



SOCIETY OF ACTUARIES

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Rx FOR THE ACTUARIAL PROFESSION: A BROADENED PERSPECTIVE

By Robert Shapiro

The environment in which actuaries operate has changed dramatically in recent years. Most believe this rapid change will continue in the future. The actuarial profession must, therefore, revise its mission to assure that its members continue to be effectively served.

Fundamental Change

The changes in our environment are fundamental. They impact both the science on which the actuarial profession is based and the businesses we serve. More and more, other financial professionals have capabilities and training that intersect with those of the actuary. Consider:

1. The relative importance of many of the contingencies we deal with continues to change. For example, life actuaries historically worried primarily about mortality and persistency risks. Today, the keys to financial success in most life insurance companies lie in effective management of the expense and investment risks.

2. New contingencies are emerging and must be defined and managed by actuaries.

3. The businesses we serve are changing. For example, many life insurers are becoming broader "financial services" companies; many group health insurers are becoming "healthcare providers". Also, there is an increasing internationalization of our business.

4. Mathematical approaches to actuarial issues are consistently being refined and enhanced.

5. Historic actuarial career path opportunities are disappearing. For example, in many insurance companies the "chief actuary" title is on the way out, with a career path of "chief financial officer" often being an alternative.

The traditional ways of defining and managing financial security programs are disappearing. The needed skills — entrepreneurial versus administrative — and the values — intuition and nurturing versus planning and numbers — are often different and demand that the actuarial profession respond.

Basic Assumptions

It is assumed that the actuarial profession can and wants to determine its future. We can influence the future through our recruiting, selection, education and research programs. We presume that there is sufficient "reason for our being" to justify the effort.

The most important element of change activity is defining the core of ac-

tuarial science in a way that maintains the uniqueness of the core body of knowledge, yet that reflects the realities of the emerging new financial world.

Issues

There are several issues that must be carefully addressed:

1. The inertia of the profession. We tend to make evolutionary changes, adapting slowly. Can we wait?

2. The limited resources of the Society, both in financial and human terms. How can we best focus what we have?

3. How do we — how should we — view our role *vis a vis* the financial businesses we serve?

Perspective 1: We are actuaries who work in financial services businesses; or

Perspective 2: We are business people who are actuaries by profession.

4. How do we — how should we — balance the *scientific* and human aspects of our basic training, continuing education and research? Consider:

- Stress on memory and problem solving
- Non-scientific issues requiring actuarial perspectives — e.g., AIDS and Risk Classification
- Communication with our many constituencies

VALUE OF THE ACTUARY

By Anna Maria Rappaport

The value of the actuary is a function of what actuaries are able to do as individuals, the extent to which their capabilities are seen to be linked to their status as actuaries, the supply of actuaries compared to the demand, and the user's perception of the actuary as an individual and as a member of a profession.

Users of actuarial services form their perceptions as a result of their encounters with individual actuaries, with the profession as a whole, or with its research and publications. The perceptions of individuals are a function of how knowledgeable we are, how we communicate, and how we present ourselves.

Today's users of actuarial services seek out actuaries for advice on technical

issues requiring actuarial expertise. However, on more general matters requiring a combination of technical expertise and general and benefit knowledge, they often turn to others, and may prefer others. The actuary too often talks as if the members of the audience are all actuaries, and forgets that in communicating with non-actuaries, we need to use their words, not ours.

In the field of pensions and other employee benefits today, many functions have to be performed. Some require actuarial expertise, some analytical and quantitative — but not actuarial — expertise, while others require general knowledge of the field but not quantitative expertise. Specific laws and rules interact with the application of actuarial science to pension funding and accounting, and to plan design. Many individuals who are not actuaries have substantial expertise in benefits, and do

work that overlaps that done by actuaries. Some of them work in companies sponsoring benefit plans, some in consulting firms, and others in insurance companies.

People who work with benefit plans rely on a significant amount of literature with varying levels of technical content, much of which can be viewed as quite practical. I believe that if high quality practical literature on technical issues came from the Society it would enhance the image of the actuarial profession in the eyes of the users. Today, however, the major sources of that literature are from outside the actuarial profession.

The Society is simply not viewed as a source of literature or a place to publish research on employee benefit topics unless it relates to specific "actuarial" topics like funding or actuarial science. The appearance and distribution of the

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Value of the Actuary

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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

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