



SOCIETY OF ACTUARIES

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# The Actuary

The Newsletter of the Society of Actuaries

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## ACTUARIES IN THE U.S. GENERAL ACCOUNTING OFFICE

by Franklin B. Dana

In 1969, for the first time, the U.S. General Accounting Office (GAO) hired an actuary. This article attempts to answer the often-asked question, "What do actuaries do at the General Accounting Office?"

### *GAO's Purpose and Responsibilities*

Established by the Budget and Accounting Act of 1921 as an independent non-political arm of Congress, GAO's purposes and responsibilities are:

- To assist the Congress, its committees and its members, as much as it can, to carry out their legislative and oversight responsibilities, consistent with its role as an independent agency.
- To audit and evaluate programs, activities and financial operations of Federal departments and agencies and to make recommendations toward more efficient and effective operations.
- To carry out financial control and other functions with respect to Federal Government programs and operations, including accounting, legal and claims settlement work.

GAO is not an agency of the Executive Branch, although its employees are generally subject to the same rules and regulations as other U.S. civilian employees. It is responsible directly to Congress, and is often referred to as "the principal investigative agency of Congress" or "the watchdog of Congress." Also, unlike executive agencies, GAO's scope is not limited to a single specialty or activity, but covers anything connected with the legislative and oversight responsibilities of Congress. While much of the work results from specific requests by members of Congress, GAO can and does initiate work. Under its broad man-

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## Inviting Your Thoughts On Professional Standards

We have a new Task Force on Guides to Professional Conduct responsible for making recommendations on such questions as:

What, if any, written standards of ethical conduct does the Society need?

How detailed ought they to be?

How should they relate to those of the other U.S. and Canadian actuarial bodies?

What companion improvements in our Guides might now be made?

Whatever guidelines the Society adopts are sure to affect significantly the Society's nature and its relations with those other bodies. Accordingly, the Task Force invites and encourages you to send comments and suggestions on relevant issues to us through our Chairman at his Year Book address.

We plan to report to the Board of Governors in the summer or early fall.

Daphne D. Bartlett, Dwight K. Bartlett, III, Kenneth T. Clark, Richard Humphrys, William A. Spare, Charles B. H. Watson, Alan Lazarescu (Society Legal Counsel), and Julius Vogel, Chairman.

## FUNDING AN FSA PARTY

by Pamela S. Woodley

Results are out, and I am an FSA. Readers of this newsletter will appreciate my compulsion to gather co-workers and friends, and to see liquor and root beer flow freely, and several trays of cold cuts be demolished. The FSA party has become as entrenched an actuarial tradition as overtime in January.

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## CANADA SEEN FROM NORWICH

Having read in FIASCO that the inaugural meeting of the Norwich Actuarial Society (for "Society" read "Club" everywhere in North America except Michigan) heard a paper entitled, "Looking at Canada in 1980", we asked its author, A. Peter Hardy, F.I.A., for a copy. Mr. Hardy, who had called upon his own experiences in Canada in 1976-79 to write it, kindly permits us to print some excerpts here. Readers wishing to see the whole text may obtain it from this newsletter until our supply (2 copies) is exhausted.

The author's comparisons between Canadian and British life insurance practices appear under five interrelated topical headings: Taxation, Guaranteed CSV's, Life Assurance Commission and the Field Force, Group Life Insurance, Group Pensions. Only the first three of these are reviewed here. Says he, "It is interesting to observe the effect which certain of these items have upon the reputation of the life insurance industry, i.e., public confidence in the ability of the industry to act in a responsible, accountable and self-regulatory manner and to provide good value for money. Time and again industry reputation emerges as one of the principal underlying differences between operations in Canada and the U.K." Mr. Hardy's belief is that studying today's Canadian environment helps in predicting how the U.K. market may develop during this decade unless influenced in other directions by those who don't like what they see.

One of the subjects in the Taxation section is the difference attributable to the absence in Canada, except for approved personal pension arrangements, of the tax relief to the buyers of endowment policies that savers in Great Britain have enjoyed for many years. This important sales advantage in the U.K. has been threatened with removal, but

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## Actuaries in GAO

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date it renders legal opinions, prescribes accounting principles and standards, reviews Federal operations on its own initiative, and prepares analyses for Congress.

### Organization of GAO

As Government becomes more complex and new legislation is passed, GAO's work becomes more varied and its organization more complex. It is now headed by Elmer Staats, with the title "Comptroller General of the United States." Mr. Staats' term of office will expire in March 1981. Under the law the term is 15 years and no holder can succeed himself. His successor will be chosen by President Reagan from a list of candidates submitted by a bipartisan group of Congressmen.

