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FORUM FOR CONSULTING ACTUARIES

Panel Members:

SAMUEL ECKLER, *Moderator*
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RELATIONSHIP WITH CLIENTS

A. Fees, including billing methods, quotations, and small clients.
B. Communications with client, such as nature of communication and actual recipient of communication.
C. Responsibility of actuary in initiating work when on open retainer.
D. Special problems when client is insurance company and particularly a new company.
E. Special problems of collectively bargained pension and welfare plans.
F. Conflict-of-interest situations.
G. Confidential nature of some assignments.

MR. SAMUEL ECKLER: This Forum for Consulting Actuaries has been organized in the nominal form of a panel, but it really is to be an experimental type of panel. It is not the type that we have had the last two or three days, all of which were really extremely fine presentations by outstanding experts on particular subjects.

We have invited six distinguished consulting actuaries to open each particular subject, and then we will invite comments from other members of the panel. After that we will invite the members of the audience not merely to ask questions—although these are permissible and welcome—but to participate in the discussion and to offer comments of their own, so that, even though we call this a panel, it is a panel in the sense that we have selected certain people to open the subjects. Beyond that, it should go along the lines of a typical informal discussion.

We have also designed the subjects in such a way that we think all of us who are in the consulting business have something to say about each of them. The subject matter is all about relationships. It is relationships with clients, relationships with the public, relationships with other actuaries, and relationships with professional and other people in associated businesses or endeavors.

The subject matter is not funding or integration or many of the things that we frequently talk about. It is more tenuous, more uncertain, less mathematical, in which we are dealing with communications, professional conduct, the public image of actuaries—the whole area of confidence in actuaries.

An actuary may have a profound knowledge of a subject in which his advice is being sought. Unless he is able to communicate this knowledge effectively to his client, his knowledge is quite personal and not external. It cannot be used and will not necessarily help his client or the public.

Further, unless the actuarial profession has generated a lot of confidence in the work that it is going to do, even an actuary with knowledge and effective communication cannot get his message across, because there will be skepticism, suspicion, and doubt about the advice that be gives.

We have three subjects. I have asked two of the panel members to open each subject. Although in the program before you we have various subdivisions, particularly of Topic 1, "Relationship with Clients," these were meant to be in the nature of suggestions rather than limitations.

MR. GEOFFREY N. CALVERT: A consulting actuarial firm is faced with many far-reaching problems in determining its approach to fees, billing methods, and advance quotations. This whole subject is riddled with alternatives, and there are many differences of approach among consulting firms. In some firms, fees are charged consistently for all work on a time-and-expense basis, regardless of the size of the client or the importance of the problem; in other firms, the amount of fee is determined from a scale which might include a constant plus a graded amount determined solely by reference to the number of employees covered in the valuation. Some consulting firms stress retainers and formal contracts; others work on a much more informal basis and ask no retainers. Each of these approaches may seem at first sight to be fairly simple and straightforward; however, there are many complications. For example, where a time-and-expense basis is used, decisions must be made on points such as these:

1. Time spent while traveling—is this to be recognized at full rates, at partial rates, or not at all? This can be quite a large item, such as in the case of a client company in a distant area.
2. Time of a senior qualified actuary in a small consulting office while doing work which could easily be done by junior help—what hourly rate basis should apply?
3. Time while engaged in preliminary discussions prior to actual appointment.
4. Time while supervising several different major pieces of work being carried on simultaneously in a large office.

5. Time while redoing spoiled work or while doing rush work.
6. Time invested in the development of new processes, methods, or factors, or in research, and later applied directly to the problems of several clients in succession.
7. Time of a secretary while her boss is wholly engaged in bargaining or conference work for a particular client.
8. Time in preparing technical news and similar items to be furnished to many clients.
9. Time spent unexpectedly—for example, due to faulty data problems or protracted conferences—when a fixed fee has been prequoted and which may or may not be recognized in connection with subsequent work done on a time-and-expense basis.

The method of dealing with the time of each employee with regard to each of these points can have as much bearing on the amount of the invoice as the hourly rate itself.

In dealing with expenses, the consulting firm has many decisions of a similar nature to make. Where an actuary travels to another city to serve several clients, does he charge each one with his travel expenses, split the total amount among them, include a margin for internal handling, or make some other compromise? If work can be done either on one type of equipment at a certain cost or alternatively on more powerful equipment at a lower cost, what charge should be passed on to the client? Should there be a general loading to cover telephone, secretarial, filing, mail handling, and similar work, or should each of these very numerous and frequently very small items be recorded against each of many clients?

Firms which use a predetermined rate governed by the size of the employee group are similarly faced with many a dilemma in applying this rule to particular cases. For example, of two companies of equal size, one may have a single plan and another may have many different plans for different employee groups. If the lump sum plus graded fee is separately applied to each of the fragments of the second company, a very high and unreasonable fee may easily result. Again, one company may have a very simple plan structure and furnish data in the cleanest form. Another company may have a fearfully complicated plan, fraught with many pitfalls, minimums, and fossils of prior plans. Its data may arrive in fragments and be subject to errors and omissions. The fee determined from such a scale may heavily overcharge the first client while not even covering expenses in working for the second client. Firms using this type of approach are usually driven back to a time-and-expense approach in any event in doing work arising from bargaining, redesign studies, country-wide enrollment work, and similar activities in which

there would appear to be no other satisfactory approach to determining a reasonable fee. There is also the problem of uncollected fees.

The main objective in all these systems would seem to be to secure adequate income to the consulting firm so that it can meet its operating expenses and pay competitive rates to its staff while at the same time providing a standard of professional work satisfactory to the client and adequate to the needs of the situation. While any one system may favor one type of client as compared with another, the over-all level of fees necessary for these purposes will tend to reflect also the internal efficiency, balance, equipment, and work flow of the consulting firm itself.

While there is a personal responsibility resting on the actuary himself to see that professional work is done to proper standards, his basic relationship should normally be with the client organization as a whole and not with a particular person in that organization. There is a difference between the furnishing of formal reports, signed by the actuary in his professional capacity and addressed to the client organization, on the one hand, and the normal flow of correspondence and communications with particular persons in the client organization—for example, in clearing up data problems, establishing conference times, and taking care of the many less formal aspects of the relationship. Although a particular officer in a client organization may wish to dominate the relationship with the actuary, I believe that the actuary should nevertheless regard his relationship as lying more with the client organization as a whole and should address his invoice to it. Diplomacy is sometimes necessary in conducting the relationship in cases of this kind.

