

RECORD OF SOCIETY OF ACTUARIES 1979 VOL. 5 NO. 4

CURRENT PROFESSIONAL TOPICS

Moderator: WALTER L. GRACE. Panelists: HAROLD G. INGRAHAM,
STEPHEN G. KELLISON, JAMES J. MURPHY, LINDA DELGADILLO*

MR. WALTER L. GRACE: Today we have a potpourri of current professional topics. We have selected four topics that seem to span the widely varying kind of activities going on in our profession.

1. Public Relations
2. Current Academy Activities
3. Restructuring of Examinations
4. Division of the Society by Special Interest

The winds have changed and continue to blow. Just keeping up with these changes in our profession is a considerable task in itself.

MS. LINDA M. DELGADILLO: This morning I'd like to tell you a little about public relations, and explain what it is, why it's important for a profession, and what each of you can do for public relations.

One of the first things to remember about public relations is that it is a relatively new concept. It is a phenomenon and a necessity of our times. It originally started as publicity, which is simply one group telling another about itself. Now, however, publicity is just one phase of public relations.

Today public relations goes beyond one group telling another about itself. It now includes telling the group it represents what others think of it. Public relations also helps its group determine what it must do to earn the goodwill of other groups. It plans ways to win that goodwill. And it carries on activities designed to win.

All of this requires careful study and planning, and sound public relations planning begins with two kinds of knowledge. The first kind is a self-knowledge which is the understanding that people in a profession should have of themselves and their respective fields of endeavor. And the second kind of knowledge is how the profession appears to others you would have relationships with.

* Ms. Delgadillo, not a member of the Society, is Communications Manager of the Society of Actuaries, Chicago, IL.

If we apply these two kinds of knowledge to a definition of public relations, we can define it as helping an organization and its publics accommodate each other. The essential ingredient here is the idea of mutual accommodation, rather than a one-sided imposition of a viewpoint. And when you talk about mutual accommodation, you're talking about a profession understanding and coping with a human climate.

How important is public relations for a profession? The answer is: it's very important, because the image and prestige of the profession are very important.

Familiarity and reputation of its name are among the greatest assets any professional organization has going for it. And the prominence of a name is taken as a sign of success, because reputation in an industry can rarely be won without true accomplishment.

But no matter how good the profession's work is, the word of mouth process to tell about that work is too slow and undependable. That's why public relations is important.

Public relations can use existing communications media like newspapers, magazines, radio and TV, to help the profession get its story across to far more interested people. And it does it in half the time.

One example of what I'm talking about is the Society's recent 1979 Build and Blood Pressure Study publicity campaign. You may have noticed the displays at the registration desk which show some of our work on that campaign.

Essentially we summarized the most significant findings of that study in news releases, compared those findings to the 1959 study data, and designed some nifty graphics which newspapers and magazines could easily reproduce. We sent out press packets with all the information to newspapers, radio and TV stations, wire services, national news magazines and trade publications.

We let people know who we were through our work. We showed them that actuaries play important roles in people's lives.

And our efforts were pretty successful. Out of 531 newspaper clips received in the second week of April, which is when we released the information, 114 were pickups of our story—just about 1 out of 5. The following week 63 out of 509 clips were on the Build and Blood Pressure Study. Coverage remained good over the next few months and the story is still generating pieces across the country. In the clips received on July 6, for instance, 65 out of 338 were build and blood pressure items. We also did a couple of radio interviews on the study findings. One was Mutual Broadcasting Company, which has 900 affiliate stations around the country including Alaska and Hawaii, and CBS radio, which has over 700 affiliate stations around the country. The story went out nationally.

Another channel we pursued with our story came about with the assistance of Fred Hunt, the Director of Communications and Government Liaison for the American Academy. Through Fred we also sent the Build and Blood Pressure press packet to senators and congressmen who were interested in health and science issues. One result of Fred's efforts on behalf of the Society was a letter from Senator Ted Kennedy complimenting many actuaries on their contribution to the body of medical information. You have to admit that's pretty nice recognition.

The point of all of this is that getting media endorsement helps establish a profession's credibility, authority, leadership and success in its field. It helps build prestige, and just as there is guilt by association there is also prestige by association.

That's where you come in as members of the Society of Actuaries. It's part of your responsibility to maintain the prestige of your profession and the organizations that represent it. I consider all of you to be members of the Public Relations Committee, because in a broad sense everyone has a public relations responsibility.

One way that you can help your profession is through your participation in meetings. I cannot stress too much the importance of advance preparation if you are delivering a speech or participating in a panel discussion. You should try to write your remarks out beforehand. Make a dry run presentation to someone at your Company or at your home. Have your remarks critiqued by members of your firms. Since you know your subject so well you may not realize that your message could be unclear even to other actuaries. You can even take things one step farther, if you are brave enough, and have a non-actuary listen to your speeches once in a while.

And by all means if you are part of the panel discussion, talk with your moderators and panelists about your sessions. If necessary, initiate a conference call among participants to get things organized. And call me; I'll be glad to help you in any way that I can.

Practicing these things will not only make you better communicators, it will also help the companies you represent and the profession you belong to.

Remember that the actuarial profession is gaining visibility around the country. Interest in the Build and Blood Pressure Study proves that. You are coming into the limelight, and you must put your best foot forward. The prestige and image of your profession depends on it.

There's one other thing that I would like to add about the new direction for public relations that has recently occurred.

The Council of Presidents, which is composed of the President and President-Elect for various actuarial organizations, have formed a Joint Committee on Public Relations. There are two representatives from each of the actuarial organizations, and we have the responsibility to develop a public relations plan for the profession to submit to the Council of Presidents by June 1980. We have the backing of some very important people in the actuarial profession and now we need your support and your backing as well.

