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FORUM FOR CONSULTING ACTUARIES

Pensions

A. Accounting Principles

What special problems in the area of increased calculations, interpretations, conferences, and fees are posted for consultants as a result of the use of *APB Opinion No. 8*?

MR. FREDERICK P. SLOAT: Now that we have had *APB Opinion No. 8* for a year, we can see which parts of it are most likely to produce problems in the areas of increased calculations, interpretations, and conferences. Let me summarize quickly several actuarial requirements in the *Opinion* which may not have been dealt with in the past in the manner called for by *Opinion No. 8*:

1. The value of vested-benefits test for the minimum accrual.
2. The value of vested benefits to be determined for the required disclosure under paragraph 46.
3. The recognition of actuarial gains on a spread or average basis. These have been recognized immediately in many situations where immediate recognition will not be appropriate under *Opinion No. 8*.
4. The recognition of unrealized appreciation and depreciation. While the new requirement is to establish a basis for gradual recognition, these have been left unrecognized in most situations.
5. The necessity for including all employees who are expected to receive benefits under a plan in a valuation, even though they are not currently included.
6. For insured plans, the possible elimination of complete dependence on actual net-premium costs, that is, reduced by dividends and termination credits.
7. The application of the *Opinion* to pension costs incurred outside the United States.

The need to determine the value of vested benefits for both the minimum test and the disclosure requirements is probably the greatest departure from any previous practice. The total actuarial value of vested benefits does not call for any amounts that should not already be incorporated in the actuarial evaluation of the plan. However, such amounts would not usually be separately identified, particularly if the actuarial cost method is not the accrued-benefit method, and, therefore, they would need to be isolated for purposes of applying the opinion.

A retirement benefit which would stay with an employee who terminated service on the valuation date is "not contingent on his continuing

in the service of the employer." As a vested benefit its entire value should be included. If the benefit would be forfeited upon such termination of service, none of its value would be included. Although this is merely a means of classifying benefits, the value of vested benefits is not based on the assumption of a complete voluntary termination of all employees; rather, it is based on the assumption of continuing normal operations which reflect each situation and the probability of its occurrence.

Where an actuarial cost method other than the accrued-benefit cost method is being used, a corresponding accrued-benefit cost method value is needed for the vested benefits. The value of vested benefits would obviously not involve a discount factor for termination of service in most instances. However, if vested benefits can be forfeited by the employee's election of a refund of his own contributions, the probability of such election can be taken into account.

A plan may include death, disability, and other benefits in addition to retirement benefits. If such a benefit were to apply if the employer were to terminate service, its value would be included with the value of vested benefits.

For disclosure purposes, the value of vested benefits must be compared with available assets to determine whether the company has accrued pension costs that are at least sufficient to cover all vested benefits.

Although the basis of asset valuation is not specified in the *Opinion*, many believe that it is desirable that it be the same as that used for the computation of pension expense. Since the same basis must be used year after year, the effect of fluctuations should be carefully considered if market values are used.

The only requirement in the *Opinion* with respect to the consideration of unrealized appreciation or depreciation is that a rational and systematic basis be adopted. Paragraph 29 refers to several methods currently in use. The list was not intended to be all-inclusive, and the amounts shown were to be illustrative only.

Let us look for a moment at another new type of problem arising from the *Opinion*. Paragraph 36 states that all employees who may reasonably be expected to receive benefits under a pension plan should be included in the cost calculations. If a pension plan provides a benefit built up of units related to each year of service after an employee is eligible for the plan, we tend to think that there is no cost for the years prior to eligibility, since no unit of pension benefit is related to those years. The accounting approach is that the cost of the employee's total pension relates to all years of service, and this is not altered by the particular formula that may be used in the plan to determine the amount of pension.

The actuarial recognition of this requirement of *Opinion No. 8* for including all employees can be a troublesome one. It is augmented by the fact that valuation data seldom include the information with respect to employees excluded because of plan ineligibility or because of an actuarial procedure which excludes employees prior to a certain age or service. If these employees are to be included in the evaluation, the higher probability of turnover must be considered in order to avoid overstatement of cost. Their inclusion would reduce the cost computed for eligible employees, partly because of the increase in the average expected turnover rate and partly because spreading the cost over all years of service would mean that some of the costs would have been recognized by the time these employees became eligible. Where the eligibility period is not relatively long, this more precise calculation could produce a somewhat lower total cost than would be computed by eliminating ineligible employees. Therefore, the total cost can be either decreased or increased.