While there is variation between the wishes of clients in respect to responsibility in initiating work, it has been our experience over the years that client organizations place a greater value on the services of an actuarial firm which is prepared to take the initiative in coming to the client with benefit-design suggestions, advice regarding the effect on the client of legislative changes, suggestions about improving the earnings performance of a laggard fund, or similar developments which may have important financial or other consequences to client organizations, than a firm which does nothing until it is instructed and takes no responsibility or initiative in suggesting anything to the client, except upon specific request. We believe that the consultant is best equipped to keep his client up to date on benefit trends, changes in laws, and similar developments.

There could be an ethical point involved in the situation where a consulting firm on open retainer puts substantial work in hand without consulting the client and then charges the client for doing this work. It would be our feeling that, even where there is an open retainer, no

substantial work should be put in hand without the full understanding and authorization of the client.

A consulting actuary who is retained to assist a client in connection with bargaining work may occasionally find himself under some pressure from his client to lean toward an unduly conservative or an unduly liberal approach in the determination of costs or the suggestion of benefit approaches. In our experience, this fear that the actuary may come under such pressure is very seldom borne out. A consulting firm which is experienced in work of this kind can generally establish a reasonable standard for determining costs for bargaining purposes, and we have seen many situations in which both sides have been prepared to accept the determination of the actuarial firm which is brought in by one side or the other. Conferences between actuaries employed by opposing sides will generally result in an agreement as to the calculation basis and methods to be used which will keep conflicts in this area to a minimum.

It is a waste of the time of both parties and an obstruction to the bargaining process for actuaries to indulge in protracted and unrealistic academic disputes across the bargaining table about technical methods or assumptions. What is needed above all things in bargaining work is a combination of realism and good faith.

Although cases of conflict of interest have arisen, there seems to be a gradual disappearance of many of the situations in which this problem has arisen, as the consulting actuarial profession itself has become more firmly established. We have, however, seen some cases in which an actuary employed by an insurance company has been engaged outside that company in consulting work, dealing with trusteed plans which might have been underwritten by his insurance company. There seems to be something undesirable in situations of this kind, especially when the staff and machines of the insurance company are occasionally used.

Another and perhaps more important class of conflicts arises where an insurance company undertakes the consulting actuarial work arising from deposit administration, split-funded, segregated funds, variable accumulation funds, and similar forms of pension funds, in which flexible funding and the discretion of the client as to the amount of his pension deposit in any one year are involved. We have seen various instances in which it would appear that the best interests of the client have not been studied under these conditions.

In these cases, the actuary in charge of the work is an employee of the insurance company, is paid by the insurance company, and is trained to consider its interests above all else. We have seen some quite large discrepancies between the best interests of the client, and those of the

insurance company, arising, for example, from large-scale changes in investment conditions, in the taxation of interest on reserves already accumulated, or for other reasons. It is our feeling that a very real problem may exist in these cases.

A third type of conflict can arise when a consulting firm, normally employed by management, is approached by a union to assist it in a bargaining situation. Although there are cases in which a consulting firm or actuary can give advice impartially in a bargaining session, with his fee being paid equally by both sides or by the fund, or by one side with the acceptance of the other side, we have ourselves declined more requests to undertake fee work for this reason than for any other.

Are there any cases of small insurance companies in which the actuary is given stock options or other inducements which might tend to influence him to make decisions not in the long-term best interests of policyholders? I will leave this question to others.

A consulting actuary, in the nature of his relationship with his client, is often placed in possession of confidential information, such as top salaries and remuneration arrangements; plans for mergers, bargaining, or benefit improvements; competitive quotations from insurance companies; relative performance of competing trustees in handling similar funds; pension or other benefit practices of competitive firms in the same industry using the same actuarial firm, and so forth.

Many requests are made of consulting actuaries to disclose information of this kind to firms making surveys or to clients or competitors who may not be entitled to have this information without the specific release or authorization of the client company whose interests might be involved.

While certain information in this whole field is in the nature of public knowledge, such as benefit provisions printed and widely distributed in employee handbooks, there is a special onus on the professional actuary to be most careful in avoiding the unauthorized disclosure of sensitive information where the interests or the confidence of his client might be involved.

MR. WENDELL A. MILLIMAN: Any discussion of this character, I think, necessarily involves the "Guides to Professional Conduct," which we, as actuaries, are supposed to, and I hope do, observe. Three of the guides in the "Guides to Professional Conduct" for the Society are pertinent to the points in the first section, and I would like to refer to these very briefly.

On fees, the "Guides" say that "The member will make full and timely disclosure to a client as to all direct and indirect compensation that he

or his firm may receive from all sources in relation to any assignment the member or his firm undertakes for the client." This, I think, is something which we all should bear in mind, particularly when we get to the question of fees versus commissions or other types of indirect remuneration.

With respect to conflict of interest, Item 12 of our "Guides" says:

> In any situation in which there is or may be a conflict of interest involving the member's actuarial service, whether one or more clients or employers are involved, the member will not perform such actuarial service if the conflict makes or is likely to make it difficult for him to act independently. Even if there is no question as to his ability to act independently, he will not act until there has been a full disclosure of the situation to all parties involved and such parties have expressly agreed to his performance of the service.

And, last, with respect to the confidential nature of assignments, the "Guides" say, "The member will act for each client or employer with scrupulous attention to the trust and confidence that the relationship implies and will have due regard for the confidential nature of his work."

I mention these just by way of illustrating the fact that we do have a set of fairly specific guides to conduct and also to lead into one other point, which will be of considerable interest to you. With the organization of the Academy on Monday, most of you are going to find yourselves faced not only with the "Guides" of the Society of Actuaries but also with the "Guides" of the Academy of Actuaries. Those "Guides" have not yet been finalized. The notice which will come to you within the next few weeks will say that the "Guides" for the Academy will probably not include any items which are not already covered by either the "Guides" of the Society of Actuaries or the "Guides" of the Conference of Actuaries in Public Practice. Copies of both these "Guides" will be inclosed with the material which you will receive.

You will be aware of the fact when you compare these two that there are a few things in the "Guides" which the Conference of Actuaries in Public Practice has adopted which are not in the "Guides" for the Society of Actuaries. Exactly how far down the road the Board of the Academy will choose to go in picking up these various items, some of which deal with the question of advertising, or the question of solicitation of business, I cannot say at this moment. I simply want to call your attention to the fact that we will be getting into a somewhat broader area of formalized "Guides" for the conduct of the actuarial profession, with particular reference to those of us who are in public practice.

