

## TRANSACTIONS

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### ADDRESS OF THE PRESIDENT, ROBERT T. JACKSON REORGANIZATION

A FEW years ago, I went to a week's seminar for company presidents put on by the American Management Association. The only thing I remember clearly about that seminar was one speaker's prediction about the future. His statement was that there were two certainties, regardless of the country in which one operated, with which one must cope in the future. The first was the increasing cost of labor. In fact, the speaker suggested that one should invest in Persian rugs as perhaps the most labor-intensive article made in the world today. And, if the cost of labor were to increase, obviously the value of those rugs would be affected most directly. If you are at all interested in Persian rugs, you know how true that prediction has become.

The second certainty with which we would have to cope was greater government supervision of all businesses. In recent years, we in the United States have had a spate of state laws governing group insurance, such as health insurance conversion laws; minimum benefit laws, including special laws mandating extensive mental illness benefits; coverage of services by chiropractors, podiatrists, and optometrists; mandatory maternity benefit coverage; mandatory coverage for emotionally handicapped children; and discontinuance and replacement laws to ensure that group coverage is continuous between outgoing and incoming carriers.

In addition to these state laws specifically aimed at group, plenty of other laws, regulations, and agencies, both state and federal, have had tremendous impact on our business. Examples are discrimination laws of all kinds, the Occupational Safety and Health Act, the Equal Employment Opportunity Commission, consumer protection and cost comparison regulations, an increasingly complex income tax law, development of GAAP accounting, and, finally, ERISA. My mentor at the AMA not only was right about the inevitability of an increase in the cost of labor; he also was right, in spades, about increasing government regulation.

I mention this not for the pure enjoyment of complaining about government, but to indicate how complex the life insurance business has become in the United States. Of course we have added our own complexities—the investment-year method, variable annuities, variable life insurance,

and increasingly complicated and sometimes exotic products, not to mention entirely new fields of coverage. This tremendous increase in the complexity of doing business, together with the widespread use of data processing, has changed radically the shape of the insurance business.

Before the Second World War, life insurance was a labor-intensive industry. The typical company looked much like a pyramid with a wide base of clerical employees, above them a smaller group of chief clerks, and then a still smaller group of middle and senior management. Complexity and the computer have changed all that. Our demand for clerical employees has slowed substantially, while the demand for specialists has skyrocketed. Perhaps the company of today and tomorrow still is best represented by a pyramid, but the formerly acute angle from the base to the top has widened tremendously. Thus it seems a foregone conclusion that the future in the life insurance industry, and in consulting work, lies with the specialist, be he data processing analyst, lawyer, C.P.A., or actuary. In this respect, of course, the insurance industry has only followed the automation revolution in manufacturing, but the differences in product are so great that the similarity of result is far from a foregone conclusion.

The demand for the specialist should be good news indeed to highly qualified actuaries—but is it? When ERISA was enacted, we found that many Fellows of the Society were not considered qualified to practice in the pension field, while many others, with at best minimal knowledge, were. With GAAP accounting, the intrusion of C.P.A.'s into our internal life company accounting has made the actuary appear as a mere assistant to the C.P.A. in what once seemed our most unquestioned preserve, the valuation of liabilities.

I would suggest that the entire actuarial profession stands today at a sort of crossroads. I wish to discuss with you the questions: Where are we? How did we get there? Where are we going? Even before that, perhaps we need to spend some time on the even more basic question: Who are we?

The definitions of an actuary are many, of course, and most of them are corny, insulting, or both. If you are a serious student of our *Year Book*—and I cannot believe anyone not an officer of the Society would be—you know that it contains a definition of an actuary, but one that is somewhat pedestrian. I far prefer that of my father, Henry H. Jackson; it was as follows:

He should be something of a mathematician, something of an accountant, much of a scientist and a good deal of a business man. Life insurance law should be one of his studies and all the intricacies of political economy another. Investments in theory and practice should be his table companions and medical lore

and inspection service pertinent to the selection of risks his bedfellows. He should be able to venture an opinion on the trend of interest rates, the inheritance of longevity, the constitutionality of a statute covering income taxes, the hazard involved in aeroplane flights and the effects of the climate of Venezuela on American settlers. If in addition to these qualifications he is as eloquent as Demosthenes, as inventive as Edison, and as ratiocinative as Sherlock Holmes, so much the better.

Another definition is that of T. B. Sprague, a British actuary, who in 1884 said, "An Actuary is a Fellow of the Institute of Actuaries or a Fellow of the Faculty of Actuaries in Scotland, and no other person can properly take to himself the title." For better or worse, we have not been able to make such exclusionary definitions stick in the United States, and that is one of the reasons we are where we are today.

If we look back at the profession as it was practiced until shortly after World War II, we see that it was essentially a very private profession. Most actuaries were life actuaries, and most worked for insurance companies. The Society had to prove the worth of its examination system to only the insurance industry, and most company presidents, while they sometimes found it difficult to get along with actuaries, found it even more difficult to get along without them.

Today, as Jack Bragg put it, we are as "sectarian as the Reformed Church." For example, as he points out in the same paper, in the ten-year period from 1963 to 1973 the number of actuaries employed by companies grew by two-thirds, but the number of consultants nearly doubled. The number of actuaries in the casualty field also has grown by leaps and bounds in recent years, and the same is true of the pension field.

Along with this increasing specialization, and probably related to it, there arose the idea of accreditation of actuaries and, more recently, the actuarial certification of insurers' annual financial statements. The formation of the Academy was by way of response to the need for such accreditation.

