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ERISA UPDATE—INSURED PENSION PLANS

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1. Enrolled actuary - more valuable than an FSA?
2. Position of Academy.
3. Funding assumptions.
4. Actuarial certification.
5. Special valuation problems.

CHAIRMAN ROBERT L. PAWELKO: The first topic we are going to cover is the question of the Enrolled Actuary - more valuable than an FSA? The second one we are going to talk about is the Position of the Academy of Actuaries with Respect to the Enrolled Actuary's Status and the Position of the Academy with Respect to ERISA and the third one will be Funding Assumptions, the fourth is Actuarial Certification, and the fifth is Special Valuation Problems.

MR. KENNETH W. O'NEILL:* I have been asked to comment on a subject which may well become a very controversial subject in the near future, that is, "whether an Enrolled Actuary is more valuable than an FSA?" Having just received my enrollment certificate from the Internal Revenue Service and just sat for the tenth part of the Society of Actuaries' examination, one must consider whether or not the designation "FSA" will be as valuable to me as the "Enrolled Actuary" designation in the future.

Presently, to become a member of the Academy of Actuaries, an individual need only complete the first eight parts of the Society examinations; although with the revised examination schedule beginning this year, the requirements for admission may change. Currently, however, a fellowship designation is not needed to become a member of the Academy of Actuaries. The Academy has recently created the designation of "Affiliate of the American Academy of Actuaries." Under the proposal an individual will have the same privileges as a member except that they are not granted voting rights or officer's status. The formal requirements of completing the exam syllabus are not a requirement for the "Affiliate" designation.

The Enrolled Actuary designation for those individuals wishing to specialize in the retirement plan area has been a "second chance" for the individuals who have become enrolled under the current certification requirements. These individuals now have the designation "Actuary" and can become Affiliates of the Academy of Actuaries. If it were not for ERISA, these individuals would never have had the opportunity of becoming either an Actuary or an Affiliate of the Academy.

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The passage by Congress of the Employee Retirement Income Security Act of 1974 has created numerous additional positions for those individuals interested in working in the retirement plan area, and has created additional mobility for those of us now employed in this area. I now ask myself, if I had known five years ago that the government would create the Enrolled Actuary, would I have continued to take the Society examinations? I do not know, because for me this is an academic question; but for a younger individual now working in this field who is taking the examinations, this is a very pertinent question. Depending upon the future requirements for "Enrollment," I am sure many of them will not complete the exams if the route to enrollment proves less time-consuming and difficult. A great deal depends upon continuing professional status of the FSA designation and the financial rewards that are attributable to this designation.

The relative merits of either designation depend upon where an individual is employed and the attitude of the employer. The Enrolled Actuary is going to be more valuable to a firm specializing in the employee benefit area than he would be if he were employed by a life insurance company. If an individual is employed by a consulting firm, the usual involvement would only pertain to working with clients in regard to their retirement benefit programs, whereas an Actuary working in the pension function of an insurance company becomes involved in tax planning, reserve practices, and cash flow problems. This is where the FSA designation is more valuable than the Enrolled Actuary title.

The attitude of the employer toward the Enrolled Actuary will be a major factor especially if the individual's manager is an FSA. Initially, there is going to be a great deal of resentment on the part of individuals who have been going through the grind of the exams and now find that by taking a three-hour examination they could be called an Enrolled Actuary. This same resentment must have occurred when the Academy was first established.

A great deal will depend upon the future requirements for enrollment from both an educational and experience standpoint. If the requirements are made very liberal and the compensation paid to these individuals remains high, the number of individuals taking the examination will decrease.

The Society must have significant input in setting the requirements for future admission as Enrolled Actuaries similar to the requirements now imposed for admission to the Academy. The results, however, will be that the Society will become larger as more and more individuals come into the employee benefit areas. Will that dilute the FSA designation?

As an individual who has completed the employee benefit route of the fellowship exams, I personally feel that the material covered on these exams was not very helpful in taking the government exam, since this exam was based more on practical situations than theory. It seems that this was the government's general intention in setting the design of the exam, but what about the future requirements for admission?

The problem with comparing an Enrolled Actuary with an FSA is that the specialist has less background and knowledge than the general FSA. Specialists in other professions must first pass the general requirements for their profession, then proceed to gain additional specialized knowledge and experience.

