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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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NINETY YEARS AGO

GEORGE WASHINGTON seems to have influenced (in absentia) the precise date when The Actuarial Society of America came into being. The centennial of Washington's inauguration (April 30th, 1889) made New York City hotel space so hard to come by that April 25th was perforce chosen for interested actuaries to assemble there. Twenty-seven, out of thirty-four who had expressed interest in the project, came in response to an invitation letter from the prime mover, David Parks Fackler, a New York consulting actuary.

Discussion started on a deliberately tentative note because of a history, going back at least fifteen years, of aborted efforts at organizing. Those past failures appear to have been mainly due to concerns that actuaries brought too close together would start abusing one another. Mr. Sheppard Homans, who had just been unanimously elected Chairman of the meeting, called for opinions from all, in alphabetical order by surname, thus conferring the key opening spot on Mr. Jesse J. Barker of Philadelphia. Here is a slightly edited sampling of the round-robin remarks:

Mr. Barker: I am certainly in favor of this Association, and I think it will lead to good results. It would, perhaps, not be feasible to have it entirely professional. Let it take somewhat the nature of a social meeting.

William Hendry: I feel perfectly isolated (he came from Ontario). I would rather be a listener than a speaker, a follower instead of a leader.

William McCabe: I think the more closely we follow the organization either of the Actuaries of Scotland or of the Actuaries of Great Britain, the more successful our organization is likely to be.

Emory McClintock: While we may look forward to having an institute, which should hold strict examinations, I think to start with, it would be better to have only one class of members.

Samuel N. Stebbins: I do not think any of us have the slightest conception of what can be accomplished by this Association in the future.

Daniel H. Wells: There are men whom we do not want. There are a great many men whom we do want. We do not want any knaves or fools, and there are plenty of both in the world. I would make the membership somewhat broad, including any man of good common sense and fair education, any honest man who is engaged in actuarial work, or interested in such work.

Chairman Homans: There is no profession in this country where a room like this could hold all its members, and yet ours is recognized as a profession. In England they have gone so far as to organize under an Act of Parliament, by which no one can enter that profession unless he has passed an examination like the medical or legal profession. We can hardly hope to go that far.

E. J. M.

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of context. Paradoxically, our motto is an impressionistic, rather than a factual, representation of Ruskin's viewpoint.

To give clarity to this challenge: some years ago I was a member of a Committee on Public Pronouncements under the auspices of the Council of the Canadian Institute of Actuaries. The Committee's object was to set down guidelines for members of the Institute in making statements on public issues in respect of which we, as actuaries, are presumed to have special knowledge or expertise. The Committee decided that we could not determine the actuary's role in public issues without first defining what an actuary is.

Therefore, we examined the Society motto, which is an excerpt from three volumes of essays titled "The Stones of Venice" by John Ruskin. It took a considerable amount of actuarial detective work to unearth the source material. The Society archives in Chicago contained no references to the book, nor was there a copy to be found in the Chicago Public Library system. After the Executive Office in Chicago told us they could not be of any help, we checked and found there was a copy of "The Stones of Venice" in the Winnipeg Public Library.

How Ruskin Viewed Science

It is informative to review the entire essay, but particularly the specific paragraph from which our motto is taken, viz: "Science and art are commonly distinguished by the nature of their actions; the one as knowing, the other as changing, producing, or creating. But there is a still more important distinction in the nature of the things they deal with. Science deals exclusively with things as they are in themselves; and art exclusively with things as they affect the human sense and human soul. Her work is to portray the appearances of things, and to deepen the natural impressions which they produce upon living creatures. The work of science is to substitute facts for appearances, and demonstrations for impressions. Both, observe, are equally concerned with truth; the one with truth of aspect, the other with truth of essence. Art does not represent things falsely, but truly as they appear

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to mankind. Science studies the relations of things to each other: but art studies only their relations to man: and it requires of everything which is submitted to it imperatively this, and only this,—what that thing is to the human eyes and human heart, what it has to say to men, and what it can become to them: a field of question just as much vaster than that of science, as the soul is larger than the material creation."

A careful reading leads one to the startling conclusion that Ruskin was, in fact, comparing the work of science *unfavorably* with that of art! The entire essay is replete with such other discomfiting observations as:

"All the knowledge an artist needs will, in these days, come to him almost without his seeking; if he had far to look for it, he may be sure he does not want it. . . . knowledge is not only very often unnecessary, but it is often untrustworthy."