Where there is a possibility that the difference could be either plus or minus, the likelihood of its being immaterial is increased. Materiality for accounting purposes is not related to the total pension cost but rather to the effect on the employer's net income and financial condition. It must be determined by tests extraneous to the pension plan itself. This was recognized by the board, which rephrased paragraph 36 to give appropriate recognition to anticipated turnover and added the statement, "As a practical matter, however, when the effect of exclusion is not material, it is appropriate to omit certain employees from the calculations." The actuary is limited to estimating the effect of the exclusion on the total cost, leaving it to the accountant to determine its materiality with respect to the company.

In view of the range in actuarial assumptions which would be reasonable, it may be a temptation to rationalize that, even if the effect of the eligibility exclusion is significant, it would have been possible to use other actuarial assumptions which would produce comparable cost. We would avoid this approach. Tampering with the right to apply actuarial judgment in determining actuarial assumptions may raise the issue of whether accounting principles should include ground rules for the selection of actuarial assumptions.

Insured plans using deposit administration or other nonallocated funding have no different problems than plans on a trust basis. Plans using individual insurance policies or allocated group annuities may also provide part of their benefits outside these policies or annuities, such as by a separate deposit administration fund or by a separate trust fund or even on an out-of-pocket basis. Such plans are treated in the same way as those

entirely on a deposit administration or trust basis. This is the meaning of the word "exclusively" in paragraph 41 of the *Opinion*. The special provisions of that paragraph do not apply to such plans.

My seventh and final point listed above related to costs incurred in a foreign country. The *Opinion* would apply if the cost is included in financial statements prepared in conformity with generally accepted accounting principles in the United States. An example would be the cost of a plan of a wholly owned foreign subsidiary of a United States company when included in the consolidated income statement. The *Opinion* does not mean to lay down principles for foreign plans with respect to accounting within their own country.

MR. DOUGLAS C. BORTON: In connection with *Opinion No. 8* of the Accounting Principles Board, some actuaries feel that "the worst is yet to come." If the accounting profession begins to look even more fully into pension expense, particularly those aspects which have been traditionally solely within the province of the actuary, they may, however, find that their fears are groundless and that a happy ending will result.

Since *Opinion No. 8* was issued last November, it already has resulted in a considerable amount of additional work for consulting actuaries and their clients, as well as for accountants. This has been true even in those cases where the *Opinion* does not have a substantial effect on the employer's pension charges or the information to be disclosed, since additional work still must be done to confirm that this is the case.

It may be of interest to note that the effects of the *Opinion* have not been limited to consulting actuaries in the United States. One of my associates recently has returned from England, where an English consulting actuary told him that *Opinion No. 8* is having an effect on actuarial work there, because of the need for British subsidiaries of United States firms to meet the requirements of the *Opinion*. Moreover, the British accountants—not to be outdone by their professional brethren in the United States—are looking into possible rules governing pension accounting for British firms. If any rules which are developed were to differ significantly from the *Opinion*, questions might arise as to the correct procedures to be followed in the future by British subsidiaries of American firms. Rules regarding pension accounting also have been issued by the Canadian accountants. However, I believe that there are no serious differences between the United States and Canadian approaches.

The issuance of the *Opinion*, of course, is resulting in the need for a good deal of indoctrination of accountants concerning the basic actuarial techniques used in determining pension costs. In the August and October

issues of the *Journal of Accountancy*, Julius W. Phoenix, Jr., and William D. Bosse have written a two-part article about the background of *Opinion No. 8*. Since both of these men worked closely with the subcommittee of the Accounting Principles Board which prepared the *Opinion*, their views regarding the interpretation of some of its provisions should be of special interest. Incidentally, Fred Sloat, who just spoke, prepared an example of the method of determining the actuarially computed value of vested benefits for the second part of the article. William A. Dreher, a Fellow of the Society, also has written about some of the actuarial considerations in connection with the *Opinion* in the September issue of the *Journal*.

It seems to me that these articles indicate a sincere desire on the part of the accounting profession to provide as much background as possible to its membership in attempting to cope with this broad and highly technical area of pension accounting. Incidentally, for this background they are turning to, and consulting with, actuaries on a scale not previously encountered. In an effort to smooth the way, forms and form letters have been prepared by various accounting firms to obtain information regarding pension charges. However, a practical problem for both actuaries and accountants has arisen because of the variety of forms, including form letters, which have been prepared. In some cases, different forms are even being used by various offices of the same accounting firm. Moreover, while some accounting firms complete the forms themselves, others send them to the employer or actuary for completion. When the forms have been prepared by individuals who are not familiar with actuarial terminology, questions obviously arise regarding the intent of some of the items.

