

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1967 VOL. 19 PT. 2 NO. 53 AB**

REPORTS ON WORKSHOPS

**I. METHODS OF COMPUTING "NET COST" FOR
ORDINARY LIFE INSURANCE**

New York Regional Meeting

MR. RICHARD W. PULLEY: This report represents the joint effort of W. Glenn McCormick and Lynd T. Blatchford, moderator and recorder, respectively, of Workshop IA, and Robert L. Lindsay and myself, recorder and moderator, respectively, of Workshop IB.

The subject of the workshops was "Ordinary Life Insurance Net Cost Displays," and attendance was restricted primarily to Members of the Society for periods of twelve years or less. There were a few persons in each workshop who did not meet this criterion, but their attendance and participation were welcomed and appreciated. Each attendee was urged to read the article by Messrs. E. J. Moorhead and Joseph M. Belth entitled "A Practical Improvement on the Traditional Method of Comparing Net Costs of Participating Life Insurance Policies." In addition, each participant was given, several days in advance, a list of questions which were to serve as a guide for the discussion.

A brief synopsis of the workshop discussion would include the following:

1. There seemed to be rather unanimous agreement that traditional net cost displays (i.e., total premiums less dividends less cash value at end of period divided by the number of years in the period) are deficient in a number of ways, as alluded to in the article by Moorhead and Belth. However, there was no general agreement on a substitute approach to be used. Most felt that the type of illustration to be used should depend on (1) whether there was competition involved in the sale and (2) the degree of sophistication of the client.

2. Net cost "comparisons" are used only when there is competition involved in the sale. This represents but a small fraction of all cases. More often, ledger-type illustrations are presented to a prospective policyholder merely to give him a better understanding of the product that he is buying and its yearly out-of-pocket cost.

3. Net costs by themselves may not be too meaningful to most purchasers of insurance since they generally look at monetary transactions on a cash basis. For instance, when buying and selling a car, the excess of purchase price over resale value is assumed to be the cost of the car, and no account is usually taken of the loss of interest on the original purchase price.

4. Most companies tend to discourage yearly dividend illustrations beyond the twentieth year, although they suggest showing results also at ages 55, 60,

65, and so on. Current scale dividends are generally not illustrated on existing business, except on replacement cases.

Probably more important to this body is the reaction of the participants to the workshop approach. A summary to that effect is as follows.

1. A very favorable reaction was received from the participants. A poll taken in one of the workshops showed that twenty-four rated it outstanding and two rated it excellent. In the other workshop, comments elicited from the participants were highly complimentary. One member, who had attended numerous Society meetings, stated that this was the most interesting and enlightening session that he had ever attended.

2. Most persons felt that they had greater freedom to speak than is available at larger meetings and that this format gave everyone a chance to participate and to exchange ideas and information. All except two persons in one workshop and four in the other participated rather actively.

3. From the moderator's point of view, twenty-five participants are about the maximum span of control. Any larger group would tend toward the former style of meeting and discourage participation. Actually, the subject matter should probably determine the size of the group. Advance preparation, though, is very important to a successful workshop.

4. Limiting workshop attendance to persons with no more than twelve years of membership was an excellent idea, as it gave the younger Members an opportunity to be heard. However, most agreed that a few senior actuaries, who are well versed in the subject matter, should be invited to these sessions to give the group the value of their experience. In addition, this would give the younger Members a chance to meet and to talk with our distinguished actuaries on an informal basis.

5. A great deal of value might also be derived from conducting similar workshops with no experience limitations. However, these sessions should also be limited in size.

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MR. ROBERT S. FILLINGHAM: We can report that the participants are unanimously in favor of continuing the workshops. We had complete and enthusiastic participation by all those present. The workshops do help younger Members to become better acquainted. They permit more detailed consideration of a topic and, by being informal, lend themselves better to free expression and elicit a broader range of opinion.

Some suggestions for modification to improve the workshops were made by participants. The limitation to younger Society Members was questioned. Several participants with more than twelve years of Society membership contributed valuably to our discussion. Participants should be furnished with a list of those registered in the workshop. Finally,

smaller groups should be used or the seating arrangement should be altered so that participants can see and hear one another better.

Now, to outline briefly the gist of what we talked about, let me say first that we did not come to any conclusions. We began our discussion with the net cost comparison methods that companies are presently using, both for internal use in determining competitive position and external use in agent-sales evaluations. We discussed refinements in the traditional methods which would take account of interest and survivorship and the impact of such refinements on sales presentations. We also discussed difficulties that would be encountered through the use of methods other than the traditional methods. The ideas of Professor Joseph Belth on the concept of more detailed disclosure of insurance cost elements, as expressed in his book *The Retail Price Structure in American Life Insurance*, were discussed.

II. LIFE AND HEALTH INSURANCE PLANS FOR GROUPS
WITH GENERALLY FEWER THAN TWENTY-FIVE
LIVES—PLAN DESIGN, SALES VOLUME, UNDER-
WRITING, AND CLAIM EXPERIENCE

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MR. DANIEL J. McCARTHY, JR.: My report will concern primarily the reactions to the workshops and suggestions on how they could be improved. There is very general enthusiasm for the whole concept of the workshops. In each group at least 75 per cent of the members participated actively in the discussions. Such participation would be impractical in groups of larger size. We agree that twenty-five members is the practical maximum. The concept of limiting the workshops to junior Members of the Society is worthwhile and ought to be continued. The participants are much more at ease with people of their own age and experience. In contrast to other discussions of the Society, it was not necessary at the workshops to stick to an agenda. There were no set speeches, and items that were not of interest to the group could be passed over.