MR. STEPHEN G. KELLISON: This report is designed to provide a brief summary of current activities of the American Academy of Actuaries since the 1978 annual meeting a year ago which was held in conjunction with the Society of Actuaries in Chicago. The scope and volume of Academy activities has grown substantially during this past year, both internally within the actuarial profession and externally with the Academy's growing public interface activities.

Most of you have heard the comments of Dale Gustafson, the Immediate Past President of the Academy as of two weeks ago, at the opening general session on Monday morning. In his remarks Gus gave an excellent summary of the origins of the Academy, its development as a public interface organization for the actuarial profession in the United States, and the evolution of the Academy's membership requirements to become a foundation organization open to virtually all qualified U. S. actuaries in every area of specialization and practice. The growth of Academy activities in the last 15 years or so is largely the result of the rapid transformation of our profession from a private, inward-looking scientific group to a public, outward-looking profession with public responsibilities and accountability. Since Gus covered all these areas in his talk I won't go into them any further.

However, Gus also mentioned two major areas of Academy activity that I would like to elaborate on a little. The first is our relationship with the accounting profession, and the second is the area of risk classification. Both areas have required extensive attention and activity during the past year and will probably continue to demand much attention for quite some time.

Our relationship with the accounting profession is primarily focused in a joint liaison committee between the Academy and the AICPA. This joint liaison committee is designed to serve as a forum at which items of mutual interest to both professions can be identified and discussed. As a result of the opening of such channels of communications, a number of constructive developments have occurred. In fact I would like to read you one of the agendas of these meetings sometime, but time simply does not permit it. I think you would be amazed at the number of topics that are discussed by the two groups. The following is a partial list of topics with which we have been involved over the past year and should give you some flavor for it, but it's not a complete list by any means.

- . The "independence" issue which Gus addressed at some length on Monday morning.
- . A major review of Statement on Auditing Standards No. 11 (commonly referred to as SAS 11) which concerns "using the work of a specialist."
- . The Academy response to the second exposure draft of the Financial Accounting Standards Board concerning accounting for defined benefit pension plans, which was a marked improvement over the first exposure draft, and in this area I think it's relatively safe to say that many of the improvements in it were largely the result of a lot of hard work on the part of some actuaries and the Academy Director who spent an extensive amount of time with the FASB and their staff and made constructive changes that were incorporated as a result of that activity from the first exposure draft until the second one.
- . Comments of the Academy's Committee on Financial Reporting Principles on a number of matters such as the NAIC statutory accounting manuals, accounting for deferred income taxes, accounting for interest costs, a study on defining what "generally accepted accounting principles" might mean for mutual life insurance companies, and proposed revisions in the audit guide for property and liability insurance companies.

This is a smattering of things which gives you some idea as to the scope of this activity. However one which wasn't mentioned in this list, and perhaps the one that's received the most attention in the past year, has been the rendering of statements of opinion on casualty loss reserves. Although this topic involves our relationship with the accounting profession, it's much broader than that. I think the issues are not just those of dealing with the accounting profession. As most of you know, the NAIC has required a statement of actuarial opinion on the adequacy of reserves on the Life and Accident and Health Blank since 1975. The basic issue in the current debate is whether or not the NAIC will move to require a statement of opinion in connection with loss reserves on the Fire and Casualty Blank, whether the requirements will parallel those on the life blank or will take some other direction, and finally who will be qualified to render such opinions.

The history of this issue goes back over two years and is complicated. I will spare you the details of the historical tracing of what has happened, since it's been reported through the Academy Newsletter. Suffice it to say that a proposal recognizing membership in the AICPA on an equal footing with the Academy membership and, moreover, requiring independence of the person rendering the opinion from the insurer came disturbingly close to being adopted. In fact, for a short time it was adopted and then was later rescinded. Since those dark

days of last spring, the picture has improved considerably. The proposal currently on the drawing boards is similar to the requirement on the life blank and does not explicitly recognize the AICPA nor does it require independence. I would caution, however, that the issue is far from settled and major changes may yet be made. Also, there is a significant chance that the NAIC will not adopt any requirement at all. The whole issue is coming to a head at the December meeting of the NAIC and you should watch the results closely.

The second area mentioned by Gus was the area of risk classification. This is likely to be a most important area of activity for the Academy over the next several years. The issue is a very complicated one involving, as it does, various sub-issues in the different lines of insurance, involvement at both the state and federal levels of government, and activity in all three branches of government--legislative, regulatory, and judicial. The Academy's unique perspective in contribution to the debates on this issue reflects the ecumenical nature of our membership, which includes actuaries in all areas of specialization. The Academy Committee on Risk Classification is focusing on this issue in a comprehensive, general fashion rather than becoming enmeshed in the intricacies of issues in narrow areas of application without giving consideration to the effects in other areas of application, as has unfortunately been the case previously far too often.

One project that the Committee has been working on for over a year is a development of a statement of principles. Although actuaries have implicitly used risk classification in their work since the beginning of the profession, the literature is remarkably devoid of any general treatment of the subject. I am pleased to be able to report that an exposure draft of this statement of principles is being distributed to the membership of the Academy later this week. I would encourage all of you to read this document carefully and send your comments to the Committee for their consideration. The Committee is hopeful of being able to finalize the statement of principles by the end of the year.

In terms of specific risk classification issues, the Committee is considering possible Academy involvement in the following areas:

- . First is HR100. If you've not seen a copy of this bill you should get a copy because it is quite a sight. It would outlaw the use of any of the characteristics listed in the 1964 Civil Rights Act, which includes sex, in classifying risks for pricing, underwriting, etc., and, moreover, would be retroactive to existing contracts. So it is a piece of legislation which does deserve your attention. Hearings will likely be held during this calendar year -- if not in November then probably very early in 1980.

