The Actuary

The Newsletter of the Society of Actuaries

VOL. 18, No. 3 MARCH, 1984

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 Hustead, 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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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

(*Continued from page 1*)

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 98-94, 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 o 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. □

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

Travelling Companion

(Continued from page 1)

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?

Valuation Actuary

(Continued from page 1)

—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)
   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 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.

FUNDING RATIOS AS SOCIAL SECURITY TRIGGERING DEVICES

by Robert J. Myers

The Social Security Amendments of 1983—which it's hoped have solved OASDI's short-range financing problems, and will solve the long-range ones reasonably well—contain several triggering devices. Some affect the OASDI program alone, others the Medicare program also.

The provisions involving triggering devices are:

1. Prohibition against making interfund loans between the OASDI Trust Funds and the HI Trust Fund (possible only through 1987) when the balance in the lending fund is relatively low.
2. Mandatory repayment to the HI Trust Fund of any outstanding loans held by the OASDI Trust Funds (which must be done by 1990) when their balances are relatively sizeable—and vice versa.
3. Submission of reports by the Boards of Trustees of the OASDI, HI and SMI Trust Funds whenever any of their fund balances are too low; in such cases the Trustees are to recommend statutory remedies, and to specify the extent to which benefits must be reduced, payroll taxes increased, or both.
4. Basing the automatic cost-of-living adjustment for OASDI benefits for December of a particular year on the lower of (a) the increase in wages (from the second preceding to the preceding calendar year) or (b) the CPI increase (from the third quarter of the preceding year to the third quarter of the current year).

In all instances, the triggering is based on trust-fund ratios that, in general, relate annual outgo to the trust fund balance. In practice, the triggering mechanism is slightly different for each of the four provisions. Table 1 lists their pertinent features for OASDI; Table 2 lists these for the two Medicare funds.

Table 1

CHARACTERISTICS & OPERATION OF PRESCRIBED OASDI TRUST-FUND RATIOS

Purpose of Fund Ratio

Item	*Prohibition Against Making Loans to HI Trust Fund*	*Mandatory Repayment of Loan from HI Trust Fund*	*Report on Fund Balance Being Inadequate*	*Triggering of "Lesser of Wage or Price Increases" for COLA*[a]
Defined Name in Social Security Act	OASDI trust fund ratio	OASDI trust fund ratio	Balance ratio	OASDI fund ratio
Section of Act	Sec. 1817 (j) (5)	Sec. 201 (l) (3) (B)	Sec. 709	Sec. 215(i) (1) (f)
Periodicity	Monthly	End of Year	Beginning of Year	Beginning of Year
Fund Balance	Total Assets, minus loans from HI Trust Fund (as of end of 2nd preceding month)	Total Assets	Total Assets, minus loans from HI Trust Fund[c]	Total Assets, plus advance tax transfers for January, minus loans from HI Trust Fund[b]
Outgo Base	12 times estimated outgo for month (incl. RR transfer), minus loan repayments, minus any interfund transfer	Estimated total outgo in next year (incl. RR transfer), minus loan repayments and interest thereon, minus any interfund transfer	Same as preceding column	Same as preceding column
Trigger Point (Fund Balance as percent of Outgo Base)	10%	15%	20%	15.0% for 1984-88 COLAs; 20.0% thereafter

[a] Also applies to triggering of the catch-up provision which occurs when the trust-fund ratio exceeds 32.0%.

[b] For the December 1984 COLA only, estimated assets at end of the year, plus advance tax transfers for January 1985 are used (rather than actual assets at beginning of the year, as is done for all later years). Note that this determination is to be made in late September or October of each year (i.e., after CPI for third quarter is known); by then, the "actual" fund balance will be known (except for the December 1984 determination, for which a good estimate of the Dec. 31, 1984 balance can be made), while the year's outgo can be quite accurately estimated.

[c] Presumably, advance tax transfers for January and income-tax-on-benefits transfers for January-March will also be included.

Descriptive Notes for this Table are printed below Table 2.

(*Continued on page 5*)

DEATHS

Robert E. Beard, A.S.A. 1950
Frederick W. Elley, F.S.A. 1959
David G. Stone, F.S.A. 1946
Allan L. Thomson, A.S.A. 1957

HONORING A PAST PRESIDENT

The many admirers of Wendell A. Milliman, who died in 1976, will be pleased to know that there now exists in his alma mater, University of Washington, the Wendell Alfred Milliman Endowed Fund, to help support outstanding mathematicians in residence there. The fund has been established by our late colleague's sister, Mrs. Grace Milliman Pollock.