All of us felt that the workshops are an excellent means of providing continuing education. We suggest that it be emphasized that the workshops are an opportunity to learn a little more about a topic, so a member need not feel that he is an expert in order to participate.

Mechanical considerations are very important to the success of a workshop. The room should not be so large that voices get lost. The tables should be set up so that everyone can see everyone else. There should be a name card for everybody.

As for the specifics of our discussion of small groups, it became apparent that there is a split in this area between companies that treat such small groups as a separate and distinct animal and other companies that regard them as groups which happen to be small. By and large, the large companies, selling a standard product, fell into the first category and smaller companies into the second. Most of the things which companies do in their small-group area depend on this very basic decision.

We had a lot of fun talking about the blending of theoretical risk problems and business problems as they affect small groups. The basic adjustment of a company, the kind of market at which it was aiming, and the way in which it regarded small groups were key clues to what the company's practice would be on any particular question.

In closing, I would like to say that the Society is a good deal larger now

than it was a good many years ago and many of us who have become Members have felt that we do not have the contact with other Members that undoubtedly existed some years ago when the Society was smaller. The workshops help to overcome this hurdle by bringing Members of the Society into more direct contact with one another. Those of us who participated in the workshops had a wonderful time and enjoyed them very much. By all means have more of them—very definitely, have more of them.

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MR. CHARLES E. ROHM: We had a unanimously enthusiastic reaction from all thirteen participants in our workshop. As evidence of this, there was 100 per cent participation in the discussion by those attending. Even the three or four individuals representing companies not currently in the small-group business helped out by asking questions that contributed to the discussion. We felt that, with more members in the workshop, we might have had a broader base of discussion but probably a smaller percentage actually participating.

Everyone felt that the workshops are superior to the panel discussions. One big advantage is that the workshop facilitates the buttonholing process by bringing together in the same room people interested in the same fairly narrow topic. It enables these people to ask questions of each other and to hear the questions of others.

There was some feeling that there ought to be topics of a more current and controversial nature, involving subjects with which those attending are currently struggling. If topics of this type were suggested, more experts would be attracted into the workshop. The topic should be narrowly defined to facilitate the buttonholing process.

A wider variety of workshop topics should be offered, and the number of workshops should be pegged to those signing up rather than vice versa. A brief outline of the topic should be published well ahead of time, so that those attending have a better opportunity to prepare.

Regarding the selection of the participants, there are two strong recommendations: (1) there should be no more than one man from a given company in a workshop and (2) there should be no age limit. The workshops will be more successful if they bring together all interested actuaries rather than just the interested younger actuaries.

With regard to mechanics, it would be better to have the tables in a circle or a hollow square with name cards in front of each individual.

Let me again repeat that our participants were very enthusiastic about the workshop idea, and we would certainly like to see it carried forward in the future.

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**DIGEST OF DISCUSSION OF PROPOSED
CONSTITUTIONAL AMENDMENT**

New York Regional Meeting

PRESIDENT HAROLD R. LAWSON: The background of this topic is pretty well set out in the statement which Walter Klem made to our meeting last fall on behalf of the Committee on the Future Course of the Society. The names of the members of this Committee are listed in the *Year Book*. The appointment of the Committee and the reasons for it were announced at a meeting exactly a year ago by our then President, Gil Fitzhugh.

One of the subjects that came up for discussion at the spring meetings a year ago was the public expression of opinion by the Society. Ever since our original Constitution was adopted, there has been a prohibition against resolutions expressive of opinion. However, under today's conditions, there are occasions when some people would like to have an expression of opinion by the actuaries of the country. The statement by the Committee on the Future Course of the Society was circulated with the notice of this meeting and, since that report was prepared, the Committee, in collaboration with a smaller drafting committee, has come up with a specific resolution, in the form of an amendment to our Constitution, which it proposes be put to a vote at a later time.

I want to make it perfectly clear that the Board is trying to reflect the majority opinion of the Society. At this point we are not too sure how the Members feel on the subject. There are many pros and cons; we are perfectly well aware of that, so we want to provide ample opportunity for discussion. I hope that part of the discussion will reflect what some of us sense to be the need for this type of change in our Constitution.

I am going to read the proposed amendment so that we have it clearly in our minds, after which the whole question will be open for discussion.

This would be Article VII of the Constitution, if it is passed, and it would read this way:

No opinion with respect to questions of public interest shall be publicly expressed by, or on behalf of, the Society of Actuaries, the Board of Governors, or any committee except on matters within the special professional competence of actuaries and then only in accordance with authority given and procedures determined in each instance by the Board of Governors and the following conditions:

1. An opinion of the Society shall require advance approval by an affirmative vote of at least two-thirds of the Fellows who vote in a mail ballot.
2. An opinion of the Board of Governors or a committee authorized by the Board to express an opinion shall indicate that it does not purport to represent the views of the Society of Actuaries but only of the Board or the committee, as the case may be.