It would be desirable if a uniform reporting procedure could be developed. I believe that any forms involving accounting charges which are based on information previously provided the client by the actuary should be completed by the accountants as a part of their regular audit procedures. If a particular accounting firm feels that additional information is needed in special cases or to satisfy its own requirements, supplementary information should be requested. However, uniform reporting forms and procedures could provide standardization with respect to the major items.

In the September issue of the *Journal of Accountancy*, Ernest L. Hicks has presented two schedules. One schedule may be used to determine pension expense for accounting purposes, and the other may be used to ascertain the amount of any vested liability which is not covered by the pension plan's assets or balance sheet accruals. The latter schedule also may be used to compute the amount of pension expense arising from uncovered vested liabilities in those cases where this must be taken into

account. These are the types of schedules which I would expect the accountants to complete as a part of their regular audit.

Like all consulting firms, our office has been involved in a number of questions requiring an interpretation of *Opinion No. 8*. The first task facing us when the *Opinion* was issued was the establishment of a method to determine the actuarially computed value of vested benefits in a manner which would meet the requirements of the *Opinion*. In making this determination, the total liabilities with respect to retired employees and former employees with vested benefits, together with the personal contributions of active employees, including interest credits on these contributions, are, of course, included. For active employees the amount of benefit which would be payable if the employee were voluntarily to terminate his service immediately is determined. The value of this benefit is then computed by using the regular valuation assumptions, including the assumed rates of withdrawal from active service on account of termination of employment; normal, early, or disability retirement; or death. Even if a salary-projection table is used in the valuation, future salary increases are not taken into account in this calculation because the benefit which would be payable upon immediate voluntary separation is being used. If the plan provides special additional benefits under certain circumstances (for example, plant shutdown, disability, or death), these benefits are not taken into account unless the event which triggers these benefits has occurred. We believe that our method clearly meets the requirements of the *Opinion*.

A situation about which we have had various answers from different accountants concerns the case where the total assets of all of a company's plans cover the total vested liabilities, but in each of one or two plans the liabilities exceed the assets. Some accountants feel that the deficiency should be disclosed for the plans where it exists, while others feel that it need not be disclosed since the company has met its funding requirements on an over-all basis. Incidentally, while some accountants feel that the vested liabilities should be tested against the asset value used for valuation purposes, a significant number are willing to accept the use of the market value of the total fund. In general, accountants are willing to accept a calculation as of the latest valuation date with an estimated adjustment where necessary for any plan changes in the intervening period.

Another area which has been emphasized by accounting firms is the treatment of unrealized appreciation in common stocks in actuarial valuations. While some accountants have been pushing a specific asset write-up method, it has been our experience that most accounting firms are willing to accept any reasonable and systematic method. The write-up formulas

adopted by companies in the past frequently have not provided for a write-down of stock values, on the assumption that the limit on the upper end of the write-up would allow a sufficient cushion to cover future market breaks. In some cases the accountants have insisted that provision be made for a write-down if the adjusted book value at some future time should exceed the upper limit which has been established under the write-up method. Although it is not specific, *Opinion No. 8* implies that no write-up formula need be adopted until the book value is less than 75 per cent of the market value of the common stock. We have found that most accounting firms are willing to follow this interpretation. With respect to the application of the amount of the write-up, since a write-up formula recognizes only a portion of the unrealized appreciation in a given year, we have taken the position that the full amount of the current year's write-up can be used to reduce the contributions for the same year or the following year, that is, it is not necessary to spread each year's write-up over the future. Again, we have found that accountants generally are willing to accept this approach.

An interesting point involves cases where benefits have been negotiated to take effect at some future date. The purpose of such a delay frequently is to enable a company to spread the additional costs arising from a labor contract over the period of the contract. If the accountant were to take the position that the additional pension costs must be recognized immediately, the company's objective would be defeated. I do not know of any cases where the accountants have raised this question yet, but I believe that they may do so in connection with year-end audits. Of course, in some instances they may feel that the additional costs are not material.

The requirement that actuarial gains and losses be spread can produce some unusual results for plans where the full amount of the net gains and losses has been taken into account in determining the next year's contributions. If, for example, a plan has been developing consistent gains of \$100,000 a year, the gross contribution has been reduced by this amount each year. If the \$100,000 gain for the current year now is spread over a ten-year period, the next year's gross contribution would be reduced by only \$10,000. Assuming constant gains of \$100,000, the contribution would decrease gradually over the next ten years until, at the end of the ten-year period, the full \$100,000 again would be used as an offset. A possible solution would be to use an average gain over the previous five or ten years as an offset against the current contributions, with any significant differences being spread over the future.

