

PANEL DISCUSSION

THE ACTUARY'S RESPONSIBILITY  
TO HIS VARIOUS PUBLICS

CHAIRMAN WALTER W. STEFFEN: One of the problems that we have had in preparing for this session is that of determining the exact meaning of the question. I recently heard a semanticist note that the English language was a poor language in which to communicate. He stated that if we were able to understand each other 50 per cent of the time we were doing extremely well.

As we thought about this question and discussed it with your panel, there was a consensus that there were several different types of responsibility and several different publics. For example, the actuary has a personal responsibility involving his own conduct, his own actions, and the personal reaction to the circumstances in which he is involved. Second, there can be a responsibility on a group basis, reflected from the actuary's activities in a group of actuaries or others, such as a committee of a trade association or a member of an employment group. Third, the responsibility can be as a member of the profession or of a professional organization, such as the Society, the Academy, or the Canadian Institute. There is undoubtedly overlap, and there may be numerous other categories representing various combinations of these. These are mentioned to bring out some of the difficulties to be encountered in dealing with this question.

There are also numerous publics to whom the actuary has responsibility. Some of these are the consumer who is protected by the insurance or pension product; the actuary's employer; the general public as distinguished from the consumer; government bodies, both state and national; labor unions; industry and the professional groups of which the actuary is a member; and many others.

My first question is, "What is your impression of how the general public looks at the actuary and what he does?"

MR. WILLIAM K. PAYNTER:\* To help prepare for today, I read some articles and speeches and even a book, *Actuaries and Financial Planning*,<sup>1</sup> a new one recently reviewed in *The Actuary*. It was published

\* Mr. Paynter, not a member of the Society, is Executive Vice-President of the Institute of Life Insurance.

<sup>1</sup> Institute of Actuaries Students' Society (London: Butterworths, 1970). Pp. 149. £ 1.50.

with the blessing of the president of the Institute of Actuaries, and it starts right in by saying, "The actuary is an enigmatic figure." Later on, the book makes this point: "Because his work is not continually in the public eye, the actuary has great difficulty in interesting anyone in it, or indeed in conveying any impression of what it is all about." That is true in this country, just as it seems to be in England. Nobody is interested in the actuary except his associates in the insurance business and a few other people who need somebody with the patience to understand probabilities and compound interest.

How does it happen that, when one mentions the actuary to a group composed of other insurance people, he is likely to get the same reaction stand-up comedians used to get when they mentioned Brooklyn? I suspect that you are loved and admired, just the way people around here used to love and admire the old Brooklyn Dodgers. But you are an enigma to the public, or at least to the small part of it that ever heard of you.

Perhaps, instead of talking about how the public looks at actuaries, we ought to talk about how the actuary looks at the public. Another book, the 1970 *Year Book* of the Society, goes into this. Both books mention Sir Francis Bacon, and I gather that he is a sort of patron saint. Accordingly, I looked him up in the encyclopedia. Were you aware that he was accused of taking bribes when he was a judge, and that he confessed to some of the charges? Fine: forty thousand pounds. If that had been left at compound interest, it would have been enough by now to pay for the SST. Luckily, however, the king remitted the fine. I read further and found that Sir Francis was credited in the article on codes and ciphers with the invention of a system that resembled binary numbers. The encyclopedia said that it was not properly either a code or a cipher but a concealment system. Anyway, Sir Francis took bribes and invented a concealment system. Think about it.

At another place in the *Year Book* I found the section entitled "Guides to Professional Conduct," which starts right in by saying, "Professional conduct involves the actuary's own sense of integrity and his professional relationship with [then there is a short list ending with] the world at large." Under "Professional Duty," paragraph 1(a) states: "The member will act in a manner to uphold the dignity of the actuarial profession and to fulfill its responsibility to the public." Think about that, too. It seems to me that the words are plain and clear and very good.

When I sat around the table with some actuaries the other day and talked about this meeting, however, I was left with the impression that

these words about "the public" and "the world at large" have not been a matter of constant discussion. What they mean does not have the urgency of questions about advertising or personal publicity or competitive bidding. But I am sure they are at least equally important.

CHAIRMAN STEFFEN: The next question is, "How do you interpret the phrase 'the actuary's responsibility to his various publics'?"

MR. SAMUEL ECKLER: The word "responsibility" has many meanings, but for our purpose the critical ones embrace obligation, both legal and moral, and accountability.

