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OVERVIEW AND OUTLOOK FOR PUBLIC ISSUES INVOLVING
THE ACTUARY

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1. Panel 1 will present the highlights of each major program track
2. Panel 2 will discuss why actuaries should be interested in public issues, how actuaries can influence public issues, and the importance of effective interaction with government in the next decade.

MR. CHARLES E. ROHM: The first part of this program will be a report from each of the five major tracks followed at this meeting. Richard Hall from Northwestern Mutual will report on the national economic issues track; Rodney Rohda, from Home Life will report on the insurance issues track; Cynthia Clancy from John Hancock will cover the health issues track; Carl Ohman from the Equitable Life Assurance Society will cover the retirement plan issue track; and Dale Gustafson of Northwestern Mutual will cover the general topics track.

MR. RICHARD L. HALL: The economics track covered issues involving fiscal and monetary policy, inflation, tax policy, and accounting standards.

Monetary and fiscal policy are receiving a great deal of attention in both Canada and the U.S. In Canada, monetary policy seems to be working, although fiscal policy is still a problem with continuing budget deficits. Interest rate instability is expected to continue. Overall there is a realization that the Canadian economy must keep pace with any improvements in the U.S. economy. In the U.S. the Reagan fiscal proposals were the primary topic of conversation. It was emphasized that these proposals are aimed at economic improvement and not at controlling inflation. Anti-inflation action will have to come later through monetary policy, where potential conflicts between the Fed and the Treasury may develop. The main question in the U.S. is whether supply side economics will work. One economist suggested that the current fiscal and monetary mechanisms do not work. He called for focus on a new theory which could be implemented quickly and provide some long term solutions to inflation.

There was general disagreement concerning the causes of inflation but agreement that interest rates and inflation will continue to follow each other. A wide range of forecasts was given, none of which offered much long-term relief. The possibility of deflation was mentioned, but that prospect seems unlikely at this time. No solutions to inflation were offered. The current attitude is one of coping, through product development (indexation, Variable Life Insurance, Universal Life, etc.), unique organizational developments (subsidiary formation, segregated accounts, etc.) and tax deferral items. Tax policy and accounting standards are interwoven with the inflation problem.

In the U.S. the main question on tax policy is whether the 1959 Income Tax Act is fulfilling its stated purpose and, if not, how should it be changed.

The current act has led to disruptions in the way we do business, notably the use of modified co-insurance, subsidiary development and unique product design. Changes may be needed in the method of determining taxable incomes, the method of handling policyowner dividends, the treatment afforded tax-exempt interest and the allowance for special contingency funds. The final plea was for industry unity on the tax question. Without unity we can have little impact on the final determination of tax policy.

In Canada, general satisfaction was expressed concerning tax policy since the 1978 modifications. The current policy seems to be workable, equitable, sensible and seems to produce proper revenue.

On the accounting standards issue inflation was viewed as a serious threat to current accounting methods. Current standards don't show the real magnitude of our inflationary problems. Magnifying this are the stresses put on the system by new and exotic product development, changing business organization, new investment strategies and instruments, the focus on liquidity needs and merger activity. Two important issues in this area are public disclosure and the setting of accounting policy. Chances of insolvency have increased due to the inflationary environment so, when in doubt, management should disclose all pertinent information. There currently is a structure for setting accounting policy in the U.S. This structure starts with the Congress and involves the SEC, the FASB, the AICPA, American Academy of Actuaries and the Society of Actuaries. The move to a current-cost accounting basis is another issue which will require competent help from qualified actuaries. Finally, no agreement was reached at this meeting relative to the pros and cons of FAS #33.

The major conclusion reached was that poor fiscal and monetary policy has fueled inflation which, in turn, has put severe pressure on tax policy and accounting standards. There appear to be enough issues in the economic area to keep actuaries busy as individuals, as employees, and as professionals.

MR. RODNEY R. ROHDA: There appear to be three basic public policy issues in the insurance area: risk classification, cost disclosures and state vs. federal regulation. These issues have been with us for a long time and will probably continue to be with us in the future.

Two important points seem to be at the heart of the risk classification issue. First, a critical issue is the degree to which we can now, or will be able in the future, to apply averages to individuals. Fairness to individuals, not classes, is the real focus of the risk classification question. Secondly, we will be able to use classifications which we can prove to the public are in their best interest. This orientation is important as you think of making arguments before a regulatory body or consumerist group. We need to be able to describe and justify our classifications to show the public that it is in their best interest to use those classifications. For now the sex issue seems to be the most critical issue in the risk classification area.