In our emerging actuarial profession the reverse is true. "Enrollment" takes less time than Academy Membership, which, in turn, takes less time and effort than getting an FSA. From the other side of the coin, the Academy Member is permitted to do certain things that the FSA cannot do -- sign financial statements, for one. The Enrolled Actuary can work freely in the employee benefit area and sign various documents which neither an Academy Member nor an FSA can do. It is evident that, for many jobs in our industry, the Enrolled Actuary and the Academy Member are mandatory credentials and, of course, the financial rewards would follow.

The actuarial profession has broken up into many splinter groups of specialists, each having been created by the requirements of a federal law and each group limited to practicing in a single narrow area. All command high salaries. Any Actuary who needs to practice in more than one area will need more than one set of credentials. This could prove to be a burdensome task.

Can substitution of one government examination replace the combination of academic achievement and practical experience attained by the long and tedious route to become an FSA and a Member of the Academy?

These questions and others that have been touched upon are but a few of the issues that will have to be dealt with under ERISA. It should and must be the role of the Society supported by its membership to enhance, not dilute, the actuarial profession.

MR. A. ANTHONY AUTIN, JR.: If there ever was an area where the challenge of our Society's motto was obvious, this is it. At every meeting you and I attend, at every company we visit, at every social event where actuaries are found, we constantly hear the questions, "Are you Enrolled? Do you plan to apply for Enrollment?. . .", and from the discussion that follows these questions you can detect a strange mixture of the well-known actuarial conservatism and the not-so-well-known emotionalism that actuaries tend to keep bottled up within themselves.

We are beginning to see signs of facts and demonstrations replacing appearances and impressions. The Joint Board has announced early returns on enrollments and the returns, in my judgment, point to a considerable liberality in what is sufficient actuarial expertise and in what is adequate experience for an Enrolled Actuary. Many of the FSA's and ASA's who received their notice of enrollment have expressed moderate surprise at their acceptance because they were not completely confident they clearly had the necessary minimum requirements. They knew of actuaries who they felt were more qualified but who themselves did not feel they could meet the standards and did not even apply for enrollment. And, if these actuaries were surprised by their acceptance, how surprised will they be when pension administrators and pension salesmen show up with certificates of enrollment . . . and there are a bundle of the latter judging from the over 2,300 Enrolled Actuaries accepted by the Joint Board as of mid-May, 1976 and reported by Leslie Shapiro at the opening session of the May 14 Enrolled Actuaries' meeting in Washington.

Recently, I surveyed 30 U.S. companies in the individual or group pension markets with regard to their anticipated handling of Enrolled Actuaries. The results of the survey are not yet complete but one of the questions covered the area of compensation of Enrolled Actuaries, and I would like to share my initial impressions with you.

Out of 15 responses to date, 14 companies felt no additional compensation was necessary for actuaries who are now enrolled but who were previously performing pension plan valuations. One company felt additional compensation was appropriate and felt further the Enrolled Actuaries should operate in the capacity of independent consultants. Consequently, they plan to refer any request for valuation certifications to outside firms.

While the initial results, in my judgment, say that an Enrolled Actuary is not as valuable as an FSA, it does appear that many FSA's who are qualified are being left in the starting gates or even in the stands. Once again the salesmen and consultants are showing that they have the aggressiveness and the organizational ability to get in and obtain the credentials and the certificates to operate in a province which is ours. It makes me wonder if we will ever raise our profession to the point that has been attained by the lawyers, the Certified Public Accountants, and the doctors. There are laws in every state against operating in these areas without a license and getting a license is tough. Not so for actuaries, and the fault lies with us. This is, I feel, a fair criticism of our profession as a whole, notwithstanding the outstanding efforts of our Board of Governors and many of our peers. The facts are that a greater effort by all of us is required.

The fundamental question we need to ask is whether ERISA requires calculation ability in sophisticated techniques of judgment as regards applicability of specific assumptions and techniques to a given plan. Perhaps what the Joint Board for Enrolled Actuaries should do is establish a class for those with the former ability and permit actuarial valuations by this class provided a valuation is performed periodically by Enrolled Actuaries demonstrating both of these skills. Alternatively, the more capable class could establish methods and assumptions initially and every three years thereafter, and the other class could perform the calculations in every year. While not necessarily appropriate for large size cases, this approach may help keep costs at a reasonable level for small plans.