I distinguish between the responsibility of a man who happens to be an actuary to his fellow man and that of an actuary as a professional to his various publics. Is this a distinction without a difference? I think not.

An actuary who gives professional advice, for which he is paid, to his employer (who may be, for example, an insurance company or the government, etc.) or to clients such as pension committees, companies and unions, government commissions, committees, and the like, is obliged to follow both the professional rules of his peers and his own professional rules and is accountable, therefore, to his employer, his clients, and his profession.

On the other hand, an actuary who is in politics or who serves as a member of a commission or does various types of community work is no longer constrained by professional rules. I take for granted, of course, that at all times he will be honest and honorable, but he is in his present capacity no longer accountable to his profession, except when it is very clear that he is giving actuarial opinions.

For example, an actuary serving on a government commission as one of its members may draw conclusions and make recommendations on subjects on which he has no particular expertise, and our professional body has no jurisdiction over him. However, if that same commission engages him as its actuary, his role must be limited to providing advice on subjects on which he is expert, and he is obliged to comply with all the rules of professional conduct. There are probably many other cases where the same distinction may be made and others where the distinction is not clear at all. I emphasize the distinction between these two roles so as to define clearly the limits of an actuary's responsibility. In a rather crude but perhaps clear manner, the actuary has a professional responsibility when he is paid for his services and in a broader sense when he is engaged primarily as an actuary, whether or not he is paid for such services.

MR. ERNEST J. MOORHEAD: The question on which there may be differences of opinion is that of the extent to which the responsibility of the actuary is limited by the relationship he has with his employer. I think that the actuary, regardless of how much he is cloistered or how much he is departmentalized in his specific duties, cannot fail, by reason of his background and training and the reliance that people have on him, to be face to face with responsibilities that are broader than those directly concerned with his nominal tasks. We cannot say that the actuary has a responsibility to his employer that is all-embracing. In practice he gets into direct contact with others beyond his employer and therefore has responsibilities to those others.

MR. PAYNTER: I do not think you have to go beyond the sentences I read from the Guides to Professional Conduct on "responsibility to the public and the world at large." Just as a doctor at a town meeting might be looked upon by the rest of the community as an authority on some issue that concerns public health, I believe that the community looks to the actuary as an authority on issues that concern the profession and the skills of which he is a master.

CHAIRMAN STEFFEN: Do you see any differences in responsibility between mutual and stock company actuaries?

MR. MOORHEAD: In definition I think that the responsibilities are identical, but in practice I have found that they are different.

The actuary must think of himself as a referee, doing his best to maintain balance between the interests of the parties involved. In a mutual company those parties are the policyholders, the field people, and the employees; in a stock company they are those same parties but also the stockholders.

In practice, the actuary of a stock company has the more difficult task of the two. It is more difficult because it is so temptingly easy for the stock company actuary to accept a role as the servant of the stockholders. The stock company actuary cannot perform his responsibility as referee unless and until he has squarely faced the difficult question of the role of the stockholder in our world of stock and mutual companies.

At the Denver meeting last November I touched upon the question of the task of a life company actuary in my remarks to the new Fellows. I said that although the Society's Guides to Professional Conduct have something for each of us, unfortunately for the actuary employed in a

life insurance company, they are heavily concerned with the dilemmas faced by consulting actuaries. I hope that in due course this shortcoming will be remedied.

When a life company actuary is faced with any of the numerous difficult situations that inevitably arise, he must "render unto Caesar the things that are Caesar's" (Caesar being his employer), yet he must do so without sidestepping the ethical questions that do face him. In particular, he must at all costs avoid becoming so accustomed to ignoble practices that he ceases to recognize them, let alone to struggle against them. He (or she) cannot, alas, be content with or salve his conscience by total commitment to the organization that pays his salary. Loyalty, yes—he must do nothing underhanded. But he must not thoughtlessly say (with Stephen Decatur) "My company, right or wrong!" without adding the postscript, contributed years later: "When right, to be kept right; when wrong, to be put right!"

CHAIRMAN STEFFEN: Numerous good questions have been submitted from the floor:

"What is the actuary's responsibility to the public and shareholders in reporting adjusted earnings based on, say, natural reserves? Should an 'actuarial opinion' be required? Should the actuary rendering the opinion be independent?"

"Should a qualified actuary be also 'independent' when opinions are given to the public for reliance thereon?"

