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E&E DEVELOPMENTS

by J. Alan Lauer

The Education and Examination Committee has been working on two important projects that are of interest to Society members and students. The first is a plan for joint administration of examinations with the Joint Board for the Enrollment of Actuaries, the American Society of Pension Actuaries (ASPA) and with the Casualty Actuarial Society (CAS). The second project involves a broader plan for an overall revision of the Society's Associateship and Fellowship examinations.

The first project got started after the Joint Board indicated, earlier this year, that it might be willing to participate in the joint administration of two examinations with the professional actuarial societies. In May, the Board of Governors passed a resolution authorizing the E&E Committee to jointly develop, with ASPA, CAS and the Joint Board, a workable plan for jointly administering the examinations for meeting the educational requirements for enrollment to perform actuarial services under ERISA. This plan for joint administration is subject to approval by the Executive Committee. The same Board resolution also authorized the E&E Committee to develop the necessary modifications of our own examinations, so that the Society of Actuaries could give credit for the jointly administered examinations as part of its syllabus. These syllabus modifications are subject to final approval by the Board of Governors.

The plan for joint administration is nearly completed, and is to be considered by the Educational Policy Committee at the end of August, and by the Executive Committee early in September. If the plan is approved, the first jointly administered examinations would be

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BOOK REVIEW

Robert W. Strain, ed., *Life Insurance Accounting*, pp. xii, 588. The Merritt Company, Santa Monica, California, 1977, \$21.50.

by John Cipoletti, CPA*

Life Insurance Accounting is the work of twenty three authors under the direction of the Insurance Accounting and Statistical Association (IASA). It was designed to be a reference source which does not require expertise in insurance, accounting, investments or any of the topics covered. The authors were selected from the business world and hence contribute a pragmatic touch to the subjects discussed. Most are insurance company executives or members of CPA firms.

The work is comprised of seven major sections which deal with the history of insurance accounting; assets; liabilities, capital and surplus; operations; generally accepted accounting principles (GAAP); planning; and reports and consolidations. Each chapter is written by a different author. A completed annual statement including instructions is also provided.

Life Insurance Accounting fulfills its desired goal in providing a basic insurance accounting text in easy to follow, non-technical terms. Those who have not been involved in insurance accounting will find the work to be educational and informative without being overwhelming in accounting theory. Readers who have been long away from this area will similarly benefit from it as a refresher. Those who are involved in accounting, however, will probably find the book too basic. Because of its intended role, some depth and technical

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THE PENSIONS SCENE IN CANADA

by D. Don Ezra

Laurence Coward says that every fifteen years Canada gets pension fever. The bout thirty years ago led to the creation of our flat-rate Old Age Security pensions for all over-65's, while fifteen years ago the temperature mounted as discussions took place that eventually led to the Canada and Quebec Pension Plans. Since then most provinces have adopted regulatory legislation for private sector pension plans, and funds have grown to almost \$30 billions. Evidence of the current fever is to be found in the number of studies of the system in progress, among them the Quebec "Cofrentes+" Commission and the Royal Commission on the Status of Pensions in Ontario. The Canadian Institute of Actuaries submitted formal briefs to both these Commissions.

The brief to the Ontario Royal Commission was divided into six sections:

(1) The real issue is the whole retirement system, not just pensions in isolation. A retirement system should permit a smooth transition (instead of the present abrupt change) from a working career to a retirement career in a manner economically neutral or beneficial to the country. For each person, this is an individual problem requiring individual planning, and no group programs, by governments and/or employers, will ever be a complete solution.

(2) The brief urges the Commission to encourage the development of public awareness of the cost aspects of financial planning for retirement, and provides two numerical examples. This theme, of decisions being made in the light of greater public understanding of the costs of alternative approaches, is one that continues throughout the brief. The Cana-

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dian Institute felt it should provide a unique actuarial perspective, rather than espousing any one of the large variety of views that its members, as concerned individuals, hold for themselves.

(3) The brief describes the present system of pension provision, and examines some of its criticisms. It explains why some of the criticisms are invalid or unfair. Nevertheless, the lack of complete coverage, and the fact that vesting and locking-in regulations could be made stricter, do distinguish two areas where improvement is possible.

