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DIGEST OF REPORTS ON TOPICS OF CURRENT INTEREST

AGENCY MATTERS

A. Have new or improved plans of compensation and security benefits been developed in recent years for (1) new agents, (2) experienced agents, (3) general agents and managers?
B. How can the merits of branch-office and general-agency systems be effectively compared?
C. What methods are used for providing service to policyholders, particularly on orphaned business?
D. What are the trends in agents' survival rates?

MR. NORMAN F. BUCK: In March, 1963, the Lincoln National adopted new contracts for agents and general agents. Because the old contract forms had been in effect a long time and had worked well, we retained some basic provisions. What we tried to do was to change contracts just enough to put a greater share of the money where the problems are.

Incidentally, we allowed every existing agent and general agent to choose whether to keep his old contract or switch to a new one.

Because of the complexity of the subject and the shortness of our time here, I shall concentrate on the provision covering ordinary insurance, ignoring those on health and group.

We made no change in the following items in the contract for soliciting agents: (1) first-year commissions, (2) renewal commissions (on most plans, 9 at 5 per cent), (3) 2 per cent service fees in the eleventh and subsequent policy years, and (4) agents' benefit plans.

Under the old contract, after two years of service, the agent acquired nine vested renewals subject to a collection fee of 1 per cent of premiums. Under the new contract, one renewal vests (without a collection fee) for each completed year of service, up to a maximum of nine.

The old contract provided full-timers with nonvested service fees of

5 per cent of premiums in the second and third policy years. We dropped this provision in the new contract and substituted the following:

1. *Training allowance.*—Thirty per cent of first-year commissions received by the agent in his first contract year. To inexperienced, full-timers only. Not vested. Maximum of $1,000. The purpose of the training allowance is to hold down the debit balance of the inexperienced new agent.

2. *Starter bonus.*—On business sold by an agent in his first two contract years, 20 per cent of premiums for the second and third policy years. To continue to be eligible for the starter bonus, the agent must meet a small production requirement *every* three consecutive months. The purpose of the starter bonus is to pay off all or most of the succeeding new agent's debit balance.

3. *Career bonus.*—Twenty-five per cent of each calendar year's first-year commissions in excess of $4,000. The first calendar year in which the agent can earn the career bonus is the year of his third contract anniversary. Excessive lapse rate rules out the career bonus.

On the contract for general agents we made the following changes:

1. Introduced a large new organization bonus payable on business written by new soliciting agents in their first two contract years. This is payable to the general agent even if the soliciting agent terminates. Its purpose is to encourage the general agent's recruiting and to minimize his financing losses.
2. Reduced the general agent's first-year overriding.
3. Changed the vesting of renewals to one (up to a maximum of nine) for each completed year of service.
4. Replaced the renewals for the eleventh to fifteenth policy years with commissions to begin when the general agent reaches age 65. These are based on premiums paid for the eleventh policy year. This change, we believe, increases the general agent's incentive to keep his business in force.

MR. HAROLD F. PHILBRICK: Massachussetts Mutual introduced a new plan of commission compensation for new agents in 1964, and we naturally feel that this was a great improvement over the preceding arrangement. It was also made available to experienced agents who were not over age 60 when they had the option to elect the new contract. We have made no major changes in our compensation to general agents in recent years.

Under our previous commission schedules, we followed the normal approach with respect to the level of first-year commissions; that is, we are consistent with the rates of other companies that operate in New York. Renewal commissions were basically 5 per cent through the tenth policy year. Those payable in the sixth to tenth policy years were vested only after a specified period of service, usually varying from 11 to 15 years. After the tenth year, our previous commission schedule called for payment of persistency fees of $1 per $1,000 in policy years 11–15; $1.25 per $1,000 in policy years 16–20; and $1.50 per $1,000 after the twentieth policy year.

Under our agents' pension plan, which was not modified when the new commission schedules were adopted, the agent contributes 3 per cent of his total income. When he reaches retirement age 65, the company applies the agent's accumulated contributions to provide a life income. In addition to this income, the company provides a life income equal to 1½ times the income provided by the agent's accumulated contributions. With respect to his own contributions, he has the option to take several alternative types of life income, including joint and survivor income or income with payments certain. The income provided by the company is restricted to a life annuity on the life of the agent or one of two types of joint and survivor annuity, providing either full or two-thirds income to the survivor.

There were three prime factors that led us to review this compensation plan:

1. An agent with fairly good production did not appear to reach an adequate level of income early enough in his career.
2. The level of the persistency fees appeared to be relatively too high in view of the trend of the average premium since this commission approach had been adopted.
3. The level of total income after retirement appeared relatively too high when compared to the immediate preretirement income.

In researching this area, the intent was to develop a plan with the following three characteristics:

1. The present value of the total compensation payable to the agent should not be materially different from the present value under the previous commission schedules.
2. The incidence of compensation should be accelerated.
3. The plan should be attractive to established agents as well as to new agents.

The prime objective, of course, was to develop a new system of compensation which would not only increase the probability of retention of good agents but would also make a career with the Massachusetts Mutual more attractive to prospective new agents. We hoped to increase the quality of our over-all agency force.

