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WHAT IS THE FUTURE OF THE ACTUARY IN EMPLOYEE BENEFITS?

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- o What are the current and future challenges in the employee benefits area?
- o Is the actuarial profession adequately preparing its members to meet those challenges?
- o Do our clients and publics view us as playing a vital role in employee benefits developments?

MR. PATRICK F. FLANAGAN: Our first speaker is Rick Roeder. He's Vice-President and Chief Actuary of the Epler Company in San Diego. Rick has written numerous papers on various employee benefit and actuarial topics. He's going to focus his remarks on the largest traditional areas for consulting actuaries, such as the defined benefit pension plan.

Lance Weiss is a Consulting Principal with A. S. Hansen in Chicago. He's going to discuss the contribution that actuaries can make in certain fields that are not within our traditional area of expertise. He'll also talk about the way that we are perceived by people outside the profession. Our final speaker, Barry Watson, an actuary with The Wyatt Company in Washington, specializes in international benefit consulting. Barry has been very active in the

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professional activities of the Society and other actuarial bodies. Barry will be giving us the benefit of his global perspective in his remarks.

MR. RICK A. ROEDER: Before discussing our future, I believe it would be useful to summarize the recent history of U.S. legislation regarding employee benefits.

Recently, the impetus of much of a consulting actuary's work in the employee benefit area has been a response to recent legislation. Until the 1980s, pension plans were largely immune from congressional activity. Landmark legislation -- ERISA passed in 1974, however, in most years prior to 1980, major pension and group benefit provisions remain unchanged. Starting in the 1980s, we have had a continuous stream of legislation which has made the maintenance of employee benefit plans less attractive to plan sponsors. In 1980, Congress introduced the term of an "affiliated-service group" in an effort to cope with professional service corporations, which had excluded employees from participation due to the creation of various, different corporate entities. In 1982, Congress passed the Tax Equity and Fiscal Responsibility Act, an Act that looked like it was landmark legislation, but it turned out not to be so in light of successive rounds of legislation. For example, in 1983, Congress made sweeping changes to Social Security; in 1984, we had not one but two sets of legislation affecting benefits -- the Deficit Reduction Act and the Retirement Equity Act. Just last week, we were bit by a COBRA, an Act which not only affects terminations of defined benefit plans, but has a profound effect on every employer (other than a "mom and pop" operation) who provides medical coverage. I believe this continual legislation poses some serious problems to the field of employee benefits and, consequently, our involvement in this field. A lot of these laws have major portions of them which seem to have been ill conceived, and have an adverse impact on the way plan sponsors view their benefit programs.

In discussing COBRA, the new law that was passed last week, one person at a workshop yesterday came up with the following comment which I thought was very appropriate. The new law says there's both regular and distress terminations in defined benefit plan. Perhaps even more important than those two, one witty individual stated, was the "disgust" termination. As you can tell, I'm deeply disturbed by all this activity in a seemingly haphazard fashion, especially when it occurs without the benefit of public hearings or a consistent national policy on employee benefits. From a self-interest standpoint let us keep in mind that we, as actuaries, are probably more dependent on a favorable legislative environment than virtually any other profession. You might say that if we didn't have the Internal Revenue Code then lawyers would be unemployed. My answer would be that lawyers would still have a lot of common-law battles that they could do with each other. If you think about it we really are more vulnerable than any other profession in having a healthy legislative environment. As another illustration of the breakneck pace of legislation in the U.S., I wrote a paper three weeks ago, which has been distributed, entitled "Tracing the Decline of the Defined Benefit Plan." With that law that was passed last week, COBRA, it's already outdated. We now have PBGC premiums that have more than tripled from their previous level.

Traditionally the Society and the Academy have, in my opinion, largely stayed on the sidelines while the legislative jockeying preceding the passing of the latest employee benefit laws occurs. I believe this posture has not been an enlightened one and will not continue to be an enlightened one because I think we can anticipate more legislation. I don't think we have seen the end of legislative altering of employee benefit laws. I think that our input into the legislative process is valuable because we have a high degree of technical knowledge that few legislators really have.

