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WHAT FEDERAL ACTUARIES DO FOR A LIVING

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- o Fifty years of Social Security--the role of actuaries
- o Recruitment sources and problems
- o Remuneration aspects
- o Functions of actuarial staff
- o Problems of retention of staff
- o Political pressures
- o Opportunities to influence national legislation

MR. ROBERT J. MEYERS: The 50th anniversary of the signing of the Social Security Act by President Franklin D. Roosevelt was celebrated on August 14. Although the original law contained many provisions such as those establishing the Public Assistance program for the aged, the blind, and certain dependent children, and the Federal/State Unemployment Insurance system, probably the major component was the contributory old-age benefits program, which has now expanded to be Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare. Quite frequently, the OASDI program is referred to as "Social Security," although it may well be argued that Medicare too should be so included (and perhaps also Unemployment Insurance and the several public assistance programs). I am going to limit my comments to the OASDI program.

Looking backward at history before the Social Security program was considered, only a few actuaries had ever been employed by the Federal Government--namely, in the Office of the Government Actuary in the Department of the Treasury (see my paper in the Transactions for 1954). A number of outside actuaries had previously assisted the Federal Government by service on actuarial advisory groups in connection with the life insurance programs for military personnel and veterans, and with the Civil Service Retirement system.

The Committee on Economic Security, which made the studies underlying the Social Security Act, established a Committee of Actuarial Consultants, which consisted of James W. Glover (University of Michigan),

PANEL DISCUSSION

M. Albert Linton (Provident Mutual Life Insurance Company), A. L. Mowbray (University of California), and Henry L. Rietz (University of Iowa). The Committee on Economic Security employed, on a temporary basis, two qualified actuaries, Otto C. Richter from the American Telephone and Telegraph Company, and W.R. Williamson from the Travelers Insurance Company. In addition, a young junior actuary, part-way through his Associateship examinations and just graduated from the actuarial program at the University of Iowa was hired--yours truly.

After the Social Security Act was enacted into law and the Social Security Board began operations, in 1936, Mr. Williamson was appointed Actuarial Consultant (which position in 1965 was redesignated as Chief Actuary), and an actuarial staff was built up (including yours truly).

In 1947, Mr. Williamson relinquished his position--in part because of his disagreement over policies as to the basic nature of the system (he favored more of a flat benefit system based on need, with a higher retirement age, than the type of contributory social insurance system that OASDI has been over the years) and in part to assume the presidency of the Wyatt Company. I was named Chief Actuary in 1947 and served until 1970, when I left for certain political reasons (for more details, see the Transactions for 1970, page D-313). Following this, a succession of three distinguished actuaries without previous government service each served for 2-3 years--C.L. Trowbridge, A. Haeworth Robertson, and Dwight K. Bartlett, III. Then, in 1981, the present incumbent, a career employee, Harry C. Ballantyne, was appointed to the position.

The Medicare program was split off from the Social Security Administration in 1977, to be administered by the newly-created Health Care Financing Administration (HCFA). Shortly thereafter, the actuarial responsibilities were undertaken by HCFA, and have been handled since the beginning by its current Chief Actuary, Roland E. King.

Over the years, many qualified actuaries have served with SSA and HCFA. At present, the SSA staff consists of 7 Fellows and 13 Associates of the Society of Actuaries, while the corresponding figures for HCFA are 3 and 9.

Besides the actuaries who have been employed full-time at SSA and HCFA, a number of actuaries from the private sector have contributed greatly as members of advisory councils (usually statutory ones), including M. Albert Linton, Reinhard A. Hohaus, Morton D. Miller, Carl H. Fischer, and Charles A. Siegfried.

In my opinion, actuaries have, over the years, contributed greatly to the programmatic and financial soundness of the OASDI and Medicare programs. Both the Administration in developing legislative proposals and the Congress in enacting legislation have relied extensively, even completely, on the actuarial estimates prepared by the SSA and HCFA actuaries. To a very considerable extent, it may be said that these actuaries also served as actuaries for the Congress. In turn, all parties involved have, almost without exception, relied completely on

WHAT FEDERAL ACTUARIES DO FOR A LIVING

the integrity of the actuarial estimates, and no attempts have ever been made to influence the actuaries in their professional work so as to obtain biased estimates which would be helpful in either passing or defeating legislative proposals.

MR. HARRY C. BALLANTYNE: The Social Security Administration is the largest governmental employer of actuaries in the U.S., with a professional staff of 32, including 7 Fellows and 13 Associates of the Society of Actuaries. Our total staff numbers 43 persons, including administrative, secretarial, and clerical staff. This staff is responsible for monitoring the experience and estimating the future operations of the Old-Age, Survivors, and Disability Insurance (OASDI) program, which is celebrating its 50th anniversary this year. (The Medicare programs are administered by the Health Care Financing Administration, which has its own actuarial staff; we work closely with them.)