Under our new agents' compensation plan, renewals have been heaped in the second to fifth policy years, and the compensation after the fifth policy year has been lowered. The renewal commission rate for years 2–5 is now 10 per cent, 5 per cent of which is vested after one year of service and the other 5 per cent after service for a specified number of years. For policy years 6–10, we now pay nonvested renewal commissions of 3 per cent, and after the tenth policy year we pay a nonvested persistency fee equal to 2 per cent of the premium. First-year commissions were left basically unchanged.

Our new deferred compensation plan was described by Mr. Harold G. Ingraham at the San Francisco regional meeting, and I will be repeating some of his remarks on this subject.

To add a little background, this plan was developed after extensive research by so-called tax-impact committees comprised of both home-office and field representatives. One of the prime objectives of these committees was to develop plans under which the field representatives would have an opportunity to transfer a portion of their total income from current taxable income to income under which the taxation would be deferred. The deferred compensation approach appeared to be the most satisfactory route, and we introduced this plan on January 1, 1966, after receiving approval as a qualified plan under Code Sections 401(a) and 501(a), as well as by the state insurance departments that require submission of agents' compensation plans.

Full-time agents eligible to participate in the plan will be those who, as of a given January 1 date, have attained age 30 but have not reached their sixtieth birthdays and have completed five years of full-time service. Participation in the plan was optional for full-time agents eligible as of January 1, 1966, but mandatory for new full-time agents hired thereafter as soon as they become eligible. Each full-time agent who is not eligible to participate—and those eligible agents not opting for the plan—will have a supplemental first-year commission schedule equal to the difference between the first-year commission on the previous schedule and that on the new schedule.

Under the plan, a new ordinary commission scale has been established for full-time agents, reducing first-year commissions by 10 per cent (e.g., a 55 per cent commission will become 49.5 per cent). An amount equal to 11.4 per cent of such reduced first-year commissions (the reduction in commissions plus an amount to compensate for the delay in payment of moneys held) will be paid by the company to a corporate trustee to be allocated among, and held for the benefit of, agents participating in the plan. Each participating agent's share of the trust will be invested and accumulated for him and distributed at death, disability, retirement, or termination.

Investment of the funds held by the trustee will be made on one of the following bases, in accordance with the wishes of the participating agent:

1. An equity fund;
2. A balanced fund (with bonds, preferred stocks, and common stocks);
3. Split 50–50 between 1 and 2; or
4. Up to one-third of any payments credited to the participant will be applied to buy new life insurance to the extent permitted by the plan, with the balance of each such payment invested in accordance with 1, 2, or 3. Commissions and volume credit for such new life insurance would, of course, go to the participating agent.

For retiring participants—or when preretirement deaths occur—payments may be made in one sum, in monthly instalments over a fixed period, or as a life annuity. For disabled participants, payments may be made in one sum or in monthly instalments over a fixed period. For a participating agent terminating other than by death or disability, the amount in his account will be paid to him in instalments over a five-year period.

An established agent will have his total compensation reduced by about 5 per cent as a result of the contributions to the deferred-compensation plan. Since the accumulated amount under this plan could be used to supplement income at retirement, and hence to supplement the benefits under the pension plan, we are now reviewing and will be modifying our pension plan, probably by reducing the required agent's contributions from 3 per cent to 1 per cent. The company portion of any pension benefits payable under the pension plan will not be changed, as the plan will be modified to provide that, in lieu of 1½ times the accumulated 3 per cent contributions, the benefits will be based on 4½ times the accumulated 1 per cent contributions. The current plan allows voluntary supplemental contributions from 1–3 per cent, and this range will be increased after a revision of the plan to the range of 1–5 per cent. This will allow any agent to continue making total contributions to the pension plan at the same level as his current contributions if he should so desire.

CHAIRMAN EDWARD G. NEWCOMB: On July 1 of last year, the Northwestern Mutual installed a training-allowance plan for new agents who are inexperienced in the business according to the definition of New York law. Prior to that time, we financed agents on a loan basis against the security of a vested 8–5 per cent renewal contract. Our training-allowance plan is administered quite differently from those of most other companies, which might explain why it was initially approved under the

First-Year Expense Section rather than the Training-Allowance Section of New York law.

In an agent's first contract year we pay a training allowance equal to 50 per cent of the first-year commissions on business written in that year. Thirty per cent of first-year commissions is paid as a training allowance on business written in the agent's second contract year. Ten per cent of first-year commissions is paid as an addition on the third year's business. Renewal commissions on this business are, of course, nonvested. So, an agent has to stay in business with the Northwestern to receive, in effect, more compensation than he did under our regular eight renewal vested contract. But, if he does stay on, the amount of additional compensation he receives is completely dependent on his results. The more he produces in his first three years, the more additional compensation he gets, and vice versa. His only minimum production requirement to stay active under the plan is $1,500 of first-year commissions each six-month period after the first.

If a new agent needs income stabilization, we will not guarantee him any additional income, but we do have a loan plan that works in supplement with the training-allowance plan. He may borrow up to three times his monthly budget in the process of this income stabilization.

All of the accounting in these loan plans is carried out on the commission statement. If an agent has a semimonthly budget of $300 and earns only $250, the commission statement would add a $50 loan, along with the updated loan balances. When he earns more than his semimonthly budget, some of the additional money is used to reduce the loan balance. All loans are made through the general agent, who is 100 per cent responsible for any losses.