A couple of examples to underscore where inconsistent or major mistakes have been made in recent laws in the 80s: In 1982, when Congress passed TEFRA, it was no secret that there was concern about perceived inequities in the small, qualified plan environment. So the Top Heavy rules were passed. One consequence of Top Heavy, is that plans with as many as 500 lives are subject to Top Heavy. I don't think that was the intent of Congress when they passed the Bill. In my mind there's clearly a large distinction between a one-person medical corporation and a 500 participant entity. I don't think that Congress was aware of the heavy skewing of present values of accrued benefit levels to older participants that can occur under a defined benefit plan. I don't think that the Top Heavy legislation was intended to be as far-reaching as it has been. Actuarial input would have been extremely helpful in this regard.

Another example of inconsistent or mistaken legislation is the Deficit Reduction Act of 1984. DEFRA seriously curtailed the advanced funding of post-retirement medical benefits through 501(c)(9) trusts. Why did this happen? It seems that Congressional concern about abuses among our small professional corporations caused them to enact such sweeping legislation. There were horror stories about how doctors had used the recreational facilities provisions under VEBAs to buy ski condos in Colorado, and when those types of examples get to Congress and staffers they really do what amounts to a legislative overkill. I think the curtailment of post-retirement medical funding through VEBAs certainly is a problem in a couple of different respects. First of all, I think it's contrary to national policy. Medicare, as you know, does not cover a significant amount of medical benefits for the retirement community, and I would think Congress would want to promote some tax-favored vehicle such as the 501(c)(9) trust to encourage funding for retirees. I also think that the timing of the passage of DEFRA provisions relating to VEBAs was incredibly poor when you consider that the FASB statement 81 on accounting for post-retirement medical benefits really came right on its heels. On the one hand, for financial statement purposes, post-retirement medical plans now have a major impact, but on the other hand, we can't really advance fund for them in a way we like. I realize we can do this in a qualified plan, on a limited basis, through Section 401(h), but there are a set of problems if that route is used. How can we take affirmative steps as the actuarial community, both in our own self-interest and in the national interest, to ensure that we have a healthy legal environment for employee benefits? I think that in Washington D.C., the pension lobby and the employee benefit lobby in general is considered to be relatively weak. I think one way to solve that problem is to send lots of letters to the House Ways and Means and Senate Finance Committee.

One of the problems we've been seeing in pension legislation over the last few years is that there are thousand page bills; and the pension provisions, which are important to us, are 5% of such bills. The concerns which are important to us, and important to the employee benefit interests of the country, are really a minor portion of the Bill and have been subjugated to short term tax considerations. I don't think that's really the way the benefit community wants to go in the future. I think what we need to do, in addition to making our views known, is to push for a stand-alone pension bill when pension provisions come up. I think that's important. What happens a lot of times when pension provisions are small parts of tax packages is we don't get any public hearings at all. We don't get our day in front of the committees to try to convince them of the wisdom or folly of their proposals. For those of you who do not like Top Heavy, I think you should be aware that Top Heavy provisions were not in anyone's proposals in 1982. Top Heavy provisions were basically added in at the 12th hour. Some people call that taxation without representation.

We're really dealing with an environment where we need to have pension and group policy determined on a stand-alone basis. That's why I think the bill that's pending co-sponsored by Senators Heinz and Chafee, the Retirement Income Policy Act, deserves a lot of consideration. It would help us down the road towards getting a national consensus on employee benefits that, right now, is sorely lacking. Getting back to the need for communications, I think that in the defined benefit plan area these are generally perceived as complicated plans, and often they are not well understood by the clients with whom we work. I think that being creative in our approach to consulting and remembering that what's right for Client A can easily be wrong for Client B is an important consideration. I'd like to leave you with one example of what I consider to be a creative piece of consulting in the pension area and what I consider to be a largely outmoded piece of consulting, although it's been a staple of pension design for many years. The idea of the cash balance plan, which was introduced by Bank of America last year, was a very creative approach. So far the IRS views it as a defined benefit plan. I view it as a defined contribution plan -- it seems to have more characteristics of a defined contribution plan than a defined benefit plan. It served a two-fold purpose for the Bank of America. First, they wanted to reward the younger employees, and second, they wanted to slow down the rate of funding of their plan without out-and-out terminating it. By implementing the plan that they did, they have in effect slowed down their funding, so that they in effect will "recoup" excess assets on a gradual basis.