- . Secondly, numerous law suits involving TIAA and CREF which will ultimately decide the fate of the unisex issue in connection with defined contribution pension plans.
- . Thirdly, a proposal of the NAIC to ban age, sex and marital status as classification variables for automobile insurance.
- . Fourthly, a proposal of the NAIC to ban sex as a classification variable for health insurance and moreover to mandate pregnancy benefits.

Another area of developing interest for the Academy is the issue of specialty designations. I should caution here that when we talk about specialty designations you shouldn't confuse this with Harold Ingraham's presentation this morning on the "Division of the Society by Special Interest." These are two entirely different areas. The basic issue here is the qualification necessary to render actuarial opinions or certifications to the government and to the public at large in various specialty areas such as:

- . The ERISA certification of the enrolled actuary.
- . The statement of actuarial opinion on life and health reserves.
- . The possible statement of opinion which may become required on casualty loss reserves.

I think we would agree that not all members of the Academy are necessarily qualified to render such certifications and opinions in all areas of practice. In view of that fact, what should the Academy do? What we have done to date is to appoint a special committee to make recommendations to the Board of Directors. The final report of this committee will be in the same mailing as the risk classification statement of principles later this week and we are inviting your comments on this committee report as well. It will demand a lot of attention of the Academy Board of Directors over the next several months and we are looking for input from the membership of the work of this committee.

The past year has also witnessed an extensive overhaul of the Academy committee structure. Since the listing in your 1979 Year Book, six new committees were formed, one was disbanded, and four were substantially restructured.

The one committee disbanded is the Committee on Federal Relations and Accreditation. This committee has been replaced by three new committees, the Committee on Life Insurance, the Committee on Health Insurance, and the Committee on Property and Liability Insurance. This change was made to reflect the fact that the Committee on Federal Relations and Accreditation had become obsolete. The scope of federal issues in which the actuarial profession is interested is far too broad to be effectively

handled by one committee. It also became apparent that the greatest weakness in the former structure was in the insurance area, since active committees were already in existence for pensions and for social insurance. The three committees should provide a greatly expanded capacity to deal with issues in the various insurance areas. These new committees will also monitor any NAIC activities, as well as those at the federal level.

Another new committee is the Committee on Life Qualifications, which will develop proposed standards of qualification to be applicable to those actuaries signing statements of opinion on the annual statement. This committee parallels an existing Committee on Property and Liability Qualifications. The Investment Committee has been appointed to develop and monitor an investment program to improve the yield on invested funds. The final new committee is the Committee on Long Range Planning, which will consider the future direction the Academy should be taking.

Two committees were restructured by the creation of permanent sub-committees and task forces to more effectively deal with the growing multiplicity of issues. These committees are the Pension Committee and the Committee on Risk Classification. The Committee on Guides to Professional Conduct has been reorganized to reflect the greater degree of cooperation and coordination among the various actuarial organizations that has developed in this most important area. The former structure, in which each organization maintained a separate committee, has been replaced with one committee for all, which should significantly reduce the duplication of efforts and confusion created by multiple committees. It is important to note that the governing board of each organization retains the right to accept or reject any proposed new or modified Guide or Opinion, but hopefully the number of discrepancies among the Guides and Opinions of the various organizations will be minimized. The final committee to be restructured is our Committee on State Relations and Accreditations. We currently have a special ad hoc task force developing a proposed restructuring for this committee, so that the Academy can more effectively deal with state-by-state issues.

A number of strides have been made in connection with Academy publications during the past year. The most significant of these has been the incorporation of Academy statements into the Journal. By now you should have received two new hard-bound Journals, a retroactive issue for 1977 and a regular issue for 1978. It is intended to continue to publish the new, expanded Journal on an annual basis. Although many of these Academy statements have been the subject of Newsletter articles and all of them are listed in the Newsletter, we believe that the inclusion of the statements in the Journal is necessary to keep the membership more fully informed about Academy activity in filing statements and position papers to external audiences, and it is also important in building a permanent, historical record of this important activity.

We have also tried to improve the Newsletter as a vehicle to keep the membership better informed about Academy activities. In addition to the obvious aesthetic changes you may have noticed, a number of new features have been added. Among these are a table of contents; periodic reports from the President, Editor, and Executive Director; checklists of statements; interviews with leading public figures; and special subject supplements on topics of particular interest in greater depth.

One final item to note in connection with Academy publications is that the popular list of Members by Business Connection, which has not been produced since July 1, 1977, will again be available with a new edition in early 1980. Consideration is also being given to the possibility of including a geographical breakdown along with the breakdown by business connection.

In summary, it has been a busy and exciting year for the Academy. We would always welcome the suggestions of the membership concerning the activities of the Academy.

MR. JAMES J. MURPHY: You probably have seen the announcements regarding some significant changes being made in our education and examination syllabus. This project has been and is a major effort for the E&E Committee. For your information I have supplied a handout which outlines the 1981 examination syllabus. This represents the revisions in syllabus content and structure which are being initiated this fall and will be completed with the 1981 syllabus. Our hand-out also includes an outline of transition credits for the current exams.

Let me very briefly outline the content of this handout. The new syllabus will consist of 10 exams. These are organized into three subdivisions: Parts 1-5 cover Actuarial Mathematics; Parts 6 and 7 cover Introductory Actuarial Practice; and Parts 8, 9 and 10 cover Advanced Actuarial Practice. The transition arrangements for Parts 3, 4 and 5 are straightforward and will be in effect over three exam sessions beginning this fall through the fall of next year. With respect to Parts 6-10, we were able to develop a fair and simple transition approach, which gives credit for entire exams without the need for fractional credits or a limited transition period. This will make the changeover to the new syllabus less traumatic for both the students and the E&E Committee.