MODERATOR ECKLER: I may say that one of the things that I was concerned about here in drafting the first question was how to deal with a small client. The objection to the straight per diem rate, that was reviewed by Mr. Calvert, is that, if you use this rate for the small client, he just cannot afford to pay it. Do you just turn him away, or do you make some effort, as the medical profession has made and the legal profession has made, for some variation of fee by the nature of the client?

MR. MILLIMAN: I think that most of us who have worked with small insurance companies have been faced with the request by the officers of a new company to keep our fees at a pretty modest level. They are faced with some pretty trying times in the early days, and they would like to have us shave our fees—to be quite blunt about it.

I did this a few times, but have now revised my ideas on this point. I consider that I am giving better advice to the client by advising him to be sure that he is adequately capitalized so that he can meet all the proper expenses of getting under way.

MR. WILLIAM A. DREHER: It seems to me that we have to consider this problem of fees for small clients from two points of view—first, the technical performance of a valuation and, second, consulting on the design of the benefit plan. Most of us now have reasonably efficient computer facilities for producing acceptable actuarial results at quite a satisfactory cost. There are a number of standardized procedures we can use that do not tarnish our reputation for excellent work and are satisfactory to the client's needs.

But most clients, no matter how small, have questions which are uniquely important to them, and no standardized answer will be truly satisfying. Frequently, we have to educate the client to an appreciation of the objective of the benefits plan and the variety of alternatives from which he may choose, and this process is time-consuming and costly.

MR. HARRY D. MORGAN: Our code requires those of us who are independent consultants to make full disclosure of the fees. To what extent can the code exercise control over consulting work being performed by agents who are not actuaries? Should a similar disclosure be made?

MR. CALVERT: Where the consulting work is done by an insurance company, does the insurance company generally advise the client as to the amount of charge they make specifically for that work? I do not think that is usually done, is it?

MR. MILLIMAN: I think that so far as the Society's code is concerned, it applies to all members of the Society, whether they are in the consulting business or are insurance company employees. It may be difficult to interpret the code in the same manner for both types of actuaries. Perhaps we will get a bit closer to a solution to this problem when the Academy becomes fully implemented and the public recognizes only those who are members of the Academy as "actuaries." When that happens, we may have both a greater control and a greater responsibility with respect to the conduct of actuaries. However, we will still be faced with the fact that many of the things with which actuaries are associated can be handled by, and are handled by, those who are not actuaries. They can be insurance salesmen selling insured plans. I do not see that we, as actuaries, have any legitimate complaint about the basis of compensation of the salesman of such plans.

MODERATOR ECKLER: May I say there are two areas that I think are critical professionally. One is what to do with small clients, which I mentioned before. I think here not only of insurance companies, not only of pension plans, but remember that many of us get other requests for actuarial advice—court cases, individual advice about estates, and so forth. What do you do about these really small cases in which you are not dealing with corporations or big unions? Are we obliged in the public interest to render a service even though it may be subsidized by other clients? The other area is the treatment of quotations.

MR. MILLIMAN: The Conference of Actuaries has this rule for its members, "A member shall not compete with any other actuary for employment by deliberate underbidding." This, I think, is directly to the point, is it not? It says, in broad terms, that you shall not underbid in order to get business. I do not think that this is a complete answer, but it is a statement of principle.

MR. DONALD B. WARREN: I personally feel that it is usually unwise to get mixed up in a bid. Sometimes, however, you do not know about it if you simply get a request to quote on a job. It appears to be customary for trustees of public employee pension plans to ask for bids; this includes the federal government. In such a situation, and if we want the job, we will simply quote on it, but we will not, of course, try to underbid anyone. In transmitting such a "bid," we frequently comment on the fact that actuarial services should never be purchased solely on a price basis.

MODERATOR ECKLER: You are not dealing with a standardized product, you are not dealing with bricks and mortar, you are dealing with a rather subtle or abstract service. How do you quote?

MR. WARREN: We normally can estimate from past experience about how much work is involved in a given situation. We then apply our regular scale of hourly time charges and increase the result by a judgment factor (perhaps 50 per cent) to take care of unexpected items and unusual difficulties which are frequently encountered.

MR. GEORGE V. STENNES: I would like to pose a question. Should a consultant do work for an insurance company on the basis that he may have options to buy stock at a later date or on the basis of taking stock as a part of his remuneration? I know that there are others in the consulting field who disagree, but I have taken the firm position that we will not even buy stock in a client company for the simple reason that I do not see how we can remain objective. I think that too much importance would be put upon what you did with that stock. Why did you buy it? Why did you try to sell it?

We have also taken the position that no member of our firm will go on the board of a client company. If you have a seven-man board, including a consulting actuary, the first time you are faced with a close decision, you are marked. I would rather be in a position to be an adviser. I take this very firm position.

MR. JON D. SUTCLIFFE: I cannot see any logical reason for saying that an actuary who is an employee of an insurance company should be eligible for stock options, while a consulting actuary who does the same actuarial work should not. It would seem to me that the same potential for conflict of interest arises in either case.

MR. JOHN L. GLENN: I think that there is some confusion on this point, which arises over the failure to distinguish an audit function from other functions. It seems that, when we are performing an audit function, we are in the same position that C.P.A.'s are and in this capacity should not have stock options or own stock. This prohibition would not apply in connection with most of the work life company consultants do, but there are other considerations that may make stock options or stock ownership in client companies unwise.

PROFESSIONAL CONDUCT

A. Advertising and other forms of sales promotion.
B. Treatment of competitors.
C. Relationship with actuaries of pension and welfare plans of associated, subsidiary, or parent companies.
D. Union and management clients.

MR. FRANK L. GRIFFIN, JR.: The subject of professional conduct is, of course, an extremely broad one, and it overlaps in many respects the other two topics. Vic Henningsen himself touched on this quite eloquently in his presidential address on Monday.

In addition to the Society's motto, "The work of science is to substitute facts for appearances and demonstrations for impressions," one might say that professional conduct, at least insofar as it relates to others in the same profession, should be governed by three things, which are so obvious that they hardly need saying. These are integrity, common sense, and fair play.

With regard to advertising and other forms of sales promotion, most actuarial firms, in my experience, unless they are dominated by other than actuarial interests, tend to play down the sales effort. The one common exception concerns information releases which are of value to prospects and clients and thus give the firm public relations value. Brochures describing a firm's services are commonly used, and in most instances I would doubt that anyone could find these objectionable. The larger actuarial firms find today that most of their business comes to them by referral, so the question of advertising is perhaps more academic with them than with smaller firms or with brokers.