"What are the implications of signing Convention Blanks?"

MR. MOORHEAD: Within the last few hours this problem of independence has been put to me eloquently, causing me to change my views considerably from what they were before. The question about independence was put to me in approximately the following manner: If you agree that the work of the accountant in a company should be subject to independent audit, how can you maintain that the work of the actuary in setting reserves should not be independently audited? After all, reserves are a major factor in determining a company's solvency. The best answer I can manage is to remind us of a saying which I believe is two thousand years old: "Let us deserve to be great." The actuarial profession has a proud record, and we can look back upon that record with a good deal of satisfaction. The trouble is that, if there is just one instance in which the absence of an independent look at the computations of the actuary has led to disaster, none of our protestations are of much use.

MR. PAYNTER: Back in 1948 the Associated Press carried a story that explained the actuary to the public, and the following is an excerpt from that story.

One day when Haley Fisk was President of the Metropolitan Life Insurance Company, he was crossing the country by train with James D. Craig, a well-known actuary. Glancing out the window, Mr. Fisk saw an immense herd of sheep. "Look," Haley said, "they've all been shorn." Craig twisted around in his seat and looked out. "At least," he admitted, "they've been shorn on this side!"

It seems to me that this question of an independent check by an outside actuary may relate to the question of shorn sheep.

CHAIRMAN STEFFEN: What are the responsibilities and implications for a life company consulting actuary of being a member of the board of his client?

MR. ECKLER: Many clients have placed consulting actuaries on their boards to enlarge the importance of their insurance companies and also to develop a closer liaison with the actuary. This approach allows the actuary to go beyond merely giving advice and involves him in making major decisions for the company. I think that there are problems when the consulting actuary becomes a member of the board. They are very much along the lines of the question that was commented on by Jack Moorhead about whether an actuary working for a company is independent. Does the actuary who gives independent advice to a company lose some aspect of independence if he is very closely involved in any of the decisions that are being made? I think that an actuary would have to look pretty carefully at the situation in which he is involved before accepting this kind of invitation to sit on the board. Other problems arise when a consulting actuary, acting for different companies, finds out privileged information about a competitive company. Will he use that privileged information in making a decision as a member of the board? Is he obliged to do his utmost to help the particular company of which he is a member of the board? I can see real problems in accepting this kind of invitation. I believe that the actuary would be wise to try to avoid offending his client if this honor and privilege is extended to him. The rejection, if it is done, must be done very diplomatically and carefully. Yet, after saying all that, I can visualize some situations in which the consulting actuary might feel that it would be useful to be involved in some of the essential policy decision areas.

CHAIRMAN STEFFEN: We could change the circumstances in the previous question slightly, so that it now reads, "What are the responsibilities and implications for a life actuary employed by a company and serving as a member of its board?"

MR. MOORHEAD: I believe that officers of a company, other than the president, would be wise to decline board appointment, so that the board can do its job, which is to check on the activities of the company officers. An actuary should not try to perform a role in both capacities—officer and member of the board. That is a personal opinion which I am sure many would not share.

MR. PAYNTER: If you extend this point into an even larger context, I think that the question of the makeup of boards of directors in the context of interlocks and economic power is one of the important public issues which our business faces and which I think are of interest to actuaries because they invented the business. It is a consumerist's question—the serving in more than one role—and I think we shall hear a lot more about it as time goes on.

CHAIRMAN STEFFEN: What should be done about Mr. Javits' apparent misuse of statistics (90 per cent of employees covered under pension plans never receive benefits)?

MR. PAYNTER: Senator Javits made a statement last Wednesday, as a colleague of Harrison Williams at their inquiry into pension plans. The opinion is prevalent that once we get through the crisis of health insurance we may be confronted with a crisis of pension plans. What Senator Javits said in prose if not in numbers was that the institution of the private pension is a colossus that is built upon human disappointment. He and Harrison Williams then cited the results of an analysis they had made of a number of pension plans and suggested that people who leave before they have achieved vesting, or people who are dismissed because of economic turndowns of their employers, are disappointed in pension expectations that they have been led to look forward to. He feels that we ought to have rules that will minimize that disappointment. What we can do to purify the statistics is to keep working at trying to make ourselves understood, but I find a little kernel of merit in his point.

