

## TRANSACTIONS

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### ADDRESS OF THE PRESIDENT, WENDELL A. MILLIMAN

UNTIL fairly recently the work of practically all actuaries was concerned with the problems of insurance companies. By and large even the work of those who were not working directly for insurance companies was oriented toward their problems. True, most actuaries are still employed by insurance companies—but times have changed. The dramatic growth of pension plans during the past twenty-five years has been accompanied by a corresponding growth in the need for actuarial advice by those adopting pension plans.

Specifically, actuarial work is required in order to determine with any degree of accuracy the probable cost of a pension plan. Someone must evaluate the probability of the future events which will give rise to the benefit payments, and then appropriate actuarial calculations must be made. Of equal or greater importance, an employer who is considering adopting or amending a pension plan should have a clear understanding of the risks inherent in these actuarial estimates of cost. Any employer adopting a pension plan takes on some financial uncertainty, but if he does so without cost estimates based upon a well-founded evaluation of the probabilities involved, he is taking unknown and unmeasured risks which can have serious financial consequences to the future of his organization. Likewise, the security of the benefits promised to the employees covered under a pension plan can be endangered unless a realistic program for funding the cost of benefits is adopted. Such a program can be developed only with the aid of actuarial judgment and calculations. These are all areas falling within the field of competence of the professional actuary.

Some of this actuarial advice and guidance is given by actuaries employed by insurance companies, and some is given by professionally qualified actuaries in public practice. Unfortunately, some is provided by individuals of doubtful professional qualifications.

One effect of the growth of pension plans upon our profession has been a substantial increase in the number of actuaries engaged in the consulting field. The 69 members of the Society of Actuaries who, at the time of its

founding in 1949, were engaged in the consulting field represented only 7 per cent of the then actively employed membership. The 616 members of the Society who are now, twenty years later, employed as consultants, represent 20 per cent of our actively employed membership. This growth in the number of consulting actuaries has been accompanied by developments of great importance to all actuaries.

The interest in obtaining legal recognition of actuaries clearly stems from the same root as that giving rise to the growth in the consulting branch of our profession. The Board of Governors of the Society first took action on the question of such recognition when it authorized, in 1958, the appointment of a Committee to Investigate Possible Certification or Licensing of Actuaries. The objectives sought in this action were well expressed by Henry Rood in his presidential address that year in the following words:

We must convince bankers, employers, government agencies and union leaders that they should seek actuarial advice from qualified actuaries only. We must be able to help them select those who are qualified.

As a practical matter, before any profession can hope to obtain legal recognition, it must first establish standards of professional competence and then establish standards of professional conduct, together with appropriate machinery for enforcing those standards.

The Society has addressed itself to all these matters. It did so before it became involved in the discussions and negotiations which led to the creation of the American Academy of Actuaries in the United States and the Canadian Institute of Actuaries in Canada—the vehicles being used to seek legal recognition of our profession. With the creation of these new entities, however, a partnership relationship was, in effect, established between the Society, the Casualty Actuarial Society, the Conference of Actuaries in Public Practice, and the Fraternal Actuarial Association. The questions of standards of professional competence and of professional conduct no longer come within the sole jurisdiction of the Society. If we are to achieve the unity within the profession which is essential to gaining recognition, we must now respect this partnership relationship. We must be prepared to take a fresh look at some practices and policies of our Society which we have come to take for granted. Indeed, a fresh look is being taken in several areas. I would like to review a couple of these with you.

One of the basic provisions in the formation of the Academy was that a reasonable period of time would be allowed during which experienced and competent practicing actuaries who are not members of one of the spon-

soring organizations could join the Academy during a "grandfather clause" period. After the expiration of this grandfather clause period, all applicants would be required to establish their professional competence by passing appropriate examinations. It was obvious that the creation for this purpose of a new and separate examination system paralleling the existing examination procedures of the Society of Actuaries and the Casualty Actuarial Society would put unwarranted demands upon available manpower. Furthermore, if students were required to pass a separate set of examinations in order to qualify for membership in the Academy, an unjustifiable additional burden would be put upon students seeking to become members of both the Academy and the Society. The possibility of such a doubling-up of examination requirements was, consequently, never seriously considered.