Article II of the Constitution would be amended by deleting the last sentence, and the present Articles VII and following would be renumbered.

MR. JOHN HANSON: There are two aspects of this problem that appear to me to be quite clear.

First, it seems evident that expressions of opinion would be in regard to matters that are not strictly speaking actuarial—proposed legislation, for example, or, as Mr. Klem puts it, “the issues of our time.” These will be issues which have far-reaching social and political ramifications. In short, Society opinions will be regarding matters about which reasonable persons may very well disagree.

Second, if the Board of Governors, or a committee on behalf of the Board, gives a unanimous opinion on such matters, it seems obvious that such an expression of opinion will be clothed with all the prestige of the Society; so this means, to me, that the Society’s prestige and reputation will be at risk, so to speak—to be enhanced if the Society’s view prevails, to be damaged if the Society’s view is rebuffed.

The report of Mr. Klem’s Committee notes that the Society hears with increasing frequency the question, “What do actuaries think of this or that proposal?” It is the Committee’s view that the Society has a public duty to respond. With this I certainly agree. Since there are many differences among actuaries, one response would be simply to state the truth—that actuaries are divided. Such a response might also include the principal viewpoints of the membership as given at Society meetings or as solicited from the membership for the purpose at hand.

On this basis, which obviously would not require a constitutional amendment, the Board and its committees would do their very best to represent and express the opinions of the membership.

However, this approach is not mentioned, and the Committee jumps from its conclusion that there is a duty to respond to its recommendation that, in responding, the Society advocate one professional viewpoint. This is suggested with the following words in the Committee report:

We consider that it was more reasonable to expect an increasing measure of public and legal recognition for the profession if, as a profession, we had a mechanism for expressing our views on questions of major public interest within our special fields of competence.

This statement, that the mechanism would be for expressing "our views," reveals an interesting choice of words, since it is clear that "our views" are diverse. An opinion approved by two-thirds of the Fellows is unlikely, and the mechanism proposed is clearly intended to express the views of the Board or of a committee appointed by the Board.

Even if these views should happen to accord with the views of a majority of the membership, I am not certain that an official expression of such views would be wise. You will recall the Warters and Rae paper in 1959 regarding the risky nature of investing pension funds in common stocks. I suggest that it might well have been possible in the late fifties that our view, as established under a procedure similar to that recommended by the Committee, might very well have been that investment of pension funds in common stocks was very bad.

I also suggest that this question may have been considered a matter of vital and fundamental importance at that time and therefore, according to the suggestion of Mr. Klem, a matter with respect to which the Board, in all sincerity, could have been expected to take a position.

The insurance industry has made what I considered to be a remarkable competitive comeback in the pension fund area, and an official expression of the views then widely held would have been just another obstacle to this recovery.

The sole reason given by the Committee for becoming advocates of one viewpoint is the statement quoted above, that it is "reasonable to expect an increasing measure of public and legal recognition" if we become advocates of one view.

Although the Committee report is five pages long, this sole reason is not discussed or defended, and, in my opinion, its validity is questionable. Increased recognition might be a valid expectation if there were one common actuarial viewpoint. Since it is common knowledge that there is not a single view, the result would be considerable disagreement in public among actuaries. Certainly it would be unreasonable to expect those sincerely holding views contrary to the Society's views to always remain silent. Public disagreement among actuaries will probably not bring the type of public recognition that the Committee has in mind, and we should consider whether this would be good for the prestige of the Society and good for the actuarial profession.

Certainly actuaries would not benefit if the Society were to take positions on a number of issues and be rebuffed on each.

Because these opinions will not be regarding matters that are strictly actuarial, acceptance of the views of the Society, I believe, will depend as much on the force and the logic of our views as on the reputations of

the actuaries who present the views, and I should imagine rebuffs will be possible if the Board or a committee appointed by the Board should do as Mr. Klem's Committee has done—issue a five-page report advocating a particular course of action without supporting, examining, or even discussing in the report the sole reason for advocating that course of action.

MR. DAVID LANGER: Today's discussion sounds very much as if it is being held in a vacuum, largely because there has been almost no relating of it to concrete realities. I feel that this is due in part to the absence in the Committee's report—which is otherwise excellent—of any specifics.

When the Committee was deliberating, it must have had definite vital public events in mind, both past and current. Could Mr. Klem or another member of the Committee give us examples of such instances over the past thirty-five years? In each case it would be useful to know what the Society's position might have been, or might be. Of special interest, perhaps, are the Social Security Act of 1935 and Medicare, since these were both opposed by the insurance industry.

I think that only by using such a concrete approach can we make our meeting here truly meaningful and dispel the uneasiness which the proposed amendment has aroused.

MR. SCHUYLER W. TOMPSON, JR.: I feel that we are in a free-enterprise system in which the importance of the individual is paramount and that it is the duty of public-spirited actuaries to step up and give their opinions as individuals.

I also think it is important that, when people stand up and give opinions, they are actually operating as recognized authorities, or they are putting themselves up as recognized authorities, and they should be speaking on subjects with which they are very familiar and thoroughly conversant.

I am afraid that this amendment could very well have a disruptive influence on the Society.