MR. ECKLER: In Canada, about eight or nine years ago, the type of statement made by Senator Javits was being made by many leaders in opposition and left-wing parties and prompted the organization of an Ontario Portability Committee. The work of this committee led to the kind of provincial and federal legislation on occupational pensions that is now present in Canada.

CHAIRMAN STEFFEN: I have a question that appears to be directed to Mr. Moorhead specifically. It says, "This is to elicit the views of a life insurance company actuary as to the proper definition of the responsibilities of an actuary in the service of a state insurance department to his 'public,' to the commissioner, to the citizens of the state, and to others."

MR. MOORHEAD: There is a partnership role between the companies and the state insurance departments, and the ability of the company to do a good job depends in large measure upon the strength of the state insurance department. The responsibility of an actuary in the service of a state insurance department is to spend the smallest amount of time that he possibly can in purely routine matters on which, unfortunately, vast amounts of time and energy are being, in my view, wasted. Much more time should be spent in conversation with the company actuaries to learn how the company actuary sees his responsibilities and how his view conforms to the insurance department actuary's views of these same responsibilities.

CHAIRMAN STEFFEN: I have had several questions that deal with mutual life insurance companies. One of these specifically reads, "In a mutual life insurance company, do you feel that the ultimate responsibility is to present policyholders and that all other responsibilities are secondary to that ultimate responsibility?" Perhaps the question should be changed slightly to suggest what we consider the relative responsibilities to present policyholders and other policyholders to be rather than stand in judgment of the industry. The other question I have asks, "Does the actuary in the area of participating business have a problem in justifying early dividends and high early cash values that tend to give terminating policyholders more than their share of surplus? Who really looks after the old American Experience group of policyholders in terms of dividend equities?"



MR. MOORHEAD: It seems to me that an actuary during his career goes through a number of phases. He goes through the phase in which he is heavily concerned about the spread of life insurance to larger and larger numbers of citizens and is inclined to think everything else second in importance to that. At that phase in his career, he would definitely be inclined to rank the old policyholder as second on the totem pole.

He may then come to another viewpoint in which he reverses the situation and becomes disturbed by the excesses of the distribution system that is inherent in the life insurance business. This might lead him to become something of a crusader for the reduction of activities that prevent the existing policyholder from getting his life insurance at the lowest possible cost. I believe that eventually he will reach the stage in which he does see, with some measure of perception, what the balance ought to be. My personal resolution of that dilemma has been through recognizing that the older policyholder of today is the newer policyholder of yesterday. Had the company adhered too strongly to the interests of the then older policyholders, he would not have had the opportunity to be served by the life insurance institution in the way that he has been. A philosophic balance can be reached, but there is grave danger that an actuary may be too much devoted to the cause of the old policyholder or to that of the new, to the detriment of the other.

MR. PAYNTER: I certainly have no advice for an actuary on that question either, but I think it is a good example of the fact that the general public is quite oblivious of the dilemmas that confront this profession. The public does not even bother, as far as our research can show us, to distinguish between stock and mutual companies. I am sure that very few members of the general public would even think that the question Jack has discussed confronts conscientious people in this business. It is really astonishing how oblivious the world at large is of what the actuary contributes to the working of this society.

We combed through the research studies we know about, and, as far as we could learn, nobody has done anything about attitudes toward actuaries. One of the Institute staff teaches a psychology course in the evening in one of the universities here, and he administered a questionnaire to his class of twenty-seven, mostly mature and bright people. Eighteen of the twenty-seven answered no to the first question—"Have you ever heard the term actuary?" The other nine were encouraged to explain what an actuary does and how an actuary serves the public. One lady said, "I guess it is one who imitates a person." As to how

this serves the public, she wrote: "He serves as an identification for individuals in certain top positions, to hip the people of an underground work or to try to keep it a secret." Shades of Sir Francis! That leaves eight.

One said an actuary is a person who informs people to the best of his ability on topics of interest to the public. One said that he works on real estate assessments, and another that he does legal work. All the rest—that is five, if you lost count—at least mentioned the words "statistics," "pensions," and "insurance." One very positively spelled out that an actuary works with figures and percentages and mathematics and that he serves the public in insurance companies. She was so smart that we asked her how she knew. The answer was very simple. She is married to one.

**CHAIRMAN STEFFEN:** Does the actuary have a responsibility to emphasize the future cost potential of pension plans to city, state, and federal officials as well as to the public?