The actuarial estimates that we make usually fall into one of two categories: (1) estimates of the future operations of the OASDI program under the present law, regulations, and operating policies, and (2) estimates of the effects on program operations of proposed legislation, and proposed changes in regulations or operating policies. Estimates of the first type appear in the annual reports of the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds and in the President's Budget, while estimates of the second type are done for a wide range of people and organizations, including the Administration, key congressional committees, members of Congress and their staffs, and others. Estimates of the effects of legislation proposed by the Administration are also shown in the President's Budget.

The OASDI Board of Trustees has five members, three of whom are Cabinet members--the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The other two trustees are members of the public. The Commissioner of Social Security serves as secretary of the Board. (The two Medicare trust funds have separate boards, with the same membership as the OASDI Board. The Administrator of the Health Care Financing Administration serves as the secretary of those boards.) The present-law estimates that appear in the annual Trustee Reports have been based, in recent years, on four sets of economic and demographic assumptions designed to represent the range of likely future experience, extending 75 years into the future. These assumptions are initially developed by staff in our office, and we discuss them with the staffs of the Trustees in order to reach agreement. Generally, they do not suggest radical changes to our assumptions, and, while the Board is ultimately responsible for issuing the report, the members have never insisted that we use assumptions that were unacceptable to us.

The Budget estimates are always based on the assumptions underlying the President's Budget, which covers the next 5 years only. The assumptions are developed by the Office of Management and Budget. Because the Budget is issued shortly before the release of the Trustees Reports, we must consider the Budget assumptions when developing our own. We are not expected to use identical assumptions, however. The

PANEL DISCUSSION

Budget assumptions are bracketed by the four sets of assumptions that are shown in the Trustees Reports. Often, one of the four sets (usually one of the two more optimistic sets) closely follows the Budget assumptions. In addition to making the estimates needed for the release of the Budget in January or February, we also update our estimates during each year, including the annual Mid-Session Review of the Budget, which is done each summer to reflect actual economic experience since the Budget was released.

The estimates of the effects of changes in the law, regulations, or operating policies are usually based on the intermediate (alternative II-B) assumptions of the most recent Trustees Report. In the President's Budget, estimates of the effects of proposed legislation, as well as for present law, are based on the assumptions underlying the Budget. Our estimates are used by the Administration and the Congress--including members of both parties--to discuss proposed policy changes. Usually, the estimates are accepted without much controversy, and we have few "competitors." The Congressional Budget Office (CBO) also makes short-range estimates of this type, and these estimates appear in the Congressional Budget. The CBO estimates are usually consistent with ours, although modified to reflect an economic forecast that is normally slightly different from our intermediate (alternative II-B) assumptions. The CBO does not make long-range estimates.

Even in those situations where other estimates exist, those made by the Office of the Actuary have been regarded as the most authoritative and reliable ones available by the many Administrations and Congresses that have used such estimates during the 50 years since the Social Security Act was first enacted into law. We believe that our estimates have this reputation not only because they are based on an elaborate, detailed methodology and a data base that we have been able to develop over the years, but also because the Office of the Actuary (and thus our estimates) has been relatively independent of changes in the political climate.

Regarding our methodology and data sources, the facts are contrary to what one would expect after reading newspaper stories about the current state of SSA's computer systems. Most of our work is done on a Univac system that is entirely separate from the computers used to send checks to beneficiaries and that is quite satisfactory for our purposes. An examination of past experience shows that our estimates have been remarkably accurate, given the complexity of the programs and the volatility of the economy. We do not have a perfect record of forecasting the behavior of the economy, but our record is generally comparable to--or better than those of the professional economic forecasters. Much of our work regarding the determination of assumptions and development of methodology is documented in actuarial notes and studies that we publish regularly.

The data that are the basis of most of our estimates are obtained from the SSA operating systems, usually using specifications that we wrote. We often have to compete for priority of our jobs, because of limited resources, but generally we have been able to do this successfully.

WHAT FEDERAL ACTUARIES DO FOR A LIVING

We have been able to remain politically independent over the years because we are civil servants and because all parties involved recognize the consequences of undue political pressure. Specifically, the users of our estimates outside of the Administration would need to obtain their own staffs of actuaries and other experts, and much of the development of Social Security legislation would become mired in debate over the numbers, rather than being concerned with the underlying policies. Of course, advocates of a specific change sometimes encourage us to estimate a high cost, but such encouragement consists mainly of providing data that support a particular point of view and criticizing data that would lead us the other way. The end result of this healthy process is that we have even more information than we would otherwise have, and the quality of our work improves further.

In addition to making these various estimates, our office is also responsible for making several determinations that are required by law. We calculate the amount of the annual cost-of-living benefit increase, the increase in the Social Security maximum earnings base, and the increases in other automatically-adjusted program amounts.

