



SOCIETY OF ACTUARIES

Article From:

# The Actuary

December 1987 – Volume No. 21, Issue No. 10

# The Society's Long-Range Financial Plan

by Michael J. Cowell

Shortly after assuming the position of Treasurer last year, I recommended the development of a computer model of the Society's finances as a means to better plan for the years ahead. For the fiscal year that ended July 31, 1986, the total budget of the Society had almost reached the \$5 million level, up from \$2.5 million as recently as 1981.

Dynamic changes in many facets of the Society's activities, and continued prospects for rapid growth, pointed to the need to evaluate sources of revenue and planned expenses and to develop a financial plan to keep the two closely matched.

Membership equity — in essence, accumulated surplus funds — stood at \$1.64 million, and the Board had just approved a policy of maintaining this equity level at approximately 25% of the following year's budgeted expenses. The 25% was arrived at by comparing the Society's budget and dues levels to those of other professional service organizations in North America. The financial plan for 1988-1991 shows that this equity level will be maintained for most of this fiscal year, but will begin to decline steadily thereafter.

## Board Action

As a result of the financial planning process, the Board of Governors took the following actions at the 1987 Annual Meeting:

1. Adopted a dues increase for 1988, and
2. Directed the Administration and Finance Committee to conduct an in-depth analysis of the long-range financial plan with a view to identify those components of the projected deficits that are driven by policies approved by the Board, and those that result from other influences.

Our findings, and recommended options for action, will be reported to the Board in May 1988 before we proceed with the development of a budget for fiscal year 1989.

## The Society's Budget Process

Before describing some of the details of the developments of the plan, let

Society of Actuaries  
Revenue and Expenses August 1, 1986 - July 31, 1987  
(\$000's)

	E&E	Meetings	Seminars	Subtotal	All Other	Total
Revenue	\$2,437	\$884	\$527	\$3,849	\$1,983	\$5,832
Expenses	<u>2,372</u>	<u>821</u>	<u>516</u>	<u>3,710</u>	<u>1,957</u>	<u>5,667</u>
Surplus	\$ 65	\$ 63	\$ 11	\$ 139	\$ 26	\$ 165

me outline the Society's budget process. The Society office is organized into seven departments. Most of these departments are managed by a director reporting to Executive Director, John O'Connor. Three of the departments — E&E, Meetings and Seminars — operate essentially on a self-supporting basis. The only minor qualification is that Education and Examination, under a policy approved by the Board, is allowed a subsidy of 10% of the cost of the early Associateship examinations, reflecting the support by the membership to promote the actuarial profession. Briefly, the subsidy has not always been used. Last year, for example, the E&E Department operated with a surplus of \$65,000, although part or all of the subsidy will be used this fiscal year. The other four departments — Membership Services, Public Information, Research, and General Administration — perform support activities and derive their revenue from membership dues, investment, and miscellaneous income.

The directors with their committee chairpersons prepare department budget proposals. They then review these proposals with the vice presidents responsible for their activities. The combined budgets are reviewed by the Executive Director meeting with the Administration and Finance Committee. Any modifications and changes are then made, and a final budget is presented to the Board of Governors for its approval.

## The Long-Range Financial Plan

A highly condensed summary of the Society's financial situation for the fiscal year ending July 31, 1987, will also help set the stage for the 5-year plan. (See table.)

We analyzed each department's budget in much the same fashion that would be followed for any business

unit. Each line item was classified as fixed or variable. The fixed expenses were tracked for the three prior years to identify growth patterns. With a high percentage of fixed expenses in the form of salaries, growth patterns closely follow management action with provision for inflation. To project these expenses beyond the current fiscal year, we reflected the Executive Director's plans for staff increases that have received Board approval, and added a 5% annual inflation factor. Most of the remaining fixed expenses — travel expense, rent and utilities — were also projected to grow at 5% annually. Each variable expense was related to the index of activity driving it. Thus, examination expenses were expressed as cost per examination taken; meeting expenses in terms of number of members attending; and seminars and symposia as cost per participant.

Throughout this process, we had to make a number of judgment calls where an expense item was not clearly all fixed or all variable. Unless we were satisfied that the expense would disappear if the activity were discontinued, we classified it as fixed.