MR. WALLACE R. JOYCE: I believe that the Society should speak out and express an opinion on matters of public interest even if it might subsequently be proved wrong rather than keep silent for fear that the opinion might subsequently be proved inappropriate or mistaken. Mr. Winston Churchill is a very good example of a person who operated on this principle.

I realize the difficulties of writing into the Constitution an article of this nature. However, there does seem to be a degree of ambiguity in the

wording of this resolution in at least two respects. One is the phrase "publicly expressed"; at what stage does an expression become "public"?

The second area in which boundaries are not precise is that of "matters of special professional competence of actuaries." Our discussion at the Canadian Institute of Actuaries arose in connection with expressions of opinion on matters of social security, particularly the Canada Pension Plan. In such matters as pensions and social security there are specific areas directly within the professional competence of actuaries, but our opinion concerning such benefits properly extends far beyond the area of specific actuarial content.

I do not really see a solution to this problem except to leave it, as the resolution does, to "authority given and procedures determined in each instance by the Board of Governors."

MR. EDWIN B. LANCASTER: I am a member of the Board, and I voted in favor of putting this up for discussion by the Members of the Society.

This amendment to our Constitution represents a departure from the long tradition of the past. I believe, however (as Wally suggested and indicated), that we must on some occasions get up and speak out. I think that basically it boils down to the question of the membership of the Society putting its confidence in the Board of Governors. The constitutional amendment rather specifically states that the Board shall in every instance set forth these procedures.

The Society has put on its Board a group of people in various walks of life in the actuarial profession, with different interests. It seems to me that that body, with its broad views, will be depended upon to operate with competence in a manner which will be a credit to the Society.

I think that this is a very close question, and I had a very great struggle with myself as I thought about it. I voted in favor of presenting it to the membership, and I believe that this amendment deserves the careful and thoughtful consideration of all Society Members.

MR. JOHN H. MILLER: There are two subjects which are becoming increasingly important and with which more and more people are showing concern. One is the social security system and the other is the system of private employee benefits. We are finding that government, in one way or another, is seeking informed professional opinion concerning both systems.

Another trend that I feel has been developing very rapidly is a general acceptance in this area of both public and private participation. Until

fairly recently this was not so true. There were two very definitely opposed schools of thought. One was that everything should be private enterprise, and the other was that government could handle these things best. I think that we are approaching some kind of balance in the thinking, and while there will always be special interests and a great deal of emotionalism in this debate, I believe that there is growing recognition that there are basic technical, economic, and social considerations which can be discussed and studied and analyzed with some objectivity. Certainly actuaries are among the specialists who should share in this objective analysis.

It is in this area, I believe, that the proposal assumes its greatest significance. There may be many other areas, but this is one that seems to be very much with us today, and we can see its continued and perhaps increasing importance in the future.

MR. DONALD R. ANDERSON: Lest it be thought that the Canadians were all in favor of this proposed amendment after having heard from Mr. Joyce, I thought that I would make one or two remarks.

First of all, I really felt myself completely in accordance with the views that John Hanson expressed in leading off this discussion. I wanted to add one other point, one which I made when this was discussed before the Canadian Institute of Actuaries and which possibly had some bearing upon the thoughts of the members at that time.

The danger is that, when an organization of this sort expresses an opinion through a committee and this expression of opinion bears the vote of the majority (even a two-thirds majority), there may be embarrassment of minorities. In any democratic organization, when it comes to an election, minorities have to respect majorities, generally speaking; but in a question of this sort the danger is that the particular minority that could be most embarrassed by the nature of any given opinion is a minority because of peculiarities of the practice of our profession. The majority of us are with life insurance companies; there are minorities in consulting work and government work, and it is not likely ever to be otherwise. The fact that the Society had expressed a view that was extremely embarrassing to him could place a public servant in a position where the government might say to him, "Well, how is it that you are a member of an association that has taken a view directly opposed to this government?"

A similar situation exists for consultants. You might think that all consultants think alike, but I think that they are a very diverse bunch of people. You might get one or two consultants on the committee who

would go along with a proposal which might be quite contrary to the views of other consultants.

The real danger in this sort of thing is that fools will rush in where angels fear to tread. In other words, you will get an expression of opinion, and, although the people who expressed it do believe in it, there are people with a great deal of knowledge on the subject in question who believe that it is not a particularly sound thing to say this at this time or in that particular way.

I agree with Mr. Joyce that we should speak up, but I believe that we should speak as individuals; that is, of course, what Mr. Winston Churchill did. When he was a member of Parliament, he spoke as an individual and as a politician. I am certainly in favor of that, but, when we purport to speak for our Members, it is a difficult thing.

I would hesitate to serve on a committee that was supposed to draft an expression of opinion, because, once it was written down, I would ask myself, "Yes, but do I know whether this expresses their views? They may not have said anything, but maybe they disagree with what I am going to do." I would like to know whether it does express everyone's views. How do you learn this? I don't know. So, I am extremely uneasy about this amendment.

MR. GEORGE H. DAVIS: The proposed amendment permits the giving of expressions of opinion only within the area of the special professional competence of the actuary.

It seems to me that that expression needs to be interpreted somewhat narrowly, and I am confident that it will be so interpreted by the Board of Governors.

