

**TRANSACTIONS OF SOCIETY OF ACTUARIES
1977 VOL. 29**

REPORT OF THE HISTORIAN—1977

INTRODUCTION

THE noted philosopher and historian Collingwood has observed that the fundamental task of the historian is to understand the period of history in which he lives, “to take all history for his province and make it his business to see the connections between the facts, and detect the large-scale rhythms of the historical process.” Or, as stated by the English philosopher Bradley, “Historical knowledge is no mere passive acceptance of testimony, but rather a critical interpretation of it. This criticism implies a criterion which is the historian himself, which he brings to the study of knowledge—and the interpretation of evidence.”

The foregoing represents a reinforcement of the remarkably concise observation of the first Historian of the Society, John Maynard, in 1974; he stated that “the primary duties of a historian are to observe and selectively interpret, and the process is necessarily subjective.”

The leitmotiv of the report of the 1975 Historian (Gary Corbett) was professionalism. In its many guises—internal organization, education, and interactions with our various publics—this also is the dominant, recurring theme underlying this report, which covers the two Society years from the 1975 annual meeting through the 1977 annual meeting. This report has been organized into the following principal sections: “The Profession,” “Society of Actuaries—Internal Organization,” “Education,” and “The Immediate Future.”

THE PROFESSION

Reorganization

In the summer of 1976 a subcommittee of the Society’s Board of Governors chaired by John Woody was appointed to study the possible reorganization of the actuarial profession in North America and submit a report on its findings to the Board at the Society’s 1976 annual meeting. This subcommittee—called the Actuarial Restructuring Committee (ARC)—concluded quickly that restructuring was an urgent necessity based on two primary considerations: (1) in the United States, because of the existence of various actuarial organizations, “qualified” actuaries are not now able to speak with one voice, and (2) a sizable number of

persons who, in ARC's view, are not fully qualified are nonetheless using the title "actuary" and are regarded as such by certain federal and state regulatory bodies.

In considering the issues, ARC focused on such fundamental questions as: Who is an actuary? What kind of an actuary is he? How well qualified is he? How do we convey our perception of the facts to outside publics including governmental authorities? Other considerations addressed by ARC were the existing management conflicts and the duplication of meetings, dues, and administration.

Prior to the formation of ARC, several reorganization proposals had been developed under the auspices of a Joint Committee on Organizational Coordination established in 1974 by the Council of Presidents. These proposals were set forth in detail in a special supplement to the May, 1976, issue of *The Actuary*. However, ARC decided against recommending any of these prior reorganization proposals on the ground that all had too little flexibility.

The ARC proposal, as presented to the Board, was designed to meet the following criteria: (1) maintenance of high standards of competence and conduct; (2) preservation of internationalism, especially with regard to education and examinations, research, and communication of ideas; (3) preservation of Canadian autonomy; (4) preservation of credentials based on examinations of the Society of Actuaries and the Casualty Actuarial Society; and (5) provision for a satisfactory membership status with proper representation for all those recognized by the outside public as being actuaries for some bona fide purpose.

In summary, the ARC proposal would establish a general structure consisting of two national (Canadian and United States) membership bodies and a nonnational, nonmembership organization that would be responsible for education and examinations, issuance of certificates for various levels of examined competence (comparable to F.S.A., F.C.A.S., and other designations), research, and the establishment of actuarial principles. Under the proposal there also would be established a Board of the nonnational organization that would be composed of members or appointees of the boards of the national bodies. It was felt that this procedure would reduce conflicts and duplications significantly. The proposal stated further that each national body ultimately would be able to use the certificate designations of the nonnational organization to set varying levels of membership qualifications, which then could be used by regulatory bodies for purposes of accreditation.

At its October, 1976, meeting the Society's Board approved the ARC report (with minor amendments) and agreed to appoint a steering com-

mittee to work with the other actuarial bodies in an effort to come up with an acceptable plan of reorganization based on the general principles of the ARC proposal (which is set forth in its entirety in the Society's 1976 Annual Meeting Report). Most of the activities in 1977 of this steering committee, chaired by Julius Vogel, were directed at bringing the ARC proposals to the attention of as many actuaries as possible.

In September, 1977, the Society's Executive Committee authorized the Vogel committee to discuss the possibility of merger of the Society with the Conference of Actuaries in Public Practice and with the Fraternal Actuarial Association. At the same time, the Executive Committee expressed agreement with the principle of strengthening the American Academy of Actuaries as the profession's United States public accreditation body, and stated that it will work with the Academy in defining the minimum educational requirements needed for life and health actuaries to become members of the Academy.

Reorganization was the subject of a general session and a concurrent session at two of the Society's 1977 spring meetings, and was discussed at the Board meeting and at workshop sessions at the 1977 annual meeting. The subject has been discussed also at numerous meetings of local actuaries' clubs.

The emergence of new actuarial bodies in recent years has served to increase the urgency of opening substantive discussions on the issues so well set forth in the ARC report. There now are many enrolled actuaries under ERISA who are certified to value pension plans although they are not members of the Society. The American Society of Pension Actuaries (ASPA) offers an education and examination alternative for prospective actuaries who are content to specialize in pension actuarial work.