**MR. PAYNTER:** The price of labor peace which the cities are required to pay is utterly unbelievable and is misunderstood by very many members of the public. We have a prime example right here in New York City with the city firemen.

A New York fireman can retire on half his final year's pay after twenty years of service. The final year's pay from which benefits are calculated can include the overtime pay that he incurs in his twentieth year. With this type of arrangement, the person in charge of duty assignments at the station can obviously assign all the overtime to the men retiring that year, resulting in a very large buildup of pensions. One of the leading actuaries in this city, and we have a number of them, has, I think, been effective in recent days in bringing this concern to the attention of the public. I am speaking of Mr. Fitzhugh, and the way he chose to operate was through the medium of the Chamber of Commerce, where he has been trying to educate the community on the actuarial implications of some of these labor settlements. I think that there is a need for the public contribution that the actuary can make, and in a very important sense I think that the actuary has a lot to communicate to his fellow citizens for the understanding of public concerns.

**MR. ECKLER:** I would like to deal with the question of the responsibility of the actuary in the public sector occupational pension plans, distinguishing them from universal pension plans such as social security

or the Canada pension plan. The problem in the municipal areas and perhaps in other public sector areas is a much broader one than that of pensions, pensions being merely a part of it which has just now reached the forefront. I believe that the responsibility lies in the hands of the employer, particularly when employees become unionized. The problem arises in all public sector employment—for teachers, municipal employees, or federal government employees. Pensions are one of the issues that seem to be extremely important at the present time, and I believe that we are dealing with the responsibility of all of us, not only as actuaries, but as citizens. It is up to us to make sure that the employer takes a certain position in issues of this kind, whether they are questions of wages, salaries, pensions, or other compensation. The municipal politicians are being put in a very tough position in the kinds of negotiations that are presently going on. The unions are exerting the utmost pressure, and, although the public as a whole is interested, it does not seem to have a direct, immediate interest. The result is that the minority group which exerts the most pressure has the greatest impact on the political leader.

There is another difficulty here. If the employer and the elected officials of the employer are armed with adequate information, then presumably actuaries are already engaged in this situation. If actuaries are not engaged, then I believe we have failed. If actuaries are engaged and if the attitude of the public toward actuaries is favorable, then the kind of advice that the actuary is going to give to the employer as well as to a responsible union will have a strong impact. Unfortunately, this situation rarely occurs. Although the actuary most likely makes it very clear what is involved in these situations, his advice normally gets lost in the shuffle, and this is perhaps why actuaries have failed to make the impression that they should.

I would like to now turn to the question of the actuary's responsibility when he is not involved in a professional situation. What is our responsibility when we are not being paid to do a particular thing but are rather acting as concerned citizens? I think that, when we are involved as citizens, the people with whom we are working will listen to us because this is our area of expertise. One of the difficulties is that we are not in the positions of critical political importance, and perhaps we should be. Perhaps the reason that we are not may be found in our training and personality characteristics. I find that as a group actuaries are not really extroverted—we tend more to be introspective and introverted. We do not really project our concern too well on a public level,

although I feel that we have a responsibility to do so. I think that we must develop this kind of image in the public eye, so that, when the time comes to take a strong position, we will be heard.

CHAIRMAN STEFFEN: What are the responsibilities of the actuary employed by an insurance company in providing pension actuarial consultant services to the company's DA, IPG contractholders?

MR. ECKLER: I think that the actuary working for an insurance company should not have anything to do with providing this kind of advice to a client. I think that in so doing he imposes upon himself a conflict of interest which is impossible to bear. He can advise the prospective client, of course, that he is deriving his income from his insurance company. After giving this advice, he has complied with the code of professional conduct, since the client then knows that he has this other interest as well. No matter how you put it, however, there is still a conflict of interest. In our consulting work we urge clients to get independent advice, since it is hard to visualize an actuary giving advice in a DA contract without having the interests of his employer uppermost in his mind. He is certainly not going to urge a particular client to transfer his business to a competitor! How can he? I think it is the kind of conflict that an actuary should not expose himself to.

MR. MOORHEAD: I fail to see that there is a conflict of interest. The type of contract referred to in the question implies actuarial advice to the client in the operation of that type of contract, and I see no objection to the actuary's giving it, provided that the client thoroughly understands that this is one particular contract with one particular company. I do not see how you can remove advice to the client under that kind of contract from the operations of the life insurance company, and I see no necessity for removing it.