



SOCIETY OF ACTUARIES

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# The Actuary

The Newsletter of the Society of Actuaries

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## A STIMULATING TRAVELLING COMPANION

by Donald M. Peterson

Perhaps the most painless method of continuing one's actuarial education is to listen to cassette tapes of the General Sessions, Panel Discussions and Open Forums recorded at Society meetings. I'm fortunate to have a cassette player in my car and a 25-minute drive to the office. I started listening to these cassettes a few years ago after tiring of the local disc jockeys and the all-news stations—although at times I do switch over to pick up the sports report. Originally I lugged a cassette player back and forth before realizing it was far more convenient to install a dashboard player, which didn't need battery replacements.

In our company we route to our eight Fellows about 85% of the available Society meeting tapes. Those who have a short distance to drive or who use portable players are more selective than I am: hence, less continuing education. The content of these tapes is as good a source of knowledge, conveniently available, as one could find. Not many professions, and certainly few industries, have people as willing to discuss the tools of their trade as actuaries and insurance people are. Not only are the prepared remarks well thought out and current as to subject matter, but the interplay between panelists and the audience often rounds out the discussion.

I'm told that rather few cassette tapes are being purchased. Surely insurance and consulting firms could easily buy a complete set for each meeting and circulate them among their Society members. Perhaps the Society itself might consider lending a few copies of each tape to members for a more reasonable cost than their \$8.00 purchase price.

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## JOINT COMMITTEE ON ROLE OF THE VALUATION ACTUARY IN U.S.A.

by Gary Corbett, Chairman

In its 1983 report to the Board of Governors the Society's Planning Committee identified "Supporting the Valuation Actuary" (in life companies) as one of ten issues requiring resolution. President Dwight Bartlett has identified this issue, and that of determining the Society's appropriate role in the development of actuarial standards or principles, as the two that concerned him most.

At its organizational meeting in October, the 1984-85 Planning Committee requested a task force be established to recommend how the Society should set about addressing the Valuation Actuary issue. The task force's recommendations, approved by the Board, was to establish a Joint Academy-Society Committee on the Role of the Valuation Actuary in the United States. The Academy Board took similar action. The Joint Committee consists of John A. Fibiger, Walter S. Rugland and Virgil D. Wagner representing the Academy and Donald D. Cody, Burton D. Jay and Gary Corbett (Chairman), representing the Society.

The Joint Committee's charge is to make recommendations to the Academy and Society Boards concerning:

- 1) The appropriate role for the valuation actuary in the United States, including:
  - a) scope and nature of the valuation(s)
    - i) solvency and solidity
    - ii) principles and methods
  - b) judgment vs. statutes or regulations
  - c) relationship of the valuation actuary to management, owners and regulators

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## ELECTION COMMITTEE INVITATION

Fellows who have the experience, interest and time to serve on the Board of Governors, but think our Committee might overlook them when compiling the customary first ballot listing, are cordially invited to write to me before April 13 summarizing their accomplishments and background.

Robert H. Hoskins, *Chairman*  
Committee on Elections

## FUNDING THE U.S. MILITARY RETIREMENT SYSTEM

by Toni Husted, DoD Chief Actuary

Public Law 98-94, signed September 24, 1983, places the military retirement system on an aggregate entry-age normal (AEAN) funding method starting October 1, 1984.

Until 1935, the Navy had a pension fund of sorts; it provided for payments to persons retired for disability whenever that fund was sufficient to make them; its income consisted of the government's share of proceeds from selling enemy or pirate ships captured by the Navy as well as interest received on fund investments. This was abolished in 1935, since when the military retirement system has operated "pay-as-you-go".

### Board of Actuaries

The new law establishes an independent Board of Actuaries, appointed by the President, to value the military retirement system. The terms of its members are fifteen years; removal can be for misconduct or failure to perform functions only. To provide continuity, the original members will have terms of 5, 10, and 15 years. The Chief Actuary of Department of Defense (DoD) has been designated the Board's Executive Secretary. The Board, now being appointed, will prob-

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# The Actuary

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The Society is not responsible for statements made or opinions expressed herein. All contributions are subject to editing. Submissions must be signed.

