so, and put into operation certain procedures that could be effected promptly at reasonable cost to the Society. At the same time, and rather independently, a number of local and regional actuarial clubs began to develop programs of various sorts in their own localities. In some ways local efforts can be more productive than national, so that clearly part of the Society's thought and encouragement should be directed toward these club activities.

The Public Relations Committee soon realized that it had a "selling job" on its hands and that efforts should begin with young people shortly before and for a few years after graduation from high school. To reach these young men and women the committee, now under the chairmanship of Daniel J. Lyons, is developing a significant program which includes several large-scale mailings to high schools and colleges, developed in cooperation with the Institute of Life Insurance. Another effort may be of much more importance; this is the assigning of each member of the committee to a region with the responsibility for developing relationships with the colleges in his region. In doing this, the member will work in cooperation with

actuarial clubs and appropriate college staff members in his assigned area. This begins a continuous relationship between the Society and the colleges. It will involve many Society members. The committee is launching this program with a vigor and enthusiasm that gives real promise of success.

As a part of this new relationship with the colleges, the committee has developed a new actuarial aptitude test. Later in the program you will hear a report from the committee on this test.

From this description of the Society's attack to the problem, you will note that all effort is properly directed toward attracting larger numbers of students, and there is no suggestion, or even implication, that our examination standards should be tampered with. It is an accepted requirement that they are to be maintained at their present high level.

All of these programs for developing larger numbers of students are in their early stages of experimentation and development, but even so they may be producing results already. Certainly, in the last two or three years, there have been sizable increases in the numbers of students enrolling for the preliminary examinations and even to Parts 4 and 5, and presumably the various activities of the Public Relations Committee, the actuarial clubs, and others have contributed to these increases. It is to be hoped that this larger enrollment will continue, and increase if this is necessary to meet the needs. I urge you to support these various recruiting efforts. They are long-range developments designed to solve, or at least mitigate, one of the long-term problems to which I refer. With reasonable effort and sufficient time, such developments will, in the aggregate, I am sure, produce results beneficial to the Society, the profession, and the public.

I am very happy to be able to give you this favorable report on the present State of the Society. It has been a wonderful experience to serve as your President, not that I have been able to contribute much to the organization, but I have been in a position to see and appreciate that credit for your healthy Society is due to the intelligent efforts of many members. I hope that you appreciate and admire, as I do, their attitudes, their ideals, and their willingness to do a great deal of plain, hard work for your Society.