From the proposed 1987/88 budget and the levels of activity projected by the respective departments, we recalculated unit expenses and validated these against our projections for the budget for the year just completed. These unit expenses were then applied to the projections of activity for the four succeeding years to develop projected variable expenses, and the results added to the projections of fixed expenses.

Estimates of revenue were projected by applying the current schedule of membership dues and examination fees to projections of membership growth and numbers of

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*SOA's Financial Plan Cont'd.*

students. Seminar registration and meeting income was projected to grow in proportion to total membership. Investment income was estimated to grow at 7.5% of the excess of revenue over expenses.

### Projected Revenue and Expenses: 1988-1991

At the Annual Meeting in October, the Board approved a budget for fiscal 1988 that shows the three self-supporting departments, with a combined budget of \$4.1 million, almost precisely matched between revenue and expense. The four membership support activities show expenses of \$2.5 million against available revenue of \$2.4 million, all of which project a preliminary budget deficit of \$105,000.

It would not be feasible in the space of this article to detail each department's financial projections of revenue and expense for the subsequent years of the long-range plan. The following graph compares the growth of total revenue to total expenses. With E&E activities and seminars growing at a faster rate than membership generally, the trends noted earlier are expected to continue. The budgets for these activities will represent increased percentages of the Society's total budget for the next several years.

### Dues Increase for 1988

In a nutshell, expenses for membership support activities and general administration are increasing faster than membership dues and revenues from miscellaneous sources. Against

this background, rather than wait until we are forced to pass a substantial increase in membership dues, the Administration and Finance Committee at this year's Annual Meeting recommended, and the Board approved, a modest increase in dues for 1988.

Dues for all Fellows and for Associates having 10 or more years will increase from \$185 to \$200; dues for Associates of 5 to 9 years will increase from \$140 to \$150; and for Associates of less than 5 years, from \$95 to \$100. This new schedule will increase total membership dues at an annual rate of \$120,000, of which \$70,000 will accrue as revenue in the fiscal year ending next July 31. Of course, the 1988 budget was proposed well in advance of this Board vote, which has had the effect of reducing the budgeted deficit from \$105,000 to \$35,000.

### Summary

For the year ahead, in addition to my duties as Treasurer, our new President, Gary Corbett, has assigned me the Chair of the Administration and Finance Committee. In these two positions I shall continue to work closely with the Society office staff. We will do our utmost to see that your Society of Actuaries funds are prudently managed and hope that we shall be able to report a sufficiently favorable variance from the revised \$35,000 deficit, so that I may again sport the black tie to the 1988 Annual Meeting.

Michael J. Cowell is Vice President and Corporate Actuary at UNUM Life Ins. Co. He is the SOA Treasurer and newly appointed Chairperson of the Administration and Finance Committee.

## The Actuary in Europe

by Peter H. M. Kuys

One effect of the considerable European investment in the U.S. insurance industry over the past ten years has been more intensive contacts between North American actuaries and their European colleagues. With this in mind, I would like to give an overview of the actuarial profession in Europe, and include information on how actuaries are trained and what their roles and responsibilities are in the member countries of the European Economic Community (EEC). These countries include Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom (U.K.). The major reference for this article is "The Actuarial Profession in the European Communities," published in 1985 by the Consultative Group's Secretariat, c/o The Institute of Actuaries, Staple Inn Hall, High Holborn, London WC1 7QJ, England, telephone (1) 242-0106.

### Roles and Responsibilities

Let me provide some background. The 1957 Treaty of Rome, which created the EEC, established the principles for a Common Market, the free movement of capital, and circulation of labor among its member countries. It also set out principles of freedom, establishment, and services. This means that an actuary who is a citizen of one member country may become established or offer services in a second member country under the same conditions which apply to nationals of that second country.

The EEC has issued regulations for some professions (not yet including actuaries) which mutually recognize evidence of formal qualification. The EEC institutions only recognize professional bodies organized in a community-wide manner. For that purpose, the 14 actuarial associations from the 12 EEC member countries have formed the Consultative Group. Luxembourg actuaries are represented by the Belgian association. France, Italy and the U.K. each have two associations. The 1984 membership statistics of the Consultative Group (excluding Spain and Portugal, which just entered the EEC in 1986), are shown in Table 1. The number of

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