RECORD OF SOCIETY OF ACTUARIES
1981 VOL. 7 NO. 2

ACTUARIES MEET THE GOVERNMENT

Moderator: WILLIAM A. HALVORSON. Panelists: MARK S. FOWLER, CHANDLER L. McKELVEY, BERNARD PACKER, J. HENRY SMITH

1. What do regulatory agencies expect of actuaries in their employ?

2. What do such agencies expect of:

   a) The actuarial profession in its interface role?

   b) The actuaries for companies and plans being regulated?

3. In the broadest sense, how can actuaries or the actuarial profession be helpful to government in carrying out its public role for society?

MR. WILLIAM A. HALVORSON: Many actuaries are routinely involved with the government, some because of activities in one of the actuarial organizations, some because of employment by a trade association and some because they work for a government department or agency. Actuaries, as professionals, generally recognize that their responsibilities are different from those dictated by a typical employer-employee relationship, especially where government is concerned. This panel will help us gain a better perspective on these professional responsibilities.

The first two speakers on the panel are regulators, one from Canada and one from the United States. Mark Fowler has worked six years for the Canadian Federal Department of Insurance.

MR. MARK FOWLER: Professional actuaries are employed by the Government of Canada currently in only two departments. These departments are the Federal Department of Insurance and the Department of Employment and Immigration. Most federally employed actuaries are in the Federal Department of Insurance. There are, at the present time, fifteen Fellows of the Canadian Institute of Actuaries employed by the Department of Insurance, and of these fifteen, thirteen are also Fellows of the Society of Actuaries. The Federal Department of Insurance is the regulatory agency that is charged with the administration of the Insurance Acts of Canada as they apply to federally incorporated Canadian insurance companies and fraternal societies and to insurance companies and societies incorporated outside of Canada. The Federal Department also acts as other than a regulatory agency in that it provides actuarial services to government as required for the administration of the Canada Pension Plan, and the insurance and retirement pension plans for federal public servants, members of the Canadian Armed Forces and members of the Royal Canadian Mounted Police.

The chief executive officer of the Federal Department of Insurance is the Superintendent of Insurance, a position first created in 1875. Since that time there have been only six incumbents, and it is significant to note that five of the six Superintendents have had actuarial training. The current incumbent and previous incumbent have both been Fellows of the Society of Actuaries. In addition, the current and previous incumbent of the position of Assistant Superintendent of Insurance have also been Fellows of the Society of Actuaries. Thus, there is a tradition of maintaining a strong actuarial presence in the regulation of insurance by the federal government.

Before going on to give some observations as to what I perceive to be the expectations of the Department of Insurance as regards the actuaries in its employment, I should like to set out the principal regulatory responsibilities defined by the Insurance Acts with which actuaries working within the Department of Insurance are expected to be concerned. Historically the principal thrust of the regulatory responsibility that the Department of Insurance has attempted to discharge has been one of insuring that companies and societies that come within the ambit of its supervision maintain a financial position sufficient to enable them to meet their obligations to their policyholders or members. While solvency is perhaps uppermost as a concern, it is also the responsibility of the Department to attempt to ensure that participating policyholders of life insurance companies are treated equitably and to be satisfied that regulated companies deal fairly and responsibly with members of the public with whom they do business. Because of the constitutional division of power in Canada as respects the responsibilities of the Federal Government vis a vis those of the provinces, matters such as regulation of premium rates, nonforfeiture values, mandatory policy benefits and the licensing and supervision of agents are not within the capacity of the Federal Department of Insurance. This is not to say the provinces are regulating these items, either.

Having this background in mind, I would like to turn now to the questions addressed by the program. I would suggest that the Federal Department of Insurance expects the following of the actuaries in its employment, but I do not suggest that the following remarks represent a consensus nor do they purport to be a check list of performance criteria established by the Department. Rather, they are a sequence of personal observations.

1. An actuary employed by the Department should understand that in dealings with the public, he or she not only represents his or her profession but also represents the Government of Canada. Thus, it would be expected that personal conduct and demeanour reflect this fact.

2. The actuary should understand his or her role within the regulatory framework and should understand the requirements of the law which is being administered and the limitations upon his or her authority exercised in the performance of

his or her duty.