In respect to the treatment of competitors, common sense would seem to dictate that an actuary treat his competitors with due respect lest the whole profession be put in a bad light. This does not mean that one is unjustified in pointing out any special services one's own firm may offer. It is a matter of *how* one presents things as much as it is *what* he presents. Most established firms have found, I am sure, that there is so much to do in rendering proper service to existing clients and taking care of new clients which come to them by referral that there is no time to embark on a program of pirating from others. This is a practical control on what may otherwise fall in the area of ethics.

With respect to union and management clients, I will say very little, but for openers I will say this. It is obviously possible for a conflict of

interest to arise in this area, but whether or not taking unions as clients as well as corporations as clients does involve a conflict of interest will depend on the particular situation. You cannot lay down a general rule. It depends on who the unions are that you might represent or wish to represent and who your management clients are.

Insofar as some Taft-Hartley plans are concerned, which involve joint boards of trustees and an actuary reports to all trustees, it is also necessary to exercise extreme care not to espouse one side's philosophy as opposed to the other. This requires a fine balance of judgment and a high degree of advisory leadership.

In addition to these brief opening comments, I would like to raise a few specific questions of my own, in the hope that others will try to answer them. Here are five:

Question one.—In accordance with the Society's Rule 6, which I will read in part—

> The member will not provide actuarial service for . . . any person or organization if he has reason to believe that the results of such service or association are likely to be used in a manner inimical to the public interest . . .

—in accordance with that rule and with the Society motto, should an actuary for a life insurance company compute, condone, or sanction misleading net cost comparisons or other sales gimmicks based on improper mathematical comparisons? This is an area which too often is glossed over. For example, many sales schemes, as you all know, are predicated on confusing the prospective buyer with a maze of figures purporting to show little or no cost of carrying insurance, perhaps even a profit in doing so.

Question two.—Should an actuary become involved in so-called tax-loophole selling when he can be morally certain from past experience that such loopholes will later be plugged, leaving the buyer in what may be an extremely awkward position? This is sometimes the case in key-man insurance or split-dollar insurance proposals which have come to my attention.

Question three.—In a pension actuary's zeal to provide cost estimates on a sound basis, should he be so conservative that he imposes an unfair burden on current stockholders as compared with future stockholders? For instance, using the interest assumption only as an illustration, if he computes costs on a $3\frac{1}{2}$ per cent interest basis, without at least informing his client of the situation at a more probable higher rate, is he accepting his full responsibility to his client?

Question four.—If an actuary makes valuations of a pension plan on the same cost basis year in and year out, without adequate explanation

of the significance of the particular cost method or of the alternative purposes which a valuation can serve on different cost methods, is he discharging his responsibility properly? It seems to me there is too much blind following of a single traditional cost method year in year out, by many actuaries.

Question five.—In some ways this is the most important question of all as far as I am concerned:

What responsibility should actuaries take, either individually or through their societies, in seeing that legislators, academicians, and the public are properly informed on issues within their spheres of knowledge and experience?

If those with experience do not take the lead in these areas, it seems to me that we will truly have a case of the blind leading the blind in legislation we may well get to regulate our private institutions. In a democratic society this type of leadership is the obligation of those in a position to be informed. If we do not refute unsupportable allegations with facts, as the Society motto implies to be our responsibility, then all of the predictions of the most extreme social reformers may indeed come to pass—not on merit, mind you, but on the basis of the loudest voice.

MR. CLARK T. FOSTER: I would like to try to put some of these questions of professional conduct into what I think is better focus than sometimes they have been.

Nobody would accuse an actuary of Johnson & Higgins of being a pure actuary—and yet I feel that I am as pure as most of us here in this field, and I think that we start from the point that the employer does not necessarily affect your purity.

Now, on another practical point, there are few of us who are not here because we are in business to make a successful living. We are out to make a profit, a reasonable one. We are professionals, but we are not working only for the good of our customers; we are working basically for our living.

I think with that in mind we are justified in doing some of the things that most businessmen do to make a living, including advertising. The code of the Conference is much more restrictive than the Society in things like this, and I think too much so. I wonder if everyone in the Conference follows it as much as they should.

One provision is, "A member shall not advertise in a self-laudatory manner or in any manner, except to make known to the public the existence and the extent of his service and the existence of some product he has developed." Well, we at Johnson & Higgins advertise. You have all

seen the advertisements, I am sure. I do not think that they violate any particular ethical codes.

We advertise long-term disability [displaying an advertising sheet], our services there. We say, "Your pension plan may need restyling, too" [displaying another advertising sheet]. "Why do the work if somebody else will?" [displaying another sheet]. I see no objection to that. A Medicare advertisement [displaying a sheet]; a social security advertisement [displaying a sheet]; ads of our bulletins [displaying a sheet]; ads for our services in benefit consulting on foreign soils [displaying a sheet]. These are things that we think that we can do well and that we believe should be brought to the attention of industry.

I think that, if we honestly feel that we can provide a service beyond what a competitor provides, or even better, if we are correct in that feeling, we are not acting in the public interest if we do not bring it to the attention of the public.

A firm can go along for years with a relationship, feeling that he is getting adequate service but never knowing what he is missing. I see nothing wrong with trying to bring that to his attention.

We have also these bulletins [displaying a paper] giving up-to-the minute information and opinion on subjects that we think are of current interest. We think they are of value.

We would never, I think, go beyond the Society's Code of Ethics in our treatment of competitors. There are words that are very clear, and I think that they are things that we would all want to follow. Nevertheless, if there is a chance that we can have business, provide better service, we will try to get it.

We often work jointly with another actuary on affiliated companies. We are always in competition with the other actuary, we are being measured one against the other, and obviously we will try to put our best foot forward and hope that we will eventually get all the business. I see nothing wrong with this.

There are two other provisions of the Conference's code that together, I think, are quite restrictive: "The member shall not obtain assignments by direct solicitation, unless such solicitation is performed by himself or another actuary" and "The member shall not attempt to supplant another actuary unless specifically requested to do so by the client of the other actuary." Well, we have a lot of people who are not actuaries, who are able, competent, good service people. They do solicit, and I will work on any case that they have assigned to them.