After hearing this description of our work, one might expect that we are overwhelmed with applicants who want to be part of the process of managing a multi-billion-dollar national program. In fact, we have some difficulty finding qualified applicants for our positions, when we are allowed to hire at all. In recent years, the Government and SSA have had a series of hiring freezes. We have sometimes been able to get exceptions to those freezes, but not very easily. When we can hire, we have problems.

The main problem is the limitations inherent in the Federal salary structure. We generally try to hire recent college graduates with backgrounds in mathematics--the same type of people that insurance companies and consulting firms try to hire as actuarial trainees. We can offer a starting salary of about \$18,000 per year; comparable jobs in the private sector pay as much as \$25,000. We are prohibited from directly recognizing success on the actuarial exams--both in setting starting salaries and in granting later increases; the private sector does this routinely. Finally, our maximum salary is about \$70,000 per year, while salaries in the private sector are not subject to arbitrary constraints. Although the Federal Government has fairly generous fringe benefits, the problems involving compensation really have no solution; we can only emphasize non-monetary rewards.

I believe that such rewards are quite real. I have been involved with the Social Security program for 27 of the 50 years since the program was established. During this time, my work has been both challenging and interesting. A great deal of personal satisfaction can be obtained from seeing your work influence legislation that affects millions of people.

Our problems with retention of staff have not been as serious as our problems with hiring. Generally, we have been able to provide our best actuaries with important responsibilities and adequate compensation. Some people who have resigned did so after we decided not to

PANEL DISCUSSION

promote them; a few left for non-actuarial jobs. Many of our former staff members now work for other Government agencies.

In conclusion, while we have certain problems associated with being part of the Government, our office fulfills a major role in Social Security policymaking, with a highly-qualified professional staff. Because our staff is relatively small and not excessively hierarchical, we can give important responsibilities to individuals much sooner than would be the case at a typical large insurance company or consulting firms. Our rewards are not monetary, but we have the satisfaction of seeing the effects of our work in the daily lives of millions of Americans, and we get satisfaction from being "public servants."

MR. MICHAEL COHEN: Mr. Robert Hammond, the Superintendent of Insurance in Canada, was originally scheduled to appear on this panel, but he had to return to the office to attend to urgent business. My presentation was prepared largely by him.

Almost all of the actuaries employed by the Federal Government in Canada work for the Department of Insurance. At the current time, the Department has 226 full-time employees. Thirteen of these are fully qualified actuaries, and 10 are actuarial students.

The only other Federal agency employing actuaries on a full-time basis is the Department of Employment and Immigration, which is responsible for the administration of Canada's unemployment insurance program. Three fully qualified actuaries are involved in that program, the two most senior being alumni of the Department of Insurance.

Another Federal actuary has quite an important job and is actually a Member of Parliament. Mr. Paul McCrossan has been elected a number of times and, as a Member of Parliament, has quite a lot of influence on all the programs at a Federal level. We appreciate his input very much; it is very useful to have an actuarial M.P. Perhaps one of these days there will be an actuarial Congressman in the United States.

The Department of Insurance has three main functions:

1. Supervision of federally incorporated or registered insurance, trust, loan and investment companies, and cooperative credit societies (i.e., all non-bank financial institutions). This involves the supervision of about 600 financial institutions.
2. Supervision of pension plans established by employers subject to Federal jurisdiction and the provisions of the Pension Benefits Standards Act (corresponds with ERISA in the U.S.). This involves the supervision of about 600 to 700 pension plans (of about 15,000 in total).
3. Provision of actuarial advice to the government.

The Department of Insurance has been in existence since 1910 and evolved from the Office of the Superintendent of Insurance, which was first established in 1875. The top public servant in the Department of

WHAT FEDERAL ACTUARIES DO FOR A LIVING

Insurance continues to carry the title of Superintendent of Insurance. The Superintendent of Insurance reports to a member of Cabinet, the Minister of State (Finance).

From the beginning, the Office of the Superintendent of Insurance and its successor, the Department of Insurance, have had a strong actuarial bent. In 110 years, there have been only seven Superintendents of Insurance, and all but one have been actuaries. The Assistant Superintendent of Insurance has also actually been an actuary, although in neither case is actuarial qualification a job requirement.

A unit described as the Actuarial Branch is responsible for most of the actuarial work done in the Department of Insurance. The head of the Branch, of course, must be an actuary and has the title of Chief Actuary.

The recruiting and training of the Department's actuaries are, for the most part, carried out by the Actuarial Branch. However, the Actuarial Branch has also served as a training ground for incumbents of executive positions in other branches of the Department. As mentioned, the Superintendent is an actuary. As also mentioned, the Assistant Superintendent of Insurance, who heads a staff of 150 responsible for the supervision of financial institutions, is an actuary. The Director of our Life Insurance Division, which is responsible for the supervision of life insurance companies, is an actuary, as are some members of our Research Unit, which concentrates its activities primarily on matters relating to financial institutions.