3. The regulatory actuary gives his or her best professional advice when faced with technical questions involved in the administration of the Insurance Acts. As a corollary the regulatory actuary maintains an up-to-date knowledge of actuarial science and practice. To this end, the Department encourages the participation of its actuaries in the Canadian Institute and the Society.

4. The regulatory actuary maintains an up-to-date knowledge of the orientation and direction of the insurance industry generally, the specific challenges it faces, and the likely responses to those challenges.

5. The regulatory actuary maintains an awareness of the legislative implications of changes within the industry and within the actuarial profession and responds to that awareness with recommendations as to changes in legislation, in regulations, or in both, where required.

6. Where the duties of a regulatory actuary encompass management responsibilities, the actuary discharges those responsibilities effectively and within budgetary constraints. Similarly the regulatory actuary as manager is expected to understand and implement federal government initiatives related to public service employment and cost control.

The Department regulates 405 life and casualty companies, as well as companies under the Trust and Loan Company Act and the Investment Company Act. The Department has 205 employees and an $8,000,000 budget.

We briefly examine the way in which the Insurance Acts of Canada rely on actuarial expertise in order to achieve the fundamental objective of ensuring the financial soundness of life insurance companies supervised by the Federal Government.

The objective has basically been achieved through the mandatory disclosure of liabilities with a proviso that liabilities of a mathematical nature be certified to by a qualified actuary. Thus, actuarial certification of liabilities has been, and is, the cornerstone of life insurance company regulation by the Federal Government. Until quite recently actuaries were required to value actuarial liabilities of life insurance companies using actuarial assumptions predefined by the law unless the actuary could, in special circumstances, obtain the prior approval of the Superintendent of Insurance to use assumptions other than those that were set down by legislation. Commencing with 1978, however, the Insurance Acts were amended so as to grant to actuaries the freedom to choose those valuation bases which they felt, in the exercise of their professional judgment, to be appropriate both to the circumstances of the company and to the policies of the company in force, subject only to the proviso that they be acceptable to the Superintendent. Prior approval is not required. Thus, the insurance legislation has evolved from a system where actuarial judgment was to some extent restricted to the present situation where the law requires and encourages the exercise of professional judgment in the discharge of the actuary's responsibility in certifying to the actuarial liabilities of a life insurance company. Thus, the legislation not only relies upon the actuary to perform the calculations that are required but also to have regard for the entire situation of the company and its business being valued in framing his or her approach to the valuation.

With this background, the Federal Department of Insurance expects the following of the actuarial profession in its role as a self-regulated entity which is involved in providing an extremely important service to the public.

1. The regulatory system in Canada, in large measure, leaves the regulation of actuaries to the actuarial profession. Thus, for the system to work, the profession must continually ensure that its members who act in the capacity of valuation actuaries and certify to the adequacy of life insurance company reserves are fully prepared to meet those responsibilities.

2. The Federal Department of Insurance looks to the actuarial profession for actuarial research that benefits not only the profession and the individual practising actuary but also the regulatory agency in terms of its being in a better position to design appropriate legislation and regulations. A current subject of joint interest both to the profession at large and to the Federal Department of Insurance is the minimum surplus levels for life insurance companies that take into account both the varied corporate structures of companies and the types of life insurance business that those companies transact. Such research can play a role in the regulatory attitude towards incorporation of new life insurance companies, for example. The Federal Department of Insurance also continues to work closely with the actuarial profession in Canada on refinement of the guidelines for financial reporting as respects life insurance companies that were recently being drafted by the Canadian Institute. It is the hope of the Department that these guidelines will be expanded to encompass such topics as reserves for reinsured business, accident and sickness reserves, and appropriate ways to recognize any mismatching of assets and liabilities in the selection of valuation assumptions.

3. The actuarial profession should continue to emphasize the importance of professional conduct within its membership.

4. The actuarial profession should continue to provide its membership with tools, techniques, and an analysis of economic and statistical data that will enable practising actuaries to fulfill their role as the professional advisor principally responsible for the financial soundness of the company or plan for which they render service.

5. The Federal Department continues to look to the actuarial profession for assistance in improving and keeping up-to-date the technical aspects of the insurance legislation in Canada. To this end the actuarial profession, as represented by the Canadian Institute of Actuaries, is invited to make comment upon the periodic legislative changes insofar as they involve technical or actuarial aspects.