## EDITORIAL

### BRITISH ACTUARIES AND THE MADDING CROWD

*"Along the cool, sequestered vale of life  
 They kept the noiseless tenor of their way."*

The American actuary's long-treasured notion that actuarial existence in the United Kingdom is a different world from ours—peaceful, universally respected, unassailed—can hardly survive reading FIASCO of January and February. To capitulate:

#### Sixteen Disturbing Elements

The January issue has an analysis by James Lagden, F.I.A., compiled largely from a pair of addresses to the Institute, one by a leader in the accounting profession, the other by an eminent economist. Mr. Lagden lists no fewer than 16 pressures, problems and shortcomings seen today that didn't intrude in former times, viz.,

1. New professional ground rules
2. Effects of new technology
3. Rash of corporate take-overs
4. Cases of professional incompetence
5. Unsympathetic press
6. Government interference
7. Self-regulation anomalies
8. Competition inside profession
9. Competition from non-members
10. Overlaps among professions
11. Too little public education
12. Stating our case poorly
13. Mishandling by authorities
14. Decline in professional solidarity
15. Multiplying professional duties
16. Blurring of client relationships

And Mr. Lagden went on to pose several questions of his own, such as: whether the professions change their ways only when self-protection so demands; whether professional altruism is no more than a market strategy; and whether the values we protect aren't those of society as a whole but of just the more fortunate sections and classes therein.

#### The Institute President's Observation

Asked by a FIASCO reporter for his views on biting criticism in a recent *Financial Weekly* article, President C. S. S. Lyon, whom we look forward to having at our Atlanta meeting, said in part: "There is no smoke without a fire. As a profession we are not noted for spelling out vital messages in evocative words that force people to sit up and take notice . . . and we don't repeat the message often enough." That was in the February issue, which has two other pieces on the same general theme.

One is the editor's cry of alarm at increasingly strident press comment on our profession, to the effect that the outside world doesn't really know what we actuaries do, and that it should in view of the claims we make. The other is a letter from an Institute President of more than twenty years ago, cutely headed "Barkless Dog Discovered at Staple Inn". It calls, inter alia, for more knowledgeable answers to outsiders' questions, skilled solutions to posed problems, and ventilation of unorthodox views at Institute business meetings.

On both sides of the Atlantic, whatever cool, sequestered vale there was seems now to have encountered Shakespeare's killing frost, which

. . . when he thinks, good easy man, full surely  
 His greatness is a-ripening, nips his root . . .

E.J.M.

## Funding Military Retirement

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ably meet in the Spring to select actuarial assumptions and amortization methods, then later to review and approve the valuation that will have been performed by the DoD Office of the Actuary.

### How the System Will Operate

Under PL 93-94, DoD will be responsible for only the system's normal cost; the Treasury will make the payments on the unfunded liability. Although the law specifies that the AEAN cost percentage shall be a single percentage of basic pay throughout the system, there is some interest in determining separate costs for sub-groups such as each of the Services, reserve and non-reserve, officer and enlisted ranks. The Board has complete discretion on the length and method of amortization.

Since the military retirement system is approaching maturity, outlays soon will peak and stabilize as a percentage of payroll. To avoid a cash flow problem, amortization payments are to be paid at the beginning of each year, and normal costs paid at the end of each month. Since, under these rules, the first liability payment is due on October 1, 1984, we have had to calculate and request this payment before the first Board meeting. DoD selected for this a 75-year level-percentage-of-payroll amortization, but this will not restrict the Board's decision on future payments.

Projected first year's operations are:

1. Normal cost (51% of basic pay)	\$ 17.1 billion
2. Amortization payments	8.9 billion
3. Outlays	17.3 billion
4. Initial unfunded liability	565.0 billion

The added cost of funding the system in any year will, under the government's Unified Budget, be on the one hand a general revenue expenditure and on the other an item of retirement fund income, these two transactions offsetting each other and producing no effect on the Federal deficit. Since tax rates are tied to the surplus or deficit, current and future taxes will be unaffected by a fund build-up. Hence, prefunding Federal pension systems does not reallocate costs among generations of taxpayers but does affect the total debt limit and thus acts as a discipline on certain programs.