(4) Solving the problems must take place within the framework of how the responsibility for the solutions is allocated between the parties concerned: society (through governments), employers and individuals. The brief's viewpoint on the roles of the parties is: governments to provide basic support; employers to provide reasonable total compensation for the labour provided by employees, the decision as to how much compensation is deferred being a negotiated one; and individuals to provide whatever else is necessary for self-reliance, the amounts inevitably varying from person to person.

(5) The brief provides an actuarial perspective on some of the factors constraining the potential solutions: the size of inter-generational transfer payments; demographic considerations, the difference between funding to provide greater benefit security (as with private sector plans) and funding as a pricing mechanism (for universal plans); the economic effects of funding; it recommends a study of the extent of the need to index pensions; and it advises against a pension guarantee corporation.

(6) Finally, there are some short-term proposals to stabilize the present environment while the planning for major revisions is proceeding.

Supplementing the brief was a report on existing government programs for the aged.

The Canadian Institute's brief to the Quebec "Cofirentes +" Commission contained specific suggestions on a number of issues:

(1) A plan should be adopted immediately to guide the contribution level

to QPP up to that originally proposed by the Quebec Government Study Group before QPP was established. Until the contribution level reaches this level of adequacy, there should be no benefit increases. There should also be a certain balance between the levels of social welfare, minimum wages and State-provided retirement incomes.

(2) The purpose of the actuarial valuations of QPP should be enlarged from mere projections to a comparison of contributions required under different funding methods.

(3) With regard to private sector pension legislation, vesting should take place much earlier, and should comprise a deferred pension bought by a specified minimum level of employer contributions.

(4) The retirement age under government-sponsored plans should not be lowered, for cost and demographic reasons. Plans for public servants should not permit retirement after a fixed period of service.

(5) All plans for public servants should be funded in advance like private sector plans, and only the provincial government should be allowed to continue its plan without paying contributions into a separate fund. For lower levels of government that cannot meet a plan's solvency requirements, no benefit improvements should be permitted.

(6) With universal pensions tied to the Consumer Price Index, pensioners probably only need further protection in respect of private sector plans when inflation exceeds a certain level. In any event, CPI is probably not the right index for pensioners' needs; and more fundamentally, the government's priority should be to control inflation, not compulsory indexing of pensions.

The "Cofirentes +" Commission has now produced its recommendations. The Ontario Royal Commission is expected to report in March 1979, having now completed its public hearings. □

SOCIAL SECURITY ADVISORY COUNCIL

The Advisory Council has appointed three economists and three actuaries as consultants to the Council. The major focus of their work will be a review of the procedures and assumptions used in OASDI cost estimates. The three actuaries are Claude Poulin, Walter Shur, and Charles L. Trowbridge. □

E&E Development

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given in the Fall of 1979. Work is still being done on the proposal to give credit for these two jointly administered examinations as part of the Society's regular examination syllabus. It has not yet been determined whether credit can be given for jointly-administered examinations written as early as the Fall of 1979.

In connection with the second project of overall examination revision, the E&E Committee has been considering plans to upgrade the mathematical content of the Associateship examinations for a number of years. Discussions have been held with representatives of CAS and it is hoped that four examinations, as opposed to the current three, can be jointly administered by the Society and CAS. More recently, the E&E Committee has made an extensive analysis of the overall educational needs of pension actuaries. From this, it is clear there are a number of constructive changes that can be made in improving the pension-related areas of our syllabus.

In light of the many recent and rapid changes within our profession, the E&E Committee has also begun making an overall review of our examination syllabus. The full time assistance provided by the Society's Director of Education, Warren R. Adams, has made it possible for substantial progress to be made in this area within a relatively short time. Still, much work remains to be done. Further input from the other actuarial bodies who jointly sponsor our current examinations is actively being sought at this time. In particular, careful consideration is being given to the nationally-related needs of actuaries in both Canada and the U.S.

It is not yet certain when the E&E Committee will be submitting a specific proposal for syllabus revision to the Board of Governors for their consideration. While the Committee is hopeful that the Associateship revisions can take effect for the 1980 examinations, it is probably more realistic to think in terms of 1981 or 1982 for making changes in the Fellowship examinations.

(Mr. Lauer is the General Chairman of the Society's Education and Examination Committee.) □