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Value of the Actuary

(Continued from page 4)

publication is an issue as well as the content.

In 1985, the Society and the American College of Hospital Administrators jointly sponsored a symposium, *Healthcare in the Future.* The program topics were broad, and the topic is of a great deal of interest. The proceedings were, however, published in offset form from typed copy without even any of the improved appearance one gets from a modern word processor. It gave a message that we do not expect anyone to take these proceedings seriously as important material. This seems to me to be particularly sad, since this is an area where a good looking book or journal issue could have received a lot of attention in the employer, health care and public policy communities.

I believe that if we want the Society to be viewed as the scholarly organization where "broad-based" pension and employee benefit specialists can turn for information, then we must change our publications policy. We need to be concerned about content, appearance, and distribution. We should be seeking to market our publications to plan sponsors, public policy makers, insurance carriers, and health care providers. Even if we do not do research, if we publish it, we then get our name associated with it, and people change their view of what we do. When we do publish material, it often looks unprofessional. I recommend that we evaluate our external — and internal — image, and determine whether changes are needed in order to become more effective and less narrow as a profession.

We also need to consider the issue of research. Employers who use actuarial services and the actuaries working for them use various sources of information. Public policymakers do also. Surveys are seen as very important. There is a great deal of interest in knowing such matters as the assumptions others are using, and how they design their plans.

The Society and the actuarial profession in the U.S. are not a source of anything used by pension actuaries for assumption setting except on mortality and disability. The Canadian Institute of Actuaries publishes an annual compendium of economic data for assumption setting. The Society does not do anything similar.

In addition to surveys, there are a number of other issues involved with pensions and medical coverage after retirement for which research would be helpful. This issue will be the subject of major public policy debates over the next 30 years. These debates will take place regardless of whether or not there is high quality information that serves as background.

Some of the questions that will be considered include:

- What are appropriate retirement ages, and how should public policy encourage retirement at specific ages?
- What is appropriate as a Social Security earnings test?
- How can medical care for older Americans be financed?
- What is the appropriate level of care?
- What is the appropriate role of the government, employer and individual in providing financial security?
- Is coverage of the public by private retirement and medical plans adequate for tax preference to be justified?
- What levels of benefits should be permitted in tax-preference plans?

We know mortality is improving but we could go much further in analysis of the implications of changing mortality and in investigating what is happening with life expectancies. We know medical care costs are different by age, but we do not have good data on what costs are by age or by other significant factors that affect costs. We know that different types of plan design influence utilization of different medical services, but there is relatively little in the actuarial literature on this topic. Virtually none of the literature I have read on this topic over the last few years was in the Society's or other actuarial publications.

The Society should be involved in research on these issues, and actuaries should be players in the discussion. Today, there is little if any research on these topics within the framework of the Society, and actuaries are generally not involved in these discussions. This leads to actuaries being viewed in narrow technical rather than in broader roles. ☐

ACTUARIAL SUCCESS — AND LESS

By Michael J. Cowell

Actuaries love statistics. People like to read statistics about themselves — especially when the numbers tell them what they want to hear. Ah, but actuaries are more objective than most. So when it comes to a survey about themselves, they'll not only read the pluses, but will note the minuses. Or will they?

The *Actuarial Profile Survey* that the Society conducted last year tells us a lot about how we perceive ourselves. Especially about the 86% of respondents who said that their career successes meet or exceed their expectations. It is on those 86% that most of the analysis of the survey focuses. That is as it should be.

But is anyone addressing the other 14%? Or is the lot of the cynics to see the glass 1/7 empty rather than 6/7 full? And will anyone listen to the skeptics, who point to the number of unemployed, when the government's index just fell another tenth of a percent? Probably not. But that empty 1/7 means more when you are part of it. The low index means much more to those who have just joined the unemployment line. And while the economics are nowhere nearly as serious, the "underemployed" — a category that includes a number of actuaries — almost certainly view their career results falling short of expectations.

This item of "counterpoint" in the current series of articles addresses what it means to be a "successful actuary"; the seriousness — or otherwise — of the 1/7 of actuaries who consider themselves less than successful; and what we can — or should — do about it.

Assume for the moment that the "unsuccessful" 1/7 is also representative of Society members who didn't respond to the Survey. That means approximately 1,500 FSA's and ASA's for whom the effort to obtain their professional designation has met with less than satisfactory career results.