The Federal Department of Insurance has contacts with individual actuaries working for insurance companies which arise in a great variety of ways:

1. the presentation of actuarial studies as regards a proposal to incorporate a life company,

2. the presentation of regular annual valuation reports certifying to the liabilities of supervised life companies,

3. routine reporting of annual statement items,

4. questions arising from actuaries working for companies in the capacity of advising or planning with respect to investments and dealing with the permitted investment sections of the regulations, and

5. the presentation of actuarial reports as respects the transfer of business or merger of companies.

In large measure, in these various situations, the Federal Department expects the individual actuary acting for a company to be aware of the main thrust of the regulatory environment, that being the protection of policyholders and their equitable treatment, and to reflect such considerations in the presentations and disclosures that they make to the Department. Since the individual actuary is the person most responsible for the solvency and success of the supervised insurance company, the regulatory agency expects the individual actuary to be fully aware of the current and future orientation of the company so as to be able to discharge properly his statutory responsibilities.

The Federal Department expects individual company actuaries to play key roles in assuring the continued financial success of the insurance enterprise. This can be done in many ways. Some of the most important ways would be

1. advising as respects the surplus consequences of new business plans,

2. rendering advice as respects the distribution of investments by type, maturity and yield,

3. monitoring the company's mortality, morbidity and other experiences in relationship to those expected,

4. identifying sources of loss and making recommendations

for corrective action, and

5. formulating dividend policies and practices that are equitable to participating policyholders.

It would be remiss of me to impart the impression that the relations between the Federal Department and individual actuaries are always straightforward and uncontroversial; that would be untrue and indeed unexpected. The legislation does not, and probably cannot, address itself to all of the complex issues and problems that are faced by regulators in attempting to ensure the continued financial soundness of supervised companies. In situations where legitimate differences of opinion are acknowledged, it has been the tradition of the Department to attempt to achieve a resolution by means of discussion and persuasion while focusing on the prime concerns, protection and fair treatment of policyholders, rather than by resorting to pre-emptive or bureaucratic methods. Generally this approach seems to be in harmony with the spirit of the legislation and also seems to work reasonably well in practice.

In summary, actuaries and the actuarial profession can best assist government in carrying out its social responsibilities by recognizing first that actuaries occupy a position of trust in the eyes of government and its regulatory agencies and that the proper discharge of that trust has been left to the devices of individual actuaries and the profession. Consequently, it is up to actuaries and the profession to serve the public and to be seen to be serving the public in the best possible way. How? I would mention the following:

1. By continuing to expand and refine actuarial science.

2. By ensuring that individual actuaries practise the craft at the highest possible level in their day-to-day work.

3. By ensuring the wide application of guides to professional conduct and by taking disciplinary action where circumstances require.

4. By striving continually to define those matters that can benefit from the application of actuarial expertise and continuing to assist governments and regulatory agencies to mould the most effective possible regulatory framework, having the public well-being uppermost in mind.

MR. HALVORSON: Our second speaker is Bernard Packer from the New York State Insurance Department.

MR. BERNARD PACKER: The organization of the New York State Insurance Department differs from the organization of the Canadian Department of Insurance. In Canada the superintendent is the chief actuary. In New York the superintendent and the next levels are politically appointed. Down through the level of bureau chiefs there are no actuaries with one exception. Actuaries are the workhorses. The actuarial staff includes twelve

Fellows and eight Associates of the Society of Actuaries -- plus a few actuarial students. Of the twenty Fellows and Associates, fourteen are in the New York City office, and six are in the Albany office. There is a Chief Life Actuary. The rest of us are assigned to one of six different Bureaus.

Our Albany actuaries work for the Actuarial Valuation Bureau and the Health and Life Policy Bureau. The Actuarial Valuation Bureau has responsibility for the valuations of reserves of life insurance companies and fraternal benefit societies, the actuarial aspects of policy forms, and credit life rates. One section in the Policy Bureau reviews and regulates policy forms; another reviews accident and health rate filings.