In the cost disclosure session there was a summary of the events of the last decade in this area. The past has been a tangled one and there appears to be no resolution as to the best disclosure method. There was no groundswell for replacing the interest-adjusted cost method, although interest was expressed in C. L. Trowbridge's refinement of the interest-adjusted method,

which introduces mortality into the calculations. This refinement is presented in Trowbridge's paper An Extension of the NAIC System for Life Insurance Cost Comparisons.

It appears that recent activity from the NAIC in the cost disclosure area has had little input from the Society of Actuaries as a whole. The conclusion was that we, as actuaries, cannot give up in the cost disclosure area, even though we may have grown tired of this issue over the years. We need to develop a method which will help rebuild our credibility in the market place.

On the state vs. federal regulation question the point was made that, although federal regulation would mean more uniformity in the regulation area, such uniformity might do more harm than good. The distinction was made between helpful uniformity (e.g. ability to use common forms in all states) and harmful uniformity (e.g. mandated coverages). Harmful uniformity restricts management's ability to be flexible and innovative in the marketplace. State regulation, if properly administered and properly supported by the industry, can promote helpful uniformity.

In conclusion, the issues discussed in the insurance track, and in this entire meeting, are more than technical ones and involve communication and understanding between actuaries and other organizations. We need to focus more on this public relations aspect in the future.

MS. CYNTHIA M. CLANCY: This is a summary of the health insurance track: The session on rate regulation issues covered: (1) The use of loss ratios by state insurance departments to monitor the value of benefits in relation to premiums, (2) The problems involved in equitable classification of risks, including the need for subsidization of certain groups, and (3) The new NAIC guidelines for justifying rate increases on level premium policies. The major conclusions coming out of this session were the importance of the actuary being involved in NAIC and industry problems and the importance of maintaining good faith relationships with insurance departments.

The session on national issues involved in loss-of-time coverage characterized the situation in the United States as involving numerous, scattered government and private plans and problems of overinsurance; but there is still a fertile market for private insurers. In Canada, there is greater government participation and less private disability insurance, possibly because there is no private market for medical expense insurance. There are indications that the Federal and provincial governments are considering plans to provide universal disability coverage to all Canadians. The session concluded that there are many challenges and problems involved in providing loss-of-time coverage in the '80's: the declining work ethic, inflation, the incursion of government programs, etc. Actuaries must cooperate within the industry and with regulators. Creativity and flexibility are necessary to deal with these challenges.

The session on health coverages under fire highlighted three products: Medicare Supplement Insurance, Credit Accident and Health Insurance and Cancer Insurance. The panelists covered the abuses associated with these products as well as the responses from governments, consumerist groups and the industry. There are many ways that proper disclosure, sensitive product design and control of marketing practices can answer current objections.

The session on medical expense insurance provided through multiple employer trusts, considered MET's as a solution to the problems of differing state regulations. Unfortunately, many states are eliminating this advantage by passing legislation based on state of residence. If this trend continues, MET's may no longer be a viable solution to this problem.

On cost containment issues the discussion concerned: (1) government involvement in mandating that insurers cover less expensive options, (2) employer coalitions, working with health care providers on cost containment, and (3) legislative action that would promote price competition within the health care industry.

The final health session dealt with risk classification issues. It included discussions of current insurers' practices and factors used in classifying applicants and risk-sharing pools (specifically the Wisconsin pool) for those who cannot obtain private coverage. Problems currently on the horizon are unisex rates, mandatory maternity coverage and legislated classification.

MR. CARL R. OHMAN: The retirement plans track of this program on public issues involving the actuary included discussions of national policy on retirement both in the United States and Canada and social policy, tax policy, inflation issues and public disclosure as they relate to retirement plans.

Throughout these discussions it was apparent that inflation is the most pressing public issue affecting retirement plans. What is inflation and what are the prospects for continued high levels of inflation? How does inflation affect different classes of retirement plan participants, both active and retired, and the ability of plan sponsors to provide adequate benefits? What are the needs of retirees under inflation, and how can retirement plans be adapted to meet those needs? These are all important background questions which need to be addressed. The most important challenges for actuaries in this area are: managing retirement plan assets to provide a real rate of return, so that plan sponsors can provide adequate benefits with reasonable control over plan costs; matching plan assets and plan liabilities to minimize the risk of loss to the plan from disintermediation; and, finally, valuing plan assets and liabilities under the prospect of continued high rates of inflation.

In the discussion of social policy issues, attention was focused on the extent to which retirement plans should be viewed as instruments of personnel policy, as instruments of social policy or both. There was considerable discussion over what retirement means today and what it will mean in the future (i.e., Is retirement the end of a person's working lifetime, or a transition from one period of employment to another.) This distinction has major implications regarding the role of retirement plans and the kinds of benefits to be provided. There was also extensive discussion of the problems of assuring fair treatment to different classes of plan participants -- active versus retired participants; older versus younger employees; early versus normal and deferred retirements; males versus females; married versus single participants; spouses of employees versus actual employees; and the need for recognition of alternative life styles.