There are suggestions that the more "successful" would be more likely to respond, and that the less successful, or "unsuccessful", would be less willing to

(Continued on page 6)

Actuarial Success — And Less

(Continued from page 5)

share their experiences. If that is true, then the number may be larger. But 1,500 is a large enough group for the main point of this article. It's within the memory of many members that our entire Society didn't number that large.

Actuarial Success

Among the more concise definitions of an actuary is a professional who evaluates the financial impact of contingent events. The contingencies that have formed the basis of our specialized mathematical training have traditionally been mortality — the risk of dying prematurely, or of outliving one's economically productive lifetime — and sickness or disability.

Interest, the reward for foregoing the use of money now in return for later use, includes a risk premium element that represents the contingency of default. Until recently, however, most actuaries tended to view interest rates as static indices, rather than as values comprising an element of a contingent nature.

In real terms, mortality has become one of the more stable events, and interest one of the least predictable measures. The emphasis that our training has historically given these contingencies now seems inversely proportional to their importance in the "real world" of measuring, managing and communicating risk.

Much concern has been expressed lately about the declining "Value of the FSA". One evidence of this is the preference that many actuaries see employers and clients giving MBA's, statisticians or economists to perform tasks that a few years ago would have been the natural province of the actuary.

For our profession to remain vital, we have to bridge the gap in our education and training to emphasize those contingencies and those concerns that have greatest significance for our employers and clients. This means not only keeping the formal syllabus current but, perhaps more important, keeping ourselves current long after we achieve our professional designations.

The attention given in recent years to "C-3 Risk" is an important step in the educational direction. Even greater involvement will be required of North American actuaries in the assets side of the balance sheet for our profession to maintain its stature, let alone to regain the ground that some of our members perceive they have lost to other professions.

The Society's new approach to education that is being implemented in the Associateship Examinations as the "Flexible Education System" will assist in this transition. But even more effort will be necessary to keep our educational system tuned to the needs of the financial services environment of tomorrow, not of yesterday.

Continuing education is today one of the "luxuries" provided by our Society: tomorrow, it may become a necessity for continued success, if not for survival in the profession.

For those actuaries content to work in a highly technical setting all their careers, these shifts may be of little concern; indeed, they may not have yet been perceived. The prevailing view, however, is that the demand for purely technical or "backroom" actuaries will continue to decline, and that the successful actuary will increasingly have to be a "manager" and "communicator" of risk, not merely the "measurer" that has been our traditional role.

If Not Money, Then What?

Success, to be sure, is a highly subjective matter. To some it means job satisfaction: to those who look for more quantitative indicators, income is usually taken as the most readily available. Beyond an income level to maintain reasonable living standards, most people place job satisfaction ahead of economic reward. The survey suggests that actuaries are no different in this regard.

There is a strong suggestion in the survey results that not all actuaries — perhaps not even a majority — measure success in purely economic or monetary terms. Of course, it could be argued that with median salaries in the vicinity of $60,000, actuaries enjoy more than most wage earners the luxury to reflect on whether their work is consistent with their abilities. And on such reflection, 6 out of 7 actuaries consider the match a good one.

One objective measure suggested by James Anderson in *Which Future for the Actuarial Profession?*[1] relates income to age. The summary of Profile Survey results on page 3 measures members' salaries against Mr. Anderson's criteria. However, a large number of survey respondents who consider themselves "successful" actually earn less than some of those who report career success below expectations.

The analysis of the Society's data reported in this supplement suggests that Anderson's criterion produces a far less positive view of "success" than reported by our members who answered the survey. It is, perhaps, a hopeful sign that, in evaluating their personal priorities, most actuaries know how to apply subjective criteria other than monetary income.

In light of these findings, a major contribution by the Society to the success of its members would seem to be projecting future demand for actuarial skills, and producing enough ne ASA's and FSA's to keep the relationship between supply and demand in proper balance.

In this context, proper balance would mean enough actuaries to meet the needs of prospective employers and clients, but not so many as to lower prevailing income levels below the point that the profession would no longer attract new members.

In the final analysis, of course, it is the market that will set the balance between what actuaries bring by way of education, training, attitudes and skills, and what employers and clients are seeking in terms of professional advice to assist in the management of their businesses.

The Society can have little more than a minuscule impact on the financial services environment in which we operate. It can, however, greatly assist us to predict the future of that environment, and to prepare its members through education and training to operate in it to the maximum of their potential. ☐

[1] Anderson, James C. H. *Which Future for the Actuarial Profession?* Address to the new Fellows of the Society of Actuaries, St. Louis, May 1985.