The Actuarial Branch acts, in effect, as a firm of consulting actuaries providing advice to the Federal Government. It provides a wide range of advice and services to various Federal agencies and to some provincial governments as well.

The most extensive of the consulting jobs relate to the Canada Pension Plan (CPP), which is similar to the OASDI program in the U.S. Incidentally, the CPP will be celebrating its 20th anniversary in 1986. Under the Canada Pension Plan Act, the Chief Actuary is required to prepare an actuarial report on the plan at least once every five years and the report must be tabled in Parliament. The Act also requires the Chief Actuary to prepare an actuarial report on the impact of any proposed amendments to the plan.

Other important consulting activities involve preparing actuarial reports at least once every three years on pension and insurance programs operated for the public servants such as the Armed Forces, the Royal Canadian Mounted Police, and myself.

The Actuarial Branch also provides advice to the Department of National Revenue on a number of matters related to the tax treatment of contributions to pension plans. An interesting assignment in which the actuaries in our research section are involved is the the annual actuarial valuation of the liabilities of the Canada Mortgage and Housing Corporation, a government-owned corporation that is the principal insurer of mortgages in Canada.

PANEL DISCUSSION

As mentioned, the branch is also responsible for the administration of the Federal legislation, comparable to ERISA, that applies to private pension plans. Among other things, the legislation requires pension plans to file actuarial reports on a triennial basis, and the Department's actuaries are responsible for reviewing these reports.

Actuaries also play an important role in the Department's responsibilities regarding the supervision of financial institutions. Interestingly, this applies to deposit-taking institutions as well as to insurance companies.

Because of various constitutional decisions, the Department's responsibility in regard to the supervision of financial institutions relates primarily to solvency. Efforts are concentrated on matters such as regular financial reporting, analysis of financial statements, on-site inspections, valuation of assets and liabilities, and minimum continuing-capital and surplus requirements.

In the case of insurance companies, actuaries are involved in both financial analyses and inspection work. Life insurance company actuaries in Canada may use any valuation assumptions that they believe are appropriate to the circumstances of the policies and the company, provided that the assumptions are acceptable to the Superintendent. The assumptions and the justification for their use must be summarized in an annual actuarial report. Actuaries on the Department's staff are responsible for reviewing these reports and recommending whether or not the valuation assumptions should be accepted by the Superintendent.

As mentioned, actuaries have also made important contributions in the supervision of deposit-taking financial institutions. For example, they have played important roles in the development of asset-valuation rules, matching requirements, and minimum continuing-capital and surplus requirements.

Il y a un aspect que je voudrais mentionner, c'est le bilinguisme. I will not continue in French, but I wanted to mention that Canada is a bilingual country, and much of our work is done in French. Many of our staff are bilingual, and we try to perform our work in the language that is appropriate.

As respects recruiting, the Department looks to universities for recruitment of actuarial students. Years ago, the main source of recruitment was the University of Manitoba. In recent years, the Universities of Waterloo and Laval have provided large numbers of students. Generally, we have not had too much difficulty in recruiting actuarial students.

Within the constraints of Public Service regulations, the Department tries to keep salaries and benefits reasonably competitive. For students, the study program is relatively generous. In general, salaries of students and of newly-qualified Fellows are reasonably competitive with those outside the Public Service. However, the salary scale for Fellows is very flat, with the result that remuneration for senior

WHAT FEDERAL ACTUARIES DO FOR A LIVING

Fellows tends to be uncompetitive. This is typical of all Public Service positions at senior levels.

With my comments on salaries, it would appear that we should have difficulty in retaining senior Fellows and no difficulty in retaining students. In actual fact, however, the reverse is the case. Despite remuneration that is reasonably competitive, we have very high turnover rates for students. This could be due, at least in part, to the expectation of higher lifetime earnings outside the Public Service. On the other hand, despite lower salaries than in the private sector, we tend to retain our senior Fellows. The only possible explanation appears to be that persons at senior positions tend not to have salary as their main objective. Working conditions, the possibility of input into government policy and quality of life appear to influence their decisions. I might be biased, but Ottawa (although frigid in winter) is a nice city in which to live. Of course, reluctance to make a change as one gets older could also be a contributing factor.

All the positions in the Department, including that of the Superintendent, are career positions. The position of the Superintendent is an Order in Council appointment and, in theory, the incumbent can be terminated at any moment without cause. However, this has not happened. As I indicated, in 110 years there have been only seven Superintendents; thus, the job has been relatively secure.

In summary, Department of Insurance actuaries have the opportunity to play a significant role in decisions relating to the Canada Pension Plan, pension programs for public servants, and pension policy in general. They also have the opportunity for significant input into Government policy on the regulation of financial institutions. Admittedly, most important decisions in these areas are made by the politicians; nevertheless, the opportunity for actuarial input and, hopefully, influence is there.