The challenge to the actuarial profession was stated well by Peter Plumley in his October, 1976, Report of the Executive Director: "We must develop an organizational structure which will meet the increasingly complex needs of the profession. And, as an integral part of it, we must create an educational system which will offer training to persons interested in a wide variety of types of actuarial careers."

The Society's Long-Term Goals

In November, 1976, Society President-Elect William Halvorson presented for consideration by the Council of Presidents a working paper entitled "General Thesis for Establishing a Federal Charter for the Actuarial Profession." This paper and a memorandum entitled "Who Are We?" were discussed by the Society's Executive Committee at a February, 1977, meeting.

The thrust of this important paper can be summarized as follows:

1. The actuarial profession will not be unified with public recognition and support until we have federal licensing of actuaries.
2. If federal licensing could be accomplished, reorganization of the profession would fall neatly into place.
3. It would appear propitious and reasonable for Congress to permit actuaries to become federally licensed (because of ERISA, the increasing involvement of actuaries with the Securities and Exchange Commission, the need for actuarial evaluation of national health insurance bills, HMO reporting, and so on).
4. To keep the states involved, it would seem possible to have the NAIC appoint members to the Federal Board of Examiners for reviewing the adequacy of the training and examinations of prospective actuaries for federal licensing.

To respond to the issues raised by the Halvorson paper and by a letter from Anna Rappaport on the education of actuaries, the Board formed a Special Committee on the Public Responsibility and Education of the Actuary. The report of this committee recommended a two-phase plan. In the first phase, a statement of what actuaries are now and their responsibilities to their various publics would be prepared. This would be followed in the second phase by task forces dealing with the implications of the statement prepared in the first phase for the educational system, the organizational structure of the profession, licensing, communicating with the public that uses actuarial services, services to members of the profession, and long-range planning and development of goals and priorities for the profession.

Enrolled Actuaries and the Joint Board

In order to advise it in the task of determining the adequacy of examinations administered by actuarial organizations, the Joint Board of the Internal Revenue Service and the Department of Labor announced on December 9, 1976, the formation of an Advisory Committee on Joint Board Actuarial Examinations. This Advisory Committee was given the charge by the Joint Board of reviewing actuarial examinations given prior to January 1, 1977, and making recommendations regarding their adequacy in meeting the Joint Board's requirements of education and training in actuarial mathematics and methodology.

After a detailed and thorough analysis, the Advisory Committee submitted an extensively documented report to the Joint Board on July 10, 1977. Relative to the Society's examinations, the report recommended the following:

1. That persons achieving an F.S.A. in 1949–63, persons achieving an F.S.A. under the “E” route in 1964–75, persons achieving an F.S.A. in 1976 by passing Parts 7G and 8G, and A.S.A.’s who passed Parts 6G, 7G, and 8G in 1976 all should be deemed to have met the Joint Board’s requirements with respect to pension actuarial knowledge.
2. That persons achieving an A.S.A. in 1949–76 should be deemed to have met the requirements with respect to basic actuarial knowledge.

On July 22, 1977, the Joint Board announced the extent to which credit would be given for having passed various examinations of the Society of Actuaries and the ASPA toward the satisfaction of the basic actuarial knowledge and pension actuarial knowledge requirements. Starting in September, 1977, the Joint Board plans to administer annually two examinations—a basic examination and a pension examination. With respect to the Society’s examinations, the Joint Board’s July 22, 1977, announcement stated:

1. The basic examination would be waived for any individual who has passed the examinations on compound interest and life contingencies (currently Parts 3 and 4).
2. With respect to the pension examination, “because of the special nature of that examination, emphasizing as it does concepts and problems unique to actuarial practice under ERISA,” no credit would be given for pre-1976 Society examinations.
3. The pension examination would be waived for any individual who has passed Parts 6G, 7G, and 8G in 1976 or 1977.

By not allowing credit for the Society’s pre-1976 examinations with respect to the pension actuarial knowledge requirement, the Joint Board has taken a much harsher position than that advocated by the Advisory Committee. A number of Society members who thought that they already had demonstrated sufficient pension actuarial knowledge to qualify for enrollment are forced to sit for the Joint Board’s pension examination.

Committee on Independence

As is true of the work done by accountants, the services performed by actuaries involve professional judgments that can be made reliably only by persons with the necessary experience, integrity, and objectivity. Many actuaries of course are engaged as employees of the company for which their professional services are rendered. On the other hand, the vast majority of actuarial determinations in the pension area are made by actuaries who are independent of the organization for which such determinations are made. The need for independence in both accounting and actuarial professions arises in the *audit function*. In recent years,

the issue of actuarial audits has become increasingly important as a result of the development of GAAP statements for stock life insurance companies and the emergence of ERISA.