The discussion of disclosure issues focused largely on problems of recognizing retirement plan costs in an employer's financial statements, with particular attention to the recent FASB requirements. Distinction was drawn between the funding of plan costs and expensing for such costs in the financial statements and the extent to which funding and expensing should be on a consistent basis.

A number of retirement plan tax policy issues were discussed. The familiar questions of deductibility of employer contributions, plan qualification and integration were discussed. There was particular interest in proposals to increase deductibility of employee contributions to encourage expansion of coverage by private plans and to stimulate capital formation.

Throughout all of the discussions in the retirement plans track, and particularly in the discussion of national policy on retirement, the proper role of government in retirement plans emerged as perhaps the paramount public issue. What should be the respective roles of government plans, private plans and individual savings in providing for income after retirement? To what extent should the government control private plans and individual savings, and in what ways should such control be effected. Considerable attention was given to the recent reports of the President's Commission and the Royal Commission and possible implications of those reports for the future of public policy with respect to retirement plans in the United States and Canada.

MR. DALE R. GUSTAFSON: The general topic tract cuts across the lines of the other four major program tracks.

We, as actuaries, are in a period of rapid transition from being a private, inward-looking profession to a public, outward-looking profession. Changing public expectations have to a large degree caused this shift. This has to do with the actuaries' intimate involvement in the legislative and regulatory processes. Some recent examples of this are the policy loan interest rate legislative program, ERISA and the development of the Enrolled Actuary, risk classification and the NAIC requirement for an actuarial statement of opinion in its life insurance financial statement.

Before this transition actuaries were not well known nor in the public eye. Now the media refers rather freely to "actuarial principles" and the work of the actuary. Public relations is becoming increasingly important to us, as individuals and as organizations. We are struggling with how we can formally, through our professional organizations, develop this public relations aspect. We have mechanisms in place to deal with these responsibilities, namely the Canadian Institute of Actuaries and the American Academy of Actuaries.

Interwoven in this is the relationship between the actuary in business and the actuary in government. Here there are contrasting situations in the U.S. and Canada, due largely to the nature of regulation in each country.

The interface between actuaries and accountants has become a critical issue. We are in continual open dialogue with appropriate committee structures involving the actuarial and accounting professions. The issues deal with areas of responsibility. There is some controversy on the questions of independence and self-review. We had some visitors from the United Kingdom who offered some interesting contrasts between the actuary/accountant relationship in the U.K. and in the U.S. and Canada.

Through all of this we have set ourselves a unique goal, and that is to win the public's recognition and trust while remaining a private, self-regulating profession. We appear to have a very good chance of accomplishing our goal.

MR. ROHM: Let me introduce the members of the second panel. The first speaker will be Paul McCrossan, a consulting actuary with William M. Mercer Limited in Toronto. Paul has served as a member of the Canadian Parliament and will give us some insights into the politician's viewpoint of public policy issues. The next speaker will be Steve Kellison, Executive Director of the American Academy of Actuaries. Steve daily represents the actuarial profession on public issues. Finally, Ian Rolland, Chairman and Chief Executive Officer of the Lincoln National Corporation will speak from his viewpoint as a CEO.

MR. W. PAUL McCROSSAN: We on this final panel have a rather formidable job in trying to sum up the meeting. I hope the meeting has already convinced you why you should be interested in public issues and how you can affect public issues. Perhaps, then, as the only actuary to have been elected to the parliament of Canada, I can give you a view from a politician's perspective of how issues develop and how they can be influenced. I will also try to give you some good, practical advice as to how actuaries can become involved in the political process as individuals, as employees or as professionals.

But first, I would like to share with you some concerns that I have about the current state of politics in both Canada and the United States which directly affects our chance to influence events.

I had a sense of de'ja' vu during the run-up to the presidential elections in the United States last year. The two major parties had selected their candidates through an exhaustive process of primaries and conventions, and yet the polls indicated that there was no enthusiasm among the public for either candidate. Public opinion seemed to be based almost exclusively on negatives rather than on the positives of the candidates' programs. There was very little serious media examination of the issues or the platforms. The media instead focused almost entirely on the personalities of the candidates and on media events. Mr. Carter tried to paint Mr. Reagan as reckless in foreign policy and economics. Offsetting this was a very attractive tax cut held out by Mr. Reagan and Mr. Carter's negative image. The election was settled during the televised debate when Mr. Carter was unable to pin the "irresponsible" label on Mr. Reagan. From that point on public mood shifted against him dramatically. The election in Canada in 1980 was fought similarly.