I don't think that cash balance plans will be the wave of the future. I think they're more of an administrative burden than a profit sharing plan and largely accomplish the same goals. I don't think the advantages of the cash balance plan are overwhelming. A couple of people have said that one advantage of the cash balance plan relates to PBGC coverage. I don't think that PBGC coverage is usually considered a "benefit" from the employer's perspective and I'm also not convinced that, in the long term, giving greater benefits to short term and younger employees is really going to be the way to go unless you have a profit sharing plan. What I view as an increasingly outmoded piece of thinking, that was once a staple of defined benefit plans design during what I call the "Ozzie and Harriet" and "Leave it to Beaver" era, is the use of the replacement ratio. In plan design, it has been traditional to use replacement ratios to figure out what type of benefit levels would be appropriate for a plan sponsor. We tried to integrate Social Security into the plan sponsor's retirement package. That approach made sense for a lot of years. The importance of replacement ratios today is greatly diminished due to the disappearance of the homogeneous family unit. The ease with which you used to be able to design benefits for a homogeneous family unit (a stay-at-home wife, a breadwinning husband, and two or three kids) are gone. With the high divorce rate, the increasing percentage of working wives and the declining birth rate, the diversity of the family unit is markedly increasing. The high costs (cumulative estimates of $150,000 are not atypical) of having children is becoming an increasing factor in a family's financial condition. You could have 2 family units that are similar, except for one having more kids than the other, and they will obviously have vastly different financial circumstances. Also, the 1982 introduction of IRAs to active participants in qualified plans is another variable element. Who knows who's saving for an IRA and who isn't? Because of these factors, I think it's impossible to come up with one retirement formula which makes sense across the board from a retirement adequacy standpoint. That's why I think replacement ratios are a lot less important than they used to be.

Basically, the area of communications is one that the actuarial community needs to improve on to remain prominent in the future. There are a lot of different ways to do this. I hope that 20 years from now, when someone asks me what I do, I'll tell them I'm still an Actuary, and not a CPA. I think that if we communicate well with Congress and with other legislative bodies we can remain a vital force, even if defined benefit plans cease to exist altogether. However, we're going to have to step up the level of dialogue with other relevant parties in the legislative process.

WHAT IS THE FUTURE OF THE ACTUARY IN EMPLOYEE BENEFITS?

MR. FLANAGAN: Our next speaker, Lance Weiss, not a member of the Society, is a consulting principal with A. S. Hansen, Inc., Chicago, Illinois.

MR. LANCE J. WEISS: Discussion of this topic, The Actuary's Future in Employee Benefits, is particularly timely following the issuance this past December of Financial Accounting Standards Board Opinion No. 87. FASB member Raymond Lauver, in his comments to the American Institute of CPAs' National Conference in January, said that Statement 87 will give the accountants a much greater voice in what was formerly the domain of the actuary. In effect, Lauver has relegated the actuary to the position of consultant to the CPA in matters of pension accounting. This is just one more example of the problems facing our profession today, and unless we effectively deal with such problems, the future for the employee benefits actuary may not be as bright as our past.

I will start my discussion with my opinion on how employee benefit actuaries are currently perceived by clients and the public in general.

What is the state of our profession today? I believe it is in the same shape it has been in since ERISA -- no better or worse.

Unfortunately, I think that the public in general has a very limited knowledge of what actuaries do, much less employee benefit actuaries. I will bet that almost every one of the actuaries in this room right now has had the experience of telling an acquaintance that you're an actuary and facing either a blank stare or a puzzled look.

Even more troubling is the fact that the business community, with whom many of us have contact on a daily basis, is really not that knowledgeable about our profession or our abilities. Now, some of you may object to this statement and claim that your clients are very aware of what actuaries do. But do your clients understand all of the services you could provide to them or do they merely know what it is that they have asked you to do for them? By this I am suggesting that even those clients who profess to understand what it is that actuaries do, really only consider us to be mathematicians skilled in probabilities and statistics -- a very narrow view of our profession.