This suggests that we actuaries have been, figuratively, marching behind a false banner!

Indeed, the work of science is to substitute facts for impressions. Perhaps our forebears should have had this maxim in mind, and been more assiduous in their pursuit of facts rather than impressions, when they selected our motto from Ruskin's book.

An Actuary Is - - - -

Without any help from official sources, the Committee on Public Pronouncements still had to make up its mind on the definition of "actuary" and in its final report the Committee concluded that an actuary is a disciplined problem-solver. Stripped of all of our actuarial impedimenta, we are nothing more than disciplined problem-solvers, but I suggest to you that this is a far broader and more meaningful definition of the actuary than most people have chosen to use.

Just how important are discipline and problem-solving skills in an actuary's career?

All students, particularly all actuarial students, are inclined to protest against the heavy study requirements imposed by the syllabus. You hear the argument advanced frequently that one's education is not enhanced by the sheer memorization of vast amounts of technical data, and that this kind of study load does nothing to develop the judgmental or thinking qualiltics that should form the foundation of the educational process. However much I may have endorsed this argument when I was a student, I believe it to be fallacious. Of course, much of what we must learn is drudgery. But it is a delusion to believe that you will ever be free, as a student or later in your career, of the need to assimilate large amounts of information. The trick is to foster and to develop a thinking process that will enable you to process information in the most economical and efficient way. In effect, study and work are best handled when you can begin to treat them as a kind of contest or game. It is only when we develop a keen sense of game-playing and cultivate a sense of fun in playing the actuarial game that our work becomes totally satisfying. One could argue that the business superiority of the actuary in insurance matters is the result, in part, of his trial-by-fire in preparing for actuarial exams. The rigors of the actuarial exams develop the habit and the discipline that the actuary needs in fullest measure when he begins to practice his profession.

Equally important is the actuary's role as problem-solver. Regardless of the kind of work that an actuary chooses to do, it is his fate to be left with problems that his non-actuarial associates either avoid or find themselves unable to handle. And, more often than not, the actuary is confronted with a problem that virtually defies solution, because of the absence of those facts or information that would otherwise have permitted one of his colleagues to do the job.

This is not to say that, in his role of disciplined problem-solver, the actuary shall not rely heavily upon science where there are demonstrable facts at hand. But he relies to an even greater degree upon his judgment of impressions and appearances. Even though we still call our field "actuarial science", I would urge each of you students to think of the actuary's role, not in the textbook sense of a mathematician or scientist, but rather in terms of the broader vocation of the actuary as a creative businessman and professional.

Notwithstanding this disclaimer regarding the actuary as scientist, I am quick to say that I value my own credentials as a technician and as a scientist. Rather than disparage my technical skills, I would like to become a better technician. This leads me to say that our profession should enlarge its capabilities by extending the technical range of our professional skills. In my work, extending over many years and a variety of jobs, I have seen a great need to increase my competence in a number of areas which are not adequately treated by the actuarial syllabus. For example—

- Statistics, which is only a negligible part of an actuary's training and yet which is increasingly important in his work.
- Operations research and utility theory, because, they give us *new tools* for problem-solving.
- Logic and philosophy—because they give us *old tools* for problem-solving. I would argue very strongly that Boolean Algebra be taught at an early level in actuarial training.

With this kind of enlargement of our technical skills there would be a concomitant enlargement of our judgmental skills.

Let's Broaden Our Use to Society

It may well be said that we actuaries tend to restrict our field of activity too much. One might foresee the extension of an actuary's training to permit the actuary to become a general-purpose problem-solver throughout business and government. As you may know, in the United Kingdom, large numbers of actuaries are occupied in work which is far afield from the more conventional work of actuaries on this Continent. It is a matter of regret to me that, because there are so many opportunities for actuaries in conventional insurance work here in North America, it is not necessary for us to broaden our training. Otherwise, we would have undoubtedly seen a counterpart growth in North America such as has been experienced in the United Kingdom. In effect, North American actuaries are victimized by their own affluence.

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Actuarial Meetings

May 10, Baltimore Actuaries Club

May 15, Chicago Actuarial Club

May 16, Seattle Actuarial Club

May 17, Actuarial Club of Indianapolis

May 23, Kansas City Actuaries Club

June 14, Southeastern Actuaries Club

June 14, Baltimore Actuaries Club

June 21, Chicago Actuarial Club □

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In our lives and our careers, we are faced with many different assignments. Some of these assignments are "doing" jobs—others are "thinking" jobs. When we consider that insurance in all of its forms is an idea or an unfulfilled promise, how can we fail to conclude that ideas — and thinking — have to be the most important ingredients in our work?

