



SOCIETY OF ACTUARIES

Article from:

In The Public Interest

January 2013 – Issue 7

OUR ACTUARIAL MANDATE FOR SERVICE TO THE PUBLIC

By Robert D. Shapiro



Robert D. Shapiro, FSA, MAAA, is president of The Shapiro Network, Inc., Delafield, Wis. He can be contacted at shapironetwork@gmail.com.

The beginning of an article that appeared in the first issue of our *Social Insurance and Public Finance* newsletter (January 2010), began with a quote from Jim Hickman, FSA, MAAA, ACAS, 2006. Jim was and is a revered member of our profession and his words resonate strongly whenever the topic of “public service” comes up. He said:

“The words ‘profession,’ ‘professional’ and ‘professionalism’ frequently appear in statements, programs and in the organization chart of the American Academy of Actuaries and related actuarial organizations. They are important words and deserve to be constantly on our minds and in our conscious. The concept of a professional carries with it the idea of service to the public. Today a unique opportunity, one could also say a professional obligation, for public service presented to actuaries. In the United States, the national social insurance systems face serious problems. Any list of domestic issues has Medicare and Social Security in prominent places.”

Most of us would nod our heads in agreement as we read Jim’s comments. However, the answers to two core questions, “What does public service mean?” and “Do U.S. actuaries mean it?” that Jay Jaffe raised in his article that appeared in our last publication, are not clear. We need to clarify what “acting in the public interest” really means, and tighten the framework for the profession and individual actuaries within it for living this mandate in everything they (we) do.

CONCERNS WITH OUR CURRENT REALITY

Obviously actuarial science is an important cornerstone of our profession and of being an actuarial professional. However, it is not enough merely to pass exams, keep up-to-date and do “good actuarial work.” We also have

to engrain the responsibility for always acting in the public interest in everything the actuary does. Both science and public interest must be reflected in all of the actuary’s activities.

Like any strong profession, the actuarial profession has a set of practice standards and a discipline process. However, although “professionalism” and “public interest” are mentioned in our Code of Professional Conduct, standards and continuing education process, what this all means is not spotlighted in the documents. Although we think we know what unreasonable assumptions and methods are versus reasonable ones, are we willing to label them as such when they occur?

AN URGENT NEED

In many cases, for a long time some of our most prominent financial and personal security systems have used methods and assumptions that have created generational inequities. They have accomplished this by some combination of front loading benefits, deferring contributions, and/or encouraging excessive usage of benefits. Examples include pension benefits calculated primarily on earnings in later years with investment earning assumptions much higher than warranted, health care benefits that encourage people to spend someone else’s dollar through little effective cost sharing, and Social Security benefits greater than the floor level they were intended to achieve. These methods and assumptions have created overuse of resources from current and past generations and put future generations in a huge hole. Was this reasonable? To argue this is actuarially sound is possible in some cases but it is not consistent with the intent of such programs, or the promises made. Actuaries, in general, did not make the decisions to follow such methods of assumptions, but did actuaries warn of the consequences or inequities of such decisions? Sometimes yes, but sometimes no. And, if we did, why were our voices ignored? Did we continue to shine a light on the issues?

Moreover, how does one argue that using such methods or making such assumptions is

consistent with the public interest? Many of us believe the process followed and implemented has put the country and the actuarial profession on a slippery slope and that it is our responsibility to exit from this slope before we go off the cliff.

Therefore, our profession needs to ring the alarm bells loud and clear. We must demonstrate these generational inequities and demand that our systems return to the intent for which they were established. Otherwise, the actual results will be very different from the intent, often hurting the very people we are supposed to protect.

Is this the legacy these systems wish to leave behind? Is this what actuaries envisioned when they worked on the creation, modification or simply commented on the functioning of these systems? We don't think so, but the public may perceive that and care little who did what, if they collapse and fail to deliver on their promises.

WHAT CAN WE DO?

The Social Insurance and Public Finance (SIPF) Section council published the special issue of its *In The Public Interest* newsletter because it sees this issue of "acting in the public interest" as critical to addressing many of our SIPF and broader actuarial profession challenges. It is hoped that all actuaries (both SIPF and other qualified actuaries in the United States) will see the importance of addressing these challenges holistically ... consistently across the entire profession and its professional bodies. Our true professional responsibility will only be realized if we holistically address how we operate and deliver actuarial reports. We need to leave the slippery slope of today and get back to systems that can be generationally sustainable and maintainable, if we are to truly fulfill our mission of serving in the public interest!

We actuaries serve many publics ... our clients, our profession, our companies and our other stakeholders, in addition to the public, but



everything we do should be done in a way that "meets the public interest." The core question is, "How does the actuarial profession engrain the responsibility for public interest in everything the actuary does?"

We hope you will provide us with input. If we fail to address this challenge immediately, we risk both failing "the public" (our country and the citizens in our country) and our profession. 

... our profession needs to ring the alarm bells loud and clear.