What is it about the actuarial profession that leads to this narrow view of actuaries? I believe that it is the nature of our education -- mathematics. Once stereotyped as mathematicians, it is very difficult to convince anyone that actuaries are broad enough to consult on anything other than strictly actuarial matters.

I believe that the actuarial profession still remains a mystery to the general public. And those who are familiar with actuaries generally consider us to be too focused and not broad enough. On top of this criticism, we are often times accused of being reactionary rather than proactive.

Now, given this current state of affairs, what is the future outlook for the employee benefits actuary? I believe that unless we change the way we are viewed by our clients and public, we will never be considered as playing a major leadership role in employee benefits development. By taking a back seat to the accountants, lawyers and legislators we are losing the ability to shape our own future.

In this regard, I other a short-term and a long-term solution. In the short-term, it is important to broaden the public's view of employee benefit actuaries. By educating both the public and the legislators, I believe it is actually possible to stem the decline of some of the traditional areas of our practice, including the defined benefit pension area and the individual life insurance area.

How can this be accomplished? Lobbying is one answer. Making our views known to Congress on pending or proposed legislation is an excellent means to get the public's attention.

Secondly, it's very important for the actuaries' views to be published in the daily newspapers, the *Wall Street Journal* and the business magazines. Coverage in the employee benefit publications does not enable actuaries to reach a broad enough audience. In this regard, I believe that significant improvement has been made over the last several years. A number of employee benefit firms are getting quoted regularly in the business section of newspapers, a trend I hope will continue.

Coverage in the newspapers and business magazines does get noticed. Following publication recently of an article by a Hansen consultant, I received phone calls from three of my clients who wanted to discuss similar issues.

Both of these solutions are fine for the short-term. But over the long term, I believe that it will be necessary for actuaries to expand our horizons if we want to be considered as major players in determining the future of employee benefits. I believe that there are too many obstacles blocking our path if we insist on only pursuing the traditional areas of our practice. By expanding our horizons, I am suggesting we should delve into those related areas of benefits which lend themselves perfectly to utilization of our existing skills, experience and education. I further believe that by expanding into these related areas of our practice, the actuary will be viewed as a leader rather than a follower in the development of the employee benefit field. This is a goal which I believe is crucial to the future growth of our profession.

Let me explain what I mean by related areas of benefits practice. I think you will agree that one of the mainstays of the employee benefit actuaries' practice has traditionally been pension plan and group insurance valuations. I think you will also agree that the public, and even our clients, are really not all that interested in the actuarial mathematics involved in pension plan and group insurance valuations. One of the primary reasons for their lack of interest is the fact that actuarial mathematics is really not an easy subject to understand.

What the public and our clients do understand and, as a result, do get interested in, is what I have termed "related" areas of the employee benefit practice. I include the following in this category:

- Investment services
- Financial planning
- Health care cost management
- Communications

With regard to each of these practice areas, I will first comment on why I believe there is so much interest in them today.

Looking first at investment services, I believe the popularity of and publicity given to IRAs has made everyone aware of the impact of superior investment results. The public has finally realized that spending a little time and expense on establishing an appropriate investment policy for their benefit plans, and then regularly monitoring the investment results, can lead to significant savings in terms of reduced contribution requirements. These particular services, I believe, are perfect opportunities for the employee benefits actuary. Our background in probability and statistics, as well as our understanding of the relationship between assets and liabilities, makes the actuary especially qualified to help our clients formulate investment policy for their benefit plans. Given our qualifications, who is better prepared than an actuary to understand the interrelationships of the investment field?

Similarly, given the actuary's familiarity with and skill in establishing and manipulating data bases, who is better qualified to regularly monitor and analyze the performance of our client's investment manager? By tracking the manager's performance and comparing the results to other managers, as well as to industry norms, we can provide our clients with invaluable information regarding their managers' performance.

This is a practice area which regularly enjoys a lot of publicity, and which I believe the actuary could get involved in with little or no additional training.