The incentive of our training-allowance plan seems to be quite a stimulus to some of our better new men. As you might suspect, some of our potential failures are still failing. We hope that in balance it will ease the pressure of getting started in this career and help some of the more marginal men reach success status. We have no good statistics at this time to evaluate the effect of this plan, but general comment from the field is very enthusiastic.

MR. MEL STEIN: It is well established that the effectiveness of an agency-compensation system can be measured by its success in accomplishing the following goals: (1) attract quality personnel, (2) minimize turnover among agency personnel, and (3) maximize the increase in value of both the agency staff and the profits it produces for the insurance company.

Because of numerous client requests for assistance in this area, Bowles, Andrews, and Towne has developed a scientific approach to agency compensation that will help attain the above goals. Basically, it is an incentive-based system with a normal commission scale augmented by financial rewards related to the profits the agent's sales produce for the insurance company.

The main criteria for measuring the profit an agent produces for his company are (1) volume and quality of production; (2) distribution of production by plan, issue age, and policy size; and (3) persistency.

Ideally, we believe that agency personnel should be compensated through commissions, a stock bonus plan, and a totally new concept—the profit bonus, which goes beyond the old persistency bonus.

A gross premium analysis is first performed to determine the total amount available for agency compensation at the different issue ages and plans. These amounts will, of course, be substantially influenced by termination rates, particularly first-year termination rates. The amount available is then allocated among the different eligible agency personnel, such as agent, general agent, and regional director.

A stock bonus plan helps provide the agent with security when he retires. In keeping with incentive-based concepts, amounts credited to an employee's account would be based on his compensation. Vesting and tax-free income of stock bonus trusts make stock bonus plans efficient and economical as a way of rewarding long-time service with the employer.

The amounts an employee receives as profit bonuses depend upon the profits that he produces for the company. The size of the profit bonus is influenced by (1) his sales volume, (2) distribution of his sales by age and plan, (3) the persistency of the business he produces, (4) the size of the policies he sells, and (5) expenses.

The profit bonus is designed to maximize the proportion of the total compensation that goes to the more successful agents who produce the greatest profit for the company. Money paid to unsuccessful or undesirable (i.e., 40 per cent first-year lapse rate) agents is money wasted.

The profit bonus plan motivates general agents and district managers to follow good hiring practices and to pay careful attention to conservation and expenses. The profit bonus is heavily weighted in favor of the agency employees most valuable to the company.

The agency-compensation method developed by Bowles, Andrews, and Towne enables a company to compete for agency personnel without having to offer exorbitant first-year commissions. A particularly advantageous feature of this compensation method is that the insurance company using it will be able to offer the most to the more desirable employees. Other advantages include:

1. Reduction of agency turnover, particularly among the better employees.
2. More efficient use made of money, with more compensation going to those staying with the company.
3. Minimizing money paid to unsuccessful and/or unprofitable agents.
4. Increase in the rate of growth in the value of both the agency force and the new business it is producing.
5. Lower lapse rates on new business sold and business previously sold.

CHAIRMAN NEWCOMB: I am sure that we all agree that in a stock company the idea of stock bonuses can be an attractive way of compensation for that company's *own, full-time* agents. Are there other comments or contributions along this subject line?

I would like to ask one quick question of the panel. I know, certainly, that premium persistency is one of the most important concerns every life insurance company has in controlling cost and values. It was interesting, therefore, to me that the Massachusetts Mutual went from a flat renewal to their present plan. I would be interested in knowing what you think the effect of going to your present plan will have on premium persistency, both initially and also later, when replacements might be a concern.

MR. PHILBRICK: I would like to say that this was one of the important factors in our discussions prior to the adoption of this particular plan. We feel that the persistency of business is directly related to the quality of the agency force, and it was for this reason that we adopted this new schedule. We believe that we have excellent quality in our agency force, and, in view of this quality, we do not anticipate any replacement problem at the end of the fifth year. We have had no problems with this in the past, and we are quite positive that this will not be a problem in the future.

MR. J. STANLEY HILL: Mr. Philbrick, you mentioned the probable intention of reducing the agent's contribution to the pension plan from 3 per cent to 1 per cent and indicated that in such event you probably would not reduce the employer's contribution. Your contribution is now related to the agent's contribution. Does this mean that you would not change the ratio or probable dollar amount of a contribution in any given circumstance?

MR. PHILBRICK: Definitely. Our contribution right now is $1\frac{1}{2}$ times the agent's accumulated contribution, and, under this revision which is in the works, the company will actually provide an income equal to $4\frac{1}{2}$ times the accumulation of 1 per cent contribution, which is the same as $1\frac{1}{2}$ times the current 3 per cent.

MR. BUCK: To compare the branch-office and general-agency systems effectively, we really need to look at all their aspects, such as lapse rates, expense rates, influence upon recruiting, and persistency of agents, as well as quantity of sales.

In the realm of costs, valid comparisons require that the work performed be broken down into similar activities, such as agent-recruiting and -training, sales proposals, and service to policyholders. If comparisons can be made between like functions on a unit cost basis (such as per policy or per cent of premium), then it should be possible to judge the two agency systems, at least as to their relative cost effectiveness.