Mr. Hanson brought up as a possible example a question debated several years ago, whether pension funds should be invested in common stocks. It seems to me that that is a broader kind of question, one more within the field of economics, and I would think that questions of that sort are outside the special professional competence of actuaries.

MR. HOWARD H. HENNINGTON: I participated on the Committee To Study Pension Accounting, and I would like to respond to Mr. Langer's point by giving an example. It seems to me that we would have benefited by a procedure whereby our Committee To Study Pension Accounting could have responded as a committee with more backing to the American Institute of Certified Public Accountants and the Accounting Principles Board, which were concerned with this subject.

There is a certain conflict of subject which is present in this issue. The accountants have certain responsibilities in connection with pension

accounting, and the actuary has certain responsibilities. One of the many examples has to do with the reasonableness of actuarial assumptions. The accountants feel that the assumptions must be reasonable from their viewpoint or they cannot unqualifiedly certify to the accounting statement of the employer in question.

The Actuarial Committee had some consultation with the Board of Governors, but there was no procedure whereby the Board of Governors could tell us to speak as a committee, there was no procedure by means of which we could in any official way canvass the membership of the Society of Actuaries, and when we spoke to the accountants we could speak only as individuals. To be sure, we represented ourselves as individuals who had studied this problem, but it was only in that capacity.

It seems to me that our effectiveness was limited. I am sure that our efforts would have been more effective if we had had some mechanism by means of which we could speak as a committee.

The great concern is that the minority gets excluded by one of these representations. I share this concern. My feeling is that there ought to be some mechanism whereby the opinion expressed is one that is carefully concerned with the minority. I do not see anything in this whole procedure that would limit the opinion to just a single opinion. It could be stated with its nuances, with its degrees of importance, with the counter-opinion, and with some feeling for the sense of how the weight of opinion is measured and some feeling for the degree to which counteropinions are held.

MR. MICHAEL BERKOWITZ: I agree with what Mr. Hennington has just said, and his remarks clearly indicate that our current Constitution has a definite need for improvement.

The proposal, which would be Article VII, refers to "the special professional competence of actuaries." We are not, however, recognized as a profession, and we do not have any specific guidelines for defining a competent actuary. Therefore, I do not think that the proposed Article VII, with its imprecise wording, should be passed.

MR. WILMER A. JENKINS: On the general purpose of this amendment to the Constitution, I am one of those in favor of it. I think that expressions of opinion on matters of actuarial competence had best come from the Society. If they do not come from the Society, they will come from some other organization which is less competent.

I would like to point out one or two rather technical matters. My understanding of the Constitution is a little different from that of Howard

Hennington. The present provision of the Constitution prohibits only expressions of opinion at a meeting of the Society. It has been my understanding for years that there is no prohibition in the Constitution against expressions of opinion by a committee or by the Board on any subject and under any procedure, though they may have refrained from doing so for other reasons. I am not a lawyer, but that is the way in which I have been reading the Constitution. If that is correct, this amendment to the Constitution restricts the right of committees and the Board to express opinions so as to be subject to certain procedures, a step which seems to me very appropriate.

As to expressions of opinion by the Society itself, the main point of the amendment refers to matters of public interest, and it seems to me that the procedures and conditions set out here are eminently appropriate.

I am a little puzzled by one thing, however, and I would like to refer this to the Committee. At the present time the Constitution prohibits opinions on any and all subjects. This amendment repeals that prohibition and merely prohibits opinions on matters of public interest, except under certain conditions. As I read it, the amendment removes all conditions on expressions of opinion on matters *not* of public interest, matters which were uppermost in the minds of the founding fathers of the old Society. Times have changed, of course, but I can imagine matters of private interest that might arise even today. It seems to me, therefore, that the wording of the amendment needs changing. The intention certainly is not to say, for example, that the Society, by a vote of 10 per cent, can express an opinion on a matter *not* of public interest or that a committee can express an opinion on a matter *not* of public interest without reference to the Board and free of all conditions and restrictions.

MR. HANSON: I would like to comment on Mr. Jenkins' remark that committees now have authority to express opinions. I think that the spirit of the Constitution is such that committees should not express opinions, and I believe it is as simple as that.

I am also intrigued with Mr. Jenkins' reference to expressing opinions on matters of actuarial competence. Two or three years ago, in a report of the Committee To Study Pension Plan Problems, that committee also suggested that opinions should be given with respect to matters of actuarial competence. Mr. Klem's report refers variously to opinions regarding matters of actuarial competence and matters of public interest involving actuarial principles. The proposed amendment refers to matters of "special professional competence," and I would like to hear those who drafted the amendment explain why these matters should not neces-

sarily involve actuarial principles. I think it is probably because there really is not anything that is strictly a matter of actuarial competence that anybody wants to talk about.

Mr. Hennington may have raised a red herring or two. I believe that it is possible at this time for committees to solicit the views of Members and then try to represent the views of the membership, so there is no need for an amendment for that purpose. Mr. Hennington also said that there was no "official way" in which the Committee To Study Pension Accounting could canvass the membership of the Society; however, three or four years ago, when this committee made one of its first reports, it did in fact distribute the report to and request comments from members of the actuarial profession and, I believe, even from persons outside the profession. I do not think that this problem has anything to do with the proposed amendment.