With these developments, the actuarial profession felt that the subject of possible requirements for independence of the actuary needed to be examined. Accordingly, a Joint Committee on Independence of the Actuary was established in 1974. Some of the functions of this committee were to explore and identify the circumstances under which independence might be desirable or required, and to determine whether and how independence might be defined in these contexts. The committee produced a report in the spring of 1977.

Also, comparable committees of the Society, the American Academy of Actuaries, and the Conference of Actuaries in Public Practice have been involved deeply in this issue and have coordinated their efforts so that, to the extent possible, the final recommendations coming out of the three committees would be reasonably comparable when presented to their respective Boards. A draft report of the Society's Committee on Independence, chaired by Walter Grace, was a major topic of discussion at the Society's October, 1977, Board meeting, with particular attention devoted to the definition and ramifications of "self-review."

Principles of Professional Conduct

A special responsibility rests on every actuary to undertake only those assignments that he is qualified to do. How does the actuary judge whether or not his training and experience qualify him to give advice on a particular assignment?

Opinion A-5, entitled "Qualifications to Give Advice in a Specific Situation" and set forth in the *Academy of Actuaries Year Book*, attempts to assist the actuary in interpreting the Guides to Professional Conduct. A comparable Opinion, labeled S-5, was presented to the Society's Board at its October, 1976, meeting but was referred back to the Society's Committee on Principles of Professional Conduct for further study.

However, the Board at that same meeting did approve an important addition to Opinion S-3. This Opinion relates to the responsibilities of an actuary involved in the preparation of a report based on an actuarial analysis of the implications of a legislative or regulatory act or proposal. The Addition, entitled "Actuary in Relation to Legislation and Regulations," warns that the actuary must recognize the risk of misinterpretation of the actuarial aspects of the report, particularly if the report is not prepared solely by the actuary or is presented by a nonactuary. The Addition states that the actuary should consider the desirability of pre-

paring a supplemental statement covering the actuarial portion of the included material. It also points out that it is the actuary's responsibility to ensure that the material in such a report is presented fairly and not in a way likely to leave a misleading impression.

Complaints and Discipline

The Committee on Complaints and Discipline, chaired by Edwin Lancaster, was organized in January, 1976, with the appointment of nineteen members. In order to be able to deal with potential cases that may arise wherever actuaries are at work, the committee members were selected from broadly diversified geographical locations and actuarial specialties. In addition, the committee has supplemented its membership with ad hoc appointees (Fellows) as needed to assist in fact-finding missions at a local level.

During its short period of operation, the committee has been asked to consider several incidents of alleged cheating in actuarial examinations and several assertions of unprofessional conduct by actuarial organizations. Also, in March, 1977, the Society's Board approved a set of guidelines for disciplinary action on cheating incidents that were prepared by the committee.

NAIC Requirement of Actuarial Certification of Life Insurance Company Reserves

In 1976 the NAIC enacted a requirement for an actuarial certification of life insurance company reserves for annual statement purposes. As noted by Historian Gary Corbett in his 1975 report, the portion of this requirement creating the most controversy stipulates that the actuary certify that the reserves and other actuarial items "make a good and sufficient provision for all unmatured obligations of the company guaranteed under the terms of its policies." This requirement carries with it a significantly increased level of responsibilities for the actuary.

A proposal very similar to the NAIC requirement has been made by the federal superintendent of insurance in Canada to the Canadian Life Insurance Association. In this regard, an interesting proposal put forth by Ardian Gill in the October, 1976, *Actuary* is worthy of mention. Mr. Gill suggested the following:

1. That the actuarial profession establish an actuarial counterpart to the accountant's Financial Accounting Standards Board, as a joint creature of all the actuarial bodies in North America.
2. That all the actuarial and valuation studies of the *American Council of Life*

Insurance (ACLI), Society, and Academy committees be subsumed in such Board.

3. That the Board issue opinions, from time to time, on relevant valuation matters.
4. That it be considered a violation of professional ethics to sign a certificate without noting any deviation from those standards.
5. That the actuarial profession lobby in the NAIC for removal of statutory valuation standards.

Mr. Gill's proposition was endorsed warmly by Charles F. B. Richardson in a letter published in the December, 1976, *Actuary*. In particular, Mr. Richardson noted that the pending Brooke bill regarding federal charters and solvency standards for insurance companies may well portend the extinction of the present state supervisory system. Mr. Richardson observed that the NAIC should create a strong central professional staff comprised of actuaries, lawyers, and qualified examiners who would act for and advise the several states.

Society's Committee on Dividend Philosophy

The determination of dividend scales always has been a major responsibility of the actuary. This involves a wide range of issues, ranging from consideration of equity between policy classes and other philosophical questions underlying the dividend scales to the practical implementation of the scales once the formulas have been developed. In recent years, events have focused considerable attention on the way in which these tasks are carried out. This led ultimately to the creation by the Board on March 1, 1976, of the Society's Committee on Dividend Philosophy, chaired by J. Edwin Matz.

To quote from the committee's charge: "The purpose of this committee is (1) to study in depth the underlying actuarial principles and practical problems relating to the calculation and illustration of dividends including related matters of philosophy, and (2) to develop a report on its finding and recommendations." The intent of this charge was to give this committee broad latitude in pursuing its investigation, although it was made clear that the assignment related only to individual life insurance and annuities.