For many years my company has operated under a modification of the general-agency system, which brings in some aspects of a branch-office system. Specifically, the home office controls and pays such costs as branch-office rent and furniture, clerical salaries, postage, and telephone. Our agency department people feel that we have combined the best parts of the two systems while continuing to be definitely a general-agency company.

MR. PHILBRICK: Being a "pure" general-agency company (note that the pure is in quotes), it is difficult to be other than biased in favor of the general-agency system. We do feel that the independent-operator status of a general agent will make this occupation more attractive to the better-qualified man.

As for making valid comparisons of the merits of these two systems, I do not think it is possible. It might be interesting to compare the relative growth of general-agency companies versus manager companies, but the companies in each category are so diversified in their operations that I do not think that the results would be significant.

The primary objectives and goals for a manager were outlined rather effectively in *Bulletin No. 311*, published by the Life Insurance Agency Management Association on May 5 of this year. The eleven standards specified for a manager dealt with morale, sales management, production, recruiting, agent-retention, public relations, supervision, quality of business, agency costs, training, and administration. I am sure that the article did not intend that these standards should be applicable only to a managerial agency. They are certainly equally applicable to a general agency.

In our company, as I am sure is the case in most other general-agency companies, the general agent is no longer an independent operator who pays all his own expenses and hires agents at his pleasure. He could not develop an agency without some expense reimbursement and development allowances.

Whenever an expense is paid for by our company, we retain full control of the approval of such expenditures. For example, we control the number and salaries of clerical help, leases for office space, the amount of basic telephone service, the amount of postage for routine services, furniture, office equipment, and normal office supplies.

The proposed New York Regulation 49 clearly indicates some areas where vouchered expenses can be covered by the company. It was interesting to note that some of the field men in attendance at the hearing in New York apparently felt that the enumeration of any expense item automatically implied that the company should be responsible for the payment of this expense.

New general agents must be subsidized. For scratch agencies, the new man will generally be put in as a unit manager on a salary basis. If, after a couple of years, he has shown satisfactory all-round performance in the areas of production, recruiting, retention, and so forth—in fact, with respect to the eleven items mentioned before—he will then be considered for appointment as a full-time general agent. When a new general agent takes over a going agency, he will usually be carried for a year or two as a formula general agent, which essentially means that he receives a fixed salary plus full expense reimbursement.

MR. BUCK: Regarding Topic C, in September, 1964, the Lincoln National introduced its CLASP program. These initials stand for "Clients' Lifetime Advisory Service Program." Under this program, on every policy in force, the home office once a year sends a set of information cards to the appropriate general agent. He in turn parcels out the agent's segment to the writing agent, if he is still with the company; otherwise it goes to some other appropriate agent. If the policyholder has moved from his original area, the set of cards goes to a general agent in the new area, and the writing agent (if still with the company) receives a copy for his information.

These cards are produced by electronic equipment and are mailed to the general agents two months before the age change of the insured. This timing is intended to give the servicing agent a little extra incentive to contact the policyholder. The agency department people are pleased with the percentage of cards that produce policyholder interviews; of course, they work constantly to increase this proportion.

These cards give the servicing agent all the information he needs to make a call, such as plan, current status, premium, dividends, and cash value. With the card he also receives a "Guided Service and Sales Interview" form to help him make a more effective contact.

We think that the CLASP program has improved our service to policyholders and that it boosts the morale of our agents. Also, since the program was introduced, the share of new business accounted for by old policyholders has continued to increase.

In the opinion of our agency department, if the program has any negative aspect, it is that an agent might rely too heavily on CLASP for leads instead of ferreting out his own new prospects.

MR. PHILBRICK repeated the discussion on Topic C that was presented by Harold G. Ingraham, Jr., at the San Francisco Regional Meeting, reported in *TSA*, XVIII, D160.

CHAIRMAN NEWCOMB: Encouraging service to policyholders at the Northwestern is centered around what we call a policy-service card. This 4×6 card is prepared by our computer whenever there is a transaction that changes any of the information on the card. The card is very complete, showing cash and loan values, loan and dividend balances, in most cases the code of the writing agent or the agent to whom it is assigned, and all other pertinent information, except beneficiary and title information beyond what can be generally categorized by a single digit code. This card is prepared in duplicate and sent to our agency offices. The original is filed in the agency office in place of the old card. The duplicate is for the agent.

This system puts the information needed for service into the hands of an active agent and is available to answer inquiries when they arise. In addition, and probably more important, the daily receipt of any cards with current transactions is a stimulus to service in itself. The details of the transaction that caused the new card to be produced are shown on the card. When this transaction, for example, shows the policyholder paying off a loan, this means, among other things, that he has enough money to buy some more insurance. Our agents love these policy-service cards.

All of this works fine as long as the policyholder is still a resident in the territory of the agency receiving the cards. Unfortunately, since we transfer records upon an address change only if we are requested to do so, we have a sizable number of policyholders living in a territory other than the one receiving these service cards. But we do send an exchange record to the new general agency when the address change takes place. If the general agency is on the ball, they will make contact and usually convince the policyholder to have his records transferred.

To help improve service in this area, we are, first of all, trying to work out a system satisfactory to our field force involving a more automatic transfer of records when policyholders move to another territory. In the meantime, we do have another procedure that helps to service these policyholders. We furnish, whenever it is requested by a general agent, information on all policyholders who reside in that agency but are being serviced by some other agency. This information can be in the form of lists or cards, and it can be by city or county. It stimulates more transfer of records, better service to these policyowners, and, best of all, more sales.

