



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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Canada Seen From Norwich

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now if the recommendation of the Wilson Report (see *The Actuary*, Nov. 1980) is accepted, it will survive and be extended to other forms of medium-term and long-term saving. The author's comment is that in Canada savings contracts—because of higher unit costs as well as lack of this tax advantage—“represent poor value for money . . . Many of the endowment plans still in existence continue to contribute to the poor industry image because of (their) low return and because of the dubious way in which they are sold.” A few comparative figures are given.

Of particular interest over here is Mr. Hardy's analysis of *Guaranteed Cash Surrender Values*, a feature that he attributes to public demand because of shady industry practices many years ago; this reference perhaps is primarily to United States events. After describing policy cost comparison matters the author turns to what this newsletter has called “the Angle/Bladen theme” (Jan. 1981 issue): “In Canada the investment policy pursued by most companies is reasonably consistent with the provision of such guarantees. Equity and property investments are each usually well below 10% of company's investment portfolios . . . (The remainder) is usually divided fairly equally between primarily government debt of maximum initial duration 20 years, and commercial and residential mortgages, the majority of which have a maximum initial term of 5 years. The weighted average term of most companies' *outstanding* fixed interest portfolios is therefore usually between five and seven years—much shorter than in the U.K. Fluctuations in the market values of such short-dated investments are modest and can generally be handled within a company's free reserves.

“The existence of guaranteed cash surrender values in Canada has led the Canadian ordinary-business actuary to develop the science of double decrement tables to a much greater extent than his U.K. counterpart.” There follows some analysis of the need in Canada to take withdrawal rates into account, and an asset share example.

Quoting from the Field Force section: “The life assurance agent in the U.K. has traditionally (commanded) a degree

of public regard—a dependable person to whom a family can turn for financial advice. . . . In Canada, many people unfortunately regard insurance agents in the same category as encyclopaedia and used-car salesmen. In the majority of cases this poor reputation is completely undeserved, but the emphasis which most agents place on sales rather than service has created (this) climate. . . . Looking at the U.K. marketing scene I can see very clear signs that the situation is changing towards the North American pattern.”

FIASCO reports a lively discussion of this paper.

E.J.M.

FSA Party

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Even as a young, naive Part 2 student who had never heard of Dan McGill, I realized that financing a proper celebration would take planning. My then unenlightened mind was beginning to perceive the advantages of funding over the current disbursement method, advantages I would later have the pleasure of committing to memory. With some help, I devised a method for spreading the cost of my FSA party as a level percentage of salary over my exam-taking years.

The principles are analogous to pension funding, although I'm staying clear of the terminology controversy by not using any terms. (Please note that this is *not* because I never understood pension terminology). Annual contributions are determined by the formula:

$$\frac{\text{PV of Future Consumption} - \text{Existing Fund}}{\text{PV of Future Salary} + \text{X Current Salary}}$$

The denominator is straightforward, the only tricky assumption being one's exam-passing success. The first step in determining the numerator is to project the party population. The existing actuarial department must be depleted by retirements and quits, and augmented by hires. For conservatism, all are assumed to be accompanied by an opposite-sexed friend. The gang is then classified into males/females and liquor drinkers/soft drinkers (wets/drys).

THIS MONTH'S QUERY FOR ACTUARIES

Actuaries, we know not how many, have home computers.

Query: What uses, other than domestic and entertainment, are actuaries making of home computers? Should an actuary not versed in computer lore seriously consider acquiring one? If so, what kind is recommended?

Please send answers to this newsletter at its masthead address for compilation into an article giving credit to each contributor.

Of course, it would be grossly over-conservative to assume that the entire group is present consuming food and drink over the entire party life. I suggest constructing two tables of L_x 's (x = party hour), one for wets and one for drys. Decrements are those leaving and passing out. In my professional judgment, drys are more prone to leaving early, but almost immune to passing out. For simplicity, passed-out wets are assumed not to revive, or else to feel sufficiently awful when they do that their subsequent consumption is minimal.

Useful statistics on party consumption per hour are published annually by the NAPG, the only question being whether actuaries can pass for typical party-goers. Food intake is sex-distinct, and beverage intake is wet/dry-distinct. Applying consumption per hour factors to the L_x 's results in total consumption in current dollars; after accounting for inflation, this is discounted to the present in the usual way.

This description is intended to inspire other students who plan on having an FSA party some day. It is a satisfying actuarial exercise. A high degree of accuracy is possible since one is personally acquainted with the future attendees and their consumption habits. Also, party funding is yet relatively unregulated, even if there are more than 100 party participants.

Now, if you'll excuse me, I've got to order some cold-cut trays.