Goals and Meeting Those Goals

I would like to talk with you about the several goals we had in mind as we developed the new syllabus, and how we believe that syllabus meets those goals.

Goal 1: To select and appropriately organize actuarial education material in such a way that the study of actuarial science is relevant to the practice of actuarial science. For example, we are including the topics

relating to mortality and morbidity tables (sources and characteristics, and practical aspects of construction and graduation) with the topics relating to pricing and valuation. This puts them right where they belong in terms of their application in setting assumptions for pricing or valuing various financial security programs that we deal with. Another example involves linking risk theory with basic contingency theory. This is done in the new contingency text now being prepared by the E&E Committee. As a third example, the topics of pension valuation and pension funding will be covered together rather than in separate exams as they are in the current syllabus.

Goal 2: To improve and update the mathematical content of our exams and make that content more relevant to practice of actuarial science. The subjects that are covered in Parts 2-5 should provide a basis for the material in the advanced exams, particularly for their application within the advanced topics. Our new contingency text will go a long way toward meeting this goal as it will provide a variety of examples which apply the basic theory to all aspects of actuarial practice. This text will also provide a better link with our statistics covered in Part 2, since the book will build contingency theory on a stochastic or random variable basis. Another change is the introduction of mathematical forecasting to Part 2, which will lay a base for the application of forecasting techniques in the economics, investments, and reporting areas covered in Parts 8 and 10.

Goal 3: To provide a flexible system of actuarial education that can more readily adapt to and meet the needs of existing and emerging actuarial specialties. In order to provide a sound basis for this flexibility, the new exam structure provides a foundation of intermediate, practice-oriented education following the mathematical content of Parts 1-5. The new Parts 6 and 7 do this by introducing the student to the various "financial security programs" that actuaries deal with. The basic actuarial aspects of these programs from both the insurance and employee benefit areas are covered. Part 7 also provides flexibility for the student, allowing a choice of both a specialty area and a national emphasis. However, whatever the specialty area chosen, the student will also cover the basic material in the other specialty area.

With the foundation of Parts 6 and 7 providing a "common core" education, we are able to set up a very flexible structure of advanced study of actuarial practice in Parts 9 and 10. These advanced exams provide flexibility for the E&E Committee to adapt and change

their content as appropriate in the future. They also provide flexibility for the students, permitting them to choose from the three areas of study those in which they want to specialize. The difference from the approach in Part 7 is that once the student makes the selection of primary and secondary areas for Part 9 or 10, that is the only material covered by the student. The students will not cover any material on areas which they do not choose.

The setup for Parts 9 and 10 also permits more flexibility in the amount of material we can provide for advanced education in each area of study, while at the same time not increasing the material required of our students to attain Fellowship. This structure will permit future expansion via subdivision of existing areas of study or the addition of new areas of study as appropriate to meet the needs of our profession, without a major overhaul of the basic structure of the examinations.

- Goal 4: To improve significantly both the content and organization of educational material for employee benefits actuaries. The new contingency text will specifically include examples of applications in the fields of employee benefits and pension plans. By combining the topics of valuation and funding in the same exam, we present a more logical approach to these topics. By eliminating advanced coverage of purely insurance topics for the pension actuary, we permit the introduction of new and more appropriate advanced pension material. I think many would agree that the advanced coverage of insurance law, accounting, and taxation on the current Part 9 was never really appropriate for the pension actuary.
- Goal 5: To meet the growing needs of the better educated actuaries in the fields of economics and investments. These topics have become extremely important in all areas of actuarial practice. They are at the heart of much of what we do as actuaries. Thus we have set aside one entire exam to deal with these areas in depth. By covering these topics at the Part 8 level we can assume knowledge of material of a basic nature in Parts 6 and 7 and therefore emphasize the relevance of economics and investments to the various areas of actuarial practice. This will then provide environmental background for advanced studies of actuarial practice in Parts 9 and 10.
- Goal 6: To improve our treatment of nationally-oriented material. The current Part 9 was an excellent first step in this direction. However, this exam provides a national orientation only for insurance topics. In our studies of the need to improve pension education,

we found that there was a definite need for a four-way split (Insurance and Employee Benefits, U. S. and Canada), as we have now provided in a new Part 7. We have also expanded the concept of national specialty by providing for selection of a national emphasis in the Primary Areas of Study for Parts 9 and 10. As we develop material for the new syllabus, we will keep two concepts in mind with respect to national material. First, we want to maintain the educational benefits to all students of presenting the "illuminating differences" between the approaches in Canada and the U.S. Second, we want as far as possible to separate the studies of specific national details, particularly as they relate to law and regulations. As we see the new syllabus, Part 7 will tend to present more of these national details, split as they are between Canada and the U.S. Given the strong interrelationships and similarities with respect to U. S. and Canadian economics and investments, Part 8 will provide a single exam with no national split, but with an emphasis on national differences where appropriate. Parts 9 and 10 will provide a combination of national specialization and illuminating differences.

Goal 7: To provide a system which is more adaptable to meeting the needs of the various joint sponsors and administrators of our examinations. We believe that this will foster the ultimate objective of a single system of basic actuarial education for all specialties, including the casualty specialty. The new contingency text will include examples of applications of all areas of actuarial practice. With the addition of new Part 4 to the three exams already jointly sponsored by the Society and the Casualty Society, we will have lengthened the "stem of the Y" as we call it of our two examination structures. Our restructuring along with recent changes or future changes in other actuarial education systems will increase the parallelism between these systems. This will permit further expansion of joint exams in the future. As a final example in this area, I would note that we have also incorporated the jointly sponsored Enrolled Actuaries exam directly into the new syllabus.