What is happening when the major decisions the electors make are based on negative choices rather than positive programs? How does this affect the politician and your ability to influence him? More and more the public is choosing leaders on the basis of who they perceive will do the least harm. For example, in each of the last three Canadian elections one major issue has emerged on which that election was focused. In each case the "swing" voter chose the "easy" option. In 1974, inflation was starting to accelerate dramatically. The conservative party proposed a temporary wage freeze to gain time to begin a comprehensive program of reducing government expendi-

tures to control inflation. This proposal became the major issue of the campaign. Opinion polls indicated that the number of "undecideds" was very high running into the last week of the election. Then there was a massive swing to avoid the unpleasantness of a wage freeze.

In the 1979 election the major issue in the media became whether we should introduce tax relief for mortgage interest to spur construction in Canada. The public, not surprisingly unable to make up its mind on an informed basis, chose the tax cut and defeated the government. In 1980, the conservative government had come to the conclusion that we were facing a major energy crisis some five years out, and that we had to raise money through gasoline tax to obtain funds for energy development. Once again, the swing voter chose the easy option; no tax increase.

The point is that the politician has learned through bitter experience that it is not wise to run a campaign on policies perceived by the public as negative, regardless of how necessary he believes those policies to be in the national interest. Politicians learn that they can rarely let down their guard and discuss an issue openly with the public. They learn to judge issues in terms of how the public will view them as well as what is in the national interest. It follows that, if we want to influence political decisions, we have to present arguments to achieve our ends on a "win-win" basis. That is, we have to demonstrate why our aims should be achieved, and we also have to give the politicians something positive to present to the public.

All too often we, as professionals, can see the "right" way of doing things. We can slice through complex problems to logical solutions. We then present our arguments to political bodies or individual politicians, and we have no effect whatsoever. That is because we have not learned the art of political persuasion. We actuaries have enormous resources to offer our countries in settling key issues, such as reform of the pension system, taxation, inflation, unemployment insurance, medicare systems, regulations, disclosures and tax policies. Yet, we have not sold ourselves as being worth listening to as a profession or as individuals with professional qualifications.

Politicians need all of the input they can obtain to judge what the effect of policies is going to be. They need unbiased information and biased information. With this in mind, the Canadian Institute of Actuaries and the American Academy of Actuaries can have the greatest impact if they offer to politicians well reasoned evaluations of what would likely be the consequences of adopting certain policies, not right-wing excuses for private industry. The Canadian Institute has followed this approach in Canada in the National Pension debate. Members of all political parties met with the Canadian Institute of Actuaries to listen to their presentation on the pension issue. To the extent that we succeeded in establishing that we had useful information and were not just a lobby for business, we will be invited back when major considerations are being made which involve actuarial expertise. This is similar to what has been happening with the Institute of Actuaries in Britain for many years.

An actuary can try to influence events on three different levels: as an individual, as an employee, and as a professional. Let me illustrate the difference in those three ways of presenting arguments. Let's take the issue of pension reform in Canada. As an individual, I am a conservative. I was chairman of the committee on pension policy at the National Convention which ended two months ago. Obviously I have very strong and very partisan views, which I don't hesitate to express from a political platform. As an employee, I have to temper my views somewhat. When I represent William M. Mercer Limited in a public forum, I have to present a much less partisan view of the world to my audience. Still I don't hesitate to advocate positions which would tend to reinforce the private pension industry. As an individual this suits my views, and my employer has a vested interest in the maintenance of the private pension system. However, if I am speaking as a member of the council of the Canadian Institute of Actuaries, I have to take publicly a non-partisan view.

In spite of the fact that we are starting to take our first steps in political persuasion as a profession, many actuaries have not learned, nor do they have the interest, to take part in this process as individuals. For those who may be interested, let me tell you that it is very possible to influence policy development as an individual. That is because political parties work through volunteers, and volunteers are in short supply. We in the Society of Actuaries should understand how the volunteer process works. After all, our examination system and our professional meetings depend to a very large extent on volunteers. Yet, very few of us get involved with the grass-roots of political organizations. Why is this the case? Maybe we work too hard; maybe we don't have enough time available; maybe we are just products of the "me" generation. Other people do have a commitment towards their ideals and other people do get involved in the political process. Regardless of our supposed expertise, it is very difficult to undo everything these activists believe in with last minute stands at the legislature.

It is much easier to influence bills before they are presented than it is to persuade the government to retreat once it is committed. To influence events on this level, you have to be involved early. It is much easier to develop a "win-win" situation when someone else isn't seen to lose publicly. Maybe to be successful in presenting your ideas, you have to ask yourself the same question the politician asks when he sees a policy idea: "How will the public see it".

