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CANADIAN INSTITUTE AND THE ALTERNATE ROUTE

by L. Blake Fewster

The concept of the Alternate Route to obtain credit for the first five examinations of the Society of Actuaries is of special interest to members of the Canadian Institute of Actuaries, 80% of whom qualify by passing the Society examinations.

An interesting and stimulating discussion on the Alternate Route was held at the annual meeting of the Institute in Ottawa on June 12, 1970. The discussion was led by a panel composed of James L. Clare and Ernest R. Vogt along with special guests, Stephen G. Kellison and Julius Vogel. Julius and Ernie presented arguments in favour of the Alternate Route proposal and Steve and Jim presented arguments against the proposal.

Julius Vogel, who is Chairman of the American Academy of Actuaries committee on the Alternate Route, outlined the work of his committee and reported that all of its members favour the adoption of the Alternate Route for the long-term good of the actuarial profession. He mentioned that the most important and also most difficult task involved in implementing the Alternate Route would be the accrediting of colleges and determining the required courses for alternate route qualification. He did, however, feel that the Alternate Route would encourage development and dissemination of new concepts and techniques in actuarial science by removing some of the constraint necessary in the present Society examinations which must be designed for students with a wide variety of backgrounds. The Alternate Route could enhance the role of colleges in actuarial education and would encourage more students to become actuaries.

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CUMMING AND GOING

The authorities who take notice of the mastheads of periodic publications and any earnest students of the masthead of *The Actuary* since its inception will notice that this is the first issue in which the name of John B. Cumming is missing from the list of Editors. Pressure of other duties has led Jack to resign from the Editorial Board much to the regret of his colleagues.

The Editors have more to do than merely wield a blue pencil and in the early days the non-blue-pencil duties were even greater. To these and to his emendatory tasks Jack Cumming brought enthusiasm and skill in good measure and his continued help has contributed in great degree to the success of the Newsletter. The Society and *The Actuary* are both greatly in his debt and we gladly take this opportunity to say "Thank You." □

THE NUMBERING UNITED STATES CENSUS 1970

by Dwight K. Bartlett, III

Results of the 1970 Census of the United States are now being compiled and will be available shortly. In general, the information available will be summary enumerations rather than basic data, although there will also be Public Use Sample files giving basic data concerning characteristics of people and households individually on a 1% sample basis. These files will be made available on magnetic tape in the latter part of 1971.

The summary records will enumerate the population according to a variety of characteristics including age, sex, race, occupation, education, marital status, income. There will also be enumerations with respect to housing characteristics such as number of units at the

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CANADIAN REGULATION OF PENSION PLANS

(Report prepared by Frank M. Kleiler for the U.S. Dept. of Labor)

by Laurence E. Coward

An observer of the United States legislative machinery who is not well informed on its workings can only be filled with wonder at the tortuous manner in which the United States makes its laws. Painstaking research combines with naked lobbying; authoritative discussion goes hand in hand with emotional propaganda; thorough staff work is accompanied by political jockeying. Proposals for legislation to regulate private pension plans have been in this pressure cooker for some four years. Currently at least five pension bills are pending in Washington. Front runners are the Dent bill, the Javits bill, and an Administration bill supported by the Department of Labor.

Frank M. Kleiler, Director of the Office of Labor Management and Welfare Pension Reports, United States Department of Labor, was given a special assignment to survey the Canadian pension scene, in particular the Pension Benefits Acts in force in four provinces and the Pension Benefits Standards Act of the Government of Canada. He visited Canada during October and November 1969 and interviewed dozens of officials, actuaries and other interested parties. His comprehensive report was designed to be useful as background information to policy planners in the United States.

Mr. Kleiler's report surveys the history and present functioning of employer pension plans, the Old Age Security Act, the Canada (Quebec) Pension Plan, the Pension Benefits Acts, Canadian Government Annuities, Profit Sharing Plans and the Income Tax Act in relation to pensions. It also includes inter-

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Canadian Pension Plans

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esting chapters on "Comparison with laws in the United States" and "Opinions of the Clientele" — the Clientele means employers, employees and others affected by the Pension Benefits Acts.

"The author found relatively little criticism of the basic purpose of the regulatory laws or of their administration thus far. There were mild expressions of resentment against regulation, but it was not expressed with vehemence or bitterness."