I do not feel that an actuary is necessarily a good salesman. If a company is in business to make a profit, he is going to put, again, his best

foot forward, and in the sales end it is not necessarily an actuary. An actuary has talents that should be used for the benefit of his clients, and those talents normally are not directed toward sales. There are not so many of us that we can afford to waste our talents. I think that the more profitable distribution of time and responsibilities is to put the sales responsibility on people whose main forte that is. The actuary, then, will sometimes do the direct solicitation, or do it jointly, but, when he gets the assignment, he will apply all possible ethical standards to what he does, and, wherever there is any chance of misunderstanding, it is up to him to see that he has the opportunity to present his views and that reports, figures, certifications, go out over his name and that it is clearly understood that they do.

Briefly, on the union and management client situation, some firms generally prefer not to take direct union assignments, feeling that even though there may not be a direct immediate conflict with management clients, it is very easy to work from one situation to another where that conflict does develop.

Now, if by refusing it we were to put unions in a position of not being able to get sound actuarial advice, then I think that we would be at fault. There are, however, certain firms which have more or less specialized in that type of business, and I have frequently referred such requests to such a firm. If we were to reach the point where they were no longer in existence, I think that we would have a responsibility. However, work that we do with unions generally comes to us at the request of the joint trustees, or at least with the agreement of the union trustees even though we are hired by management.

MR. HERBERT L. FEAY: My comments are on special problems of collectively bargained pension plans. For the usual pension plan established by an employer, either the benefits are fixed and the contributions are variable or the contributions are fixed and the benefits are variable. For many plans established by collective bargaining between employers and unions, both the contributions and the benefits are established in advance. For these negotiated plans that I have in mind, the contributions to be made for each member are usually not directly related to the benefits to be granted to that member. For the existing work force at the effective date of a plan, the future aggregate contributions will not pay for all benefits determined by past and future credited service. Surplus must be secured from the contributions for future new employees with no past-service credits hired at younger ages than the present attained ages of the existing employees.

Another problem for these negotiated plans is that the expenses are normally paid out of the contributions. The employers are not liable for annual additional contributions to pay such expenses as they are incurred. The expenses of the negotiated plan must be estimated for several years in advance and must include expenses for payment of benefits to retired members as well as the usual annual expenses for administrative, legal, audit, and actuarial services.

For several plans for which I have knowledge, the rates of contribution were first established as part of the bargaining on compensation. Frequently for such plans, the rates of contribution are determined as a number of cents (such as 5 cents or 10 cents) per hour of compensated time subject to some maximum, such as 40 hours per week.

After the contribution rate for such a plan has been established, the bargaining on benefits is carried out. The members of the union say, "Well, this ten cents per hour is really ours. Instead of taking this ten cents in cash, we are taking deferred benefits in a pension plan. Therefore, we should determine the benefits of the plan." The employers claim, "It is our obligation to have the pension plan established on a solvent basis so that future benefits and expenses can be paid as guaranteed without increases in the contributions."

In some of these cases, the employer and the union secure separate actuaries, and the two actuaries have different answers to the problem of benefits that can be provided. Recently, I was an arbitrator for a case of this kind submitted to the American Arbitration Association. In this case both the actuaries are members of the Society, but I found that the situation of having to represent different points of view placed a strain on their objectivity. In this case, we had an arbitration hearing with the actuaries and the lawyers for the two sides present. The arguments on actuarial methods, standards, and assumptions could not be settled in that situation. After about two hours of discussion, I finally suggested that the three actuaries (the actuaries of the employer and of the union, and I) hold an executive meeting without the lawyers.

In this session I tried to secure agreement on actuarial standards and methods but could not do so. The union actuary used the unit-credit single-premium method and ignored costs for disability benefits and for past service. The company actuary used the level-premium entry-age normal-cost method. Actually, neither method applies to this type of plan.

For this kind of plan, the actuary should determine the present value of future benefits and expenses and the present value of future contributions for the existing force on the effective date. There will be a deficit for these employees in that the value of the contributions will be less

than the value of the benefits and expenses. A determination must then be made of surplus for future new employees. The usual assumption is that the labor force will remain level and the distribution of new employees by entry age will be like that for new employees hired in recent years. The estimates for new employees can be for a period as long as thirty or forty years in order to have sufficient surplus for these new employees to pay the deficit for the existing employees. The variable in this situation is the period of years needed for this condition to become true. I like to have this period for the initial calculations for a plan to be not greater than twenty-five years in order to allow time for extension if the actual experience is worse than the assumed.

In cases of this kind, the actuaries for the two sides should not make separate and conflicting cost calculations. If the actuaries for the two sides cannot agree on standards and methods, my suggestion is that the two actuaries assist the employer and the union in selecting a third neutral actuary. This actuary can make his own calculations subject to checking by the actuaries representing the conflicting parties. Actually, in effect, that is what I did to secure a basis for deciding the questions at issue for the case for which I was the arbitrator, except that the parties involved had to pay for two other valuations in addition to mine.

MR. DORRANCE C. BRONSON: Mr. Feay must be dealing with collective bargaining areas, in which I have had little or no contact for many years. Ever since the original Ford and Steel agreements in 1949, most of the companies and unions in their negotiations have drawn away from bargaining on specific costs that are linked to specific benefits. Instead, they have bargained on benefits with a "free-swinging cost," although naturally, on the side, each party figures a price tag that they think it is worth. Mr. Feay's area, where he talks about this linkage still being used, surprises me, as it is not one that I have come on for many years.

MR. ROBERT G. MOSS: I do think that we have an obligation to clients in this area. I think that when this profession grew up, it came from the insurance industry, which is conservative, and rightly so, and I think that we should tell our clients about conservative costs and realistic costs and point out what happened in the past with respect to earnings, particularly in stocks, and let them be a party to the selection of an appropriate interest rate based on their own objectives.

RESPONSIBILITY TO PUBLIC

A. Responsibility to beneficiaries of pension and welfare plans.
B. Relationship with supervisory authorities, such as insurance departments, tax departments, and pension agencies.
C. Presentations to commissions of inquiry; statements to press; and articles, speeches and books.

MR. DONALD B. WARREN: I am somewhat worried about the current trend of C.P.A.'s and insurance brokers establishing consulting actuarial departments. It appears that some C.P.A. firms refuse to do this because they feel that it is combining an operating and an auditing function. Nevertheless, several C.P.A. firms are active in soliciting actuarial work; some are going to our mutual clients and suggesting that a review of our actuarial work would be in order. In both C.P.A. firms and brokerage firms, because of the structure of the organizations themselves, it would appear that the actuary's function could tend to be downgraded to that of a glorified clerk unless the actuary is a strong-willed individual.

In connection with the actuary's responsibility to the public, I would like to comment briefly on both pension and life insurance problems, and I hope that the comments are in such form that they will stimulate discussion!