Because of a lack of informed participation in Canada, we may well see in the next year an enlargement of the state pension system to the point where the private pension system has very little room to exist. Similarly, in the U.S., actuaries have long known the inequities of the 1959 Income Tax Act, the risks with guaranteed cash values and guaranteed loan rates, and the potential threat each would pose to their livelihood if interest rates accelerated. Yet, actuaries have been singularly unsuccessful in pointing out that this is a serious problem for Society rather than just an inconvenience for the industry. Somehow we take the view that we can leave these matters to others. As individuals in a complex society, we can no longer afford that luxury. The reality today is to get involved or wither; otherwise, events you could have foreseen and dealt with can overtake your industry, your profession and your specialized knowledge so rapidly that you won't know what hit you.

MR. STEPHEN G. KELLISON: It is a real pleasure for me to be on the final panel at this historic meeting of the Society of Actuaries. This meeting has been particularly meaningful to me as Executive Director of the American Academy of Actuaries, since dealing with public issues involving the actuary in the United States is the Academy's life-blood. Although the program content of this meeting may not seem to be as relevant to you in your day-to-day professional life as the content of most other actuarial meetings you may have attended, it may well be more important.

Why do I say "more important?" Because we are at a critical point in our profession's history in that the continued existence of the actuarial profession in this country, as we know it today, is in the balance. I would submit to you that we have indeed been discussing survival issues at this meeting; and that if actuaries are to have the future that we think we deserve, then it is time for us to "come out of the closet" and deal with these issues in the political world.

In the same way that your employer does not owe you an income unless you work for it, society does not owe the actuarial profession our place in the sun unless we can establish that we have earned that public trust. Major decisions affecting our future will be made by the public, directly or indirectly, in the public arena, in other words in the political world by a political process. If we are to succeed in achieving our desired destiny as an independent profession, we must recognize that the game will not be played in our ballpark according to our rules. If this meeting has helped to equip you to better play the game in the ballpark in which it is being played, i.e. the public arena, then it has succeeded. If not, we must try again.

Three years ago in this very city at another Society of Actuaries meeting, I was on a panel which was addressing the topic "Expanding Actuarial Horizons." At that meeting there was much discussion about extending and broadening our professional boundaries. During the past three years I have seen some hopeful signs that new horizons for actuaries have opened up in certain areas. As a profession we must continue to expand our horizons and never allow ourselves to become too narrow in scope.

However, I have also seen increasing incursions of other groups, such as accountants, economists and operations researchers, into areas that have historically been within the province of the actuary. Consider some examples:

1. Statutory accounting for insurance companies and accounting for pension plans have always been areas of major actuarial responsibility. However, we have seen greatly expanded attention by the accounting profession to these areas in recent years, and the role of the actuary may not be as pre-eminent as it once was.
2. In Washington we increasingly hear from politicians and others that economic assumptions for major financial security programs, such as Social Security, are too important to be left to the "technicians" (read "actuary" when you hear that word). Should we not as a profession "blow the whistle" on "unofficial" economic forecasts designed much more for political ends than for objective

evaluation of the financial condition of financial security programs such as Social Security?

3. In the health field I have seen many other groups making cost estimates and other financial studies for a variety of programs, both public and private. In most cases these other groups are not as highly trained as we are. Yet, as more health insurance has been provided by mechanisms outside the domain of traditional insurance products, we have seen less reliance on actuaries in many instances.

I could go on and give other examples, such as risk classification, in which fundamental actuarial principles are being severely challenged, but the point has been made. Not only do we have our work cut out for us to expand our horizons, but we have plenty of challenges to maintain what we already have.

Thus, there is a clear need for the actuarial profession to become much more heavily involved in public issues. In focusing the energies of the actuarial profession to deal with public issues, we need to develop a conceptual framework which will provide answers to such difficult questions as the following:

1. Is our input as actuaries to be limited to rather narrow technical actuarial matters, or do we wish to speak out on broader social issues as well?
2. How can the membership become more involved in the development of policy positions by the various actuarial committees working on them in view of the very short time frame which usually exists?
3. When is it appropriate for the actuarial organizations to speak on behalf of the actuarial community as a whole and when should comments be confined to those of individuals or employers of actuaries?
4. How do we reconcile the need for a "united voice" for the profession with the legitimate, and healthy, diversity of views that exists among us?

Although the answers to these questions are not easy, we must strive to find them in order that our effectiveness as a profession in dealing with public issues can be improved without sacrificing the support of the membership in the process.