All in all, we are very happy with this policy-service card in the hands of our agents. Once we put beneficiary and complete title information on the card, some of us feel that this hard copy record may have some advantages over the real time EDP system of the future.

MR. HILL: Mr. Buck, I do not know if these percentages are really available but, if they are, I would be interested in receiving information on them. One is the percentage of return or response on these annual service cards from active agents still serving the original policy; also a similar figure for so-called orphaned policyholders who have not moved—in other words, the agent has terminated but the policyholder is still in the same general agency territory. I would also like to see a percentage for the policyholders who have moved into a new agent's territory, as well as a percentage with regard to new business coming from existing policyholders.

MR. BUCK: We have not attempted to break it down in order to distinguish the categories that you have in mind, especially in relation to percentage of return. All I can say about it is that it is pleasingly high, and we are gratified with the percentage that we get back.

MR. PHILBRICK: I would like to give an answer to that. Actually, we do have data relative to the percentage of business from new policyholders versus existing, and in our company it runs almost constantly 55 per cent from new and 45 per cent from existing policyholders.

CHAIRMAN NEWCOMB: It is interesting what some of our better general agents think about the percentage of business their agents write on existing policyholders. This is a very important source of business. It has wonderful persistency and is very lucrative, but, again, it is a temptation to some of the older agents to quit prospecting for new customers. An agent's current production may look fine, but if his percentage from existing policyholders is getting too high, he may be going out of business without really knowing it. Therefore, I am sure that a reasonable balance is important in successful operations.

MR. BUCK: Our company has a study of survival rates among its full-time agents, appointed in 1954 and later, traced to contract anniversaries in 1963. The percentage surviving five contract years has shown no trend. In fact, the percentage was exactly the same for 1958 appointees as for 1954 appointees.

MR. PHILBRICK repeated the discussion on Topic D which Mr. Harold G. Ingraham, Jr., presented at the San Francisco Regional Meeting, reported in *TSA*, XVIII, D160.

CHAIRMAN NEWCOMB: We do not have any reliable trend statistics on the survival of agents in the Northwestern, but the composition of our current average indicates that it is volatile enough to change rather markedly. The key to improvement would appear to be quite closely related to the caliber of the general agent. Our over-all company average, including numbers of full-time contracts, indicates that just a little better than one out of four remain under contract at the end of the fifth year. However, we have some general agents who retain about two out of three throughout a period of five years. Needless to say, some of our lesser performers are lucky to have one out of ten. The production of the survivors averages about $660,000 in the fifth year in the best general agencies, $420,000 on the average, and only $170,000 in the poorest. Obviously, the lack of minimum qualification to be called a surviving full-time agent is evident in these statistics, particularly in the last group of agents, who are certainly not fully dependent on life insurance commissions for their living.

It is really quite astounding to know what effect the combination of higher production and better agent survival has in benefit both to the general agent and to the company. We can expect in our best-performing general agencies to get $12,500,000 of production over a period of thirty years for every new agent inducted. In the average case, the expected volume is $2,500,000 and in the poorest case, $300,000. In other words, the best is five times the average, and the worst is just over one-tenth.

There is a further observation of interest related to both agent survival and production broken down by age groups at entry. Just as for the Mass Mutual, our survival rate for agents in their twenties is not as good as it is for older agents, but it is also interesting to note that, of those younger agents who do survive, improvement continues for a longer period, so that top production levels reach 50–100 per cent higher than the expectancy for agents starting at higher ages. As a group though, combining production level with survival rate, the best expectancy of lifetime production seems to come from agents contracted in their thirties.

FUTURE OF THE SOCIETY

There will be reports on such topics as the American Academy of Actuaries, the Canadian Institute of Actuaries, pension developments, and Society committee activity. Following these reports, there will be a discussion of the future of the Society with reference to its role in providing service to its members and to the public. It is intended that the discussion cover such areas as (*a*) possible revision of the Society's committee structure and assignments, (*b*) possible greater staff assistance to the Society and its committees, (*c*) the relationship of the Society to other North American actuarial bodies, and (*d*) the general structure of Society meetings and content of the *Transactions.*

MR. EDWARD D. BROWN, JR.: As all of you know, the Academy was organized as an unincorporated, nonprofit association last October. All resident Fellows of the four sponsoring organizations who have not declined membership or resigned are automatically members of the Academy. Applications for membership in the Academy have been received from many of the Associates of the four organizations and from a number of applicants with actuarial experience who are not members of one of these organizations. Some of these applications are still being processed, but nearly 500 have been admitted to membership.

The Board of Directors of the Academy last fall decided to continue with the effort to obtain a federal charter but concluded that, if it appeared that a federal charter would not be forthcoming, the Academy would be organized as an Illinois corporation.

The long-awaited hearing on the bills to grant a federal charter to the American Academy of Actuaries was held on the sixteenth of last February before a subcommittee of the House Committee on the Judiciary, chaired by Congressman Byron Rogers of Colorado. Prepared statements were submitted to the committee by three actuaries—Dorrance Bronson, Joseph Linder, and James Hunt. Paul Bailey introduced the scheduled witnesses, and William Groves and John Miller were there to answer some of the committee's questions.