Finally, while not related to a specific goal, the revision and restructuring process can have certain general benefits for the educational system. Whenever a major change is made in the educational system, an opportunity is presented to correct the various minor flaws and make other major changes that would be more difficult to bring about by themselves without the revision and restructuring efforts taking place. For example, with the restructuring we are moving the basic topics of insurance valuation and accounting to an earlier examination level. This will correct a frequent criticism of our current structure. Also, with today's rapidly changing environment,

we need a more futuristic viewpoint in our education process. This can and will be done as we develop new materials and revise existing materials for the new syllabus. The Committee on Futurism is helping us with this effort. In addition, outdated materials can be eliminated or updated as the topics are newly defined and new materials developed.

Conclusion

A major revision in the organization and content of the education and examination structure has a significant impact on our Society. It is certainly somewhat disruptive and it is also quite exciting and even inspiring. I see this latter point very clearly in the enthusiasm and dedication of the many volunteers who are working hard on the implementation of these revisions.

We think that the goals and benefits of the major revisions and restructuring now taking place are valuable and timely, and indeed are essential. We also believe that we have designed a new syllabus in such a way that future changes can be more evolutionary than revolutionary within this new flexible structure.

MR. MARK CHESNER: You've mentioned that you've corrected perhaps a minor flaw and yet I wonder if I have discovered a major flaw in the new system. I, like many, had a tougher time passing the life contingencies exam than Part 3 and Part 5 in my syllabus. It would appear to me that if I were a very good student in the theory of interest and a very good student in the mathematics of demography and construction and a marginal student in life contingencies that I could get full credit now in passing Parts 4 and 5 whereas I could have not passed the old Part 4 by itself. I am wondering, since life contingencies had been what I think the most difficult of all the tests, whether we are now lowering our standards in this case?

MR. MURPHY: I'm not sure I fully agree with your statement. If you have old Part 3 you get credit for the compound interest portion and numerical methods in the new Part 3 and you also get credit for the compound interest of new Part 4.

MR. CHESNER: I'm assuming I'm a new student having to pass all the exams from now compared to what I did back in the early 70's.

MR. MURPHY: We are covering the topic of life contingencies in two exams -- both Part 4 and Part 5. In the Part 5 level it will be advanced contingency theory with applications in many areas. I don't think we've weakened the position of the Society in making that the strongest element of our basic mathematical content. I guess I just disagree with your statement. I don't think anyone could get through the exams now without a solid background in contingency theory. The two topics that will be with contingency theory on Part 5,

mathematics of construction and mathematics of demography, are essentially applications of contingency theory, and the package together presents a pretty complete contingency education.

MR. CHESNER: Some years back there was a survey in which the Society asked all Fellows which of the exams they considered to be not difficult, moderately difficult, or very difficult. As I recall, about 60% considered the old Part 4 very difficult and not more than 20% put any other exam in that category. I believe that Part 4 was the most difficult by far and personally I had a much easier time with Part 3 and Part 5. It took a very smart person to pass the exam based on Jordan's text in the past, and I believe it's much easier now.

MR. MURPHY: We had a discussion in a recent meeting about this and I think the E&E Committee has also felt the old Part 4 was the tough exam. We now think that Part 5 will be that exam.

MR. JEFFREY NOHL: I was wondering, is the Associate level still going to remain at five exams?

MR. GRACE: That question is still under study. There was a report made to the Society's Board and it's still being considered by the Society's Executive Committee.

MR. NOHL: I have been very concerned about the educational requirements for Associateship in the Society ever since the Academy amended its membership requirements. As members of the Academy, Associates have the ability to sign annual statement blanks. I realize that the Academy guides to professional conduct prohibit a member from giving advice when he is not qualified to do so. However, I am sure there are people who consider themselves qualified to sign annual statements, when, in fact, they are not. Certain unwary people might infer expertise on these individuals from membership in the Academy and I consider this a dangerous situation.

The principal problem I perceive is that Associates in the Society have not demonstrated any knowledge of accounting for annual statement purposes or valuation of liabilities. Knowledge of these two topics is crucial to an ability to sign annual statement blanks responsibly. Restructuring of the exam syllabus has left these two topics on Part 7. Therefore, it seems imperative to me that Associateship in the Society of Actuaries should be revised to include only those individuals who have completed the first seven exams. This would be comparable to standards set by the Casualty Actuarial Society.

MR. HAROLD G. INGRAHAM: What's E&E's working relationship with the Joint Board in developing the jointly sponsored Enrolled Actuaries Examination -- has it been serene, tortuous or what?

MR. MURPHY: Our General Chairman Jack Paddon is quoted as saying it's tortuous but we get the job done. I guess Jack's a good one to quote because he's had to take the responsibility of

working with the Joint Board and with ASPA; and since the Society is really the administering organization for these exams, it all is centered around our E and E Committee in our office. I think that's perhaps being a little bit too strong. As with any new relationship, both sides have to learn to give and take a little bit. I don't think things are going as smoothly as the optimists might have thought they would go, but neither are they going as poorly as the pessimists might have thought originally. We're going to have the exams, we're going to give them in November, we will then grade them. I think the key in the process will be the grading and pass-mark setting process and we're optimistic that that will go smoothly and having gone through this administration, future administrations will be much smoother.