In recognition of the need to address such issues as these, the Academy has appointed a task force composed of current and former members of our Board of Directors to develop better guidelines for making public statements. This task force has made substantial progress and should have a final report available to submit to the Board of Directors this summer. We hope to be able to communicate the conclusions of this task force, along with any reactions of the Board to it to the membership this fall. By way of background, the following numbers may shed some light on the current scope of public interface activity of the Academy. During 1980 a total of 35 statements were filed on behalf of Academy committees and task forces; 13 involved

Federal legislative and regulatory matters, 8 addressed NAIC issues, and 11 commented on various promulgations of the accounting profession. How effective has all this effort been? That is difficult to assess objectively, but it has been effective in most areas. At least it has become much more effective in the last few years than it was previously.

In dealing in the political world we must learn to accept the inevitability of failures and partial successes. Here our training as actuaries is against us. The actuary in day-to-day work generally has significant control over his or her work product and the uses to which it will be put. The political arena is another world entirely. Here the actuarial element is often only a portion of the total picture, controversy is normally present, and the end result is generally not in our control. In many cases the best we can hope for is to influence the course of events in a positive direction.

Many actuaries may feel that the actuarial profession is too small to ever be really effective politically. Although it is obvious that we are too small to play the political game with money and/or votes, there are other ways to be politically effective. In particular, if we effectively offer independent and objective professional advice on issues facing decision-makers, we will be listened to. As Paul mentioned earlier, most decision-makers are looking for all the help they can get. The strength of our academic training and the independence and objectivity of our advice can be enormous assets to us if properly utilized.

Since we are small in size, we must avoid two pitfalls. First, we do not have the resources to be all things to all people. We must set our priorities carefully and marshal our scarce resources to work on the really important issues before us. A scattergun approach will inevitably vitiate our effectiveness on the really important issues. Second, although we must cooperate closely with larger groups and find allies on selected issues, we must never compromise our independent posture as a public profession. Our credibility and objectivity is really our only asset in the public forum. If we are ever perceived of as just a mouthpiece for the insurance industry or for corporate sponsors of employee benefit plans, then we might as well throw in the towel as far as effectively dealing with public issues is concerned.

If we are to become more effective politically, we also need to establish a higher profile and a stronger identity for our profession. Although actuaries have a more visible profile with the public than in the past, much more needs to be done. We have not really succeeded in defining for the public, or even ourselves, just what actuarial work really is. Unfortunately, the domain of actuarial work is much more difficult to define than for the larger professions. Much of our work involves elements from other disciplines such as mathematics, law, accounting and economics. Our challenge is to define and then effectively communicate what is uniquely actuarial work and why it is in the public interest that qualified actuaries should do it. In communicating our professional identity to various external audiences we need a better answer for our critics, or would-be critics, than: "It's correct because I say it is." Our discipline is being applied in the real world, not in a vacuum. Our professional work product affects the economic security of millions of Americans. The days are gone when we can hide behind actuarial mystique.

Although we may not feel comfortable about it, we should not be surprised that the validity of our work is being increasingly challenged. We live in an era in which the prime interest rate has gone from around 10% to 20%, back down to 12%, up to 21½%, and down again to 18% in the last 18 months. This is an era in which, for the first time in decades, wages for American workers are not keeping pace with prices. This is an era in which economists are increasingly skittish about forecasting basic economic variables for even a few months into the future. Yet, we must estimate economic and other factors well into the next century in much of our work. Is it any wonder that there is increasing scrutiny of our work and its credibility in such unstable economic times? We need to better communicate the results of our work and more clearly explain why it is the best that can be done under such volatile conditions. We also need continuing study and research to see if we can "build a better mousetrap" for these perilous economic times.

Political effectiveness is also contingent upon keeping our professional house in order. If we are to survive and prosper as a public profession, we must be sure we are fulfilling our professional responsibilities to the public, for surely we will be accountable to them. In certain professional areas we have made good progress. Basic education and examinations, the development of standards of conduct and practice, and the delineation of qualification standards in specialty areas are three examples. However, is this enough? Other professions have increasingly felt that it was necessary to establish such programs as mandatory continuing education requirements, peer review, and public oversight boards. Are any, or all, of these desirable and/or necessary in maintaining and strengthening our public image and in properly discharging our responsibilities? I do not know the answer, but we should at least be talking about the question.

Another way of improving our political effectiveness would be for us to take more initiative and leadership. All too often we are in a reactive mode commenting on someone else's proposals, rather than developing and advancing our own. This forces us into a defensive posture too much of the time. For example:

1. Should we not be advancing new and improved actuarial disclosure for pension plans rather than allowing the Financial Accounting Standards Board to pre-empt the field with its so-called accounting disclosure?
2. Should we not develop a sound and understandable Actuaries' Index for comparing the costs of various life insurance policies so that the consumers of America can make a more informed decision about buying or replacing their life insurance? Our failure to do so has allowed consumerists and others with less training than we to assume leadership on this issue.
3. Should we not propose a more stable and appropriate method of indexing benefits and contributions under Social Security to better insulate the system from economic fluctuations and to improve equity between the contributors and the beneficiaries of the system?