In addition to the actuaries who testified, we were very fortunate to have the able assistance of Professor Dan McGill, research director of the Pension Research Council of Wharton School. As an authority in the field of pensions but not personally concerned with the interests of the actuaries in the legislation under consideration, he outlined very completely but succinctly the history of the growth of private pension plans, the increasingly important role of the actuary, and the public interest in the quality of actuarial services, and was very helpful in answering the many questions of the committee.

James Donovan, our counsel, spoke on behalf of the Academy and also answered many of the questions from the committee.

Nearly all of the Congressmen on the subcommittee were present and showed a keen interest in the proposed legislation. No opposition to the bill was registered, but, after repeated inquiries, the conclusion was reached that there was no possibility of getting immediate action on the bill, the delay in approving the bill being apparently due to doubt about the advisability of Congress' granting federal charters rather than to any objections to our particular organization.

Under the circumstances, the Board of Directors of the Academy decided to incorporate in the state of Illinois. Articles of Incorporation were filed in that state naming the president, president-elect, and the vice-presidents of the Academy as incorporators and the directors of the unincorporated association as the directors of the incorporated Academy.

On April 29, 1966, in Washington, D.C., two board meetings were held. The board of the unincorporated association met and dissolved that association. The board of the Academy as an Illinois corporation held an organization meeting at which bylaws were adopted and officers were elected.

Those who were members in good standing of the unincorporated Academy will continue as members of the Academy as an Illinois corporation. Copies of the new bylaws will be circulated to new members as soon as possible. (It is probable that they will already have been mailed to members by the time this report is given.)

The directors of the Academy are gratified with the support accorded to the Academy by the members of the Society and the other three actuarial organizations, as evidenced by their membership in the Academy, there being now more than 1,500 members.

MR. ANDREW C. WEBSTER repeated the discussion concerning state accreditation which he had presented at the San Francisco and Washington Regional Meetings, reported in *TSA*, XVIII, D7 and D19.

MR. WILLIAM J. LOGIE presented the report on the Canadian Institute of Actuaries previously presented at the Washington Regional Meeting by Richard Humphrys and reported in *TSA*, XVIII, D20.

MR. GILBERT W. FITZHUGH: This subject may appear rather narrow, but nevertheless it pertains to our whole organization, with regard to where we are going. Our Society has a great future, and the more time and attention that we give to it, the greater this future will be.

As a preliminary to our discussion today, I would like to have the secretary read a letter received in connection with this discussion. I remind you that this is merely the opinion of the writer.

[The secretary read a letter from John W. Kroeker, the substance of which was:

> A serious contemplation of our future as a Society demands we establish clearly where we stand today.
>
> Are we, at a time when we are seeking greater public recognition as a profession, quietly reconciling ourselves to the private knowledge that we are not true professionals with great individual responsibility at all but well-paid technicians dedicated to our various employers?
>
> We should work hard to create the fact and appearance that members are equal as individuals and that the Society exists for the members, not the members for the Society.]

I agree with the last sentence, but I think that the writer is wrong in implying that Society members are not individual professionals. However, everyone is entitled to his opinion, so his letter was read to register his.

To return to our discussion—how can the Society be of more help to its members, to the community, and to the country?—would it help to consider revisions of its committee structure and assignments, with possibly greater staff assistance? What about its relationship to other North American actuarial bodies, the general structure of its meetings, and the content of the *Transactions*?

MR. JOHN HANSON: The first paragraph of the Society's booklet, "The Actuarial Profession in the United States and Canada," states that the actuary bears the "major" responsibility for the "soundness" of life and health insurance and pension plans. This statement reveals some fundamental differences in the outlook of insurance and consulting actuaries, which arise because of the different nature of their functions. In my opinion, these differences will have to be taken into account in considering the role of the Society in providing service to its members and to the public in the area of employee pension plans.

In the public mind, the actuarial profession has traditionally been identified closely with the insurance industry, which, in the public interest, has provided security to untold millions of policyholders and beneficiaries. The insurance actuary may very well bear the major responsibility for the soundness of the products of the insurance company, for he is in the position of making executive decisions regarding premium rates to be charged and reserves to be held. In view of this insurance company tradition, it is hardly surprising that many actuaries today, including some consultants, think and talk like executives and pursue "soundness" as an article of faith, although in so doing they often sound more like preachers to me than they do like consulting actuaries. I mean no disrespect when I refer to this as the "executive-preacher" outlook, for this outlook has certainly been a vital ingredient in the past performance of the insurance industry.

However, the question is whether this executive-preacher outlook is appropriate for the consulting pension actuary. My answer to this question is an unequivocal No. The consulting actuary frequently assists employers who wish to develop sound plans. He occasionally assists employers regarding the financing of unsound plans. In neither case does he bear the major responsibility for the actions of the employer that determine whether or not the plan is sound. Although the consulting actuary may suggest and even advocate solutions to problems and is frequently expected to do so, he is essentially no more than an adviser.

The basic conflict between the interests of the stockholders and the employees is evident time after time in practical situations having to do with benefit levels and contribution levels. It is inconsistent to suggest that the consultant has a major responsibility to the beneficiaries and, at the same time, in Guide 12 restrict his freedom to act when a conflict of interest exists. A professional adviser consulting for an employer or union client can wear only one hat.