While not a matter of interpretation of *Opinion No. 8*, there are some important policy questions raised for consulting actuaries by the *Opinion*.

For example, actuaries should consider the extent, if any, to which the content of valuation reports should be revised to provide information regarding the *Opinion*. Since an actuarial report is intended primarily to serve as a basis for actual pension funding rather than accounting charges, a strong case can be made for not making any changes. On the other hand, there obviously are advantages to having information concerning accounting charges in a report. Another point is whether or not a consulting actuary should be willing to certify that a valuation has been prepared in accordance with *Opinion No. 8*. In view of the many areas in which interpretations may be needed, it would seem that any such certification would have to indicate that the valuation has been prepared in accordance with the actuary's "understanding of" the *Opinion*, unless a statement of the way in which certain controversial items were handled is included in the certification. Where a question of materiality is involved, it seems clear that the decision of whether a particular difference is material must be made by the accountant, possibly on the basis of information supplied by the actuary.

Since additional information may be required of the actuary, the actuary may have to charge additional fees for work necessitated by *Opinion No. 8*. Where an additional charge will have to be made, we have advised our clients of this fact before proceeding with the work requested. To my knowledge, all our clients have realized that additional work costs more money, and we have not had any problems on this score.

In these remarks I have attempted to cover those interpretations and problems with which we have been involved most frequently. Obviously there are and will be many more.

MR. GEORGE BRUMMER: We have been calling *Opinion No. 8* to the attention of our clients throughout the country to get guidance from them as to what they would like us to do. I find that many accountants have not really tried to digest the *Opinion* and to ascertain what it means; they are letting someone else worry about it. One exception that I met was with respect to the form mentioned by Mr. Borton. One of the national accounting firms has developed a form which runs to some ten pages of questions, most of which do not pertain to the case at hand. I hope the accountants will have made some progress before the end of the year comes.

MR. CONRAD M. SIEGEL: I too have found that, although the national accounting firms are well aware of the *Opinion*, many of the smaller local firms are not. I have also noticed that, when a company engages a

certified public accountant, it does not necessarily mean that the C.P.A. prepares a *certified* statement (which usually implies the physical presence of the accountant at the taking of inventory and the confirmation of receivables and payables by the C.P.A.). In many situations the C.P.A.'s function is merely to prepare the tax return. In this case he may not be required to comply with *Opinion No. 8*.

In looking at the footnotes of recent financial statements of publicly owned companies, I have found that the *Opinion* seems to be partially implemented, although implementation is not required until statements of December 31, 1967. In many cases statements still seem to be showing the amount of unfunded past-service liability and not the extent of funding of vested, accrued benefits.

MR. DONALD S. GRUBBS, JR.: I have a question for Mr. Sloat. In the past we have selected the interest rate for a funded pension plan as that which could safely be returned over a number of years in the future. In evaluating unfunded plans, we have three choices. We might use the rate that we would consider for a funded plan; we might use no rate at all, since there is no fund and no interest; or we might consider using the rate being earned on money being invested in the company since the money is retained in the company. Which one should we use?

MR. SLOAT: That is a difficult question. I have seen all three of your choices suggested. I think it preferable to use a rate comparable to that for a funded plan. This recognizes the cost in the normal way for pension operations. By not using any rate at all, the results are rather ridiculous and go to the opposite extreme from an unfunded plan. The rate earned on money invested in the company has been proposed, but I do not think that it is a good one. I do not recommend it because I think that it defeats the purpose of the *Opinion*. Although this could be discussed at length, my recommendation has always been that it should be an interest rate comparable to that used on a funded plan.

MR. RICHARD DASKAIS: On an unfunded plan there is the further problem, once we have decided to use the interest rate that a funded plan would earn, of whether to consider that we are "funding" through a taxable medium rather than a tax-exempt fund and should, therefore, use about half the interest rate. If we use the full interest rate, future years' company earnings are charged with the additional cost of "funding" through a medium which is not tax-exempt.

MR. SLOAT: You are taking account of government taxes. Even though there is no tax deduction now, there will be a tax deduction at the time

the payments are actually made. It is considered quite appropriate to treat it just as if it were a tax-deductible item.