The committee felt that the concerns expressed in recent years about dividend practices were related heavily to the recent increased emphasis on cost comparisons. Therefore, its initial efforts were aimed at improvement in the area of dividend illustrations as distinguished from the related but much broader (and more opaque) field of dividend apportionment. In its interim report mailed to all Society members prior to

the Society's annual meeting in October, 1977, the committee stated its belief that "whatever constraints are placed on the dividend process should preferably require disclosure of practices rather than prescribing a narrow range of allowable practices."

The questions of dividend illustration comparability and cost comparison validity relate, of course, to whether a company determines its dividend scales on a "portfolio" interest allocation basis or by some form of investment-generation method. This subject has been a topic of frequent discussions at recent Society meetings, notably the Chicago and Houston meetings in the spring of 1976.

The interim report noted that ultimately it may be appropriate to promulgate Guides or Opinions that will approach the dividend illustration question partly via the processes of dividend apportionment. This is highly appropriate in view of recent critical comment, both from within and from without the life insurance industry (in particular, from that relentless self-appointed scourge of, as he perceives them, life insurance sinners, Professor Joseph M. Belth). As stated in the interim report, "it is important to keep much of the dividend apportionment process in the hands of company management. However, those rights should not be defended absolutely, for the public has to be assured that this very complex process is being conducted according to high standards."

Cost Disclosure

On May 4, 1976, the NAIC adopted a Model Life Insurance Solicitation Regulation, which requires that a *Policy Summary* and a *Buyer's Guide* be given to every prospective customer at the time of policy delivery. The Policy Summary must include interest-adjusted cost indexes, equivalent level annual dividend amounts, and other detailed policy information.

The ACLI endorsed this regulation, and much of the helpful input from the ACLI to the NAIC prior to the adoption of the regulation was developed by the ACLI's Subcommittee on Cost Comparisons, chaired by Edwin Lancaster and composed largely of Society members. However, as of this writing only two states—Iowa and New Jersey—have adopted the regulation, both with a January 1, 1978, effective date, and its prospects are rated as poor because of apathy and opposition by industry leaders.

On the other hand, in Canada events in this field have proceeded down more than one path. In April, 1977, the Canadian Institute of Actuaries endorsed a "group average" or net retention method called the "actuaries index," rather than an "event-specific" type of formula such as the

interest-adjusted cost method adopted by the NAIC. Also, in February, 1977, the Canadian Life Insurance Association (equivalent to the ACLI in the United States) agreed to supply the Consumer's Association in Canada with the necessary information for preparation of an insurance shopper's guide. Apparently, the Consumer's Association in Canada endorses the interest-adjusted cost method.

On February 11, 1977, during the Ninety-fifth Congress, Senator Stone (D., Fla.) introduced S. 718, which would provide cost disclosure to veterans similar to that required under the model NAIC regulation. The bill currently is before the Senate Committee on Veterans' Affairs.

The Federal Trade Commission (FTC) has come out in opposition to S. 718 and has indicated that it wishes to play its own major role in the area of cost disclosure. The FTC has expressed a preference for the Belth retention method of cost comparisons, has stated that the disclosure should be made at the time of solicitation and not upon policy delivery, and has its own version of a buyer's guide.

Valuation and Nonforfeiture Laws

The last major change in the valuation and nonforfeiture laws occurred during the 1940's, when the work of the Guertin committee resulted in the adoption by the NAIC of the Standard Valuation and Nonforfeiture Laws. While there have been a number of amendments to these laws since their adoption, both insurance department and company actuaries have concluded that there is need for a general overhaul of these standard laws to make them more responsive to today's business and regulatory needs.

The Society established in 1973 a Special Committee on Valuation and Nonforfeiture Laws, and the NAIC established concurrently a Technical Task Force to review these laws. The Society's committee later confined its focus to nonforfeiture requirements.

The Society's committee report was distributed to all Society members in January, 1976, and individual comments were solicited. A discussion of the report was printed in *The Actuary*, and it was given a forum in panel sessions at two of the Society's spring, 1976, meetings. Also, the report was distributed to state insurance commissioners and to members of the NAIC Technical Task Force. Several discussions were held with this task force and with the Actuarial Committee of the ACLI. In October, 1976, draft legislation incorporating the recommendations of the report was submitted to the task force and was released by the NAIC as an exposure draft in December, 1976.

The NAIC Technical Task Force incorporated substantially all of the Society committee's recommendations. The principal recommendations were for changes in statutory interest rates, elimination of the linkage between valuation and nonforfeiture interest rates, introduction of standard valuation and nonforfeiture interest rates, introduction of standard valuation and nonforfeiture laws for individual deferred annuities, changes in the computation of deficiency reserves, and changes in the excess initial expense allowance used in the determination of minimum nonforfeiture benefits.

