



SOCIETY OF ACTUARIES

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AN EXCHANGE PROGRAM

Editor's note: Paul Patterson, FSA, is employed by one of the large consulting firms in the United States. Peter Morgan, FIA, works for such a firm in England. In a program developed by their employers, these men were offered the opportunity to switch positions for a period of approximately 12 months. Paul now works in London and Peter is in New York. In companion articles starting on this page they report on their experiences and the impressions they have formed thus far.

A YANK IN THE U.K.

By Paul Patterson

After spending the first 14 years of my professional life as a pension actuary with Milliman & Robertson in Seattle, I accepted a one-year assignment to spend 1985 with Bacon & Woodrow, an affiliated firm of consulting actuaries in the U.K. With only a little arm twisting from Stuart Robertson, I agreed to share a few of my thoughts and observations about actuaries in the U.K.

Most fully qualified actuaries in England are Fellows in the Institute of Actuaries; the remainder are Fellows in the equivalent Scottish organization, the Faculty of Actuaries. The Institute of Actuaries, founded in 1848, is much like the Society of Actuaries in the U.S. FIA's (who have suffered all 10 exams, attained age 23 and completed at least four years' experience including a minimum of two years after completing the exams) are the voting members of the Institute. Students working toward their Fellowship can join the Student Society, an affiliated group.

The Institute has been housed in Staple Inn in the heart of London since 1887. Meetings are held in Staple Inn Hall, a former courtroom that was destroyed in World War II but has since been rebuilt. Members meet monthly to discuss professional papers. As all comments go into the record they are usually rather restrained and polite. The Student Society holds its meetings in the same hall. Discussions at these meetings are less formal, more open and a bit more exciting.

Customarily, members of the Institute break into dinner clubs after the meetings and disperse to various restaurants throughout the city for a bit of camaraderie. Some dinner clubs sponsor speakers each month, while other less formal ones just have a rousing good time. After Student Society

meetings, everyone races to the pub across the street for a pint or two of beer and a bite to eat at the buffet supper.

The Association of Consulting Actuaries is an organization which restricts membership to actuaries who are fully engaged in the consulting practice. The meetings are relatively small and free discussion among those attending usually complements the remarks of the lead-off speaker. Following the meetings, all join for cocktails, dinner and conversation. After dessert, all rise to toast the Queen and only then are people allowed to smoke. It's common to be "up standing" for three or four more toasts before the Port runs dry.

Like their cousins in America, many U.K. actuaries are employed by insurance companies while others work as consultants. The following chart shows the relative numbers.

Number of FIA's (working in England)	
Working for Insurance Companies	901
Working as Consultants	356
Other	200
	<u>1457</u>

The work of the U.K. actuary is similar in most respects to his or her U.S. counterpart, and it is done to a very professional standard reflecting the public trust that is vested in actuaries. Insurance company actuaries certify to the solvency (or insolvency) of life insurance companies, while pension actuaries profess their opinions on the financial viability of pension schemes.

The pension industry in the U.K. resembles that in the U.S. in many respects. Benefit provisions, funding methods and investment portfolios are similar, and the volumes of legislation constantly affecting pensions are challenges we share. (It seems impossible to escape!) Pension accounting proposals are also under consideration in

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A BRITON AND THE BIG APPLE

By Peter Morgan

This is a companion to the article coerced out of Paul Patterson by our temporary Editor! I have been a consulting actuary for 11 years with Bacon & Woodrow, the U.K. firm of consulting actuaries, working in the employee benefits field. I am currently spending some time at the New York office of Milliman & Robertson, Inc.

Differences of detail in employee benefits legislation and practice between the U.S. and the U.K. are of course potentially overwhelming to a newcomer, but, as Michael O'Brien mentioned in a different context in the October issue, one is struck immediately by the similarities on the broader issues. The following may have a familiar ring.

In the U.K., as in the U.S., the future of Social Security is under review. In June this year, the U.K. Government announced its intention to scrap SERPS (which stands for the State Earnings Related Pension Scheme, and not Supplemental Executive Retirement Plans!) However, as a result of almost unanimous criticism of the proposals from employers, trade unions, pension plan associations, and interested professional bodies, the Government appears to have conceded the need for more thought in this area.

A second example is taxation. In 1984 there was considerable speculation (to some extent fueled by the Chancellor of the Exchequer testing the water) about the future of tax reliefs currently available for employee benefits. Nothing appeared to be sacrosanct — tax free lump sums on retirement, relief for pension plans from tax on investment income and capital gains, and the deductibility of employer and employee contributions to pension plans, were all under threat. An arbitrary windfall tax on pension funds was also muted. In fact, no changes were introduced, although whether this was due to the intense lobbying of the interested parties and their advisers was not clear. It is worth noting, however, that in the U.K., special tax reliefs do not apply to a number of the benefits provided under U.S. cafeteria plans.