CHAIRMAN PAWELKO: I would like to add a few comments of my own on the Enrolled Actuary. Back in 1965-1966 I think the same discussions were going on. Then we were talking about a group of people called the American Academy of Actuaries. I was writing exams at that time and I can remember a lot of people talking about whether or not to continue writing exams. In retrospect, I do not know of any person who quit taking Society exams because of formation of the Academy. I know a lot of comments were being made when the Academy was being formed that we were going to dilute the actuarial standards by "grandfathering certain people in."

I spent four years at the Illinois Insurance Department and during that four-year period we implemented the requirement that a Member of the Academy of Actuaries had to sign the annual statement of an insurance company. I emphasize a Member of the Academy of Actuaries rather than the Society of Actuaries. I think all of you can remember back just three years ago when there was a company by the name of Equity Funding. There were two Fellows of the Society of Actuaries who were expelled. I tried to do a little research on the Academy of Actuaries and I do not believe that, other than these two, there has been a Member of the Academy expelled. In particular, I do not know of anyone who was a non-exam "grandfathered" Actuary who has been expelled.

When I was in the Insurance Department, there were three specific abuses that I saw that were done by actuaries. One of the abuses was Equity Funding; another abuse was a man who was a Life Actuary who stood up in front of the Legislature and testified on the impact of no-fault auto insurance on the economy. He introduced himself as an Actuary. That is how the Legislature knew the man and that is what everyone in the audience knew him as. However, he was a Life Actuary who never touched, to my knowledge, any casualty plans. That was a violation, in my opinion, of professional ethics. This man happened to be a Society member who also was in the Academy. The only abuse that I saw in connection with a "grandfathered" individual was a man who simply had a prejudice. His prejudice was that he did not believe in guaranteed renewable additional reserves. Now, the last two issues are in gray areas and, if you sat down and read the testimony that appears in the record of the Illinois Legislature, the man who testified really did not say anything that was wrong or improper. The problem is that he did not identify himself as a "person on the street"; he identified himself as an Actuary. I think that <u>this</u> is what concerns us. We have people who are salesmen who sell insurance and do a good job at it and who are good businessmen and have done a good job of getting a lot of business on the books, but they have become Enrolled Actuaries by the grandfathering or by passing a three-hour examination. The person who refused to set up additional reserves simply did not understand the logic of such reserves. This also concerns us about some who have become Enrolled Actuaries. We are concerned as to whether they truly understand the business.

When the American Academy of Actuaries was formed, it had some fairly liberal admission requirements. In 1970, there were five exams required for the Society and five exams required for the Casualty Actuarial Society; in 1971, there were six exams; in 1972, there were seven exams; and, in 1973, there were eight exams (seven exams for the Casualty Actuarial Society). The Academy of Actuaries' membership requirements have stiffened. I personally think that the Enrolled Actuaries' requirements will also stiffen. They have already stiffened from one exam to two exams; from three hours to six hours. I am confident that the ultimate requirements will be satisfactory. I think that this is the time that the American Academy of Actuaries should stand up and be counted. This is a time for the Academy to really show what it was designed to do and be. Embracing the Enrolled Actuaries is a start and I, for one, am in favor of it. I am hopeful that the Academy will rise to the forefront at this time.

MR. AUTIN: The next topic on the agenda is funding assumptions and my remarks will be based on the perspective of an Actuary operating principally in the individual policy pension area. They should, however, have some application in the group pension area as well, since the basis of selection of assumptions is a combination of the past and future experience of the plan and its participants and the distinctly separate area of past and future experience of the funding approach that is used by the plan.

As I tend toward the class of actuaries who are inclined toward setting assumptions for each separate plan, I will not attempt in this forum to enumerate the specific assumptions to be used for each plan. If I belonged to the class favoring standard assumptions, I would still feel it necessary to restrain from setting them out here, as I feel, where they are appropriate, they will be a function of a given style of plan document or class of plans sponsored by an organization or specialized in by a given Actuary. Without reference to the parameters of each special situation, I do not see that a standard can be given.