Funding Ratios

(Continued from page 4)

Table 2

CHARACTERISTICS & OPERATION OF PRESCRIBED MEDICARE TRUST-FUND RATIOS

Purpose of Fund Ratio

Item	*Prohibition Against HI Trust Fund Making Loans to OASDI Trust Funds*	*Mandatory Repayment of Loan from OASDI Trust Funds*	*Report on Fund Balance Being Inadequate*[a]
Defined Name in Social Security Act	HI Trust Fund ratio	HI Trust Fund ratio	Balance ratio
Section of Act	Sec. 201(l) (5) (B)	Sec. 1817(j) (3)	Sec. 709
Periodicity	Monthly	End of Year	Beginning of year
Fund Balance	Total assets, minus loans from OASDI Trust Funds (as of end of 2nd preceding month)	Total assets	Total assets, minus loans from OASDI Trust Funds[b]
Outgo Base	12 times estimated outgo for month (including RR transfer) minus repayment of loans and interest thereon.	Estimated total outgo in next year (including RR transfer), minus repayment of loans	Same as preceding column
Trigger Point (Fund Balance as percent of Outgo Base)	10%	15%	20%

[a]Applies to both HI and SMI Trust Funds.

[b]Presumably, advance tax transfers for January will also be included.

NOTES APPLICABLE TO BOTH TABLE 1 AND TABLE 2:

(1) All references to fund balance and outgo in Table 1 are for OASI and DI Trust Funds combined.

(2) All references to years are to calendar years.

(3) "Loans" include principal and any accrued interest.

(4) "Total assets" includes loans to other trust funds, and also proceeds of loans from other trust funds.

(5) "RR Transfer" refers to payment *to* the Railroad Retirement Account under the applicable financial interchange provisions (payments in the opposite direction during the period being subtracted, but not so as to reduce the result below zero, and with the OASDI Trust Funds being considered as a single fund).

(6) "Interfund transfer" in Table 1 means transfer, in either direction, between OASI and DI Trust Funds.

(7) "Advance tax transfers" means transfer, to OASDI Trust Funds in Table 1 and to HI Trust Fund in Table 2, of estimated payroll taxes to be collected in that month from the self-employed and from all employers (and employees) other than state and local governments. Legislation now pending would eliminate such transfers for HI, but not for OASDI.

(8) "Income-tax-on-benefits" transfers (Table 1) means transfer to OASDI Trust Funds at beginning of each quarter, of estimated accrued income taxes on benefits to be paid in that quarter.

NON-ROUTINE BUSINESS OF BOARD OF GOVERNORS, DECEMBER 1983 TO JANUARY 1984

by Donald S. Grubbs, Jr., Secretary

1. The Board agreed to retain the legal services of Peterson, Ross, Schloerb & Seidel to supplement Alan E. Lazerescu's services.

2. The Board authorized obtaining an expression of interest from Society members in forming a Non-Traditional Marketing Section. (See elsewhere in this issue—Ed.)

3. The Board authorized the Committee on Annuities to issue its report entitled "Final Report: Development of the 1983 Group Annuity Mortality Table—An Interim Table for Group Annuity Annual Statement Valuation" as an expression of the Committee, and to forward it to the NAIC.

4. The Board requested the Committee on Nonforfeiture and Valuation Mortality Problems—Individual Insurance and Annuities, to investigate use of an objective test to determine the need for a new annuity valuation mortality table and to address problems arising from any application of the Supreme Court's Norris decision to mortality tables used for nonforfeiture and valuation purposes.

5. The Board approved the Final Report of the Committee on Specifications for Monetary Values—1980 CSO Tables and authorized its transmittal to the NAIC.

AN ADDRESS CORRECTION

No, this newsletter is NOT starting to print members' address changes between Yearbooks. But we've learned of a wrong entry in our 1984 Yearbook that, oddly enough, wasn't the member's fault nor was it the Society office's fault, but has caused distress and embarrassment.

So, you would do a kindness if you'd change Thomas A. Bickerstaff's address on page A-13 to read: President, Midatlantic Actuaries & Associates, 100 State Highway 73, Berlin, NJ 08009. Phone (609) 767-2392.

Reminder: When you're sure you have the facts nailed down, use the blue address change card in the Yearbook. It does the job, for the next Yearbooks of SOA, AAA and CAPP, and for office mailings, including *The Actuary*.

LETTERS

Injustice

One aspect of the Associateship exam transition seems to work unfairly. Old Part 5A had about 34 questions on advanced life contingencies, and 16 on risk theory; it seems that the only way a student might have received a grade of 5* (failure to meet a minimum standard for a particular topic) was by weakness in risk theory.