MR. RALPH EDWARDS: This current change seems to have come along quite precipitously. At Loyola College, where our courses are based on the Society examinations, the rapid change has given us problems. May we expect the future changes to come more slowly so we will have time to absorb them beforehand?

MR. MURPHY: As I said at the end, we hope that the new structure will provide us the ability to evolve rather than revolutionize when change becomes necessary. We did have several years of study behind us before these decisions were made, particularly with respect to pension education and the developing changes in mathematical content. Certain activities occurred which gave us a catalyst -- but it was well conceived. Now is the time to pull it all together and come up with a structure that will minimize the need for this kind of change in the future.

MR. INGRAHAM: In the Summer of 1978, Paul Barnhart prepared an illustrative outline of a "stand-ready" mechanism for formation of specialty, or special interest, sections and conferences within the Society of Actuaries. His purpose in doing so was to stimulate innovative thinking within the Society, which might lead to the creation of a more flexible organization better able to cope with the difficult issues relating to merger or reorganization of the actuarial profession.

As a result of Paul's report, the Task Force on Special Interest was formed by the Executive Committee during the Fall of 1978, as part of their long range planning process. The Task Force was directed "to explore how the Society could best provide for the needs of specialties and/or special interest groups that either now exist within the membership or else may be likely to evolve within the membership in the near future." In particular, the Task Force was asked to first develop broad principles, guidelines and concepts for discussion with the Executive Committee this past spring -- and to then prepare a complete report for consideration by the Executive Committee last month and then the Board here in Bal Harbour. Also, as you know, the Task Force has elicited responses from the membership through a questionnaire sent out this summer. The purpose of the questionnaire was to seek out the special needs

and characteristics of the membership, as well as to acquaint them with the concept of Sections and Divisions.

I'm going to attempt to first summarize our conclusions and recommendations, second briefly discuss Society governance and the concept of Sections and Divisions, and third summarize and interpret the questionnaire responses.

Conclusions and Recommendations

The Task Force has concluded that there is a need for better recognition of the special needs of Society members. This conclusion has been heavily influenced by the questionnaire responses, and also by a review of the trends that have been developing within the Society over the past several years and in the actuarial profession as a whole. We have recommended the creation of Special Interest Sections of the Society to evolve from, and be an extension of, the Continuing Education Committee -- within a structure designed and approved by the Board.

The Task Force has also concluded that there is a need for better representation of the various groups of members within the Society, particularly in specialty interests, and that the general governance of the Society be more flexible and responsive to North American actuarial requirements. We have developed and presented the concept of Divisions designed to solve this problem, but we will not be recommending that it be implemented right now. Most actuaries seem to prefer a broadly designed profession that is flexible, with easy access to all Society activities and services. The immediate need for Divisions doesn't seem to be sufficient right now to warrant the concerns that these members are likely to feel, or the very considerable structural and administrative changes that would be required.

Finally, we have recommended that the number of Society Vice-Presidents be increased from 4 to 6.

I shall also note that the Task Force did not attempt to determine or define the purpose of the Society or to construct a long-range plan for the Society. Both are part of an ongoing process that's now being carried out by the Executive Committee. And, in a sense, the work of this Task Force is itself part of the Society's long-range planning activity.

Sections

The purpose of Specialty Sections within the Society would be to encourage and facilitate the professional development of members -- through meetings, seminars and literature more responsive to specialties within the actuarial profession. Relative to the current committee structure, we perceive that a significant advantage can be achieved in a shift to Specialty Sections through increased capacity and opportunity for participation in special areas by Society members. However,

this recommendation also recognizes the need for broad development of actuaries and the access of all members to the full range of Society activities and services.

What are some of the things the Specialty Sections might do?

They would be assigned responsibility for special purpose meetings, as well as special purpose content for themes of the regular meetings -- in essentially the same way as responsibility is currently assigned to Continuing Education Committees, in coordination with the Program Committee. Special additions and/or special segments of *the Record* should be considered for recording the content of these meetings.

Specialty Sections would be encouraged to sponsor and direct intensive seminars within their area of specialty for the education of members. Such seminars might be held independently of, or in conjunction with, special purpose meetings.

Specialty Sections would also be encouraged to define and recommend research projects within the areas of special interest. In addition, a Specialty Section, with approval of the Society's Board, would be allowed to make an expression of opinion on issues of public interest in the same way that a Committee can do at present.

The Task Force's report deals in some length with matters relating to the formation, financing, bylaws, administration, and dissolution of Sections. With respect to initial organization--each of the current Committees on Continuing Education and Research (and any other appropriate Committees, such as the Committee on Pensions) could be asked to serve as an organizing committee for one or more new Specialty Sections. Following Board approval of Section bylaws, an invitation to join would be sent to Society members. If at least 200 Society members responded, the Section will be authorized and the election of a Section Council and officers would be conducted.

With respect to financing, a Specialty Section would be expected to provide self-supporting services - - in other words publications and meetings would be priced at a level to be self-supporting.

What is the significance of Sections to the actual operation or administration of the Society? The Task Force feels, at least initially, that Sections should have the authority, and only the authority, now vested with Committees. In other words, the current relationship between Committees and the Board (relative to both autonomy and control) would continue to exist between Sections and the Board.

The Board would control the formation, termination, bylaws, and terms of reference of all Sections. However, whereas at present the chairmen and members of Committees are appointed by the Board, Sectional officers would be elected from the

Sectional members and membership itself would be freely available.

Divisions

The ultimate granting of official recognition to major special interest groups, or to potential reorganizational alignments, is probably best achieved through the establishment of Divisions. This would be responsive to a Board-inspired or "top-down" need for direction, with the main thrust being governance and structure. This contrasts with the Sectional concept, which reflects a "bottom-up" or "from the members" thrust.

