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HARVARD CONFERENCE ON DEMOGRAPHIC PROJECTIONS

by Cecil J. Nesbitt

Under the aeges of the Harvard University Center for Population Studies and the Society's Committee on Research, 70 actuaries and demograhers met at Harvard University Nov. 29-Dec. 1 to discuss demographic projections and related actuarial topics.

Four sessions of the conference dealt with projections. Dr. Conrad Taeuber reviewed United States Census Bureau Demographic Projections. Professor Nathan Keyfitz, of Harvard, examined the question, "Can Population Changes be Predicted?" He stated that such turning points as the rise in fertility in the late 1940's cannot be predicted but we should recognize that the projections of the Bureau of the Census and other agencies have some of the qualities of forecasts with confidence intervals, "implicitly challenging us to assign probabilities to intervals and to develop our own loss functions."

Drs. A. Romaniuc and K. S. Gnanasekaran of Statistics Canada spoke on "Population Projections in Canada" and "Mortality Trends and Projections by Cause of Death in Canada, 1950-1990." They discussed the problems of making population projections for Canada, and presented solutions.

Professor Samuel Preston, of the University of Washington, presented a paper on "Illustrations of Social and Demographic Consequences of Eliminating Various Causes of Death in the United States." By the application of the mathematics of population and extensive computer calculations, he speculated that with complete elimination of cardiovascular disease, age at retirement would have to increase by approximately 10 years in order to retain the current ratio between retired and economically active

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REPORT FROM THE BOARD OF GOVERNORS

Many actuaries are aware of newspaper reports that the City of Sacramento has been involved in a controversy about its retirement system because of an apparent conflict in the recommendations of two actuarial firms. This matter was brought to the attention of the Society and of the Academy by letters from the City of Sacramento to the Presidents of the two bodies.

Before deciding what action to take, the Society and the Academy sent Mr. E. J. Moorhead on a fact finding visit to California where he interviewed the city management and also the several actuaries familiar with the case. Subsequently, the Board of Governors (and later the Board of Directors of the Academy) decided to refer the questions involved to the appropriate Committees of the Society and the Academy. The Board of Governors and the Board of Directors realize that it is essential for the profession to give a clear response to an appeal from a public body such as the City of Sacramento. Further, in this instance an analysis of several features in the case can be of substantial future value to practicing actuaries. One feature relates to the manner in which a cost of living escalation provision in a pension plan may be provided for in the current contributions of both employees and employer.

William A. Spare,

Secretary

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THE HEALTH MAINTENANCE ORGANIZATION ACT OF 1973

by John G. Turner

On Dec. 29, 1973 President Nixon signed into law the Health Maintenance Organization Act of 1973, which authorizes $375-million to be used by the DHEW to stimulate the establishment and development of HMO's over the next five years.

The Act provides for $25-million in 1974, $55-million in 1975 and $85-million in 1976 and 1977, in addition to a $75-million revolving loan fund to provide grants and contracts for feasibility surveys; grants, contracts and loan guarantees for planning and for initial developments; and loans and loan guarantees for initial operating deficits—all to HMO's which qualify for such aid under the law. An additional $50-million is set aside for research and evaluation of quality assurance programs for health care in an HMO environment. Except for programs in under-served areas, federal support is available only through non-profit organizations.

While the law has occasioned a dramatic increase in interest among many groups to develop HMO's, it remains to be seen whether many currently operating HMO's will care to attempt to qualify under the law. The advantages of such qualification are money (if non-profit) and the requirement that employers of 25 or more employees must offer at least one qualified HMO as an option to conventional indemnity health insurance for employees.

Existing HMO's may find it difficult to accommodate such requirements as community rating, restrictions on medical provider groups, requirements for open enrollment, and the basic health services required. The basic health services described in the Act go beyond the usual medical, hospital, and diag-

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EDITORIAL

SOME of our readers may not be aware that there is in existence a Joint Committee considering the subject of the Independence of the actuary. This term is possibly (and erroneously) confused with Integrity. There are those, for example, who assert that the GAAP statement figures should be certified by an independent actuary, that the certificate of the company actuary, no matter how distinguished he may be, is unacceptable. This parallel with the independent auditor has been carried too far and for those who support the parallel we suggest a reading of the history of the independence of the C.P.A.'s.

If the actuary, company or consultant, is to be recognized as a member of a profession, he should accept the individual responsibilities of such membership and strive to be recognized as a man of integrity, acting independently within his own field of skill.

In the March issue, Mr. John R. McClelland referred to an article on GAAP accounting in a recent issue of the Financial Analysts Journal. The author, Dr. Abraham J. Briloff, a C.P.A. and a professor of accountancy, does not enthusiastically acclaim the Audit Guide and has several improving suggestions. One of these recognizes "the plasticity inherent in the actuarial function" and proposes to have three sets of actuaries involved in GAAP accounting. The determinations regarding the appropriate reserves and deferred acquisition costs would be made by an actuary independent of both the insurance company and the C.P.A.'s. This independent individual would engage in an illuminating dialogue with the company actuary and then give a certificate to the independent auditors. In turn, these auditors would engage their own actuarial experts to verify the independent actuary's certification. How far can independence go?

There is another side, to show which we unashamedly borrow from the Report of the Scott Committee reviewed in our December 1973 issue by Mr. Anderson. The Scott Committee considered the problem of the independence of the actuary; whether such independence could be strengthened by requiring "that the annual certificate be signed and the valuation report be prepared by a consulting actuary in the same way as an independent accountant audits a company's accounts." The Report concedes that the actuary would be subject to greater pressures than other officers of the company and it would require great strength of character on the part of the actuary to stick to his guns and his professional opinion. There is no guarantee that the consulting actuary will be free of pressures and in any event the company actuary in daily touch with the company's business has an advantage over the consulting actuary. There is no reason to assume that the independent advice would be more competent or more reliable than the advice of the company actuary. In effect, the Report concluded that the independence of the actuary could be maintained, be he company actuary or consultant, without requiring another actuarial opinion.

Is it too much to expect that this same position could be maintained on this side of the Atlantic as indeed it is in Canada?

In view of some recent correspondence in *The Actuary*, we might be allowed to close with another excerpt from the Scott Report ". . . the role of the actuary is, of course, vital in all forms of life assurance. Whether a salaried employee of the life company or an independent consultant, the actuary has come to be regarded as a watchdog for the policyholders as well as owing a duty to the life company itself."

A.C.W.

Actuarial Meetings

May 29, St. Louis Actuarial Club

June 13, Baltimore Actuaries Club

June 13-14, Southeastern Actuaries Club

June 13-14, Southwestern Actuarial Club

June 20, Chicago Actuarial Club (Annual Golf Meeting)

HMO Act of 1973

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nostic services to include such services as, medical treatment and referral for addiction to alcohol or drugs, voluntary family planning, dental care and eye examinations for children. In addition other services may be offered if providers of such special services are available. These basic services are subject limited co-payments.

In the past six months there have been seven task forces at work drafting regulations for each of the major sections of the law. Several actuaries are members of the various task forces. The significance of many of the restrictive requirements for qualification of HMO's will not be known until the final regulations are accepted by HEW. Most of the draft regulations should be published in the Federal Register in April, but the critical dual choice requirements will probably not be known until late 1974.

While the reaction of currently operating HMO's indicates that many will have no interest in qualifying under the law, it is certain that the injection of Federal funds will increase general interest in HMO development. It has been estimated that there will be as many as 500 new HMO's operating by the end of 1978. These will include significant development programs by insurance companies and Blue Cross/Blue Shield Plans; we trust with substantial participation by actuaries. □