General Considerations - It appears typical that the number of assumptions used grows, and conversely the number of assumptions ignored decreases, as the size of the plan grows and as the funding approach changes from fully insured individual policies to whole life and side fund to deposit administration, etc. The facts of the matter are that the number of assumptions made in every plan are the same. It is merely that some are set at zero or are implicit and are assumed to be offsetting.

Many actuaries feel the past experience of the plan (or group of people covered by the plan) lacks credibility except in the larger sized groups; hence, we hear suggestions for the use of standard assumptions and techniques. The arguments raised in support of this approach include cost saving to the plan, the tendency of long-term plan experience to track the overall economy (although admittedly in an oscillatory manner) and the uniformity of benefits provided by prototype, specimen, or pattern plans. Still, some actuaries are concerned about the individual judgment required on small plans. The stability of a company may suggest a less than long-term future for it. In this event, the Actuary would choose assumptions and techniques producing adequate funding in the event of early plan termination. Additional factors against the use of standard assumptions include the variations in plan features (particularly prevalent in these early months after the passage of the law) and larger degree of volatility in plan results occurring at one death, one employee withdrawal, or even one unusual raise on a highly-compensated employee.

Aside from the probabilistic areas of death, withdrawal, inflation, and employer failure, the Actuary must consider the scheduled plan experience parameters when selecting both assumptions and methods for plan valuations. This is obvious in the current age of each plan participant and his anticipated retirement benefit and retirement age. In plans where the average duration to retirement is short, the Actuary may give more weight to current high investment yields than he would otherwise.

Similarly, the use of book or amortized values for assets or the use of a 30 or even 15 year amortization period may be less appropriate in these plans.

Salary Scales - In the individual policy area, the most troublesome question may be that of the appropriate recognition to be made of salary levels. To ignore future salary increases in a final average salary plan formula is to understate the cost of the plan. And yet, typically, either the contracts used do not lend themselves to the use of a projected salary level (i.e., retirement income contracts) or when they do, (i.e., flexible premium retirement annuities) funding is nevertheless based on current salaries. As a result, the plan experiences costs down the line which may be burdensome or prohibitive when viewed as either a percent of payroll or a dollar amount.

Strangely, in the group pension area, there appears to be almost unanimity that salary scales must be used, not only in valuations of plans but also in cost illustrations at the time of plan illustration. Many Group Actuaries are, therefore, anticipating the challenge of contrasting their projected cost against the cost illustrated by Individual Policy Pension Trust plan proposals where salaries are not projected. They are devising methods of safeguarding against misleading competition between these two different funding approaches.

There appear to be three camps of actuaries with regard to the question of salary scales for individual policy plans. One camp sets the changes at zero, either implicitly or explicitly. They reason that the small plan, typical of the Individual Policy Pension Trust, has salaries which are unpredictable as they are highly influenced by employee turnover and employer discretion. Additionally, they point out that any changes in benefits because of salary changes are going to be reflected by adjustments to the insurance contracts in force and any applicable auxiliary funding. A second camp feels that inflation is expected and must be accounted for in calculation of plan costs or by illustration of a probable level of plan cost 5 or 10 years hence. A third camp, possibly the majority, feels inflation is probable but that neither regulations on the new Pension Reform Law nor actuarial techniques are developed to the point where it is clear that salary scales can be used legally, administratively, or competitively. As many plan cost levels are already strained by reduced eligibility requirements, the Actuary seeking to introduce a salary scale into cost calculations is met by severe resistance. This single assumption alone may serve to prove the mettle of the Enrolled Actuary. He should stand comfortable in the knowledge that ERISA gives to him and him alone the final decision.

Turnover Scale - Another area of assumption being highly influenced by ERISA is that of the turnover rate for voluntary employee terminations. To the extent that the law mandates a larger degree of vesting, the practical result is a reduced need to explicitly allow for turnover. This is further influenced by the reinstatement of benefits required for former employees returning to work. On the other hand, the Internal Revenue Service has in the past required the use of a withdrawal rate whenever a salary scale is used. This will likely continue to be their position and will put pressure on the Actuary, particularly in the case of small plans, to find an effective,yet administratively simple,way of accounting for withdrawals.