Next, let's look at financial planning; and here I really mean business planning rather than personal financial planning. Every one of my clients, from the largest to the smallest, has developed a long-range business plan. Since a company's retirement and group insurance plans represent long-term financial commitments, it's logical to develop a long-term forecast for these plans as well. And this is exactly what I see happening in the business community today. As more and more companies make plans for their future, they are coming to realize that they have no real idea of how their employee benefit programs will impact this future. I believe that asset and liability projections are perfect for such companies.

But, I would like to state that asset and liability modeling present the perfect opportunity for utilization of actuaries' present skills and experience. Using advanced statistical and mathematical techniques to project the effects of today's decisions into the future -- if this isn't a tailor-made job for an actuary, I don't know what is. Not only do our clients learn a lot from such projection studies regarding their specific benefit plans, but the actuary can also learn a lot about benefit trends in the future. The results of such projections also make perfect topics for newspaper and magazine articles.

The health care area is a hot topic as well.

The specific area within the health care field which I see as the perfect opportunity for the actuary is the development and use of a health care data base to ultimately control rising health care costs.

Many factors contribute to excessive health care costs, including;

- Medical practice patterns of local providers
- Ineffective or nonexistent health insurance plan incentives
- Lack of economic incentives
- Lack of consumer education

As a result, it is frequently difficult for an employer to adequately assess the relative impact of each of these factors. It is possible, however, to gain a perspective on the ones most responsible for rising health care costs by using information from an employer's insurance claims and comparing the employer's utilization experience with normative data measures. Only by identifying the primary causes of rising health care costs is it possible to implement and evaluate effective cost management programs.

The development of a health care data base and the comparison of client data with comparative norms is a perfect job for the actuary. Our background in probability and statistics, as well as our experience in problem solving, makes us especially well suited to perform these services.

Regarding communications, I am convinced that no one is better qualified to communicate employee benefits to employees than the actuary. After having researched, designed, implemented and reviewed benefit programs, who knows these programs better than the actuary?

Two benefits making the headlines today include flexible benefit plans and 401(k) plans. Communication plays an absolutely vital role in the acceptance of both programs by employees. It seems to me that the same skills necessary to present, describe, and in many cases sell these programs to our clients can also be used to effectively communicate these programs to our clients' employees. In the case of both 401(k) plans and flexible benefits plans which require understanding of financial matters, I believe that the actuary, with his skills and experience in the technical financial area, has the edge over nontechnical communicators.

Retirement counseling is another area of communications making the news these days. The actuary, with his experience and understanding of all facets of the retirement issue, is most qualified to discuss this subject with employees.

Hopefully, since the nature of the actuary is to be a leader and not a follower, to be creative, and to be an innovator, the future will be in good hands.

MR. CHARLES BARRY H. WATSON: The future of the actuary in employee benefits is, in many ways, a familiar topic.

I really think that what is going to save us in the future is not our ability to exercise leadership, but rather our durability. From the very first time actuaries were named as mathematical clerks, back in the Roman Empire, (actuarii) you have had a tradition of actuaries and I'm sure in future centuries people will still speak of the gritty persistency of the actuary.

Most countries, except for the U.S., have seen the wisdom or lack of wisdom in establishing a medical care system giving organized and established benefits, hospitalization, and the sort of things provided by the government. Our friends in Canada have demonstrated that there are an infinite number of ways to make your buck out of a diminished sphere of opportunity. You can visualize all sorts of chinks in the system and charge for filling those chinks. You can offer people more timely delivery of the system. Look at retirement benefits -- we've got a wonderful chance now in the Third World. It used to be that steel mills were the emblem of the success of a developing country. Now it's the establishment of a defined benefit system. It used to be that only Provident funds were sold in these Third World countries, and of course a Provident fund is just a very plain form of a defined contribution money purchased plan. Now the government, private businesses, thanks in part to U.S. multinationals are going into these countries and saying, "Hey, look, you can't be advanced unless you've got these defined benefit systems." We find it's spreading over there, and that's a wonderful chance for actuaries to take part in a sort of Actuarial Peace Corps enterprise -- to go in and sell the benefits of our system to them.