If we believe that an actuary's stock-in-trade is ideas, then whatever the factual content of our work, its essential ingredient is our professional *opinion.* Although there is inevitably some personal cost in adhering to this dictum, nevertheless it is an offence to yourself, as well as to your profession, to withhold an opinion which you are professionally competent and responsible to deliver. So, the actuary's work is a perpetual dilemma. Throughout your career, you will have the serious job of communicating, fairly and honestly, your views on the confusing mixture of facts, demonstrations, appearances and impressions with which you are confronted.

Our profession is a worthy and honorable one and it is surely within our power to make it a warm and enriching one. I know that many of us have had outstanding experiences that might best be described as "golden moments" which were moments of rare humor or outstanding accomplishments, or seeming catastrophes that turned out only to be business pratfalls, all of which tended to make our work more human in its dimensions. I hope some of the actuaries present will share their "golden moments" with you during our discussion, and therefore reveal the work of the actuary in a clearer and more immediate way than these remarks have done. □

". . . in the 1980's

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Product Design and Pricing Future.

4. Life Expectancy of the Traditional Life Insurance Distribution Systems.
5. Product Design—The Future of Annuities and Permanent Life Insurance.
6. Risk Classification—Present and Future.
7. Nonforfeiture and Valuation Regulation—Concerns for the 1980's.
8. Product Innovation—Response to Consumer Needs in the 1980's.
9. Profit Squeeze and Distribution of Surplus—Mutual Companies.
10. Profit Squeeze and Distribution of Surplus—Stock Companies.
11. Successful Insurance Agencies of the Future.

In addition to follow-up workshops for selected concurrent sessions, other workshops being considered are:

1. Trends in Agent Training and Compensation Systems.
2. Competition in the 1980's with other Financial Institutions/Government/Employer.
3. Emerging Products—Group vs. Individual.
4. Emerging Pricing Problems.
5. Tax Planning for the 1980's.
6. Trends in Compensation to General Agents and Agency Managers.
7. Adjustability—Products and Operations.
8. Surplus Levels for the 1980's.
9. Ways to Reduce the Cost of Distributing Individual Life Insurance and Annuities.
10. Future of Equity Based Products.
11. Reinsurance for the 1980's.

If you would like to prepare a paper for this meeting, the following check list is suggested:

□ 1. Follow the procedure for submitting papers in the Year Book.

□ 2. Send an outline of your proposed paper to the Executive Director by June 1, 1979.

□ 3. Submit your completed paper no later than July 15, 1979 to permit adequate time for review, editing, printing and distribution prior to the meeting.

Your comments on the content and format of this proposed program are requested, as are your suggestions for panelists and other participants. Send them to:

James L. Lewis, Jr., Mutual Security Life Insurance Company, 3000 Coliseum Boulevard East, Fort Wayne, Ind. 46805.

LETTERS: Proposed Merger

Sir:

The gist of the Reorganization Committee's rationale is that the members of the Fraternal Actuarial Association are generally quite well qualified and besides, only a relative handful are not already FSA's or ASA's. Therefore, since the FAA has a limited life expectancy, its merger with the SOA should be approved by our membership.

There is merit in this merger recommendation, yet the argument raised in the letter excerpt No. 8 should not be taken lightly. A considerable number of ASA's are at least as well-qualified as the FFAA's now being proposed for FSA* status, so that the recommended merger creates sizable inequities.

I would like to suggest for consideration a different change in the SOA's Constitution which, I believe, eliminates the inequities for this FAA merger and other possible future mergers. This proposed constitutional amendment would grant FSA* status after completion of at least 15 continuous years as an ASA, while in a responsible actuarial position. It would also provide for the recognition of a class of membership in another professional actuarial organization as being equivalent to ASA membership. A task force would be appointed to investigate any applying professional organization and the recommendations of this task force would then be submitted to the SOA membership for approval.

This approach, if adopted, would allow most, if not all, FFAA's to become FSA*'s since those in question have at least 12 years of equivalent service. Similar equivalency rules could be developed for the status of ASA*. Of course, any FSA* or ASA* has the opportunity of removing the asterisk by the successful completion of the appropriate examinations.

Harry D. Morgan

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