Mortality Scale - Traditionally, many actuaries have ignored mortality in very small plans on the grounds that it was conservative, had little real impact, or that plan provisions called for it. This position has to be reevaluated under ERISA because of the qualified joint and survivor annuity. Particularly difficult for the Actuary is the question of the real impact of this provision. Here the Actuary must become familiar with the province of the plan drafter. Many warn against the potential danger of the unintentional "doubling up" of death benefits where an insurance contract death benefit is paid to a named beneficiary and the qualified joint and survivor benefit's survivor annuity is required to be paid notwithstanding. Careful plan drafting can avoid this difficulty but the Actuary should not take it for granted that it has been handled as intended.

For most plans, the impact of using mortality assumptions would be a slight loss if no deaths occur and large gain if one does occur. If there is a real death benefit under the plan, this picture could change dramatically and should be accounted for, unless life insurance is purchased to cover the contingency.

Expenses - An area often ignored, or perhaps covered implicitly, is that of expenses. With the increased workload required by ERISA, it is more likely that the use of explicit assumptions will be required. Additionally, more funding organizations, be they banks or insurance carriers, are unbundling their pension services. The incidence of expenses may be more important now. Plans subject to front-end loads may find themselves underfunded in early plan years, particularly in the cases where relatively full vesting is used.

It is in the area of expenses that we might expect to find standard assumptions used most frequently. Certainly, a given set of prototype plans funded with the same carrier and whose valuations are done by the same Actuary can be expected to have similar costs. In the plans handled by Consulting Actuaries, where individually drafted plans are more typical, the use of plan-specific expense assumptions is more probable. At any rate, the Enrolled Actuary must be clear in his communications as to the handling of expenses in his calculations and the adjustment needed, if any, to the contribution level illustrated in his report.

Interest Rates - The choice of interest rate is the last area which I will comment on as I do not see ERISA having much impact on it. There are areas which the Actuary should consider however. One of these is the consistency between the interest rate chosen and the salary scale to be used.

Recent papers and discussions carried in the Transactions cover this area adequately. I would like to point out that the use of implicit assumptions, offsetting an explicit interest assumption by an explicit salary scale, raises at least one question in the funding standard account. As this account calls for crediting all items of income and disbursement with interest, my question is, Which interest rate, the implicit or explicit one? I am inclined to use the explicit rate.

Summary - The choices of assumptions have a self-checking mechanism in the analysis of gains and losses performed by the Actuary. In the next several years, considerable heterogeneity of results can be anticipated and the same is true of analytical techniques and reporting mechanism. It is highly desirable for Enrolled Actuaries to work together toward standardization in the areas of gain and loss analysis and reporting. Certainly, the Department of Labor and the Internal Revenue Service will be working in this area eventually and we are well advised to get there before them to light the way.

MR. ROBERT L. COLLETT: Before starting on Actuarial Certification and Special Valuation Problems, I want to mention one funding assumption, an assumption which I had not thought about until very recently. I think under individual policy pension trusts it may have been a routine thing in the past, or at least in many companies, to automatically fund towards the guaranteed settlement option conversion rate in the individual policies. I think that is an example of what should not be done automatically in the future when you are currently willing to settle on a much more favorable basis. If there is a large difference between the minimum guarantee and the current practice, then I think you may need to grade from one into the other according to the projected year of maturity for the individual contracts.

Actuarial Certification

As everyone in this room undoubtedly knows, ERISA requires an annual report for every employee benefit plan not specifically exempted. The annual report requires considerable amounts of information, including an actuarial statement of opinion. Further, a full actuarial valuation is required not less than every three years. The only full exemptions of which I am aware are those for plans which are strictly defined benefit plans, plans which are wholly funded with insurance products, governmental plans, church plans, and some other minor plan categories.

My comments today will be aimed mainly at the smaller split-funded insured plans -- plans in size, say, between 1 and 30 lives, with an average of perhaps 8 participants. In advance of this meeting, I set out, through means of a small survey, to try to see what specific information people were planning on putting in their actuarial reports for plans of this size. Sections 104 and 1033 of ERISA constitute the statutory requirements. Of course, all of the information of Form 5500, Schedule B is required. Schedule B could be incorporated into the actuarial report by making that schedule a part of the report. That schedule basically requires information on current contributions, people, and progress in the funding of the plan. It must be supplemented by information on actuarial assumptions and methods, and it requires an opinion statement from an Enrolled Actuary.