One of our New York City actuaries works in the Casualty Actuarial Bureau, and another two, in a section of the Property Bureau, devote their time to the "Blues" and other non-profit health insurance plans. The Examination Bureau employs six actuaries, and the Life Insurance and Companies Bureau has five.

The Examination Bureau is responsible for conducting the field examinations and investigations which support and enforce the entire regulatory program of the Insurance Department. As part of the examination team, the actuaries review insurance operations, reserves, allocation of income and expenses, Schedule Q, dividends, and anything else that makes their noses twitch. The actuarial review of a single company can take anywhere from a few days to more than a year. The reports produced by these actuaries become part of the workpapers of the examinations, which are available only to other Insurance Department actuaries. Parts of these reports are incorporated into the Report of Examination, which is made public. No area of a company's operations is exempt from their review.

The Life Insurance and Companies Bureau is responsible for the administration of the insurance law with respect to life insurance companies, life insurance departments of savings banks, public pension funds, fraternal benefit societies, retirement systems, and charitable annuity societies. The responsibility extends to all aspects of a company's operations including financial soundness, sales practices, treatment of policyholders, agents' compensation, employee benefit plans, and separate account operations for, among other things, the funding of variable annuities and variable life insurance policies including their respective plans of operations. The Bureau requests field examinations, mainly to comply with statutory requirements, and is responsible for following up these examinations with appropriate action. The Bureau also suggests and reviews legislation and handles special inquiries and complaints. It also reviews proposed acquisitions, subsidiaries, and holding company transactions.

The Life Insurance and Companies Bureau has an actuarial section currently with six positions.

My position is Assistant Chief Actuary. It has been described as being "responsible under the overall supervision of the Bureau Chief, for the supervision of the actuarial staff and the regulation of all actuarial service of the Life Insurance and Companies Bureau. In addition... (he) takes upon himself the review and processing of the more difficult and more important assignments. He also acts as a consultant to the other actuaries on their assignments and advises the Chief Insurance Examiner in formulating policy and in reviewing legislative proposals."

The other positions are all Supervising Actuaries. At the current time one position is vacant. If anyone is interested, a description of the duties and assignments of an applicant for the job would read something like this:

"Review in a timely manner company submissions or proposals dealing with agents' compensation, dividends, investment year methods, separate accounts and other actuarial assignments. Develop and maintain workpapers to facilitate future reference. Clearly indicate in all communications with companies the precise subject matter under discussion. Apply the Department's actuarial policy. Create new precedents only after discussion with supervisor and with the approval of the Bureau Chief."

One actuary devotes almost all of his time to public pension plans, charitable annuity societies, and non-profit retirement systems.

To qualify for the position of Supervising Actuary, an applicant would have to be a Fellow of the Society of Actuaries, have broad experience and a thorough knowledge of the actuarial theory needed to handle the assignments of the Life Bureau, be familiar with pertinent sections of the law, regulations, circular letters and opinions, and, of course, have an awareness of our responsibility to the public and to the insurance industry.

With the exception of our pension specialist, each of our actuaries is expected to be able to handle any of the diverse assignments for which we are responsible. In making the assignments our goal is to maintain a balance in each actuary's workload and at the same time have all company submissions handled on a first-in first-out basis. Occasionally it becomes necessary to make reassignments.

Very often a delay occurs in completing the review of a particular submission of a company as a result of inadequate preparation. For example, proposed plans of agents' compensation that require approval under Section 213 of the New York Insurance Law may omit a current valuation of security benefits. Retirement plans and group insurance have received more emphasis in recent years. The cost of health insurance has continued to increase. Margins that were available in the past may be eliminated because of these trends. For that reason, all benefits must be revalued even when it is proposed to change only one element of compensation.

Or, with respect to plans that involve excess renewal commission scales, which result in Schedule Q item 61 charges, many actuaries do not realize that requirements for approval are quite different from those for non-excess renewal scales. First, the use of agents' termination rates is not permitted for excess renewal scales; that is, it must be assumed that renewal commissions are completely vested regardless of the actual contractual provisions. The use of agents' termination rates is only allowed for plans that qualify under the aggregate test. The use of the aggregate test is permitted under the last unnumbered paragraph of Section 213(8) and excess renewal plans may not be valued under this subsection; Subsection 8(e) was specifically added to the law to allow this type of arrangement. Second, first year commissions payable under excess renewal scales are subjected to a limit that may be lower than that provided in Subsection 4. This is to guarantee that in no case will the first year field expense limit be exceeded as a result of the adoption of an excess renewal scale. Third, the demonstration of compliance must cover each policy issued -- each plan, each age, each amount, each sex, each type of agent.