But students who had passed old 5A will now be credited with new 4C (advanced life contingencies) and also with the risk theory portion of new Part 5, while a candidate who got a 5* on old 5A will have to sit for the new 4C, i.e., a subject in which he has already demonstrated a high degree of competence.

True, the transition rules were known before old 5A went out of existence, but this is no excuse; a flawed plan is not made good simply by giving advance notice thereof. I hope that the E & E Committee will have the courage to correct its mistake.

Charles E. Moes, Jr.

E & E General Chairman James J. Murphy responds:

We have received several letters on this point, and as a result have reconsidered the decision that Mr. Moes properly criticizes. Candidates who have demonstrated adequate knowledge on either Risk Theory or Advanced Life Contingencies on old Part 5A in 1982 or 1983 have been given the good news that they will be given credit for new Parts 4B and 4C, Basic and Advanced Contingencies (38 candidates), or new Part 5A, Risk Theory (25 candidates). We are grateful to all who drew this to our attention, and are pleased to have rectified this matter.

* * * *

The Right to Know

Sir:

A large segment of the Society has become concerned that our process of electing members to the Board of Governors is democratic more in appearance than in fact because many of us don't know the candidates nor their perception of or their stand on issues that confront the profession and the Society. We consider the right to vote meaningless unless one knows what he is voting for (or against).

Our President, Dwight Bartlett, told the Atlanta Actuarial Club last month that the Board had received a committee recommendation to allow candidates for seats on the Board to publish 200-word statements on matters pertinent to the election, but the Board decided to provide candidates' photographs instead. In overruling the committee, the Board apparently thought that publishing pre-election statements would foster unprofessional conduct and introduce an unacceptable level of partisanship into the electoral process.

It would be informative for us, the members, to know which Board members hold that view. I note with dismay that the Board never discloses who voted one way or another on any issue.

I, for one, feel no shame about the political process we enjoy in the U.S. and Canada; as Winston Churchill acknowledged, it's still, despite its imperfections, the best system known to man so far. To assume that candidates for Board seats

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SURVEY OF DEMAND FOR ACTUARIES

by William G. Poortvliet, Chairman, Career Encouragement Committee

The Society has a long-standing tradition of studying its membership growth in relation to the emerging demand for actuarial talent. Our most recent effort is a survey by the Subcommittee on Actuarial Opportunities of the Career Encouragement Committee, initiated in the fall of 1982, completed in the summer of 1983, and presented to the membership in October 1983 in workshop format.

The survey had three major goals:

1. To amass data on actuarial demand and qualities sought by employers, for the benefit of the profession and potential future actuarial students.
2. To identify where demand is heading so that recruiting needs may be more accurately assessed.
3. To provide potential employers with an industry-wide picture of actuarial demand and where it may be headed.

The survey was sent to chief actuaries of more than 800 U.S. and Canadian employers of Society members, and answered by about 375 of them. Responses covered over 60% of the Society membership—70% among insurance companies, 54% among consulting actuaries.

Survey Results

With respect to Fellows, Associates and actuarial students within each organization, the survey asked for the September 1982 distribution by type of work, and the distribution of expected demand up to January 1988. The following tables summarize the then current and projected distributions as well as the expected excess in demand over current supply.

Fellows and Associates in 1982—Expected Needs in 1988

Insurance Companies	*Sept. 1982*	*Jan. 1988*	*% Increase*
Individual Life and Annuity	35%	34%	+ 37%
Individual Accident and Health	5	6	+ 56
Group Life and Health	17	18	+ 51
Group Pensions	14	13	+ 36
Purely Corporate	11	11	+ 46
Investment	1	2	+142
Other Corporate Services	4	4	+ 54
All Others	13	11	+ 18
Overall	100	100	+ 40
Consulting Firms			
Insurance Company Consulting	6%	6%	+ 37%
Investment-Related Consulting	<1	3	+657
Pensions and Deferred Compensation	75	68	+ 31
Life and Accident and Health	8	12	+122
International Benefits	4	5	+ 71
Other Employee Benefits	3	4	+ 71
Administration	2	2	+ 52
All Others	2	1	+ 14
Overall	100	100	+ 45

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Survey of Demand

(Continued from page 6)

To develop a more comprehensive picture of the supply and demand outlook, we extended the recent trend in Society membership by a projection of future supply made by Linden N. Cole (*The Actuary*, June 1982) and compared it with two separate demand projections. The first demand projection used is a twenty-year projection based on a 1973 survey conducted by Russell H. Smith and his Subcommittee to Obtain Manpower Information (*The Actuary*, October 1974). The second is a ten-year projection generalized from the responses to our survey. This comparison is summarized in the table below:

Date (Jan. 1)	Supply	Demand Projection '73 Study	Demand Projection '83 Study
1973	4301	4325	—
1978	6163	6106	—
1983	8579	7053	9264
1988	11016	7887	12203
1993	13714	8690	14044

The Cole projection, which is predicated upon a level number of successful Part I candidates of 2,000 a year (exceeding the actual range of 1,200 to 1,650 in recent years), is perhaps the most liberal among his various scenarios. Nonetheless, the 1983 Study still projected a future demand in excess of supply by numbers varying from 300 to 1,200.