At the present time, all basic development work for the in-depth study of nonforfeiture requirements has been completed but certain technical questions (e.g., the maximum interest rates and the expense allowance factors) are unresolved. As of September 30, 1977, twelve states had enacted the 1976 NAIC amendments (with or without modifications).

With respect to valuation matters, the Society's Board established in September, 1976, a Special Committee on Valuation and Related Matters charged with the responsibility "(1) to study in depth the underlying actuarial principles and practical problems in connection with the valuation of assets and liabilities, the determination of adequate surplus levels, and other related solvency questions, and (2) to develop a report on its findings." Concomitantly, a Special Committee to Recommend New Mortality Tables for Valuation was established.

SOCIETY OF ACTUARIES—INTERNAL ORGANIZATION

Evaluation Report of the American Society of Association Executives

For many years the internal affairs of the Society have been managed with a minimum of input about other organizations and professions. However, in the past ten years the number of members has more than doubled and the Society's budget has more than tripled, now exceeding \$1.2 million per year. The concerns facing the profession have grown tremendously in number and complexity.

To assist the Society in a reexamination of its operations in several key areas (e.g., relationship of paid staff to volunteer committees, organization of the profession, and nature of the educational system for actuaries), the Executive Committee in December, 1976, asked the American Society of Association Executives (ASAE) to conduct an evaluation of the Society. Their report was distributed to members of the Society's Board on April 29, 1977.

The principal recommendations of this study focused on a redefinition of the interrelationships between the Board of Governors, the Executive

Committee, and the Executive Director. The more important of these recommendations included the following:

1. The Board must assume a greater responsibility for the overall coordination of organized activities, and the Board should free itself of time-consuming detail by delegating developmental responsibilities in such areas as long-range planning and By-Law review to new standing committees.
2. The Society's Constitution and By-Laws must more clearly define and assign the responsibility for the development and maintenance of Society policy.
3. There is a need for clarification of the Executive Director's responsibilities.
4. The Society's paid staff must be supplemented to the level where it can provide the necessary support to all vital association activities.

The most important action taken by the Society's Executive Committee at its June, 1977, meeting, which stemmed from the ASAE evaluation report, was the formation of a subcommittee of Board members chaired by Ian Rolland to study the general organization of the Society. This subcommittee was asked to consider, among other things, (1) the function of the Board and of the Executive Committee, (2) the optimum organization for overall supervision of committees, (3) Board size and the number and structure of Board meetings, (4) the division of duties and authority between the Board and the Executive Committee, and (5) the interrelationship of the Board with the Executive Committee, the Executive Director, and the staff. The subcommittee also was asked to produce a discussion draft report for the October, 1977, Board meeting, with the further objective of producing final recommendations by mid-1978.

Staff Support for Society Committees

In recent years, there has been a significant growth in the work of a number of major Society committees. This has created increasing pressure to reexamine the extent to which the Society should depend on its volunteers for work of a nonpolicymaking nature.

Some issues with regard to the proper levels of staff support were raised by the Treasurer in the financial study presented to the Executive Committee in February, 1976. Later in 1976, the Board of Publications, the Committee on Continuing Education and Research, the Education and Examination Committee, and the Program Committee all expressed an interest in the possibility of transferring to paid staff some of the work of a professional and semiprofessional nature that has been done by these committees.

In his November, 1976, Report of the Executive Director to the Exec-

utive Committee, Peter Plumley gave the following examples of the types of functions that might be handled by paid staff:

1. Educational material—review and identification of weaknesses, development of outlines of new material, working with authors of such material.
2. Program Committee—preparation of lists of possible Society meeting program participants, general advisory support.
3. Development and implementation of programs for teaching sessions or special-purpose seminars.
4. Continuing Education Committee—updating reading lists.
5. Staff support for local actuarial clubs on educational programs.

Mr. Plumley and the ASAE report both identified as the most important need in this regard the addition to the staff of a Director of Education, whose duties would include providing professional staff support to the Program, Education and Examination, and Continuing Education committees. In 1977 the Board authorized the creation of this position, and Warren R. Adams was selected to fill it. Mr. Adams has the combination of actuarial qualifications and experience as a professional educator that the job requires. With respect to education and examination matters, he initially will be concerned primarily with (1) increasing the pace of new study material output, (2) attaining the proper level of education on pension topics, (3) restructuring the Associateship examinations, and (4) enhancing the level of communication between the Education and Examination Committee and the universities.

The Society's Office

As of this writing, there are twenty-one employees in the Society's Chicago office who report to the Society's Executive Director, Peter Plumley. These include Bernard Bartels, Administrative Officer, and Warren Adams, Director of Education. The Society's office provides membership services for the American Academy of Actuaries and the Conference of Actuaries in Public Practice through a service agreement under which those organizations reimburse the Society for the cost of these services.