Many countries, particularly those that are English-speaking, aside from the United States and probably Canada, seem to think that actuaries almost invented investments. Where else but in England would the Dow Jones Average be the actuary's all-shares index? There are wonderful chances for us in those countries.

Scandinavian countries have nationalized the benefits system, which limits the opportunity to hire actuaries. You have typically only one insurance company providing, (I guess Sweden is the best example of this) -- only one insurance company selling the pension product. You need to have nationalization to shut out the actuary. Mere legislation is not enough -- look at the United States, with ERISA, TEFRA, DEFRA, RIPA. One of the things they've done is to create a golden opportunity for the actuary to exercise his wiles within the private benefit sphere. I think that when you look at the trend in many foreign countries today to denationalize or privatize many enterprises the government has taken on, you will see that there is indeed hope for the actuary ahead. The U.K. is now considering handling the whole question of excess assets in pension plans by establishing the necessity of having another type of valuation for pension plans -- a sort of solvency valuation for pension plans. This, regardless of what else it does, provides the possibility for the actuary to carry out yet another valuation on a regular basis and therefore multiply the opportunities for doing worthwhile work.

Legislation in this country tries to handle such matters as discrimination and tax deductibility. This leads us to the continuing question of what is meant by tax-effective compensation. I think it's in the area of tax-effective compensation that we see one major area of continuing opportunity for the actuary.

What we have are new opportunities for the actuary to evaluate various types of compensation, considering taxes as well as everything else, and also it encourages the actuary to design new delectables to put on the cafeteria line for employees. Advanced funding is of value in producing actuarial opportunities even if you do not have tax deductibility, because this permits you to put money aside now to cover costs for the future.

There is also the matter of self-insurance. Many benefits are being self-insured by the employers either directly or by a captive company. After all, why not take the opportunity to lose your own money rather than that of an insurance company. It's a golden opportunity and actuaries have a great chance to assist employers in deciding what is involved in this type of self-insurance. What are some of these new benefits we're looking at? We've had some of them mentioned already. There is the question of legal services you can provide for employees, child care benefits, including the probable costs thereafter. If you're going to estimate how much you're going to spend on medical or child care, you have to have a good idea how much it's going to cost you through the year. Provision of automobiles -- how much is that worth to employees? If the company doesn't supply the automobile, at least the company can supply automobile insurance. Home insurance policies can be provided through the company. Protection against liabilities and, finally, with all these available options you definitely need actuarial counseling so the employee can understand the options you have designed for his benefit. Now I might add, Lance mentioned that actuaries were excellent for communicating the various options available. I think that's true -- there's only one argument against it, and that is that most actuaries are either by nature or training lousy communicators but aside from that I'd agree with him completely.

In a somewhat related area, we have the opportunity for actuaries to participate in the expert witness area. This is not exactly an employee benefits area, but if you're looking at the value of a human life, who is better than an actuary to tell what a life's worth. Governments desperately need actuaries on their staff. After all, we've seen how demography and economics can affect the cost of many government programs. Social Security, Housing, Welfare, all those types of programs -- you can value them using a whole multiplicity of scenarios, each one more gloomy than the last. This is certainly a role the government needs to have actuaries carry out. Economists are not good enough. We'll come back to that in a second.

Corporations need actuaries, and not just in the traditional fields. Consider the question of whether you should invest in a new means of production -- the question of machinery versus manpower. Basically, any situation where there is a population which is subject to deterioration and ultimate death is susceptible to actuarial evaluation, and it's an area that we have long neglected at our peril.

Health care, post-retirement health care -- there is an area where corporations desperately need actuaries to help them. In general, any area where it is necessary to evaluate the economic consequences of future risk is an area susceptible to actuarial treatment and we basically have not been looking at enough of these areas in the past. How can we get into these areas? Do we tiptoe in? Doe we enter boldly? After all, we are going to run up against conflicting turfs of other groups of people, and basically our profession is going to have to do something to help us in this area. Who are these players? We have professionals -- attorneys, accountants. We have non-professionals -- economists, statisticians.

