

TRANSACTIONS

ADDRESS OF THE PRESIDENT, WILLIAM A. HALVORSON

SOME SUGGESTIONS FOR GAINING PUBLIC ACCEPTANCE OF OUR PROFESSION

A FEW years ago, in 1974, the Society celebrated its twenty-fifth anniversary. For an actuarial body that had its beginning in 1889, that was quite an event. "Professionalism" was the chosen theme of the meeting, not necessarily because we believed we had gained full professional status but because we needed to explore more fully the meaning of professionalism.

As chronicled by many past presidents of the Society and of other actuarial organizations, the comfort and security of all actuarial groups in the United States were shaken severely by events during the beginning of this decade. The profession has been responding positively to these events and has embarked on paths that hopefully will lead to recognition of the actuarial profession as a public profession, protected while obligated by public laws and regulations.

This morning I will talk first about three levels of challenges we face in our road to becoming public professionals, and then I will give you my views on where we are organizationally.

ACTUARIAL RESPONSIBILITY

Our Guides to Professional Conduct require the actuary to "act in a manner to uphold the dignity of the actuarial profession and to fulfill its responsibility to the public." We now are beginning to recognize that we have many direct publics—plan sponsors, plan management, plan participants, and plan regulators—and at least one indirect public, the general public.

By "plan," I mean any employee benefit plan, or insurance company, or employer or trust promising future financial security, and a participant is any employee, member, or policyholder accepting such promises.

FIRST CHALLENGE

Our first level of challenge is to define the actuary's responsibilities to each of these publics, perhaps beginning with clear statements as to the actuary's function in society, such as the following:

The actuary is the single source of objective information concerning a financial security plan's ability to meet the promises it has made to participants.

Therefore, the actuary's function in society is to assure plan participants, plan regulators, and the general public that plans promising future financial security are being operated in a sound manner.

The actuary's responsibility to plan management and plan sponsors is directly related to our primary public function. Our job is to keep them informed on the cost and the risks involved in making promises to participants and future participants so that they will be able to remain competitive while assuring fulfillment of these promises.

In performing these functions, the actuary by training and education is a unique and necessary professional.

I hope you do not mind my deliberate oversimplification of our responsibilities, but I believe we need to keep it simple if we are to be understood by the publics we serve. There is little justification for our claiming to be professionals solely on the basis of our skills as social mathematicians trained in insurance and employee benefits unless we also can describe the purpose of our function in two or three simple sentences.

Having stated our reason for existence (and I have often said that if the actuarial profession did not exist it would have to be invented), we should now assess whether our publics know of our existence, and whether they believe we are performing our public function adequately.

My research does not include any scientific assessment of these important questions. My opinion is that our function is not well understood by the public at large or even by plan participants. Plan regulators have begun to rely on actuaries for opinions on costs and reserves, and this has been an extremely positive factor in fostering professionalism. Members of plan management are generally aware of our function in providing them with objective appraisals of the costs and risks of long-term promises, although there are notable exceptions in both actuarial performances and management expectations. Plan sponsors do not seem to be uniformly aware of the actuary's responsibilities and capabilities to provide them with the information they need to assess properly the impact of long-term promises on their plan or company or on future taxpayers. This latter shortfall is particularly noticeable among public employee retirement plan sponsors.

SECOND CHALLENGE

Our second level of challenge, therefore, flows from the first—to develop the programs necessary to establish the visibility and credibility of the actuarial profession. Let me name some of the programs that might be needed.

For the general public:

Explain the essential functions of private and public financial security programs in our society and the role of the actuarial profession in maintaining these programs.

Educate the general public on the significance of actuarial facts and principles that bear on public issues, including the probable costs or consequences of proposed actions.

Provide for public oversight of our professional organizations' activities.

For plan participants:

All plan participants should receive yearly a printed statement signed by a named actuary on the relative security of the plan whose promises they have accepted, and how that security has changed during the year because of changes in internal or external events or conditions.