Both the 1973 and 1983 studies projected growth rates in demand of roughly 40% over the first 5 years but only 15% over the next 5. And the 1973 demand projection closely matched the actual growth in membership for 5 years before falling short of it. (It is open to question whether this pattern is indicative of undue conservatism in the 10-year projection or an ERISA-generated increase in demand in the late 1970s.)

Quality

On the important matter of quality, the survey also included a Supplemental Questionnaire addressing the sources of actuarial talent, the standards employers use in judging applicants for actuarial positions, and the factors affecting the role actuaries will play in the future. A detailed analysis of the responses to these questions is beyond the scope of this report, but general conclusions are noted in items 4 and 5 below.

Conclusions

1. The demand for actuaries is projected to grow by roughly 40% over the next 5 years. If it occurs, such growth would match the rate over the past 5 years.
2. There is some, but not an extreme, expected shift by type of work; the traditional areas of work for actuaries are expected to provide most of the growth.
3. Supply apparently needs to remain strong if demand is to be met. We may, in fact, must, see growth in the number beginning with Part I of the examinations.
4. Employers are not focusing on numbers alone; they appear to be looking for actuaries with a broader bent, going well beyond the traditional technical skills.
5. Regulatory action is viewed as a factor importantly affecting the need for actuaries, and is one of the major unknowns in the supply and demand equation.

While these results may not be particularly surprising, they do provide us with useful working assumptions. There is indication, from the closeness of the predicted demand in the 1973 survey to results five years later, that predictions are credible, particularly since the characteristics of those who responded to this present survey are essentially the same as those of 10 years ago.

There seems to be general agreement that studies such as this should be conducted periodically. It is hoped that this article will stimulate membership discussion of their usefulness.

For a comprehensive report consisting of a transcript of the Florida meeting presentation including a handout at the workshop, send a self-addressed 9½" x 12" envelope to the Education and Examination Support Services Dept. at Society headquarters.

Letters

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would engage in disruptively partisan debate (especially through a 200-word statement) reflects little confidence in our candidates' professionalism and in the members' ability to sort out the good from the bad. I respectfully protest the Board's decision and request that it be reversed.

Claude Y. Paquin

* * * *

Mutual Companies and GAAP

Sir:

Daniel F. Case (Dec. issue) asks what standard should be employed for judging whether mutual life companies' annual statements conform with GAAP, and gives as the straightforward answer the GAAP rules applicable to a stock life insurer. It might equally be claimed that a stock company's GAAP statement should be prepared like a mutual's.

But there is a reason why the stock insurer's statements should follow different rules. In a stock company there are two classes of parties whose interests diverge —policyholders and stockholders—and the stockholders have a right to know the net value of the entity they own, as contrasted with the policyholders' share. In a mutual insurer there is no such diversity of interest—nobody stands to make a profit from a mutual company's policy since the insurer's commitment is to provide insurance to each class at as close to average cost as possible.

Mr. Case labels a balance sheet that shows zero net worth as meaningless on the grounds that this is tantamount to showing assets alone, which is inappropriate. But for a mutual insurer, the report's fundamental purpose *is* to show the net amount of assets under management, which equals its obligation to its policyholders after taking into account its current liabilities to third parties and beneficiaries. A second purpose is to show, as a solvency test, how total assets compare with the legal reserve and other liabilities.

The fact that a mutual insurer's statement is presented in a form showing the total funds, and also the solvency standard, doesn't mean that the mutual insurer has the same ownership structure as the stock insurer. The structures are distinct and separate; there is no more reason for the statement form that fits the stock insurer to be required of a mutual than for the reverse.

(Continued on page 8)

Letters

(Continued from page 7)

A standard for judging conformity of a mutual insurer's statement with GAAP should be whether that statement is:

- reported by the auditor as being in conformance with generally accepted accounting principles;
- generally accepted by state regulatory officials as the basis for continuing authority to do business; and
- generally accepted by creditors, policyholders, agents, employees and officers as a proper statement of the company's conditions and affairs.