It is very unlikely, if we try to expand into other areas, that we can avoid the dangers and risks of adversarial procedures. We may have to do battle with these professional people to prove that we have a right to be there. Now, it is very hard to preempt the professions -- the accountants, the attorneys -- because they are well entrenched and know how to fight. It is much better to cooperate with them if we can. We've seen how government regulations, most of which are drafted by attorneys, can work to at least our economic betterment if not our peace of mind. Look at FASB. If FASB 87 and 88 do anything, they certainly guarantee we are going to have a lot of work for the years to come, and not only do we have FASB, but we've also got the CICA in Canada. The English and the Australians are coming up right behind, and they're going to do it differently too.

What about the non-professions? Basically, we could if we wish attack their position on the grounds of non-professionalism in the sense that they do not have the need to take on responsibility in return for the rights they exercise in practicing. We also have the advantage, for economists are know as purveyors of the dismal science and statisticians are known as having the third and worst category of liars. Surely we can take advantage of both of these.

Generally, I think you can say that for economists and statisticians their reputation is certainly no better than ours and perhaps slightly worse. We do have a slightly better position in some foreign countries, again primarily the English Common Law countries. In England, in Canada, and in Australia, actuaries are recognized by name as a profession in government legislation and government regulations and in other countries we are at least recognized as highly respected theoreticians and mathematicians. The doctorates of continental Europe are an example. This is where most of the actuaries there come from.

As a profession, we are going to have to get our act together and in getting our act together, we've got to look at education and discipline. The education of the actuary is going to have to become both deep and broad. Deep in the sense that we must know the fundamentals of our field of knowledge, and broad in that we're going to have to have a better knowledge of the variety and possibility of applications of that field of knowledge. Now this may argue in favor of something like the flexible education system, for which we have recently seen a white paper. The danger is that what is now done cannot just be a rehash of what went before.

Now I know that that's not what the White Paper intends, but there's a danger that that's what we might end up with. We did, in the past, attempt to reorganize the educational system. We tried to set up majors and minors and open up the possibility of people studying one system in depth. The problem was that we needed a lot of new educational material, and it was never written. There is a danger that that may happen again. And there is another danger in this system. That is that it may place too much emphasis on techniques -- the future educational methods. Content is what is going to count in the education of the actuary. After all, just because you can find a truly efficient way of manufacturing buggy whips gives no guarantee you can save the buggy whip industry.

Discipline -- we're going to have to have more discipline in our profession in terms of conduct and practice. Some of the sessions I was at pointed to the new actuarial guideline worksheet that the IRS came out with and said, quite correctly, that this was in response to bad practice in the professional corporations and the single member companies. Well, that may be true. Certainly, in terms of practice and maybe in terms of conduct we are going to have to control abuses within our profession. The key is that we are a profession -- the future can be bright for us, but to have that bright future we have to act like professionals. We're going to have to go out and meet our responsibilities, and that's a challenge for us.

MR. CHRISTOPHER H. (KIT) MOORE: A note of caution, and that is that we really do need education and experience in any area where the actuary provides advice and has not already received education. We can do a great deal of damage to our professional image and reputation if we hold ourselves to be experts in areas outside our traditional practices where, in fact, we aren't. We must expand our expectations regarding the role of the actuary. I don't believe that defined benefit plans are going to disappear, but I think there is a diminishing need for the traditional technical work that has been so important to us over the years in insurance and pension products. One important area of practice is the area of management consulting advice regarding an organization's strategy or structure of top management issues. As consultants, we are very well placed to provide advice in our role as advisors to top management in employee benefits, incentive compensation and related financial areas. As life insurance company actuaries, we are often given an edge regarding management opportunities at the top. In all cases, we must ensure that we are qualified to practice in those areas through the experience we gain from working with qualified management consultants, or from a program of continuing education.

MR. WATSON: I couldn't agree more with that point. We certainly do need to have the experience.

MR. SAMUEL ECKLER: I have the same concerns and qualifications that Mr. Moore just expressed. I think economists would not be very comfortable, and would not react very favorably to the comment that they're not professionals and we are. I think that they are professionals and we are professionals, but I like Mr. Watson's marketing approach.