Other frequent causes for delay are ambiguities. In most cases, ambiguous language in a proposal is purely accidental, we assume, and a clarification is obtained readily. However, there have been a significant number of cases where approvals were given to proposals where the <u>intent</u> of the proposal was quite different from what was understood from a casual reading of the subject matter. This type of thing might be uncovered during an examination of the company, as a result of an inquiry from an interested party, or upon a more careful reading, or wording, of a subsequent submission. Correcting a mistaken approval might cause some embarrassment to the Department, but the damage to a company's credibility could be much more severe. Honesty once pawned is never redeemed. On a number of occasions I have reversed an approval that I gave some years before. In doing so, I usually explain that I was not as smart a few years ago as I am now.

Much of our contact with industry actuaries revolves around submissions which are required by law to be "approved by the Superintendent." All of these submissions involve an exchange of correspondence, which can become voluminous. Sometimes items in question can be cleared up by a few phone calls. In some instances, especially where major policy decisions are required, we arrange for one or more conferences. Occasionally, internal meetings with the Superintendent or other senior staff members are needed. For the public good, someone has to make a decision. The political appointees have good instincts for making decisions for the public good. They are very sharp. This is what propels them into politics. Whatever the process, old precedents are affirmed or new precedents are created on virtually a daily basis. A precedent that was established in 1909 may have been reaffirmed yesterday. On the other hand, one that was established only a few months ago might be revised today. Our opinions do change sometimes when new arguments are presented for the public good. Actually, it is much more difficult for us to withdraw a previously approved practice than it is for a company to reverse its course. Consequently, we have to be more conservative, at times, than might otherwise appear desirable. Nevertheless, the Department's actuarial policies are subjected to a continuous review, and revisions will continue to be made in response to the needs of the insuring public and the companies that serve the public.

In addition to working on submissions for approval under various sections of the law, we are involved in revisions of the insurance law. The Department's actuaries are serving on task forces studying a wide variety of subjects. These task forces often include industry representatives. This type of forum allows us to work directly with industry representatives and to exchange ideas freely. It gives us the opportunity to examine all the pros and cons of each issue and to pinpoint the areas of agreement and disagreement. The series of meetings that resulted in the 1979 revisions to the New York versions of the standard valuation and non-forfeiture laws spanned about two years. A new task force was recently constituted to consider the latest proposed revisions to these laws. As this is being written, we are involved in at least eight of these task forces. These meetings help us to keep informed of current developments and the "mood" of the industry, and more important, enable us to get across to industry representatives exactly what our concerns are.

I would not go so far as to say that we are not concerned with the legislation being enacted across the nation, but I will say that we have our own way of thinking. That style of thinking is the result, in great measure, of the contributions made to the public and to the industry by Charles Evans Hughes. Mr. Hughes, you will recall, served as the examining counsel for the special commission appointed in 1905 to investigate the life insurance industry, which is remembered as the Armstrong Investigation. He dominated the proceedings and drafted the recommended legislation, much of which still remains in effect. I think it would be a good idea for each of us to review the findings of the Armstrong Committee every couple of years to remind ourselves of the progress we have made and to avoid the mistakes of the past.

We are invariably criticized when we oppose a proposal. However, we are often told later, by those who pressed hardest, that they are sorry that we were not successful in preventing them from doing something. Of course, this does not diminish their zeal when the next issue comes along.

In your dealings with us and in our dealings with you, as in life, we win a few, we lose a few, and we hope that in most cases we do the right thing for the public.

MR. HALVORSON: The next part of the presentation will focus on the individual actuary and how he or she can be of assistance to government in the broadest sense. The first speaker is J. Henry Smith, who is currently on the Board of Governors of the Society. He retired from the Equitable in 1975 after being President, Chief Executive Officer and Chairman of the Board. He will tell us what he has been doing since then.

