



SOCIETY OF ACTUARIES

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RETIREMENT TO CHAOS

by J. Henry Smith

(Ed. Note: This is another in our series on actuaries in public service. In 1976, not long after his retirement from CEO of Equitable Society, J. Henry Smith accepted the post as head of the welfare and social service system of New York City. Here he comments on his nearly two years in that formidable position.)

The title of this piece is not quite fair. The new world I entered in 1976 was not really chaos—it just seemed so to the orderly mind of an actuary steeped in a well structured, stable business. Maybe “chaotic” gives a truer flavor.

My new experience began when Mayor Beame decided to bring business managers in to help cope with New York’s financial problems. He imported several, assigning me to the largest and one of the most sensitive administrative jobs. I accepted because I felt an obligation to help our stricken city, and because I thought that business management methods ought to be given a try.

The effort proved to be a learning experience and a challenge of the first order. Learning, because the political environment is utterly different from that in business; challenging, because of the city’s financial debacle and the complexity of its social programs.

The welfare and social service apparatus in an American community is amazingly complex. Here, in addition to four kinds of regular benefits to the indigent, there were 45 programs of welfare and social service administered by my department. These range from food stamps to the giant Medicaid, through day care, senior citizens’ centers, planned parenthood clinics, and telephone services to shut-ins. Each of these has its own con-

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“INDIVIDUAL LIFE INSURANCE AND ANNUITIES IN THE 1980’S”

The above will be the theme of the Society’s “Special Topic” spring meeting in Hartford on April 14-15, 1980. Responsibility for the program is in the hands of the Committee on Life Insurance and Annuities of the Society’s Continuing Education Committee.

The intent is to examine the effects of changing outside forces on product design, pricing and distribution systems. Specifically, the presentations will:

- (1) identify the general direction of individual life and annuity business;
- (2) paint a picture of what our business will look like by the end of the decade;
- (3) recognize and reflect the basic concepts of futurism, i.e., (a) understanding today’s reality, (b) studying the future effects of current decisions, and (c) identifying inter-relationships and impacts of outside influences.

Plans call for developing two or three scenarios for the decade of the 1980’s, these to be distributed in advance. The opening panel will discuss these scenarios. Then, a second panel will examine the impact of these changing outside forces on product design, pricing and distribution systems. A wrap-up session for early the second afternoon will draw together the ideas brought out at the concurrent sessions.

Concurrent Sessions and Workshops

Possible Topics for concurrent sessions are:

1. Comparisons of Today’s Marketing Distribution Systems Including Compensation.
2. Trends in Pricing Methodology.
3. Effect of Governmental Actions on

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THE ACTUARY REVEALED

by George R. Dinney

Ed. Note: This is part of the author’s recent address at a meeting of the Actuaries Club of Winnipeg. His remarks were directed specially to actuarial students who were invited guests.

Each of us has different credentials and different attributes. What can we say about the actuary in general?

The word “actuary” derives from the Latin word “actuarius”, which means a scribe or recording secretary. Few of us, today, would see ourselves in the mirror of that definition.

The Society of Actuaries avoids definition, choosing to make an oblique reference to the work of the actuary in the words of John Ruskin — “The work of science is to substitute facts for appearances and demonstrations for impressions.”

In effect this suggests that the actuary has something of a detective role. Whereas I would agree that the actuary can be regarded as a special kind of detective, I would challenge both the meaning and the meaningfulness of the Society’s motto on two grounds.

The first is that, whatever the work of science may be, the work of the actuary rests heavily upon judgment. As one grows longer in the tooth, we become more and more sure of our impressions and less and less sure of our facts. And so, I wonder whether the Society’s emphasis on facts and demonstrations does not misrepresent the actuary’s true vocation.

The second reason for my challenge, and I would suggest to you that this is a very serious challenge indeed, is that the Society’s motto is misleading! It is misleading because it is taken out

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Board of Governors

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certification of fire and casualty loss reserves by a "qualified loss reserve specialist."

The Board approved a resolution supporting the efforts of the American Academy Casualty Loss Reserves Task Force and urging members of the Society to assist the Academy in communicating the Academy's position on fire and casualty loss reserves certification to the state insurance departments.