Would you, the members, support the professional actuarial organizations if we actually did any of these things, or would you think we had run amok? I don't know the answer; why don't you tell us what you think?

The 1980 election has created a new political atmosphere in Washington and around the rest of the country. How should this affect our thinking, if at all? Well, for one thing we now have a President who used the word "actuarial" at least three times in his debate with the former President. That can't be all bad! I can assure you that the Academy is exploiting the opportunity which that opening presented with the new Administration. On a substantive level I do see greater willingness in the new Administration to rely on the private sector, which should be in our favor. Also, I see increased interest in more objective current and long-term cost estimates for various programs, which is also very compatible with our interests as actuaries.

This does not mean that we can sit back and relax, although I am disturbed by the number of those who seem to be taking this approach. The pendulum has a way of swinging back again if we do not develop the opportunities when they are there. In case you are overly sanguine about the new Administration, remember that to date they have been unwilling to address most of the tough Social Security issues which must be addressed, such as the method of indexing and the retirement age. Also, you might be surprised to learn that several members of the President's party in the U.S. Senate have introduced and are strongly sponsoring a comprehensive unisex risk classification bill that would have enormous effects on the actuarial profession.

The point is that, regardless of which party is in power or what particular political philosophy happens to be in vogue at the moment, the actuarial profession has a lot of nuts-and-bolts legwork to do to accomplish our long-term goals.

At this point, you may be saying to yourself: "Yes, this all sounds very nice, but I can't really make a difference by myself, can I?" My answer to that is a resounding: "Yes, you can." What can you do to make a difference? First, the professional actuarial organizations need your active support, even if occasionally you may not agree with what we do, if we are to strengthen our public relations activities. There are many avenues, such as committee service, for doing this. Second, you can get more involved politically as an individual. The key to effective lobbying at the state and local level is usually the active involvement of people at that level, not a national effort. Next, you can work behind the scenes with your employer to do what you can to encourage positions being taken which are favorable to the actuarial profession and to discourage those which are not. Finally, you can do much more to spread the actuarial gospel such as speaking before non-actuarial audiences, writing in non-actuarial publications, and visiting with your local newspaper, radio and television reporters.

In closing, the actuarial profession in this country is undergoing a fundamental transformation from its origins as a private, scientific discipline to a true public profession with accountability to the public. This transition to public profession is relatively recent, and it is accelerating and irreversible. If we are going to succeed in making this transformation, we are going to have to learn to deal with public issues effectively. That is what this meeting is all about.

The Society of Actuaries has a motto which is well-known and widely quoted. The American Academy of Actuaries has an equally provocative motto, also by John Ruskin, which you may not know and which I would like to read to you:

When we build, let it be such work as our descendants will thank us for; and let us think, as we lay stone on stone, that the time will come when men will say as they look upon the labor and the substance,

"See! This our fathers did for us!"

When 21st century actuaries look back at this meeting and our efforts in the latter years of this century, let it be said that we fulfilled the commitment of our motto in dealing with public issues.

MR. IAN M. ROLLAND: The theme of this meeting was stated clearly and accurately as one of public issues involving the actuary. Note the way the theme is stated; it puts the actuary in a passive role and gives the emphasis to the issues. I suggest to you that the theme of our next meeting on public issues should be "What the Actuary Should Do About Public Issues." It is time, in fact it is well past the time, when we should be stating our case. It is no longer enough for us to adopt an historic posture of nameless faces in the back rooms of companies which hold in trust so large a portion of America's assets.

We must speak out. And we must speak out effectively so that we will be heard. President Ronald Reagan in an article written for The Wall Street Journal shortly after his election said: "Business and industry have every right to be heard in Washington . . . in . . . all policy making processes, just as the voices of other constituencies must be heard." Actuaries have much to contribute to this process, not the least of which are knowledge, skill, experience and impartiality. Consider these facts:

1. At the base of every sound pension plan in this country is the work of an actuary and the data he or she supplies.
2. At the core of every relationship between an insurance company and its customers is a common body of accepted **data** provided by an actuary.
3. Every family concerned about the security of its future or the inevitable consequences of mortality relies on the work of the actuary as the framework for its planning.

From these few examples, it can be seen that the work of the actuary touches the life of almost every American. Yet on the great debates in areas where the actuarial expertise might make a contribution, the actuarial profession has historically been relatively silent.