MR. J. HENRY SMITH: For a few years after 1975 I had the opportunity to experience governmental work not really related to actuarial theory or practice. It was related, however, to my career, which over a period of many years grew out of, and rested heavily on, actuarial training and experience. Like so many other actuaries in insurance company environments, I gradually shifted out of the actuarial discipline per se into what might be called general manageme[illegible]of my career was more heavily weighted in genera[illegible]than in technical actuarial duties. Nevertheless, my career was so much built on actuarial training and early exposure that I have always considered myself an actuary.

Anyhow, about the time I retired from the company roster the Mayor of New York City had decided that, in order to help overcome the desperate fiscal problems of New York, he would employ some business types to see if greater efficiency could be achieved in governmental operations and costs reduced. I was a part of that effort; he invited me to become Commissioner of Welfare and Social Services in the City of New York. I may have been foolish in accepting, but I did so in the hope of repaying New York City for some of the values it had given to me, in the hope of helping the city through its financial crisis, and in the hope of helping needy individuals.

In New York City Welfare and Social Services constitute a ramified, complex and monstrous operation. There were at that time (1976-77) almost a million people dependent on welfare in the city. There were about 1,400,000 people eligible for food stamps and about the same number covered under Medicaid. All of this was administered by the city, and the management of these major operations was a full-time job indeed. For example, under Medicaid operations at that time the city was paying about 400,000 claims a week. Corresponding sizes attached to the other programs.

In addition to these major components, the complex of the social services provided was amazing to me. There were about forty-five different social service programs of one sort or another in addition to welfare, food stamps and Medicaid. There were 30,000 children in foster care who were wards of the Commissioner, 375 day care centers, 165 senior citizens centers, family planning centers, and so on and on through an extraordinary number of special programs designed to help various segments of the disadvantaged in different ways. Amazing, but true: forty-five different programs, each with its different constituency, rules and funding.

Certainly the management of this multitude of operations presented little of a strictly actuarial nature. Once in a while we ran into something that had actuarial overtones, particularly in dealing with Medicaid, but mostly it was a management job, a management job essentially like some of the kinds of things that young actuaries may gradually take on in their company jobs or careers.

I say "essentially like," but there were certainly important differences. For one thing, as noted, this was a multi-dimensional operation and a huge one. There were 25,000 employees in the agency, and we had a cash flow through the agency, all programs combined, of about $4 billion a year. The second aspect, which was different and had important impact, was that all of these programs were designed not to sell to the affluent, but to serve the needy, not those who could take care of themselves but those who needed help. That puts quite a different aspect on the planning and the conditions under which you work.

Further, we operated in a political setting, one with many checks and balances operated by politically oriented authorities jealous of their prerogatives. There was political interference, particularly where various constituencies made up of needy people were able to bring political pressures to bear. Many times while I was in charge, we had demonstrations in the street and in my office.

Furthermore, we had woefully inadequate resources. Budgets were being slashed drastically; services were cut severely. Seventy-five day care centers were eliminated due to budget restrictions. Pay scales were too low to attract really capable management people, and there was little to hold good people in the system. There were thirty people in that organization earning as much as $30,000. The highest paid was about $45,000. There was no real ladder of career promotion and little loyalty. There were good people there, but mostly they were looking around for places to move on to; the able ones were in transition. Political employment is very much that way: one moves ahead, if he does, by sliding to a new job diagonally.

Not the least of the often impeding factors in municipal operations are the Civil Service system and the unions. I could not move a group of people from one job to another without consulting the unions, even though it was obvious we had to make emergency moves. Management's prerogatives are substantially reduced, or at least complicated, by these powerful forces.

On the whole, the conditions, requirements and obligations of the Department constituted a most significant, most awesome challenge to the available management skill. Fortunately, we were able to take advantage of some recruited volunteers, or rather, not volunteers but loaned executives from corporations. One of my jobs was to recruit these volunteers. We were able to set up some task force groups to work on management problems, and were able to bring some businesslike methods into the system so that it could operate somewhat more efficiently. New York City corporations were generous in lending help. It was estimated, conservatively, that over a couple of years we were able to establish new systems, revise procedures and update methods to the extent that we could save about $100 million a year in expenses and fraud. That is a lot of money, but not a very high percentage of the total cash flow through the agency at that.