Most people's actuarial reports seem likely to include the following items:

1. Somewhat more census information than the minimum required for Schedule B, such as information on people entering and leaving the plan during the year and people excluded from the plan by category.

2. An exhibit of assets by category with market values and carrying values.

3. A table showing the value of vested benefits presented in a way to facilitate comparison with the assets.

4. Information on benefits, premiums, and side fund deposits by individual participant.

5. A cash flow projection.

6. A summary of plan provisions.

7. A description of the actuarial method and a detailed presentation of assumptions.

8. The actuarial statement of opinion.

9. Finally, some comments by the Enrolled Actuary, such as his reliance on the plan administrator for data used in the valuation.

In describing the actuarial method, we are faced with an interesting dilemma. We recently received from the Society of Actuaries Committee on Pensions a set of recommendations for new pension actuarial terminology. The new terminology seeks to eliminate some existing confusing and, possibly, misleading terminology. In particular, the Committee seeks to do away with the words "cost" and "liability" in conjunction with references to past service or unfunded amounts.

However, the instructions for Form 5500, Schedule B, specifically tell the Actuary to use earlier terminology in describing the actuarial method used. The form requests use of the terminology found in section 3(31) of ERISA. I think it probably follows that, if you cannot use the new terminology in the schedule, then you will not want to use it in the actuarial report and certification to the employer.

Another point of some interest to me is who will deliver the Actuary's report to the plan trustees when it is done. Professional responsibility may require direct transmittal of the report to the plan trustees, as opposed to sending the report to the agent for delivery. I feel sure the initial reaction in most companies would be to handle it through the agent, of course. However, that route is not automatically the correct one, in my opinion. First, it must be established to your satisfaction that your professional duties will be adequately discharged in the particular situation using that approach.

Several small steps can be taken to try to decrease the chance that any unauthorized excerpting or abridging is done on a report sent through an agency. Proper education of the field force is surely essential. One should include a table of contents, and one should number all pages. And the report should contain wording about not extracting from it. However, these actions will obviously not prevent fraud.

One interesting and practical idea suggested at last week's meeting of Enrolled Actuaries was to mail a copy of the Actuary's report to the agent 10 days in advance of mailing a copy directly to the client. This approach would permit the agent to review and approve the report (or put a temporary "hold" on it, if necessary), but it would prevent his making an unauthorized modification in any of the figures.

Special Valuation Problems

An obvious place to begin is with the problem of obtaining quality information from the field and dealing with it efficiently and effectively. Most companies I talked to have gone the route of separating out and making special charges to small pension plans for the services required by ERISA. In each case, the company was unwilling to provide services on a cafeteria basis, which might result in a request to do an actuarial valuation without a request to get, otherwise, deeply involved in the details of a plan. One way of establishing some control on the quality of the information used in the valuation is to be involved enough in a plan as a company to be able to gain genuine familiarity with the plan or at least to have occasion to work with the plan information in several different ways.

Another step most companies, hopefully, have taken is a "bona fide" education process with the field personnel who will have direct contact with the client. It seems essential that the field force understand that a fundamental change has taken place with ERISA. Prior to ERISA, probably most agents looked upon individual policy pension trust plans merely as useful vehicles for selling life insurance. The quality of the data flowing to the company generally reflected that attitude. High quality information was provided in the life application, while a much lower standard of quality prevailed in the submission of salaries, birthdays, etc. as specifics for the valuation. Moreover, generally companies were content to ask few or no questions about the accumulating side funds. Those attitudes cannot prevail or succeed with ERISA.

Another key to success in dealing with the flow of information concerns the establishment of adequate and thoughtful procedures for the initial conversion and for subsequent renewals. One company we talked to combined an intensive field force training program with the development of a special conversion form. The special conversion form allows the agent to request the "plan conversion unit" either to make the minimum number of modifications to comply with ERISA or to implement a couple of specific suggestions as detailed in the agent's submission. As a third alternative, the agent could request that the conversion unit contact him to work out the specifics of a fundamentally new plan for a separate additional fee.