The report is written with objectivity and the author's opinions show through only occasionally. The final conclusions are modest and unassailable:

"Despite the lack of complete safeguards, the following conclusions emerge from the study of Canadian regulation of pension plans and a comparison with the laws affecting pension plans in the United States:

- "1. Members of pension plans in Canada have better statutory protection of their pension expectations than do pension plan participants in the United States.
- "2. The Canadian experience thus far proves that there is nothing impractical about regulating pension plans by legislation prescribing minimum standards of vesting, funding and management of investments."

Mr. Kleiler seems surprised that laws regulating pension plans can be passed without the incentive generated by a disaster or obvious abuse or public outcry.

"In the United States the Congress does not normally enact regulatory legislation in any field until after there have been public hearings by Congressional committees which demonstrate that various malpractices have occurred, that rights of individuals have been abused, or that there are cases of serious injustice which warrant government intervention to prevent or inhibit such conditions from continuing.

"If you ask a Canadian pension specialist what atrocities occurred before the enactment of this legislation to warrant governmental imposition of the funding standards, he can think of only one case — the Studebaker shut-down. If you ask what atrocities occurred in the invest-

ment of pension trust funds, he racks his brain and usually responds that he can think of no specific case; but usually he says that because of the large sums of money involved, the same reasons that call for government supervision over banking and insurance companies are applicable to the pension business.

"Accordingly, with little statistical evidence or case histories to establish a need for governmental regulation to assure solvency—but with ample evidence to establish that the lack of adequate vesting rules was depriving workers of their pension expectations — legislators in Canada have undertaken to provide government supervision in all three areas: vesting, funding and investments."

In Canada private pension plans relative to government pensions have played a more important part than in the United States. This was particularly true in the 1960-1965 period when the Ontario's "portable pension" law was being designated, prior to the introduction of the Canada Pension Plan. Moreover, employee pension contributions are tax deductible in Canada, so that the majority of pension plans are contributory and thus can afford to be more generous than in the United States. Accordingly it was thought that a strengthening of employees' rights in private pension plans would lead to a considerable improvement in retirement security at little cost. Indeed, some supporters of the original Pension Benefits Act hoped that it would serve as a bulwark to head off a government-run national pension plan.

This raises a question that is pertinent today in the United States. Would government control of vesting, solvency and investments be a step towards the absorption of virtually all private plans into the social security system? Or would a legislated strengthening of members' rights in private plans reduce the dependence on government and the pressure to increase social security benefits?

Among other interesting points arising out of the report are the following:

1. Mr. Kleiler notes that the United States has always been strong on reporting and disclosure. The Canadian governments, except in Saskatchewan, have steered clear of disclosure — instead the emphasis has been on compulsory vesting, locking-in, solvency and investment control.

2. The governments with Pension Benefits Acts neither try to police the plans nor to collect pensions for individuals. Queries and complaints are dealt with as they arise, but there is no large staff of outside inspectors. The enforcement problem has been eased by the rule of the Canadian income tax department that registration under the pension acts is a precondition for income tax approval.
3. The power to establish or designate a central pension agency to handle pension credits is retained in the Pension Benefits Acts, but has not been used. There seems to be little need in Canada for a central agency, although it has been prominent in the U.S. proposals.
4. I could not find any comment in the report on "vested liability insurance" nor on the absence of this feature in the Canadian laws. The arguments in favour of such insurance are greatly weakened if all pension plans are required to meet solvency standards and to liquidate liabilities over limited periods of years.
5. The effectiveness of the funding rests on the competence and integrity of the actuaries who sign the cost certificates and actuarial reports. An actuary is defined in the regulation as a Fellow of the Canadian Institute of Actuaries. Thus the government depends upon the Institute to ensure high standards of competence and ethics in the actuaries who perform important functions under the regulatory laws.
6. The heaviest paper-work burden falls upon the actuaries. They, too, sometimes protest about the burden; but many of them seem to have their tongues in their cheeks. Reports are the main by-products of an actuary's work. The solvency requirements of these regulatory laws have increased the paper work for actuaries, but actuaries get paid for doing paper work.