MR. BORTON: One point to remember is that the interest on any accounting charges will itself become an accounting charge in the future years. Thus, if you use a high interest rate to get a low accounting charge in the first year, you will have an increasing accounting charge in subsequent years because of the interest.

MR. PAUL D. HALLIWELL: There are two other particular situations that have posed problems for our clients. In one case, a client about ten years ago bargained for and settled on 10 cents an hour for an employee pension plan. The employer established at that time what appeared to be actuarially sound benefits. When we were consulted about a year ago, we discovered that, because of turnover, the cost of the plan is about 13 cents instead of 10 cents. If the accounting firm insists that the employer accrue on his books the additional 3 cents an hour, the employer may not get credit for this amount when he negotiates with his union.

Another client has three separate pension plans—one each for salaried employees, hourly nonbargaining employees, and hourly bargaining employees. Like many employers, he has adopted different funding arrangements for each plan. When the excess of vested benefits over assets is compared for each plan, those for the salaried and for the hourly nonbargaining employees show an excess of assets, whereas the hourly bargaining plan shows an excess of vested benefits. If the accounting firm insists on disclosing each of the three plans separately, the company could not only be embarrassed but might find that this had a tremendous effect on their next negotiating session.

B. Liaison

Life insurance companies have well-established liaison through such organizations as the American Life Convention, Life Insurance Association of America, and so on. What can be done to improve liaison between consulting firms and the IRS, government committees, hearings, and insurance industry committees?

MR. SLOAT: The first aspect of liaison is the collection and distribution of important information. The American Life Convention and the Life Insurance Association serve a vital need by gathering and distributing information, particularly as to developments involving legislative activity, both on the national and state levels. As there is no such organized approach in the pension field, we must depend on the various services and individual personal contacts. There is no such thing as a pension indus-

try to gather and distribute facts. The several pension conferences which include various groups directly concerned with pension developments might perform this function. The Conference of Actuaries in Public Practice could do this chore for the consulting actuaries, but this would not be too satisfactory for others.

The second aspect of liaison is in the nature of speaking for or representing the group at public hearings or even before the public. This is a difficult problem to solve, as all of us know who have been following the Society's consideration of an amendment to permit an expression of opinion. A member of the British Association of Consulting Actuaries told me recently that they are being approached with increasing frequency by legislators and others with regard to the merit of various proposals. We frequently learn about legislative proposals and hearings only after they have taken place. Some device is needed to disseminate this information in a timely way.

MR. M. DAVID R. BROWN: The Pension Commission of Ontario has on several occasions consulted or asked specifically for advice from the private pension committee of the Canadian Institute of Actuaries with reference to administrative procedures in Ontario. This has been sought out privately. Usually the problem would be circulated to members of the committee in an effort to find a consensus on which some advice could be given. The specific cases were in actuarial areas where no public hearings were involved. Although it might be better if any interested person could have some opportunity to express an opinion, the makeup of the Institute's Committee is a fairly good cross-section of the people who are interested. The mechanism has worked reasonably well, but we must realize that, in a local situation not dealing with national problems, the people involved are all acquainted with one another.

MR. JAMES A. ATTWOOD: Neither the Society of Actuaries nor the American Pension Conference is able to offer opinions on pension legislative matters. Although the Life Insurance Association can render opinions, it represents less than 25 per cent of private pension assets in the United States. There is no one to represent the other 75 per cent, and I believe that there is a need for some kind of organization to do so.

A national private pension plan association could bring together consultants, banks, employers, unions, insurance companies—all the people who are interested in private pensions. It would disseminate the kind of information that we all want and perhaps even be able to represent the private pension interests in governmental circles.

Life Insurance

A. Company Development

What are consultants doing to keep pace with the changing role required in the establishment of companies as wholly owned subsidiaries or in the purchase or acquisition of companies by merger, and so forth?

MR. FRANKLIN B. DANA: Mergers, acquisitions, and the setting-up of life insurance affiliates are happening more frequently than in the past. They have special problems and are of increasing importance to consulting actuaries. Many problems arise from the different backgrounds of the men who are now coming to us for advice. A few years ago, the men forming companies were often agents or others with some life insurance experience but perhaps little management experience. The new clients are men with management experience either in another life company or in a wholly unrelated line of business. These men are the hardest to deal with. They ask very penetrating questions and expect dollars-and-cents answers. They expect expert advice and have a right to it.

MR. M. DAVID R. BROWN: In dealing with men whose background is not in insurance, it is important to set up effective communication. This can be done by preparing a series of projections on several sets of assumptions as to production, termination, and so on. This can help to demonstrate to them how unpredictable things are when you start a new company from scratch, so that they do not miss important points due to lack of background.

