



SOCIETY OF ACTUARIES

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ACTING IN THE PUBLIC INTEREST

By Gordon Letter

A Report from Gordon Letter on Session 19 Panel Discussion at the SOA Annual Meeting, October 2011

Sponsoring Section: Social Insurance & Public Finance

Primary Competency: Professional Values

Moderator: Gordon Letter

Presenters: Joshua Rauh

James E. Spiotto

Jay Jaffe

This session explored the age-old tension that all professions face: What does it mean to act in the public's best interest? That is, when actuaries follow the applicable laws, rules and/or regulations as well as comply with actuarial standards, is this sufficient to be considered "acting in the public interest"? This is a question of great importance that applies to all actuaries regardless of their area of practice.

The moderator, Gordon Letter, started off in setting the stage by trying to bridge the gap between this lofty goal (of acting in the public's best interest) and what one does on their day-to-day job function for their client. He showed how one way to bridge this gap is by understanding the principal-agent tension that exists. Agency theory describes the tension that can exist when agent interests aren't aligned with those of the principal. A principal in this context generally refers to shareholders or those with a financial interest, which can include taxpayers in the case of public entities. This contrasts with our professional code of conduct that defines principal narrowly as "a client or employer of the actuary." This inherent tension of the role of the actuary and the principal was the key focus of the session.

First speaker: Joshua Rauh, associate professor of Finance at the Kellogg School of Management at Northwestern University. Rauh spoke first on the challenges facing public plan actuaries. He called on public plan

actuaries to provide the necessary information in order that the public and government can make sound decisions. He also spoke on the conflicts of interest that occur within the profession.

Second speaker: James E. Spiotto, partner of the law firm of Chapman and Cutler LLP. Spiotto spoke on the topic of unfunded pension liabilities and other post-employment benefits (OPEB), municipal defaults, bankruptcy and disclosure issues. He has recommended forming a Public Pension Authority to provide guidance and oversight so the public has transparent information on the status and viability of the above-named programs. He too called on actuaries to take a bigger role in these matters.

Third speaker: Jay M. Jaffe, president of Actuarial Enterprises. Jaffe spoke on the topic of "Death by Legal Rejection." In brief, Jaffe challenged actuaries to do more than just follow published actuarial guidelines and to use their expertise to contribute to solutions. The alternative to becoming professionally irrelevant and avoiding "death by legal rejection" is to adopt a standard of practice that requires one to act in the public interest.

A number of questions were asked (by the audience and the moderator), including:

- Is simply serving an employer or a client all that's required of an actuary, or do we have additional obligations to those parties who have an interest, financial or otherwise, in the actuary's work (i.e., end-principals/users)?
- How have other professions (e.g., medicine and education) and other nations dealt with this issue?
- When actuaries follow the applicable laws, rules and/or regulations as well as comply with actuarial standards, is this sufficient

to be considered “acting in the public interest”?

- As service providers, are actuaries responsible to both those agents who hire us and to the principals whom our clients are supposed to be serving? Or should we be indifferent as to how our work will ultimately be used?
- Should there be standards or case studies to guide actuaries?
- How has the actuarial profession performed in areas where the end-principals/users (e.g., taxpayers) are unaware and the implications are more significant (e.g., public pensions, social security, health care, etc.)?

The session was very well received; a number of audience members mentioned that this was one of the best sessions they had ever attended at an SOA meeting. 🧑🏻‍🤝‍🧑🏻

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