The problem remained as to what examinations would be required for membership in the Academy. The immediate solution, as you all know, was for the Academy to accept the examinations given by the Society of Actuaries and the Casualty Actuarial Society as though they were its own.

This solution, while obviously acceptable to the Society and the Casualty Actuarial Society, did create a problem for the other sponsoring organizations, which had not previously required examinations. This problem results from the understanding, in connection with the creation of the Academy, that these other organizations would also establish examination requirements at the time that the examination route becomes the only route to membership in the Academy. The implied objective was that those admitted in the future to any one of the sponsoring bodies would automatically have satisfied the educational and examination requirements established for membership in the Academy.

The Fraternal Actuarial Association solved this problem by adopting a requirement for future members that they must first become members of the Society of Actuaries. The Conference of Actuaries in Public Practice, on the other hand, is not prepared to accept a similar requirement as the sole basis for satisfying its educational requirements for membership.

Out of this background has developed consideration of the possibility of establishing an "alternate route" for qualifying for membership in some or all of our several actuarial organizations. Essentially, this proposal would recognize that the present examinations of the Society and the Casualty Actuarial Society are geared to a self-study educational process. The concept of the alternate route is that somewhat different examinations might be more appropriate for prospective actuaries who have taken courses in specified areas of basic actuarial knowledge from qualified collegiate institutions. In its original form the alternate route

proposal would have recognized an individual who had acquired a Master's degree in actuarial science from an "accredited institution" as having obtained such an education. It was proposed that such an individual should be able, by passing a comprehensive examination covering the appropriate subjects, to receive credit in the Academy for the equivalent of the first five examinations of the Society of Actuaries or the Casualty Actuarial Society.

Many problems are apparent as soon as the proposal is stated. Despite these problems, it was the opinion of the Board of the Academy that the basic concept had merit and deserved serious consideration. Therefore, a special committee of the Academy was appointed to cooperate with a committee of the Conference of Actuaries in Public Practice to study the feasibility of such an alternate route. It was soon apparent that, if an alternate route were established, the Society of Actuaries and the Casualty Actuarial Society would be affected and should also be involved in this exploration. For this reason the preliminary report of the Academy committee studying this problem has been referred to all the sponsoring organizations, including, of course, the Society of Actuaries.

It should be emphasized that this is a preliminary report—that much work must be done before a satisfactory plan can be worked out; indeed, before all the problems involved will be known. However, progress has been made. Yesterday your Board of Governors adopted motions both to cooperate further in the study of the feasibility of the alternate route and to work on the development of joint sponsorship of the existing education and examination system.

How important such an alternate route might be in the near future in terms of numbers qualifying for membership in any one of these bodies is debatable. This is not necessarily, however, the best test of its value to the profession. Many of us believe that it is high time that more positive steps be taken by our profession to encourage broader participation by collegiate institutions in the academic training of actuaries. A program such as the alternate route may well be one of the most effective ways of giving that encouragement.

Improvement of facilities available for the education of actuaries is also being approached in another way. This past summer an ad hoc committee of the Society was given the broad problem of studying the educational facilities for actuaries. This committee, under the able chairmanship of Ed Lancaster, includes professors of actuarial science from six universities. It is well along with the first phase of its assignment, that is, making a survey of the character and extent of existing facilities for the education of actuaries. The next stage of its assignment is to recommend

the types of facilities for the education of actuaries which we should seek to develop in the future. What the outcome of this re-examination of the educational facilities available for training in our profession and the consideration of modification of our examination procedures to recognize the increasing importance of collegiate training in the actuarial field may be, I do not know. Whatever it is, I feel confident that the end result will be both to improve the quality and to increase the numbers of new members of our profession.