MR. IRWIN T. VANDERHOOF: There are three points that I would like to deal with in this discussion.

First, a number of expressions have been made as to the confidence which is properly placed in our present Board of Directors. I am in hearty agreement with that. However, it is possible that at some date in the future the Board of Directors might not possibly be as good as it is now. This must be considered in passing such an amendment to the Constitution.

A second point is that this amendment seems to me rather general in form. For instance, it seems that it would be possible for the Board of Directors to set up a committee to give the opinion of the Actuarial Society about the use of birth-control pills, because, after all, demography is a proper actuarial concern and therefore it is within our area of special competence whether or not this medication should be used.

The third point is that I am not at all sure that this amendment is necessary. We do have a mechanism now which should be adequate even in confronting the C.P.A.'s.

As the amendment to the Constitution stands, the recommendations of a committee or the passage of a resolution by Members of the Society is not binding on the Members of the Society. It is possible for a committee to say that a procedure is wrong and yet for Members of the Society to follow it. However, we have, I believe, a code of ethics which states that actuaries shall practice in accordance with the procedures indicated in the *Study Notes*. The *Study Notes* therefore constitute a clear-cut basis as to what the position of the actuary is on all matters that I would think of as being of specific professional interest.

MR. CLAUDE GARCIA: Although I think that actuaries as a professional body should express their views collectively on pertinent legislation, I am opposed to this amendment for two reasons. First, I believe that the Committee bases its argumentation upon the fact that actuaries form a profession. I agree with this. I do not, however, believe that the Members of the Society are the only professional actuaries—what about the Conference of Actuaries in Public Practice, and Casualty Actuarial Society, and so forth? Therefore, I believe that any collective expression of opinion should come from the Academy of Actuaries, not the Society.

My second reason for opposing this amendment is that, unlike the Institute of Actuaries or, for that matter, a national business organization, the Society, through its Education Committee, has assumed the task of training the actuarial manpower of two different countries—Canada and the United States. The Institute of Actuaries' training and membership are restricted mainly to the British context. We should not forget that probably 25 per cent of the Fellows of the Society are working in Canada. Any collective expression of opinion by the Society would not directly concern a large proportion of the membership. I believe that the appropriate bodies for such collective expression of opinion are the Academy of Actuaries and the Canadian Institute of Actuaries.

MR. RICHARD B. SIEBEN: A prior speaker used the example of the possibility of the Society's giving an opinion on whether to recommend the use of birth-control pills because of our competence in the area of demography. I happen to think that there might be an advantage to this group's having a lively discussion on whatever the topic is, whether that is the example or not.

I think that the presentation of important issues affecting us before a meeting in the form of referendums for an opinion, or resolutions for an opinion, would enhance the meaningfulness of the debates of the Society much more than discussing subjects knowing that the final result of the discussion will have no teeth.

The second point is that I am impressed with the fact that the older, more experienced Members seem, in general, those who are in favor of the opinion. I think that this is out of frustration, possibly, with their inability to comment publicly over the last thirty years on many of the very germane issues that we might have wanted to talk about, particularly in the areas of federal regulation. I think that these issues, if anything, in the future might even be more current and that our desire to speak on them might possibly be even greater. We need this tool, so that it does not take

us a year and a half to pass an amendment (at some future date) in order to comment on something after it has already happened.

Finally, I believe that there is concern among the individual Members with regard to what this will mean six or ten years from now, when the current Board changes and the types of meetings that we hold change, and so on. I might suggest to the Committee a technique that has been tried in several states recently. The state of Illinois has a proposal for the five-year tryout period on the abolishment of capital punishment. The Society could express an expiry date of five years hence, at which time the amendment would automatically expire. This might remove many of the doubts of some of the people in this room.

MR. NORMAN E. HILL: As the amendment is currently stated, I do not believe that it includes adequate protection for the rights of the minority. The potential one-third of the Fellowship Members who do not subscribe to an opinion of the Society should still be allowed to express opinions "with respect to questions of public interest." In such cases, these should be expressed only within the special professional competence of actuaries. Moreover, these opinions must not be implied to be on behalf of the Society of Actuaries, the Board of Governors, or any committee. Of course, these professional opinions of individual Society Members would still be subject to general provisions of the code of ethics.

Therefore, I feel that the proposed amendment should include additional language of the type mentioned above. As long as individual Members do not purport to be speaking for the Society as a whole, it should be made explicit that they may disagree with the majority.

This opinion of the proposed amendment is my own and not necessarily that of other Society Members in my firm.

New Orleans Regional Meeting

MR. EDWIN B. LANCASTER: I would like to refer briefly to a few of the points that were made in Mr. Klem's report and then to cite instances in which the Society's committees would have liked more freedom in the matter of expression of opinion.

Since the very founding of the Actuarial Society of America in 1889, there has been a constitutional provision that no resolution expressive of opinion shall be entertained at any Society meeting. This constitutional provision is consistent with our strong tradition that membership in the Society is purely an individual matter, and such tradition may be said to be opposed to collective expression of opinion.