Under the Divisional approach, each Division would oversee a group of Sections and/or Committees possessing some commonality of interest. However, not all Sections necessarily need be included within a Division. The Divisions would reflect an evaluation of the needs of Society members, the planned direction of the Society, and the objectives and sensitivities of other actuarial bodies.

There probably should not be more than three Divisions. The questionnaire response has indicated that the most popular of the alternatives was the one which contemplated a Division for Pensions, a Division for all aspects of Group Insurance, and a Division combining Individual Life and Individual Health Insurance.

Each Division would be represented by a Society Vice President and by one or two Board members, elected by the members of that Division. Each Division would oversee a group of Sections and Committees with a considerable degree of common interest. There would be no special qualification requirement to join a Division. It will be reasonable to expect that many Society members would join more than one and possibly all Divisions, once they were established.

As I mentioned earlier in my remarks, the Task Force has recommended that no decision be made to implement the concept of Divisions at this time. We have also recommended that the concept be further developed as either (1) an evolutionary extension of the Sectional concept, or (2) as a "stand-ready" mechanism to facilitate merger or reorganization, or to better meet identified membership representation needs.

Governance

The Task Force on Special Interest was not formed to restructure the Society. However, we did recognize that our recommendation would have some impact on the Society's governance.

Adopting a rather narrow definition of governance, our proposal with respect to Section does not involve any governance issues. The Division concept does involve a change in governance but, as I mentioned earlier, we are not recommending implementation

of Divisions now. Thus, our proposal can be put into effect without any change in governance. However, governance should probably be looked at in a broader sense than just voting procedures and top-level structure. In this regard the Task Force did have a few comments or recommendations in respect to three issues.

- (1) We have recommended that the number of Vice Presidents be increased from 4 to 6 -- all to be elected at large. This would help to ease the considerable burden now on the Society's President, it would make more candidates available for the presidency, and it would also help to more suitably structure the supervision of the Society's work. The addition of two Vice Presidents would also be consistent with our recommendation that the Society make an evolutionary change to greater recognition of special and professional interests of actuaries.
- (2) The Task Force has expressed concern about both the appearance and the fact of under-representation of certain special interest groups on the Board. An example is the under-representation of pension consulting actuaries. In this regard, if in the future there continues to be a strong need for special interest representation on the Board, it's likely that it will emerge from pressure through the creation of the Divisions and/or appointed representation at the Vice President level.
- (3) We feel that representation of Board members by region within the U. S. may now be something of an anachronism.

Questionnaire Responses

1593 Fellows and 718 Associates took the time to reply to the questionnaire enclosed with the July 1979 issue of The Actuary. I think that's a most gratifying response on short notice. The questionnaire included a brief outline of the concept of Sections and Divisions. The purpose of the questionnaire was to determine that, if Sections and Divisions existed as part of the Society's structure, then which ones would the members prefer. We didn't ask the members whether or not they liked the concept, primarily because the questionnaire didn't attempt to fully develop and explain the concept.

Nevertheless, there was a comment section at the end of the questionnaire which gave members the opportunity to volunteer views. Almost 25% of the respondents did, including some views on Society activities that were totally irrelevant to the questionnaire.

Here's a brief summary of the responses.

- . An approximately equal percentage of FSA's and ASA's were interested in joining each suggested Section. On the other hand, a much lower percentage of respondents who

indicated "Pensions" as a major area of career specialty, expressed interest in possible Sections outside the area of Pensions, than did individuals with other specialties.

- . Interest was expressed by a significant number of individuals in Sections which were totally unrelated to the type of current employment or major area of current specialty. I think this tells us that Society members are interested in keeping abreast of at least the major issues in areas other than the ones they currently work in.
- . The question on Society governance was deliberately offered in a very general way, in order to elicit attitudes about the current "at large" electoral process and about the need for specific functional representation. 44% of the respondents indicated that specific representations should exist, 13% felt it should not, the rest were unsure. This indicates that there may be less resistance to a change in the electoral process than might otherwise have been expected. By category of respondent, the "yes" responses range from a high of 54% of the Pension consulting activities to a low of 26% of those employed in academe.

The comments ranged about equally over a spectrum bounded by "hate the idea" at one end and "best thing you have ever come up with" at the other. A fairly large number of comments told us that the cover letter had not supplied enough information to really understand the concepts. The positive comments were generally brief. The elaborations pointed out that the need for subgrouping was essential because of the increased size of the Society, because of the growth of specialties, and because of the fact that many special interests are not now being served.

The negative comments for the most part indicated concern about "splintering" the Society. The reasons given for such concern were that the proposal would:

- . be inconsistent with the concepts under reorganization
- . reduce career mobility because Society members would become "labelled" by specialty
- . create additional bureaucracy
- . eliminate the current "general" flavor of the Society
- . still would not serve Canadians well, and might duplicate services now provided by the CIA
- . not serve members with corporate or other general interests.

Implementation

As you know now the concept of Sections has been approved by the Board at its meeting this week and the implementation is now as I see it going to proceed somewhat along the following lines.

- (1) A Society Vice President will be assigned responsibility for directing the implementation. This might start by that Vice President assuming direction of the Continuing Education Committees, the Committee on Pensions, the Committee on Futurism, and the Committee on Professional Development. The President and the Executive Committee should review the overall reporting structure of the Executive Committee to ensure proper balance of assignments for each of the Vice Presidents and Society Officers and Board members. The recommendations of the Board Effectiveness Committee should also be reviewed once more.
- (2) The concept of Specialty Interest Sections will be exposed to the membership through The Actuary and at the Spring meetings next year and probably through actuarial club meetings.
- (3) The Task Force will draw up model Section Bylaws and will also propose a Sectional election process.
- (4) The Task Force will review possible constitutional changes.
- (5) The implementation committee will propose a definite plan for Board consideration, including the initial Sectional structure. In this regard, two approaches might be considered. One would be to develop and test one or two Specialty Sections before going any farther. The other would be to invite all Continuing Education Committees to convert into Specialty Sections at one time - this is something that will be under review in the next couple of months.