Establish a system of peer review of the work of all actuaries signing statements of the security of promised benefits, the peer reviewers being selected from actuaries not employed by the same plan management or sponsors.

For plan regulators:

Strengthen the actuarial resources available to plan regulators so that more complete review of actuarial opinions and validation of assumptions can be accomplished.

Assist the regulators by providing better and more useful information on a timely basis.

For plan management:

Educate management on the responsibilities and capabilities of actuaries as they relate to management's duties.

Improve our actuarial tools in forecasting future costs, measuring risks, and communicating these to management.

Develop model forms of actuarial reports to management that would form a basis for minimum yearly communication on where the plan is and where it is going, and on such important facts as the sensitivity of costs and solvency to future assumptions beyond the control of management.

For plan sponsors:

Educate sponsors on the responsibilities and capabilities of actuaries as they relate to the objectives and financial concerns of sponsors.

Develop a form for an annual report to sponsors on current costs, future costs, and probable impact on the sponsor's viability of promises made under various combinations of assumptions.

Obviously the specific programs called for above (as designed by the actuarial profession) would be tailored to different types of specific plans—individual, corporate, and governmental pension plans; stock and mutual life insurance companies; and individual and group health plans, insured and self-insured. I have no doubt that the profession can and must do a better job of articulating its responsibilities and of assuring its publics of its objectivity.

Perhaps the most controversial of my suggestions are those of establishing peer review for the work of all actuaries and of providing for public oversight of the activities of our actuarial organizations. Are we prepared to have our work relieved by actuaries outside our own companies? And for our organizations to be under the surveillance of the public at large?

The actuarial profession in the United States and Canada has told the public that it can count on the objectivity of the actuary and that the actuary's professional education and training assure the public of the independence of his or her judgment. In a world steeped in an atmosphere of advocacy, individualism, and competition, the public has its doubts as to the objectivity of any person, and appropriately questions the independence of any employee in an employer-employee relationship or even the independence of a consultant in a client-consultant relationship.

Actuarial guidelines, principles, and practices plus an active disciplinary procedure go a long way toward ensuring the objectivity of any actuary. But it seems to me that sale of this concept to the public requires institutionalized public assurances of the objectivity of all actuaries—hence the need for external peer review and public oversight.

In concluding my comments on the objectivity of actuaries, let me say that our publics do not understand how the actuarial profession can defend differences of opinions by qualified actuaries that produce cost estimates differing by as much as 50 percent, or even 10 percent. Our credibility is strained beyond belief by statements that both actuaries might be right. Public acceptance of the actuary's objectivity forces us to promote standards of practice without downgrading the importance of the actuary's judgment or the communication of that judgment.

THIRD CHALLENGE

The third level of challenge to our profession will be dependent on the success of the first two challenges: it is to achieve a general licensing law for actuaries in the United States, with police powers to prevent non-qualified actuaries from representing themselves to the public as actuaries. Such a licensing law should be designed to depend heavily on the actuarial organizations for prescribing suitable education and continuing education programs, defining principles and practices, and conducting disciplinary procedures—under general public guidance. A general licensing law seems mandatory if this relatively small profession is to remain a single profession rather than a parallel series of even smaller but different professions. The public will be better served if we can maintain uniform standards of education, training, principles, and discipline

among actuaries serving all types of financial security programs. A general licensing law at this point would have to recognize the alternative sites for regulating plans, that is, both state and federal.

ASSESSMENT

Now to get even more subjective. Just where do we stand on these three levels of challenge?

In Canada, the actuarial profession, through membership in the Canadian Institute of Actuaries, has been given an effective franchise along with considerable responsibilities for maintenance of soundly managed life insurance and pension programs. With the passage and implementation of the life insurance valuation law, and the creation of the valuation actuary during the course of 1977-78, the CIA has taken on a major project of establishing principles and practices. It is not an overstatement to say that the future of the actuarial profession's public acceptance depends on the success of the current Canadian program, and so far we are very much encouraged by the positive response of the profession to these new responsibilities.