Paul E. Sarnoff

* * * *

Sir:

Mr. Case's syllogism goes like this. Mutual and stock companies are the same. Stock companies use GAAP. Hence, mutual companies should do likewise.

His major premise is false. Mutual life companies are formed to provide life insurance to policyowners at lowest possible cost. Stock companies are formed to sell as much life insurance as possible that will produce profit to their shareholders; they are our industry's equivalent of a company that sells automobiles hoping to produce a good return to its shareholders.

This primary difference in purpose should be reflected in accounting standards. The purpose of GAAP accounting for stock companies is to increase the reported net income, thereby increasing share values and making it easier to sell their stock. The company is judged by the increase in value of each share; its concern with the balance sheet is limited.

But the mutual company's statement has its primary focus on dividend-paying ability and solvency. The company's objective is to make as much money as possible so that it can provide, via dividends, life insurance at lowest cost possible and remain financially strong. Its premiums are determined so that each block of business will be self-sufficient. Stock company premiums reflect projected experience plus a profit margin for shareholders' dividends. Thus, premiums are calculated differently.

I do not see how Mr. Case can conclude that accounting oriented for stock companies is also proper for mutual companies whose forms and purposes differ so vastly.

William M. Snell

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SEEKING EXPRESSIONS OF INTEREST IN FORMING A NON-TRADITIONAL MARKETS SECTION

Another Section is up for consideration under the Society's provision for such units. To obtain permission to proceed, the petitioners must show sufficiently widespread member interest. Any Society member may join. To express your support, complete and mail the enclosed card NOW.

The purpose of the Non-Traditional Marketing Section would be to explore alternatives to the traditional agency individual market and to the group market where the insured's premium is subsidized. Such markets include: Credit, sold through financial institutions; Direct Mail, in sponsored and unsponsored markets; *Individual Salary Deduction, sold to employee groups; Tele-Marketing*, Broadcast and Print Media; Financial Services offering insurance as part of a package.

Products would include life, health, annuities, and other insurance products. Section topics would include market types, distribution systems, sales techniques, pricing, administration and policy experience.

Any of the following petitioners will welcome your questions at their Yearbook phone numbers or addresses.

David E. Gooding	E. Perry Kupferman	Harold N. Lund
Maria Thomson	William P. Chin	Elsie L. Gysbers
Harold J. Deutscher	Stephen A. Zonca	H. Michael Shumrak
Jay M. Jaffe	Paul T. Bourdeau	Thomas R. Auvinen
Ma Rosario Rodolfo	Roberta L. Canfield	Fred Singer
		Tim P. Fitzpatrick

Sir:

Perhaps I, not being associated with a mutual company, can present the other side of the issue that Mr. Case has raised.

The issue is not comparability. Clearly, mutual company statements based primarily on statutory accounting are of limited comparability to stock company GAAP statements. But mutual company GAAP statements prepared as Mr. Case recommends wouldn't be comparable either (though the degree of incomparability would be narrowed), because of different treatment of policyholder dividends.

Neither is the issue whether mutual company statements prepared on essentially a statutory form are prepared according to GAAP. That is a matter of definition. GAAP is not an absolute truth, but is whatever the Financial Accounting Standards Board says it is; if FASB says these statements are GAAP, they are.

The issue is, Should mutual company statements prepared on a basis that is essentially statutory be characterized as prepared according to GAAP? In a practical sense, the issue is whether mutual companies should be required to prepare statements that are consistent with, or nearly consistent with, stock company GAAP statements.

But, why should they be required to do that? What purpose would this serve? FASB has determined that the primary purpose of GAAP statements is to meet the needs of stockholders and creditors. *Mutual companies don't have stockholders*, and creditors are a minor factor.

One might argue that a mutual company's policyholders are functionally equivalent to a stock company's stockholders, and that there are creditors whose needs must be met. Still, the issue is whether these parties' interests would best be served by statements prepared in accordance with stock company GAAP. I believe that policyholders' and creditors' interests, unlike those of stockholders, are focused primarily on the balance sheet, displaying the company's resources as measured by regulatory standards. Statutory statements best serve these parties' interests; GAAP statements would only add confusion and expense.

The strongest argument for preparing mutual company statements in a manner consistent with stock company statements would be that mutual company managements need management information in that format. But it seems that the best measurement of mutual company performance for its management would be neither statutory nor stock company GAAP but a form specifically designed for management's needs.

Richard S. Robertson

Ed. Note: An analysis of this question by Donald D. Cody and whatever response Mr. Case sends us, will be in our next issue.