MR. ROBERT C. TOOKEY: The merger and acquisition field is a great challenge to an actuary. If you have a lot of clients, as we do, it is possible to stumble into a conflict-of-interest situation inadvertently. Since it is very easy to antagonize one of your clients when this happens, it is important to do some research before taking the job. The first thing to think about is professional conduct, and the last thing to think about is the fee.

MR. DANA: Any merger problem brings up the question of valuing a block of existing business. Although rules of thumb have been used, it is better to use asset-share techniques. Such an analysis will show a series of emerging book profits. By following the procedures first suggested, so far as I know, by James C. H. Anderson in his paper entitled "Gross Premium Calculations and Profit Measurement for Nonparticipating Insurance," in Volume XI of the *Transactions*, these profits can be discounted at a rate of interest applicable to risk capital.

Projections are very important not only in starting a company but in providing check points each year. Projections are a sort of budgeting. Management must clearly understand that making a projection does not mean that everything will be all right. Controls are necessary to stay within the limit of the assumptions set up. If it is desirable to make modifications after a year or so, the projections should be redone.

B. Relation of Consultant with Others

What areas require co-ordination of effort with company actuaries, reinsurers, and accountants? To what extent do their efforts conflict or overlap?

MR. TOOKEY: Since both company actuaries and actuaries for reinsurers speak the same language as the consulting actuary, the co-ordination of effort can be maintained by good communication. Where a reinsurer is doing consulting work for a reinsurance client and a consultant is also involved, any work done should be checked carefully by the consultant.

Although one or two C.P.A. firms have their own actuaries, the majority do not. Hence, co-ordination of effort is required in certain areas. One example is the annual audit or the special audit of a life insurance company either for SEC registration or for the stockholders. The actuary's normal task is the certification of the policy reserves and certain other liabilities. Here the accounting firm may check the validity of valuation data, and the consultant checks the various formulas and the application of reserve factors. When he certifies to the reserves, the actuary should state that he is relying on the validity of underlying data as audited by the accounting firm.

MR. PAUL D. HALLIWELL: *APB Opinion No. 8* has given us an opportunity to improve relationships between consulting actuaries and accountants. During the last twelve months we have conducted a series of seminars, lectures, and workshops with various C.P.A. firms and groups of accountants to help them understand this *Opinion*. We have also explained the basic principles of pension plans and advanced funding. Relationships with these people have been greatly improved.

*Administration***A. Personnel**

What programs are being followed by consulting firms to maintain staff by the internal development of actuaries (Fellows and Associates)? Are these programs adequate? Can manpower shortages be alleviated by delegation, use of retired actuaries, training of students?

CHAIRMAN GEORGE V. STENNES: In the past, consulting firms looked to the insurance companies for most of their actuarial staff. In some instances the change was solicited by the consultant, but in others it was initiated by the actuary himself. More recently, students have been taken into consulting firms and trained there. In the most recent list of new Fellows, as I recall, a little over 10 per cent were in the consulting business, which indicates some change from the past. In my firm we do have some students, and on occasion we attempt to hire an Associate. We have a study program for the examinations to give the same kind of training to our men that formerly was available only in insurance companies.

MR. MILTON F. CHAUNER: Many actuarial students do better if they are given the responsibility and the variety of work available in a consulting firm. We find that outside work is of help to certain types of students in completing their examinations.

MR. CHARLES B. H. WATSON: Although in the past consulting firms have staffed themselves to a large degree through hiring people from insurance companies, I think that this source of supply will dry up to some extent in the relatively near future.

The changes in the curriculum of examinations over the past five years has improved the situation for consultants. It is important to qualify oneself professionally, and today's examinations are a marked improvement over the past. It is more difficult, however, in consulting firms than in an insurance company to insulate students from pressures around examination time. Incentives for the students to pass examinations are very important, but it is difficult to give these incentives in small consulting firms or in the small office of a large consulting firm. Any program of incentives established should be uniform throughout the company.

B. Goals and Obligations

What are the goals and obligations of consulting actuaries with respect to the public, the profession, the insurance industry, the government, and others? Are these goals being met?

MR. CHAUNER: The two words "consulting" and "actuary" tell precisely what our goals are. A consultant must be independent and have an outside viewpoint to be useful. Actuaries are labeled as experts, and consulting actuaries are labeled as independent experts. Our goal is to be sure that these two aspects of our work are carried out as well as they can be.