MR. BENJAMIN I. GOTTLIEB: The General Accounting Office (GAO) is a part of the Congress and not the Executive Branch. There are 5,000 employees in every possible profession that you can imagine working for GAO. About 2,500 are in the regional offices, and 2,500 are in Washington. Five of the 2,500 in Washington are actuaries. The function of the GAO is to produce reports and briefings; the reports are generally but not always addressed to Congress.

The GAO gets its work assignments in three ways: (1) we get a request from an individual Congressman, a congressional committee, etc., (2) we decide that particular work needs to be done, in accordance with general legislative requirements, and (3) specific legislation requires us to do a study. In order of priority within the GAO, the third type of work has the highest priority, second highest is congressional requests, and the third highest is self-initiated work.

I believe that in GAO there are opportunities to influence national legislation, and that is the purpose of the GAO, in a way. Many, but not all, of our reports include recommendations to the Congress; others have matters for the consideration of Congress. After we produce

PANEL DISCUSSION

these reports, a tracking system follows up on recommendations. If you work on a report, and one of its recommendations is adopted, you get an accomplishment report. A committee reviews your claim of accomplishment, and if they approve your claim, you are covered with glory for the shorter of ten days or until the next time you really mess up.

An example of things that GAO has considered is something that a speaker mentioned yesterday morning, having to do with part-time Federal employees switching to full time and receiving retirement benefits out of proportion to the amount of service that they rendered. As another example, we recommended that the rate of interest payable by Federal employees who redeposit contributions to the Civil Service Retirement fund that they withdrew on an earlier resignation should be close to the market rate. In the past this rate was set by law at an arbitrary, very low figure. This recommendation was accepted, and the law was changed.

A lot of things that we have considered and on which we have had recommendations adopted are fairly obvious and have been studied by other groups as well. We are not necessarily solely responsible.

The work itself is very interesting on the whole and probably more varied than that of any other actuaries in the country. That is an advantage. On the other hand, GAO has rules about how we must support our recommendations, and many of you in this room would find these rules exasperating. I am basing this statement on my experience with consultants that we have brought in occasionally to help us either because the quantity of our work was so great or because they had expertise that we did not have. I saw some of their reactions to these rules. Another factor that must be considered is whether the skills acquired working on the actuarial staff of GAO will be marketable with other employers. I am not certain how GAO fits in on that scale. It might be better than some government agencies. I do not believe that it is as good for IRS pension actuaries.

Regarding retention, our staff is so small that I cannot provide valid statistical information. Our younger staff members have been contracted by consulting firms and other government agencies, and we also have the potential loss of actuarial staff through assignments to the operating divisions of GAO, which sometimes request actuarial work. These divisions, however, also serve as a potential source of recruitment. Two of our five actuaries worked for GAO for years and never heard the word actuary. They are both Associates now. They came to us knowing how GAO operates, and that can be of tremendous value.

Regarding the functions of the actuarial staff, I am not going to go into a long boring recitation of reporting responsibilities. As mentioned earlier, GAO primarily writes reports. We can be involved by either writing a report or by assisting an auditor, evaluator, or generalist with his or her report. The relative emphasis placed on these two types of work swings like a seesaw. Currently most of our work involves helping others write their reports. The normal GAO worker that we assist is intelligent, motivated, incredibly stubborn, and what

WHAT FEDERAL ACTUARIES DO FOR A LIVING

he or she knows about insurance or pensions to begin with would fit on the head of a pin. They all seem to be convinced that every active employee in a pension plan has some sort of account with money in it. They think that the valuation interest rate of a pension plan should be what the fund earned in the last year. They think that there is a single correct pension-cost calculation for a defined-benefit pension plan for a given year.

Another phase of our work that I should mention is reviewing the work of other actuaries rather than embarking on our own endeavors. A few years ago, for example, we reviewed the assumptions used by the actuaries at the Social Security Administration for their annual Trustees Report. This type of work involves describing where the wall should be painted rather than taking the paint brush and painting the wall.

Another subject on the program has to do with whether we face critical pressures. In the case of GAO, all of our work is for Congress, and that involves the obvious pressures of dealing with people who constantly worry about getting re-elected and coming across in a particular way to their constituents. People at GAO are very aware of the different congressional committees and what different Congressman are trying to do.

The best part of our work is the variety of assignments. I grabbed some reports off my desk when I was coming here. If anyone wants any of them, just let me know, and I will send you a copy.

MR. JOHN WADE: I am going to describe the actuarial operations within the Internal Revenue Service (IRS). There are two actuarial branches in the IRS--the Pension Actuarial Branch and the General Actuarial Branch. Both branches are part of the Employee Plans, Technical and Actuarial Division. There are approximately 11 or 12 actuaries in the Pension Actuarial Branch and five or six in the General Actuarial Branch. Another three actuaries within the division are not part of either branch but also work in the pension area. Thus, there are approximately 20 IRS actuaries, about 15 of whom are pension actuaries. About one-half of them are Society members. All are located in Washington.