Whatever influence Mr. Kleiler's report may have on the legislative development in the United States, one thing is clear. He has written the best, concise up-to-date, one-volume description of public and private pension plans in Canada that exists. It is a little humiliating

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Canadian Pension Plan

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that no Canadian actuary or economist or other person (since Robert M. Clark wrote his 1959 social security report) has tackled this useful project. Had such a book been available in the past, updated once a year, of course, it would have saved me many tedious hours of digging for basic but easily forgotten facts. Mr. Kleiler's report is warmly recommended as a first class reference book for students, pension consultants and all others concerned with pension plans and social security in Canada.

Editor's Note: A copy of this Report may be obtained without charge on request from the Office of Labor-Management and Welfare-Pension Reports, U.S. Department of Labor, Washington, D.C. 20210. □

Letters

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Antidotes for Inflation

Sir:

Most of us sympathetically favor efforts to protect the purchasing power of persons no longer in the active workforce (and thus having no other means of countering spiraling living costs), through the use of cost-of-living adjustments in pension plans or otherwise. On the other hand, to build a cost-of-living concept into all debt arrangements would appear to pose more serious problems. Proposals so to do the latter appear to be based on theories having no chance of long-range success and actually compounding the evil they seek to alleviate.

Accordingly, the philosophy of accepting and joining the inflationary movement, which appears to have been too easily embraced in *The Actuary* May editorial dealing with "antidotes for inflation," is bound to strike a discordant note with many observers.

Proposals which would feed, as well as feed on, inflation tend to perpetuate the "growth-happy myth" that expansion, production, consumption and population can continue indefinitely on an

AMERICAN ACADEMY OF ACTUARIES

The Congress recently passed Public Law 91-377 which is an Amendment to the Railroad Retirement Act of 1937. Among other items this law provides for the appointment of a Commission to conduct a study of the Railroad Retirement System and its financing. The Commission is required to recommend to the Congress on or before July 1, 1971 changes in the system to provide adequate benefits on an actuarially sound basis. The law further provides as follows:

"The Commission shall employ the services of an actuarial consultant holding membership in the American Academy of Actuaries and qualified in the evaluation of pension plans."

This is the first time the Academy has been recognized in any federal legislation.

upward geometric curve. The implications of following such a mistaken belief are calamitous, as demographers and other experts on world environmental and population problems have warned. A proposal to marry inflation and unbridled expansion is only one manifestation of this larger problem.

We are all going to have to learn again the art of self-discipline if we are to bring inflationary factors under control. So long as most of us demand more than our earned share of goods and services produced (or are willing to waste our national substance through non-essential or unwise expenditures)—we are going to have to face this problem of inflation.

It may be of interest to note the much higher degree of self-discipline which exists in some other countries, as witness the following excerpt:

"Finland, the tiny (population) country which alone honored its post-World War I financial commitments to the United States, has offered the

world another object lesson in fiscal responsibility.

"As part of a national belt-tightening program following a currency devaluation, executives and laborers alike have willingly accepted controls on salaries and wages. Finns claim that devaluations won't work unless accompanied by tough austerity programs to control inflation as well as by vigorous efforts to increase exports. Even leftist union leaders surprisingly argue that relatively high unemployment is the price that must be paid."

Finland was cited in the May editorial as one of the countries favoring the principle of inflation-linked debt instruments. I understand, however, that it has since abandoned this principle.

England, too, has accepted belt-tightening as a means of bringing its recent economic crises under control, and with some success.

Frank L. Griffin, Jr.

Actuarial Meetings

- Oct. 4, Actuaries Club of Indiana, Kentucky and Ohio, Indianapolis
- Oct. 7, Nebraska Actuaries Club, Omaha
- Oct. 12, 13, 14, Conference of Actuaries in Public Practice, San Francisco
- Oct. 13, Actuaries' Club of New York, Tarrytown
- Oct. 15, 16, Canadian Institute of Actuaries, Winnipeg
- Oct. 19, Chicago Actuarial Club
- Oct. 21, Seattle Actuarial Club
- Nov. 16, Chicago Actuarial Club
- Nov. 16, 17, Casualty Actuarial Society, Chicago
- Nov. 16, American Academy of Actuaries, Chicago
- Nov. 18, Seattle Actuarial Club
- Nov. 19, 20, Actuaries Club of Southwest
- Nov. 19, 20, Southeastern Actuaries Club, Atlanta