Let's look at some of the public issues which have been discussed this week in terms of the role of the actuary. First, Social Security is an area where actuarial data is indispensable to an understanding of the problems involved and even more so to the development of financially sound solutions to those problems. However, we actuaries have abandoned this field of debate to the demographers, the sociologists, the politicians, and others whose views are more determined by the average age of the voters in their home district than by a true evaluation of the **data** any qualified actuary could provide. If ever there was an issue on which the actuarial organizations

have a duty to take a public stand, Social Security is that issue. We have the data and the skills, hewn in a lifetime of work in the profession, to define and articulate the alternative solutions along with a true evaluation of their costs. Yet for the most part we have been silent.

Let's take another area where we have abandoned the field to those willing to speak out. I refer to the comparative value of life insurance as an investment. How many times have each of you read in the financial pages or the so-called consumer columns that life insurance is no longer a good investment or an adequate hedge against inflation? How many times have you read an interview in the morning paper with a broker or stock analyst suggesting borrowing to the hilt against an insurance policy in order to invest in the stock market. Then ask yourself how many times your company, or its actuaries or public relations representatives have taken action to tell the other side of the story or set the facts straight. This industry needs more than salesmen helping individuals with their estate planning and selling families on insurance. It needs data to be put into intelligible terms so that the public has an antidote to some of the snake oil some of these so-called family financial counselors are peddling. Why should insurance and the role it plays in family security and retirement planning be relegated to a once-a-week column called "Insurance" in the few papers where it has any exposure at all? The answer is that we have not found a means to interest the public in our expertise as actuaries and what we have to contribute to their knowledge of the future. In fact, very few Americans could tell you today exactly what it is that we actuaries do for a living.

The insurance industry has always lived in a regulatory climate and quite properly so. But there are good regulations and bad regulations. If we are to protect our industry from regulations which are unnecessarily restrictive, costly, or even destructive, we must find a means of communicating our views effectively to those in positions of authority. We should never forget that regulations are forged by public officials, and that these officials are responsive to effectively articulated public opinion.

Albert Einstein once said, "I never think of the future, it comes soon enough." I say to you that while there are very few Einsteins out there in the public, there are far too many people who share Einstein's view on this one subject. Actuaries cannot, of course, predict the future with certainty. But they can anticipate the alternatives which the future may hold. And today that is the area where actuaries can properly enter the debate on all these issues.

We have great strengths to bring to public debates, and we should use them. We have the authority that comes with professional qualifications. Within the financial community we have a reputation for impartiality that comes from the experience of generations of Americans. Actuarial tables may not be accepted as being quite as inspired as the Scriptures, but one can say they are at least hallowed by time-honored use. Finally, there is the reputation of our profession for integrity, an old-fashioned word that not every segment of the public can bring to a discussion of the issues. We should use these assets of our profession just as effectively as we expect our portfolio and trust managers to use the financial assets of our companies.

It is not too late to enter the debate. In fact, the changing profile of the American population, the increase in life expectancy, and the problems of providing a decent existence for those no longer in the work force are among the major public issues impacting public policy in the years ahead. These are all issues on which we are qualified and, in fact, obligated to speak.

We are in a unique position to put the facts before the American public that can lead to informed decisions. We should not be timid about doing so. As several of our seminars suggested, we must not only have a case; we must learn how to present it effectively in a variety of forums, including legislative committees and the media. Most of us have trained communications consultants on our staffs. We should call on their skills as communicators to help us make our point, just as the industry calls on our own specialized skills. These communicators know how to get our story told in an effective way. Let's not waste their talents by failing to enlist them in our cause. Also, as a Society we should not be afraid to take controversial stands or challenge inadequate or misleading data which we find being put before the public.

To believe in democracy one must believe that, if given the truth about a situation, sooner or later the voters will make the right and wise decision. If this were not true, our Republic would not have endured for more than two centuries. Our challenge is to get the facts before the public and, in so doing to strengthen our country and its decision-making process; our charge is to leave this meeting with a commitment to involve ourselves in the major issues of the day. We can accomplish this by working a bit harder to stay informed, by carefully thinking through our opinions and by seeking out opportunities to express our views. That third step is the most important one, for it is clear that our voices will remain silent unless we make a real effort to speak.

As we meet here today, it is springtime in New York and throughout America. Perhaps we should take it as a time to regenerate our Society with a new vitality, just as we see nature regenerating itself each Spring.

Earlier, I drew at least a small parallel between the authority of our profession and that of the Scriptures. So perhaps you will forgive me for closing with quotation from the "Song of Solomon", where the poet wrote,

"The time of the singing of birds is come, and the voice of the turtle is heard in the land."

To which I would add, as my text for today, and with no irreverence,

"And let the voice of the actuary be heard in the land as well."