With respect to public employee pensions, we feel that in most cases the plan should be funded on a normal cost, plus interest on the past service, basis. This is what most people consider as minimum funding. However, in a tax-supported system we can assume that contributions in the form of taxes will come in forever. It seems to us that it would be unfair to the present generation of taxpayers to ask them to liquidate a past-service liability created under a previous generation of taxpayers.

Another problem, frequently in connection with public employee plans, deals with the overgenerosity, or sometimes the undergenerosity, of pension boards in making decisions on disability benefits. Police and Firemen's pension boards are apt to consider all disabilities as being "service caused" whenever the service disability benefit is the larger. If the actuary tries to remonstrate, he may find himself no longer the actuary.

We have found other situations, particularly in connection with public utility pension plans, where employers appear to be abdicating their responsibilities by insisting that the trustees invest only in absolutely safe situations. The substandard yields thus produced result in higher required

contributions from the companies; but this higher cost is passed along to the public through higher rates. Can we, as actuaries, protect against an ultrasafe investment policy?

Let us turn now to insurance problems. In the Middle West, where we do most of our work, some of the state insurance departments are understaffed. These departments tend to expect consulting actuaries to do some of their policing work for them. This might be all very well if all laws and departmental regulations were crystal clear. However, there are many cases where we simply do not know what the departments want. It is unfair to our clients for us to try to tell them what we think the departments require. I hope that the departments will come to realize that we cannot do their policing for them and that we will have to continue to submit many things to them which we may feel are potentially unwise but not illegal.

We have an interesting situation with respect to some of our small clients. They wish us to sign their annual statements as their actuaries, but they fill in all items except possibly the strictly actuarial ones and expect us to spend only a few hours checking the reserve and deferred premium items. We have finally come to the conclusion that we will not sign an annual statement, nor will we permit our name to be used in any context by a company, unless we have checked the statement almost in its entirety. We do not propose to take an inventory of the physical assets, but we do plan to check practically everything else unless a competent accountant has prepared it. One of the most important test-checks is to compare valuation records with premium billing records to make sure that all valuation cards are in file and that the plan and amount of insurance are correct. We also want to be very sure that nonledger items (both assets and liabilities) are correct.

Thus we see that in almost every job we do, we have a dual responsibility: (1) to our client and (2) to the public.

MR. CLAUDE J. CASTONGUAY: As far as responsibility to beneficiaries of pension and welfare plans is concerned, we often wonder in our firm if we can do an honest and objective job by strictly restricting ourselves to actuarial matters.

Should we go into judging or trying to make our own judgments on how a plan is administered, on how the funds are invested, and so forth? These aspects of the plan are so important as far as costs are concerned that, even if our responsibility in a particular case is strictly actuarial, can we restrict ourselves honestly to this part of the problem?

Now, in another closely connected area, if we feel that monies in-

vested in a plan—whether a pension plan or a welfare plan—are not used to the best advantage of the employees, because they are being badly advised, for example, do we have a direct responsibility to them even if it is strictly an employer plan? Can we just continue advising the employer in spite of the undesirable trends that may develop in welfare plan programming or if we feel that the members of the plan may react adversely?

This brings up the question of being aware of new developments, new trends in pension and welfare fund planning.

It has been mentioned earlier that consulting actuaries are generally very busy keeping up with their clients, which leaves very little time for solicitation of new clients. Well, this, in my opinion, proves the need for publicity as far as we are concerned. If we avoid any form of publicity concerning our services and recent developments, we are not doing the job our clients should expect.

The following point raises the question as to whether we should only advise our clients strictly about benefit matters, funding methods, or should we also advise a client as to other methods of administration and investment under which we might have a more restricted role? This is a difficult question, but it is a question that has to be faced.

Now, in connection with the relationship with supervisory authorities, such as insurance departments, tax departments, and pension agencies, I am in a fairly difficult situation, as I have been so much involved in government work that this afternoon I wonder if I am speaking as a civil servant or as a consulting actuary.

In Canada, for example, our income tax laws have provided some pretty large and wide loopholes recently for small employers. We have had the situation where we had to make a decision as to whether we would act or not on any of the executive type of pension plans which were set up, in our opinion, strictly for tax evasion. The question is easy in theory but, in practice, to set up these plans the income tax regulations require a certificate signed by an actuary. As soon as you sign such a certificate, are you involved in setting up such a plan, even if delivering a certificate is the only thing that you have done in connection with the plan? This question of tax evasion is a pretty serious one, and our Code of Ethics refers to it. What should be our position, since we know that each time tax loopholes are used extensively we tend to have more and more government intervention. Such intervention always tends to gradually restrict our role.

Item C deals with presentations to commissions of inquiry; statements to press; and articles, speeches, and books. As far as I am concerned, the

answer is quite simple. We should make our views known, objectively and as often as possible. We have a duty to speak, to write articles, and to express our views. We are involved in a field which touches larger and larger segments of the population. We are experienced in this field. There are a number of questions with which we are dealing that cannot be discussed by other people. If we do not express our views on these questions as often and as clearly as possible, other people will do so for us, and we will suffer from not having spoken out.

MR. JOHN HANSON: As I understand it, a conflict of interest is a set of circumstances and not a character deficiency. Thus, it is not an insult to suggest another person is subject to such a conflict, and it is not material to assert a lack of bias if our loyalties are divided. Let us acknowledge that we are all influenced by our prejudices.

The most important test of professional conduct in my opinion is how an individual deals with such conflicts. If we are to deal with them, they must first be discovered by an examination of our prejudices, and the desire of many actuaries to promote benefit security or "sound" plans should be recognized as a type of prejudice which may conflict with our professional obligations.

Insurance company actuaries may have less need than consulting actuaries to consider the meaning of professional conduct and whether they have a responsibility to pension plan beneficiaries, because the principal obligation of the insurance company actuary is generally to his company and only indirectly to the policyholders. However, the admirable record of the insurance industry in providing security to insureds might not be possible if insurance company actuaries did not instinctively encourage the maximum in benefit security, and this particular prejudice may conflict with the interests of a policyholder contributing under a deposit administration contract. One prominent insurance company actuary has stated in the *Transactions*, "We may postulate as a general proposition that the better the actuary does his job, the more is the security of pension expectations enhanced." Here we have a champion of pension security, whose prejudice does not prevent him from fulfilling his obligations to his insurance company.

However, many and perhaps most employers would not accept this description of the actuary's job. It is difficult to see how an actuary who is an advocate of maximum security can objectively advise clients or policyholders with respect to pension contributions. We are free to express our prejudices, of course, but we have a professional obligation to

provide the employer with all relevant information, even information on which he may make a decision of which we disapprove.