Service to the public in the pension area means service to the business world, where the view of the actuarial profession differs sharply from the traditional policyholder or insurance-company-employee view of the actuary as an infallible high priest of the ivory tower. I have discussed this question with several clients, and our profession in their eyes is about on a par with our accounting friends. We are quite correctly considered to be advisers only, and our image will improve to the extent that we learn to advise more objectively and precisely, without seeking refuge in such indefinite terms as "actuarially sound" and "sound."

As consultants, we are in the business of helping our clients to become aware of and to evaluate the uncertainties that the insurance actuary relegates to the dividend formula. To quote from a recent speech by Mr. James A. Hamilton before the Western Pension Conference, "One of the important elements that some businessmen seek from their actuaries is uncertainty." What appear to be differences between actuaries are frequently differences in clients' objectives, philosophies, and evaluations of uncertainties. Some leaders of the Society apparently feel that public disagreement of pension actuaries is detrimental to the profession and that something should be done about it. My own view is that frequent disagreement is fated in the nature of things and that whether it is good or bad for our image is wholly irrelevant.

If disagreement is in the nature of things, a set of rules and principles intended to eliminate or reduce such disagreements is a foolish undertaking. In 1965, the Committee To Study Pension Plan Problems suggested in its report that the Board of Governors might, in spite of our Constitution's prohibition against expressions of opinion, distribute committee reports as a "public expression of actuarial opinion." I understand that this committee is now preparing a treatise dealing with the pension actuary's choice of methods and assumptions, a treatise which, as I understand it, would be discussed by the membership at the fall meeting. If this undertaking is approved by the Board of Governors, the board can then perform a valuable service to the members and to the Society by indicating in advance of the discussion the precise purpose of the treatise. Will it be prefaced by a statement that the authors of this treatise are merely expressing their own opinions, or is this treatise intended to be an authoritative work? The nature of the discussion will vary substantially according to its purpose.

An editorial in the June, 1964, issue of the *Journal of Accountancy* reviewed the evolution of the medical, legal, and accounting professions, and perhaps the following paragraph is worth repeating:

> The fact that arguments over fundamental questions arise only after an art, a science, a body of knowledge or a profession has achieved public acceptance is not surprising; it is inevitable. Until a position of some respect and eminence is attained, what is there really to argue about, except as an intellectual exercise? When the resolution of the argument is likely to have a significant effect on a very considerable number of people, the argument gets serious.

Any significant "guides" for pension actuaries would have definite impact on the economic interests of employers and many other nonactuaries, and their views would certainly be expressed forcefully. I agree with the comments of Mr. Daskais regarding the need for an amendment to our Constitution if the Society is to attempt to promote uniformity or a narrowing of differences by working through special committees.

I am not clear in my own mind that there is actually a problem to be solved. The traditional image of the infallible high priest in his ivory tower may in fact be damaged by some developments in the pension business that reveal us as fallible mortals. Although this may seem unfortunate and distasteful to those with the executive-preacher outlook, it is my conviction that this development is an unavoidable growing pain of the actuarial profession.

And there is another side to this coin. Consulting actuaries cannot expect all actuaries to act at all times in the manner of an objective consultant, for insurance company actuaries often function, quite properly, as sellers of products or as negotiators for their employers. Let me conclude with an example. When I asked an employer his view of the actuarial profession recently, he said, "Do you remember the insurance man who discussed a revision in our individual policy pension program several years ago? Was he an actuary?" I answered, "Yes, he is an actuary." Although the actuary had performed a legitimate function in a highly professional manner, this employer could remember only that the actuary in question placed the interests of his insurance company before those of the employer. There is considerable discussion in the literature about the dangers to our profession of actuaries affiliating with accountants. Since such actuaries are subject to two codes of professional conduct and are generally compensated on a fee basis for work accomplished, I personally feel that a more important problem, at least with respect to receiving recognition as a profession in the business world, is created by the nature of the function of many actuaries who are salaried employees of insurance companies. If I were to be in the conversation again, and the same question were put to me, I would answer by saying, "Yes, he is an actuary, *but* he works for an insurance company."

MR. RICHARD DASKAIS: It has been suggested that some Society committees should have authority to speak for the Society on subjects lending themselves to varying opinions. Amendment of Article II of our Constitution seems necessary to permit this type of authority. I do not believe that we should amend or permit committees to speak for the Society. Uniformity of actuaries' views on these subjects is neither possible nor desirable.

We have heavy exposure in our work to formal, funded, privately provided programs of death, disability, medical, and retirement benefits. Our discussions, as published in the *Transactions*, indicate that we have not been prone to recognize that our interests may conflict with those of the public. Hopefully, this does not interfere with our faithful discharge of our professional responsibilities to our clients or employers.

The actuary should act as expert adviser to his clients or employer; his interests and beliefs as an individual may be different from those of his clients or employer. Should an actuary on a committee express his own views, those of his employer, or those of his clients? (Which clients?) Most companies are capable of expressing their own views with technical assistance from their actuaries, if the actuaries do not pre-empt the field by turning what are essentially social and economic questions into actuarial questions. When the Society or one of its committees expresses an opinion on a subject with technical aspects, it speaks as an expert, and its opinions may carry more weight than contrary opinions of non-actuaries.