MR. JOHN PADDON: Listening to Harold's remarks, it is worth noting that the Society's Education and Examination Committee is already operating in many ways just like the specialty groups he envisions. Our 275-plus members more than satisfy the minimum membership requirement. The specialty topics for our last two Fellowship exams, new Parts 9 and 10, will be split exactly along the individual, group, and pension lines that Harold mentioned. Our activities in the areas of study notes, exam development, and exam administration are intended to be self-supporting, through adequate study note fees and exam fees. We are bi-national, with substantial Canadian representation on our various committees, and several Canadian members also jointly appointed by the Canadian Institute. Our examination

and syllabus committees meet regularly to deal with topics of immediate concern, which, in our case, are the exam development and grading and the syllabus updating. For a number of years, we have been conducting a good deal of dialogue and interface with all of the other actuarial organizations, primarily through joint sponsorship and administration of exams. Organizationally within the Society, we answer directly to one of the Vice Presidents and to a Board Committee, which in our case is the Education Policy Committee. All of the other actuarial organizations have liaison representation on this committee.

The one major difference in our committee structure, from that outlined by Harold, is that our governing board of General Officers, including myself as General Chairman, is not democratically selected by the Society membership-at-large.

If and when other specialty groups are set up within the Society, or perhaps in cooperation with other actuarial organizations, our Education and Examination Committee (as a task-oriented, problem-solving group) can well serve as an ideal model and prototype for how these groups are and should be functioning.

MR. INGRAHAM: Jack, as a former General Chairman who appointed you to succeed me as Part 4 chairman so we could continue to make the examination properly difficult, I fully appreciate your concern and points of view.

MR. E. PAUL BARNHART: I think the term "division" or dividing the Society into Sections is going to create some definite misunderstandings as to what the objective is here. This by no means is meant to divide the Society into anything at all - - it's more a matter of diversity within unity. It is simply permitting members who have certain special areas of interest to have a better forum, a more effective forum and continuing forum or medium in which to express and develop those interests. Additionally it would be able to work on a more consistent and long term basis than simply temporary appointment to a Committee. It would be very important that, particularly in further exposure of this idea, we not talk about it in quite those terms as a "division of the Society". In reading a lot of those comments that the members fed back on the questionnaire, I was struck that perhaps the most serious concern on the negative side that a lot of people expressed was the fear that they would be forced into compartments - that everybody was going to have to join a section somewhere - that you'd have to be in some compartment. It's very important that it be understood that this is not necessary at all. As this thing evolves, people will not have to join any Section. They could join three or four Sections. They can join them and then they can drop back out of them. This thing will only succeed to the extent that it serves the needs of our members without categorizing them or giving them the feeling that they are obliged to identify with some Sections.

One other point I would like to clarify. Harold mentioned that the concept of Divisions would not be implemented at this time. Everyone should understand that it's possible it might never

be implemented. In other words, this is not something the Board has adopted - some definite direction that we're definitely intending to pursue - it's more that this will be explored further. If and when the need is perceived, if and when the justification is perceived, then it could be implemented. On the other hand, the sense of the Board and Task Force is that it was likely that the need and the justifications for that would materialize. They foresaw a need for this and, therefore, a need to do further work on it and to be ready with it if and when the need for it was recognized.

MR. JOHN KROEKER: I think that if you had 3,000 replies indicating some interest in this topic, then somebody would either be incredibly stupid or incredibly clever in slating it for this slot in a Society meeting when the attendance would be predictably about 25. I think that the Society is quite possibly in a bit of a disaster stage at this time because in Canada the Canadian Institute of Actuaries is in charge of any significant operations, and in the United States apparently anything of significance relates to the Academy or to Enrolled Actuaries. The Society of Actuaries still sets the exams, but I'm not sure if they do anything else. I would say as far as this particular meeting is concerned, it wouldn't be terribly harsh to suggest that it was largely a disaster if indeed the Society exists for the members and wants to know what the members think etc., etc. The opportunity for members to say anything, as opposed to pontification from various platforms, is a very intriguing contrast of proportion. Just one very small housekeeping item -- I have been waiting for a reply from a letter that I wrote to the Society on August 7, and if we have public relations specialists I think we can improve on that.

MR. GARY CORBETT: I applaud the effort that has gone into developing this proposal. The expansion of the discussion format at Society meetings, which has been evident in the past, will assuredly progress further. I do have a concern as to the categorization that is proposed for specialties. This concern would be heightened when applied to Divisions. The proposal provides for categorization by products (pension, group, and individual) at a time when I see companies moving away from organizational structures based on these traditional product distinctions. Responsibilities of many actuaries cut across product lines. This is a very important matter since the success or failure of the specialty groups, and more certainly the Divisions, could relate directly to the categorization method used. Therefore I urge your Task Force and the Board to reassess the question of whether the traditional product line breakdown is appropriate for establishing specialties and Divisions in the Society.

MR. INGRAHAM: I will make this comment -- that this particular issue probably has caused more debate and discussion and diverse opinion than all the others combined on the Task Force. And the other observation is that this preference in the questionnaire was a dominant one among the three alternatives. It was about 2 to 1 on each of the other two.