I will first describe the work of the Pension Actuarial Branch and then that of the General Actuarial Branch. Basically, anything coming out of IRS involving pension plans that is actuarial in nature is handled by the Pension Actuarial Branch. In particular, we are concerned with qualified pension plans. These are plans, maintained by employers for their employees, that receive favorable tax treatment under the pension laws and the Internal Revenue Code. To receive this favorable tax treatment, the plan must meet certain conditions specified in the law. These conditions include items such as non-discrimination, minimum vesting and accrual of benefits, actuarial-equivalence factors, and many other areas. Many of the requirements of qualified plans involve issues that are actuarial in nature or require actuarial calculations.

Qualified plans are also subject to funding limitations. There are minimum funding standards in the law that must be met. There are

PANEL DISCUSSION

also limits on deductible contributions to pension plans. This area is of direct concern to the Pension Actuarial Branch.

Let me describe some of the specific projects assigned to actuaries in the branch. First, we assist in developing the regulations that apply to qualified plans. The responsibility for writing the regulations lies with the Office of the Chief Counsel of IRS. However, we have a very strong voice in what is put in the regulations, both in substance and in style. This includes the policy considerations underlying the regulations.

The branch is also involved in revenue rulings and revenue procedures. Revenue rulings may clarify certain aspects of the regulations or how to apply the regulations to specific situations. Revenue procedures specify the manner or the procedure to be followed with regard to certain rulings, determination letters, or other items of the tax laws. Working in both of these areas gives the actuary the opportunity to be involved in areas of widespread application and importance to the entire pension industry.

A third type of project within the branch is the area of private letter rulings. An employer (or plan participant, if appropriate) may request a ruling on a proposed transaction. The ruling, if approved, would state that the transaction meets the requirements of the law. Rulings considered by the branch may be divided into three main areas:

1. Changes in funding methods: These must be approved by IRS. Many are not allowed by revenue procedures.
2. Waivers of minimum funding standard: These are granted in cases of substantial business hardship and if the waiver would not be adverse to the interests of the plan participants. These cases involve the analysis of the company's financial status and the effect of a potential waiver on the financial status of the plan. At times, the cases can become very sensitive, particularly if large employers are involved. They are also of great concern to the PBGC.
3. Other: Rulings are also given on many other actuarial aspects of qualified plans.

The next area of our work I want to mention is that of taxpayer assistance. One of the actuaries is available each afternoon to answer questions from the public, other actuaries, attorneys, or others. This allows questions to be answered concerning the pension laws and their application to specific situations. Questions may also be sent to us in writing.

Another one of our duties is assisting in the teaching of two basic training courses to the field agents who review plans for determination letters and who audit plans. In one of these courses some actuarial material is presented. There is instruction on most of the widely used funding methods and on interest calculations. The second course provides more detailed instructions on funding issues. The actuaries at the IRS help develop these courses, write the textbooks, and provide

WHAT FEDERAL ACTUARIES DO FOR A LIVING

instruction. There are also courses of a continuing-education nature; some of these are developed and taught by actuaries.

Another area in which we may be involved is litigation. We may assist the Chief Counsel of IRS or the Department of Justice in developing IRS positions in litigation. At times, testimony may be involved.

Two actuaries at IRS are members of the Joint Board for the Enrollment of Actuaries. As members of the Board, they help set standards for the enrollment of actuaries. Along with an advisory committee, enrollment exams are formulated. The Board is also the final appeal authority for disciplinary actions taken against enrolled actuaries.

At times, IRS actuaries have assisted in the development of legislation. This may involve working directly with certain congressional committee staffs and with the Department of the Treasury.

Actuaries also provide assistance to field agents. The issues involved may be funding issues or certain qualification issues. Examples of the issues considered are deductible limits, comparability of plans, section 415 maximum-benefit limitations, and joint-and-survivor requirements.

We also may be involved in the development of various forms, publications, and textbooks used in the pension area.

Another area in which we have recently become involved and expect more involvement in the future involves self-insured benefits, such as health benefits, life insurance benefits, and disability benefits, under sections 419 and 419A of the Code.

Now I will describe the responsibilities of the General Actuarial Branch. The specific types of projects done by actuaries in the branch are the same as those in the Pension Branch, but the subject matter is different. For example, the actuaries provide assistance to the field and to the public, help develop regulations and rulings, and are involved in litigation and various other projects. One of the main areas of their work is estate and gift taxes. In many cases, this work requires actuarial valuations to be made of annuities, remainder interests, life interest, and other items. The actuaries help develop tables and factors used for this purpose. They are also involved in regulations and rulings in this area. Much of the same type of work is done in the valuation of various types of trusts, including charitable trusts, unitrusts, and others.