ERISA permits valuations as infrequently as once every three years unless the Actuary feels they are required more often. At the same time, an annual normal cost must be estimated, if not calculated. Many people I talked or listened to felt that the volatility of small plans and this need for an annual normal cost anyway suggest that it would be most appropriate to have an annual valuation as a part of the overall program of services for these plans. This attitude makes sense to me. Certain assumptions, like salary scales, can be meaningless in small plans. Furthermore, because of the somewhat discretionary nature of owners' salaries, more frequent valuations many times can actually work to the advantage of the client.

I mentioned earlier that you no longer can ignore the real progress of the side fund, as you might have been able to do when you were functioning strictly as an insurance company. Now you must request information on the assets and review that information. Your first examination might prove difficult because of the lack of ease in attaching proper values to some of the things in which the side funds are invested. No doubt you also will come across some apparently prohibited transactions. As you know, you have the need to consider the market value of the assets in selection of the proper valuation basis for assets. This mandate does not mean necessarily to use market values, but it does give you one more thing to think or worry about.

It is obvious that more thought now must be given to the proposals made to prospective pension cases. Because of the ERISA funding requirements, a significant problem will exist in cases where the first Enrolled Actuary's valuation shows costs substantially at odds with the proposal upon which the client purchased the program. For this reason, company actuaries will find it necessary to exercise more control over proposals. Indeed, the only safe course may be to do the proposal as if it would become part of the first annual valuation.

The subject of assumptions has already been aired. The only thing I would add at this point is that it is highly desirable from the insurance company's standpoint that assumptions be standardized, insofar as is reasonably realistic. Standardized assumptions facilitate the controls that you have on your pension program. Standardization makes it easier to work out data-reporting procedures with your field force and to coordinate with sales presentations. It also makes it easier to delegate work to staff.

This brings up my next subject. The final area of valuation problems which I wish to go into are the professional problems. I mentioned the delegation of valuation work. I believe that nonprofessionals and students can be used quite successfully, if procedures are carefully thought through, and if a sufficient degree of standardization has been achieved.

Ultimately, however, the case must come to the Enrolled Actuary for his review. At such point, though all of the valuation calculation work may have been done, it is essential that enough basic information comes to the Actuary for him to make his own independent determination of the adequacy of the valuation. He must have enough of the file to be able to say that the data looks complete and reliable, that the assumptions used seem reasonable in the circumstances, that the method fits the circumstances, and that the results pass certain reasonableness tests. In other words, the Enrolled Actuary has to see the whole file on the case.

There remains only the question of who reviews the reviewer. What thoughts have your companies given to peer review of their Enrolled Actuaries' work? I find a number of companies with only a single Enrolled Actuary. In some cases,he is responsible for several hundred plans. Even in some of the larger writers,I find only a couple of Enrolled Actuaries assigned to the individual products pension department. Maybe,as long as there are at least two, and if they get to a point where they are not totally "snowed under" with work, they can establish some kind of peer review program. However, companies having only a single Enrolled Actuary probably will find it necessary on occasion to go outside, either to another company or to a Consulting Actuary, and actually have a formal or informal peer review carried out. Only in this way can you feel reasonably confident that the exposure hazards are being kept within bounds.

CHAIRMAN PAWELKO: I also would like to add my comments on what kind of assumptions should be used on these small plans. I personally fall in the category of people that think that a standardized set of assumptions should be used. I tend to lean towards the standardized approach rather than try to come up with unique assumptions for each plan since the long-range outlook simply cannot be that different.

MR AUTIN: My personal leaning is towards the setting of assumptions for each individual plan. I feel that, with the availability of computers,once we get over the hurdle of deciding what is required by ERISA and are in a position of computerizing the calculations and the exhibits that have to be prepared by ERISA, the Enrolled Actuary can spend most of his time reviewing the plan and checking the assumptions that are going to be used by these electronic giants that calculate the various functions. I suspect, though, this view will be tempered by pragmatism eventually,and I will tend back towards the setting of standard assumptions.

CHAIRMAN PAWELKO: I think that,in my own instance,I find that after looking at four or five different situations, all of a sudden I come to the same conclusion on each of them unless one of them obviously has a substantial difference in history or makeup. I even use standardized assumptions on some of my larger group plans, except that I build in a salary scale to suit past experience.