I stayed with the job almost two years until the Mayor who recruited me lost his footing and was replaced. At that point I bowed out, a wiser and certainly more educated, humbler man. Tired too! I am glad I did it, but it was a strain. It was a real learning experience; I wish more businessmen had the opportunity to become involved in operations surrounded by a political environment because it gives one a greatly enlarged and authentic sense as to how our political system operates in its managerial aspects. I must say in short that it is not a very rewarding and certainly not a very reassuring lesson. Our political organizations do not operate with much efficiency or much sense of striving for lean and productive workforces.

Some of the improvements we installed have been carried forward, but the continuity was slim at that. A year after I had left service all but two or three of my principal assistants had moved out of the agency and been replaced by others. Few of the new ones had background for the work when they moved into it.

I really do not have much to say that will be of immediate use to this audience because not many of you will have the opportunity to apply your knowledge, experience and ingenuity to political subdivisions, but I hope that if you do get such an opportunity you will take advantage of it. Maybe in your hometown there is some way for you to give the local government the benefit of your expertise in management. Some of the operations of a city relate more to actuarial problems than does welfare. For example, the organization and deployment of sanitation forces could have systems study and organization which would improve the ways things are done. Maybe you would like to be Commissioner of Sanitation, but I warn you that when you face city unions and Civil Service rules it is not as easy as you find our usual environments.

Of course, the classic municipal problem for actuaries is the pension plan for employees. Many of them are in need of much expert attention and actuaries could play vital roles in that arena.

If you do find an opportunity to help your city (probably without compensation) it will be much to the advantage of the electorate, and it certainly will be a fascinating experience for you.

MR. HALVORSON: The last speaker is Chan McKelvey who retired at age 50 as Chief Executive Officer of his life company to become Secretary of the Wisconsin Department of Development.

MR. CHANDLER L. McKELVEY: I was glad to hear those kind words earlier about some of the political appointees, because I am one of those, and I am glad to hear that we can do relatively well, sometimes.

I am even more out of the actuarial profession than Henry Smith because the job I have is truly in no way related to the actuarial training that I received. In practice it is really not related too much to the kind of management experience that you get in business as I will try to explain.

I planned when I came to this meeting to talk about how the training that actuaries receive and the characteristics that go to make a successful actuary can be easily transferred to the public sector, but mingling here with you in the last couple of days has reminded me of things that had slipped away in the last year. The private sector is much more orderly and rational. What might be more useful to you is for me to spend a little time on some of the comments Henry made and talk about the major differences between your world and mine, between the way the private sector works and the way the public sector works.

First, the public sector is, well, very public; it is public all the time. It is very open; people are interested not only in what you do but how you do it, and the process in which you do it. There are people with microphones and pencils that are recording everything that you say and do. It is an environment that is so different from what most of us are used to in the business world that it takes a lot of getting used to, and as a matter of fact there are people that find that impossible to do.

Second, there is a much sharper distinction in the public sector between policy making and execution. The policy making body in government is the legislature, the congress, or council. The executing body, of course, is in the executive branch. The two bodies have much less interplay between them than you see in the private sector. The people who make the policy are not the people who execute it, and that brings some startling changes to the way that things are done. In fact, one of the weaknesses in our state legislature is that we have now increased the salaries of legislators to a point where it can be a full time job. And we are beginning to get legislative leaders who have had no experience other than being legislators: bright, confident people, but they have not had the opportunity that top management policy makers in private industry have had of living with their mistakes. In government someone else lives with the mistakes, so there is not the maturing process that a really experienced manager needs. That is a weakness in government.

Third, as Henry referred to, the public sector is much more complex; there are many more dimensions, many more facets to the public sector. The political party is a dimension not found in the private sector.

Fourth, a major factor in government is that the press is with you all the time. The press is part of the governmental process. Not only do they record what you say; they are responsible to a large extent for setting the agenda. The things that are reported are the things that are paid attention to, are the things that become issues. Those are the things that you spend your time on. So the press is a major factor in government, part of the process, part of the ways things are handled.

Fifth, interest groups are part of the daily activity in government and represent a dimension not in the private sector.

Sixth is other levels of government. In a state government many of the things relate to the federal government on one side and counties and municipalities on the other side. This is an added dimension that increases the complexity of almost any decision.