Two of the actuaries in the General Branch work in the field of life insurance company taxation. Again, they contribute to the regulations and rulings in this area. There is also quite a bit of litigation in this area.

The General Actuarial Branch has also been involved with section 79 of the Code, dealing with group term life insurance. The branch helped develop tables and factors for determining the value of such employer-provided benefits. Similar work is done under section 72 of the Code,

PANEL DISCUSSION

dealing with the taxation of annuities and proceeds of life insurance and endowment contracts.

The other panelists have already made extensive comments in the area of recruitment and remuneration, and I will not say more in this area. We have been looking for some additional actuaries over the last year or two, but we are having difficulty filling the positions.

I would like to describe some of the advantages of working at the IRS. These apply particularly to the pension area. First, the work itself is very interesting, challenging, important, and worthwhile. We participate in developing IRS policy affecting the entire pension industry. In many cases, this work leads to a much deeper understanding of the pension laws than one may obtain working for a private firm. Working at the IRS allows us to learn why certain IRS positions are taken and the reasons behind those positions. It may be easier to keep abreast of the changes in the dynamic pension area at IRS than at a private firm. Another advantage is that an individual receives very broad training at the IRS. At a private firm, an individual may specialize in certain funding methods, small plans or large plans, or single-employer plans versus multi-employer plans. At the IRS, we deal with a variety of situations providing a broad background.

A final advantage is that one receives public exposure and peer recognition at a much earlier point in one's career than may happen with a private firm. This may come from the telephone assistance program. Also, the public is generally very interested in current IRS thinking and seeks out individuals at the IRS for any information available. Finally, as a result of all the other advantages, the experience that an individual gets working at the IRS is very marketable. Of course, we are looking to hire some additional actuaries, not to lose them.

MR. JACK MOORHEAD: I have a question for Mr. Cohen. It may be most inconsiderate and unreasonable of me to ask it. The Canada Department of Insurance has had, over the years since 1875, a fine record of maintaining the solvency of Canadian life insurance companies. That record is marred by just one famous case--that of the largest life insurance company in Canada, which was caught at the time of the stock market crash with 50 percent of its assets in common stocks. I am extremely interested to know whether the Department of Insurance ever expressed any reservation about having the largest insurance company in the country with so many of its eggs in one single, rather vulnerable basket. Do I have any hope of finding an answer to that question?

MR. COHEN: The man to ask would be Dick Humphries, who has been closely associated with the Department of Insurance for many, many years going back to the late 1940s. He probably would have some inkling. I believe that it could not happen again quite the same way. We now have a limitation on the percentage of assets that a life insurance company can hold in common stocks. But more importantly, there is far more concern with matching of assets and liabilities. We are now examining the regulations applying to financial institutions including life insurance companies, and great emphasis is being placed on the concept

WHAT FEDERAL ACTUARIES DO FOR A LIVING

of matching--that is, if you have a large proportion of your business in essentially fixed-income liabilities, as you do with guaranteed-value insurance policies, it does not make much sense to have a lot of your assets in a very variable type of investment.

With regard to the specific case you mentioned, I should point out that the Sun Life is still in business and is a very successful company. So, in spite of that unpleasantness, it successfully weathered the storm.

MR. ROY BERG: You spoke about the opportunities of actuaries to influence legislation. As I understand the Social Security funding basis, it is principally pay-as-you-go. Should there be more advance funding?

MR. BALLANTYNE: Over the years, Social Security has been financed on basically a pay-as-you-go basis, although at the beginning a fund did build up, and some advance funding was projected to occur. In the 1983 amendments, the tax rate schedule and the benefit structure were changed so that now we are projecting a significant fund build-up by 2020. Thus, we can say that there is some element of advance funding, but I am not certain how deliberate that was. With a high degree of advanced funding, there are problems associated with investing the large funds that would accumulate. Even with the present system and its limited advance funding, people are asking questions about how the money can be invested. Present law requires all investments to be in government securities. Would the national debt be that large? It remains to be seen whether the fund will be built up; the law can be changed. But when I spoke about influencing legislation, it was more with regard to making estimates for those proposals, analyzing the proposals, and advising policymakers about the effects of those proposals.

MR. COHEN: With regard to Canada, when the Canada Pension Plan began in 1966, it had a higher rate of contribution than was strictly necessary--3.6 percent (employer-employee combined), whereas a 1 percent rate probably would have been sufficient. It has built up quite a significant fund, and that causes the sort of problems that Mr. Ballantyne described. Most of it has been invested in provincial bonds, and people are complaining about that. Quebec has its own pension plan, which is similar to the CPP. Most of its assets are in Quebec government bonds. Some is invested in the private market. People are complaining there about the possibility of government control.