Reporting directly to Mr. Staats are the General Counsel, three Assistant Comptrollers General and ten division directors. One Assistant Comptroller General heads up policy and program planning, another administration, and the third, program evaluation. Each of the ten division directors reporting directly to Mr. Staats is responsible for a specified area of activity. These ten functional areas are intended to cover everything in which Congress has an interest.

### What Actuaries Do

Actuaries act as consultants to all the operating divisions on problems involving pensions or insurance; make mathematical calculations involving interest or life contingencies; answer technical questions; and assist the operating divisions in preparing reports to Congress, testimony for hearings, and comments on proposed legislation. The principal product of GAO is a report, typically blue-covered, in which the results of an investigation are presented.

GAO actuaries do not initiate work and do not write reports. They can, and do, suggest jobs that operating divisions can undertake.

Recently we have been assigned the Comptroller General's actuarial responsibilities under the reporting requirements of P.L. 95-595 (enacted November 1978). Under this public law the Office of Management and Budget, in consultation with the Comptroller General, is to prescribe format and content of the annual

reports required of several Federal Government retirement plans; Civil Service, Foreign Service, Military, Federal Reserve, and Tennessee Valley Authority. (Ed. Note: One of these, for the Military, was described in an article by Toni S. Husted, Oct. 1980 issue).

The Comptroller General alone has similar responsibility for 33 other Federal plans, principally those covering certain Federal judges and employees of farm loan banks. He also reviews these reports and, on request or when deemed necessary, recommends additional legislation. Implementation of P.L. 95-595 has given GAO actuaries operating responsibility for the first time.

Here are a few examples of jobs that GAO actuaries have worked on:

(1) Total compensation comparability between Federal and private sector workers — working closely with GAO auditors on a report on this complicated, sensitive subject.

(2) Loss ratios on Medicare Supplement Insurance, assisting auditors in preparing testimony for a hearing by the House Committee on Aging. This study asserted that, based on data publicly available, this supplementary insurance has generally not been cost-effective.

(3) Standards 412 and 413 of the Cost Accounting Standards Board prescribe rules that contractors must follow in accounting for pension costs for workers on Government contracts. GAO actuaries made a major contribution to preparation of these Standards, and to a subsequent report which showed that more control over such accounting could save the Department of Defense millions of dollars.

(4) Finances of 15 selected Health Maintenance Organizations which had qualified for Federal grants, and their progress toward self-sufficiency, were assessed and found to be, in general, somewhat less sure than the HMO's had been led to believe.

(5) GAO actuaries helped to prepare a report on the funding-level in a group of selected state and local pension plans. As readers of this article would expect, funding fell far short of what ERISA requires of a private plan. The outlook is for trouble ahead.

The Multi-employer Pension Plan Amendments Act of 1980 has provided us with an important new assignment.

## PHILADELPHIA EXAM SEMINARS

"Casualty Actuaries of the Mid-Atlantic Region" and Temple University will offer 3-day review seminars for Part 2 (April 9-11) and Part 4, (April 30-May 2), also a 6-day seminar for Casualty Part 6 starting April 9. Particulars from Dr. Gerald R. Hartman, Dept. of Ins. & Risk, Temple University, Philadelphia, PA 19122.

Its Section 413 directs the Comptroller General to study the effects of these amendments. Actuaries will be particularly involved with studying the financial conditions of multi-employer plans and employers, and the sufficiency of the fund established to guarantee benefits. A report to Congress of the results is due by June 30, 1985.

### Status of Actuaries in GAO

At present we have a staff of six actuaries: two FSA's, three Associates, and one who lacks only Part 5-B to become an Associate. Formerly part of the GAO Financial and General Management Studies Division, the actuarial staff was transferred a few months ago to a division called Institute for Program Evaluation.

### The Matter of a Government Actuary

In 1957, when hiring an actuary was first proposed, legislation for a Government Actuary (with the title Assistant Comptroller General) was drafted. All actuarial work, for the executive branch as well as for GAO, was to be the Government Actuary's responsibility. Presumably the non-political nature of GAO and the job's magnitude, calling for a respected, highly competent incumbent, would assure professionally excellent work. GAO didn't like the idea, but did not discard it altogether; in 1969 they hired an actuary at the much less influential level of Assistant Director in what was then the Office of Policy. A few years ago this title was changed to Principal Actuary.

The 1957 proposal for a Government Actuary had the support of prominent members of the Society of Actuaries. Should it again be considered? GAO may not be the place for a Government Actuary—but, if not, where should it be? Are the difficulties in implementing such a proposal insurmountable? Perhaps some readers wish to comment. □