The Board also approved sending a letter in the name of the Board of Governors of the Society to the chairman of the parent committee of the NAIC task force.

(9) NAIC Task Force on Valuation and Nonforfeiture Values.

In response to a request from the chairman of this task force the Board approved two appointments:

(1) a special committee to design and undertake a pilot study of mortality and morbidity for credit insurance, and

((2) a special committee to study the principles underlying the valuation of accident and health benefits.

Myles M. Gray
Secretary

Retirement to Chaos

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stituency, its own working conditions, rules and funding sources.

Always in New York City the scale is immense. The total cash flowing through the department amounted to \$4 billion a year. There were nearly one million people drawing welfare, 1,400,000 eligible for food stamps and Medicaid, 375 day care centers, 165 senior citizens' centers, and so on. Medicaid was the back-breaker; it produced 400,000 claims a week. The department contained 25,000 people; its budget totalled \$400 million, a cost that, related to the total task and its complexities, seemed reasonable to me. Other communities, though having the advantage of smaller size, nonetheless must have the same problems.



INTERNATIONAL CONGRESS OF ACTUARIES

The United States has a quota of 165 members of the International Congress of Actuaries to be held in Switzerland in 1980. Provisional registrations were received from 180 members of the U.S. Section of the International Actuarial Association. Notification has been sent to each of the 180 persons indicating whether he or she is included in the quota or is on the waiting list. Anyone who sent in a registration form and has not received a notification of status in 1978 or 1979 should write to the Secretary of the U.S. Section, John C. Wooddy, Senior Vice President, North American Reassurance Company, 245 Park Avenue, New York, New York 10017. □

The work is largely administrative, i.e., managing systems and money. There is little policy-making because laws govern what is to be done. There are, however, sticky decisions in awarding sub-contracts to voluntary agencies, there being 1,800 such contracts to be negotiated and monitored each year. To make this whole apparatus work, large and multiple systems and careful auditing are essential.

But there are so many impediments to devising and operating administrative systems in a politicized environment! The climate for management experts is not favorable and too few people are willing to join the staff. Employment is unstable and the heavy hand of political bureaucracy is enormously deterring. When, in addition, the overriding need must be to cut the budget, progress is nearly impossible.

Deficiencies and problems abounded, usually due to absence of systems and of expert management. This immense and complicated operation was being run by just a handful of people who could be called managers. And the pay scales were so poor as to discourage high competence. Among my 25,000 people I found only thirty earning as much as \$30,000 a year; and the largest salary was about \$45,000. What a contrast with an insurance company!

The management group was competent, dedicated, and diligent, but they were utterly too few. As a result, time went more to combatting emergencies and dealing with irate constituencies than to planning and improving procedures. I tried to hire additional experts but success was nearly nil.

Despite this, I was lucky to get considerable systems building done. Through an organization known as the Economic Development Council I borrowed (without cost to the City) about twenty experts from large local corporations. Organized in project teams, these achieved much in renovating and modernizing. Their benevolent help was a life-saver to me and a significant money-saver to the City. Expenses were cut by at least \$100 million a year—some by better procedures, but much by just reducing errors, duplications, laxity, and fraud.

And this job had problems and requirements you don't encounter in a large business, and for which the actuarial examinations do not prepare you. There is the amazing number of highly visible and demanding groups one must face. It was not unusual to find a demonstration at one's office door nor to confront an irate delegation in the conference room. One day my office was occupied by twenty shouting people; another day there were 1,000 Chinese massed in the street below; one evening my person was threatened by several telephone calls to my home.

Welfare — or lack of it — generates much heat. And the press loves it! After a while I measured my success by how little I appeared in the newspapers.

Frustrations, yes! — but I still believe that efficient methods and good managers can greatly improve governmental operations if given a fair chance and enough time. I hope more cities will turn to business for help. And if some of my readers turn their attention to local municipal operations I guarantee them novelty, fascination, education, and, looking back, some sense of accomplishment. It isn't a dull life! □

Death

Max S. Bell, FSA 1929