Perhaps we consulting actuaries have more difficulty than insurance company actuaries. Insurance company actuaries seem to have been very fortunate in matching themselves with their employers. The *Transactions* indicate that they rarely disagree with their employers on controversial matters, such as equity annuities. They even change their minds about the same time that their employers change their policies.

If committees are to have more authority to act for the Society, we need to reconsider the operation of the Society. Entirely different election procedures might be called for. Most members have no personal knowledge of the views of members nominated as officers or to the board. We limit the franchise of our Fellows by requiring attendance at the Annual Meeting. Many choose not to attend. As long as the Society's functions are limited to those of a scientific organization, the need for adequate representation of all members is not great, but, if it is to become an advocate, we may need different operating procedures.

I do not believe that the Society committees as they presently operate can possibly reflect or even consider the views of all of the members of the Society. Society committees do not report to members any specifics regarding questions that they may be working on or discussing. If a Society member happens to be in the same office as a committee member or otherwise close to a committee member, he may have some indication; otherwise he does not. An actuary in a large insurance company or in a large consulting firm will have a much greater opportunity to learn of committee work and to influence committees than an actuary in a small insurance company or small firm.

Perhaps those in favor of committees expressing views feel the actuarial aspects are ignored by groups taking positions on public issues. If so, what is needed is a more effective public relations program to make the public aware of the areas in which actuaries are uniquely qualified.

As for the requests received by the Society for actuaries to assist other groups, we do not need committees to organize our views. We should promote individual intellectual inquiry. We should encourage actuaries to write papers and participate in discussions. Outside groups could be referred to the *Transactions* for actuaries' views and for the names of members interested in particular subjects.

MR. WILLIAM A. HALVORSON: The future of the Society and our profession is directly related to several factors. First, we have a great way to go in the area of promoting our concept and understanding of what is professionalism. Another factor important to our profession's future is improving our tools and skills in providing security of income and continuance of income to the public. Still another is keeping our membership standards and our requirements high while always expanding the scope of these requirements. Finally, we must find some way to tell the public in a believable fashion what our profession is doing to better serve their needs.

My specific suggestion today has to do with improving our tools. In my association with the Group Morbidity Committee, I have noticed that there is a vast job of research activity going on, and much more is needed, as I am sure is true also with other Society mortality and morbidity committees. Unfortunately, this burden now falls on a few companies and a few people, and usually these people are among the busiest of our actuaries. Sometimes they are the keystone of their companies' operations.

It seems essential that the Society find a source of money, either through increased dues, or voluntary contributions, to help finance and promote specific areas of research. Talented people should be made available somehow, through some financing arrangement, to work on problems or projects approved by the research committee. Suggestions could come from individual members of the Society or the Society's other committees on morbidity and mortality. In this day of quickly changing patterns and forms of protection, research activities should be leading, and not following behind, as they now do in most Society research activities.

MR. FITZHUGH: Of course, we are very interested in how the Society can finance and do research. Do we have adequate staffing, adequate office space?

What about the meetings themselves? I have had the impression for some time that they are dull and that the most interesting parts have been outside the meeting rooms, or in the aisles, or elsewhere. Can we make the formal meetings more interesting?

MR. PAUL A. CAMPBELL: I think that I share Mr. Fitzhugh's idea that sometimes these meetings can be rather dull.

Should we not recognize a couple of hypotheses? First, we are increasingly becoming specialists, and each of us is interested in current developments which apply to him. Perhaps we could be concerned in these regional meetings with current developments that are pertinent and applicable to all of us. For example, a lawyer could give some recent legislative developments, even ideas that are being proposed. Somebody might discuss congressional activity in the area of pensions.

Regarding the discussion of topics of current interest, could the registration forms provide space for members to indicate topics that they wish to have discussed? Then if any topic is more or less a unanimous choice, it could be discussed at a general session; otherwise, it could be effectively used as a study-group topic. Perhaps we could cut down these general meetings to one session and have the second morning devoted to study groups where we would go to sessions that really interest us.

In relation to the presentation of papers, we have an implicit deadline wherein the discussions on a paper must be completed by the next meeting. Perhaps we could extend the deadline to a year or so after presentation for formal written discussions but, at the same time, hear oral summaries at any of the subsequent meetings within that year. We would probably derive more from these summaries if they were presented as ideas rather than read.

Finally, the social nature of these regionals *is* important, so we could post, before the meeting, a list of all members attending, together with an indication as to whether or not their wives are with them.

MR. G. DAVID SODERQUIST: All of those in attendance at Society meetings should feel one way or another about the subjects being discussed. If we do not, we have no business being here. We have the responsibility of sharing our experiences appropriate to the subject, and we have the opportunity to ask questions.

This sort of participation by everybody might ruin the meetings in relation to time, but this is not our primary concern. We are here because we decided, at the moment of becoming actuaries, to accept a responsibility—to society, to our company or firm, to the company's policyholders, to the public in general, and to ourselves. This is part of our continuing informal education, and we are here to learn.

Speaking to and for the younger members, may I say that we are here to participate. If we are not here to participate but simply to learn, then we can read the published *Transactions* and there is no necessity for our attendance. We have a responsibility, therefore, to the Society to participate in these meetings. If you have something to say, get up and say it and hang the time. We may have to adjust the schedules, but I for one would not mind.