Treasury will increase the amount of bonds to meet each year's extra cost, and

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## Funding Military Retirement

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the fund will invest in bonds of equivalent value. Thus, the total privately held Federal debt will not change but the total debt will rise, perhaps even to the point of requiring an increase in the statutory borrowing authority. So, by giving the Board full authority over amortization, this law is allowing a group of non-government employees to make decisions capable of increasing the national debt limit. Although it is conceivable that a Board might take drastic action, e.g., by paying the entire unfunded liability in a single year, it is safe to assume that the Board will consider all financial and economic consequences before making large decisions.

Prefunding will act as a disciplinary measure in the DoD segment of the national budget. For example, under the old system a decision to double the active duty force would have created only larger payroll, maintenance and training costs in the short term; effects on retirement costs would not have been considered. Under the new AEAN system DoD's retirement costs will increase with each such decision; defense policymakers will have to consider what it will do to retirement costs. Conversely, DoD will no longer have to bear the burden of past decisions in its retired pay budget. □

## Valuation Actuary

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—nature of the statement to be signed by the valuation actuary

- d) qualifications required to become and remain a valuation actuary.
- 2) What is necessary to effect and support the role, including
  - a) changes in laws and regulations
  - b) research
  - c) education and training
  - d) principles and standards of practice
- 3) How above is to be accomplished, including:
  - a) relations and coordination with other bodies (e.g. NAIC ACLI, CAS, CIA, AICPA)

## INVESTMENT SEMINAR COMING UP!

On Wednesday, May 30th, the Individual Life Insurance and Annuity Product Development Section will sponsor a seminar in conjunction with the Society's Spring Meeting at the Waldorf in New York City.

This all-day seminar will focus on interest-sensitive products, particularly deferred annuities and universal life insurance. Product characteristics, actuarial responsibilities and risk management will be discussed. Arthur Rebell, author of a brand new book, "Financial Futures and Investment Strategies", will be our luncheon speaker.

Registrants will receive, well in advance, copies of five papers written for this seminar. This event is for actuaries engaged in individual product development or financial reporting for interest-sensitive products, investment advisors, financial and marketing executives.

Cost: only \$60. for members of the Product Development Section, \$80. for non-members. (Astute Society members may see this as incentive to pay \$5. for Section membership.) Reservation cards, due by April 1st, went out with the New York Meeting notice, or may be had from Society headquarters.

Howard H. Kayton

- b) split of assignments between Academy and Society
- c) Committees or task forces required within each organization.

All recommendations made by the Joint Committee will be subject to the approval of the two organizations' governing bodies at their Fall, 1984 meetings.

The Joint Committee is now meeting monthly. Our first task is to investigate the scope and nature of the valuation(s). First, what should statutory valuations cover and what principles should underlie these valuations? Second, what methods are available to accomplish valuations in accord with the underlying principles?

In an area such as valuation, where the actuarial profession is dependent upon the Society's research and educational facilities to support whatever prin-

## Travelling Companion

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But, the more the tapes are used, the more necessary it becomes to have a consistent approach to conducting each taped session. The Program Committee might prepare explicit instructions so that moderator and panelists are intelligibly introduced for the benefit of the tape audience. And each speaker, from the podium or from the audience, must use a microphone; it's frustrating to hear half of what may have been an exciting dialogue.

Through our meetings, publications and seminars, the Society has a first-class continuing education program. Using the tapes enables members to "be present" at nearly every session. Some who commute by public transportation might find the new "walkman" players advantageous. Others might listen at home. Who knows, some jogging actuaries might continue their education on the run.

*Ed. Note:* And when something you hear chills the spine, heats the blood, or just inspires an idea, why not give your thought to others via this newsletter?

principles are determined to be appropriate, we clearly must be involved in determination of these principles. This involvement will cause the Society to reconsider its appropriate role in development of actuarial principles or standards.

We will keep Society members informed of the Joint Committee's work through future articles in *The Actuary* and reports at Society meetings. Also, we are planning a one- or two-day forum later this year for practicing valuation actuaries, at which valuation problems and the research carried out by the Society's Committee on Valuation and Related Problems and its four task forces will be discussed. Earlier, we will make available to interested Society members a summary of recent literature on life company valuation.

The Joint Committee will be pleased to receive comments and suggestions. Please address them to the Chairman at his Yearbook address.