As I indicated earlier in these remarks, another area in which our "partnership" with other actuarial organizations has caused a re-examination of Society practices is that of our Guides to Professional Conduct. Here again there has been some interplay between the various actuarial organizations.

Since the American Academy of Actuaries would be the entity used to seek legal recognition of our profession in the United States, it was important that the Academy adopt guides to professional conduct before applications from actuaries who were not members of one of the sponsoring bodies were accepted. This was so since part of the application procedure adopted by the Academy called for each applicant for membership to agree to be bound by its Bylaws and Guides to Professional Conduct. In any event, the guides adopted by the Academy drew upon the precedents of various existing actuarial bodies but were identical with none. In turn, the Canadian Institute of Actuaries also felt the necessity of adopting a set of guides. After studying the guides of the various other bodies, the Canadian Institute adopted a still different set of guides. Basically, however, the guides which it did adopt followed the format of those of the Academy. Some editorial improvement was made in the language, and certain provisions relating to competitive practices were dropped. At the time that this action by the Canadian Institute was first proposed it was also suggested that, because of the overlapping membership of the six major actuarial organizations on this continent, an attempt be made to achieve substantial uniformity among the guides of all six organizations. Uniform guides would avoid any possibility of embarrassment to an individual belonging to two or more of these organizations resulting from any real or apparent conflict between their provisions.

Without going into detail, a resolution of these problems which appears likely to be satisfactory to all of the organizations concerned has been developed. The formula being considered involves adoption by all the organizations of guides substantially identical to those already adopted by the Canadian Institute. These guides would be supplemented by a series of interpretive opinions. You have already had an opportunity to see two

such interpretive opinions, which were published a few months ago in *The Actuary*. An additional interpretive opinion, dealing with relations with other actuaries, has been drafted and is an integral part of the formula, which encourages me to think that the objective of uniform guides will soon become a reality.

As I have indicated, the proposed uniform guides are those which have already been adopted by the Canadian Institute. The Society, the Academy, and the Conference of Actuaries have all conditionally approved these proposed uniform guides, subject to similar action by the other bodies. We now await similar action by the Casualty Actuarial Society and the Fraternal Actuarial Association. When this action is taken, these uniform guides will become effective for all.

I have discussed some of the areas in which the overlapping interests of the four organizations which have sponsored the formation of the Academy require a partnership approach to common problems. This whole question of the community of interests between these organizations might be approached from another direction. In making the following suggestion, I should make it clear that I speak only as an individual and that no plans along the lines which I am about to suggest have yet been laid before the governing bodies of the organizations involved.

The possibility is, however, obvious. If in the future the standards of professional competence required for admission to these several bodies are to be identical, why not merge them into a single professional organization? The specific suggestion would be that the four bodies sponsoring the formation of the Academy, that is, the Society of Actuaries, the Casualty Actuarial Society, the Conference of Actuaries in Public Practice, and the Fraternal Actuarial Association, be merged into a single professional body.

You will note that this suggestion would leave the Canadian Institute of Actuaries and the American Academy of Actuaries as separate entities. This is so because the continuation of these separate bodies which identify qualified actuaries in the respective countries involved appears necessary to facilitate legal recognition of our profession within these two countries.

A merger along the lines suggested would not, of course, remove the diversity of interests which has given rise to the creation of the separate bodies. Consequently it would, in my judgment, be necessary to recognize in some way, perhaps by the creation of sections within the over-all body and by the holding of specialized meetings, the various specialized interests within the parent organization.

Such a move would serve a variety of purposes. Among others, it would promote recognition within the profession of the common core of knowl-

edge required of all actuaries. At the same time it would facilitate recognition of the separate requirements of the various areas of specialized interest. It would make possible greater efficiency in providing the many services which our members expect from their professional societies. It would facilitate recognition, both by the public at large and by legislative and regulatory bodies, of the unique education and training which should be required of those who are to be publicly recognized as qualified professional actuaries.

I take this opportunity to suggest that the feasibility and acceptability of such a development be considered, both by the members of the profession as a whole and by the governing bodies of the several organizations.