I do want to deal with something conceptual that Mr. Weiss referred to, and that is when he broadened the sphere of the actuary to include communications. He made the comment that an actuary knows more about employee benefit plans than anybody else, so why should he not be a specialist in this area? That's just not so. A communications specialist does not have to know so much about the content. He know far more about the essence of communicating and I think we're taking the position that sure, we have a lot of content knowledge, but communications specialists are specialists as well. I see this as more of a partnership between the actuary, who may have a lot of knowledge of actuarial work and employee benefit work, and the communications specialist who knows about media, who knows how to prepare press releases, who has connections with the media. We don't have this kind of knowledge. I think it's a mistake on our part to think that we have the same expertise as communications specialists.

I want to make a final observation. If we think in terms of expanding our area of expertise to cover almost everything, the consulting actuary will really be part of a management firm. He'll just be one of many, many partners -- the largest consulting actuarial firm doesn't call itself Employee Benefits Consultants any more. They are now Management Consultants. The actuary's role in that particular organization won't be very much different from an actuary's role in a life insurance company. He may, if he has good management skills, come to the top of that organization, but the core actuary will play the same kind of role he would play in a life insurance company. That may be the direction in which we are going. That too, is part and parcel of the way some actuarial futurists are thinking. We're going to cease being actuaries in the traditional sense and become businessmen. I think that that's a radical change we have to think through very carefully.

MR. WEISS: I certainly don't hold myself out to be a media communications specialist, and I think more in terms of a partnership with the communications specialist. I agree they have all the qualifications to talk to employees and they know the tricks of the trade. I think I know the plan 100% better than they do. So it is a partnership. I will lend my experience and expertise in the details of the program to them, and they can lend their expertise on how to effectively communicate this to the employee. We work together, and I think we both benefit from that. In general, I'm in agreement with Barry on this subject that the actuarial profession has to expand its horizons. I believe we have to become generalists if we want to succeed in the future. I just believe there are too many hurdles and too many roadblocks in front of us if we insist on pursuing only the traditional areas of our practice. However, we can't just leap before we look -- we've got to study -- we've got to wade in, before we jump in.

MR. WATSON: What I was trying to do was to point out that actuaries in the past, and the present have very often ploughed the same furrow over and over again without looking up to see if there was some other land that they could plough. I think that when you look at the constraints that are being put into our traditional fields from a variety of sides, if we don't do this then our future may not be so bright.

MR. ROEDER: I think it's really important for us to be businessmen. I think we are regarded -- a lot of times incorrectly, as being narrow -- and in our long term best interests, I'm not sure that's how we really want to be perceived. I think that Lance's comments are right on, I think we do need to become a little more general -- it doesn't mean becoming an expert on accounting methods or an expert on law, but it does mean having enough knowledge so that we can effectively communicate with those professional bodies. My other comment -- we're talking about broadening out. Let's look at the accounting profession 60 years ago. Assets and liabilities, financial statements -- that was their province. Look at what the big eight accounting firms are doing at today -- they are doing such breathtakingly diverse things.

They've probably created some conflict-of-interest situations for themselves, but they too, at one point in time were considered to be very narrow. Now I think the accounting community has evolved to the point where they are considered to be the generalist Jack-of-all trades. I'm not saying that we need to go as far as the accounting profession has done, but I think if we head a couple of steps in that direction the actuarial community is going to be much better off.

MR. YVON CHAMBERLAND: I'd like to address the specific question of employee benefits. One way of thinking of employee benefits is in terms of the financial security of the employee. That's normally the intent of employee benefits as we know them. There are other employee benefits, such as vacations and so on, but basically the bulk of the work of the actuary has been with the benefits providing some financial security to employees. In terms of that provision of financial security, one helpful technique I found in my work was to think in terms of some kind of stop-loss insurance that the employer is providing regarding various events that can happen to the employee, such as death, retirement, disability, and so on. If we focus on employee benefits as being stop-loss insurance that employers are providing to the employees, we find that we're going to have a lot of work to do because there's always going to be some financial problems for employees. When we look at the employee benefits area I think actuaries are mainly involved in the design and financing of the benefits. I think other areas, such as communications and administration are also important, but in those two areas we're competing with other types of personnel.