When the interests of the insurance company and the beneficiaries, on the one hand, and the interests of the employer, on the other, are conflicting, Guide 12 would appear to rule out most insurance company proposals for a deposit administration contract including cost figures prepared by an employee actuary, for the solicited employer generally has no concept of the nature of the necessary service and has "expressly agreed" to nothing. To quote the Denver discussion of Mr. Daskais: "If the actuary regards these services to be merely computational, involving no conflict of interest, I believe he cannot be practicing competently."

Such proposals and, indeed, any cost figures prepared without prior consultation with the employer can only detract from our professional status. Pension actuaries will come to realize, I believe, that we are not professional when we grind out figures by a standard method and slap them in a report regardless of the particular employer's objectives and problems. The indiscriminate use of the so-called projected benefit methods under a pension fund exceeding that needed whether the plan terminates or continues certainly promotes benefit security. However, Guide 8 requires that the method be "appropriate" as well as adequate, and, if an employer is not aware of the overfunding, the actuary has promoted benefit security and in my opinion has at the same time acted both unprofessionally and unscientifically.

In the recent report of the Committee To Study Pension Plan Problems, the following question is raised: "Do actuaries collectively, as members of a professional organization, have a responsibility to the public going beyond their already acknowledged responsibility for the competence and the professional conduct of individual members?" In developing its professional characteristics, the Society of Actuaries could undertake a wide range of activities, but, in view of our scientific heritage, some activities of other professional groups may be inappropriate. For example, we would be less scientific as an organization if we were to lobby for or against specific legislation. Or consider the possibility of an "Actuarial Principles Board," with authority similar to the "Accounting Principles Board" which is so useful and necessary to maintain consistency in the accounting profession; would we not be less scientific if we were to establish "principles" by committee vote and not necessarily by the force of logic?

The Constitution does not indicate that actuaries have an obligation to "protect the public," although this is assumed by the Board of Gov-

ernors in the text preceding the revised Guides to Professional Conduct. This assumption does not appear to be objectionable either in a vacuum or by reference to the guides which have heretofore been established. Moreover, this assumption is in accord with the object of the Society expressed in Article II of the Constitution to promote high standards of conduct of the individual members. However, an amendment to the Constitution appears to be needed if the Society is to collectively establish financial standards to protect pension plan beneficiaries.

The propriety of particular financial standards of any type would obviously be a matter of opinion, not susceptible of scientific definition, and the nature of the Society would be fundamentally altered if such standards were in some way given force. A reorganization to permit such collective activity should develop the procedures and participation needed to formulate generally accepted standards.

It may be that consulting actuaries must trim their sails more significantly than insurance company actuaries who are not exposed to many problems facing consultants in the area of professional conduct. However, the whole will equal the sum of the parts, and if we are to receive full public recognition in a profession, particularly from the business world, insurance company actuaries, in my opinion, must stipulate wherein the best interests of the insurance industry differ from the legitimate objectives of the Society of Actuaries as a scientific and as a professional group. In our efforts to protect the public, moreover, we must all remember that the public is composed of investors, stockholders, and taxpayers as well as beneficiaries.

MR. SAMUEL N. AIN: Mr. Warren talks about the development of a conscience going into the actuarial field, ostensibly for insurance but apparently more for pensions and the possibility that the actuary will become the pencil-pusher. Without minimizing the significance of that statement, I would like to ask, why should we differentiate between the risk of the actuary becoming a pencil-pusher by working for an accounting firm than by working for a broker or perhaps other types of entrepreneurs which have gone into this field? Should we not be equally concerned with life insurance companies and the services they offer with respect to certain D.A. contracts or with respect to certain individual contracts?

MR. BRONSON: As usual, John Hanson has given us an interesting dissertation on funding and various aspects thereof. As I listened to him, it struck me more and more that he was being too dogmatic and that a little sprinkling throughout with some personal references (e.g.,

"I feel," "It seems to me," "In my opinion," etc.) would have secured better audience rapport without loss to his own ideas. After all, John's proposals have not the weight of the Laws of Moses!

MR. CHARLES G. BENTZIN: I must disagree with Mr. Warren on one point, and that is regarding the funding of public pensions on a normal cost plus interest only basis. This is particularly true in the West, though it is also true elsewhere in the country. All actuaries working with public pensions must be aware of special municipal situations. The city of Douglas, in Arizona, at one time was the largest city in the state, having approximately 50,000 population. At the present time it has approximately 8,000 population. Throughout the whole country a very common situation is the closing of a military base or an air base. I am sure Manhattan, Kansas, would be very severely struck if Fort Riley would be reduced, or, if Fort Benning would be closed down, Columbus, Georgia, would be affected, and so on. Consequently, I strongly disagree with him concerning the category regarding the funding of municipal pension plans with normal cost plus interest only, since it could not be presumed that a city, like an industry, will continue forever.

Mr. Warren again raised a question regarding advising municipal pension boards regarding the granting of disability pensions. While we, of course, are not doctors or psychiatrists and an anxiety syndrome may be something pretty confusing to us, we have a responsibility to do whatever we can within our professional training and responsibility to guide pension boards wherever possible in the maintaining of a financially sound pension plan, whether it is in the calculation of values or in the granting of benefits.

MR. LLOYD K. FRIEDMAN: I am responding to two questions raised by Don Warren, who has been a most effective gadfly in the best sense of that word.

One is this question of being expected by state insurance departments to do a certain amount of policing. I think that we, as consulting actuaries, do have a certain amount of obligation in that respect. However, we cannot help but remember that we are consultants and consultants never do anything; they simply advise. In that respect I am following my preceptor in this profession, Jack Cameron. He once told a client, who asked him whether they could follow a certain course of action, "You can do it. You can do it, but it is against the law."

With respect to the annual statements, we have now, as always, attempted to verify the reserves, not only the insertion of the correct

factors and their extension but also that the valuation corresponded to the business in force of the company, which some people, I think, do not bother to find out. We have, on the other hand, made it clear to various insurance departments that we are responsible for only the actuarial portion of the statement. As a matter of fact, that expression is defined in our retainer agreement, because we could not possibly take responsibility for real estate and other investment valuations. In fact we will not even fill in a Schedule A, B, C, D, or E. We do not verify bank balances, because we do not want to get into the accountants' field, whether or not they want to get into ours.