In recent years we have all witnessed both in Canada and in the United States the inauguration of governmental involvement or threatened involvement in private plans. Many of the issues involved, as you well know, have important actuarial implications. With the growth of the actuarial profession and the more widespread appreciation of its responsibilities, it is natural that persons outside our profession should want to know what actuaries think of the various proposals.

The Committee on the Future Course of the Society proposed a sound recommendation in connection with the constitutional amendment: "The utilization of the proposed constitutional authority shall be undertaken only in comparatively rare instances of fundamental importance and widespread public interest."

Let me cite two instances in which committees of the Society would have liked more freedom in the expression of opinion.

The Committee To Study Pension Plan Problems has a very broad mandate, and I will quote from its mandate as it appears in the *Year Book* of the Society:

To study problems resulting from the growing importance of pension funds to the public welfare with particular reference to (a) the role and responsibilities of actuaries in explaining and publicizing the actuarial principles and practices necessary to insure the sound operation of pension funds in the public interest and (b) the obligation or responsibility of the Society in respect to these problems.

This Committee has been involved on the Washington scene in such matters as the integration of social security with private pensions. Therefore, in the past, and undoubtedly probably in the future, there will be a need to express an opinion or opinions.

The second example is in relation to the Committee To Study Pension Accounting. In discussions with representatives of the accounting profession concerning accounting for pension costs, this committee also felt the need to be able to express opinions as a committee.

I believe that it is fair to say that any use of this proposed constitutional amendment could, in my view, involve both majority and minority opinions of the committee or the Board expressing the opinion if there were a division.

It is also fair, I believe, to say that, if a division were sharp enough, the committee may not be able to express an opinion.

Let me close by saying that I personally found this constitutional amendment a difficult one to decide upon. My own conclusion was that the necessity to spell out these factors outweighed the maintenance of a long and thoughtful tradition, so I, as one member of the Board, voted in

favor of offering this amendment for discussion by the Members of the Society.

MR. RICHARD DASKAIS: I made several comments at last June's Society meeting in opposition to the expression of opinion by the Society or its committees.

I would like to emphasize that no matter how any committee or the Board of Governors may qualify its opinions, they are going to be taken by outsiders as the opinions of the Society. Most organizations act through their committees, and most outsiders know this.

I have noticed, in ten years of consulting work and in other experience, that being a Fellow of the Society is important in the choice of actuaries by clients who want to employ an actuary. I do not want us to lose prestige as a professional organization by expressing opinions on what are essentially social or political questions, even if the opinions are unanimous. For example, I think that the prestige of the AMA suffered greatly because of its activities in opposition to Medicare. The Society should not appear to be a super trade association representing insurance companies, banks, and others that have a strong economic interest in the existing methods of providing security to individuals.

To the extent that Society membership is economically important to us as individuals in obtaining employment, we are not free to register our disagreement with the Society by withdrawing. In this respect we are different from many other organizations. For example, less than one-half of the lawyers in practice in the United States are members of the American Bar Association.

MR. DATON GILBERT: I guess I am one of the doubters. I rather think that the foundation on which the Society has been built, of emphasis on the individual and on individual opinion, is a factor to take into consideration. Our training is broad, and we are not always expected to agree on things that we discuss.

However, I certainly realize that group opinion has much greater impact than individual opinion, and there are many issues that are important and on which actuaries have something to say.

I wonder if some of us doubters might be persuaded otherwise if, at the same time that the amendment was presented and we were asked to vote on it, we had a simultaneous and actual example of an opinion that the Board of Governors feels that the Society should act on.

MR. MARTIN L. ZEFFERT: I am one of the doubters, but I would vote "Yes" on the assumption that social and political issues will be kept largely clear in expression of the Society's opinion.

I would guess that the Society would never venture an opinion as to the desirability of changes in social security, but certainly I do not see where the Society could not express an opinion as to the adequacy of funding. Maybe I am being a little too idealistic and too naïve in assuming that we can stay out of social and economic questions, but I think that this intent is fundamental in a lot of the "Yes" votes that would be cast.

MR. HENRY S. BEERS: There have been occasions on which the older members of the Society have not governed everything. There was, for example, at one time a very long discussion on the adequacy of funding of social security benefits. This was at the time when social security was new or just about to come into existence.

A terrific argument arose among A. D. Watson, H. H. Wolfenden, and others. Eventually the President said that the discussion must close and that the then speaker (Mr. Watson) would be allowed five more minutes. Thereupon a motion was formally made and carried overruling the chair and giving Mr. Watson as much time as he wanted.

My memory of the many discussions of the American Men Table is that a large majority of the Members of the Society did not want it adopted for valuation—it never did get generally adopted because the members thought that the American Experience Table of Mortality was safer. In retrospect, I doubt that a public statement as to the majority opinion of actuaries would have been desirable.

MR. J. ROSS GRAY: The 1932 volume of *The Record* of the American Institute of Actuaries contains opinions expressed by many members that early surrender values in policies were too high. A motion was passed instructing the President "to appoint a committee of seven to consider and report upon cash surrender values, loans, and other nonforfeiture values." The committee submitted its report, dated October 19, 1933, and certainly stated its opinion on quite a number of points. We all know what has happened to cash values in recent years when quite a number of companies have been promising cash values equal to the full reserve, or at least considerably above the asset shares.