Both the physical facilities and the responsibilities of the Society's office have increased dramatically over the past several years as the result of a number of factors (growth in membership, restructuring of the Fellowship examinations, increased interactions with other actuarial bodies, and so on). To cope with these challenges, a number of significant innovations and changes in office procedures have been implemented under the leadership of Peter Plumley. As documented in his September, 1977, Report of the Executive Director, these include (1) the ASAE

evaluation of the Society; (2) changes in procedures for printing study notes and other printed matter, which saved the Society as much as \$50,000 in printing and postage costs in less than one year; (3) improvements in services through staffing and changes in work hours; (4) improved assistance and backup for the Academy functions and for the processing of study notes; (5) changes in operating procedures to improve audit controls; (6) improvement in cash-flow procedures so as to avoid unnecessary loss of investment income; and (7) development of job descriptions and desk manuals for the various members of the Society's staff as a means of facilitating salary administration.

As a result of a feasibility study, the Executive Committee at its September, 1977, meeting authorized Executive Director Plumley to proceed with the computerization, using an outside consultant, of the Society's records, including the records maintained for the Academy and the Conference. When fully implemented, this should reduce clerical errors, provide improved services of all types, and result in significant cost savings.

Career Encouragement and Minority Recruiting

Perhaps the most important subcommittee of the Society's Career Encouragement Committee is the one on minority recruiting. This subcommittee is responsible for encouraging the entrance of minority and women students into the actuarial profession. The primary means used by this subcommittee to bring about that end is a general scholarship program available to graduate and undergraduate students. In 1977 the Society was joined in this program by the Casualty Actuarial Society.

Also in 1977 the Summer Institute at Lincoln University, which had been sponsored by the Society for the past five years, was discontinued. During this five-year period, twenty-five students were aided in passing Part 1 of the actuarial examinations, and a number of those students went on to pass Parts 2, 3, and 4. The primary reason for discontinuing the Summer Institute was a general feeling that a scholarship program could reach a larger group of candidates more effectively.

The 1977 Society scholarship program, which was an expansion of the J. Henry Smith program introduced in 1976 and the limited scholarship awards program of prior years, provided financial assistance totaling \$21,400 to twenty of thirty-two applicants. The scholarship program consists of a general fund that is funded by annual solicitations, the J. Henry Smith Fund for Women and Minority Students funded by the Equitable Life Assurance Society, and the C. G. Actuarial Fellowship for Minorities funded by the Connecticut General. The scholarships were

made possible largely by continued solicitations from employers of Society members, actuarial clubs, and individual Society members.

As stated in the Career Encouragement Committee's October, 1977, report to the Board,

It is our general opinion that the Society's Minority Recruiting program . . . is in an excellent position to effectively aid and encourage a relatively large number of minority group members in entering the actuarial profession. We feel, further, that the need for our program is as real today as it ever has been due to continuing legislative pressure for affirmative action programs on a number of actuarial employees. It is our considered opinion that a continent-wide program with participation from other actuarial organizations would be the most efficient and effective way of dealing with the scarcity of minority group member representation in the profession.

Halmstad Prize

The untimely death in February, 1977, of David G. Halmstad led to a proposal by a group of his friends and admirers to raise an endowment to be used to fund an annual Halmstad Prize. Mr. Halmstad had contributed so much to the actuarial profession, particularly in the area of research. The prize would be awarded annually to the paper or note judged the most deserving piece of research by a Selection Committee consisting of the chairmen of the Society's Committees on Research, Computer Science, and Theory of Risk, and the Casualty Actuarial Society's Risk Theory Liaison Representative.

The proposal was endorsed warmly by the Society's Executive Committee at its June, 1977, meeting. The memorial has been publicized through *ARCH*, the *Academy Newsletter*, and the time-sharing network of the Scientific Time-Sharing Corporation. The Halmstad endowment enables the Society to implement one of the recommendations of the Bragg Ad Hoc Committee on Actuarial Literature by establishing a new annual prize for the best research paper.

EDUCATION

Education and Examination Committee

As noted earlier in this report, an extremely important development in 1977 for the Education and Examination Committee was the appointment of Warren Adams to the newly created position of Director of Education. Mr. Adams should be most valuable in helping the committee to maintain and extend an educational effort of high quality.

Particularly because of the restructured Fellowship examinations, there has been a tremendous workload placed on the education officers

of the Education and Examination Committee and the Part Committees to produce on a timely basis appropriate study notes for the examination syllabus. To improve coordination with the Director of Education, the Education and Examination Committee (as stated in the 1977 General Chairman's Report) plans to form an Education Committee separate from the Part Committees and reporting directly to the Education Chairman. Under this new arrangement, the Part Chairmen will be free to concentrate on examination administration matters, while the Education Committee will be responsible for meeting education deadlines and upgrading syllabus material.

An important subject that will be given considerable attention by the education officers is the adequacy of the present syllabus with respect to pension topics. Another relates to a gradual restructuring of Associateship examinations, for which a study group including the Director of Education and representatives of the Casualty Actuarial Society is preparing a detailed plan for implementation with the 1979 examinations; the plan is to be presented to the Board in 1978. Also, recognizing certain deficiencies in the current textbook on life contingencies, the Education and Examination Committee has initiated a project to have a new textbook written.