In the United States, I believe we are closer today to recognition and acceptance of all of the programs listed above than at any time in the past, but as individual actuaries we have yet to commit ourselves to these three levels of challenges.

I am convinced that the American Academy of Actuaries is moving toward a full recognition of our public challenges. Furthermore, I believe that the Society of Actuaries and the Casualty Actuarial Society are understanding better their respective roles in providing the educational systems needed by the Academy and by public licensing and regulatory bodies to assure the public that actuaries meet minimum standards of qualification. Specifically, the Society of Actuaries has taken considerable strides this year in designing a proposed restructuring of our examination system to meet Society goals better while also meeting the needs of the Academy with respect to the education of its life, health, and pension actuaries, and meeting as well the needs of the Joint Board for the Enrollment of Actuaries under ERISA. With the increased flexibility of our educational system, the Society believes it also will be able to meet better the needs of the Canadian Institute of Actuaries, and steps to formalize these conceptual and functional relationships are being studied.

COORDINATING OUR ENERGIES

These important changes may not look like reorganization, but they are rational moves toward more effective coordination of the actuarial

organizations. Thus, there can be no question that substantial progress is being made toward the goals of reorganization. I believe that the challenges, and the programs needed to meet these challenges, are a responsibility of the entire profession and not only of the Academy or the Society or the Canadian Institute. Therefore, coordinated action, as opposed to a tugging and pulling atmosphere, is essential. I believe we are achieving better coordination and can expect major steps as a by-product of the recommendation of a Committee on Committees appointed a year ago by the actuarial organizations.

Just in case it has not become obvious to you, I believe that the Society of Actuaries has functions to perform that will be supportive of both the American Academy of Actuaries and the Canadian Institute of Actuaries. I also believe it desirable for the Society to maintain continuing dialogue with the Casualty Actuarial Society so as to be prepared to form a College of Actuaries, if it should provide to be desirable to have only one body giving actuarial examinations in the United States and Canada, with appropriate branches of specialized knowledge and interests.

With respect to the Fraternal Actuarial Association and the Conference of Actuaries in Public Practice, the Board of the Society of Actuaries has gone on record as desiring a merger of all three organizations into a single body. Such a body could continue to serve the professional education, research, and meeting needs of life, health, and pension actuaries in company, consulting, or public positions. We believe that such a move would be a major step to better coordination of our resources.

Along these lines, a task force has been appointed to begin a study of how the Society (or perhaps any new consolidating organization) could meet better the needs of actuarial specialists in terms of governance, education and continuing education, meetings, publications, and research. The Society's Executive Committee, as part of its long-range planning function, considers it essential to meet better the needs of special-interest groups while retaining the cohesiveness of a single professional education and research organization. Paul Barnhart already has outlined one approach to this problem to provide a framework for task force study.

With respect to the Academy, the Society will continue to be as supportive as possible, so that the Academy can take the lead on the public challenges enumerated earlier. Future events are unpredictable, of course, but I believe we are in a position to make substantial gains in public acceptance and understanding of the actuarial profession. All we need now is to recognize fully our public responsibilities and channel

our energies along these paths of public service. Then perhaps we will arrive at our destination as a public profession prior to our one hundredth birthday just eleven years from now. That would justify a great celebration, shared by all actuaries everywhere in the world.

During the past few years of changes in our profession, which changes have been close to traumatic, I have found the following words from Abraham Lincoln to be of help. Let me share them with you:

The dogmas of the quiet past are inadequate for the stormy present.

The occasion is piled high with difficulty, and we must rise with the occasion.

As our case is new, so we must think anew, and act anew.¹

¹ President Lincoln's Annual Address of Congress, December 1, 1862.

