



SOCIETY OF ACTUARIES

Article from:

The Actuary

October 1980 – Volume 14, No. 8

The Actuary

Editor E. J. MOORHEAD Correspondence should be addressed:
 Associate Editors . . . MICHAEL B MCGUINNESS The Actuary
 FREDERIC SELTZER Mail Drop 20-7, 1740 Broadway
 New York, N. Y. 10019
 Competition Editor . . . CHARLES G. GROESCHELL Tel: (212) 586-4000
 Editor Emeritus ANDREW C. WEBSTER

Published monthly (except July and August) by the SOCIETY OF ACTUARIES.
 208 S. LaSalle St., Chicago, Illinois, 60604, Julius Vogel, President, Myles M. Gray,
 Secretary, L. Blake Fewster, Treasurer, Robert E. Hunstad, Director of Publications.

The Society is not responsible for statements made or opinions expressed herein.
 All contributions are subject to editing.

EDITORIAL

DEALING WITH OUR PENSION DILEMMAS

A Guest Editorial by George L. Hogeman

SEVERAL requirements are common to all professionals, whether doctors, lawyers, engineers, EDP experts—or actuaries facing today's pension problems.

1. He must be expert in his craft, and thoroughly aware of the interactions between his own specialized view of the world and other valid perspectives.
2. He must be correct in those parts of his craft his client understands, and specially so in those his client may not understand.
3. He must not let the impact of his recommendations upon other dimensions of his client's affairs prevent him from making his best recommendations.
4. He must offer several reasonable alternatives, identifying his recommendation among them; he may not limit himself to his school solution.
5. He must accept overruling by a client who has weighed his view against those of competent advisors in other fields, not treating it as an affront to his competence.
6. He must speak clearly, not hiding behind specialized jargon.

Measured by this yardstick, how well has the actuarial profession done as the pension dilemma has been growing, and what should we be doing now?

First, I believe nearly every actuary has been expert in at least parts of his craft, but not enough of us have recognized the validity of other views of the world—the accounting view, the public policy view, the monetary soundness view, the shareholders' view.

Second, while rarely making mistakes in arithmetic or in actuarial logic, actuaries have occasionally used assumptions not as sound as they should have been. One glaring case is the omission of any assumption about inflation after retirement.

Third, when appropriate assumptions produce a pension cost likely to shock the client, the "solution" has sometimes been to drive one of those assumptions beyond a legitimate margin of doubt so as to produce a palatable cost. This recognition of the client's problem is commendable; this means of escape is not.

Fourth, there is room for sets of assumptions, all reasonable, and different funding methods, each sound. But clients have not always been given the benefit of these.

Fifth, an actuary overruled in his recommendation has been known to take umbrage, even to the point of withdrawing from the assignment.

Sixth, we have customarily made our task difficult by bombarding clients with actuarial jargon suitable only for use in our professional forums.

In summary, I believe the actuarial profession bears considerable though not full responsibility for today's pension dilemma. We aren't to blame for inflation, nor for population shifts. But we are responsible when we have acquiesced in unsound calculations, projections and funding schedules. Because of the magnitude of the current difficulty and the breadth and depth of our professional skills, we now have an extraordinary and realizable opportunity to perform a major public service by quantifying, accurately and with clarity, the pension magnitudes that confront us all.

LETTERS

Educating Actuaries

Sir: Claude Y. Paquin's castigation of our educational program (June issue) is long overdue. His remark about its correspondence nature speaks to my frustration in preparing for Part 5B, and having to rely on text material so uneven in quality—ranging from very poor to excellent.

For example, the risk theory study note is one of the worst pieces of tutorial literature I've ever had the displeasure to use. Why has it survived through several years? Yet the text on mortality table construction is excellent in readability and in clarity.

Unlike Mr. Paquin, I consider the major problem not welfarism but the source of the text material. I observe no positive correlation between the price and quality of our text books.

Producing high-quality texts calls for close collaboration between practicing and academic actuaries. The former has the experience in grappling with the daily problems of his or her specialty; the latter has the skills to present the information effectively. The result of combining their talents is a text that is current and also well written.

Failure to improve our educational program can only lead to decline in respect for the profession by both its students and the public it serves.

Laurence D. Cohen

Ed. Note: Director of Education Linden Cole comments: The Part 5 Committee hopes to have the risk theory study note replaced in time for the May 1981 examination. We hope students won't skip Part 5 in November just because of that.

* * * *

Sir: I must agree with Mr. Paquin's major point: the quality of our resource material is a significant, immediate problem for the Society and for our whole profession. But my view about the question whether each student should pay for his or her own education differs from his.

Students notably lack resources to pay for being educated. Without outside financing the answer in such cases must

(Continued on page 3)