To relieve the Part Chairmen of some administrative burdens, the general officers of the Education and Examination Committee in 1977 awarded to the American College Testing Program the contract for the preparation and processing of the Part 1 and Part 2 examinations. Under this arrangement, answer sheets will be mailed directly from the examination centers to American College Testing for grading. It is intended that this program be expanded in 1979 to embrace multiple-choice answer-sheet processing for all parts.

In 1976 the Education and Examination Committee initiated the administration and grading in French of the Canadian specialty essay examination questions on Part 9. This was expanded for the May, 1977, examination to include the multiple-choice questions. Candidates for this Part 9 examination were given all essay and multiple-choice questions in both English and French and were permitted to respond to essay questions in either language. The experiment has been successful, and the committee plans to continue to administer the Part 9 Canadian specialty questions bilingually.

In 1976 and 1977 the committee, through the Executive Director, provided information and materials to the Joint Board for the Enrollment of Actuaries, and to the Advisory Committee to the Joint Board, to enable them to evaluate the examinations of the Society and to assist

them in the preparation of the special Joint Board examinations. In 1976 the committee established liaison with its ASPA counterpart to discuss examination content and standards and other matters of mutual interest. This contact was maintained in 1977 primarily through attendance by certain ASPA members at meetings of the study group on the restructuring of the Society's Part 1 and Part 2 examinations.

Advisory Committee on Education and Examinations

At its April 12, 1976, meeting, the Society's Advisory Committee on Education and Examinations unanimously resolved

that the Advisory Committee now favors, in principle, the concept of establishing a system of waiver of some or all of the Associateship examinations under appropriate conditions; that it recommends formation of a committee or subcommittee to develop a specific proposal as to short-range and long-range implementation of this concept; and that this committee should consult with the Society of Actuaries' and the Casualty Actuarial Society's Education and Examination Committees, other actuarial bodies, employers, and the academic community.

The Advisory Committee took this action after reversing its previous decision to support, in principle, an alternate route to full Associateship by means of a comprehensive examination. This reversal came after review of the responses to questionnaires about the Garber committee's proposed alternate route that were sent to new Associates of the Society, employers of actuaries, and schools with actuarial programs.

With respect to the possibilities of waiver of Society examinations for suitable university credit, the study will be coordinated with the work now in progress relating to reorganization of the actuarial profession.

Also in 1976, John Maynard submitted a proposal to the Board relative to the possible reorganization of the education and examination advisory function and involving both the Society and the Casualty Actuarial Society. As an outgrowth of the Maynard proposal, a meeting of representatives from both Societies was held in June, 1977, to discuss organization for policy and examinations. At this meeting the following proposal was formulated:

1. A joint committee for the administration of education and examinations should be formed.
2. This new committee would be charged with making recommendations to the Boards of the two Societies concerning administrative matters related to syllabus changes, the giving of examinations, and the preparation of educational material.

3. The committee would conduct joint investigations of student conduct on joint examinations, although each body would act independently on the results of the investigation.

This proposed structure would leave the two bodies free to develop policy control by the respective Boards in any way deemed suitable.

Continuing Education and Research

There now are eight specialized committees working in the field of continuing education. Particularly visible and noteworthy was the work of the Committee on Economics and Finance in arranging jointly with the Program Committee for the special 1976 spring meeting on "Economics and Financial Security." The Committee on Life and Health Corporate Affairs similarly worked hard on the planning of the excellent 1977 spring meeting on "Corporate Strategy and Planning," and in addition published reading lists on expense analysis and taxation.

During 1976 and 1977, progress was made in the coordination of this group of committees with the other committees of the Society. This progress has been evident in a number of activities: publication of reading lists, articles in *The Actuary*, and other literature; assistance to the Program Committee; and development of educational seminars.

The Committee on Retirement Plans, with considerable help from the Society's office, implemented in February, 1977, a new idea in continuing education for actuaries: three one-day seminars devoted to a single subject—actuarial assumptions. Three actuaries presented a program of lectures, panels, and discussions at each seminar. Attendance at each seminar ranged from sixty to eighty participants, a level considered desirable by the committee for sessions devoted to discussion by the audience and panelists. The May, 1977, *Actuary* included an article on these seminars.

The Committee on Research sponsored the eleventh Actuarial Research Conference at the University of Michigan in September, 1976, on multivariate regression analysis. Articles on this conference appeared in *ARCH* and *The Actuary*. A September, 1977, conference at New York University concentrated on the field of economics and investment and explored the valuation of assets and related technical problems.

The Committee on Social Insurance, formed in 1975, worked in 1976 and 1977 with the corresponding committee of the American Academy of Actuaries, but concentrated on material of interest to actuaries as opposed to material for the public. Priority has been given to technical

analysis of the OASDI “decoupling” issue and to identifying topics for research, publication, and discussion.

The Committee on Standard Notation and Nomenclature studied in 1976 the questions of linearization and expansion of the Standard Actuarial Notation, following receipt of a questionnaire from the International Actuarial Association. The majority view of the committee was against linearization and for expansion. These views were set forth in an article in the March, 1976, *Actuary*.