The next important development in the life actuarial scene in point of time was the introduction of GAAP accounting. As one whose entire actuarial career has been in mutual life insurance, I mention GAAP neither to praise it nor to bury it. Like Mount Everest, it is there (the malicious might say there is snow in both places). For our present purpose the important thing about GAAP, I think, is that it was not demanded by or originated by actuaries.

The latest big event, of course, is the passage of ERISA and the pulling and hauling that have resulted with regard to the concept of the enrolled actuary.

Out of all these happenings, I see at least three generalizations that we can draw. The first is that the exclusionary attitude of Mr. Sprague expressed in 1884 just does not exist today in the United States because regulators and legislators are increasingly chary of setting up barriers to entry into a trade. The second is that we have done a terrible job of persuading the public of the value of membership in our Society.

The third generalization is that in all this recent actuarial history the role of the Society has been reactive, not initiative. There are many reasons for this, and to acknowledge it is not to place blame anywhere. It does, however, at length bring us to one of our original questions, "Where do we go from here?" and thus, as I am sure you have suspected by now, to the various proposals for reorganization of the profession.

The last thing I want to do is to spend your time on details. Nevertheless, I hope you will agree that some sort of reorganization is both inevitable and necessary and that the Society therefore should participate willingly and constructively in its design. Some have expressed fears that in any reorganization the role of the Society will be diminished. Realistically, we must admit to ourselves that this has already happened, when we consider how little we have had to do with recent events.

If you have stuck with me thus far, perhaps the next, and last, step would be to try to spell out what we should seek as the result of any reorganization.

Certainly the function that the Society, and its parent organizations before it, have been most successful in is the education and examination process, which is really unique among the professions and involves a surprisingly large percentage of our membership. Over the years it has been administered efficiently, has been exacting in its standards, and has remained responsive to changes in the actuarial environment.

More recently, in common with other professions, we have taken cognizance of the need of the practitioner for continuing education. This has resulted in the production by the Continuing Education Committee of a series of excellent, comprehensive reading lists. Teaching sessions at Society meetings have been introduced in the past few years and are another means to the same end. Also, as you no doubt know, the several actuarial bodies have collaborated in setting up an Actuarial Education and Research Fund to solicit funds, suggest research projects, and search for and select "bidders" to carry out the projects. In addition, during an era in which our members have become involved in ever widening fields of interest, our meetings have managed to offer an amazingly wide scope of informational sessions as a result of the dedicated efforts of countless people.

Thus we can say that most functions of our Society appear in pretty good shape. Nonetheless, whatever the merits of our other functions, when we look to how the public views our doings we can find no cause for complacency.

Obviously, we have to develop mechanisms whereby the profession can speak out, can speed up the process of accreditation, and can deal with the federal government in connection with the many still unresolved aspects of ERISA and with similar future legislation affecting our fields of expertise that is bound to arise. Equally obviously, this means a better staffed, more effective, and better financed Academy than we have had in the past, and this part of the task, at least, is well on its way to fruition.

In connection with the vital public recognition piece of the problem, Bill Halvorson has suggested that we apply for a federal charter. This is certainly an interesting suggestion; if there is any reasonable possibility of success, such a step would go far toward public acceptance of our members as professionals.

Public acceptance of any profession means some sort of exclusive right to practice within prescribed parameters. The only situations where that now clearly exists for actuaries are (1) as a member of the Academy, in many states, for certification of statements and (2) as an enrolled actuary under ERISA. Neither situation gives much cause for joy—in fact, both suggest some very unpalatable possibilities as the price of exclusivity.

I shall confine my observations to the outcome of the enrolled actuary problem, because it is more recent and gives a clearer picture of what we must be prepared for.

1. Fellowship in the Society or membership in the Academy is not necessarily acceptable as a *minimum* standard for an enrolled actuary. That was a shocking outcome.
2. Examination systems much less comprehensive than the Society's *were* found acceptable.
3. For the future, successful completion of examinations substantially less demanding than those required by the Society for Fellowship will be accepted for practice as an enrolled actuary.

I believe that our pursuit of an exclusive right to practice is going to mean acceptance of some degree of governmental control of our examination system, and that in turn will mean a much less demanding examination process for sections of our profession. For pensions this is already a fact; it may well become so in time for practice in health insurance (under national health care when and if it comes), perhaps also for statement certification, and finally for who knows what other actuarial specialties.

Further, I suspect strongly that, unless and until we have governmental

recognition, attempts to discipline members by expulsion for practices unacceptable to the Society or the Academy will not be upheld by the courts if the expulsion affects a member's ability to obtain his livelihood.

There is a peculiar irony in all these developments when one thinks of other *recognized* professions. There the trend is toward recognizing the role of the paraprofessional, so that society may use the professional in the role in which his expertise is vital and the paraprofessional for the less demanding tasks. Only the life and pension actuarial profession has been able to arrive at the unenviable position where the need for the paraprofessional (the enrolled actuary) has been recognized long before the need for the full professional even has been acknowledged.

At this point you may have come to the conclusion that I consider governmental recognition, whether by the federal courts or state by state, as inordinately high in price but absolutely necessary. As Mark Twain observed of old age, "It isn't so bad when you consider the alternative."

To summarize as briefly as possible, I believe we must have governmental recognition to receive any public acknowledgement of our very existence as a profession. Further, that governmental recognition can come only if we attain some unity in our ranks through reorganization, for, in Franklin's words, "We must all hang together, or assuredly we shall all hang separately."