Seventh, everything is more immediate in the public sector. There is no such thing in government as long range strategic planning. The major players, particularly the major policy makers, have very short tenures, and most of them face reelection every two years. At the state level the maximum is four years. Long range tends to be what will happen later on in this particular session of the legislature. Everything is more immediate on a day to day basis. You must deal with most subjects in a reactive way. Government is a reactive organization, reacting to crises, urgent things that are happening now. It is much more difficult than in business to attempt to set goals, to set plans, and to move in an orderly way towards those goals.

Eighth, the public sector is more transitory. What is an extremely urgent, important issue today typically will be gone and replaced by something else tomorrow or the day after. So you pass very quickly from one issue to another. The issues are almost always unexpected and must be dealt with quickly, and then they are gone.

Ninth, in government a plan is a set of rules, an evaluation device, that you use to enforce or measure the performance of other levels of government or people. In the case of a transportation plan, local governments in proposing new roads or other projects have to conform with that plan. So a plan becomes an evaluation tool as opposed to the plans used in business, where we are involved with feedback and reevaluation.

Tenth, everything is more contentious in the public sector. Certainly in your companies you can have contentiousness; you have arguments, vigorous discussions, which are held primarily in private. In private you are reasonably civil to each other. The exact reverse of that is true in the public sector. People are very easy to work with in private, even your political opponents. You can make arrangements; you can talk frankly; the contentiousness is saved for the public scene. This is disconcerting for someone coming in new.

Another thing that is surprising to most people who have not been involved is that the public system is much easier to influence than the private system. It is very responsive in the policy end. One reason is that the agenda is so large and so complex and changes so rapidly that no one can be expert or even knowledgeable in all areas. Therefore, you must rely on information from outside. People who are prepared to provide information on a basis that is not blatantly partisan or self-serving are in a position to wield great influence. Few people realize that you can be influential. Really effective lobbyists are those who have a reputation for being there all the time, not just when they are going to be critical. They can be counted on to provide dispassionate information. Information is an extraordinarily valuable commodity in government. The people who can provide it are very powerful and can be very influential.

As I mentioned, the agenda is startling in terms of its diversity, and you must be prepared. I find myself reading the newspaper every morning differently than I used to. I now try to find out what it is that I will have to become expert on very quickly before that first call comes when I get to the office.

Another significant difference is that the departments in the executive branch are much more independent of each other than what you are used to. They have been called baronies. My relationships with the other department heads in Wisconsin are much more formal and are much less frequent than what you find in a company. Each one of us is running our own area. If we have a joint problem or opportunity, we deal together on a much more formal basis than what you are used to.

Another difference is that change is much more difficult in the public sector. Several of the most high profile blunders that I made early in my government career came because of this. In business if you do not like the way things are, you can make an investment in a new plant, in a new product, or in a new sales system to change your share of the market. You can change your profitability. That idea is very difficult for people to grasp, and they are not willing to grasp it in the public sector. If you are going to change taxes, reduce them here, then you have got to show how you are going to increase them there. The idea that you can actually influence economic activity by a tax policy is very difficult for most political people to buy.

Another difference is that the public sector system is much more mean-minded. Reporters and the legislative caucus go through my expense account frequently. The question is not how well you are doing things but did you do them in the cheapest possible way. Did you make an unauthorized telephone call? The feeling of mistrust makes innovation and aggressiveness very dangerous for people in the public sector and is a major contributor to caution and conservatism in government.

One thing that was startling to me as an actuary is that all information in the public sector is tainted. There is virtually no accurate information, and yet numbers are used with great frequency to prove all kinds of points. Almost all statistics are used to prove points. It is almost the reverse of the scientific method. None of the numbers that you see, none of the information that you get, is really reliable without checking it through entirely different ways. You must be much more careful in what you accept.

This is the most difficult job I have ever had. It is definitely the most frustrating, but it is also the most fun. To change direction is an opportunity that I never expected to have. I can recommend it completely. One of the advantages is that this is temporary for me. I have no past in the public sector; it is becoming more obvious every day that I have no future in it. I look at it as a temporary, challenging, exciting and fun opportunity which I intend to take advantage of. Thank you.