The Committee on Health Insurance in 1977 prepared for publication reading lists on dental insurance and health maintenance organizations.

THE IMMEDIATE FUTURE

The Society’s Historian is obligated to record significant events that probably will have an impact on the work and role of actuaries in the future. It is the purpose of this final section of the 1977 Historian’s Report to note briefly a number of emerging issues that well may be of considerable importance to our profession in the next several years.

Equality versus Equity

In his 1976 presidential address, John Bragg stated, “If I were to select one word to describe the dominant force now at work in North America, it would be *egalitarianism*, the struggle for equality. The actuarial profession and the life insurance business are presently confronted by a perfect example of the egalitarian struggle, the demand by women activist groups for unisex mortality tables.”

The fundamental issue here is that risk classifications based on actuarial logic and statistical evidence may be considered no longer socially acceptable under today’s concepts of equity and equality. As stated by Barbara Lautzenheiser in an article appearing in the September, 1977, *Actuary*, “It’s also not just sex, but physical handicap and age as classifications, that are being challenged. It’s the ability to assess the risk and charge a fair price for it, with no unfair overcharge for someone else’s extra cost risk, that’s being jeopardized.”

One thing is clear: the egalitarian perspectives of social justice will be projected in an increasingly strident manner during the next few years. For example, Professor Ronald Dworkin, one of the United States’ most distinguished liberal legal philosophers, has written recently that “a more equal society is a better society even if its citizens prefer inequality.” It is important that the insurance industry educate appropriate segments of our society—educators, professional organizations, and national groups—with respect to the methods of developing risk and

other pricing classifications, the necessity for maintaining them, and their fairness. In particular, actuaries should be at the cutting edge of this activity—for example, working effectively with legislators by giving them information on the costs of various forms of equality.

Federal Activity

According to an August, 1977, *Wall Street Journal* article, the Treasury Department is considering, as a part of President Carter's comprehensive tax reform legislation, taxation of the "inside buildup" in cash-value life insurance policies. Under this proposal the annual interest element on the "savings" portion of such policies would be taxed as income to policyholders. The ACLI submitted a memorandum opposing the proposal strenuously to Treasury Secretary Blumenthal and White House officials. Needless to say, implementation of any such proposal would have profound repercussions on the life insurance industry.

Another event of potential future significance relates to Senator Brooke's (R., Mass.) proposed Federal Insurance Act of 1977 (S. 1710), which would create a federal insurance guarantee program and a federal chartering alternative for insurance companies. At September, 1977, hearings on the bill, proponents challenged the adequacy of current state regulation, whereas opponents of the bill observed that dual regulation would do little to solve any existing problems and would be likely to complicate and weaken regulation of the insurance business.

No Historian's report at this time would be complete without at least brief mention of the intensive scrutiny now being applied to the United States social security system. This critical reappraisal has been prompted principally by recent Social Security Administration projections indicating that under present law the expenditures for the OASDHI system may rise from 13 percent of taxable payroll in 1977 to 35 percent by the year 2050. The impact of social security on other systems of income maintenance is becoming more evident, and increasing taxes and changing socioeconomic conditions have caused many people to wonder about the equity and appropriateness of the system.

In 1977 the Carter Administration unveiled a rather complex proposed financing program for the social security trust funds. Details of this proposal were summarized in the September, 1977, *Actuary*. The Carter administration proposal departed from more traditional proposals in two key areas. One concerns the injection of general revenue funds instead of relying solely on payroll taxes. The other involves the removal of any limitation on the wage base on which the employer would make contributions.

With respect to social insurance matters in general and the United States social security system in particular, it is clear that the actuary fills a dual role—as an actuary serving the insurance industry or employee benefit field and as an informed citizen with the capacity to understand developments and communicate their consequences to the public. In this regard, at an important panel on this subject at the Society's 1976 annual meeting, Robert Myers stated, "I have always believed it essential, for the common good, that actuaries should take an active interest in social security and should talk about it widely, not merely among themselves." The speaker's kit prepared by the Committee on Social Insurance of the American Academy of Actuaries should be helpful in this respect and, hopefully, will be used extensively.

Futurism

One of the more important committees created by the Society's Board during the past decade was the Committee on Futurism, established in 1976. This committee's charge states: "The goal will be to stimulate actuaries to adopt a broad view of the future in making their current decisions. In order to achieve this goal, the Committee will study changes in the total environment that are of interest to actuaries, speculate about their future effects, and interpret the interrelated consequences of these changes to those financial systems designed and managed by actuaries."

Additional perspectives on this fascinating, yet embryonic, subject were set forth in an address by Dr. Jay S. Mendell at the Society's 1975 annual meeting, in *Trend Analysis Report No. 12* published in 1975 by the ACLI, and in John Bragg's 1976 presidential address to the Society entitled "Prospects for the Life and Health Insurance Industry in the United States Seen from a Wider Viewpoint in A.D. 1976."

The subject of futurism was presented and discussed at one of the concurrent sessions at the Society's 1977 annual meeting.

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