I do not understand the desire to have advance funding. If it is an attempt to shift the burden from future to current generations of workers, I am not certain that it can be done because the goods that future beneficiaries will consume are going to be produced then. You can shuffle paper, but you cannot save goods. As a permanent phenomenon to try to build up some kind of funds to ease the burden of future generations, you would have to invest actually in foreign securities. That would be the way to do it, but I cannot imagine the U.S. government or the Canadian government investing in Japanese securities, for example.

PANEL DISCUSSION

MR. LEROY PARKS: Several of the panelists referred to recruiting problems. I believe that one of the actuarial bodies sends flyers to its members advertising positions with the governmental agencies. Absent changes in the pay scale, can you think of other more effective ways you could help out your own recruiting efforts. Also, Mr. Gottlieb suggested that the actuarial slots in the GAO are perhaps among the more exciting in the government, yet I did not get as good a feel from his as from the other panelists as to the very nature of some of the jobs that GAO does. Can he share some of his specific experiences with us?

MR. GOTTLIEB: One of the things that would help would be reducing the paperwork associated with hiring. We have to do a large amount of paperwork, which results in delay, and frequently candidates whom we have interviewed accept other jobs while they are waiting to hear from us. As to the things that GAO works on, I was thinking of challenging the audience to come up with an actuarial, pension, risk, or insurance subject that we have not worked on. We have worked on crop insurance, credit liability, medical malpractice, multi-employer pension plans--we have done a whole series of reports on them. We are about to launch a series of reports on the way women are treated in private pensions; it is required by the Retirement Equity Act. We have done reports on Civil Service Retirement, Military Retirement, health insurance coverage for federal employees, and group life insurance. Some of these reports have been massive and covered large stages of the particular program; others have covered one tiny phase that a particular Congressman was interested in. We have done studies of the pension cost involved in the closing of military bases and in contracting-out a function and firing employees who were working on it.

MR. DAVID ROSENBERG: Yesterday, many of us heard what I regarded as a very shallow attack on the way the Federal Government does its business. You people all work for the Federal Governments of either the United States or Canada. Although I realize the speaker raised many issues outside your areas, I would like to have your opinions on the level of functioning of the respective governments.

MR. COHEN: I agree that the speaker presented a very shallow analysis. I am certain that we could all point to examples of waste in the Federal Governments, State Governments, Provincial Governments, and private corporations. Cutting down waste as such will not solve our economic problems, but that is not a question. I think the Department of Insurance is a very well run operation. A number of people who come from the private sector assume that the private sector tends to be somewhat more cost conscious than the government. I believe, however, that with only 226 people, we do an incredible job in terms of the range of things we do.

I must confess that certain government programs make it difficult for us to operate as efficiently as we would like to. The reward for excellence is not there. There are across-the-board freezes, across-the-board cuts, and so on, which tend to cause certain departments to hoard manpower because they know these cuts are coming. My impression is that government managers do manage very efficiently.

WHAT FEDERAL ACTUARIES DO FOR A LIVING

Perhaps Canada is a little less regulation-bound than the U.S., and our problems are in some ways different from yours. The Federal Government hobbles itself in many respects. It insists on having equal opportunity programs. In Canada we have bilingualism programs. All good programs have a valid and worthwhile social effect, but they cost money in terms of manpower and so on. The government has chosen to go this route, and it has to recognize that it is paying a price for it. I think the taxpayers and electors refuse to recognize this, but we have not seen any great backlash from electors to get rid of equal opportunity programs or bilingualism programs.

MR. GOTTLIEB: GAO is very interested in the recommendations of the Grace commission and has analyzed all of their recommendations. That is one report that I have not brought here because it is about 1,400 pages, and I did not want to carry it to and from the airport. But one of the special reports that GAO did for Representative Ford, Chairman of the House Committee on Post Office and Civil Service, was a comparison of retirement benefits for W.R. Grace and Company to those for civil servants. Grace has a very generous pension plan. I cannot comment on what the overall gist of that 1,400-page report was because it took each recommendation and each discovery that the Commission made and analyzed it.

MR. MYERS: Would it be fair to say that the GAO agreed with some of the things in the Grace Commission report and that others were not valid?

MR. GOTTLIEB: Yes, that would be fair. Some outrageous things go on in the government. Some of these outrageous things could be corrected, but I am not certain that correcting them would balance the budget by the year 2000. You have problems more from a sense of equity than of large money matters.

MR. MYERS: My own view of the talk yesterday was not entirely positive. There were many truths in what he said, but there were also many of what could be called half-truths. With regard to the Social Security (OASDI) system, it operates quite efficiently when you look at the administrative-expense ratio. Only 1.25 percent of the income is used for administrative expenses. I am not saying that it is better than what any private sector operation could do, but it is a low administrative-expense ratio. With regard to the poor computer system, I believe that the SSA computer systems are being improved. For years, the budgeteers would not spend enough money to improve it. You cannot have it both ways.