MR. FREDERICK P. SLOAT: A druggist friend of mine, who operated his own store, met with competition from the drug department of a new supermarket. In order to object to the competition, he pointed to the fact that the supermarket was not exclusively a drugstore. (He ignored the fact that drugstores often expand into a many-product area themselves.) Similarly, actuarial services can be properly offered in conjunction with other services. If everyone in a particular business had to operate in the same form as everyone else, we would miss much of the flexibility and opportunity present in our way of life.

Inasmuch as the firm with which I am associated is in the accounting field, we are subject to the rules of that profession as well as to those of the actuarial profession. The former profession rules that you cannot solicit business, but you can, of course, promote your services with your client. It is our practice to comply with the spirit of these various rules and, when an audit client of the firm is satisfactorily served by a consulting firm, our partners are instructed not to upset such a relationship. There does arise the case where it is genuinely felt that we can do a better job, although this is seldom the case where the consultant is one of many well-established firms. Any such approach should be based on a genuine need, and not because of a natural inclination to seek new clients or of the human instinct to feel that no one can do quite as good a job as we can.

MR. DREHER: I hope Don does not think that we are mad at him, because I personally appreciate the need for this type of dialogue. We should remember that, although we are members of a profession, we act as individuals; it is the character of our conduct as individuals in relation to the standards of our profession by which we will be judged.

Within our firm we feel that, unlike the weather, we can do something about the problems faced by actuaries who are associated with the ac-

countants. We feel that we can take constructive steps to assure the security of our profession within our own sphere and in the minds of the public.

Questions of the type that have been raised are quite proper, and we who are in business associations with accountants must struggle to establish those conditions which will assure us, the public, and any other actuary that we have permanently and fully resolved all possible problems. We have already created certain protections within my own firm which I feel most positively are fundamental to a successful association of accountants and actuaries. The first is the government of actuarial policy within the firm by a single qualified actuary. In our firm that individual is Fred Sloat. The second is the presentation over the signature of a qualified actuary of the results of all work which properly lies within the domain of the actuary—and I might say here that within our firm we have no difficulty in establishing, on grounds that a reasonable man would accept, a proper division of responsibility between accountants and actuaries. We have not felt in any way that we were being relegated to the purely technical role. We have been welcomed as advisers; we feel we have learned and also that we have taught.

MR. DONALD S. GRUBBS, JR.: My understanding of the "Guides to Professional Conduct" is that cost calculations should be filed by the actuary. It seems that we have a number of things which appear to be violations of this to me, very frequently caused by administration contract proposals by an insurance company. You hear the cost calculations, and there is no name of an actuary; perhaps the cost calculations were not done by an actuary and that might account for it.

Now, some banks are also providing cost calculations and are also providing actuarial services. In some cases these are actually being provided by a consulting actuarial firm and have been presented at times without any indication that they were done by an actuary. Again there is a possibility that such a firm had the calculations done by an employee who was not an actuary. I think this is a problem that we should give attention to.

MR. M. DAVID R. BROWN: The question of the accounting firms, brokerage firms, and so on, I think is very fundamental. It is a difficult one for anybody involved to discuss, of course, but the question has to boil down to this. Can someone who is employed by an organization which is not primarily engaged in providing actuarial services be properly considered to be practicing as a professional? Does he compare with

other established professionals, with the legal profession and the medical profession particularly? In those professions this situation just does not arise. The auditing firms, so far as I know, are not attempting to corral law partnerships and provide their services as part of the range of services which they can offer, because this simply does not fit in with the professional practices of law. Lawyers do act for, or are employed by other people, but they do not then hold themselves out as practitioners to the public. It is recognized by all concerned that they are employed by someone else. I am not going to suggest necessarily that there is anything sinister going on here, but the downgrading of our profession is inherent in this situation. It is a potential that cannot be overlooked.

MR. FOSTER: There has been much discussion about the actuaries and the accountants, and there have been implications about the sinister situation of actuaries working for brokerage firms. I think that maybe this deserves a comment, because most of the brokers are apparently so busy that they are not here. There are, after all, several large firms which have more actuaries working for them than 90 per cent of the insurance companies. Their clients include some of the largest and most important businesses in the country. I think that I would be remiss if I let this occasion go by without telling some of you who may not be very familiar with them how firms like Johnson & Higgins and, I think, Marsh & McClennan, Alexander & Alexander, and others, do operate in this field. We each have our own ways of protecting this independence, but I can speak for my own company in saying that there has never been any attempt by the management outside of the consulting department to tell us how to operate. They are smart enough businessmen to know that they do not understand this field and they have not tried to interfere.

The assumption seems to be that there is something tremendous to be gained by a brokerage firm that is not available to the consulting actuary. Actually, commissions that are paid on group annuity contracts today are graduated so that they are not phenomenal amounts. They compare quite reasonably with the fees charged by most consultants for noninsured services.

Most of us in this line serve both trusteed plans and insured plans of all types, and we really do not care where the business is placed or where our compensation comes from because it is essentially the same no matter what happens. We often have situations where we get commissions for a certain amount of business and find that the commissions are not covering all types of services. We will thus bill for the services

not compensated by the commission. I see nothing wrong with that. The services are being given by the actuary; there is no bias because it would not serve us to have a bias one way or the other.

I think that I am describing the typical situation with the large brokers.

MR. HOWARD H. HENNINGTON: I think that enough has been said about actuaries who work for insurance companies and who do pension cost calculations that perhaps we would be given an opportunity to say something even though we may not be classed as consulting actuaries. There was an implication in the remarks of one of the previous speakers that, if you were in favor of enhancing pension security, this limited your opportunity to be objective and independent as far as advising the client is concerned on how much to pay into a pension plan. I want to contest that vigorously. I think that an institution that is a long-standing institution has the long-run welfare of the pension business as a whole to think of, and in this context persons employed by such an institution will be perfectly capable of both enhancing pension security and advising the client on what to pay into a pension plan.

Another reference by a previous speaker concerned disclosure of expenses. There was a suggestion that insurance companies did not disclose the expenses of their calculations in connection with deposit administration contracts. I think that this is a matter of evolution. We have been quite responsible in disclosing the total expenses applicable to an insurance company contract. Whenever a client is interested in finding out more about these expenses, we have always been ready to explain them and give any desired analysis. We are just as concerned as any consulting actuary about having a satisfied client who is well informed on the expenses we charge under the contract.

There was also something said about signing reports. We support fully the idea of having an actuary sign the actuarial reports done by an insurance company. This may not always be practical in connection with proposals, but it is quite uniformly done as far as I know in connection with regular annual deposit administration cost calculations.