This little account may serve to illustrate two things—first, that a constitutional prohibition will not prevent the expressing of an opinion if we really set our minds to accomplishing it, and second, that subsequent pressures may bring us to do things which the opinion stated to be wrong.

MR. LLOYD K. FRIEDMAN: What would be the effect of the change in the fixed policy of the Society on our meetings and discussions within our meetings? I am just curious.

PRESIDENT LAWSON: Well, maybe we will have someone else speak in an attempt to answer that question. I had thought myself that this could change the format of our meetings. Is there other discussion?

MR. HARRY D. MORGAN: We are obviously living in an era of social change in areas within which actuaries are especially qualified and have the necessary expertise. Not only is there a good deal of legislation being proposed, but other changes are taking place, including the direct involvement of other professional groups.

I do believe that the Society, as a body, must expect to influence legislation and our colleagues in other professions. We should consider appointing a committee to work with our Treasury Department or any other governmental agency in preparing rules and procedures implementing adopted legislation and, when controversial issues arise, to appoint specific individuals to research the question.

MR. REUBEN I. JACOBSON: I have a technical question. There are two ways in which opinions can be expressed—first, by the official opinions of the Society backed by a two-thirds vote and, second, by the opinions of the Board of Governors and the committees, wherein they must attach a disclaimer saying that these do not represent the opinions of the Society.

I can see the point in a committee's expressing an opinion on a sort of limited question and putting a disclaimer on it. However, when the Board of Governors expresses an opinion and must put a disclaimer on it, the public may be somewhat uncertain as to just what such an opinion is supposed to mean. What sort of circumstances would call for an opinion of this type?

PRESIDENT LAWSON: I do not want to attempt to answer all these very thoughtful questions that are coming up. I am one of those who, like Daton Gilbert, do not feel that we are ever going to be unanimous about anything really except the minutes. However, I do think that we can trust our Board to set up the right rules on any occasion that arises, and I am inclined to think that some of these opinions might be in a form that states, "Well, actuaries are divided on these questions—the great majority, two-thirds or three-quarters, feel this way, and the rest feel that way." At least I think that would be enlightening.

If a committee is asked to express an opinion, let us say, before a tax board or some pension board, and the committee is not unanimous, I would think that there would be some kind of caveat or reservation to that effect.

I am not sure that that is a complete answer to your question, and I think the only unanimity we have had thus far is that this Society should be run by younger Members. Perhaps we can put that in as a third part of our resolution.

MR. JOHN G. SELIG: As a society, we have a responsibility to express our opinion as a group. Contracts made as individuals with our Congressmen and other officials will not be as authoritative as a collective opinion expressed by the Society of Actuaries.

In total numbers, we are a small professional body, but as a group our opinion would be of value. Any opinion that is expressed should cover both sides of the issue. Both a majority report and a minority report should be published so that any controversy within the Society is public knowledge.

MR. WILLIAM H. BURLING: After listening to the discussion and thinking back over my own past, I think that you might consider changing the resolution to making it "opinions," that is, making it plural. There are bound to be "opinions."

At the same time, if the resolution is passed, I suggest consideration of a change in the motto of the Society. You can use the suggestion of one of our English literary people who said, "When you are sure you are right, you had better be careful."

MR. DASKAIS: Ed Lancaster referred to integration of private pension plans with social security as one instance in which committees might present opinions. Other members urged having committees act only on those matters which involve special actuarial competence.

The individuals, as I understand it, who comprise the Committee To Study Pension Plan Problems made a statement to the Treasury Department last fall which was discussed at the New York meeting and which has had some limited circulation. I wonder if it would be appropriate, in order to give the members of the Society an example as to what would be expressed, to circulate that statement. I feel that this statement expresses opinions which are far beyond the areas of unique actuarial competence, although I do agree entirely with the statement.

PRESIDENT LAWSON: The gentleman who expressed those opinions was, of course, Mr. John Miller, who is not with us this morning. The only thing that I can do is to ask him later if he feels that the statement should be circulated. I am sure that there is nothing in it, inasmuch as it comes from a committee of the Society, that would be confidential from other Members of the Society.

MR. KEITH H. COOPER: I have possibly a technical point here. It indicates that opinions of the Society require advance approval by affirmative vote of at least two-thirds of the delegates voting by mail ballot. Does this mean that, if a hundred votes are cast and the rest remain passive, we need sixty-seven people to agree on this particular issue, and, if so, I wonder if this would be the opinion of the rest of the Society?

The second question that rather touches upon this whole matter is in relation to minority opinions. For example, if an adequate number of Society Members voted on a measure and it received 60 per cent approval, would the Board of Governors or the committee responsible make an announcement to the effect that 60 per cent agreed and 40 per cent did not? I think that this may have some significance in situations where the affirmative percentage was close to, but less than, two-thirds.

PRESIDENT LAWSON: That is a very good point. Certainly, the intent of the Committee was not to have the Society agree on an opinion by simply two-thirds of the Members at some such meeting as this, which is really not representative of the whole Society. What we want in cases of this kind is to have every Member of the Society be in a position to cast his vote.

Our purpose this morning was to give this subject an airing, to give everyone here an opportunity to present his opinion so that the rest of us could digest the pros and cons.