A third similarity is the crossroads reached in both countries as to whether

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both countries at the same time. Analogously, the life insurance business has evolved in the U.K. as it has in the U.S. as a substantial portion of business now being written has face amounts, cash values and dividends which are tied to the performance of the underlying assets.

I must confess to being somewhat relieved when informed of my assignment to the U.K. Never having been able to construct a brief, informative and/or amusing description of my work, I was looking forward to the respect of the British people who, I understood, revered actuaries. After all, isn't Britain the birthplace of the actuarial profession? It didn't take long to discover another similarity. Apparently a huge majority of the English-speaking people of the world still don't know what an actuary is.

Owing in part to the differences in the political, social and economic environment, the work of U.K. actuaries differs in some respects from that in the U.S. The discretion of the actuary seems to carry more weight, for example. U.K. pension schemes often contain discretionary provisions allowing trustees to supplement the pensions defined in the document. In valuing a pension plan, therefore, the actuary must exercise a good deal more judgment than in the U.S. where pensions must be "definitely determinable." The accounting profession also recognizes U.K. actuaries' discretion as the new pension accounting proposals do not impose specific methods but, rather, accept the usual methods adopted by actuaries.

The actuary's role in health care is very limited in the U.K. simply because most medical care is provided by the state. U.K. actuaries, however, are much more involved in investments. Many of the key people in the financial community were, in accordance with

tradition, educated in the classics. In this situation, the quantitative tools of the actuary fill an important gap.

Probably the most prominent differences between the U.S. and the U.K. practice is the recognition given to inflation. During recent years, the U.K. inflation rate has exceeded that in the U.S., sometimes by a significant amount. U.K. actuaries, and society as a whole, expect future changes in the cost of living, and the products with which actuaries deal are designed and funded with inflation specifically in mind.

Although the work of the U.S. actuary resembles that of the U.K. actuary, differences appear in a variety of aspects. By examining these differences, actuaries on both sides of the Atlantic may become better equipped to face new and different problems that develop in the future. Communication between the actuaries of the different countries is ultimately the key to accomplishing this. □

Briton and the Big Apple

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defined benefit or defined contribution arrangements are to be the mainstay of retirement provision in the future. In the U.K., after a period of relative stability following the political consensus on retirement provision reached in 1975, the present Government have now introduced proposals which could potentially lead to the break up of pension funds in favor of individual personal retirement accounts.

However, this article is supposed to be about my impressions of the U.S. not the U.K.!

As I have already indicated, the amount of employee benefit legislation in the U.S. is overwhelming, a situation which we can hopefully avoid in the U.K., although we are rapidly trying to emulate the U.S. in this respect. The plethora of actuarial bodies in the U.S. is also confusing to a U.K. actuary, although the variety of organizations is no doubt due in part to the size of the U.S. I first visited the U.S. 15 years ago, but the sheer size of the place continues to be breathtaking. The U.K., with approximately one-quarter of the U.S. population, would fit comfortably into one state of Oregon, leaving room for Luxemborg and Liechtenstein. My wife

and I have been fortunate enough to visit other parts of the states, a necessary reminder that New York is New York and that other parts of the U.S. are more normal!

During my first few months, I have been particularly interested in the new FASB proposals on pension accounting by employers. These proposals have not exactly been treated with enthusiasm by U.S. actuaries. We in the U.K. are equally concerned about the proposals, principally with their application to the plans of U.S. subsidiaries of U.K. parent companies and U.K. subsidiaries of U.S. parents. The U.K. Accounting Standards Committee are also promulgating standards in this area, as is the corresponding body in Canada. Unfortunately in many respects, the requirements of these three organizations will be inconsistent and the accounting burden on multi-national companies could become unacceptable. I was pleased to hear that FASB are considering delaying the application of their proposals to foreign plans until 1989.

One area in which I specialize is in the assessment of damages and compensation in cases of personal injury, fatal accident, breach of contract, wrongful dismissal, and divorce. I was therefore particularly interested in the article by Michael Frank in the June issue and the

subsequent correspondence from Albert Easton. In the U.K. it is not unusual for different actuaries (and accountants) to represent each side, and I would agree with Mr. Easton that this does not represent a challenge to the profession. There are a number of areas such as future promotion prospects, the likely retirement age, the future tax position of plaintiff or defendant, the profitability of the plaintiff's or defendant's business if he or she is self-employed, which are not actuarial and on which we are quite happy to take instruction. (We would of course make it quite clear that, on these issues, we were acting on instructions). However, having said that the appearance of opposing actuaries in Court does not necessarily bring the profession into disrepute, this does not mean that the U.K. judiciary regard the actuarial profession with any respect. In a recent case involving the value of the pension benefits, one learned Judge remarked:

"As a method of providing a reliable guide to individual behavior patterns or to future economic and political events, the predictions of an actuary can be only a little more likely to be accurate (and will almost certainly be less entertaining) than those of an astrologer."

I look forward to the remaining period of my stay in the U.S. □